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Cross-Border Capital Flows Statistics and Its Implication for Monitoring in China

Wang Xiaoyi
State Administration of Foreign Exchange

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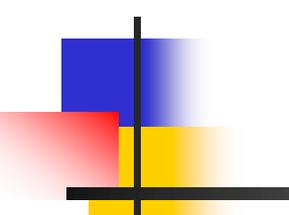
Cross-border Capital Flows Statistics and Its Implication for Monitoring in China

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Deputy Administrator, State Administration of Foreign Exchange

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Outline

I. What We have in Monitoring China's Capital Flows

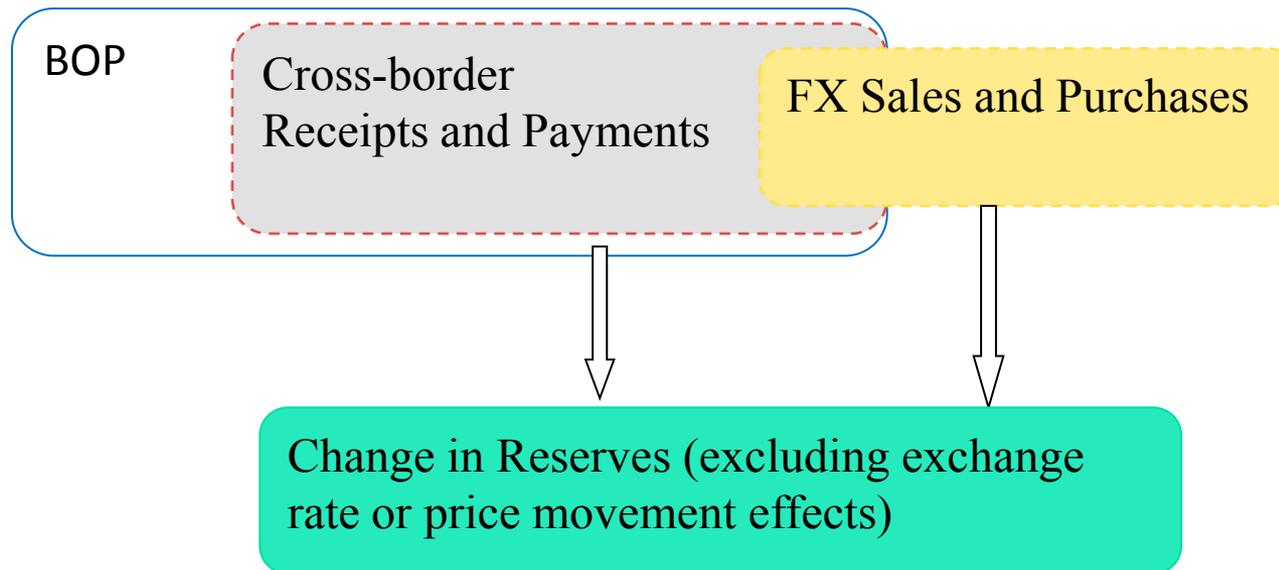
II . How We Use Related Data Sets in Monitoring Cross-border Capital Flows

III . Coping with Volatile Capital Flows

I. What We have in Monitoring China's Capital Flows

➤ Three major statistical systems:

- Balance of Payments (BOP) Statistical System
- Cross-border Receipts and Payments System
- Foreign Exchange (FX) Sales and Purchases System



I. What We have in Monitoring China's Capital Flows

- BOP statistics summarize economic transactions between residents and nonresidents of an economy.

