

# **Global Liquidity and Drivers of Capital Flows to Emerging Economies\***

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## **Abstract**

This study focuses on the degree to which global liquidity facilitates financing in international financial markets and examines the drivers of capital inflows to emerging economies by applying a panel data analysis. In particular, we use data on cross-border capital flows (cross-border bank claims, equities, and bonds) from 2002 to 2013 by using the IMF's Coordinated Portfolio Investment Survey and the International Banking Statistics dataset from the Bank for International Settlements. We explore capital flow data on 88 advanced, emerging, and developing economies in order to describe the Asian-specific characteristics. First, this study identifies global factors among the selected financial condition indices such as the market volatility index and M2 growth and finds the main contributing countries that offer global liquidity among the United States, the Euro area, and other advanced countries. The specification of these main contributing countries is crucial to understand to what degree recent quantitative easing policies have affected capital inflows to emerging economies. Second, this study also identifies the country- and region-specific characteristics that affect exposure to global liquidity and compares the characteristics of Asian, European, and African economies as recipients. The comparative importance of these two characteristics suggests that each country requires strong macroeconomic conditions or regional financial integration.

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