

The Known Knows, the Unknown Knowns and the Unknown Unknowns about Rebalancing Finance

Comments to the EBRD Transition Report 2015-16

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Madrid , April 6th 2016

Rebalancing Finance

The role of finance in the Business Cycle

The Associated Vulnerabilities

Some Policy Proposals

Thus the report is critical

My Comments (taken from Mr Rumsfeld guidelines) on the topic

Things that we know (“The known knowns”)

Things that we know that we don't know
 (“The known Unknowns”)

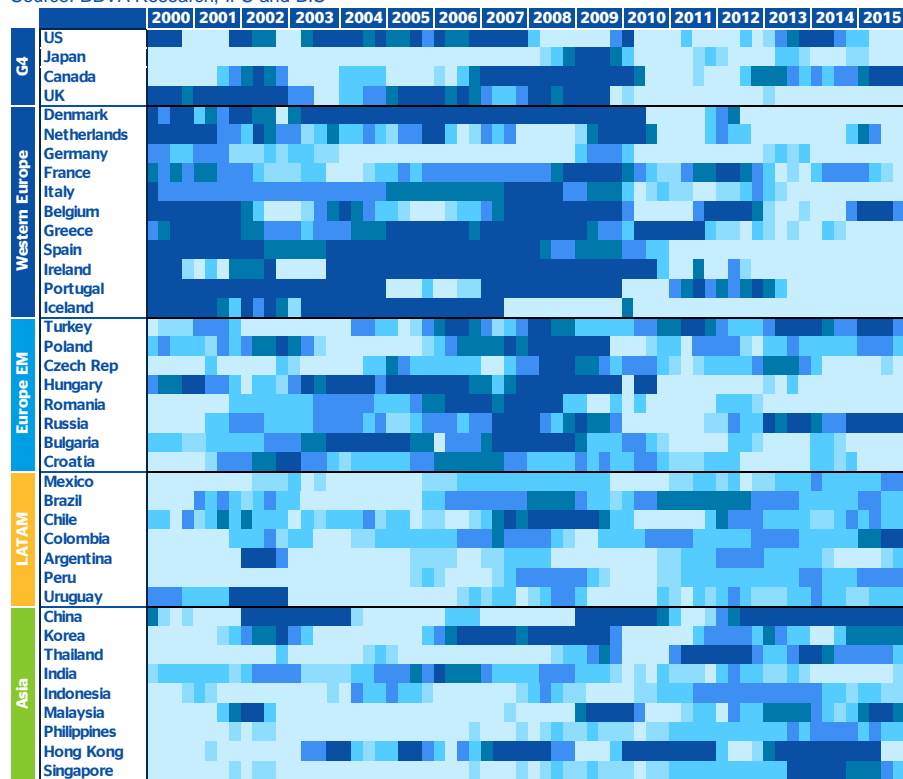
Things that we don't know that we don't
 know (“The Unknow Unknowns”)

The Know Knowns?: Excess Credit usually leads to problems...

Private credit color map (2000-2015 Q4)

(yearly change of private credit-to-GDP ratio (YoY))

