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Poutineau and Vermandel (2015) evaluate quantitatively how interbank and corporate cross-border flows shape business cycles in a monetary union. They estimate a two-country DSGE model (equal-size Eurozone core and peripheral countries) that accounts for national heterogeneities and a set of real, nominal and financial frictions. Each country is populated by consumers, labor unions, intermediate and final producers, entrepreneurs, capital suppliers and a banking system. The set of real rigidities encompasses consumption habits, investment adjustment costs and loan demand habits. Regarding nominal rigidities, they account for stickiness in final goods prices, wages and loan interest rates. Obtained results support the key role of the cross-border channel as an amplifying mechanism in the diffusion of asymmetric shocks.

• Aggregate Demand: Households in both countries consume, save and work in intermediate firms, and maximize expected lifetime utility with respect to the consumption and labor effort. They spend their incomes on consumption, bond subscription and tax payments. In addition to that, there exist quadratic adjustment costs necessary to buy new bonds (Schmitt-Grohe and Uribe, 2003). Households provide differentiated labor types, sold by labor unions to perfectly competitive labor packers who assemble them in a CES aggregator and sell the homogenous labor to intermediate firms.

• Aggregate Supply: Each economy is characterized by two groups of firms: intermediate firms and final firms. Intermediate firms produce differentiated goods, choose labor and capital inputs, and set prices according to the Calvo model. Final goods producers act as a consumption bundler by combining national intermediate goods to produce the homogenous final good.

• Financial Sector: In each country the banking sector finances investment projects to home and foreign entrepreneurs by supplying one-period loans. The banking system is heterogeneous with regard to liquidity and banks engage in interbank lending at the national and international levels. Thus, cross-border loans are made of corporate loans (between banks and entrepreneurs) and interbank loans. In order to introduce an interbank market, authors suppose that the banking system combines liquid and illiquid banks, where liquid banks (characterized by direct accessibility to the ECB funding) supply loans to entrepreneurs and to illiquid banks. Additionally, the intermediation process between liquid and illiquid banks is costly (convex monitoring technology). So-called financial accelerator mechanism is borrowed from De Grauwe (2010) and applied in a different context, by assuming that entrepreneurs' forecasts regarding the aggregate profitability of a given project are optimistic (these values are then compared to the critical threshold which distinguishes profitable and non-profitable projects).

• Shocks: There are in total 8 country specific structural shocks and one shock in the common monetary policy rule. Namely, a productivity shock, demand shock, time-preference shock, net wealth shock, external finance premium shock, bank rate markup shock, wage markup shock, bank liability shock and ECB monetary policy shock.

• Calibration/Estimation: The model is estimated with Bayesian methods on Euro Area quarterly data over the sample period 1999Q1 to 2013Q3.