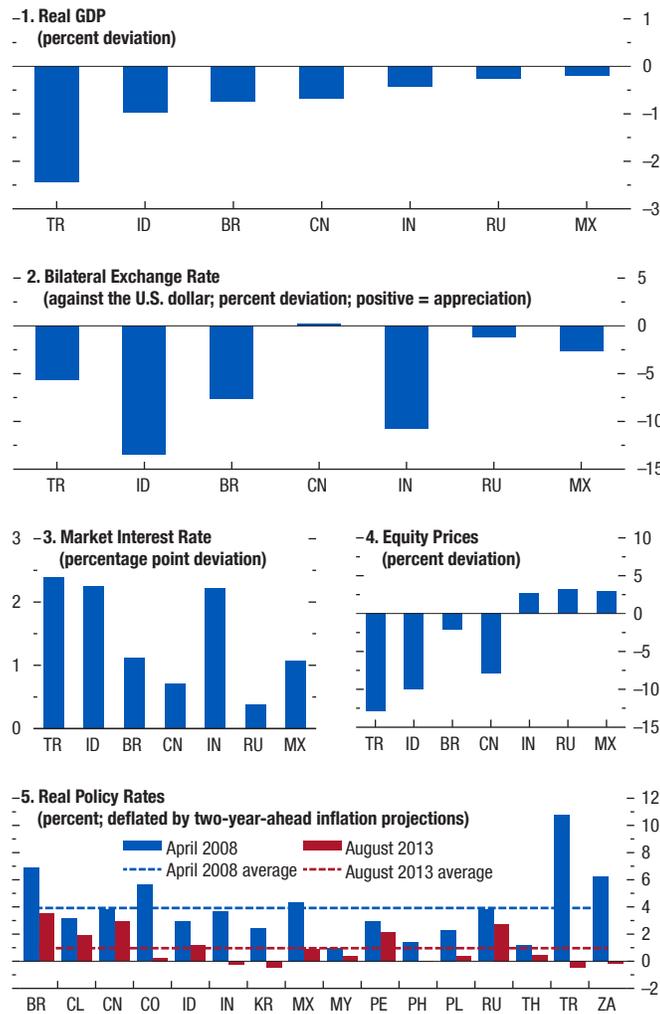


**Figure 1.11. Financial Conditions in Emerging Markets since May 2013**

Since the end of May, Federal Reserve communications indicating that tapering of asset purchases could begin later this year have had a substantial impact on financial markets. Interest rates have increased, equity prices have declined, and exchange rates have depreciated relative to the U.S. dollar in many emerging market economies. Here the G20 Model (G20MOD) is used to estimate the potential macroeconomic implications of these developments. It is assumed that the changes in interest rates,<sup>1</sup> equity prices, and exchange rates observed between the end of May and September 20 are maintained for a full year in G20 economies.<sup>2</sup> The estimates are generated assuming that monetary policy in all countries and regions cannot respond to these developments. The changes in financial market prices and their resulting impact on activity in G20 emerging market economies are presented in the bar charts below. The emerging markets considered experience a decline in GDP, ranging from roughly 2½ percent in Turkey to ¼ percent in Mexico. Those countries estimated to experience smaller declines in GDP have the impact of higher interest rates partially offset by both currency depreciation and improvements in equity prices. Those countries estimated to experience the largest declines have the impact of higher interest rates compounded by declines in equity prices.



Sources: Haver Analytics; and IMF staff calculations.

Note: BR = Brazil; CL = Chile; CN = China; CO = Colombia; ID = Indonesia; IN = India; KR = Korea; MX = Mexico; MY = Malaysia; PE = Peru; PH = Philippines; PL = Poland; RU = Russia; TH = Thailand; TR = Turkey; ZA = South Africa.

<sup>1</sup>For all countries except India, the 10-year government bond rate is used to capture the change in interest rates. For India, the 1-year government bond rate is used because it is a better proxy for the tightening that has occurred in financial conditions in India since end-May.

<sup>2</sup>Some of the changes in interest rates, exchange rates, and equity prices likely reflect some country-specific factors in addition to expectations of U.S. monetary policy.