

Discussion of “Emerging Market Capital Flows and U.S. Monetary Policy”

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Low Interest Rates, Monetary Policy and International Spillovers

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Disclaimer: This presentation represents my own views and not necessarily those of the Federal Reserve Board of Governors or its staff.

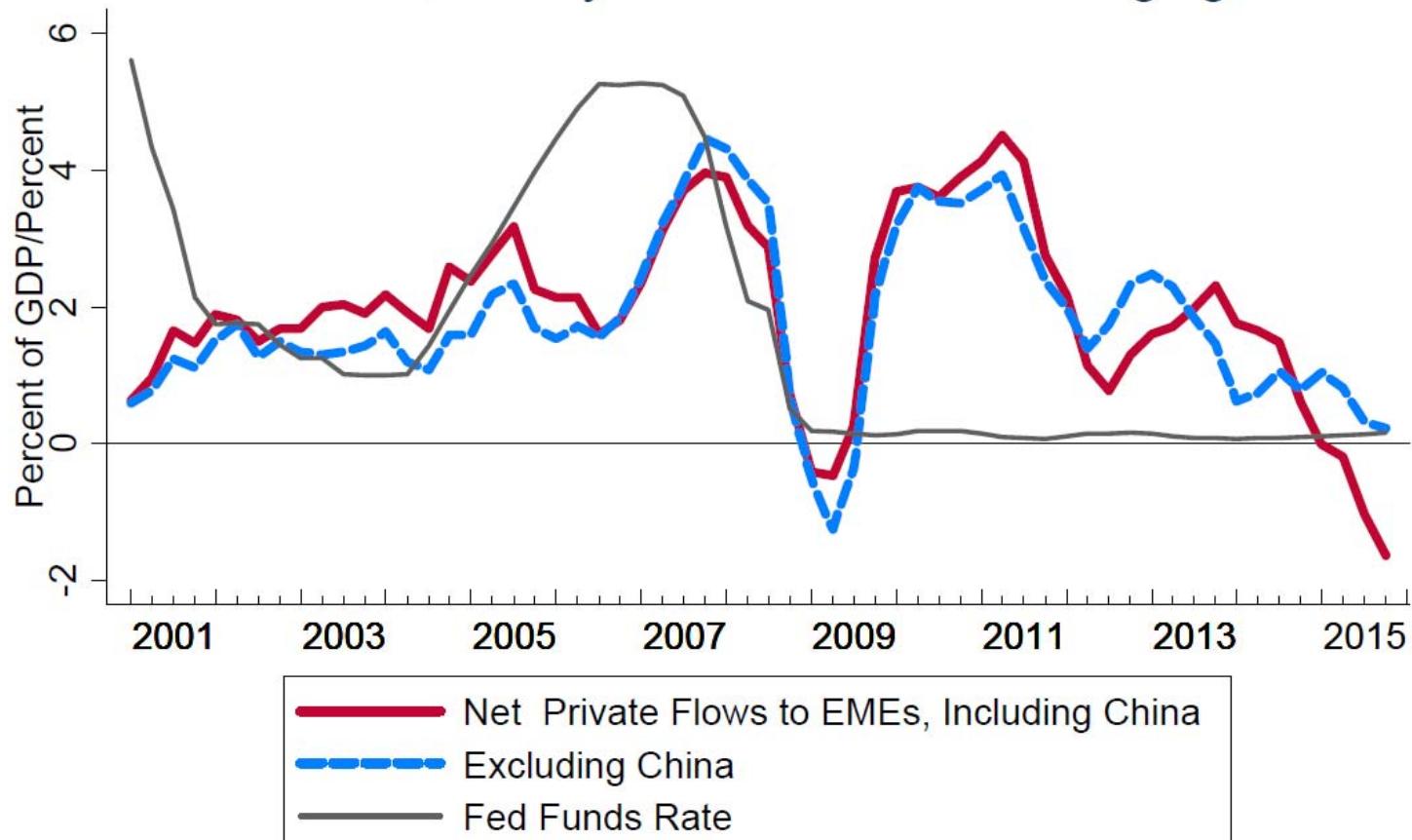
- Following the Global Financial Crisis (GFC), monetary stimulus by Federal Reserve and other advanced-economy central banks characterized as pushing a “tsunami” of capital flows to EMEs.
- These capital flows were blamed for blowing asset bubbles, spurring excessive credit creation, and pushing up currencies.

