



EM Capital Flows Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

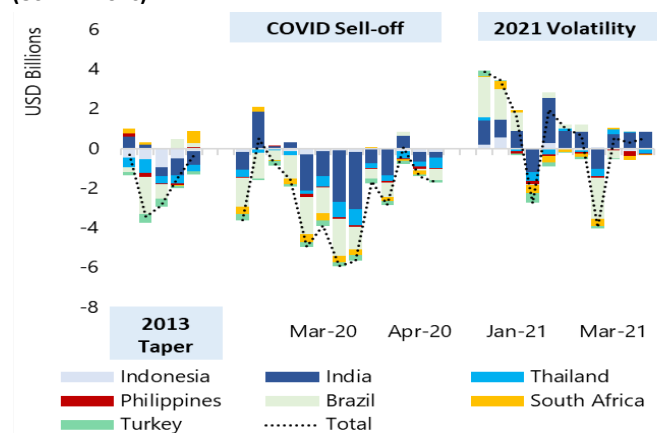
Highlights

March 18, 2021

- **Portfolio flow volatility returns.** The sharp recovery in the EM portfolio flows since September 2020 ([Q3 monitor](#)) stalled in Feb 2021, impacted by the rising rates in AEs. Equity flows to EMs have become more volatile (Chart 1), while debt outflows have been more persistent driven by India, Indonesia, and South Africa (Chart 2). The scale of outflows is of course smaller than last year's COVID-19 record episode but depending on external conditions it may have longer to run. Fund flows have moderated generally, and pressures are particularly evident in hard currency bond ETFs (Chart 3). This is also reflected in the moderation in the EM hard currency issuance in February ([Feb Issuance Monitor](#)). To be sure, the portfolio flow recovery of the last six months is impressive, driven by both retail and institutional investors (Chart 4). Most countries saw exceedingly high flows in November and December with aggregate debt and equity flows at 90th percentiles or higher. Growth of remittances has continued to be robust and has risen to more than 20% yoy in the last six months (Chart 11), from the 9% average yoy growth of the last five years.
- **Quarterly balance-of-payments data as of Q4 2020 suggest that net flows have continued to improve, driven primarily by a pick-up in non-resident flows, but there are pockets of concern (Chart 9).** The recovery in the non-resident flows is driven primarily by the portfolio flows, as FDI and other investment flows have remained weak (Chart 6). FDI flows at 1.1% of GDP in Q4 are their historically worst quarter, with almost 70% of the countries in their worst quartile as well (Chart 7). Other investment flows are also at historical lows but driven by only a few countries. Resident outflows at 2.6% of GDP have now normalized after the sharp reversal in Q2, with Chile and Russia continuing to see a support from a retrenchment in resident flows. Net capital flows to China declined to the lowest levels since end-2016 as the increase in resident outflows and errors & omissions offset the impact of a pickup in non-resident inflows (Chart 10).
- **EM Reserve operations (Chart 12) have firmly turned around** after the sharp sell-off in Q1 (refer [MCM note on EM reserve operations](#)), with EMs witnessing a strong aggregate accumulation in FX reserves in the last few months. Most countries are accumulating reserves now, in particular China, India, and Poland. Russia and Turkey are notable exceptions which have seen negative reserve operations even in the last few months (Chart 13). The current account balances for EMs have also continued to rise (Chart 9) and registered at 1.8% of GDP in Q3 and 0.8% of GDP in Q4 (historically best quarters) – driven in particular by Mexico, Malaysia and Poland.

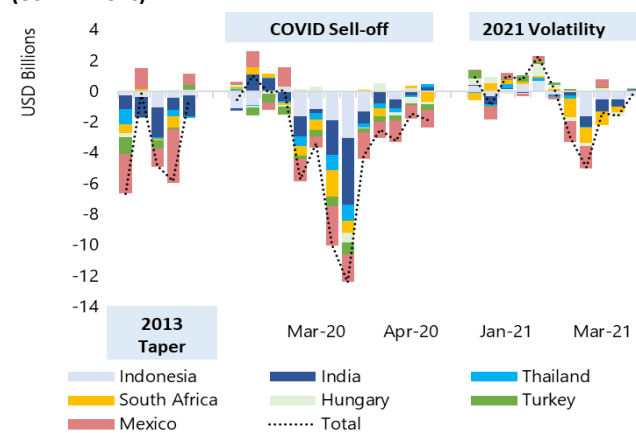
Equity flows turned volatile this year with Brazil seeing the highest pressure lately

Chart 1. Weekly Equity Flows to Major EMs ex China (USD Billions)



Debt outflows have persisted in recent weeks driven by India, Indonesia and South Africa

Chart 2. Weekly Debt Flows to Major EMs ex China (USD Billions)

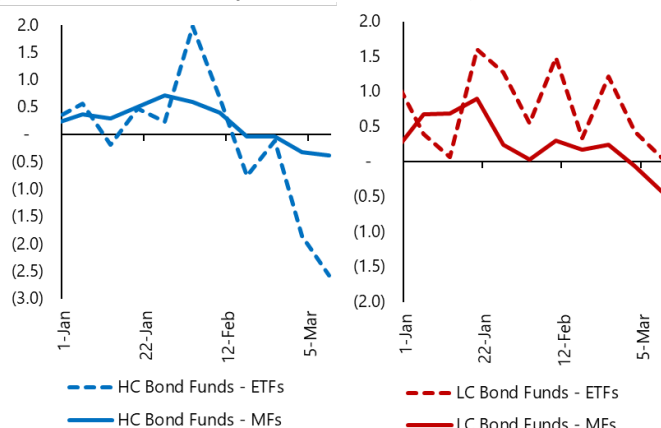


This monitor is produced by Rohit Goel (rgoel@imf.org) from MCMGA.

Source: Bloomberg, Haver Analytics, Country authorities, IIF, IMF staff calculations,

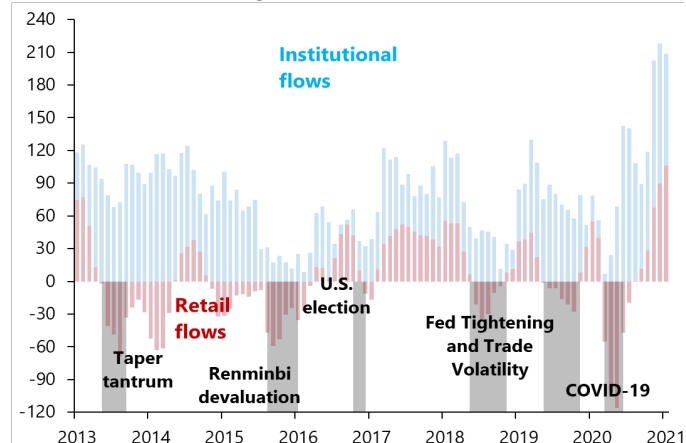
Fund flows moderated across categories but pressures were particularly evident within the hard currency bond ETFs (reflecting the shocks due to higher rates)

Chart 3. Weekly Debt Fund Flows
(Percent of AUM, weekly. Last obs = 10th March)



The recovery in the last six months was driven by a recovery in both retail and institutional investors

Chart 4. Estimates of Retail and Institutional Portfolio Flows
(\$ billion, 3-month rolling sum; last obs. = Feb 2021; incl China)



Nov and Dec saw historically high flows across most countries; Flows have moderated recently except in China and India

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

	Q3 20	Oct	Nov	Dec	Jan	Feb
Total ex CHN	23%	14%	94%	92%	32%	10%
Equity ex CHN	19%	12%	99%	86%	24%	16%
Debt ex CHN	37%	22%	54%	95%	41%	14%
Countries						
China	96%	92%	100%	94%	84%	75%
India	60%	69%	100%	98%	52%	74%
Indonesia	9%	65%	68%	29%	72%	20%
Korea	67%	58%	74%	26%	0%	10%
Malaysia	65%	80%	48%	59%	60%	
Philippines	69%	32%	31%	30%	16%	25%
Taiwan	12%	38%	98%	80%	8%	10%
Thailand	37%	18%	82%	29%	33%	17%
Brazil	47%	79%	91%	97%	77%	18%
Chile	0%	11%	5%	5%		
Mexico	21%	3%	97%	42%	24%	39%
Colombia	63%	21%	94%	40%	19%	27%
Bulgaria	100%	51%	5%	65%		
Hungary	35%	80%	65%	64%	84%	95%
Poland	40%	0%	100%	44%		
Turkey	16%	38%	65%	73%	49%	39%
Ukraine	12%	14%	26%	75%	83%	77%
South Africa	16%	8%	38%	96%	73%	4%

*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.

