



Recent financial developments from an Emerging Market Economy perspective

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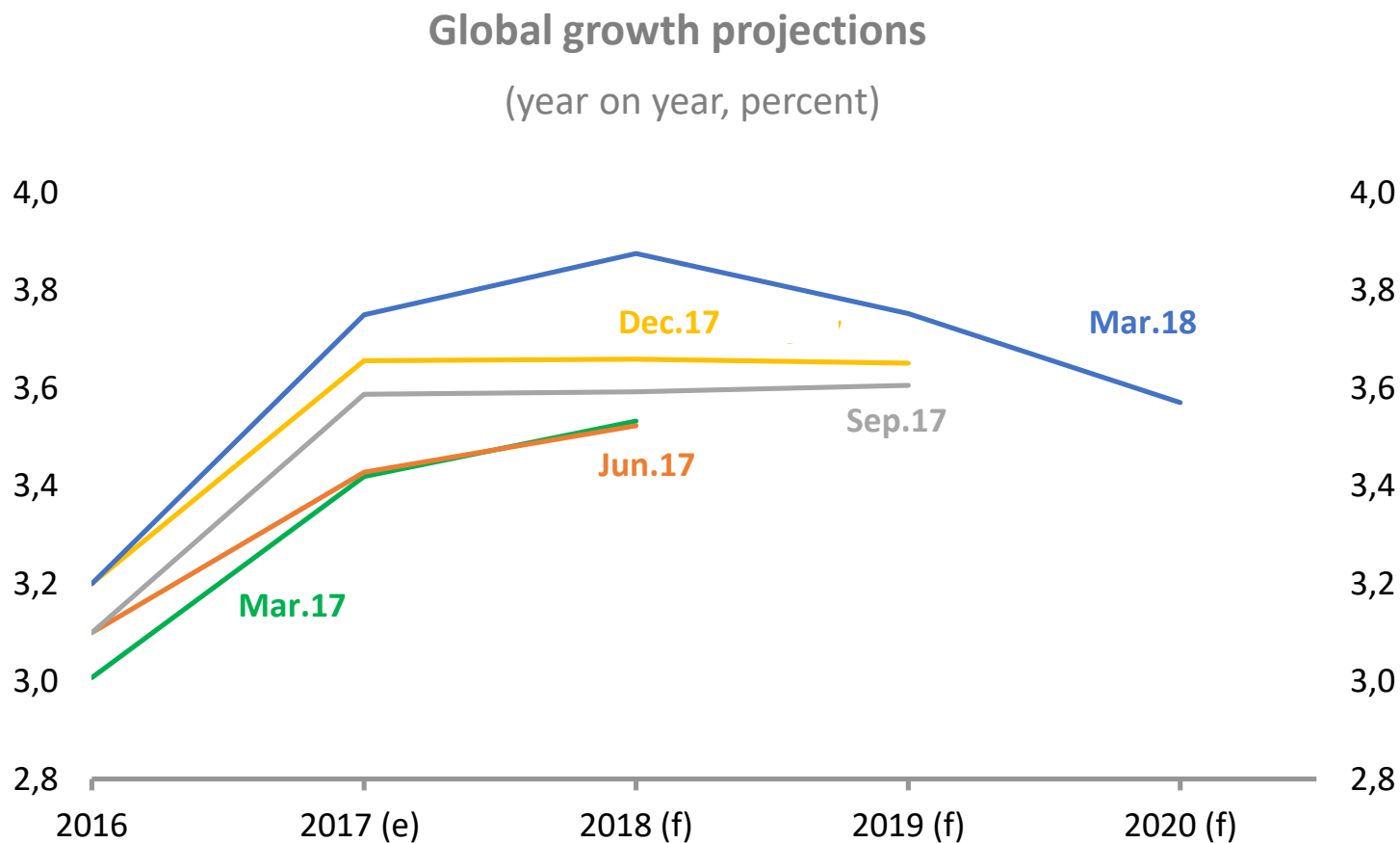


Central Bank of Chile, May 2018

International scenario



We have seen a consolidation of a higher global growth

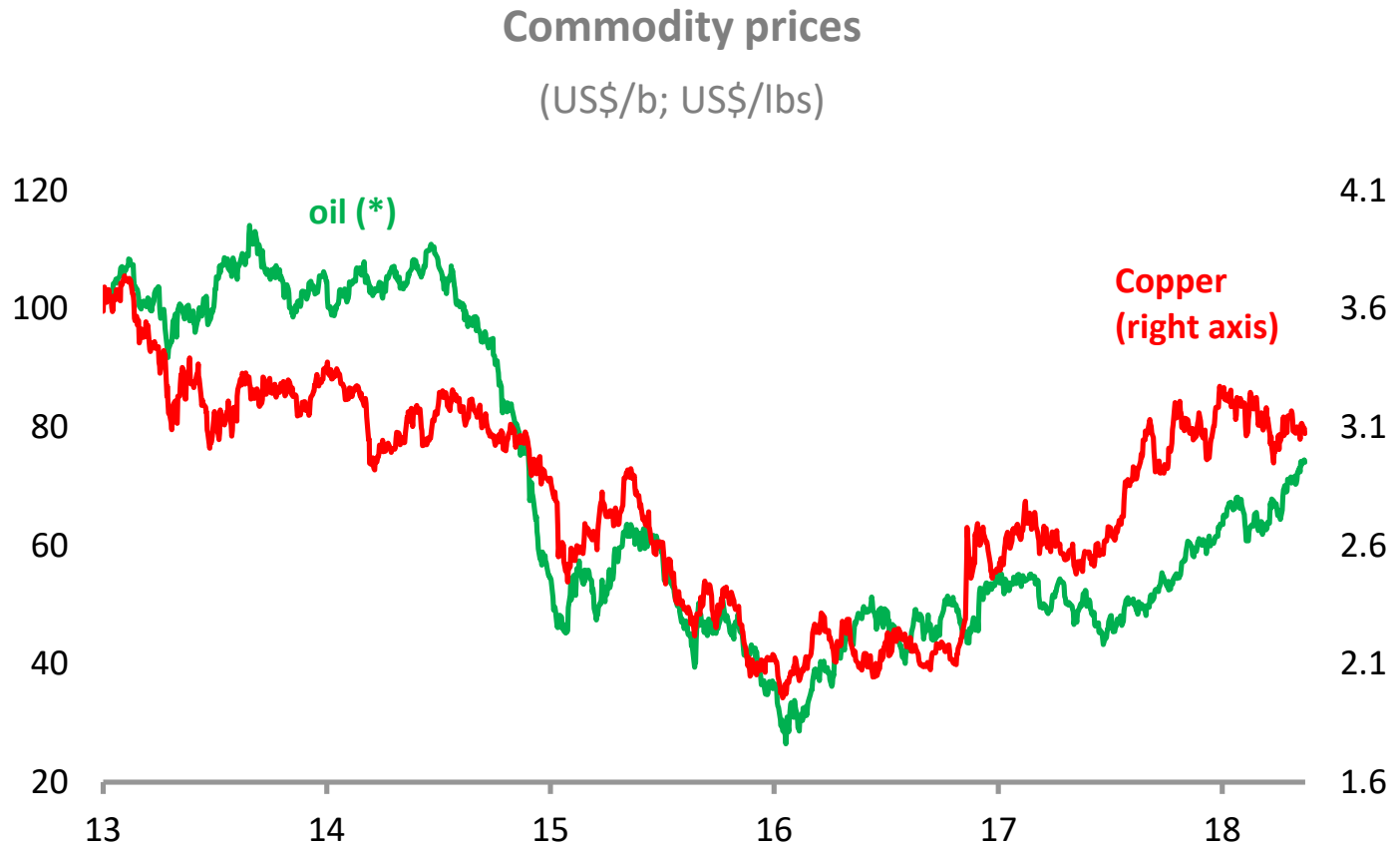


(e) Estimacion. (f) Projection.

