Capital Flows to Emerging Markets
Looking past the turbulence

October 2018

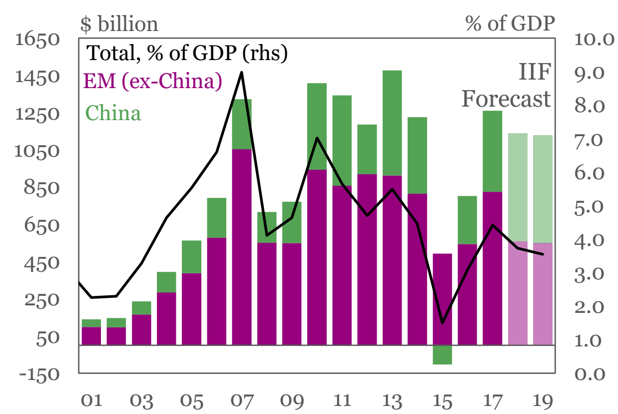
INSTITUTE OF INTERNATIONAL FINANCE

- Despite a sharp drop in portfolio flows, 2018 should see broadly stable non-resident capital flows to emerging markets of over $1.1 trillion, with FDI and other investment flows (mainly banking) holding up well.
- However, China looks set to be the main beneficiary: propelled by strong portfolio flows, non-resident capital flows to China should reach a record high of $580 billion this year. In contrast, we expect flows to emerging markets (ex-China) to decline by 30% this year—almost back to 2016 levels.
- After a notable decline in asset prices and widespread currency depreciation, EM valuations and fund allocations—particularly for equities—have reached levels that should trigger some rebalancing in favor of EM.
- Downside risks: while further Fed tightening seems largely priced in, rising U.S.-China trade tensions and China-related policy uncertainty may keep investor sentiment cautious towards emerging markets.

EXECUTIVE SUMMARY

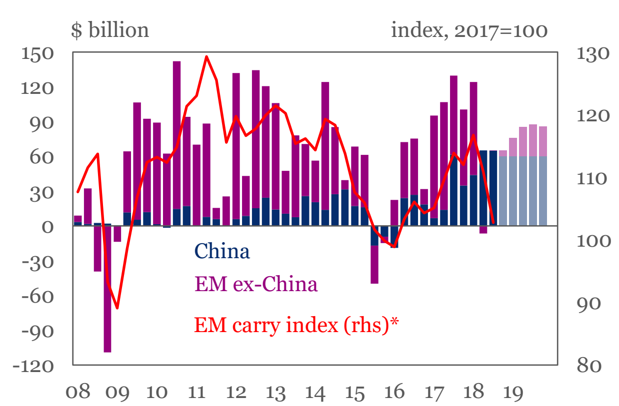
- We estimate that non-resident capital flows to emerging markets will slip from $1.26 trillion in 2017 to $1.14 trillion in 2018 and remain broadly stable at $1.13 trillion in 2019. This pullback will reduce flows to 3.7% of EM GDP this year—still higher than the 2014/17 average of 3.4%.
- However, there has been significant differentiation across countries. Most notably, flows to China are projected to rise to a record high of $580 billion in 2018, helped by increased foreign access to Chinese domestic markets. In contrast, investor appetite for portfolio investment in most other emerging markets has been subdued. Excluding China, non-resident capital flows to EMs are anticipated to be around $560 billion in 2018—over 30% lower than in 2017.
- The 2018 slowdown has been mainly in portfolio debt flows, which are set to drop from an all-time high of $330 billion in 2017 to $245 billion this year. With EM assets looking increasingly under-owned, attractive valuations are a key upside risk to our base scenario.
- Looking at EM vulnerabilities, fiscal and external imbalances remain in focus, notably for Argentina, Turkey, India, South Africa, Brazil and Egypt, where the policy response to tighter global financial conditions will be closely watched.
- While U.S.-China trade tensions look to be the primary downside risk for the outlook, further U.S. sanctions against Iran and Russia could also hurt risk sentiment, perhaps introducing a "policy risk premium" to EM pricing.
- China's efforts to support domestic activity with expansionary policies could allow sustained growth in private sector demand—but it is already at high levels. Downside risks for growth could weigh on institutional investor appetite for Chinese corporate bonds and equities.

Chart 1: Non-resident capital flows to emerging markets



Source: IIF

Chart 2: Non-resident portfolio flows to EMs*



*Source: *IIF Quarterly Capital Flows Database; **The Bloomberg EM-8 Carry Index*

Emre Tiftik, Deputy Director, Global Capital Markets, etiftik@iif.com, +1 202 857 3321

BUMPY ROAD, SOME BRIGHT SPOTS

We have revised down our projections for total non-resident capital flows to emerging markets relative to our May 2018 report. At around $1.14 trillion, our updated estimates for 2018 are over $70 billion lower than previously anticipated. Of note, we have also cut our 2019 projections by $220 billion to some $1.13 trillion (Chart 1). As a percentage of GDP, non-resident capital inflows to emerging markets are now projected to decline from 4.4% in 2017 to 3.7% in 2018–though this is well above the 2015 trough of 1.1% (Table 1).

Most of the downward revisions stem from weaker-than-anticipated portfolio debt and equity flows. Per our Capital Flows Tracker, portfolio inflows have been increasingly volatile, with monthly flows averaging $19 billion through September—over 40% below the same period in 2017. To date, idiosyncratic domestic developments, higher USD borrowing costs and the stronger USD have been most disruptive, though the impact of rising U.S.-China trade tensions has been more evident of late. While fund flows suggest institutional investors have been less prone to selling this year, the mood has become more cautious—and retail investors are already net sellers of EM securities in 2018. Demand for local currency assets has been particularly weak as higher FX volatility weighs on carry trade-related flows (Chart 2). With EM FX debt issuance declining (Chart 19), we expect portfolio debt flows to drop from an all-time high of $330 billion in 2017 to $245 billion in 2018 and $222 billion in 2019. Equity flows are set to drop by 25% to $64 billion this year, before picking up to over $120 billion in 2019. However, we expect significant differentiation across countries. Despite the adverse impact of trade tensions on Chinese stocks, portfolio flows to China are set to top over $230 billion, helped by further steps to open China's bond market and MSCI's decision to include CNY-denominated Chinese stocks in its benchmark index. Our China Portfolio Flows Tracker shows that portfolio flows through the first 8 months of the year were $160 billion vs. $57 billion during the same period in 2017 (Chart 3). However, greater access to China may well be crowding out portfolio flows to other EMs. Excluding China, EM portfolio equity flows are set to turn negative to -$20 billion in 2018, while ex-China portfolio debt flows should fall over 60% to $96 billion.

Given ongoing profit repatriation by U.S. corporates and risks related to trade tensions, commodity prices and EM growth, we now see EM FDI flows flat at around $500 billion this year, falling to $480 billion in 2019. We have also revised down our 2018 estimates for "other investment" flows as incoming data show weaker banking-related flows to China (Chart 4). Finally, the prospect of further trade-related tensions and tighter global liquidity conditions has prompted us to cut our 2019 projections for "other investment" flows by over 10%, to below $305 billion.

