



The Current Crisis: Emerging Issues for Emerging Markets

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Disclaimer: The views expressed are those of the speaker and do not necessarily represent those of the EIB or EIB policy.






- The big picture: Views of where we are
- Emerging Markets: Contagion and home-grown problems
- Turkey: External adjustment



- 2009 “lost year” (base effect)
- Recovery V, U or L? 
- Search for signs of recovery
 - “Second derivative recovery”
 - “Green shoots of recovery”






- From de-coupling to re-coupling 
 - Trade shock
 - Cross-border de-leveraging, sudden stops 
 - Bank lending
 - Investor home bias
- Contagion vs. home-grown vulnerabilities 



- Asia late 1990s
 - Similar: Capital flows, balance sheets
 - Different: External demand constrains V
- Balance of Payments adjustment
- Official financing to create “policy space”
- Reform of global financial architecture (IMF) help but obviously no panacea



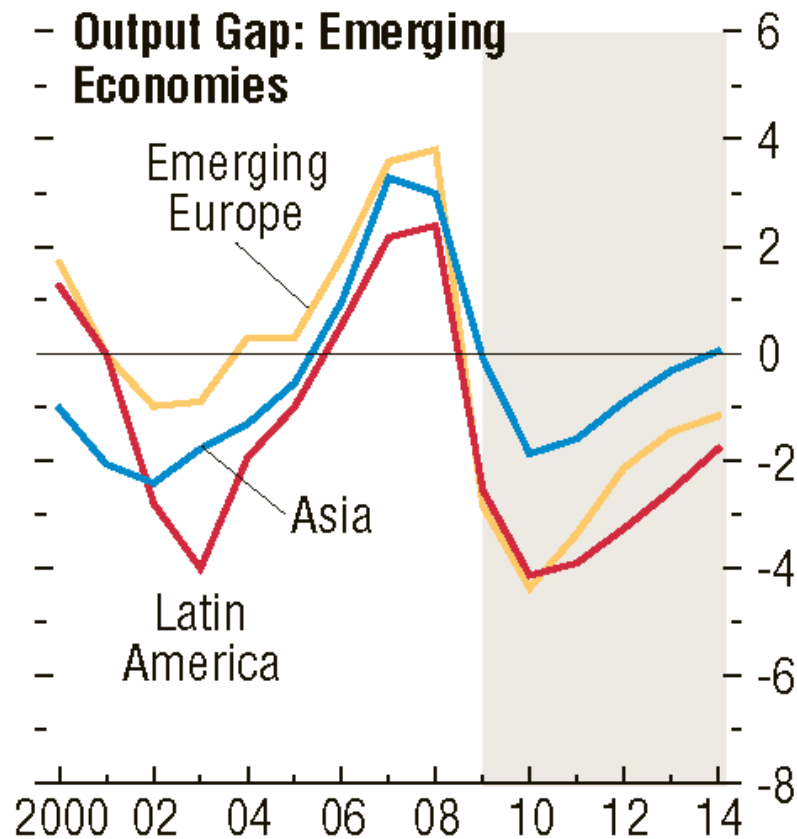
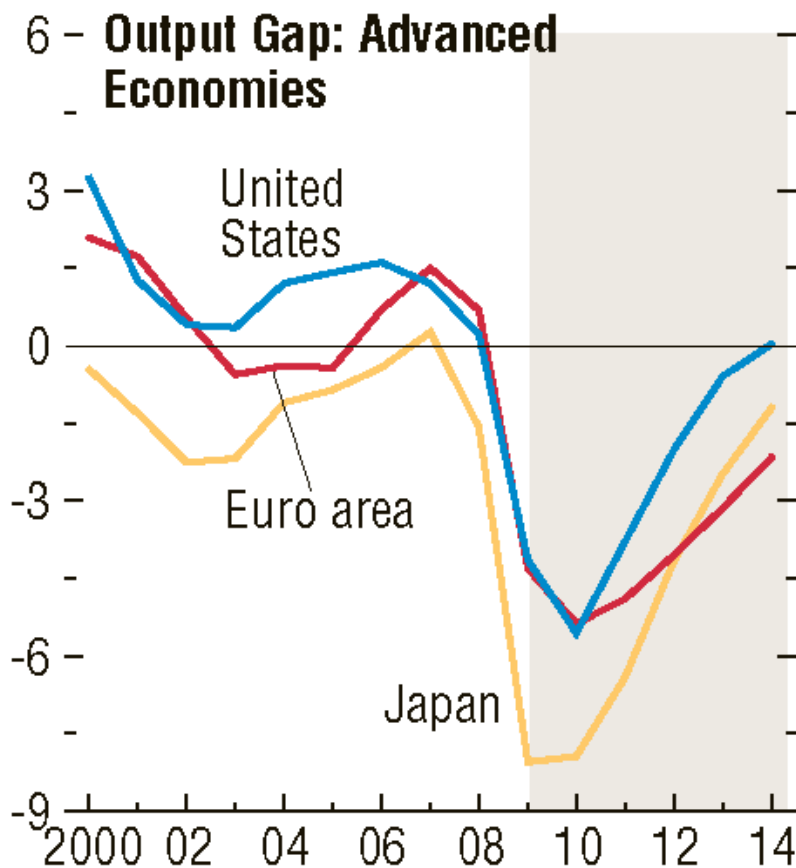
- Compared with other EME 
- Concerns 
 - Fiscal
 - Stimulus vs. financing constraint
 - IMF arrangement
 - External adjustment vs. financing need 



