

The logo for Fitch Ratings, with 'Fitch' in red and 'Ratings' in black, set against a background of a repeating geometric pattern of interlocking triangles with diagonal hatching.

FitchRatings

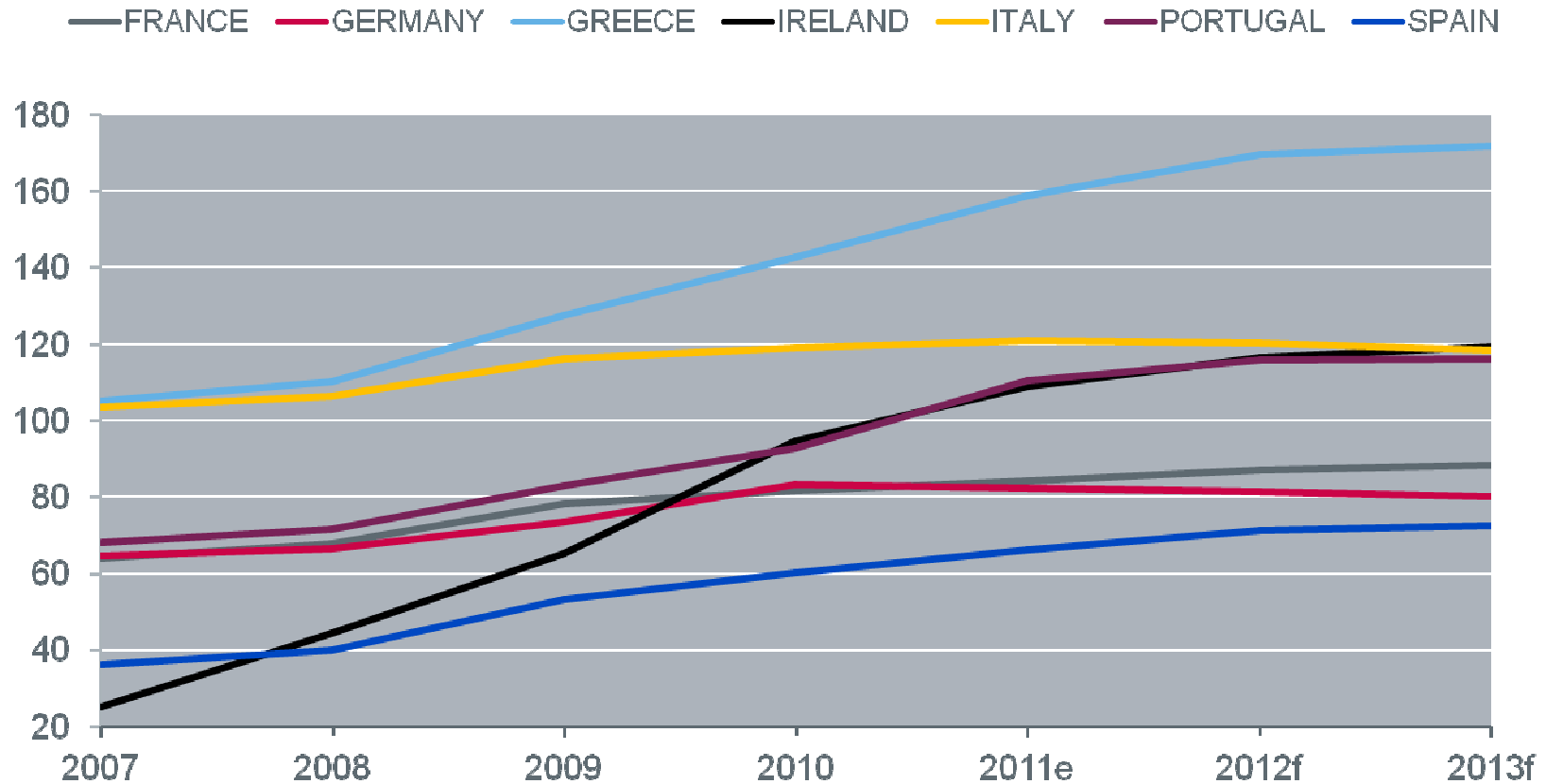
Emerging Market Sovereigns: Drivers and Challenges of Convergence

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Global Sovereigns & Supranationals**

