



Responses to big BoP inflows in Asia

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Bank for International Settlements

ICRIER/InWEnt/DIE Conference

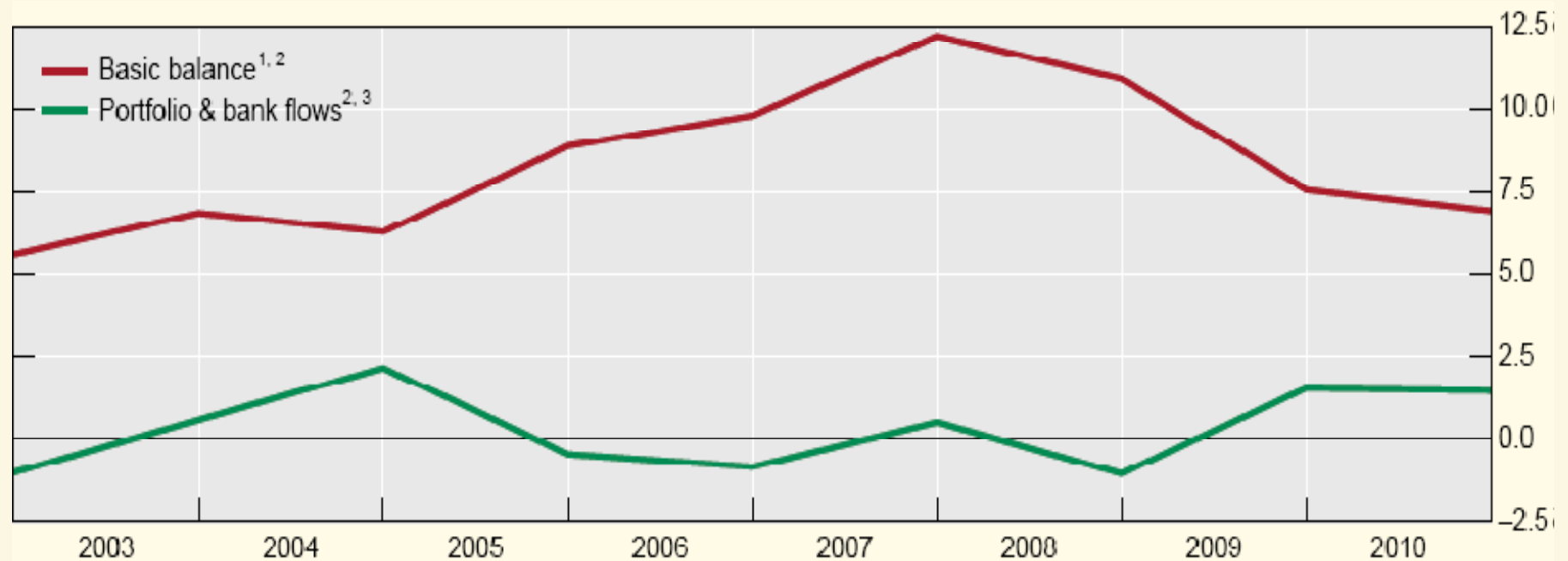
Policies for Growth and Financial Stability beyond the crisis

