



BANK FOR INTERNATIONAL SETTLEMENTS

The changing face of financial intermediation

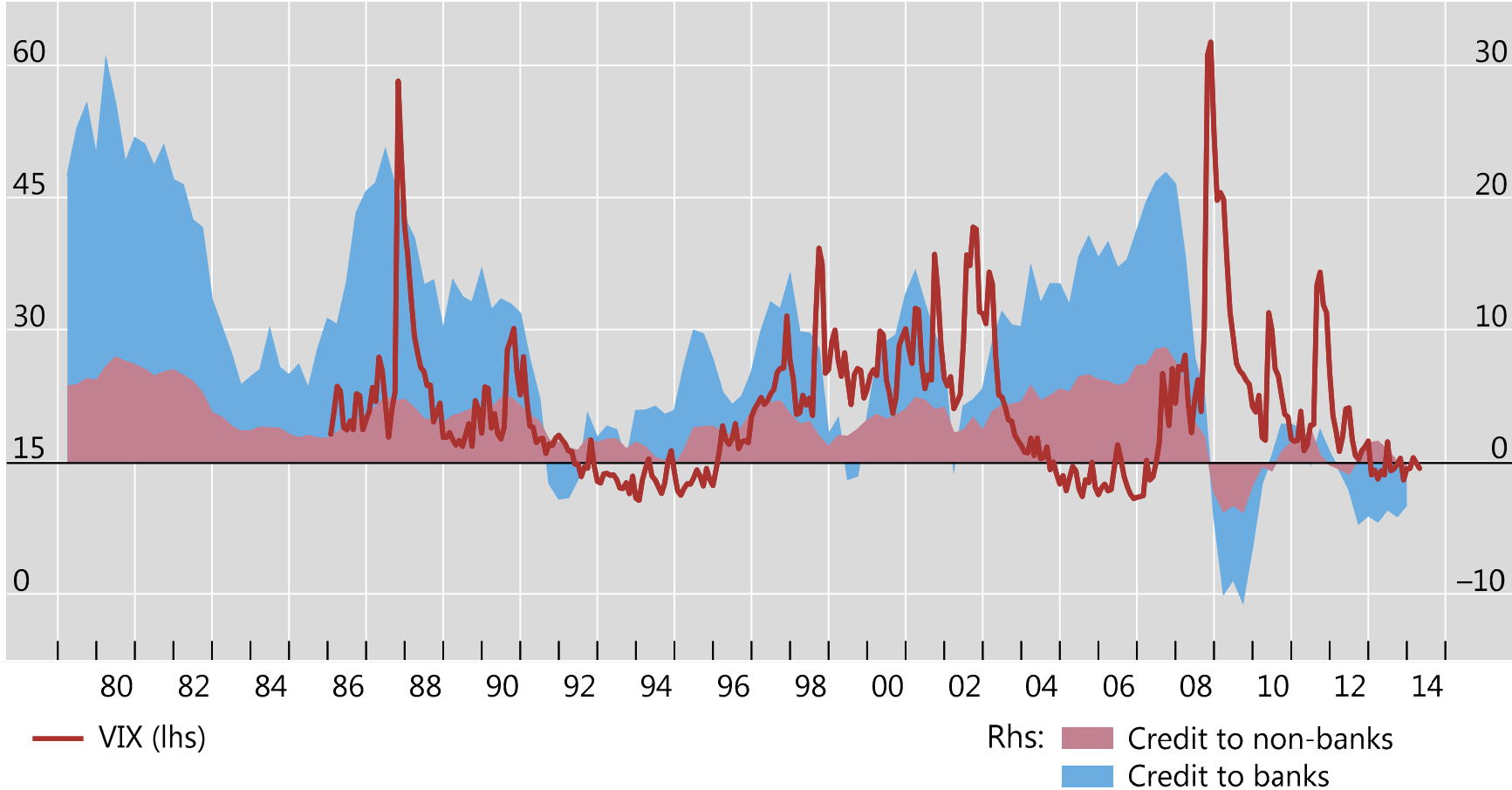
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84th Annual General Meeting



