

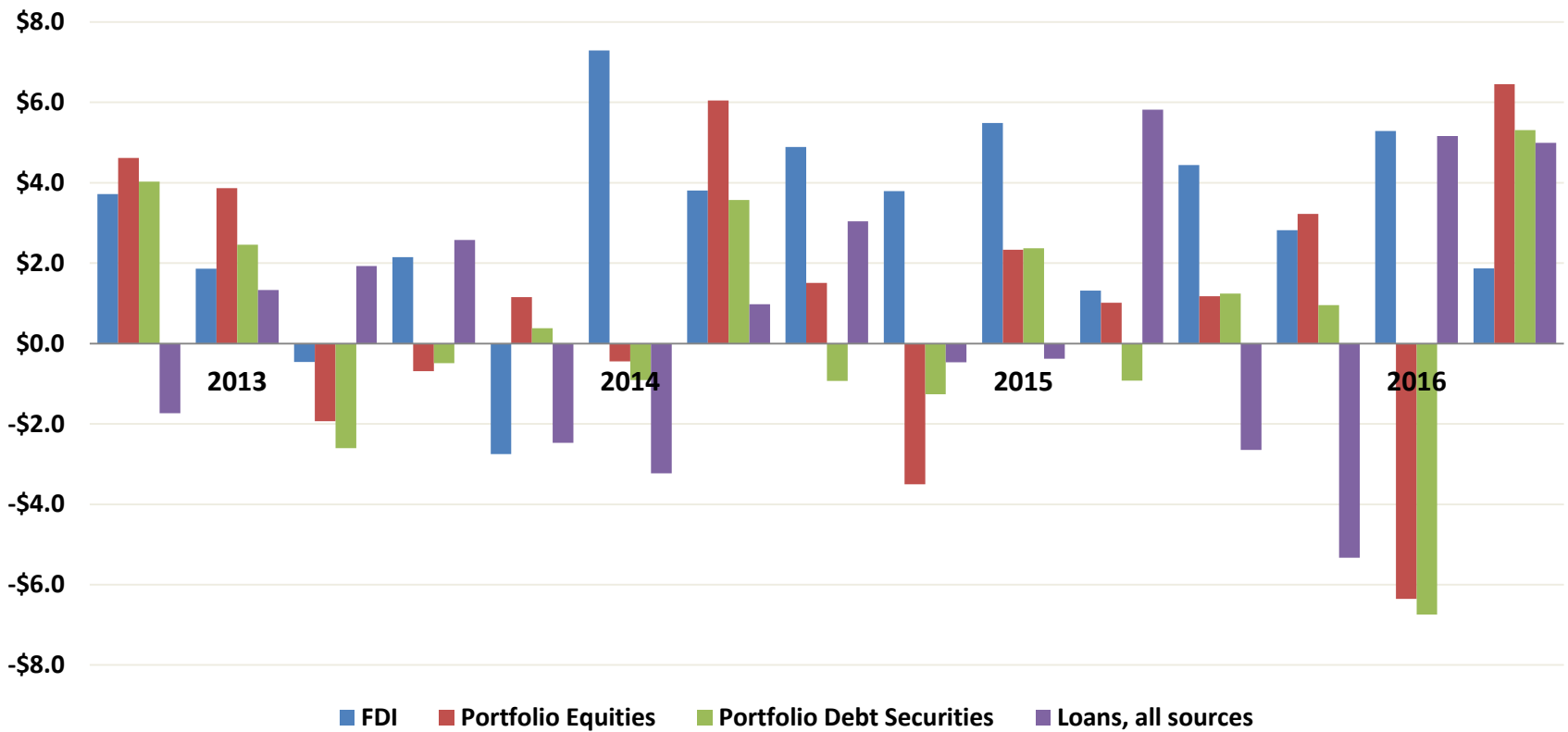
# **External Funding and Liquidity Risk**

