

Global Liquidity and Exit Strategies

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Global Liquidity: Three Phases

- **Phase 1 (2001 - 2011)**
 - Bank-driven
 - Key theme is **leverage**
 - European banks intermediating US dollar credit

- **Phase 2 (2011 -)**
 - Bond market-driven
 - Key theme is **search for yield**

- **Unwinding stage (2013 - ??)**

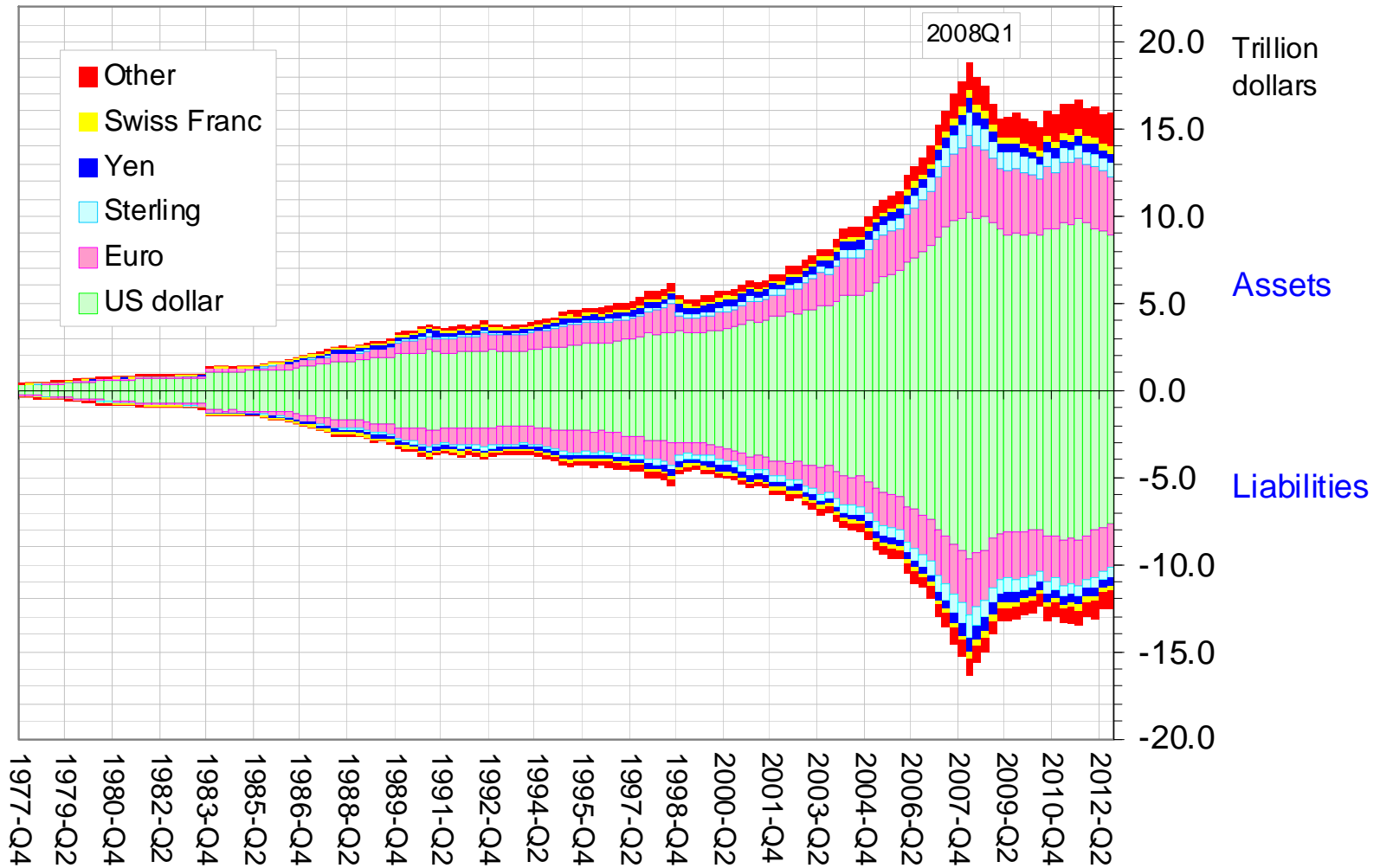


Figure 1. Foreign currency claims and liabilities of BIS reporting banks (Source: BIS Locational statistics 5A)

