SEACEN CAPITAL FLOWS MONITOR 2026

April 2026

The South East Asian Central Banks (SEACEN)
Research and Training Centre

The SEACEN Centre

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The SEACEN Capital Flows Monitor April 2026 should not be reported as representing the views of SEACEN member central banks/monetary authorities. The views expressed in this report are those of The SEACEN Centre and do not necessarily represent those of its member central banks/monetary authorities.

Notes:

The SEACEN Centre recognises "China" as the People's Republic of China," "Hong Kong, China" as the Hong Kong SAR, China, and "Korea" as the Republic of Korea.

USD or US$ refers to the U.S. dollar.

IMF and national source data were accessed through the CEIC Database and Haver Analytics. The data cut-off is 13 March 2026.

Asian economies include the nineteen economies of the SEACEN member central banks and monetary authorities with available data. It includes Brunei Darussalam; Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Myanmar; Nepal; Papua New Guinea; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand and Vietnam. This report also discusses subregional groupings. Asian Advanced Economies include Hong Kong, China, Korea, Singapore, and Chinese Taipei. ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Asian Emerging and Developing Market Economies (EDMEs) include Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Myanmar, Nepal, Papua New Guinea, and Sri Lanka, whenever data are available.

This report has been reviewed and approved by Dr. Cyn-Young Park (Executive Director). Dr. Donghyun Park (Director of Macroeconomic and Monetary Policy Division—MMPM) edited and reviewed the report and authored Section 3 of the monitor. Dr. Rogelio Mercado (Senior Economist, MMPM) authored Sections 1 to 2 and supervised the production of the report. Mr. Ahmad Aizudeen provided research assistance. Ms. YunYee Seow edited the draft sections, and Mr. Aizul Fazli Zulkifli of Swift Cursor Studio designed, typeset, and layout the report.

CONTENTS

ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BoP	Balance of Payments
BPM6	Balance of Payments Manual 6
IMF	International Monetary Fund
IIF	Institute of International Finance
IIP	International Investment Position
SEACEN	South East Asian Central Banks Research and Training Centre

CONCEPTS

Net IIP or NFA	Net International Investment Position or Net Foreign Assets are computed as total foreign (international) investment assets minus total foreign (international) investment liabilities.
Resident capital flows	Net purchases of foreign assets by residents are commonly referred to as "gross capital outflows." The data refers to the Financial Account Assets in the Balance of Payments Financial Account Balance.
Nonresident capital flows	Net purchases of domestic assets by nonresidents are commonly referred to as "gross capital inflows." The data refers to the Financial Account Liabilities in the Balance of Payments Financial Account Balance.
Net resident capital flows	Computed as resident capital flows minus nonresident capital flows. Positive values may suggest that domestic residents are purchasing more foreign assets than nonresidents purchasing domestic assets.

FOREWORD

It is with great pleasure that we introduce the latest edition of the SEACEN Capital Flows Monitor. This edition offers a thorough analysis of recent trends in capital flows, giving clear insights for policymakers, practitioners, and researchers. This reference will be crucial for understanding cross-border financial transactions and investments during uncertain times, helping to manage risks and seize opportunities.

The SEACEN Expert Group (SEG) on Capital Flows, comprising nineteen member central banks and monetary authorities in the Asia and the Pacific region, recognises the importance of managing capital flow volatility. Our aim is to provide policymakers with the critical insights necessary to understand the complexities of capital movements, thereby empowering them to develop policies that facilitate robust risk management within financial systems and ensure financial stability.

The report is structured into three key sections. The first section reviews recent global and regional trends that impact capital flows in Asia. The second section analyses the latest composition, patterns, and trends of capital flows and international investment positions of SEACEN member economies. The third section is an analytical segment that focuses on a specific policy-relevant topic related to capital flows and international investment positions.

In this edition, the analytical section examines the determinants of gross capital inflows, namely, portfolio debt, portfolio equity, cross-border loans, and foreign direct investment (FDI), to 36 emerging market economies (EMEs) over the period 1990–2024, with a focus on the interplay between global conditions and domestic fundamentals. This section demonstrates that, in the current post-quantitative easing period, both U.S. monetary policy and trade policy uncertainty exert significant influence on portfolio flows. Geopolitical risk emerges as the primary global factor affecting cross-border loans and foreign direct investment. The evidence further validates the stabilising impact of domestic fundamentals—specifically trade openness, GDP growth, and financial development—in mitigating the negative consequences of global shocks. These results underscore the importance of robust macroeconomic policies, prudential regulations, and capital flow management frameworks for enhancing macro-financial stability in emerging market economies.

We hope this report serves as a helpful guide for SEACEN member institutions in understanding the complex aspects of capital flows and what they mean for monetary and financial policies. The analysis and evidence presented in this edition comes from the combined expertise of our contributors and stakeholders.

Thank you for your continued engagement with The SEACEN Centre as we work to further strengthen our support for member institutions in navigating the challenges of capital flows amid a rapidly evolving geoeconomic landscape.

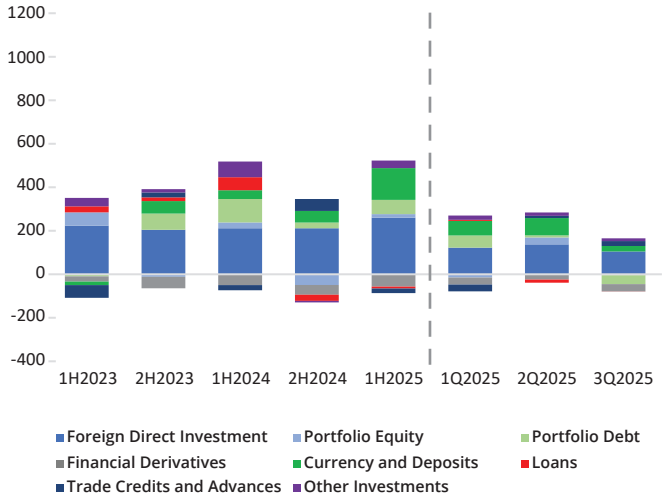
Cyn-Young Park
Executive Director
The SEACEN Centre

April 2026

SEACEN Capital Flows Monitor April 2026: Highlights

- *Financial markets have experienced significant volatility since the start of the Middle East conflict, wiping out gains from the start of the year.*
- *Moving forward, the region's economic growth is expected to remain steady in 2026, albeit lower than in 2025, while inflation is projected to increase.*
- *Risks to the region's economic outlook in 2026 are tilted on the downside due to the economic impact of the Middle East conflict, traces of trade tensions and a potential spike in regional food prices.*
- *Asian economies, as a whole, reported sustained recovery in cross-border resident and nonresident capital flows in the first nine months of 2025. However, the aggregate values mask the impact of trade policy uncertainty following the announcement of U.S. reciprocal tariffs in 2Q2025.*
- *The region's aggregate net foreign asset position remained positive, although some economies remained net borrowers as of end-September 2025.*
- *The analytical section finds that during the current post-QE period, U.S. monetary policy and trade policy uncertainty significantly affect portfolio flows, while geopolitical risk is the dominant global driver of cross-border loans and FDI.*
- *The evidence also re-confirms the stabilising role of domestic fundamentals, particularly trade openness, output growth, and financial development, in mitigating the adverse effects of global shocks.*
- *These findings underscore the importance of comprehensive macroeconomic, prudential, and capital flow management frameworks to safeguard macro-financial stability in EMEs amid heightened global uncertainty.*

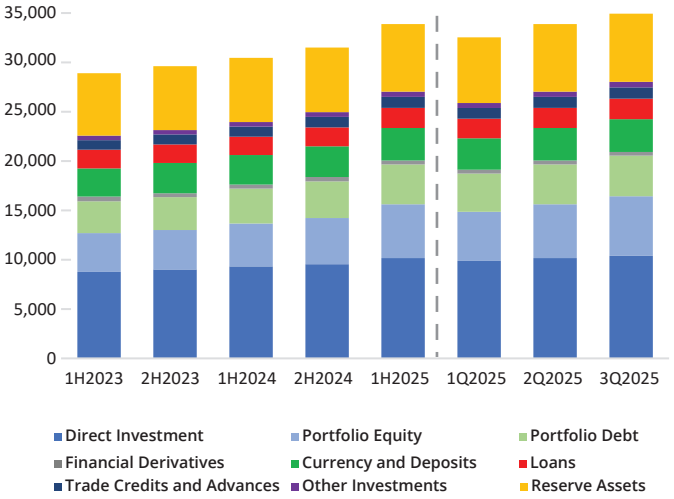
Figure H.1: Nonresident Capital Flows, Asia, by category *(US$ billion)*



Note: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Nepal; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand; and Vietnam. Other investments include other payables, other equity, insurance and pension, and SDRs liabilities.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded March 2026).

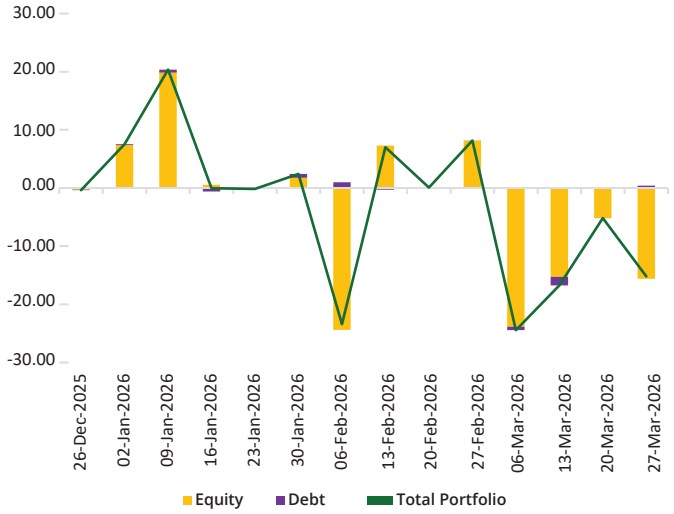
Figure H.2: International Investment Assets, by category (*US$ billion)*



Note: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Malaysia; Mongolia; Nepal; Philippines; Singapore; Chinese Taipei; and Thailand. Other investments include other receivables; other equity; and insurance and pension.

Source: SEACEN staff calculations using data from IMF's International Investment Position accessed through CEIC Database (downloaded March 2026).

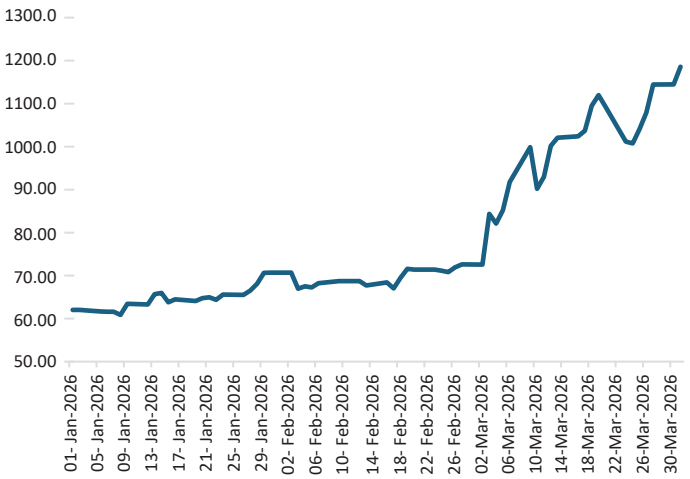
Figure H.3: Weekly Nonresident Portfolio Flows,
Selected Asian Economies *(US$ billion)*



Note: The sample for nonresident portfolio equity flows includes China, India, Indonesia, Korea, Philippines, Sri Lanka, Chinese Taipei, Thailand, and Vietnam. The sample for nonresident portfolio debt flows includes India, Indonesia, and Thailand. The total portfolio includes equity and debt plus the aggregate data for Malaysia.

Source: SEACEN staff calculation using data from the Institute for International Finance.

Figure H.4: Brent Crude Oil Price
(in US$)



Source: SEACEN staff calculation using data from Haver Analytics (downloaded April 2026).

SECTION I: RECENT GLOBAL AND REGIONAL ECONOMIC AND FINANCIAL TRENDS AND DEVELOPMENTS

This section reviews the global and regional economic and financial trends that impacted capital flows to Asia in the first three months of 2026. It highlights several key developments:

- *Financial markets have experienced significant volatility since the start of the Middle East conflict, wiping out gains from the start of the year.*
- *Moving forward, the region's economic growth is expected to remain steady in 2026, albeit lower than in 2025, while inflation is projected to increase.*
- *Risks to the region's economic outlook in 2026 are tilted on the downside due to the economic impact of the Middle East conflict, traces of trade tensions and a potential spike in regional food prices.*

Economic growth in Asia slowed in 2025 as trade and geopolitical uncertainties weighed down on trade, investment, and domestic demand. Economic growth in the region remained steady in the full year 2025, as it grew by 5.0% year-on-year. However, this is slightly lower than the 5.2% growth rate posted in full-year 2024 **(Figure 1.1).**[1] India's economy grew strongly in 2025, expanding by 6.6% year-on-year. The sustained growth was supported by robust domestic demand, along with broad-based growth across agriculture, manufacturing and service sectors. Meanwhile, China's economy posted 4.8% year-on-year growth, slightly lower than the 5.0% reported the previous year due to continued drag in the property sector and deflationary pressures. China's quarterly economic growth slowed visibly in the third and fourth quarters of 2025, expanding by less than 5.00% year-on-year. Meanwhile, the economic growth of Asia Advanced Economies (Hong Kong, China; Korea; Singapore; and Chinese Taipei) and ASEAN5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) slowed significantly due to trade and geopolitical uncertainties. Asia Advanced Economies and ASEAN5 grew by 2.01% and 4.68% year-on-year, respectively, down from 3.18% and 5.03% in 2024 **(Figure 1.2).**

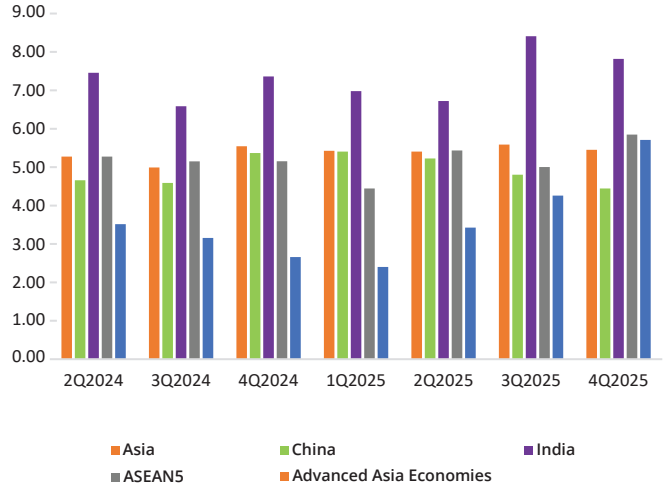
An optimistic start to 2026 has been overshadowed by conflict in the Middle East, which began at the end of February 2026 and now threatens to undermine economic growth momentum through higher fuel prices. The conflict has triggered an economic shock, characterised by a sudden surge of Brent Crude prices close to $120 per barrel. This massive energy deficit poses a challenge for central banks in the region and elsewhere, as they may need to pivot to a hawkish stance to anchor inflation expectations amid soaring fuel and electricity costs. Financial markets have experienced significant volatility in recent weeks, with energy-intensive sectors like aviation and manufacturing facing higher surcharges. Beyond energy, the conflict and the disruption of critical maritime chokepoints threatens global supply chains, leaving import-dependent nations in Asia and Europe facing the dual threat of rising costs and slowing industrial output.

