



Large Capital Inflows, Sectoral Allocation, and Economic Performance

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This paper describes the stylized facts characterizing periods of exceptionally large capital inflows in a sample of 70 middle- and high-income countries over the last 35 years. We identify 155 episodes of large capital inflows and find that these events are typically accompanied by an economic boom and followed by a slump. Moreover, during episodes of large capital inflows capital and labor shift out of the manufacturing sector, especially if the inflows begin during a period of low international interest rates. However, accumulating reserves during the period in which capital inflows are unusually large appears to limit the extent of labor reallocation. Larger credit booms and capital inflows during the episodes we identify increase the probability of a sudden stop occurring during or immediately after the episode. In addition, the severity of the post-inflows recession is significantly related to the extent of labor reallocation during the boom, with a stronger shift of labor out of manufacturing during the inflows episode associated with a sharper contraction in the aftermath of the episode.