Conditions necessary for the sustainability of an emerging area: the importance of banking and financial regional criteria

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Abstract

The last financial crises have revealed the vulnerability of many emerging countries. Yet, within an economically integrated area, some groups of countries have been spared the disastrous consequences of these crises. The purpose of this article is to underline the similarities between these countries in order to draw up a set of regional criteria that would protect an area against speculative attacks. Using a probit analysis, we show that the convergence of some banking and financial indicators towards reference levels guarantees the confidence of international lenders, which in turn limits financial contagion. A narrow margin between the amount of external debt, in particular the short term debt of the country and a reference level constitutes a protection against the risk of illiquidity. Similarly, a low domestic credit in comparison with the international reserves of the economy is also an indicator of the sustainability of an area for international lenders. It is these factors that have ensured the stock exchange stability that some emerging areas have enjoyed during the different crisis episodes.

Keywords: Economic and Financial Integration, Emerging Markets, Fundamental Contagion, Probit Analysis, Regional Criteria.

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