Financial markets have experienced significant volatility since the start of the Middle East conflict, wiping out gains since the start of the year. Equity markets in the region ended mostly in positive territory in the first two months of 2026. Benchmark stock price indices for Korea, Thailand, and Chinese Taipei rose by more than 10% from January to the end of February 2026, with Korea gaining almost 20% year-to-date **(Figure 1.3).** The surge in Korea's and Chinese Taipei's stock prices was driven by high-technology and semiconductor exports and expenditure, while the increase in Thailand's benchmark stock price index was caused by a recovery in the tourism sector and easing inflationary pressures. Similarly, the benchmark stock price indices of the Philippines, China, and Singapore rose by 1.1% to 4.5% year-to-date basis. Regional currencies also appreciated in the first two months of the year **(Figure 1.4).** The Malaysian ringgit, Philippine peso, and Indian rupee appreciated by around 1.0% to 3.0% against the U.S. dollar due to commodity exports, remittance growth, and consumption led expansion, respectively, whereas the Korean won, NT dollar, Thai baht and Vietnamese dong strengthened by 0.1% to 0.5% versus the U.S. dollar from the start of January to the end of February 2026. The Chinese renminbi and Singapore dollar increased by 1.0%.

The risk premiums of selected Asian economies, measured by year-to-date changes in sovereign credit

1. Aggregate GDP growth rates and inflation were computed using GDP at Purchasing Power Parity (PPP) in U.S. dollars sourced from the IMF's World Economic Outlook Database (October 2025) as weights.

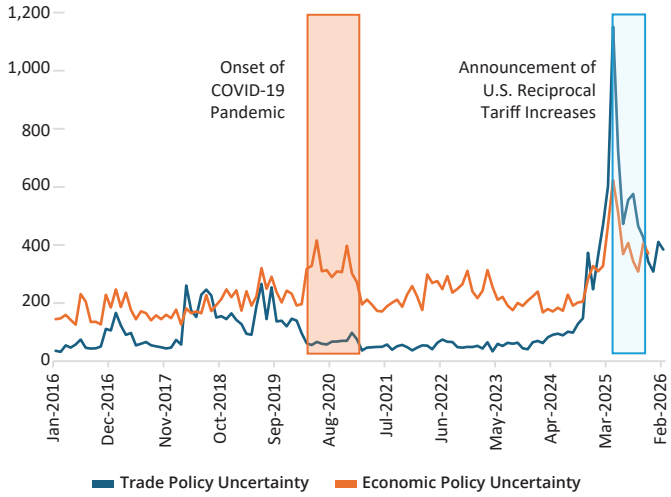
Figure 1.1: Quarterly GDP Growth,
Selected Asian Economies *(% change, year-on-year)*



Note: Regional growth rates are weighted averages of individual growth rates, using GDP in PPP as weights. Asia Economies include China, India, Mongolia, ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam), and Advanced Asian Economies (Hong Kong, China; Korea; Singapore; and Chinese Taipei).

Source: SEACEN staff calculations using data from national sources accessed through the CEIC Database.

Figure 1.2: Economic and Trade Policy Uncertainty Indices



Note: Economic policy uncertainty index refers to global uncertainty. Trade policy uncertainty computed following Caldara, Iacoviello, Molligo, Prestipino and Raffo (online). Higher values mean higher uncertainty.

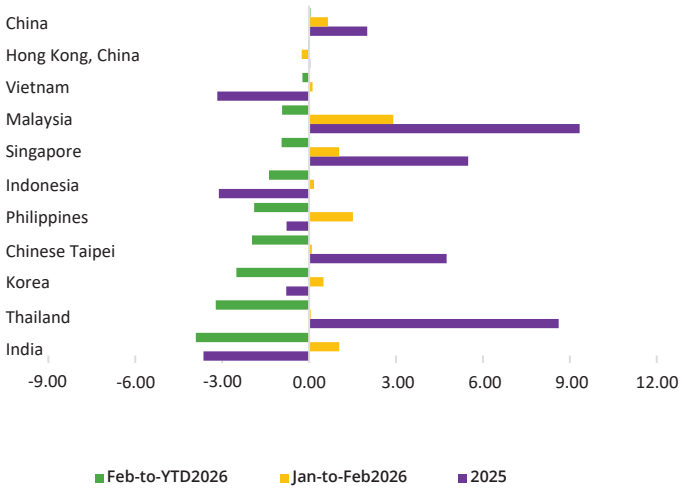
Source: Economic Policy Uncertainty (https://www.policyuncertainty.com/trade_cimpr.html).

Figure 1.3: Changes in Benchmark Stock Price Indices,
Selected Asian Economies *(% change, year-on-year)*

Note: Period-to-date values are computed as the difference between the first and last data points within the period.

Source: SEACEN staff calculations using data accessed through the CEIC Database.

Figure 1.4: Exchange Rate Changes,
Selected Asian Economies *(% change, year-on-year)*



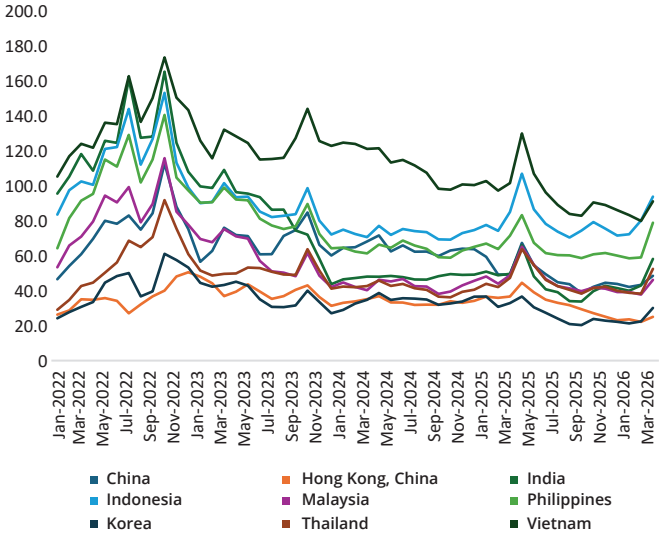
Note: Period-to-date values are computed as the difference between the first and last data points within the period. Positive changes refer to an appreciation of the local currency versus the U.S. dollar, and negative changes refer to depreciation.

Source: SEACEN staff calculations using data accessed through the CEIC Database.

default swap (CDS) spreads, continued to narrow in the first two months of 2026 by a simple average of 0.2 basis points (bps) **(Figure 1.5).** This follows a narrowing of risk premiums by a simple average of about 10.6 bps the previous year, despite slight widening of risk premiums following the announcement of higher U.S. reciprocal tariffs in April 2025. Sovereign bond yields of China; Hong Kong, China; Singapore; Thailand; and the Philippines dropped by less than 1.0% in January to February period, while that of India; Indonesia; Korea; Malaysia; Chinese Taipei and Vietnam, increased by less than 1.0% in the same period **(Figure 1.6).**

Consequently, nonresident portfolio debt flows for selected economies in the region reported cumulative inflows of around US$1.4 billion in the first two months of 2026, a turnaround from nonresident

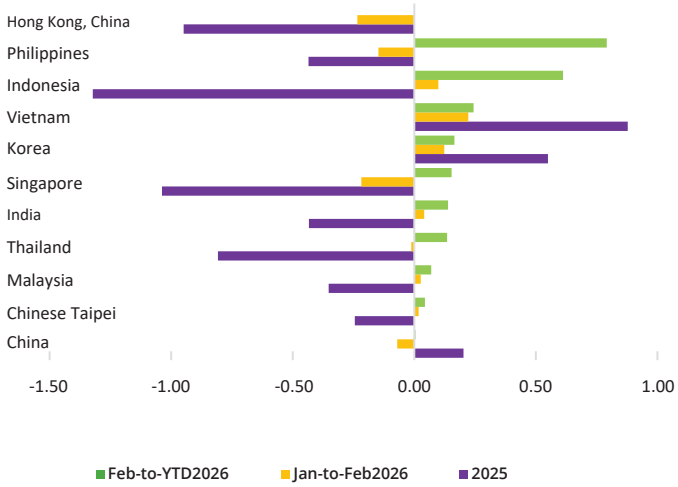
Figure 1.5: 5-Year Sovereign Credit Default Swap, Selected Asian Economies, *(basis points)*



Note: 5-Year USD Credit Default Swap par mid-rate in basis points.

Source: CMA Datavision and Haver Analytics downloaded from Haver Analytics.

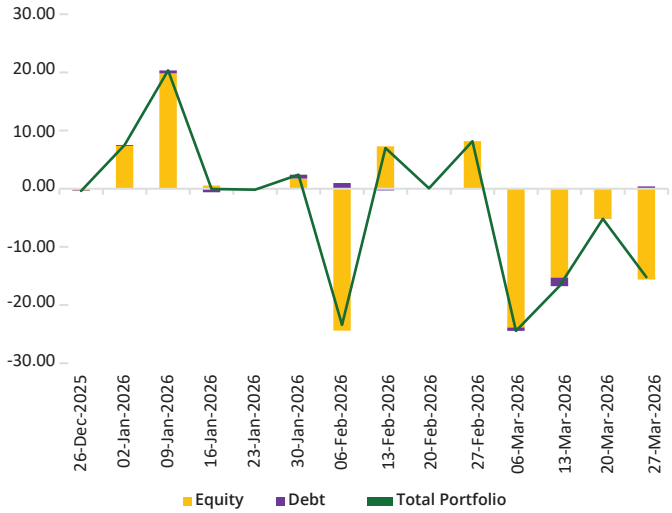
Figure 1.6: Changes in Sovereign Bond Yields, Selected Asian Economies *(% change, year-on-year)*



Note: Period-to-date values are computed as the difference between the first and last data points within the period.

Source: SEACEN staff calculations using data accessed from Haver Analytics.

Figure 1.7: Weekly Nonresident Portfolio Flows, Selected Asian Economies *(US$ billion)*



Note: The sample for nonresident portfolio equity flows includes China, India, Indonesia, Korea, Philippines, Sri Lanka, Chinese Taipei, Thailand, and Vietnam. The sample for nonresident portfolio debt flows includes India, Indonesia, and Thailand. The total portfolio includes equity and debt plus the aggregate data for Malaysia.

Source: SEACEN staff calculation using data from the Institute for International Finance.

portfolio debt outflows of around US$0.12 billion in the last two months of the previous year **(Figure 1.7).**[2] During the same period, nonresident portfolio equity flows to selected Asian economies registered a cumulative inflow of around US$20.6 billion, a significant turnaround from the cumulative portfolio equity outflow of around US$36.8 billion reported in the last two months of 2025.

The start of the Middle East conflict, which began 28th February 2026, wiped out the financial gains from the first two months of the year in the region and elsewhere. Benchmark stock price indices in the region landed in negative territories from end-February to end-March 2026 **(Figure 1.3).** Regional currencies also depreciated from end-February to end-March 2026, most notably India and Thailand

2. Weekly nonresident portfolio debt and equity flows data were sourced from the Institute for International Finance. For portfolio equity flows, the sample includes China, India, Indonesia, Korea, the Philippines, Sri Lanka, Chinese Taipei, Thailand, and Vietnam. The sample for portfolio debt flows include India, Indonesia, and Thailand.

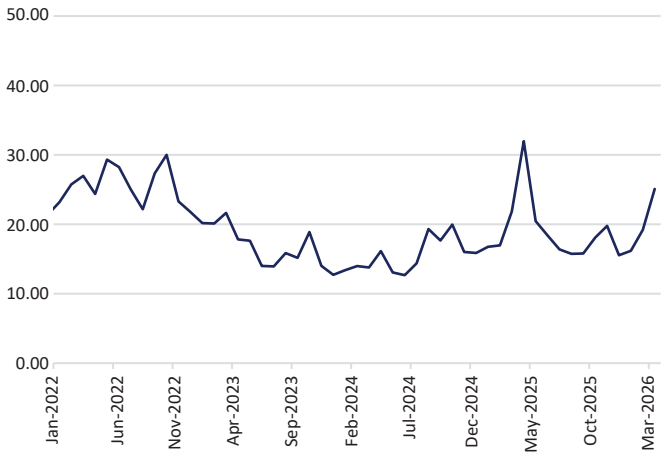
(Figure 1.4). The risk premiums widened from February to March by a simple average of 10.9 basis points (bps), suggesting rising credit risk due to fears of high inflation and economic slowdown **(Figure 1.5).** Sovereign bond yields of most Asian economies dropped by less than 1.0% in February to March period, which could reflect safe-haven buying due to geopolitical risk and uncertainty **(Figure 1.6).** The movement in key financial indicators reflects nonresident portfolio flows reversals. Foreign portfolio equity flows for selected Asian economies reported a reversal of around US$59.9 billion from end-February to end-March 2026, while foreign portfolio debt flows registered a reversal of around US$1.7 billion. Although the above-mentioned data are only for selected economies in Asia, they reflect the overall trend of portfolio flows to broader emerging markets.

