

Capital Account Safeguard Measures in ASEAN*

*A Risk-Based Assessment of Capital Flow Shocks, Policy Responses, and Lessons
Evidence from 2015-2024*

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Executive Summary

This paper assesses how ASEAN economies managed capital flow shocks before, during, and after the COVID-19 pandemic. Data on balance of payments (BOP) covering the period 2015-2024 were analyzed supplemented by policy information from ten ASEAN Member States (AMS). The objective of the paper is to identify when different safeguards were relevant and how they operated.

Finding 1. During the pandemic, no AMS introduced a broad new capital flow restriction. ASEAN did not respond to the COVID-19 pandemic by reversing capital account openness. Authorities relied mainly on monetary and fiscal support, domestic and foreign exchange (FX) liquidity, regulatory flexibility, and existing prudential frameworks, treating volatility primarily as a macro-financial stability and market-functioning problem.

Finding 2. The most pressing vulnerability differed across AMS. Indonesia, Malaysia, the Philippines, and Thailand faced portfolio flow and exchange rate spillovers. Cambodia and Lao PDR faced dollarization or FX liquidity constraints; Lao PDR and Viet Nam also highlighted external debt pressures. Brunei Darussalam was exposed to commodity and sectoral concentration; Singapore to large two-way intermediation flows and Myanmar to weak foreign direct investment (FDI) and FX availability in shallow markets.

Finding 3. Instrument effectiveness depended on fit with the underlying friction. FX flexibility, FX operations, reserves, hedging markets, and broad investor base were most relevant for portfolio volatility. Export proceeds rules, external borrowing oversight, and FX monitoring were more relevant where onshore FX availability or debt service was binding. Strong supervision and market liquidity were central in highly open systems.

Finding 4. The COVID-19 pandemic response relied on a broad operational safeguard mix rather than imposing new capital flow measures (CFMs). Macroprudential, liquidity, fiscal, monetary, and FX tools formed the main operational safeguards which included policy rate reductions, reserve requirement adjustments, central bank liquidity support, targeted credit facilities, loan restructuring, temporary regulatory relief, fiscal support, and FX operations. Post-pandemic policy shifted toward normalizing support, strengthening monitoring where FX constraints persisted, and facilitating cross-border activity through simpler documentation, hedging access, digital reporting, and local currency settlement.

Finding 5. The quality and composition of capital flows mattered more than net volume alone. FDI was generally more stable than portfolio and other investment flows, but its resilience depended on diversification, project continuity, and the strength of domestic linkages. Concentrated inflows could still create vulnerabilities where they are tied to narrow sectors, large projects, or external demand conditions. Portfolio and other investment flows were more sensitive to global rates, risk appetite, bank balance sheets, and debt service schedules.

Introduction

Cross-border capital can support investment, risk sharing, technology transfer, and financial market development. The same openness can also transmit external shocks through exchange rates, asset prices, cross-border funding, and private sector balance sheets. Classical open economy theory emphasizes the interaction among capital mobility, the FX regime, and monetary policy autonomy, while the more recent literature on sudden stops, the global financial cycle, and pecuniary externalities explains why leverage, FX mismatches, and shallow markets can amplify capital flow reversals (Fleming, 1962; Mundell, 1963; Calvo, 1998; Rey, 2015; Bruno and Shin, 2015; Korinek, 2011).

These mechanisms are particularly relevant for ASEAN because member economies differ materially in financial openness, FX arrangements, domestic market depth, external debt structures, and the sectoral composition of foreign investment. A common external shock can generate different vulnerabilities such as portfolio reversal, FX liquidity shortage in a dollarized or externally indebted economy, a slowdown in project-related FDI, or large two-way banking flows in a financial center.

The policy framework has also evolved. The International Monetary Fund (IMF) Integrated Policy Framework and the 2022 review of the Institutional View recognize that macroeconomic policies, FX intervention, macroprudential measures (MPMs), and CFM measures may need to be considered jointly, with the appropriate mix depending on the shock, country characteristics, and initial conditions (IMF, 2020; IMF, 2022). This paper uses the broader term capital account safeguards to refer to the full set of policies that can preserve orderly adjustment. It distinguishes restrictive CFM measures from macroprudential measures and from facilitative FX operational reforms.

On method and coverage, the analysis combines IMF BPM6 BOP data accessed through CEIC for 2015-2024 with responses from ten AMS to the survey conducted by the Working Committee on Capital Account Liberalization (WC-CAL).¹ Regional aggregates exclude Myanmar where a consistent series was not available, but the country analysis covers the ten AMS. The assessment is mechanism-based where it links shocks, vulnerabilities, policy instruments, and observed outcomes.

The paper contributes in three ways. First, it identifies distinct ASEAN capital flow typologies rather than treating the region as homogeneous. Second, it assesses whether policy instruments were aligned with the vulnerabilities in each economy and makes the associated trade-offs explicit. Third, it draws operational lessons for ASEAN central banks on policy readiness, instrument sequencing, evaluation, and regional cooperation. Country notes retain the factual detail supplied by AMS.

¹ Timor-Leste is not included in the survey of capital account safeguard measures, which covers ASEAN Member States during the 2015-2024 period. Timor-Leste was admitted as ASEAN's 11th Member State on 26 October 2025.

Analytical Framework: Shock-Vulnerability-Transmission-Policy-Outcome

The theoretical basis rests on three propositions:

- First, the effect of capital mobility on domestic stabilization depends on the FX regime and the scope for monetary autonomy;
- Second, capital flow shocks can be amplified nonlinearly through currency mismatches, leverage, collateral values, and cross-border funding; and
- Third, private institutions may not internalize the systemic costs of common exposures, creating a rationale for macroprudential measures and, in defined circumstances, targeted capital flow measures.

The framework does not assume that capital account controls should automatically be imposed during crises or avoided during normal periods. Instead, it guides authorities in matching policy instruments to the nature of the shock, the underlying vulnerability, and the main channel through which the shock affects the economy. The objective is to limit macroeconomic instability, disorderly foreign exchange market conditions, and risks to financial stability. The appropriate policy mix will vary across countries, depending on factors such as their exchange rate arrangements, degree of financial openness, reserve buffers, market depth, external debt structure, and institutional capacity. This approach links shocks, vulnerabilities, policy choices, and outcomes.

In practice, authorities should first identify the main channel through which the shock is affecting the economy and use the least disruptive measure that directly addresses it. Additional measures should be used only when one policy tool is not enough to achieve several objectives.

Box 1. Operational Analytical Framework

Dimension	Diagnostic question
Nature of pressure	Is the shock an FDI slowdown, a non-resident portfolio reversal, resident outflow, cross-border bank flow volatility, external debt rollover pressure, or an onshore FX liquidity shortage?
Underlying vulnerability	Which feature amplifies the shock: dollarization, currency or maturity mismatch, leverage, shallow markets, concentrated FDI, commodity exposure, an open financial hub, or limited reserve and policy space?
Transmission channel	Does stress operate through the exchange rate, asset prices and yields, bank or corporate funding, balance-sheet valuation, credit supply, debt service, or delayed investment projects?
Policy assignment	Which combination of macroeconomic adjustment, FX operations, liquidity tools, targeted CFMs, or operational and structural reforms addresses the identified friction?

Dimension	Diagnostic question
Outcome and trade-off	Did the response preserve market functioning, FX availability, credit, openness, or monitoring capacity, and at what cost in reserves, incentives, compliance burden, risk migration, or delayed adjustment?

Box 2. Instrument Taxonomy

Instrument class	Primary objective	Illustrative measures and decision rule
Macroeconomic adjustment	Restore internal and external balance	Monetary and fiscal policy, exchange rate adjustment, and debt management. These are first line tools when the pressure reflects aggregate imbalances rather than market dysfunction.
FX intervention and FX liquidity	Maintain orderly market functioning and address temporary foreign currency funding gaps	Spot or derivative intervention, swap or repo facilities, and FX liquidity provision. Use should be calibrated to reserves, market conditions, and the need for relative price adjustment.
Macroprudential measures	Limit systemic risk and procyclicality in domestic balance sheets	Capital and liquidity buffers, loan-to-value (LTV)/debt-to-income (DTI) limits, reserve requirements, and FX mismatch rules. MPMs target the financial system transmission channel, regardless of the residency of funding.
Capital flow measures	Influence the volume, direction, composition, or timing of cross-border capital flows	Residency-based or transaction-specific restrictions, taxes, limits, and certain repatriation or conversion requirements. Measures should be targeted, transparent, proportionate, and subject to review.

Instrument class	Primary objective	Illustrative measures and decision rule
FX operational and market development reforms	Improve transaction efficiency, risk management, transparency, and surveillance	Simplified registration, digital reporting, expanded hedging access, local currency settlement, and market infrastructure. These measures are often facilitative and should not automatically be classified as restrictive CFMs.

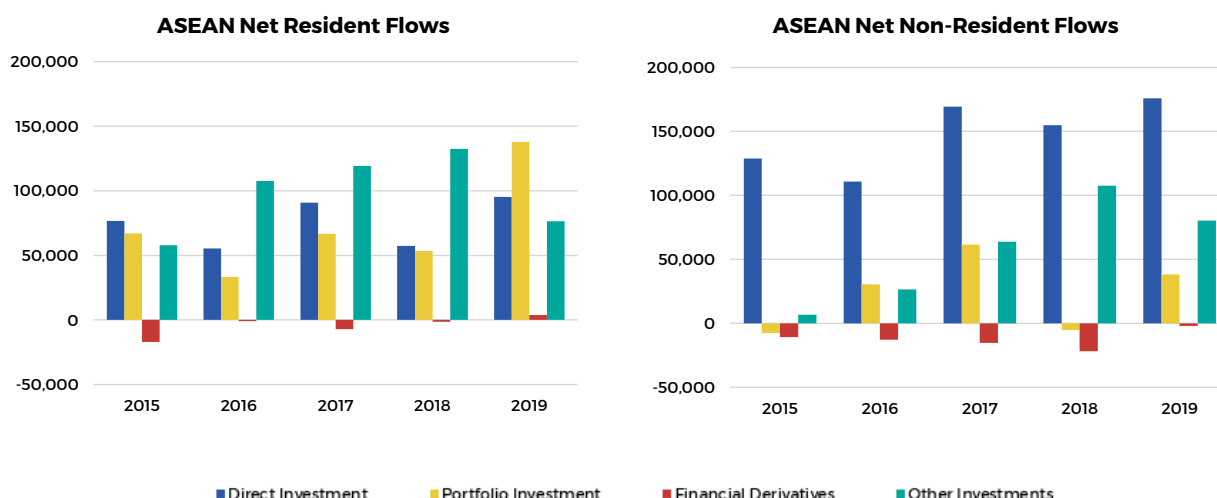
The framework is intentionally country specific. It does not imply that economies should converge to a single capital account regime. It provides a common set of questions that allows AMS to compare experiences while respecting differences in exchange rate arrangements, market depth, institutional capacity, and development objectives.

Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Capital flows across ASEAN economies over the period 2015–2019 were supported by favorable global financial conditions, strong investor confidence, continued integration into regional production networks, and ongoing structural and financial sector reforms. FDI constituted the dominant source of non-resident flows in most economies, underscoring the region’s continued attractiveness as a destination for longer-term, productivity-enhancing capital. These inflows supported activity in manufacturing, services, infrastructure, and resource-based sectors, and contributed to broadly favorable financial account positions prior to the pandemic shock. Portfolio and other investment flows accounted for smaller shares of total inflows, with cross-country variation reflecting differences in exposure to global risk sentiment and the depth of domestic financial markets.

Net resident capital flows exhibited a more balanced distribution across major investment categories during this period (*Figure 1*). Outward direct investment remained broadly stable, consistent with the gradual regional expansion of ASEAN-based firms and increasing cross-border corporate activity. Portfolio investment outflows showed moderate variability as domestic institutional investors adjusted external exposures in response to evolving global financial conditions. Other investment outflows likewise fluctuated over time, reflecting adjustments in banking sector positions and corporate financing decisions amid changing external liquidity conditions.

Figure 1. ASEAN Capital Flows, by Component, 2015-2019
In million US dollars



Note: Excludes Myanmar

Source: IMF BPM6 Balance of Payments data accessed through CEIC.

Non-resident capital flows, in contrast, were driven primarily by sustained direct investment inflows, which remained the principal source of external financing in most ASEAN economies. Portfolio and other investments inflows were comparatively more volatile, reflecting changes in global financial conditions, investor risk sentiment, and domestic market depth. Overall, non-resident flows remained supportive of broadly favorable financial account positions in the pre-pandemic period.

The composition of capital flows reflected important differences in financial market development, capital account openness, and degrees of external integration across economies (*Figure 2*). Singapore's financial account was characterized by substantial two-way portfolio and other investment flows alongside significant direct investment, consistent with its role as a highly integrated regional and global financial hub operating under an open capital account regime. Indonesia, Thailand, Malaysia, and the Philippines, exhibited more diversified flow structures combining strong FDI inflows with sizeable portfolio and other investment transactions supported by relatively deeper domestic capital markets and stronger linkages with the global financial system. In particular, Thailand became a net capital exporter for most of the period.

Figure 2. ASEAN 5 Financial Account Balance, by Component, 2015-2019
In million US dollars



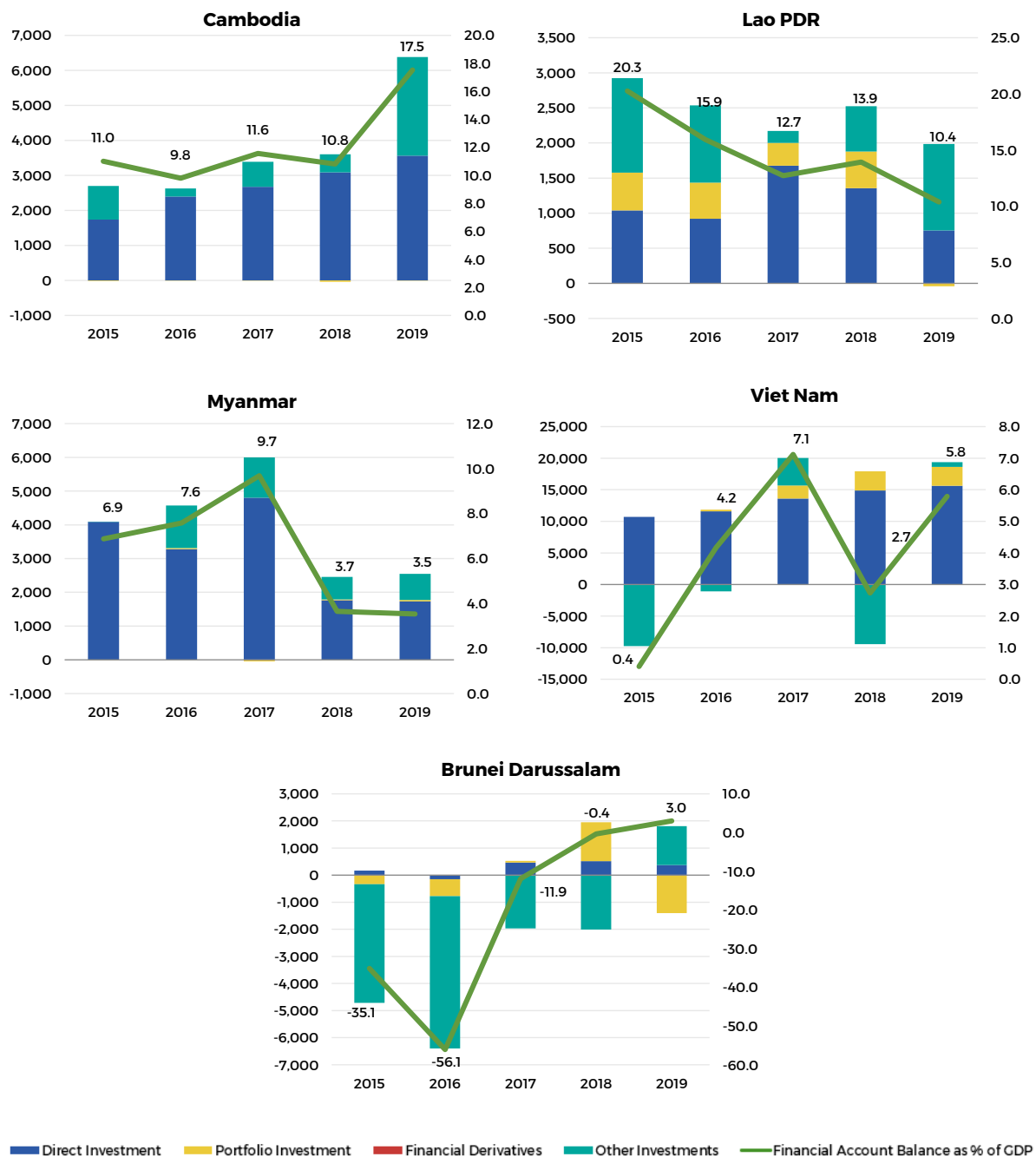
Notes: 1) Excludes official reserves

2) Positive (negative) value indicates net inflow (outflow)

Source: IMF BPM6 Balance of Payments data accessed through CEIC.

