

Global Liquidity and the Future of Banking

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Two Themes

- European global banks as transmission channel of global liquidity
- US Dollar as currency underpinning global banking system

Mapping Global Liquidity

- Consequences of global liquidity for **United States**
- Consequences of global liquidity for **Europe**
- Consequences of global liquidity for **emerging/developing economies**

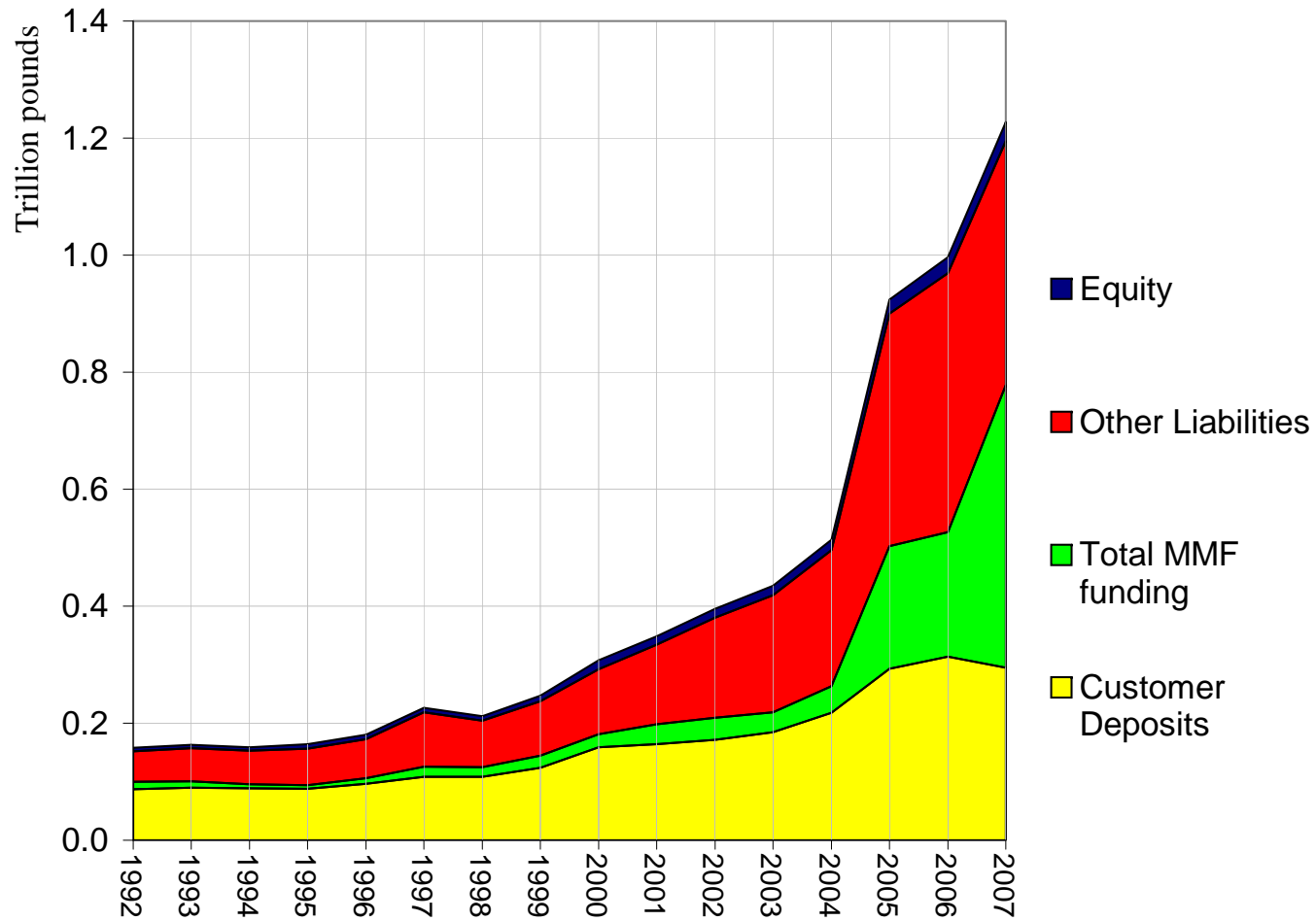


Figure 1: Total Liabilities of Barclays (1992 - 2007) (Source: Bankscope)

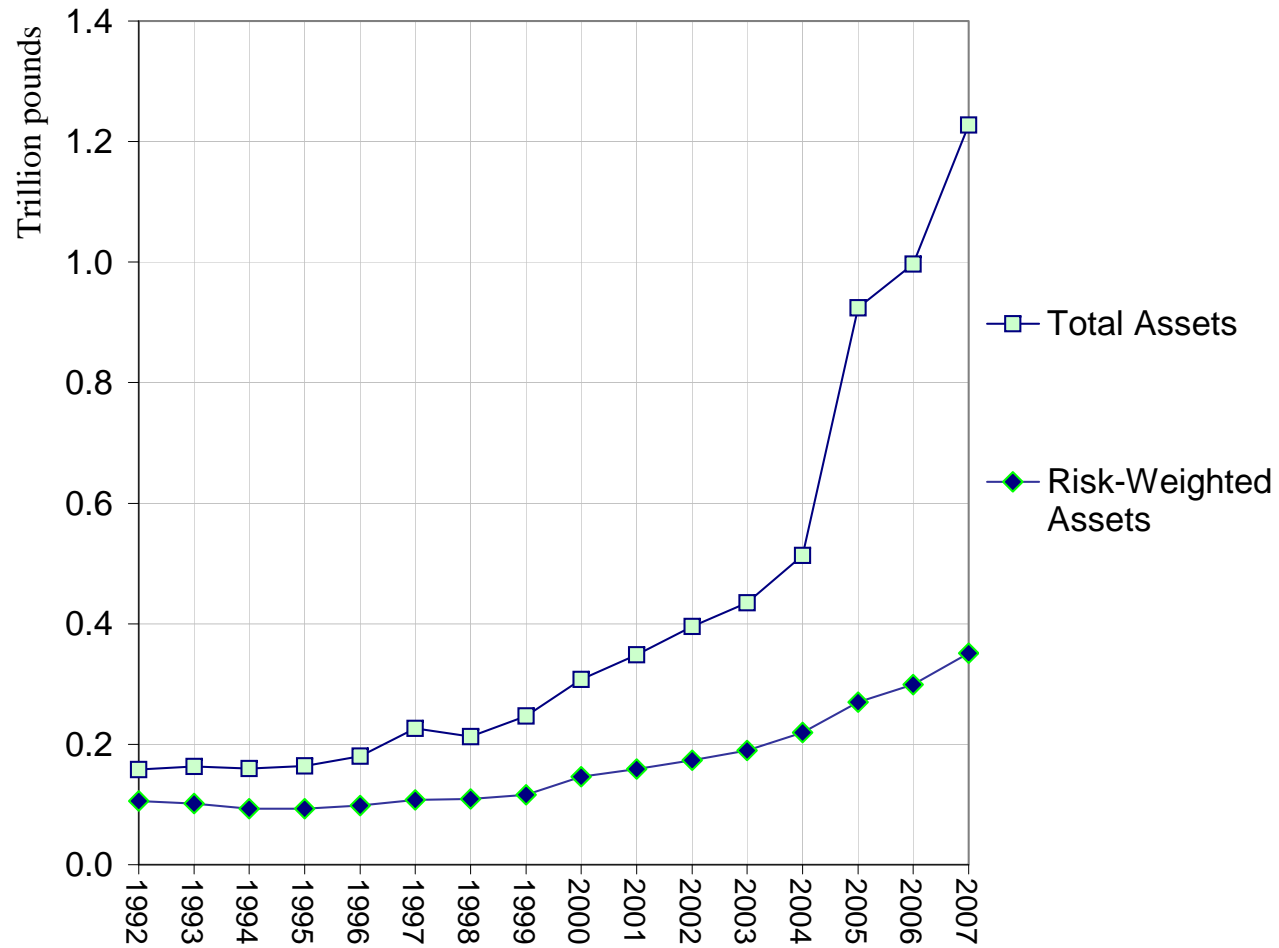


Figure 2: Barclays, risk-weighted assets and total assets (Source: Bankscope)

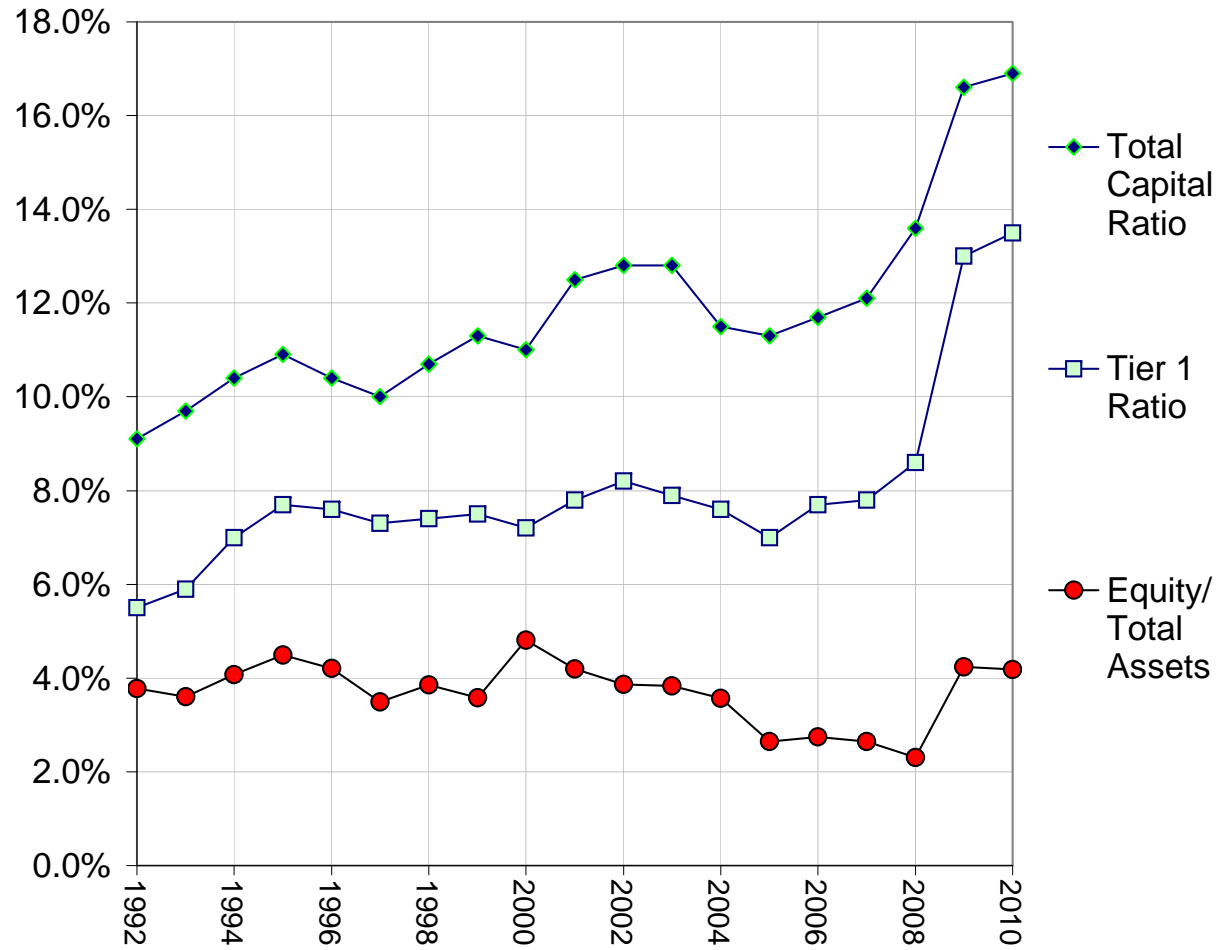


Figure 3: Barclays, capital ratios (Source: Bankscope)

