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Stephanie Schmitt-Grohé, Martín Uribe

Adjustment to small, large, and sunspot shocks in open economies with stock collateral constraints

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pp. 2-9

This paper characterizes analytically the adjustment of an open economy with a stock collateral constraint to fundamental and nonfundamental shocks. In the model, external borrowing is limited by the value of physical capital. Three results are established: (1) Adjustment to external shocks is nonlinear. In response to small negative output shocks, the economy adjusts as prescribed by the intertemporal approach to the current account, with increases in debt, deficits in the trade and current account balances, and no significant movement in the price of collateral. By contrast, in response to large negative output shocks the economy experiences a sudden stop with debt deleveraging, trade and current account reversals, and a Fisherian deflation of asset prices. (2) Generically, weak fundamentals (low output and high external debt) give rise to multiple equilibria. (3) In this case, the economy is prone to self-fulfilling sudden stops driven by downward revisions of expectations about the value of collateral.

Daniel Riera-Crichton, Carlos A. Vegh, Guillermo Vuletin

Tax policy and the macroeconomy: Measurement, identification, and non-linearities

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pp. 10-17

This paper examines the measurement and identification of tax policy shocks using novel multi-country databases on tax rates. On the measurement front, we argue that there is no substitute for using tax rates, a true policy instrument, as opposed to the much more popular revenue-based measures, such as cyclically adjusted revenues.

On the identification front, we argue that the narrative approach (whereby changes in tax rates are classified into exogenous or endogenous to the business cycle based on contemporaneous economic records) is the most accurate method. When properly measured and identified, tax multipliers for both industrial and developing countries are, on average, about -2. Further, we find important non-linearities with multipliers becoming bigger (in absolute value) as both the level of initial taxes and the size of tax changes become larger.

Vincenzo Quadrini

The external risks of financial integration for emerging economies

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pp. 18-24

The integration of emerging economies in world financial markets allowed these countries to import foreign capital. In some cases, however, the capital inflows have been interrupted by sudden reversals and severe financial crises. Although excessive borrowing is a necessary condition for a financial crisis, the dynamics leading to excessive borrowing and subsequent reversal can also be connected to external factors, that is, changes that take place in the rest of the world and are not under the control of the borrowing country (external risks). In this article I discuss some of these risks. In particular, I show how the growth of the financial sector in advanced economies can lead to the build up of imbalances that increase the financial fragility of emerging countries. I also discuss how the origin of the imbalances can sometimes be connected to the business cycle in industrialized countries.

Juan M. Hernandez, Enrique G. Mendoza

Optimal v. simple financial policy rules in a production economy with "liability dollarization"

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pp. 25-39

We evaluate the effectiveness of financial policy rules in a small open economy with production, liability dollarization and "unconventional shocks" (global liquidity shifts and news about future fundamentals). Tradable and nontradable final goods are produced with tradable inputs. Debt is denominated in units of tradables and cannot exceed a fraction of the market value of total income. Optimal policy has a macroprudential or ex-ante component (a debt tax levied at date t only when the credit constraint may bind at $t+1$), and ex-post components (sectoral production taxes/subsidies used when the constraint binds). The optimal policy reduces sharply the frequency and severity of financial crises but is also very complex. Simple policies are less effective and can be welfare reducing.

Enrique Alberola, Rocio Gondo, Marco Lombardi, Diego Urbina
Output gaps and stabilisation policies in Latin America: The effect
of commodity and capital flow cycles
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y desafíos en las economías emergentes en un contexto
de incertidumbre global)
pp. 40-52

We provide a measure of the output gap that filters out the impact of the commodity and net capital inflows booms for Latin American countries. These two factors temporarily boost output and so are likely to push up estimates of potential growth in the region to unrealistic levels, thereby resulting in an underestimation of the output gaps during the upswing of the commodity cycle. We also shed light on the interaction between the two components. The results show that commodity prices have been the dominant factor explaining deviation of activity from sustainable levels. A timely consideration of these factors could prevent a procyclical fiscal policy bias in the region.

