Discussion of Capital Markets, COVID-19 and Policy Measures
Stefan Goldbach / Deutsche Bundesbank
26. October 2021
Goal of the paper

- Study the effects of Covid-19 policy responses on portfolio flows and CDS markets
  - Weekly data of EPFR Global for Jan 2014 to May 2020
  - Oxford Response Tracker, IMF’s Survey on Country Responses
  - Analysis for 21 developed countries and 16 emerging market economies
  - Methodology: local projections
- Interesting paper!
- Policy relevant: EMs with larger policy constraints and fickle capital flows
Main results

- Capital market dynamics not exclusively driven by global push factors
- Domestic factors matter (especially in EMs)!
- Higher domestic COVID cases increase cumulative inflows
- Lockdown and fiscal policy measures successful in stimulating portfolio investment
Comments: Explanatory variables

- Number of Covid-19 cases
  - Number of tests differ (especially lower in emerging markets)
  - No harmonized methodology (like e.g. GDP)
  - Example Turkey: health minister admitted end of September that only cases with symptoms were registered as Covid-19 infections since end of July

- Different measures of Hale et al. (2020)?
  - What triggers stringency? School closing, workplace closing, cancel public events, limits on gatherings, closing of public transport, ...
  - Economic support index: income support, debt relief, fiscal measures, international support

- Monetary policy measure for advanced economies: growth rate of monthly central bank balance sheet

- No real economy variables (e.g. industrial production)
Portfolio Flows in EMEs

Cumulative fund flows in emerging markets
(weekly; in bn. US-$)

S. Goldbach (BBk)
Page 4 / 8
Comments: Time period

- Only first wave until May 2020: do factors matter also for following (second/third/forth) waves?
- Why reference period in 2014? Check sensitivity
- Similar studies related to goods trade/financial flows start later
  - Pimenta, Amador and Gouveia (2021): Average 2017 to 2019
  - Benguira (2021): January 2017
  - Berthou and Stumpner (2021): January 2018
  - Goldbach and Nitsch (2021): January 2019
- Potential problem: other shocks could trigger portfolio flows during this period (“Black Monday” in China 2015)
Comments: Method

- Why local projections?
- Alternative: Panel VAR
- Low variation of explanatory variables
  - Covid-19 variables start in 2020
  - Macroeconomic fundamentals: average yearly values prior to the pandemic
- Why lagged explanatory variables for global shock (Table 6)?
- Why binary variable of Covid-19 cases and number in regression?
- Exclusion of time fixed effects: possible omitted variable bias
Comments: Interpretation of Results

- Results as expected?
- Correlation between GDP growth and stringency: negative for OECD countries during Q2 and Q4/2020
- Different for portfolio flows: initially large outflows, then faster recovery (evidence for this in the paper?)
- "The increase in net portfolio flows was driven by demand for liquidity, potentially reflecting widening financing needs to mitigate the fallout"
  - Did public debt increase afterwards?
  - Emission of new bonds?
- Benguria, Felipe (2021), The 2020 trade collapse: Exporters amid the pandemic, Economics Letters, Vol. 205, 109961
- Berthou, Antoine and Sebastian Stumpner (2021), Trade Under Lockdown, Banque de France
- Pimenta, Ana Catarina, Joao Amador and Carlos Melo Gouveia (2021), COVID-19, Lockdowns and International Trade: Evidence from Firm-Level Data