

INTERNATIONAL FINANCIAL FLOWS

International financial flows take a variety of forms, one of the most important categories being that of foreign direct investment. This section also presents information on total financial flows into the United States, and on the reserve assets of monetary authorities for the world as a whole.

Definition

The definition of foreign direct investment (FDI) flows is provided under “FDI Flows and Stocks” in the Economic Globalisation section. Quarterly data are in billions of US dollars, and are expressed as an average of the last four quarters.

Cross-border portfolio flows and positions for the United States are collected as part of the US Treasury International Capital (TIC) system; these data exclude all cross-border direct investment flows. Monthly data are in billions of US dollars, and expressed as averages of the previous 12 months.

Reserve assets consist of those external assets that are readily available to, and controlled by, monetary authorities

of individual countries for the financing of payments imbalances. These reserve assets comprise foreign exchange assets (currency and deposits, as well as securities), other claims, Special Drawing Rights and reserve position at the International Monetary Fund (IMF); they exclude central banks’ holdings of gold. Data are expressed in billions of US dollars.

Comparability

Limits in the comparability of FDI data are discussed under “FDI Flows and Stocks” in the Economic Globalisation section.

US Treasury International Capital (TIC) data cover most types of international financial flows, while excluding data on direct investment flows, which are collected by the US Department of Commerce’s Bureau of Economic Analysis. The TIC reporting system collects data on cross-border portfolio investment flows and positions between U.S. residents (including US-based branches of firms headquartered abroad) and foreign residents (including offshore branches of US firms).

Overview

The global financial crisis impacted drastically on FDI flows, which contracted by over 50% for the OECD area as a whole between the first quarter of 2008 and the first quarter of 2009. Within the OECD areas, the decline of FDI inflows was larger for the euro area (with a fall of 77%) but was limited to 14% in the United States. Inflows of FDI into emerging economies such as India and the Russian Federation also decreased by much less than for OECD countries, with cumulative declines of 20% for the Russian Federation and of 18% for India. FDI inflows into Brazil were relatively unaffected by the crisis.

Beyond FDI, the large global imbalances between countries running current account surpluses and those recording current account deficits had a counterpart in international financial flows. The United States, in particular, experienced huge inflows of financial capital, which fuelled asset price inflation and debt accumulation in the US. The size of these inflows contracted significantly since mid-2007 for private inflows, and since early 2008 for official flows. Following a rebound since May 2008, private inflows turned negative in the second half of 2009, leading to a significant depreciation of the US dollar.

Net official financial inflows into the US reflected the desire of central banks to accumulate large foreign reserves, which are mainly denominated in US dollars. Total reserve assets of China, other emerging and developing economies, and oil exporting countries increased hugely between 1990 and 2008, accelerating after the Asian crisis. During this period, the share of world official reserves held by China and Japan increased from 14% to 44% cent of the total reserves, while that of oil exporters doubled from 7% to 14%. The huge increase of total reserves of emerging Asian and oil exporting countries aimed at sustaining the pegging of their currencies to the US dollar.

Sources

- Visco, I. (2009), *The Global Crisis – the Role of Policies and the International Monetary System*.
- IMF (2009), *World Economic Outlook (WEO)*, IMF, Washington, DC.
- United States Department of the Treasury, *Treasury International Capital System*.

Further information

Analytical publications

- Johnson, K. H. (2009), *Gross or Net International Financial Flows, Understanding the Financial Crisis*, Council on Foreign Relations, Center for Geoeconomic Studies.