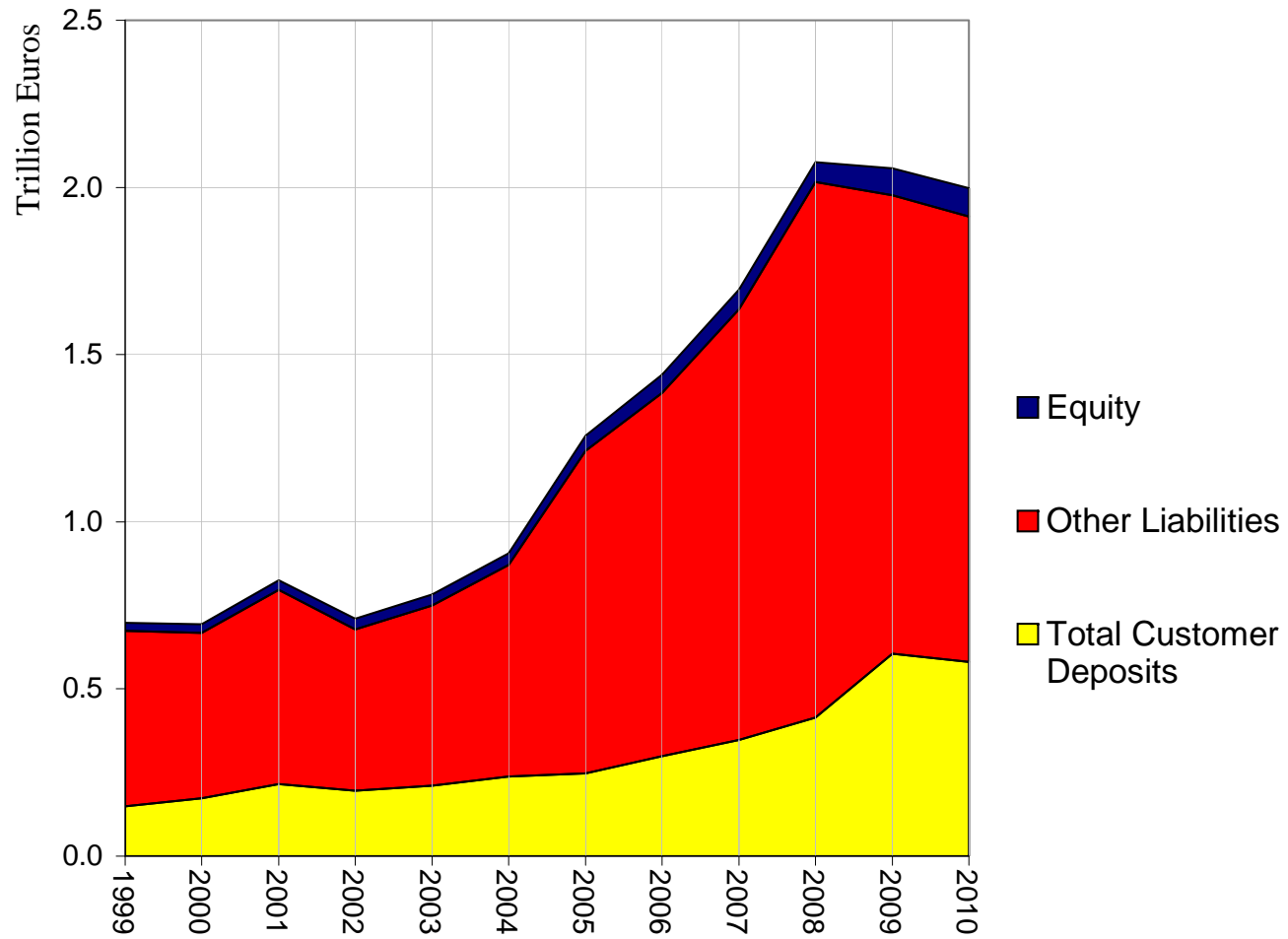


Figure 4: BNP Paribas total liabilities (Source: Bankscope)

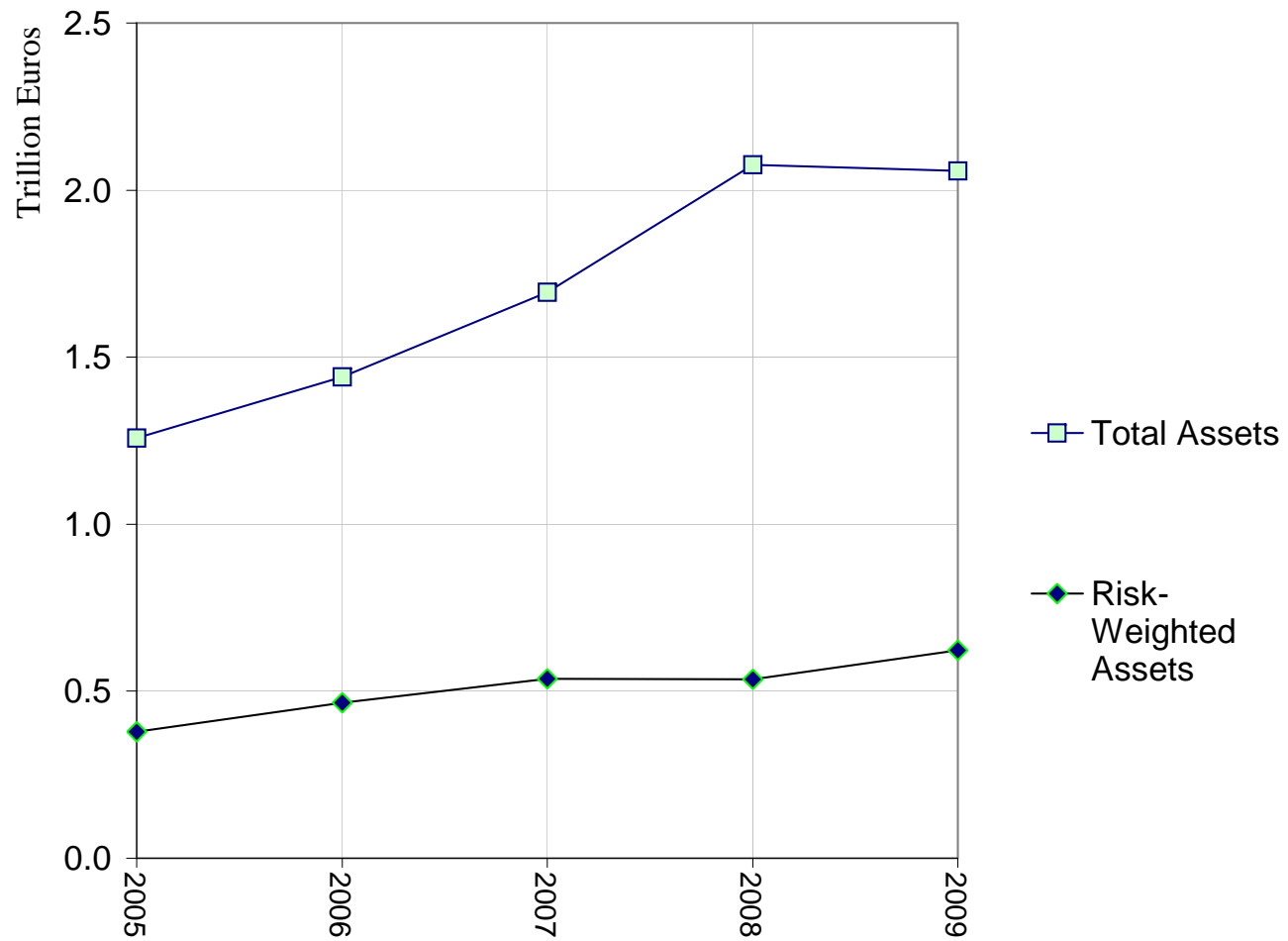


Figure 5: BNP Paribas risk-weighted assets and total assets (Source: Bankscope)

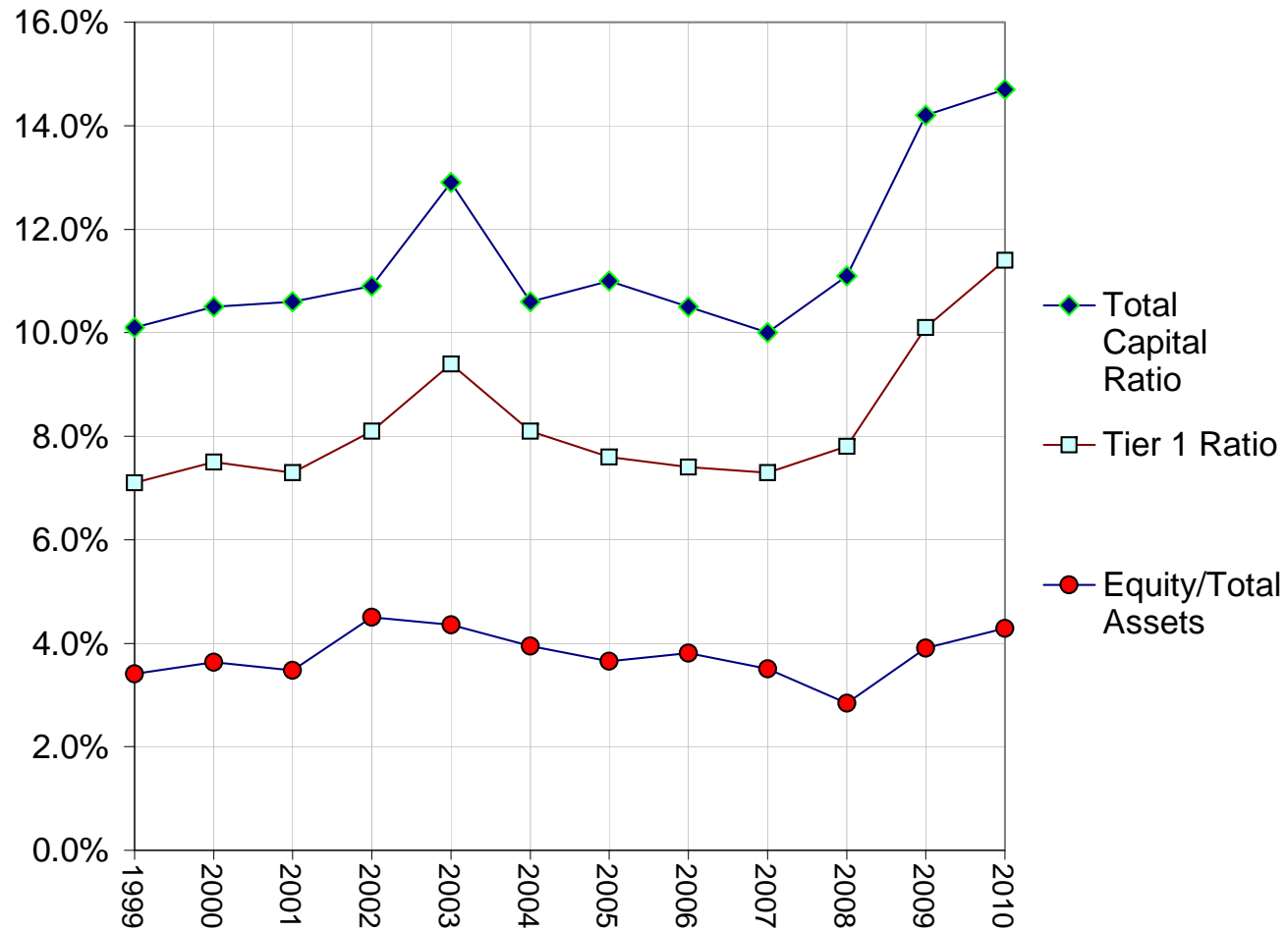


Figure 6: BNP Paribas capital ratios (Source: Bankscope)

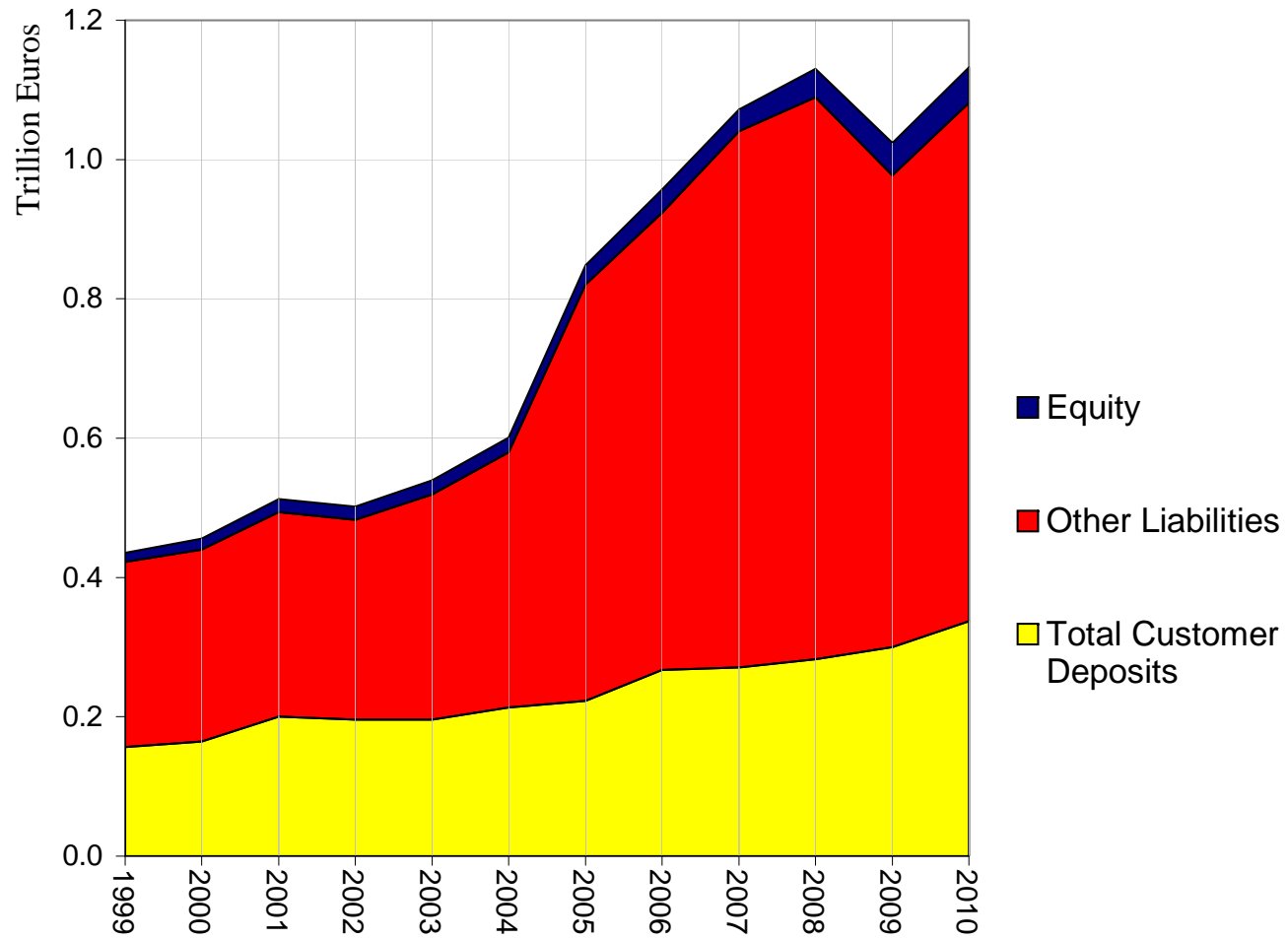


Figure 7: Société Générale liabilities 1999 - 2010 (Source: Bankscope)

