

Did the Euro Increase Systemic Risk?*

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Abstract

We examine the effect of the introduction of the euro on the level of systemic risk for countries that adopted the common currency (euro-zone countries). Our measure of systemic risk is $\Delta CoVaR$, introduced by Adrian and Brunnermeier (2010). We analyze the 1990–2010 period, use a large cross-section of banks from more than 56 countries and implement differences-in-differences tests. We report a significant increase in systemic risk for euro-zone countries after the introduction of the euro. We explore different economic channels that may explain how the euro affected the countries' systemic risk.

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