2. International Economic Developments

Global economic growth continued to slow down in the second quarter. However, global growth forecasts by international institutions remained currently unchanged for 2011 and 2012. Despite the weak course of growth in advanced economies, emerging economies continued to grow rapidly on domestic demand driven by credit expansion amid capital flows.

Mounting concerns regarding sovereign debt sustainability in some euro area countries and the slower-than-expected recovery in the U.S. labor market have intensified downside risks to global economic activity in the interreporting period. The recent package of measures on restructuring Greek debt and enhancing financial stability in the euro area greatly diminished the risk of disorderly debt restructuring for Greece. Measures to increase the flexibility of the European Financial Stability Fund (EFSF) and to lower the borrowing costs of other peripheral countries that are in trouble were welcome by the market. Nevertheless, problems regarding the sustainability of sovereign debt of Greece and the access of some peripheral countries to market funds still partially persist. In this context, sovereign debt problems in the euro area may continue to occupy the agenda for a while.

The U.S. growth experienced a significant quarter-on-quarter decline in the first quarter of 2011. Leading indicators for the second quarter imply an anemic growth for this quarter as well. Soaring inflation amid slowing employment growth and rising commodity prices causes consumption expenditures to stagnate. The U.S. Federal Reserve Bank mentioned a third round of easing in the context of risk scenarios while terminating the second round of quantitative easing, and reiterated that the low interest rate policy would be maintained for an extended period. The euro area saw a high-rated growth in the first quarter of 2011 owing to the favorable performance of the core countries. The contribution of private consumption expenditures to economic growth remained unhanged in this quarter, whereas, that of fixed investment expenditures increased considerably. Similar to U.S., leading indicators for the euro area imply a slightly slower growth in the second quarter.

In emerging economies, short-term capital flows and rapid credit growth feed macro financial risks. Growth remained robust in the last quarter in these countries, while inflationary pressures became more pronounced and the tight

monetary policies were maintained. The major risk factor for emerging economies is the macroeconomic imbalances driven by rapid capital inflows. Central banks of emerging economies continued to implement macroprudential measures to contain the potential adverse effects of capital flows.

Having declined slightly in the last quarter, commodity prices remain a major risk factor. The geopolitical unrest in oil-producing countries, concerns over the sovereign debt crisis in some European countries and fears for the pace of global economic recovery cause the oil price uncertainty to persist. Meanwhile, unlike the previous year, supply-side problems in agricultural products are expected to moderate. However, this development is unlikely to fully end the crunch in physical markets.

2.1. Global Growth

Global economic recovery continued in the first quarter, albeit having slowed down slightly. In advanced economies with highly varying growth rates, economic activity is expected to outpace its pre-crisis level in the current quarter. Likewise, the export-weighted global production index is expected to have surpassed its pre-crisis level in the second quarter of 2011. Meanwhile, despite the adopted tightening measures in emerging economies, economic activity continues to grow robustly on the back of domestic demand (Charts 2.1.1 and 2.1.2).

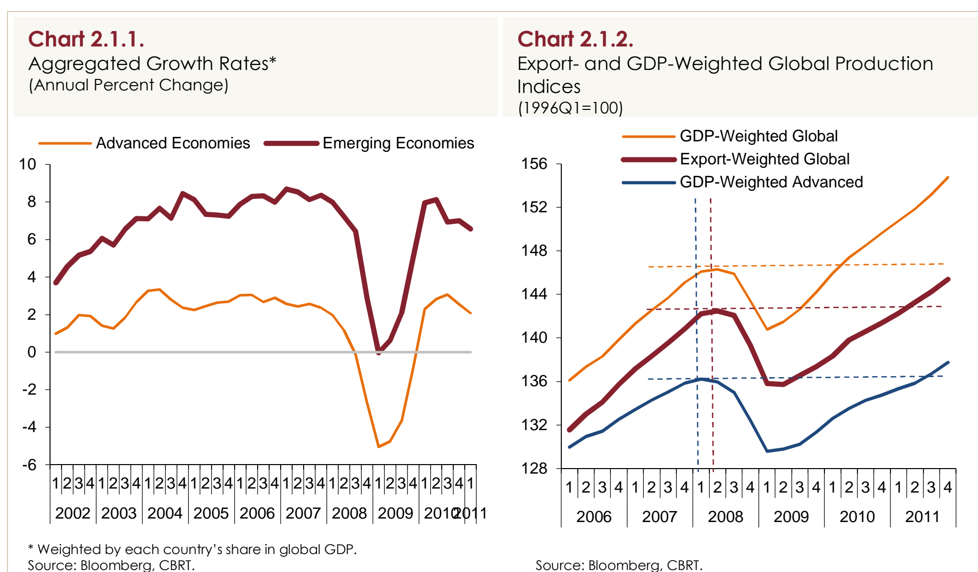


Chart 2.1.1.
Aggregated Growth Rates*
(Annual Percent Change)

* Weighted by each country's share in global GDP.
Source: Bloomberg, CBRT.

Chart 2.1.2.
Export- and GDP-Weighted Global Production Indices
(1996Q1=100)

Source: Bloomberg, CBRT.

Due to the instability of employment gains in advanced economies, unemployment rates remain elevated above pre-crisis levels and continue to pose a risk to growth (Chart 2.1.3). Having displayed a slightly downward course between November and March, the U.S. unemployment rates bounced back in the subsequent quarter following the slowdown in employment gains. Meanwhile, the downtrend in the real estate prices for the U.S. remained intact due to ongoing problems in the market (Chart 2.1.4).

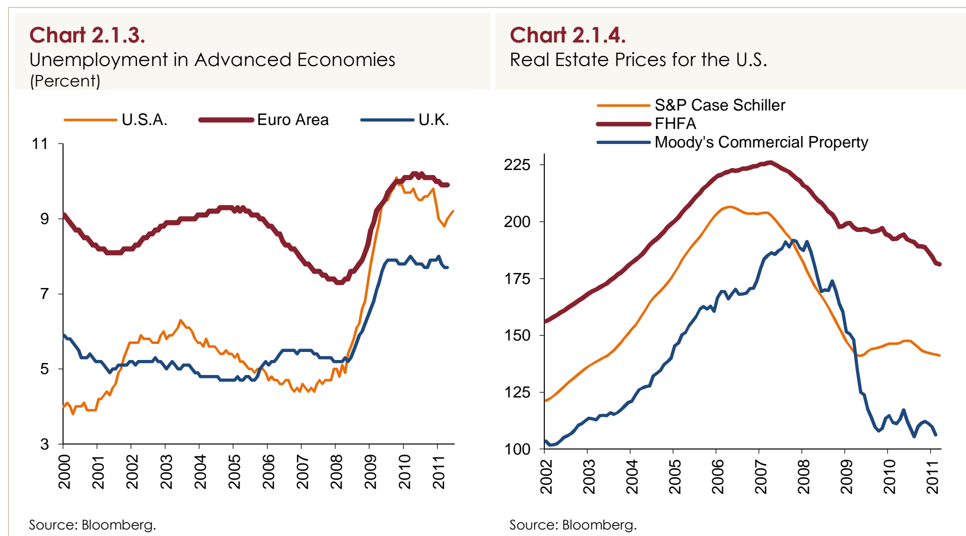


Chart 2.1.3.
Unemployment in Advanced Economies
(Percent)

Source: Bloomberg.

Chart 2.1.4.
Real Estate Prices for the U.S.

Source: Bloomberg.

