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Publication Date:

Friday, 17 April 2020

Abstract

We evaluate the effects of the sovereign debt structure by examining various degrees of bond market participation and diversification within different bond maturities and investor type. We use a unique Colombian panel dataset, comprised of all government bond maturities in the hands of public and private institutions during 2006-2018. For identification, we propose an instrumental variable approach, specific to each investor group. We find that an increase in non-residents' market share of a 1 percentage point reduces bond yields by 35% and lowers volatility by 0.8%, relative to their mean values. Alternatively, we see an opposite effect for both pension funds and the banking sector. Finally, we find that market concentration makes local-currency yields more sensitive to global financial shocks.