



EM Capital Flows Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

November 11, 2020

Highlights:

- **While portfolio flows have recovered from the unprecedented pressures during the COVID sell-off ([Q1 monitor](#)), the overall trend remains volatile.** Portfolio flows came under pressure again in late summer ([Q2 Capital Flows monitor](#)), impacted by the global risk aversion shocks (in line with a pick-up in the [EM credit rating downgrades](#)), though have recovered in October driven in particular by select Asian economies (Chart 3). A material recovery in the local currency debt flows remains elusive (Chart 1), despite strong returns—driven in part by the [asset purchase programs by emerging markets](#). However, hard currency issuance has remained robust with \$53 bn issuance in October (Chart 2), following upon the \$60 bn issuance in September ([Oct EM Issuance Monitor](#)). The recent pickup in the overall flows seems to be driven by the retail investors, without a meaningful pickup in institutional investors (Chart 4). Within bond fund flows, cumulative hard currency ETF flows have turned positive for 2020 with broadly no change for hard currency mutual funds and local currency ETFs. Local currency mutual funds are still registering outflows for the year at \$17 bn (Chart 5). Within the fund flow investment vehicles, ETFs seem to have recovered across both debt and equity funds, while mutual funds are under relative pressure.
- **Complete balance-of-payments data support the findings from our [preliminary Q2 Capital Flow Tracker](#), and show sharp decline in the non-resident flows, which was partly buffered by a significant support from the resident flows.** Non-resident flows declined to 1.7% of GDP, with a sequential recovery in portfolio flows significantly offset by the decline in FDI and other investment flows (Chart 6). FDI flows are at historical lows, with the pressures significantly broad-based across EMs. Other investment flows are also the worst since the 2008 crisis, though the pressures are not widespread especially for Latam economies (Charts 7–9). This issue introduces long term country level heatmaps in Charts 19 and 20. The overall decline in non-resident flows was partly offset by a strong improvement in the resident flows from -3.6% of GDP in Q1, to -0.7% of GDP in Q2 (Chart 10). Resident flows provided a strong buffer especially for Hungary, Peru, Thailand, Brazil, Turkey and South Africa (Chart 11). This partially reflects the repatriation of foreign assets by private sector institutions, amid strong currency depreciation and in some cases, other regulations.
- **Reserve operations (Chart 12) have turned a corner** after the sharp sell-off in Q1 (refer [MCM note on EM reserve operations](#)) with an aggregate accumulation in the last few months. EMEA countries continue to lose reserves, while Asian economies (notably India with +\$29 bn in Q3) accumulated FX reserves. The aggregate current account surplus of EMs (ex-China) remained balanced in Q2 2020 (Chart 10) with remarkable variation.
- **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 14).** Non-resident flows increased marginally vs Q1, helped primarily by the \$68bn improvement in portfolio flows. Index inclusion related flows, driven by the on-going inclusion in the GBI-EM and Bloomberg Barclays Agg ([IMF blog](#)) indices remain strong (Chart 15). FTSE WGBI's decision to include Chinese starting next year also boosted investor sentiment. Resident outflows also picked up particularly in the 'other' flow category. The sharp rise in errors & omissions also reflect the outflow pressures, especially as [China further eases the outbound investment limits](#). China accumulated reserves (\$19bn) in Q2, after four successive quarters of decline (Chart 13).
- **Remittance flows have improved sharply in the last months, averaging 30% yoy growth in Q3 (Chart 16). This compares with the 20% yoy growth decline in April and 9% average growth in the last five years (Chart 14, and as the [WB predicts sharpest decline in remittances in recent history](#)).** The trends varied across countries though, with the growth led by Thailand, Bangladesh and Pakistan (Chart 17).

Portfolio flows came under pressure again in late summer, impacted by the global risk aversion shocks, though have recovered in October. While a material recovery in the local currency debt flows remains elusive, hard currency issuance has remained robust with \$53 bn issuance in October across categories.

