

What's going on in EM at the moment ?



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A combination of several concerns

- **Country specific concerns** (social and political unrest in Ukraine, Thailand, Argentina)
- **The case of Turkey** (a classic case of external vulnerability)
- **Global worries about China** (slowdown but no hard landing)
- **US Fed tapering** (monetary policy set to remain very loose)
- **EM growth concerns in general** (leading indicators suggest momentum is slowly improving)

A repeat of the late nineties still seems unlikely

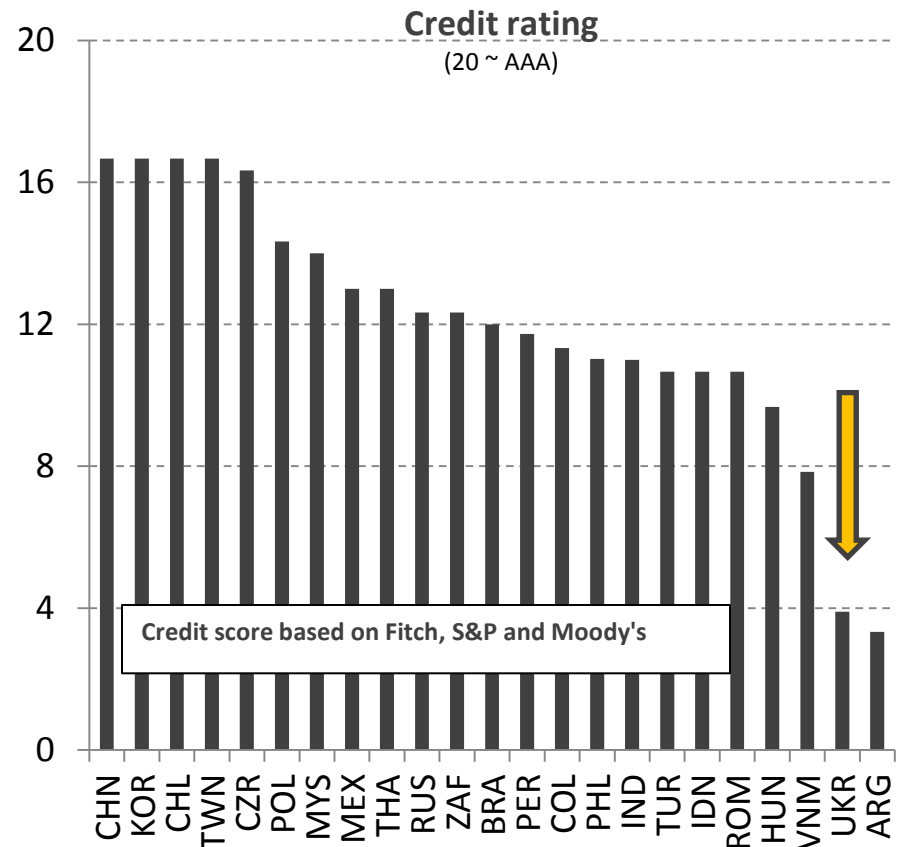
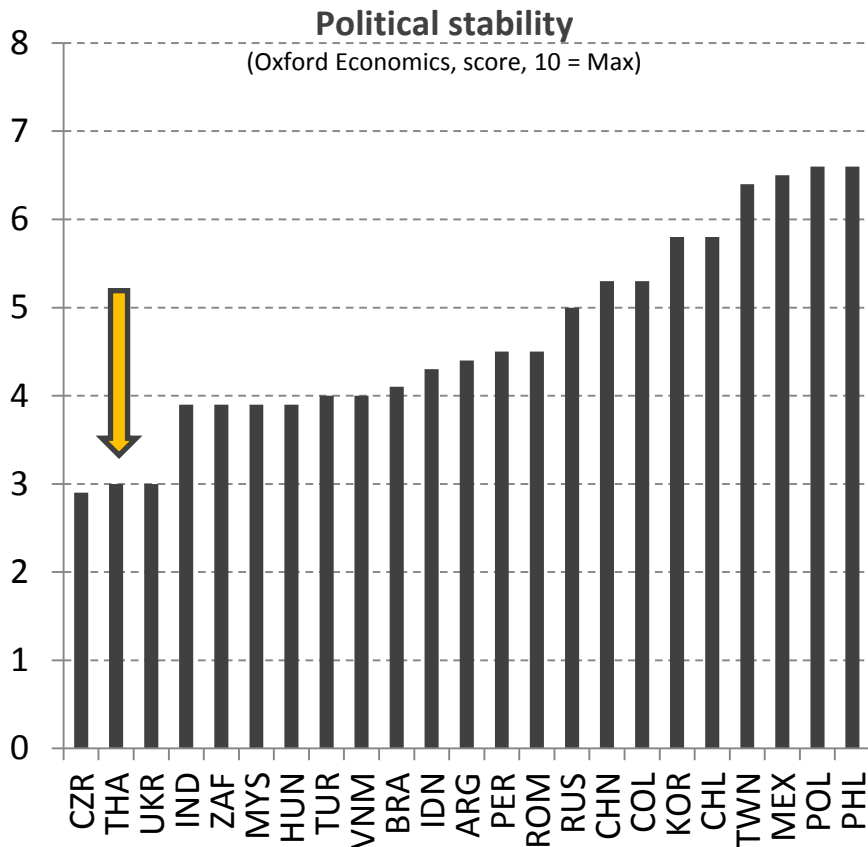
- Global monetary policy likely to stay very loose
- External debt levels are generally lower
- Presence of a large pool of international reserves
- Vast majority of currencies no longer pegged
- Recovery in DM set to support EM exports

