

Economic research using portfolio survey data

Gian Maria Milesi-Ferretti
International Monetary Fund
Research Department
and CEPR

To start.....

- CPIS key tool for the analysis of international financial integration—great work!
 - Provides key information on bilateral holdings
 - Helps supplement IIP data (checks, info on countries that do not publish IIPs)
- Looking forward,
 - Hope coverage can be expanded
 - Look forward to a direct investment survey!

Background work (joint with Philip Lane)

- International investment patterns
 - What drives the geographical allocation of portfolio equity holdings?
- The external wealth of nations
 - How can CPIS data be used to shed light on the difference between global foreign assets and liabilities (the world NFA discrepancy)?

International Investment Patterns

- Work based on 2001 survey
- What does the CPIS tell us about the allocation of foreign equity portfolios?
 - Stylized facts on portfolio allocation
 - Importance of offshore centers
- Key correlates of bivariate and aggregate equity holdings

Summary statistics on stock market size and foreign ownership

Country \ Variable	Domestic stock market cap. in percent of world stock market cap.	Percent of domestic stock market cap. owned by foreign portfolio investors	Domestic GDP in percent of world GDP
Euro area	15.9	36.5	19.6
Japan	9.3	16.7	13.4
United Kingdom	8.9	35.6	4.6
United States	48.9	12.9	32.3
Other	17.0	N.A.	30.1

Foreign portfolio equity holdings: theoretical and actual shares

Host country \ Source country	Euro area	Japan	United Kingdom	United States	
Euro area	Theor. share		17.5	17.5	31.1
	Actual share		16.8	43.7	28.6
Japan	Theor. share	11.0		10.2	18.1
	Actual share	7.3		9.9	10.6
United Kingdom	Theor. share	10.6	9.8		17.4
	Actual share	22.2	13.0		21.7
United States	Theor. share	58.1	53.8	53.6	
	Actual share	45.2	54.3	24.3	

The importance of offshore centers

Equity asset holdings in offshore and financial centers			(Derived) equity liabilities to offshore and financial centers		
	US\$ billion	Share of total		US\$ billion	Share of total
United States	197	12.3%	United States	167	16.8%
Germany	104	27.4%	United Kingdom	77	10.9%
Italy	104	43.3%	Germany	41	15.3%
Switzerland	73	29.5%	France	38	9.8%
Belgium	50	46.9%	Japan	29	8.7%

How can one 'pierce the veil' for offshore centers?

- Hard question!
- If OFC participates to CPIS, allocate a country's investment to the countries in which the OFC invests;
- If OFC does not participate, use portfolio allocation of source country
- Which countries more likely to be heavy investors in OFCs?

Key correlates of bilateral equity investment

- Panel regression analysis, controlling for both host- and source-country effects
- Very strong correlation with bilateral trade in goods
- ‘Informational’ links also very important
 - Common language
 - Common legal origin
 - Currency union
- No evidence of ‘beta-type’ investment

Total portfolio equity holdings

- Equity holdings abroad increasing in the level of development and *domestic* financial depth
- The size of the host country's stock market is the key correlate of aggregate equity liabilities.

