

Do Country Characteristics and International Linkages Foster Financial Stress Transmission in Emerging Economies?

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Abstract

This paper examines the role of country characteristics and international linkages in transmitting financial stress from advanced to emerging countries. The study considers a panel of 18 emerging countries from 2000 to 2019. We apply various panel data techniques to evaluate the conditional and unconditional effects of country characteristics and international linkages on financial stress in emerging economies. Findings suggest that the financial crises from advanced countries transmit strongly and rapidly to emerging economies. Further, we conclude that the extent of the transmission of financial stress is related to the depth of financial linkages between advanced and emerging economies. Positive current account and fiscal balances do little to insulate emerging economies from the transmission of acute financial stress from advanced economies. The study highlights the design of policies to strengthen the institutional setup in emerging economies. Further, coordinated policy responses may help these countries to mitigate FS through external factors. Besides that, a serious effort is desired to monitor fiscal imbalances and recessionary trends.

Key Words: Financial stress, emerging economies, transmission, country characteristics, international linkages

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