Country specific concerns



Country specific concerns

Ukr, Tha, Arg → Mind the gap please

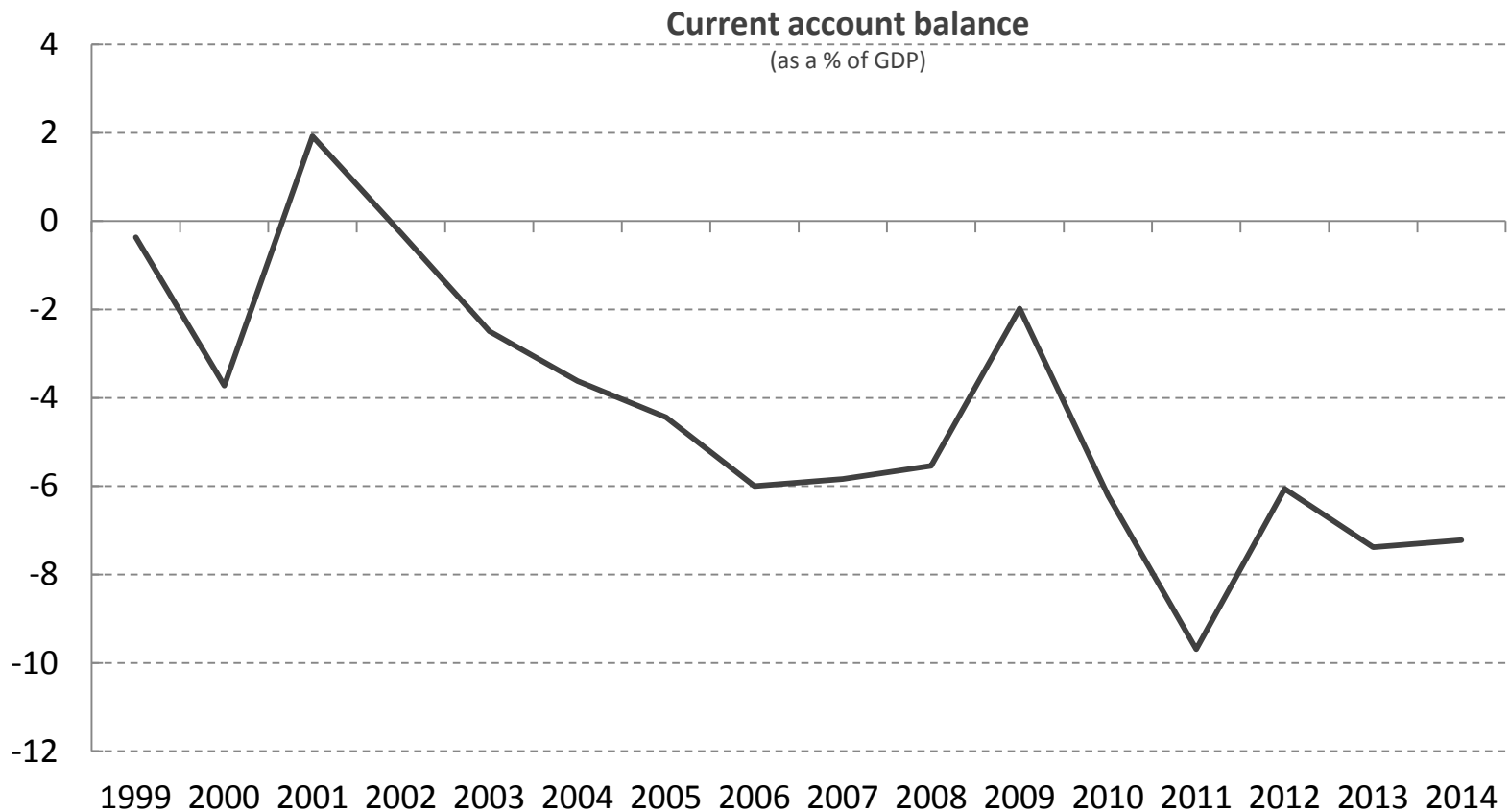


The case of Turkey



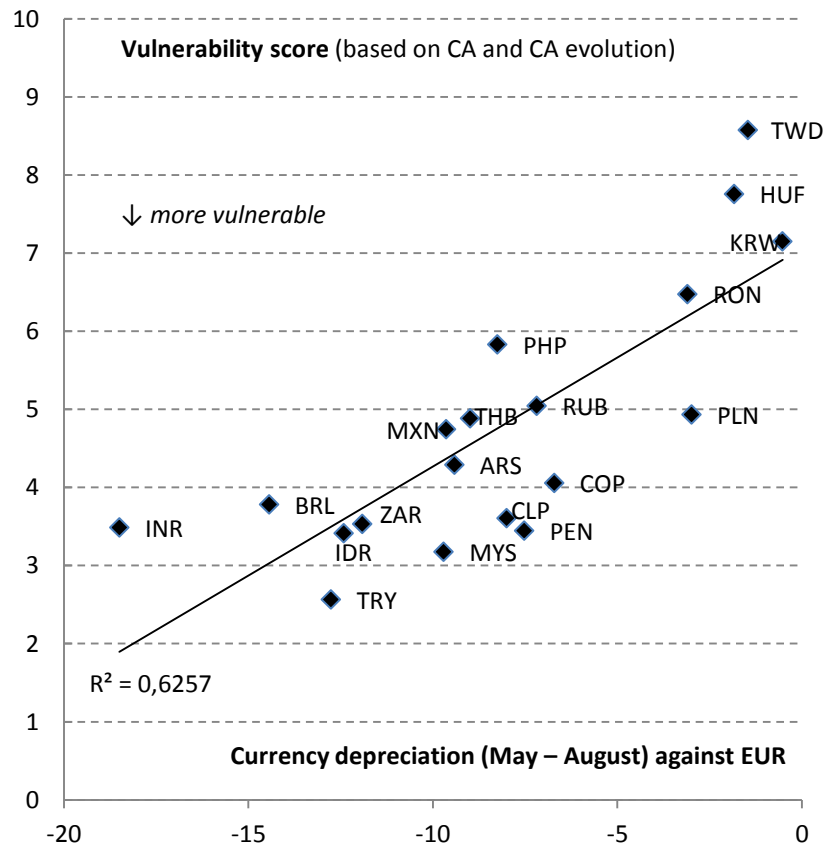
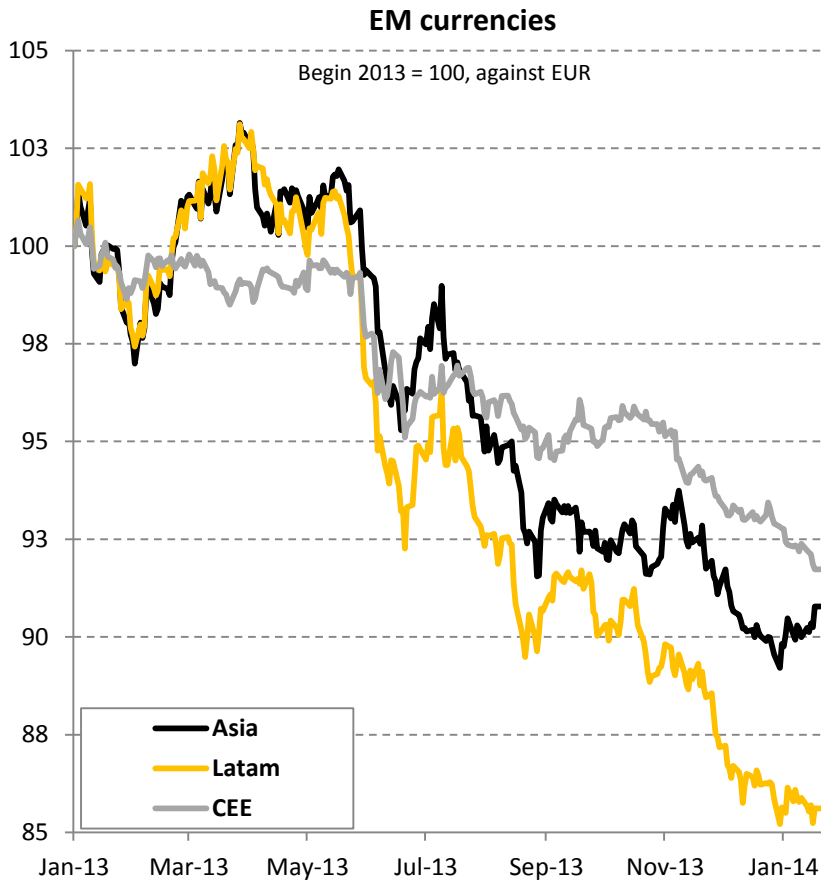
The case of Turkey

