

# Drivers of Global Capital Flows

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Seminar on “Managing Capital  
Inflows: What Worked and Why?”**

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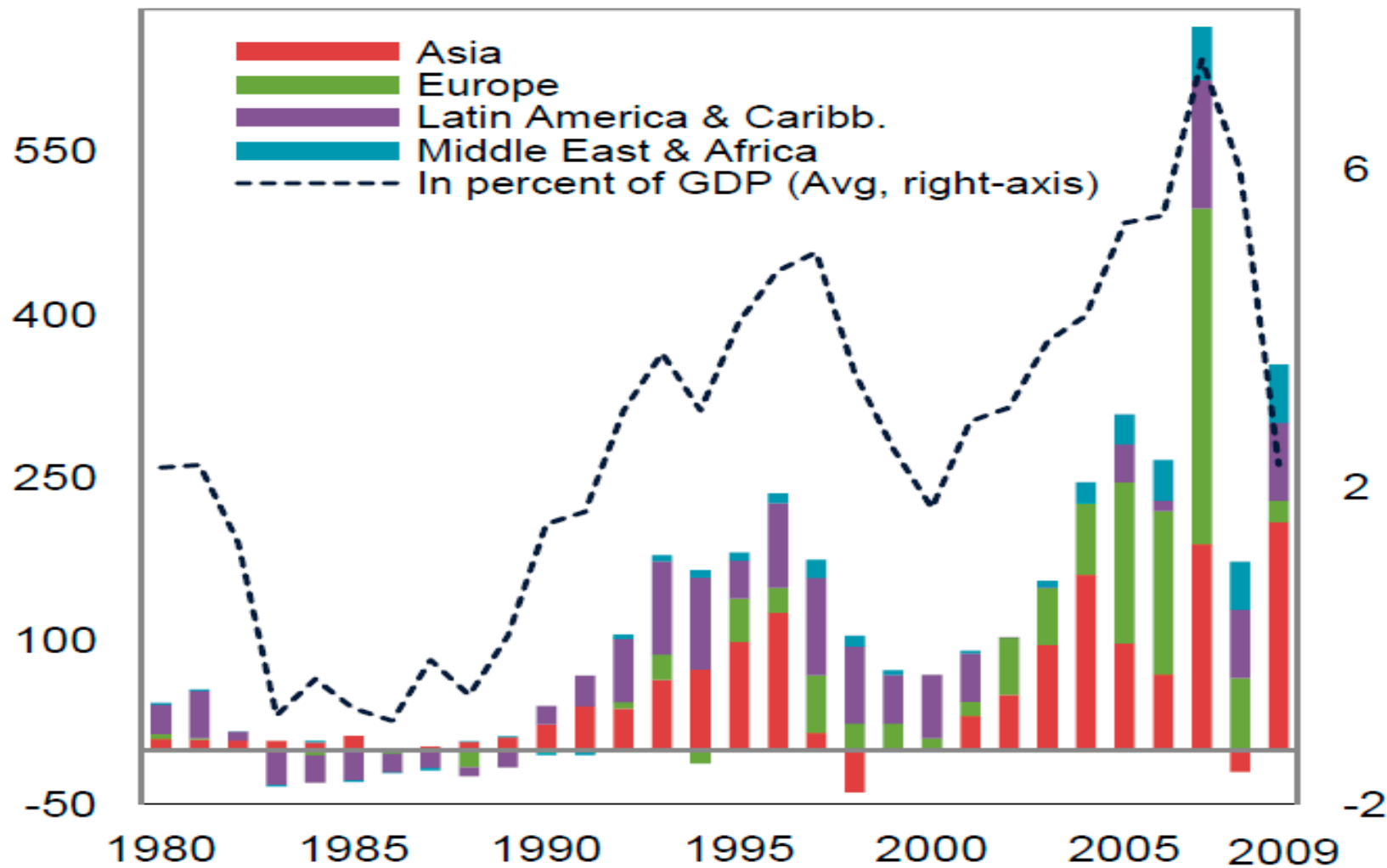
# Recent Trends in Global Capital Flows

After collapsing during the 2008 global financial crisis, capital flows to emerging market economies (EMEs) surged in late 2009 and 2010

By the second half of 2011, however, capital flows receded rapidly

This trend seems to have reversed again since the beginning of 2012, with flows to EMEs rebounding

