Buyback of Colombian Sovereign Debt

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At a request from the Ministry of Finance, Banco de la República last year carried out an investigation into the feasibility to use parts of the foreign reserves to buy back some of Colombia's outstanding sovereign U.S.-dollar debt. This project resulted in two thorough technical reports. This paper aims to complement these reports by a general discussion on the subject. Even if many economists will find the discussion and the empirical results interesting, the main target group of the paper is professionals and policy makers without a background in Economics or Finance. The paper discusses emerging market debt in general, the Colombian debt in particular, and the current level of the Colombian foreign reserves. It, thereafter, continues by discussing buyback of sovereign debt, and what a country could gain or lose from such a buyback and why. The paper also includes a cross-country empirical analysis of the relationship between the sovereign spread of the outstanding debt of a country and its foreign reserve levels.

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