

Frameworks and policies in an era of high volatility: Latin America and Asia in perspective

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Yan Carrière-Swallow and Pablo García-Silva

International Monetary Fund

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The opinions expressed in this paper are those of the authors and do not represent the views of the IMF or its Board.

Introduction

Recent macroeconomic developments in selected Asian and Latin American economies

Monetary policy frameworks in perspective

Capital account frameworks in perspective

Some tentative conclusions

Introduction

During the past twenty-five years, significant increase in cross-border capital flows

Since 2010, unconventional monetary policy aimed at bolstering growth in struggling advanced economies

While the availability of foreign capital acts as a boon to emerging economies, there are also risks.

Debate on appropriate monetary and capital account policies (among others) for emerging economies has been rekindled. See for instance the IMF's *Institutional View* (2011).

However, too often the policy prescriptions and policy debate tends to blur the differences between groups of emerging economies, or if contrasts are to be made, these comparisons are under a normative prism.

Our main motivation is to use the similarities and differences between small and medium-sized Latin American and Asian economies to highlight some salient approaches to the current policy debate on capital account policies.

It is an essentially policy motivated paper with a high-level perspective, and is in progress.

We look at small and medium-sized economies, at an intermediate to advanced stage of development:

México, Colombia, Brasil, Chile, and Perú

Korea, Thailand, Indonesia, Singapore, the Philippines and Malaysia

What do we do?

We compare differences in monetary policy reactions since early 2000s.

We compare trends in capital account policies since mid-nineties.

We find significant differences in the policy regimes, and we link those to:

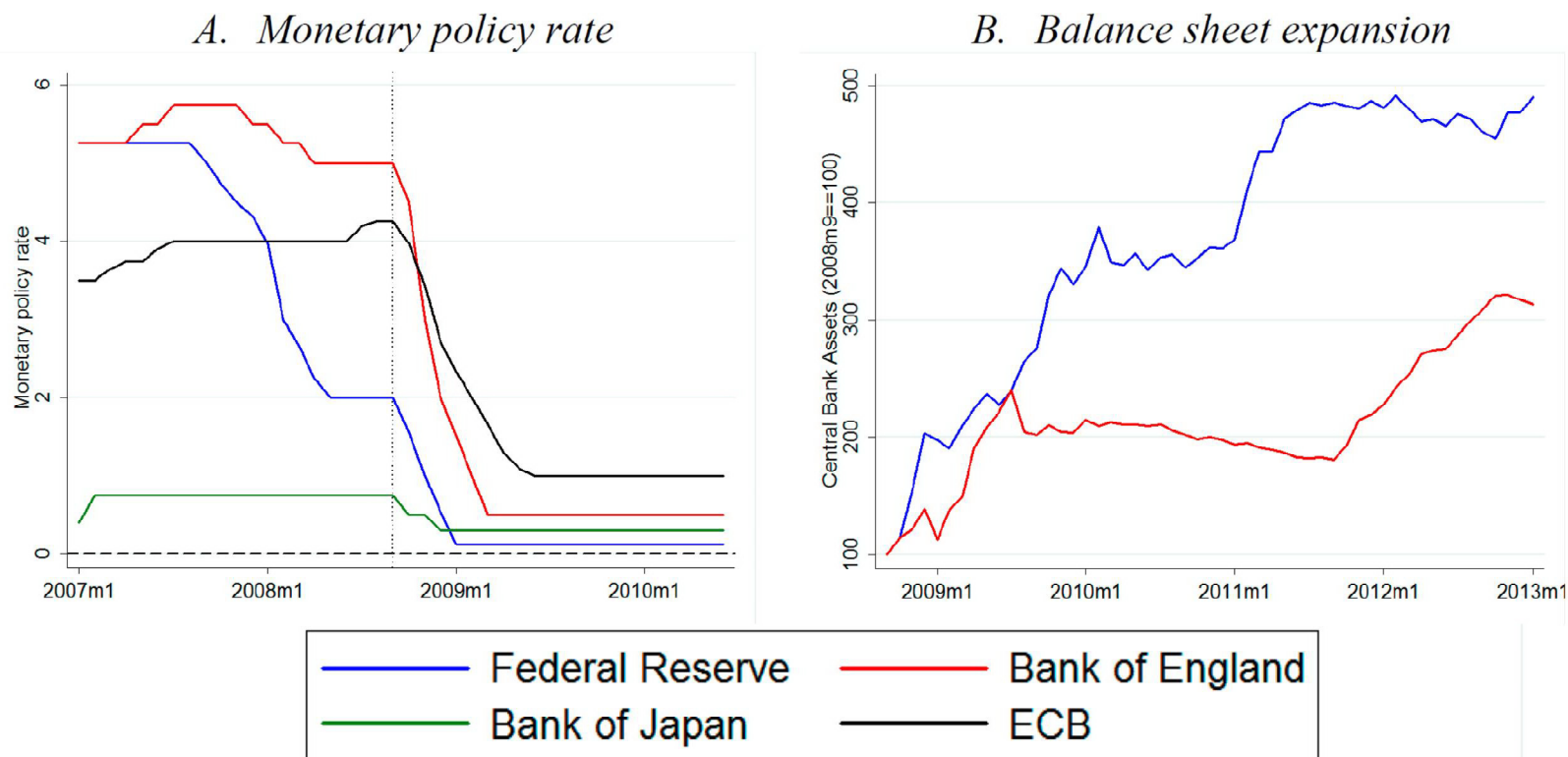
Export structure,

Depth of past crises,

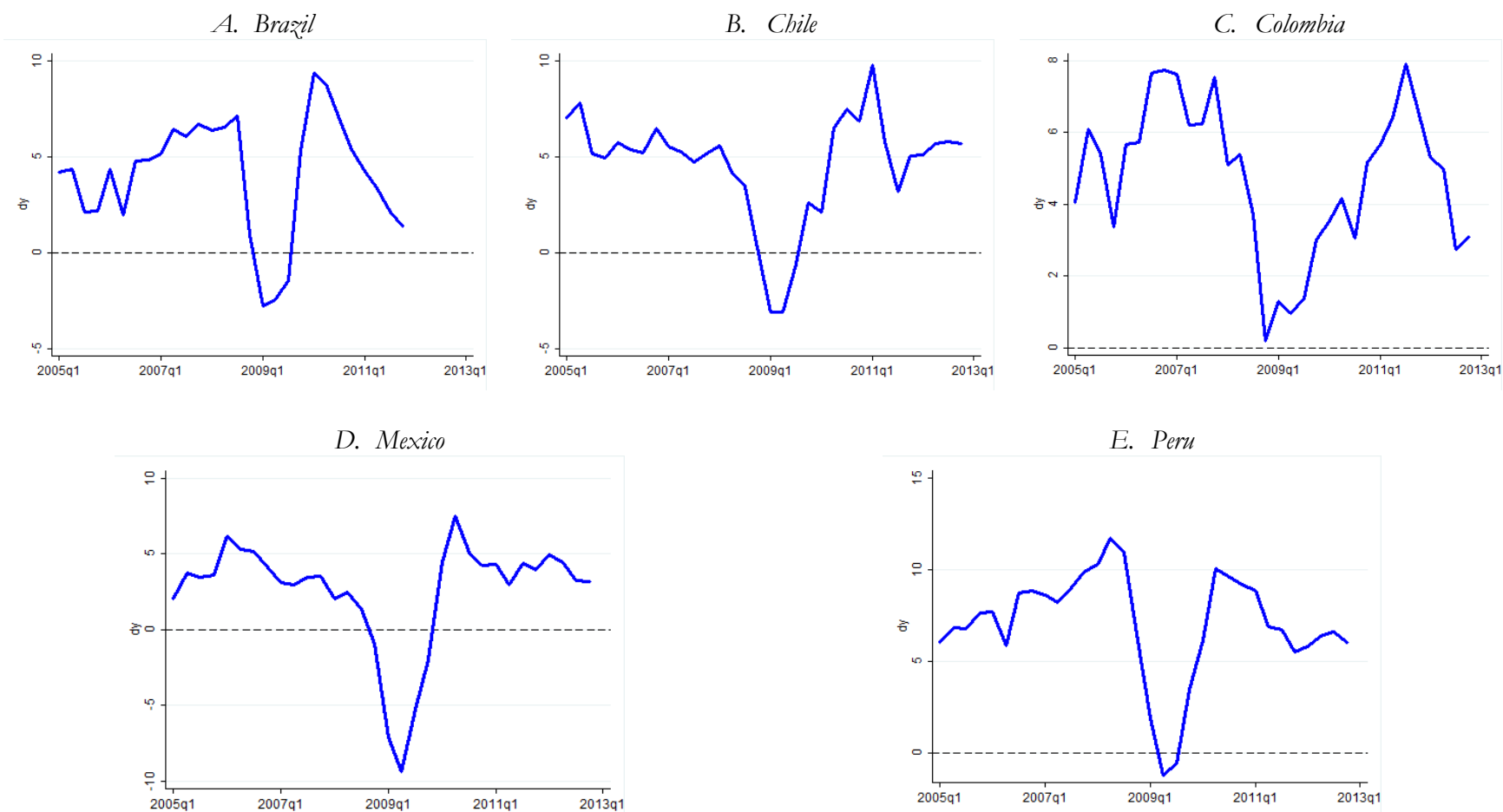
Sensibility to financial volatility.

Recent macroeconomic developments

Figure 1. Monetary policy in advanced economies.



