

## 4. Capital Flows to MENAP and the CCA: Opportunities and Risks

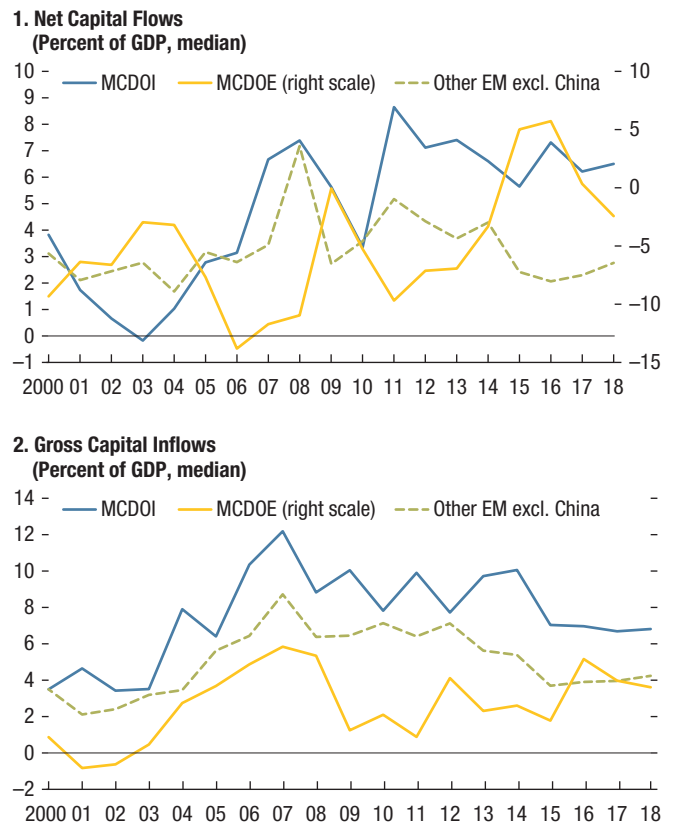
Capital flows to the Middle East and Central Asian countries have been resilient even as global financial conditions tightened in 2014–16. Such flows have helped finance current account and fiscal deficits, allowing for more gradual policy adjustments. As the region has become more integrated into global financial markets, portfolio and bank flows have nearly doubled over the last decade; foreign direct investment (FDI) has almost halved, however, reflecting weaker fundamentals. Governments need to seize the benefits of capital inflows while mitigating risks stemming from global financial market volatility, especially global risk sentiment, to which the region is twice as sensitive compared to other emerging market economies. This means revitalizing FDI by easing restrictions and promoting macroeconomic stability in the near term and boosting potential growth over the medium term. Ensuring fiscal sustainability, utilizing macroprudential tools, and, where appropriate, allowing for more flexible exchange rates can help contain the risks from capital flow volatility. Deepening and developing domestic financial markets, especially through strengthening legal frameworks, remains a key priority.

### Changing Capital Flow Patterns Call for Policy Response

Median net capital flows to countries in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) and those in the Caucasus and Central Asia (CCA) have increased since the global financial crisis. Oil exporters have typically been acquiring foreign assets resulting in net outflows (Figure 4.1; Box 4.1). Only in 2015–17, as they slowed foreign assets accumulation and attracted inflows to finance fiscal deficits, did the median oil exporter have net capital inflows. Resilient capital

Prepared by Sergejs Saksonovs and Ling Zhu, with research assistance provided by Oluremi Akin-Olugbade.

Figure 4.1. Capital Flows



Sources: National authorities; and IMF staff calculations.

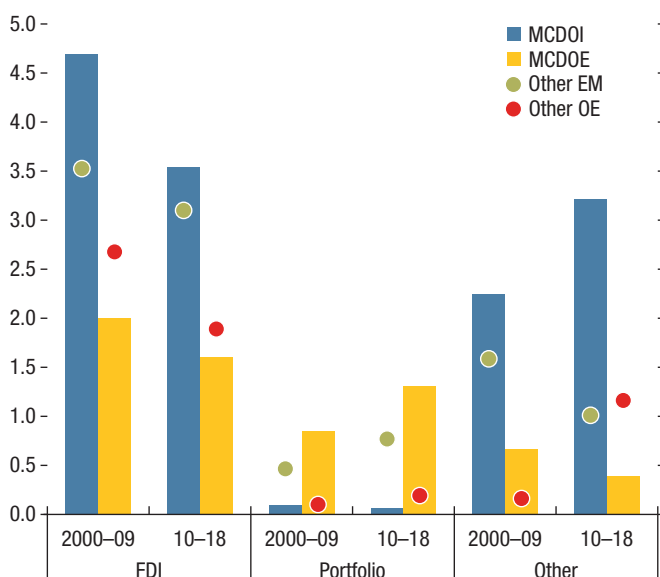
Note: MCD = Middle East and Central Asia; MCDOE = MCD oil-exporting countries; MCDOI = MCD oil-importing countries; other EM = other emerging market economies excluding MCD emerging market economies.

inflows to oil importers ensured that net capital flows have been consistently positive and higher, as a share of GDP, compared to other emerging market economies.<sup>1</sup>

Gross capital inflows to the MENAP and the CCA region declined in the aftermath of the global financial crisis along with other emerging market peers, although they were less volatile during the

<sup>1</sup>“Capital inflows” refers to net incurrence of foreign liabilities. “Capital outflows” refers to net acquisition of foreign assets. Both items can be negative when repayment of liabilities exceeds their incurrence or sales of foreign assets exceed their acquisition.

