Seminar

Jörg Urban (Bank for International Settlements)

“Intraday dynamics of euro area sovereign credit risk contagion“

Abstract:
We examine the role of the CDS and bond market as transmission channels of credit risk contagion between sovereign entities during and before the recent euro area sovereign debt crisis. We analyse an intraday dataset for GIIPS countries as well as Germany, France and Central European countries. Our findings suggest that prior to the crisis, the CDS and bond market were similarly important in the transmission of financial shock contagion while the bond market ceased in importance during the crisis period. We find flight to safety effects during the crisis in the German bond market which is not present in the pre-crisis sample. Our estimated sovereign risk contagion is much higher in magnitude during the crisis period with an average timeline of 2 hours in GIIPS countries. By using an exogenous macroeconomic news shock we can show that during the crisis period increased credit risk is not related to economic fundamentals. Further, we find that Central European countries have not been affected by sovereign risk contagion, independent of their debt level and currency.

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