



## **Rethinking Macro Policy II: Capital Account Management**

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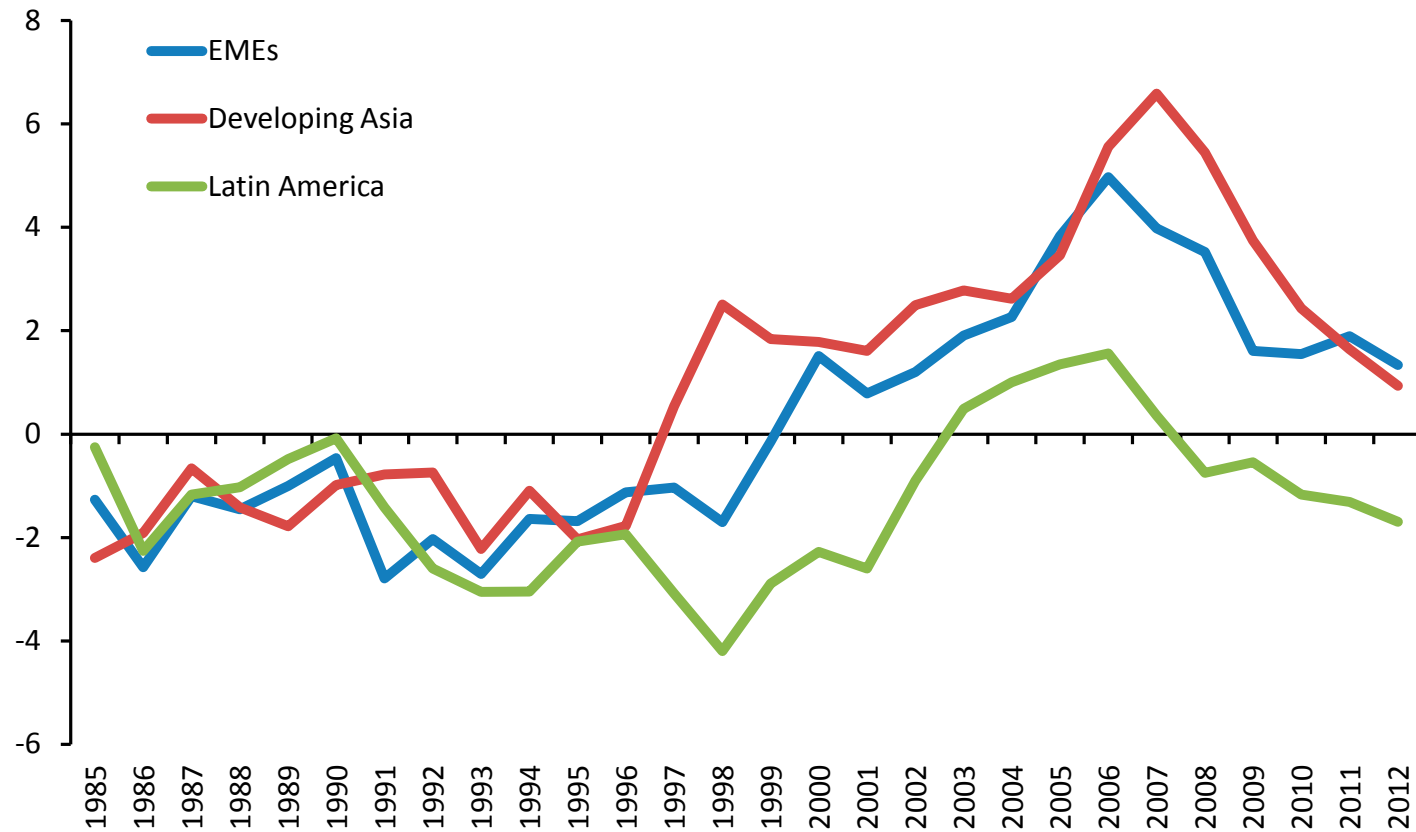
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# **RETHINKING MACRO POLICY II: CAPITAL ACCOUNT MANAGEMENT**

