

Hitting the ceiling or on track for a new normal?

Alicia Garcia-Herrero
Chief Economist Emerging Markets
BBVA Research

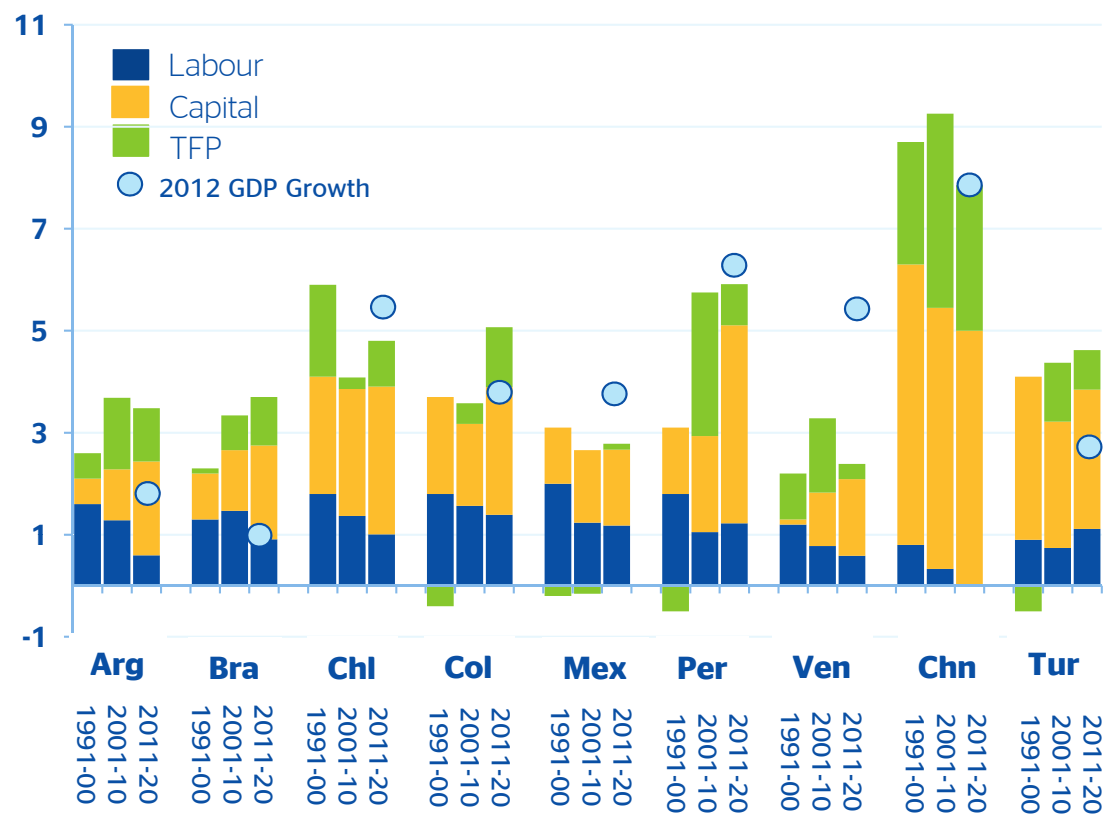
30 May 2013
EmNet Meeting "Out of the Woods?"

New Normal in long run growth accounting?

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

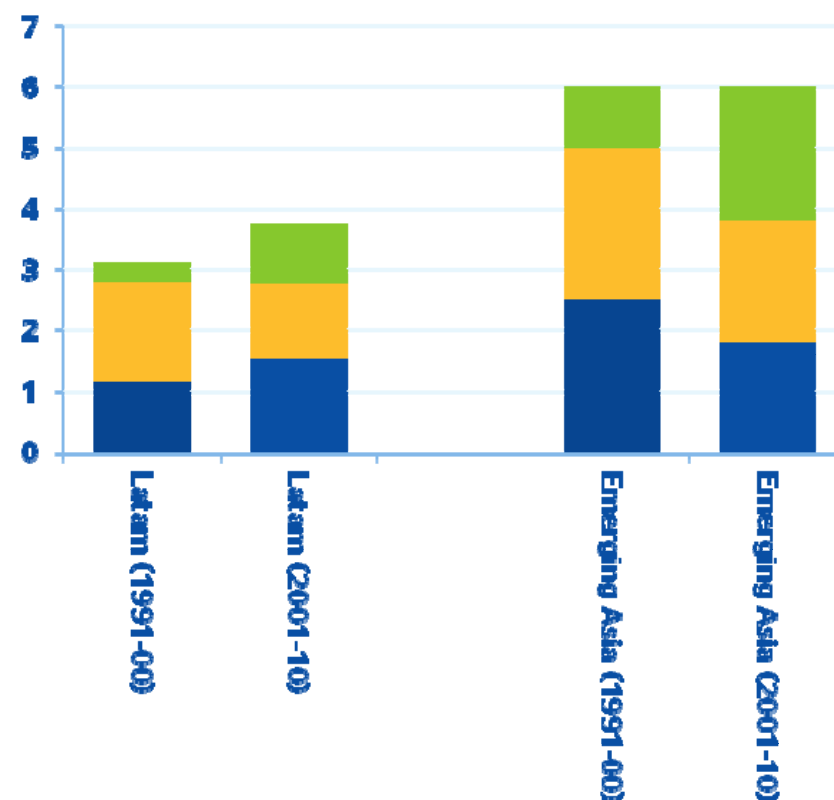
Potential Output Contributions

(in %)
Source: BBVA Research



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(in %)
Source: BBVA Research

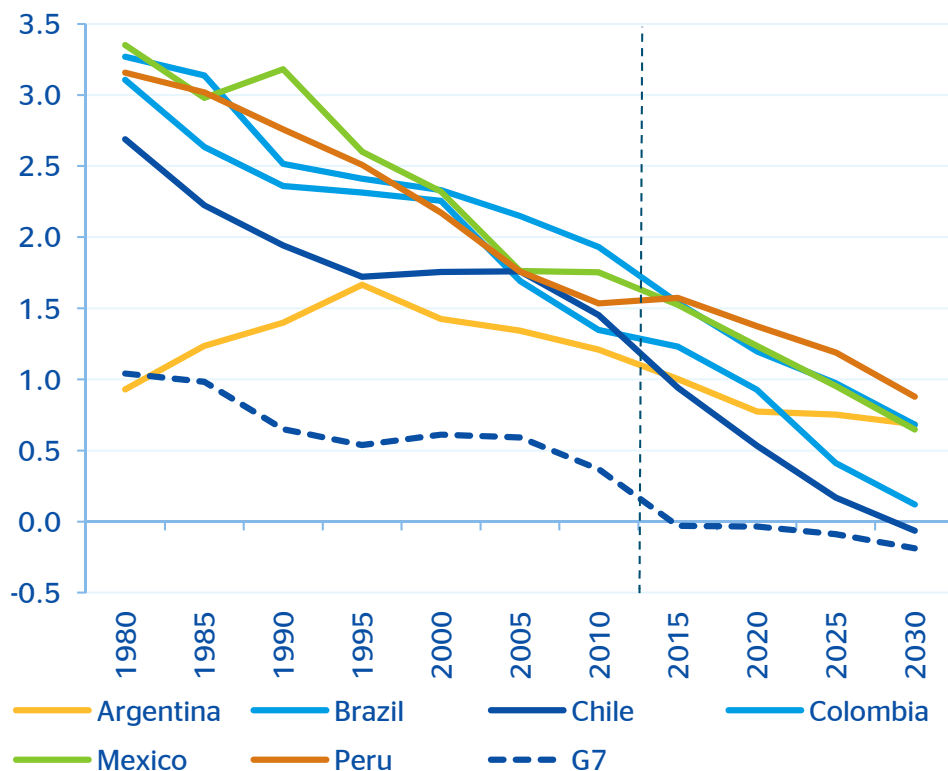


This must change to avoid the slowdown as labor drivers are not promising...