A classic case of external vulnerability



EM currencies still vulnerable

Deficit countries likely to stay most vulnerable



Measuring external vulnerability

A simple framework

→ Funding needs

→ Stock of external debt

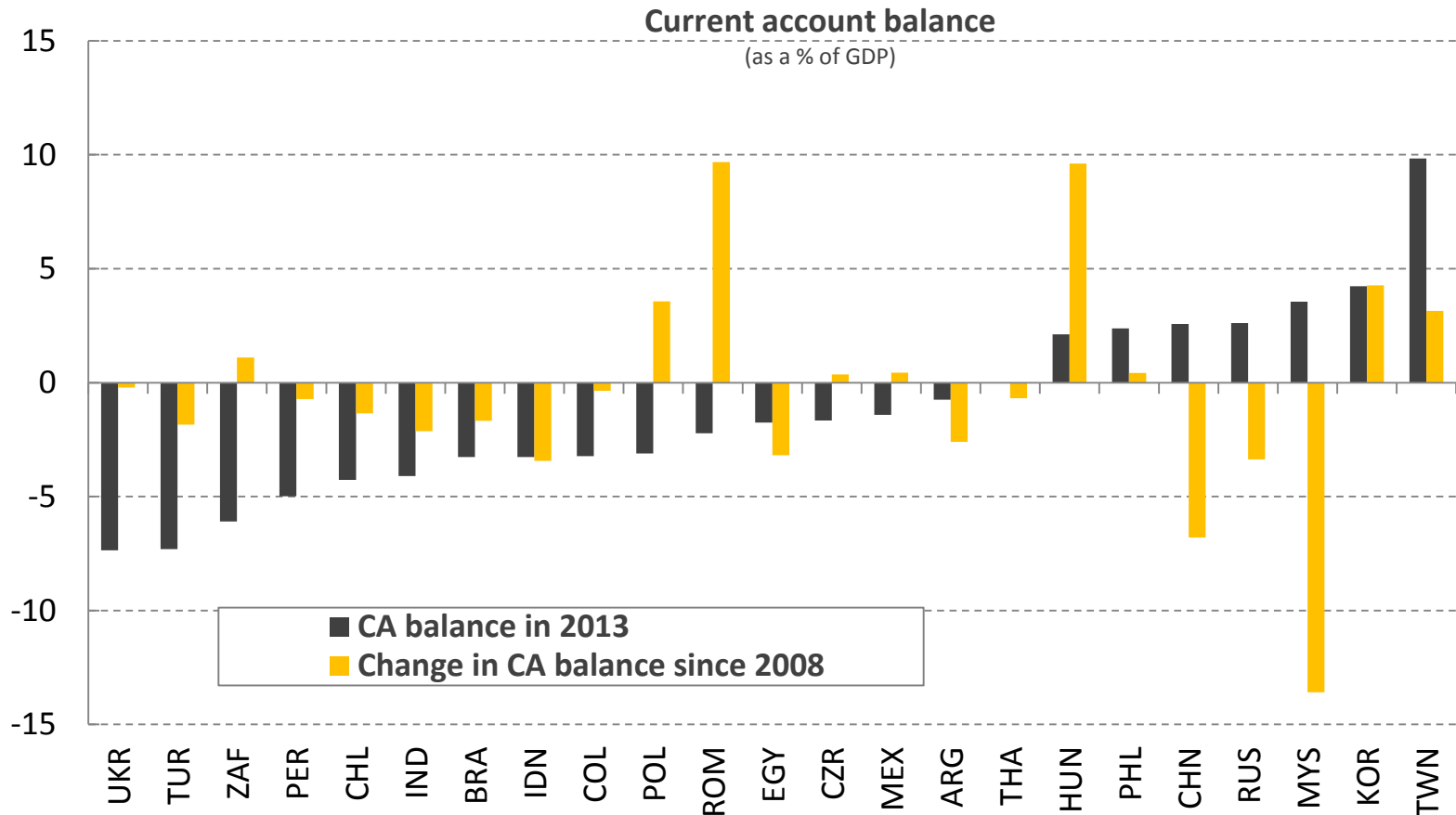
→ FX reserves



Several countries remain vulnerable

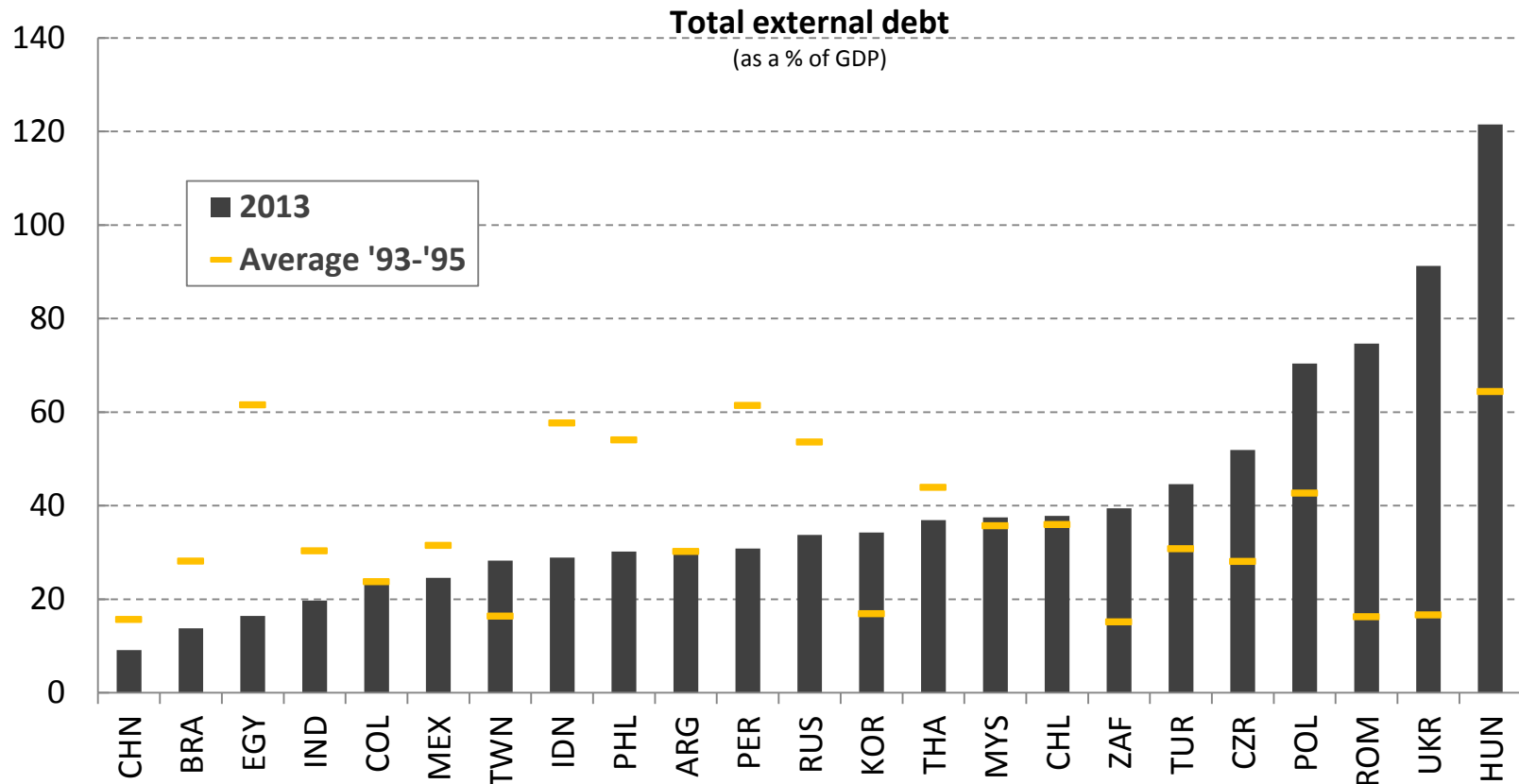
Measuring external vulnerability (1)