Source: BBVA Research, IFS and BIS



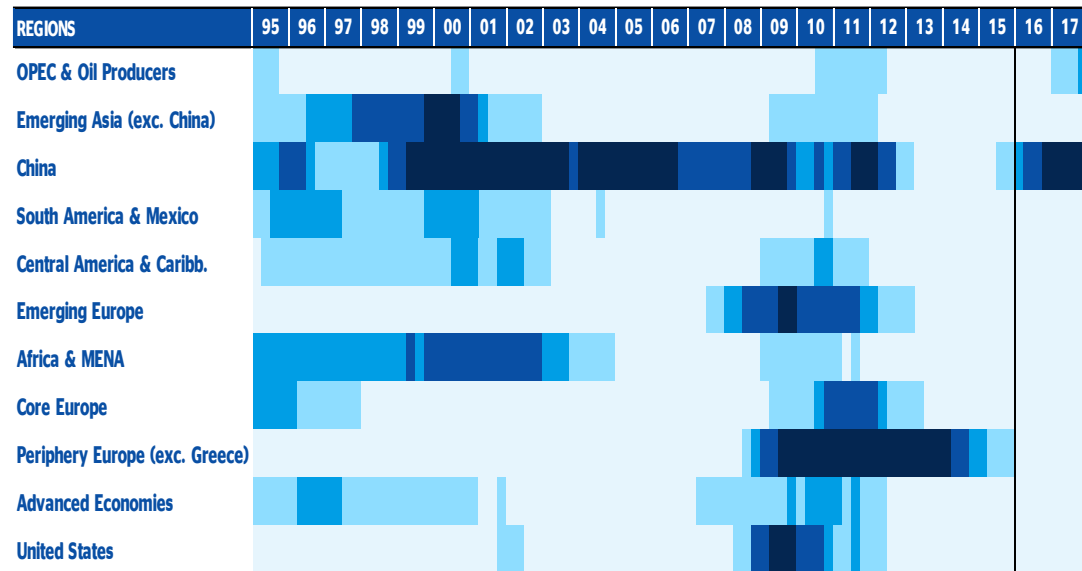
Booming: Credit/GDP growth is higher than 7%
 Excess Credit Growth: Credit/GDP growth between 5%-7%
 High Growth: Credit/GDP growth between 3%-5%
 Mild Growth: Credit/GDP growth between 1%-3%
 Stagnant: Credit/GDP is declining between 0%-1%
 De-leveraging: Credit/GDP growth declining
 ... Non Available

Early warning system (EWS) of Banking problems

Probability of Systemic Banking Crisis (based on 8-quarters lagged data*):

*The probability of a crisis in Q4-2016 is based on Q4-2014 data.

Source: BBVA Research



Safety Signal
 Warning Signal
 Medium Risk
 High Risk
 Very High Risk

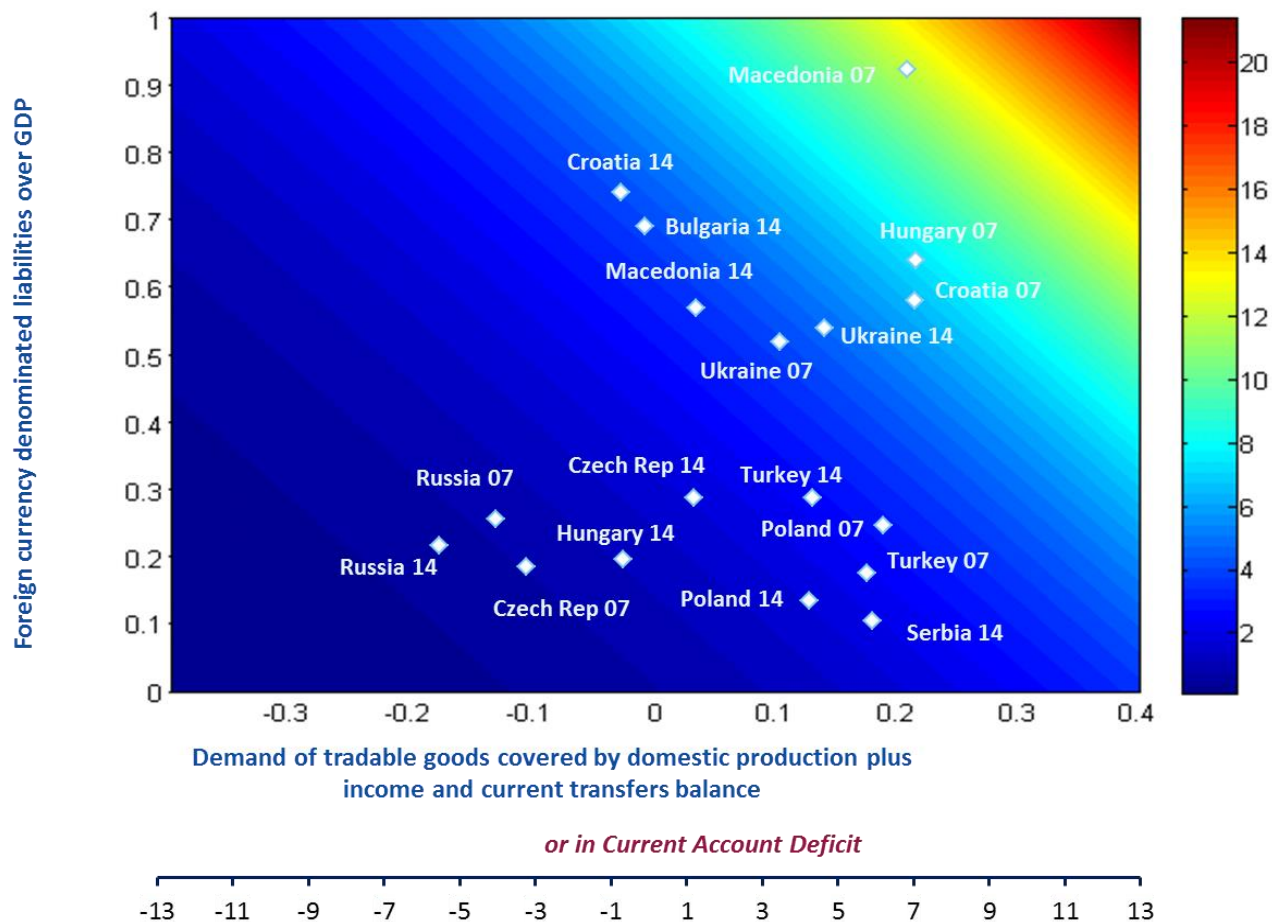
The Know knows?: Combined with Liability Dollarization is an explosive cocktail (Deja vu!!)...

