



# EM Capital Flows Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

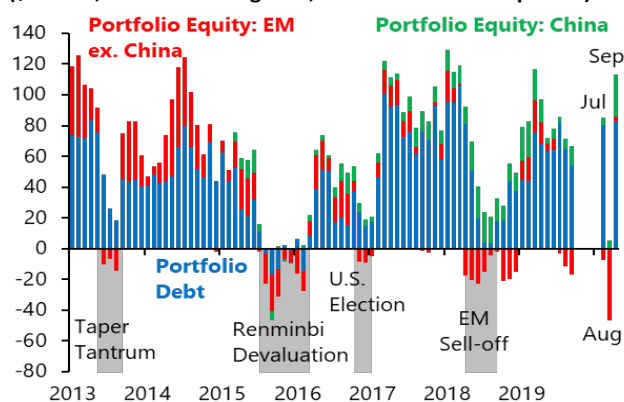
October 15, 2019

## Highlights:

- **Portfolio flows to emerging markets have continued to react to the twists and turns of trade disputes.** In the last few months, flows have been volatile: strong inflows in July were followed by a sharp broad-based reversal in August and a snapback in September (Chart 1). Cumulative portfolio flows since the beginning of the year have held up well, with hard currency debt flows showing more resilience than equity or local debt flows (Charts 1 and 2). Within regions, EM Asia and Emerging Europe saw healthy flows recently, while Latin America and Africa remained under pressure (Charts 14-17). Flows to Saudi Arabia also benefitted from its [inclusion](#) in major equity indices (Chart 13).
- **Looking at the broader EM capital flows (ex. China), the latest available (Q2:2019) balance-of-payments data show a sharp decline in both inward and outward FDI and portfolio flows, though bank lending remained strong (Charts 6 and 7).** Aggregate current account surplus of EMs (ex. China) was eroded in Q2, though net capital flows were supported by a sharp decline in resident outflows. Reserve accumulation continued in major EMs, but at a slower pace as EM currencies came under pressure on escalating trade tensions and political uncertainty (Chart 9).
- **Net capital flows to China have been strong year-to-date, due to historically low resident outward investment and resilient non-resident portfolio flows (Chart 12).** China's inclusion in the Bloomberg Global Aggregate bond index ([IMF blog](#)) in April has continued to support inflows. FTSE recently [decided](#) not to include Chinese bonds in the WGBI Index, yet (Chart 13). PBOC has shifted from buying reserves in Q1 to selling reserves in Q2 (albeit in small amounts), as RMB came under pressure on trade escalations and the US designating China as a currency [manipulator](#) (Chart 11). Net errors and omissions were around \$131bn in H1:2019, compared to a monthly average of \$80 bn during the RMB devaluation in 2015-16, while resident outflows (\$74 bn) were the lowest in 10 years.

## Year-to-date portfolio flows have been resilient...

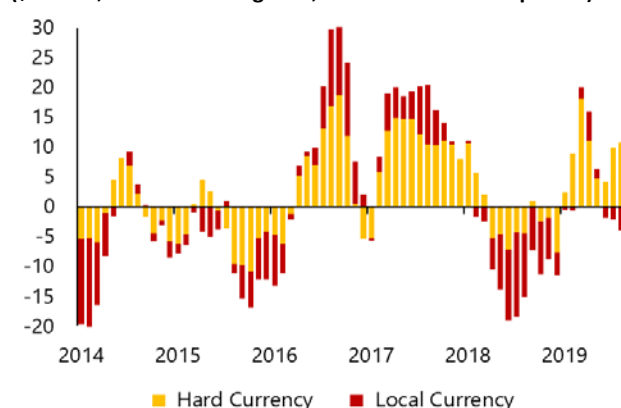
Chart 1. Non-Resident Portfolio Flows to EMs (incl. China)  
(\$ billion, 3-month rolling sum; last observation: Sep 2019)



Source: IIF, IMF staff calculations Note: Last three observations are monthly flows \* 3.  
Regional trends are provided on page 4

