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The Transmission of Financial Stress from Advanced to Emerging Economies

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Abstract

This paper studies how financial stress, defined as periods of impaired financial intermediation, is transmitted from advanced to emerging economies using a new financial stress index for emerging economies. Previous financial crises in advanced economies passed through strongly and rapidly to emerging economies. The unprecedented spike in financial stress in advanced economies elevated stress across emerging economies above levels seen during the Asian crisis but with significant cross-country variation. The extent of pass-through of financial stress is related to the depth of financial linkages between advanced and emerging economies. Higher current account and fiscal balances do little to insulate emerging economies from the transmission of acute financial stress in advanced economies, although they may still help dampen the impact on the real economy.

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