ČNB ČESKÁ NÁRODNÍ BANKA

Discussion of „How Doas International Capital Flow” written by Michael Kumhof, Phurichai Rungcharoenkitkul and Andrej Sokol

Jan Brůha

Czech National Bank

Monetary and financial stability policies in a changing economic landscape,
14 June 2024

Main paper messages

ČNB ČESKÁ NÁRODNÍ BANKA

- Very interesting paper on a very important topic – I applaud the authors for a new and fresh look at important question
- The paper features a rich two country structural model with banking sectors – I applaud the authors for the elaborate model

- I take three main messages from the paper:
  - The *net* current account as a risk indicator – the structure and the amount of the foreign gross debt matters
  - The global saving glut – domestic sources of external position imbalances should not be ignored
  - High correlation of gross foreign assets and liabilities – this empirical regularity is not a puzzle after all

Impulse Responses

ČNB ČESKÁ NÁRODNÍ BANKA

- The paper illustrates the model properties on a number of scenarios (shocks) that have been prominent in debates on external position sustainability and related adjustment mechanisms
  - These are mostly shocks to parameters in home bias parameters that influence the portfolio choices of agents
  - Very useful
  - Nevertheless, one may ask to which extent these parameters are really structural?
    - They may capture unmodeled effects of regulation or of sentiment (if I loose trust in a foreign country, probably my home bias would increase)

  - What about more standard shocks, such as a demand shock or a policy shock?
  - Would the rich structure of the model change the transmission of the more standard shocks?

Implications for External Sustainability Indicators

ČNB ČESKÁ NÁRODNÍ BANKA

- One of the paper main message is that it is not sufficient to look at net balances and BoP positions on credit and debit side are what really matters
    - I really welcome this message and it should be carved to the stone

- However, many existing external position indicators are expressed in *net terms*
    - E.g. Macroeconomic Imbalance Procedure
        - 3-year backward moving average of the current account balance as percent of GDP, with thresholds of +6% and -4%
        - net international investment position as percent of GDP, with a threshold of -35%
    - Others:
        - Foreign exchange reserves/short-term debt (Guidotti–Greenspan rule: the ratio should be at least 1)
        - And many more ….

- What would be the implications of paper findings with respect to these indicators?
    - Should we still follow them?
        - The existing indicators proved useful in empirical work on prediction crises
    - Or should we reform them in some way?

High Correlation of Gross Capital Flows

ČNB ČESKÁ NÁRODNÍ BANKA

- One of the paper highlights is the model-implied correlation of gross capital inflows and outflows
- The correlation is well documented in literature

- Two comments on this:
  1. From the paper I am unsure whether this is just the implication of the double entry nature of the BoP statistics (each transaction is necessarily reported on both sides)
     - Or is there something more?
  2. Empirics: gross flows in data are indeed huge. Can the model replicate the magnitude?

Conclusion

ČNB ČESKÁ NÁRODNÍ BANKA

- Very interesting and policy-relevant paper and I learnt much from reading it

- To summary, I have three points to discussion:
    1. Transmission of standard shocks through the model
    2. Implications for sustainability indicators
    3. High correlation of gross flows? Empirics?