## ... and largely driven by hard currency debt flows

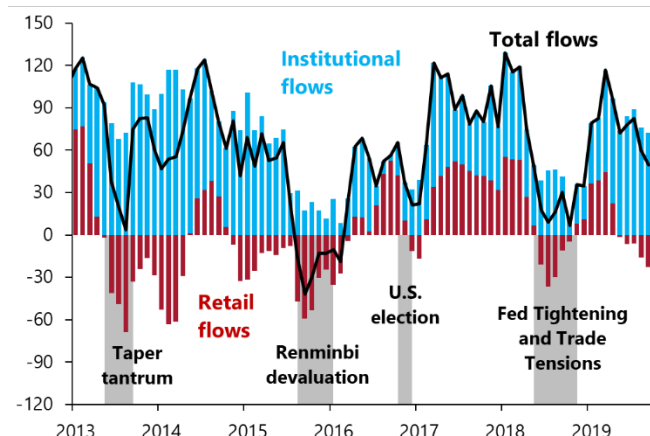
Chart 2. EPFR Fund Flows to Emerging Markets (incl. China)  
(\$ billion; 3-month rolling sum; last observation: Sep 2019)



Source: EPFR, IMF staff calculations

**Inflows from institutional investors have been strong, while retail funds experienced outflows**

**Chart 3. Estimates of Retail and Institutional Portfolio Flows**  
(\$ billion, 3-month rolling sum; last obs. = Sep 2019; includes China)



Source: EPFR, IIF, IMF staff calculations

**August was the worst month for equities and overall flows since 2010, while September saw a recovery**

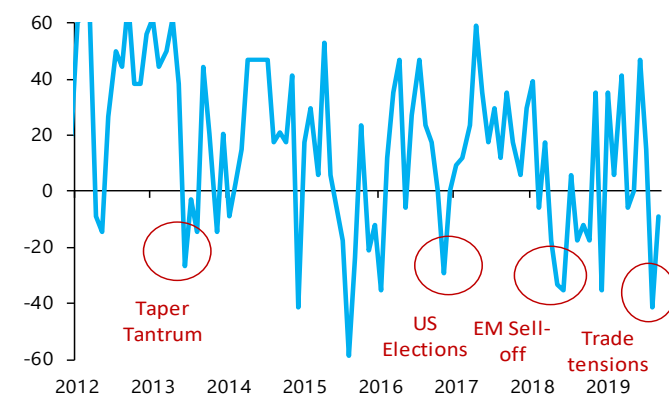
**Chart 5. Non Resident Portfolio Flows to EMs: Percentile Rank\* relative to their Own History (since 2010; totals are ex. China)**

	Q1 19	Q2 19	Jul	Aug	Sep
<b>Total ex CHN</b>	68%	29%	15%	1%	31%
<b>Equity ex CHN</b>	74%	39%	28%	0%	53%
<b>Debt ex CHN</b>	66%	26%	14%	7%	20%
<b>Countries</b>					
China	82%	64%	7%	44%	87%
India	71%	47%	20%	23%	39%
Indonesia	100%	97%	75%	13%	49%
Korea	45%	95%	80%	6%	23%
Malaysia	50%	18%	69%	43%	
Philippines	100%	90%	54%	22%	30%
Taiwan	82%	24%	36%	9%	84%
Thailand	21%	63%	32%	0%	16%
Brazil	74%	13%	14%	4%	39%
Chile	29%	63%	75%		
Mexico	74%	8%	12%	15%	9%
Bulgaria	32%	74%	89%		
Hungary	34%	55%	86%	16%	50%
Poland	11%	18%	3%	17%	
Turkey	84%	3%	52%	26%	36%
Ukraine	42%	68%	99%		
South Africa	24%	26%	8%	3%	35%
*The percentile rank shows how strong recent flows have been relative to the flows observed since Jan 2010. For example, a percentile rank of 70 indicates that recent flows exceed 70% of all observations since Jan 2010.					
Legend (%)	80-100	60-80	40-60	20-40	0-20

