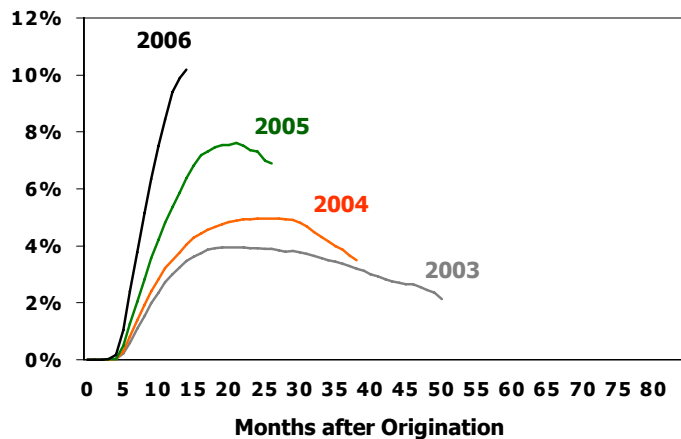


Rising Credit Risks

Subprime 60-Day Delinquencies by Mortgage Vintage Year
(adjustable rate mortgages, in percent of payments due)



Source: JPMorgan Chase & Co.

There has been substantial credit deterioration in the U.S. subprime mortgage market in more recent vintages, especially 2006 ...

Underwriting Standards in Subprime Home-Purchase Loans

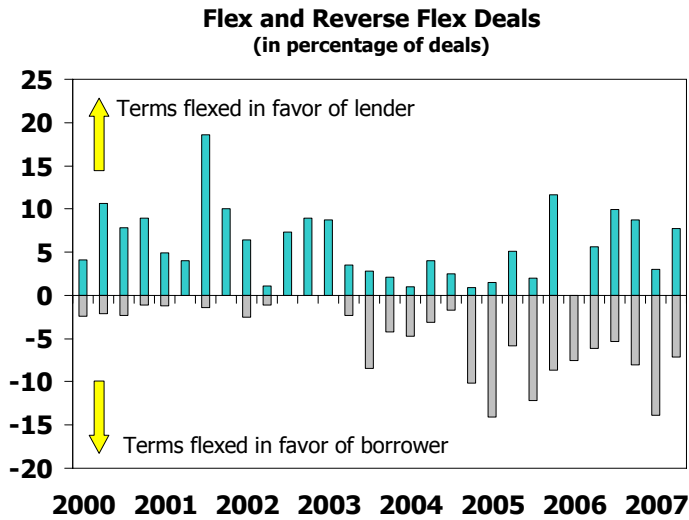
	ARM Share	Interest-Only ARM Share	Low- No-Doc Share	Debt Payments-to-Income Ratio	Average Loan-to-Value Ratio
2001	73.8%	0.0%	28.5%	39.7	84.04
2002	80.0%	2.3%	38.6%	40.1	84.42
2003	80.1%	8.6%	42.8%	40.5	86.09
2004	89.4%	27.2%	45.2%	41.2	84.86
2005	93.3%	37.8%	50.7%	41.8	83.24
2006	91.3%	22.8%	50.8%	42.4	83.35

Source: Freddie Mac.

... due to a relaxation of credit standards, particularly in issuance of interest-only adjustable rate mortgages and mortgages with little documentation.

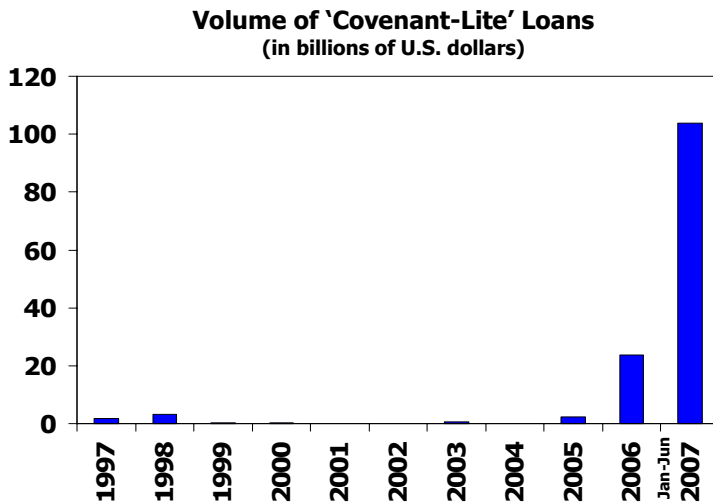
Rising Credit Risks ...

