Abstract

This research is conducted from gaps of research findings regarding factors influencing government bond yield. The aim of this research is to develop a model of government bond yield determinants and to test hypothesis about the effect of inflation, foreign reserves, local interest rate, stock market return, exchange rate, foreign interest rate, world oil prices, real sector performance, and conditional variances on government bond yield.

Time series process and multifactor models are employed. The model combines two approaches called *Multifactor EGARCH-M Model*. The population is Indonesian government bond, denominating in IDR and has a fixed coupon rate. The sample selected is five years tenor bond.

The findings are: (1) Indonesia's government bond yield has volatility clustering as measured by GARCH process; (2) based on adjusted R^2, logL, Akaike Information Criterion (AIC) and Schwarz Criterion (SC), *Multifactor EGARCH-M Model* is the best model among six models developed; (3) as a proxy of market risk and default risk, GARCH-M has the biggest effect on its yield followed by non gold reserve; (4) the other variables having influences on government bond yields are: local interest rate, stock market return, exchange rate, foreign interest of rate, and world oil price. Inflation and real sector performance have no effect on government bond yields.

Key Words: yield, government bonds, multifactor model, conditional variance, GARCH.