XIV Meeting of the Latin American Network of Central Banks and Finance Ministries

April 25 and 26, 2001
1300 New York Avenue NW, Washington, D.C.
Cecilio Morales Room – 12th Floor-

Agenda

Wednesday - April 25, 2001

9:30 - 10:15 a.m. Registration – Main Lobby, 1300 New York Ave., NW

10:15 – 10:30 a.m. Welcoming Remarks K. Burke Dillon, Executive Vice-President , IDB
Program Overview Guillermo Calvo, Chief Economist (Designate), IDB

Session I

10:30 a.m.– 12:30 p.m. **Global Economic and Financial Prospects**

Chair: K. Burke Dillon, Executive Vice-President , IDB

What are the prospects for external conditions relevant to the region such as world growth, interest rates, and terms of trade? What are the most likely scenarios for the future economic activity and monetary policy of the United States?

Speaker: Michael Mussa, Director, Research Department, IMF

What are the main real and financial transmission mechanisms to Latin America? What is the expected impact on growth in Latin American countries? Which countries are winners and which are losers? How are countries revising their forecasts?

Speaker: Eduardo Fernández-Arias, Lead Research Economist, IDB

12:30 – 12:45 p.m. **Photograph of the group** - Atrium (1st floor)

12:45 – 2:45 p.m. ***Luncheon*** (by invitation only)
Keynote Speaker: Stanley Fischer, First Managing Director, IMF
New Developments on Contingent Credit Lines

Hosted by Mr. Enrique V. Iglesias, President - IDB

Session II

3:00 – 3:45 p.m. **Varieties of Crises**

Chair: Guillermo Perry, Chief Economist, Latin America and the Caribbean, The World Bank

Why have bond spreads increased during 2000? Does the cause reside in countries, the official sector, or the market? What new problems do countries face that impede recovery and pose a risk of crisis: More adverse international financial conditions? Weak domestic policies? Institutional bottlenecks? Has the increased cost of capital stalled the economic recovery and become self-fulfilling? What types of "crisis" have countries gone through? What kinds of crises may we face in Latin America? What are their policy implications? What are the corresponding structural and macroeconomic policy responses that ought to be implemented?

Speaker: Guillermo Calvo, Chief Economist -Designate, IDB

3:45 – 4:00 p.m. **Coffee Break**

Session III

4:00 – 6:00 p.m. **Argentina: Diagnosis and Treatment**

What is special about Argentina, which has failed to recover like other Latin American countries? What are the main special Argentine factors: export prices, lack of access to financial markets, the dollar currency board, price and salary rigidities, its closeness, lack of fiscal discipline and high public debt, none of the above? What is the stumbling block impeding recovery? How does the "Cavallo plan" address these issues? Is it the right treatment for the disease? In particular, would a peg to a currency basket like the one proposed have made a difference? And if so, will its implementation amount to a beneficial more flexible peg or to a risky weaker peg? What is the prognosis under the "Cavallo treatment?" What is the risk of contagion within the region?

Chair: Guillermo Calvo, Chief Economist -Designate, IDB

Speaker: Ernesto Talvi, Executive Director, CERES, Uruguay
Guillermo Mondino, Chief of Advisers, Ministry of Economy, Argentina
Eduardo Fernández-Arias, Lead Research Economist, IDB

Thursday – April 26, 2001

Session IV

9:00 a.m– 12:45 p.m. **Are countries in a pro-cyclical policy trap?**

Chair: Ricardo Hausmann, Professor, Harvard University

- **9:00 - 9:30 a.m.**

Speaker: Ricardo Caballero, Professor, MIT
A "Vertical" Analysis of Crises and Intervention: Fear of Floating and Incentive Problems

The Managed Floaters: Float or Sink?

Brazil and Mexico lowered interest rates in 2000, when their economies were in an expansionary mode. Now that recessionary forces have appeared, interest rates have risen and authorities are demonstrating a fear of floating. In addition, Mexico is planning a substantial fiscal contraction. In Chile, the authorities have risked lowering interest rates and allowed the currency to weaken, but the effects on domestic demand have thus far been unimpressive.

This raises several questions. First, do authorities actually have effective policy instruments? How sensitive are the economies to movements in domestic interest rates? Are depreciations expansionary? Is a lowering of interest rates coupled with a potential depreciation expansionary? Is a widening of a fiscal deficit expansionary? Is the passthrough still as low as it was in 1999? Second, what is the nature of the current shocks? Is it an adverse shock to the capital account that requires restrictive policies in order to reduce the current account? Does this explain the contractionary nature of policy announcements? What explains the difference between Chile on the one hand, and Brazil and Mexico on the other? Does Chile's greater solvency and lower current account deficit allow it to be less concerned about market access? And finally, what is the nature of the policy trade-offs involved among output, inflation and external balance?

- **9:30 - 11:00 a.m.**

Speakers: Moisés Schwartz, General Director, Ministry of Finance and Public Credit, Mexico
Ilan Goldfajn, Director of Economic Policies, Central Bank, Brazil
Felipe Morandé, Chief Economist, Central Bank, Chile

11:00-11:15 a.m. **Coffee Break**

The Super-fixers: Shield or straightjacket?

What is the Argentine lesson concerning the cost of a currency board? Was its recessionary bias in bad times a major cause of Argentina's lack of growth recovery or a sideshow? How would it compare to a currency basket? How effective is countercyclical monetary policy through weaker bank requirements? How effective is a fiscal devaluation in lieu of an actual one? Was devaluation risk an important cost calling for dollarization, or a sideshow?

What are the lessons from dollarizing countries? Is dollarization paying off as planned? How are dollarizing countries faring given the recent turmoil? Have their interest rates been less affected? Has dollarization shielded the economy from international instability? Has it improved the political system's ability to decide on needed adjustment measures? Or has the absence of an instrument made things more difficult?

- **11:15 a.m. -12:45 p.m.**

  Speakers: Federico Sturzenegger, Economic Policy Secretary, Ministry of Economy, Argentina
  Alonso Pérez-Kakabadse, Economic Advisor, Presidency of the Republic, Ecuador
  Rafael Barraza, President, Central Reserve Bank, El Salvador

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1:00 – 2:45 p.m. **Working Lunch of the Network, Executive Dinning Rooms, 7th floor**

Session V

3:00 – 5:00 p.m. **International Standards in the Financial Sector**

Within its strategy for standards implementation, in September 2000 the Financial Stability Forum endorsed recommendations on possible official and market-based incentives that could help encourage the implementation of international standards (see http://www.fsforum.org). What progress and experience in implementation has been achieved?

Co-Chairs: Svein Andresen, Secretary General , Financial Stability Forum
Eduardo Fernández-Arias, Lead Research Economist, IDB

Speakers : Mark Allen, Deputy Director, Policy and Review Department , IMF
Amar Bhattacharya, Senior Adviser, World Bank
Gorge Vojta, Chairman, Financial Services Forum, New York
Larry Hays, Director Sorvereign Ratings Group, Standard and Poor´s
Antonio Vives, Deputy Manager, Private Enterprise and Financial Markets, IDB