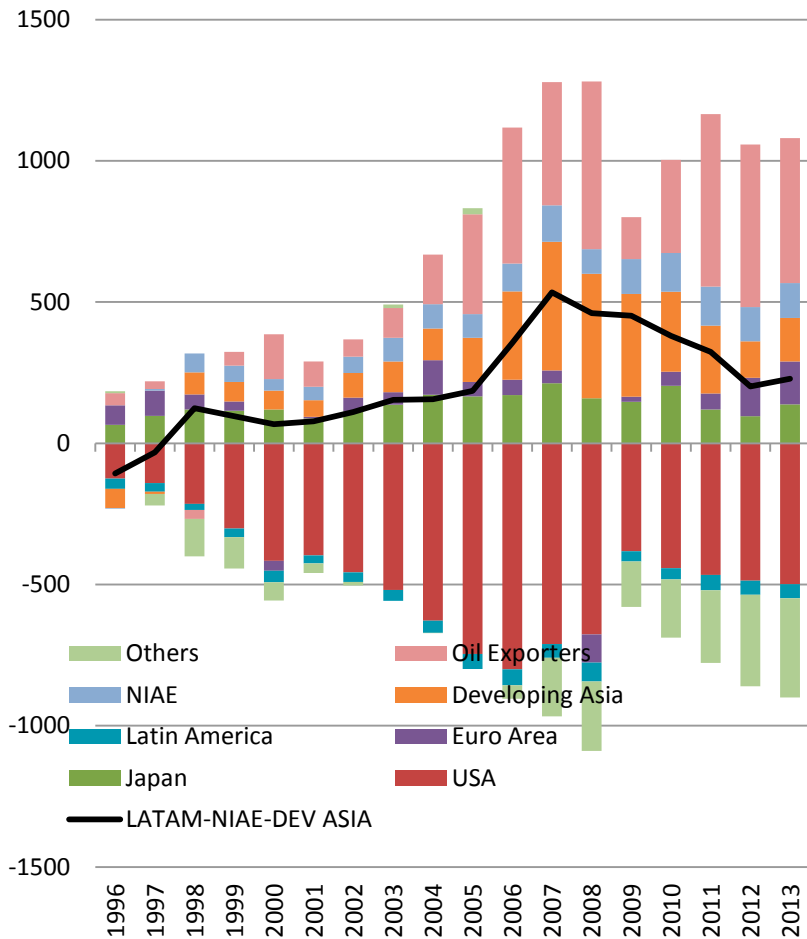
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# Current account deficits (% of GDP)



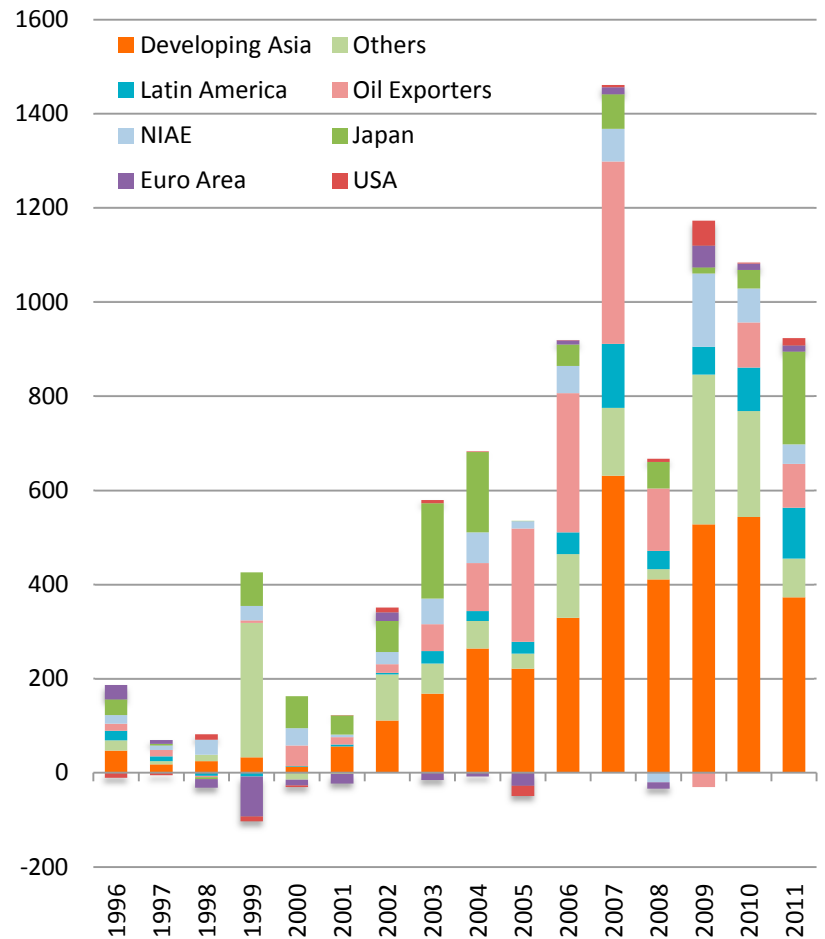
# Current account deficits (billion US dollars)

