Stop and go of capital flows and deleveraging

CEEI 2012
Helsinki, 26-27 November 2012

Deputy Governor Karolina Ekholm
Are capital flows creating problems for emerging Europe?

- Does not seem to be destination of large inflows
- Deleveraging by foreign banks may contribute to reduction in net inflows
- Adjustment to fundamenta or growth-hampering credit crunch?
Reduced direct investment in CEE

Net inflows of direct investment, billions of USD

Source: IMF
Volatile flows of portfolio investment

Net inflows of private portfolio investment, billions of USD

Source: IMF
Reduced lending by Swedish banks in the Baltic states

Sources: Bank reports and the Riksbank
Sharp reduction in CEE current accounts since 2007

Average (unweighted) current account as a share of GDP, per cent

Note: Includes Bulgaria, the Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia

Source: The World Bank
Slowed-down growth in labour productivity
Labour productivity of the total economy, index 1995=100

Source: OECD
Curbed growth in unit labour costs
Exchange-rate adjusted ULC, index, 1997 = 100

Source: OECD
Curbed growth in relative prices and costs

The real effective exchange rate (REER), index, 2005 = 100

Source: Eurostat
Conclusion

- Some of the reduction in credit and net inflows of capital likely to be adjustment to fundamentals.

- Emerging Europe seems to have gained rather than lost competitiveness since 2008.

- Reduction in direct investment may hamper long-run growth potential.

- The crucial problem is the poor performance of the rest of Europe.