- To be sure, differences on monetary policies across economies should lead to corresponding movements in capital.
- But too much weight has been placed on Fed policy in the post-GFC surge in capital flows to EMEs.

- Three arguments

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- 1. The surge in capital flows to EMEs clearly preceded the GFC, when interest rates were relatively high.
 - The 2009-2010 surge clearly a rebound from the GFC.

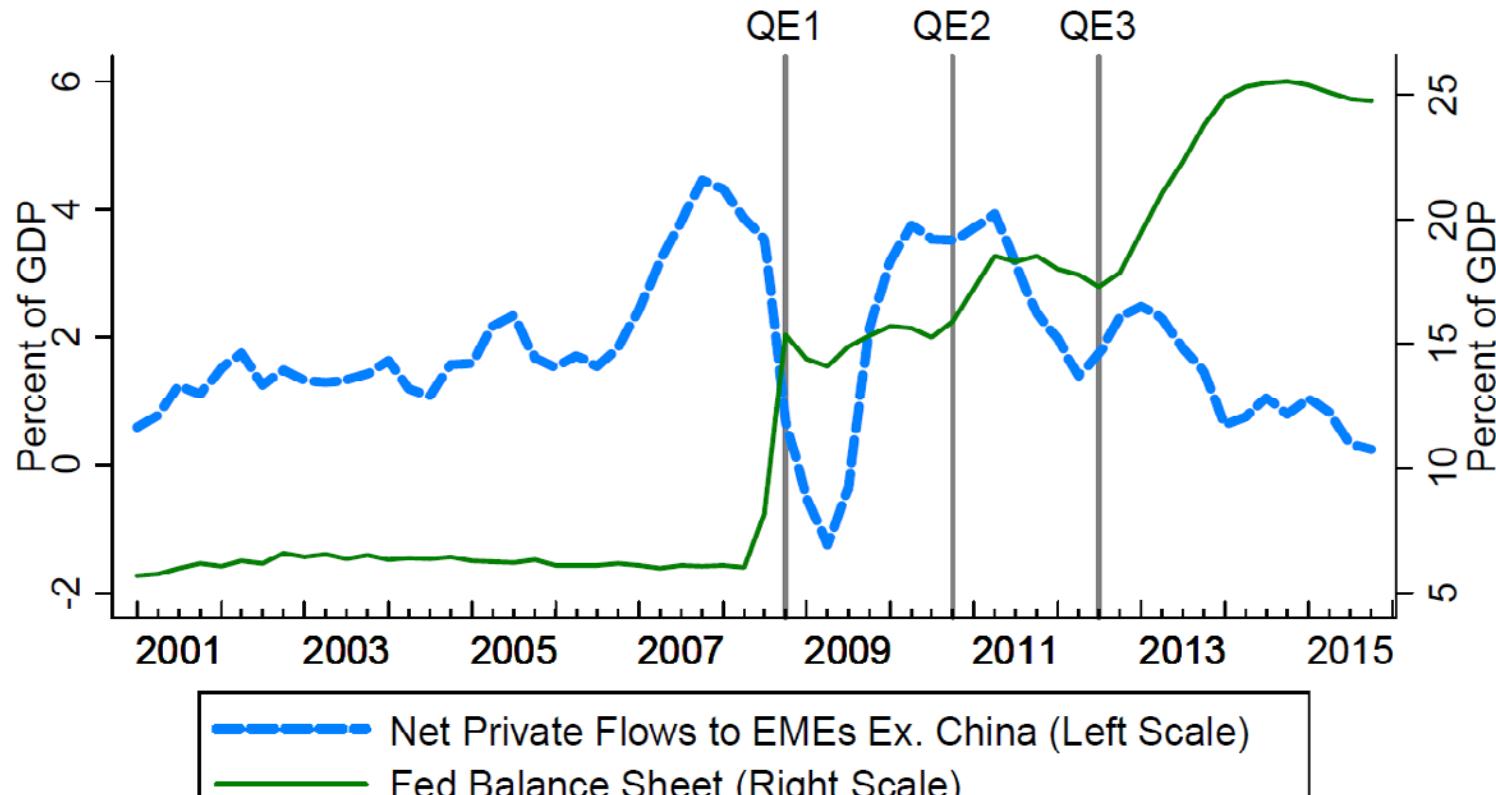
Chart 2: Net Quarterly Private Flows to Emerging Markets



