EUROPEAN CENTRAL BANK

EUROSYSTEM

Discussion of
"International Spillovers and Local Credit Cycles"
by Y.S. Baskaya, J. di Giovanni, S. Kelemli-Ozcan, M. F. Ulu

Arnaud Mehl

Paris, 30 June 2017

Descriptive stats

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My discussion

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Clear story…

$\downarrow$ VIX ⇨ $\uparrow$ K flows ⇨ $\downarrow$ i ⇨ $\uparrow$ Credit

- Very polished paper
- Highly granular data
- Clear theory and identification strategy
- Economically important effects (40% of observed cyclical credit growth!)
- Policy relevant ("financial trilemma")

My discussion

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- **3 points**

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Philosophical remarks on capital flows

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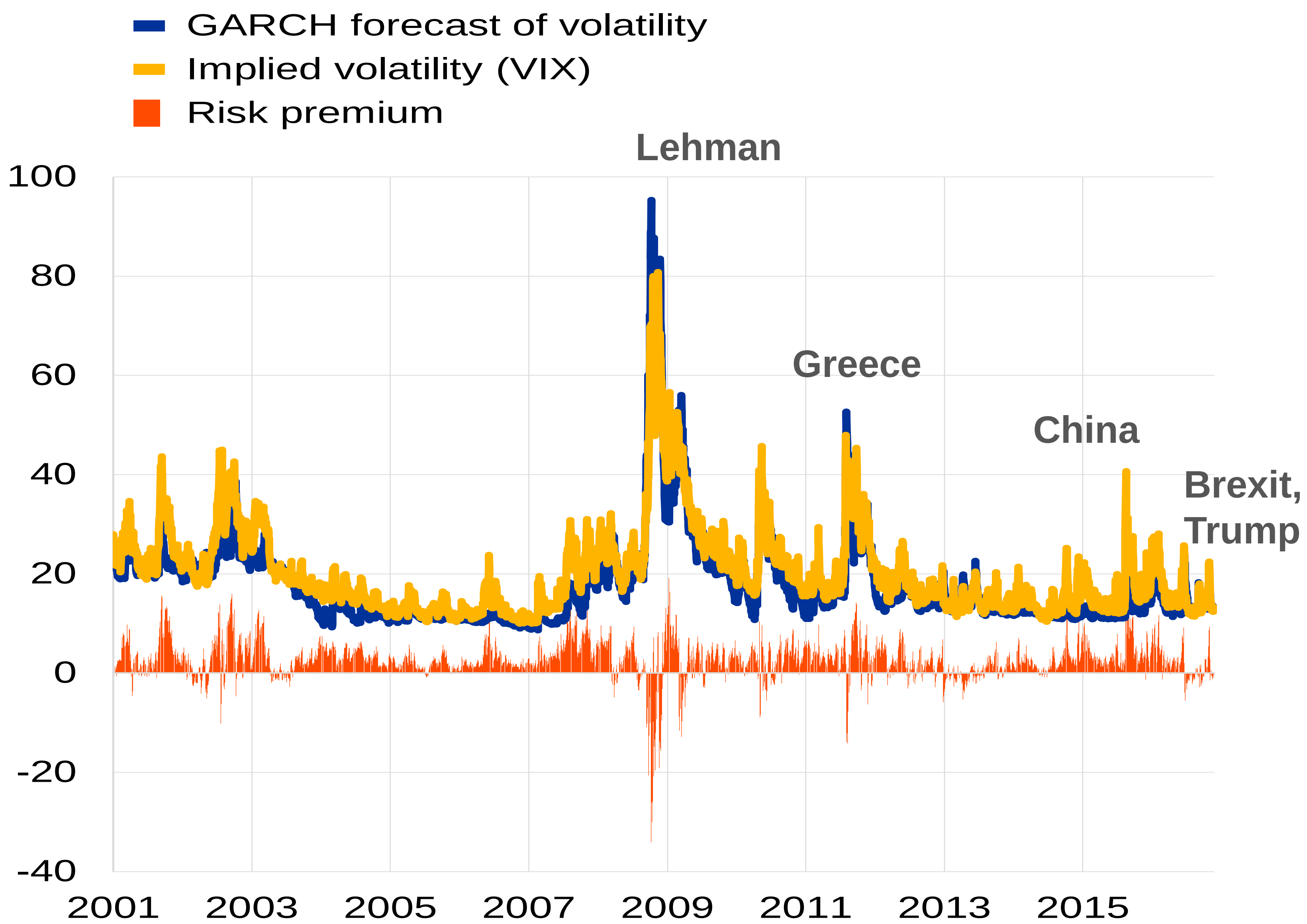

