

CAPITAL FLOWS AFTER THE COVID SHOCK

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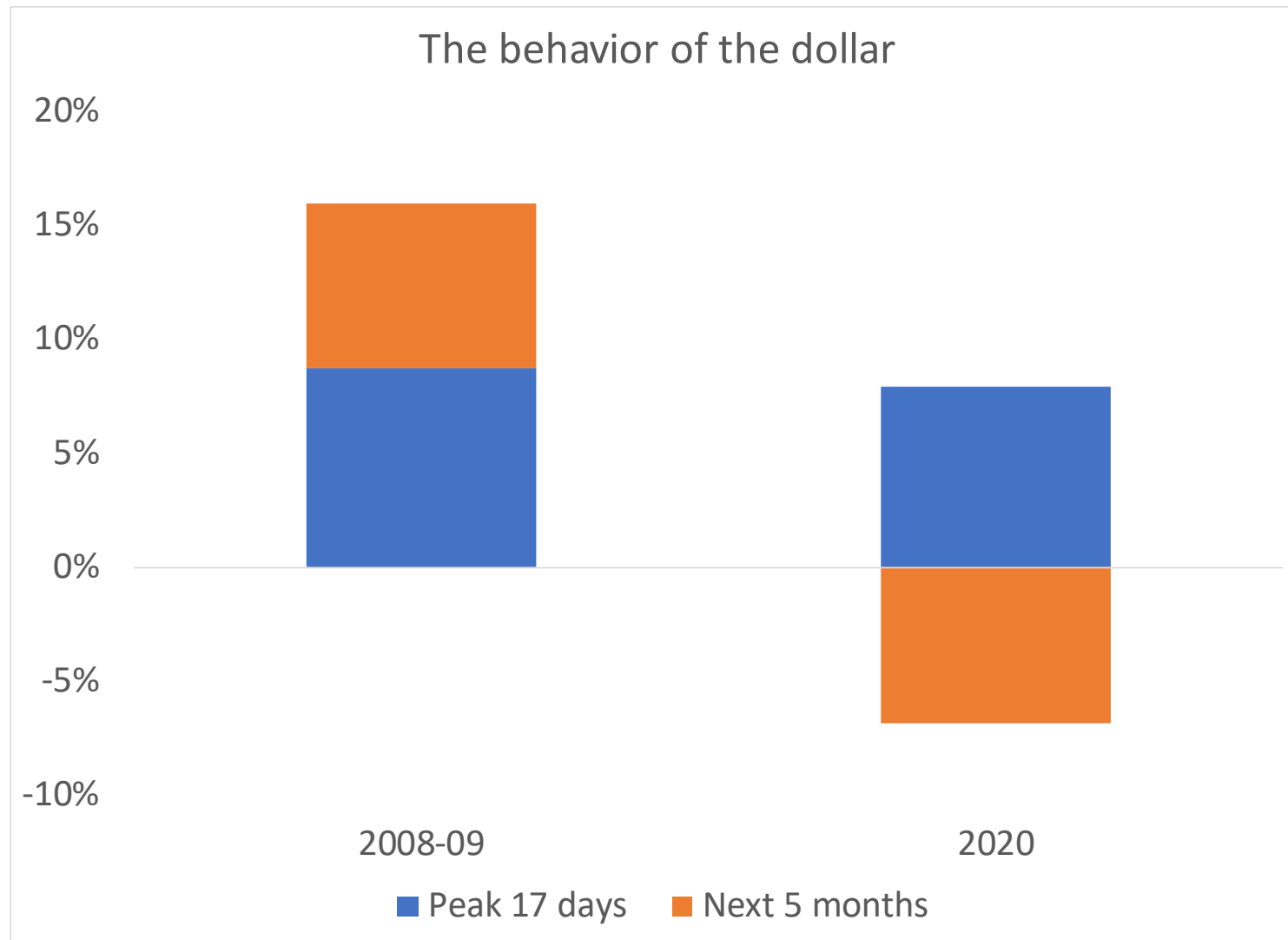
The Red Zone: mid February to late March

- Severe (but short-lived) stress
- Collapse in stock market valuations (-34 percent for MSCI world)
- ...and other market gyrations/disfunctions
- Sharp exchange rate movements
- Sharp reversal of portfolio flows to emerging markets
- Collapse in oil prices
- Massive policy intervention by major Central Banks (and fiscal authorities)