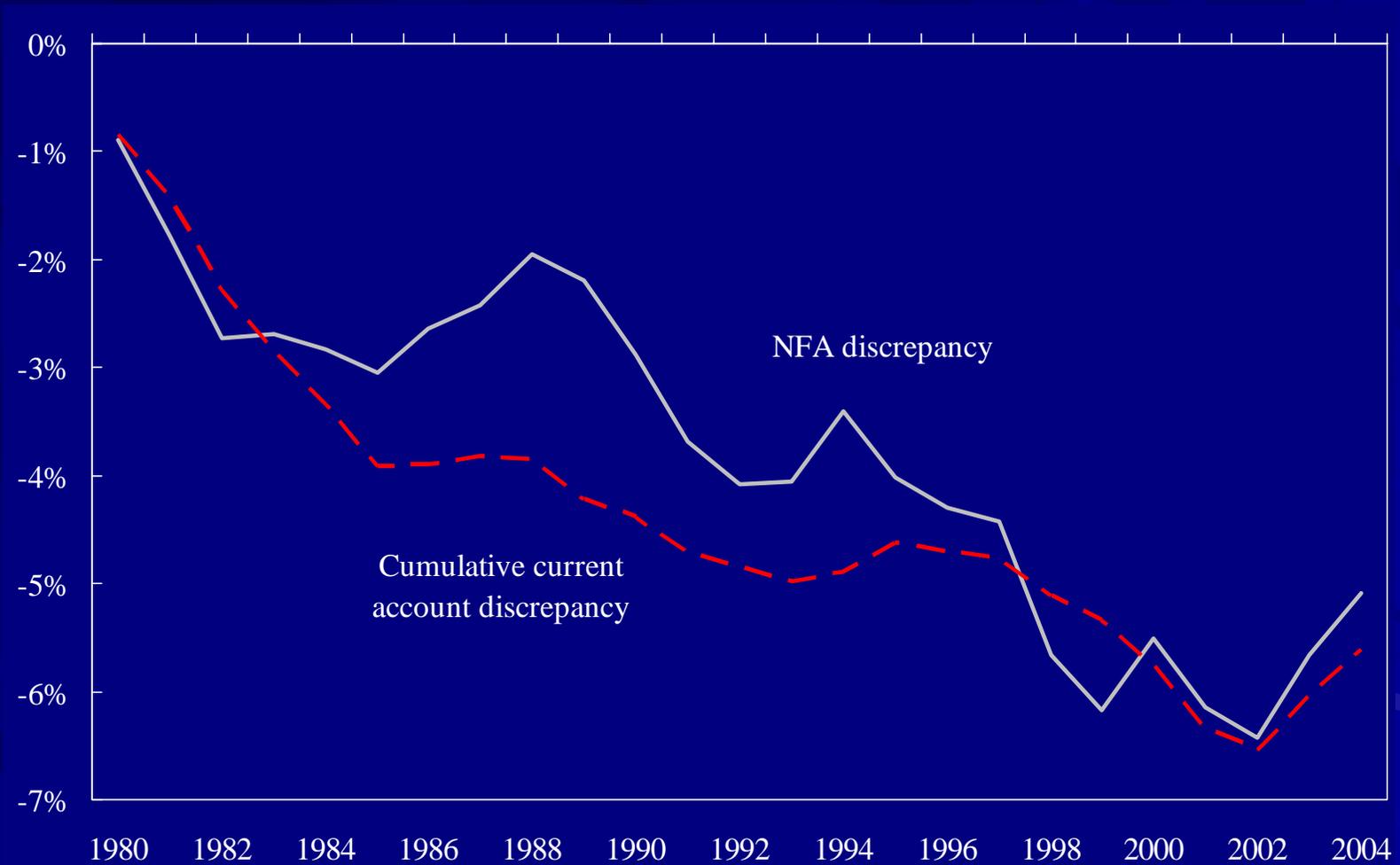
The External Wealth of Nations

- Dataset on external assets and liabilities for 145 countries/territories, 1970-2004
 - Covers FDI, portfolio equity, and debt;
 - Available online shortly (www.imf.org)
- Use of CPIS data
 - Portfolio equity holdings
 - “derived” liabilities
 - US data particularly useful (survey of both assets and liabilities)

The problem of underreporting

- The world runs a current account deficit....
- ...and has been doing so for a while.....
- ...and has hence accumulated net external liabilities

