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Title: Social and Gender Implications of Capital Account Regulations

Abstract / summary:

This paper evaluates the effects of capital account regulations on foreign exchange pressure, the real exchange rate appreciation, and the 2007-08 crisis resilience/recovery based on 51 emerging and developing countries over the period 1995-2011, and draws the social and gender effects of these regulations in an attempt to understand whether regulations on the capital account can be effective in reducing income and gender inequality. Our key finding is that capital account regulations are associated with reduced foreign exchange pressure from 1995 to 2011, and the effectiveness applies to capital inflow and outflow restrictions as well as financial sector specific and FX-related measures. Our estimates also indicate that these measures are associated with reduced real exchange rate appreciation, and greater crisis resilience as well as greater post-crisis recovery. Given that capital account regulations function as effective tools of counter-cyclical macroprudential policy, we recommend that they should be considered as part of regular policy tools and not be seen as instruments of last resort or temporary measures.

The key policy implication for income inequality is that by preventing real appreciation pressures, the capital account regulations preserve the competitiveness of key tradable goods production, which employ large number of unskilled workers in developing countries. This means that they enable job growth for large numbers of low-skill workers, and to the extent that most of the unskilled – low-paid export sector jobs are dominated by young female workers, these regulations protect the growth of these formal sector jobs in developing countries. Moreover, by reducing macroeconomic volatility through greater resilience to crises, these regulations help counter increased poverty associated with large crisis episodes, and protect women from losing their jobs, given that the crises are generally associated with higher female unemployment rates. Overall, there is evidence that countries with capital account regulations were able to reduce poverty much faster – India and China are lead examples – and were also able to achieve more inclusive patterns of growth than countries that followed a high degree of integration to global capital markets.