Capital Flows to Emerging Market Economies: A Brave New World?

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Comments by

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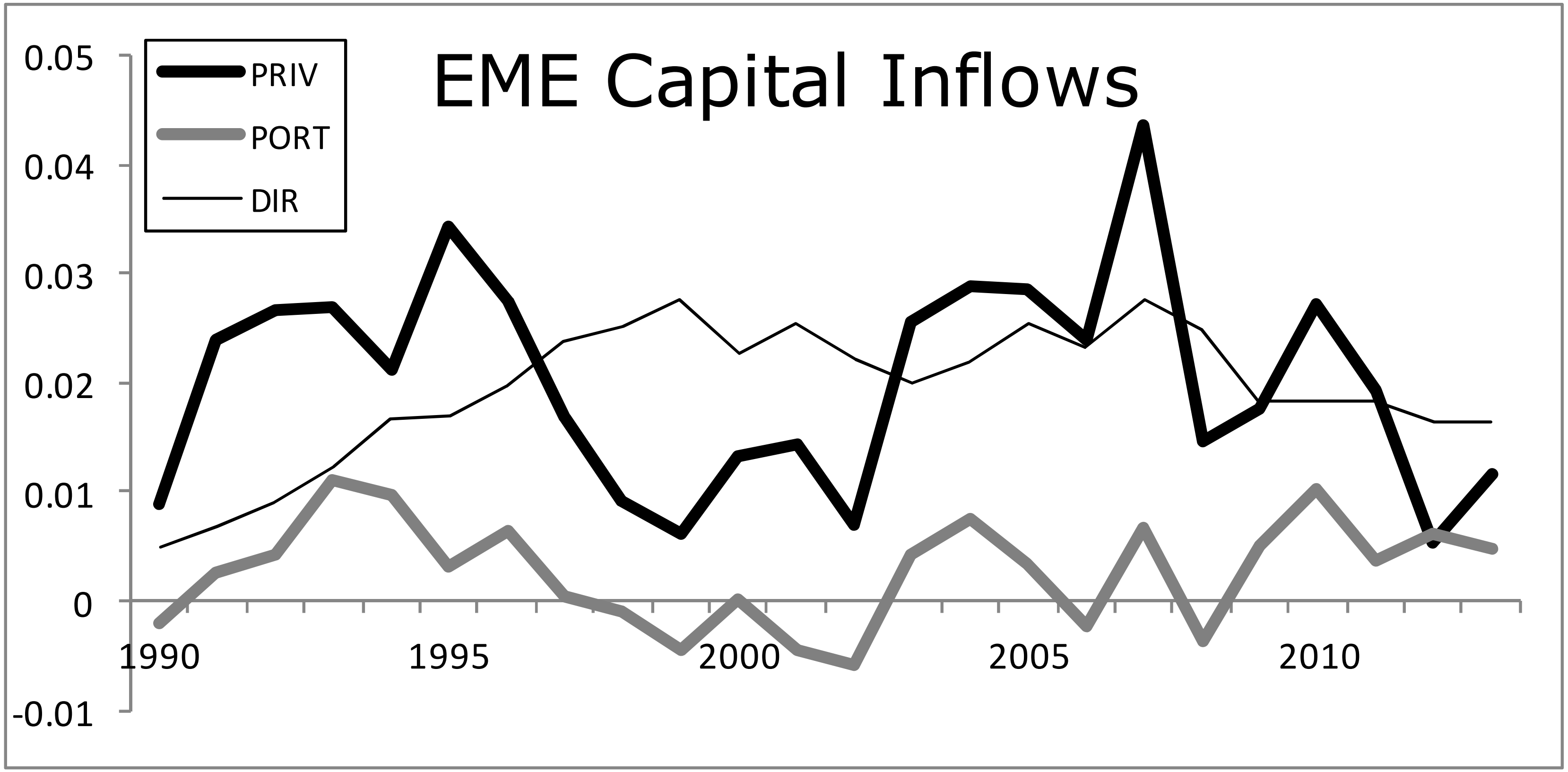
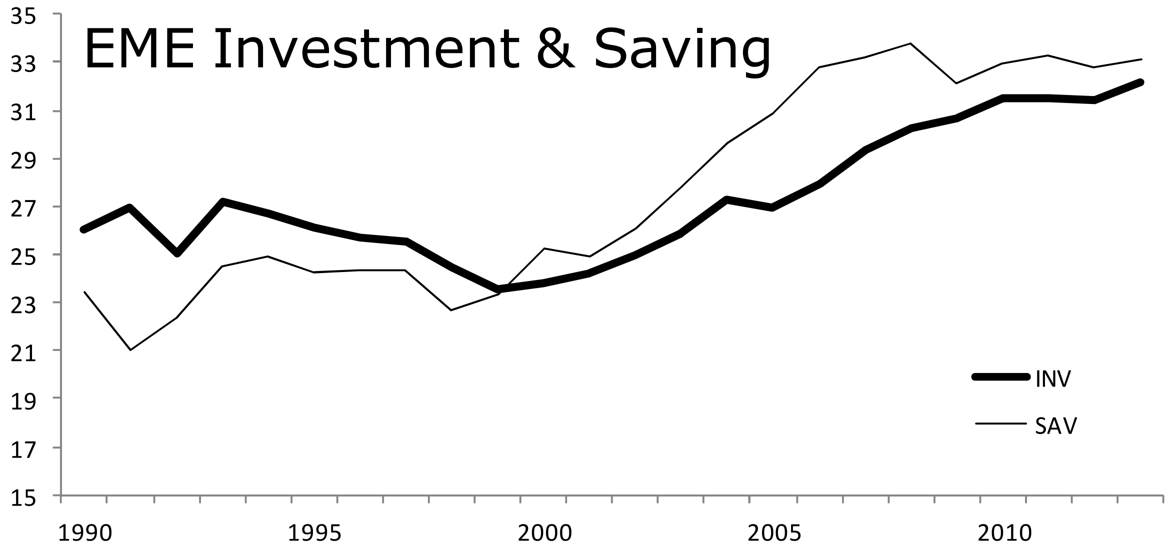
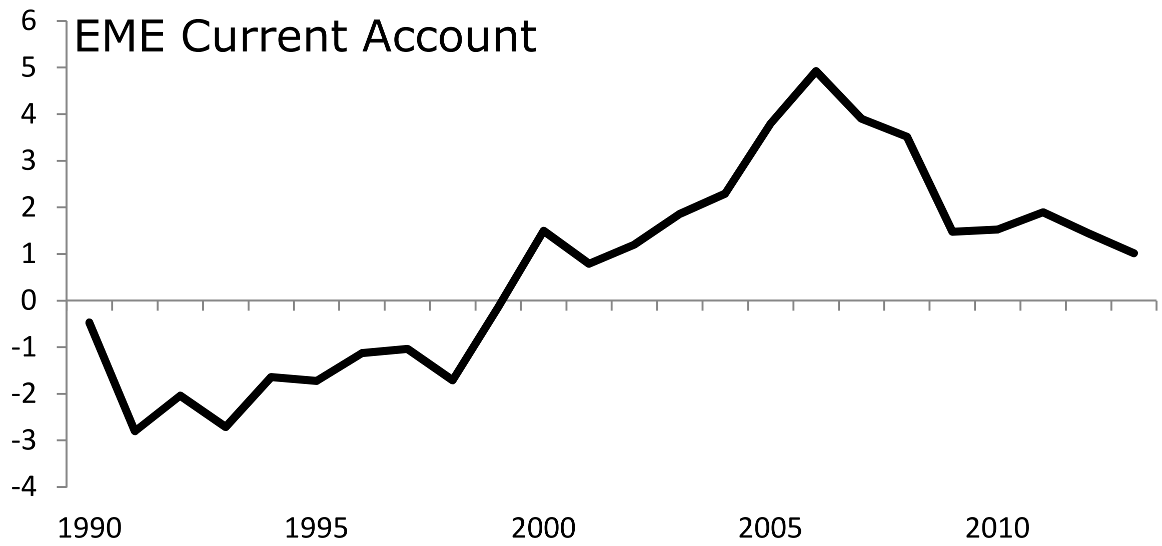
EME Capital Inflows



