



EM Capital Flows Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

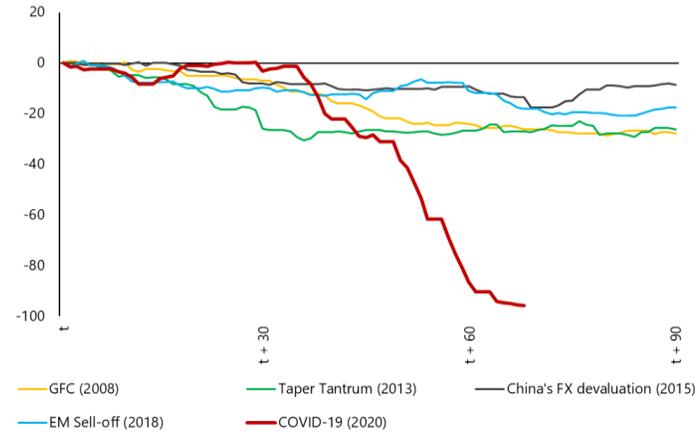
April 1, 2020

Highlights:

- **Emerging markets (EMs) have experienced unprecedented portfolio outflows in Q1:2020.** The COVID-19 pandemic, the oil price collapse and a sharp deterioration of the economic outlook have fueled a precipitous pullback of nonresident portfolio flows. EMs have seen \$96bn of outflows since 21st Jan, equivalent to 0.4% GDP of EMs, making this sell-off episode the largest reversal since the GFC (Charts 1 and 2). The speed of reversal is also particularly notable, posing challenges for countries with large external financing needs. Outflows have been initially concentrated in Asian equities but have since accelerated across most countries and extended to bond funds (hard currency funds in particular), making this episode the most broad-based since GFC (Charts 3, 4 and 6). Within different investor categories, available data indicates that retail-oriented funds have faced large outflows (Chart 5).
- **Within the EM bond funds, active funds have experienced most of the outflows (\$38bn in March), while passive funds have seen more modest pressures so far (\$10bn) (Chart 7).** The recent pickup in outflows from passive funds may also reflect the action by benchmark-driven investors (BDI) due to a **series of sovereign rating downgrades by global agencies in March**. In particular, South Africa has been downgraded to junk status by Moody's. Analysts expect BDI-driven outflows to range between \$3-5bn, noting that the economy has already seen \$3bn debt outflows year to date, on top of \$6.2bn in the last two years. Mexico has been downgraded to BBB rating by S&P. Analysts are now focused on Moody's rating (currently at A3 with a negative outlook) and the potential for Pemex to become a sub-investment-grade credit. As discussed in the [GFSR](#), BDIs have grown significantly in last few years and are increasingly more sensitive to external shocks. Portfolio flows, which had been [highly volatile in 2019](#) due to trade-related uncertainties, had started to recover late last year through January for most countries, before coming to a sudden stop in February – making it the worst month since 2010 (Chart 8).
- **Looking at the broader EM capital flows (ex. China), the latest available balance-of-payments data show a decline in both inward and outward FDI and bank flows in the second half of 2019 (Charts 9 and 10).** FDI to EMs (ex China) moderated to about 2 percent of GDP in Q4, from about 2.3 percent in the four preceding quarters and 2.5 percent in the last 10 years – reflecting [EM growth downgrades](#) and business uncertainty. The aggregate current account surplus of EMs (ex. China) has eroded over the last three quarters, though net capital flows have been supported by a steady decline in resident outflows (Charts 10 and 11). Reserve accumulation trends have diverged across economies, with Latam countries coming under pressure ([Brazil](#) and [Colombia](#) continued to intervene through March), while India and Russia built up reserves through 2019 (Charts 12 and 13).
- **Net capital flows to China had started on a strong note in 2019 but have moderated over the last few quarters. The flows have been driven by a sharp rise in resident outward investment in the second half of 2019.** Non-resident portfolio flows have been relatively stable, with inflows associated with China's inclusion in global benchmark indices ([IMF blog](#)) partly offset by outflows related to trade uncertainty and EM-wide pressures (Chart 15). PBOC has shifted from buying reserves (Chart 14) in Q1 to selling reserves through 2019.

The latest sell-off episode has seen more than \$90 bn of outflows in the last two months ...

