



# EM Capital Flows Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

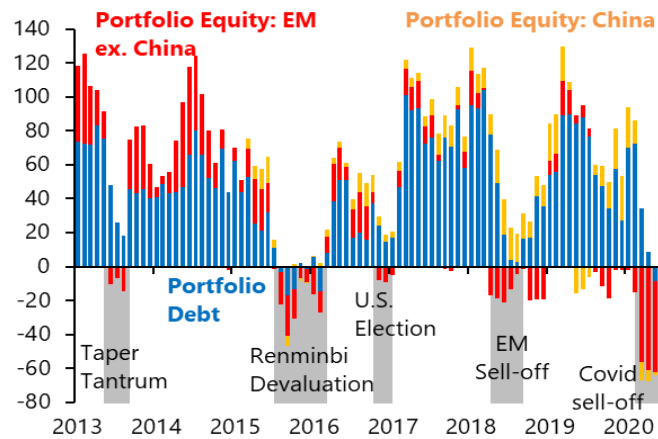
July 29, 2020

## Highlights:

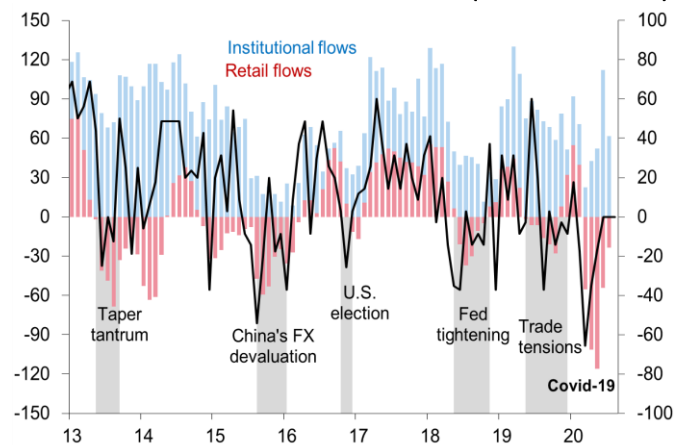
- **The unprecedented portfolio outflows from emerging markets (EMs) during the Covid-19 sell-off ([Q1 monitor](#)) have stabilized now**, with June registering an inflow driven by Chinese equities and EM bonds (Chart 1). However, the recovery is uneven as many countries are still seeing outflows (Chart 2, black line and Chart 7). The recovery, so far, seems to be driven by an improvement in both institutional and retail flows (Chart 2). By asset class, flows to EM bonds have recovered sharply (with hard currency fund flows leading the local currency fund flows) while equity funds continue to have outflows (Chart 3). The trends broadly reflect the sensitivity to different drivers ([GFSR EM 2020 – Managing Volatile Portfolio Flows](#)). Outflows from debt funds in Phase 2 coincided with a global risk-aversion episode, while Phase 1 and Phase 3 were relatively sanguine. Equity fund outflows were more prominent during Phase 3, which is seeing concerns over global growth dynamics but relatively better risk-appetite (Chart 3). Within debt investment vehicles, both ETFs and mutual funds saw massive outflows in March but have since stabilized. While equity mutual fund flows have recovered, ETFs continue to see significant pressures with outflows exceeding the sell-off episode (Chart 4).
- **Q1 balance-of-payments (BoP) data show a sharp decline in the overall capital flows for EMs ex-China (Chart 5)**. Non-resident flows declined to 1.7% of GDP, compared to 5.2% in Q1 2019 and an average of 4.4% in the last decade. The impact of portfolio outflows was further exacerbated by a moderation in FDI flows to 2.4% of GDP (vs 2.8% in Q1 2019)—partially reflecting [global growth downgrades](#) and business uncertainty (refer [UNCTAD analysis on decline in global investments](#)) (Charts 6 and 9). The aggregate decline was however mixed with many EMs (including Brazil, Chile and South Africa) in fact seeing a rise in FDI flows (Chart 8), potentially reflecting idiosyncratic developments ([Pepsi acquired a distributor in South Africa](#)). Other investment (including bank-related) flows picked up in Q1, driven by India and Brazil (Chart 9). The overall decline in non-resident flows was partly offset by reserve operations, as well as by a decline in resident outflows (Chart 10). Resident outflows were recorded at 3.3% of GDP, which is a sharp improvement from the 4.6% figure in 2019 Q1, but marginally higher than 3.0% average of the last decade. Reserve interventions (Chart 11) were short-lived with pressures in EMEA and select Latam countries, while Asian economies (notably India and Indonesia) accumulated FX reserves (refer [MCM note on EM reserve operations](#)). The aggregate current account surplus of EMs (ex-China) remained balanced in Q1 2020 (Chart 10).
- **Net capital flows to China have moderated over the last few quarters and are at historical lows in the last few years (Charts 5 and 12)**. Non-resident portfolio flows declined marginally vs Q4 2019, though aided by China's inclusion in global benchmark indices ([IMF blog](#)) (Chart 15). China continued to lose reserves with a loss of \$25bn in Q1, though it remains much more muted vs the 2015 episode (Chart 13). Net errors and omissions turned positive for the first time since 2014, though resident outflows remained broadly unchanged.
- **Remittance flows also declined sharply** with a 20% yoy growth decline in April, which compares with the average 9% yoy growth in the last five years (Chart 14, refer [WB predicts sharpest decline in remittances in recent history](#)). Flows declined by 10% in May but registered a robust 30% yoy growth recovery in June. Thailand, Kenya, Guatemala and Colombia were the most impacted this year (Chart 15), with the maximum drawdown exceeding that witnessed during the GFC (Chart 16), in some cases. Remittance flows play a significant role in domestic economy for many EMs (Chart 17).

