



Outlook for (some) Emerging Economies

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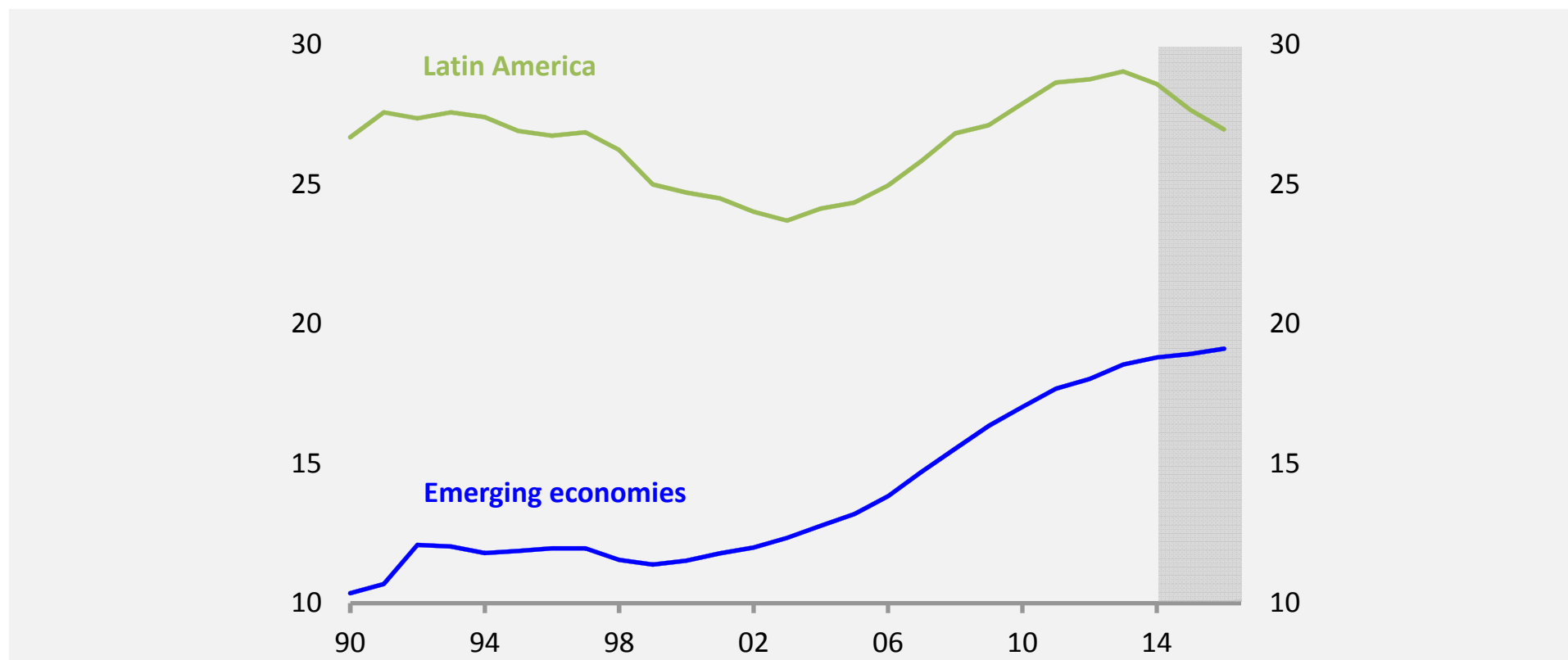
11th Asia Copper Conference, Shanghai, November 18, 2015



Central Bank of Chile, November 2015

The last 10 years were good years for emerging markets.

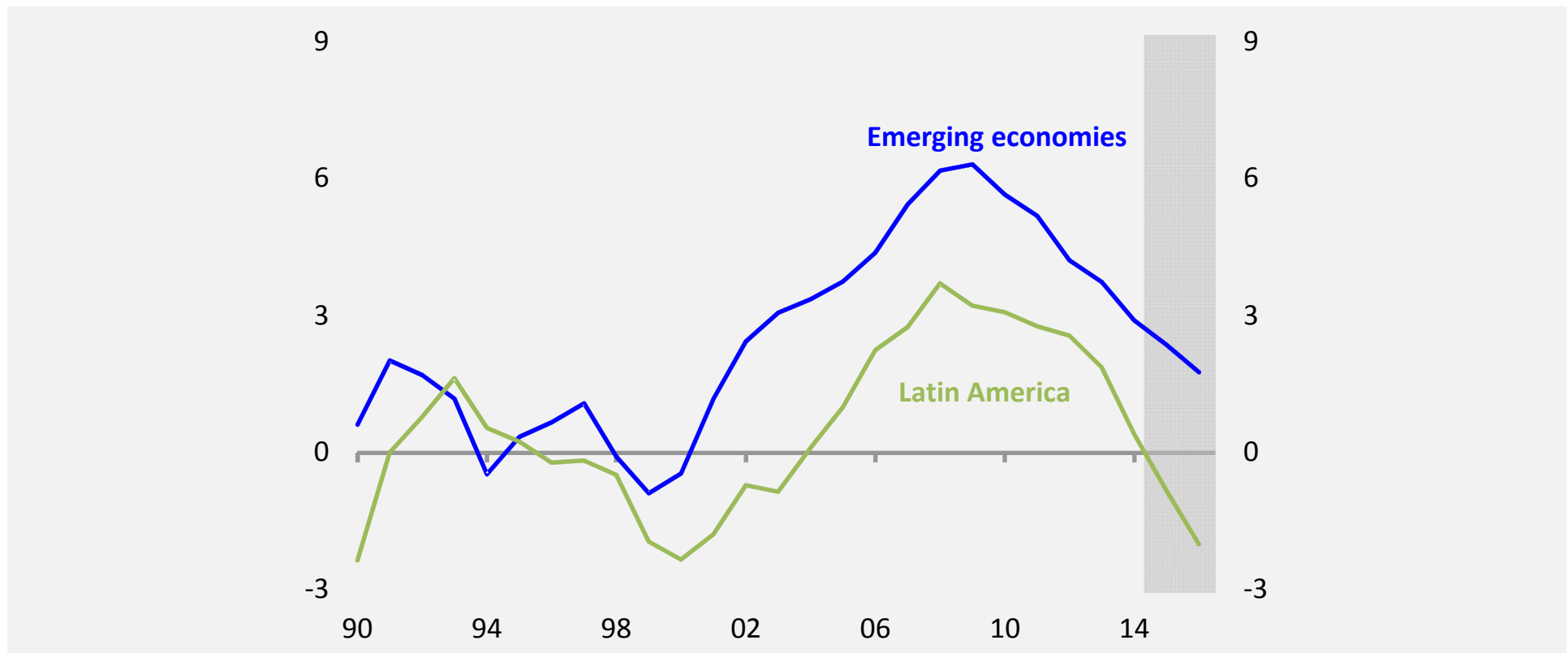
Emerging economies: GDP per capita level relative to USA (*)
(percent)