**Figure 4.2. Composition of Inflows**  
(Percent of GDP, average of median over time)



Sources: National authorities; and IMF staff calculations.

Note: FDI = foreign direct investment; MCDOE = Middle East and Central Asia oil-exporting countries; MCDOI = Middle East and Central Asia oil-importing countries; other EM = other emerging market economies; other OE = other oil exporters.

tightening of global financial conditions (IMF 2016a).<sup>2</sup> Oil exporters had the most significant decline, driven by lower bank flows and FDI from a 2003–08 average of 3.8 percent of GDP to an average of 2.6 percent of GDP a year since 2012. The decline for oil importers (from 8.3 to 7.9 percent of GDP) was much less pronounced than for oil exporters or other emerging market economies.

Gross inflows to the region are evenly split between oil importers and exporters and relatively concentrated, with the top three countries in both groups accounting for slightly more than one-half of total flows.<sup>3</sup> The composition of inflows has changed (Figure 4.2) with FDI falling and portfolio and other (bank) inflows rising. Nearly two-thirds of these increased portfolio and bank

<sup>2</sup>This chapter excludes: Djibouti, Libya, Somalia, Syria, and Tajikistan from the analysis due to lack of data on capital inflows.

<sup>3</sup>For oil exporters these are Kazakhstan, Saudi Arabia, and United Arab Emirates; for oil importers these are Egypt, Lebanon, and Morocco.

inflows went to five countries (Lebanon, Morocco, Pakistan, Qatar, and Saudi Arabia).<sup>4</sup>

Capital inflows can finance investment and help growth but also entail risks to financial and macroeconomic stability (IMF 2012). This chapter focuses on capital inflows in the region and seeks to answer two questions:

- *How can the region attract more stable and growth-enhancing capital inflows?*
- *What could be done to mitigate risks from capital inflow volatility?*

## Declining FDI Offset by Higher Portfolio and Bank Flows

There has been a global decline in FDI owing to lower returns and a less-favorable investment policy climate.<sup>5</sup> However, the MENAP and CCA countries (especially oil exporters, which have experienced a larger decline compared to peers) have been affected more strongly, reflecting weak growth prospects and geopolitical tensions in the region.

Figure 4.2 shows that declining FDI was offset by the rising importance of portfolio inflows (for oil exporters) and bank flows (for oil importers).<sup>6</sup> A sizable share of these inflows (at least one-third in 2018) went to the official sector, helping finance fiscal deficits not only in oil-importing countries (Egypt, Lebanon, Pakistan), but also in oil exporters (Bahrain, Oman).<sup>7</sup>

<sup>4</sup>Other inflows are henceforth called bank flows since nonresident deposits in domestic banks as well as loans from foreign banks to domestic companies are likely to be the most important quantitatively. However, government borrowing, and direct supplier credit could also play a role.

<sup>5</sup>UNCTAD (2019) reports that in 2018, some 55 economies introduced at least 112 measures affecting foreign investment. More than one-third of these measures introduced new restrictions or regulations—the highest number for two decades. Box 1.4 in IMF (2019a) explores the possible role of multinational corporations in driving FDI.

<sup>6</sup>More broadly, portfolio inflows have also increased in other emerging market economies, reflecting the impact of unconventional monetary policies in advanced economies.

<sup>7</sup>Based on net reporting of financial account transactions in the balance of payments for the government sector.

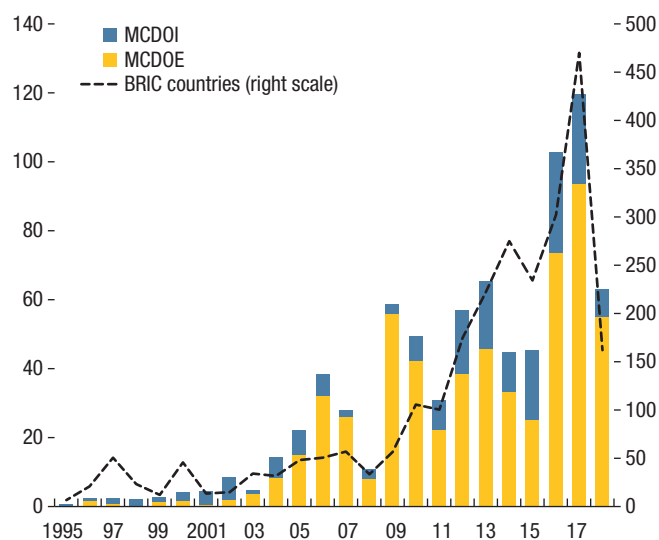
Between 2016 and 2018, portfolio inflows to the MENAP and the CCA regions reached their highest levels—accounting for about 20 percent of the total portfolio inflows to emerging market economies, up from merely 5 percent before the global financial crisis.<sup>8</sup> Cumulative portfolio inflows in that period reached \$164 billion, of which nearly three-quarters went to Egypt, Oman, Qatar, and Saudi Arabia, with official-sector flows being the majority in Egypt and Oman.

