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Emerging Markets, Decoupling, and Financial Performance During the Crisis

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Abstract: This paper studies the international dissemination of the recent financial crisis. It differs from previous research by explicitly distinguishing between advanced and emerging economies and between financial and nonfinancial sectors in analyzing the effects of the crisis on the extent of financial distress among firms. Using stock prices and credit default swap (CDS) spreads as measures of financial distress, we first compare the evolution of financial distress during the crisis for four distinct subsectors of firms: financial firms in the emerging market economies, nonfinancial firms in those economies, financial firms in the advanced economies, and nonfinancial firms in those economies. We then use regression analysis to assess the extent to which differences in firm performance—both across these four groups and, more generally, across countries in the sample—can be explained by a wide array of indicators of banking system soundness, macroeconomic vulnerabilities, economic activity, and international linkages. As a related matter, we explore whether these factors had different effects on firm performance, depending on to which of the four groups the firm belonged.

All told, we find little evidence of decoupling of emerging markets from the advanced economies, and little evidence of systematic differences in financial performance due to differences across nations in macroeconomic characteristics or in characteristics of their financial sectors.

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I. Introduction

The financial crisis that swept the globe during the past two years evolved in several phases involving progressively broader groups of countries and economic sectors. Following the initial eruption of the crisis in early August 2007, the turmoil was concentrated in major interbank, commercial paper, and other short-term money markets. By the end of that year, the virus had spread more deeply into the banking sectors of industrial economies, had started to depress stock price valuations in non-financial companies, and began restraining the pace of economic activity. But until the summer of 2008, the emerging market economies and financial systems appeared to be largely unscathed by these events, giving rise to the notion that they had "decoupled" from the industrial economies. It was only after the bankruptcy of Lehman Brothers in September 2008 that the financial crisis seemed to hit the emerging markets in earnest, leading to sharp reversals of capital flows, an evaporation of dollar liquidity, and a plunge in trade and output. At the height of the crisis in the following months, serious concerns materialized that the distress in emerging market financial systems might even intensify beyond that in the advanced economies.

The manner in which the financial crisis spread across the global economy has been the subject of a number of prior studies. Ehrmann, Fratzscher, and Mehl (2009) show that in a sample of emerging market and industrial economies during the crisis, equity prices fell more in those countries with higher "betas" vis-à-vis the United States and weaker macroeconomic fundamentals. Fratzscher (2009) analyzes movements in exchange rates during the crisis and finds that the currencies of countries with weak macro fundamentals and large financial liabilities to the United States experienced larger

depreciations. Rose and Spiegel (2009) also study the incidence of the crisis across a broad range of industrial and emerging market economies, but find that few economic, financial, or regulatory characteristics of these economies help explain why some countries were hit harder than others. Tong and Wei (2009) find that stock prices for emerging market manufacturing firms fell most among firms that were highly dependent on external finance, and that were located in countries where capital inflows had been concentrated in financial assets rather than direct foreign investment. Kamin and Pounder (2010) relate the deterioration of stock prices and CDS spreads in the financial sectors of advanced economies to measures of exposure to the U.S. financial crisis—dollar-denominated liabilities and holdings of U.S. asset-backed securities—but find that these do not explain why the crisis hit some countries harder than others.[1]

Our research also focuses on the international dissemination of the financial crisis, but it differs from the studies described above by explicitly distinguishing between the effects of the crisis on emerging market and advanced economies, as well as between financial and nonfinancial firms. These distinctions enable us to address a number of salient questions about the role played by emerging market economies, and particularly their financial systems, in the evolution of the crisis. First, through the first year or so of the financial crisis, did the performance of financial institutions in emerging market economies keep pace with the reasonably solid overall economic performance in their countries, or were there signs that emerging market financial systems were coming under the same strains experienced by their counterparts in the industrial economies?

[1] Additionally, Eichengreen et.al. (2009) study the evolution of CDS spreads for 45 global banks and find that common factors became more important with the advent of the crisis. In a similar vein, Kim, Loretan, and Remolona (2009) find that fluctuations in CDS spreads for Asian firms seemed to reflect changes in global risk repricing more than changes in expected default.

Second, as the crisis intensified in the second half of 2008, how did the deterioration in the performance of financial firms in emerging market economies compare to that in the non-financial sector and in the advanced economies? And what developments accounted for the slide in asset values during this period: a real-side decline in economic activity as global trade collapsed? a weakening of the financial sectors in emerging market countries, which spilled over to the real side? a retreat from risk by global investors, with riskier economies and sectors being hit harder than those perceived to be less risky? or a generalized spillover of the market panic in advanced economies to emerging markets, with little discrimination among classes of risk?

And, finally, what factors and characteristics of the economies in question were most influential in determining the response of emerging market asset valuations to the financial shocks hitting the global economy? Did the effect of these factors differ significantly depending upon whether firms were in the financial or nonfinancial sectors, or whether they were located in emerging market or advanced economies?

To address these questions, our research examines a broad array of financial and economic data. We gauge the extent of financial distress among firms using two statistics: stock prices and credit default swap (CDS) spreads. Based on these data, we first compare the evolution of financial distress during the crisis for four distinct subsectors of firms: financial firms in the emerging market economies, nonfinancial firms in those economies, financial firms in the advanced economies, and nonfinancial firms in those economies.

We then use regression analysis to assess the extent to which differences in firm performance—both across these four groups and, more generally, across countries in the

sample—can be explained by a wide array of indicators of banking system soundness (e.g., capital/asset ratios), macroeconomic vulnerabilities (e.g., current account deficits), economic activity (industrial production) and international linkages (e.g., financial openness). As a related matter, we explore whether these factors had different effects on firm performance, depending on the regional (emerging/advanced) and sectoral (financial/nonfinancial) group to which the firm belonged.

Our preliminary results are most consistent with a view that, at least in its impact on the value of claims on firms, the crisis can be characterized as a generalized panic that grew in severity through its culminations following the failure of Lehman. The evidence provides little support for the decoupling hypothesis, and at best modest support for a difference in impact on financial versus non-financial firms. We find little evidence of transmission from financial conditions in advanced economies to financial conditions in emerging markets by way of impacts on economic activity. Finally, the evidence also is not clearly consistent with explanations based on a generalized pullback from risk-taking—we would expect differential effects on ex ante riskier firms and nations in that case, and we do not find strong evidence of such effects.

II. Trends in Firm Asset Price Performance During the Financial Crisis

Chart 1 represents a standard depiction of the movement of stock prices in advanced and emerging market economies during the financial crisis. The data are drawn from Datastream, and represent the capitalization-weighted averages of national stock price indexes in 24 advanced economies (AEs) and 21 emerging market economies (EMEs). After the initial eruption of the crisis in August 2007, stock prices in both groups of economies plunged together, bottomed out, and rose beyond immediate pre-

crisis levels by October. Between then and the middle of 2008, stock prices in the two regions appeared to decouple as equities deteriorated somewhat in the advanced economies while holding up in emerging markets. Finally, as the summer progressed, emerging market equities started to decline faster than those in the advanced economies, a process of convergence that accelerated after the Lehman Brothers bankruptcy, bringing the two indexes into rough parity by the end of the year.

While broadly informative, Chart 1 provides an incomplete picture of the evolution of the global financial crisis. To the extent that the crisis originated in the financial markets and subsequently spread to the real economy, we would expect stock prices in the financial and non-financial sector to have evolved differently over time. In Chart 2, we show regional aggregates based on the national stock price indexes calculated by Datastream separately for financial and non-financial firms.[2]

Chart 2 adds some important nuances to the story told by Chart 1. First, unsurprisingly, stock prices for AE financial firms fell further than those for AE nonfinancials. Second, and more interestingly, starting relatively early on in the crisis, stock prices for EME financial firms also fell more than those for EME nonfinancials. This would seem to represent *prima facie* evidence against the "decoupling" hypothesis; even prior to the global recession and the global post-Lehman bankruptcy retreat from risk, EME financial asset prices were being adversely affected by the crisis. Third, the stock prices of EME and AE nonfinancial firms ended up down about the same amount

[2] Unlike the capitalization-weighted regional indexes shown in Chart 1, those shown in Chart 2 are based on unweighted means of national indexes, as are those shown in Charts 3and 4 as well. The main reason for this is to facilitate comparison with the regression results to be described in Section V below. Additionally, the capitalization-weighted means for the different indexes can be unduly influenced by particular countries; within the emerging markets financial aggregate, for example, China accounts for a 21 percent weight and Brazil for a 15 percent weight. Finally, the unweighted mean calculations shown in Chart 2 are quite similar to calculations based on median stock price indexes (not shown).

by the end of 2008. This, too, seems to argue for an unexceptional role of the emerging market economies during the crisis, with their nonfinancial firms being hit about as hard as those in the advanced economies. Finally, the stock prices of AE financials still fell further than those of EME financials. This would seem to represent a reasonable outcome, insofar as the fundamental weaknesses responsible for the crisis are believed to have been most concentrated in advanced economy financial systems.

Chart 3 compares the evolution over the crisis of a different measure of market performance for the four categories: CDS spreads. Unlike the regional indexes shown in Chart 2, which are aggregated across national stock indexes calculated by Datastream, the national indexes of CDS spreads used here were calculated by the authors based on CDS spreads for individual firms; additional details are provided in Section IV below. As one would hope, movements in CDS spreads during the crisis showed some similarity to those in the equity prices shown in Chart 2. In particular, Chart 3 shows that both in the AEs and the EMEs, CDS spreads on financial firms rose more than those on non-financials for most of the crisis period, and beginning a bit earlier for the AEs than the EMEs.

However, there were also some important differences between the movements in equity prices and CDS spreads. First, CDS spreads for all four groups sustained their initial rise throughout the period, whereas equity prices recovered from their initial plunge in August 2007 and, in the case of EME nonfinancials, stayed above their mid-2007 levels until the summer of 2008. Second, while equity prices for nonfinancial firms stayed above those for financials even during the height of the panic at the end of 2008, this divergence was much less clear in the case of CDS spreads. Of course, differences in

trends between equity prices and CDS spreads should not be greatly surprising: CDS spreads gauge the probability and severity of future default losses, whereas equity prices reflect expectations of overall profitability. All told, the widespread nature of the increases in CDS spreads during the crisis, compared to the more selective declines in equity prices, suggests that while investors distinguished different prospects for profitability in the different sectors, they had become more concerned about default in all of them.

One thing that Chart 3 does not do is to facilitate comparisons of movements in risk perceptions between EMEs and AFEs. Changes in perceived default risk are reflected not so much by changes in CDS spreads alone, but by changes relative to their initial level. Because EME spreads started out so much higher than AFE spreads, it is unclear whether they experienced proportional increases that were larger or smaller than those in AFE spreads. Accordingly, Chart 4 plots the cumulative change in the log of the spread for each of the four groups. This panel makes clear that the run-up in CDS spreads for AE financial firms exceeded that for all other categories throughout the crisis. Increases in spreads for EME financials and nonfinancials, and for AE nonfinancials, generally remained more closely clustered over this period.

Of course, comparing mean averages of stock prices and spreads can exaggerate the differences in performance among different categories, as performance within categories is highly dispersed. Charts 5 and 6 represent snapshots of our data on changes in equity prices and CDS spreads during the financial crisis. Each dot represents the change in asset price over a specific period for a specific country within a specific sectoral/regional category. These data are available for 23 advanced and up to 49

emerging market countries; details are provided in Table 1. The key message of Charts 5 and 6 is that within sectoral/regional categories, there was considerable dispersion in movements of equity prices and CDS spreads, and there was considerable overlap in the range of movement across sectoral/regional categories as well. Accordingly, not only did average asset valuations in the different categories evolve similarly over time, as shown in Charts 2 and 4, but such deviations in average valuations as are apparent in those charts may overstate the genuine differences in performance.

The story told by Charts 2 through 6 is one in which the evolution of emerging market asset prices during the global crisis is less distinct from that in advanced economies than one might surmise, as shown in Chart 1. At the same time, there are some important regional and sectoral differences: asset valuations for financial firms tended to deteriorate more than for nonfinancials, with this pattern being especially pronounced in the advanced economies.

III. Methodology for Econometric Analysis

This section describes our econometric analysis relating the two measures of firms performance, equity prices and CDS spreads, to a broad array of potential determinants, including the regional (AE/EME) and sectoral (financial/nonfinancial) distinctions described above as well as indicators of banking sector strength, macroeconomic vulnerability, and international linkages heading into the crisis, as well as economic activity during the crisis. We undertake this analysis with several objectives in mind. First, the econometric estimates offer a convenient means of gauging the statistical significance of the regional and sectoral differences in firm performance

described in Section II. Second, we hope to assess whether these differences in firm performance across countries primarily reflect differences in those countries' characteristics heading into the crisis or some other, unexplained factors. Third, and more generally, we seek to identify which characteristics of countries' financial and banking systems had the greatest influence on firms' asset prices during the crisis, and whether that influence differed depending on the firm's sector (financial/nonfinancial) and region (EME/AE).

We pursue two broad approaches in our econometric analysis. The first is a series of cross-sectional regressions relating changes in asset prices during the crisis to a broad array of economic and financial factors. The hypothesis motivating this formulation is that the key determinant of the change in asset prices during the global financial crisis was the intensity of the crisis itself. At any point in time, all countries and sectors faced an equally intense financial shock, and their economic and financial characteristics determined the influence of this shock on asset values. More specifically, we estimate the following cross-sectional regression during the crisis period:

$$Financial\ performance = \alpha + \beta D + \gamma Z + \delta(D * Z) + \epsilon_i \quad (1)$$

Financial performance is measured as CDS premia or stock returns as described in the data section (where each country can contribute two observations, one for financial firms and one for nonfinancial firms). Vector D is a set of dummies that includes the advanced economy dummy (that equals one for advanced economies and zero for emerging market economies), the financial firm dummy (that equals one for financial firms and zero otherwise), and the interaction of the advanced and financial dummies, which captures

any special effect of a firm being both financial and in the advanced economies. Finally, Z is a set of country-specific indicators that include banking system soundness, macroeconomic vulnerabilities, economic activity, and international linkages. We measure financial performance and economic activity (included in Z) as a cumulative change from end-June 2007 (just before the crisis started) to three different end points, end-September 2007, end-June 2008, and end-December 2008. The rationale for these end-dates is that September 2007 represents the end of the first wave of the crisis, after which some markets started to temporarily recover. June 2008 roughly represents the end of the period in which EME equity valuations remained relatively strong; and December 2008 followed the deepest period of turmoil after the Lehman Bros. bankruptcy. (These are the same time periods as shown in the scatter plots in Charts 5-6.) For other country characteristics in vector Z of equation (1), we use the end-2006 or end-June 2007 values as noted in the data section. These dates precede the crisis, and thus are not subject to endogeneity problems associated with any effects of the crisis on the country characteristics.

