

# **Euro Crash Risk**

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## **Abstract**

We identify crucial events during the European sovereign debt crisis and investigate their impact on the euro currency. In particular, we analyze how specific announcements related to vulnerable Eurozone member states, European Central Bank (ECB) actions, and credit rating downgrades affect the value and the crash risk of the euro. We proxy the value changes of the euro by its abnormal foreign exchange (FX) rate returns with respect to 35 currencies. The crash risk of the euro is proxied by the conditional skewness of the FX rate return distribution with respect to the same currencies. We find that for countries under the European and International Monetary Fund (IMF) rescue umbrella, the market on average reacts positively to new information. We find that ECB actions result in a euro depreciation on the day of the announcement, but the effect is corrected the day after. Our analysis also shows that credit rating downgrades tend to lead to a depreciation of the euro and increase the euro crash risk. Interestingly, we find that specific announcements about Greece do not substantially affect the euro exchange rate directly, however, it does have an overall significant effect on the euro crash risk.

**Keywords:** Sovereign debt crisis; News announcements; Euro value; Euro crash risk

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