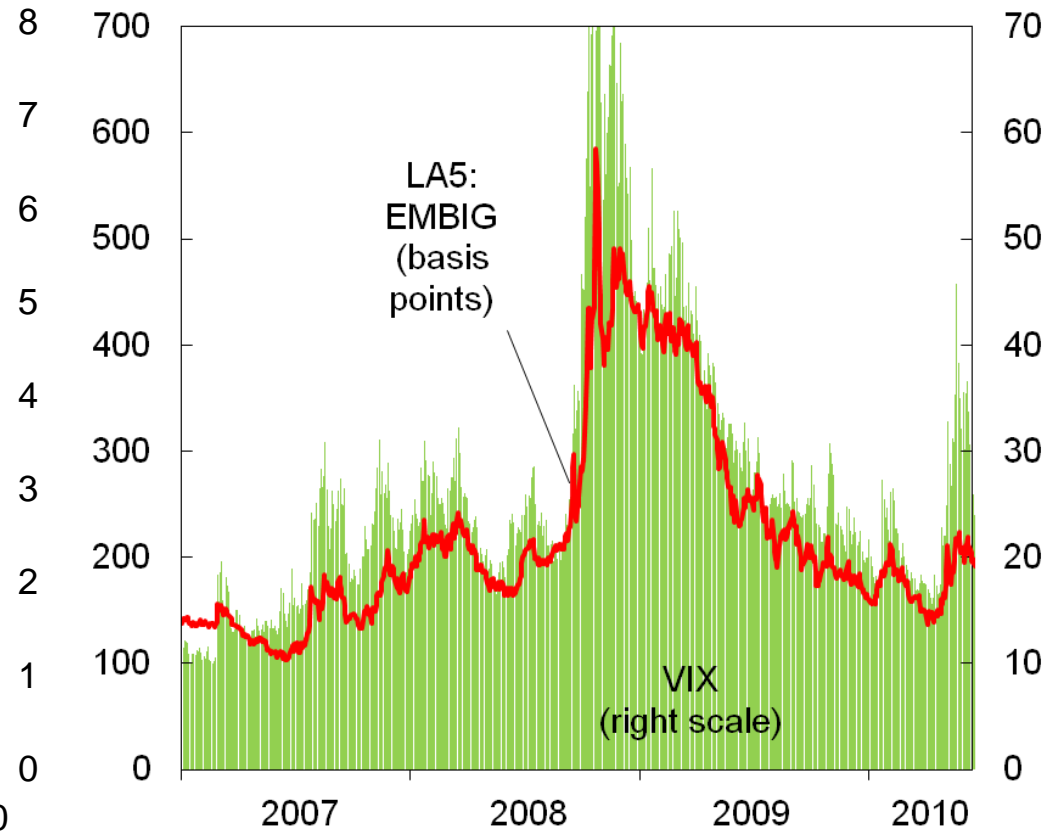
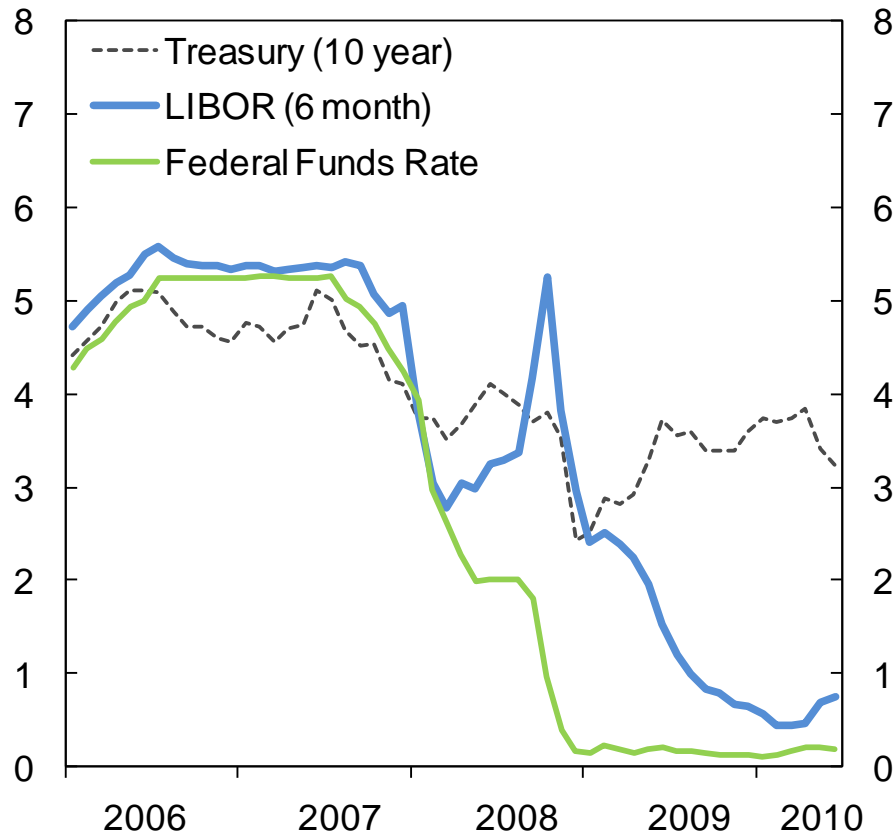
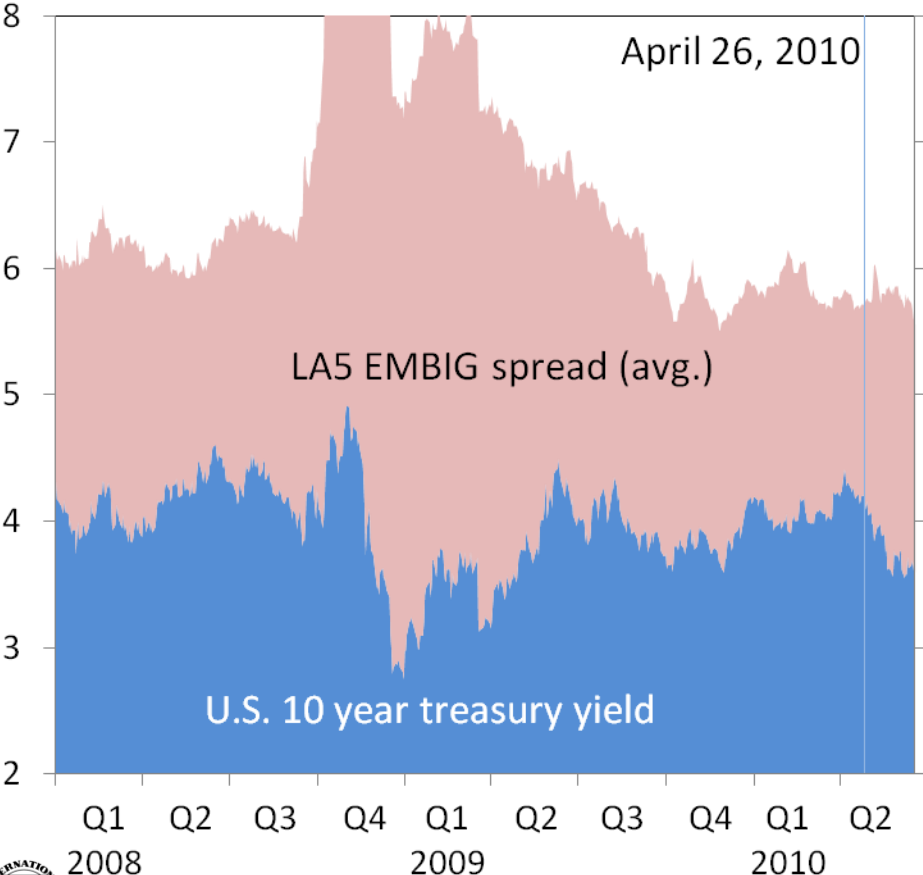


