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Wealth inequality and the balance of payments constraint in the Global South

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Wealth Inequality and the Balance of Payments Constraint in the Global South

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Wealth Inequality and the Balance of Payments Constraint in the Global South

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Abstract
This chapter builds on Robert Blecker's pathbreaking, decades-long contributions (Blecker 1989, 1998, 2013; Blecker and Razmi, 2008) which incorporate, among many other contributions, capital flows to the balance of payments constrained growth literature. We link this to the literature on wealth inequality, which is so far deficient with regard to foreign asset ownership by the Global South. Using empirical evidence from wealth surveys in selected Global South countries as well as macroeconomic data, we argue that the wealthiest groups in the Global South are likely the primary holders of international financial and investment assets, and capital flight by elites will be predominant in these countries. This tightens the balance of payments constraint both directly and through differential returns of the Global South and North. This supports Robert Blecker's argument that we need to consider how Global South economies' subordinate monetary and financial integration interacts with its balance of payments constraint stemming from current account dynamics.

Introduction

Robert Blecker's groundbreaking work shows that incorporating international capital flows into balance of payment constrained growth models for countries of the Global South permits relaxing the unrealistic assumption that trade is balanced (Blecker and Razmi, 2008; Blecker 2013). The article presented here builds on Blecker's work by arguing that we must also consider capital outflows from the Global South as an important factor shaping the balance-of-payments constraint, and that the within-country distribution of wealth is a potentially significant—yet largely overlooked—determinant of both the scale and nature of these outflows, and thus of the constraint itself.

In fact, while global wealth inequality and the distribution of wealth within countries of the Global North have attracted considerable academic attention in recent years, we still know very little how wealth is distributed in the Global South (Piketty, 2014; Saez and Zucman, 2016; Alvaredo et al., 2017; Chatterjee, 2025). Yet, these economies are amongst the most unequal in the world. Though riddled by issues of data availability, gaining a better understanding of how and where this wealth is held, is crucial for understanding the multiple channels through which countries of the Global South are integrated into the international economic and financial architecture.

This article makes a first stab in that direction. It shows that the distribution of wealth within countries of the Global South is extremely unequal and that the structure of wealth categories held by different wealth groups differs markedly. It compares five countries of the Global South (Chile, Colombia, India, Indonesia, and Mexico) with eight European countries of the Global North (Belgium, Finland, France, Germany, Italy, Netherlands, Portugal, Spain); these countries are selected based on the availability of high-quality wealth survey data that is as comparable as possible.

We hypothesise that high wealth groups are the primary holders of international financial and investment assets. This means a more unequal distribution of wealth could lead to larger capital outflows either in the form of precautionary savings abroad (capital flight) or foreign financial investments. We assume that in countries of the Global South characterised by a subordinate integration into the international monetary and financial system (e.g. Alami et al., 2023) the first channel will be particularly relevant. In other words, elites of the Global South channel their savings abroad to avoid the heightened macroeconomic volatility and uncertainty in their economies. This transfer of resources tightens the balance of payments constraint through two potential channels: first, the initial transfer of domestic wealth which is exchanged against foreign currency denominated wealth and thus leads to an initial demand for foreign exchange; second, in the case of structural return differentials to the loss of Global South actors (higher

returns being earned by Global North actors than Global South actors) a structural net transfer of foreign exchange abroad to meet the return differential. In both cases, the structural loss of foreign exchange – once through the purchase of foreign financial assets and once through the need to meet outstanding foreign financial obligation (e.g. interest rate payments) – reduces the equilibrium growth rate in the Global South.

Unfortunately, to the best of our knowledge, data on foreign wealth holdings by wealth or income group does not exist; this article thus first presents information on wealth inequality in the five Global South economies. It then shifts to the macroeconomic level, and presents some evidence on the correlation between wealth distribution, foreign asset holdings and an indicator of macroeconomic uncertainty (real exchange rate volatility). It shows that higher wealth inequality and macroeconomic volatility go hand-in-hand.

Moreover, we show that Global South economies have been characterised by a structural real depreciation trend which has undermined the dollar value of financial assets in these economies. Though foreign wealth holdings are higher in the Global North, we present evidence that in the Global South these wealth holdings are largely concentrated in the Global North, which indicates some precautionary motives. Moreover, returns on these holdings have been far below what Global North actors have been generating in the Global South, thus leading to a structural transfer of foreign exchange abroad - potentially further exacerbating the balance of payments constraint. Though our insights are at best indicative and suffer from severe data limitations, they strengthen Robert Bleckers important point that we need to consider how Global South economies' subordinate monetary and financial integration fundamentally interacts with its balance of payments constraint stemming from current account dynamics.

The rest of the article is structured as follows: Section 2 reviews the literature, starting from Robert Blecker's contributions to the balance of payment constrained growth literature and complementing it with a review of the very limited evidence on wealth inequality and overseas wealth holdings of the Global South. Section 3 presents our data and our conceptual argumentation, and Section 4 concludes.

Literature Review

We hold conceptually that the balance of payments constraint in the Global South is intimately related to these countries' subordinate integration into the international monetary and financial system, expressed among other things in the nature of international capital flows and their relative returns. We first look into balance of

payment constraint growth models and the contributions of Robert Blecker, after which we review the scant literature on wealth distribution within Global South countries.

Robert Blecker's contributions to open-economy macroeconomic theory

Robert Blecker's work has been pathbreaking in highlighting the crucial role of monetary and financial dynamics, both through the real exchange rate (which of course is also fundamentally determined by the nominal exchange rate) and international capital flows. Robert Blecker's seminal work (1989, 1998, 2016) extends both the Kaleckian (1954) framework of growth and distribution to the open economy and Kaldor (1940) and Thirlwall (1979) models of cumulative causation and BoP constrained growth. In his first contributions, Blecker (1989) highlights the possibility of an inverse relationship between the wage share and the accumulation rate and the limited ability of firms to pass on increased domestic costs to consumers in an open economy under international competition, which leads to firms squeezing profit margins. Blecker (1989) addresses this through the introduction of a flexible markup pricing rule, which responds to the relative price of imports and hence exchange rates. Blecker (1998) further connects partial exchange rate pass-through and markup pricing, which describes the response of domestic firms to an appreciation of the home currency in the form of price cuts to keep up competitiveness and market shares, while profit margins shrink.

