

Banka Slovenije
in cooperation with
the Research Centre of the School of Economics and Business,
invites you to an on-line seminar
on Wednesday 7 April 2021 at 14:00 CEST

Michael Reiter
Institute for Advanced Studies Vienna

Long-term Bank Lending and the Transfer of Aggregate risk

Abstract:

Long-term debt contracts transfer aggregate risk from borrowing firms to lending banks. When aggregate shocks increase the future default probability of firms, banks are not compensated for the default risk of existing contracts. If banks are highly leveraged, this can lead to financial instability with severe repercussions in the real economy. To study this mechanism quantitatively, we build a macroeconomic model of financial intermediation with long-term defaultable loan contracts and calibrate it to match aggregate firm and bank exposure to business cycle risks. Our model exhibits banking crises that closely resemble observed crisis episodes. We find that such crises do not arise in an economy with short-term debt. Our results on the role of long-term debt completely reverse if financial regulation is implemented to increase banks' risk bearing capacity. The financial sector is then well equipped to take on the aggregate risk, such that long-term lending stabilizes the business cycle by providing insurance to the corporate sector.

About the speaker:

Michael Reiter is currently heading the Macroeconomics and Economic Policy Group at the Institute for Advanced Studies (IHS) in Vienna and has previously been Head of the Department of Economics and Finance from January 2014. He received his PhD from the University of Munich in 1993 and has been Visiting Assistant Professor at the University of Western Ontario in 1994/95. In 1997 he joined Universitat Pompeu Fabra in Barcelona, first as Assistant Professor and then as Associate Professor. He joined the Institute for Advanced Studies in Vienna in 2007. His research focuses on computational economics, macroeconomics and public finance.

How to sign up:

Please send an email to sign up for the seminar to seminar@bsi.si. You can sign up by Friday 2 April 2021.

Details about the on-line seminar will be sent to participants few days prior to the event via email.