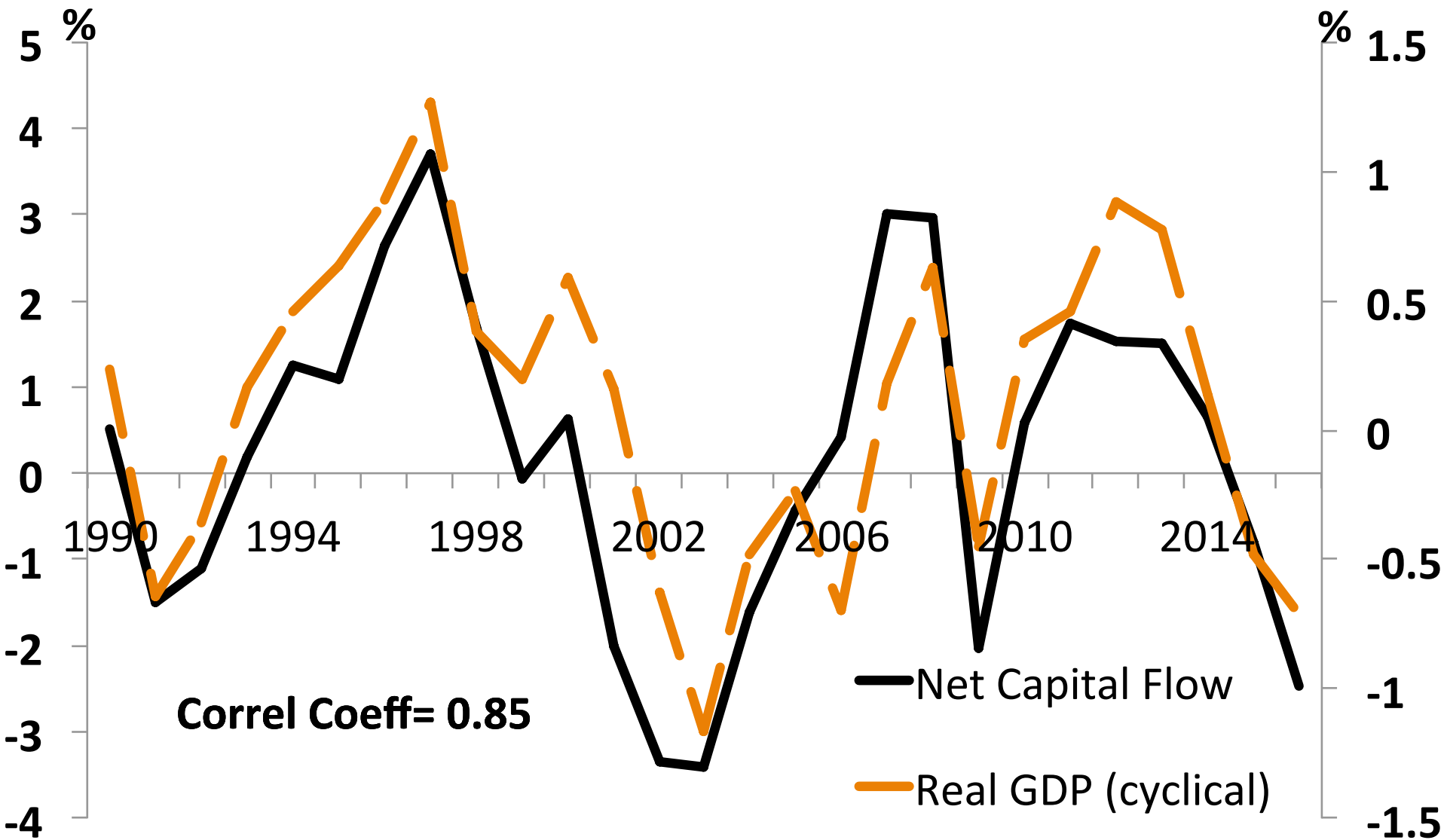


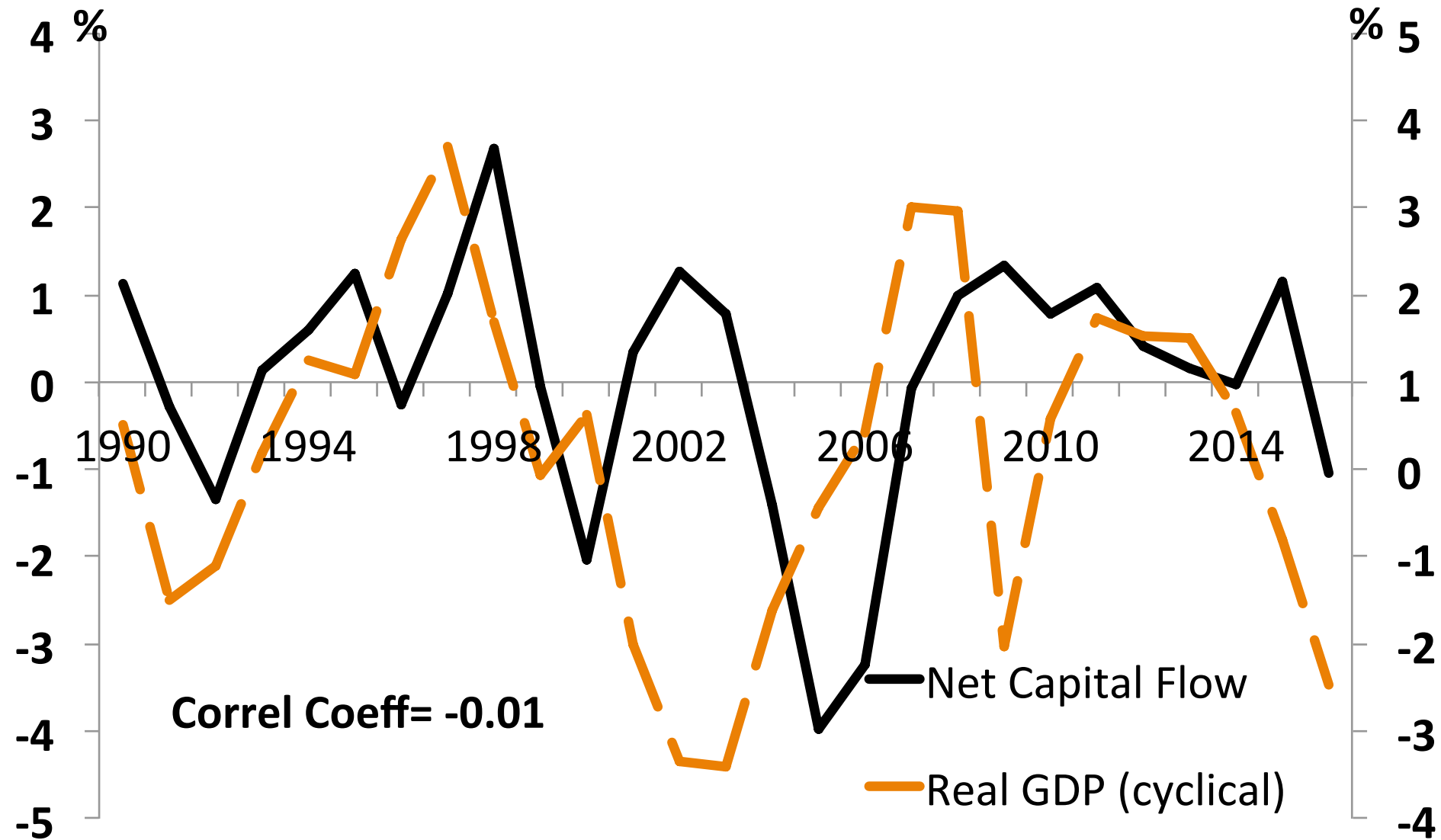
Recent Experiences with Capital Flows in Low-Income Countries