Source: IMF BoPS, FRB. Net private inflows incl. net FDI, portfolio, & other flows excl. IMF lending; 4-quarter rolling ave.
Countries included: China (except where indicated), Indonesia, India, Korea, Malaysia, Philippines, Taiwan, Thailand,
Argentina, Brazil, Chile, Colombia, Mexico, Czech Republic, Hungary, Poland, Romania, Russia, Israel, South Africa, Turkey

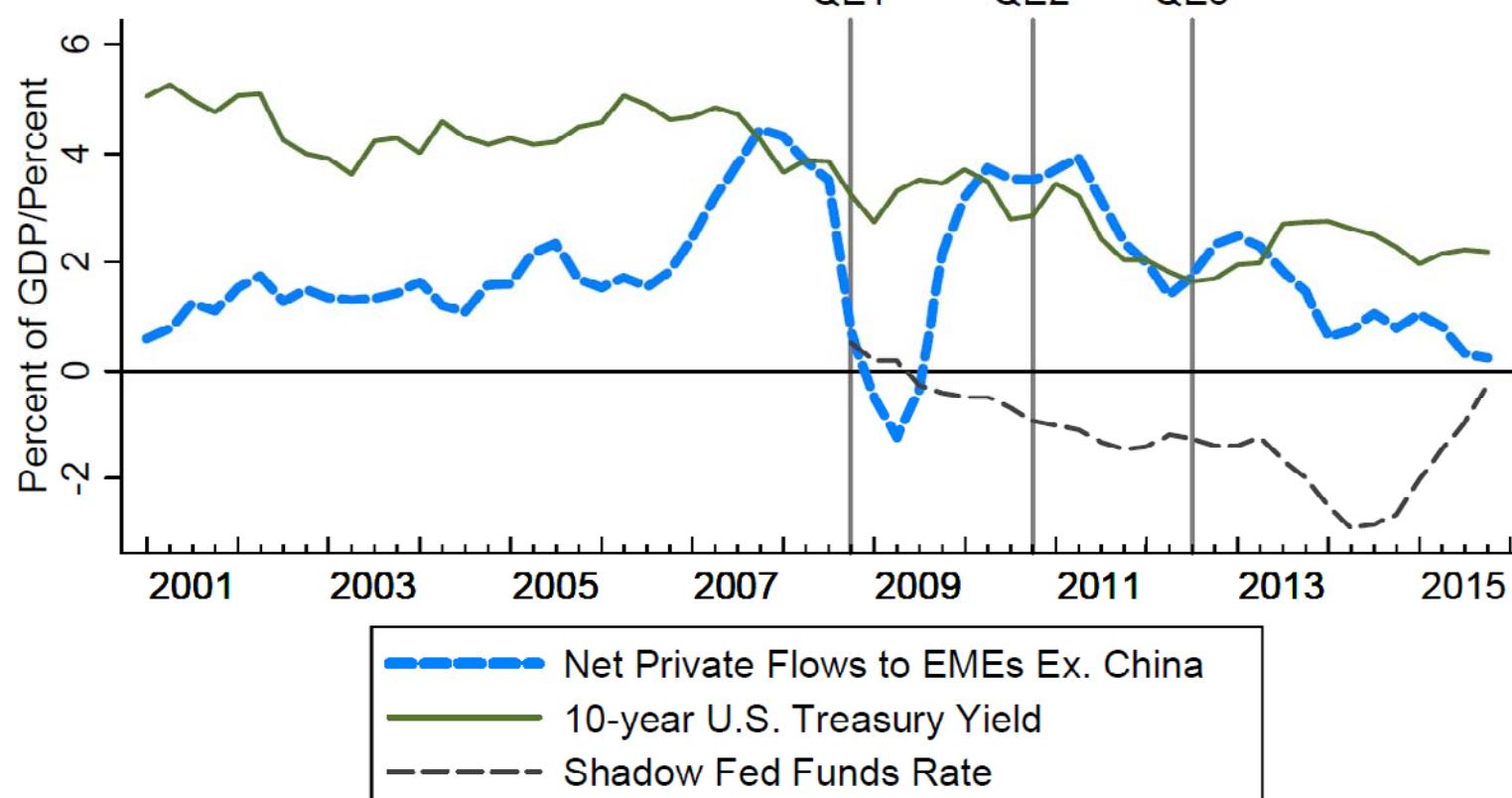
- Three arguments
- 2. Capital flows to EMEs fell back after 2011, even as monetary policy in advanced economies became progressively more expansionary.

