
[Download](#)

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of Colombia). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

[Vargas-Páez, Andrea Carolina Ardila-Dueñas, Carlos David](#)

The series [Borradores de Economía \(Working Papers on Economics\)](#) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date:
Monday, 2 of August 2021

Abstract

In this article, we study the impact of exchange rate depreciation and volatility on the sovereign yield curve during the 2008 - 2020 timeframe. We do this by estimating univariate and multivariate time series models and a threshold vector autoregressive model. Our findings support the presence of nonlinearities in the relationship between the exchange rate risk and the yield curve level and slope. The bearish steepening resulting from a depreciation shock is doubled when the depreciation and volatility are above the threshold, however when the volatility is high the impact is bigger and lasts longer. Contrary to lineal models, an increase of the level of the public debt has a significant impact on the yield curve level as sovereign bonds have been devalued during periods of high exchange rate volatility. Besides, our results suggest that in presence of a risk aversion shock, investors appreciate low volatility rather than low exchange rate depreciation.