Gita Gopinath
Harvard

PROCYCLICAL CAPITAL FLOWS EMERGING MARKETS

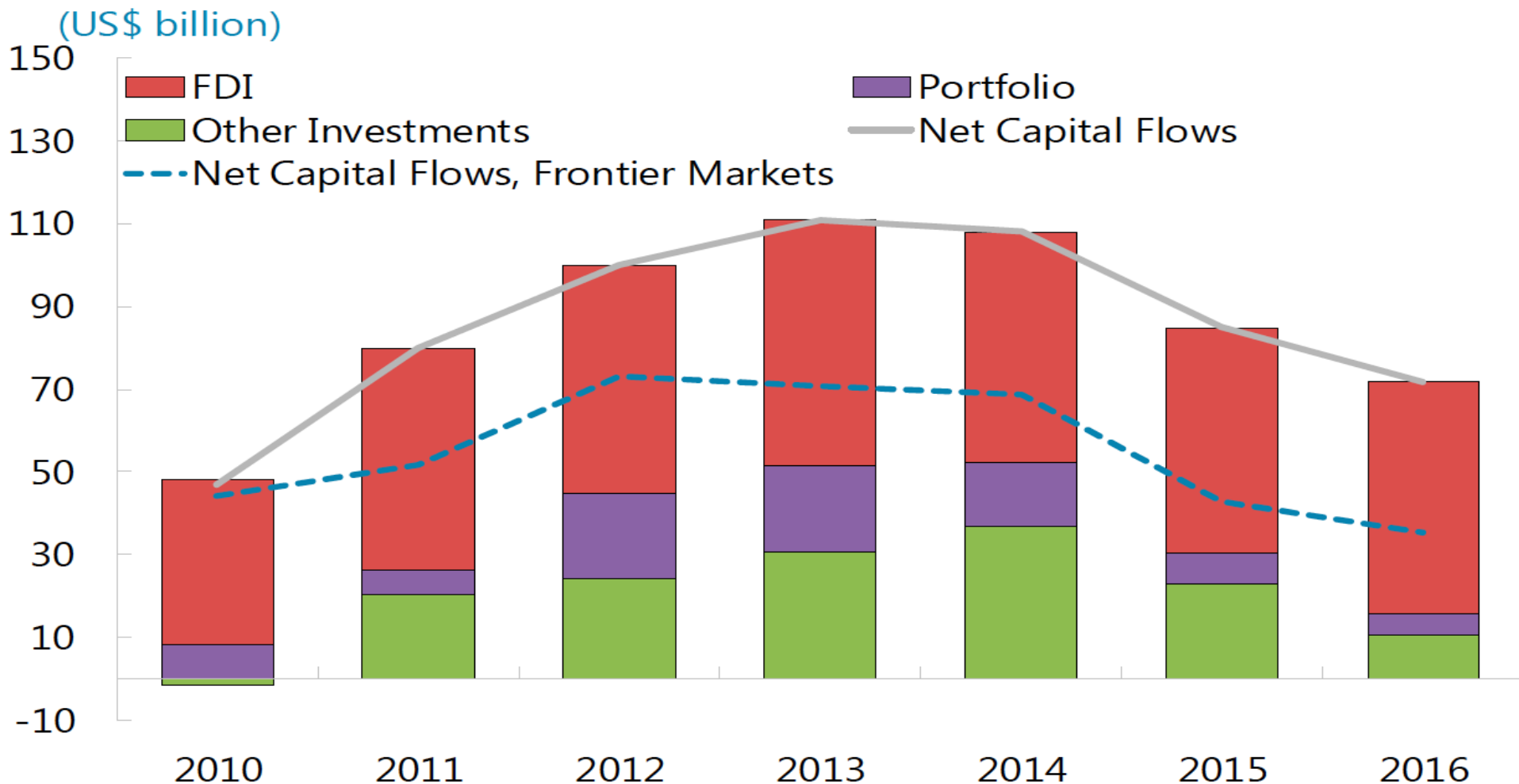


ACYCLICAL CAPITAL FLOWS LOW INCOME COUNTRIES



RECENT RISE IN PRO-CYCLICALITY IN LIC?