Source: Central Bank of Chile



Commodity prices have recovered from the 2016 lows



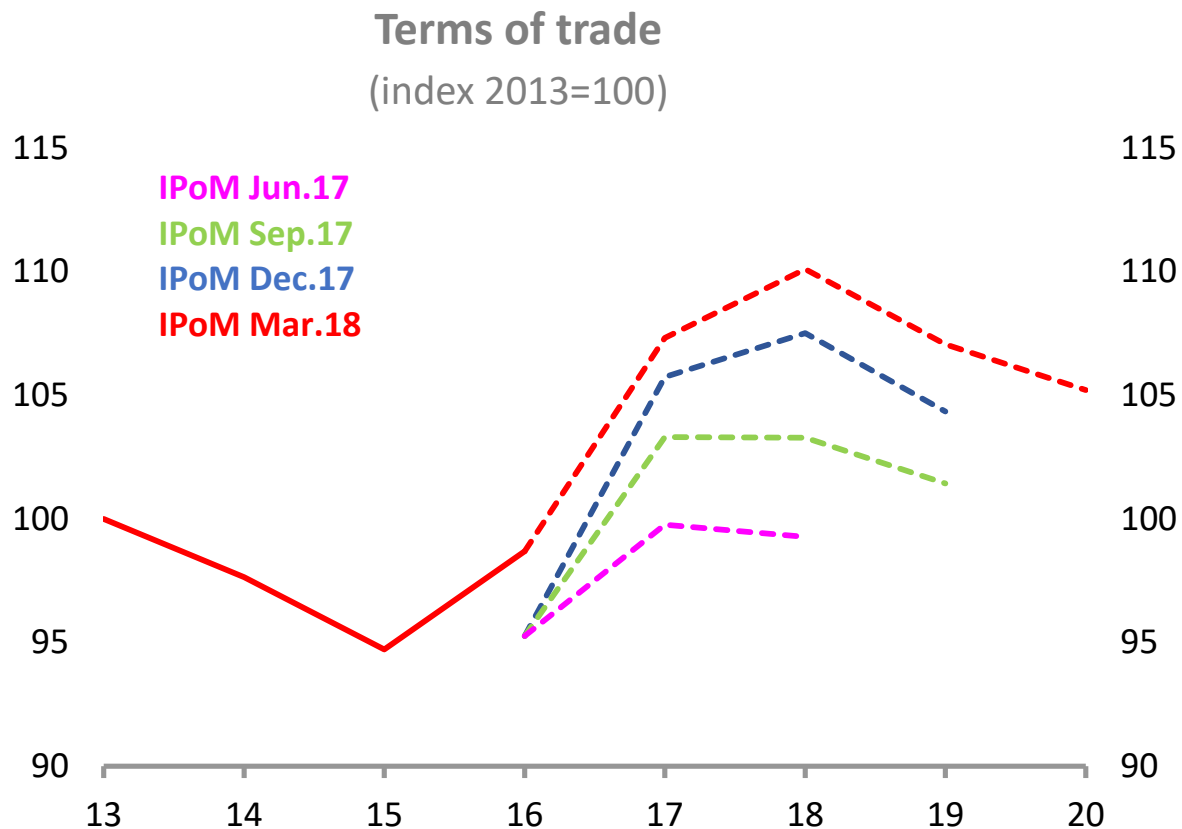
(*) Brent and WTI average

Sources: Bloomberg and Cochilco

Local economy developments



Terms of trade are more positive than previously expected

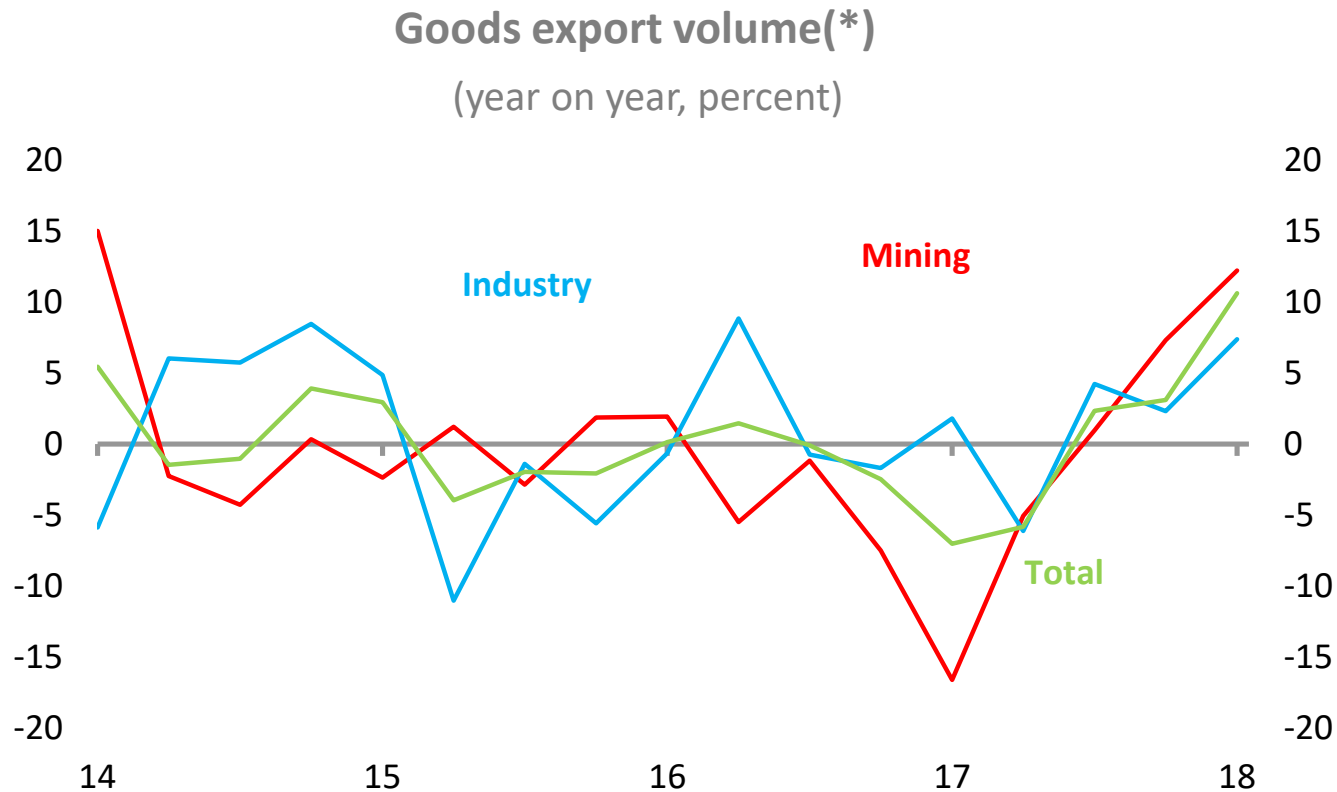


(*) Moving average of two quarters .