Funding needs



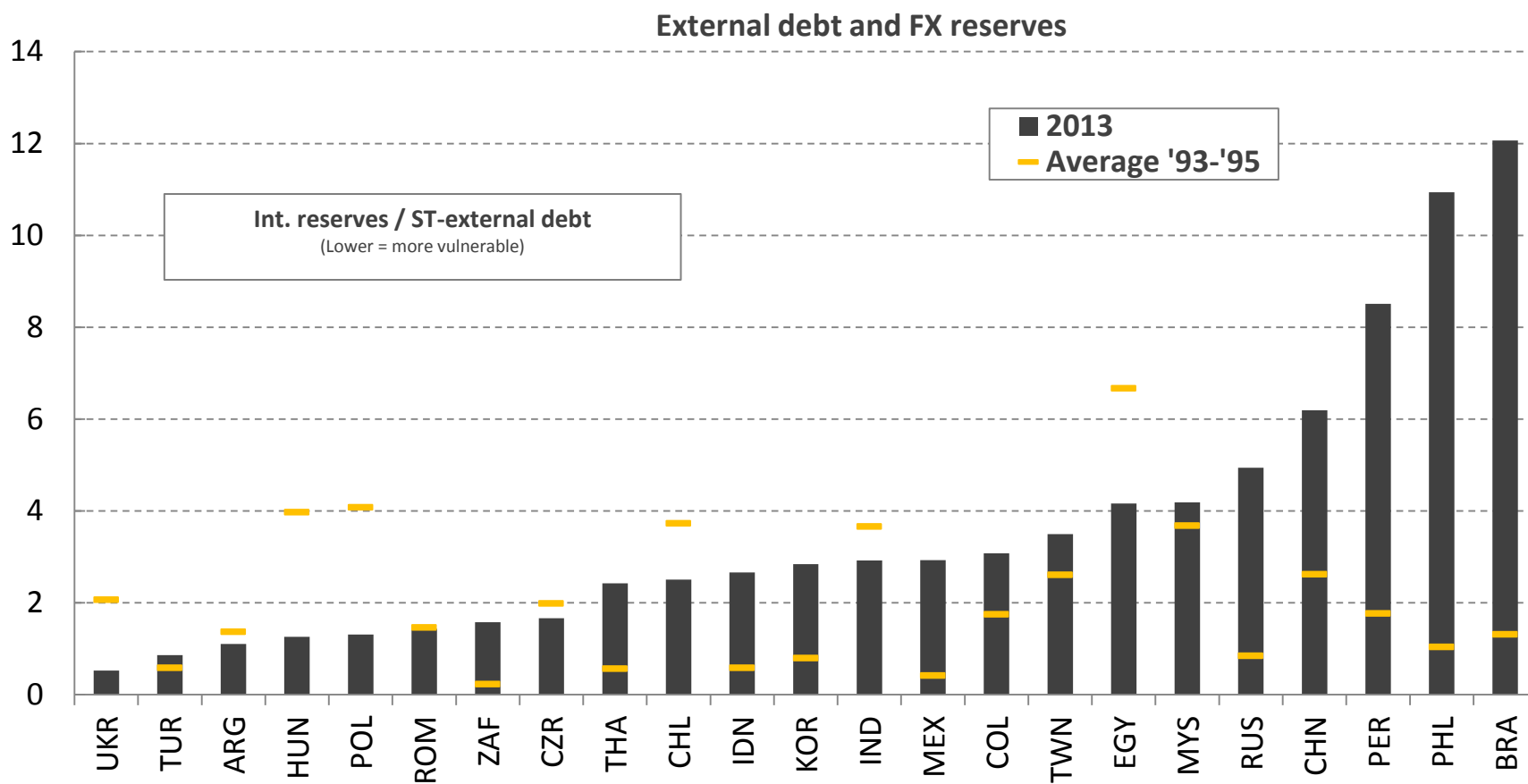
Measuring external vulnerability (2)

Stock of external debt



Measuring external vulnerability (3)

FX reserves



Several countries remain vulnerable

A simple framework

→ Fragile 5

- Bra: sizeable CA deficit but low external debt and large base of FX reserves
- Ind: sizeable CA deficit but shrinking, low external debt
- Idn: sizeable CA deficit , low external debt
- Zaf: large CA deficit, small base of FX reserves → high risk
- Tur: large CA deficit, small base of FX reserves → high risk

→ Other

- Per: sizeable CA deficit but low external debt and large base of FX reserves
- Chl: sizeable CA deficit

→ Seriously mismanaged countries (Ven, Arg, Ukr,...)

What's behind the high external debt positions in CEE?

How worried should we be about CEE?

- The presence of large CA deficits in countries like Tur and Ukr
- The presence of Western parent banks. External debt typically takes the form of funding lines from parent banks to their subsidiaries
- Short-term external debt positions in CEE are coming down
- In general, CEE currencies have stayed largely behind other EM currencies in the wake of the 2008-2009 crisis
- A reintensification of the eurozone crisis would bring these risks back to the fore

