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The Study of Bond Spreads and Credit Ratings in Honduras

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ABSTRACT: This research rigorously examines the intricate influences on Honduras' cost of borrowing from 2013 to 2022. The study employs the Corruption Perceptions Index (CPI) and Standard and Poor's as main determinants. Control variables include macroeconomic fundamentals that pertain to a country's performance such as GDP growth, inflation and international reserves, fiscal variables such as debt-to-GDP ratio, and the central administration's balance, and global factors such as global risk aversion measured by the Chicago Board Options Exchange's CBOE Volatility Index (VIX) and U.S rates.

The study finds that country-specific fundamentals, global factors, corruption perceptions, sovereign credit ratings, and political risk all play significant roles in influencing Honduras' cost of borrowing. It also exposes the limitations of credit ratings in capturing the truth about bond pricing in Honduras. These findings highlight the complex interplay of economic, global, and sociopolitical factors in shaping Honduras' bond spreads, emphasizing the need for a comprehensive approach to credit risk assessment and bond market analysis. The results from this research contribute to economic stability strategies for policymakers, enhance understanding for economists, and assists investors and financial analysts in making informed decisions based on identified variables impacting bond spreads.

KEYWORDS: Sovereign Bond Spreads, Corruption Perception, Political risk, Credit Ratings, and Honduras

1. INTRODUCTION

Honduras, a Central American nation with around 10 million people, operates using the Honduran Lempira (HNL) and has an economy mainly sustained by agriculture manufacturing, and service sectors. Despite sporadic growth, Honduras faces challenges such as poverty, crime, and political instability. Fiscal policies have been implemented to enhance infrastructure, attract foreign investment, and address income inequality. Notable was the Fiscal Responsibility Law of 2016, focusing on fiscal deficit reduction and responsible spending. Inflation management by the Central Bank has involved setting targets and adjusting policy rates, crucial during global disruptions like the COVID-19 pandemic. Net International Reserves fluctuated but generally bolstered economic stability, although government debt increased, posing fiscal sustainability concerns.

The country embarked on its international financial journey in 2013 with the issuance of two sovereign bonds. The First Global Bond, valued at $500 million, featured a 10-year maturity period and a coupon rate of 7.50%, strategically placed in the first quarter of the year. The second bond, also $500 million, had a 7-year term and an 8.75% coupon rate, contributing significantly to Honduras' fiscal strategy. These issuances were part of a broader fiscal plan to address financial challenges and reduce reliance on the domestic market. Despite initial challenges and legal uncertainties, Honduras successfully navigated the international financial landscape, showcasing its fiscal discipline and attracting investor confidence. Subsequent bond issuances in 2017 and 2020 further reflected Honduras' ongoing efforts to manage financial difficulties and promote economic stability. Honduras' credit ratings have played a significant role in shaping its financial landscape. Agencies such as Moody's and Standard & Poor's initially rated the country with negative outlooks to its non-investment grade rating, indicating a high credit risk and reflecting concerns about fiscal conditions and economic challenges. However, over time, as Honduras implemented fiscal reforms and showcased improved fiscal discipline, its credit ratings evolved positively. (Moody's, 2013; Moody's, 2016; Secretaría de Finanzas (SEFIN), 2013).

The intricate financial and political landscape surrounding Honduras' 2016 and consequent 2020 sovereign bond issuance, particularly aimed at addressing the ongoing financial crisis of the state electricity company, ENEE, add a layer complexity to the study's motivation. These strategic bond issuances, authorized by the National Congress of Honduras, sought to mitigate ENEE's debt burden and financial challenges. However, despite these efforts, ongoing losses at ENEE raised questions about the effectiveness of these interventions and the sustainability of the country's finances. The purpose of this study is to examine the link between corruption, political risk, sovereign credit ratings, and bond spreads in Honduras during the volatile 2017 elections. Its

objectives include analyzing how economic and global factors affect bond spreads, assessing the influence of sovereign ratings on borrowing costs, and investigating correlations between corruption perceptions, political risk, and bond spreads.