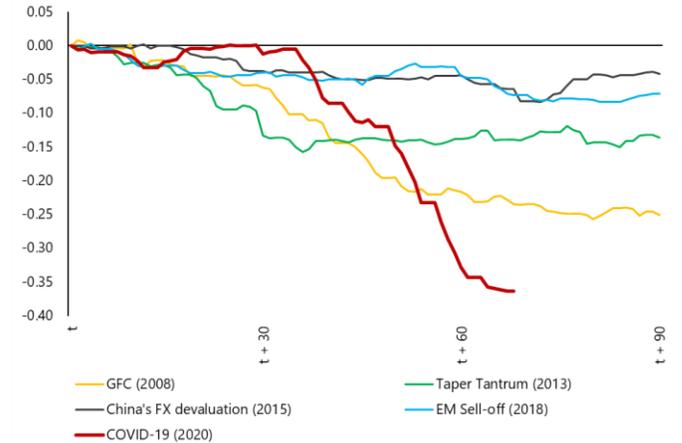
Chart 1. Cumulative non-Resident Portfolio Flows to EMs (\$ billion, based on daily observations, last obs. = Mar 30th)



Source: Bloomberg, IIF, IMF staff calculations

... with the speed of the reversal being the most notable since GFC (even adjusting for GDP)

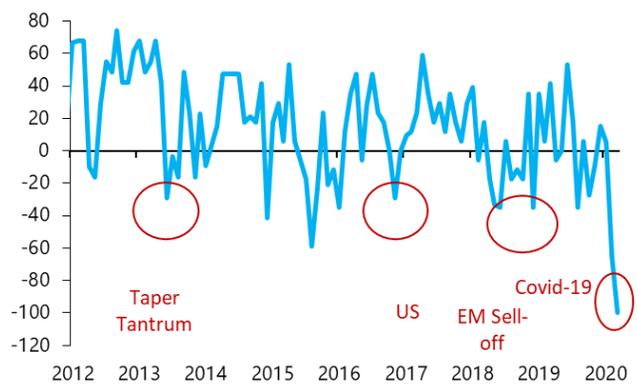
Chart 2. Cumulative non-Resident Portfolio Flows to EMs (Percent of GDP, based on daily observations, last obs. = Mar 30th)



Source: Bloomberg, IIF, IMF WEO, IMF staff calculations

This outflow episode is also the most broad-based since the GFC ...

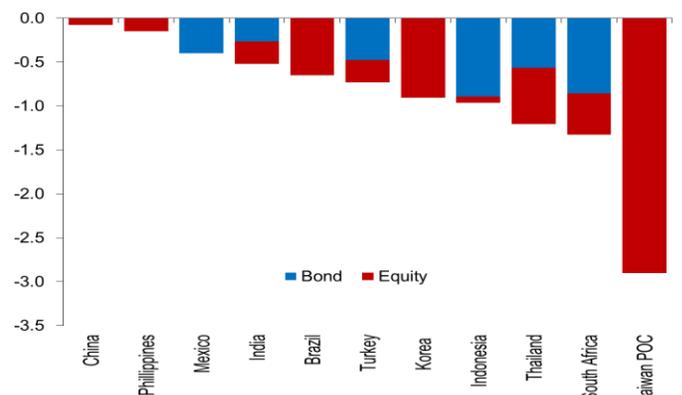
Chart 3. Percentage of Monthly EM Portfolio Flows Series with Positive/Negative Observations (Example: -100% means all 18 EM monthly flows series show net outflows)



Source: Bloomberg, IIF, IMF staff calculations.

... with the depth of outflows being particularly severe for selected emerging markets

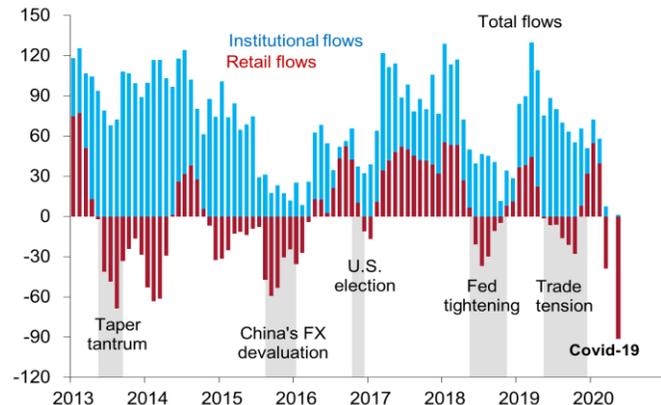
Chart 4. Cumulative non-Resident Portfolio Flows to Major EMs (Percent of GDP, based on daily observations, last obs. = Mar 30th)



Source: Bloomberg, IIF, IMF WEO, IMF staff calculations.