Mumbai, India

27-28 October 2010



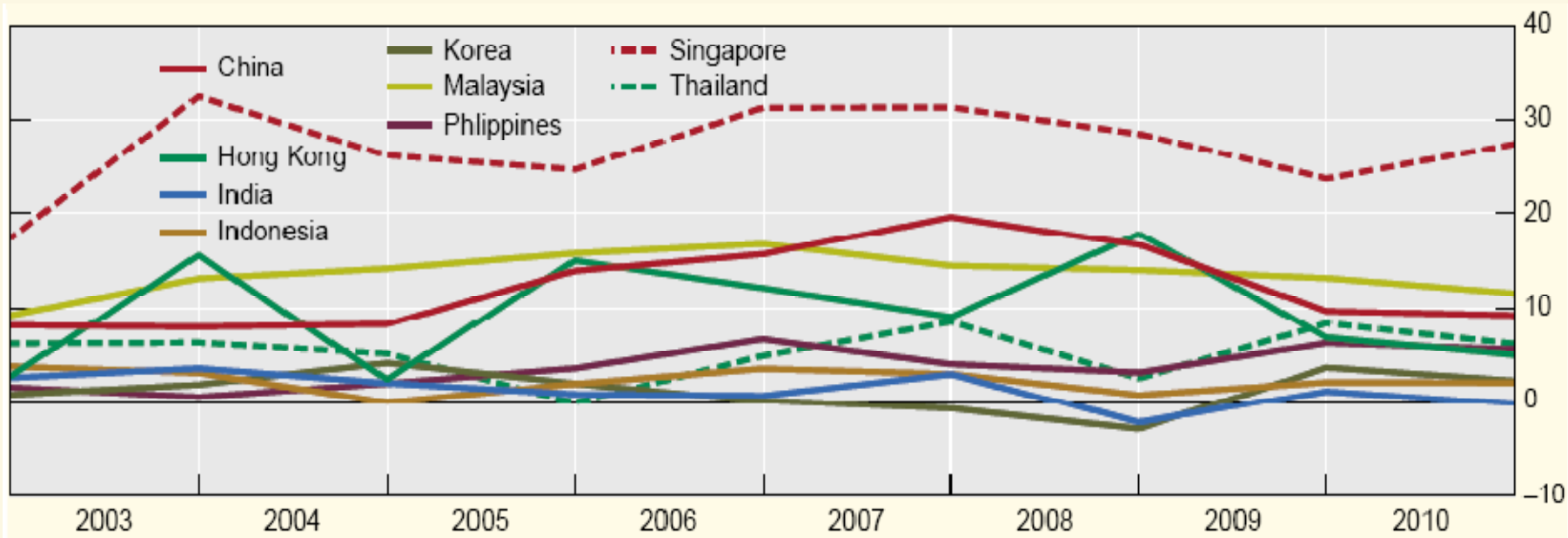
The basic balance dominates in Asia (% of GDP)



1 Aggregate of of China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand. 2 2010 is proxied by data from Q3 2009 to Q2 2010. 3 Sum of capital account balance, net portfolio investment, net financial derivatives, net other investment, net errors and omissions