2. LITERARY REVIEW

2.1 Country-specific Fundamentals as Determinants of Sovereign Bond Spreads

In recent times, academic literature has witnessed a significant expansion in the exploration of factors influencing sovereign bond yields and spreads, with a particular focus on emerging markets. A substantial portion of this research has been dedicated to investigating the impact of country-specific fiscal and economic fundamentals, as well as global factors and external shocks on the actual spread of sovereign bonds, utilizing a variety of rigorous analytical techniques.

Sebastian Edwards conducts one of the early investigations on the pricing of developing countries' foreign debt. Edwards proposes that a country's decision to default on its debt is contingent on the debt level and the cost associated with repudiation. He also identifies several economic variables influencing default probability, including the debt-output ratio, debt service-to-exports ratio, reserves as percentage of GNP, loan duration, loan volume, propensity to invest, current account-to-GNP ratio, average propensity to import, and growth of per capita GDP. Furthermore, his analysis reveals that the spread between the interest rate charged to a country and the London Interbank Borrowing Rate (LIBOR) was influenced prominently by the reserves-to-GNP ratio, debt as a percentage GDP ratio, debt-service ratios, and propensity to invest (Edwards, 1983). In 1986, the focus of the research shifted toward the bond market. He finds that the debt-to-GNP ratio had a positive impact on bond spreads, whereas an increase in gross investment to GNP, debt service to exports, and maturity led to reduced sovereign bond spreads (Edwards, 1986).

Akitoby and Stratmann (2008) examine fiscal policy's impact on sovereign risk spreads in emerging markets, analyzing the effects of adjustment size, composition, and funding type on bond spreads. Their findings show that government revenue and current expenditure directly reduce sovereign spreads. They also highlight the importance of adjustment size, with markets favoring revenue-based adjustments over debt-financed ones.

2.2 Global Factors as Determinants of Sovereign Bond Spreads

Various scholars argue that while both global factors and country-specific fundamentals matter in the long term, global influences have a stronger impact in the short term. Countries with strong fundamentals are less affected by global risk aversion, and spread changes correspond to market cycles. A lower VIX indicates lower market volatility and risk, signaling positive investor sentiment and lower spreads, reflecting a favorable lending environment during stable financial conditions (Özmen & Yaşar, 2016).

González-Rozada and Yeyati (2008) augment the existing literature on sovereign bond spread determinants by introducing a novel global factor, namely risk appetite, which is indicated by high-yield spreads in developed markets. Their study discerns that alterations in emerging market spreads are markedly influenced by this variable in both the short and long term. Furthermore, in contrast to Csonto and Ivaschenko (2013), international liquidity, represented by the 10-year constant maturity yield of US Treasury notes, has been said to have a notable impact on the long-term trends of emerging market spreads. Overall, the examined studies collectively underscore complex global factors influencing emerging market spreads. While some studies boast about the impact of United States rates as a proxy for U.S. monetary policy and international liquidity, some studies find their impact to be less significant. Market volatility or risk aversion, represented by the VIX index proves to be a fundamental global factor influencing spreads throughout literature.

2.3 Corruption and Sovereign Bond Spreads

In recent literature, two studies stand out as the sole contributions to research regarding the connection between corruption perception and sovereign bond spreads. Ciocchini et al. (2003) take akin to Eichengreen and Mody by employing the same control variables and considering the sovereign bond spreads at the time of launch (in logs) to analyze the relationship between corruption and bond spreads. They employ the Corruption Perceptions Index (CPI) score by Transparency International, as a measure for the level of corruption, while considering essential quantitative factors such as bond attributes and characteristics of the issuer. The study's results indicate that both private and government lenders in countries with higher levels of corruption are required to pay a greater risk premium when they issue bonds compared to lenders in countries with lower levels of corruption. In contrast, Vuoristo (2017) makes use of the difference between monthly averages of 10-year bond yields and the Euribor rate (to create a spread) for 27 countries in the European Union (EU) from 1995 to 2016, to observe the relationship between corruption levels and the cost of borrowing considering the context of rising national debts and increased interest rate disparities due to the European sovereign debt crisis. The study boasts a significant correlation between countries' Corruption Perception Index (CPI) and sovereign bond yields across various regression scenarios.

