



EM Capital Flows Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

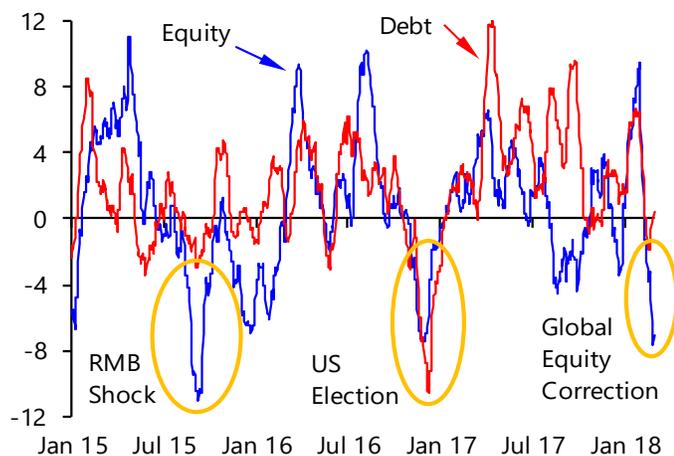
March 1, 2018

Highlights:

- **Portfolio flows to emerging markets reversed amid the global equity market correction in the first half of February, but have recovered since.** We estimate that outflows from EMs amounted to roughly \$20 billion (on a BoP basis) over a period of 16 days and were concentrated in equity markets (about \$15 billion). For comparison, during the taper tantrum of 2013, outflows were more than twice this magnitude and were more evenly divided between equity and bond markets.
- **Total non-resident capital flows to EMs excluding China remained robust in 2017H2.** FDI inflows are estimated at \$150 billion (2.3% of recipient GDP) in 2017H2, slightly below the post-crisis average. Portfolio debt flows slowed to about \$22 billion in Q4, half the pace observed in the first three quarters of 2017. Some of this slowdown appears to have been offset by stronger inflows of “other investment” (which includes bank lending).
- **In 2017H2, net capital flows to EMs excluding China rose to the highest level since early 2013, reaching about \$110 billion in Q3 and \$100 billion in Q4.** Reserve accumulation was strong in 2017, but slowed towards year-end, led by declines in Turkey (-\$7 billion) and Brazil (-\$6 billion) in December. **Net capital flows to China have continued to strengthen, posting a fourth consecutive quarter of inflows in 2017Q4 at an estimated \$45 billion.**

Daily data show a reversal of portfolio equity flows during the global equity correction in early February

Chart 1. EM Portfolio Equity and Debt Flows*
(\$ billion, all available countries, 28-day rolling sum)

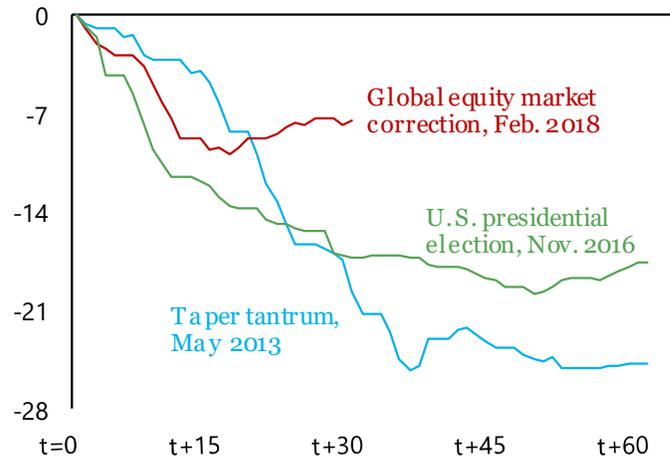


Source: IIF, IMF staff calculations

*Countries include: India, Indonesia, Thailand, South Africa and Hungary (for debt flows); India, Indonesia, Korea, Thailand, South Africa, Brazil and Philippines (for equity flows)

The recent reversal of EM portfolio flows was short-lived and less severe than prior episodes

