

Corporate Foreign Bond Issuance and Interfirm Loans in China

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Disclaimer

- The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its management

Overview of the paper

- Motivation – international and domestic trends
 - i. International - China's dominant bond issuance in EM universe in the post-GFC period (i.e., 3.5% in 2007 \Rightarrow 30% in 2016)
 - ii. Domestic - Tight regulation in China' banking sector (i.e., interest ceiling on loans and deposit)

Overview of the paper (cont.)

- Main question
 - What are patterns of international bond issuance by Chinese non-financial corporations (NFCs)?
 - A. Drivers of bond issuance
 - B. Use of received proceeds
 - C. Whether a surge in FX-denominated borrowing by risky NFCs is resulted from regulation decision by the government

Outline of Discussion

- Overview of the paper
 - Motivations
 - Main question
- Summary of data, methods and findings and comments/suggestions
 - Overview on international bond issuance by China
 - Datasets
 - Regression analysis on drivers of bond issuance
 - Regression analysis on use of raised proceeds
 - Regression analysis on role of regulations in financial sector

Summary of the paper - black

Main novelty of the paper - red

Comment/suggestions - blue

Overview on international bond issuance by China

- Issuers of international bonds in China
 - Sovereign (PRC MOF, CB)
 - Financial corporations (FC)
 - Non-financial institutions (NFC)
- Comment “*Big-picture questions*”
 - What is the relationship between sovereign external bond issuance and corporate bond issuance? Complementary or independent?
 - What is the relationship between financial corporations (FC) and non-financial corporations (NFC)? Complementary or substitutable?
 - What can we say on “hidden debt in China”?
 - Not sovereign (IMF 2021, PRC MOF)
 - SOEs (Horn et al. 2022)
 - Non-financial corporations?

Datasets

- Bond-level data from Bloomberg
 - 4,454 instruments from 1,353 issuers
 - Currency denomination: RMB – 85 percent, US\$ -15 percent
- Firm-level dataset from CSMAR
 - 32,815 instruments by 2,593 firms
 - Revenues and inter-firm loans
- **Reconciled dataset (bond- and firm-level)**
 - 3,968 instruments
 - 479 US\$-denominated instruments and 3498 RMB-denominated instruments
 - 22,419 observation (firms x years)

Datasets (cont.)

- Comment
 - Great effort and contribution to the literature
 - Datasets should be a big asset for future work!
 - Table on summary statistics
 - **What is the most important novelty (beyond the coverage)?**
 - Figure on trend (aggregate)
 - Comparison between US\$- and RMB-denominated bonds

1st step: Panel regression on drivers of bond issuance

- Approach
 - Panel regression
 - Sub-sample analysis by “risky” vs. “non-risky” firms
 - **Classification between risky and non-risky sectors by China's Ministry of Industry and Information Technology (CMIIT)**
- Two main findings:
 - i. FX (US dollar)-denominated bond issuances are positively correlated with interest rate differential and the impacts is large with large firm size and high leverage
 - **ii. Firms in risky economic sectors are more likely to issue dollar bonds**

1st step: Panel regression on drivers of bond issuance (cont.)

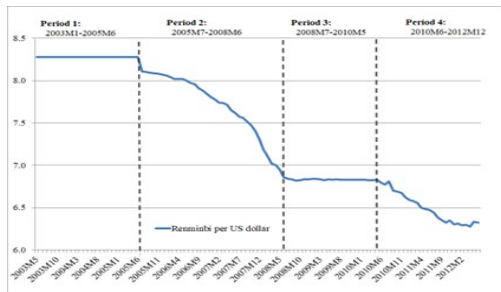
- *Comment: Two questions:*
 - 1. How the assessment of “risky sectors” has been made? Assessment might have used reliance on external financing (i.e., endogeneity issue. . .)
 - 2. How does the assessment of “risky sectors” relate to firms producing export goods or firms with external financing?
- *Proposal: Should use an alternative classification by sector characteristics which are not influenced by profitability or financing*
 - Classification by continuous variable rather than binary (risky vs. non-risky)
 - A. Tradable or non-tradable sectors – share of exports in production
 - B. Upper or lower-stream sectors – share of intermediate/final goods
 - C. Concentrated or diverse sectors – share of productions by major firms

2nd step: Regression analysis on use of raised proceeds

- Approach
 - Panel regression
 - Dependent variable: proceeds from US\$-denominated issuances
 - Sub-sample analysis by “risky” vs. “non-risky” firms
 - **Classification between risky and non-risky sectors by China’s Ministry of Industry and Information Technology (CMIIT)**
- Two main findings:
 - **i. Issuers of US\$-denominated bond have lower investment rates (high yields) and likely to lend to other firms (inter-firm borrowing)**
 - **ii. Safe and profitable firms with good investment projects do not borrow much abroad.** When they do, they use the proceeds to finance their investment projects.

2nd step: Regression analysis on use of raised proceeds

- **Comment: Subsample analysis by time horizon**
- One proposal US\$/CHY nominal exchange rate fluctuation
 - Stable vs. depreciation periods



- If firms are taking carry trades, bond issuance and external financing should differ between two periods.

3rd step: Regression analysis on role prudential regulations

- Dataset
 - Inter-firm entrusted loans
- Approach
 - Panel regression
 - Data: Entrusted loans
 - Difference-in-difference approach
 - **The regulatory tightening in 2009-10 following impacts from the GFC**
- Two main findings:
 - **i. Dollar borrowing by risky NFCs are driven by regulatory decisions. As a result, the NFCs decided to borrow abroad.**

3rd step: Regression analysis on role of prudential regulations

- **Comment: One question**
 - 1. Was it better off for risky NFC to issue abroad? Have they made more profits?
- **Proposal:** Compare profits or returns before and after the prudential regulation.
 - 1. Risky firms
 - 2. Non-risky firms
 - 3. Risky firms vs. non-risky firms

Conclusion

- Great paper!
 - Enriched and innovative datasets
 - Comprehensive story
 - Empirical findings
- Significant contribution to the literature on international bond issuance!
- Comments for future work
 - Overview on international bond issuance by China
 - Datasets
 - Regression analysis on drivers of bond issuance
 - Regression analysis on use of raised proceeds
 - Regression analysis on role of regulations in financial sector