

IIF Capital Flows Tracker – April 2020

The COVID-19 Cliff



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- March saw record-high portfolio outflows from EM.
- Equity and debt were -\$52.4 bn and -\$31.0 bn, respectively.
- Net capital flows to EM reached \$0.2 bn in February.

We estimate that EM securities suffered around \$83.3 bn in outflows during March (Exhibit 1). This record-breaking outflow episode is significantly larger than the one seen during the global financial crisis and dwarfs stress events such as the China devaluation scare of 2015 and the taper tantrum in 2014 (Exhibit 2).¹ As Exhibit 1 shows, this is the result of the dramatic collapse of flows across both equities and debt. While the impact of COVID-19 was first noticeable in January and then contained to China, a wider spread of the pandemic in recent weeks rattled markets creating a shock to EM more severe than the GFC as far as capital flows are concerned.

Debt outflows were \$31.0 bn, the second-largest monthly outflow on record, the largest having occurred in October 2008. On the equity side, the negative trend which we observed last month deepened, with outflows from China equities amounting to \$12.3 bn and flows to the remaining EM equity universe reaching -\$40.1 bn (the highest since we began publishing our trackers). All of this points to a *sudden stop* in EM due to the combination of uncertainty around the spread of COVID-19, and large oil price and financial shocks.²

The significant decrease in debt flows was broad-based with EM Asia experiencing the largest outflows—going from inflows of \$4.5 bn in February to outflows of \$19.5 bn this month. This region also saw the most noticeable outflow for equities. Such flows went from -\$5.5 bn in February to -\$35.9 bn. Unlike January and early February, where most of the outflows were contained to EM Asia, this time around the overall EM complex suffered record-breaking outflows.

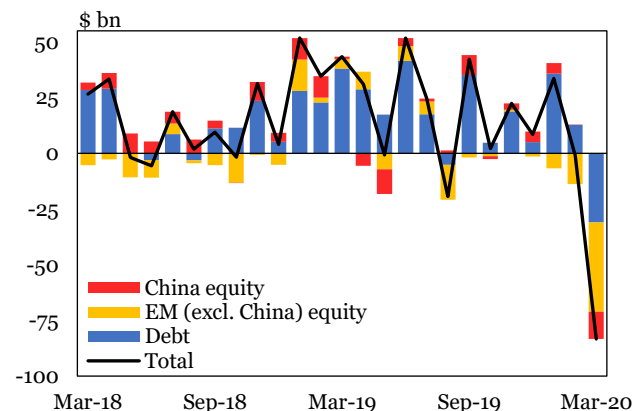
Net flows virtually stopped across EM, with a reading of only \$0.2 bn in February.

Please find all data available for download on our [website](#).

¹Non-resident portfolio flows are a subsection of overall net capital flows, which include all types of flows from both residents and non-residents covering portfolio flows, banking flows, direct investment, and other components of the financial account in a nation's balance of payments. Portfolio flows, while similar, should not be confused with fund flows.

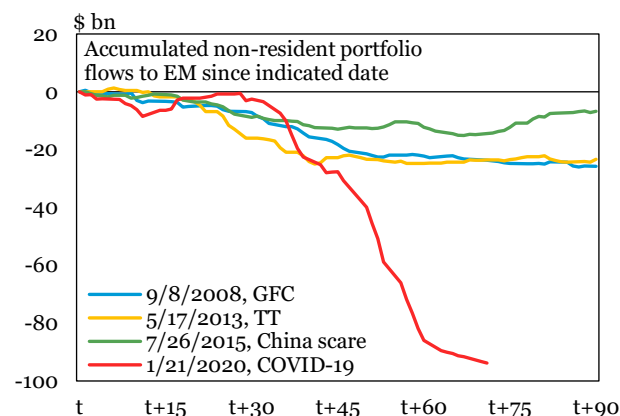
²Monthly country-level figures should be interpreted carefully, as they might not be fully in line with official quarterly BOP figures. To get the full picture, we recommend our headline aggregate indices, which are model-driven and link high-frequency data with official BOP figures.

Exhibit 1. Non-Resident Portfolio Flows to EM



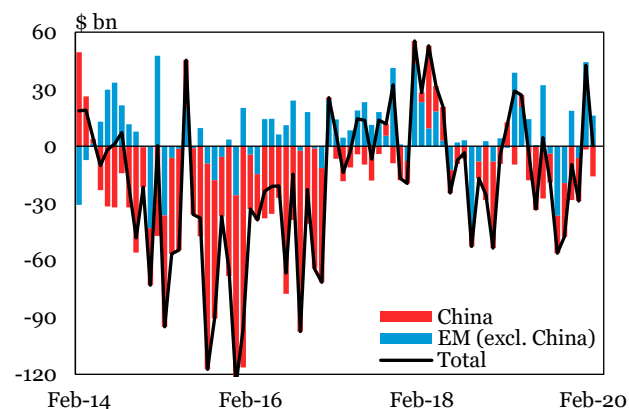
Source: Haver, IIF

Exhibit 2. Stress Episodes for Capital Flows



Source: IIF daily flows tracker

Exhibit 3. Net Capital Flows to Emerging Markets



Source: Haver, IIF