

# Capital Flows To Asian Market

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THIS SLIDES REPRESENTS THE VIEWS OF THE AUTHOR AND DOES NOT NECESSARY REPRESENT SBV VIEWS OR SBV POLICY

# Downward trend of capital flows to Asian economies

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Capital flows to Asian economies experience downward trend especially after the GFC in 2008

2010-2013 capital flows exhibited rebounded as Asian economic recovered however capital flows reduced after this recovery:

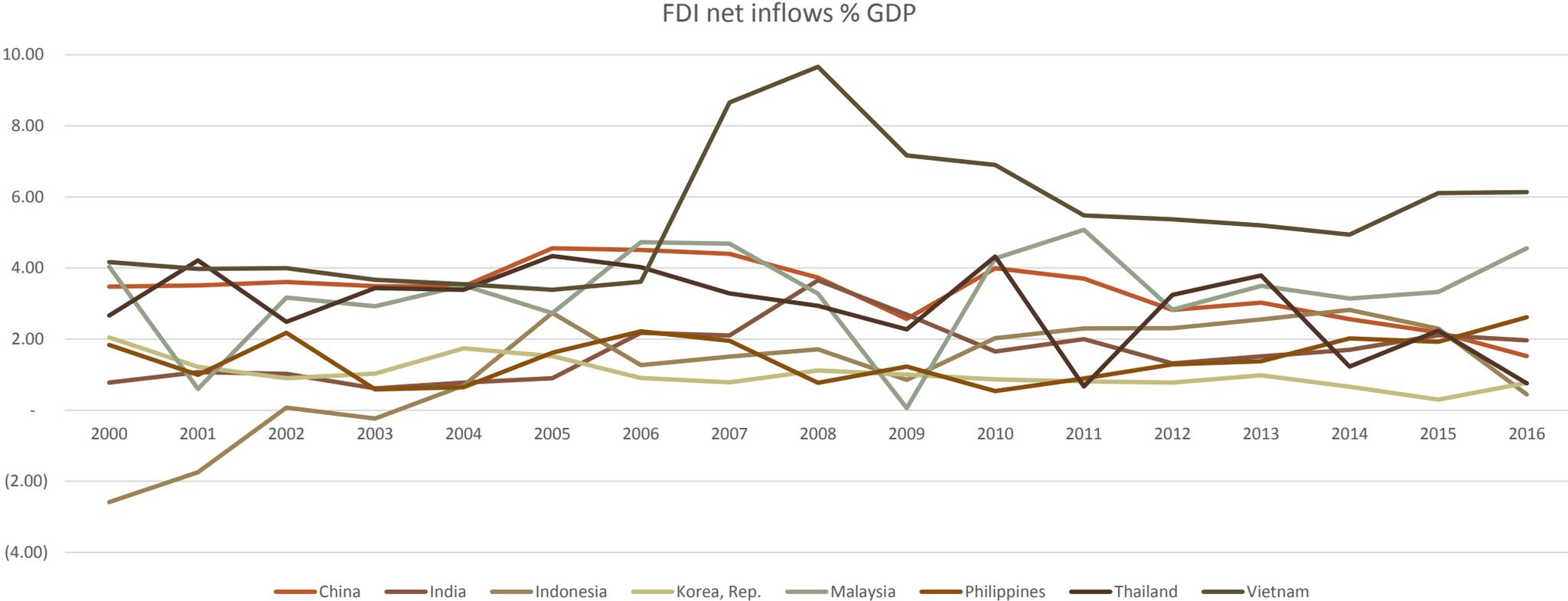
- Economic recovery was short lived;
- Advanced economies still remained sluggish;
- China uncertainty of hard/soft landing;
- Commodity price fell sharply;

