



# Stop and go of capital flows and deleveraging

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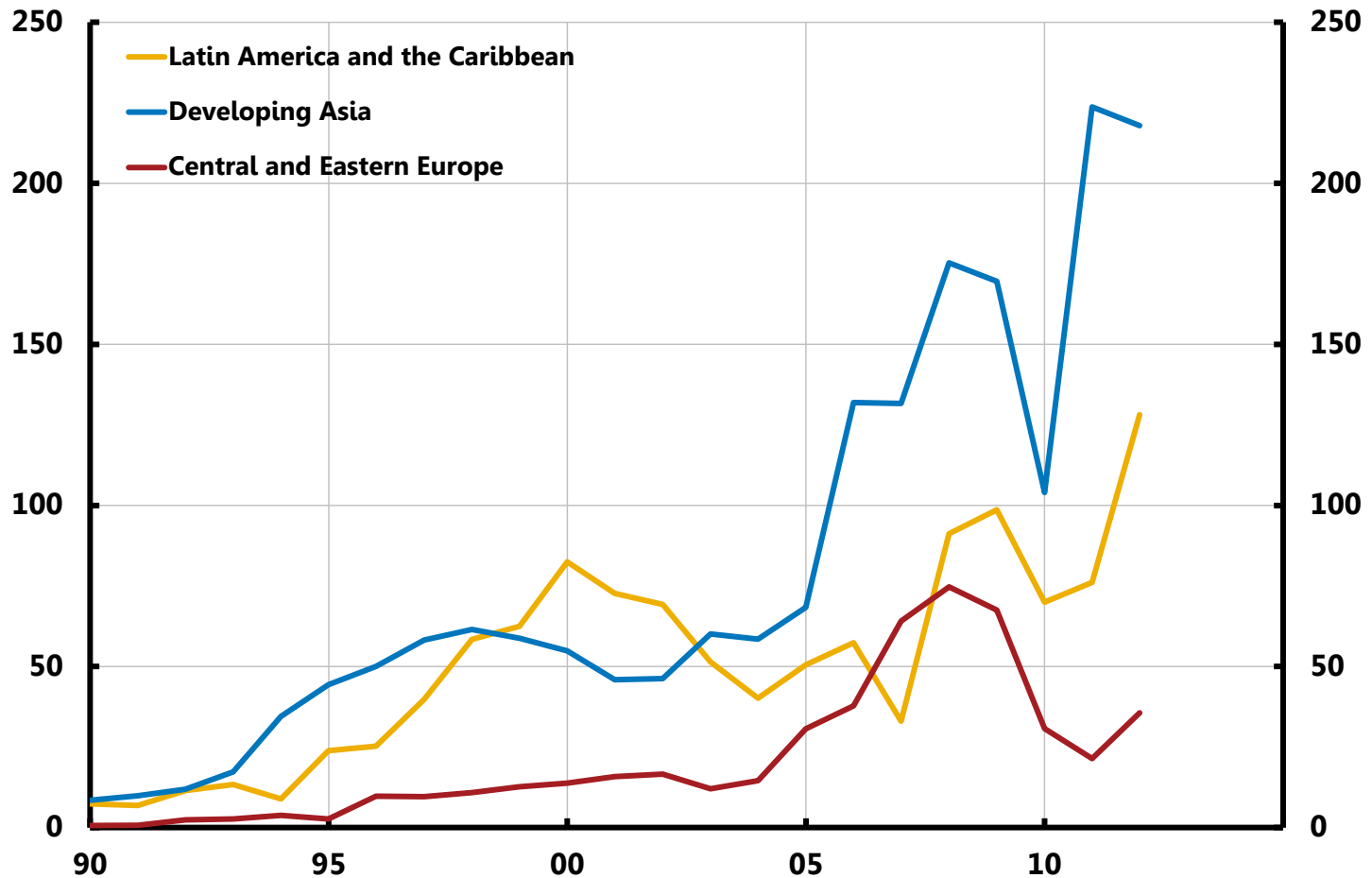
Deputy Governor Karolina Ekholm

