

IFC Satellite meeting at the ISI World Statistics Congress on *"Assessing international capital flows after the crisis"*

Rio de Janeiro, Brazil, 24 July 2015

Global capital flows and external positions since the global financial crisis¹

Gian Maria Milesi-Ferretti, International Monetary Fund

¹ This presentation was prepared for the meeting. The views expressed are those of the author and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

GLOBAL CAPITAL FLOWS AND EXTERNAL POSITIONS SINCE THE CRISIS

The views expressed are those of the author and not necessarily those of the IMF

Gian Maria Milesi-Ferretti
International Monetary Fund and CEPR

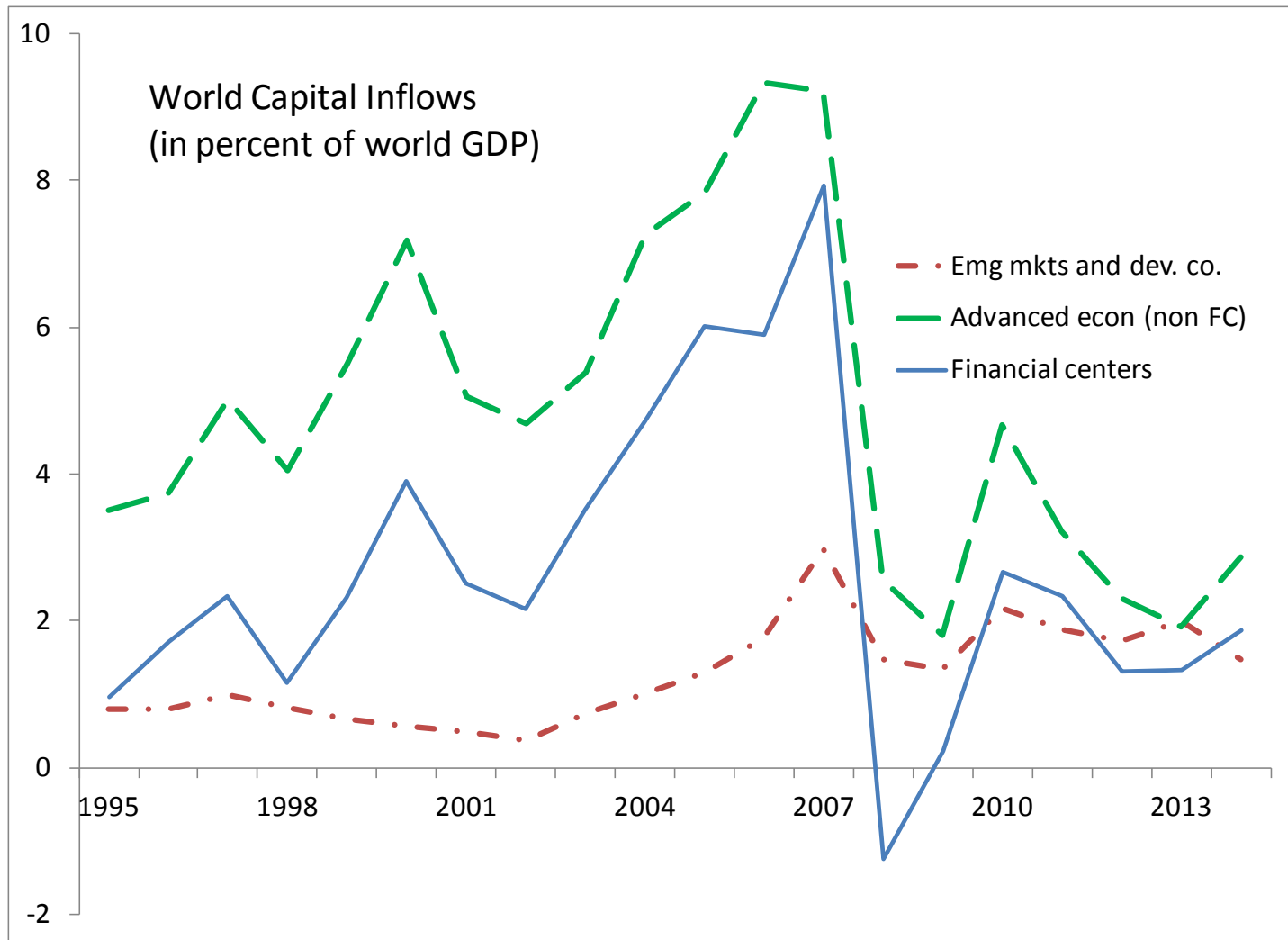
Since 2007....

- Compression in global current account imbalances....
- But still expanding net asset and liability positions.
- Large compression in global capital flows
 - ▣ Decline in flows to and from AEs...
 - ▣ Resilient flows to EMs (particularly FDI, portfolio)
- Stop to the growth in external assets and liabilities as a share of global GDP