The downward trend is clear even if China is excluded out of picture

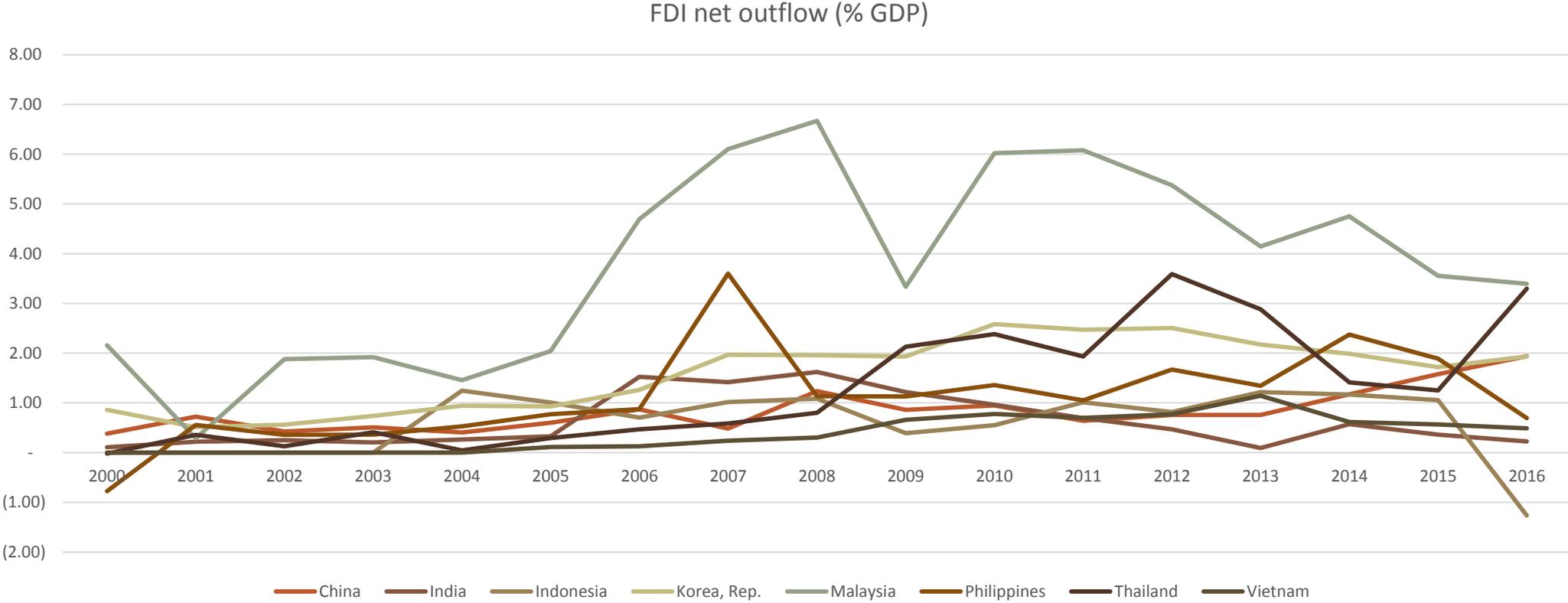
Impact of normalization process from US and EU

But some Asian countries still experience rebound of capital flow in 2017

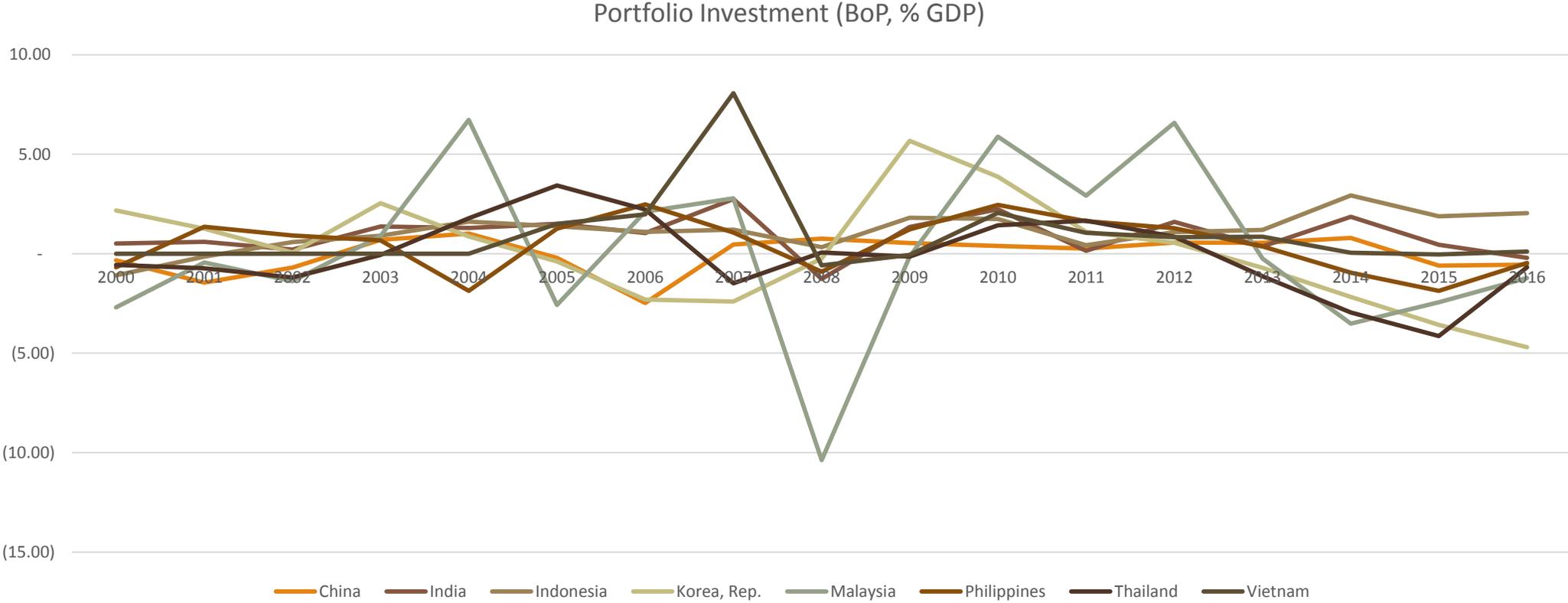
# FDI net inflows (% GDP)