Chart 1. Non-Resident Portfolio Flows to EMs (incl. China)
(\$ billion, 4-week rolling sum; last observation: 30th October)

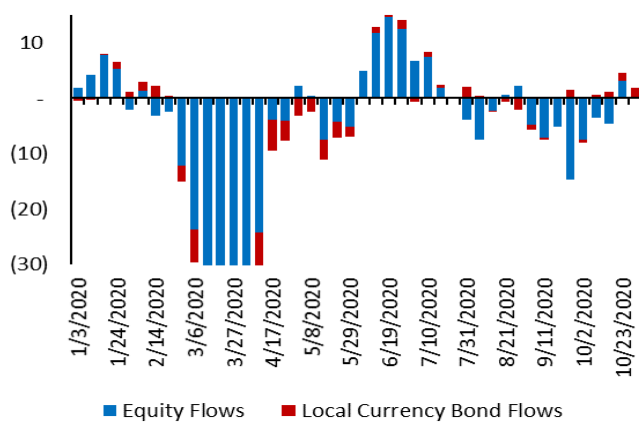
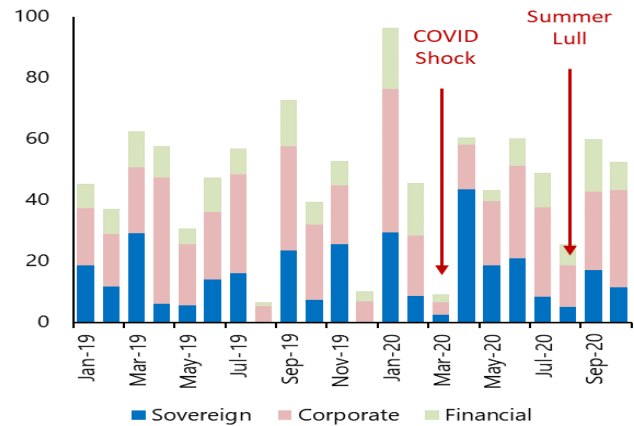


Chart 2. Hard Currency Issuance to EMs (incl. China)
(\$ billion, last observation = Oct, 2020)



Pressure in September was relatively broadbased, while China, India and Indonesia along with Hungary and Colombia are driving the recovery in October.

Chart 3. Non-Resident Portfolio Flows to EMs: Percentile Rank*
Relative to Their Own History (since 2010; totals are ex China)

	Q1 20	Q2 20	Jul	Aug	Sep	Oct
Total ex CHN	0%	10%	26%	32%	16%	36%
Equity ex CHN	0%	12%	42%	28%	7%	34%
Debt ex CHN	0%	12%	21%	37%	36%	39%
Countries						
China	12%	96%	100%	93%	94%	63%
India	0%	21%	46%	94%	29%	74%
Indonesia	0%	29%	37%	16%	7%	67%
Korea	14%	57%	81%	41%	22%	27%
Malaysia	12%	69%	77%	55%	44%	
Philippines	15%	79%	34%	18%	14%	
Taiwan	0%	29%	49%	15%	24%	38%
Thailand	0%	12%	50%	16%	42%	23%
Brazil	0%	19%	32%	56%	42%	
Chile	100%	57%	20%	3%		
Mexico	2%	0%	19%	42%	29%	
Colombia	7%	5%	9%	43%	96%	51%
Bulgaria	62%	50%	76%	42%		
Hungary	0%	52%	49%	9%	77%	93%
Poland	21%	0%	60%	25%		
Turkey	10%	0%	33%	15%	36%	40%
Ukraine	81%	2%	13%	18%	29%	11%
South Africa	2%	29%	32%	11%	20%	9%

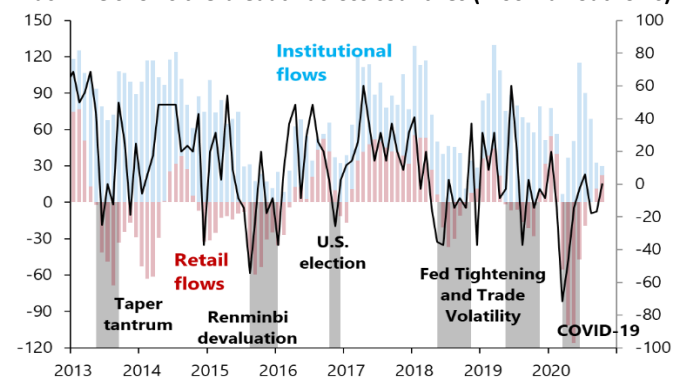
*The percentile rank shows how strong recent flows have been relative to the flows observed since Jan 2010. For example, a percentile rank of 70 indicates that recent flows exceed 70% of all observations since Jan 2010.