- Slowing down of free fall vs. bottoming out of recession vs. recovery
- EME: Double contagion (trade and capital); external support to create domestic policy space
- Turkey: External adjustment underway, need more



The big picture

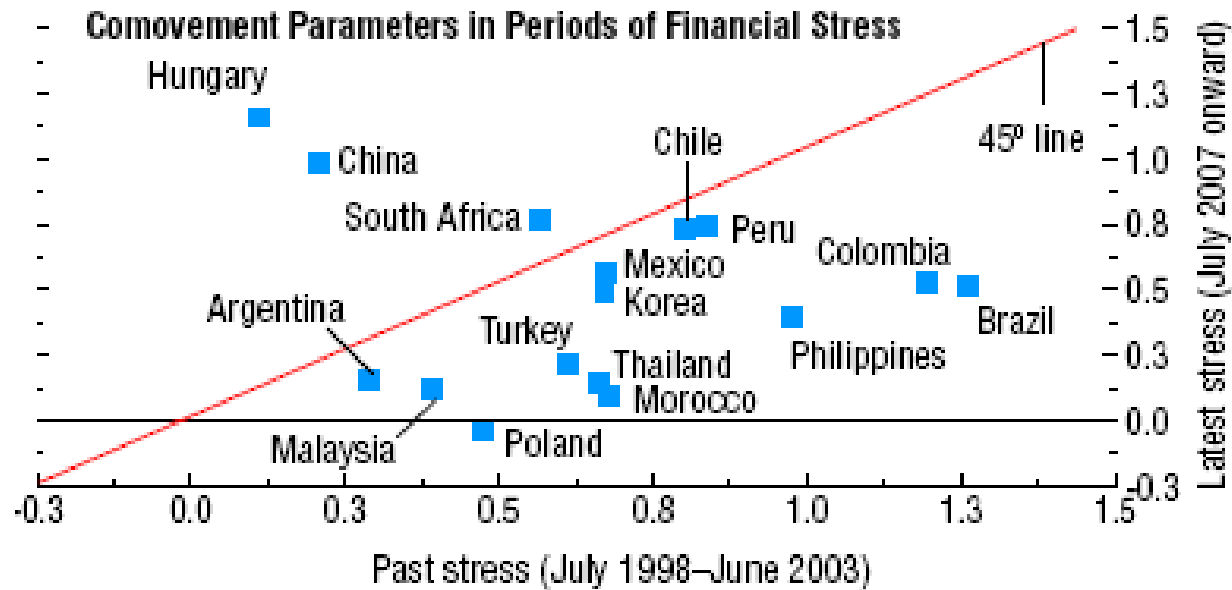


Source: IMF WEO, April 2009





Emerging Markets: Comovement with Advanced Economies—Then and Now



Source: IMF WEO, April 2009

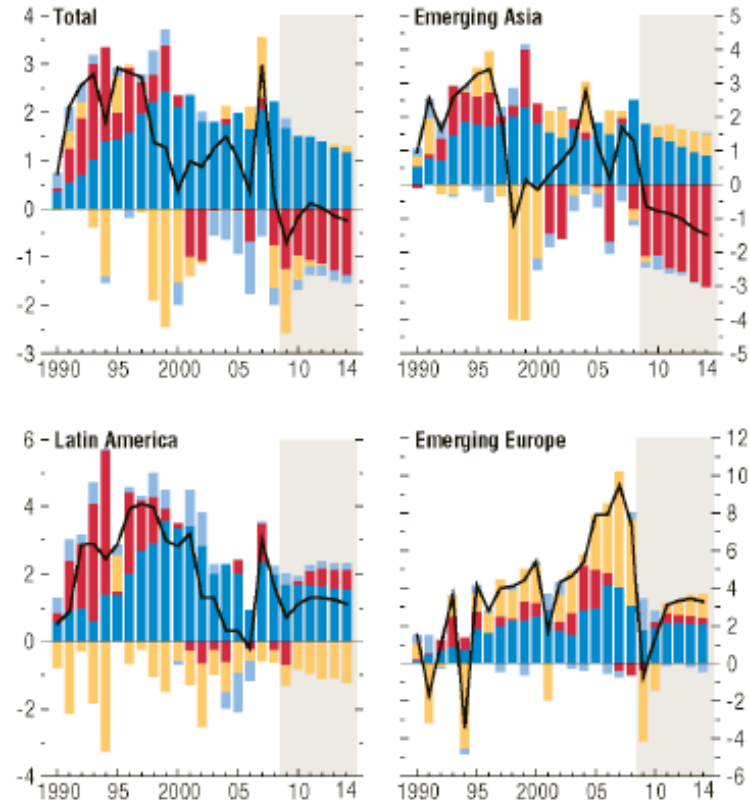




Emerging Markets: Capital Flows



■ Private direct investment ■ Private portfolio flows
■ Other private capital flows ■ Official flows
— Total

