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The holders and issuers of international portfolio securities[☆]

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ABSTRACT

Research on the geographical distribution of international portfolios has mainly focused on data aggregated to the country level. We exploit newly-available data that disaggregates the holders and issuers of international securities along sectoral lines. We find that patterns evident in the aggregate data do not uniformly apply across the various holding and issuing sectors, such that a full understanding of cross-border portfolio positions requires granular-level analysis.

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1. Introduction

The analysis of international financial linkages is a primary theme in international macroeconomic research. At the theoretical level, the extent and characteristics of international financial integration influence macroeconomic outcomes and the cross-border risk distribution. In similar vein, the capacity of policy officials to scan the horizon for emerging macro-financial risks and calibrate policy interventions depends on an adequate understanding of international financial transmission mechanisms. Along both dimensions, a solid platform of empirical evidence is necessary in order to help design useful models and make effective policy decisions.

Since 2001, the Coordinated Portfolio Investment Survey (CPIS) has been published on a regular basis by the International Monetary Fund.[1] Relative to aggregate international investment position data, the CPIS represented a significant improvement by publishing the geographical composition of cross-border bond and equity holdings for the reporting countries.[2]

Building on the extensive gravity literature on international trade patterns and previous work on geographical patterns in international financial flows (Portes and Rey, 2005), an empirical literature soon developed that studied the cross-country variation in bilateral portfolio holdings (Coeurdacier and Martin, 2009; Hale and Obstfeld, 2016; Lane and Milesi-Ferretti, 2008).[3] In turn, these empirical patterns have also inspired new theoretical models (Okawa and Van Wincoop, 2012).

However, this literature has just studied the aggregate bilateral data. This is restrictive, since the transmission of international financial shocks may depend on the identities of the issuers and holders of portfolio securities. Accordingly, the recent expansion of the CPIS to provide sectoral information on the holders and issuers

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[1] A trial survey was run in 1997 with a limited number of reporter countries. The CPIS was published on an annual basis from 2001 until 2012; and has been published twice a year since 2013. The number of reporters now stands at 78 (latest release). A sister survey on direct investment positions (the CDIS) has been run since 2009.

[2] See Lane and Milesi-Ferretti (2008) for an extensive discussion of the limitations of the dataset.

[3] The main focus has been on explaining cross-country variation in the levels of bilateral holdings. Galstyan and Lane (2013) explore the dynamic adjustment of bilateral holdings during the global financial crisis.

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of portfolio securities is welcome.[4] This paper represents a first attempt to analyse these newly-available data.

Previewing our results, we find important differences in the geographical patterns of international portfolio allocation across these categories. In relation to both holders and issuers of international securities, the data highlight the importance of gravity-type factors in the cross-border distribution of portfolio securities. We also find that common membership of the euro area is non-negligible for the holding sectors of both portfolio debt and equity securities; while a similar pattern is present across all issuing sectors for debt securities, we find no such correspondence across issuing sectors in relation to equities.

Our results highlight that patterns evident in the aggregate data do not uniformly apply across all individual holding or issuing sectors. For instance, across holding sectors in advanced countries, the distance effect is stronger for banks and households than for other financial corporations and non-financial corporations. To take another example, in relation to the portfolio debt issued by emerging economies, investors exhibit a stronger distance effect vis-à-vis bonds issued by banks or sovereigns than vis-à-vis bonds issued by non-financial corporates.

The rest of the paper is structured as follows. Section 2 describes the CPIS data. In Section 3 we describe the empirical approach, while in Section 4 we report the econometric results. Some conclusions are offered in Section 5.

2. The CPIS data

2.1. Data availability

To analyse the bilateral distribution of holdings and issuances of portfolio assets, we employ data from the Coordinated Portfolio Investment Survey (CPIS). Until recently, the CPIS primarily reported aggregate bilateral holdings of bonds and equity. While the availability of bilateral data was a step improvement relative to international investment position data that only included aggregate foreign holdings, it was also clear that the absence of extensive sectoral and currency information on the composition of the bilateral data severely limited the ability of analysts to make useful inferences.