Large outflows from retail investors, as seen in previous sell-off episodes; with a decline in institutional flows

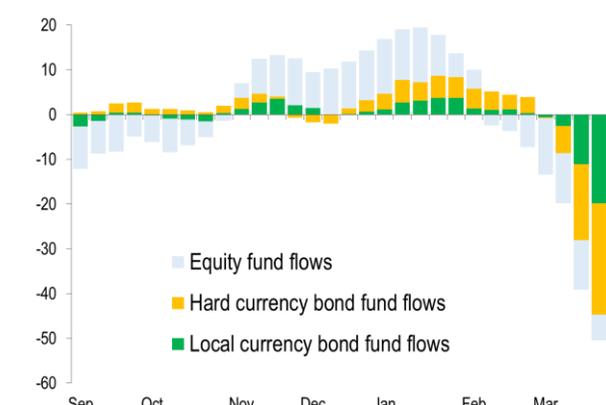
Chart 5. Estimates of Retail and Institutional Portfolio Flows (\$ billion, 3-month rolling sum; last obs. = March 2020; inc China)



Source: Bloomberg, EPFR, IIF, IMF staff calculations. Note: Last data point is for Feb and March, which is quarterized for an apt comparison

Debt funds have also seen a precipitous decline in the last 2 weeks driven by hard currency bonds

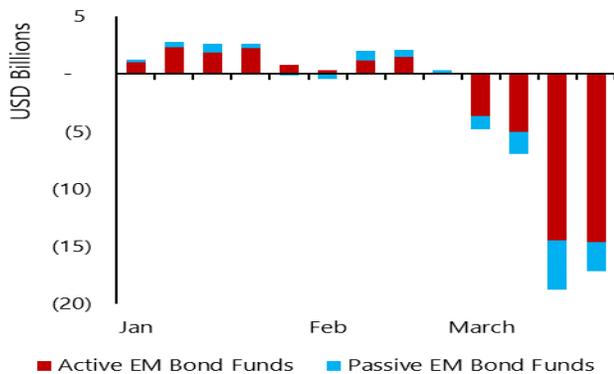
Chart 6. Fund Flows by different categories (\$ billion, 4-week rolling sum; last obs. = end of March)



Source: EPFR, IMF staff calculations.

Within EM bond funds, active funds have experienced the vast majority of outflows; passive funds also came under pressure

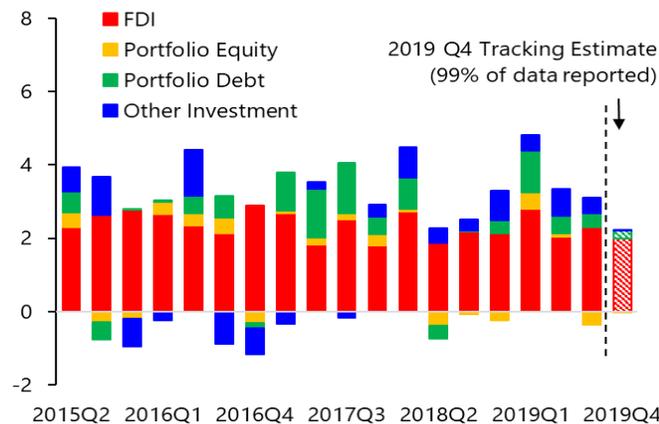
Chart 7. Estimates of flows from active and passive EM bond funds (\$ billion, weekly observations; last obs. = end of March)



Source: EPFR, IMF staff calculations

Non-resident flows to EMs have continued to decline through Q4 across categories, including FDI and other investment(bank-related) flows

