

1. Record Nr.	UNINA9910826451103321
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Titolo	The Volatility Costs of Procyclical Lending Standards : : An Assessment Using a Dsge Model // Silvia Sgherri, Bertrand Gruss
Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2009
ISBN	1-4623-4871-8 1-4527-4099-2 1-282-84257-9 1-4518-7182-1 9786612842573
Edizione	[1st ed.]
Descrizione fisica	1 online resource (39 p.)
Collana	IMF Working Papers
Altri autori (Persone)	GrussBertrand
Disciplina	338.9669
Soggetti	Credit control - Mathematical models Loans - Standards - Mathematical models Investments: Stocks Macroeconomics Money and Monetary Policy Industries: Financial Services Business Fluctuations Cycles International Policy Coordination and Transmission Pension Funds Non-bank Financial Institutions Financial Instruments Institutional Investors Monetary Policy, Central Banking, and the Supply of Money and Credit: General Macroeconomics: Consumption Saving Wealth Banks Depository Institutions Micro Finance Institutions Mortgages Price Level Inflation Deflation Investment & securities

Monetary economics  
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Stocks  
Credit  
Consumption  
Collateral  
Asset prices  
Financial institutions  
Money  
National accounts  
Prices  
Economics  
Loans  
Estonia, Republic of

<b>Lingua di pubblicazione</b>	Inglese
<b>Formato</b>	Materiale a stampa
<b>Livello bibliografico</b>	Monografia
<b>Note generali</b>	Description based upon print version of record.
<b>Nota di bibliografia</b>	Includes bibliographical references.
<b>Nota di contenuto</b>	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
<b>Sommario/riassunto</b>	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.

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