



Capital controls and macroprudential measures: what are they good for?

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Disclaimer: the views expressed here are those of the presenter
and are not necessarily shared by the BIS.

Should central banks give up on CFMs?

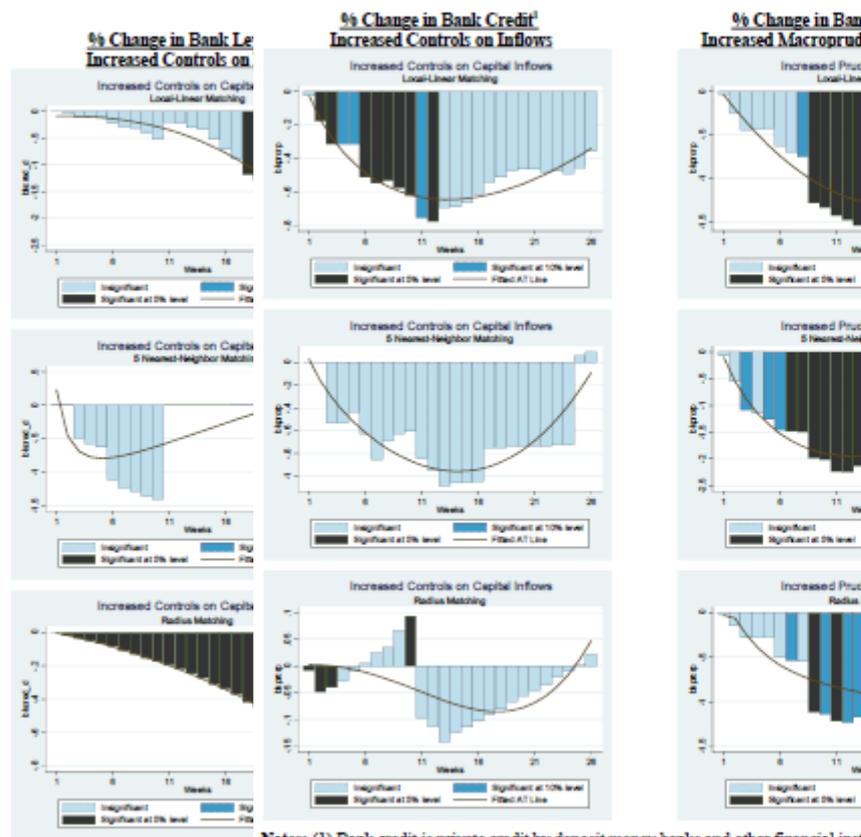
No

Should central banks give up on CFMs?

NO!

1) Because they're successful

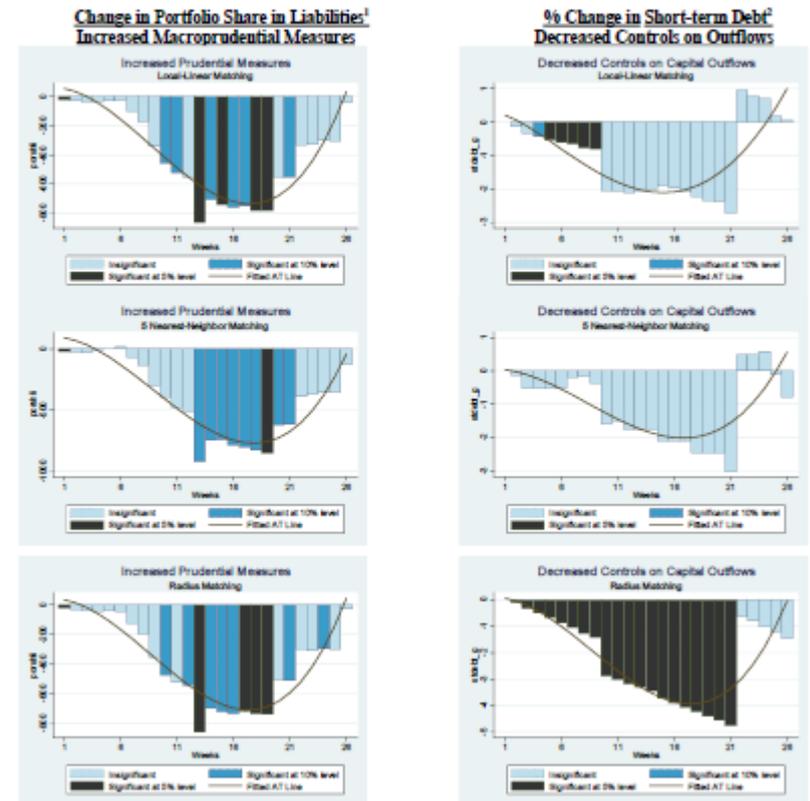
Fig
Average Treatment Effects of



Notes: (1) Bank leverage measured

Notes: (1) Bank credit is private credit by deposit money banks and other financial inst

