

1. Record Nr.	UNINA9910786484403321
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Titolo	Intertwined Sovereign and Bank Solvencies in a Model of Self-Fulfilling Crisis // Gustavo Adler
Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2012
ISBN	1-4755-2939-2 1-4755-4841-9
Descrizione fisica	1 online resource (30 p.)
Collana	IMF Working Papers IMF working paper ; ; WP/12/178
Soggetti	Financial crises Banks and banking Banks and Banking Financial Risk Management Money and Monetary Policy Public Finance Industries: Financial Services Financial Markets and the Macroeconomy Money Supply Credit Money Multipliers Comparative or Joint Analysis of Fiscal and Monetary Policy Stabilization Treasury Policy Banks Depository Institutions Micro Finance Institutions Mortgages Financial Crises Monetary Policy, Central Banking, and the Supply of Money and Credit: General Pension Funds Non-bank Financial Institutions Financial Instruments Institutional Investors Debt Debt Management Sovereign Debt

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Finance
Public finance & taxation
Nonbank financial institutions
Domestic debt
Money
Financial institutions
Public debt
Financial services industry
Debts, Public
Argentina

Lingua di pubblicazione

Inglese

Formato

Materiale a stampa

Livello bibliografico

Monografia

Note generali

Description based upon print version of record.

Nota di bibliografia

Includes bibliographical references.

Nota di contenuto

Cover; Contents; 1. Introduction; 2. Model; 2.1 Households; 2.2 Domestic Financial Intermediaries; 2.3 Firms; 2.4 Government; 2.5 A Competitive Equilibrium; 2.6 A Sustainable Debt Equilibrium; 2.7 A Self-Fulfilling Crisis; 3. Discussion; 3.1 Senior Debt Structure; 3.2 Capital Requirements; 3.3 Public Recapitalization; 4. Conclusions; Figures; 1. Equilibria at Time t ; 2. Equilibria with Different Levels of Domestic Debt; 3. Probability of Crisis and Effect on Prices, Private Credit and Output; Appendix; References

Sommario/riassunto

Large fiscal financing needs, both in advanced and emerging market economies, have often been met by borrowing heavily from domestic banks. As public debt approached sustainability limits in a number of countries, however, high bank exposure to sovereign risk created a fragile inter-dependence between fiscal and bank solvency. This paper presents a simple model of twin (sovereign and banking) crisis that stresses how this interdependence creates conditions conducive to a self-fulfilling crisis.