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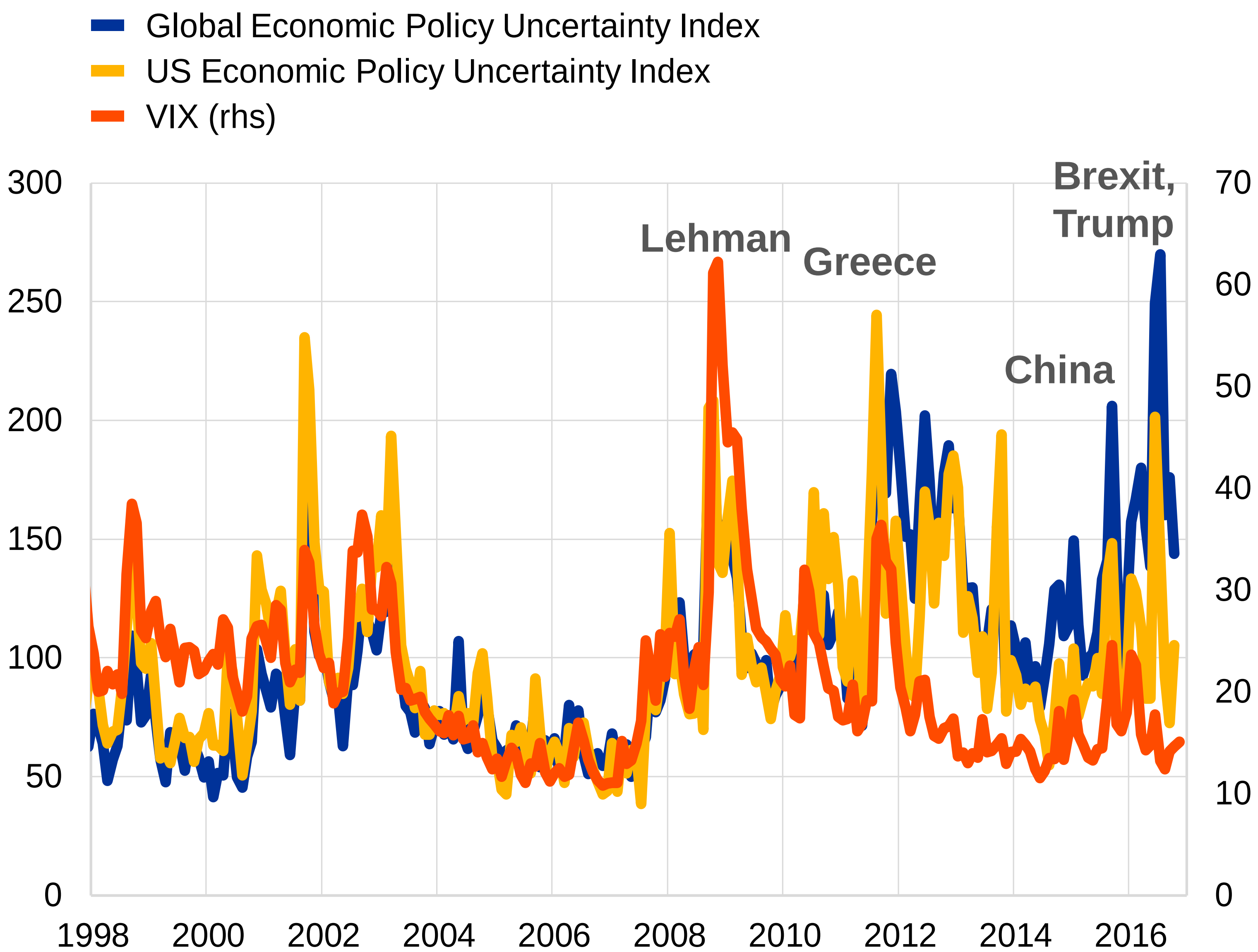