*The unprecedented portfolio outflows in March have now stabilized, driven by a strong recovery in both retail and institutional flows. Following a broadbased outflow episode in March, June saw a mixed participation*

**Chart 1. Non-Resident Portfolio Flows to EMs (incl. China)**  
(\$ billion, 3-month rolling sum; last observation: Jun 2020)

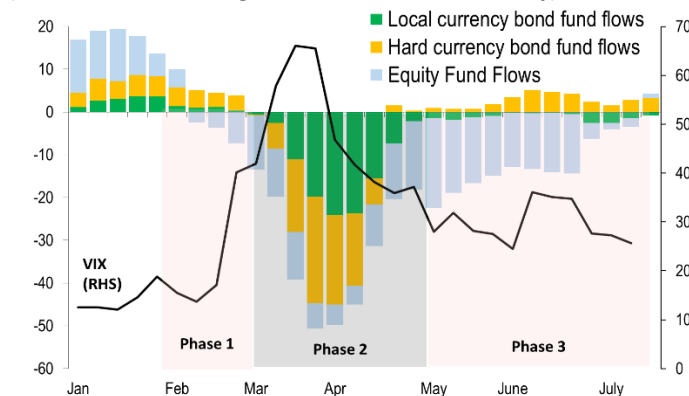


**Chart 2. Estimates of Retail and Institutional Portfolio Flows**  
(\$ billion, 3-month rolling sum; last obs. = July 2020; inc China).  
Black line shows the breadth across countries (-100 = all outflows)



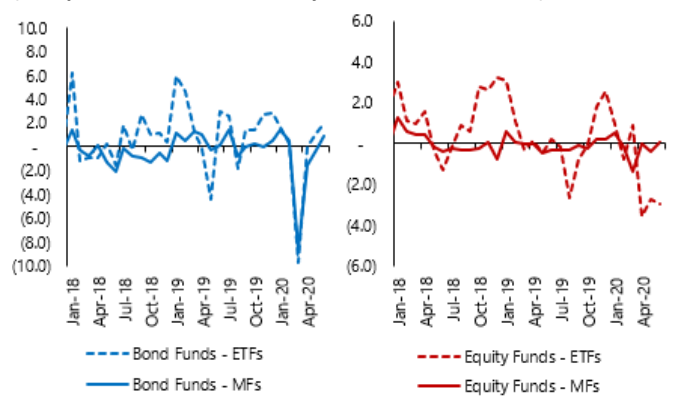
*Fund outflows from EM bonds have recovered sharply while equity funds continue to see some pressure, reflecting the sensitivity to different drivers (Apr GFSR)*

**Chart 3. Fund Flows by Different Categories**  
(\$ billion, 4-week rolling sum; last obs. = month of July)



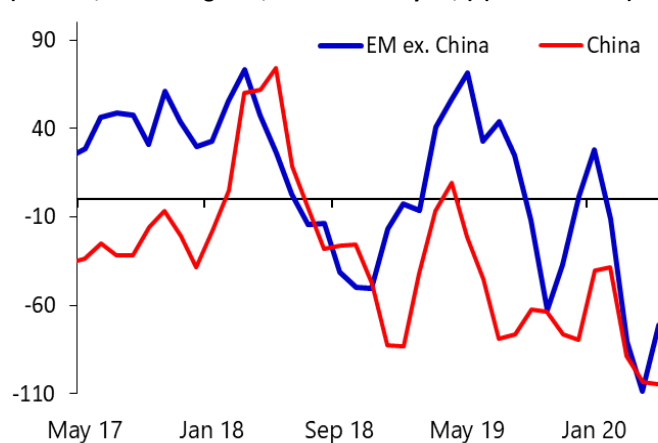
*Within debt funds, both ETFs and MFs saw pressure in March but have since recovered. Within equities, ETFs continue to remain under significant pressure*