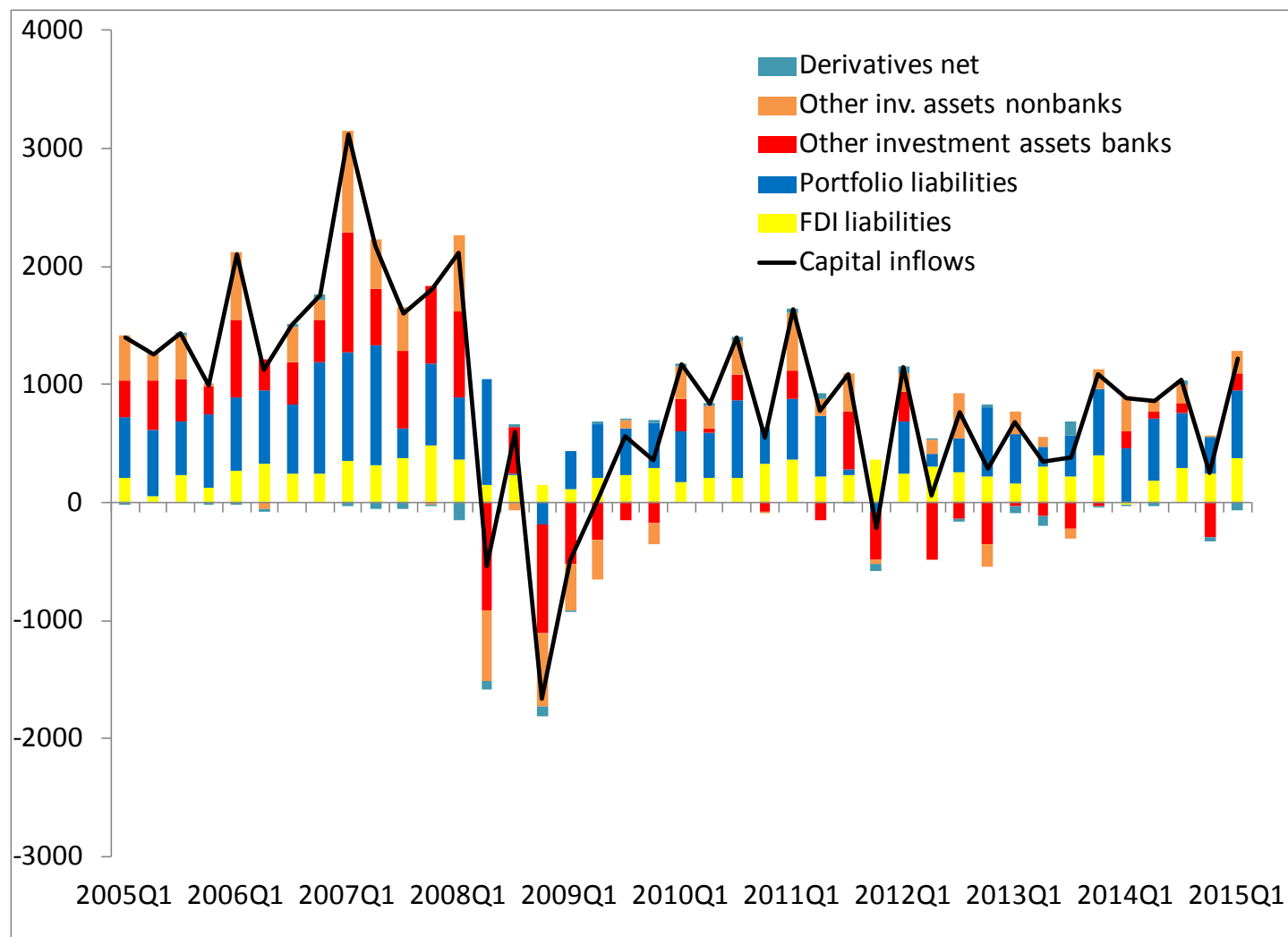
Presentation

- What has happened to “global financial integration” since the crisis?
- How has the external balance sheet of emerging markets changed?

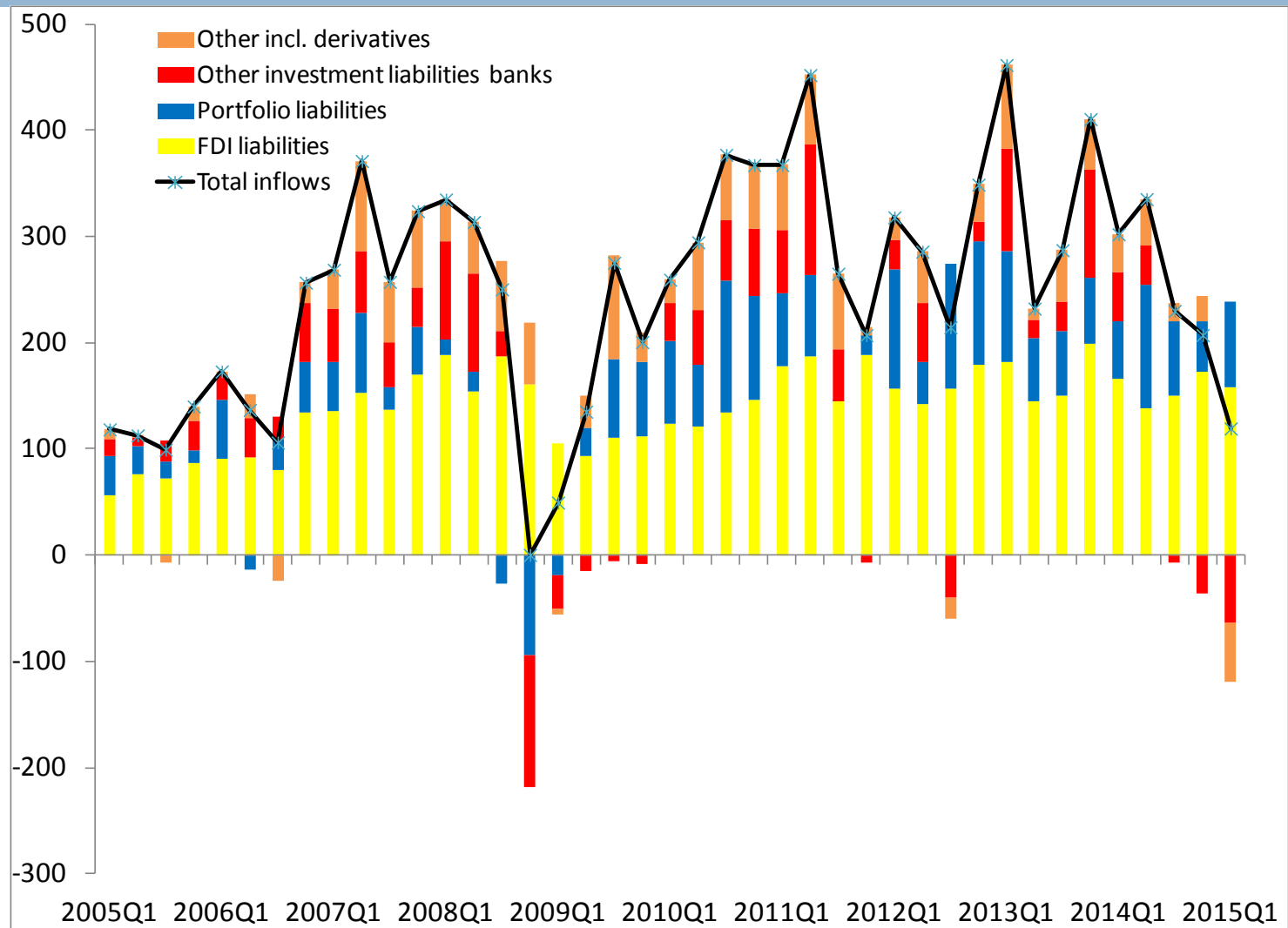
Capital flows have slowed after the crisis esp. for advanced economies, financial ctrs



