DEFICIT, DEBT, BOND YIELD AND EURO-ZONE DEBT CRISES

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ABSTRACT

This paper examines the impact of the indebtedness of Euro-zone countries on their borrowing costs. Using quarterly bond yield and deficit to GDP ratio along with debt to GDP ratio for eleven Euro-zone countries from 1983 to 2012, this paper shows heavy indebtedness of Portugal, Ireland, Italy, Greece and Spain contribute to their excessively high borrowing costs. The regression coefficients of deficit to GDP ratio and debt to GDP ratio are both statistically significant in explaining cost of borrowing for the entire sample period, pre-Euro period from 1983 to 1998 and post-Euro period from 1999 to 2012.

Keywords: *the Euro, Public Deficit and Debt to GDP ratios, Sovereign Borrowing Costs, Financial Crisis*