



## Research Working Papers

# Spillovers at the Extremes: The Macroprudential Stance and Vulnerability to the Global Financial Cycle

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December 17, 2021

More stringent macroprudential regulation increases international bond and equity inflows during risk-on periods as well as bond and equity outflows during risk-off episodes.

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RWP 21-16, December 2021

Evidence suggests that macroprudential policy has small and insignificant effects on the volume of portfolio flows. We show, however, that these minor effects mask very different relationships across the global financial cycle. A tighter ex-ante macroprudential stance amplifies the impact of global risk shocks on bond and equity flows—increasing outflows by significantly more during risk-off episodes and increasing inflows significantly more during risk on episodes. These amplification effects are more prominent at the “extremes,” especially for extreme risk-off periods, and are larger for regulations that target specific risks (such as currency or housing exposures) than those which strengthen generalized cyclical buffers (such as the CCyB). This paper estimates these relationships using a policy-shocks approach that corrects for reverse causality by combining high-frequency risk measures with weekly data on portfolio investment and a new measure of macroprudential regulations that captures the intensity of policy stances. Overall, the results support a growing body of evidence that macroprudential regulation can reduce the volume and volatility of bank flows but shift risks in ways that aggravate vulnerabilities in other parts of the financial system.

JEL classifications: F32; F34; F38; G15; G23; G28

## Article Citations

- Chari, Anusha, Karlye Dilts Stedman, and Kristin Forbes. 2021. “Spillovers at the Extremes: The Macroprudential Stance and Vulnerability to the Global Financial Cycle.” Federal Reserve Bank of Kansas City, Research Working Paper no. 21-16, December. Available at <https://doi.org/10.18651/RWP2021-16>

## Related Research

- Ahnert, Toni, Kristin Forbes, Christian Friedrich, and Dennis Reinhardt. 2021. “Macroprudential FX Regulations: Shifting the Snowbanks of FX Vulnerability?” *Journal of Financial Economics*, vol. 140, no. 1, pp. 145–174. Available at <https://doi.org/10.1016/j.jfineco.2020.10.005>
  - Gelos, Gaston, Lucyna Gornicka, Robin Koepke, Ratna Sahay, and Silvia Sgherri. 2019. “Capital Flows at Risk: Taming the Ebbs and Flows.” IMF Working Paper, vol. 2019, no. 279. Available at <https://doi.org/10.5089/9781513522906.001>
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