Determinants of Sovereign Credit Default Swap spreads for PIIGS - A macroeconomic approach

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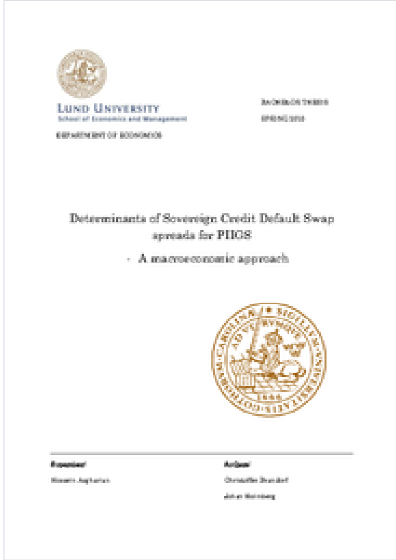
Abstract

This study examines the effects of changes in macroeconomic variables on sovereign CDS spreads for the countries within the PIIGS block. We run regressions for the countries individually and with the inclusion of Germany as a benchmark. In addition to study the whole time period (2004Q1-2009Q3), we divided it into two sub-periods, the first being financially stable and the second being characterized by financial turmoil. A Ramsey RESET test shows that our first model is correctly specified during the second sub-period. We find the highest number of significant variables in this particular model. For the first sub-period we find our regressions to be insignificant.

Overall we find unemployment rates to be the most frequently significant... (More)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