

# Hitting the ceiling or on track for a new normal?

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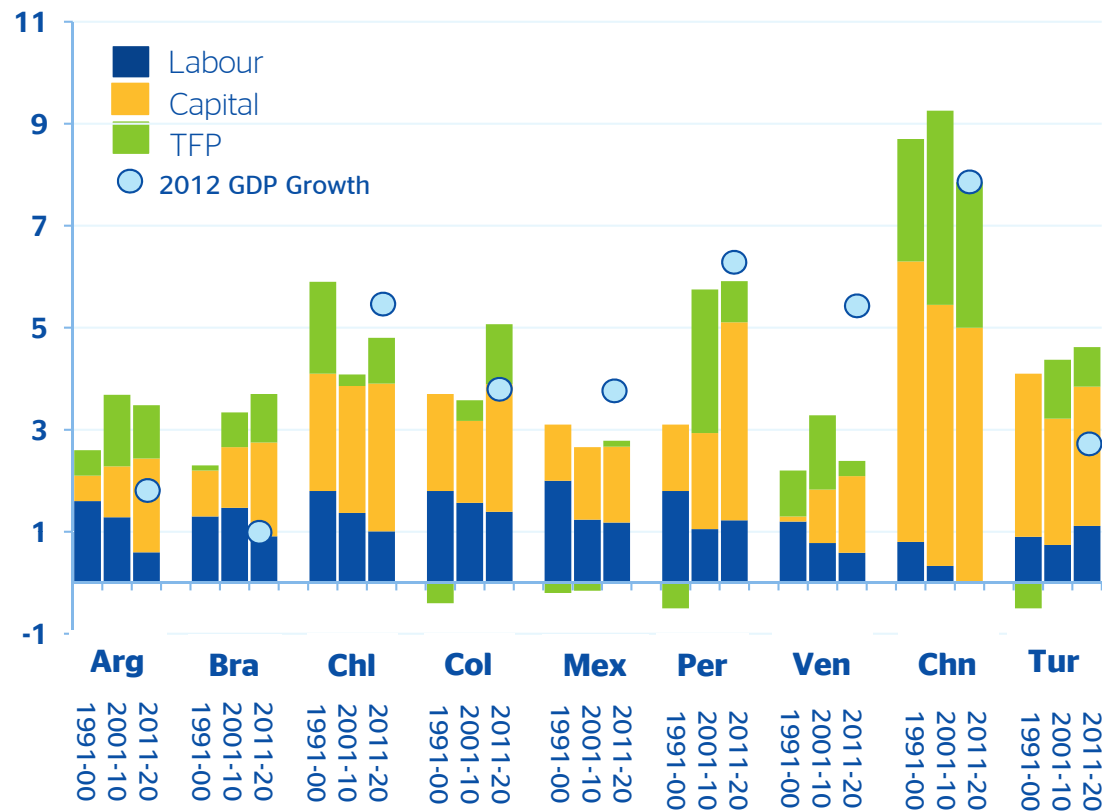
**30 May 2013**  
**EmNet Meeting "Out of the Woods?"**

# New Normal in long run growth accounting?

## Higher productivity but still factor accumulation (labour) bias...

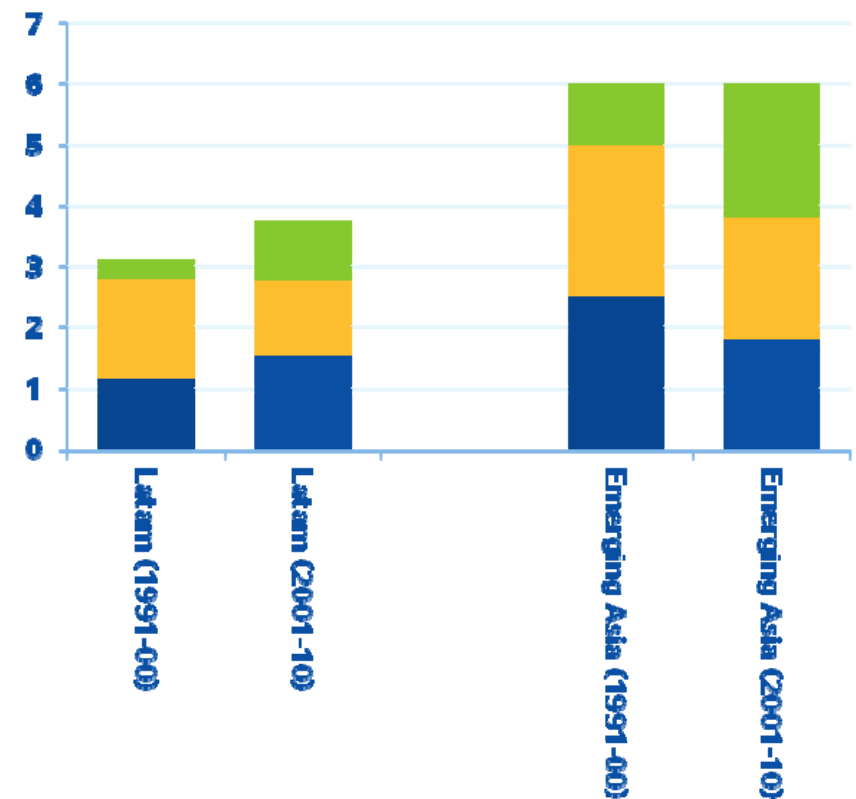
### Potential Output Contributions

(in %)  
Source: BBVA Research



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(in %)  
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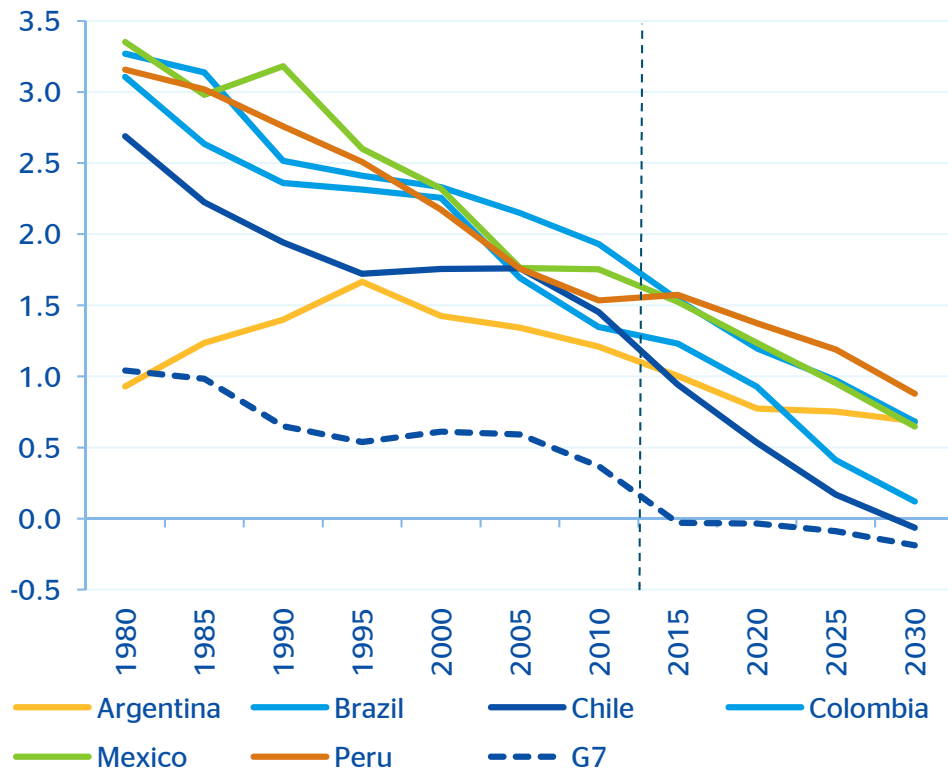


This must change to avoid the slowdown as labor drivers are not promising...