JP Morgan Global PMI indices, the most current data for the second quarter of 2011, remained above the neutral level, albeit a quarter-on-quarter decline (Chart 2.1.5). The recently ongoing downtrend of PMI indices for the U.S., euro area and China indicate a continuing slow down in global economic growth (Chart 2.1.6).

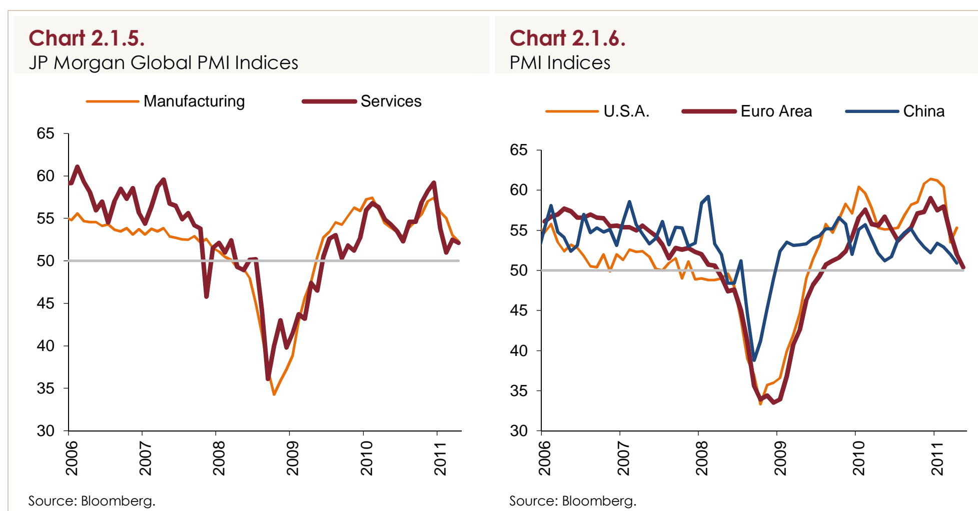


Chart 2.1.5.
JP Morgan Global PMI Indices

Source: Bloomberg.

Chart 2.1.6.
PMI Indices

Source: Bloomberg.

Consensus Economics growth forecasts for end-2011 were recently revised downwards, especially for the U.S. and the Asia-Pacific region over the interreporting period. The Japanese growth forecast for 2011 was revised significantly downwards due to the earthquake, while the expectation for 2012 was revised upwards. The sizeable upward revision to 2011 growth forecast for the euro area core economies, in particular Germany, France and Netherlands, brought about an increase in growth expectations for the euro area (Table 2.1.1).

As a result, compared to the April Inflation Report, despite the upward revision of the growth expectations for the euro area countries, accounting for a major share in Turkey's exports, baseline scenario assumptions presented in the final part of the Report remained unchanged for external demand outlook due to downward revision of growth forecasts for the U.S. and the Asia-Pacific region. However, it should be underlined that downside risks to global growth went up.

Table 2.1.1.
Growth Forecasts
(Annual Percent Change)

	2011		2012	
	April	July	April	July
World	3.3	3.2	3.7	3.6
U.S.A.	2.9	2.5	3.3	3.0
Euro Area	1.7	2.0	1.7	1.6
Germany	2.7	3.4	1.9	1.9
France	1.7	2.0	1.7	1.7
Netherlands	1.8	2.1	1.7	1.6
Spain	0.7	0.7	1.3	1.3
Japan	0.3	-0.7	2.7	3.1
China	9.3	9.2	8.9	8.8
Eastern Europe	4.1	4.3	4.3	4.3
Latin America	4.2	4.5	4.2	4.2
Asia-Pacific	4.8	4.4	5.7	5.7

Source: Consensus Forecasts.

2.2. Commodity Prices

Global commodity prices displayed a downtrend in the second quarter, mainly driven by energy and agricultural prices. The decline in the commodity prices in this period was attributable to supply-side developments as well as demand conditions. The fall in industrial metal prices was driven by the slowdown in the economy due to measures enforced by the Chinese government to tighten lending conditions amid rising inflation. Precious metal prices, which saw historical peaks at the start of the second quarter especially due to euro area debt crisis, followed a volatile course amid the developments

in the risk appetite before slightly dropping upon the approval of the Greek austerity package (Charts 2.2.1 and 2.2.2).

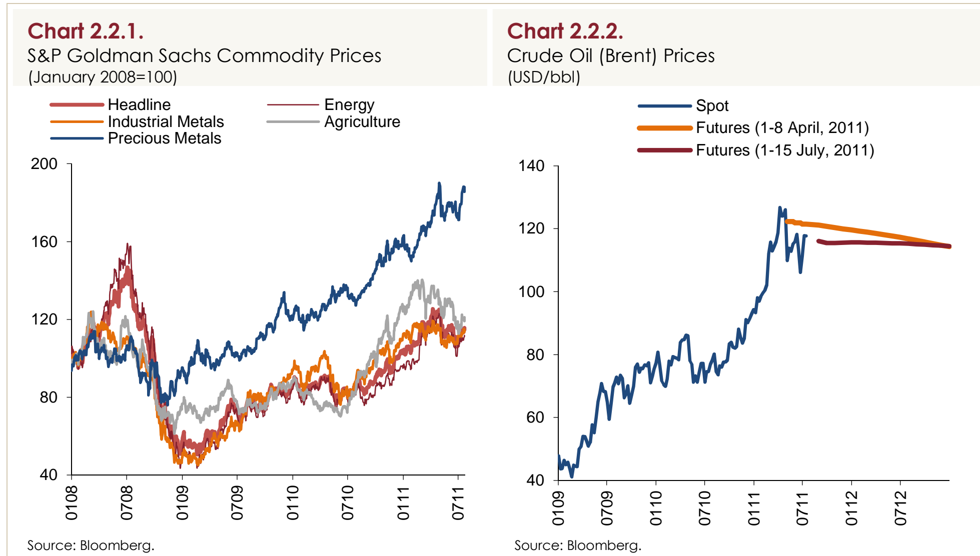


Chart 2.2.1.
S&P Goldman Sachs Commodity Prices
(January 2008=100)

Source: Bloomberg.

Chart 2.2.2.
Crude Oil (Brent) Prices
(USD/bbl)

Source: Bloomberg.

The failure of OPEC countries to reach an agreement on raising quotas at the June 8, 2011 meeting put an upward pressure on crude oil prices. However, the expectation of a unilateral production increase by Saudi Arabia, Kuwait and the United Arab Emirates, which hold a major part of OPEC's idle capacity, against OPEC decisions alleviates the upward pressure on oil prices (Chart 2.2.3 and Table 2.2.1).

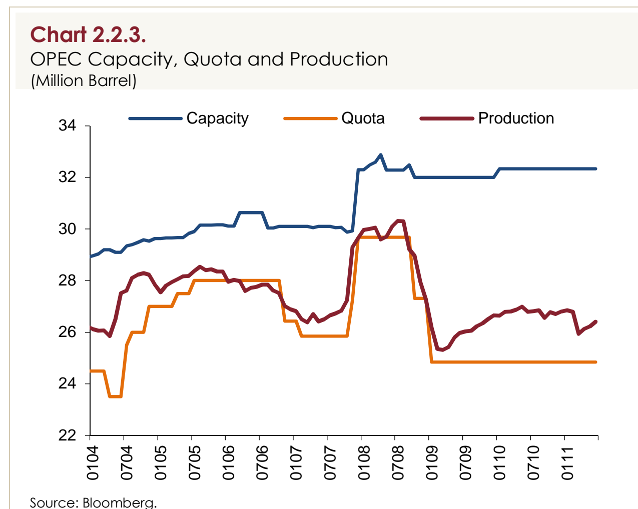


Chart 2.2.3.
OPEC Capacity, Quota and Production
(Million Barrel)

Source: Bloomberg.

