

The effects of Monetary Policy on Capital Flows A Meta-Analysis

Download Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Villamizar Villegas, Mauricio Arando Lozano, Lucia Castelblanco, Geraldine Fajardo-Baquero, Nicolas Ruiz-Sanchez, Maria Alejandra

The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date: Monday, 1 of August 2022 Abstract

We investigate whether central banks are able to attract or redirect capital flows, by bringing together the entire empirical literature into the first quantitative meta-analysis on the subject. We dissect policy effects by the type of flow and by the origin of the monetary shock. Further, we assess whether policy effects depend on factors that drive investors to either search for yields or fly to safety. Our findings indicate a mean effect size of inflows in the amount of 0.09% of quarterly GDP in response to either a 100 basis point (bp) increase in the domestic policy rate or a 100bp reduction in the external rate. However, the effect size under a random effect specification is much lower (0.01%). Factors that significantly attract inflows include foreign exchange reserves, output growth, and financial openness, while factors that deter flows include foreign debt, capital controls, and departures from the uncovered interest rate parity. Also, both local and global risks matter (global risks exerting a larger pressure). Finally, we shed light on differences across the different types of flows: banking flows being the most responsive to monetary policy, while foreign direct investment being the least responsive.