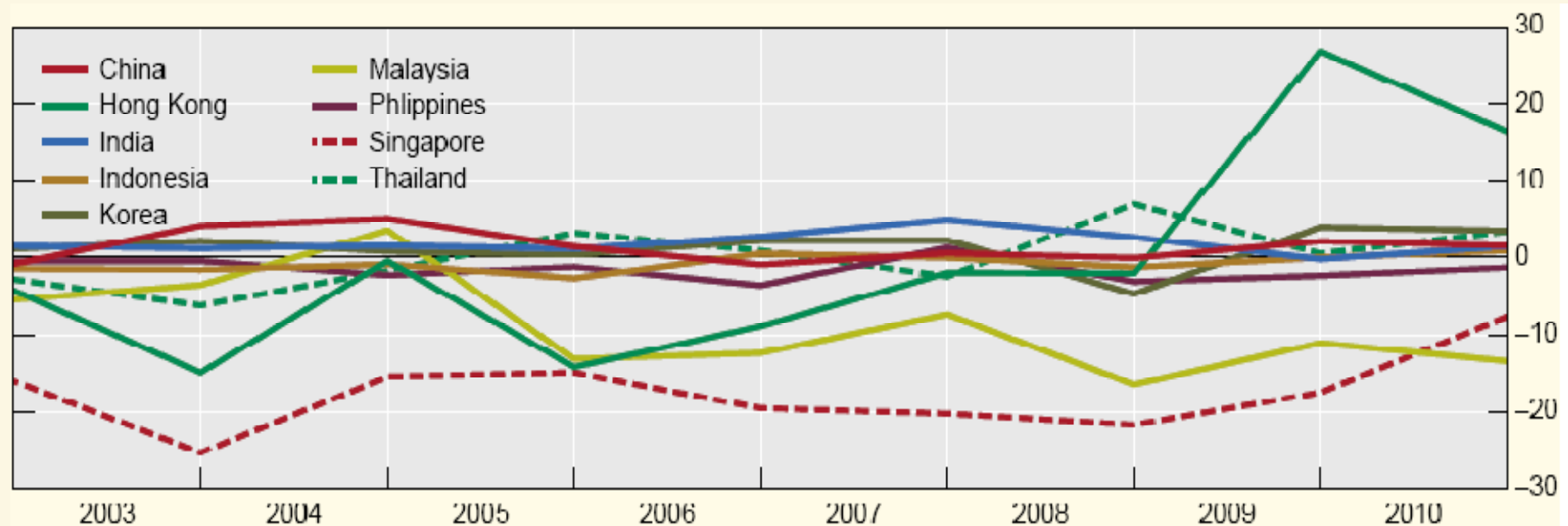


Basic balance is more stable but varies across markets (% of GDP)





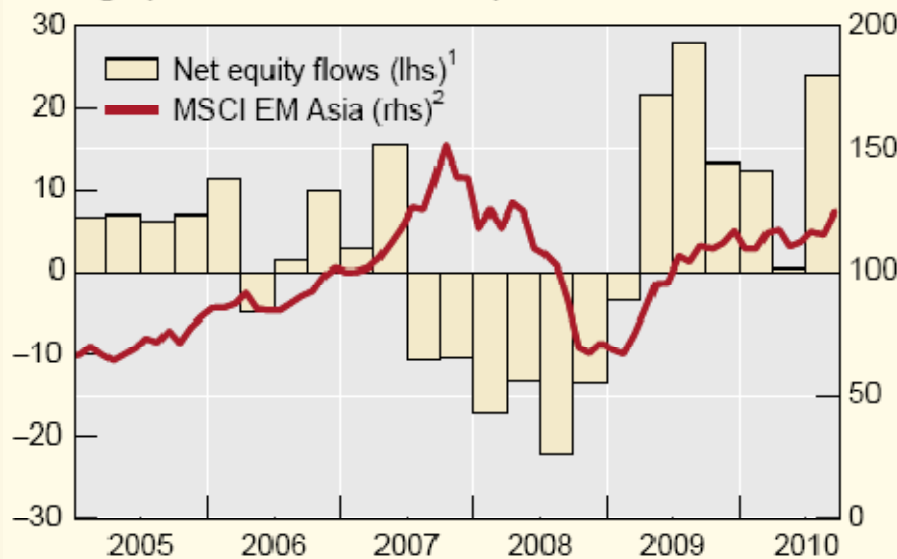
Portfolio and bank balances mostly rise (% of GDP)



