

The Global Financial Crisis – Central Bank Responses in the Western Hemisphere

Closing remarks

Hervé Ferhani

International Monetary Fund

Reserve Central Bank of Peru
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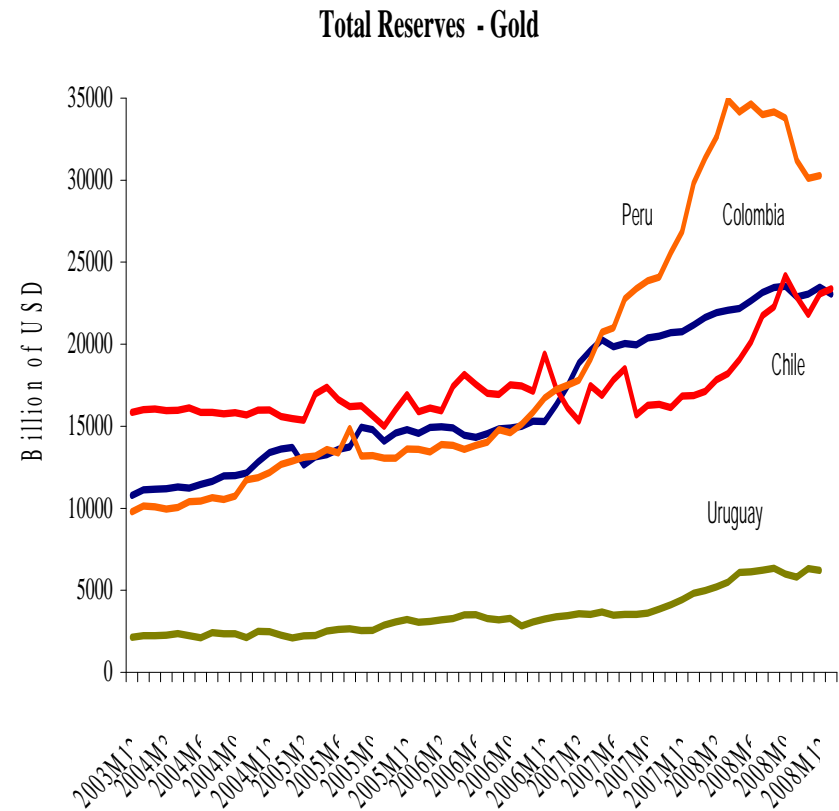
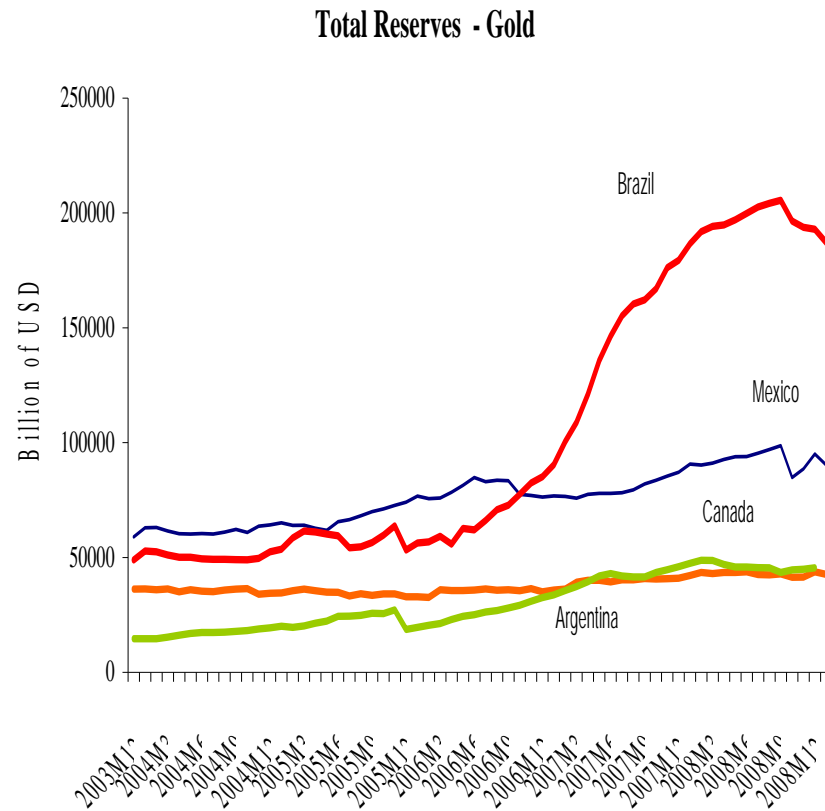
Closing remarks

