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Some reflections

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Stress tests and market discipline (1)

- “The exercise fosters market discipline through the publication of extensive and detailed bank-by-bank actual and projected data, which is crucial particularly at times of increased uncertainty.”
- Research has examined how markets respond to publication of stress test results.
- Sahin et al. (2020; JBF) provide overview and present new evidence for US.
- Find evidence that stress tests have moved stock and credit markets following disclosure of results.

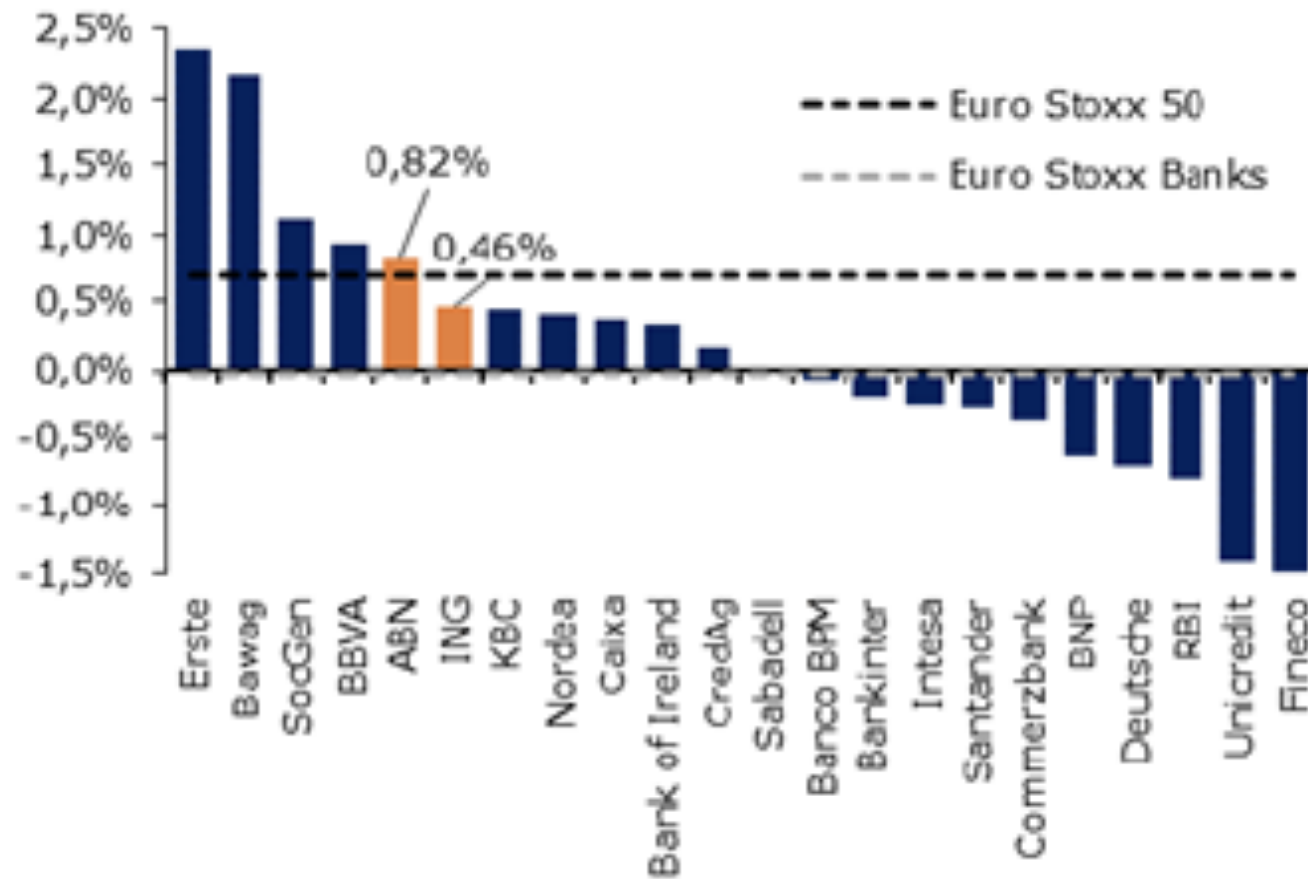


Stress tests and market discipline (2)

- Sahin and de Haan (2016; EL) examine impact of ECB's Comprehensive Assessment.
- Our results suggest that stock prices and CDS spreads generally did not react to the publication of the results. This conclusion also holds for banks with a capital shortfall.
- We are working on new research to examine market response to this EBA stress test.
- Initial analysis suggests that bank stock prices do react differently.



Market reactions to stress test (stock prices)





Selection of banks in stress test important

- In this stress test 50 banks have been included.
- Not clear to me how these banks have been selected.

Name:	Assets (2020):	Included:
ABN AMRO	395,623	Yes
ING	937,379	Yes
RABO	632,258	Yes
Volksbank	67,484	No
BNG	160,359	Yes
NWB	106,882	Yes
Volkswagen Bank	66,941	Yes



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Thank you for your attention