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Sovereign Debt Ratings and Stock Liquidity around the World

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Highlights

- This paper studies the impact of sovereign debt rating changes on *liquidity* for stocks from 40 countries for the period 1990-2009.
- The impact is stronger for downgrades than for upgrades, and is nonlinear in event size. The loss of investment grade has a particularly strong negative impact on stock liquidity.
- Stock characteristics and a country's legal and macroeconomic environment are important in explaining the differences in the impact of sovereign credit rating changes on stock liquidity across countries.