



**INTER-AMERICAN DEVELOPMENT BANK
RESEARCH DEPARTMENT**

Regional Policy Dialogue

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

April 20-21, 2006
Room CR-3, Enrique V. Iglesias Conference Center
1330 New York Avenue, N.W., Washington, D.C.

AGENDA

Introduction

External conditions are very positive for Latin America. Capital inflows are plentiful and commodity prices are high. Most countries have current account surpluses and reasonable fiscal positions. The issues facing Latin America are then, in general, ones of how to manage the good times. However, in these better times it is always as well to think about vulnerabilities, the policy dilemmas and the problems that might be brewing for the future. Currently, tensions are evident in exchange rate policy and monetary policy and credit is growing very fast; this is often considered a danger-sign of future banking sector problems. Banking sectors however have also changed with foreign banks now a significant force in several countries of the region. While many consider these actors a tremendous force for efficiency and enhanced prudential risk-management, doubts linger regarding the implications for credit, and hence, economic stability. Credit growth has been fueled by strong capital inflows and some countries have been proactive in trying to temper such flows through sterilization, but there remains considerable debate about the methods and the efficacy of such policies. Latin America also faces an unprecedented electoral timetable with Presidential elections in several countries and others with new Presidents, new Congresses and new political parties. In the past, Latin America has been characterized by a lack of stability in policymaking and stop-go economics with consequent effects on private sector activity and investment. In this conference, all of these themes are considered with expert speakers drawn from senior officials from central banks and finance ministries in the region, international institutions and top academics. The conference will be closed, there will be no press present and participants are reminded that all comments are strictly off the record. The idea is to create a collegial atmosphere where experiences can be shared, common problems considered and constructive debate is valued.

APRIL 20, 2006

9:30 – 10:00 a.m. **Registration**

10:00 – 10:10 a.m. **Welcoming Remarks**
Luis Alberto Moreno, President, Inter-American Development Bank (IDB)

10:10 - 11:00 a.m. **Session 1: Setting the Stage**

In this session the effect of the main developments in the world economy on Latin America and Latin America's response is to be considered. Countries have responded to the benign international environment in different ways although there are common themes throughout the region. Responses have to different degrees included a) real exchange rate appreciation b) sterilization and in some cases implicit exchange rate targeting c) looser monetary policy d) increasing inflation e) increasing credit to the private sector and f) increasing reserves. In this session these facts will be documented for LAC 7 and the Central America region, and the implications and future prospects will be discussed given different scenarios for the world economy.

Moderator: Guillermo Calvo, Chief Economist, IDB
Macroeconomic Developments in LAC 7: Ernesto Talvi, Executive Director, CERES
Macroeconomic Developments in Central America: Alejandro Izquierdo, IDB

11:00 – 12:45 p.m. **Panel: Real Exchange Rate Appreciation: Causes and Consequences**

Several countries have experienced real exchange rate appreciations, especially against the dollar. Has this been more a result of the dollar than local currency movements? Are such appreciations a cause for concern? Are exchange rates overvalued? Are trade weighted indices that in general display lower appreciations more relevant? What are the consequences of such appreciations for competing in world markets and for the US market, especially given China's (and other countries') more fixed exchange rate policies. Have exchange rates become less flexible given appreciations? Are countries adopting de facto exchange rate targets? Are there political pressures to intervene in exchange rate markets? Would intervention be successful in altering exchange rate trajectories? If so at what cost? Should countries attempt to engineer competitive exchange rates to enhance growth?

Moderator: Joaquim Levy, Vice President for Finance and Administration, IDB

Panelists:

Umberto della Mea, Manager, Economic Policy, Banco Central de Uruguay

Lizardo Sosa López, President, Banco de Guatemala

Rodrigo Valdés, Manager, Research Department, Banco Central de Chile

Discussant:

Caroline Atkinson, Deputy Director, Western Hemisphere Department, IMF

1:00 – 2:30 pm **Lunch (Executive Dining Rooms, 7th Floor)
The Implications of Latin America's Unprecedented Electoral Year**

Moderator: Guillermo Calvo, Chief Economist, IDB

Keynote Speaker: Lawrence Whitehead, Oxford University and Oxford Analytica

2:45 – 4:00 p.m. **Managing Capital Flows: Alternative Options for Capital Account Liberalization, a model for Alternative Sterilization Techniques?**

Many countries in the region are experiencing strong capital inflows and some are attempting to sterilize those flows using different techniques. A recent and highly innovative paper on alternative options for capital account liberalization written by Eswar Prasad and Raghuram Rajan might also be interpreted as providing alternative mechanisms for the sterilization of capital inflows.

Moderator: Guillermo Calvo, Chief Economist, IDB

Keynote Speaker: Eswar S. Prasad, Division Chief, Financial Studies Division, IMF

Discussants:

Ricardo Hausmann, Director, Center for International Development, Harvard University

Claudio Irigoyen, Chief Economist, Central Bank of Argentina

4:00 – 4:30 p.m. **Coffee**

4:30 – 5:45 p.m. **Inflation Targeting in Emerging Economies: Where Do We Stand?**

Several countries in the region have adopted Inflation Targeting (IT) regimes. There are a set of interesting issues as to how to define IT, whether IT is essentially different to adopting other targets, whether there are minimum conditions for a country to adopt IT and whether IT turns out to make a significant difference in inflation performance or for the cost of reducing inflation and economic volatility. How IT has performed in

this period of high capital inflows and how IT would assist given a sudden stop are interesting issues to be evaluated. This presentation will draw on a new paper by the author entitled, "Does inflation targeting make a difference."