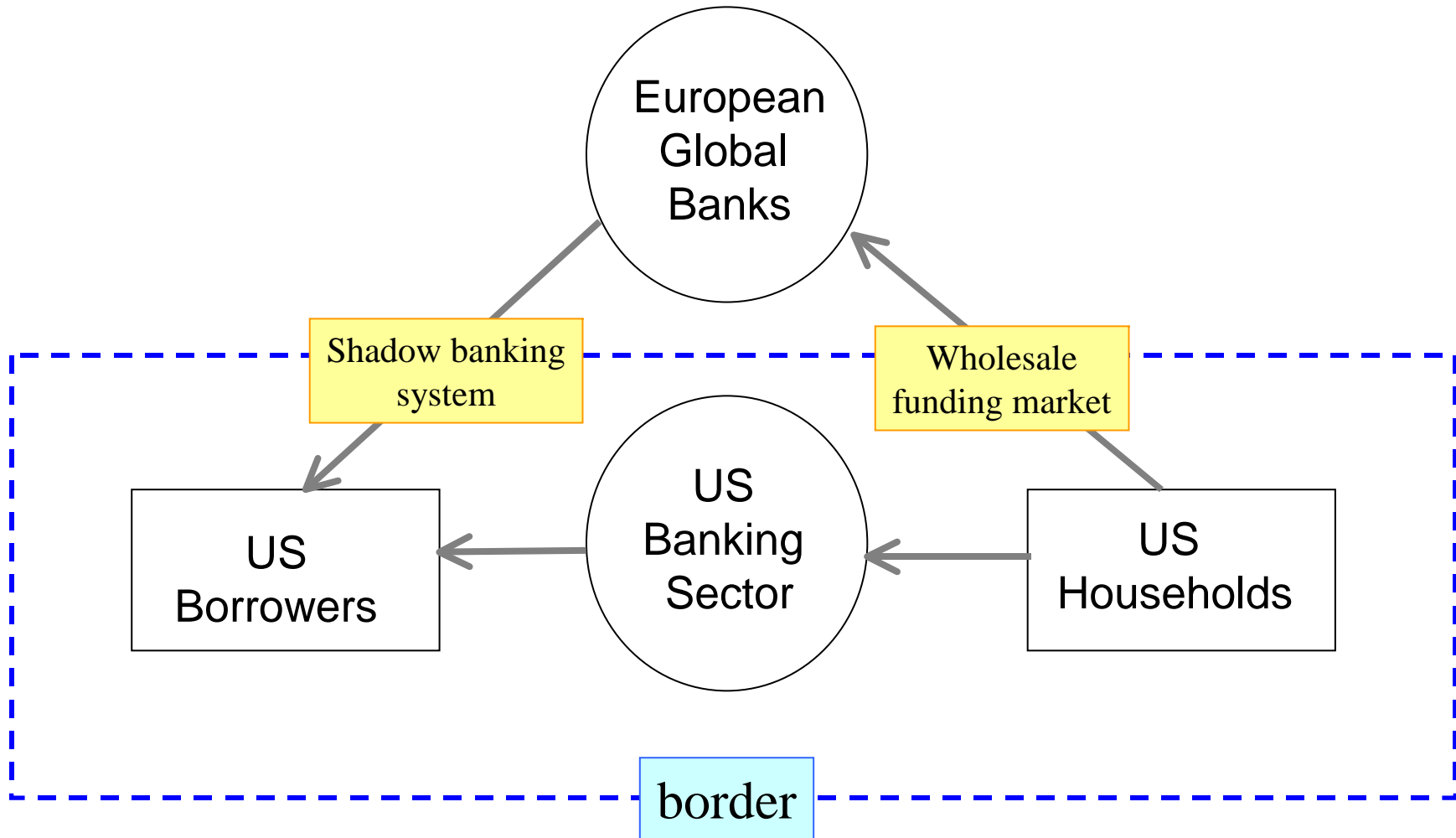


Figure 2. European global banks add intermediation capacity for connecting US savers and borrowers

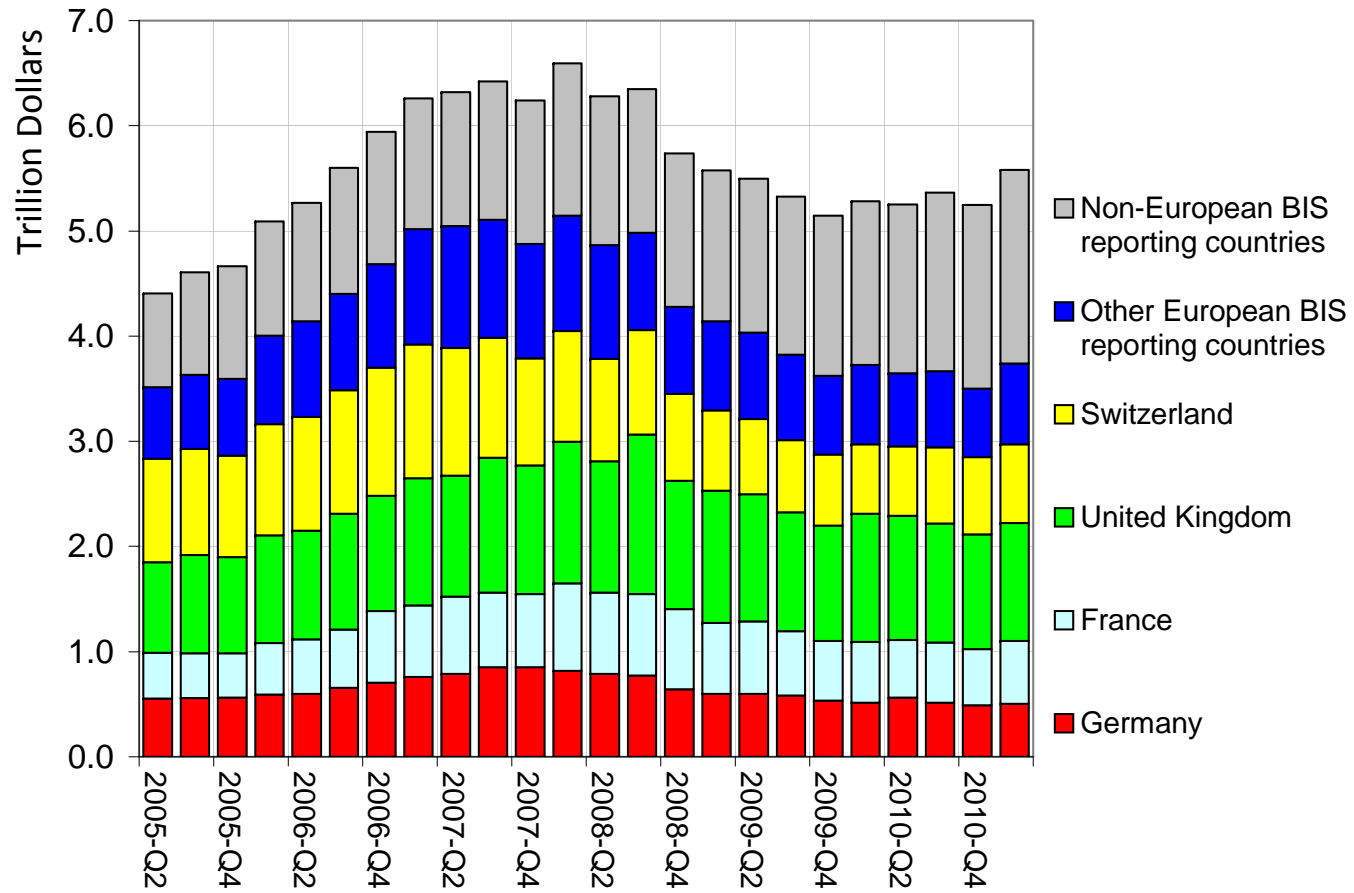


Figure 3. Foreign claims of BIS reporting banks on US counterparties (Source: BIS consolidated banking statistics, Table 9D)