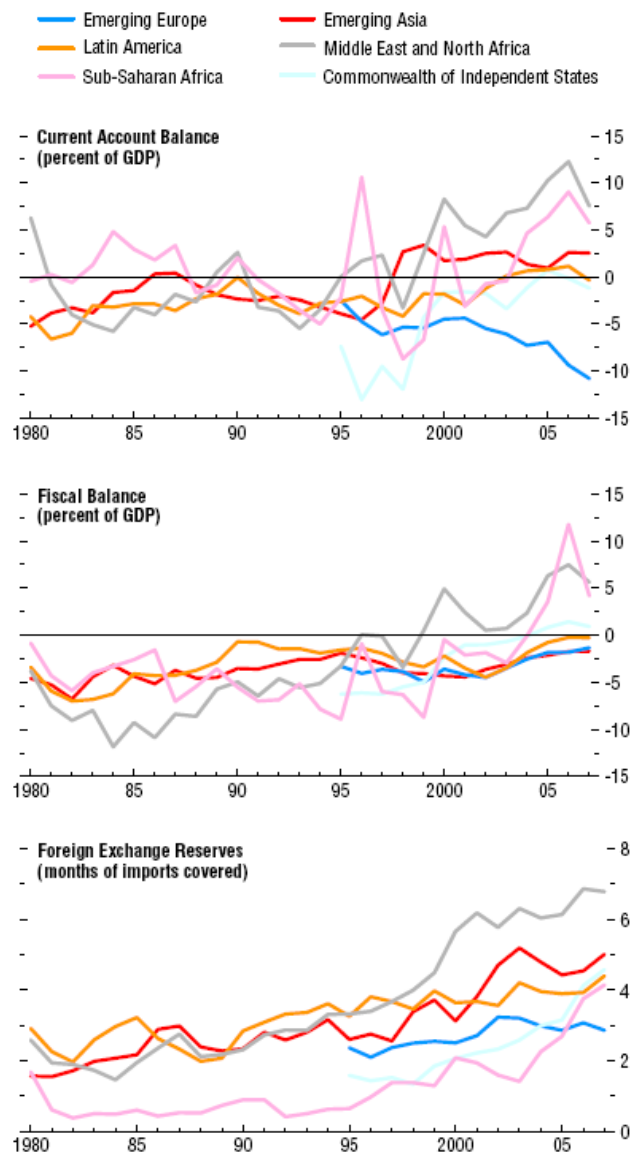


Source: IMF WEO, April 2009





Emerging Markets: Vulnerability



Source: IMF WEO, April 2009





If one green bottle should accidentally fall...

Country	Current-account as % of GDP*	Short-term debt as % of reserves*	Banks' loan/ deposit ratio	Overall risk ranking†
South Africa	-10.4	81	1.09	17
Hungary	-4.3	79	1.30	16
Poland	-8.0	38	1.03	14 =
South Korea	1.3	102	1.30	14 =
Mexico	-2.5	39	0.93	12 =
Pakistan	-7.8	27	0.99	12 =
Brazil	-1.5	22	1.36	10 =
Turkey	-2.3	70	0.83	10 =
Russia	1.5	28	1.51	9
Argentina	0.2	63	0.74	8
Venezuela	0.8	58	0.75	7
Indonesia	1.2	88	0.62	6
Thailand	0.3	17	0.88	5
India	-2.4	9	0.74	4
Taiwan	7.9	26	0.87	3
Malaysia	11.3	15	0.72	2
China	5.2	7	0.68	1

Sources: HSBC; Economist Intelligence Unit * 2009 forecast † Higher score implies higher risk