Downward revisions relate to capital flow developments in a broad set of emerging markets. Looking across regions, EM Europe and Latin America saw large downward revisions, in

Table 1: Emerging Markets – Capital Flows

USD billion (+ = inflow of capital, - = outflow of capital)	2014	2015	2016	2017	2018e	2019f
Non-resident Capital Flows	1,225	389	802	1,260	1,139	1,129
Foreign direct investment	643	578	508	506	504	481
Equity	483	468	413	429	367	358
Debt	160	109	94	77	137	124
Portfolio investment	312	51	193	416	310	344
Equity	94	12	68	85	64	121
Debt	218	39	125	331	246	222
Other investment (largely banking related flows)	270	-240	102	338	325	304
Resident Capital Flows	-1,198	-819	-1,087	-942	-946	-929
Direct investment abroad	-364	-361	-365	-278	-302	-310
Portfolio investment	-165	-173	-175	-281	-232	-223
Other investment (largely banking related flows)	-669	-284	-547	-382	-412	-396
Financial derivatives, net	-12	-5	0	-11	-16	-10
Capital transfers	-20	19	7	11	10	10
Reserves (- = increase)	-124	445	405	-256	-291	-365
Net errors and omissions	-117	-248	-322	-230	-107	-88
Net Capital Flows	14	-435	-284	308	177	189
Net Capital Flows plus Errors & Omissions	-103	-683	-606	78	70	101
Memo:						
Non-resident capital inflows, % of GDP	4.5	1.5	3.1	4.4	3.7	3.5
Current Account Balance	247	220	194	167	211	254
Official Flows	20	14	21	1	24	24

Source: IIF. See annexes 1 and 2 for guidance on how to interpret these data and country coverage part driven by Argentina, Brazil, Indonesia, Thailand and Turkey. Recent trends in Africa/Middle East have been more mixed. While commodity prices remain supportive for oil exporters, flows to countries with relatively large external and fiscal imbalances, such as Egypt and South Africa will likely remain under pressure. We have slashed our projections for non-resident capital flows to [Saudi Arabia] in 2019, mainly reflecting the cancelation of the Saudi Aramco IPO. However, for 2018 we expect an additional $33 billion in inflows to EM Asia amidst stronger than anticipated portfolio flows to China and Korea. However, most other countries in the region look set to see a sharp downturn in capital inflows.

Overall, 17 of the 25 countries in our sample are now projected to see a decline in non-resident capital inflows in 2018. This drop is set to be more than $30 billion in India, Russia, Turkey, and Thailand. For 2019, we expect a decline in flows across 11 countries, with Argentina, Korea, Saudi Arabia, Turkey and Egypt likely to see the sharpest declines.

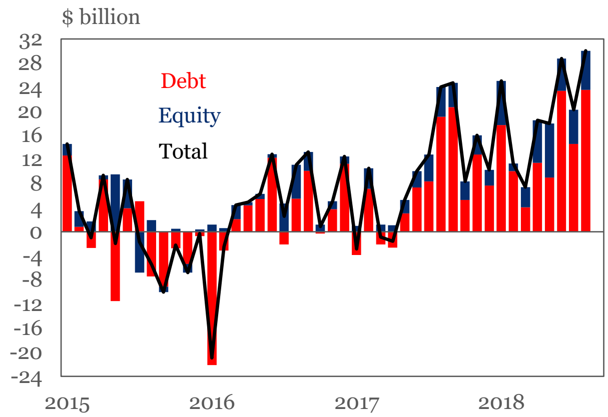
With resident outflows broadly stable, total net capital flows to EMs are projected to weaken in 2018 given the anticipated sharp slowdown in non-resident portfolio inflows (Chart 5). Taking into account errors and omissions, net capital outflows this year will be most pronounced in UAE, Russia, South Korea, and Saudi Arabia. In sharp contrast, net capital flows to China in 2018 are projected to be around $160 billion, marking the first annual net inflows since 2013. Against that backdrop, we expect only a slight drop in the pace of FX reserve accumulation by EM central banks—but again, China is the standout. FX reserve accumulation in China should accelerate from $92 billion in 2017 to $260 billion in 2018. Elsewhere, reserve accumulation is set to decline sharply from over $160 billion in 2017 to below $35 billion in 2018. The drop in reserves will likely be more notable in India, Indonesia, and Turkey while Russia, Saudi Arabia, Nigeria will likely see an oil-fueled rise in FX reserves.

LESS SUPPORTIVE PULL AND PUSH FACTORS

This year has seen both pull and push factors weigh on EM capital flows.

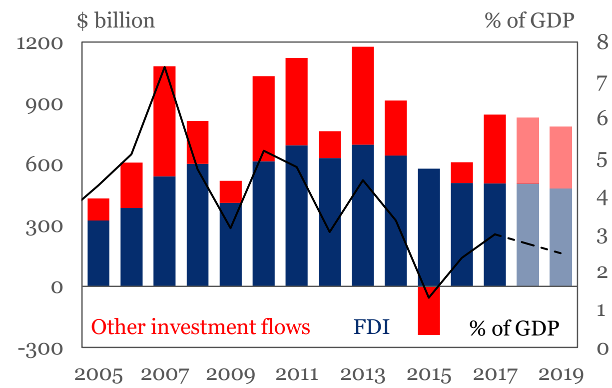
On the pull side, EM growth has become less synchronized with some substantial downward revisions (see our forthcoming [Global Economic Monitor]); survey-based data suggest that risks are increasingly on the downside given the potential adverse impact of U.S.-China trade tensions (Chart 6). Although EM business and consumer confidence indicators vary widely, overall EM sentiment looks less healthy than it did six months ago. Our [EM Growth Tracker] and our bottom-up estimates suggest that EM growth has slowed noticeably since Q1 2018, raising concerns about slower 2019 growth. Commodity price trends have also been less supportive. While higher oil prices help EM oil exporters, weakness in base metal and agricultural prices amidst trade tensions represent a key downside risk for EM growth momentum and capital

Chart 3: Persistently robust portfolio inflows to China



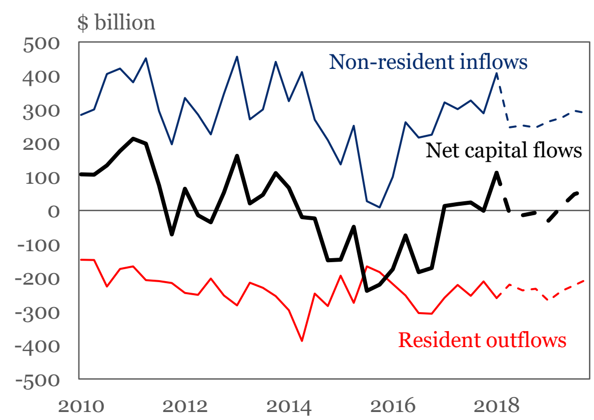
Source: IIF China Portfolio Flows Tracker

Chart 4: Non-portfolio flows remain broadly stable



Source: IIF

Chart 5: Sharp pullback in net capital flows H2 2018 ahead of a modest expected recovery in 2019



Source: IIF

flows. Moreover, the rising growth differential between the U.S. and other mature markets continues to pull global capital towards the U.S., at the expense of riskier EM assets (see Portfolio Allocation Trends).