Source: Central Bank of Chile



Exports had recovered, in line with better external conditions



(*) Moving average of two quarters .

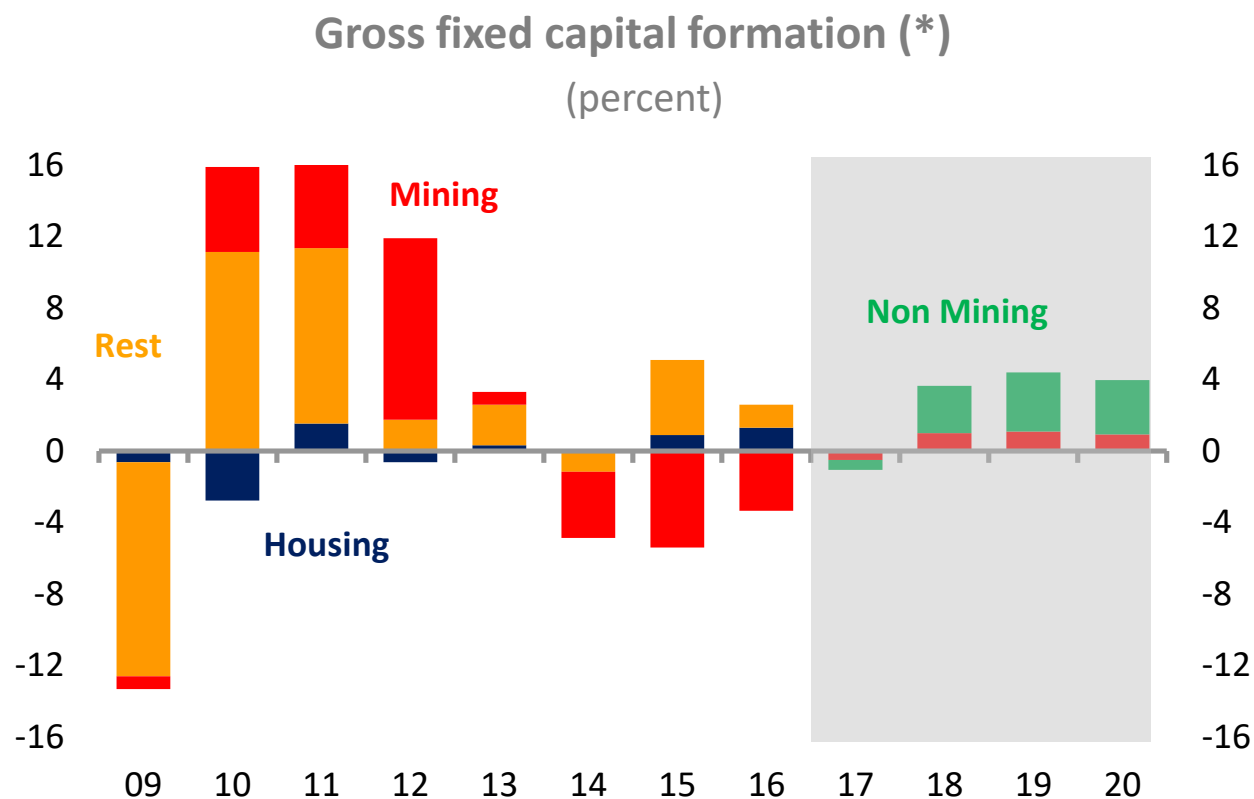
Source: Central Bank of Chile

In spite of recent turmoil in financial markets, long-term rates remain low



Source: Central Bank of Chile

The investment cycle, led by the large and prolonged adjustment in mining investment is turning the corner

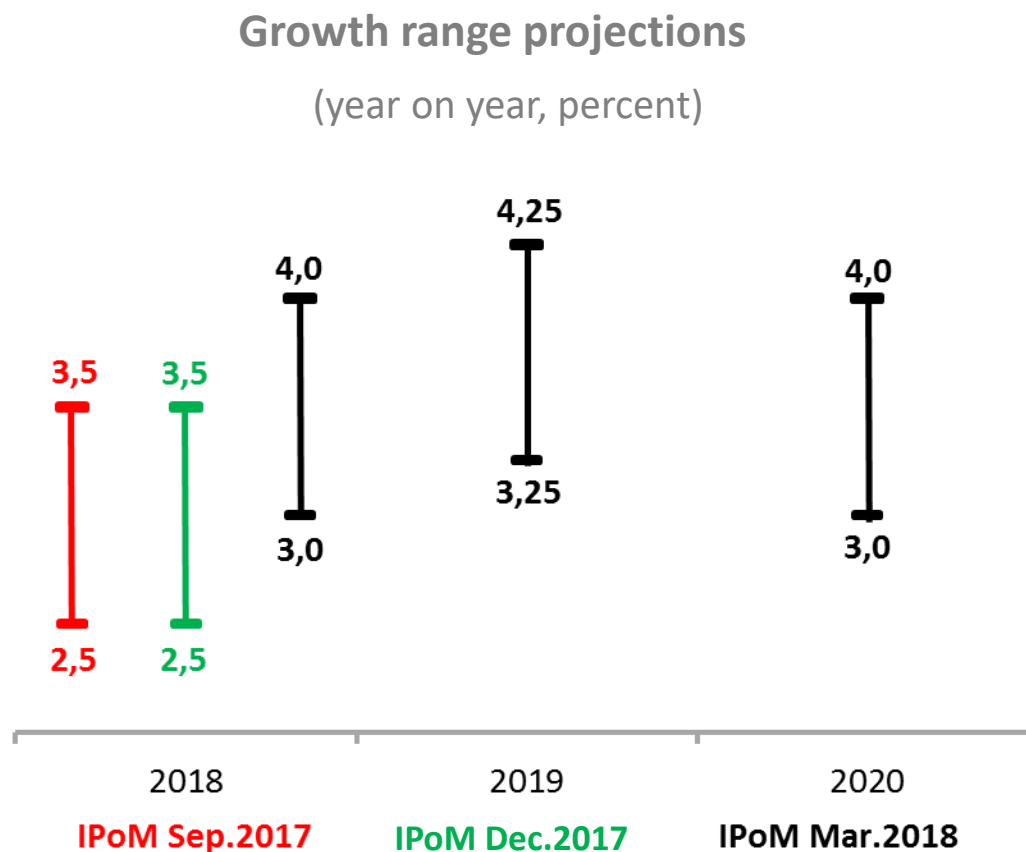


(*) For 2017 the mining investment is estimated using information from the FECUS. Housing investment includes information of households from National Accounts Statistics. The rest of the gross fixed capital formation is treated residually. The projections for 2018 and 2019 are formed by Central Bank internal models and sectorial sources.

Source: Central Bank of Chile



All in all, the baseline scenario projects a higher growth range for this year and a rate beyond the potential for 2019 and 2020



Source: Central Bank of Chile.