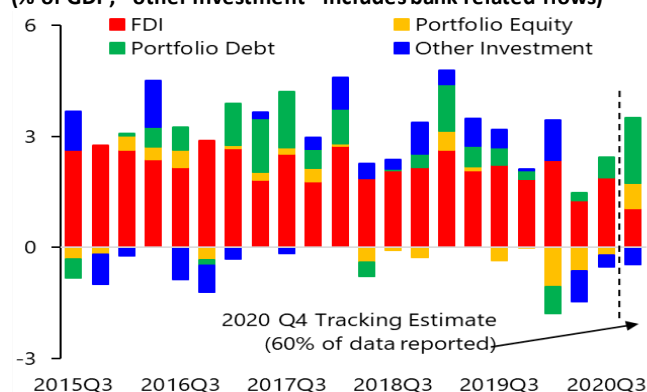
Legend (%)

80-100	40-60	20-40	0-20
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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

Overall non-resident flows improved particularly due to the recovery in portfolio flows, while FDI and other investment flows remain challenged

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



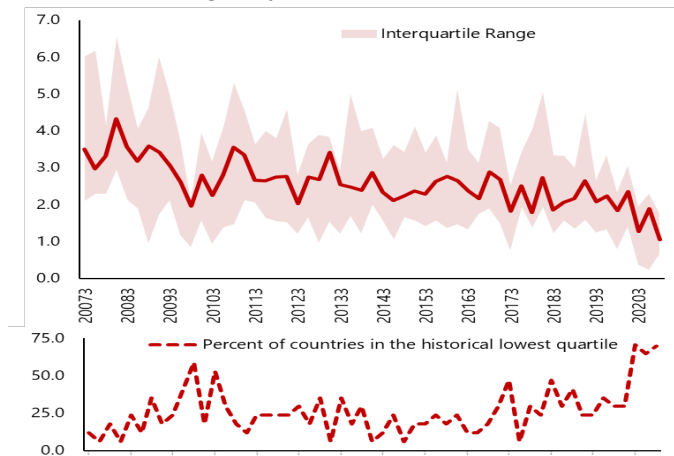
Portfolio equity and debt flows are in the best quartile, while FDI flows and other investment flows are in their historically worst quartile

Chart 7. EMs ex China: Non-Resident Capital Inflows: EM Average, Historical Percentile and the Breadth of Reversal

Non Resident Flows	EMs ex China average (% of GDP)	Percentile Rank	% of countries in their historical lowest quartile	% of countries in their historical highest quartile
Portfolio Equity	Q1 -1.1	2	67	0
	Q2 -0.6	4	80	0
	Q3 -0.2	20	53	0
	Q4 0.7	80	22	22
Portfolio Debt	Q1 -0.7	2	60	13
	Q2 0.2	20	40	40
	Q3 0.6	36	13	20
	Q4 1.8	85	22	33
FDI	Q1 2.4	35	29	18
	Q2 1.3	2	71	0
	Q3 1.9	11	65	6
	Q4 1.1	0	70	0
Other Investment	Q1 1.1	67	12	35
	Q2 -0.8	5	29	12
	Q3 -0.3	18	29	18
	Q4 -0.5	13	30	30

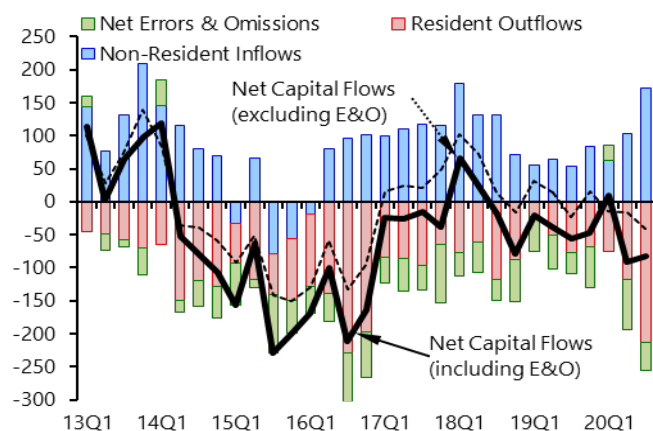
FDI flows at 1.1% of GDP registered the worst quarter since '07, with 70% of the countries in their historically worst quartile

