Comments on

"Do the different types of capital flows respond to the same fundamentals and in the same degree? Recent evidence for emerging markets"

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Key takeaways of the paper

- **Objectives and methodology**
  - Assess the drivers (push and pull factors) of net capital flows, differentiating by type of flow
  - Dynamic panel data model, Arellano & Bond (1991)
  - Annual data (1995-2010), 49 countries

- **Main results**
  - Push and pull factors both play a role, but varying depending on the type of flows
  - The crisis significantly affected the respective importance of capital flows' drivers

Related literature

- **Bluedorn et al (2011): "International capital flows: reliable or fickle?"**
  - Covers different type of flows, annual data
  - Methodology (OLS) is different from current paper

- **Fratzscher (2011): "Capital flows, push versus pull factors and the global financial crisis"**
  - Focus on portfolio flows
  - High frequency (EPFR database)
  - Common (push) factors during the crisis, but pull factors during the recovery

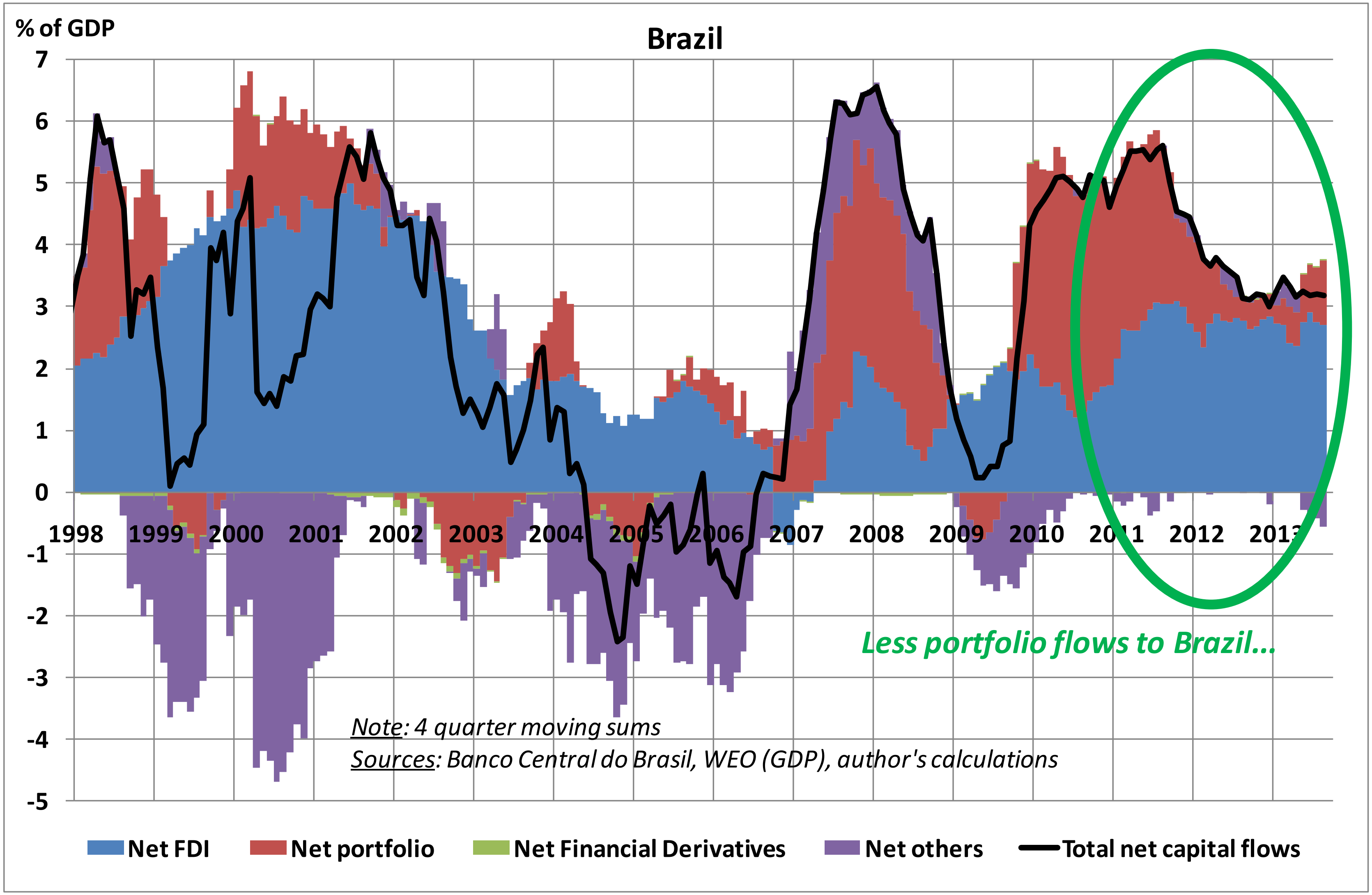
Some comments (1)

- **Choice of variables (1)**
  - No **domestic interest rate**: why?
  - **Domestic GDP growth**: Medium-Term forecast? (WEO, Consensus Forecast)
    - Domestic GDP growth not significant for FDI in table 3, or with wrong sign in table 4