(*) Gray area shows 2015-2016 forecast.
Source: International Monetary Fund (WEO).

The growth differential relative to the United States peaked around 2009. However, it has started to shrink rapidly.

Emerging economies: GDP growth rate differential relative to USA (1) (2)
(percentage points)



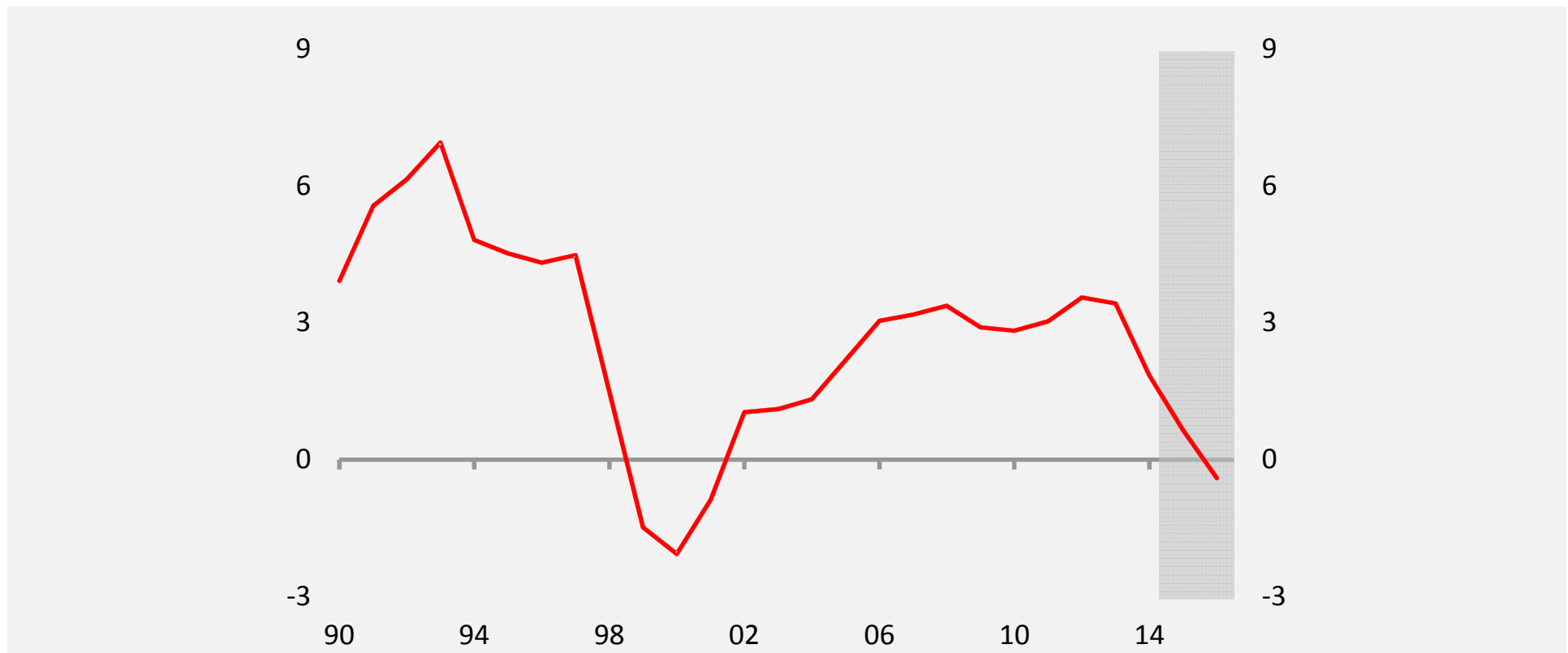
(1) Three years moving average.

(2) Gray area shows 2015-2016 forecast.

Source: International Monetary Fund (WEO).

Chile is not different, although it has had a much better performance since the mid 1980s.

Chile: GDP growth rate differential relative to USA (1) (2)
(percentage points)



(1) Three years moving average.

