

Central Banking during the Crisis: Performance and Challenges in Latin America

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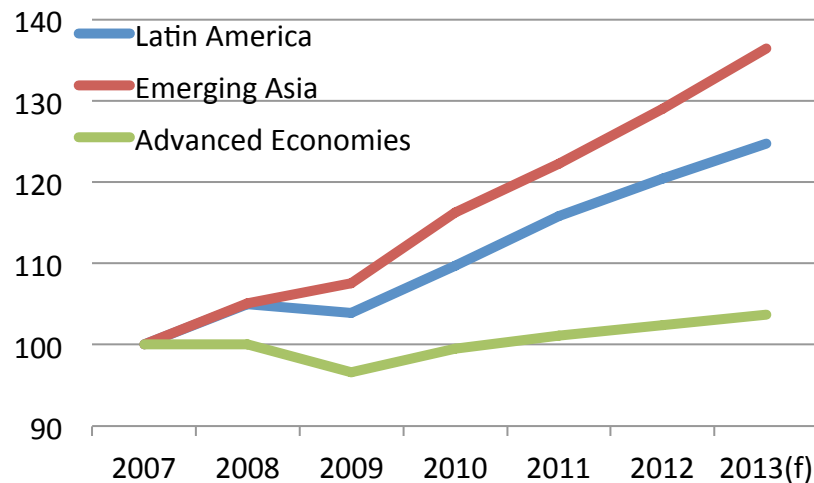
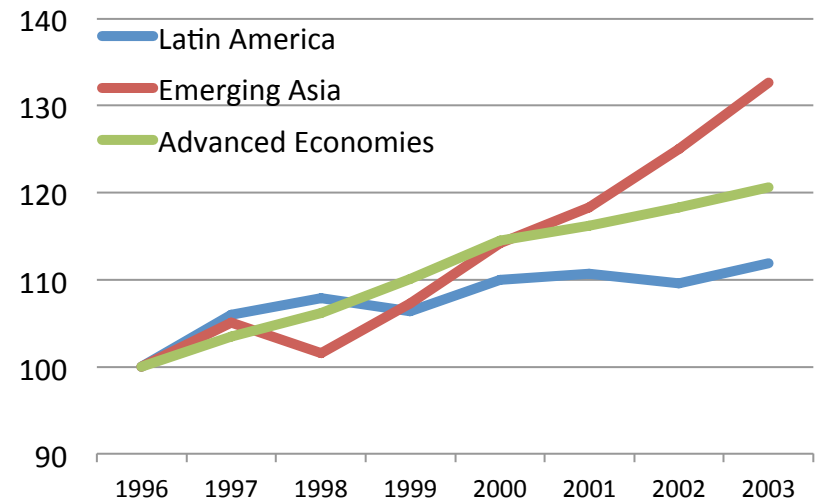
