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PAPER PRESENTATION

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**Measuring sovereign risk spillovers and assessing the role of transmission channels: A spatial econometrics approach**

Workshop: Finance

Type of paper: Empirical

Abstract:

We contribute to the literature on international risk spillovers by developing a unified framework based on spatial econometrics that enables to address the following questions: (i) what are the channels of transmission for sovereign risk across countries and/or regions, (ii) what are the most dominant ones, and (iii) which countries are the most at risk for their environment and those suffering the most of international exposure. Our analysis based on 41 advanced and emerging economies from 2008Q1 to 2012Q4 shows that the informational channel is the most relevant to explain the transmission of bond yield spreads across countries. Our results challenge previous findings from the literature that consider transmission channels in separate models while we propose to feature multiple sources of transmission altogether in a single model. Eventually, our stress-testing analysis reveals important insights on countries prone either to international spillovers, international exposure or both at regional and worldwide level.

Key words: sovereign risk; transmission channels; spatial dynamic panel data; spillover analysis  
JEL classifications: C33, C51, F34, F42