Chart 4: Net Private Flows, Fed Balance Sheet,
and U.S. Quantitative Easing



Sources: IMF BoPS, FRB. Net private inflows incl. net FDI, portfolio, & other flows excl. IMF lending; 4-quarter rolling ave.
Countries included: Indonesia, India, Korea, Malaysia, Philippines, Taiwan, Thailand, Argentina, Brazil, Chile, Colombia, Mexico,
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Chart 5: Net Private Flows and U.S. Interest Rates



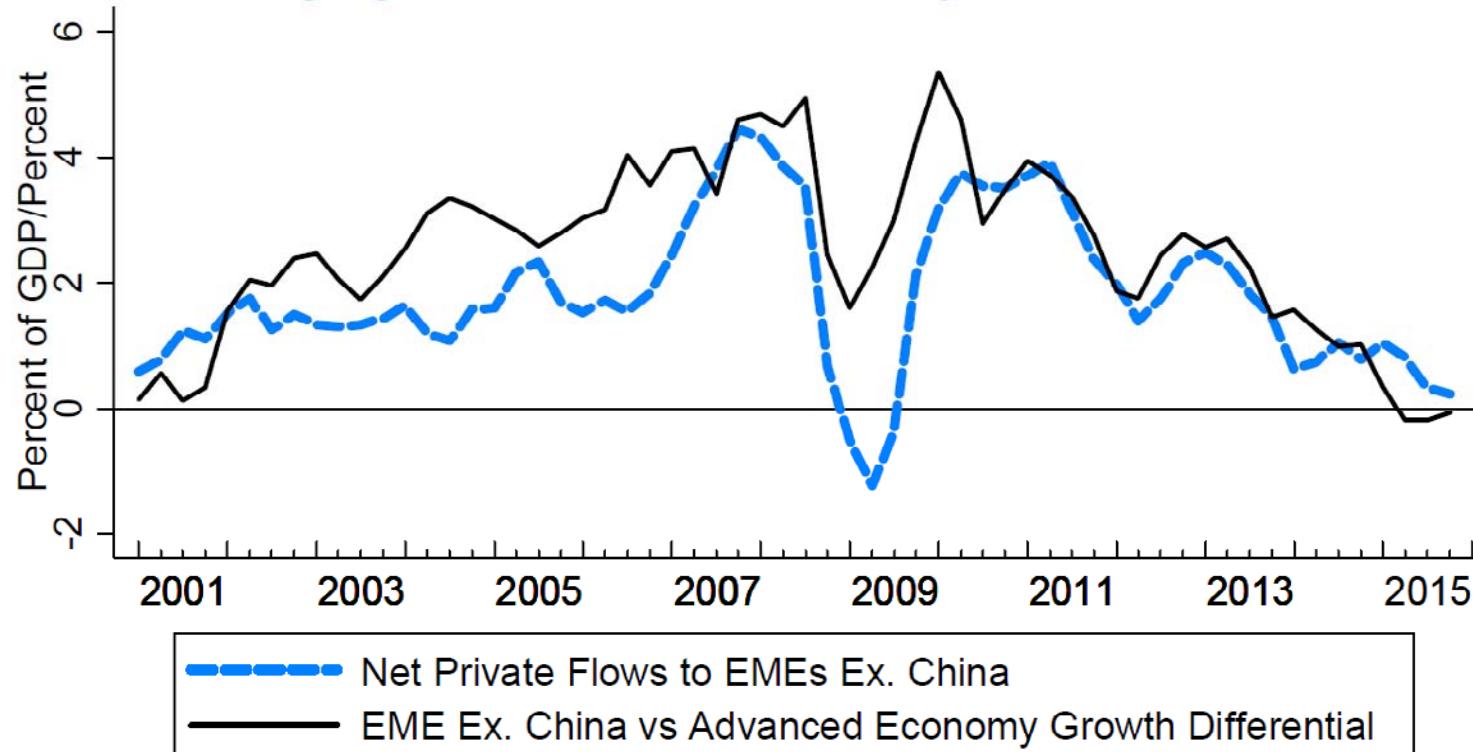
Sources: IMF BoPS, FRED, FRB Atlanta.