The external financial backdrop

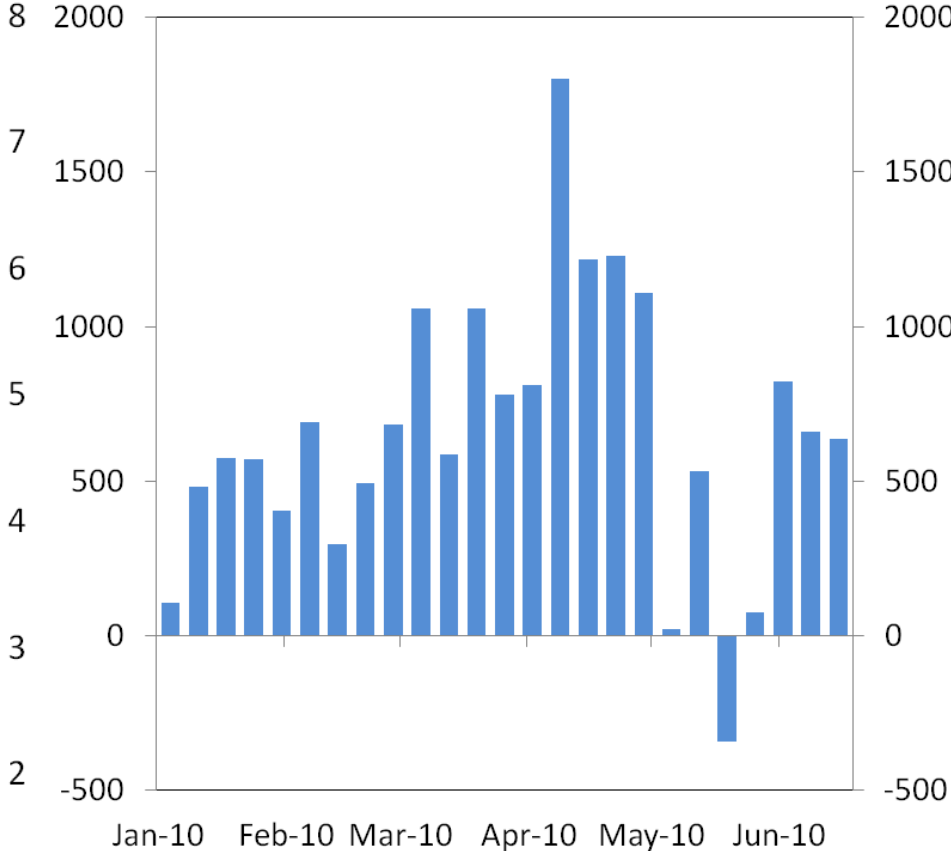


Digesting hiccups?

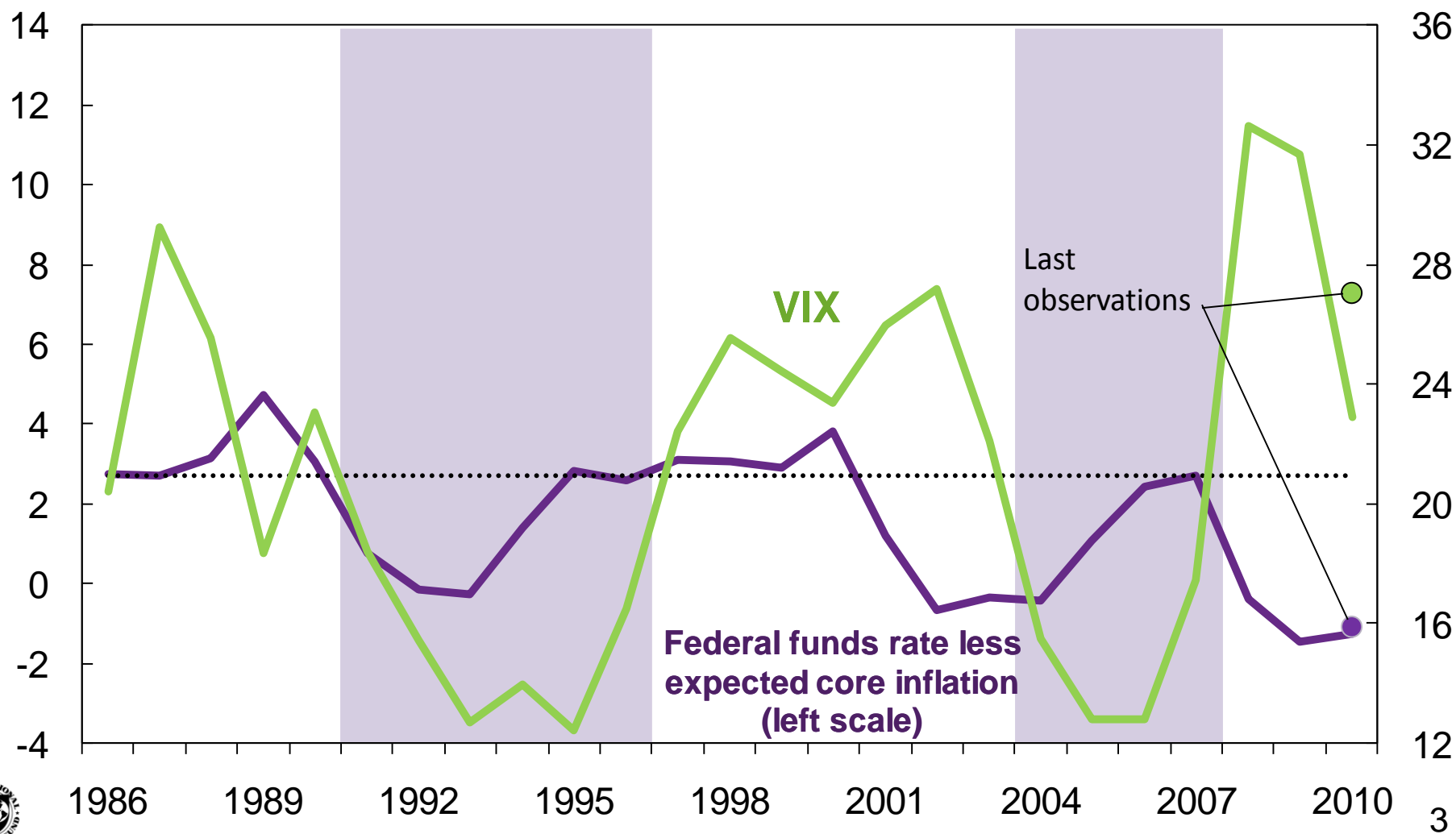
LA5 EMBIG Average Bond Yield



Net Weekly Flows to EM Bond Mutual Funds (Mill. USD)

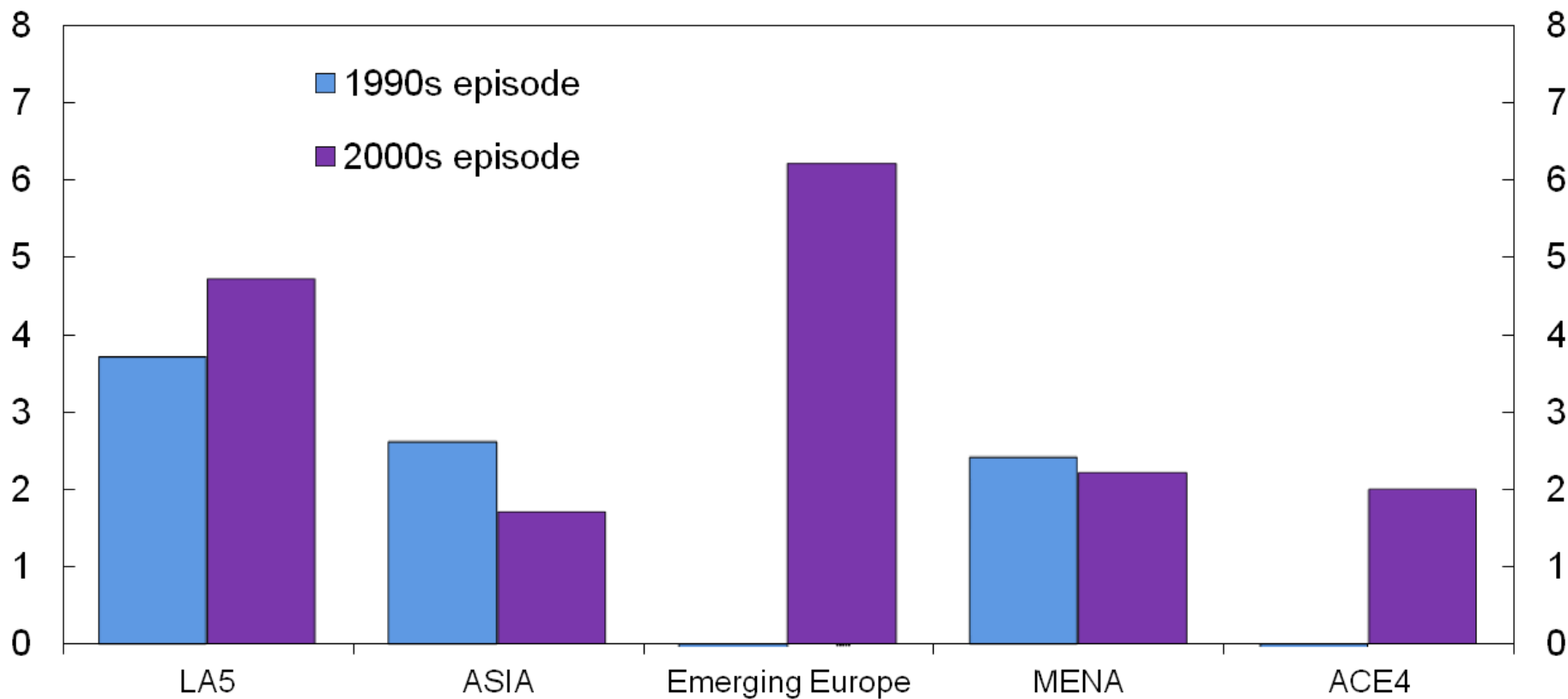


When financial conditions were easy in the past...



