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Sovereign default risk in OECD countries: do global factors matter?

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We study the determinants of sovereign default risk for a group of 23 OECD countries using quarterly data spanning the period between 2000:Q1 and 2016:Q3. Applying the recently developed panel dynamic heterogeneous common correlated effects estimator of Chudik and Pesaran [2015] our study innovates in considering potential endogeneity issues and cross-sectional dependence. We control for global risk appetite and country risk ratings. The results show that common factors are the main drivers of solvency risk for our set of countries. Specially relevant, we find that macroeconomic determinants are not significant predictors of long-term sovereign spreads.

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