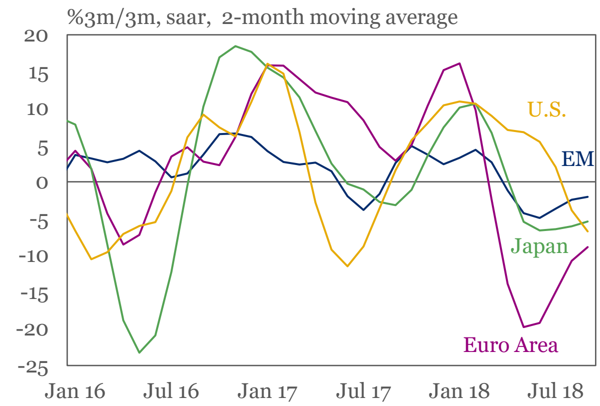
On the push side, 2018 has seen a sharp setback in global risk appetite. In addition to heightened trade and sanction related tensions, Fed tightening and spillovers from Argentina, and Turkey, concerns about rising debt levels (see our Global Debt Monitor) have also weighed significantly on sentiment towards EM assets, feeding into the sharp depreciation in EM currencies this year (Chart 7). Spillover effects from diminishing central bank liquidity have had a particularly big impact on EM portfolio debt flows. Between now and end-2019, we expect the Fed to stay on course with one hike per quarter, taking the Fed funds rate up by 125bp to a maximum of 3.5%, though this is well priced in and any spikes in market volatility would likely prompt a more cautious stance. However, global central bank liquidity—below pre-crisis levels—is mainly sustained by the BOJ's QQE program and will likely contract further as other major central banks resume monetary policy normalization going forward (Chart 8). Given that over one-third of portfolio debt flows to emerging markets originate from Europe, the start of the monetary policy normalization process in Europe could add to volatility in EM portfolio flows.

EM CONTAGION—WITH DIFFERENTIATION

Most EM asset prices took a big hit this summer amidst the intensification of the financial turmoil in Turkey and Argentina. This has been reflected in high volatility in daily portfolio flows, with the incidence of mini-boom bust cycles for EM portfolio flows increasing further of late (see our Daily Flows Alert). Although EM asset price correlations hover above post-taper tantrum averages, fueling concerns over EM contagion risk, these correlations are still well below long-term averages. Moreover, the scope and the drivers of the price movements vary across countries and asset classes, suggesting EM differentiation still persists (Chart 9).

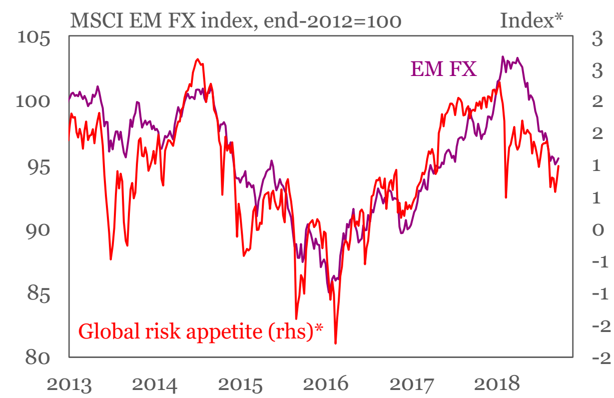
The variation has occurred in several dimensions. Losses in domestic currencies have been mostly concentrated in countries with large external imbalances, including Argentina, Turkey, India, and Brazil. Although countries with current account surpluses have also come under pressure, losses in those countries have been mainly driven by trade and sanction related tensions, including Russia and many EM Asian countries. Similar trends can be seen in emerging market equity and bond market performance. While trade-related tensions have hit hardest in stock markets of countries with significant importance in global supply chains, concerns over rising debt levels have been most evident in the stock markets of Argentina and Turkey

Chart 6: Synchronized slowdown amid trade tensions?



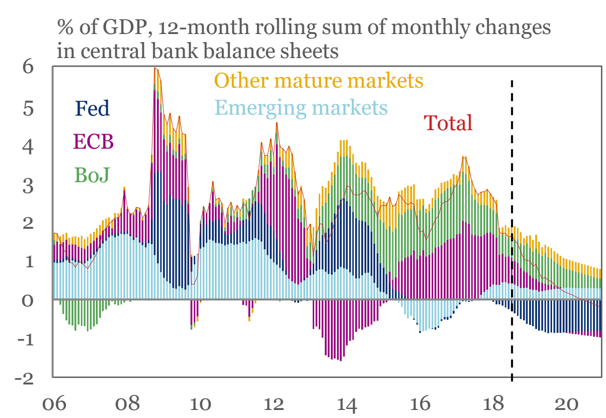
Source: IIF, Haver

Chart 7: Sharp reversal in global risk appetite



*Source: Bloomberg, IIF; *negative of first principal component of VIX, MOVE, Global FX Vol, EM FX Vol, US BBB spread, EMBIG spread*

Chart 8: Central bank liquidity becomes less supportive



Source: IIF, Haver

RISKS AHEAD

While underweight positioning and more attractive valuations highlight upside risk for EM capital flows (Charts 12 to 17), we remain concerned about downside risks—mainly related to the shifting policy and political landscape in the U.S.

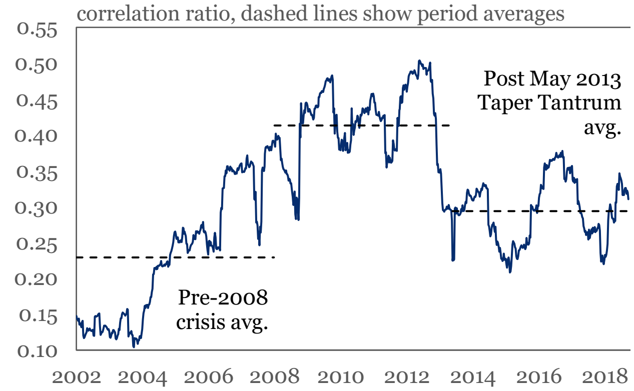
Hawkish Fed: While this is not our central scenario (see Global Macro Views), with capacity utilization picking up and labor markets tightening, a marked buildup in inflationary pressures in the U.S. could prompt acceleration in monetary policy normalization and a stronger USD—meaning renewed headwinds for EM portfolio flows. In addition, greater divergence in G3 monetary policy could lead to sharp repricing and reallocation moves in global bond markets.

Escalation in trade tensions: While we have already factored in rising U.S.-China trade tensions to our projections, the upcoming U.S. midterm elections highlight the risk of further protectionist rhetoric and measures. Serious escalation in U.S.-China trade tensions would induce more caution in investor behavior, weighing on inflows to EMs. Further U.S. sanctions (including on Russia and Iran) would be another significant downside risk. Ambiguity over the policy response of major EMs to the U.S. sanctions could add to the volatility in EM portfolio flows, particularly to those originating from the U.S. (Chart 10). Moreover, a growing sense of U.S. policy unpredictability vis-à-vis individual EM countries could prompt higher risk premia across the board.