# 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 fundamentals or growth-hampering credit crunch?
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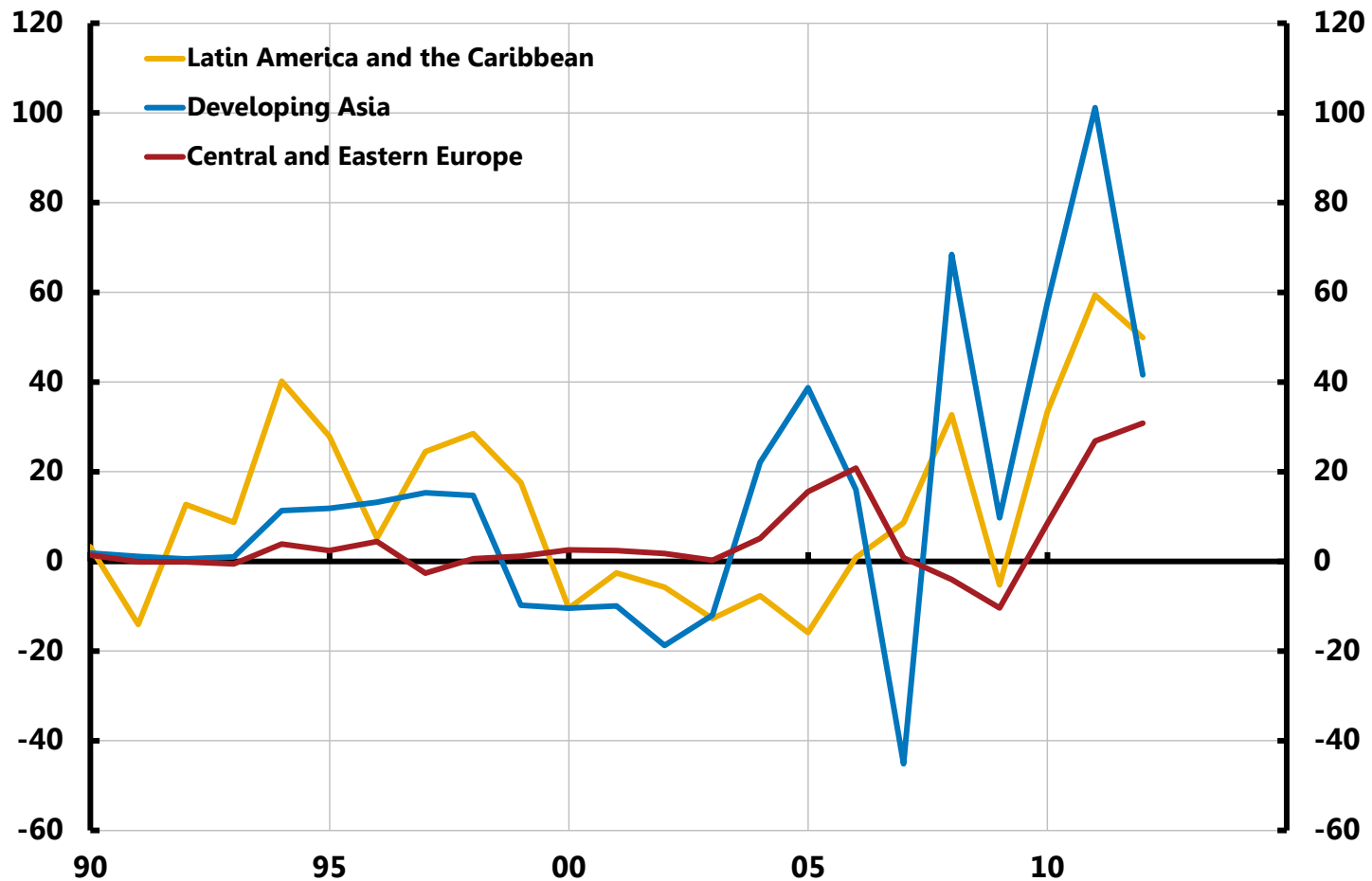
# Reduced direct investment in CEE