Meanwhile, Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV) remained more reliant on FDI and other investment flows, reflecting shallower domestic capital markets and more limited participation by non-resident portfolio investors (*Figure 3*). This resulted in less diversified capital flow structures and a greater reliance on external borrowing and project-related investment inflows. Minimal non-portfolio flows were also observed in Brunei Darussalam, although its financial account structure remained distinct in being dominated by other investment, largely reflecting offshore asset holdings.

Figure 3. CLMVB Financial Account Balance, by Component, 2015-2019
In million US dollars



Notes: 1) Excludes official reserves

2) Positive (negative) value indicates net inflow (outflow)

Source: IMF BPM6 Balance of Payments data accessed through CEIC.

Macroeconomic fundamentals remained broadly sound across the region during this period. Most ASEAN economies maintained adequate foreign exchange reserve buffers, manageable external debt levels, and generally stable banking systems. At the same time, structural vulnerabilities persisted in several economies, including sectoral concentration of inflows, strong dependence on external trade, reliance on external demand, and exposure to commodity price developments and global

monetary conditions. In some cases, significant dollarization, notably in Cambodia and Lao PDR, constrained monetary policy flexibility.

Policy frameworks during this period emphasized gradual capital account liberalization alongside improvements in foreign exchange market functioning and strengthened prudential supervision. Authorities also prioritized financial market development, investment facilitation, and FX flexibility, where feasible. At the same time, continued enhancements in macroprudential and regulatory frameworks, including the adoption of Basel standards, strengthened liquidity requirements, and closer supervisory coordination, supported these efforts. CFMs were used sparingly, reflecting a policy preference for market-based and resilience-building mechanisms over administrative controls.

Capital Flows and Policy Measures during the Pandemic

The onset of the COVID-19 pandemic in early 2020 triggered widespread disruption in capital flows across ASEAN economies, amid heightened uncertainty, weaker global demand, and delays in cross-border investment activity. FDI inflows weakened across much of the region as mobility restrictions, supply chain disruptions, and softer external demand delayed project implementation and weighed on investment decisions. Economies more deeply integrated into global production networks or reliant on large infrastructure pipelines experienced more pronounced slowdowns in inflows, although outright reversals remained generally limited.

Portfolio flows adjusted more abruptly during the initial phase of the crisis, as a global risk-off episode triggered capital outflows, equity market corrections, and exchange rate pressures in several economies. These pressures moderated as large-scale monetary easing in advanced economies helped stabilize global financial conditions. Other investment flows, including cross-border bank lending and deposits, also weakened temporarily before partially recovering in line with the improvements in external financing conditions. Despite these pressures, systemic financial instability was broadly avoided across the region, reflecting the role of pre-existing macroeconomic policy frameworks, reserve buffers, and strengthened supervisory capacity in supporting orderly adjustment during the crisis.

Policy responses across AMS during the pandemic were directed primarily at supporting macroeconomic stabilization, preserving financial sector functioning, and facilitating external adjustment. Monetary easing played a central role in cushioning the impact of the shock, with several economies implementing policy rate cuts, reserve requirement adjustments, and central bank liquidity support operations to maintain credit intermediation and preserve market functioning. In Singapore, monetary accommodation was delivered through adjustments to the slope and level of the nominal effective exchange rate policy band, consistent with its exchange rate-centered monetary framework.

Foreign exchange operations also played an important role in supporting orderly market functioning during the pandemic shock. Several economies implemented FX intervention and liquidity support operations to smooth FX volatility and sustain the availability of foreign currency funding within domestic financial systems. These measures helped limit the amplification of external shocks through financial channels and supported confidence in domestic currency markets during periods

of heightened uncertainty. The effectiveness of these operations depended on reserve adequacy, the credibility of the macroeconomic framework, and whether the underlying pressure was temporary market dysfunction or a more persistent external imbalance.

Macroprudential and supervisory flexibility was the most common financial sector response. Loan restructuring, temporary regulatory relief, adjusted capital or liquidity requirements, and credit-support facilities reduced the risk of procyclical deleveraging. These measures operated as first-line safeguards by sustaining domestic intermediation, although they also created a need for subsequent asset quality assessment, transparent normalization, and monitoring of moral hazard and risk migration.

Fiscal policy provided an additional stabilization channel through emergency stimulus packages, income support programs, and credit guarantee schemes aimed at sustaining employment and supporting affected sectors. More importantly, these responses were implemented largely within existing macroeconomic and prudential policy frameworks rather than through broad CFM measures. Credible monetary policy frameworks, exchange rate flexibility, adequate reserve buffers, and strengthened supervisory capacity supported orderly external adjustment during the crisis. Taken together, the policy mix helped stabilize financial conditions, preserve liquidity, and avert disorderly capital flow reversals. However, the recovery in capital inflows, particularly FDI, remained gradual, reflecting persistent investment uncertainty and delays in project execution.

As shown in Table 1, these policy responses relied mainly on a combination of monetary easing, fiscal support, and regulatory flexibility to sustain domestic demand and preserve financial stability. Central bank liquidity support operations and loan restructuring frameworks were widely introduced across economies, helping sustain the flow of credit to households and firms during the period of heightened stress. Temporary adjustments to prudential requirements and supervisory guidance further reinforced banking sector resilience by mitigating procyclical tightening in financial conditions.

The distribution of measures indicates that ASEAN authorities viewed capital flow volatility primarily as a macro-financial stability and market-functioning problem rather than as a problem requiring broad controls. Liquidity support and prudential flexibility acted as functional substitutes for more restrictive CFMs where policy credibility, external buffers, and banking system resilience were adequate.

The observed outcome was the avoidance of systemic financial instability and a generalized regional sudden stop, while credit and payment systems continued to function. This is consistent with the intended transmission channels of the policy mix against a backdrop of global easing, fiscal support, and health policy developments.

Table 1. Policy Measures Implemented by ASEAN Member States During the COVID-19 Pandemic

Policy Measures	Brunei Darussalam	Cambodia	Lao PDR	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Viet Nam
Monetary Policy										
Policy rate reductions	—	✓	✓	✓	✓	✓	✓	✓*	✓	✓
Reserve requirement adjustments	—	✓	✓	—	—	✓	✓	—	—	✓
Central bank liquidity support operations	—	✓	✓	✓	✓	—	✓	✓	✓	✓
Targeted refinancing / credit support facilities	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Macroprudential and supervisory measures										
Loan restructuring frameworks	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Loan moratoria / repayment deferrals	✓	—	✓	—	✓	—	✓	✓	✓	—
Relaxation of loan-to-value / debt-to-income limits	—	—	✓	✓	—	—	—	—	—	—
Regulatory forbearance measures	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Temporary adjustments to	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Policy Measures	Brunei Darussalam	Cambodia	Lao PDR	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Viet Nam
capital / liquidity requirements										
Fiscal Support										
Emergency fiscal stimulus packages	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Household income support / wage subsidies	✓	✓	✓	—	✓	—	✓	✓	✓	—
Tax deferrals / relief measures	—	✓	✓	—	✓	—	✓	✓	✓	✓
Credit guarantee programs	✓	✓	✓	—	✓	—	✓	✓	✓	✓
Foreign exchange and external liquidity measures										
Foreign exchange intervention to smooth volatility	—**	✓	✓	✓	✓	✓	✓	✓***	✓	✓
Foreign exchange liquidity provision to domestic markets	—	✓	✓	✓	✓	✓	✓	✓	✓	✓
Capital account measures										

Policy Measures	Brunei Darussalam	Cambodia	Lao PDR	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Viet Nam
New broad capital flow restrictions introduced	X	X	X	X	X	X	X	X	X	X
Existing capital account frameworks maintained	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Legend: ✓ implemented

— not documented in country notes

X not introduced

Notes:

* Singapore implemented monetary easing through adjustment of the nominal effective exchange rate (NEER) policy band rather than policy rate reductions.

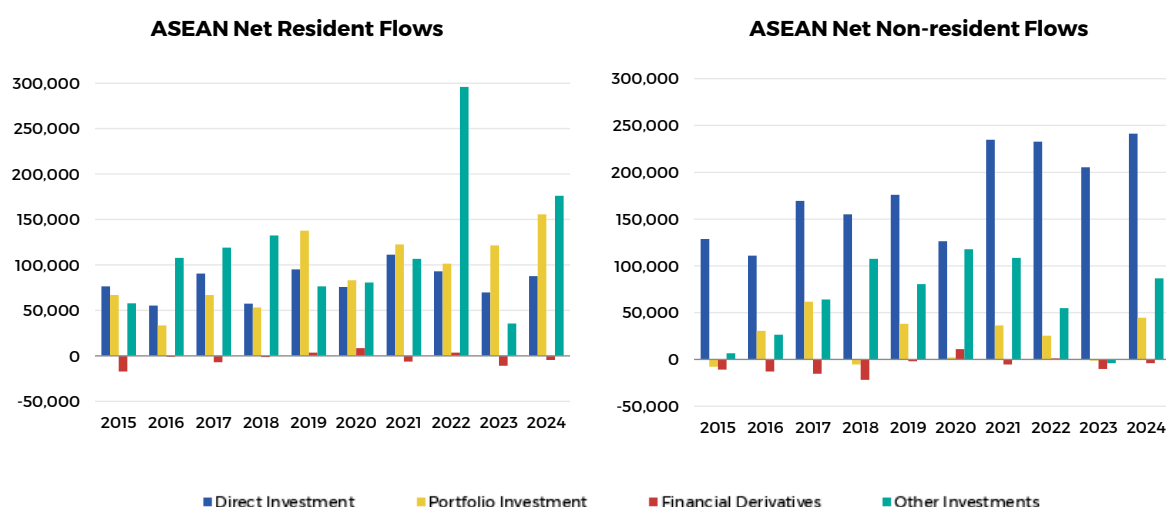
** Brunei Darussalam operates under a Currency Board Arrangement. Discretionary FX intervention not applicable.

*** Exchange rate adjustment occurred through Singapore's exchange rate-centered monetary framework rather than discretionary FX intervention.

Post-Pandemic Capital Flows Landscape

The post-pandemic period shifted the policy challenges from crisis containment to adjustment under higher global interest rates, a stronger US dollar, commodity price volatility, and greater geopolitical uncertainty. FDI recovered as investment activity resumed and supply chains were reconfigured, especially in export-oriented manufacturing and technology-related sectors. Figure 4 nevertheless shows that the recovery was not uniform across flow types: portfolio and other investment remained more sensitive to the global financial cycle than FDI.

Figure 4. ASEAN Capital Flows, by Component, 2015-2024
In million US dollars



Note: Excludes Myanmar

Source: IMF BPM6 Balance of Payments data accessed through CEIC.

Portfolio flows, however, remained comparatively more sensitive to global financial conditions. Rising policy rates in advanced economies, persistent inflationary pressures, and heightened uncertainty contributed to renewed volatility in cross-border portfolio investment across several ASEAN economies during 2022-2024. In Thailand, global monetary tightening and investors' search for higher yields contributed to portfolio outflows and portfolio flow volatility, while similar tightening-related volatility was observed in Malaysia and the Philippines as global financing conditions became less accommodative.

External adjustment pressures were more pronounced in economies facing foreign exchange liquidity constraints and elevated external financing requirements. In Lao PDR, maturing external debt obligations and incomplete repatriation of export proceeds constrained foreign exchange availability within the banking system and contributed to persistent exchange rate pressures. These developments underscored the importance of strengthening monitoring of export proceeds and external borrowing exposures, alongside measures to improve foreign exchange availability within the domestic banking system during the adjustment period.

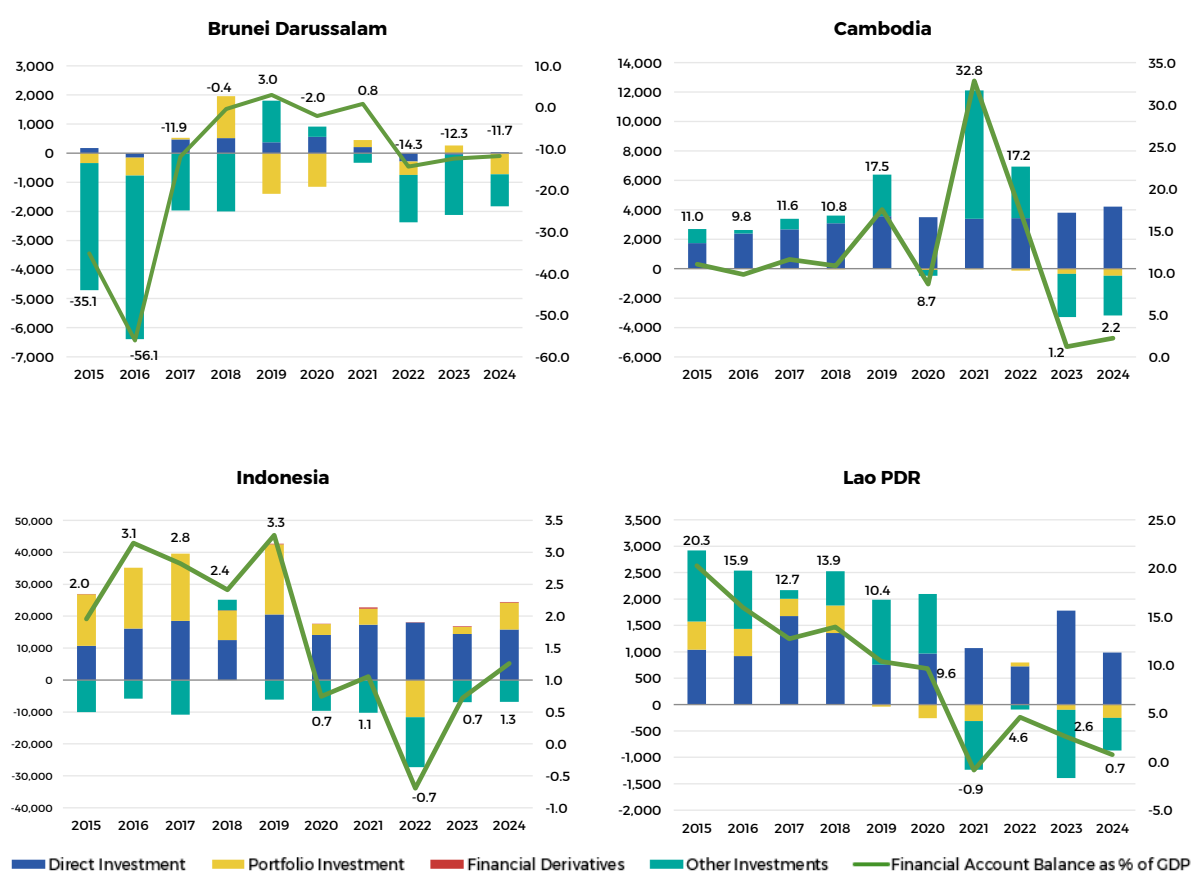
Differences in export structure and the degree of integration into regional production networks also influenced the pace of post-pandemic recovery across the region. Economies more deeply integrated into manufacturing-based supply chains, such as Viet Nam, benefited from renewed investment as global trade

recovered and regional production networks remained active. By contrast, economies with more concentrated investment structures, such as Lao PDR, experienced a more uneven recovery in capital inflows, reflecting shifts in external demand, commodity prices, and project financing cycles.

