

Measuring Tail-Risk Spillover in the International Banking Industry

Authors : Lidia Sanchis-Marco, Antonio Rubia

Abstract : In this paper we analyze the state-dependent risk-spillover in different economic areas. To this end, we apply the quantile regression-based methodology developed in Adams, Füss and Gropp approach to examine the spillover in conditional tails of daily returns of indices of the banking industry in the US, BRICs, Peripheral EMU, Core EMU, Scandinavia, the UK and Emerging Markets. This methodology allow us to characterize size, direction and strength of financial contagion in a network of bilateral exposures to address cross-border vulnerabilities under different states of the economy. The general evidence shows as the spillover effects are higher and more significant in volatile periods than in tranquil ones. There is evidence of tail spillovers of which much is attributable to a spillover from the US on the rest of the analyzed regions, specially on European countries. In sharp contrast, the US banking system show more financial resilience against foreign shocks.

Keywords : spillover effects, Bank Contagion, SDSVaR, expected shortfall, VaR, expectiles

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

Conference Location : Madrid, Spain

Conference Dates : March 26-27, 2015