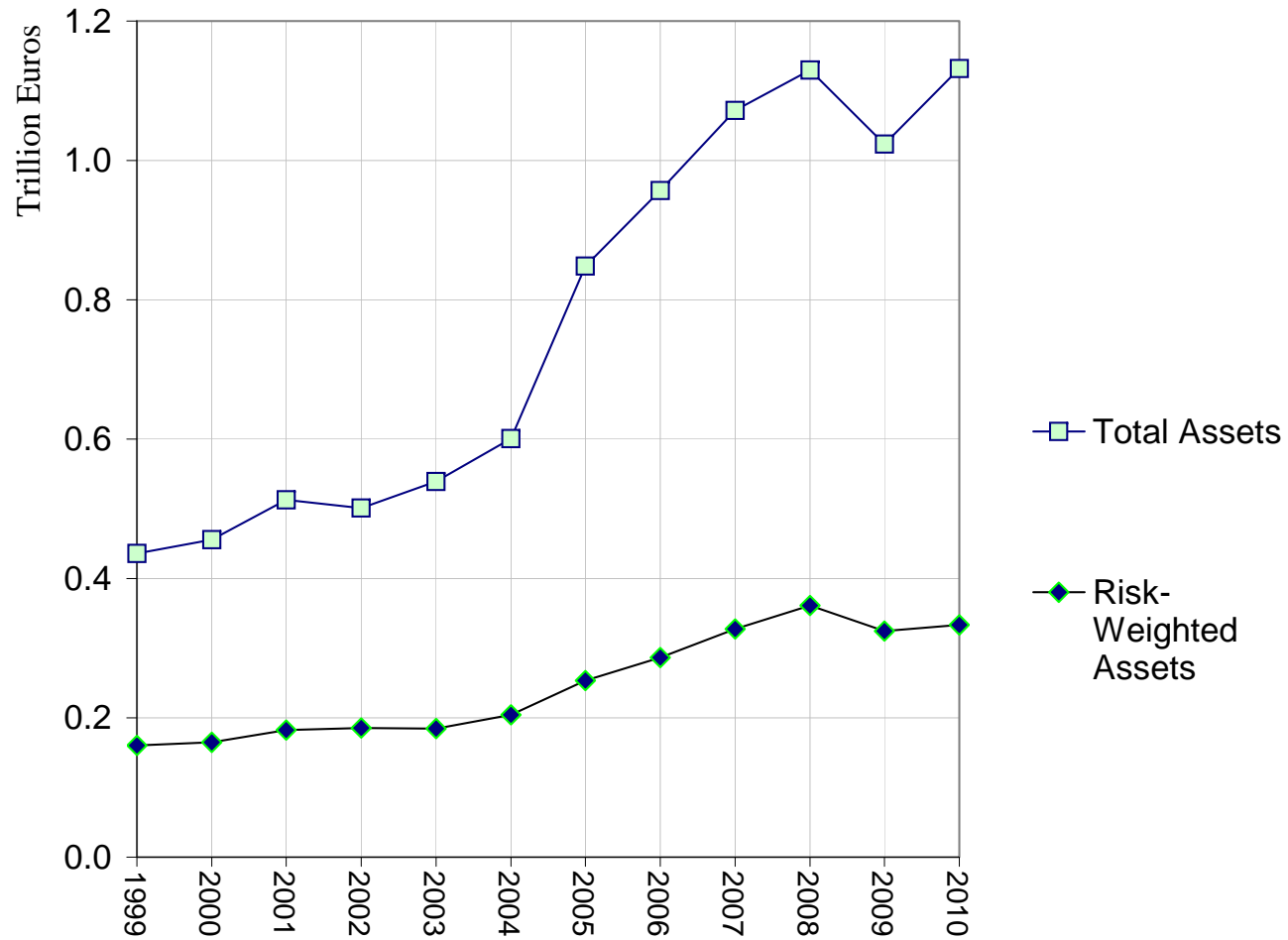


Figure 8: Société Générale risk-weighted assets and total assets (1999 - 2010) (Source: Bankscope)

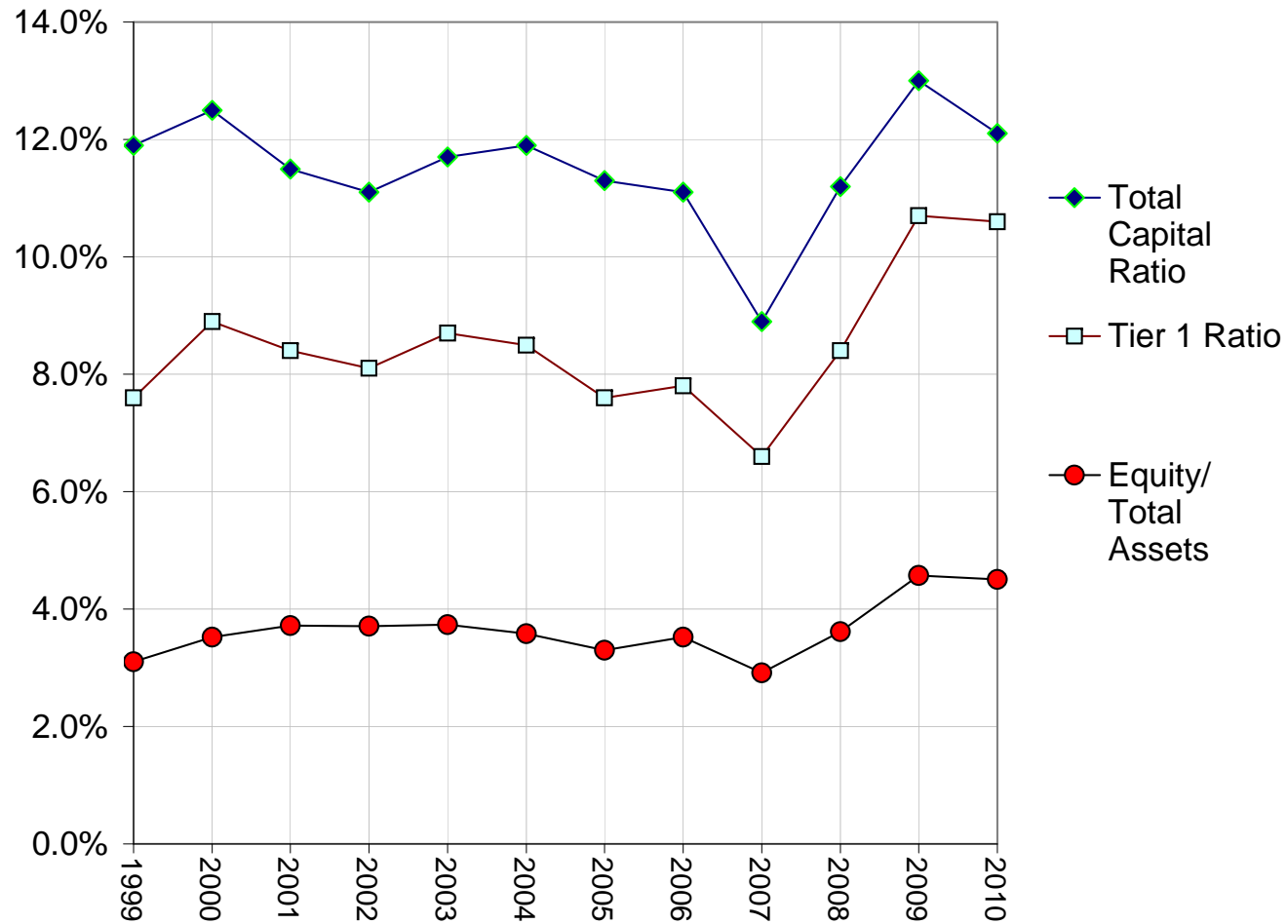


Figure 9: Société Générale capital ratios 1999 - 2010 (Source: Bankscope)

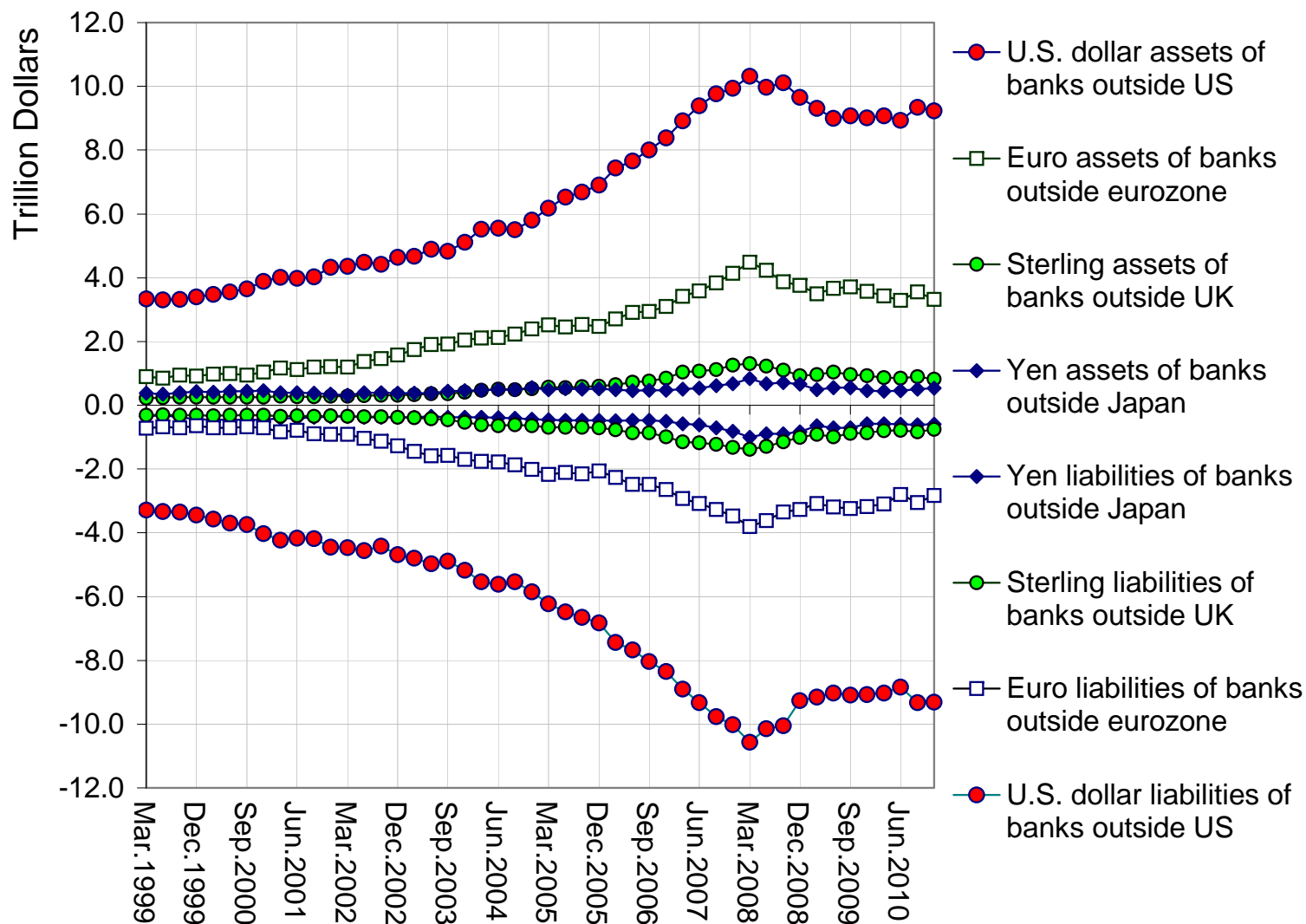


Figure 10: Cross-border foreign currency claims of BIS reporting banks by currency (Source: BIS locational banking statistics, Table 5A)

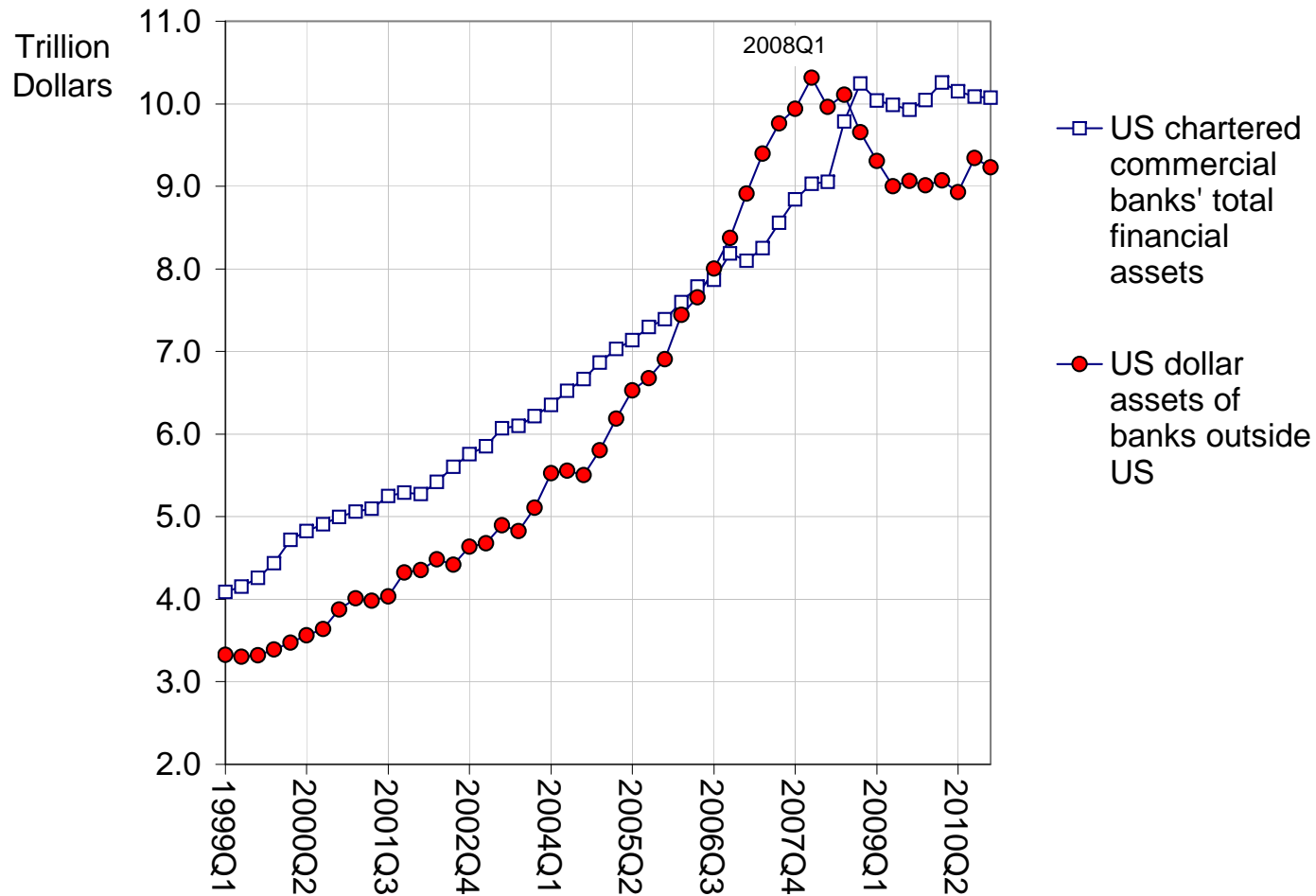


Figure 11: US dollar cross-border foreign currency claims and US commercial bank total assets (Source: Flow of Funds, Federal Reserve and BIS locational banking statistics, Table 5A)