Year-on-year rate of growth in international bank claims¹

In per cent

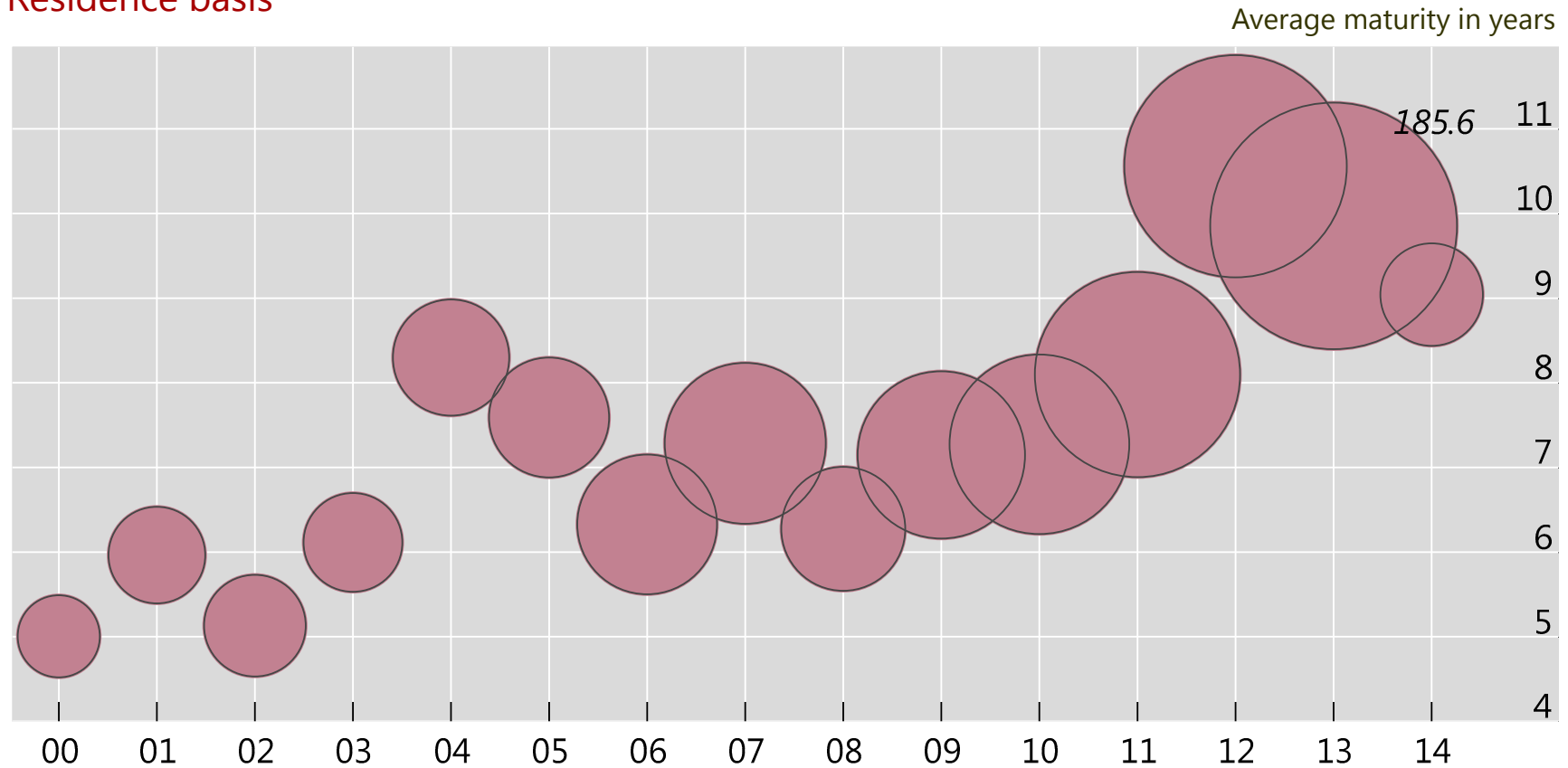


¹ Includes all BIS reporting banks' cross-border credit and local credit in foreign currency.