Policy dilemma for China—more growth or less debt: As global trade tensions mount, China's domestic growth outlook remains key. Chinese authorities' efforts to stimulate the economy via expansionary policies should help curb potential resident capital outflows in the near term. However, stimulus on a large scale could trigger a renewed rise in China's total debt-to-GDP ratio (Chart 11), which has been broadly stable *in recent years*. With the interest rate differential between U.S. and Chinese bond yields narrowing as Chinese authorities act to to ease domestic financial conditions, a potential deterioration in private sector balance sheets could hurt risk sentiment for China—weighing on foreign investor appetite for Chinese bond and stocks, with potential ripple effects for other emerging markets.

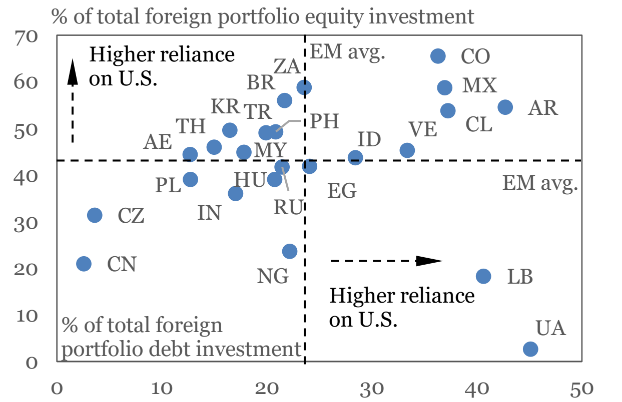
Idiosyncratic EM policy developments: The policy response of emerging markets—particularly those with large fiscal and external imbalances—to tightening global financial conditions will be at the center of concerns. Delay or failure to deliver coherent, market-friendly policies could hurt broader risk sentiment towards emerging markets, leaving some more exposed to sudden shifts in global risk appetite.

Chart 9: Correlation across EM asset prices—higher, but not back to 2015-16 levels



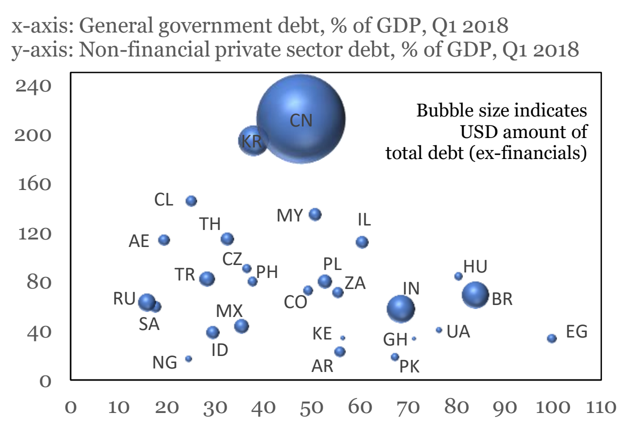
*Source: Bloomberg, IIF; *simple average of correlations for bonds and stocks. Within each class, correlation represent simple average of pairwise correlations across major 22 EMs.*

Chart 10: U.S. investors have a substantial share in EM portfolio investment—a potential liability for some