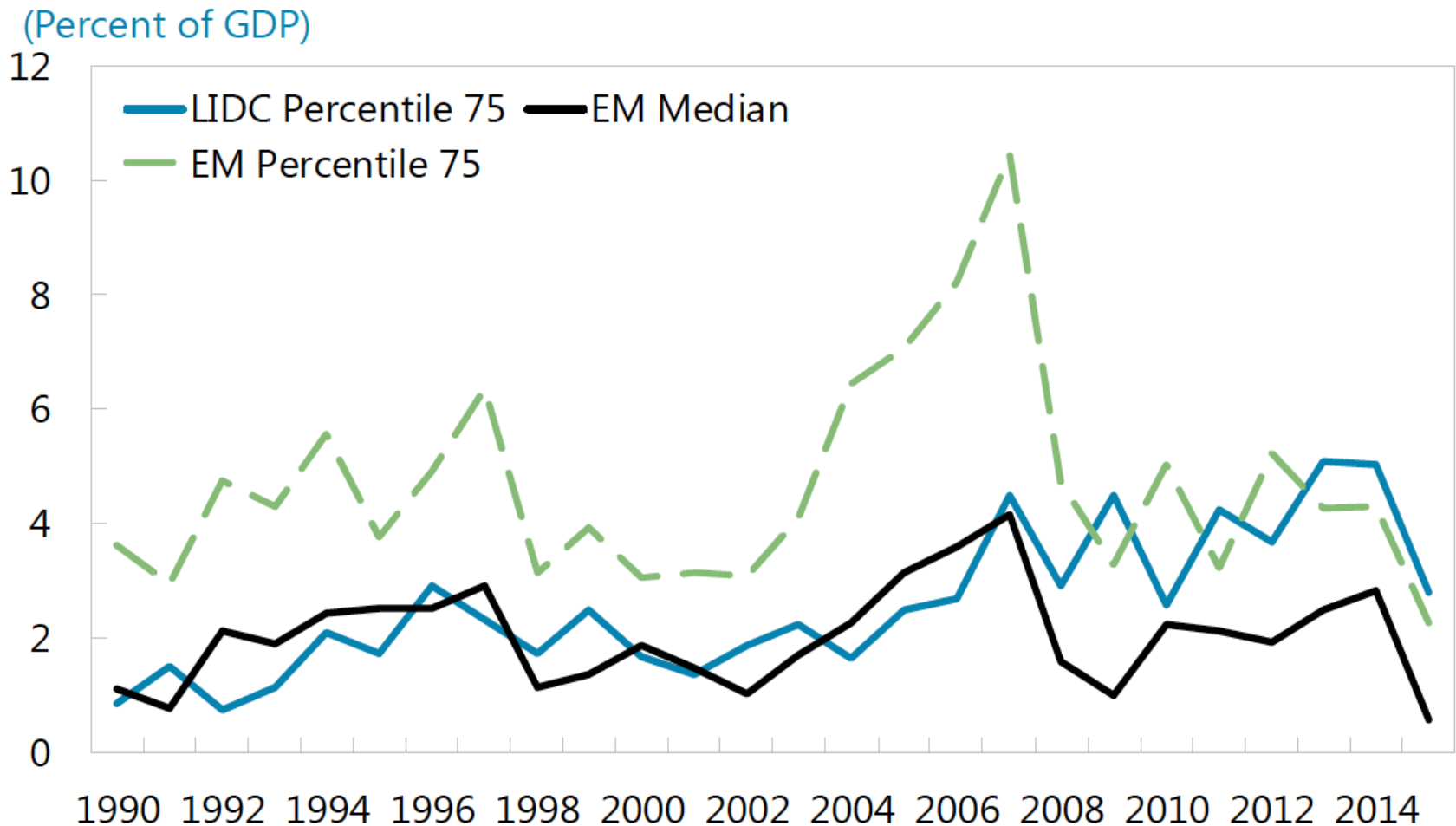
Trend in Non-FDI Flows since 2010



Sources: IMF, World Economic Outlook, and IMF staff estimates.

RECENT RISE IN PRO-CYCLICALITY IN LIC?

