

**UNCTAD-ECLAC Experts Workshop on Financial stability, macroprudential regulation  
and international capital flows**

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**Comments on:  
Capital flow regulations in Asia:  
A consideration of the experience of selected countries**

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\* The opinions expressed in this presentation are exclusively the responsibility of the discussant and do not necessarily reflect the point of view of the Banco de México.

**“The world is still a closed economy, but its regions and countries are becoming increasingly open.”**  
**Robert Mundell**

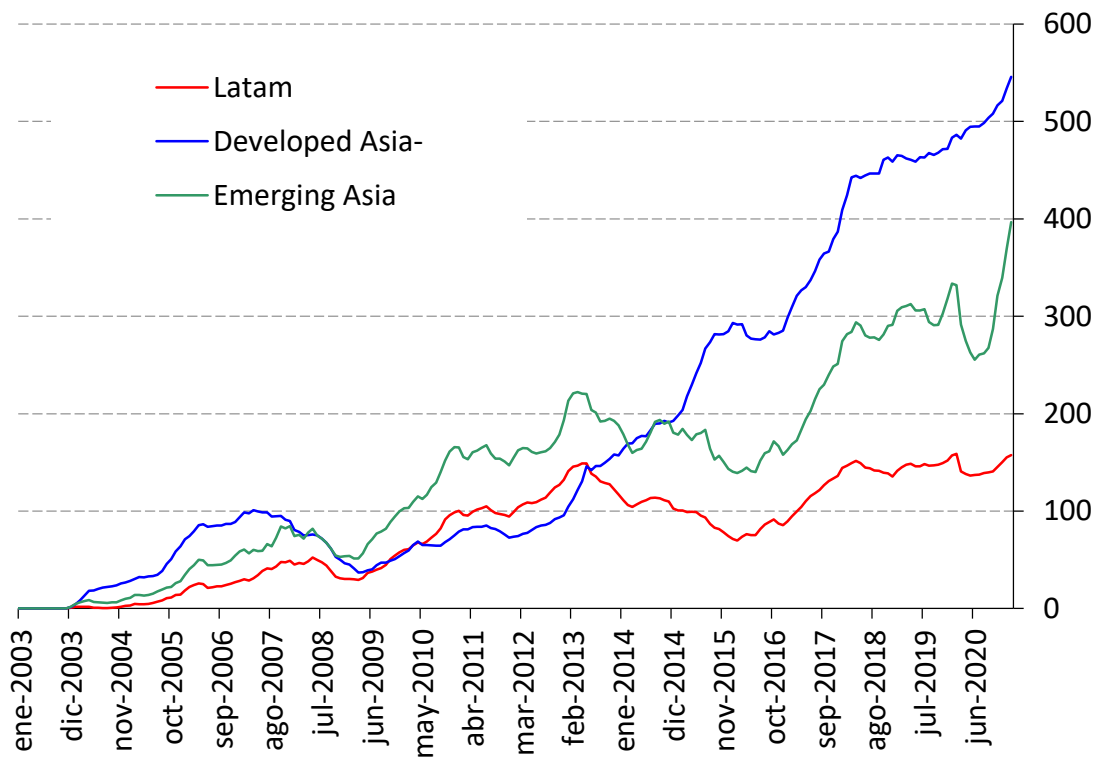
Opening sentence in 1963 seminal paper “Capital mobility and stabilization policy under fixed and flexible exchange rates”

# Introduction

## Long term trends

Accumulated Flows (Bond and Equity)

