1. Record Nr. UNINA9910817193103321

Autore	Galai Dan
Titolo	Credit risk spreads in local and foreign currencies / / prepared by Dan Galai and Zvi Wiener
Pubbl/distr/stampa	[Washington D.C.], : International Monetary Fund, 2009
ISBN	1-4623-2752-4 1-4527-1980-2 1-4518-7257-7 9786612843259 1-282-84325-7
Edizione	[1st ed.]
Descrizione fisica	1 online resource (22 p.)
Collana	IMF working paper ; ; WP/09/110
Altri autori (Persone)	WienerZvi
Disciplina	332.152
Soggetti	Credit - Mathematical models Financial risk management
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	Contents; I. Introduction; II. The Model; III. Numerical Examples and Illustrations; Tables; 1. The Euro-Denominated Debt Spread, Face Value, PD, and the Cost of Credit Risk as a Function of Correlations; IV. Credit Spreads and Modigliani and Miller Propositions; Figures; 1. Spreads on Foreign-Currency Bonds and Correlations; 2. Betas of Stocks and Foreign Currency Bonds for Various Correlations; 2. The Expected Return on Stock (yS) as a Function of the B/S Ratio; V. Implications and Conclusions; 3. The Expected Return on Stock yS as a Function of the B/S Ratio and Correlation Coefficient 4. FE as a Function of FAppendixes; I. Determination of the Face Value of Debt in the Foreign Currency; 5. FE as a Function of F; II. Firm Value, Exchange Rates, and Inflation; References
Sommario/riassunto	The paper shows how-in a Merton-type model with bankruptcy-the currency composition of debt changes the risk profile of a company raising a given amount of financing, and thus affects the cost of debt. Foreign currency borrowing is cheaper when the exchange rate is positively correlated with the return on the company's assets, even if the company is not an exporter. Prudential regulations should therefore

differentiate among loans depending on the extent to which borrowers have "natural hedges" of their foreign currency exposures.