

# The determinants of country risk in Eastern European countries. Evidence from sovereign bond spreads.

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May 2003

Preliminary Version. Please do not quote.

## Abstract

The purpose of this paper is to study risk in a number of Central and Eastern European countries (CEEC). The long-run relationship between the yield differential (spread) of Eastern European national bonds (denominated in US Dollars) over a US Treasury bond, on one hand, and country's fundamentals as well as US interest rate (to account for the world market conditions), on the other hand, is examined. The cointegrated VAR model is used.

First, the yield differentials are analysed on a country-by-country basis to extract stochastic trends which are common for all bonds in a given country. Thereafter, the risk will be disentangled into country and higher level risk. This paper is among the first to use time series data to study the evidence from sovereign bond spreads in Eastern Europe. The preliminary results confirm the importance of national factors when studying default risk. When completed, the paper will try to show whether international factors drive risk of default and influence the pricing decisions of Eastern European bonds.

Key words: Sovereign bonds spreads, Brady bonds, Cointegration

JEL Classification: C32, F36

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