

Who are the foreign investors in Italian government debt? A breakdown by geography and institution

by Chiara Cremonesi, FI Strategist (UniCredit Bank, London)

- According to the Bank of Italy, at the end of 2018, non-residents held EUR 578bn of Italian government debt securities, or slightly short of 30% of the total outstanding of govies (or 24% when “roundtrip” investors are taken into account).
- In this piece, we analyse the breakdown of foreign investors’ holdings of Italian govies using IMF CPIS data and the Eurosystem Securities Holdings Statistics.
- First, we show that foreign non-banks investors (asset managers, hedge funds, insurance companies and pension funds and households) are the most relevant type of foreign investor in Italian govies, accounting for 53% of total non-resident holdings in 2Q 2018. Foreign banks and foreign officials are less relevant, accounting for 19% of total non-resident holdings each. The rest is held by the ECB within the SMP and QE programs.
- Second, unsurprisingly, eurozone investors represent the bulk of foreign investors, holding 78% of Italian debt securities in 2Q18. Therefore, only 22% of non-resident holdings of Italian debt (7% of the total Italian debt securities outstanding) are located outside the eurozone. With respect to eurozone investors, France stands out as the most relevant country in terms of Italian govies holdings.
- Last but not least, within the euro area, almost half of the holdings of Italian govies are in the hands of financial institutions other than banks (mostly asset managers and funds). 15% are held by banks, and almost 20% are held by households and non-financial institutions.

1. The importance of non-resident investors for Italian government debt securities

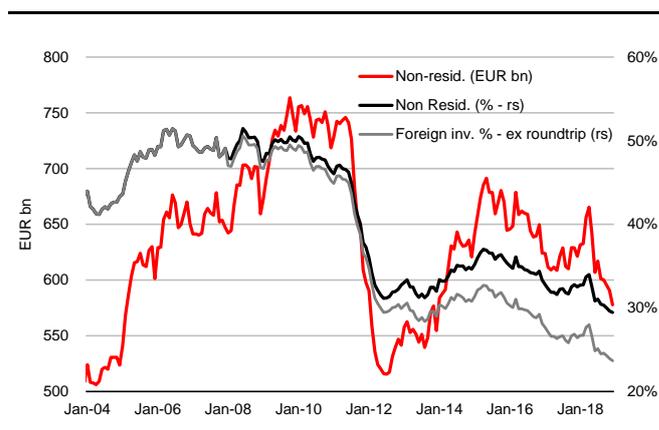
One of the questions we are asked most frequently by our clients is how holdings of Italian government securities are distributed amongst foreigners. This topic has been particularly relevant in the May2018 episode of pressure on BTPs. At that stage and in the following months, large outflows of money from non-resident investors sizeably reducing their exposure to Italian govies triggered a sharp repricing of BTPs. Understanding who are the foreign investors in Italian securities can give us a better idea of how vulnerable the debt holders structure of Italian govies is to negative news from the economy and from the political side.

According to the Bank of Italy, in December 2018 (latest available data point), non-residents held EUR 578bn of Italian government debt securities, or slightly short of 30% of the total outstanding of government debt securities.

Taking into account that this amount includes investors who are Italian but are domiciled in foreign countries for tax reasons (e.g. Luxembourg and Ireland, so called “roundtrips”), non-residents held EUR 465bn of Italian govies, slightly short of 24% of the total outstanding of government debt securities.

Since mid-2015, non-resident holdings have been declining as a percentage of total outstanding debt. In volumes, non-resident holdings declined from mid-2015 to mid-2017, increased until mid-2018 and have since started to decline again. In December 2018, at less than 30% of the total Italian debt securities outstanding (or 24% considering roundtrips), non-resident holdings stood at their lowest level since 1998. In volumes, they stood at their lowest level since the end of 2013/beginning of 2014.

