


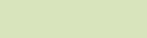
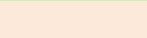


International Capital Flows: Prospects and Policy Implications

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Drivers of EM Capital Flows

Drivers of EM Capital Flows by Major Component					
Type	Driver	Portfolio Equity	Portfolio Debt	Banking Flows	FDI
Push	Mature economy output growth	Some evidence for positive relationship	Some evidence for positive relationship	Mixed evidence, no clear relationship	Mixed evidence, no clear relationship
	Mature economy interest rates	Some evidence for negative relationship	Some evidence for negative relationship	Mixed evidence, no clear relationship	Mixed evidence, no clear relationship
	Global risk aversion	Some evidence for negative relationship	Some evidence for negative relationship	Some evidence for negative relationship	Mixed evidence, no clear relationship
	Global regulatory changes	Mixed evidence, no clear relationship	Mixed evidence, no clear relationship	Some evidence for negative relationship	Mixed evidence, no clear relationship
	Inclusion & weights in EM index	Strong evidence for positive relationship	Strong evidence for positive relationship	Mixed evidence, no clear relationship	Mixed evidence, no clear relationship
Pull	Domestic output growth	Some evidence for positive relationship	Some evidence for positive relationship	Strong evidence for positive relationship	Strong evidence for positive relationship
	Asset return indicators	Some evidence for positive relationship	Some evidence for positive relationship	Strong evidence for positive relationship	Mixed evidence, no clear relationship
	Country risk indicators	Some evidence for negative relationship	Some evidence for negative relationship	Some evidence for negative relationship	Some evidence for negative relationship

-  Strong evidence for positive relationship
-  Some evidence for positive relationship
-  Mixed evidence, no clear relationship
-  Some evidence for negative relationship
-  Strong evidence for negative relationship

Source: IIF Working Paper "What Drives Capital Flows to Emerging Markets"

Portfolio Equity Flows

- External factors dominant in the short term
- Country fundamentals more important in the medium term
- Investor behavior matters

Portfolio Debt Flows

Similar dynamics as portfolio equity, but:

- More sensitive to external interest rates
- Local vs. hard currency differentiation
- Sovereign vs. corporate debt differentiation

Banking Flows

- Less prone to cyclical swings
- Global regulatory changes matter
- Global trade also matters
- Domestic pull factors important