Sources: Bloomberg; BIS locational banking statistics by residence.

Annual gross issuance and weighted average maturity of EME non-bank international debt securities¹

Residence basis



¹ Sum of non-financial corporations and non-bank financial corporations. The size of the balloons reflects the relative volume of gross issuance in each year. The figure shown is for 2013 (in USD billions). Data for 2014 as of end-May.

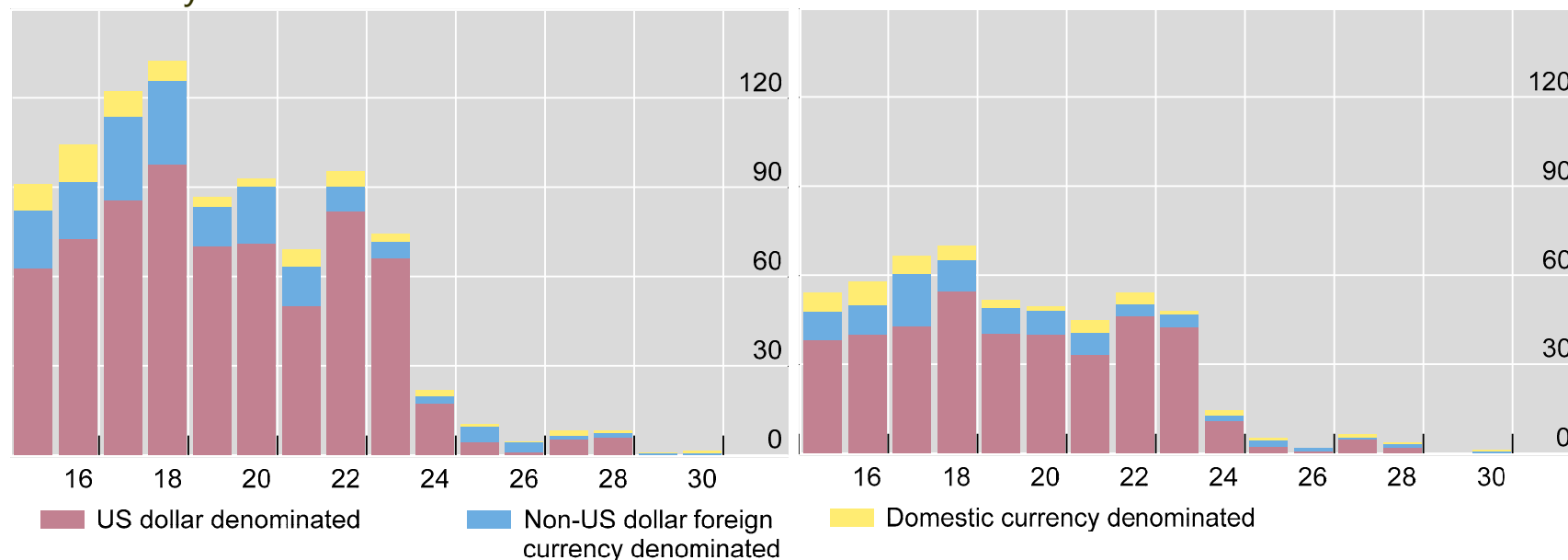
Source: international debt securities database.

