



BANK FOR INTERNATIONAL SETTLEMENTS

# Promoting the use of DGI data – BIS work on Global Liquidity

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# General Concept of "Global Liquidity"

- Indicators for global liquidity conditions published as part of support for the G20 – follow-up on earlier BIS&CGFS work
- Focus on financial intermediaries as they provide:
  - market liquidity (through their trading activities);
  - funding liquidity (through their lending activities).
- Degree of ease of financing in financial markets driven by interactions with:
  - market participants;
  - public policies.
- Influences the build-up of financial system vulnerabilities
  - Only the "footprints" of global liquidity
  - Asset price inflation / Leverage / Mismatches...

# Indirect approach to “Global Liquidity”

- Key indicator: credit
  - Global private sector credit
  - Primarily provided by banks (but also by issuing debt securities)
  - Stocks reflect outcome of financial intermediation activity
  - Changes reflect build-up of vulnerabilities
- Particular focus on international component
  - Cross-border lending to non-residents + Lending in foreign currency
  - High correlation with booms and busts in global financial conditions
    - marginal source of financing in the run-up to crises
    - amplify domestic trends

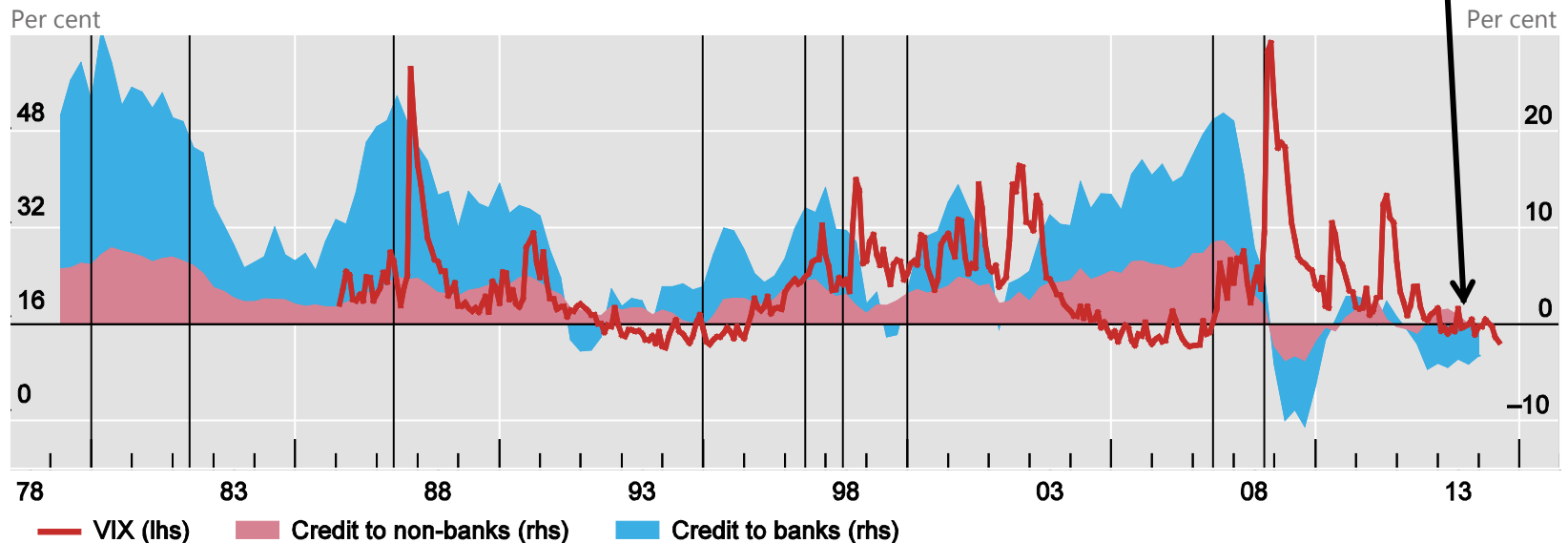
# Use of DGI data

- Cross-border credit
  - BIS International Banking Statistics
  - DGI recommendations 10&11
- Total credit: need to complete banking credit with debt issuance data
  - BIS international debt securities statistics
  - DGI recommendation 7
- Global credit to residents vs non-residents
  - Identification of credit to non-financial sector residents (ex: USD credit to US residents)
  - Total credit to non-residents: cross-border and locally extended loans and outstanding international bonds in non-domestic currencies (ex USD credit to residents outside the US)
- Assessment to be completed with additional indicators