Working Age Population

(% yoy)

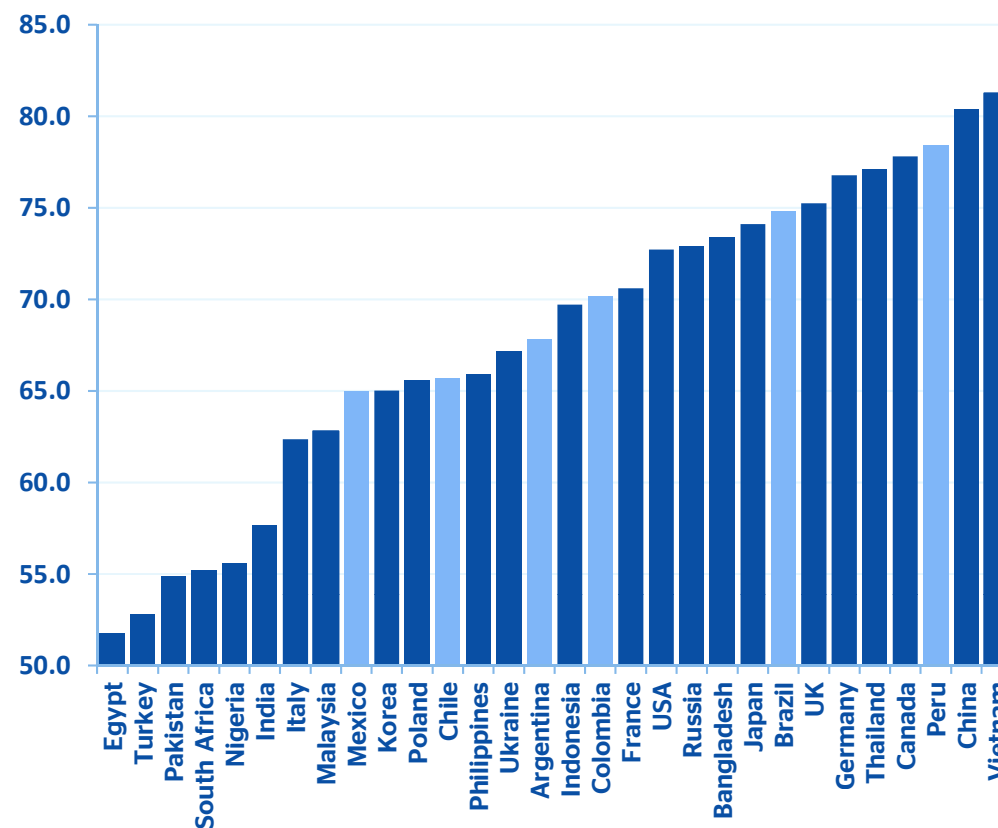
Source: BBVA Research



Labor Participation Rates

(% yoy)

Source: BBVA Research

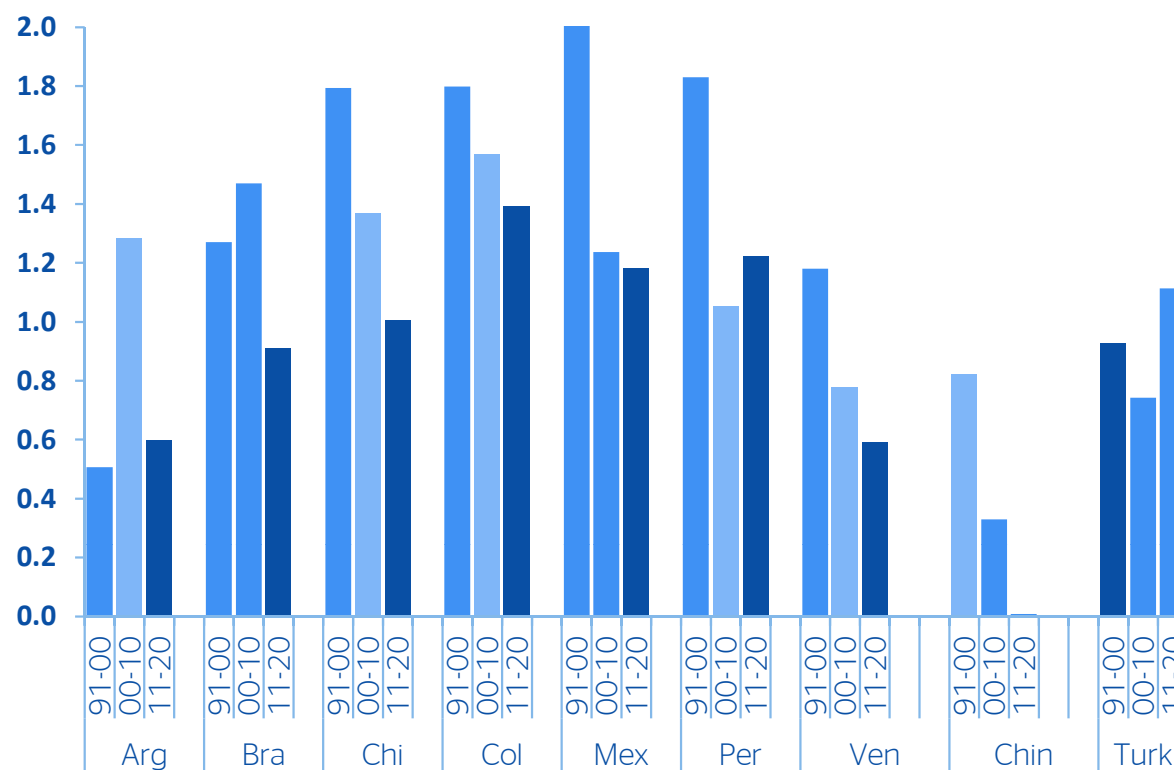


Lower labor contribution will slow down potential growth

Labour Contributions to potential output

(in %)