Furthermore, following the foundational work by Thirlwall (1978), this literature shows that the balance of payment constraint has demonstrated remarkable stability in explaining a country's long run growth performance (Setterfield, 2011). Robert Blecker's contributions to this literature are key for this paper. Blecker and Ibarra (2013) extend the BoP growth model to incorporate intermediate goods, aimed at capturing the Mexican development after trade liberalization. Their empirical model confirms the importance of the real exchange rate and internal obstacles and policies for growth. Blecker and Razmi (2008) extend the modeling framework to incorporate both price effects and capital flows to better capture short-run output dynamics and with that intra Global South country price competition (Blecker and Razmi, 2008). Empirically two related hypotheses are tested: first, the fallacy of composition, which describes that one developing country's real depreciation relative to its competitors boosts its own growth at the costs of the other countries. The second hypothesis tested is that devaluations relative to industrialised countries may harm a countries' own growth through regressive, distributional effects, that is the contractionary devaluation hypothesis. These distributional effects are expected to be negative on two grounds: first, foreign currency debt burdens intensify upon devaluation, increasing debt servicing obligations; Second, devaluations may redistribute income from labor to capital by enabling firms to widen price-cost margins. Finally, Blecker (2013) also incorporates international financial (capital) flows and thereby relaxes the assumption that in the long run the trade

balance must be zero and points to the conditions under which capital flows reach a sustainable level. Therewith, relative price effects are incorporated in the model and export-led cumulative causation is accounted for in the medium run and allows for a “virtuous circle” - faster technological progress, rise in competitiveness, increased exports and higher growth.

Robert Blecker’s substantial contributions focus on capital flows into the countries of the Global South, however, not covering the outflows of the countries. We aim to theoretically and empirically contribute the importance of financial outflows that we argue are closely linked to the distribution of external wealth assets and liabilities and affect BoP constrained growth.

Wealth inequality in the Global South

While global wealth inequality and its distribution within Global North countries have attracted considerable academic attention in recent years, apart from early contributions by feminist economists (e.g. Deere and Doss, 2006) we still know very little how wealth is held in the Global South (Piketty, 2014; Saez and Zucman, 2016; Alvaredo et al., 2017, Chatterjee, 2025). Notable recent exceptions are Chatterjee et al. (2022) for South Africa and Anand et al. (2025) for India. Chatterjee (2022) decomposes household wealth by asset type for South Africa to show that the bottom 10 percent of the wealth distribution primarily hold currency, while owner-occupied housing constitutes a notable share in the middle of the distribution. The richest 10 percent hold the vast majority of their wealth in stocks and bonds. A comparable picture is drawn by Anand et al. (2025) for India, though land and buildings (incl. owner-occupied housing) are distributed more evenly among wealth groups. Among the middle 40% of the wealth distribution in 2018, 57% of wealth is held in land and further 31.8% in buildings. The bottom 50% share a comparable wealth composition, while being additionally characterised by higher indebtedness. While the composition within the top 10% does not deviate markedly from the middle of the distribution, this group holds over 80% of the overall shares and deposits. Neither of these two contributions presents information on whether this wealth is held domestically or internationally.

De Rosa et al. (2024) demonstrate that corporate income is highly concentrated at the top 10 percent of the wealth distribution in Latin American countries using data on corporate tax payments. In a more interdisciplinary vein, Atria et al. (2025) highlight the importance of property and spatial inequality when studying the dynamics of economic power and the perception of wealth taxes in the Global South, drawing on the case of Chile. Wealth accumulation drives two distinct urban processes: the commodification of residential properties oriented toward rental markets targeting lower-middle-class

populations, and the perpetuation of socio-spatial segregation through the continuous appreciation of land and housing values. These provide some evidence on the structure of wealth across its distribution in the Global South and thus permit us to glean insights into different tendencies to hold assets abroad; however, these, too, do not provide direct data on international wealth stocks or investment flows.

Thus, although there is growing scholarly engagement with structural dependencies and primitive accumulation in the current literature on wealth inequality within the Global South (Chatterjee, 2025), the intersection between wealth inequality and financial subordination remains as a blank spot. Adding to this, the limited data availability and frequent reliance on survey data, with their well-documented limitations, constitute significant constraints on the study of wealth inequality, particularly with respect to capturing international financial wealth.

One indication on the behaviour of wealthy elites in the Global South can be gleaned from the literature on tax evasion and offshore finance. This research uses rich administrative data to show that it is especially the wealthiest who shift their assets towards tax havens (Alstadsæter et al., 2018). For Scandinavian countries Alstadsæter et al. (2019) find that the 0.01% of the wealth distribution hold around 25 % of their assets in tax havens and the probability of shifting wealth to tax havens is negligible up until the top 1% of the wealth distribution. In Alstadsæter et al. (2018), the authors report that offshore wealth is at least as important for low- and middle income countries as in countries of the Global North by making use of an additional dataset on offshore wealth held in Dubai (Alstadsæter et al., 2025). Offshore wealth in Global South contexts has received much more limited attention, since detailed distributional analyses of who holds offshore wealth in the Global South remain severely constrained by data availability. For instance, Assoud (2024) argues that only income and not wealth inequality can be investigated for Lebanon deriving data from Alstadsæter et al. (2018).

As a consequence, direct data on these distributions is not available. However, on the global firm finance level, Coppola et al. (2021) find that corporations finance themselves through foreign subsidiaries, often linked to shell companies in tax havens, where the real economic location of a corporation remains concealed. Furthermore, when offshore portfolios are taken into account, bilateral investment flows leaving developed countries and entering firms of emerging markets are found to be understated.

Another source of insights for our argument is the macroeconomic literature on differential asset holdings and their returns of Global North and Global South countries (Akyüz, 2017, 2021; Oliveira and De Conti, 2025). For example, Akyüz (2021) shows that although declining and experiencing a shift towards equity, foreign exchange

reserves remain a crucial part of Global South economies' external assets. More generally, he evidences that Global South countries' gross assets remain predominantly in reserve currencies, essentially held in US Dollars, whereas liabilities are increasingly determined in local currencies through equity and local-currency debt issuance. This contributed to a shift in foreign currency risks from the liabilities to the asset side (Akyüz, 2021).