Net inflows of direct investment, billions of USD



# Volatile flows of portfolio investment

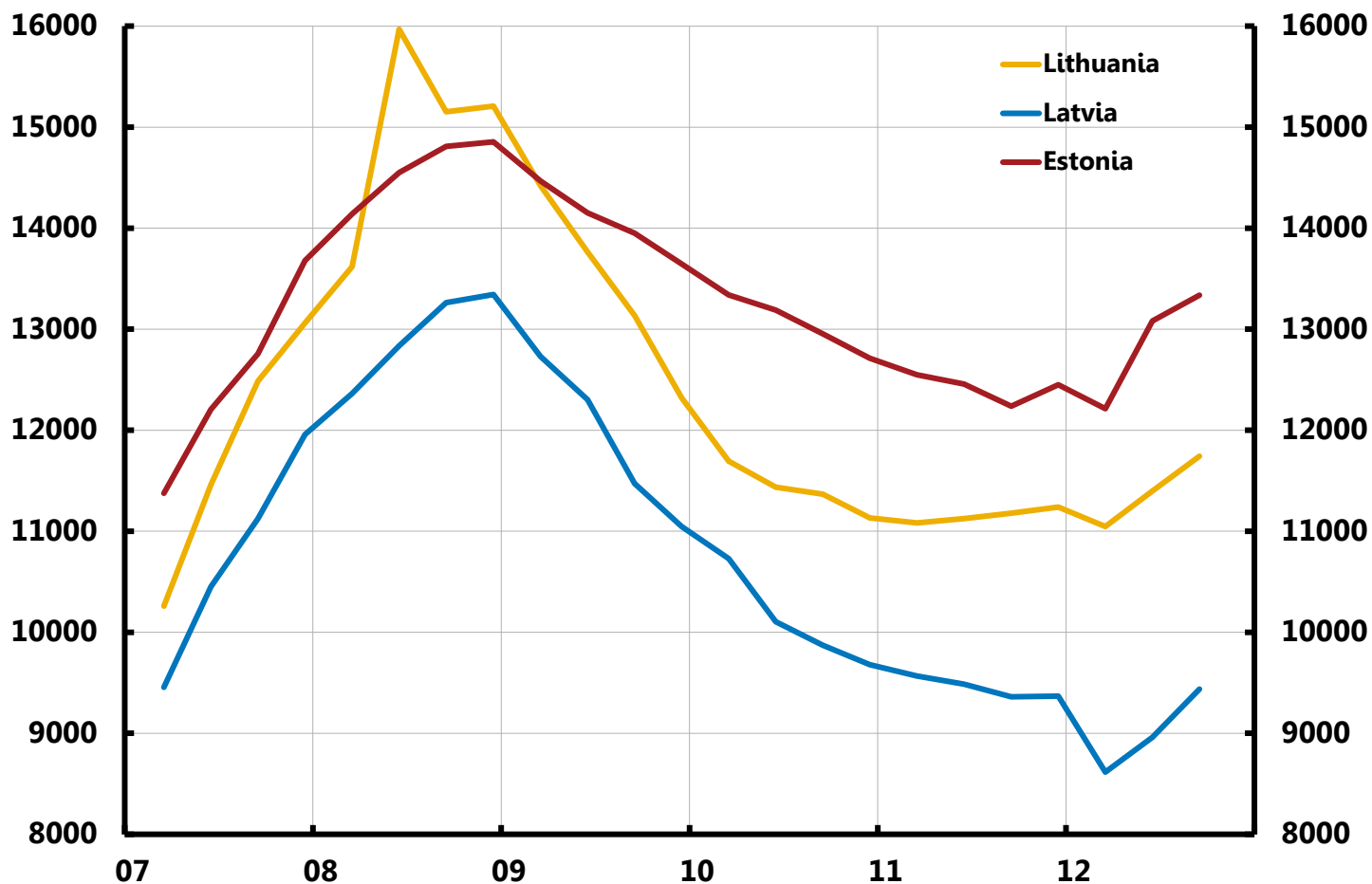
Net inflows of private portfolio investment, billions of USD