Source: *The Economist*





Turkey: Areas of concern



Table 1.1. Macro and Financial Indicators in Selected Emerging Market Countries¹

	Current Account Balance ² <i>(Percent of GDP)</i>	External Debt Refinancing Needs in 2009 ³ <i>(Percent of reserves)</i>	Net External Position vis-à-vis BIS-Reporting Banks ⁴ <i>(Percent of GDP)</i>	Average Real Credit Growth over the Last 5 Years ⁵ <i>(Percent, year-on-year)</i>	Loan/Deposit ⁶ <i>(Ratio)</i>	Forex Share of Total Loans <i>(Percent of total loans)</i>
Europe						
Bulgaria	-12.3	188	-34.9	35.9	1.3	66.9
Croatia	-6.5	136	-44.5	13.1	1.1	62.0
Czech Republic	-2.8	236	-13.1	16.0	0.8	13.6
Estonia	-6.3	210	-68.8	27.3	2.1	85.3
Hungary	-3.9	171	-50.2	14.3	1.4	65.7
Kazakhstan	-6.4	82	-5.1	50.1	1.7	43.6
Latvia	-6.7	331	-57.6	38.4	2.8	89.3
Lithuania	-4.0	425	-41.5	43.2	2.0	64.0
Poland	-4.9	169	-15.4	14.7	1.1	32.6
Romania	-7.5	127	-32.5	47.1	1.3	55.5
Russia	0.2	34	3.1	34.5	1.3	15.3
Serbia	-12.2	...	-12.2	26.2	1.2	68.0
Turkey	-1.1	110	-11.9	29.8	0.7	28.9
Ukraine	0.6	208	-17.6	47.5	2.0	59.5
Gulf States						
Kuwait	25.8	109	3.8	19.8	1.1	...
Saudi Arabia	-1.8	...	22.3	22.2	0.9	8.2
United Arab Emirates	-5.6	...	-12.2	32.5	1.2	18.9
Africa						
Egypt	-3.0	14	8.5	0.9	0.6	28.0
Ghana	-10.9	13	-5.0	26.4	0.8	...
Nigeria	-9.0	...	10.3	34.2	1.1	...
South Africa	-5.8	49	4.4	12.8	1.2	...
Uganda	-6.2	17.7	0.8	...
Asia						
China	10.3	14	0.7	11.3	0.8	...
India	-2.5	33	-8.9	18.2	0.8	...
Indonesia	-0.4	73	-7.5	15.1	0.8	19.8
Korea	2.9	93	-18.9	6.3	1.2	8.5
Malaysia	12.9	23	-8.3	5.2	0.9	...
Pakistan	-5.9	28	2.4	13.5	0.7	...
Philippines	2.3	39	-2.2
Thailand	0.0	34	1.3	2.6	1.0	...
Vietnam	-4.8	8	-7.4	26.4	1.1	21.2
Latin America						
Argentina	2.3	85	2.5	14.6	0.7	15.8
Brazil	-1.8	40	-7.1	15.9	0.8	...
Chile	-4.8	84	-7.2	11.6	1.4	...
Colombia	-3.9	52	0.5	16.0	2.0	6.3
Mexico	-2.5	64	-2.1	11.7	0.8	11.6
Peru	-3.3	27	-2.2	8.2	0.9	57.5
Venezuela	-0.4	59	19.7	45.8	0.8	<0.5

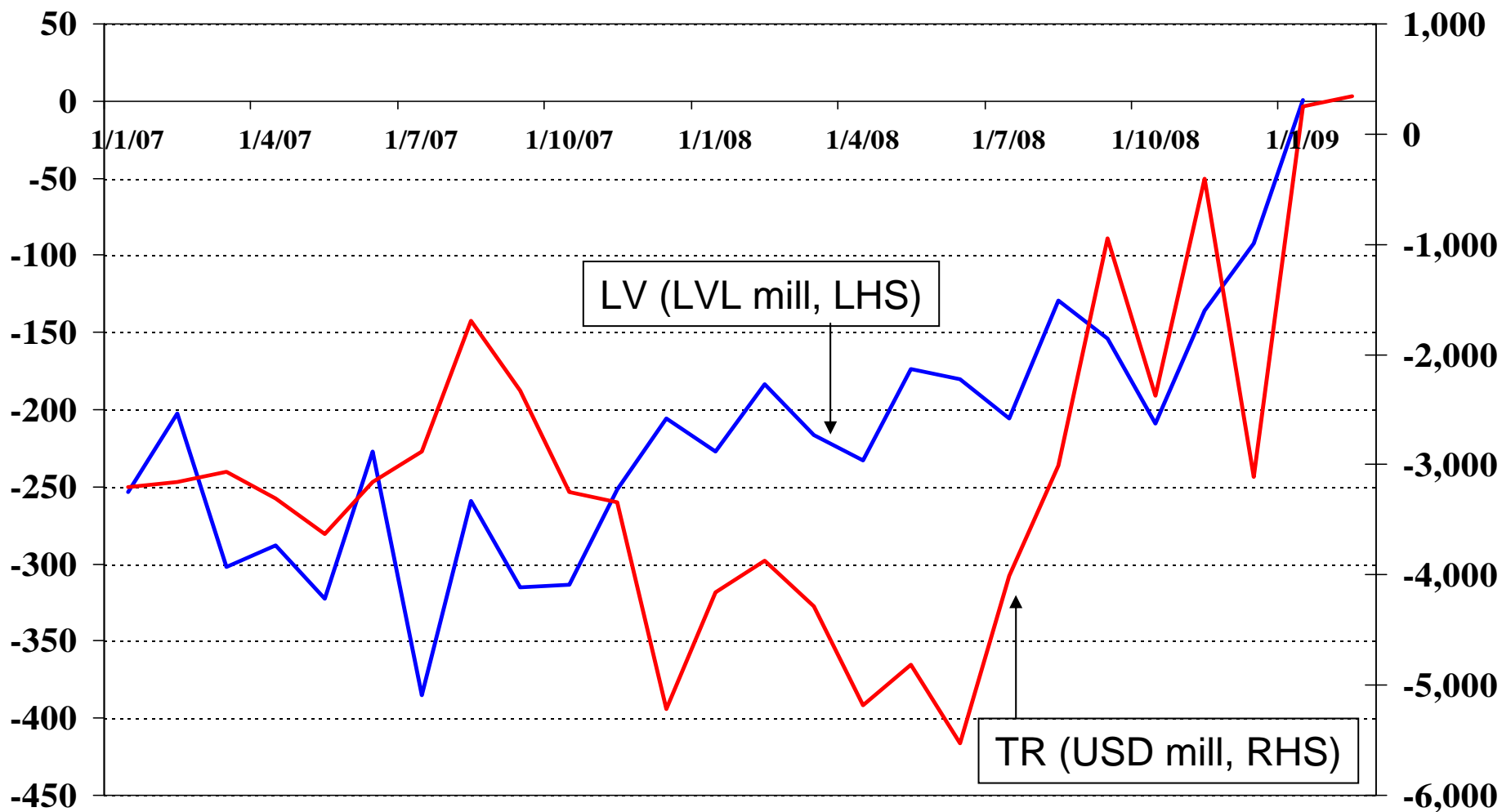
Sources: Bloomberg L.P.; Bank for International Settlements (BIS); IMF, Direction of Trade Statistics database, International Financial Statistics database, World Economic Outlook database; and IMF staff estimates.