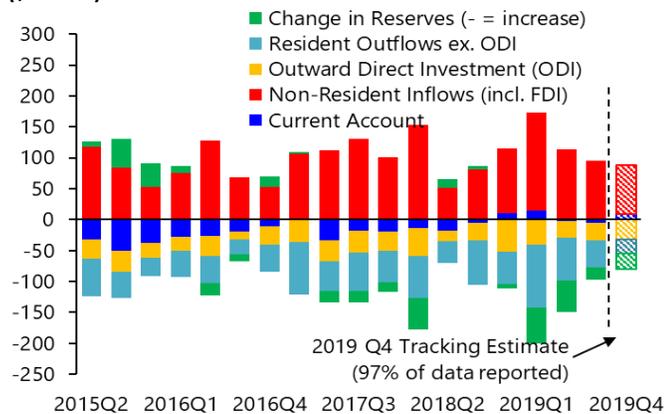
Chart 9. EMs ex China: Non-Resident Capital Inflows (% of GDP, "other investment" includes bank-related flows)



Source: Haver Analytics, IMF staff calculations

The decline in non-resident inflows has been offset by a compression in the resident outflows and a rise in reserves in Q4; current account remains balanced

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



Source: Haver Analytics, IMF staff calculations

February was the worst month for equities and overall flows since 2010, concentrated in particular in Asia and Brazil

Chart 8. Non Resident Portfolio Flows to EMs: Percentile Rank* relative to their Own History (since 2010; totals are ex. China)

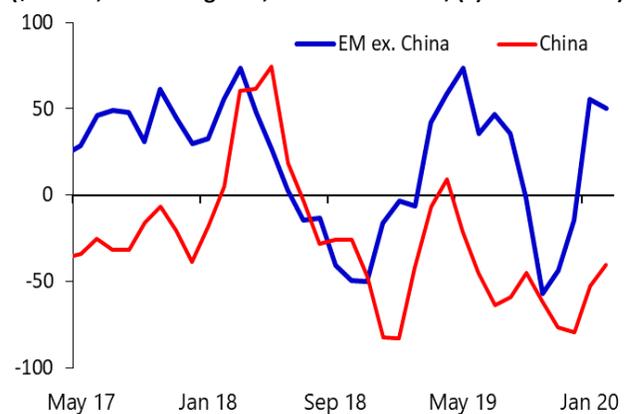
	Q2 19	Q3 19	Nov	Dec	Jan	Feb
Total ex CHN	33%	13%	26%	44%	31%	1%
Equity ex CHN	43%	10%	31%	38%	7%	2%
Debt ex CHN	33%	15%	26%	52%	68%	7%
Countries						
China	63%	92%	73%	75%	58%	21%
India	48%	18%	65%	34%	29%	50%
Indonesia	98%	45%	31%	34%	58%	4%
Korea	95%	53%	18%	19%	31%	1%
Malaysia	18%	59%	79%	80%		
Philippines	91%	75%	16%	27%	29%	25%
Taiwan	25%	28%	74%	53%	36%	5%
Thailand	65%	3%	27%	20%	32%	8%
Brazil	18%	3%	17%	9%	39%	3%
Chile	64%	46%	99%	9%		
Mexico	5%	8%	6%	88%	79%	29%
Bulgaria	77%	74%	51%	59%		
Hungary	58%	55%	45%	27%	83%	37%
Poland	21%	3%	16%	24%		
Turkey	3%	35%	36%	38%	21%	7%
Ukraine	69%	92%	85%	78%		
South Africa	28%	3%	21%	45%	43%	27%
Legend (%)	80-100	60-80	40-60	20-40	0-20	

*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 6, and regional trends are on page 5. Totals are ex China, and based on the countries where monthly estimates are available

Net capital flows to EMs ex. China had recovered in Jan 2020 after the sharp decline in H2:2019

Chart 11. Net Capital Flows to EMs (incl. Errors & Omissions) (\$ billion, 3-m rolling sum, last obs. = Feb 20, (+) = net inflows)