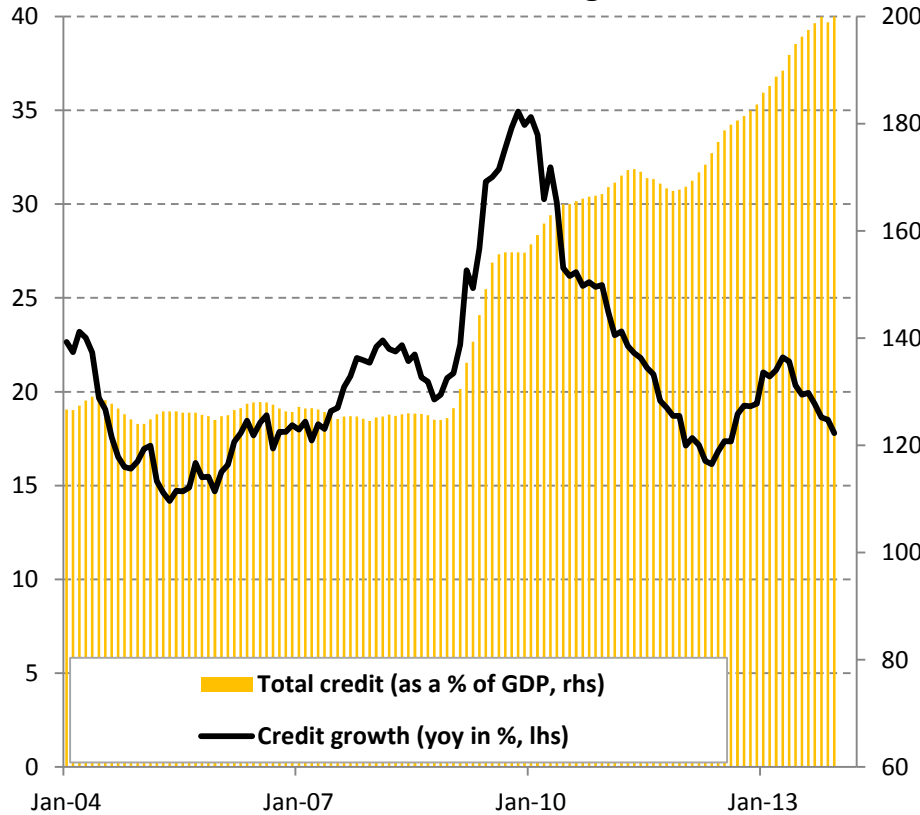
Chinese slowdown but no hard landing



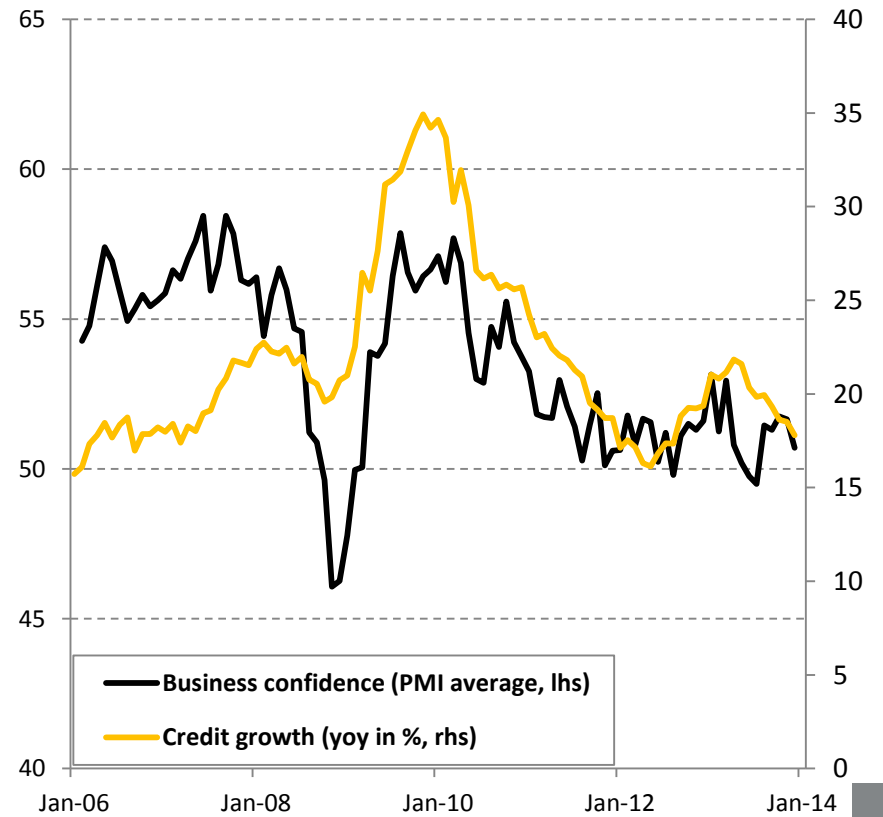
Unsustainable credit growth

Chinese growth to come down further as authorities rein in credit growth

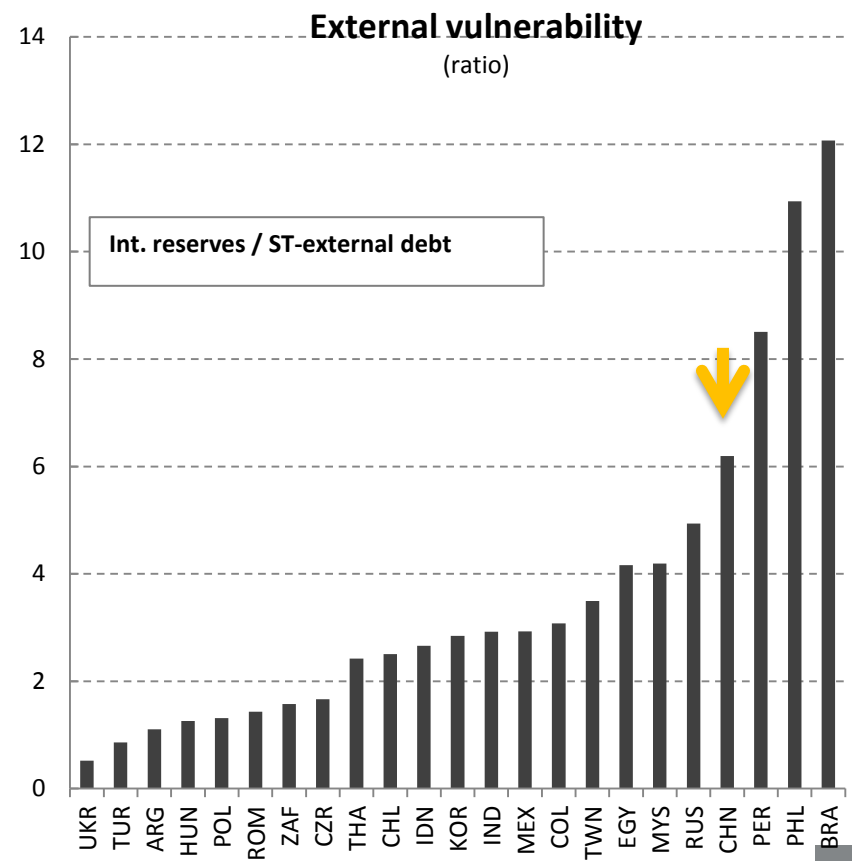
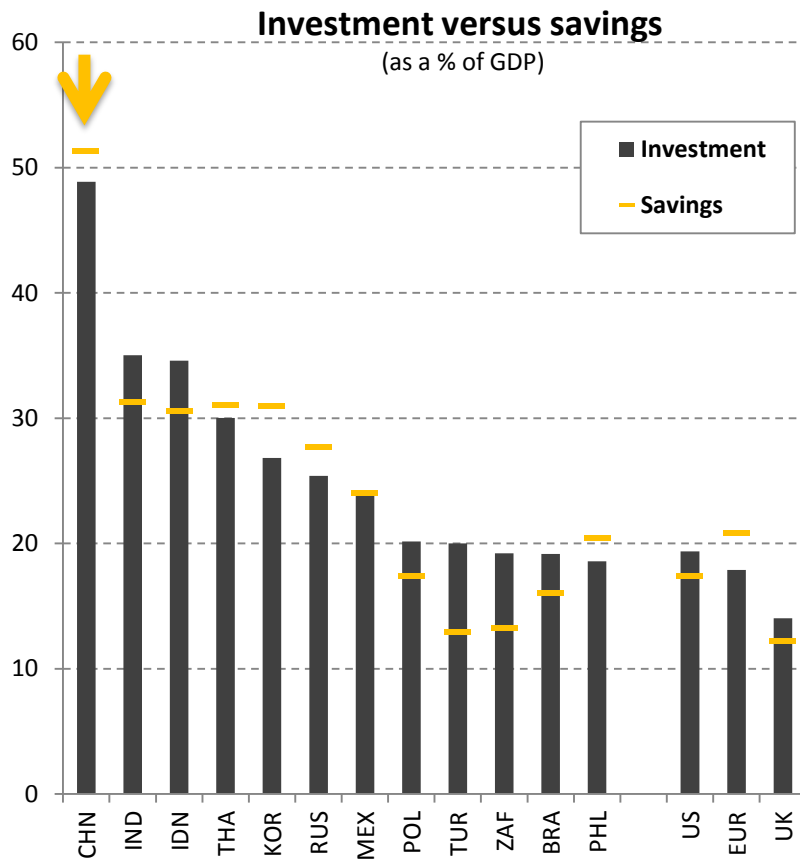
Total social financing



