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The Response of the Weighted Average Time to Maturity of Government Bond Issues to Changes in the Financial/Economic Environment

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Abstract

This paper describes and analyzes the response of the weighted average time to maturity of government bond issues to changes in financial and economic variables, in light of the financial and European debt crises, using a new database of 12,000 OECD government bonds issues in 2004-12. According to IMF guidelines, public debt should be issued at the lowest possible cost consistent with a prudent degree of risk, two objectives that are diametrically opposed: short debt generally costs less but carries higher risk, while long debt is generally more expensive but less risky. This paper studies which of the above considerations was more significant during the crises: did governments prefer short-term considerations and short debt or prudence and long debt? It shows that debt issuance patterns changed during the crises, shifting from issuing shorter debt for immediate cost minimization before the global financial crisis towards longer debt during the financial and European crises. Using panel-data regressions, I find evidence of short-term time to maturity response to yield curve parameters, issuance quantity response to crises and issuance quantity persistence.

Keywords: debt issuance, financial crisis, time to maturity

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