Source: BBVA Research

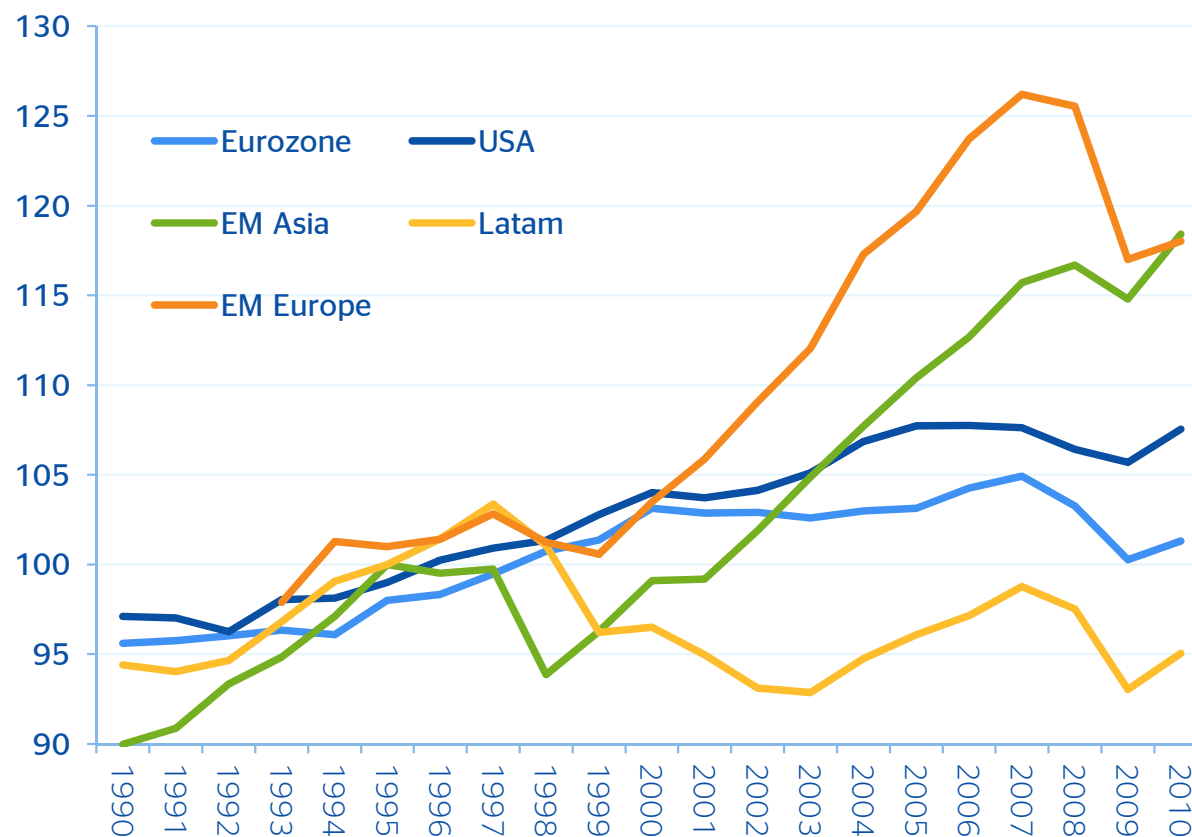


Total Factor Productivity is improving But LATAM shows worrisome trend

Total Factor Productivity

(1995=100, median countries)

Source: Economydatabase conference board

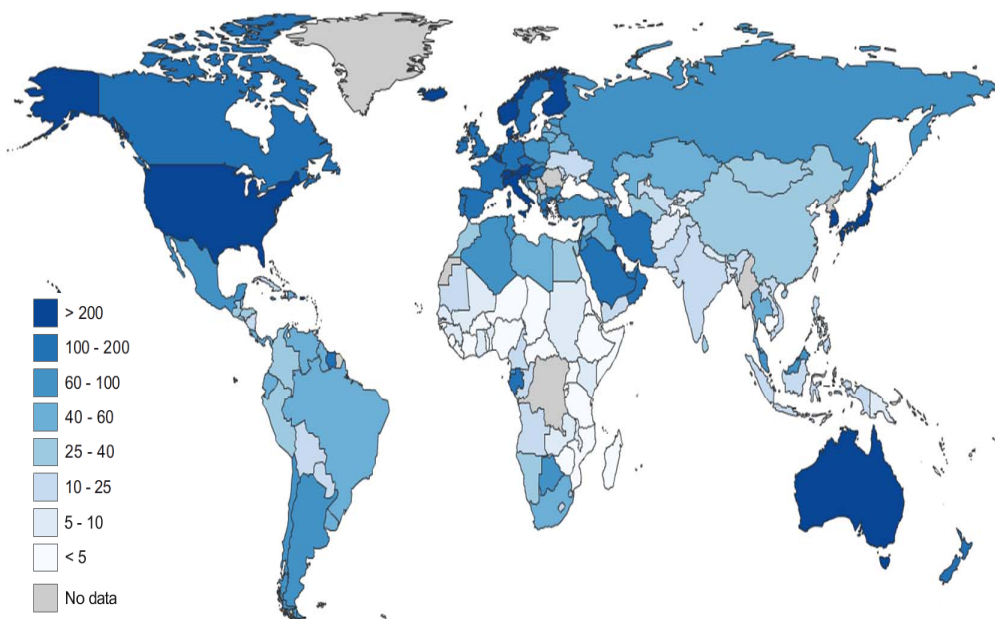


However, the contribution of capital should improve, at least based on needs....

Capital Stock per Worker 2010

(in constant 2005 international \$, 000s)

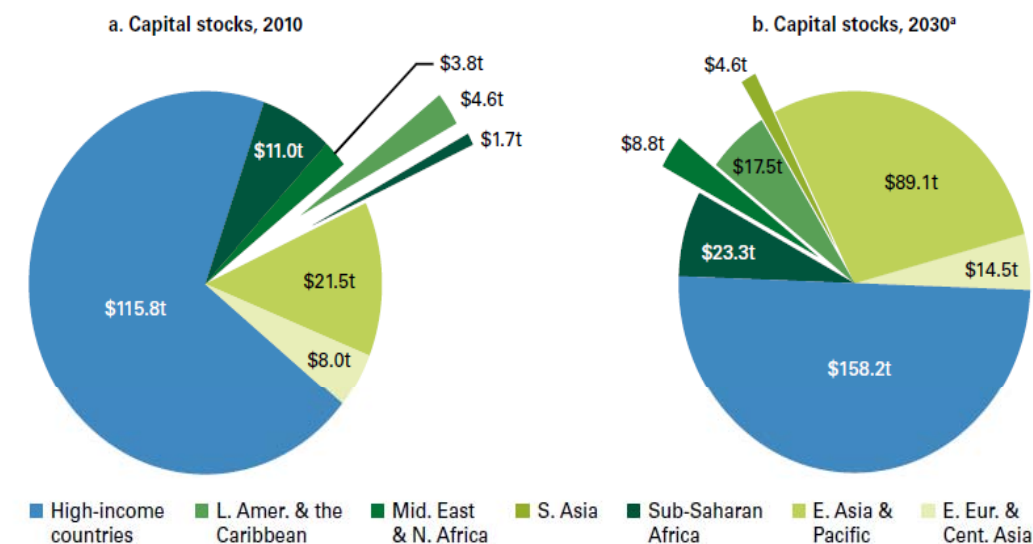
Source: World Bank



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.