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

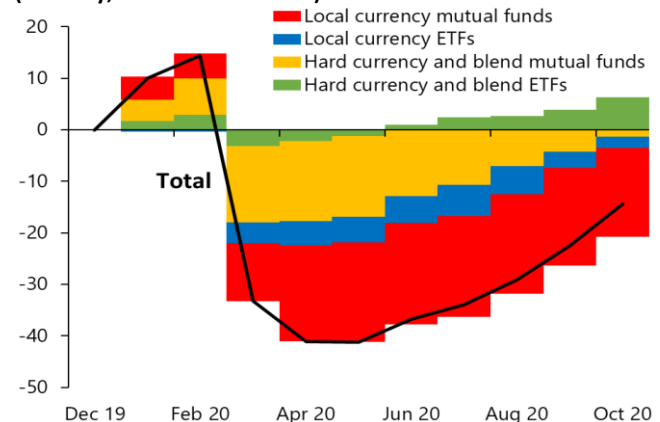
The recent pickup seems to be from retail investors, while the institutional pickup is still missing.

Chart 4. Estimates of Retail and Institutional Portfolio Flows
(\$ billion, 3-month rolling sum; last obs. = Oct 2020; inc China).
Black line shows the breadth across countries (-100 = all outflows)



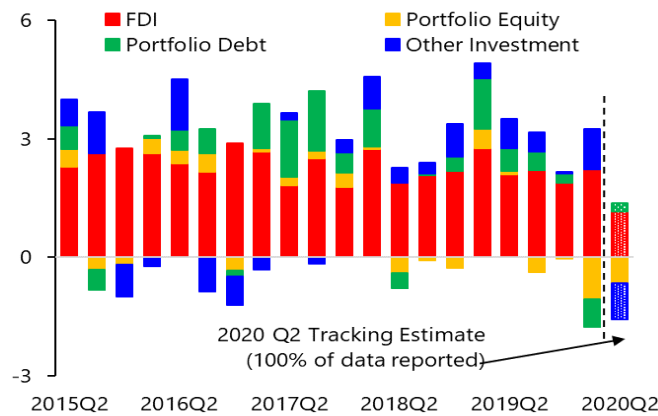
Cumulative hard currency ETF flows have are decently positive this year. Local currency mutual fund flows remain significantly weak.

Chart 5. Cumulative Fund Flows by Different Investment Vehicles
(Monthly; last obs. = Oct 2020)



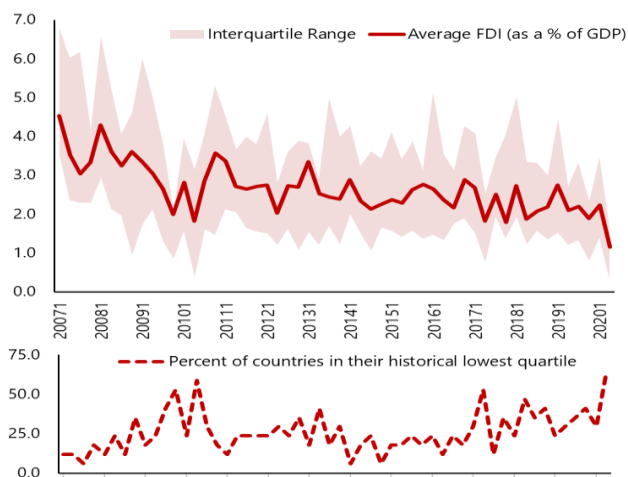
Non-resident flows to EMs declined driven by a broadbased reduction across categories, except portfolio debt which improved vs Q1 levels.

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



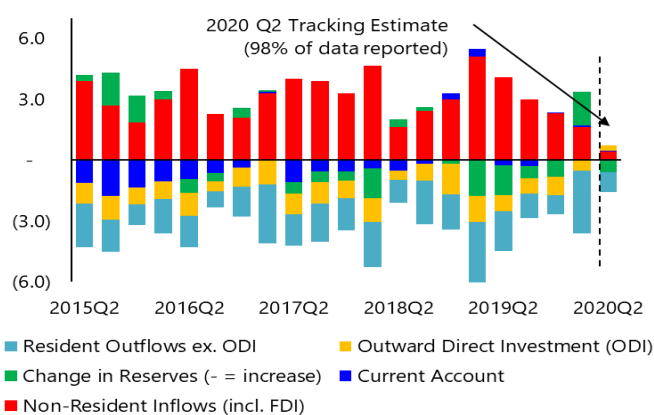
FDI flows at 1.1% of GDP registered the worst quarter since '07, with 65% of countries in their worst quartile.