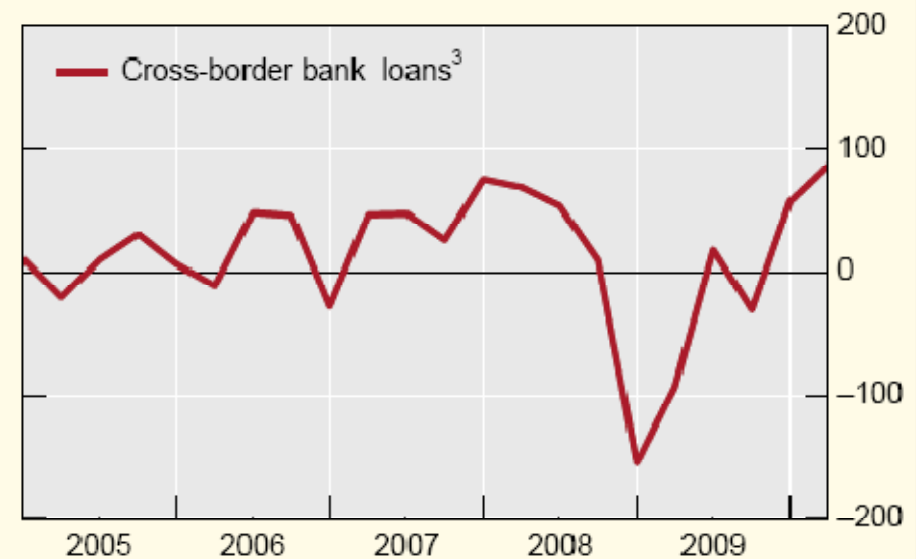


Portfolio and bank flows to Emerging Asia (In billions of US dollars)

Foreign purchases of Asian equities



Cross-border bank loans



1 Quarterly sum of net purchases by non-residents listed in Chinese Taipei, India, Indonesia, Korea, the Philippines and Thailand. 2 MSCI Emerging Asia Index; Jan 2007 = 100. 3 BIS reporting banks' cross-border claims (including inter-office claims) in all currencies on residents of China, India, Indonesia, Korea, Malaysia, Philippines and Thailand.



Real effective exchange rates of EMs

(Jan 1994 – Aug 2010 = 100, monthly)

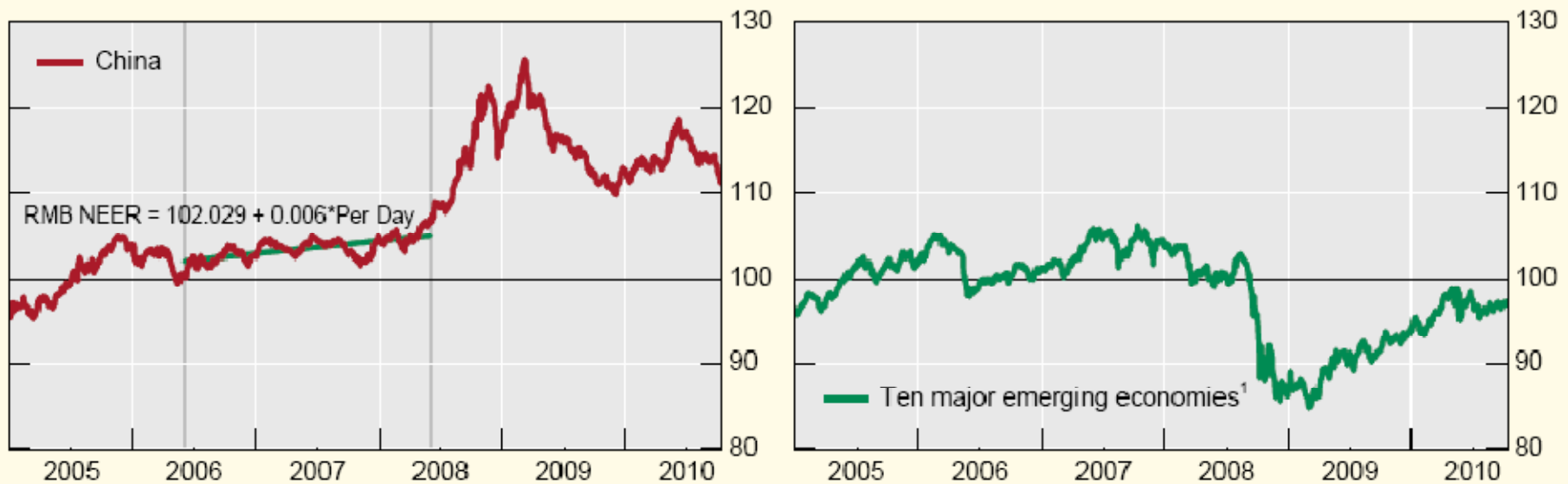


1 Weighted average based on 2005 GDP and PPP exchange rates of ten major emerging markets (Argentina, Brazil, Chile, India, Indonesia, Korea, Malaysia, Mexico, Thailand and Turkey).