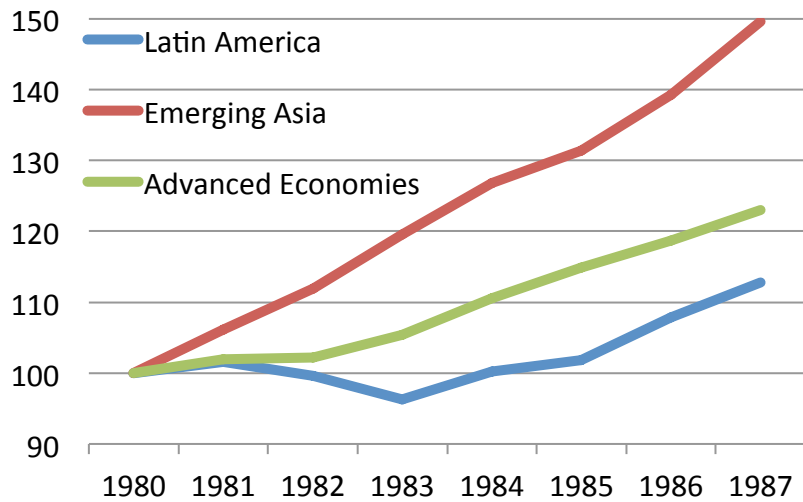
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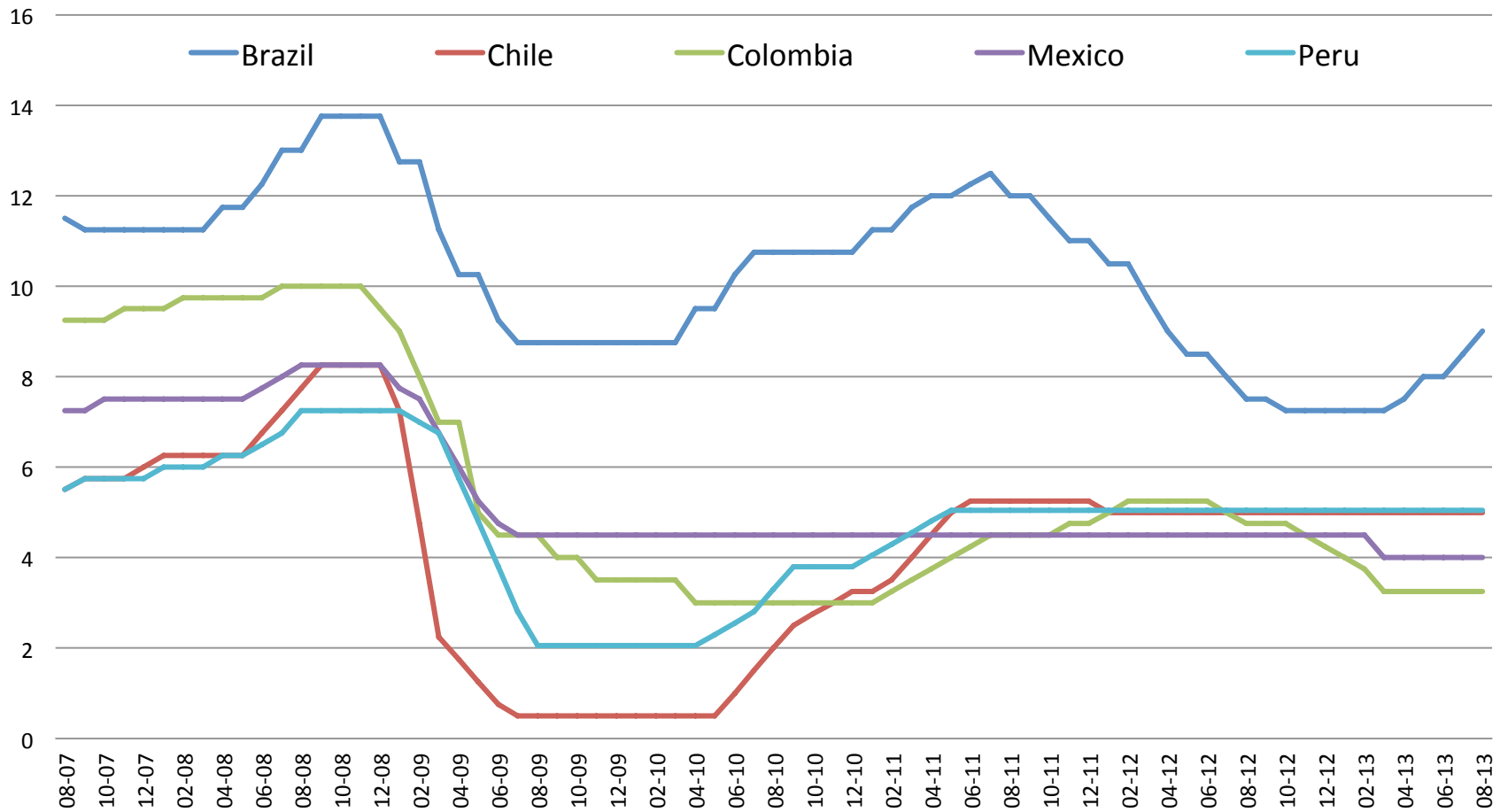
**MONETARY POLICY RESPONSES
DURING THE CRISIS: THIS TIME WAS
DIFFERENT (FOR THE FIRST TIME?)**



