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Abstract

This paper shows that the Colombian sovereign risk (EMBI-Colombia) is mainly determined by international investors' risk appetite, whose response is non-linear and depends on the government fiscal stance. It is also shown that the relationship between these variables experienced an important structural break in the second half of the 2000's, apparently associated to the global financial crisis and the improvement in the local macro-fundamentals. The consequences of these findings might be particularly important for this country, as they help to explain both the lower financial costs of public debt as the local market less uncertainty to external shocks, which have been observed in recent times.