

MACROECONOMIC STABILITY IN DEVELOPING COUNTRIES



NACIONES UNIDAS

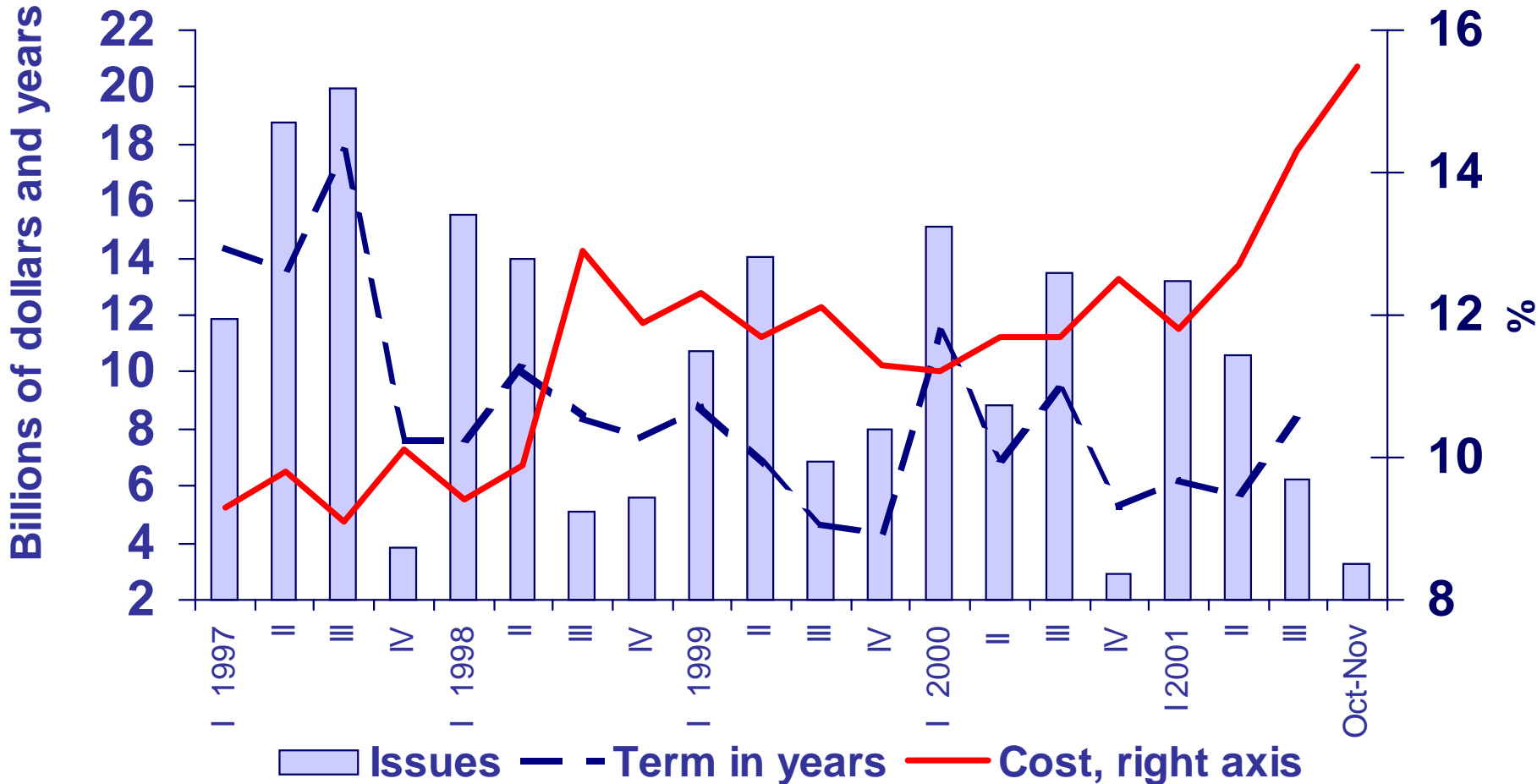
CEPAL

JOSÉ ANTONIO OCAMPO
EXECUTIVE SECRETARY