GDP in three recessions: The debt crisis – the Asian crisis and the Global Financial crisis (index two years before the crisis=100)

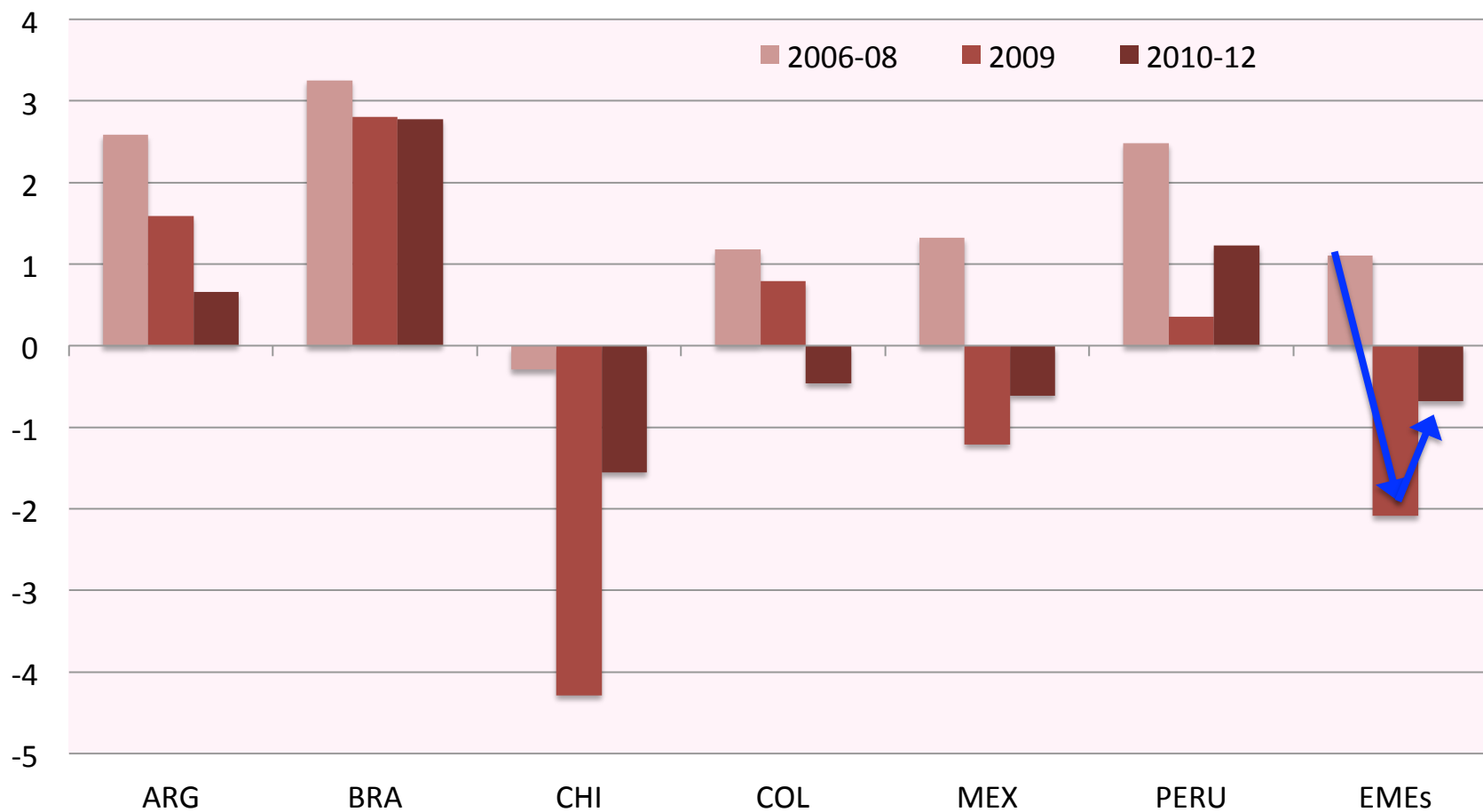


Monetary Policy Rates in Latin America (%)