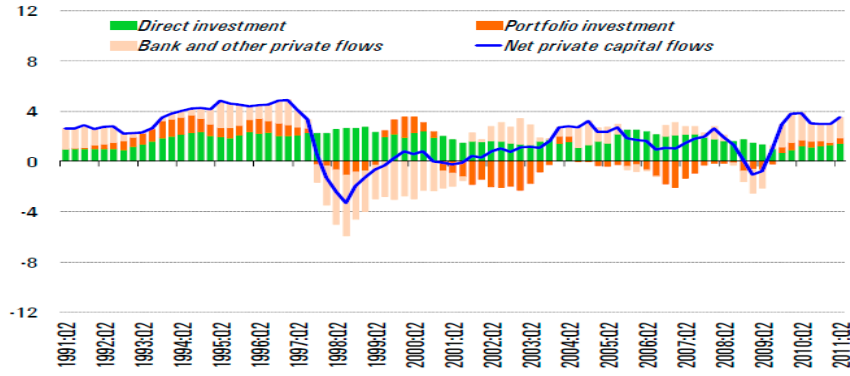
**Figure 1. Net Capital Flows to EMEs,  
1980-2009 (in USD billions)**



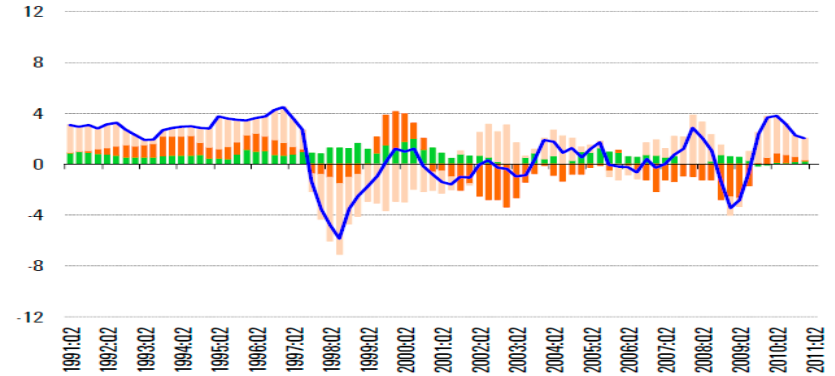
Source: IMF's IFS database.