China's Balance of Payments Abridged 2010-2012 (Billions of Dollars)

Item/Year	2010	2011	2012
I .Current Account Balance	238	136	193
Credit	1,936	2,290	2,460
Debit	1,698	2,154	2,267
II .Capital and Financial Account Balance	287	266	-17
Credit	1,167	1,450	1,378
Debit	880	1,184	1,395
III .Reserve Assets	-472	-388	-97
Credit	0	1	14
Debit	472	389	110
Foreign Exchange Reserves	-470	-385	-99
IV. Net Errors and Omissions	-53	-14	-80

I. What We have in Monitoring China's Capital Flows

- Cross-border receipts and payments statistics reveal mainly cross-border cash flows between domestic nonbank institutions and households (nonbank sector) and the rest of the world.
- FX sales and purchases statistics mainly reflect bank's FX trading business involving the exchange of FX and RMB for their customers.

Cross-border Receipts and Payments and FX Sales and Purchases by Nonbank Sector through Banks 2010-2012 (Billions of Dollars)

Item/Year	Cross-border Receipts and Payments			FX Sales and Purchases		
	2010	2011	2012	2010	2011	2012
Total Balance	298	270	111	398	368	111
1.Current Account Balance	189	100	-30	346	319	107
2.Capital and Financial Account Balance	103	161	123	51	49	4



I. What We have in Monitoring China's Capital Flows

Cross-border capital flow statistics vs. BOP statistics:

- Provide higher frequency and more timely data.
- Have broader coverage and provide more dimensions for data analysis.
- Provide an overall picture of cross-border capital flows and the demand and supply situation in the domestic FX market.

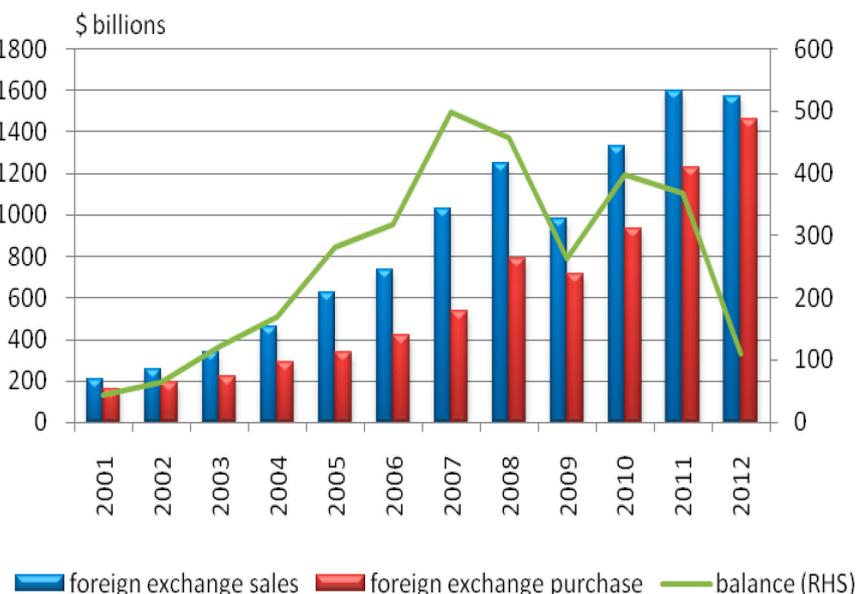
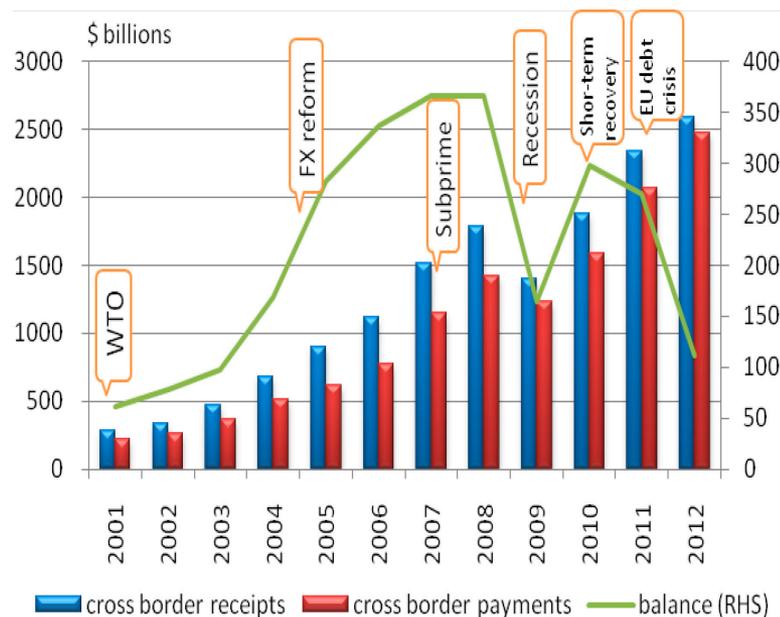
Different Breakdowns of Cross-border Receipts and Payments & FX Sales and Purchases by Nonbank Sector through Banks 2012(Billions of Dollars)

