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Financial globalisation, the crisis and Latin America

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The crisis is not yet over, and it has raised important questions about financial globalisation. Along with better risk management in the private sector and reform of regulation and prudential supervision, we need to think hard about how the crisis will affect international financial intermediation in the medium term.

At the BIS, we have done much analysis over the years on financial globalisation. It has been a major topic of research in our representative office in Mexico. As you all know, there are great potential benefits but there are also risks, which need to be managed. I very much look forward to hearing views about this from Latin American and Caribbean Governors in the light of the crisis. I am honoured to have been invited to participate in this discussion by giving you some perspectives on financial globalisation from the BIS.

The BIS has recently published the international banking statistics for end-December 2008. Global cross-border claims declined by 5.4% in the fourth quarter of 2008 ($1.8 trillion at constant exchange rates). This percentage change in the stock adjustment may not – at first sight – seem particularly significant. But the truth is that the flow change associated with it is of great importance. The drop in cross-border bank finance has been of historic magnitude – so much so that some speak of a reversal in the very process of financial globalisation. I believe these figures illustrate well the dynamics of the current financial crisis. It is driven by the need to adjust stocks – to reduce excessive leverage in both the financial sector and the household sector in some countries. Given the size of these balance sheets relative to the real economy (itself partly due to excessive leverage), the adjustment can be protracted. Even small changes in stocks can lead to large changes in financial flows to the real economy. Global banking markets are so large that a seemingly modest percentage fall in stocks implies a **huge** reversal of flows. Its impact on the region's real economy can be significant, especially when, in a global crisis as complex as the current one, it is accompanied by a reduction in global demand, changes in the terms of trade due to commodity price movements and reductions in other flows, such as remittances.

To analyse this crisis and its impact on Latin America, one needs to focus on **balance sheets**, as well as developments in flows. Let me summarise my main points:

- One: Policy reforms in Latin America from the mid-1990s succeeded in creating international financial linkages that are more resilient to adverse shocks than were the sorts of linkages prevalent in the 1970s and 1980s. This involved a strengthening of balance sheets that took many years. The pay-off was in helping Latin America weather an extraordinarily severe global financial crisis. Policies taken now must not reverse that balance sheet strengthening.
- Two: Creating more resilient mechanisms of financial integration is still work in progress. The crisis has brought to light a number of shortcomings which I shall outline.

- Three: The adjustment to the balance sheets of international banks that is underway will take some time to work through. Over the next few years, therefore, Latin America will face a much more difficult environment for external finance. So it will be important to continue strengthening the mechanisms of domestic financial intermediation. Steps also need to be taken to prevent a major decline in international finance – which I see as a danger at present.

I will not go into details about individual countries, my presentation being general in nature. No doubt this does not do justice to the region's heterogeneity, and in some cases may constitute oversimplification.

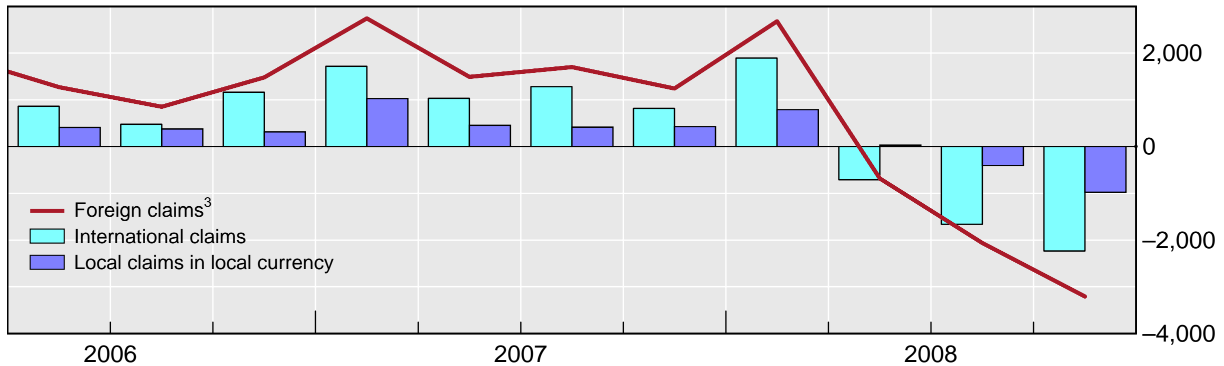
Impact of crisis

Let me start with the impact of the crisis on the international banking system. The broadest measure of the scale of international bank intermediation comes from the consolidated claims of BIS reporting banks. This covers both cross-border claims and the local claims of their foreign offices. Measured at constant exchange rates, such claims declined substantially in recent quarters (Graph 1).

Graph 1

BIS reporting banks' consolidated lending[1]

Changes in stocks,[2] in billions of US dollars



[1] Worldwide consolidated positions of banks headquartered in 30 reporting countries. [2] Quarterly difference in outstanding stocks. [3] Sum of international claims and local claims in local currency; international claims comprise cross-border claims in all currencies and local claims in foreign currencies; local claims relate to those booked by reporting banks' foreign offices on residents of the country in which the foreign office is located.

Source: BIS consolidated banking statistics on an immediate borrower basis.

The decline in the fourth quarter was the largest ever recorded: over $3 trillion. It is important to note that cross-border claims fell more sharply than local claims.

The dramatic decline in cross-border bank claims is shown in Table 1.

Table 1 **External claims of BIS reporting banks vis-à-vis all countries**[1]

In billions of US dollars

	2008				*Memo: Outstanding stocks in Q4*
	Q1	Q2	Q3	Q4	
Total external claims	1,029	–772	168	**–1,790**	*30,952*
Loans	1,139	–862	150	**–1,678**	*22,450*
Securities	–66	21	18	**–211**	*6,408*
Other stocks	–44	69	0	**99**	*2,093*

[1] Estimated exchange rate adjusted change including claims on international organisations, excluding claims on residents.

Source: BIS locational international banking statistics.

