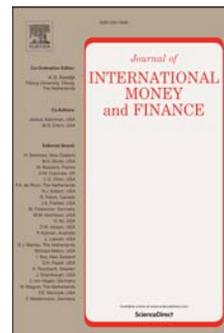


Accepted Manuscript

Fiscal Consolidations and Bank Balance Sheets

Jacopo Cimadomo, Sebastian Hauptmeier, Tom Zimmermann



PII: S0261-5606(14)00032-1

DOI: [10.1016/j.jimonfin.2014.02.007](https://doi.org/10.1016/j.jimonfin.2014.02.007)

Reference: JIMF 1397

To appear in: *Journal of International Money and Finance*

Received Date: 26 April 2013

Revised Date: 10 September 2013

Accepted Date: 17 February 2014

Please cite this article as: Cimadomo, J., Hauptmeier, S., Zimmermann, T., Fiscal Consolidations and Bank Balance Sheets, *Journal of International Money and Finance* (2014), doi: 10.1016/j.jimonfin.2014.02.007.

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Fiscal Consolidations and Bank Balance Sheets*

April 26, 2013

Abstract

We empirically investigate the effects of fiscal policy on bank balance sheets, focusing on episodes of fiscal consolidation. To this aim, we employ a very large data set of individual banks' balance sheets, combined with a newly compiled data set on fiscal consolidations. We find that standard capital adequacy ratios such as the Tier-1 ratio tend to improve following episodes of fiscal consolidation. Our results suggest that this improvement results from a portfolio re-balancing from private to public debt securities which reduces the risk-weighted value of assets. In fact, if fiscal adjustment efforts are perceived as structural policy changes that improve the sustainability of public finances and, therefore, reduces credit risk, the banks' demand for government securities should increase relative to other assets.

JEL Classification: E62, G11 G21, H30.

Keywords: Fiscal consolidations, bank balance sheets, portfolio re-balancing, banking stability.

1 Introduction

The interdependence between public and bank balance sheets has been a fundamental aspect of the financial and economic crisis which, in some European countries, turned into a sovereign debt crisis in mid-2010. The strong loosening of fiscal policies as a reaction to the severe economic downturn in 2008/09 coincided with sharp increases in deficit and debt ratios. At the same time, the combination of large fiscal imbalances and low growth potential as well as structural weaknesses in the economy or the financial system led markets to increasingly challenge the sustainability of public finances in some countries. The related abrupt change in the market perception of sovereign risk in turn weakened bank balance sheets and resulted in an adverse feedback loop between sovereign and banking risk (see, e.g., [Bank for International Settlement \(BIS\) \(2011\)](#)).

*This paper previously circulated under the title "Fiscal Consolidations and Banking Stability". We wish to thank seminar participants at the International Conference on Macroeconomic Analysis and International Finance, the 2012 European Economic Association annual congress, the workshop "Sovereign Risk, Fiscal Solvency and Monetary Policy: Where Do We Stand?" and at an ECB seminar for helpful comments and discussions. In particular, we would like to thank Cristina Checherita, Giancarlo Corsetti, Davide Furceri, Robert G. King, Albert Marcet, Michel Normandin, Joan Paredes, Matthias Sydow and Frank Smets.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات