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Effects of United States Monetary Policy on the Capital Flows to the Latin America Countries

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Abstract: In the latest time, the US has had an easy Monetary Policy. Because of the increasing link among the countries through interconnections on international trade, financial, and labor markets, such policy has not only had effects in the US economy, but also in the rest of the world. So many countries, especially emerging and developing countries, have suggested that such a policy has been causing an excessive flow of funds out of the US which are disrupting the exchange rate and competitiveness of those countries.
An innovation of the analysis is that capital flows are divided in "Firm related" (direct investment and equity flows) and "Debt" (debt instruments and private loans obtained from foreign financial institutions). Another innovation is related to the measure of the external factors considering the US alone and a compound of Advanced Countries (AC) that includes: the US, European Union, United Kingdom, and Japan. The performed analysis indicates that the US Monetary Policy has been having a role on the determination of the capital flows to the Latin America Countries (LAC). However, these external "push factors" have been less important than the "pull factors" from Latin America. In the model, the "push factors" reflected to have had influence on the total capital flows, especially through the global liquidity proxies measured by the growth of the monetary stock in the AC. Holding all other things constant, one percent increase in the monetary stock in the US will generate capital flows to the LAC for an amount between 0.47 to 1.71 percentages of GDP. This effect is bigger when using the proxy constructed with the US alone than when using the compound of AC. The long term interest rate registered significance only on the "Firm related" type of capital flows and only when using the compound of AC.

The performed analysis also indicates that there is preeminence of the "pull" (domestic) over the "push" (external) factors. This means that the LAC have been pursuing actions such as political stability, sound and consistent economic policies, and more market oriented policies that are attracting capital flows by themselves.

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