

Global Interest Rates and Financial Flows

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Abstract

This paper empirically analyzes international financial flows between 2000 and 2016, focusing on the relationship with exchange rates and interest rates. Calculating a proxy for global interest rates using a factor model, first, we confirm that there are global elements in national real interest rates, particularly those of advanced countries. Their proportion in the overall movements in national interest rates depends on the number of common factors; however, in any case, their presence is non-negligible. Second, using a large number of countries, we show that the influence of interest rates on international financial flows has declined particularly in advanced countries over time. In contrast, exchange rates have been influencing investors' decisions to form financial portfolios throughout the period. Similarly, political transparency increases the likelihood of inducing financial inflows to home countries.

Keywords: global financial flows, global interest rate, uncovered interest rate parity condition

JEL classification: F2, F3