It is clear that the brunt of the adjustment has fallen on bank loans. A large part of this contraction was in loans to borrowers in the main financial centres. Nevertheless, total cross-border bank lending to the developing world as a whole still fell by over $200 billion – the largest decline ever registered (Table 2). Loans to banks declined more sharply than those to non-banks.

Table 2 **Cross-border financing of emerging market economies**

In billions of US dollars

	2008				*Memo: Outstanding stocks in Q4*
	Q1	Q2	Q3	Q4	
Cross-border loans[1]	168	105	47	**–205**	*1994*
To banks	88	41	18	**–178**	*989*
To non-banks	80	64	29	**–27**	*1005*

[1] External loans of BIS reporting banks vis-à-vis developing countries, estimated exchange rate adjusted changes.

Source: BIS locational international banking statistics.

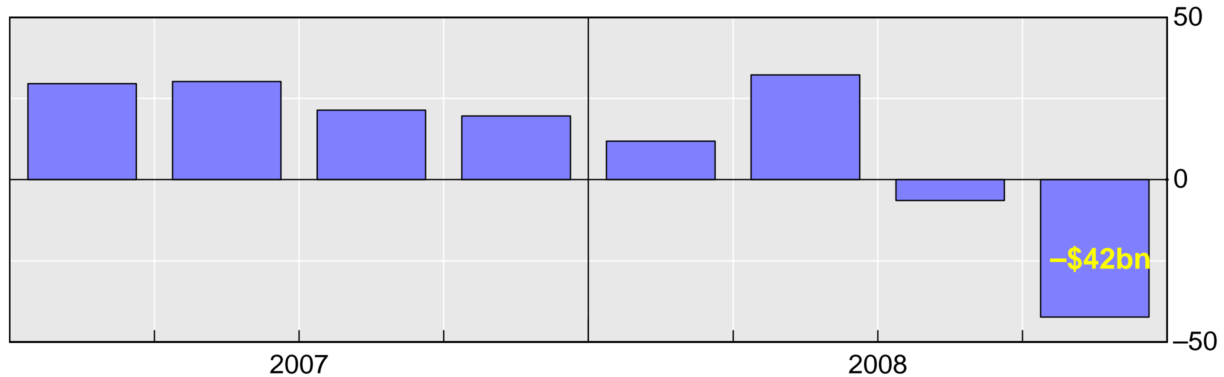
The very pronounced contraction in interbank lending, around 15%, is symptomatic of the fact that banks are at the centre of this crisis. At the same time, many emerging market borrowers in effect lost access to international bond markets.

Graph 2 shows that external bank and bond finance for Latin America contracted by $42 billion in the last quarter of 2008. These data on actual flows, bad as they are, tell only part of the story. Just as important, several key financial services offered by international banks shrank across the board. Some international banks have simply withdrawn from several areas.

Graph 2

Reversal of financial inflows in Latin America and the Caribbean[1]

In billions of US dollars



[1] Exchange rate adjusted changes in loans of reporting banks vis-à-vis Latin America and the Caribbean plus the net issues of international debt securities of residents in Latin America and the Caribbean. The Caribbean offshore centres are excluded.

Source: BIS.

The impairment of securitisation markets, for instance of trade finance loans, continues to constrain even healthy international banks. There have been deep cuts in trade finance credit lines extended to Latin American financial institutions and corporations. Spreads in forex swaps have widened and it has become much harder for banks in Latin America to hedge forex and interest rate risks. Market-making capacity in emerging market securities has been reduced. However – and this is in striking contrast to previous crises – no major Latin American banks have failed.

All major currencies in Latin America fell sharply in October (Graph 3). Foreign exchange markets became extremely volatile. Since then, these extreme pressures have abated, with the implied volatilities of Latin American currencies falling back from the crisis levels seen six or seven months ago. But the most telling aspect is that this shock did not force central banks in Latin America to raise interest rates. Instead, they have been able to reduce rates in order to counter the downturn.

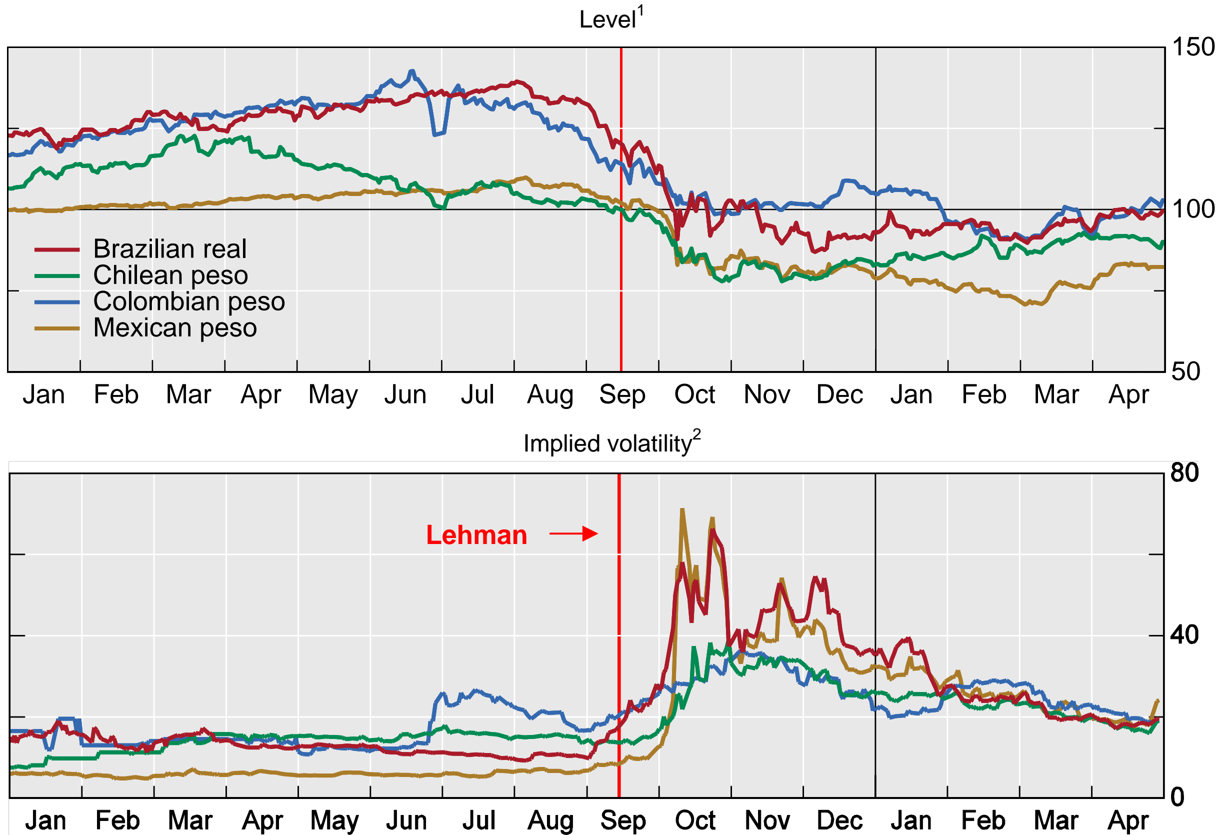
Reduced currency mismatches and resilience to exchange rate shocks

One reason Latin American central banks have more room to manoeuvre in this crisis than they had in the 1980s and 1990s is that they no longer face severe currency mismatches. In the past, limited holdings of foreign currency assets and a heavy dependence on foreign currency debt made Latin America extremely vulnerable to currency depreciation. Such weak balance sheet positions often made devaluations contractionary.

Weak balance sheets also meant that macroeconomic policies could not be used in a countercyclical way. Because government interest payments on foreign currency debt rose when the exchange rate declined, fiscal policy often had to be tightened in a recession. And monetary policy also had to be tightened in an effort to prevent an overdepreciation of the currency.

Graph 3

Exchange rates against the dollar, January 2008–April 2009



The vertical red line marks the date of the Lehman bankruptcy on 15 September 2008.

[1] 2006 = 100. An increase indicates appreciation of the currency against the US dollar. [2] Dollar/domestic currency one-month at-the-money FX option.

Sources: Bloomberg; Thomson Reuters.

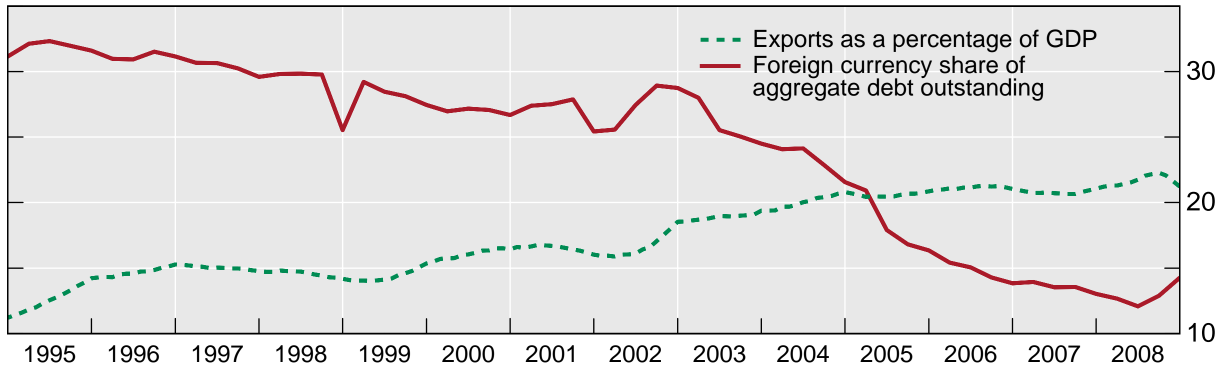
Over the past decade, aggregate currency mismatches have been eliminated. In the mid-1990s, over 30% of all debts in Latin America were denominated in foreign currency (Graph 4).[1] By 2006, this percentage had been brought to under 15%. A decade ago, many did not believe it was possible to substitute domestic currency debt for foreign currency debt on this scale – you recall the old debate about "original sin".

At the same time, a substantial stock of foreign currency assets has been built up. As of end-2008, Latin America had a positive foreign currency asset position of $150 billion, compared with net liabilities of $300 billion in the late 1990s (Graph 5).

[1] This was twice the size of the share of exports in GDP, which gives some indication that countries could not finance their foreign currency debts through trade (Graph 4).

Graph 4

Balance sheet exposure to exchange rates[1]



[1] Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; for exports, the regional aggregate is a weighted average of the economies listed based on 2005 GDP and PPP exchange rates; for the foreign currency share, aggregate of the economies listed.

Sources: IMF; Thomson Reuters; BIS calculations from the international financial and banking statistics.

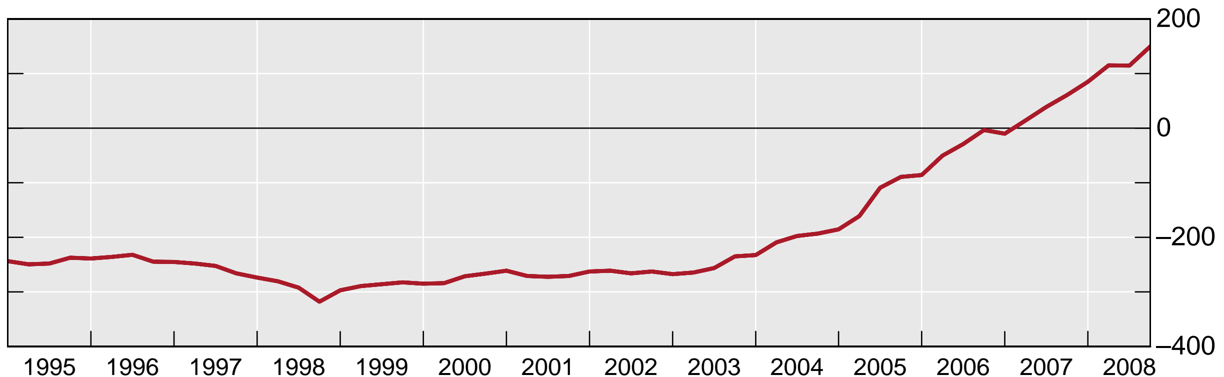
This means that currency depreciation in Latin America now has a **positive** impact on national balance sheets **in aggregate**, the reverse of the situation in the 1980s and 1990s.