Net Cross-border Receipts and Payments	by industry	Net Cross-border Receipts and Payments	by region	Net FX Sales and Purchases	by transactor
Mining	-14	Asia	27	Financial Institutions	-2
Manufacturing	360	America	67	Chinese Owned Entities	10
Wholesale and Retail Trade	-206	Europe	-21	Foreign Owned Entities	144
Banking	-74	Africa	39	Resident Individuals	-56
Real Estate	15	Oceania	-12	Nonresident Individuals	14
Other Industries	19				

II. How We Use Related Data Sets in Monitoring Cross-border Capital Flows

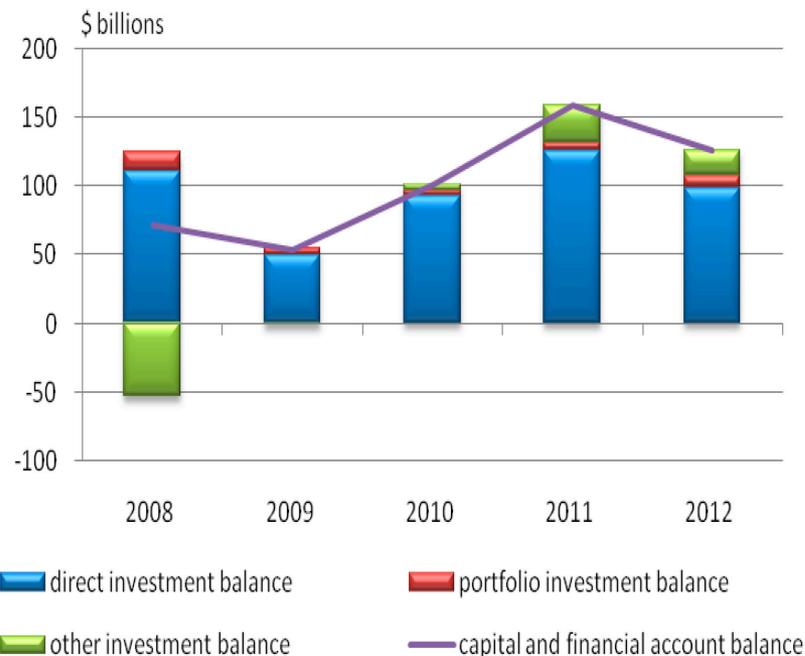
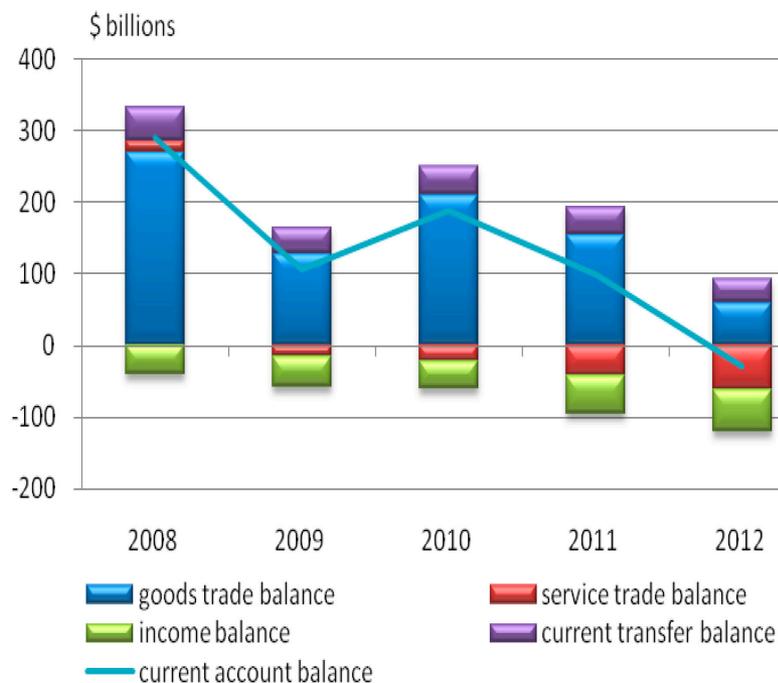
Overall picture of cross-border capital flow

