Discussion of 'Devereux, Young and Yu'.

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Currency composition of external loans

Figure 3: Share of External Debt in LC (Mean of 14 sample countries)

Notes: The left panel plots the cross-country mean of the amount of external LC debt outstanding, as a share of GDP, for th government, private sector, and the sum of the two. The right panel plots the cross-country mean of the amount of externa FC debt outstanding for the same three categories. The cross-country mean equally weights all countries in the sample. Th countries in the sample are Brazil, Colombia, Hungary, Indonesia, Israel, Malaysia, Mexico, Peru, Poland, Russia, South Afric South Korea, Thailand, and Turkey.

Collateral Constraint Household-Firms

$$\upsilon Y_{F,t}P^{*}_{F,t} - B^{*}_{t+1} \leq \kappa_t E_t \left\{ \frac{Q_{t+1}k_{t+1}}{\epsilon_{t+1}} \right\}$$

- $B^{*}_{t+1}$is domestic purchases of foreign currency bonds in FCU
- $Y_{F,t}P^{*}_{F,t}$ is total expenditures on intermediate imports, υ measures fraction of imported inputs that are financed in advance.
- Q_{t+1} is nominal price of capital in units of home currency, κ_t is maximal loan-to-value ratio,
- ϵ_{t+1} is nominal exchange rate, price of home currency in units of FCU.

- Alternative formulation

$$\upsilon Y_{F,t}P^{*}_{F,t} - B^{*}_{t+1} \leq \kappa_t \frac{Q_t k_t}{\epsilon_t}$$

- In reality many working capital loans have specific risk-free assets pledged as collateral.

Policy In a Sudden Stop

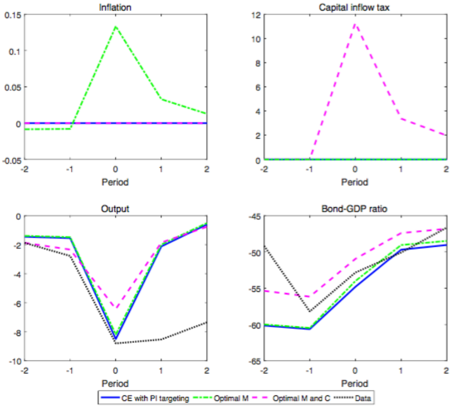

Figure 6: Event analysis in the optimal monetary policy without capital controls (M), optimal monetary and capital controls (M and C), and the competitive equilibrium with strict inflation targeting (CE). Each panel reports the percent deviation from the unconditional mean of that variable except for the capital inflow tax and Bond-GDP ratio.

Robust ad hoc rules?

- Operation capital inflow subsidy

$$\tau_{c,t} = -\varrho\mu_t, \text{ inflation targeting}$$

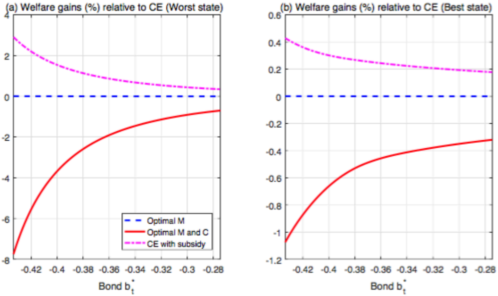

Figure 9: Welfare gains in the optimal monetary policy without capital controls (M), optimal monetary and capital controls (M and C), and a competitive equilibrium with strict inflation targeting and an ad hoc state-contingent capital inflow subsidy $\tau_{c,t} = -0.2\mu_t$ (CE with subsidy), relative to the competitive equilibrium with strict inflation targeting (CE).