**Chart 4. Fund Flows by Different Investment Vehicles**  
(As a percent of AUM, monthly; last obs. = June 2020)



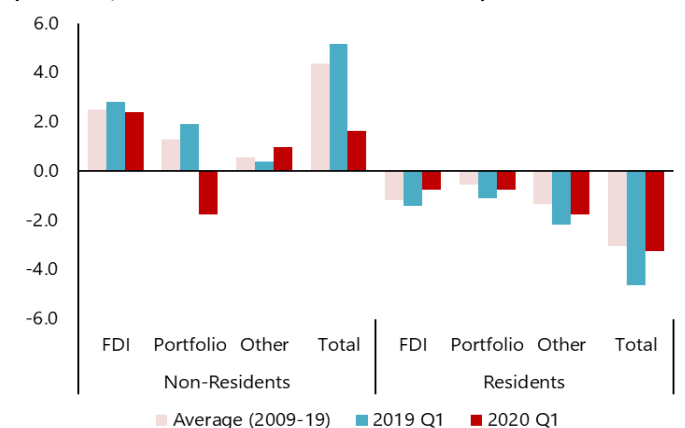
*Net capital flows to EMs declined sharply, though there is a marginal recovery in May for EMs ex China*

**Chart 5. Net Capital Flows to EMs (incl. Errors & Omissions)**  
(\$ billion, 3-m rolling sum, last obs. = May 20, (+) = net inflows)



*Portfolio outflows were accompanied by a sharp reduction in FDI flows, though other flows increased. This was buffered by a decline in resident outflows*

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



*March was the worst month was across most EMs with a very gradual recovery in April and May. June was seen a healthy flows across many EMs*

**Chart 7. Non-Resident Portfolio Flows to EMs: Percentile Rank\* Relative to Their Own History (since 2010; totals are ex China)**

	Q4 19	Q1 20	Mar	Apr	May	Jun
<b>Total ex CHN</b>	20%	0%	0%	2%	3%	53%
<b>Equity ex CHN</b>	41%	0%	0%	9%	3%	78%
<b>Debt ex CHN</b>	15%	0%	0%	2%	11%	29%
<b>Countries</b>						
China	68%	8%	21%	68%	74%	75%
India	61%	0%	0%	13%	18%	63%
Indonesia	51%	0%	0%	23%	62%	34%
Korea	22%	17%	0%	62%	1%	25%
Malaysia	80%	12%	7%	32%	48%	
Philippines	27%	21%	36%	13%	29%	
Taiwan	95%	0%	0%	52%	2%	92%
Thailand	17%	0%	0%	6%	11%	49%
Brazil	5%	0%	0%	2%	29%	
Chile	95%	100%	0%	2%		
Mexico	32%	2%	0%	2%	14%	
Colombia	0%	5%	2%	2%	40%	17%
Bulgaria	44%	51%	13%	76%		
Hungary	39%	0%	16%	44%	97%	54%
Poland	7%	24%	7%	0%		
Turkey	22%	10%	2%	11%	6%	32%
Ukraine	76%	88%	11%	10%	12%	6%
South Africa	27%	2%	0%	21%	22%	38%

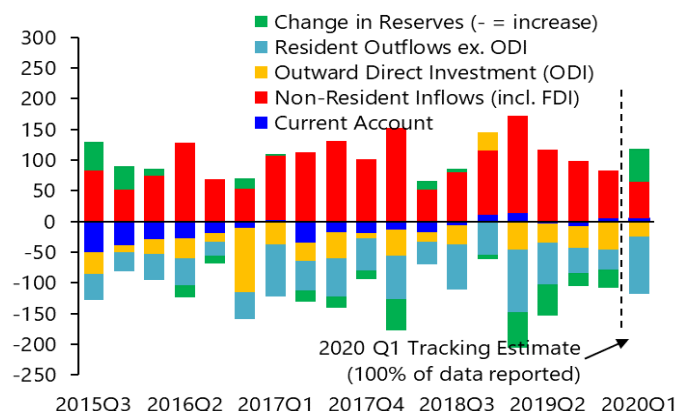
\*The percentile rank shows how strong recent flows have been relative to the flows observed since Jan 2010. For example, a percentile rank of 70 indicates that recent flows exceed 70% of all observations since Jan 2010.