Source: IIF, IMF staff calculations Note: An extended heatmap is provided on page 5, and regional trends are on page 4. Totals are ex China, and based on the countries where monthly estimates are available

**Outflows in August were broad-based, followed by an uneven recovery in September**

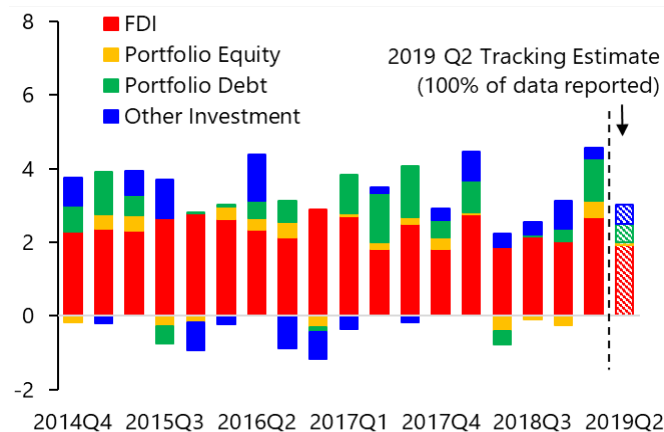
**Chart 4. Percentage of Monthly EM Portfolio Flows Series with Positive/Negative Observations** (Example: -100% means all 18 EM monthly flows series show net outflows)



Source: IIF, IMF staff calculations. The 34 time series include data include 17 equity flows series and 17 debt flows series for a total of 18 countries.

**Non-resident flows to EMs declined in Q2, from Q1 highs, across major components except bank flows**

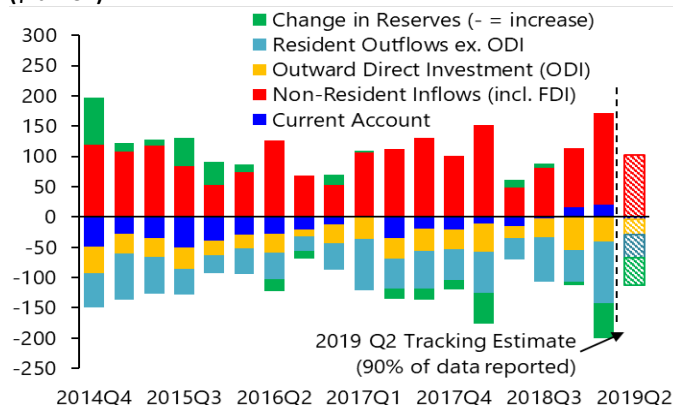
**Chart 6. EMs ex China: Non-Resident Capital Inflows**  
(% of GDP, "other investment" includes bank-related flows)



Source: Haver Analytics, IMF staff calculations

**Decline in non-resident inflows were offset by the compression in the resident outflows in Q2; current account surplus of last 2 quarters was eroded**

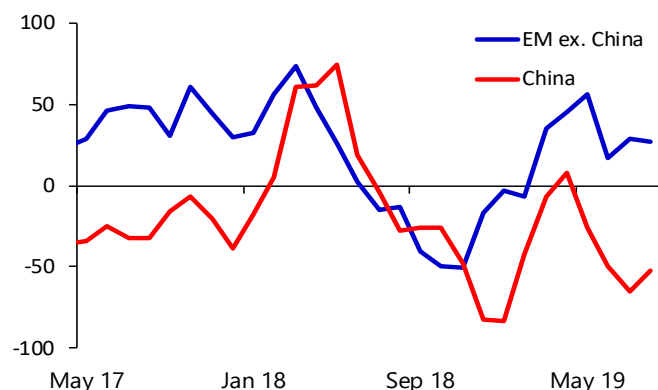
**Chart 7. EMs ex China: Major Balance of Payments Components**  
(\$ billion)



