



Universität
Basel

Research Project

FV-84 Systemic Risk Dynamics in Euro Area Sovereign Debt Markets

Third-party funded project

Project title FV-84 Systemic Risk Dynamics in Euro Area Sovereign Debt Markets

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Organisation / Research unit

Departement Wirtschaftswissenschaften / Finanzmarkttheorie (Zimmermann)

Department

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Project start 01.01.2020

Probable end 31.12.2020

Status Completed

In this project, we will employ a network model based on the methodology of a VAR Variance decomposition in order to understand the dynamics of sovereign risk interconnectedness. Macroprudential regulation views systemic risk as dependent on collective behaviour (endogenous), therefore, a network methodology is essential. We will investigate the magnitude and dynamics within the network before the unconventional policy or regulatory measure (called “events”) and compare it with the dynamics estimated in a short time window after the measure was adapted.

We are able to work with very short time windows around an event, as we operate with intraday data for bond markets and CDS markets. Also, having data for credit risk from both, the cash and derivative market, enables us to identify which market was leading in the contagion (systemic risk spillover) within the network. E.g. was the risk transmission taking place through the bond market or the derivative market from one country to another?

Financed by

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