Most importantly for our argument, Akyüz (2017) and more recently Oliveira and De Conti (2025) show that Global South countries - due to their subordinate position in the international monetary and financial system - are exposed to a significantly negative yield differential, which means they pay more on their liabilities than they receive for their asset holdings. As highlighted by currency hierarchy scholars (e.g. Prates and Andrade, 2013; Kaltenbrunner, 2015), the international financial system is structured into a periphery that attracts international capital through high-yield, illiquid assets, and a centre that anchors the system by offering liquid, low-cost assets and liabilities that investors use to finance their exposure to peripheral markets. The resulting subordination of peripheral countries imposes a significant penalty, stemming from the elevated costs of external liabilities (Oliveira and De Conti, 2025). The higher costs of bonds issued in peripheral countries stems from a risk premium on the interest rate, which can be decomposed into a political and market-based component. In addition, if bonds are denominated in the local currency, an exchange rate risk premium and illiquidity premium arises (Akyüz, 2021, Oliveira and De Conti, 2025). This further entrenches asymmetries whereby central countries record positive yield differentials while peripheral countries are burdened with persistently negative ones. This means Global South countries experience a structural wealth (foreign exchange) transfer abroad, potentially further tightening their balance of payments constraint. Drawing on Latin American Structuralist theory, Oliveira and De Conti (2025) argue that this international division of finance did not emerge by accident but is fundamental to shaping the reproduction of wealth within international circuits.

Wealth Distribution in the Global North and the Global South

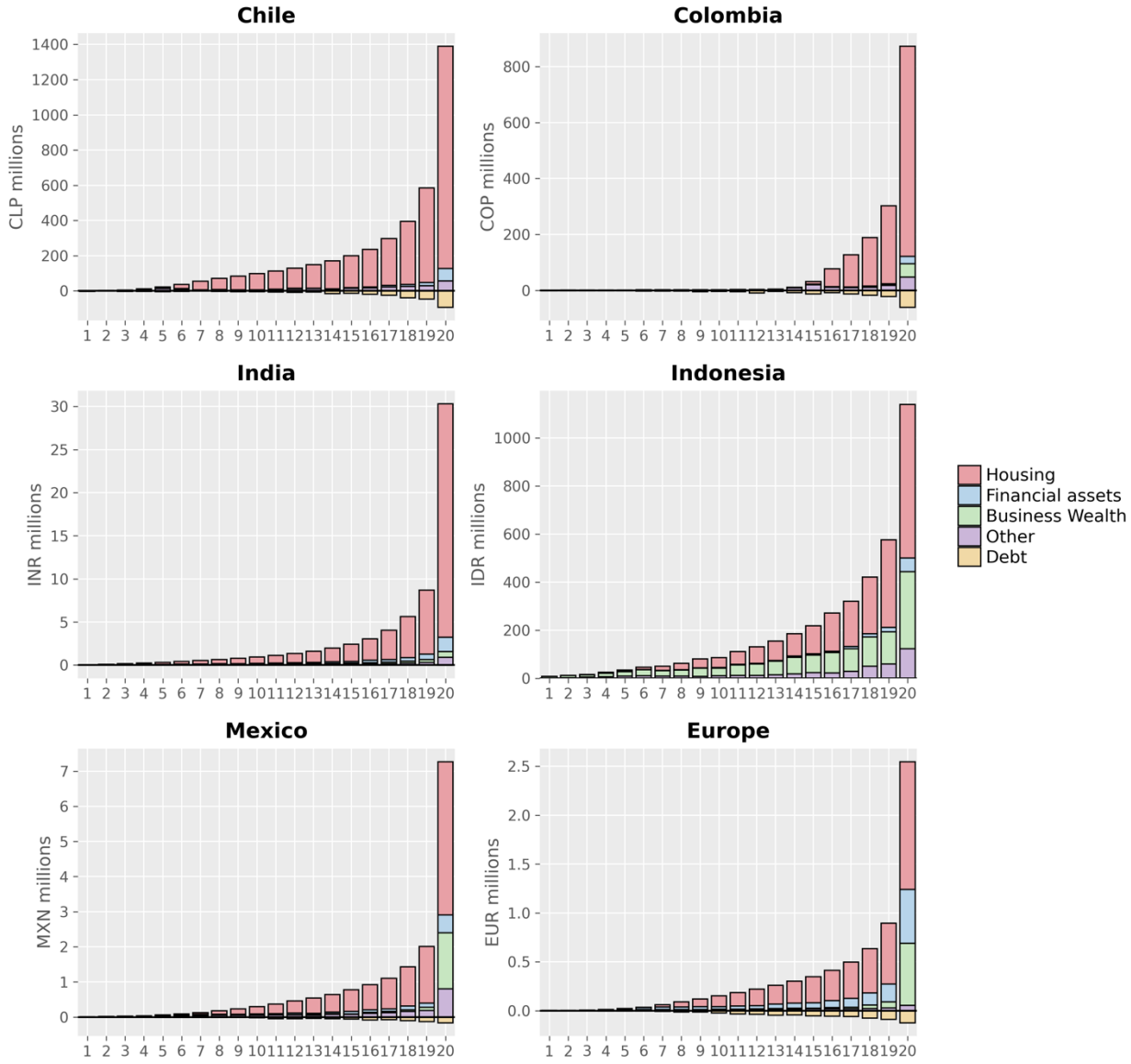
This section investigates the distribution of wealth and the structure of wealth owned in five countries of the Global South and compares them to eight high-income European countries. In line with our theoretical assumptions, we investigate the relation between wealth concentration and an indicator of macroeconomic volatility (real exchange rate volatility) and provide some evidence for the spatial distribution of those wealth holdings, that is whether wealth is held domestically or offshore. To assess potential implications for domestic demand and reflect on their interaction with international monetary and financial asymmetries, we first start our analysis with comparative micro-

level wealth data based on household surveys in five countries of the Global South (Chile, Colombia, India, Indonesia, and Mexico) and eight European countries of the Global North (Belgium, Finland, France, Germany, Italy, Netherlands, Portugal, Spain). As indicated above, so far we miss such a comparative angle of wealth distribution analysis in the Global South.

While these data are collected within each country separately and are not ex-ante harmonized (with the exception of the European data), we apply definitions that are as comparable as possible to measure the components of wealth. These cover housing which includes housing, land ownership, and other real estate; financial assets that comprise bank deposits, bonds, and shares; business wealth which is made up of unincorporated and self-employed businesses; other assets such as vehicles, durables, and other real assets; debt covers all forms of debt including mortgages and consumer debt. They apply the residence principle, so that wealth owned by persons living within the country is accounted for, independent of whether the assets held are invested locally or abroad. Whilst this means that they give a full overview of the distribution of a country's residents' wealth, they unfortunately do not allow distinguishing where the assets are held.

Figure 1 presents the distribution of these four categories of gross wealth and debt across gross wealth vingtiles for our sample of five Global South countries individually, and in the sixth panel an average for our sample of eight European high-income countries. It shows that gross wealth is highly right-skewed, with the bottom half owning negligible amounts of wealth in all cases and wealth levels rising strongly toward the top vingtiles, especially in the 20^{th} bin. Colombia and India show extremely low wealth for the bottom 90%, while the Chilean, Indonesian and, to a slightly lesser extent, Mexican distribution of wealth are more comparable to the European high-income average.