Source: Haver Analytics, IMF staff calculations

**Net capital flows to EMs ex. China have moderated in the last few months, though remain positive**

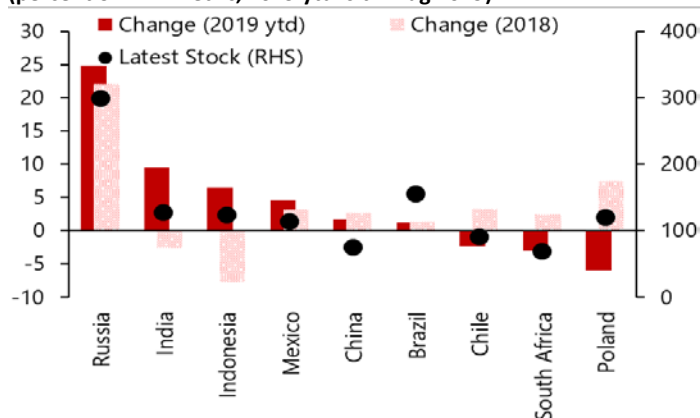
Chart 8. Net Capital Flows to EMs (incl. Errors & Omissions)  
(\$ billion, 3-month rolling sum, last obs. = Aug, (+) = net inflows)



Source: IIF, IMF staff calculations

**RUS, IND and IDN built up reserves in 2019; while FX reserves in ZAF, CHL and POL declined**

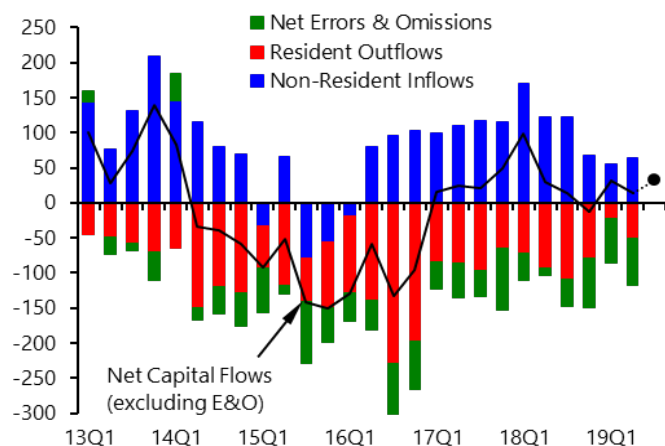
Chart 10. Major EMs: Reserves  
(percent of ARA metric, 2019 ytd is till Aug 2019)



Source: IIF, IMF staff calculations

**Chinese non-resident inflows rose in Q2, offsetting a pick-up in resident outflows and net errors & omissions**

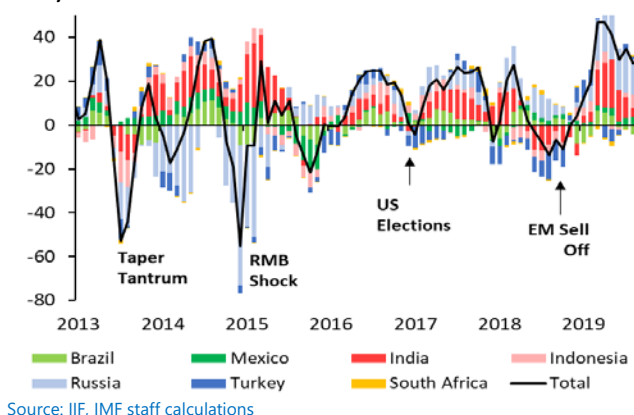
Chart 12. China: Capital Flows  
(\$ billion, quarterly data through 2019Q2; estimates for Q3)