Moderator: Agustín García-López, Executive Director, IDB

Speaker: Frederic Mishkin, Professor, Columbia University

Discussants:

Laurence Ball, Professor, John Hopkins University

Andrew Powell, Lead Research Economist, IDB

APRIL 21, 2006

9:30 – 10:30 a.m. **Panel: Credit Growth: Enhanced Credit-Access or Problems for the Future?**

Credit is growing at a faster and faster pace in almost all countries in the region. What are the main characteristics of this current boom? In many countries, the growth appears to be much more in retail and housing than in commercial credit. Are companies getting better access or do small- and medium-sized enterprises (SME's) suffer from excessive difficulties in obtaining credit? To what extent are public banks the source of the current growth? Is the current surge in credit growth healthy? Is credit growth too fast? Are banks equipped to conduct proper risk management assessments given the current growth rates? How far have banks, especially domestic private and public banks, progressed in terms of their prudential risk management? Are the main risks related to internal controls within banks or macro issues? Is related-lending and lending to the public sector still a prudential concern? What can regulators do about these issues, are regulatory standards appropriate in order to foster the right incentives? Should dollarized Ecuador pay particular attention to liquidity risks, if so how?

Moderator: Fidel Jaramillo, Regional Economic Advisor, IDB

Panelists:

José De Gregorio, Vice President, Banco Central de Chile

Daniel Schydrowsky, Member of the Board, Central Bank, Peru

Fernando Uzcátegui, Alternate Chairman of the Board, Banco Central del Ecuador

Discussants:

Giovanni Majnoni, Advisor, LAC Region, The World Bank

Liliana Rojas-Suárez, Senior Fellow, Center for Global Development

10:30 – 11:00 a.m. **Coffee**

11:00 – 12:45 p.m. **Panel: The Mechanisms and Costs of Inflation Control in Latin America**

Countries in the region are at different stages with respect to establishing inflation targeting (IT) regimes and regarding inflation management and control. Arguably Brazil applied a strict monetary policy to gain credibility in its IT regime and is now attempting to loosen monetary policy without paying the price in terms of higher inflation. On the other hand Argentina faces creeping inflation and must decide how to manage the inflation, exchange rate, growth conundrum. Will Argentina go the route of price and wage controls rather than use more orthodox monetary policy techniques for inflation control? Colombia has arguably created a successful IT regime but there are signs that inflation may be picking up. Is this a concern, how will might authorities respond? All three countries also face the dilemma of whether to respond to asset prices surges. In Brazil, stock prices have risen substantially and Colombia faces the prospect of a potential

real-estate boom. Critics have suggested that the Fed should have done more to control asset prices and the consequent build up of household debt, ironically perhaps the UK, despite being an inflation targeter took a more pragmatic approach.

Moderator: Eloy García, Treasurer, IDB

Panelists:

Jaime Hector Saiegh, Ministry of Economy, Argentina

Alexandre A. Tombini, Deputy Governor, Special Studies, Central Bank of Brazil

Hernando Vargas, Deputy Governor, Banco de la Republica, Colombia

Discussants:

Michael Gavin, Chief Economist for Latin America, UBS

Edwin Truman, Senior Fellow, IIE

12:45 – 3:00 p.m.

Lunch (Executive Dining Rooms, 7th Floor)

Foreign Banks in Latin America: On Stability and Corporate Governance

Foreign Banks have become extremely important in the region. While there is evidence that they have brought greater efficiency, competition and internal prudential controls doubts linger on issues related to credit and economic stability, corporate governance and supervision. This speech will be based on the presenter's fascinating analysis and proposal regarding desired ownership structures.

Moderator: Ciro de Falco, Executive Vice President, IDB

Keynote Speaker: Guillermo Ortiz, Governor, Banco de México

3:00 – 5:00 p.m.

On the Stability of Policymaking in Latin America

Typically policy-making in Latin America is described as highly unstable and new Governments have attempted to aggressively reverse previous policies with consequent effects on private sector activity and growth. Has policy really been so unstable, if so, why are policies more unstable in Latin America than elsewhere? What are the consequences of this instability? This presentation will use as background the recent IDB publication "The Politics of Policies" which argues that understanding the processes of policy making is critical to our understanding of why certain policies are adopted, how they are adopted and whether they may be sustained over time and whether they may be ultimately successful.

Moderator: Alfredo Barnechea, Executive Advisor of Institutional Affairs, IDB

Speaker: Ernesto Stein, Principal Research Economist, IDB

Discussants:

Juan Antonio Morales Anaya, President, Banco Central de Bolivia

Alberto Pascó-Font, Advisor to the Minister, Finance Ministry, Peru

Walter Spurrier, Consultor, Ecuador

Alejandro Werner, Director of Economic Policy, Secretaría de Hacienda, México

5:00 – 5:15 pm

Closing Remarks: On Latin America's Prospects and Vulnerabilities

Guillermo Calvo, Chief Economist, Inter-American Development Bank