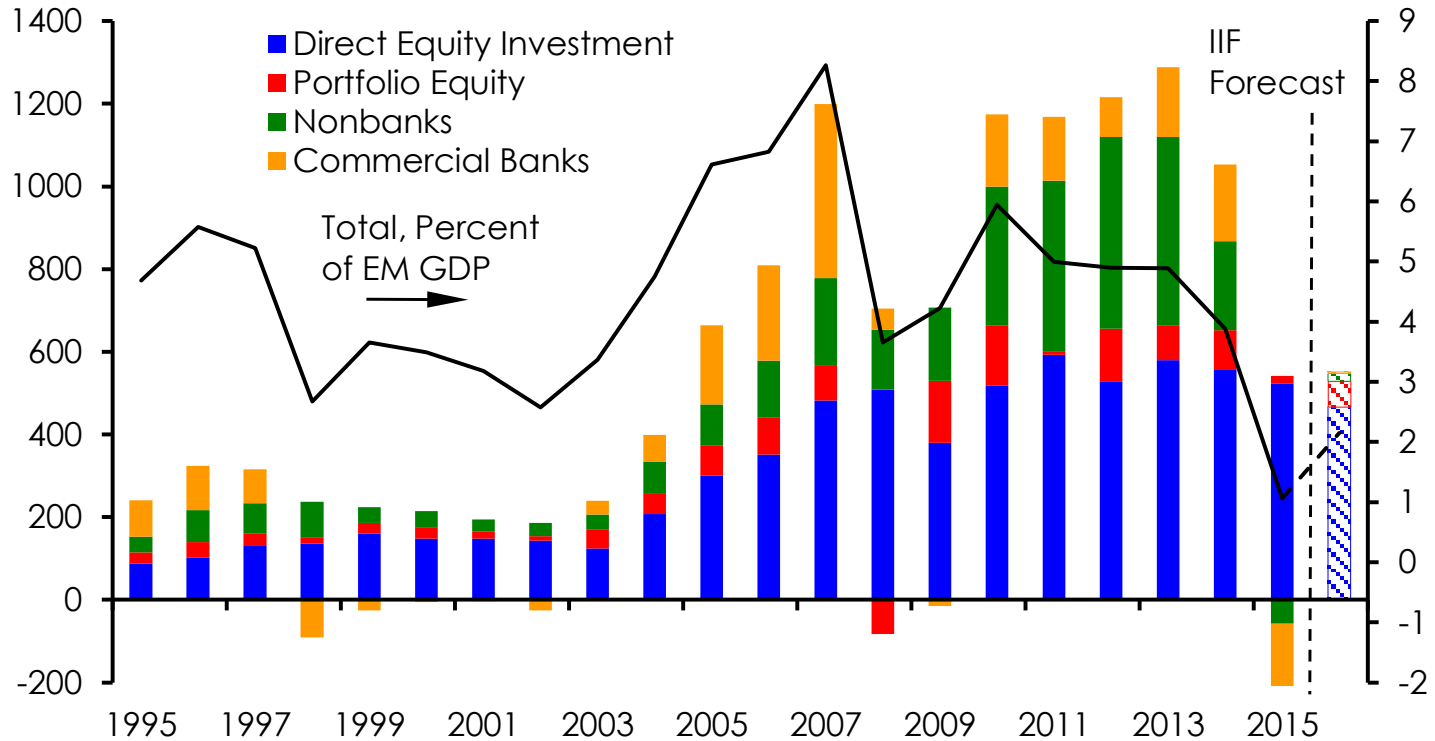
FDI

- Country factors matter the most:
 - Growth prospects
 - Country risks
- Unique to FDI flows:
 - Tax regime
 - Size of domestic market
 - Export competitiveness
 - Structural reform prospects