Meanwhile, as a precaution against the disruptions in oil supply amid the political unrest in Libya, the International Energy Agency announced on June 23, 2011 that strategic oil reserves would be used during July, and further

decisions on the use of these reserves might be taken if deemed necessary. This announcement led to a fall in oil prices. The geopolitical problems in oil-producing countries, the ongoing concerns over the debt crisis in Europe coupled with the fears for the pace of global economic recovery cause the uncertainty regarding oil prices to persist.

Table 2.2.1.
Idle Capacity in OPEC Countries
(Million Barrel)

	2010		2011	
	Q3	Q4	Q1	Q2
Algeria	0.15	0.14	0.14	0.14
Angola	0.36	0.35	0.30	0.52
Ecuador	0.03	0.03	0.03	0.03
Iran	0.27	0.30	0.30	0.35
Iraq	0.10	0.11	0.00	0.00
Kuwait	**0.36**	**0.35**	**0.24**	**0.16**
Libya	0.23	0.20	-	-
Nigeria	0.48	0.28	0.58	0.37
Qatar	0.07	0.08	0.08	0.09
Saudi Arabia	**3.25**	**3.25**	**3.00**	**2.29**
United Arab Emirates	**0.34**	**0.34**	**0.14**	**0.15**
Venezuela	0.21	0.21	0.18	0.17
OPEC	5.89	5.65	5.00	4.30

Source: Bloomberg.

Agricultural prices saw a rapid decline over the last quarter, mainly owing to the alleviation of supply-side problems. The partial ending of drought effective in Western Europe and in the U.S., and the withdrawal of export quota restrictions implemented by Ukraine and Russia since the previous year are among featuring developments. However, even with these favorable developments on the supply side, fragilities are yet to fully disappear (Table 2.2.2).

Table 2.2.2.
Production, Consumption and Inventory Forecasts for Agricultural Commodities

	2009/2010	2010/2011	2011/2012
WHEAT (million tons)			
Initial Inventory	166.5	198.3	189.9
Production	684.3	648.2	662.4
Consumption	652.5	656.6	670.2
Period-end Inventory	198.3	189.9	182.2
CORN (million tons)			
Initial Inventory	147.2	143.6	120.9
Production	812.9	820.0	872.4
Consumption	816.6	842.8	877.6
Period-end Inventory	143.6	120.9	115.7
COTTON (million bales)			
Initial Inventory	60.5	44.3	44.4
Production	101.4	114.6	123.8
Consumption	118.4	114.9	118.9
Period-end Inventory	44.3	44.4	48.3

Source: U.S. Department of Agriculture.

2.3. Global Inflation

In the second quarter of 2011, year-on-year inflation rates continued to soar in both advanced and emerging economies (Charts 2.3.1 and 2.3.2). However, seasonally adjusted monthly inflation figures for both consumer and core prices declined amid the slowing economic activity in advanced economies (Charts 2.3.3 and 2.3.4). Meanwhile, emerging economies, where food and oil products have a major share in consumption, saw ongoing inflationary pressures driven by vigorous domestic demand as well as high commodity prices.

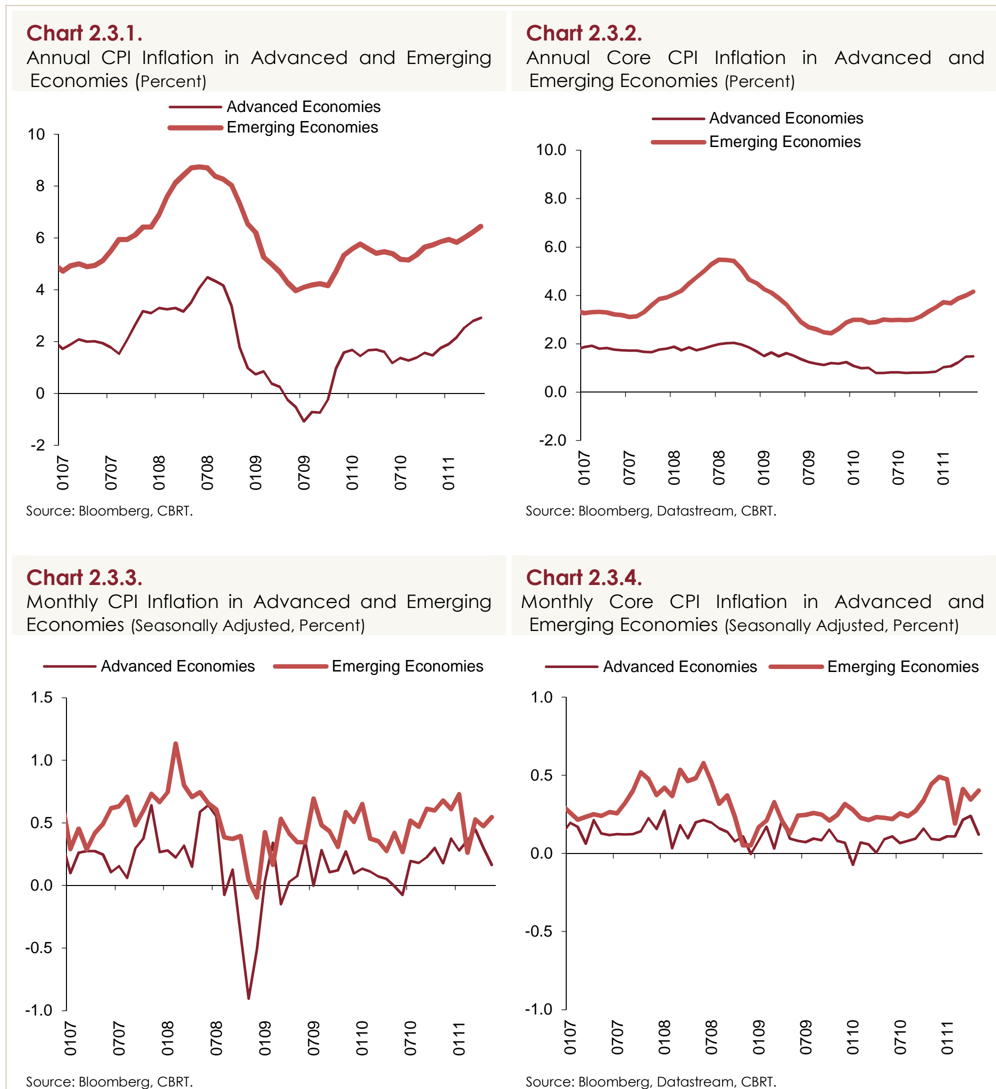


Chart 2.3.1.
Annual CPI Inflation in Advanced and Emerging Economies (Percent)

Source: Bloomberg, CBRT.

Chart 2.3.2.
Annual Core CPI Inflation in Advanced and Emerging Economies (Percent)

Source: Bloomberg, Datastream, CBRT.

Chart 2.3.3.
Monthly CPI Inflation in Advanced and Emerging Economies (Seasonally Adjusted, Percent)

Source: Bloomberg, CBRT.

