THE DEMAND FOR LIQUID ASSETS, CORPORATE SAVING, AND INTERNATIONAL CAPITAL FLOWS

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Abstract
The recent period of capital outflows from emerging economies has coincided with an increase in their corporate saving. In this paper, we model corporate saving as a demand for liquid assets by credit-constrained firms in a dynamic open-economy macroeconomic model. We find that the implications of this model are very different from standard models, because the demand for foreign bonds is a complement to domestic investment rather than a substitute. We show that this complementarity is at work when an emerging economy is on its convergence path or when it has a higher TFP growth rate. This framework is consistent with a number of stylized facts found in high-growth, high-investment emerging economies. (JEL: E22, F21, F41, F43)

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