Invitation

wiiw seminar series

'Policy Perspectives for European Integration'

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International Financial Flows in the New Normal: Key Patterns (and Why We Should Care)

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Abstract

Recent trends in international financial flows have been subject to conflicting commentaries and views. But it is worth stepping back from short term, volatile developments in capital flows between emerging markets and developed economies. Based on a newly assembled dataset covering 40 advanced and emerging countries, this seminar will compare the period since 2012 with the pre-crisis period and highlight four key stylized facts. First, the "Great Retrenchment" that took place during the crisis has proved very persistent, and world financial flows are now down to half their pre-crisis levels. Second, this fall can predominantly be related to advanced economies, especially those in Western Europe, while emerging markets, except Eastern European countries, have been less severely affected until recently. Third, the global patterns of net flows have also recorded significant changes. Overall, net flows have fallen substantially relative to the years preceding the sudden stop, which is to some extent an expression of the changes registered in the current account. Fourth, not all types of flows have shown the same degree of resilience, resulting in a profound change in the composition of international financial flows: while banking flows, which used to account for the largest share of the total before 2008, have collapsed, FDI flows have been barely affected and now represent roughly 45% of global flows. Portfolio flows stand between these two extremes, and within them equity flows have proved more robust than debt flows, which should help to strengthen resilience and deliver genuine cross-border risk-sharing.

Natacha Valla is an economist. Since December 2015 she is in charge of Economic Policy and Strategy at the European Investment Bank, on leave from her position as Deputy Director of CEPII (think tank in International Economics), where she also heads the scientific programme "International Macroeconomics and Finance". She is also a *member ad personae of the Commission Economique de la Nation (nominated advisory group to the Finance Minister), the Conseil d'Analyse Economique (independent advisory group to the Prime Minister), the scientific committee of the French banking supervisory and resolution body (ACPR), and the board of SUERF (European Money and Finance Forum). She recurrently appears in national and international media. Between 2008 and 2014, Natacha Valla was Executive Director at Goldman Sachs Global Economic Research, where her focus was on macroeconomic and financial developments in the euro area. She worked as an economist at the European Central Bank between 2001 and 2008. She has also lectured international economics at Sciences-Po Paris, the Universities of Florence, Paris-Dauphine and H.E.C. and served as a consultant to the IMF and the OECD. Her publications and scientific contributions focus on macroeconomics, international capital flows, economic policy, financial stability, banking and financial markets, and monetary policy. She received a PhD in Economics from the European University Institute (Florence) in 2003.*

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The wiiw seminar series **'Policy Perspectives for European Integration'** is the continuation of three earlier wiiw seminar series: 'Crisis management in Central, East and Southeast Europe: What is to be done?'; 'Policy options for the post-crisis economy in Central, East and Southeast Europe'; and 'EU in Crisis'. In this series, our emphasis is on issues that affect the future of the European Union: we look at the policy perspectives which may emerge after the crisis and affect the EU and its neighbourhood. Reforms of the EMU, the closer fiscal and economic cooperation of the Member States, bail-out schemes, solutions to the prevailing debt problems in the Southern Rim of the Union, the controversial relations between the EU and Russia affecting border countries and, furthermore, migration policy challenges within the EU and with neighbouring regions are topics we expect to remain of utmost importance in this and the coming years. Policies impacting on the further integration of the new Member States and future enlargements of the EU will remain an integral part of the discourse in this seminar series as well.

Univ.-Prof. Dr. Michael Landesmann
Scientific Director wiiw

Dr. Sándor Richter
Organiser