### Working Age Population

(% yoy)

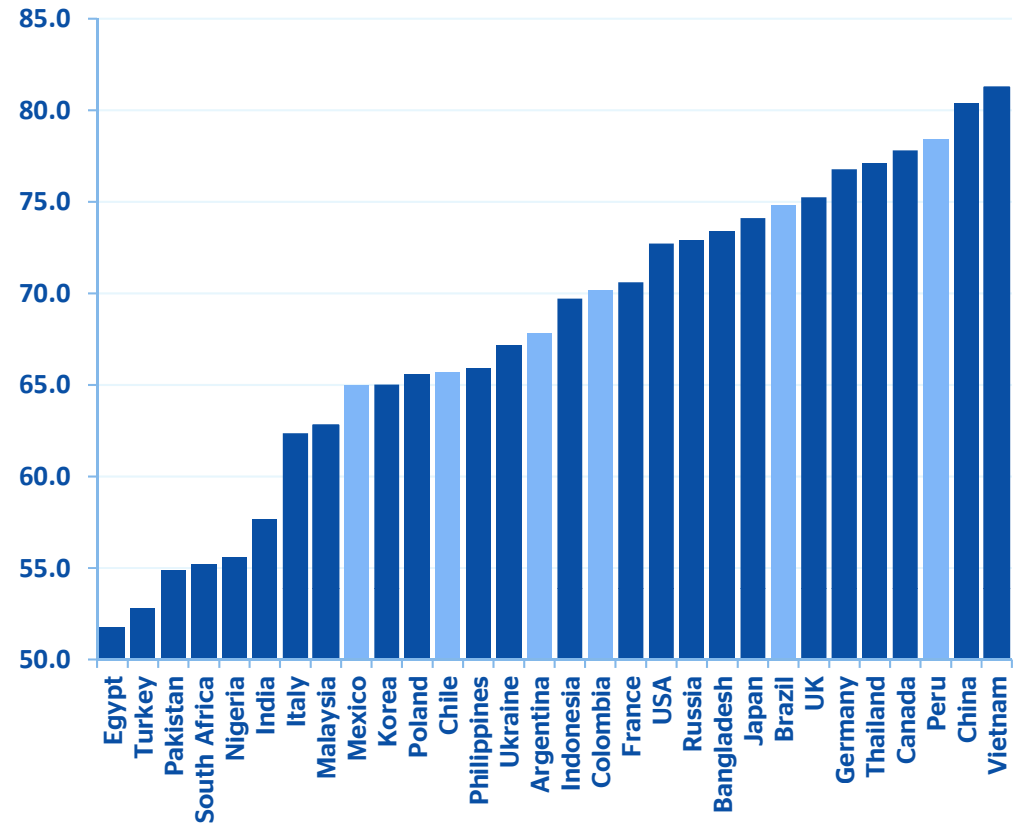
Source: BBVA Research



### Labor Participation Rates

(% yoy)

Source: BBVA Research

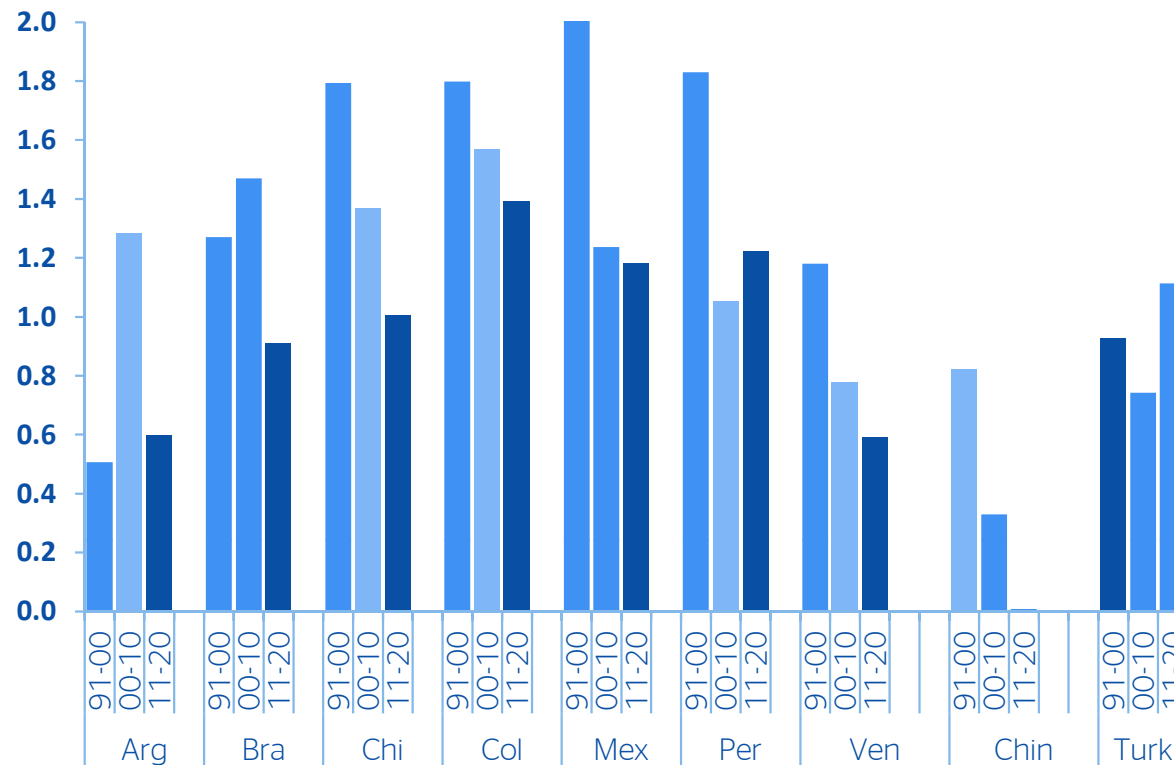


# Lower labor contribution will slow down potential growth

## Labour Contributions to potential output

(in %)