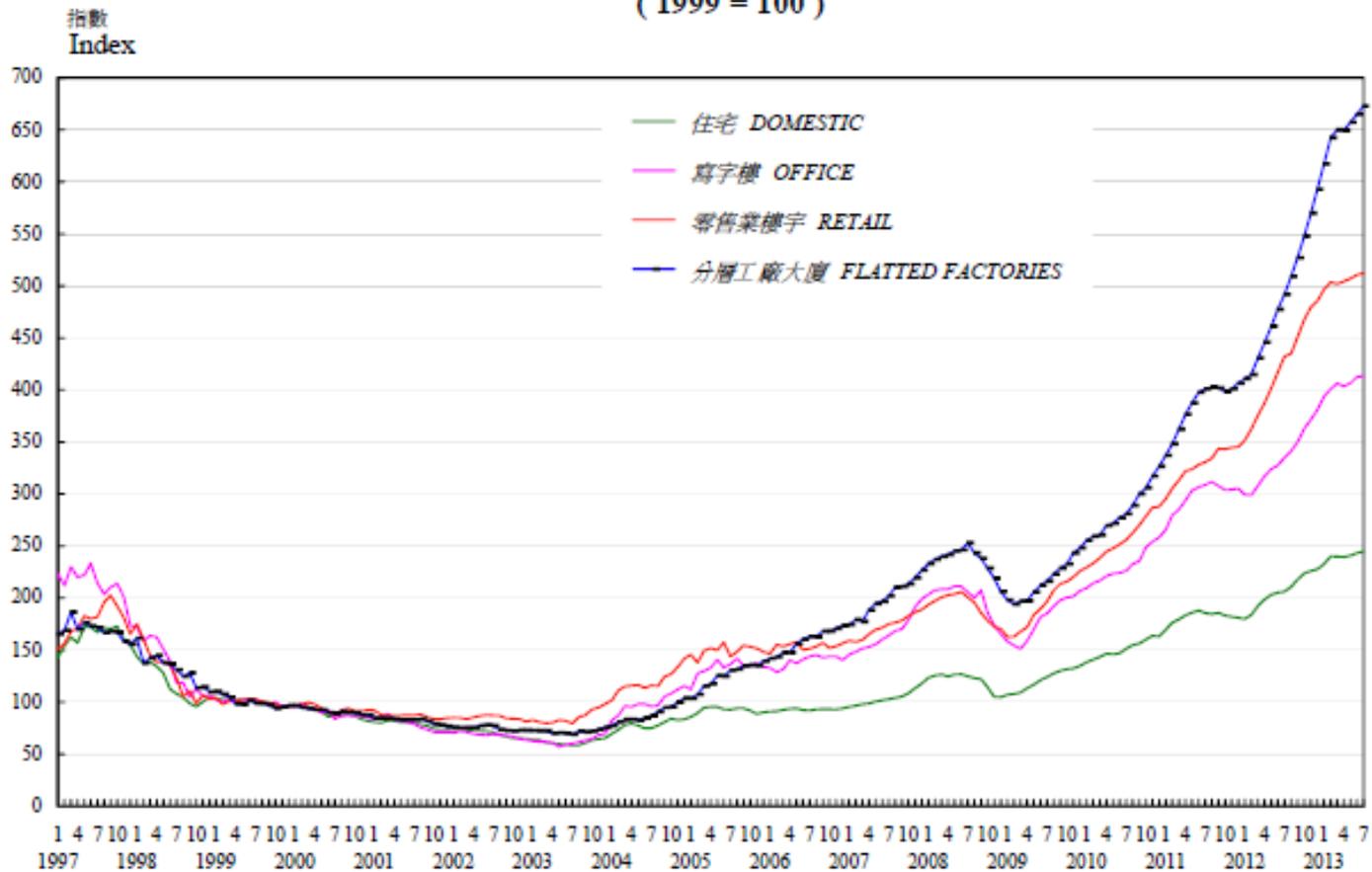
Figure 5c
Average Treatment Effects of CFMs: Financial Vulnerabilities