Figure 1 Wealth distribution by vingtiles for Chile, Colombia, India, Indonesia, Mexico, and Europe



Note: This figure shows household wealth levels across gross wealth vingtiles in absolute terms. Bars report average asset holdings by category; debt is shown as a negative value. Financial assets include deposits, bonds, listed shares, and investment funds; business wealth refers to own-business equity. Business wealth is not reported for Chile. Debt data for India and Indonesia is missing or inconsistent. Data are weighted and refer to the most recent available survey year.

Source: Authors' calculations; data: national household wealth surveys (Chile, Colombia, India, Indonesia, Mexico): Banco Central de Chile (2022), Instituto Nacional de Estadística y Geografía (INEGI) (2020), Departamento Administrativo Nacional de Estadística (2019), National Sample Survey Office (NSSO), All India Debt and Investment Survey (AIDIS) 2013, Strauss and Witoelar (2019); ECB Household Finance and Consumption Survey (HFCS), wave 4 (2021) for Europe.

Overall, Figure 1 documents that wealth is even more concentrated in the Global South than in the Global North. As a consequence, the ability of the wealthiest 5% to transfer assets abroad is much larger than among the rest of the population. This is not only the case relative to their share in the population, but since a very large share of wealth is concentrated in the ownership of the top 5%, it holds in terms of absolute wealth levels too. Although our data do not contain information on foreign asset holdings, the literature discussed above shows that wealthy households are the primary holders of foreign assets in the Global North, and provides indications that it is likely the case in the Global South, too (Alstadsæter et al., 2018, 2025).

Negative debt bars in the countries that collect these data indicate that liabilities increase with wealth and are largest in absolute terms at the top of the wealth distribution, but that they are typically small relative to asset levels. This means, in general, individuals with higher wealth have the ability to debt finance their assets (leverage). Here we observe very little difference between country groups, indeed, debt levels in Chile and Colombia seem to be higher than the European average.

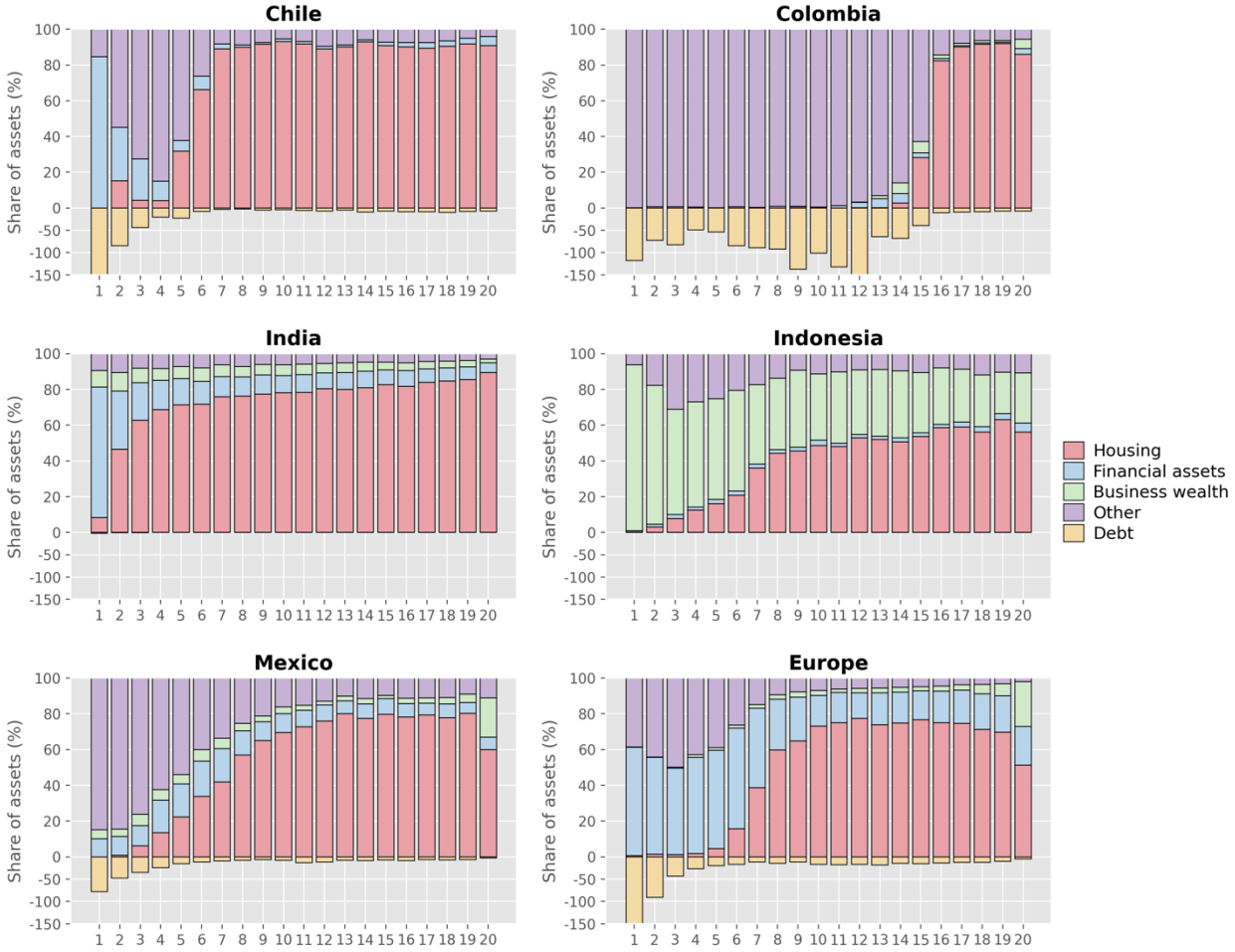
Regarding its composition, Figure 1 shows that housing dominates wealth for the large majority of the population, while business wealth and financial components become more visible at the top in some countries. Mexico appears most similar to the high-income countries in this regard, while business wealth plays a role in Indonesia across the entire wealth distribution.