- Central banks in Latam have reacted decisively and effectively to cope with the effects of the global crisis that triggered a balance of payments shock
 - Changes in the policy rate
 - Liquidity management in domestic currency
 - Forex operations
 - Use of derivatives
- Despite having large international reserves, if necessary, Latam countries should enhance their access to foreign financing to cope with forex demand
 - Fed swaps
 - Multilateral resources, including from regional institutions

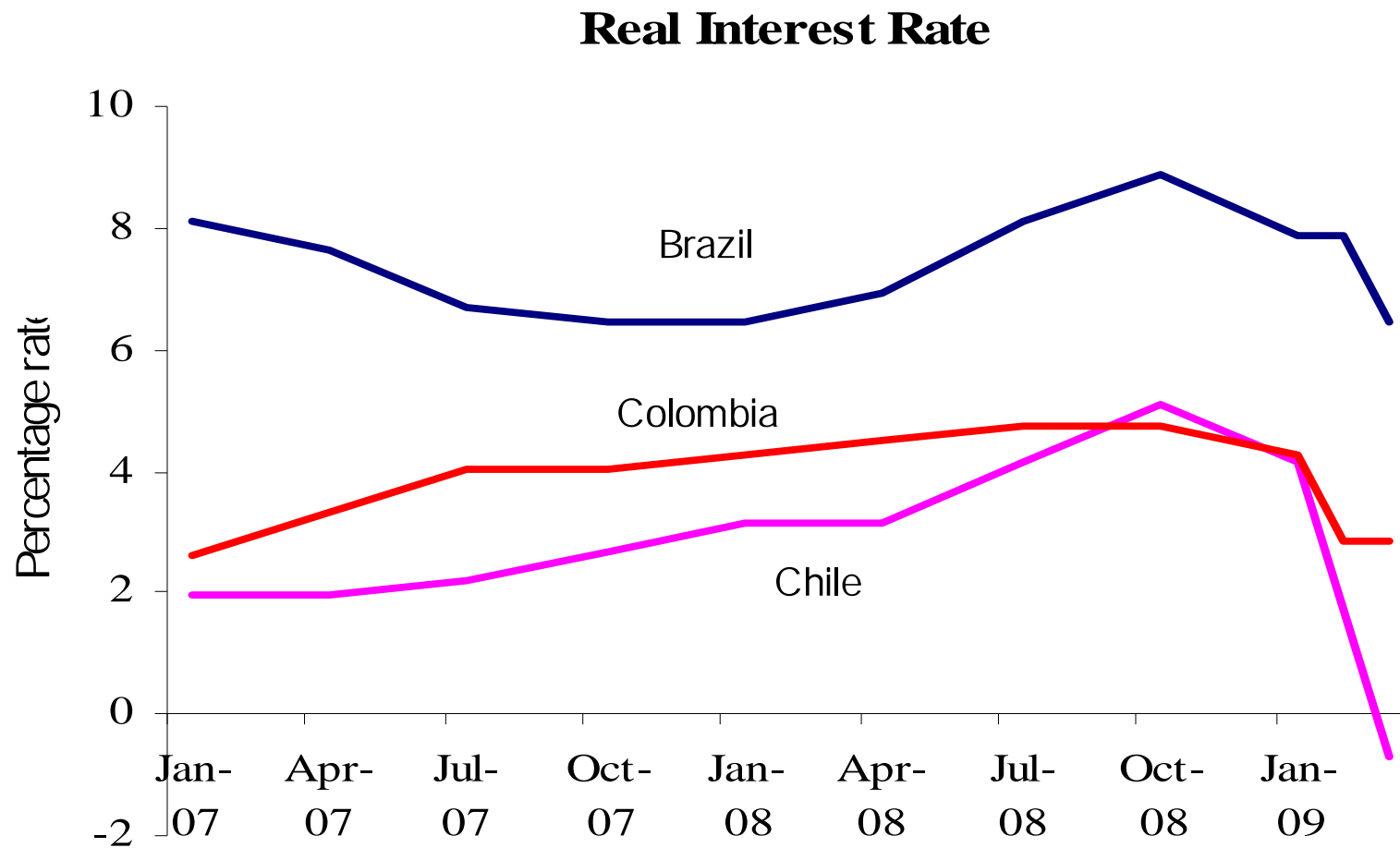
Closing remarks

- However, if the global crisis persists, chances are that financial systems deteriorate (twin crises)
 - Countries may need to prepare for the worse (crisis preparedness)