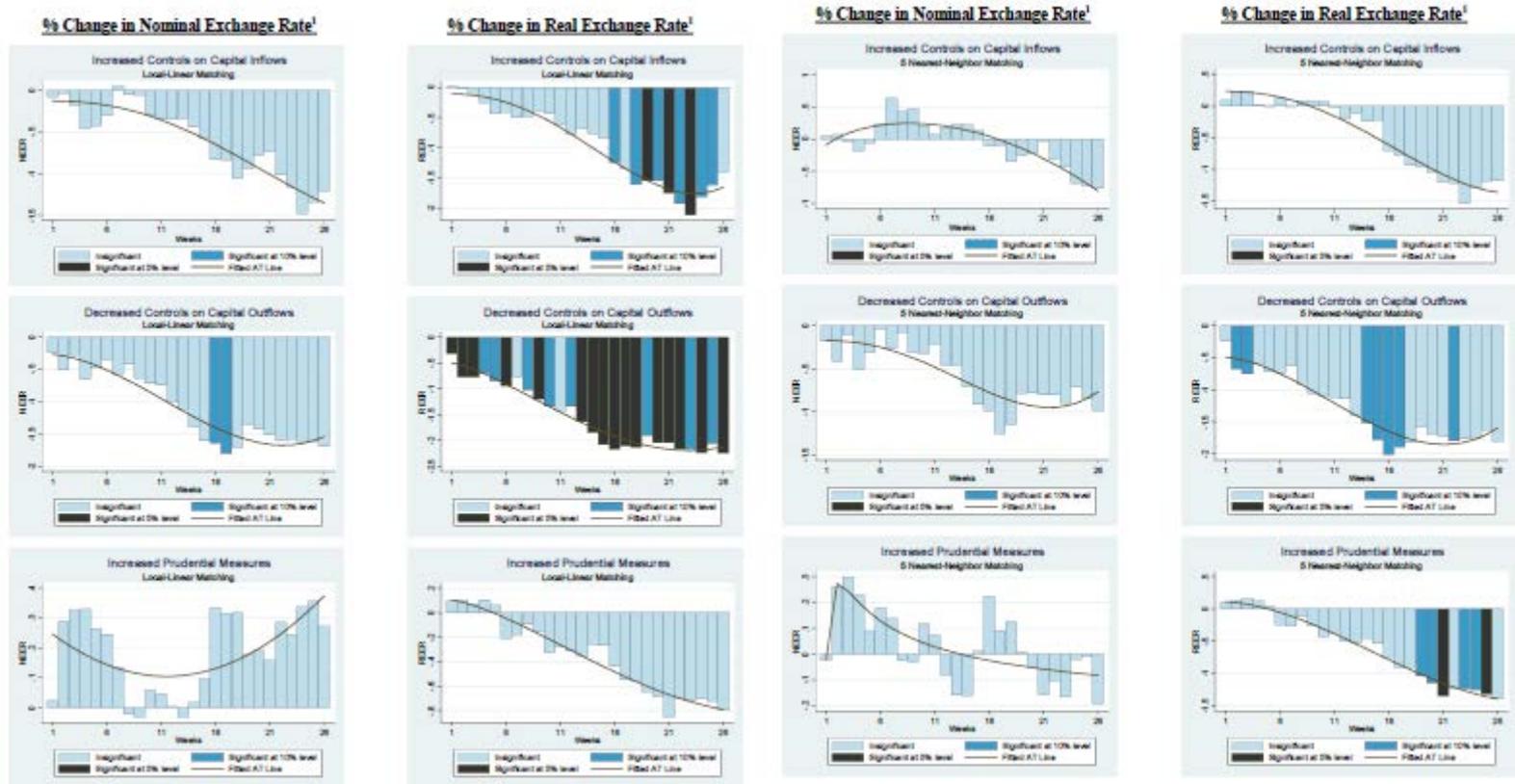
Notes: (1) Portfolio investment liabilities as a share of total liabilities. (2) Measured as a share of GDP.