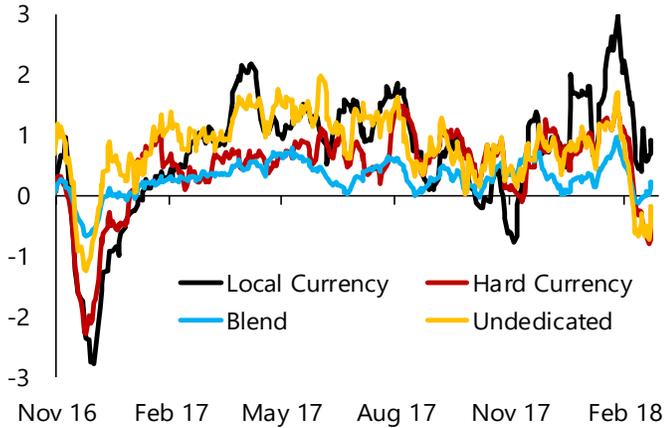
Chart 2. EM Portfolio Equity and Debt Flows*
(\$ billion, cumulative daily flows, t=1 is first day of outflows)



Source: IIF, IMF staff calculations

Among EM bond funds, hard currency flows were more affected than local currency flows

Chart 3. Fund Flows into EM Debt
(in \$ billion, 30 day rolling sum)



Source: TrounceFlow (coverage is similar to EPFR), IMF staff calculations

In most countries, outflows in February came after large inflows in January.

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

	Q3 17	Oct	Nov	Dec	Jan	Feb
Total	58%	63%	26%	53%	92%	7%
All Equity	48%	96%	32%	77%	97%	6%
All Debt	68%	18%	31%	25%	74%	12%
Countries						
China	100%	98%	17%	94%		
India	39%	68%	61%	26%	75%	13%
Indonesia	35%	4%	61%	27%	100%	5%
Korea	6%	73%	65%	21%	87%	1%
Malaysia	45%	26%	73%	51%		
Philippines	39%	47%	44%	53%	68%	19%
Thailand	55%	13%	48%	52%	84%	8%
Brazil	45%	55%	12%	8%	76%	10%
Chile	39%	96%	23%			
Mexico	16%	61%	26%	20%	37%	8%
Bulgaria	3%	13%	4%			
Hungary	61%	39%	26%	44%	70%	54%
Poland	26%	26%	32%			
Turkey	58%	60%	16%	33%	36%	13%
Ukraine	77%	60%	54%			
South Africa	48%	37%	34%	91%	70%	98%

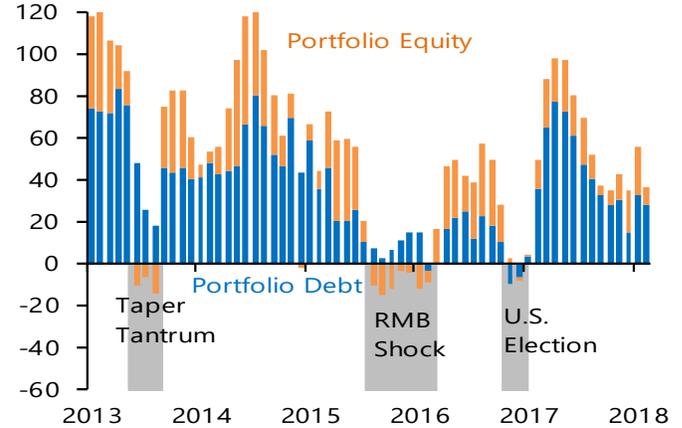
*The percentile rank shows how strong recent flows have been relative to the flows observed since Jan 2010. For example, a percentile rank of 70 indicates that recent flows exceed 70% of all observations since Jan 2010.

Source: IIF, IMF staff calculations

Note: An extended heatmap is provided on page 4.