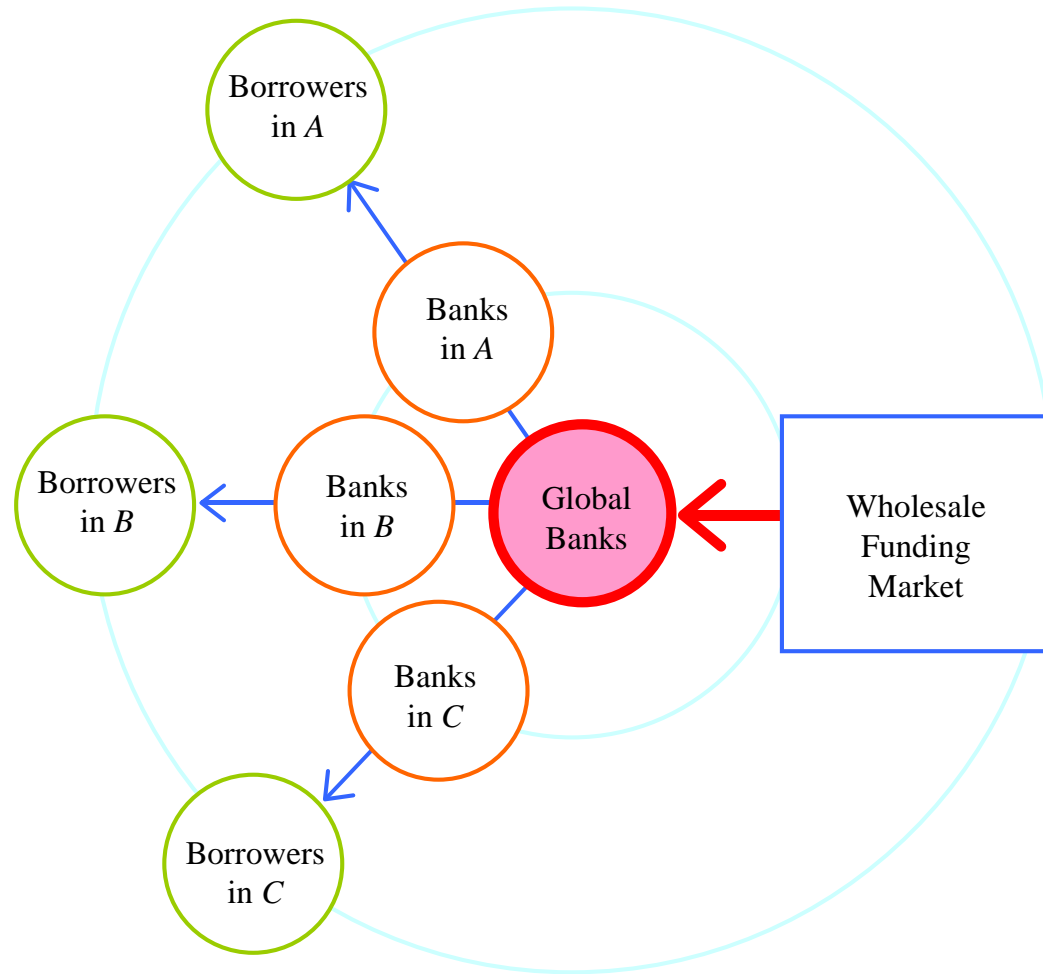


Figure 4. Topography of global liquidity

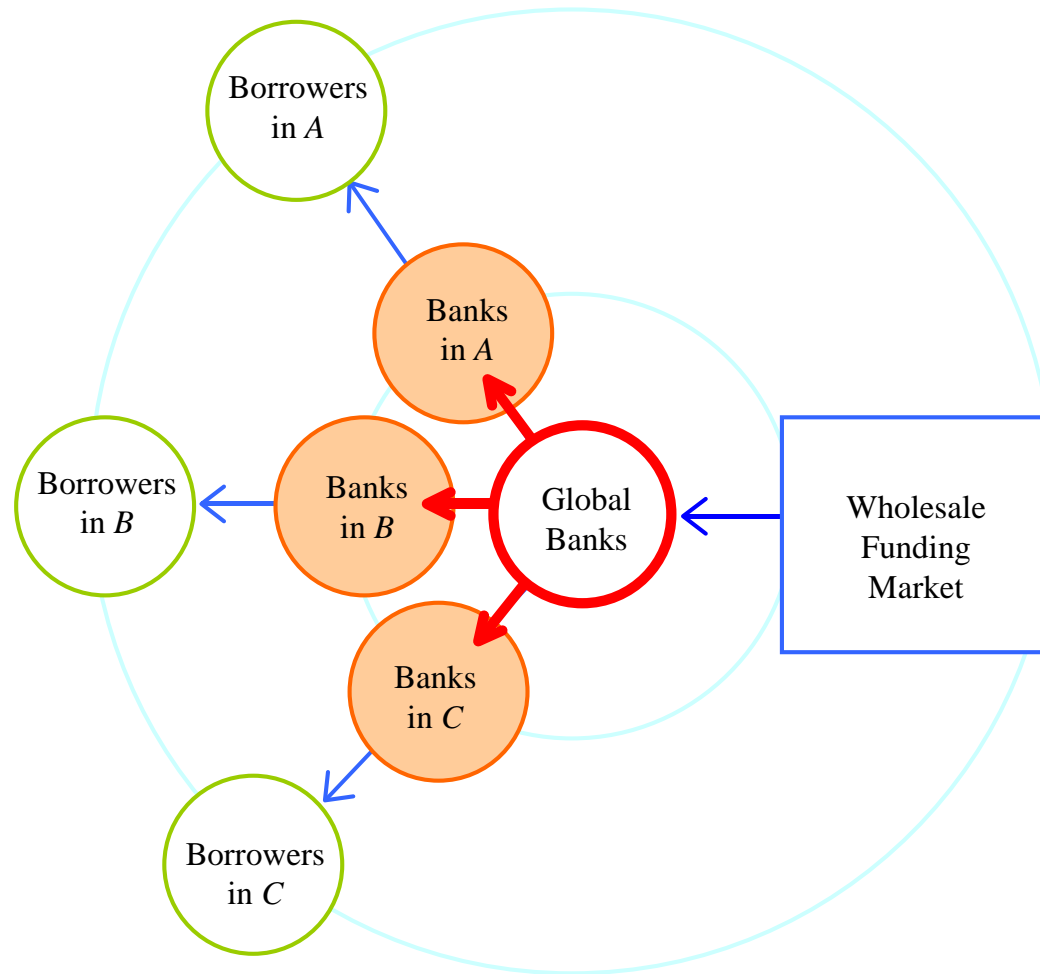


Figure 5. Topography of global liquidity

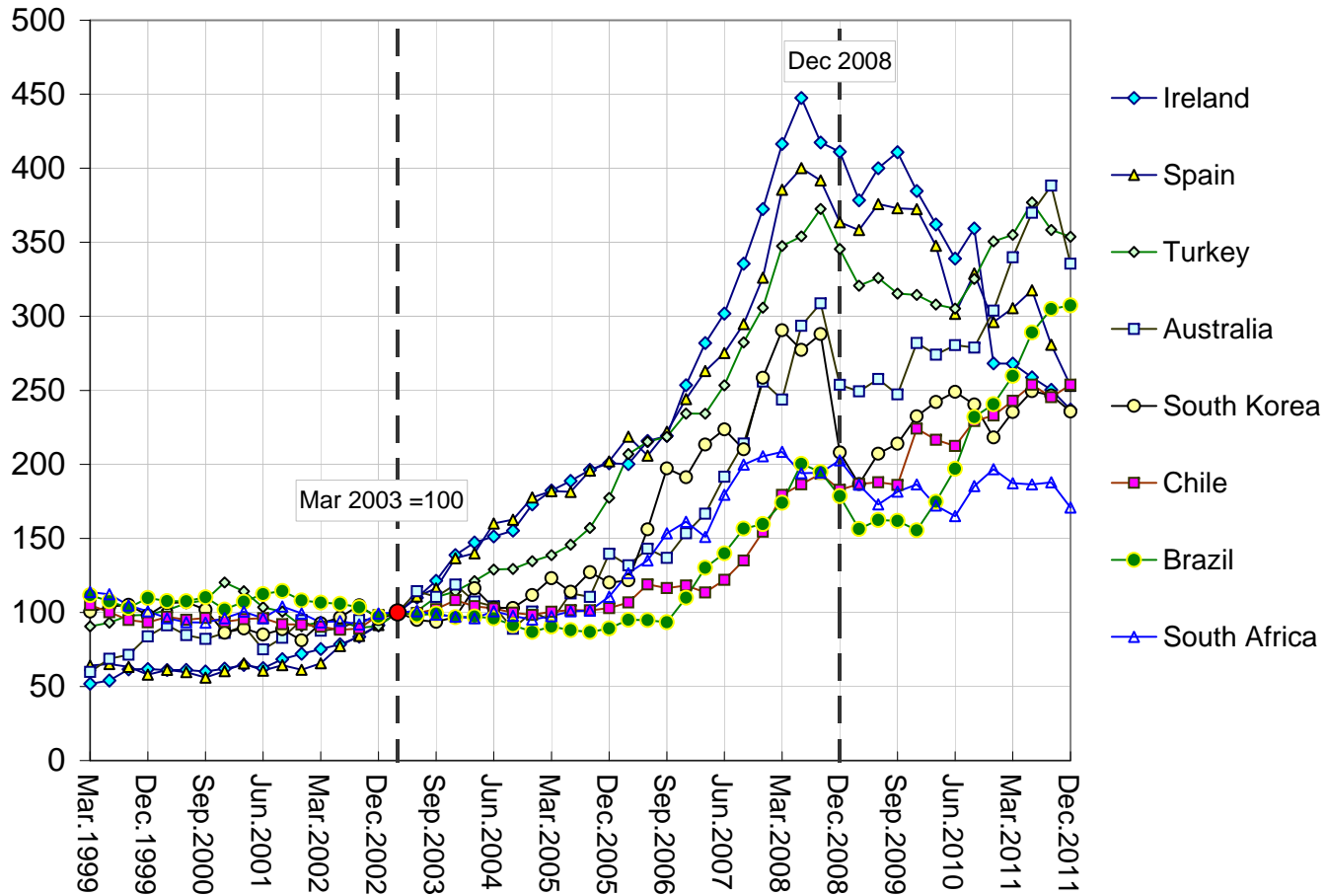


Figure 6. Cross-border claims (loans and deposits) of BIS reporting banks on counterparties listed on right (Source: BIS locational banking statistics Table 7A)