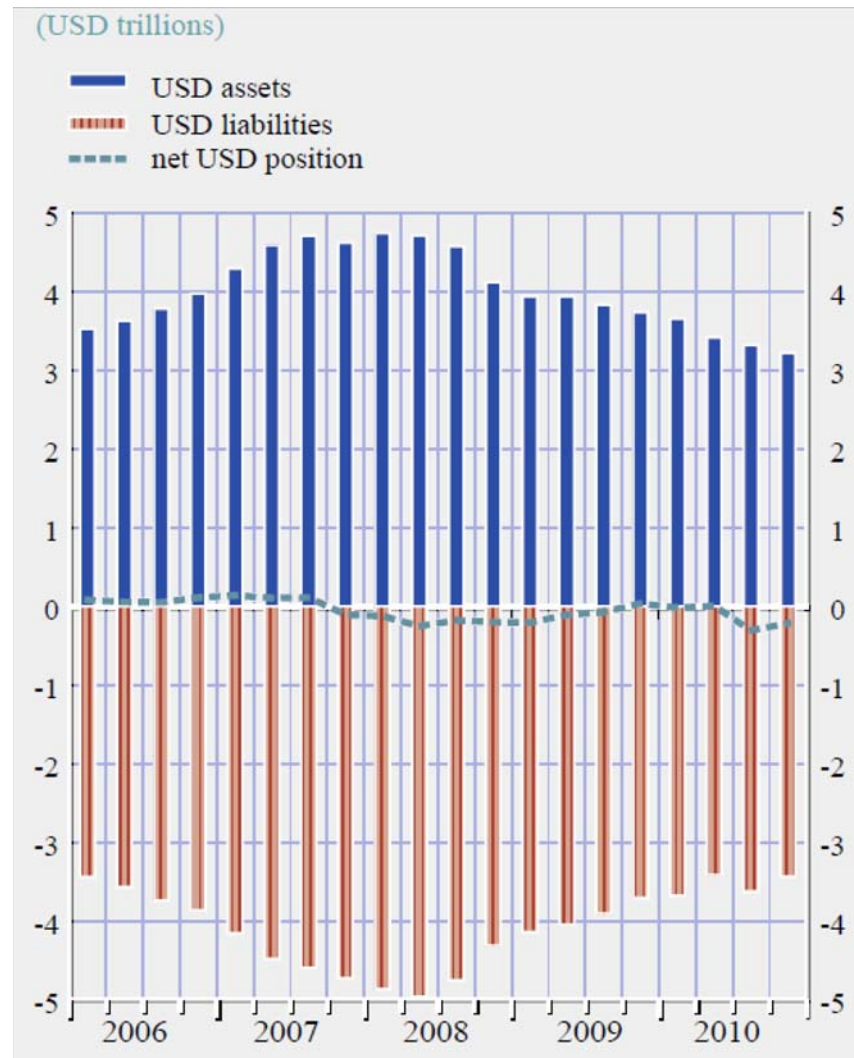


Figure 12: US Dollar-denominated assets and liabilities of euro area banks
 (Source: ECB Financial Stability Review, June 2011, p. 102)

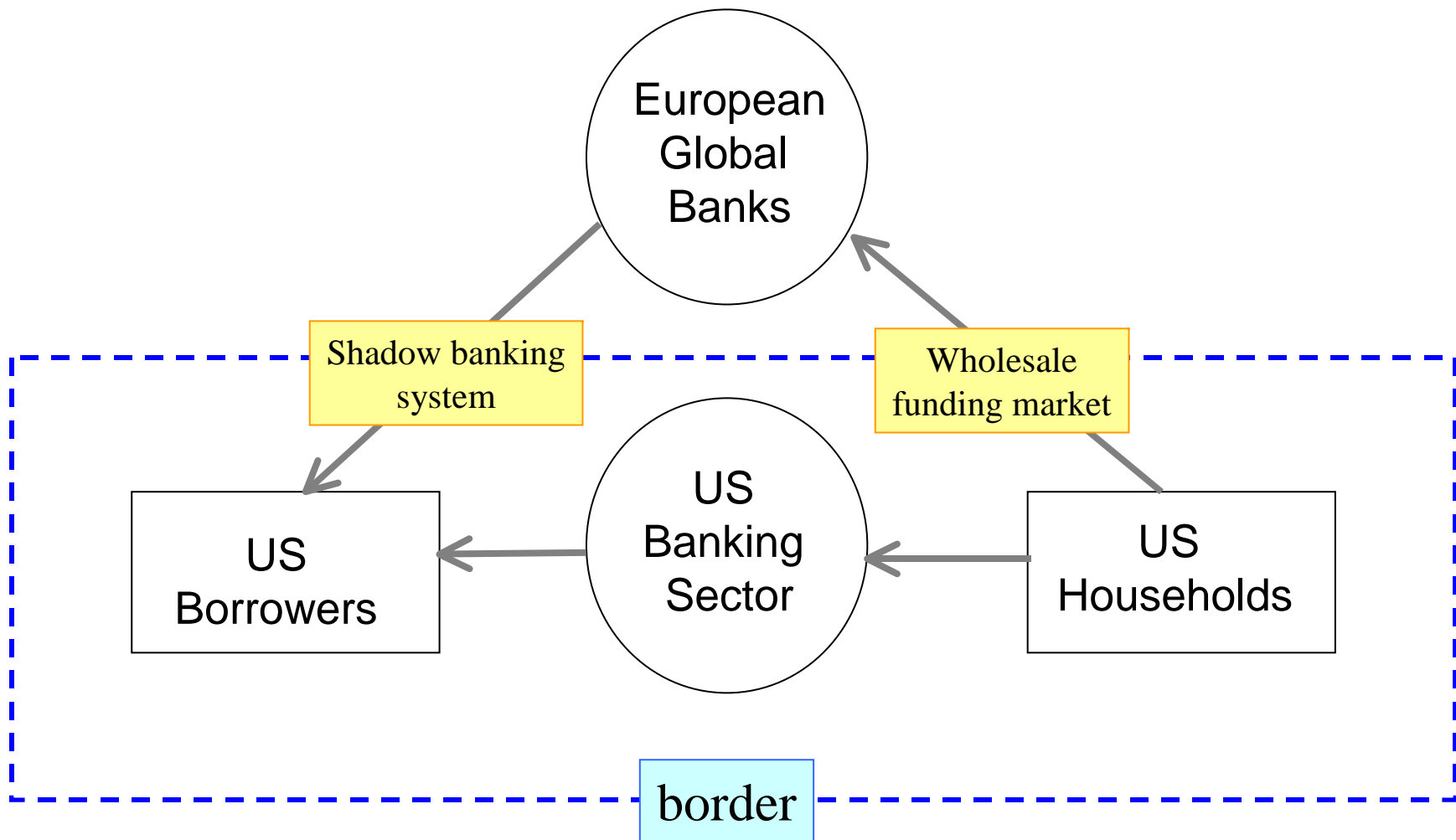


Figure 13: European global banks add intermediation capacity for connecting US savers and borrowers

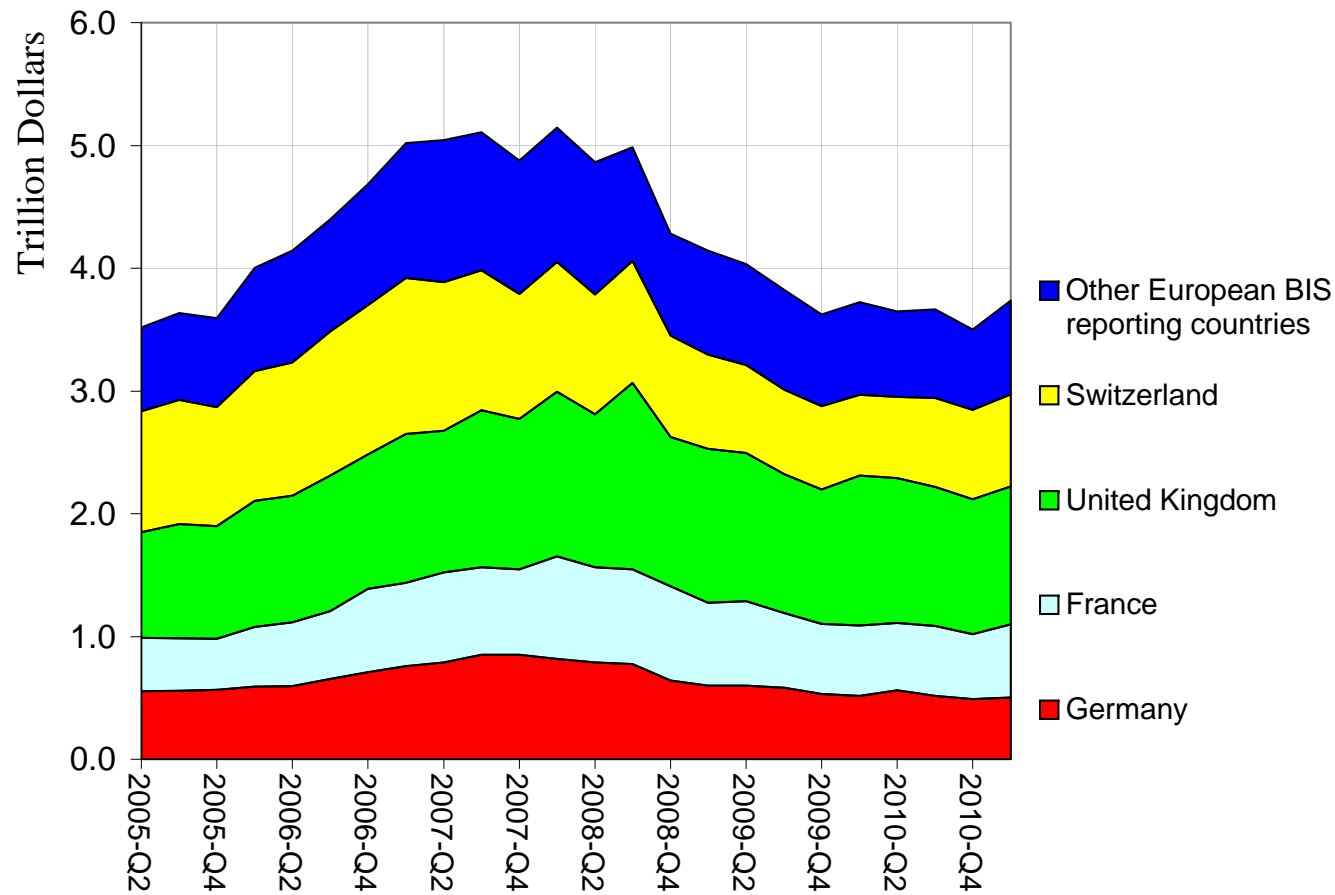


Figure 14: International claims of European BIS reporting banks on US counterparties (Source: BIS consolidated banking statistics, Table 9D) ¹⁶