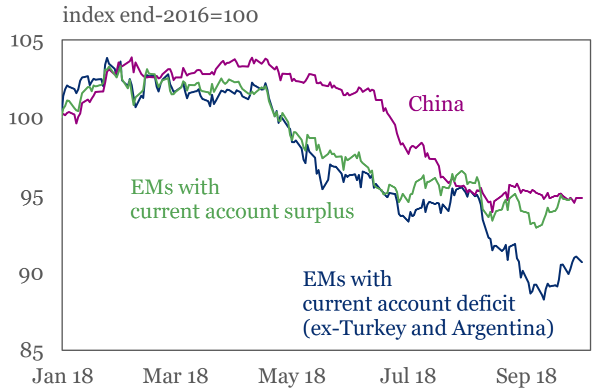
Source: IIF, IMF

Chart 11: EM debt bubbles



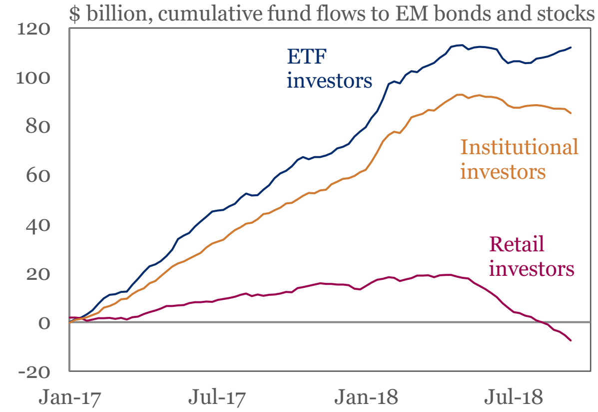
Source: IIF Global Debt Monitor

Chart 12: Marked depreciation in EM currencies



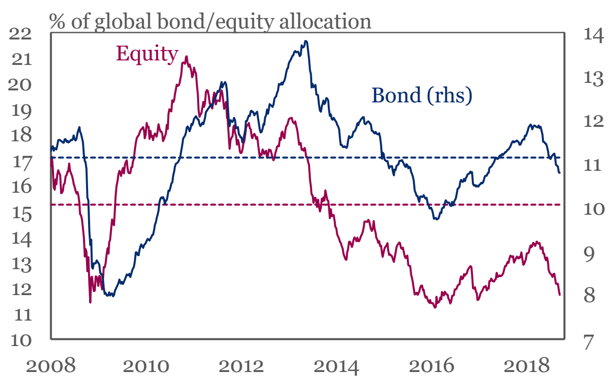
Source: IIF, IMF

Chart 13: Retail investors cut EM exposure sharply



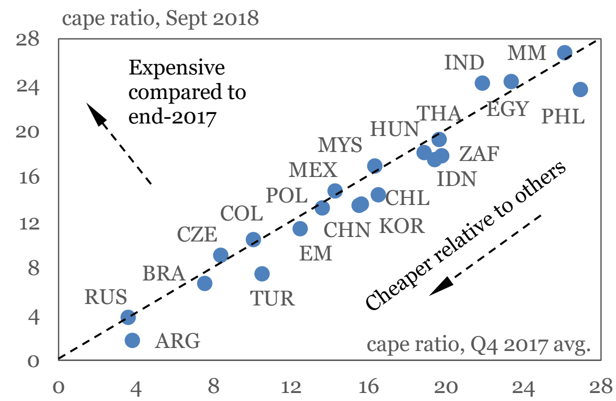
Source: IIF, EPFR

Chart 14: EM assets are under-owned



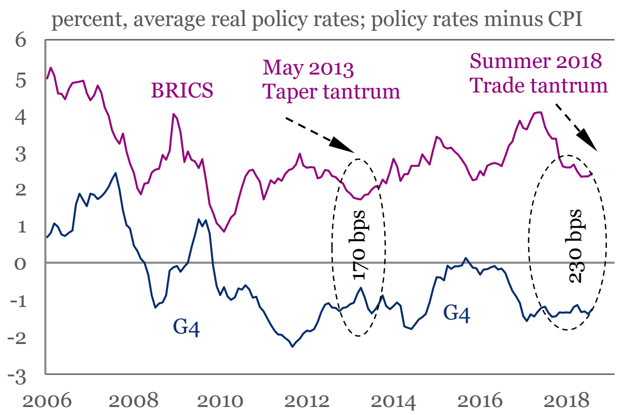
Source: IIF, EPFR

Chart 15: EM stocks become even more attractive



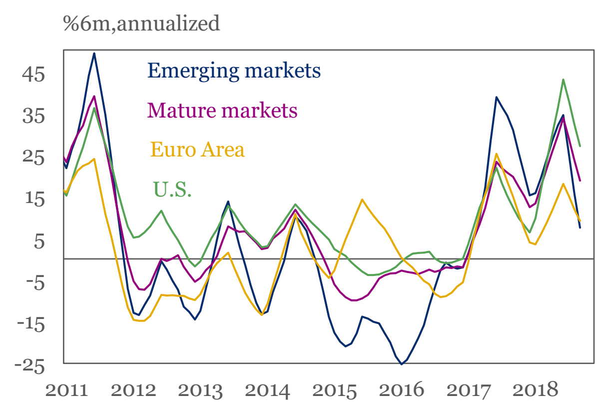
Source: IIF, Bloomberg

Chart 16: EM real rates remain supportive for flows



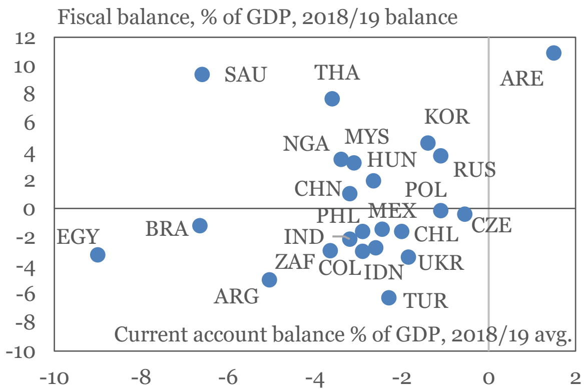
Source: IIF, Bloomberg

Chart 17: Optimism on EM corporate earnings persist



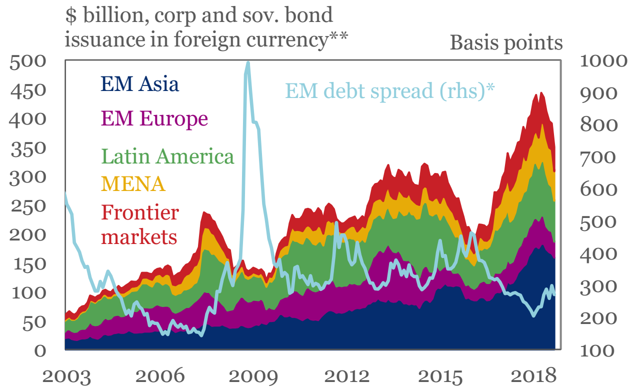
Source: IIF, Bloomberg

Chart 18: Fiscal vs External Balance



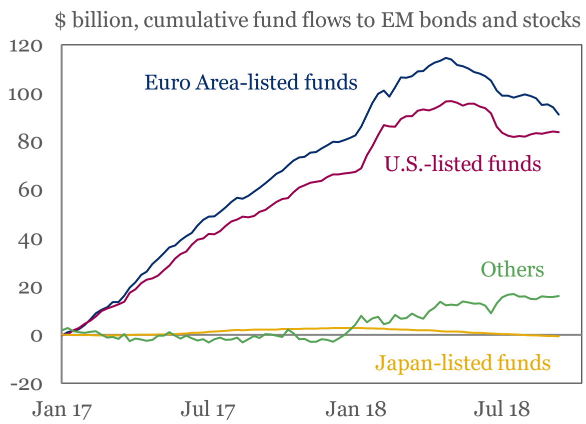
Source: IIF

Chart 19: EM foreign currency bond issuance



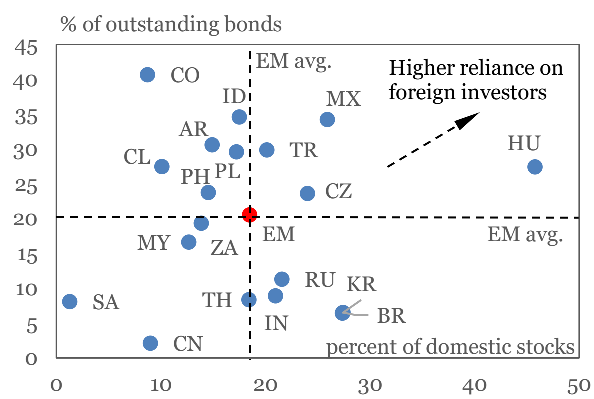
*Source: IIF, Bloomberg, Thomson One; * ICE BofAML US Emerging Markets External Debt Sovereign & Corporate Plus Index (DXEM Index); **12-month moving sum*

Chart 20: EM fund flows, by origin



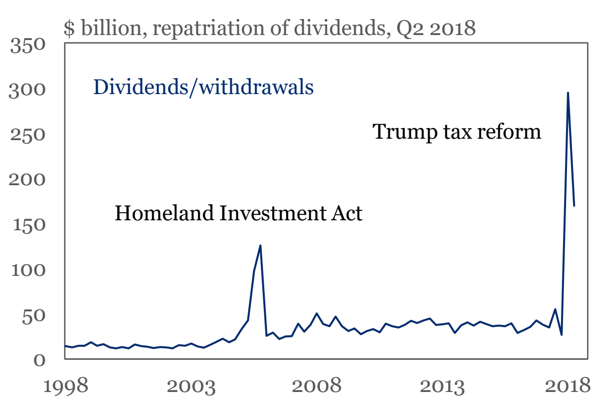
Source: IIF, EPFR

Chart 21: Foreign participation in EM markets



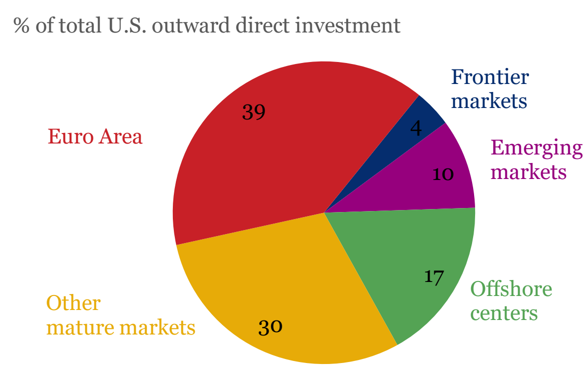
Source: IIF, CPIS, BIS, Bloomberg

Chart 22: U.S. – repatriation of dividends



Source: IIF, FED

Chart 23: U.S. direct investment position



Source: IIF, CDIS

Argentina

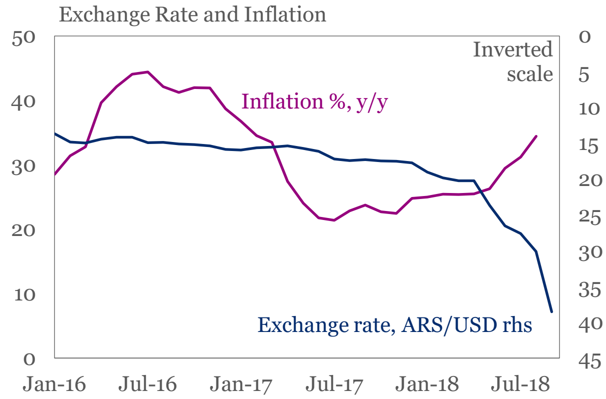
Martín Castellano, Head of Latam Research, mcastellano@iif.com, +1 202 857 3641

