

# How does international capital flow?

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Fifth Annual Workshop: ESCB Research Cluster 2

November 18, 2021

Danmarks Nationalbank

## 3-Slides summary of the paper:

### Theoretical model (2-country DSGE) to:

- Track domestic and cross-border gross positions (+ net positions)
  - ▶ Crucial role played by the banking system through gross liabilities
- Formalize the distinction between cross-border saving and financing
  - ▶ Role of cross-border bank loans and deposits
- Main contribution: a conceptual framework to analyze, contemporaneously, gross (and net) flows statistical moments

# Main insights

- Global saving glut: not be caused by foreign's savings as they could not explain the strong increase in gross domestic and cross-border balance sheet positions (and volatility)
- Sudden stops are an issue for the size of gross liabilities - current account improvements are a consequence, not a driver
- The supply of global dollars is due to bank credit extensions, independently on CA deficits
- The correlation between gross outflows and inflows is a by-product of double entry bookkeeping

# My simplified intuition

- The banking system has the power of creating money (money multiplier argument enlarged to an open economy)
  - ▶ By changing loans and deposits they change the supply of money, affecting gross flows and spreading financial shocks (vs. standard interpretation of net inflows creating money supply)

## Crucial ingredients:

- Banks can instantaneously increase loans in response to changes in preferences over gross positions
- Central Bank cannot de facto (with current rules) control the supply of money

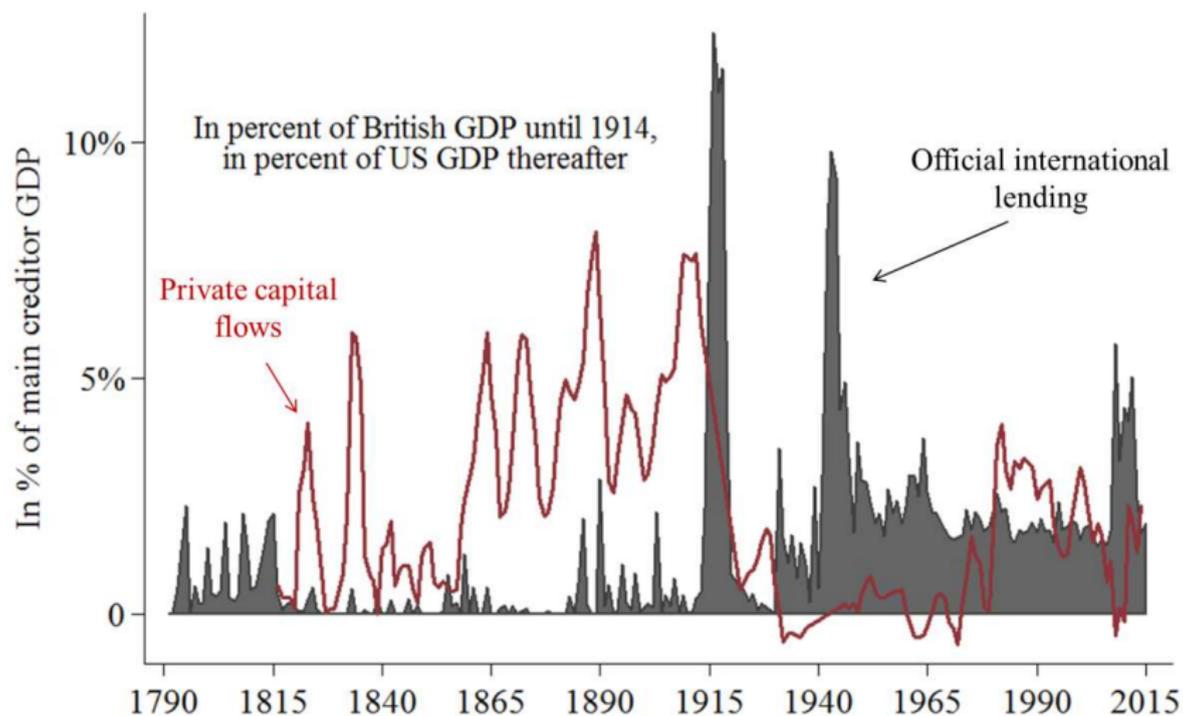
# Comment I

## Central Banks

- The presence of not coordinated monetary policy decisions, swap lines, CB reserves and exchange rate manipulations would generate wedges between nostro and vostro account
  - ▶ How important are these for bank's money creation? Main source (and then amplified) or minor issue?
  - ▶ Complementary or alternatives to your stories
- minor: how would it affect the convenience yield?
- Official cross-border lending (Horn, Reinhart and Trebesch, 2020)

# Official lending

Figure 10. Official sovereign lending and private capital flows 1790 - 2015



# Comment II

## Role of other (or new) medium of exchanges

- Interesting to understand the role of “the number of international currencies” in the money creation process (“excess elasticity”)
  - ▶ More currencies (i.e. more countries) would enlarge or restrict the problem?
- Digital Currency:
  - ▶ the existence of other “supplier” of deposit and loans (e.g. cryptocurrency)

# Comment III

## Benefits and costs

- Real effects of gross flows (quantify why do we care):
  - ▶ Booms benefits and busts costs of high gross flows
  - ▶ Can you estimate the average elasticity of real net flows to gross flows?

## Covid-19

- Can we learn something from the current Covid-19 shock?

# Summary

- Great model, really helpful in understanding gross flows
- High potential for a lot of *open* questions
- Thank you for the opportunity of reading it