2.4 Credit Ratings, Political Risk and Sovereign Bond Spreads

Cantor and Packer (1996) identify key economic indicators influencing ratings, which in turn correlate strongly with bond spreads, demonstrating the ratings' predictive power. Contrarily, Amadou (2001) confirms a negative relationship between ratings and spreads, with ratings' influence growing over time. Jaramillo and Tejada (2011) and Özmen and Yaşar (2016) focus on investment grade status, showing its significant impact on reducing borrowing costs. Özmen and Yaşar also highlight the influence

of global financial conditions on spreads, particularly during periods of stress. Ramos (2014) extends these insights to Honduras, emphasizing the importance of macroeconomic fundamentals in sovereign rating improvements and their effect on investment premiums**.**

Political risk refers to the potential negative impact on investments or operations due to political factors or events. These factors may include government policies, political instability, regulatory changes, geopolitical conflicts, and other uncertainties stemming from the political environment. The concept of political risk is typically considered a constituent of country risk, which as defined by Hoti and McAleer (2004), encompasses the nation's capacity and willingness to fulfill its financial obligations.

Baldacci et al. (2011) assess the factors influencing country risk premiums, measured through sovereign bond spreads, with a focus on political and fiscal factors. Their findings suggest that during times of financial stress and market turbulence, political factors have a diminished impact on credit spreads. However, these political factors become more critical in countries characterized by weak fiscal discipline. Bellas et al. (2010) emphasizes political risk's long-term impact on bond spreads, highlighting its importance in financial markets. Overall, understanding political risk is crucial for assessing creditworthiness and making investment decisions in sovereign bond markets.

3. RESEARCH RESULTS

Linear regression analyses assess how credit scores from reputable agencies correlate with Honduras' average monthly sovereign spread. The goal is to understand how much these scores explain spread variability compared to macroeconomic variables alone. This comparison tests whether Cantor and Packer's idea, suggesting that sovereign ratings strongly correlate with market-determined credit spreads due to encapsulating macroeconomic information, applies to Honduras.

Table 1. Standard and Poor's and Average Monthly Spread Regression Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0 1	.693[a]	.480	.475	108.0729941

a. Predictors: (Constant), Standard and Poor's credit rating

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1239809.949	1	1239809.949	106.150	.000[a]
	Residual	1343173.786	115	11679.772		
	Total	2582983.735	116			

a. Predictors: (Constant), Standard and Poor's credit rating

b. Dependent Variable: Average monthly spread

Source: From this research

Table 2. Standard and Poor's and Average Monthly Spread Regression Model Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1135.349	150.789		-7.529	.000
	Standard and Poor's credit rating	113.376	11.004	.693	10.303	.000

a. Dependent Variable: Average monthly spread

Source: From this research

The model summary in Table 1 and 2 reveal that 47.5% of the variation in the average monthly spread of Honduras' bonds can be explained by changes in the credit rating, which is statistically significant based on ANOVA testing. This suggests that higher credit ratings are associated with higher bond spreads.

Table 3. Moody's and Average Monthly Spread Regression Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0 1	.512[a]	.262	.256	128.7137971

a. Predictors: (Constant), Moody's credit rating

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	677750.956	1	677750.956	40.909	.000[a]
	Residual	1905232.779	115	16567.242		
	Total	2582983.735	116			

a. Predictors: (Constant), Moody's credit rating

b. Dependent Variable: Average monthly spread

Source: From this research

Table 2. Moody's and Average Monthly Spread Regression Model Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-766.237	185.035		-4.141	.000
	Moody's credit rating	80.827	12.637	.512	6.396	.000

a. Dependent Variable: Average monthly spread

Source: From this research

A linear regression test is performed to gauge the predictive value of Moody's credit ratings on the Honduras' sovereign bond spreads. The model summary in Table 3 and 4 reveal that 25.6% of the variation in the average monthly spread of Honduras' bonds can be explained by changes in the credit rating, which is statistically significant based on ANOVA testing. Based on these results, it can be concluded that the methodology used by Standard and Poor's appears to more closely predict changes in the bond spread for Honduras compared to Moody's.