Non-resident portfolio flows have decelerated during the second half of 2017

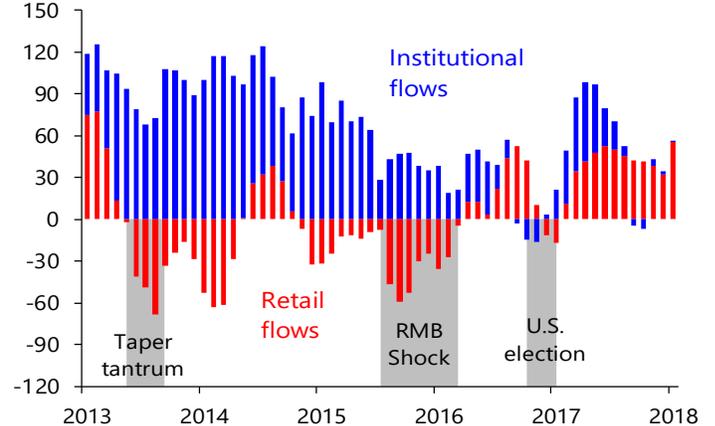
Chart 4. Non-Resident Portfolio Flows to Emerging Markets
(\$ billion, 3-month rolling sum; last observation: Feb 2018)



Source: IIF, IMF staff calculations

Strong inflows into investment funds suggest buoyant 2017 inflows were mainly driven by retail investors

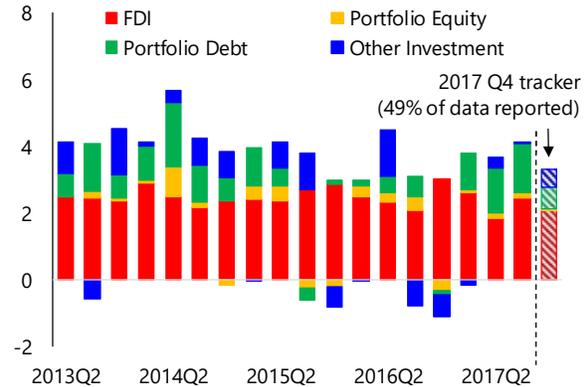
Chart 6. Estimates of Retail and Institutional Portfolio Flows
(\$ billion, 3-month rolling sum; last observation: Jan 2018)



Source: EPFR, IIF, IMF staff calculations

Overall, non-resident inflows have remained robust

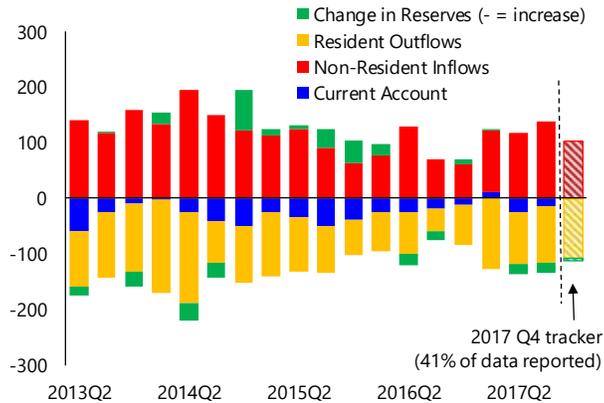
Chart 7. EM ex China: Non-Resident Capital Inflows
(% of GDP, "other investment" includes bank-related flows)



Source: Haver Analytics, IMF staff calculations

EM ex. China: current account improving, resident outflows on the rise

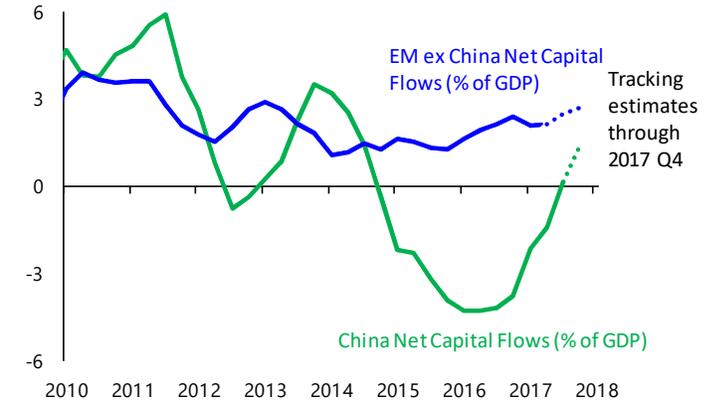
Chart 8. Breakdown of Major Balance of Payments Components (in \$ billion)



