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Highlights

- Exploitation of a unique court ruling on federal liability in Switzerland
- A credible no-bailout commitment reduces bond spreads for potential guarantors
- The commitment decouples guarantor's risk premia from the financial situation of guarantees
- Balanced budget rules reduce risk premia

☆ The opinions expressed in this paper reflect the personal views of the authors and do not necessarily reflect those of the BayernLB or the European Central Bank. The research benefitted from funding from the German Federal Ministry of Finance (project: national fiscal rules – an instrument to avoid crises of confidence?).

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Sovereign Bond Market Reactions to No-Bailout Clauses and Fiscal Rules – The Swiss Experience[☆]

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Abstract

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