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# Bank liabilities channel*

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**Abstract**

The financial intermediation sector is important not only for channeling resources from agents in excess of funds to agents in need of funds (lending channel). By issuing liabilities it also creates financial assets held by other sectors of the economy for insurance or liquidity purpose. When the intermediation sector creates less liabilities or their value falls, agents are less willing to engage in activities that are individually risky but desirable in aggregate (bank liabilities channel). The paper shows how financial crises driven by self-fulfilling expectations about the liquidity of the banking sector are transmitted to the real sector of the economy. Since the government could also create financial assets by borrowing, the paper analyzes how public debt affects the issuance of liabilities by the financial intermediation sector.

**JEL classification**: E32, G21

**Keywords**: Financial intermediation, Financial crises

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