WHY DO EMERGING ECONOMIES BORROW SHORT TERM?

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Abstract
We argue that one reason why emerging economies borrow short term is that it is cheaper than borrowing long term. This is especially the case during crises, as during these episodes the relative cost of long-term borrowing increases. We construct a unique database of sovereign bond prices, returns, and issuances at different maturities for 11 emerging economies from 1990 to 2009 and present a set of new stylized facts. On average, these countries pay a higher risk premium on long-term than on short-term bonds. During crises, the difference between the two risk premia increases and issuance shifts towards shorter maturities. To illustrate our argument, we present a simple model in which the maturity structure is the outcome of a risk sharing problem between an emerging economy subject to rollover crises and risk averse international investors. (JEL: E43, F32, F34, G15)