On the other hand, regression models are used to create a predictive model for Honduras' sovereign bond spread, considering socio-political variables like corruption perception and political risk alongside country-specific fundamentals and global factors. The aim is to understand the factors influencing the spread dynamics comprehensively. To improve regression reliability, a Breusch-Pagan test for Heteroscedasticity is conducted, followed by Weighted Least Squares regression (WLS) with inverse variance to address varying uncertainty levels in data points, enhancing the model's robustness against heteroskedasticity.

Table 5. Heteroscedasticity Test for CPI Model

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.888E9	7	6.983E8	4.590	.000[a]
	Residual	1.658E10	109	1.521E8		
	Total	2.147E10	116			

a. Predictors: (Constant), CPI (Corruption Perception Index), 10-year treasury bond, Monthly Inflation variation, Chicago Board Options Exchange Volatility Index, Monthly Index of Economic Activity, Total debt / GDP, International reserves in months of imports

b. Dependent Variable: sregressionCPI

Source: From this research

A p-value below 0.05 indicates the presence of heteroscedasticity in the initial regression model. Subsequent models were also examined for heteroscedasticity, all yielding p-values below 0.05, prompting the use of WLS regression in subsequent analyses.

A regression technique was employed to identify the optimal model for predicting Honduras' sovereign bond spread behavior built around the Corruption Perception Index. Stepwise regression involves an iterative process of gradually constructing

a regression model, where independent variables are selected in steps to build the final model. While not all variables in the model exhibit a significant level of p-value 0.000, it's important to note that the variable measuring inflation variation, with a significance level of 0.049, still falls within the commonly accepted threshold of 0.05.

Table 6. Stepwise Regression for CPI Model

Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
						R Square Change	F Change	df1	df2	Sig. F Change
dimension0	1	.593[a]	.352	.346	16.6129558	.352	62.405	1	115	.000
	2	.678[b]	.460	.450	15.2324085	.108	22.790	1	114	.000
	3	.810[c]	.656	.647	12.2105704	.196	64.407	1	113	.000
	4	.859[d]	.739	.729	10.6902563	.083	35.426	1	112	.000
	5	.889[e]	.791	.781	9.6075299	.052	27.666	1	111	.000
	6	.893[f]	.798	.787	9.4822946	.007	3.951	1	110	.049

a. Predictors: (Constant), Monthly Index of Economic Activity

b. Predictors: (Constant), Monthly Index of Economic Activity, CPI (Corruption Perception Index)

c. Predictors: (Constant), Monthly Index of Economic Activity, CPI (Corruption Perception Index), 10 year treasury bond

d. Predictors: (Constant), Monthly Index of Economic Activity, CPI (Corruption Perception Index), 10 year treasury bond, Chicago Board Options Exchange Volatility Index

e. Predictors: (Constant), Monthly Index of Economic Activity, CPI (Corruption Perception Index), 10 year treasury bond, Chicago Board Options Exchange Volatility Index, International Reserves in Months of imports

f. Predictors: (Constant), Monthly Index of Economic Activity, CPI (Corruption Perception Index), 10 year treasury bond, Chicago Board Options Exchange Volatility Index, International Reserves in Months of imports, Monthly Inflation variation

Source: From this research

Table 7. CPI Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2115.640	117.776		17.963	.000
	Monthly Index of Economic Activity	-4.036	.235	-.960	-17.196	.000
	10 year treasury bond	70.633	14.114	.404	5.004	.000
	Chicago Board Options Exchange Volatility Index	5.952	.716	.445	8.318	.000
	Monthly Inflation variation	37.256	18.742	.105	1.988	.049
	CPI (Corruption Perception Index)	-31.829	2.526	-.879	-12.603	.000
	International Reserves in Months of imports	-39.856	7.007	-.520	-5.688	.000

