



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

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 Ariza-Murillo, Sara Gamboa-Estrada, Fredy Orozco-Vanegas, Camilo Andrés

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: 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.