CHART 1: FOREIGN HOLDINGS OF ITALIAN GOVEIS AT THEIR HISTORICAL LOWS



Source: Bank of Italy, UniCredit Research

While the Bank of Italy provides a breakdown of domestic investors, it does not provide a breakdown of non-resident investors by geography or by type.

Such a breakdown can, however, be estimated by looking at a few different sources that allow us to get a fairly accurate picture of non-resident of Italian government debt securities.

Our approach uses **1.** data from the IMF database by Serkan Arslanalp and Takahiro Tsuda, which breaks the foreign holdings down into foreign officials, foreign banks and foreign non-banks¹; **2.** the IMF balance of payments data, in particular, the CPIS data and international investment position data (IIP from which we are able to reconstruct the holdings of Italian government debt securities by country;

¹ <http://www.imf.org/external/pubs/ft/wp/2012/Data/wp12284.zip>

3. the Securities Holdings Statistics (SHS) from the Eurosystem, which breaks down Italian government securities holdings by euro area holders, in particular households and non-financial entities, banks and financial institutions other than banks². From these data we are able to reconstruct which eurozone types of institutions hold Italian government debt securities.

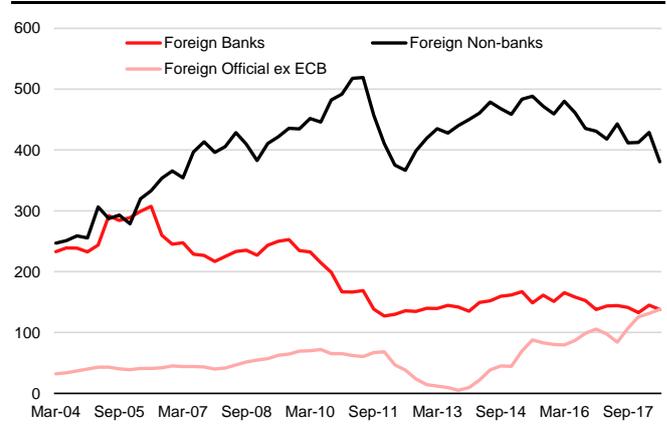
2. The IMF breakdown: foreign non-banks represent the majority of foreign investors in Italian govies

Serkan Arslanalp and Takahiro Tsuda at the IMF have compiled a very useful and comprehensive database that breaks foreign investors down into foreign officials, foreign banks and foreign non-banks. Data are collected on a quarterly basis starting from 2004, and the latest data available is 2Q18. The detailed breakdown for foreign investors is only available for general government debt, as opposed to a smaller aggregate that only considers general government debt securities. However, for Italian government debt the difference between general government debt and government debt securities is relatively small and has remained relatively constant over time.

According to this dataset, in mid-2018, 19% of the total foreign holders were foreign official investors (excluding the ECB), 8% were ECB's holdings and 19% were foreign banks. Finally, the bulk of foreign investment came from foreign non-banks (AM, hedge funds, insurance companies and pension funds, households), which held 53% of the total non-resident.

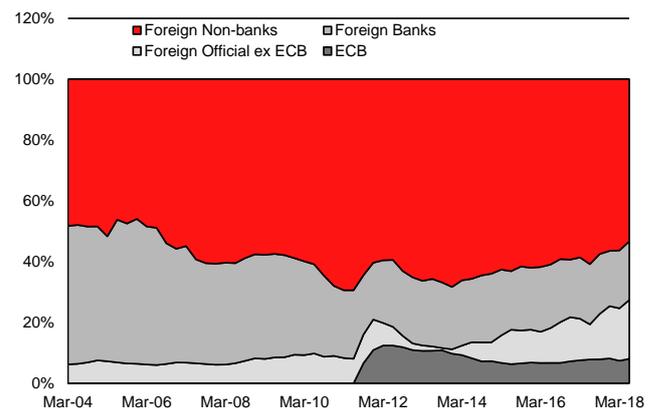
Charts 2 and 3 show that the holdings of foreign banks fell with the financial crisis of 2008 and remained fairly stable after 2012. Foreign officials' holdings have been slightly increasing since 2014, even when accounting for the ECB's holdings. We think this is related to an increase in the holdings of short-term debt of some central banks outside of Europe. Last but not least, the holdings of foreign non-banks, which represent the greatest portion of non-resident investors in Italian government debt, declined sharply in 2011/2012 and have done so again since mid-2015. In 2Q18 (which contains the May sell-off episode), the ratio of holdings of foreign non-banks to total foreign holdings declined from 56% to 53%, and we guess that the trend continued in the following quarters.