**Figure 1. Emerging Asia: Net Private Capital Flows<sup>1</sup>**  
*(In percent of GDP; 4-quarter moving average)*

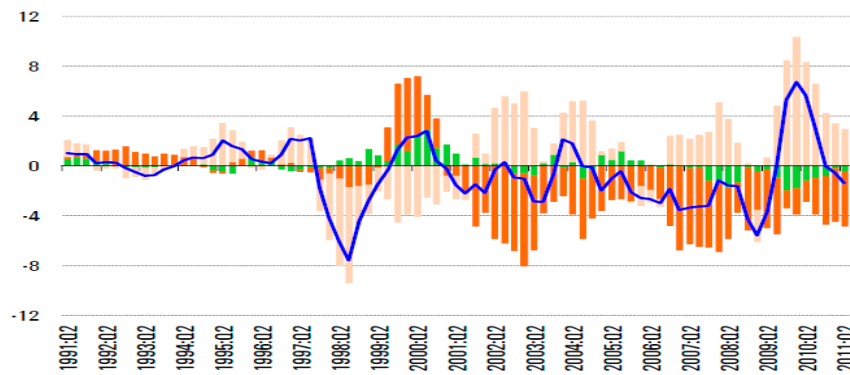
**Emerging Asia**



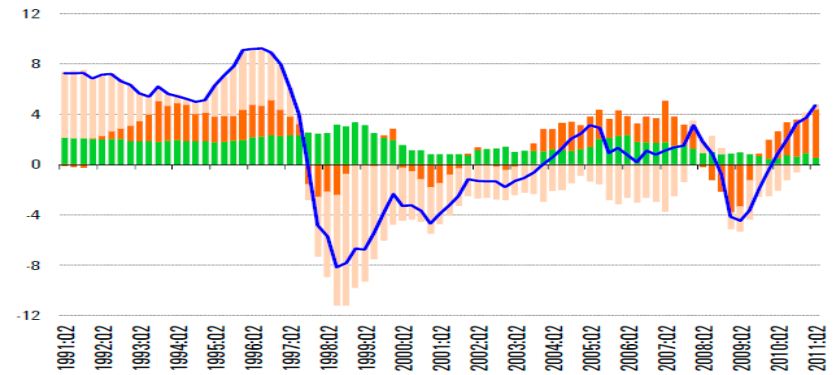
**Emerging Asia (excl. China)**



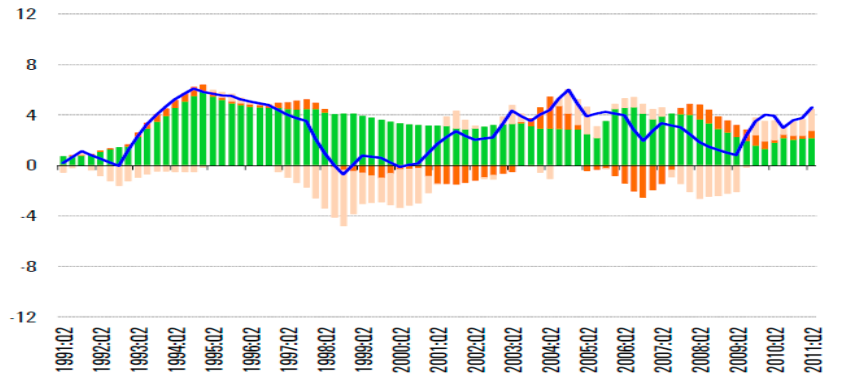
**NIEs**



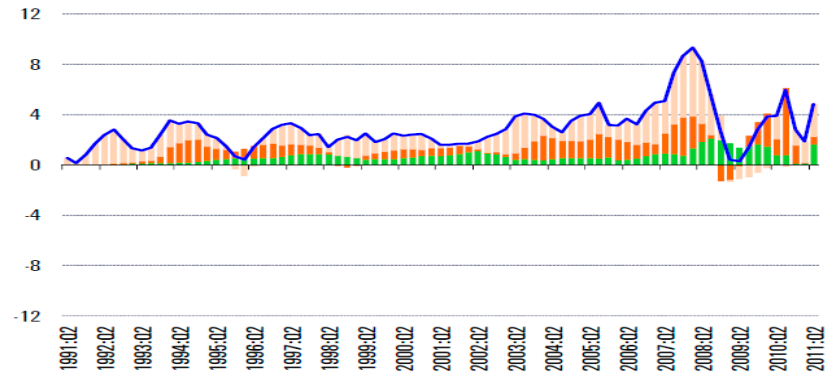
**ASEAN-5**



**China**



**India**



Sources: CEIC Data Company Ltd.; IMF, *Balance of Payments Statistics*; WEO database; and staff calculations.

<sup>1</sup> Missing historical observations have been approximated by annual data obtained from IMF WEO database.

# What drives capital flows to EMEs?

## Global “push” (or supply-side) factors, such as:

- Low interest rates and/or weak economic performance in advanced economies
- Lower risk aversion (“risk-on” episodes)
- Booming commodity prices

## Domestic “pull” (or demand side) factors, such as:

- Macroeconomic fundamentals
- Policies
- Institutions

Gosh et al. (IMF WP/12/22) look at the characteristics of “surges” of capital inflows into EMEs