Online databases

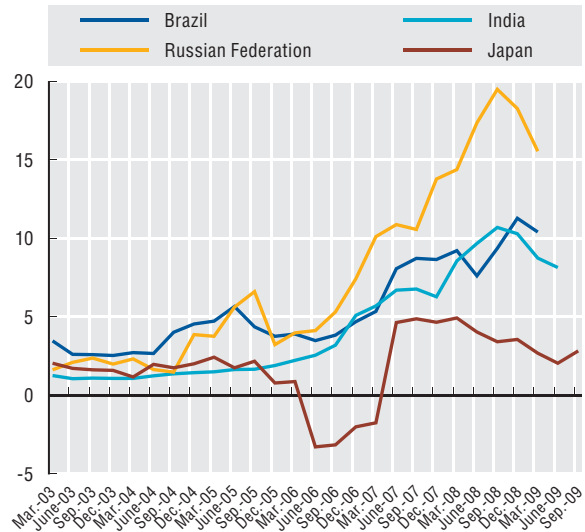
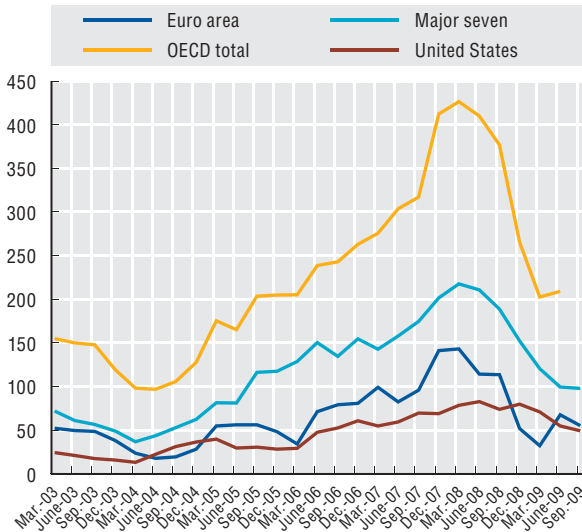
- Main Economic Indicators.
- IMF, *International Financial Statistics*.

Web sites

- OECD Main Economic Indicators, www.oecd.org/std/mei.

Inflows of foreign direct investment in major economies

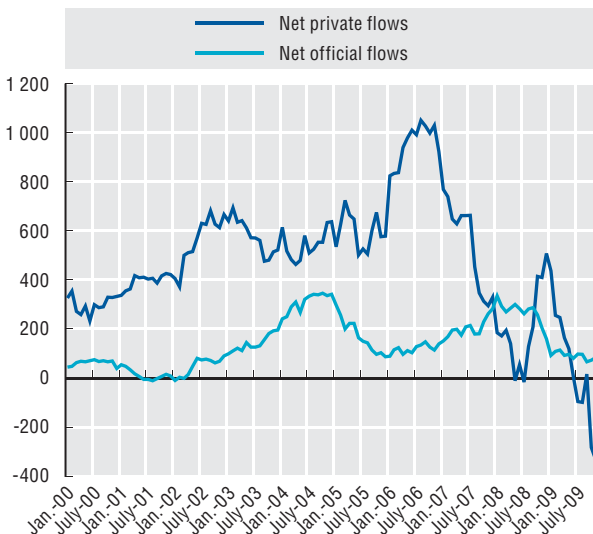
Billion US dollars, 4-quarter average



StatLink <http://dx.doi.org/10.1787/823327284351>

Net financial flows to the United States

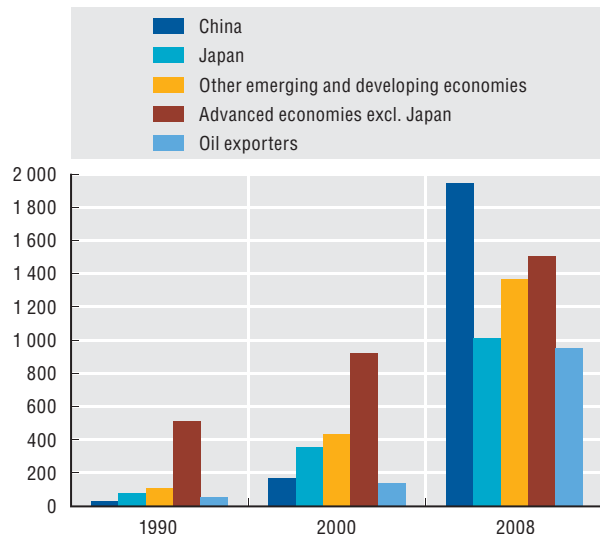
Billion US dollars, 12 months through



StatLink <http://dx.doi.org/10.1787/823331821801>

Reserves assets

Billion US dollars



StatLink <http://dx.doi.org/10.1787/823422237056>



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