CHART 2: FOREIGN NON-BANKS REPRESENT THE LION'S SHARE OF FOREIGN HOLDINGS OF ITALIAN DEBT SECURITIES (EUR BN)



Source: IMF, UniCredit Research

CHART 3: FOREIGN NON-BANKS HAVE RECENTLY BEEN REDUCING THEIR PORTION OF HOLDINGS OF ITALIAN DEBT SECURITIES (AS A PERCENTAGE OF TOTAL FOREIGN HOLDINGS)



Source: IMF, UniCredit Research

This classification is very useful as it highlights that more than half of the non-resident holdings of Italian govies belong to foreign private investors, which traditionally are the most active sellers in times of market stress; this is different from the core and semi-core countries in the EMU, where the proportion of foreign private investors is lower and the proportion of foreign officials is higher (see Table 1). This makes the structure of foreign holders of Italian govies more vulnerable than the analogous structures of other eurozone countries. The silver lining is that, as we argued in the introduction, foreign holders of Italian govies merely represented less than 30% of total holdings.

² https://www.ecb.europa.eu/pub/pdf/other/eb201502_article02.en.pdf?59ee8bfccc28ae92a937ec7b532ad89e

TABLE 1: STRUCTURE OF FOREIGN HOLDERS OF GENERAL GOVERNMENT DEBT IN ITALY, FRANCE AND GERMANY

	ITALY	FRANCE	GERMANY
For. Off. ex ECB	19%	35%	71%
For. Banks	19%	15%	20%
For. Non- Banks	53%	47%	4%
ECB	8%	3%	5%

The ECB's holdings are much higher for Italy as they include the SMP.

Source: IMF, UniCredit Research

3. The IMF's BoP and CPIS data: a country-by-country breakdown

The IMF CPIS data for debt securities issued by Italy contains a breakdown by holders' countries. Data are available on a yearly basis from 2001 to 2012 and on a bi-annual basis after that until June 2018. The data are expressed in USD, so we have converted them into EUR. Moreover, the data refer to the total debt securities both from the private and the public sector. In order to isolate public debt securities from the private sector debt securities, we have taken the ratio between general government debt securities and total debt securities in the portfolio investment liabilities. This is an approximation, but the figures we have obtained for the total holdings of foreigners are very similar to the figures on foreign holdings of Italian debt securities from the Bank of Italy's data, especially in the most recent part of the sample.

According to the IMF's IIP data, unsurprisingly, in June 2018 78% of the non-resident holdings of Italian govies was in the hands of eurozone investors and only the remaining 22% was in the hands of investors outside of the euro area. Looking at the historical trend (see Chart 4), since 2015, eurozone investors have held between 76% and 84% of total non-resident holdings of Italian govies. Thus, the proportion of Italian govies held within the euro area has remained very high through the years.

This is a very important point, as most foreign holders are located inside the monetary union and, in principle, this should make the structure of Italian debt less vulnerable in moments of stress. Looking back to the period from December 2010 to June 2013, when foreign holdings of Italian govies declined sharply, the distribution of foreign holders changed in favour of eurozone investors (see Chart 4). But this was not the case in the first two months of the recent episode of pressure on BTPs in May 2018.

