

IMF Working Paper

Strategy, Policy, and Review Department

Exploring the Dynamics of Global Liquidity

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Authorized for distribution by Martin Mühleisen

October 2012

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Abstract

This paper explores the concept of global liquidity, its measurement and macro-financial importance. We construct two sets of indicators for global liquidity: a *quantity* series distinguishing between core and noncore liabilities of financial intermediaries and a corresponding *price* series. Using price and quantity indicators simultaneously, it is possible to distinguish between shocks to the supply and demand for global liquidity, and isolate their impact on the economy. Our results confirm that global liquidity conditions matter for economic and financial stability, and points to indicators whose regular monitoring could be valuable to policymakers.

JEL Classification Numbers: G01, G15, G18, G32, C23

Keywords: Liquidity, core and noncore financial liabilities, shadow banking, growth

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*The authors are grateful to Isabelle Mateos y Lago and Martin Mühleisen for their intellectual guidance and to Irena Asmundson, Heedon Kang, Minsuk Kim, Mark Stone, and Tao Sun for contributions to an earlier version. The paper benefited greatly from extensive discussion with Tam Bayoumi and Laura Kodres, and from comments from Olivier Blanchard, Ricardo Davico, Gianni De Nicolo, Jeanne Gobat, Artak Harutyunyan, Manik Shrestha, Karim Youssef, participants in an IMF seminar, as well as comments from the U.S. Treasury, the Federal Reserve Board and the European Central Bank. Excellent research assistance was provided by Tola Oni.