

# The role of investor participation on sovereign debt markets: Evidence from an emerging economy

EMERGING MARKETS REVIEW

**DOI:**

<https://doi.org/10.1016/j.ememar.2025.101284>

**Publicado:**

Lunes, 21 Abril 2025

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**Clasificación JEL:**

E43, G01, G11, G15

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We examine the impact of sovereign debt holdings on bond yields and volatility across different maturities and investor types. Using a unique Colombian panel dataset encompassing all government shares and concentrations of public and private institutions from 2006 to 2018, our analysis reveals that a one-standard-deviation increase in non-residents' market share leads to a 0.5% reduction in bond yields and a 10% decrease in volatility relative to their mean values. For domestic banks and pension funds, a one-standard-deviation increase in market shares results in a 0.7% and 1.3% increase in bond yields, along with a 10% and 6% rise in yield volatility, respectively. Additionally, we observe unexpected negative effects of foreign investors' market concentration on bond yields.

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yields and volatility. These effects are attributed to the mix of investors. Initially, all foreign investors were foreign banks, demonstrating a stable demand despite their limited number. Over time, they ceded participation to mutual funds, which, although more numerous, adopted speculative strategies associated with short-term return investments.