Source: Haver Analytics, IIF estimates, IMF staff calculations

**Central bank reserve accumulation continued in Q2 2019, though moderated from the Q1 highs**

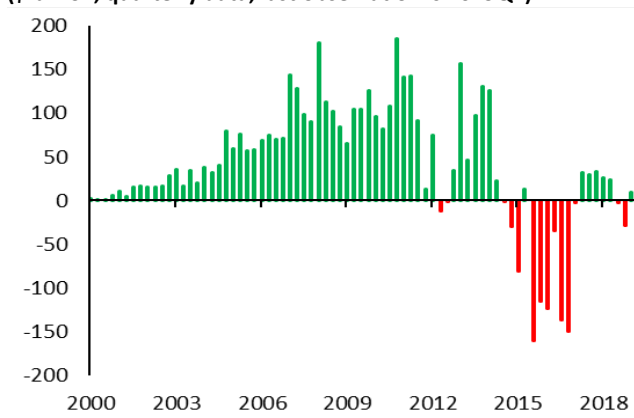
Chart 9. Major EMs ex. China: Estimated Change in Reserves  
(\$ billion; 3-months rolling sum, (+) = increase, last obs. = Aug 2019)



Source: IIF, IMF staff calculations

**China's FX reserve position shifted from small reserve gains in Q1, to reserve losses in Q2**

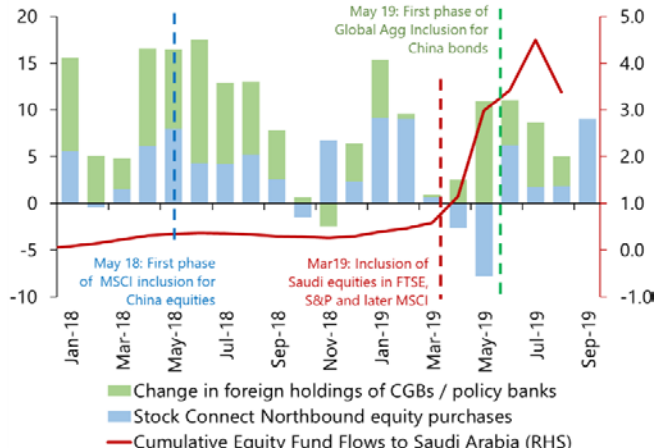
Chart 11. China: Change in Reserves  
(\$ billion, quarterly data; last observation is 2019Q2)



Source: Haver Analytics, IMF staff calculations

**... possibly reflecting the continued flows related to index inclusion decisions**

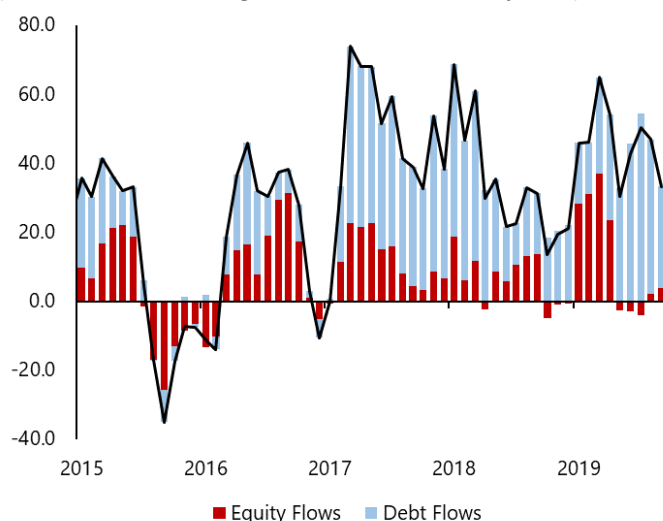
Chart 13. Index-inclusion related flows to China and Saudi Arabia  
(\$ billion)



