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

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Authors:
Jose Antonio Ocampo Gaviria[e],
Mauricio Villamizar-Villegas[a],
Orbegozo German D.[e],
Nicolás Fajardo-Baquero[e],
Oscar Botero-Ramírez[a],
Camilo Orozco-Vanegas[a]
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[e]Externo
[a]Banco de la República, Colombia
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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 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.