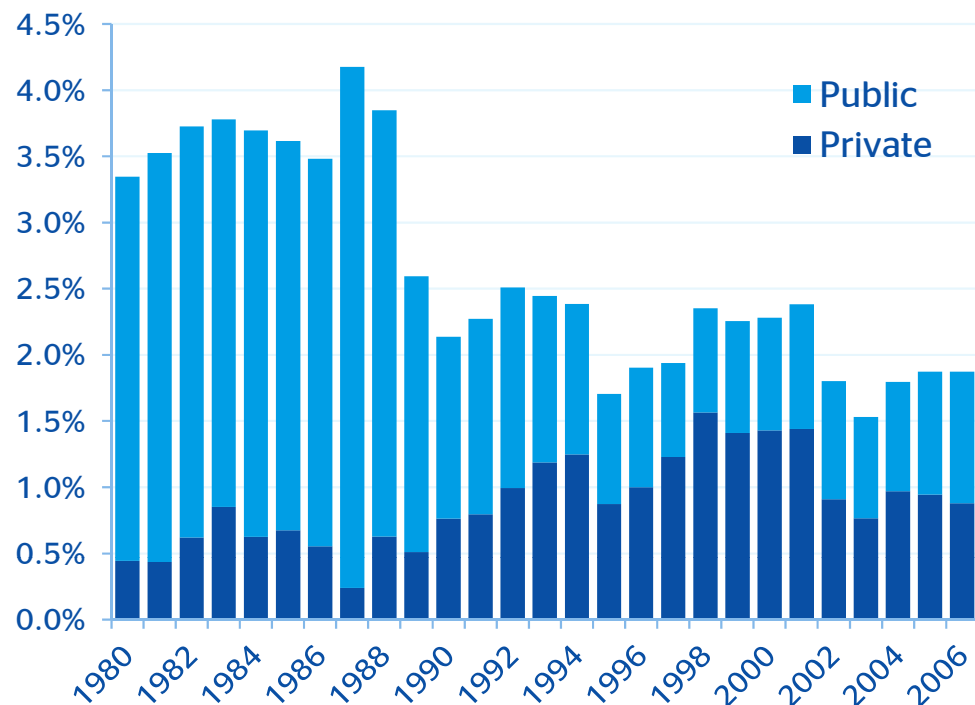
a. Panel b projections assume a gradual convergence scenario of annual world economic growth of 2.6 percent over the next two decades, of which developing (high-income) growth will average 5.0 (1.0) percent annually.

Infrastructure is probably the best example

LatinAmerica: Infrastructure Investment

(% of GDP)

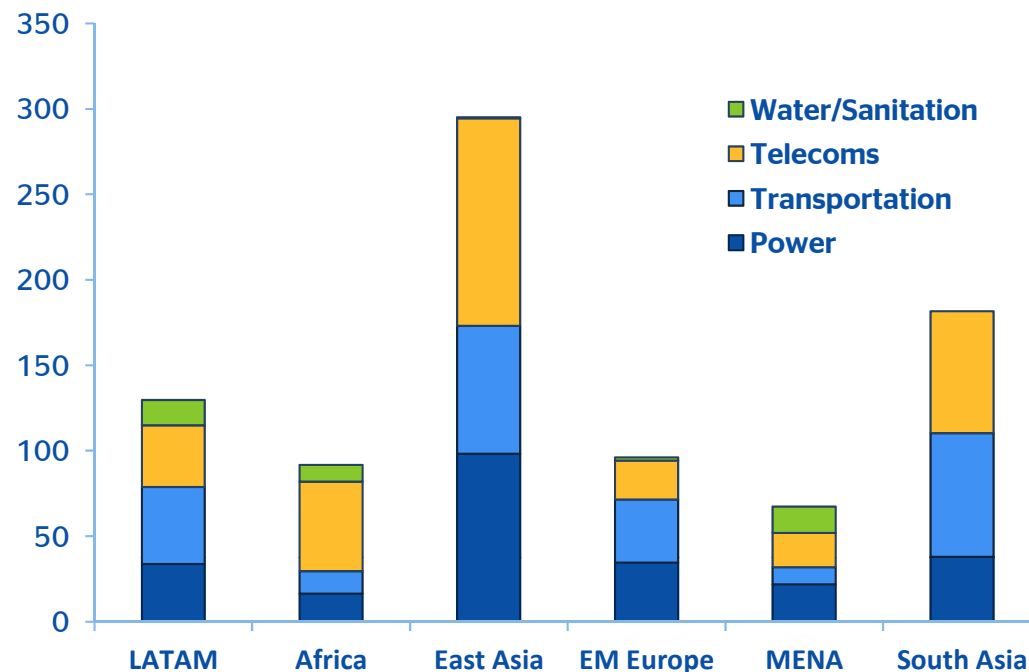
Source: World Bank



EM: Annual Regional Infrastructure Needs to 2030

(US\$ billions)

Source: World Bank Capital for Future

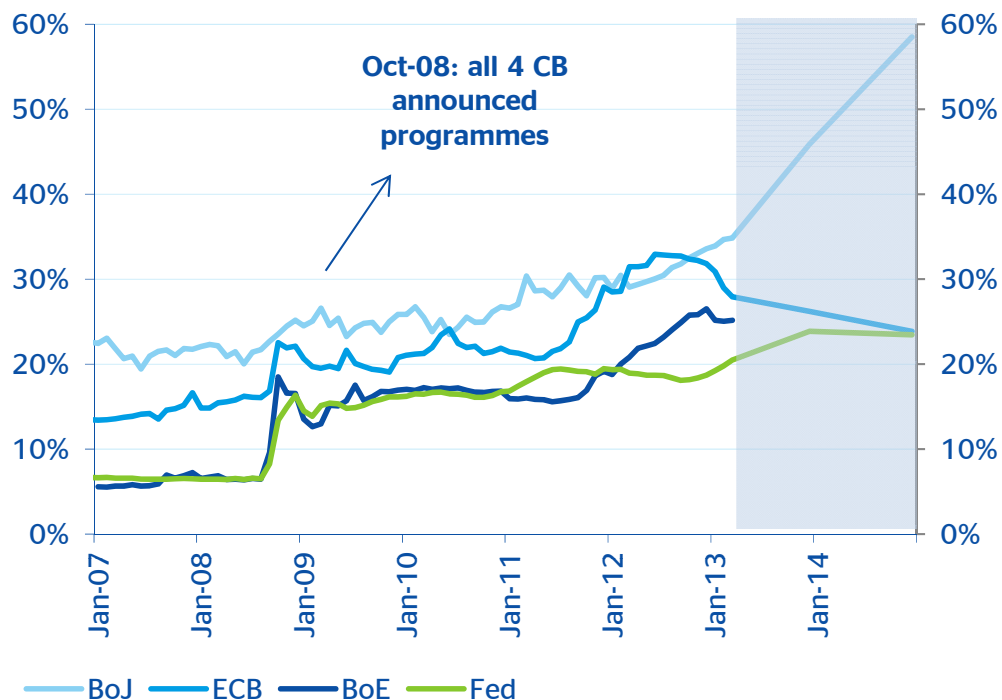


Will the capital needed be financed? QE to the rescue!