Source: BBVA Research

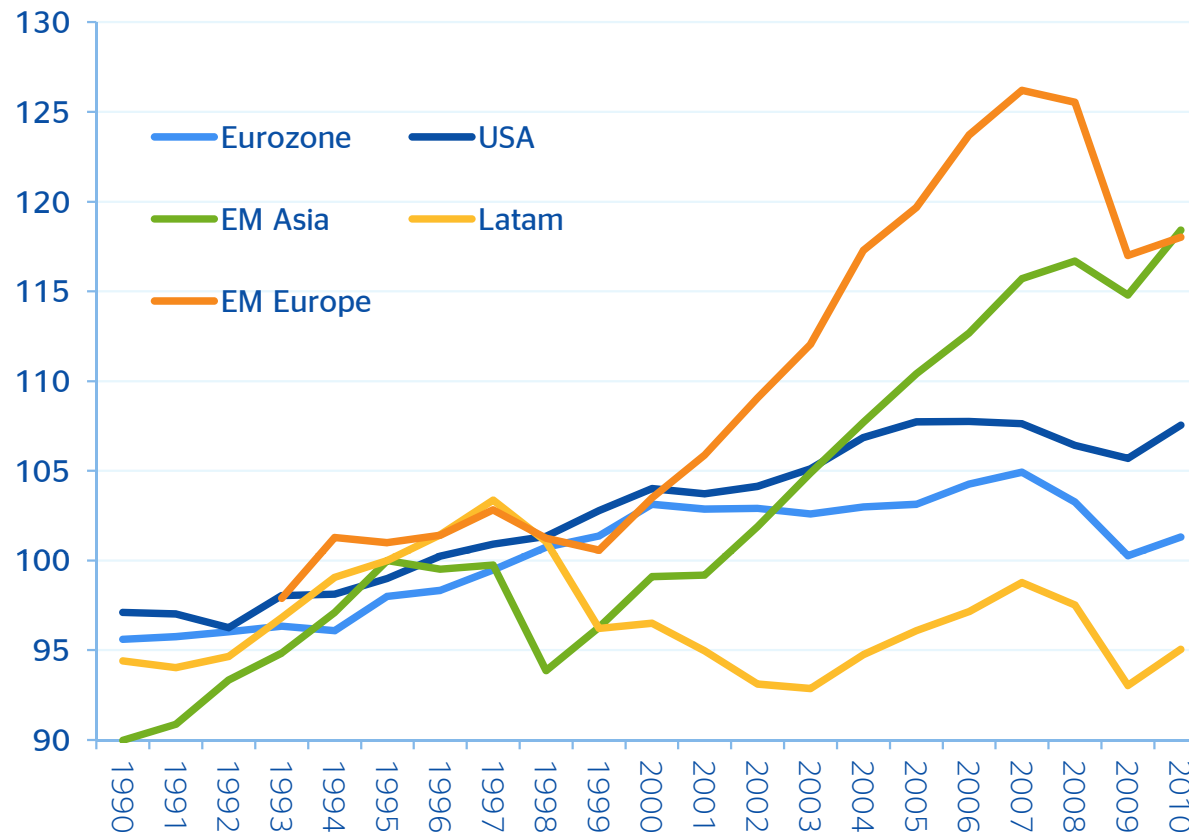


# Total Factor Productivity is improving But LATAM shows worrisome trend

## Total Factor Productivity

(1995=100, median countries)

Source: Economydatabase conference board

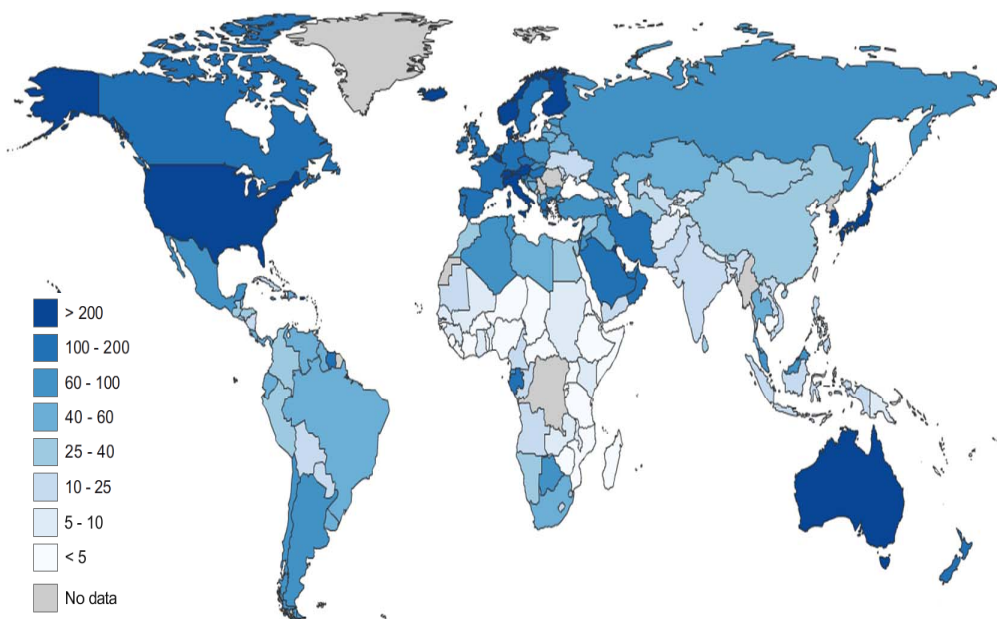


# However, the contribution of capital should improve, at least based on needs....

## Capital Stock per Worker 2010

(in constant 2005 international \$, 000s)

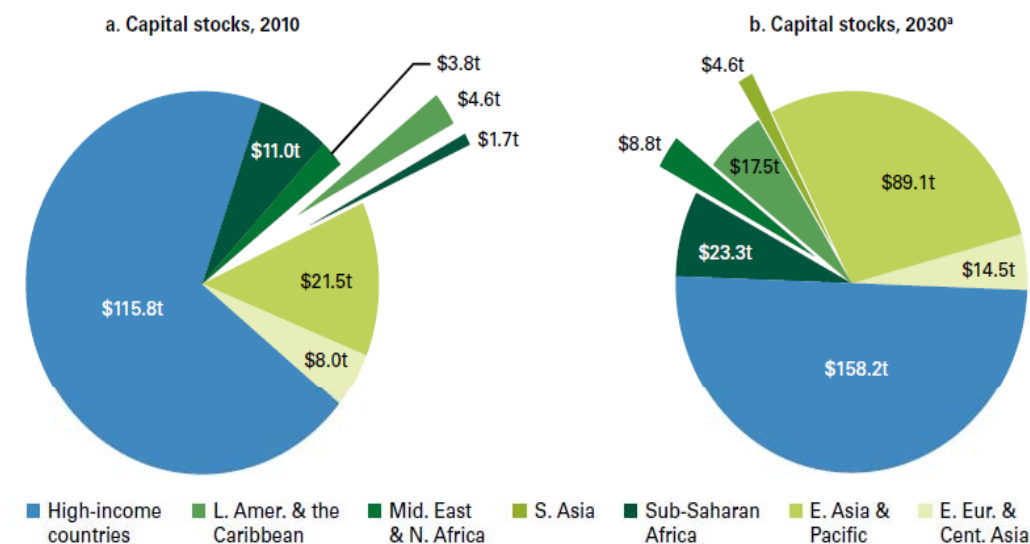
Source: World Bank



## Capital Stock 2010 and 2030

(in US\$ tr (2010) and 2010 US\$ tr)

Source: World Bank Capital for Future



Source: World Bank projections.

