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ALTERNATIVE MEASURES FOR THE GLOBAL FINANCIAL CYCLE: DO THEY MAKE A DIFFERENCE?

Abstract:

We construct several measures for the global financial cycle using dynamic factor models and data for 25 advanced and emerging countries over 1980-2019. Our results suggest that global cycles in asset prices and capital flows are highly similar and synchronized, especially during crisis episodes. Our measures for asset-specific global cycles suggest that cycles in credit and house prices are less volatile and have a longer duration than cycles in equity and bond prices. Finally, we find significant co-movement of our global financial cycle measures and two measures as suggested in the literature that are based on top-down and bottom-up approaches.

Keywords:

Global financial cycle, National financial cycle, Dynamic factor analysis, Capital flows, Asset prices

JEL Classification: E44, F32, F36