Effects of foreign participation in the colombian local public debt market on domestic financial conditions

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AUTHOR OR EDITOR Jose Vicente Romero Hernando Vargas Pamela Cardozo Andrés Murcia
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Abstract

Since 2014 the Colombian local public bond market experienced a substantial increase in the participation of foreign investors due to a reduction of the tax rates on foreign portfolio investment returns and the increase in the weight of Colombia in the JP Morgan GBI-GD. Some evidence is presented suggesting that the resulting inflows reduced bond and loan interest rates and raised loan supply. There is also evidence of an increased sensitivity of local public bond yields to CDS and EMBI, although the influence of external financial conditions on domestic lending rates has remained subdued. Finally, no evidence is found of a shift in the transmission of domestic monetary policy shocks to public bond and lending interest rates after the increase in foreign participation in the local bond market.

Fuente: https://www.banrep.gov.co/en/effects-foreign-participation-colombian-local-public-debt-market-domestic-financial-conditions