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Keep in mind

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We study the determinants of sovereign default risk in Colombia by focusing on different time spans of risk which are indicated by yield spreads of government bonds with different maturities. Cointegration regressions are performed to analyze whether the drivers of short-run default risk are different from those of long-run default risk. Our results show that government indebtedness indicators are important determinants of default risk for yield spreads of bonds with maturities shorter than 7 years. In contrast, increases in investment and output growth indicators lower default risk at all maturities. A lower current account balance or a higher exchange rate volatility increase default risk for maturities lower than 10 years. Finally, an openness indicator is found to have positive effects on default risk for maturities longer than 7 years. This last effect is probably due to the increasing external vulnerability that results when a country becomes more integrated to the global economy.

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