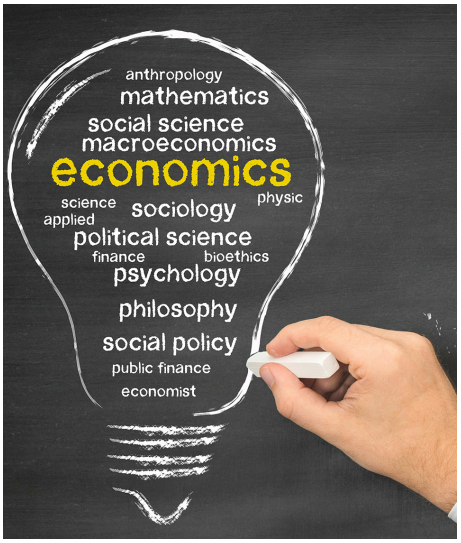
UNIVERSIDAD DE GRANADA

Departamento de
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Económica

Seminario: Pedro Jesus Cuadros Solas (CUNEF)

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Título: Banking Supervisory Architecture and Sovereign Risk

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Abstract: This paper investigates whether the design of the banking supervisory architecture impacts sovereign risk. Exploiting the implementation of the Single Supervisory Mechanism (SSM) in Europe, we find evidence that sovereign risk – measured by sovereign ratings – is lower after the largest banks are supervised supranationally rather than nationally. The impact is shaped by the characteristics of the banking sector and the country's institutional setting. Banking stability is the channel underlying the relationship between banking supervision and sovereign risk. The results hold after considering CDS spreads as an alternative measure of sovereign risk and after accounting for changes in prudential policy instruments.

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