Observations on Phoenix Miracles
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Summary and Conclusions

• Financial factors are surely among the main drivers behind the collapses and seemingly Miracles recently observed in LA economic experiences.

• But there seem to be other factors that could seriously condition the implications arising from this view. In particular, regarding whether these collapses should have never happened, or the role played by rigidities in nominal contracts.

• Sizeable changes in relative prices and risk perception could help explain the investment component of the “puzzle”.

• De-leveraging, precautionary savings, and low financial deepness to start with could also help explain the credit side of the story.

• Initial debt overhang cum ex-post relative prices, and external factors (global demand and liquidity in general and terms of trade in particular) could, at the same time, also help our understanding of the so-called miracles.

• Contrasts with US experience perfectly reflect the ability (vs inability) to sustain independent policies, even if unsustainable!!!!
### Further Looking at Stylized Facts 1

#### Collapse

<table>
<thead>
<tr>
<th>Country</th>
<th>Start-Year-End-Year</th>
<th>REER</th>
<th>PrivCred</th>
<th>GDP Down</th>
<th>GDP Up</th>
<th>TOT Down</th>
<th>TOT Up</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>1980-82-84</td>
<td>-48.8%</td>
<td>-11.8%</td>
<td>-16.5%</td>
<td>9.2%</td>
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<tr>
<td>Argentina</td>
<td>1998-02-04</td>
<td>-52.8%</td>
<td>-54.1%</td>
<td>-5.7%</td>
<td>13.4%</td>
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<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>1980-83-85</td>
<td>-22.0%</td>
<td>-12.1%</td>
<td>-3.5%</td>
<td>7.4%</td>
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<tr>
<td>Chile</td>
<td>1981-83-86</td>
<td>-38.7%</td>
<td>-10.5%</td>
<td>-6.8%</td>
<td>16.8%</td>
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</tr>
<tr>
<td>Ecuador</td>
<td>1998-99-01</td>
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<td>-26.3%</td>
<td>-9.9%</td>
<td>29.3%</td>
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<tr>
<td>Mexico</td>
<td>1981-83-85</td>
<td>-15.0%</td>
<td>-24.6%</td>
<td>-27.7%</td>
<td>-7.4%</td>
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<tr>
<td>Mexico</td>
<td>1994-95-97</td>
<td>-18.5%</td>
<td>-41.4%</td>
<td>0.1%</td>
<td>1.3%</td>
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<tr>
<td>Peru</td>
<td>1981-83-86</td>
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<td>-10.4%</td>
<td>-6.5%</td>
<td>7.5%</td>
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<tr>
<td>Uruguay</td>
<td>1981-84-91</td>
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<td>-28.6%</td>
<td>10.4%</td>
<td>17.1%</td>
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</tr>
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</table>

Source: IFS, and DB Global Markets Research
### Further Looking at Stylized Facts II

#### Mild

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Swings Within the Episodes</th>
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<td>REER</td>
<td>PrivCred</td>
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<tr>
<td>Argentina</td>
<td>1994-95-96</td>
<td>-12.1%</td>
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<td>Chile</td>
<td>1998-99-00</td>
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<td>Colombia</td>
<td>1998-99-02</td>
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<tr>
<td>Ecuador</td>
<td>1981-83-84</td>
<td>-12.7%</td>
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<tr>
<td>Peru</td>
<td>1997-98-99</td>
<td>-9.6%</td>
</tr>
</tbody>
</table>

In Peru the external shock seems similar to the collapse scenario but credit behavior was completely different.

Source: IFS, and DB Global Markets Research

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Investment and Relative Prices – LA Averages

Source: IFS, and DB Global Markets Research
Credit Growth Correlation (?) and De-leveraging - LA

Source: IFS, and DB Global Markets Research
The Probable Importance of Precautionary Savings - LA

Source: IFS, and DB Global Markets Research
Growth and the Real Exchange Rate - LA

Source: IFS, and DB Global Markets Research
Robust External Accounts and Growth Performance

External Saving and GDP growth
20 emerging economies between 1975 and 2002

Source: World Bank
Growth and Terms of Trade - LA

Source: IFS, and DB Global Markets Research
The Association of Terms of Trade and Global Liquidity

Source: DB Global Markets Research
Conclusions

• Calvo et al are correct at pointing to financial factors in episodes of economic crisis in LA in the last 20 years or so.

• But exchange rate corrections, risk perception, deleveraging, and precautionary savings could also help explain the seemingly miracles. These, together with the usual exacerbation of external factors could put in doubt the avoidable nature of those episodes.

• I have not provided strong evidence of the above but a very first approximation of the data and the knowledge of the episodes suggests further research might be worth pursuing.

• As noted, all existing contrasts with US experience appear perfectly reflecting the ability (vs inability in the case of LA economies) to sustain independent policies, even if unsustainable!!!!. The US recovery from great depression with higher price (exchange rate) flexibility may, however, offer another piece of common evidence of the typical path out of the crisis/collapse.
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I have reflected on the report and certify that the Regulation AC disclosure is accurate.

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