Twenty Years of EM Capital Flows

Net Private Capital Inflows to Emerging Markets

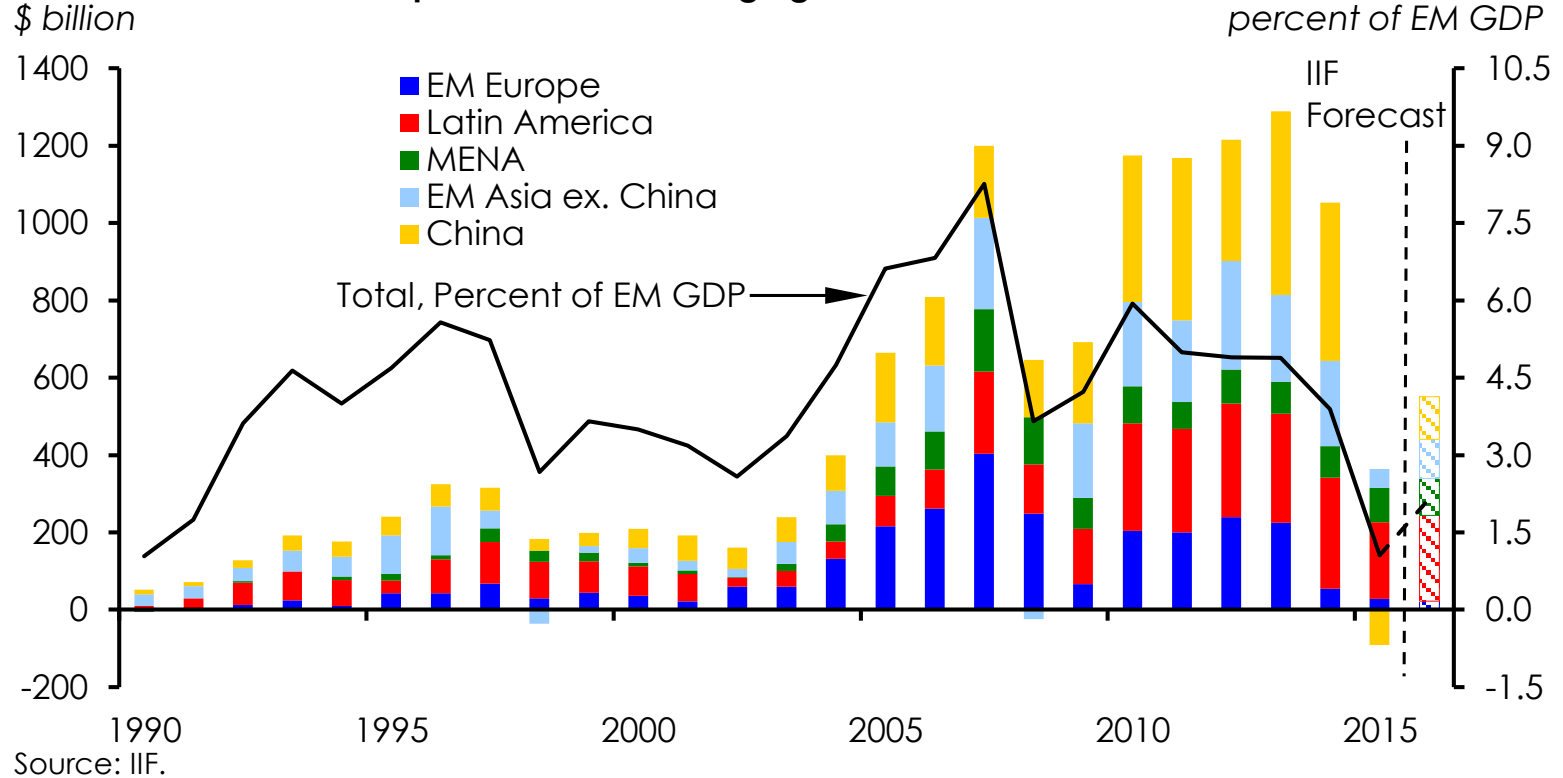
\$ billion



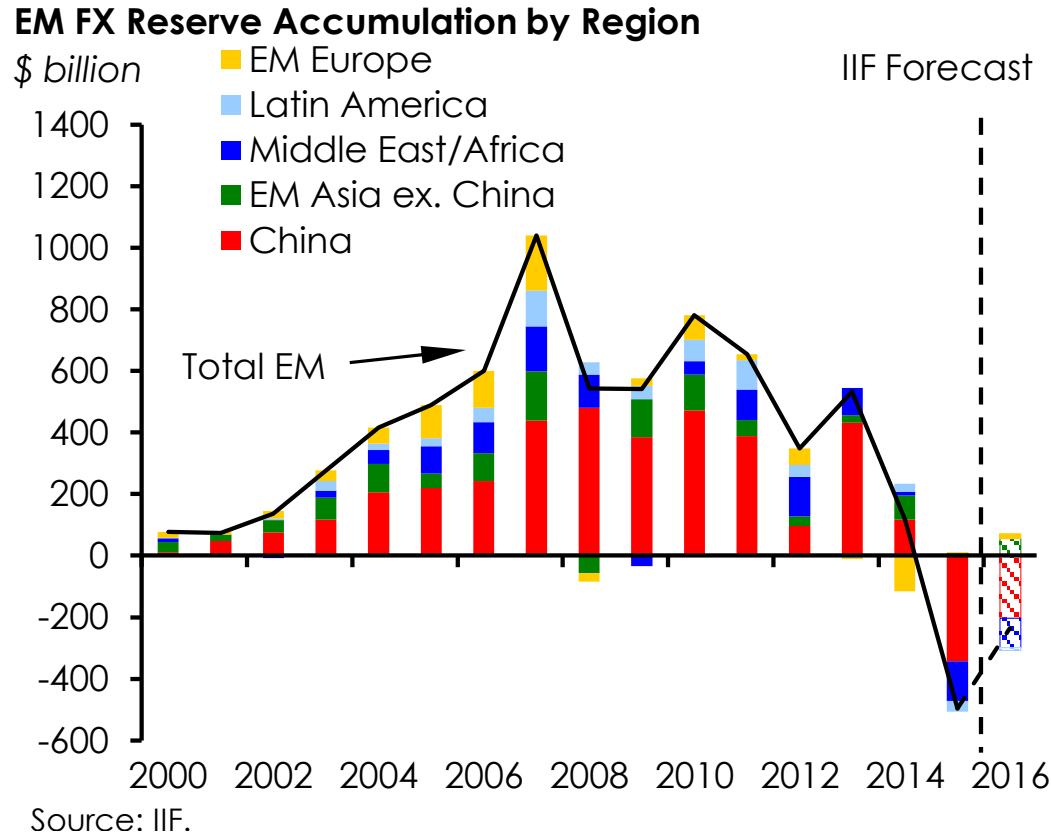
Source: IIF.