The region benefited from subdued global uncertainty (measured by the Chicago Board Options Exchange Volatility Index)—a key driver of portfolio inflows to the region (Box 4.2)—offsetting tighter global financial conditions. Overall, favorable conditions also facilitated official debt issuance—a key destination of portfolio inflows—mostly by oil exporters, peaking in 2017 (Figure 4.3). Oil-exporting countries have been the largest Eurobond issuers among emerging market economies, borrowing some \$74 billion during 2018 through the first half of 2019 (about 25 percent of total gross issuance during that period, according to market analysts).

Bank flows to oil importers remain higher as a share of GDP than those to other emerging market economies, reflecting the dominance of banks in local financial markets. The large bank inflows are associated with an increase in holdings of government liabilities by local banks in oil-importing countries.

The decline in bank flows to oil exporters largely reflects net outflows from countries affected by sanctions and conflict (Iran, Yemen). Survey evidence shows that about one-third of banks in the region experienced a decline in correspondent banking relationships (due to de-risking) amid tighter antimoney laundering and combating the financing of terrorism (AML/CFT) scrutiny. However, the aggregate effect on bank flows appears to have been negligible since most banks found alternative arrangements primarily by

**Figure 4.3. Total Debt Issuance**  
(US\$ billions)



Source: Bloomberg Finance L.P.

Note: BRIC = Brazil, Russia, India, and China; MCDOE = Middle East and Central Asia oil-exporting countries; MCDOI = Middle East and Central Asia oil-importing countries.

opening replacement accounts or increasing the volume of transactions through remaining accounts (Arab Monetary Fund, IMF, and World Bank 2019).

### Capital Inflows Financed Higher Current Account and Fiscal Needs

Current account balances have deteriorated especially strongly in oil importers—with median deficit from 2010 to 2018 increasing by 4.4 percentage points of GDP compared to 2000–09, owing to both lower savings and higher investment. Fiscal balances have also deteriorated, especially in oil-exporting countries, with the median postcrisis balance during 2009–18 worsening to a deficit of 0.1 percent of GDP, reflecting lower oil prices since 2014 and increased government spending.

Capital inflows have proved important in meeting fiscal financing and balance of payments needs

<sup>8</sup>Although detailed data on the region are often unavailable, the vast majority of inflows are likely to be debt.

in countries without large buffers. For example, portfolio inflows have helped finance deficits in Egypt following exchange rate liberalization. Oil-exporting countries also benefited: examples include Bahrain and Oman, where inflows helped meet large government financing needs while fiscal consolidation measures were underway (Figure 4.4). Without these inflows, further depletion of reserves or more abrupt adjustments would have been required to alleviate the imbalances.

In countries with large buffers, capital inflows have provided an economical way to finance their deficits. These countries (Qatar, Saudi Arabia, United Arab Emirates) have been able to borrow from international capital markets at relatively low rates, without resorting to liquidating foreign assets which may have had higher returns than the countries' cost of borrowing.

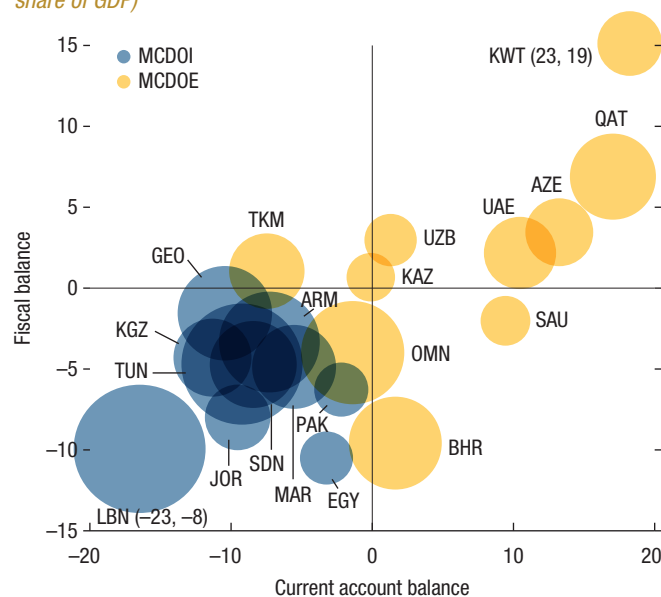
## Reliance on Bank and Portfolio Inflows Entails Risks

Capital inflows can provide significant benefits for countries by facilitating smoothing of consumption and diversification of risks, as well as financing of investment (IMF 2016b). The changing composition of capital inflows matters because FDI inflows have a higher growth impact than portfolio inflows (Baharumshah, Slesman, and Devadason 2017).