## Current account



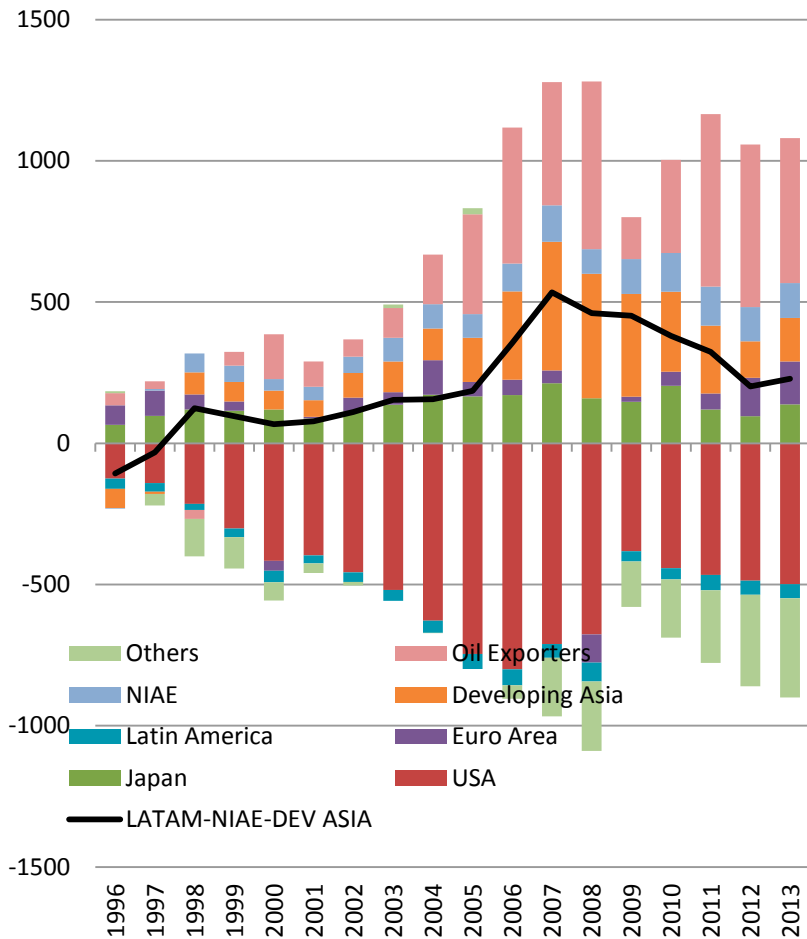
Source: WEO-database and IFS, IMF.