The index for global investor risk aversion spiked in March 2026, while Asia's financial stress indices showed upward tick in the same period. The Chicago Board of Exchange Volatility Index (VIX) reported upward spike in March 2026 as the index breached the level 20, indicating an increase global investor risk aversion **(Figure 1.8).** In addition, Asia's financial market stress indices showed a visible uptick in March 2026, suggesting a notable degree of financial distress **(Figure 1.9).** In particular, financial stress indices for ASEAN4 and India reached the index level of 2.5. Taken together, these two measures indicate that there were visible signs of global investor risk aversion and financial market distress in the region during the first month of the Middle East conflict in March 2026.

As inflationary pressures remained benign in the first two months of 2026, Asia's policymakers have room to undertake policy actions should the oil price shock further stoke inflationary pressures in the broader economy and/or inflation expectations become unanchored. Inflation continued to ease across most Asian economies in the first two months of 2026, with some economies having inflation rates below target or forecast rates. However, some economies reported slight upward inflation trend in the first two months of 2026, compared to the previous year, most notably China which battled with deflationary pressures in 2025 **(Figure 1.10a and 1.10b).** Most central banks in the region kept policy rates on hold in the first two months of 2026 **(Figure 1.11a and 1.11b).** The Philippines, and Thailand lowered their policy rates in mid-February to support economic growth in the face of cooling domestic demand and low inflation during the first two months of the year. Elsewhere, the U.S. Federal Reserve (Fed) and the European Central Bank (ECB) kept policy rates on hold.

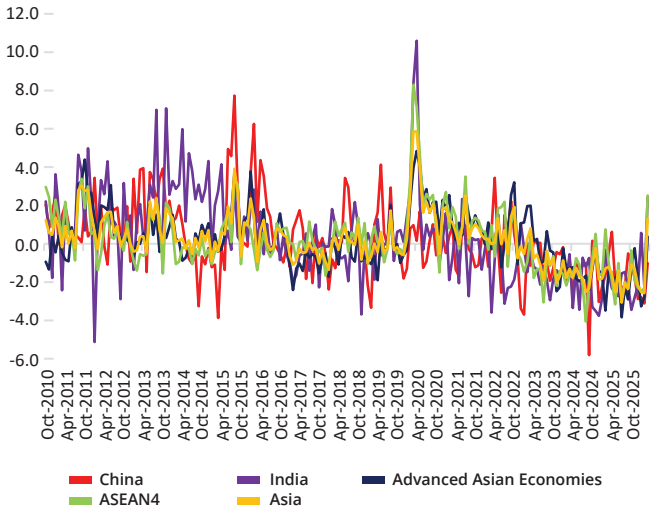
Moving forward, the region's economic growth

Figure 1.8: Volatility Index (VIX)



Source: Chicago Board of Exchange.

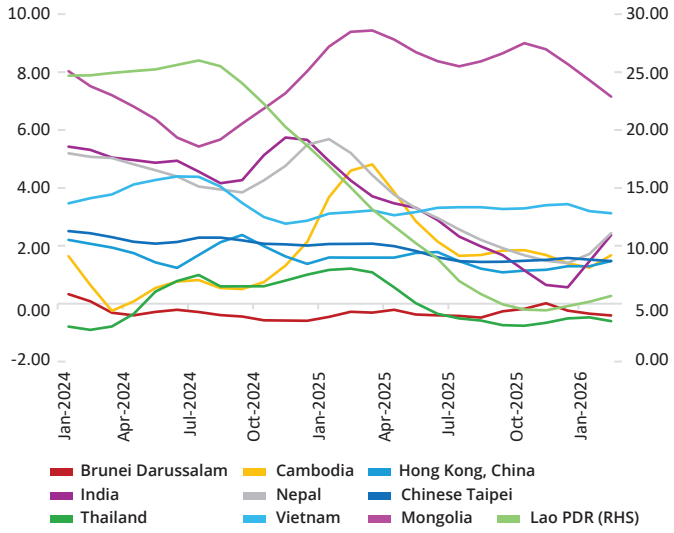
Figure 1.9: Financial Stress Indices, Selected Asian Economies



Note: Advanced Asian Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN4 includes Indonesia, Malaysia, Philippines, and Thailand. Financial stress indices for Advanced Asian Economies and ASEAN4 are computed as a simple average of individual country financial stres indices. Individual country financial stress indices are calculated following the methodology of Park and Mercado (2014) but use financial sector beta instead of banking sector beta. Financial market stress indices are computed starting in 2010.

Source: SEACEN staff calculations using CEIC Database and Haver Analytics data.

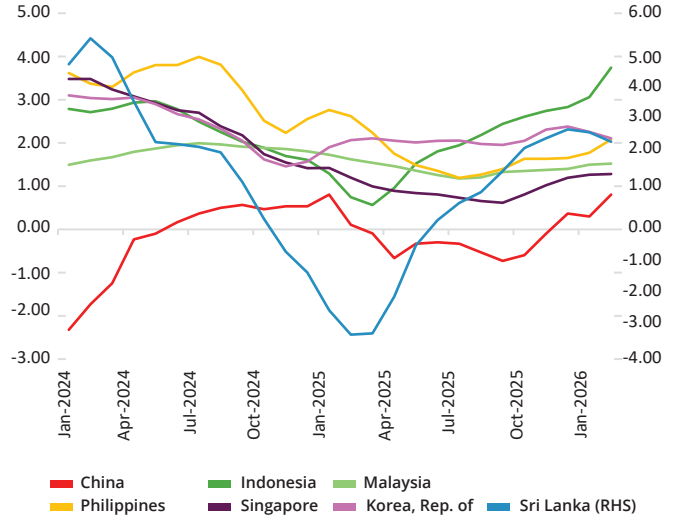
Figure 1.10a: Monthly Inflation,
Selected Asian Economies *(% change, year-on-year)*



Note: RHS = right-hand scale. Values are three-month moving averages of year-on-year monthly changes in the consumer price index.

Source: SEACEN staff calculations using data from national sources accessed through the CEIC Database.

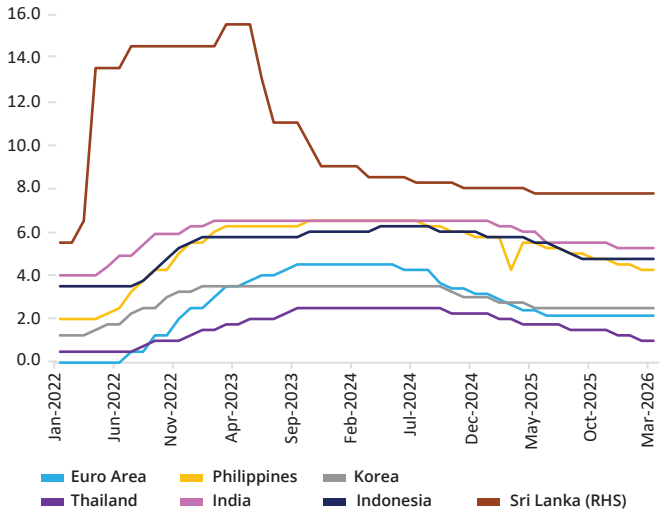
Figure 1.10b: Monthly Inflation,
Selected Asian Economies *(% change, year-on-year)*



Note: Values are three-month moving averages of year-on-year monthly changes in the consumer price index.

Source: SEACEN staff calculations using data from national sources accessed through the CEIC Database.

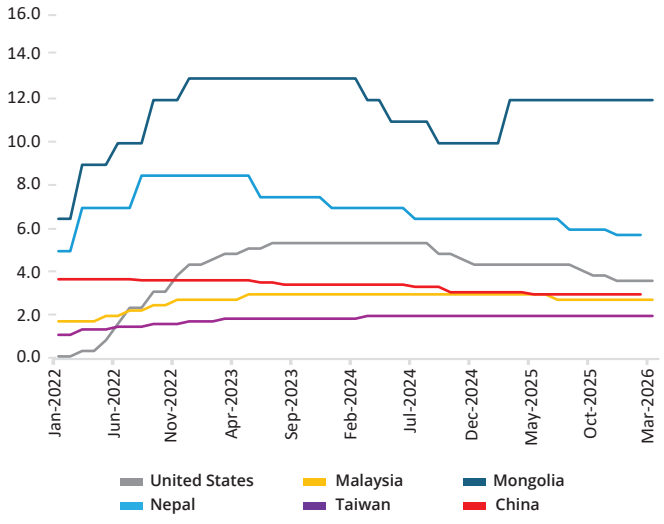
Figure 1.11a: Policy Rates in Selected Advanced and Asian Economies *(% per annum)*



Note: The policy rate for the Euro Area is the main refinancing fixed rate of the European Central Bank.

Source: Data from national sources accessed through the CEIC Database.

Figure 1.11b: Policy Rates in Selected Asian Economies *(% per annum)*



Note: The policy rate for the United States refers to the effective Fed Funds rate. Data for China pertains to the one-year loan prime rate sourced from the Bank for International Settlements (BIS) Data Portal.

Source: Data taken from national sources accessed through CEIC Database and BIS Data Portal.

is expected to remain steady in 2026, albeit lower than in 2025, while inflation is projected to increase. Based on the consensus forecast as of the end of March 2026, Asian economies, as a group, are expected to grow by 5.0% year-on-year in 2026, which is lower than the 5.4% year-on-year growth in 2025 **(Figure 1.12a).**[3] India is expected to maintain strong growth momentum in 2026 at 6.7% year-on-year, while China is expected to grow by 4.6%, down from 2025. ASEAN5 economies will expand by around 4.9%, with Vietnam, Indonesia and the Philippines growing by more than 5%, while Asian EDMEs are expected to grow by 3.5% in 2026. The Asia Advanced Economies group is projected to expand by only 3.1% in 2026, lower than the 2025 growth rate of 4.0%. The region's inflation will likely increase in 2026,

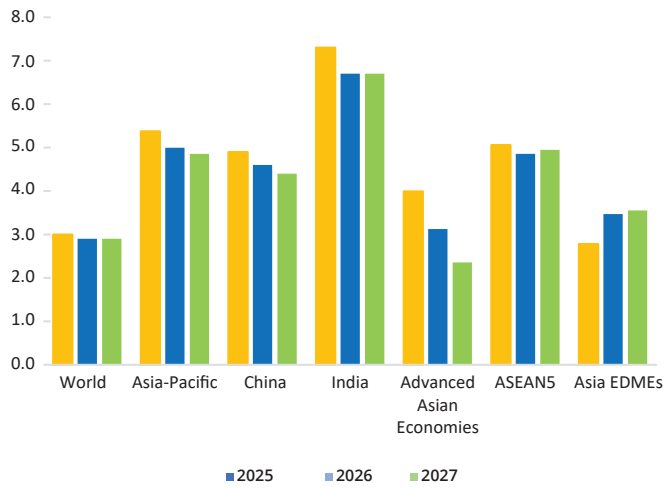
3. The GDP growth and inflation forecasts for 2024 and 2025 are sourced from Focus Economics consensus forecasts accessed through Haver Analytics in end-March 2026.

accelerating by 2.1% year-on-year **(Figure 1.12b).** However, the full impact of the oil price shock has not been fully factored into the latest round of consensus forecasts. Moreover, there could be second-round effects of an oil price shock, which could translate into higher transportation and logistics costs, more expensive fertilisers and other raw materials, including chemicals, and even higher wages. Hence, the latest consensus forecast might not fully capture the expected increase in inflation for 2026.

Risks to the region's economic outlook in 2026 are tilted on the downside amid a great deal of uncertainty. First, the escalating Middle East conflict exerts significant upward pressure on energy prices, threatening to trigger second-round effects across the broader economy through heightened logistics costs and wage-price spirals. Should these inflationary pressures persist, they risk de-anchoring inflation expectations, necessitating aggressive monetary tightening. Such interest rate hikes would inevitably dampen domestic demand and stifle economic expansion in the region and elsewhere. Second, the residual trade tensions could continue to dampen the outlook for exports. Third, severe weather disturbances and/or a sustained energy price shock could lead to a spike in regional food inflation, particularly as oil is an important input into fertilisers and food transport. These downside risks impact both economic growth and inflation. Furthermore, there is a great deal of uncertainty about how the conflict will play out which, in turn, will have significant economic ramifications.

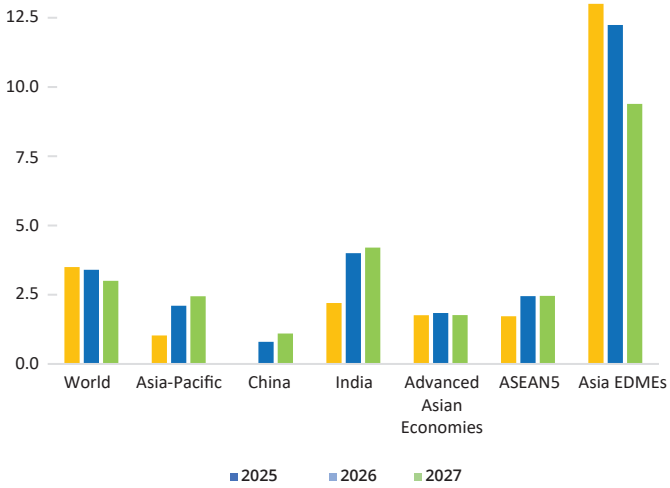
The ongoing Middle East conflict underscores the importance of deepening regional integration and cooperation. Central banks and monetary authorities in the region have successfully addressed recent external challenges, particularly the 2021-2023 inflation surge and the 2025 trade policy uncertainty, which started with the announcement of higher U.S. reciprocal tariffs in April. Improved monetary policy and financial stability frameworks have made the region resilient in the face of common challenges and kept regional economies dynamic and agile. Indeed, the region's resiliency can be attributed to its improved policy frameworks and central bank independence. For instance, central banks and monetary authorities in the region and elsewhere have successfully curbed intense inflationary pressures post-COVID-19 pandemic through policy rate hikes. Economies in the region and elsewhere withstood the impact of trade policy uncertainty last year through policy dialogue, regional cooperation, and other supportive measures. Given an improved policy framework, policymakers in the region and elsewhere are better equipped to manage the adverse impacts of oil price shocks through a broad range of policy measures.