Chart 2.3.4.
Monthly Core CPI Inflation in Advanced and Emerging Economies (Seasonally Adjusted, Percent)

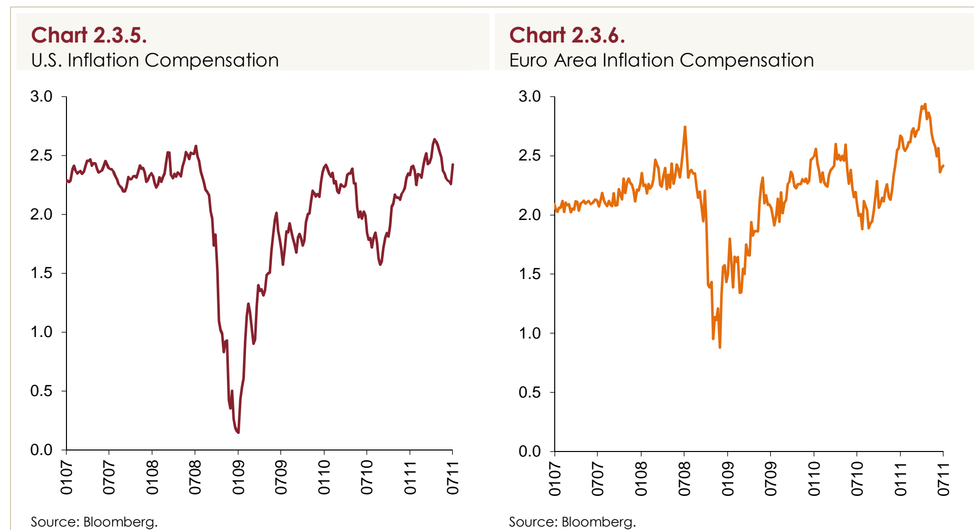
Source: Bloomberg, Datastream, CBRT.

Inflation compensation hit the recent years' high in the second quarter, bearing expectations for an earlier-than-expected tightening in advanced

economies. In the subsequent period, inflation compensations eased slightly on the back of data pointing to a slowdown in global growth (Charts 2.3.5 and 2.3.6).

Chart 2.3.5.
U.S. Inflation Compensation

Chart 2.3.6.
Euro Area Inflation Compensation



Source: Bloomberg.

Source: Bloomberg.

In July, inflation expectations for end-2011 were revised upwards at a global scale relative to the previous reporting period (Table 2.3.1). These revisions were mainly attributed to higher-than-expected inflation realizations, particularly in the first half of the year, driven by increases in commodity prices. On the other hand, revisions to inflation expectations for end-2012 remained subdued.

Table 2.3.1.
Inflation Forecasts
(Annual Percent Change)

	2011		2012	
	April	July	April	July
World	3.4	3.7	2.9	3.0
U.S.A.	2.7	3.1	2.1	2.1
Euro Area	2.4	2.6	1.8	1.9
Emerging Economies				
Eastern Europe	6.3	6.6	5.7	5.8
Latin America	7.5	7.5	7.0	7.1
Asia-Pacific	3.3	3.4	2.7	2.8

Source: Consensus Forecasts.

2.4. Financial Conditions and Risk Indicators

Euro area debt crisis and the developments regarding global economic activity were mainly influential on financial markets in the previous quarter. Financial markets displayed a favorable course in the beginning of the quarter, amid the global growth outlook. However, in the subsequent period, financial markets were adversely affected by the release of the data indicating a

slowdown in the global growth as well as the aggravation of the debt crisis in Greece.

Global risk appetite went down as of May, but displayed a slight recovery as of end-June following the steps to resolve the debt crisis in Greece (Chart 2.4.1). Even though concerns for a possible default in Greece were alive throughout the second quarter, the introduction of a new package of measures by the Greek government brought some relief to markets. Although the consideration of a second aid plan for Greece and the voluntary bond rollover talks led by French banks were favorable developments, markets remained cautious against Greece. Amid the approval of the last bailout package to restore financial stability in Europe, the unrest in financial markets was partially settled (Chart 2.4.2).

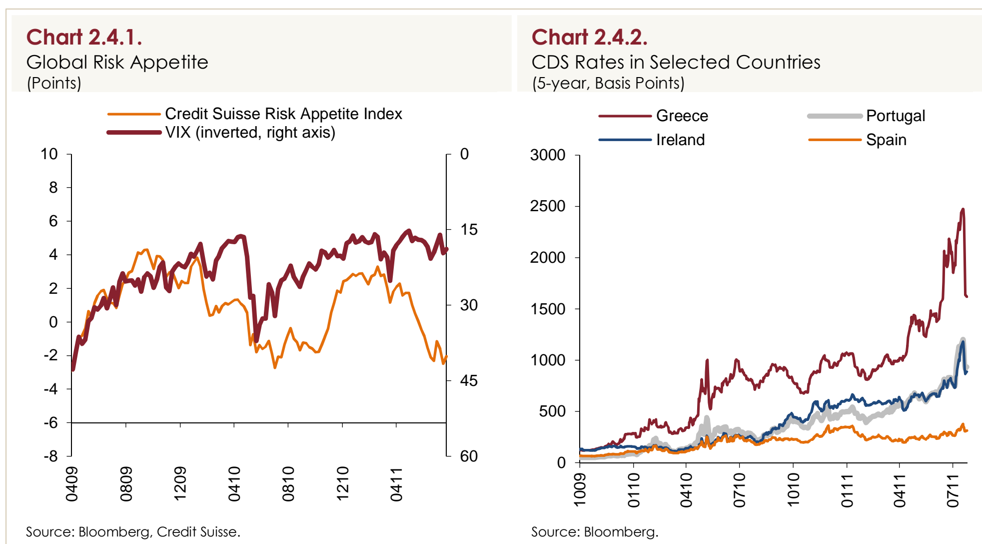


Chart 2.4.1.
Global Risk Appetite
(Points)

Source: Bloomberg, Credit Suisse.

Chart 2.4.2.
CDS Rates in Selected Countries
(5-year, Basis Points)

Source: Bloomberg.

Ongoing sovereign debt problems in Greece also had an adverse impact on the banking sector. Deposit outflows, coupled with the almost completely closed access to market financing, leave the European Central Bank (ECB) funds as the sole source of liquidity. Another economy experiencing large deposit outflows due to setbacks in the banking sector is Ireland (Charts 2.4.3 and 2.4.4).

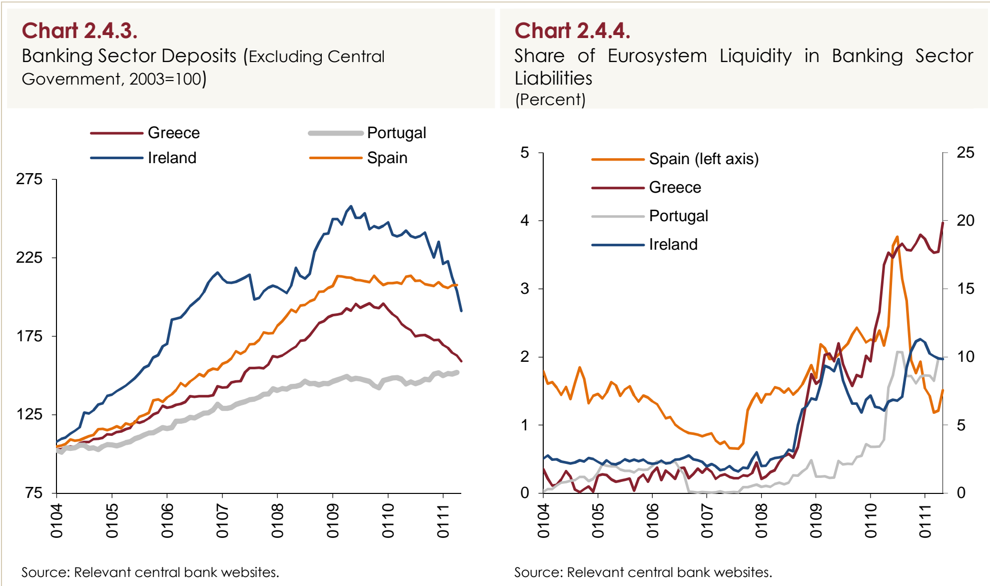


Chart 2.4.3.
Banking Sector Deposits (Excluding Central Government, 2003=100)

Source: Relevant central bank websites.

