

Abstract:

Three important external determinants of sovereign spreads in emerging countries are reviewed: balance sheet effects, global risk aversion and contagion. While there are ways to reduce the detrimental impact of balance sheet effects, these are either hard to implement or costly. Insurance against them would need to be considered either in the form of self insurance (accumulation of reserves) or market insurance (instruments which are inversely related to a country's real exchange rate). In addition, the cost of self insurance might be too high and private insurance not easily available because of shallow markets. This is why regional insurance has an important role to play.

Keywords: Balance Sheets, Contagion, Risk Aversion

Classifications JEL: F0, F32, F36, F37, G11