



CONFERENCE ON GLOBAL ECONOMIC ISSUES

# Rising Challenges for Emerging Markets

Alan M. Taylor  
UC Davis, NBER, and CEPR

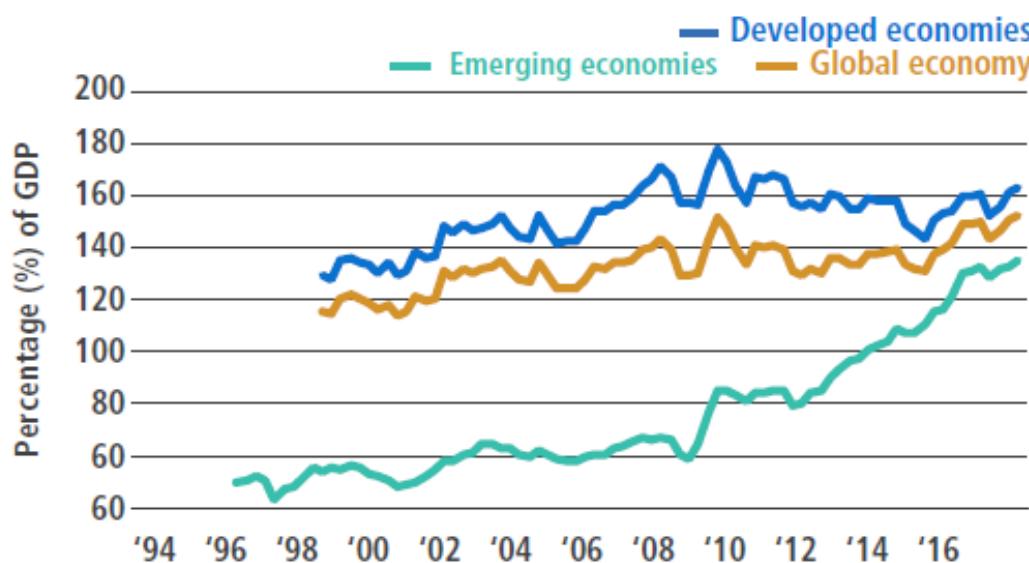
Clausen Conference  
UC Berkeley  
16 November 2019

# Three familiar themes

1. Credit booms and busts
2. The trilemma
3. Reserves

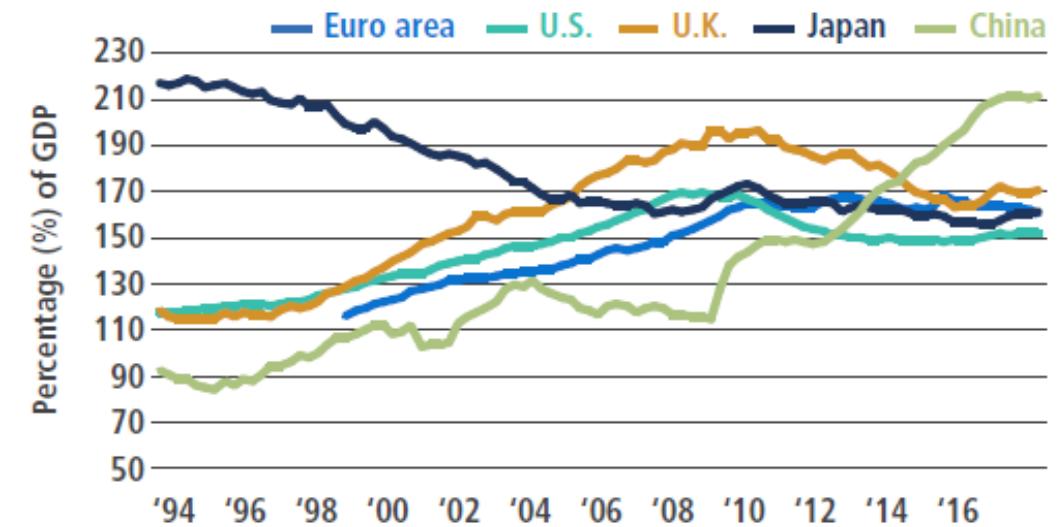
# 1. Credit booms and busts

Figure 3: Private nonfinancial (household and nonfinancial corporate) debt, % GDP



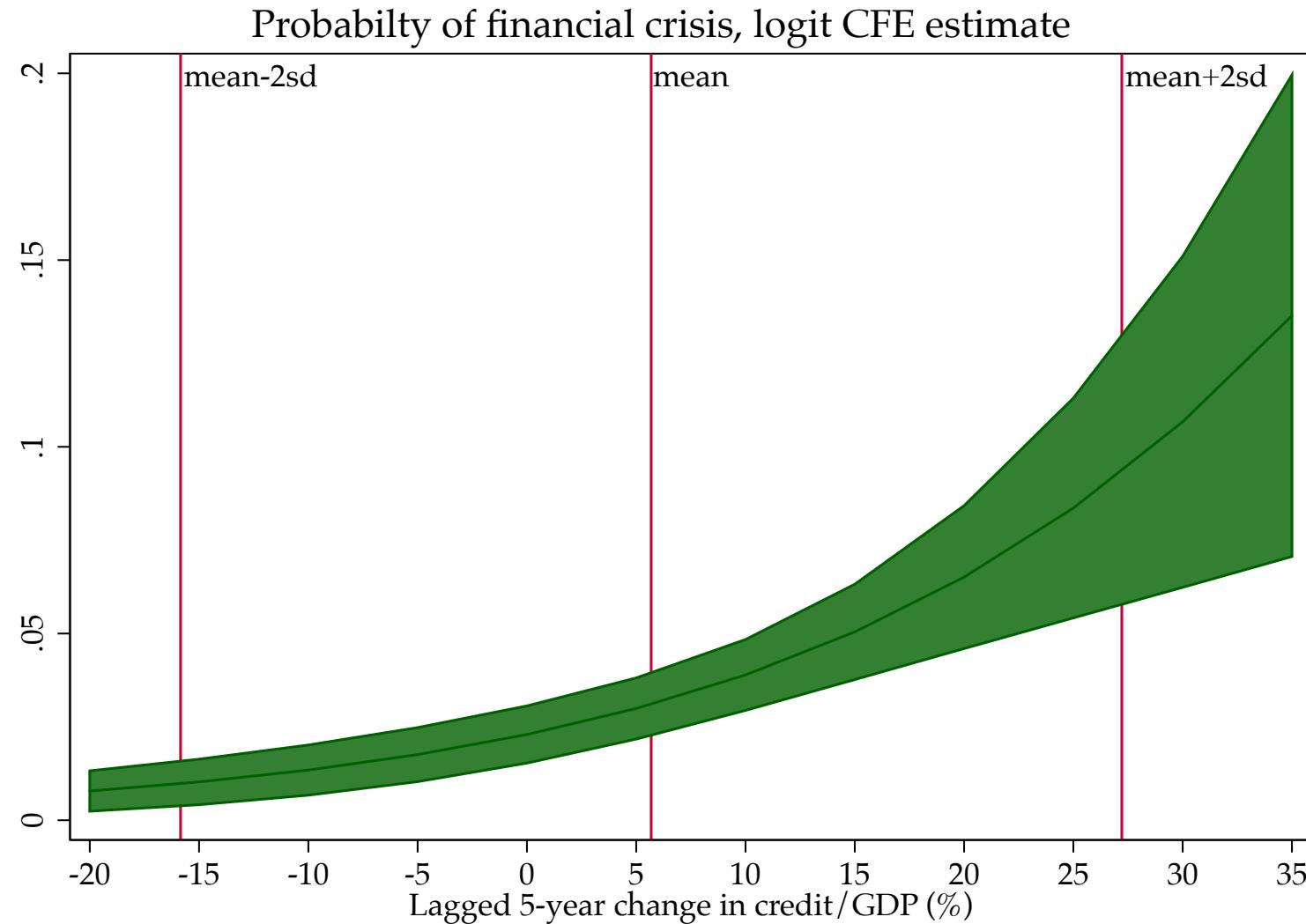
Source: Bank for International Settlements (BIS) as of March 2018

Figure 4: Private nonfinancial (household and nonfinancial corporate) debt, % GDP



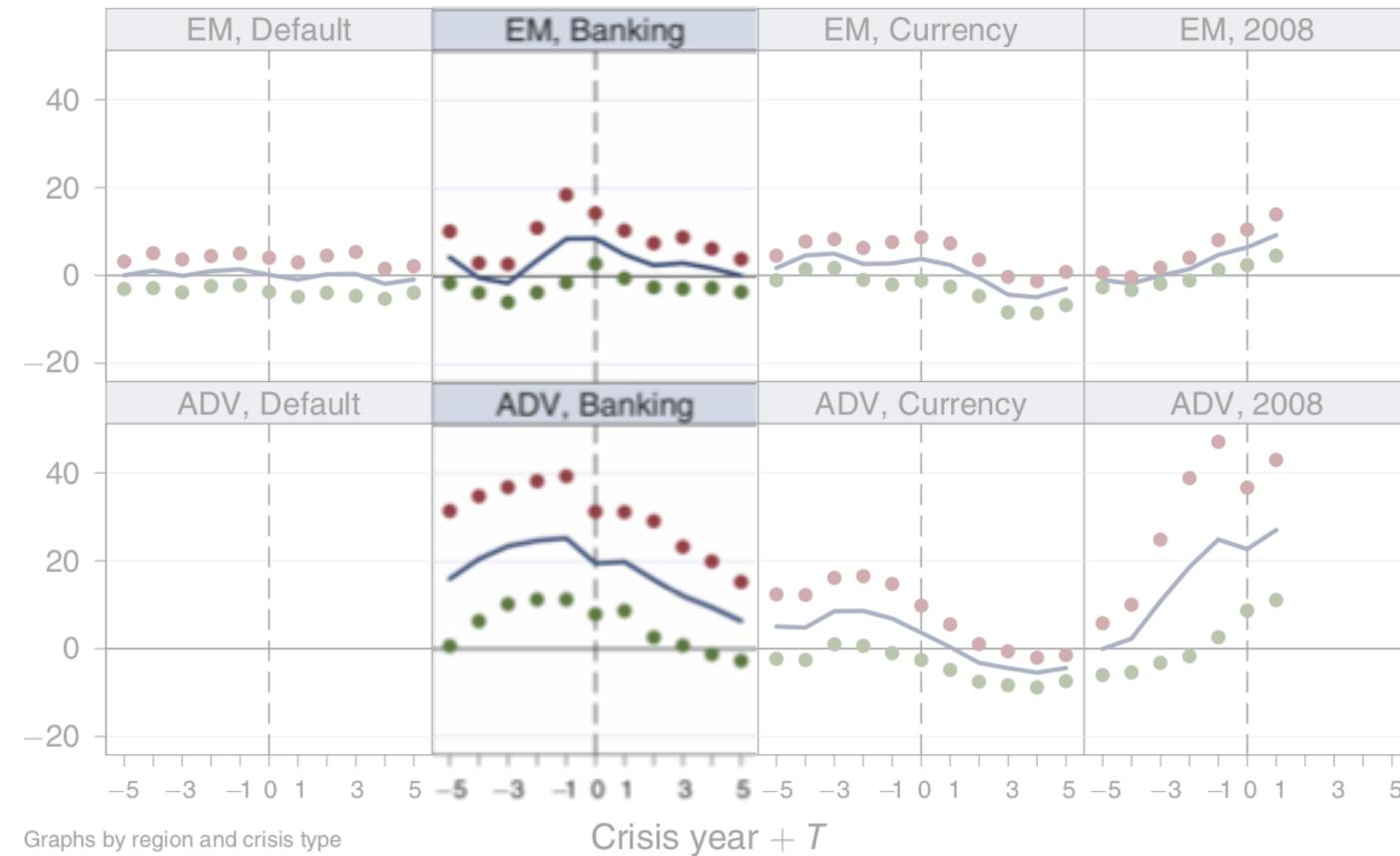
Source: Bank for International Settlements (BIS) as of March 2018

# 1. Credit booms and busts

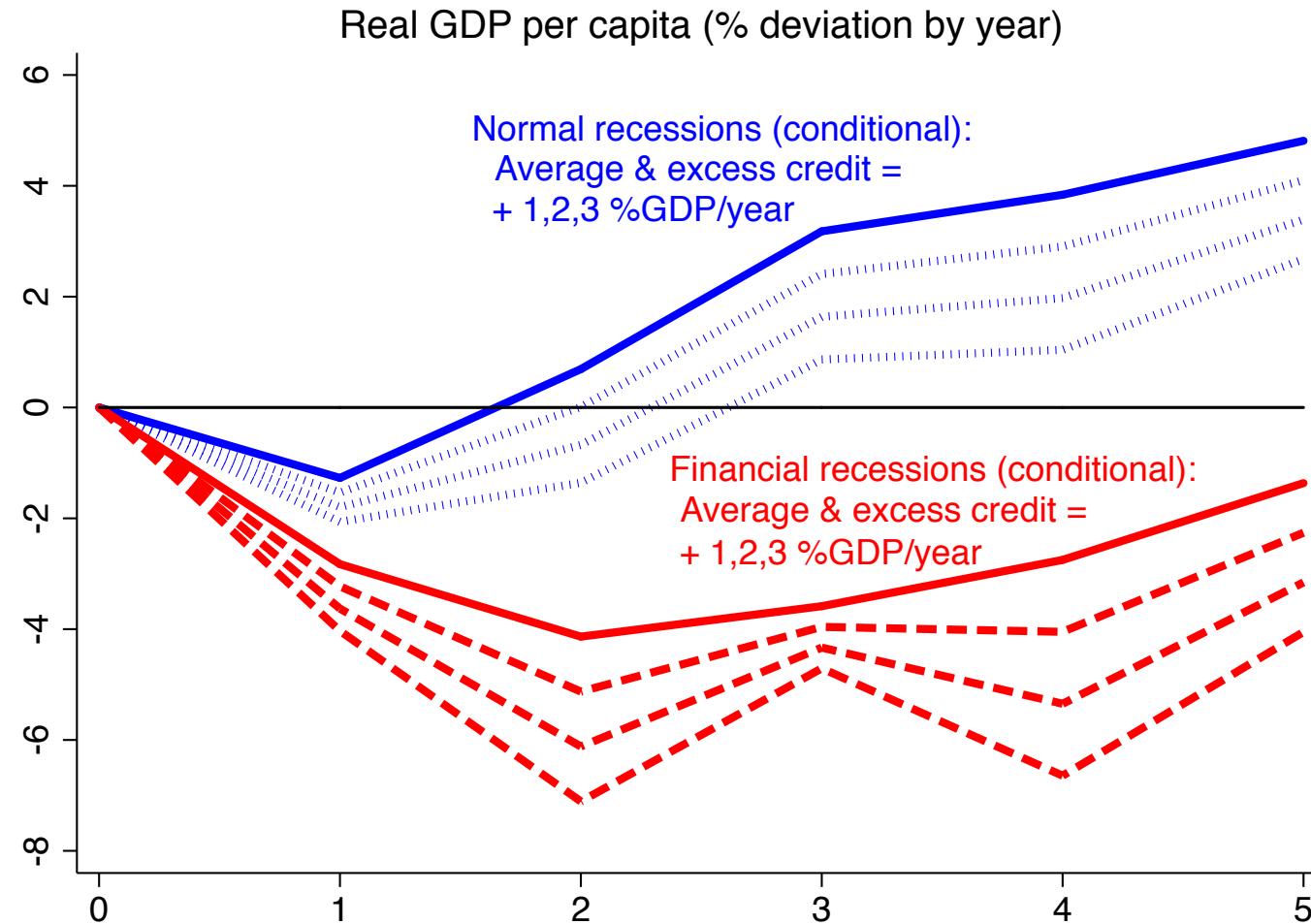


# 1. Credit booms and busts

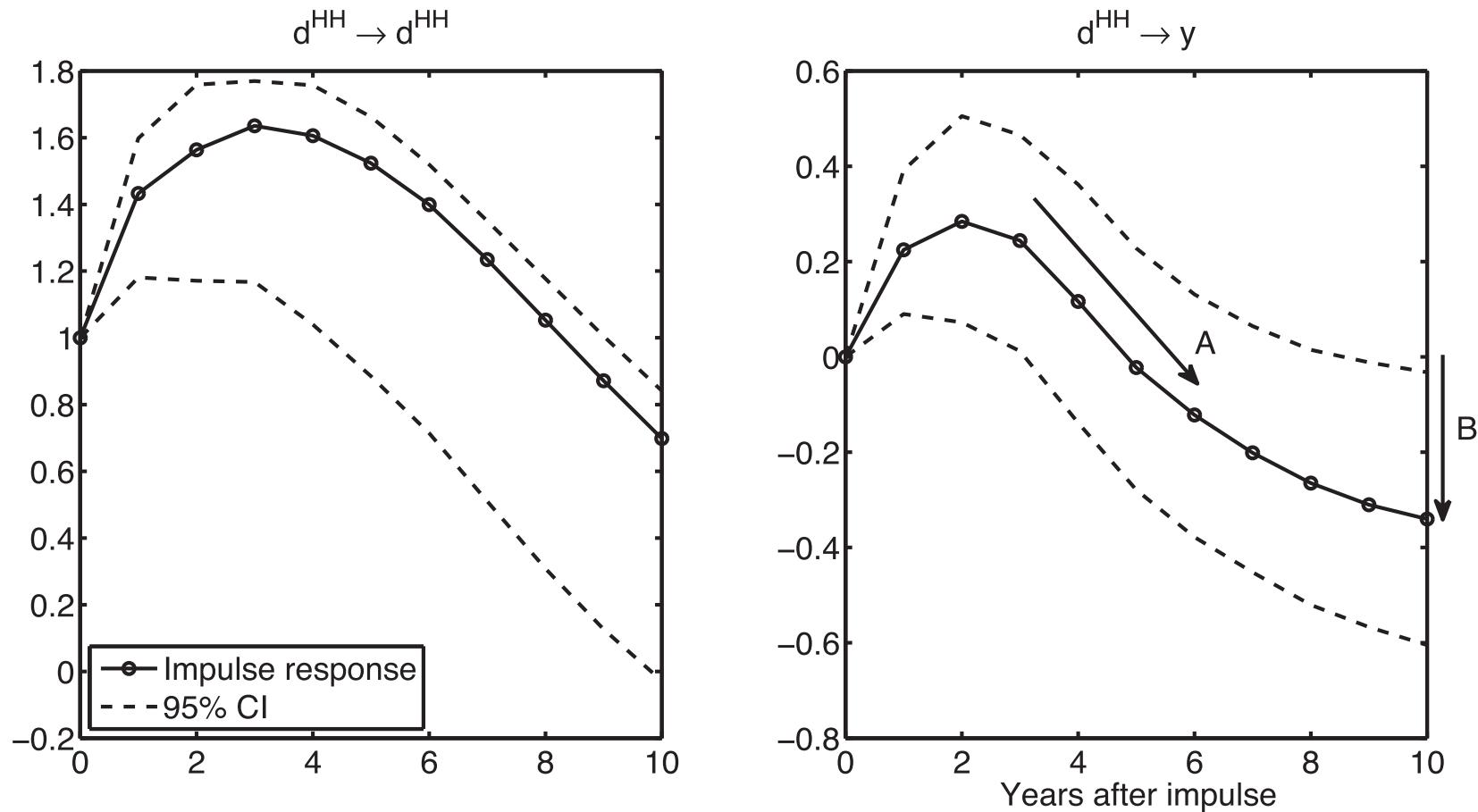
Panel A. Domestic credit (percent of GDP)



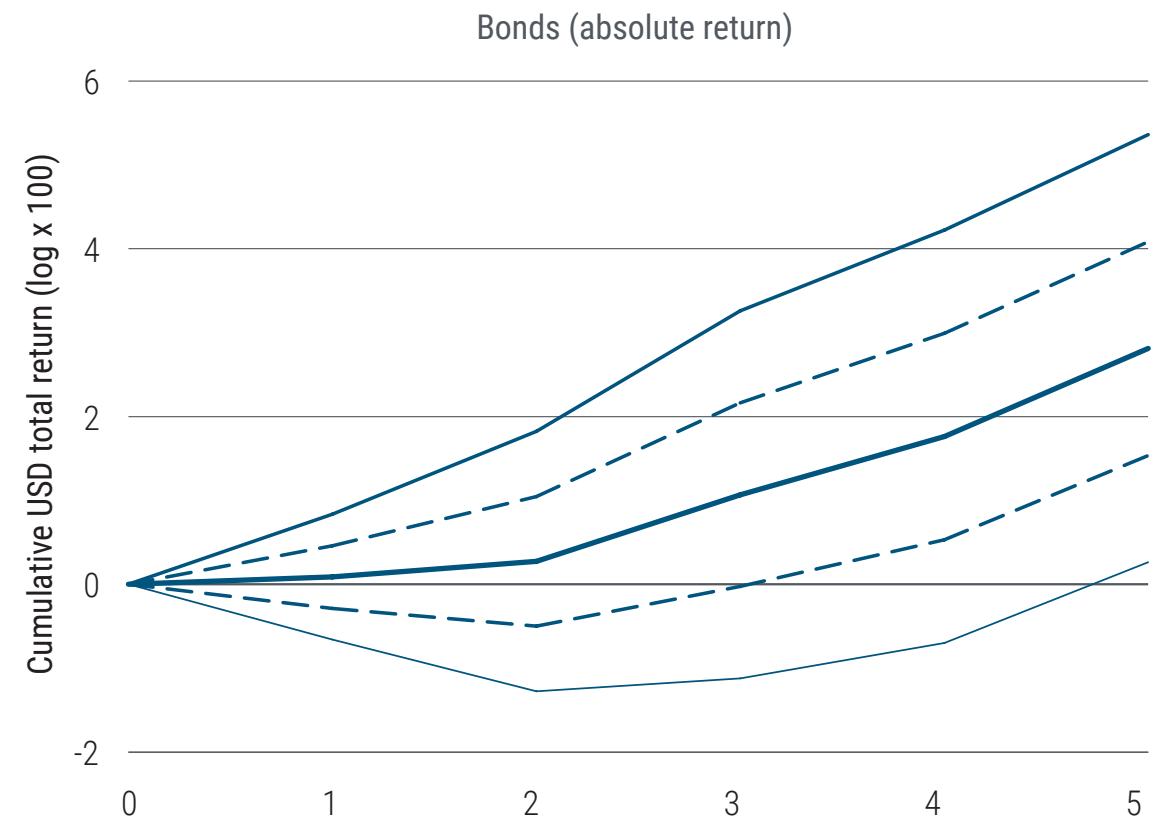
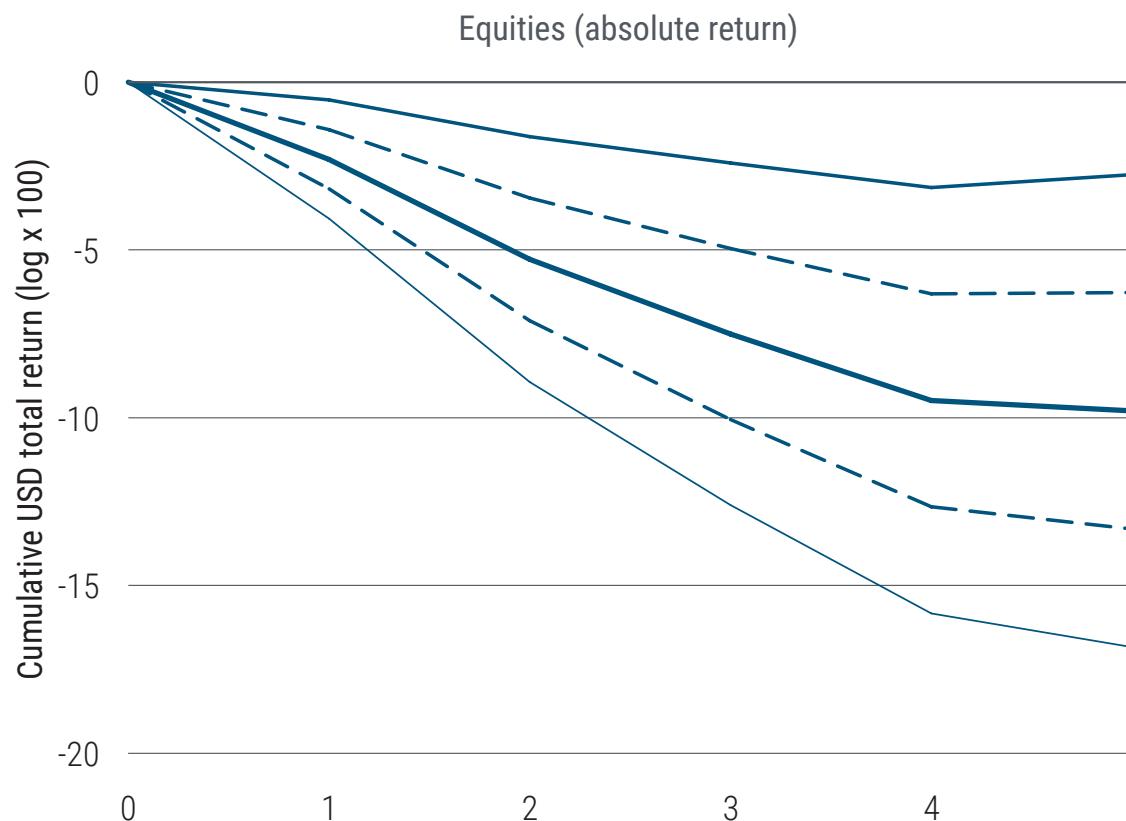
# 1. Credit booms and busts



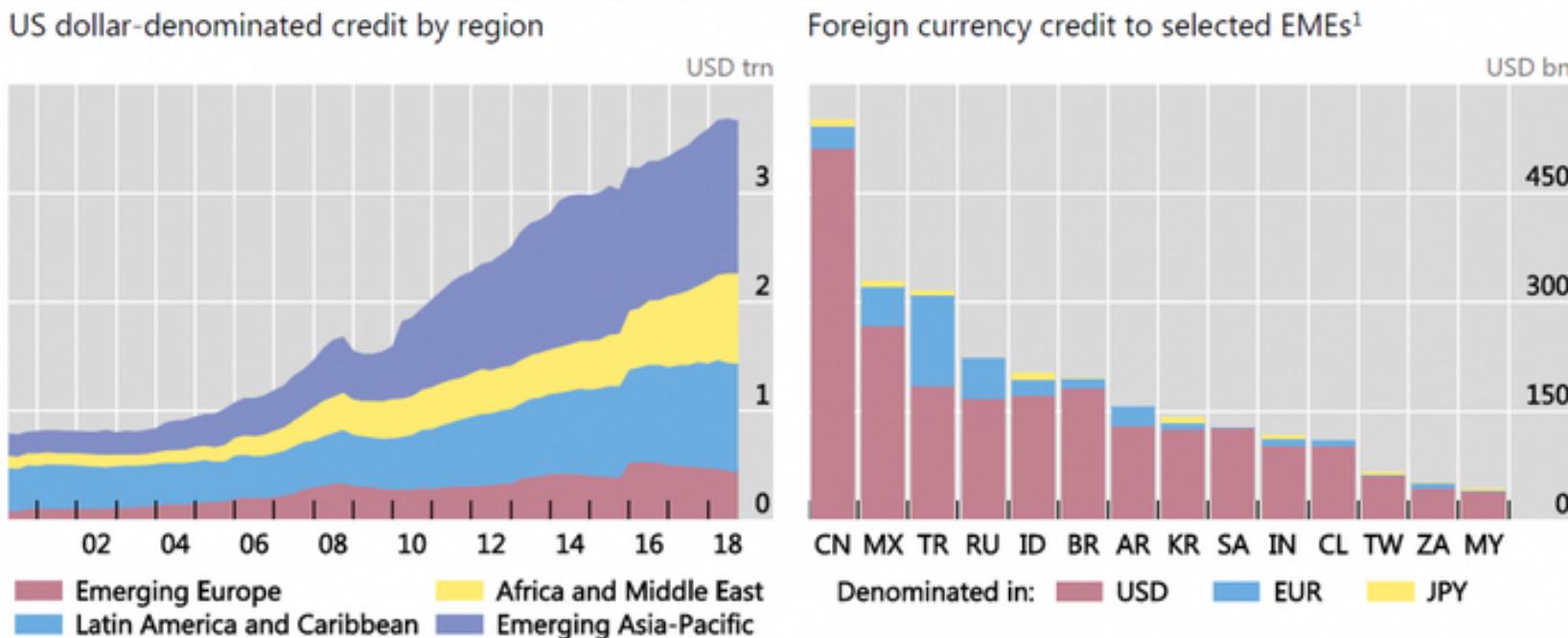
# 1. Credit booms and busts



# 1. Credit booms and busts



## 2. Trilemma



Further information on the BIS global liquidity indicators is available at [www.bis.org/statistics/about\\_gli\\_stats.htm](http://www.bis.org/statistics/about_gli_stats.htm).

<sup>1</sup> Amounts outstanding for the latest available data.

## 2. Trilemma

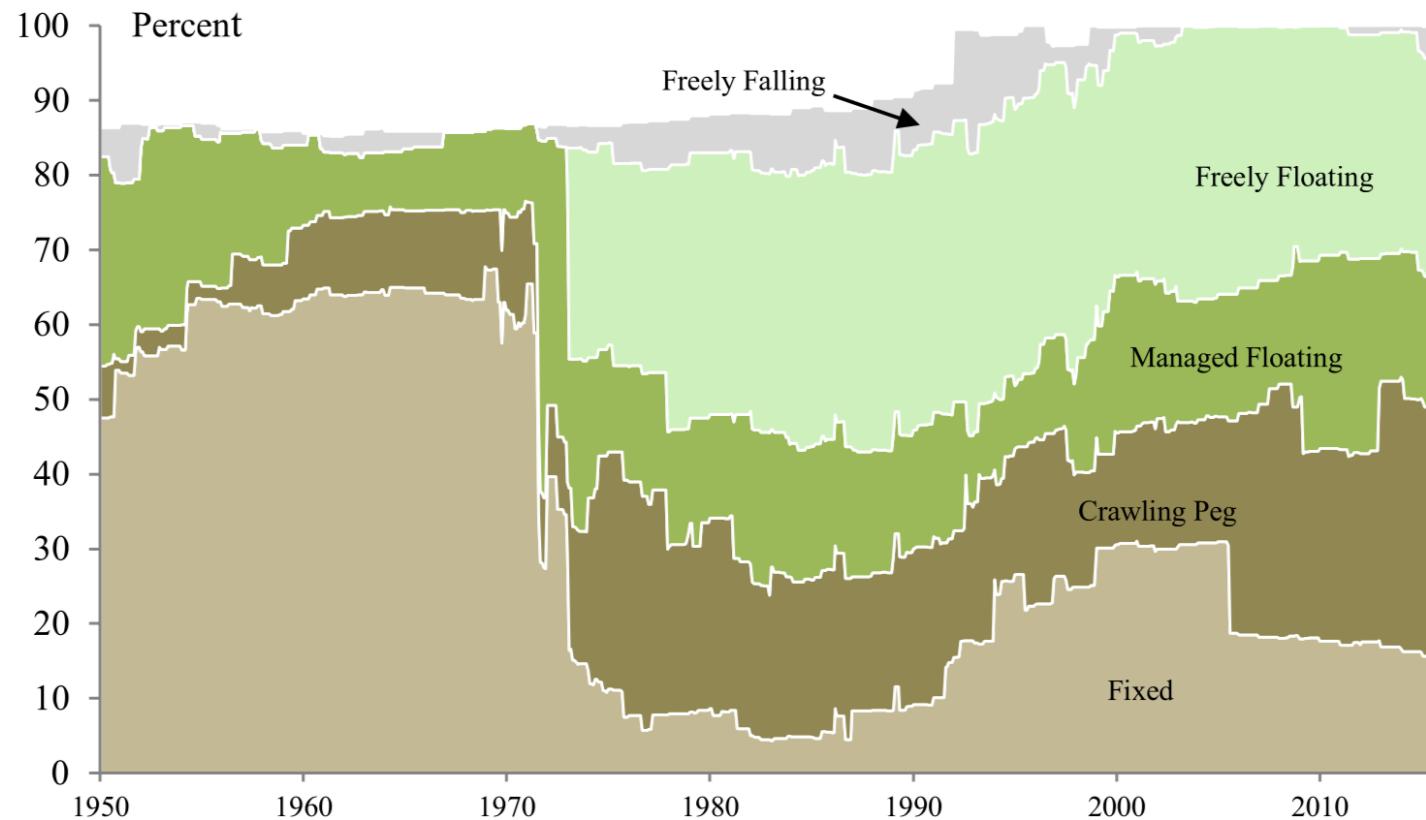


FIGURE IV

De Facto Exchange Rate Arrangements, Coarse Classification, 1946–2016: Share of World GDP in Each Group