# Flow measures: international bank credit

***Global growth in international bank credit remains close to zero***

Year-on-year rate of growth in international bank claims<sup>1</sup>



The vertical lines indicate: 1979 second oil shock; 1982 Mexican default; 1987 stock market correction; 1994 Mexican peso devaluation; 1997 Asian financial crisis; 1998 Russian default and LTCM; 2000 Nasdaq peak; 2007 beginning of global financial crisis; 2008 collapse of Lehman Brothers.

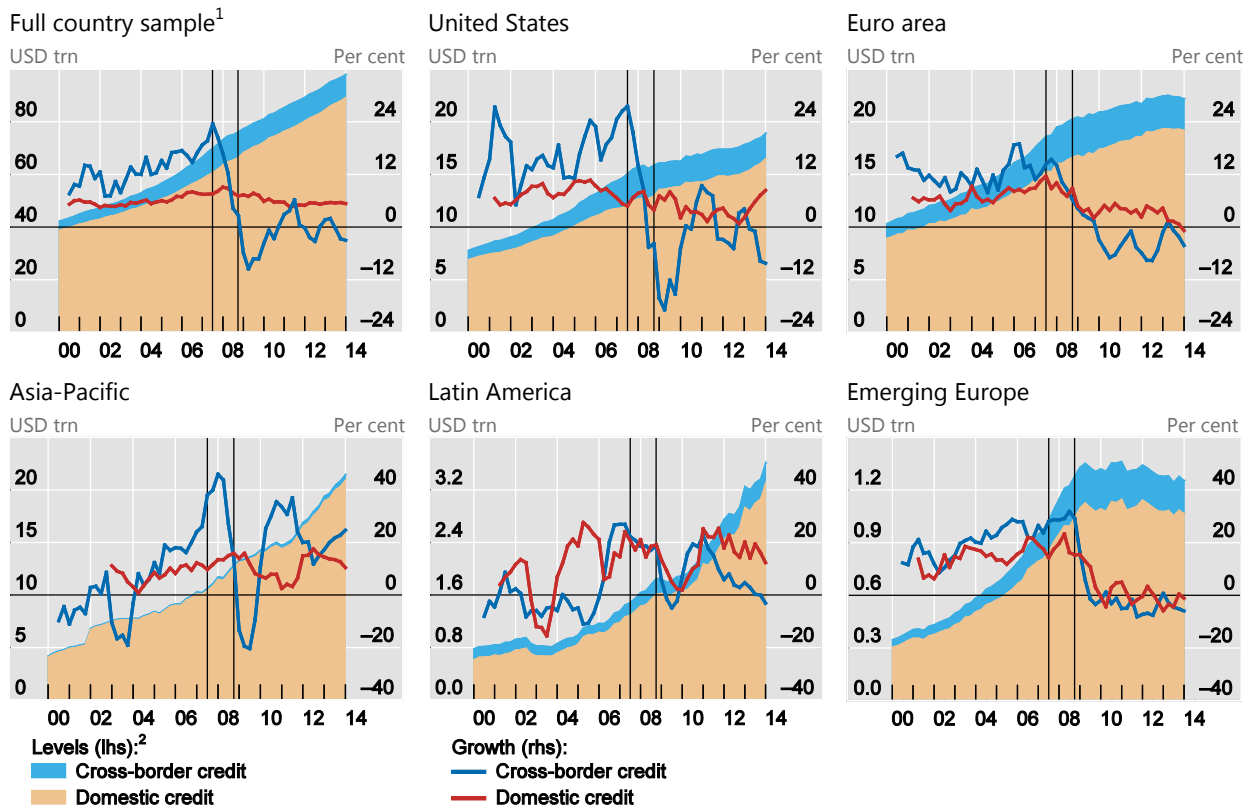
<sup>1</sup> Includes all BIS reporting banks' cross-border credit and local credit in foreign currency.

Sources: Bloomberg; BIS locational banking statistics by residence.