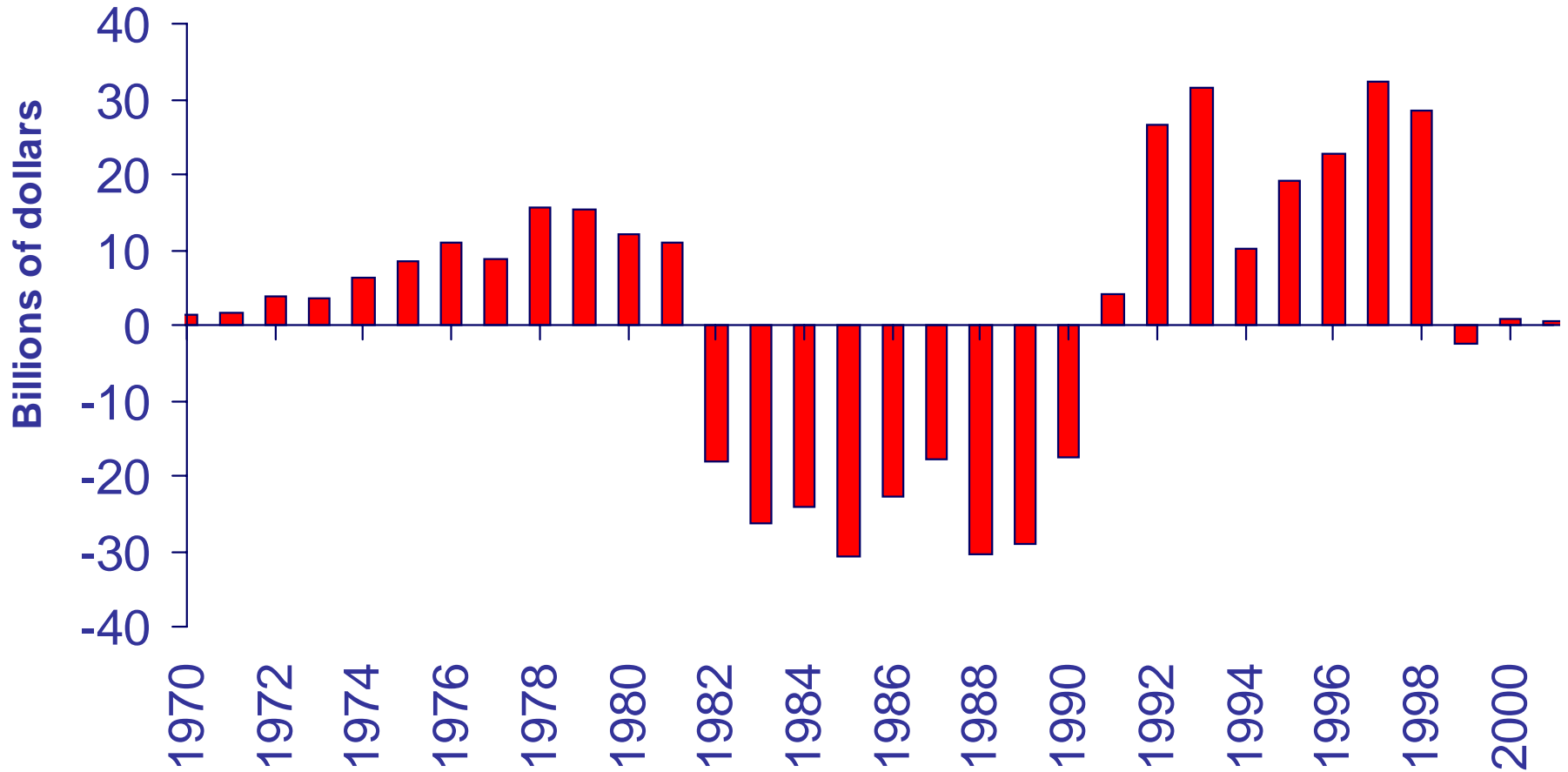
STYLIZED FACTS

- Advance in inflation and control of public sector deficits
- But sharp business cycles associated to capital account volatility

