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Reply to the referee report

Let me thank the anonymous referee for his/her comments. However, I have some remarks to make in response.

First, the reviewer points out that the paper “basically just checks if there are some Granger causalities between the [CDS] credit spreads in the developing and European countries”. But these are not just developing but major emerging economies on one side and key European economies on the other. As far as I know, this sample composition to examine interrelations in the sovereign CDS market has not been tried before. Such analysis seems especially relevant in light of the European debt crisis. In my opinion, the choice of the BRICS and major European countries as well as the time span constitutes a serious selling point of the paper and makes up for not utilizing “any new modeling techniques or test statistics”.

Second, actually I do not completely share the viewpoint that the paper doesn't contain anything worthwhile from the econometric perspective. The use of Bai–Perron test to validate further CCF application has not been encountered by me in the literature.

Third, the referee is right in asserting that economic fundamentals underlying the uncovered causalities should be discussed. In the qualitative dimension, the main fundamental seems to be a discrepancy in debt levels (public debt/GDP ratios) across the EU and major emerging economies. However, this issue is to be studied separately. In fact, it would imply searching for common determinants of CDS prices for the two groups of economies and this is a different strand of literature with its own preferred estimation techniques not very compatible with simultaneous causality identification (among very recent contributions, see Heinz and Yan Sun (2014)).

Fourth, there is no straightforward conclusion that the emerging economies are decoupled from the major EU countries in the CDS market. I qualify my results as weak and preliminary evidence of decoupling. Therefore, I use milder terms such as “signs of decoupling effects” in the paper.

Fifth, should the editor decide to publish the paper in *Economics*, specific (minor) comments made by the referee will be addressed and incorporated in the revised version.