Three (Interlocking) Features of the Euro Crisis

- Sovereign debt crisis

- Banking crisis

- Balance of payments crisis
 - Cross-border capital flow reversal
 - “Sudden Stop”

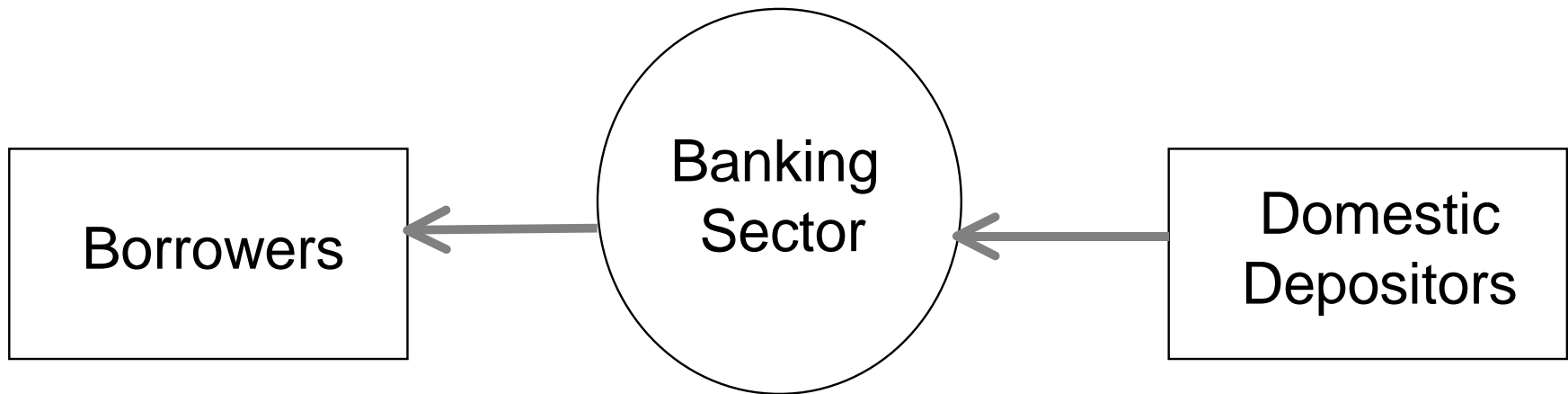
Common thread is the **bank leveraging/deleveraging cycle**