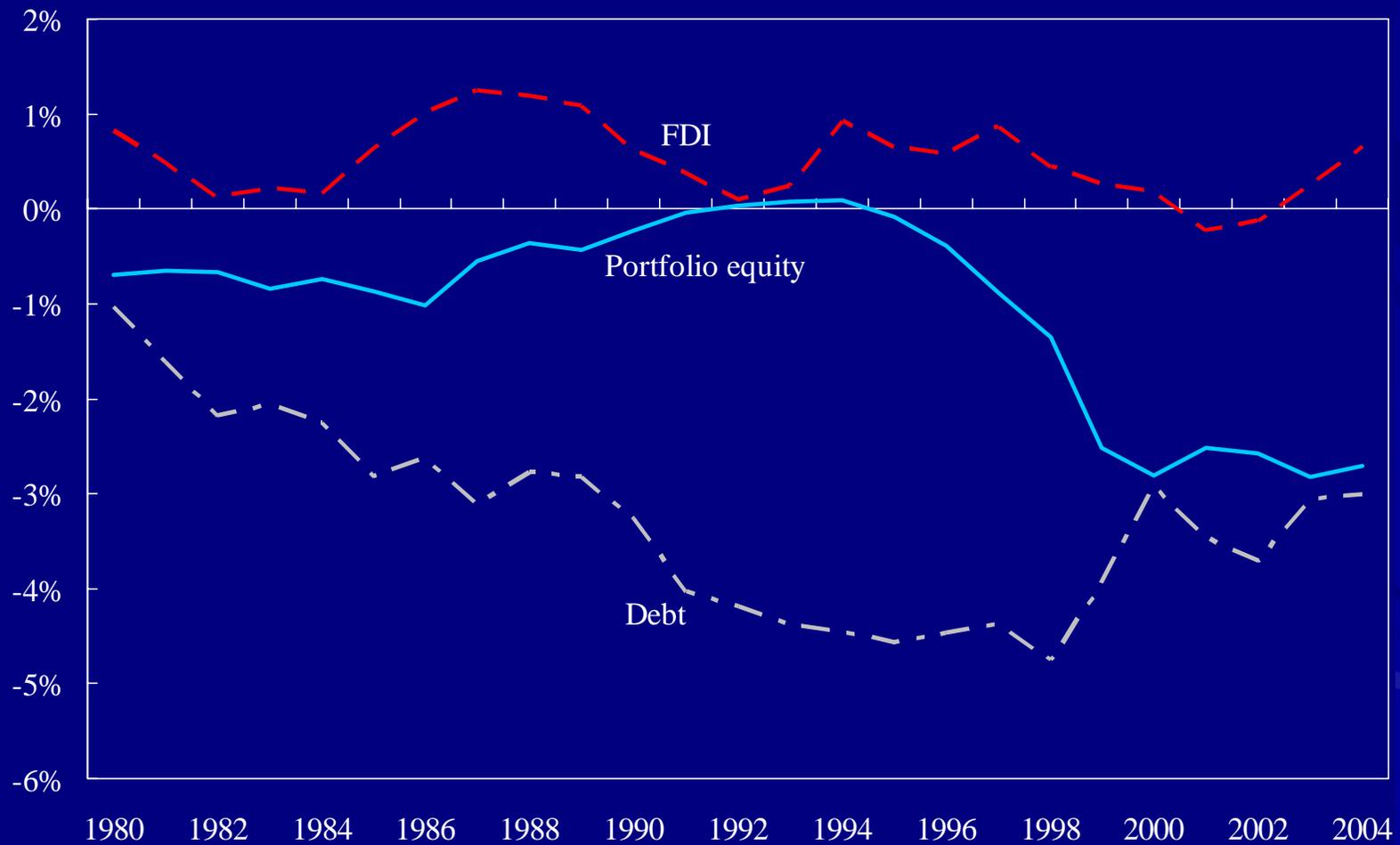
World liabilities (share of world GDP)



What do we know about the missing money?

- Extensive literature on capital flight
- Primarily in the categories
 - Debt instruments
 - Portfolio equity

What do we know about the missing money?



Can we say something about the equity and debt discrepancies?

- For portfolio equity, yes.
- Use data from
 - CPIS
 - Liability surveys
 - United States
 - Ireland
 - Reported aggregate portfolio equity liabilities

Evidence on the portfolio equity discrepancy

- At end-2003,
 - Total assets=US\$7.2 trillion
 - Total liabilities=US\$8.3 trillion
- Compare reported equity liabilities with those derived from other countries' reported holdings in the country

Results

Portfolio equity liabilities reported by destination and investor countries, 2003
(aggregate data, billions US\$)

	Reported by host	Reported by investor co.
Ireland	479	151
Luxembourg	1,143	623
United States	1,827	1,274

Can we learn something more from the US and Irish surveys?

	Reported by destination co.	Reported by investor co.
Holdings in the U.S.		
Canada	203	152
Caribbean financial centers	227	24
Singapore	73	7
Switzerland	119	52
United Kingdom	229	174
Holdings in Ireland		
Japan	15	3
United Kingdom	139	25
United States	95	22

Bottom line

- “Missing money” likely held in financial centers....
- ...but of course difficult to impute ultimate ownership...

Concluding remarks

- Simple illustration of “our” uses of CPIS
- Many more papers and research projects have been undertaken using these data...
- ...and many more to come!
- Last but not least....
- **MUCHAS GRACIAS POR LA INVITACION!**