Figure 1.12a: GDP Growth Outlook
(% change, year-on-year)



Note: Values for regional growth rates were weighted averages of individual growth rates, using GDP in PPP current international dollars ($) as weights. Asia-Pacific economies include China, India, Advanced Asian Economies (Hong Kong, China; Korea; Singapore; and Chinese Taipei), ASEAN5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam), and Asian EDMEs (Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Myanmar, and Sri Lanka).

Figure 1.12b: Inflation Outlook
(% change, year-on-year)



Note: Values for regional inflation were weighted averages of individual inflation, using GDP in PPP current international dollars ($) as weights. Asia-Pacific economies include China, India, Advanced Asian Economies (Hong Kong, China; Korea; Singapore; and Chinese Taipei), ASEAN5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam), and Asian EDMEs (Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Myanmar, and Sri Lanka).

Source: SEACEN staff calculations using data from Focus Economics consensus forecasts accessed through Haver Analytics in March 2026.

SECTION II: RECENT TRENDS IN CAPITAL FLOWS AND EXTERNAL POSITIONS

This section reviews the trends and compositions of capital flows and international investment positions of Asian economies over the first three quarters of 2025.[1]

- *Asian economies, as a whole, reported sustained recovery in cross-border resident and nonresident capital flows in the first nine months of 2025. However, the aggregate values mask the impact of trade policy uncertainty following the announcement of U.S. reciprocal tariffs in 2Q2025.*

- *The region's aggregate net foreign asset position remained positive, although some economies remained net borrowers as of end-September 2025.*

A. Recent Trends in Capital Flows

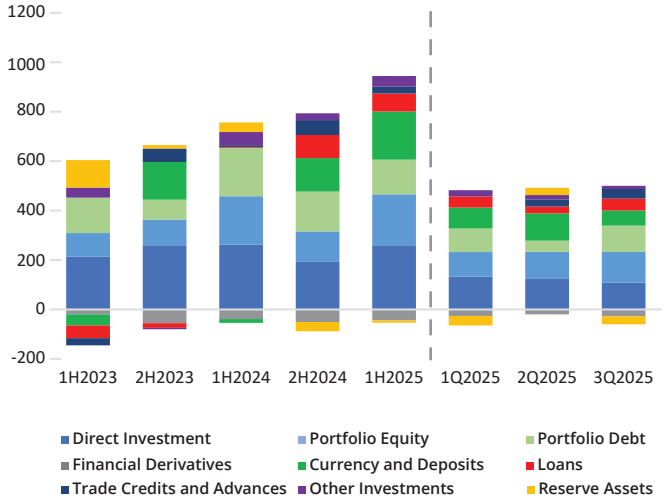
Net resident capital flows of Asian economies, as a group, amounted to US$454 billion in the first half of 2025 and another US$354 billion in 3Q2025, bringing the year-to-date net resident flows to around US$808 billion.[2] Net acquisition of foreign assets by residents (Financial Account Assets) reached US$1,330 billion in the first nine months of 2025, while net incurrence of liabilities to non-residents (Financial Account Liabilities) amounted to US$523 billion, bringing net resident capital flows to around US$808 billion. The largest volume of net resident flows was reported in the third quarter of 2025, at US$354 billion, compared with around US$227 billion in the first and second quarters of 2025. As in previous periods, the bulk of the region's net acquisition of foreign assets or resident capital outflows in the first nine months of 2025 were in the form of direct investment abroad, followed by resident portfolio equity flows, then currency and deposit flows, portfolio debt flows, and subsequently cross-border loans. This shows that the recovery in residents' cross-border investments in the region was primarily driven by equity-type investments **(Figure 2.1a).** Net incurrence of liabilities to nonresidents, likewise, reported a sustained increase in the first three quarters of 2025. Nonresident inflows were mostly in the form of foreign direct investment (FDI), amounting to US$365 billion, followed by currency and deposits **(Figure 2.1b).**[3] In terms of portfolio flows, Asia's bond inflows weakened in the first nine months of the year, as China recorded a nonresident bond outflow of US$67 billion in 3Q2025 due to a wider gap between Chinese and global interest rates as well as weakening domestic growth momentum.

Across economies and subregions, Asia Advanced Economies (including Hong Kong, China; Korea; Singapore; and Chinese Taipei) reported the largest resident capital flows of about US$627 billion during the review period, followed by China with US$509 billion, and India with US$144 billion. ASEAN5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) reported US$40 billion resident flows, while Asian Emerging and Developing Market Economies (EDMEs) (Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka) registered US$11 billion resident flows **(Figure 2.2a).** For nonresident capital inflows, Asia Advanced Economies received the largest foreign capital inflows of about US$322 billion in the first three quarters of 2025 **(Figure 2.2b).** It was followed by India with US$145 billion. Nonresident capital inflows to ASEAN5 economies were around US$57 billion, while Asian EDMEs reported US$8 billion inflows during the review period. China used to be the largest recipient of nonresident capital inflows to the region until 2021, but it has since witnessed reversals in foreign capital flows, particularly in 2022 and 2024. In the first nine months of 2025, nonresident capital flows again registered a reversal of around US$9 billion, specifically in 3Q2025, when foreign investment reversed by about US$77 billion.

The region's current account surplus widened in the first nine months of 2025 to around US$838 billion, which was more than 60% higher than the surplus of US$514 billion

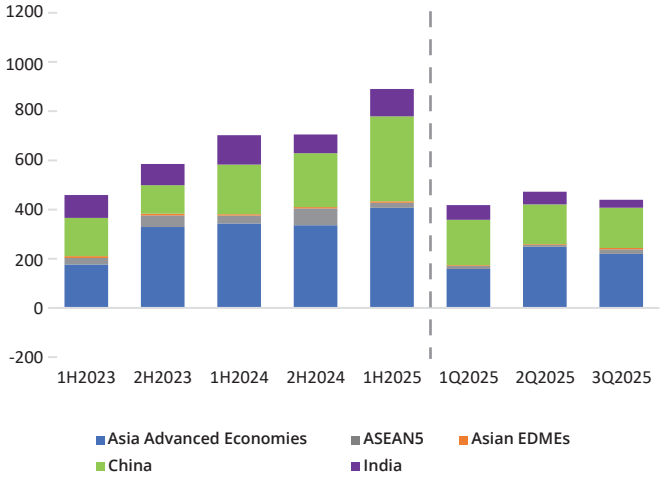
1. Asian economies in this monitor include Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Nepal; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand; and Vietnam with available data (whenever possible). These economies are also SEACEN member economies. The primary source of Balance of Payments (BoP) and International Investment Position (IIP) data is the International Monetary Fund (IMF) accessed through CEIC. Data from the IMF are consistently classified and standardised series in U.S. dollars across economies.
2. The value of US$808 billion net capital flows refers to net acquisition of foreign assets by residents minus net incurrence of liabilities to non-residents.
3. Currency and deposits, loans, and trade credits and advances are treated as separate items in this report, while other investments include other receivables (payables), other equity, insurance and pension, and SDRs (for liabilities).

Figure 2.1a: Resident Capital Flows,
Asia, by category *(US$ billion)*



Note: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Nepal; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand; and Vietnam. Other investments include other receivables; other equity; and insurance and pension.

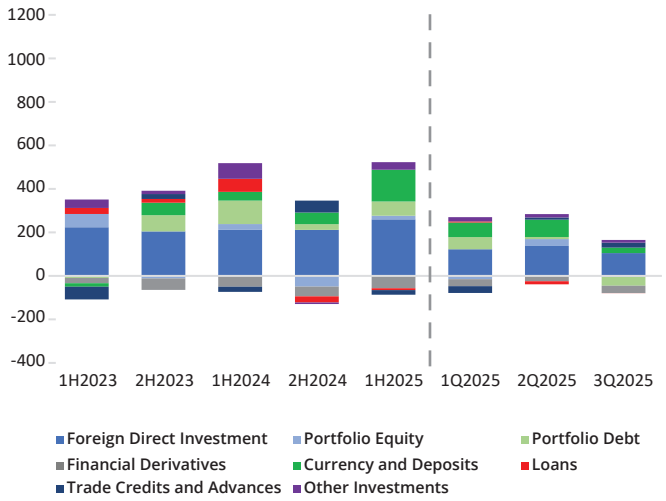
Figure 2.2a: Resident Capital Flows,
Asia, by subregion (*US$ billion)*



Note: Advanced Asian Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Asia Emerging and Developing Market Economies (EDMEs) include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka.

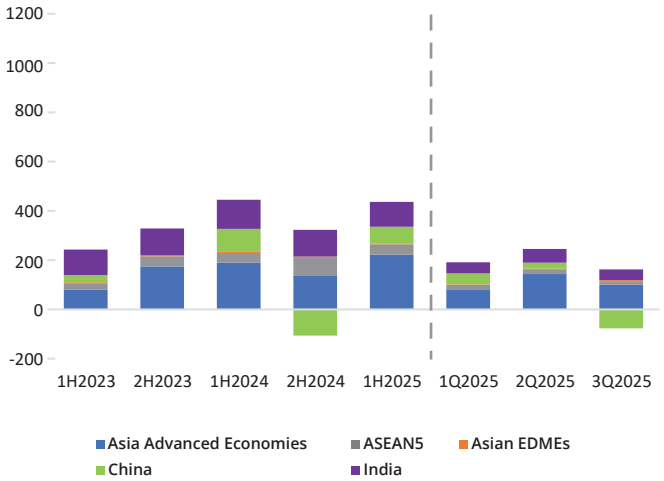
Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded March 2026).

Figure 2.1b: Nonresident Capital Flows,
Asia, by category *(US$ billion)*



Note: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Nepal; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand; and Vietnam. Other investments include other payables, other equity, insurance and pension, and SDRs liabilities.

Figure 2.2b: Nonresident Capital Flows,
Asia, by subregion *(US$ billion)*



Note: Advanced Asian Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded March 2026).

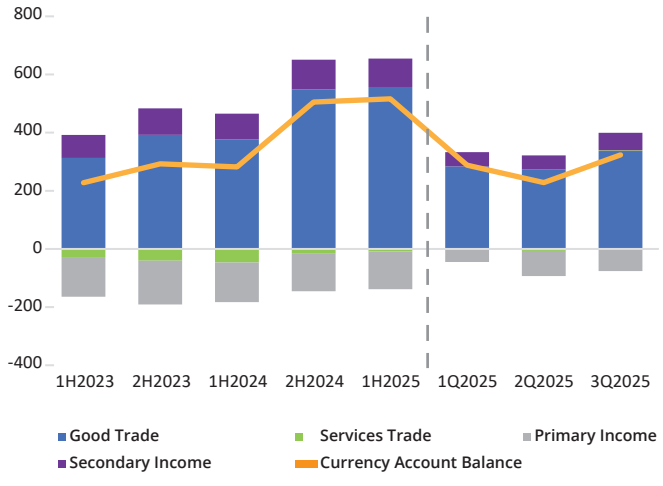
reported in the first nine months of 2024. The region's trade in goods surplus grew significantly during the review period, primarily due to China, Singapore, and Chinese Taipei **(Figure 2.3).** In Korea, the trade surplus in goods continued to rise due to higher semiconductor exports, lower energy imports, and resilience in manufacturing exports. Meanwhile, India's trade in goods deficit widened further to US$216 billion in the first three quarters of 2025, compared with US$200 billion deficit in the same period the previous year. In contrast, Asia's trade in services registered another deficit of around US$6 billion during the period, driven by larger deficits from China. Excluding China, the region's trade in services would have been a surplus of US$150 billion, largely driven by surpluses from India and Singapore. Asia's primary income deficit (which includes investment income) continued to deteriorate in the first nine months of 2025, from around US$190 billion in 2024 to around US$206 billion in 2025. Except for Hong Kong, China, Korea, Nepal, the Philippines, and Chinese Taipei, most economies in the region

registered deficits. Meanwhile, the secondary income balance (which includes remittances) remained in surplus at US$158 billion, driven by surpluses from India, the Philippines, China, Nepal and Vietnam. Across regional economies, India, Mongolia, and the Philippines recorded current account deficits during the period, while the rest posted surpluses. The current account surpluses of most Asian economies (including China) widened during the review period, except for Cambodia and Singapore, whose surpluses narrowed.

Figures 2.1a-2.2b clearly show sustained recovery in cross-border resident and nonresident capital flows in the first nine months of 2025, compared to 2023 and 2024. However, the aggregate values mask the impact of trade policy uncertainty stemming from the announcement of reciprocal tariffs in 2Q2025. In particular, although nonresident portfolio equity and debt flows amounted to around US$37 billion in the first three quarters of 2025, the third-quarter figures indicate reversals in foreign portfolio flows, totalling around US$4 billion for equity flows and US$41 billion for debt flows (Figure 2.1b). Moreover, the third-quarter value of foreign direct investment fell by around 24% from 2Q2025. This suggests that foreign direct investors took a more cautious approach following the announcement of U.S. reciprocal tariffs. Taken together, the composition of foreign capital inflows in Asia during the review period demonstrates the adverse effects of global trade policy uncertainty as foreign direct and portfolio investors took a more cautious approach in the 3Q2025.