Chart 2.4.4.
Share of Eurosystem Liquidity in Banking Sector Liabilities
(Percent)

Source: Relevant central bank websites.

The spillover of the debt crisis to Italy became more likely at the end of the second quarter. Accordingly, the CDS rates on Italian bonds increased, while the Italian/German bond yield spread widened remarkably, going beyond three points. After the second bailout package, the increase in returns was slightly offset (Chart 2.4.5). These developments are attributable to Italy being the second most indebted country in the euro area (Chart 2.4.6). In addition, the tension between the coalition government and the opposition party has shaken the confidence of financial markets in the country. These developments in the third largest economy in the euro area cause global debt contagion concerns to persist.

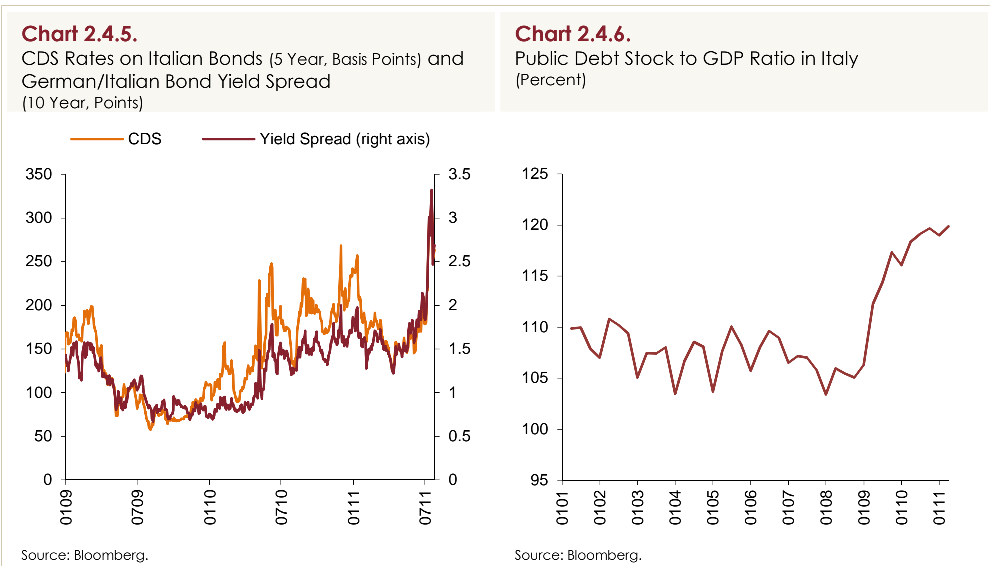


Chart 2.4.5.
CDS Rates on Italian Bonds (5 Year, Basis Points) and German/Italian Bond Yield Spread
(10 Year, Points)

Source: Bloomberg.

Chart 2.4.6.
Public Debt Stock to GDP Ratio in Italy
(Percent)

Source: Bloomberg.

Parallel to the developments in risk appetite, risk premiums for emerging countries have increased. Meanwhile, exchange rates in these countries depreciated slightly (Chart 2.4.7). Stock markets displayed an increase at the start of the quarter, but wekaned later and closed the quarter with a limited decline (Chart 2.4.8).

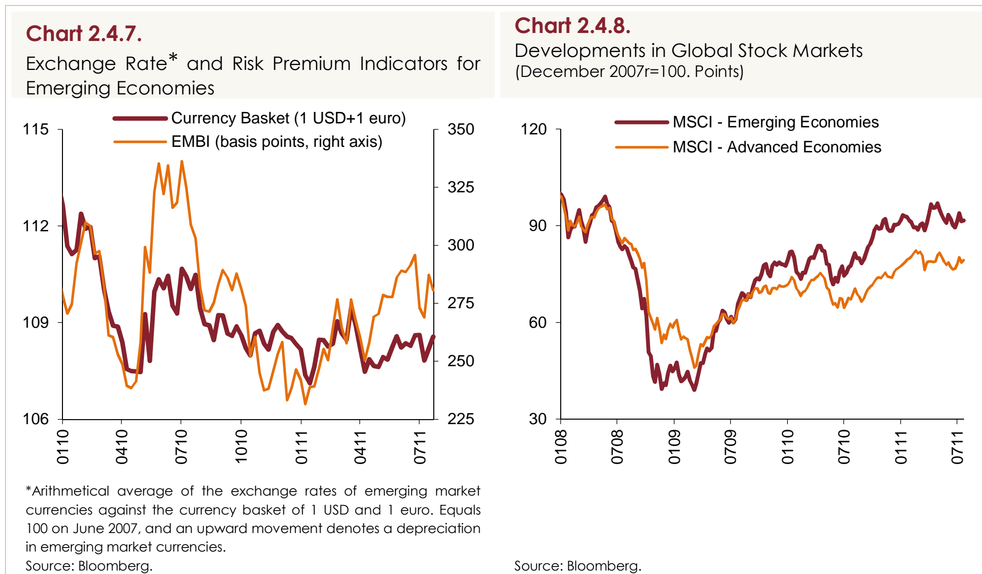


Chart 2.4.7.
Exchange Rate* and Risk Premium Indicators for Emerging Economies

*Arithmetical average of the exchange rates of emerging market currencies against the currency basket of 1 USD and 1 euro. Equals 100 on June 2007, and an upward movement denotes a depreciation in emerging market currencies.
Source: Bloomberg.

Chart 2.4.8.
Developments in Global Stock Markets
(December 2007r=100. Points)

Source: Bloomberg.

Results of the Fed's Lending Survey suggest that the rise in credit demand and the easing in lending conditions in the U.S. still continue for large and middle market firms as well as small firms (Chart 2.4.9). The ECB's Lending Survey, on the other hand, exhibits a limited tightening in lending conditions in the euro area, with an ongoing rise in credit demand, albeit at a slower pace (Chart 2.4.10).

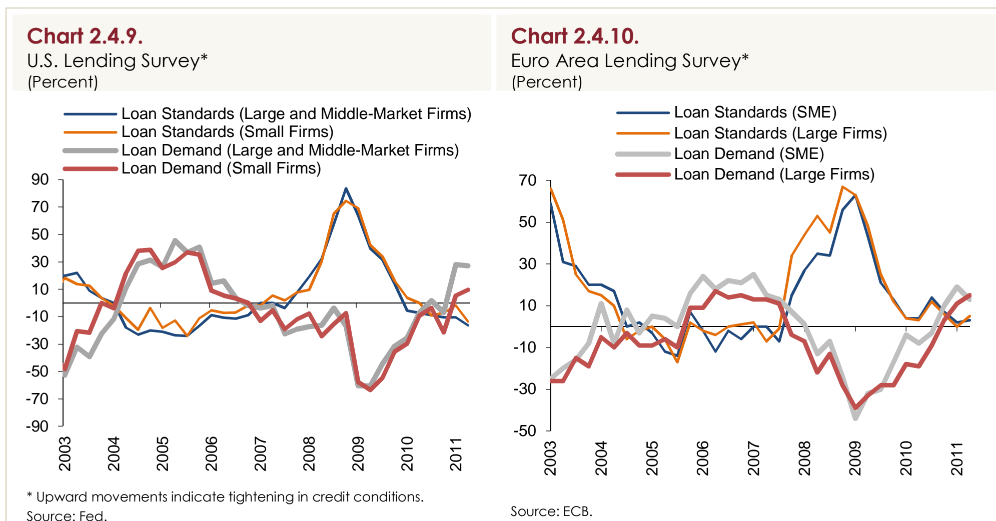


Chart 2.4.9.
U.S. Lending Survey*
(Percent)

* Upward movements indicate tightening in credit conditions.
Source: Fed.

