Financial cycles: A view from Argentina

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Financial cycles and policy response in LatAm

IADB-FSD Network, BCRA, November 2016

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Local financial cycles: What do we care?

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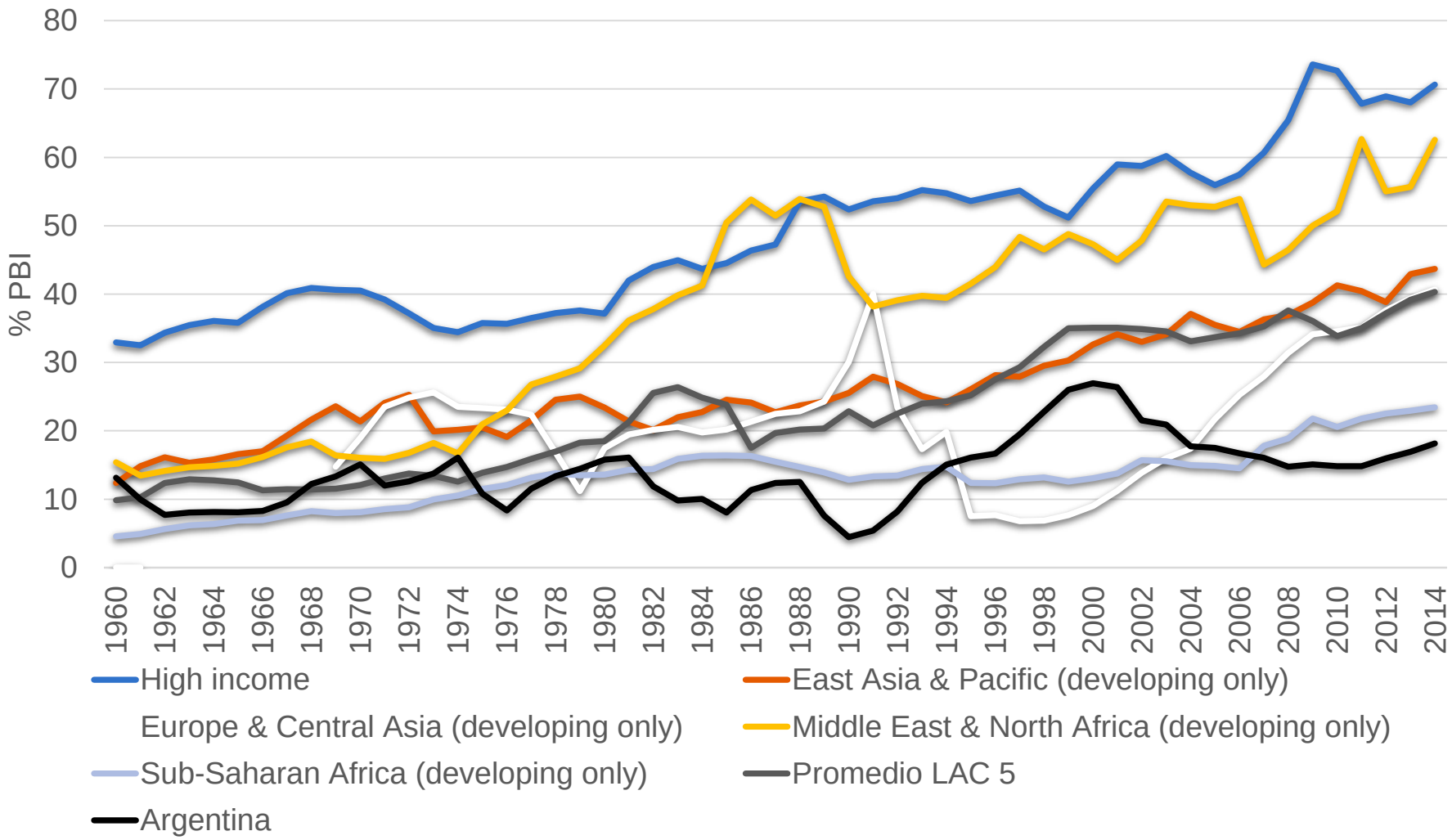
Bank deposits (% GDP)



Fuente: International Financial Statistics (IMF)

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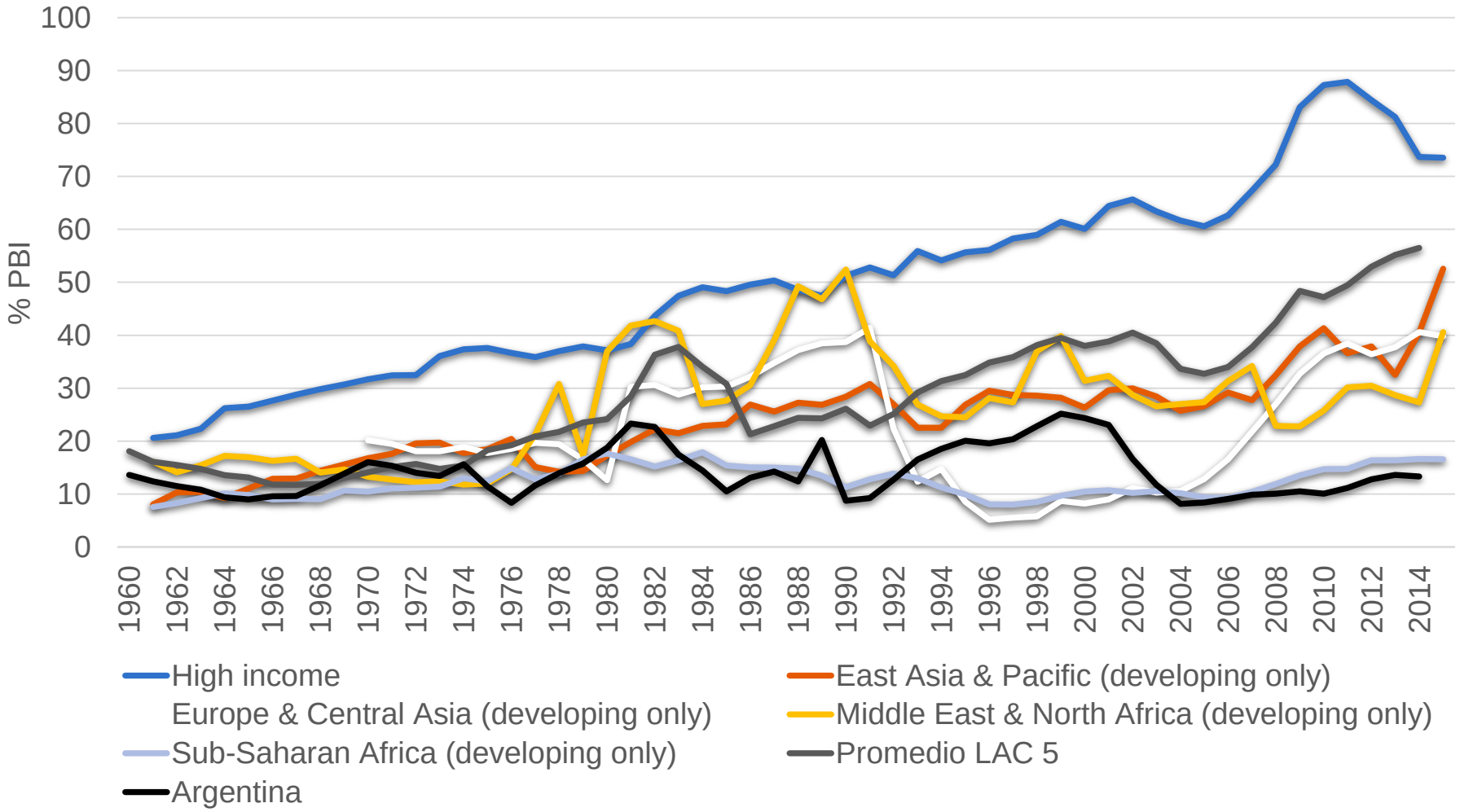
Credit to the private sector (% GDP)