From Table 6 and 7, the model with the highest R squared was selected, which included the variables Monthly Index of Economic Activity, CPI (Corruption Perception Index), 10-year treasury bond, Chicago Board Options Exchange Volatility Index, International Reserves in Months of imports and monthly inflation variation. The resulting R-square value of 0.787 indicates that approximately 78.70% of the variability in the average monthly spread of Honduras' sovereign bonds can be accounted for by the variables included in the model. Furthermore, performing an analysis of variance (ANOVA) yielded a p-value of 0.000, which is lower than the conventional significance threshold of 0.05. This signifies that the results obtained from the model are statistically significant, indicating that the variables in the model collectively have a significant impact on explaining the variation in the average monthly spread of Honduras. The variable with relatively stronger impact on the sovereign bond spreads, as measured through its beta/unstandardized coefficient shown on Table 6 is the 10-year Treasury bond, which is used as a proxy for US rates. Other

variables that highly impact the spreads with coefficients between 30 to 40 are the monthly inflation variation, the Corruption Perception Index and International Reserves as measured in months of imports.

On the other hand, from Table 8 and 9, a weighted least squares (WLS) regression analysis was conducted using the Standard and Poor's credit rating against the variables representing country-specific fundamentals, resulting in an adjusted R-square value of 0.758. This indicates that approximately 75.80% of the variability in the credit rating can be accounted for by the variables included in the model. Furthermore, performing an analysis of variance (ANOVA) yielded a p-value of 0.000, which is lower than the conventional significance threshold of 0.05. This signifies that the results obtained from the model are statistically significant, indicating that Inflation, International Reserves in Months of imports, Monthly Index of Economic Activity collectively have a significant impact on explaining the variation in the average monthly spread of Honduras. As detailed in the coefficients shown in Table 9, the international reserves in months of exports appear to be the variable with the largest negative influence in the model, which is justified by the fact that international reserves are used as a gauge of financial liquidity, a measure directly linked to a country's creditworthiness.

Table 8. Regression Standard and Poor's

Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.874[a]	.764	.758	.8194

a. Predictors: (Constant), Inflation , International Reserves in Months of imports, Monthly Index of Economic Activity

ANOVA[b,c]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	252.070	3	84.023	125.149	.000[a]
	Residual	77.881	116	.671		
	Total	329.951	119			

a. Predictors: (Constant), Inflation , International Reserves in Months of imports, Monthly Index of Economic Activity

b. Dependent Variable: Standard and Poor's credit rating

c. Weighted Least Squares Regression - Weighted by inversevarianceSP

Source: From this research

Table 9. Standard and Poor's versus Country-specific fundamentals Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
1 (Constant)	18.819	.333		56.473	.000
International Reserves in Months of imports	-.121	.033	-.323	-3.680	.000
Monthly Index of Economic Activity	-.013	.003	-.405	-4.151	.000
Inflation	-.006	.003	-.282	-2.040	.044

Source: From this research

A Multiple Regression Model is conducted to assess the extent to which country specific fundamentals can explain the variability of sovereign credit ratings. This comparison aims to determine whether Cantor and Packer's assertion, which suggests that sovereign ratings encapsulate information from macroeconomic indicators and thus exhibit a strong correlation with market-determined credit spreads, holds true for Honduras. The goal is to ascertain the degree to which these variables account for spread variability and then compare this with the explanatory power of credit scores by S&P.

Table 10. Spread versus Country-Specific Fundamentals Regression Model

Model Summary[b,c]

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.775[a]	.600	.590	10.2509751

a. Predictors: (Constant), Inflation, Monthly Index of Economic Activity, International Reserves in Months of imports

b. Dependent Variable: Average monthly spread

c. Weighted Least Squares Regression - Weighted by inversevariancesqmacro

ANOVA[b,c]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17832.638	3	5944.213	56.567	.000[a]
	Residual	11874.321	113	105.082		
	Total	29706.960	116			

a. Predictors: (Constant), Inflation , Monthly Index of Economic Activity, International Reserves in Months of imports

b. Dependent Variable: Average monthly spread

c. Weighted Least Squares Regression - Weighted by inversevariancesqmacro

Source: From this research

A weighted least squares (WLS) regression analysis was conducted using the variables representing country-specific fundamentals and the sovereign bond spread, resulting in an adjusted R-square value of 0.59. This indicates that approximately 59% of the variability in the credit rating can be accounted for by the variables included in the model. Furthermore, performing an analysis of variance (ANOVA) yielded a p-value of 0.000, which is lower than the conventional significance threshold of 0.05.