Since 2013, an expanded version of the CPIS reports the sectoral identities of the issuers of portfolio securities (22 countries) and the holders of portfolio securities (67 countries). In addition, more countries (50 countries) now also report the currency composition of their international bond holdings, even if the currency breakdown is not available on a bilateral basis. The sectoral categories of issuers are: central banks (CB), deposit-taking corporations excluding central banks (BANKS), other financial corporations (OFC), general government (GG) and nonfinancial corporations (NFC). Similarly, the sectoral categories of holders are: central banks (CB); deposit-taking corporations excluding central bank (BANKS); other financial corporations (OFC); general government (GG); nonfinancial corporations (NFC); households (HH), and non-profit institutions serving households (NPISH). The OFC category is further broken down into sub-sectors: insurance corporations and pension funds (ICPF), money market funds (MMF), and others (OOFC). The currency composition is broken down between: dollars, euro, yen, Swiss Francs, Sterling and a catch-all Other category.[5]

2.2. Stylised facts

Figs. 1a-1c present the sectoral shares of total portfolio assets by holders for selected years. We note several observations. First, there are differences across sectoral holdings. The category of other financial corporations (which includes the various types of investment firms) holds the lion's share of total portfolio assets at 54 percent in 2004 and 64 percent in 2014. These are followed by banks, households and the general government, respectively. Non-financial corporations, together with non-profit organisations and central banks (labeled others) hold the smallest share of portfolio assets at less than 4 percent.

Second, across sample periods, the holdings of banks have declined from 36 percent in 2004 to 31 percent at the peak of the global financial crisis in 2008–2009 to around 20 percent in 2014. In contrast, the portfolio holdings of the general government sector has steadily increased from 4.6 percent in 2004, to 5.8 percent in 2008 and about 8.3 percent in 2014.

In Figs. 1d-1i, we split total portfolio assets into debt and equity holdings and show a similar sectoral breakdown. Among the sectors, consistent with Figs. 1a-1c, other financial corporations hold the largest shares in both asset classes. While the other financial corporations sector has maintained a relatively stable share of equity holdings, its share in debt holdings has expanded from 47 percent in 2004 to 60 percent in 2014. This increase has been matched by a steady decline in the bond holdings of banks from 44.3 percent in 2004 to 37.9 percent in 2008 and 27.2 percent in 2014. The second largest holder of equity assets are governments, with the share increasing from 7 percent to 13 percent, while banks have experienced a twofold decline in their equity share from 2004 to 2008. As might be expected, banks hold far more bonds than equity, while the other sectors hold larger proportions of equities.

Figs. 2a-2c show the breakdown of liability issuance by sectors for 2014.[6] Across the sectors, we observe roughly equal shares in total issuance by banks, other financial corporations, non-financial corporations and general government.[7] The split between asset classes highlights that banks and the general government are the largest issuers of debt liabilities while (not surprisingly) non-financial corporations dominate in the issuance of equity securities.[8]

Tables 1 and 2 present some sectoral distributional patterns in the holding and issuance of cross-border securities across country groups for year 2014. Table 1 shows that the country-level "all sectors" statistics obscure substantial variation across holding sectors in terms of the portfolio allocations between advanced and emerging destinations. In addition, Table 1 shows differences in portfolio allocations between investors in advanced economies and investors in emerging economies. In particular, the cross-border portfolios of investors in advanced countries are dominated by the securities issued by other advanced economies. In contrast, investors in emerging economies hold a significant share of their cross-border portfolios in other emerging economies. For instance,

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[4] Ideally, a complete dataset that identifies the ultimate owner and ultimate issuer of each security would be an "asset". The expanded CPIS is confined to broad sectoral categories and is organised on a residency basis rather than a nationality basis.

[5] There are many zero observations in the CPIS data associated with trivial holdings or minor destinations. In order to avoid skewed results, we eliminate this subset of data.

[6] The distribution for 2013 is very similar.

[7] Of other financial corporations, "other" other financial corporations are the dominant issuers of portfolio debt securities with a sectoral share of around 98 percent. These also dominate equity issuance, albeit to a lesser extent, with a share of 71 percent. Mutual funds are the second largest issuers of equity with a sectoral share of 23 percent.

[8] The government sector has a near-zero share in equity issuance.

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