Emerging markets face vicious circle

The so-called "Fragile Five" – Brazil, India, Indonesia, South Africa, and Turkey – are at risk of capital flight as dollars that flooded in from the U.S. Federal Reserve's quantitative easing programme start to dry up

1. Tapering: U.S. begins to scale back central bank's bond purchase programme, designed to jump-start economy

Since September 2012, Federal Reserve has bought $85 billion in bonds each month

2. U.S. interest rates rise: Global investors buy record **$5.79 trillion** of Treasury bonds

3. Emerging markets: Investors dump bonds, stocks and currencies of emerging markets (EMs)

4. Foreign reserves: Value of currencies falls, EM central banks sell dollars to prop up their currencies

5. Central banks: Increase interest rates in bid to stabilise currencies and deter speculators

6. Interest rates: Hikes in rates lead to higher debt costs, economic growth slows

7. Exports: Slowdown in Chinese manufacturing – largest market for EMs – results in fall in exports

8. Capital outflows: Renewed currency weakness requires higher rates once again. **Circle is repeated**

Pictures: Associated Press, Getty Images