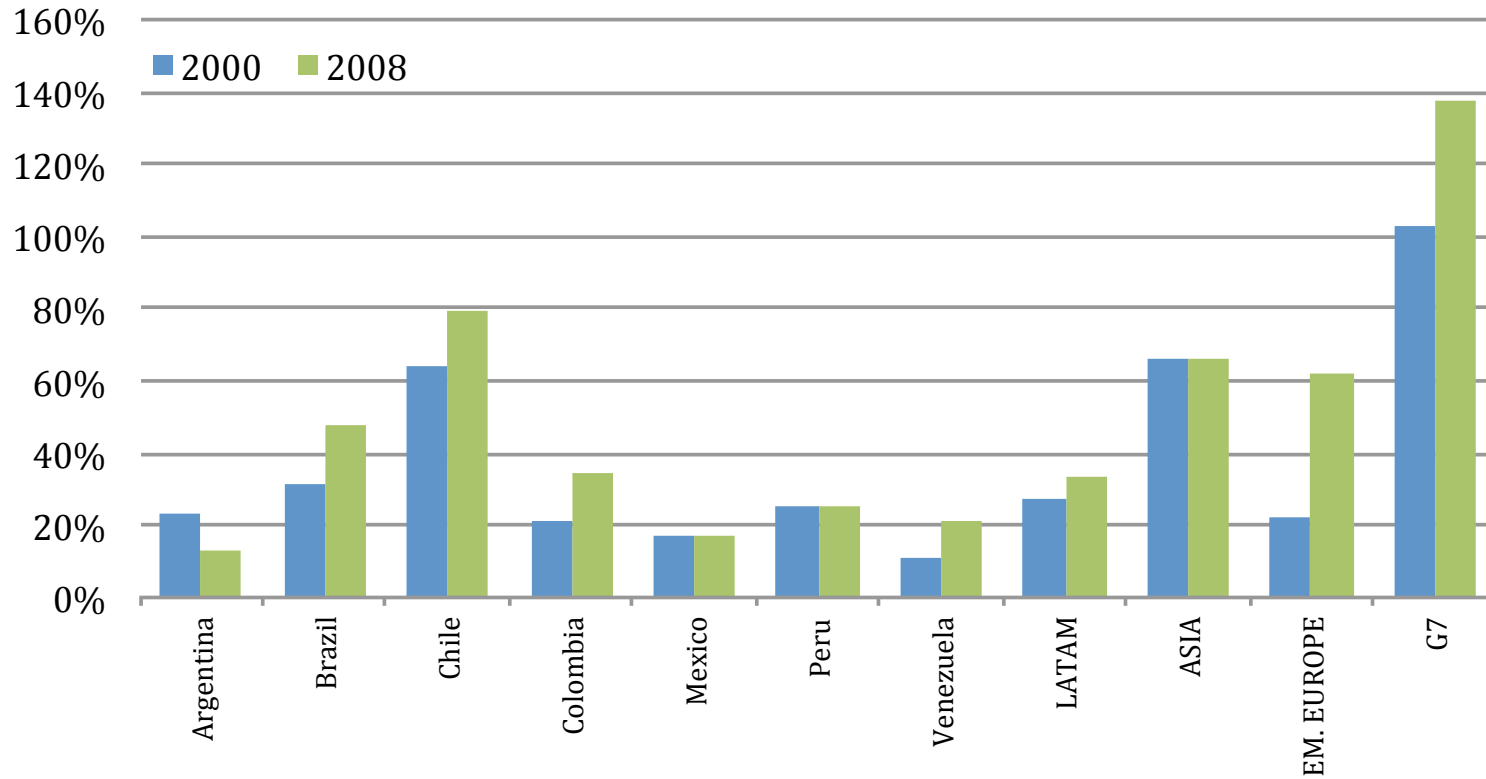
Sources: Bloomberg.

Fiscal Policy: Structural primary balance (% potential GDP)



Source: Fiscal Monitor, IMF, April 2012.