## Reserve accumulation



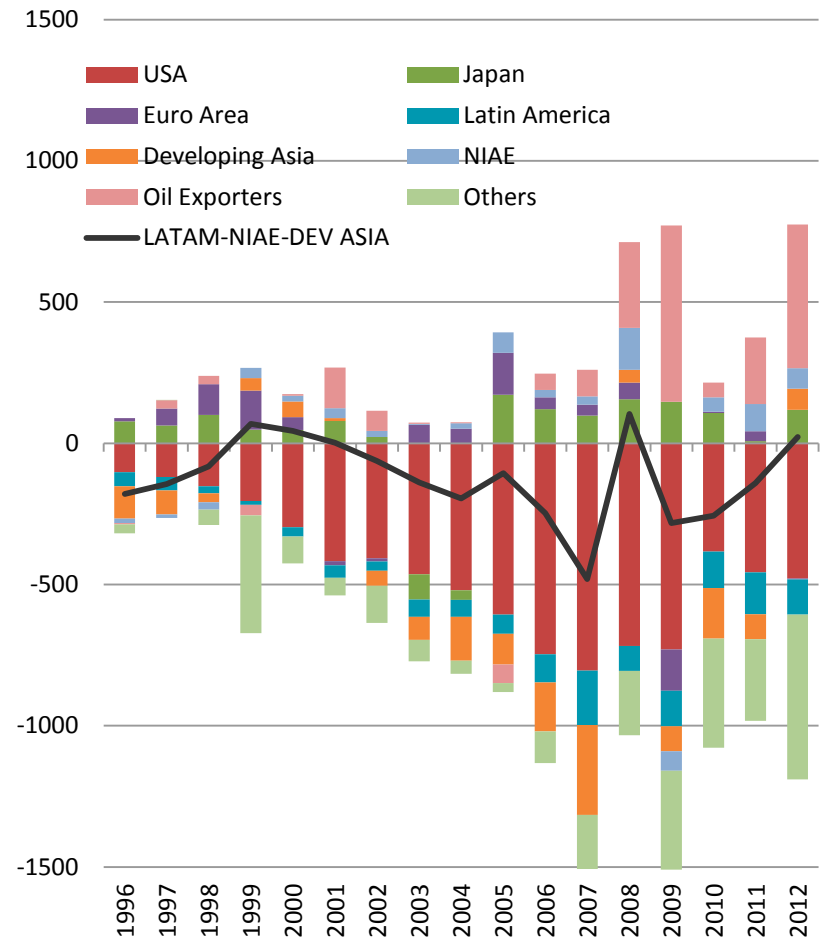
# Current account deficits (billion US dollars)

## Current account



Source: WEO-database and IFS, IMF.

