

SEVEN COUNTRIES AT RISK OF EXCHANGE RATE CRISES: NOMURA

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

Seven countries, including Sri Lanka, Pakistan and Turkey, are at risk of exchange rate crises as investors re-assess their risks following the contagion in Argentina and Turkey, a new index by Nomura says. According to the global financial services major, emerging markets are under pressure as investors reassess the risks amid monetary policy normalisation in developed markets, trade protectionism and China's economic slowdown.

Damocles — the new gauge

The new gauge, Damocles, that assessed the risk of exchange rate crises for 30 emerging market economies, noted that seven countries are at risk of exchange rate crises with scores over 100: Sri Lanka, South Africa, Argentina, Pakistan, Egypt, Turkey and Ukraine.

A score above 100 suggests a country is vulnerable to an exchange rate crisis in the next 12 months, while a reading above 150 signals a crisis could erupt at any time. As per the index Sri Lanka has a score of 175, followed by South Africa (143), Argentina (140), Pakistan (136), Egypt (111), Turkey (104) and Ukraine (100).

Meanwhile, India's Damocles score stood at 25.

On India, the report said CPI inflation had moderated (to around 4.5% in 2018 from 9.7% in 2012), as has the current account deficit (around 2.5% of GDP versus 5%). Moreover, the central bank has a sufficient forex reserve buffer, as a result, India's Damocles score has fallen to 25 in July-September quarter of 2018. "Given India runs a current account deficit, it remains vulnerable to bouts of global risk aversion," Nomura said, adding that "higher oil prices and portfolio outflows are its key external vulnerabilities."

The other risk factors for the Indian economy stem from the government turning more populist ahead of the 2019 general elections and a sharper-than-expected domestic growth slowdown, which in turn will trigger equity outflows, it added.

The Indian rupee has depreciated 13% so far in 2018 and on Monday touched a historic intraday low of Rs. 72.67 to a dollar.

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