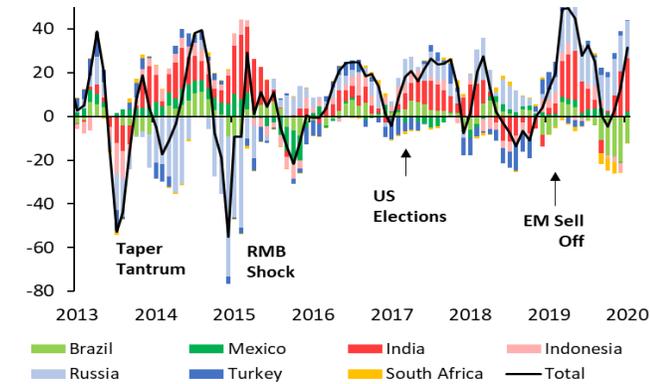


Source: IIF, IMF staff calculations

Central bank reserve accumulation picked up since from Oct 2019; However, some central banks have intervened in their FX markets recently

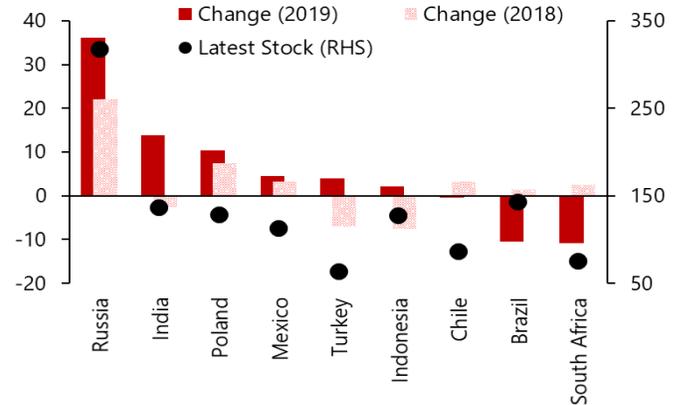
RUS, IND and POL have built up reserves in 2019; while FX reserves have declined in BRA and ZAF

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



Source: IIF, IMF staff calculations

Chart 13. Major EMs: Reserves (percent of ARA metric; latest stock is as of Feb 2020)

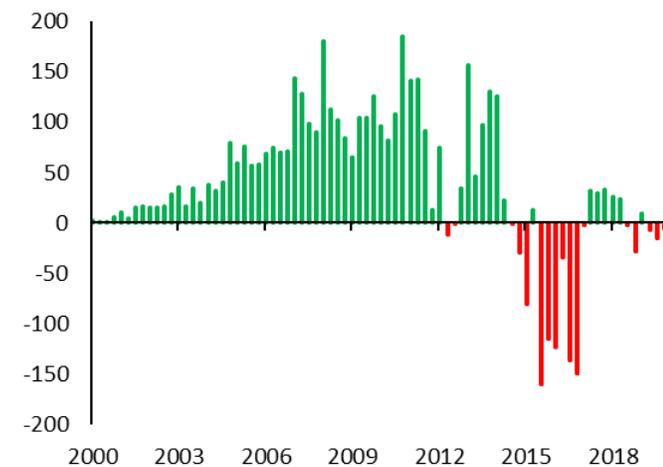


Source: IIF, IMF staff calculations

China's FX reserve position has shifted from small reserve gains in Q1 to reserve losses in the last three quarters

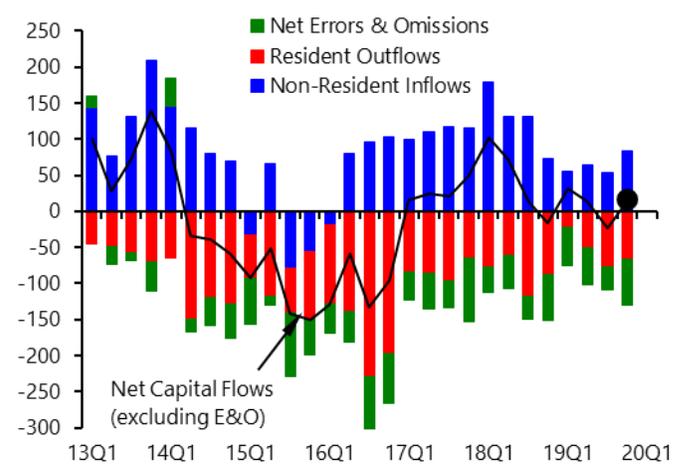
In China, a sharp rise in resident outflows has been the driver of the decline in net capital flows through 2019

Chart 14. China: Change in Reserves (\$ billion, quarterly data; last observation is 2019Q4)



Source: Haver Analytics, IMF staff calculations

Chart 15. China: Capital Flows (\$ billion, quarterly data through 2019Q4)