**Figure 2. Real GDP growth in selected Latin American economies:
Moderation after the V.**



**Figure 3. Real GDP growth in selected Asian economies:
Moderation after the V as well.**

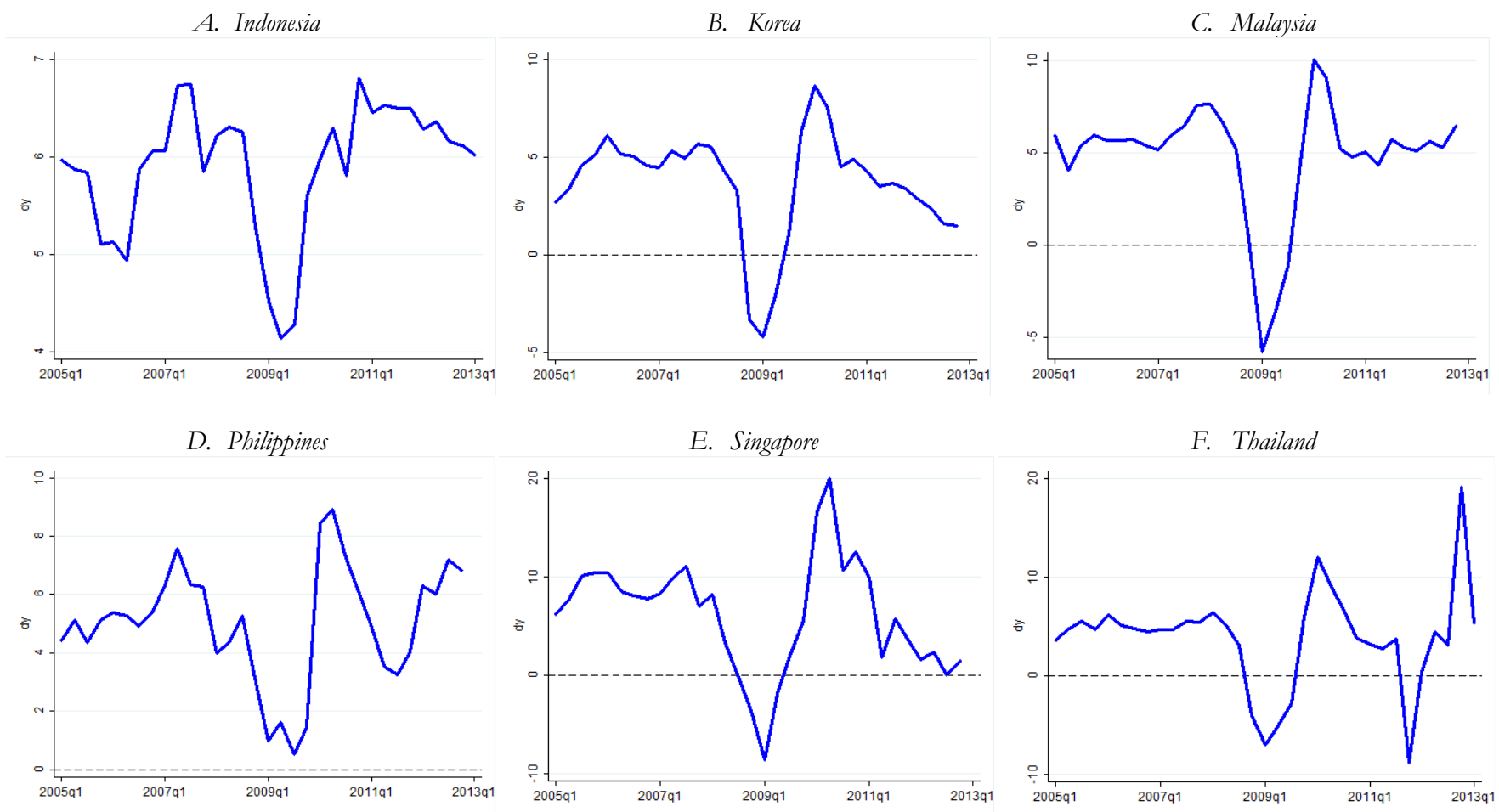
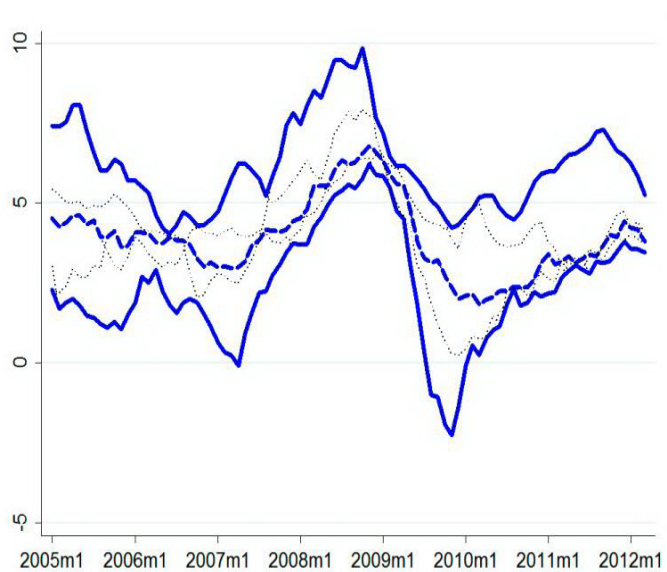