Chart 8: FDI Flows: Average for EMs ex China, and the Proportion of Countries Witnessing Sharp Reversals



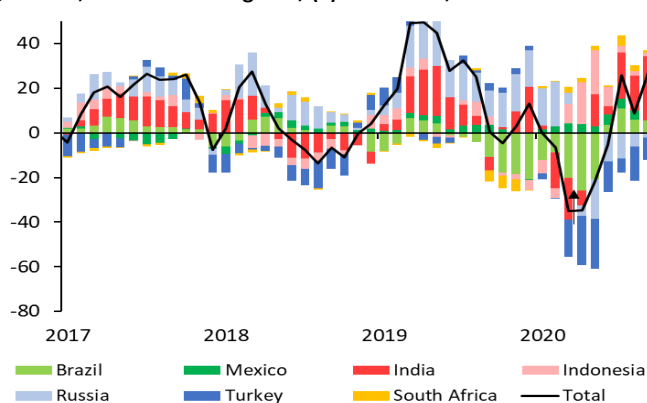
In China, net capital flows declined to the lowest level since end 2016 as the increase in resident outflows and errors & omissions offset strong non-resident flows

Chart 10: China: Capital Flows
(\$ billion, quarterly data through 2020 Q3)



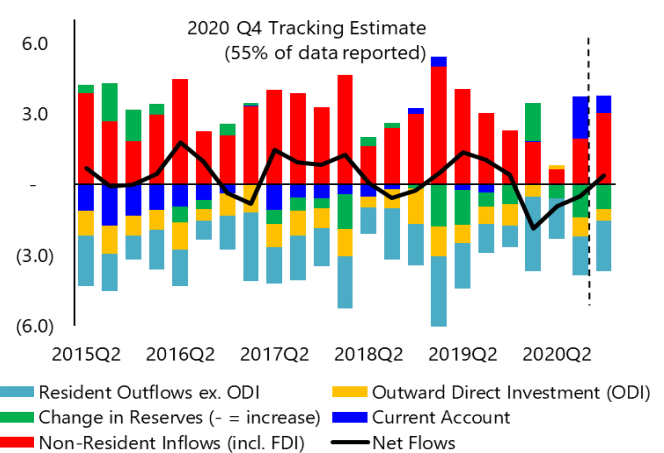
Reserve operations have turned to a strong accumulation now ...

Chart 12: Major EMs ex. China: Estimated Change in Reserves
(\$ billion; 3-months rolling sum, (+) = increase, last obs. = Jan 2021)



Net flows have improved driven by strong non-resident flows and a reduction in resident outflows. Current account has improved significantly

Chart 9: EMs ex China: Major Balance of Payments Components
(Percent of GDP)



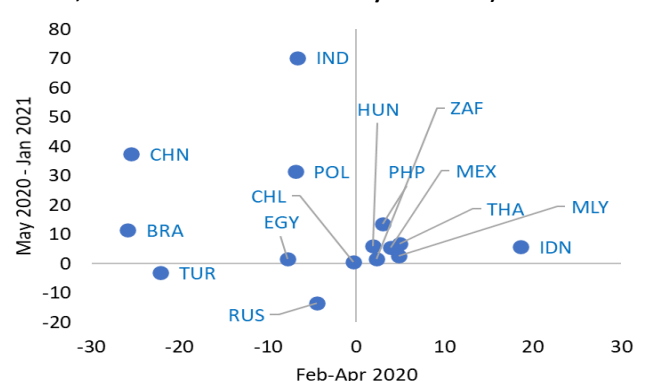
Remittance flows continue to grow robustly, averaging more than 20% in the last six months

Chart 11: YoY Growth in Monthly Remittances
(Percent; equal weighted average across 9 countries)