Balance sheets of major central banks

(as % of GDP)

Source: Bloomberg and BBVA Research



Central banks balance sheet

(% GDP and Local Currency)

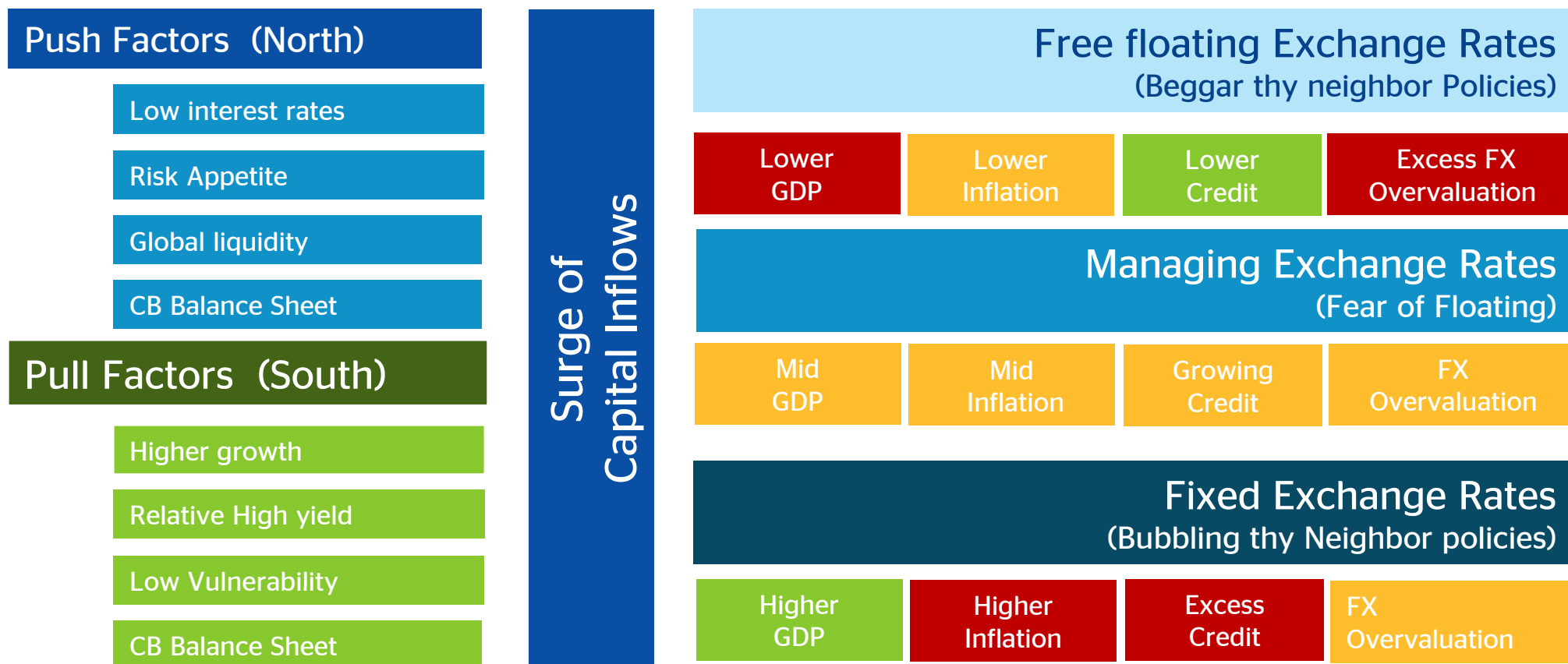
Source: Bloomberg and BBVA Research

	Jan-07	Mar-13	Dec-13 (Forecast)	Dec-14 (Forecast)
% GDP				
BoJ	22%	35%	46%	59%
ECB	13%	28%	26%	24%
BoE	6%	25%		
Fed	7%	20%	24%	23%
Local currency				
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

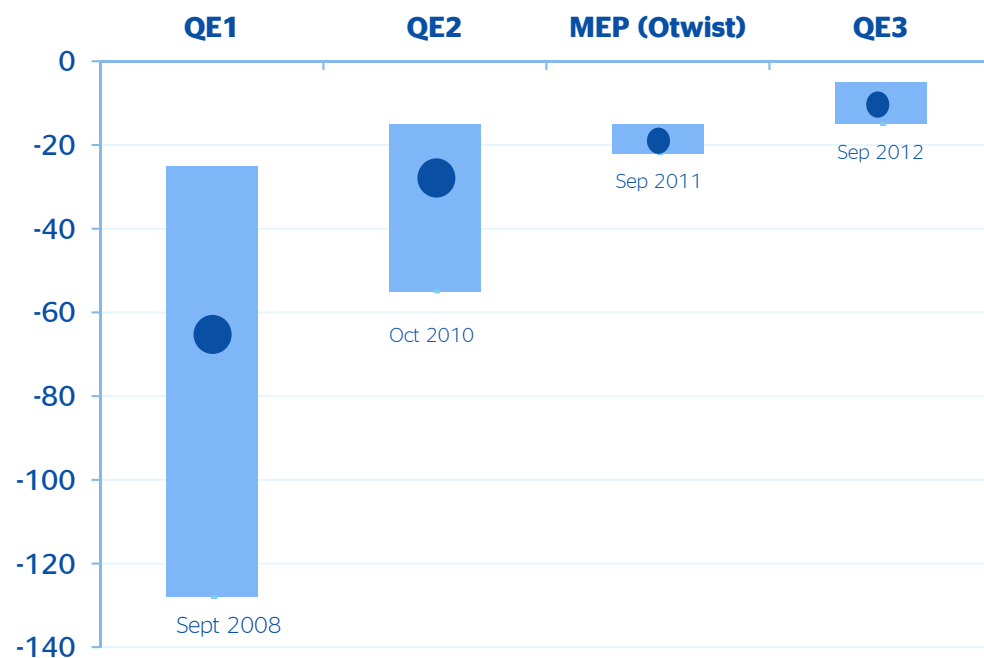
Source: EPFR and BBVA Research



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

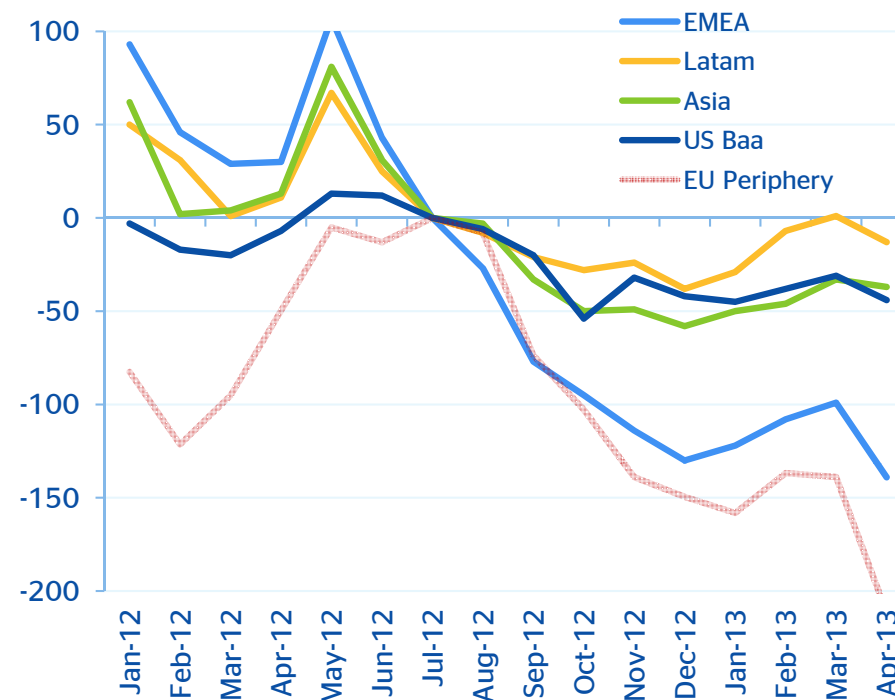
The Impact of Large Scale Asset Purchases in 10 Yr Treasury bill