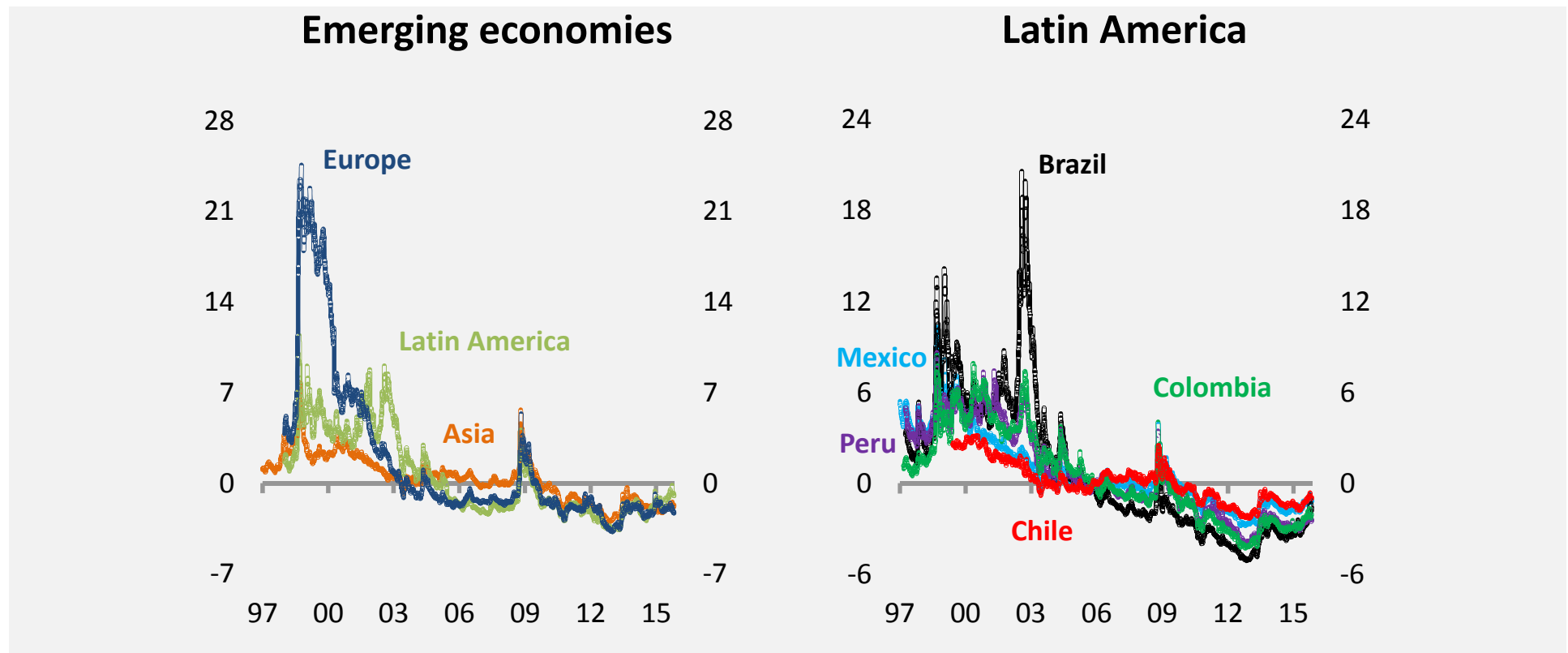
(2) Gray area shows 2015-2016 forecast.

Source: International Monetary Fund (WEO).

A supportive global financial environment is one of the explanations for this success.

External financial conditions (*)

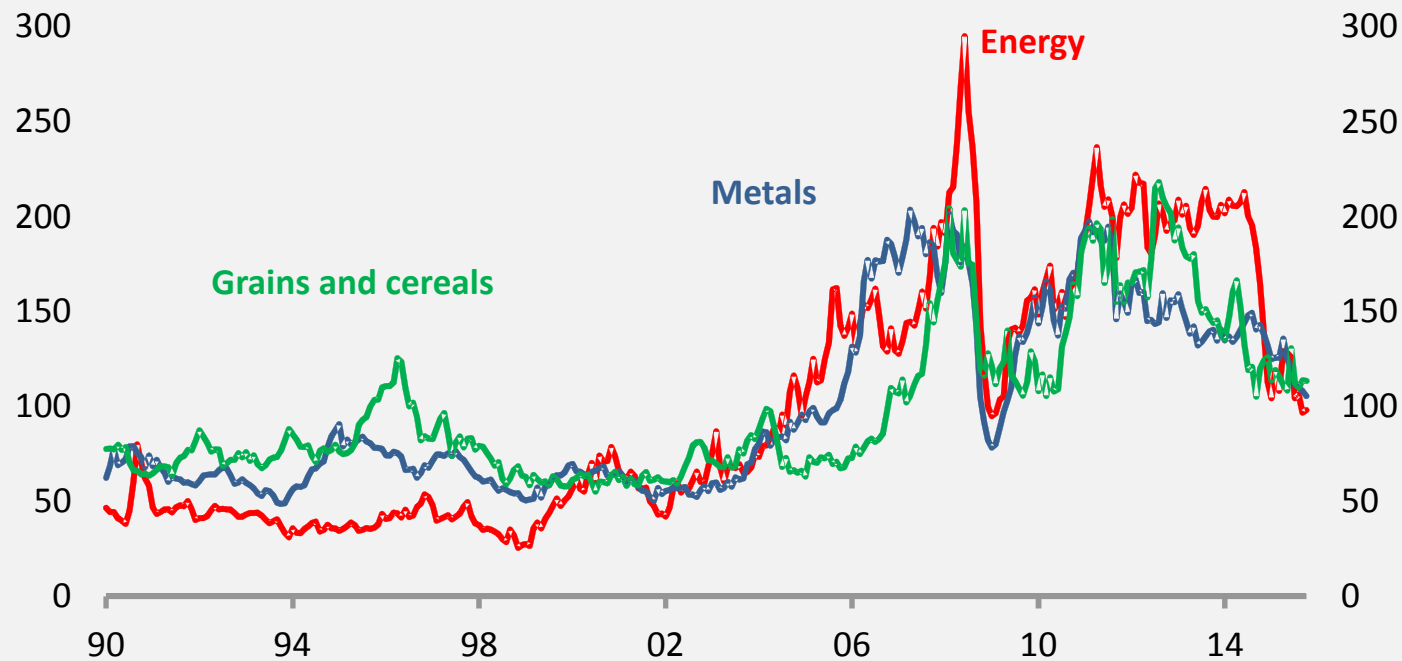
(Deviation from sample mean, percentage points)



(*) Deviation from the average interest rate 2000-2015 measured by US 10 year Treasury yield plus EMBI.
Source: Bloomberg.