Higher portfolio and bank flows also expose recipient economies to risks because they can be more volatile (Eichengreen, Gupta, and Masetti 2018) than FDI and prone to sudden stops. This is important for a region where portfolio inflows are found to be almost twice as sensitive to changes in uncertainty compared to other emerging market economies, reflecting lower government and corporate transparency (Box 4.2).

Rising bank and portfolio flows have contributed to an increase in both private and public external indebtedness in the region. For oil-exporting countries, the GDP-weighted average of private external debt has increased by 8.4 percent of

**Figure 4.4. Fiscal and Current Account Balances 2010–18**  
(Average, bubble sizes are size of portfolio and other investments as a share of GDP)



Sources: National authorities; and IMF staff calculations.  
Note: MCDOE = Middle East and Central Asia oil-exporting countries; MCDOEI = Middle East and Central Asia oil-importing countries. Country abbreviations are International Organization for Standardization (ISO) country codes.

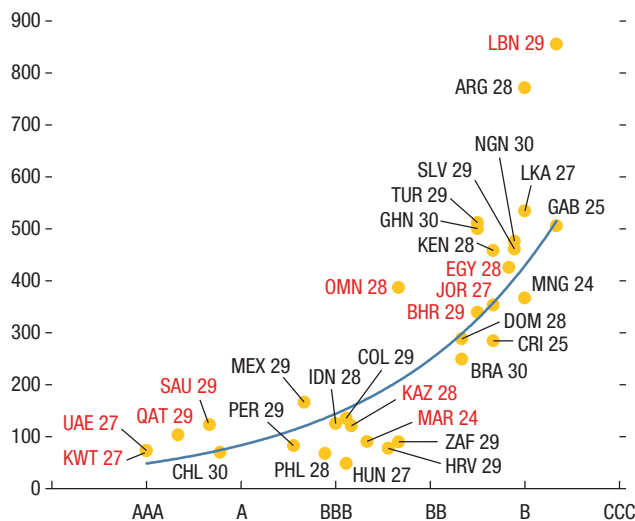
GDP in the last four years.<sup>9</sup> This reflects an increase in bank debt in Qatar (to offset declining public sector deposits) and Saudi Arabia. Public debt has increased even faster in oil-importing countries, with the largest increase in Egypt, Lebanon, and Jordan.

The share of short-term external debt has also increased in some countries over the last four years (rising to 83 percent in Lebanon, 77 percent in Algeria, 62 percent in Qatar) suggesting potentially higher vulnerabilities.

The increase in indebtedness has come at a relatively high cost. MENAP sovereign spreads tend to be higher than those of other emerging market economies of comparable ratings, likely reflecting impacts of elevated debt (Lebanon) and bouts of geopolitical instability (Figure 4.5).

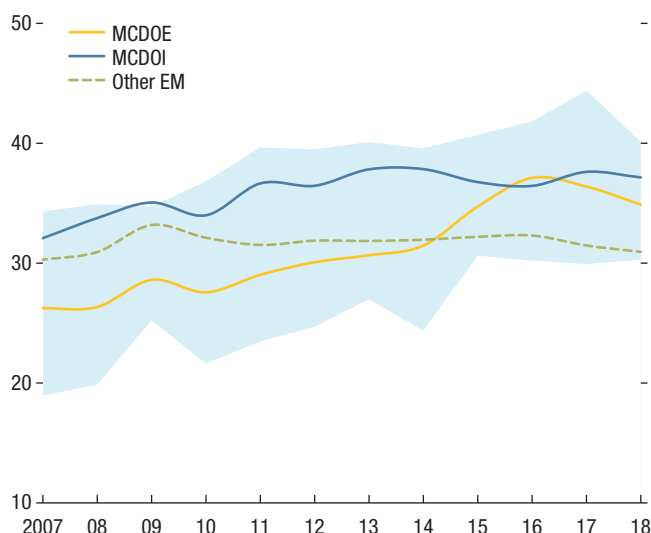
<sup>9</sup>Even if the government (and the economy as a whole) has a positive net foreign asset position, private sector debt can create vulnerabilities, especially if there is a currency mismatch.

**Figure 4.5. Sovereign Spreads vs. Rating**  
(Basis points; maturity year in data labels)



Source: Bloomberg Finance, L.P.  
Note: Country abbreviations are International Organization for Standardization (ISO) country codes.

**Figure 4.6. Composite Risks<sup>1</sup>**  
(Average, index 0–50, higher the riskier)



Sources: IMF International Country Risk Guide; and IMF staff calculations.  
Note: Composite risk index is rebased to be from 0 to 50. MCDOE = Middle East and Central Asia oil-exporting countries; MCDOI = Middle East and Central Asia oil-importing countries; and other EM = other emerging market economies. Shaded area indicates interquartile range of composite risks index across MCD countries.