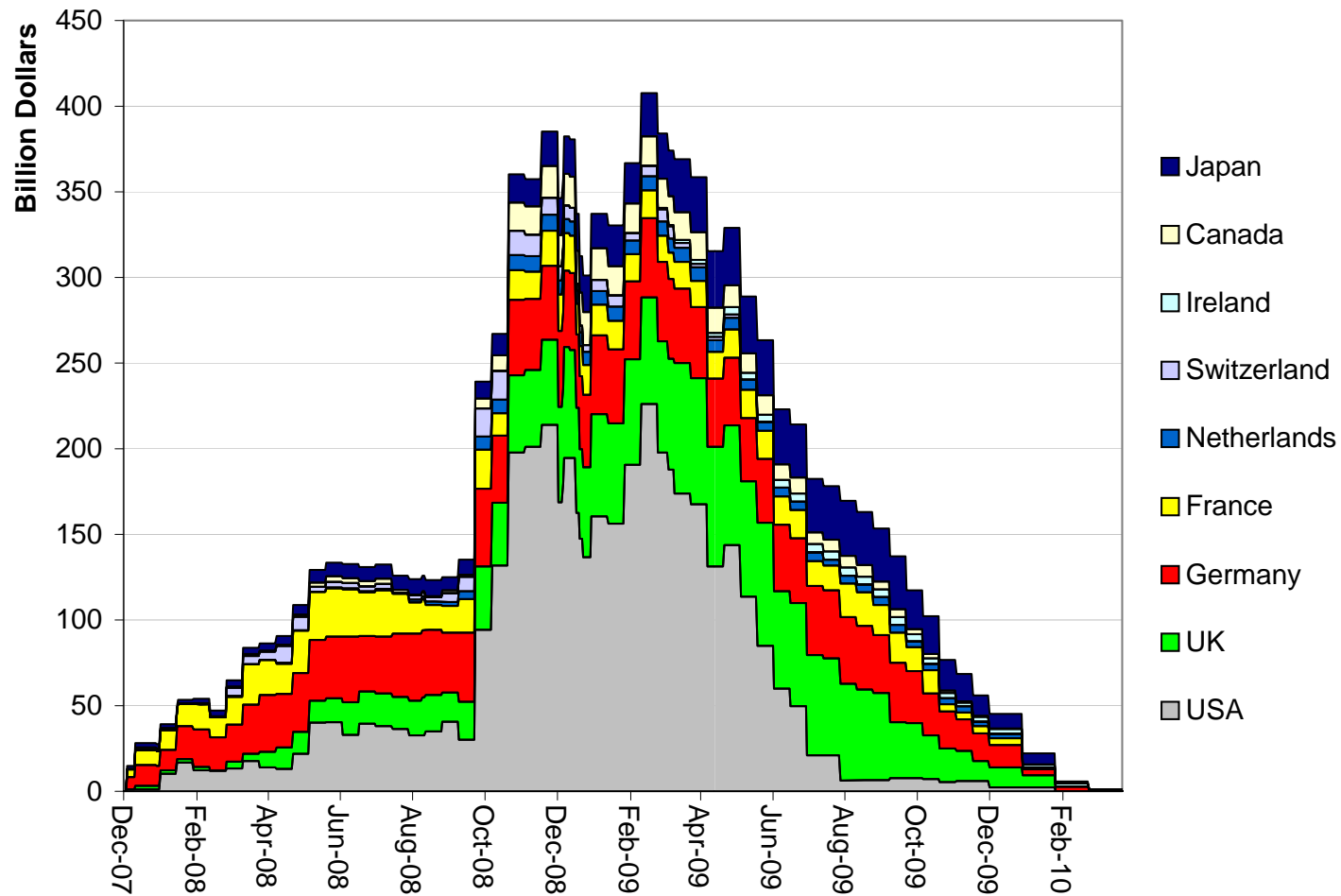


Figure 15: Claims outstanding on Federal Reserve Term Auction Facility (TAF) on US and non-US banks (Source: Federal Reserve disclosures on TAF)

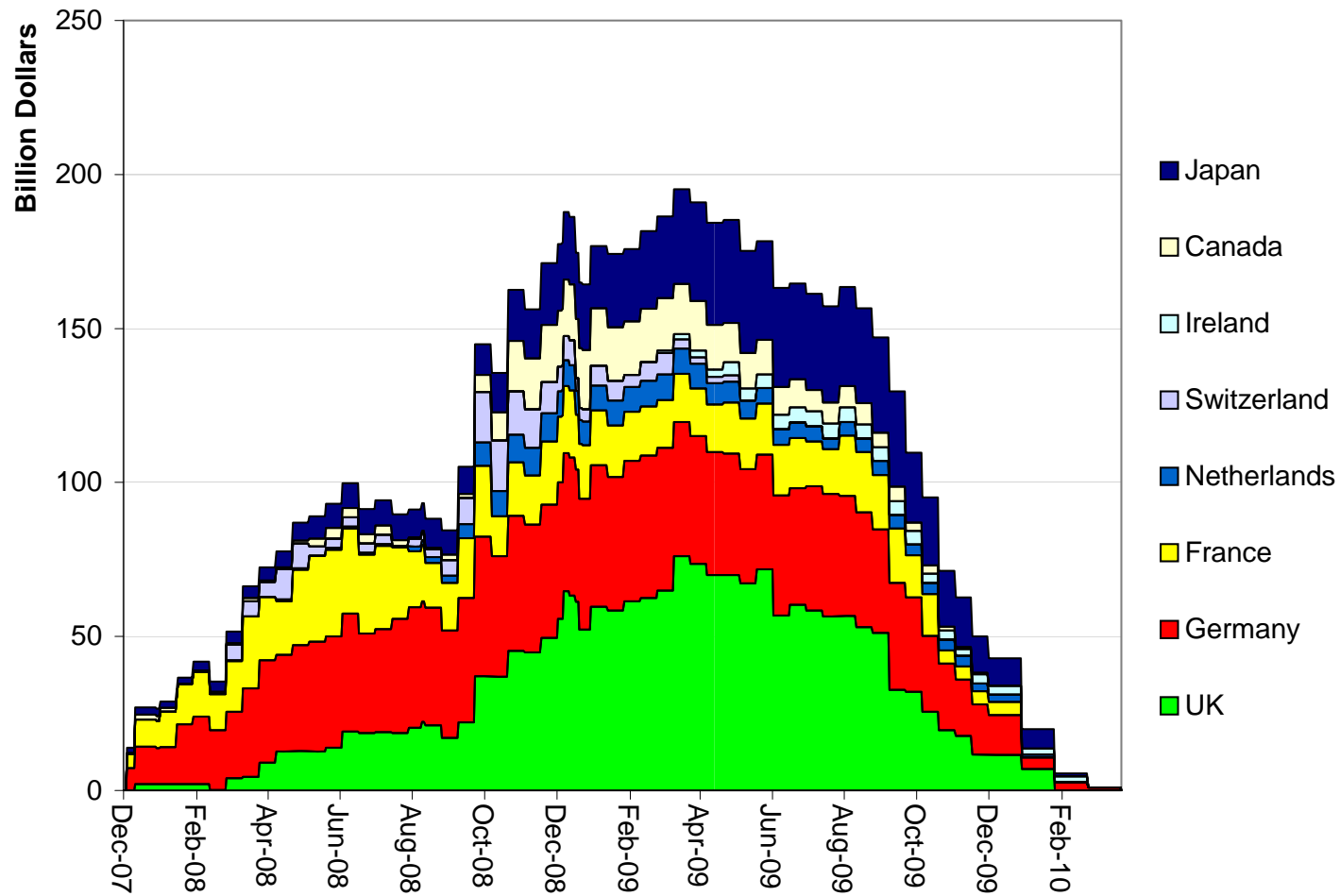


Figure 16: Claims outstanding on Federal Reserve Term Auction Facility (TAF) on non-US banks (Source: Federal Reserve disclosures on TAF) 18

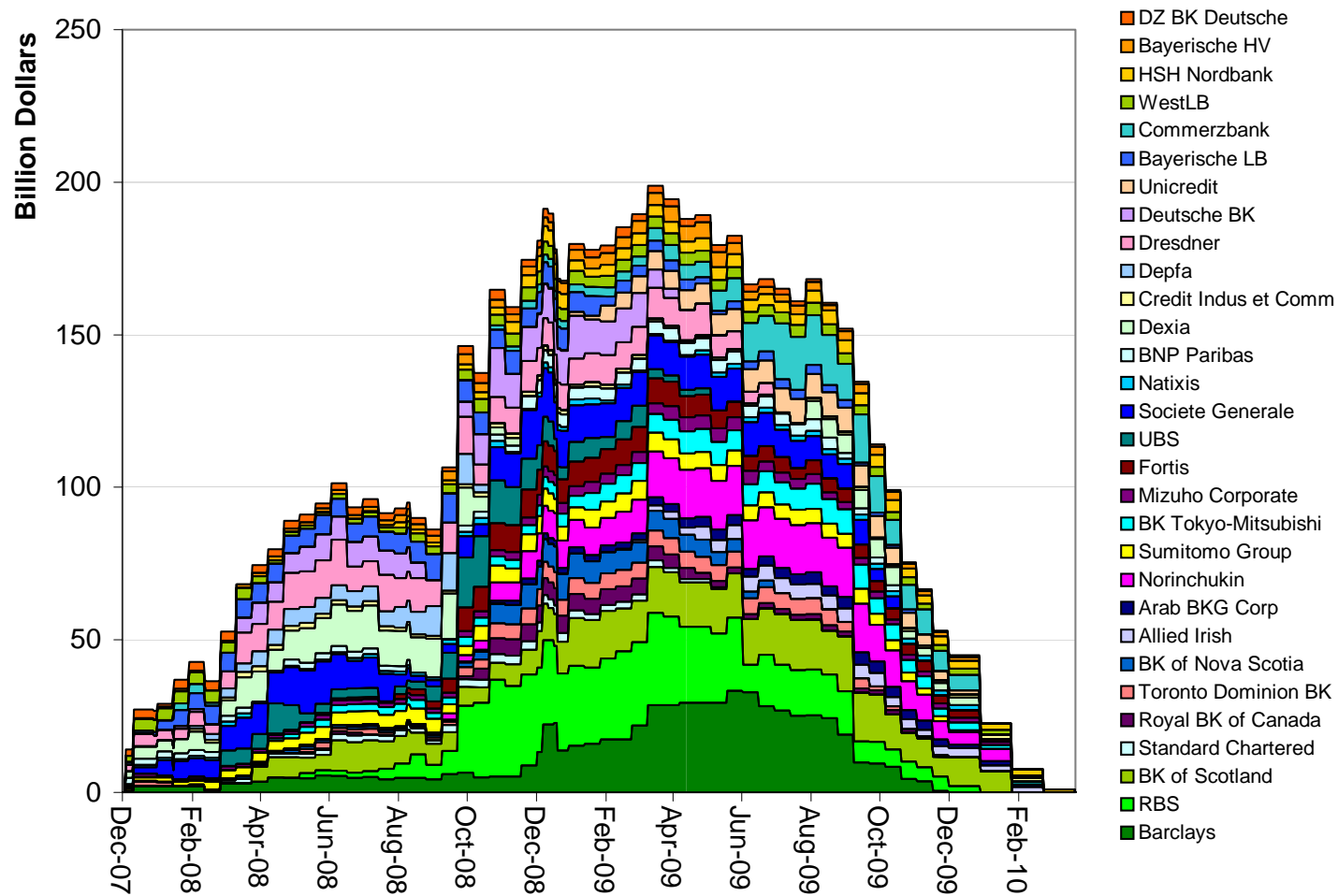


Figure 17: Top 30 claims outstanding on Federal Reserve Term Auction Facility (TAF) on non-US banks (Source: Federal Reserve disclosures on TAF)

Why did European banks expand so much?

Two candidate explanations:

- Basel II and EU Capital Adequacy Directive (CAD) allowed European banks to expand assets without incurring rising **risk-weighted assets**
- Advent of Euro opened up cross-border banking market within the eurozone

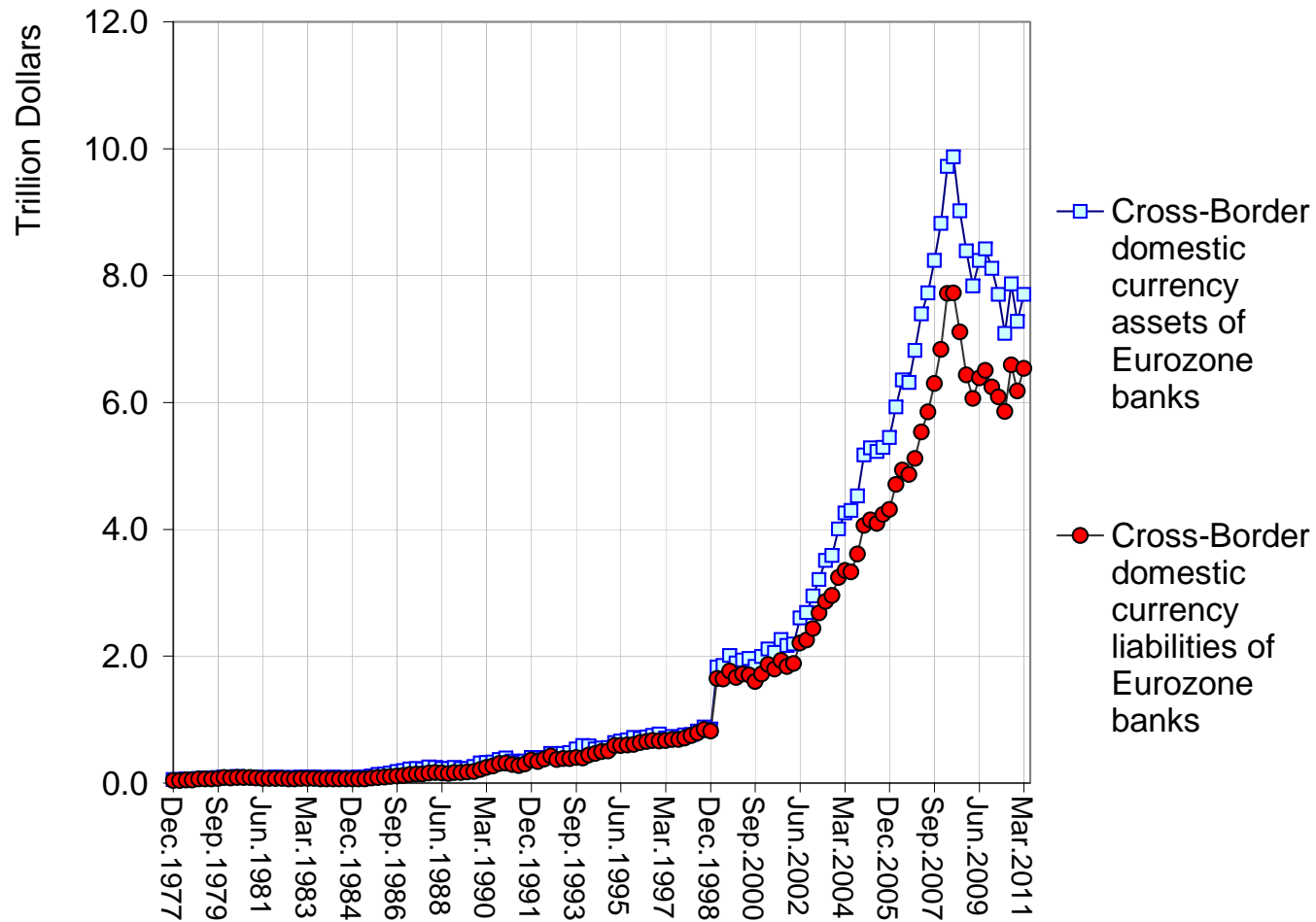


Figure 18: Cross-border domestic currency assets and liabilities of eurozone banks (Source: BIS locational banking statistics, Table 5A)