- Capital inflows for many years
- Nonbank sector cross-border receipts > payments since 2001
- Nonbank sector FX sales > purchases since 2001



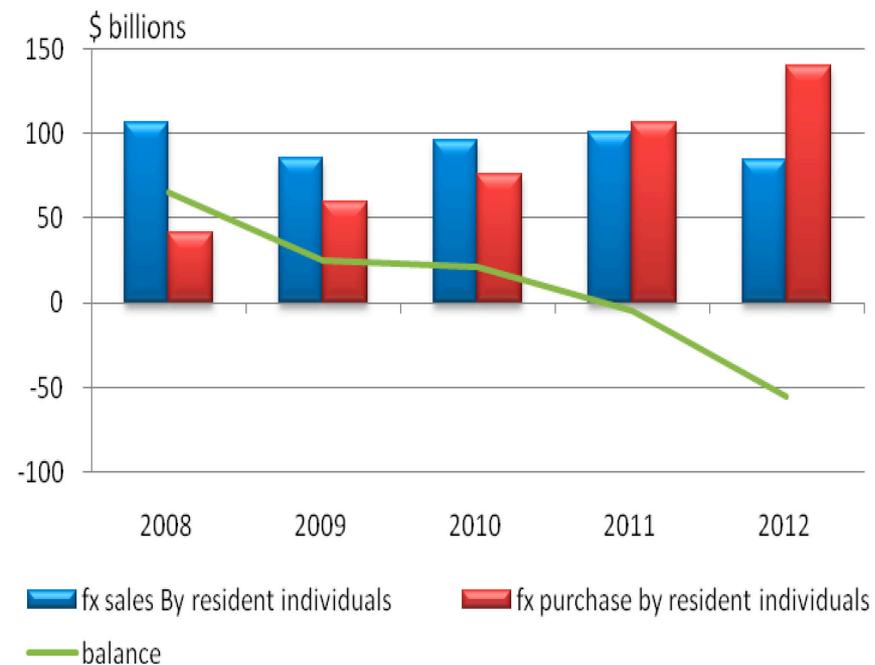
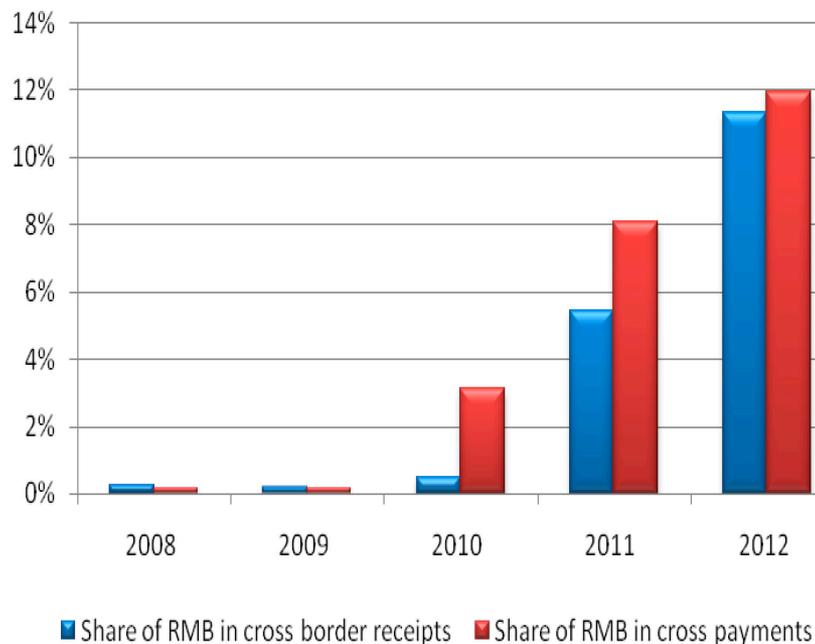
II. How We Use Related Data Sets in Monitoring Cross-border Capital Flows