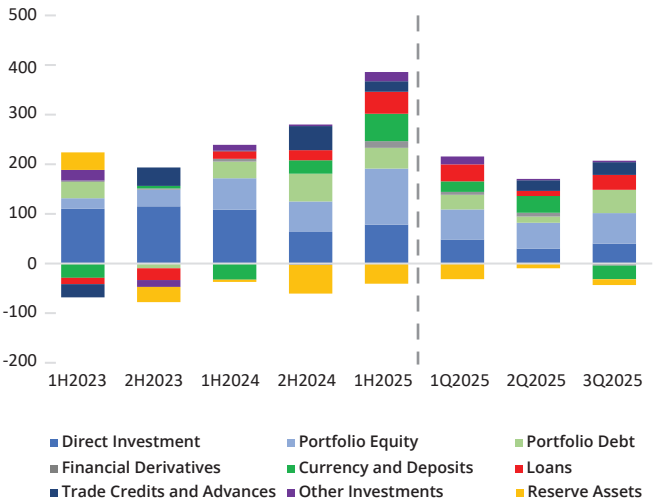
Across the first three quarters of 2025, resident capital flows in major Asian economies remained generally positive, although several economies reported year-on-year contractions. China reported total resident capital flows of $510 billion in the first three quarters of 2025, driven by larger portfolio equity flows and direct investment abroad **(Figure 2.4a).** After drawing down foreign reserves by approximately $62 billion in 2024, China saw a further $52 billion in foreign reserve decumulation during the first nine months of 2025. Meanwhile, Asia Advanced Economies, India, ASEAN5, and Asian EDMEs also registered positive resident flows during the period. Asia Advanced Economies reported resident capital flows of around US$627 billion during the review period, largely driven by direct investments abroad, portfolio equity and debt flows, and banking sector flows, specifically currency and deposits **(Figure 2.4b).** Although ASEAN5 economies posted resident investments abroad of around US$40 billion in 1Q-3Q 2025, this is significantly lower than the resident flows recorded in the same period the previous year, due to large declines in direct investment and portfolio equity flows **(Figure 2.4c).** India also reported positive resident capital flows of around US$144 billion during the period, driven by banking-sector flows and direct investment abroad **(Figure 2.4d).** However, compared to the same period the previous year, resident flows have contracted by 22%, mostly due to fewer foreign reserve accumulation in 2025. Unlike the previous year, Asian EDMEs reported positive resident capital flows of about US$11 billion

Figure 2.3: Current Account Balance,
Asia *(US$ billion)*



Note: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Nepal; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand, and Vietnam.

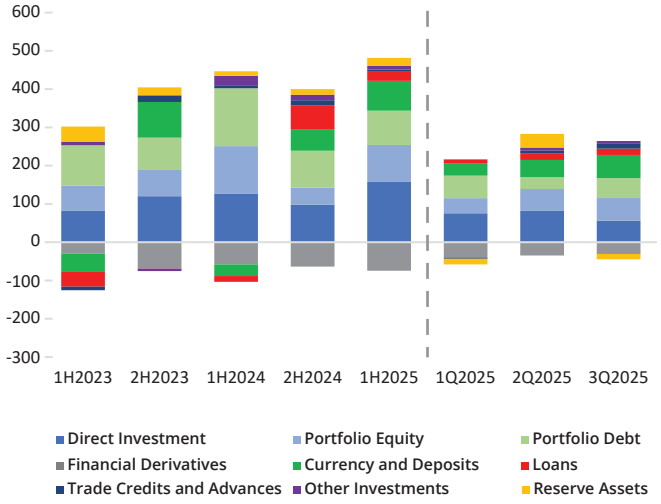
Figure 2.4a: Resident Capital Flows,
China *(US$ billion)*



Note: Other investments include other receivables; other equity; and insurance and pension.

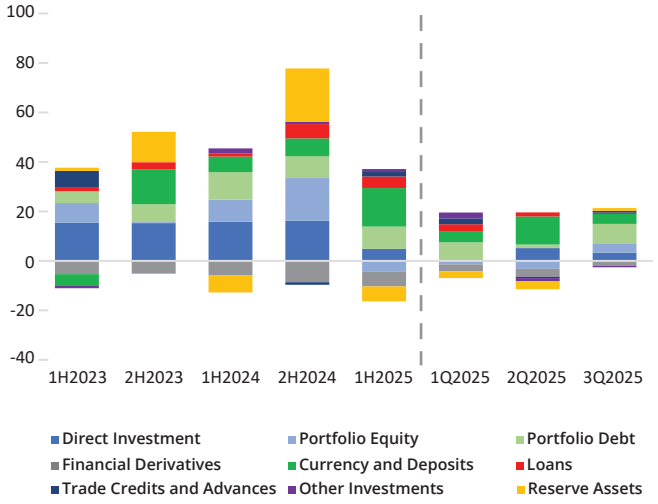
Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded March 2026).

Figure 2.4b: Resident Capital Flows,
Asia Advanced Economies *(US$ billion)*



Note: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. Other investments include other receivables; other equity; and insurance and pension.

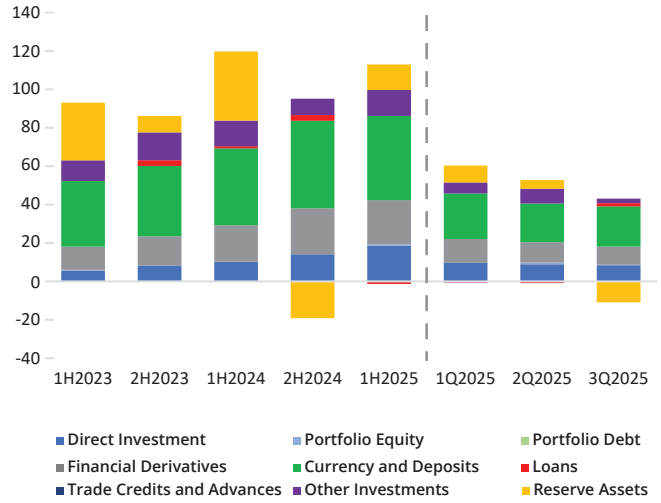
Figure 2.4c: Resident Capital Flows,
ASEAN5 *(US$ billion)*



Note: ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Other investments include other receivables; other equity; and insurance and pension.

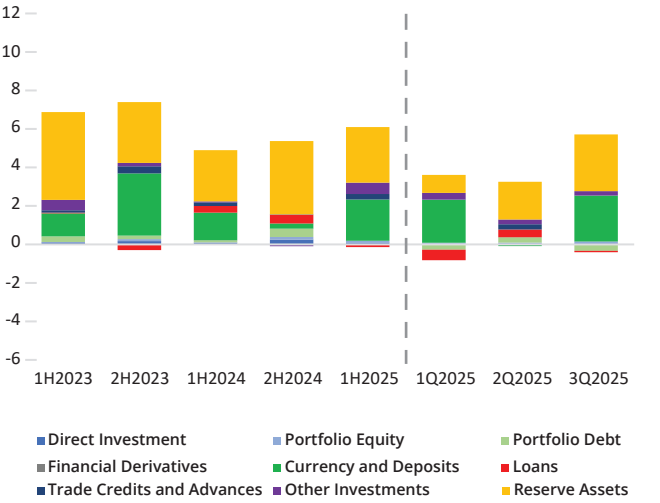
Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded March 2026).

Figure 2.4d: Resident Capital Flows,
India *(US$ billion)*



Note: Other investments include other receivables; other equity; and insurance and pension.

Figure 2.4e: Resident Capital Flows,
Asian Emerging and Developing Market Economies *(US$ billion)*



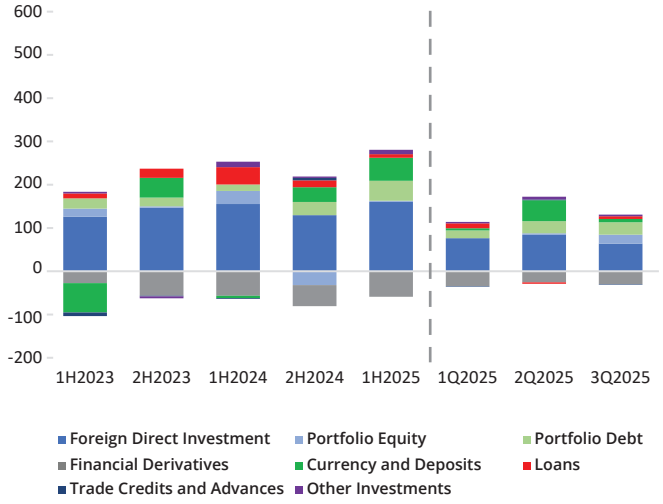
Note: Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka. Other investments include other receivables; other equity; and insurance and pension.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded June 2025).

in the first three quarters of 2025, driven by larger banking-sector flows, particularly currency and deposit flows, and foreign reserve accumulation **(Figure 2.4e).**

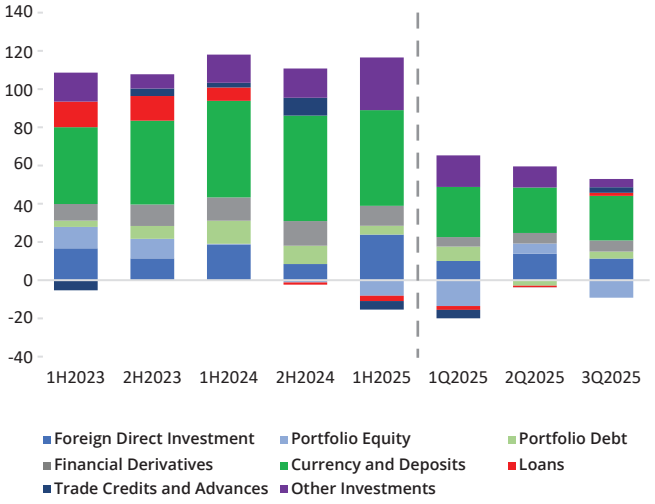
Nonresident capital inflows to the region showed a divide between economies that received larger and smaller inflows in the first three quarters of 2025, compared to the same period the previous year. ASEAN5, Asia Advanced Economies, Asian EDMEs, and India reported positive foreign capital inflows in the first three quarters of the year, whereas aggregate inflows to China registered a reversal in the review period. Nonresident capital inflows to Asia Advanced Economies grew from US$281 billion in the first nine months of 2024 to US$322 billion for the same period in 2025 due to higher cross-border foreign portfolio equity and debt flows, as well as banking sector flows, specifically currency and deposits **(Figure 2.5a).** ASEAN5 also reported nonresident capital inflows of around US$57 billion during the review period. However, compared

Figure 2.5a: Nonresident Capital Flows,
Advanced Asian Economies *(US$ billion)*



Note: Advanced Asian economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

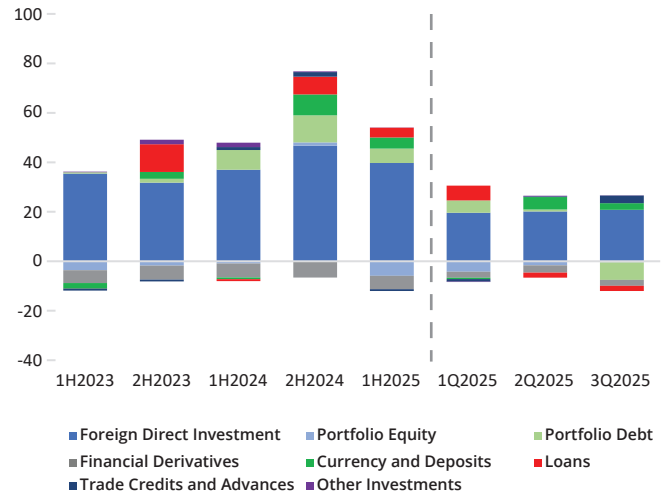
Figure 2.5c: Nonresident Capital Flows,
India *(US$ billion)*



Note: Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

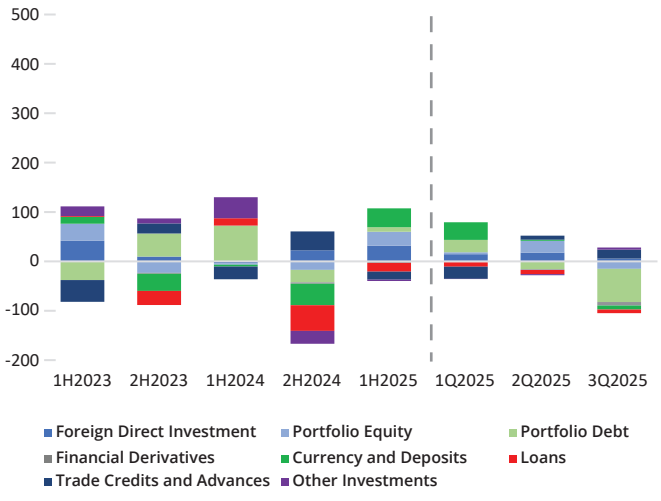
Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded March 2026).

Figure 2.5b: Nonresident Capital Flows,
ASEAN5 *(US$ billion)*



Note: ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

Figure 2.5d: Nonresident Capital Flows,
China *(US$ billion)*



Note: Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded March 2026).

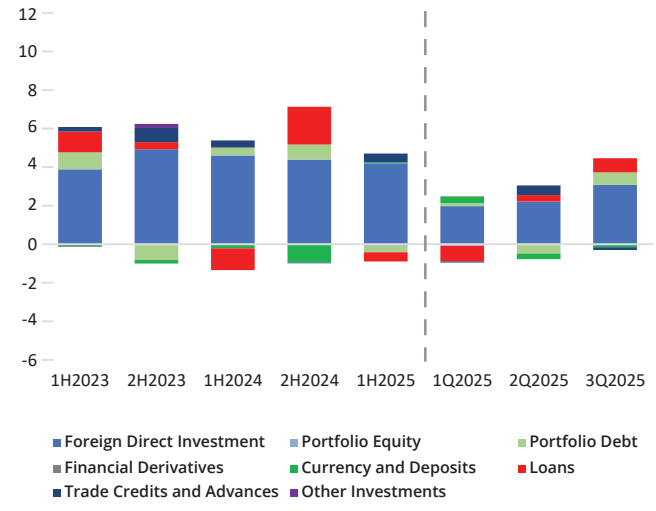
to the same period the previous year, foreign capital inflows in ASEAN5 economies dropped by around 43% from US$100 billion in 2024. Except for foreign direct investment and currency and deposits, almost all categories of foreign capital inflows posted declines or reversals **(Figure 2.5b).** Likewise, India registered positive nonresident capital inflows of around US$145 billion during the review period in 2025. However, it also reported a decline of around 29% from US$205 billion in the same period the previous year. Nonetheless, India received one of the largest foreign capital inflows in Asia, after Asia Advanced Economies **(Figure 2.5c).** In contrast, China reported a reversal of nonresident capital flows in the first three quarters of 2025, totalling US$9 billion, a turnaround from inflows of US$57 billion in the same period in 2024. The reversals occurred in the third quarter of 2025 due to portfolio outflows and a decline in cross-border banking-sector flows **(Figure 2.5d).** Meanwhile, Asian EDMEs registered an increase in nonresident capital flows from US$6 billion during the 2024 review period to around US$8 billion in the 2025 review period **(Figure 2.5e).**

B. Recent Trends in International Investment Positions

Total international investment assets of Asian economies reached US$35.0 trillion as of end-September 2025, up by 11.0% from US$31.5 trillion as of end-2024. Among Asian economies, Asia Advanced Economies, as a subgroup, continued to hold the largest international financial assets amounting to US$20.0 trillion, followed by China (US$11.5 trillion), ASEAN4 (US$2.2 trillion), India (US$1.2 trillion), and Asian EDMEs (US$75 billion), respectively. The international investment asset holdings of Asia Advanced Economies and China alone account for around 90% of the region's total international investments **(Figure 2.6a).** Across asset categories, direct investment abroad (US$10.4 trillion) and official reserve assets (US$6.9 trillion) comprised the bulk of the region's foreign asset holdings as of the third quarter of 2025, followed by portfolio equity (US$6.0 trillion), portfolio debt (US$4.1 trillion), and currency and deposits (US$3.3 trillion). The region's portfolio investment assets remain tilted towards portfolio equities rather than portfolio debt in 2025 **(Figure 2.6b).** Excluding financial derivatives, the debt-to-equity asset ratio stood at 1.10 as of 3Q2025, slightly lower than 1.18 at end-2024.[4] Compared to 2019-20, when the debt-equity asset ratio stood at 1.35, the continued decline of the debt-equity ratio for international assets suggests a growing preference for equity-type investments, which could offer higher returns.

