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PRESS RELEASE

EUROSYSTEM AND LATIN AMERICAN CENTRAL BANKS HOLD SIXTH HIGH-LEVEL SEMINAR

Governors and high-level representatives of the Eurosystem and Latin American central banks and other regional financial organisations met in Santiago de Chile for the sixth high-level seminar to discuss macroeconomic policies, global liquidity and sovereign risk. The event was hosted by the Banco Central de Chile and co-organised by the Banco de España and the European Central Bank.

Rodrigo Vergara, Governor of the Banco Central de Chile, began by welcoming the participants and highlighted the importance of the regular high-level policy dialogue between the Eurosystem and Latin American central banks, which started a decade ago in Madrid. He also reviewed the main policy challenges faced by central banks in the current global economic situation and the lessons drawn by Latin American countries from their past experience. He tackled the issue of capital flows to emerging markets, mentioning both pull and push factors behind them and underscoring the policy challenges in dealing with these flows.

Vítor Constâncio, Vice-President of the European Central Bank, and Luis María Linde, Governor of the Banco de España, underlined the challenges in the euro area and the progress made in responding to them and building a stronger institutional framework for Economic and Monetary Union (EMU).

The discussion focused on three major issues.

Current and past determinants of sovereign distress

In the first session, governors compared the current challenges in the euro area with past experiences in Latin America. They acknowledged that many factors characteristic of past crises in Latin America, such as capital flow reversals and contagion, were also observable in financially stressed euro area countries. Participants underlined that the distinguishing feature of the situation in Europe – as compared with the former situation in Latin America – was that the sovereign debt crisis in the euro area is taking place within a monetary union. They also

exchanged views on the implications as regards the build-up and adjustment of imbalances and highlighted the links between sovereign and banking crises.

Policy responses to sovereign crisis

The second session highlighted the importance of a credible monetary policy framework. Participants agreed that having such a framework in the euro area enabled a flexible crisis response, while at the same time ensuring that inflation expectations remain well anchored and the risk of fiscal dominance over monetary policy is contained. They stressed the necessary limitations of monetary policy in dealing with the sovereign debt crisis and the key role that other policies, notably fiscal adjustment, structural reform and financial repair, have to play in addressing the root causes of the crisis. It is essential to continue rebuilding credibility and to avoid complacency. This was a lesson from both the past Latin American and the current euro area experience with crisis response. The adjustment process is significant in the euro area. The institutional progress has also been substantial, showing the political will to deepen EMU.

Global liquidity, capital flows and macro-prudential responses

The third session concentrated on global liquidity, its impact on global capital flows and possible policy responses. Participants exchanged views on the conceptual challenges of defining global liquidity. They also discussed the potential for international spillover effects and their possible implications for financial and price stability. Participants noticed the difficulty in establishing a causal link between global liquidity and capital flows and acknowledged that the surge in flows to emerging markets and Latin America may also be driven by the improvement in domestic fundamentals and the reassessment of risk at the global level. Nevertheless, previous experiences have led emerging market economies to be cautious about significant capital inflows and to consider possible policy options to address the associated challenges. The different policy options available and their current implementation in various countries were also actively discussed by the participants.

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