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



The decline in non-resident inflows was 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 (Percent of GDP)



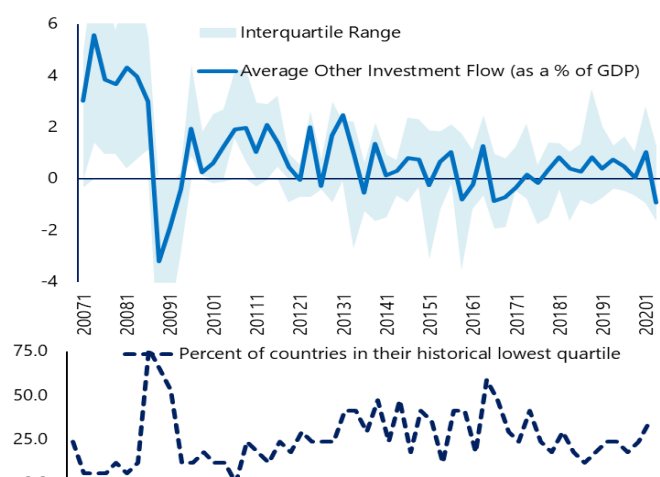
Most categories are at the extreme levels, with percentile ranks less than 5%; The decline is especially broadbased for portfolio equity and FDI.

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	Percent of countries in their historical lowest quartile
Portfolio Equity	Q1	-1.1	1.8	66.7
	Q2	-0.7	3.7	80.0
Portfolio Debt	Q1	-0.7	1.8	60.0
	Q2	0.2	20.7	40.0
FDI	Q1	2.2	26.4	29.4
	Q2	1.1	0.0	64.7
Other Investment	Q1	1.0	62.2	23.5
	Q2	-0.9	3.7	35.3

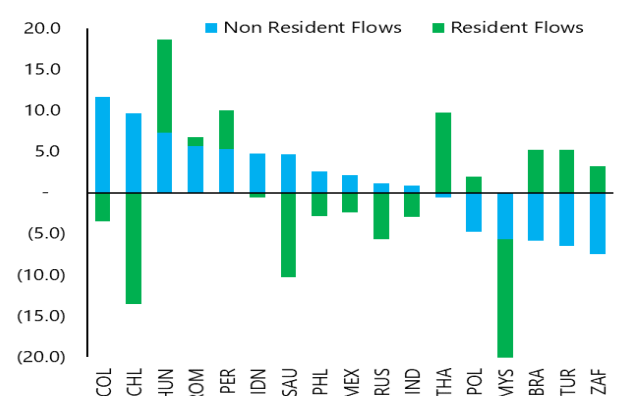
Other investment flows are at worst levels, second to GFC; however the decline is not broadbased.

Chart 9. Other Investment Flows: Average for EMs ex China, and the Proportion of Countries Witnessing Sharp Reversals



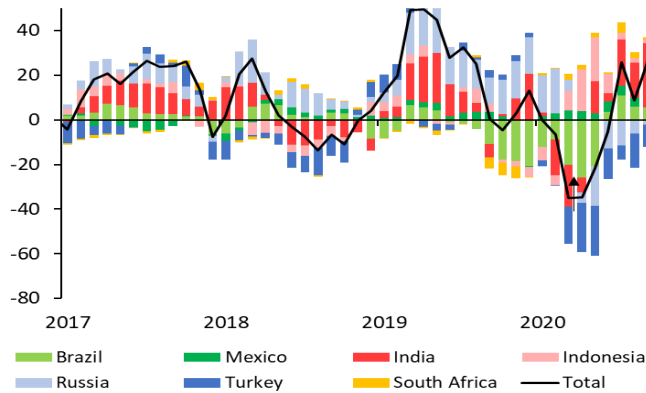
Resident flows provided a strong buffer for Hungary, Peru, Thailand, Brazil, Turkey and South Africa.

Chart 11. Resident and Non-Resident Flows for Major EMs (Percent of GDP)



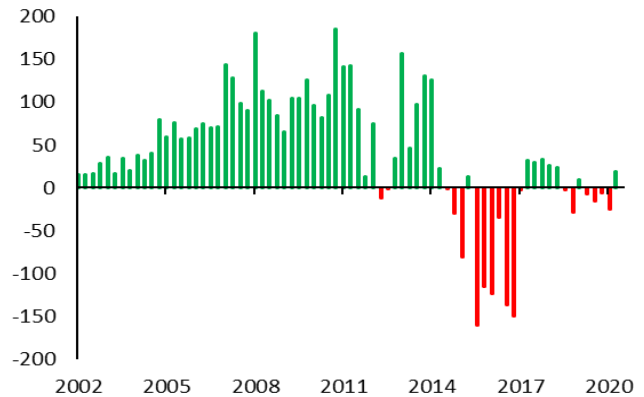
Reserve operations have turned to accumulation now, driven in particular by Asian economies especially India. Russia and Turkey continue to lose reserves.

