

# Offshore Bond Issuance and Noncore Liability in BRICs countries

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## Abstract

In BRICs countries, in order to circumvent capital restriction, the use of offshore affiliates as financing vehicles for accumulating low-yield US dollar liability has become widespread. In order to analyze this issue deeper, we focus on noncore liability and analyze whether the increase of offshore bond issuance by offshore affiliates can be a source of the boom of noncore liability in BRICs countries. From VAR analysis, we found that offshore bond issuance shock has a positive impact on noncore liability in China and Brazil. But the above relation is weak in Russia. Finally, we analyze the Chinese shadow banking sector which is similar with noncore liability. Since funds from offshore bond issuance are used, although financial restriction is strict, shadow banking become more vulnerable to turmoil in international market. Furthermore, due to currency mismatch, depreciation of renminbi will further amplify the damage of the financial shock.