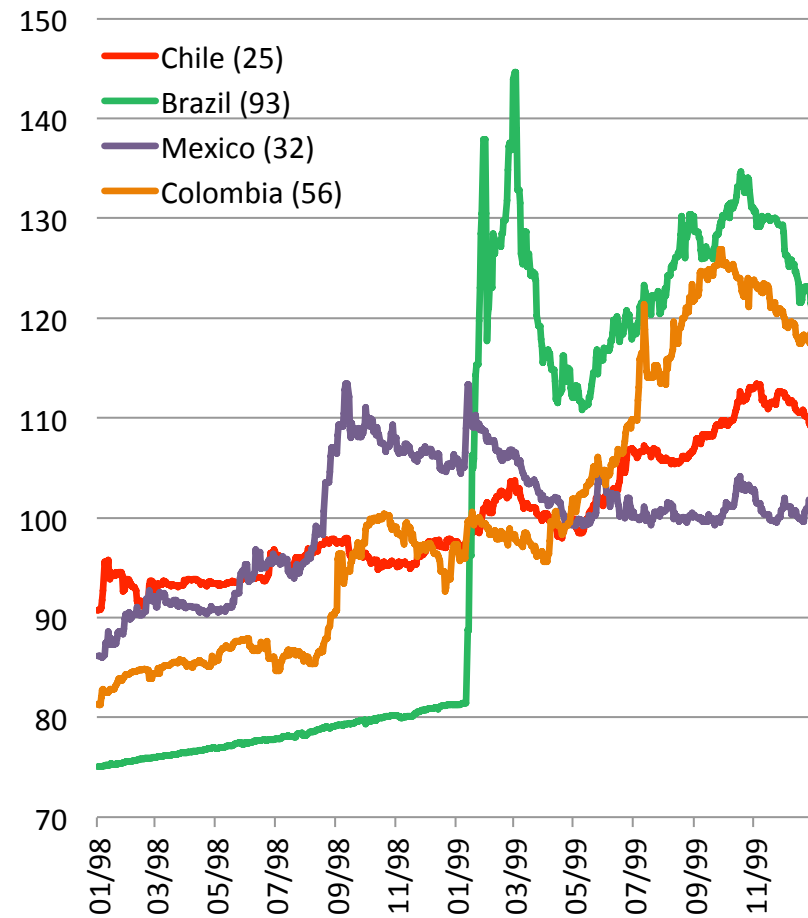
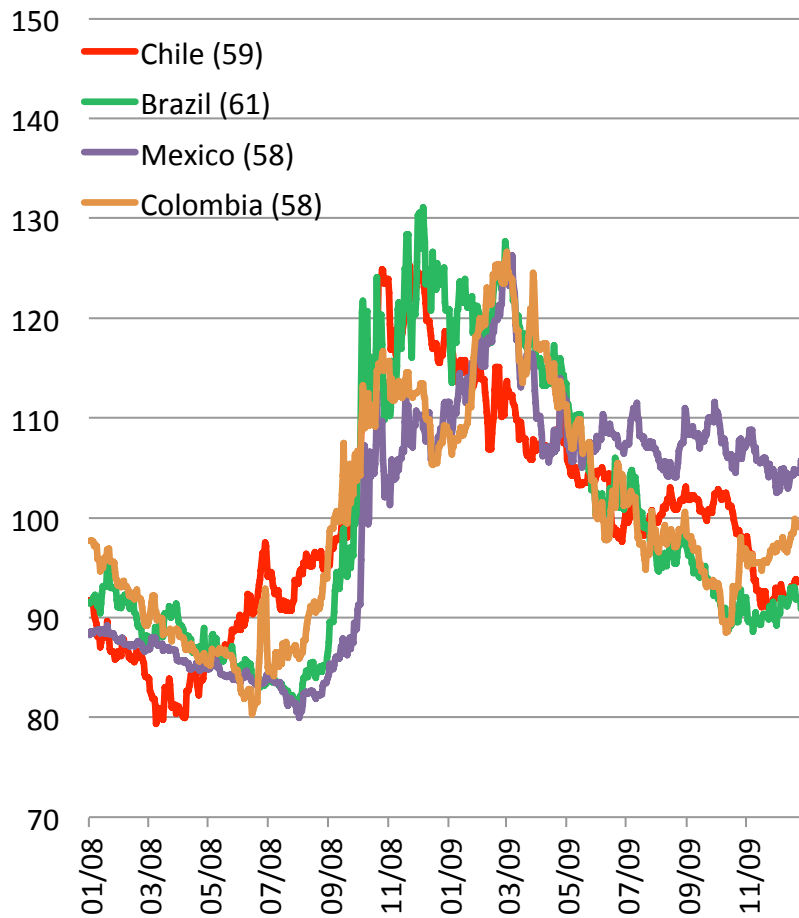
Private Credit as Share of GDP (percentage)



Source: IMF, IFS.

