

Abstract

This thesis focuses on the link between financial system and sovereign debt crises through sovereign support to banks on one hand and banks' exposures to weak sovereigns on the other. After illustrating the main relationships on the recent financial crisis, we construct an agent-based network model of an artificial financial system allowing us to analyse the effects of state support on systemic stability and the feedback loops of risk transfer back into the financial system. First, the model is tested with various parameter settings in Monte Carlo simulations and second, it is calibrated to the real world data using a unique dataset put together from various sources. Our analyses yield the following key results: Firstly, in the short term, all the support measures improve the systemic stability. Secondly, in the longer run, the effects of state support depend on several parameters but still there are settings in which it significantly mitigates the systemic crisis. Finally, there are differences among the effects of the different types of support measures.