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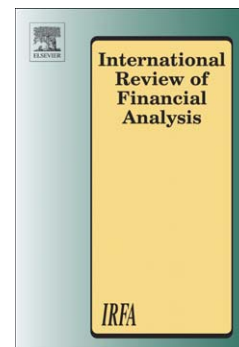
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A TALE OF FRAGMENTATION: CORPORATE FUNDING IN THE EURO-AREA
BOND MARKET

by Andrea Zaghini*

Abstract

Corporations of different euro-area countries faced noticeably different costs of funding in the bond market during the prolonged period of financial instability which started in 2007. We identify the determinants of corporate bond yield spreads in order to isolate country-specific effects, as indicators of market fragmentation. Our evidence hints at a disorderly process of reassessment of corporate credit risk since 2007 with country-specific spreads vis-à-vis Germany becoming strongly positive for issuers located in other euro-area countries (Ireland, Italy, Portugal and Spain, in particular). After the introduction of the non conventional monetary policy tool named OMT, the spreads declined considerably, but fragmentation disappeared only in the latest period characterised by the expectations and the actual deployment of the ECB quantitative easing.

Key words: credit risk, Corporate bonds, Financial fragmentation, Sovereign debt crisis.

JEL Classification: G15, G32, G38.

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