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Dollar Shortage Test for Emerging Countries: Foreign Reserves Decline at Maximum Rate

Emerging countries are facing the test of a dollar shortage as the spread of the new coronavirus continues to spread. Exports and tourists have plummeted, making it impossible to earn foreign currency, and the weakening of their currencies has increased the burden of their external debt. The international safety net for the dollar is not as solid as it could be, and there is a growing sense of caution about whether the country can survive the prolonged economic stagnation. There are.

The pyramids at Giza and the museum at Luxor - the The Egyptian government recently announced that it will open major sites to tourists. There was a proposal to limit the number of tourist destinations to resorts and other areas after the lifting of the ban, but the idea was to lower the entrance fee and attract more tourists. They are trying to increase it.

Egypt's tourism industry accounts for 11% of the country's gross domestic product (GDP) and is an important means of earning foreign currency. Foreign exchange reserves have fallen 20% since March as infections have stopped attracting tourists and disrupted revenues. Daily new infections remain as high as 90% of the peak, and the economy is on a stronger footing to reopen.

This year, the current account balance, the "power to earn foreign currency," has deteriorated in emerging economies. According to the International Monetary Fund (IMF), the current account deficits of the 141 emerging economies (141 countries), excluding China, totaled GDP of 2%, the biggest forecast since 2001.

In Brazil, exports of crude oil, cars and other products have fallen sharply. Infection is also a drag on the country, as China, a major exporter of soybeans and meat, has demanded a safety certificate to see if there is any infection in the country. South Africa is also burdened by low resources.

Foreign exchange reserves, a measure of a country's creditworthiness, account for more than

60 percent of the country's foreign exchange reserves, which are declining in each of the emerging countries. The foreign exchange reserves (excluding gold) of the 32 emerging economies, excluding China, had fallen by \$50 billion (\$5.4 trillion) by the end of April this year. By the end of April this year, the foreign exchange reserves of the 32 emerging economies, excluding China, had fallen by \$50 billion (about ¥5.4 trillion) to \$2.8 trillion. Foreign exchange reserves have been growing at a rate of about 10% a year along with the growth of emerging countries, but this year, on an annualized basis At \$150 billion less, the decline is the largest in 20 years.

On a country-by-country basis, 20 of the 32 countries saw declines, with Turkey having the largest decline of \$27 billion. Turkey's central bank has embarked on an unusual measure to siphon off dollars and other foreign currencies from private banks to replenish its Foreign exchange reserves are about \$50 billion, less than short-term external debt and at a level that is considered inadequate.

Large fiscal and monetary policies are restoring calm to the markets. However, money flowing in and out of emerging markets is more voluminous than in the past, and if investors move to avoid risk, the currency will fall. is fast: in the three months to mid-May, the currencies of Brazil, Turkey and South Africa were 20% to 30% faster against the dollar It has fallen, and the burden of dollar-denominated debt in terms of its own currency has grown.

The safety net is not encouraging. The U.S. Federal Reserve has supplied dollars through currency swaps with central banks in various countries, but the target emerging economies have Brazil and Mexico only. Negotiations between the Central Bank of Turkey and the Fed, which has poor relations with the U.S., have been unsuccessful. Egypt is relying on IMF support.

The IMF, the lender of last resort, established a new "short-term liquidity facility" in April, but it is limited to healthy countries. No use. The emergency loans supplied to about 70 countries are a small mechanism, with only about \$300 million per country. Half of the roughly \$1 trillion in financial resources would require approval from member countries to use, and any attempt to increase the total would require countries to This is a political issue for the G-20 nations. For some time now, the G20's expert panel has been calling for the government to raise funds in the market itself. It has been pointed out that they lack the ability to lend

quickly and prevent crises and the scale of the crisis.

Emerging countries have \$720 billion in dollar-denominated debt that needs to be redeemed and repaid by the end of 2009 (excluding China, the main (29 countries). A debt crisis would "spill over to European financial institutions, the largest lenders in Turkey and Latin America" ((Mizuho Research Institute). Japan also holds 20% of the overseas credit to South Africa and is no stranger to the fire. The international community's support has not been forthcoming, and the pathway for the crisis to spread from emerging economies to the rest of the world has not been blocked.

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