China leading indicators



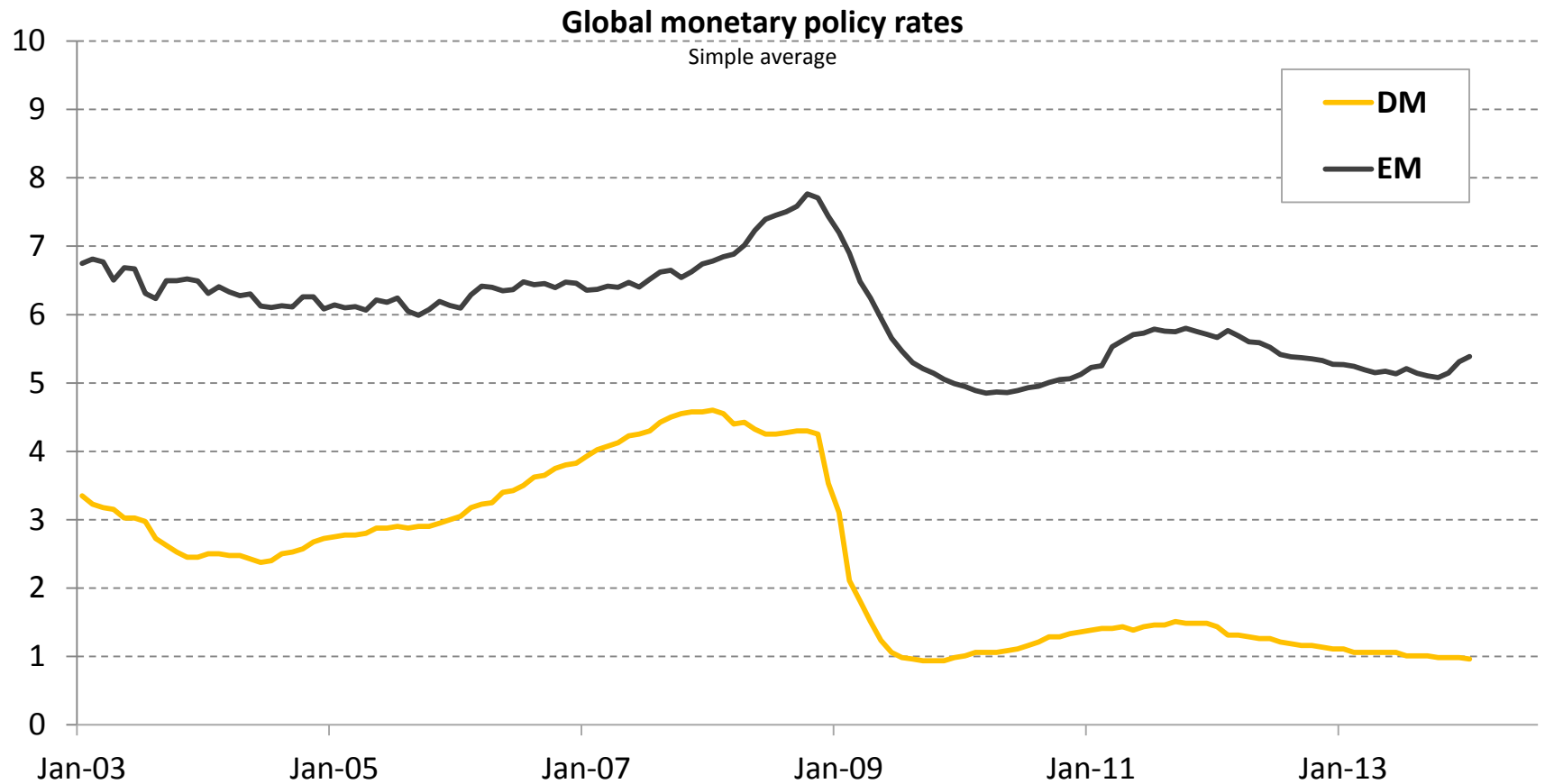
An imminent crisis is not likely



Global monetary policy set to remain loose



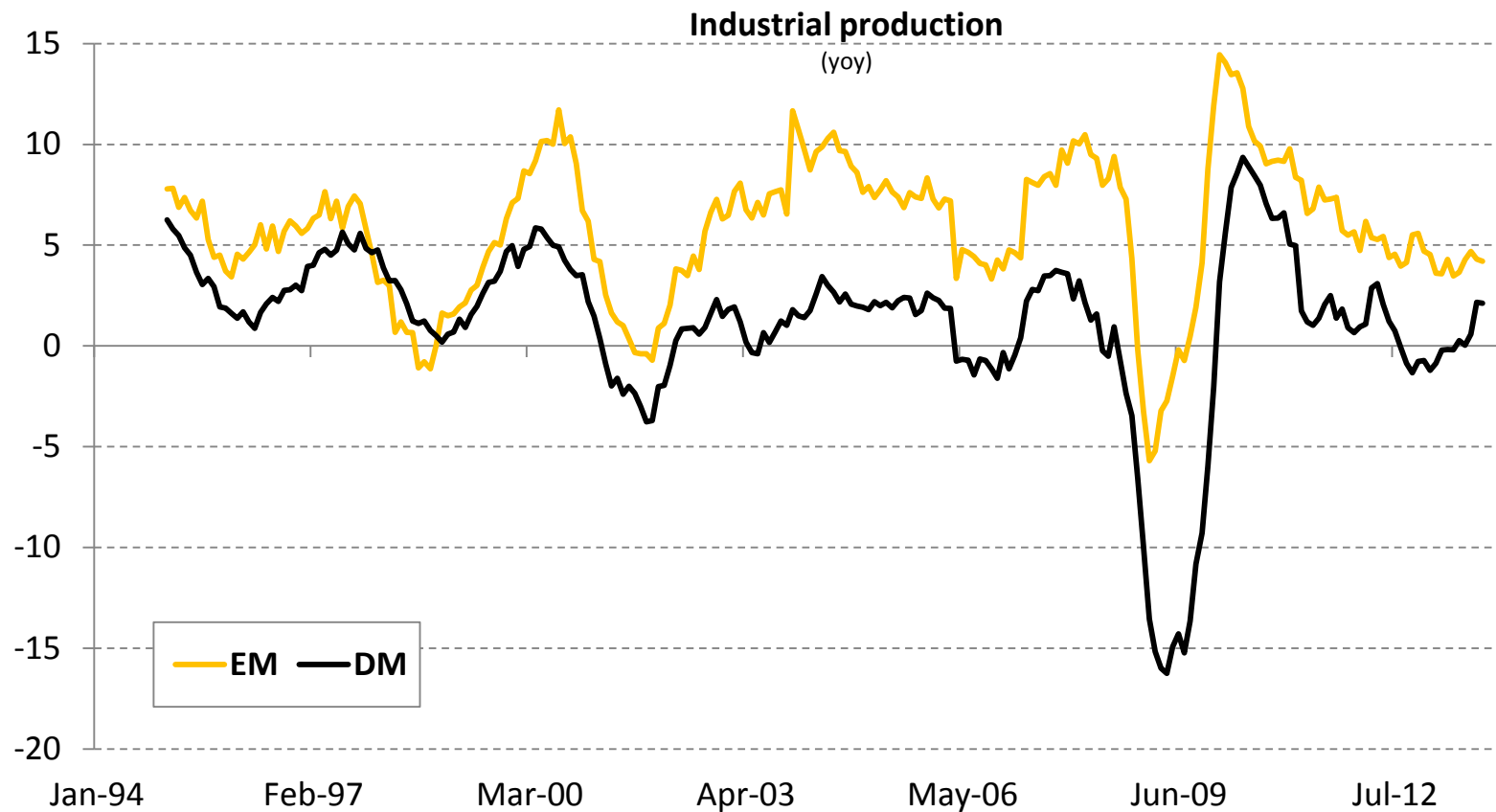
Monetary policy stays very loose



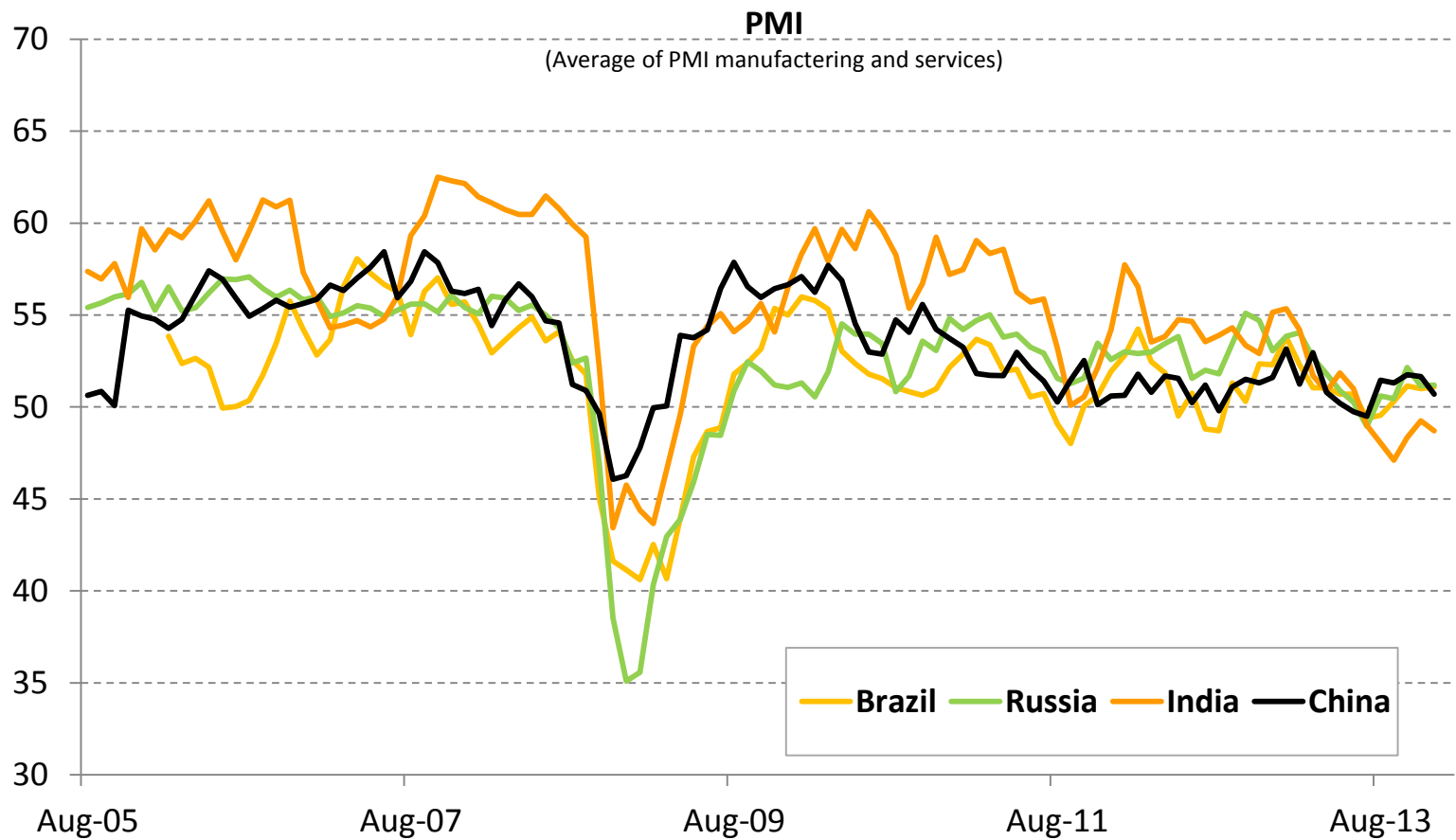
EM economic momentum



Weak growth in EM

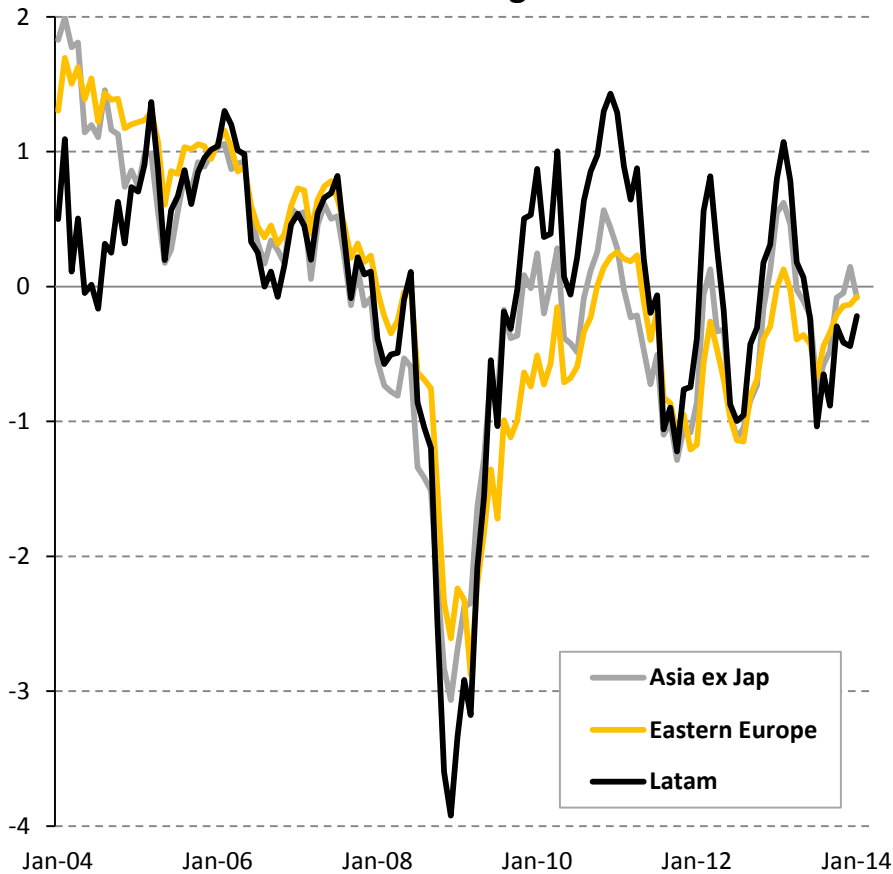


Structural problems weigh on BRIC's

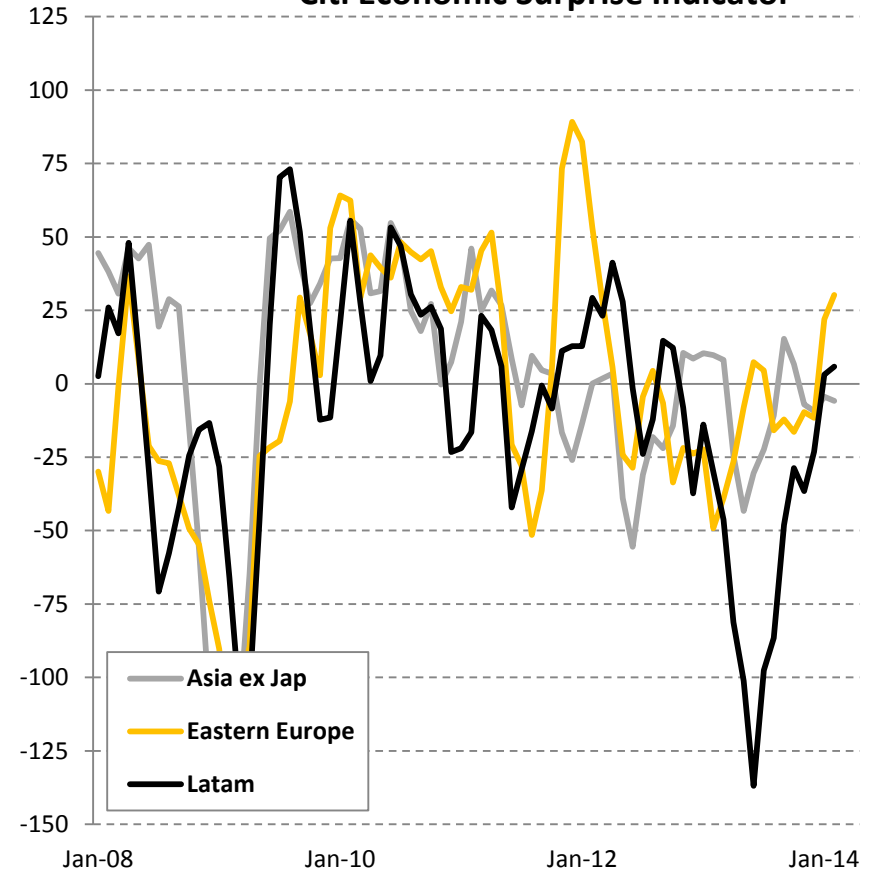