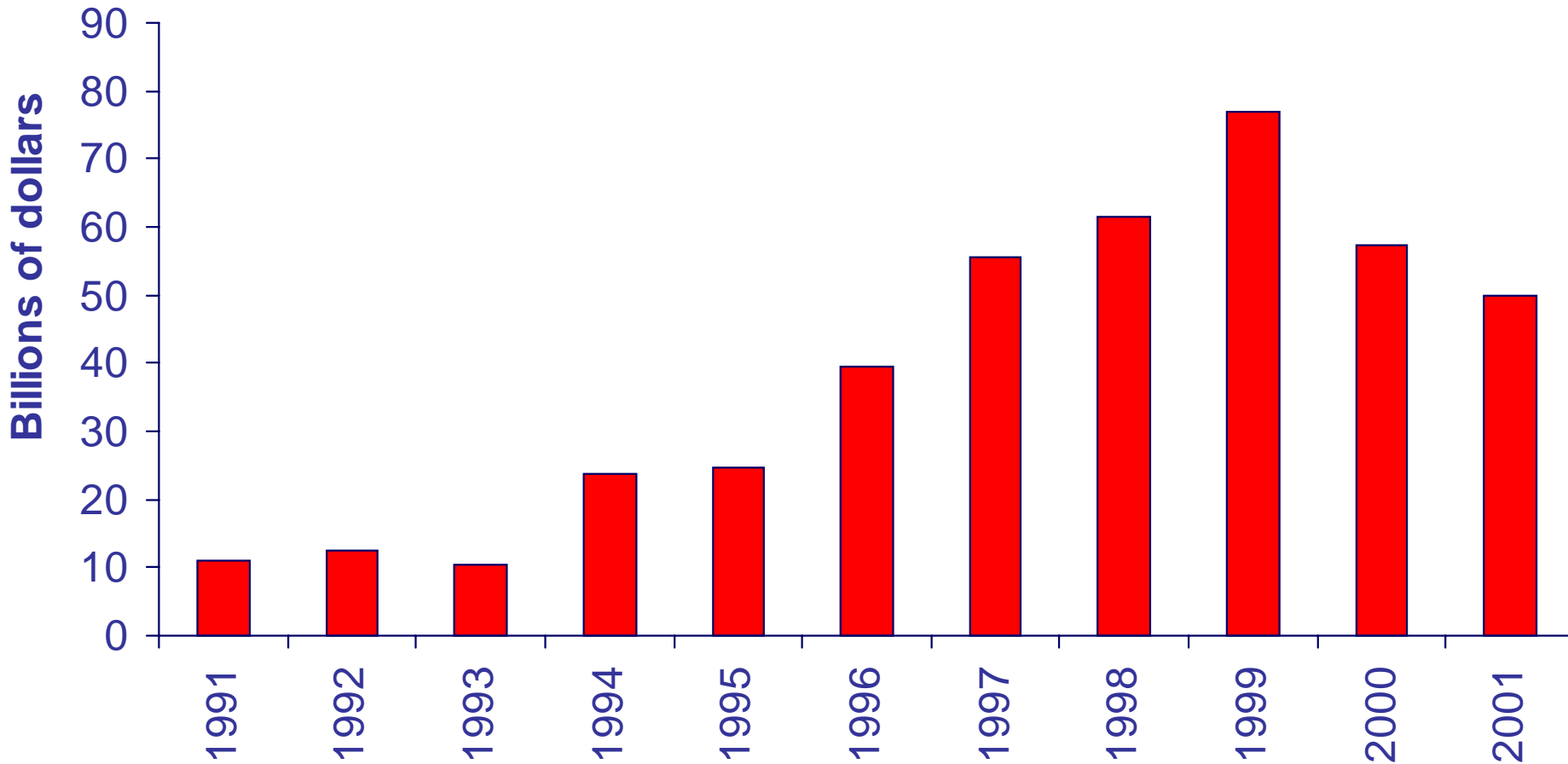
SHORT-TERM VOLATILITY OF CAPITAL FLOWS



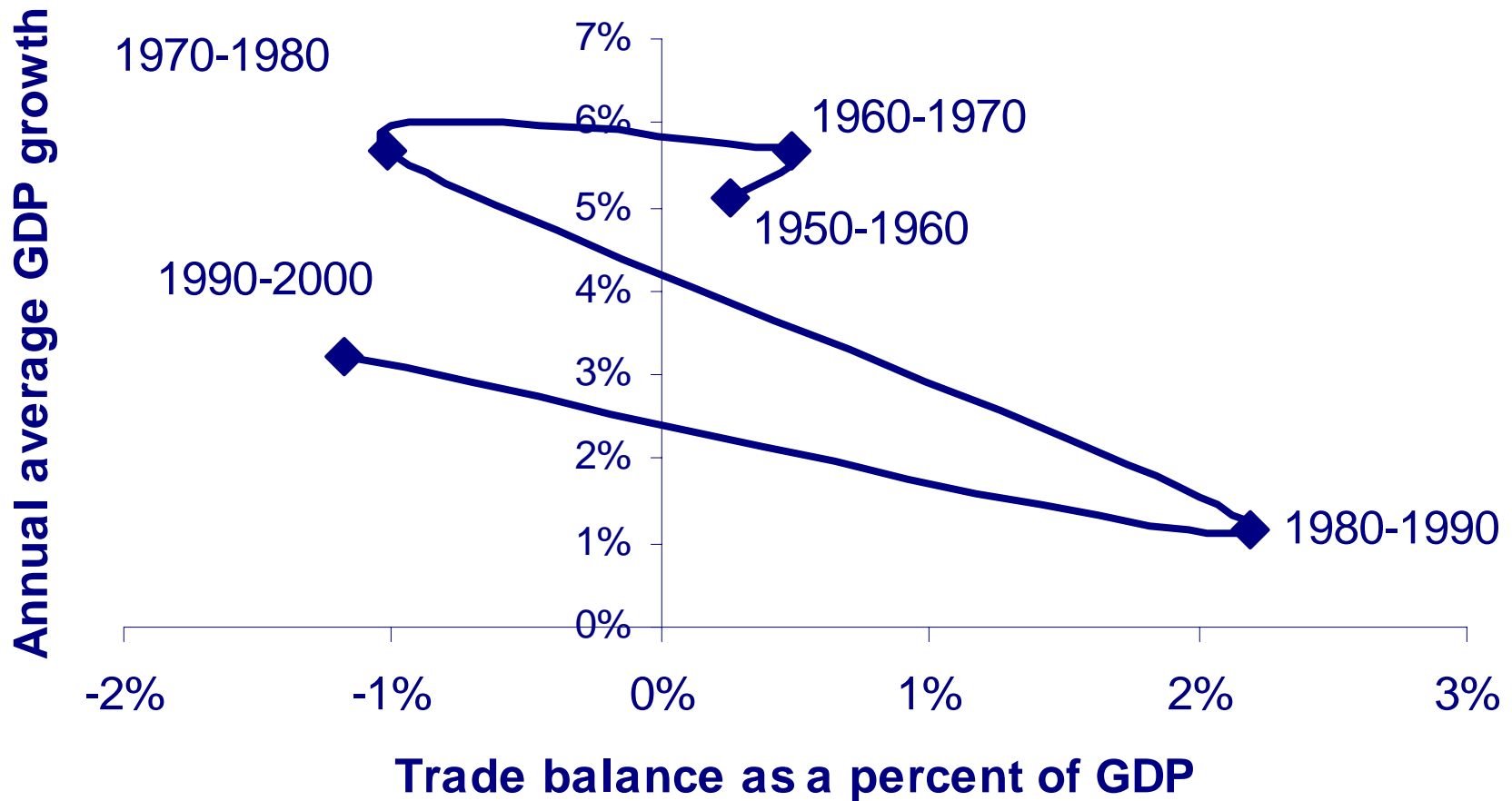
