

## Banco Central do Brasil and Inter-American Development Bank

### Managing Capital Flows in South America under unconventional monetary policies in Advanced Economies

Venue: Banco Central do Brasil  
Avenida Paulista, 1804  
São Paulo – SP 01310-922  
December 13 and 14, 2012

Capital flows have been for some time the subject of one important strand of the economic literature trying to ascertain benefits and risks/costs of such flows, determinants (pull and push factors) and policy responses. More recently with the ongoing global financial crisis, a number of comprehensive reports and papers focused on the recent trends of capital inflows into emerging markets and its implications for policies aiming at offsetting the destabilizing consequences of large inflows to macroeconomic and financial stability. The literature on policy responses to capital flows has evolved as well, given more relevance to regulatory prudential tools – including capital controls – to manage capital inflows. This is in part due to the unprecedented magnitude of such inflows in the aftermath of the extraordinary easing on monetary policies of advanced economies (including by unconventional measures) that created very large injections of liquidity at the global level. The recently launched QE3 by the Fed (and the possible effects of the ECB's OMT program) brings again to the forefront of policy makers' concerns some of these issues. In spite of all the attention given, several questions continue to deserve a more thorough scrutiny from policy makers and scholars alike, as for example:

- *Among the factors explaining capital inflows into emerging market economies in the post-crisis period (2008-2012), what role can be attributed to the various instruments and policies that increased liquidity and expanded the balance sheets of advanced economies' central banks? Are capital inflows into emerging market economies in the post-crisis period essentially driven by these policy responses? How are factors underlying capital inflows and outflows related?*
- *Are these factors in the post- crisis recovery period (2010-2011), responsible for the: (a) rise in commodity prices in 2010? (b) surge of inflationary pressures in 2010? (c) movements of local equity prices?; (d) above-historical trend rise of credit?; (e) rapid appreciation of floating exchange rates?*
- *Monetary policy under these circumstances became a much more complex game and questions involving key issues such as objectives, constraints, instruments, remain open for discussion. Which lessons have we learned so far and what would be a sensible roadmap for policy makers in South America, given the main characteristics of our economies?*

- *What are the roles of macroprudential policies and the available monetary, exchange rate and regulatory policy responses?*
- *How to address the potential challenges to managing capital flows in a multi-polar world and with a more integrated financial system?*

This two-day seminar, jointly sponsored by BCB and IDB aims to bring together South American Central Banks, think tanks, academics and international and regional organizations to discuss these issues, focusing on policy implications to South American countries. This is a special activity of the IDB's Network of Central Banks and Finance Ministries coordinated with the Central Bank of Brazil. The results of these discussions should feed into a policy paper to be presented at the Meeting of Presidents of South American Central Banks, in March 2013.

## December 13<sup>rd</sup> – Thursday

**13:30–14:00**

**REGISTRATION**

**14:00–14:30**

**WELCOMING REMARKS**

Luiz A. Pereira da Silva (Central Bank of Brazil)  
Luis A. Giorgio (Inter-American Development Bank)

**14:30–15:50**

**SESSION I – CAPITAL FLOWS IN SOUTH AMERICA:  
OVERVIEW OF STYLIZED FACTS**

To set the stage, this first session provides a comprehensive overview of stylized facts regarding capital flows in South American countries.

**Chair: Luis A. Giorgio, IDB**

**Speakers:**

**14:30–15:00**

**Capital flows in South America overview – Eduardo Borensztein, IDB**

*Main instruments (portfolio, direct, other); gross and net flows; impacts of capital flows on exchange rates and business cycles; factors that determine capital flows (push and pull); volatility and contagion.*

**15:00–15:30**

**Common Drivers in Emerging Market Spreads and Commodity Prices – Jorge Carrera, Central Bank of Argentina**

*Emerging countries specialized in commodity production are prone to experience non orthogonal commercial and financial shocks. Reductions in international interest rates and global risk appetite; rises in quantitative global liquidity measures and equity returns; and US dollar depreciations, tend to diminish spreads of emerging economies and strengthen commodity prices simultaneously. Concerning policy lessons, there is difficulty in disentangle challenges coming from financial openness and structural considerations in emerging*

*economies, such as the lack of diversification of the productive structure or the difficulties of a growth strategy solely based on natural recourses.*

15:30–15:50

**Open discussion**

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15:50—16:20

**Coffee Break**

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**16:20–18:00**

**SESSION II – CAPITAL FLOWS IN SOUTH AMERICA:  
POLICY ISSUES**

This second session provides a comprehensive analytical review of the policy responses than may be considered in the context described in the first session.

**Chair: Luiz A. Pereira da Silva, Central Bank of Brazil**

**Speakers:**

16:20–16:50

**Policy responses to capital flows – Peter Montiel, Williams College**

*Policy options available to manage capital flows (monetary, exchange rate, macro-prudential, central bank swaps, controls, etc.); experience of South American countries in managing capital inflows*

16:50–17:20

**Post-crisis challenges for monetary policy in middle-income countries – Pierre-Richard Agénor, University of Manchester**

*The global financial cycle in the aftermath of the Great Recession has put monetary policy in financially integrated economies. Inflation Targeting regimes came under pressure to incorporate renewed concerns with financial stability and the need for macroprudential regulation. Are IT regimes in need of adaptation?*

17:20–18:00

**Open discussion**

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**18:00**

**Cocktail**

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## December 14<sup>th</sup> – Friday

**09:30–12:00**

### **SESSION III – CAPITAL FLOWS IN SOUTH AMERICA: COUNTRY EXPERIENCES**

This session will discuss the possible lessons from the crises, issues and policy responses to South American countries. Central Banks will present the issues they are currently facing regarding capital flows management, and the policy issues or problems (or solutions) they have met.

**Chair: Eduardo Fernandez-Arias, IDB**

#### **Panelists:**

9:30–9:50

**Adriana Soares, Central Bank of Brazil**

9:50–10:10

**Luis Óscar Herrera, Central Bank of Chile**

10:10–10:30

**Coffee Break**

10:30–10:50

**Pamela Cardozo, Central Bank of Colombia**

10:50–11:10

**Paul Castillo, Central Bank of Peru**

11:10–12:00

**Open discussion**

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**12:00–13:30**

**Free time for lunch**

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**13:30–15:20**

### **PANEL DISCUSSION 1: Policy options on trade and financial flows: how to curb destabilizing effects of capital flows with minimum distortions to the economy**

**Chair:**

**Panelists:**

**Roberto Frenkel, CEDES  
Eduardo Loyo, BTG Pactual  
Rudiger Ahrens, OECD  
Peter Montiel, Williams College**

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| <b>15:20–15:40</b> | <b>Coffee break</b> |
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| <b>15:40–17:30</b> | <p><b>PANEL DISCUSSION 2: Near term challenges for monetary policy in South America in the context of unstable capital flows, high international liquidity and low global growth</b></p> <p><b>Chair: Arturo Galindo, IDB</b></p> <p><b>Panelists:</b></p> <p><b>José De Gregorio, Universidad de Chile</b><br/><b>Ilan Goldfajn, Banco Itau</b><br/><b>Daniel Dominioni, Banco Central Uruguay</b><br/><b>Pierre-Richard Agénor, University of Manchester</b></p> |
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| <b>17:30–17:50</b> | <b>Closing – Fernandez-Arias, IDB and Luiz Awazu Pereira, BCB</b> |
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