Exchange Rates during the Asian and the Global Financial Crisis

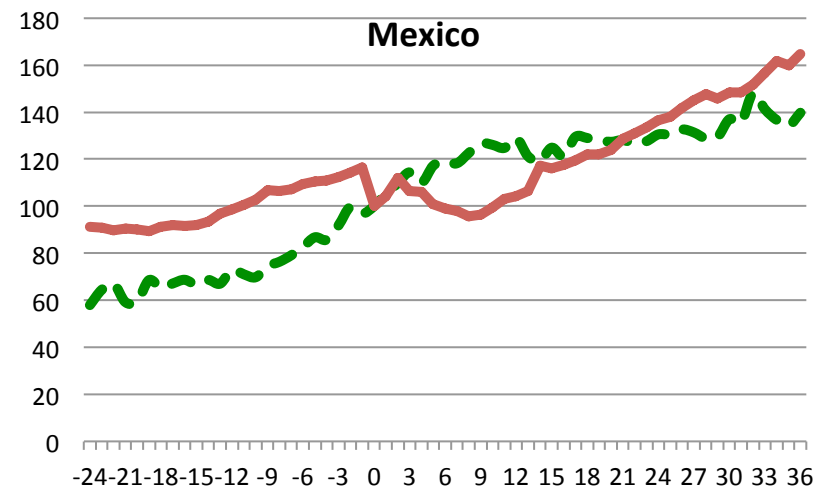
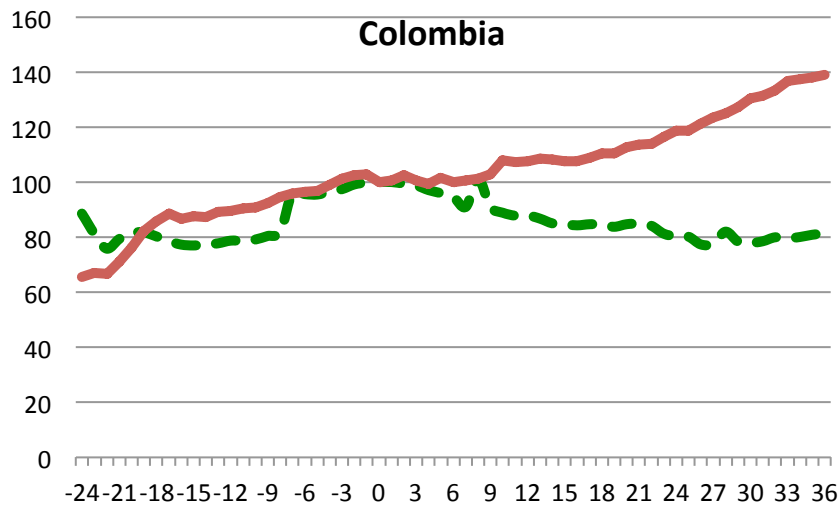
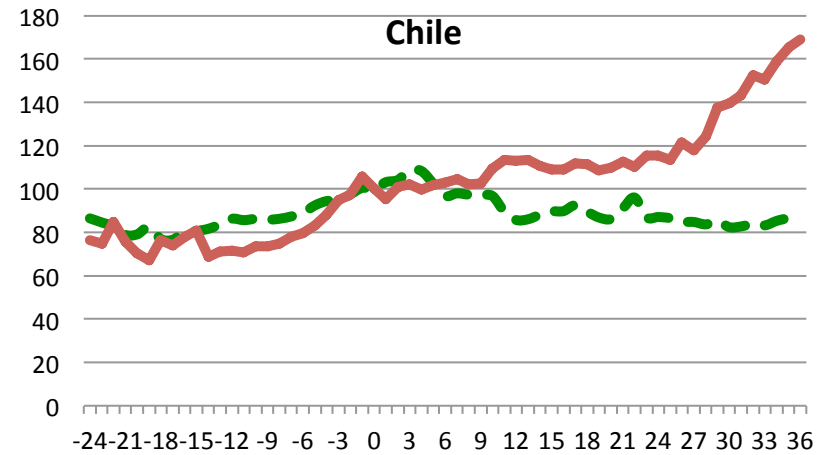
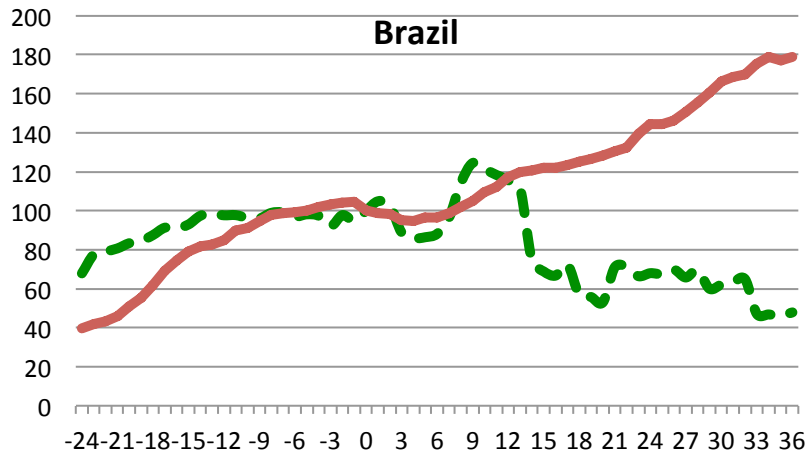
(domestic currency per USD, period average=100)



Source: Bloomberg. Figures in brackets indicates depreciation from bottom to top. An increase indicates a depreciation of the currency.