Weak capital flows to and from adv. economies

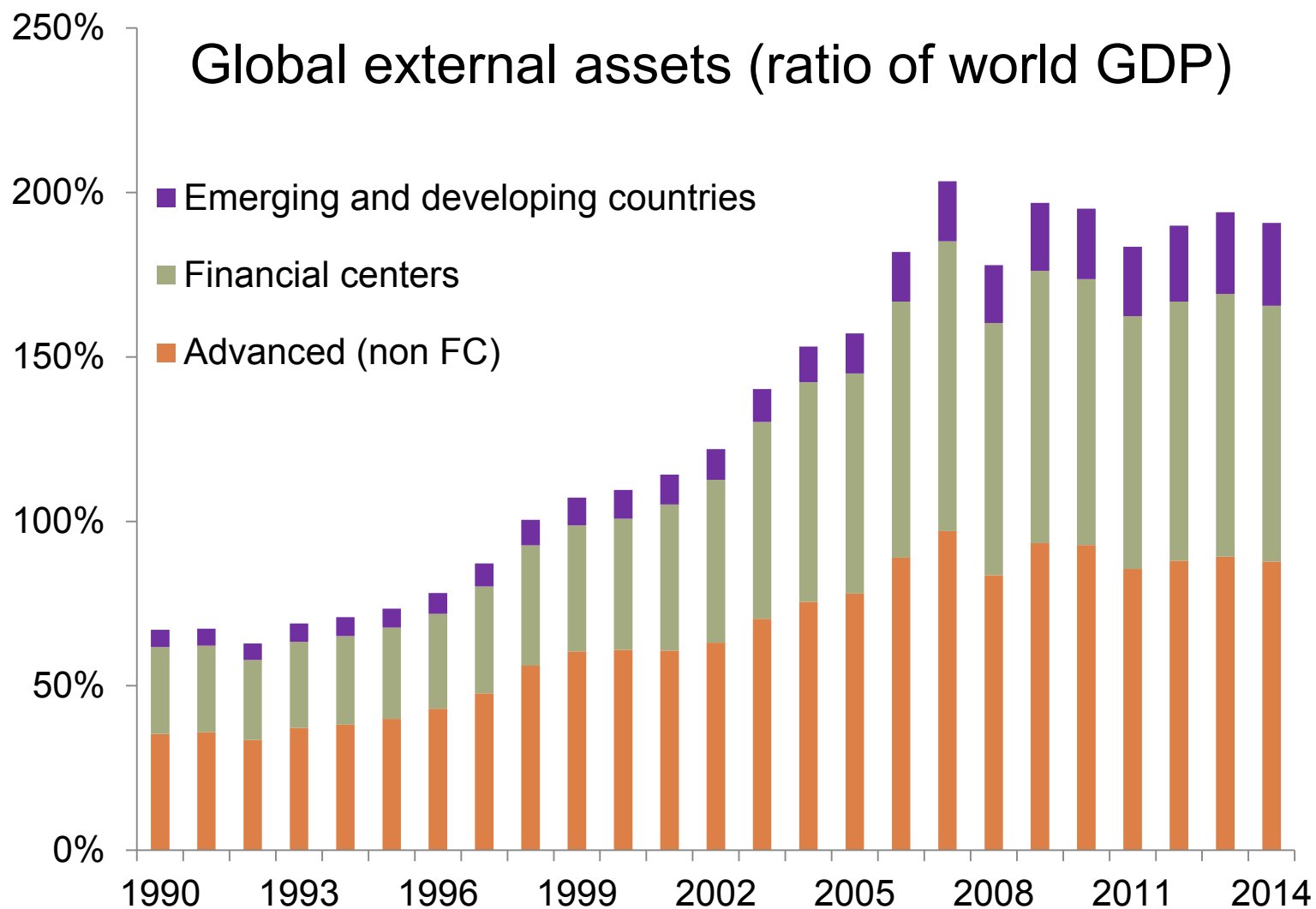


Flows to emerging markets have been strong... ...but declining in recent quarters