Chart 12. Major EMs ex. China: Estimated Change in Reserves
(\$ billion; 3-months rolling sum, (+) = increase, last obs. = Aug 2020)



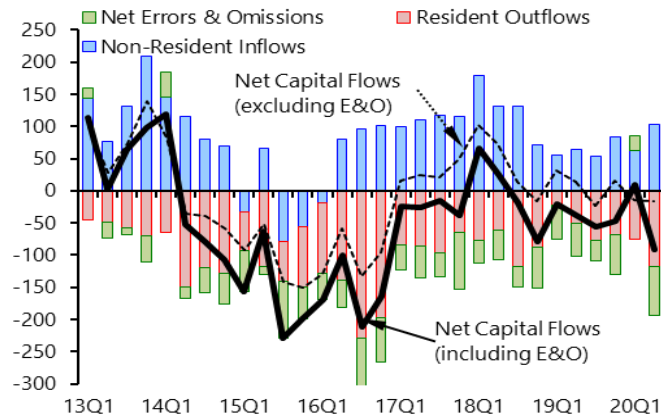
China accumulated reserves (\$19 bn) in Q2, after four successive quarters of decline. The levels remain quite marginal however.

Chart 13. China: Change in Reserves
(\$ billion, quarterly data; last observation is 2020 Q2)



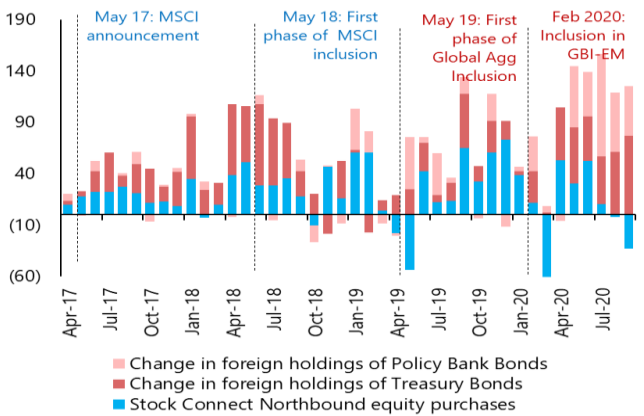
In China, net capital flows declined to the lowest level since end 2016 as the increase in resident outflows and errors & omissions offset strong non-resident flows.

Chart 14. China: Capital Flows
(\$ billion, quarterly data through 2020 Q2)



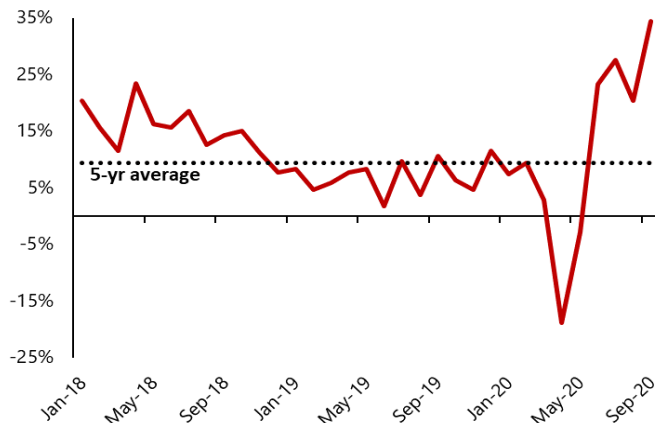
Index inclusion related flows to China remain strong, especially for the bond category. FTSE WGBI's inclusion aided investor sentiment.

Chart 15. China: Index Inclusion Related Flows
(\$ billion, monthly data; last observation is 2020 Q1)



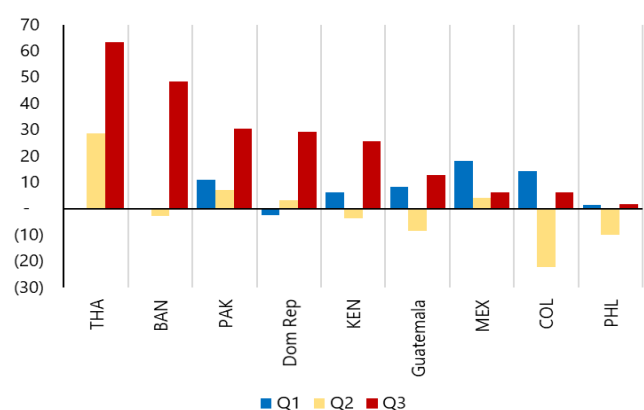
Remittance flows have picked up sharply in the last few months, with almost 30% yoy growth in Q3.