<sup>1</sup>Use of indicator should be considered carefully, as estimates reflect relative and not absolute performance. Uncertainty bands around estimates are not provided.

As highlighted in Global Developments section, the global outlook is that of lower growth and rising uncertainty, including due to unresolved trade tensions. Since inflows to the region are highly sensitive to changes in global uncertainty, there are risks of capital inflows falling or even reversing. Though adverse economic impacts are likely to be limited in oil exporters with large buffers (for example, Qatar and Saudi Arabia), reversals of inflows could amplify the harmful effects of oil price declines—a larger risk for the oil exporters—on current account and fiscal balances, placing their buffers under pressure. The adverse impacts in other countries with smaller buffers could be significant. The outlook thus raises the urgency of having a comprehensive set of policies to revitalize FDI and mitigate potential risks of disruptive capital flows.

### Attracting Stable Capital Inflows That Increase Growth

Unlike portfolio inflows, FDI inflows are driven more by domestic factors than by global factors

(see Online Annex 4.1). Economic conditions have deteriorated in the region over the last decade, with growth slowing more than in peer countries, and economic and political risks rising faster (Figure 4.6).

Slower growth and higher risks in the region can explain about half of the postcrisis decline in FDI among oil exporters and 20 percent of the decline in oil importers. A key condition for revitalizing FDI is thus a credible framework to boost potential growth and reduce country-specific risks. This will require not only preserving macroeconomic stability and continued structural reforms, but also improving security in countries affected by armed conflicts and ensuring that growth is inclusive to maintain social cohesion (see Chapter 2). Policy adjustments by countries like Egypt have improved domestic conditions, attracting larger FDI inflows, although more effort is needed to deliver structural reforms for higher medium-term growth (see Box 2.1).

Besides growth and risks, MENAP and CCA countries are broadly comparable to peers in some key determinants of FDI (for example, inflation and trade openness), but lag in others—most notably in the control of corruption, human capital, and capital account restrictions—with the gaps being larger in oil-importing countries.

In the near term, policymakers can attract FDI through removing restrictions and increasing investment opportunities—for example, by opening up the services sector (Figure 4.7).<sup>10</sup> The recent easing of travel restrictions for foreign investors in Uzbekistan and allowing 100 percent foreign ownership in more sectors of the economy in several of the Gulf Cooperation Council (GCC) countries are steps in the right direction.

The effectiveness of capital account liberalization measures depends on domestic institutional quality, including control of corruption (Habib and Zurawicki 2002). The perception of corruption could explain a constrained ability to attract foreign direct investment despite having liberalized capital accounts in some countries. Therefore, further strengthening institutional quality remains a reform priority.

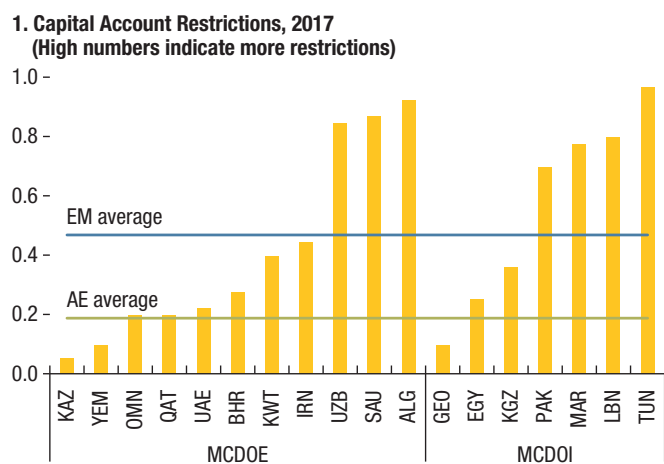
Over the longer term, increasing skills through better education and training will be critical to attracting FDI flows to higher-value-added sectors. Education quality and median tertiary school enrollment in oil importers have lagged those of the broader emerging market sample. Oil-exporting countries have fared better, reflecting higher income per capita, but there is still significant room for improvement in education quality (IMF 2018).

## Mitigating Potential Risks

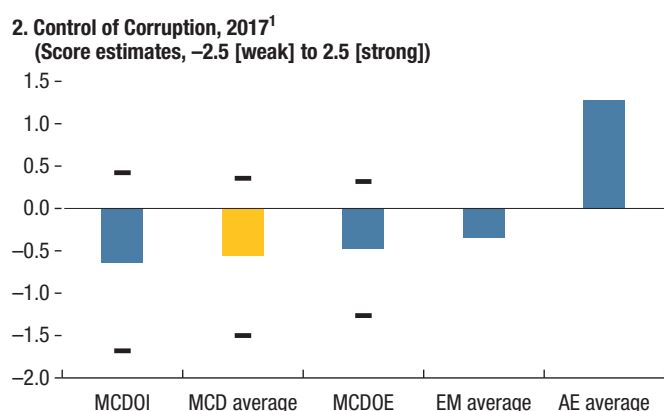
The priority in mitigating risks from capital flow volatility is to address the large fiscal and current account deficits, which could trigger

<sup>10</sup>Data on de facto financial openness (measured as the sum of external assets and liabilities to GDP) for MENAP countries are limited. Available data suggest that three out of six oil exporters and four out of 10 oil importers exceeded emerging market average in 2017 or 2018.