Fuente: International Financial Statistics (IMF)

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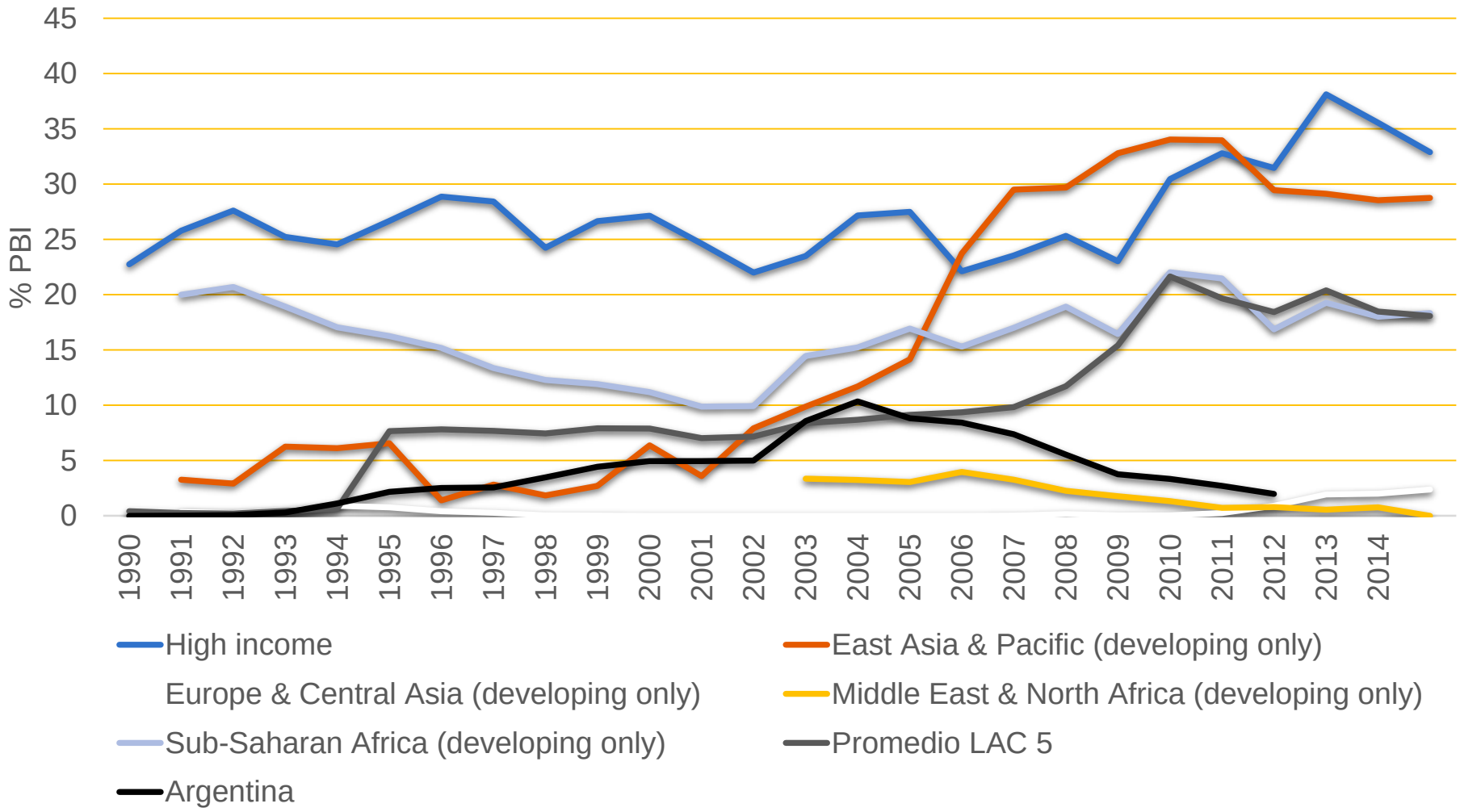
Domestic private debt liabilities



Fuente: Bank for International Settlements (BIS)