11 October 2011

Eurozone Sovereign Debt

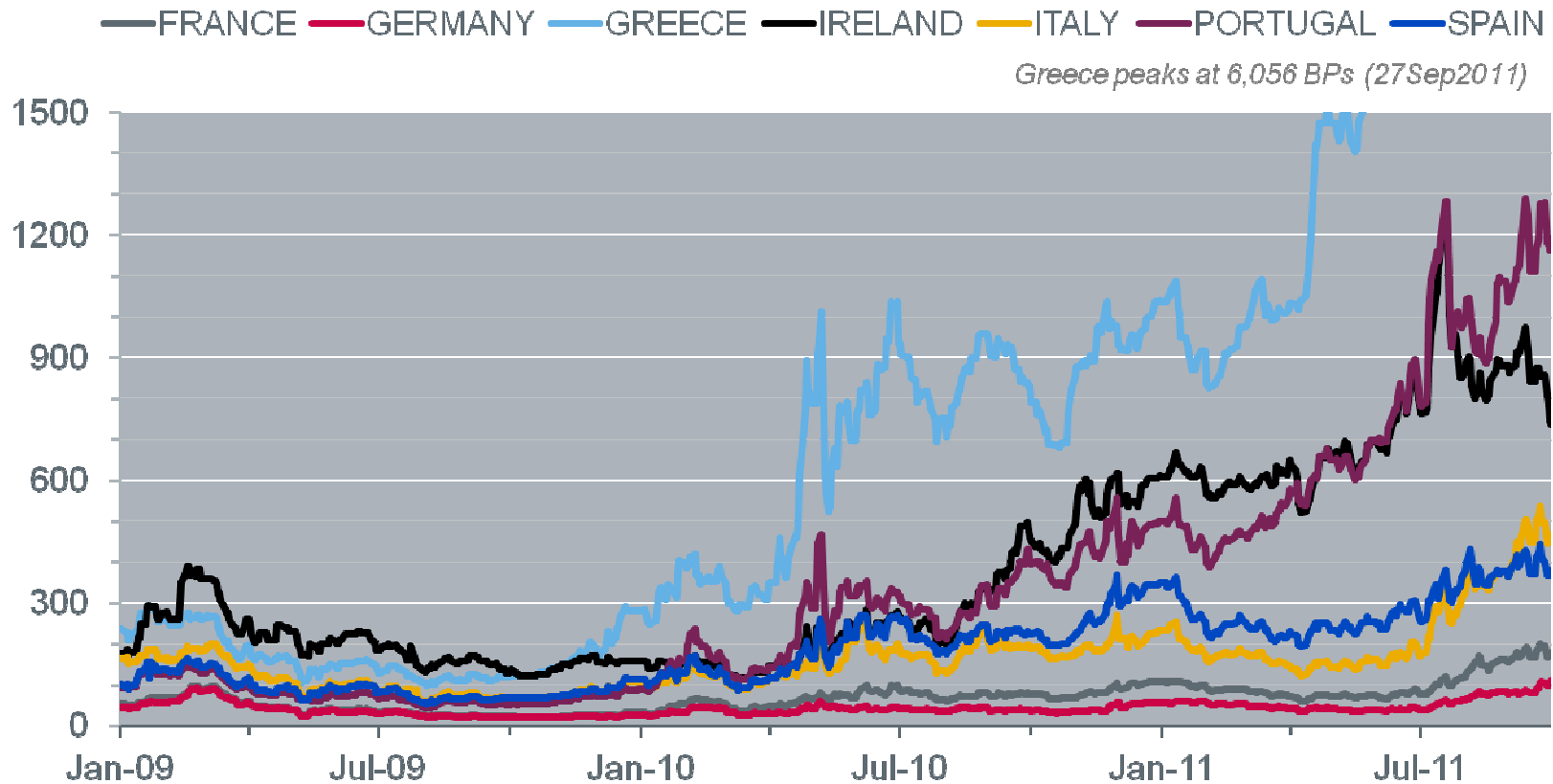
Gross General Government Debt (% of GDP)