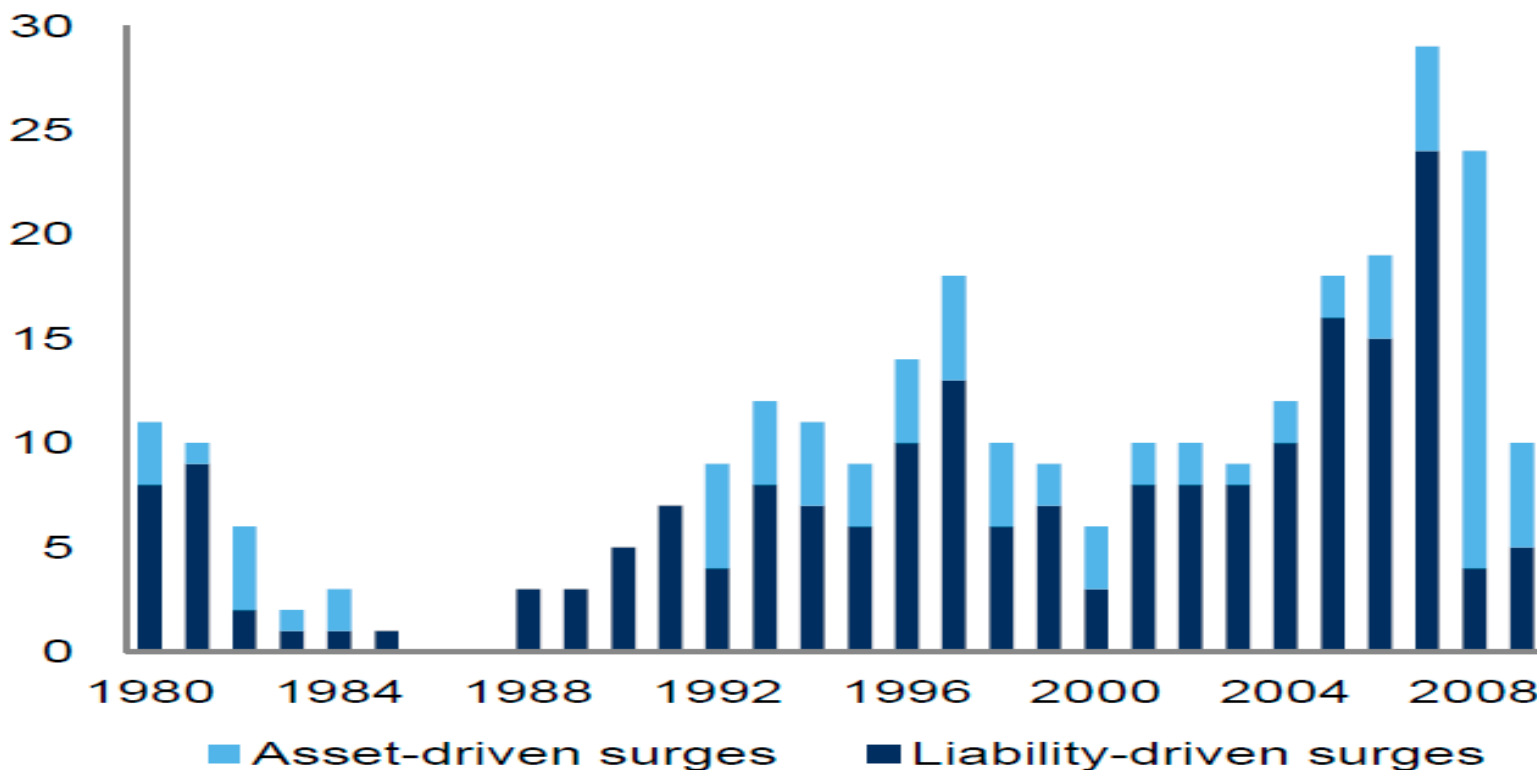
They use a sample of 56 EMEs during 1980-2009. A surge year is one in which net capital inflows (as ratio to GDP) fall in the top 30<sup>th</sup> percentile for both the country and the overall sample distribution

They identify 149 surge episodes:

- Average duration 2 years
- Average net capital flows during episode about 10 percent of GDP (range from 5 to 54 percent of GDP)

Most surges (more than two thirds) are liability-driven (increase in residents' liabilities: foreigners pouring money into the country), rather than asset-driven (domestic residents reducing holdings of their assets abroad)