Of course, high commodity prices – driven in part by China's growth – were also determinant.

Commodity prices by group (*)
(fixed-base index: 1990-2015=100)

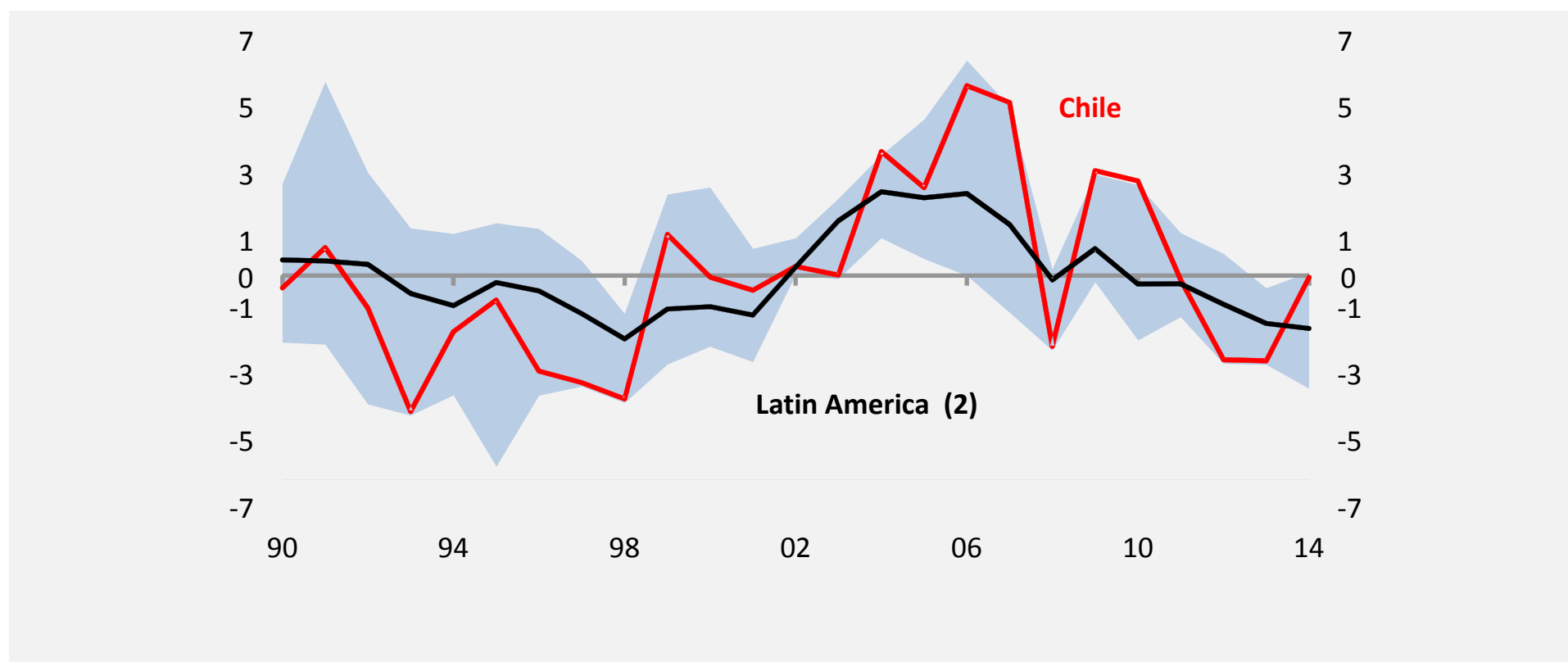


(*) Goldman Sachs Index.
Source: Bloomberg.



Good macroeconomic policies should also have some credit.

Latin America: Current account (1)
(percent of GDP, deviation from the sample mean)



(1) The area corresponds to the maximum-minimum range among economies.

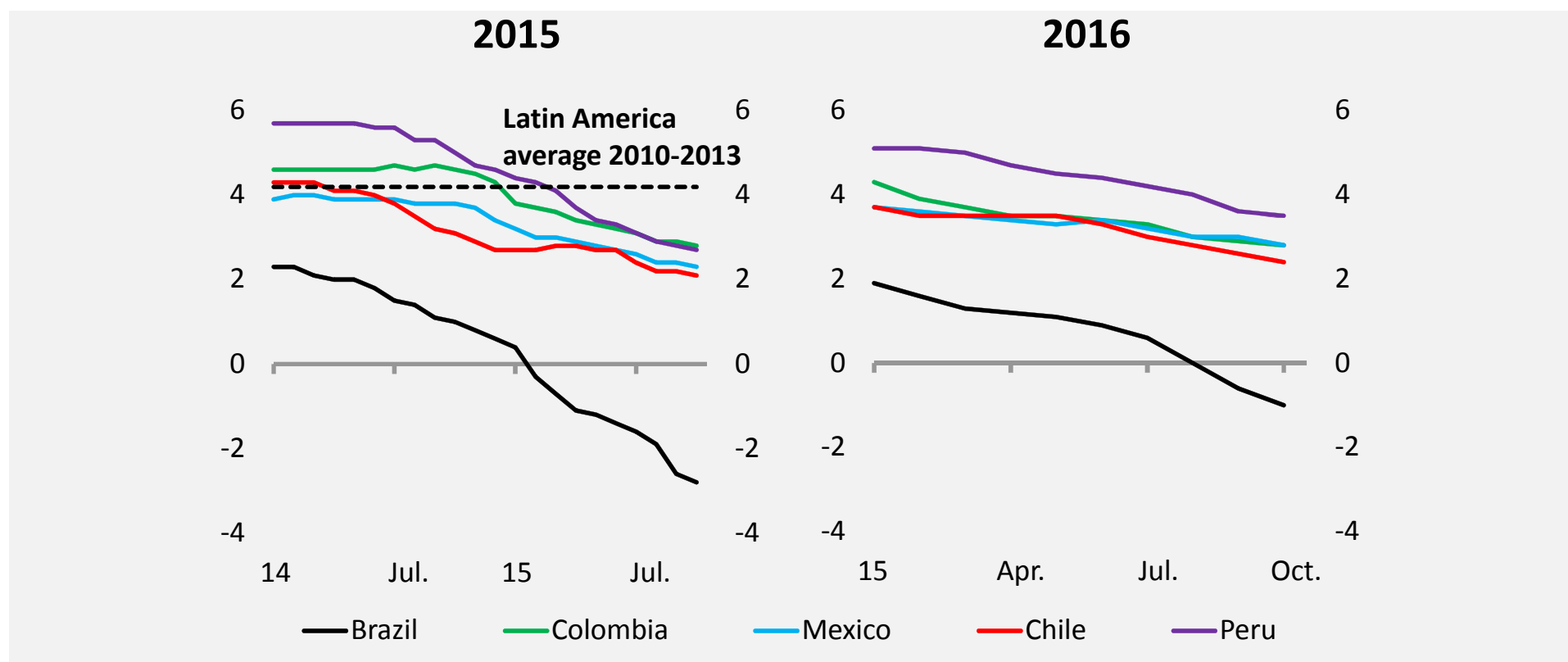
(2) Latin America considers Brazil, Chile, Colombia, Mexico and Peru.

