

### Recent Experiences in Managing Capital Inflows— Cross-Cutting Themes and Possible Policy Framework

- The paper,
  - Establishes a very good and detailed account on stylized facts about capital inflows
  - Exhibits recent experiences of selected countries with capital inflows in a crystal clear fashion and has an exhaustive chronological presentation of measures taken by countries
  - Proposes a common policy framework for managing capital inflows based on the stylized facts and country experiences



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- Key Findings to Underline:
  - A rising tide: Gross inflows have reached 6 percent of GDP in only three quarters since the post-crisis trough—it took three years to reach a similar magnitude in the surge that preceded the global crisis.
  - Global wave: Continuing since 2009Q3, reflecting a stock adjustment in investor portfolios.
  - EM's Exposure: The modest size of EM capital markets relative to AEs' also means that a small shift in portfolio allocations from AEs to EMs could easily overwhelm EMs' absorptive capacity. This raises the bar for managing gross capital inflows.
  - Market players' view: Market participants have expressed concerns about policy and regulatory uncertainty and distortions from measures that go beyond macroeconomic policies. Even so, they consider the measures so far implemented to be —at the margin|| and are likely to continue investing in countries where the positive structural story dominates.



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- Given these, I have some remarks and suggestions
  - Managing capital flows through policies aiming at pull factors could have only limited effects
  - The need of AE for new and rapidly growing markets, especially after the crisis should be kept in mind, by also considering its effects on capital flows.
  - In that respect, incorporating current account balance developments into the report could be useful,
  - Market players' appetite given "the positive structural story dominates" condition should be taken as an indicator of limited effectiveness CFM. On the hand, disturbing "the positive structural story" by some overdosing measures could be very harmful for both AE and EM.



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- Given these, I have some remarks and suggestions
  - Before proposing a common policy framework, developing country specific simulation models could enhance the effectiveness and applicability of proposed framework,
  - Cross-country analysis is very helpful, but country level general equilibrium type models may give different perspectives considering varying behavioral structures of economic agents in selected countries,
  - Despite the recent developments in several statistical and econometric tools, we don't have objective measurement tools in relation to rather vague terms like over-heating, inflationary pressure, etc. In this respect, problems in diagnosis should be taken into account in developing policy frameworks conditioned on some diagnostics,
  - Open small economies of EM's have very limited policy options, so, elaboration on policies aiming at push factors could be very effective under strong global policy coordination (such a G20).