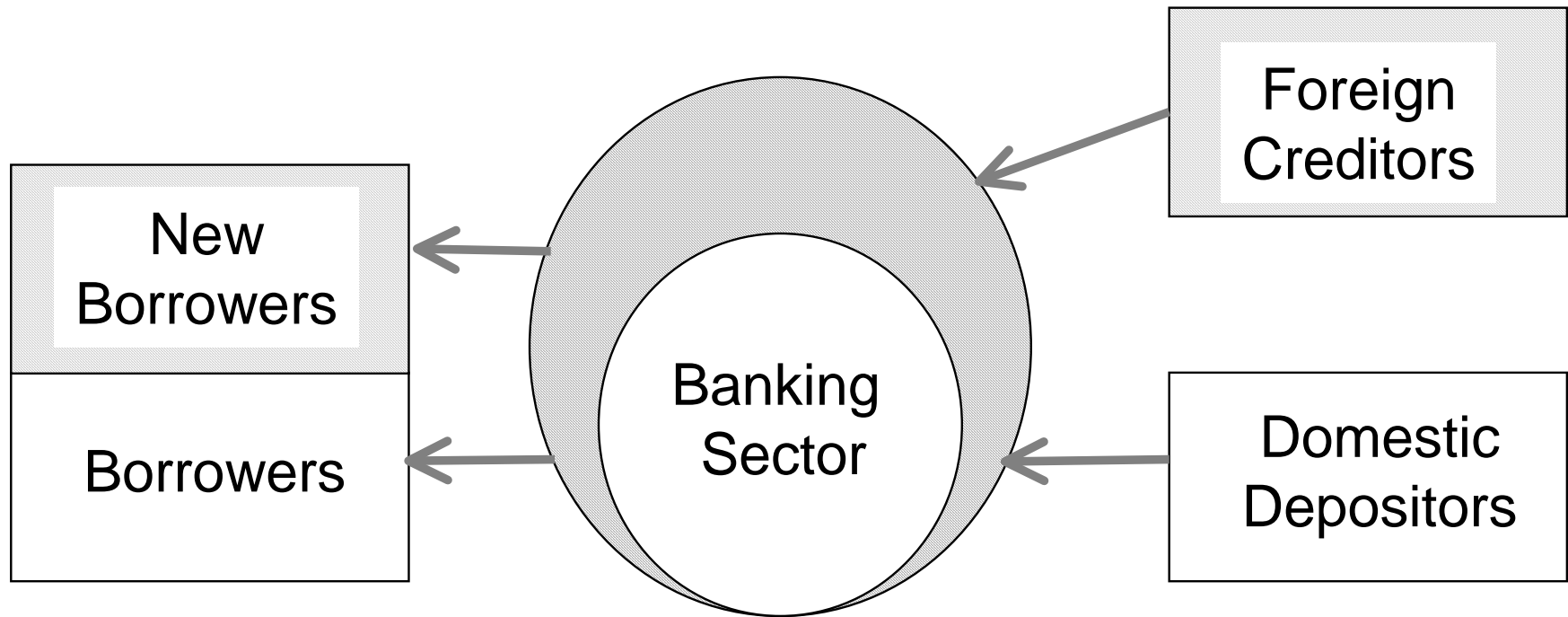
Core and Non-Core Bank Liabilities

- **Core:** Liabilities to domestic household and non-financial claim holders
- **Non-Core:** Liabilities to financial intermediaries and foreign creditors

Ratio of non-core to core liabilities is:

- Procyclical
- Mirrors lowering of credit standards





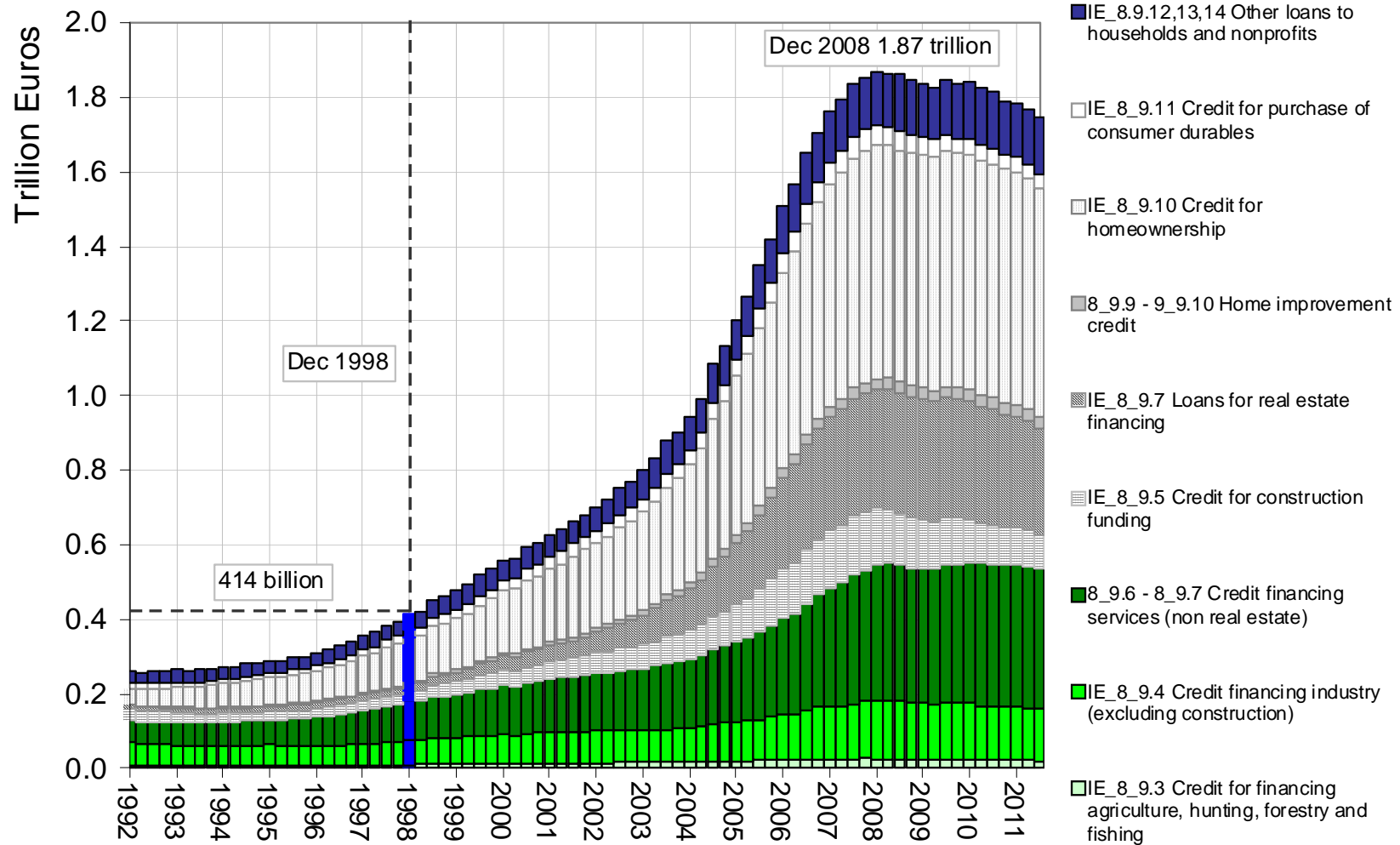


Figure 7. **Spain:** banking sector total domestic credit (Source: Bank of Spain)