Regional Breakdown of Foreign Inflows

Private Non-Resident Capital Inflows to Emerging Markets



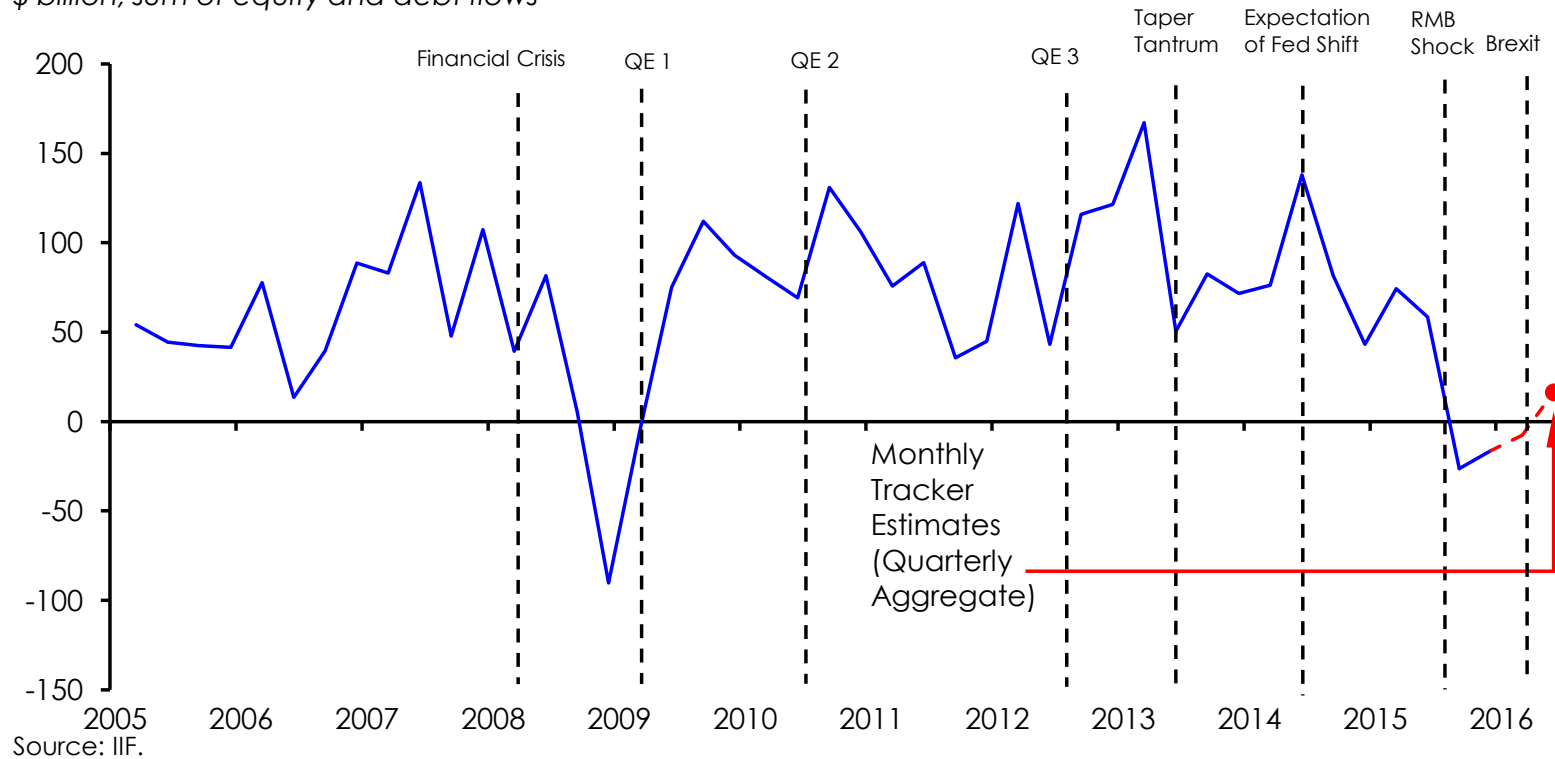
EM Official Reserves Dynamics Have Changed