SHARP MEDIUM-TERM CAPITAL ACCOUNT CYCLES: NET RESOURCE TRANSFERS



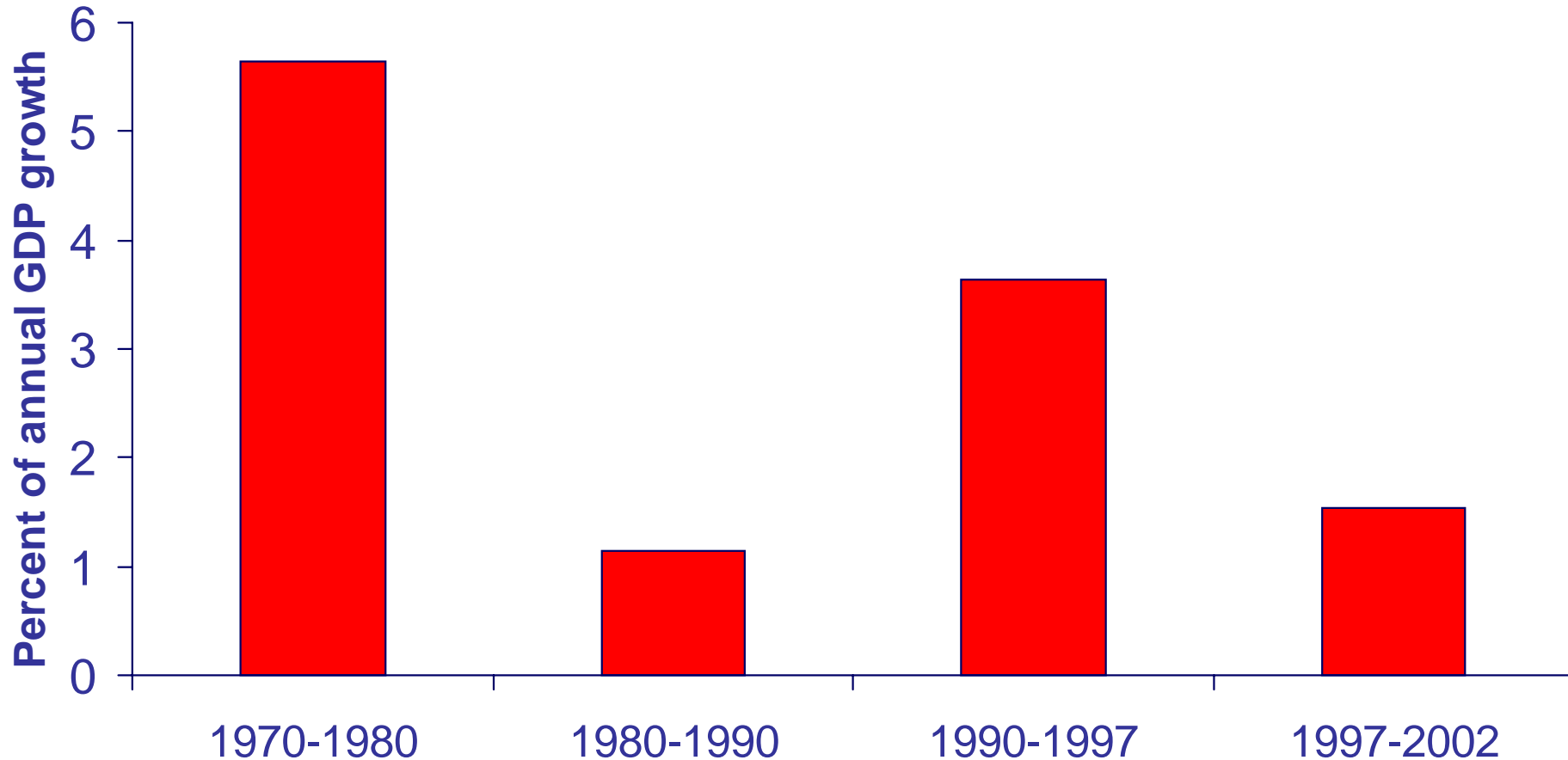
FOREIGN DIRECT INVESTMENT PLAYED AN ANTI-CYCLICAL ROLE IN 1995 AND 1998-1999, BUT NOT IN 2000-2001