Sources: Central Bank of Chile and International Monetary Fund.

However, conditions are changing, and fast.

Latin America: GDP growth forecasts

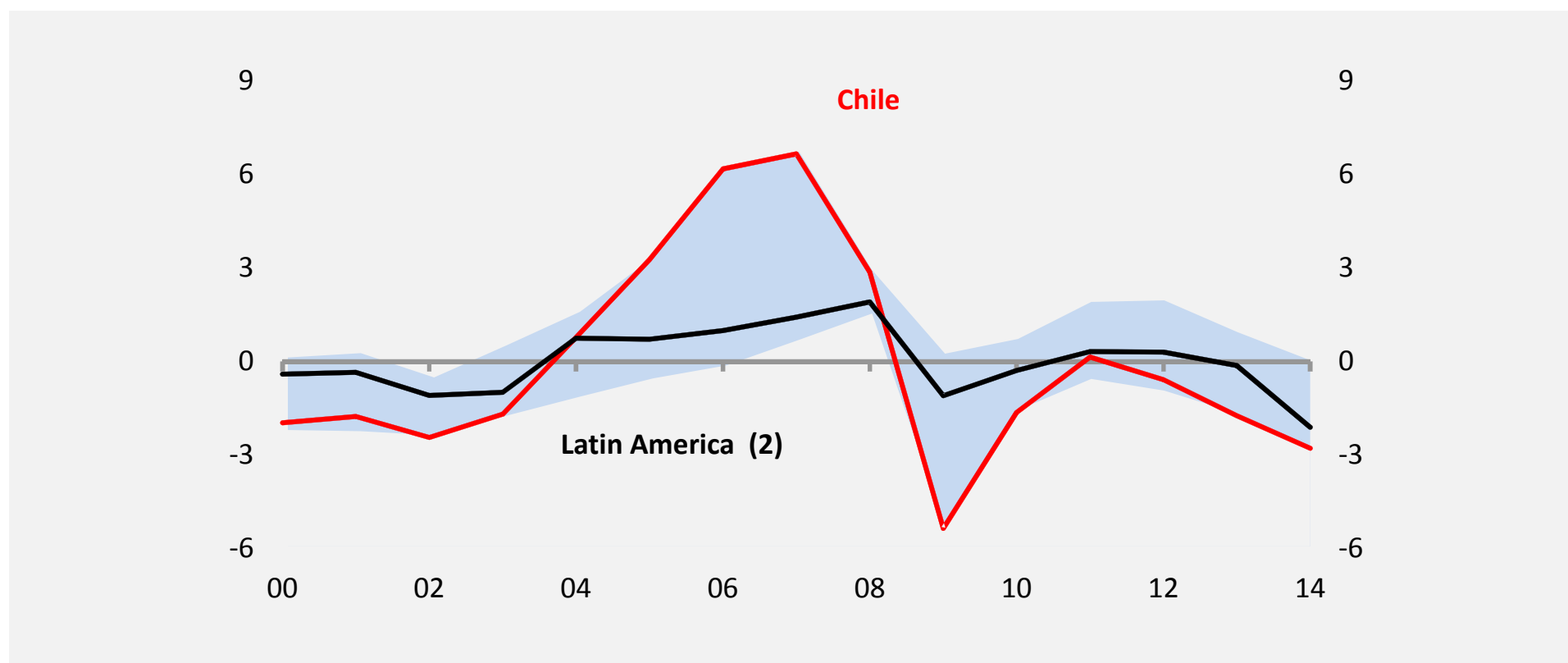
(annual change, percent)



Should the economies adjust or accommodate to the new scenario? This is the question.

This new scenario is challenging on the fiscal front.