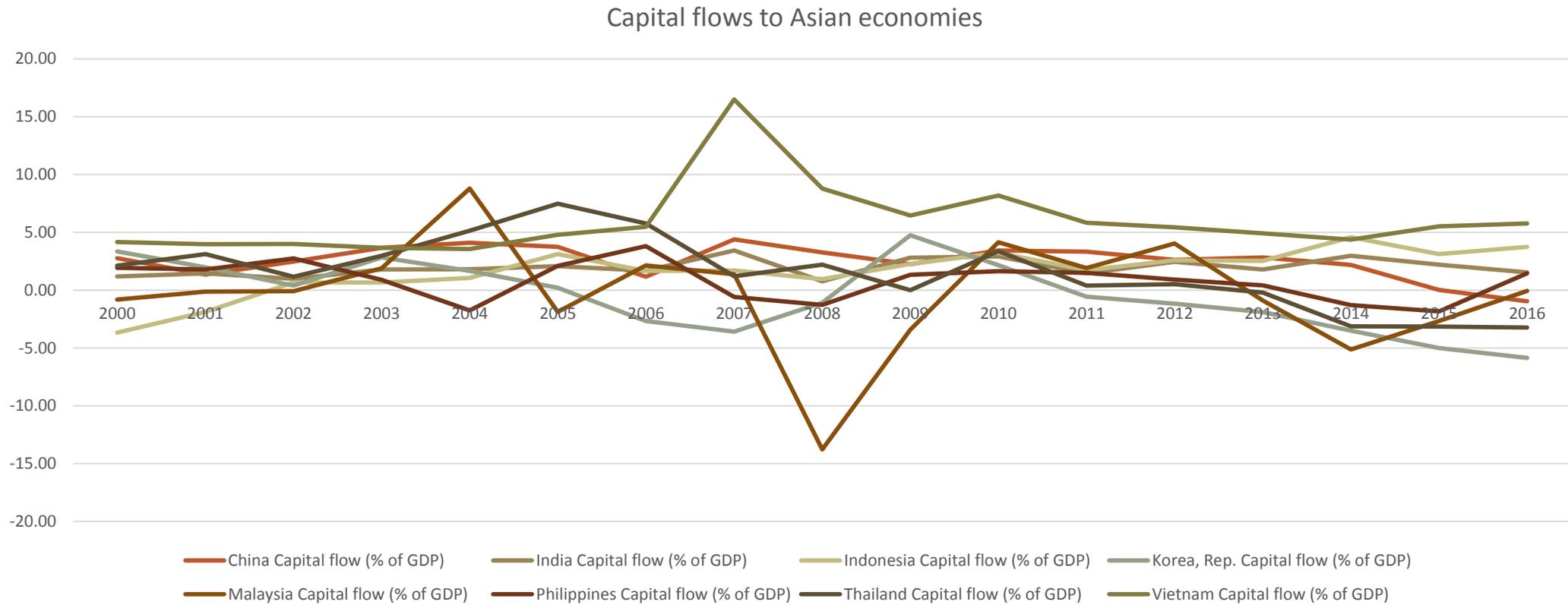
# FDI net outflows (% GDP)