Source: Fitch

Eurozone Sovereign CDS Spreads

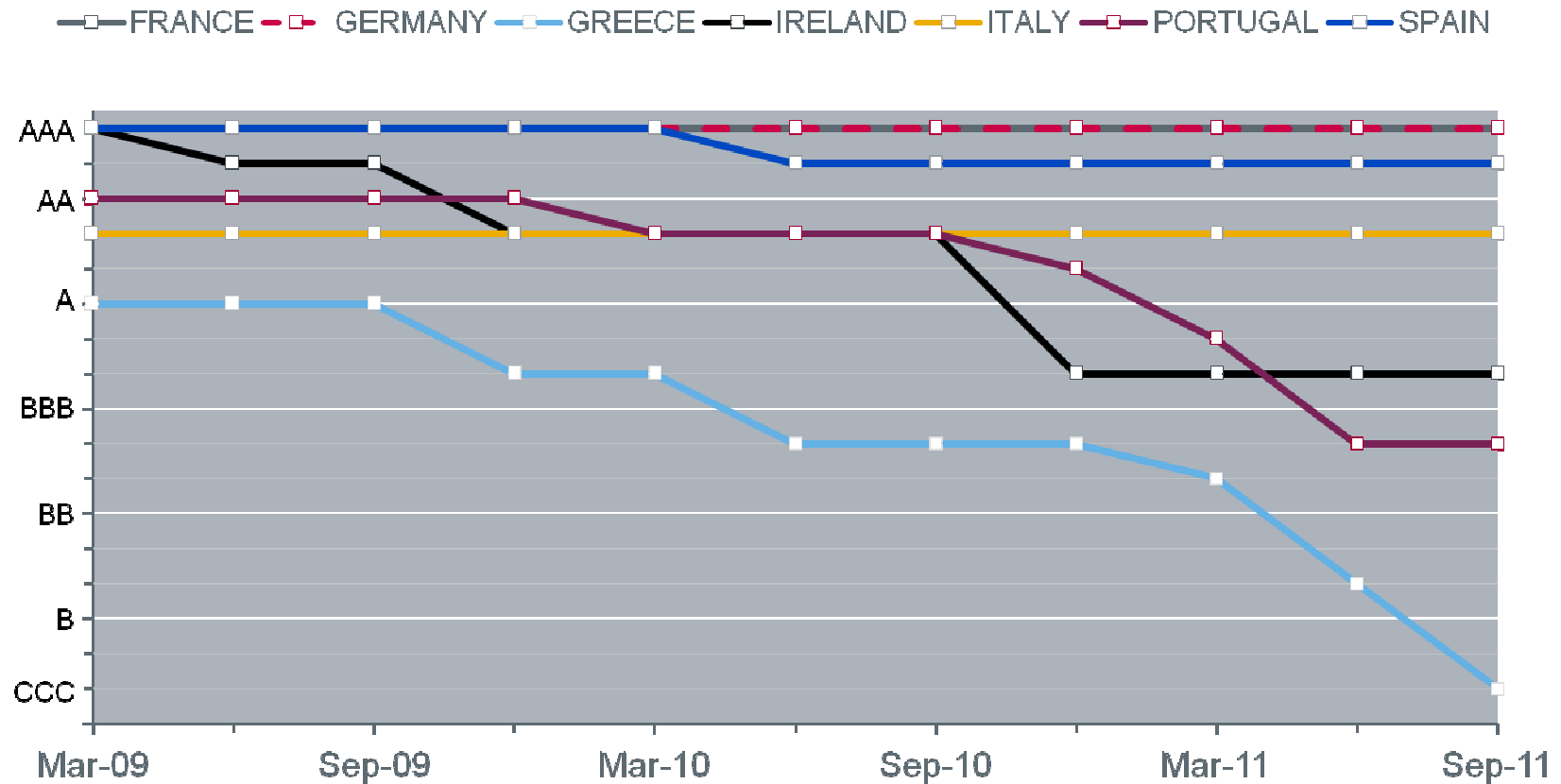
5 Year \$ CDS Spreads – Basis Points



Source: Thomson Datastream

Eurozone Sovereign Ratings through the Crisis

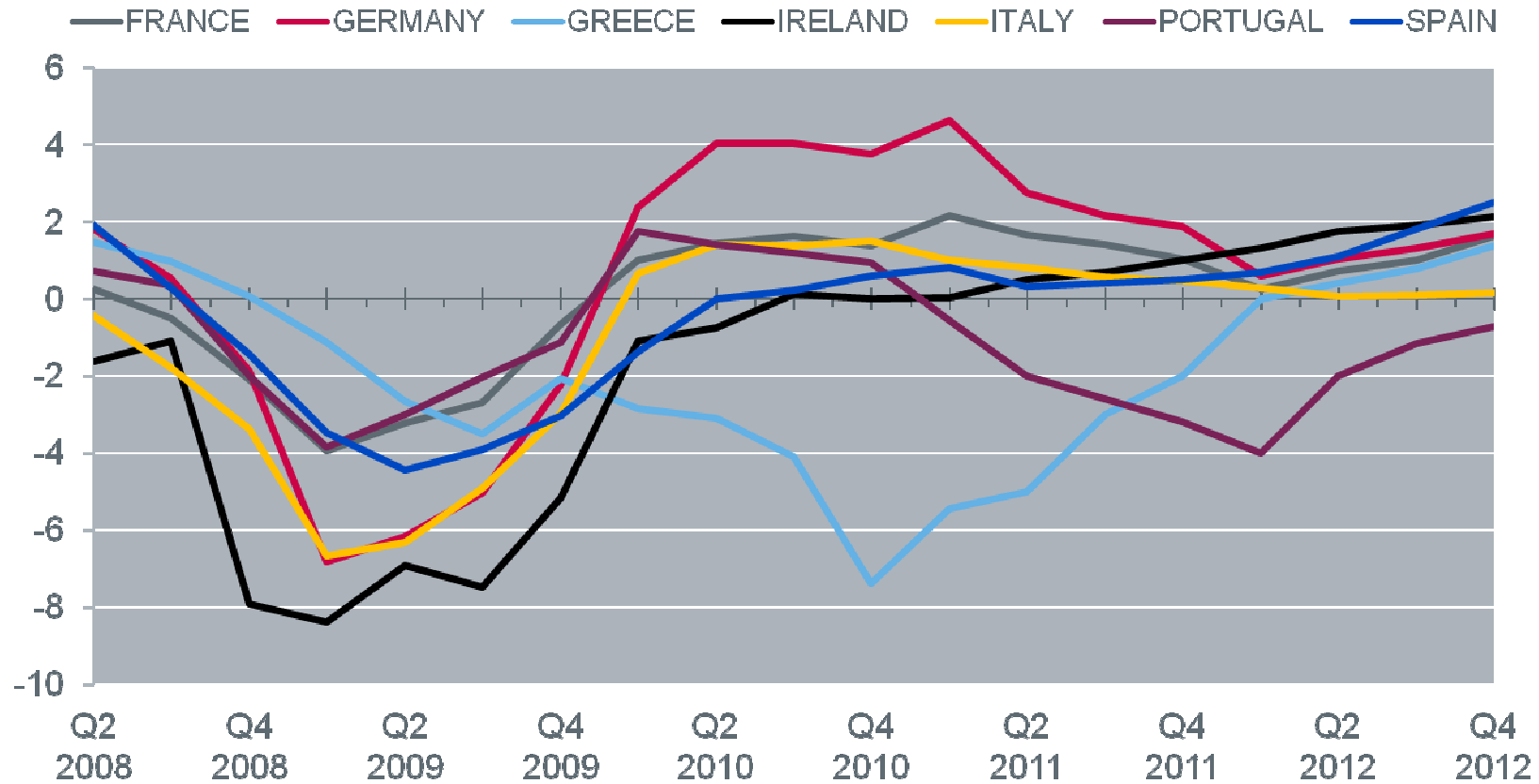
Long-Term Foreign Currency IDR - as at end of each quarter