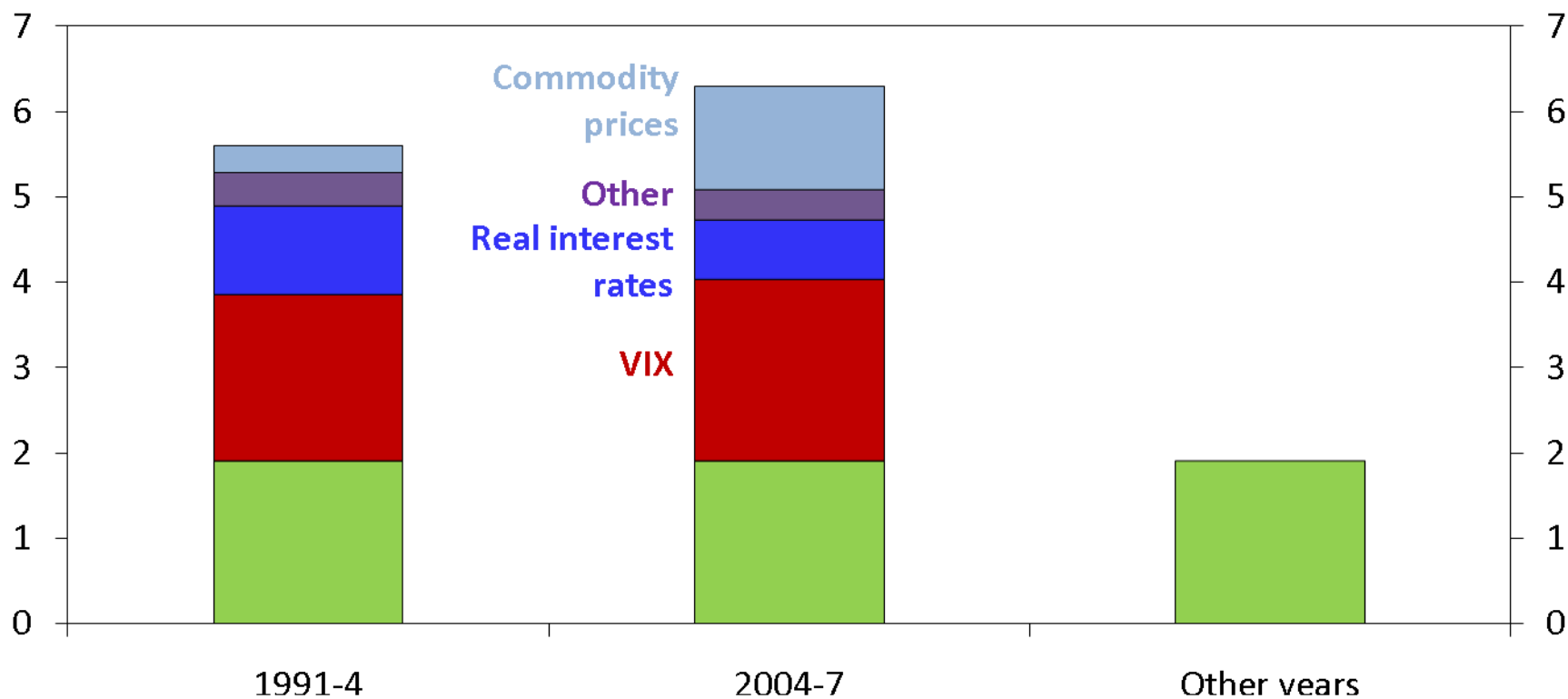
...Domestic Demand boomed, particularly in LA

