

Modelling CDS Volatility at Different Tenures: An Application for Latin-American Countries

Download Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Gamboa-Estrada, Fredy José Vicente Romero

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: Tuesday, 10 of May 2022 Abstract

Assessing the dynamics of risk premium measures and its relationship with macroeconomic fundamentals is important for both macroeconomic policymakers and market practitioners. This paper analyzes the main determinants of CDS in Latin-America at different tenures, focusing on their volatility. Using a component GARCH model, we decompose volatility between permanent and transitory components. We find that the permanent component of CDS volatility in all tenors was higher and more persistent in the global financial crisis than during the recent COVID-19 shock.