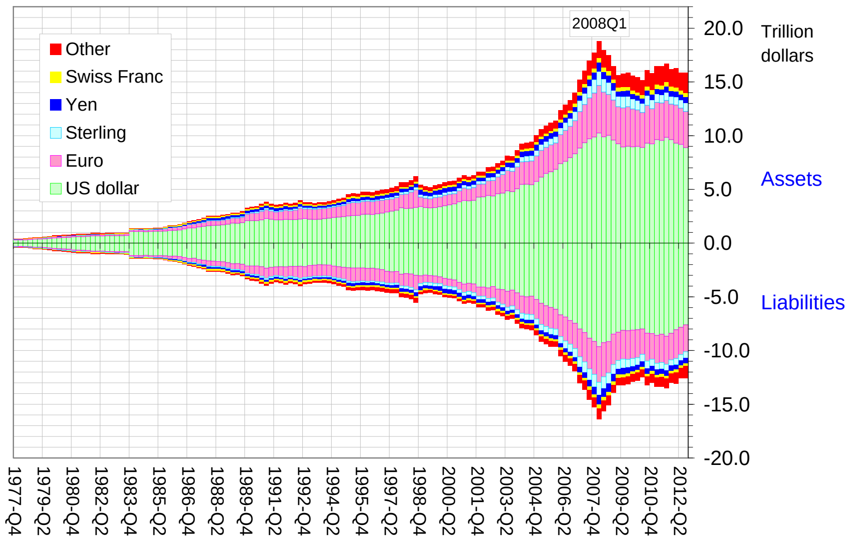

Figure 4. Foreign currency assets and liabilities of BIS reporting banks, classified according to currency (Source: BIS Locational Banking Statistics Table 5A)

the BIS locational banking statistics which are organised according to the residence principle. The US dollar series in Figure 4 shows the US dollar-denominated assets and liabilities of banks outside the United States. The euro series shows the corresponding euro-denominated assets and liabilities of banks that are outside the euro area, and so on. The US dollar asset series exceeded 10 trillion dollars in 2008Q1, briefly exceeding the total assets of the US chartered commercial bank sector, as shown in Shin (2012). Our model addresses the link between the strength of the dollar and global financial conditions, especially the empirical association between episodes of dollar shortages where a sharp appreciation of the US dollar coincides with bank deleveraging.

The most important modelling innovation in our paper is to depart from the conventional practice of imposing the "triple coincidence" where the national income boundary defines also the decision making unit and the currency area. Global banks straddle the traditional border, often with roundtrip flows, as shown in Shin (2012) for European global banks vis-à-vis the United States. Instead, our approach is to identify the consolidated balance sheet best able to capture the decision making unit for balance sheet management. The role of