Difference between Domestic Demand growth during episode and non-episode years



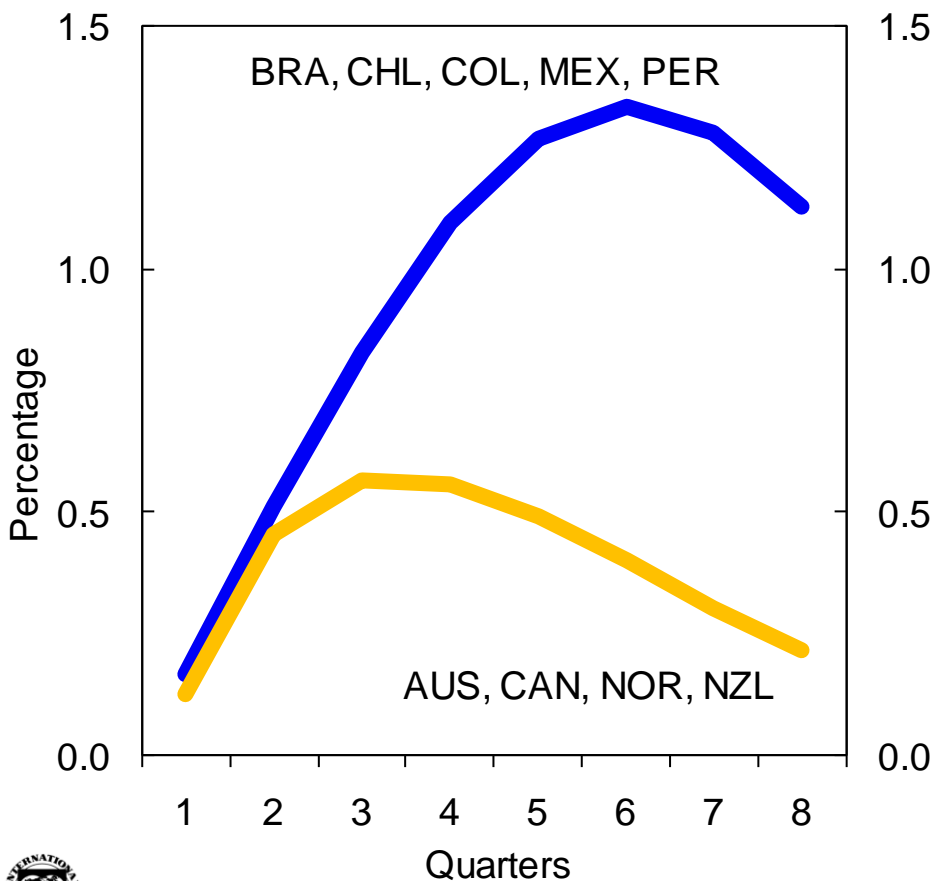
External financial variables dominate

Explaining Domestic Demand Growth
(annual percent change)

