



Issue of February

Emerging Financial Market Watch

Overview

Emerging Asian economies entered 2010 with a strong performance firmly in place, and as a result, pressures have risen as of late to curb existing stimulus. What will various emerging countries, particularly those in emerging Asia, react to their recoveries, as they remain cautious about the pitfalls of a premature tightening?

Focus: Emerging Asia: Deliberating a timely tightening

As emerging Asian economies staged a notable recovery, voices have grown louder that policies adopted during the depths of the crisis are no longer appropriate. On January 12 2010, China hiked its reserve requirement ratio signaling the Chinese government's concern during the first weeks of the year about potential overheating and inflation as a result of the credit boom. Will further actions be taken across emerging Asia?

We will look at the following five factors including GDP growth, CPI inflation, capital inflows, stock market indices, and foreign exchange rates to determine which countries are the most likely to tighten first. Economists and policymakers alike are well aware of the pitfalls of a premature or belated tightening, which may obstruct the path to recovery and prolong the pains of the recession. The tightening decisions will not only be of economic importance, but also of political significance. As a result, political considerations will play an important role as well. Based on our assessment, we believe that India, Indonesia, and South Korea are likely to tighten first in the near future.

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