Capital Controls In Brazil Effective Imf

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Capital Controls and Capital Flows in Emerging Economies

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What Have We Learned? Flipside Digital Content Company Inc. Managing Capital Flows provides analyses that can help policymakers develop a framework for managing capital flows that is consistent with prudent macroeconomic and financial sector stability. While capital inflows can provide emerging market economies with invaluable benefits in pursuing economic development and growth, they can also pose serious policy challenges for macroeconomic management and financial sector supervision. The expert contributors cover a wide range of issues related to managing capital flows and analyze the experience of emerging Asian economies in dealing with surges in capital inflows. They also discuss possible policy measures to manage capital flows while remaining consistent with the goals of macroeconomic and financial sector stability. Building on this analysis, the book presents options for workable national policies and regional policy cooperation, particularly in exchange rate management. Containing chapters that bring in international experiences relevant to Asia and other emerging market economies, this insightful book will appeal to policymakers in governments and financial institutions, as well as public and private finance experts. It will also be of great interest to advanced students and academic researchers in finance.

Foreign Exchange Intervention in Inflation Targeters in Latin America World Trade Institute Advanced

The paper summarizes the main issues arising from experiences of industrial and developing countries with capital account liberalization and it examines the IMF's treatment of capital controls in its surveillance, use of IMF resources, and technical assistance activities. Case studies of recent experiences with capital controls in Chile, Colombia, Malaysia, and Venezuela are presented.

Country Experiences with Their Use and Liberalization International Monetary Fund

In the past, foreign shocks arrived to national economies mainly through trade channels, and transmissions of such shocks took time to come into effect. However, after capital globalization, shocks spread to markets almost immediately. Despite the increasing macroeconomic dangers that the situation generated at emerging markets in the South, nobody at the North was ready to acknowledge the pro-cyclicality of the financial system and the inner weakness of “decontrolled” financial innovations because they were enjoying from the “great moderation.” Monetary policy was primarily centered on price stability objectives, without considering the mounting credit and asset price booms being generated by market liquidity and the problems generated by this glut. Mainstream economists, in turn, were not majorly attracted in integrating financial factors in their models. External pressures on emerging market economies (EMEs) were not eliminated after 2008, but even increased as international capital flows augmented in relevance thereafter. Initially economic authorities accurately responded to the challenge, but unconventional monetary policies in the US began to create important spillovers in EMEs. Furthermore, in contrast to a previous surge in liquidity, funds were now transmitted to EMEs throughout the bond market. The perspective of an increase in US interest rates by the FED is generating a reversal of expectations and a sudden flight to quality. Emerging countries’ currencies began to experience higher volatility levels, and depreciation movements against a newly strong US dollar are also increasingly observed. Consequently, there are increasing doubts that the “unexpected” favorable outcome observed in most EMEs at the aftermath of the Global Financial Crisis (GFC) would remain.

Should they be Regulated? Oxford University Press

This timely volume collects influential papers by leading scholars in the field and is representative of the various debates on capital controls, and illustrative of how thinking and research have evolved.

Capital Controls in Brazil Greenwood

Staff Discussion Notes showcase the latest policy-related analysis and research being developed by individual IMF staff and are published to elicit comment and to further debate. These papers are generally brief and written in nontechnical language, and so are aimed at a broad audience interested in economic policy issues. This Web-only series replaced Staff Position Notes in January 2011.

What’s In a Name? That Which We Call Capital Controls International Monetary Fund

Capital mobility is a double-edged sword for emerging economies, as governments must weigh the benefits of investment against the potential economic costs and political consequences of currency crises, devaluations, and instability. Financial Markets Volatility and Performance in Emerging Markets addresses the delicate balance between capital mobility and capital controls as developing countries navigate the convoluted global network of private investors, hedge funds, large corporations, and international institutions such as the International Monetary Fund. A group of experts here examine rapidly globalizing financial markets with regard to capital flows and crises, domestic credit, international financial integration, and economic policy. Featuring detailed analyses and cross-national comparisons of countries such as Brazil, Argentina, Uruguay, and Korea, this book will shape economists’ and policymakers’ understanding of the effectiveness of restrictions on capital mobility in the world’s most fragile economies.

Brazil International Monetary Fund

Some scholars argue that the free movement of capital across borders enhances welfare; others claim it represents a clear peril, especially for emerging nations. In Capital Controls and Capital Flows in Emerging Economies, an esteemed group of contributors examines both the advantages and the pitfalls of restricting capital mobility in these emerging nations. In the aftermath of the East Asian currency crises of 1997, the authors consider mechanisms that eight countries have used to control capital inflows and evaluate their effectiveness in altering the maturity of the resulting external debt and reducing macroeconomic vulnerability. This volume is essential reading for all those interested in emerging nations and the costs and benefits of restricting international capital flows.

