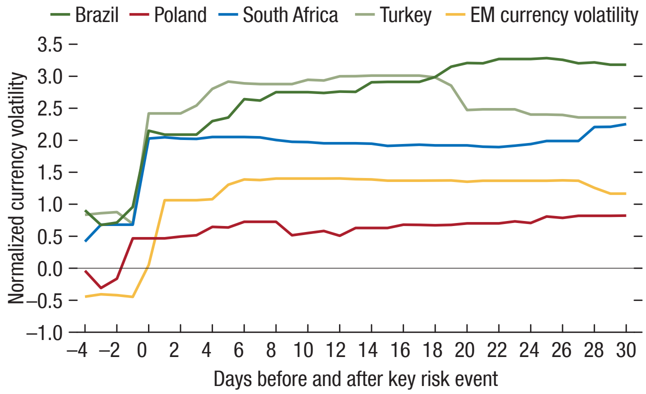
Figure 1.25. Sensitivity of Emerging Market Economy Assets to Global Policy Uncertainty

Market volatility is higher after political events across emerging market economies ...

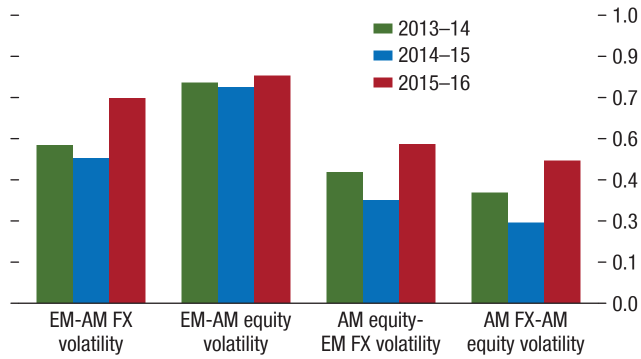
1. Emerging Market Economy Currency Volatility after Risk Events



Sources: Bloomberg L.P.; and IMF staff calculations.
Note: Events over the past 12 months. Brazil: Congressional vote (Sep. 23, 2015); Turkey: failed coup attempt (Jul. 15, 2016); South Africa: Fitch rating downgrade (Dec. 4, 2015); Poland: S&P rating downgrade (Jan. 15, 2016); EM = emerging market: Brexit vote (June 23, 2016).

... with tighter financial linkages between emerging market economies and advanced economies potentially transmitting shocks across countries.

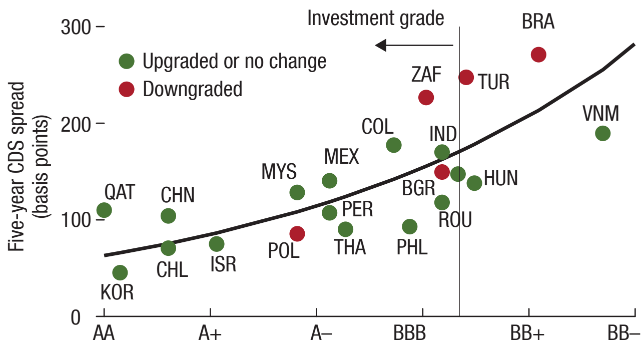
2. Correlation between Emerging Market Economy and Advanced Economy Volatilities



Sources: Bloomberg L.P.; and IMF staff calculations.
Note: AM = advanced markets; EM = emerging market economies; FX = foreign exchange.

Sovereigns face growing risk of rating downgrades due to political uncertainty ...

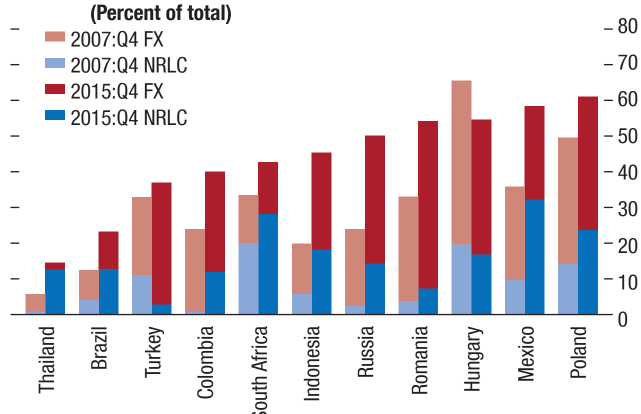
3. Sovereign Credit Spreads versus Ratings, August 2016



Sources: Bloomberg L.P.; and IMF staff calculations.
Note: Data labels in the figure use International Organization for Standardization (ISO) country codes. Line corresponds to the best fit of the logarithm of CDS spreads against ratings. CDS = credit default swap.

... and downgrades could trigger forced selling of dollar and local currency sovereign debt by nonresidents.

4. Government Debt Breakdown in Foreign Currency and Nonresident Holdings of Local Currency (Percent of total)



Sources: Bank for International Settlements; Haver Analytics; national authorities; and IMF staff calculations.
Note: FX = foreign exchange; NRLC = nonresident holdings of local currency.