Source: Haver Analytics, IMF staff calculations

Regional Flows

Chart 16. Non-Resident Portfolio Flows to EM Asia (incl. China)
(\$ billion, 3-month rolling sum; last observation: Feb 2020)

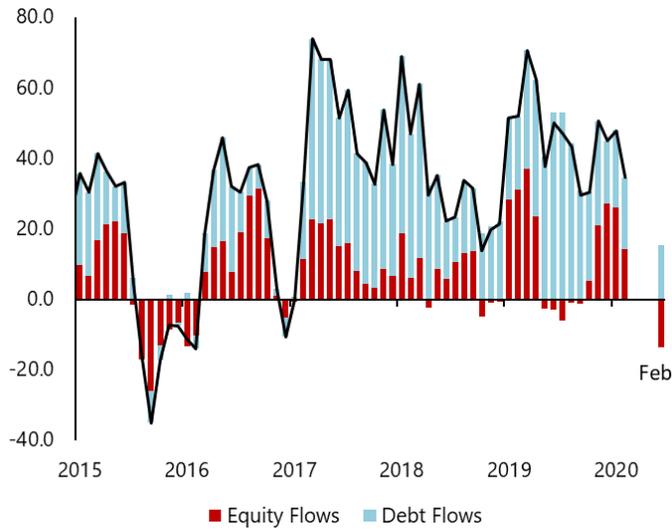
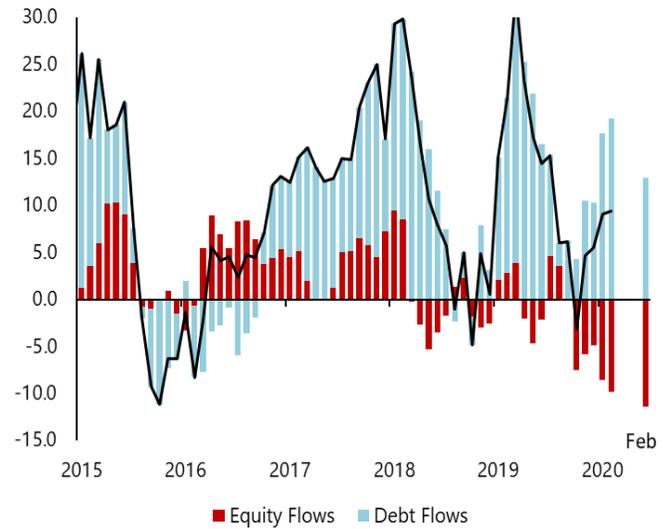
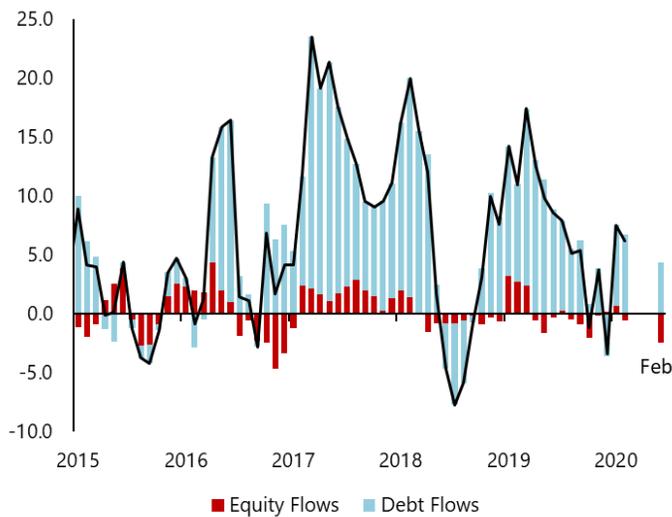


Chart 17. Non-Resident Portfolio Flows to Latin America
(\$ billion, 3-month rolling sum; last observation: Feb 2020)