The second approach is a panel regression set-up, in which we relate monthly changes in asset prices during the crisis to changes in the Libor-OIS spread and to interaction terms between the change in the Libor-OIS spread and the array of explanatory variables used in the cross-section regression. In this formulation, the Libor-OIS spread represents an explicit proxy for the intensity of the global financial crisis, and, again, the country-specific economic and financial characteristics determine how variations in that spread affect firm asset values. In principle, this panel regression approach better captures how the global crisis was disseminated across countries, as the

estimated effects of the Libor-OIS spread should exclude the effect of any idiosyncratic factors that may also have influenced firm valuations over the period. Specifically, the specification we employ, which is based on panel data from end-June 2007 to end-2008, is estimated as follows.

$$\begin{aligned} &Financial\ performance \\ &\quad = \mu + \theta(LiborOIS) + \tau D + \varphi Z + \psi(LiborOIS * D) \\ &\quad + \ \omega(LiborOIS * Z) \ + \ \rho(D * Z) + \partial(LiborOIS * D * Z) + \vartheta_i \end{aligned} \qquad (2)$$

where LiborOIS is the spread of Libor over OIS one-month interest rates and all the other variables are as described earlier. In equation (2) we use monthly changes in financial performance measures and the Libor-OIS spread, whereas other variables are measured as of end-2006.

IV. Data

We focus on two widely used measures of firm-level financial performance aggregated at the country level for the 72 countries listed in Table 1. The first one is CDS premia, higher values of which represent a higher degree of financial distress and lower performance (e.g., Longstaff et al., 2005). The CDS quotes are based on the 5-year senior debt data from Markit, which computes CDS premiums from prices on credit default swaps. We calculate the CDS premia separately for financial and non-financial firms, where we use the definitions of Markit to classify firms as financial or non-financial. Country-level aggregates for each category are constructed as the median CDS premium within each country for which at least one firm was available in the Markit data;

performance is measured as the change in the natural logarithm of this country-level CDS measure during the crisis period.[3]

Our second measure of financial performance is stock returns, computed by Datastream as the percent change in the capitalization-weighted average of stock prices for each country. Similar to the CDS measure, we use the separate stock indices for financial and non-financial firms provided by Datastream. We interpret higher stock returns as representing better financial performance and a lower likelihood of financial distress.

We use four main groups of variables to proxy for macroeconomic and financial fundamentals. The first group of variables is related to the health of the banking system and obtained from the Global Financial Stability Report (GFSR) and the International Financial Statistics (IFS) of the IMF. These variables are the bank capital-to-asset ratio, return on assets, credit growth, and the ratio of non-performing loans to total loans (NPL ratio).[4] The higher (lower) values of the first (latter) two variables point to a more sound banking system, and we expect a negative association between financial performance and the banking system soundness, especially for financial firms.

The second group includes several measures of macroeconomic vulnerabilities that may be related to the variation in financial performance across countries. These variables include current account balances as a percent of GDP, fiscal balances as a percent of GDP, credit ratings on sovereign debt, and international reserves as a percent

[3] The number of firms for which data were available ranged from as little as one for several emerging market economies to as many as 378 for Japan and 1067 for the United States. The United States is included in most regressions except those that include certain explanatory variables for which the U.S. has no logical value, such as claims on the U.S.

[4] Credit growth is defined as the change in the ratio of private sector credit to GDP from 2003 to 2006. Private sector credit to GDP is taken from the IFS, whereas other banking soundness variables are taken from the GFSR. All of the banking soundness measures are as of end-2006.

of short-term external debt.[5] Firms located in countries with lower fiscal and current account balances and lower international reserves and sovereign credit ratings are expected to be more vulnerable to financial shocks, and consequently are expected to perform worse.

The third group of explanatory variables includes several proxies of international linkages. Financial openness is defined as the sum of external assets and liabilities as a percent of GDP at end-2006.[6] Trade openness is measured as exports as a percent of GDP at end-2006.[7] Two additional linkage measures are included because of their relevance to the recent crisis. Given that the crisis first appeared in the United States, and was associated with failing assets purchased by investors throughout the world, we include claims on the United States as a percent of GDP at end-2006.[8] Second, a scarcity of U.S. dollar liquidity outside of the United States was also a feature of the crisis, and we include a measure of banking liabilities denominated in U.S. dollars, which is scaled by total banking assets.[9]

Finally, monthly changes in economic activity are proxied by changes in industrial production.[10] All else equal, a low level of economic activity is suggestive of lower financial performance.

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[5] Current account balances are taken from the World Bank's World Development Indicators (WDI), fiscal balances and reserves from the IFS, and short-term external debt from the Joint External Debt Hub (JEDH). These variables are all as of end-2006. Sovereign credit ratings are from Moodys and are as of June 2007.
[6] The components of the financial openness calculation are from the IFS and are as of end-2006.
[7] Exports as a share of GDP is taken from the WDI for 2006.
[8] This measure is calculated as the sum of portfolio claims on the United States reported in the IMF's Coordinated Portfolio Investment Survey (CPIS) and claims on banks in the United States as reported in the U.S. Treasury International Capital (TIC) data. Claims are as of end-2006 and are divided by GDP from the WDI.
[9] Banking liabilities denominated in U.S. dollars were obtained from the BIS and total banking assets come from Bankscope. This measure is as of June 2007.
[10] Industrial production is collected primarily from IFS but is supplemented with data for additional countries available from Bloomberg. To maximize the number of countries represented, we used non-seasonally adjusted data when seasonally adjusted data was not available. To limit potential effects from

As a caveat, we would like to note that we do not use a uniform set of countries across all regressions. Not only is data availability different for CDS than for equity prices, there is also substantial variation in how many countries are available for each variable in the set of Z explanatory variables. To maintain as large a sample as possible, we kept all observations with data availability for any particular regression. Therefore the sample can change depending on which explanatory variables are included. However, our general conclusions are robust to using the sample obtained by including the complete list of explanatory variables.

V. Results

V.1 Cross-section estimation

Equity prices Table 2 a, b, and c present results for the estimation of equation (1) described above, cross-sectional regressions relating the percent change in stock prices since mid-2007 to the regional/sectoral dummies, country-specific indicators, and interactions between these two sets of variables. For Table 2a, the dependent variable, the change in stock prices, is measured over the period end-June 2007 to end-September 2007. For Tables 2b and 2c, the change in stock prices is measured over the end-June 2007 to end-June 2008 and end-June 2007 to end-December 2008 periods, respectively.

Because of the limited number of observations (two per country, the change in stock prices of financial firms and of nonfinancial firms) and the large number of explanatory variables, we estimate a multitude of equations, with each one containing, in

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seasonality, we use a year over year rate of change. For the cross-sectional regressions, we calculate the one year change in this growth rate. For example, for the regression with the end-date of September 2007, we use the difference between the year over year growth rate of September 2006 and the year over year growth rate of September 2007.

addition to the regional/sectoral dummies, only a single explanatory variable. Thus, each of the Tables 2a, b, and c takes up three pages.

Turning to the first page of Table 2a, the first column presents estimation results in which only the constant and the three dummy variables have been entered. Implicitly, the coefficient on the constant represents the average percent change in stock prices for EME nonfinancial firms—for these firms, the AE dummy, the financial dummy, and the interacted AE/financial dummies all take on the value of zero. As may be seen, this coefficient is about 8 percent and quite significant, indicating that emerging market nonfinancial stocks rose 8 percent during the third quarter of 2007. The coefficients on the dummy variables are all negative, indicating that EME financial and AE stocks rose by less, as is evident in Chart 2. However, the coefficients on these dummies are not significantly different from zero, likely reflecting the considerable dispersion in outcomes in each of the sectoral/regional categories shown in Chart 5.

The next columns of Table 2a present results of regressions in which we retain the sectoral/regional dummies and add additional explanatory variables, one at a time, starting with the change in industrial production (IP). Two regressions are shown in each box: in the first, the explanatory variable is entered by itself, and in the second, it is also interacted with each of the sectoral/regional dummies. Thus, in the first regression, the change in IP growth, by itself, significantly raises stock prices. In the second regression, the coefficient on this variable is little changed, although its significance is diminished, and the coefficients on the sectoral/regional dummies are highly insignificant, indicating that the effect of IP on stock prices is generally similar throughout the four sectoral/regional groups.

Space does not permit a thorough review of the estimation results for Table 2a, nor of Tables 2b and 2c, covering the longer June 2007-June 2008 and June 2007-December 2008 periods, respectively. However, a number of general conclusions can be reached about the international behavior of equity prices during the financial crisis. First, relatively few of the explanatory variables exerted a statistically significant effect on equity prices during the period, and even the significant variables did not boost the adjusted R^2 by much. Second, of those coefficients that are statistically significant, many do not have the expected sign; for example, in Table 2c, estimated over the longest period, countries in fiscal surplus appear to experience greater declines in equity prices. Third, perhaps owing to the general lack of significance in the coefficient estimates, the influence of particular explanatory variables on equity prices does not seem to differ much, depending on the sectoral/regional classification of the firms. Finally, generally speaking, addition of the variables one at a time does not alter the pattern of coefficients on the sector/regional dummies.

However, by entering the explanatory variables singly into the regressions, we may be failing to identify effects arising from interactions among these variables. Accordingly, we adopted a second approach to our cross-section regressions in which we entered all of the explanatory variables (including interaction terms with the regional/sectoral dummies) at once, and then reduced the size of the equations by progressively removing those explanatory variables with the least significant coefficients.

The results are shown in Table 4. Compared to the regressions in which explanatory variables are entered singly, the R^2s of the new equations are considerably higher, and more of the coefficients are statistically significant. However, for the first

two columns (the June-September 2007 and June 2007-June 2008 periods), arguably too many explanatory variables remain relative to the number of observations, raising concerns about the reliability of the results; notably, the coefficients on some of the regional/sectoral dummies are unrealistically large in absolute value (implying differences in equity performance of 50 to 100 percentage points).[11]

The regression in the third column, the full June 2007-December 2008 period, retains fewer explanatory variables and seems more informative. Higher NPLs reduce equity prices (mainly for EMEs); higher current account balances support equity prices (again, and sensibly, mainly for EMEs); and more dollar liabilities reduce equity prices, albeit just in EMEs. The one perverse result is that higher industrial production growth reduces equity prices. All told, however, the pattern of coefficients on the regional/sector dummies is little changed from their values when no explanatory variables are entered, indicating that these variables did not greatly affect the overall trajectory of equity prices in the different sectors and regions.

CDS spreads

Tables 3a, b, and c repeat the estimation results presented in Tables 2a, b, and c, in which the explanatory variables are entered one by one, but applied to CDS spreads rather than equity prices. The first columns of each table, as above, present the regressions containing the sectoral/regional dummies alone. Again, these coefficients generally match up with the trends depicted in Charts 4: the later the end-date for the period, the larger the constant, reflecting the upward drift of CDS prices over the crisis.

[11] These results for the June-September 2007 time period are not robust; if the least significant variable is removed, others lose significance. The result of further reduction would be that only the capital/asset ratio, credit growth, claims on the U.S., and exports/GDP variables remain significant. The same is not true for the June 2007-June 2008 period (Column 2), where the significance and large coefficients are robust to removing less significant variables from the regression.

And, as in Chart 4, the only substantial difference among the sectoral/regional groups is the greater rise of CDS spreads for the AE financials (although this difference is not significant for the June 2007 to December 2008 period).

As in the case of equity prices, the explanatory variables in the regressions for CDS spreads are generally not significant, are often of the wrong sign, and usually offer little boost to the equation's R^2. However, compared with equity prices, some of the explanatory variables are more robustly significant across the three time periods. For example, and as we would expect, increases in the current account balance are uniformly associated with smaller rises in CDS spreads, while higher private credit growth in previous years is associated with larger rises in spreads. On the other hand, some other variables appear to exert the wrong (or at least unexpected) effect on spreads: greater fiscal surpluses and better sovereign credit ratings tend to increase them. In any event, again, the pattern of coefficients on the regional/sectoral dummies is generally little affected by the addition of the explanatory variables.

Table 5, like Table 4 for equity prices described above, presents estimates of regressions for CDS spreads in which all the explanatory variables have been entered and then removed progressively, based on the significance of their coefficients. Generally speaking, not many explanatory variables are retained in this process, and even fewer show up in the regressions for more than one time period. Only two explanatory variables were significant for all three periods: the current account balance, which lowers spreads (as expected), mainly for emerging market countries; and the sovereign credit rating, safe values of which raise spreads (as not expected) for all sectoral/regional categories. Addition of the explanatory variables in these equations also seemed to have

some impact on the coefficients on the sectoral/regional dummies: whereas the coefficient on the AE dummy was not significantly different from zero in the regressions without additional explanatory variables, this coefficient becomes negative and significant in the regressions in Table 5, suggesting that once certain characteristics are controlled for, AE CDS spreads tended to have risen less than EME spreads. However, given the unrobustness of these estimates, it is difficult to know how much weight to put on this result.

V.2 Panel Regressions

We next conduct a series of panel data regressions that make use of higher-frequency changes in our financial performance measures as well as include.monthly changes in the Libor-OIS spread in basis points. (The Libor-OIS spread is a standard measure of stress in the interbank market, and variations in the Libor-OIS spread appeared to be well-correlated with the general extent of financial distress during the crisis.) Table 6 presents the results of panel regressions for equity prices. The first column shows the results of a bivariate regression of equity prices on the Libor-OIS spread alone. The coefficient is obviously highly significant, indicating that a 100 basis point rise in the Libor-OIS spread depressed equity prices by 3.7 percent. Notably, the R^2 is quite low, perhaps because although the Libor-OIS spread is well-correlated with movements in equity prices over time, it cannot explain the wide dispersion in movements across countries and sectors.

The second column of Table 6 presents a benchmark regression of equity prices on the sectoral/regional dummies alone. Consistent with Chart 2 and the cross-section regressions for the full June 2007 to December 2008 period, the coefficients indicate that

prices fell least for EME nonfinancial firms and most for AE financial firms, but these differences are not significant. This message is reinforced in column 4, which adds to the regression interaction terms between the Libor-OIS spread and the sectoral/regional dummies; the coefficients are all insignificant, suggesting that movements in the Libor-OIS spread, while having a very significant effect on equity prices, had roughly the same effect on both financial and nonfinancial firms and in both the EMEs and the AEs.

Column 5 presents results that are analogous to Table 4 above. The full set of explanatory variables was added to the equation shown in Column 4, along with interactions of those explanatory variables with the Libor-OIS spread. Then, the least significant explanatory variables were progressively removed. The conclusions from Columns 1 through 4 are unchanged, and only the financial openness variable enters significantly (such that more financial openness lowers equity prices).[12] None of the interactions of the Libor-OIS spread with the explanatory variables entered significantly.