PAINFUL TIMES AHEAD

Unabated market pressure on asset prices in August and September prompted the government to introduce additional measures to stabilize the economy following the sharp *peso* depreciation. Recent action included tightening monetary policy further (e.g., increasing interest rates and reserve requirements on *peso* deposits), committing to faster and deeper fiscal consolidation (e.g., achieving a balanced primary budget by 2019), and requesting additional financial assistance from the IMF. The revamped agreement with the IMF includes a program upgrade to $57.1 billion from $50 billion, more front-loaded disbursements to cover financing needs in 2018-19, and a new monetary policy framework based on the control of money supply. Additional dollar liquidity should help stabilize economic conditions after a painful market-driven adjustment. However, broad-based political backing to fiscal consolidation in the run-up to the October 2019 election is critical to anchor macroeconomic stability as future economic policy direction has become increasingly uncertain. Financial turmoil has taken a toll on the economy, leading to a deterioration in social conditions. Twelve-month inflation rose to 34.4% in August from 31.2% in July driven by currency depreciation, regulated price increases, and food items (Chart 24). We project inflation to accelerate further this year, before slowing down in 2019. Following positive growth in 2018Q1, real GDP declined 15.2% q/q (saar) in 2018Q2 dragged down by a drought affecting agricultural production. Activity will likely continue to contract in the coming quarters due to financial woes, tight monetary and fiscal policies, and eroded real wages. The recession and a weaker currency should help reduce the current account deficit (Chart 25), reflecting a merchandise trade surplus and a smaller gap in services in 2019.

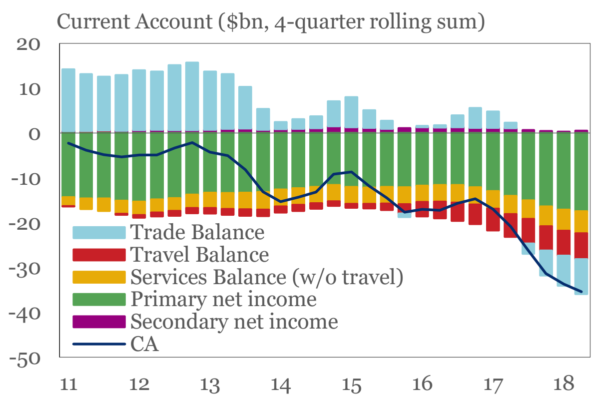
A substantial part of the adjustment would come from the public sector. The government goal is to reduce the primary deficit from a projected 2.6% of GDP in 2018 to zero next year. Austerity action includes: i) slashing energy and transportation subsidies (0.7% of GDP); ii) cutting capital spending (0.5% of GDP); iii) reducing transfers to the provinces (0.3% of GDP); and iv) adjusting goods and services and personnel expenditures (0.2% of GDP). On the revenue side, measures entail hiking export taxes (ARS4 per $1 of primary goods exports and ARS3 per $1 of high value-added goods exports). Garnering support from the opposition (Congress and provincial administrations) for implementing this ambitious program in an election year will require skillful political leadership. Progress on this front would help rebuild foreign investor confidence and curb resident capital outflows, which have started to decline but remain above past critical episodes (Chart 27).

Chart 24: Inflation fueled by the sharp *peso* depreciation



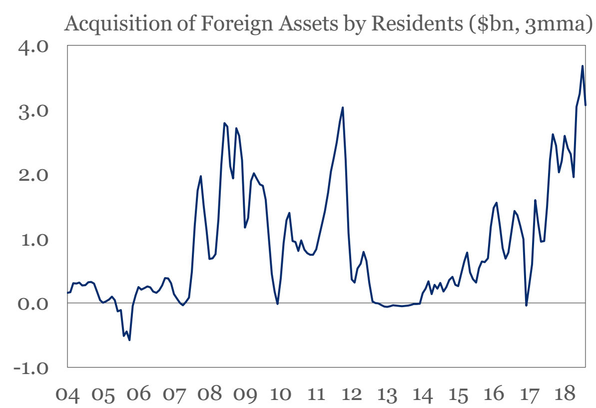
Source: Haver, IIF

Chart 25. Large current account deficit is set to narrow



Source: Haver, IIF

Chart 26: Resident capital outflows have remained high



Source: Haver, IIF

Turkey

Ugras Ulku, Deputy Head of EM Europe, uulku@iif.com, +1 202 857-3617

CAPITAL OUTFLOWS WILL WEIGH ON GROWTH

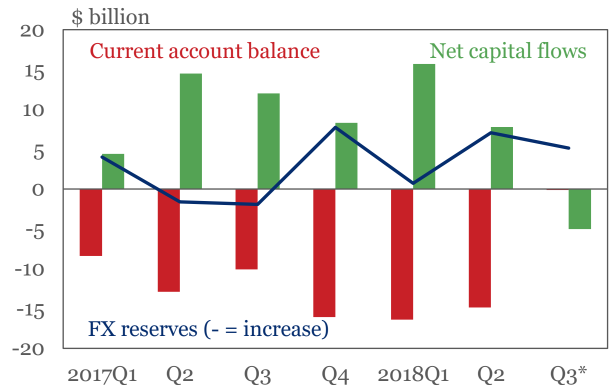
With net capital inflows remaining much smaller than the current account deficit during H1 2018, Turkey's FX reserves declined by $8 billion during January-June. The combination of heightened risk aversion towards emerging markets, escalated political tension between Turkey and the U.S., and the anticipated additional U.S. sanctions on Turkey have intensified investors' concerns, leading net capital inflows to Turkey to shift to a sizable outflow during July-August after they slowed from $16 billion in Q1 2018 to $7.8 billion in Q2 2018 (Chart 27).

The reversal of net capital inflows to outflows during July-August reflected, in part, nonresident portfolio investors' net sales of TRY-denominated assets, which contributed to the TRY's fall to new historic lows in mid-August. With abrupt nominal TRY depreciation being contractionary for activity in Turkey through deteriorated confidence, reduced corporate profits, and weaker corporate balance sheets (given Turkish companies' large net FX open positions), bank lending and domestic spending have weakened markedly since June, triggering a sharp adjustment in the current account deficit during July-August.