Figure 4. Annual inflation rates: Mimic the V shaped path of output

A. Selected Latin American economies



B. Selected Asian economies

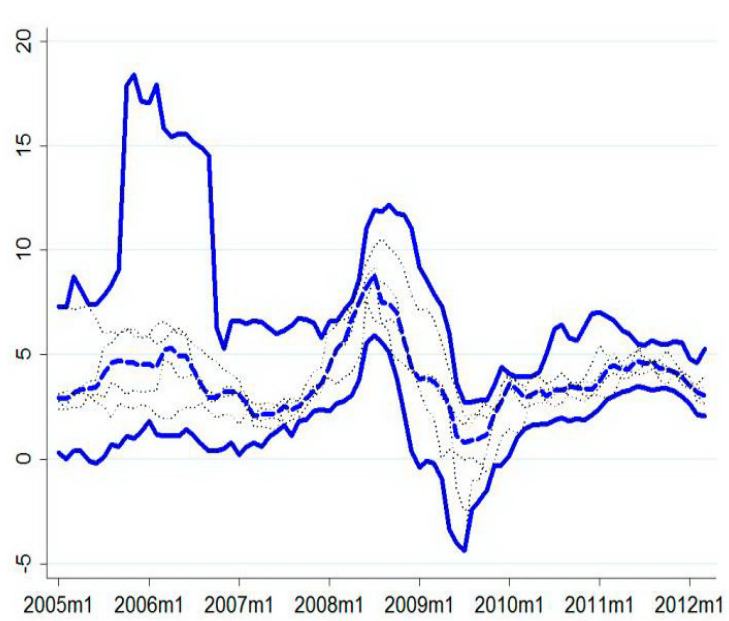
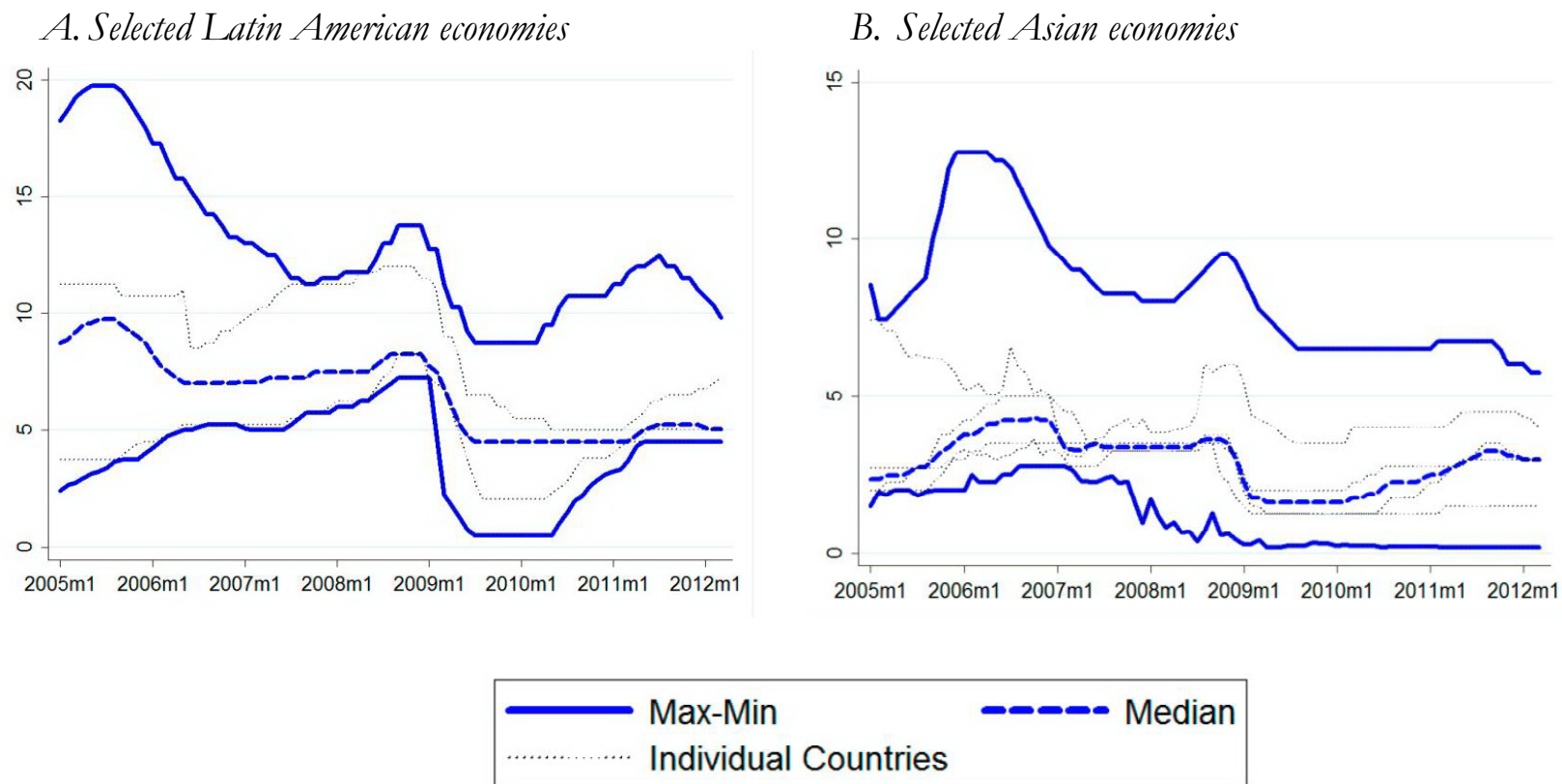


Figure 5. Evolution of regional monetary policy rates: Quite different post crisis.



Monetary frameworks in perspective

Most economies selected implement Inflation Targeting regimes, but implementation of monetary policies seems to differ even with similar inflation and output developments.

We estimate simple monetary policy rules (quarterly data, 2001 onwards) and compare the output-inflation tradeoffs.

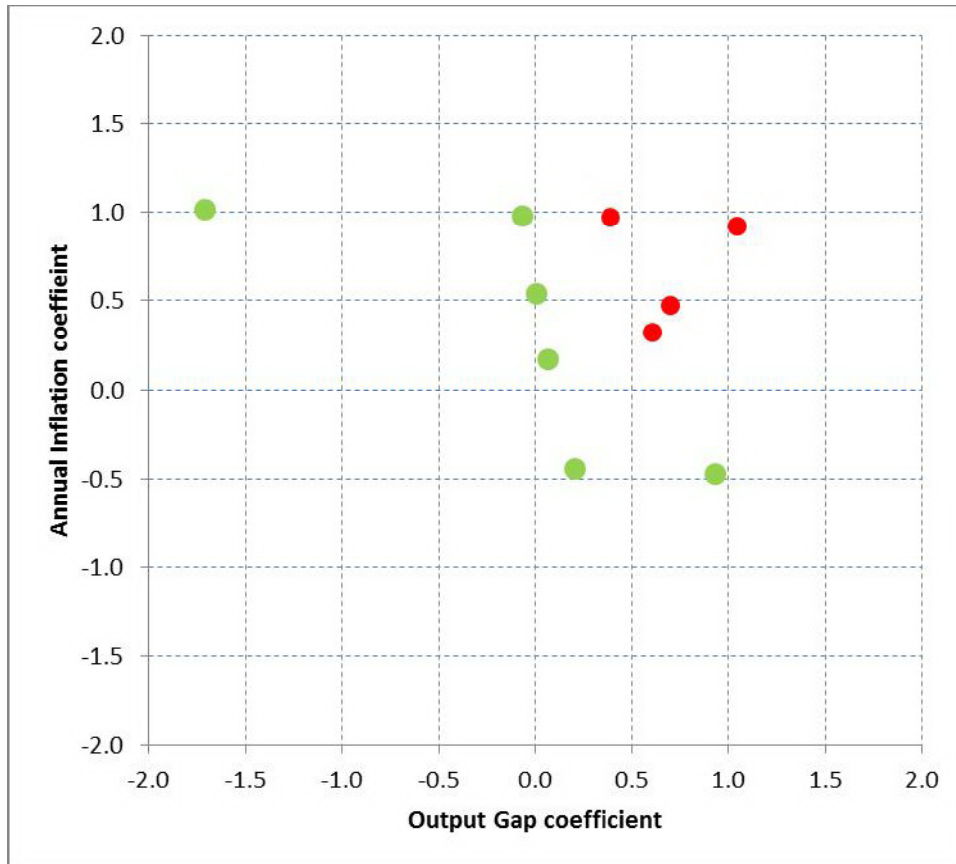
$$pr = \bar{pr} + \alpha(y - \bar{y}) + \beta(\pi - \bar{\pi}) + \rho(pr_{-1} - \bar{pr}) \quad (1)$$