Credit Risk



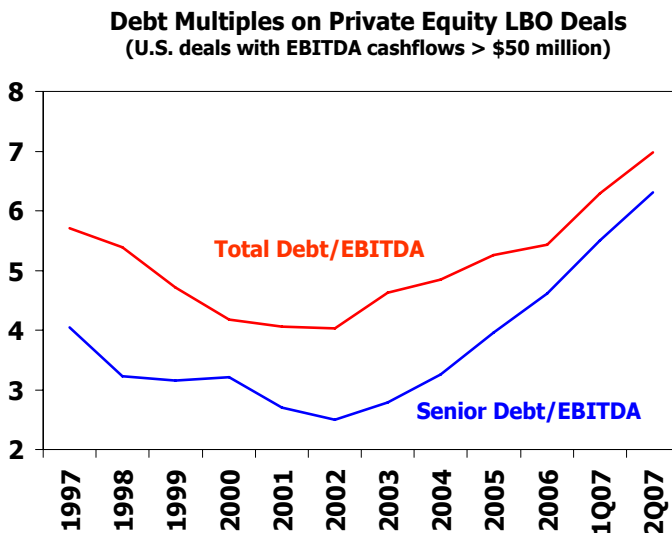
There has been a parallel weakening of credit discipline in corporate credit markets, seen in the “flexing” of deals in favor of borrowers ...

Source: Standard & Poor's.



... a sharp increase in the use of lighter loan covenants ...

Source: Standard & Poor's.



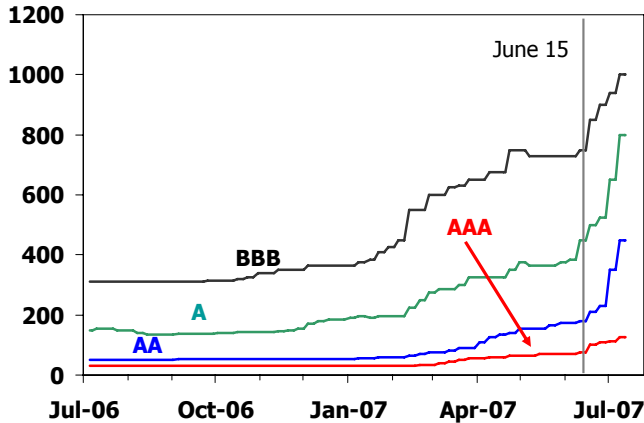
... as well as rising leverage in LBO deals.

Source: Standard & Poor's.

... Lead to Credit Market Turbulence

Market Risk

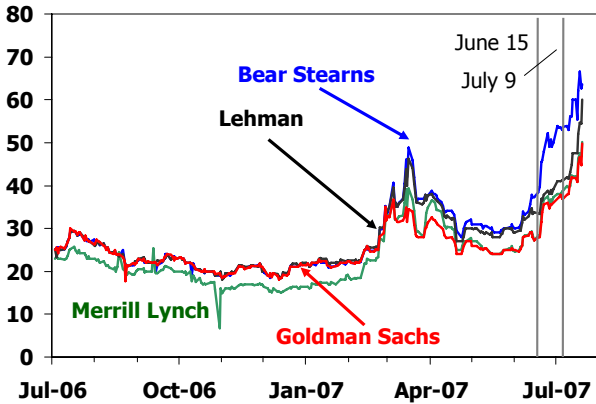
Primary Market Spreads of Mezzanine CDO Tranches over LIBOR
(in basis points, CDOs with collateral of BBB average quality)



Rising credit risk in U.S. subprime mortgages translated into market turbulence when troubles at hedge funds managed by Bear Stearns were revealed on June 15. This led to an accelerated pace of spread widening on collateralized debt obligations (CDOs) backed by lower quality mortgage-related collateral...

Source: JPMorgan Chase & Co.