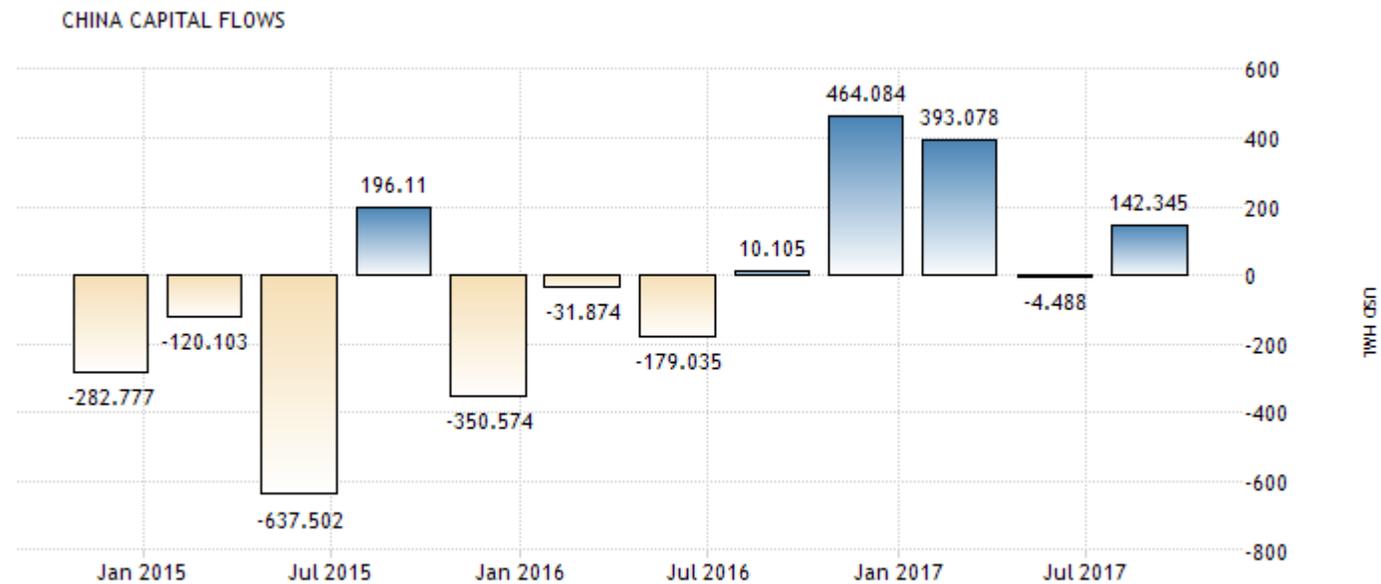
# Portfolio Investment (% GDP)



# Capital flows to Asian economies



# China capital flow



SOURCE: TRADINGECONOMICS.COM | STATE ADMINISTRATION OF FOREIGN EXCHANGE, CHINA

# Philippines capital flow

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# Capital flows to Vietnam

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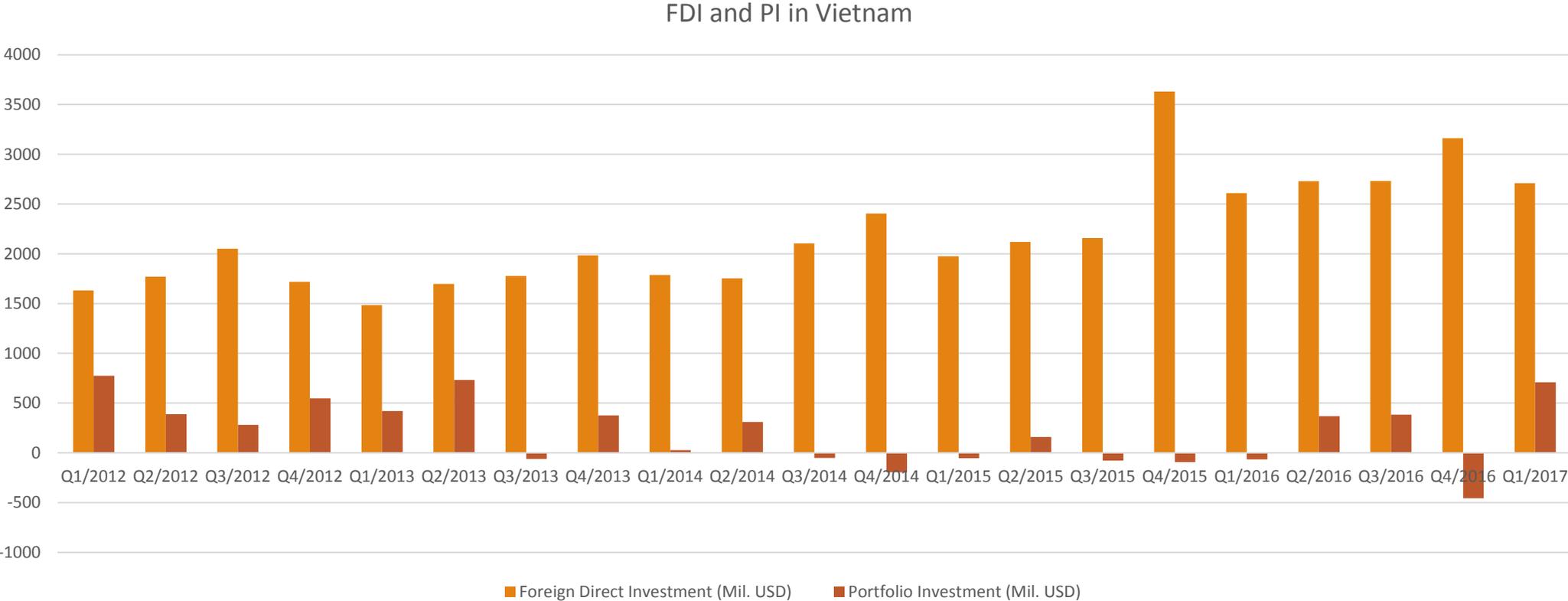
Slowdown after 2008, however capital flows have picked up recently