Table 7 repeats the panel regression analysis for CDS spreads. As with equity prices, the Libor-OIS spread is highly significant—increases in the Libor-OIS spread boosted CDS spreads—but the R^2 is low. Unlike the case of equity prices, two coefficients on the interaction terms between the Libor-OIS spread and the regional/sectoral dummies are significantly different from zero. The interpretation of these coefficients is that CDS spreads of EME financial firms, nonfinancial firms, and AE financial firms all responded similarly to changes in the Libor-OIS spread, while AE nonfinancial firms responded less.

[12] The next strongest explanatory variable was non-performing loans, such that higher NPLs suggest lower equity prices.

Finally, Column 5 adds the other explanatory variables to the equation after progressively removing insignificant variables. The results reinforce the outcome from Column 4 that the shock, as proxied by the Libor-OIS spread, hit the AE financial firms somewhat harder than others. And again only two country characteristics enter significantly. High credit growth and good sovereign credit ratings before the crisis were associated with larger increases in CDS spreads, both during the crisis in general and in response to the Libor-OIS shock—as both the variables by themselves and their interaction with Libor-OIS are significant. As noted earlier in reference to the cross-section regressions, the effect of credit growth on CDS spreads seems plausible, whereas the effect of credit ratings seems counterintuitive.

All told, the results of the panel regressions roughly mirror those from the cross-section regressions: with some exceptions, equity prices and CDS spreads followed similar trajectories for the four sectoral/regional categories of firms, responded in similar fashion to financial shocks emanating from the core economies of the crisis, and this response was not much affected by diverse economic and financial indicators.

VI. Conclusion

Overall, we find little evidence of decoupling of advanced-economy and emerging-market-economy financial performance during the crisis. Though our charts provide univariate evidence of a difference in the impact of the crisis on financial firms, this difference is apparent for firms in both AE and EME nations. Multivariate cross-sectional evidence for three periods also does not imply a significant difference across AE and EME nations for all firms, nor is a significant difference evident for non-financial firms. We do find evidence that financial performance deteriorated more for financial

firms headquartered in AE nations than for nonfinancial and EME firms, but these differences were not statistically significant for equity prices, and for CDS spreads, the significance of the differences fades as the crisis progresses. Panel regressions that assess vulnerability to higher-frequency variations in the severity of the crisis as measured by the LIBOR-OIS spread do not deliver a strong, robust message that the response of asset prices to the crisis differed across AE and EME nations.

Overall, the evidence is most consistent with a view that the crisis was a generalized financial panic, coming in progressively more severe waves each adding to the cumulative effect. Regression results for proxies for economic activity do not paint a clear picture that shocks to the AE financial sector were transmitted to EME firms primarily through an effect on real economic activity: Industrial production measures are not significant predictors. Similarly, the results are not consistent with a primary role for a pullback from risk-taking; we would expect the severity of the impact of such a pullback to differ according to the *ex ante* riskiness of firms or nations, and results for proxies for riskiness are not significant predictors of equity prices on CDS spreads.

This draft of the paper is preliminary: We expect to do more work on a variety of front.

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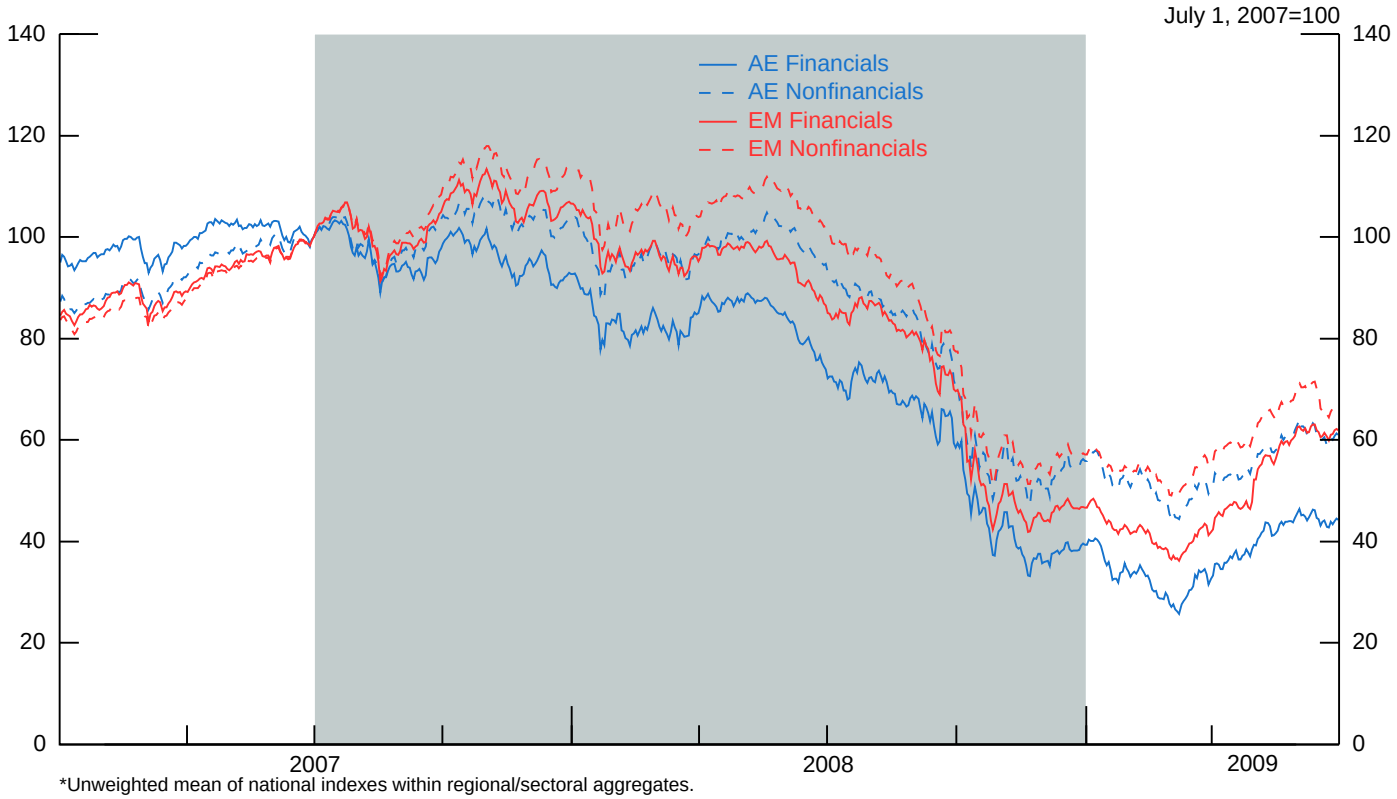
Chart 1

Stock Price Indexes*

*Capitalization weighted mean of national indexes within regional aggregates.
Source: Datastream

Chart 2

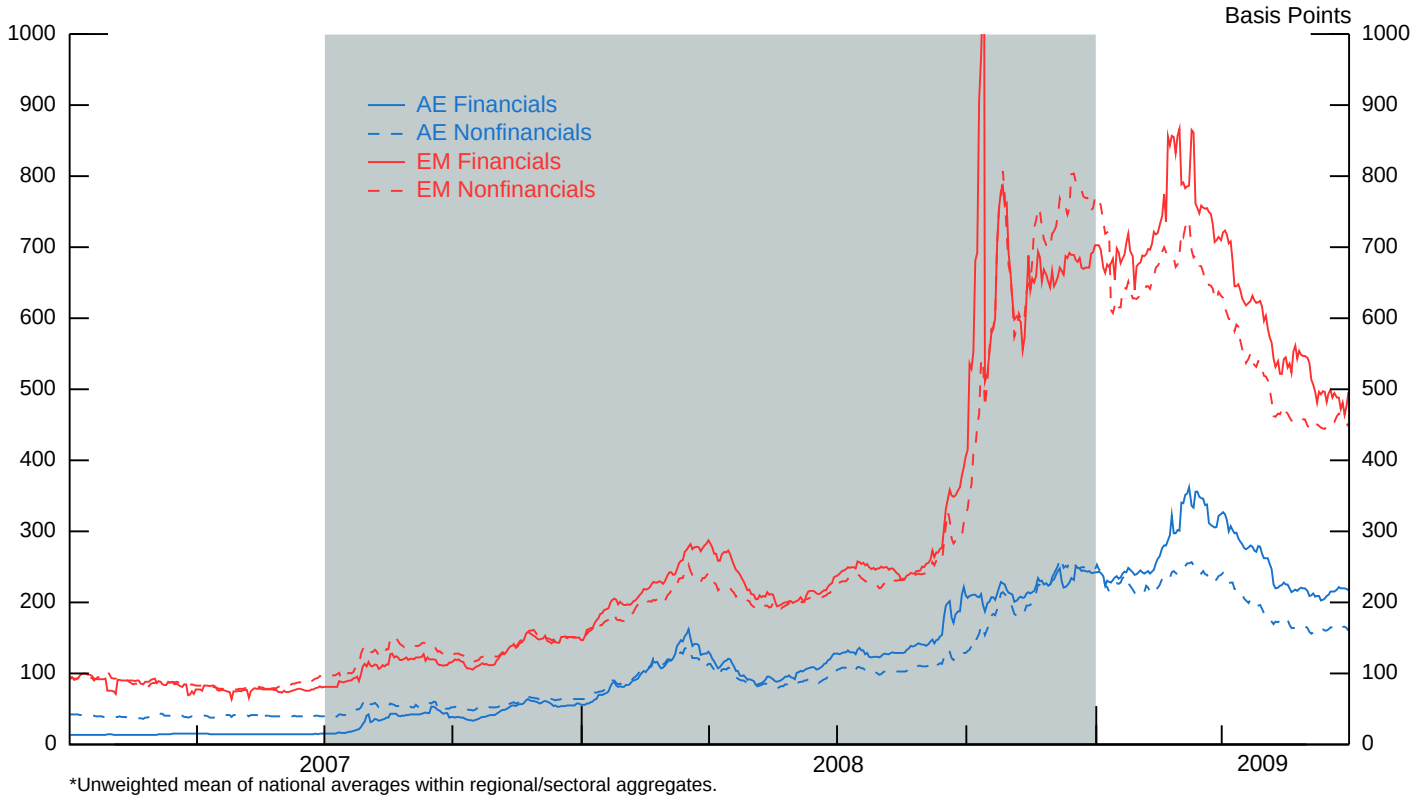
Stock Price Indexes*



*Unweighted mean of national indexes within regional/sectoral aggregates.
Source: Datastream

Chart 3

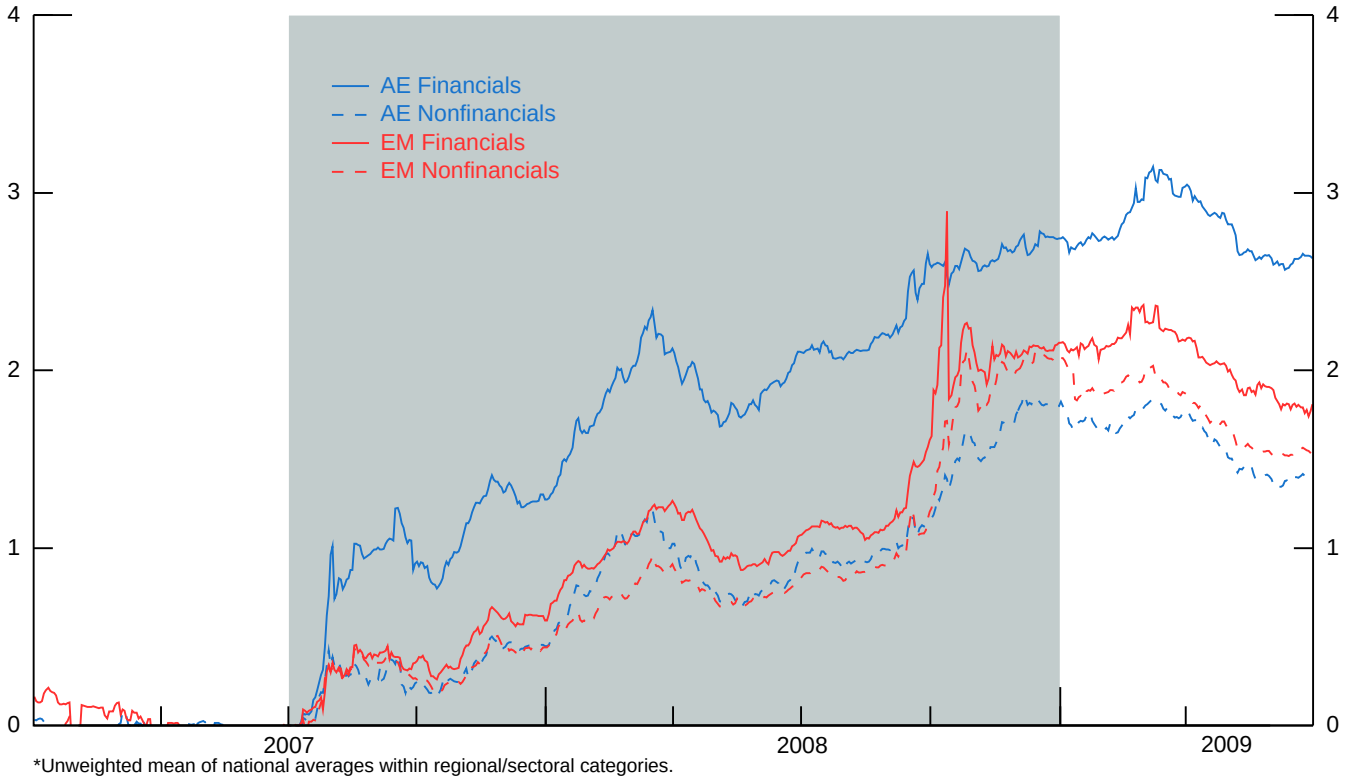
CDS Spreads*



*Unweighted mean of national averages within regional/sectoral aggregates.
Source: Markit

Chart 4

Cumulative Changes in Log(CDS Spreads*)



*Unweighted mean of national averages within regional/sectoral categories.
Source: Markit