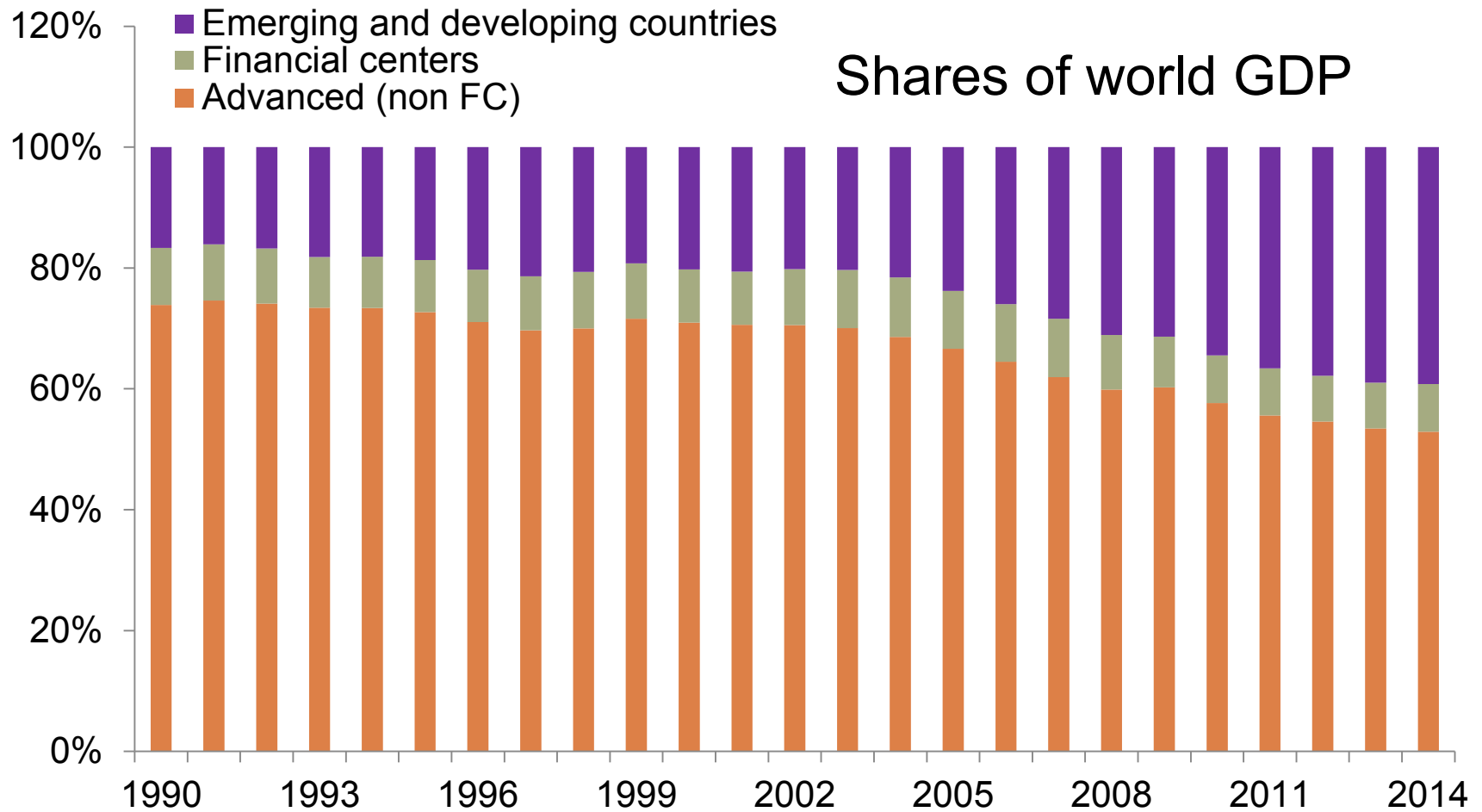


Growth in cross-border positions stalled

Advanced economies and financial centers still dominate



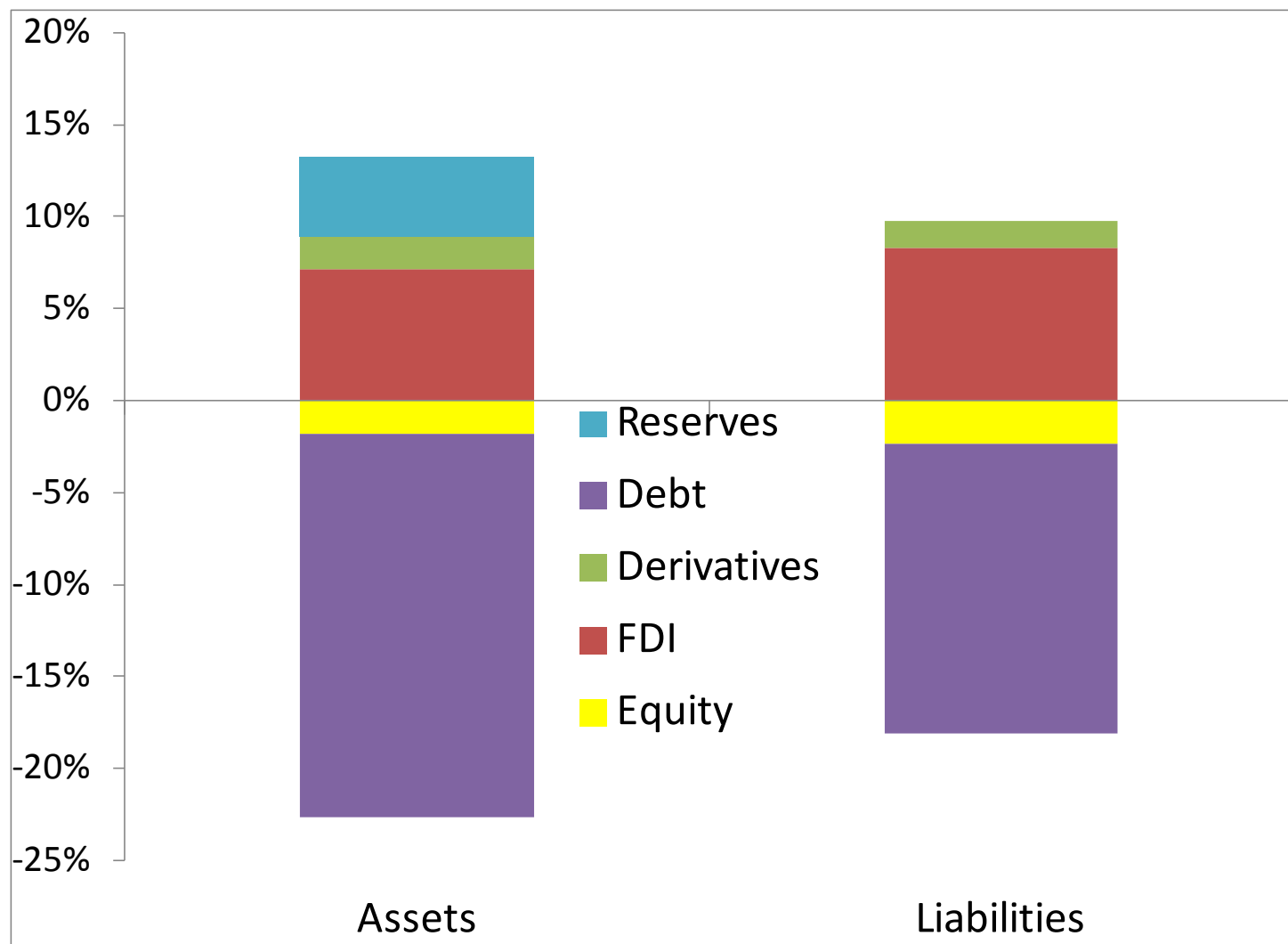
..despite the rising share of EMDEs in world GDP