We hypothesise that the high wealth inequality in middle- and low-income countries might lead to a significant transfer of financial resources overseas. As indicated above, high wealth individuals are more able to navigate international financial markets and transfer their resources abroad. This might be particularly the case in the Global South where investment opportunities are more limited and/or trust in the domestic financial system is lower. This transfer of resources, in turn, might have significant implications for the balance of payments constraint. Though not in principle a savings constraint, the transfer of financial wealth abroad limits the funding capacity of domestic financial agents such as banks or institutional investors. Moreover, the demand for foreign assets also increases the demand for foreign currency, thus potentially resulting in devaluation

pressures. Such devaluation pressures tighten the balance of payments constraint, as a weaker currency raises the cost of imports and of servicing foreign-currency debt. That having been said, if invested at relatively higher returns, domestic savings invested abroad might also generate foreign exchange income, which - in the medium term - could alleviate the balance of payments constraint. Yet, as discussed above, and shown in more detail below, so far, the return differential - at least on the aggregate level - seems to be negative for Global South economies, thus leading to an overall outflow of foreign exchange and thus a potential further tightening of the balance of payments constraint.

Next, we turn to the relative wealth composition, which allows us to go into more detail for the lower half of the gross wealth distribution where absolute wealth levels are too low to discern in Figure 1. Figure 2 shows the same data as Figure 1, with categories depicted relative to total gross wealth within each vingtile.

Figure 2 Wealth structure by vingtiles for Chile, Colombia, India, Indonesia, Mexico and Europe



Note: This figure shows the composition of household wealth across gross wealth vingtiles. Asset categories are expressed as shares of total gross wealth within each vingtile, while debt is shown separately as a negative share. Financial assets include bank deposits, bonds, listed shares, and investment fund holdings; business wealth refers to equity stakes in own businesses and self-employment assets. Business wealth is not reported for Chile due to data limitations. Debt data for India and Indonesia is missing or inconsistent; values cut off for readability: Chile 1st vingtile -797%; Colombia 12th vingtile -274%; Europe 1st vingtile -463%. Data are weighted and refer to the most recent available year of each wealth survey.

Source: Authors' calculations; data: national household wealth surveys (Chile, Colombia, India, Indonesia, Mexico): Banco Central de Chile (2022), Instituto Nacional de Estadística y Geografía (INEGI) (2020), Departamento Administrativo Nacional de Estadística (2019), National Sample Survey Office (NSSO), All India Debt and Investment Survey (AIDIS) 2013, Strauss and Witoelar (2019); ECB Household Finance and Consumption Survey (HFCS), wave 4 (2021) for Europe.

In the lowest wealth bins, portfolios are generally dominated either by financial assets as in India and Chile, reflecting the importance of bank deposits and liquid savings in the extremely low absolute low wealth levels of poorer households. Alternatively, as in Colombia and Mexico, "other" assets account for a substantial share at the bottom, capturing items such as vehicles or durables.

Towards the middle and upper half of the wealth distribution, all countries show a shift toward asset structures centered on housing. The point at which this inflection occurs varies greatly between middle-income countries. Data in Chile and Mexico are comparable to the European average, with housing becoming a relevant share in asset categories between the third to fifth decile. In India, only the very bottom of the wealth distribution captured by the survey data do not own housing, while only the top three deciles own housing in Colombia. Indonesia stands out with a high share of business wealth across much of the distribution, consistent with widespread small-scale self-employment and informal entrepreneurship.

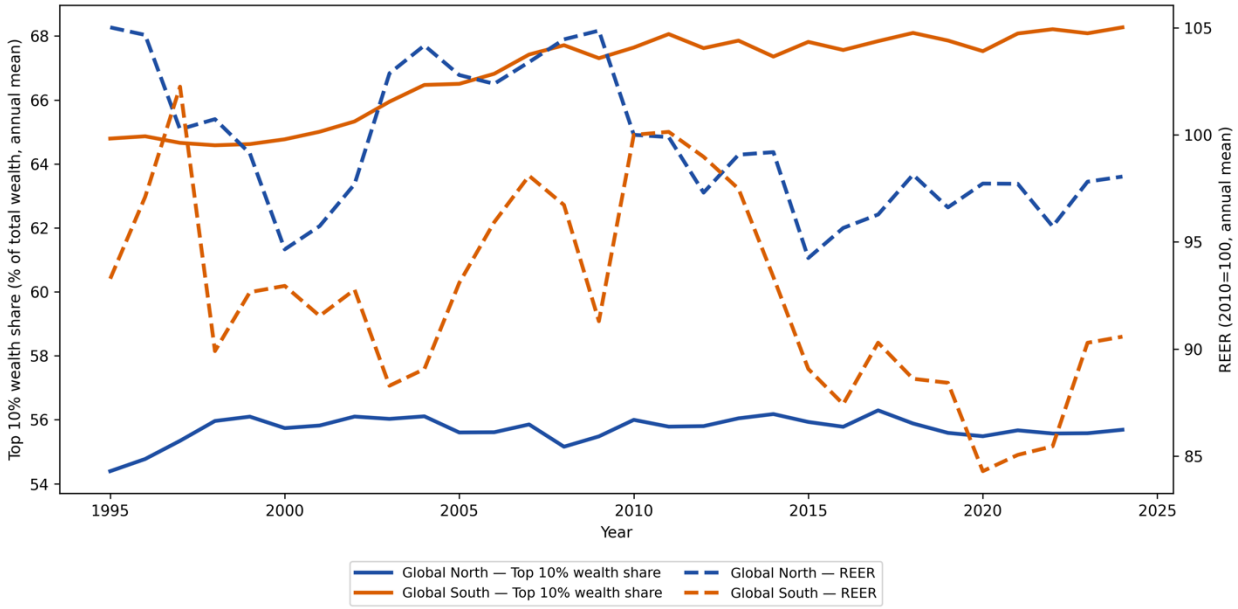
Lower wealth bins are often highly indebted relative to their asset holdings. Despite the very low absolute wealth levels documented in Figure 1 above, these represent a large burden compared to total wealth. For debt, Mexico and Chile again show patterns similar to the European average, while in Colombia households up to the seventh decile are highly indebted relative to their low ownership of gross wealth. Indian and Indonesian debt data are not available or inconsistent, and are thus not presented in Figure 2.

These data suggest that poorer households are especially vulnerable to income, interest-rate, and macroeconomic shocks, with limited capacity to absorb currency or financial stress through the ownership of wealth. Furthermore, the level and structure of wealth of the bottom 95% of households in both Global South and Global North countries makes it unlikely that substantial amounts of wealth are invested abroad. Rather than shaping the balance of payments constraint through capital outflows, lower-wealth households are thus primarily affected by it through the income and price channels: currency depreciation and macroeconomic volatility erode their purchasing power and may deepen their indebtedness, with limited wealth buffers to cushion the impact.