Chart 2.4.10.
Euro Area Lending Survey*
(Percent)

Source: ECB.

2.5. Global Monetary Policy Developments

Global monetary policy exhibited a very limited quarter-on-quarter tightening in the previous quarter. Central banks of some advanced economies excluding G4 countries opted for monetary tightening by raising policy rates, while emerging economies adopted a tighter monetary policy stance by both raising policy rates and further implementing macroprudential measures.

Despite the normalization of policy rates in some advanced economies experiencing post-crisis recovery, aggregated indices suggest that the upward movement in composite policy rates for advanced economies remained fairly limited in the second quarter (Charts 2.5.1 and 2.5.2). Due to absence of a stable economic recovery in the U.S., U.K. and Japan, the implementation of loose monetary policy is still maintained in G4 countries, by keeping policy rates low. Meanwhile, with a view to containing high inflation in the euro area, the ECB raised policy rates by 25 basis points each in April and in June. In addition to keeping policy rates low, the quantitative easing process that was launched in 2008 is still maintained in G4 countries. While the ECB continues with bond purchases to overcome the debt crisis in peripheral countries, the Bank of Japan went on implementing expansionary monetary policies to compensate for the devastating effects of the earthquake. In the U.S., monetary conditions are still loose even after the end of second round of quantitative easing in July. In sum, given the limited normalization in policy rates and the ongoing quantitative easing in G4 countries, monetary policies of advanced economies are loose as of the third quarter of the year.

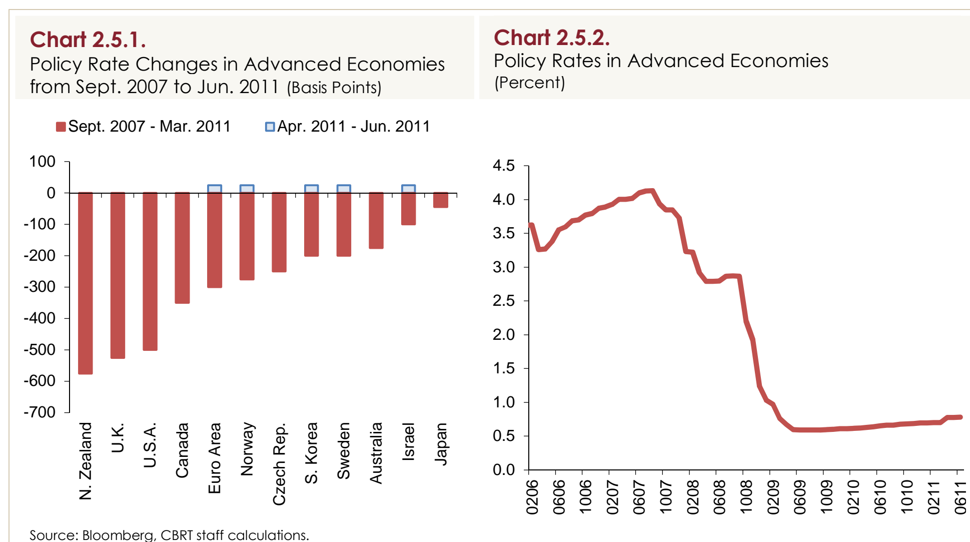


Chart 2.5.1.
Policy Rate Changes in Advanced Economies from Sept. 2007 to Jun. 2011 (Basis Points)

Chart 2.5.2.
Policy Rates in Advanced Economies (Percent)

Source: Bloomberg, CBRT staff calculations.

Policy rates in emerging economies saw further hikes in the second quarter as a result of increased inflationary pressures (Chart 2.5.3). In fact, aggregated indices suggest that composite policy rates for emerging economies went up by 0.3 percentage points quarter-on-quarter to 6.6 percent at the end of June (Chart 2.5.4). Moreover, emerging economies facing massive capital inflows continued to heavily employ macroprudential measures in order to contain the possible impacts on their economies. Accordingly, due to their potential to pose risks to macroeconomic and financial stability, capital flows came to the forefront as a major factor in shaping monetary policy in these economies in the second quarter as well.

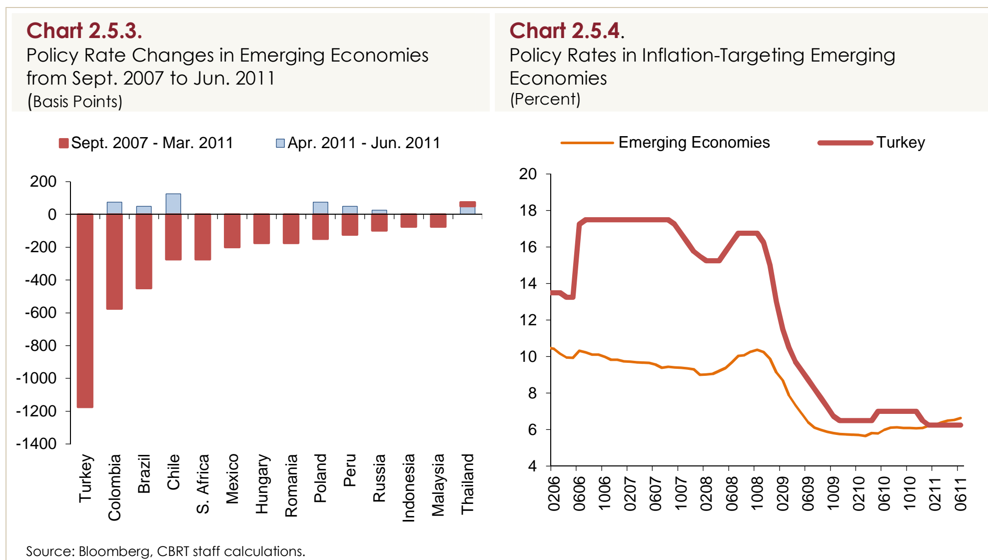


Chart 2.5.3.
Policy Rate Changes in Emerging Economies from Sept. 2007 to Jun. 2011
(Basis Points)

Chart 2.5.4.
Policy Rates in Inflation-Targeting Emerging Economies
(Percent)

Source: Bloomberg, CBRT staff calculations.

For the upcoming period, the expectation for normalization of policy rates is postponed in advanced economies, especially in G4 countries. For instance, amid the release of the second-quarter data indicating a slowdown in U.S. economic growth, policy rate expectations saw a remarkable quarter-on-quarter decline in July (Chart 2.5.5). Aside from the low policy rate regime, the second round of quantitative easing that ended as of end-June had relatively limited effects on the U.S. economic activity, and a third round of quantitative easing was mentioned within the context of a risk scenario. In other advanced economies such as Japan, euro area, the U.K. and Canada, normalization of policy rates is postponed, and year-end expectations for 2011 remain either subdued or revised downwards (Chart 2.5.6). In sum, policy rates in advanced economies are expected to remain low and monetary conditions will generally be loose in the forthcoming period.