Source: BBVA Research Through several FED empirical studies



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

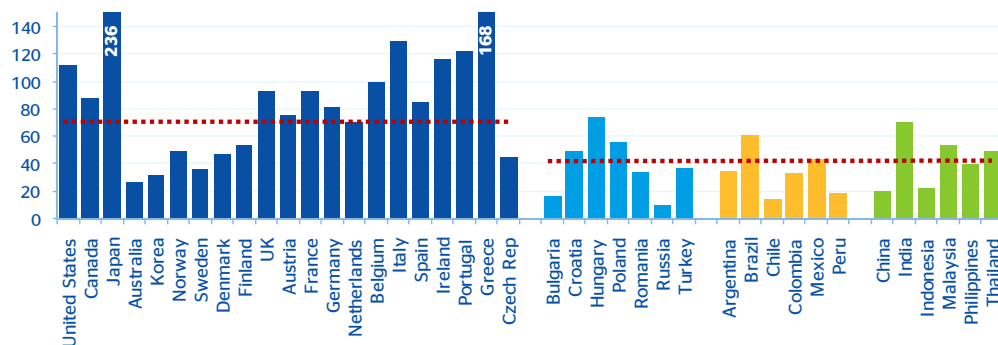
Source: BBVA Research and Haver



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

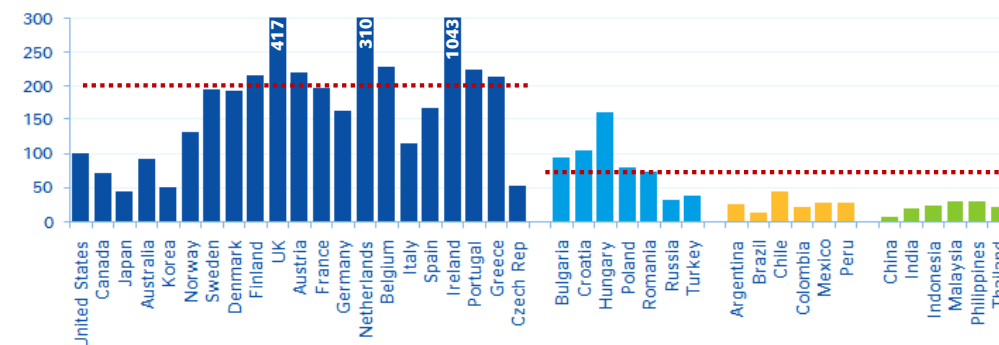
Gross Public Debt 2013 (% GDP)

Source: BBVA Research and IMF



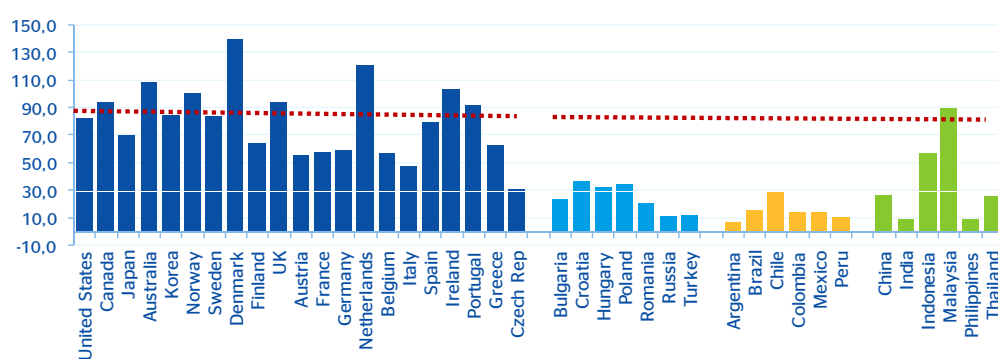
External Debt 2013 (% GDP)

Source: BBVA Research and IMF



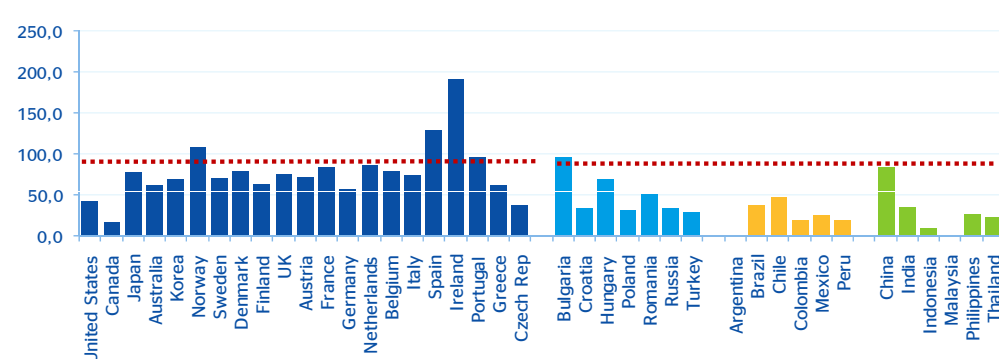
Household Debt 2013 (% GDP)

Source: BBVA Research and IMF



Corporate Sector Debt 2013 (% GDP)