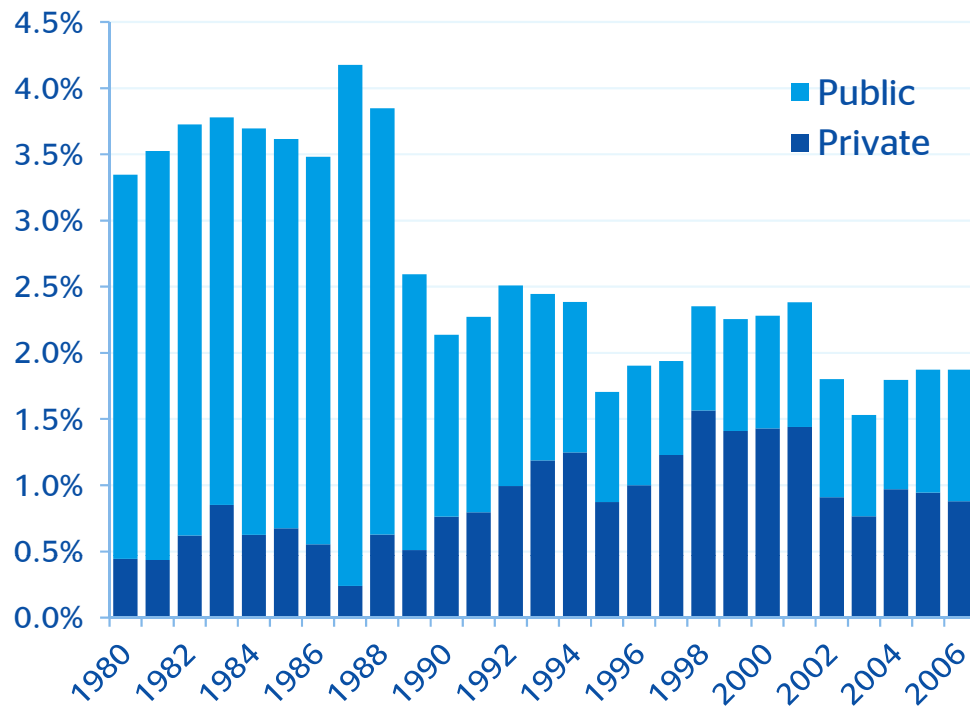
Note: Capital stocks are calculated using a perpetual inventory method with a constant depreciation rate of 5 percent.

a. Panel b projections assume a gradual convergence scenario of annual world economic growth of 2.6 percent over the next two decades, of which developing (high-income) growth will average 5.0 (1.0) percent annually.

# Infrastructure is probably the best example

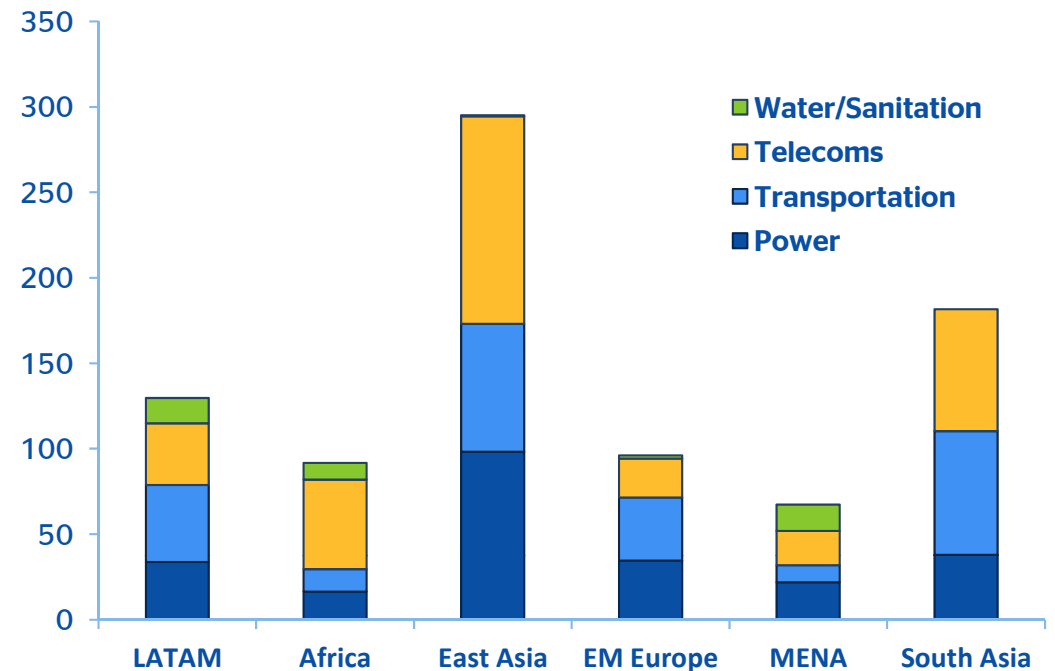
## LatinAmerica: Infrastructure Investment

(% of GDP)  
Source: World Bank



## EM: Annual Regional Infrastructure Needs to 2030

(US\$ billions)  
Source: World Bank Capital for Future

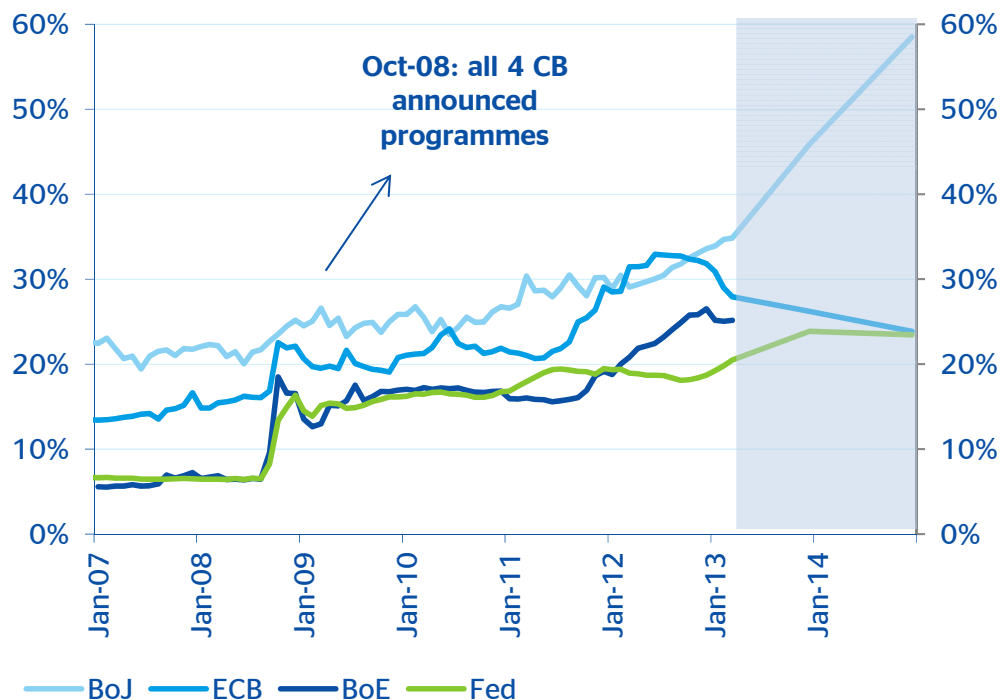


# Will the capital needed be financed? QE to the rescue!

## Balance sheets of major central banks

(as % of GDP)

Source: Bloomberg and BBVA Research



## Central banks balance sheet

(% GDP and Local Currency)