Source: IMF, GFSR, April 2009

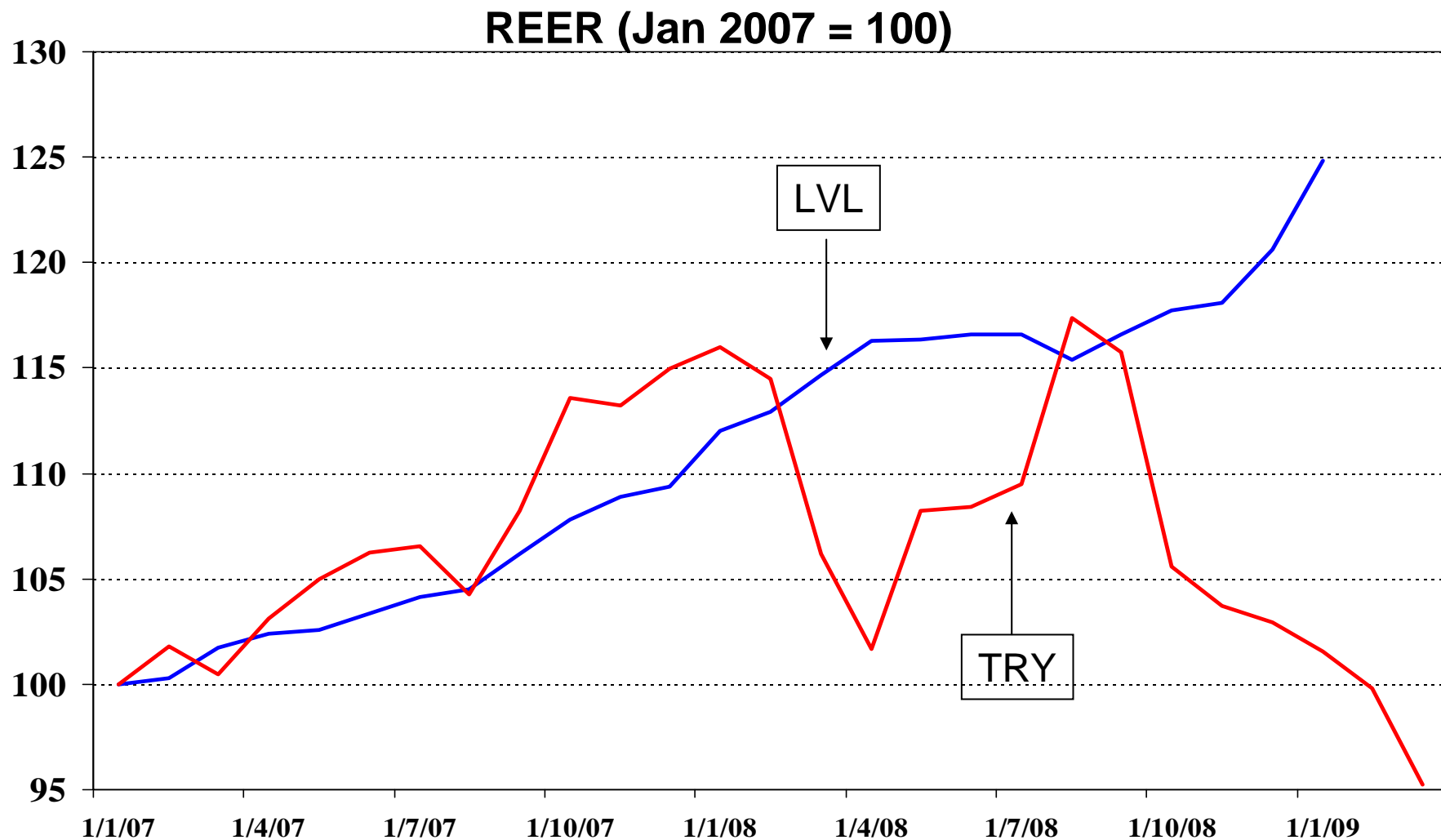




Current Account balance