Sovereign Analytics

December 2016

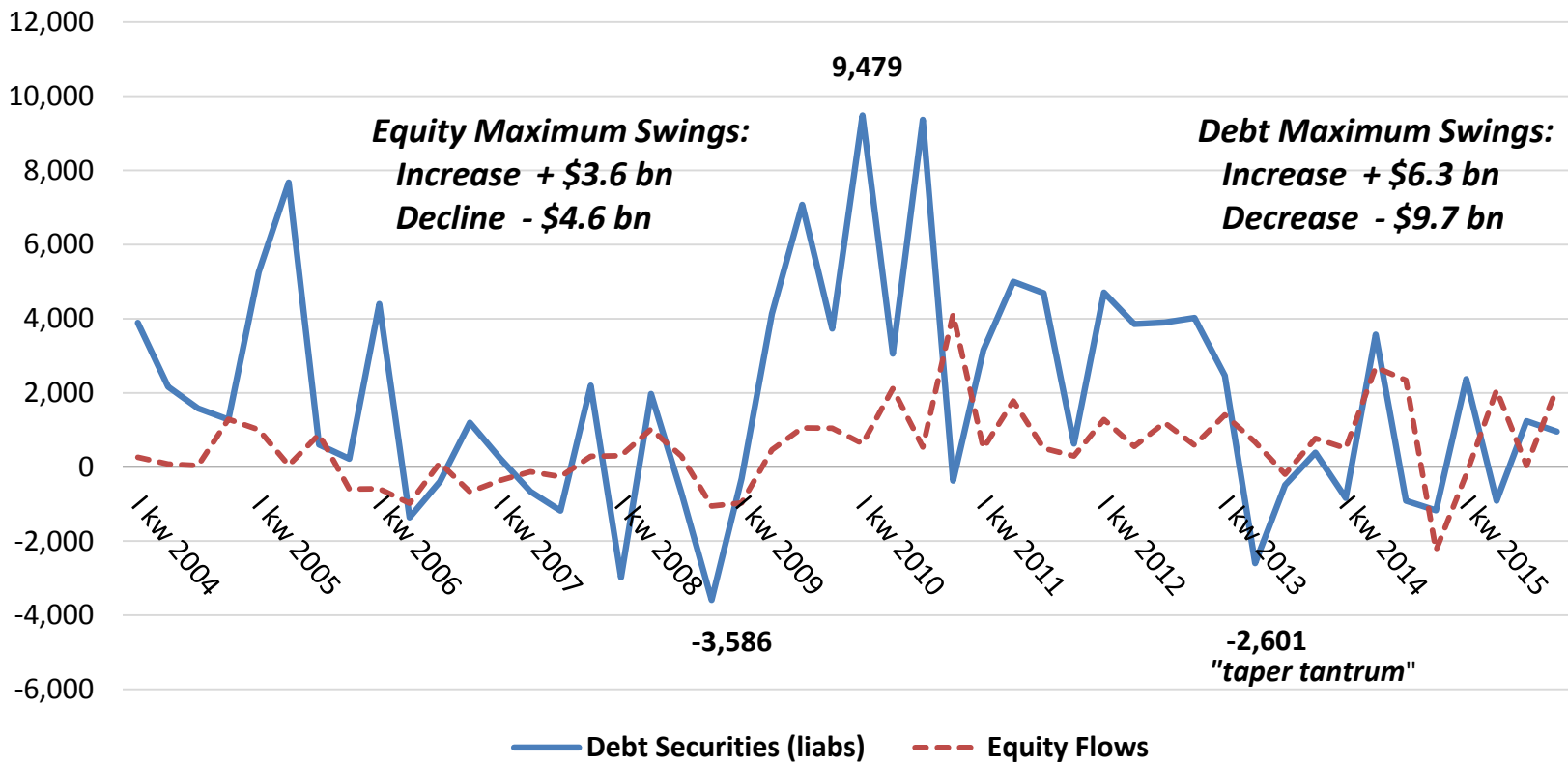
# Stability of External Capital Flows by Funding Type

Polish External Funding Trends  
(US\$ billions, quarterly)



# Volatility of External Funding

**Poland Portfolio Securities Flows**  
(BOP Quarter over Quarter Liability Swings, \$ mm)



# Key Concerns in External Funding

- External funding sources are varied:
    - foreign direct investment
    - long-term loans (private & official)
    - portfolio flows (debt & equity)
    - trade & short-term credits.
  - Funding sources vary in durability versus short-term volatility.
  - FDI is usually more stable, although foreign firms often rely on local rather than foreign funding.
  - External or exogenous “shocks” can disrupt most sources of funding.
- Size of maturing debt and/or bond redemptions and “roll-over risk”.
  - Portfolio flows have big impact on local markets and exchange rates.
  - External financing can significantly increase leverage in the system for banks, corporates, and the sovereign.
  - High frequency indicators:
    - credit default swaps
    - fx loan rates & bond yields