Projected redemptions on international debt securities of non-bank corporations

Emerging market economies¹, in billions of US dollars

Nationality basis

Residence basis



¹ Bulgaria, Brazil, Chile, China, Colombia, Czech Republic, Estonia, Hong Kong SAR, Hungary, Indonesia, India, Iceland, Korea, Lithuania, Latvia, Mexico, Malaysia, Peru, Philippines, Poland, Romania, Russia, Singapore, Slovenia, Thailand, Turkey, Venezuela and South Africa.

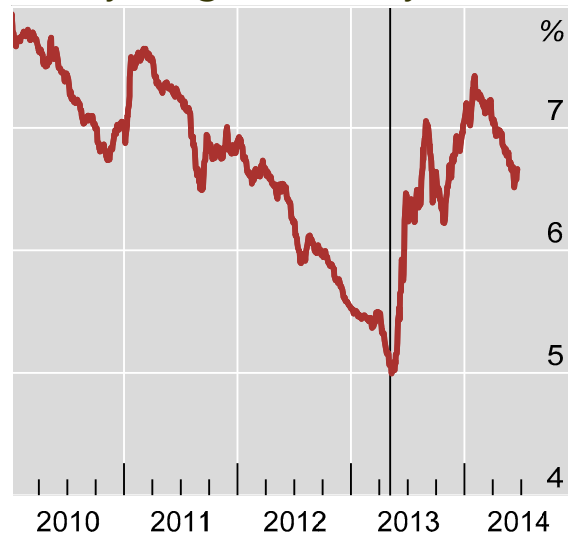
Source: BIS international debt securities database.

Shift from banking sector flows to portfolio flows

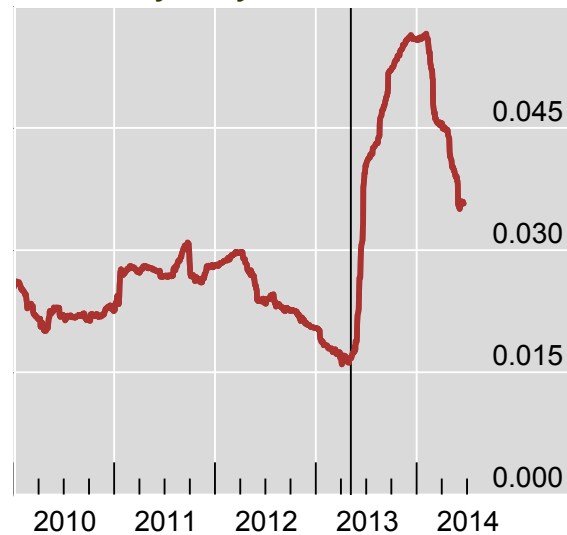
- Cross-border bank activity is subdued in spite of compressed measures of risk
- Banking sector capital flows have given way to portfolio flows through purchase of debt securities
- Average maturity of debt securities has increased
 - Mitigates rollover risk for borrowers
 - But only at expense of increased duration risk for investors
- Longer duration may exacerbate potential for non-linear market disruptions due to behaviour of global asset managers

Yields of local EME government bonds and the EME exchange rates¹

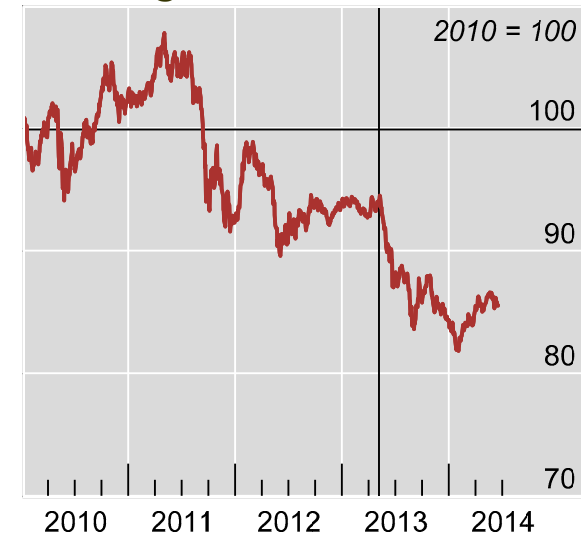
Five-year govt bond yields²



Volatility of yields³



Exchange rate⁴



The black vertical line corresponds to 1 May 2013 (FOMC statement changing the wording on asset purchases).