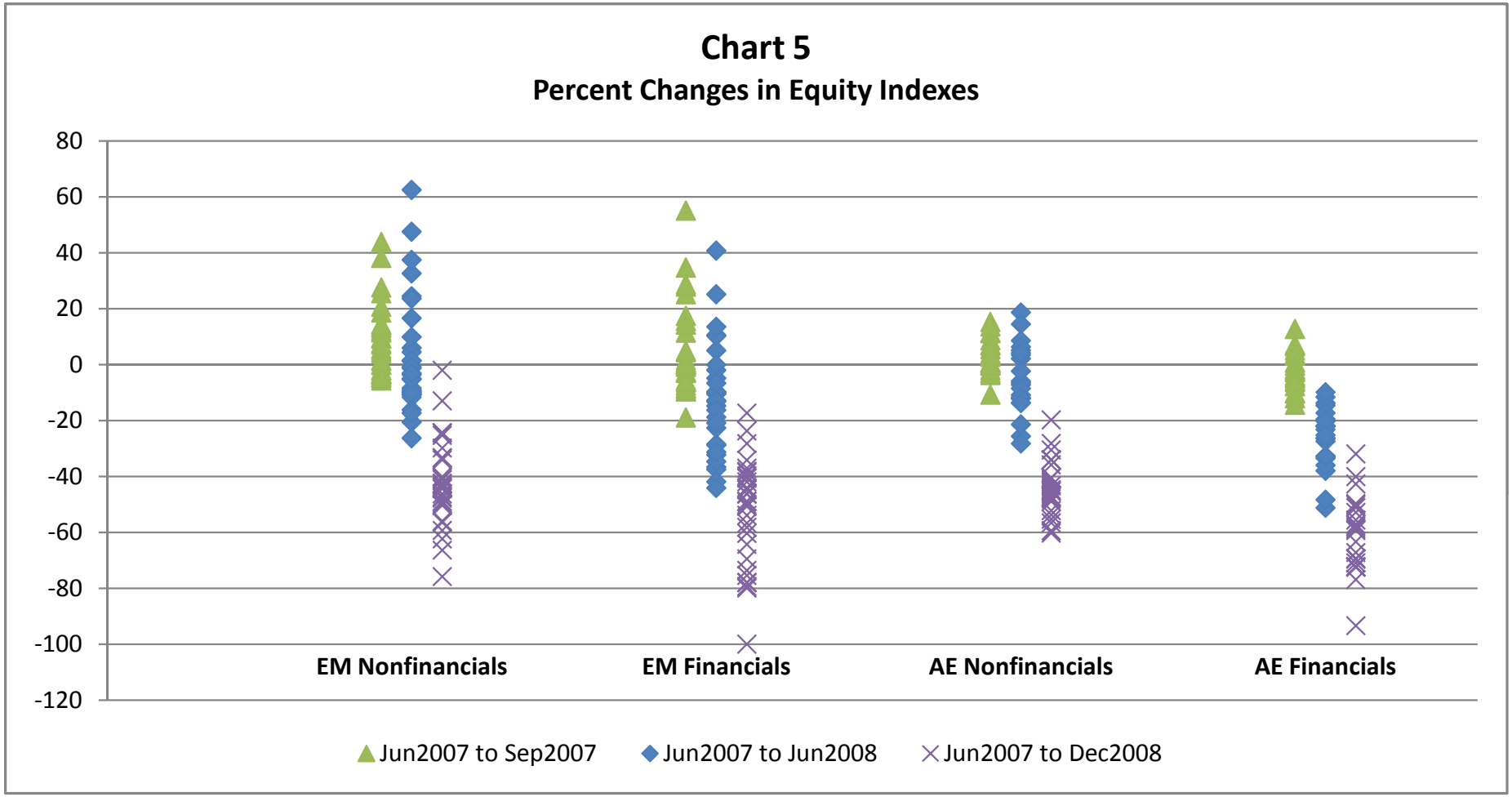


Chart 5
Percent Changes in Equity Indexes
80
60
40
20
0
-20
-40
-60
-80
-100
-120
EM Nonfinancials
EM Financials
AE Nonfinancials
AE Financials
Jun2007 to Sep2007
Jun2007 to Jun2008
Jun2007 to Dec2008

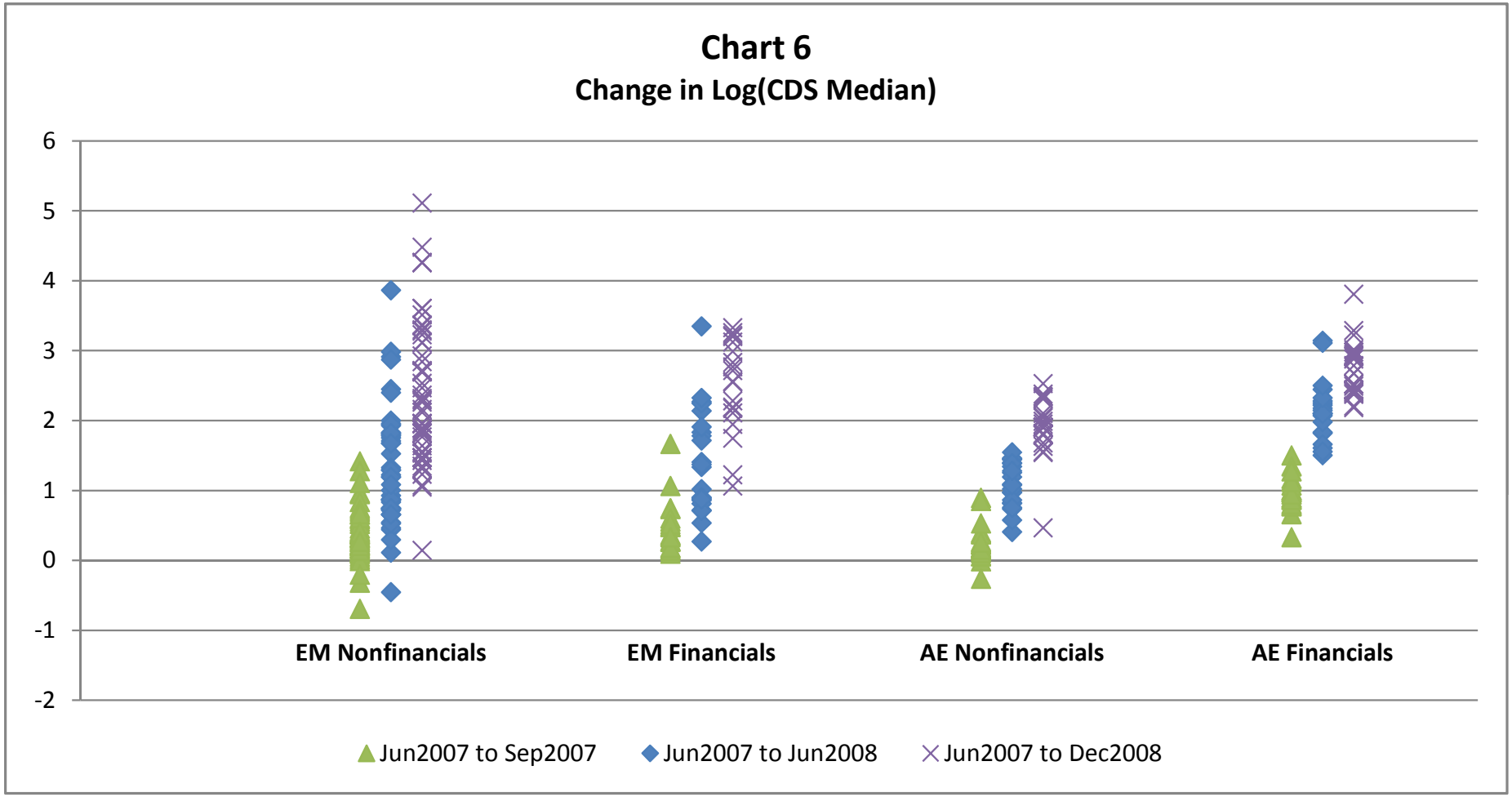


Chart 6
Change in Log(CDS Median)
6
5
4
3
2
1
0
-1
-2
EM Nonfinancials
EM Financials
AE Nonfinancials
AE Financials
Jun2007 to Sep2007
Jun2007 to Jun2008
Jun2007 to Dec2008

Table 1
Data Availability by Country

Emerging Market Economies			Advanced Economies		
Country	CDS	Equity	Country	CDS	Equity
Algeria*	X		Australia	X	X
Argentina	X	X	Austria	X	X
Bahrain	X		Belgium	X	X
Brazil	X	X	Canada	X	X
Bulgaria	X	X	Denmark	X	X
Chile	X	X	Finland	X	X
China	X	X	France	X	X
Colombia	X	X	Germany	X	X
Croatia*	X		Greece	X	X
Cyprus	X		Iceland	X	
Czech Republic	X	X	Ireland	X	X
Dominican Republic*	X		Italy	X	X
Ecuador*	X		Japan	X	X
Egypt*	X		Luxembourg	X	X
El Salvador*	X		Netherlands	X	X
Estonia*	X		New Zealand	X	X
Hong Kong	X	X	Norway	X	X
Hungary	X	X	Portugal	X	X
India	X	X	Spain	X	X
Indonesia	X		Sweden	X	X
Israel	X	X	Switzerland	X	X
Kazakhstan	X		United Kingdom	X	X
Korea (Republic of)	X	X	United States	X	X
Kuwait**	X				
Latvia*	X				
Lebanon*	X				
Lithuania*	X				
Malaysia	X	X			
Malta	X	X			
Mexico	X	X			
Morocco*	X				
Pakistan	X	X			
Peru	X	X			
Philippines	X	X			
Poland	X	X			
Qatar	X				
Romania	X	X			
Russian Federation	X	X			
Singapore	X	X			
Slovakia*	X				
Slovenia	X	X			
South Africa	X	X			
Sri Lanka		X			
Taiwan Province of China	X	X			
Thailand	X	X			
Tunisia*	X				
Turkey	X	X			
Ukraine	X				
United Arab Emirates	X				
Uruguay*	X				
Venezuela	X	X			

*Country had nonfinancial data only.

**Country had financial data only.

Table 2a

Cross Section Regression: Percent Change in Stock Price (June 2007 to September 2007)

AE	-4.861	-5.749	-5.960	-10.272	-26.562	-6.406	-7.429	-8.367	-18.231
	(1.51)	(1.71)*	(1.71)*	(2.62)**	(2.17)**	(1.71)*	(1.31)	(2.10)**	(1.72)*
FIN	-3.439	-3.036	-2.984	-3.486	5.433	-3.486	-2.910	-3.486	-4.705
	(1.18)	(0.95)	(0.91)	(1.12)	(0.44)	(1.09)	(0.48)	(1.10)	(0.56)
AE*FIN	-2.323	-2.726	-2.635	-2.358	-7.335	-2.358	-2.168	-2.358	-1.290
	(0.51)	(0.57)	(0.54)	(0.50)	(0.42)	(0.48)	(0.27)	(0.49)	(0.09)
Change in IP Growth		39.116	40.050						
		(2.02)**	(1.28)						
AE*Change in IP Growth			-22.737						
			(0.33)						
FIN*Change in IP Growth			5.776						
			(0.13)						
AE*FIN*Change in IP Growth			9.523						
			(0.10)						
Capital/Asset Ratio 2006				-1.428	-1.762				
				(2.58)**	(1.92)*				
AE* Capital/Asset Ratio 2006					2.663				
					(1.57)				
FIN* Capital/Asset Ratio 2006					-0.958				
					(0.74)				
AE*FIN* Capital/Asset Ratio 2006					0.262				
					(0.11)				
NPL Ratio 2006						-0.553	-0.579		
						(0.96)	(0.62)		
AE* NPL Ratio 2006							0.668		
							(0.33)		
FIN* NPL Ratio 2006							-0.149		
							(0.11)		
AE*FIN* NPL Ratio 2006							-0.383		
							(0.13)		
Return on Assets 2006								-3.367	-4.533
								(1.65)	(1.50)
AE* Return on Assets 2006									10.647
									(0.99)
FIN* Return on Assets 2006									0.677
									(0.16)
AE*FIN* Return on Assets 2006									-0.493
									(0.03)
Constant	8.374	9.625	9.633	22.212	25.314	11.054	11.153	14.977	17.076
	(4.08)***	(4.25)***	(4.17)***	(3.96)***	(2.88)***	(3.48)***	(2.61)**	(3.48)***	(2.89)***
Observations	108	98	98	98	98	98	98	98	98
R-squared	0.10	0.15	0.15	0.16	0.21	0.11	0.11	0.12	0.14
R-squared adjusted	0.07	0.12	0.09	0.12	0.15	0.07	0.04	0.09	0.07

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2a

Cross Section Regression: Percent Change in Stock Price (June 2007 to September 2007)

AE	-4.861	-5.412	-5.610	-6.741	-5.939	-3.246	-1.762	-6.056	-3.532
	(1.51)	(1.62)	(1.68)*	(1.99)**	(1.67)*	(0.88)	(0.40)	(1.68)*	(0.76)
FIN	-3.439	-3.293	-2.843	-2.437	-2.468	-3.293	-1.704	-3.293	-4.122
	(1.18)	(1.06)	(0.92)	(0.75)	(0.75)	(1.07)	(0.37)	(1.06)	(1.26)
AE*FIN	-2.323	-2.468	-3.117	-3.324	-4.539	-2.468	-3.466	-3.024	-4.465
	(0.51)	(0.52)	(0.66)	(0.70)	(0.90)	(0.53)	(0.56)	(0.63)	(0.68)
CurrentAccount Balance/GDP 2006		-10.254	-6.976						
		(0.72)	(0.27)						
AE* CurrentAccount Balance/GDP 2006			18.282						
			(0.45)						
FIN* CurrentAccount Balance/GDP 2006			-45.468						
			(1.26)						
AE*FIN* CurrentAccount Balance/GDP 2006			63.986						
			(1.10)						
Fiscal Balance/GDP 2006				43.979	41.524				
				(1.52)	(0.67)				
AE* Fiscal Balance/GDP 2006					-39.987				
					(0.48)				
FIN* Fiscal Balance/GDP 2006					28.824				
					(0.33)				
AE*FIN* Fiscal Balance/GDP 2006					36.907				
					(0.31)				
Reserves/External ShortTerm Debt 2006						0.781	1.114		
						(1.40)	(1.38)		
AE* Reserves/External ShortTerm Debt 2006							-2.203		
							(0.41)		
FIN*Reserves/External ShortTerm Debt 2006							-0.523		
							(0.46)		
AE*FIN* Reserves/External ShortTerm Debt 2006							-1.809		
							(0.24)		
Credit Growth/GDP 2003 to 2006								2.931	0.980
								(0.40)	(0.07)
AE*Credit Growth/GDP 2003 to 2006									-10.612
									(0.51)
FIN*Credit Growth/GDP 2003 to 2006									18.271
									(0.88)
AE*FIN*Credit Growth/GDP 2003 to 2006									-7.356
									(0.25)
Constant	8.374	9.034	9.001	9.420	9.422	6.560	5.550	8.799	8.888
	(4.08)***	(4.10)***	(4.10)***	(4.11)***	(4.06)***	(2.37)**	(1.68)*	(3.94)***	(3.84)***
Observations	108	102	102	94	94	102	102	100	100
R-squared	0.10	0.11	0.15	0.15	0.16	0.12	0.13	0.12	0.14
R-squared adjusted	0.07	0.07	0.09	0.11	0.09	0.09	0.07	0.08	0.07