Chart 16. YoY Growth in Monthly Remittances
(Percent; equal weighted average across 9 countries)



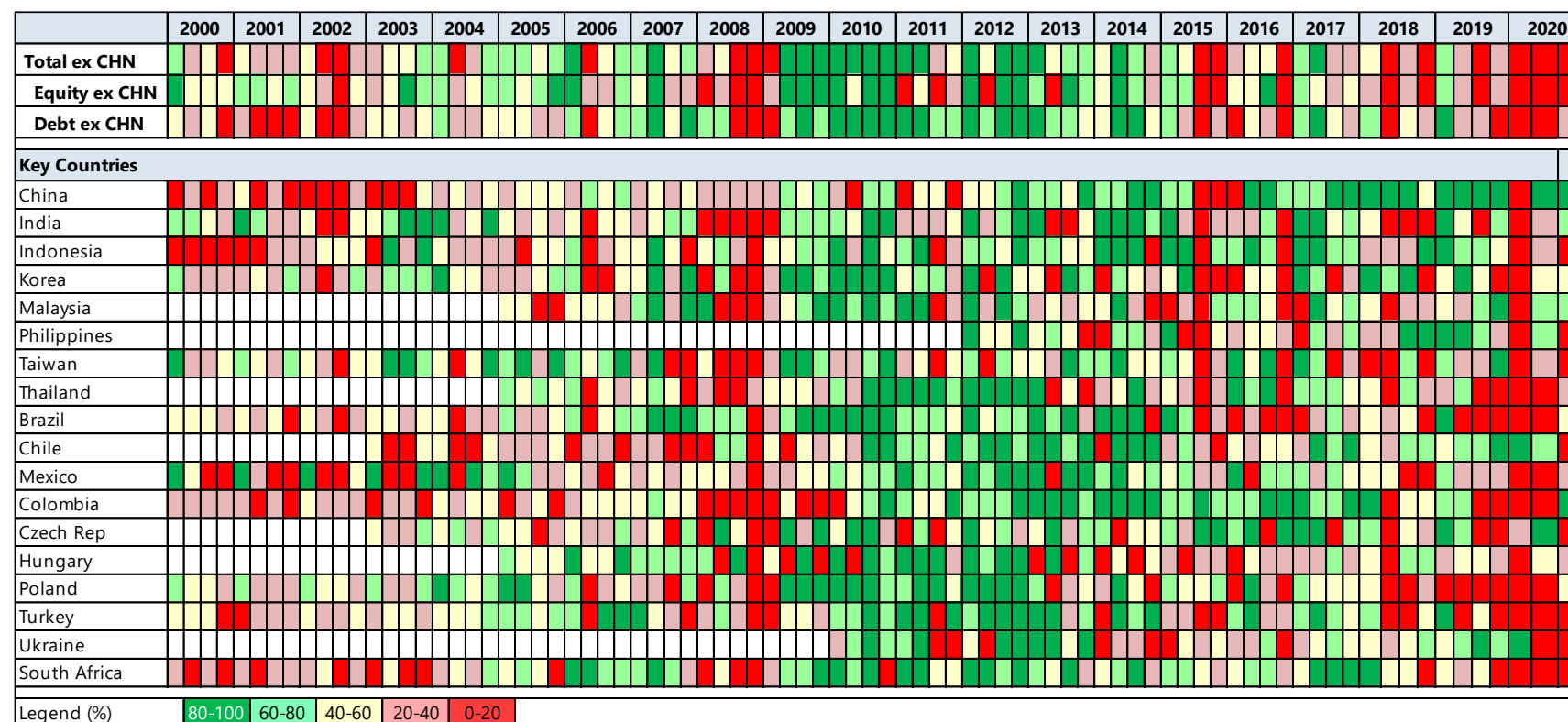
Growth driven by the Asian countries including Thailand, Bangladesh and Pakistan.

Chart 17. YoY Growth in Monthly Remittances
(Percent)



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.