Foreign Currency Liabilities and Probability of Sudden Stop

Probability of Systemic Banking Crisis (based on 8-quarters lagged data*):

*The probability of a crisis in Q4-2016 is based on Q4-2014 data.

Source: BBVA Research

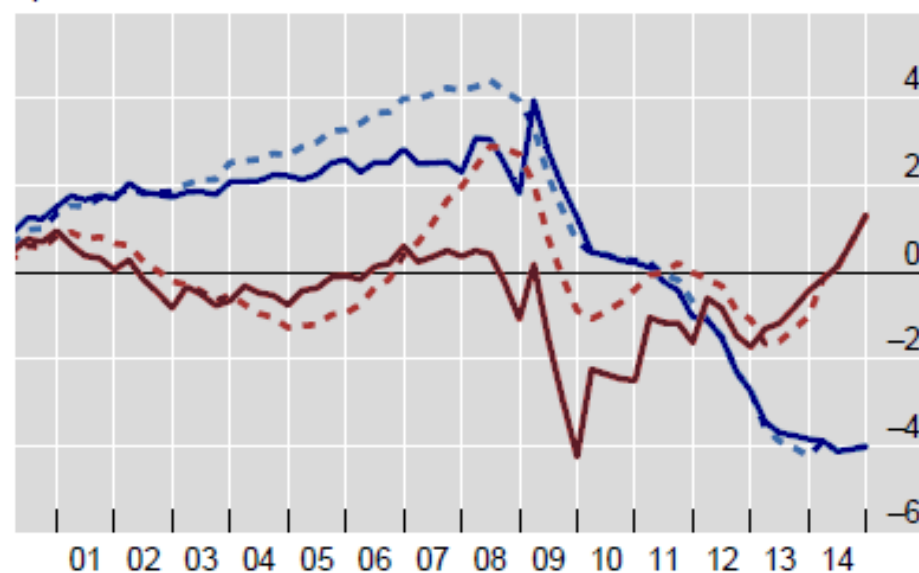
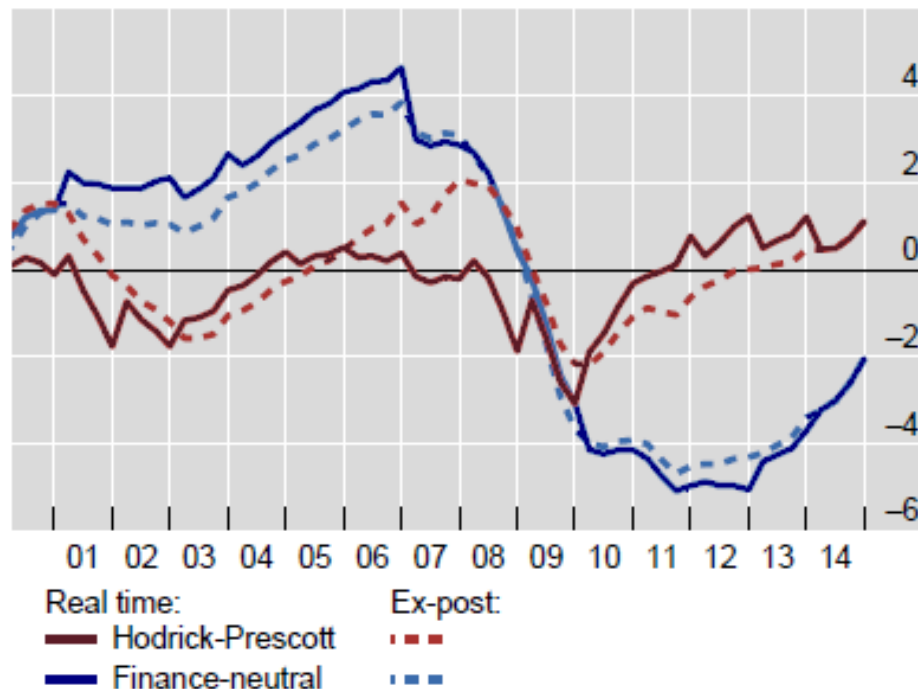