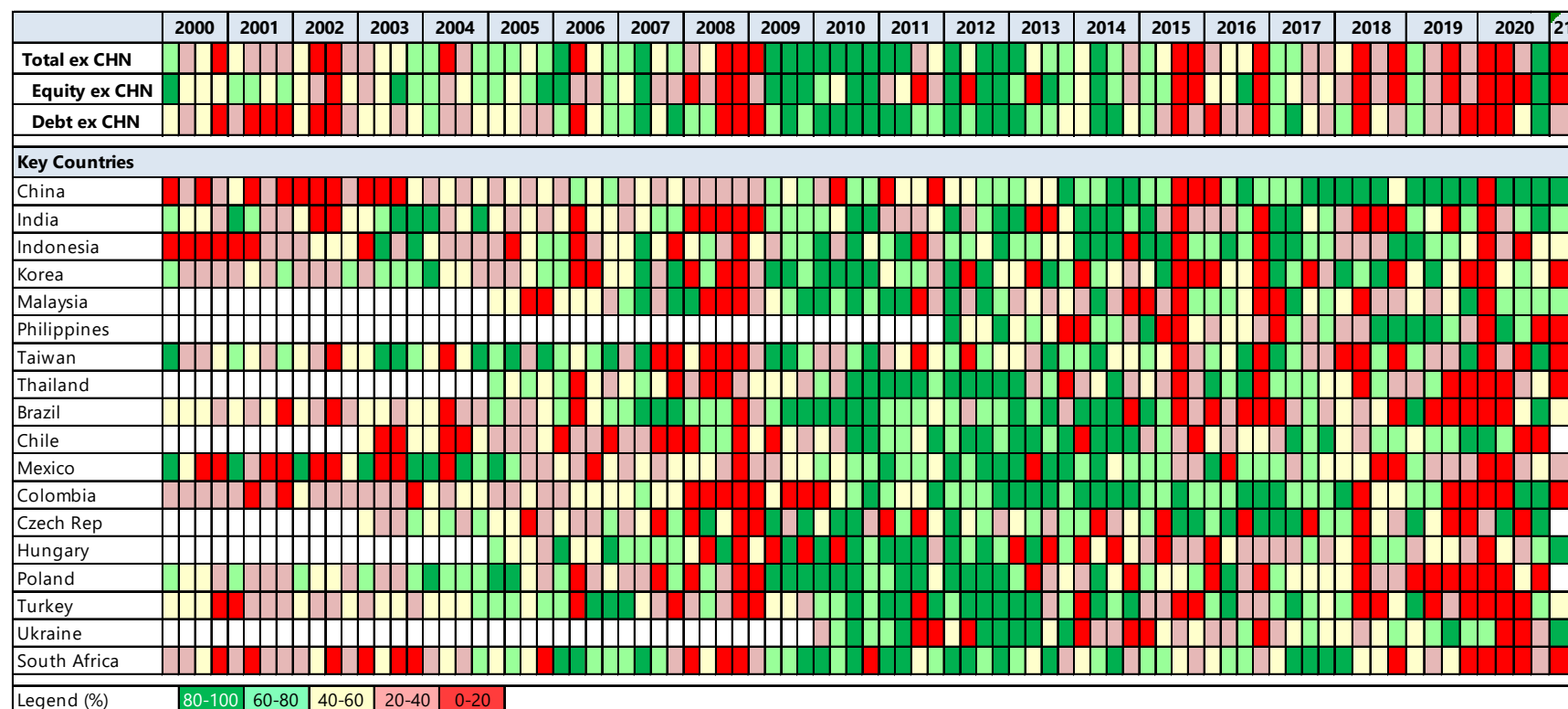
... with most countries are accumulating reserves (particularity India), while Russia and Turkey have continued to see pressures

Chart 13: Major EMs ex. China: Estimated Change in Reserves
(\$ billion; COVID sell-off vs the recovery since then)



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 with a late recovery; and a sell-off in 2021 again