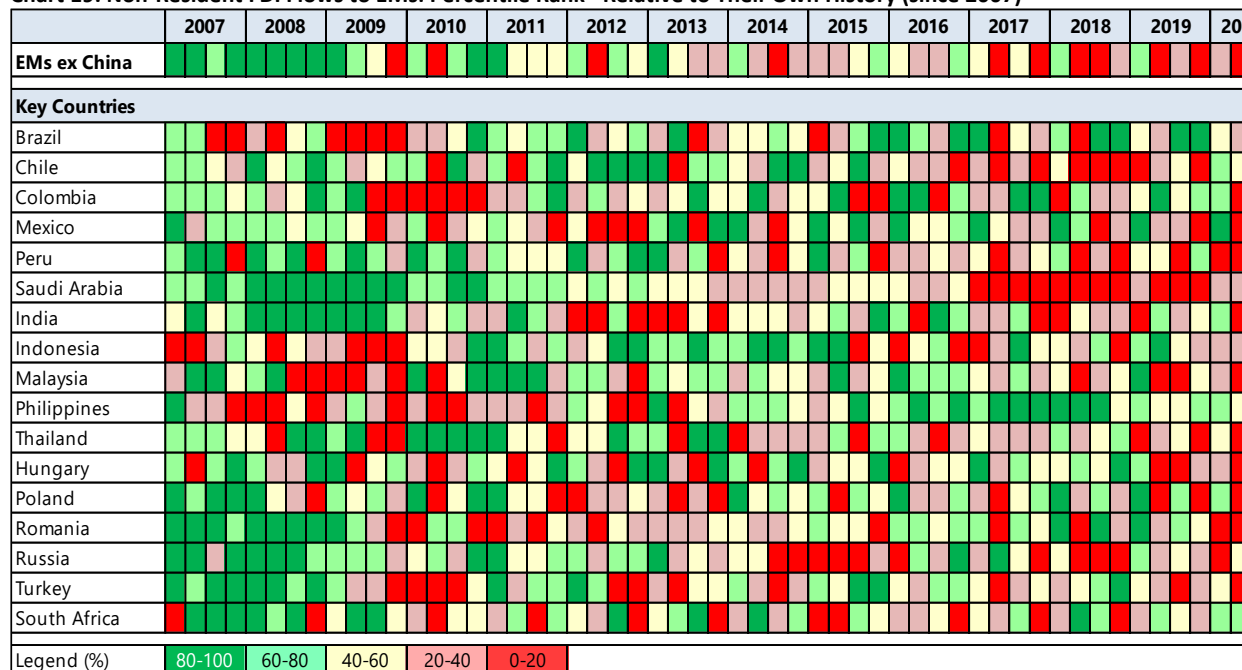
Chart 18. Non-Resident Portfolio Flows to EMs: Percentile Rank* relative to their Own History (since 2000; totals are ex China)



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

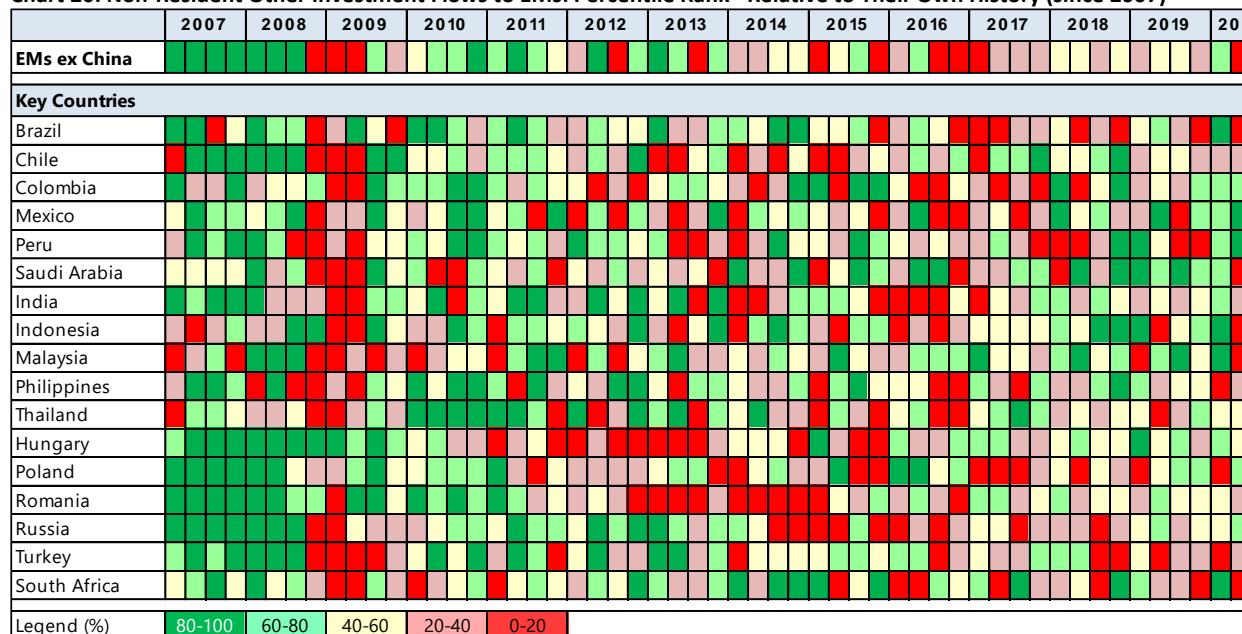
FDI flows to EMs ex China have been weak in the last few quarters and have declined to the lowest value since 2007. The sharp decline is evident across most EMs with the notable exception of South Africa, Chile, Philippines and Russia.

