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Emerging Financial Market Watch

Overview

Emerging economies continued to stabilize towards the end of 2009. Against the backdrop of a rebound of the USD, currencies showed mixed reactions. Equity markets also exhibited fluctuations. The underlying problem for most emerging economies lies in the high level of debt. What will emerging economies do in the face of staggering debts? How will they reduce their debt levels without undermining continued recovery?

Focus: The weakest links in the chain

Emerging countries have rebounded faster than developed countries, but fundamentals remain fragile. In particular, emerging economies' debt level has been rising significantly in recent months, suggesting that these countries may break under their enormous debt burdens. Exploding debt reflects weak economic conditions and disrupts recovery. The recent case of Dubai illustrates the implications of a likely default in an emerging economy on the world markets.

Under these circumstances, we will determine the "weakest links in the chain," in terms of debt burdens. A country is assessed by the following criteria: whether its foreign exchange reserves are sufficient to meet immediate external payment needs, whether it is a structural net importer, or has unsustainable external debt, or whether its sovereign debt condition is healthy. As past incidents have suggested, an unsustainable amount of debt signals structural risks that may ripple far and wide if the level of debt remains unchecked.

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