

Macroeconomic influences of counter-cyclical capital regulation rules in a DSGE model

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Abstract

Using a macroeconomic model, we assess the stabilizing effects of counter-cyclical capital regulation rules for financial intermediaries on the financial sector and the real economy. This study provides a simulated result that a counter-cyclical capital regulation rule responding to the credit-to-GDP ratio worsens a recession, whereas the rule responding to aggregate credit growth has a more stabilizing effect.

Keywords: Counter-cyclical capital requirements, Macroprudential policy, Basel III, DSGE model

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