



Figure 5: Post-crisis, Chinese reserve volatility driven by financial rather than current account



Source: Deutsche Bank, IMF, Haver Analytics, CIBC

Figure 6: Other investment account captures pivotal carry and hot-money flows



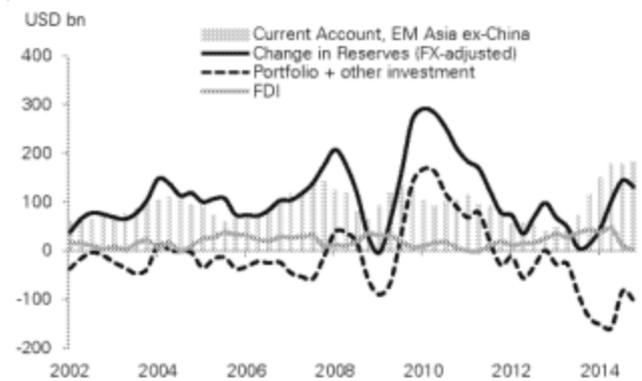
Source: Deutsche Bank, IMF, Haver Analytics, CIBC

Figure 7: In the rest of Asia, big post-08 financial inflows have turned to outflows



Source: Deutsche Bank, IMF, Haver Analytics, CIBC

Figure 8: which has been a combination of portfolio and other investment exts



Source: Deutsche Bank, IMF, Haver Analytics, CIBC

You've seen yuan, you've seen EM all

While the aggregate masks considerable country-level variance, the broad trend in the rest of EM Asia has been similar to China. Pre-crisis, reserves stemmed from current account surpluses, with financial flows playing a negligible role (Figure 7). That changed after 2008 as massive financial inflows during 2009-10 filled central banks' buffer stocks at a rate far exceeding the pre-crisis run rate. Net capital inflows dried up in 2012-13, however, before turning sharply negative after the taper tantrum. Along with this, the pace of reserves accumulation also fell sharply. Indeed, the shifts in portfolio and other investment flows are most closely correlated with reserves changes (Figure 8). Interestingly, rising current account surpluses have given reserves in North Asia a helping hand again.

Outside Asia, EM reserve accumulation has been even more reliant on capital flows. With the major accumulators in Latam and EMEA running current account deficits, excess financial inflows have been the backbone of reserves. Reserves growth has slowed here because financial inflows have not been able to keep pace with widening current account deficits (Figure 9). The data does not fully reflect the acceleration in this dynamic in the past months. Yet it bears testament to the worrying pattern for the non-Asian EM bloc to be highly vulnerable to reversals in hot money flows (Figure 10).