➤ Both cross-border net inflow and net FX sales and purchases for current account transactions is declining recently.



II. How We Use Related Data Sets in Monitoring Cross-border Capital Flows

- RMB is more prevalent.
- The FX sales by resident individuals is relatively stable, but their FX purchases is rising.



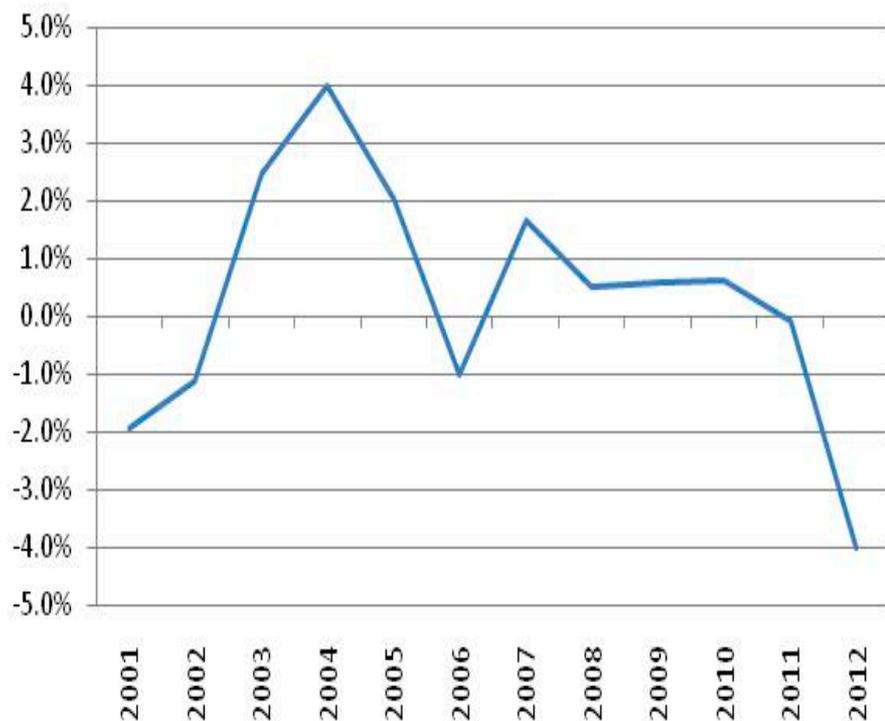
II. How We Use Related Data Sets in Monitoring Cross-border Capital Flows

Methodology of Measuring “hot money” and assessment over the past decade

- General speaking, “hot money” is only a small part of total cross-border capital flows, and there is no perfect way to measure it.
- Volatile capital flows = Δ FX Reserve - Trade Surplus - Net Direct Investment - Returns on Overseas Investment – Portfolio Inflow by Overseas Listed Companies