This raises the questions how this very high wealth inequality is linked to macro-financial dynamics, and how this relationship developed over time. We argue that macro-financial dynamics in the Global South, such as high exchange rate volatility, external vulnerability, and structural return differentials with the Global North are intimately related to wealth dynamics. On the one hand, macroeconomic uncertainty undermines sustainable broad-based development and favors those that can protect their wealth in financial or real assets by investing in ‘safe havens’ abroad. On the other hand, that same inequality feeds back into structural balance of payments constraints and macroeconomic volatility as it is also those higher wealth groups which have a disproportionally higher share of foreign asset holdings, leading to capital outflows, tightening domestic capital constraints, and ultimately, loss of domestic productive capacity.

Figure 3 aims to give some answers to these questions by showing the top 10% wealth share (left-hand side axis) and the real effective exchange rate indexed to 2010 (right-hand side axis) for our country sample, which is divided again into countries of the Global South and Global North, for the past thirty years from 1995 to 2024. It uses aggregate data from the World Inequality Database (WID), which trades off less granular micro-level detail against increased cross-country comparability and availability over time.

Figure 3. Real effective exchange rate and wealth inequality



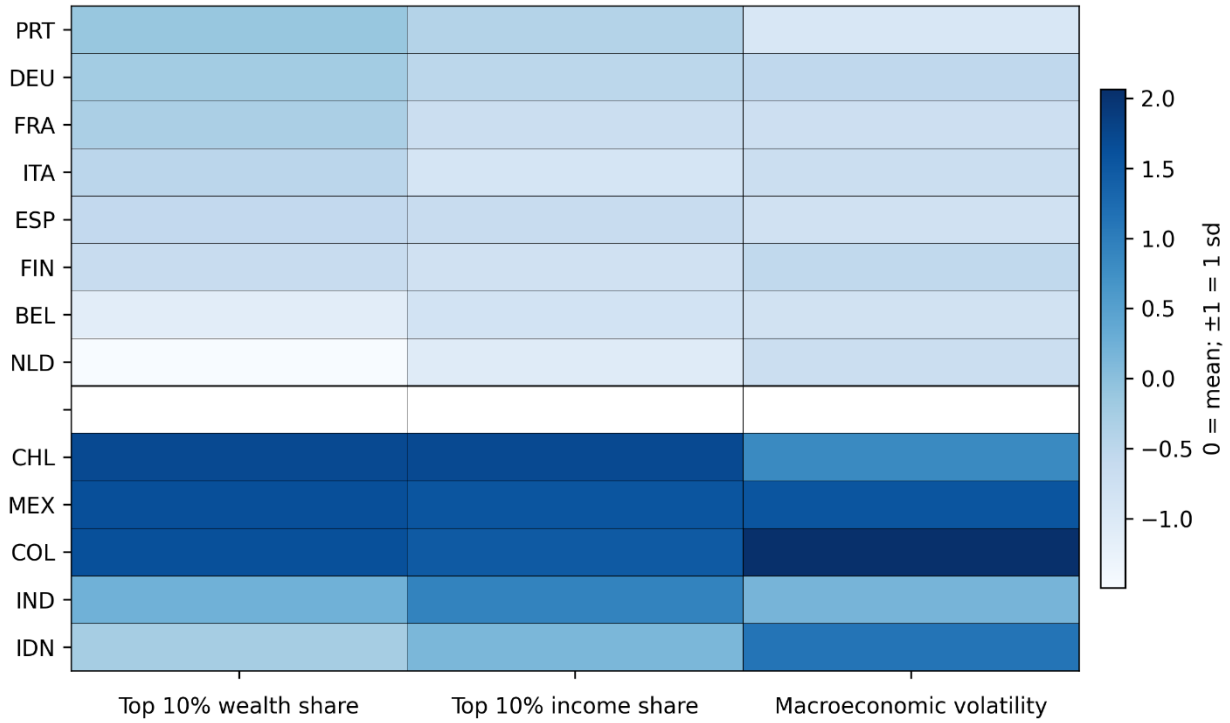
Note: This figure shows the real effective exchange rate (REER) index and the wealth share of the top 10 percent for countries of the Global South and the Global North over the period 1995–2024. REER is indexed to 2010 (=100) and plotted alongside wealth inequality to illustrate the co-movement between external competitiveness and wealth concentration. Lines represent unweighted group averages.

Source: Authors' calculations; data: International Monetary Fund (2026), Bank for International Settlements (2026), and World Inequality Database (2026).

Figure 3 shows that wealth inequality has risen in Global South countries since the beginning of the 2000's, reaching an extremely high level of about 68% for the share of the top 10% in total wealth by the end of the period. In the Global North, wealth inequality remained high and stable with an average share of the top 10% in wealth of about 55%. At the same time, Global South countries, while exhibiting a weak devaluation trend especially following the financial and economic crisis in 2008, experienced substantially greater currency volatility relative to high-income countries. Thus, rising wealth inequality in the Global South was accompanied by a structural depreciation trend and substantially higher exchange rate volatility than the one observed in high-income countries. In our argument potential causality goes both ways: on the one hand, rising wealth inequality in the Global South potentially contributed to currency volatility and devaluation pressure as a significant share of that wealth was remitted overseas. At the same time, the uncertainty created by strong exchange rate volatility and the relative loss in the dollar value of asset holdings further cemented the structural tendency for wealth holders to seek investments abroad.

Figure 4 summarises the argument made so far by presenting indices ranking our Global North (top rows) and Global South (centre rows) country sample according to the top 10% wealth share (first column), the top 10% income share (second column), and macroeconomic volatility (third column). Macroeconomic volatility is measured by the absolute annual change in the logarithm of the real effective exchange rate, and income and wealth inequality by the respective share of the top 10%, averaged over 2001–2023.