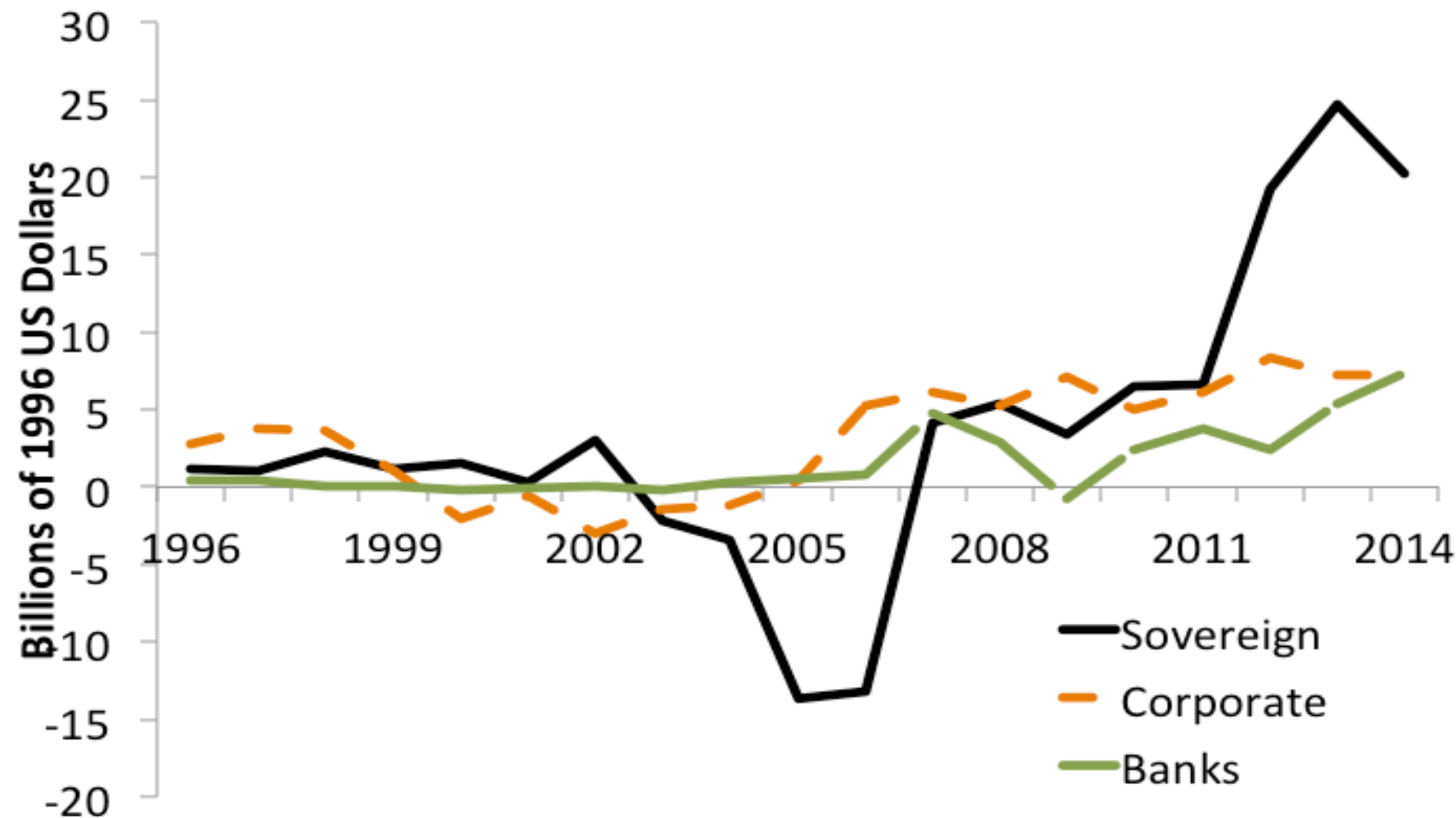
Growing Importance of Private Non-FDI Flows for LIC



Source: Update based on Araujo et al. (2015).

RECENT RISE IN PRO-CYCLICALITY IN LIC?