Source: Bloomberg, IMF staff calculations

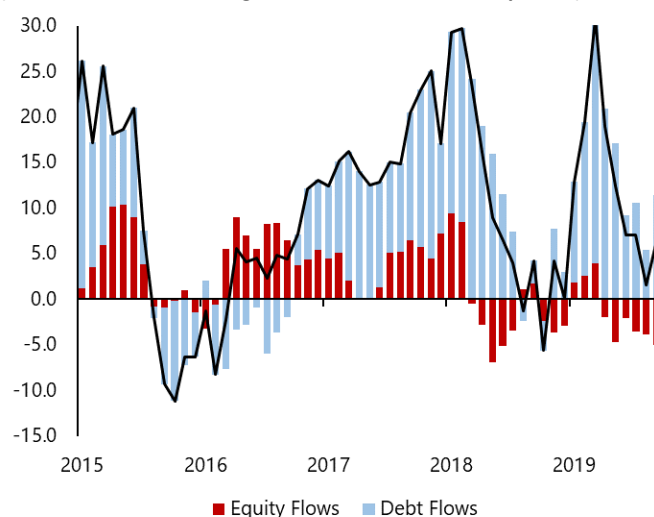
**Regional Flows: Flows to EM Asia and Emerging Europe (notably China, Bulgaria) have remained strong in the recent months, while Latin America, Africa and Middle East (notably Mexico and South Africa) remained under pressure. Within asset classes, debt flows have been resilient, while equity flows have been mostly negative**

**Chart 14. Non-Resident Portfolio Flows to EM Asia (incl. China)**  
(\$ billion, 3-month rolling sum; last observation: Sep 2019)



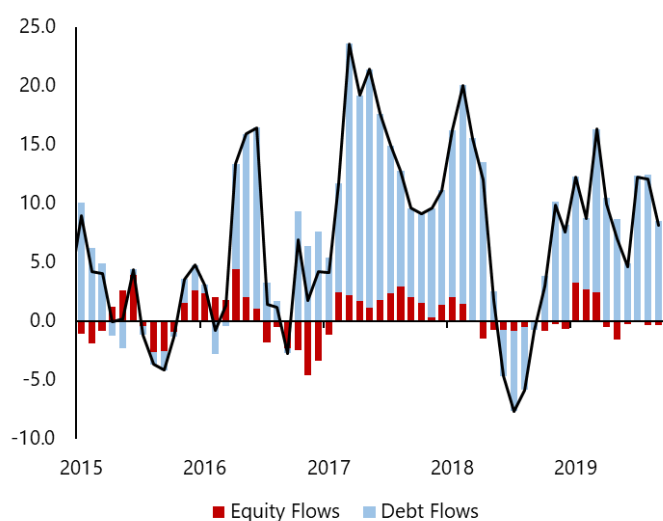
Source: IIF, IMF staff calculations

**Chart 15. Non-Resident Portfolio Flows to Latin America**  
(\$ billion, 3-month rolling sum; last observation: Sep 2019)



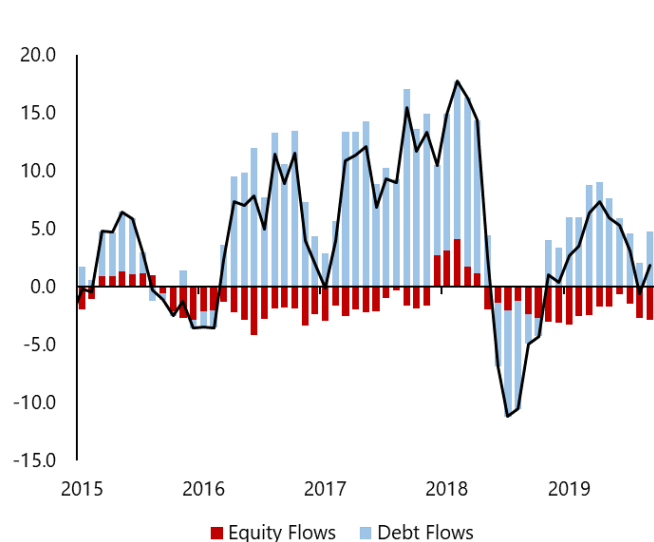
Source: IIF, IMF staff calculations

**Chart 16. Non-Resident Portfolio Flows to Emerging Europe**  
(\$ billion, 3-month rolling sum; last observation: Sep 2019)



