



EM Capital Flows Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

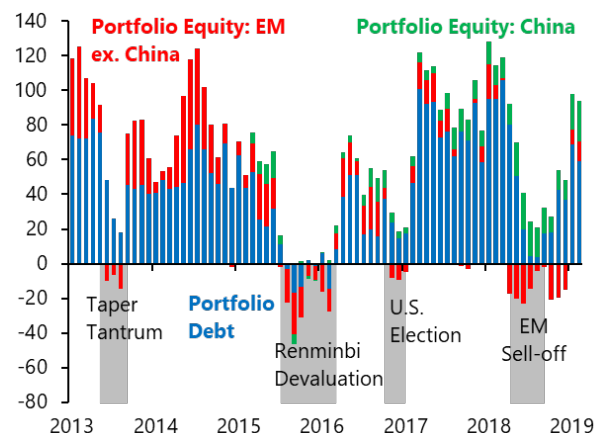
March 11, 2019

Highlights:

- **Capital flows to EMs have rebounded in recent months, after sustained outflow pressures in 2018.** Portfolio flows stabilized in the fourth quarter of 2018, despite a challenging external environment where global risk assets came under pressure (Chart 1). The Fed's dovish shift in early 2019 provided a significant boost to risk assets including EM equities and bonds, leading to a sizable rebound in portfolio flows. High frequency data through early March suggest that this rebound has faded in recent weeks (Chart 2).
- **Foreign direct investment to EMs ex. China recovered to around 2.5% of GDP in 2018Q4 from an average of 2.1% in the four preceding quarters (Chart 6).** Outward direct investment from EMs is also estimated to have recovered in Q4. Both developments allay concerns about businesses turning cautious in their international expansion plans amid trade tensions (Chart 7).
- **Net capital flows to China turned negative in 2018Q4 amid renewed pressures on the RMB** (Chart 10). PBOC interventions shifted from buying to selling reserves, ending 5 quarters of positive reserve accumulation, while outward investments by Chinese residents rose (Charts 11 and 12). That said, pressures have been modest thus far compared to the 2015-16 period and the RMB has appreciated YTD. These pressures occurred despite robust portfolio equity inflows that are part of a structural shift related to China's growing weight in benchmark indices (Chart 13). Most recently, [MSCI announced](#) on February 28 that it would further raise the index weight of Chinese A shares in three steps (in May, August and November).

Portfolio equity and debt flows to EMs have posted a strong recovery in 2019

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

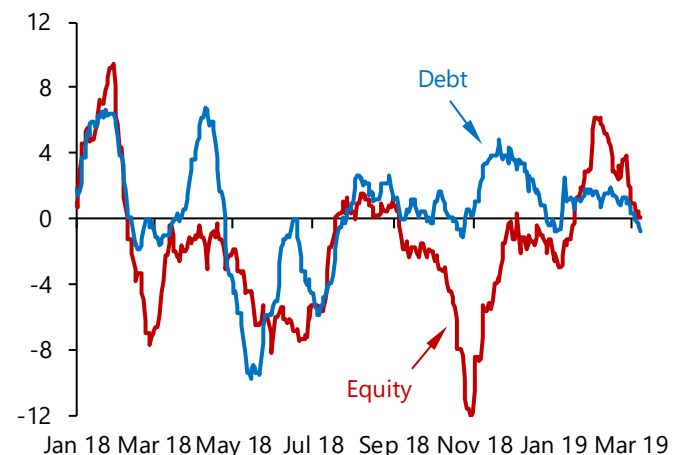


Source: IIF, IMF staff calculations

*Countries include: India, Indonesia, Thailand, South Africa and Hungary (for debt flows); India, Indonesia, Korea, Thailand, South Africa, Brazil, Philippines, Vietnam, Taiwan, China (for equity flows). Source: IIF, IMF staff calculations