Capital Flows to Brazil-The Endogeneity of Capital Controls International Monetary Fund

This dissertation comprises four main chapters that examine issues surrounding capital flows and capital controls. Chapter 1 outlines the dissertation. Chapter 2 discusses several key themes in the literature on capital flows and capital controls. First, I discuss and compare the measures of capital flows and how they are commonly used. I show that net capital flows provide relevant information on investment-saving decisions. However, net capital flows may provide a false sense of security. Gross flows, on the other hand, provide information that is more relevant to financial stability. Second, I summarize various risks associated with capital flows into two broad categories and relate them to policy objectives against which the efficacy of capital controls is evaluated. I show that various macroeconomic risks associated with capital flows could be broadly grouped into (1) loss of export competitiveness and (2) increased financial instability. In terms of policy objectives, the main policy objectives are whether capital controls are able to (1) reduce real exchange market pressures, and (2) allow for a more independent monetary policy, (3) reduce the volume of capital flows, (4) alter the compositions of capital flows toward longer-maturity flows, and (5) reduce the frequency of disruptive adjustments such as currency crises and severe output loss. Third, I compare the framework used to document capital controls to the framework used to document capital flows. In doing so, I draw the de jure connections between measures of capital flows and measures of capital controls. Not only do the connections help one classify capital controls, but they also identify the exact types of capital flows that various types of capital controls intend to regulate. Fourth, I discuss major capital control indices in terms of the main considerations that are commonly involved to construct these indices, including (1) what to measure, (2) what asset categories to cover, (3) what data sources to use, and (4) what coding algorithms and weighting schemes to use to convert raw data to composite indices. Fifth, I compare and contrast major publicly-available capital control indices both at the world level and at a country level for selected countries (Brazil and South Korea). Finally, I synthesize studies on the effectiveness of capital controls and summarize possible factors that may have contributed to the inconclusiveness of the results from the existing studies. By surveying the literature, I find that possible factors include difficulties in (1) measuring capital controls, (2) obtaining capital flow data with high frequency, (3) standardizing the scope of capital flows, (4) addressing the selection bias problem, and (5) controlling for circumvention of capital controls and institutional quality. Chapter 3 examines whether countries with capital controls are less likely to experience capital surges and capital stops. I use a propensity score matching method to address the issue of selection bias, which arises when observations with capital controls have distinct characteristics that influence both the probability of imposing capital controls and the probability of experiencing capital surges and stops. These distinct characteristics, when not properly controlled for, can give rise to a biased estimate of the effect of capital controls. I use a propensity score matching method on a large data set of country-time observations. The data set encompasses both developed and developing countries and covers the period 1995-2016. The results of Chapter 3 show that capital controls may be effective, but only for observations that have not imposed capital controls. In addition, only capital controls that involve the use of inflow controls appear to be effective. Chapter 4 addresses why some episodes of gross inflow surges ended in financial crises. Using a common set of 53 countries that include both advanced and emerging countries, I show that both global factors (such as investors' risk aversion) and domestic factors (such as domestic credit growth, foreign exchange reserves, institutional quality, and capital controls) play roles in explaining the endings of surge episodes. The effect of capital controls depends on a country's institutional quality. For countries with lower institutional quality, imposing capital controls does not decrease the probability of hard landing. Capital controls only start to contribute to a lower probability of hard landings when the institutional quality of a country is above a threshold. Chapter 5 examines the spillover effects of foreign-implemented capital controls. I propose-from a domestic country's perspective-that foreign-implemented capital controls can affect domestic capital flows in the flowing ways. First, foreign-implemented inflow controls may reduce domestic outflows going into these foreign countries, due to the bilateral linkages between these foreign countries and the domestic country (the domestic-outflow-reduction hypothesis). Second, foreign-implemented outflow controls may reduce the domestic inflows from these foreign countries, again due to the bilateral linkages between these foreign countries and the domestic country (hereafter, the domestic-inflow-reduction hypothesis). Third, foreign-implemented inflow controls may deflect capital flows-originally going to these foreign countries-to the domestic country (hereafter, the deflection hypothesis). The findings of this chapter support the existence of spillover effects. For the three hypotheses, I find that tightening of foreign-implemented inflow controls-measured by increases in trade-weighted and geographic-proximity-weighted inflow control indices of other countries in the rest of the world-reduces domestic outflows, while tightening of foreign-implemented outflow controls-measured by increases in trade-weighted and geographic-proximity-weighted outflow control indices of other countries in the rest of the world-reduces domestic inflows. In addition, tightening of inflow controls implemented in foreign countries-measured by finance-weighted capital control indices of other countries in the rest of the world-divert capital inflows away from the domestic country. The results suggest that foreign-implemented capital controls have signaling effects on domestic capital flows via common lenders. When one country implements inflow capital controls, the policy actions prompt the common lenders to perceive that other countries with similar borrowing patterns are likely to become less supportive of foreign investment. As such, global investors retreat their investment, leading to reductions in domestic inflows.

