Portfolio Debt Flows to Emerging Markets Discussion

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The Paper

- A data tour de force
  - Foreign investment in EM portfolio debt securities 2000-2020
  - Debt Securities issues offshore
  - Euro area security-level portfolio holdings and transaction 2013-2020
- Part of a research agenda that has changed the way we look at international finance (Lane, Milesi Ferretti 2007,.....)
- This instalment: drawing the map of the "Second Phase of Global Liquidity" (Shin 2013) - emerging market debt securities
  - Stylized facts of non residents holding
  - Determinants of EU investors' purchases
  - Onshore vs offshore investment

What We learn

A lot of interesting results!

- Aggregate determinants confirmed (VIX, Dollar, US Monetary Policy) at the investor level.
- "Push" factors dominates portfolio flows (pull factors relatively weak)
- Offshore debt a stable source of corporate financing vs global shocks (and breaks the link with sovereign?).
- Many more details (China exceptions, analysis by investors, the importance of the corporate market)

One Question

Table 3. Financial flows to emerging markets: aggregate time series analysis

	(1)	(2)	(3)	(4)	(5)	(6)
	Portfolio debt inflows		Offshore issuance		Total inflows	
	All	Excl. CHN	All	Excl. CHN	All	Excl. CHN
VIX (log terms)	-0.49**	-0.67***	-0.40***	-0.027	-2.26***	-2.25***
	(0.19)	(0.24)	(0.086)	(0.17)	(0.68)	(0.68)
Change in US shadow int. rate	-0.17	-0.19	-0.070	-0.090	-1.22***	-0.91***
	(0.11)	(0.12)	(0.047)	(0.075)	(0.36)	(0.29)
US REER index vis-a-vis AEs (log terms)	-1.67***	-2.65***	-0.48***	-1.28***	-11.9***	-11.3***
	(0.44)	(0.63)	(0.17)	(0.31)	(1.43)	(1.38)

What we can learn further

Few Directions

- Which heterogeneity matters?
- Information on sectors of issuers?
- Interesting outliers/event?
- Importance of Jurisdiction arbitrage

The Role of Offshore Corporate Bonds

Cost of local-currency-denominated debt

=

Risk-free rate

+

Total risk premium

1) Currency (risk) premium
2) Default (risk) premium
3) Jurisdiction premium

The Role of Offshore Corporate Bonds

Cost of foreign-currency-denominated debt

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Risk-free rate

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The Role of Offshore Corporate Bonds

Cost of off-shore debt

=

Risk-free rate

+

Total risk premium

1) Default (risk) premium

The Role of Offshore Corporate Bonds

- Offshore corporate bonds are another channel of transmission of global liquidity cycles (Kim and Shin, 2021)
- Capital controls might absorb the macroeconomic effects of global financial shocks on onshore debt market only.
- Exchange rate stability necessary for balance sheet risks of the corporate sector?
- How important is jurisdiction arbitrage in the development of offshore bond market?

Great Paper