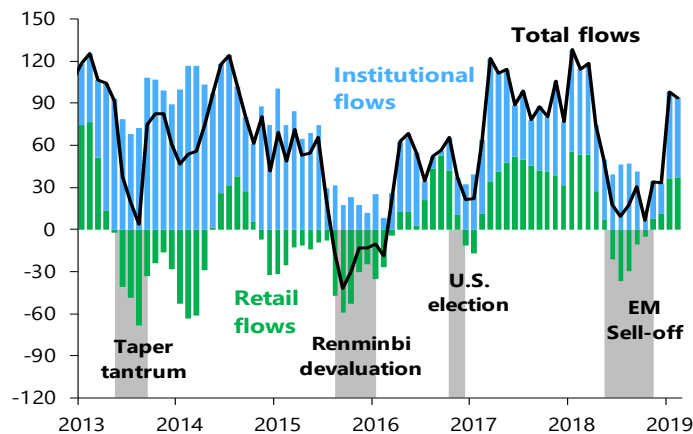
Daily portfolio flows data through early March illustrate the rebound, although momentum has faded

Chart 2. Non-Resident Portfolio Flows to EMs (incl. China)
(\$ billion, 28-day rolling sum, daily data for available countries*)



Flows from both retail and institutional investors have recovered in 2019

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



Source: EPFR, IIF, IMF staff calculations

A number of EMs saw very strong inflows in January, but the picture for February is more mixed

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

	Q3 18	Oct	Nov	Dec	Jan	Feb
Total	19%	5%	37%	16%	81%	50%
All Equity	33%	2%	38%	16%	83%	72%
All Debt	28%	12%	38%	25%	72%	28%
Countries						
China	85%	3%	5%	25%	46%	92%
India	11%	2%	52%	48%	26%	46%
Indonesia	31%	45%	97%	13%	88%	78%
Korea	72%	7%	35%	42%	94%	53%
Malaysia	29%	78%	20%	31%		
Philippines	93%	24%	98%	45%	88%	69%
Thailand	56%	17%	43%	31%	34%	28%
Brazil	33%	39%	5%	6%	58%	29%
Chile	37%	53%	55%	27%		
Mexico	17%	5%	60%	18%	88%	48%
Bulgaria	77%	89%	1%	59%		
Hungary	61%	84%	72%	39%	90%	65%
Poland	14%	49%	16%	33%		
Turkey	8%	45%	72%	28%	42%	33%
Ukraine	54%	40%	93%	35%		
South Africa	8%	17%	16%	14%	29%	24%

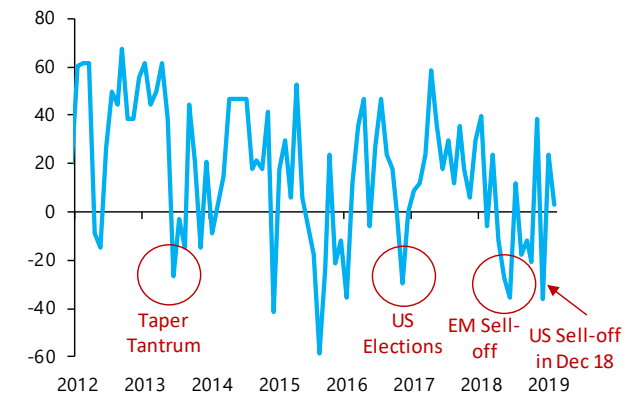
*The percentile rank shows how strong recent flows have been relative to the flows observed since Jan 2010. For example, a percentile rank of 70 indicates that recent flows exceed 70% of all observations since Jan 2010.

Source: IIF, IMF staff calculations

Note: An extended heatmap is provided on page 4.

