

External Imbalances in Post Crisis World: A Quantile Panel Perspective

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ABSTRACT

For many emerging markets, particularly those from Europe, South America and Africa, external leverage, a measure of external vulnerability, has exceeded pre-crisis levels. This stylized fact motivates the identification of the drivers of external leverage in order to assess the extent to which country's external vulnerability changed over the recent years. Using a set of local (pull) and global (push) determinants, this paper estimates quantile panel to assess key drivers of external positions of 45 emerging markets in 2007-2015 period. Results from quantile panel regression suggest the dominance of local factors and highlight differences in drivers of external leverage at different levels of indebtedness. For "highly leveraged" economies global risk is more important cyclical driver, while for countries at low end of the spectrum, external leverage is strongly influenced by global fundamentals. Among local factors, business environment and presence in global markets play an important role in supporting higher external leverage regardless of its level. For countries at higher end of the leverage spectrum, local macro fundamentals matter more. Looking at the dynamics, results show that the portion of changes in external leverage explained by global factors is decreasing towards higher levels of external leverage. This indicates that in the case of highly leveraged economies, investors pay attention mostly on local factors and implies lower risk of reversals due to global factors. On the other hand, these countries benefit less from increase in global liquidity. Regarding policy implications, results show that improvements in business environment, fiscal balance, quality of institutions and development of financial market increase external debt capacity.

Keywords: External position, external leverage, emerging markets, quantile panel regression

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