

# Effects of Capital Flow Management Measures on Wealth Inequality: New Evidence from Counterfactual Estimators

Yang Zhou<sup>1,2</sup>     Shigeto Kitano<sup>2</sup>

<sup>1</sup>IDE, JETRO     <sup>2</sup>RIEB, Kobe University

## Abstract

We investigate the relationship between capital flow management measures (CFMs) and wealth inequality using counterfactual estimators for causal inference with a dataset encompassing 100 economies from 1995 to 2019. We find that a tightening of aggregate CFMs significantly increases wealth inequality in advanced economies, and a tightening of CFMs on outflows increases wealth inequality in emerging economies. Diverging from previous studies, we analyze the impacts of ten distinct asset-specific CFMs and find that a tightening of the CFMs related to money market and derivatives reduces wealth inequality. We also show that the fall in wealth inequality is due to a fall in the wealth shares of the top 1% and (or) 10% groups and a rise in those of the middle 40% and bottom 50%. Our results imply that the effects of CFMs on wealth equality and distribution are quite heterogeneous: they depend on income levels, capital flow directions, and asset categories.

*Keywords:* Capital flow management measures (CFMs), Wealth inequality, Counterfactual estimator

*JEL classification:* F38, G28, D63