



Box 2: Experience of Foreign Investment Flows in Colombian Sovereign Bonds during the Rebalancings of the GBI-EM Index - Financial Markets Report, First Quarter 2025

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The Government Bond Index - Emerging Markets (GBI-EM), prepared by JP Morgan, is the leading benchmark for global fixed income markets in local currency in emerging economies. Colombia is currently part of the group of 19 issuing countries whose bonds are included in the basket of the index. According to surveys conducted periodically by the same entity, this index has more than USD 200 billion in assets that aim to replicate it annually.

The weighting of each issuer within the index is adjusted monthly. Such adjustments reflect both changes in the market value of the bonds and in the index construction rules, such as adjustments in eligibility criteria or the inclusion of new references or issuers.

Given the variability of the weights within the index, and the adjustments implemented by the investors that follow it, some periods have been identified in which Colombia has experienced significant movements in its capital flows that coincide with changes in the country's participation within the GBI-EM (see Romero, Vargas, Cardozo, and Murcia, 2021). Particularly, 3 episodes have been identified in which the weighting of Colombia in the GBI-EM has presented a significant adjustment due to the inclusion of new issuers in the index: the increase in its weighting in March 2014, when the weighting of Colombia increased significantly within the index, as well as the inclusion of China in February 2020 and the entry of India in June 2024, episodes in which the participation of Colombia and other emerging countries was gradually reduced to give rise to new countries within the index.

This box analyzes the dynamics of portfolio foreign investment flows in the Colombian sovereign bond market during episodes of significant adjustments in Colombia's weighting in the GBI-EM index. In general, these rebalancings generate relevant flows, with sales of local securities when the weight of the country decreases, as happened with the inclusion of China and India. The magnitude of these movements depends in part on the evolution of the assets under management (AUM) of the funds that replicate the index, which can cushion or accentuate the outflows. Additionally, index investors tend to anticipate changes, concentrating their adjustments at the beginning of each rebalancing period.