Discussion on

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* This does not reflect any views of the IMF or IMF Policy.
(1) Kim et al. (2015)

“The Relationship among Capital Flow Surges, Reversals and Sudden Stops”
Kim et al. (2015) – Summary

• **Key points of the paper**

(i) New definition of sudden stops based on gross foreign flows (a subset of net capital flow reversals).

(ii) Examination of several definitions of capital flow surges in the recent literature.
   - Capital flow surges differ substantially across studies.

(iii) Surges (measured with net or gross basis) are associated with a substantially increased probability of sudden stops or capital flow reversals.
   - More than 50% of surges resulted in sudden stops or capital flow reversals.
Kim et al. (2015) - Comment (I)

- **Proposed classification of sudden stops**
  - The idea seems conceptually reasonable.
    - Differentiating the behavior of foreign investors and domestic residents.
  
  - Cons of looking at net or gross flows.
    - (i) most macroeconomic consequences of capital flows (such as exchange rate appreciation or macroeconomic overheating), many financial stability risks are related to net, not gross, capital flows

  Ghost et al. (2014, JIE).
**Kim et al. (2015) – Comment (II)**

- **Stylized evidence – correlation**
  - Interesting stylized evidence.
  - Regressions to prove statistical significance / address endogeneity issues.
    Quintile regressions (Ghosh et al., 2014),
    Probit regressions (Calderon and Kubota, 2013, JIE).

- **Symmetric or asymmetric drivers of capital flow reversals and sudden stops**
  - Any special features of “sudden stops”
Kim et al. (2015) - Comment (III)

• **Cyclicality of flows**
  - Surges => Capital flows / Sudden stops
  - What about the probability of surge after sudden stops?
  - Duration from sudden stops to next surges
    symmetric with duration from the initial surges to sudden stops?

• **Duration – quarterly frequency**
  - Duration in annual frequency is a bit problematic.
  - Trying quarterly data available for some EMs.
    Calderon and Kubota (2013, JIE).
(2) Arndt (2015)

“Crisis and Recovery in Hybrid Exchange-Rate Regime”
Key points of the paper

(i) The effects of monetary policy in a simple, static, MF-type short-run, sticky-price version of model.

(ii) Qualitative implication on asymmetric effects of monetary policy under
(a) fixed exchange rate regime with low capital mobility &
(b) floating rates and high capital mobility

(iii) Extension of the model to consider tradable/non-tradable sectors.
Arndt (2015) – Comment (I)

• **Qualitative static implication**
  - Simple and clear mechanism of asymmetric effects under two regimes.
  - Implications are similar to conventional MF-type models.

• **Focus of the paper**
  - What differentiates the current paper with existing analysis using MF-type model?
  - The paper should focus more on value-added elements (spikes if any)
Arndt (2015) – Comment (II)

- Asymmetric effects by two patterns of purchases of US Treasury Securities
  - From the U.S. Fed – the efficacy of monetary policy is nullified.
  - From the U.S. Treasury / through open market
    – effectiveness of monetary policy remains (Gali, 2014)

(A) Introducing balance sheets of the government and the central bank to explain the asymmetry in effects more explicitly.

(B) Bond market clearing condition (missing) in the model.
• **Quantitative analysis**
  - What is the overall effect?
  - Only one BOP (including both China/Eurozone) – combined CA and KA.
  - Simulation exercise to compute the effect with current shocks.

• **Extending to dynamic analysis**
  - What determines the persistency of the effect?

• **Micro foundations**
End  - Thank you!!