Source: Haver Analytics, IMF staff calculations

Net capital flows to EMs ex. China have recovered to a five-year high; China rebounding from 2016 lows

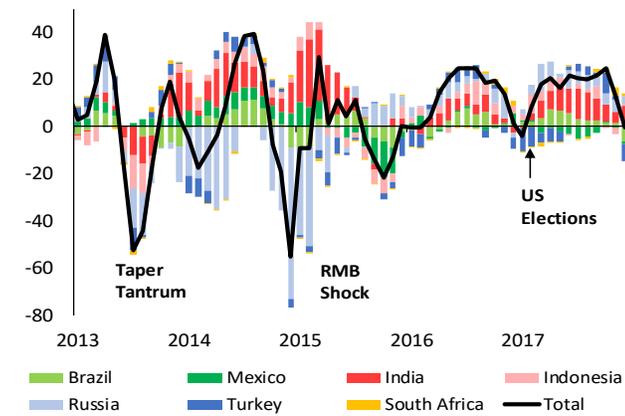
Chart 9. Net Capital Flows to Emerging Markets (% of GDP, 4-quarter moving avg, positive number = net inflows)



Source: IMF FFA database, IIF, IMF staff calculations

EM reserve accumulation slowed in late 2017

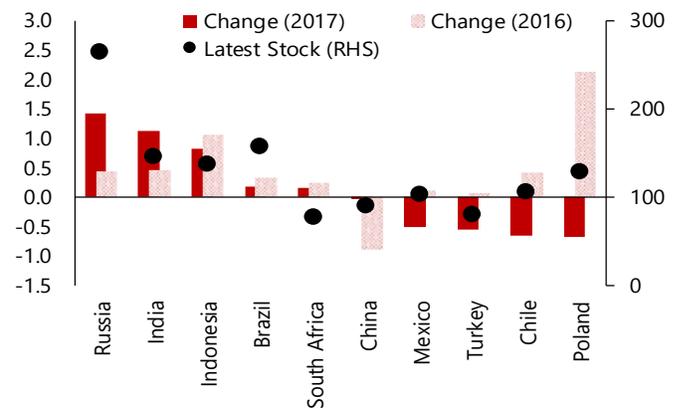
Chart 10. Major EMs ex. China: Change in Reserves (\$ billion; 3 months rolling sum)



Source: IIF, IMF staff calculations

Russia, India and Indonesia have built reserves in 2017

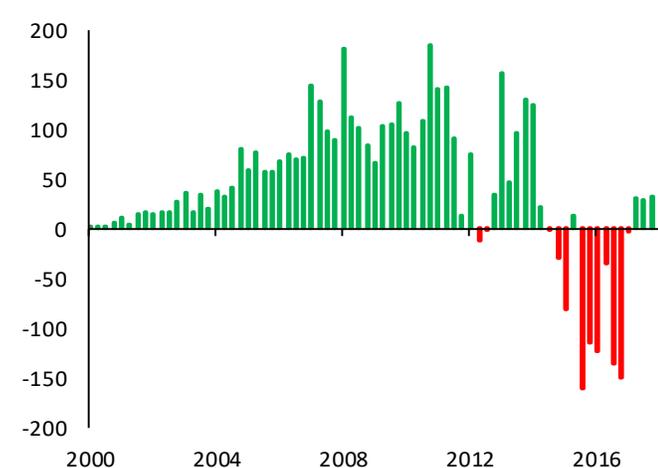
Chart 11. Major EMs: Reserves (percent of ARA metric)



Source: IIF, IMF staff calculations

China continues to rebuild reserves...

