



Abstract

The Vulnerability of Growth Markets to a European Shock

In this edition of [Monthly Insights](#), we assess the vulnerability of Growth Markets to a potential shock from Europe. To do this, we explore two main transmission channels—trade and financial links—together with policy options. First, to assess vulnerability via the trade channel, we look at Growth Markets' export shares going to Europe and the US. Second, we consider capital flow pressures as well as the strength of local banking systems. Where possible, we contrast the current situation with Growth Markets' experiences during the 2008-09 global financial crisis.

To further gauge the capacity of policymakers in Growth Markets to fend off potential shocks we analyze the availability of monetary and fiscal policy tools today. Differing policy approaches and actual experience after the 2008-09 crisis have resulted in some divergence in the cyclical positioning of Growth Markets. This means some countries face a different environment both relative to each other and relative to the past. All Growth Markets, however, possess greater capacity to deal with a sharp downturn than the developed world.

Our assessment also offers insights into investment opportunities across Growth Markets in the context of the current uncertainty.

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