Nominal effective exchange rates of EMs

(Jan 2005 – Oct 2010 = 100, daily)

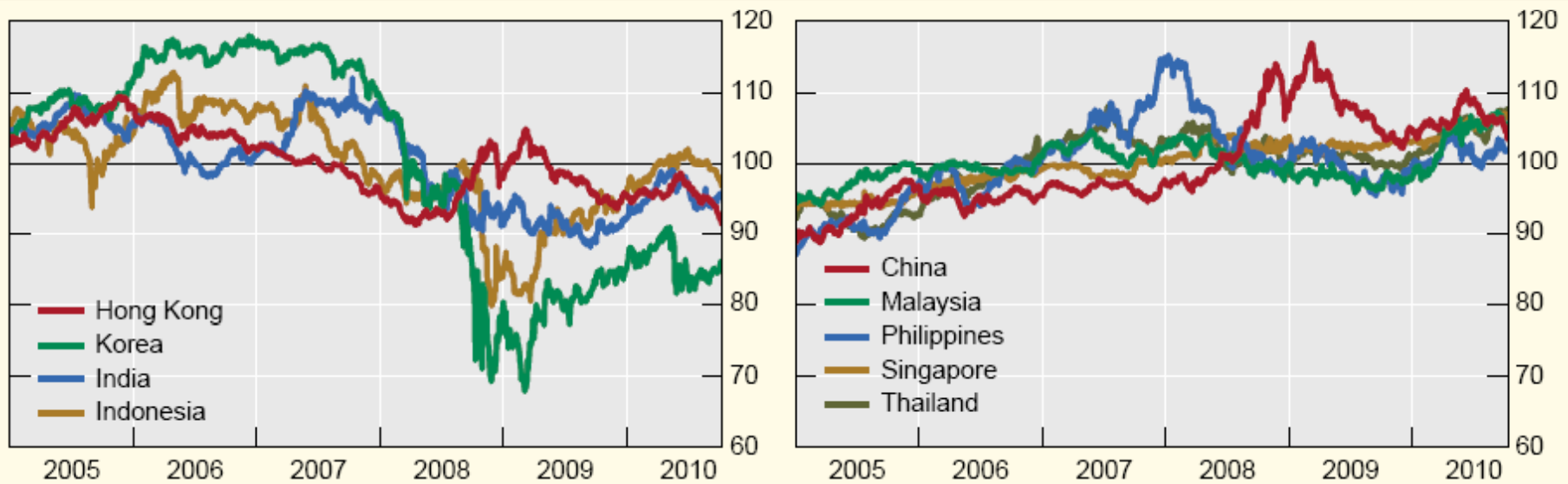


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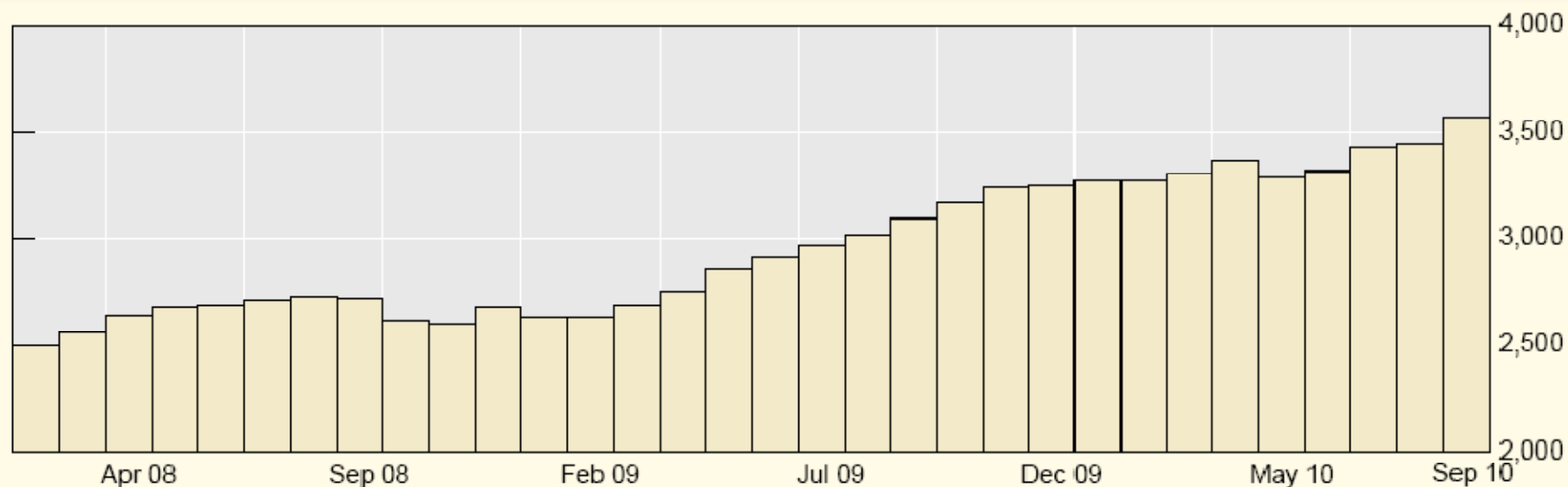
Nominal effective rates of emerging Asia

(Jan 2005 – Oct 2010 = 100, daily)





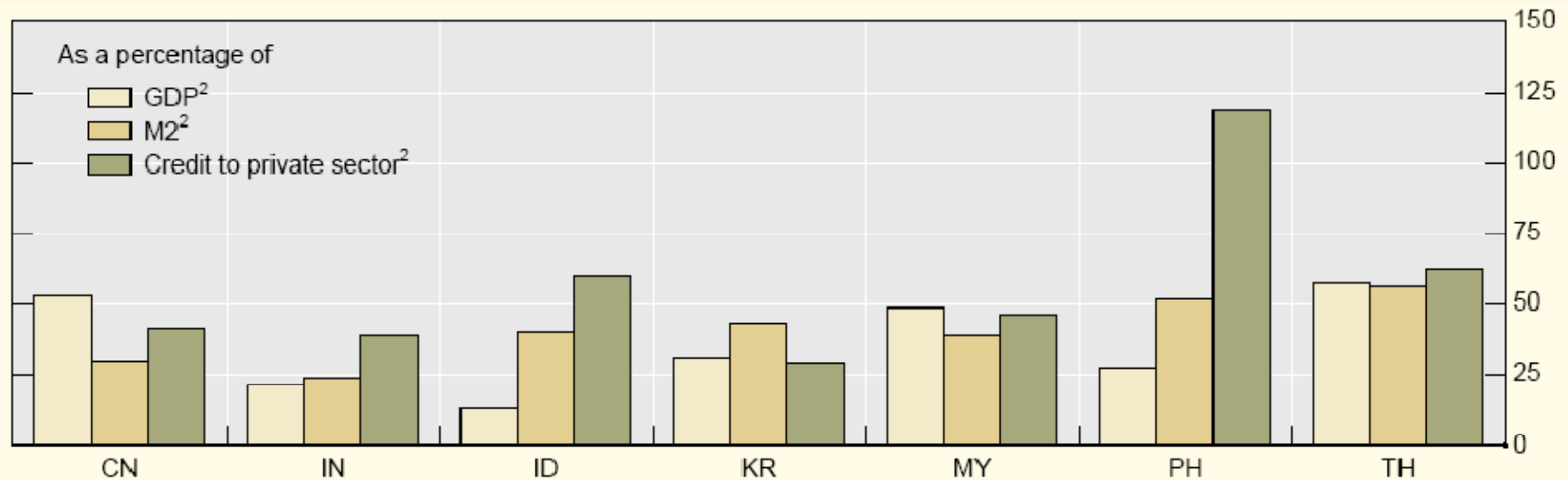
Foreign exchange reserves in emerging Asia (In billions of US dollars)



1 Foreign currency reserves excluding gold, SDRs, reserve positions in the IMF and net forward positions; aggregate of China, India, Indonesia, Korea, Malaysia, Philippines and Thailand. For India, observation of Sep 2010 is proxied by that of Aug 2010.