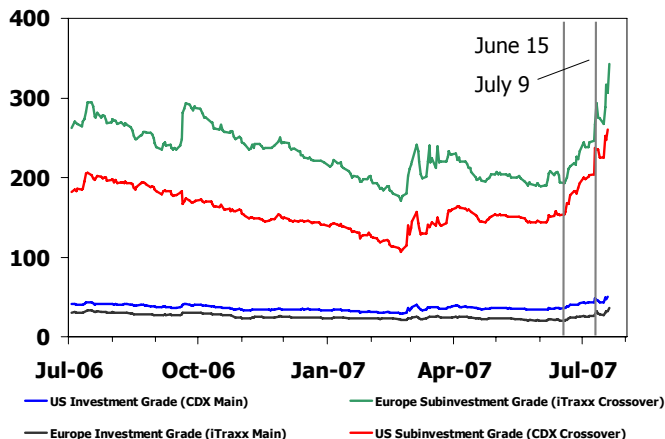
Cost of Insurance against Default by U.S. Financial Institutions
(5-year coverage)



...and to a widening of credit insurance spreads of financial institutions involved in the subprime market. Concerns intensified after ratings agencies began to downgrade subprime mortgage-related securities on July 9.

Note: Annual cost of coverage for \$10 mn face value of senior debt, in thousands
Source: Bloomberg L.P.

Corporate Credit Default Swap Spreads
(in basis points)

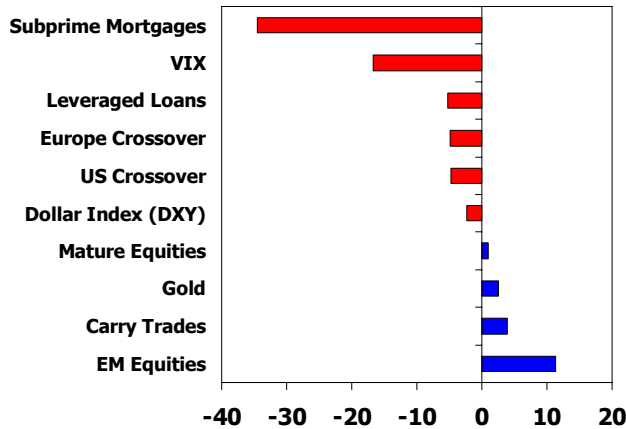


Spreads also widened on corporate securities more broadly.

Source: JPMorgan Chase & Co.

Broader Markets Remain Resilient

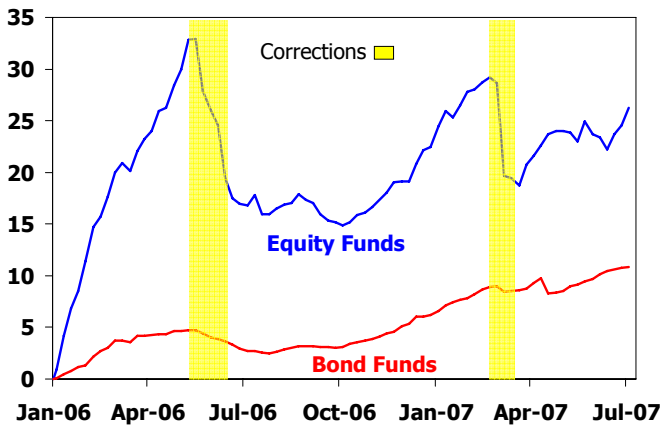
Selected Asset Class Returns
(In Percent, May 31 – July 19)



Sources: Bloomberg L.P.; and JPMorgan Chase & Co.

Turbulence was mainly confined to credit markets ...

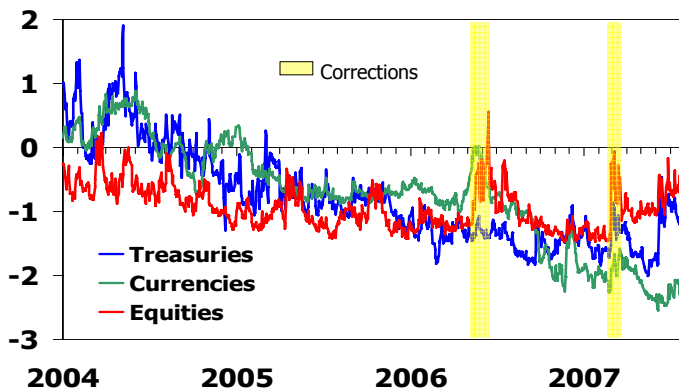
Cumulative Net Flows to Emerging Market Funds
(in billions of U.S. dollars)



Source: Emerging Portfolio Fund Research, Inc.

... and flows to emerging market mutual funds, traditionally considered among the riskier asset classes, saw little impact.