Source: Fitch

Real GDP Growth

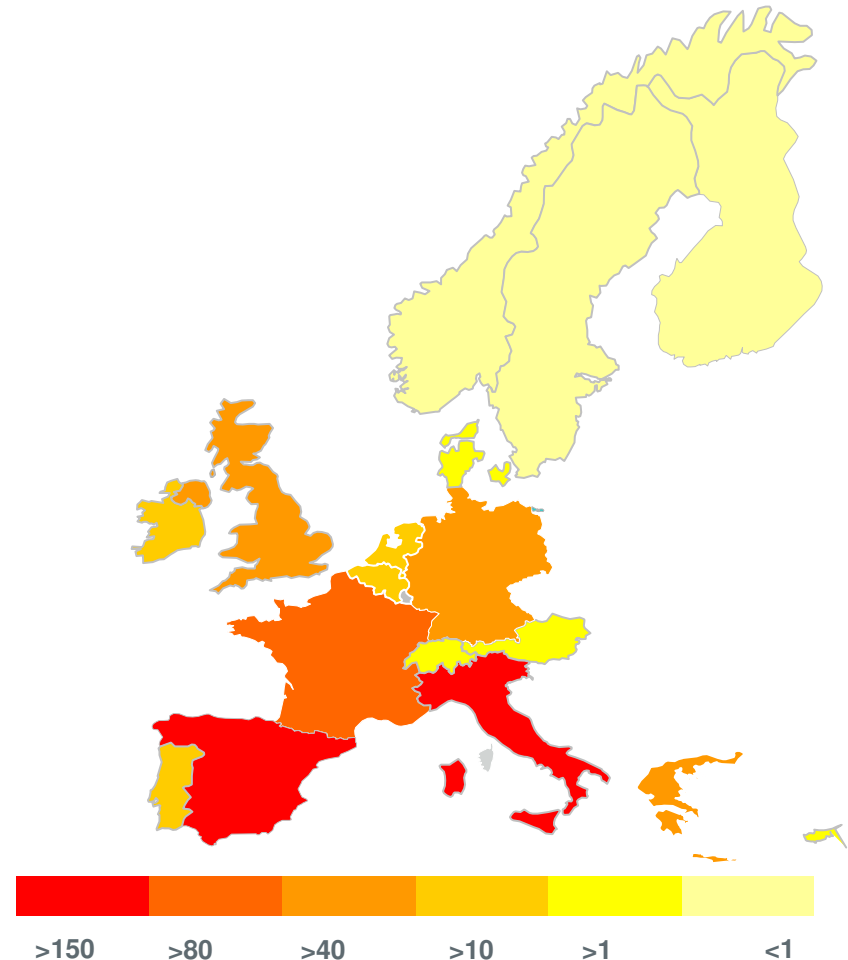
Quarterly Annual GDP Growth



Source: Fitch

Major European Bank Exposure to GIIPS Sovereign Debt (EURbn)