Source: IIF, IMF staff calculations

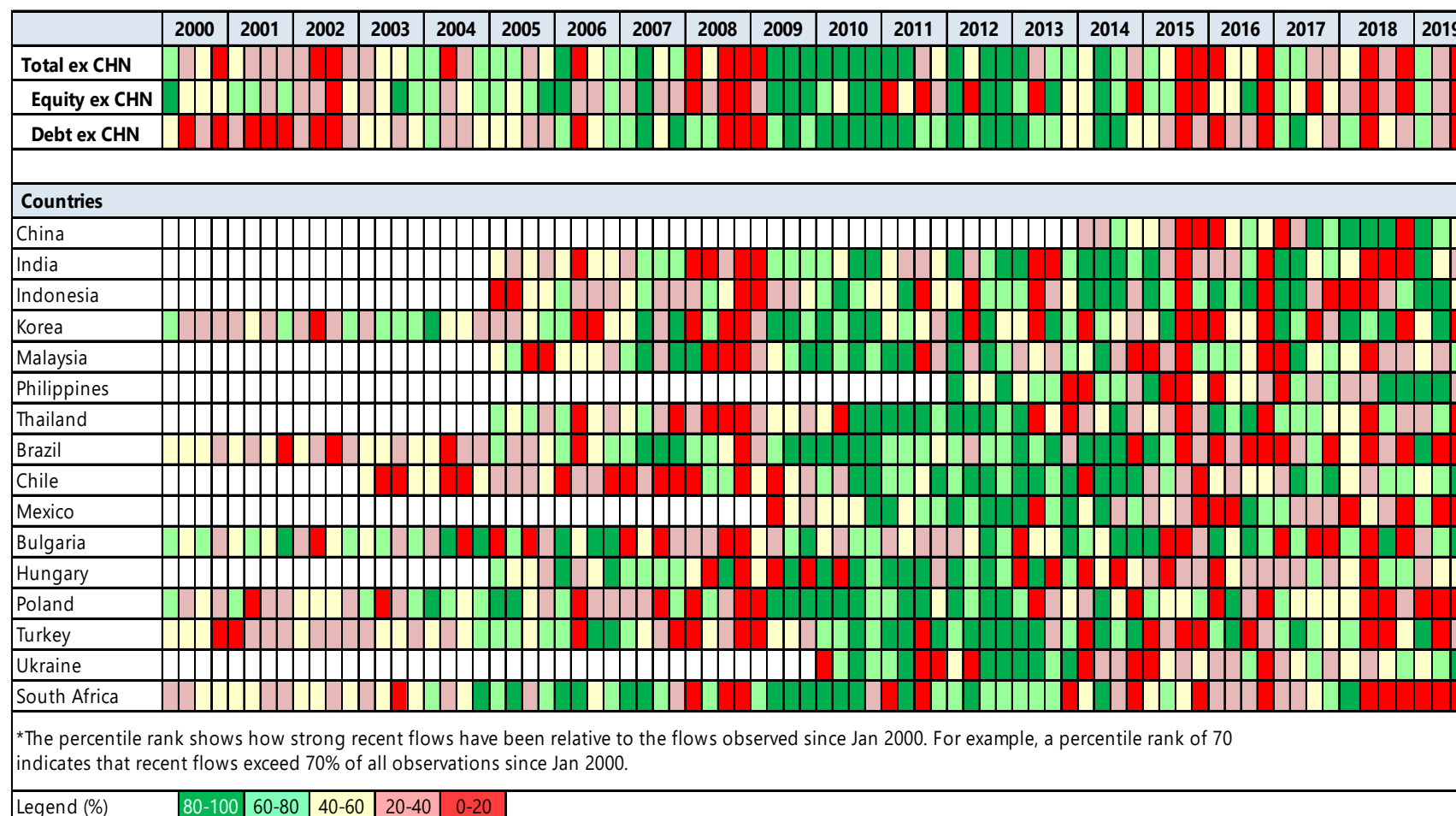
**Chart 17. Non-Resident Portfolio Flows to Africa and Middle East**  
(\$ billion, 3-month rolling sum; last observation: Sep 2019)



Source: IIF, IMF staff calculations

*Portfolio flows to EMs in perspective: crisis in 2008-09, surge in 2010-14, retrenchment in 2015-16; increased volatility in 2018-19*

