

# China: Capital Flows and ODI

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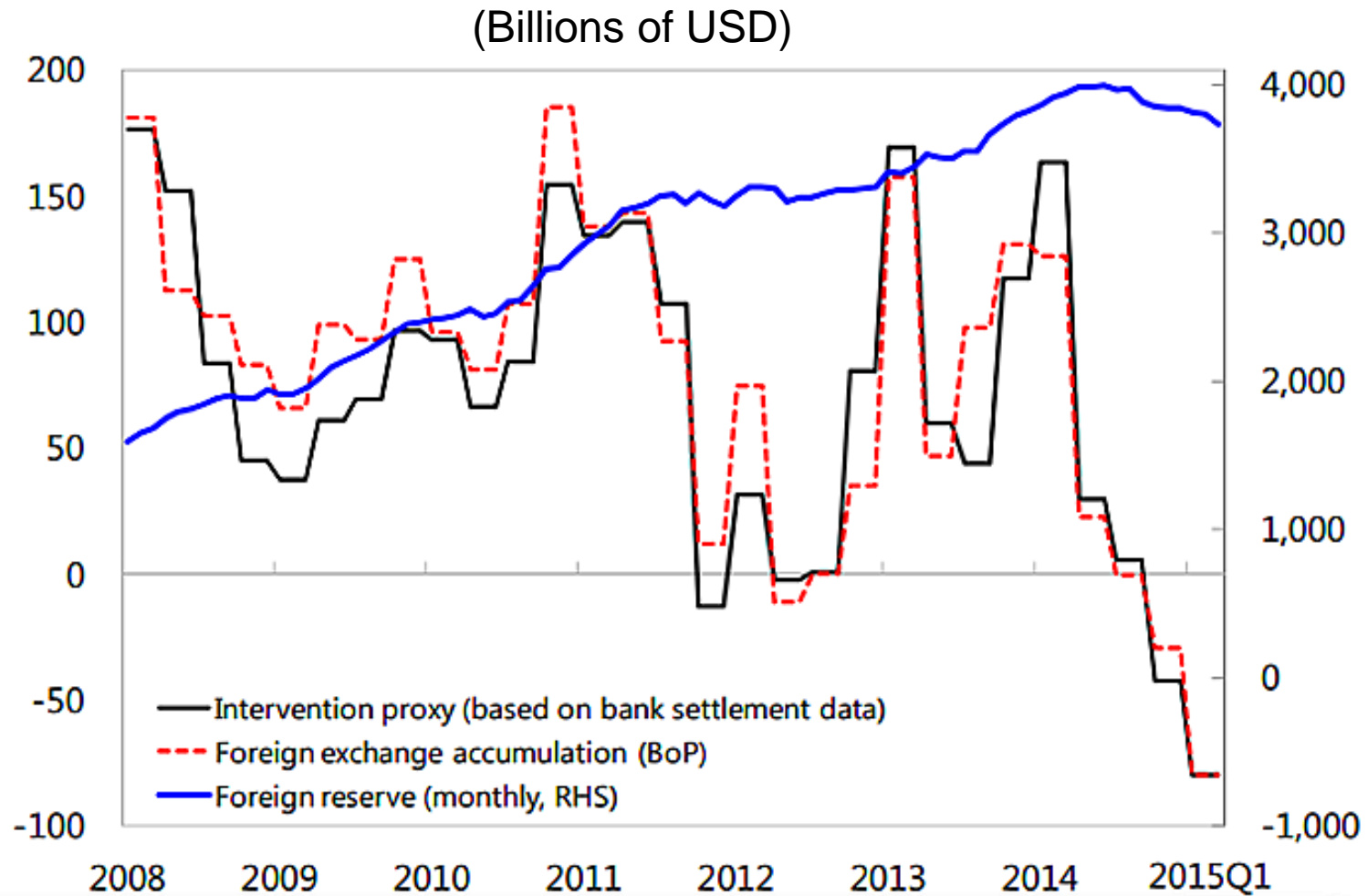
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# The Issues

China's foreign exchange reserves declined from about \$4 trillion in mid-2014 to \$3.5 trillion by September 2015. At the same time, the RMB broke the pattern of continued appreciation vs. the USD.