Market Volatility Indices

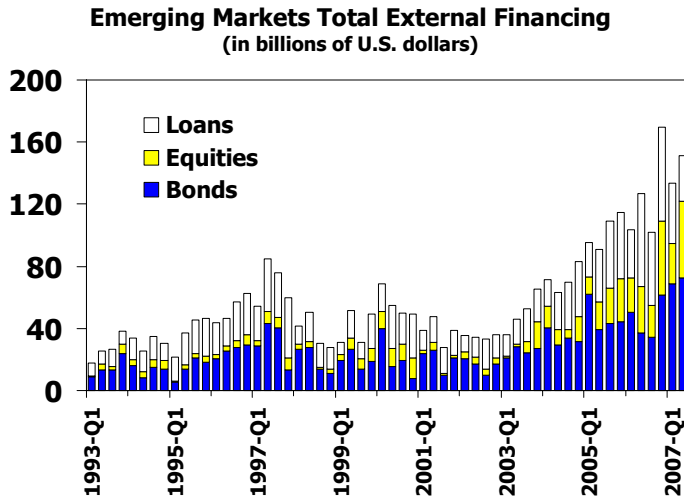


Note: Data represent an average z-score of the implied volatility derived from options from stock market indices, interest, and exchange rates. A value of 0 indicates the average implied volatility across asset classes is in line with the period average (from 12/31/98 or where data is available). Values of +/- 1 indicate average implied volatility is one standard deviation above or below the period average.

Implied volatility has picked up since June, but remains below long-term averages.

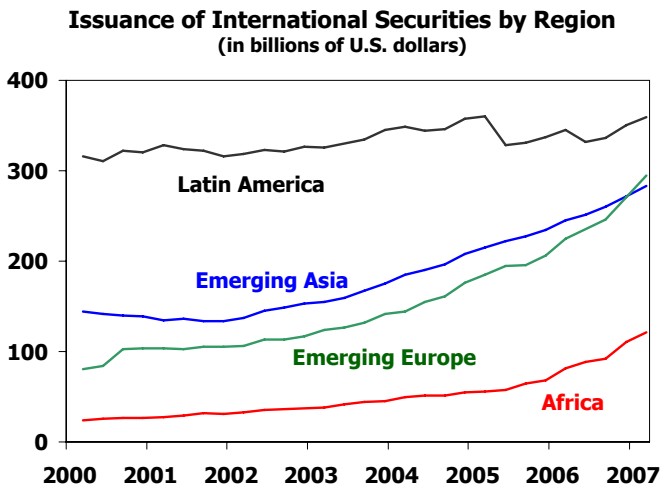
Sources: Bloomberg L.P.; and IMF staff estimates.

Strong Flows to Emerging Markets – Especially to Eastern Europe



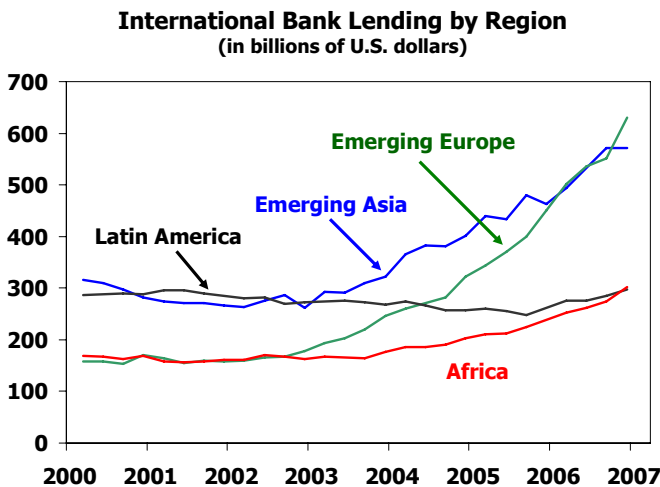
Financing flows to emerging markets have continued to grow...

Source: Dealogic.



... with flows to emerging Europe picking up sharply ...