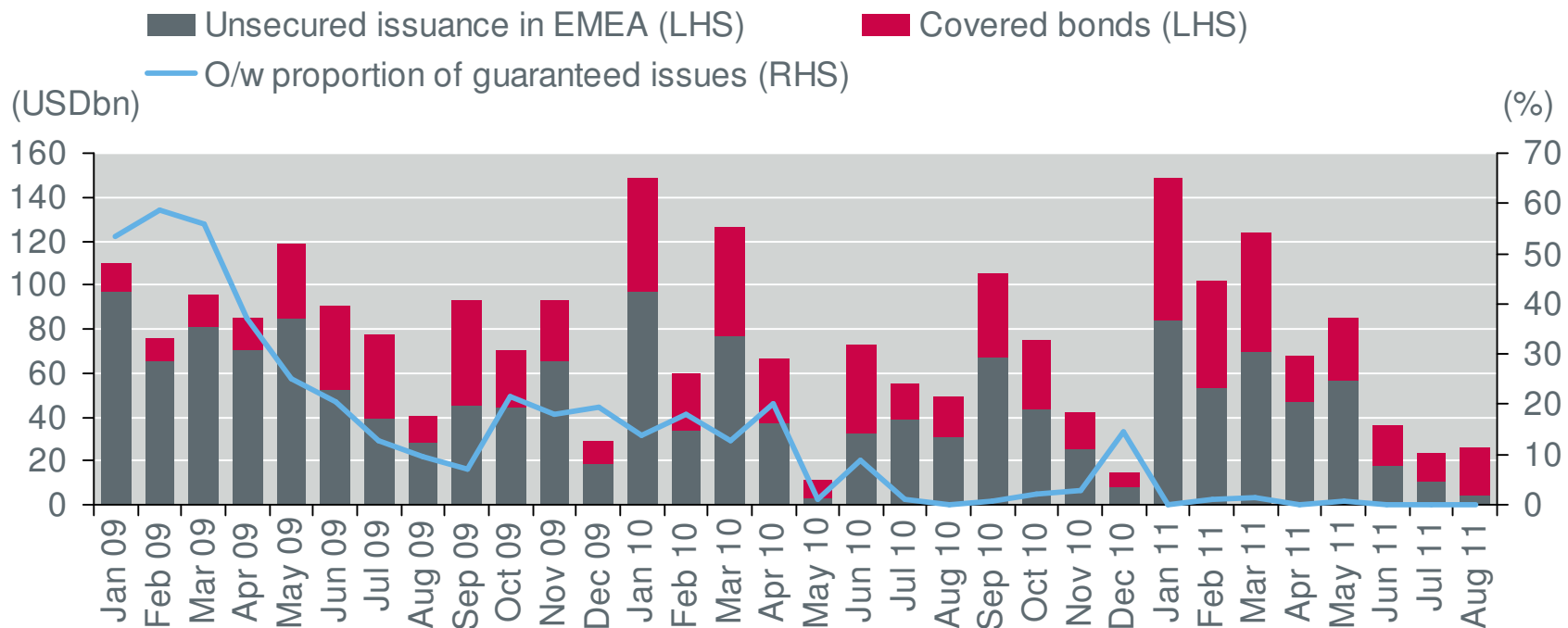
- Italian (EUR170bn) and Spanish (EUR190bn) banks have the highest exposure to GIIPS Sovereign debt, although in both cases over 90% is to their respective Sovereigns
- Major French (EUR85bn) & German (EUR63bn) bank exposure to sovereign risk considered manageable given banks' size
- Other large exposures relate to Italian banks' exposures to other Italian banks (EUR135bn) and Spanish banks' exposures to other Spanish banks (EUR188bn)
- Overall exposure to the Greek Sovereign and Banks is relatively manageable at EUR26.3bn and EUR3.6bn respectively



Source: Public disclosures & Fitch calculations

Eurozone Banks - Public Issuance severely constrained since mid-2011

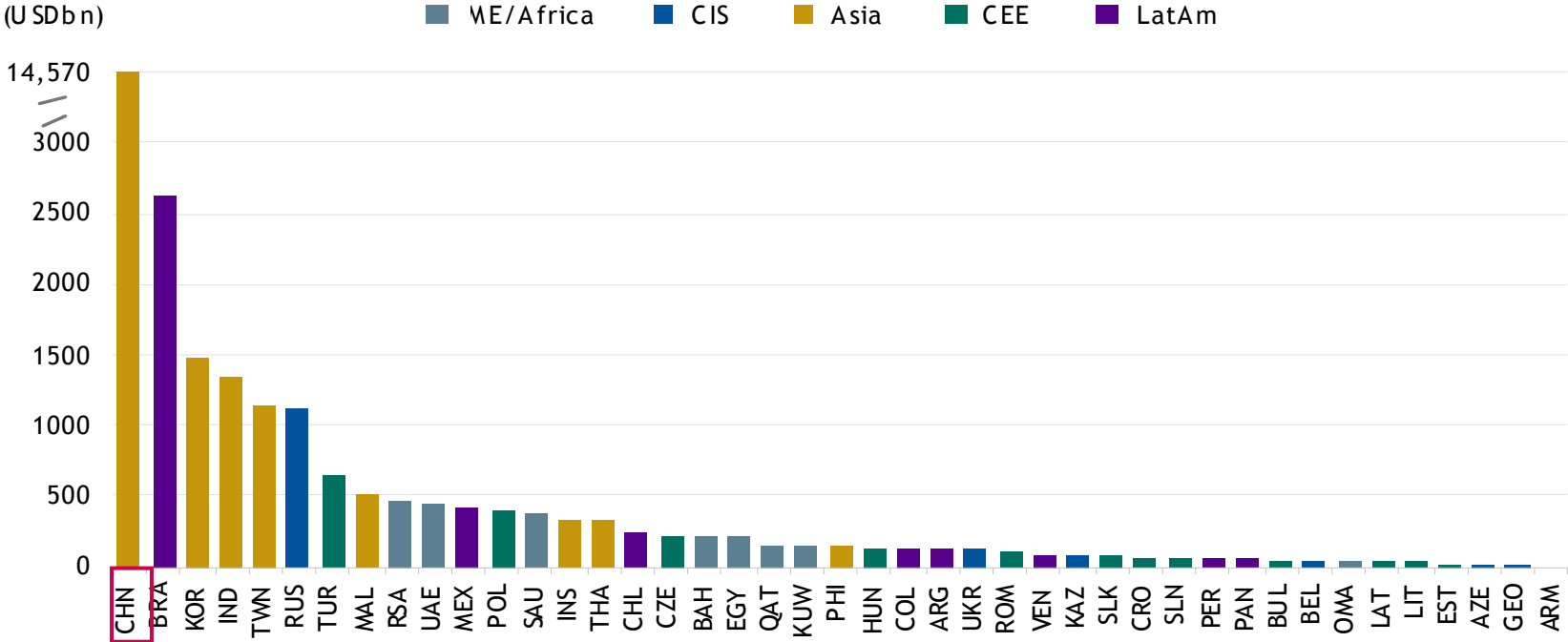
Debt/coversed Bonds Issued in EMEA and Proportion of Guaranteed