FDI is the main component of capital

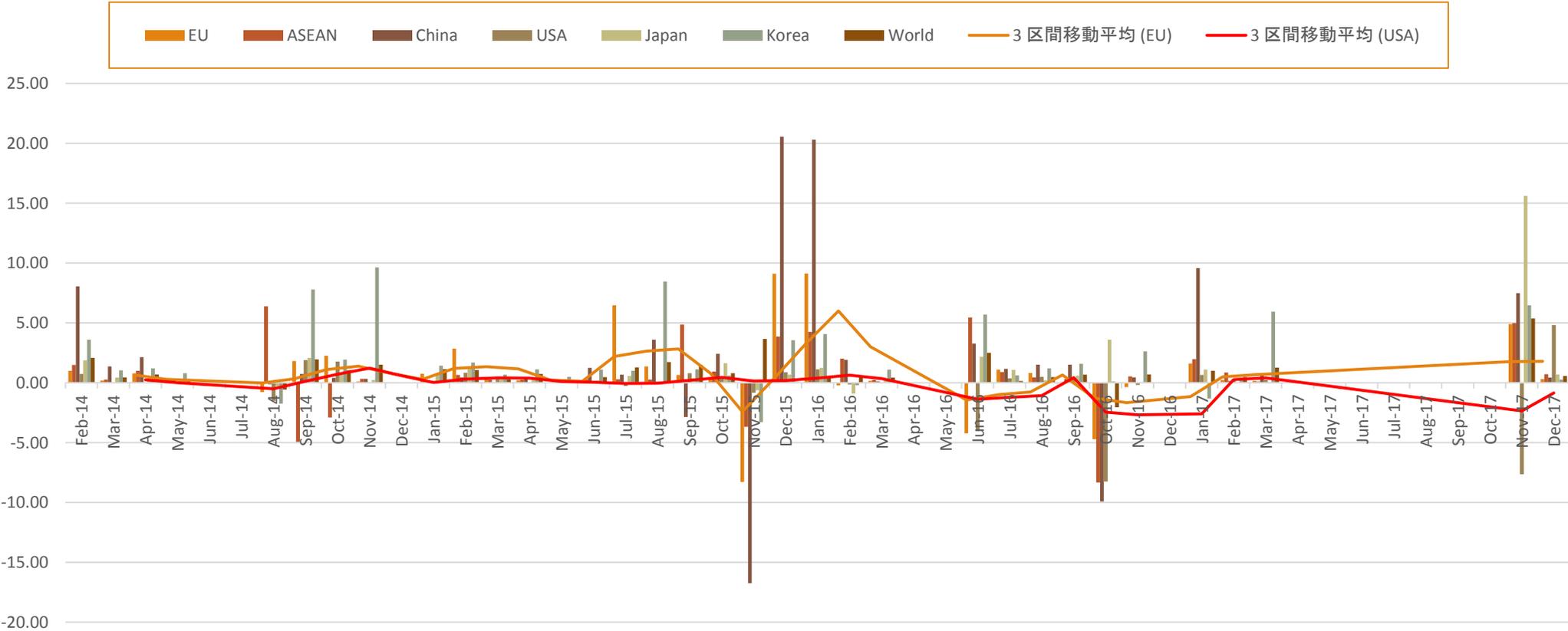
Registered capital trend from 2014 shows a clear decline of capital from USA, but growth remains upward for capital from other area, especially from beginning of 2017

Economic performance, rising equity market are the driving force for this positive upward in capital

# FDI and PI in Vietnam



# FDI to Vietnam (growth rate %)



# Impact of the monetary policy changes in the U.S. and EU to Asian financial markets

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Fed's and EU's normalization policy could encourage the reversal of capital to advanced economies and put pressure on raising domestic interest rates.

Encourage capital to return to the advanced economies

# Prospects of capital flows in Asian economies

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The main drivers for capital flows in Asian economies

IMF 2016b, Powell (2016) Koepke (2015), Ahmed and Zlate (2014)

- Economic Fundamental factor: GDP growth differential
- Risk perception: VIX, Corporate Spread
- Commodity price
- Interest rates differential

Model shows capital flows has positive relationship with the pickup in economic performance, declining in credit spread (bond) and rising in equity price.