# Flow measures: domestic vs cross-border bank credit

Global bank credit aggregates, by borrower region

At constant end-Q4 2013 exchange rates



**Domestic bank credit to non-banks continue to grow except in Europe**

**Cross-border bank credit to non-banks flat or falling in most regions**

The vertical lines indicate the 2007 beginning of the global financial crisis and the 2008 collapse of Lehman Brothers.

<sup>1</sup> Aggregate for a sample of 56 reporting countries. <sup>2</sup> Total bank credit to non-bank borrowers (including governments), adjusted using various components of the BIS banking statistics to produce a breakdown by currency for both cross-border credit and domestic credit.

Sources: IMF, *International Financial Statistics*; BIS international banking statistics; BIS calculations.

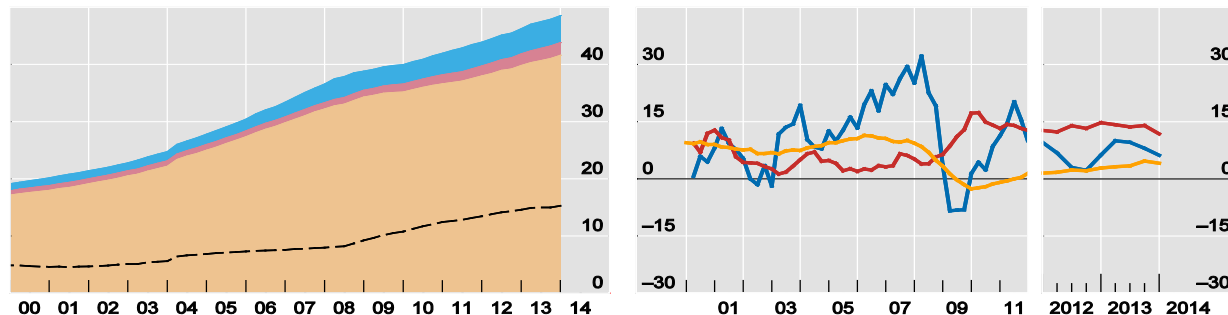
# Flow measures: bond issuance and bank lending

Global credit in US dollars and euros to the non-financial sector

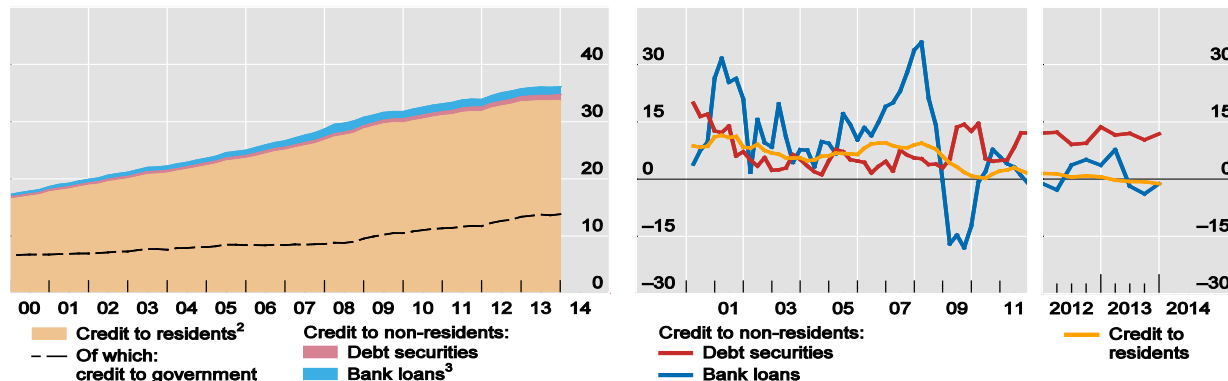
Stocks, in trillions of US dollars

Year-on-year growth, in per cent

US dollar credit



Euro credit<sup>1</sup>



**USD-denominated bank credit to non-residents has been more robust**

**USD and EUR-denominated international debt has continued to grow at close to double-digit rates**

<sup>1</sup> At constant end-Q4 2013 exchange rates. <sup>2</sup> Credit to the non-financial sector in the United States/euro area from national flow of funds, excluding identified credit to borrowers in non-domestic currencies (ie cross-border and locally-extended loans and outstanding international bonds in non-domestic currencies). <sup>3</sup> Cross-border and locally extended loans to non-banks outside the United States/euro area. For China and Hong Kong SAR, locally extended loans are derived from national data on total local lending in foreign currencies on the assumption that 80% are denominated in US dollars. For other non-BIS reporting countries, local US dollar/euro loans to non-banks are proxied by all BIS reporting banks' gross cross-border US dollar/euro loans to banks in the country, on the assumption that these funds are then extended to non-banks.