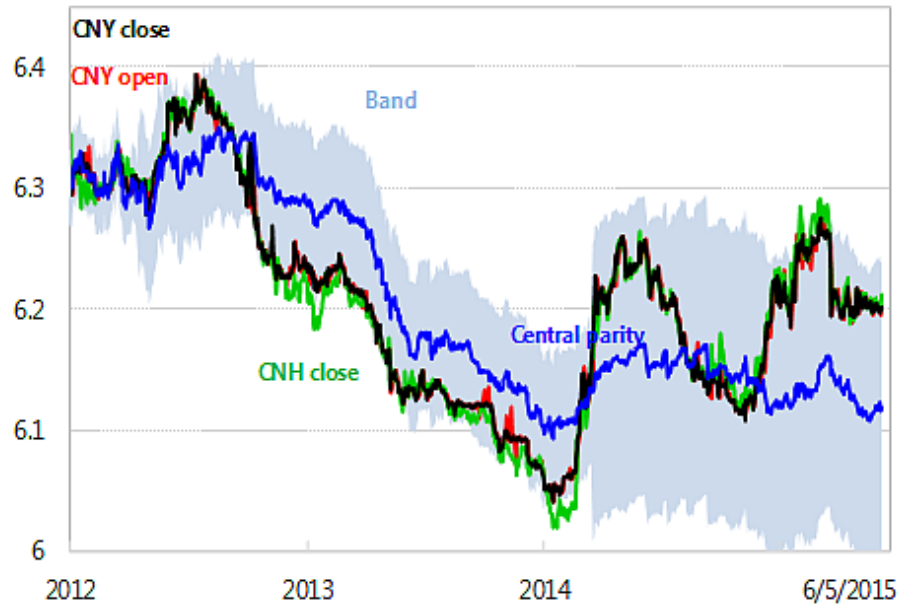
- What has happened?
- Are these developments a cause for concern?
- What are the implications for China's financial sector reform and outward investment?

# Foreign Reserves

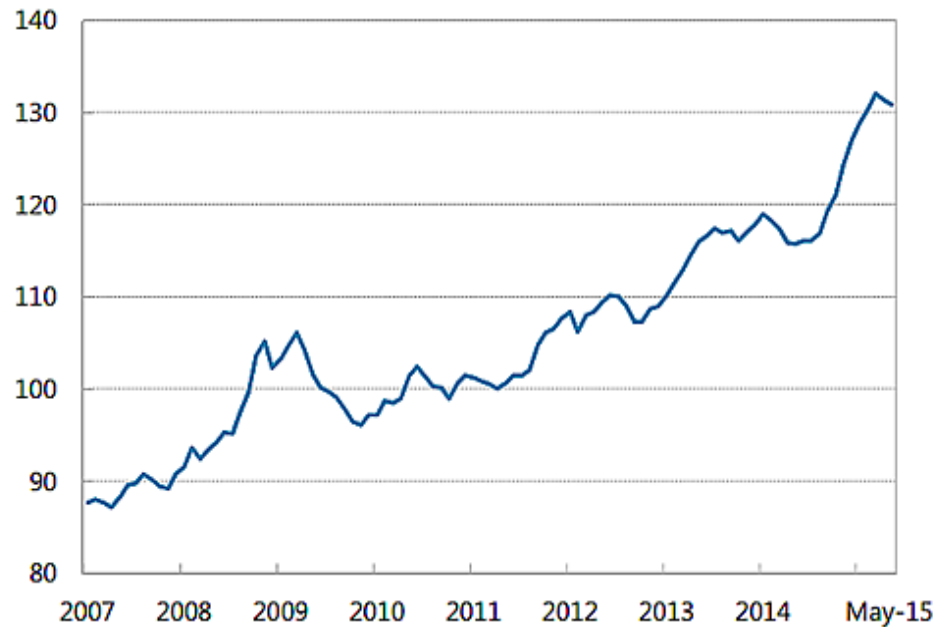


# Exchange Rates

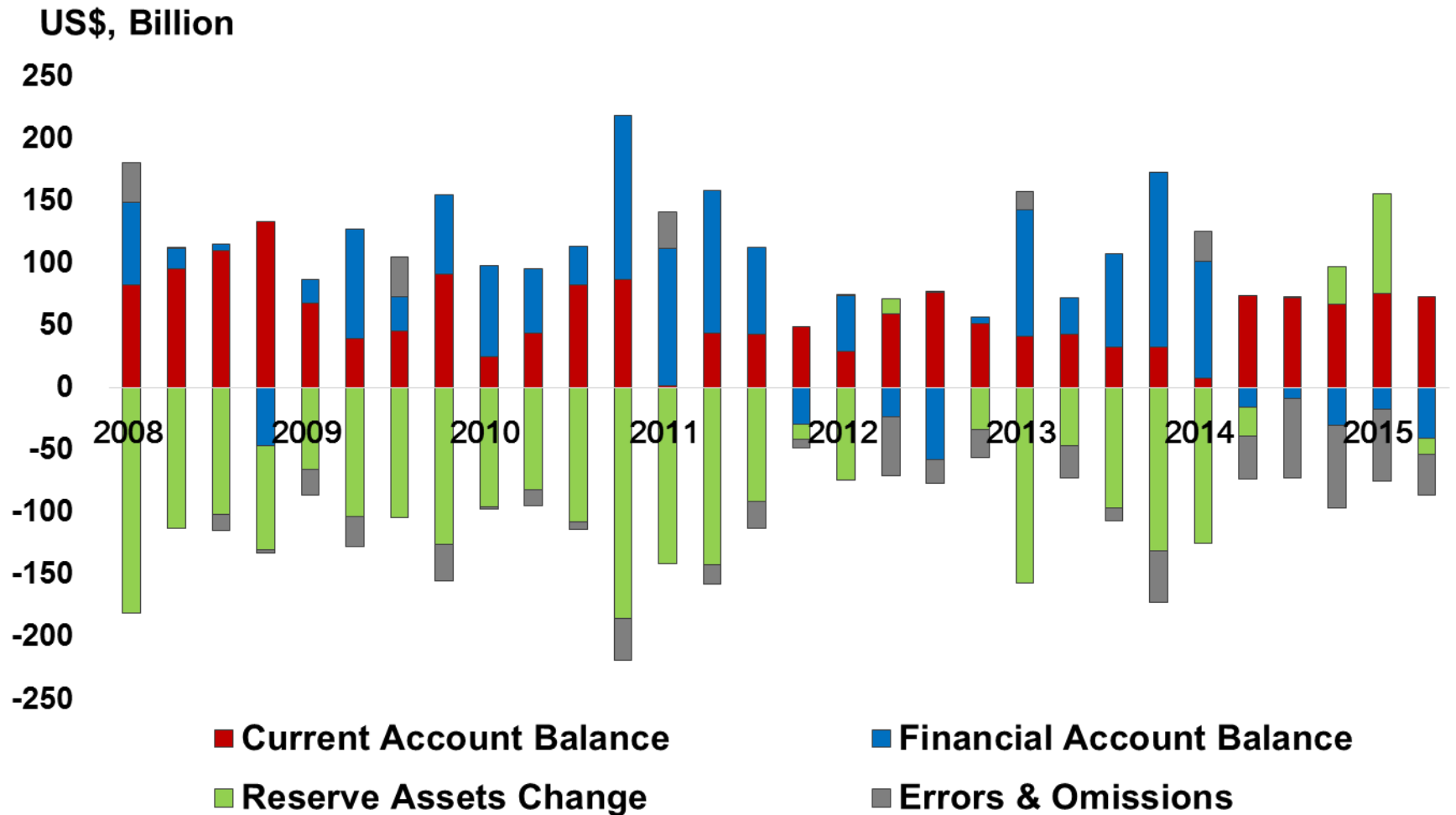
## RMB Exchange Rate (In RMB per USD)