# Reduced lending by Swedish banks in the Baltic states



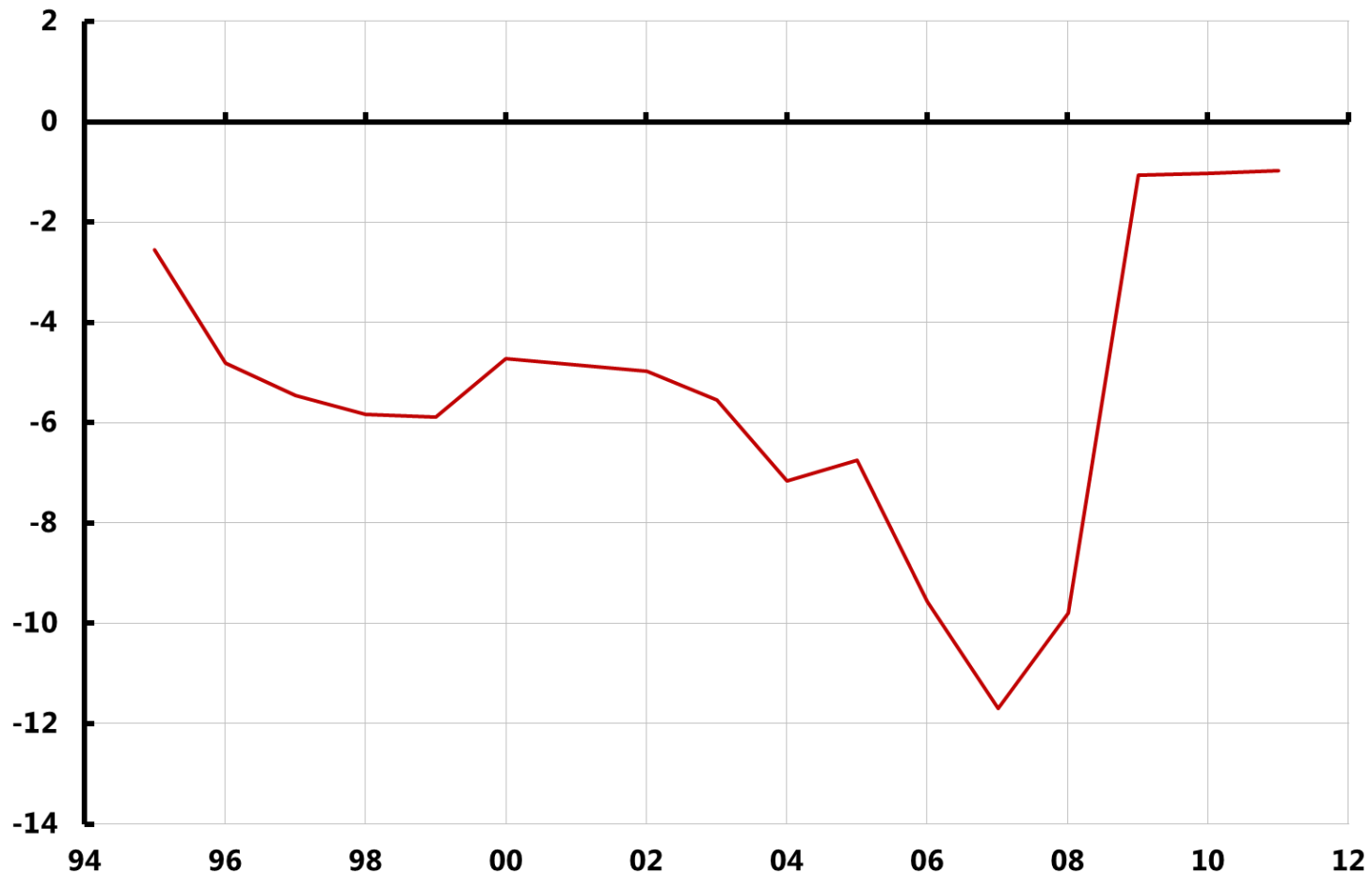
Swedish banks' lending in the Baltic states, billion EUR