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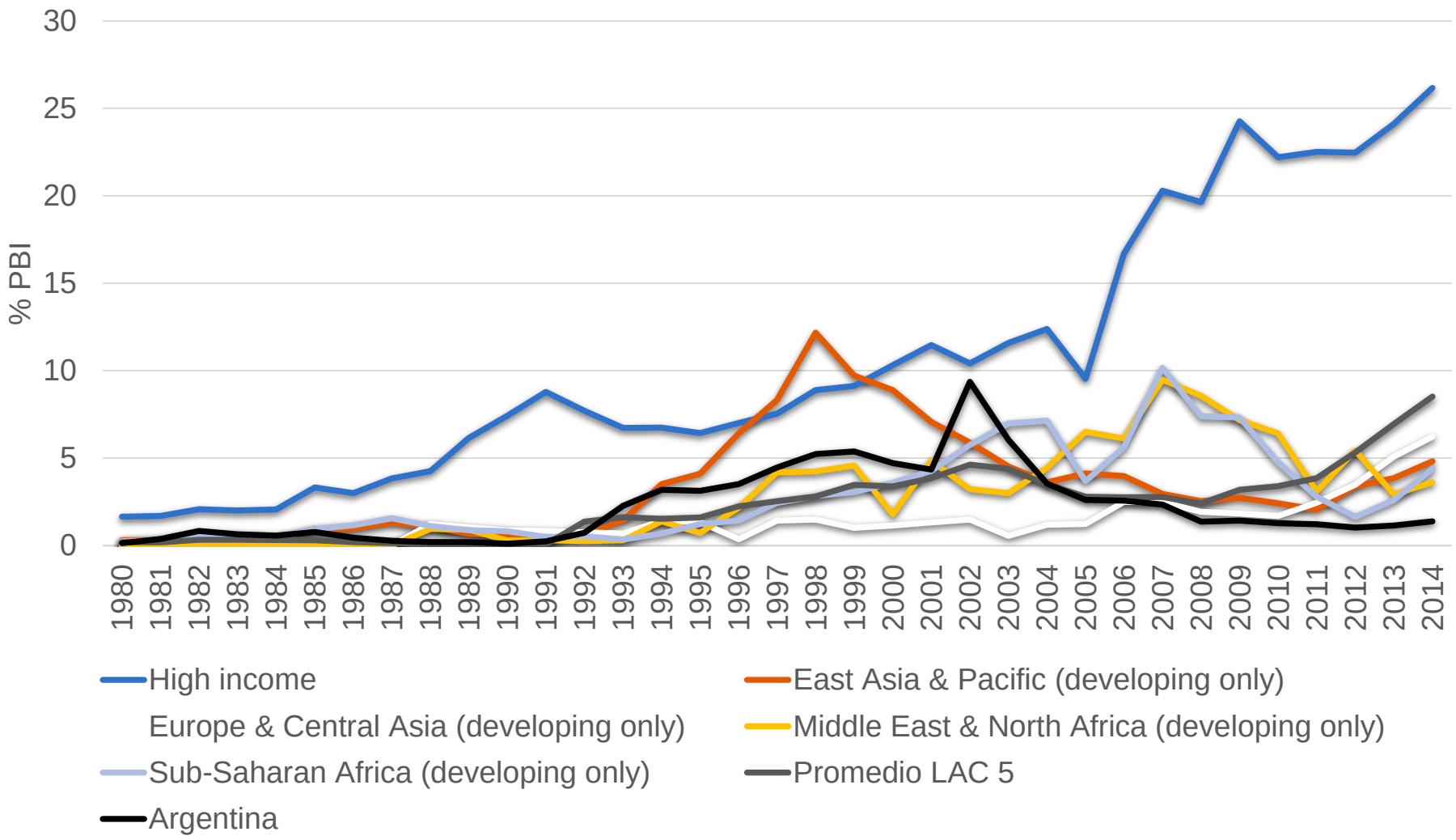
International private debt liabilities



Fuente: Bank for International Settlements (BIS)

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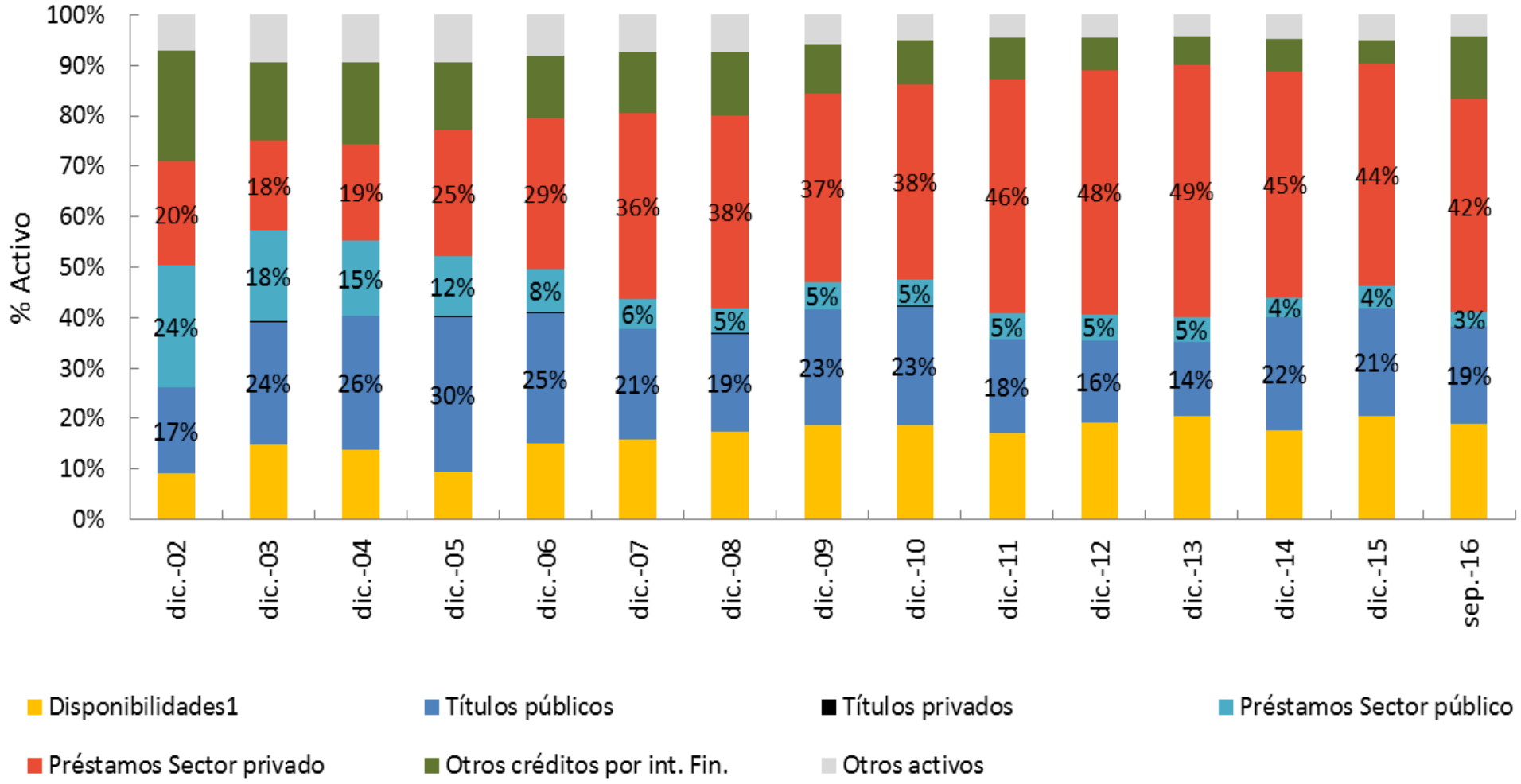
Private banks: Asset composition



