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Abstract

We investigate whether central banks are able to attract or redirect capital flows, by bringing together the entire empirical literature into the first quantitative meta-analysis on the subject. We dissect policy effects by the type of flow and by the origin of the monetary shock. Further, we assess whether policy effects depend on factors that drive investors to either search for yields or fly to safety. Our findings indicate a mean effect size of inflows in the amount of 0.09% of quarterly GDP in response to either a 100 basis point (bp) increase in the domestic policy rate or a 100bp reduction in the external rate. However, the effect size under a random effect specification is much lower (0.01%). Factors that significantly attract inflows include foreign exchange reserves, output growth, and financial openness, while factors that deter flows include foreign debt, capital controls, and departures from the uncovered interest rate parity. Also, both local and global risks matter (global risks exerting a larger pressure). Finally, we shed light on differences across the different types of flows: banking flows being the most responsive to monetary policy, while foreign direct investment being the least responsive.