1) Because they're successful

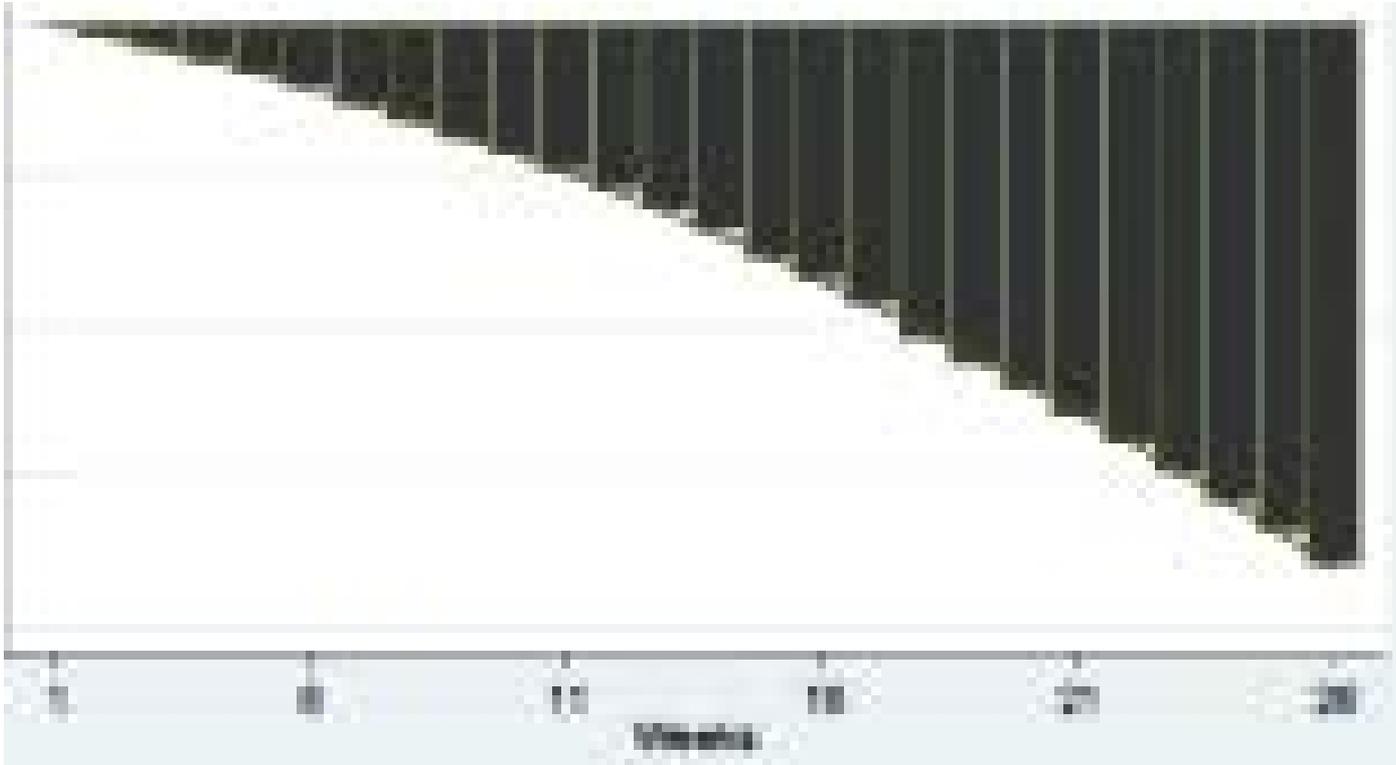
香港物業售價指數
PRICE INDICES FOR HONG KONG PROPERTY MARKET
(1999 = 100)



2) Because they DO affect exchange rates



2) Because they DO affect exchange rates



3) The effect on exchange rates is understated

Table 1
Capital Flow Measures

	Controls on Inflows		Controls on Outflows		Macroprudential Measures		Related to Pressures From Capital:		
	-	+	-	+	-	+	Outflows	Inflows	Total
Argentina	3	2	3	1	2	1	6	6	12
Brazil	1	7	0	0	0	2	1	9	10
Bulgaria	1	0	1	0	0	0	1	1	2
Chile	0	0	1	0	0	0	0	1	1
China	4	0	2	0	2	0	6	2	8
Colombia	1	0	1	1	1	2	3	3	6
Côte d'Ivoire	0	0	0	1	0	0	1	0	1
Croatia	1	0	3	1	3	2	5	5	10
Czech Republic	0	0	1	0	0	1	0	2	2
Ecuador	0	0	0	1	0	0	1	0	1
Ghana	0	0	0	0	0	1	0	1	1
Hungary	0	0	0	0	1	2	1	2	3
India	4	0	0	0	1	2	5	2	7
Indonesia	0	2	0	0	0	4	0	6	6
Israel	0	0	0	0	0	2	0	2	2
Jamaica	0	0	0	0	1	2	1	2	3
Kazakhstan	1	0	2	1	1	1	3	3	6
Kenya	0	0	0	0	0	1	0	1	1
Korea (South)	0	2	1	0	0	6	0	9	9
Latvia	0	0	0	0	0	2	0	2	2
Lebanon	0	0	1	0	0	2	0	3	3
Malaysia	2	0	3	0	3	0	5	3	8
Mexico	1	0	0	0	0	0	1	0	1
Morocco	0	0	2	0	3	0	3	2	5
Nigeria	1	0	0	0	0	0	1	0	1
Oman	0	0	1	0	0	0	0	1	1
Pakistan	0	1	0	0	1	1	1	2	3
Peru	0	1	0	0	2	14	2	15	17
Philippines	1	0	3	0	3	0	4	3	7
Romania	0	0	0	0	3	1	3	1	4
Russia	0	0	0	0	0	9	0	9	9
South Africa	4	0	8	0	1	0	5	8	13
Sri Lanka	2	0	2	0	1	0	3	2	5
Taiwan	0	0	0	0	0	2	0	2	2
Thailand	0	1	2	0	1	0	1	3	4
Tunisia	0	0	1	0	1	0	1	1	2
Turkey	0	0	2	0	5	4	5	6	11
Ukraine	2	1	1	0	11	5	13	7	20
Vietnam	0	4	0	1	2	3	3	7	10
Total	29	21	42	7	49	72	85	135	220