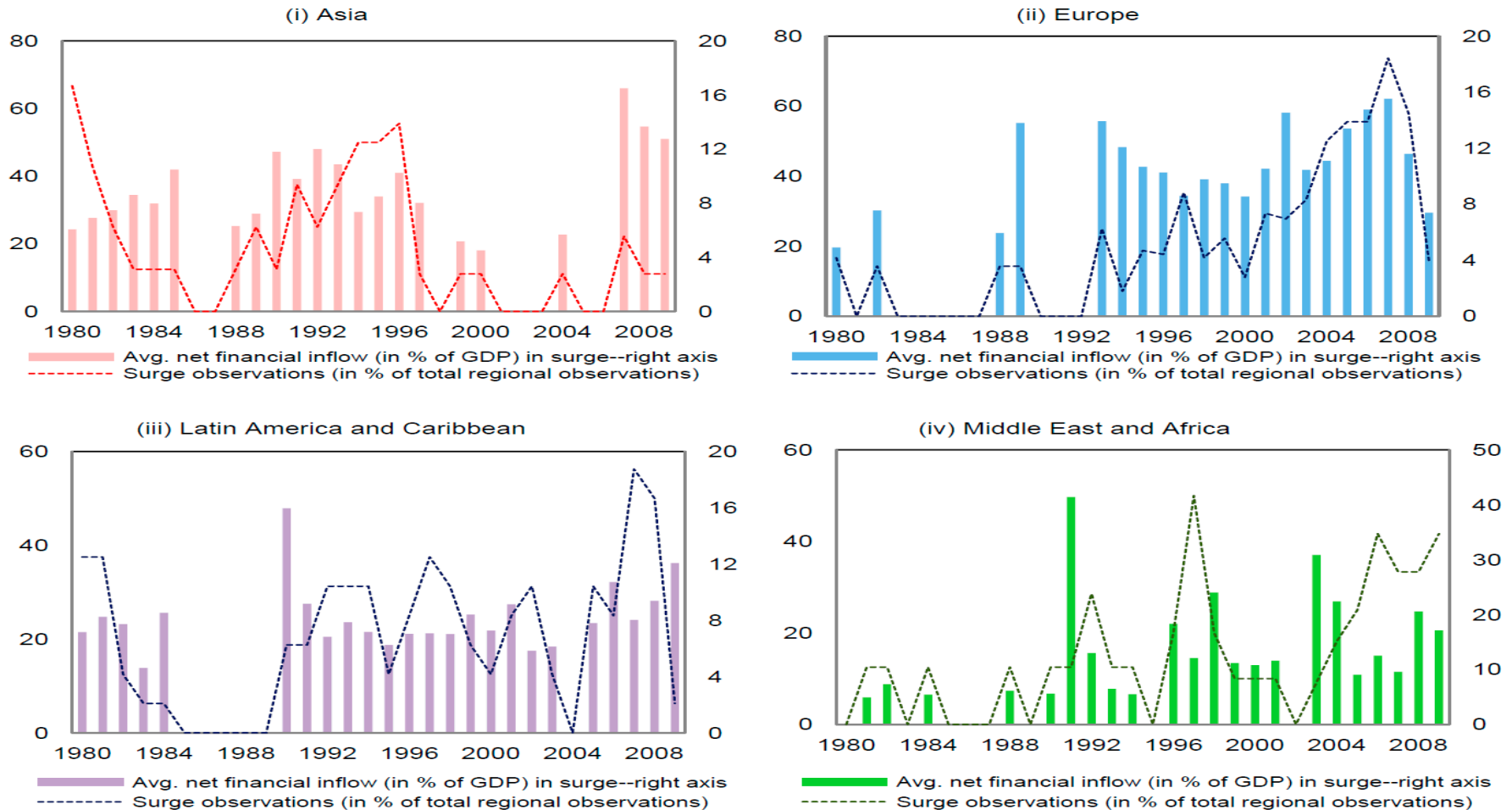
(a) Number of surges based on type



Source: Authors' estimates.

# Even in times of global surges, not all EMEs are affected

Figure B2. Surges by Region, 1980-2009



Source: Authors' calculations based on IFS database.



# Dependent variable: probability of a surge

	<b>[A] Constrained Model</b>				
	(1)	(2)	(3)	(4)	(5)
Real interest rate differential	0.581 (0.536)	1.347** (0.570)	1.330** (0.662)	1.392* (0.721)	1.271* (0.682)
Real US interest rate					
S&P500 index volatility	-0.038*** (0.011)	-0.057*** (0.012)	-0.052*** (0.012)	-0.046*** (0.012)	-0.034*** (0.012)
Commodity price index	1.030*** (0.391)	0.912** (0.404)	0.853** (0.397)	0.655 (0.403)	1.124*** (0.399)
Regional contagion	0.970*** (0.271)	0.899*** (0.267)	0.461 (0.287)	0.301 (0.319)	0.297 (0.294)
Real domestic interest rate					
REER overvaluation					
Optimal current account/GDP		-10.112*** (2.536)	-9.931*** (2.489)	-9.887*** (2.588)	-9.880*** (2.626)
Real GDP growth			6.601*** (1.669)	5.444*** (1.610)	5.551*** (1.634)
Capital account openness			0.098** (0.047)	0.104** (0.048)	0.130** (0.052)
Financial interconnectedness				0.074*** (0.016)	0.076*** (0.016)
Exchange rate regime				-0.118 (0.094)	-0.081 (0.093)
Institutional quality index					2.562*** (0.749)
Default onset					-0.291 (0.367)
Real GDP per capita (log)					-0.329*** (0.108)

Both global “push” factors and domestic “pull” factors are relevant in determining surges

Interpretation: global “push” factors determine the overall volume of flows to EMEs and domestic “pull” factors influence their allocation amongst EMEs

## Further reading

Ghosh, Atish R., Jun Kim, Mahvash S. Qureshi, and Juan Zaldueño, 2012, “Surges,” IMF Working Paper 12/22. Available online at <http://www.imf.org/external/pubs/ft/wp/2012/wp1222.pdf>

Qureshi, S. Mahvash, 2012, “Surges in Capital Flows: Why History Repeats Itself,” IMF Research Bulletin, Vol. 13, Number 3. Available online at <http://www.imf.org/External/Pubs/FT/irb/2012/03/index.pdf>

Balakrishnan, Ravi, Sylwia Nowak, Sanjaya Panth, and Yiqun Wu, 2012, “Surging Capital Flows to Emerging Asia: Facts, Impacts, and Responses,” IMF Working paper 12/130. Available online at <http://www.imf.org/external/pubs/ft/wp/2012/wp12130.pdf>