World Economic and Financial Outlook

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CVIII Meeting of Central Bank Governors - CEMLA

* 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.

- **Trade tensions** are affecting international trade flows.

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

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

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

April 2018  October 2018  July 2019

*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

(%)
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.
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.

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><strong>Trade Uncertainty</strong></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><strong>Interest rate differential volatility</strong></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><strong>Oil volatility</strong></td>
<td>0.0019**</td>
<td></td>
<td></td>
<td></td>
<td>0.0042**</td>
</tr>
<tr>
<td></td>
<td>(0.0080)</td>
<td></td>
<td></td>
<td></td>
<td>(0.0020)</td>
</tr>
<tr>
<td><strong>Soy volatility</strong></td>
<td></td>
<td>0.0055***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.0021)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Copper volatility</strong></td>
<td></td>
<td>0.0024**</td>
<td></td>
<td></td>
<td>0.0000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.0011)</td>
<td></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:

\[
\text{Returns} = \beta_0 + \beta_1 \text{Returns}_{t-1} + \beta_2 \Delta \text{Interest Rate Differential}_t + \beta_3 \Delta \text{CDS} + \beta_4 \text{Commodities Returns} + \beta_5 \sqrt{\sigma_t^2} + \epsilon_t
\]

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

Source: Fedesarrollo
Consumption surveys in Latin America
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Global liquidity continues to be strong, and given the lower growth and higher uncertainty, markets expect monetary policy easing in the future.

Source: Bloomberg
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.

Source: Bloomberg and IIF.
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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.

Source: Bloomberg
Thank you