Rollercoaster Ride From Global Portfolio Swings

Total Non-Resident Portfolio Flows to Emerging Markets

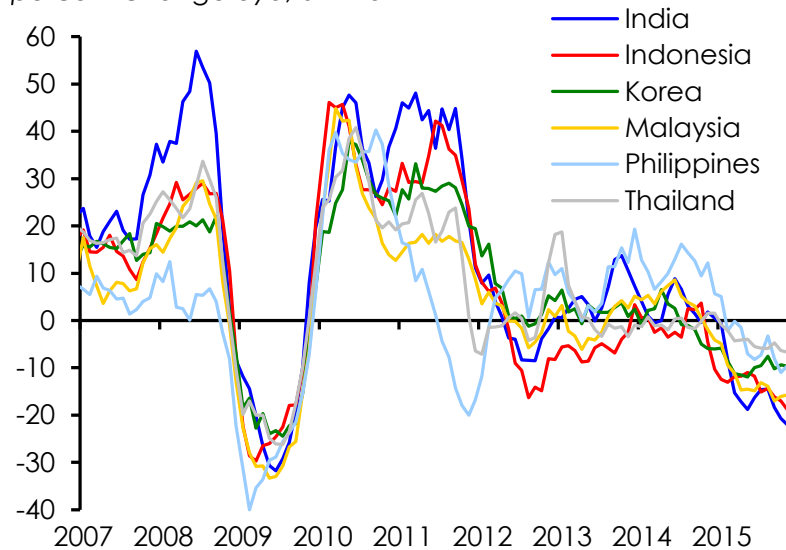
\$ billion; sum of equity and debt flows



Depressed Global Trade & Weak Banking Flows

Merchandise Exports

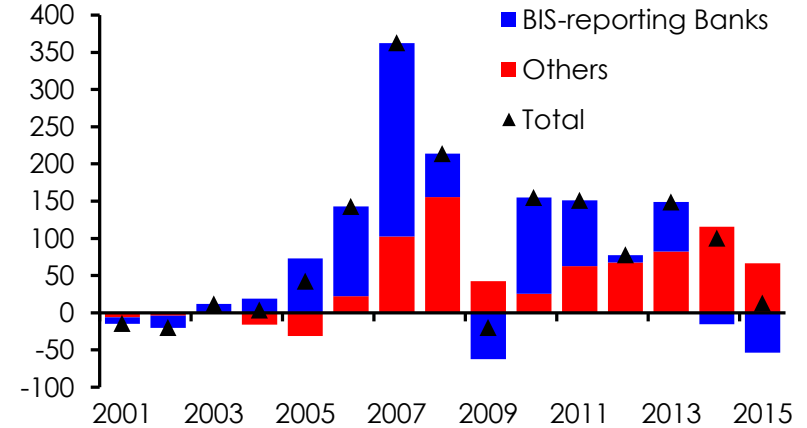
percent change oya, 3mma



Source: IIF.

EM: Cross-Border Foreign Banking Flows (excl. China)*

\$ billion, loans and currency & deposits



Source: IMF, BIS, IIF. *Total banking flow figures cover bank loans and deposits based on official BOP statistics. The difference between the BIS (loans & deposits) and BOP figures is captured under the series called "others". This difference mainly represents the banking flows originated from non-BIS reporting countries.

Policy Implications: Countries Should Focus On

- Macro stability
- Growth-enhancing structural reforms
- Strength of institutions
- Reducing vulnerability to shocks
- Deepening domestic investor base
- Improving policy coordination at the G20