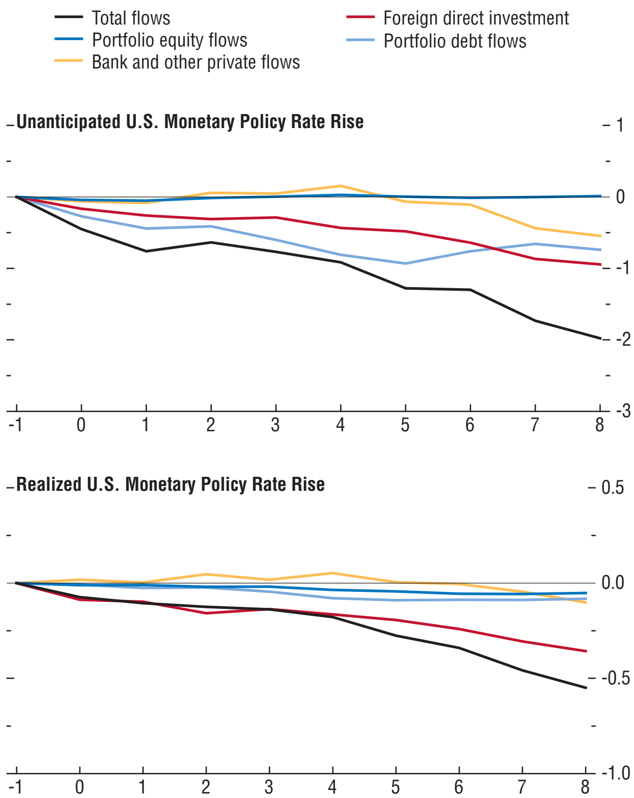
Figure 4.18. Difference in the Response of Emerging Market Economy Net Private Capital Flows to U.S. Monetary Tightening by Type of Flow

(Percent of GDP)

The negative additional effect of an unanticipated U.S. monetary tightening on net flows to directly financially exposed emerging market economies is most evident for portfolio debt flows and absent for portfolio equity flows. Foreign direct investment shows a strong additional response, whereas the responses of bank and other private flows are delayed. For a realized U.S. monetary tightening, only foreign direct investment shows a strong additional response.



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.