

series of core liquidity is 0.51 (0.71 for noncore liquidity), and -0.08 for the price measure of core liquidity (0.71 for the price measure of noncore liquidity).

Country-specific dynamics of noncore liabilities are presented in Figures 8 and 9. The historical decomposition for each of the G4 economies suggests that the rise in noncore liabilities was largely a supply phenomenon in the United States—reflecting possibly structural factors in intermediation, including the highly pro-cyclical collateral-based “inside money” creation associated with the proliferation of structured products (Figure 8). This supply phenomenon, however, was fueled by strong demand for noncore liabilities in the United Kingdom, and to a lesser extent in the euro area. This is consistent with global banks using their United States branches and subsidiaries to fund purchases elsewhere. Bruno and Shin (2011), for example, argue that European banks played a key role in providing U.S. dollar intermediation—raising wholesale funds in the United States and reinvesting in U.S. asset-backed securities (ABS) or channeling these funds to other regions.

D. Historical Developments in Countries’ External Liabilities to Banks

The historical decomposition of G4 external liabilities to BIS reporting banks is shown in Figure 10. Using the same price index to proxy the price of BIS external liabilities, we find that the behavior of G4-based noncore global liabilities is very similar to that of the G4 external liabilities to BIS reporting banks (Figure 7). This suggests a close link between noncore global liquidity and cross-border funding by global banks or confirming that global banks are at the heart of transmitting noncore global liquidity across the world.

Assuming that this close link applies also to non-G4 countries, we construct the same historical decomposition for the external liabilities of other countries to BIS reporting banks (Figure 11). There are some indicative differences: firstly, much of the trend in external liabilities is demand-driven. Secondly, there is a much more dramatic fall relative to the trend during the crisis of 2008, followed by a speedy recovery and a gradual reversion to trend (Figure 4). While part of this volatility is driven by changes in nominal GDP, this seems to suggest that the deleveraging process in the G4 countries has been more prolonged than in other countries, including those with stronger economic prospects (e.g., Australia, Canada, and Korea).

V. THE REAL IMPACT OF GLOBAL LIQUIDITY

We use two approaches to study the real impact of global liquidity on growth. First, a panel regression (PR) studies the differing impact of global liquidity shocks—core and noncore—on economic growth over time (Box 3). Second, a vector-autoregression (VAR) model estimates the country-specific impact of shocks to global liquidity (Box 4). Together, these two approaches provide a comprehensive picture of the real impact of global liquidity. In