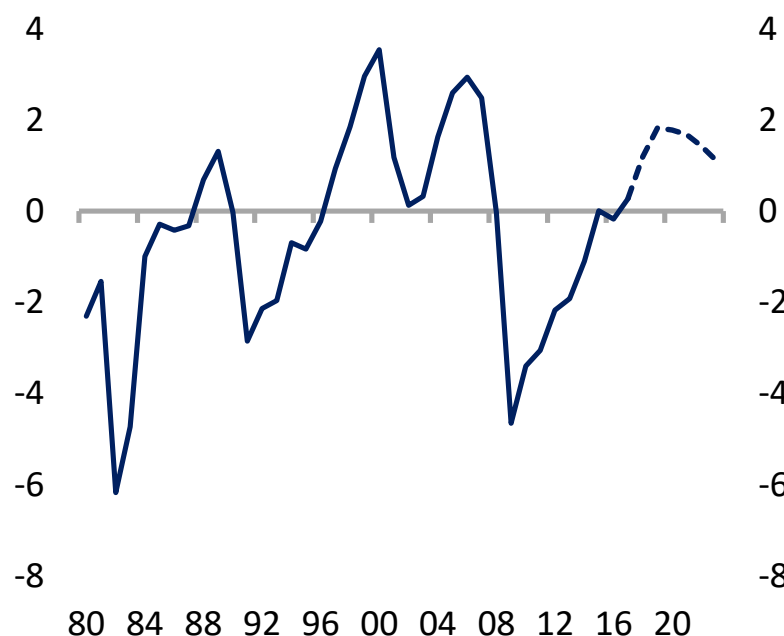


Factors behind the recent financial turmoil



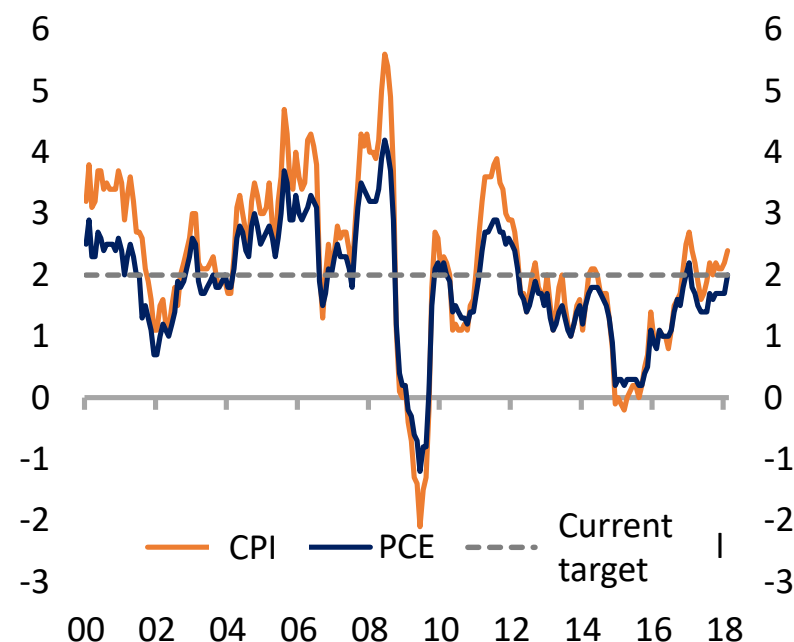
Sustained growth and rising inflation in the US calls for monetary policy normalization there

United States: Output gap
(percent of GDP)



Source: WEO

United States: Inflation
(year on year, percent)



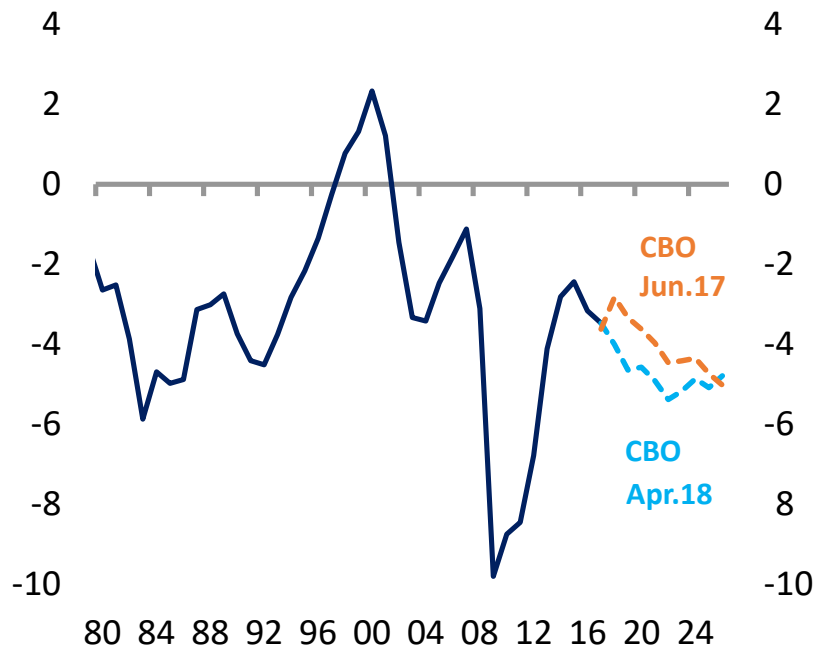
Source: Bloomberg



But a strong pro- cyclical fiscal expansion and rising oil prices make the process more hazardous

United States: Fiscal Balance

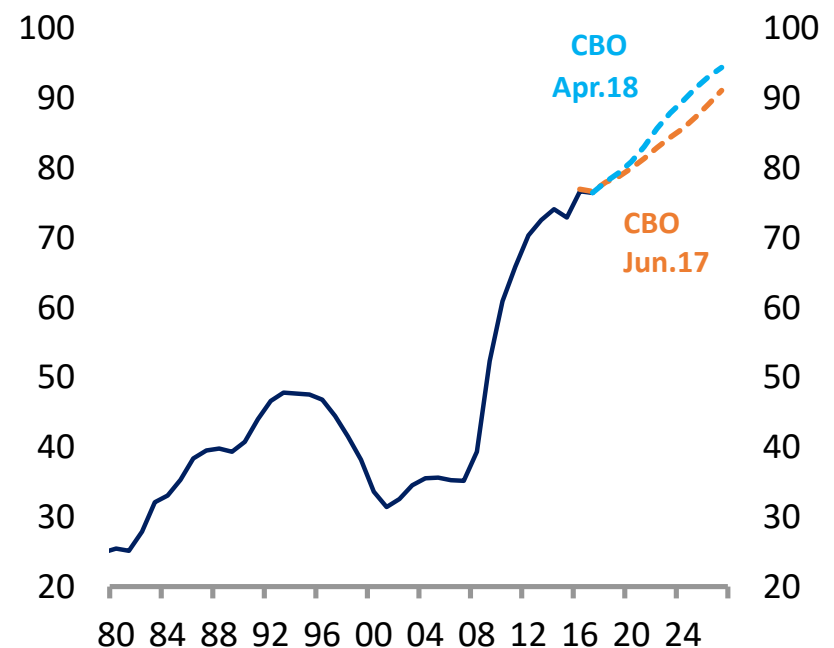
(percent of GDP)



