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# INTERNATIONAL PORTFOLIO FLOWS AND EXCHANGE RATE VOLATILITY IN EMERGING ASIAN MARKETS

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## Abstract

This paper investigates the effects of equity and bond portfolio inflows on exchange rate volatility using monthly bilateral data for the US *vis-a-vis* seven Asian developing and emerging countries (India, Indonesia, Pakistan, the Philippines, South Korea, Taiwan and Thailand) over the period 1993:01-2015:11. GARCH models and Markov switching specifications with time-varying transition probabilities are estimated in addition to a benchmark linear model. The evidence suggests that high (low) exchange rate volatility is associated with equity (bond) inflows from the Asian countries toward the US in all cases, with the exception of the Philippines. Therefore, capital controls could be an effective tool to stabilise the foreign exchange market in countries where flows affect exchange rate volatility.

*Keywords:* Bond flows, Equity flows, Exchange rates, GARCH, Regime switching

*JEL Classification:* F31, F32, G15

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