

Figure 1.14. Emerging Markets: Key Risks and Vulnerabilities

Risks	Vulnerabilities	Buffers
<p>Faster monetary policy normalization in advanced economies</p> <ul style="list-style-type: none"> • Strong U.S. dollar • Rising interest rates 	<ul style="list-style-type: none"> • High leverage • Large external financing needs • Short-term foreign currency debt 	<ul style="list-style-type: none"> • Sound policy frameworks • Foreign exchange reserves • Fiscal buffers
<p>Political risks</p> <ul style="list-style-type: none"> • Trade tensions • Policy uncertainty 	<ul style="list-style-type: none"> • Flighty investors 	<ul style="list-style-type: none"> • Deep and liquid local markets
<p>Contagion</p>	<ul style="list-style-type: none"> • Trade exposures 	<ul style="list-style-type: none"> • Strong local investor base

Source: IMF staff.