Source: CBO

United States: Fiscal Debt

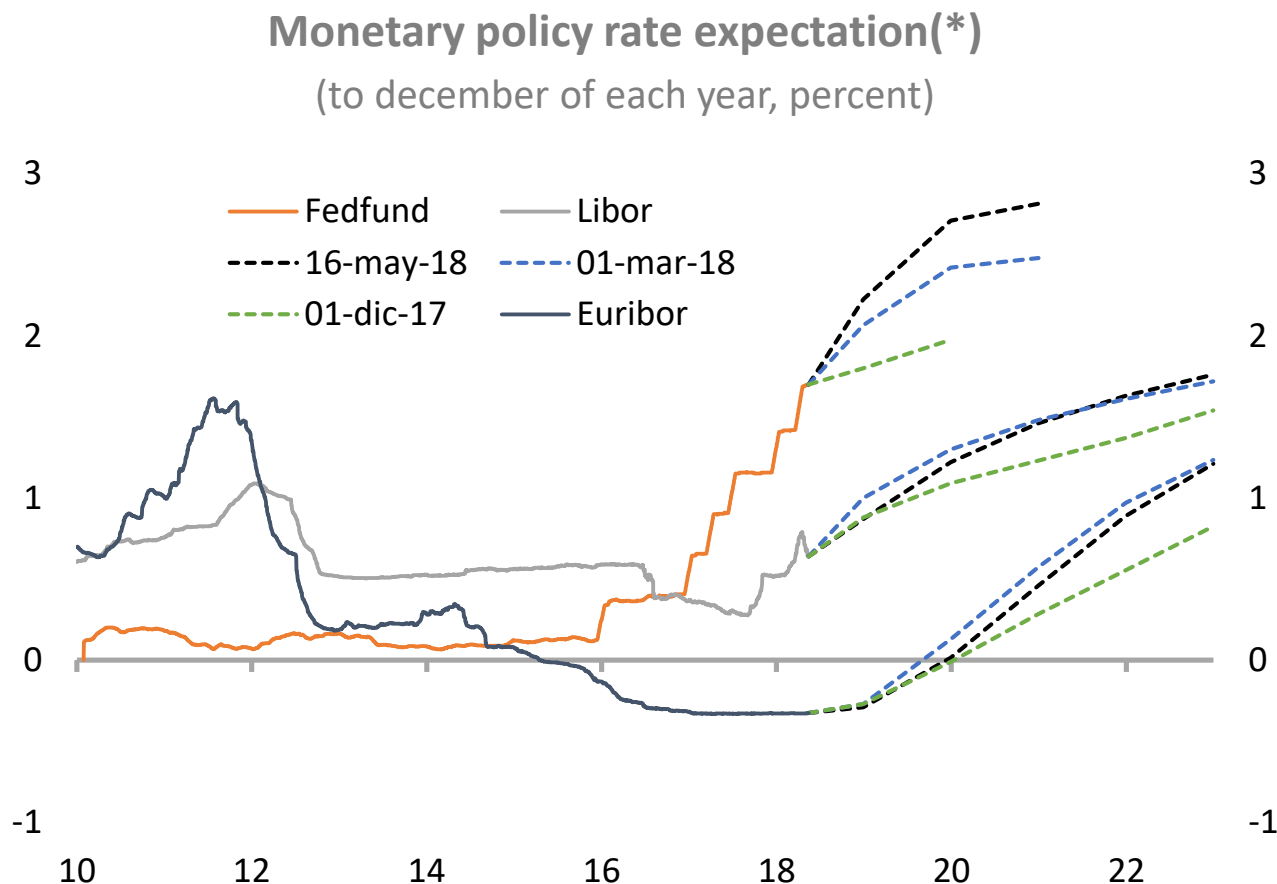
(percent of GDP)



Source: CBO



The markets are adjusting expectations and are pricing-in a faster and stronger monetary tightening, especially in the US

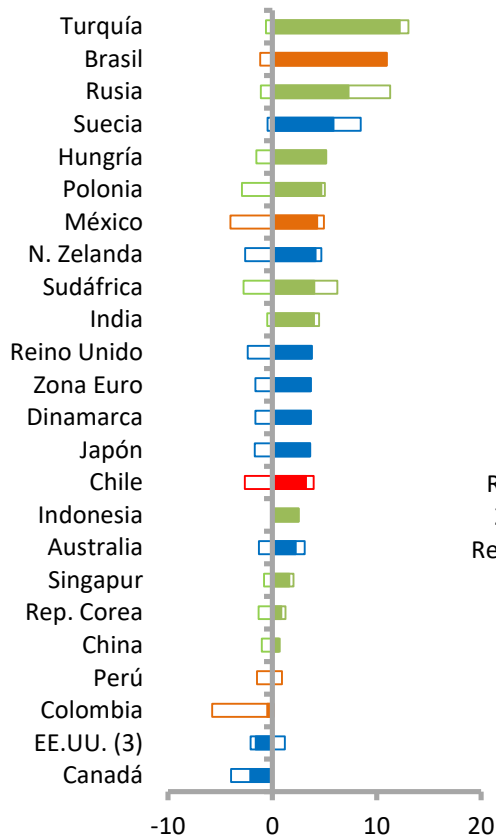


Source: Bloomberg.

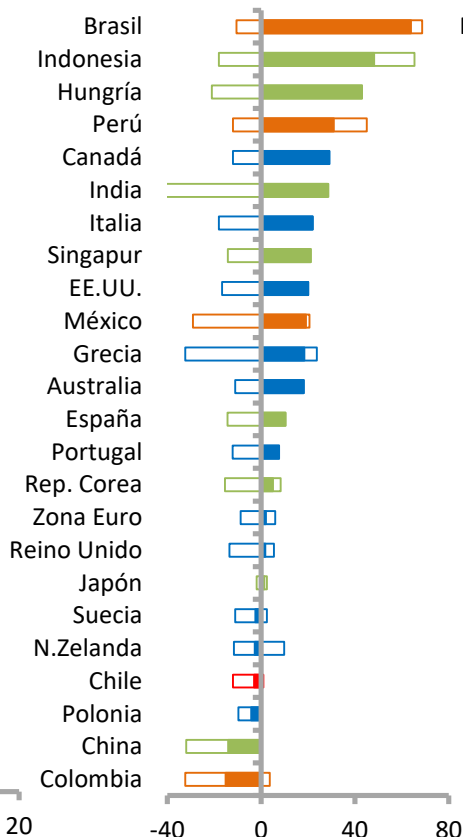


Recently (last 3 weeks) we have seen a sell-off in emerging markets

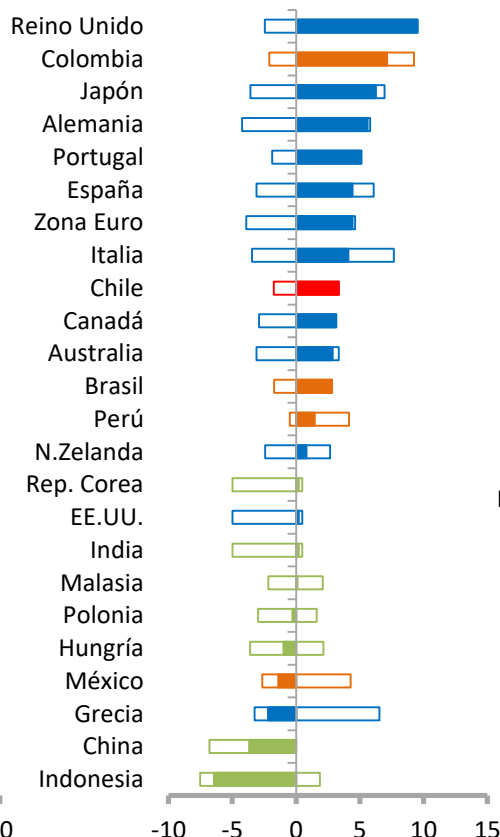
Nominal Exchange (1)(2)
(percent)