The outflows in 2018 were broad-based across countries

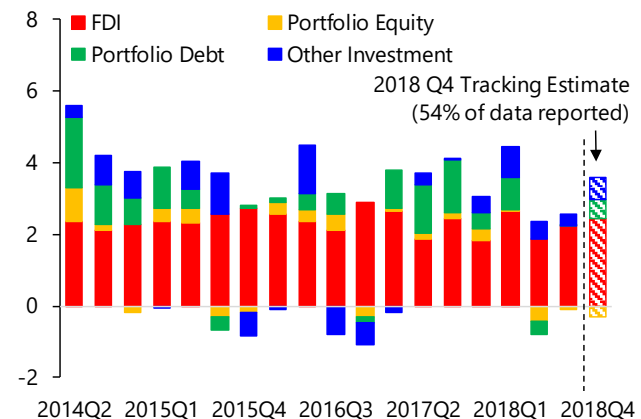
Chart 4. Percentage of Monthly EM Portfolio Flows Series with Positive/Negative Observations (Example: -100% means all 18 EM monthly flows series show net outflows)



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.

FDI inflows recovered to 2.5% of GDP from 1.7% in Q2; other investment inflows remained robust

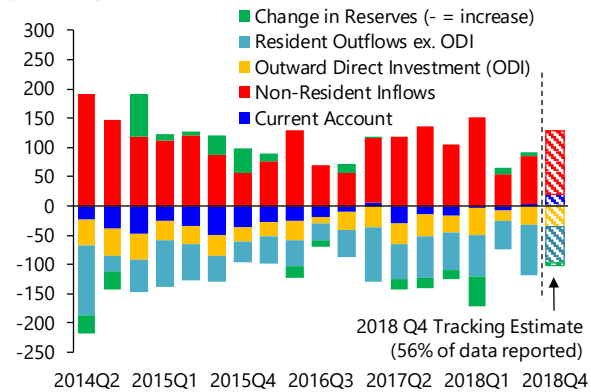
Chart 6. EM ex China: Non-Resident Capital Inflows (% of GDP, "other investment" includes bank-related flows)



Source: Haver Analytics, IMF staff calculations

EM ex. China: Current account balances improved further in Q4, outward investment subdued except ODI

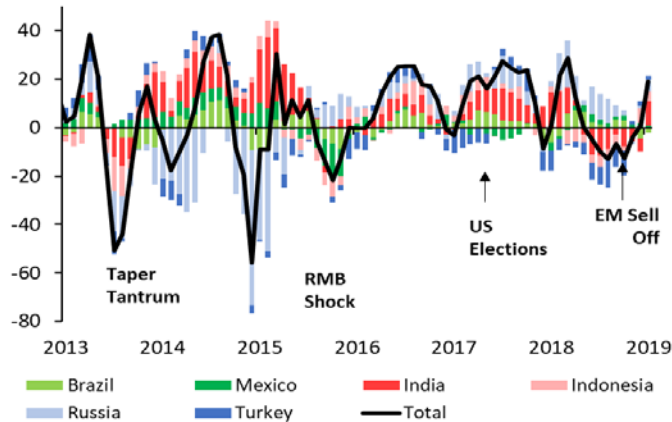
Chart 7. Breakdown of Major Balance of Payments Components (\$ billion)



Source: Haver Analytics, IMF staff calculations

Central bank reserve accumulation turned positive in early 2019

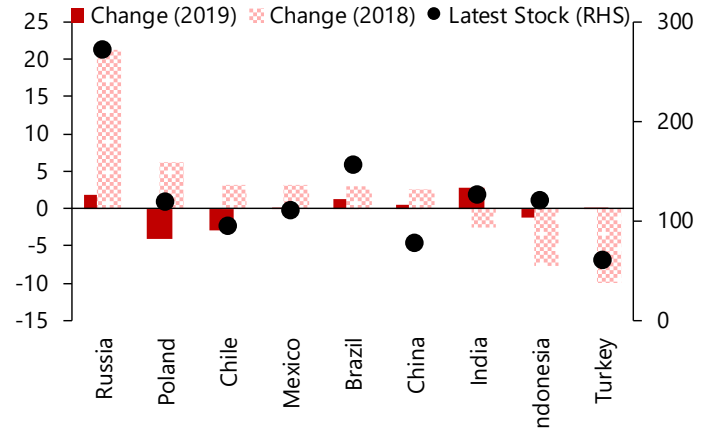
Chart 8. Major EMs ex. China: Estimated Change in Reserves (\$ billion; 3-months rolling sum, (+) = increase, last obs. = Jan 2019)