The Consequences of the Global Financial Crisis University of Chicago Press

This book provides a comprehensive investigation of the messy and crisis-ridden relationship between the operations of capitalist finance, global capital flows, and state power in emerging markets. The politics, drivers of emergence, and diversity of these myriad forms of state power are explored in light of the positionality of emerging markets within the network of space and power relations that characterises contemporary global finance. The book develops a multi-disciplinary perspective and combines insights from Marxist political economy, post-Keynesian economics, economic geography, and postcolonial and feminist International Political Economy. Alami comprehensively reviews the theories, histories, and geographies of cross-border finance management, and develops a conceptual framework which allows unpacking the complex entanglement of constraint and opportunities, of growing integration and tight discipline, that cross-border finance represents for emerging markets. Extensive fieldwork research provides an in-depth comparative critical interrogation of the policies and regulations deployed in Brazil and South Africa. This volume will be especially useful to those researching and working in the areas of international political economy, contemporary geographies of money and finance, and critical development studies. It should also prove of interest to policy makers, practitioners, and activists concerned with the relation between finance and development in emerging markets and beyond.

Capital Flows and Controls in Brazil Springer

Economists and policymakers are still trying to understand the lessons recent financial crises in Asia and other emerging market countries hold for the future of the global financial system. In this timely and important volume, distinguished academics, officials in multilateral organizations, and public and private sector economists explore the causes of and effective policy responses to international currency crises. Topics covered include exchange rate regimes, contagion (transmission of currency crises across countries), the current account of the balance of payments, the role of private sector investors and of speculators, the reaction of the official sector (including the multilaterals), capital controls, bank supervision and weaknesses, and the roles of cronyism, corruption, and large players (including hedge funds). Ably balancing detailed case studies, cross-country comparisons, and theoretical concerns, this book will make a major contribution to ongoing efforts to understand and prevent international currency crises.

Capital Controls Cornell University Press

A political-economic investigation of the use of capital controls and successful industrial policy in two newly industrializing countries--one Asian, one Latin American.

Managing Large-Scale Capital Inflows International Monetary Fund

This paper borrows the tradition of estimating policy reaction functions from monetary policy literature to ask whether capital controls respond to macroprudential or mercantilist motivations. I explore this question using a novel, weekly dataset on capital control actions in 21 emerging economies from 2001 to 2015. I introduce a new proxy for mercantilist motivations: the weighted appreciation of an emerging-market currency against its top five trade competitors. This proxy Granger causes future net initiations of non-tariff barriers in most countries. Emerging markets systematically respond to both mercantilist and macroprudential motivations. Policymakers respond to trade competitiveness concerns by using both instruments—inflow tightening and outflow easing. They use only inflow tightening in response to macroprudential concerns. Policy is acyclical to foreign debt; however, high levels of this debt reduces countercyclicality to mercantilist concerns. Higher exchange rate pass-through to export prices, and having an inflation targeting regime with non-freely floating exchange rates, increase responsiveness to mercantilist concerns.

Recent Experiences in Managing Capital Inflows—Cross-Cutting Themes and Possible Policy Framework International Monetary Fund

In Ruling Capital, Kevin P. Gallagher demonstrates how several emerging market and developing countries (EMDs) managed to reregulate cross-border financial flows in the wake of the global financial crisis, despite the political and economic difficulty of doing so at the national level. Gallagher also shows that some EMDs, particularly the BRICS coalition, were able to maintain or expand their sovereignty to regulate cross-border finance under global economic governance institutions. Gallagher combines econometric analysis with in-depth interviews with officials and interest groups in select emerging markets and policymakers at the International Monetary Fund, the World Trade Organization, and the G-20 to explain key characteristics of the global economy. Gallagher develops a theory of countervailing monetary power that shows how emerging markets can counter domestic and international opposition to the regulation of cross-border finance. Although many countries were able to exert countervailing monetary power in the wake of the crisis, such power was not sufficient to stem the magnitude of unstable financial flows that continue to plague the world economy. Drawing on this theory, Gallagher outlines the significant opportunities and obstacles to regulating cross-border finance in the twenty-first century.

