

Accepted Manuscript

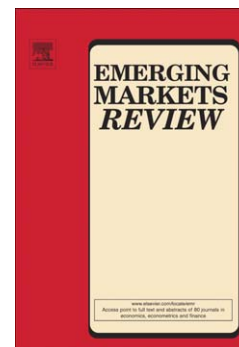
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PII: S1566-0141(16)30077-2
DOI: doi:[10.1016/j.ememar.2016.09.004](https://doi.org/10.1016/j.ememar.2016.09.004)
Reference: EMEMAR 485

To appear in: *Emerging Markets Review*

Received date: 26 July 2015
Revised date: 26 September 2016
Accepted date: 28 September 2016



Please cite this article as: Ballester, Laura, González-Urteaga, Ana, How credit ratings affect sovereign credit risk: Cross-border evidence in Latin American emerging markets, *Emerging Markets Review* (2016), doi:[10.1016/j.ememar.2016.09.004](https://doi.org/10.1016/j.ememar.2016.09.004)

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

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Version: September 2016

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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The authors would like to express their gratitude for the grant received from the Fundación Ramón Areces. Ana González-Urteaga acknowledges financial support from ECO2015-67035-P. We thank Annukka Ristiniemi, Matias Cabrera, Samuel Vigne and Ines Chaieb for valuable comments and discussions on earlier drafts of this paper. We also thank the participants at 2015 EFMA Annual Meetings and 13th INFINITI Conference on International Finance, and seminar participants at University Castilla La Mancha for stimulating discussions.

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