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Index (CROI) vis-a-vis Long-Term Credit-Rating Index (LTCR); 3. Basic Model Results: CROI vs. LTCR, December 1991~February 2007; B. Extended Model with Volatility; 4. Extended Model Results: CROI vs. LTCR, January 1991~February 1997; C. Graphical Interpretation of the Models  
6. Actual vs. Estimated Spreads Extended Model with CROI as Fundamentals  
D. Contributions to EMBI Spreads; 5. Determinants of Change in the EMBIG Spread, December 2002-February 2007; IV. Conclusions; Appendix; Appendix 1.A: A Procedure of Constructing the CROI; Appendix Figure; 1. Actual and Estimated Spreads: Extended Model with CROI as Fundamentals; References

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Sommario/riassunto

Despite recent turmoil, spreads on emerging market countries' sovereign bonds have fallen dramatically since mid-2002. Some have attributed the fall to improved economic fundamentals while others to ample global liquidity. The paper models spreads and attempts to empirically distinguish between the two factors. The results indicate that fundamentals, as embedded in credit ratings, are very important, but that expectations of future U.S. interest rates and volatility in those expectations are also a key determinant of emerging market spreads.

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