What can systemic risk measures predict?

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Abstract

We compare three prominent systemic risk measures assessing their potential as a monitoring tool for regulators and investigate the dynamics between systemic risk in the banking system and the real economy. We find that systemic risk measures possess substantial forecasting power for a variety of financial market and macro-economic variables. Whereas balance sheet characteristics determine an individual bank's systemic importance, they cannot explain systemic risk at the banking system level. Measures relating to the *Marginal Expected Shortfall* possess superior predictive power and are thus adequate for regulatory purposes.

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1. Introduction

How should we measure systemic risk? In the aftermath of the Lehman bankruptcy that triggered an unprecedented international financial crisis, this question has become of vital interest to both regulators and researchers. According to the definition of the International Monetary Fund, systemic risk is the risk of excessive losses within all or parts of the financial

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