Discussion of "The Rise in Home Currency Issuance" by Galina Hale, Peter Jones, and Mark Spiegel

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November 21, 2014

- New facts about international corporate debt financing
- Empirical analysis explores determinants of debt issuance
- Theoretical model provides structured framework
- Interesting results in a well-written paper

Discussion Outline

- Review data and empirical analysis
- Describe theoretical model
- Comments
  1. Theoretical model
  2. Empirical analysis
  3. General lessons

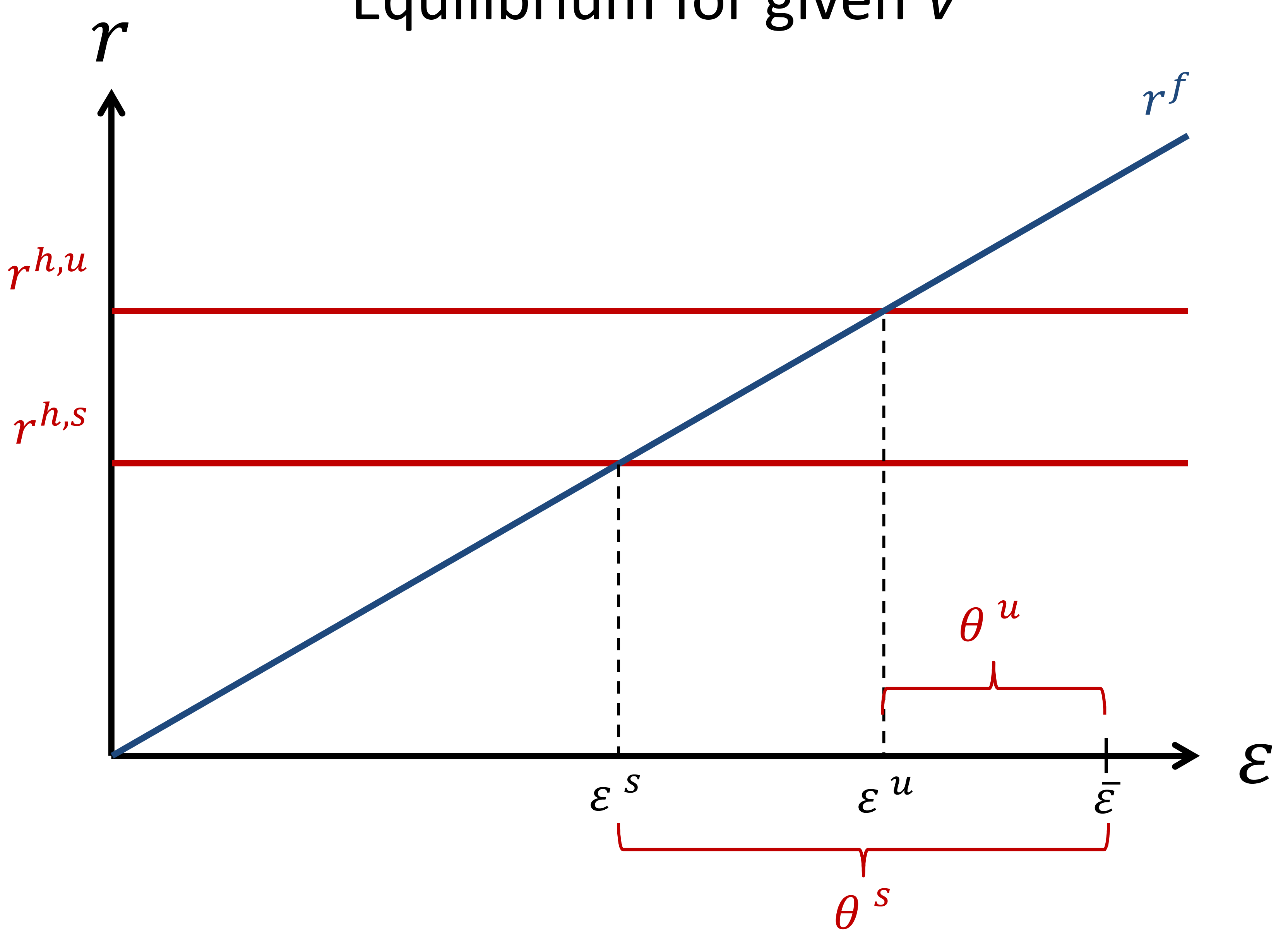
Empirical Analysis

- Consider currency of issuance in international bond market
- Global currency includes USD, EUR, JPY, GBP, CHF
- Documents a "secular" decline in the use of global currency
- Explain probability of home currency issuance with deal-level regressions
- Find that global currency issuance increases with deal amount
- Local currency larger if firm used it in the past or if country targets inflation. Smaller with a combination of high debt and inflation