In Powell (2016), turnaround in commodity price and improvements in risk sentiments attributes to recent rebound in EME. The recent pick up of capital flows has not outrun its fundamental determinants so there is room for flows to increase.

# Impact of the monetary policy changes in the U.S. and EU to Asian financial markets

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## Asian financial market vulnerabilities

- Financial System Soundness: Appears to be strong and healthy
- Credit development: Potential vulnerability if compared to threshold of 127 (MFSD staff estimation).
- China has the highest Credit/GDP ratio however Chinese corporates are much less exposed to changes in exchange rates and global interest rates. In depth study from Powell (2016) shows the rise in borrowing cost needed to be accompanied by a more generalized adverse turn of 20% earnings reduction and 20% hit to the value of EME currencies against the dollar for debt at risk (debt of those firm with less than 2 ICR) to make the EME debt-at-risk to the level prior to Asian crisis (30% of GDP).

# Impact of the monetary policy changes in the U.S. and EU to Asian financial markets

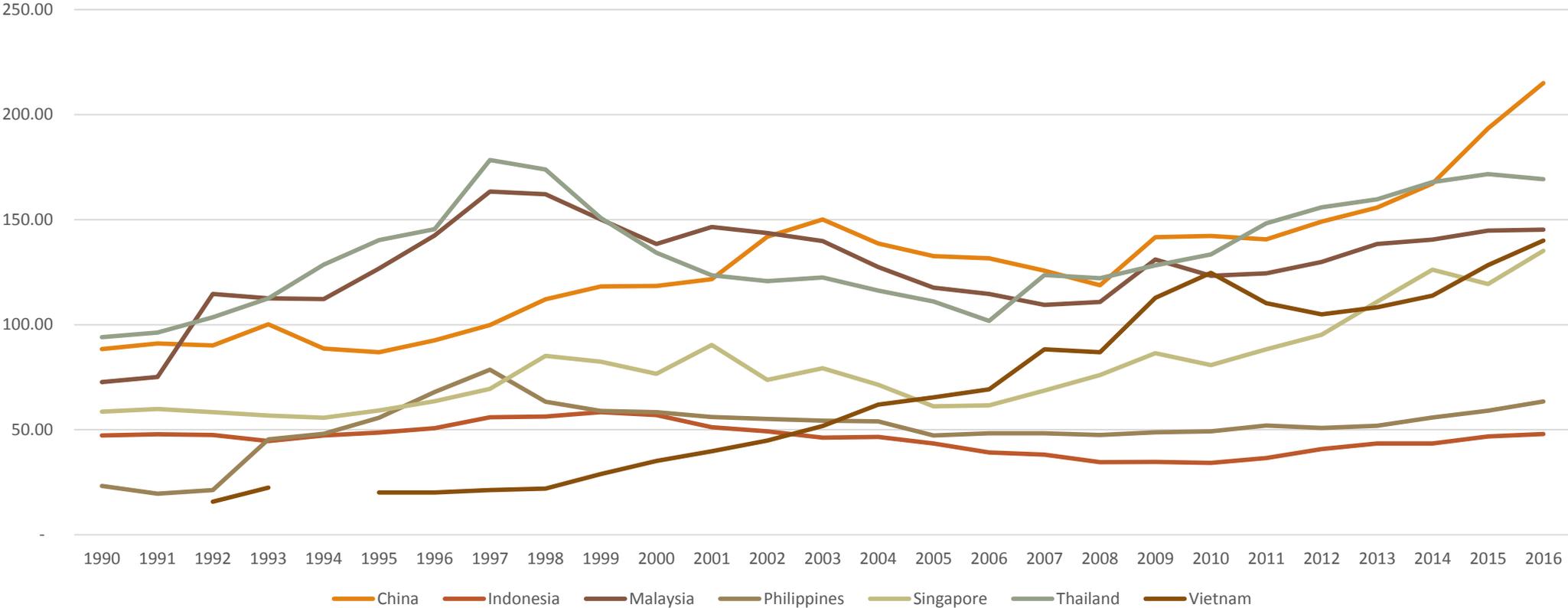
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The normalization of US and EU process has been and should continue to be gradual