Source: Bloomberg and BBVA Research

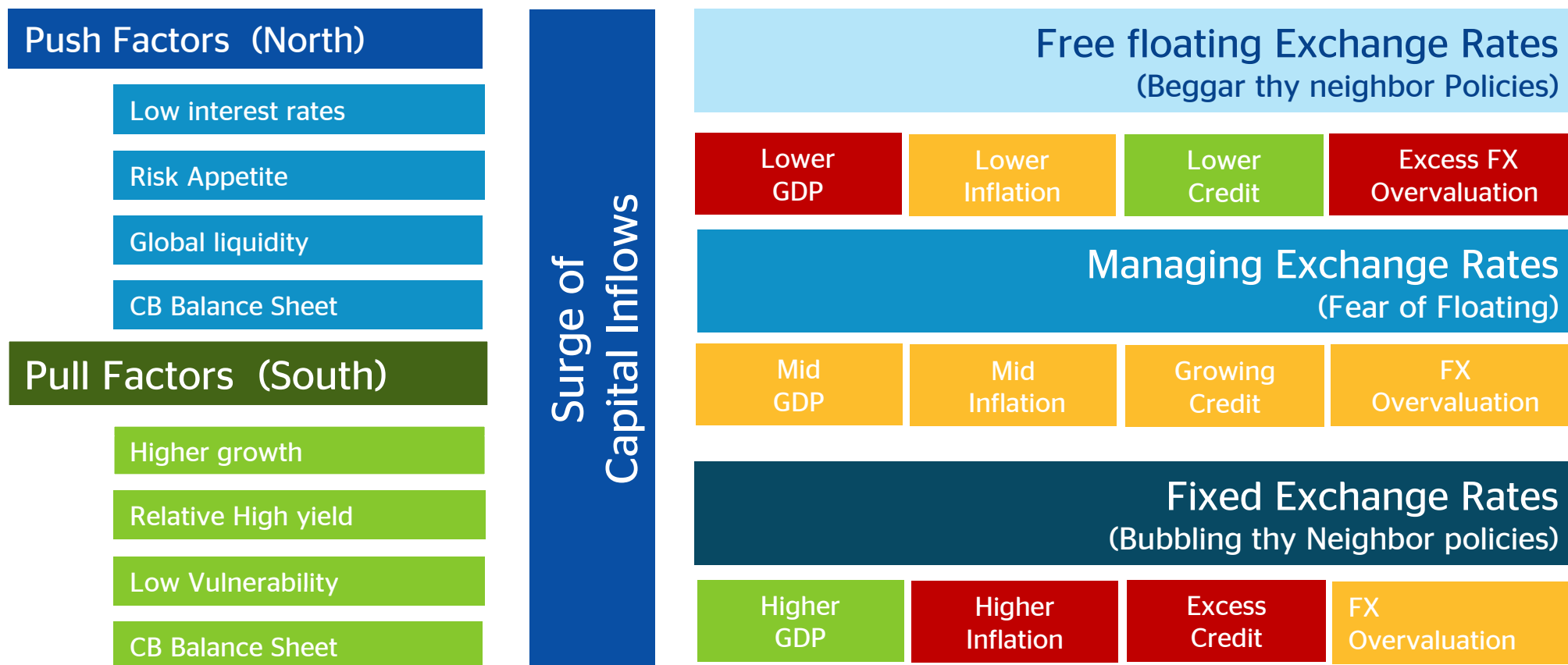
	Jan-07	Mar-13	Dec-13 (Forecast)	Dec-14 (Forecast)
<b>% GDP</b>				
BoJ	22%	35%	46%	59%
ECB	13%	28%	26%	24%
BoE	6%	25%		
Fed	7%	20%	24%	23%
<b>Local currency</b>				
BoJ (bn Yen)	114.622	164.312	220.112	290.112
ECB (bn. Euros)	1.148	2.648	2.512	2.340
BoE (bn pounds)	79	404		
Fed (bn USD)	896	3.249	3.872	3.996



# Western Quantitative Easing will oblige EMEs to choose between difficult options

## Surge in Capital Flows: Origins, Options and Vulnerabilities

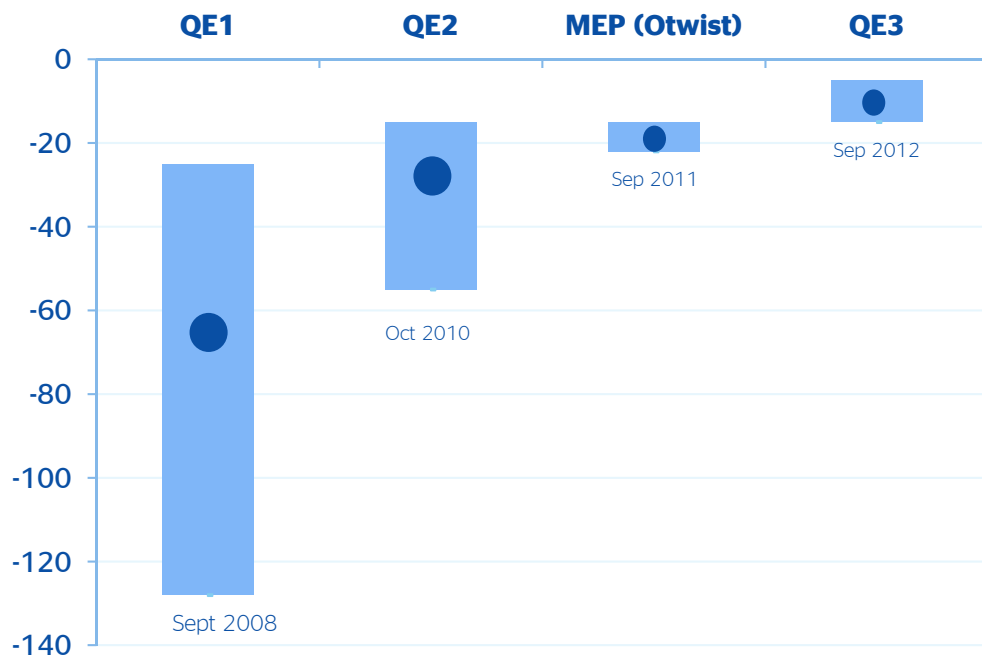
Source: EPFR and BBVA Research



# Push factors from western CB's have been supporting... (Bubbly thy neighbour?)

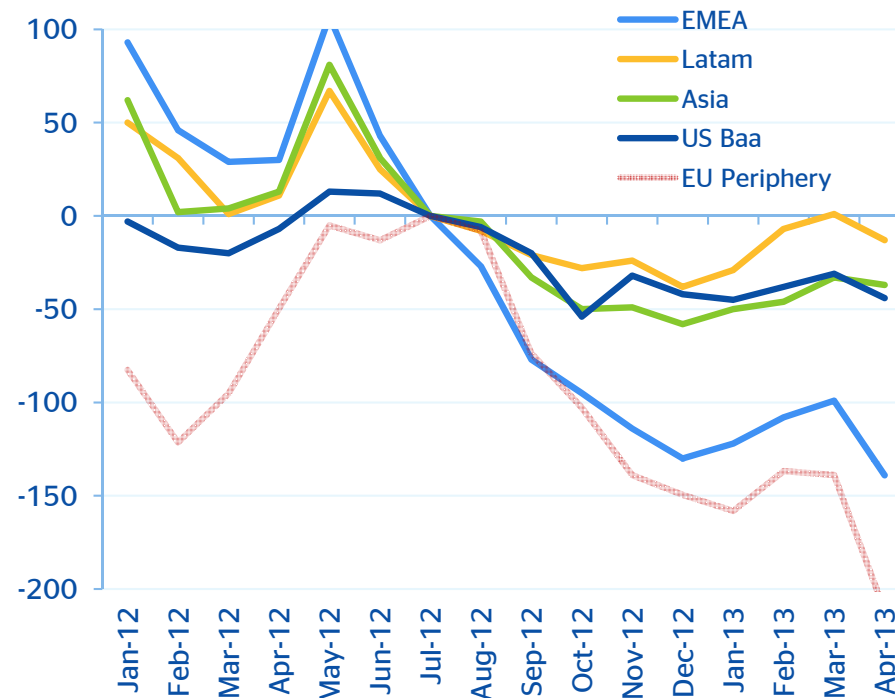
## The Impact of Large Scale Asset Purchases in 10 Yr Treasury bill