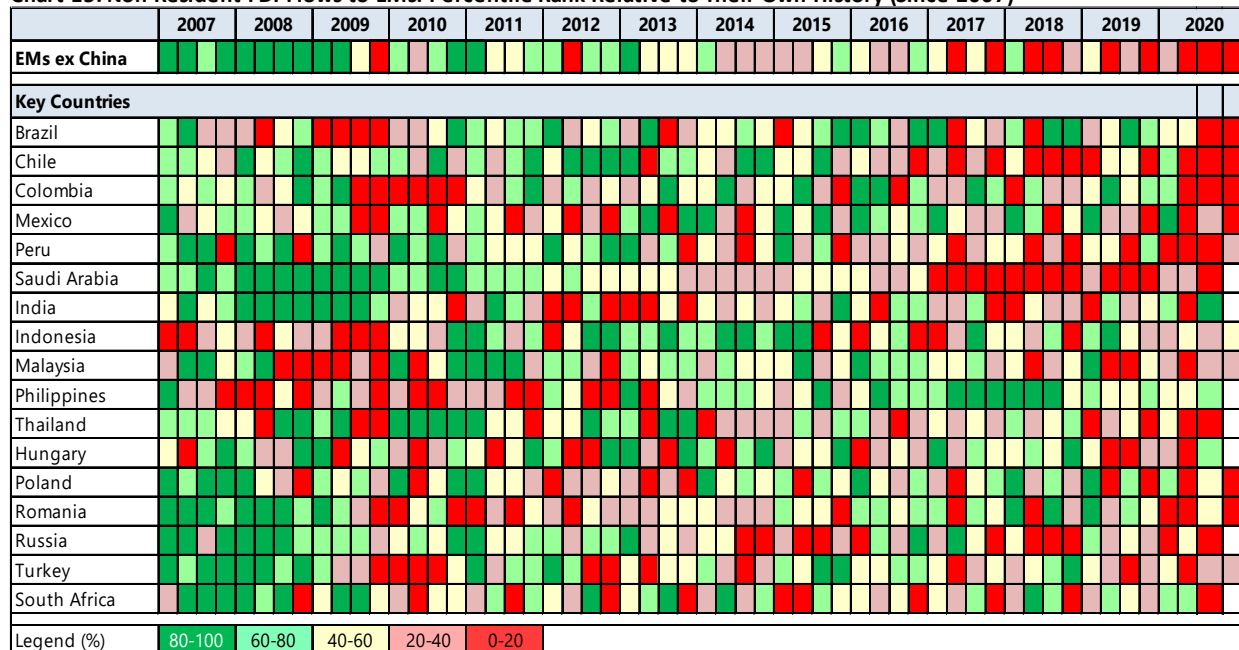
Chart 14. Non-Resident Portfolio Flows to EMs: Percentile Rank Relative to Their Own History (Since 2000; totals are ex China)



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.

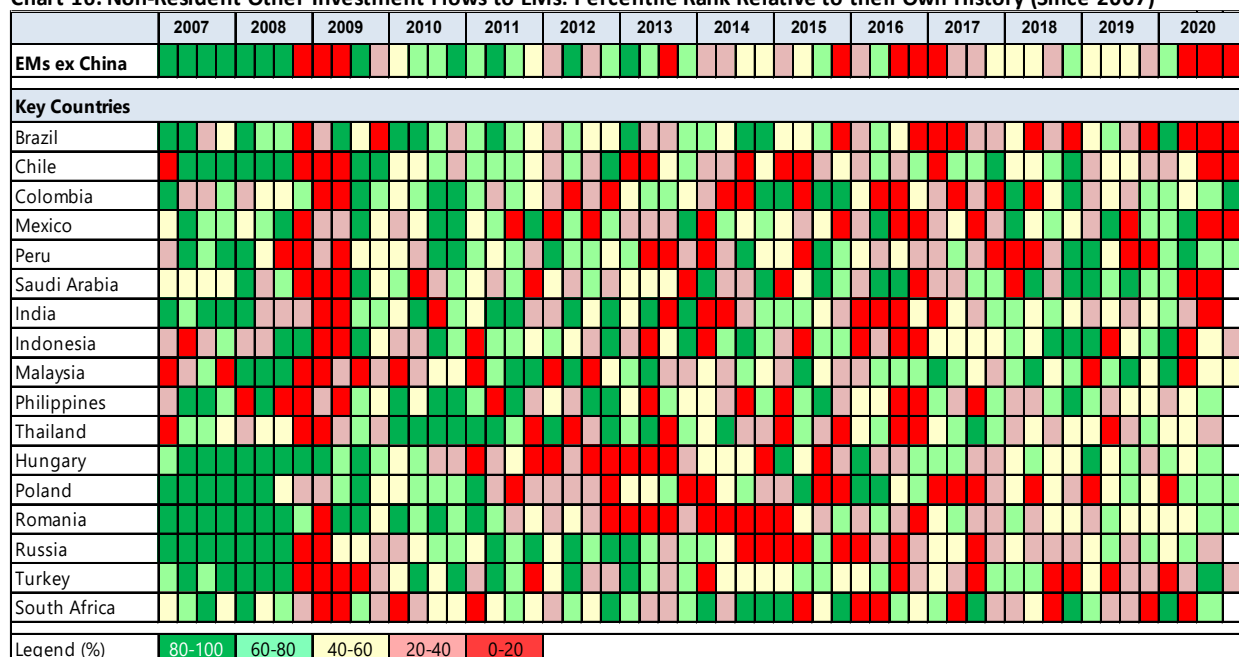
FDI flows to EMs ex China have continued to remain weak in the last few quarters and have declined to the lowest value since 2007. The sharp decline is evident across most EMs with a few exceptions