Source: Dealogic

Size of China's Banking Sector Equal to All 42 Other EMs Combined

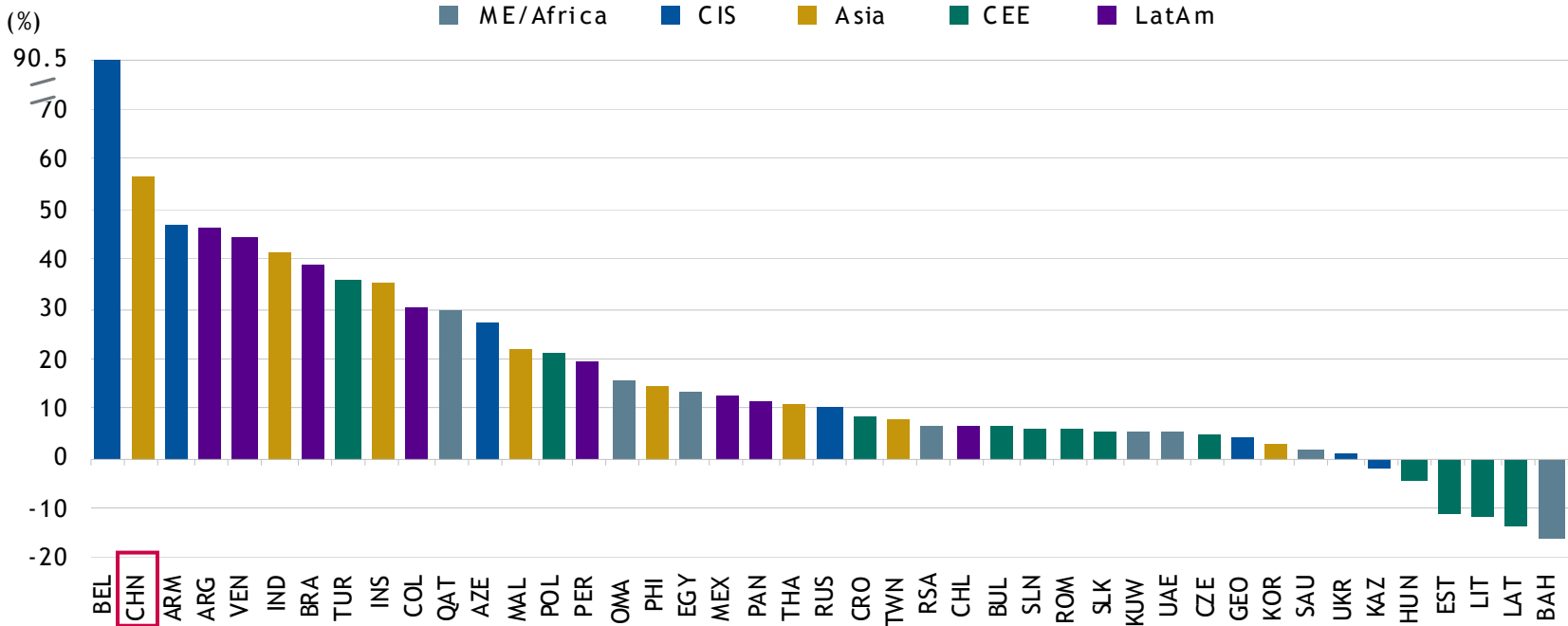
Total Assets at End-2010



Source: Fitch report EM Banking System Datawatch

China Also Has One of the Fastest Growing Systems

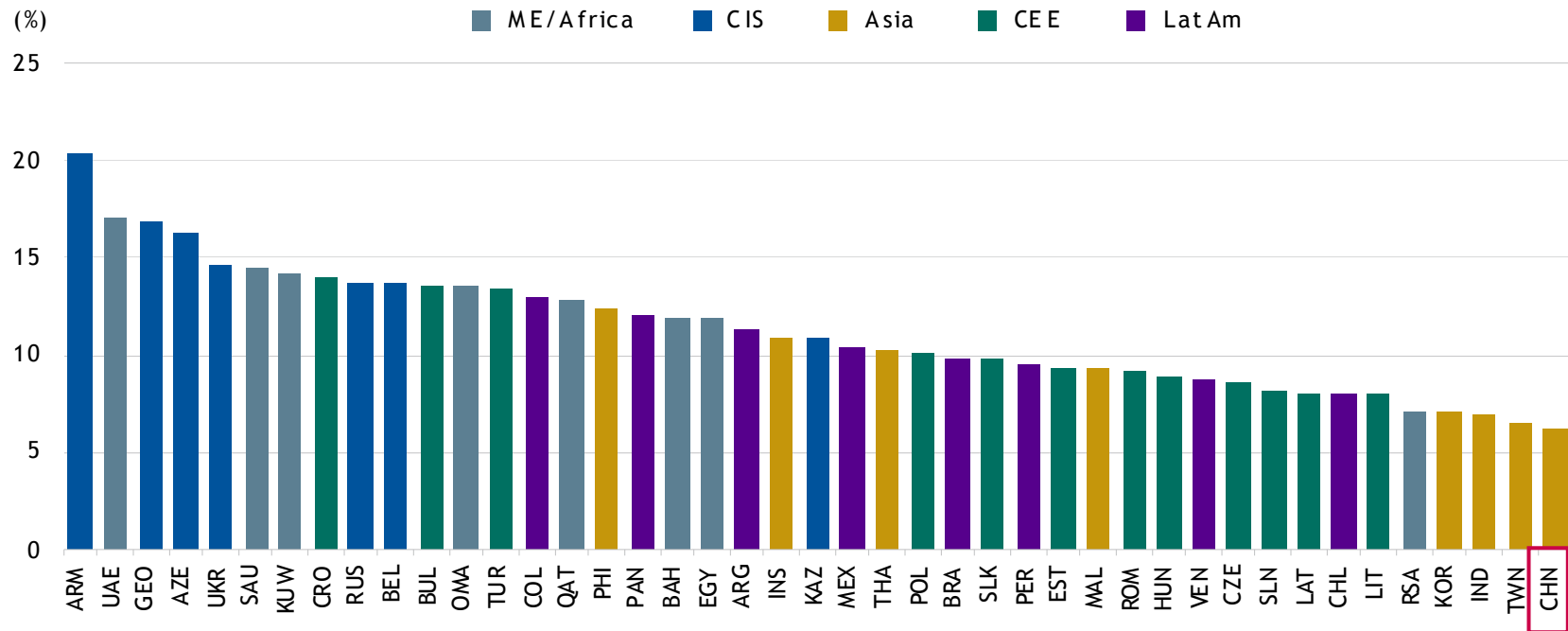
Cumulative Loan Growth End-08-End-2010



Source: Fitch report EM Banking System Datawatch

And Also the Most Thinly Capitalized

Equity/Assets at End-2010

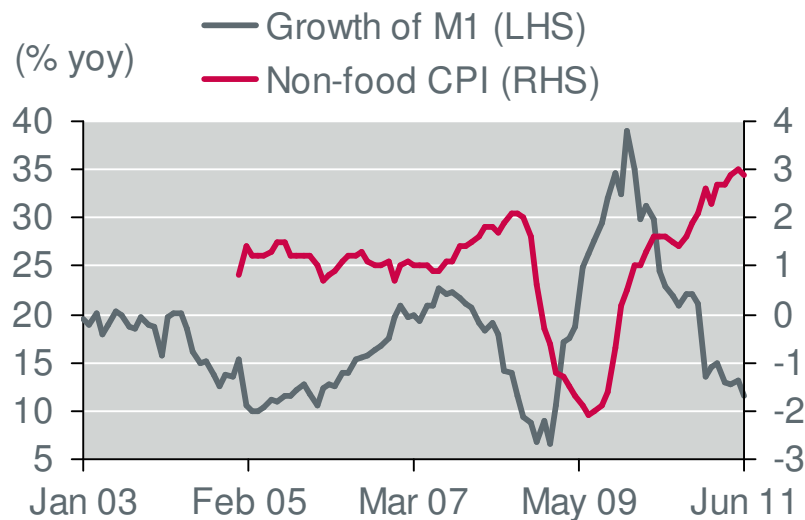


Source: Fitch report EM Banking System Datawatch