The Known Unknowns?: Mind the Gap but which one...

Alternative Output Gap Measures

(% GDP)

Source: Borio, Lombardi and Zampolli

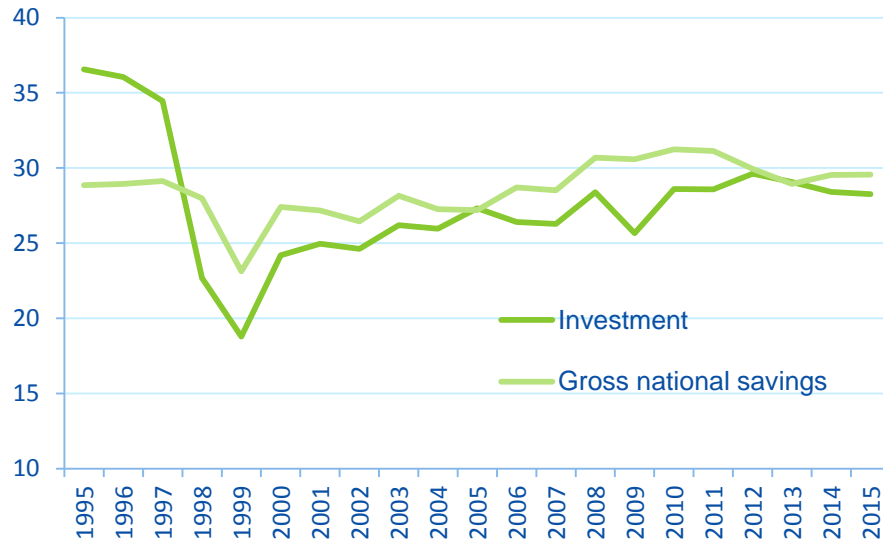


The Known Unknowns?: How persistent will be the investment slump (hysteresis)

ASEAN 4: Saving and Investment

(% GDP)

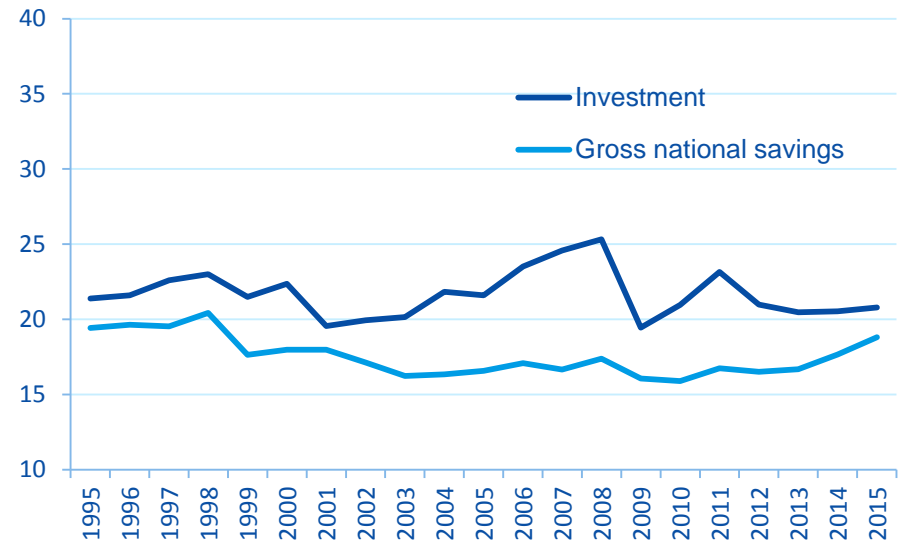
Source: IMF



EM Europe: Saving and Investment

(% GDP)