Net private inflows incl. net FDI, portfolio, & other flows excl. IMF lending; 4-quarter rolling ave.

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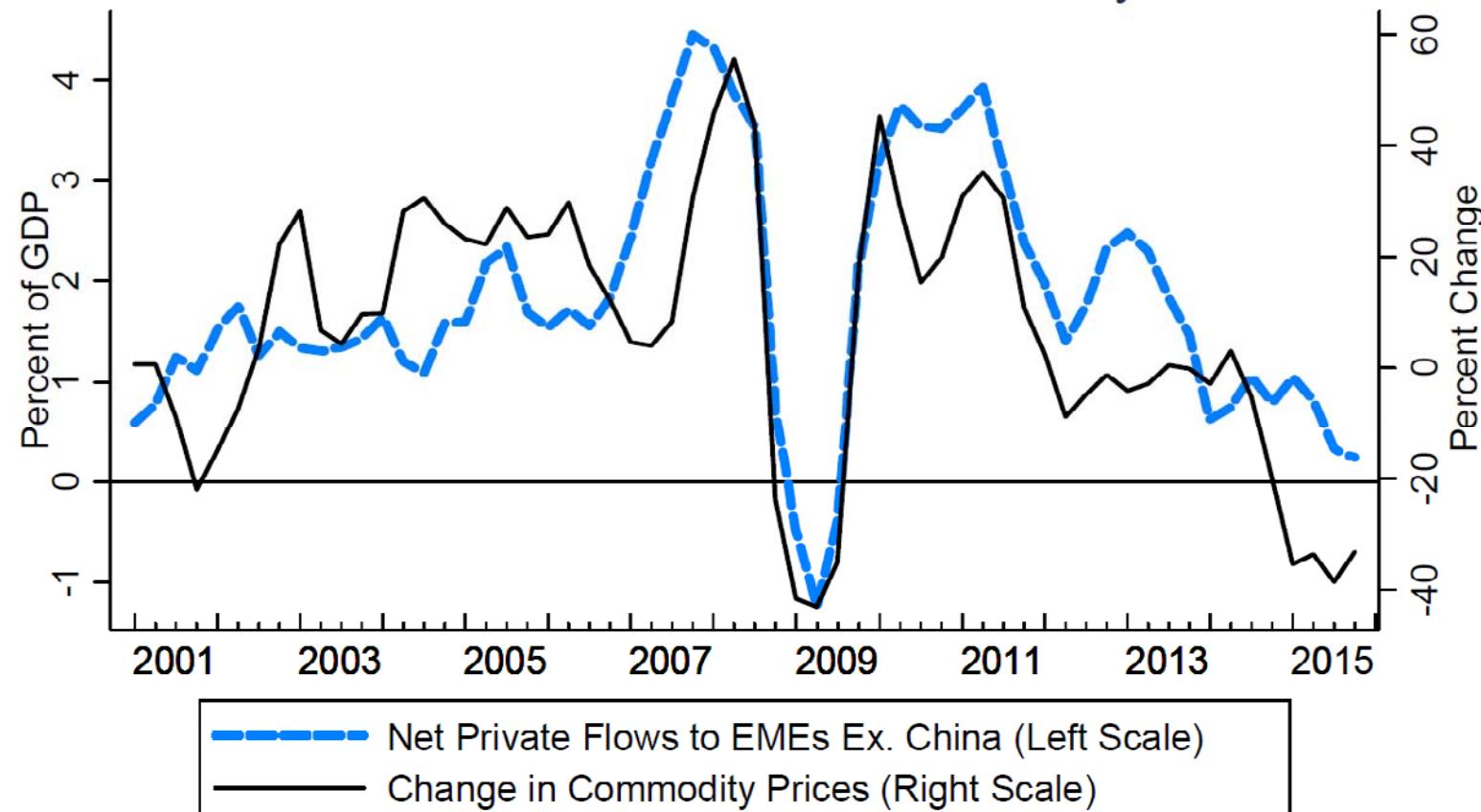
- Three arguments
- 3. Movements in capital flows to EMEs are much better explained by the evolution of GDP growth and commodity prices.