I stress the words "in aggregate" because some corporations **did** have very large forex exposures, sometimes in the form of options or other derivative contracts. Some of these positions were non-linear, so that exposures were magnified as the currency fell through successive triggers in these contracts, aggravating pressures on the financial system late last year. I shall return to this in a moment.

Graph 5

Net foreign currency asset position[1]

In billions of US dollars



[1] Net foreign assets of the monetary authorities and deposit money banks (IMF monetary survey) plus non-bank foreign currency cross-border assets with BIS reporting banks less non-bank foreign currency cross-border liabilities to BIS reporting banks less international debt securities outstanding in foreign currency; outstanding positions of year-end; sum of Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Sources: IMF; BIS calculations from the international financial and banking statistics.

The reduction in currency mismatches took several years. It was the result of deliberate policies followed over the past decade or so. These were:

(a) the adoption of flexible exchange rates combined with higher levels of forex reserves;

(b) the development of local currency bond markets; and

(c) strong regulation of the liquidity of banks' foreign currency positions.

At the same time, international banks shifted from cross-border lending in foreign currency to local currency lending via their domestic affiliates.

I would like to look at these policies and developments from the perspective of the current crisis.

Three key policies

(a) Flexible exchange rates combined with reserves accumulation

First, the commitment to flexible exchange rates has been strong. In recent years several major Latin American economies have made a point of allowing the exchange rate to serve as a natural shock absorber, even when this involved a very large change in the market rate. This broad policy commitment, often supported by a monetary policy framework focused on inflation targeting, was maintained during the recent period of severe market stress.

However, central banks did not remain inactive. Their ability to act in markets was enhanced by a high level of foreign exchange reserves. The danger in October 2008 was that a sudden unwinding of corporations' leveraged forex exposures could unleash a destabilising dynamic of exchange rate overshooting and further forced selling. In these truly exceptional circumstances, most central banks intervened in the spot market. In some cases, intervention was designed to be non-discretionary in order to avoid giving any central bank signal of an exchange rate target. For instance, the Bank of Mexico adopted a rule whereby it would auction $400 million on any day after the peso depreciated by 2% or more.

Another important policy tool was the lending of US dollars to local banks. The Central Bank of Brazil, for instance, used dollar term repos and swaps with local banks.[2] In addition, the central bank announced $36 billion in credit lines to help corporations meet external debt obligations.

These events showed how exchange rate flexibility could be combined with substantial use of official reserves. Nevertheless, a high level of reserves may not in itself be sufficient. We saw in this crisis how a rapid or unexpected depletion of even ample reserves can send an unwarranted signal of weakness to the markets. What is needed to solve this are forms of international cooperation that simultaneously provide funds to a country under pressure **and** send a strong message of confidence. The Federal Reserve swap facility in dollars offered to Brazil and Mexico clearly did boost confidence. The improved IMF credit lines (longer-duration lending to countries with strong policies) also did a lot to reassure markets. In short, the flexible exchange rate commitment, backed up not only by special central bank actions but also by international measures, came through a severe stress test.

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[2] These and other measures are discussed in "Global financial crisis and capital flows in 2008: a preliminary assessment" in CGFS (2009).

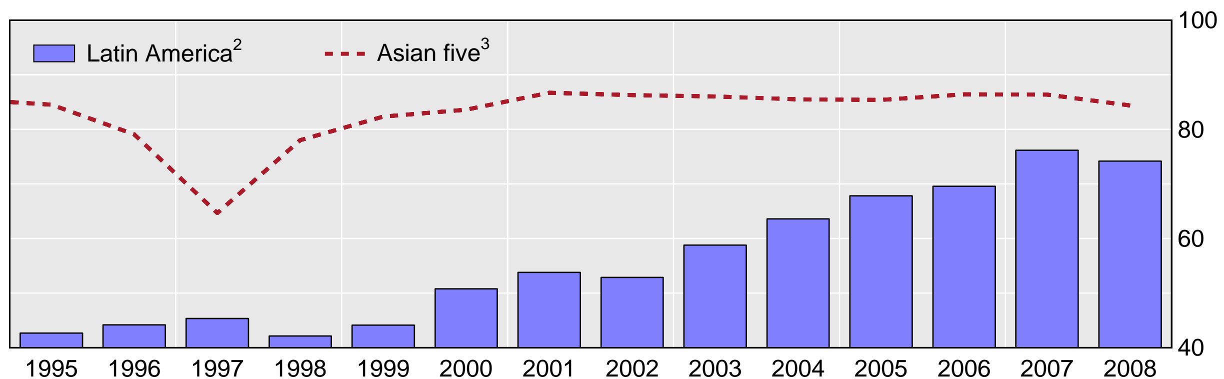
(b) Local currency bond markets

A second important policy has been the development of local currency bond markets. During the past decade, those responsible for macroeconomic policy and debt management strategies have succeeded in removing many of the impediments to the development of these markets. Lower inflation thanks to better monetary policy frameworks and lower fiscal deficits has obviously contributed. But the explicit policy of lengthening the local currency yield curve for government debt markets has been just as important. Almost 80% of total outstanding bonds are now denominated in local currency (Graph 6). The gap between Latin America and the medium-sized Asian emerging economies has therefore narrowed considerably.

Graph 6

Share of domestic currency debt in total bonds outstanding: 2000–08[1]

As a percentage of outstanding debt securities



[1] Debt securities with remaining maturity greater than one year issued by residents in the economies listed. [2] Argentina, Brazil, Chile, Colombia, Mexico and Peru. [3] Indonesia, Korea, Malaysia, the Philippines and Thailand.

Source: BIS.