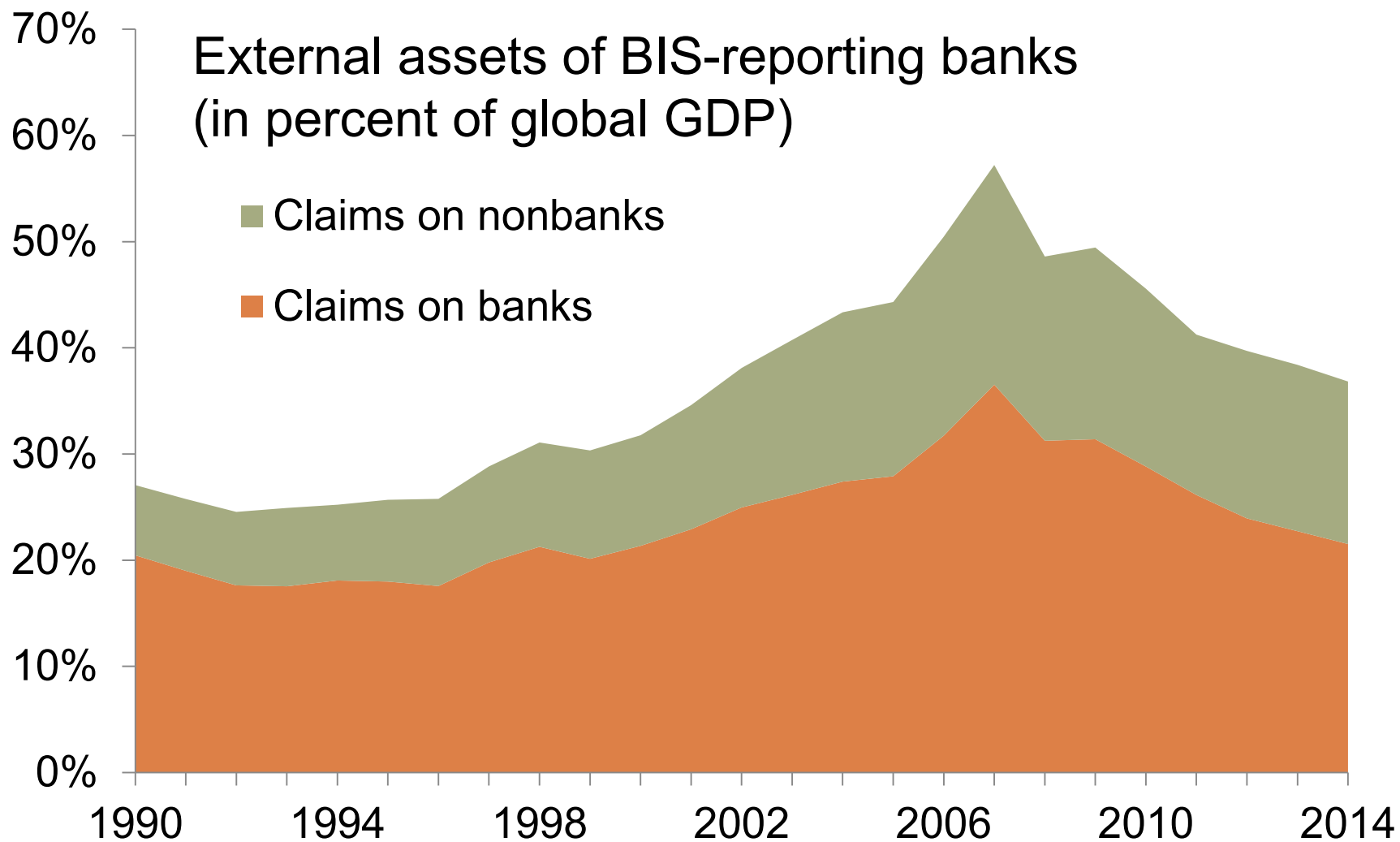
What explains the break in the upward trend of financial integration?

- Big reduction in cross-border debt holdings
 - ▣ Loans
 - ▣ Securities
- This reflects
 - ▣ Bank deleveraging
 - ▣ More fragmentation within the euro area
- But also large increase in EM share of world GDP
 - ▣ EMs have smaller external assets and liabilities

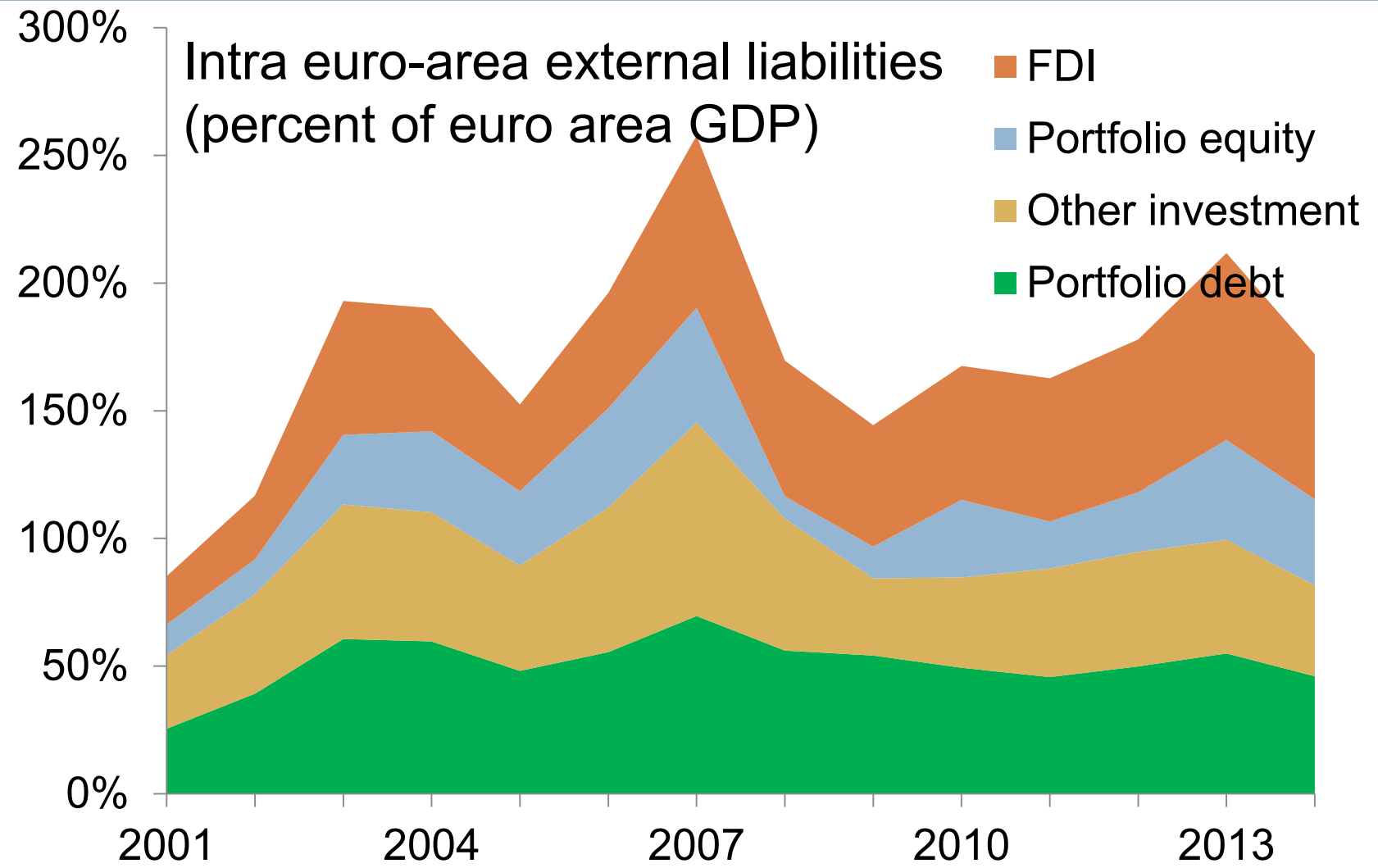
Declining world external assets and liabilities to world GDP, 2007-2014....