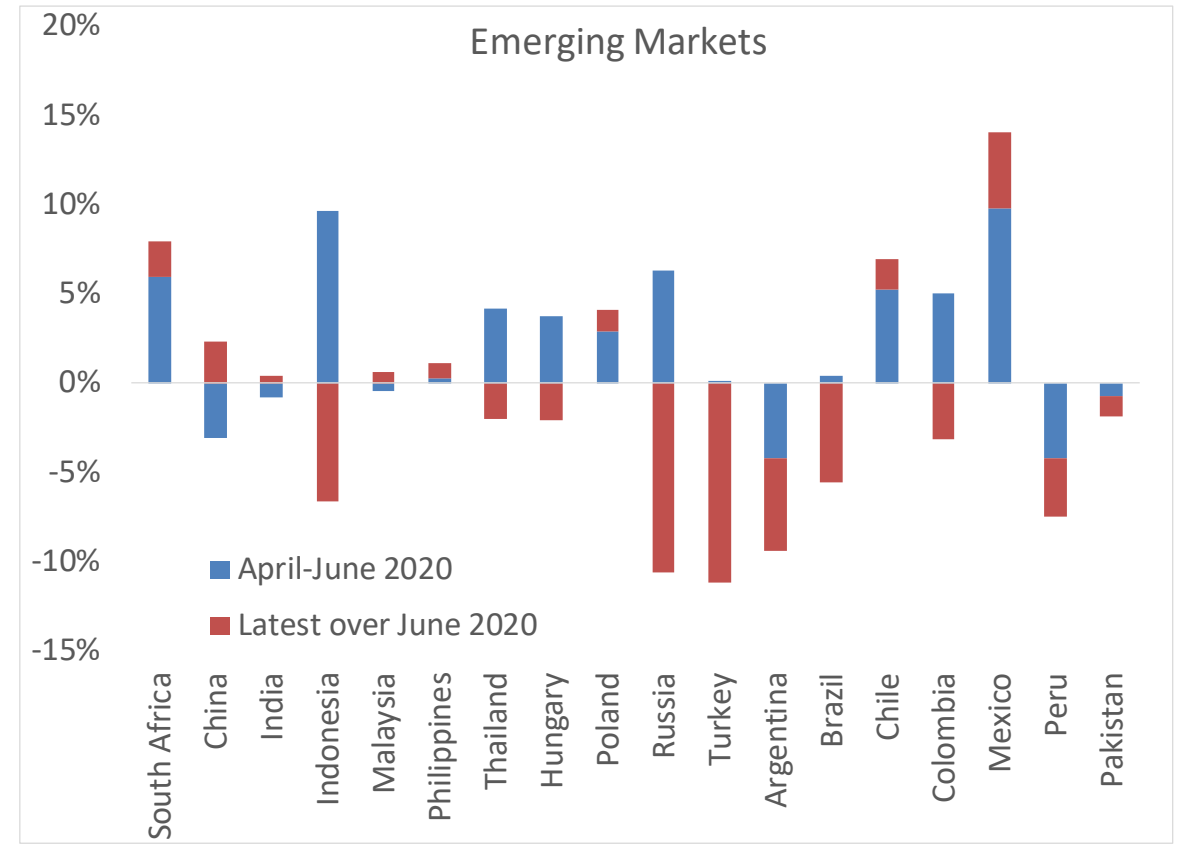
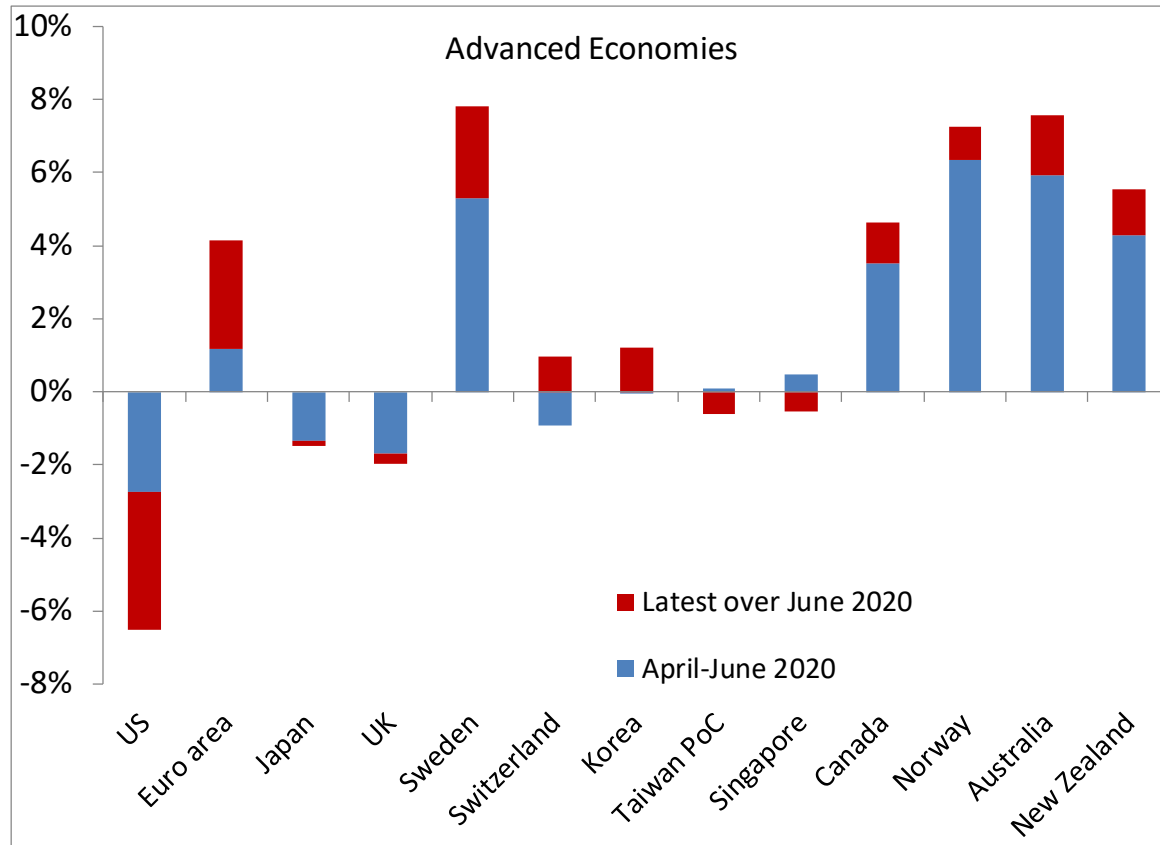
Market rebound, GDP collapse and recovery (April-onwards)