## 2. Trilemma

*Number of countries weighted by their share in world GDP, 1950–2015, excludes freely falling cases*

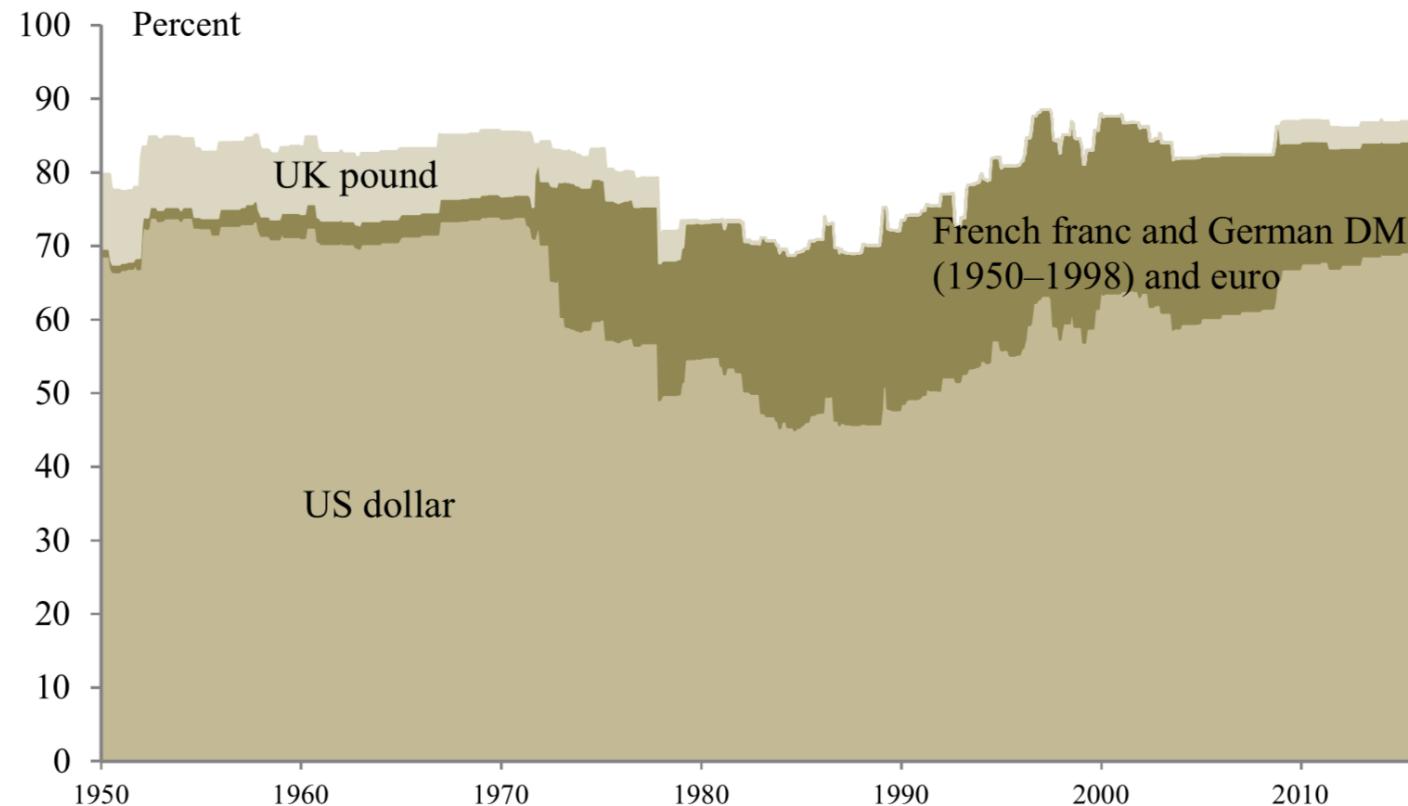


FIGURE II

Post–World War II Major Anchor Currencies

## 2. Trilemma

*All independent countries*

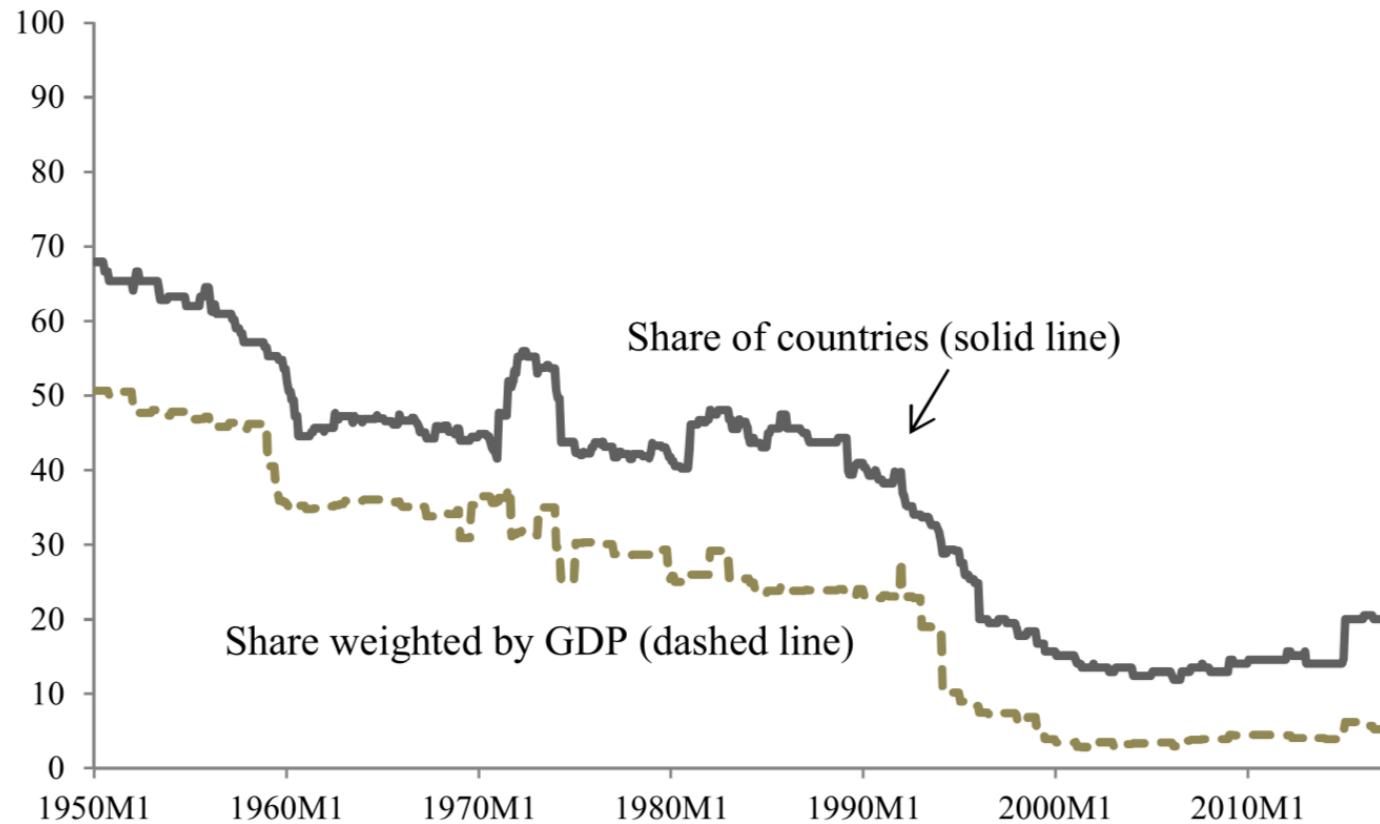
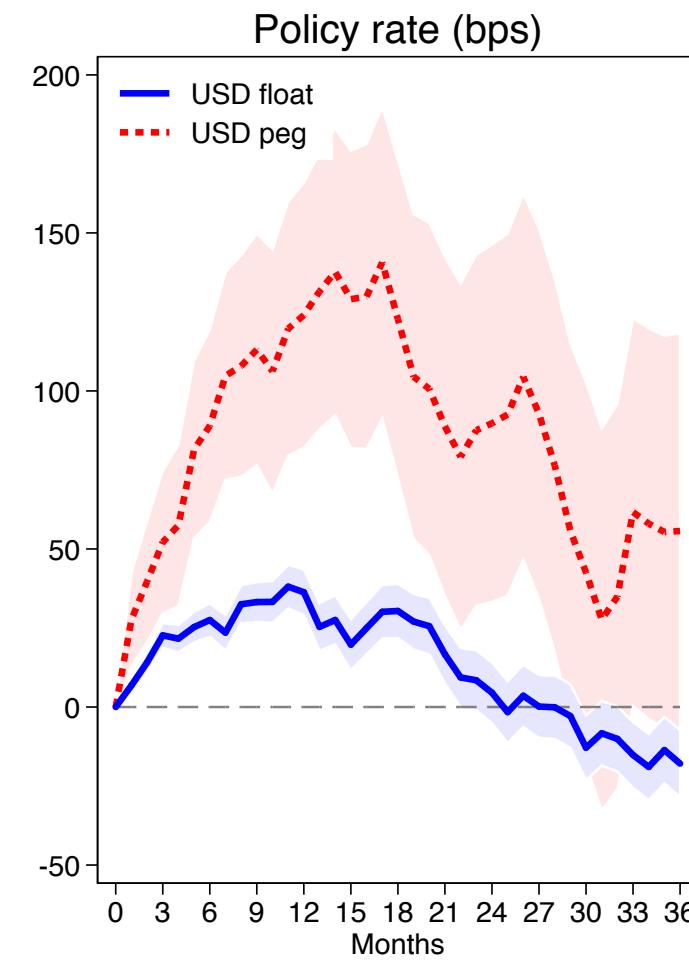
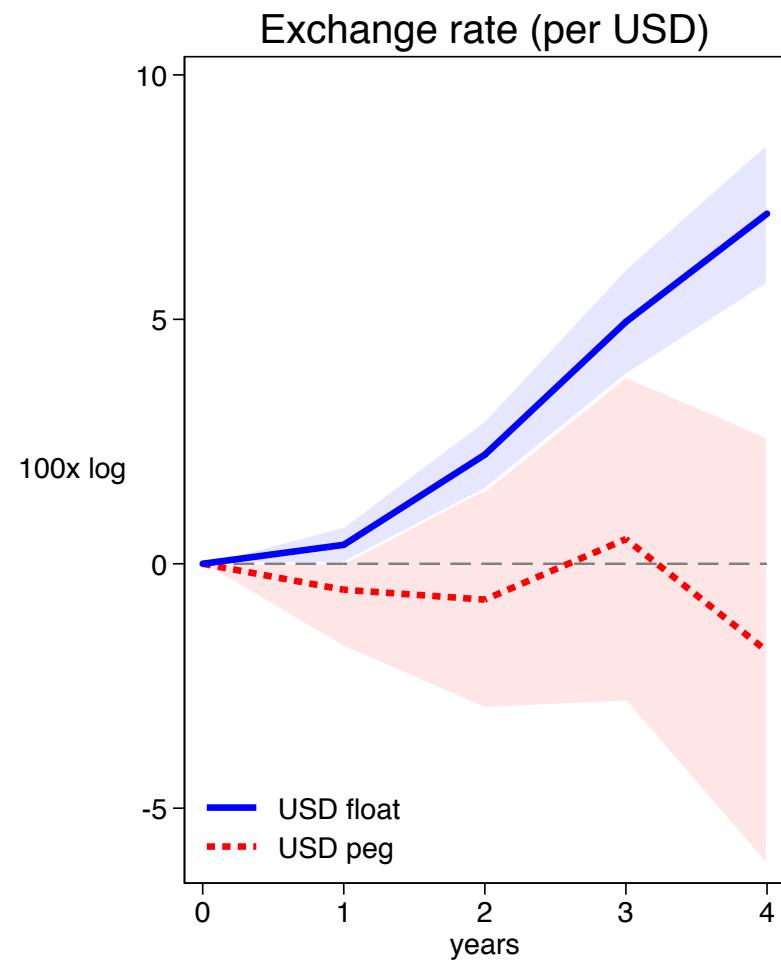


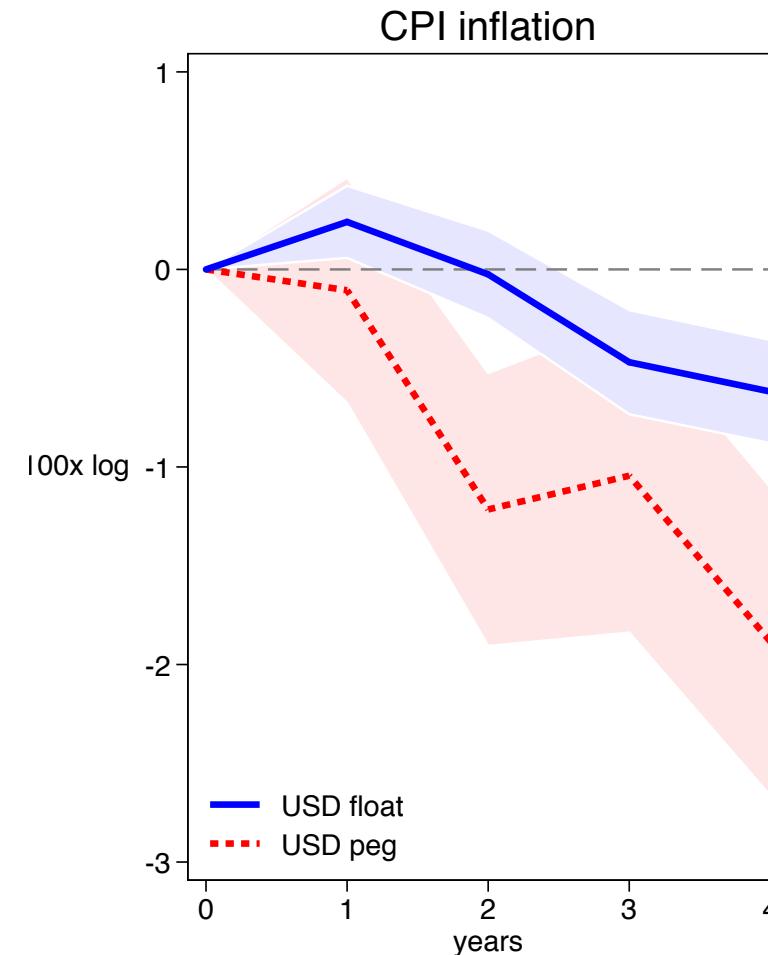
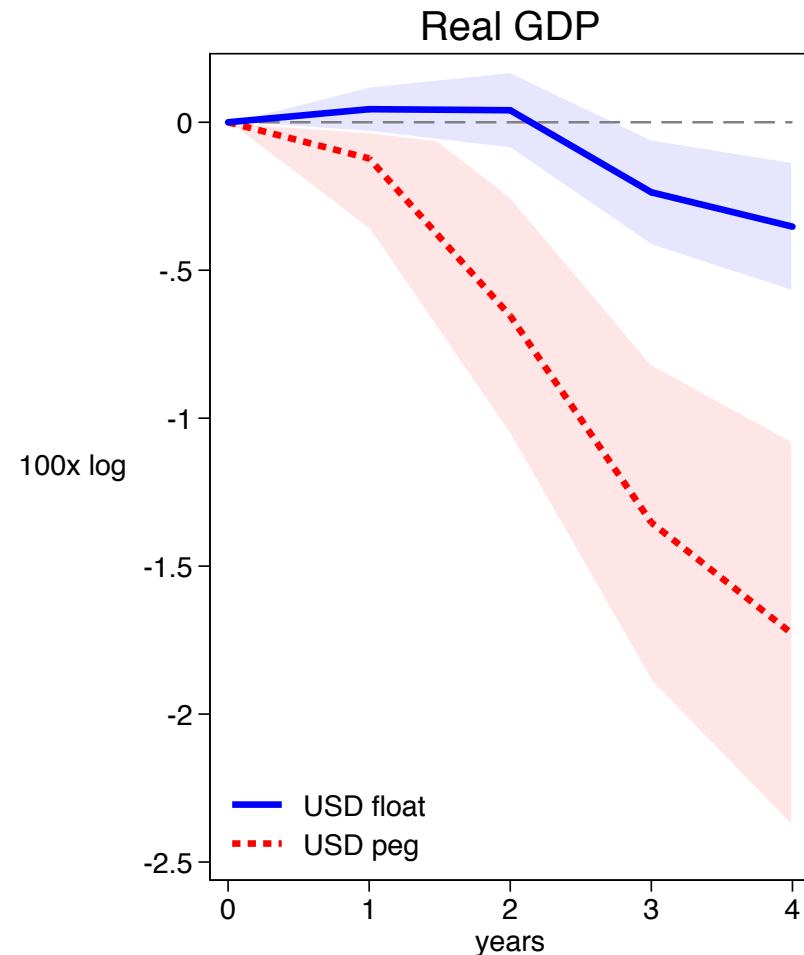
FIGURE VI

