

## SEMINAR ON FINANCIAL VOLATILITY AND FOREIGN EXCHANGE INTERVENTION: CHALLENGES FOR CENTRAL BANKS

Cusco, Perú – July 25-26 of 2017

Venue: *Hotel Libertador*

### TUESDAY JULY 25 (AFTER LUNCH)

2:30 p.m. – 2.45 p.m.

#### Welcoming Remarks

Paul Castillo (Central Bank of Perú)

Andrés Fernández (IDB)

2:45 p.m. – 3.30 p.m.

#### New Challenges Facing Central Banks in Latin America

Chair: Andrés Fernández (IDB)

Keynote Speaker: Alan Taylor (University of California, Davis)

3:30 p.m. – 3:45 p.m.

Coffee Break

3:45 p.m. – 5:30 p.m.

#### Session 1: New Challenges - Panel of Central Bank Governors

*Central banks in Latin America have faced considerable challenges in recent years. Volatile commodity prices, large swings in capital flows and slow growth have characterized this complex environment. This, in turn, has implied trade offs for monetary policy, having to balance between the risks and benefits of responding aggressively or not against falling (yet positive) deviations in inflation from their respective targets, and falling output gaps. What are the lessons learned from these rocky years? And what to expect for the years to come?*

Chair:

Renzo Rossini (Central Bank of Perú)

Panel:

Demian Reidel (Central Bank of Argentina)

Joaquín Vial (Central Bank of Chile)

Javier Guzmán (Bank of México)

Julio Velarde (Central Bank of Perú)

Carlos Fernández Valdovinos (Central Bank of Paraguay)

### WEDNESDAY JULY 26

9:00 a.m. – 9:45 a.m.

#### External Financial Volatility and Policy Response

Chair: Alberto Ortiz (CEMLA)

Keynote Speaker: Jonathan Ostry (IMF)

9:45 a.m. – 11:00 a.m.

#### Session 2: The Global Financial Cycle and Emerging Market Financial Volatility

*In recent years, international financial markets have shown extreme volatility, with abrupt corrections in commodity prices and the value of bonds and currencies of emerging economies. At the same time, the high uncertainty generated by the possible reversion of the expansionary monetary policies of developed economies on the value of financial assets has led to a reaction of market participants that amplifies volatility. How important are global financial cycles for EMs? Is EM volatility due to fundamentals or market overreaction; what are the determinants of EM volatility? How relevant are policy-sensitive EM domestic circumstances to dampen imported volatility?*

Chair:

Eduardo Fernandez-Arias (IDB)

Luiz Pereira Da Silva (BIS)

Andrew Powell (IDB)

**Joshua Aizenmann (USC and NBER)**

**11:00 a.m. – 11:15 a.m. Coffee Break**

**11:15 a.m. – 12:45 p.m. Session 3: The Policy Mix**

*What are the potential costs of international capital flows and exchange rate volatility on domestic credit conditions and the policy challenges that this financial volatility poses to the central banks. How to structure the policy framework to deal with the global financial cycle in terms of ex-ante buffers and ex-post policy response? Should policy response focus on impeding capital flows or dampening their effects on domestic financial conditions?*

**Chair:** **Andrés Fernández (IDB)**  
**Olivier Jeanne (John Hopkins University)**  
**Gianluca Benigno (LSE)**

**1:00 p.m. – 2:30 p.m. Working Lunch: Foreign Exchange Rate Intervention**  
**1:35 p.m. – 2:30 p.m. Chair: Marcos Chamon (IMF)**  
**Keynote speaker: Roberto Chang (Rutgers University)**

**2:30 p.m. – 4:00 p.m. Session 4: Foreign Exchange Rate Intervention**

*Under what conditions is effective foreign exchange rate intervention feasible? What is the role of foreign exchange rate intervention in the optimal policy mix? Should it be preannounced, subject to a rule? What are the risks of pursuing this policy over time?*

**Chair:** **Gerardo Licandro (Central Bank of Uruguay)**  
**Philippe Bacchetta (HEC)**  
**Sebastián Fanelli (MIT)**  
**Marcio Garcia (PUC-Rio)**

**4:00 p.m. – 4:15 p.m. Coffee Break**

**4:15 p.m. – 5:45 p.m. Session 5: Central Bank Experience with Foreign Exchange Intervention**

*To face these challenges, many central banks have resorted to foreign exchange intervention with the objective of mitigating the negative effects of excessive volatility on credit conditions. In this context, it is timely to open a dialogue between experts in central bank policy to examine the experience with foreign exchange rate intervention, both its effectiveness and its interaction with other macroeconomic policies, in light of the previous analytic sessions.*

**Chair:** **Paul Castillo (Central Bank of Perú)**  
**Ramon Moreno (BIS)**  
**Alberto Naudon (Central Bank of Chile)**  
**Pamela Cardozo (Bank of the Republic of Colombia)**  
**Adrián Armas (Central Bank of Perú)**

**5:45 p.m.- 6.00p.m. Closing Remarks**

**Adrián Armas (Central Bank of Perú)**  
**Eduardo Fernandez-Arias (IDB)**