- Recovery in market sentiment, risk appetite
- Rebound in exchange rates for several EMs...
- And stabilization of portfolio flows, but at modest levels
- Substantial issuance April-onwards....
- ...but not for many frontier economies
- More appetite for FX debt than local currency debt
- BOP strains concentrated in more stressed economies
- Later normalization in oil markets, and recovery in metal prices

The dollar and global sentiment: COVID vs GFC

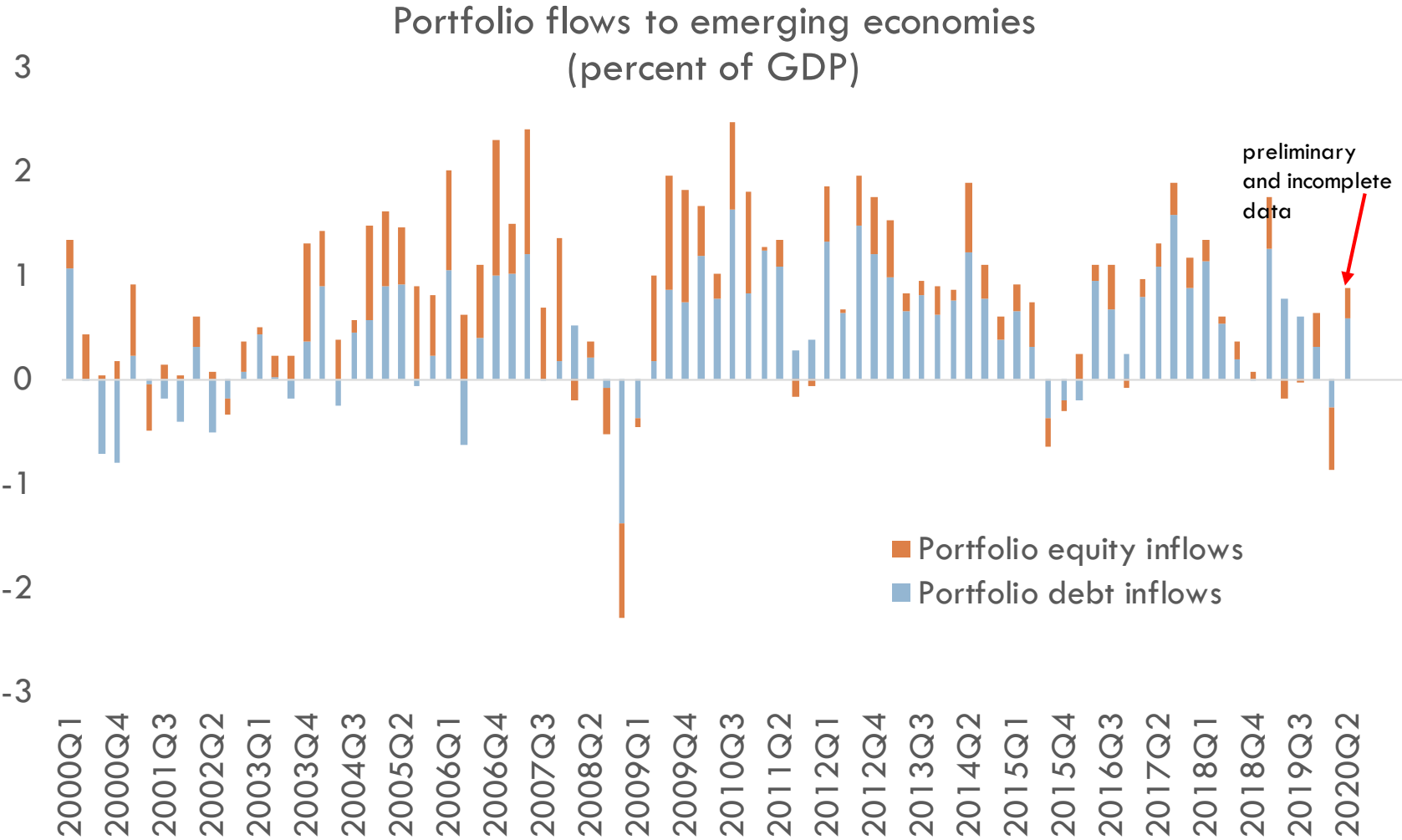


Real exchange rate developments, April-September

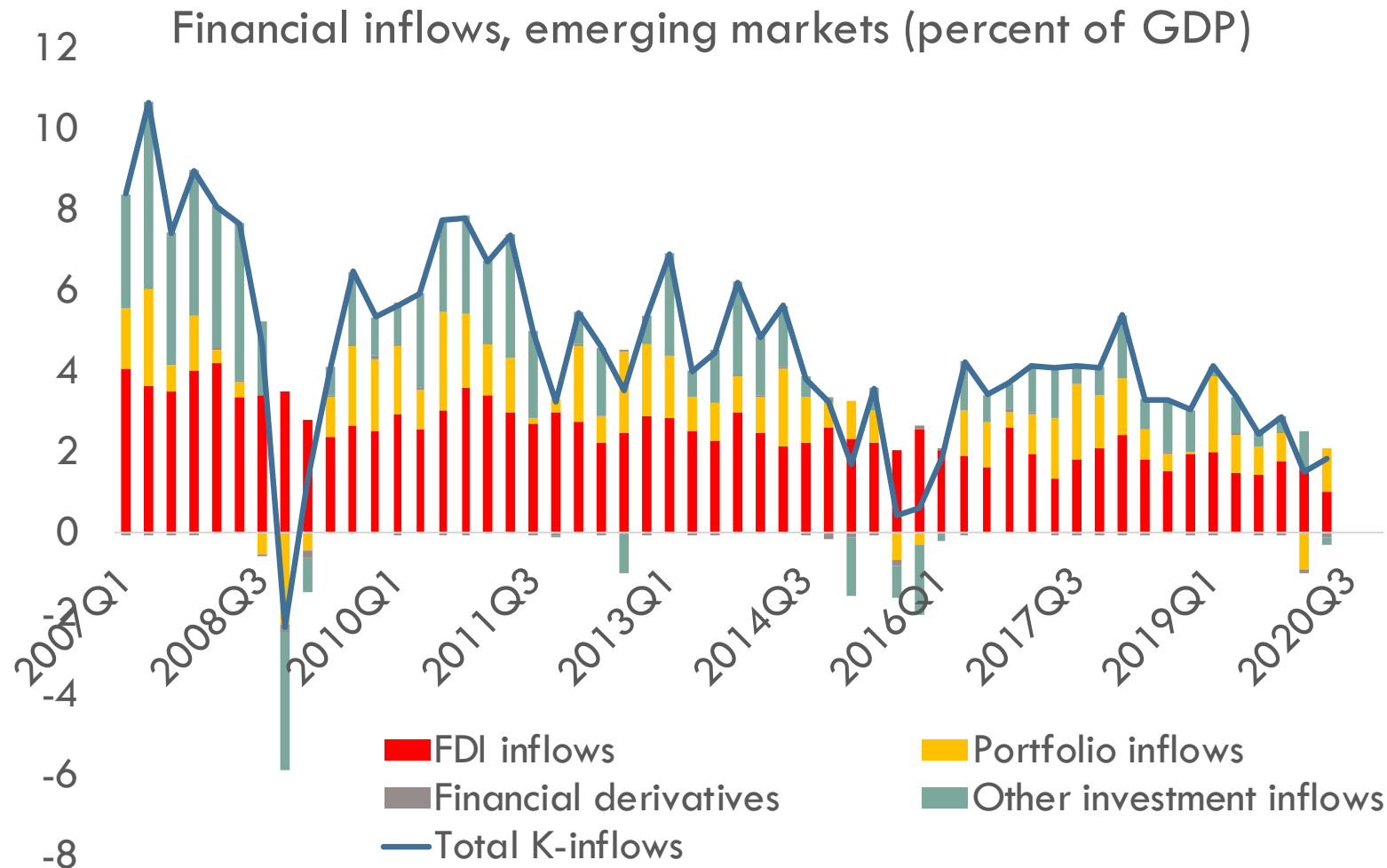


Latest: September 18, 2020

The decline and recovery in portfolio flows



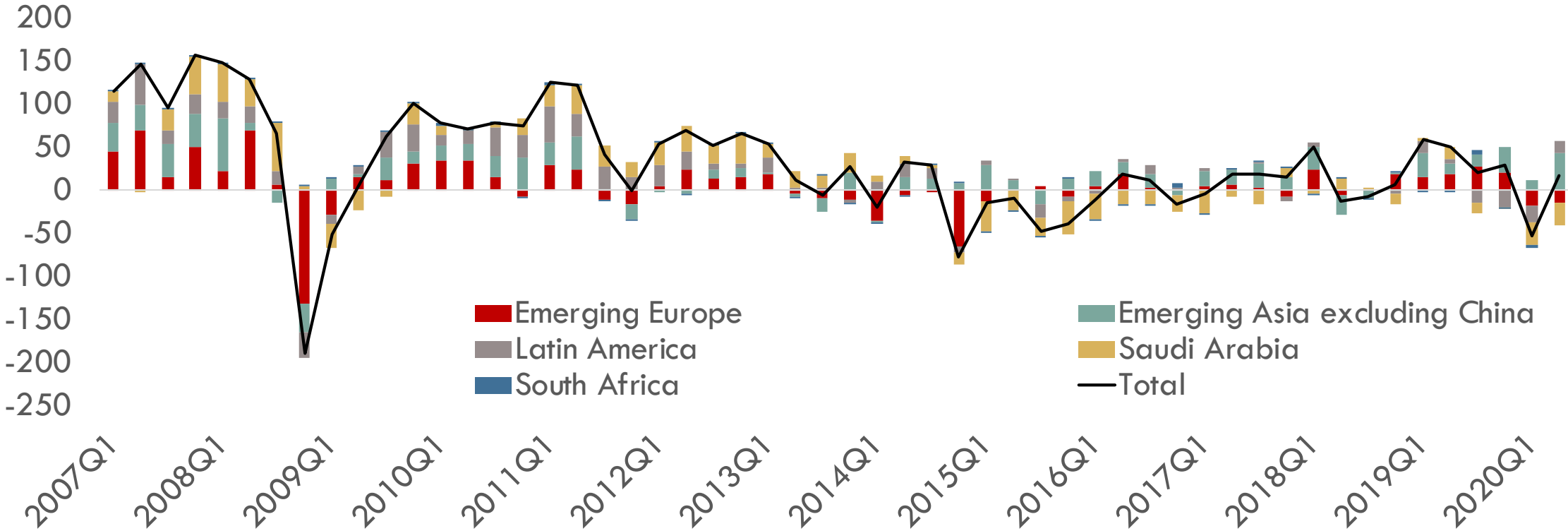
Financial flows to emerging markets: subdued



Latest observation: Q2 2020 (preliminary and incomplete)

Some loss in reserves (pegged exchange rates)

EM: Net Accumulation of Reserves (excluding China)
(billion US\$)



What next?

- Hard to disentangle all factors at play
 - ▣ Large policy interventions (eg asset purchases in EMs)
 - ▣ Many idiosyncratic factors
 - ▣ Data lags

- Differentiation
 - ▣ China vs the rest
 - ▣ Vulnerable vs other EMs
 - ▣ “traditional” EMs vs frontier markets

- Massive uncertainty
 - ▣ Path of the pandemic
 - ▣ Market sentiment
 - ▣ Pace of recovery
 - ▣ Debt restructuring needs