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## The Quest for Banking Stability in the Euro Area: The Role of Government Interventions

### Highlights

- i) Government interventions in the European banking sector deteriorate sovereign credit risk.
- ii) Riskier sovereign debt depresses the collateral value of loans and leads to bank retrenchment.
- iii) A regime-dependent relation between the banking sector and sovereign credit risk is revealed.
- iv) A positive and regime-dependent relation between implied volatility and CDS spreads is identified.
- v) A negative and regime-dependent relation between stock returns and CDS spreads is obtained.

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