¹ All three panels show the simple average of Brazil, India, Indonesia, Malaysia, Mexico, the Philippines, Poland, South Africa and Turkey. ² Yields on five-year local currency bonds. ³ 180-day moving standard deviation of daily changes in yields. ⁴ In dollars per unit of local currency.

Sources: Bloomberg; national data; BIS calculations.

Leverage is not the only source of market disruptions

- Our understanding of crisis propagation is heavily influenced by experience of 2008 crisis
 - 2008 crisis was made more potent by leverage
 - However, it does not follow that future bouts of market disruptions must follow the same mechanism as in the past
- Long-term investors may be subject to forces that lead to actions that are similar to leveraged players
 - Risk mitigation or hedging techniques
 - Incentives that arise from relative performance evaluation
- All these mechanisms are sharper when prices are more sensitive to shifts in sentiment

Three research themes

- Characteristics of financial intermediation
- Global economy and spillovers
- Monetary and financial stability policy frameworks

Characteristics of financial intermediation

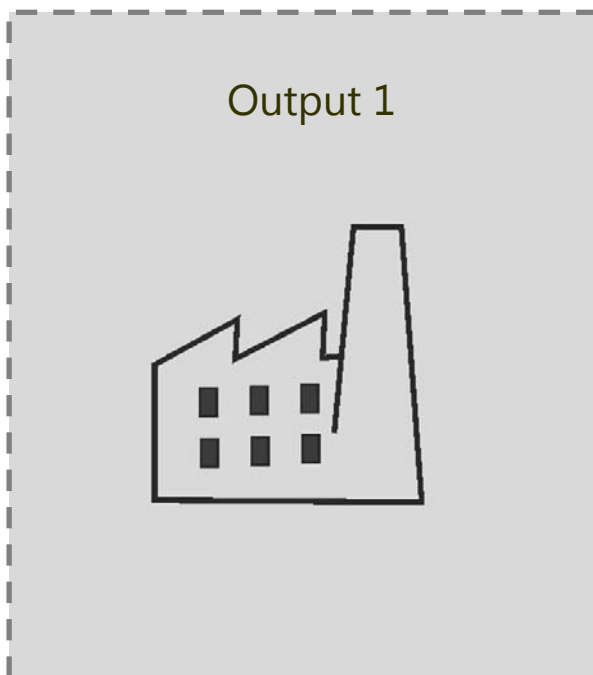
- What determines bank lending and capital market finance?
- How are they shaped by risk-taking and regulation?
- Research as input to
 - Monitoring of financial vulnerabilities
 - Understanding transmission across borders
 - Design of regulation and supervision
 - Crisis management and resolution techniques
 - Monetary policy frameworks, including strategy, tactics and day-to-day implementation

Global economy and spillovers

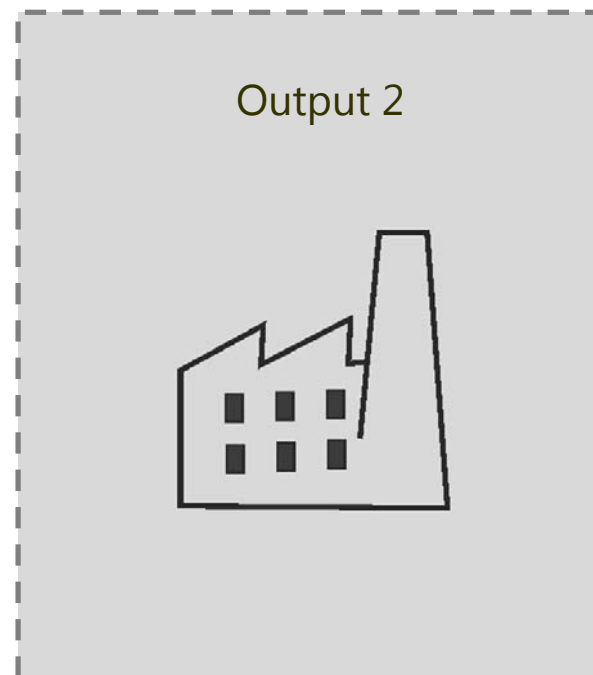
- What are the channels for cross-border spillovers?
 - What is the relevant boundary for analysis of spillovers?
 - What are the channels of monetary policy spillovers?
- What is the scope for international cooperation?