Latin America: Fiscal balance (*)
(percent of GDP, deviation from the sample mean)



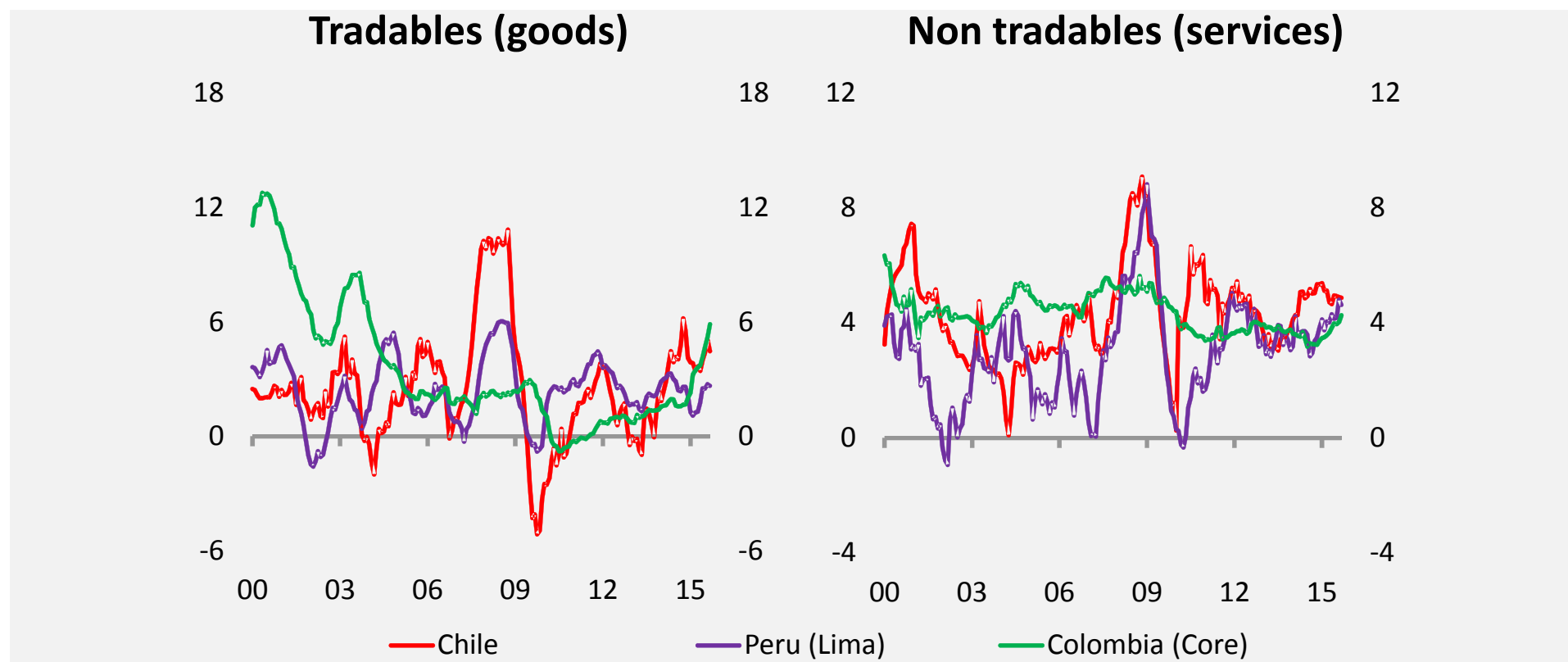
(1) The area corresponds to the maximum-minimum range among economies.

(2) Latin America considers Brazil, Chile, Colombia, Mexico and Peru.

Sources: Central Bank of Chile and International Monetary Fund.

Inflation of goods and services is running high, so room for further monetary policy accommodation is limited.

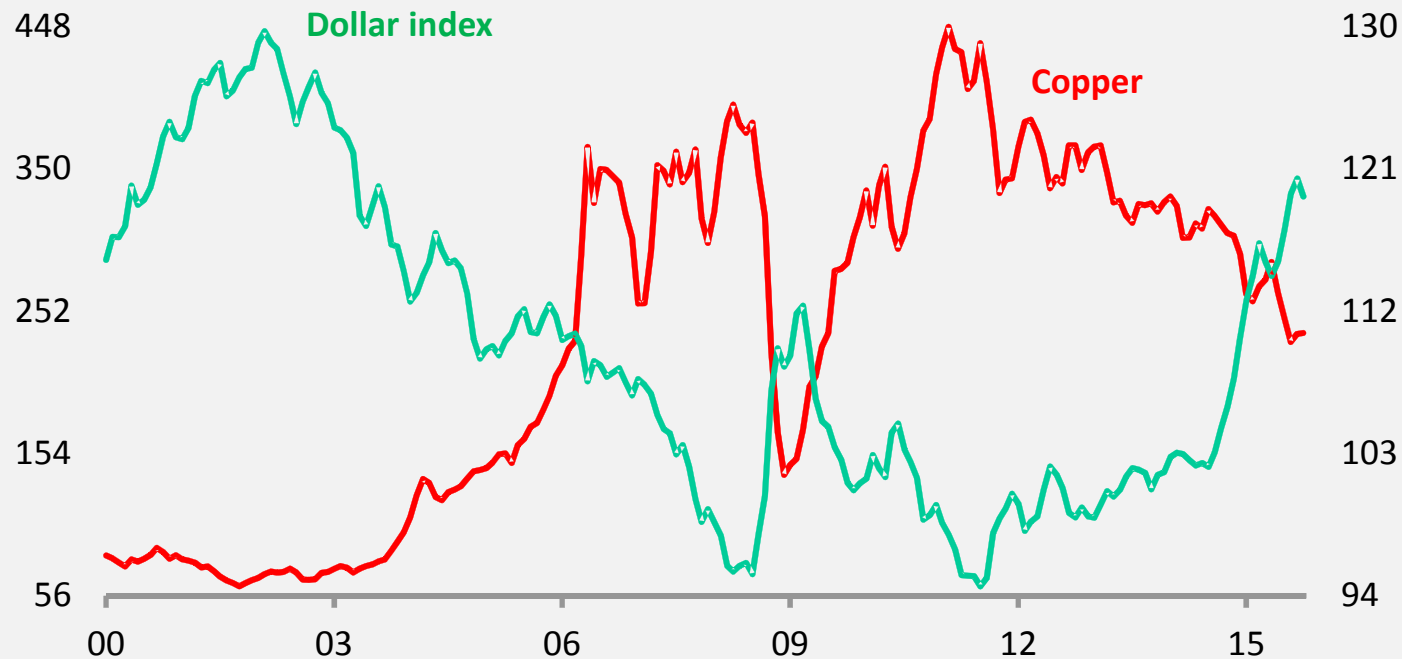
Latin America inflation
(annual change, percent)



Sources: Bloomberg, Central Bank of Chile, Bank of the Republic of Colombia, Central Reserve Bank of Peru and Instituto Nacional de Estadísticas (INE).