Source: BBVA Research and IMF



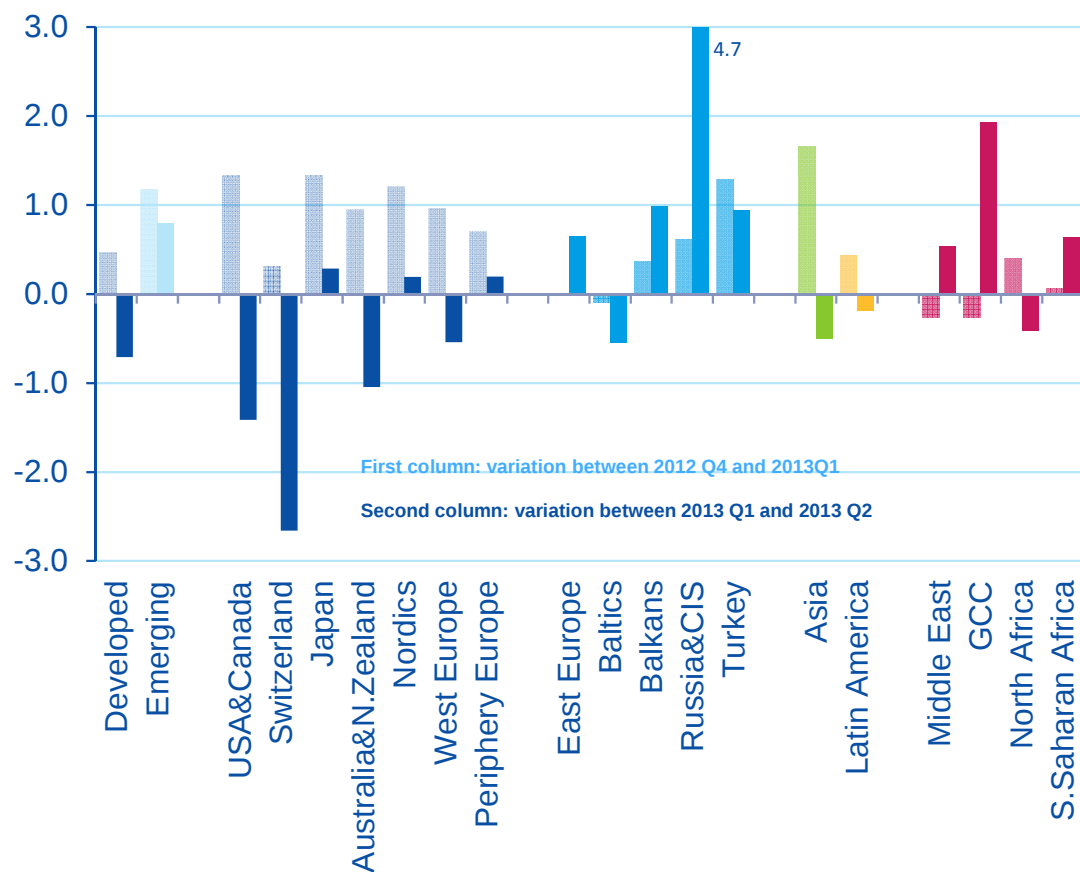
..... Risk Thresholds

Portfolio Flows have surged...

Equity and Bond Flows 1Q13 - 2Q13

(change in average flows between quarters)

Source EPFR and BBVA RESEARCH

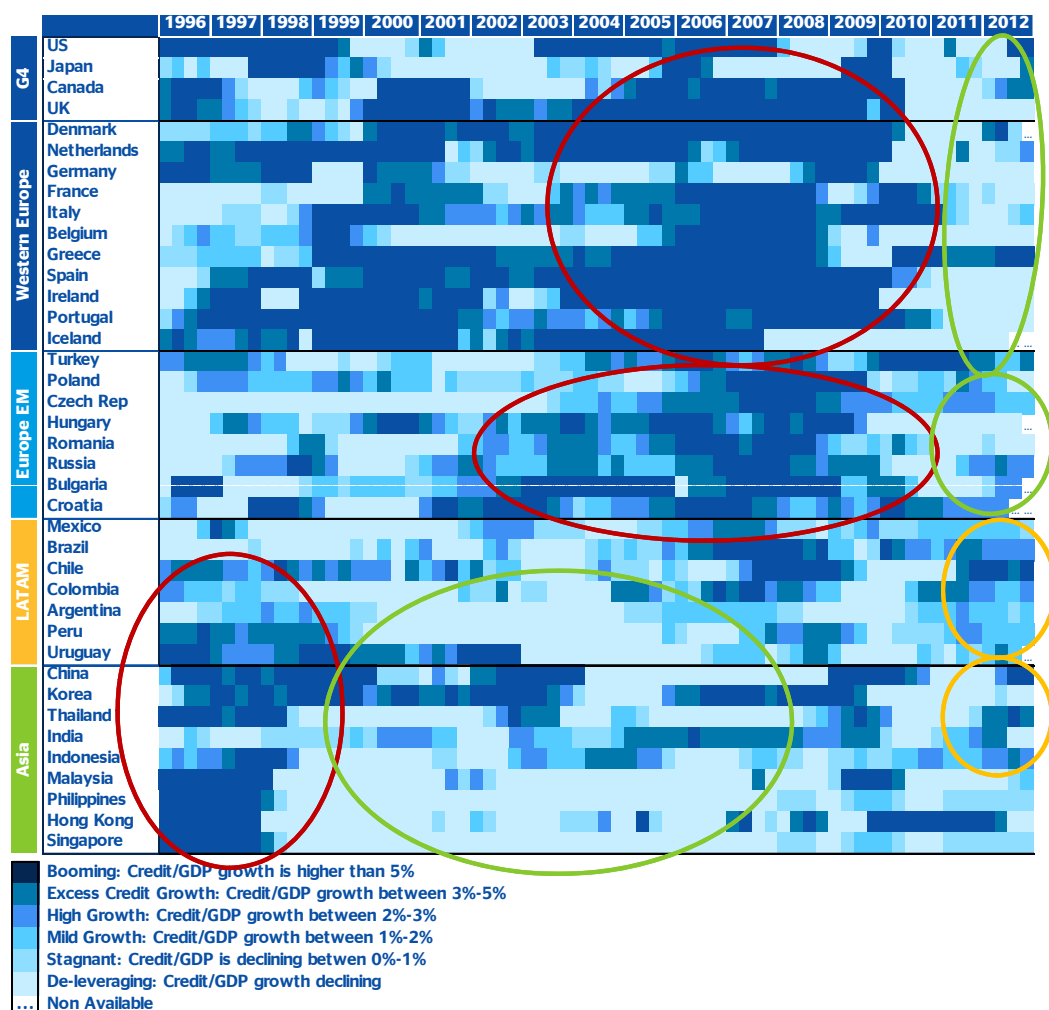


Collateral damage of QE in EM should be closely monitored: mainly a “bubbling thy neighbour” story as most of EM CBs have not allowed too much appreciation

Private credit colour map (1996-2012 Q3)

