

The impact of central banks and governments policies on systemic risk during the global pandemic of COVID-19

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Abstract:

The spreading of COVID-19 dramatically changed the global financial and economic outlooks, requiring central banks and governments to implement policies aimed at containing the pandemic. We empirically study the impact of these policies on systemic risk internationally during the COVID-19 pandemic. We, first observe a statistically significant common increase in systemic risk amid the COVID-19 outbreak, more specifically after the World Health Organization declared it a global pandemic. We then provide empirical evidence on how governments and central banks alleviated the effects of the pandemic on the banking systemic risk through unprecedented support and policy interventions. When focusing on the COVID-19 period we find that the number of COVID-19 confirmed cases and the lockdown restrictions increased systemic risk in all the selected countries. Conversely, policies worldwide had the opposite reducing effect. By breaking down the authorities' policies into different categories, we find a stronger reducing impact from fiscal and regulatory policies as opposed to monetary policies. We focus also on common economic and financial drivers of systemic risk detecting traditional coefficients' sign and significance when excluding the COVID-19 period. When including the COVID-19 crisis, the impact of such drivers is either mitigated or strengthened by the COVID-led policies. The reason we put forward for such finding is that the impact of COVID-19 crisis on the banking system has been mostly indirect and through common channels if any.

Keywords: Systemic Risk, COVID-19, Financial Stability

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