Source: IIF, IMF staff calculations

Despite a challenging environment, reserve coverage generally improved in 2018

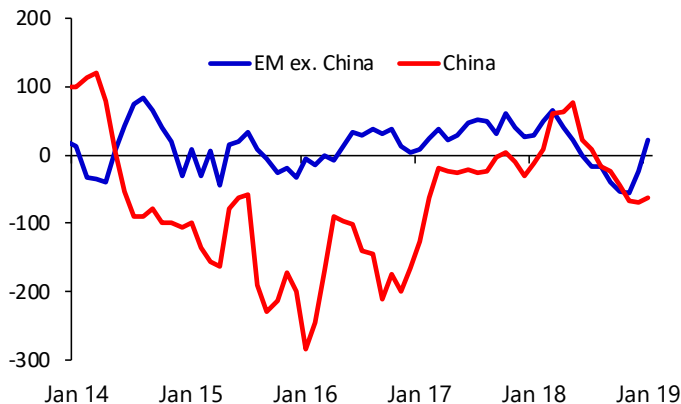
Chart 9. Major EMs: Reserves (percent of ARA metric, last Obs. = Jan 2019)



Source: IIF, IMF staff calculations

Net capital flows to emerging markets are estimated to have rebounded in recent months, except for China

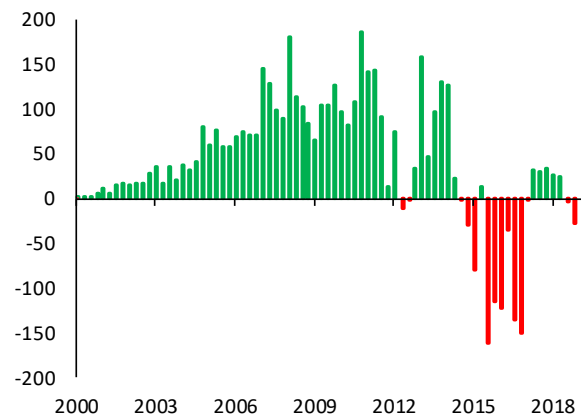
Chart 10. Net Capital Flows to Emerging Markets (incl. E&O) (\$ billion, 3-month rolling sum, last obs. = Jan, (+) = net inflows)



Source: IIF, IMF staff calculations

China intervened in 2018H2 to support its currency...

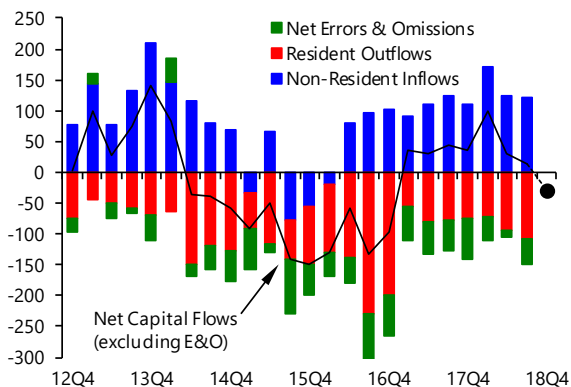
Chart 11. China: Change in Reserves (\$ billion, quarterly data; last observation is 2018 Q4)



Source: Haver Analytics, IMF staff calculations

...as resident outward investment appears to have increased and net capital flows turned negative

