

Inter-American Development Bank
Office of the Chief Economist



**REDESIGNING THE INTERNATIONAL FINANCIAL ARCHITECTURE:
TOWARDS A SHARED VIEW OF THE ISSUES**

**Latin American Network of Central Banks and Finance Ministries
X Meeting**

**July 8 and 9, 1999
CECILIO MORALES ROOM - 12th floor**

Agenda

This meeting will focus on the redesign of the international financial architecture (RIFA). At present, the international community is discussing several policy initiatives in different fora (G-33, IMF Board, G-7, Paris Club, etc.). The purpose of the seminar is to facilitate the emergence of a regional consensus on these issues.

Thursday, July 8

9:00 a.m. - 10:00 a.m. Registration at the Inter-American Development Bank
1300 New York Ave., N.W. , Washington, D.C. 20577

10:00a.m. - 10:30 a.m. Welcome words: Enrique V. Iglesias, President, IDB
Program remarks: Ricardo Hausmann, Chief Economist, IDB

Part I: The Problem

Session I

10:30 a.m. – 12:15 p.m. ***THE PROBLEMS WITH CURRENT ARCHITECTURE***

Recent crises have exposed a number of problems with financial liberalization in today's world (pick your favorite: domestic financial distortions, official bail-out moral hazard, panic-led liquidity crises, financial contagion) and set the RIFA in motion. However, is the current focus on avoiding crises, and implicitly on how to address excessive capital flows, the right approach? Or should the focus be on how to deepen financial integration, and implicitly how to enable more capital flows in the marketplace? What are the different implications for RIFA of these opposing views of the problem?

Chair: Roberto Junguito, Director of Banco de la República, Colombia
Panel: Jack Boorman, Director Policy Development and Review Department, IMF
Barry Eichengreen, Professor of Economics, UC Berkeley
Ricardo Hausmann, Chief Economist, IDB

12:15 pm – 12:30 p.m. Photograph of the group at Andres Bello Auditorium, 9th floor

12:30 p.m. – 2:15 p.m. Lunch: Keynote Speaker: Joseph Stiglitz, Chief Economist, WB
Hosted by: Enrique V. Iglesias, President, IDB
Executive Dining Room – 7th floor (*by invitation only*)

Part II: Proposals on the Table

Session II

2:30 p.m.- 4:15 p.m. ***OFFICIAL BAILING IN OF THE PRIVATE SECTOR***

A number of proposals provide mechanisms through which private sector withdrawal, or capital outflows, would be impeded by the official sector in the event of financial difficulties. These mechanisms range from the traditional policy of lending into arrears, to “moral suasion” or cajoling, to the explicit requirement that countries restructure private liabilities (as in the comparable treatment of bondholders recently pressed by Paris Club), to more elaborated legal forms, as in the creation of a global court or body in charge of dealing with sovereign or country “bankruptcy” in ways similar to corporate bankruptcy laws. The key question is whether the anticipation of some of these workouts will be perceived as additional country risk and produce a counterproductive backlash in financial markets.

Chair: Winston Dookeran, Governor, Central Bank of Trinidad and Tobago

Panel: Caroline Atkinson, Senior Deputy Assistant Secretary-International Monetary/Financial Policy, US Treasury
Claudio Loser, Director, Western Hemisphere Dept., IMF
Sergio Werlang, Director of Economic Policy, Central Bank of Brazil
Roberto García, Director of Economic Research, Central Bank of Ecuador

4:15 p.m. – 4:30 p.m. *Coffee Break*

Session III

4:30 p.m. – 6:15 p.m. ***MORE FLEXIBILITY IN PRIVATE DEBT CONTRACTS***

More flexibility in contracts that leads to lower capital outflows in times of financial stress is being advocated as a way of preventing liquidity crises and reducing the cost of crises. Flexibility is achieved either by making contractual payments variable or by setting a legal framework that facilitates renegotiation (as in collective action clauses in bond contracts). One key question is how to introduce these changes in a way that does not generate second-class bond issuers or second-class bond issues relative to outstanding bonds. Even if change can be implemented satisfactorily, the question remains whether it would amount to a significantly higher country risk, in this case because flexibility may be subject to abuse.

