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THE ECB'S FINANCIAL STABILITY IMPACT ON CREDIT DEFAULT SWAPS MARKET

Abstract:

This paper studies the value of ECB's announcement and the impact on Stock and Credit Default Swaps Market during 2008-2018. We examine the relationship between ECB announcements, and systematic risk and unsystematic risk of 29 European countries' financial markets through the CAPM regression. Those 29 countries divided into 3 clusters of liquid markets, accordingly the experienced stress during the sovereign debt crisis and their Liquidity Coverage Ratio (LCR). The results indicate that ECB's announcements tend to show more impact on stock markets than CDS markets especially in 1st cluster of liquid market. Furthermore, these two types of financial markets in 29 European countries exhibit more significant market reaction to Financial Sector news and Money Market news while Financial Stability news and Monetary Policy bring more risk and volatility to 2 and 3 cluster of liquid markets. We found that there is a 3 clusters of liquid markets so that in turn reshapes an unequal distribution of systemic risk and help the spread of a financial crisis. The results also reveal financial markets of Finland, Sweden, Austria, Ireland, Spain and Turkey take on more risk and volatility than other sample countries when ECB announcements published.

Keywords:

European Central Bank, Investment, Monetary Policy, Announcements

JEL Classification: G21, O11, E17