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

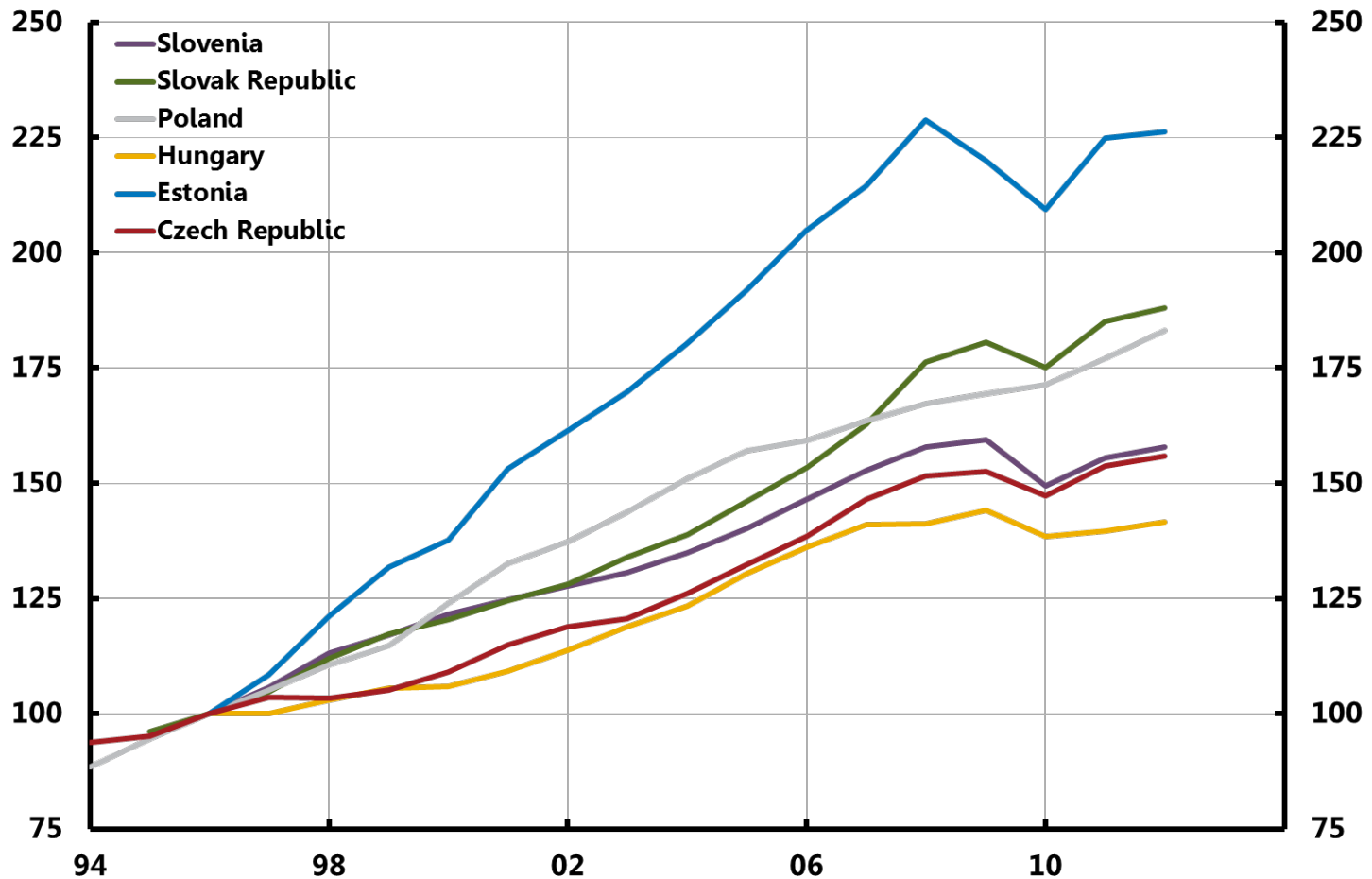


Note: Includes Bulgaria, the Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia

