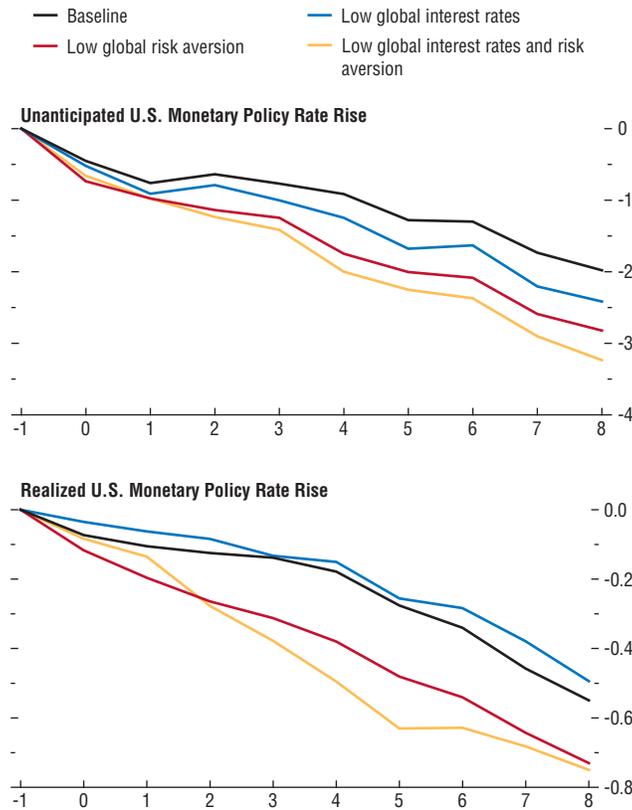


Figure 4.19. Difference in the Response of Emerging Market Economy Net Private Capital Flows to U.S. Monetary Tightening under Alternative Global Economic Conditions

(Percent of GDP)

The underlying macroeconomic background plays an important role in determining the responsiveness of net flows to U.S. rate hikes for emerging markets with direct financial exposure to the United States. Compared with the baseline, the additional fall in net flows is deeper during periods with low global interest rates, even more during periods of low global risk aversion, and finally, the deepest when both global interest rates and risk aversion are low.



Source: IMF staff calculations.

Note: See Appendix 4.1 for the sample of emerging market economies. The dependent variable is total net private capital flows in percent of GDP. The x-axis shows the number of quarters after an impulse. The impulse at quarter zero is a permanent U.S. monetary policy rate rise, normalized to a 1 standard deviation unanticipated rate rise for the economy at the group's average financial exposure. The regression specification and the set of control variables are given in Appendix 4.4. The low global interest rates and low risk aversion periods are taken from Figure 4.12. See the main text for full details on the selection of the periods.