Share of Independent Countries with Dual, Multiple, or Parallel Exchange Rates,  
January 1950–September 2016

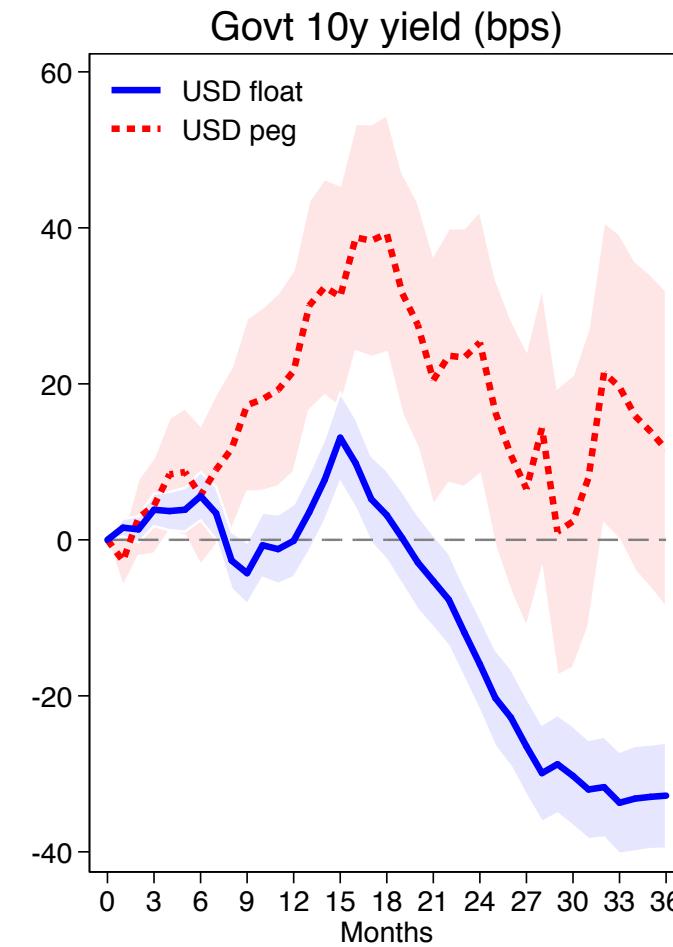
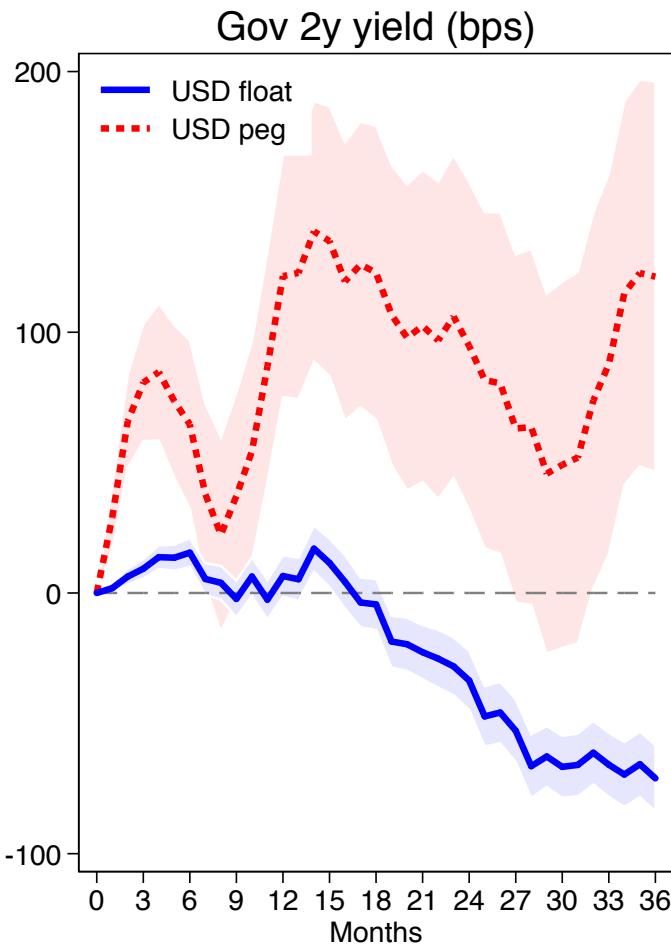
## 2. Trilemma



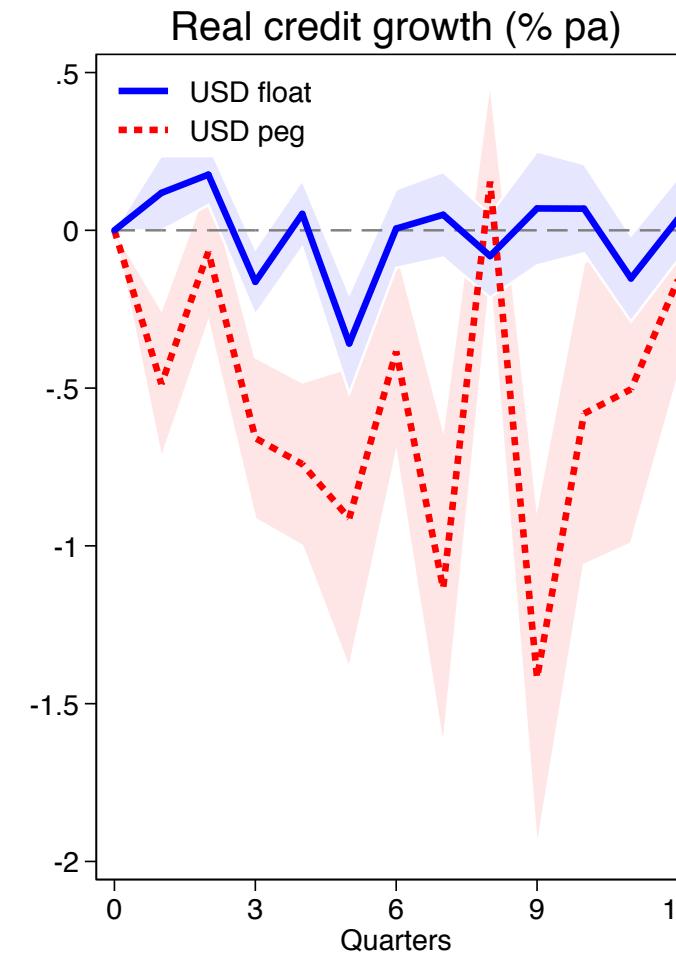
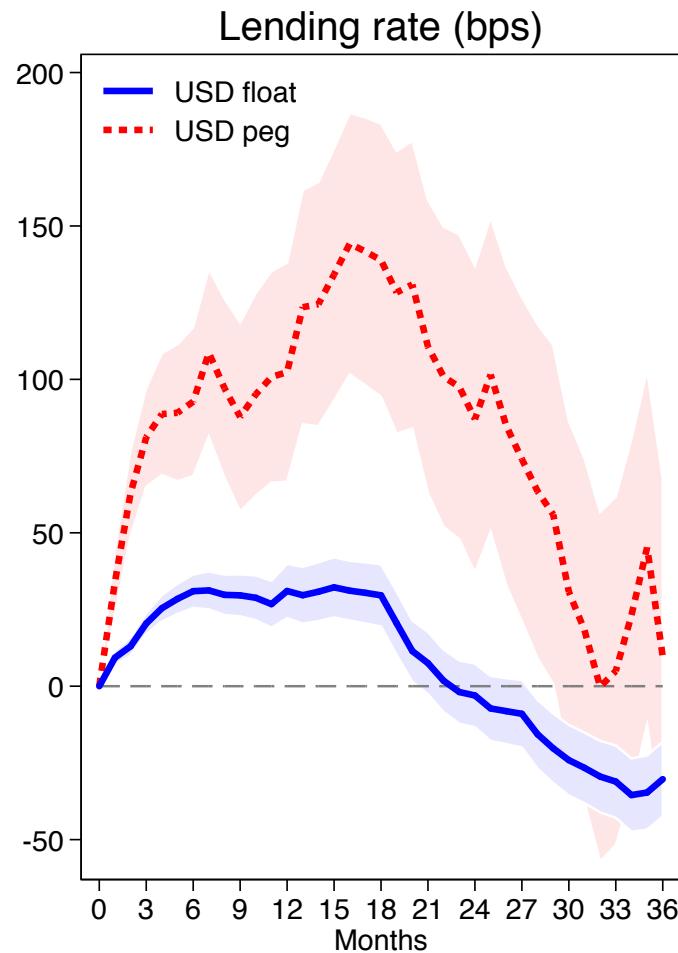
## 2. Trilemma