Despite the current account deficit narrowing, investor concerns centered around Turkish borrowers' ability to rollover their maturing external debt, which is roughly around $170 billion a year. Those concerns were coupled with the rising cost of borrowing and weakening economic activity, leading overall international bond and loan issuances by Turkish borrowers to decline from $12.5 billion a quarter in H1 2018 to only $2.5 billion during July-August, driven mainly by lower issuance by banks, which, in part, reflects weakening credit growth (Chart 28). Nonresident capital withdrawals and sizable resident capital outflows appear to have led FX reserves to decline further by $5 billion since June to $70 billion in early September.

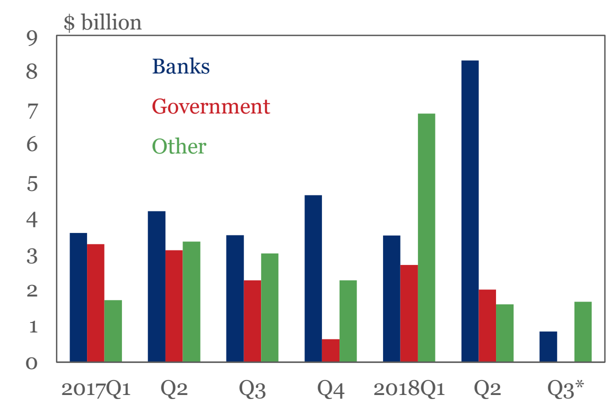
With the weaker TRY shifting demand away from imports while boosting exports, the current account deficit should narrow sharply from $47 billion in 2017 to $37 billion in 2018, and further down to $5 billion in 2019. Notwithstanding a significantly smaller current account deficit, net inflows of non-resident capital will likely moderate this year before they shift to a small outflow next year, in line with the projected decline in output in 2019 (Chart 29). With net inflows of resident capital likely to increase substantially in 2019, net capital inflows should be sufficiently large enough to finance a much smaller current account deficit in 2019 without any further reserve drawdown next year after FX reserves are estimated to decline by $15 billion in 2018 for the year as a whole.

Chart 27: Net capital flows to Turkey



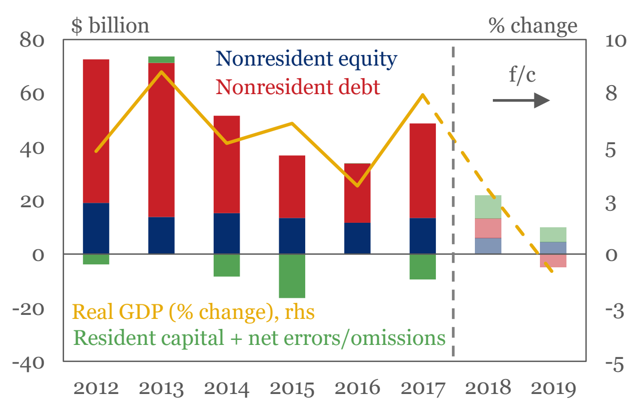
Source: Haver, IIF
**July - August*

Chart 28: Bonds and loan issuances



Source: Thomson One, IIF
**July - August*

Chart 29: Capital flows and real GDP



Source: Haver, IIF

Special Feature: China's Investment in Africa

Gene Ma, Chief Economist, China, gma@iif.com, +1 202 857 3305

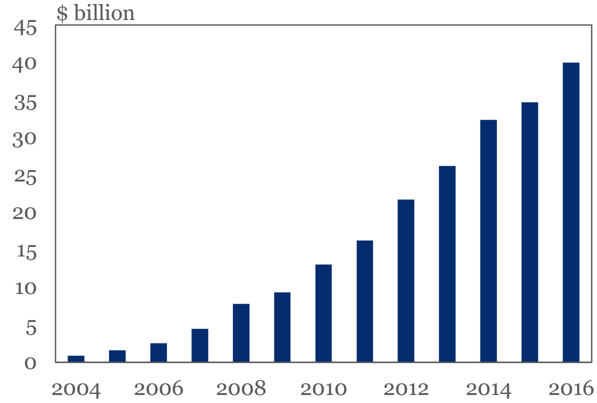
There are many economic reasons for the growing economic tie between China and Africa. Africa is rich with natural resources, while 40% of China's imports are commodities. Oil alone accounted for 9.2% of China's imports in 2017. Around 20% of China's oil imports are now from Africa. Labor costs are low in Africa yet are rising rapidly in China. The past few years saw migrations of Chinese garment factories to countries such as Ethiopia and Rwanda. Africa is badly in need of infrastructure exemplified by the fact that only one-quarter of the roads are paved. Though, only one-third of the population does not have access to electricity. Given that China has gained expertise in building infrastructures after a decade of massive infrastructure investments, China has a lot to offer to Africa.

China's direct investment in Africa averaged some $3 billion per year in 2012-16, accounting for about 5% of total FDI flows into Africa. Outstanding Chinese FDI in Africa by end 2016 was $40bn, about 5% of the FDI stock in Africa (Chart 30). Adding FDI from Hong Kong ($13bn), total Chinese FDI in Africa totals $53bn. This is slightly behind the U.S. ($57bn) and the UK ($56bn) but higher than France ($49bn) and Italy ($23bn) (Chart 31). The largest recipient of Chinese FDI is South Africa ($6.5bn stock), followed by Congo ($3.5bn), Algeria, Nigeria, and Zambia ($2.5bn each). Despite the strong political ties, China's outstanding FDI in Zimbabwe was only $1.8bn in 2016

Though still behind the U.S. in terms of total FDI outstanding in Africa, the FDI flows from China (about $3bn a year) has surpassed that from the U.S. since 2014. The U.S. FDI flows to African declined from its peak of $9bn a year in 2009-10 to a net outflow in 2016. Africa's trade with China exceeded that with the US since 2008. At $170bn, the total value of Africa-China trade was over three times that of the Africa-US trade ($55bn) in 2017. In September, Chinese President Xi Jinping committed a $60bn package to Africa during the Forum on China-Africa Cooperation (FOCAC) in Beijing.

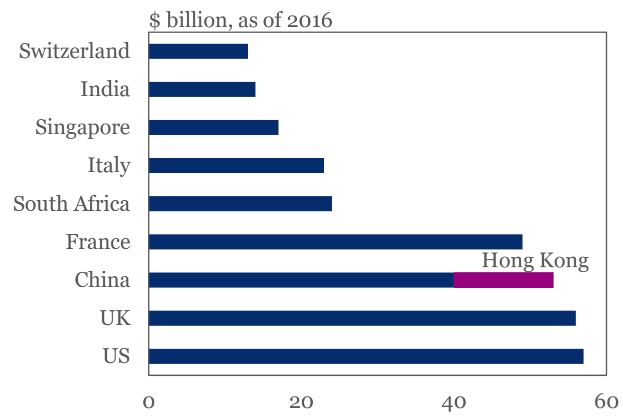
However, a growing concern with the economic ties with Africa is the sustainability of the debt owed by African countries. China's lending to Africa more than doubled in 2016 to $30bn. With the total outstanding credit at over $125bn, China has become one of the largest creditors to Africa (Chart 32). China Development Bank, the policy bank, has surpassed the World Bank to become the largest provider of concessionary loans to Africa, lending $35.5bn in loans to 500 projects in 42 countries. Likewise, EXIM Bank of China and China-Africa Fund have been busy on the continent. More transparency and scrutiny could minimize the risks of corruption and mismanagement of these investments and make Africa's debt more sustainable.

