

# Discussion of “Financial Crises and International Portfolio Dynamics” by BDES

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# Overview

- Net XB flows of domestic residents
- Net XB flows of foreign residents
- Negative correlation
- During crises, retrenchment - domestic residents sell HOME assets; foreign residents sell HOME assets
- Differences across asset categories; differences between advanced and developing countries [simply reflecting differences in composition of international balance sheets or differences in flow dynamics?]

# Residency Concept

- Is this a useful division?
- Domestic residents include foreign-owned entities
- Foreign residents include domestically-owned entities
- Blurry distinction for countries with large international financial centers and/or with large multinationals (foreign and domestic)
- Example I: Cayman SIV owned by US investors
- Example II: offshore investment vehicles owned by domestic residents in Iceland
- Example III: foreign-owned banks in the UK
- Example III: global investment funds and global multinationals in Ireland
- Still, potentially interesting data split

# Interpretation

- Differences between domestic and foreign investors
- Information asymmetries
- Different “exposures” - authors emphasise sovereign risk

# Asymmetric Information

- Superior information of domestic residents?
- Behaviourial Finance perspective - domestic delusions?

# Different “Exposures”

- Exposure to sovereign default
- Exposure to capital controls
- Tax systems
- Consumption price levels
- Non-traded components of wealth [labour income; housing]
- Historically-determined home bias in financial portfolios
- Currency composition of assets/liabilities
- Funding – credit ceilings; collateral calls; redemption calls etc
- Good times – boom at home funds foreign asset acquisition; bad times – forced liquidations
- Political economy – financial nationalism

# Triggers

- Productivity /demand/ financial / news
- Foreign shocks versus 'home grown' shocks
- Sectoral shocks

# Agenda for the Future

- Refinements of the empirical work
- Theoretical modelling of the mechanisms
- Excellent work!