## -Reserve accumulation + CA



# Surges of capital inflows (% of GDP)

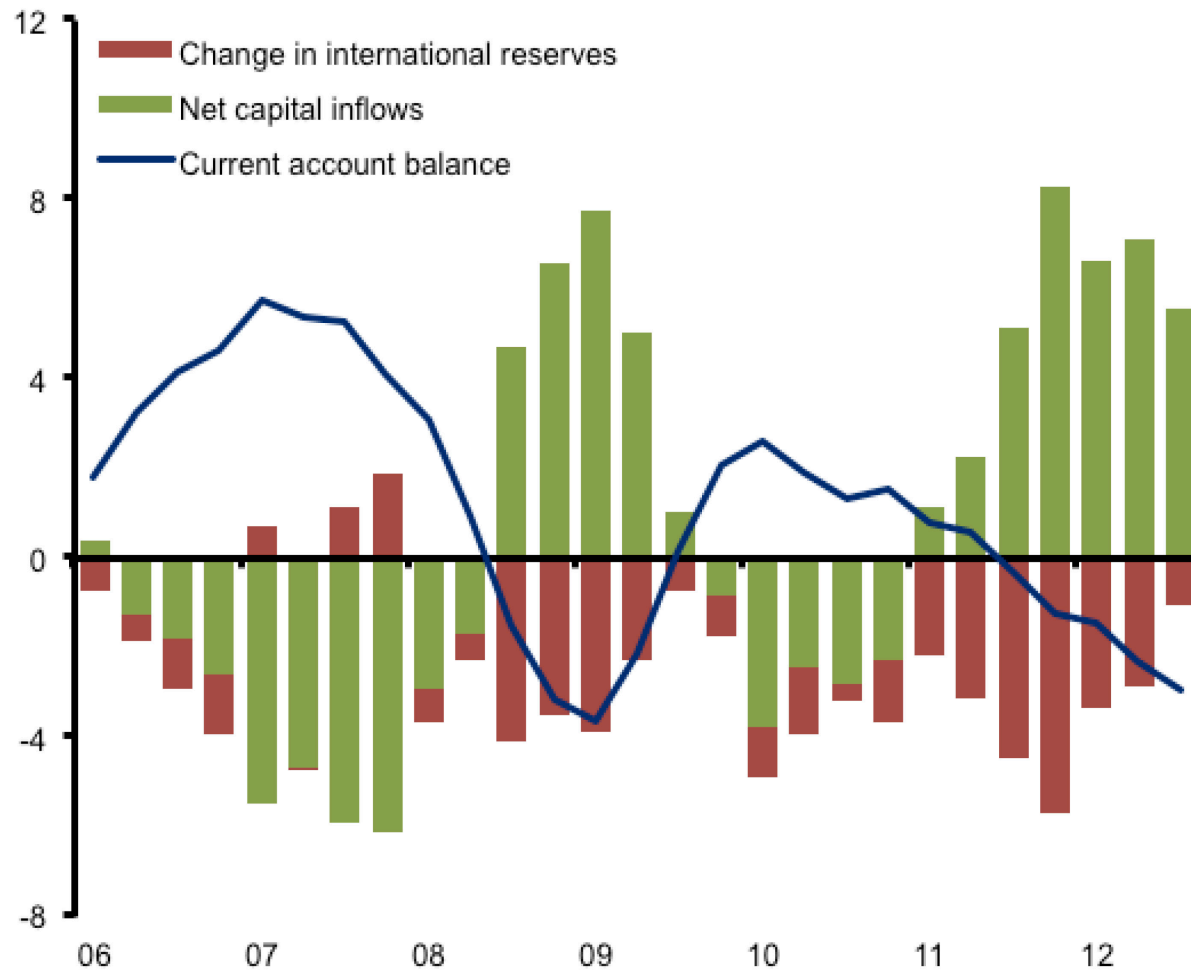
		Net Capital Inflows	Current Account	Change in Reserves
LATAM	1990s	7.5	-4.6	2.5
	2000s	6.7	-1.7	4.2
Asia	1990s	7.6	-4.8	2.8
	2000s	3.7	3.2	5.6
Europe	1990s	11.0	-6.4	4.4
	2000s	17.3	-10.5	3.1

Sources: Ghosh et al. (2012) for Net Capital Inflows and IMF-IFS for current account and reserves accumulation.

