Sovereign credit risk and economic risk in Turkey: Empirical evidence from a wavelet coherence approach

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Abstrak

This study aims to shed light on the co-movement of sovereign credit risk and economic risk in Turkey using the Toda–Yamamoto causality, Gradual Shift causality, and Wavelet Coherence tests. The study answers the following questions, which, to the best of our knowledge, have not been investigated in the literature: (i) Is there any causal linkage between sovereign credit risk and economic risk?; and (ii) If yes, why? Our findings reveal that (i) economic risk caused sovereign credit risk in 1997 and 2002; and (ii) between 2001 and 2012, sovereign credit risk caused economic risk at different scales. The Toda–Yamamoto causality and Gradual Shift causality tests confirm that, in Turkey, changes in sovereign credit risk significantly lead to changes in economic risk, indicating the importance of sovereign credit risk for predicting economic risk.