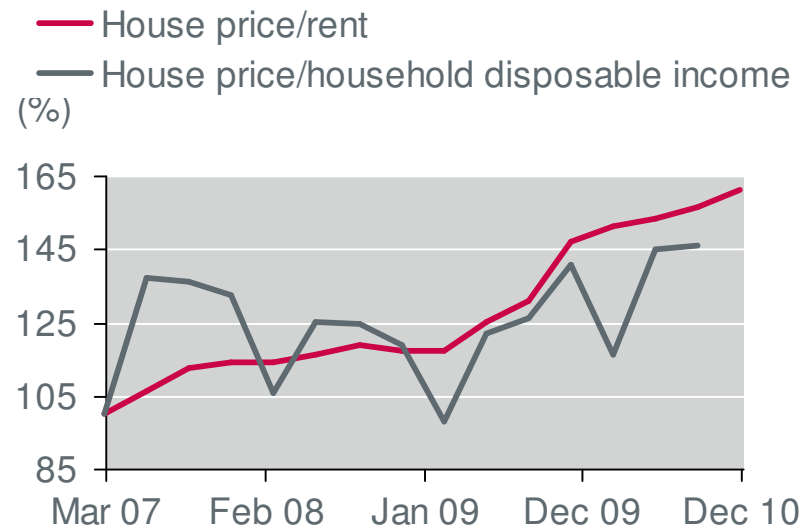
Easy Money is Fuelling Inflation & Rising Property Prices

- Inflation is critical because it is the one factor that could force Chinese authorities to end their decades-long policy of channeling abundant, cheap loans to the corporate sector
- With continuing rapid credit growth, the monetary drivers of inflation remain largely unaddressed. As a result, when monetary policy loosens inflation could return quickly. The policy options for addressing the next inflation wave are narrowing

