Sovereign 9. Higher contingent liabilities (bailout) 10. Lower tax revenues 11. Lower demand for 12. Lower demand for 1. Mark-to-market 2. Mark-to-market sovereign bonds sovereign bonds loss on sovereign bond holdings loss on sovereign bond holdings 8. Mark-to-market loss 3. Higher bank funding costs on bank bond holdings Banks Insurers 13. Lower demand 7. Mark-to-market for bank bonds loss on corporate 4. Economic 14. Lower demand bond holdings slowdown for corporate bonds 5. Higher interest rates on loans → Financial channels → Macro-financial channels 6. Higher nonperforming loans Companies ➤ Bond demand channels and households

Figure 1.16. Channels of Contagion in the Sovereign-Financial Sector Nexus

Source: IMF staff.