For good reasons, the debate on commodity prices is centered on the dynamics of China. But global financial conditions are very relevant, too.

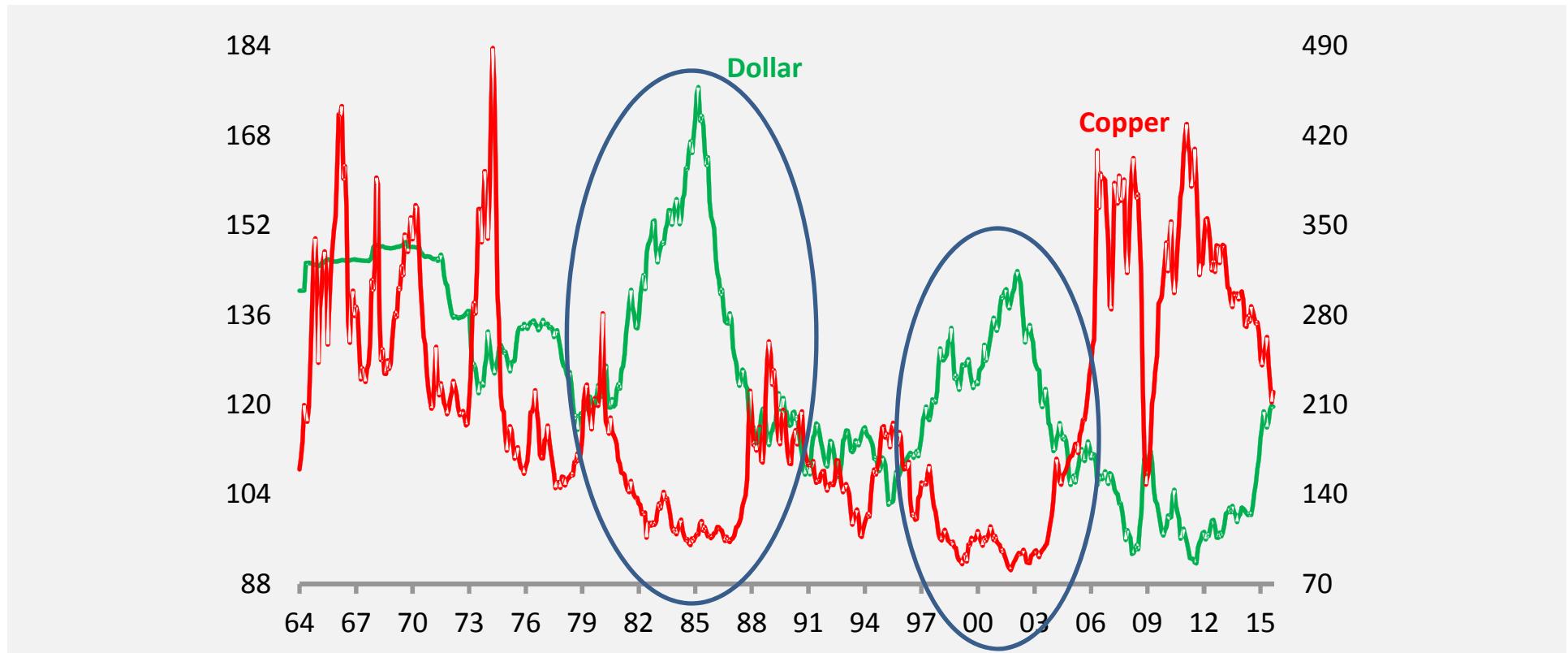
Copper price and dollar broad index
(original series, fixed-base index: January 1997=100)



Source: Bloomberg.

We have seen a combination of strong dollar and low commodity prices before.

Real copper price and dollar index
(fixed-base index: 2010=100; US¢/lb, constant 2010US\$)