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

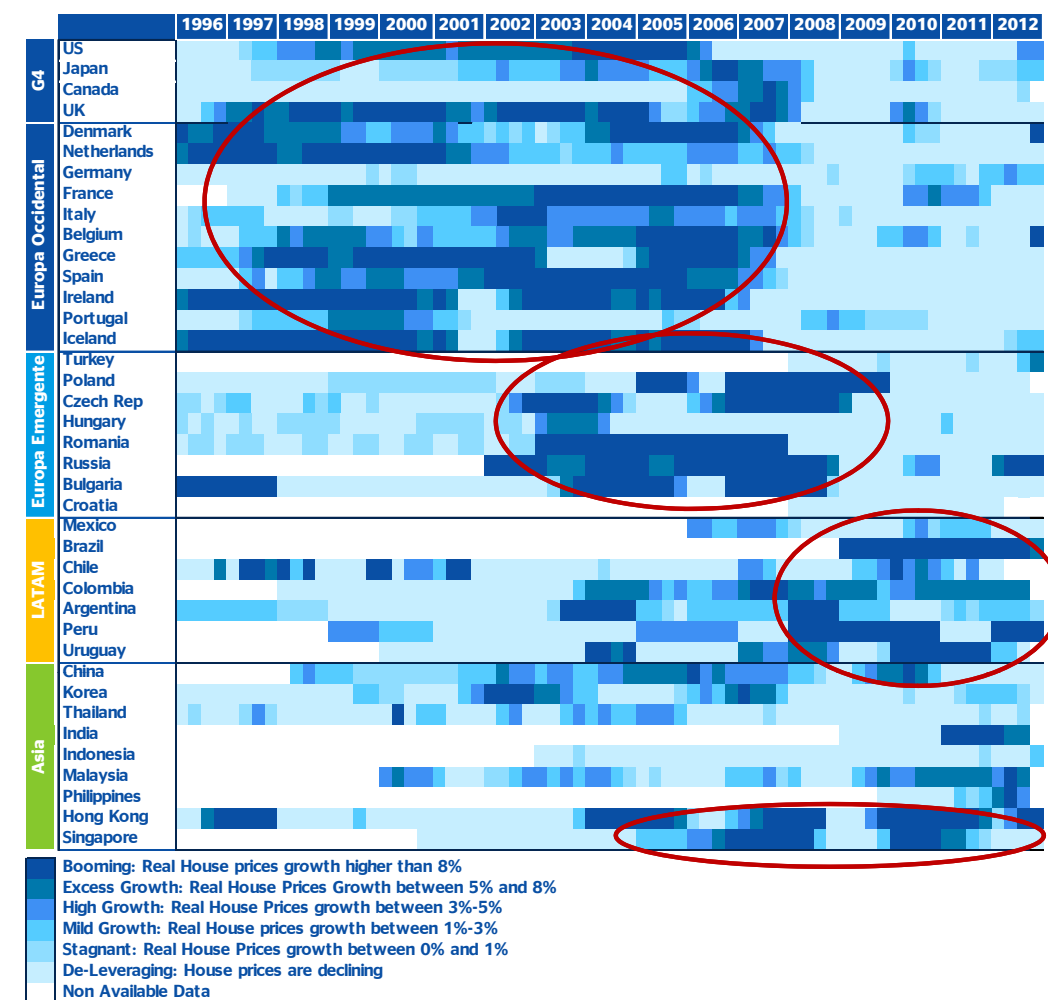
Source: BBVA Research and Haver



Real housing prices colour map (1996-2012)

(yearly change of real housing prices)

Source: BBVA Research, BIS and Globalpropertyguide



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)

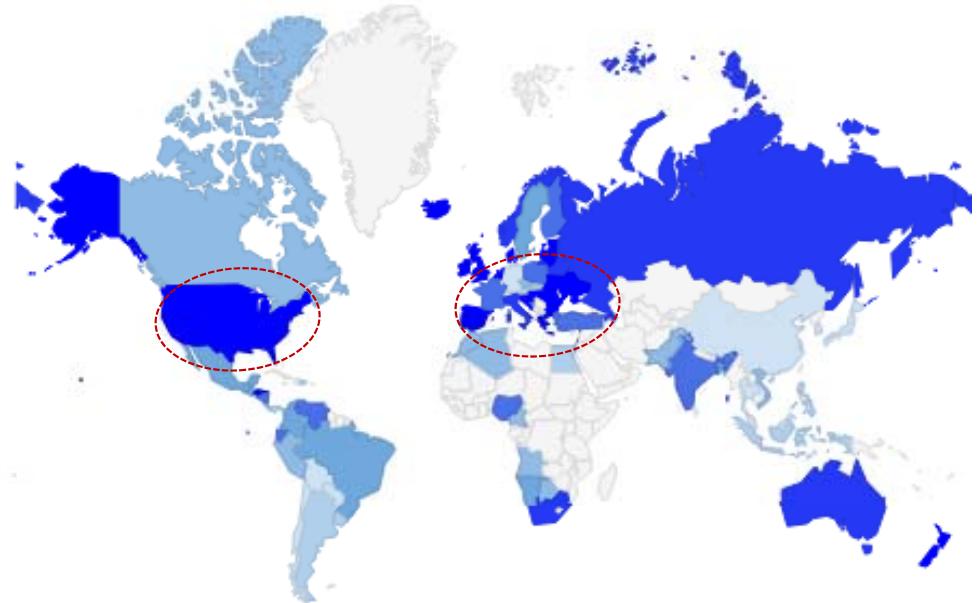
Source: BBVA Research



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

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

Source: BBVA Research

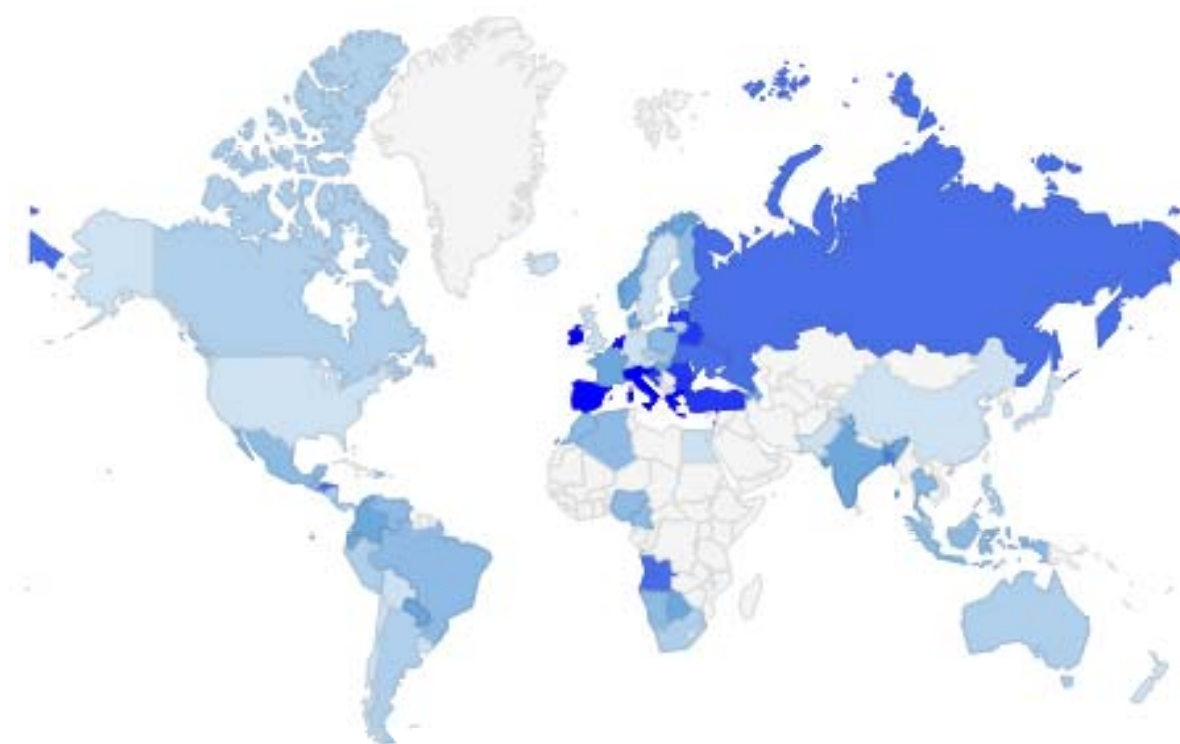


But NOT Now according to our models...
although they can grow over time if not tackled

Current Private Credit “Gap” (2012)

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

Source: BBVA Research



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