**Figure 4.7. Capital Account Openness and Institutional Quality**



Sources: IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions*; and IMF staff calculations.



Sources: Worldwide Governance Indicators; and IMF staff calculations. Note: AE = advanced economies; EM = emerging market economies; MCDOE = Middle East and Central Asia oil-exporting countries; and MCDIO = Middle East and Central Asia oil-importing countries. Country abbreviations are International Organization for Standardization (ISO) country codes. <sup>1</sup>Use of indicators should be considered carefully, as they are derived from perceptions-based data, and estimates reflect relative and not absolute performance. Ranges are for 90 percent confidence interval, and confidence intervals for peer groups are negligible.

costly adjustments during a sudden stop episode (Eichengreen and Gupta 2016). As noted in IMF (2012), macroeconomic policies must play a key role in dealing with inflow surges. Hence fiscal consolidation in the region should continue. Lowering interest rates (where inflationary pressures are absent) and intervening to accumulate reserves, where they are inadequate

could also help mitigate risks. Strengthening financial supervision and regulation, including on nonbank financial institutions, as well as utilizing macroprudential tools could help ensure financial stability and build resilience against volatile capital flows (IMF 2017a).<sup>11</sup>

In countries for which large capital inflows put pressure on real exchange rates, greater nominal exchange rate flexibility, when supported by sound macroeconomic policies, could act as a shock absorber by dampening real exchange rate fluctuations (Combes, Tidiane, and Plane 2011). For example, countries with more flexible exchange rates experienced smaller real appreciation during the emerging market inflow surge episode before the global financial crisis (IMF 2007). Inflexible exchange rates, on the other hand, could exacerbate capital flow volatility—especially when macroeconomic policy adjustments are lacking—and amplify vulnerabilities by encouraging borrowing in foreign currencies (Magud, Reinhart, and Vesperoni 2014).

Deeper domestic financial markets can also mitigate the impact of volatile capital inflows. For example, in Chile, domestic institutional investors account for nearly half of financial sector assets and provide more stable sources of funding to domestic borrowers. Similarly, in Malaysia, active domestic investors would buy large amounts of domestic equities and bonds, when foreign investors—often responding to global turmoil—liquidate their holdings (Kyobe and others 2015).

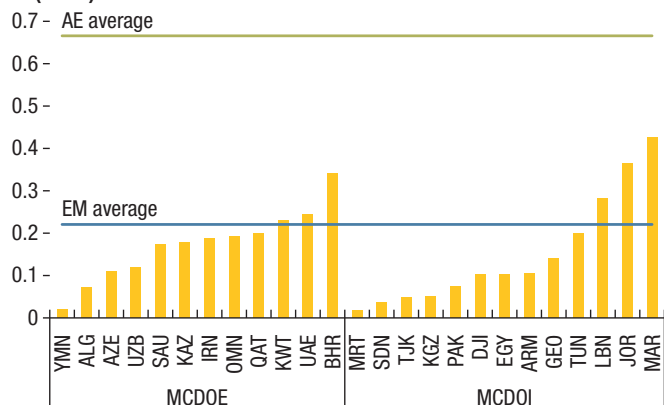
The depth of financial institutions in the region varies but scope for improvement is large (Figure 4.8).<sup>12</sup> Although, on average, financial development is higher in oil exporters than in oil importers, most countries are below the emerging market average, and all countries are below the advanced economy average.

<sup>11</sup>See Prasad, Monem, and Martinez (2016) for an overview of the use of macroprudential policies in the MENAP region.

<sup>12</sup>The index is based on stock market capitalization, stocks traded, government international debt securities, and total debt securities of financial and nonfinancial corporations (Svirydzenka 2016).

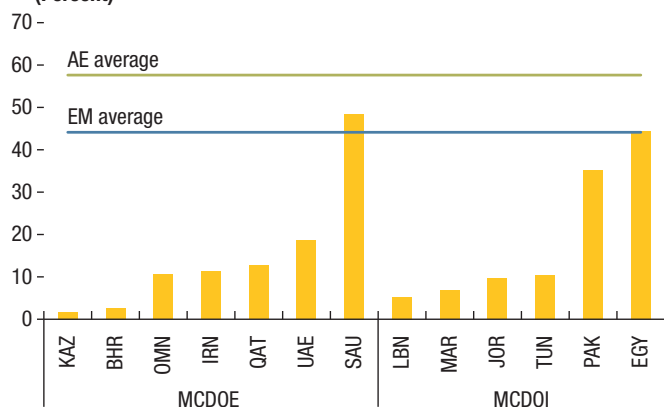
**Figure 4.8. Financial Institution and Market Development**

**1. Financial Institution Depth, 2017  
(Index)**



Sources: IMF, Financial Development Index; and IMF staff calculations.