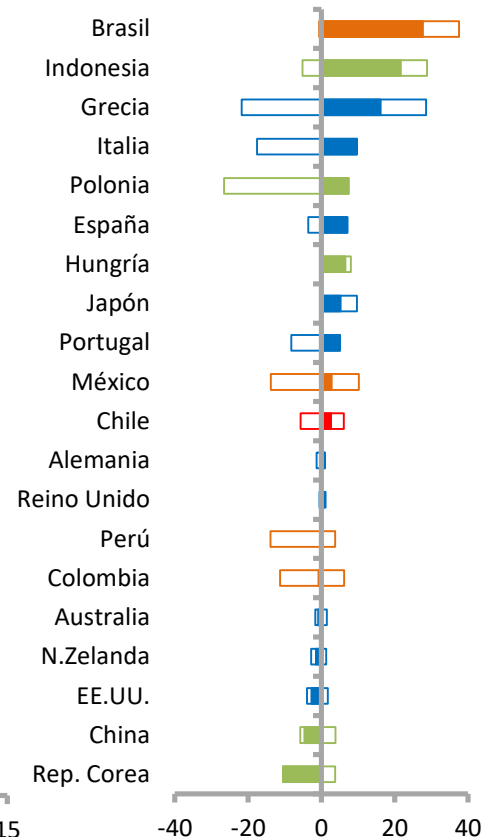
10 year rate(1)
(percent)



Stock exchange (1)
(percent)



CDS spread 5 years (1)
(bps)



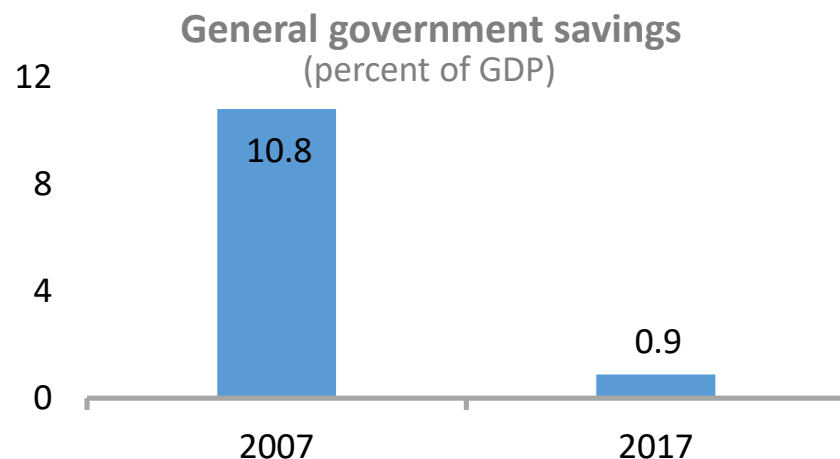
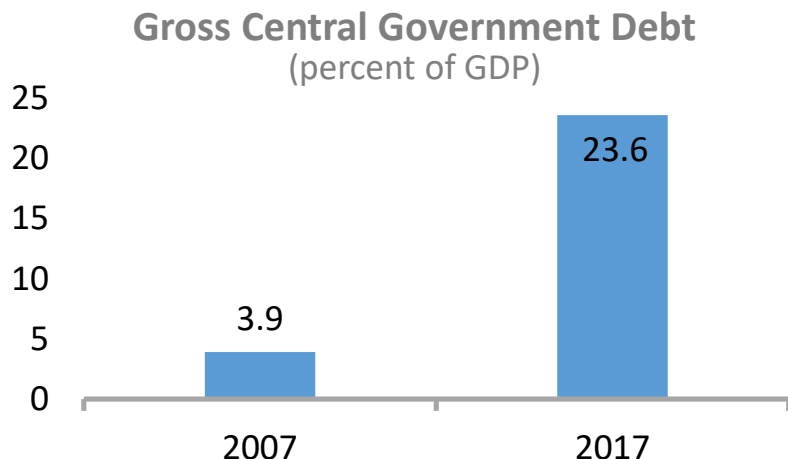
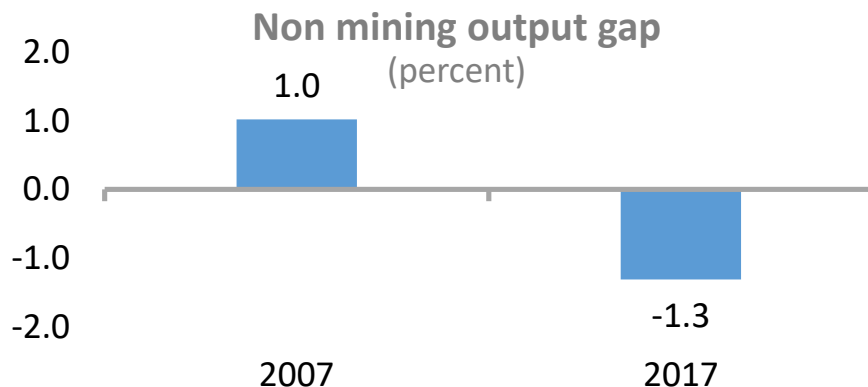
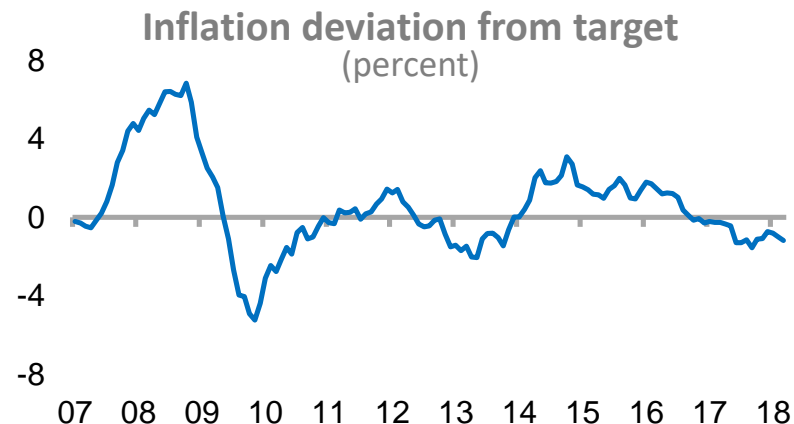
(1) Green bars denote emerging economies, oranges Latam countries and blue developed economies. Bold bars indicates the variation between the 20/03/2018 and 16/05/2018. The empty bars denote the changes between the minimum and maximum within the period. (2) An increase indicates depreciation. (3) Refers to the multilateral exchange rate.



How well prepared are we?