Global commodity price movements provided an additional channel through which external conditions influenced post-pandemic capital flow dynamics. Higher fuel and food prices increased foreign exchange demand and reinforced exchange rate pressures in import dependent economies, while stronger commodity export revenues supported external balances and financial stability in resource-based economies such as Brunei Darussalam. Despite these pressures, external adjustment remained supported in several economies by adequate reserve buffers and continued FDI inflows, which helped mitigate the effects of volatility in more market sensitive capital flow components.

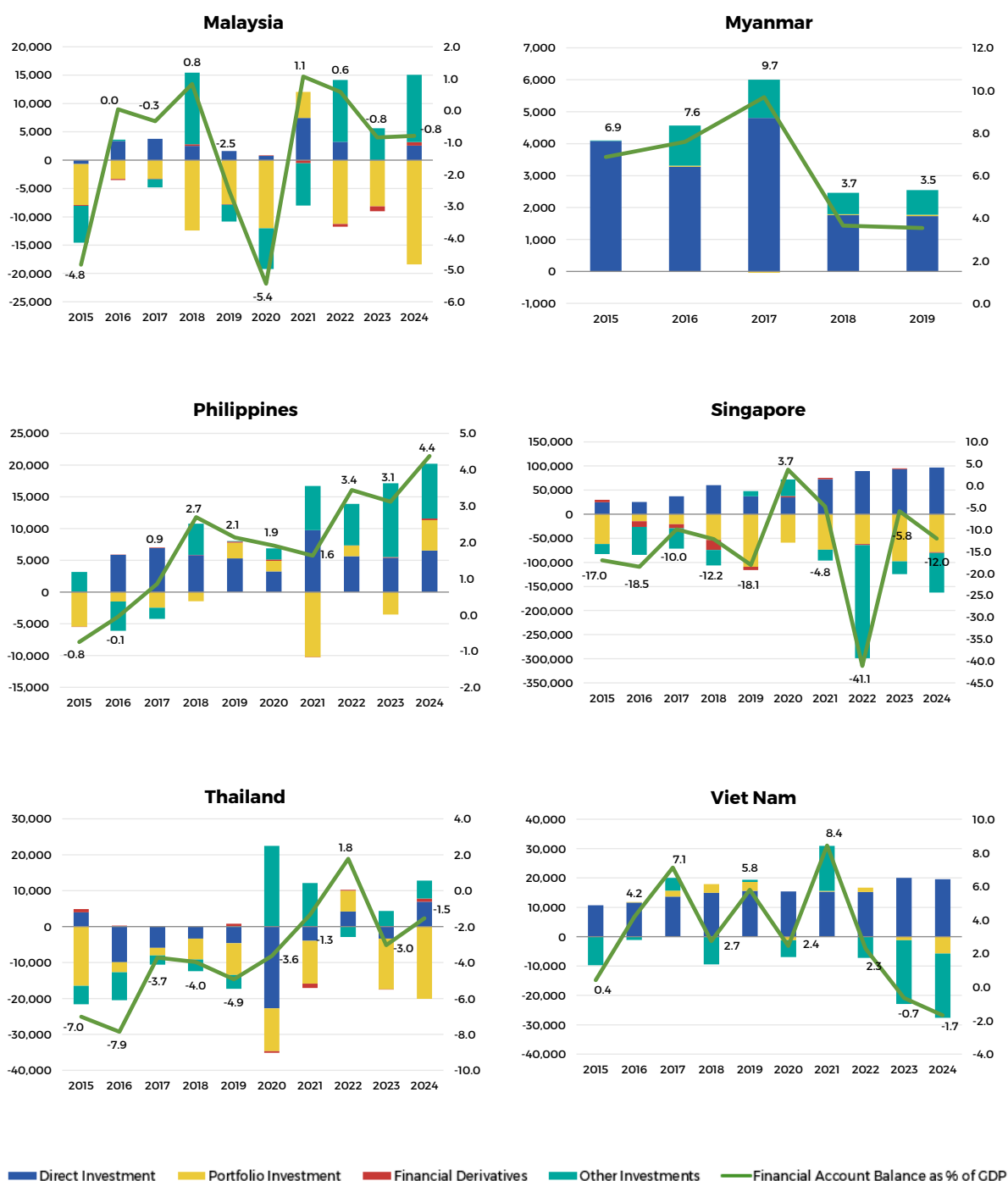
The post-pandemic evidence confirms that capital flow risk is multidimensional. Net balances can improve while gross banking flows, resident outflows, or debt service needs remain large; conversely, a negative financial account balance can reflect deliberate resident diversification rather than stress. Surveillance should therefore combine flow composition with stocks of external assets and liabilities, currency and maturity mismatches, investor concentration, market liquidity, and sectoral FDI exposure.

Figure 5. ASEAN Financial Account, by Component, 2015-2024
In million US dollars



Notes: 1) Excludes official reserves
2) Positive (negative) value indicates net inflow (outflow)
Source: IMF BPM6 Balance of Payments data accessed through CEIC.

Figure 5. ASEAN Financial Account, by Component, 2015-2024 (continued)
In million US dollars



Notes: 1) Excludes official reserves

2) Positive (negative) value indicates net inflow (outflow)

Source: IMF BPM6 Balance of Payments data accessed through CEIC.

Policy Adjustment, Outcomes, and Trade-offs

Post-pandemic policy adjustment across AMS took place against a backdrop of tighter global financial conditions and capital flow volatility. Under this environment, authorities relied primarily on existing combinations of CFMs, macroprudential policy frameworks, and calibrated FX regulatory adjustments to preserve macro-financial stability while supporting continued cross-border financial intermediation. Policy responses were implemented largely within established institutional and regulatory frameworks, without broad changes to prevailing capital flow policy measures.

Macroprudential policy frameworks served as one of the primary operational tools of adjustment during the pandemic shock. Regulatory flexibility, liquidity support operations, and borrower relief programs helped sustain credit provision and mitigate procyclical tightening in financial conditions during the crisis period. As financial conditions improved post-pandemic, several temporary supervisory support measures were gradually unwound or allowed to lapse, marking a transition from crisis response settings toward normalized supervisory settings.

Post-pandemic adjustment also included targeted refinements to FX regulatory and capital account operational frameworks. These refinements combined strengthened monitoring arrangements with selected investment-facilitating measures, including improvements to documentation requirements governing cross-border transactions, procedural adjustments affecting investment-related FX operations, and expanded access to hedging instruments in some economies. These measures supported more efficient cross-border financial intermediation while preserving monitoring safeguards under tighter global financial conditions.

Developments across the pre-pandemic, pandemic, and post-pandemic phases in ASEAN point to a common sequencing of the regional policy mix. Prior to the pandemic, policy priorities centered on gradual capital account liberalization, macroprudential toolkit development, and strengthening FX regulatory frameworks. During the crisis, authorities relied primarily on supervisory flexibility, liquidity support, and macroprudential easing to sustain credit provision, while CFMs were largely maintained. In the post-pandemic period, temporary crisis-related measures were progressively unwound, and monitoring frameworks were selectively strengthened where external pressures were more binding, while capital account and FX regulatory regimes continued to evolve gradually in a country-specific manner.

The post-pandemic pattern was pragmatic rather than one-directional. AMS tightened monitoring where FX scarcity or external debt risks were material, while liberalizing operational rules where deeper markets and better risk management could reduce vulnerability. The common objective was to preserve openness without weakening the authorities' ability to observe and manage risk.

Table 2. Post-Pandemic Policy Adjustments: CFMs, MPMs and FX Operational Frameworks

Country	CFM policy direction	Macroprudential policy direction	Selected capital account and FX operational changes
Brunei Darussalam	Maintained	Maintained	-
Cambodia	Maintained	Maintained	Extension of capital conservation buffer implementation
Lao PDR	Strengthened	Maintained	Strengthened export proceeds repatriation and conversion requirements; FX regulatory revisions
Indonesia	Maintained	Maintained	Expanded local currency settlement arrangements; adjustments to foreign funding framework
Malaysia	Liberalized	Maintained	Qualified Resident Investor framework enhancements; MDB local currency issuance framework; continued hedging access reforms
Myanmar	Maintained	Maintained	Adjustments to investment-related procedures
Philippines	Maintained	Maintained	Simplified FX registration and documentation procedures through authorized agent banks
Singapore	Maintained	Maintained	Maintained
Thailand	Liberalized	Maintained	Continued FX ecosystem reforms; expanded outward investment and hedging access
Viet Nam	Strengthened	Maintained	Strengthened monitoring of FX transactions and external borrowing exposures

Note: Based on country survey responses. "Strengthened" denotes tighter monitoring, documentation, repatriation, conversion, or prudential control. "Liberalized" denotes easier access, documentation, investment limits, hedging, borrowing, or repatriation. "Maintained" denotes no material change in the policy stance. These classifications describe direction, not a judgment on restrictiveness or effectiveness.

Table 3. Cross-Country Capital Flow Shock-to-Policy Matrix

Capital flow shock or pressure	Underlying Vulnerability	AMS where vulnerability is prominent	Transmission mechanism	Main policy response	Analytical lesson
Portfolio outflows and exchange rate pressures	High foreign participation in domestic financial markets and/or sensitivity to global risk sentiment	Indonesia, Malaysia, Philippines, Thailand	Rapid capital outflows; exchange rate and financial market pressures.	Exchange rate flexibility, calibrated FX operations, reserves, market deepening, hedging, broader investor base	Market depth and risk management capacity reduce the need for broad CFMs, but do not eliminate exposure to the global financial cycle.
Onshore FX liquidity constraints	Dollarization and limited FX market depth	Cambodia, Lao PDR	FX liquidity shortages constrain foreign currency funding, trade, and domestic credit	Reserve requirements, FX operations, export proceeds requirements, transaction monitoring, and liquidity management	Limited monetary and exchange rate autonomy changes the safeguard mix and raises the value of FX data and liquidity planning.
External debt rollover pressures	Large external debt and refinancing needs	Lao PDR, Viet Nam; Philippines to a lesser extent	Tighter external financing increases refinancing costs and debt-servicing pressures.	Debt and maturity monitoring, reserve buffers, borrowing oversight, corporate hedging	External vulnerability depends not only on the size of external debt but also on its maturity profile, currency composition, and borrower structure.

Capital flow shock or pressure	Underlying Vulnerability	AMS where vulnerability is prominent	Transmission mechanism	Main policy response	Analytical lesson
FDI slowdown	Commodity and sectoral concentration; dependence on project-based investment	Brunei Darussalam, Cambodia, Lao PDR, Myanmar, Viet Nam	Greater exposure to sectoral investment shifts and delays; weaker capital formation and economic activity	Investment facilitation, economic diversification, sector monitoring, and macroprudential oversight of related credit	Stable FDI can still create concentration and project cycle risks; flow quality and domestic linkages are central.
Cross-border banking volatility	High financial openness and reliance on cross-border financial intermediation	Singapore	Funding shocks; tighter domestic credit conditions	Strong prudential supervision, liquidity and capital standards, stress testing, and market-based adjustment mechanisms	Large gross flows are manageable when institutions and markets can absorb them; net flow controls may be poorly targeted.

Table 4. Policy Tools, Observed Outcome, and Trade-offs

Policy tool	Observed outcome based on AMS experience	Main trade-off or review question
FX intervention and FX liquidity	Helped maintain orderly market functioning and alleviate temporary foreign currency liquidity pressures during periods of market stress.	Reserve cost; risk of delaying necessary exchange rate adjustment; requires clarity on intervention objective, trigger, and exit strategy
Temporary macroprudential easing	Supported continued lending during the pandemic, while cushioning pressures on households and firms. Temporary measures were subsequently phased out as conditions normalized.	Risk of moral hazard, evergreening, and delayed recognition of asset-quality problems if maintained for too long; need for normalization plan.
Export proceeds or repatriation requirements	Helped channel a greater share of export earnings into the domestic banking system, improving FX availability and the quality of FX data reporting.	Compliance burden, circumvention, and investor confidence; proportionality and administrative capacity.
FX liberalization and hedging access	Expanded access to hedging instruments and simplified cross-border transactions, supporting more efficient risk management and capital market development.	Greater gross exposure if risk management, supervision, or market liquidity remains weak.
Local currency settlement and payment links	Expanded practical channels for regional trade and payments.	Requires counterpart acceptance, sufficient market liquidity, pricing benchmarks, and interoperable payment infrastructure.
Targeted CFM or CFM-MPM	Used selectively rather than broadly in the period reviewed.	Risk of market distortions, regulatory leakages, reputational effects, and outward spillovers; measures should be transparent, targeted, and regularly reviewed.

The regional evidence suggests that policy packages were most effective when instruments were complementary. Macroeconomic adjustment addressed the aggregate imbalance; FX operations addressed market dysfunction; MPMs limited financial amplification; and operational reforms improved the market's capacity to absorb flows. None of these instruments is a complete substitute for sound fiscal, monetary, debt management, and supervisory frameworks.

The evidence also identifies limits. Reserve use cannot permanently offset an external financing gap; forbearance cannot substitute for loss recognition and recapitalization; repatriation rules cannot resolve an unsustainable debt path; and liberalization without hedging, data, and supervision can increase gross exposures. Effectiveness should therefore be evaluated against a stated objective and a baseline, with attention to side effects, distribution, circumvention, and cross-border spillovers.

Key Lessons and Policy Implications for ASEAN Central Banks

The experiences of AMS over the pre-pandemic, pandemic, and post-pandemic periods highlight the importance of effective capital flow management grounded on sound macroeconomic fundamentals, credible policy frameworks, and strong institutional preparedness. Across the region, many AMS relied more on exchange rate flexibility, adequate foreign exchange buffers, macroprudential oversight, and targeted policy support to preserve macro-financial stability during periods of external stress. At the same time, country experiences differed according to the degree of financial openness, exchange rate regimes, economic structure, and institutional capacity. Taken together, these experiences point to several lessons for future policy.