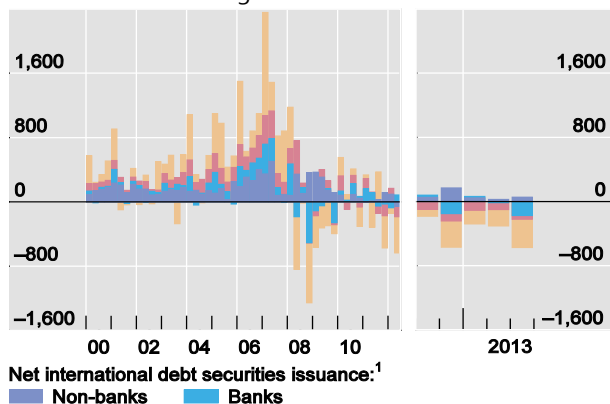
Sources: IMF, *International Financial Statistics*; Datastream; BIS international debt statistics and locational banking statistics by residence.

# Flow measures: the "second phase of global liquidity"

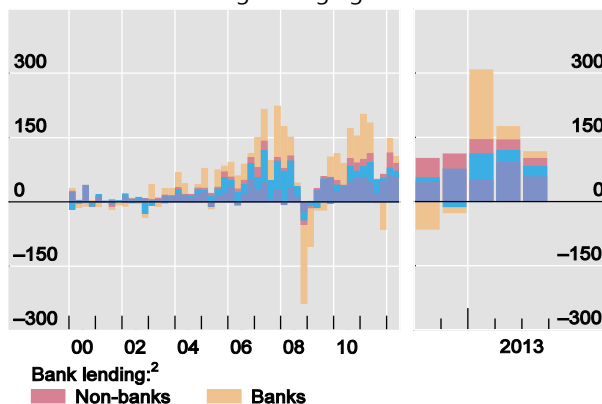
## External financing flows

In billions of US dollars

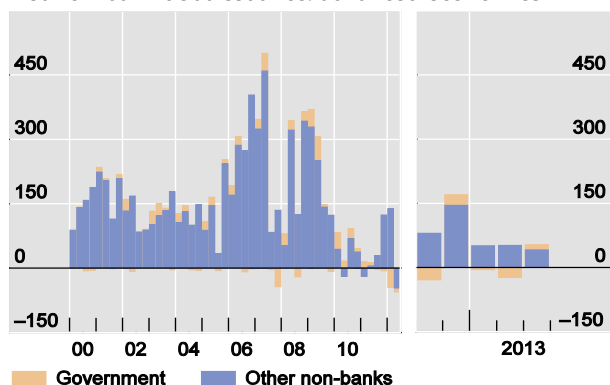
Debt and bank lending: advanced economies



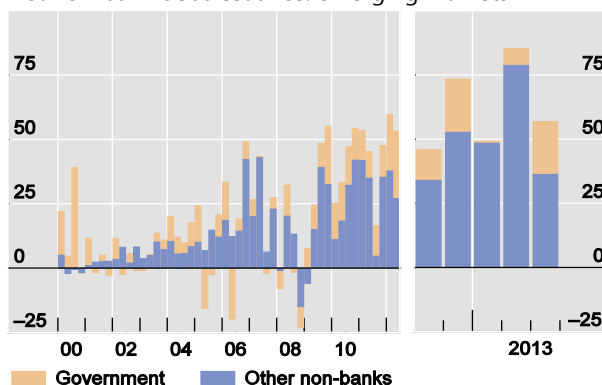
Debt and bank lending: emerging markets



Net non-bank debt issuance: advanced economies<sup>1</sup>



Net non-bank debt issuance: emerging markets<sup>1</sup>



<sup>1</sup> Net international debt issuance for all issuers, in all maturities, by nationality of issuer. In December 2012, the BIS revised the compilation of its debt securities statistics to enhance their comparability across different markets. International issues were redefined as debt securities issued outside the market where the borrower resides. <sup>2</sup> External loans of BIS reporting banks vis-à-vis individual countries; estimated exchange rate-adjusted changes.

