Gross capital flows: Evidence from tranquil and crisis times by Broner, Didier, Erce, Schmukler

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Traditional views about capital flows

- The behaviour of various sub-components of capital flows is highly divergent:
  - FDI
  - Portfolio flows
  - Breakdown into debt/equity
  - etc.

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- The behaviour of various sub-components of capital flows is highly divergent:
  - FDI
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  - etc.
- If you use this to setup capital controls:
  1. Very friendly to FDI
  2. Friendly to portfolio equity
  3. Interfere with debt

An array of problems

- FDI is not as stable as hoped
- Put-call parity
- With debt, the key issue seems to be local currency versus foreign currency
- Where does private equity / venture capital fit in?
- What about your own MNCs?
- As the economy becomes sophisticated, these kinds of distinctions become hard to sustain in policy.

The importance of this paper

- Explores an important dimension: capital account activities of locals versus foreigners
- CIF: The overall net activity of foreigners
- COD: The overall net activity of domestic economic agents

An example

> *"Large capital inflows, both portfolio and direct investment, approximately 9 per cent of GDP in 2005 have been essentially matched by outflows of Israeli capital (by) domestic residents, corporations and institutional investors... There has thus been no serious appreciation pressure on the shekel from the large gross capital inflows of recent years."*

Reflections on one year at the Bank of Israel by Stanley Fischer, NBER Working Paper, August 2006.

What I think are the interesting questions

How do domestic economic agents behave under capital account openness?
What should policy makers view liberalisation of outflows as opposed to liberalisation of inflows?

Example: India has mostly blocked outflows by individuals and by institutional investors through non-trade barriers.

Close, but not quite

- For the analysis of these interesting questions, we have to focus on COD as the actions of private economic agents and exclude reserves accumulation of the government
- Reserves accumulation should be seen as one policy lever
- As policy regimes change, the reserves accumulation will change

The problem of reserves

- How much of the story of the paper is driven by reserves?
- Is there a causal connection:
  1. Foreign investors take money out
  2. Country is running a peg
  3. Central bank sells dollars
  4. So we apparently see CIF and COD going together
- The dataset is pooling across diverse monetary and exchange rate regimes

Thank you.