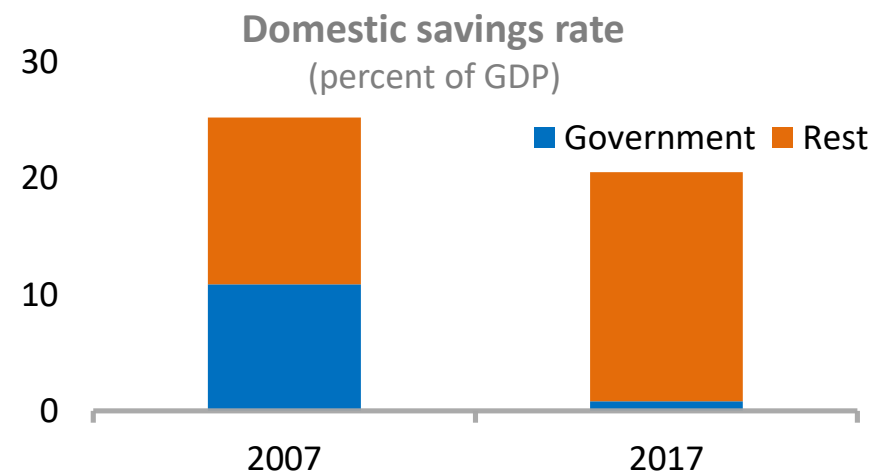
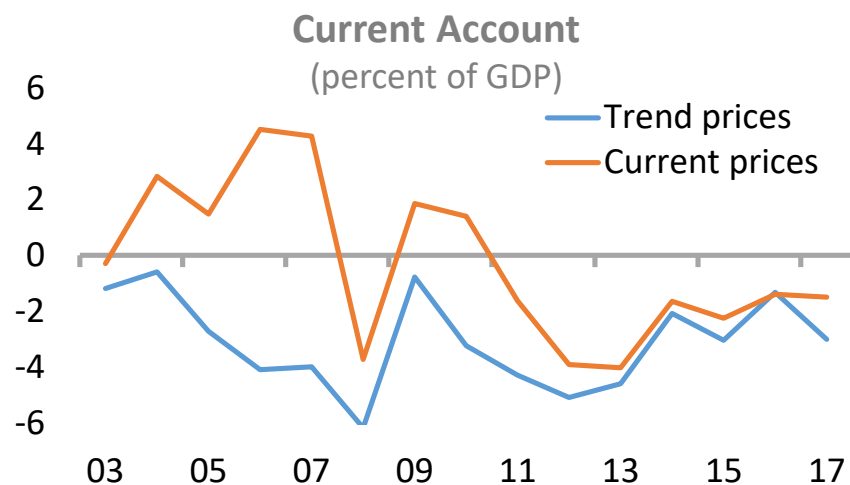
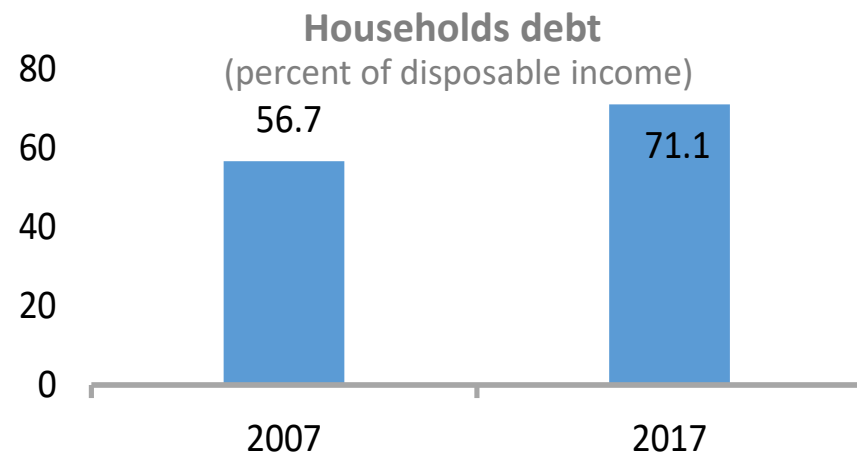
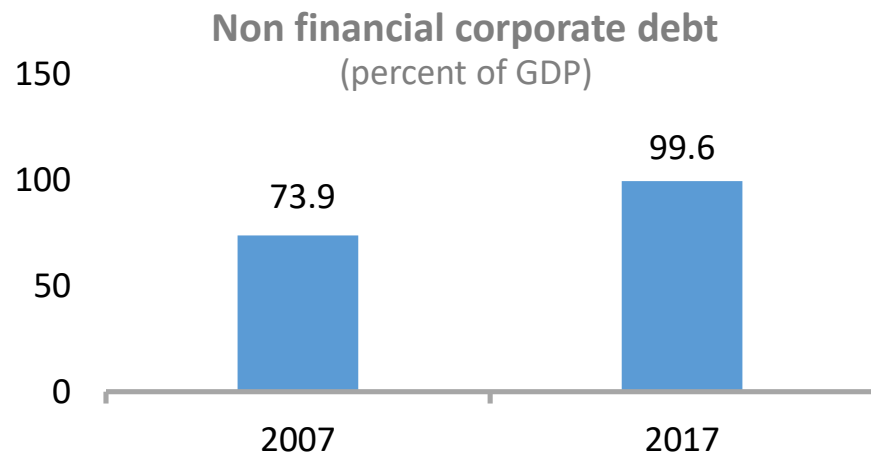
Comparing with 2007, lower inflation and the output gap gives more room for maneuver to monetary policy. Fiscal position remains strong, but not so much as in 2007



Source: Central Bank of Chile



Debts (firms and households) are higher than in the past. There are not large mismatches and the amount do not seem excessive. Domestic Savings rates are lower