## REER (2010=100)

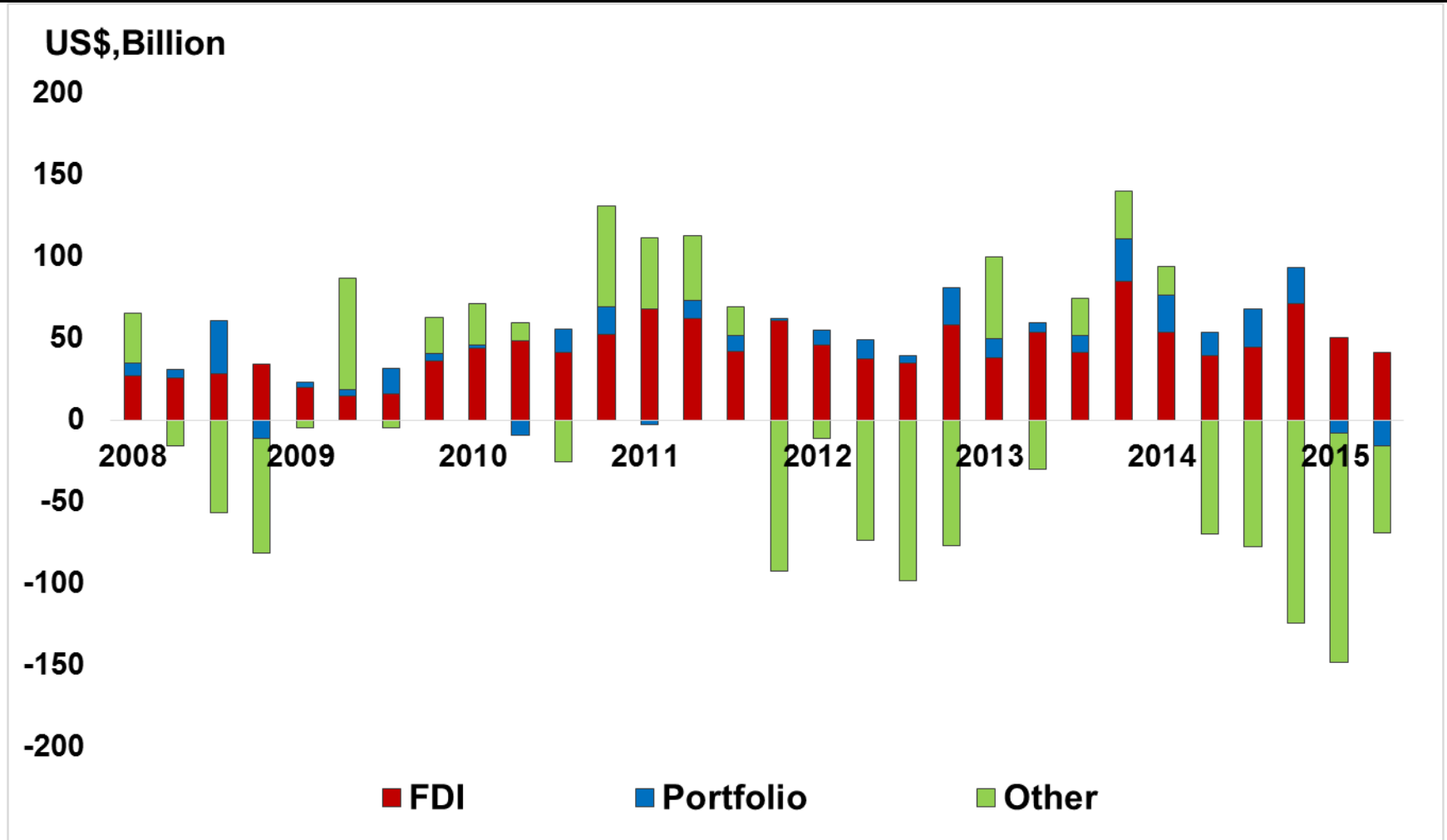


# A BOP Turning Point?



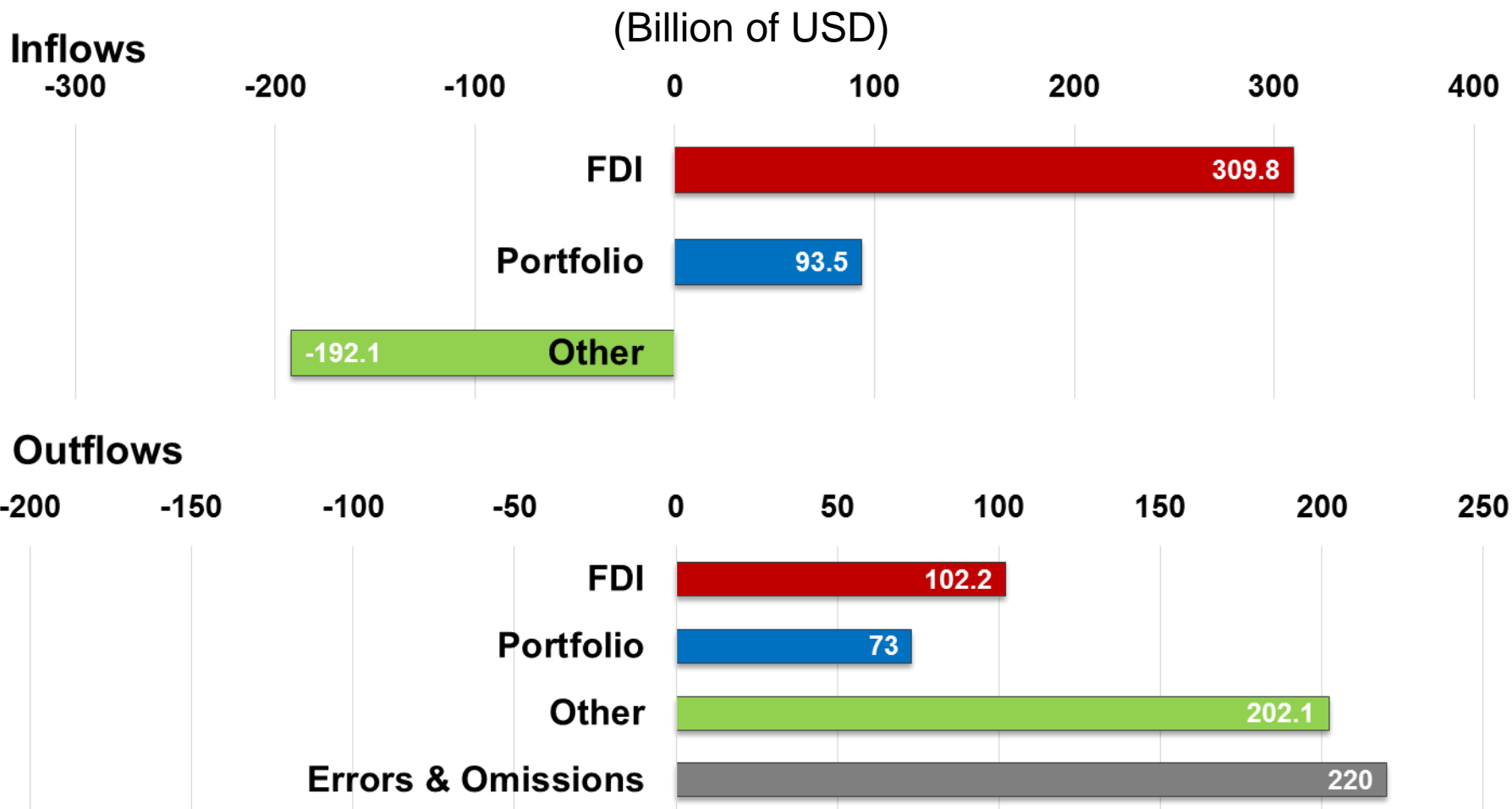
Source: SAFE.

# Cross-Border Capital Flows by Type of Investment



Source: SAFE.