 - ✓ Enhance financial surveillance with emphasis on prompt corrective actions (stress in-situ monitoring)
 - ✓ Lay the ground for fluent LOLR provision (collateral readiness)
 - ✓ Strengthen bank resolution institutions (increase available resources)
 - ✓ Institutional coordination (financial surveillance, central bank, treasury)
 - Central banks may need to play an expanded role
 - ✓ Should central banks implement unconventional monetary policy?
 - ✓ Are there restrictions? (history, financial dollarization, K outflows)
 - ✓ Implications from an institutional perspective
 - New role for monetary policy?
 - Should central banks act independently?
 - If not, how to reconcile this with traditional set up?

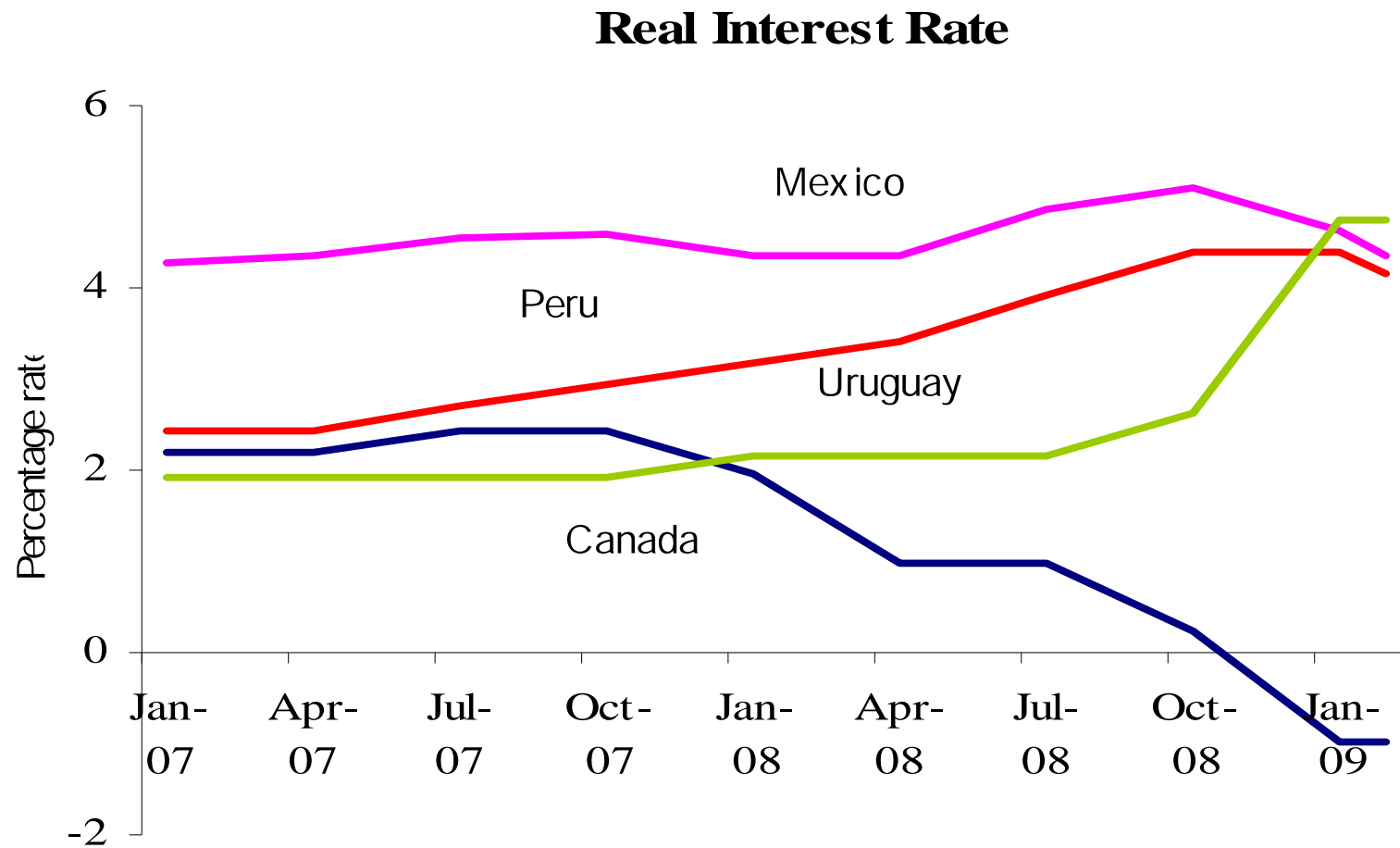
International reserves have strengthen but recently there is a declining trend