Legend (%)	80-100	60-80	40-60	20-40	0-20
------------	--------	-------	-------	-------	------

Note: An extended heatmap is provided on page 6, and regional trends are on page 5. Totals are ex China, and based on the countries where monthly estimates are available

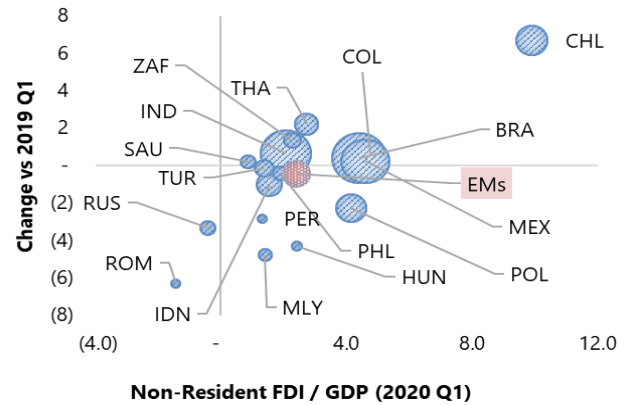
*The decline in non-resident inflows was partly buffered by a strong decline in reserves, as well as a decline in resident outflows. Current account remained balanced*

**Chart 10: EMs ex China: Major Balance of Payments Components (\$ billion)**



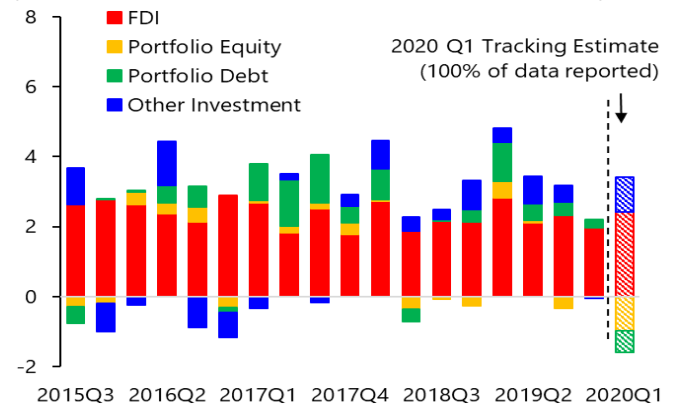
*Aggregate FDI flows to EMs declined, though the trend was mixed with many EMs seeing a rise in FDI as well*

**Chart 8: Major EMs ex China: Non-Resident FDI Flows (As a percent of GDP)**



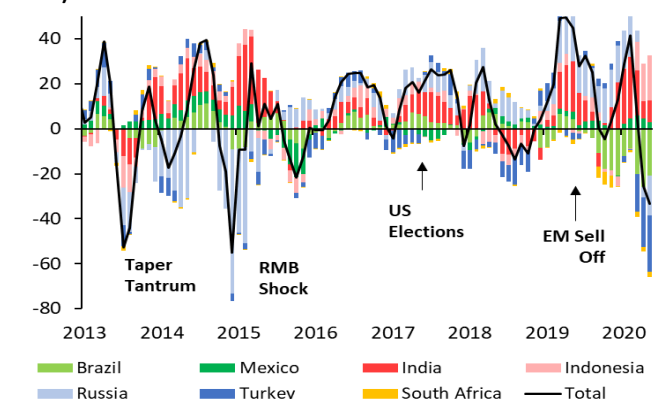
*Non-resident flows to EMs declined driven by a yoy contraction in FDI and portfolio flows. Other investment flows remained strong however*

**Chart 9. EMs ex China: Non-Resident Capital Inflows (% of GDP, "other investment" includes bank-related flows)**



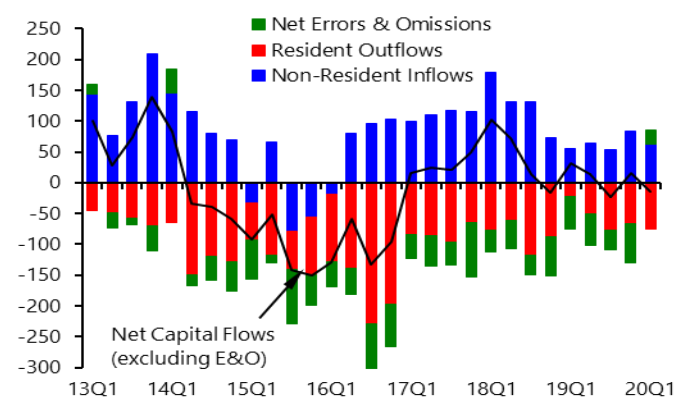
*Mixed trends in the reserve operations with EMEA (TUR) and Latam countries (BRA) seeing pressure, while Asian EMs accumulated reserves (IND, IDN)*

**Chart 11. Major EMs ex. China: Estimated Change in Reserves (\$ billion; 3-months rolling sum, (+) = increase, last obs. = May 2020)**



