BANCO DE **ESPAÑA**
Eurosistema

14th Emerging Markets Workshop

Spillovers and spillbacks from major transitions in the global economy
Madrid, 17-18 November, 2016

Opening Remarks

Pilar L´Hotellerie-Fallois (ADG International Affairs, Banco de España)

- Let me welcome you to the Banco de España and the XIVth Emerging Markets Workshop, which -for the third time- is held in our premises in Madrid.

- As many of you know, this workshop is an annual meeting for central bank researchers, which was initially promoted by the BOFIT (Bank of Finland Institute of Economies in Transition). Then, other central banks of the euro area -namely, Banco de España, the Central Bank of Austria and the ECB- have supported and hosted this nice initiative. I take this opportunity to congratulate the representatives of BOFIT as they are celebrating this year the 25th anniversary of this institution that has outstandingly contributed to the research on emerging market economies.

- The previous edition of the Workshop in Madrid was in November 2013. The title of that workshop was "The new economic landscape in the aftermath of the crisis" and was motivated by the fact that emerging market economies had been significantly outperforming advanced economies over a protracted period. Emerging market economies as a group displayed a remarkable resilience during the Great Recession, and in the aftermath of the crisis, they performed a strong recovery, pulled by the strength of the Chinese economy and supported, to a certain extent, by countercyclical macroeconomic policies, what represented a remarkable achievement for most emerging market economies.

- There were solid reasons underlying the bright prospects on emerging market economies after the crisis. First, the consolidation of sound macroeconomic policy frameworks that led to a significant improvement in fundamentals. Second, the sustained progress in real convergence to advanced economies. And, third, the increasing role of emerging market economies in global governance, the most clear example being the participation of some of them in the G-20.

- However, also at that time, when this workshop took place in Madrid in November 2013, emerging market economies were starting to show some signs of concern. First, we had just witnessed an episode of brisk correction of emerging financial markets as a consequence of the initial debate on the medium-term withdrawal of the monetary stimulus in the United States (the so-called taper tantrum). The postponement of the tapering and some improvement in economic data partially reverted the market correction and the episode ended without real casualties. The tapering was finally implemented through 2014, and in December 2015 the Fed raised its official interest rate for the first time after having held it close to 0% for seven years and having embarked on a wide range of unconventional monetary policy measures. Since then (and probably until next December) the Fed Funds rate has remained stable. And, in general, the path of official interest rate increases over the coming years is now envisaged to be much less steep than in previous monetary tightening cycles, and the process is expected to last much longer.

- A second matter of concern at the end of 2013 was the broad slowdown in emerging market economies led –again- by China after a period of overheating. The slowdown in China started in 2011 and became more patent during 2014 as the rebalancing process towards a more sustainable model of development gained some traction. The new model relies more on consumption and services and less on investment, exports and manufacturing. The significance of China in world trade implies that its lower growth have substantial repercussions, especially in the emerging economies through a reduction in their external demand as well as commodity prices. In addition, the significant steps towards external and domestic financial liberalization have generated some episodes of financial market turbulences with significant spillovers to other emerging financial markets.

- A third important global process affecting emerging market economies was the marked fall in oil prices since the second half of 2014. This favourable supply-side shock entails a strong redistribution of income between net oil exporting and importing countries. While net importers benefited from an improvement in the terms of trade, net exporting countries faced strong contractions in the value of their output and substantial revisions in their expected growth.

- In addition, a dramatic slowdown in trade has taken place in the last few years. Although there are multiple reasons explaining this trend, an increase in protectionist measures and some reversal in trade liberalization processes are undeniably important contributing factors. This development also points to a deeper factor: the generalized perception that the gains from globalization has been unevenly distributed. This perception has led in many cases to an increasing demand by the population of more domestic-oriented policies.

- In this context of important transformations in the global economy, the proposed topic for this workshop was the analysis of spillovers and spillbacks arising from these major transitions in the global economy. Emerging market economies currently represent more than half of global

GDP and their performance conditions in a decisive manner that of advanced economies. In this respect, the protracted slowdown in emerging market economies is a matter of concern. Growth in emerging market economies have been recurrently disappointing and we have witnessed six consecutive years declining growth rates. Although growth prospects are improving and there are some bright spots, such as India, the challenges confronting emerging market economies are enormous. Under these circumstances, an adequate policy response is of the essence.

- This workshop is an excellent opportunity to reflect on how these transitions are reshaping the global economic landscape and to debate on the most adequate policy responses to address the uncertain global outlook. It seems, following the recommendations of international organizations, that collective policy efforts will be key to avoid falling in a low growth trap in the case of advanced economies and to raise potential growth and reduce vulnerabilities in the case of emerging market economies. In order to avoid backward steps in global economic and financial integration, more weight has to be placed on inclusiveness considerations and additional effort on communication must be developed.

- Anyway, now it is time for the workshop to start. We have the privilege to start this workshop with a keynote speech by Poonam Gupta on “Managing Sudden Stops”, which relies on joint work with Barry Eichengreen. Poonam holds a Ph.D. in Economics from the University of Maryland, and a Master in Economics from the Delhi School of Economics. She is currently a Senior Economist in the Development Economics Vice Presidency of the World Bank. Previously she worked at the National Institute of Public Finance and Policy in Delhi and at the International Monetary Fund; and taught at the Delhi School of

Economics. She has a large number of research publications in top journals and is a leading expert on financial crises, financial sector liberalization, the role of service sector in growth and the Indian economy.

- Today, she is going to talk on a key issue in emerging market economies: the occurrence of sudden stops, the determinants of these episodes and how policy responses have evolved over time.

- Before giving the floor to Poonam, let me welcome you again wishing you a fruitful workshop and a very nice stay in Madrid.