

Liquidity and Credit Risk in the Emerging Financial Markets

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Summary: In this paper, we examine the relationship between liquidity, liquidity risk and credit risk involved in emerging sovereign bonds after the subprime crisis period. In our study, we concentrate on the effect of liquidity and credit risk on liquidity in the emerging bond markets. Control variables, asymmetric information, amount outstanding, coupon, age and interest rate can provide assistance for a better understanding of this relationship. To explain the role of liquidity and credit risk in liquidity, we use panel data extracted from Datastream. Our results show that liquidity risk has a stronger impact on the liquidity of the bond market than credit risk.

Keywords: liquidity, credit risk, liquidity risk, emerging bond markets

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