The expansion of local currency bond markets can help mitigate three important financial system vulnerabilities. The first is currency mismatches, which I have already mentioned. The second is that lengthening the average maturity of government debt reduces refinancing and rollover risks. By the end of 2008, for instance, the average remaining maturity of domestic government debt securities exceeded three years in Brazil, compared with less than a year in 1995 (Table 3). In Mexico it is up to six years.

This longer-term debt structure helped to insulate fiscal positions from the sharp rise in market rates after the failure of Lehman. It also gave governments the flexibility to temporarily shorten the duration of debt issuance without undermining confidence. Several countries have taken advantage of this room to manoeuvre.

The third potential benefit is to provide an alternative source of local finance when international financing dries up. Here, however, the picture that emerges from the dramatic events in late 2008 is rather complex. Local currency bond markets **were** severely disrupted by the crisis. Because this disruption was due in significant part to the flight of foreign investors, there was less effective insulation from shifts in international investor sentiment than desired. Market yields in local bond markets spiked and prices became extremely volatile. In Mexico, for instance, the government bond yield curve steepened by 250 basis points in a matter of days. The authorities had to take several unusual measures to stabilise the domestic bond market. The jump in volatility was even sharper in the case of Brazil.

Table 3 **Average maturity of domestic government debt[1]**

	1995	2000	2005	2008
Brazil	0.7	2.7	2.3	3.3
Chile	…	…	6.7	9.2
Colombia	2.0	3.6	3.8	4.4
Mexico	0.8	1.4	3.4	6.5
Memo:				
Indonesia	*…*	*6.0*	*7.6*	*4.1*
Korea	*…*	*2.4*	*4.1*	*4.5*
Poland	*1.2*	*2.6*	*3.6*	*4.2*
Turkey	*…*	*1.0*	*1.8*	*1.9*

[1] Average remaining maturity of central government debt in years; includes bonds, notes and money market instruments.

Source: BIS survey.

Nevertheless, the volatility in domestic bond returns (in local currency) after the Lehman failure was less than for comparable international bonds. Furthermore, the volatility of bond returns in both countries has now returned to pre-crisis levels (Graph 7).[3]

In general, then, these comparatively new local currency bond markets held up fairly well against the recent shock. However, a couple of qualifications to this positive assessment should be mentioned. One is the very large rise in long-term rates and the evaporation of secondary market liquidity during the worst days of the crisis. If sustained, this could have damaged the balance sheets of local institutional investors such as banks and pension funds. There are, therefore, dangers when the portfolios of domestic financial firms are heavily weighted with long-term government bonds. This points to a need for a more diversified investor base.

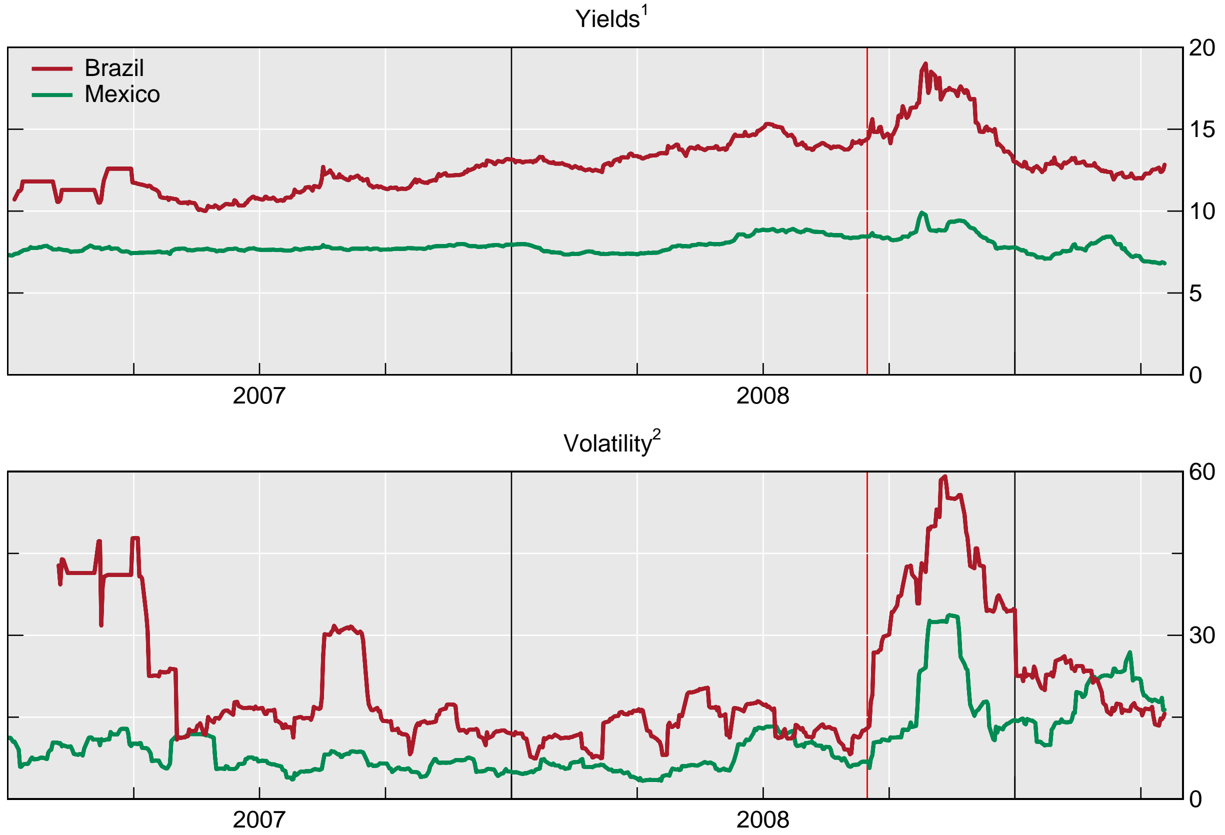
Another qualification is the comparative failure of domestic corporate bond markets to develop. There has been a strong expansion of Latin American corporate bond issuance abroad, rather than at home (Graph 8). Some Latin American corporations now face challenges in rolling over maturing external debt. This is not just an issue for Latin America: corporations from emerging economies in the other regions have also sharply increased their borrowing on international capital markets.