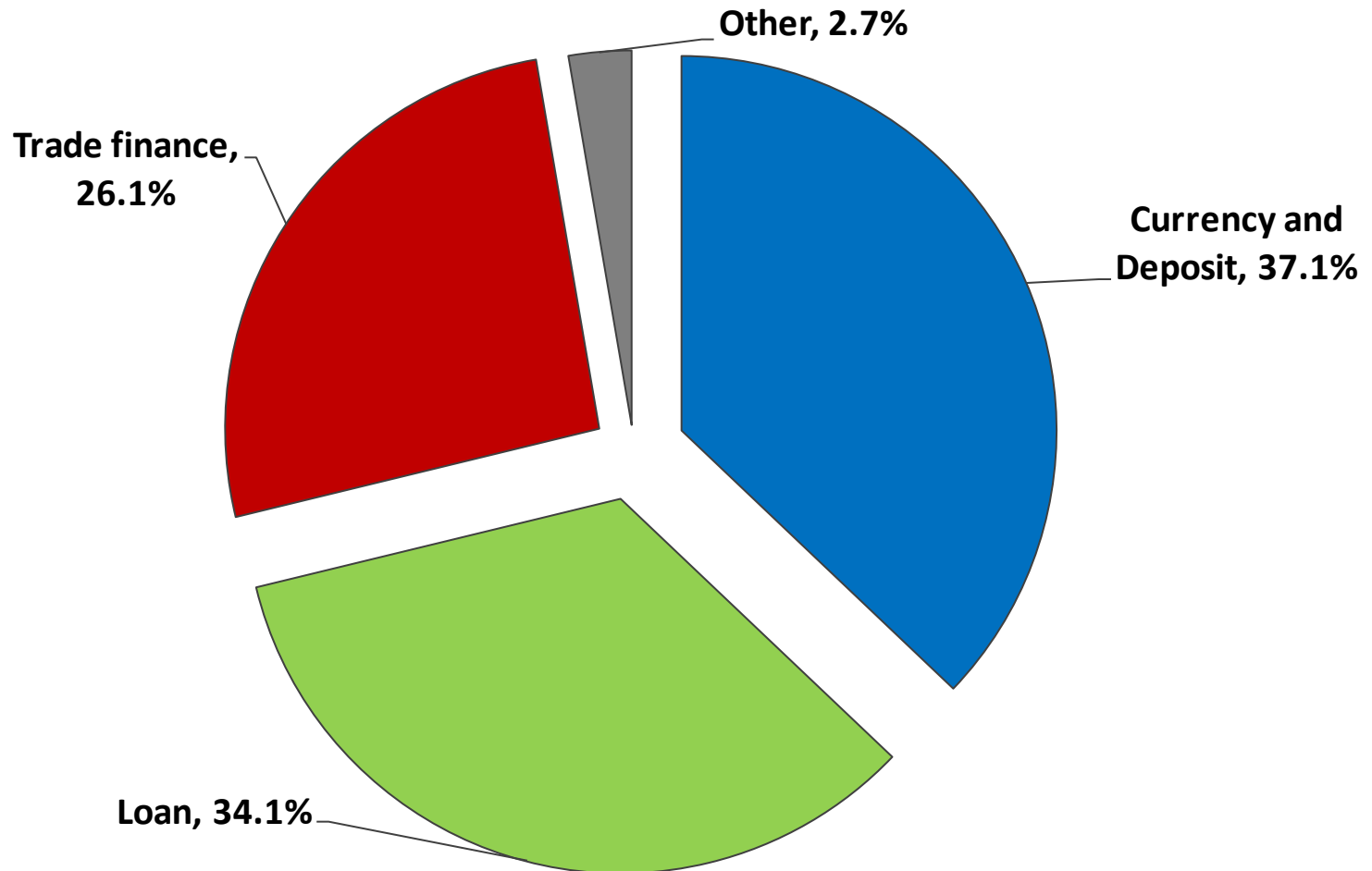
# China Capital Flows, 2014Q2-2015Q2



Source: SAFE.