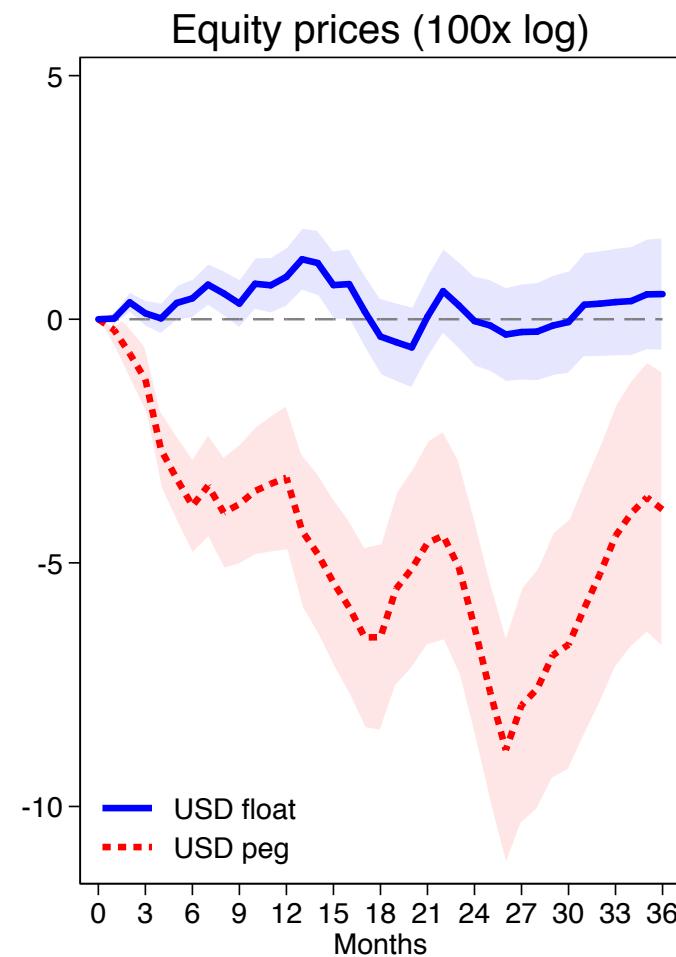
## 2. Trilemma



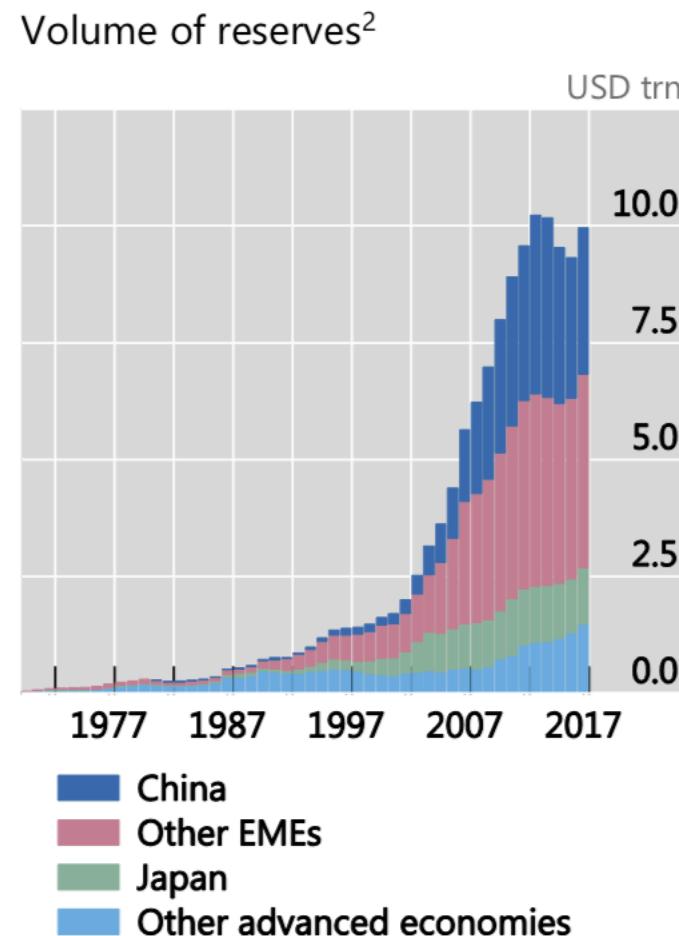
## 2. Trilemma



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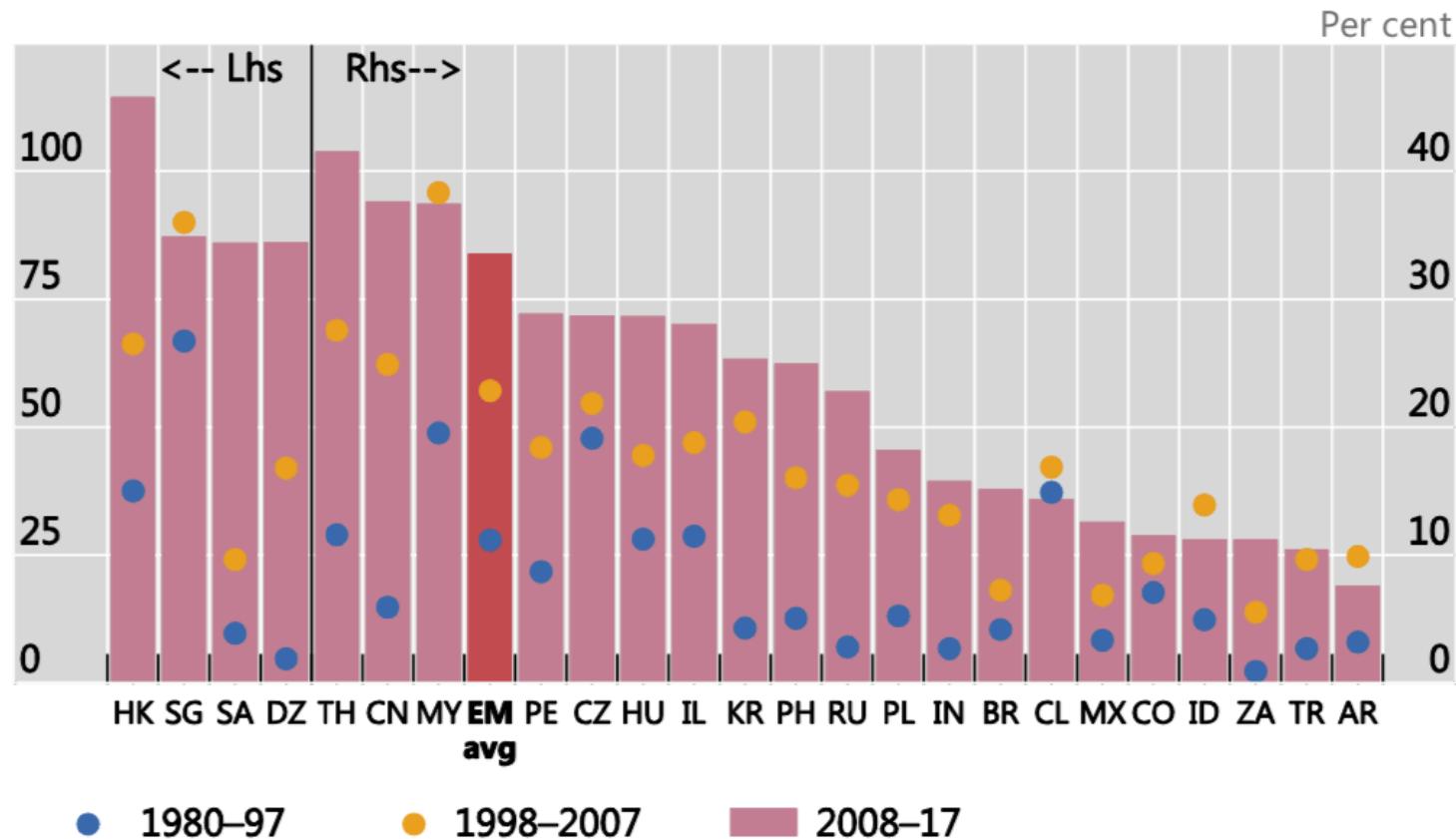


### 3. Reserves



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Reserves relative to GDP



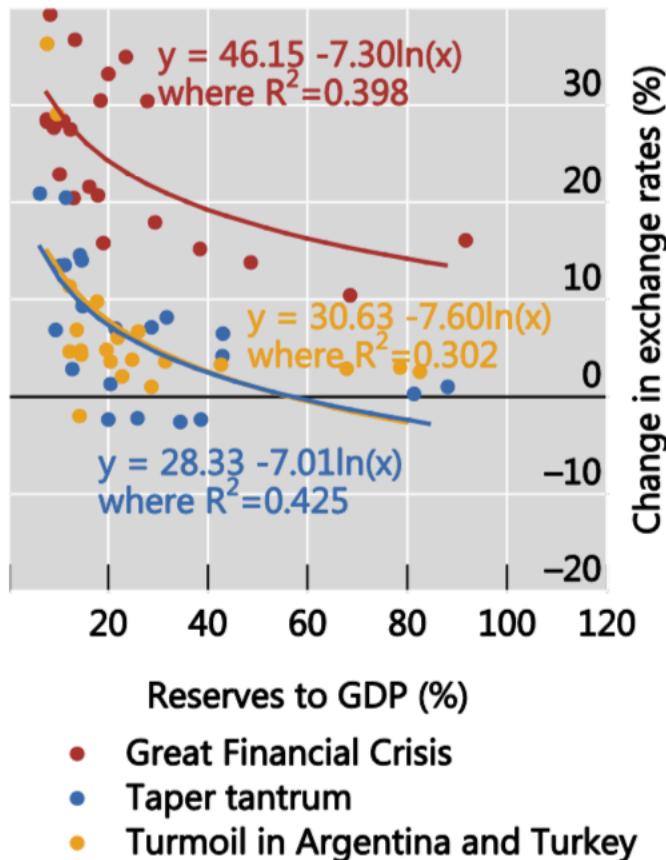
● 1980–97

● 1998–2007

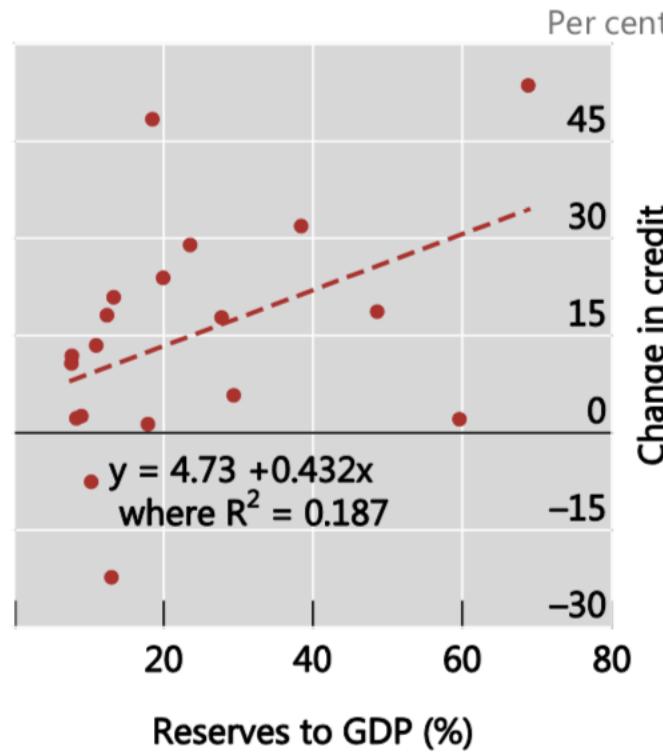
■ 2008–17

### 3. Reserves

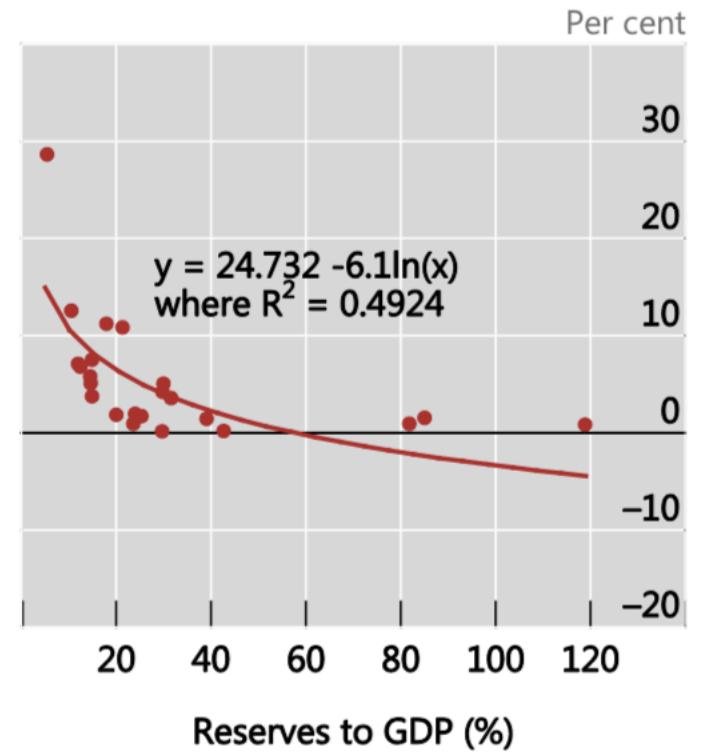
Nominal exchange rates: GFC, taper tantrum and turmoil in Argentina and Turkey<sup>2</sup>



Reserves in 2006 and changes in credit during the GFC<sup>3</sup>



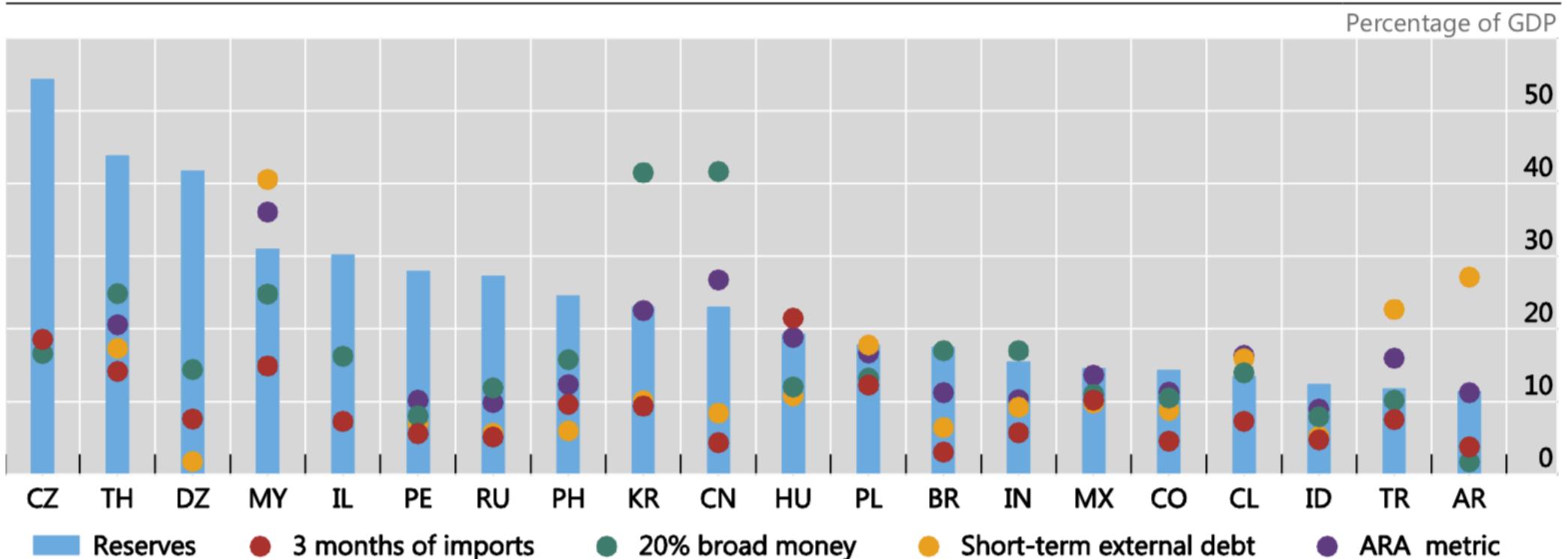
Reserves and three-month borrowing costs<sup>4</sup>



### 3. Reserves

Reserves are in most cases higher than traditional benchmarks<sup>1</sup>

Graph B2



<sup>1</sup> Data from 2017.

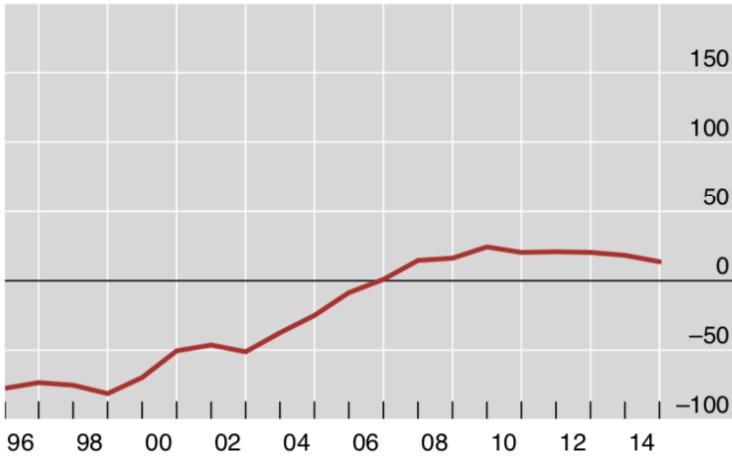
# 3. Reserves

Net foreign currency assets as a percentage of exports<sup>1</sup>

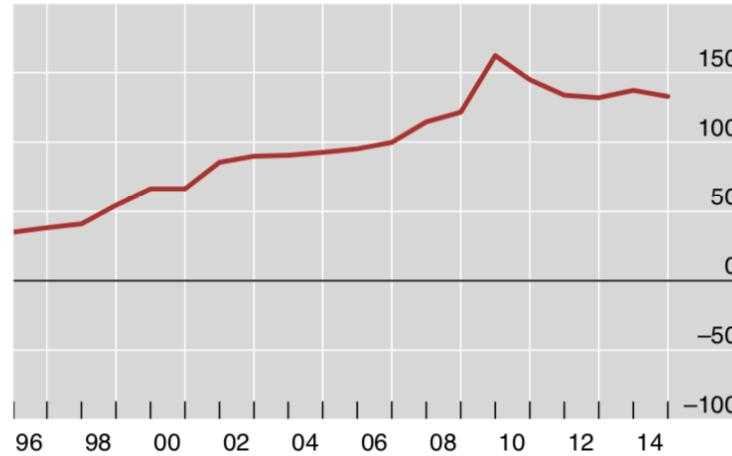
In percentages

Graph 4

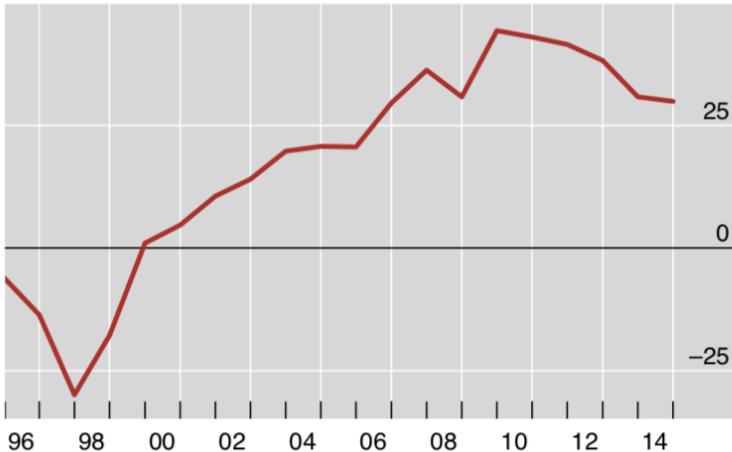
Latin America<sup>2</sup>



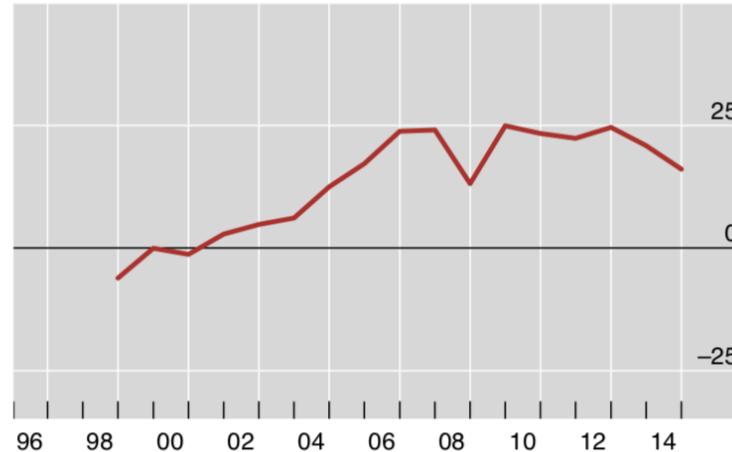
Asia, larger economies<sup>3</sup>



Other Asia<sup>4</sup>



Other emerging market economies<sup>5</sup>



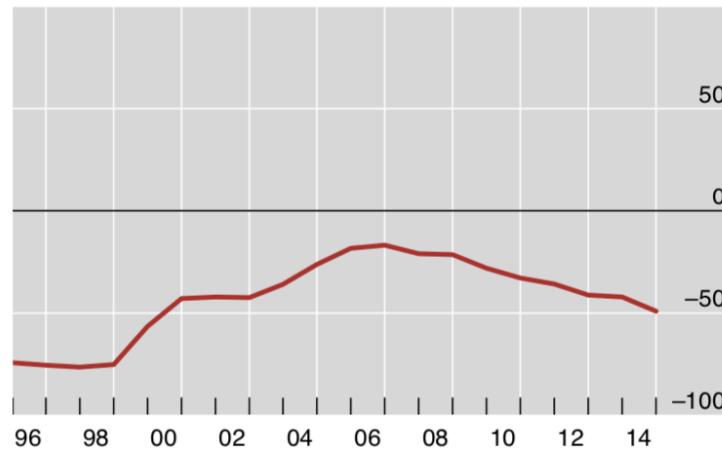
### 3. Reserves

Net foreign currency assets of non-government as a percentage of exports<sup>1</sup>

