

Banco de España, in collaboration with the Bank of Finland's Institute for Transition Economies (BOFIT), held the Seventh Emerging Markets Workshop in Madrid on 21st - 22nd of September, a Conference which is usually organized in Helsinki but that was held in Madrid for the second time. The main topic of the Workshop was the fallout from the global financial crisis in emerging markets economies

The welcome address was given by the Associate Director General of International Affairs of Banco de España. She remembered the changing environment on which these economies have evolved in the last six months. In fact, emerging economies have been one of the most interesting research items in the context of the recent global turmoil, as they initially seemed to resist well the turbulences in developed financial markets, then they suffered the real effects of the crisis, and finally some of them have been the first economies to start the recovery.

The opening session dealt with the global dimension of the current crisis. The representative of the ECB analyzed the role of the contagion from United States financial markets to World markets in the spreading of the crisis, but he found a higher role for domestic contagion.

The first session was devoted to scrutiny the impact of the global crisis on Eastern Europe emerging economies, in concrete on Poland (higher effect from external shocks, and financial shock effect via credit restrictions instead of credit cost increases), Turkey (examining the relationship between financial stress and industrial production) and Russia (effectiveness of monetary policy instrumented via interest rates). Then speakers from Colombia and France examined, respectively, the developments in Colombia (where macro policies implemented after the last domestic crisis in 1999 have helped to weather the recent crisis well) and Sub Saharan Africa, a region mostly affected by a terms of trade shocks after the failure of Lehman, and by a fall in remittances and the threat of a haircut of international aid.

The afternoon session focused on the comparison between Eastern Europe and Latin America in terms of markets developments, and economic policy responses in each region. The main conclusion was that LA countries was better prepared to deal with a global crisis as they have strongly reduced their traditional vulnerability, and as their banking systems did not take the risk undertaken by their Eastern Europe equivalents.

To close the day, Jaume Ventura, top researcher and expert on growth, international economy and international finance at the Centre de Recerca Económica Internacional (CREI), Universitat Pompeu Fabra, gave a key note lecture about the rise and fall of financial bubbles, and the effects of bursting those bubbles too early. The speech stated that, under certain circumstances, bubbles - defined as the opposite of traditional productive investments- increase consumption for various generations and the utility of agents and eliminate real investments which were not so productive, leaving all agents in a better off situation.

The second day started dealing with the effectiveness and design of monetary policy in emerging economies in crisis times, estimating monetary rules (emerging economies), simulating different monetary regimes with a dynamic model (Latvia), or examining the response of firms to changes in monetary policy rates (Brazil), and, finally, measuring the response to an increase in the spread and the cost of funds (Chile).

The last Workshop session benefited from a joint contribution of CREI and Banco de España about the evolvement of gross capital flows during financial stress times, showing retrenchment, that is, a retrieval of residents outflows and a fall in no residents inflows. The workshop ended with a presentation about the effects of financial shocks and uncertainty on Chile, and another about the evolvement and estimation of house prices bubbles in Poland.

Next Workshop is going to be held by BOFIT in Helsinki in Spring 2010.