

10 December 2010

## PRESS RELEASE

### FIFTH HIGH-LEVEL SEMINAR OF THE EUROSISTEMA AND LATIN AMERICAN CENTRAL BANKS

The economic implications of and the policy responses to global imbalances and financial flows were the main focus of the discussions held at the Fifth High-Level Seminar of the Eurosistema and Latin American Central Banks that took place today in Madrid, under the chairmanship of Miguel Fernández Ordóñez, Governor of the Banco de España and Jean-Claude Trichet, President of the European Central Bank.

The Seminar, which was hosted by the Banco de España and jointly organised with the European Central Bank, was geared to building on the policy dialogue between central bankers of Europe and Latin America following the fourth seminar in Mexico in 2009.

The Seminar was widely attended by governors and high-level representatives of Latin American and Eurosistema central banks, as well as by high-level representatives of the Center for Latin American Monetary Studies and the European Commission.

#### **Global rebalancing**

The first session focused on the issue of global imbalances and global rebalancing. In this regard, Governors discussed the prospects and risks of a re-widening of global imbalances as well as the link between global imbalances and the global financial crisis.

Governors highlighted the fact that the reduction in global imbalances that occurred during the crisis might not be lasting, stressing the need to tackle the structural determinants of those imbalances. It was further noted that external imbalances also reflected internal imbalances, and that, as a consequence of the crisis, these had shifted in numerous countries from private imbalances to public sector deficits. In this context, in deficit countries, promoting national savings was considered of the essence. Moreover, in the case of surplus economies, rebalancing towards domestic demand was considered as appropriate. Particularly in the case of emerging surplus countries, reforming and strengthening social safety nets and developing domestic financial markets would be

instrumental to achieve global rebalancing. In general, exchange rate flexibility should be enhanced so as to reflect underlying fundamentals. Finally, the importance of international policy cooperation was deemed key to address global imbalances.

### **Financial flows and macroprudential risks**

The second session concentrated on the role of financial flows in the transmission of shocks across countries. In particular emerging markets have been affected by this issue, as capital flows driven by global factors have at times induced domestic asset price booms and excessive appreciation pressures, complicating domestic macroeconomic management.

Participants agreed that exchange rate flexibility may act as an important shock absorber for countries facing strong and volatile capital inflows, while capital controls should be used with caution, due to the lasting distortions they entail. In addition, a sound and resilient financial sector would also help to accommodate those flows. It was also recognized that there is a role for macro prudential tools to mitigate leverage, and that work is in progress in this domain. Participants also examined the role of global safety nets such as i.a. IMF new credit facilities.

### **Global policy cooperation**

The third session explored the global policy response following the financial crisis. Governors addressed the latest initiatives at the global level, including an assessment of the degree of cooperation attained between countries, particularly advanced and emerging countries, and the improvement of the global safety nets.

Governors from both regions shared the view that the crisis has reinforced the need for global policy cooperation. Global governance has become more inclusive, and has attained stronger financial, economic and regulatory focus. In particular, Governors welcomed the creation of the G20 "Framework for Strong, Sustainable and Balanced Growth" and the effective cooperation at central bank level. Participants agreed on the need to achieve further progress in the areas of international policy surveillance and global cooperation.

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The governors thanked the Banco de España for the organisation of the Seminar and underscored the value of this unique form of policy dialogue between Latin America and Europe, which they will continue in the future.

The Sixth Edition of the Seminar will take place in Chile in 2012.

**European Central Bank**

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