Jonathan Scott Davis
External debt and monetary policy autonomy
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y desafíos en las economías emergentes en un contexto
de incertidumbre global)
pp. 53-63

During a time of rising world interest rates, the central bank of a small open economy may be motivated to increase its own interest rate to keep from suffering a destabilizing outflow of capital and depreciation in the exchange rate. Empirically, this paper shows that this is especially true for a small open economy with a current account deficit, which relies on foreign capital inflows to finance this deficit. In addition, the method of current account financing has a large effect on whether or not the central bank will opt for exchange rate and capital flow stabilization during a time of rising world interest rates. A current account deficit financed mainly through reserve depletion or the accumulation of private sector debt will cause the central bank to pursue de facto exchange rate stabilization, whereas a current account deficit financed through equity or FDI will not. Quantitatively, reserve depletion of about 7% of GDP will motivate the central bank with a floating currency to adjust its interest rate in line with the foreign interest rate to where it appears that the central bank has an exchange rate peg.

Peter Claeys
Uncertainty spillover and policy reactions
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y desafíos en las economías emergentes en un contexto
de incertidumbre global)
pp. 64-77

Spells of uncertainty are argued to cause rapid drops in economic activity. Wait and see behavior and risk aversion in combination with other frictions can make periods of increased uncertainty an important driver of the business cycle. Emerging economies may endure even stronger and prolonged recessions following a global uncertainty shock, as credit constraints in shallow financial markets limit smoothing. Active policy responses often exacerbate the cycle. The present study uses a novel proxy of uncertainty – inspired on Jurado et al. (2015) – in which I extract a common factor that is not driven by the business cycle from a broad set of forecast indicators. I then estimate an interacted panel VAR on a large set of developed and emerging economies over the period 1990Q1-2014Q3 to test responses to shocks to uncertainty. Emerging markets suffer a larger

fall in consumption and investment as uncertainty spreads globally. The main finding is that more developed financial markets are key to dampen the transmission of the shock. Fiscal policy is an alternative, but only if there is sufficient fiscal space to smooth shocks. Monetary policy dampens the effects of uncertainty under a fixed peg better than in a floating exchange rate regime.

Paul De Grauwe, Eddie Gerba
Monetary transmission under competing corporate finance regimes
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y desafíos en las economías emergentes en un contexto
de incertidumbre global)
pp. 78-100

The behavioral agent-based framework of De Grauwe and Gerba (2015) is extended to allow for a counterfactual exercise on the role of corporate finance arrangements for monetary transmission. Two alternative firm financial frictions are independently introduced: market-based and bank-based. We find convincing evidence that the overall monetary transmission channel is stronger in the bank-based system compared to the market-based. While the growth in credit is larger in the market-based system, uncertainty originated from imperfect beliefs produce impulse responses in macroeconomic variables that are, on average, half of those in the bank-based model. At the same time we find mixed results on the conditional effectiveness of monetary policy to offset contractions. Conditional on being in a recession, a monetary expansion in a market-based system creates higher successive booms. That said, a monetary easing in the bank-based system is more effective in smoothing the financial-and business cycles.

Lizeth Paola Riveros Castro
Análisis sectorial de la función de emparejamiento en Colombia:
eficiencia del Servicio Público de Empleo
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pp. 101-129

El objetivo de esta investigación es analizar el funcionamiento del mercado de trabajo colombiano e identificar algunas fricciones que lo afectan a nivel agregado, departamental y de agentes, a través de la estimación de la función de emparejamiento, usando los datos mensuales del Servicio Público de Empleo (SPE) de febrero a noviembre de 2014. Este trabajo es la primera aproximación a la estimación de la función de matching del mercado laboral colombiano. De la comparación entre modelos estimados se concluye que: 1) las fricciones son mayores para las firmas que para los desempleados; 2) la función estimada por los métodos tradicionales está sesgada; 3) existe evidencia de retornos constantes a escala; 4) las interacciones se producen primero en las regiones y con menor relevancia por las características de los agentes; 5) el modelo *stock-flow* no se ajusta en varias estimaciones, y 6) el modelo más robusto es el lineal dinámico.

Pengxiang Zhai, Rufe Ma
Does ownership structure affect trade credit policy
in small- and medium-sized firms? Evidence from China
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pp. 130-138

This paper examines whether and how ownership structure affects the trade credit policies in small- and medium-sized firms (SMEs) using a sample obtained from a survey of Chinese enterprises. Specifically, we examine how ownership concentration affects SMEs' use of trade credit through influencing the availability of bank

credit. We also examine whether the ownership of the ultimate controller influences the effect of ownership structure on trade credit. The results show that there is a significant negative relation between bank credit and trade credit when most of the firms' shares are controlled by a dominant shareholder, indicating that concentrated ownership may lower firms' ability to access bank credit, and SMEs use trade credit as a substitute for unavailable bank credit. The results also show that the effect of ownership concentration on the aforementioned relation is significant in private and state-controlled SMEs but not in foreign-controlled SMEs. Overall, our results suggest that ownership structure plays an important role in determining SMEs' trade credit policies.