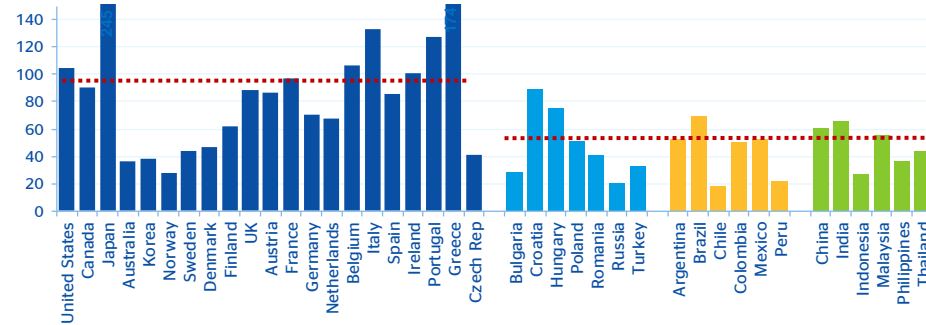
Source: IMF



The Know Unknowns?: How debt is constraining the economic recovery

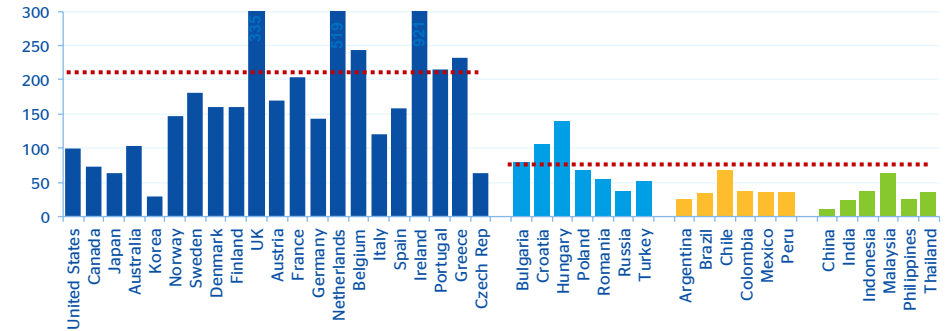
Gross Public Debt 2015

(% GDP)
Source: BBVA Research and IMF



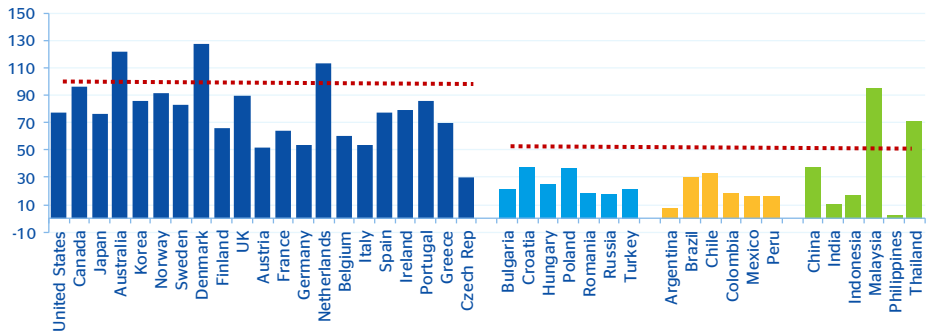
External Debt 2015

(% GDP)
Source: BBVA Research and IMF



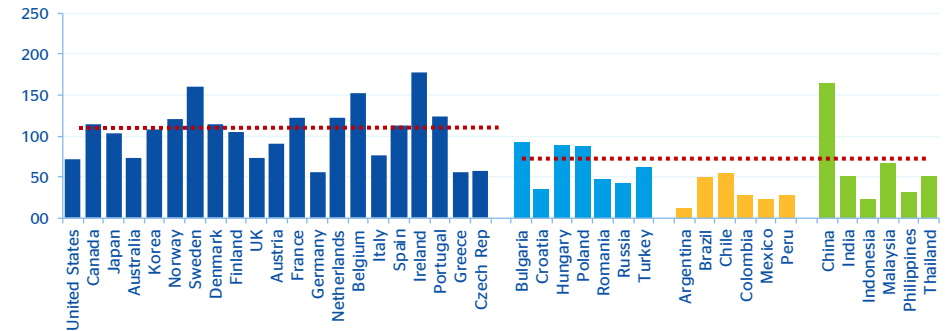
Household Debt 2015

(% GDP)
Source: BBVA Research and BIS



Corporate Sector Debt 2015

(% GDP, excluding bond issuances)