Sources: Dealogic; Euroclear; Thomson Reuters; Xtrakter Ltd; BIS locational banking statistics by residence; BIS calculations.

**Increased sensitivity of EMEs to capital flow reversals and exchange rate pressures?**

**EME corporates have been increasingly relying on debt securities for funding**

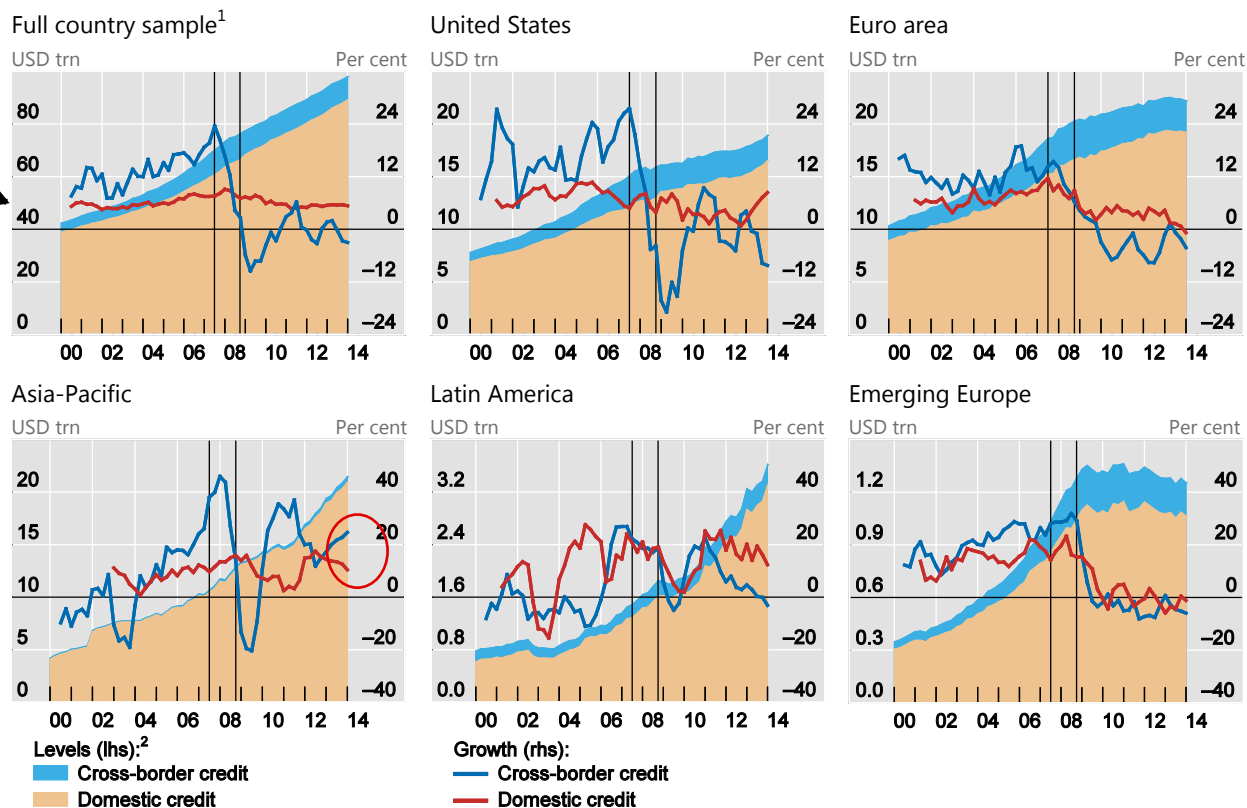
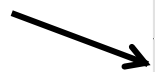


# Stock measures: outstanding bank credit

Global bank credit aggregates, by borrower region

At constant end-Q4 2013 exchange rates

**Outstanding domestic and international bank credit substantially above pre-crisis levels**



**Build-up of vulnerabilities in Asia?**

The vertical lines indicate the 2007 beginning of the global financial crisis and the 2008 collapse of Lehman Brothers.

<sup>1</sup> Aggregate for a sample of 56 reporting countries. <sup>2</sup> Total bank credit to non-bank borrowers (including governments), adjusted using various components of the BIS banking statistics to produce a breakdown by currency for both cross-border credit and domestic credit.

