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Box 2: The Higher Sensitivity of Peso-denominated TES Compared to UVR in Scenarios of Higher International Risk - Financial Markets Report, Fourth Quarter 2024

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The government bonds market in Colombia incorporates relevant information for the analysis of expectations regarding inflation, MPR, and economic growth. Therefore, the dynamics of these interest rates are an essential input for monetary policy decisions. Studying the factors that explain interest rates in the government bonds market is crucial for monetary policy for several reasons: *i)* Government bonds rates are a reference for other interest rates in the economy and are a key channel for the transmission of monetary policy, and *ii)* market agents value these instruments by incorporating information about their expectations regarding the MPR and inflation, with these expectations serving as an essential input for monetary policy decision-making.

In the government bonds market, bonds are traded in both pesos and real value units (UVR in Spanish). The rates of these bonds may respond differently to changes in certain economic and financial variables. Specifically, it is observed that peso-denominated TES rates tend to be more sensitive than UVR-denominated TES rates in scenarios of higher international risk. Differential liquidity conditions and the participation of several types of investors in both markets may explain the different reactions of TES rates to different international events.

This box exhibits an empirical approach that shows statistical evidence supporting the greater sensitivity of peso-denominated TES rates compared to UVR-denominated TES rates in scenarios of higher international risk. Through an econometric exercise, it is observed that peso-denominated TES rates and their volatility show a greater reaction to scenarios of higher international risk than UVR-denominated TES rates.