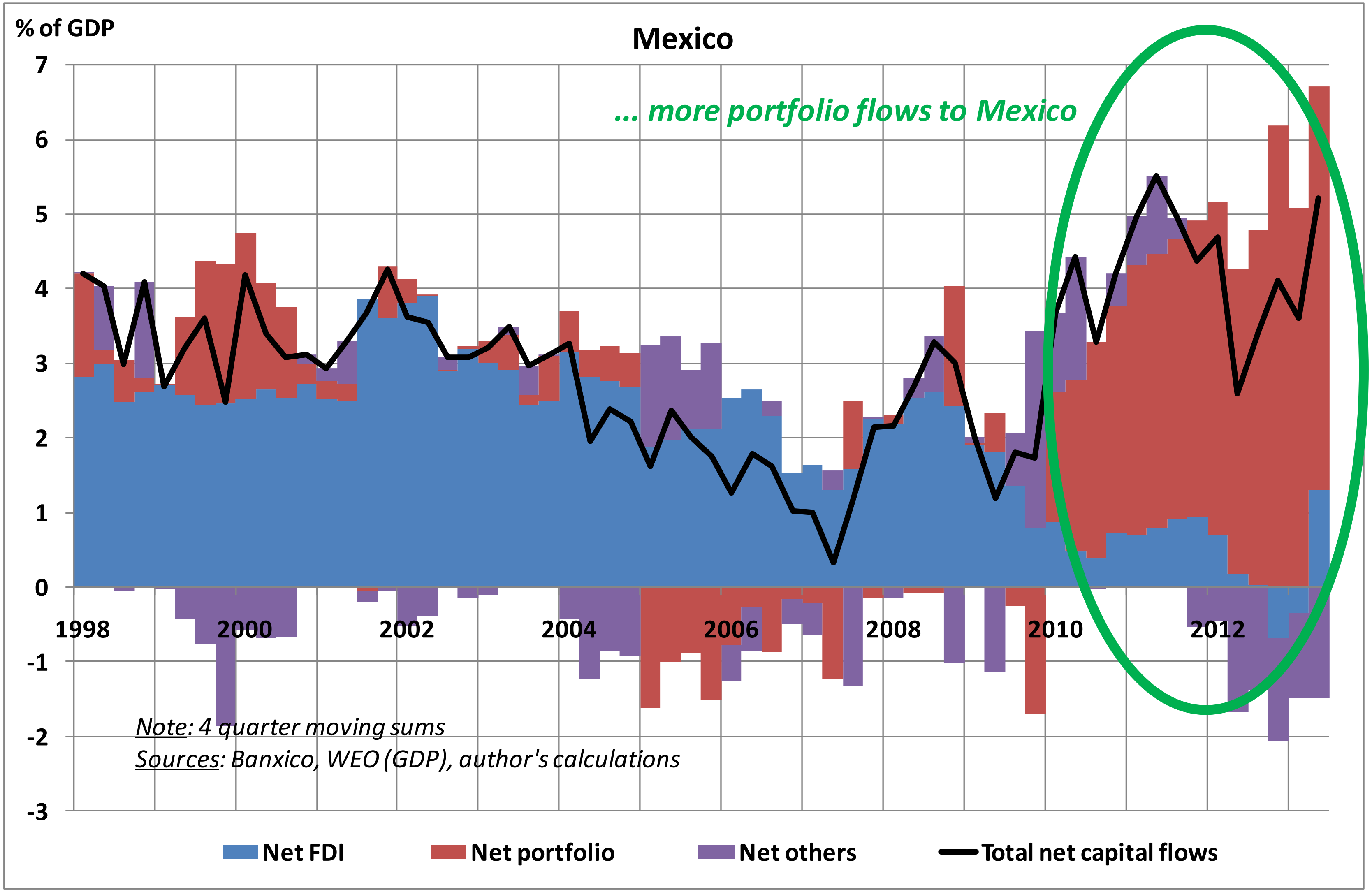
Some comments (2)

- **Choice of variables (2)**
  - **Financial openness** & capital controls:
    - Chinn & Ito: de jure, global index
    - But the degree of openness may differ on the type of flow (ex: China, quite open for FDI but still rather closed for portfolio)
      - What about a de facto measure? Cf. Lane & Milesi-Ferretti (2007), outstanding foreign assets and liabilities by type of flow
    - Capital controls may impact the composition of flows; liberalization of outflows may decrease net flows (cf. Thailand)
    - Capital controls as a push factor for neighboring economies? (spillover effects, bubble thy neighbor)
      - Cf. Lambert et al (2011), Forbes et al (2012)