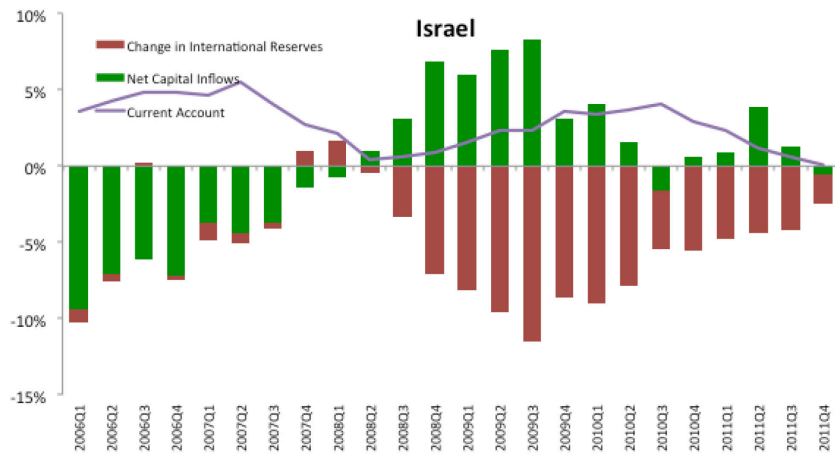
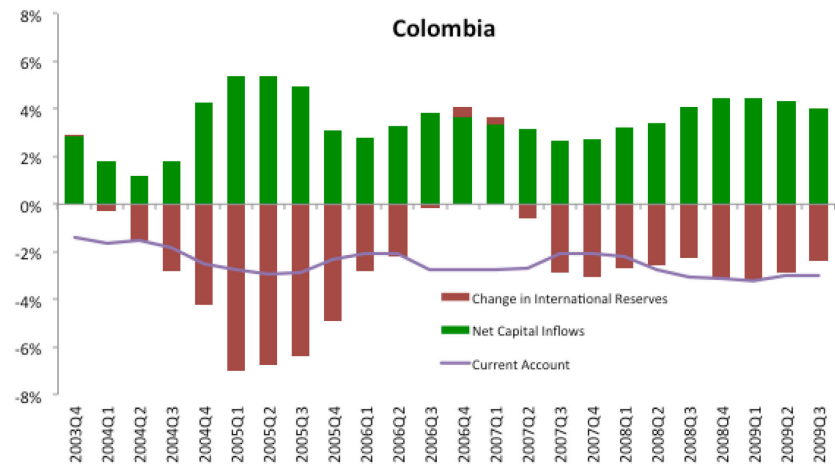
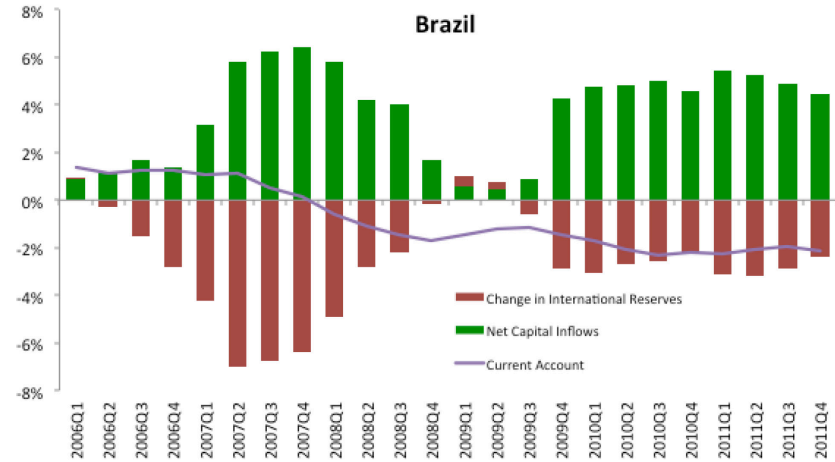
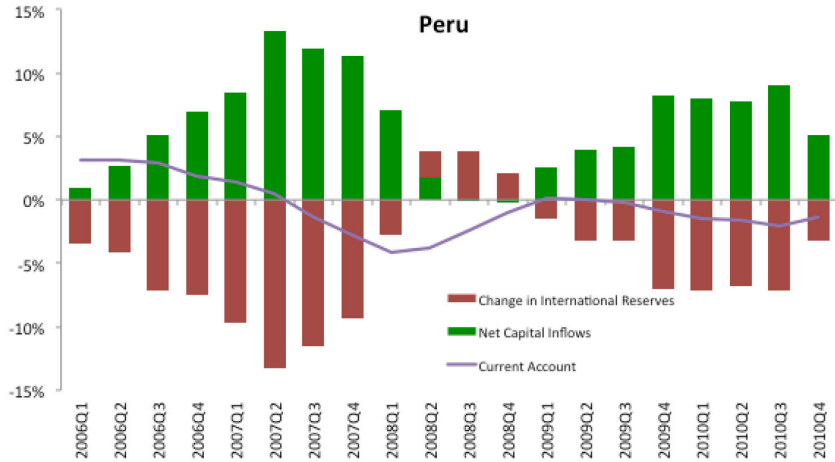
$$CA + FA = \Delta R$$

The diagram illustrates the decomposition of the change in reserves ( $\Delta R$ ) into its components. On the left, the equation  $CA + FA = \Delta R$  is shown. To the right, the term  $\Delta R$  is positioned. Two blue arrows originate from  $\Delta R$ : one points upwards and to the right towards the term  $\alpha CA$ , and the other points downwards and to the right towards the term  $(1-\alpha)FA$ .