II. How We Use Related Data Sets in Monitoring Cross-border Capital Flows

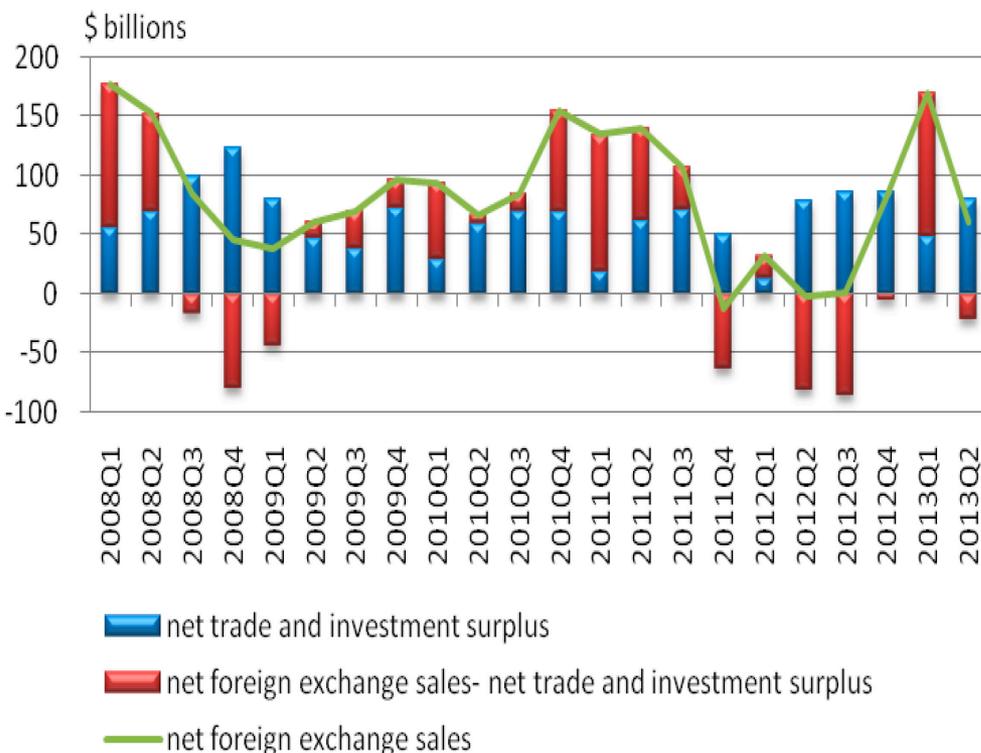
Volatile capital flows as a share of GDP



- From 2001 to 2012, inflows and outflows of volatile capitals basically offset each other, and the residual amount accounted for only 1% of the reserve accumulation.
- The ratio of volatile flows to GDP each year has been relatively low (-0.44% for the first half of 2013).

II. How We Use Related Data Sets in Monitoring Cross-border Capital Flows

Main Channels of Capital Flows of the Nonbank Sector



➤ since 2008, cross-border capital flows mainly reflected enterprises' hedging or arbitraging activities.

III. Coping with Volatile Capital Flows

Three main steps:

Monitoring \Rightarrow Find out the risky points \Rightarrow Macro-prudential regulations.