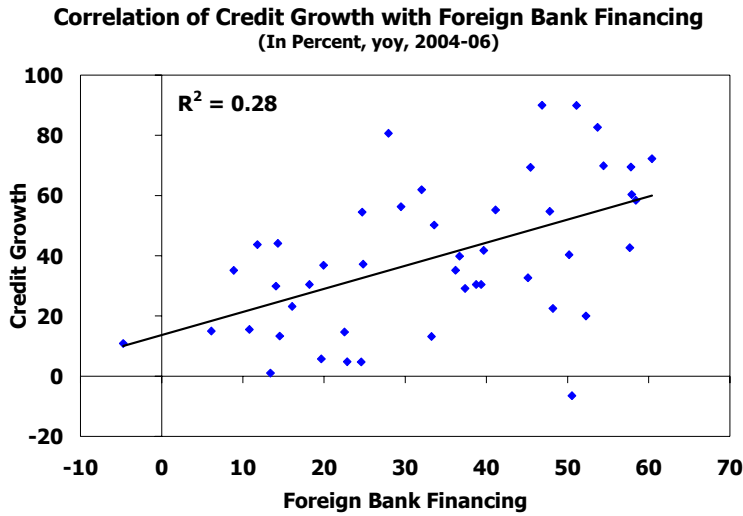
Source: IMF, International Financial Statistics.



... particularly banking flows.

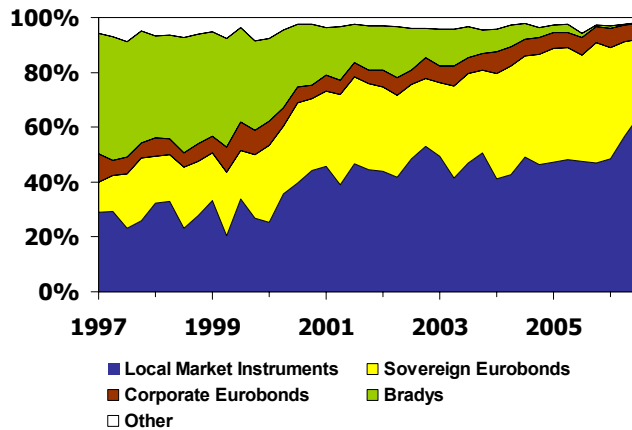
Source: IMF, International Financial Statistics.

Strong Flows to Emerging Markets – Especially to Eastern Europe



Heavy borrowing by banks helped foster rapid rates of private sector credit growth in some countries in emerging Europe.

Emerging Market Debt Trading Market Share by Instrument



Trading volume in emerging debt markets continues to shift toward local market instruments.

Source: EMTA.

