

Seminari di Economia

Venerdì 17 giugno 2022

Ore 12:00 – Aula 11

Facoltà di Scienze Economiche Giuridiche e Politiche - Viale Sant'Ignazio 74

Chiara Perillo

University of Zurich - European Central Bank

Systemic Wrong-Way Risk in the COVID-19 Pandemic

Abstract – We investigate the relationship between the COVID-19 pandemic shock and the systemic dimension of counterparty risk, which has been recognised as a key driver in the propagation of losses during previous systemic events. We develop a network-based methodology to incorporate the systemic dimension of counterparty risk in the Credit Valuation Adjustment (CVA). We show that the models used so far to calculate the CVA as a protection against counterparty risk neglect the systemic relevance of the counterparty, thus underestimating counterparty risk. Further, we contrast the case of an exogenous shock, such as the COVID-19 one, with two cases of endogenous regional shocks experienced in the Euro Area in the past decade (i.e., European sovereign debt crisis and Greek sovereign default). We show that, despite the economic extent and consequences of the COVID-19 shock are larger than those of the European sovereign debt crisis and the Greek sovereign default shocks, the CVA response has been smaller.