

Accepted Manuscript

Regulating Capital Flows to Emerging Markets: An Externality View

Anton Korinek

PII: S0022-1996(17)30147-2
DOI: doi:[10.1016/j.jinteco.2017.12.005](https://doi.org/10.1016/j.jinteco.2017.12.005)
Reference: INEC 3102

To appear in: *Journal of International Economics*

Received date: 18 July 2016
Revised date: 18 December 2017
Accepted date: 19 December 2017



Please cite this article as: Korinek, Anton, Regulating Capital Flows to Emerging Markets: An Externality View, *Journal of International Economics* (2017), doi:[10.1016/j.jinteco.2017.12.005](https://doi.org/10.1016/j.jinteco.2017.12.005)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Regulating Capital Flows to Emerging Markets: An Externality View

Anton Korinek*

Johns Hopkins University and NBER

December 2017

Abstract

We show that capital flows to emerging market economies create externalities that differ by an order of magnitude depending on the state-contingent payoff profile of the flows. Those with pro-cyclical payoffs, such as foreign currency debt, generate substantial negative pecuniary externalities because they lead to large repayments and contractionary exchange rate depreciations during financial crises. Conversely, capital flows with an insurance component, such as FDI or equity, are largely benign. We construct an externality pricing kernel and use sufficient statistics and DSGE model simulations to quantify the externalities that materialized during past financial crises. We find stark differences depending on the payoff profile, justifying taxes of up to 3% for dollar debt but close to zero for FDI. These findings contrast with the existing literature, which has suggested that policymakers should focus on reducing over-borrowing rather than changing the composition of external liabilities.

JEL Codes: F41, E44, D62, H23

Keywords: financial crises, financial amplification, capital controls, externality pricing kernel, macro-prudential regulation

*The author would like to thank Viral Acharya, Julien Bengui, Javier Bianchi, Olivier Blanchard, Patrick Bolton, Alessandra Bonfiglioli, Phil Brock, Fernando Broner, Tiago Cavalcanti, Mick Devereux, Rex Ghosh, Gita Gopinath, Olivier Jeanne, Enrique Mendoza, Marcus Miller, Jonathan Ostry, Alessandro Rebucci, Carmen Reinhart, Joseph Stiglitz, Cédric Tille, Carlos Vegh, Iván Werning and Jianfeng Yu as well as participants at several conferences and seminars for helpful discussions and comments. I am also indebted to two anonymous referees and my editor, Charles Engel, who provided detailed comments on the manuscript. Financial support from INET/CIGI and from the IMF Research Fellowship is gratefully acknowledged. Contact information: 531 Wyman Hall, Johns Hopkins University, 3400 North Charles Street, Baltimore, MD 21218. Email: anton@korinek.com

Download English Version:

<https://daneshyari.com/en/article/7363895>

Download Persian Version:

<https://daneshyari.com/article/7363895>

[Daneshyari.com](https://daneshyari.com)