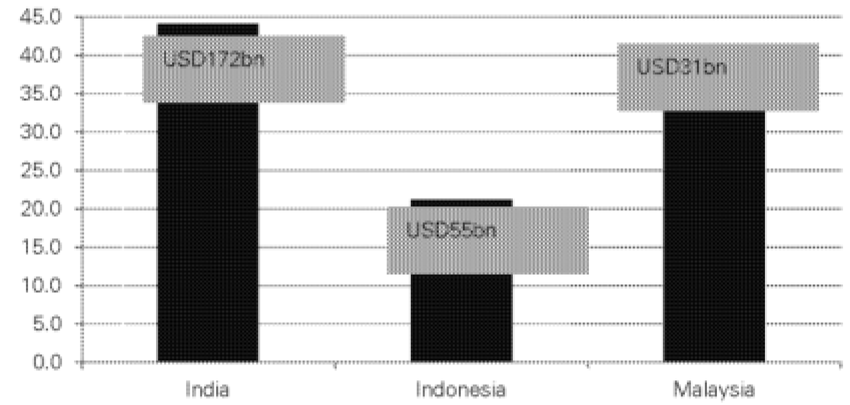
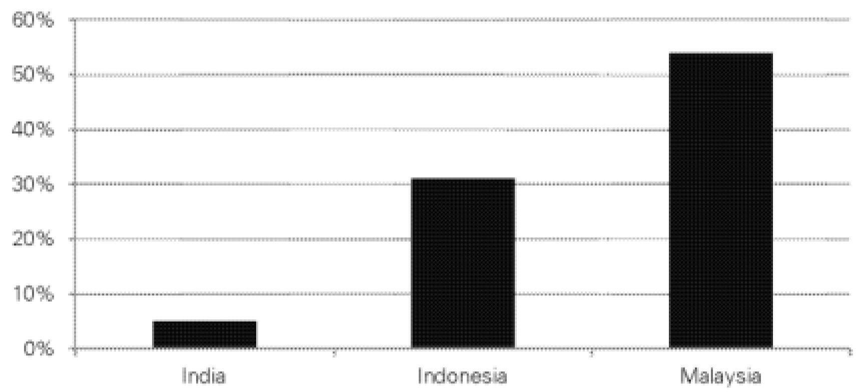
% of ext debt in short-term, residual maturity basis



Source: CEIC, IMF, Deutsche Bank. Calculation includes all debt falling due within 12 months, including foreign currency deposits

Indonesia and Malaysia are also vulnerable to bond market outflows considering the large chunk of their markets owned by foreign investors. The interesting development of the past few months however has been that India has faced more outflows (USD7.6bn in June-July), perhaps due to the fact that it is the only country among the three that is not a part of a major bond index, thus drawing more fickle investors. Going forward, however, Malaysia's vulnerability is considerable on this metric. Beyond bond holdings, India and Malaysia are also at risk from equity investors, who have been large net buyers (USD36.9bn and USD9.3bn, respectively) of their stocks since early 2012.

Foreign ownership of local currency bonds



Source: CEIC, Bloomberg Finance LLP, Deutsche Bank

It must be appreciated though that none of these economies appear to be in danger of falling into an outright currency crisis. **Reserves cover, despite recent declines, is still ample. Even when one adds up the entire stock of short-term liabilities with the projected current account needs for this year, all three economies have reserves to finance them comfortably.** The situation is nowhere close to past episodes of balance of payments crisis, when the need to seek support from an external lender (like the IMF) was warranted.

Stabilization of global markets could provide breathing room for policy makers in these countries. In the meantime, however, a good deal of fire-fighting is warranted. Measures to expedite fiscal and external balance adjustment will soothe investor fears. Monetary management is also critical, especially with regards to the signals being sent to market participants. Both India and Indonesia have taken steps in recent months that have been construed as