Total international investment liabilities of Asian economies grew by 8.5% to US$25.4 trillion as of end-September 2025, up from US$23.4 trillion at end-2024. Among Asian economies, the advanced economies of Asia posted the largest international financial liabilities, amounting to US$14.0 trillion during the period, more than 10% higher than the US$12.7 trillion registered at end-2024. It was followed by China with US$7.5 trillion in total international liabilities, up from US$6.9 trillion at end-2024, and ASEAN4 with US$2.4 trillion, higher than US$2.2 trillion at end-2024 **(Figure 2.7a).** Meanwhile, the external financial liabilities of India and Asian EDMEs grew by 1.1% and 4.3%, respectively, to US$1.5 trillion and US$148 billion as of end-September 2025, from the same period the previous year. Across investment categories, the region incurred foreign direct investment liabilities amounting to US$11.9 trillion, followed by portfolio equity investments of US$4.6 trillion and currency and deposits of US$3.1 trillion during the review period **(Figure 2.7b).** Excluding financial derivative liabilities, the debt-equity liabilities ratio stood at 0.51 as of the end of the third quarter of 2025, slightly lower than

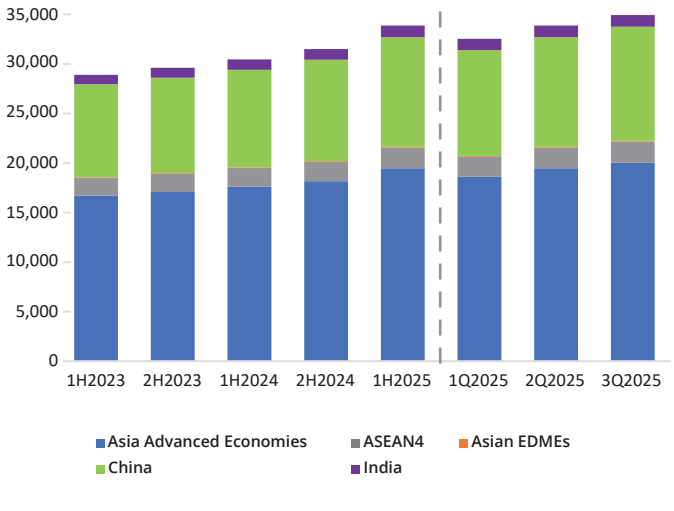
Figure 2.5e: Nonresident Capital Flows,
Asian Emerging and Developing Market Economies
(US$ billion)



Note: Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka. Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded March 2026).

Figure 2.6a: International Investment Assets,
by subregion *(US$ billion)*

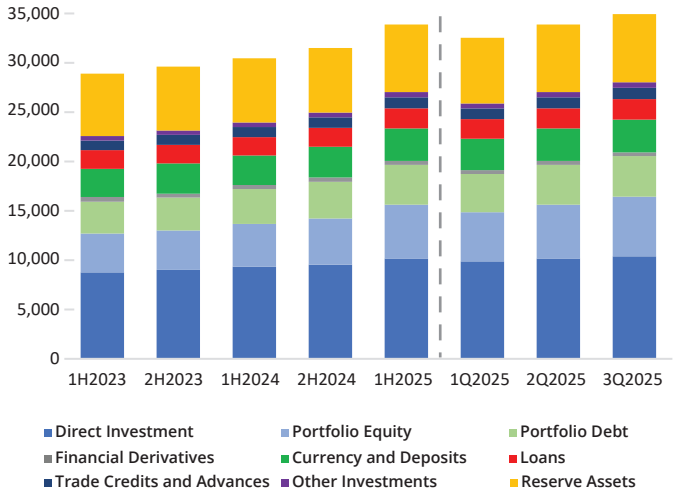


Note: Advanced Asian Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN4 includes Indonesia, Malaysia, Philippines, and Thailand. Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Mongolia, and Nepal.

Source: SEACEN staff calculations using data from IMF's International Investment Position accessed through CEIC Database (downloaded March 2026).

4. Debt investments include portfolio debt, currency and deposits, loans, trade credits and advances, other investments, and official reserve assets.

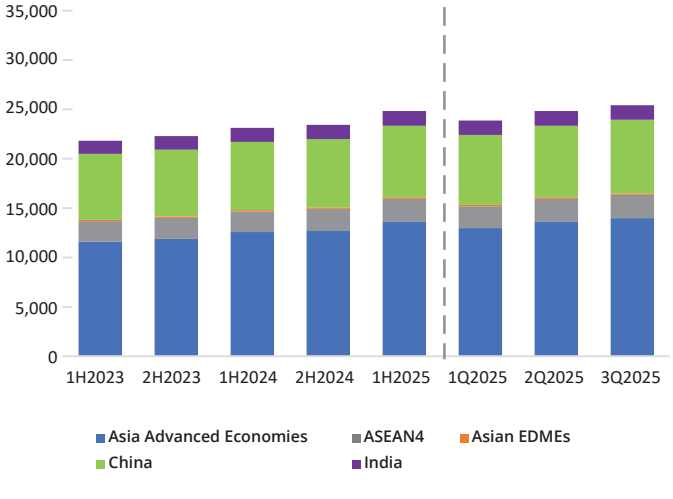
Figure 2.6b: International Investment Assets, by category *(US$ billion)*



Note: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Malaysia; Mongolia; Nepal; Philippines; Singapore; Chinese Taipei; and Thailand. Other investments include other receivables; other equity; and insurance and pension.

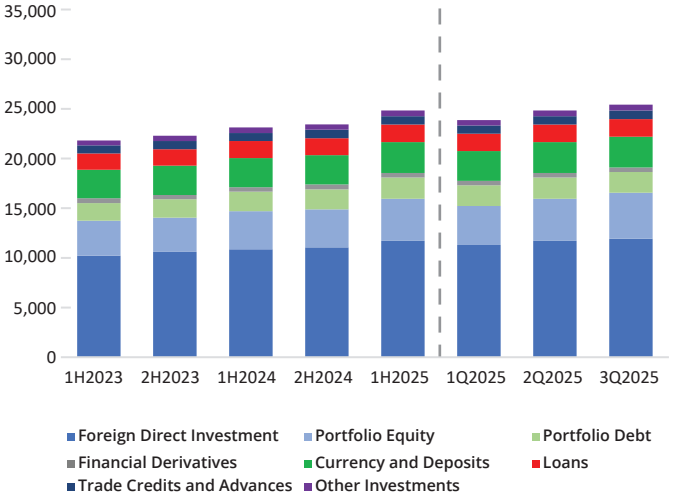
Source: SEACEN staff calculations using data from IMF's International Investment Position accessed through CEIC Database (downloaded March 2026).

Figure 2.7a: International Investment Liabilities, by subregion *(US$ billion)*



Note: Advanced Asian Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN4 includes Indonesia, Malaysia, Philippines, and Thailand. Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Mongolia, and Nepal.

Figure 2.7b: International Investment Liabilities, by category *(US$ billion)*



Note: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Malaysia; Mongolia; Nepal; Philippines; Singapore; Chinese Taipei; and Thailand. Other investments include other receivables; other equity; and insurance and pension.

Source: SEACEN staff calculations using data from IMF's International Investment Position accessed through CEIC Database (downloaded March 2026).

0.54 at the end of 2024, reflecting a continued tilt towards equity liabilities.

Asian economies, as a group, remained net capital exporters as of end-September 2025, with their positive net foreign asset position standing at US$9.5 trillion, up from US$8.1 trillion at end-2024. However, within Asian economies, there was a clear divide between net capital exporters and net capital importers. China, Hong Kong, China, Korea, Nepal, Singapore, Chinese Taipei, and Thailand were net capital exporters, with positive net foreign asset positions as of end-3Q2025. In fact, the positive net foreign asset positions of China; Hong Kong, China; Nepal; Singapore; and Thailand have further increased since the end-2024. In contrast, Cambodia, India, Indonesia, Malaysia, Mongolia, and the Philippines have negative net foreign asset positions, indicating they were net capital borrowers. Nonetheless, the negative net foreign asset positions of Cambodia and India have improved since the end of 2024, while Malaysia's net foreign asset position remained unchanged. Across subregions, the negative net foreign asset position of ASEAN4 economies has

declined from US$265 billion in end-2024 to US$208 billion in the review period. Likewise, the negative net positions of India and Asian EMDEs have improved as of end-September 2025 compared to the same period the previous year.

C. Outlook on Capital Flows and International Investment Positions

As a group, Asian economies will most likely sustain their positive net resident capital flows and net foreign asset positions in 2025 and 2026. The region's net resident capital flows, as a group, will most likely remain positive in 2025, buoyed by the region's current account balance, which is expected to remain positive according to the latest IMF World Economic Outlook in October 2025 (IMF, 2025). Given the expected full-year current account surpluses in 2025, the region will likewise maintain its positive net foreign asset position, though divergence between economies with positive and negative net foreign asset positions will persist due to varying current account balances, exchange rate movements, and capital gains. The downside risks to cross-border flows and net foreign asset positions remain high in 2026. Geopolitical risks and conflicts continue to weigh down consumer and investor sentiment, potentially discouraging FDI and other cross-border investments. In particular, the war in the Middle East, which erupted at the end of February 2026, could trigger a severe supply-side shock that warrants broad-based policy actions.

SECTION III: CAPITAL FLOWS TO EMERGING MARKETS: ROLE OF GLOBAL FACTORS AND DOMESTIC FUNDAMENTALS[1]

This analytical section examines the determinants of gross capital inflows, namely, portfolio debt, portfolio equity, cross-border loans, and foreign direct investment (FDI), to 36 emerging market economies (EMEs) over the period 1990–2024, with a focus on the interplay between global conditions and domestic fundamentals. The key takeaways are as follows:

- *The empirical analysis indicates that during the current post-QE period, U.S. monetary policy and trade policy uncertainty significantly affect portfolio flows, while geopolitical risk is the dominant global driver of cross-border loans and FDI.*
- *The evidence also re-confirms the stabilising role of domestic fundamentals, particularly trade openness, output growth, and financial development, in mitigating the adverse effects of global shocks.*
- *These findings underscore the importance of comprehensive macroeconomic, prudential, and capital flow management frameworks to safeguard macro-financial stability in EMEs amid heightened global uncertainty.*

A. Introduction and Motivation

The sensitivity of foreign capital inflows to shifts in global financial conditions can lead to boom-bust cycles and macro-financial stability risks in emerging market economies (EMEs). The contribution of EME capital inflows to economic growth is well-documented, particularly through the expansion of credit and the deepening of domestic capital markets. However, their volatility, often driven by shifts in global liquidity and investor sentiment, can threaten the macro-financial stability of EMEs. Episodes of surging inflows or reversals have been associated with exchange rate pressures, asset price fluctuations, and heightened financial fragility. The large potential benefits and risks of foreign capital inflows underscore the importance of robust macroeconomic policy frameworks and sound fundamentals, which can help maximise the benefits while mitigating the risks.

This analytical section provides empirical evidence on the influence of global factors on foreign capital inflows to EMEs and the stabilizing effect of domestic fundamentals. The issue is particularly important in light of heightened global uncertainty in trade policy, persistent geopolitical risks, and shifts in global monetary policies. The recent literature on EME capital flows has stressed the dominant role of the "global financial cycle", which holds that a large share of the variation in capital flows can be explained by global risk aversion and United States (US) monetary policy. Empirical work suggests that the global financial cycle primarily affects portfolio debt, portfolio equity, cross-border loans, and, to a lesser extent, foreign direct investment (FDI). At the same time, the literature stresses the role of the domestic fundamentals in EMEs in driving foreign capital inflows and potentially counteracting the impact of the global financial cycle.

More specifically, the section contributes to the literature by systematically examining the influence of Chicago Board Options Exchange's Volatility Index (VIX) and the US monetary policy rate, as well as trade policy uncertainty (TPU) and geopolitical risk (GPR). This section also examines the impact of four domestic fundamentals, namely gross domestic product (GDP) growth, trade openness, financial development, and the rule of law. The types of EME foreign capital inflows considered are portfolio debt, portfolio equity, cross-border loans, and foreign direct investment. The following research questions are: (i) Have EME capital inflow dynamics shifted over time; (ii) Are EME capital inflows more sensitive to global factors and are there variations in the sensitivity of different types of capital inflows; (iii) How important are domestic factors in driving EME capital inflows; and (iv) Which domestic fundamentals are important?