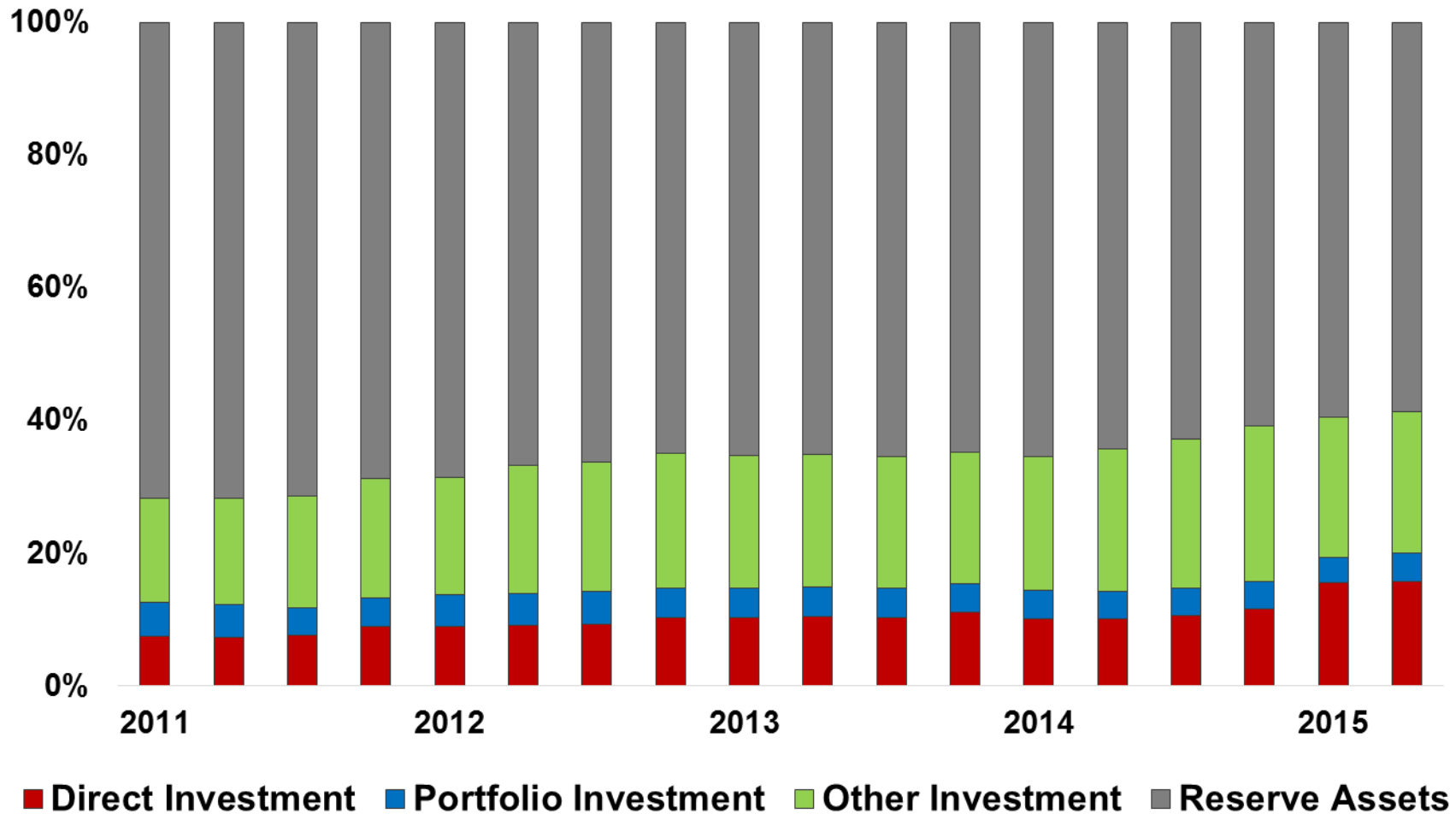
# Composition of “Other Investment”