1. **Sound macroeconomic fundamentals, credible policy frameworks, and adequate external buffers remain the first line of defense against capital flow volatility.** Brunei Darussalam's experience illustrates the stabilizing role of strong reserves, the absence of external debt, and a well-capitalized banking system in providing durable protection against external shocks. The Philippines likewise emphasized that credible monetary policy, exchange rate flexibility, and adequate external buffers helped absorb global stress without resorting to capital flow restrictions. Singapore's experience similarly indicates that a strong macroeconomic and financial framework can serve as a stabilizing anchor even when capital flows are driven largely by global financial conditions. In addition, Indonesia, Lao PDR, Myanmar, and Viet Nam underscored the importance of maintaining adequate foreign exchange buffers and liquidity to preserve orderly market conditions and reinforce confidence. These experiences reaffirm that macroeconomic credibility and resilience remain central to capital flow preparedness.
2. **Policy flexibility is most effective when supported by robust surveillance, timely data, and strong institutions.** Indonesia highlighted the value of a comprehensive and forward-looking policy toolkit, including both conventional and nonconventional instruments calibrated to the scale and nature of market pressures. Malaysia and Thailand likewise pointed to the importance of a measured, data driven, and well-sequenced approach to liberalization that can adapt to changing domestic and external conditions. At the same time, Cambodia, Lao PDR, Viet Nam, and Thailand emphasized that effective capital flow management requires strong surveillance, reliable data, sound supervisory frameworks, and sufficient administrative capacity. These experiences show that

institutional readiness is as important as policy design. For AMS pursuing deeper financial integration, the ability to monitor evolving risks, detect vulnerabilities early, and respond promptly will remain essential to preserving stability.

3. **Resilience to capital flow volatility also cannot rely on buffers alone.** In some circumstances, targeted and temporary measures may play a useful role in safeguarding stability, particularly during periods of acute stress. Brunei Darussalam adopted sector-specific relief measures and strengthened supervision during the pandemic while maintaining an open capital account, while Myanmar emphasized that temporary or targeted controls may be warranted under exceptional conditions. More broadly, Indonesia and Malaysia highlighted the importance of domestic financial market development, including money market instruments, hedging facilities, repo markets, and deeper participation by institutional investors, in supporting more balanced and resilient capital flows. Other AMS underscored the importance of economic diversification in reducing external vulnerability. Brunei Darussalam highlighted efforts to attract non-hydrocarbon investment, Cambodia pointed to the need to broaden inflows beyond real estate and construction, and Viet Nam emphasized sustaining long-term inflows through liberalization, trade integration, and domestic capital mobilization. Taken together, these experiences suggest that improving the quality and composition of capital flows is an important complement to short-term stabilization measures.
4. **Regional monetary and financial cooperation can also strengthen resilience to external shocks.** Brunei Darussalam cited its Currency Interchangeability Agreement with Singapore as an important stabilizing mechanism. Indonesia, Malaysia, Lao PDR, and Myanmar highlighted the value of local currency use, settlement arrangements, and other forms of regional financial cooperation in reducing reliance on major international currencies and enhancing resilience. Viet Nam likewise emphasized the role of regional integration frameworks, including the Regional Comprehensive Economic Partnership (RCEP), in supporting trade, investment, and the longer-term stability of cross-border flows. These experiences suggest that regional cooperation can usefully complement national policy frameworks through local currency use, payment systems interoperability, financial safety nets, and deeper trade and investment integration.

Looking ahead, several AMS identified a more challenging external environment marked by global economic and financial volatility, tighter monetary conditions in advanced economies, inflationary pressures, debt vulnerabilities, and rising geo-economic fragmentation. In this context, future policy priorities may center on preserving credible macroeconomic frameworks, maintaining adequate reserve and liquidity buffers, strengthening surveillance and supervisory capacity, deepening domestic financial markets, and expanding practical forms of regional cooperation. At the same time, the diversity of AMS experiences suggests that there is no single model for capital flow management. Rather, policy responses will need to remain country-specific while drawing on shared regional lessons on preparedness, flexibility, and resilience.

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Country Notes

Brunei Darussalam

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Capital flows in Brunei Darussalam prior to 2019 were primarily influenced by FDI and efforts to diversify the economy away from heavy reliance on oil and gas. Average annual FDI inflows between 2016 and 2019 reached about 2.2 percent of GDP, with investment notably concentrated in non-oil sectors, including major projects such as Hengyi Industries and Brunei Fertilizer Industries.

Financial conditions remained stable during this period. The banking system was sound, well-capitalized and highly liquid, with the capital adequacy ratio (CAR), well above regulatory requirements. Liquidity conditions were equally robust, with liquid assets accounting for around 49.1 percent of total banking assets. Approximately 51.1 percent of these assets were invested offshore, reflecting both limited domestic investment opportunities and low foreign exchange risk, given the fixed parity between the Brunei Dollar (BND) and the Singapore Dollar (SGD).

Despite the overall stability of the financial system, asset quality showed some pockets of stress. Nevertheless, the banking system remained resilient, supported by adequate loan-loss provisioning and sustained profitability. Other vulnerabilities stemmed from high trade openness and reliance on FDI and commodity exports, particularly in the manufacturing and oil and gas sectors.

In response to these vulnerabilities, Brunei Darussalam Central Bank (BDCB) implemented targeted prudential measures prior to 2020. Basel II standards were adopted to enhance risk-sensitive capital requirements and strengthen banks' overall risk management. Domestic Systemically Important Banks were designated to ensure institutions critical to systemic stability maintained higher capital surcharges and were subject to closer supervisory monitoring. The BDCB also conducted stress testing and scenario analyses to assess banks' resilience to credit and market shocks, using the findings to inform supervisory interventions and contingency planning. In addition, macroprudential surveillance was enhanced to better capture risks arising from offshore investments and cross-border exposures, given the substantial share of banking assets held abroad. These measures collectively strengthened prudential oversight and reinforced the Brunei Darussalam's financial sector stability.

B. Capital Flows and Policy Measures During the Pandemic

The COVID-19 pandemic moderately reduced Brunei Darussalam's financial flows, mainly by delaying project financing. Lower oil and gas prices weakened expected returns on energy-related projects, while mobility restrictions and softer domestic activity reduced trade- and investment-related transactions. Banks nevertheless remained well-capitalized and liquid, reserve backing was ample, and no major capital flight episode was reported.

Brunei Darussalam's policy responses combined regulatory relief with fiscal interventions to support vulnerable sectors. Beginning in April 2020 for an initial six-month period (later extended to the end of 2021), the BDCB allowed deferments on principal repayments of loans for sectors most affected by the pandemic, including tourism, hospitality, restaurants, and importers of food and medical supplies. Banks were also directed to waive fees on payment transactions and interbank transfers, reducing costs and promoting digital payment adoption in line

with social distancing measures. Government measures complemented these interventions through (i) deferments of *Tabung Amanah Pekerja* and *Supplemental Contributory Pension* contributions, (ii) wage subsidies for micro, small, and medium enterprises (MSMEs), (iii) discounts on government building rentals and utility bills, (iv) corporate tax relief for affected sectors, and (v) exemptions from customs and excise duties on personal hygiene products.

The measures reduced immediate debt service pressure and supported domestic liquidity. Repayment deferments and fee waivers eased borrower cash flow constraints, while fiscal support reduced the risk of abrupt credit tightening. Bank capital and liquidity remained strong, and no significant capital outflow episode was reported. The main external effect was instead a reduction in inflows as oil and gas investment was delayed, contributing to a balance-of-payments deficit of about 2.6 percent of GDP in 2020. Inflows began to recover in late 2021, although net FDI remained negative in 2022.

C. Post-Pandemic Capital Flows Landscape

Brunei Darussalam's capital flows gradually recovered in the post-pandemic period. Net FDI, although modest, returned to a positive inflow in 2024 after net outflows in 2022 and 2023. The current account surplus was 14.4 percent larger in 2024 than in 2023, while bank capitalization remained robust and asset quality improved.

Sectoral distribution of FDI in 2024 showed a diverging pattern. The largest inflows were directed to financial and insurance activities, mining and quarrying, and professional, scientific, and technical services. In contrast, manufacturing and construction sectors experienced net outflows, reflecting sector-specific challenges.

Brunei Darussalam's capital flows during the post-pandemic period were shaped by several vulnerabilities. Inflows were sensitive to the uneven pace of regional and sectoral recovery, with the economy's heavy reliance on oil and gas heightening exposure to upstream and downstream disruptions. Global monetary tightening and elevated funding costs constrained investor appetite, slowing FDI and delaying infrastructure projects, while persistent global inflation, exacerbated by the Russia-Ukraine war, increased operational costs despite moderate domestic inflation supported by policy measures. Geopolitical tensions and supply chain disruptions had limited direct impact due to Brunei Darussalam's modest global trade integration and concentrated export structure.

Higher commodity prices supported Brunei Darussalam's external and fiscal positions. Oil and gas export receipts and fiscal revenues increased. The fixed parity between the Brunei and Singapore dollars limited bilateral exchange rate volatility and, together with reserve backing, anchored confidence. It did not, however, remove exposure to global commodity prices or movements of the Singapore dollar against major currencies.

D. Policy Adjustment and Outcomes

Brunei Darussalam maintained a stable regulatory framework throughout the post-pandemic period. It did not undertake a broad capital account liberalization initiative because the existing regime already imposed few restrictions and permitted free capital mobility. This stance is consistent with the Currency Board Arrangement and the Currency Interchangeability Agreement with Singapore, under which capital controls are not used.

Policy emphasis remained on strengthening the domestic financial system and the investment environment. This approach was consistent with preserving confidence and mitigating financial system spillovers while keeping the capital account open. Its limitation is that it cannot by itself overcome weak project demand or concentration in the hydrocarbon sector.

E. Analytical Assessment and Policy Lessons

Brunei Darussalam's experience underscores the importance of strong macro-financial foundations in managing capital flow volatility. The combination of a currency board arrangement, substantial foreign reserves, absence of external debt, and well-capitalized banking system provided durable buffers that preserved financial stability during periods of external stress.

The case also highlights the value of targeted and flexible policy responses within a stable and open capital account framework. Timely sector-specific relief measures, supported by enhanced macroprudential supervision and closer monitoring of cross-border exposures, mitigated the adverse effects of the pandemic on capital flows without resorting to restrictive capital controls.

Finally, Brunei Darussalam's approach demonstrates how structural resilience can be strengthened through diversification and regional monetary coordination. Efforts to attract non-hydrocarbon FDI and deepen financial sector development reduced dependence on commodity cycles, while the Currency Interchangeability Agreement with Singapore reinforced capital flow stability and policy credibility, even amid a volatile global environment.

Cambodia

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Cambodia recorded strong capital inflows between 2016 and 2019, driven primarily by FDI. Inflows rose by 36 percent in 2016 and by an average of 14 percent a year during 2017–2019. They were concentrated in finance (33.4 percent), manufacturing (14.4 percent), accommodation (12.8 percent), and real estate (12.0 percent), while outward investment remained negligible. International reserves reached US\$18.8 billion in 2019, equivalent to 9.8 months of prospective imports, providing a substantial buffer ahead of the pandemic.

Despite overall capital flow strength, Cambodia faced structural vulnerabilities that required policy attention. High dollarization, with deposits largely denominated in US dollars, constrained monetary and exchange rate autonomy and increased the importance of reserve and liquidity management. FDI concentration in a few sectors heightened exposure to sectoral and external demand shocks. Cambodia maintained strong reserve buffers, while banks' assets and liabilities were largely denominated in US dollars; maintaining adequate dollar liquidity remained an important policy consideration, with relatively limited exposure to portfolio flow volatility given the shallow domestic securities market. High trade openness also increased exposure to external shocks and shifts in global investment.

To address these risks, the National Bank of Cambodia (NBC) strengthened macroprudential and inter-agency surveillance. The Financial Stability Committee, established in 2011, was complemented in 2019 by the National Financial Stability Committee, bringing together the NBC, the Ministry of Economy and Finance, and the Non-bank Financial Services Authority. Prudential measures included a 12.5 percent reserve requirement on foreign borrowing and deposits, a Liquidity Coverage Ratio from 2016, higher minimum capital, a 2.5 percent capital conservation buffer, a countercyclical buffer, and stronger loan classification, provisioning, and liquidity risk rules. These measures increased loss absorption capacity and systemic oversight before the pandemic.

B. Capital Flows and Policy Measures During the Pandemic

Cambodia's capital flows remained relatively stable during the pandemic. The financial account remained in surplus, supported by continued FDI inflows which offset the widening current account deficit and preserved overall balance of payments stability. Recovery in key sectors, particularly manufacturing and non-garment exports, played a significant role in attracting sustained investment and stabilizing the broader economy.

International reserve management during this period reflected economic pressures. FX reserves continued to rise in 2020 but declined moderately in 2021 from US\$21.3 billion to US\$20.3 billion, reflecting government drawdowns to finance pandemic support, FX interventions, and reduced bank deposits at the central bank. Other investment components recorded outflows in 2020 but returned to net inflows in 2021, driven by increased liabilities from the financial sector.

During the pandemic, the NBC reduced riel and foreign currency reserve requirements, lowered rates on its liquidity facility, deferred capital buffer implementation, and permitted loan restructuring. Foreign exchange operations

supported orderly exchange rate conditions and absorbed excess riel liquidity, while fiscal support measures through cash transfers, wage subsidies, temporary tax relief and credit guarantee schemes cushioned affected sectors, complementing monetary easing in supporting vulnerable households and alleviating business stress. The package targeted the domestic credit and liquidity channels rather than restricting cross-border flows, helping maintain lending, financial stability, and normal business operations.

C. Post-Pandemic Capital Flows Landscape

Post-pandemic capital inflows to Cambodia have remained anchored by FDI, despite evolving external conditions. FDI recovered to US\$3.6 billion in 2022 and increased further to about US\$4.4 billion by 2024, with flows increasingly directed toward manufacturing, construction, and hydropower. In contrast, inflows to finance, accommodation, and real estate remained below pre-pandemic levels, reflecting a reassessment of sectoral risks. Other investment recorded net outflows in 2023–2024, driven mainly by increased foreign asset accumulation by the banking sector and declining external liabilities amid tighter global financial conditions and higher US interest rates.

Elevated global interest rates and broad-based monetary tightening remain important external risks to Cambodia’s capital flows. They can tighten domestic financing conditions and weaken investor appetite for emerging market assets. Persistent global inflation—driven by energy, food, and other commodity prices—adds to domestic cost pressures, while geo-economic fragmentation and supply chain disruptions can delay trade and FDI projects. Dollarization limits independent monetary and exchange rate adjustment and links domestic financial conditions more closely to US monetary developments. Although exchange rate has remained broadly stable, high dollarization constrains Cambodia’s monetary policy response to external shocks and links domestic financial conditions closely to US monetary developments.

D. Policy Adjustment and Outcomes

Post-pandemic policy focused on financial stability and recovery. The NBC maintained the reserve requirement at 7 percent for both KHR- and USD-denominated deposits through end-2025, while increasing the capital conservation buffer from 1.25 percent to 2.5 percent. Loan restructuring and regulatory forbearance support affected businesses, including small and medium-sized enterprises (SMEs), in sectors such as tourism, garment, manufacturing, transport, and construction, alongside continued credit risk monitoring.