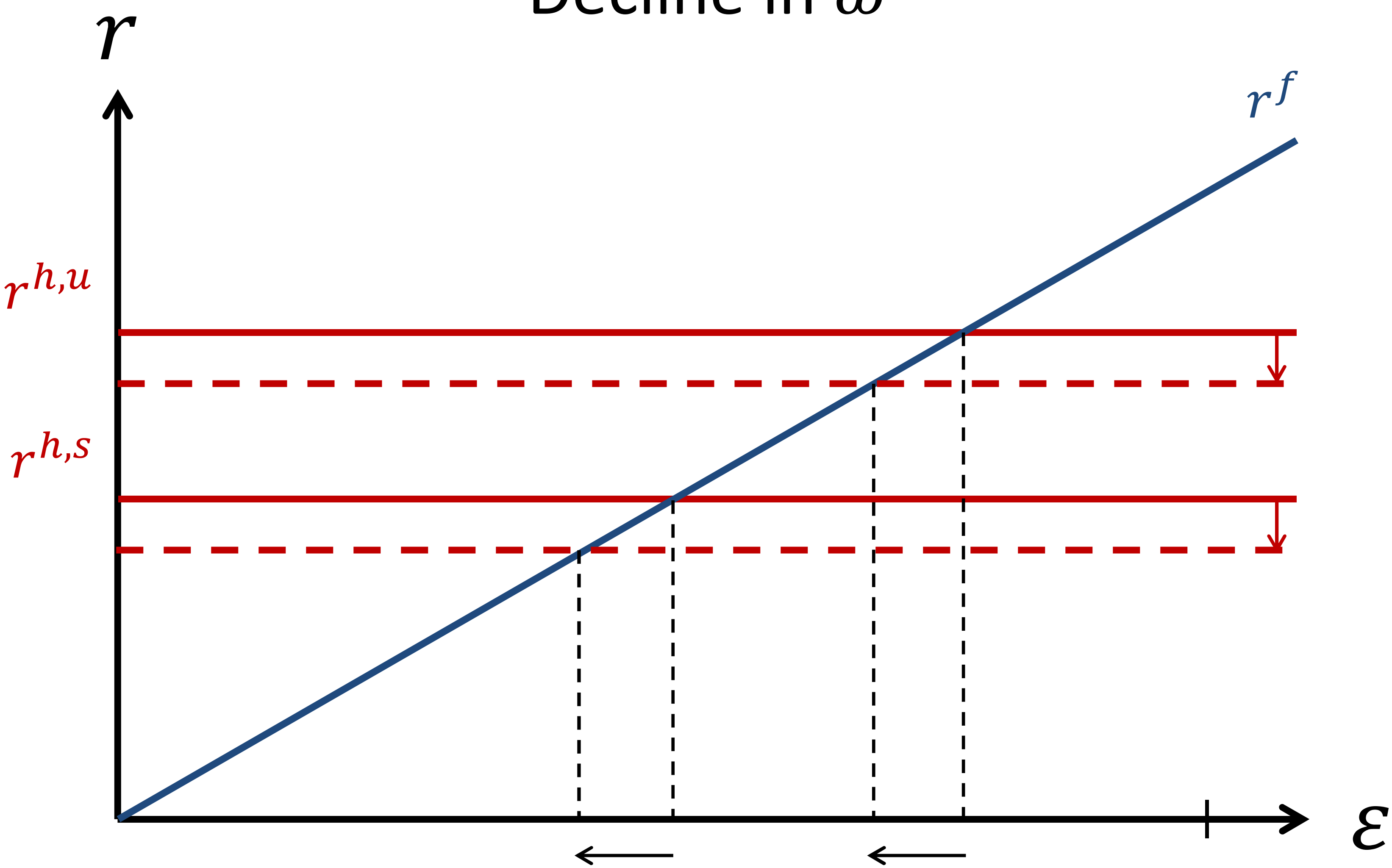
Model

- Choice of currency of issuance determined by various costs
- "Entry" cost u of issuing in domestic currency + per issuance cost ω
- Also depends on market size in domestic currency V
- Heterogenous cost ε of issuing in foreign currency
- Graphical analysis