Sources: IMF, *International Financial Statistics*; BIS international banking statistics; BIS calculations.

# Stock measures: bond market credit and bank lending

**Stocks of USD & EUR denominated exposures to non-financial non-residents (bond market – red – & bank lending – blue) remain high**

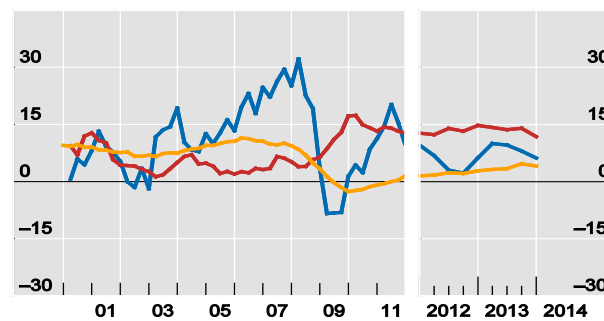
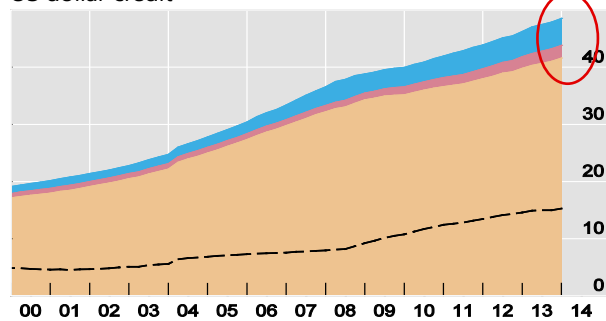
**USD credit to non-US residents is estimated to be in excess of \$7 tr; EUR credit to non-euro area residents is above \$2 tr**

Global credit in US dollars and euros to the non-financial sector

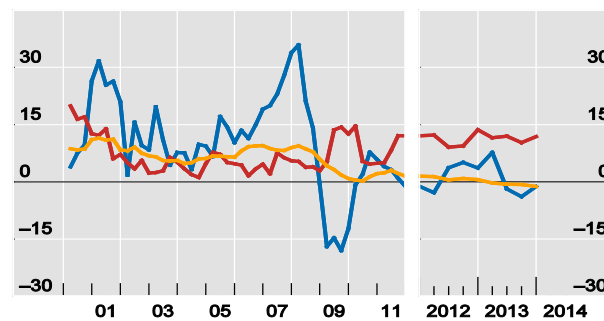
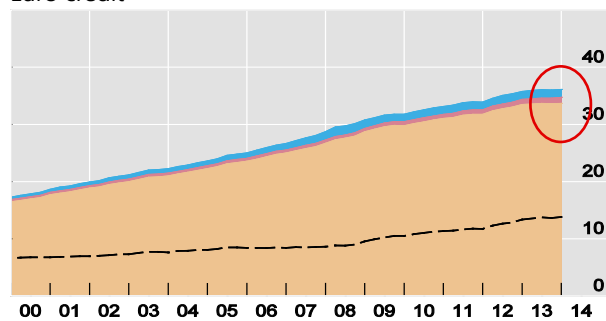
Stocks, in trillions of US dollars

Year-on-year growth, in per cent

US dollar credit



Euro credit<sup>1</sup>



■ Credit to residents<sup>2</sup>      ■ Debt securities  
■ Bank loans<sup>3</sup>  
--- Of which: credit to government

— Debt securities  
— Bank loans  
— Credit to residents

<sup>1</sup> At constant end-Q4 2013 exchange rates. <sup>2</sup> Credit to the non-financial sector in the United States/euro area from national flow of funds, excluding identified credit to borrowers in non-domestic currencies (ie cross-border and locally-extended loans and outstanding international bonds in non-domestic currencies). <sup>3</sup> Cross-border and locally extended loans to non-banks outside the United States/euro area. For China and Hong Kong SAR, locally extended loans are derived from national data on total local lending in foreign currencies on the assumption that 80% are denominated in US dollars. For other non-BIS reporting countries, local US dollar/euro loans to non-banks are proxied by all BIS reporting banks' gross cross-border US dollar/euro loans to banks in the country, on the assumption that these funds are then extended to non-banks.

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