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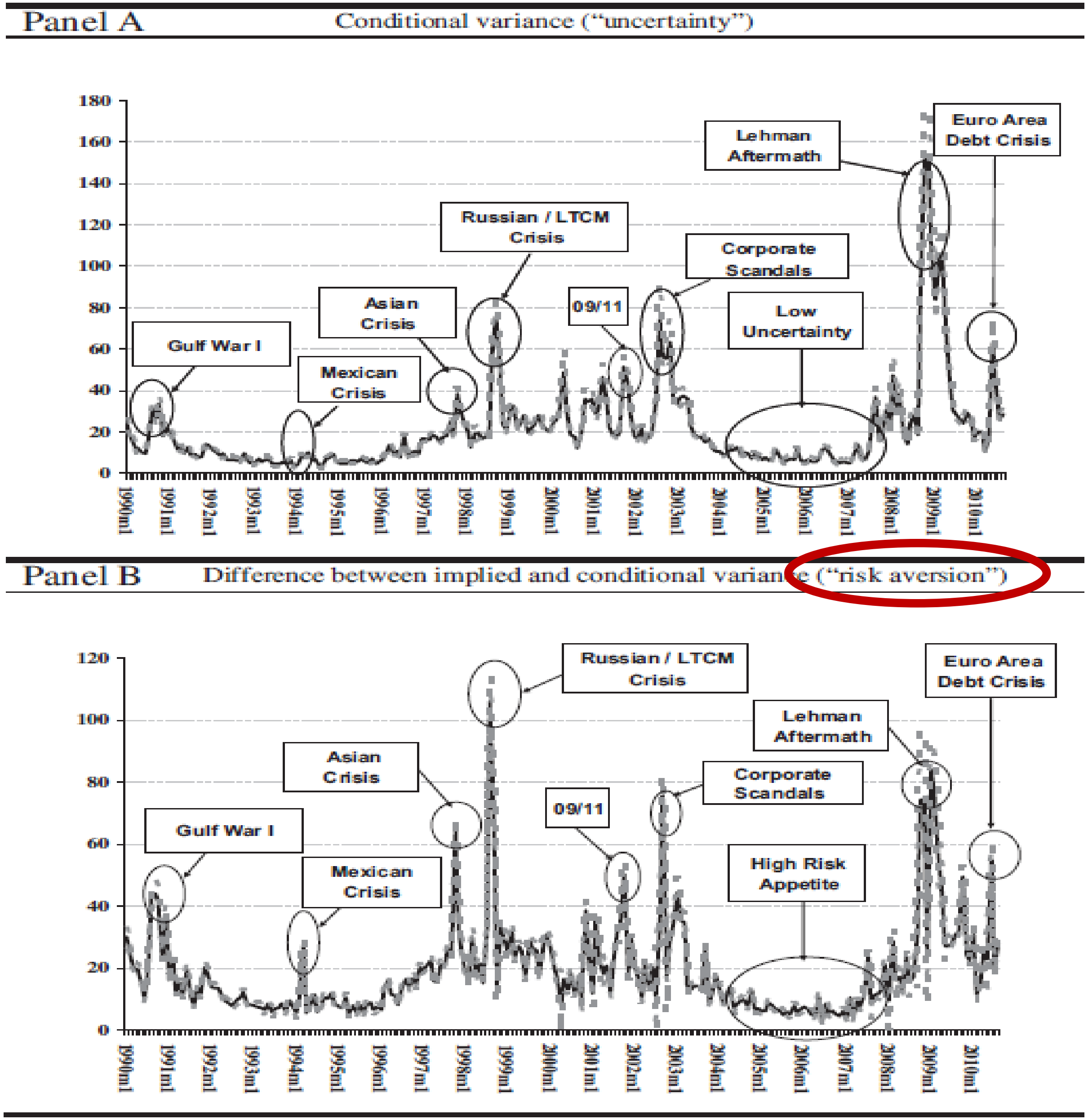