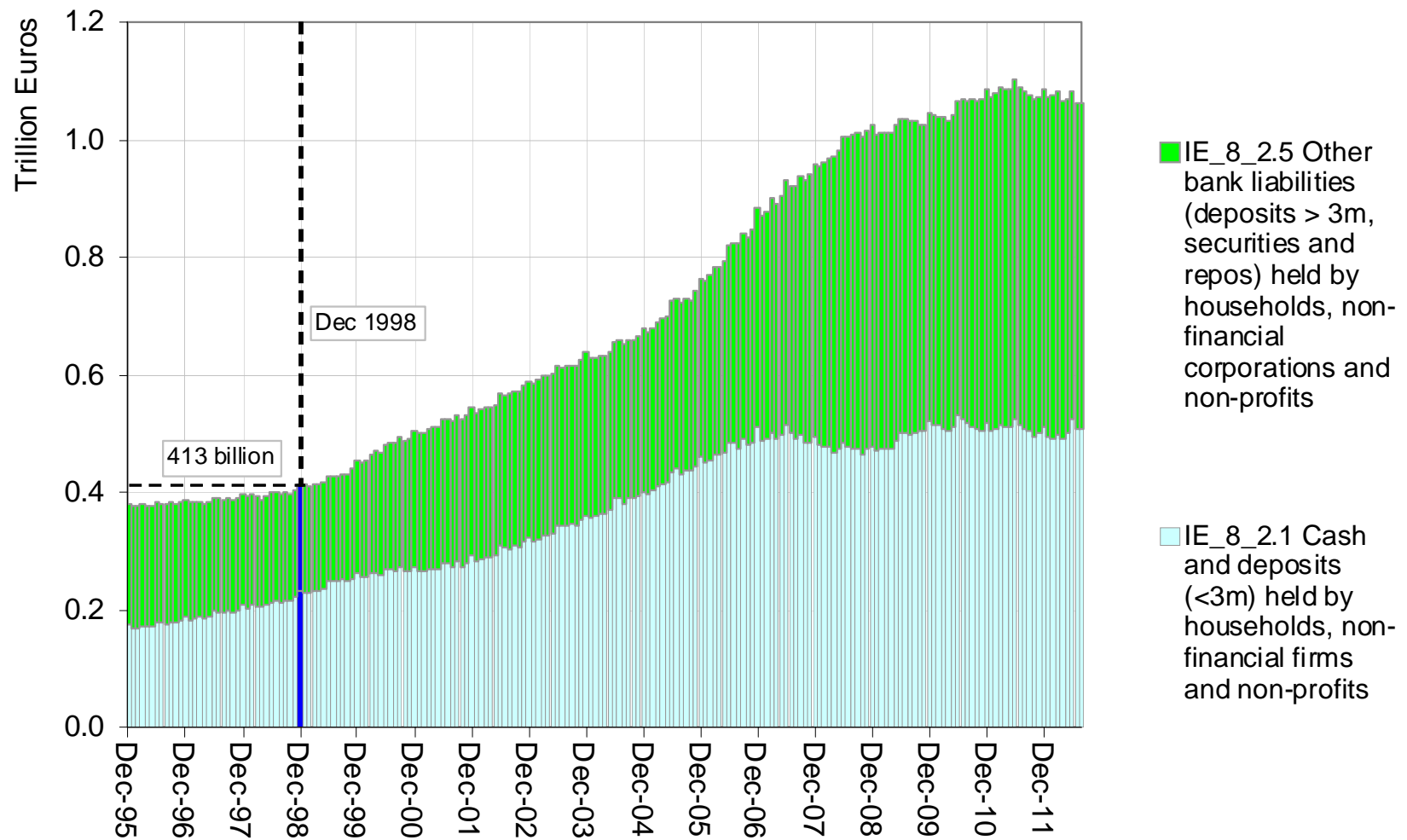


Figure 8. **Spain:** Core liabilities of banking sector (Source: Bank of Spain)