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2a

Cross Section Regression: Percent Change in Stock Price (June 2007 to September 2007)

AE	-4.861	-11.919	-15.357	-4.590	-1.333	-3.761	-2.563	-5.100	0.116	-5.485	-8.019
	(1.51)	(2.83)***	(2.27)**	(1.30)	(0.35)	(1.14)	(0.68)	(1.50)	(0.02)	(1.55)	(1.81)*
FIN	-3.439	-3.470	-3.861	-4.052	-3.376	-2.848	-1.660	-3.486	-1.872	-3.507	-2.309
	(1.18)	(1.17)	(0.52)	(1.20)	(0.95)	(0.92)	(0.42)	(1.10)	(0.39)	(1.06)	(0.55)
AE*FIN	-2.323	-2.292	-0.315	-1.709	-2.915	-2.824	-4.651	-2.275	-6.164	-2.165	-4.084
	(0.51)	(0.50)	(0.03)	(0.35)	(0.54)	(0.61)	(0.87)	(0.47)	(0.78)	(0.43)	(0.65)
Soverign Credit Rating (high=worse)		-0.910	-0.997								
		(2.43)**	(1.82)*								
AE* Soverign Credit Rating (high=worse)			1.993								
			(0.78)								
FIN* Soverign Credit Rating (high=worse)			0.045								
			(0.06)								
AE*FIN* Soverign Credit Rating (high=worse)			-1.171								
			(0.32)								
Financial Openness 2006				-0.029	4.444						
				(0.03)	(1.91)*						
AE*Financial Openness 2006					-5.963						
					(2.21)**						
FIN*Financial Openness 2006					-1.723						
					(0.52)						
AE*FIN*Financial Openness 2006					2.249						
					(0.59)						
Claims on U.S./GDP 2006						-0.195	8.311				
						(0.43)	(0.51)				
AE*Claims on U.S./ GDP 2006							-8.763				
							(0.54)				
FIN*Claims on U.S./GDP 2006							-11.570				
							(0.51)				
AE*FIN*Claims on U.S./GDP 2006							12.075				
							(0.53)				
Exports/GDP 2006								0.029	0.058		
								(1.08)	(1.35)		
AE*Exports/GDP 2006									-0.105		
									(1.17)		
FIN*Exports/GDP 2006									-0.028		
									(0.46)		
AE*FIN*Exports/GDP 2006									0.077		
									(0.61)		
U.S.$ Liabilities/Bank Assets June2007										-3.180	-15.541
										(0.52)	(0.99)
AE*U.S.$ Liabilities/Bank Assets June2007											17.994
											(0.95)
FIN*U.S.$ Liabilities/Bank Assets June2007											-9.956
											(0.45)
AE*FIN*U.S.$ Liabilities/Bank Assets June2007											13.832
											(0.52)
Constant	8.374	16.714	17.467	8.132	6.376	7.518	6.644	7.263	5.563	9.586	11.074
	(4.08)***	(4.32)***	(3.35)***	(3.37)***	(2.54)**	(3.45)***	(2.40)**	(2.67)***	(1.65)	(3.92)***	(3.70)***
Observations	108	104	104	94	94	94	94	100	100	96	96
R-squared	0.10	0.15	0.16	0.09	0.16	0.09	0.10	0.12	0.13	0.11	0.15
R-squared adjusted	0.07	0.12	0.10	0.05	0.09	0.05	0.03	0.08	0.06	0.07	0.08

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2b

Cross Section Regression: Percent Change in Stock Price (June 2007 to June 2008)

AE	-7.447	-8.389	-8.023	-10.052	-3.259	-11.553	-13.802	-3.612	-1.204
	(1.57)	(1.68)*	(1.51)	(1.71)*	(0.17)	(2.16)**	(1.71)*	(0.62)	(0.08)
FIN	-15.690	-15.164	-15.125	-17.184	-3.057	-17.184	-23.082	-17.184	-2.178
	(3.66)***	(3.21)***	(3.12)***	(3.68)***	(0.16)	(3.73)***	(2.68)***	(3.71)***	(0.18)
AE*FIN	-5.096	-5.622	-6.277	-4.892	-23.181	-4.892	-2.370	-4.892	-11.318
	(0.76)	(0.80)	(0.84)	(0.69)	(0.87)	(0.70)	(0.21)	(0.69)	(0.52)
Change in IP Growth		-17.287	-18.192						
		(1.36)	(0.96)						
AE*Change in IP Growth			17.119						
			(0.24)						
FIN*Change in IP Growth			1.565						
			(0.06)						
AE*FIN*Change in IP Growth			-30.592						
			(0.30)						
Capital/Asset Ratio 2006				-0.591	0.066				
				(0.71)	(0.05)				
AE* Capital/Asset Ratio 2006					-0.777				
					(0.30)				
FIN* Capital/Asset Ratio 2006					-1.518				
					(0.76)				
AE*FIN* Capital/Asset Ratio 2006					2.253				
					(0.61)				
NPL Ratio 2006						-1.507	-2.376		
						(1.83)*	(1.79)*		
AE* NPL Ratio 2006							0.097		
							(0.03)		
FIN* NPL Ratio 2006							1.526		
							(0.81)		
AE*FIN* NPL Ratio 2006							0.821		
							(0.20)		
Return on Assets 2006								4.369	8.466
								(1.47)	(1.92)*
AE* Return on Assets 2006									1.968
									(0.13)
FIN* Return on Assets 2006									-8.337
									(1.34)
AE*FIN* Return on Assets 2006									-2.139
									(0.10)
Constant	2.192	2.767	2.745	9.235	3.118	9.556	12.916	-4.130	-11.505
	(0.72)	(0.82)	(0.80)	(1.10)	(0.23)	(2.10)**	(2.12)**	(0.66)	(1.34)
Observations	108	98	98	98	98	98	98	98	98
R-squared	0.27	0.29	0.29	0.30	0.30	0.32	0.33	0.31	0.32
R-squared adjusted	0.25	0.26	0.24	0.27	0.25	0.29	0.27	0.28	0.27

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2b

Cross Section Regression: Percent Change in Stock Price (June 2007 to June 2008)

AE	-7.447	-8.707	-9.322	-9.970	-9.967	-8.637	-9.392	-10.101	-9.471
	(1.57)	(1.78)*	(1.87)*	(1.89)*	(1.80)*	(1.58)	(1.45)	(1.90)*	(1.38)
FIN	-15.690	-17.529	-17.732	-16.905	-16.821	-17.529	-20.679	-17.529	-16.526
	(3.66)***	(3.85)***	(3.84)***	(3.35)***	(3.28)***	(3.82)***	(2.98)***	(3.81)***	(3.41)***
AE*FIN	-5.096	-3.257	-3.057	-3.881	-4.317	-3.257	-1.825	-3.391	-1.357
	(0.76)	(0.47)	(0.43)	(0.53)	(0.55)	(0.47)	(0.20)	(0.48)	(0.14)
CurrentAccount Balance/GDP 2006		24.559	-4.866						
		(1.18)	(0.13)						
AE* CurrentAccount Balance/GDP 2006			59.611						
			(0.98)						
FIN* CurrentAccount Balance/GDP 2006			20.527						
			(0.38)						
AE*FIN* CurrentAccount Balance/GDP 2006			-20.196						
			(0.23)						
Fiscal Balance/GDP 2006				25.009	51.814				
				(0.56)	(0.54)				
AE* Fiscal Balance/GDP 2006					-25.518				
					(0.20)				
FIN* Fiscal Balance/GDP 2006					-79.984				
					(0.58)				
AE*FIN* Fiscal Balance/GDP 2006					98.532				
					(0.54)				
Reserves/External ShortTerm Debt 2006						0.018	-0.504		
						(0.02)	(0.42)		
AE* Reserves/External ShortTerm Debt 2006							-2.746		
							(0.35)		
FIN*Reserves/External ShortTerm Debt 2006							1.038		
							(0.61)		
AE*FIN* Reserves/External ShortTerm Debt 2006							5.735		
							(0.51)		
Credit Growth/GDP 2003 to 2006								5.279	22.890
								(0.49)	(1.05)
AE*Credit Growth/GDP 2003 to 2006									-16.801
									(0.55)
FIN*Credit Growth/GDP 2003 to 2006									-22.100
									(0.72)
AE*FIN*Credit Growth/GDP 2003 to 2006									7.502
									(0.17)
Constant	2.192	3.188	3.480	4.241	4.213	3.377	4.960	3.192	2.393
	(0.72)	(0.99)	(1.07)	(1.19)	(1.16)	(0.82)	(1.01)	(0.97)	(0.70)
Observations	108	102	102	94	94	102	102	100	100
R-squared	0.27	0.30	0.31	0.29	0.29	0.29	0.29	0.29	0.30
R-squared adjusted	0.25	0.27	0.26	0.26	0.23	0.26	0.24	0.26	0.25

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2b

Cross Section Regression: Percent Change in Stock Price (June 2007 to June 2008)

AE	-7.447	-16.378	-4.326	-8.869	-8.390	-10.619	-11.750	-8.666	-12.002	-9.426	-9.538
	(1.57)	(2.60)**	(0.44)	(1.80)*	(1.54)	(2.14)**	(2.06)**	(1.74)*	(1.46)	(1.80)*	(1.45)
FIN	-15.690	-16.420	4.205	-20.052	-20.432	-21.774	-23.855	-17.184	-20.207	-15.912	-10.832
	(3.66)***	(3.72)***	(0.39)	(4.24)***	(4.00)***	(4.69)***	(4.05)***	(3.68)***	(2.88)***	(3.28)***	(1.72)*
AE*FIN	-5.096	-4.367	-26.198	-0.734	1.530	1.527	3.683	-3.602	-0.231	-4.335	-5.772
	(0.76)	(0.64)	(1.87)*	(0.11)	(0.20)	(0.22)	(0.46)	(0.51)	(0.02)	(0.59)	(0.62)
Soverign Credit Rating (high=worse)		-1.124	0.095								
		(2.01)**	(0.12)								
AE* Soverign Credit Rating (high=worse)			-2.271								
			(0.60)								
FIN* Soverign Credit Rating (high=worse)			-2.380								
			(2.09)**								
AE*FIN* Soverign Credit Rating (high=worse)			3.236								
			(0.61)								
Financial Openness 2006				-1.556	0.153						
				(1.32)	(0.05)						
AE*Financial Openness 2006					-1.519						
					(0.39)						
FIN*Financial Openness 2006					0.969						
					(0.20)						
AE*FIN*Financial Openness 2006					-2.837						
					(0.52)						
Claims on U.S./GDP 2006						0.693	-9.945				
						(1.00)	(0.41)				
AE*Claims on U.S./ GDP 2006							10.668				
							(0.44)				
FIN*Claims on U.S./GDP 2006							20.256				
							(0.59)				
AE*FIN*Claims on U.S./GDP 2006							-20.316				
							(0.59)				
Exports/GDP 2006								0.031	-0.004		
								(0.79)	(0.06)		
AE*Exports/GDP 2006									0.063		
									(0.48)		
FIN*Exports/GDP 2006									0.053		
									(0.58)		
AE*FIN*Exports/GDP 2006									-0.060		
									(0.32)		
U.S.$ Liabilities/Bank Assets June2007										10.132	27.119
										(1.11)	(1.16)
AE*U.S.$ Liabilities/Bank Assets June2007											-5.388
											(0.19)
FIN*U.S.$ Liabilities/Bank Assets June2007											-42.217
											(1.28)
AE*FIN*U.S.$ Liabilities/Bank Assets June2007											22.618
											(0.57)
Constant	2.192	12.707	2.135	5.182	4.512	4.517	5.610	1.978	3.940	2.315	0.271
	(0.72)	(2.20)**	(0.28)	(1.54)	(1.25)	(1.38)	(1.35)	(0.50)	(0.79)	(0.64)	(0.06)
Observations	108	104	104	94	94	94	94	100	100	96	96
R-squared	0.27	0.31	0.34	0.34	0.35	0.34	0.34	0.29	0.30	0.27	0.29
R-squared adjusted	0.25	0.28	0.29	0.31	0.30	0.31	0.29	0.26	0.24	0.24	0.24

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2c

Cross Section Regression: Percent Change in Stock Price (June 2007 to December 2008)

AE	-1.232	-0.270	-6.918	-1.539	-1.233	-5.736	-10.008	-3.665	-1.097
	(0.29)	(0.06)	(1.06)	(0.29)	(0.07)	(1.20)	(1.39)	(0.70)	(0.08)
FIN	-10.454	-11.442	-17.951	-10.951	0.912	-10.951	-15.413	-10.951	0.523
	(2.73)***	(2.81)***	(3.28)***	(2.59)**	(0.05)	(2.66)***	(2.00)**	(2.60)**	(0.05)
AE*FIN	-6.092	-5.103	-1.292	-6.505	-29.219	-6.505	-1.378	-6.505	-21.732
	(1.02)	(0.84)	(0.14)	(1.01)	(1.22)	(1.04)	(0.13)	(1.01)	(1.09)
Change in IP Growth		-22.110	0.016						
		(2.36)**	(0.00)						
AE*Change in IP Growth			-43.996						
			(1.11)						
FIN*Change in IP Growth			-34.655						
			(1.75)*						
AE*FIN*Change in IP Growth			10.988						
			(0.20)						
Capital/Asset Ratio 2006				0.054	0.213				
				(0.07)	(0.17)				
AE* Capital/Asset Ratio 2006					0.048				
					(0.02)				
FIN* Capital/Asset Ratio 2006					-1.275				
					(0.71)				
AE*FIN* Capital/Asset Ratio 2006					3.191				
					(0.96)				
NPL Ratio 2006						-1.649	-2.410		
						(2.24)**	(2.03)**		
AE* NPL Ratio 2006							1.686		
							(0.65)		
FIN* NPL Ratio 2006							1.155		
							(0.69)		
AE*FIN* NPL Ratio 2006							-1.617		
							(0.44)		
Return on Assets 2006								-1.967	0.773
								(0.73)	(0.19)
AE* Return on Assets 2006									0.146
									(0.01)
FIN* Return on Assets 2006									-6.375
									(1.12)
AE*FIN* Return on Assets 2006									10.956
									(0.54)
Constant	-42.890	-46.372	-42.216	-42.433	-43.915	-35.560	-32.617	-38.391	-43.322
	(15.87)***	(13.75)***	(10.91)***	(5.58)***	(3.61)***	(8.74)***	(5.99)***	(6.73)***	(5.54)***
Observations	108	98	98	98	98	98	98	98	98
R-squared	0.18	0.24	0.28	0.19	0.21	0.23	0.24	0.20	0.21
R-squared adjusted	0.15	0.21	0.22	0.16	0.15	0.20	0.18	0.16	0.15