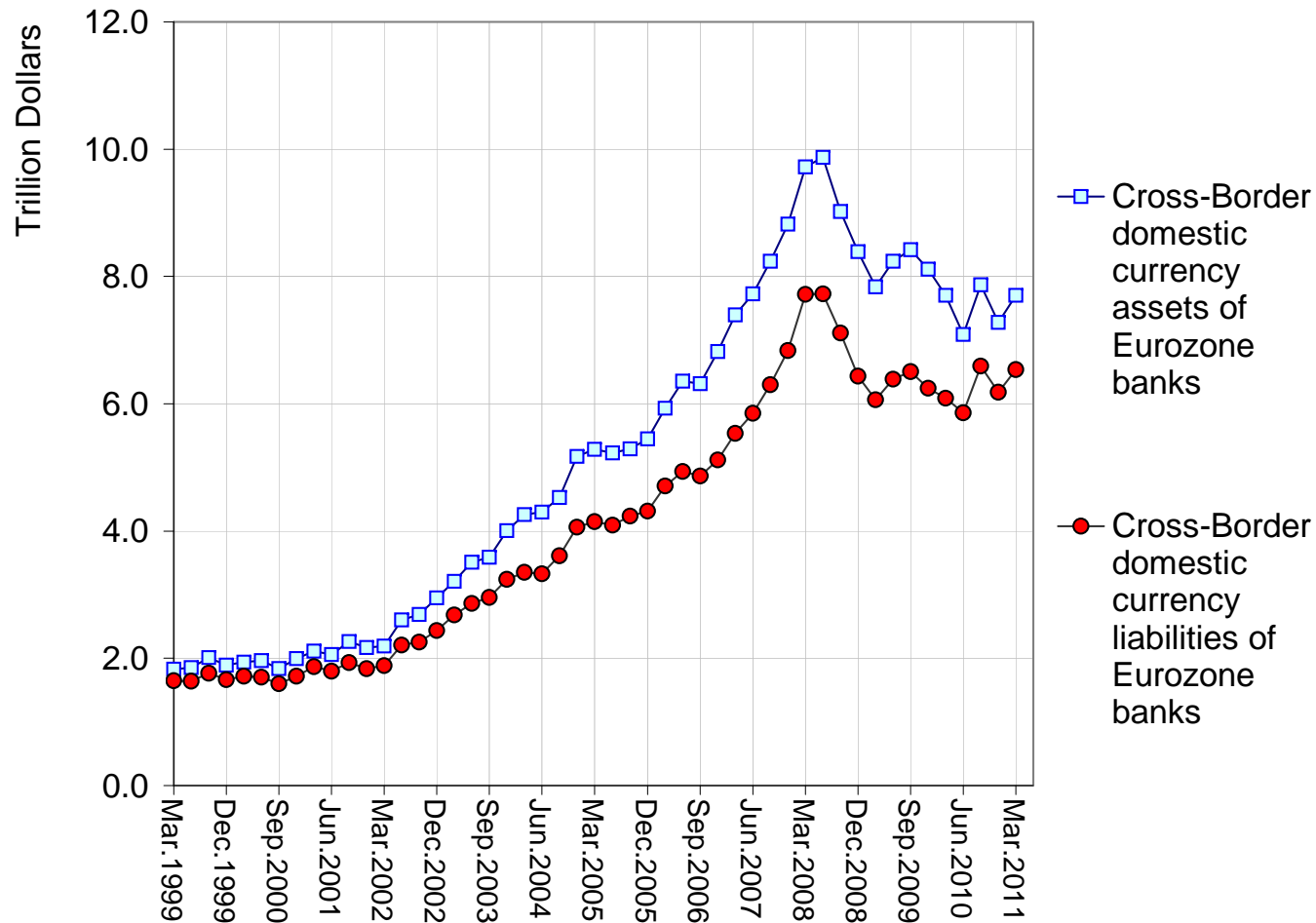


Figure 19: Cross-border domestic currency assets and liabilities of eurozone banks (Source: BIS locational banking statistics, Table 5A)

Claims of European Banks on Counterparties in Spain

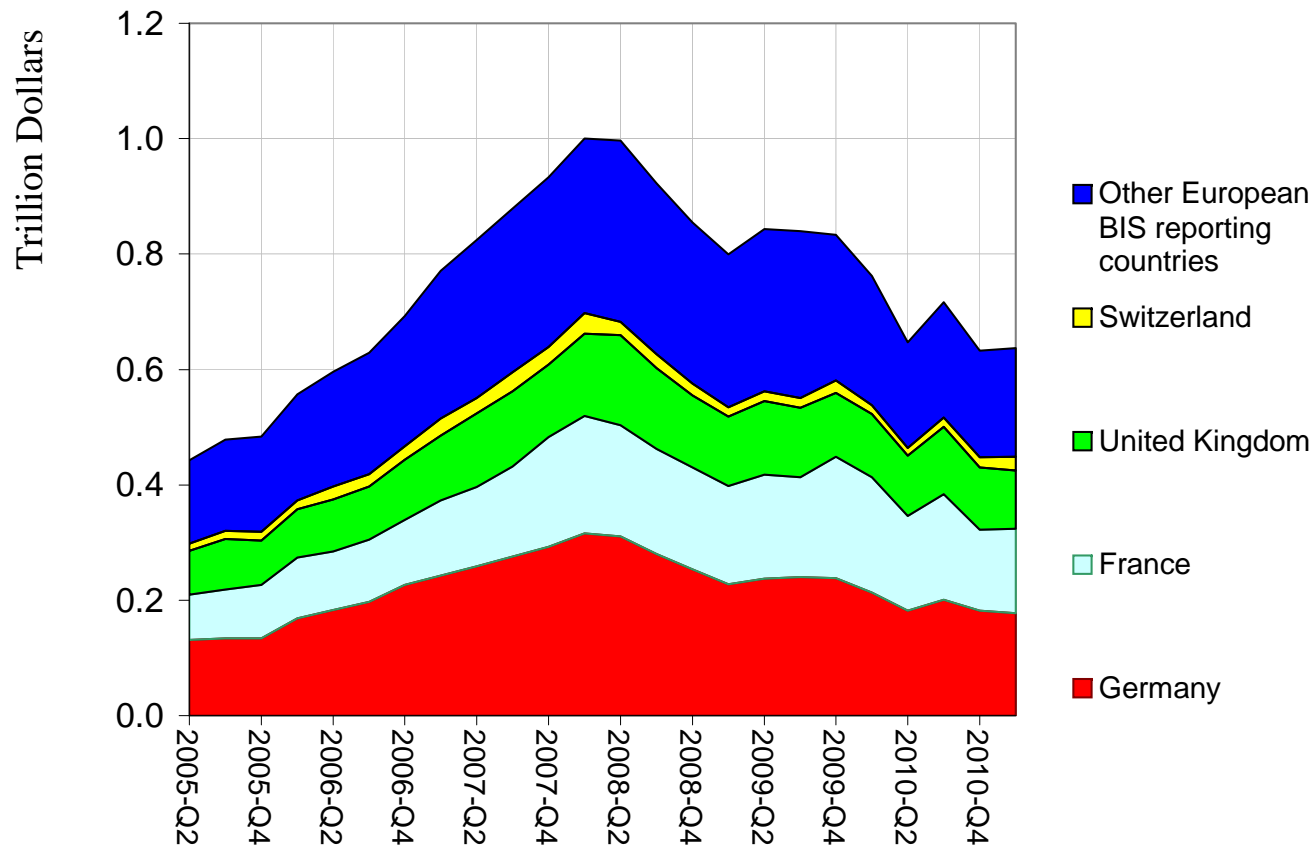


Figure 20: International claims of European BIS-reporting banks on counterparties in Spain (Source: BIS consolidated banking statistics³³, Table 9D)

Claims of European banks on Counterparties in Ireland

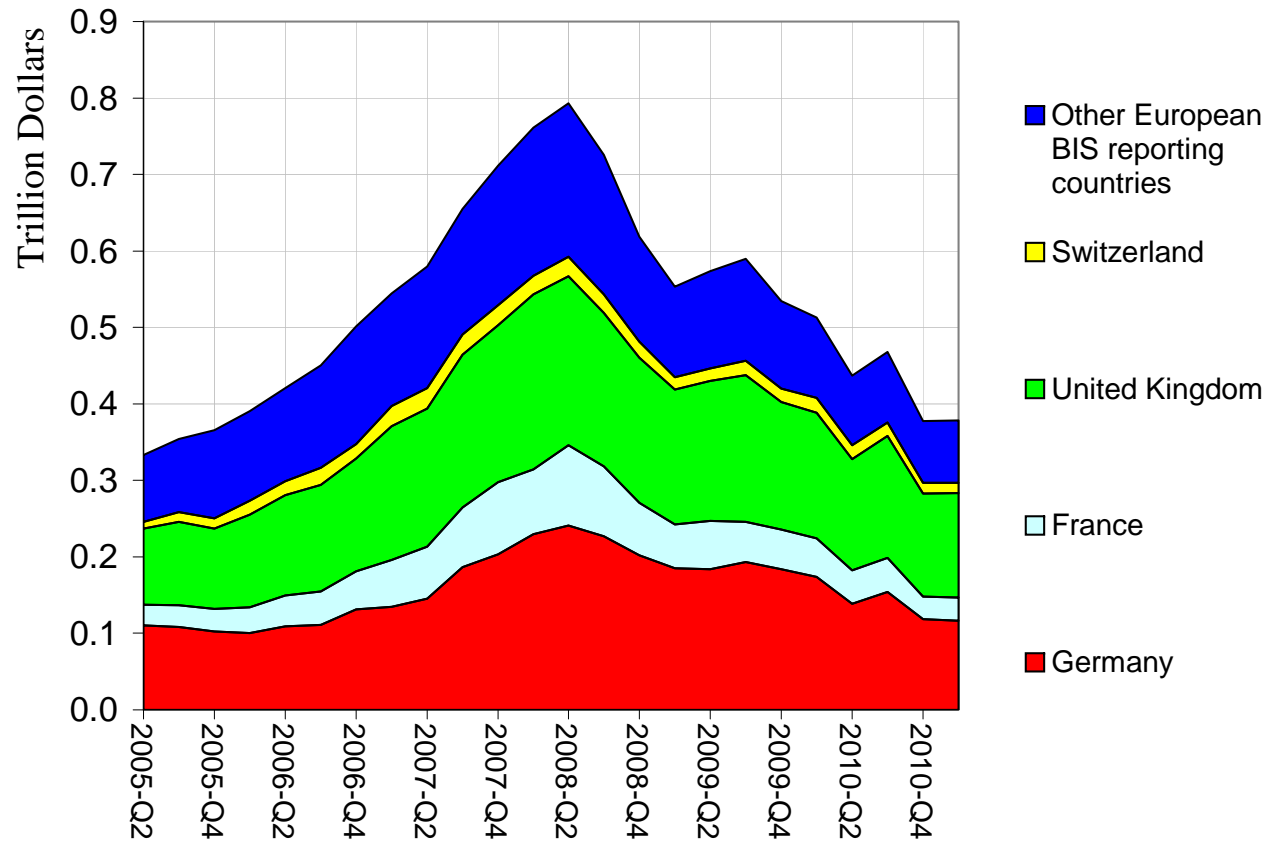


Figure 21: International claims of European BIS-reporting banks on counterparties in Ireland (Source: BIS consolidated banking statistics²⁴, Table 9D)