We then expand the simple specifications with real exchange rate and the Federal Funds rate.

$$pr = \bar{pr} + \alpha(y - \bar{y}) + \beta(\pi - \bar{\pi}) + \gamma(q_{-1} - \bar{q}) + \rho(pr_{-1} - \bar{pr}) \quad (2)$$

$$pr = \bar{pr} + \alpha(y - \bar{y}) + \beta(\pi - \bar{\pi}) + \gamma(q_{-1} - \bar{q}) + \theta ffr + \rho(pr_{-1} - \bar{pr}) \quad (3)$$

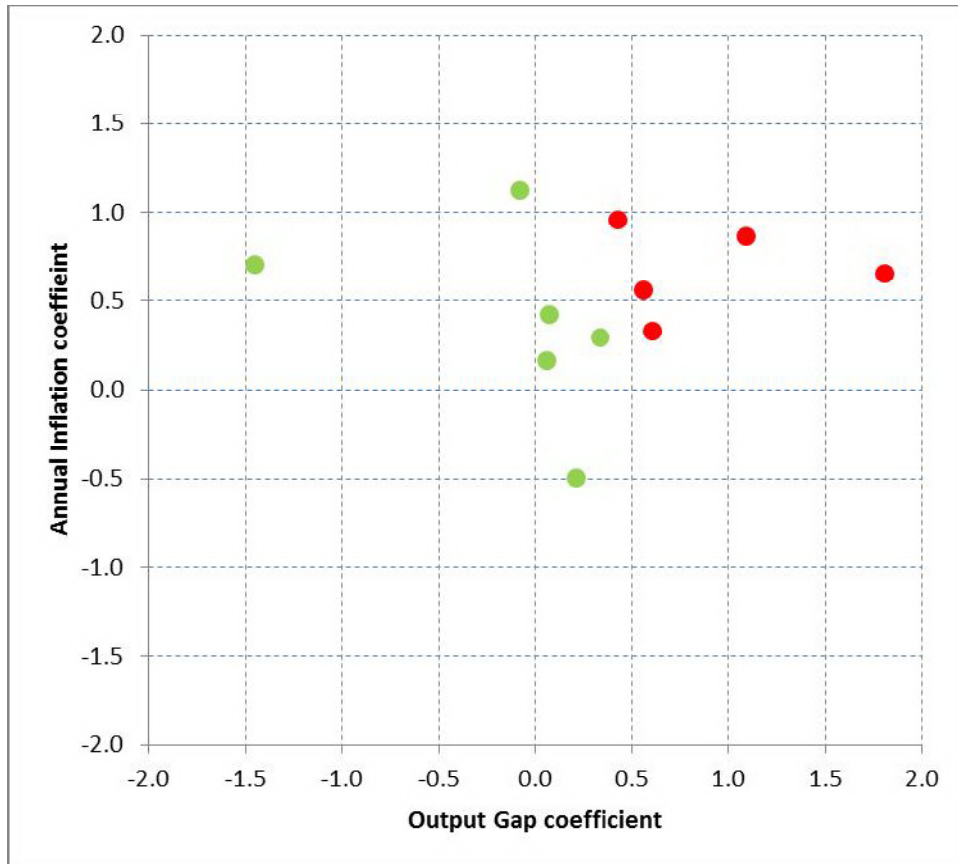
$$pr = \bar{pr} + \alpha(y - \bar{y}) + \beta(\pi - \bar{\pi}) + \rho(pr_{-1} - \bar{pr}) \quad (1)$$