Source: BBVA Research and BIS

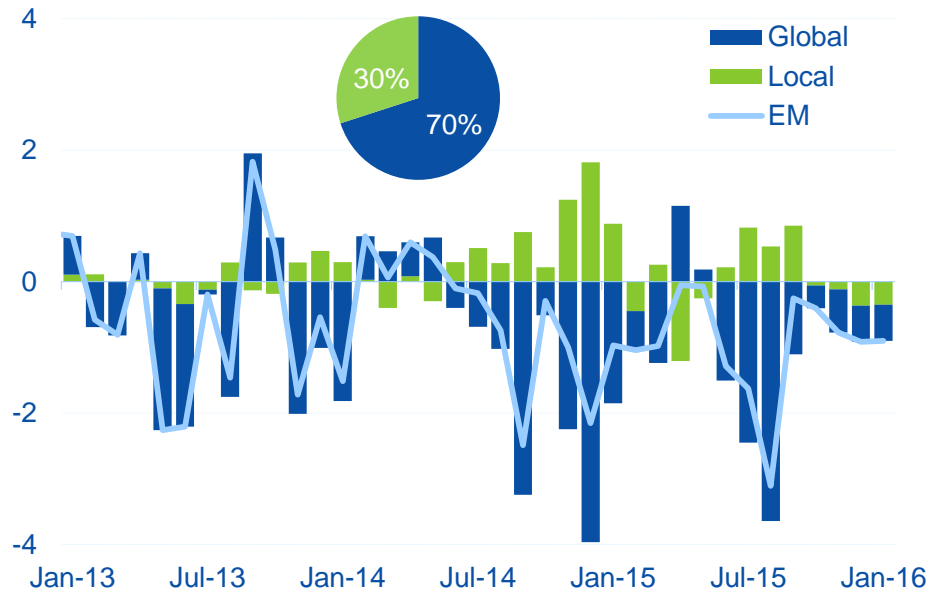


..... Risk thresholds

The Known Unknowns?: What is being the role of “global push factors” in Capital Flows ?

Emerging Markets Flows

(Median Emerging Market Portfolio Flow Decomposition, monthly change in %)

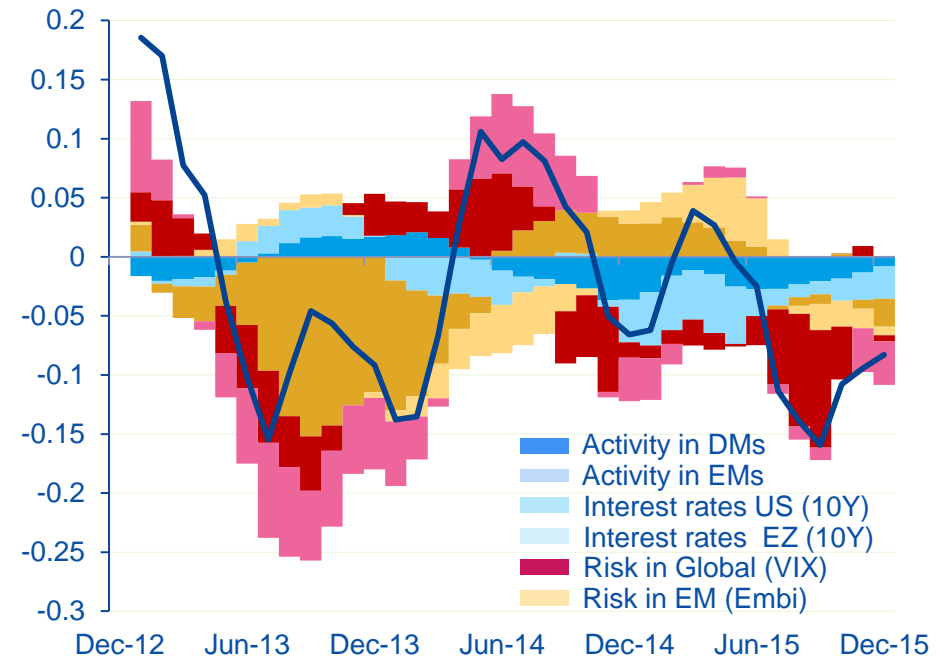


(*) Increased redeemable funds acting at shorter horizons exacerbate the movement as less pension and insurance long term funds give leeway to more Open End MFs and ETFs