Source: IMF World Economic Outlook (2013) % of GDP

EME Investment, Saving and Current Account





Source: IMF World Economic Outlook (2013) % of GDP

Ahmed and Zlate (2013): Overview

- Empirical study of Net Total and Portfolio Capital Inflows to 12 EME between 2002-2012
- Utilises Conventional Determinants
  - Growth and Yield differentials, Risk
- Contribution to the Literature
  - Comparison before and after the Crisis
  - Capital Controls
  - FX Intervention
  - Unconventional Monetary Policy

Ahmed and Zlate (2013): Main Results

1. Conventional determinants are important, but depends on type of flow

2. Portfolio flows change dramatically: pre vs post Crisis

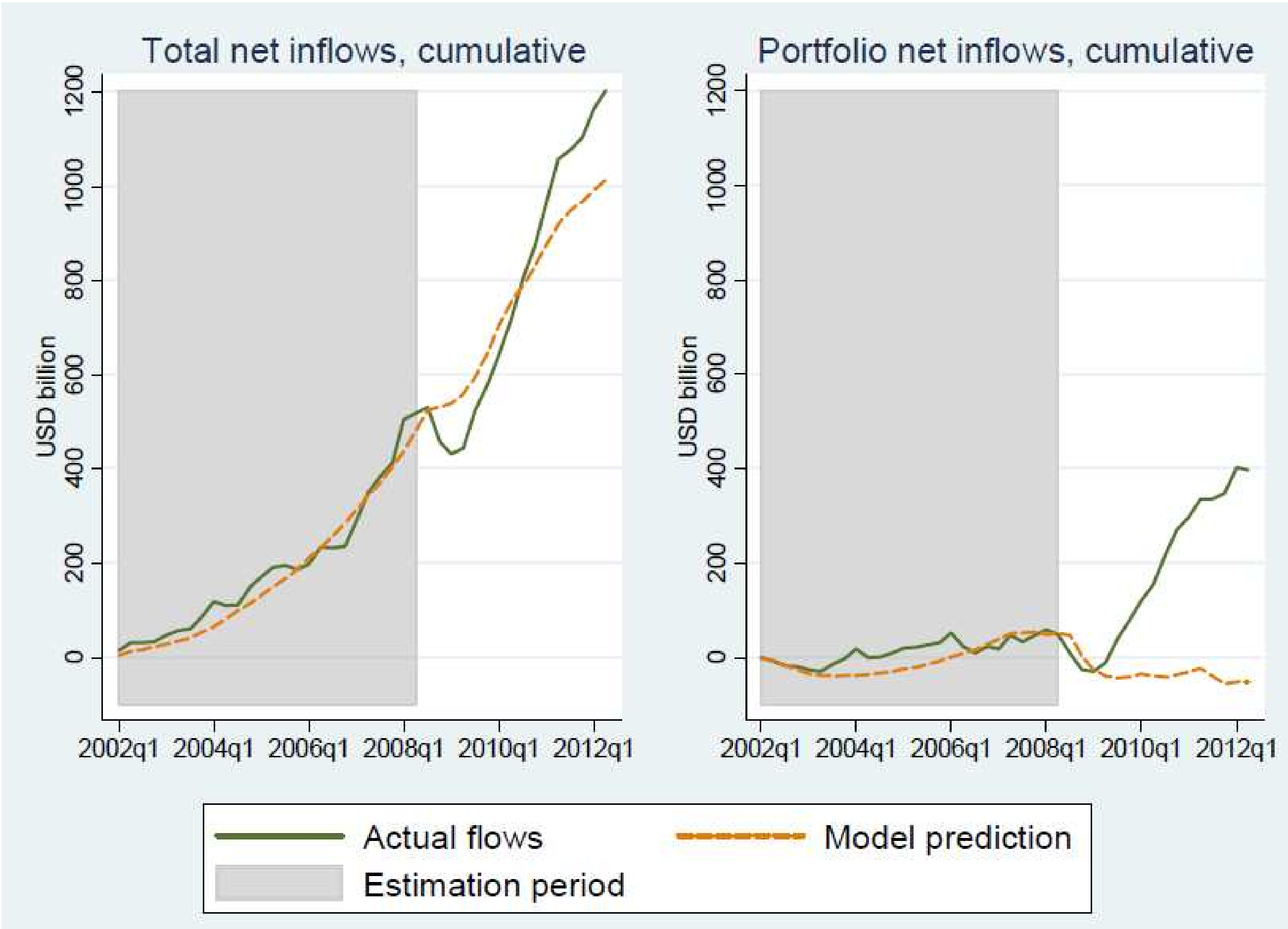
3. Capital controls constrain capital inflows

4. FX intervention increases inflows

5. UMP effects nature if not total quantity of capital flows to EME

2. Inflow Behaviour Pre and Post Crisis

TOTAL **PORTFOLIO**



Source: Ahmed and Zlate (2013) Figure 10

2. Inflow Behaviour Pre and Post Crisis

- Figure 10: Model does a good job for cumulative USD portfolio flows **during** the crisis but less so **after** 2009.