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2c

Cross Section Regression: Percent Change in Stock Price (June 2007 to December 2008)

AE	-1.232	-2.040	-1.815	1.974	2.919	1.260	-1.293	0.700	-0.829
	(0.29)	(0.47)	(0.41)	(0.44)	(0.63)	(0.26)	(0.23)	(0.15)	(0.14)
FIN	-10.454	-11.543	-11.764	-9.964	-9.908	-11.543	-14.497	-11.543	-11.078
	(2.73)***	(2.86)***	(2.86)***	(2.35)**	(2.31)**	(2.84)***	(2.37)**	(2.82)***	(2.55)**
AE*FIN	-6.092	-5.003	-4.906	-6.582	-7.188	-5.003	-3.365	-5.215	-3.489
	(1.02)	(0.81)	(0.78)	(1.06)	(1.09)	(0.81)	(0.42)	(0.82)	(0.40)
CurrentAccount Balance/GDP 2006		38.814	37.820						
		(2.10)**	(1.12)						
AE* CurrentAccount Balance/GDP 2006			-20.895						
			(0.38)						
FIN* CurrentAccount Balance/GDP 2006			22.320						
			(0.47)						
AE*FIN* CurrentAccount Balance/GDP 2006			-10.743						
			(0.14)						
Fiscal Balance/GDP 2006				-75.236	-9.078				
				(1.99)**	(0.11)				
AE* Fiscal Balance/GDP 2006					-112.359				
					(1.03)				
FIN* Fiscal Balance/GDP 2006					-53.219				
					(0.46)				
AE*FIN* Fiscal Balance/GDP 2006					82.273				
					(0.53)				
Reserves/External ShortTerm Debt 2006						1.175	0.563		
						(1.59)	(0.53)		
AE* Reserves/External ShortTerm Debt 2006							3.360		
							(0.48)		
FIN*Reserves/External ShortTerm Debt 2006							0.973		
							(0.65)		
AE*FIN* Reserves/External ShortTerm Debt 2006							4.216		
							(0.42)		
Credit Growth/GDP 2003 to 2006								-11.938	-9.474
								(1.24)	(0.48)
AE*Credit Growth/GDP 2003 to 2006									5.430
									(0.20)
FIN*Credit Growth/GDP 2003 to 2006									-10.240
									(0.37)
AE*FIN*Credit Growth/GDP 2003 to 2006									-0.293
									(0.01)
Constant	-42.890	-42.498	-42.488	-44.671	-44.740	-45.680	-43.824	-41.572	-41.684
	(15.87)***	(14.87)***	(14.63)***	(14.87)***	(14.73)***	(12.53)***	(10.13)***	(14.19)***	(13.58)***
Observations	108	102	102	94	94	102	102	100	100
R-squared	0.18	0.22	0.23	0.21	0.22	0.21	0.22	0.20	0.20
R-squared adjusted	0.15	0.19	0.17	0.17	0.16	0.17	0.16	0.16	0.14

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2c

Cross Section Regression: Percent Change in Stock Price (June 2007 to December 2008)

AE	-1.232	-5.199	4.163	-1.460	-0.843	-4.633	-1.264	-1.806	-1.434	-1.389	0.302
	(0.29)	(0.91)	(0.46)	(0.31)	(0.16)	(1.00)	(0.24)	(0.40)	(0.19)	(0.31)	(0.05)
FIN	-10.454	-11.000	4.322	-11.874	-11.877	-14.103	-14.298	-10.951	-11.324	-9.627	-5.885
	(2.73)***	(2.75)***	(0.44)	(2.66)***	(2.48)**	(3.27)***	(2.66)***	(2.63)**	(1.80)*	(2.31)**	(1.08)
AE*FIN	-6.092	-5.546	-18.321	-4.672	-1.833	-2.056	-2.513	-5.595	-4.939	-6.532	-9.755
	(1.02)	(0.90)	(1.43)	(0.72)	(0.25)	(0.32)	(0.34)	(0.89)	(0.47)	(1.04)	(1.22)
Soverign Credit Rating (high=worse)		-0.470	0.492								
		(0.93)	(0.67)								
AE* Soverign Credit Rating (high=worse)			-1.689								
			(0.49)								
FIN* Soverign Credit Rating (high=worse)			-1.768								
			(1.70)*								
AE*FIN* Soverign Credit Rating (high=worse)			-0.040								
			(0.01)								
Financial Openness 2006				-1.208	1.561						
				(1.08)	(0.50)						
AE*Financial Openness 2006					-2.303						
					(0.63)						
FIN*Financial Openness 2006					0.008						
					(0.00)						
AE*FIN*Financial Openness 2006					-2.821						
					(0.55)						
Claims on U.S./GDP 2006						1.147	30.160				
						(1.79)*	(1.35)				
AE*Claims on U.S./ GDP 2006							-29.321				
							(1.31)				
FIN*Claims on U.S./GDP 2006							1.897				
							(0.06)				
AE*FIN*Claims on U.S./GDP 2006							-1.381				
							(0.04)				
Exports/GDP 2006								0.036	0.036		
								(1.05)	(0.64)		
AE*Exports/GDP 2006									-0.008		
									(0.07)		
FIN*Exports/GDP 2006									0.006		
									(0.08)		
AE*FIN*Exports/GDP 2006									-0.013		
									(0.08)		
U.S.$ Liabilities/Bank Assets June2007										5.596	21.541
										(0.72)	(1.07)
AE*U.S.$ Liabilities/Bank Assets June2007											-14.719
											(0.61)
FIN*U.S.$ Liabilities/Bank Assets June2007											-31.102
											(1.09)
AE*FIN*U.S.$ Liabilities/Bank Assets June2007											28.306
											(0.83)
Constant	-42.890	-38.260	-46.598	-41.444	-42.531	-41.416	-44.397	-44.021	-44.025	-44.254	-46.173
	(15.87)***	(7.31)***	(6.70)***	(13.00)***	(12.56)***	(13.56)***	(11.66)***	(12.36)***	(9.91)***	(14.34)***	(12.04)***
Observations	108	104	104	94	94	94	94	100	100	96	96
R-squared	0.18	0.19	0.22	0.20	0.23	0.23	0.26	0.19	0.19	0.18	0.19
R-squared adjusted	0.15	0.16	0.16	0.16	0.17	0.20	0.21	0.16	0.13	0.14	0.12

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3a

Cross-Section Regression: Log in Change in CDS Premia (June 2007 to September 2007)

AE	-0.031	-0.131	-0.137	-0.026	-0.126	-0.047	0.015	0.007	-0.345
	(0.40)	(1.44)	(1.47)	(0.25)	(0.38)	(0.50)	(0.12)	(0.07)	(1.85)*
FIN	0.119	0.064	0.033	0.112	0.442	0.114	0.280	0.092	0.335
	(1.46)	(0.66)	(0.33)	(1.19)	(1.08)	(1.21)	(1.90)*	(0.99)	(1.46)
AE*FIN	0.533	0.650	0.665	0.528	0.782	0.527	0.319	0.556	1.019
	(4.28)***	(4.60)***	(4.57)***	(3.83)***	(1.43)	(3.85)***	(1.59)	(4.05)***	(2.87)***
Change in IP Growth		-0.499	0.279						
		(0.82)	(0.35)						
AE*Change in IP Growth			-0.612						
			(0.32)						
FIN*Change in IP Growth			-2.562						
			(1.61)						
AE*FIN*Change in IP Growth			1.320						
			(0.44)						
Capital/Asset Ratio 2006				0.001	0.015				
				(0.03)	(0.65)				
AE* Capital/Asset Ratio 2006					0.024				
					(0.52)				
FIN* Capital/Asset Ratio 2006					-0.035				
					(0.85)				
AE*FIN* Capital/Asset Ratio 2006					-0.067				
					(0.91)				
NPL Ratio 2006						-0.007	0.001		
						(0.74)	(0.10)		
AE* NPL Ratio 2006							-0.030		
							(0.59)		
FIN* NPL Ratio 2006							-0.033		
							(1.48)		
AE*FIN* NPL Ratio 2006							0.068		
							(0.92)		
Return on Assets 2006								0.060	0.062
								(1.10)	(0.87)
AE* Return on Assets 2006									0.360
									(2.61)**
FIN* Return on Assets 2006									-0.153
									(1.31)
AE*FIN* Return on Assets 2006									-0.647
									(2.01)**
Constant	0.349	0.380	0.387	0.353	0.226	0.386	0.349	0.266	0.271
	(8.38)***	(6.74)***	(6.85)***	(2.24)**	(1.05)	(5.51)***	(4.65)***	(2.58)**	(2.07)**
Observations	125	97	97	105	105	104	104	106	106
R-squared	0.34	0.39	0.41	0.34	0.37	0.35	0.37	0.35	0.42
R-squared adjusted	0.33	0.36	0.36	0.32	0.32	0.33	0.32	0.32	0.38

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3a

Cross-Section Regression: Log in Change in CDS Premia (June 2007 to September 2007)

AE	-0.031	-0.049	-0.018	-0.058	-0.091	-0.046	-0.030	-0.166	-0.181
	(0.40)	(0.60)	(0.22)	(0.65)	(0.96)	(0.54)	(0.32)	(1.90)*	(1.87)*
FIN	0.119	0.122	0.096	0.086	0.040	0.095	0.116	0.067	0.107
	(1.46)	(1.37)	(1.08)	(0.88)	(0.41)	(1.07)	(1.01)	(0.79)	(1.21)
AE*FIN	0.533	0.560	0.558	0.572	0.656	0.556	0.547	0.646	0.675
	(4.28)***	(4.32)***	(4.33)***	(4.08)***	(4.39)***	(4.20)***	(3.45)***	(5.03)***	(4.11)***
CurrentAccount Balance/GDP 2006		-1.126	-1.858						
		(3.20)***	(3.56)***						
AE* CurrentAccount Balance/GDP 2006			-0.197						
			(0.25)						
FIN* CurrentAccount Balance/GDP 2006			2.522						
			(3.03)***						
AE*FIN* CurrentAccount Balance/GDP 2006			-0.883						
			(0.70)						
Fiscal Balance/GDP 2006				1.135	0.191				
				(1.48)	(0.17)				
AE* Fiscal Balance/GDP 2006					1.147				
					(0.62)				
FIN* Fiscal Balance/GDP 2006					4.985				
					(2.23)**				
AE*FIN* Fiscal Balance/GDP 2006					-6.191				
					(2.04)**				
Reserves/External ShortTerm Debt 2006						-0.002	-0.002		
						(0.52)	(0.43)		
AE* Reserves/External ShortTerm Debt 2006							-0.067		
							(0.44)		
FIN*Reserves/External ShortTerm Debt 2006							-0.008		
							(0.30)		
AE*FIN* Reserves/External ShortTerm Debt 2006							-0.044		
							(0.20)		
Credit Growth/GDP 2003 to 2006								0.431	0.590
								(3.85)***	(2.33)**
AE*Credit Growth/GDP 2003 to 2006									0.007
									(0.03)
FIN*Credit Growth/GDP 2003 to 2006									-0.346
									(1.60)
AE*FIN*Credit Growth/GDP 2003 to 2006									0.004
									(0.01)
Constant	0.349	0.355	0.340	0.350	0.362	0.365	0.365	0.341	0.323
	(8.38)***	(7.32)***	(7.17)***	(6.66)***	(6.93)***	(7.06)***	(6.97)***	(7.43)***	(6.53)***
Observations	125	108	108	104	104	112	112	110	110
R-squared	0.34	0.40	0.46	0.36	0.39	0.34	0.35	0.42	0.44
R-squared adjusted	0.33	0.38	0.42	0.33	0.35	0.32	0.31	0.40	0.40

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3a

Cross-Section Regression: Log in Change in CDS Premia (June 2007 to September 2007)

AE	-0.031	-0.181	-0.012	-0.082	-0.100	0.008	-0.091	-0.036	0.021	-0.031	-0.031
	(0.40)	(1.62)	(0.08)	(0.96)	(1.02)	(0.09)	(0.94)	(0.43)	(0.15)	(0.40)	(0.33)
FIN	0.119	0.114	0.602	0.075	-0.006	0.143	-0.173	0.084	-0.210	0.054	0.073
	(1.46)	(1.33)	(3.27)***	(0.83)	(0.06)	(1.38)	(1.48)	(0.94)	(1.59)	(0.63)	(0.79)
AE*FIN	0.533	0.538	-0.002	0.576	0.638	0.536	0.824	0.565	0.633	0.619	0.642
	(4.28)***	(4.18)***	(0.01)	(4.35)***	(4.10)***	(3.70)***	(5.38)***	(4.27)***	(2.98)***	(5.00)***	(4.29)***
Soverign Credit Rating (high=worse)		-0.021	-0.005								
		(2.07)**	(0.43)								
AE* Soverign Credit Rating (high=worse)			-0.054								
			(0.77)								
FIN* Soverign Credit Rating (high=worse)			-0.061								
			(2.97)***								
AE*FIN* Soverign Credit Rating (high=worse)			0.112								
			(1.12)								
Financial Openness 2006				0.036	-0.024						
				(1.53)	(0.38)						
AE*Financial Openness 2006					0.046						
					(0.63)						
FIN*Financial Openness 2006					0.138						
					(1.54)						
AE*FIN*Financial Openness 2006					-0.113						
					(1.09)						
Claims on U.S./GDP 2006						-0.019	-0.967				
						(1.32)	(2.34)**				
AE*Claims on U.S./ GDP 2006							0.932				
							(2.25)**				
FIN*Claims on U.S./GDP 2006							2.900				
							(4.49)***				
AE*FIN*Claims on U.S./GDP 2006							-2.866				
							(4.43)***				
Exports/GDP 2006								0.001	-0.001		
								(0.84)	(1.08)		
AE*Exports/GDP 2006									-0.001		
									(0.61)		
FIN*Exports/GDP 2006									0.005		
									(2.87)***		
AE*FIN*Exports/GDP 2006									0.000		
									(0.01)		
U.S.$ Liabilities/Bank Assets June2007										0.073	0.105
										(1.67)*	(1.66)*
AE*U.S.$ Liabilities/Bank Assets June2007											0.009
											(0.04)
FIN*U.S.$ Liabilities/Bank Assets June2007											-0.059
											(0.65)
AE*FIN*U.S.$ Liabilities/Bank Assets June2007											-0.152
											(0.40)
Constant	0.349	0.528	0.394	0.363	0.390	0.339	0.444	0.327	0.425	0.345	0.337
	(8.38)***	(5.17)***	(3.59)***	(7.14)***	(6.89)***	(5.70)***	(6.45)***	(5.10)***	(5.58)***	(7.26)***	(6.81)***
Observations	125	111	111	107	107	91	91	111	111	101	101
R-squared	0.34	0.38	0.43	0.36	0.37	0.40	0.53	0.34	0.41	0.44	0.44
R-squared adjusted	0.33	0.35	0.39	0.33	0.33	0.37	0.48	0.32	0.37	0.41	0.40