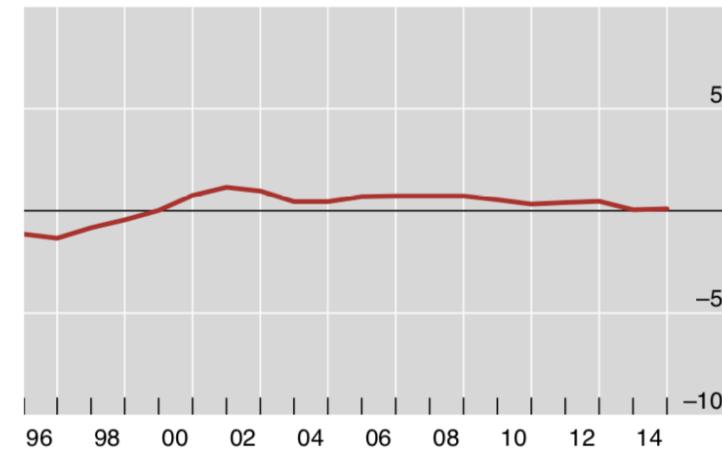
In percentages

Graph 6

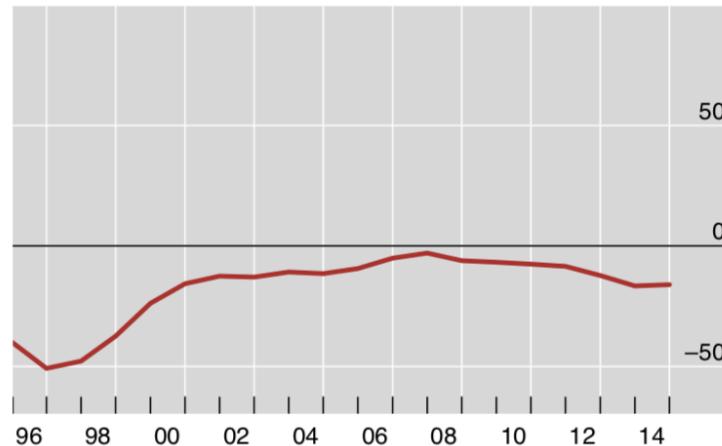
Latin America<sup>2</sup>



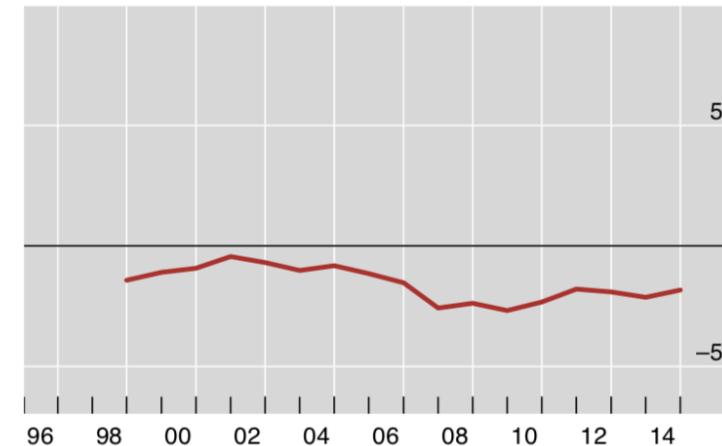
Asia, larger economies<sup>3</sup>



Other Asia<sup>4</sup>



Other emerging market economies<sup>5</sup>



# Argentina: Failed stabilization attempt

*Veronica Rappoport*

UC Berkeley. November 16th, 2019



BANCO CENTRAL  
DE LA REPÚBLICA ARGENTINA

















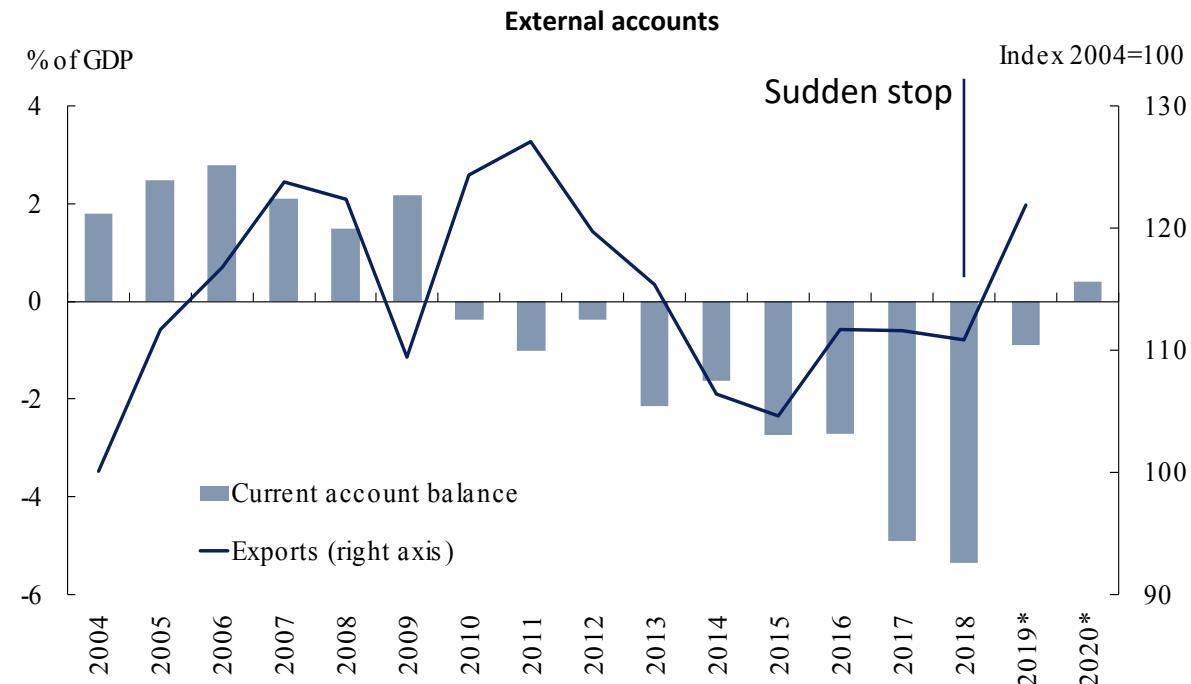












\*2019 and 2020 projected

Source: INDEC; 2020 National Budget Bill.



















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**UC Berkeley**  
**Conference on Global Economic Issues**

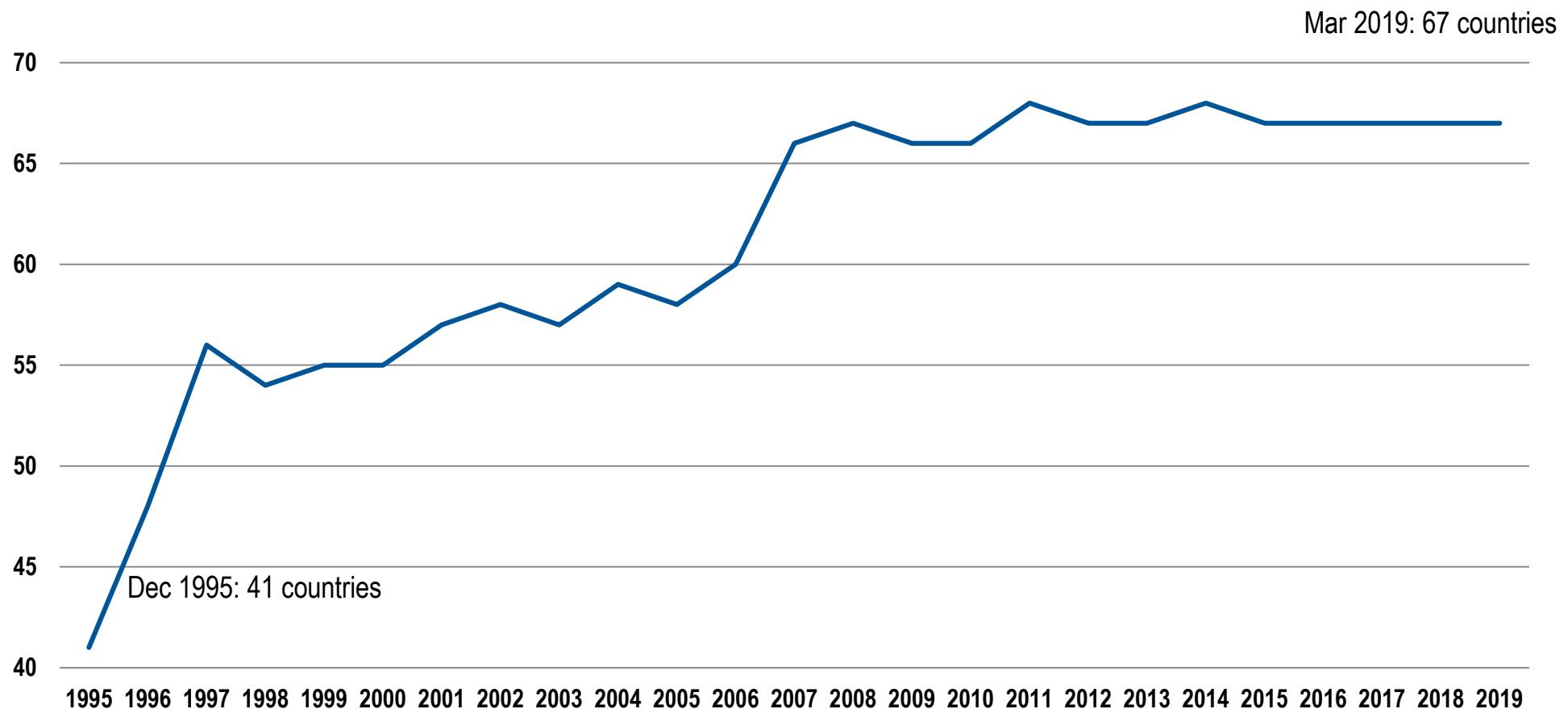
**Investing in Emerging Markets**

**Dr. Calvin Ho, Ph.D.**  
**November 16, 2019**

# Expanding Opportunities in Emerging Market Bonds

## Number of EM Countries with Investable Bond Markets

As of March 2019



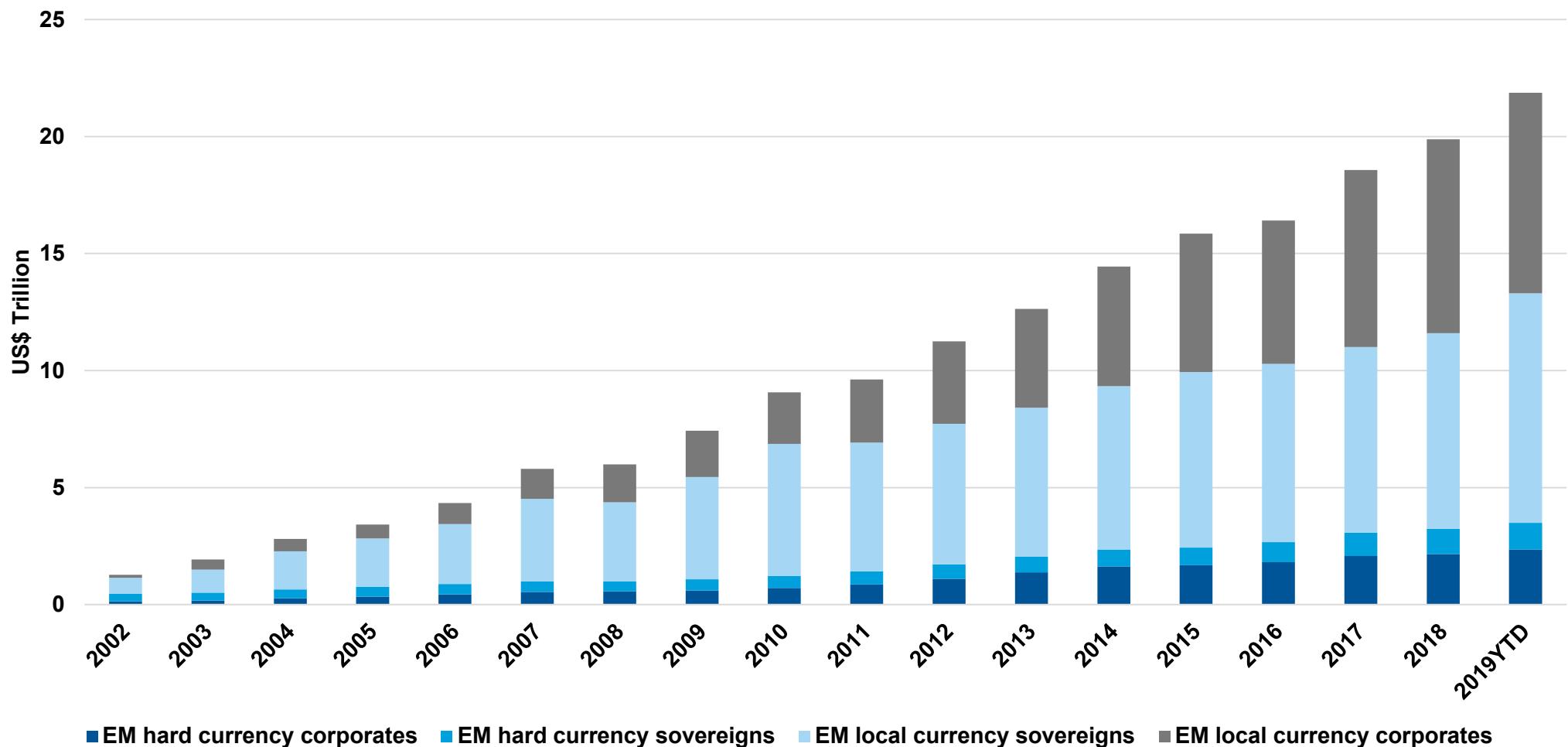
For illustrative and discussion purposes only.

Source: Bank for International Settlements, Institute of International Finance .