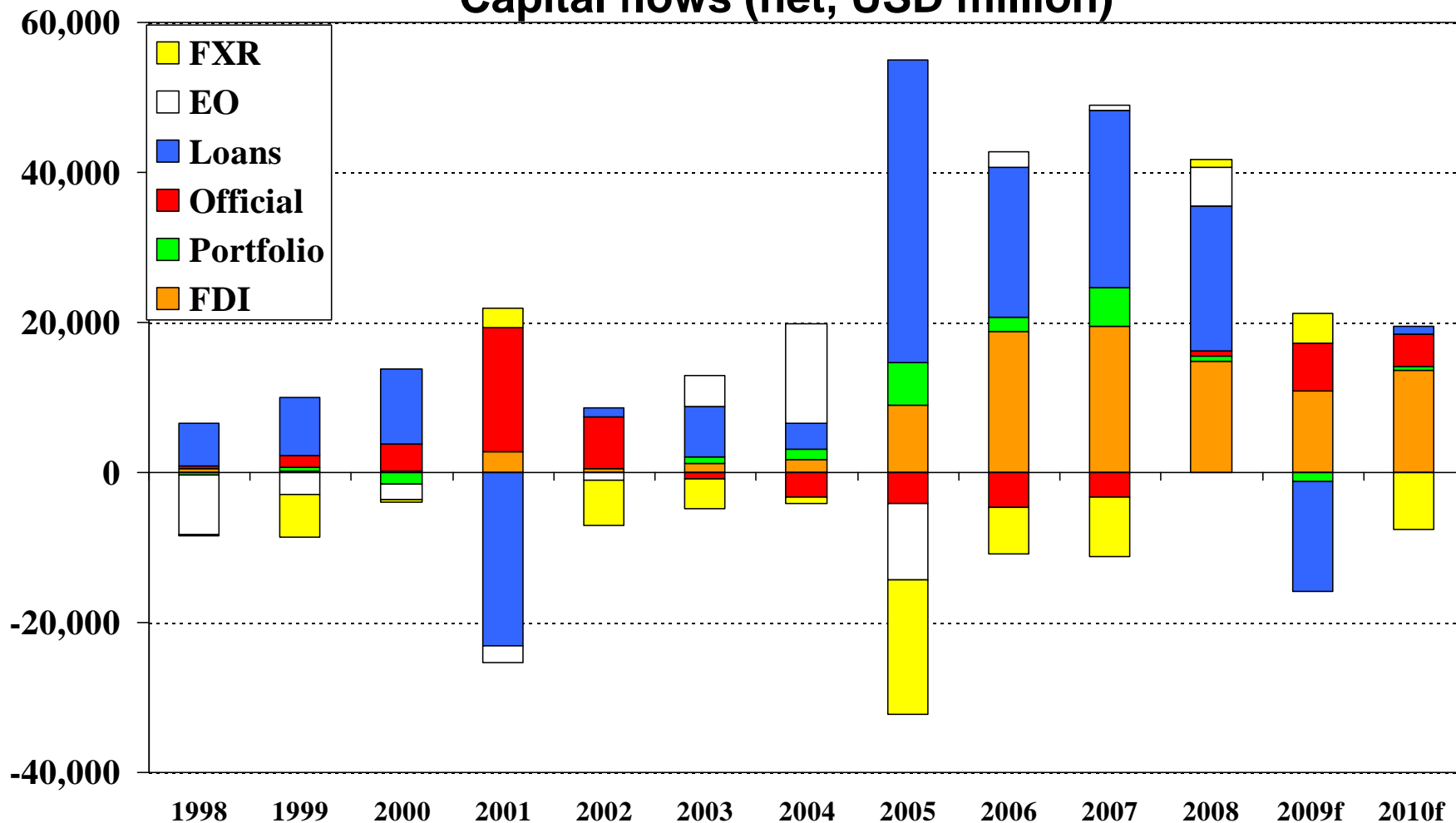
Source: IIF



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Capital flows (net, USD million)

