

[Download](#)

Keep in mind

La serie Borradores de Economía es una publicación de la Subgerencia de Estudios Económicos del Banco de la República. Los trabajos son de carácter provisional, las opiniones y posibles errores son responsabilidad exclusiva del autor y sus contenidos no comprometen al Banco de la República ni a su Junta Directiva.

AUTHOR OR EDITOR

Luis Fernando Melo-Velandia

José Vicente Romero-Chamorro

Mahicol Stiben Ramírez-González

The series [Borradores de Economía \(Working Papers on Economics\)](#) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date

Thursday the 4th of May, 2023

Abstract

In this paper, we analyze the tail-dependence structure of credit default swaps (CDS) and the global financial cycle for a group of eleven emerging markets. Using a Copula-CoVaR model, we provide evidence that there is a significant taildependence between variables related with the global financial cycle, such as the VIX, and emerging market CDS. These results are particularly important in the context of distressed global financial markets (right tail of the distributions of the VIX) because they provide international investors with relevant information on how to rebalance their portfolios and a more suitable metric to analyze sovereign risk that goes beyond the traditional CoVaR. Additionally, we present further evidence supporting the importance of the global financial cycle in sovereign risk dynamics.