Source: BBVA Research Through several FED empirical studies



## EM Risk premiums changes after Dragui's and QE3 announcements (july 2012=0)

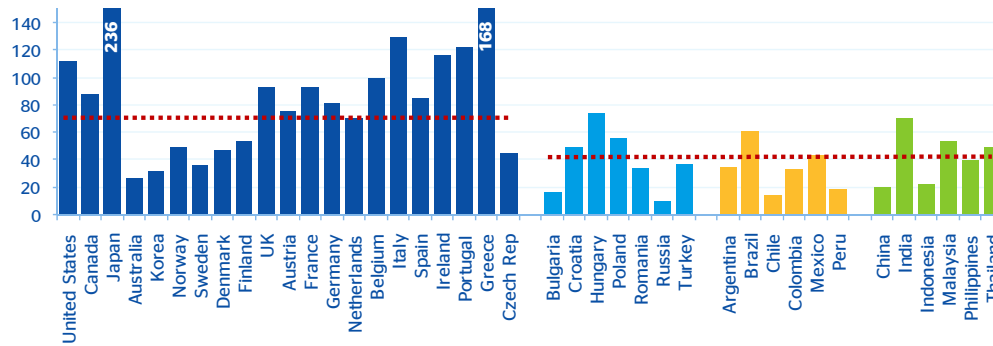
Source: BBVA Research and Haver



# But also EM “pull” factors. Lower vulnerability is also part of the New Normal

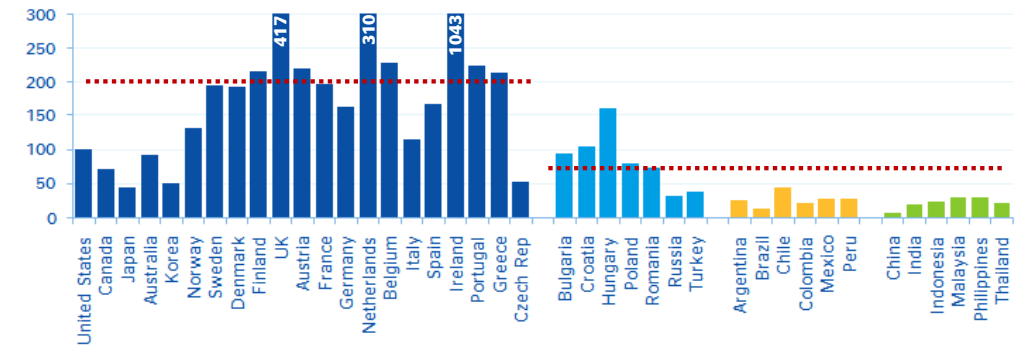
## Gross Public Debt 2013 (% GDP)

Source: BBVA Research and IMF



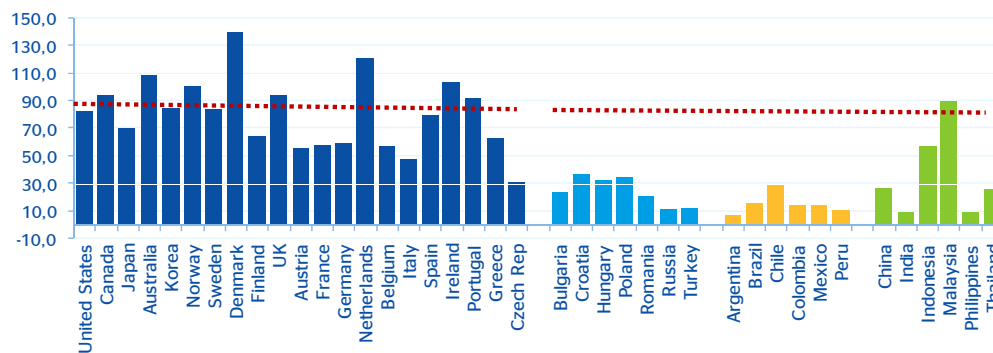
## External Debt 2013 (% GDP)

Source: BBVA Research and IMF



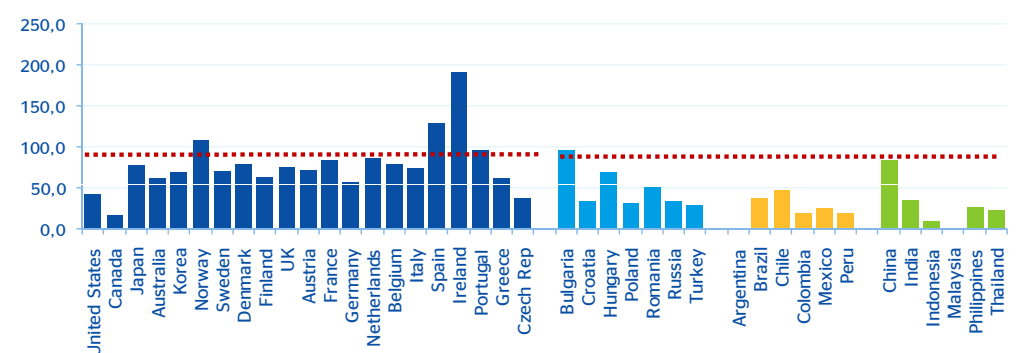
## Household Debt 2013 (% GDP)

