

Volatility Transmission among European Bank CDS

Authors : Aida Alemany, Laura Ballester, Ana González-Urteaga

Abstract : From 2007 subprime crisis to the recent Eurozone debt crisis the European banking industry has experienced a terrible financial instability situation with increasing levels of CDS spreads (used as a proxy of credit risk). This paper investigates whether volatility transmission channels in European banking markets have changed after three significant crises' events during the period January 2006 to March 2013. The global financial crisis is characterized by a unidirectional volatility shocks spillovers effect in credit risk from inside to outside the Eurozone. By contrast, the Eurozone debt crisis is revealed to be local in nature with the euro as the key element suggesting a market fragmentation between distressed peripheral and non-distressed core Eurozone countries, whereas retaining the local currency have acted as a firewall. With these findings we are able to shed light on the impact of the different crises on the European banking credit risk dynamics.

Keywords : CDS spreads, credit risk, volatility spillovers, financial crisis

Conference Title : ICBEFMS 2015 : International Conference on Business, Economics, Finance and Management Sciences

Conference Location : Paris, France

Conference Dates : January 23-24, 2015