IEIT WORKING PAPER SERIES

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WP-2023-003

경제통상연구원

October 2023

이 논문은 2023년도 경제통상연구원의 지원을 받아 수행된 연구임

Systemic risk spillovers between stock returns of the banking and financial sectors: Evidence from developed and emerging Europe

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Abstract

This study explores the dynamics of non-linear dependence and spillovers between stock returns of banking and financial sectors in the context of both developed and emerging Europe. Our methodology involves copulas with time-varying parameters and the Conditional Value-at-Risk (CoVaR) method, utilising data from the bank stock returns. We found evidence of stronger symmetric dynamics than asymmetric dynamics in the dependence structure of the stock portfolios, which comprises banks. Notably, the Commerz bank and BNP Paribas, both from developed Europe, demonstrated the most significant downside spillover effects on the European banking sector. Intesa Sanpaolo and Banco Comercial Portugues exhibited the most substantial upside spillover effects. Additionally, the Deutsche Bank and BNP Paribas had the most significant downside spillover effects on the European financial sector, whereas Banco Comercial Portugues and UniCredit SpA had the most substantial upside spillover effects. As for emerging Europe, the Greek banks and the Sber bank had the most significant downside and upside spillover effects on the European banking and financial sectors, respectively.

Keywords: Bank stock returns; Developed and emerging Europe; Non-linear dependence; Spillovers; Copulas; CoVaR.