

Drivers of business cycles and sovereign default in emerging economies: terms of trade, U.S. monetary policy, country risk premium and exchange rate policy*

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Abstract

The main characteristics of the business cycles of emerging economies are excessive volatility in consumption, countercyclical current account balance, countercyclical interest rate, and frequent default at equilibrium. Many studies of small open RBC and SVAR emphasize the importance of U.S. monetary policy and terms of trade, while most of the sovereign default models have only productivity shocks, and left quantitative effects of these factors for future challenges.

In this paper, we quantitatively evaluate contributions of terms of trade shocks, world interest rate shocks and domestic productivity shocks, in the sovereign default models.

JEL classification: E32, E62, F41, F44

Keywords: Sovereign default, Business cycles, Particle filter, Sequential Monte Carlo, Full nonlinear DSGE

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