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Revisiting Sovereign Ratings, Capital Flows And Financial Contagion in Emerging Markets

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ABSTRACT

This study revisits sovereign credit ratings, contagion and capital flows to Emerging Markets (EMs), and clarify the relationship between them. Specifically, this study analyzes how the changes in sovereign rating influence different types of capital flows to EMs and whether the changes in the different kinds of capital flows in one country be explained by a sovereign ratings' change in another country. Using Arellano- Bover/Blundell-Bond Dynamic Panel System GMM for 23 EMs over the period 1990- 2012 the results of the study suggest that sovereign ratings : a crucial factor for EMs' access to international capital markets. Additionally, the results suggest that capital flows is a major source of financing for EMs ; financial contagion may continue to be a threat to capital flowing into EMs.

KEYWORDS Sovereign Rating; Capital Flows; System GMM; Foreign Direct Investment; Portfolio Investment
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