Borradores de Economía - The potential impact of foreign portfolio investments on the exchange rate in Colombia

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Publication Date: Tuesday, 26 of December 2023 **Abstract**
Foreign portfolio investments can affect the Colombian exchange market mainly through the demand for hedging that investors make in the foreign exchange derivatives market, and the exchange of dollars for pesos that materializes when investing in public debt securities (TES). This paper analyzes the potential impact that portfolio movements of foreign investors may have on the spot exchange rate in Colombia. Using GARCH models, the results evidence that changes in the positions of foreign investors in the non-delivery-forwards (NDF) market and in the TES market have a statistically significant, small and short-lived effect on the exchange rate. This effect is greater in the NDF market. Additionally, a positive and very short-term relationship is evident between the exchange rate returns and the variation in the net position of foreign investors (purchases) in the NDF market, while the relationship is negative and more persistent for investment flows of foreigners in the TES market.

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