(Bekaert, Hoerova, Lo Duca, JME, 2013)

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- **Uncorrelated with local risk?**
  - *Local Turkey risk globally systemic? ("Fragile 5")*

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THE FRAGILE 5 EMERGING MARKETS
Current Account vs Exchange Rates
SAXO
Capital Flight

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  - *Role of (deleveraging of) European banks*
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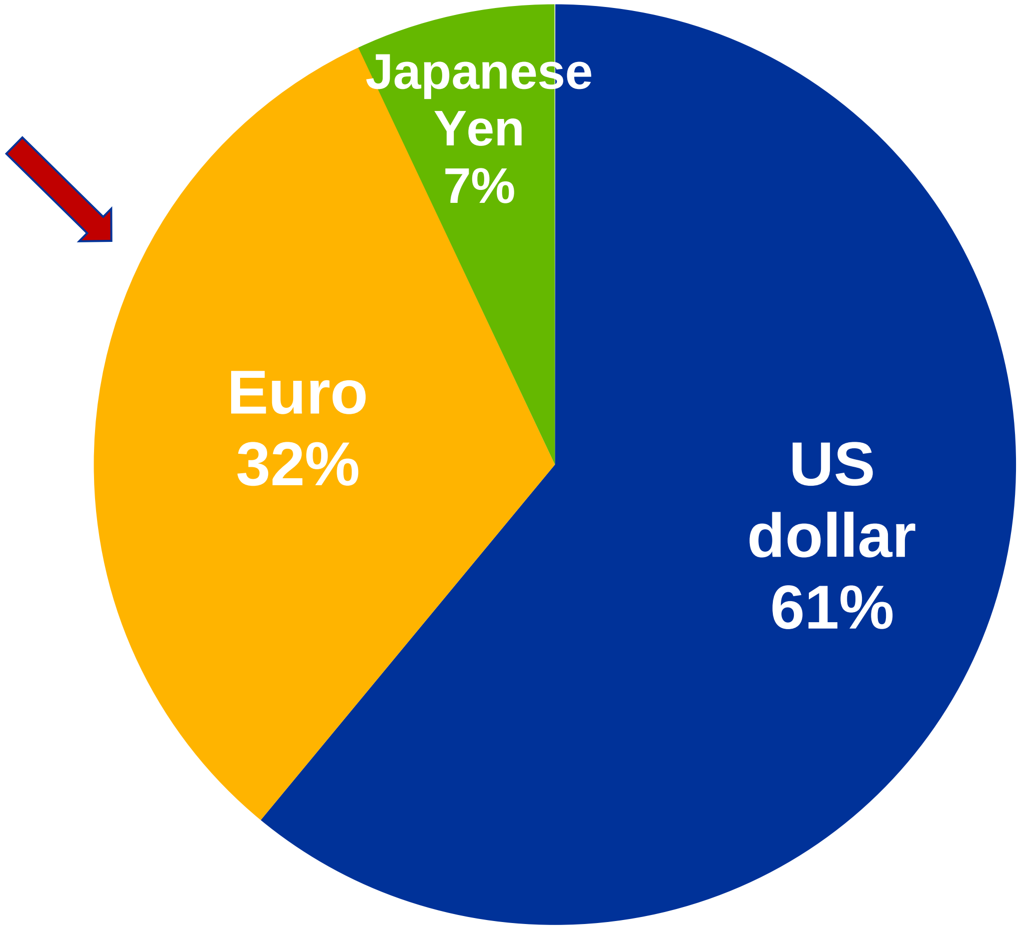
Currency composition of Turkey's debt liabilities (2012) (updated from Lane & Shambaugh, 2010)