Inflation is Not Just About Food



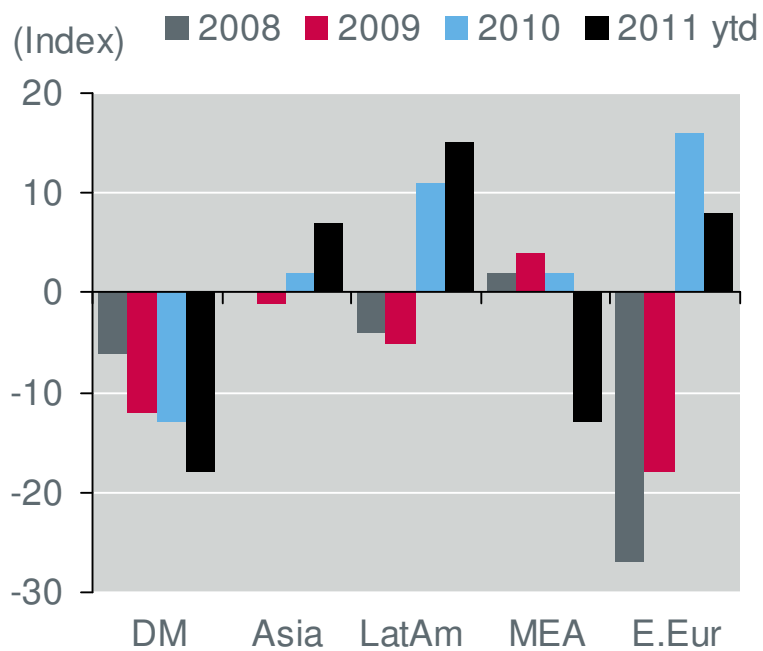
Housing Has Boomed



Source: CEIC, Fitch estimates

EM and DM: Diverging Rating Actions, Converging Rating Levels

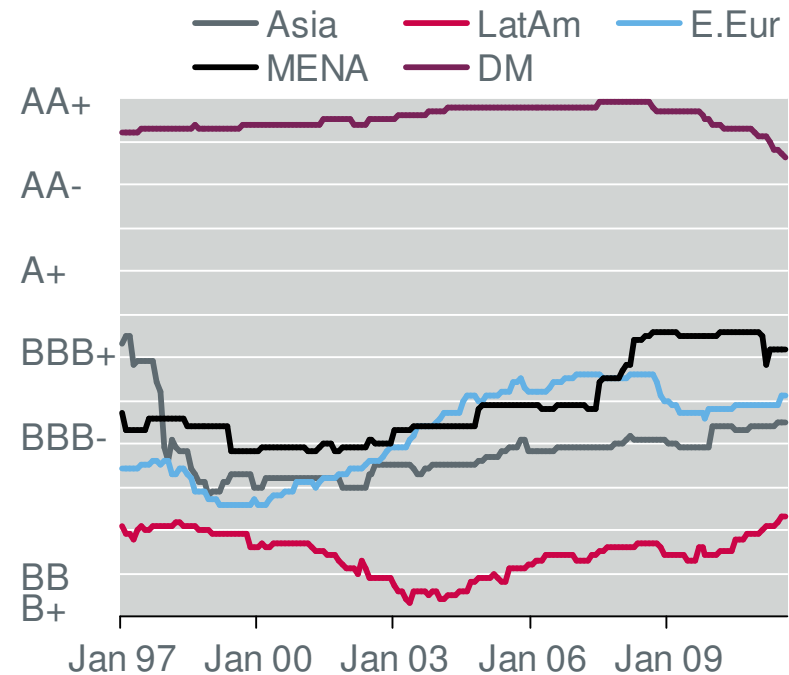
Rating Actions by Region^a



^a Outlook change = + / - 1; upgrade / downgrade = + / - 2
Source: Fitch

Average Rating by Region^b

Long-Term Foreign Currency



^b Un-weighted averages, can reflect changes in coverage
Source: Fitch

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