Source: BBVA Research

BBVA Global Factor of Portfolio Flows Decomposition

(First Factor from Flows using BBVA’s represents the main driver of flows)



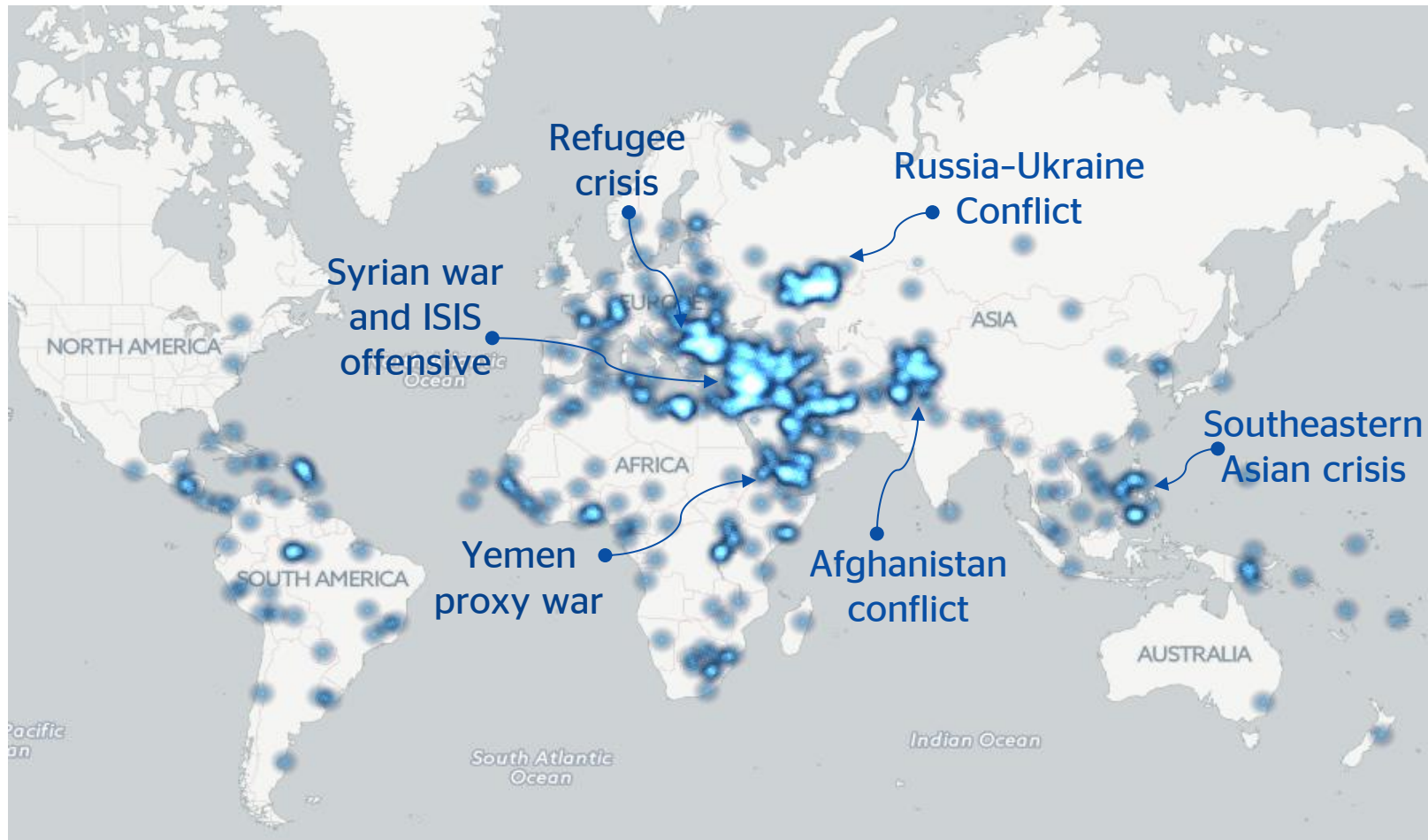
Source: BBVA Research

The Unknow Unknowns: Geopolitical and social trends

BBVA World Conflict Heatmap (2H 2014)

