ABSTRACT

To fund their budget, governments sell bonds. Investors are prepared to purchase government bonds in this instance because they desire the yield. A government bond is a fundamental financial product in which the government, acting as the issuer, guarantees to pay the principal upon bond maturity as well as a specific coupon in advance. Government bond yields have drawn a lot of attention from both bond investors and the government as the issuer. This study fills in the gaps left by earlier studies on the variables affecting the yield on government bonds. The purpose of this study is to examine the factors that affect the Indonesia 10-year government bond yield period 2018-2022 and assess the impact of inflation, exchange rates, and interest rates on bond yield. This study used a time series methodology and used VECM (Vector Error Correction Model) to help analyze the data. The VECM is a statistical method frequently used to examine the relationship between a dependent variable and a large number of independent variables in order to determine whether there is a long-term link between the variables. The empirical evidence shown exchange rate has no one-way or two-way relationship between the exchange rate and 10-year government bond yield, inflation has two-way relationship between inflation and 10-year government bond yield, and interest rate has two-way relationship between interest rate and 10-year government bond yield. The study found that the variables that impact the bond yield are as follows: the exchange rate are significant and positive, inflation is significant but negative, and interest rates is not significant to the 10-year government bond yield.

Keywords: Government Debt, Inflation, Interest Rate, Exchange Rate

JEL classification: E22, E27, E00.