

Dear ...,

Welcome to the latest edition of *SAFE Update*, the Leibniz Institute SAFE digital newsletter. In this issue, we focus on an award-winning SAFE Working Paper and examine research into the impact of debt exposure on support for a populist political party during a financial crisis.

We hope you find this newsletter of interest and would welcome your feedback to the editorial team at [newsletter@safe-frankfurt.de](mailto:newsletter@safe-frankfurt.de).

## Focus: Successful SAFE Working Paper on bank bail-outs



### SAFE researchers receive two awards for best paper

A working paper by SAFE researchers Christian Mücke and Loriana Pelizzon, written in cooperation with their co-authors Vincenzo Pezone (Tilburg University) and Anjan V. Thakor (Washington University in Saint Louis), has won two awards at international academic conferences. Entitled “The Carrot and the Stick: Bank Bailouts and the Disciplining Role of Board Appointments”, the paper won

the Best Young Researcher Award at the International Risk Management Conference 2021 in Cagliari, Italy; the researchers also received an award for their work at the 16th Annual Conference on Asia-Pacific Financial Markets 2021 in Seoul, South Korea.

Using U.S. banks as an example, the SAFE Working Paper scrutinizes the effectiveness of the capital purchase program (CPP) introduced by the U.S. government during the financial crisis of 2007 to 2009. The results of the paper show that the threat of director appointments by the U.S. Treasury led to increased repayment discipline by banks following government financial assistance.

Furthermore, the researchers found that, for the banks with newly appointed supervisory board members, both return on equity and return on assets increased, and that the ratio of bad loans to total loans also improved.

The SAFE Working Paper and its results are featured in detail in the first issue of *Points*, the new annual research magazine recently launched by SAFE. Starting with one English-language edition a year, the magazine provides insights into the development of our institute through focus topics, current and policy-relevant research findings, profiles of SAFE postdocs, interviews, and more. Find out about the new magazine and read the first issue [here](#).

## Research Highlight: Debtor distress and populist support



### **Financial Crisis, Creditor-Debtor Conflict, and Populism**

by [Gyozo Gyongyosi](#), Advanced Researcher in the SAFE Department Household Finance, and Emil Verner, MIT Sloan School of Management.

Financial crises are often followed by political polarization and increased support for populist parties. Many such crises entail significant distress to household finances, especially among debtors. In their research paper “Financial Crisis, Creditor-Debtor Conflict, and Populism”, forthcoming in the *Journal of Finance*, the authors investigate the relationship between debtor distress and support for a populist far-right political party during the 2008 financial crisis in Hungary. Their results show that financial difficulty led to a significant and persistent increase in support for the far-right populist Jobbik.

To establish a causal relationship between debtor distress and voting for a populist party, the authors use widespread household Swiss franc borrowing with a large and unanticipated depreciation of the domestic currency. The authors harness the fact that variation in foreign currency debt exposure was driven by a policy change which cut back an interest rate subsidy program for local-currency mortgage loans. Combining administrative household credit registry data and election outcomes, the authors find that the household foreign-currency debt shock significantly increased the far-right populist vote share, an effect which has proved persistent across several post-crisis elections.

In order to understand why distressed debtors voted for a populist party, the authors complement their primary analysis with additional narrative evidence. Textual analysis of parliamentary speeches reveals that far-right politicians were more likely to use debtor-friendly rhetoric, emphasize debt-relief, and blame international banks, the International Monetary Fund, and establishment parties for foreign-currency debtors' financial distress. Populists' debtor-friendly stance fits with its broader (rhetorical) claim to speak for "the people" and against "the elite", "the bankers", and "international financial capitalism".

[Find the research paper here](#)

## #SAFEtheDate



### **Outlook**

SAFE is co-organizing the 8th International Conference on Sovereign Bond Markets on 7th and 8th April 2022, which is hosted by the Bank of England. The event is currently planned to be held in person at the BoE's London Headquarters with an option for remote participation. This year, the conference will focus on the unprecedented challenges for sovereign capital markets caused by the Coronavirus pandemic such as global recession, an economic recovery frequently interrupted, and new strategies imposed by policy-makers in order to supply liquidity to the markets, reduce the cost of capital, and foster economic growth. [Register here for the conference.](#)

### **Review**

At the Leibniz Economic Summit 2022, the heads of the economic research institutes in the Leibniz Association discussed the ecological transformation of the economy and the challenges for Germany's economic policy. During the debate, SAFE Director Jan Pieter Krahen commented critically on the European Commission's taxonomy. [Read the follow-up report and rewatch the session here.](#)

## Handpicked

**Alexander Hillert, Professor for Finance and Data Science and Program Director of the SAFE Data Center, recommends an episode of the “Facebook Files” from the Wall Street Journal's podcast *The Journal*:**

"What does dropping the word 'transitory' reveal about the Fed's future monetary policy? What does Elon Musk think about the role of government? These are the types of questions discussed in the podcast *The Journal*. In each episode, the two hosts interview experts and provide new insights on the topic at hand. Besides the regular episodes, there are also more comprehensive investigations such as the 'Facebook files', of which there are currently eight episodes. This series analyses internal documents leaked by a whistle-blower, and one episode that I found particularly interesting is about how Facebook handled its own internal research suggesting that Instagram can have harmful effects on girls' mental health. All in all, I like the variety of topics discussed by *The Journal* combined with its in-depth analysis."



[Find the podcast episode here](#)

## News & Latest

- **News:** [Leibniz Institute SAFE launches new research magazine](#)
- **Video:** [SAFE-CEPR-IBF Web Seminar on Geneva Report "Debt: The Eye of the Storm" with Moritz Schularick](#)
- **SAFE Finance Blog:** [Capital markets in emerging countries: state-capitalist stock exchanges? \(by Andreas Nölke, Kai Koddenbrock, and Johannes Petry\)](#)
- [All upcoming events and SAFE publications](#)

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