Emerging Market External Financing

Emerging Market External Financing

							2006				2007				Year-to-date	
	2001	2002	2003	2004	2005	2006	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	Apr.	May		Jun.
GROSS ISSUANCE BY ASSET	162.1	135.6	199.8	286.7	410.0	501.7	103.5	126.7	101.9	169.6	133.3	151.0	44.8	53.6	30.2	284.3
Bonds	89.0	61.6	99.8	135.1	189.2	182.9	50.4	37.0	34.1	61.5	68.6	72.7	18.8	10.3	10.9	141.3
Equities	11.2	16.4	27.8	45.4	78.2	120.6	22.3	30.3	20.7	47.4	26.0	48.9	13.8	16.3	5.6	75.0
Loans	61.9	57.6	72.2	106.2	142.5	198.2	30.8	59.5	47.1	60.7	38.6	29.4	12.2	27.1	13.8	68.0
GROSS ISSUANCE BY REGION	162.1	135.6	199.8	286.7	410.0	501.7	103.5	126.7	101.9	169.6	133.3	151.0	44.8	53.6	30.2	284.3
Asia	67.5	53.9	88.8	123.3	151.3	195.3	38.5	47.3	35.5	73.9	38.5	63.3	23.9	22.7	11.7	101.8
Latin America	53.9	33.4	43.3	54.3	85.9	68.7	17.1	15.4	15.8	20.4	32.8	16.8	6.1	4.7	5.3	49.6
Europe, Middle East, Africa	40.8	48.3	67.7	109.1	172.7	237.8	48.0	64.0	50.6	75.2	62.0	70.9	14.8	26.3	13.2	132.9
AMORTIZATION BY ASSET	147.0	128.4	119.5	128.1	111.2	105.5	22.1	29.6	28.9	25.0	26.2	30.4	9.5	7.4	12.8	56.6
Bonds	59.0	58.9	57.1	69.6	68.7	62.7	13.3	18.9	12.6	17.9	19.7	20.5	6.0	5.5	6.4	40.2
Equities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	88.0	69.5	62.4	58.5	42.6	42.8	8.8	10.7	16.3	7.0	6.5	10.0	3.5	1.9	6.4	16.4
AMORTIZATION BY REGION	147.0	128.4	119.5	128.1	111.2	105.5	22.1	29.6	28.9	25.0	26.2	30.4	9.5	7.4	12.8	56.6
Asia	66.0	55.6	45.5	49.8	39.0	44.1	10.5	11.4	12.2	10.1	10.6	11.5	3.1	4.0	4.1	22.1
Latin America	45.6	40.8	40.4	46.7	38.6	27.3	7.9	7.8	5.4	6.2	9.5	6.6	2.8	1.9	3.5	16.1
Europe, Middle East, Africa	35.3	32.0	33.6	31.6	33.5	34.2	3.7	10.5	11.3	8.7	6.1	12.3	3.6	1.5	5.3	18.4
NET ISSUANCE BY ASSET	15.2	7.3	80.3	158.6	298.7	396.2	81.4	97.1	73.0	144.6	107.1	120.6	35.3	46.2	17.4	227.7
Bonds	30.1	2.7	42.7	65.5	120.6	120.2	37.1	18.1	21.5	43.6	48.9	52.2	12.8	4.8	4.4	101.2
Equities	11.2	16.4	27.8	45.4	78.2	120.6	22.3	30.3	20.7	47.4	26.0	48.9	13.8	16.3	5.6	75.0
Loans	-26.1	-11.8	9.8	47.7	100.0	155.4	22.0	48.8	30.9	53.7	32.1	19.4	8.7	25.2	7.4	51.6
NET ISSUANCE BY REGION	15.2	7.3	80.3	158.6	298.7	396.2	81.4	97.1	73.0	144.6	107.1	120.6	35.3	46.2	17.4	227.7
Asia	1.5	-1.7	43.3	73.5	112.3	151.2	28.0	36.0	23.3	63.8	27.9	51.8	20.8	18.7	7.7	79.7
Latin America	8.3	-7.4	2.9	7.6	47.3	41.4	9.1	7.6	10.4	14.2	23.3	10.2	3.3	2.8	1.9	33.5
Europe, Middle East, Africa	5.5	16.3	34.0	77.4	139.2	203.6	44.3	53.5	39.3	66.5	55.9	58.6	11.2	24.7	7.9	114.5
SECONDARY MARKETS																
Bonds:																
EMBI Global (spread in bps)	728	725	403	347	237	171	191	218	208	171	170	181	167	155	181	181
Merrill Lynch high yield (spread in bps)	795	871	418	310	371	289	313	335	344	289	285	298	274	246	298	298
Merrill Lynch high grade (spread in bps)	162	184	93	83	92	91	90	97	98	91	95	100	94	94	100	100
US 10 yr. treasury yield (yield in %)	5.05	3.82	4.25	4.22	4.39	4.70	4.85	5.14	4.63	4.70	4.65	5.03	4.62	4.89	5.03	5.03
Equity:																
DOW	-7.1	-16.8	25.0	3.1	-0.6	16.3	3.7	0.4	4.7	6.7	-0.9	8.5	5.7	4.3	-1.6	7.6
NASDAQ	-21.1	-31.5	50.5	8.6	1.4	9.5	6.1	-7.2	4.0	6.9	0.3	7.5	4.3	3.1	0.0	7.8
MSCI Emerging Markets index	-4.9	-8.0	51.2	22.4	30.3	29.2	11.5	-5.1	4.1	17.3	1.8	14.1	4.4	4.6	4.4	16.1
Asia	4.2	-6.2	46.1	12.2	23.5	29.8	9.0	-2.6	6.3	15.0	-0.4	17.7	4.7	6.3	5.7	17.3
Latin America	-4.3	-24.8	66.7	34.8	44.9	39.3	14.9	-4.1	4.4	21.1	5.6	18.7	5.0	10.1	2.6	25.3
EMEA	-20.9	4.7	51.9	35.8	34.9	21.3	14.1	-10.5	-0.1	19.0	3.2	4.1	3.4	-2.4	3.1	7.4

Sources: Bloomberg L.P.; Capital Data; JPMorgan Chase; Morgan Stanley Capital International; and IMF staff estimates.

1/ Issuance data (net of US trust facility issuance) are as of June 30, 2006 close-of-business London Secondary markets data are as of noon, June 30, 2006 cob New York.