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# Capital Controls as Shock Absorbers\*

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## Abstract

The recent global financial crisis has resuscitated the debate on the relevance of capital controls as effective policy instruments. This paper contributes to this debate by studying the shock-absorbing capacity of capital controls. Using a recently developed capital control dataset for a panel of 33 emerging market economies, I show that output in economies with stricter capital *inflow* controls responds significantly less to global credit supply shocks, whereas capital *outflow* controls have no significant shock-absorbing capacity. Leverage is significantly lower in economies enacting stricter capital inflow controls, suggesting that financial frictions play a role in driving the shock-absorbing capacity of inflow controls.

*JEL classification:* F38,F41,F44,

*Key words:* Capital controls; Credit supply shocks; Emerging market economies

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