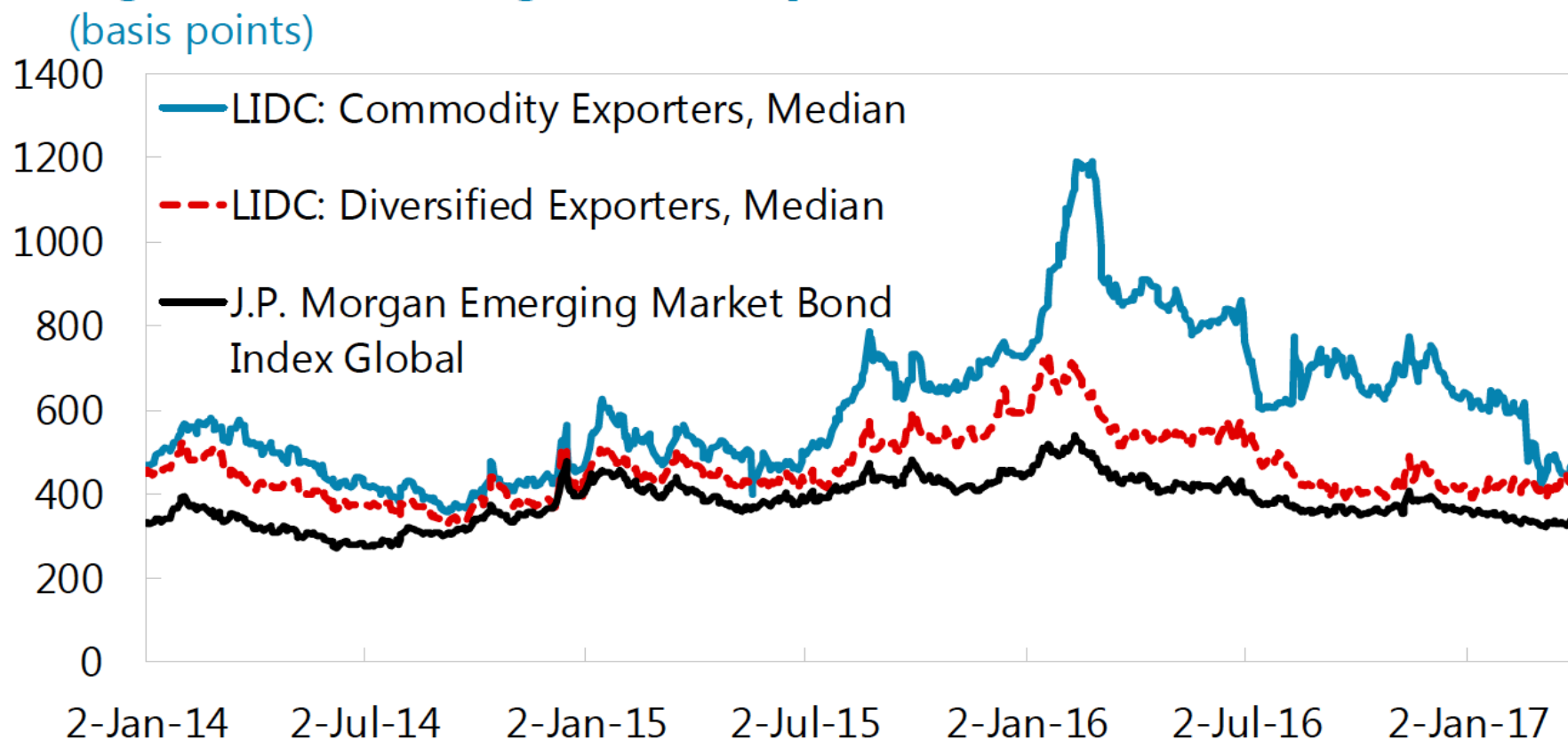
Sovereign borrowing a main driver



Data from Advjiev, Hardy, Kalemli-Ozcan, Serven (2017)