Fuente: BCRA

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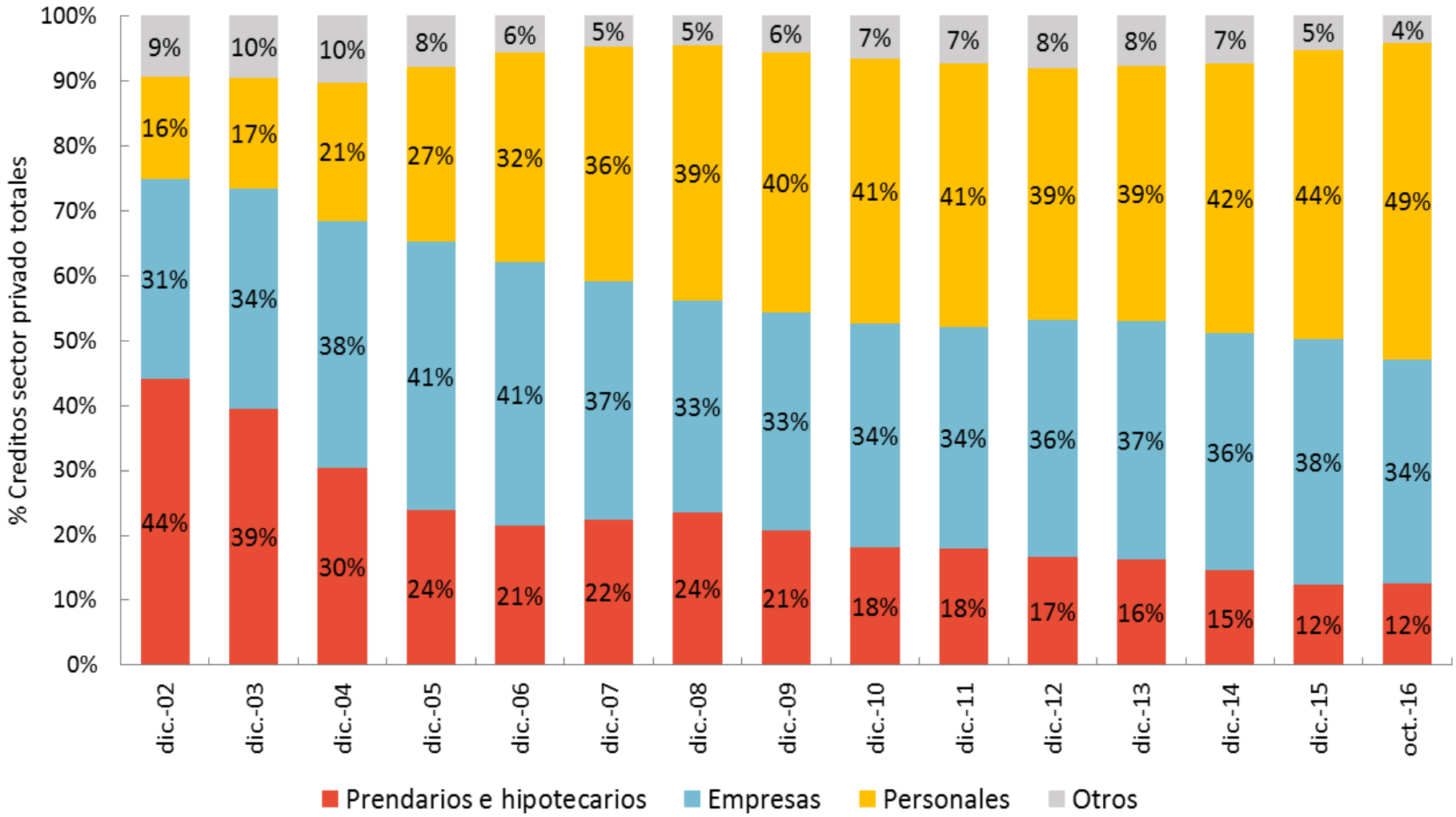
Private Banks: Credit composition



Fuente: BCRA

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What have we done?

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Políticas macroprudenciales en América Latina: instrumentos utilizados y priorizados por las autoridades reguladoras*

	ARG	BRA	CHI	COL	MEX	PAR	PER	URU
Relacionadas con el crédito								
Límites sobre la exposición al sector inmobiliario								
Límites sobre la exposición a otros sectores	X							X
Límites sobre la concentración del crédito	X	X		X	X	X	X	X
Cuotas específicas de préstamos a determinados sectores	X	X					X	
Límites al ratio LTV (relación entre el importe del préstamo y el valor del bien)		X	X **	X				
Límites a las relaciones entre la deuda o préstamo y la renta				X			X	
Límites sobre la proporción de préstamos sobre depósitos	X							
Techo sobre el crédito o el crecimiento del crédito								
Límites sobre los préstamos en moneda extranjera	X							
Relacionadas con la liquidez								
Uso activo de los encajes bancarios	X	X				X	X	X
Requisitos de liquidez	X	X	X	X	X		X	X
Límites sobre las posiciones cortas / descalces en divisas	X	X	X	X	X	X	X	X
Límites sobre el descalce de los plazos		X	X	X	X		X	X
Relacionadas con el capital								
Requerimientos de capital anticíclicos							X	
Aprovisionamiento dinámico/variable en el tiempo				X		X	X	X
Límites sobre la distribución de beneficios	X	X			X			
Ratios de capital y apalancamiento	X	X	X	X	X	X	X	X

A summary of the main findings is given below.

Summary assessment grading	Table 1
Key components of the Basel capital framework	**Grade**
Overall grade:	C
Scope of application	LC
Transitional arrangements	C
Pillar 1: Minimum capital requirements	
Definition of capital	C
Credit Risk: Standardised Approach	C
Credit risk: Internal Ratings-Based Approach	N/A
Securitisation framework	C
Counterparty credit risk framework	C
Market risk: Standardised Measurement Method	C
Market risk: Internal Models Approach	N/A
Operational risk: Basic Indicator Approach and Standardised Approach	C
Operational risk: Advanced Measurement Approaches	N/A
Capital buffers (conservation and countercyclical)	C
Pillar 2: Supervisory review process	
Legal and regulatory framework for the Supervisory Review Process and for taking supervisory action	C
Pillar 3: Market discipline	
Disclosure requirements	C

