Box 1
Recent measures to manage capital flows in emerging economies

From the second quarter of 2009 onwards, rebounded investor risk appetite and continued low interest rate policies in advanced economies, coupled with an upturn of economic prospects in emerging economies, fueled strong capital inflows for portfolio investment into emerging Asian and Latin American economies, and consequently raised concerns about the mounting risks of inflation and asset price bubbles. In response, many Asian and Latin American economies successively launched a variety of measures to manage capital flows since 2010, including imposing taxes on foreign investors for their inbound remittances, placing ceilings on foreign exchange positions held by financial institutions or corporations, and easing restrictions on domestic funds for offshore investments. The key components of these measures are summarized in Table B1.1.

Table B1.1 Recent capital flow management measures in selected emerging economies

Economies	Date	Measures
South Korea	October 2010	1. Capped corporate foreign exchange hedging limit to 100% of export receipts. 2. Set a ceiling on foreign exchange (FX) forward positions of domestic banks to 50% of equity capital. 3. Set a ceiling on FX forward positions of foreign bank branches to 250% of equity capital.
	19 October 2010	Inspected banks involved in FX derivative activities.
	January 2011	Proposed to impose a tax on the purchase/sale of depository receipts: 1. Imposed a levy on either 22% of capital gains or 11% of initial public offering (IPO) funds, whichever is lower. 2. Imposed a 0.3% tax on exchange transactions, and 0.5% on over-the-counter (OTC) transactions.
	1 January 2011	Reimposed a 15.4% withholding tax on interest income and 22% on capital gains for all foreign holdings of short-term government bonds.
	March 2011	Lowered limits on domestic banks' FX forward positions from 50% of equity capital to 40%, and foreign bank branches from 250% to 200%.
	Date to be determined	Proposed to impose a 0.2% tax on less-than-one year tenor foreign currency loans by domestic banks, a 0.1% tax on 1-3 year tenor loans, a 0.05% tax on 3-5 year tenor loans and a 0.02% tax on above 5-year tenor loans. This proposal, expected to be submitted to the congress in May 2011, could be effective from 1 July 2011 given the passage of the bill.
Thailand	16 September 2010	Relaxed five regulations relating to the banning capital outflows, including: 1. Removed the cap on offshore direct investments by Thai

		corporations. 2. Relaxed the limit on the provision of credit by Thai corporations to non-related enterprises to USD50 million per year. 3. Increased the limit on offshore purchases of real estate by Thai corporations to USD10 million per year. 4. Raised the ceiling on foreign currency deposits held by Thai corporations to USD500 thousand from USD300 thousand. 5. Raised the cap on offshore foreign currency deposits held by Thai exporters to USD50 thousand from USD20 thousand.
	12 October 2010	Companies with FX revenues are allowed to transfer FX funds from their local FX account to onshore counterparties. FX transactions below USD50 thousand only need to provide documentation on remittance purposes.
	13 October 2010	Revoked the waiver on a 15% withholding tax on interest income and capital gains on foreign investments in government bonds.
Indonesia	17 June 2010	1. Introduced a one-month holding period on Bank Indonesia Certificates (SBIs) and issued nine- and twelve-month SBIs. 2. Expanded the difference between the overnight call rate and the Bank Indonesia rate to 2% from 1%.
	January 2011	Capped banks' short-term FX borrowing to 30% of equity capital.
	March 2011	Raised required reserves on FX positions held by banks to 5% from 1% in March 2011, and further increased it to 8% in June 2011.
Taiwan	2 August 2010	Imposed a US dollar denominated margin for short sale accounts held by foreign investors.
	11 November 2010	Reinstated a 1995 rule that caps foreign investments of nonresident inbound remittances at 30%, to include government bonds.
	27 December 2010	Reduced the limit of the add-up position of local currency non-delivery forwards (NDFs) and options to one-fifth of total position from one-third.
	1 January 2011	Raised required reserves on local currency demand deposit accounts held by nonresidents to 90% from 9.775% on the increment exceeding the outstanding balance recorded on 30 December 2010, and 25% (from 9.775%) on balances below the end-2010 level. Required reserves for such accounts are non-remunerated.
Brazil	20 October 2009	Imposed a 2% IOF tax (financial operations tax) on foreign exchange inflows for the purchase of Brazilian equities instruments and fixed income instruments.
	19 November 2009	Imposed a 1.5% tax on American Depository Receipts (ADR) issued by Brazilian corporations.
	1 April 2010	Imposed a 0.38% tax on FX outflows when converting Depository Receipts (DR) to local shares.
	5 October 2010	Raised the IOF tax on foreign exchange inflows for the

		purchase of fixed income instruments to 4% from 2%.
	20 October 2010	1. Further increased the IOF tax on foreign exchange inflows for the purchase of fixed income instruments to 6% from 4%. 2. Raised the futures margin to 6% from 0.38%.
	4 April 2011	Banks are required to deposit cash in the Brazilian central bank account to cover 60% of short positions, given that their holdings of US dollar denominated short positions either exceed USD3 billion or their equity capital, whichever is lower. Deposits for such accounts are non-remunerated.

Sources: CBC, IMF April 2011 GFSR, Nomura Global Economics and BNY Mellon NetInfo.