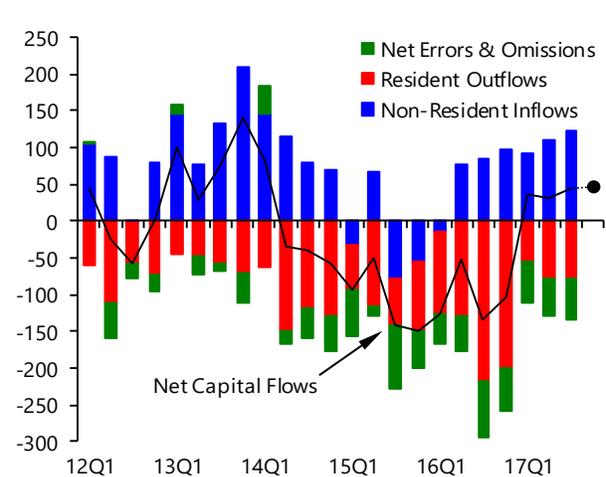
Chart 12. China: Change in Reserves (\$ billion, quarterly data; last observation is 2017 Q4)



Source: Haver Analytics, IMF staff calculations

...amid recovering non-resident inflows

Chart 13. China: Capital Flows (\$ billion, quarterly data through 2017 Q3; net flows through Q4)



Source: Haver Analytics, IIF, IMF staff calculations

Portfolio flows to emerging markets in perspective: crisis in 2008-09, surge in 2010-14, retrenchment in 2015-16; rebound since 2017

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

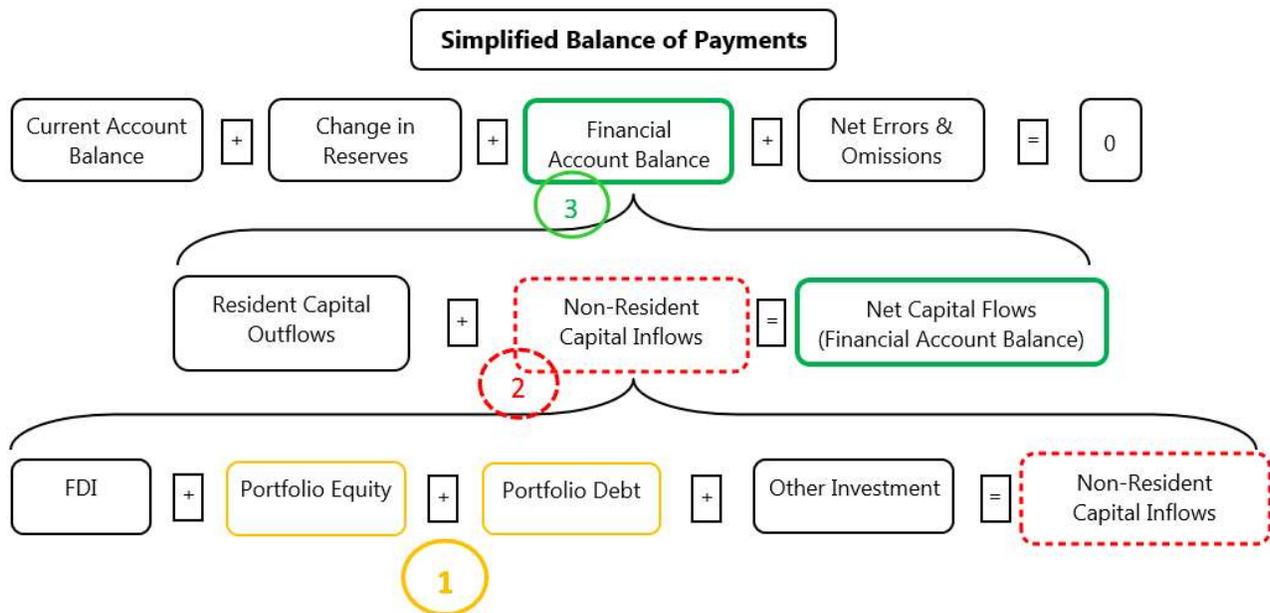


Source: IIF, IMF staff calculations

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, we look at **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, we show 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). We also provide estimates of EM resident outward investments.
- Third, we provide an estimate of **net capital flows** (i.e. the financial account balance) and 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.