Global financial cycles & Financial recoupling

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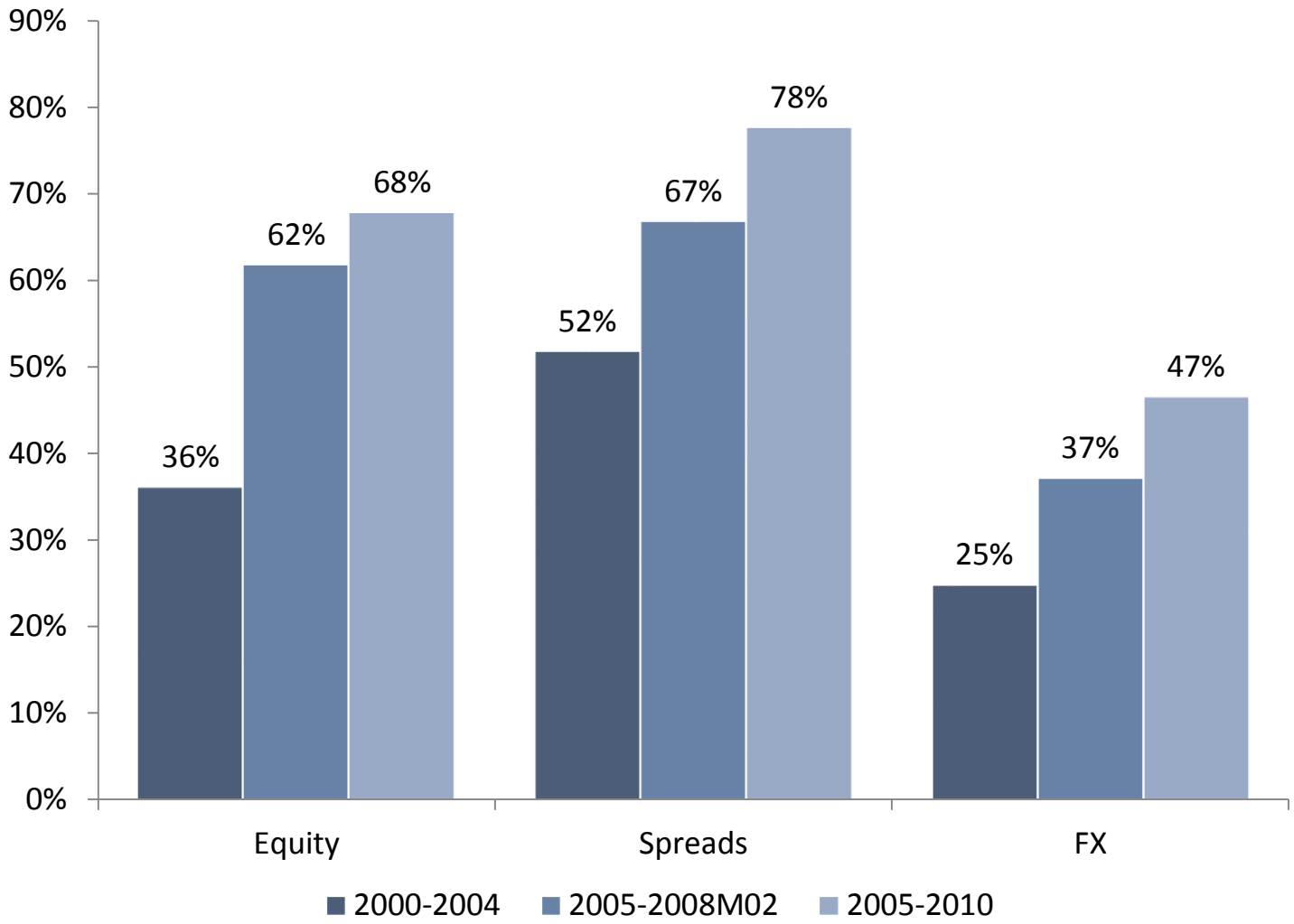
Financial cycles: Common factors



This figure presents median R-squared from estimations of individual country's assets log returns (Equity/Spreads/FX) against the PC1 of the log returns in these EM. **Source:** Bloomberg, MSCI, GEM World Bank.

Financial cycles: Common factors

Country Group Asset	Period	S&P	US HY	Broad Dollar Index
PC1-EM Equity	2000-2004	0.723	-0.654	-0.358
	2005-2010	0.826	-0.694	-0.584
PC1-EM Spreads	2000-2004	-0.396	0.660	0.451
	2005-2010	-0.572	0.767	0.589
PC1-EM FX	2000-2004	-0.453	0.427	0.610
	2005-2010	-0.740	0.499	0.770

-1 1

Note: This table presents correlation coefficients of the PC1 of EM/AM Equity/Spreads/FX against global assets for three periods during the 2000s. Source: Bloomberg, MSCI, GEM World Bank, US Treasury.

Financial cycles? Benchmarking effect

Equities

	All	Selloff	Rally
S&P Returns	0.586 (0.058)	0.579 (0.119)	0.841 (0.137)
S&P Returns*Fund Flows	4.204 (0.412)	4.879 (0.787)	0.739 (0.967)
Fund Flows	0.021 (4.204)	0.060 (0.054)	0.094 (0.029)
Observations	1,449	588	861
R-Squared	0.457	0.427	0.201
Countries	21	21	21

Significant at 1% 5% 10%

Note: FG Flows are absolute values of net inflows to a country by global and global emerging mutual funds normalized by market capitalization. Normal and turmoil divides the sample between positive (or zero) and negative returns from the global asset respectively. Robust standard errors in parentheses.
Source: MSCI, GEM World Bank, Bloomberg, US Treasury, EPFR, Barclays Capital, GEM World Bank, IMF IFS Statistics.

Benchmarking effect: Credit (external bonds)

Bonds

	All	Selloff	Rally
US HY Returns	0.618 (0.0457)	0.618 (0.0690)	0.425 (0.147)
US HY Returns*FG Flow	2.638 (0.305)	3.455 (0.559)	-0.153 (1.650)
FG Flow	-0.134 (0.0691)	-0.376 (0.159)	-0.297 (0.122)
Observations	1,005	495	510
R-Squared	0.402	0.459	0.06
Countries	15	15	15

Significant at 1% 5% 10%

Note: This table presents estimations of the relationship between financial recoupling and financial globalization. All results are from panel estimations with country fixed effects. FG Flows are absolute values of net inflows to a country by global and global emerging mutual funds normalized by market capitalization. Normal and turmoil divides the sample between positive (or zero) and negative returns from the global asset respectively. Robust standard errors in parentheses.

Source: MSCI, GEM World Bank, Bloomberg, US Treasury, EPFR, Barclays Capital, GEM World Bank, IMF IFS Statistics.