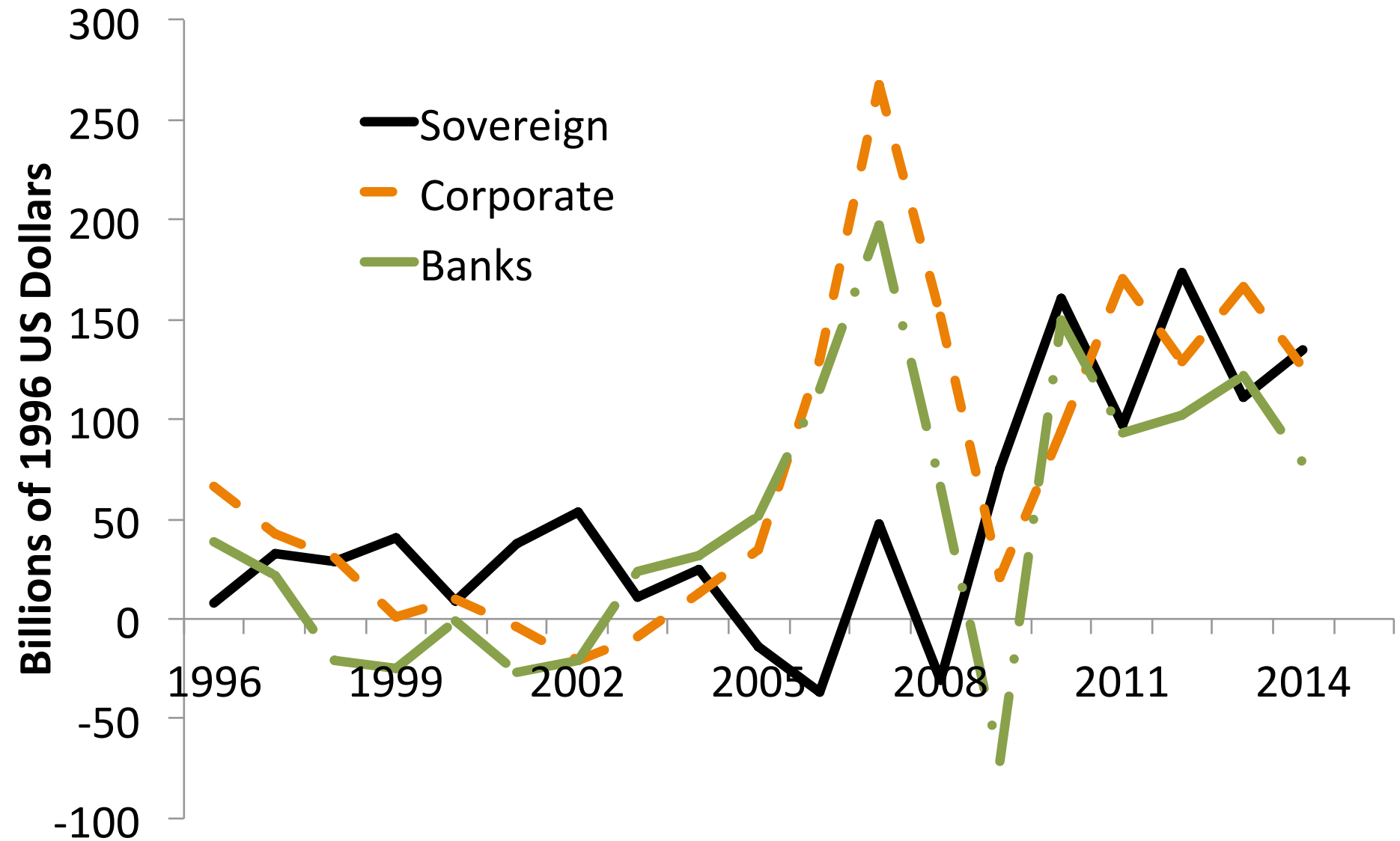
SOVEREIGN BORROWING MAIN DRIVER

Countercyclical Sovereign Bond Spreads



Note: The sample of LIDCs comprises - Bolivia, Mongolia, Mozambique, Nigeria, and Zambia (commodity exporters); Cote d'Ivoire, Ethiopia, Ghana, Honduras, Kenya, Senegal, Tanzania and Vietnam (diversified exporters).

UNLIKE EMERGING MARKETS



Data from Advjiev, Hardy, Kalemli-Ozcan, Serven (2017)