B. Evolving Capital Flow Dynamics in Emerging Market Economies

EME capital inflows have shown strong cyclical behavior over the past three decades,

1. This section is based on the preliminary 2025 work of Donghyun Park of The SEACEN Centre and Donna Faye Bajaro, John Beirne, and Pilipinas Quising of the Asian Development Bank entitled "Global Risk Spillovers and Capital Flow Resilience in Emerging Markets."

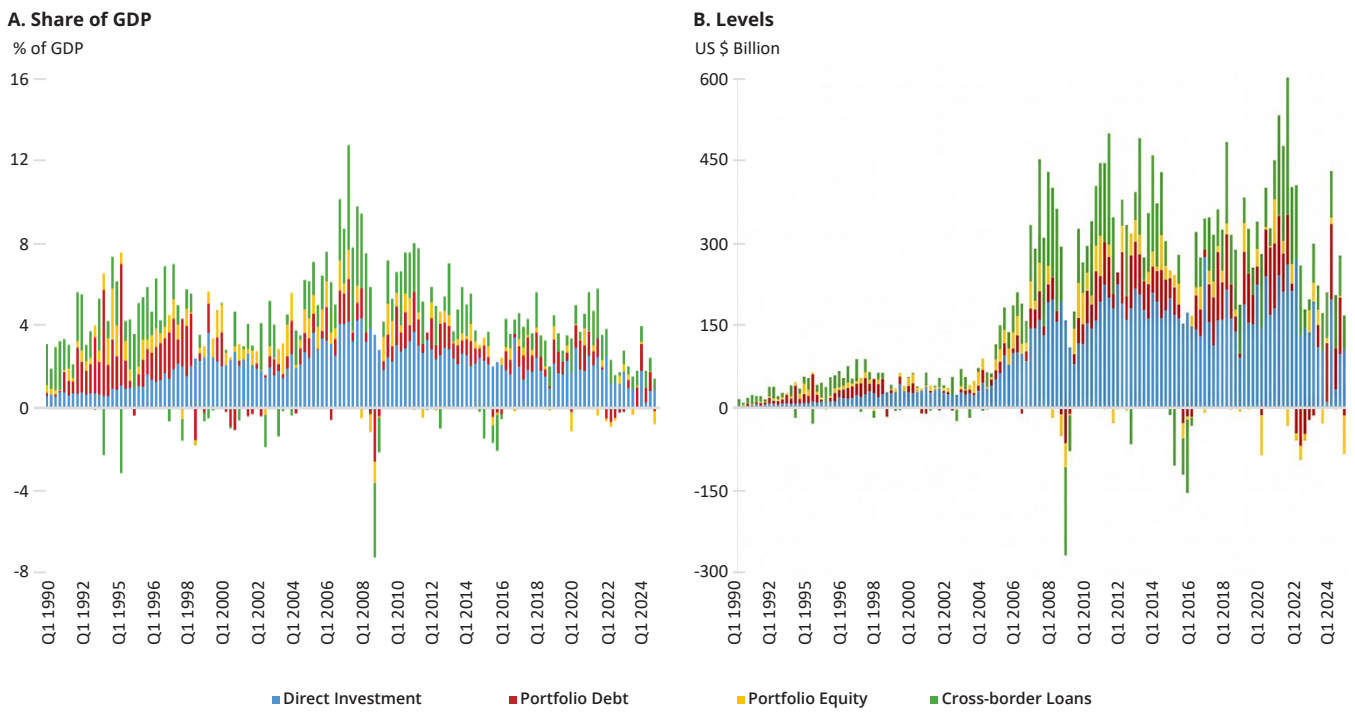
reflecting deeper integration into global financial markets. These flows are a vital source of financing for investment and growth, but their volatility can also transmit shocks and amplify macro-financial risks. This section describes developments in EME gross capital inflows during 1990 to 2024.[2] It examines gross flows, as opposed to net, given that the former provides a comprehensive understanding of financial vulnerabilities and investor behaviour, as global shocks tend to propagate through shifts in gross capital flow positions (Broner et al. 2011).[3]

Long-Term Trends in Emerging Market Economy Capital Flows

Gross capital inflows to EMEs have closely mirrored global financial conditions (Figure 1, panels A and B). Capital inflows rose sharply during the era of financial globalisation in the 1990s and early 2000s, collapsed abruptly during the global financial crisis, rebounded in the QE period amid abundant liquidity, and have since stabilised at more moderate levels relative to GDP in the post-crisis period. Highly accommodative monetary policy in the advanced economies following the global financial crisis, particularly the Fed's QE, led to substantial capital inflows to EMEs as global risk appetite strengthened. In line with the global financial cycle hypothesis, U.S. monetary policy conditions pushed capital to emerging economies during the QE period. Higher asset returns and stronger growth prospects also increased their attractiveness to global investors. Investor behaviour has been shaped by a combination of global monetary and financial developments, EME growth prospects and policy environment, and economic cycles (BIS 2021). Although the COVID-19 pandemic brought another sharp retrenchment in 2020, swift policy responses helped flows rebound quickly (Adrian, Natalucci, and Qureshi 2023).

Liberalisation and privatisation in the 1990s opened up EMEs' FDI. FDI inflows to EMEs rose from an average of around 0.7% of GDP in 1990 to about 2.7% by 1999. Although they dipped during the 1997–1998 Asian financial crisis, they rebounded in

Figure 1. Capital Flows in Emerging Market Economie,
FDI remains the largest and most stable flow, while other flows exhibit more pronounced fluctuations.



Note: Aggregate figures are GDP-weighted averages. Cross-border loans (or other investment) include loans, currency, and deposits from banks and other financial institutions. Sample includes 107 countries. Table A1 lists the emerging economies.

Source: Asian Development Bank estimates using International Monetary Fund Balance of Payments Statistics and Oxford Economics Forecasting data.

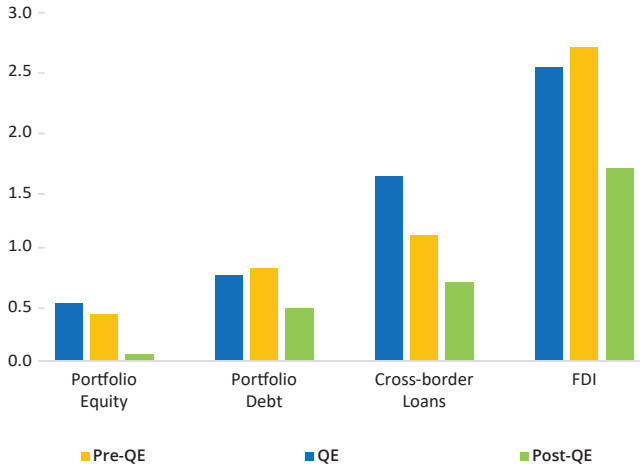
2. Excludes major offshore financial centers. The eight major pass-through economies—Bermuda; British Virgin Islands; Cayman Islands; Hong Kong, China; Ireland; Luxembourg; the Netherlands; and Singapore, as well as Switzerland—host more than 85% of the world's investment in special purpose entities, which are often set up for tax reasons (Damgaard, Elkjaer, and Johannesen 2019).

3. Asset transactions represent gross capital outflows, while liabilities correspond to gross capital inflows.

the 2000s, supported by commodity booms and rapid economic growth. From 2008 onward, Asia's economic resilience helped to keep inflows relatively robust for over a decade. More recently, however, they have fallen sharply—to $417 billion in 2023, the lowest since 2005—amid softer global growth and heightened uncertainty. While FDI remains the largest component of capital flows **(Figure 2),** and the most stable, a recent World Bank report highlights its concentration in the largest economies, with the People's Republic of China (PRC) alone taking nearly one-third of inflows during 2012–2023 (World Bank 2025). However, the PRC's share plunged to just one-tenth in 2023—the lowest in more than a decade.

Figure 2. Average Gross Capital Inflows in Emerging Market Economies

Foreign direct investment remains the largest component of capital flows.



FDI = foreign direct investment, GDP = gross domestic product, Q = quarter, QE = quantitative easing.

Note: Pre-QE: 1990Q1-2008Q3; QE: 2008Q4-2014Q4; Post-QE: 2015Q1-2024Q4. Cross-border loans (other investment) include loans, currency, and deposits from banks and other financial institutions. Sample includes 107 emerging market economies.

Source: Asian Development Bank estimates using International Monetary Fund Balance of Payments Statistics and Oxford Economics Forecasting data.

Non-FDI capital inflows to EMEs since 1990 have been marked by pronounced volatility and recurring boom–bust cycles. In the 1990s, reforms that opened financial markets spurred a surge of portfolio debt and equity investment flows and cross-border bank lending. These quickly reversed during the financial crises across Asia, Latin America, and Russia, underscoring their sensitivity to shifts in investor sentiment (Calvo, Leiderman, and Reinhart 1996). The 2000s brought a substantial and sustained increase in non-FDI flows, particularly to emerging Europe, fueled by low interest rates in advanced economies and the rapid expansion of global banks. For example, the share of foreign banks in the Central and Eastern Europe region rose from around 10% in 1995 to 77% by 2008, with cross-border bank claims playing a pivotal role in the region's economic and financial development (Niţoi, Clichici, and Moagăr-Poladian 2021). Yet the riskiness of such heavy reliance on cross-border loans was fully exposed during the 2008 global financial crisis when a "sudden stop" in lending occurred (BIS 2010; IMF 2011). Since then, the composition of non-FDI flows has changed. Emerging economies have relied less on bank loans and increasingly on international bond markets (Aldasoro, Hardy, and Tarashev 2021; BIS 2025).

C. Data and Methodology

This section examines the impact of global factors on EME capital inflows over time and the role of domestic fundamentals. The global factors under consideration extend beyond US monetary policy and global risk aversion to include trade policy uncertainty (TPU) and geopolitical risk (GPR), two factors that remain relatively less researched in capital flows literature. The empirical work undertaken makes a number of new and robust empirical findings on EME capital flow dynamics.

Data

The analysis is based on a sample of 36 emerging economies, including 13 from developing Asia. The dependent variable of interest is gross capital inflows. The dataset is constructed at quarterly frequency, spanning the first quarter (Q1) of 1990 to Q4 2024. The capital inflows are disaggregated by type and expressed as a share of gross domestic product (GDP). This normalisation is common in empirical macrofinancial studies and facilitates comparability across economies and over time. However, it introduces an important caveat: capital inflows scaled by GDP may exhibit mechanical co-movement with domestic economic activity. That is, if both capital inflows and GDP increase at similar rates due to global cyclical conditions or structural growth, the ratio may understate the actual changes in the financial openness or attractiveness of an economy. This issue has been flagged in the literature as a potential source of misinterpretation when using scaled financial flow variables (see Koepke 2019; ECB 2020).

The analysis proceeds by examining the determinants of capital inflows disaggregated into four main types—FDI, portfolio equity, portfolio debt, and cross-border loans. These components are widely used in the literature to

capture the nuanced behaviour of cross-border capital movement and to allow for type-specific sensitivities to global and domestic factors (Koepke 2019, ECB 2020, Crescenzio and Lepers 2021). The explanatory variables are organised into two broad categories. Global factors comprise US monetary policy [Wu-Xia (2016) shadow federal funds rate], global risk aversion (proxied by VIX), trade policy uncertainty (TPU), and geopolitical risk (GPR). Domestic fundamentals include GDP growth, trade openness, financial development, and institutional quality, proxied by the rule of law.

Methodology

The average responsiveness of gross capital inflows to global and domestic factors is examined for a sample of 36 emerging economies across three distinct structural break periods. The breaks capture shifts in the underlying dynamics of capital flow behaviour over time. Equation (1) is estimated using a fixed-effects panel regression with OLS, and Driscoll–Kraay standard errors are computed to correct for cross-sectional dependence:

$$y_{i,t} = \alpha + \beta_0 z_{i,t} + \beta_0 x_{i,t} + \sum_{n=1}^{2} \beta_n d_n \left(1 + z_{i,t} + x_{i,t}\right) + \rho_i + \varepsilon_{i,t} \qquad (1)$$

where the subscripts i and t denote country and year-quarter period, respectively. The dependent variable y represents a particular type of gross capital inflow—namely, portfolio debt, portfolio equity, cross-border loans, and FDI—as a share of GDP. The vector z captures global factors such as the US Fed rates, global risk aversion, trade policy uncertainty, and geopolitical risk; while x denotes domestic fundamentals such as GDP growth, trade openness, financial development, and rule of law. The term ρ accounts for country fixed-effects, and ε the unaccounted factors.

A key feature of the specification is the inclusion of interaction terms with d, which represent two structural break periods n that are uniformly imposed in estimating all types of capital flows. The uninteracted terms correspond to the remaining period, serving as the base period. Specifically, β_1 captures the pre-QE period from 1990 Q1 to 2008 Q3, β_2 reflects the QE period from 2008 Q4 to 2014 Q4, and β_0 represents the post-QE period from 2015 Q1 to 2024 Q4. These temporal distinctions allow identification of shifts in the responsiveness of capital inflows to global and domestic factors across major phases of US monetary policy intervention. The magnitude of each coefficient denotes the expected standard-deviation change in the share of gross capital inflows to GDP for a one-standard-deviation increase in an explanatory variable, while controlling for other variables in the model.