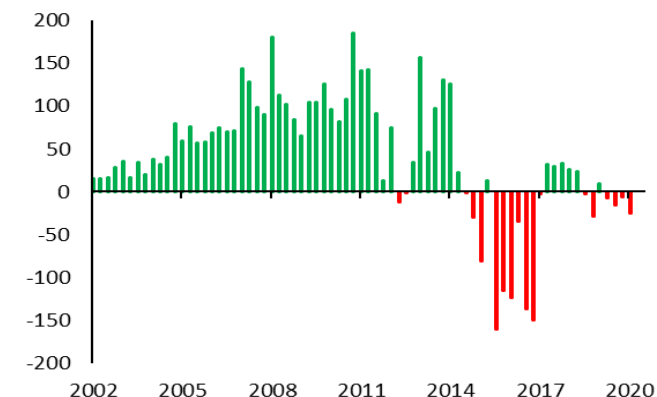
*In China, non-resident flows were offset by resident outflows. Errors & Omissions turned positive for the first time since 2014*

**Chart 12. China: Capital Flows**  
(\$ billion, quarterly data through 2020 Q1)



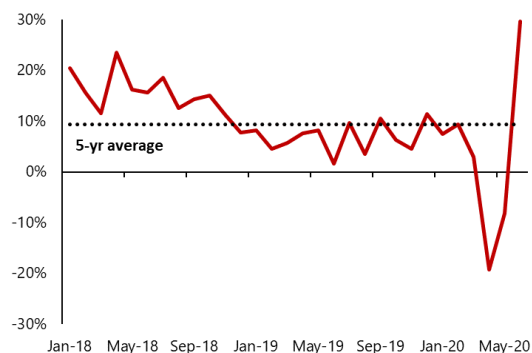
*China continued to lose reserves with a loss of \$25bn in Q1—though it remains much more muted vs the 2015 episode*

**Chart 13. China: Change in Reserves**  
(\$ billion, quarterly data; last observation is 2020 Q1)



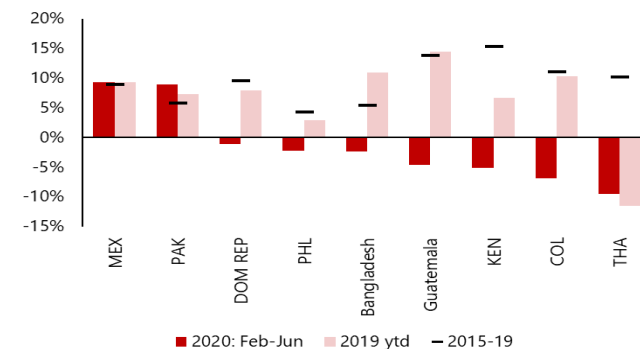
*Remittance flows declined sharply with 20% yoy growth decline in April. Trend improved marginally in May but June seems to be showing a significant improvement*

**Chart 14. YoY Growth in Monthly Remittances**  
(Percent; equal weighted average across 9 countries)



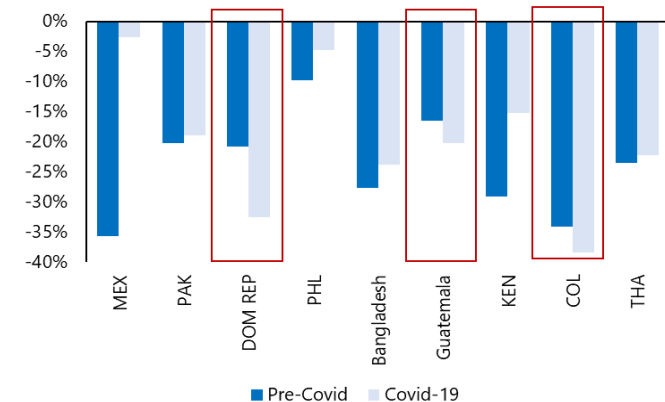
*Most countries, saw a sharp contraction in the latest episode, with Thailand, Kenya and Colombia the most impacted. Mexico is a notable exception*

**Chart 15. YoY Growth in Monthly Remittances**  
(Percent)



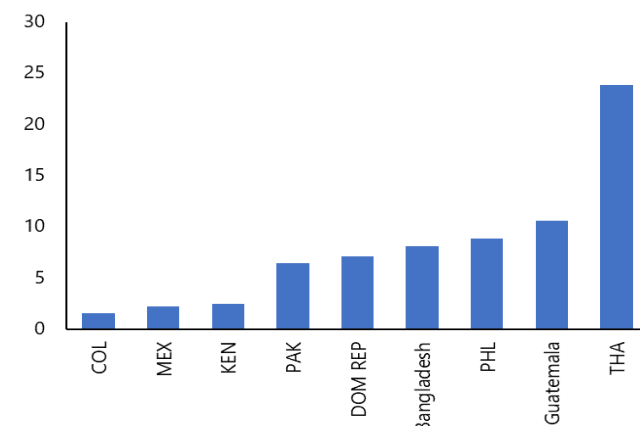
*During the Covid-19 selloff the decline in remittances for many countries—Colombia, Dominican Republic, Guatemala—surpassed that of the GFC*

