

Press Release

“The Impact of Treasury Supply on Financial Sector Lending and Stability” Wins SFI Award

Zurich, Switzerland, November 12, 2015 – **The Swiss Finance Institute (SFI) has attributed its Outstanding Paper Award to “The Impact of Treasury Supply on Financial Sector Lending and Stability”, a research paper by Arvind Krishnamurthy of Stanford University and Annette Vissing-Jorgensen of the University of California Berkeley that studies how government debt crowds out financial sector short-term debt.**

At the Swiss Finance Institute’s annual meeting held in Zurich on November 12, 2015, the SFI college of chairs has nominated Professor Arvind Krishnamurthy of Stanford University and Professor Annette Vissing-Jorgensen of the University of California Berkeley as winners of the SFI Outstanding Paper Award 2015. This prize distinguishes an unpublished research paper expected to make an outstanding contribution to the field of finance.

In their paper, Krishnamurthy and Vissing-Jorgensen argue that one of the main drivers in the quantity of short-term financial debt made available is the non-financial sector’s willingness to pay a premium for safe and liquid assets. The financial sector—banks in particular—makes a profit by holding illiquid and risky assets, and issuing liquid and risk-free claims against these assets. Empirical evidence shows that the quantity of financial sector short-term debt falls when there are more outstanding government securities; government securities crowd out financial sector short-term debt, because both securities are perceived as similar by households. These results are consistent with the viewpoint that the shadow banking system played an important role in the production of safe and liquid assets during the past decade. Further computations show that these results are probably not due to the standard macro mechanism in which government supply crowds out private capital formation by raising real interest rates.

A lesson of the paper for banks is that government actions, such as borrowing or quantitative easing, can affect banks’ funding conditions. The magnitude is large: a one dollar increase in government debt depresses financial sector debt used to fund risky, illiquid investments by 50 cents. A lesson of the paper for governments is that their actions, by affecting the amount of maturity transformation in the banking sector, can affect the systemic risk of banking.

The winners of the SFI Outstanding Paper Award 2015 will be invited to present their research at a prize-giving ceremony in Switzerland in the course of 2016.

The **Swiss Finance Institute (SFI)** is a private foundation created in 2006 and supported by the Swiss banks, the Swiss Stock Exchange, leading Swiss universities and the Swiss federal government. SFI supports and advances research, doctoral training, knowledge transfer and education in banking and finance. It fosters interaction between researchers and practitioners to ensure an integrated approach to finance research.

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Links

- [SFI Outstanding Paper Award](#)
- [“The Impact of Treasury Supply on Financial Sector Lending and Stability”](#)
- [Prof. Arvind Krishnamurthy, Stanford University](#)
- [Prof. Annette Vissing-Jorgensen, University of California Berkeley](#)

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