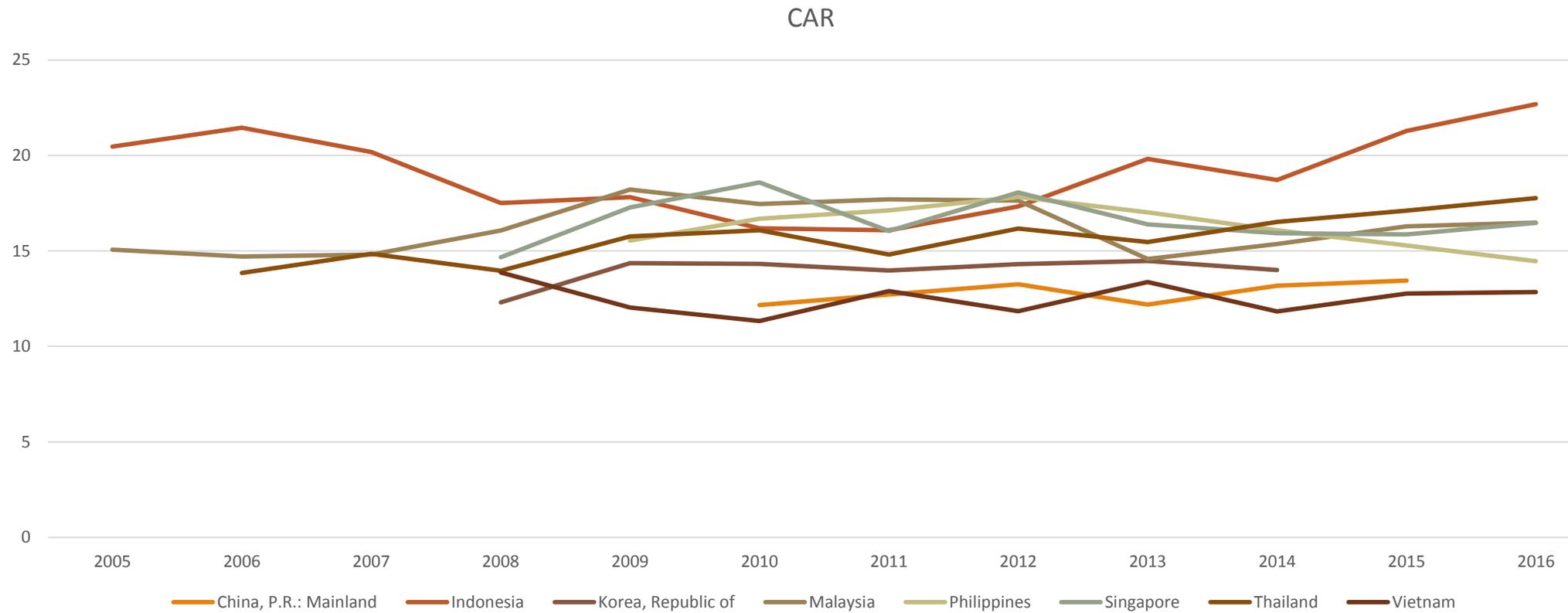
Long run Fed fund rates is expected to still below level before GFC after adjustment