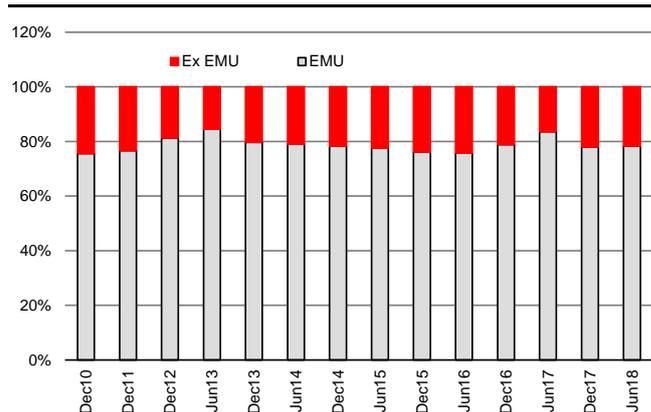
Indeed, between the end of 2017 and 2Q18, the holdings of Italian govies of eurozone investors and of investors outside of the eurozone both declined, leaving the ratio of holdings unchanged. In other words, initial evidence shows that the period of market stress in May 2018 did not alter the distribution between eurozone and non-eurozone foreign investors in Italian govies. Of course, the balance could have altered later in 2H18.

TABLE 2: BREAKDOWN OF NON-RESIDENT HOLDINGS OF ITALIAN GOVIES (% OF TOTAL FOREIGN HOLDINGS, 2Q 2018)

Eurozone		78%
	FR	21%
	GE	14%
	LUX	14%
	SP	12%
	IE	7%
	AT	1%
	BE	2%
	PT	2%
US		4%
UK		2%
JP		5%
Cayman Islands		2%
Rest of the world		8%

Source: IMF, Haver, UniCredit Research

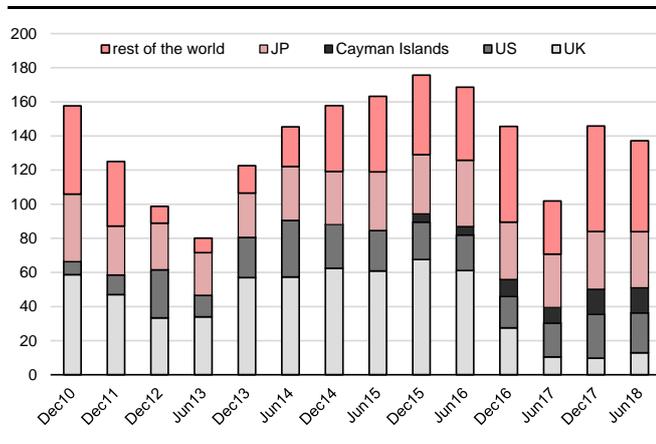
CHART 4: FOREIGN HOLDINGS OF ITALIAN GOVIES: EUROZONE VS. NON-EUROZONE (AS A PERCENTAGE OF TOTAL FOREIGN HOLDINGS)



Source: IMF, Haver, UniCredit Research

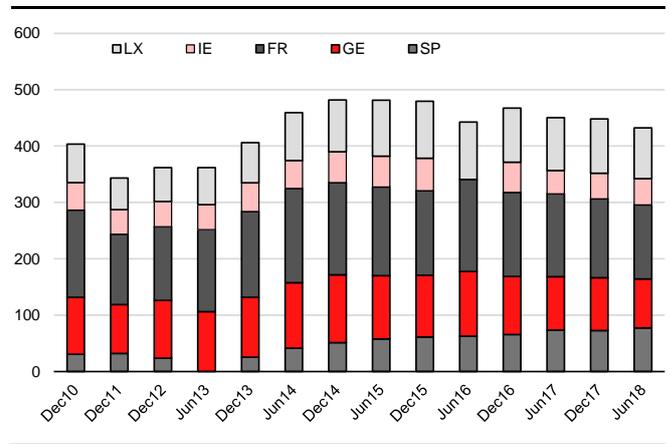
Chart 5 shows a more detailed breakdown of the non-resident investors in Italian govies outside of the euro area. In particular, it presents the debt held by investors located in the UK, the US, Japan, the Cayman Islands and the rest of the world, expressed in volumes. The chart highlights that investors from the UK are responsible for a lot of the decline in holdings of Italian govies since the end of 2015 (UK investors went from holding almost EUR 70bn of Italian govies at the end of 2015 to only EUR 13bn in mid-2018), while the holdings of US and Japanese investors have remained relatively stable. Holdings in the rest of the world have increased slightly. We have also included the Cayman Islands in the chart, as some US funds are domiciled there for tax purposes.

