1) Title: Covid 19: a new challenge for the European Monetary Union

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3) Abstract: While the pandemic was an exogenous shock leading to increasing sovereign debt across the board, the dynamics of sovereign risk premiums has been heterogeneous in the Euro Area (EA). We estimate the determinants of sovereign bond spreads in the EA during the pandemic from January 2 2020 to May 26 2020. We find that resiliency to COVID shock depended on initial fiscal situation, robustness of the banking sector and healthcare capacity. Policy announcements by the ECB and the European executive bodies have been associated with narrowing down the spreads, with differentiated contribution to largely indebted countries. However, while securities purchases by the ECB have unambiguously been associated with lower spreads, the financial assistance package put together by the European Council have contributed to larger spreads, specifically those based on loans.

4) Data description: We create a balanced data panel including sanitary, financial and macroeconomic variables for 13 EA members and we construct original variables to capture the different common policy announcements and the monetary and financial assistance packages. Data Visualization.

5) JEL codes: F30, F45, H63

6) Key words: Sovereign risk; European Monetary Union; Covid; Event study

8) Links to the paper :
Personal website, CEPR DP 14848