# Chile: current account and inflows

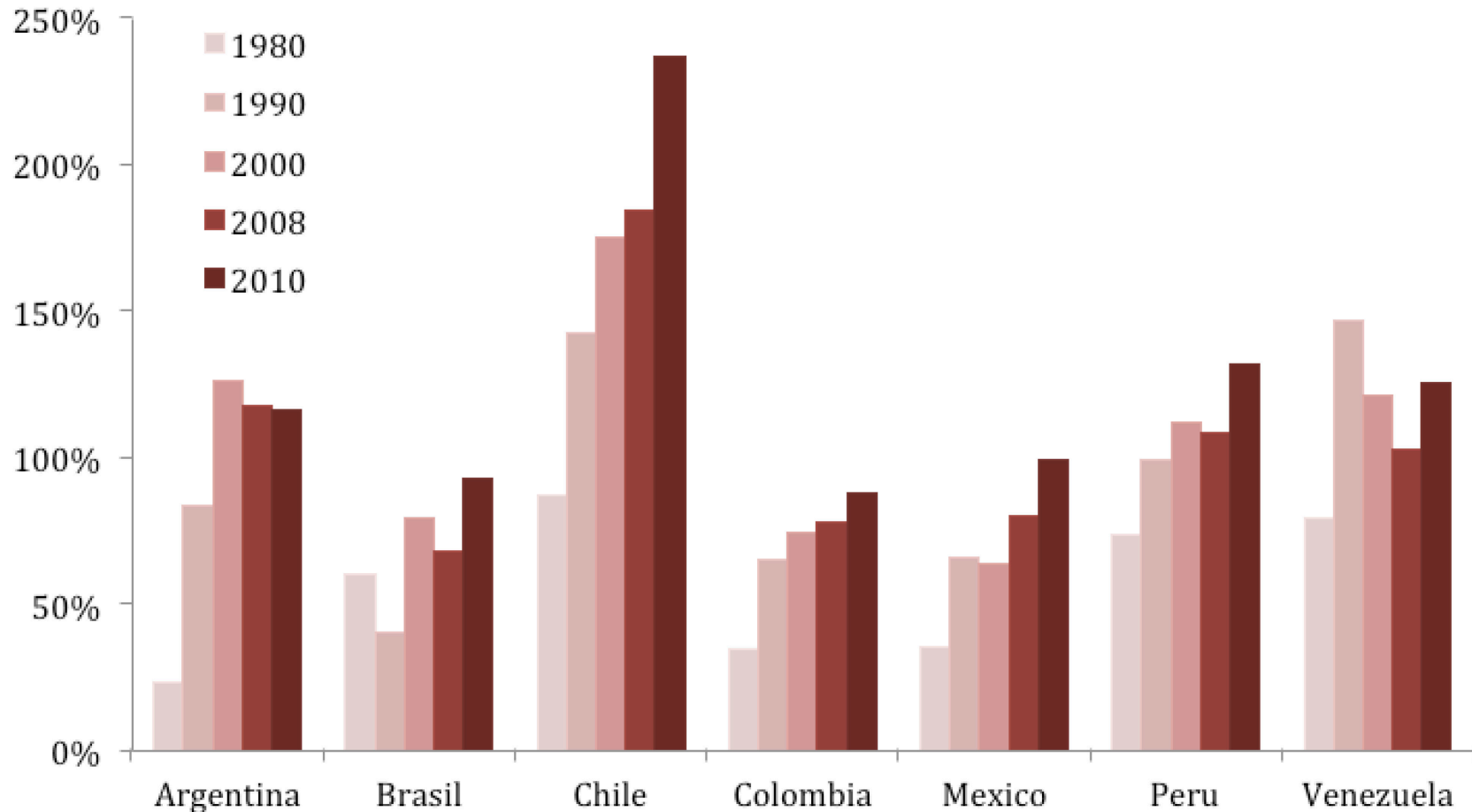


# Other countries: current account and inflows



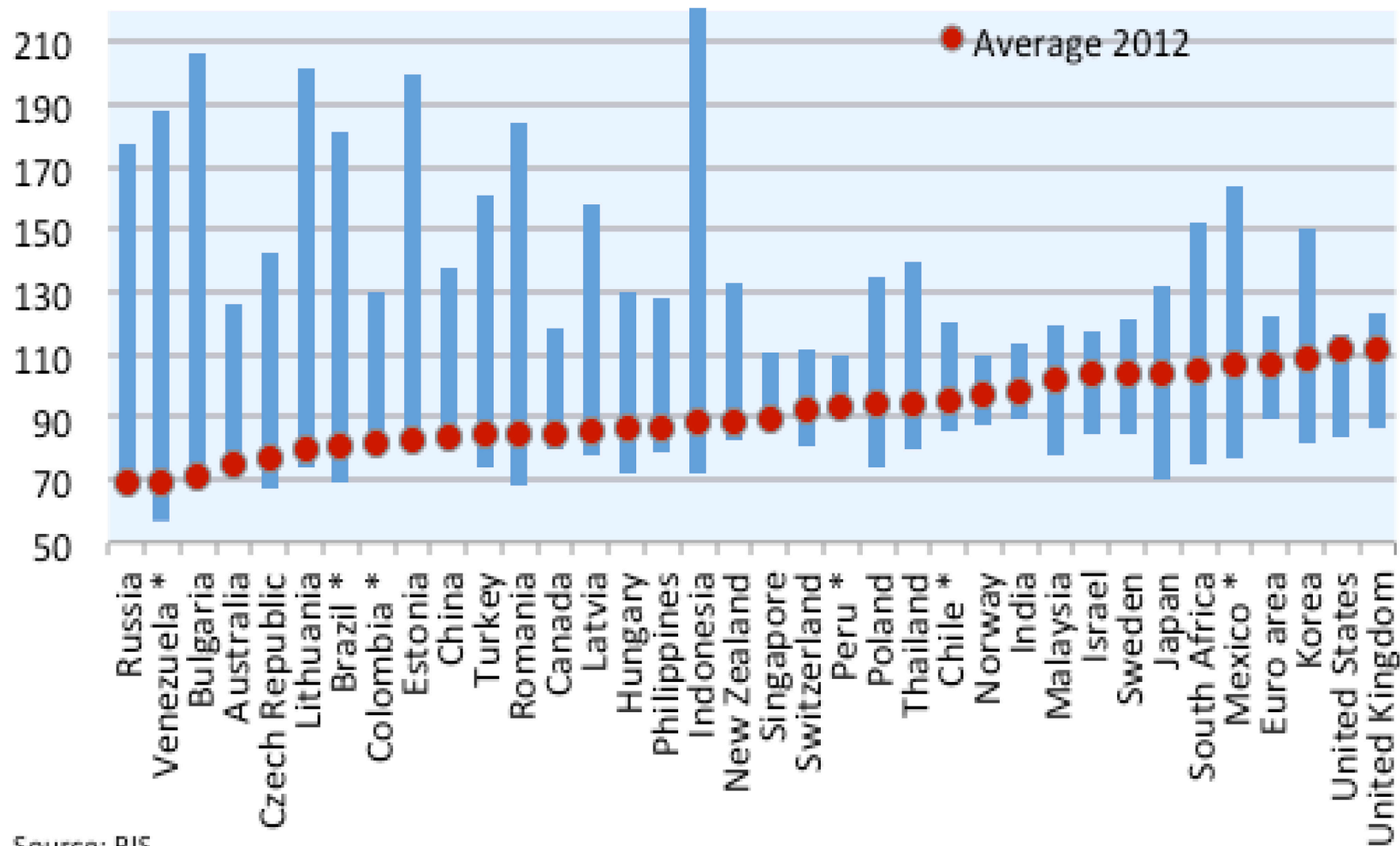


# Latin America: Financial opening (foreign assets plus liabilities as % of GDP)



Source: Lane and Milesi-Ferretti.

## Real effective exchange rates (1994-2012)



Source: BIS

