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The great moderation in international capital flows: a global phenomenon?

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Abstract

This paper highlights a recent ‘great moderation’ in global capital flows, characterised by smaller volumes and lower volatility of cross-border transactions. However, there are substantial differences across countries and regions which we analyse by comparing the level of international capital flows observed in 2005-06, immediately prior to the onset of the global financial crisis, to the post-crisis period of 2013-14, when global flows arguably settled at a ‘new normal’. We find that since the pre-crisis period, gross capital inflows recovered more for economies with smaller pre-crisis external and internal imbalances, lower per capita income, improving growth expectations, a less severe impact of the global financial crisis and less stringent macroprudential policy. On the asset side, countries with a more accommodative monetary policy, a milder impact of the crisis and oil exporters managed to increase gross capital outflows in the post-crisis period.

Keywords: International capital flows, global financial crisis, external imbalances, monetary policy, macroprudential policy

JEL Classification: F15, F21, F32.

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