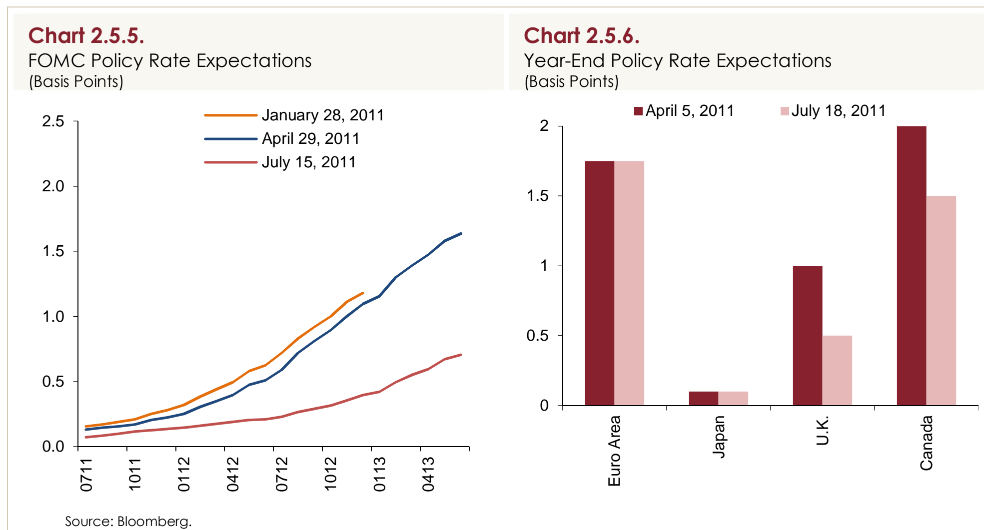


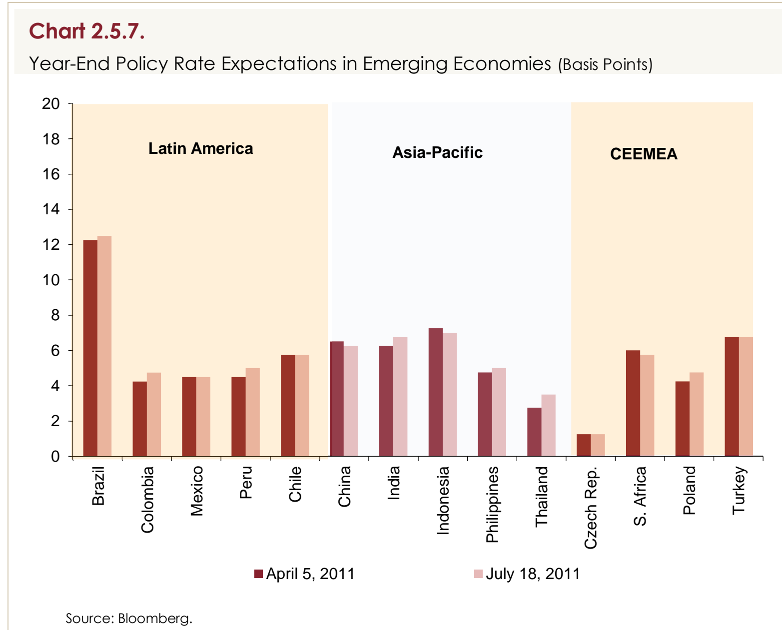
Chart 2.5.5.
FOMC Policy Rate Expectations
(Basis Points)

Source: Bloomberg.

Chart 2.5.6.
Year-End Policy Rate Expectations
(Basis Points)

The possible course of monetary policy in emerging economies suggests that capital flows to these countries will follow a similar course in the upcoming period due to the divergence between recovery rates in advanced and emerging countries as well as the currently wide policy rate gap between these two groups (Box 2.1). Accordingly, the course of monetary policy in these countries will continue to be determined mainly by capital flows. Therefore, in line with expectations of a delay in policy rate hikes in advanced economies, the policy rate gap between these two groups will widen further and may result in some emerging economies to adopt a more cautious stance in policy rate hikes in order to prevent increased capital inflows. Nevertheless, many Latin American and Asia-Pacific countries are expected to continue with policy rate hikes in order to control their high-rated inflation fuelled by the overheating in their economies (Chart 2.5.7). In this context, emerging countries are expected to increase control on capital flows in the upcoming period in order to lessen financial system fragilities, and to focus on the use of alternative policy tools in order to prevent possible instability stemming from massive capital inflows.

Chart 2.5.7.
Year-End Policy Rate Expectations in Emerging Economies (Basis Points)



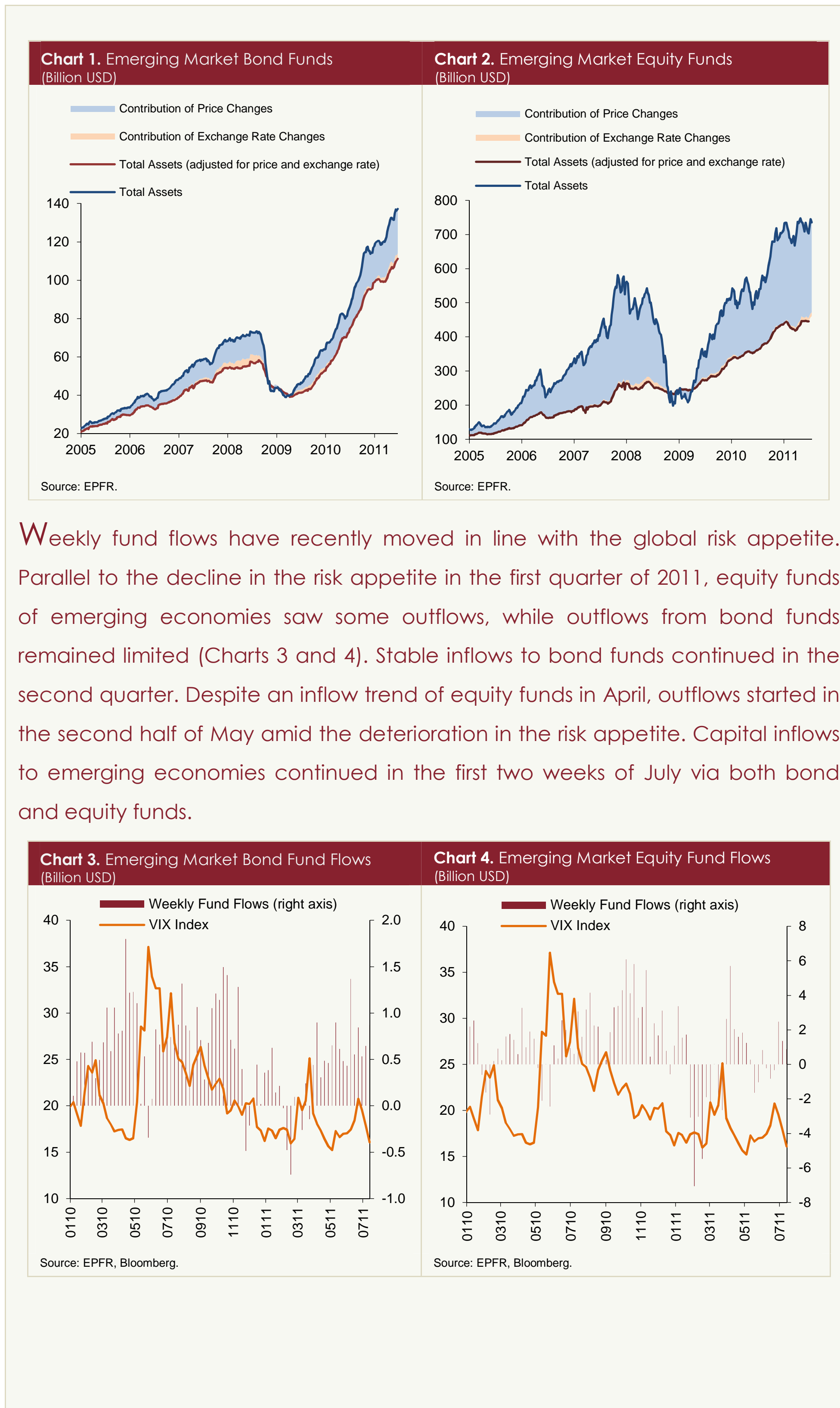
Source: Bloomberg.

