Gross Capital Flows and their long-term Determinants for Developing Economies: A Panel Co-integration Approach

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The purpose of this paper is to estimate a model for gross capital flows for a sample of developing economies and assess their long-term determinants by using a panel co-integration approach. Results indicate that there is a co-integration relationship between key push and pull factors and gross capital inflows. Particularly, FDI inflows have a positive, long-term association with GDP growth, and a negative one with public debt and the interest rate differential (the latter being a puzzling finding), while portfolio inflows are connected negatively to foreign asset prices and positively to international financial market volatility. Unexpectedly, interest rate differentials do not exhibit a long-term relationship with the latter, which challenges the standard portfolio assumption -that uncovered interest parity is satisfied, at least, in the long term-. As for disaggregate outflows, no long-term association between them and their drivers could be obtained.

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