Capital inflows and outflows:
Measurement, determinants, consequences

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Abstract

This paper develops new estimates of capital outflows and is the first, to our knowledge, to analyze the determinants, consequences and inter-relationship between inflows and outflows. Given the dynamics and individual country effects, we use a panel-VAR and find that inflows and outflows are inter-related, that lower inflows/higher outflows lead to lower growth, and among other effects to a higher fiscal deficit, which feeds back to lower inflows/higher outflows. These results provide evidence of vicious and virtuous cycles. We find no strong evidence that official flows crowd-in private ones. We conclude it is particularly important for developing countries to maintain prudent policies, and especially adequate fiscal discipline, to avoid vicious and reinforce virtuous cycles.

Keywords: Capital flows, Growth, Vector-Auto-Regression, Panel.

JEL Codes: F21, F32, C32,C33

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