Traditional approach: Start with boundary for national income accounting

Economic territory 1

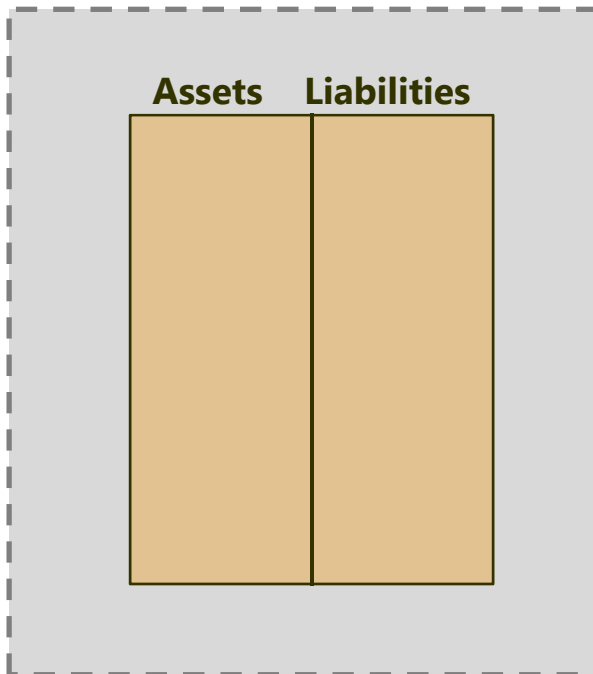


Economic territory 2

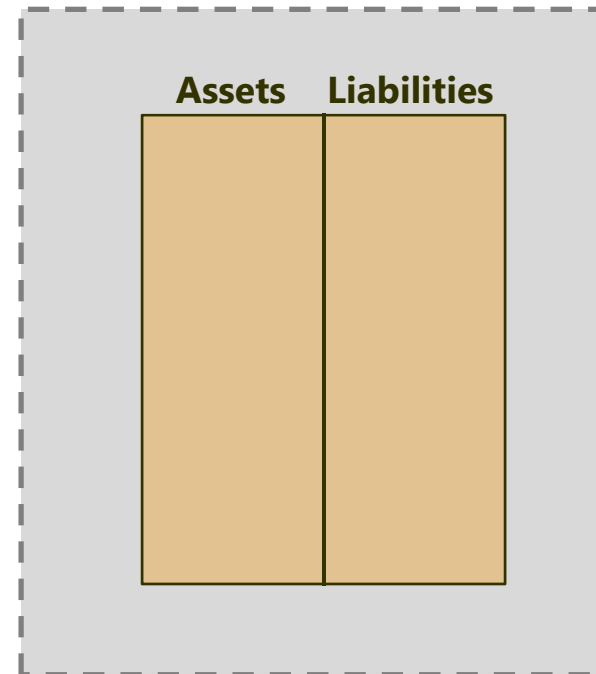


Traditional approach:
National income boundary defines decision-making unit

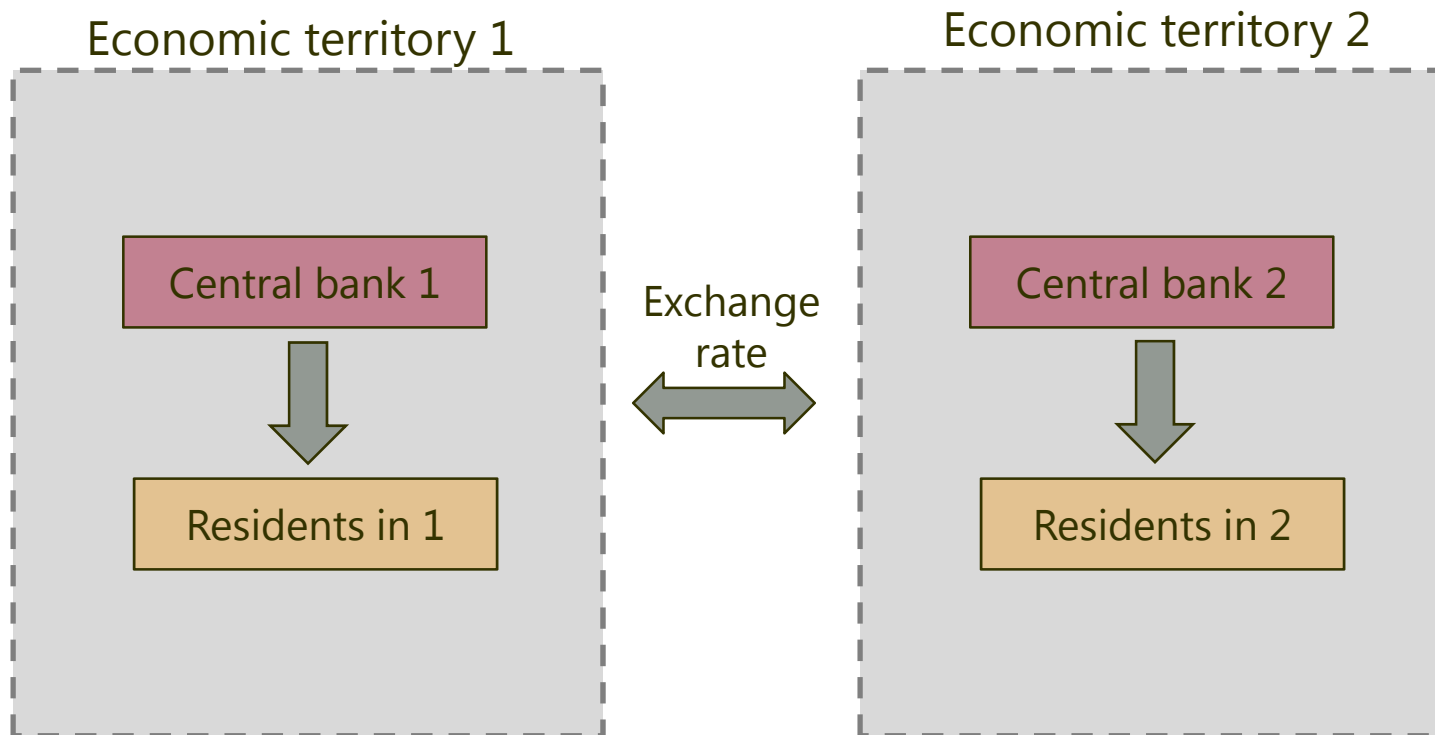
Economic territory 1