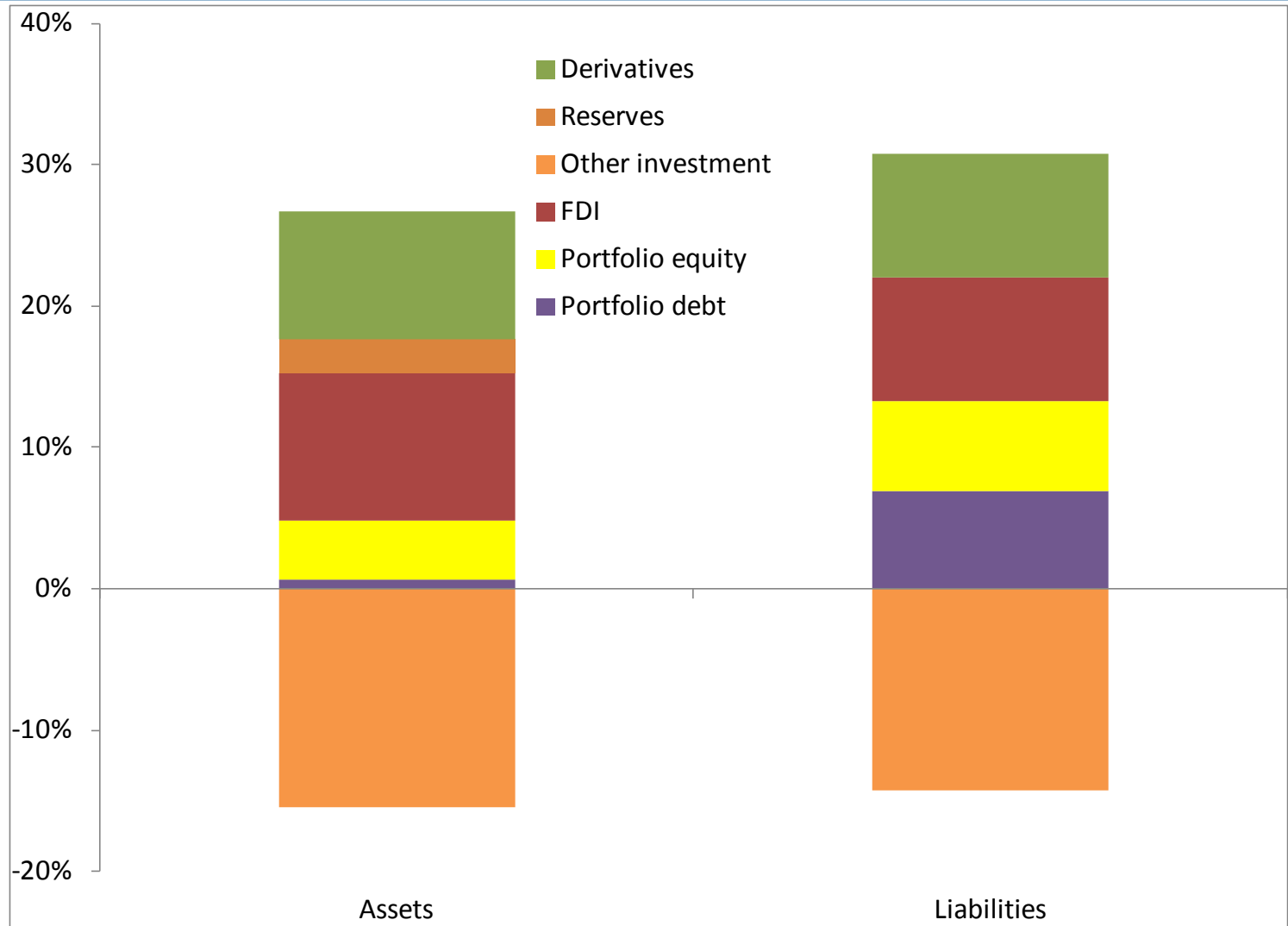
....mostly reflecting deleveraging by banks



