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Crisis Management in Canada: Analyzing Default Risk and Liquidity Demand during Financial Stress

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Crisis Management in Canada: Analyzing Default Risk and Liquidity Demand during Financial Stress

Summary

Using detailed information from the Canadian interbank payments system and liquidity-providing facilities, the authors find that despite sustained increases in market-rate spreads, the increase in banks' willingness to pay for liquidity during the 2008–2009 financial crisis was short-lived. The study suggests that high-frequency distress indicators based on demand for liquidity offered by central banks can be complementary, and perhaps even superior, to market-based indicators, especially during times and in markets where uncertainty in the economic environment may lead to lack of meaningful information in prices due to absence of trading.

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