CHART 5: FOREIGN HOLDINGS OF ITALIAN GOVIES: UK, US AND THE REST OF THE WORLD (EUR BN)



Source: IMF, Haver, UniCredit Research

CHART 6: FOREIGN HOLDINGS OF ITALIAN GOVIES: BREAKDOWN OF MAJOR EUROZONE INVESTORS (EUR BN)



Source: IMF, Haver, UniCredit Research

Chart 6 shows the breakdown of the most relevant eurozone holders of Italian govies, France stands out as the country holding the most Italian govies (EUR 130-135bn according to our estimates in mid-2018), followed by Germany (EUR 85-90bn) and Luxembourg (EUR 90bn). Spain comes fourth with EUR 75-80bn in holdings in mid-2018. Finally Ireland held EUR 46bn of Italian govies in 2Q18. Importantly, the figures for Luxembourg and Ireland probably include so-called roundtrip investors, Italian investors domiciled abroad for tax reasons. Indeed, the Bank of Italy estimates that EUR 117bn can be attributed to roundtrip investors in 2Q18. This compares to a total of EUR 136bn of Italian govies held by Luxembourg and Ireland, according to the IMF database.

Interestingly, while from the end of 2017 to mid-2018 German, French and Luxembourg investors each reduced their exposure to Italian govies by EUR 6-8bn, Spanish investors increased their exposure by around EUR 5bn, while holdings of Irish investors remained unchanged.

4. The Eurosystem SHS: a deep dive into eurozone investors in Italian govies

What kinds of eurozone institution hold Italian government debt securities? Given most foreign holdings are in the hands of eurozone investors, the distribution of those holdings is very important.

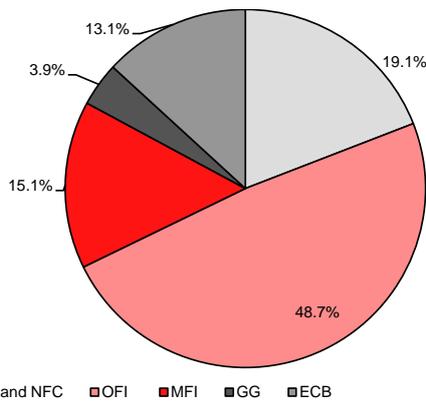
The Eurosystem started to publish the Securities Holdings Statistics (SHS) in early 2014 as a response to the need for exhaustive data on the exposure of various sectors to single securities. SHS are constructed on a security-by-security basis, so that they can provide extremely granular information. The dataset goes back to 4Q13 and the latest available data is 3Q18. The SHS do not include Eurosystem holdings.³

Since the end of 2016, holdings of Italian debt securities by eurozone investors as reported by the IMF (and transformed as we did in paragraph 3) have tended to correspond to the same figures reported by the SHS. The difference between the two sources in the range of EUR -25/+35bn, which is very contained overall.