Equilibrium for given *V*



Decline in ω



Model

- Basic analysis: reduction in domestic cost ω increases domestic currency borrowing
- Externality effect: more firms borrowing in domestic currency reduce its cost
    - Need to compute simultaneously the cost and V
- Moreover, extend to two periods, 0 and 1
- In period 0, take period 1 into account when deciding to pay the fixed cost
    - Dynamic decision
- The various costs may be affected by fundamentals that can be tested empirically

Comments - Theory

- The dynamic dimension does not teach us much and is not related to the empirical analysis
- The market size dimension is very plausible, but is not really used in the empirical analysis
  - Considers individual deal size rather than market size
- The various costs are reduced-form parameters. Difficult to see how they are related to fundamentals

Comments - Theory

- More importantly: the model with different cost could apply to any two markets
  - e.g., between domestic and international bonds markets
- Does not incorporate any specific feature about currency denomination
- Since the various costs are ad hoc, not clear how this is related to the actual currency denomination decision

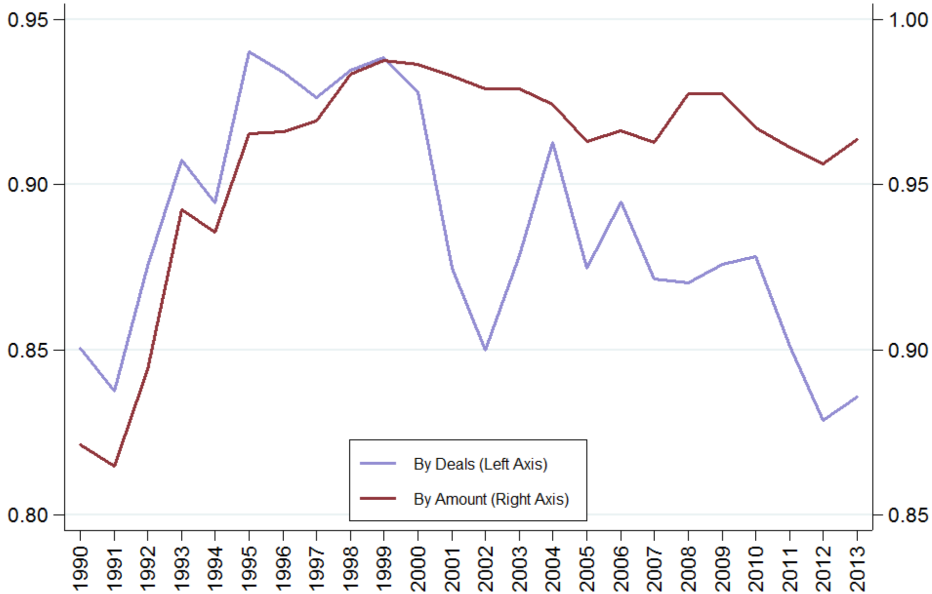
Comments - Empirics

- Regressions provide interesting results, more could be done
- Interest differential?
- Separate financial and non-financial firms
- Add firms fixed effect?
- Other measures of sovereign risk
- Size of domestic local currency bond market
  - including sovereign debt market

General Lessons

- Only use international bonds market. How is it related to developments in local bonds markets?
- Is there really a secular decline in global currency?
  - Figure 1 not convincing
- If global currency included only EUR and USD, picture would be different
  - Figure 3
- Decrease in home currency borrowing by European corporates
  - current project with Ouarda Merrouche

Figure 1: Ratio of bonds issued in top 5 global currencies: CHF, EUR, GBP, JPY, and USD.