# Emerging Markets have Experienced Sizeable Growth

## Emerging-Market Debt Outstanding

As of October 31, 2019

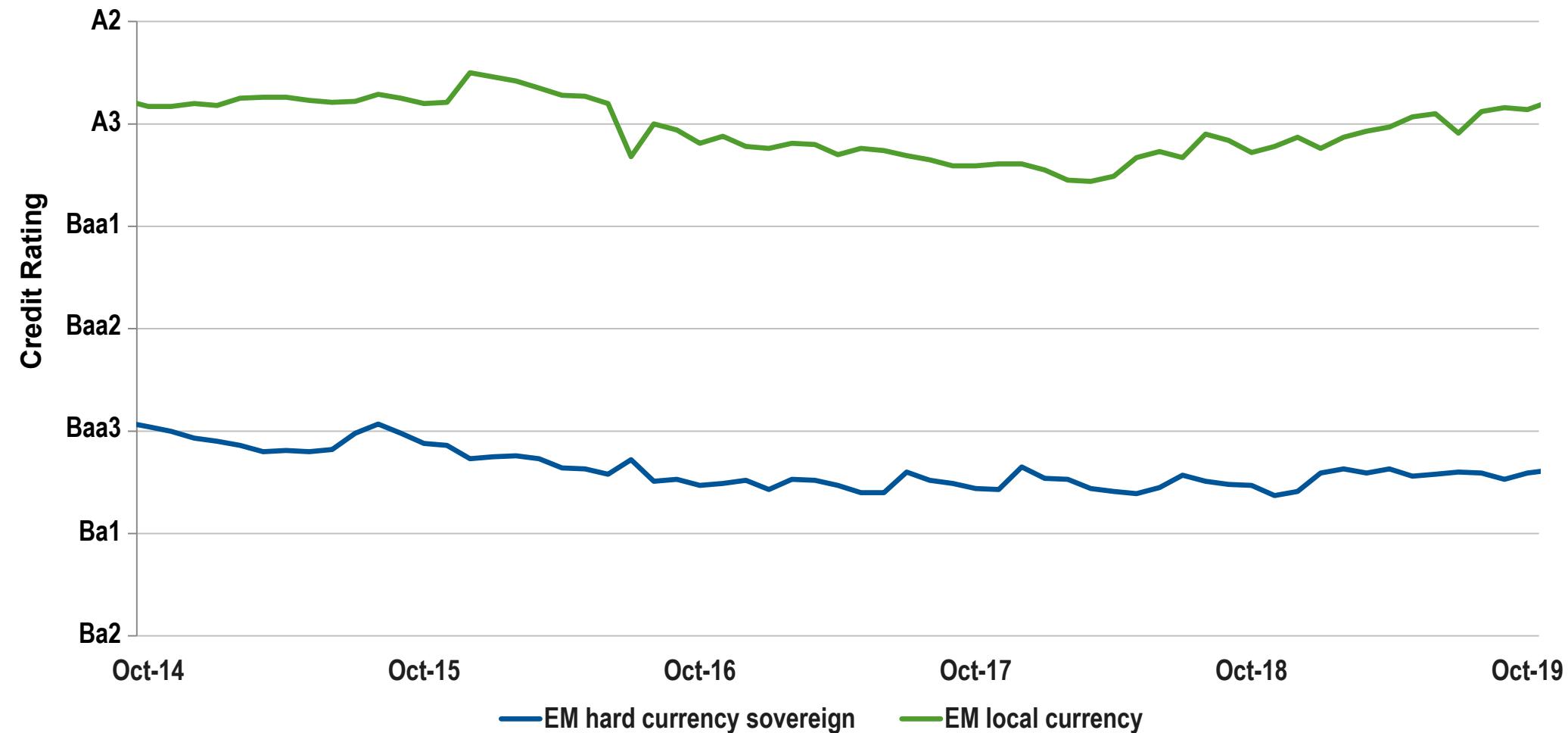


For illustrative and discussion purposes only.

Source: JPM, Bloomberg as of 10/31/19.

# Local Currency Debt rating has improved since 2018

## Average Credit Ratings: Emerging-Market Sovereign Debt over the Past 5-Years October 31, 2014 – October 31, 2019



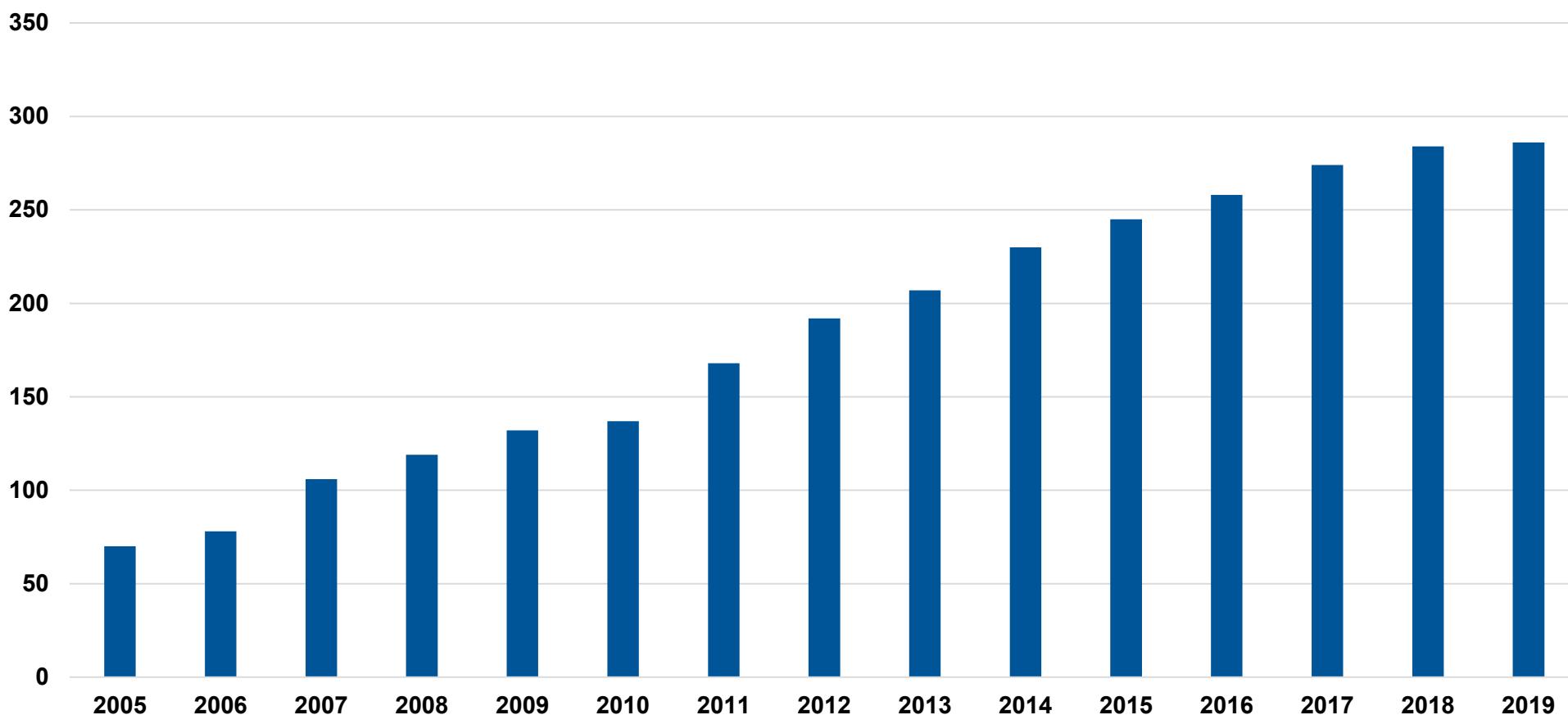
For illustrative and discussion purposes only.

Source: Bloomberg Barclays Emerging Markets Hard Currency Aggregate Sovereign Index, Bloomberg Barclays Emerging Markets Local Currency Government Index.

# Greater Liquidity has Increased Investor Demand

## Number of US Active EM Funds

As of September 30, 2019



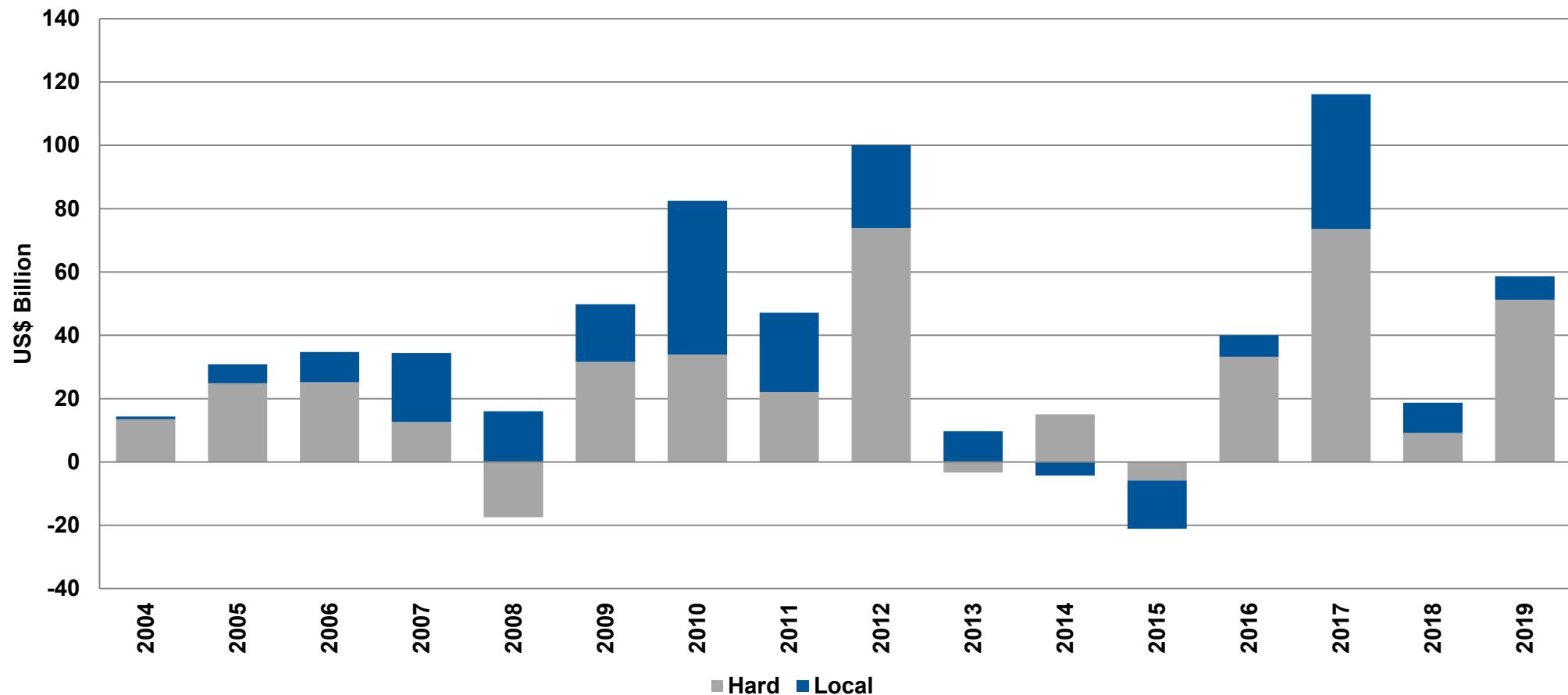
For illustrative and discussion purposes only.

Source: J.P. Morgan, EPFR Global, Bloomberg

# Greater Liquidity has Increased Investor Demand

## EM Bond Flows by Currency

As of September 30, 2019

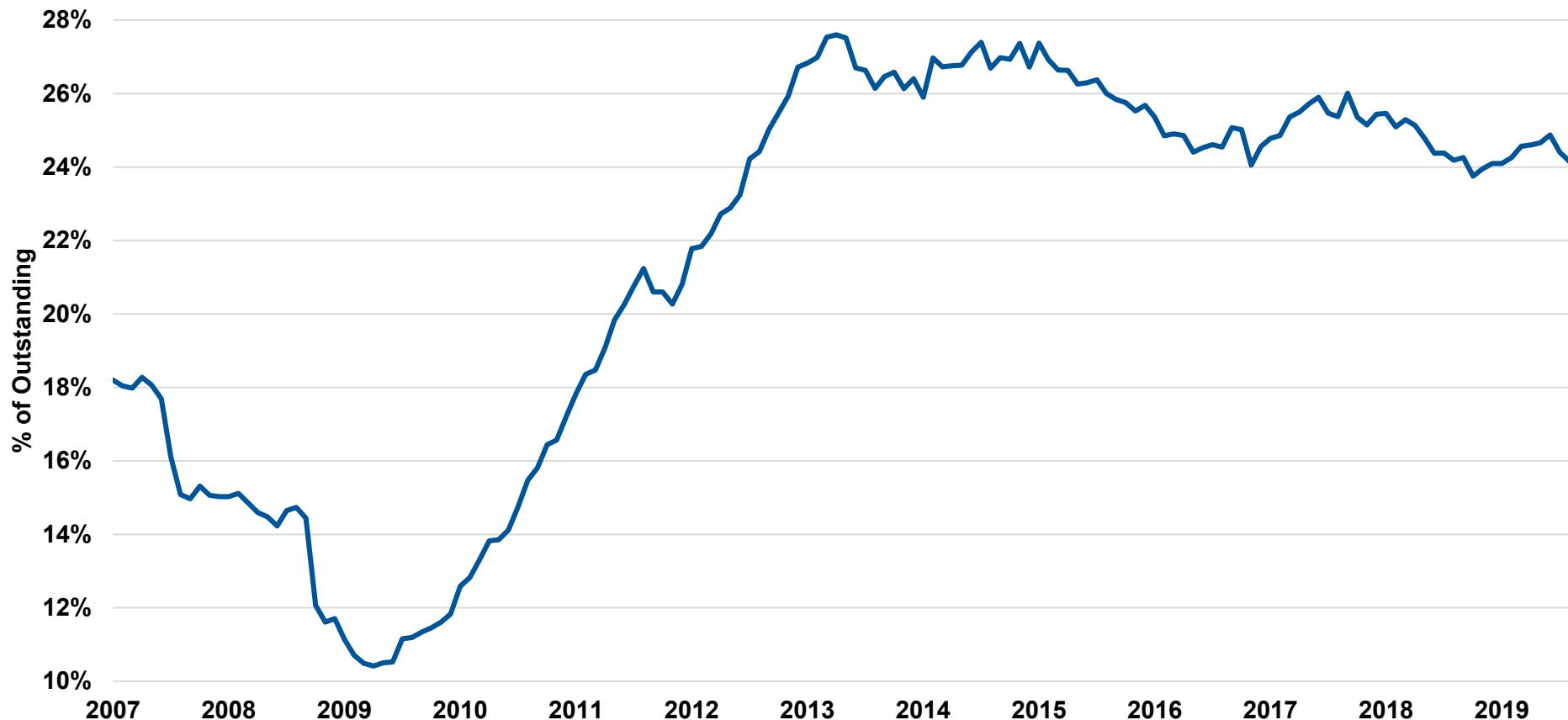


For illustrative and discussion purposes only.