**2. Stock Market Turnover Ratio  
(Percent)**



Sources: World Bank; and IMF staff calculations.

Note: AE = advanced economies; EM = emerging market economies; MCDOE = Middle East and Central Asia oil-exporting countries; and MCDOI = Middle East and Central Asia oil-importing countries. Country abbreviations are International Organization for Standardization (ISO) country codes.

The largest gaps are in market liquidity and domestic institutional investor size. Despite large market capitalization in some countries, stock market turnover ratios are very low compared to other emerging market economies—with the exception of Saudi Arabia—reflecting small investor bases. The small domestic institutional investor size in turn reflects the dominance of

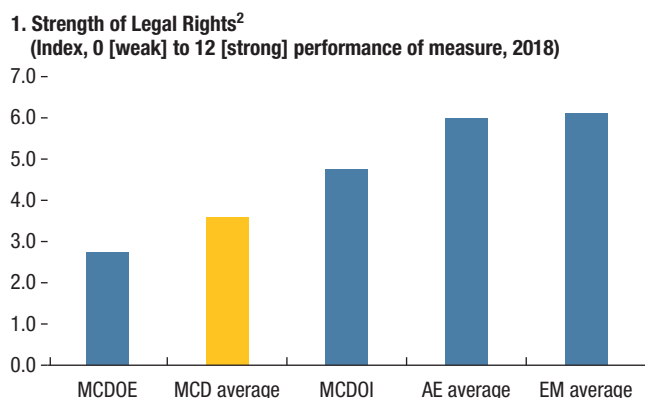
banks in the financial system.<sup>13</sup> Developing regional financial markets (for example, the joint stock market in the Baltic countries) could help increase the investor base.

Governments can foster financial market development by having a deep and liquid government bond market. A government yield curve—established by gradual extension of government bond maturities and regular issuances at varying tenors—can serve as a benchmark for pricing of corporate bonds (see IMF 2013).

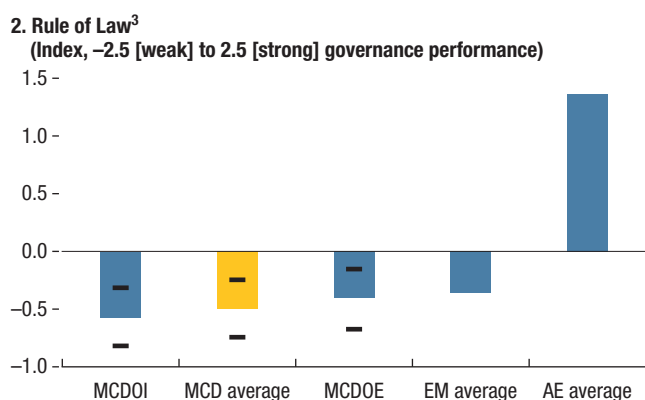
The recent inclusion of GCC countries in the global sovereign bond index is welcome as they could help expand the investor pool and increase market liquidity. However, it may raise market volatility since benchmark investors are more sensitive to global factors (Cerutti, Classens, and Puy 2015), as observed in recent emerging market outflow episodes (IMF 2019b), underscoring the need to expand domestic investor base.

The rule of law is a precondition to financial market development—stronger legal protection can encourage greater market participation, allowing for spontaneous and organic growth of financial markets (Chami, Fullenkamp, and Sharma 2009). Hence further strengthening legal systems, which lag behind peer averages (Figure 4.9), is crucial. Recent efforts by Bahrain, Saudi Arabia, and the United Arab Emirates to modernize bankruptcy laws are welcome. Developing laws on the use of collateral could lower transaction costs and facilitate lending.

**Figure 4.9. Governance<sup>1</sup>**



Sources: World Bank Doing Business Database; and IMF staff calculations.



Sources: Worldwide Governance Indicators; and IMF staff calculations.  
Note: AE = advanced economies; EM = emerging markets economies; MCDOE = Middle East and Central Asia oil-exporting countries; and MCDOI = Middle East and Central Asia oil-importing countries.

<sup>1</sup>Use of indicators should be considered carefully, as they are derived from perceptions based data and estimates reflect relative and not absolute performance.

<sup>2</sup>Confidence intervals are not available for this indicator.

<sup>3</sup>Ranges are for 90 percent confidence interval, and confidence intervals for peer groups are negligible.