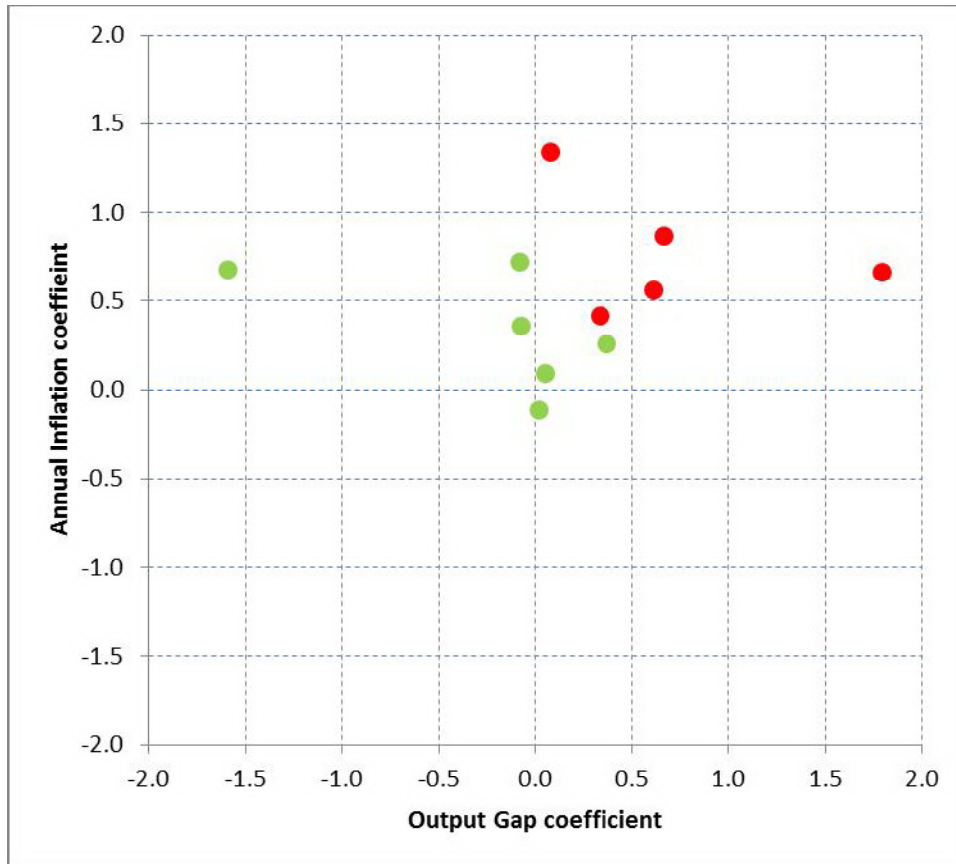
Asian economies

Latin American economies

$$pr = \bar{pr} + \alpha(y - \bar{y}) + \beta(\pi - \bar{\pi}) + \gamma(q_{-1} - \bar{q}) + \rho(pr_{-1} - \bar{pr}) \quad (2)$$



$$pr = \bar{pr} + \alpha(y - \bar{y}) + \beta(\pi - \bar{\pi}) + \gamma(q_{-1} - \bar{q}) + \theta ffr + \rho(pr_{-1} - \bar{pr}) \quad (3)$$



In Latin American economies, monetary policy responses to inflation and output developments appears to vary little with the inclusion of the Federal Funds rate and the real exchange rate

Mexico and Brazil are probable exceptions

Compared to Latin American economies, monetary policy in Asian economies:

Appears somewhat more dovish (less responsive to the output gap),

Shows dispersion regarding the effects of inflation

Which in turn depends on the inclusion of the exchange rate and the Federal Funds rate.

Latin American monetary policy (in the selected economies) appears to be more strictly about Inflation Targeting.

Role of the exchange rate and capital account policies explains the difference?

Capital account frameworks in perspective: a different path in liberalization

Figure 6: De jure (Chinn-Ito) capital account openness in Latin America and Asia: 1996 to 2011

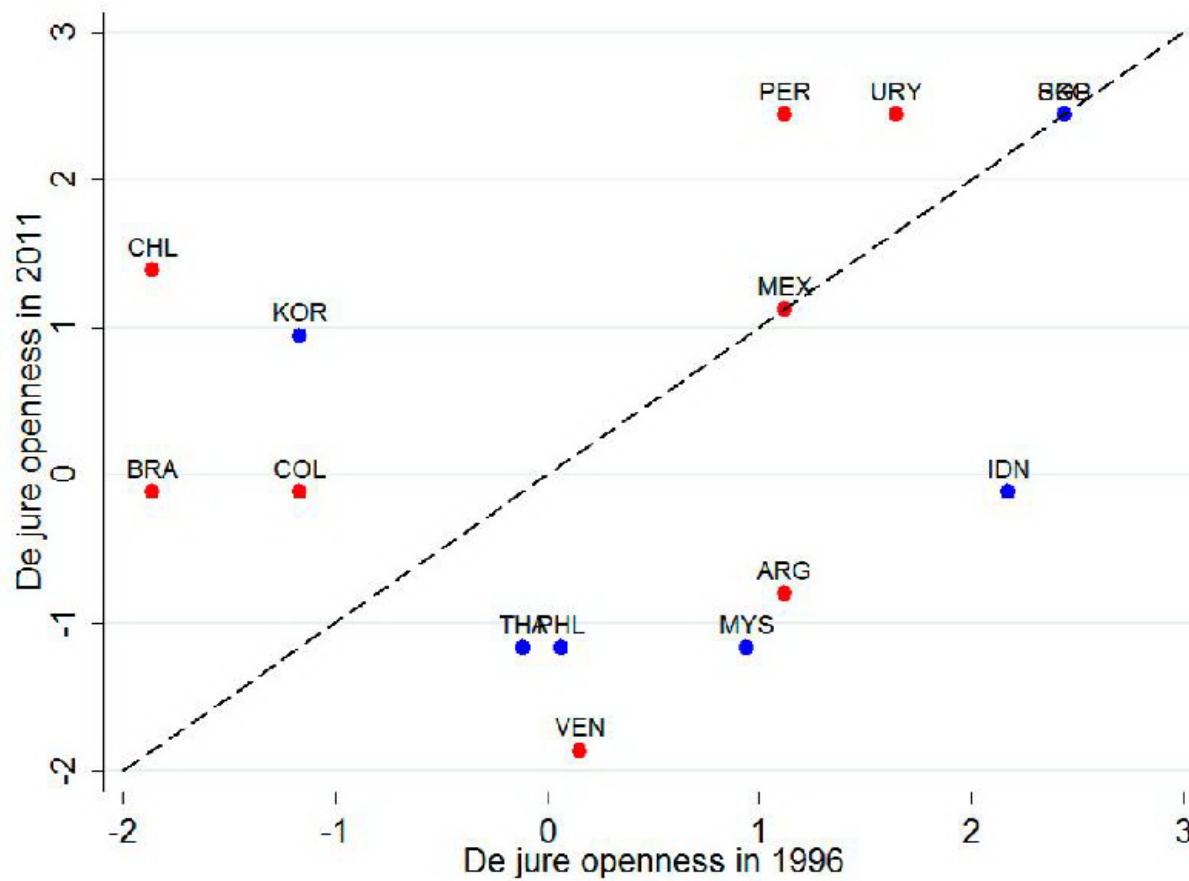


Figure 7: Change in de jure capital account openness between 1996 and 2011, and countries' vulnerability to global uncertainty shocks (Céspedes and Carriere-Swallow (2013))

