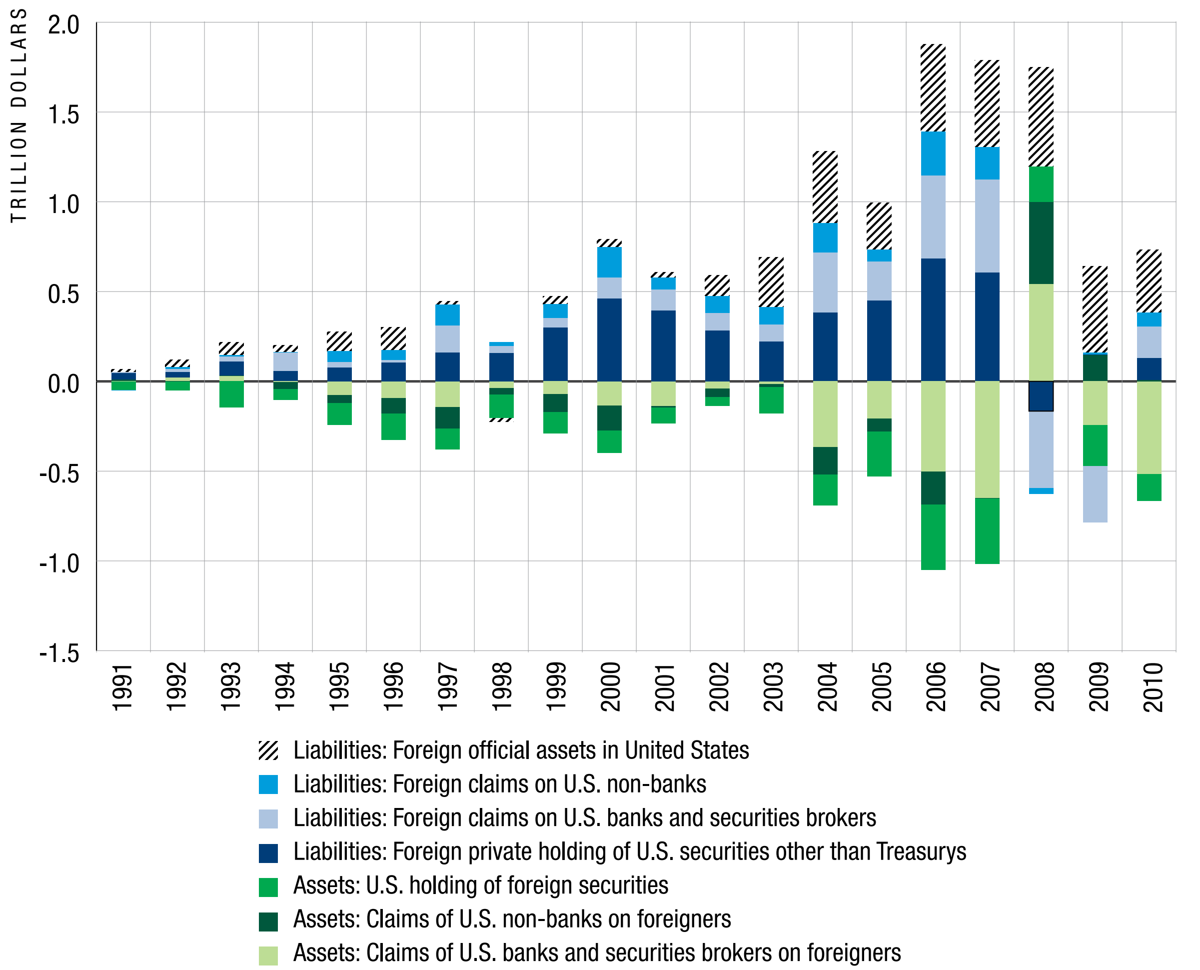
Figure 1: Categories of gross capital flows for the United States



Source: Shin (2012), data from U.S. Bureau of Economic Analysis

The grey shaded bars indicate the increase in claims of official creditors to the United States. This includes the increase in claims of China and other current account surplus countries. While official flows are large, private sector gross flows are larger still. The negative bars before 2008 indicate large outflows of capital from the U.S. (principally through the banking sector), which then re-enter the country through the purchases of non-Treasury securities. We cover this in more detail in Appendix B, where we highlight the role of European global banks in driving such flows.

The upshot of the pattern of gross flows in Figure 1 is that European banks played an important role in influencing credit conditions in the United States by providing U.S. dollar intermediation capacity, even though net flows between Europe and the U.S. were small. Effectively, European global banks sustained the "shadow banking system" in the United States by utilizing U.S. dollar funding in the wholesale market to lend to U.S. residents through the purchase of securitized claims on U.S. borrowers. Money market funds in the United States were a particularly important source of wholesale bank funding for global banks.[7]

[7] See Shin (2012) for more detailed evidence of such "round-trip" flows of capital from (and back to) the United States via the European banks.