

COMMENTS ON “US MONETARY SPILLOVERS TO LATIN AMERICA: THE ROLE OF LONG TERM INTEREST RATES”

Luis Molina

Banco de España

EMERGING MARKETS WORKSHOP

Madrid

17-11-2016

DGA ASUNTOS INTERNACIONALES

OVERVIEW

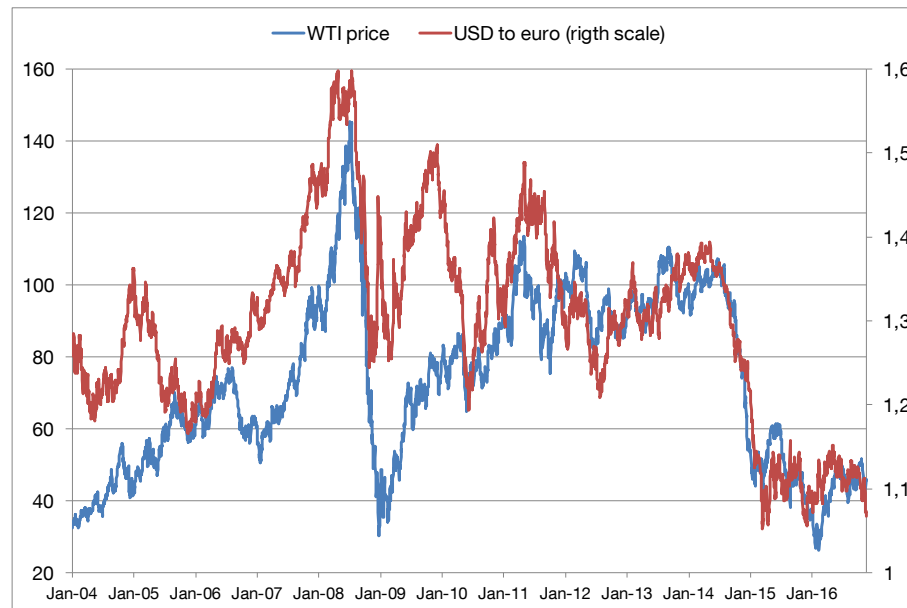


- **The paper estimates the spillovers from US interest rates to the main macro and financial variables of the five IT countries in Latam (FAVAR model)**
- **Main conclusions:**
 - US long term rates do impact on LA factors
 - Higher effects on unemployment rates and exchange rates
 - Less effect after 2009 but high effects on LA domestic long term rates
 - Case studies for Mexico and Chile
- **Very timely paper (immediate Fed lift off and Trump!)**

GENERAL COMMENTS AS FOOD FOR THOUGH



- **On the sample:**
 - Central America or Uruguay: more degrees of freedom (and are of interest nowadays)
 - From January 2003: some crisis periods missed
- **On the variables:**
 - Unemployment rates or industrial production (monthly GDP): LA labour markets showed high resilience since 2005
 - NER against the USD versus wider NERs (Chile): China growing relevance
 - Commodity prices as exogenous variable: tend to go hand in hand with USD



GENERAL COMMENTS AS FOOD FOR THOUGH

- **On the variables:**

- Lack of data prevent to include LA long term rates until 2009:

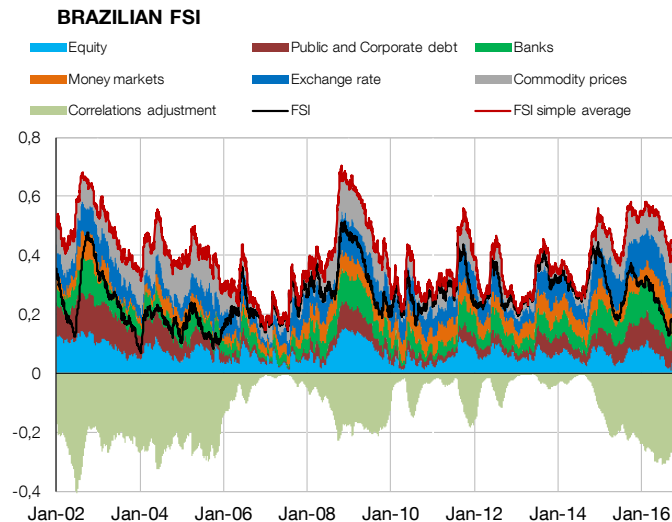
- *Alternatively use the EMBI: LA reliance on external financing is higher than in other EMEs:*

FIXED INCOME ISSUANCE (% TOTAL)

	<u>LA</u>		<u>Emerging Asia</u>		<u>Rest of EMEs</u>	
	Domestic markets	International markets	Domestic markets	International markets	Domestic markets	International markets
2003-2008	39,4%	60,6%	89,9%	10,1%	56,5%	43,5%
2009-2014	29,1%	70,9%	85,9%	14,1%	58,8%	41,2%

- *Some interest rates for loans*

- *Even an FSI or FCI:*



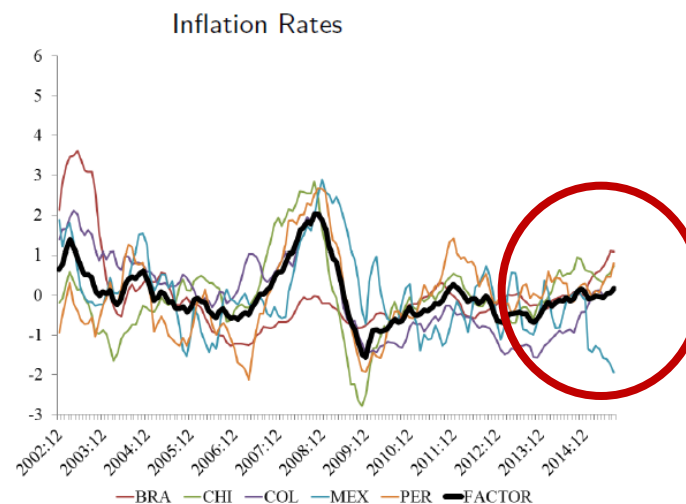
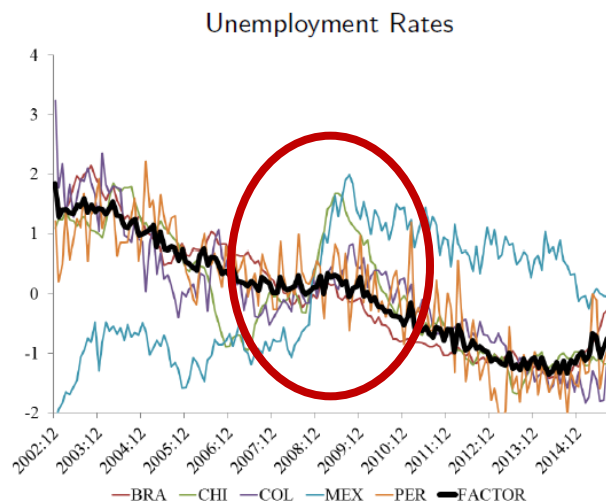
SOURCE: Broto et al (2017) forthcoming

GENERAL COMMENTS AS FOOD FOR THOUGHT



- **On the methodology:**

- Common factor in unemployment rates (Mexico) or inflation (Brazil): heterogeneity is the norm in LA:



- **On the results:**

- US LT interest rates affects LA inflation (+): this implies that ER effect is much higher than LA GDP effect: ERP is falling (BdE April 2016)
- The effect on macro variables is much lower after 2009
- Unexpected results for Mexico: again heterogeneity