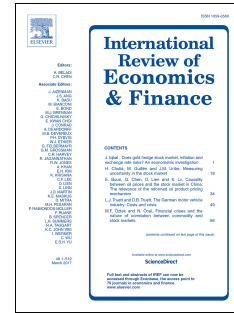


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Kristyna Ters, Jörg Urban



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Intraday dynamics of credit risk contagion before and during the euro area sovereign debt crisis: evidence from central Europe*

Kristyna Ters[†] Jörg Urban[‡]

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Abstract

With the onset of the euro area sovereign debt crisis, the CDS spreads of the Czech Republic, Hungary, Poland and Slovakia (the Visegrad group) increased even though the Visegrad group maintained solid public finances and ratings on average. Real economic linkages such as trade between the Visegrad group as important trading partner to the GIIPS countries might have led to this increase in sovereign credit risk due to contagion during the sovereign debt crisis period. We aim to analyse whether contagion led to higher sovereign risk in the Visegrad group and furthermore, whether the economic adjustment programmes (EAPs) by the Troika have been able to stabilise and reduce sovereign risk. We analyse 30-minute intraday credit default swaps (CDS) data prior to the sovereign debt crisis period (2008 - Oct. 2009) and during the sovereign debt crisis period (Oct. 2009-2011). By using a panel VAR methodology we find rather comovement effects in the Visegrad group member countries as they have been only marginally affected by the turmoil in the peripheral countries during the sovereign debt crisis. In contrast, we find strong contagion effects amongst the GIIPS countries in our sample. From an event study, we find that the EAPs have been essential for the GIIPS countries in terms of reducing contagion and sovereign risk across the euro area while the Visegrad group only reacted with a moderate reduction.

JEL classification: E44, G01, G15 and G18.

Keywords: Central Europe, contagion, credit default swaps, intraday, panel VAR, sovereign credit risk, sovereign debt crisis, spillover.

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[†] University of Basel, Basel, Switzerland. email: kristyna.ters@unibas.ch

[‡] Bank for International Settlements, Basel, Switzerland. email: joerg.urban@bis.org (Corresponding author)

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