[3] This is discussed in Jara et al (2009).

Graph 7

Yields and volatility of some major bond markets: Brazil and Mexico

Five-year government bonds in domestic currency



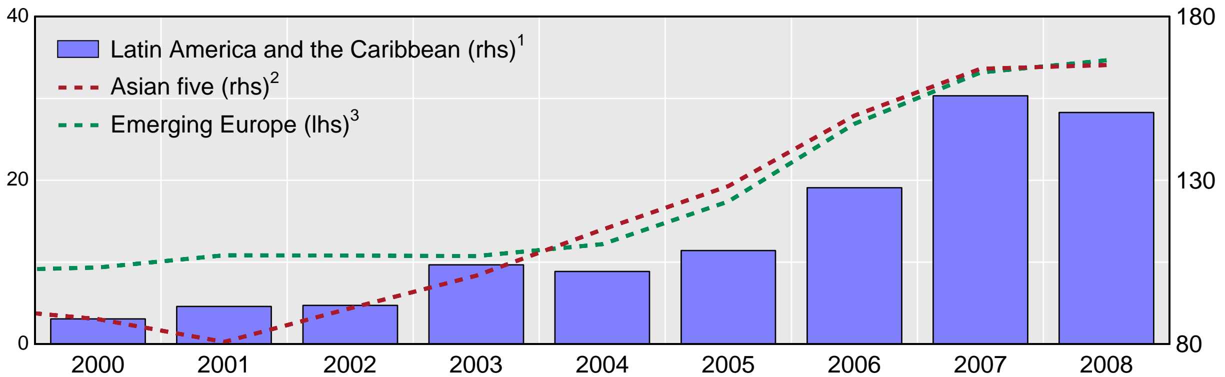
[1] In per cent. [2] Calculated as the annualised standard deviation of daily returns during the previous month, in per cent.

Source: Bloomberg.

Graph 8

Outstanding international bonds of Latin American corporations: 2000–08

In billions of US dollars



[1] The Caribbean offshore centres are excluded. [2] Indonesia, Korea, Malaysia, the Philippines and Thailand. [3] The Czech Republic, Hungary, Poland and Turkey.

Source: BIS.

(c) Liquidity regulation of banks' foreign currency position

On this point I will be brief. The resilience of most local banks in the face of a huge exchange rate shock suggests that the strict foreign currency liquidity regulations that many had put in place were broadly effective. Regulations limiting net open foreign currency positions ensured that currency depreciation had only a limited impact on bank capital. Other measures include liquidity requirements for short-term foreign currency debt and limits on the total amount of banks' foreign currency debt. The crisis has, of course, served to remind supervisors in the major financial centres of the effective oversight of the liquidity position of banks. The present difficulties in parts of eastern Europe have arisen in part because rigorous liquidity rules were not in place in many countries.

Let me now turn to some major changes in the role of international banks.

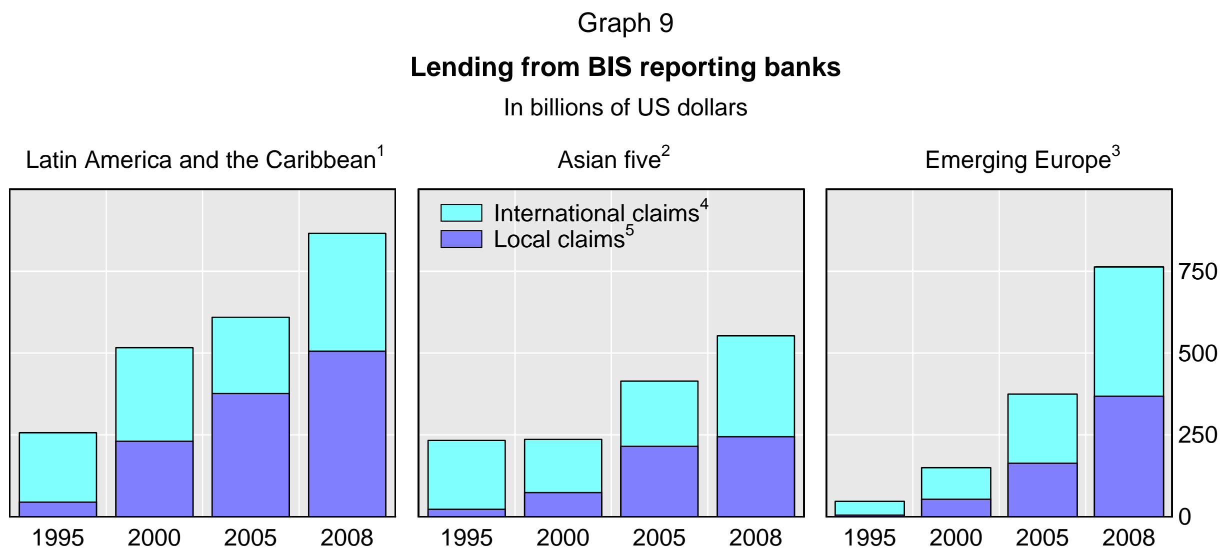
The changing role of international banks

During the past decade, foreign-owned banks have become the main players in the domestic banking systems of several countries. By the end of 2008, total bank lending of foreign banks and their affiliates in Latin America and the Caribbean exceeded $800 billion dollars. A similar expansion has taken place in Asia and in eastern Europe (Graph 9).

Graph 9

Lending from BIS reporting banks

In billions of US dollars



[1] Excludes the Caribbean offshore centres. [2] Indonesia, Korea, Malaysia, the Philippines and Thailand. [3] The Czech Republic, Hungary, Poland and Turkey. [4] Consolidated cross-border claims in all currencies and local claims in non-local currencies. [5] Local currency positions of reporting banks' foreign offices with local residents.

Source: BIS.