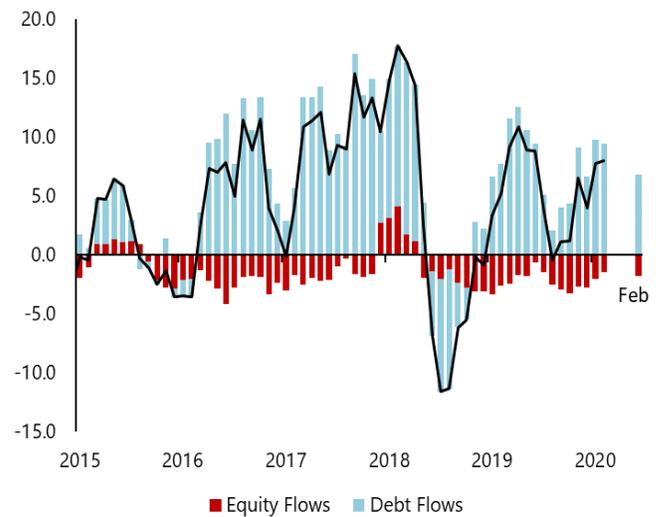
Source: IIF, IMF staff calculations

Chart 18. Non-Resident Portfolio Flows to Emerging Europe
(\$ billion, 3-month rolling sum; last observation: Feb 2020)



Source: IIF, IMF staff calculations

Chart 19. Non-Resident Portfolio Flows to Africa and Middle East
(\$ billion, 3-month rolling sum; last observation: Feb 2020)