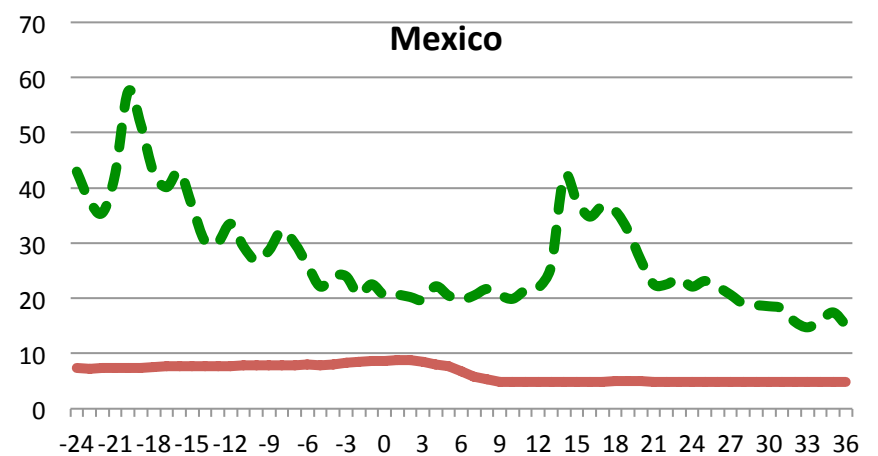
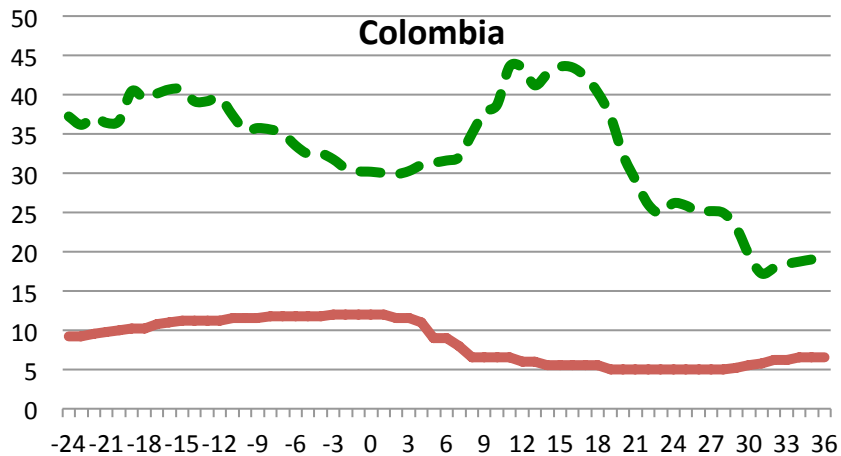
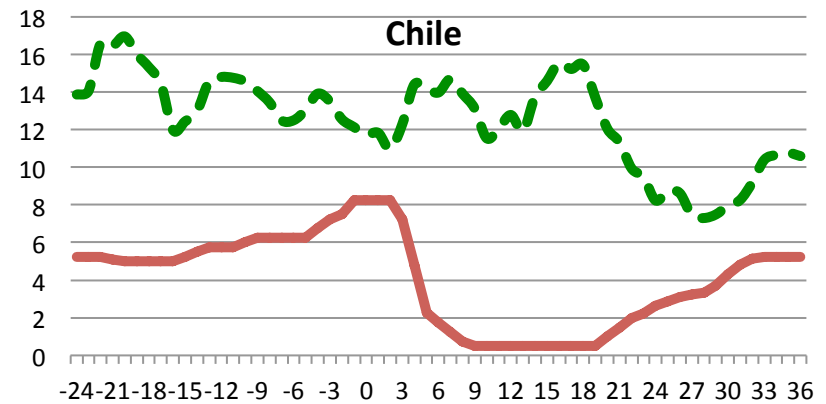
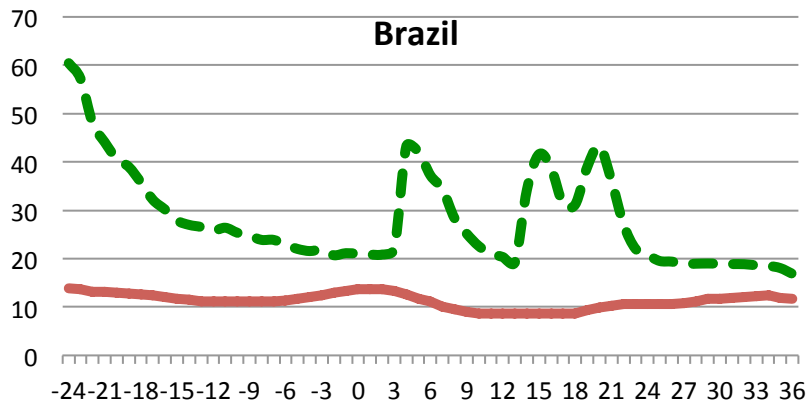
International Reserves Now and Then