Alongside monetary and prudential measures, fiscal policy drove the recovery. The government continued to deploy targeted packages—such as cash transfers, wage subsidies, tax exemptions, and credit guarantee schemes—to support vulnerable households and cushion affected sectors. In addition, fiscal policy shifted toward productivity and structural diversification while maintaining medium-term fiscal sustainability. Together, this coordinated monetary-fiscal mix lessened income shocks and strengthened economic resilience.

Investment facilitation, rather than capital account liberalization, has been the primary policy lever to support external inflows. The Royal Government of Cambodia enacted a new investment law providing comprehensive incentives to

attract high quality, technology-driven investments, complemented by targeted tax exemptions for property transactions to stimulate domestic demand.

The recovery was supported by FDI, stronger activity, and rebuilt reserves. FDI grew by 3 percent in 2022 and by 11 percent annually in 2023–2024; reserves reached about US\$22.5 billion in 2024, covering at least seven months of prospective imports. Real GDP growth recovered from -3.6 percent in 2020 to about 5–6 percent in 2023–2024. This adjustment occurred without new capital flow restrictions: the authorities relied on macroprudential, liquidity, fiscal, and investment facilitation measures while maintaining an open capital account.

E. Analytical Assessment and Policy Lessons

Cambodia's experience highlights the effectiveness of building resilience through macroeconomic and macroprudential policies rather than relying on capital flow restrictions. The NBC has prioritized strong fundamentals, adequate reserve buffers, and financial system stability, which proved effective during the pandemic. Timely monetary easing, and regulatory forbearance helped sustain capital inflows, preserve confidence, and maintain financial stability.

Post-pandemic developments reflect both improved fundamentals and persistent vulnerabilities. FDI inflows have remained resilient and increasingly diversified toward infrastructure and energy, supporting medium-term growth. However, portfolio outflows and continued concentration in real estate and construction underscore exposure to external shocks and sector-specific risks, particularly amid tighter global financial conditions and high dollarization.

Looking ahead, policy priorities center on managing external risks while strengthening long-term resilience. Global volatility, inflation, and geo-economic fragmentation pose ongoing challenges, addressed through economic diversification, strengthened monetary tools, and enhanced financial oversight. Risks from reduced FDI and debt remain manageable but require continued investment promotion, macroprudential vigilance, and prudent debt management. Overall, deepening domestic capital markets, diversifying the economic base, and maintaining policy coordination will be critical to sustaining stable capital flows and macro-financial stability.

Indonesia

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Capital flows to Indonesia during the pre-pandemic period were generally positive and resilient, though composition changed with global conditions. In 2017, the country benefitted from steady FDI inflows and renewed interest in portfolio investments. Tighter global financial conditions and heightened uncertainty, partly reflecting the escalation of US-China trade tensions, contributed to weaker portfolio inflows and a slowdown in FDI growth. Capital flows strengthened again in 2019, as global risk sentiment improved and domestic macroeconomic fundamentals remained supportive.

Despite its overall resilience, Indonesia faced significant vulnerabilities that constrained policy space and required careful management. Reliance on sizeable portfolio inflows, particularly into government securities, heightened sensitivity to shifts in global risk sentiment and increased exposure to sudden reversals during periods of market stress. Indonesia's external debt profile also increased sensitivity to external shocks, while the economy remained exposed to commodity price volatility, given the significant role of commodity exports in the current account. Notwithstanding these vulnerabilities, external debt remained manageable and international reserves stayed at comfortable levels, supporting confidence in the country's external position.

To manage emerging risks, Indonesia implemented a comprehensive policy framework combining monetary management, macroprudential tools and structural reforms. In 2018, Bank Indonesia tightened monetary policy to stabilize the exchange rate, used Domestic Non-Deliverable Forwards (DNDFs) and calibrated FX operations to smooth excessive exchange rate volatility, and actively conducted open market operations to manage liquidity. It utilized its macroprudential toolkits, including Macroprudential Liquidity Buffer (PLM), Countercyclical Capital Buffer (CCB) and Macroprudential Intermediation Ratio (MIR), as well as loan-to-value and financing-to-value (LTV/FTV) calibrations, to help curb sector-specific risks. It also strengthened corporate reporting/hedging expectations and encouraged the use of onshore hedge products to help manage external debt. Indonesia prioritized financial market deepening such as developing money/FX market instruments (e.g., DNDF, repo) and infrastructures, including standard benchmarks, to promote hedging. The Financial System Stability Committee (KSSK) continued aligning monetary, macroprudential and payment system policies with fiscal and structural reforms.

B. Capital Flows and Policy Measures During the Pandemic

The onset of the pandemic in Q1 2020 triggered unprecedented capital outflows from Indonesia's financial markets as investors fled to safe haven assets. Portfolio outflows resulted in strong downward pressure on the rupiah and heightened volatility in bond and equities markets. FDI inflows slowed while FX reserves dipped temporarily before recovering in the second half of 2020. However, portfolio inflows resumed and FDI began to recover in 2021 supported by improved global liquidity, stronger commodity prices, and domestic structural reforms.

In mitigating capital flow volatility, Indonesia implemented a mix of monetary, macroprudential and structural measures. These included the passage of the Omnibus Law on Job Creation to help attract long-term FDI and strengthen the

investment climate. Bank Indonesia reduced its policy rate by a total of 150 bps in 2020, cut reserve requirement rates, and injected additional liquidity of Rp726 trillion into the domestic economy. It also relaxed LTV/FTV ratios and reduced macroprudential liquidity buffer (PLM) requirements, while maintaining countercyclical capital buffer at zero percent to sustain bank credit. To help stabilize the rupiah, it intervened in the spot, DNDF and bond markets. Bank Indonesia secured a US\$60 billion repo line with the US Fed, while also implementing financial market deepening (e.g., Acceleration of Money Market Development Blueprint) and digitalization measures (e.g., Payment System Blueprint) to help boost liquidity. Under the COVID Law, Bank Indonesia purchased government securities in the primary market under a burden sharing agreement with the Ministry of Finance.

C. Post-Pandemic Capital Flows Landscape

Indonesia's capital flows gradually transitioned from pandemic recovery to the “new normal” while remaining highly sensitive to global financial conditions. In 2021, portfolio inflows recovered quickly, helping support a moderate FDI rebound as structural reforms such as the Omnibus Law improved job creation and investment climate fundamentals. However, the momentum was interrupted in 2022 as global inflation and tighter monetary policy triggered risk-off sentiment and dampened portfolio appetite. Pressures further intensified in 2023 given persistent inflation, US monetary tightening, dollar appreciation, and geopolitical uncertainty, which generated renewed volatility in capital flows. Nevertheless, the launch of Bank Indonesia's tradable instruments (SRBI) coupled with the Indonesian government's efforts to deepen the investor base and promote the use of local currency helped attract renewed nonresident investment in 2024. FDI broadened into the manufacturing, resource processing, digital and green sectors.

Overall, capital flows reflected a dynamic adjustment to a difficult global environment. Higher advanced economy interest rates, wider interest rate differentials, tighter financial conditions, and US dollar appreciation drove portfolio volatility. Steady FDI inflows partly offset these movements and supported the external position but did not eliminate sensitivity to global risk sentiment.

In response to evolving capital flow dynamics, Bank Indonesia calibrated a mix of prudential and structural reforms to balance support for economic growth with financial stability. In liberalizing cross-border borrowing, Bank Indonesia raised banks' foreign funding ratio (RPLN) from a maximum of 30 percent to 35 percent of bank capital to help support economic recovery, while also applying a countercyclical parameter of 5 percent on top of the RPLN. As part of its structural measures, Bank Indonesia eased FDI restrictions (through the simplification of licensing via OSS system, sectoral incentives, and enactment of the Omnibus Law) and advanced digital financial infrastructure, including the cross-border QR payment linkages and digital rupiah roadmap, indirectly supporting capital mobility and renewed investor confidence. These measures were adopted to attract foreign portfolio inflows and support foreign exchange stability. The SRBI and broader Local Currency Transaction (LCT)/ Local Currency Settlement (LCS) cooperation provided additional local currency assets and settlement channels for foreign investors.

D. Policy Adjustment and Outcomes

Indonesia's coordinated response supported market functioning and economic recovery during the COVID-19 crisis. Digital financial integration strengthened transaction continuity and financial access. Liberalization of selected cross-border transactions and the issuance of Bank Indonesia securities broadened market instruments and supported rupiah and reserve management. These developments coincided with an improvement in the external position, but the contribution of individual measures cannot be isolated from commodity prices, global liquidity, and the domestic recovery.

Post-pandemic capital flow developments coincided with structural and liberalization reforms. The Positive Investment List, the Job Creation Law, adjustments to the Bank Foreign Funding Ratio, and regional cooperation under ASEAN and RCEP were intended to facilitate long-term investment while preserving safeguards. FDI recovered and investor participation broadened, although global financial conditions and commodity prices also materially influenced the outcome.

E. Analytical Assessment and Policy Lessons

Indonesia's management of capital flows in 2020-2024 underscored that resilience relies not only on buffers and intervention, but also on market-based reforms and regional partnerships. Its experience during and after the pandemic has shaped a more adaptive and forward-looking policy framework. Key lessons include:

1. Central banks must be equipped with a comprehensive policy toolkit to respond to volatility in the capital and financial account. This includes both conventional and non-conventional instruments.
2. The use of these tools is calibrated based on the degree of pressure, ranging from market-based mechanisms to more targeted, transparent, and temporary (3T) measures when necessary.
3. Capital flow management should balance flexibility with credibility, and short-term stabilization with long-term deepening.
4. Capital flow-related measures must be preemptive and forward-looking, especially for recipient countries like Indonesia that are exposed to volatile portfolio flows. Waiting until a crisis becomes imminent would be too late.

Building on these principles, Indonesia has taken strategies that are geared towards a more resilient, diversified, and proactive capital account management framework:

1. Continued buildup of FX reserves as first line of defense against shocks;
2. Active FX intervention to maintain orderly market functioning;
3. Expansion of SRBI, SVBI, SUVBI, and development of repo, hedging, and money market infrastructure to sustain investor participation;
4. Further expansion LCT/LCS arrangements (e.g., with India, UAE, Korea) to reduce reliance on the USD and improve resilience; and
5. Policies to direct FDI into renewable energy and digital infrastructure, in line with structural transformation goals.

Indonesia recognizes several risks to capital flow management, particularly from global economic volatility, tighter monetary conditions in advanced economies, and rising geo-economic fragmentation. To address these challenges, policy priorities focus on maintaining adequate foreign exchange buffers, ensuring orderly

market functioning through calibrated foreign exchange operations, and preserving a flexible exchange rate regime supported by active BOP monitoring. Moreover, prudent debt management, continued development of domestic financial markets, ease of doing business reforms, and expanded local currency transactions and settlement arrangements are expected to help support capital inflows and strengthen resilience to external shocks.

Lao People's Democratic Republic

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Lao People's Democratic Republic (PDR) experienced significant capital inflows during the 2016-2019 period, dominated by FDI. FDI flows were concentrated in hydropower, mining, and infrastructure sectors offering substantial investment opportunities aligned with the country's development strategy and natural resource endowment. In particular, the hydropower sector attracted significant international investment given Lao PDR's abundant water resources and regional demand for electricity. On the other hand, portfolio investment flows were small given the country's underdeveloped capital markets and limited financial market depth. Similarly, the capital outflows in Lao PDR during this period remained minimal.

Lao PDR's pre-pandemic policy framework focused on investment promotion and the ease of doing business. The Law on Investment 2014 took effect on 1 July 2015, replacing the 2005 law and introducing more transparent provisions intended to reduce barriers to FDI.

To address balance-of-payments imbalances, the Bank of Lao PDR (BOL) introduced regulations to monitor capital flows more closely. The framework covered capital importation and exportation, external loans, account opening, remittances, and the import and export of currency. The Government also enacted the Public Debt Management Law in 2018 to strengthen public debt management and limit new non-concessional borrowing.

B. Capital Flows and Policy Measures During the Pandemic

Capital and financial flows in Lao PDR during the pandemic were influenced by a combination of investment dynamics, trade adjustments, and foreign exchange pressures. During 2020–2021, FDI inflows began to rise as earlier government investment promotion measures took effect. External trade conditions also shifted, with a long-standing trade deficit averaging US\$1,063 million in the pre-pandemic period turning into a surplus of US\$446.5 million in 2021. This improvement was driven by increased exports from newly operational projects, including large hydropower developments, alongside a contraction in imports of goods and services amid pandemic-related restrictions.

Despite the improvement in the trade balance, foreign exchange liquidity conditions remained constrained. Export proceeds were not fully repatriated, as many exporters continued to retain earnings abroad. Public debt also continued to rise notwithstanding the Public Debt Management Law, as external loans associated with public investment projects began to mature and absorb foreign exchange resources from the system. These developments contributed to persistent pressure on foreign exchange liquidity and depreciation of the Lao kip.

Policy responses during the pandemic focused on financial relief and continued reliance on existing capital account regulations. The BOL implemented deferral programs for bank customers during 2020–2021, allowing borrowers to adjust repayment schedules in response to pandemic-related economic disruptions. The authorities continued to apply regulations governing capital importation and exportation, external borrowing, remittances, and currency movements to manage capital flows and support foreign exchange liquidity in the banking system.

Nevertheless, demand for foreign currency remained elevated throughout the period.

C. Post-Pandemic Capital Flows Landscape

As Lao PDR transitioned to the post-pandemic period, capital flow patterns continued to reflect reliance on FDI and external borrowing. From 2021 to 2024, capital flows remained broadly in surplus, while the Lao kip continued to weaken amid sustained foreign exchange liquidity constraints and sizable external debt servicing needs.

Investment flows continued to increase during this period, albeit with a strong concentration in the energy and mining sectors. Other sectors such as infrastructure continued to receive funding from foreign capital, particularly the Lao-China railway and associated dry port projects, which aimed to transform Lao PDR from a landlocked to a land-linked economy. Beyond the capital-intensive hydropower projects, investment expanded into green and renewable energy, including solar and wind power. Mining and natural resource investments also remained relatively strong, supported by the country's abundant resource base. Investment activity in logistics increased, particularly in domestic delivery services, electronic commerce, and supply chain efficiency.

Post-pandemic capital flow developments were shaped mainly by external price and financial conditions affecting foreign exchange demand and liquidity. Elevated global commodity prices, particularly for fuel and food, increased import costs in an import dependent economy. Exchange rate dynamics amplified these pressures, as US dollar appreciation, continued depreciation of the Lao kip, and maturing external debt obligations strained foreign exchange liquidity. Inflation remained closely linked to exchange rate movements and higher import prices, reinforcing domestic cost pressures. Geopolitical developments had a limited direct impact on capital flows, as the country maintains close economic ties with neighboring countries, while tight monetary conditions mainly weighed on domestic investment and consumption with a more limited effect on overall capital flow dynamics.

D. Policy Adjustment and Outcomes

In response to post-pandemic pressures, the authorities strengthened the foreign exchange policy and regulatory framework. In 2022, the authorities revised the foreign exchange law and issued key implementing regulations, including the Regulation on FDI No.1225/BOL, the Regulation on Repatriation of Export Proceeds No.677/BOL, and the Regulation on Mandatory Foreign Exchange Conversion No.333/BOL. These measures were intended to clarify procedures for foreign investment, strengthen monitoring of capital inflows and outflows, and increase foreign exchange availability within the domestic banking system.