Source: The World Bank

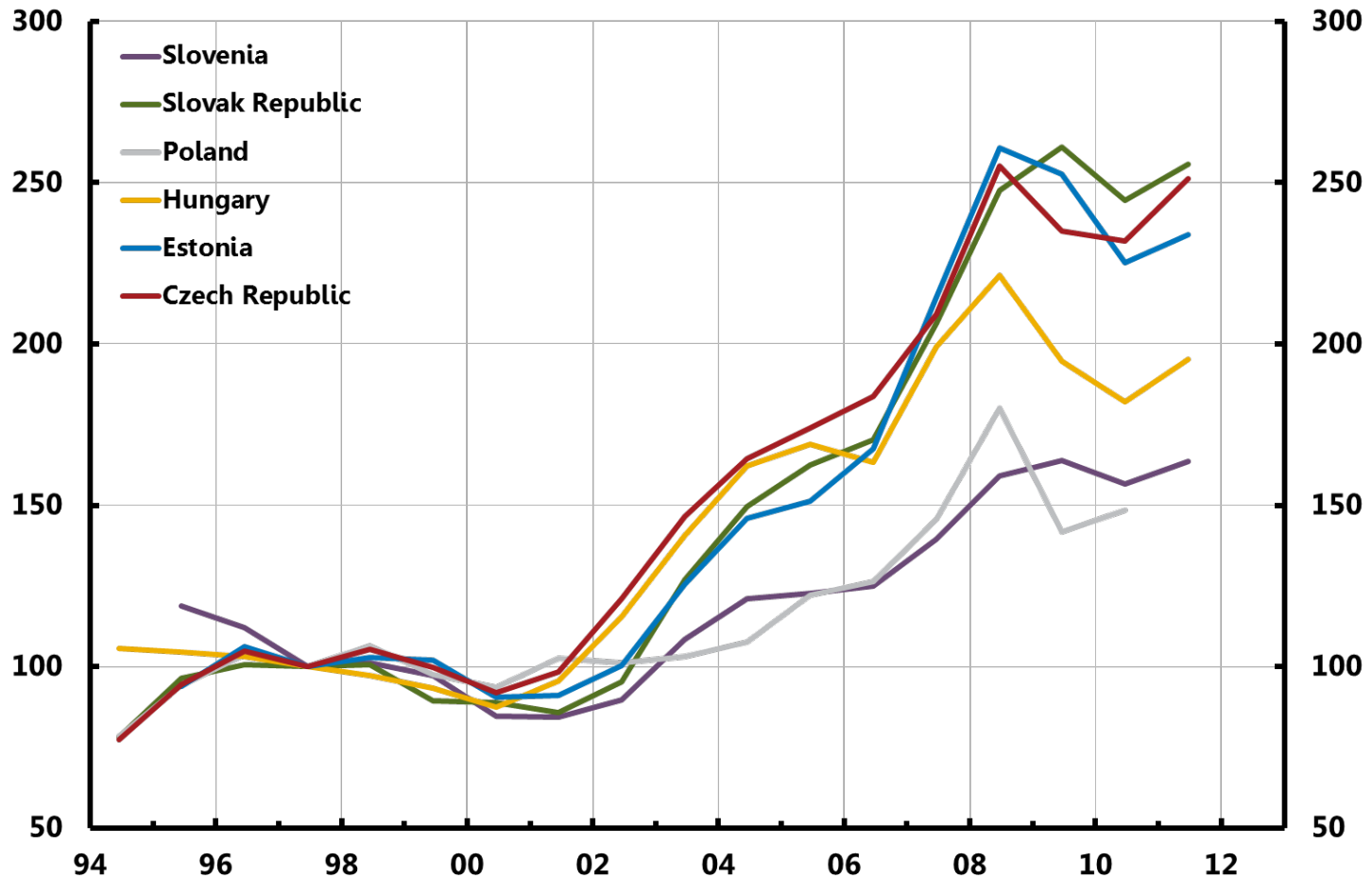
# Slowed-down growth in labour productivity