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3b

Cross-Section Regression: Log in Change in CDS Premia (June 2007 to June 2008)

AE	0.102	-0.317	-0.361	-0.001	-0.867	-0.050	-0.013	0.143	-1.096
	(0.64)	(2.01)**	(2.15)**	(0.00)	(1.29)	(0.26)	(0.05)	(0.74)	(2.94)***
FIN	0.232	-0.131	-0.143	0.236	1.259	0.275	0.549	0.190	0.315
	(1.41)	(0.76)	(0.81)	(1.23)	(1.47)	(1.44)	(1.81)*	(1.00)	(0.68)
AE*FIN	0.621	1.184	1.248	0.609	0.298	0.579	0.356	0.673	1.566
	(2.43)**	(4.79)***	(4.73)***	(2.16)**	(0.26)	(2.09)**	(0.87)	(2.39)**	(2.19)**
Change in IP Growth		-0.162	-0.009						
		(0.30)	(0.01)						
AE*Change in IP Growth			-2.028						
			(0.84)						
FIN*Change in IP Growth			-0.711						
			(0.35)						
AE*FIN*Change in IP Growth			3.056						
			(0.78)						
Capital/Asset Ratio 2006				-0.024	-0.031				
				(0.73)	(0.67)				
AE* Capital/Asset Ratio 2006					0.141				
					(1.49)				
FIN* Capital/Asset Ratio 2006					-0.106				
					(1.22)				
AE*FIN* Capital/Asset Ratio 2006					-0.014				
					(0.09)				
NPL Ratio 2006						-0.038	-0.026		
						(2.01)**	(1.15)		
AE* NPL Ratio 2006							-0.005		
							(0.05)		
FIN* NPL Ratio 2006							-0.054		
							(1.16)		
AE*FIN* NPL Ratio 2006							0.026		
							(0.17)		
Return on Assets 2006								0.097	-0.064
								(0.86)	(0.45)
AE* Return on Assets 2006									1.130
									(4.10)***
FIN* Return on Assets 2006									-0.121
									(0.51)
AE*FIN* Return on Assets 2006									-0.949
									(1.47)
Constant	1.183	1.398	1.402	1.431	1.500	1.390	1.332	1.053	1.357
	(13.65)***	(14.25)***	(14.09)***	(4.39)***	(3.43)***	(9.80)***	(8.72)***	(4.94)***	(5.18)***
Observations	125	96	96	105	105	104	104	106	106
R-squared	0.21	0.30	0.31	0.21	0.25	0.24	0.25	0.21	0.33
R-squared adjusted	0.19	0.27	0.26	0.18	0.20	0.21	0.20	0.18	0.29

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3b

Cross-Section Regression: Log in Change in CDS Premia (June 2007 to June 2008)

AE	0.102	0.042	0.055	0.010	-0.014	0.046	0.045	-0.244	-0.382
	(0.64)	(0.25)	(0.34)	(0.06)	(0.07)	(0.27)	(0.24)	(1.42)	(2.01)**
FIN	0.232	0.230	0.053	0.013	-0.008	0.157	0.040	0.089	0.115
	(1.41)	(1.23)	(0.29)	(0.07)	(0.04)	(0.88)	(0.18)	(0.55)	(0.67)
AE*FIN	0.621	0.665	0.833	0.851	0.931	0.694	0.808	0.902	1.033
	(2.43)**	(2.46)**	(3.17)***	(3.10)***	(3.10)***	(2.60)**	(2.54)**	(3.57)***	(3.21)***
CurrentAccount Balance/GDP 2006		-1.537	-2.420						
		(2.35)**	(2.31)**						
AE* CurrentAccount Balance/GDP 2006			-3.168						
			(2.04)**						
FIN* CurrentAccount Balance/GDP 2006			3.945						
			(2.90)***						
AE*FIN* CurrentAccount Balance/GDP 2006			0.487						
			(0.20)						
Fiscal Balance/GDP 2006				2.773	2.517				
				(2.51)**	(1.11)				
AE* Fiscal Balance/GDP 2006					1.053				
					(0.29)				
FIN* Fiscal Balance/GDP 2006					0.637				
					(0.24)				
AE*FIN* Fiscal Balance/GDP 2006					-3.639				
					(0.71)				
Reserves/External ShortTerm Debt 2006						-0.000	-0.002		
						(0.05)	(0.17)		
AE* Reserves/External ShortTerm Debt 2006							0.014		
							(0.04)		
FIN*Reserves/External ShortTerm Debt 2006							0.046		
							(0.83)		
AE*FIN* Reserves/External ShortTerm Debt 2006							-0.055		
							(0.12)		
Credit Growth/GDP 2003 to 2006								0.996	0.635
								(4.52)***	(1.28)
AE*Credit Growth/GDP 2003 to 2006									0.833
									(1.52)
FIN*Credit Growth/GDP 2003 to 2006									-0.588
									(1.39)
AE*FIN*Credit Growth/GDP 2003 to 2006									-0.058
									(0.07)
Constant	1.183	1.226	1.216	1.216	1.219	1.242	1.245	1.205	1.223
	(13.65)***	(12.16)***	(12.68)***	(11.85)***	(11.65)***	(11.82)***	(11.72)***	(13.29)***	(12.56)***
Observations	125	108	108	105	105	113	113	111	111
R-squared	0.21	0.24	0.35	0.26	0.26	0.20	0.20	0.33	0.36
R-squared adjusted	0.19	0.21	0.30	0.23	0.21	0.17	0.15	0.31	0.31

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3b

Cross-Section Regression: Log in Change in CDS Premia (June 2007 to June 2008)

AE	0.102	-0.650	-0.528	0.024	0.131	0.155	0.101	0.087	0.624	0.074	0.010
	(0.64)	(3.27)***	(1.85)*	(0.14)	(0.65)	(0.85)	(0.49)	(0.52)	(2.20)**	(0.42)	(0.04)
FIN	0.232	0.126	0.722	0.163	0.070	0.198	-0.096	0.127	0.165	0.189	0.261
	(1.41)	(0.83)	(2.25)**	(0.89)	(0.33)	(0.99)	(0.39)	(0.72)	(0.60)	(0.97)	(1.26)
AE*FIN	0.621	0.728	0.114	0.690	0.642	0.667	0.935	0.716	0.348	0.671	0.741
	(2.43)**	(3.17)***	(0.26)	(2.55)**	(2.02)**	(2.38)**	(2.87)***	(2.72)***	(0.80)	(2.37)**	(2.17)**
Soverign Credit Rating (high=worse)		-0.098	-0.078								
		(5.51)***	(3.79)***								
AE* Soverign Credit Rating (high=worse)			-0.002								
			(0.02)								
FIN* Soverign Credit Rating (high=worse)			-0.077								
			(2.11)**								
AE*FIN* Soverign Credit Rating (high=worse)			0.104								
			(0.57)								
Financial Openness 2006				0.067	0.087						
				(1.38)	(0.68)						
AE*Financial Openness 2006					-0.119						
					(0.80)						
FIN*Financial Openness 2006					0.140						
					(0.77)						
AE*FIN*Financial Openness 2006					0.000						
					(0.00)						
Claims on U.S./GDP 2006						-0.037	-0.549				
						(1.34)	(0.63)				
AE*Claims on U.S./ GDP 2006							0.496				
							(0.56)				
FIN*Claims on U.S./GDP 2006							2.672				
							(1.94)*				
AE*FIN*Claims on U.S./GDP 2006							-2.640				
							(1.92)*				
Exports/GDP 2006								0.003	0.005		
								(1.89)*	(2.24)**		
AE*Exports/GDP 2006									-0.011		
									(2.34)**		
FIN*Exports/GDP 2006									-0.001		
									(0.34)		
AE*FIN*Exports/GDP 2006									0.008		
									(1.21)		
U.S.$ Liabilities/Bank Assets June2007										0.013	0.116
										(0.13)	(0.80)
AE*U.S.$ Liabilities/Bank Assets June2007											0.335
											(0.55)
FIN*U.S.$ Liabilities/Bank Assets June2007											-0.224
											(1.08)
AE*FIN*U.S.$ Liabilities/Bank Assets June2007											-0.492
											(0.56)
Constant	1.183	2.074	1.906	1.192	1.186	1.199	1.260	1.072	0.952	1.234	1.210
	(13.65)***	(11.45)***	(9.49)***	(11.38)***	(10.19)***	(10.40)***	(8.61)***	(8.32)***	(6.08)***	(11.27)***	(10.68)***
Observations	125	112	112	108	108	91	91	112	112	102	102
R-squared	0.21	0.39	0.42	0.22	0.24	0.26	0.30	0.23	0.27	0.21	0.23
R-squared adjusted	0.19	0.37	0.38	0.19	0.19	0.23	0.24	0.20	0.22	0.18	0.17

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3c

Cross-Section Regression: Log in Change in CDS Premia (June 2007 to December 2008)

AE	-0.242	-0.550	-0.807	-0.351	-1.296	-0.479	-0.629	-0.208	-1.240
	(1.24)	(2.85)***	(2.74)***	(1.40)	(1.66)	(2.16)**	(2.12)**	(0.89)	(2.57)**
FIN	0.200	-0.039	-0.600	0.153	0.168	0.182	-0.055	0.130	0.618
	(0.95)	(0.18)	(1.78)*	(0.65)	(0.16)	(0.77)	(0.15)	(0.55)	(1.08)
AE*FIN	0.500	0.878	1.643	0.539	1.168	0.513	0.866	0.574	0.929
	(1.56)	(2.87)***	(3.38)***	(1.58)	(0.86)	(1.52)	(1.70)*	(1.70)*	(1.05)
Change in IP Growth		-0.049	0.707						
		(0.10)	(1.13)						
AE*Change in IP Growth			-1.840						
			(1.00)						
FIN*Change in IP Growth			-2.544						
			(2.17)**						
AE*FIN*Change in IP Growth			4.334						
			(1.59)						
Capital/Asset Ratio 2006				-0.011	-0.039				
				(0.28)	(0.73)				
AE* Capital/Asset Ratio 2006					0.147				
					(1.32)				
FIN* Capital/Asset Ratio 2006					0.000				
					(0.00)				
AE*FIN* Capital/Asset Ratio 2006					-0.112				
					(0.64)				
NPL Ratio 2006						-0.046	-0.057		
						(2.08)**	(2.20)**		
AE* NPL Ratio 2006							0.077		
							(0.64)		
FIN* NPL Ratio 2006							0.046		
							(0.81)		
AE*FIN* NPL Ratio 2006							-0.128		
							(0.73)		
Return on Assets 2006								0.131	0.069
								(1.00)	(0.41)
AE* Return on Assets 2006									1.092
									(2.69)***
FIN* Return on Assets 2006									-0.262
									(0.89)
AE*FIN* Return on Assets 2006									-0.665
									(0.82)
Constant	2.288	2.452	2.585	2.467	2.728	2.596	2.654	2.142	2.247
	(22.52)***	(16.82)***	(16.19)***	(6.55)***	(5.32)***	(15.86)***	(14.86)***	(8.46)***	(7.24)***
Observations	125	94	94	102	102	101	101	103	103
R-squared	0.07	0.15	0.20	0.08	0.10	0.12	0.13	0.09	0.17
R-squared adjusted	0.05	0.12	0.14	0.04	0.03	0.08	0.06	0.05	0.11

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3c

Cross-Section Regression: Log in Change in CDS Premia (June 2007 to December 2008)

AE	-0.242	-0.325	-0.305	-0.369	-0.319	-0.379	-0.414	-0.598	-0.517
	(1.24)	(1.63)	(1.62)	(1.80)*	(1.45)	(1.87)*	(1.86)*	(2.97)***	(2.39)**
FIN	0.200	0.205	-0.075	-0.068	-0.032	0.068	-0.115	0.125	0.292
	(0.95)	(0.87)	(0.32)	(0.28)	(0.13)	(0.31)	(0.40)	(0.61)	(1.45)
AE*FIN	0.500	0.522	0.786	0.780	0.728	0.632	0.819	0.653	0.628
	(1.56)	(1.58)	(2.42)**	(2.30)**	(2.02)**	(1.97)*	(2.09)**	(2.14)**	(1.71)*
CurrentAccount Balance/GDP 2006		-1.671	-4.490						
		(2.11)**	(3.58)***						
AE* CurrentAccount Balance/GDP 2006			0.919						
			(0.45)						
FIN* CurrentAccount Balance/GDP 2006			6.801						
			(3.71)***						
AE*FIN* CurrentAccount Balance/GDP 2006			-3.767						
			(1.17)						
Fiscal Balance/GDP 2006				2.831	5.834				
				(2.20)**	(2.18)**				
AE* Fiscal Balance/GDP 2006					-4.759				
					(1.06)				
FIN* Fiscal Balance/GDP 2006					-3.631				
					(1.13)				
AE*FIN* Fiscal Balance/GDP 2006					4.112				
					(0.67)				
Reserves/External ShortTerm Debt 2006						-0.007	-0.009		
						(0.70)	(0.86)		
AE* Reserves/External ShortTerm Debt 2006							0.110		
							(0.31)		
FIN*Reserves/External ShortTerm Debt 2006							0.065		
							(1.00)		
AE*FIN* Reserves/External ShortTerm Debt 2006							-0.075		
							(0.15)		
Credit Growth/GDP 2003 to 2006								1.217	2.614
								(3.96)***	(4.06)***
AE*Credit Growth/GDP 2003 to 2006									-1.354
									(1.80)*
FIN*Credit Growth/GDP 2003 to 2006									-4.015
									(3.49)***
AE*FIN*Credit Growth/GDP 2003 to 2006									3.369
									(2.25)**
Constant	2.288	2.370	2.349	2.353	2.342	2.427	2.435	2.317	2.223
	(22.52)***	(20.41)***	(21.41)***	(19.58)***	(19.31)***	(20.08)***	(19.93)***	(21.36)***	(20.12)***
Observations	125	105	105	102	102	110	110	108	108
R-squared	0.07	0.12	0.24	0.12	0.14	0.08	0.09	0.20	0.29
R-squared adjusted	0.05	0.08	0.19	0.09	0.07	0.05	0.03	0.16	0.24

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3c

Cross-Section Regression: Log in Change in CDS Premia (June 2007 to December 2008)