**Chart 16. Maximum Monthly yoy Growth Decline Pre and Post Covid**  
(Pre-covid is from Jan 2008 to now; Post-covid is from Feb 2020 to May 2020)



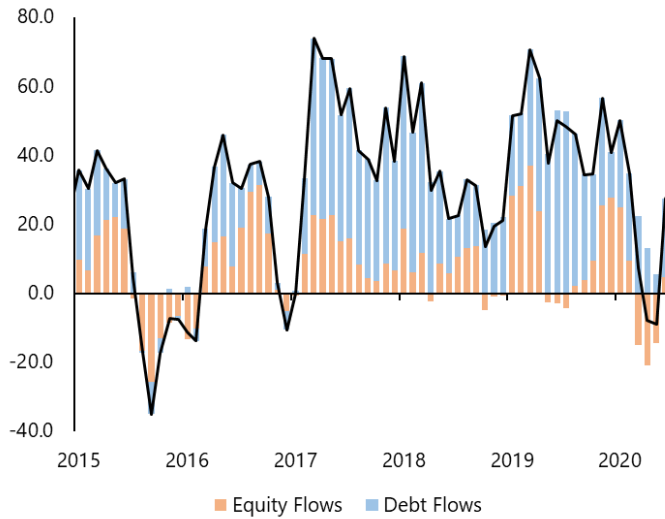
*For some countries like Guatemala, Philippines, Thailand and Bangladesh—the remittance flows play a significant role in the domestic economy*

**Chart 17. Remittance Flows / GDP**  
(Percent; over 2008 to 2019)

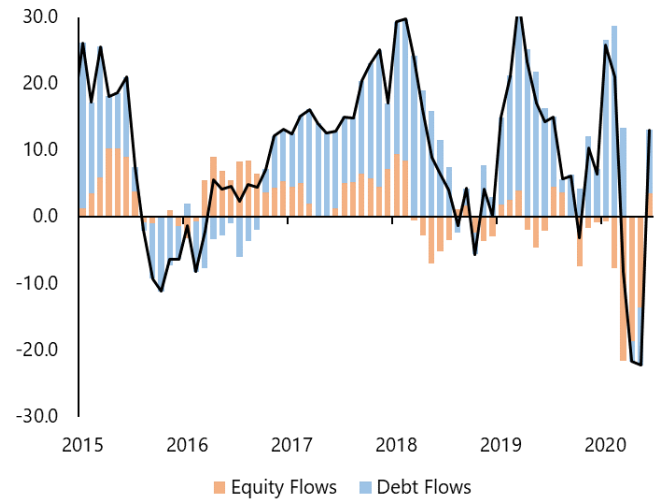


## Regional Flows

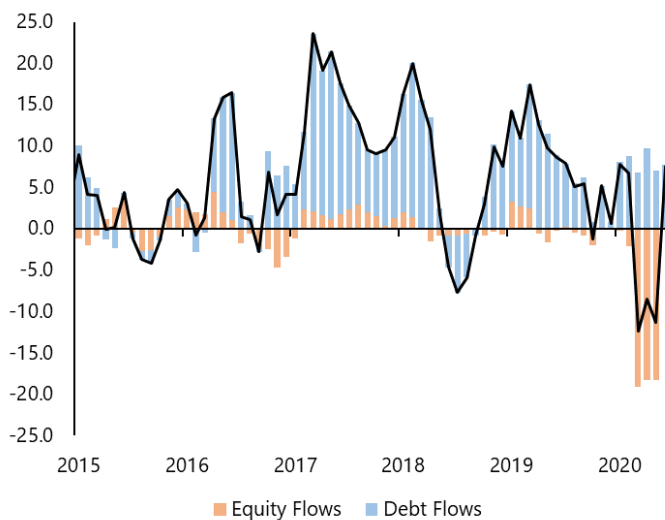
**Chart 18. Non-Resident Portfolio Flows to EM Asia (incl. China)**  
(\$ billion, 3-month rolling sum; last observation: May 2020)