The implementation of these regulations contributed to improvements in administrative clarity, reporting discipline, and foreign exchange inflows from trade and investment activities. The repatriation requirement for export proceeds helped channel a greater share of export earnings into the banking system and improve the quality of foreign exchange data reporting. The revised FDI regulation also clarified processes for capital importation and registration, supporting continued investment in priority sectors.

E. Analytical Assessment and Policy Lessons

Lao PDR's experience underscored the importance of maintaining adequate foreign exchange buffers and strong monitoring frameworks in managing capital flows. The authorities highlighted the role of foreign exchange buffers, stress testing, and early warning systems in monitoring foreign exchange liquidity within the banking system, emphasizing the need for these tools to be supported by timely and reliable data. The application of these measures following the post-pandemic period reinforced recognition of the importance of preparedness and data quality in capital flow management.

Lessons from the post-pandemic period have informed ongoing and future policy strategies. The authorities indicated plans to continue facilitating capital inflows by minimizing processing time, expanding the availability of online application and document submission processes, and modernizing approval procedures. These efforts will be complemented by closer monitoring of FDI, export revenue repatriation, and outward investment activities, alongside revisions to selected policies to support foreign currency stability.

Looking ahead, the management of capital flows will continue to face a challenging external environment. The authorities identified global economic volatility, geo-economic fragmentation, persistent inflation, and external debt pressures as key factors that could affect capital flow management. Planned responses include closer monitoring of global developments, promoting local currency transactions, diversifying trade and investment partners and promoting regional integration for trade continuity, strengthening prudential oversight of external borrowing, and enhancing regional cooperation, particularly in payment systems interoperability, to support foreign exchange liquidity and financial stability.

Malaysia

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Malaysia's capital flows reflected structural resilience and an ability to attract stable, long-term FDI, supported by sound fundamentals amid rising global uncertainty, particularly in the second half of 2019. Prior to 2016, capital flows were influenced by global monetary adjustments. From 2017-2019, Malaysia benefited from stable non-resident investment inflows, particularly FDI, alongside renewed portfolio interest, supported by deep financial markets and strong banking system fundamentals. During this period, FDI inflows helped offset a sizeable outward investment by residents. Reserves also increased steadily, while non-resident bond flows, though more volatile in 2018-2019, remained supported by long-term investors and a strong domestic investor base.

Malaysia's resilience was supported by sound macroeconomic fundamentals, low-risk external debt structure associated with large presence of FDI investors, adequate reserves and sizeable external assets accumulated by resident entities. Nevertheless, as a small and open economy, Malaysia remained sensitive to shifts in global risk sentiment, trade tensions and monetary policy in advanced economies. Malaysia consistently attracted long-term FDI inflows, supported by diversified sectors including manufacturing, services, and oil and gas. Such flows, largely composed of equity and retained earnings, were less susceptible to sudden reversals. Meanwhile, Malaysian corporations and institutional investors continued to diversify abroad, resulting in steady outward direct and portfolio investments. For instance, direct investments abroad amounted to US\$5.6 billion in 2017. External assets, meanwhile, grew by US\$22.1 billion (RM97.1 billion) in 2019, mainly driven by portfolio investments. While external liabilities rose in line with portfolio and loan inflows during the period, risks were largely contained given a favorable debt maturity profile (mostly in medium- to long-term), debts largely denominated in ringgit, and prudent hedging practices. Importantly, banks and corporations held US\$317.6 billion in foreign currency assets (at end-2019), further reinforcing repayment capacity.

Malaysia used a multi-instrument framework combining exchange rate flexibility, two-way FX operations, and targeted measures, including limits on offshore non-deliverable forward activity. The objective was to contain excessive volatility, support orderly price discovery, and deepen onshore hedging markets. The Appointed Overseas Office (AOO) framework and Local Currency Transaction Framework (LCTF) expanded channels for ringgit use. Official reserves covered more than seven months of imports, while private external assets provided an additional, decentralized buffer.

B. Capital Flows and Policy Measures During the Pandemic

The onset of the COVID-19 crisis triggered volatility in Malaysia's capital flows, mirroring broader global financial market conditions. The year 2020 was marked by two distinct phases: (i) an initial episode of heightened risk aversion, or 'flight to safety' that drove large non-resident portfolio outflows, sharp ringgit depreciation, and equity market declines; and (ii) gradual return of inflows given a recovery of investor risk appetite, monetary policy easing and vaccine optimism. Prior to its recovery in 2H 2020, Malaysia experienced financial account outflows. Portfolio investment recorded a net outflow of US\$12.0 billion, reflecting US\$14.6 billion in resident portfolio investment abroad, partly offset by US\$2.5 billion in non-resident

portfolio inflows. Other investment recorded a net outflow of US\$7.2 billion, driven mainly by interbank lending abroad and deposit placements by domestic banks.

In 2021, developments reflected a more complex interplay between external and domestic factors. The sizeable bond inflows were due to improved global liquidity conditions, stronger investor risk appetite following the reopening of the Malaysian economy, favorable market developments (e.g., retention of Malaysian bonds in the FTSE World Government Bond Index), and affirmation of Malaysia's sovereign ratings (Moody's: A3; S&P: A-). Both FDI and foreign portfolio investment (FPI) rebounded strongly in 2021, with FDI recording net inflows of US\$20.2 billion, driven by global economic recovery and higher demand for technology, and FPI recording net inflows of US\$13.2 billion amid ample global liquidity. Persistent and sporadic pandemic resurgences weighed in on sentiment, resulting in subdued equity market performance, intermittent portfolio volatility, and continued pressure on the ringgit. Despite these, Malaysia was able to maintain a strong external position throughout the pandemic as its deep and liquid financial markets, flexible exchange rate and effective FX and liquidity management were able to support orderly market adjustments.

As market conditions improved, Malaysia proceeded with calibrated liberalization of its Foreign Exchange Policy (FEP). Measures announced in April 2021 removed the export conversion rule, permitted resident exporters to settle domestic trade in foreign currency with other residents involved in the global supply chain, expanded flexibility for repatriating and netting export proceeds, and allowed commodity derivative hedging with non-residents. Earlier changes had also widened access to ringgit-denominated interest rate swaps. These reforms expanded corporate risk management options and reduced transaction frictions for firms operating in global supply chains.

C. Post-Pandemic Capital Flows Landscape

In the aftermath of the pandemic, Malaysia's financial account flows improved but at a slower pace amid persistent global volatility from 2021-2024. In 2022, Malaysia's financial account registered a net inflow of US\$2.4 billion, driven by robust inward direct and other investments by non-residents (particularly multinational corporations), which offset residents' portfolio investment abroad. In 2023, its financial account recorded a net outflow of US\$1.5 billion, amid moderate global growth, underpinned by heightened interest rates, geopolitical tensions, and supply chain disruptions. Residents' portfolio investment abroad continued to rise, mostly via acquisition of debt and equity securities abroad. In 2024, the financial account rebounded to register a net inflow of US\$0.4 billion, supported by continued recovery in global trade, moderating inflation, and global monetary policy easing. Portfolio investment abroad rose significantly given higher residents' investments in equity securities abroad, while movements in non-resident holdings of domestic securities also affected the overall portfolio balance.

To further its resilience, Malaysia has taken targeted measures to encourage sustained two-way capital flows and preserve the value of the ringgit, building on the FX liberalization measures initiated in April 2021. Key among these is the introduction of the Qualified Resident Investor (QRI) program in April 2024 which facilitated the repatriation and reinvestment of overseas investment proceeds. Since its full rollout on 1 July 2025, several resident corporations have joined the program and contributed to sizeable capital inflows. Meanwhile, BNM further liberalized the FEP to allow MDBs and qualified non-resident DFIs to issue ringgit-

denominated bonds or sukuk for use in Malaysia and provide ringgit financing to resident entities. Additionally, in 2024, the Malaysian Government and BNM also strengthened policy coordination to promote more balanced and orderly two-way flows in the FX market. This involved regular engagement with government-linked investment companies (“GLICs”), government-linked companies (“GLCs”) and major corporates to encourage more consistent and timely repatriation and conversion of foreign earnings.

The period from 2021 to 2024 highlighted the extent of external factors on Malaysia's capital flows. First, tighter global monetary policy, particularly following the US Federal Reserve's aggressive interest rate hikes beginning in March 2022, contributed to local currency weakness, higher borrowing costs, and increased pressure on external balances. As a result, Malaysia experienced intermittent capital outflows despite relatively strong economic fundamentals. Domestic inflation was comparatively contained, allowing monetary policy normalization to proceed gradually as economic conditions strengthened. Second, geo-political tensions such as the Ukraine-Russia conflict and US-China trade tensions, added further uncertainty to global markets and complicated capital flow dynamics, while supply chain disruptions affected trade logistics and export execution. Third, elevated global commodity prices, particularly for energy and food, supported Malaysia's export earnings (palm oil, liquefied natural gas), but also raised import costs and inflationary pressures. Lastly, persistent inflation prompted central banks globally to tighten monetary policies through 2022 and 2023, constraining global liquidity and weighing on capital flows to emerging market economies. The Fed's decision to cut policy rates in September 2024 helped narrow interest rate differentials between the US and the rest of the world, providing some relief for emerging market capital flows.

D. Policy Adjustment and Outcomes

Malaysia's differentiated policy mix was associated with orderly adjustment despite difficult global conditions. The 2021 FX liberalization measures preserved openness while retaining prudential safeguards. FDI remained resilient, particularly in high-value manufacturing and electrical and electronics activities, consistent with the role of structural policies and the investment environment. Exchange rate flexibility served as a shock absorber during periods of volatility. The QRI program and expanded access for MDBs broadened channels for longer-term investor participation, although the effects should be evaluated against prevailing global conditions.

E. Analytical Assessment and Policy Lessons

Malaysia's experience highlights the importance of pursuing capital account liberalization in a measured and calibrated manner, supported by sound macroeconomic and financial preconditions. Malaysia's experience post-COVID-19 demonstrated that capital account policies must remain adaptive and data-dependent, balancing market facilitation with financial stability. Key lessons include:

1. A flexible, data-driven liberalization framework allows policymakers to respond to evolving market dynamics without undermining stability.
2. Maintaining multilayered FX buffers at the official reserve level, within the private sector (e.g., institutional investors) and through external financial safety net arrangements – is critical to safeguard against external shocks.

3. Regional cooperation in local currency usage and cross-border financial linkages can enhance the overall resilience of emerging economies to global volatility.

Guided by these lessons, BNM's current and future policy strategy emphasizes a measured and sequenced approach to liberalization. It will:

1. Continue to facilitate genuine trade and investment activities while ensuring that capital account openness does not compromise financial stability.
2. Utilize a diversified buffer structure – combination of building FX buffers with decentralization – thereby, reducing reliance on reserves and enables the private sector to meet short-term external obligations without exerting undue pressure on the ringgit
3. Continue engaging with GLICs, corporates and financial institutions to enhance alignment between policy intent and market behavior, supporting more balanced two-way capital flows.

Malaysia's toolkit—combining exchange rate flexibility, progressive FX liberalization, financial market deepening, and maintenance of substantial public and private external buffers—supported orderly capital flow adjustment and strengthened resilience during the period examined. The integration of capital account liberalization with macroprudential oversight and exchange rate management provided complementary support for stability. However, the persistent sensitivity to US monetary policy and intermittent portfolio volatility highlights ongoing vulnerabilities to external conditions that structural and financial market development measures can mitigate but not eliminate.

Myanmar

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Myanmar experienced significant growth in capital inflows between 2016 and 2019, driven by rising FDI as the main source of external financing. During this period, Myanmar implemented economic and financial reforms, including the simplification and streamlining of foreign investment legislation and regulations, which facilitated an improvement in the country's business climate. The authorization of foreign banks to operate and expand their services in Myanmar marked a significant step toward financial sector internationalization and development. Portfolio investments, on the other hand, remained minimal given underdeveloped financial markets.

B. Capital Flows and Policy Measures During the Pandemic

The onset of the COVID-19 pandemic had an immediate impact on capital flows, most evident in the sharp decline in FDI inflows to Myanmar. Supply chain disruptions and social distancing measures led to the suspension of business activities and the operations of some foreign firms. Consequently, FDI inflows contracted significantly.

Myanmar implemented the COVID-19 Economic Relief Plan (CERP) to mitigate the economic effects of the pandemic. The plan combined fiscal relief and targeted support for affected businesses and households. Measures included reductions in bank deposit and lending rates; reductions in reserve requirement ratio in local currency (Myanmar kyat); deferral of corporate income tax and commercial tax payments; exemptions from selected customs duties, commercial taxes, and lease fees; and arrangements allowing commercial banks to restructure or reschedule existing SME loans over longer repayment periods. A COVID-19 fund also provided one year loans at a concessional annual interest rate to businesses in the cut-make-pack (CMP) and hotel and tourism industries.

To ease operation friction for small, medium, and large-scale enterprises, the Myanmar Investment Commission (MIC) reduced investment application fees by 50 percent from the original amounts to mitigate the impact of the COVID-19 pandemic on businesses.

C. Post-Pandemic Capital Flows Landscape

From 2021 to 2024, Myanmar's capital inflows declined and remained well below pre-pandemic levels, reflecting global uncertainty and regional trade disruptions that weighed on investor confidence and business operations. Persistent global inflation and elevated commodity prices intensified domestic price pressures, while widening interest rate differentials triggered episodes of capital flow reversals.

The strength of the US dollar exerted depreciation pressure on the kyat, which raised import costs and eroded the balance sheets of firms reliant on imported raw materials and inputs. At the same time supply chain disruptions negatively impacted manufacturing businesses, including CMP operations that are critical to Myanmar's export-oriented manufacturing sector.

To meet national development requirements and accelerate economic restructuring, the MIC designated nine priority investment sectors on 25 November

2021, targeting foundational industries including manufacturing, agriculture, public transportation, and pharmaceuticals.

Building on this framework, the MIC issued Notification No. 1/2023 on 15 February 2023, expanding the priority scope to explicitly include electric vehicles (EVs) and associated supply chain operations.

D. Policy Adjustment and Outcomes

Myanmar maintained an investment facilitation stance during 2021–2024, focusing on further easing FDI restrictions and streamlining investment procedures. Building on pre-pandemic reforms such as the Myanmar Investment Law, the authorities prioritized creating a more predictable and investor-friendly regulatory framework to attract foreign capital despite a difficult external environment. Over this period, there were no major new measures targeting portfolio flows or imposing additional controls on capital outflows; policy efforts remained largely concentrated on improving the legal and administrative environment for FDI rather than broad capital account regulation.

E. Analytical Assessment and Policy Lessons

Myanmar’s post-pandemic experience highlights the importance of resilience and flexibility in managing capital flows. Strong FX reserves proved critical in stabilizing the local currency and cushioning the economy from sudden stops in capital flows. Temporary or targeted controls, when applied judiciously, also proved effective in safeguarding capital during periods of heightened economic stress without undermining long-term financial openness.

These lessons have shaped current and future policy strategies, emphasizing stability and preparedness. Maintaining sufficient FX reserves remains a cornerstone of the policy approach, ensuring the ability to absorb shocks and support orderly market functioning. At the same time, efforts to reduce reliance on a single foreign currency, such as the US dollar, have gained prominence. Regional cooperation to promote the use of local currencies in trade settlements and financial transactions has been strengthened, supporting greater monetary and financial resilience while facilitating regional integration.

