



Universität  
Basel

## Research Project

Euro area sovereign credit risk contagion: Evidence from intraday data  
// Intraday credit risk responses to ECB announcements during the euro  
area sovereign debt crisis

### Third-party funded project

**Project title** Euro area sovereign credit risk contagion: Evidence from intraday data // Intraday credit risk responses to ECB announcements during the euro area sovereign debt crisis

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**Organisation / Research unit**

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**Department**

**Project start** 01.07.2015

**Probable end** 31.08.2018

**Status** Completed

1st project: Euro area sovereign credit risk contagion: Evidence from intraday data This project aims to analyse problems on the functionality of markets for credit risk. We will analyse sovereign risk contagion effects in PIIGS countries from October 2008 on. Further we will include Germany, France, the Czech Republic, Poland, and Hungary in our sample to analyze contagion effects from the euro area sovereign debt crisis on low-risk and central European countries. Existing research so far differentiated between cross-country and intra-country analysis. Using a Panel VAR methodology we can control for both, country-specific risk and contagion effects. Via the unique access to intraday price data for CDS and bond markets, we will be able to analyse contagion effects substantially more accurately than existing studies as no empirical work has tested the intraday patterns of sovereign credit risk contagion. Next to our contributions to academic literature, the results of this project will also contribute to the actual regulatory discussion on CDS markets which are of great relevance to central banks, politics, and financial institutions. We expect key insights as no empirical work has tested the intraday patterns of sovereign risk contagion. Using intraday CDS and bond data enables us to estimate the spread dynamics and the credit risk contagion effects substantially more accurate than existing studies on sovereign credit markets. 2nd project: Intraday credit risk responses to ECB announcements during the euro area sovereign debt crisis This project aims to explore the pricing impacts and volatility reactions from ECB announcements on euro area sovereign credit risk on an intraday basis during the euro area sovereign debt crisis. As in Pelizzon et al. (2013), the crisis stemmed from both liquidity and credit risk concerns while as a result, sovereign credit spreads began rising sharply for a number of euro-zone peripheral countries. Furthermore, I will also include CDS and bond market liquidity in order to analyse if changes in credit risk following an ECB announcement are an important factor of liquidity dynamics. The only existing paper in this field employing intraday data is Pelizzon et al. (2013). However, their dataset is limited as it only consists of intraday Italian bond data. As I have data for both, CDS and bonds of PIIGS countries plus Germany and France, I will also be able to investigate which market reacts faster to policy decisions. This project will give key insights on the relationship between changes in sovereign credit risk (level and volatility) and liquidity following ECB monetary policy decisions.

**Keywords** Panel vector autoregressive model; Spillover; ECB announcements; Sovereign credit risk; Contagion; Credit default swaps; Intraday

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**Add publication**

**Add documents**

**Specify cooperation partners**