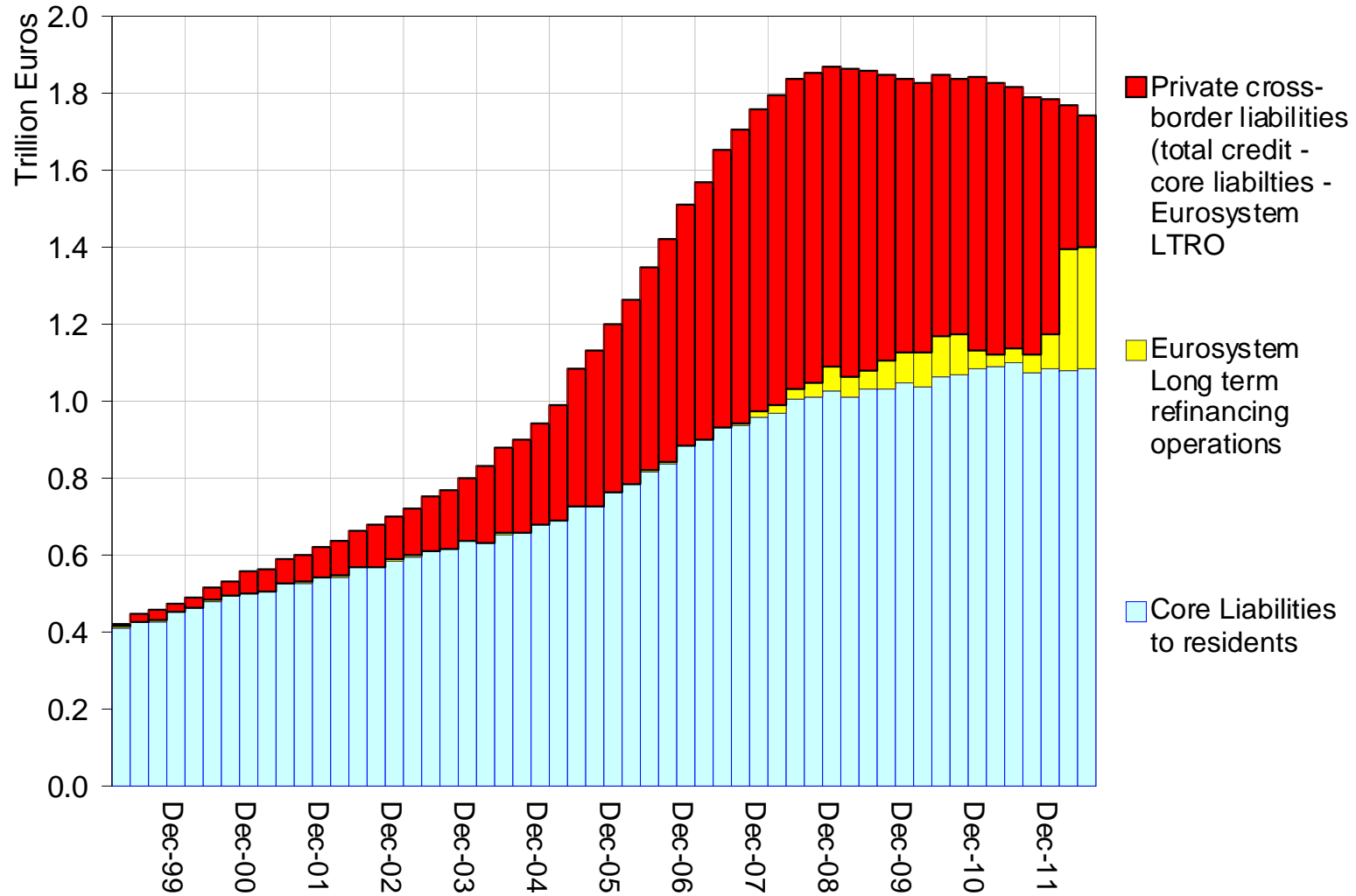
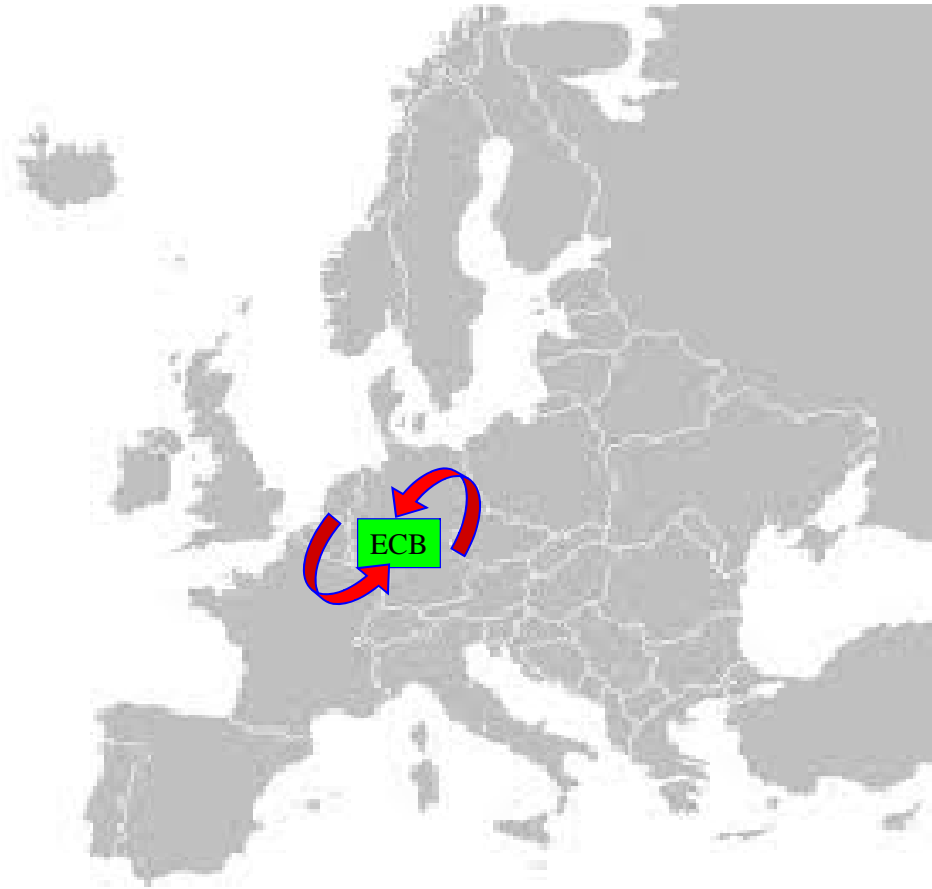
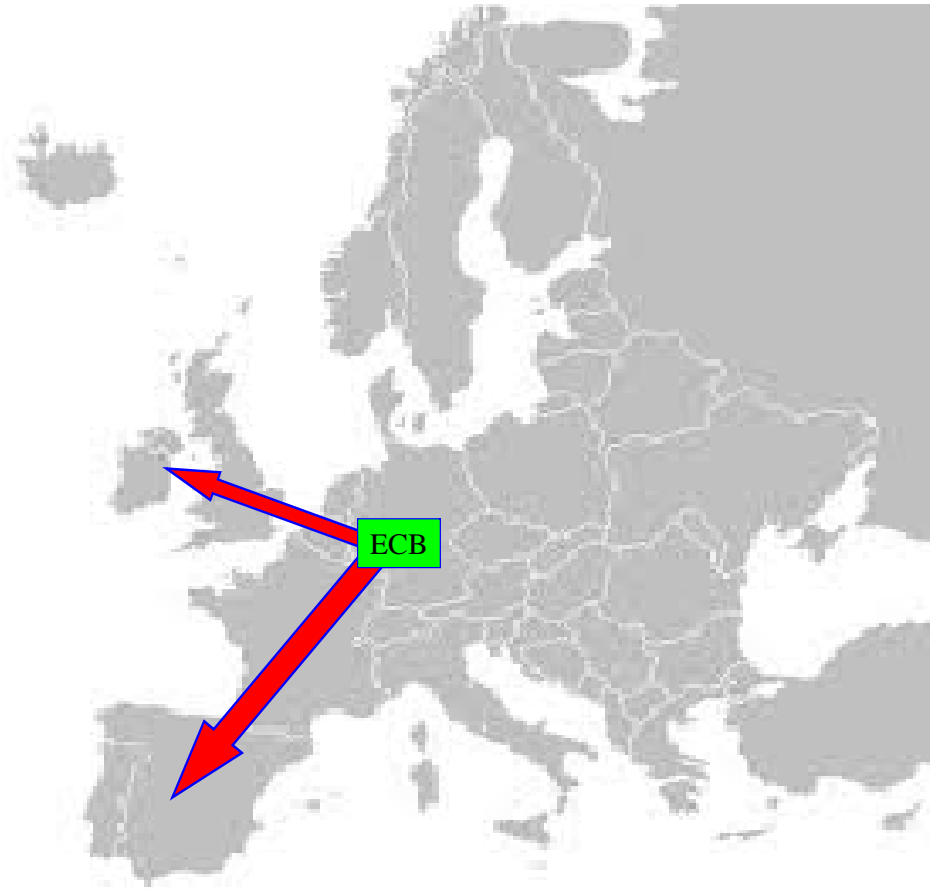


Figure 9. **Spain:** funding gap of Spanish banks (Source: Bank of Spain)