Key challenges ahead include global volatility, persistent inflation, debt pressures, and potential declines in FDI. Medium risks from volatility and inflation are addressed through boosting domestic demand and applying tight monetary and fiscal policies. Debt pressures are managed via careful debt planning and non-traditional financing sources, while reduced FDI—a high-risk factor—is mitigated through continued investment promotion and sector-specific incentives.

Overall, the strategy emphasizes stability, flexibility, and integration. Combining FX buffers, flexible policy tools, regional currency use, and targeted investment promotion positions the economy to mitigate impact of external shocks, support sustainable growth, and deepen regional and global financial integration.

Philippines

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

The period 2015-2019 was characterized by strong capital inflows to the Philippines, underpinned by sound macroeconomic fundamentals and continued policy reforms. Sustained economic growth, declining public debt ratios, and efforts to improve the investment climate supported rising investor confidence and increased cross-border financial activity.

FDI was a key driver of capital inflows, averaging US\$8.6 billion annually during the period. Inflows reached record-high levels in 2017-2018, before moderating in 2019 amid tighter global financial conditions. Investment was diversified across sectors, with equity capital directed primarily toward manufacturing, financial and insurance activities, electricity, gas, steam and air conditioning, and real estate. FDI inflows comprised both equity capital and intercompany lending, reflecting sustained investor commitment and reinvestment to support expansion by foreign firms.

Portfolio investment flows were largely shaped by global financial conditions and investor risk appetite. Net foreign portfolio investment outflows were recorded in 2015-2017 amid monetary tightening and heightened risk aversion. Net inflows returned in subsequent years as major central banks adopted more accommodative policy stances and global liquidity improved.

Cross-border loans and deposit-related transactions remained broadly stable, with inflows prevailing. Other investment flows reflected domestic banks' lending and deposit operations and external borrowing by corporations and the National Government (NG), supporting trade finance, investment, and infrastructure spending.

Pre-pandemic vulnerabilities in the Philippines were primarily associated with rising external financing needs. Strong domestic demand, supported by fiscal expansion and higher infrastructure-related imports, contributed to a widening current account deficit in 2018, increasing reliance on sustained capital inflows and exposure to shifts in global financial conditions. External debt remained manageable and was not a source of significant external pressure, but higher corporate borrowing, including foreign currency denominated liabilities, raised sensitivity to exchange rate movements. These vulnerabilities were mitigated by ample international reserves, prudent external debt management, and banks' capital and liquidity buffers comfortably above regulatory requirements.

The policy landscape during the period reflected continued strengthening of the monetary and prudential framework, providing a stable backdrop for capital flows. The adoption of the interest rate corridor system in 2016 enhanced monetary policy transmission and improved liquidity management through market-based instruments, reducing reliance on reserve requirements over time. Prudential oversight was further strengthened through the implementation of Basel III liquidity standards, bolstering banks' resilience to funding stress. Amendments to the central bank charter in 2019 further expanded the policy toolkit and institutional capacity, including authority to issue central bank securities and an enhanced mandate to promote financial stability. These measures supported orderly capital flow dynamics by reinforcing policy credibility and improving the authorities' ability to manage liquidity and external spillovers.

B. Capital Flows and Policy Measures During the Pandemic

The onset of the COVID-19 pandemic in 2020 led to lower net financial account inflows, driven primarily by the decline in net direct investment amid a deteriorating investment climate and a subdued global economic outlook. Portfolio investment softened as global uncertainty prompted risk-off sentiment and episodes of net selling. Net nonresident holdings of Philippine debt securities, however, increased as the NG significantly expanded bond issuance, including in international markets, to finance its pandemic response. Similarly, other investment inflows rose significantly, reflecting higher loan availments by the NG. These inflows were partially offset by domestic banks' repayments of foreign loans and increased placements of residents' deposits abroad.

In 2021, capital flows showed signs of recovery, supported by the gradual reopening of the economy and improved global conditions. Direct investment rebounded, indicating renewed confidence among long-term investors, while other investment inflows remained, underpinned by continued access to external financing by the public and private sectors. Portfolio investment, however, remained sensitive to global financial conditions.

The BSP implemented conventional monetary easing and extraordinary liquidity measures to cushion the pandemic, support financial conditions, and shore up investor confidence. In 2020, the BSP reduced the overnight reverse repurchase (RRP) rate by 200 basis points (bps) to a historic low of 2.0 percent and lowered reserve requirements by up to 200 bps, while adjusting open market operations to manage liquidity. Extraordinary measures, including a ₱300 billion provisional advance to the NG, a ₱20 billion advance dividend, and a secondary market window for government securities, provided fiscal flexibility and maintained orderly market functioning.

Macroprudential and regulatory relief measures supported continued lending and financial stability. These included temporary relief on loan classifications, staggered provisioning, and repayment restructuring, along with eased capital and liquidity requirements, lower MSME risk weights, reserve compliance incentives, and expanded rediscounting. Temporary adjustments to prudential limits, including higher thresholds for selected exposures, further supported credit intermediation and market confidence during the period of stress. The BSP also promoted digital payments by waiving transfer fees and suspending certain charges, allowing uninterrupted payment and settlement activity, strengthening operational resilience and accelerating the shift to electronic transactions.

The Philippines did not impose capital controls during the pandemic. The BSP maintained an open capital account while introducing temporary FX operational relief under Circular No. 1080, s. 2020, including electronic document submission, relaxed notarization and reporting requirements, and streamlined processing, to ensure continued access to foreign exchange and facilitate cross-border transactions amid the COVID-19 crisis.

C. Post-Pandemic Capital Flows Landscape

Capital flows to the Philippines from 2021 to 2024 reflected a transition from post-pandemic recovery toward a more challenging global environment. In 2021–2022, capital flows improved as the economy reopened and domestic activity rebounded. Stronger growth prospects and accommodative global financial conditions supported inflows, with portfolio investment recovering notably in 2022 alongside renewed investor interest in domestic financial markets. From late 2022 through 2024, the external environment became more challenging. Persistent global inflation, aggressive monetary tightening in advanced economies, US dollar appreciation, and heightened geopolitical tensions weighed on capital flows. These developments led to greater portfolio flow volatility and intermittent outflows, highlighting sensitivity to global financial conditions.

FDI provided a relatively stable source of external financing during the post-pandemic period. Inflows improved in 2021–2022 as the economy reopened and foreign ownership reforms were implemented. They moderated in 2023 as global financing costs rose but remained resilient through 2024. Net FDI was directed mainly to manufacturing; electricity, gas, steam, and air conditioning supply; real estate; and information and communication, supporting productive capacity and digital expansion.

Other investment flows, including cross-border loans and deposits, expanded beyond pre-pandemic levels. Net inflows were driven primarily by increased foreign borrowing by the NG, corporates and domestic banks, which supported financing needs as economic activity recovered. Banks' cross-border positions remained broadly stable under prudent balance sheet management, adequate liquidity buffers, and continued regulatory oversight.

D. Policy Adjustment and Outcomes

Capital account liberalization measures during 2021–2024 focused on reducing procedural frictions in cross-border financial transactions. The BSP simplified registration and documentation for inward FDI and portfolio investment through authorized agent banks, reducing reliance on prior approval while maintaining anti-money laundering and know-your-customer (AML/KYC) safeguards. Key regulatory reforms included Circular No. 1124 (2021), which expanded FX sales limits for residents' outward payments and investments; Circular No. 1171 (2023), which allowed non-residents to borrow foreign currency from residents without prior BSP approval and institutionalized electronic FX document submission; and Circular No. 1192 (2024), which simplified registration for inward FDI and portfolio investment, allowing many investments to be deemed registered automatically.

Pandemic era prudential measures were gradually unwound as financial conditions normalized. The reduced 50 percent credit risk weight for qualifying MSME loans, introduced in April 2020 and extended via BSP Memorandum No. M-2021-041, remained in effect until 30 June 2023 to support lending during the recovery. Other temporary reliefs, such as the exclusion of COVID-affected loans from past-due and non-performing classifications, were allowed to lapse by end-2021, with banks reverting to standard regulatory treatment.

Regional payment initiatives complemented the domestic reforms. Through the ASEAN Regional Payment Connectivity framework and cross-border instant payment initiatives such as Project Nexus, the Philippines worked with regional

partners to streamline small value transactions, accelerate payment processing, and promote greater use of local currencies.

The reforms reduced procedural friction while retaining safeguards. Simplified registration and documentation improved access to FX for trade, investment, and hedging while maintaining AML/KYC requirements. Stronger regional payment connectivity also lowers transaction costs and supports integration, although its contribution to financial resilience depends on sound operational, liquidity, and cyber-risk arrangements.

E. Analytical Assessment and Policy Lessons

The Philippines' experience underscores the importance of strong macroeconomic fundamentals, flexible policy frameworks, and institutional adaptability in managing capital flow volatility. Maintaining a credible monetary framework, exchange rate flexibility, and adequate external buffers helped absorb external shocks without resorting to capital flow restrictions, even during periods of heightened global stress.

A credible and adaptable policy framework proved central to effective crisis response. Improved monetary transmission and disciplined macroprudential oversight strengthened the BSP's capacity to respond to shocks. During the pandemic, calibrated monetary easing, targeted liquidity provision, and time-bound prudential relief measures supported credit flows and market functioning without triggering destabilizing capital movements. As conditions normalized, the orderly unwinding of extraordinary support and continued refinement of liquidity operations reinforced policy credibility and anchored market expectations.

Strong external and financial buffers underpinned the management of capital flow volatility. Adequate international reserves, prudent external debt management, and a well-capitalized banking system helped absorb capital flow volatility and current account pressures while preserving market access. Gradual FX liberalization and investment-related regulatory streamlining, supported by digitalization and regional payment initiatives, enhanced the efficiency of cross-border transactions.

Looking ahead, capital flow management could be tested by heightened global financial volatility and geo-economic fragmentation, which could amplify capital flow volatility. Shifts in global risk sentiment and advanced economy monetary policy may continue to drive episodic portfolio flow movements, with potential spillovers to domestic financial markets. Against this backdrop, continued prudent debt management, alongside exchange rate flexibility and adequate reserve buffers remain central to preserving market confidence and maintaining access to external financing. Policy priorities therefore include deepening domestic capital markets, broadening the investor base, and strengthening macroprudential tools. In addition, enhancing oversight to non-bank sectors, monitoring FX and leverage risks, and improving data and analytics will be key to sustain resilience and maintain openness to cross-border capital flows.

Singapore

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Singapore's cross-border financial flows reflect its role as a global financial center with open and well-functioning financial markets. In the period leading up to the COVID-19 pandemic, capital flows were shaped by global financial conditions and financial intermediation activities, particularly through other investment flows involving depository institutions.

During the pre-pandemic period, Singapore did not exhibit pronounced structural vulnerabilities related to capital flows. External debt sustainability, foreign exchange reserve adequacy, reliance on portfolio flows, and sectoral concentration of inflows did not pose material sources of risk. Capital movements reflected broad financial intermediation activity and were not directed toward specific sectors through flow-related channels.

The policy and regulatory framework governing cross-border capital flows remained stable and effective. Capital flows adjusted primarily in response to global market conditions rather than policy intervention, with the existing framework providing sufficient support for orderly cross-border transactions.

B. Capital Flows and Policy Measures During the Pandemic

At the onset of the pandemic, Singapore experienced significant quarter-on-quarter variation in gross capital flows, most notably within other investment. These movements were concentrated among depository institutions, excluding the central bank. Gross inflows and outflows increased in Q1 2020, possibly reflecting inflows into resident banks amid rising risk aversion, even as the banks intermediate credit to counterparties abroad. Gross inflows and outflows then both turned sharply negative in Q2 2020, likely reflecting a partial reversal of the factors driving capital flows in the preceding quarter.

No specific policy measures were introduced in response to pandemic-related capital flow developments. Capital movements continued to be managed through the existing macroeconomic and financial policy framework, with established institutions and market mechanisms supporting orderly cross-border financial intermediation.

C. Post-Pandemic Capital Flows Landscape

In the post-pandemic period, capital flow dynamics reflected adjustments to changing global monetary conditions. Changes in global interest rates were among the most important drivers. Net financial account outflows increased during 2022–2024 relative to 2020–2021, coinciding with the onset of monetary policy tightening in the US and rising interest rates.

No policy measures affecting capital flows were introduced between 2021 and 2024. Cross-border flows related to FDI, portfolio investment, and lending continued to adjust within the existing framework, with no policy changes triggered by capital flow developments.

D. Policy Adjustment and Outcomes

The framework governing cross-border capital flows remained unchanged in the post-pandemic period. Singapore continued to rely on its established macroeconomic and financial policy architecture, without introducing new measures to liberalize, restrict, or otherwise manage capital flows in response to post-pandemic developments.

Post-pandemic capital flow behavior demonstrated the capacity of existing market mechanisms to absorb shifts in external financial conditions. Capital flows adjusted flexibly to changes in global monetary and financial conditions, supported by well-functioning financial markets and financial sector intermediation. Movements in capital flows were absorbed through market mechanisms rather than policy intervention.

Overall performance pointed to continued macroeconomic and financial stability under the prevailing framework. Sound supervision and established institutional arrangements supported orderly cross-border financial activity during periods of heightened global volatility.

E. Analytical Assessment and Policy Lessons

Singapore's experience highlights the importance of a robust, market-oriented macroeconomic and financial framework in accommodating capital flow through periods of global stress. Capital movements were largely shaped by external financial conditions, with the domestic policy framework providing stability anchors rather than actively directing inflows or outflows.

Deep markets, rigorous supervision, capital and liquidity standards, and the exchange rate-centered macroeconomic framework allowed capital flows to adjust without new CFMs. The episode demonstrates that volatility in gross flows should not automatically be interpreted as instability; the key question is whether intermediaries can absorb valuation, funding, and counterparty shocks.

The appropriate focus remains cross-border liquidity and funding stress tests, concentration and counterparty risk, resolution readiness, and close international supervisory cooperation. Maintaining an open regime is consistent with stability where institutional capacity and market depth remain strong, but continued surveillance is necessary because global shocks can transmit rapidly through financial center balance sheets.

Going forward, capital flow developments are expected to remain closely linked to global monetary and financial conditions. The existing exchange-rate-centered monetary policy framework and strong financial sector supervision continue to provide the primary anchors for macroeconomic and financial stability, with no changes to the capital flow policy framework indicated.

Thailand

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Capital flow developments in Thailand before the COVID-19 pandemic reflected a structural shift toward net outflows. Between 2011 and 2019, the financial account moved from net inflows to net outflows as residents expanded direct and portfolio investment abroad following gradual capital account liberalization. Foreign inflows nevertheless remained material, particularly in FDI and debt securities, while equity inflows weakened amid domestic and global uncertainty.

Direct investment flows reflected Thailand's transition from a net capital recipient to a net investor. Outward investment rose as Thai firms expanded production in neighboring ASEAN economies. FDI inflows remained broadly stable and were concentrated in electronics, automotive parts, machinery, finance, and real estate.

Portfolio investment flows increased in scale and volatility, with a marked change in composition. Resident outflows rose after the liberalization of overseas investment, especially in equities. Nonresident debt inflows remained supported by government bond demand, while foreign equity investment weakened amid domestic and global uncertainty.

Other investment flows, mainly loans and trade credits, likewise expanded as Thai businesses increased cross-border financial activity. Both inward and outward flows rose in line with greater cross-border lending, deposits and expansion by domestic firms, facilitated by gradual easing of capital controls.

International reserves increased steadily over the period, underpinned by persistent current account surpluses driven by exports and tourism receipts. Reserve accumulation provided a buffer against external shocks and supported exchange rate management and financial stability.