(index, period average=100)

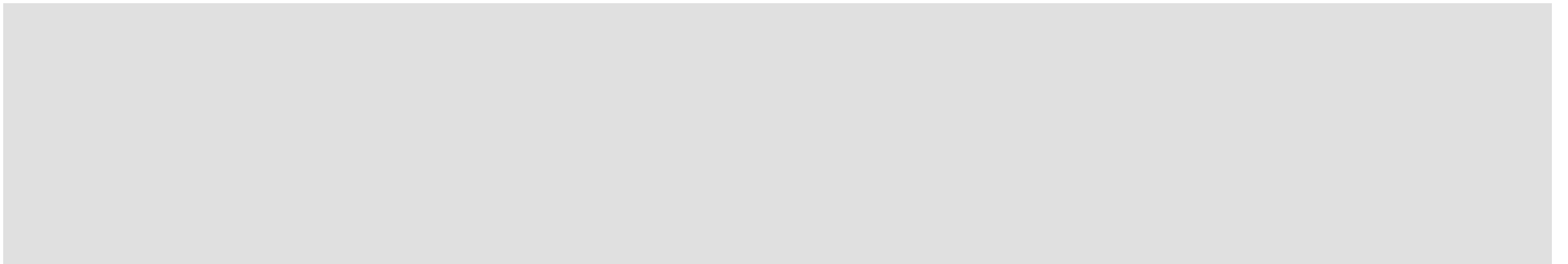


Monetary policy rates Now and Then

(%)



CHALLENGES FOR CENTRAL BANKING



On Monetary Policy

- Flexible IT has worked quite well, and allowed major loosening of MP during the crisis.
- It played a secondary role as a cause of the financial crisis.
- Exchange rate flexibility is central to good MP.
- Exceptional forex interventions are part of the toolkit and useful in certain circumstances, but...
- Avoid fear of floating and intervention “addiction”, it provides inefficient insurance (lack of commitment) and create incentives to speculate against the central bank.

On Financial Stability and Macroprudential policies

- The financial stability objective is not new in the region. Central banks have always played a key role in previous financial crisis.
- Monetary policy is not the appropriate tool to deal with a financial crisis.
- Macroprudential policies. But what are they? What is their difference with microprudential?
- Instruments are mostly the same. Perhaps differences in variability of regulatory parameters over the business cycle.

On Financial Stability and Macroprudential policies

- Risk 1: controlling excessively banking activities may induce shadow banking.
- Risk 2: it is a complement of monetary policy, but not a substitute.
- Risk 3: use MAPP terminology to do any kind of policies. It is not a fancy name for things that have been traditionally done, e.g., capital controls. Good communication becomes central to avoid misuse of terms and policy confusion.

On Communication, Transparency and Accountability

- Central bank independence has gained legitimacy during the crisis.
- It has been shown that flexible IT does not care only about inflation. It is designed to manage efficiently the short-run tradeoff between inflation and unemployment.
- Transparency is central for: accountability, monitoring of the fulfillment of the target, and to improve the workings of monetary policy

On Current Developments in Emerging Markets

- At the beginning of the year we were facing a “currency war” fought, in some countries, with reserves accumulation and “macroprudential” policies.
- Now the tension is with tapering: “Taper the tapering” because of repercussion effects.
- The slowdown is underway, softening of capital inflows and depreciation of the currencies...is a good thing. Beware of fear of floating and beware of abandoning flexible inflation targeting.