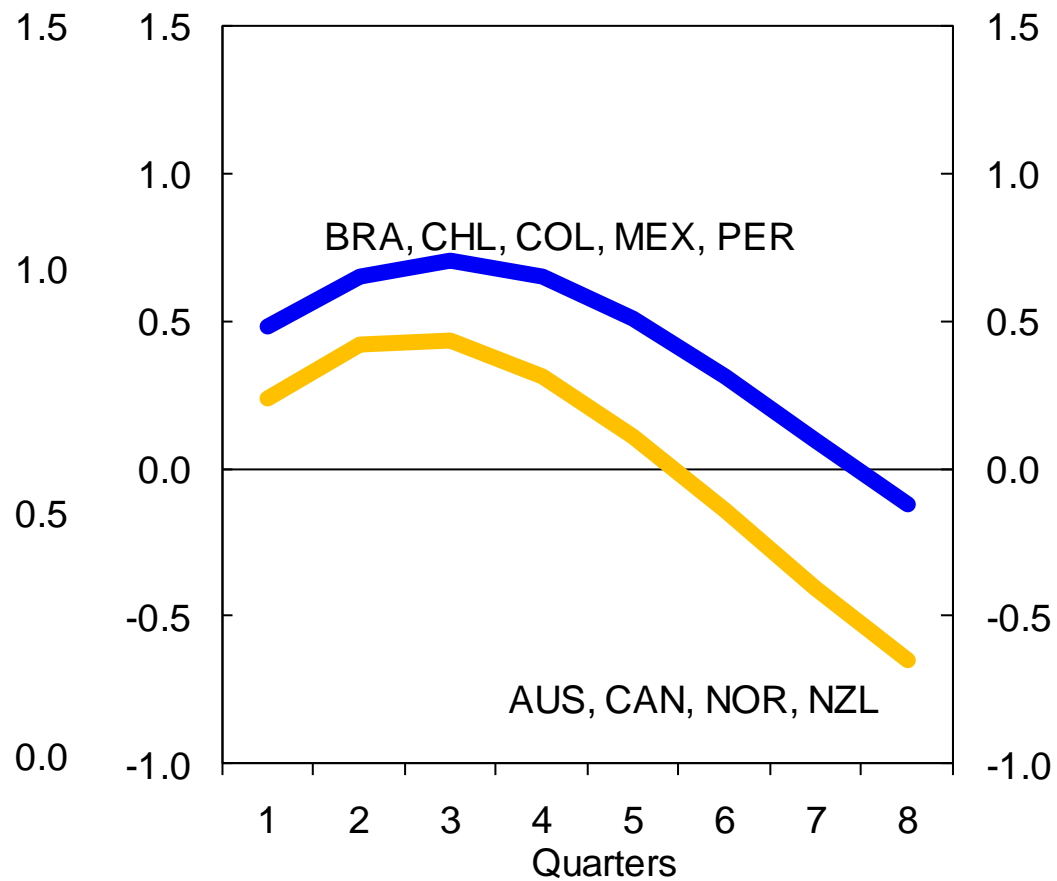


Higher sensitivity not only in good times

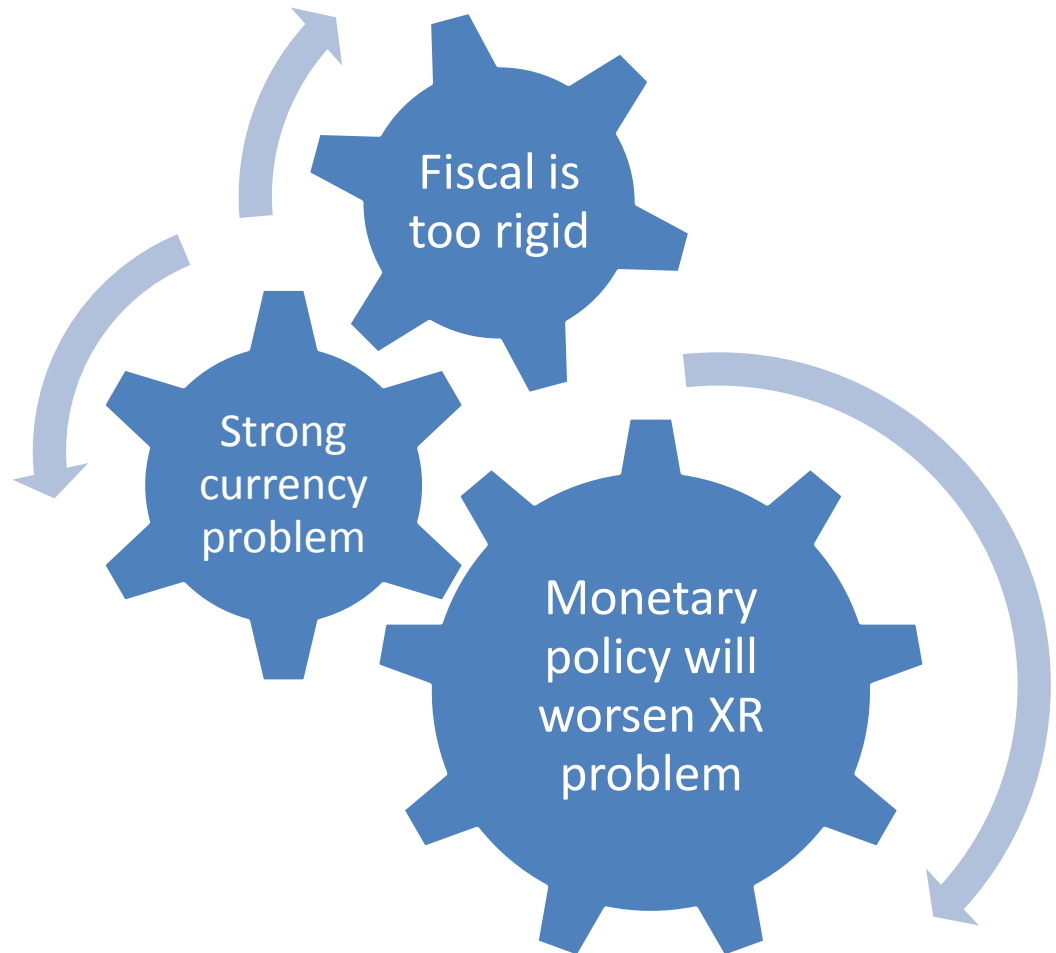
Domestic Demand response to the VIX



Domestic Demand response to International Interest Rates

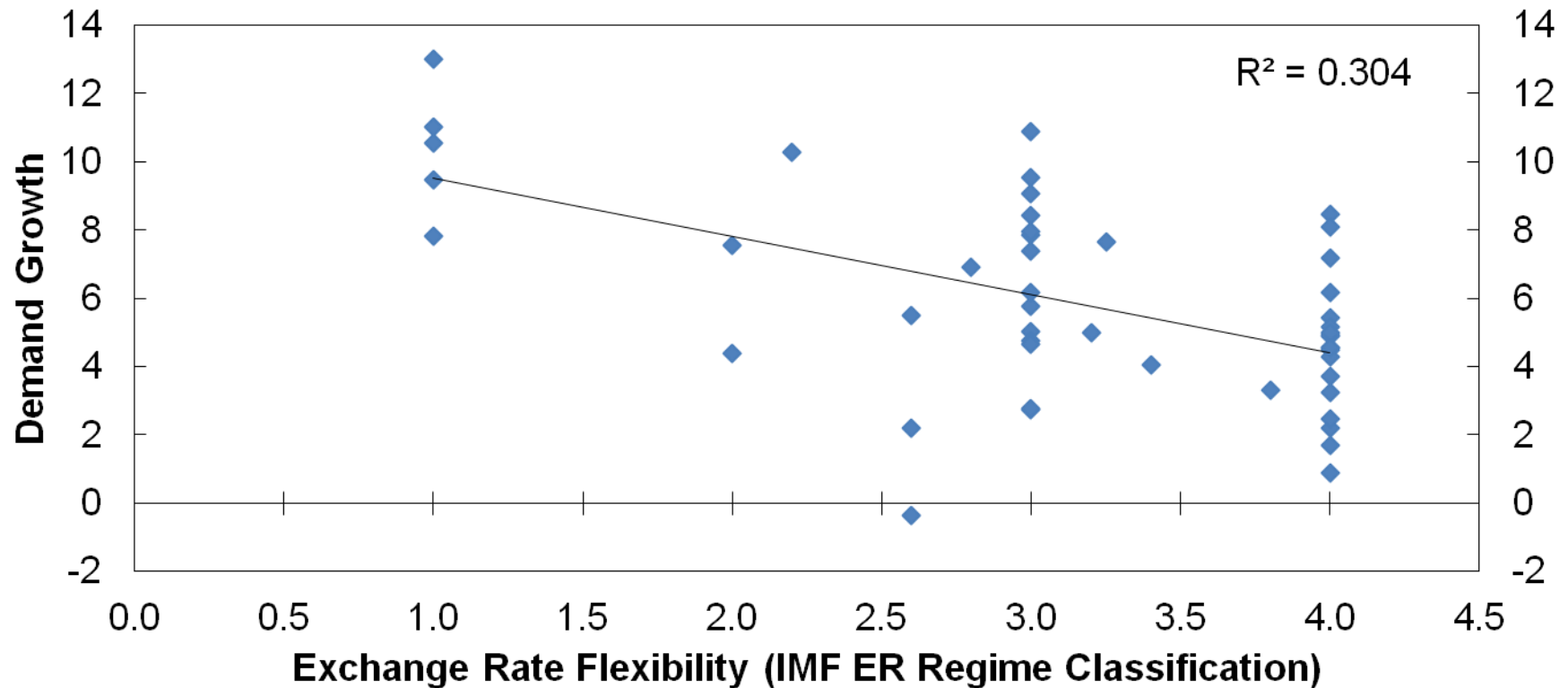


The Gordian knot

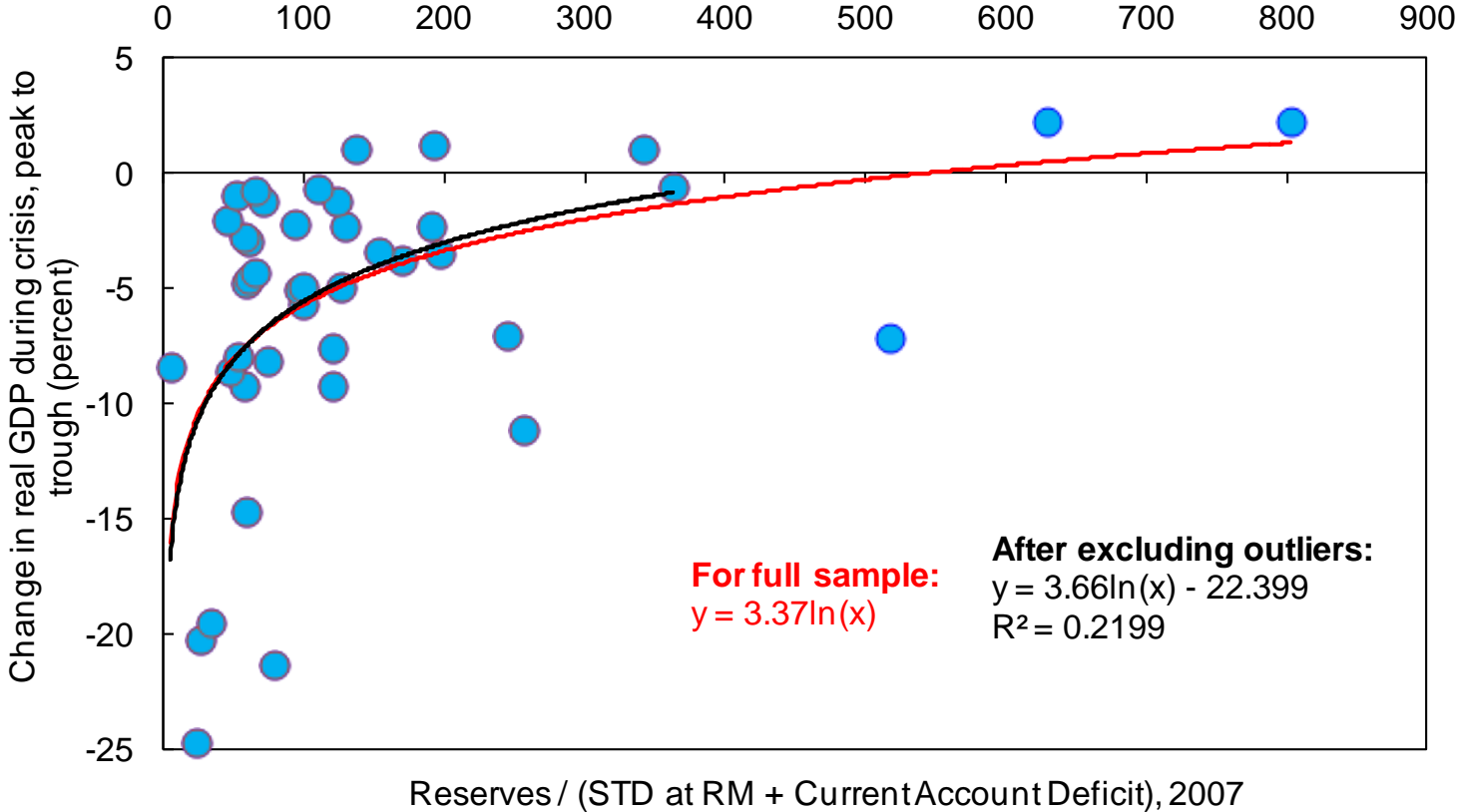


Exchange rate flexibility matters

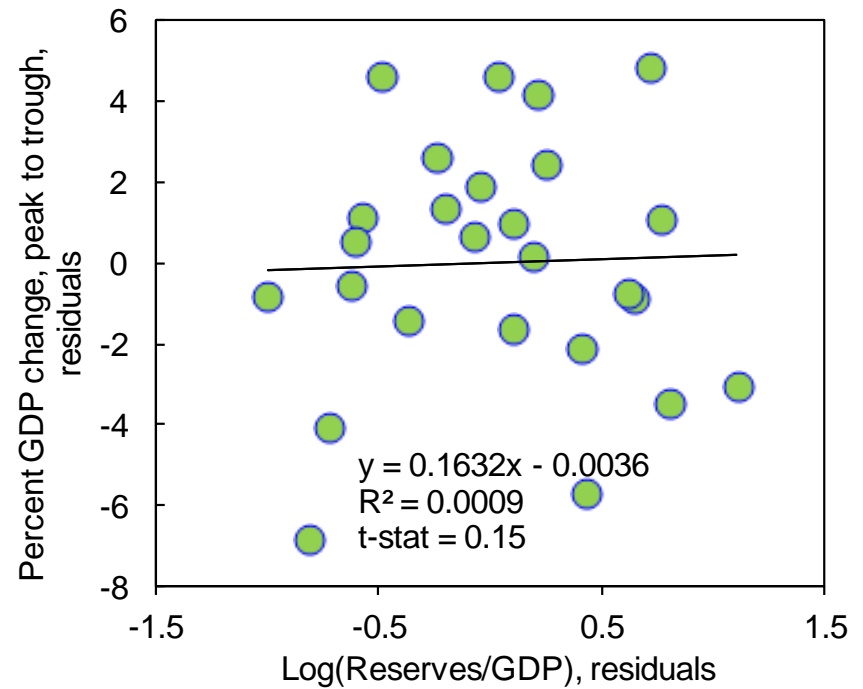
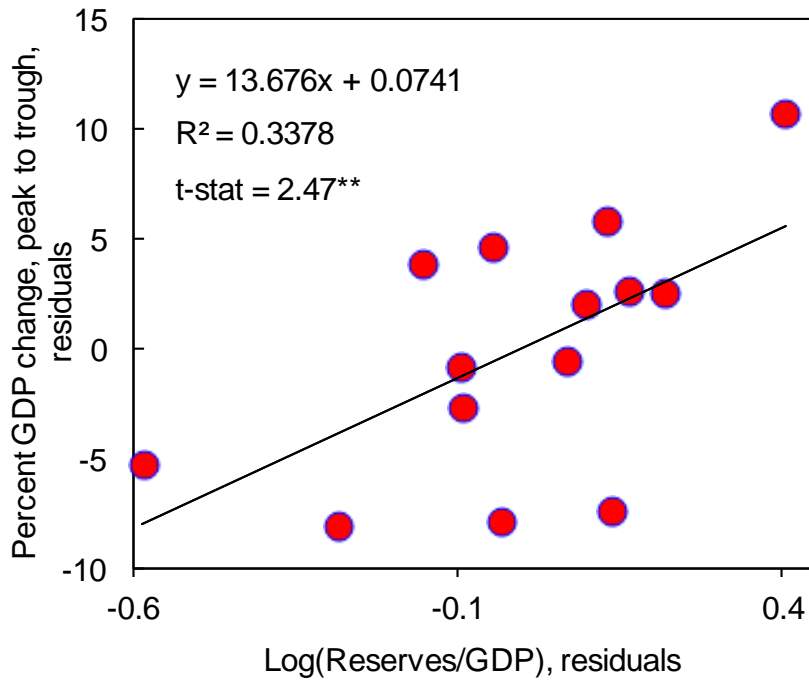
Domestic Demand Growth and Exchange Rate Flexibility
(Episodes of Easy Money)



Reserves insurance has declining marginal benefits