Thailand's primary capital account vulnerability centered on rising concentration of FDI in the real estate sector. As inflows into property and real estate activities increased, concerns emerged regarding potential asset-price bubbles, financial stability risks associated with excessive exposure to a single sector, and broader housing affordability challenges. This sectoral concentration created vulnerability to sudden reversals in property investor sentiment, which could cascade into broader financial stability concerns.

Policy frameworks before the pandemic focused on addressing structural issues in the foreign exchange market through gradual and planned liberalization. Relaxation of foreign exchange regulations was pursued as a structural reform to correct imbalances in capital flow regulations, enhance flexibility in foreign exchange transactions, and strengthen risk management by firms. These reforms were implemented as planned, reflecting a strategy to modernize the foreign exchange ecosystem and deepen capital markets.

B. Capital Flows and Policy Measures During the Pandemic

Capital flows experienced sharp but temporary adjustments during the pandemic. In 2020, the financial account recorded a substantial net outflow, driven by manufacturing-related FDI transactions, outward direct investment associated with banking and manufacturing mergers and acquisitions, and nonresident portfolio outflows. Lower resident outward portfolio investment partly offset these pressures.

By 2021, capital flows began to normalize, as net financial account outflows narrowed significantly. Inward FDI rebounded to net inflow, particularly in the electronics sector. Residents continued to increase overseas equity investments, reflecting ongoing portfolio diversification in search of higher returns.

No capital flow related policy measures were introduced in direct response to the pandemic shock. The absence of new crisis-specific interventions reflects reliance on existing policy frameworks and structural reforms already underway.

C. Post-Pandemic Capital Flows Landscape

Capital flow developments from 2021 to 2024 reflected post-pandemic shifts in both foreign and domestic investment patterns. FDI remained robust but exhibited a shift toward emerging sectors, including electric vehicles (EV), EV-related components, and data centers, led in part by Chinese firms. Thailand's strategic location, digital infrastructure, and regional demand enhanced its attractiveness for investments in data centers to support rising demand from digitalization and artificial intelligence.

Outward Thai direct investment continued its pre-pandemic trend but shifted away from manufacturing activities, such as beverages and food processing, toward financial services and wholesale trade, supporting regional business expansion. Portfolio investment trends diverged sharply between residents and nonresidents. Thai investors increased overseas portfolio investments significantly, compared with lower levels in earlier periods, while foreign portfolio inflows weakened overall, reflecting recurring equity outflows and portfolio flow volatility amid global monetary tightening and investors' search for higher-yield assets in advanced economies.

External developments influenced capital flow dynamics. Global monetary tightening contributed to portfolio outflows as investors shifted toward higher yielding assets in advanced economies. Geo-economic fragmentation and geopolitical tensions generated volatility in global financial markets, triggering sell-offs in Thai portfolio assets, although FDI inflows into strategic sectors such as electronics, semiconductors, and data centers remained supported by Thailand's infrastructure, neutrality, and position within regional supply chains. Elevated global commodity prices and exchange rate depreciation contributed to inflationary pressures and weighed on investor sentiment.

D. Policy Adjustment and Outcomes

Policy adjustments in the post-pandemic period continued to focus on structural reforms to the foreign exchange ecosystem and capital account liberalization agenda initiated before the pandemic. Measures implemented from 2021 to 2024 provided greater flexibility in foreign exchange transactions, expanded scope for outward investment and cross-border lending, and facilitated access to hedging instruments. These reforms proceeded as planned, reflecting their structural nature rather than crisis-driven responses.

Capital account liberalization aimed to reduce foreign exchange market frictions and improve the functioning of cross-border financial transactions within a new foreign exchange ecosystem. Measures included easing portfolio investment regulations by raising investment limits for retail investors, expanding the domestic availability of foreign currency-denominated products, removing quantitative limits on cross-border lending to unaffiliated entities, and streamlining documentation requirements for capital outflows.

The reform framework was guided by clearly defined structural objectives. These included promoting more balanced capital movements through direct investment and investment in foreign assets, enhancing flexibility in foreign exchange risk management, and reducing transaction costs while broadening access to financial products. The framework further emphasized encouraging competition among foreign exchange service providers and strengthening risk awareness and crisis preparedness through improved market intelligence and surveillance.

Beyond easing market frictions, capital account policies were designed to support economic resilience by improving capital allocation over the medium-term. Prior to the pandemic, Thailand experienced substantial capital inflows driven mainly by persistent current account surpluses, while outward direct and portfolio investment remained relatively limited due to home bias and structural constraints. This imbalance contributed to a widening savings–investment gap and signs of underinvestment domestically. By promoting outward investment and more balanced two-way capital flows, the reform agenda aimed to recycle capital inflows into productive investment abroad and support more sustainable capital flow patterns.

Outcomes indicated progress toward more balanced capital flow patterns. Thai residents increased investments abroad, particularly in equity securities, supported by simplified procedures and expanded investment channels. Use of foreign currency deposit accounts increased among exporters, importers, and retail investors as part of currency risk management and portfolio diversification. Overall, the reforms supported capital mobility and market development while maintaining foreign exchange stability through continuous monitoring.

E. Analytical Assessment and Policy Lessons

Thailand's experience highlights the role of gradual and well-sequenced liberalization in promoting more sustainable capital flow patterns and economic resilience. The policy approach relied primarily on continued relaxation of regulatory requirements rather than direct capital flow management measures, facilitating outward investment, strengthening foreign exchange risk management, and reducing structural home bias, while deepening familiarity with cross-border investment activities.

Forward looking strategies prioritize further liberalization calibrated to domestic readiness. Future adjustments will be guided by the performance of existing measures and progress in data systems, supervisory capacity, investor literacy, and domestic financial market stability. Continued monitoring of foreign exchange transactions and capital flows remains central to effective policy calibration and implementation.

The country's experience also highlights the importance of managing potential trade-offs associated with liberalization. Expanded flexibility has broadened investment opportunities and enhanced risk management, yet it requires vigilance against unintended effects, including the risk of heightened foreign exchange volatility that could affect financial stability. Against a backdrop of elevated global economic volatility and geo-economic fragmentation, capital flow measures may be considered as part of a broader policy mix in cases of excessive inflows or outflows, with implementation dependent on the nature of flows and prevailing financial conditions.

Viet Nam

A. Capital Flow Dynamics and Policy Landscape Pre-COVID-19

Capital flows into Viet Nam expanded strongly before the pandemic, with FDI central to external and financial account developments. From 2012 to 2019, FDI grew at an average annual rate of 10.2 percent, supporting exports and a sustained financial account surplus. The increase reflected Viet Nam's growing role as a manufacturing hub amid supply chain diversification and the relocation of labor-intensive production. FDI rose particularly strongly in 2015 in the context of the 2011–2015 development plan.

FDI broadened across sectors but remained concentrated in manufacturing-related activities. Manufacturing, real estate, utilities, and trade-related services were the largest recipients, with major investment from South Korea, Singapore, and Japan in electronics, textiles, and components. Outward FDI remained modest, peaking in the early 2010s before declining later in the decade.

Portfolio investment inflows increased during this period, supported by favorable global financial conditions and improvements in the domestic investment environment. From 2011 to 2020, portfolio investments benefited from favorable interest rates and capital reallocation toward emerging markets. Moreover, political stability and state-owned enterprise equitization enhanced the attractiveness of Viet Nam's equity market. By 2019, foreign investors held a significant share of domestic securities, reflecting sustained net purchases across both equity and bond markets. In contrast, outward portfolio investment remained minimal and was largely confined to credit institutions, with no material outflows recorded in some years. Moreover, international reserves accumulated steadily, supported by robust FDI inflows, trade surpluses, and prudent macroeconomic management.

External borrowing also changed before the pandemic, with different trends in public and corporate debt. Government external loan disbursements increased during 2011–2014, largely through official development assistance and concessional financing, before declining in 2015–2019. Corporate external borrowing rose steadily, led by foreign-invested enterprises with greater access to overseas finance; borrowing by domestic enterprises remained smaller but increased over time.

Pre-pandemic capital flow vulnerabilities were linked primarily to Viet Nam's high degree of trade and investment openness and sectoral concentration of inflows. Heavy reliance on FDI, particularly in manufacturing sectors, increased exposure to external shocks, including US-China trade tensions and fluctuations in global commodity prices. Commodity exports such as agricultural products, minerals, and garments continued to attract capital, though price volatility posed risks to the stability of inflows.

Policy frameworks before the pandemic emphasized openness combined with administrative clarity and prudent oversight of cross-border flows. The regulatory framework governing external borrowing and repayments was designed to facilitate access to foreign capital while safeguarding external debt sustainability. Reforms included the adoption of Circular No. 03/2016/TT-NHNN, which streamlined procedures for self-borrowed and self-repaid external loans, removed registration requirements for deferred import payments, and introduced an online platform for loan registration, modification and reporting. These measures reduced

administrative burdens, improved data quality, and supported the country's investment-led growth model under a transparent regulatory regime.

B. Capital Flows and Policy Measures During the Pandemic

The pandemic disrupted capital flows in Viet Nam, although overall magnitude of adjustment remained contained relative to some regional peers. Net FDI flows declined modestly in 2020 and 2021 as pandemic-related restrictions, supply chain disruptions, and heightened uncertainty delayed project implementation and disbursements. Investors adopted a more cautious stance, and several investment projects faced operational and logistical constraints.

Portfolio investment inflows experienced sharper short-term volatility. Net portfolio outflows emerged in 2020 amid global risk aversion and equity market sell-offs, before shifting back to modest inflows in 2021 as investor confidence improved alongside effective pandemic containment and macroeconomic stability. Other investment flows also turned negative in 2020, reflecting withdrawals of foreign currency deposits and external debt repayments. These flows rebounded strongly in 2021, with renewed external borrowing and deposit inflows as global financial conditions normalized.

Policy responses to the pandemic prioritized macroeconomic stabilization, financial relief, and continuity in capital management frameworks. Authorities pursued dual objectives of pandemic control and recovery, supported by flexible and timely policy interventions. The State Bank of Viet Nam (SBV) proactively and promptly implemented measures to facilitate debt rescheduling and repayment extensions for affected enterprises and lowered key policy interest rates to ease financing conditions for businesses, support liquidity and stabilize operations. In addition, the SBV continued to strengthen the regulatory framework governing foreign exchange management for external borrowing and debt repayment activities. The focus was placed on streamlining administrative procedures to facilitate enterprises' access to foreign capital for production and business purposes, while simultaneously improving the frequency and quality of reporting related to external debt transactions.

C. Post-Pandemic Capital Flows Landscape

Capital flow dynamics shifted after the pandemic, with the financial account moving from surplus to deficit amid evolving global financial conditions. From 2022 onward, tighter global financial conditions, elevated interest rates, and heightened risk aversion weighed on non-FDI inflows, contributing to outward pressures on the financial account.

FDI remained the anchor of Viet Nam's capital inflows. Net FDI inflows remained resilient throughout 2021-2024, reflecting sustained foreign investors' confidence in the country's business environment and growth prospects. Manufacturing and processing industries consistently accounted for a substantial share of new investment, particularly in electronic components and automotive production. FDI also expanded into technology-related sectors such as data centers, digital services, and logistics, alongside continued investment in industrial real estate and infrastructure linked to global supply chain reconfiguration and expansion of manufacturing zones. Amid a decline in other capital flows, FDI played a crucial role in offsetting financial account deficits and supporting foreign exchange reserves.

Portfolio investment inflows became increasingly volatile in 2022. Following modest inflows in the immediate post-pandemic period, portfolio flows reversed to persistent outflows as global monetary tightening and heightened financial market volatility prompted foreign investors to reassess risk exposure. Other investment flows also registered substantial net outflows, driven by higher external debt repayments by domestic enterprises under elevated global interest rates and increased foreign currency deposits placed abroad by domestic banks.

External pressures intensified during the post-pandemic period. Global monetary tightening raised borrowing costs and encouraged capital reallocation toward advanced economies. US dollar appreciation increased debt service burdens on unhedged foreign currency liabilities, while geopolitical uncertainty weighed on investor sentiment. Supply chain reconfiguration created opportunities through production relocation but also delayed some project implementation.

D. Policy Adjustment and Outcomes

Policy responses favored flexibility and market-based adjustment rather than the introduction of rigid controls. Capital flow management emphasized gradual liberalization, clarification of foreign exchange regulations, and continued development of capital markets. Adjustments included revisions to regulations on the opening of indirect investment capital accounts and private sector external borrowing, enhanced administrative digitalization, and ongoing refinement of reporting and monitoring systems related to capital flows and external debt transactions.

Policy calibration also reflected a gradual and selective liberalization approach supported by coordinated safeguards. Liberalization efforts prioritized sectors with competitive advantages, including export-oriented manufacturing, high-technology industries, and supply chain-related activities, while maintaining oversight of capital flows, exchange rate stability, and liquidity management. Viet Nam's participation in the RCEP from January 2022 further supported trade and investment liberalization under a common regional framework, strengthening market access and regional value chain integration. These measures were complemented by safeguards such as foreign exchange management, inflation control measures, and strengthened financial sector supervision to mitigate risks from volatile short-term capital flows, including under divergent global and domestic monetary conditions.

Observed outcomes indicated resilience in long-term capital inflows despite heightened global financial uncertainty. FDI rebounded strongly in the post-pandemic period and remained robust, reflecting sustained confidence in the country's investment framework and growth prospects. Investment continued to support manufacturing, technology-related activities, and strategic sectors, contributing to production expansion, export growth, and deeper integration into global value chains, while helping offset volatility in other components of the financial account.

The policy framework operated alongside continued external stability during global monetary tightening. Domestic monetary accommodation supported liquidity and recovery even as external financing costs rose. Foreign exchange reserves remained stable, providing a buffer against market pressure, while streamlined procedures and enhanced reporting improved oversight of external borrowing and repayments. These outcomes are consistent with a balance between

openness and stability, but do not identify the separate contribution of each policy instrument.

E. Analytical Assessment and Policy Lessons

Viet Nam's experience demonstrates the importance of combining FDI-led development with prudent capital-account management and policy flexibility. A calibrated approach to liberalization, supported by strong institutional frameworks and administrative capacity, helped sustain investor confidence during periods of heightened global uncertainty. Maintaining adequate foreign exchange reserves enabled timely intervention to stabilize the exchange rate when needed and enhanced resilience to external shocks. The experience underscores the value of maintaining openness alongside effective oversight, allowing the economy to benefit from cross-border capital flows while managing associated risks.

Policy orientation going forward emphasizes continued liberalization aligned with domestic conditions and institutional readiness. Future calibration is expected to reflect the performance of existing measures, alongside ongoing strengthening of data systems, supervisory frameworks, and administrative processes related to capital flows and external borrowing. Regional integration remains an important pillar, with participation in the RCEP providing a framework to support trade and investment liberalization under common standards and reinforce regional value-chain linkages.

Looking ahead, capital-flow management will continue to face external and structural challenges. Global economic volatility and geo-economic fragmentation were identified as key risks, together with inflationary pressures, external debt dynamics, and uneven recovery across trading partners. Planned responses focus on maintaining flexible macroeconomic policies, strengthening foreign exchange reserves, diversifying trade and investment partners, and reinforcing multilateral cooperation through regional free trade agreements. These measures will be complemented by stronger corporate debt oversight, promotion of domestic capital mobilization, and targeted efforts to sustain long-term capital inflows.