Benchmarking effect: FX

	FX		
	All	Selloff	Rally
Broad Dollar Index Returns	1.251 (0.113)	1.514 (0.218)	0.665 (0.216)
Broad Dollar Index*FG Flow	1.61 (1.452)	4.568 (2.442)	0.762 (2.724)
FG Flow	-0.0209 (0.026)	-0.0875 (0.0391)	-0.0432 (0.0364)
Observations	1,173	510	663
R-Squared	0.287	0.368	0.076
Countries	17	17	17

Significant at 1% 5% 10%

Note: This table presents estimations of the relationship between financial recoupling and financial globalization. All results are from panel estimations with country fixed effects. FG Flows are absolute values of net inflows to a country by global and global emerging mutual funds normalized by market capitalization. Normal and turmoil divides the sample between positive (or zero) and negative returns from the global asset respectively. Robust standard errors in parentheses. *, **, and *** denotes significance at the 10, 5 and 1% level respectively.

Source: MSCI, GEM World Bank, Bloomberg, US Treasury, EPFR, Barclays Capital, GEM World Bank, IMF IFS Statistics.

Benchmarking

Decomposing fund flows:

$$\frac{\text{Flow}_{i,j,t}}{\text{AUM}_{i,t-1}} = w_{i,j,t} - w_{i,j,t-1} + w_{i,j,t} \cdot \frac{\text{Flow}_{i,t}}{\text{AUM}_{i,t-1}}$$

$$= f(w_{i,j,t-1}) + g(w_{i,j,t-1}) \cdot \frac{\text{Flow}_{i,t}}{\text{AUM}_{i,t-1}}$$

Benchmarking

Country Weights

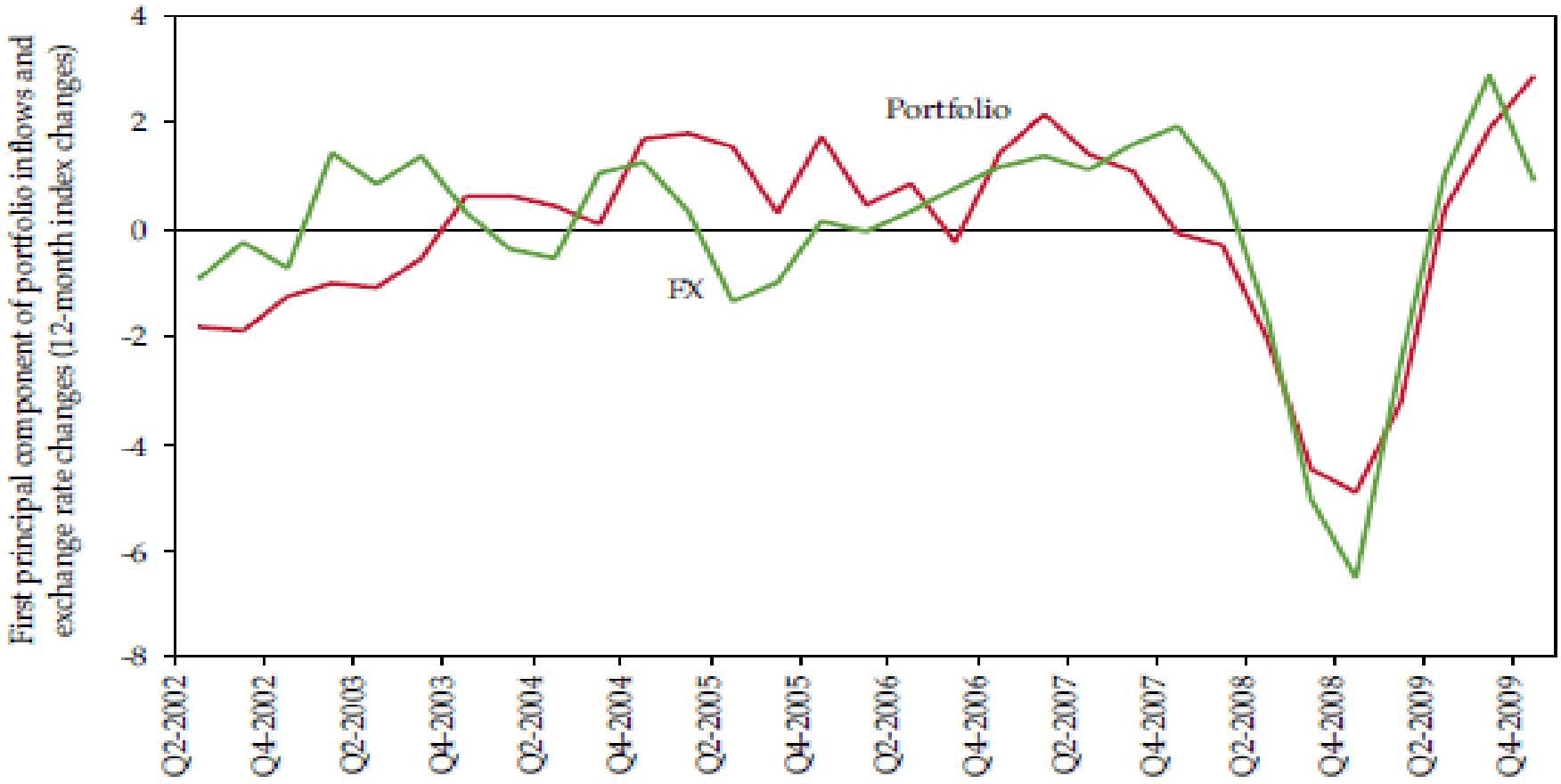
	Fund Detail	*Aggregated*
Country Weight (*t*-1)	0.956 (0.002)	0.963 (0.016)
Country Returns (*t*-1)	-0.021 (0.097)	0.06 (0.15)
Country FE	YES	YES
Time FE	YES	YES
Observations	94,020	1,286
R-squared	0.974	0.995

Significant at 1% 5% 10%

Note: This table presents estimations country weights on lagged country weights and country returns for international mutual funds. All results are from panel estimations with country fixed effects. Country returns are from MSCI country indexes. Dummy crisis is a binary variable that takes the value of 1 between March 2008 and March 2009 and zero otherwise. We exclude data when country weight is equal to zero. Fund detail indicates that we use individual mutual fund data, and Aggregated indicates we use aggregated flow data by country. Data is from 2005-November 2010. Robust standard errors in parentheses.