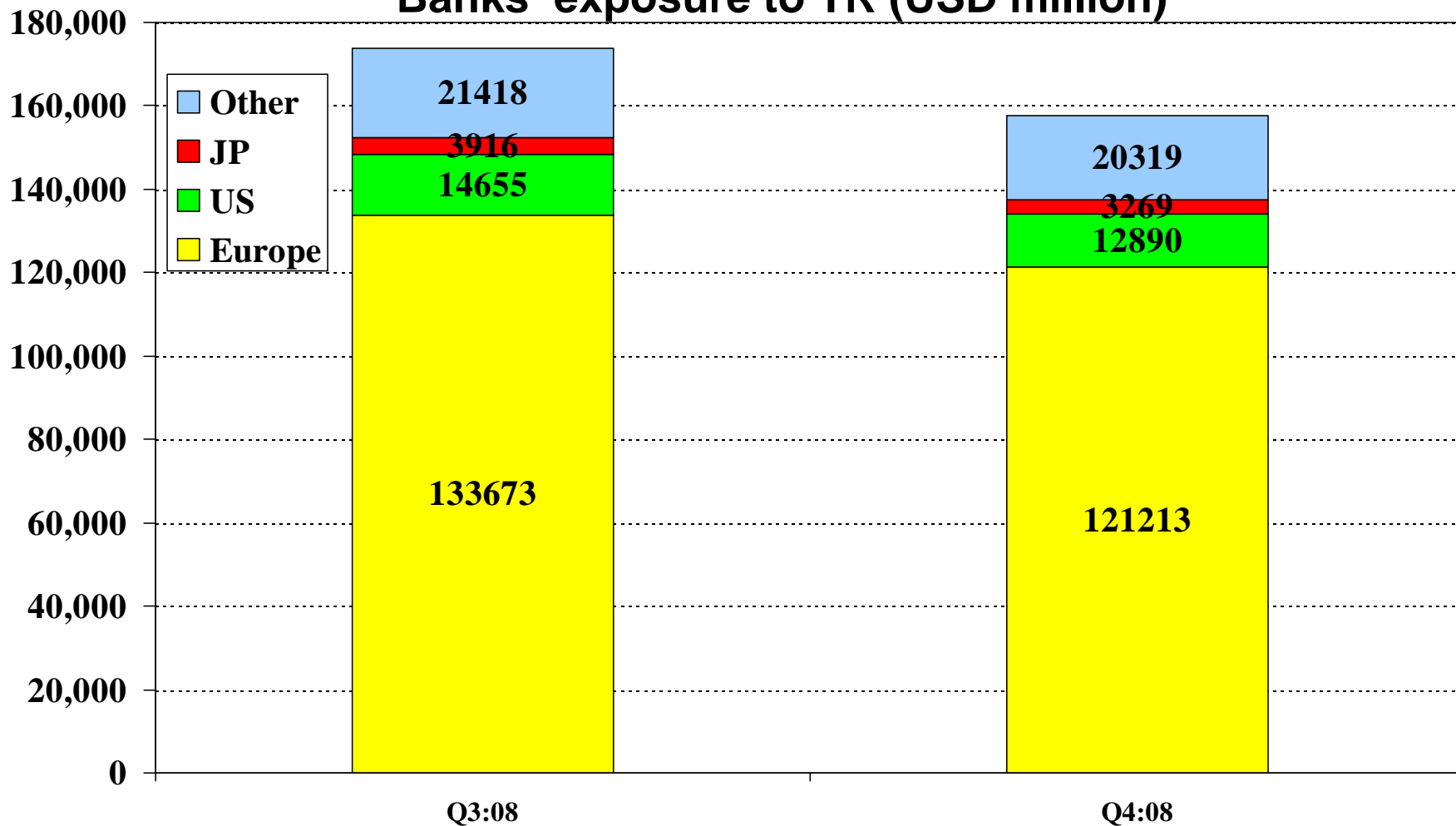


Source: IIF



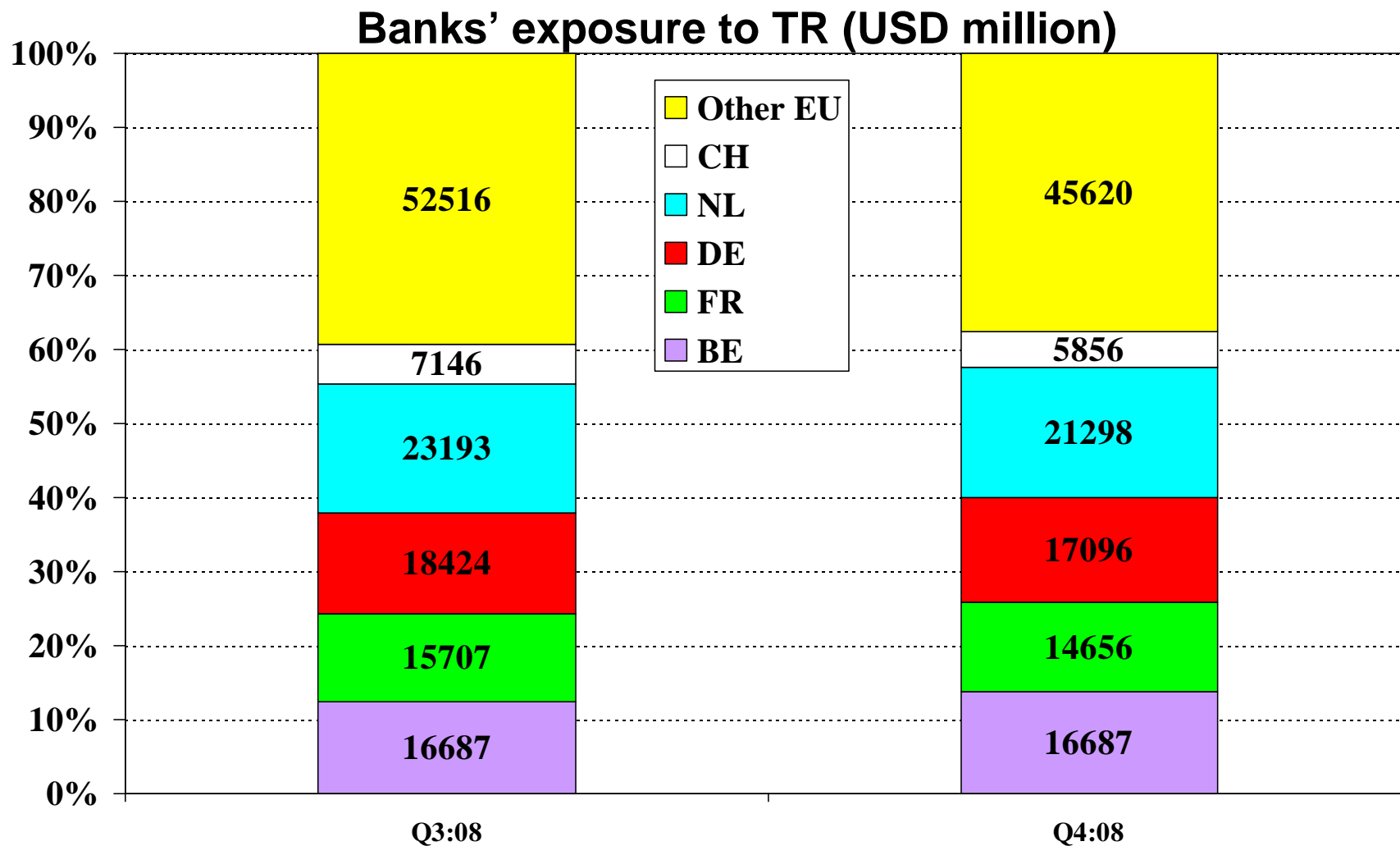


Banks' exposure to TR (USD million)



Source: BIS