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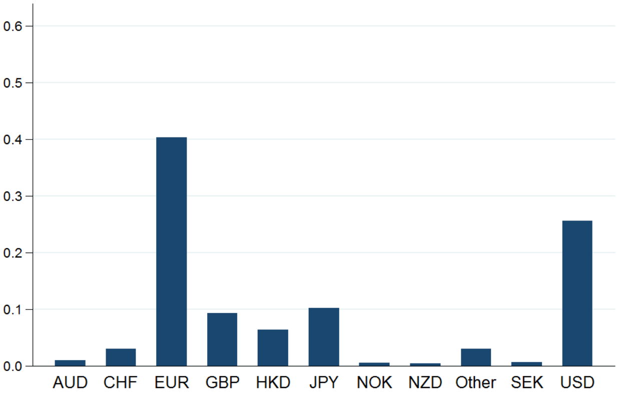
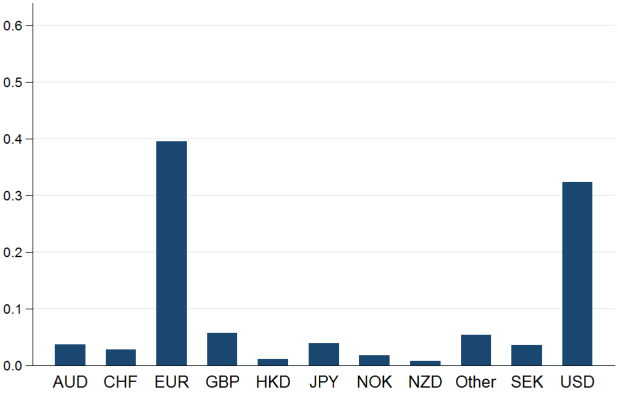
1999-2007



2010-2013



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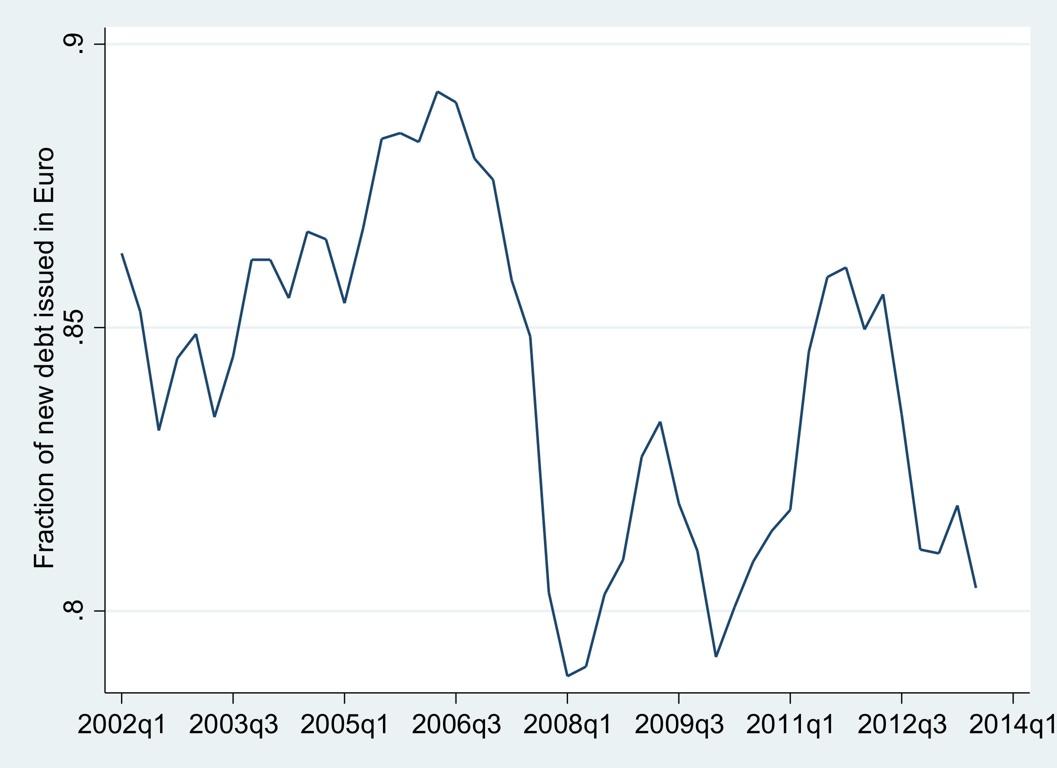

.9
.85
.8
Fraction of new debt issued in Euro
2002q1
2003q3
2005q1
2006q3
2008q1
2009q3
2011q1
2012q3
2014q1

Conclusion

- Nice paper and interesting empirical analysis
- The theoretical model is only partially useful
- The broad picture about the decline in global currencies is unclear