

Accepted Manuscript

The impact of sovereign rating changes on the activity of European banks

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PII: S0378-4266(17)30206-6
DOI: [10.1016/j.jbankfin.2017.08.018](https://doi.org/10.1016/j.jbankfin.2017.08.018)
Reference: JBF 5201



To appear in: *Journal of Banking and Finance*

Received date: 21 February 2017
Revised date: 24 June 2017
Accepted date: 25 August 2017

Please cite this article as: Danilo Drago , Raffaele Gallo , The impact of sovereign rating changes on the activity of European banks, *Journal of Banking and Finance* (2017), doi: [10.1016/j.jbankfin.2017.08.018](https://doi.org/10.1016/j.jbankfin.2017.08.018)

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Highlights:

- We verify the impact of sovereign rating changes on the activity of European banks
- Sovereign downgrades affect primarily banks' capital ratios and lending supply
- This impact depends on *assets channel*, *funding channel*, and *rating channel*
- The rating-based regulation affects all measures of the activity of domestic banks
- Upgrades do not have a significant impact, indicating an asymmetric effect

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