

1. Record Nr.	UNINA9910828554103321
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Titolo	Euro Area Sovereign Risk During the Crisis // Edda Zoli, Silvia Sgherri
Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2009
ISBN	1-4623-9410-8 1-4527-4905-1 1-4518-7369-7 9786612844263 1-282-84426-1
Edizione	[1st ed.]
Descrizione fisica	23 p. : ill
Collana	IMF Working Papers
Altri autori (Persone)	SgherriSilvia
Disciplina	332.042
Soggetti	Global Financial Crisis, 2008-2009 Financial crises - European Union countries - Econometric models Risk management - European Union countries - Econometric models Finance: General Financial Risk Management Investments: General Investments: Bonds Industries: Financial Services General Financial Markets: General (includes Measurement and Data) Investment Capital Intangible Capital Capacity Financial Crises Financial Institutions and Services: General Investment & securities Macroeconomics Finance Economic & financial crises & disasters Sovereign bonds Return on investment Securities markets Financial crises Financial sector Bonds Saving and investment Capital market

Financial services industry

Ireland

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Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	"European Department."
Nota di contenuto	Intro -- Contents -- I. Introduction -- II. Euro Area Sovereign Risk and the Crisis: Stylized Facts -- III. Dissecting Common Risk -- IV. Explaining Developments in Euro Area Sovereign Risk During The Crisis -- V. Conclusion -- Tables -- 1. Explaining Common Factor's Dynamics -- 2. Panel Estimates -- 3. Seemingly Unrelated Regression Estimates, January 2003-January 2009 -- 4. Seemingly Unrelated Regression Estimates, January 2003-March 2009 -- Figures -- 1. Selected Euro Area Sovereign Spreads, June 2008-09 -- 2. Dispersion in Euro Area Sovereign Spreads, January 2001-June 2009 -- 3. Headline Deficit: Contributions from Automatic Stabilizers and Discretionary Measures -- 4. Up-front Government Financing Need to Shore Up the Financial Sector -- 5. From Credit Risk to Sovereign Risk: The Case of Ireland -- 6. Sovereign Spreads and Financial EDFs in Euro Area Countries -- 7. Estimated Common Component in Sovereign Spreads -- 8. A Preliminary Look at the Determinants of Spreads Behavior -- 9. Contributions to the Change in Spreads, January 2003-January 2009 -- 10. Contributions to the Change in Spreads, January 2003-March 2009 -- References.
Sommario/riassunto	While the use of public resources is critical to cushion the impact of the financial crisis on the euro-area economy, it is key that the entailed fiscal costs not be seen by markets as undermining fiscal sustainability. From this perspective, to what extent do movements in euro area sovereign spreads reflect country-specific solvency concerns? In line with previous studies, the paper suggests that euro area sovereign risk premium differentials tend to comove over time and are mainly driven by a common time-varying factor, mimicking global risk repricing. Since October 2008, however, there is evidence that markets have become progressively more concerned about the potential fiscal implications of national financial sectors' frailty and future debt dynamics. The liquidity of sovereign bond markets still seems to play a significant (albeit fairly limited) role in explaining changes in euro area spreads.

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