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Paper "Capital Flows, Exchange Rates and Growth: Evidence From Developing Countries" - 2006

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Abstract: The economic distress caused by recent financial crashes in developing economies has increased the concern about the optimal exchange rate policy. Yet, empirical work addressing the links between developments in the capital account and output growth under alternative policy regimes is very limited. In the present work, I assess the performance of fixed and flexible regimes in 53 developing countries for the 1978-2000 period. In particular, I explore the potential asymmetries that may arise when developing countries face swings in the capital account under different exchange rate arrangements. I confirm previous results that associate fixed regimes with higher output volatility. Moreover, I find that capital outflows are more sensitive to the choice of regime than capital inflows and that the effects of the former are delayed one year under fixed exchange rates resulting in a bigger once-and-for-all output loss.

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