José Manuel Tapias Ortega
Pobreza y violencia en la Región Caribe colombiana:
un enfoque espacial
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pp. 139-153

La Región Caribe colombiana padece de serios problemas en términos de condiciones de vida y de violencia. No obstante, esta situación no es homogénea a nivel intrarregional. En este sentido, el presente documento intenta demostrar la heterogeneidad interna de la región en cuanto a la distribución espacial de ambos fenómenos mediante técnicas de análisis espacial utilizando sistemas de información geográfica (SIG). Aunque se encontraron territorios en donde coexisten los dos fenómenos, los resultados muestran que una zona pobre no necesariamente es violenta, y viceversa. Asimismo, resulta importante mencionar que las zonas prioritarias para la ejecución de política pública varían en función del tipo de violencia estudiada y del método de análisis utilizado.

Ignacio Lozano-Espitia, Hernando Vargas-Herrera,
Norberto Rodríguez-Niño
Financial transaction tax and banking margins:
An empirical note for Colombia
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pp. 154-160

Taxes on financial transactions have been especially controversial because of their potential effects on banking disintermediation. A modality of such taxes (Bank Debit Tax, BDT) was introduced in Colombia since the late nineties. Using monthly panel data from 1996 to 2014 for the major depository institutions, this paper provides evidence on the effects of the BDT on bank intermediation spread. For the total sample (thirteen banks), results suggest that nowadays the hypothetical elimination of the BDT would reduce spreads in 60 basis points, i.e. from 7.7% to levels close to 7.1%. The results do not provide clear evidence of differential impacts by bank size. Additional instruments of the financial repression as well as other determinants of banking spreads confirm the expected effects.

Hernán Rincón, Diego Rodríguez, Jorge Toro, Santiago Téllez
FISCO: modelo fiscal para Colombia
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pp. 161-187

El gobierno es un agente que influye sobre la actividad económica a lo largo del ciclo económico mediante sus políticas tributarias y de gasto. El objetivo de este documento es construir un modelo fiscal de equilibrio general dinámico y estocástico neo keynesiano para Colombia (FISCO), en donde el gobierno juega un papel preponderante en la economía. Las cinco principales conclusiones del documento

muestran que: la inflación compete tanto a la política monetaria como a la política fiscal; los choques a la política fiscal son contrarrestados en cierto grado por la política monetaria, pero choques a esta última son refrendados por la política fiscal; el recorte al gasto público de inversión impacta en mayor medida a la economía que el ajuste al de funcionamiento, y la regla fiscal estabiliza las finanzas públicas, pero ante ciertos choques.

Leonardo Bonilla-Mejía
Choques externos y remesas internacionales en
las regiones de Colombia
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pp. 189-202

Este documento estudia el efecto de choques externos sobre el ingreso de los hogares desde una perspectiva regional. Las medidas de choques externos ponderan el crecimiento económico de los países receptores por los flujos de migraciones de cada región. Los efectos se estiman con modelos de diferencias en diferencias en una muestra de encuestas de hogares que va de 2007 a 2015. Los resultados muestran que el buen desempeño económico en los países receptores se traduce en mayores ingresos en las regiones de alta migración, lo que se explica en gran medida por el aumento en las remesas. Las mayores ganancias se registran en los ingresos laborales de las familias no-receptoras de remesas, lo cual indica que las remesas generan importantes externalidades positivas. En otras medidas de calidad de vida, como afiliación en salud, asistencia escolar y trabajo infantil, los efectos estimados tienden a ser más pequeños y a variar por países.

