The interest rate at which countries borrow can be more volatile sometimes and as a result paying back debt becomes more burdensome. Like a stormy day at sea, the more volatile the interest rate, the more uncertainty an economy faces and the poorer its future performance is likely to be.
Explanation & Global Importance

What?

- Create a new dataset of 27 countries representing euro area and emerging country sovereign bonds.
- Use recent high-performance computing and other theoretical and quantitative developments to analyse volatility.

Global Importance?

- Global aspect: spillovers from countries like Russian oil crisis, East Asian meltdown and European sovereign debt crisis – 12 euro area economies and 15 emerging markets around the world.
- Contributes to quantitative and empirical international financial macroeconomics and non-linear new macroeconometrics.
- Volatility management – only recently been able to quantify.
Expected Outcome

• Volatility changes over time and matters – significant and sizeable, though different across countries.

• Ireland: somewhat volatile, but better run than other countries.

• Argentina and Greece – very volatile!

• Even if interest rates constant, pick up extra uncertainty, which is shown to precede economic downturns by longer than previously thought (one year), reduce output, investment, consumption, net exports, debt... but eventually we recover!

• Some results for Argentina.