

Do Some Forms of Financial Flows Help Protect Against “Sudden Stops”?

[Get access >](#)

The World Bank Economic Review, Volume 21, Issue 3, 2007, Pages 389–411,
<https://doi.org/10.1093/wber/lhm014>

Published: 17 September 2007

Abstract

There is a debate on whether some forms of financial flows offer better protection against crises than others. Using a large panel data set that includes advanced, emerging, and developing economies during 1970–2003, this article analyzes the behavior of several types of flows: foreign direct investment (FDI), portfolio equity investment, portfolio debt investment, other flows to the official sector, other flows to banks, and other flows to the nonbank private sector. Differences across types of flows are limited with respect to volatility, persistence, cross-country comovement, and correlation with growth at home or in the world economy. However, consistent with conventional wisdom, FDI is the least volatile form of financial flow, when the average size of net or gross flows is taken into account. The differences are striking during “sudden stops” in financial flows (defined as drops in total net financial inflows of more than percentage points of GDP compared with the previous year). In such episodes, FDI is remarkably stable, and portfolio equity seems to play a limited role. Portfolio debt experiences a reversal, though it recovers relatively quickly, and other flows (including bank loans and trade credit) experience severe drops and often remain depressed for a few years.

© The Author 2007. Published by Oxford University Press on behalf of the International Bank for Reconstruction and Development / THE WORLD BANK. All rights reserved. For permissions, please e-mail: journals.permissions@oxfordjournals.org

JEL: [F21 - International Investment; Long-Term Capital Movements](#), [F32 - Current Account Adjustment; Short-Term Capital Movements](#), [F36 -](#)

Sign in

 [Get help with access](#)

Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code

Sign in >

[Register](#)

Institutional access

Sign in through your institution >

[Sign in with a library card](#)

[Sign in with
username/password](#)

[Recommend to your librarian](#)

Institutional account management

[Sign in as administrator](#)

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Do Some Forms of Financial Flows Help Protect Against “Sudden Stops”? - 24 Hours access

EUR €38.00

GBP £33.00

USD \$41.00

Rental