Capital Account Convertibility International Monetary Fund

We analyze the Brazilian experience in the 1990s to assess the effectiveness of controls on capital inflows in restricting financial inflows and changing their composition towards long term flows. Econometric exercises (VARs) showed that controls on capital inflows were effective in deterring financial inflows for only a brief period, from two to six months. The hypothesis to explain the ineffectiveness of the controls is that financial institutions performed several operations aimed at avoiding capital controls. To check this hypothesis, we conducted interviews with market players. We collected several examples of the financial strategies engineered to avoid the capital controls and invest in the Brazilian fixed income market. The main conclusion is that controls on capital inflows, while they may be desirable, are of very limited effectiveness under sophisticated financial markets.

Review of Experience and Implications for IMF Policies Anthem Press

This paper estimates the effectiveness of capital controls in response to inflow surges in Brazil, Colombia, Korea, and Thailand in the 2000s. Controls are generally associated with a decrease in inflows and a lengthening of maturities, but the relationship is not statistically significant in all cases, and the effects are temporary. Controls are more successful in providing room for monetary policy than dampening currency appreciation pressures. We argue that the macroeconomic impact of capital controls depends on the extensiveness of the policy, the level of capital market development, the support provided by other policies, and the persistence of capital flows.

Global Capital Flows International Monetary Fund

Foreign exchange intervention is widely used as a policy tool, particularly in emerging markets, but many facets of this tool remain limited, especially in the context of flexible exchange rate regimes. The Latin American experience can be informative because some of its largest countries adopted floating exchange rate regimes and inflation targeting while continuing to intervene in foreign exchange markets. This edited volume reviews detailed accounts from several Latin American countries' central banks, and it provides insight into how and with what aim many interventions were decided and implemented. This book documents the effectiveness of intervention and pays special attention to the role of foreign exchange intervention policy within inflation-targeting monetary frameworks. The main lesson from Latin America's foreign exchange interventions, in the context of inflation targeting, is that the region has had a considerable degree of success. Transparency and a clear communication policy have been key. For economies that are not highly dollarized, rules-based intervention helped contain financial instability and build international reserves while preserving inflation targets. The Latin American experience can help other countries in the design and implementation of their policies.

Money Power and Financial Capital in Emerging Markets University of Chicago Press

This paper focuses on the coordination problem among borrowing countries imposing controls on capital infl ows. In a simple model of capital flows and controls, we show that inflow restrictions distort international capital flows to other countries and that, in turn, such capital flow deflection may lead to a policy response. We then test the theory using data on inflow restrictions and gross capital inflows for a large sample of developing countries between 1995 and 2009. Our estimation yields strong evidence that capital controls deflect capital flows to other borrowing countries with similar economic characteristics. Notwithstanding these strong cross-border spillover effects, we do not find evidence of a policy response.

Financial System Stability Assessment Routledge

The book examines the rapid growth and dramatic changes in capital flows globally and to emerging markets. In the context of relevant economic theory, it analyses benefits and costs of large and volatile capital flows to developing countries; the latter includes damaging currency crises as the Mexican and East Asian economies. The book makes innovative proposals on how best national governments - and especially - international organisations can avoid such crises.

Estimated Policy Rules for Capital Controls International Monetary Fund

Emerging markets (EMs) are experiencing a surge in capital inflows, lifting asset prices and growth prospects. While inflows are typically beneficial for receiving countries, inflow surges can carry macroeconomic and financial stability risks. This paper reviews the recent experience of EMs in dealing with capital inflows and suggests a possible framework for IMF policy advice on the spectrum of measures available to policymakers to manage inflows, including macroeconomic policies, prudential measures and capital controls. Illustrative applications of this framework suggest that it may be appropriate for several countries, based on their current circumstances, to consider prudential measures or capital controls in response to capital inflows. The suggested framework is intended to inform staff policy advice to all Fund members with open capital accounts. It forms part of a broader effort to sharpen Fund surveillance, preserve evenhandedness, and foster greater global policy coordination. As indicated in the Supplement to this paper, this broader effort includes the development of “global rules of the game” on macroprudential policies, capital account liberalization, and reserve adequacy, and the preparation of spillover reports assessing spillovers from the five systemic economies—all of which will inform the current and broader framework being developed.

Global Financial Governance Confronts the Rising Powers International Monetary Fund

Controls on capital inflows have been experiencing a renaissance since 2008, with several prominent emerging markets implementing them. We focus on Brazil, which instituted five changes in its capital account regime in 2008-2011. Using the synthetic control method, we construct counterfactuals (i.e., Brazil with no policy change) for each of these changes. We find no evidence that any tightening of controls was effective in reducing the magnitudes of capital inflows, but we observe some modest and short-lived success in preventing further declines in inflows when the capital controls were relaxed. We hypothesize that price-based capital controls' only perceptible effect is to be found in the content of the signal they broadcast regarding the government's larger intentions and sensibilities. Brazil's left-of-center government's willingness to remove controls was perceived as a noteworthy indication that the government was not as hostile to the international financial markets as many expected it to be.