Source: BBVA Research and IMF



## Corporate Sector Debt 2013 (% GDP)

Source: BBVA Research and IMF



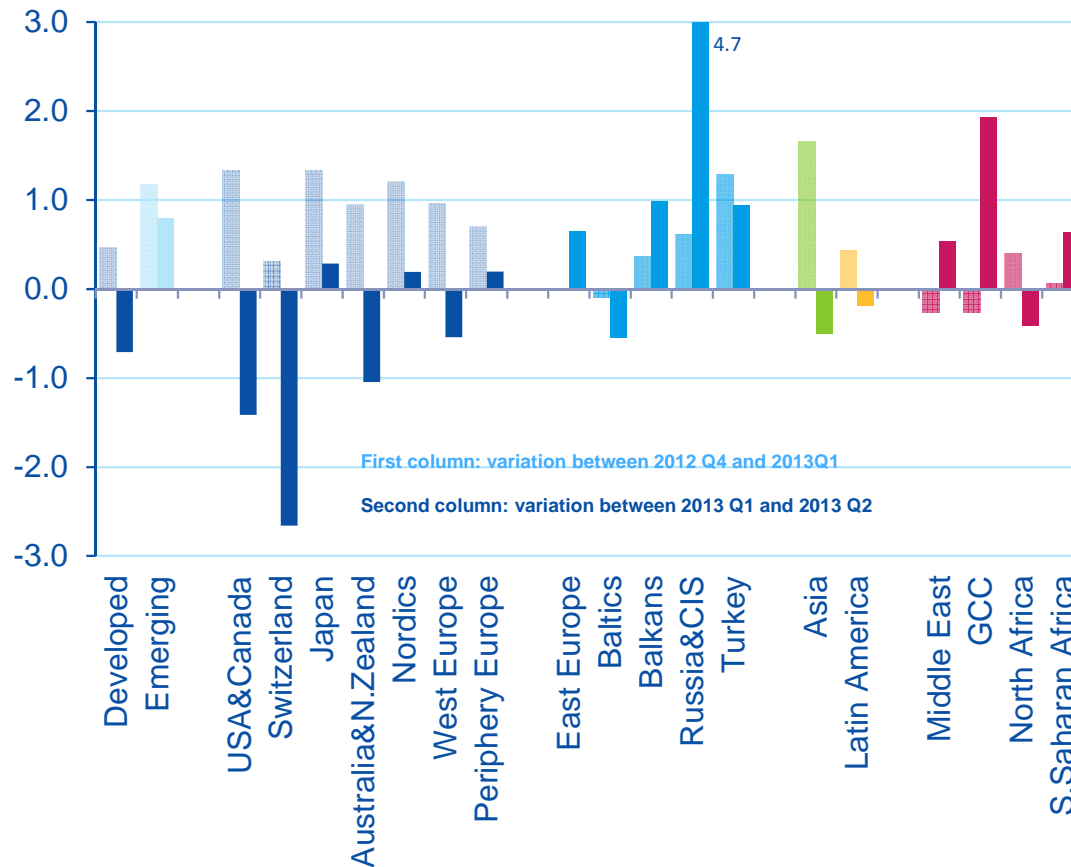
..... Risk Thresholds

# Portfolio Flows have surged...

## Equity and Bond Flows 1Q13 - 2Q13

(change in average flows between quarters)

Source EPFR and BBVA RESEARCH

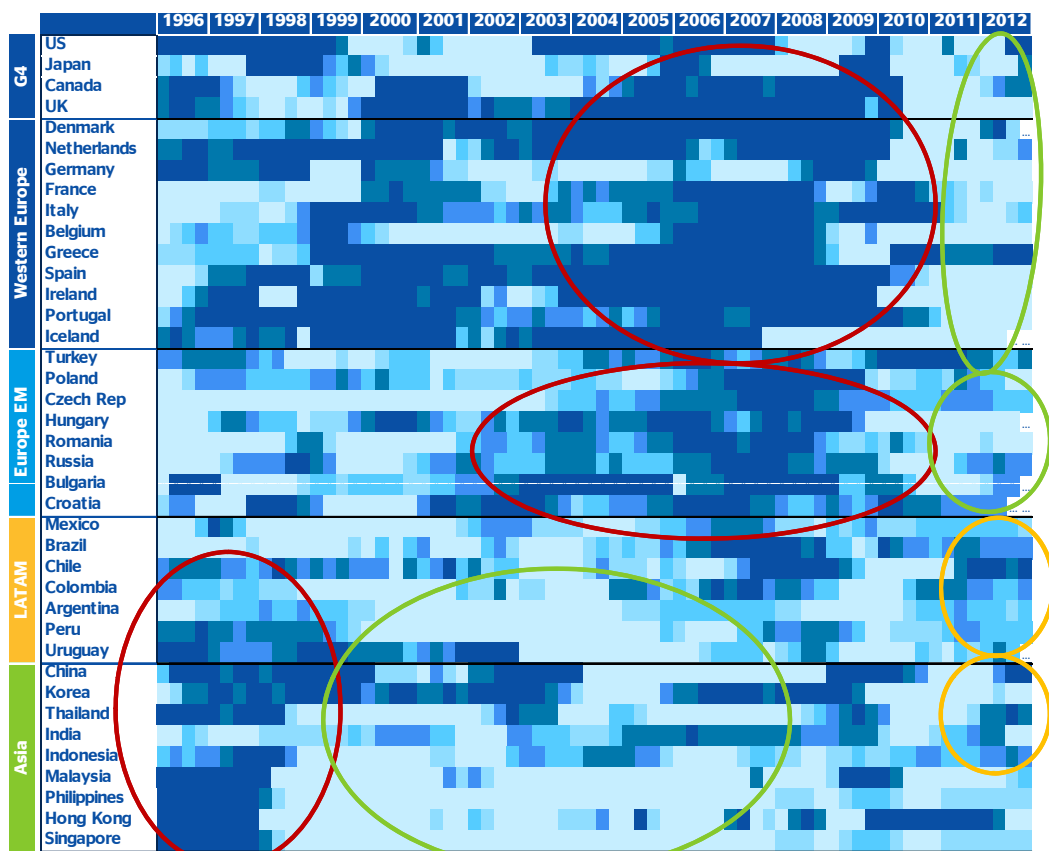


# Collateral damage of QE in EM should be closely monitored: mainly a “bubbling thy neighbour” story as most of EM CBs have not allowed too much appreciation