Chair: Guillermo Perry, Chief Economist for Latin America, WB

Panel: Barry Eichengreen, Professor of Economics, UC Berkeley
Federico Molina, Managing Director of the Bureau of Public Credit, Argentina
Felipe Morandé, Manager Studies Division, Central Bank of Chile
Martín Werner, Undersecretary of Finance and Public Credit, Mexico
Humberto Della Mea, Chief Economic Studies Department, Central Bank of Uruguay

Friday, July 9

Session IV

9:00 a.m. - 10:30 a.m. **CONTINGENT CREDIT LINES AND OTHER OFFICIAL SUPPORT**

Contingent credit lines (CCL), designed as a substitute for last resort lending to support countries with healthy economies that suffer unexpected financial panic or contagion, have been advertised as the cornerstone of the paradigm shift from crisis resolution to crisis prevention. However, the IMF's recent approval of a CCL facility does not appear to have elicited much interest. Is the problem in the details or in the basic idea?

Chair: K. Burke Dillon, Executive Vice President, IDB
Panel: Jack Boorman, Director Policy Development and Review Department, IMF
Eduardo Fernández-Arias, Lead Research Economist, IDB
Agustín Carstens, General Director of Economic Research, Central Bank of Mexico
Daniel M. Zelikow, Deputy Assistant Secretary Asia, the Americas and Africa, US Treasury

10:30 a.m. - 10:45 a.m. *Coffee break*

Session V

10:45 a.m. - 12:15 p.m. **FINANCIAL STANDARDS AND REGULATIONS**

The most active area of RIFA activity so far has been financial standards and regulations, namely transparency, domestic and international banking regulation, securities regulation, an overall concern with impeding short-term capital flows and the effectiveness of corporate bankruptcy law. These issues are open to analytical debate and raise questions about how to implement the standards in each emerging market. Would it be useful to have a set of recommended standards? And if so, would it be beneficial to give them teeth by conditioning international support to their compliance and, in the extreme, setting a global regulatory body?

Chair: Julio Suárez, Vice President, Bank of Guatemala
Panel: Mario Blejer, Senior Advisor, IMF
Andrew Powell, Chief Economist, Central Bank of Argentina
Sergio Clavijo, Undersecretary of Finance, Colombia
Leonardo Leiderman, Senior Director Research Department, Bank of Israel

12:30 p.m. - 2:15 p.m. *Working Lunch of the Network (Issues for XI Meeting)*

From this point onwards it is country delegations only

Part III: Building a Regional View

Session VI

2:30 p.m. - 4:00 p.m. **OVERALL ASSESSMENT**

Are the initiatives on the table useful to the region? Will they reduce financial turmoil and facilitate a more orderly environment for growth? Are other initiatives more likely to deliver a better outcome?

Chair: Paulo Paiva, Vice President for Planning and Administration, IDB
"Tour de table"

4:00 p.m. – 4:15 p.m. Coffee break

Session VII

4:15 p.m. – 5:45 p.m. **CONCLUSIONS AND NEGOTIATION STRATEGY**

Which overall views and conclusions can be drawn from this meeting? What is the most effective way of negotiating in the various fora of RIFA discussions? How will be this meeting be followed up?

Chair: Juan Antonio Morales Anaya, President – Central Bank of Bolivia
Panel: Martín Werner, Undersecretary of Finance and Public Credit, Mexico
Andrew Powell, Chief Economist, Central Bank of Argentina
Guillermo Larraín, Economic Policy Coordinator, Ministry of Finance, Chile
Marcos Caramuru de Paiva, Secretary of International Affairs, Finance Ministry, Brazil
