

Long-term Government Bond Yield Spreads between Italy and Switzerland, 1999 - 2011

Bachelor Thesis

University of Zürich
Institute for Banking and Finance
Chair for Financial Economics
Prof. Dr. Felix Kübler

Field of Study: Banking & Finance

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Abstract

This paper provides a study of yield spreads between Italian and Swiss 10-year government bonds for the period 1999 - 2011. The empirical findings show that the yield spreads widen with an increase in the difference between the Italian and Swiss debt/GDP ratio and are positively affected by investors' risk-aversion. The deficit/GDP differential between the two countries has a positive impact on yield spreads only in the period 2007 - 2011. The overall greater impact of the fiscal variables after 2006 indicates that investors have been reassessing the countries' risks after the outburst of the recent financial crisis. Further, the estimation results give evidence for a flight-to-quality effect in times of greater economic uncertainty, which in this particular case has led to an extra widening of spreads between the low-risk Swiss government bonds and the riskier Italian bonds.