

Press release

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FSB analyses external vulnerabilities in emerging market economies associated with US dollar funding

The Financial Stability Board (FSB) published today a report on the interaction between US dollar funding and external vulnerabilities in emerging market economies (EMEs). The report has been prepared in collaboration with the IMF and forms part of the FSB's work programme on non-bank financial intermediation.

The report proposes policy measures to address EME vulnerabilities arising from foreign currency borrowing. These include measures to tackle the build-up of foreign exchange mismatches; enhance crisis management tools; and address data gaps to facilitate risk monitoring and the timely adoption of policies. The report also stresses the importance of ongoing work to address vulnerabilities from liquidity mismatches in open-ended funds, which would also help bolster the resilience of EMEs' financial systems.

These policy proposals are informed by an analysis of EME capital flows during March 2020, with a particular focus on the role of non-bank investors. During this episode, EM investment funds experienced substantial redemptions that were larger than the 2013 'taper tantrum'. Analysis suggests that jurisdictions which relied more on global and passive bond funds tended to face greater capital outflows.

The report also discusses relevant policy measures taken in March 2020. EME authorities deployed both standard crisis management tools and new measures to mitigate pressures in local currency bond markets and to stem capital outflows. Actions by advanced economy authorities were also important in mitigating strains in financial markets globally and addressing USD funding pressures. However, these actions did not directly address underlying vulnerabilities in EMEs.

Lael Brainard (Governor of the US Federal Reserve Board), as Chair of the FSB Standing Committee on the Assessment of Vulnerabilities that oversaw the preparation of the report, said "This report provides us with a clearer understanding of the EME vulnerabilities stemming from external funding and non-bank financing. It provides a good basis for further policy work both by authorities in those countries and at the international level to improve the resilience of EMEs' financial systems to future shocks."

Notes to editors

The FSB published in November 2020 a *Holistic Review of the March Market Turmoil*, which laid out a comprehensive and ambitious work programme for strengthening the resilience of the NBFIs sector while preserving its benefits. This work is being carried out within the FSB as well as by its member standard-setting bodies and international organisations, to ensure that relevant experiences and perspectives are brought to bear.

In November 2021, the FSB delivered its first progress report on the NBFIs work programme to the G20, detailing its priorities for 2022 and beyond. The report on USD funding and EME vulnerabilities published today is one of the FSB deliverables for 2022. The FSB will deliver its next progress report to the G20 Summit in November 2022, which will include the main findings across NBFIs initiatives and policy proposals to address systemic risk in NBFIs.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.