D. Results and Discussion

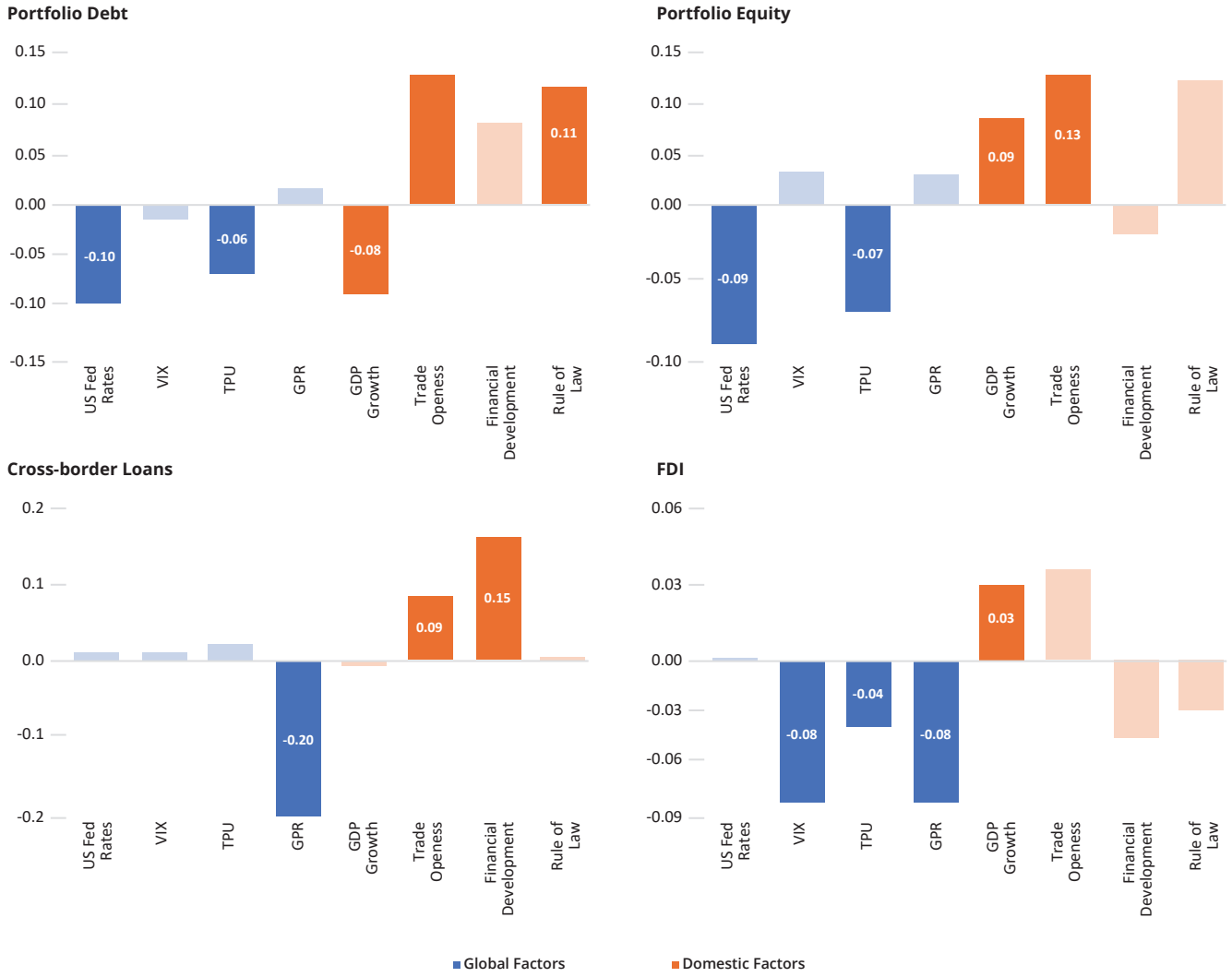
Boom-bust cycles impacted capital flows to EMEs from 1990 to 2024. Capital flows to EMEs are strongly cyclical in reaction to major global shocks. While periods of abundant global liquidity and low interest rates have led to foreign capital inflows to EMEs, shifting global financial conditions have triggered reversals. Surges of foreign capital inflows to EMEs preceded abrupt withdrawals during the Asian financial crisis (1997–98) and the Russian default (1998). A similar pattern was observed in the run-up to the global financial crisis (2008–09), when capital inflows collapsed as global liquidity and risk sentiment tightened, and then rebounded strongly during the US Federal Reserve's quantitative easing period. More recently, EMEs experienced sudden stops during the taper tantrum (2013), the COVID-19 shock (2020), and bouts of volatility tied to US monetary tightening (2022–23). The cyclical fluctuation in EME capital inflows around major turning points in global financial conditions suggests shifting dynamics over time.

The US Federal Reserve's quantitative easing policy, from end 2008 and to end 2014, coincided with a structural shift in EME capital inflow dynamics. For a panel of 36 EMEs over 1990–2024, formal statistical tests identify structural breaks across the four types of capital flow around the beginning of the QE period (2008 Q4) and at the end of QE (2014 Q4).[4] The QE period was characterised by ample global liquidity, resulting from large scale purchases of long-term securities by the US Federal Reserve (Fed). As the Fed injected liquidity into the financial system, long-term interest rates in the US and other advanced economies fell to historic lows, triggering capital inflows to EMEs as investors searched for yield.

Heterogenous factors drove EME capital inflows in the post-QE period during 2015 to 2024, according to type of capital flow. A panel regression of EME capital inflows on global and domestic factors reveals differences in the sensitivities, with the main results shown in Figure 3. The empirical analysis is centred on the current post-QE period, given that this is the most

4. Formal statistical tests identify structural breaks across the four types of capital flow around the beginning of the QE period (2008 Q4) and at the end of QE (2014 Q4).

Figure 3 Impact of Global and Domestic Factors on EME Capital Inflows during Post-QE Period
EME domestic fundamentals help to counteract the negative effects of global factors.



EME = emerging market economy, FDI = Foreign Direct Investment, GDP = gross domestic product, GPR = geopolitical risk, QE = quantitative easing, TPU = trade policy uncertainty, US = United States, VIX = CBOE Volatility Index,

Note: Reported are standardised coefficients from a regression of EME gross capital inflows (as a share to GDP) on global and domestic factors during the post-QE period, from 2015Q1 to 2024Q4. Coefficients that are statistically significant are shown in dark colour, while those that are not statistically significant are shown in faint colour. The magnitude of each coefficient denotes the expected standard-deviation change in the share of capital flows to GDP for a one-standard-deviation increase in an explanatory variable, while controlling for other variables in the model. Sample includes 36 EMEs.

Source: Author estimates.

relevant period for policy makers. The use of standardised coefficients in the analysis enables direct comparison of the relative influence of global factors on gross capital inflows and the role of domestic variables. Expressed in standard deviation units, these coefficients reflect the strength and direction of each predictor—where larger absolute values indicate stronger effects, and the sign denotes the direction. This approach aligns with recent empirical literature emphasising the importance of disentangling the magnitude and significance of explanatory channels (Koepke 2019; Forbes and Warnock 2012).

a. Global Factors

EME portfolio debt inflows are negatively associated with US Fed rates and trade policy uncertainty. EME portfolio debt is most affected by US monetary policy. Changes in the Federal Reserve's policy rate and monetary policy stance are shown to inversely affect bond investors' allocation decisions. For example, a one standard deviation rise in US Fed rates is associated with a fall in EME bond inflows (relative to GDP) of 0.10 standard deviations. Changes in US monetary policy directly impact interest rate differentials in EMEs and the relative attractiveness of EME debt. The results also identify TPU as a significant determinant of portfolio debt, negatively affecting

EME bond inflows. The magnitude of the effect is lower than that of US Fed rates, at –0.06 standard deviations. Overall, given the risk sensitivity of bond investors and preference for stable and predictable returns, the empirical results indicate that a more uncertain trade environment can lead to negative effects on debt inflows.

US monetary policy and trade policy uncertainty affect portfolio equity inflows in a manner similar to portfolio debt. Higher US rates and tighter global financial conditions can result in lower equity valuations and a reallocation of global investors out of global investors out of EME equities. The magnitude of the effect on EME equity inflows due to a one standard deviation tightening in US monetary policy equates to –0.09 standard deviations. In addition, TPU exerts a negative effect of –0.07 standard deviations. Elevated uncertainty in trade and tariffs can have a dampening impact on EME equities given EMEs' exposure to external demand and global value chains.

Geopolitical risk significantly reduces cross-border loans. The empirical findings indicate that geopolitical risk is the primary global factor influencing cross-border loans, with a one standard deviation rise in GPR reducing inflows relative to GDP by 0.20 standard deviations. During periods of elevated geopolitical risks, international banks may be less willing to lend abroad. Given that loans can be rapidly withdrawn, rolled over at shorter maturities, or priced at higher spreads, they are highly sensitive to shifts in the risk preferences of global lenders. The results suggest that when geopolitical risk heightens, international banks are likely to tighten credit standards and reallocate toward safer jurisdictions, which implies lower cross-border lending in EMEs.

Geopolitical risk also strongly reduces FDI, as do trade policy uncertainty and global risk aversion. A one standard deviation rise in GPR reduces EME FDI inflows relative to GDP by 0.08 standard deviations. FDI is particularly sensitive to GPR given the scale and duration of investment, with investor preference for stable and predictable long-term policy environments. Likewise, TPU tends to dampen FDI activity in EMEs, given that foreign investors are more likely to invest under stable trade and investment conditions, with easier access to global value chains and export markets. The effect of TPU is –0.04 standard deviations. Uncertainty around tariffs is likely to discourage investment. Elevated global risk aversion also dampens EME FDI inflows as investors delay or scale back long-term commitments during uncertain times.

b. Domestic Fundamentals

Trade openness is the most important domestic driver of EME foreign inflows for portfolio debt and equity. The magnitude of the positive impact of trade openness is found to outweigh the negative impacts of global factors, namely US monetary policy and TPU, affecting debt and equity portfolio flows. More specifically, a one standard deviation rise in trade openness increases EME portfolio debt and equity inflows relative to GDP by 0.12 and 0.13 standard deviations, respectively. Strong trade openness signals integration in the global economy. For equity investors, trade openness signals growth opportunities with the broadening of market access. Institutional development, proxied by rule of law, also supports EME bond inflows from abroad. In addition, GDP growth significantly affects equity portfolio inflows. For debt, a negative relationship is found, which may reflect bond investor risk preferences for a stable economic environment. On the other hand, the positive relationship between GDP growth and portfolio equity inflows may reflect the higher risk appetite of global equity investors.

For cross-border loans, financial development turns out to be the most important domestic factor, followed by trade openness. A rise in financial development by one standard deviation is associated with higher cross-border loans to EME as a share of GDP by 0.15 standard deviations. Well-developed financial systems strengthen the capacity of banks and firms to intermediate financing, better manage financial risks, and access international capital markets. Financially developed EMEs are thus more likely to attract cross-border lending by foreign banks. Trade openness is another important driver. Export diversification can help further assure foreign lenders concerned about risk management. The magnitude of the effect of trade openness on cross-border loans, at 0.09 standard deviations, is lower than that of financial development, but remains significant.

GDP growth is the key domestic driver of EME FDI inflows. Strong GDP growth signals robust aggregate demand. A one standard deviation rise in GDP growth increases FDI inflows to EMEs as a share of GDP by 0.03 standard deviations. An expanding economy and market attract foreign investors to commit long-term capital. While GDP growth is an important counterweight to the negative effects of global factors on FDI inflows, it remains lower in magnitude overall.

E. Conclusions and Policy Implications

This analytical section examines shifting EME capital inflow dynamics from 1990 to 2024 and the role of global and domestic drivers. While capital inflows are a key source of financing for EMEs, they can also be subject to boom–bust cycles. Surging inflows or abrupt foreign capital outflows have often been accompanied by sharp currency fluctuations and macroeconomic and financial instability. The section analyses how capital inflows to EMEs are influenced by external factors, namely US monetary policy, global risk aversion, trade policy uncertainty, and geopolitical risk. The role of EME domestic fundamentals in attracting foreign capital inflows is also examined.

The evidence indicates that the effect of global risk factors on EME inflows varies by type of capital flow. In the post-QE period, US Fed rates and TPU emerge as the main global drivers of EME portfolio debt and equity inflows. Global debt and equity investors are particularly sensitive to shifts in US monetary policy. Uncertainty over the future trajectory of US Fed rates thus poses a risk to emerging market capital flows. TPU has receded from its April 2025 peak, but it remains highly elevated by historical standards. Sudden and random trade policy shifts will adversely affect EME portfolio debt and equity inflows in the future. Meanwhile, both cross-border loans to EMEs and FDI are highly sensitive to geopolitical risk (GPR), which redirects international banks and long-term investors toward safer destinations and potentially away from EMEs. They can also deter FDI inflows since geopolitical risks jeopardise the economic outlook of host economies. The negative impact of geopolitical uncertainty often spills over into neighbouring economies and thus engulfs entire regions.

The evidence re-confirms the mitigating role of domestic fundamentals in cushioning EME capital inflows from global shocks. For EME portfolio debt and equity inflows, the impact of both US monetary policy and TPU is outweighed by trade openness. Trade openness signals a commitment to open markets and globalisation, which tends to boost an economy's growth prospects and attracts global equity investors. For cross-border loans, financial development is a key driver of inflows, cushioning the negative impact of GPR. International banks tend to be risk-averse but sound, safe, and efficient financial systems help to mitigate the risk of reversals. In addition, domestic policies that support robust and sustainable growth can help sustain FDI inflows into EMEs. In addition to sound fundamentals, EME policy makers should also consider the use of macroprudential policy and capital flow management measures to alleviate capital flow volatility driven by sharp shifts in global liquidity conditions.

As EMEs and financial markets become more globalised, EME capital flows will likely be shaped by a more complex interplay of global and domestic drivers. Further analysis can delve into understanding different responses of different types of FDI capital inflows to global and domestic factors, notably during extreme financial stress. Another important avenue for future research is the role of regional cooperation and integration in insulating EME capital flows from global shocks. Finally, effectively managing capital flows given the ongoing digitalisation of financial markets and cross-border payments systems also warrants further analysis.

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SEACEN Capital Flows Monitor 2026

The SEACEN Capital Flows Monitor is a bi-annual report on cross-border capital flows and net foreign asset positions of SEACEN member economies, which are members of the SEACEN Expert Group (SEG) on Capital Flows. The report discusses financial market developments in the region, recent trends, and the outlook on capital flows and international investment positions. A separate section provides a thematic analysis of topical issues, such as the significance of global factors and domestic fundamentals in driving cross-border investment flows.

The SEACEN Centre

Since its inception in the early 1980s, The South East Asian Central Banks (SEACEN) Research and Training Centre (The SEACEN Centre) has established its unique regional position in serving its membership of central banks in the Asia-Pacific region through its learning programmes in key central banking areas (including Macroeconomic and Monetary Policy Management; Financial Stability, Supervision & Payments; and Leadership, Governance, and Human Capital), research work, and networking and collaboration platforms for capability building in central banking knowledge.

The South East Asian Central Banks (SEACEN) Research and Training Centre

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