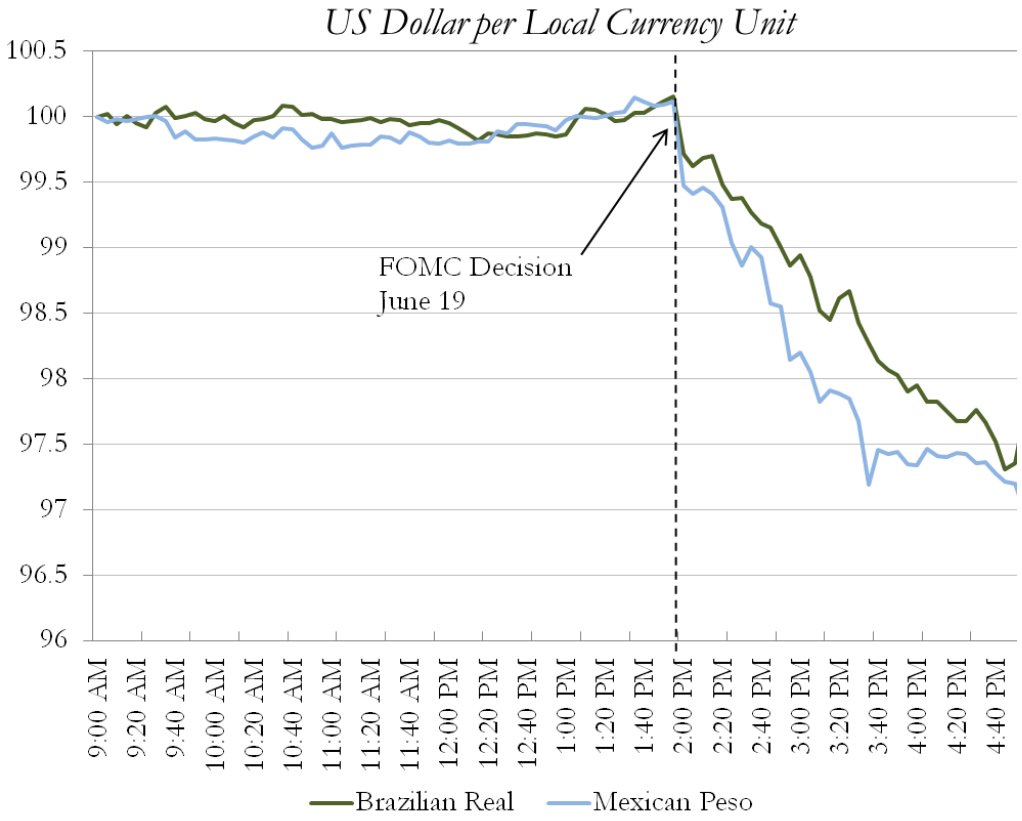
Source: MSCI, GEM World Bank, Bloomberg, US Treasury, EPFR, Barclays Capital, GEM World Bank, IMF IFS Statistics.

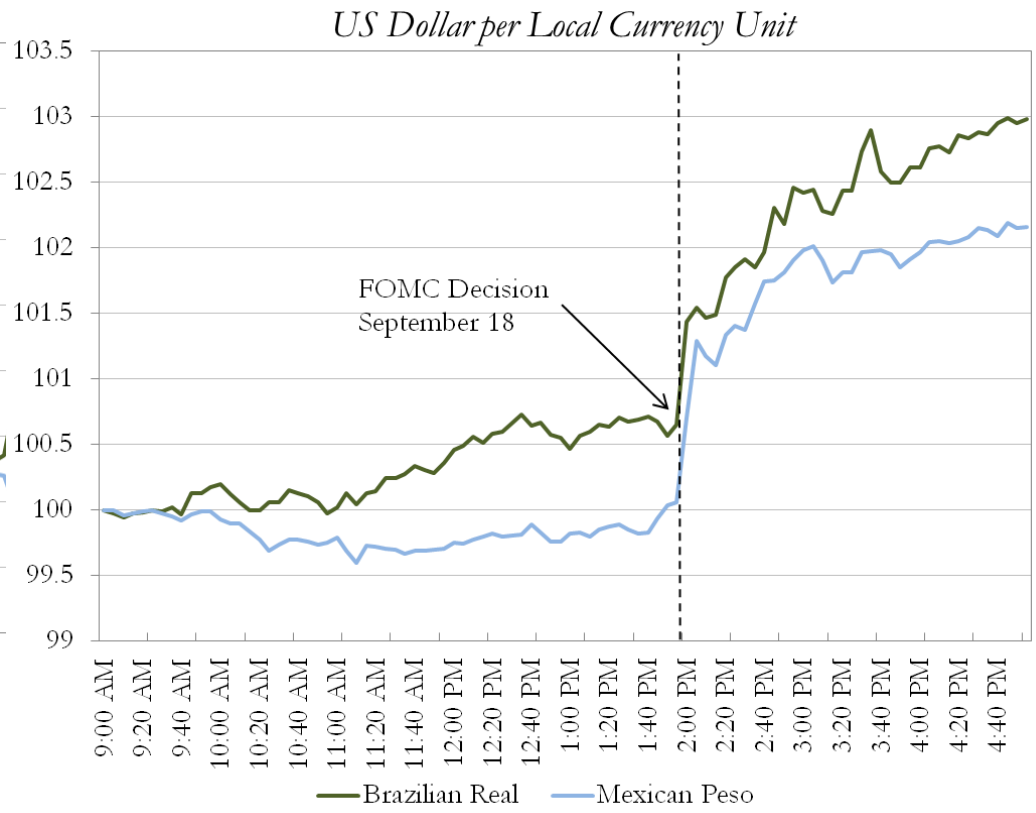
What do we fear? Swings



Note: PC1 from quarterly portfolio inflows and FX changes in 33 emerging markets. Fuente: IMF data.

What do we fear? Words





Source: The World Bank (2013)

What have we done?