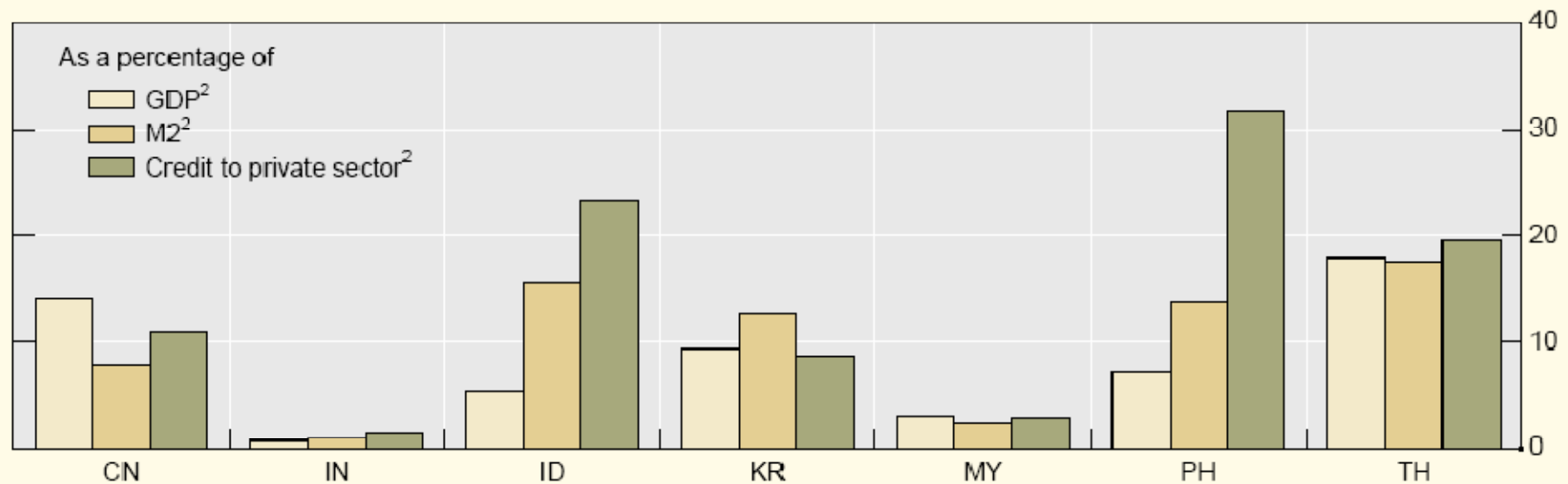
Foreign exchange reserves in emerging Asia (Latest)



1 Foreign currency reserves excluding gold, SDRs, reserve positions in the IMF and net forward positions; in billions of US dollars; as of Aug 2010 for India and Sep 2010 for Others. 2 As of end 2009; for M2 of Philippines, as of Feb 2008.



Changes of FX reserves in emerging Asia (from end 2008 to latest)



1 Foreign currency reserves excluding gold, SDRs, reserve positions in the IMF and net forward positions; in billions of US dollars; as of Aug 2010 for India and Sep 2010 for Others. 2 As of end 2009; for M2 of Philippines, as of Feb 2008.



A few observations

- Four policy responses to higher BoP inflows
 1. Currency appreciation
 2. FX interventions
 3. Tighter prudential regulations
 4. Capital controls
- Bank and portfolio flows secondary...
- ...but they are often sudden and pro-cyclical
 - Risk sharing or options on emerging markets?