Financial conditions in emerging market economies have tightened recently in response to a more difficult external financial environment. Bond rates and spreads have increased, and equity markets have moved sideways. Gross capital inflows have declined, and exchange rates have depreciated. Overall, the cost of capital in emerging market economies has increased, which will dampen investment and growth, although increased exports to advanced economies are expected to provide some offset.

Sources: Bloomberg, L.P.; EPFR Global; Haver Analytics; IMF, International Financial Statistics; and IMF staff calculations.
Note: ECB = European Central Bank; EMBI = J.P. Morgan Emerging Markets Bond Index; LTROs = longer-term refinancing operations; VXY = J.P. Morgan Emerging Market Volatility Index; emerging Asia excluding China includes India, Indonesia, Malaysia, Philippines, Thailand; emerging Europe comprises Poland, Russia, Turkey; Latin America includes Brazil, Chile, Colombia, Mexico, Peru.