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SOVEREIGN RISK CONNECTEDNESS: THE IMPACT OF ECB'S POLICY ANNOUNCEMENTS ON SCDS IN CENTRAL AND EASTERN EUROPE

Abstract:

This paper presents credit risk transmission patterns in CEE by applying a new mix of methods on sovereign credit default swaps market. The degree of connectedness among sovereigns is examined around ECB unconventional monetary policy announcements. Although transmission patterns do not substantially change over time, we find that asset purchase programs contributed to spillover reduction in high credit risk networks mostly before the implementation of zero lower bound rate policy. The results suggest that over time unconventional monetary policies substantially decrease credit risk in the EU, but positive spillover transmission to CEE depends on markets' promptness to incorporate information.

Keywords:

sovereign credit risk, unconventional monetary policy, network estimation, event study, Central and Eastern Europe

JEL Classification: E58, G01, G10