Labour productivity of the total economy, index 1995=100



# Curbed growth in unit labour costs

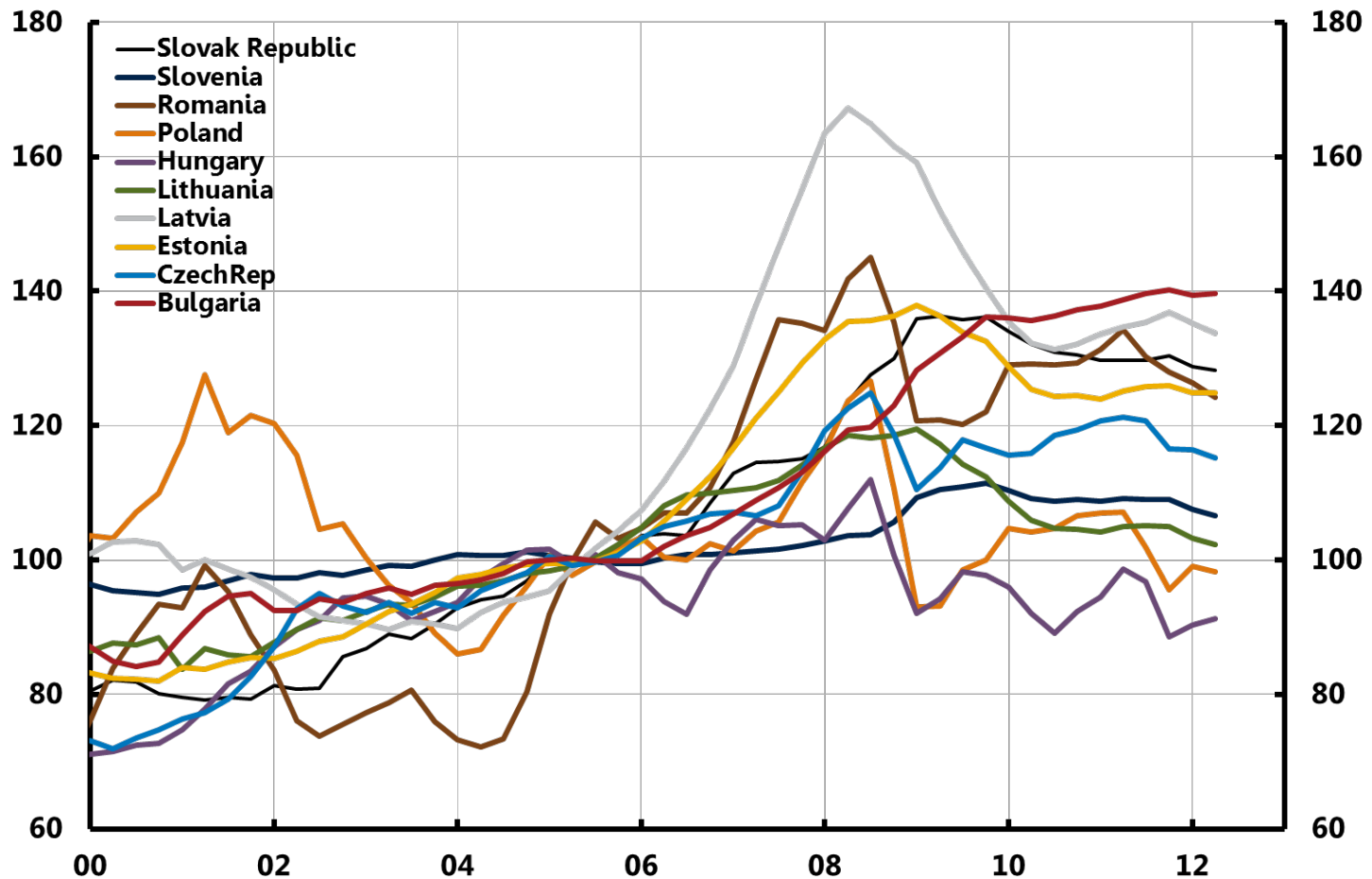
Exchange-rate adjusted ULC, index, 1997 = 100





# Curbed growth in relative prices and costs

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



# 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.
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