Chart 18. Non Resident Portfolio Flows to EMs: Percentile Rank\* relative to their Own History (since 2000; totals are ex China)

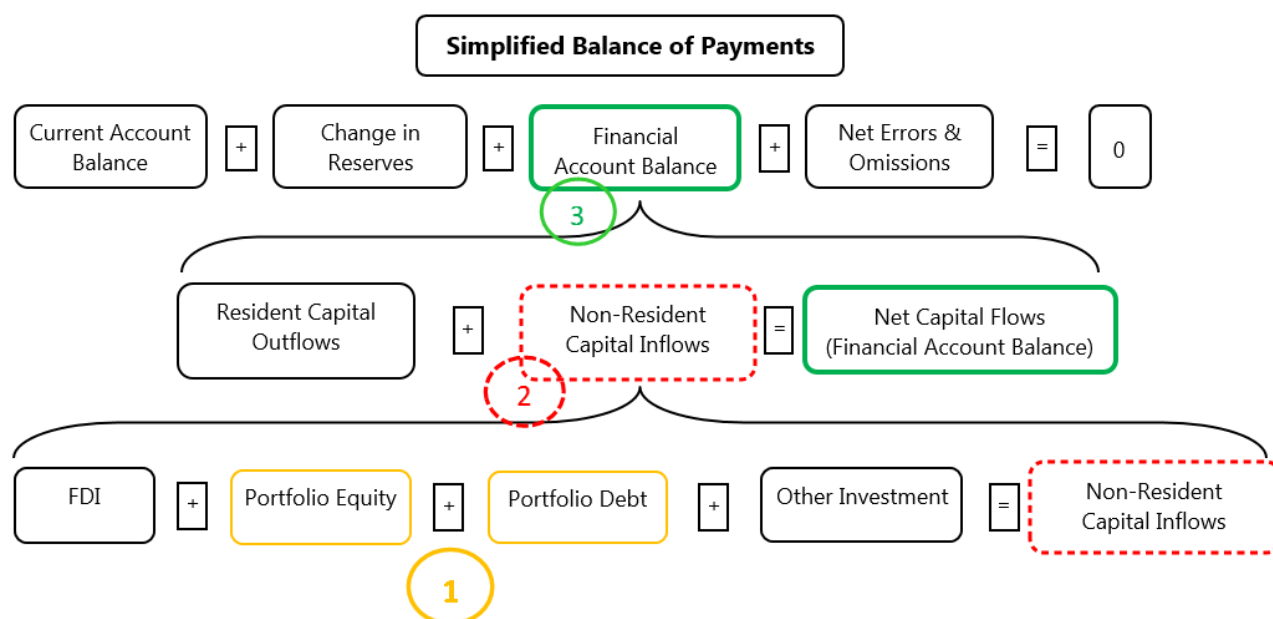


Source: IIF, IMF staff calculations Note: Totals are ex China, and based on the countries where monthly estimates are available

## Tracking Framework for the EM Capital Flows Monitor

The monitor discusses trends in capital flows as measured in the balance of payments (BoP). A simplified BoP breakdown is provided in the figure below. Consistent with this illustration, flows are discussed in the following order:

- First, the monitor considers **non-resident portfolio flows**. This is only one (small) component of the financial account, but it is generally the most volatile component and the one that matters most for asset prices fluctuations. Moreover, available data sources on portfolio flows are timelier and more comprehensive than for other capital flows components.
- Second, the monitor shows estimates of **total non-resident capital flows**. Aside from portfolio flows, this encompasses FDI and “other” investment (which includes bank lending and deposits, among others). It also provides estimates of EM resident outward investments.
- Third, the monitor provides an estimate of **net capital flows** (i.e. the financial account balance) and a look at reserve dynamics. Net capital flows can be estimated in a timely manner using available data for the other BoP components, including the trade balance and the valuation-adjusted change in the stock of reserves, among others.



Note: For ease of illustration, the sign conventions used in this figure correspond to BPM5.