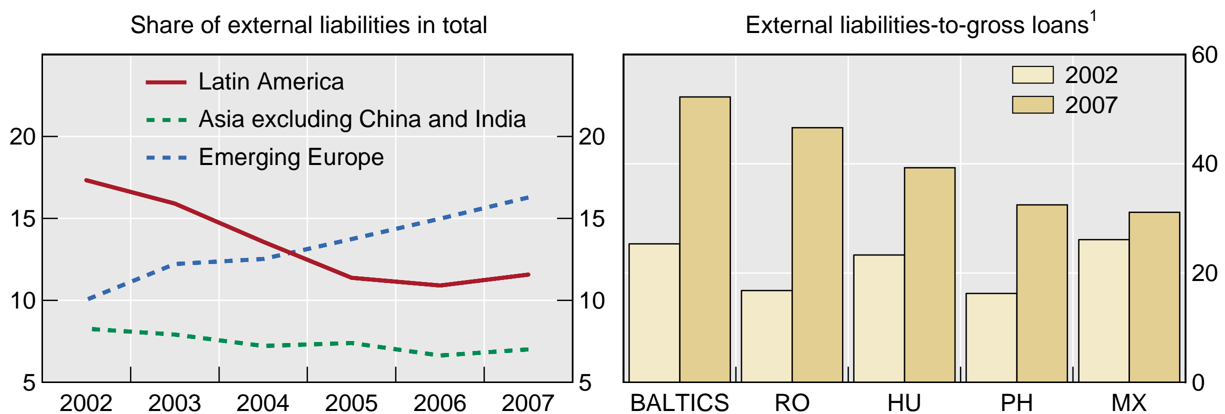
What is most striking is that the expansion in Latin America and the Caribbean has largely taken the form of increased domestic currency lending by the local affiliates of foreign banks, and not cross-border lending. In many cases, these affiliates are really local banks with foreign capital.

The reduced reliance on cross-border lending in foreign currency has led borrowers to face much lower currency mismatches. In addition, the importance of housing-related and other personal lending has risen – often because foreign banks had considerable experience from their home markets. This has broadened the business base of the banking industry. At the same time, the increased presence of foreign banks has helped local banks to become more efficient and has contributed to the deepening of the local financial market.

Countries in which foreign lending is still largely extended through cross-border operations are more vulnerable to a "sudden stop" in lending. There is also a problem if locally established banks fund their expansion of domestic lending by borrowing in offshore wholesale markets. Many foreign-owned banks in emerging Europe did this; in some cases, their parent bank provided the funds. In 2007, for instance, about 50% of gross loans were financed with external liabilities in the Baltic countries and Romania (Graph 10). When wholesale bank funding markets in the main centres became much more difficult, the banking systems in these countries came under considerable strain. In addition their lending was denominated in foreign currencies, giving rise to damaging currency mismatches.

Graph 10

External liabilities of banks in emerging markets



BALTICS = simple average of Estonia, Latvia and Lithuania; RO = Romania; HU = Hungary; PH = the Philippines; MX = Mexico.

[1] External liabilities are for the banking sector, and gross loans include both public and private sector loans; as a percentage of gross loans.

Sources: Federal Reserve Bank of New York; CGFS (2009).

In Latin America, by contrast, local lending tends to be funded in the domestic market, usually by bank deposits. Contrary to what has happened in some eastern European countries, the main parent banks in Latin America do not traditionally fund their operations in the international wholesale markets. This allows for a more stable funding structure for their lending activities.

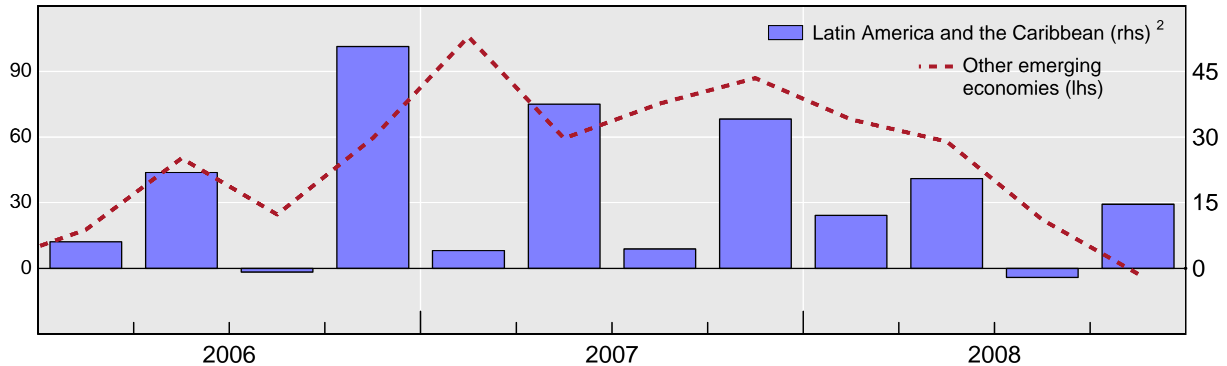
Nevertheless, some major international banks face exceptional difficulties. How far are foreign banks, under pressure in their own home markets, curbing their lending in Latin America in this crisis? Were foreign banks amplifiers of financial contagion from a crisis at the centre of the system?

It is too early to provide definitive answers to these questions. At the BIS, we are currently carefully examining this issue in Asia, emerging Europe and Latin America. It will take time to evaluate what is happening. Securitisation markets remain impaired, forex swap spreads are still wide, and banks are rebuilding their capital bases. The domestic/foreign allocation of exposures of some major banks is changing. Nevertheless, the evidence we have so far on lending by local affiliates does not, in general, show that foreign banks have pulled back more than local banks in Latin America. Although the pace of expansion has slowed, local lending of foreign affiliates in the emerging markets as a whole appears to have held up better than cross-border lending (Graph 11).

Graph 11

Change in local lending of foreign banks in Latin America and the Caribbean: 2006–08[1]

In billions of US dollars



[1] Local currency positions of reporting banks' foreign offices with local residents. Changes at constant exchange rates at the end of the previous quarter. [2] Excludes the Caribbean offshore centres.

Source: BIS.

