Chart in focus

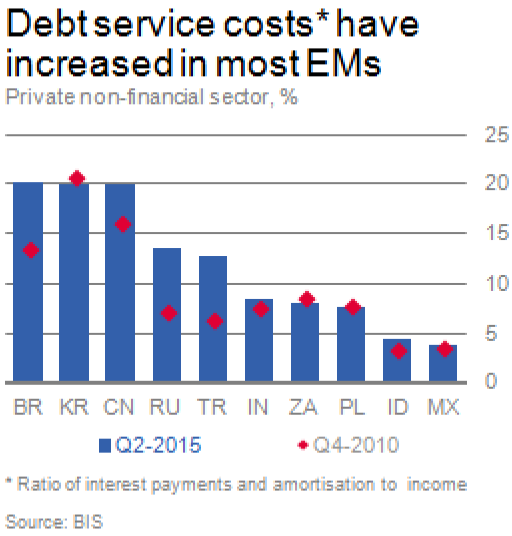
Corporate debt burden varies widely across EM

December 17, 2015

The BIS has recently expressed concern about the high level of private-sector foreign-currency borrowing in the emerging markets (EM). The EM crises of the 1990s and early 2000s were largely due to a combination of large aggregate foreign-currency mismatches. Since then, EM sovereigns have accumulated vast amounts of FX reserves and reduced foreign-currency borrowing.

Aggregate foreign-currency mismatches are therefore much more manageable today. But low international interest rates have encouraged EM companies to increase borrowing in both foreign and domestic currency. This is reflected in higher corporate leverage and debt service ratios. Ratios have increased tangibly in China, Brazil, Russia and Turkey since 2010, but have not changed much in the other major EM.

The corporate sectors of China, Korea, Brazil and Russia appear to be most exposed to a rise in Fed rates provided the rise feeds through into higher international and domestic rates.



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