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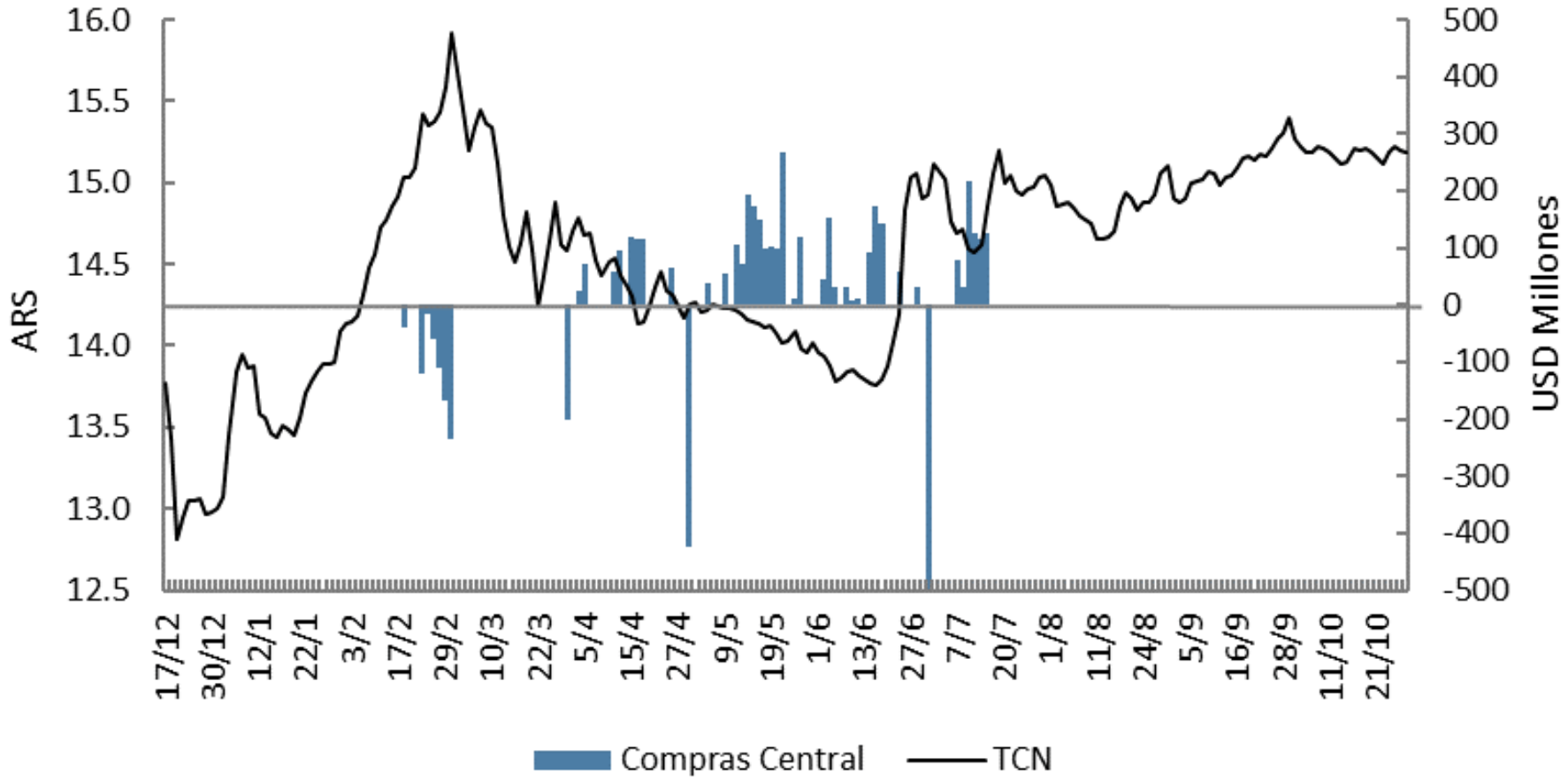
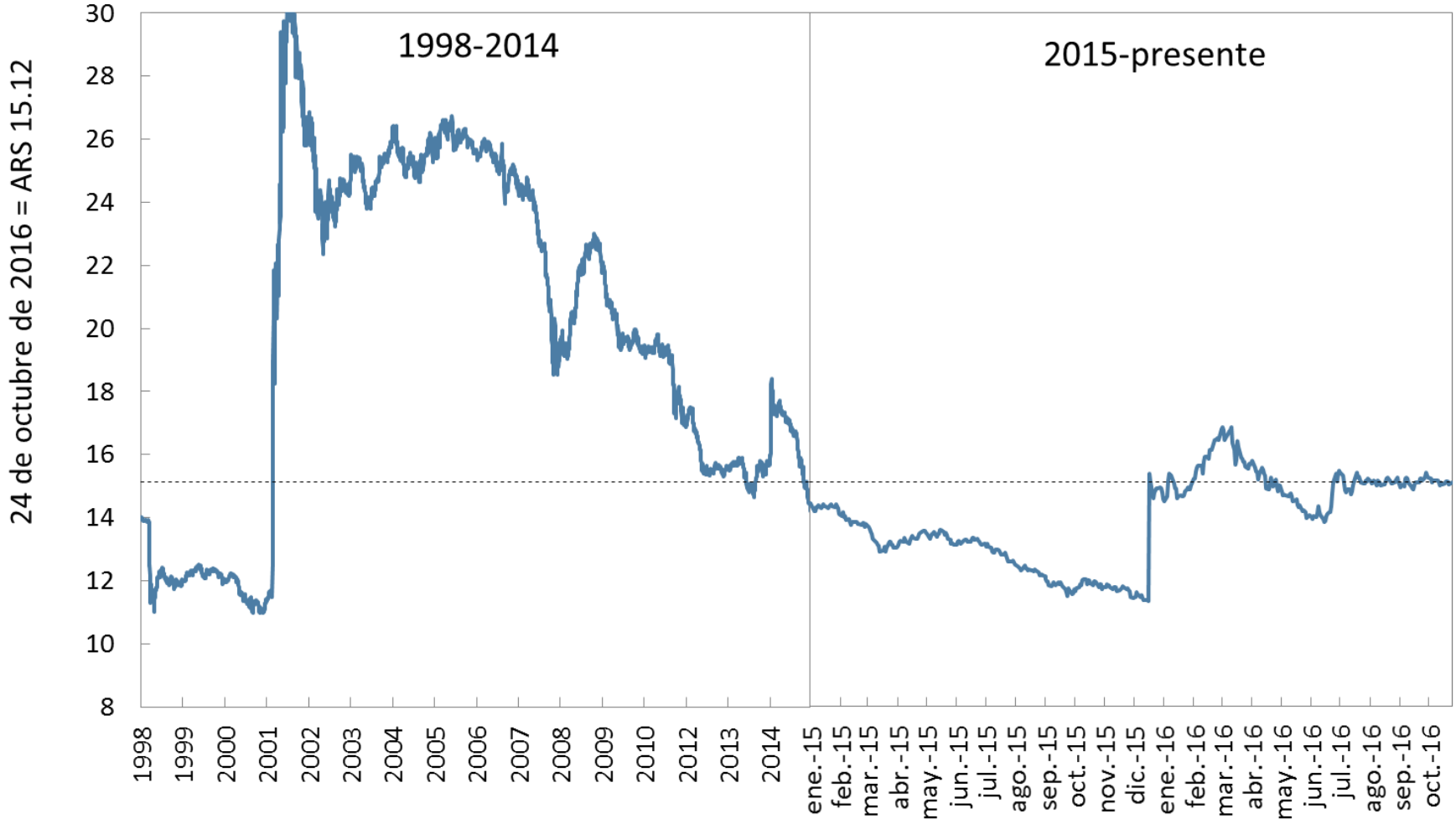
Leaning against the wind



Source: Elypsis based on BCRA

REER smoothing



Fuente: Elypsis
Último dato: 24/10/2016

Volver

Thank you

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