Chart 19. Non-Resident FDI Flows to EMs: Percentile Rank* Relative to Their Own History (since 2007)



Other Investment Flows have also declined sharply but 1) they are not as bad as GFC, when the pressures were more persistent; and 2) the decline is not as broadbased as many EMs especially Latin American countries continue to get healthy investment flows.

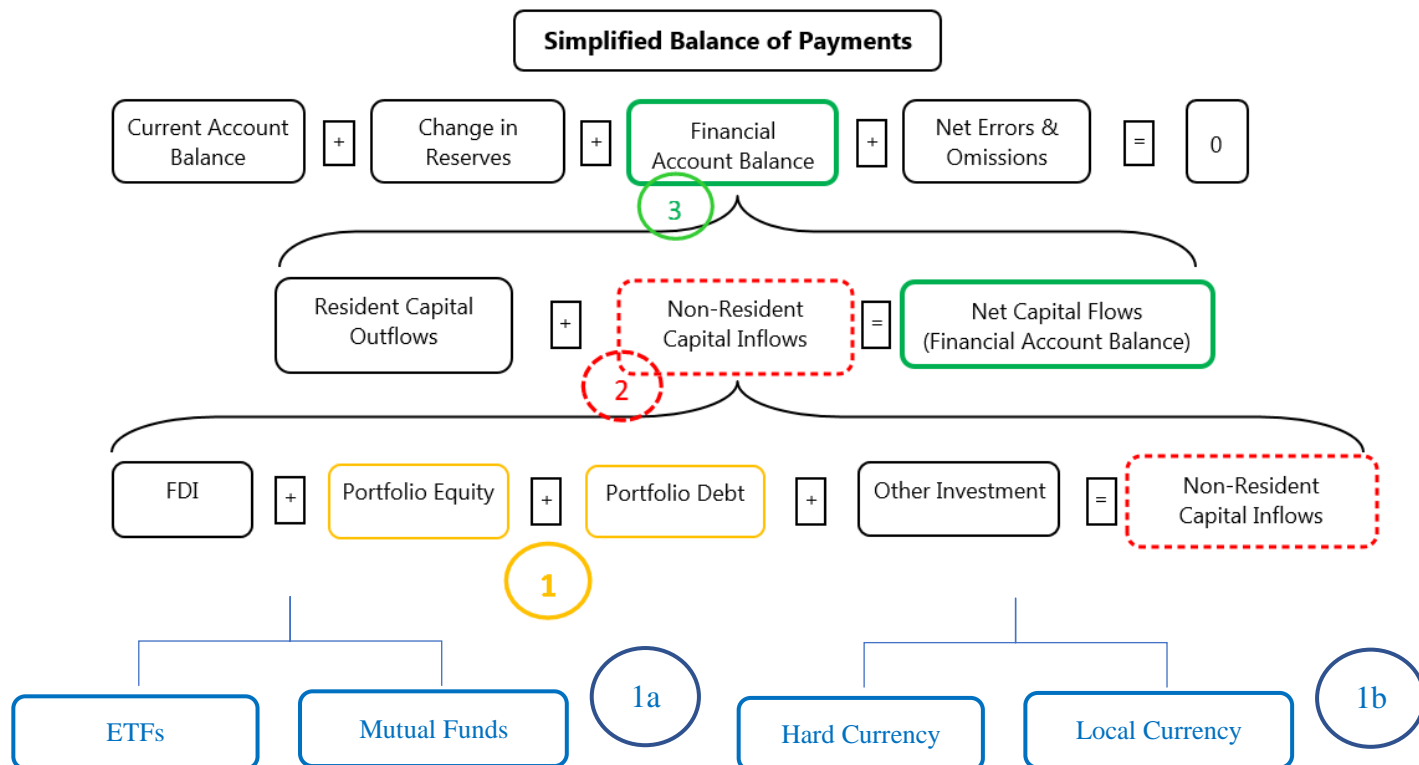
Chart 20. Non-Resident Other Investment Flows to EMs: Percentile Rank* Relative to Their Own History (since 2007)



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.