

Abstract

This thesis analyses what drives sovereign credit risk when contagion is controlled for. CDS spreads are used as a measure of credit risk and bond yields are used to estimate interconnectedness of the examined countries. The main contribution lies in the use of high-frequency data and a robust wavelet based estimator in addition to spatial econometric model. The aim of this thesis is to test for presence of contagion and to evaluate which fundamentals are decisive for market perception of sovereign credit risk. Another goal is to evaluate the possibility of a structural break caused by the Greek debt restructuring.

The results show that the restructuring did bring change. Contagion is present during the post-crisis period and it diminishes as the economies recover. Similarly, fundamentals are of higher importance in the post-crisis period when compared with the following period.

JEL Classification C22, C31, C33, G01, G32, G33

Keywords spatial econometrics, CDS spreads, sovereign credit risk, financial contagion, realised covariance

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