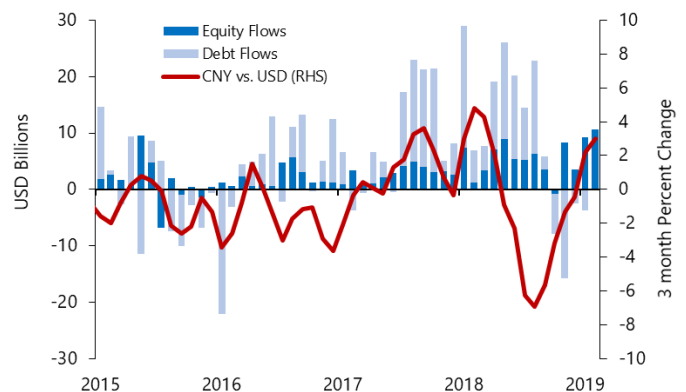
Chart 12. China: Capital Flows (\$ billion, quarterly data through 2018 Q3; net flows through Q4)



Source: Haver Analytics, IIF, IMF staff calculations

China has received strong portfolio equity inflows thanks to its inclusion in the MSCI EM equity index

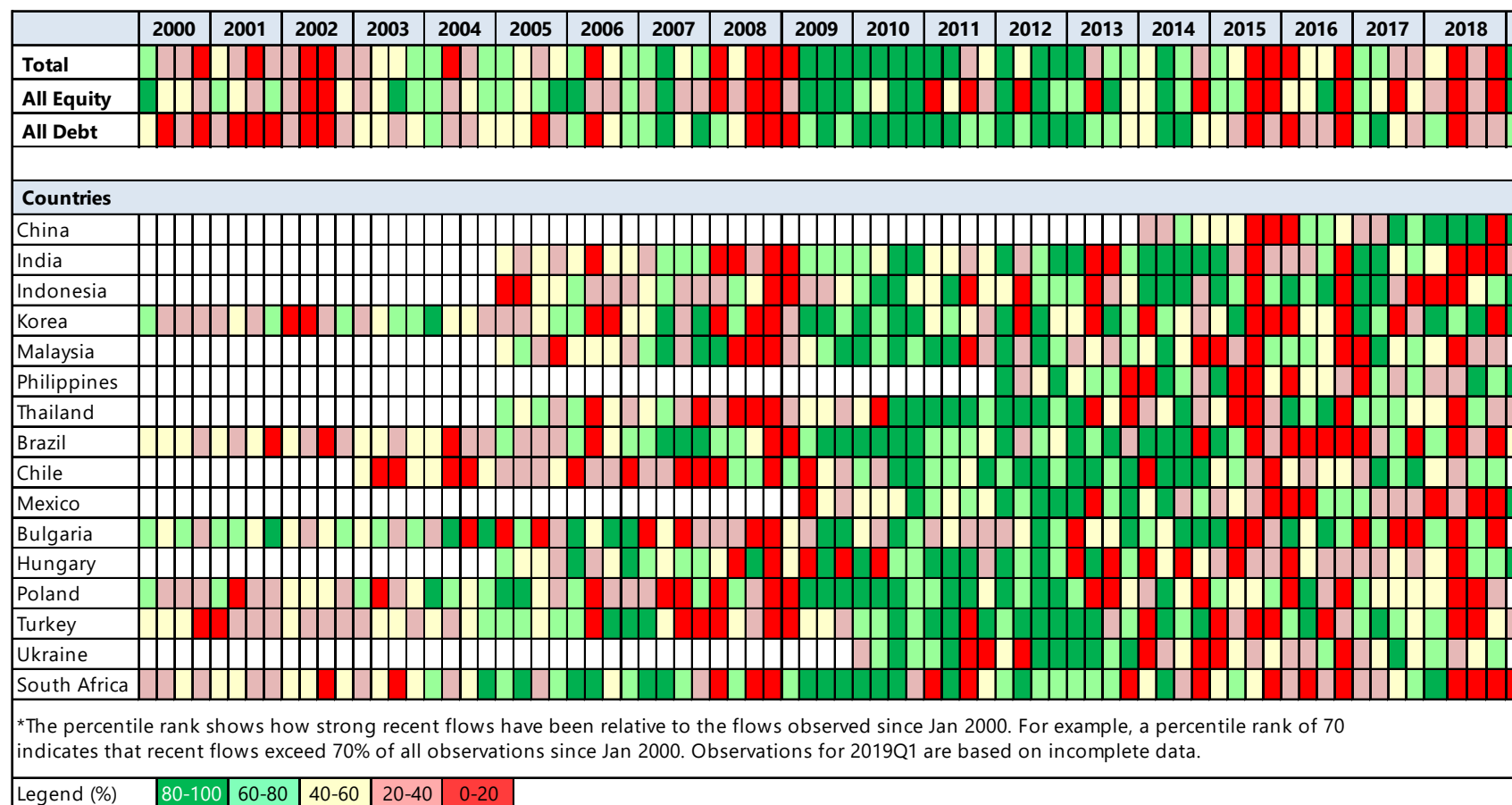
Chart 13. China: Non-Resident Portfolio Flows vs. 3-Month Percent Change in the Exchange Rate



