In recent outflow episodes, EM benchmark-driven investors have reduced their holdings rapidly. Benchmark-driven flows are highly sensitive to external factors, such as risk appetite and US rates. An adverse external shock would result in much larger outflows today than a few years ago. Benchmark-driven investors play a major role in some emerging market sovereign debt markets.

Sources: Bloomberg Finance L.P.; EPFR Global; JPMorgan Chase & Co; Arslanalp and Tsuda (2014); and IMF staff estimates.

Note: In panel 2, correlations are based on EPFR Global’s data on country-level flows via investment funds. These data are subject to various measurement and sampling issues. In particular, EPFR estimates country-level flows based on certain assumptions about country portfolio weights because actual data on country-level fund flows are not reported to EPFR. This will tend to inflate estimated correlation coefficients. In addition, India and Thailand were excluded from the analysis because inflows are dominated by domestic funds investing in their own country. Separately, it is worth noting that correlation coefficients for overall portfolio flows are boosted by the fact that overall flows include benchmark-driven flows. In panels 3 and 4, coefficient estimates are calculated for a one standard deviation shock. In panels 4 and 5, coefficients are from a 36-month rolling regression. In panel 6, estimates assume that benchmark-driven investors and foreign investors follow closely the index weights. In reality, deviations for some countries can be substantial. In panel 6, the data are as of 2018:Q2. AUM = assets under management; BoP = balance of payments; EM = emerging market; EPFR = Emerging Portfolio Fund Research, Inc.; RMB = renminbi; VIX = Chicago Board Options Exchange Volatility Index.