

Abstract

This thesis deals with the relationship between yield spreads on the sovereign bonds and their determinants with a primary focus on the Czech Republic. First, a homogeneous panel of Visegrad group countries (V4) was investigated by the pooled mean group (PMG) method of Pesaran et al. (1998). It was found that debt-to-gdp ratio along with VIX, the “fear gauge”, are the main factors driving the spread dynamics in the V4 group. Based on the results from PMG estimation, we estimate a three-dimensional vector autoregression (VAR) model and structural VAR (SVAR) model in order to observe spread reactions on external shocks. Among the V4 group countries, Hungary exhibits the largest spread response to a VIX shock. Overall, the (S)VAR results confirmed that countries with higher levels of yields before crisis had also a stronger reaction to the market disturbances during 2007–2009. Furthermore, it was found that for the period 2010–2013, the standard model (macroeconomic fundamentals plus global risk aversion factors) provided less reliable results. As a remedy, financial soundness indicators were incorporated into the VAR model. We conclude that it is important to take into account country’s financial sector vulnerabilities when describing the spread dynamics since 2010.