
[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

[Castañeda-Arévalo, David Gamboa-Estrada, Fredy](#)

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:
Wednesday, 22 of December 2021

Abstract

The objective of this paper is to study the evolution of liquidity in the spot foreign exchange market in Colombia and its main determinants from 2006 and 2020. First, we analyze different dimensions of liquidity such as transaction costs and resilience. We achieve our objective by measuring liquidity through different types of indicators using intraday data from the centralized interbank foreign exchange electronic market service. Second, we study the main determinants of liquidity considering supply-side, demand-side, and market conditions factors. The event study analysis evidence that transaction costs were higher during the recent crisis caused by the COVID-19, while the price impact of transactions in the FX market was higher during the 2008-2009 financial crisis. The empirical results highlight that local monetary conditions, Colombian peso volatility, the volatility of the Colombian debt market, foreign funding constraints, U.S. financial conditions and global risk perception are the main determinants of liquidity in the Colombian spot foreign exchange market.