Chart 30: The outstanding Chinese FDI in African



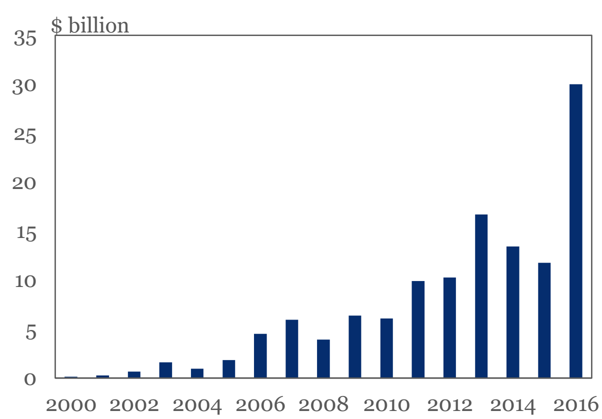
Source: National sources, IIF.

Chart 31: Top investor economics by FDI



Source: UNCTAD, IIF.

Chart 32: China's lending to Africa doubled in 2016



*Source: CARI, IIF. *Loan's figures include: Chinese policy bank loans, loans from the Ministry of Commerce of China, loans from commercial banks, and loan financing from Chinese companies.*

Table 2: Emerging Markets excl. China – Capital Flows

USD billion (+ = inflow of capital, - = outflow of capital)	2014	2015	2016	2017	2018e	2019f
Non-resident Capital Flows	813	492	544	824	559	549
Foreign direct investment	375	335	333	338	298	301
Equity	272	256	248	287	220	218
Debt	103	79	85	51	79	84
Portfolio investment	218	45	142	299	76	104
Equity	42	-2	44	51	-20	21
Debt	176	47	98	248	96	82
Other investment (largely banking related flows)	220	112	69	187	185	144
Resident Capital Flows	-735	-489	-418	-654	-622	-609
Direct investment abroad	-241	-187	-148	-176	-162	-150
Portfolio investment	-154	-100	-72	-172	-121	-105
Other investment (largely banking related flows)	-340	-202	-198	-305	-339	-354
Financial derivatives, net	-12	-3	6	-11	-13	-6
Capital transfers	-20	18	7	11	10	11
Reserves (- = increase)	-6	102	-38	-164	-32	-78
Net errors and omissions	-50	-35	-92	-8	-14	-6
Net Capital Flows	66	0	132	159	-76	-67
Net Capital Flows plus Errors & Omissions	15	-36	39	152	-90	-73
Memo:						
Current Account Balance	11	-84	-8	2	112	141
Official Flows	21	17	22	6	29	29

Source: IIF. See annexes 1 and 2 for guidance on how to interpret these data and country coverage

Table 3: China – Capital Flows

USD billion (+ = inflow of capital, - = outflow of capital)	2014	2015	2016	2017	2018e	2019f
Non-resident Capital Flows	411	-102	258	436	580	580
Foreign direct investment	268	242	175	168	206	180
Equity	211	212	165	142	147	140
Debt	57	31	10	26	58	40
Portfolio investment	93	7	50	117	234	240
Equity	52	15	23	34	83	100
Debt	41	-8	27	83	151	140
Other investment (largely banking related flows)	50	-352	33	151	140	160
Resident Capital Flows	-463	-330	-669	-288	-324	-320
Direct investment abroad	-123	-174	-216	-102	-140	-160
Portfolio investment	-11	-73	-103	-109	-111	-118
Other investment (largely banking related flows)	-329	-82	-350	-77	-73	-42
Financial derivatives, net	0	-2	-5	0	-3	-3
Capital transfers	0	0	0	0	0	0
Reserves (- = increase)	-118	343	444	-92	-259	-287
Net errors and omissions	-67	-213	-229	-222	-93	-82
Net Capital Flows	-51	-434	-416	149	253	257
Net Capital Flows plus Errors & Omissions	-118	-647	-646	-73	160	175
Memo:						
Current Account Balance	236	304	202	165	99	113
Official Flows	0	-4	-1	-5	-5	-5

Source: IIF. See annexes 1 and 2 for guidance on how to interpret these data and country coverage

Annex 1: IIF capital flows data – a layman's guide

Capital flows arise through the transfer of ownership of assets from one country to another. When analyzing capital flows, we care about who buys an asset and who sells it. If a foreign investor buys an emerging market asset, we typically refer to this as a non-resident capital flow (or inflow) in our terminology. We report capital flows on a net basis. For example, if foreign investors buy $10 billion of assets in a particular country and sell $2 billion of that country's assets during the same period, we show this as a (net) capital inflow of $8 billion. Note that non-resident capital flows can be negative, namely if foreign investors sell more assets of a country than they buy in a given period.

Correspondingly, if an investor from an emerging market country buys a foreign asset, we call this a resident capital flow (or outflow). Resident capital flows can also be positive or negative.

Annex 2: IIF Capital Flows Report Country Sample (25)

Emerging Europe (6)	***Latin America (6)***	***Africa/Middle East (6)***	***China and Asia Six (7)***
Czech Republic	*Argentina*	*Egypt**	*China*
Hungary	*Brazil*	*Lebanon*	*India**
Poland	*Chile*	*Nigeria*	*Indonesia*
Russian Federation	*Colombia*	*Saudi Arabia*	*Malaysia*
Turkey	*Mexico*	*South Africa*	*Philippines*
Ukraine	*Venezuela*	*UAE*	*South Korea*
			Thailand

**For India and Egypt, annual data and forecasts are represented on a fiscal year basis*

CONTRIBUTORS

GLOBAL CAPITAL MARKETS

Hung Tran, Executive Managing Director
Sonja Gibbs, Senior Director
Emre Tiftik, Deputy Director
Celso Nozema, Financial Economist
Khadija Mahmood, Senior Research Analyst
Fiona Nguyen, Senior Research Analyst
Rita Santibanez, Senior Program Analyst
Raymond Aycock, Senior Program Analyst

SPECIAL INITIATIVES

Kristen Silverberg, Managing Director
Scott Farnham, Senior Analyst

ECONOMIC RESEARCH

Robin Brooks, Managing Director and Chief Economist
Sergi Lanau, Deputy Chief Economist
Garbis Iradian, Head of MENA Research
Gena Ma, Head of China Research
Ondrej Schneider, Head of EM Europe Research
Martin Castellano, Head of LATAM Research
Reza Siregar, Head of ASEAN Research
Ugras Ulku, Deputy Head of EM Europe Research
Yorbol Yakhshilikov, Economist
Maria Paola Figueroa, Senior Economist
Kevin Sanker, Economist
Yuanliu Hu, Senior Research Analyst
Boban Markovic, Research Analyst
Thomas Hanna, Research Analyst