Figure 4. Macroeconomic volatility, top 10% wealth share and top 10% income share



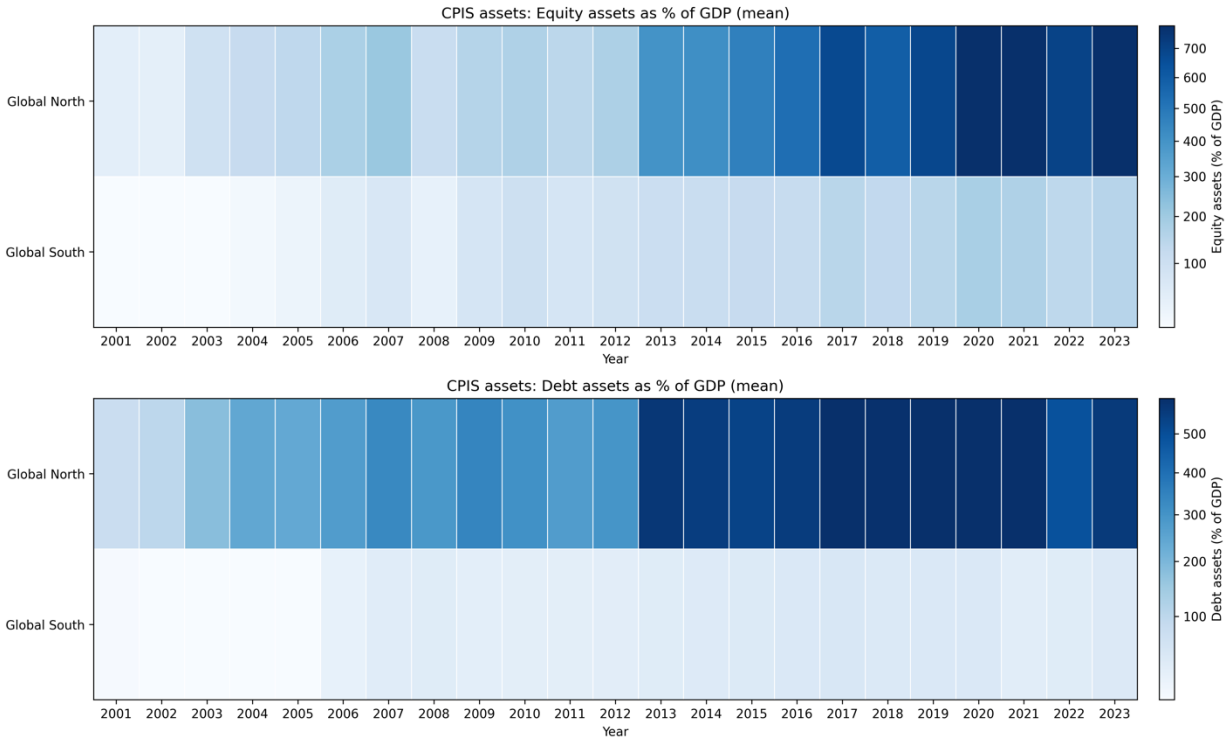
Note: This figure shows standardized indicators for macroeconomic volatility, top 10 percent wealth share, and top 10 percent income share for five countries of the Global South and eight countries of the Global North, averaged over 2001–2023. Macroeconomic volatility is measured as the average absolute change in the logarithm of the real effective exchange rate (REER) from the IMF EER (2026) and BIS REER (2026). All variables are standardized across countries (z-scores: $z_i = x_i - \bar{x} / \sigma_x$, where the mean $\bar{x}$ is subtracted from the observation x_i, divided by the standard deviation σ), so that darker (lighter) shades indicate higher (lower) values relative to the sample mean. Countries are grouped by income level and sorted by wealth inequality.

Source: Authors' calculations; data: International Monetary Fund (2026), Bank for International Settlements (2026), and World Inequality Database (2026).

Figure 4 confirms that countries of the Global South face elevated macroeconomic volatility vis-à-vis countries of the Global North. The WID data also confirm the point made in Figure 1 based on country-level wealth surveys, namely that wealth inequality is substantially higher in the Global South than in the Global North. Across our sample, the top 10% wealth share averages about 67% in the Global South compared with about 56% in the Global North. Income inequality is likewise higher in the Global South countries included in our sample.

To assess our hypotheses that this macroeconomic volatility and higher wealth inequality is related to a higher share of foreign asset holdings, we present insights from the Coordinated Portfolio Investment Survey (CPIS) from the International Monetary Fund. Due to a lack of wealth data by residency, for this final step in our argument, we are forced to turn to macroeconomic data. Figure 5 shows average assets held abroad as a share of GDP, split into equity and debt assets, by our sample of Global South and Global North countries from 2001 to 2023. It indicates that the intensity of assets owned abroad increased substantially for the Global North, while it did so to a much smaller degree for Global South countries.

Figure 5 Foreign portfolio assets (equity and debt) held abroad in the Global North and Global South, % of GDP, 2001–2023

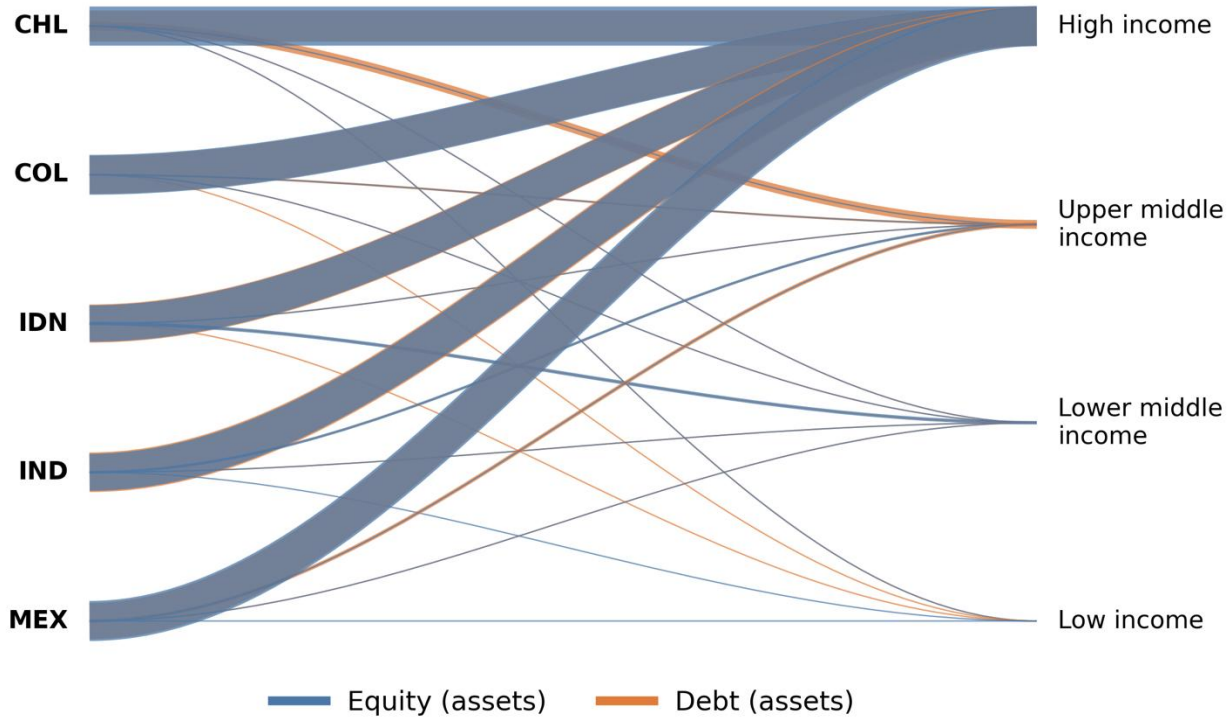


Note: The figure shows group means of foreign portfolio assets held abroad, separated into equity and debt assets, expressed as a percentage of GDP. Values are averaged across countries within the Global North and the Global South.

