International reserve management and firm investment in emerging market economies

Discussion by Yannick Kalantzis (Banque de France)

Bank-al-Maghrib, Rabat, October 3 4, 2022

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   (e.g. IMF new institutional view on capital flows management, March'22)

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Important research agenda

- microeconomic impact of reserve accumulation at firm-level?

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Results driven by

- countries with fx-peg or capital controls
- financially unconstrained firms

Capital flows as a confounder?

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investment $\nearrow$

if fx peg: IRM $\nearrow$

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  (result actually stronger: $\beta_1 = 0.051$ instead of 0.020)

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- control for country spread as a proxy of capital flows

Capital flows as a confounder? (cont'd)

Baseline

IRM	0.020***
	(0.003)
IRM × ΔVIX	0.056***
	(0.011)

Controlling for country spread

IRM	-0.188***
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Country spread	-0.041***
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Paper's interpretation: causal mediation effect

Alternative interpretation: controlling for confounding capital flows

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Possible way to disentangle both types of interventions
▶ look separately at $IRM > 0$ and $IRM < 0$

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- look at sectors:
  mercantilist channel likely stronger for tradables
  precautionary channel likely stronger for non-tradables