LONG-RUN AND SHORT-RUN DETERMINANTS OF ORIGINAL SINNERS' SOVEREIGN SPREADS

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Overview

- Traces Sovereign Spreads of 9 EU Emerging Countries.
- Use a dynamic panel error correction models that allows to differentiate between LR and SR spread determinant.
- External Debt to GDP influences Spread (+)
- Current Account and International Reserve help to lower Spread. (-)
- In the SR, Exchange Rate Deregulation (Balance Sheet Effect) and Market Volatility affects Spread (+)
- High Taxes lower Spread (-)

Comments

- Theoretical Framework / Underpinnings ?
- Edwards (1984, 1986) PDF ~ Macroeconomic and External
- Cantor and Packer (1996) and Kamin and Kliest– Ratings
- Eichengreen and Mody (1998a and 1998b) and Dell'Ariccia et al. (2002) – use both approach
- Where is Ebner (2009)? Alexopoulou et al. (2010)?
- Take more time before going to the Empirical Settings
- Why SR and LR? How different factors e.g., fundamentals, macroeconomic issues are different between short-run and long-run horizons.

Comments (Cont.)

- Two Papers Dominates the Discussion
- Berganza et al. (2004) - RWE
- Ferrucci (2003) – BOE WP

- Do you need these two papers to motivate? No!

- Kiyotaki and Moore (1997), Gertler et al (2007) are enough to start with and no need to bring empirical examples in the introduction e.g. “corroborating” “add from”.

- Is your question fundamentally different than the two papers? It has to be beyond saying “adding Croatia, Serbia, and Turkey”.

Comment s(Cont.)

- Construction of Spread? Methodology? (Group Estimator, PMG Estimation).
  - How much details are needed?
- Go Straight to Section 4.2
- How important is Unit Root to the overall story? Do we need to know the details?
- Can we simply say that LR variables are not stationary!

Comments (Cont.)

- Economic significance of baseline regressions:
- Can we interpret from the estimations directly?
- "1 percentage point higher share of capital account and international reserves in GDP decrease spread by 5.4 and 3.7 percent respectively?
- "one percentage point change in tax revenues reduce spread by 4 percent"

Conclusion

- Some innovations do exist in this paper
  - Allow SR determinants to differ across countries while keeping LR parameters to be equal for countries – flexibility, efficiency.
- Can we more about SR affecting LR drivers?

- Can we bring financial (banking) variables? How can we ignore them?