

Corporate Bond Yield Curve Estimation for the Croatian Financial Market Using the Nelson-Siegel Model

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Abstract:

The corporate bond yield curve is necessary in a variety of actions, from the revaluation to disclosure of those bonds that are overestimated or underestimated, as well as the very essence of possessing valid information necessary to every investor. Corporate bonds in the Croatian financial market bring a larger yield than government bonds, and the existence of a quality corporate bond yield curve is the prerequisite for placing corporate bonds into an optimal portfolio. The corporate bond yield curve in the Croatian financial market on a particular date is estimated in this paper using the Nelson-Siegel model. Besides the model's presentation and explanation of the important terms and conditions in the Croatian financial market, the special value of this paper is in the detailed presentation of the formation of data for the model's evaluation. Finally, the validity of the resulting yield curve is confirmed by testing the model's parameters and the very high correlation coefficients between the resulting curve and the yield curve of the government bonds.

Keywords:

yield curve, corporate bond yield curve, Nelson-Siegel model, Croatian financial market

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