³ The SHS database may be subject to a few issues, such as double-counting of securities and underestimate of securities in the hands of institutions not subject to compulsory regulatory reporting (such as households). This is due to the fact that data are collected from different and unrelated sources. For further details please see http://www.bancaditalia.it/pubblicazioni/qef/2016-0363/QEF_363_16.pdf and https://www.ecb.europa.eu/pub/pdf/other/eb201502_article02.en.pdf?59ee8bfc cc28ae92a937ec7b532ad89e

From the SHS database, we obtain euro area holdings (including Italy) of Italian govies, broken down by the following institutions: households and non-financial corporations, financial institutions other than banks, monetary financial institutions (banks) and general government. We subtract the domestic holdings in the same categories to obtain a breakdown of eurozone holdings outside Italy by institution.

CHART 7: EUROZONE HOLDINGS (EXCLUDING ITALY) OF ITALIAN GOVIES BY INSTITUTIONS (% OF TOTAL EUROZONE HOLDINGS, 3Q 2018)



HH and NFC: Households and non-financial institutions
OFI: Financial institutions other than banks
MFI: Monetary financial institutions (banks)
GG: General government
ECB: ECB's holdings within the SMP and QE

Source: ECB, UniCredit Research

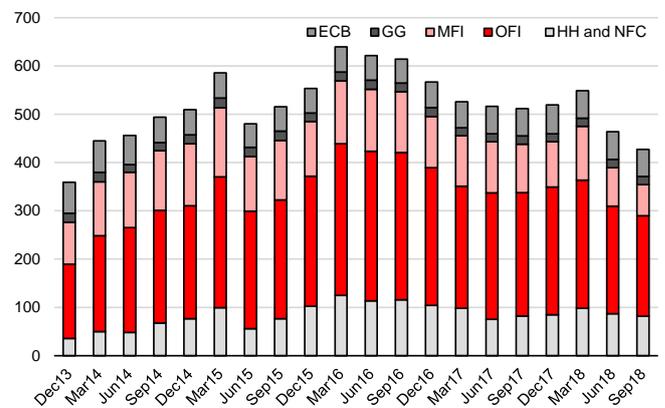
Chart 7 shows that almost half of eurozone holdings outside of Italy are in the hands of financial institutions other than-banks, mostly asset managers and funds⁴; 15% are held by banks; and almost 20% are held by households and non-financial institutions. This breakdown confirms the picture laid out in section 2, above, depicted by the IMF in terms of total foreign holders of Italian debt. This showed that in 2Q 2018, 53% of total foreign investors in Italian debt were private non-bank investors (corresponding in Chart 7 to other financial institutions and households and non-financial institutions). Overall, this confirms that asset managers and funds represent the bulk of foreign investors in Italian govies also within the eurozone.

Chart 8 shows the evolution of eurozone foreign holdings of Italian govies since the end of 2013 and also sheds some more light on what happened in the last episode of pressure on BTPs, as the latest available data in this dataset is for 3Q18 rather than 2Q18 in the other database we used.

⁴ By comparing the insurance companies and pension funds data from the Eurosystem's SHS and the one provided by the financial accounts of the Bank of Italy, we can see that most of the insurance company holdings Italian govies are domestic. We therefore conclude that eurozone institutions outside Italy are mostly asset managers and funds.

In summary, eurozone banks and financial institutions other than banks were the groups decreasing their exposure to Italian govies the most in 2Q18 and 3Q18 (by EUR 47bn and by EUR 57bn, respectively). Over the same period, the holdings of households and non-financial institutions declined by EUR 17bn. As a consequence, the proportion of Italian govies held by eurozone banks dropped by 5pp to 15%, while the proportion held by eurozone financial institutions other than banks remained basically unchanged at over 48% (as the decline in their holdings was proportional to the decline in overall eurozone holdings of Italian govies).

CHART 8: EUROZONE HOLDINGS (EXCLUDING ITALY) OF ITALIAN GOVIES BY INSTITUTIONS (EUR BN)



HH and NFC: Households and non-financial institutions
OFI: Financial institutions other than banks
MFI: Monetary financial institutions (banks)
GG: General government
ECB: ECB's holdings within the SMP and QE

Source: ECB, UniCredit Research

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