Asian economies should have sufficient time to adjust

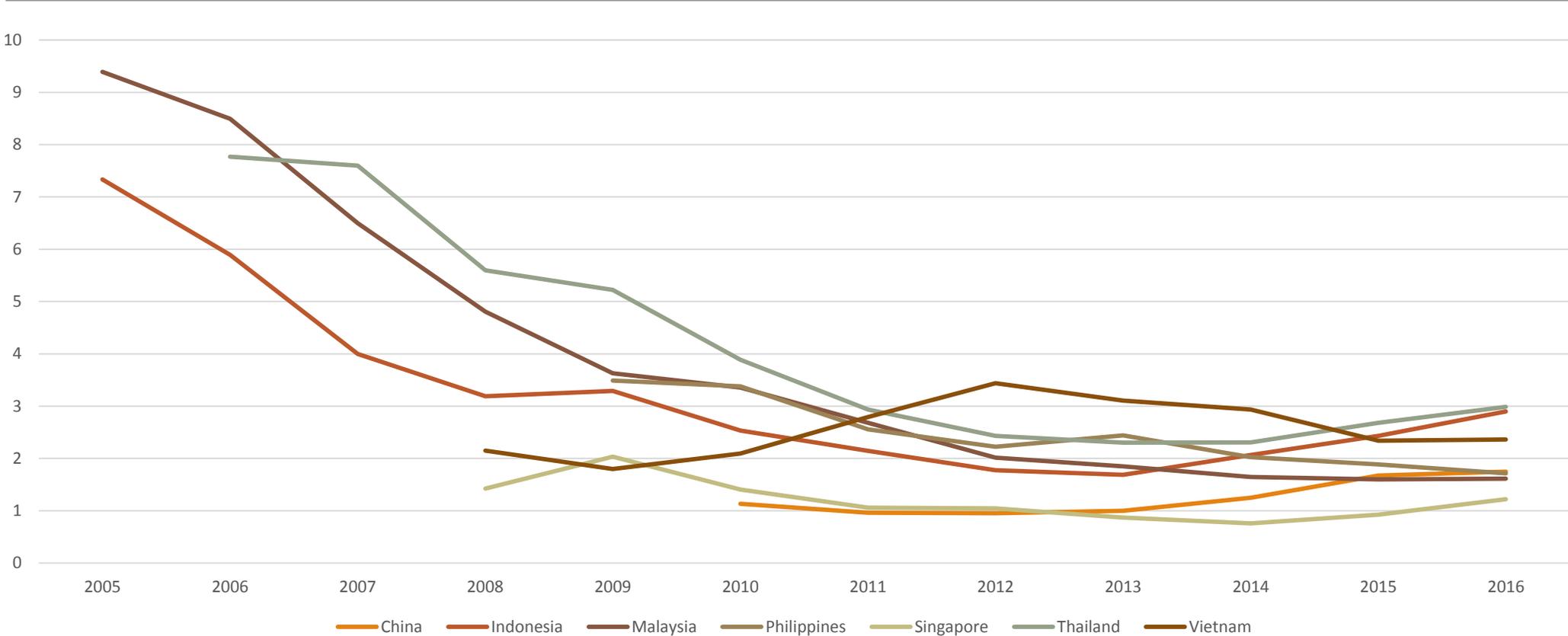
# Domestic credit/GDP



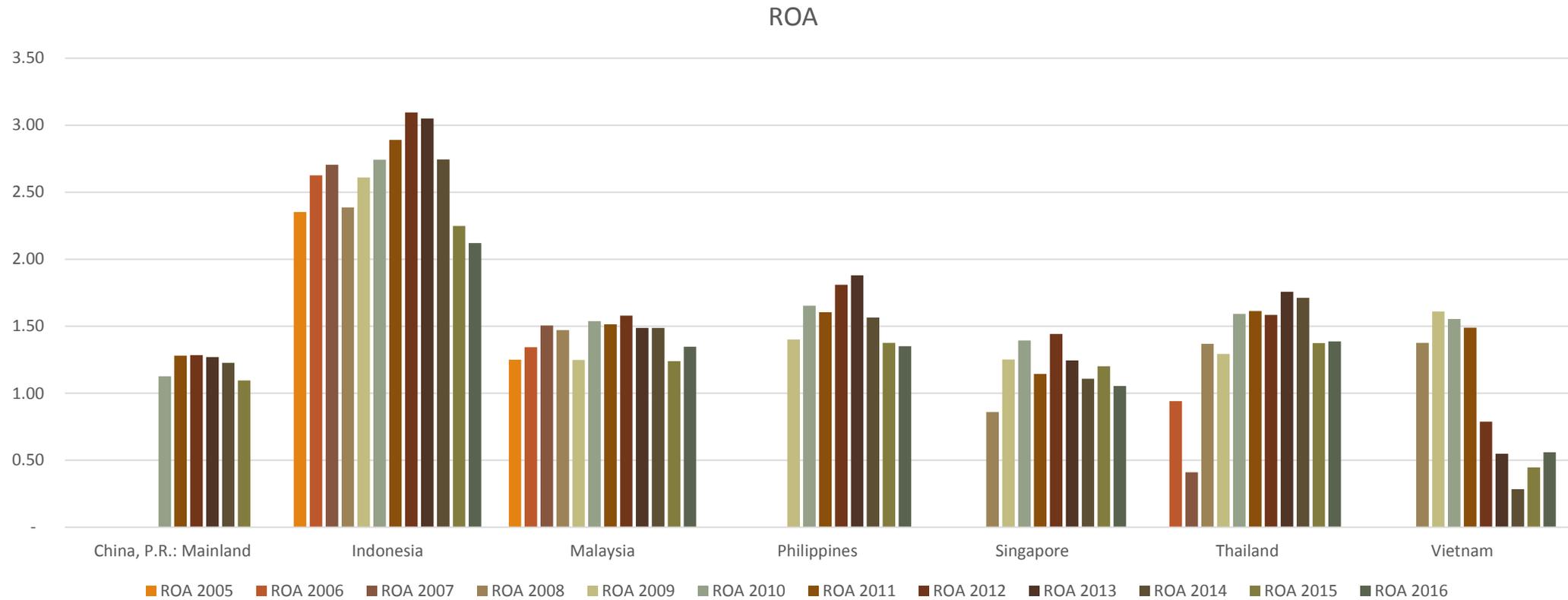
# Capital Adequacy Ratio



# Bank non performing loans/Total gross loans



# ROA (%)



# Impact of changes in US, EU monetary policy to Asian economies is manageable

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Most likely that challenges posed by normalization of advanced economies will be manageable.

Capital flows to Asian economies not likely to exhibit sharp fall as the prospect of Asian economic activity continues to be expected strong growth.

Falling in capital flow should not posed significant threat as Asian financial sector's resilience has strong been improved from Asian financial crisis.