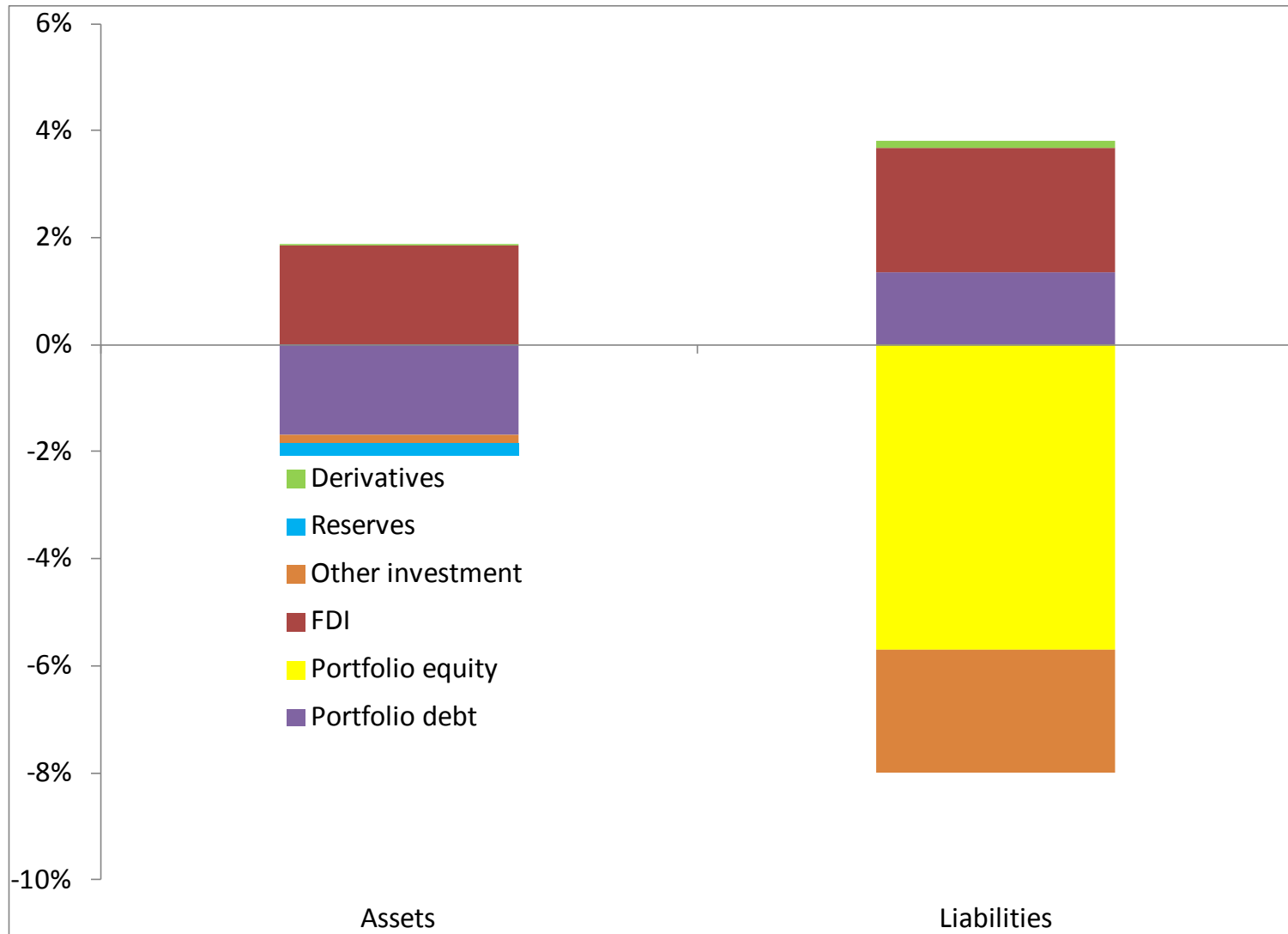
...and a large decline in intra euro area claims



Change in AE external balance sheet, 2007-14



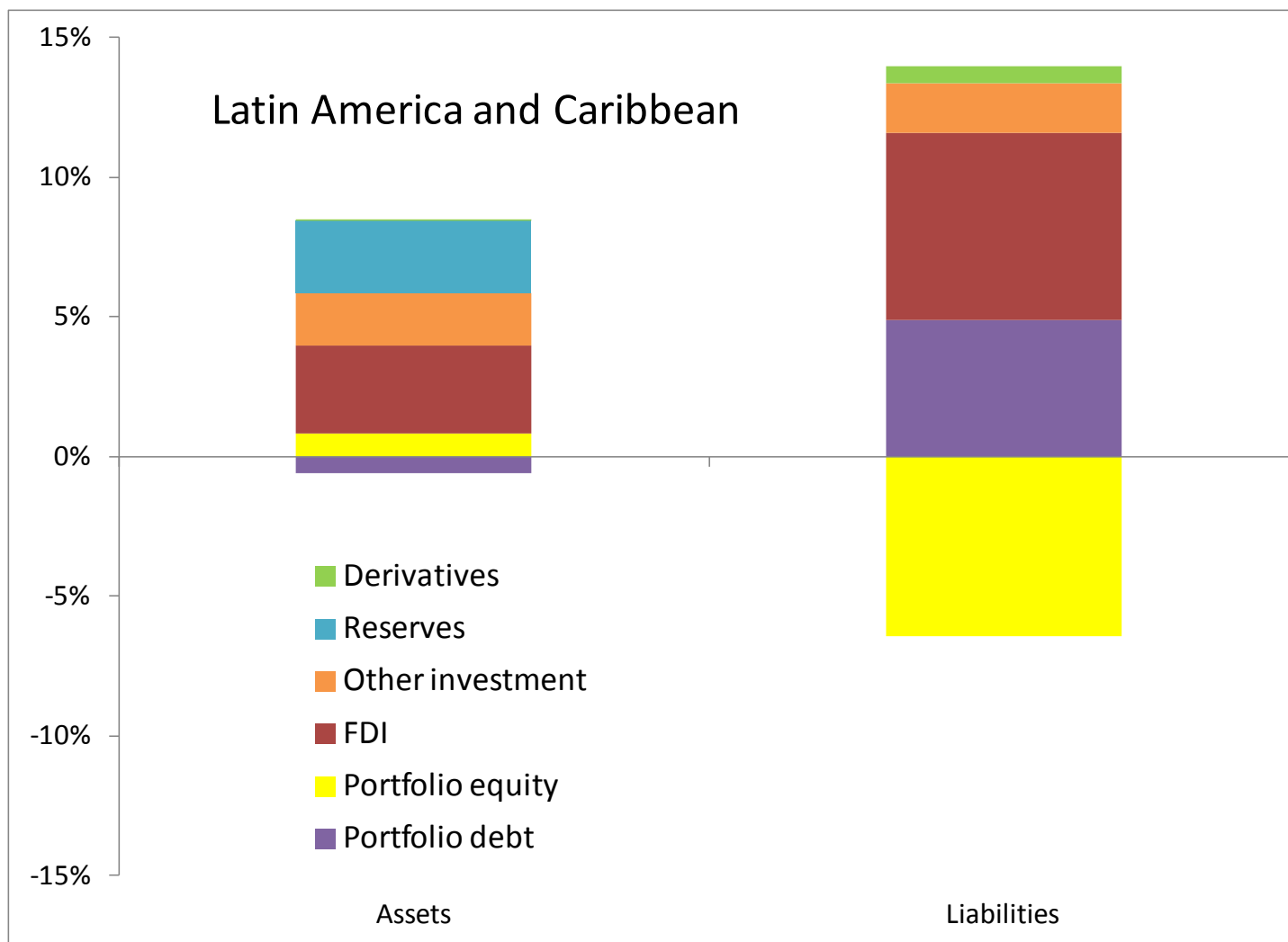
Change in EM balance sheet, 2007-14: more modest