This is not surprising, because banks do not want to give up lightly the significant investment in staff, local networks and real assets that they have made. But severe funding and capital difficulties at home have led **some** – not all – major international banks to withdraw funds from their emerging market subsidiaries.[4] Data on the growth of credit in Mexico over the past year reveal that the affiliates of different foreign banks have reacted very differently (Table 4).

Table 4 **Mexican banks: market share and growth of credit (February 2009)**

Bank	Classification	Market share[1]	Growth (annual rate)[1]
Bancomer	Subsidiary of BBVA	27	8
Banamex	Subsidiary of Citi	15	–8
Santander	Subsidiary of Santander	12	–5
Banorte	Non-subsidiary	11	14
HSBC	Subsidiary of HSBC	9	–4
Inbursa	Non-subsidiary	9	72
Scotiabank	Subsidiary of Scotiabank	5	8

Source: CNBV.

[1] In per cent.

[4] See the paper by Mihaljek in BIS (2008b).

Not all have cut credit. The real issue is less one of foreign versus domestic banks than one of concentration. If a bank that accounts for a high proportion of total lending gets into trouble, the country is hurt. But when credit is supplied by a diversified "portfolio" of banks, the country is less exposed to problems in any one big bank. The fact that Latin American economies host a mix of banks from different parts of the world is therefore an advantage.

Looking to the future

I would like to finish on some challenges facing the economies of Latin America. The rise in world equity markets, the reduction in volatility and the narrowing of credit spreads since mid-March suggest that the earlier period of extreme risk aversion in financial markets may be coming to an end (Graph 12).

Graph 12

Risk appetite indicators

[1] Net balance of respondents taking more risky investment strategy relative to their benchmark, in per cent. [2] Based on interviews of no fewer than 1,000 US investors with at least $10,000 of investable assets. The index had a baseline of 124 when it was established in October 1996. [3] Simple average of the implied volatility of stock index options on the S&P 500, DJ EURO STOXX 50 and Nikkei, 2000–06 = 100, reversed scale. [4] CDX Emerging Markets five-year CDS spread; basis points; reversed scale.

Sources: Bloomberg; Gallup; Merrill Lynch; BIS calculations.

Various surveys of investor sentiment seem to support such a conclusion. Nonetheless, sentiment is still depressed by normal historical standards. In recent weeks, portfolio capital has begun to return to the emerging economies, but there is less evidence of a revival of international bank lending.

It would be unwise to count on a quick or strong recovery in world demand. The major balance sheet adjustment that is under way will take time. Households and corporations in

the major developed economies will curb spending for some time in order to repair their balance sheets. The global banking system remains weak. A severe and protracted recession is bound to lead to further bank losses. Uncertainty about the eventual magnitude of such losses will probably weigh on the financial system for some time. The global banking system seems likely to shrink – by how much and for how long is unknown.

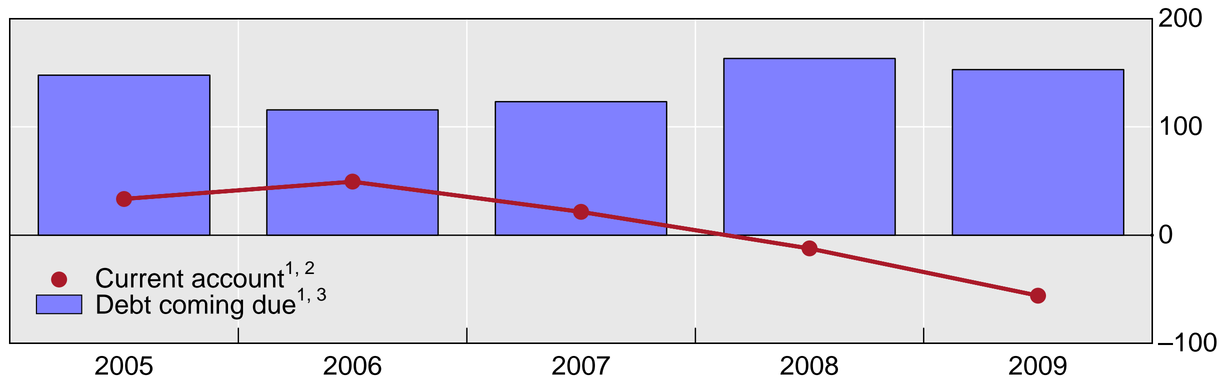
Weaker global demand and the sharp decline in commodity prices have already led to a significant widening in Latin America's current account deficit. The latest consensus forecasts suggest a deficit of $60 billion this year. The current account deterioration is equivalent to a cumulative reduction of national income of about 2% of regional GDP over 2008 and 2009.

According to BIS statistics, external bank and bond debt coming due in 2009 will be significantly higher than in past years and is likely to be around $180 billion (Graph 13).

Graph 13

Current account balance and external debt coming due

In billions of US dollars



[1] Sum of Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. [2] Consensus forecasts for 2009. [3] Debt at 31 December coming due over the next calendar year measured as consolidated cross-border claims to all BIS reporting banks on countries outside the reporting area with a remaining maturity of up to and including one year, plus international debt securities outstanding with a maturity of up to one year.

Sources: Consensus Economics; Thomson Reuters; BIS.

Because global financing conditions are expected to remain tight, Latin American corporations will probably rely more on domestic sources of finance: banks and the local capital market. As I mentioned at the start, domestic banks in Latin America have weathered this storm well thanks to the more effective regulation and oversight introduced in recent years. But losses related to a sharp cyclical downturn and to the sharp fall in some commodity prices are bound to take a toll on domestic banks during the next year or two. Supervisors must remain alert to these risks.

Over the medium term, policies to strengthen **domestic** financial intermediation should remain high on the policy agenda. Foreign-owned local banks lending in local currency with local funding have, I would argue, contributed to deepening markets over the past decade. They can continue to do so; they do not appear to have destabilised local banking systems during this crisis.

At the same time, steps need to be taken at the international level to prevent a large and unwarranted decline in international bank lending to the emerging economies. This will not be easy, and is likely to preoccupy central banks and the BIS for some time.

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