Title of the workshop

SUPTECH II WORKSHOP II. Contagion and financial stability

Venue

Secretaría General del Tesoro y Financiación Internacional, Paseo del Prado 6 - 28014 Madrid (Spain)

Date

February 18, 2020.

Hosting university

Complutense University of Madrid

Regulator/supervisor

Tesoro Público-Ministerio de Economía y Empresa.

The speakers

1. Javier Arroyo Gallardo
2. Miller Janny Ariza Garzón

Number of participants

2

The main topics:

The two cases presented and discussed are associated with the measurement of sovereign risk in the countries of the European Union in the time window from 2008 to 2018:

Case 1: Convergence and Divergence in European Bond Correlations

Case 2: Sovereign risk zones in Europe during and after the debt crisis

The main topics discussed were:

1) Measurement of sovereign risk

2) Measurement and dynamics of sovereign risk contagion. Dependency profiles.

3) Determinants, dynamics and management of sovereign risk (contagion, political and macroeconomic factors)

The main results

In the first case, the participants appreciate having instruments that allow them to understand the transmission of effects by different political phenomena, as well as making markets segments for varying periods. However, they suggest using models that include control variables around the differences associated with markets. These variables recognize their strengths and limitations to have a more robust estimation of contagion.

In the second case, they value very highly the model because defines risk routes and segments, including dynamic estimates of contagion.

New insights and main takeaways

Concerning the first case of use, they suggest analyzing other time frequencies and the dynamics of countries, particularly Spain, in the face of other different political and economic events. They also consider interesting to evaluate not only the impact of each political event but also the length of its effects, to be able to determine whether they generate transitory or permanent effects, and how their dependency structure reflects these.

For the second case, they suggest carrying out the analysis through country models since in some cases, the aggregations do not allow understanding the particular situation of each market. In turn, they suggest updating the study to identify the effects of policies, some of which have even taken longer to implement, again, controlling by the different estimates of contagion.

Likewise, they suggest a comparison not only of two moments, crisis and post-crisis but also advise to include pre-crisis moment. They considered that by not covering this period, the effects associated with the policies of governments and the European Union might be overestimated.

Further remarks

The participants clarify that although the Tesoro Público, through the Subdirectorate General for Legislation on Credit Institutions, Banking and Payment Services and the Subdirectorate General for Legislation on the Securities Market and Financial Instruments, participates in the drafting of regulations affecting the financial sector, and also in the working groups that develop Community regulations, they are not directly regulators.

Through the General Secretariat of the Treasury and International Finance, it channels institutional relations with the main supervisory and regulatory bodies or bodies in which the State has a stake, in the field of the financial sector.

On the other hand, as in the different sessions with the other institutions, the participants understand the methods and the results, allowing them to compare with what they do in their daily work, make criticisms of what is presented and propose new elements for future research.