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Dependence structure between CEEC-3 and German government securities markets

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ABSTRACT

We use copula models to investigate the structural dependence between CEEC-3 (Poland, the Czech Republic, and Hungary) and German bond markets from 2000 to 2012. We evaluate the degree of financial integration and dependence structure changes in government securities markets following European monetary integration and, first, find that integration between CEEC-3 and Germany is greater for the long-term interest rate but decreased during the crisis period. Second, the dependence between the Czech Republic and Poland increased significantly since EU accession before the recent financial crises occurred. Finally, the structural dependence between CEEC-3 and German government securities markets is generally symmetric.

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1. Introduction

In Europe, financial market integration, which occurs when economies become increasingly interdependent, has evolved noticeably through the political, economic, and monetary development driven by the European Union (EU).

This study examines the integration of the government securities markets of three major accession countries, namely Poland, the Czech Republic, and Hungary (CEEC-3 hereafter), all emerging transition

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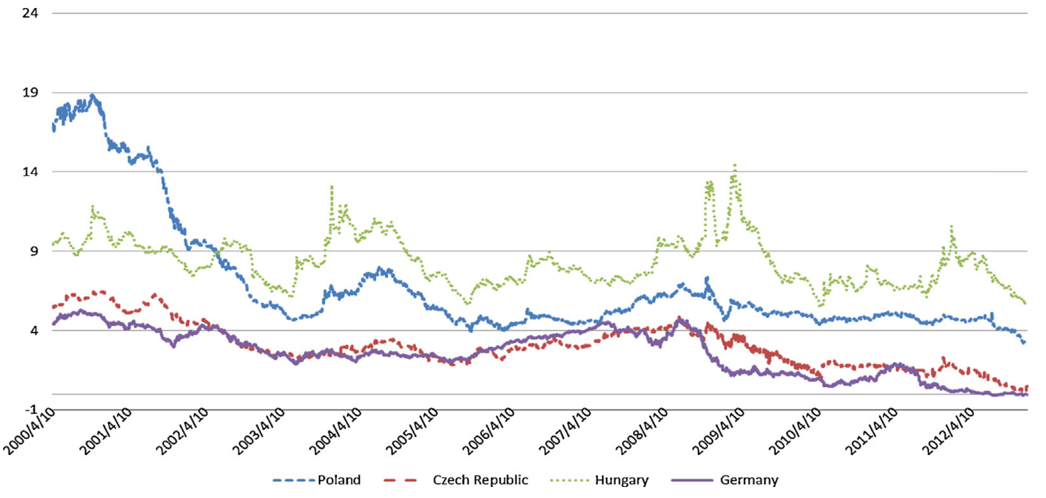

Fig. 1. Time series for short-term bond yields (percentage, vertical axis).

economies that became EU members in 2004 during the organization's largest ever expansion. In addition, we choose Germany to represent the EU, since it is the largest economy in the eurozone and has the most liquid government securities market. Considering data availability, CEEC-3 countries are suitable representatives of new accession members because they have the longest available time series data that can match those of Germany.

In this paper, we divide securities returns into short- and long-term bond yields in order to examine specific issues related to the path of government securities integration from the pre-EU period to the EU period. The transformation of the economic structures of CEEC-3 countries may be more complex than that in other developed European countries because of the nature of their economies and their financial regulations. Therefore, the degree of integration is expected to differ for short- and long-term bond yield curves. Indeed, as shown in Figs. 1 and 2 in the present paper, based on the sample period

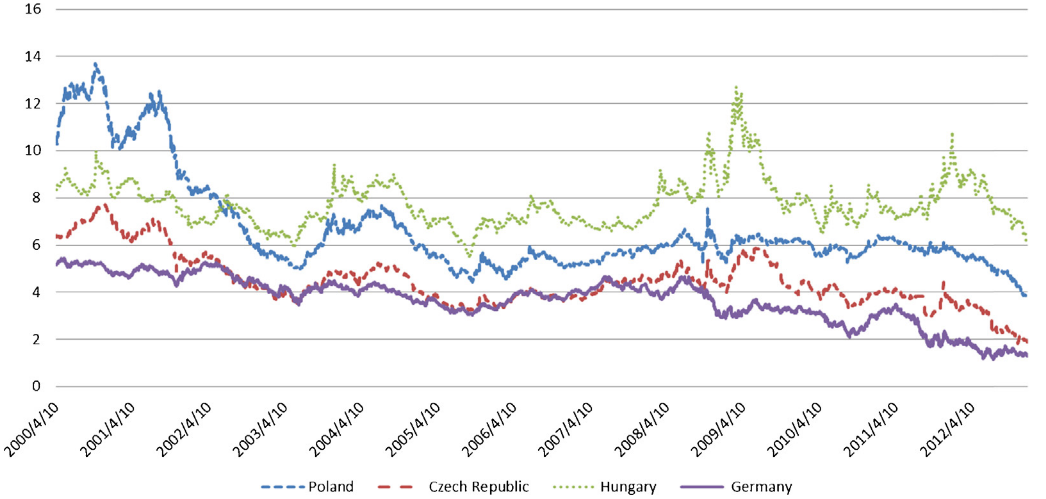

Fig. 2. Time series for the long-term bond yields (percentage, vertical axis).

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