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TIME-VARYING INTEGRATION IN EUROPEAN POST-TRANSITION SOVEREIGN BOND MARKETS

Abstract:

The aim of this paper is to study time-varying integration between European post-transition government bond markets and eurozone bond market. We follow the empirical approach defined in Bekaert and Harvey (1995) seminal paper, which enables direct estimation of the time-varying degree of financial markets integration. We thus investigate bond markets of eight new member states of EU and one non-EU member (Ukraine). The result of our empirical examination is a time-varying parameter of integration that is driven by a set of macroeconomic instruments defined in order to represent the intensity of real economic integration of analysed countries into the eurozone, and their fiscal stances. Our results suggest integration varies with respect to economic development, as economically more advanced countries demonstrate a higher level of integration in the observed period. Moreover, we observe that integration decreased with the financial crisis, but it levelled off relatively swiftly afterwards. Depending on a country, EU joining either exerted positive boost on sovereign bond integration, or was neutral with regards to integration. We also show that macroeconomic performance relative to the eurozone benchmark and fiscal stance matter greatly for bond market integration in all countries under examination.

Keywords:

European post-transition countries, sovereign securities markets, bond market integration

JEL Classification: F36, G15, E44