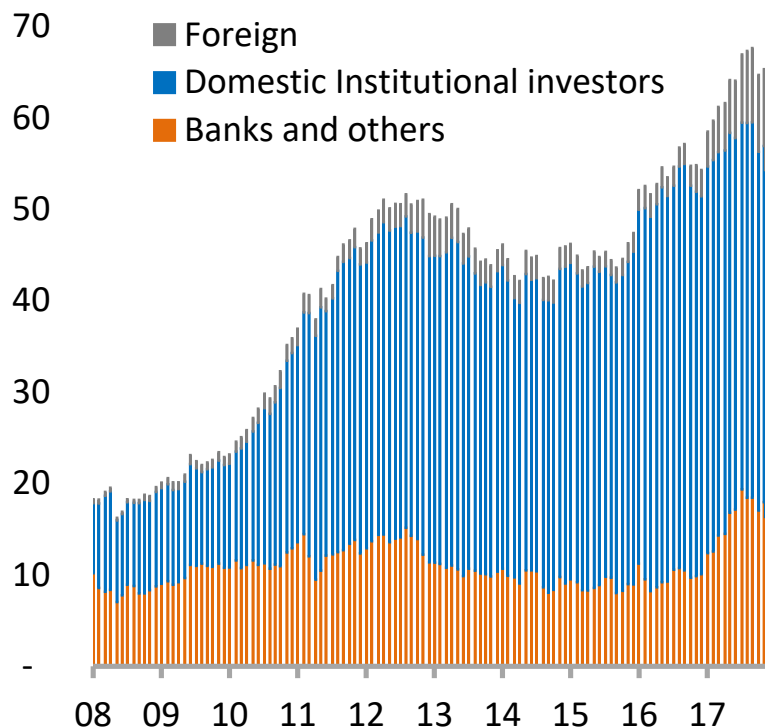


Source: Central Bank of Chile



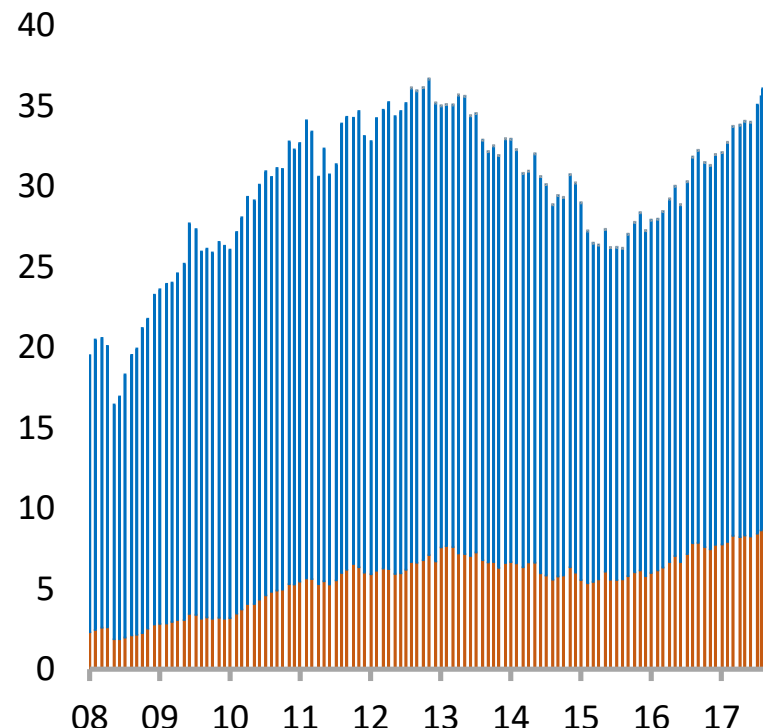
Even though debts are higher, the main sources of funding are domestic due to the large share of Institutional Investors

Chile: sovereign debt investors
(billions US\$)



Source: Central Bank of Chile

Chile: corporate debt by investor
(billions US\$)



Source: Central Bank of Chile



Final remarks

- The global outlook remains positive for Emerging Markets in general, and for Chile too.
- However, there are significant risks for long-term growth:
 - Weakening of multilateral arrangements supporting globalization and trade
 - Technological disruptions have impacted in the social and political climate across the World and especially in the More Advanced countries.
 - Geopolitical climate has become more divisive and locally focused at a time that global issues require more cooperation
 - Rising political & military tensions across the World
- Recent financial turmoil is part of the reaction to the better short term outlook for growth in the US
- In Chile most of the impact has been on the exchange rate, the cyclical position of the economy allows us to absorb it without problems.
- In the event of major adverse shocks, Chile remains strong, but it has less room for counter cyclical policies, especially on the fiscal side.





Recent financial stability developments from an Emerging Market Economy perspective

Joaquín Vial

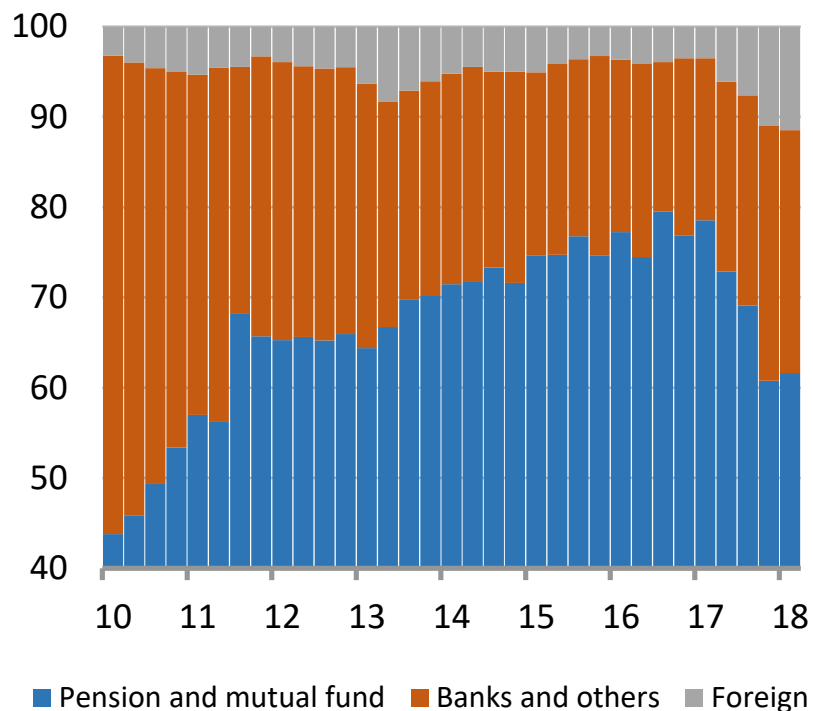
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Central Bank of Chile, May 2018

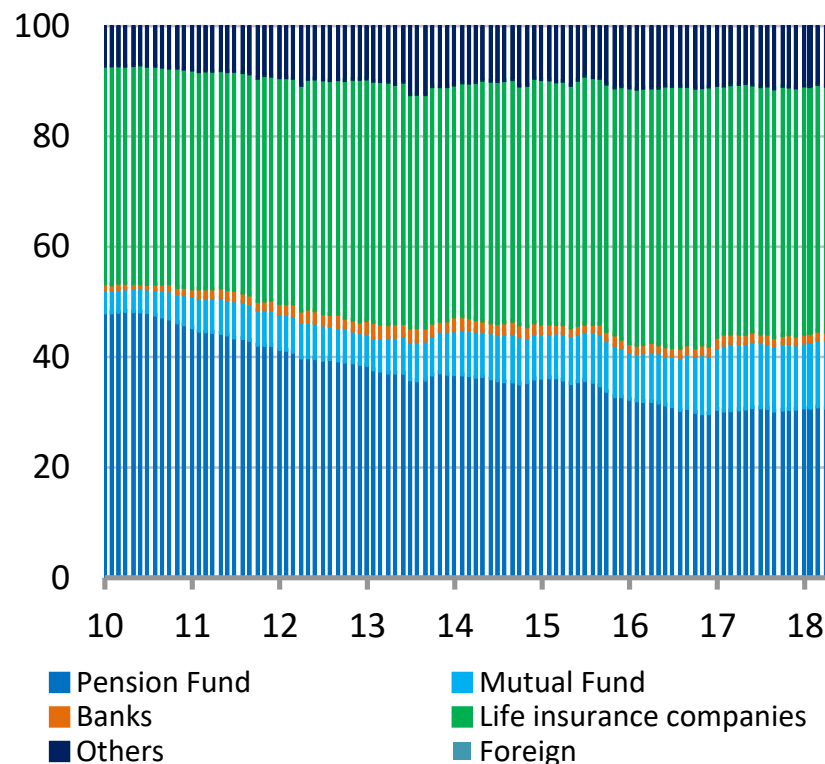
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Chile: sovereign debt investor
(percent)



Source: Central Bank of Chile

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