Source: Bloomberg, IIF, IMF staff calculations

Portfolio flows to emerging markets in perspective: crisis in 2008-09, surge in 2010-14, retrenchment in 2015-16; a challenging 2018

Chart 14. Non Resident Portfolio Flows to EMs: Percentile Rank* relative to their Own History (since 2000; totals are ex China)

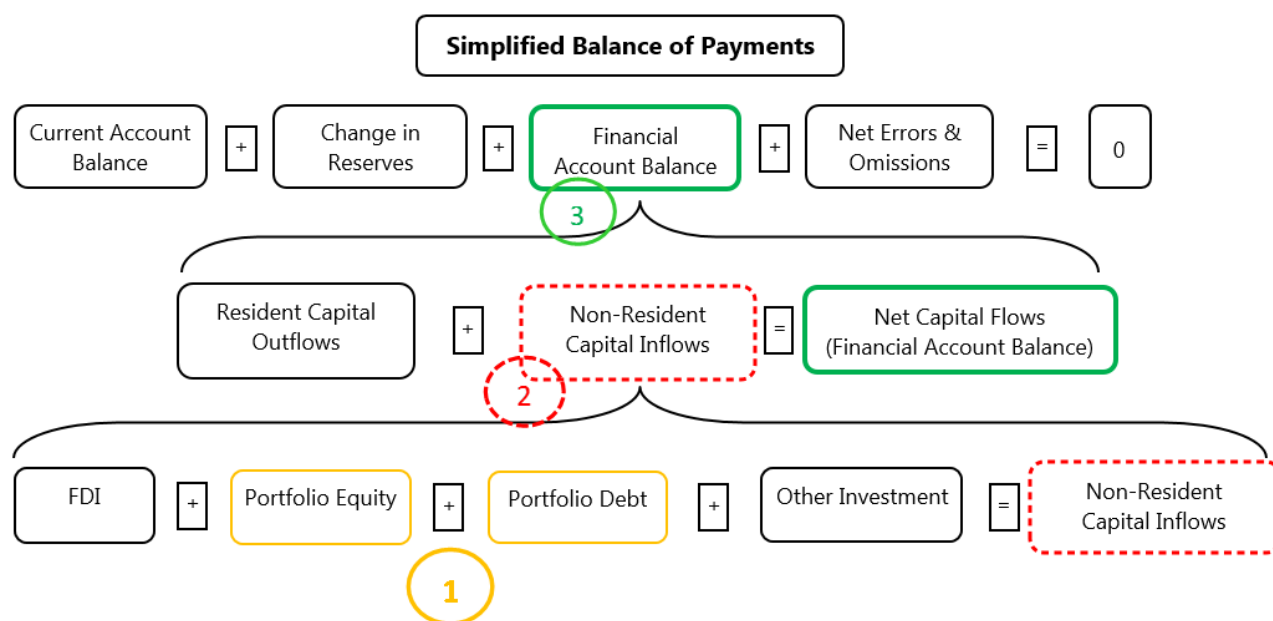


Source: IIF, IMF staff calculations

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.