DRIVERS OF RECENT CAPITAL FLOWS

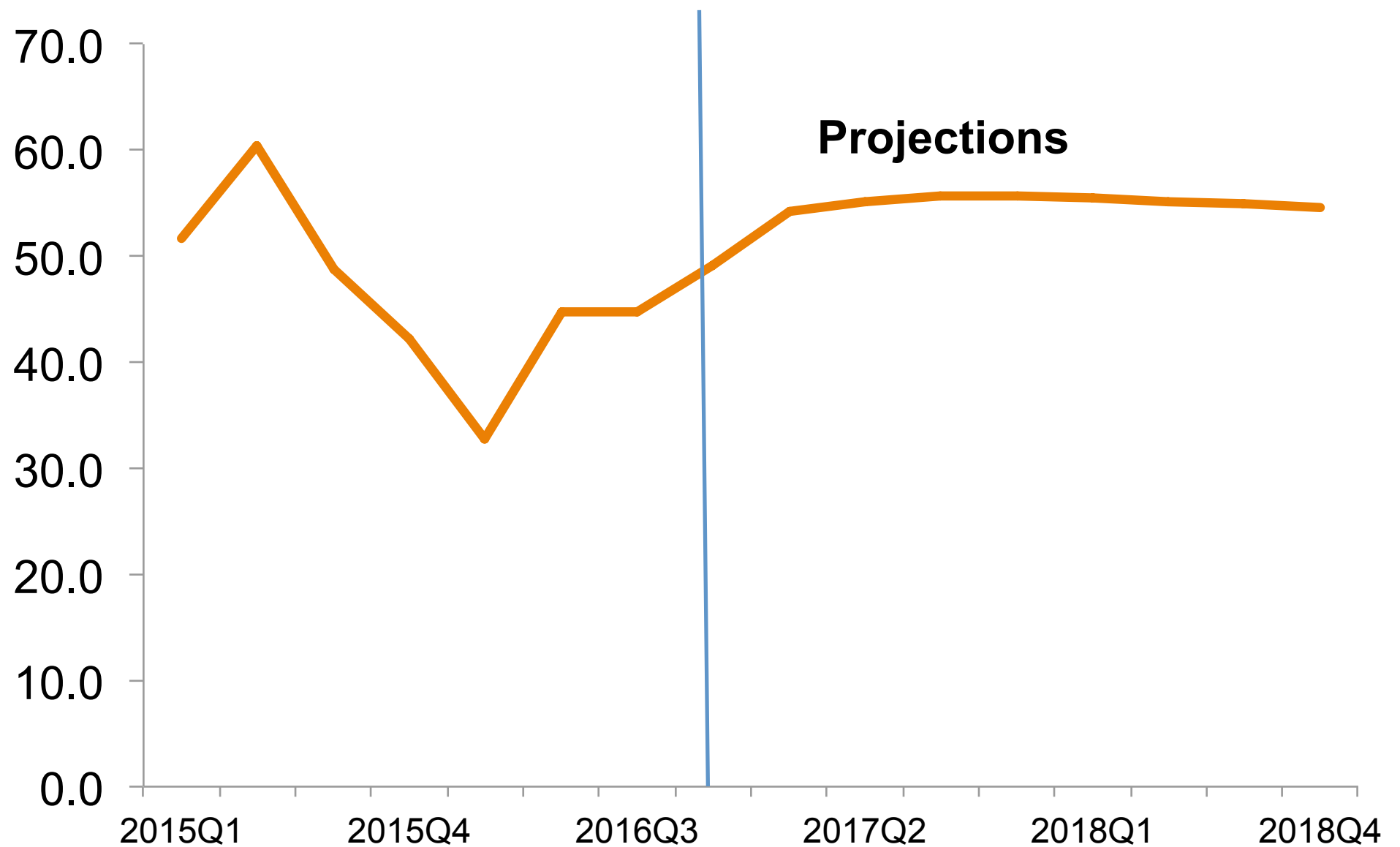
UPSWING: 2010-2014

- ADVANCED ECONOMIES MONETARY POLICY
- LOW PERCEIVED RISK (VIX)
- RISING COMMODITY PRICES
- RESILIENCE OF DEVELOPING ECONOMIES TO 2008 CRISIS

DOWNSWING: POST 2014

- FALL IN COMMODITY PRICES
- MONETARY POLICY NORMALIZATION IN THE U.S.

Crude Oil Prices Projections



POLICY CHALLENGES FOR LIC

1. DIVERSIFICATION OF FORMS OF FOREIGN CAPITAL
 - i. FDI, Portfolio, Loans
 - ii. Sovereign, Private
2. MANAGE VOLATILITY AND RISKS OF FOREIGN CAPITAL
 - i. Procyclicality
 - ii. Maturity, Currency
 - iii. Macro-prudential policy
3. MACROECONOMIC POLICY AND GROWTH
 - i. Diversification of sources of growth