

- **Core liquidity** is defined as total resident deposits in commercial banks and other depository corporations. Broadly, this series is similar to what is captured by the traditional broad money aggregates, particularly M3.¹² In line with the traditional monetary aggregates, this series does not include inter-bank deposits (e.g., deposits of other financial institutions with commercial banks and other depository corporations) as these deposits do not typically represent a source of “liquidity” for the nonfinancial private sector—i.e., they do not create leverage.
- **Noncore liquidity** is defined as the total nonresident deposits in commercial banks (hence cross-border deposits would be considered noncore) and other deposit corporations as well as loans and securities (other than shares) of commercial banks, nonbanks and other financial intermediaries. In contrast to core liquidity, this series includes liabilities across financial institutions. As financial institutions can be on both sides of the balance sheet and collaterals lent or borrowed can contribute to the degree of leverage, capturing liabilities across financial institutions helps to better assess the gross amount of leverage—and correspondingly, funding—available.

Overall, the differences in the behavior between core and noncore global liquidity suggest the need to monitor each component separately. Global liquidity has more than doubled since 1999 in nominal terms. Two thirds of the rise is attributable to noncore liquidity, particularly since 2004. During the upswing, prior to the global financial crisis, noncore liquidity in the G4 was the key driver, with core funding (relative to GDP) remaining flat, as financial institutions relied increasingly on endogenous “money” creation to fund their expansion.¹³ Once the crisis struck, noncore funding contracted, and core funding partially filled the gap—reflecting the exceptional policy support during the crisis—provided by central bank liquidity injections. Overall, these trends confirm the procyclicality of some global liquidity components and suggest that monitoring developments in the noncore “shadow banking” aggregates may provide useful insights on the developments in the financial sector and their implications for real economy.

As an additional robustness check, we also consider countries’ external liabilities to BIS reporting banks as a proxy for global liquidity (Figure 4), detrended as the quantity measures above. In particular, we focus on both G4 economies and a broader set of advanced and emerging economies (see Section V). We find that while the external liabilities of our non-G4 sample of economies account for only about one quarter of the G4 external liabilities in size, they tend to be larger when measured as a ratio of GDP, highlighting their crucial role

¹²This does not, however, imply that the two measures are equivalent.

¹³For example, noncore global liquidity experienced deviations from trend of around 15 percent of G4 GDP, while these deviations were around 6 percent in the case of core liquidity.