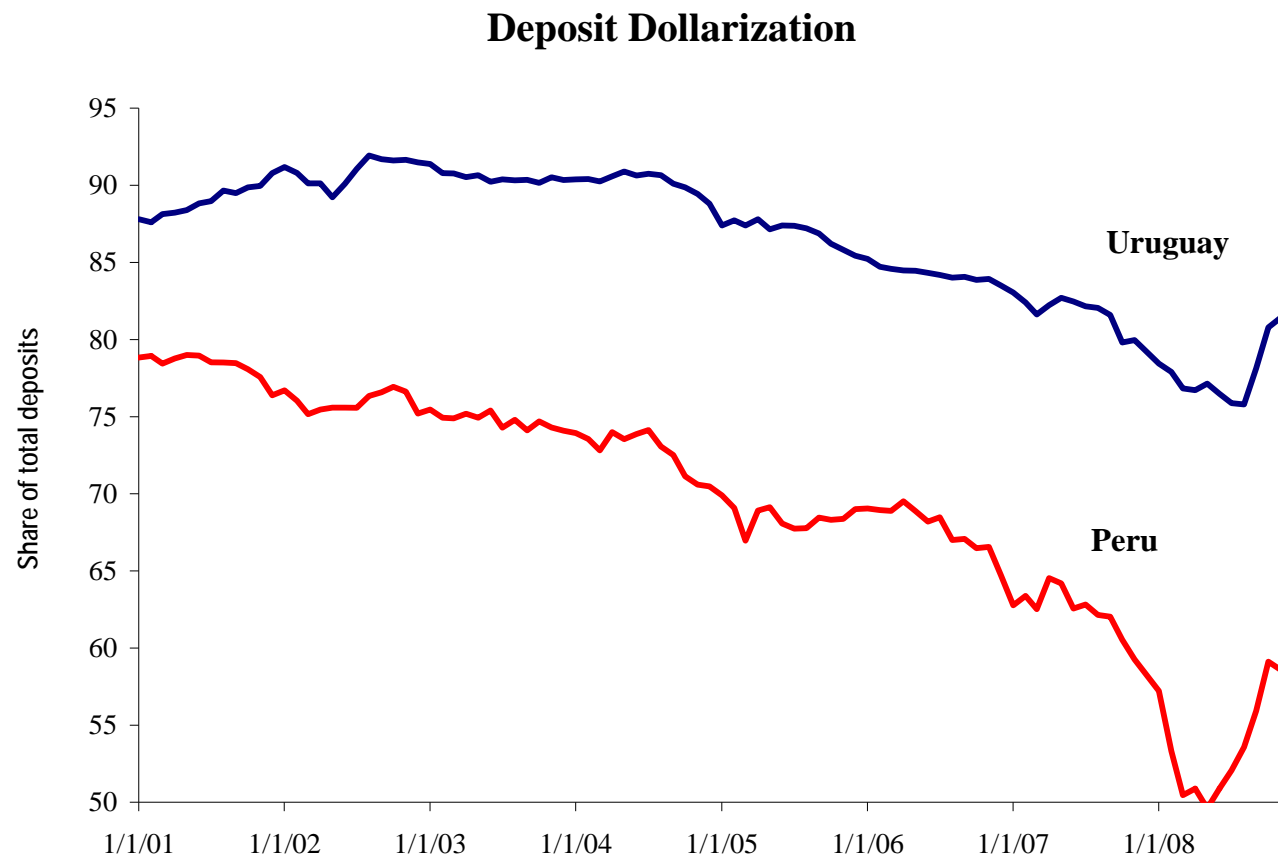
High real interest rates make room for further relaxing monetary policy ...



... probably unconventional monetary policy
is not yet necessary in most countries



Dollarization has picked up in the wake of the current financial turmoil



History shows that monetizing financing turmoil exacerbates macroeconomic instability

Probability of currency crises
(Simple versus conditional on monetizing the crisis)^{1/}

Large depreciation ^{2/} Large decline in IRs ^{3/}

Simple probability	0.31	0.27
Conditional probability	0.64	0.55

1/ Jácome 2009 (based on 26 episodes of financial turmoil and crises)

2/ > 25% currency depreciation

3/ > 20% decline in international reserves

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