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## **DETERMINANTS OF THE GOVERNMENT BOND YIELD: EVIDENCE FROM A HIGHLY EUROISED SMALL OPEN ECONOMY**

### **Abstract:**

This paper analyses relationship between bond market, macroeconomic fundamentals and a set of additional covariates in Croatia, a small open economy with a very high and persistent level of euroisation. The sample ranges from the year 2001 to 2017. Ordinary least squares regression is applied on quarterly dataset to examine the major drivers of nominal yields of government bonds, whereas Multiple Breakpoint Tests are used to determine structural breaks in the variables. The results corroborate theoretical knowledge and suggest a significant effect of fiscal and financial determinants on bond yields. Variables presenting macroeconomic fundamentals explain a substantial part of Croatian trends. Therefore, policymakers seeking to improve macroeconomic conditions should learn from multi-causal studies involving these variables before setting their policies.

### **Keywords:**

government bonds, macroeconomic fundamentals, Croatia

**JEL Classification:** C32, E44, G12