Step 1: Assess overall capital flow risk level

Signal Light					
Inflow/outflow risk	balance	attention	mild	medium	high

III. Coping with Volatile Capital Flows

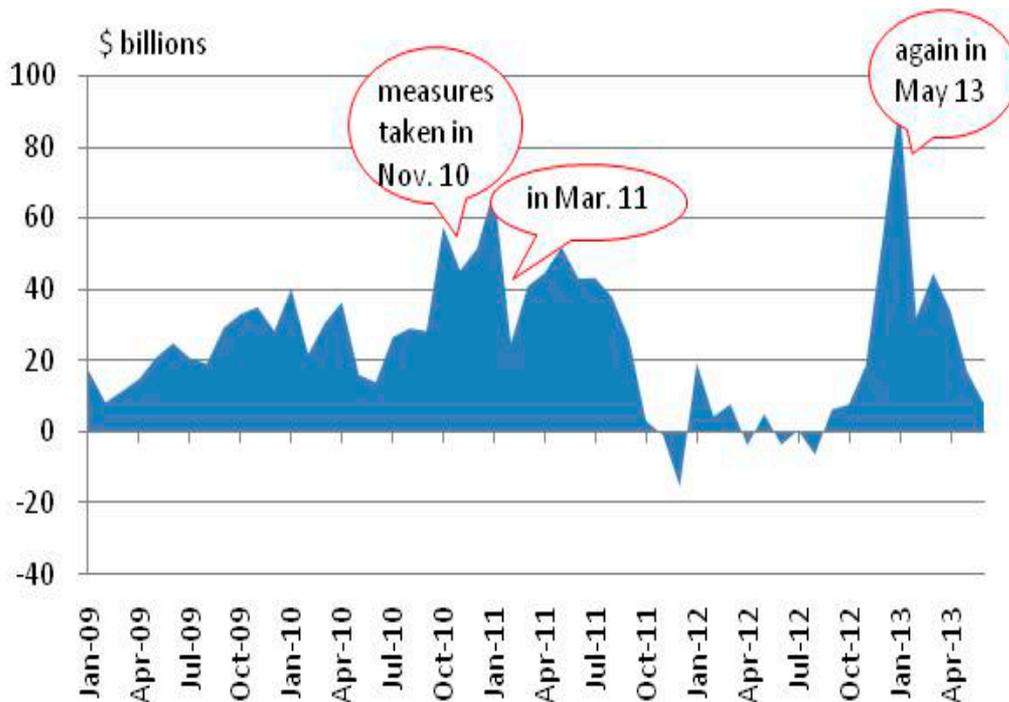
Step 2: Determine the major channels of capital flow

Item	Nov.2012-Apr.2013 (Billions of Dollars)	Contribution Ratios
Balance of FX sales and purchases	276	100%
Net cross border receipts	182	66%
Among which: Trade Surplus	113	41%
Net Direct Investment	61	22%
Net Change of FX loans and deposits	82	30%
Among which: change in loans	108	39%
Other factors	13	4%

Step 3: Take measures to smooth fluctuations of capital flows

III. Coping with Volatile Capital Flows

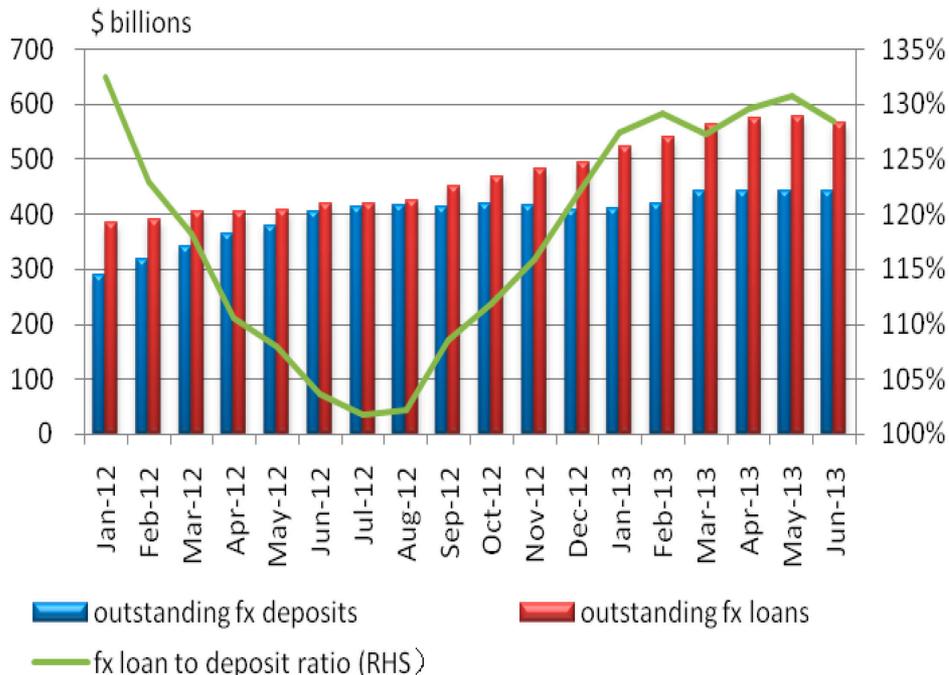
Step 1: Assess overall capital flow risks