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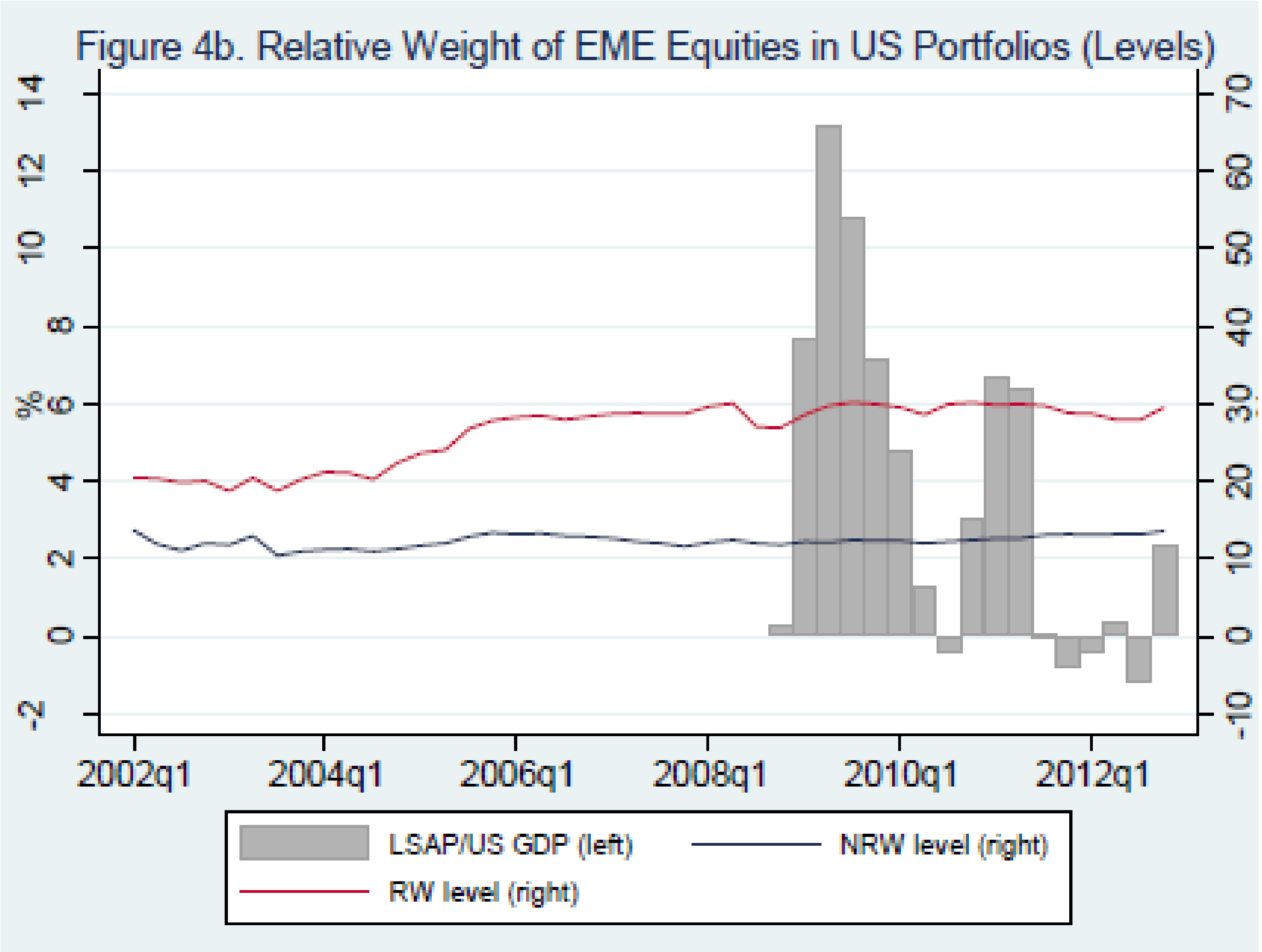
- **Bias in capital flow data due to “passive” allocation?**
  - *Capital flows to EMEs/Turkey no matter what due to need to stick to portfolio benchmarks*

Philosophical remarks on capital flows



(Ahmed, Curcuru, Warnock, Zlate, 2016)

Normalized relative weight measure flat, suggesting that changes in portfolio shares were due to the strong performance of EME equity markets (in dollar terms), not to an active increase in portfolio allocations to EME equities.

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- **Policy trade offs?**
  - ***Loss of external competitiveness (if TRL loans) vs. financial stability problems (if FX loans)***