

Wojciech Grabowski¹

Ewa Stawasz²

DETERMINANTS OF DAILY SOVEREIGN BOND YIELDS IN THE PERIPHERAL EURO AREA COUNTRIES. PRE-CRISIS AND POST-CRISIS ANALYSIS

Abstract

The aim of the paper is to identify determinants of the sovereign bond yields of 4 Southern euro area countries which were most severely hit by the sovereign debt crisis, i.e. Greece, Portugal, Spain and Italy. The sample, which covers the period 2009 Q4 – 2016 Q1, is divided by the date of 26th July 2012, when the announcement of the ECB's Outright Monetary Transactions programme took place, into two subsamples. Parameters of the VEC-VCC-GARCH model (Tse, Tsui, 2002) are estimated and values of the Diebold-Yilmaz Volatility Spillover Index (Diebold, Yilmaz, 2012) are calculated. The results of the estimation show that different factors determined the development of the yields in the countries under consideration in each subperiod. Moreover, the results of the conducted study indicate that the long-term treasury bond yields of the peripheral euro area countries are co-integrated. In particular, the global stability condition (Grabowski, Welfe, 2011) is satisfied for the pair ItalySpain, which may imply that the sovereign bonds of those two countries are treated as close substitutes by investors. Analysing short-term determinants of sovereign bond yields, a significant impact of macroeconomic and political news, as well as of announcements of credit rating agencies, can be noticed. While in the case of Spain, Italy and Portugal, negative news in one country led to deterioration of bond market in the same country, a significant spillover of negative news from Greece to the rest of the markets was observed before the OMT announcement. The analysis of the shocks' transmission mechanism shows that in the first subperiod there was a contagion from Greece to the rest of the analysed countries, whereas in the second subperiod, sovereign bond markets were resistant to negative news and shocks originating in the Greek economy.

JEL Classification: C58, G12

Keywords: sovereign bond yields, VEC-VCC-GARCH, euro area sovereign debt crisis

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¹ University of Lodz, Department of Econometric Models and Forecasts

² University of Lodz, Department of International Economics