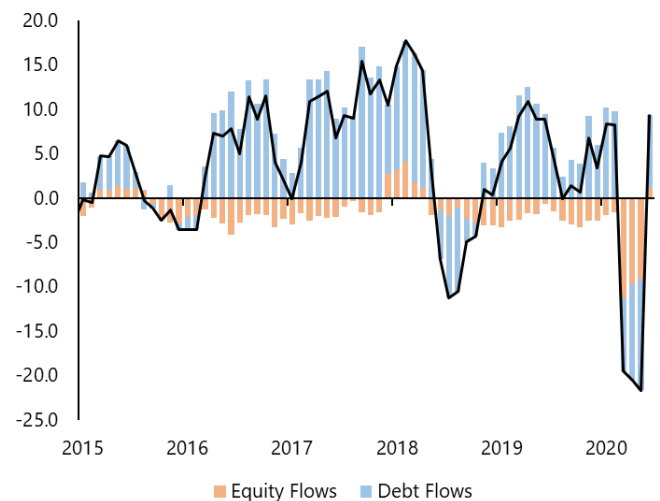
**Chart 19. Non-Resident Portfolio Flows to Latin America**  
(\$ billion, 3-month rolling sum; last observation: May 2020)



**Chart 20. Non-Resident Portfolio Flows to Emerging Europe**  
(\$ billion, 3-month rolling sum; last observation: May 2020)



**Chart 21. Non-Resident Portfolio Flows to Africa and Middle East**  
(\$ billion, 3-month rolling sum; last observation: May 2020)

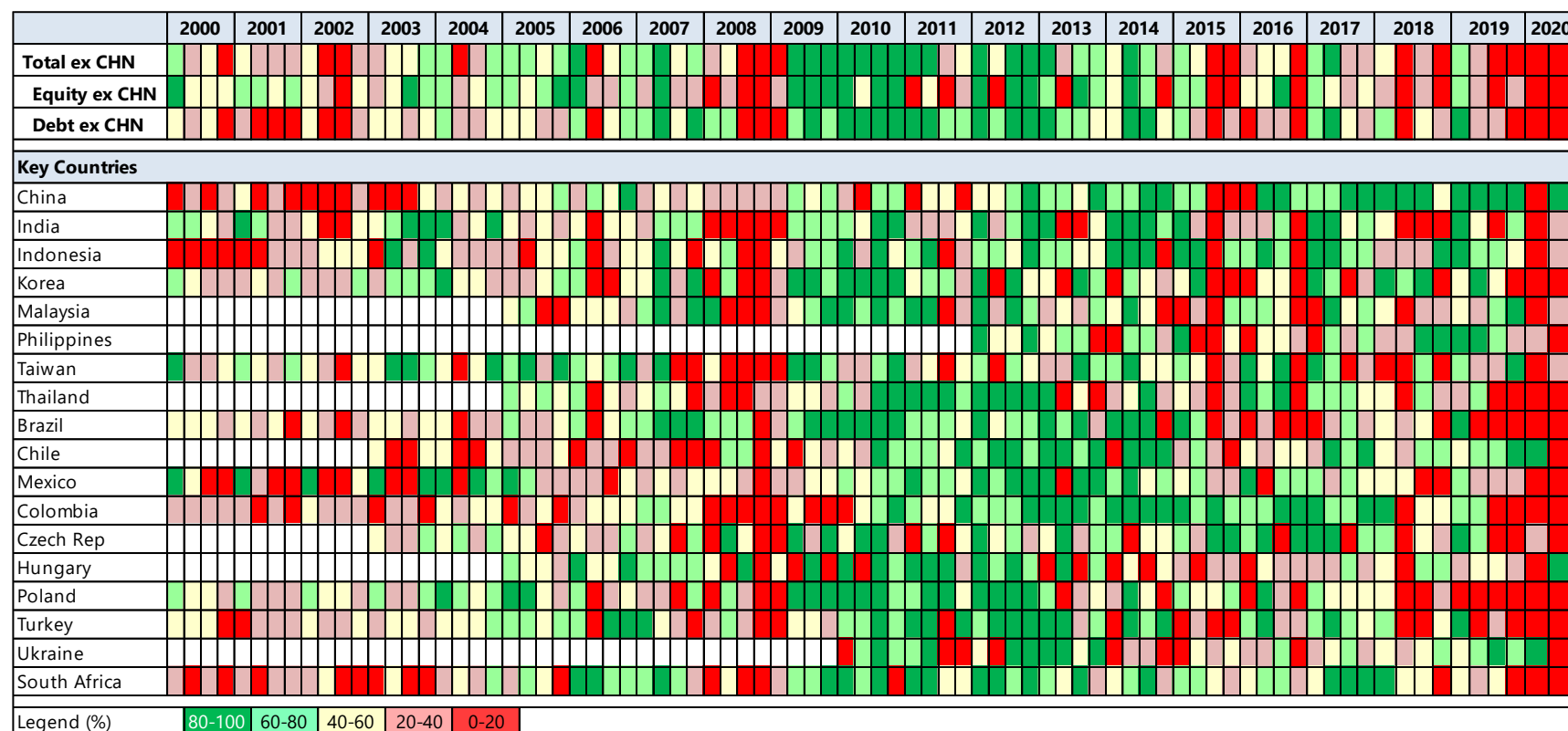


Sources for all charts: Bloomberg, Country Authorities, EPFR, Haver Analytics, IIF estimates, IMF World Economic Outlook

Notes: In panel 2, July values are based on daily / weekly data series as available. In Panel 2, the breadth measures captures the percentage of monthly EM portfolio flow series with positive or negative observations (Example: -100% means all EM monthly flows series show net outflows).