Box 2.1 Portfolio Flows to Emerging Economies

Emerging economies have opted for policy rate hikes due to inflationary pressures since the onset of 2011, while advanced economies kept policy rates low, which led a widening gap in policy rates between the two groups. In addition, expansionary policies implemented in advanced economies brought about ample global liquidity and relatively improved risk perceptions about emerging economies, which narrowed the risk differential between the two groups, driving massive capital flows to high-yield emerging economies. Depending on the appreciation in exchange rates, massive capital inflows can adversely affect emerging economies through various channels like reducing competitiveness, deteriorating foreign trade balance and current account balance amid increased demand for imported goods as well as leading to uncontrolled credit growth and asset bubbles. Meanwhile, the possibility of a sudden-stop in capital inflows stands as a risk factor against financial stability. In fact, in emerging economies where various measures to limit capital inflows were enforced against these risks in the post-crisis period, monetary policy stance was largely determined by capital flows. Capital flows are expected to be further influential throughout 2011 given the expected policy rate gap.

The extreme sensitivity of capital inflows in the form of short-term portfolio investments, so-called hot money, to the volatility of risk perceptions warrants a close monitoring of this item. This Box analyzes recent developments in portfolio flows across bonds and equities and each country's share in the surge of capital flows to emerging economies.

Between 2005 and 2011, investors heavily preferred equity markets of emerging economies (Charts 1 and 2). Adjusted for exchange rate and price effects, emerging economy bond funds went down during the global crisis, but this trend reversed in the post-crisis period with a rapid increase. Meanwhile, the sharp decline in equity funds during the crisis was mostly driven by the price effect, and therefore, when adjusted for exchange rate and price effects, outflows from equity funds remained limited.



Weekly fund flows have recently moved in line with the global risk appetite. Parallel to the decline in the risk appetite in the first quarter of 2011, equity funds of emerging economies saw some outflows, while outflows from bond funds remained limited (Charts 3 and 4). Stable inflows to bond funds continued in the second quarter. Despite an inflow trend of equity funds in April, outflows started in the second half of May amid the deterioration in the risk appetite. Capital inflows to emerging economies continued in the first two weeks of July via both bond and equity funds.

Country shares in emerging market funds are given in Table 1. Accordingly, countries with relatively higher yield receive a larger share of bond funds, while the share in equity funds seems to be mostly associated with strong and stable growth performance and financial deepening. For instance, Brazil is the highest yielding economy among emerging economies and has a favorable economic climate, and therefore, is among the highest ranking countries in equity as well as in bond fund share. High interest rates in Brazil are believed to limit the effectiveness of macroprudential measures and capital controls implemented since 2010 against massive and short-term capital inflows, thereby attracting investors. The relative position of Turkey among emerging economies indicates that Turkey ranks among the first five countries preferred by investors for bond funds in the first half of 2011, but holds a relatively smaller share of equity funds.

Table1. Country Shares in Emerging Market Fund Flows
(Percent)

BOND FUNDS

	2007	2008	2009	2010	2011				
					January	February	March	April	May
Brazil	15.5	15.8	13.9	14.9	21.8	22.2	22.4	22.0	20.8
Mexico	7.0	6.9	9.7	11.9	12.3	12.3	13.2	12.9	13.2
Russia	12.4	13.4	11.4	8.5	6.6	7.0	7.7	7.6	7.2
Indonesia	5.6	4.5	6.7	7.3	6.5	7.0	6.9	6.9	7.0
Turkey	5.3	5.8	6.2	6.8	6.0	5.9	7.2	7.5	6.9
South Africa	0.7	0.9	1.9	3.3	5.5	5.8	6.5	6.6	6.8
Malaysia	1.0	0.9	0.9	2.1	3.3	3.1	3.7	3.9	4.5
Colombia	3.0	3.9	3.8	3.7	3.3	3.2	3.1	3.1	3.3
Poland	1.3	1.8	1.9	2.9	3.0	2.8	2.8	3.0	2.9
Philippines	5.3	5.6	6.0	4.3	3.2	3.0	2.7	2.6	2.6
Kazakhstan	0.9	1.3	2.5	2.7	2.7	2.8	2.8	2.7	2.6
Hungary	0.8	0.6	1.3	2.1	2.1	1.9	2.4	2.5	2.5
Venezuela	8.0	4.4	3.2	3.1	2.6	2.5	2.4	2.3	2.2
Peru	2.1	2.2	2.8	2.5	2.4	2.3	2.2	1.9	2.2
Thailand	0.5	1.0	1.7	1.7	2.3	2.2	2.1	2.2	2.1
Argentina	8.8	5.4	2.6	2.5	2.5	2.2	2.0	1.9	1.9
*Other**	*21.7*	*25.6*	*23.6*	*19.7*	*13.9*	*13.7*	*9.8*	*10.3*	*11.5*

EQUITY FUNDS

	2007	2008	2009	2010	2011				
					January	February	March	April	May
China	11.2	12.2	16.0	15.2	14.6	14.2	14.4	14.3	14.6
Brazil	12.6	14.1	14.3	14.8	14.3	14.7	14.4	14.0	14.2
South Korea	13.1	10.4	10.3	10.4	11.4	10.7	11.0	11.3	11.3
Taiwan	9.7	8.6	8.6	8.1	9.0	8.3	7.9	8.2	8.6
India	6.3	7.0	7.8	9.0	8.1	8.3	8.8	8.5	8.4
South Africa	7.8	7.3	7.9	7.2	6.8	7.4	7.2	7.3	7.0
Russia	8.4	8.9	6.1	6.2	6.6	6.9	6.8	6.5	6.3
Mexico	5.9	5.9	5.5	5.1	5.2	5.4	5.1	5.0	4.8
Indonesia	2.3	2.2	2.4	3.1	2.7	2.8	3.0	3.0	3.1
Thailand	1.9	1.9	1.8	2.1	2.1	2.4	2.5	2.6	2.6
Malaysia	2.4	1.9	1.5	1.9	2.3	2.3	2.3	2.3	2.3
Turkey	3.0	2.4	2.3	2.6	2.3	2.2	2.3	2.3	2.1
*Other**	*15.3*	*17.1*	*15.5*	*14.3*	*14.5*	*14.4*	*14.3*	*14.6*	*14.8*

* Countries with less than 2 percent share as of the first five months of 2011.
Source: EPFR.

Emerging economies are likely to attract more capital in the forthcoming period due to the divergence between recovery rates of advanced and emerging economies as well as an expectation of a further widening in policy rate differential between the two groups. In this context, given their potential to pose risks against macroeconomic and financial stability, portfolio flows will remain a major factor in shaping monetary policy in emerging economies. Nevertheless, to discourage further capital inflows, emerging economies may act more cautiously in raising policy rates in the forthcoming period. Accordingly, emerging economies are expected to enforce further capital control in order to reduce financial system fragilities, and use alternative policy tools to eliminate the possible adverse effects of massive short-term capital inflows on economic stability.