World Economic and Financial Outlook

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* The opinions contained in this presentation are the sole responsibility of the author and do not represent the Banco de la República or its Board of Directors.
Risks and vulnerabilities

- Trade tensions and uncertainty
- Lower global growth

Short-term effects

- Monetary stimulus
- Asset prices
• **Trade tensions** are an important source of uncertainty in the global economy.

Escalation
Tariffs on exports, %

Chinese tariffs on US exports
US tariffs on Chinese exports

Forecast
30
25
20
15
10
5
0

Source: Peterson Institute for International Economics

The Economist
• **Trade tensions** are affecting international trade flows.

![International Trade Volume – Annual Growth Rate](chart)

Furthermore, brexit and geopolitical developments add to the current uncertain environment.

Source: Bloomberg

The GEPU index is a GDP-weighted average of national EPU indices for 16 countries that account for two-thirds of global output. Each national EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy, uncertainty and policy-related matters.
Risks and vulnerabilities

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Asset prices
Deepening gloom

GDP growth forecasts for 2019 (%), by date made

*sub-Saharan Africa

Source: IMF World Economic Outlook

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• The global economy is decelerating, and growth forecasts are lower.
• Trade tensions and uncertainty might be the reason behind lower growth.
The signs of global deceleration are clear in the manufacturing sector. On the other hand, consumption remains strong.

Fuente: Bloomberg, St. Louis Fed and ECB. For the United States, growth of the Personal Consumption Expenditure (PCE).
And unemployment very low

Source: Bloomberg.
The lower growth rate in China is of particular concern. A profound deceleration could have consequences on the region through the trade and investment channels.

**China - GDP Annual Growth rate**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2017Q1</th>
<th>2017Q2</th>
<th>2017Q3</th>
<th>2017Q4</th>
<th>2018Q1</th>
<th>2018Q2</th>
<th>2018Q3</th>
<th>2018Q4</th>
<th>2019Q1</th>
<th>2019Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>6.8%</td>
<td>6.8%</td>
<td>6.7%</td>
<td>6.7%</td>
<td>6.8%</td>
<td>6.7%</td>
<td>6.5%</td>
<td>6.4%</td>
<td>6.4%</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

**Exports to China as a percentage of total exports**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>27.58</td>
<td>26.28</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Fuente: UNCOMTRADE y DANE
• Trade tensions could be behind lower growth. Countries more exposed to international trade, and to the regions involved in trade tensions, have seen a larger deceleration in manufacturing activity.

![Graph showing exposure to international trade and changes in manufacturing activity.](image)

**Y = -0.0997x + 0.6512**  
**R² = 0.2195**  
**P-value = 0.0078**

Source: Banrep, IMF – Direction of Trade Statistics and Bloomberg. Based on a graph for the BIS June meeting of Governors.
• Besides affecting growth levels, the highly uncertain environment could cause higher volatility in Latam currencies through more volatile commodity prices.

### Results of a IGARCH (1,1) model

<table>
<thead>
<tr>
<th></th>
<th>COP volatility</th>
<th>BRL volatility</th>
<th>CLP volatility</th>
<th>MXN volatility</th>
<th>PEN volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Uncertainty</td>
<td>0.000022**</td>
<td>0.0059***</td>
<td>0.0027***</td>
<td>0.000012</td>
<td>0.0017***</td>
</tr>
<tr>
<td></td>
<td>(0.000011)</td>
<td>(0.0030)</td>
<td>(0.0010)</td>
<td>(0.000013)</td>
<td>(0.0003)</td>
</tr>
<tr>
<td>Interest rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>differential</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>volatility</td>
<td>-0.0221**</td>
<td>0.0478*</td>
<td>0.0630***</td>
<td>-0.0064</td>
<td>0.0072***</td>
</tr>
<tr>
<td></td>
<td>(0.0106)</td>
<td>(0.0258)</td>
<td>(0.0204)</td>
<td>(0.0061)</td>
<td>(0.0026)</td>
</tr>
<tr>
<td>Oil volatility</td>
<td>0.0019**</td>
<td></td>
<td></td>
<td>0.0042**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.0080)</td>
<td></td>
<td></td>
<td>(0.0020)</td>
<td></td>
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<tr>
<td>Soy volatility</td>
<td></td>
<td>0.0055***</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>(0.0021)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Copper volatility</td>
<td></td>
<td></td>
<td>0.0024**</td>
<td></td>
<td>0.0000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.0011)</td>
<td></td>
<td>(0.0000)</td>
</tr>
</tbody>
</table>

Source: Banco de la República. Coefficients are obtained from the following IGARCH(1,1) M model with a sample from Jan 2003 to Sep 2019:

\[
\text{Returns} = \beta_0 + \beta_1 \text{Returns}_{t-1} + \beta_2 \Delta \text{Interest Rate Differential}_t + \beta_3 \Delta CDS + \beta_i \text{Commodities Returns} + \beta_5 \sqrt{\sigma^2_t} + \epsilon_t
\]

\[
\sigma^2_t = \alpha_1 \epsilon^2_{t-1} + \alpha_2 \sigma^2_{t-1} + \alpha_4 \text{Trade Uncertainty} + \alpha_5 \text{Vol Commodities Returns} + \alpha_6 \text{Volatility of Interest Rate Differential}, \quad \text{where } \alpha_1 + \alpha_2 = 1
\]
Surveys in Colombia: manufacturing, trade and consumption

Source: Fedesarrollo
Consumption surveys in Latin America
Risks and vulnerabilities

Trade tensions and uncertainty

Lower global growth

Short-term effects

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Asset prices
Global liquidity continues to be strong, and given the lower growth and higher uncertainty, markets expect monetary policy easing in the future.
Emerging markets could benefit from monetary easing through higher capital flows. However, an increase in international uncertainty could alter the financing conditions for these economies.
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Changes in monetary policy expectations, lower growth, and higher international uncertainty have influenced long-term yields in advanced economies.
This change could have consequences on local yields and financial conditions.

• Some countries might be more sensitive to this spillover given the participation of foreign investors in their financial markets.

• Some currencies in the region are experiencing a decoupling from their traditional fundamental factors.
Thank you