**Portfolio flows to EMs in perspective: crisis in 2008-09, surge in 2010-14, retrenchment in 2015-16; increased volatility in 2018-19; the sharp sell-off in 2020**

**Chart 22. Non-Resident Portfolio Flows to EMs: Percentile Rank\* relative to their Own History (since 2000; totals are ex China)**

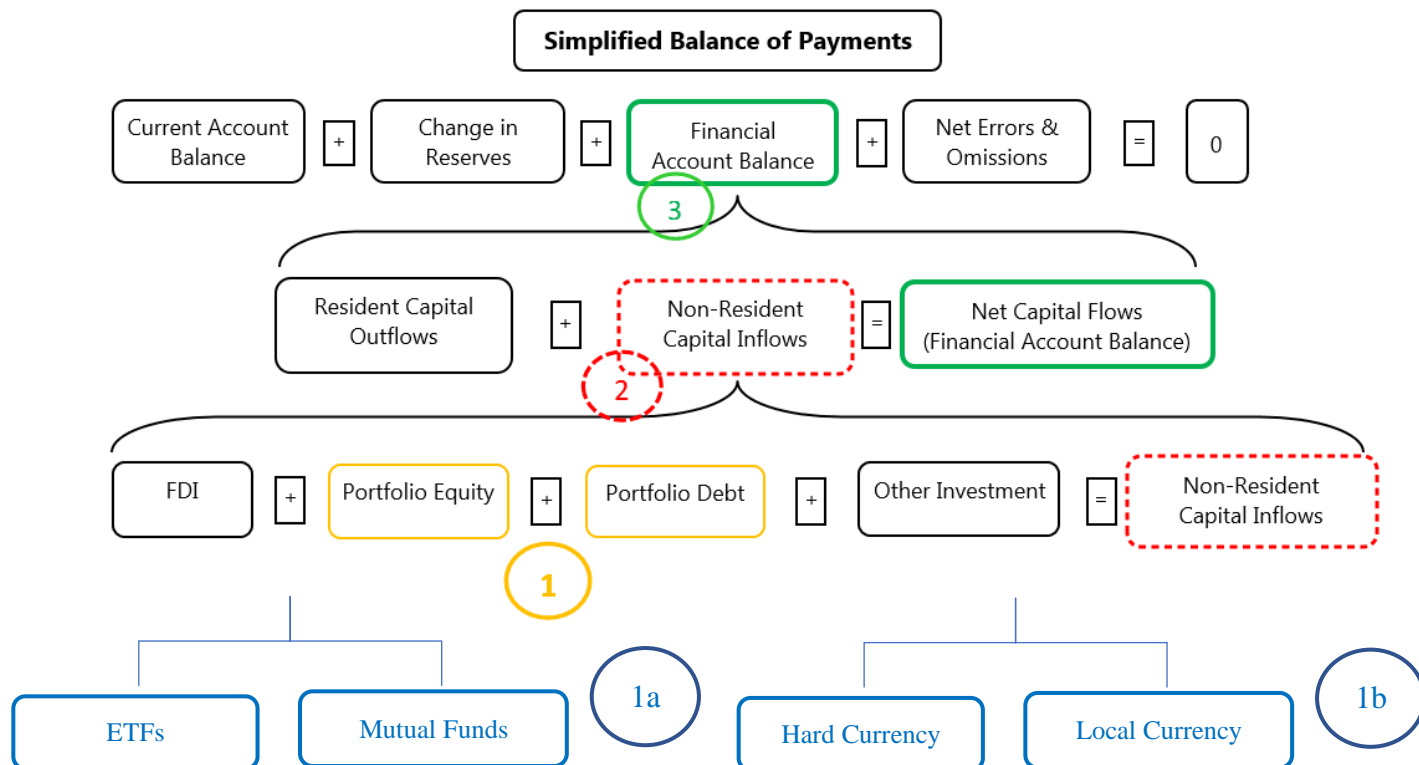


Source: Bloomberg, Haver Analytics, Country authorities, IIF, IMF staff calculations Note: Totals are ex China, and based on the countries where monthly estimates are available

## 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. We also leverage the data from fund flows to understand 1) flow dynamics between ETFs and Mutual Funds; 2) flow dynamics between equity vs hard currency vs local currency fund flows.
- 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.