Government Bond Yield Spreads in the EMU: The Case of Greece

Tilemahos Efthimiadis  
*Research Fellow, Centre for Planning and Economic Research*

Nikolaos Georgikopoulos  
*Research Fellow, Centre for Planning and Economic Research*

Abstract

The introduction of the European Monetary Union (EMU) was expected to be accompanied with a reduction (if not virtual elimination) in the yield differences (spreads) of EMU country government bonds of similar characteristics. In this paper, we examine the medium term driving factors of the yield differentials between Greek and German long-term government bonds. Our main goal is to distinguish the liquidity factors from the credit risk component regarding these yield differences. Through the use of quarterly data and utilizing two alternative measures of bond spreads, we find that these yield differences are driven by an international risk factor. Furthermore, the credit risk factor, which we proxy via debt-to-GDP ratios is not statistically significant for the yield spreads.

*JEL Classification: G15, G12, E43, E44*

Keywords: yields, government bonds, liquidity, debt, EMU

* Corresponding author. T. Efthimiadis, Centre for Planning and Economic Research, Amerikis 11, Athens, 10672, Greece. Tel: (+30)2103676366, tef@kepe.gr The authors would like to thank P. Tsintzos and T. Sampaniotis for their assistance and constructive criticism. The usual disclaimer applies.