Source: J.P. Morgan, EPFR Global, Bloomberg

## Foreign Ownership of EM Local Currency Government Bonds

As of August 31, 2019



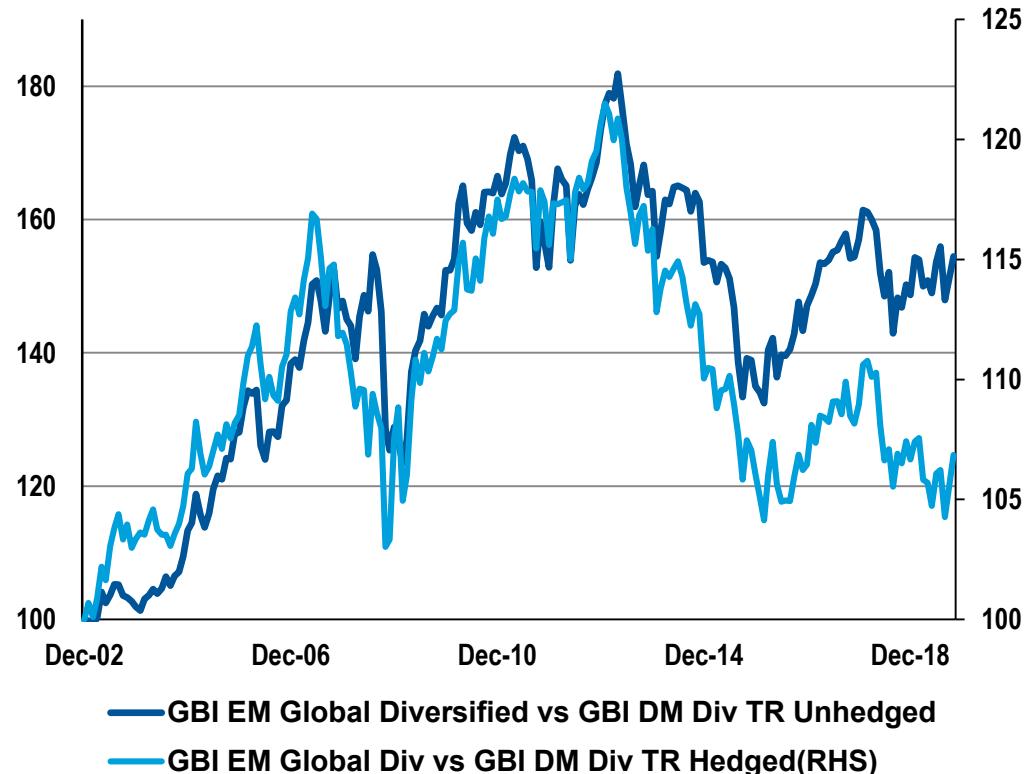
For illustrative and discussion purposes only.

Source: J.P. Morgan, EPFR Global, Bloomberg

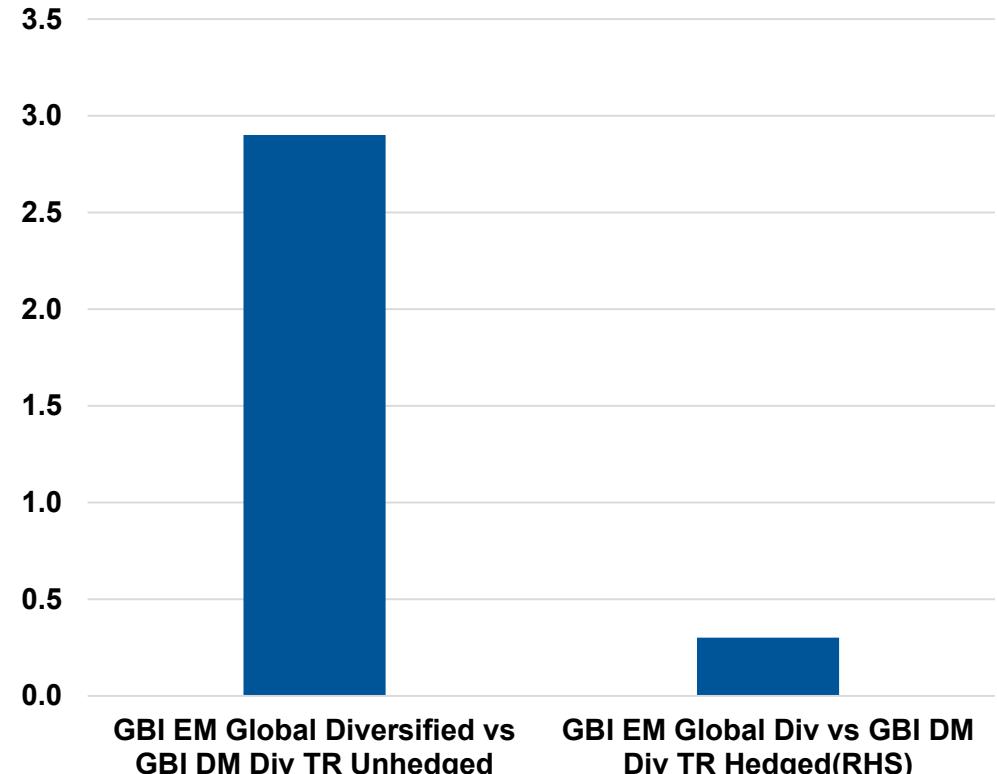
# Emerging Markets Fixed Income has Outperformed Since the Early 2000's

## Relative EM vs. Developed Markets Total Return Hedged and Unhedged

As of October 31, 2019



## Average Annual Relative EM vs. Developed Markets Total Return 12/31/2003 – 10/31/2019



For illustrative and discussion purposes only.

Source: J.P. Morgan as of 10/31/19

# China Expected to Experience Large Inflows

## Estimated Fixed Income Flows into China from Benchmark Inclusion

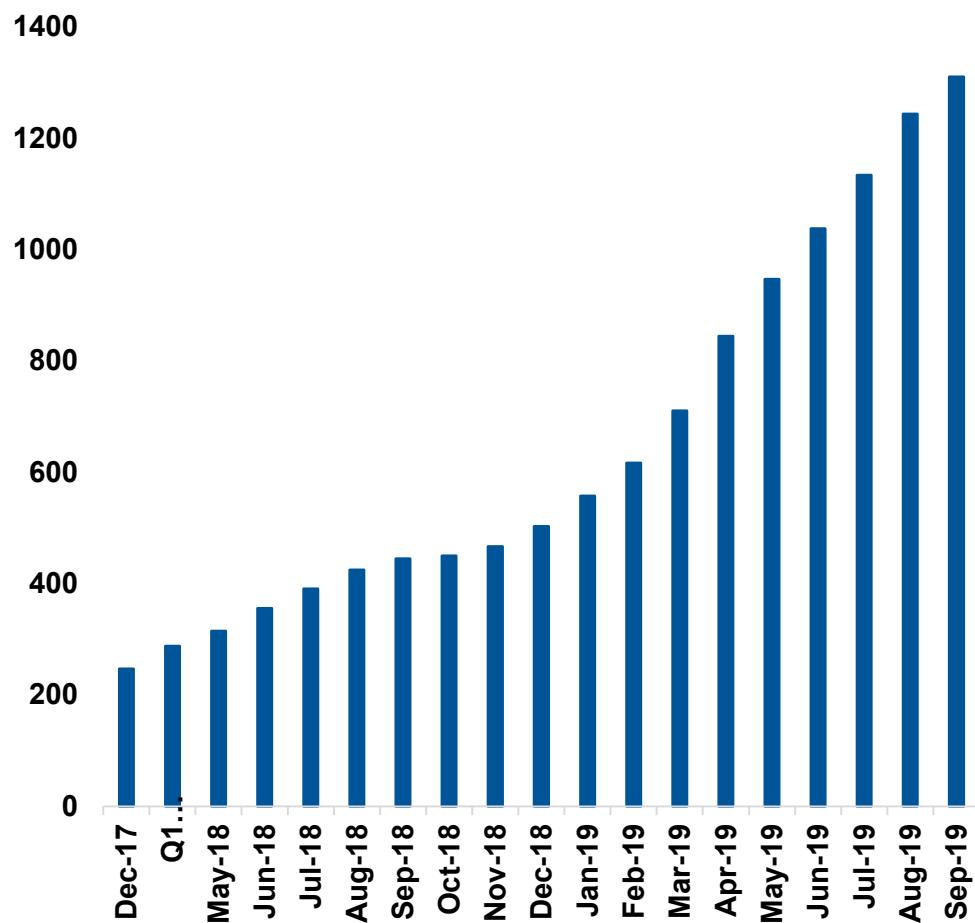
Index	Est. AUM (\$bn)	Est. Weight	Est. Flows (\$bn)
GBI-EM Global Div	202	10%	20
GBI-EM Series	24	10-20%	2 - 4
Crossover Global IG (Bloomberg Barclays Global Aggregate)	2,000	6%- 7%	120- 140
Crossover Treasury IG (FTSE World Government Bond Index)	2,000- 2,500	5%- 6%	114- 143
<b>Total</b>	<b>4,000-4,500</b>		<b>250-300</b>

For illustrative and discussion purposes only.

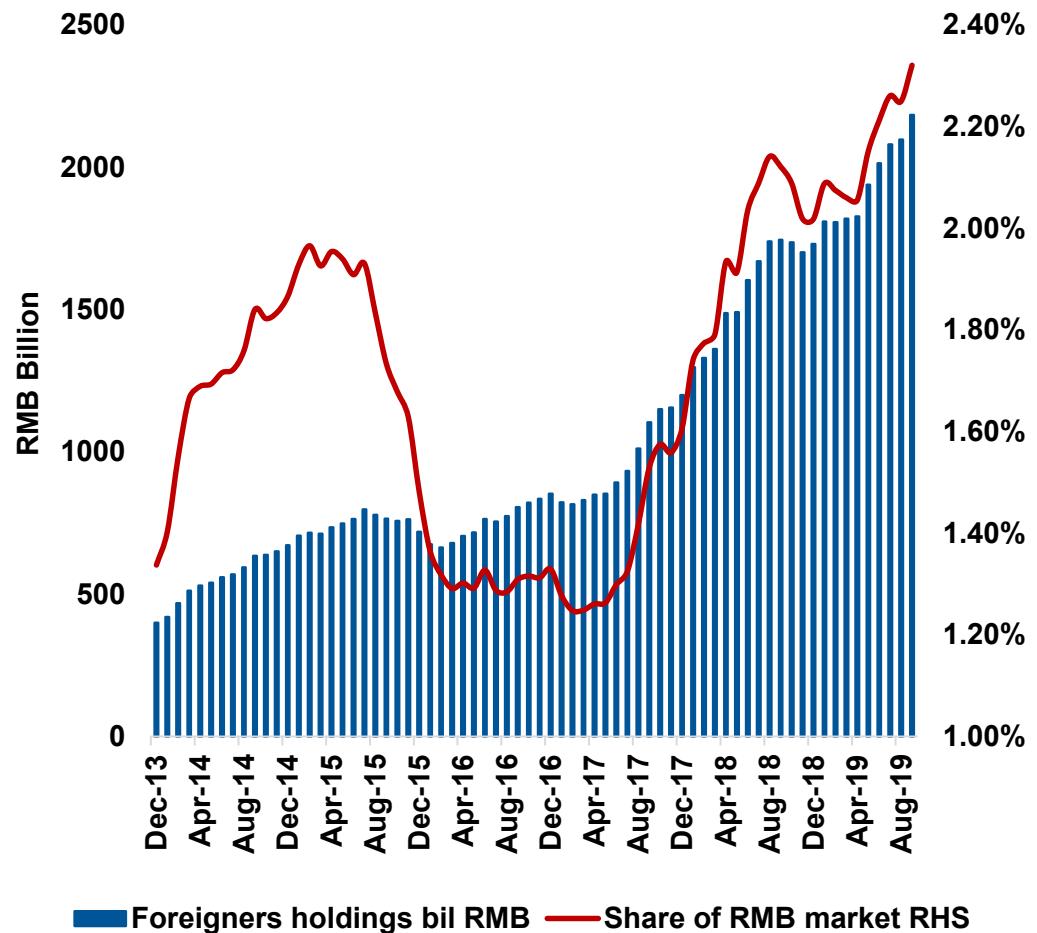
Source: J.P. Morgan Index Research Team. Note: Bloomberg Barclays has started China's inclusion since April 2019, so inflows may have occurred already. China inclusion into J.P. Morgan's GBI-EM GD will start February 28, 2020. FTSE has not made any announcements of formal China inclusion, so US\$114-143bn estimated inflows are contingent on FTSE index decisions.

# Foreigners are Moving into China

**Number of Bond Connect Accounts**  
As of September 30, 2019



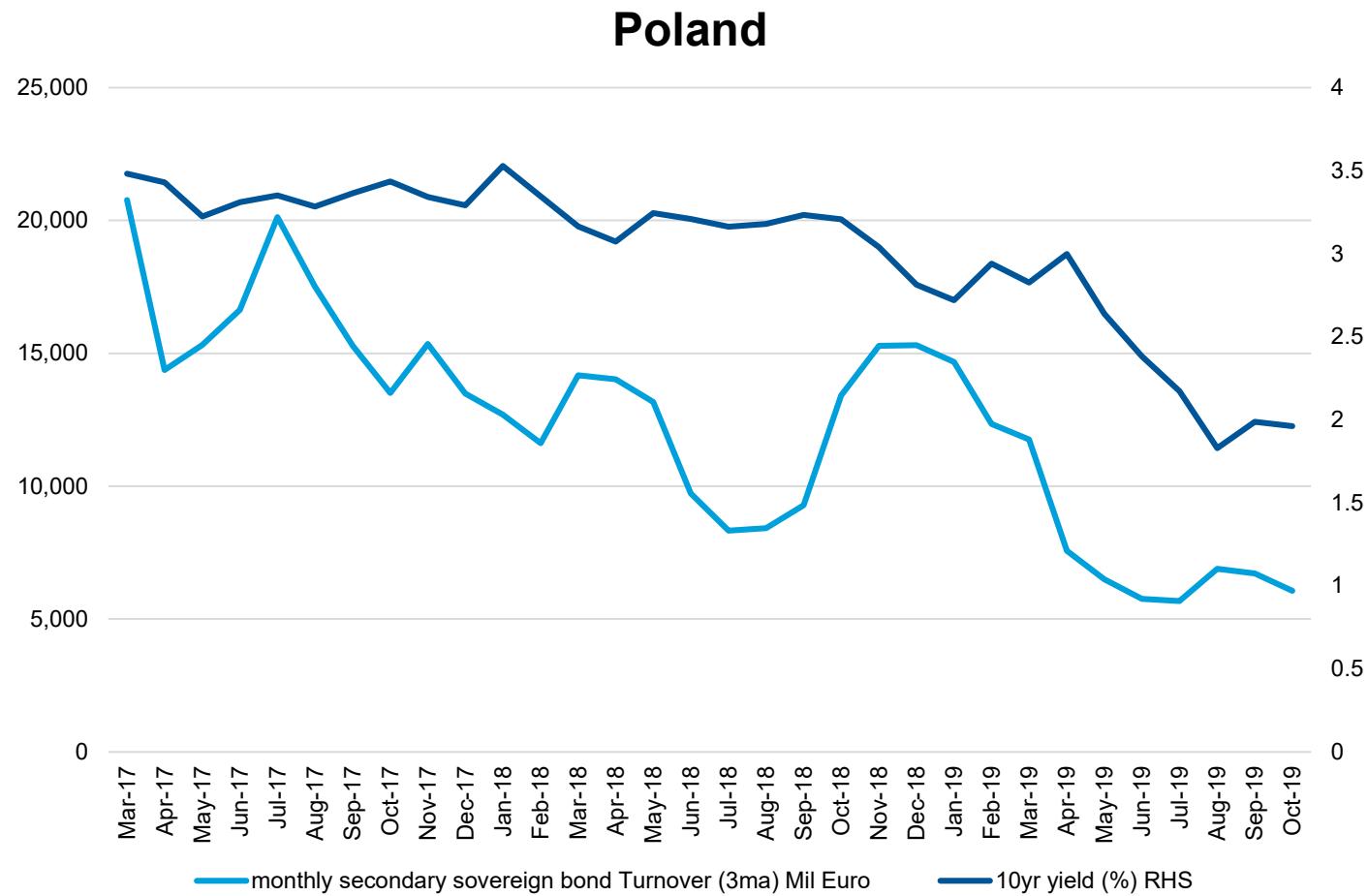
**Foreigners Share of RMB Market**  
As of August 31, 2019



For illustrative and discussion purposes only.

Source: J.P. Morgan Index Research Team

# Poland Secondary Bond Market Turnover



For illustrative and discussion purposes only.

Source: Citigroup Inc., MTS Markets as of 10/31/19