2014Q2-2015Q2



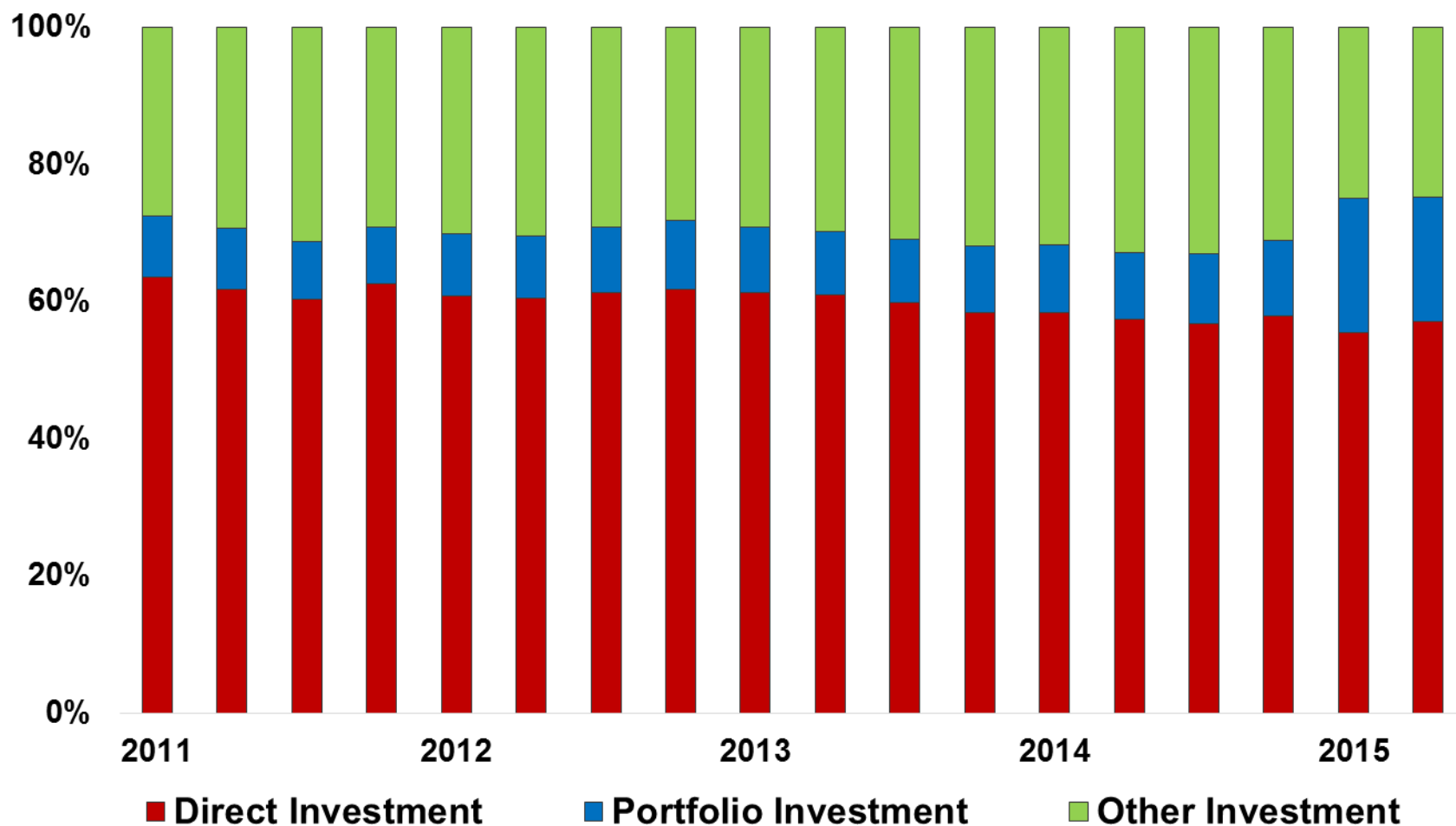


# Composition of Foreign Assets



Source: SAFE.