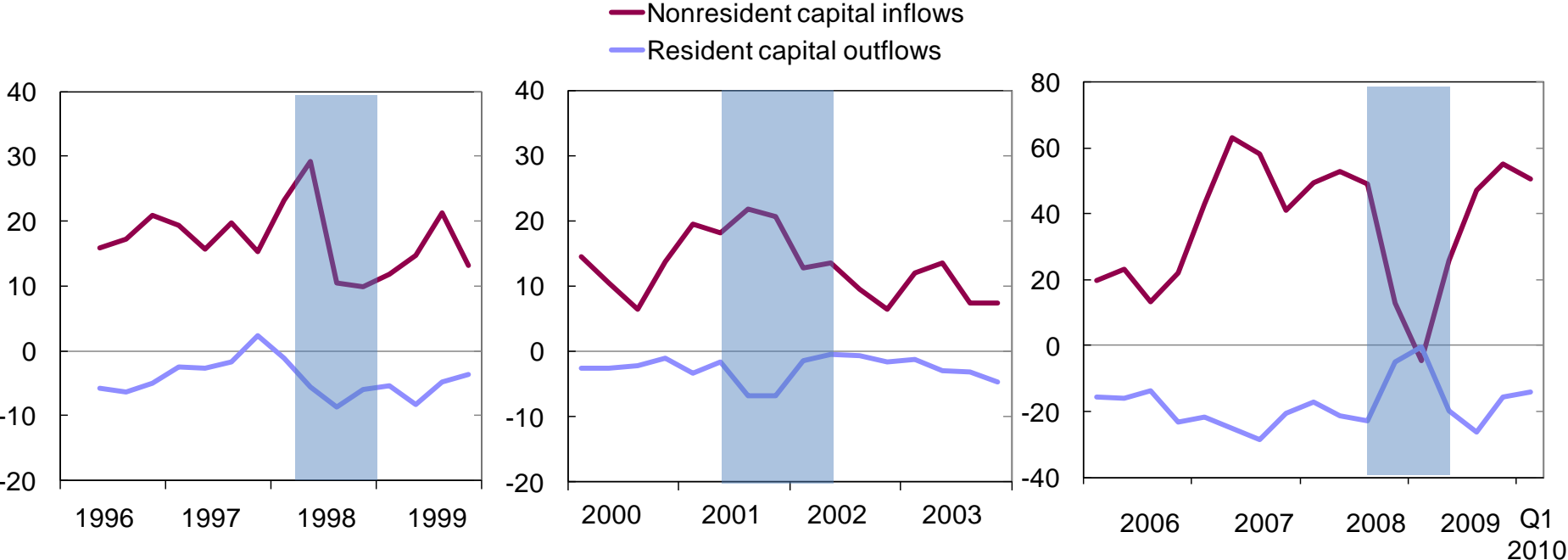


...approaching zero



Shifting balances - The role of resident assets

LA5: Gross Investment Flows
(Billions of U.S. dollars; 2 quarter moving average)



Experimentation and the Macro Prudential mantra



“The country needs [...], demands bold, persistent experimentation. It is common sense to take a method and try it: If it fails, admit it frankly and try another. But above all, try something.”
FDR

Macro-prudential Instruments

(CGFS Paper no. 38)

Measures targeting credit growth

LTV caps
DTI limits
FX lending limits

Aggregate or sector credit growth ceiling
Limits on exposures by instruments

Measures to limit interconnectedness

Size-dependent leverage limits or asset risk weights
Capital surcharges for systemically important institutions

Limits on interbank exposures

Measures to limit pro-cyclicality

Time-varying capital requirements
Restrictions on profit distribution

Dynamic provisioning

Measures to address financial risks

Loan-to-deposit limits
Core funding ratios
Reserve requirements

Limits on open currency positions or on derivative transactions