Chart 9: Net Private Flows and Emerging vs Advanced Economy Growth Differential



Sources: IMF BoPS, Haver. Net private inflows incl. net FDI, portfolio, & other flows excl. IMF lending; 4-quarter rolling ave. Growth differential is GDP-weighted average of EMEs' year-on-year growth less GDP-weighted average of advanced economy growth. EME Countries included: Indonesia, India, Korea, Malaysia, Philippines, Taiwan, Thailand, Argentina, Brazil, Chile, Colombia, Mexico, Czech Republic, Hungary, Poland, Romania, Russia, Israel, South Africa, Turkey
AE Countries included: Australia, Austria, Belgium, Canada, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, Switzerland, UK, US

Chart 10: Net Private Flows and Commodity Prices



Sources: IMF BoPS, IMF IFS. Changes in commodity prices are quarter-on-quarter, weighted by share of world trade.
Net private inflows incl. net FDI, portfolio, & other flows excl. IMF lending; 4-quarter rolling ave.

EME Countries included: Indonesia, India, Korea, Malaysia, Philippines, Taiwan, Thailand, Argentina, Brazil, Chile, Colombia, Mexico, Czech Republic, Hungary, Poland, Romania, Russia, Israel, South Africa, Turkey

Table 1: Regression Results**Dependent Variable: Net Private Flows (% GDP)**

	Coefficient	Robust Standard Errors
Growth Prospects		
Growth differential	0.182 **	(0.084)
Change in commodity prices	0.069 ***	(0.023)
Monetary Factors		
Change in (shadow) FFR	-0.554	(0.330)
Interest rate differential	0.105	(0.076)
Risk Factors		
VIX	-0.019	(0.029)
EMBI Global spread	-0.492 **	(0.212)
EMBI Global spread squared	0.004	(0.003)
Additional Controls:		
Lagged dependent variable	0.252 ***	(0.049)
Country fixed effects	Yes	
Observations	1,276	
R-squared	0.386	

Statistically significant at *10%, **5%, and ***1%

Standard errors clustered at country level. See appendix for variable definitions.