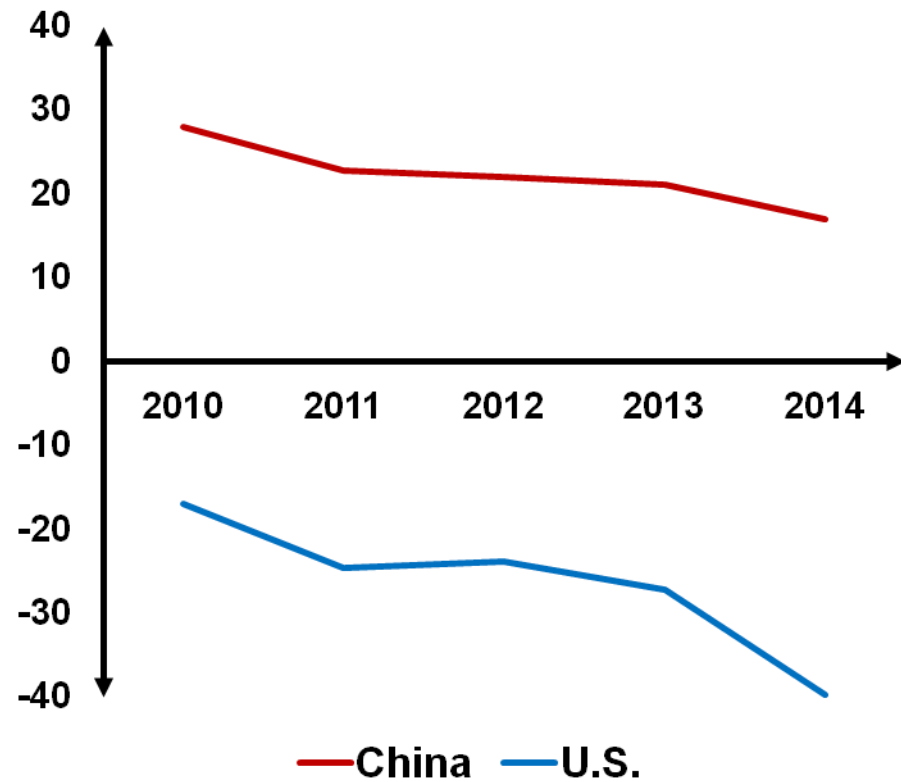
# Composition of Foreign Liabilities



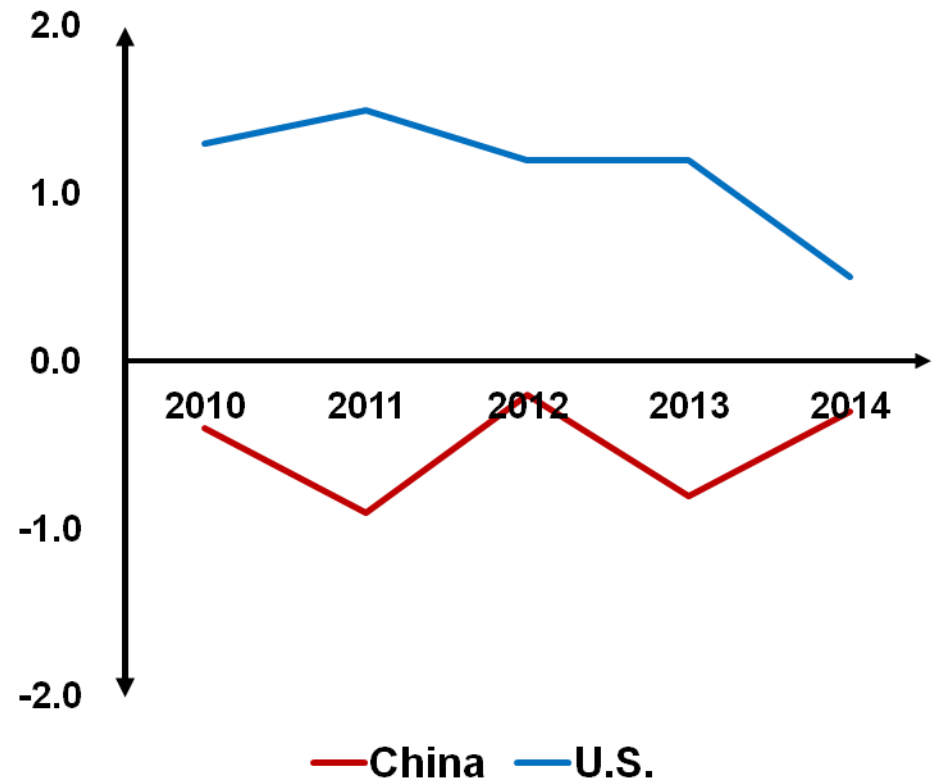
# NIIP and Income Balance

(% of GDP)

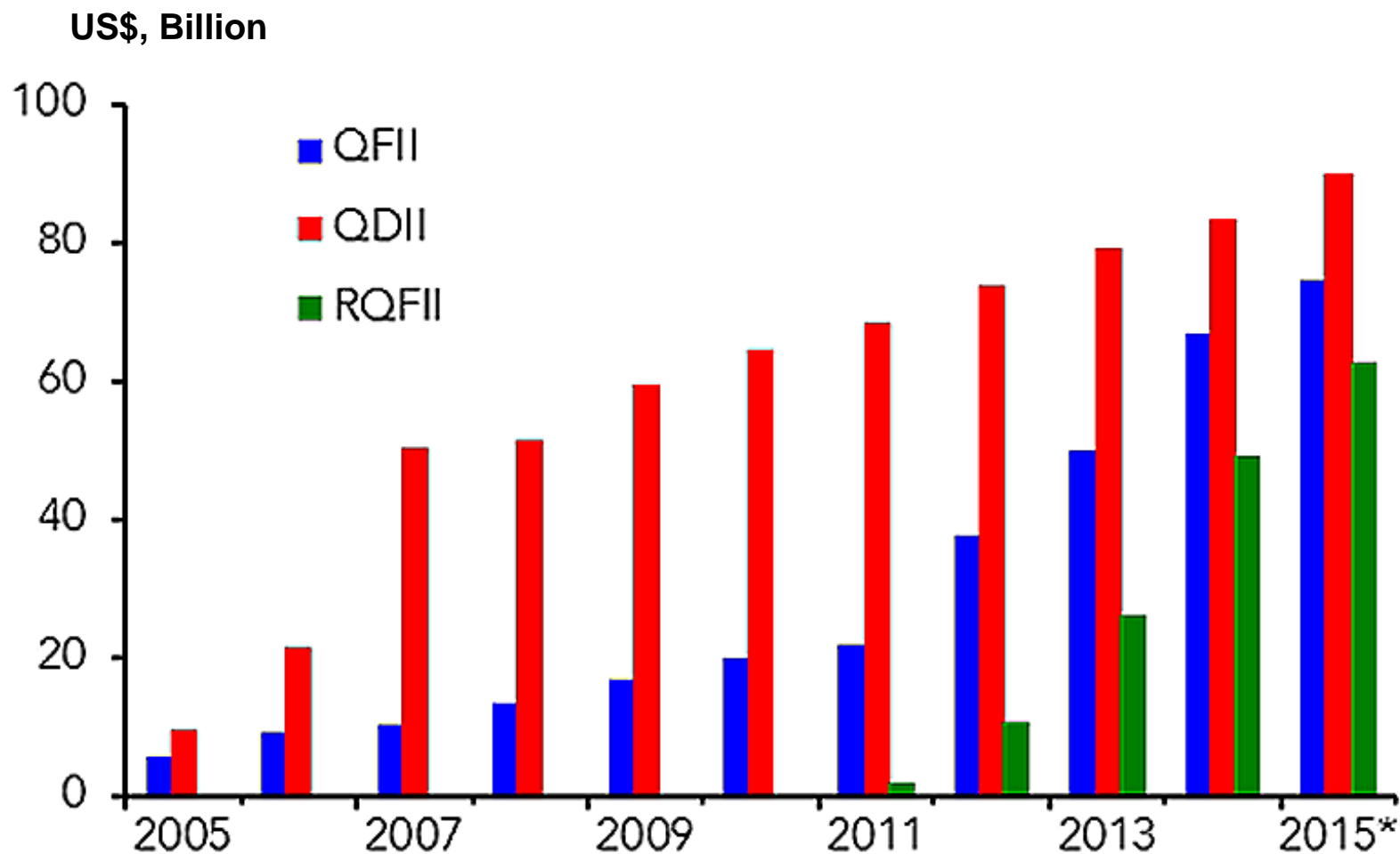
## NIIP



## CA Income Balance



# Financial Account: “Q” Programs



Source: PBC, \*Q2.

# Conclusions

## Far-reaching changes in China's BOP

- Cyclical drivers
- Structural drivers

## Implications:

- Towards an open capital account
- FDI/ODI
- Portfolio investment
- Containing speculative flows/volatility

Thanks!