Capital controls and spillover effects



Capital controls and spillover effects



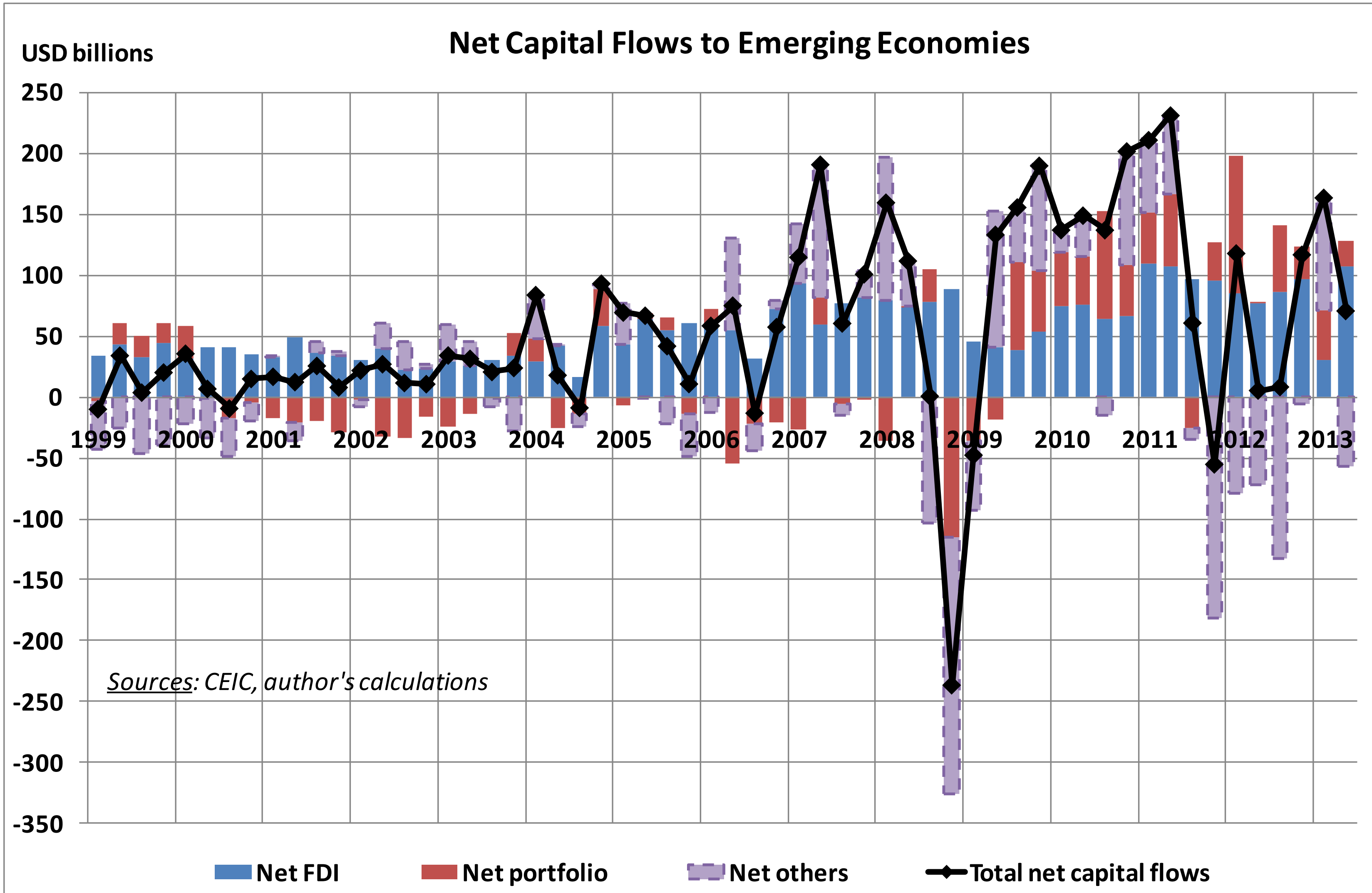
Some comments (3)

- **Choice of data: annual**

  - One of the objectives of the paper is to assess whether the drivers of capital flows changed during the crisis
  - **Problem: difficult to characterize the crisis in annual terms**
    - The financial crisis arguably extended from mid-September 2008 (lehman collapse) to March-April 2009 (G20 meeting); cf. Fratzscher (2011)
    - Radically different regimes in terms of capital flows are included within the same year
    - Problem for financial variables (like risk aversion) averaged on a whole year

  ➢ **Use quarterly data?** Should be possible (some countries with no sufficient data would have to be dropped)
    - Cf. Fratzscher (2011): high frequency

Net capital flows to 27 emerging economies



Some comments (4)

- **Results**

  - **Inertia:**
    - Sometimes (debt, other flows), the lagged endogenous variable has a significant but negative coefficient
    - Rather volatility than inertia

  - **Impact of the crisis:**
    - Use of crisis dummies, and interaction with other variables
    - To assess the drivers of capital flows (i) in normal times, versus (ii) in crisis times
    - An interesting alternative / robustness test could be to restrict the estimation to a sub-period (1995-2007)

Conclusion

- **A very interesting paper on a hot topic**
  - May benefit from the use of quarterly data to better account for the crisis

- **What impact for the coming Fed tapering?**
  - The coefficient for the foreign long-term interest rate is significant and negative in all specifications for debt flows
    - ➢ **Some financial turmoil ahead for emerging economies?**