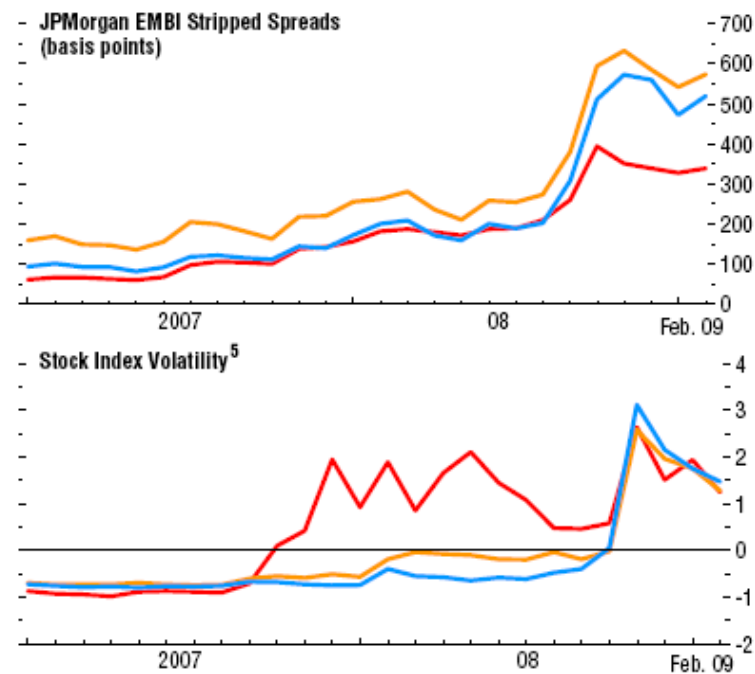
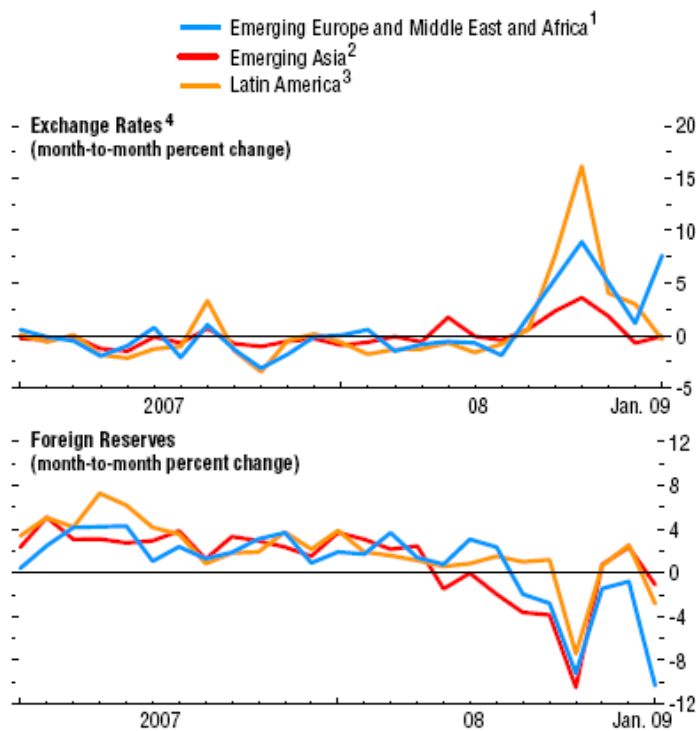


Source: BIS





Emerging Markets: Financial Stress Indicators



Source: IMF WEO, April 2009