Billion USD

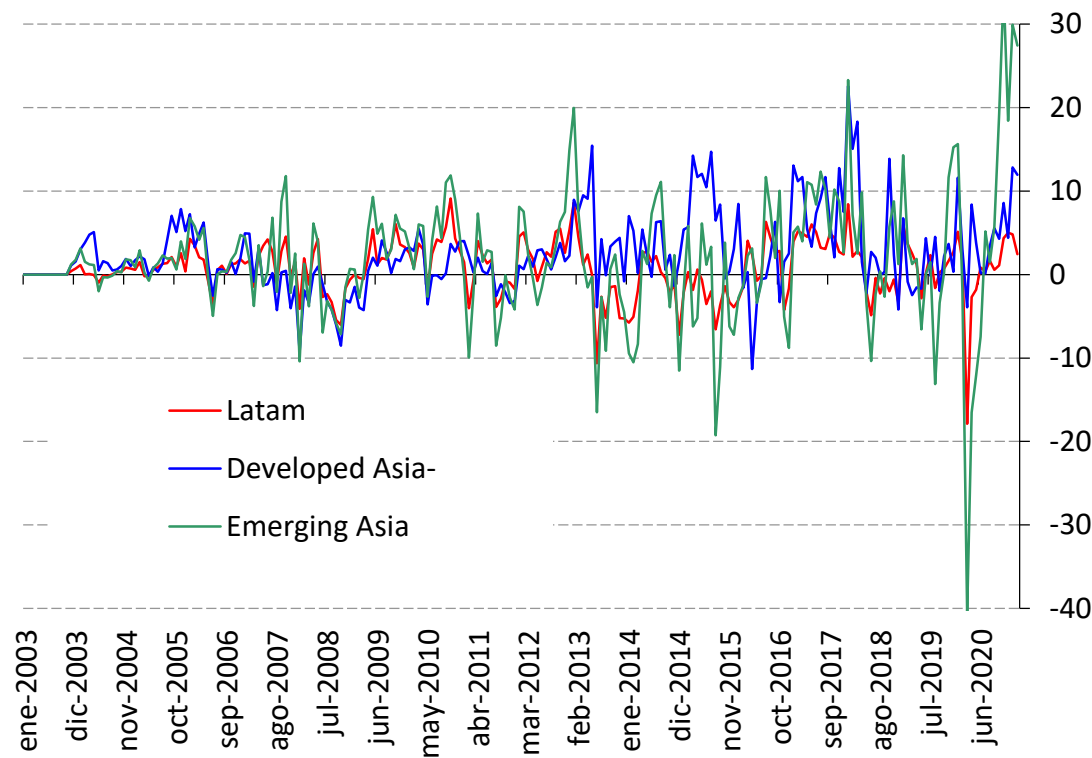


Source: EPFR

## Increased Volatility

Monthly Flows (Bond and Equity)

Billion USD



Source: EPFR

# Context and the relevance of the analysis presented

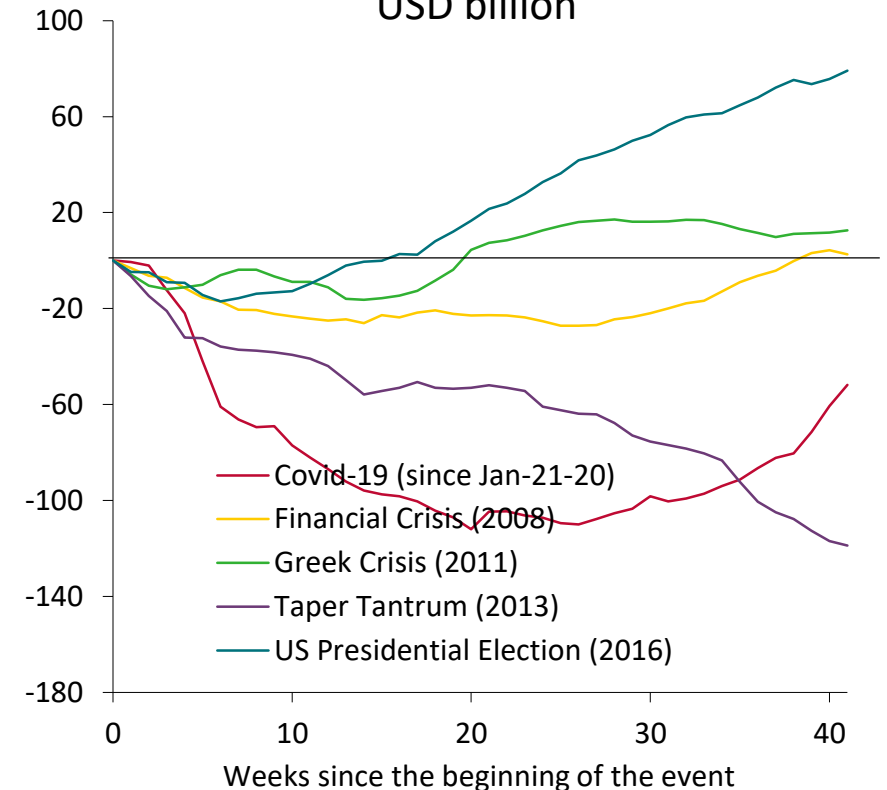
- The **possibility of capital outflows from EME** has been a relevant **concern for financial stability**.
- We have seen different episodes where **capital flows decreased abruptly, and mostly due to external factors**.
- This paper presents a survey of 8 **Asian economies** and explain how policies were deployed in different directions, particularly after the Asian crisis. <sup>1/</sup>
- **Revisiting past episodes and how authorities addressed them is key for policy purposes.**

