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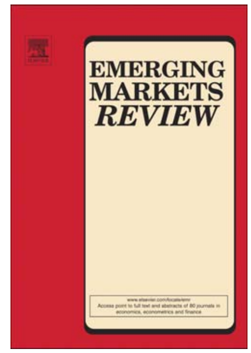


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# How credit ratings affect sovereign credit risk: cross-border evidence in Latin American emerging markets

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## Abstract

This article builds upon previous literature by providing a better understanding of how contagion changes in bordering sovereign CDS emerging markets resulting from credit rating events. To that end, we follow the novel GVAR methodology using data from six Latin American emerging countries during an extensive sample period from 2004 to 2014. Our findings show evidence for the existence of significant and asymmetric cross-border effects. In particular, a competition effect is observed before the event occurs, indicating that non-event countries suffer (benefit) from upgrades (downgrades) in Brazil, Mexico and Chile (in Argentina and Brazil). In contrast, an imitation effect is observed after rating upgrades in Chile, to the benefit of bordering non-event countries.

**Keywords:** CDS spreads, credit ratings, emerging markets, spillover effects, GVAR
**JEL classification:** F30, G15, G24, C50

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