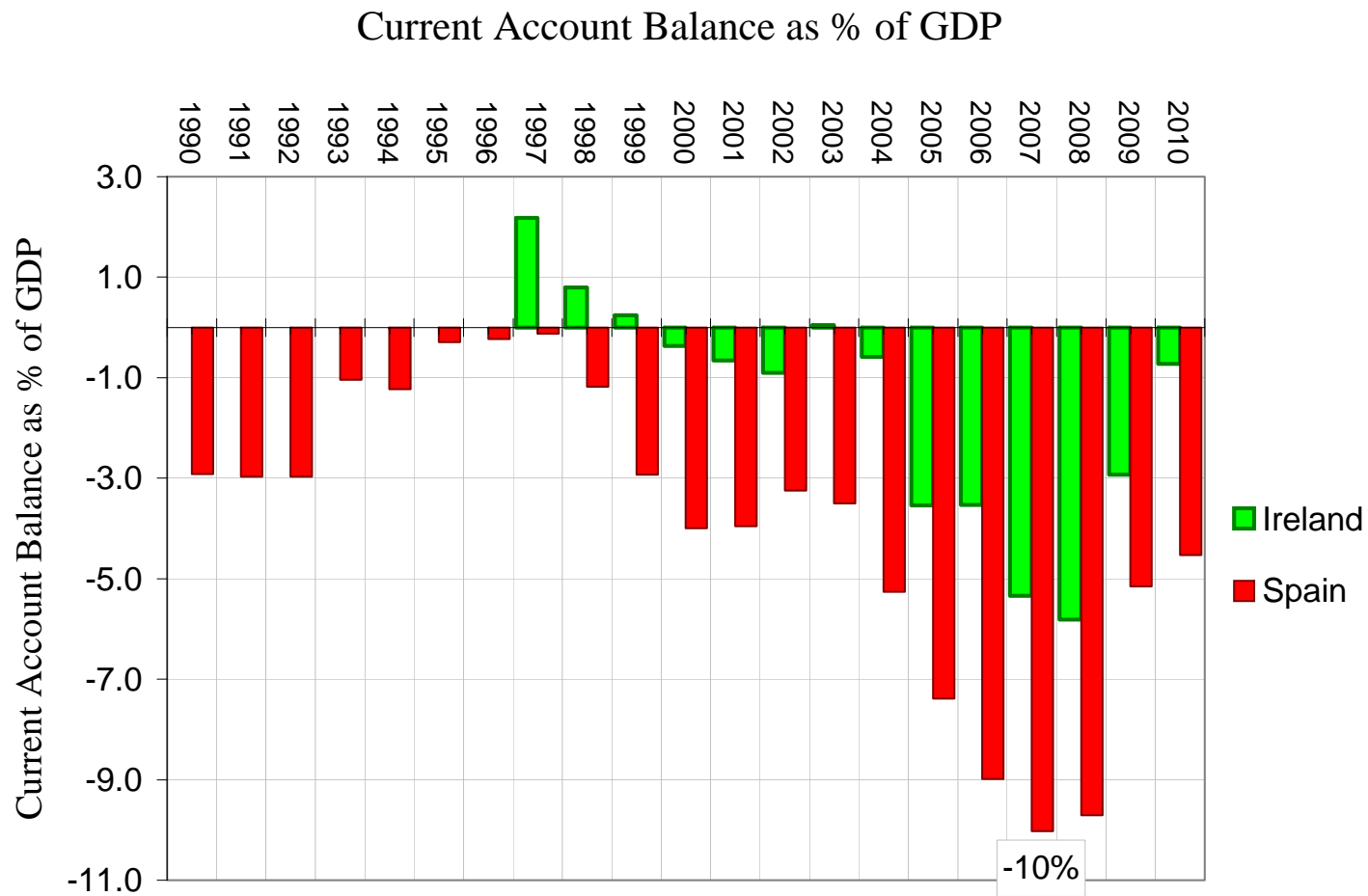
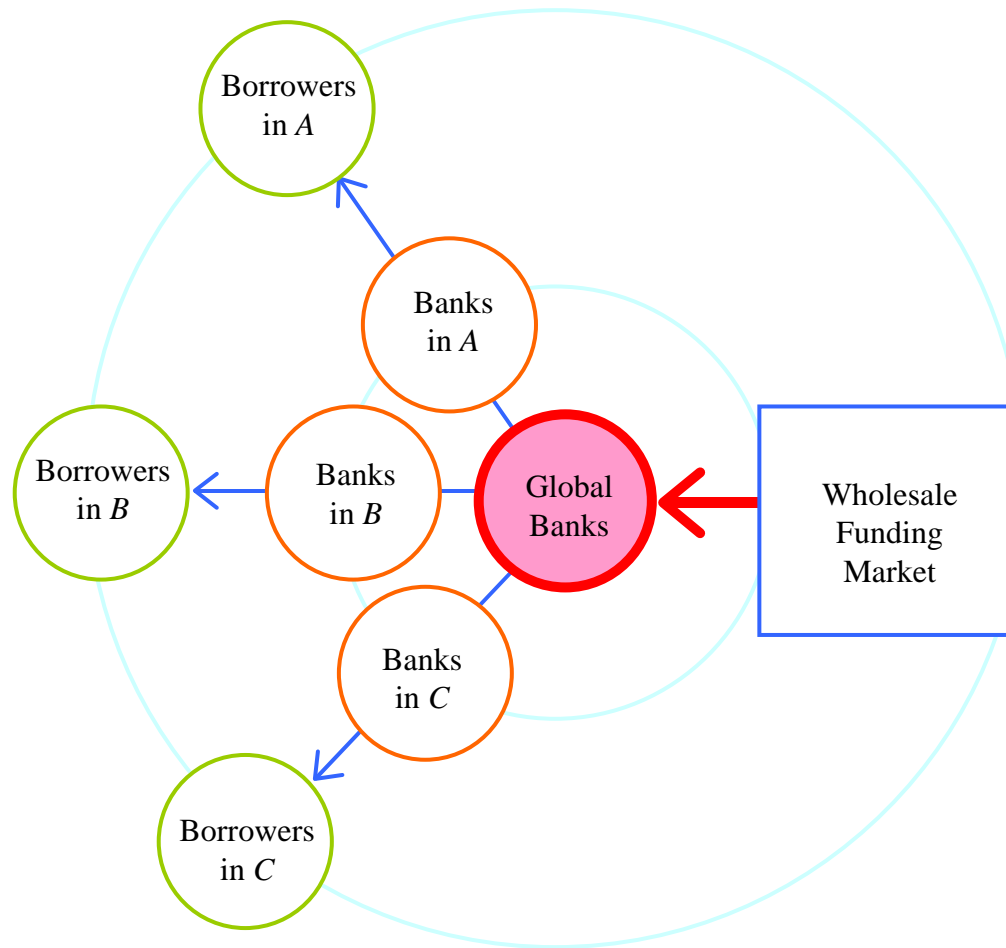


Figure 22: Current account of Ireland and Spain (Source: IMF International Financial Statistics)

Implications for Current Conjuncture in Europe

- Europe has a **twin crisis**, combining **banking crisis** with **sovereign debt crisis**
 - Emerging economy crises of 1990s were **twin crises**, combining **banking crisis** with **currency crisis**
- Deleveraging by European banks will impact not only eurozone, but also
 - US shadow banking system
 - Capital flows to emerging economies (see below)
 - Emerging Europe, especially

Consequences for Emerging Economies



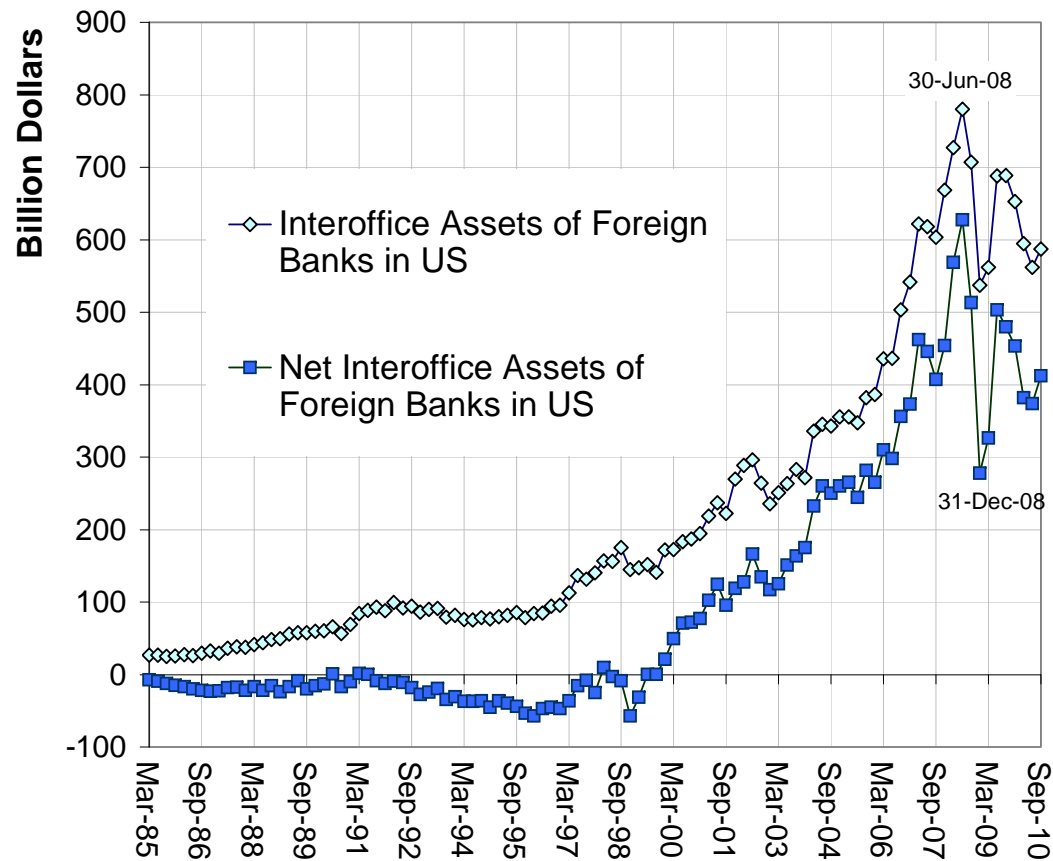


Figure 23: Interoffice assets of foreign banks in the United States (Source: Federal Reserve, series on “Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks”)

Interoffice Assets of Foreign Banks in Japan

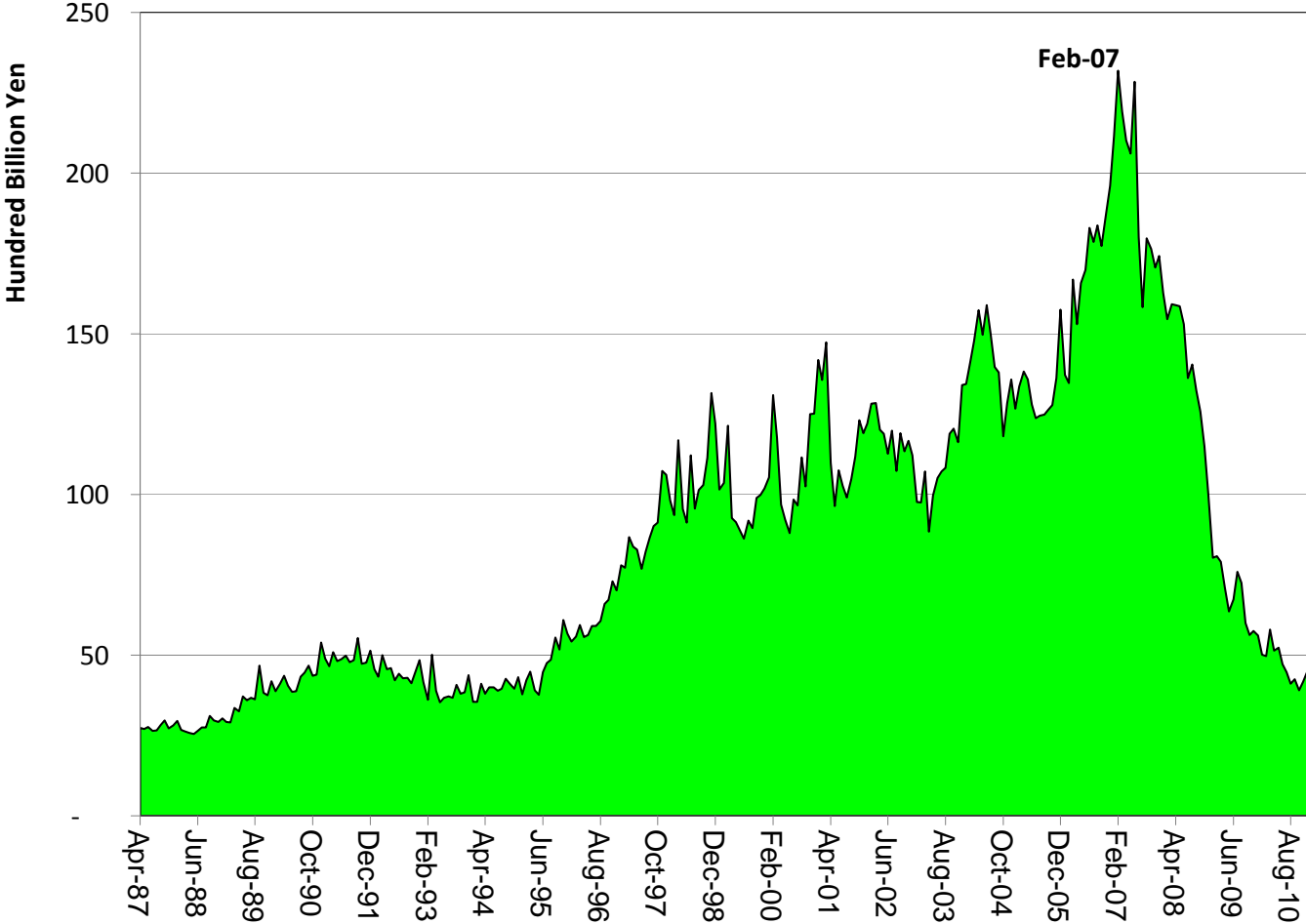


Figure 24: Interoffice assets of foreign banks in Japan (Source: Bank of Japan)