Notes: The “-” denotes the removal or easing of a control or macroprudential measure and the “+” denotes the addition or tightening of measure. Countries included in the sample which do not have a CFM event are: Australia, Bahrain, Botswana, Canada, Denmark, Egypt, Hong Kong, Jordan, Kuwait, Lithuania, New Zealand, Norway, Panama, Poland, Qatar, Singapore, Sweden, Switzerland, Trinidad & Tobago, United Arab Emirates, and Zambia.

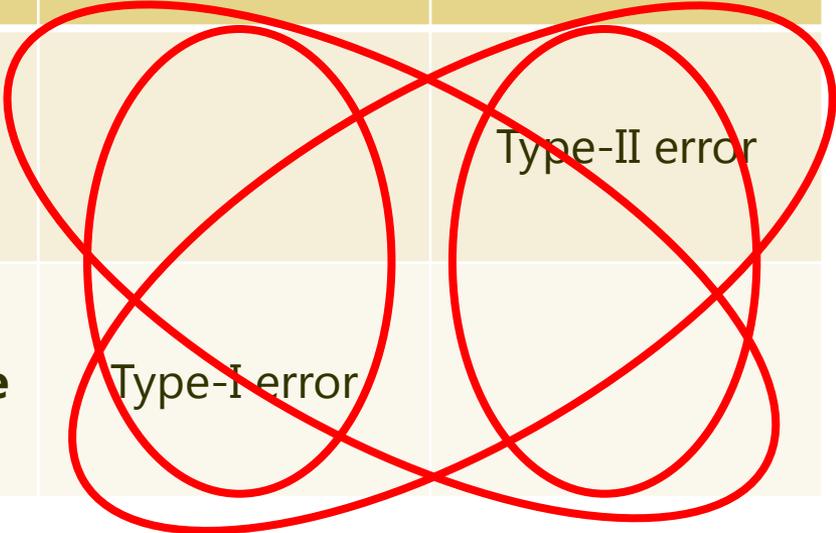
3) The effect on exchange rates is understated

	Controls on Inflows		Controls on Outflows		Macroprudential Measures		Related to Pressures From Capital:		Total
	-	+	-	+	-	+	Outflows	Inflows	
Korea (South)	0	2	1	0	0	6	0	9	9

Countries included in the sample which do not have a CFM event are:
New Zealand

4) The matches are the wrong ones for policymakers

	Should have initiated	Should not have initiated
Did initiate		Type-II error
Did not initiate	Type-I error	



A modest proposal on match-checking...

Variables that affect the decision to impose capital controls	
Variables that should affect the economic consequences	Variables that shouldn't affect the economic consequences
<i>X</i>	<i>Y</i>
Banking sector capitalisation	Historical use of capital controls
Fiscal position	Concurrent use in region
Foreign exchange reserves	System of government
Current account	...
Policy rate differentials	
Inflation rate	
Global risk ...	

A modest proposal on match-checking...

- Estimate:

$$P = aX + bY + \varepsilon$$

- Require: good fit of overall equation
- Match economies based on aX

Other points...

- Capital controls are introduced for one of two reasons:
 - To prevent a crisis from getting worse
 - To reduce overheating due to inflowsConsider each separately?
- Sample period 2009-11: exceptional period
 - Can the results be generalised?