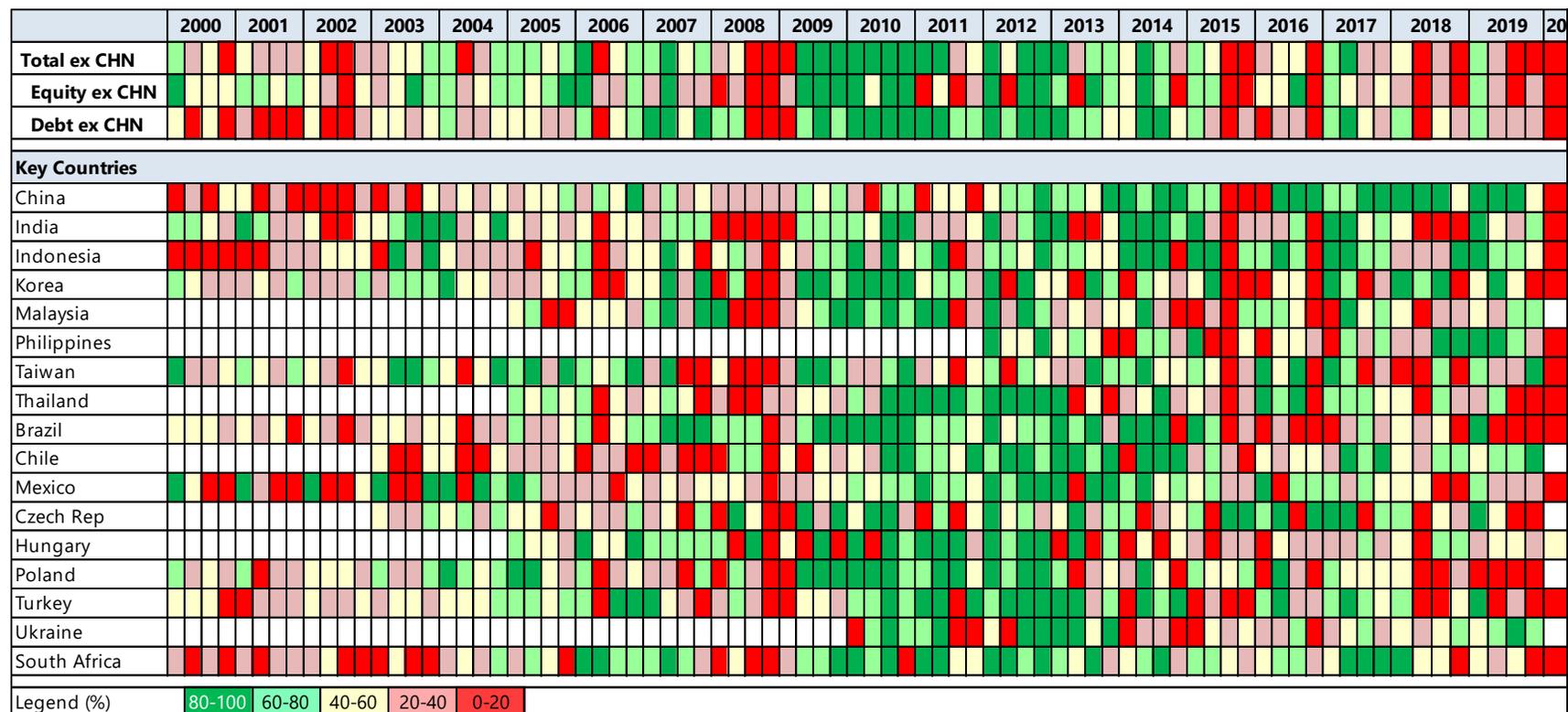
Source: IIF, IMF staff calculations

Note: In all panels, the last observation is monthly flow for Feb * 3

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; the sharp sell-off in 2020

Chart 20. Non Resident Portfolio Flows to EMs: Percentile Rank* relative to their Own History (since 2000; totals are ex China)

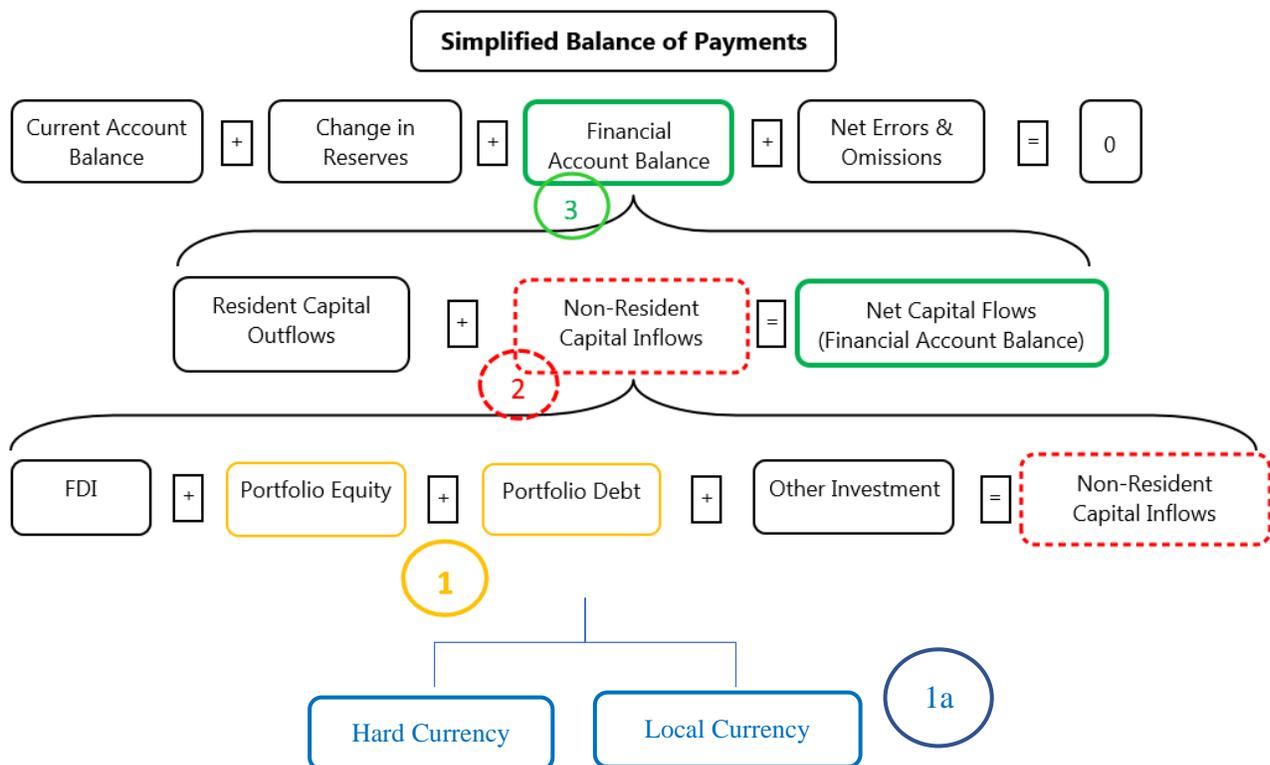


Source: Bloomberg, Haver Analytics, Country authorities, IIF, IMF staff calculations Note: Totals are ex China, and based on the countries where monthly estimates are available

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 bond funds to understand the flow dynamics between 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.