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AUTHOR OR EDITOR

Peter Rowland

The surge in Colombian sovereign international bond issues during the 1990s has created an increasing need for the Colombian Government and the Banco de la República to understand the dynamics and the determinants of the sovereign spread. This is the first comprehensive study of the Colombian sovereign spread and its determinants. It shows that contagion and spillovers play an important part in the determination of the spread, particularly in the short term. A study of daily spread changes between 1998 and 2003 using an OLS regression framework finds contagion, changes in the US stock market and changes in the Colombian exchange rate to significantly influence the spread. A study of the long-term determinants of the spread uses a Johansen framework of multivariate cointegration together with monthly data from 1998 to 2002, and finds exports, the exchange rate, the economic growth rate and the US T-Bill rate as significant explanatory variables of the spread. A weakness of the study, as with all single-country studies, is that the time period is too short to study variables published only with annual frequency, and some such variables have, indeed, by cross-country studies been shown to significantly influence the spread. Such variables include, for example, the debt ratio and the debt-service ratio.

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