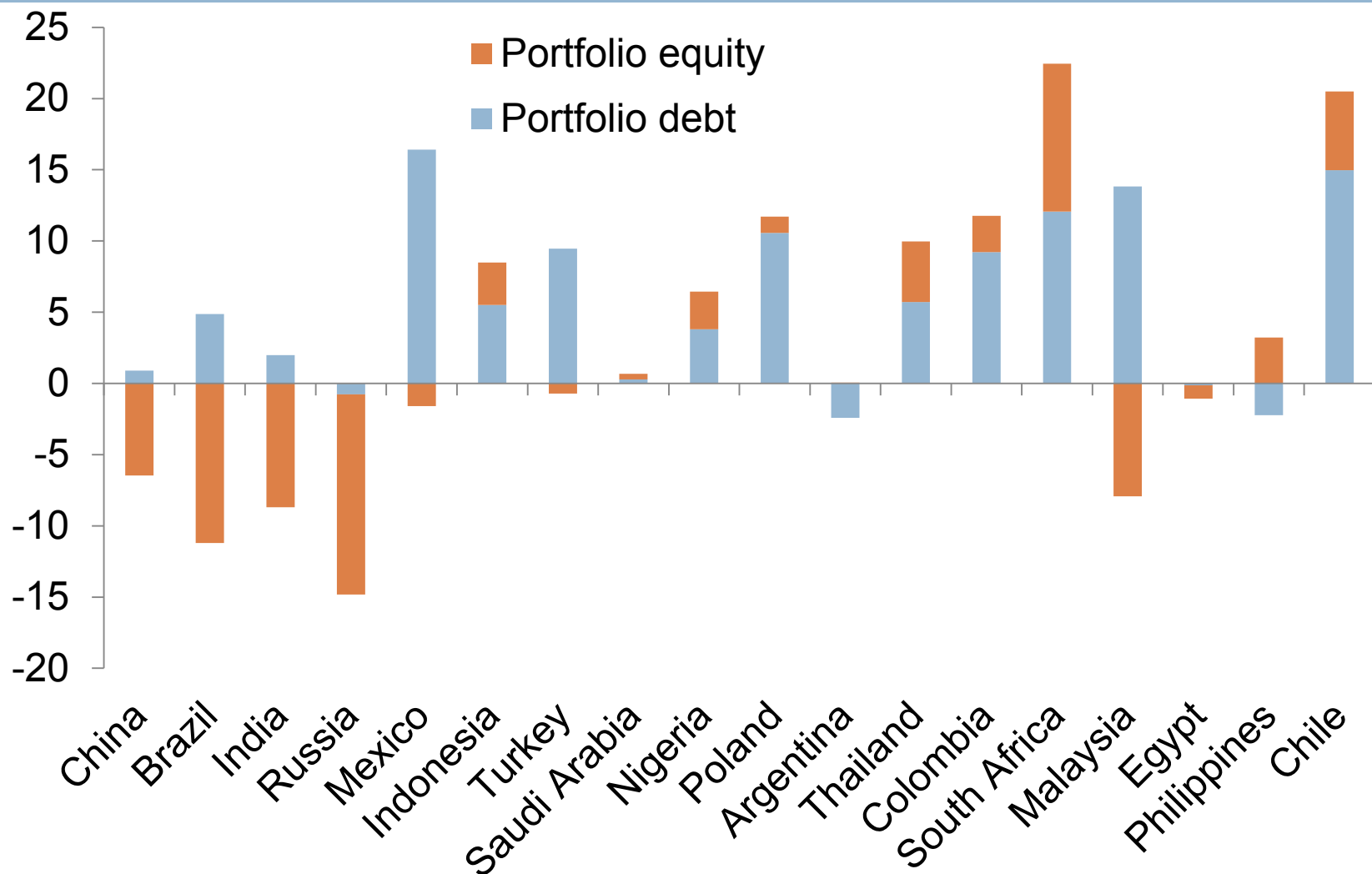
Much ado about portfolio flows?

- EM aggregate masks substantial heterogeneity
- Portfolio debt liabilities

Change in external balance sheet, 2007-14 (percent of GDP)



Change in ratio of portfolio liabilities to GDP, 2007-14



Challenges of measuring financial integration

- Difficulty in determining ultimate exposures
- Offshore activity / inflation of cross-border positions
- FDI: SPVs, SFIs etc (Netherlands has \$4 trn in FDI assets and liabilities, Luxembourg over \$3 trn)
- Portfolio equity: Investment fund industry
- Other investment: routing of bank flows

Where do we go from now? Short term



- Advanced economies:
 - ▣ Cross-border role of banks?
 - ▣ Intra euro area flows?
- Risks of reduced flows to EMs?
 - ▣ Gradual normalization of US monetary policy
 - ▣ Growth in EMs below pre- and post-crisis trends

Where do we go from now? Medium term

- Forces pushing for increased integration of EMs
 - Domestic financial development
 - Increased presence of EM financial institutions on global markets
 - Gradual development of institutional investors (example of Chile)
 - More FDI