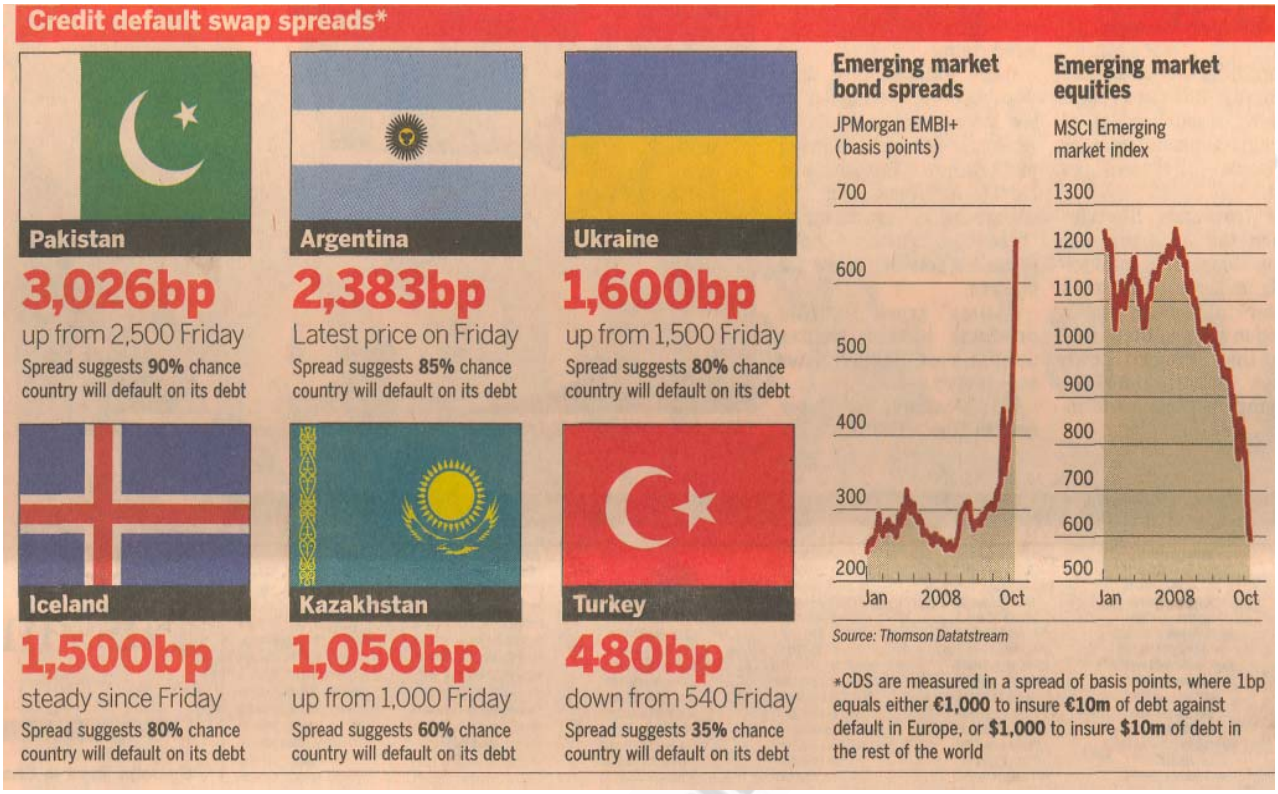
**Emerging nations hit by growing debt fears**
*David Oakley*




Investor fears over the risk of many emerging market countries' defaulting on their debt has risen sharply as Iceland's financial collapse has hit sentiment, discouraging funds from investing in these economies.

The market is pricing the risk of default for countries such as Pakistan, Argentina, Ukraine and Iceland at 80 per cent or higher as the banking systems of these countries come under increasing pressure due to the credit crisis.

Trading in credit default swaps - a form of insurance against bonds' defaulting - indicates expectations that Pakistan has a 90 per cent chance of defaulting on its debt. CDS spreads on Pakistan, which is haemorrhaging foreign exchange reserves to prop up a weak rupee, have risen to a record 3,026 basis points, or a cost of more than $3m to insure $10m of debt over five years. This is a threefold jump since the collapse of Lehman Brothers on September 15.

Other countries facing difficulties include Kazakhstan and Latvia because of their highly leveraged banking systems, and Turkey and Hungary, which are running very high current account deficits. Hungary was promised financial help by the International Monetary Fund yesterday following the run on its currency. The forint hit a twoyear low against the euro on Friday, although it rebounded yesterday.

Nick Chamie, head of emerging markets research at RBC Capital Markets, said: "Although I would not say any of these countries are likely to default in the coming weeks, there is certainly a higher risk. They are all suffering from the problems in the rich countries. They are the collateral damage of the western credit crisis. They benefited in the good times and now things have turned for the worse, these economies are under pressure."

The currencies and stock markets of these countries have come under severe strains in the past week too, although many revived yesterday as they drew strength from the bail-out packages agreed by banks and central hanks over the weekend.

Analysts say other countries are unlikely to suffer the meltdown seen in Iceland, where the government has warned of a possible national bankruptcy.

The continuing fears over credit risk in the emerging world is best illustrated by the Embi+ sovereign emerging market bond index, which has risen dramatically in the past month with developing world bond yields at their widest level over US Treasuries for five years.

**Fonte: Financial Times, London, October 14 2008, Companies & Markets, p. 17.**