## Private credit colour map (1996-2012 Q3)

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

Source: BBVA Research and Haver

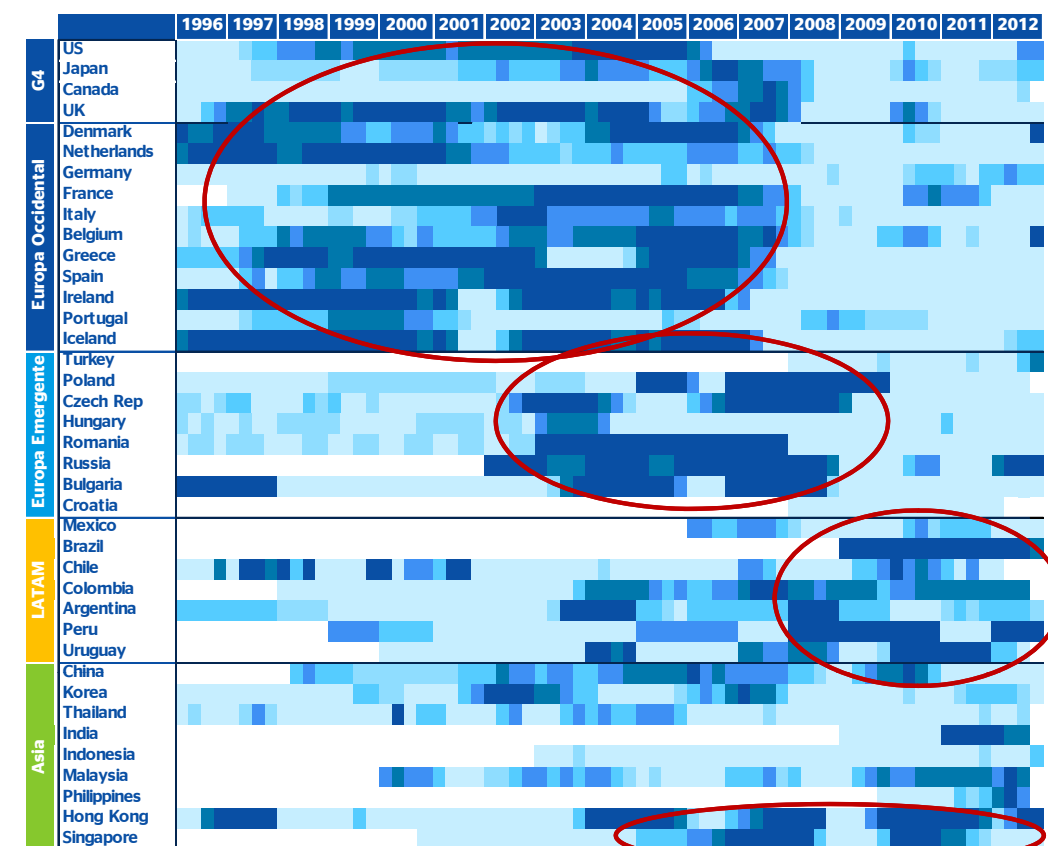


Booming: Credit/GDP growth is higher than 5%  
 Excess Credit Growth: Credit/GDP growth between 3%-5%  
 High Growth: Credit/GDP growth between 2%-3%  
 Mild Growth: Credit/GDP growth between 1%-2%  
 Stagnant: Credit/GDP is declining between 0%-1%  
 De-leveraging: Credit/GDP growth declining  
 Non Available

## Real housing prices colour map (1996-2012)

(yearly change of real housing prices)

Source: BBVA Research, BIS and Globalpropertyguide



Booming: Real House prices growth higher than 8%  
 Excess Growth: Real House Prices Growth between 5% and 8%  
 High Growth: Real House Prices growth between 3%-5%  
 Mild Growth: Real House prices growth between 1%-3%  
 Stagnant: Real House Prices growth between 0% and 1%  
 De-Leveraging: House prices are declining  
 Non Available Data

# Credit “Gaps” were excessive before both EM and Developed Crisis...

## Credit “Gap” before the EM Crisis (1997)

(credit to private sector/GDP difference from equilibrium levels)

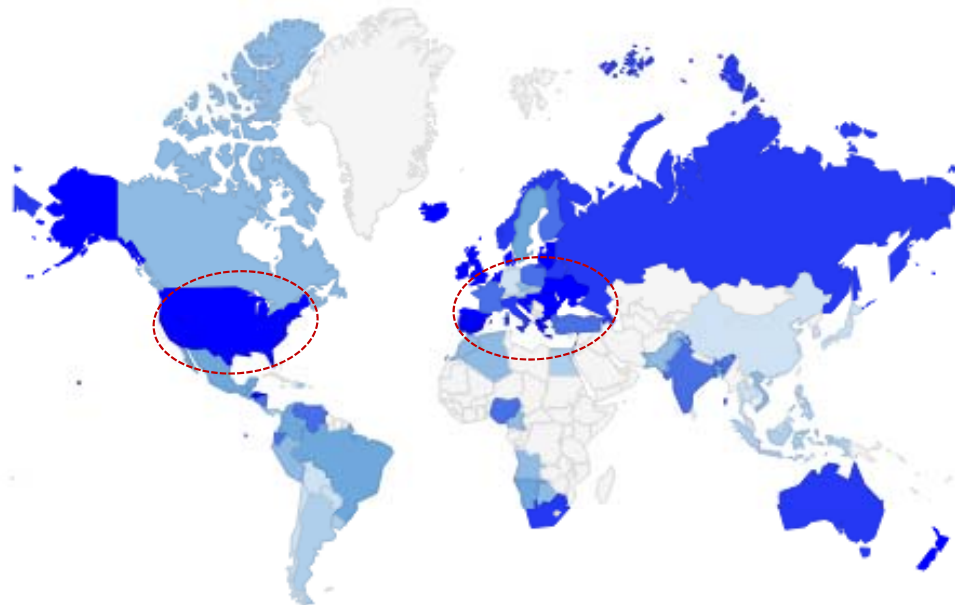
Source: BBVA Research



## Credit “Gap” before the Developed s Crisis (2007)

(credit to private sector/GDP difference from equilibrium levels)

Source: BBVA Research

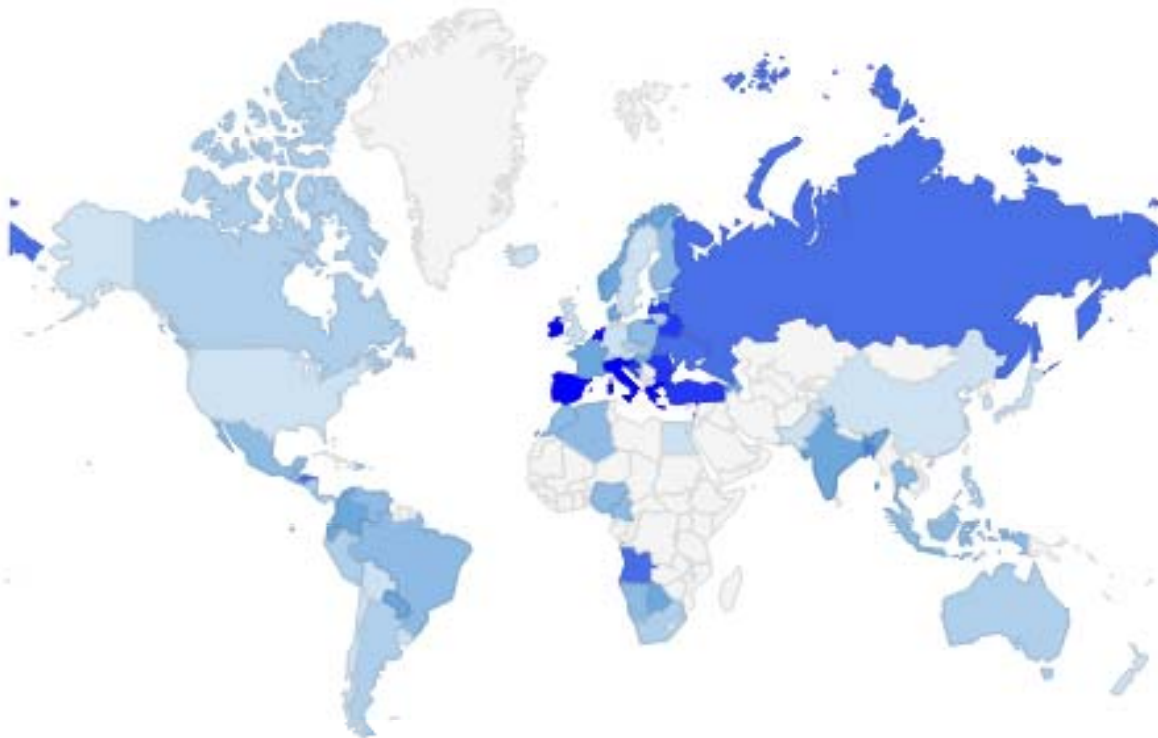


But NOT Now according to our models...  
although they can grow over time if not tackled

### Current Private Credit “Gap” (2012)

(credit to private sector/GDP difference from equilibrium levels)

Source: BBVA Research



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