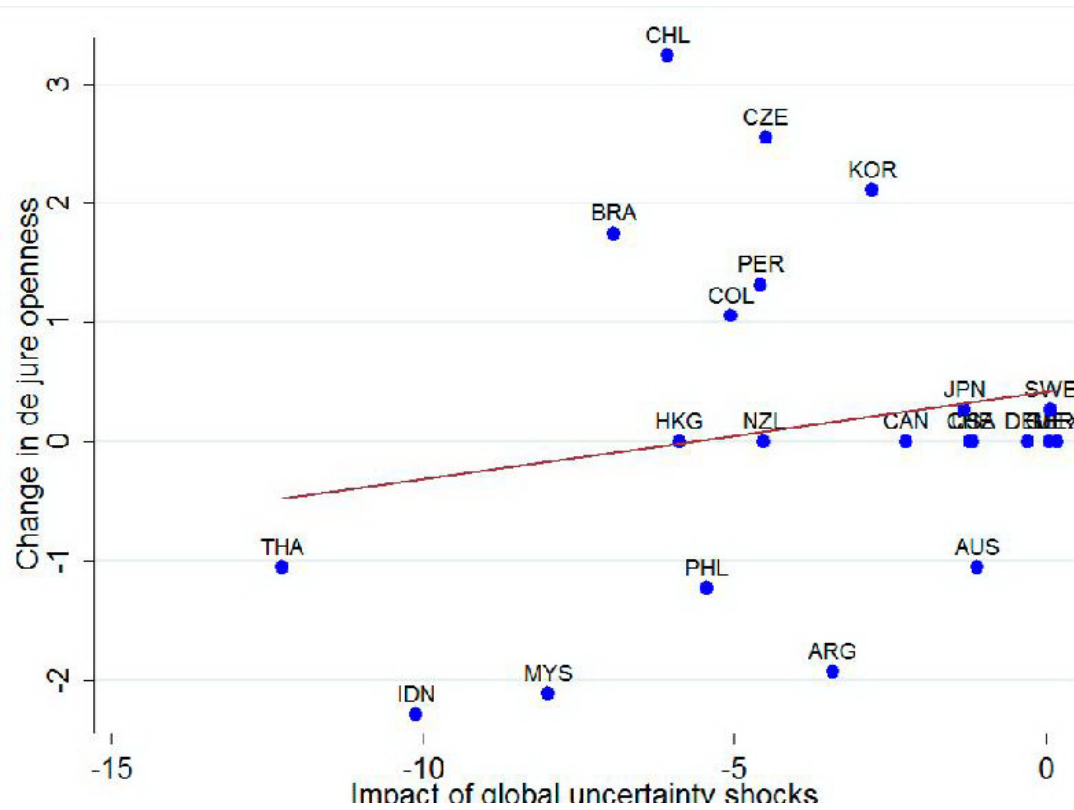
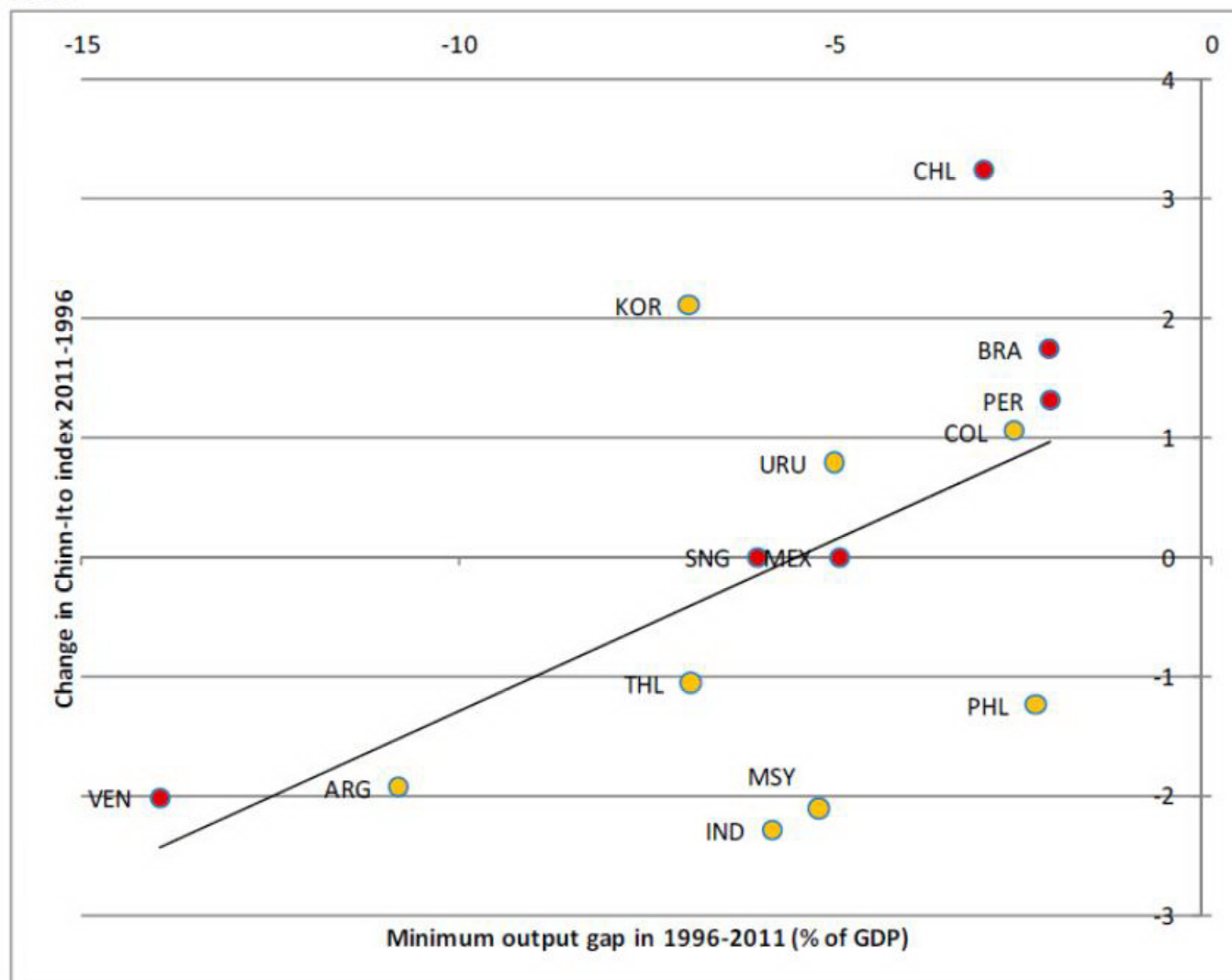
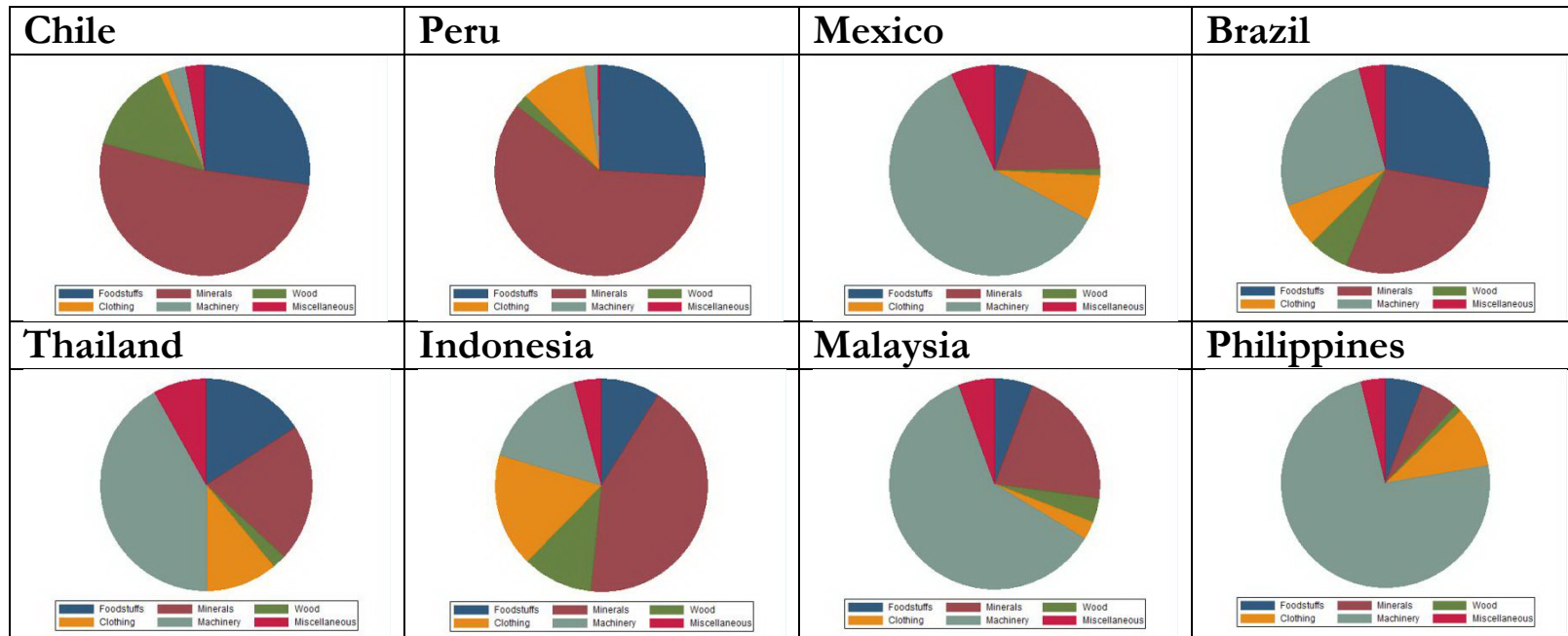


Figure 8: De jure capital account openness in Latin America and Asia: 1996 and 2011



Source: Authors, using updated data from Chinn and Ito (2006). Episodes of banking crisis (from Reinhart and Rogoff (2009)) are indicated by a yellow dot.

Patterns of export specialization, do they make a difference in policy responses?



Conclusions (tentative)

In spite of similar output/inflation developments, monetary policy has differed significantly in selected Asian and Latin American economies.

This can be traced to different approaches to capital account policies.

Which in turn are associated with:

- The perceived vulnerability to financial uncertainty shocks.

- The depth of past crises.

Some additional role can be played by the structure of exports, as natural resource exports vis-à-vis manufacturing imply different responses to exchange rate developments.

Placing Latin American and Asian experiences in perspectives shows the importance to distinguish from a positive, rather than normative angle, the different experiences of emerging market economies in facing the new normal of loose monetary conditions in the advanced world.

Thank you

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