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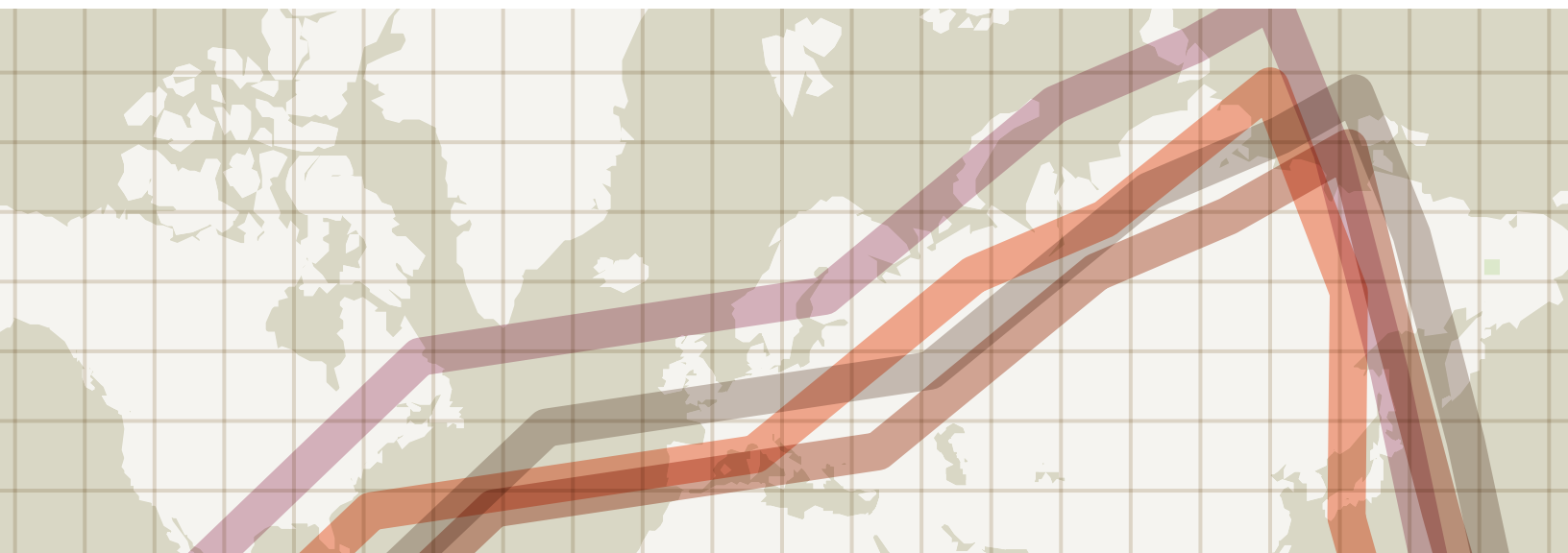
# McKinsey Quarterly

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## Global capital markets: Entering a new era

**A new report by the McKinsey Global Institute highlights  
the impact of the global financial crisis on global capital flows.**

Susan Lund and Charles Roxburgh



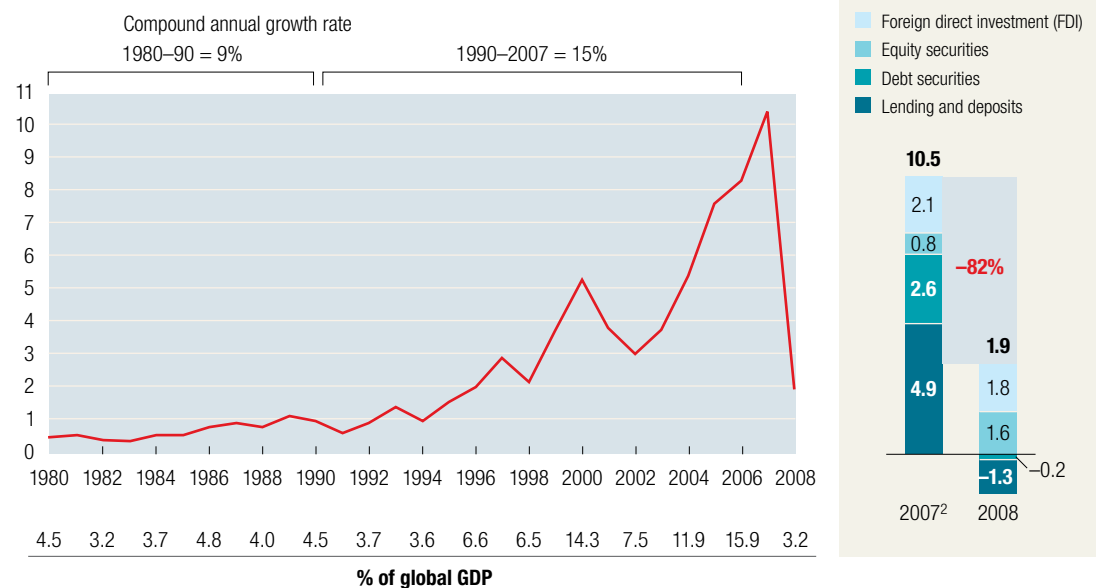
**The global financial crisis** and worldwide recession abruptly halted nearly three decades of expansion for international capital markets. From 1980 through 2007, the world's financial assets—including equities, private and public debt, and bank deposits—nearly quadrupled in size relative to global GDP. Global capital flows similarly surged.

But the upheaval in financial markets in late 2008 broke this trend. The total value of the world's financial assets fell by \$16 trillion last year, to \$178 trillion, the largest setback on record. One of the most striking consequences of the financial crisis was a steep drop-off in cross-border capital flows, which include foreign direct investment (FDI), purchases and sales of foreign equities and debt securities, and cross-border lending and deposits. These capital flows fell 82 percent, to just \$1.9 trillion, from \$10.5 trillion in 2007. (A sharp drop in cross-border lending was the biggest reason capital flows dried up.) The trend appears to have continued in the first quarter of 2009, with global capital flows falling to an estimated \$1.5 trillion on an annualized basis.

#### Exhibit

### A deep decline

**Total cross-border capital inflows,<sup>1</sup> \$ trillion (2008 exchange rates)**



<sup>1</sup>Capital inflows represent net purchases by foreigners of FDI, equity, and debt securities, as well as deposits and loans to local banks.

<sup>2</sup>Figures do not sum to total, because of rounding.

Source: McKinsey Global Institute analysis


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“Mapping the global  
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These are among the findings in the McKinsey Global Institute (MGI) report *Global capital markets: Entering a new era*, which presents the latest research on the evolution of the world’s financial markets. The report assesses the implications of the global financial crisis and economic downturn through the lens of financial assets, capital inflows and outflows, and cross-border investments since 1990 of more than 100 countries around the world.

To read an executive summary or download the complete report, visit [mckinsey.com/mgi](http://mckinsey.com/mgi). 

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