

Global Liquidity, Offshore Bond Issuance and Shadow Banking in China

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In China, to benefit from abundant global liquidity, offshore affiliates of non-financial companies have been increasingly used as financing vehicles for accumulating low-yield US dollar liabilities. To elucidate this issue and its implications, we specifically examine offshore bond issuance, within-company flows, and shadow banking. Results indicate that a global liquidity shock will increase shadow banking, as represented by entrusted loans in China. In spite of strict financial restrictions, about 20% of the variance of shadow banking is explained by global liquidity shocks.

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