➤ After the global financial crisis, in September 2010, February 2011, and April 2013, capital inflows to China reached mild or medium risk levels respectively.

III. Coping with Volatile Capital Flows

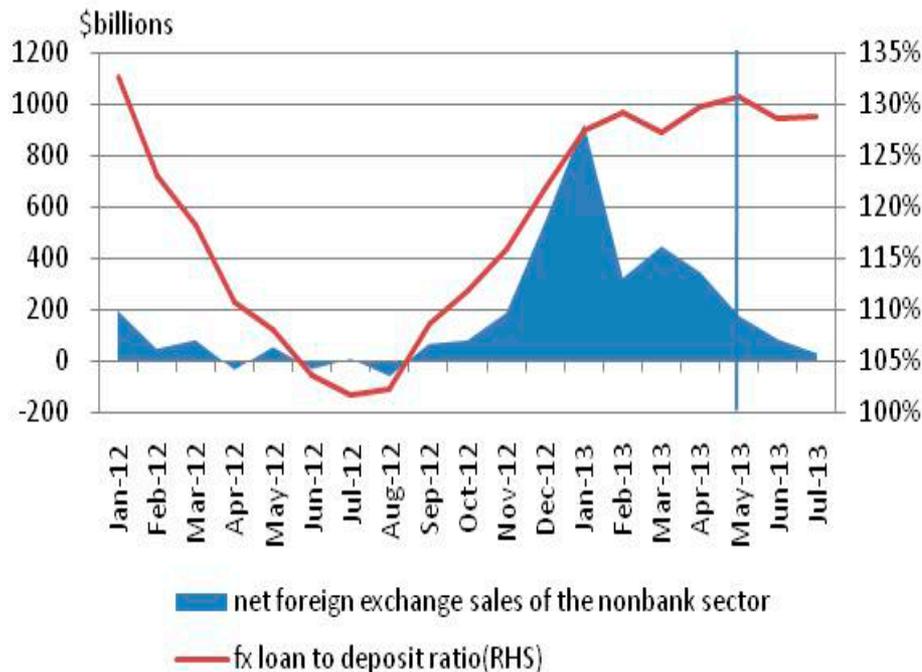
Step 2: Determine the major channels of capital flow



- Enterprises were unwilling to purchase foreign currency from banks, but were instead inclined to borrow FX loans to pay for their imports.
- This behavior resulted in the resurgence of capital inflows between November 2012 and April 2013.

III. Coping with Volatile Capital Flows

Step 3: Take measures to smooth fluctuations of capital flows

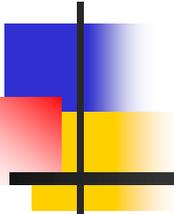


- The banks with higher FX loan-to-deposit ratios were required to expand net FX open positions.
- After the implementation of the policy, the increase in loan-to-deposit ratio stopped, and the currency mismatch of enterprises and banks was alleviated.

III. Coping with Volatile Capital Flows

Future Policy Orientations:

- Further strengthen statistics during the process of eliminating capital account controls.
- Coordinate between BOP and other statistics.
- Improve statistics on both cross-border receipts and payments and FX sales and purchases.
- Strengthen the linkage between cross-border flow statistics and statistics in domestic currency.
- Introduce more statistical breakdowns of data.
- Improve statistical methodologies with consideration to costs and benefits.



Thank You!