AE	-0.242	-1.055	-1.068	-0.296	-0.108	-0.190	-0.203	-0.307	0.113	-0.281	-0.323
	(1.24)	(4.40)***	(2.98)***	(1.45)	(0.47)	(0.86)	(0.80)	(1.55)	(0.34)	(1.32)	(1.25)
FIN	0.200	0.009	0.285	0.176	0.156	0.146	-0.019	0.039	-0.001	0.099	0.132
	(0.95)	(0.05)	(0.64)	(0.79)	(0.62)	(0.56)	(0.06)	(0.18)	(0.00)	(0.41)	(0.50)
AE*FIN	0.500	0.695	0.406	0.524	0.338	0.547	0.697	0.656	0.488	0.591	0.666
	(1.56)	(2.44)**	(0.70)	(1.61)	(0.92)	(1.52)	(1.67)*	(2.06)**	(0.92)	(1.69)*	(1.61)
Soverign Credit Rating (high=worse)		-0.101	-0.095								
		(4.74)***	(3.73)***								
AE* Soverign Credit Rating (high=worse)			0.045								
			(0.29)								
FIN* Soverign Credit Rating (high=worse)			-0.035								
			(0.70)								
AE*FIN* Soverign Credit Rating (high=worse)			0.043								
			(0.20)								
Financial Openness 2006				-0.002	0.113						
				(0.04)	(0.77)						
AE*Financial Openness 2006					-0.252						
					(1.46)						
FIN*Financial Openness 2006					-0.013						
					(0.06)						
AE*FIN*Financial Openness 2006					0.212						
					(0.84)						
Claims on U.S./GDP 2006						-0.022	-0.220				
						(0.66)	(0.20)				
AE*Claims on U.S./ GDP 2006							0.192				
							(0.18)				
FIN*Claims on U.S./GDP 2006							1.503				
							(0.87)				
AE*FIN*Claims on U.S./GDP 2006							-1.492				
							(0.86)				
Exports/GDP 2006								0.003	0.004		
								(1.71)*	(1.70)*		
AE*Exports/GDP 2006									-0.009		
									(1.56)		
FIN*Exports/GDP 2006									0.000		
									(0.04)		
AE*FIN*Exports/GDP 2006									0.004		
									(0.54)		
U.S.$ Liabilities/Bank Assets June2007										-0.033	0.011
										(0.28)	(0.06)
AE*U.S.$ Liabilities/Bank Assets June2007											0.227
											(0.32)
FIN*U.S.$ Liabilities/Bank Assets June2007											-0.090
											(0.37)
AE*FIN*U.S.$ Liabilities/Bank Assets June2007											-0.468
											(0.46)
Constant	2.288	3.243	3.184	2.344	2.298	2.285	2.305	2.216	2.134	2.356	2.345
	(22.52)***	(14.98)***	(12.76)***	(19.59)***	(17.52)***	(16.48)***	(12.98)***	(15.01)***	(11.67)***	(18.36)***	(17.55)***
Observations	125	109	109	105	105	88	88	109	109	99	99
R-squared	0.07	0.25	0.25	0.09	0.12	0.10	0.11	0.10	0.13	0.08	0.08
R-squared adjusted	0.05	0.22	0.20	0.05	0.06	0.05	0.03	0.07	0.07	0.04	0.01

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 4

Cross-Section Regression: Equity Returns from June 2007

	September 2007		June 2008		December 2008	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Capital/Asset Ratio 2006	-7.116	(2.94)***	-10.092	(5.12)***		
AE* Capital/Asset Ratio 2006	9.928	(3.92)***	8.327	(3.26)***		
FIN* Capital/Asset Ratio 2006						
AE*FIN* Capital/Asset Ratio 2006						
NPL Ratio 2006	-3.888	(3.59)***			-1.444	(1.75)*
AE* NPL Ratio 2006	3.537	(1.79)*			1.252	(0.71)
FIN* NPL Ratio 2006	1.896	(1.54)				
AE*FIN* NPL Ratio 2006	-2.866	(1.07)				
Return on Assets 2006	12.067	(2.26)**	34.128	(6.96)***		
AE* Return on Assets 2006						
FIN* Return on Assets 2006						
AE*FIN* Return on Assets 2006	-23.642	(2.11)**				
Credit Growth/GDP 2003 to 2006	8.375	(0.16)				
AE*Credit Growth/GDP 2003 to 2006	-24.295	(0.46)				
FIN*Credit Growth/GDP 2003 to 2006	-162.234	(2.41)**				
AE*FIN*Credit Growth/GDP 2003 to 2006	162.023	(2.41)**				
CurrentAccount Balance/GDP 2006			323.950	(3.85)***	59.996	(2.13)**
AE* CurrentAccount Balance/GDP 2006			-227.215	(2.49)**	-38.655	(0.95)
FIN* CurrentAccount Balance/GDP 2006						
AE*FIN* CurrentAccount Balance/GDP 2006						
Fiscal Balance/GDP 2006	37.176	(0.87)	226.364	(2.44)**		
AE* Fiscal Balance/GDP 2006			-337.624	(2.61)**		
FIN* Fiscal Balance/GDP 2006	246.664	(3.57)***				
AE*FIN* Fiscal Balance/GDP 2006						
Reserves/External ShortTerm Debt 2006	6.718	(3.74)***	4.315	(1.41)		
AE* Reserves/External ShortTerm Debt 2006	-7.174	(2.34)**	-4.196	(0.69)		
FIN*Reserves/External ShortTerm Debt 2006	-7.885	(3.42)***				
AE*FIN* Reserves/External ShortTerm Debt 2006						
Soverign Credit Rating (high=worse)	7.316	(4.49)***				
AE* Soverign Credit Rating (high=worse)	-9.181	(3.20)***				
FIN* Soverign Credit Rating (high=worse)	-7.777	(3.43)***				
AE*FIN* Soverign Credit Rating (high=worse)	8.536	(2.09)**				
Financial Openness 2006	-135.222	(2.72)**				
AE*Financial Openness 2006	134.016	(2.69)**				
FIN*Financial Openness 2006	299.603	(3.58)***				
AE*FIN*Financial Openness 2006	-300.770	(3.58)***				
Claims on U.S./GDP 2006	0.031	(0.04)	-170.025	(3.04)***		
AE*Claims on U.S./ GDP 2006			172.082	(3.07)***		
FIN*Claims on U.S./GDP 2006	-290.446	(3.71)***				
AE*FIN*Claims on U.S./GDP 2006	292.061	(3.72)***				
Exports/GDP 2006	0.836	(3.62)***	0.349	(2.45)**		
AE*Exports/GDP 2006	-0.777	(3.17)***	-0.620	(2.86)***		
FIN*Exports/GDP 2006	-1.453	(3.36)***				
AE*FIN*Exports/GDP 2006	1.287	(3.04)***				
U.S.$ Liabilities/Bank Assets June2007	-65.130	(2.83)***	-227.064	(4.31)***	-43.404	(2.07)**
AE*U.S.$ Liabilities/Bank Assets June2007	62.333	(2.66)**	229.927	(4.34)***	48.977	(2.16)**
FIN*U.S.$ Liabilities/Bank Assets June2007						
AE*FIN*U.S.$ Liabilities/Bank Assets June2007						
Change in IP Growth	-156.957	(3.02)***	-89.657	(4.25)***	-33.157	(3.41)***
AE*Change in IP Growth	311.598	(3.91)***	136.107	(1.81)*		
FIN*Change in IP Growth	455.292	(3.71)***				
AE*FIN*Change in IP Growth	-487.076	(3.32)***				
Dummies						
AE	9.539	(0.62)	-53.283	(1.96)*	-8.670	(1.27)
FIN	119.534	(3.43)***	-22.018	(4.66)***	-9.285	(2.26)**
AE*FIN	-100.767	(3.15)***	0.444	(0.07)	-7.810	(1.33)
Constant	-22.626	(1.90)*	43.197	(1.85)*	-40.441	(7.49)***
Observations	68		72		82	
R-squared	0.90		0.72		0.40	
R-squared adjusted	0.74		0.60		0.32	

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 5

Cross-Section Regression: Change log CDS Spreads from June 2007

	September 2007		June 2008		December 2008	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Capital/Asset Ratio 2006	0.046	(2.52)**				
AE* Capital/Asset Ratio 2006						
FIN* Capital/Asset Ratio 2006	-0.083	(2.61)**				
AE*FIN* Capital/Asset Ratio 2006						
NPL Ratio 2006						
AE* NPL Ratio 2006						
FIN* NPL Ratio 2006						
AE*FIN* NPL Ratio 2006						
Return on Assets 2006						
AE* Return on Assets 2006						
FIN* Return on Assets 2006						
AE*FIN* Return on Assets 2006						
Credit Growth/GDP 2003 to 2006			0.229	(0.41)		
AE*Credit Growth/GDP 2003 to 2006			0.507	(0.90)		
FIN*Credit Growth/GDP 2003 to 2006			-1.754	(1.88)*		
AE*FIN*Credit Growth/GDP 2003 to 2006			1.743	(1.84)*		
CurrentAccount Balance/GDP 2006	-4.024	(5.89)***	-2.612	(2.95)***	-3.560	(3.89)***
AE* CurrentAccount Balance/GDP 2006	2.571	(2.87)***			2.995	(2.09)**
FIN* CurrentAccount Balance/GDP 2006	6.871	(4.39)***	2.860	(2.36)**		
AE*FIN* CurrentAccount Balance/GDP 2006	-6.851	(3.94)***				
Fiscal Balance/GDP 2006	2.024	(1.78)*				
AE* Fiscal Balance/GDP 2006	-1.186	(0.76)				
FIN* Fiscal Balance/GDP 2006	-1.602	(0.63)				
AE*FIN* Fiscal Balance/GDP 2006	0.449	(0.15)				
Reserves/External ShortTerm Debt 2006	0.057	(1.79)*				
AE* Reserves/External ShortTerm Debt 2006						
FIN*Reserves/External ShortTerm Debt 2006	-0.122	(1.89)*				
AE*FIN* Reserves/External ShortTerm Debt 2006						
Soverign Credit Rating (high=worse)	-0.036	(2.44)**	-0.099	(5.97)***	-0.109	(5.05)***
AE* Soverign Credit Rating (high=worse)						
FIN* Soverign Credit Rating (high=worse)						
AE*FIN* Soverign Credit Rating (high=worse)						
Financial Openness 2006						
AE*Financial Openness 2006						
FIN*Financial Openness 2006						
AE*FIN*Financial Openness 2006						
Claims on U.S./GDP 2006	0.199	(0.39)				
AE*Claims on U.S./ GDP 2006	-0.268	(0.52)				
FIN*Claims on U.S./GDP 2006	1.576	(1.79)*				
AE*FIN*Claims on U.S./GDP 2006	-1.550	(1.76)*				
Exports/GDP 2006	-0.003	(1.94)*				
AE*Exports/GDP 2006	0.009	(3.33)***				
FIN*Exports/GDP 2006						
AE*FIN*Exports/GDP 2006						
U.S.$ Liabilities/Bank Assets June2007						
AE*U.S.$ Liabilities/Bank Assets June2007						
FIN*U.S.$ Liabilities/Bank Assets June2007						
AE*FIN*U.S.$ Liabilities/Bank Assets June2007						
Change in IP Growth					0.628	(1.22)
AE*Change in IP Growth					-1.577	(1.05)
FIN*Change in IP Growth						
AE*FIN*Change in IP Growth					3.894	(1.76)*
Dummies						
AE	-0.288	(1.33)	-0.998	(5.00)***	-1.515	(5.29)***
FIN	1.117	(2.90)***	0.009	(0.06)	-0.341	(1.22)
AE*FIN	0.058	(0.22)	1.011	(4.34)***	1.386	(3.48)***
Constant	0.164	(0.64)	2.129	(12.00)***	3.472	(14.92)***
Observations	83		104		90	
R-squared	0.81		0.64		0.46	
R-squared adjusted	0.73		0.60		0.39	

Absolute value of t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 6

Month to Month Percent Change in Equity

	(1)	(2)	(3)	(4)	(5)
LIBOR-OIS Spread	-0.037		-0.037	-0.034	-0.034
	(9.50)***		(9.52)***	(4.71)***	(4.39)***
AE		-0.273	-0.273	-0.257	-0.095
		(0.40)	(0.41)	(0.38)	(0.14)
FIN		-0.850	-0.850	-0.848	-1.034
		(1.33)	(1.36)	(1.35)	(1.54)
AE*FIN		-1.181	-1.181	-1.207	-1.022
		(1.21)	(1.24)	(1.27)	(1.04)
AE*LIBOIS				-0.016	-0.016
				(1.47)	(1.44)
FIN*LIBOIS				-0.002	-0.0002
				(0.22)	(0.02)
AE*FIN*LIBOIS				0.025	0.023
				(1.62)	(1.42)
Financial Openness 2006					-0.310
					(1.85)*
Constant	-3.359	-2.600	-2.562	-2.564	-2.413
	(14.19)***	(5.73)***	(5.79)***	(5.79)***	(5.05)***
Observations	1836	1836	1836	1836	1692
R-squared	0.05	0.01	0.05	0.06	0.06
R-squared adjusted	0.05	0.01	0.05	0.05	0.05

Table 7

Month-to-Month Change in LOG(CDS)

	(1)	(2)	(3)	(4)	(5)
LIBOR-OIS Spread	0.001		0.001	0.001	0.001
	(8.10)***		(8.11)***	(4.92)***	(3.75)***
AE		-0.029	-0.029	-0.029	-0.080
		(1.59)	(1.62)	(1.59)	(3.33)***
FIN		0.004	0.004	0.003	-0.005
		(0.24)	(0.20)	(0.16)	(0.24)
AE*FIN		0.042	0.043	0.043	0.050
		(1.48)	(1.53)	(1.52)	(1.73)*
AE*LIBOIS				-0.001	-0.001
				(1.88)*	(3.17)***
FIN*LIBOIS				0.0003	0.001
				(1.48)	(0.63)
AE*FIN*LIBOIS				0.0010	0.001
				(4.92)***	(3.75)***
Credit Growth/GDP 2003 to 2006					0.058
					(2.41)**
Soverign Credit Rating (high=worse)					-0.006
					(2.97)***
LIBOIS*Credit Growth/GDP 2003 to 2006					0.001
					(3.75)***
LIBOIS*Soverign Credit Rating (high=worse)					-0.0001
					(1.92)*
Constant	0.132	0.135	0.134	0.1340	0.184
	(20.10)***	(13.34)***	(13.46)***	(13.50)***	(8.24)***
Observations	2062	2062	2062	2062	1936
R-squared	0.03	0.00	0.03	0.04	0.05
R-squared adjusted	0.03	0.00	0.03	0.04	0.05