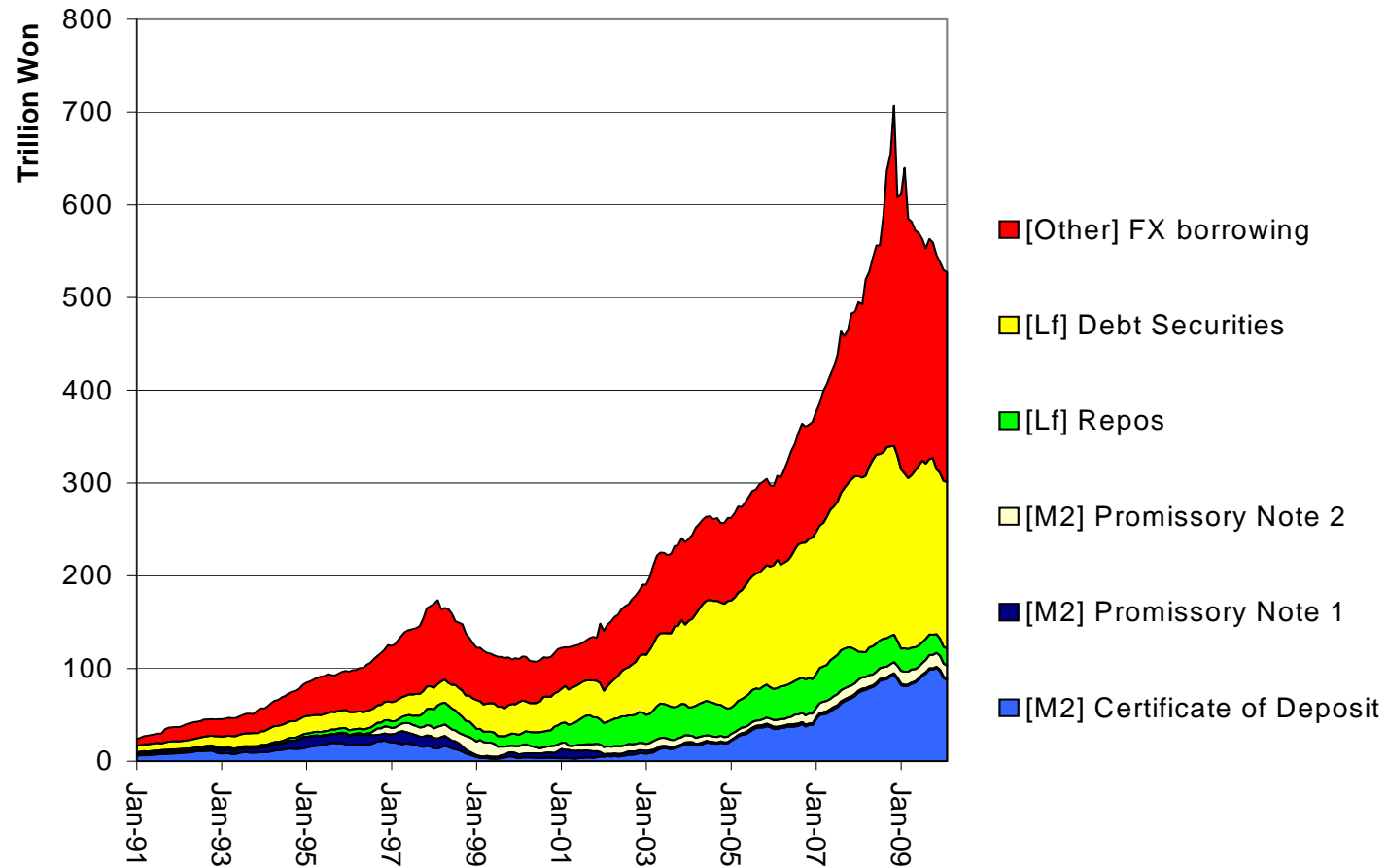


Figure 10. Non-core liabilities of Korean banks (Source: Shin and Shin (2010), data from Bank of Korea)

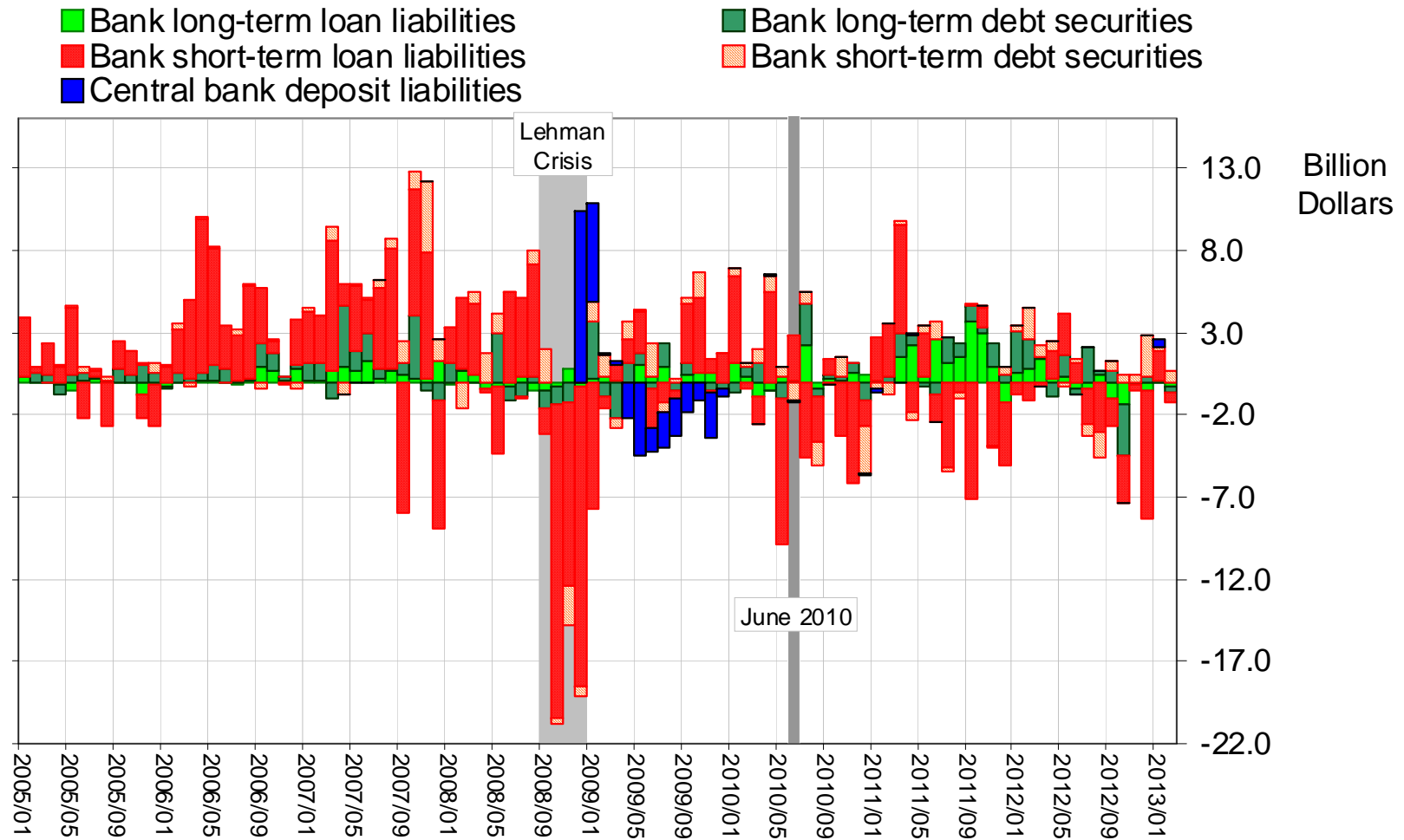


Figure 11. Capital flows to the Korean banking sector, Jan 2005 - Feb 2013 (monthly) (Source: Bank of Korea)

Time to Transcend Advanced/Emerging Distinction

Crisis in Europe is a “triple crisis”

- Sovereign debt crisis
- Banking crisis
- Balance of payments crisis
 - Cross-border capital flow reversal
 - “Sudden Stop”

Common thread is procyclicality driven by common global factor in capital flows and credit growth - “global liquidity”