

INTERNATIONAL CAPITAL FLOWS: PRIVATE VERSUS PUBLIC

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Discussion by
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DISCLAIMER

- The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its management

SUMMARY—APPROACH OF THE PAPER

- *Empirical part* :
 - Use IMF BOP/IIP database for 102 countries over 1980–2017
 - Focus on flows to public and private sectors separately and compare advanced countries (AM) and developing countries (DC)
 - Explore the source of procyclical/counter-cyclical capital inflows in AM and DC
- *Quantitatively part* :
 - Construct a two-sector DSGE model of a small open economy facing borrowing constraint
 - Rationalize the observed patterns quantitatively

SUMMARY—CONTRIBUTION OF THE PAPER

- ***Empirical part*** : Find new stylized facts on net capital inflows
 - *Pro-cyclical* total capital inflows in AM, *counter-cyclical* total capital inflows in DC
 - *Pro-cyclical* private capital inflows and *counter-cyclical* public inflows in both AM and DC
 - Dominance of private inflows in AM and public inflows in DC

SUMMARY—CONTRIBUTION OF THE PAPER

- *Quantitatively part* : Rationalize the patterns quantitatively
 - Private overborrowing under the pecuniary externality (from borrowing constraint) \Rightarrow *pro-cyclical* inflows
 - Government saves abroad or experiences capital outflows \Rightarrow *counter-cyclical* public inflows
 - Differences in borrowing constraints and shock processes \Rightarrow relative importance between public and private inflows

COMMENT 1. COMMENT ON MAIN THEME

- “Recent graduate” (developing countries \Rightarrow advanced economies)
 - Some countries have moved from developing country class to advanced economy class
 - Example: (i) South Korea, (ii) Czech Republic
- Can the paper explain patterns of recent graduates?
 - Empirical part:
 - Have net capital inflows changed from countercyclical to procyclical?
 - Have private inflows dominated public inflows?
 - Quantitative part:
 - Can the model successfully explain the shift?

COMMENT 2. EMPIRICAL PART—TWO ADDITIONAL DIMENSIONS

- *Cross-country heterogeneity*

- How does correlation between GDP growth rates and net capital inflows differ across countries?
- What drives country-specific correlation?

$$\rho_i = c + \beta_1 * Shocks_i + \beta_2 * KA_Rest_i + \beta_3 * Risk_Prem_i$$

- Identify “underlying facts” on borrowing constraints

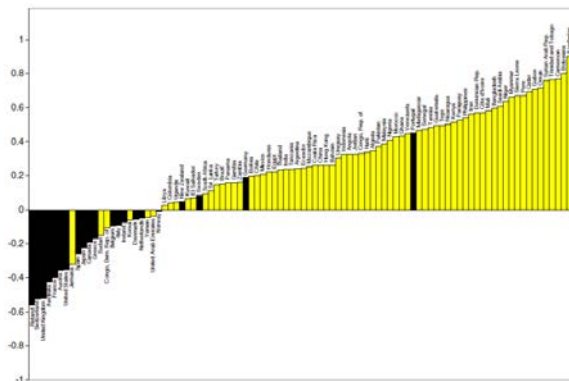
- *Heterogeneity across time*

- In each country, how does correlation between GDP growth rates and net capital inflows differ between pre-2000 and post-2000 periods?
- What drives variations of country-specific correlation over time?

$$\Delta\rho_i = c + \beta_1 * \Delta Shocks_i + \beta_2 * \Delta KA_Rest_i + \beta_3 * \Delta Risk_Prem_i$$

COMMENT 2. EMPIRICAL PART—TWO ADDITIONAL DIMENSIONS

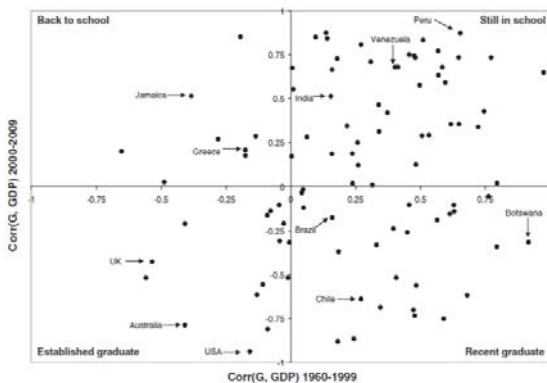
- Country correlations between cyclical components of expenditure and real GDP



Source: Frankel et al. (2013)

COMMENT 2. EMPIRICAL PART—TWO ADDITIONAL DIMENSIONS

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COMMENT 3. THEORETIC PART

- *Centralized vs. decentralized (Bianchi 2011)*
 - Important aspect: pecuniary externality on equilibrium borrowing
 - 1st best: social planner problem (centralized)
 - Identify “underlying facts” on borrowing constraints
- *Potential rule for reserves and taxes on tradable goods*
 - Can you introduce a rule for (i) reserve accumulation and (ii) taxes on tradable goods separately?
 - Two rules might not be identical
 - Does introducing these rules yields the identical outcomes? (similar degree of distortions)

COMMENT 4. QUANTITATIVE PART

- *Table 4—Decomposition of drivers in the model*
 - (i) Baseline (shocks + borrowing constraints)
 - (ii) Shocks + loose borrowing constraints
 - (iii) Only shocks (aggregate + sector-specific)
 - (iv) Only shocks (aggregate)
- *Welfare loss due to pecuniary externality*
 - Welfare loss at the economy level—compare welfare of (i) centralized and (ii) decentralized models
 - Welfare loss in public and private sectors—compare welfare of (i) centralized and (ii) decentralized models

CONCLUSION

- Very nice paper!
- First to explain a difference between public and private capital inflows empirically and quantitatively
- Four comments/suggestions
 - “Recent graduates”
 - Two addition dimensions to explore
 - Rules for reserve accumulations and tax on tradable goods
 - Decomposition of drivers and welfare analysis
- Looking forward to learn more on this!