Oscar Valencia, Daniel Osorio, Pablo Garay
The role of capital requirements and credit composition in the
transmission of macroeconomic and financial shocks
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pp. 203-221

This paper builds a general equilibrium model that incorporates a bank, borrowing constraints, default and an exogenous capital requirement to study the effect of the latter on the composition of bank funding and on the response of the economy to shocks. Ex-ante heterogeneous households decide how much to save or borrow for the sake of consumption (consumer credit) or the provision of housing services (mortgages). These choices are subject to borrowing limits, which depend on the value of real estate assets (for mortgages) or labour income (for consumer loans). The model includes a final good producer and a continuum of intermediate goods producers who must borrow in order to finance working capital/labour requirements (business credit borrowing) and are subject to nominal rigidities. Saving and borrowing are intermediated by a bank facing exogenous capital requirements that differ for each credit category. Capital requirements are modelled as a penalty function following Den Haan and De Wind (2012). The paper focuses on the response of the model economy to monetary, productivity and financial shocks with or without capital requirements. In the absence of capital requirements, any shock that reduces the deposit rate will incentivize the bank to switch away from bank capital into deposits, thus increasing the demand for deposits and dampening the effect of the shock on interest rates and the price of housing services. The main effect of capital requirements in the model is to disrupt the ability of the bank of switching to cheaper funding sources (deposits) after a shock. Capital requirements thus have the effect of amplifying the response of aggregate variables to shocks through the composition of the right-hand side of the balance-sheet of the bank, and not through the well-studied channel of leverage constraints affecting its left-hand side.

Jorge Flórez Acosta, Karoll Gómez Portilla
Análisis empírico de los efectos económicos de la colusión:
lecciones para Colombia
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pp. 222-244

Este artículo examina empíricamente los efectos económicos del cartel de los pañales en Colombia. Usando datos de ventas y precios unitarios de pañales por región en Colombia entre 2004 y 2016, se llevan a cabo dos ejercicios empíricos: por un lado, siguiendo la línea de análisis de la Superintendencia de Industria y Comercio, se usan métodos de series de tiempo para estudiar el comportamiento de los precios del mercado entre 2004 y 2016. Los resultados arrojan evidencia mixta acerca del impacto de la conducta colusiva en el mercado. Por otro lado, se estima un modelo estructural de oferta y demanda que permite recuperar costos marginales y márgenes precio-costo de las empresas en la industria. Con base en simulación de escenarios hipotéticos que van desde una competencia más intensa a la observada, hasta un caso de colusión perfecta, se muestra que la industria presenta cifras en el período colusivo que se acercan más a un referente competitivo que a uno de coordinación perfecta. Los resultados sugieren una posible falla en la coordinación entre las empresas del cartel.

Adriana Uquillas, Carlos González
Determinantes macro y microeconómicos para pruebas
de tensión de riesgo de crédito: un estudio comparativo
entre Ecuador y Colombia basado en la tasa de morosidad
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pp. 245-259

Se obtiene el impacto de los determinantes de la tasa de morosidad de Ecuador y Colombia, para aplicarlos a pruebas de tensión. Los modelos estimados ARIMAX sugieren que en Ecuador los shocks se transmiten con rapidez. La morosidad de ambos países es sensible negativa-

mente a la liquidez (factor más importante) y a la tasa de intermediación, pero sus impactos y la rapidez de transmisión son diferentes.

El precio del petróleo, volumen de crédito y actividad económica son determinantes relevantes para Ecuador. En Colombia, el shock bursátil es negativo e inmediato, los shocks de importaciones se transmiten a corto y mediano plazo. Los impactos de la producción manufacturera son más tardíos.

Esta es la primera investigación empírica que compara, entre ambos países, el impacto de cada factor en la morosidad. Los modelos contribuyen para plantear políticas económicas y de gestión que produzcan impactos en el desempeño de la morosidad.

Kun Ma, Gang Diao
Study on spillover effect between international soybean
market and China's domestic soybean market
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pp. 260-266

Due to high import dependency, China's domestic soybean market became unstable and soybean production was lingering and declining. It would be better to know the correlation between international and China's domestic soybean market for policy-making and production decision. This study used data of CBOT soybean futures price, imported soybean distribution price at Qingdao port and soybean spot price in China from September 10, 2011 to November 19, 2016 and chose multivariate GARCH model to check the spillover effect and correlation between them. The results showed that price volatilities of three markets had significant clustering effect while GARCH effect was stronger than ARCH effect. The spillover effect and correlations between markets were remarkable. It demonstrated the imported soybean market was significantly affected by the international soybean future market volatility, and such instability then resulted in violent fluctuations of China's domestic soybean spot market. Policies should be made to keep China's soybean industry safe and developed.