(Number of conflict / Total events)

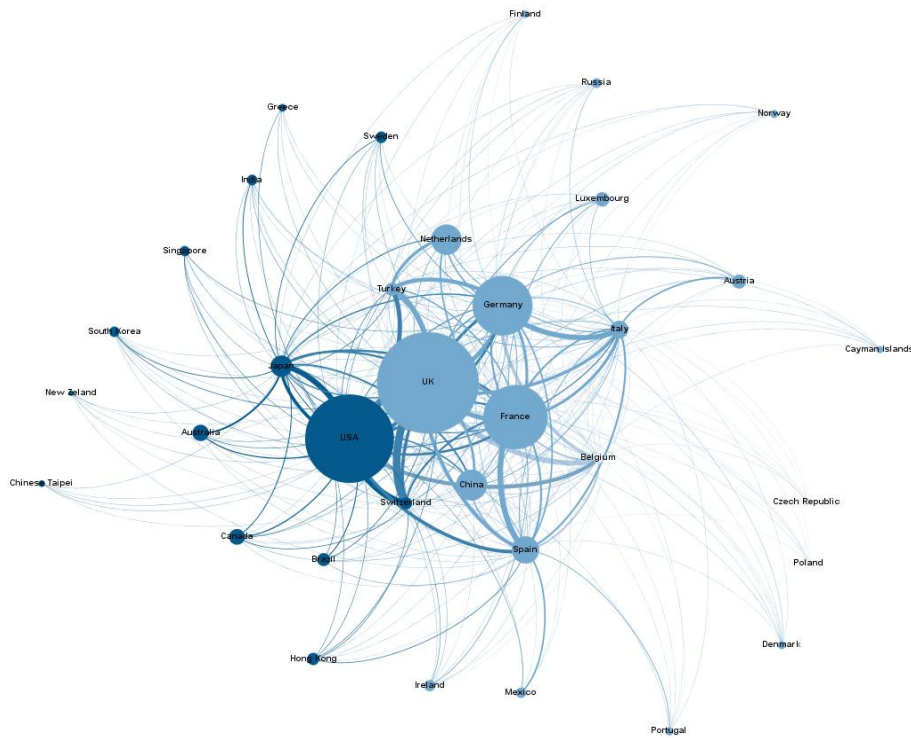
Source: www.gdelt.org & BBVA Research



The Unknown Unknowns?: Interconnectedness in the system

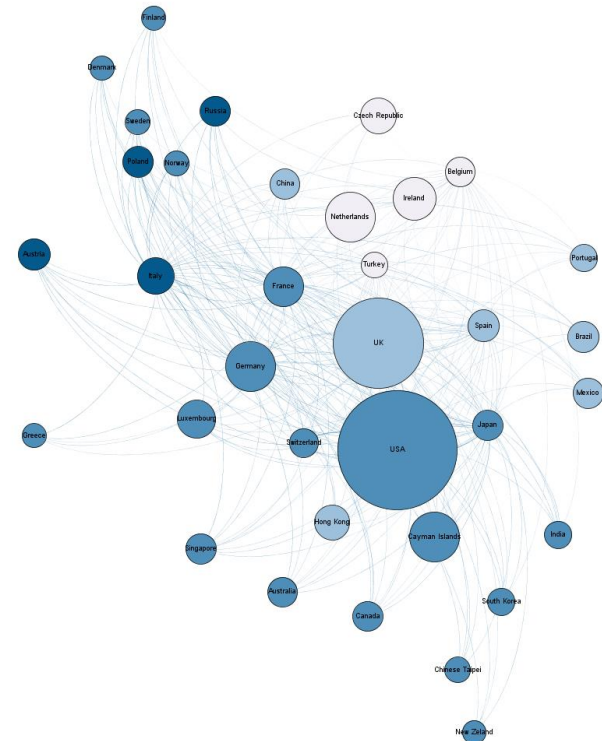
Example Banking Network

Source: BBVA Research & BIS CBS Table 9E



Example Private Non Banking Financial Network

Source: BBVA Research & BIS CBS Table 9E



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