Table 11. Spread versus Country-Specific Fundamentals Regression Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	841.546	67.625		12.444	.000
International Reserves in Months of imports	-54.124	7.054	-.926	-7.673	.000
Monthly Index of Economic Activity	-5.648	.458	-1.219	-12.343	.000
Inflation	3.544	.452	1.162	7.835	.000

Source: From this research

When comparing the linear regression analyses of S&P with the sovereign bond spread of Honduras, and the country-specific fundamentals against the Honduran spread, the ratings provided by reputable agencies only account for approximately 47.5% (S&P) of the variation in the dependent variable. This is even though country-specific fundamentals can explain around 75% of S&P ratings respectively. However, considering country-specific fundamentals (excluding total debt-to-GDP due to high collinearity), these factors collectively explain around 59% of the spread. This finding contradicts Cantor and Packer's conclusion, which suggested that ratings provide additional information beyond what is contained in standard macroeconomic country statistics reflected in market yields.

The discrepancy between the predictive power of agency ratings and country-specific fundamentals in explaining sovereign bond spreads, particularly in the context of Honduras, suggests that agency ratings alone may not fully capture the diverse array of factors influencing bond pricing. While S&P ratings focus primarily on evaluating a country's specific economic and financial conditions, they may not explicitly consider broader global factors such as US interest rates. However, the regression models described above such as CPI highlight the strong predictive power of global factors and perceptions of a country's political risk like US interest rates underscore the importance of incorporating these broader macroeconomic dynamics into credit risk assessment frameworks.

5. CONCLUSIONS

The analysis of Honduras' Sovereign Bond Spreads reveals a complex interplay of factors that significantly impact the country's borrowing costs and investor perceptions. Honduras' economic performance, as measured by indicators such as inflation, economic growth, and international reserves, plays a pivotal role in shaping Sovereign Bond Spreads. Strengthening macroeconomic fundamentals such as the monthly economic activity index and national liquidity while keeping inflation at lower levels can lead to lower borrowing costs and enhanced investor confidence. Global factors, including US interest rates and market risk aversion, exert a notable influence on bond spreads, which makes monitoring and analyzing these trends essential for anticipating changes in borrowing costs and investor sentiment.

The perception of governance, doing business and corruption levels, as reflected in indices like the Corruption Perception Index (CPI) and the Political Risk Index, directly impact bond spreads. These results highlight the need for improving governance and transparency within the country, for the sake of improving the cost of borrowing and gaining the trust of the international investor community.

The Study of Bond Spreads and Credit Ratings in Honduras

The linear regression analyses comparing Standard and Poor's (S&P) and Moody's ratings with Honduras' sovereign bond spread, along with the examination of country-specific fundamentals, reveal an interesting discrepancy. While agency ratings account for only a portion of the variation in bond spreads (47.5% for S&P and 25.6% for Moody's), country-specific fundamentals like economic growth, inflation, and international reserves collectively explain a higher percentage (59%) of the spread. This contradicts the belief that agency ratings provide additional insights beyond standard macroeconomic statistics as hypothesized by Cantor and Packer and sides with Thazhugal and Nair's findings.

The opacity of credit ratings in fully depicting the truth about Honduras' bond pricing becomes apparent in this analysis. While agencies focus on economic and financial conditions, they may overlook broader global and sociopolitical factors such as US interest rates and governance and corruption perception which have a significant impact on bond spreads. The regression models, particularly those incorporating global factors and political risk perceptions, demonstrate strong predictive power, highlighting the importance of considering these broader macroeconomic dynamics in credit risk assessment.

Relying solely on agency ratings may not provide a comprehensive understanding of Honduras' borrowing costs and the underlying factors driving bond pricing. Incorporating country-specific fundamentals and broader global economic trends is essential for a more accurate assessment of credit risk and bond market dynamics.

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