

## **The Role of Global Risk Aversion in Explaining Latin American Sovereign Spreads**

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**Abstract:** This paper assesses empirically whether global investors' risk aversion—and its main determinants (U.S. economic growth and the U.S. risk-free rate)—explains developments in Latin American sovereign spreads. We find that global risk aversion is significant and positively related to sovereign spreads in all Latin American countries analyzed. Furthermore, its impact is persistent over time and even increases in most countries. In addition, a rise in the U.S. long-term risk-free rate lowers sovereign spreads in all countries in the short term. However, this optimistic result, given the current juncture in which long-term rates are expected to increase, reverts very rapidly so that sovereign spreads actually rise only some months later.

**Key words:** global risk aversion, sovereign spreads, Latin America

**JEL Classification:** F3, F34, E43