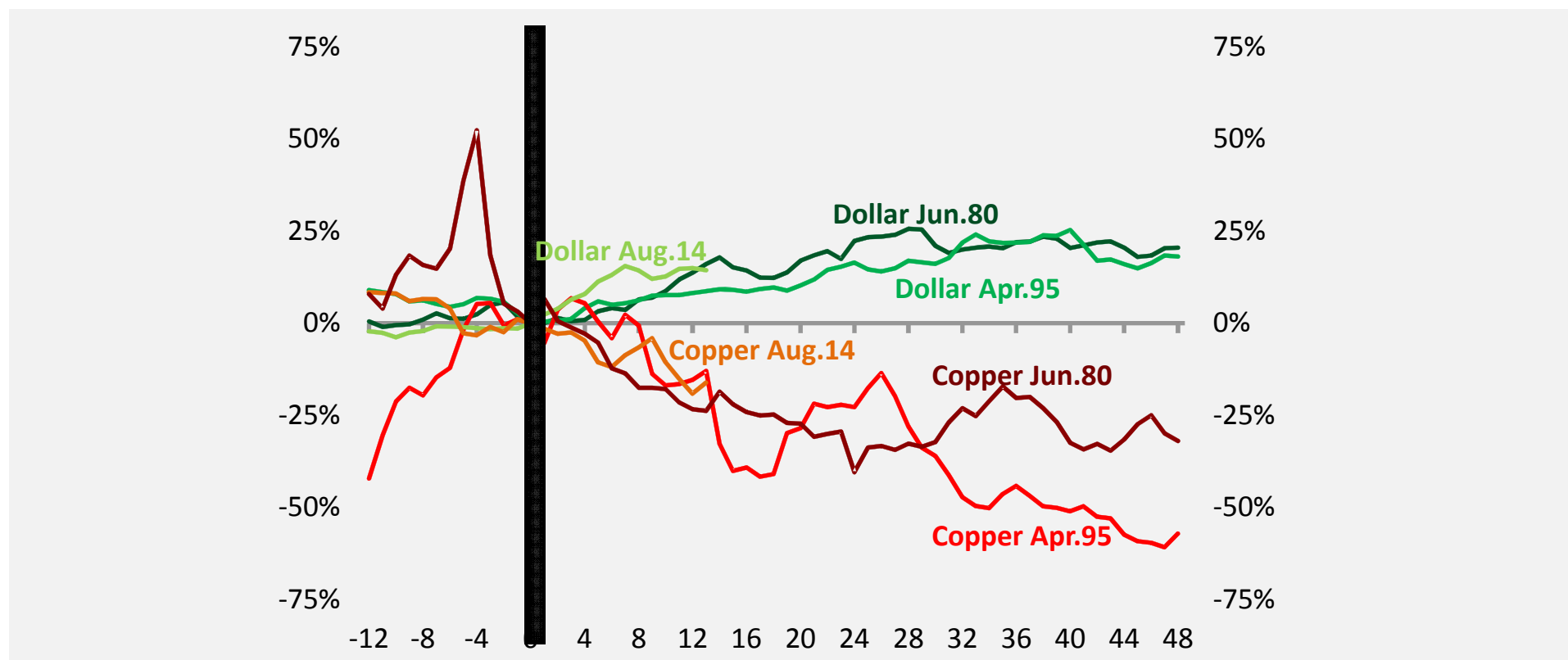


(*) Dollar corresponds to the narrow index estimated by BIS.

Sources: Bank for International Settlements (BIS), Bloomberg and World Bank.

The last three dollar strength episodes have come together with an important downward correction in copper prices relative to trend. This time is not different.

Real copper price and dollar index (*)
(cumulative monthly change relative to 5-year MA trend, percent)



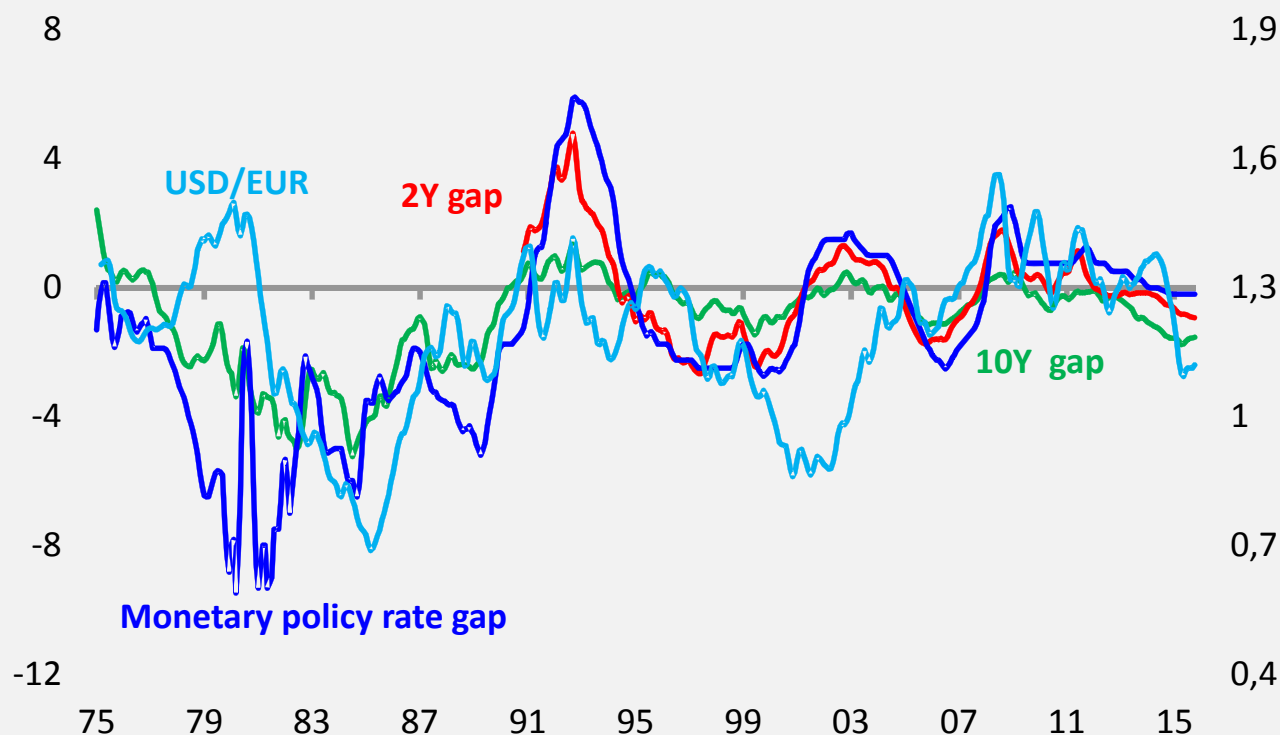
(*) Dollar corresponds to the narrow index estimated by BIS.

Sources: Bank for International Settlements (BIS), Bloomberg and World Bank.

According to historical patterns, there is plenty of room for further widening of interest rate differentials.

Monetary policy in Eurozone and US (*)

(difference between Eurozone and US, percentage points; USD/EUR exchange rate)



(*) Quarterly moving average data.

Sources: Bloomberg, Federal Reserve and Organisation for Economic Co-operation and Development.



Thank you



Banco Central de Chile