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Nota di contenuto	Contents; I. Introduction; II. Empirical Evidence; III. The Model; A. Home economy; B. Foreign economy; C. Shocks; D. Equilibrium and solution method; IV. Calibration; V. Policy experiment: altering the cyclical pattern of lending standards; A. Benchmark leverage level; B. Alternative leverage levels; VI. Sensitivity analysis; VII. Conclusions; Appendix; References; Tables; 1. Results from Estimating an AR(1) Processes to Demeaned LTVs; 2. Benchmark Calibration; Figures; 1. Time Variation in Loan-To-Value Ratios; 2. Share of Output Variation Explained by Credit and Asset Price Shocks 3. Degree of Cyclicity in Credit Innovations 4. Procyclicality in Credit Innovations and Sensitivity of Credit to Asset Price Shocks; 5. Procyclicality in Credit Innovations and Macroeconomic Volatility; 6. Increasing Reliance of Emerging Europe on Foreign Funding; 7. Concentration of Emerging Europe Exposure to Western Europe; 3. Business Cycle Moments from Simulated Series under Benchmark Calibration; 4. Policy Exercise Results (Average LTV = 0.4); 5. Policy Exercise Results (Average LTV = 0.7); 8. IRFs to a Negative Productivity Shock under Alternative Leverage Levels 9. IRFs to a Negative Shock to Lending Standards under Alternative Leverage Levels 10. Sensitivity of Volatility to Different Degrees of Cyclicity in Lending Standards Under Alternative Leverage Levels; 6. Sensitivity Analysis
Sommario/riassunto	The ongoing financial turmoil has triggered a lively debate on ways of containing systemic risk and lessening the likelihood of boom-and-bust episodes in credit markets. Particularly, it has been argued that banking regulation might attenuate procyclicality in lending standards by affecting the behavior of banks' capital buffers. This paper uses a two-country DSGE model with financial frictions to illustrate how procyclicality in borrowing limits reinforces the "overreaction" of asset prices to shocks described by Aiyagari and Gertler (1999), and to quantify the stabilization gains from policies aimed at smoothing cyclical swings in credit conditions. Results suggest that, in financially

constrained economies, the ensuing volatility reduction in equity prices, investment, and external imbalances would be sizable. In the presence of cross-border spillovers, gains would be even higher.