Chart 15. Non-Resident FDI Flows to EMs: Percentile Rank Relative to Their Own History (Since 2007)



Other Investment Flows have also declined sharply with the weakness persisting throughout 2020-end. Colombia, Peru, Poland, and Romania are notable exceptions

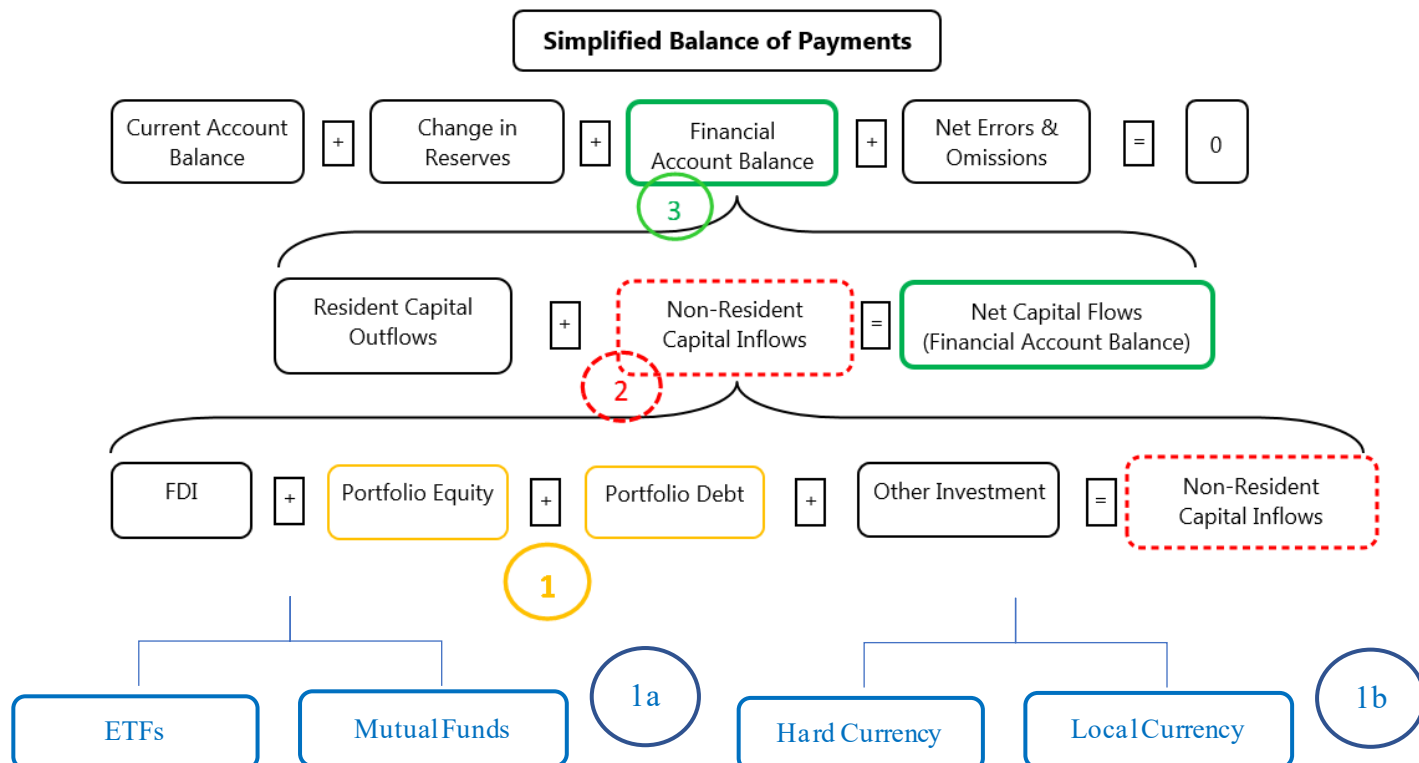
Chart 16. Non-Resident Other Investment Flows to EMs: Percentile Rank Relative to their Own History (Since 2007)



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 estimate 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 and resident 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.