1/ India, Indonesia, Malaysia, Thailand, Philippines Vietnam, Pakistan Taiwan.

## Cumulative flow of funds to emerging market economies after selected events

(fixed income and equity)

USD billion



Source: Prepared by Banco de Mexico with data from EPFR.

# Main Findings of Gosh (2021)

- Important similarities with respect to trends in financial policies and the capital account, (progressive liberalisation of the CA and of rules in terms of FX transactions).
  - ✓ **Malaysia, Indonesia and Thailand:**
    1. The capital account flows were more open even earlier.
    2. But there was a liberalisation in terms of allowing foreign ownership of domestic financial companies.
  - ✓ **India, Vietnam and Taiwan Province of China,** were relatively closed earlier and have moved towards liberalisation of both current and capital account transactions.
- Overall, **CA management has relied on market-based and prudential measures** rather than administrative controls.
- However, the **results of these policies have been mixed** in terms of success.

# Current Risks for Financial Stability

- The **debate on capital flows**, has been lively for many years and the discussions might **regain impetus** under the current situation:
  - Unprecedented **policy responses in many fronts** in face of the Covid-19 shock to help economic recovery and prevent financial system collapse
- However, they have also **given rise to a number of global financial stability risks**.
  - ✓ Possible distortions in asset prices would lead to an eventual correction.
  - ✓ Excess liquidity in international markets could revert in a disorderly manner.
  - ✓ Risks of insolvency problems and firms' bankruptcies, in a context of high levels of indebtedness in both public and private sectors.
  - ✓ Unsynchronized economic recovery in advanced economies with a considerable fiscal stimulus could propitiate a rise in inflation.
  - ✓ An increase in long-term interest rates in the U.S. would tighten global financial conditions and trigger capital outflows from EME.

# Macroprudential Policies can help mitigate financial vulnerabilities

There are **challenges** for the **design and implementation of macroprudential policy**:

- 1. Interactions:** There are interactions between macroprudential policy and other policies that should be carefully taken into account.<sup>1/</sup>
- 2. Evaluation:** It is very important to concretely evaluate results of these type of policies , since the effectiveness of macroprudential policies is not assured.<sup>2/</sup>
- 3. Costs:** These policies can have costs or generate distortions.<sup>3/</sup>
- 4. Communicaton:** The efficacy of macroprudential policy actions depends in part, on policymakers' ability to clearly articulate the intent of actions taken.<sup>4/</sup>

1/ Classeans et al (2013)

2/ Lim et al., (2011).

3/ Ritcher et al (2019)

4/ Genberg and Zamorski (2015)

# Final considerations

- **Objective of macroprudential policy:**

Containing systemic risk, focusing on the financial system as a whole, and the use of prudential tools (and non-prudential tools as long as they are focused on systemic risk).<sup>1/</sup>

- There are no one-size-fits all policy measures.
- Learning from **past experiences can help policymakers** to make better decisions
- But it is necessary to **analyze empirical evidence and robust analytical foundation** on the impact of macroprudential measures in our economies.
- Then, we will be in a better position to evaluate their real potential.

<sup>1/</sup> Financial Stability Board, International Monetary Fund, and Bank for International Settlements, “Macroprudential Policy Tools and Frameworks,” Progress Report to the G20, October 27, 2011.



Thanks