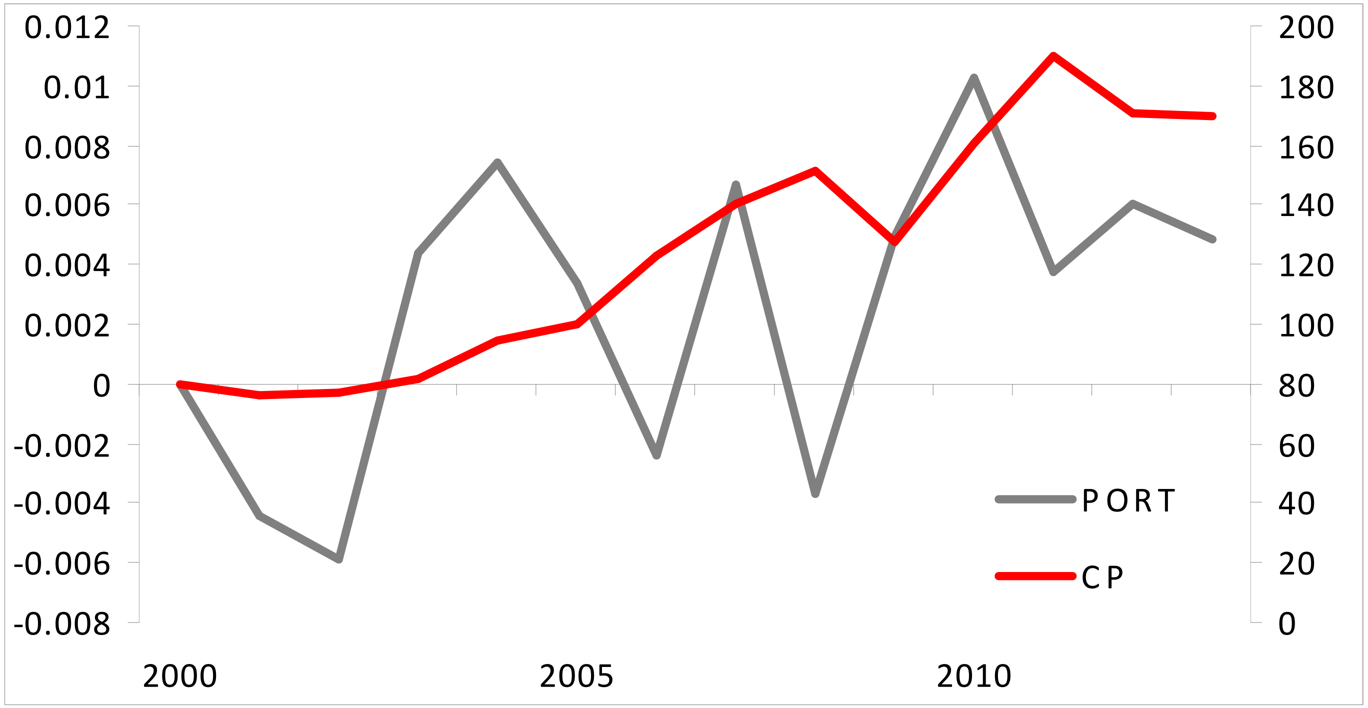
- **Brave New World**
  - Table 2 Mean Portfolio: pre=-0.33 vs post=1.07

- Portfolio Model performs better post crisis
  - Table 3 R^2: pre=0.23 vs post=0.36
  - [i.e. Col.(6) vs Col.(8)]

- Structural change in sensitivity of portfolio flows
  - Table 5 VIX coefficient structural break tests
  - Stable statistically but economically(?)

2. EME Capital Flows and Commodity Prices

- *Questions*
  - *Is it a speculative bubble?*
  - *Can fundamentals else explain recent upsurge in portfolio inflows?*



Notes: Correlation of Commodity Prices and Portfolio Inflows is 0.45

Capital Controls and FX Intervention

3. Capital Controls

- Constrain both Total and Portfolio Inflows
  - Existing controls have negative and stat. sig. effect
  - New controls impact with a lag

- Modelling post 2009 flows?

4. FX Intervention

- Purchasing FX Increased Inflows
  - Total (5%) and Portfolio (10%) for 2002-2008
- FX intervention reduced value of currency and raised expectations of an appreciation, hence inflow

- Lags over two years previous but persistence/causality?

Unconventional Monetary Policy

5. Unconventional Monetary Policy

- Effects nature, if not total quantity, of capital flows
  - LSAP increased portfolio flows to emerging markets
  - Operated at the longer end of the yield curve
  - Literature suggests QE lowered long term yields
  - Difficult to identify a post-Crisis effect
    - » R^2 =0.23 (Table 9; column (6))

Portfolio Inflows Post Crisis

- Modelling Expectations?
- Explicit Forward Guidance?
- Structural Change in International Investors Approach?

Global Determinants of Inflows

Minor Comments

1. Estimation: OLS and FE

2. Nonstationarity

3. Granularity

4. Forecasting