Economic territory 2

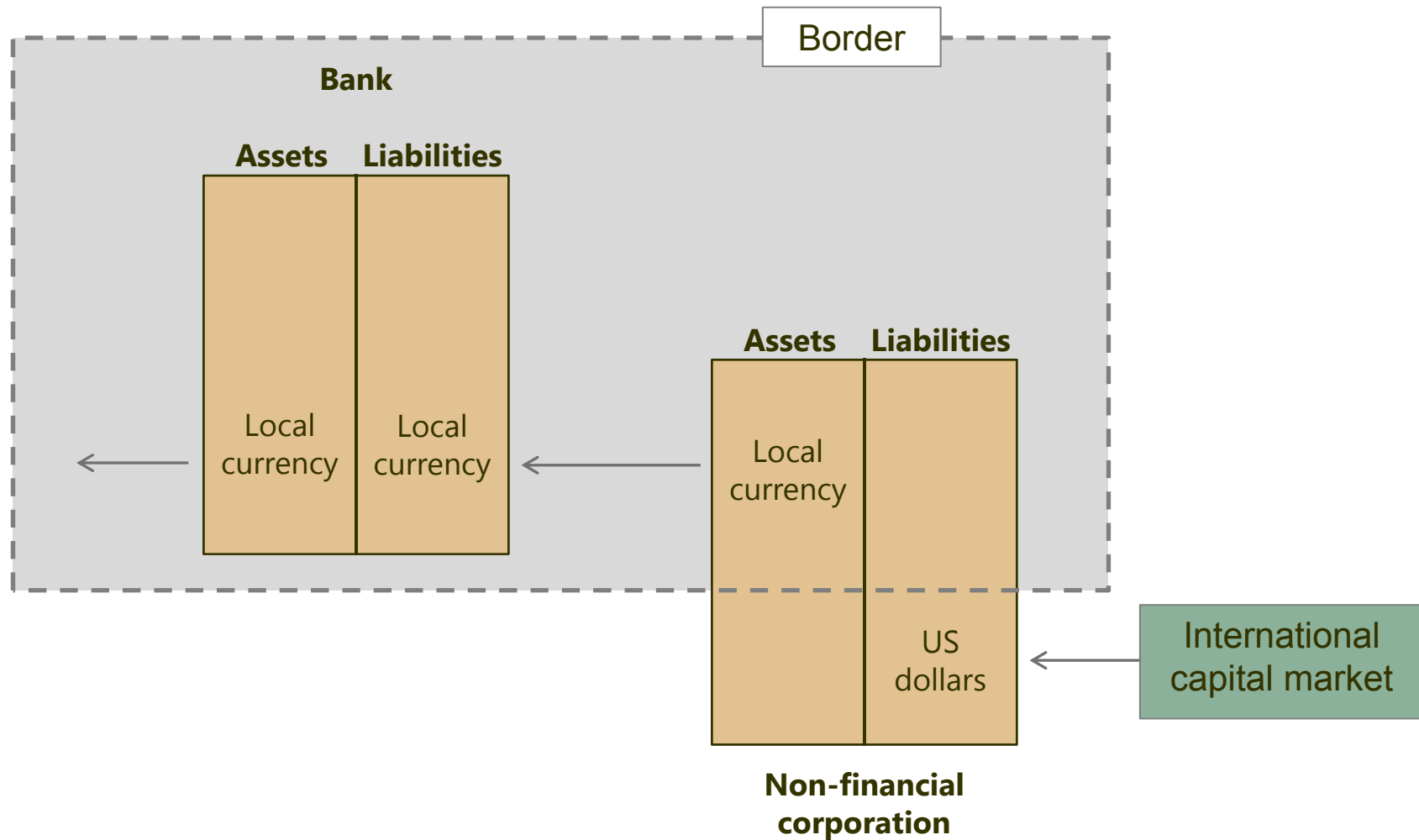


Traditional approach: National income boundary defines currency area



Traditional boundaries ...

... are not sufficient for understanding the second phase of global liquidity



Monetary and financial stability policy frameworks

- Integrating monetary policy and financial stability concepts in a policy framework
- “Risk-taking channel” of monetary policy
- Risk-taking by market participants determines:
 - Financial conditions relevant for real decisions
 - Vulnerabilities of financial system
- Understanding “risk-on, risk-off” tendency of markets
- Balance sheet quantities as indicators of
 - Financial vulnerability
 - Monetary policy stance