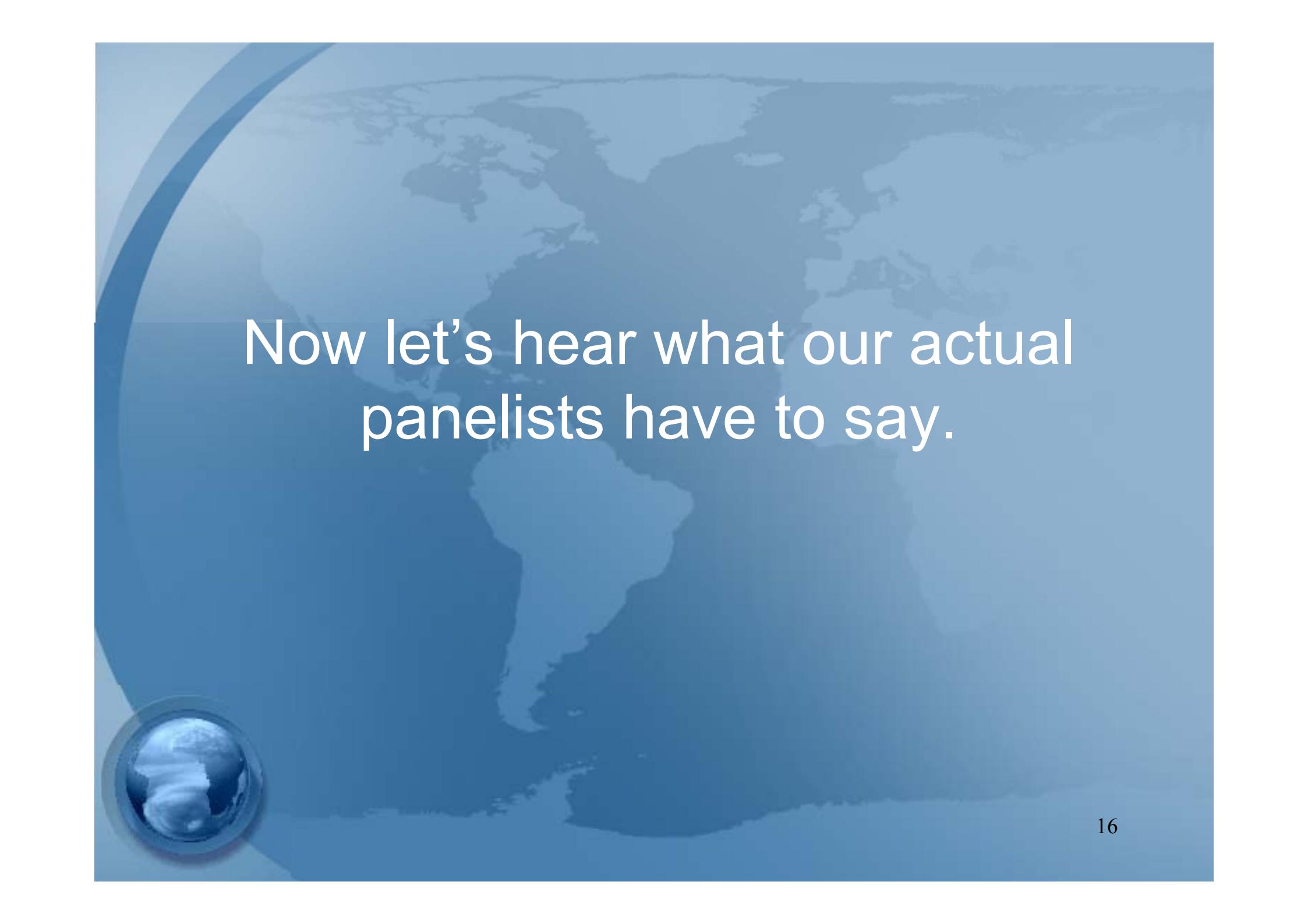
Table 2**Factors Contributing to the Slowdown in Capital Flows**

(percent of aggregate EME GDP excl. China)

	2010	2015	Change
Actual inflows	3.54	-0.32	-3.86
Predicted inflows	3.05	-0.55	-3.60
<u>Contributions by:</u>			
<u>Growth Factors</u>	<u>1.43</u>	<u>-1.27</u>	<u>-2.69</u>
Growth differential	0.99	-0.26	-1.26
Commodity price change	0.43	-1.01	-1.44
<u>Monetary Factors</u>	<u>1.08</u>	<u>0.64</u>	<u>-0.44</u>
Change in (shadow) FFR	0.03	-0.37	-0.39
Interest rate differential	1.05	1.00	-0.05
<u>Risk Factors</u>	<u>-1.88</u>	<u>-2.02</u>	<u>-0.14</u>
VIX	-0.60	-0.44	0.17
EMBI Global spread	-1.31	-1.63	-0.32
EMBI Global spread squared	0.03	0.05	0.02

Source: authors' calculations. See appendix for details on calculation of each variable's contribution to aggregate capital flows

- For more detail, see:
- Clark, John, Nathan Converse, Brahma Coulibaly, and Steve Kamin (2016). "Emerging Market Capital Flows and U.S. Monetary Policy," IFDP Notes 2016-10-18. Board of Governors of the Federal Reserve System (U.S.).



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panelists have to say.