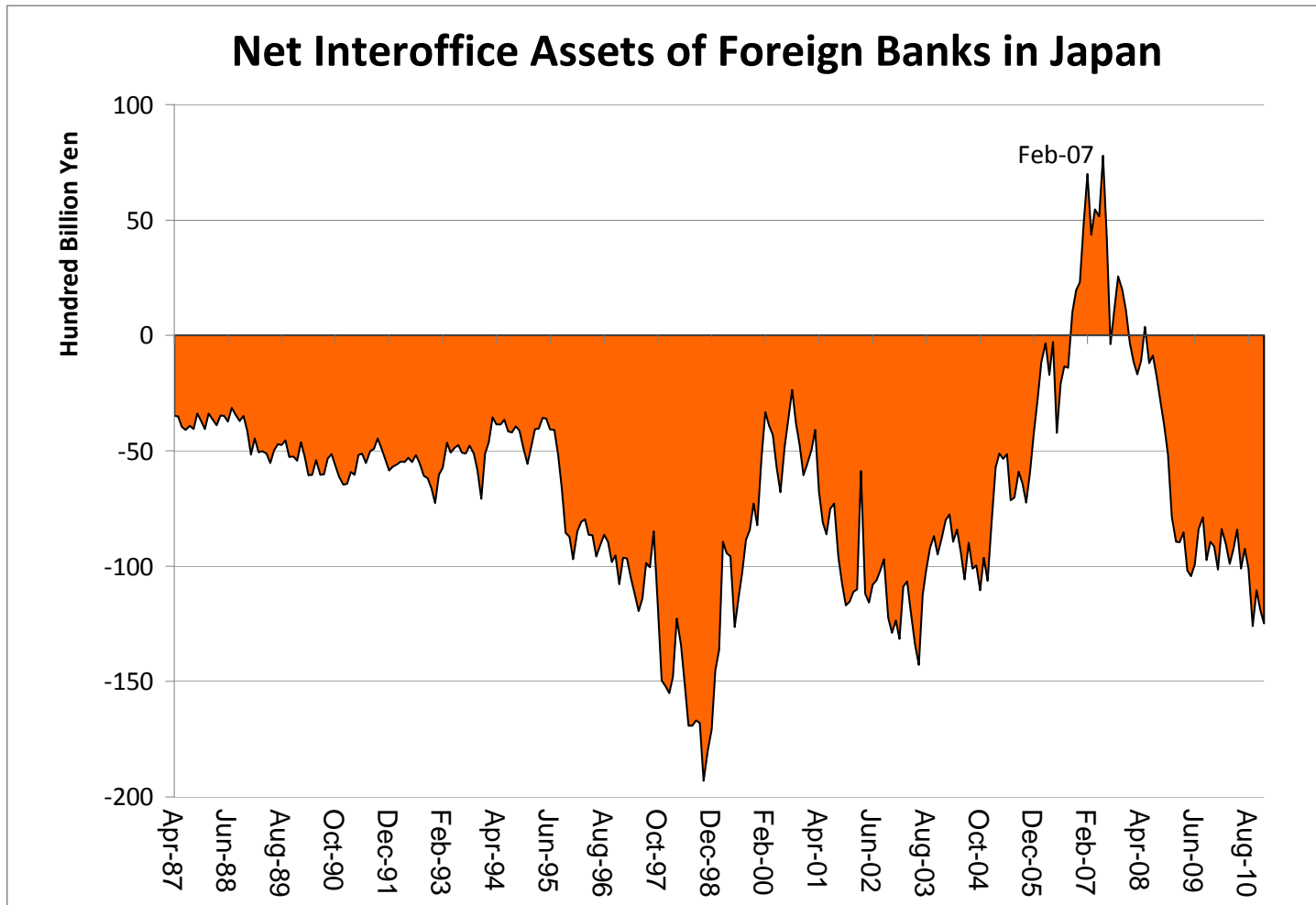
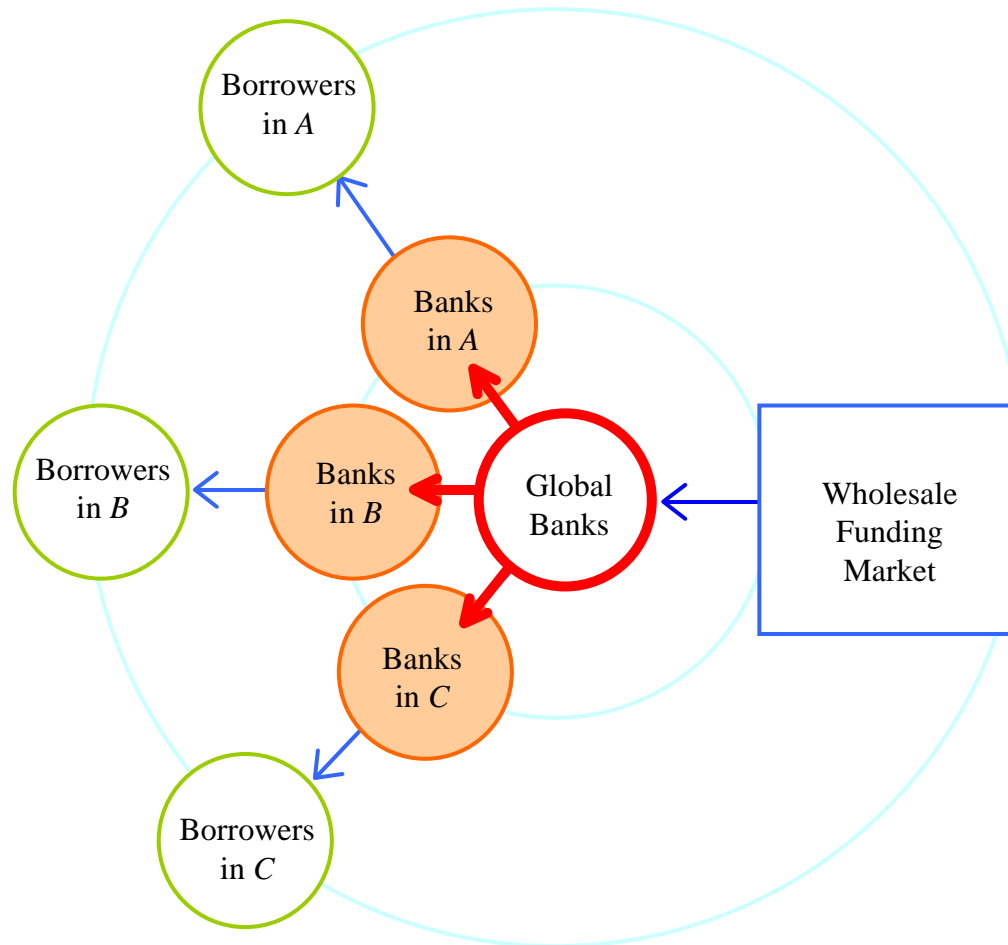


Figure 25: Net interoffice assets of foreign banks in Japan (Source: Bank of Japan)



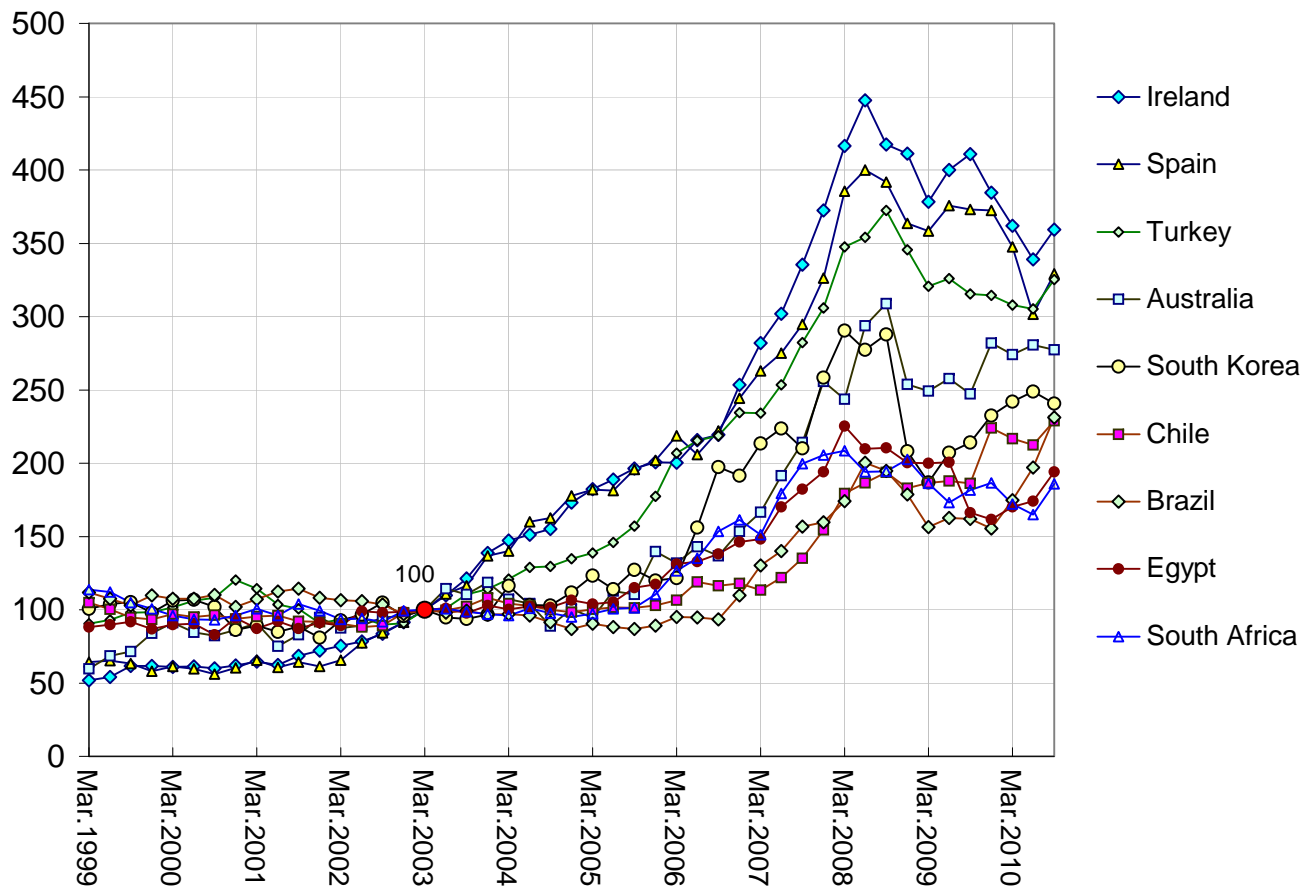


Figure 26: External claims (loans and deposits) of BIS reporting banks on counterparties listed on right (Source: BIS locational banking statistics Table 7A)

Claims of European Banks on Counterparties in Korea

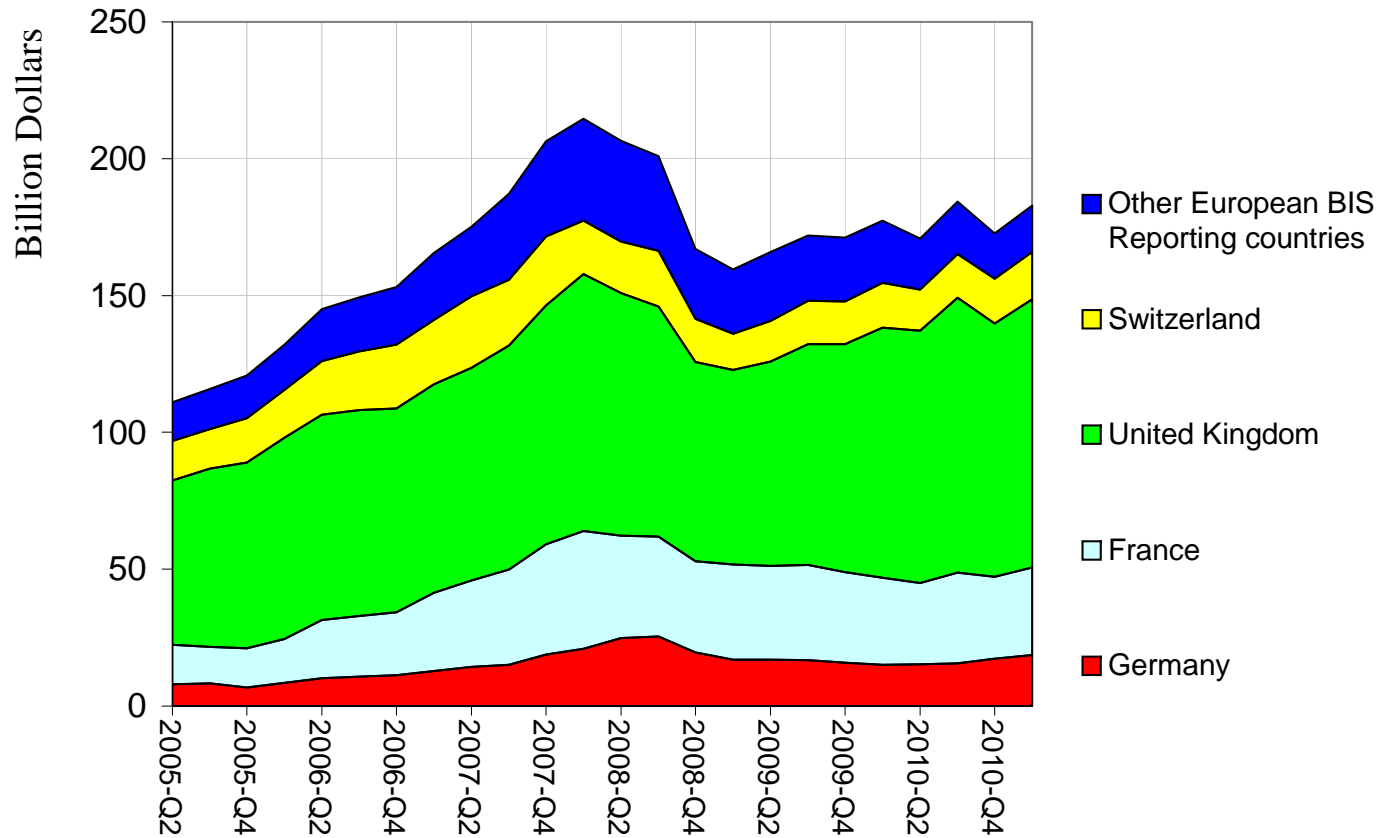


Figure 27: International claims of European BIS-reporting banks on counterparties in Korea (Source: BIS consolidated banking statistics Table 9D)

Missed Opportunity for Europe in 2010?

- Basel III as **trade negotiation**, instead of policy toward financial stability
- Did European leaders at G20 meetings act in **global interest**?
 - in their own **national interest**?
 - in their **banking sector's long-term interest**?
 - **None of the above**?