Better news out of EM

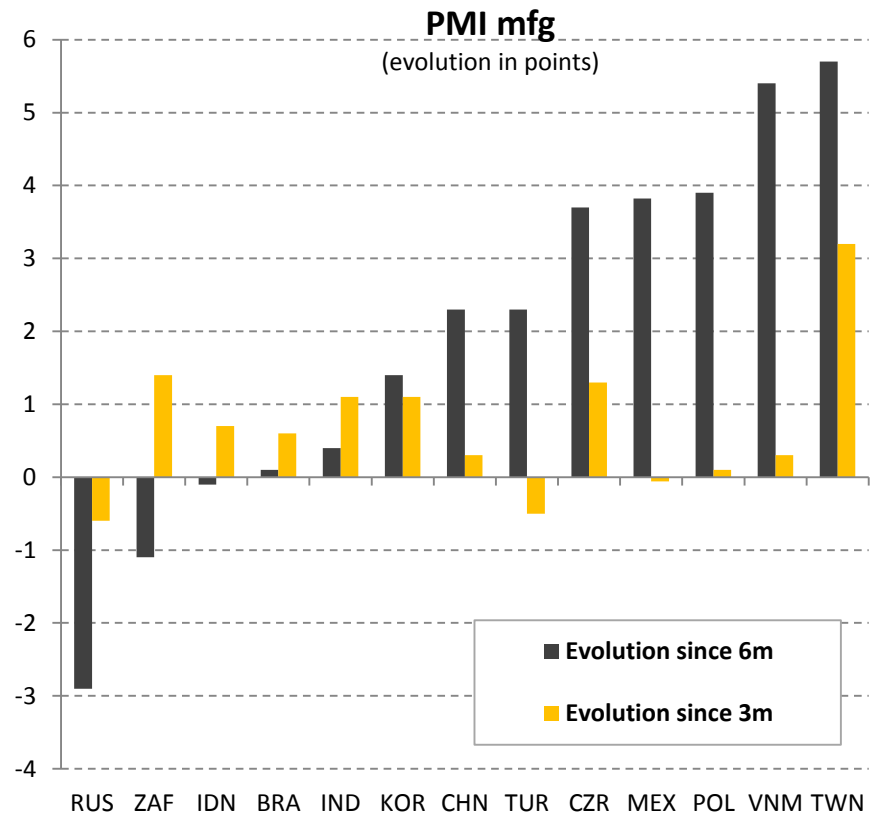
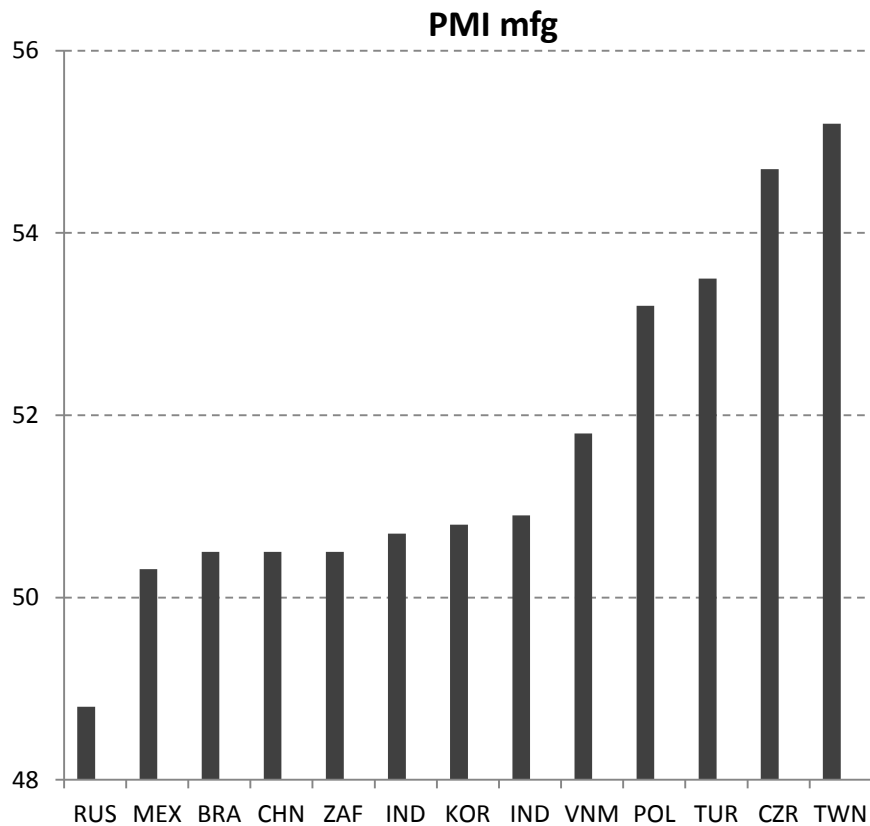
Sentix Leading Indicator



Citi Economic Surprise Indicator

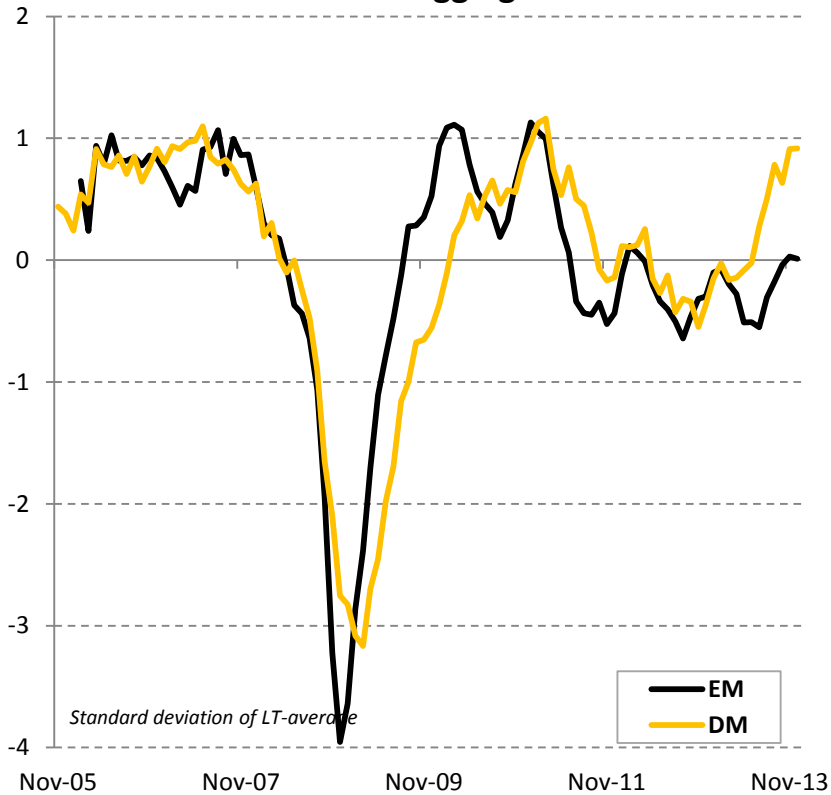


Improving business confidence

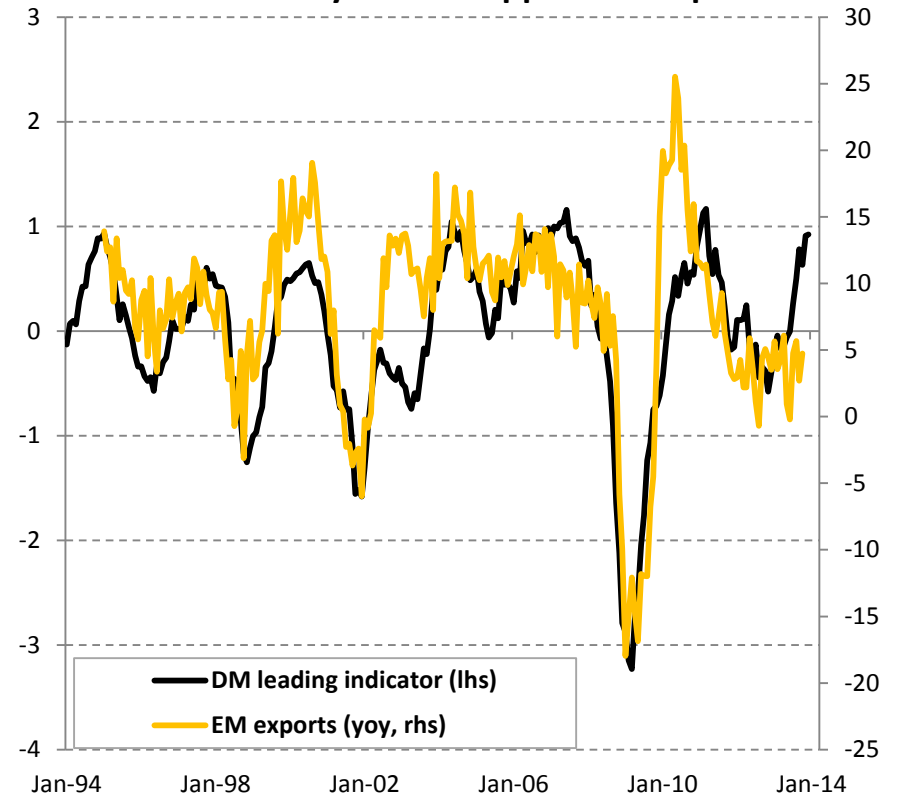


DM recovery should lift EM exports

EM are lagging behind



DM recovery should support EM exports



EM recovery likely to remain modest

- ▶ Chinese growth likely to decrease from here
- ▶ A number of EM can no longer count on the pre-crisis commodity boom
- ▶ Structural problems in BRIC's remain unsolved
- ▶ 2014 elections in S. Africa, Indonesia, India, Brazil and Turkey
- ▶ Credit growth is probably still too high in a number of countries
- ▶ The windfall of ultra-supportive global monetary policy is slowly coming to an end

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