Source: Authors' calculations; data: International Monetary Fund, Coordinated Portfolio Investment Survey (2026), and World Bank, World Development Indicators (2026).

This lower intensity notwithstanding, Figure 6 shows that the lion's share of assets held abroad by Global South countries is located in the Global North. (Incidentally, the same holds true for the Global North countries which also hold the majority of their wealth in the Global North).

Figure 6 Destination country groups of foreign assets held in the Global South sample



Note: This graph shows the shares of cross-border portfolio equity and debt assets held by five middle-income countries (Chile, Colombia, Indonesia, India, Mexico) across four destination groups based on World Bank income classifications (high, upper-middle, lower-middle, and low-income). Shares are computed within each reporter and asset type and sum to 100% across destination groups, using CPIS asset stock positions aggregated over 2001–2023.

Source: Authors' calculations; data: International Monetary Fund, Coordinated Portfolio Investment Survey (2026), and World Bank country classifications by income level (2024).

These findings have implications for differential returns both between and within countries. First, the high wealth inequality which we document in this article is typically linked to within-country differential returns: the literature suggests that returns to wealth among top wealth households are higher (Bach et al., 2020; Fagereng et al., 2020; Lagemann and Rehm, 2025). This is mainly due to the composition of assets, with high-wealth households earning profits out of business ownership and the majority of the population receiving interest income from bank deposits and returns to owner-occupied housing.

Furthermore, on the macroeconomic level existing evidence shows that the yields that are being generated by Global South countries on their assets are structurally below what they pay for their liabilities and (partly as a consequence) the yields generated by Global North wealth holders (Akyüz, 2021; Oliveira and De Conti, 2025). As documented extensively by Akyüz (2021) and extended recently by Oliveira and De Conti (2025) both of whom incorporate capital gains and losses into the analysis, Global North countries earn, with 6.01 %, more than three times more on their assets than Global South countries with 1.39 %. The total returns on liabilities does not differ as much, but is still higher for the Global South (6.75 % vs 5.38%). The differential between total rate of returns on assets and liabilities is persistently higher for countries of the center compared to the periphery, which results in a transfer of wealth from the periphery to the center (Oliveira and De Conti, 2025).

This shows that whilst a significant amount of domestic savings are invested outside Global South economies, amongst others to avoid the domestic macroeconomic volatility and structural depreciation tendencies, the relative returns generated by them are disproportionately lower than those achieved by the Global North. This is associated with the rates of return on the individual components as well as the share of these in gross external assets and liabilities (Akyüz, 2021). For debt assets and liabilities, the different yields result from currency denomination, maturity profile, the countries' jurisdiction and risk premia. When looking at the composition of their gross debt assets, some extent of the differential can partly be related to the large share of foreign reserves in foreign asset holdings of Global South economies, which are commonly low interest and thus demonstrate low-yield assets (Akyüz, 2021). This contributes to the fact that the Global South pays more on their debt liabilities than they earn on their assets.

We generally observe that equities attain higher returns than debt due to higher risk (Akyüz, 2021). It has been documented in the literature that there is a positive relation between the relative proportion of equity holding within gross external assets and liabilities and average returns on total assets and liabilities. Consequently, because of the structure of Global South with a higher share of equity within liabilities than assets, lower returns are earned on assets and higher sums go into gross liability payments.

In addition, debt liabilities of Global South countries face high risk premia since credit risk ratings are often biased towards countries of the Global North and adds a compensation for exchange-rate volatility, which hold a substantial part of these liabilities and contributes to their favorable position (Oliveira and De Conti, 2025). This difference in risk return for assets and liabilities thus structures the global redistribution of wealth towards the Global North.

Conclusion

This article stands on the shoulders of Robert Blecker's seminal work on balance of payments constrained growth. Starting from Blecker and Razmi (2008) and Blecker (2013), we hypothesise that capital outflows from Global South economies matter and that they are directly linked to wealth inequality. This makes it necessary to open the black box of highly aggregated, country-level data and investigate within-country wealth distributions to better understand international currency hierarchies.

This contribution thus first links the two strands of the literature investigating balance of payments constrained growth on the one hand and wealth inequality on the other hand, noting that the latter is unfortunately deficient with regard to asset ownership abroad in countries of the Global South. We then show empirically that the distribution of wealth within countries of the Global South is extremely unequal and that the structure of wealth categories held by different wealth groups differs markedly by comparing selected countries of the Global South with an average for Global North countries. At the macroeconomic level, we then present evidence on the correlation between wealth distribution, foreign asset holdings and an indicator of macroeconomic uncertainty (real exchange rate volatility) and finish by demonstrating that the intensity of assets owned abroad is not only much higher for the Global North, but also increased more than for our Global South countries and that the lion's share of assets held abroad by Global South countries is located in the Global North.

We deduce from these data that high wealth groups are likely the primary holders of international financial and investment assets in the Global South, and that capital flight by elites due to precautionary motives will be predominant in countries of the Global

South that are characterised by a subordinate integration into the international monetary and financial system. This heightens the balance of payments constraint not only through the direct transfer of domestic wealth and ensuing demand for foreign exchange, but also through a structural net transfer of foreign exchange abroad if, as the literature suggests, there are structural return differentials to the detriment of Global South actors. Though our insights are at best indicative and suffer from severe data limitations, they strengthen Robert Blecker's important point that we need to consider how Global South economies' subordinate monetary and financial integration interacts with its balance of payments constraint stemming from current account dynamics.

Since the field broached in this contribution is very novel, many fruitful avenues for future research are open: First, it would be useful to provide more detailed quantitative evidence than we were able to present here, probably at the country level. Second, since quantitative data is so limited in this regard, additional empirical work investigating international investment by wealth groups using qualitative methods could contribute deeper insights. Finally, to the best of our knowledge so far, no models attempt to incorporate the wealth distribution and resulting capital outflows into a model of balance of payment constrained growth. Pursuing these avenues would allow future research to better understand how the structure of domestic wealth inequality shapes – and is shaped by – the monetary and financial constraints that define development trajectories in the Global South in the spirit of further advancing Robert Blecker's research agenda.

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