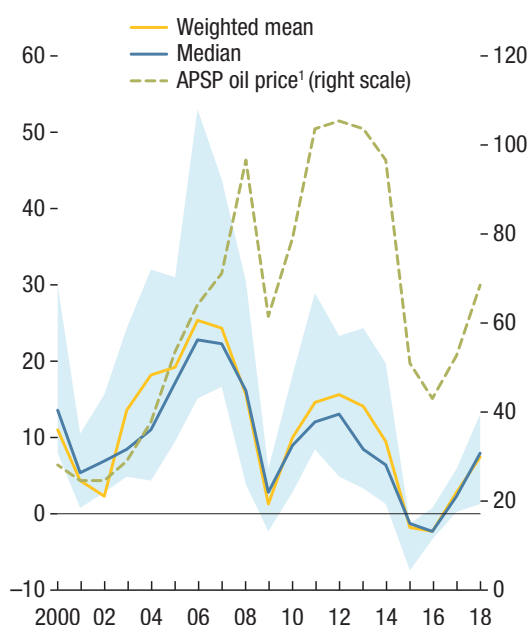
<sup>13</sup>In GCC countries, whose financial markets are the deepest in the region, domestic institutional investor assets—consisting of pension funds, mutual funds, and insurance companies—account for less than the half of GDP. In contrast, institutional investors’ assets exceed 100 percent of GDP in both Chile and Malaysia.



### Box 4.1. Capital Outflows from the MENAP and the CCA

Capital outflows from the Middle East, North Africa, Afghanistan, and Pakistan region and the Caucasus and Central Asia have declined since the mid-2000s. As oil prices fell, net purchases of foreign assets by oil exporters reached their minimum in 2015–16 owing to disposal of foreign assets by Algeria, Iraq, and Saudi Arabia. In Algeria and Iraq, the decline was entirely due to a decline in official reserves, while in Saudi Arabia, other types of outflows offset an even larger decline in reserves. Since then, foreign asset purchases have recovered only tenuously, with oil exporters spending their oil revenues to service domestic needs.

**Figure 4.1.1. MCDOE: Net Capital Outflows**  
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.  
Note: APSP = average petroleum spot price; and MCDOE = Middle East and Central Asia oil-exporting countries. APSP is the average of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.  
<sup>1</sup>US dollars a barrel.

Oil importers have also significantly reduced their foreign asset acquisition, with the median falling from 3.6 percent of GDP in 2000–09 to 1.5 percent of GDP in 2010–18. This trend was the result of nearly continuous reduction in foreign assets in Lebanon and more sporadic declines in, for example, Egypt and Pakistan, where domestic vulnerabilities have increased.

Besides official reserves, private assets can also be a buffer if there is a sudden stop in capital inflows or other shocks to the balance of payments. Residents may sell foreign assets to exploit opportunities in the domestic market. Hence declining accumulation of foreign assets may increase vulnerabilities stemming from volatility of inflows. This is especially true for oil importers, where net foreign asset positions are negative.

This box was prepared by Sergejs Saksonovs.

### Box 4.2. Driver of Portfolio Inflows—Push Factors

We estimate a push-pull factor model on a panel of 11 Middle East, North Africa, Afghanistan, and Pakistan (MENAP) and Caucasus and Central Asia (CCA) countries and 29 other emerging market economies from 1990 to 2018. Consistent with Eichengreen, Gupta, and Masetti (2018), we find portfolio inflows to be driven mostly by global push factors—the Chicago Board Options Exchange Volatility Index (VIX), which reflects global uncertainty, and real US interest rate (proxy for global financial conditions). However, the impact of push factors differs for MENAP and CCA countries compared to other emerging market economies. Portfolio inflows to the region are almost twice as sensitive to changes in global uncertainty as those in other countries. A possible explanation is relatively weaker government and corporate transparency in the region, which leads to larger outflows during crises (Gaston Gelos and Wei 2005).

Moreover, we find that portfolio flows to the region depend on oil prices. First, higher oil prices increase portfolio inflows to the region, most likely by improving its risk profile. Second, higher oil prices dampen the impact of global financial conditions. This may reflect that some of the capital inflows to MENAP and CCA countries are regional flows—from the oil-exporting countries, whose liquidity conditions are driven more by oil prices than US monetary policy (IMF 2017b). For example, the Coordinated Portfolio Investment Survey reveals that at least two-thirds of Bahrain’s portfolio liabilities are held in other Gulf Cooperation Council economies.

**Table 4.2.1. Impact of Push Factors on Portfolio Inflows/GDP, 1990–2018**

	(1) EMs	(2) MENAP and CCA
<i>Log of VIX</i>	−0.592* (0.319)	−1.267** (0.518)
<i>Real US interest rate</i>	−0.145*** (0.051)	−0.713^ (0.528)
<i>Log of real oil price</i>		0.765* (0.380)
<i>Log of VIX * MENAP dummy</i>	−1.298* (0.698)	
<i>Real US interest rate * MENAP dummy</i>	0.192** (0.072)	
<i>Real US interest rate * log of real oil price</i>		0.211^ (0.131)

Source: IMF staff calculations.

Note: All regressions include lagged real GDP growth, lagged composite risk index, global financial crisis dummies, and country fixed effects. Robust standard errors clustered at country levels are reported in parentheses. CCA = Caucasus and Central Asia; EMs = emerging market economies; MENAP = Middle East, North Africa, Afghanistan, and Pakistan; VIX = Chicago Board Options Exchange Volatility Index.

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ , ^ $p < 0.2$ .

This box was prepared by Ling Zhu.

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