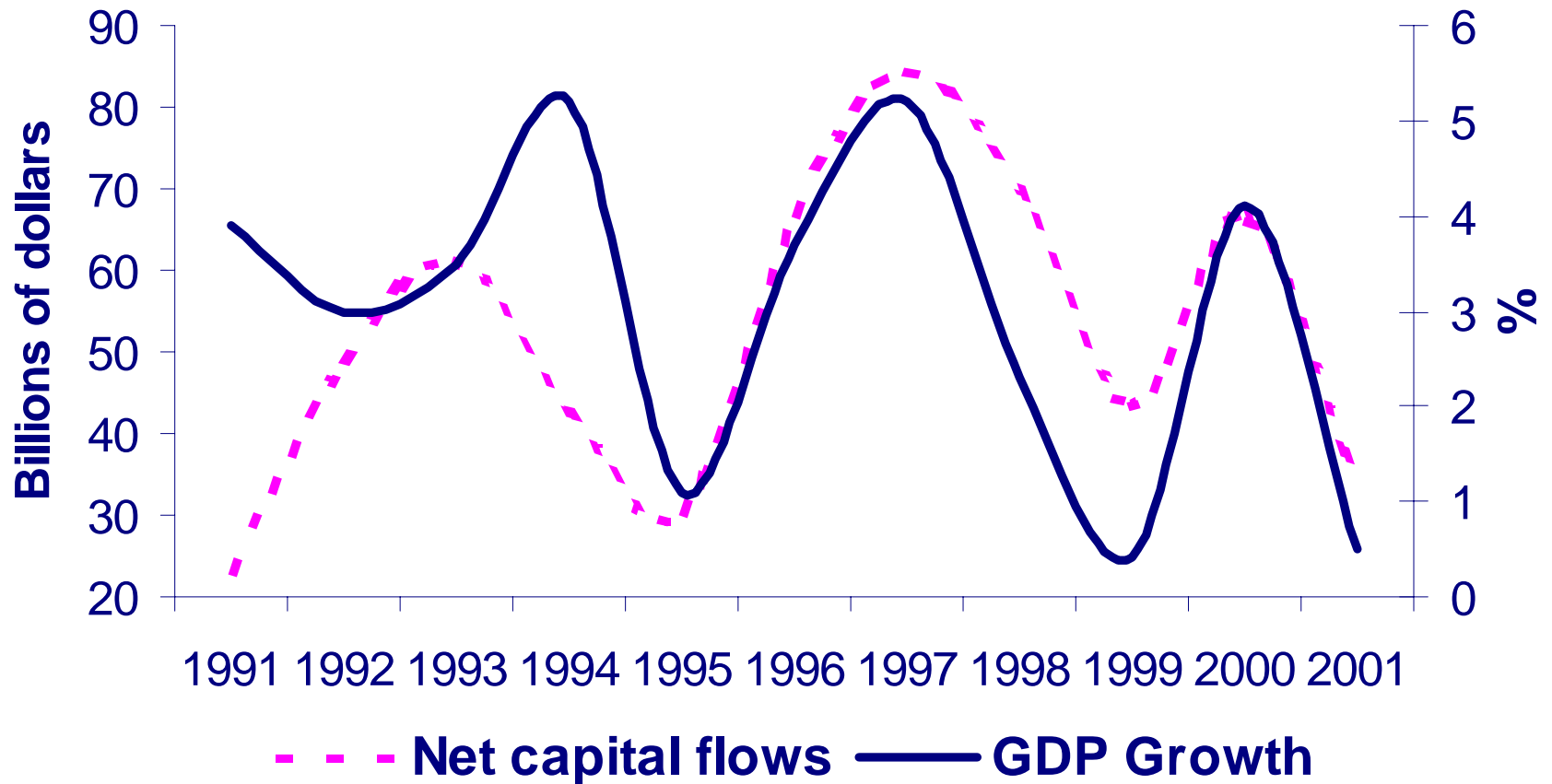
IN LATIN AMERICA THE CURRENT ACCOUNT AND FINANCIAL REQUIREMENTS HAVE BEEN HIGH



STRONG ASSOCIATION BETWEEN CAPITAL FLOWS AND ECONOMIC GROWTH: A MEDIUM TERM OUTLOOK



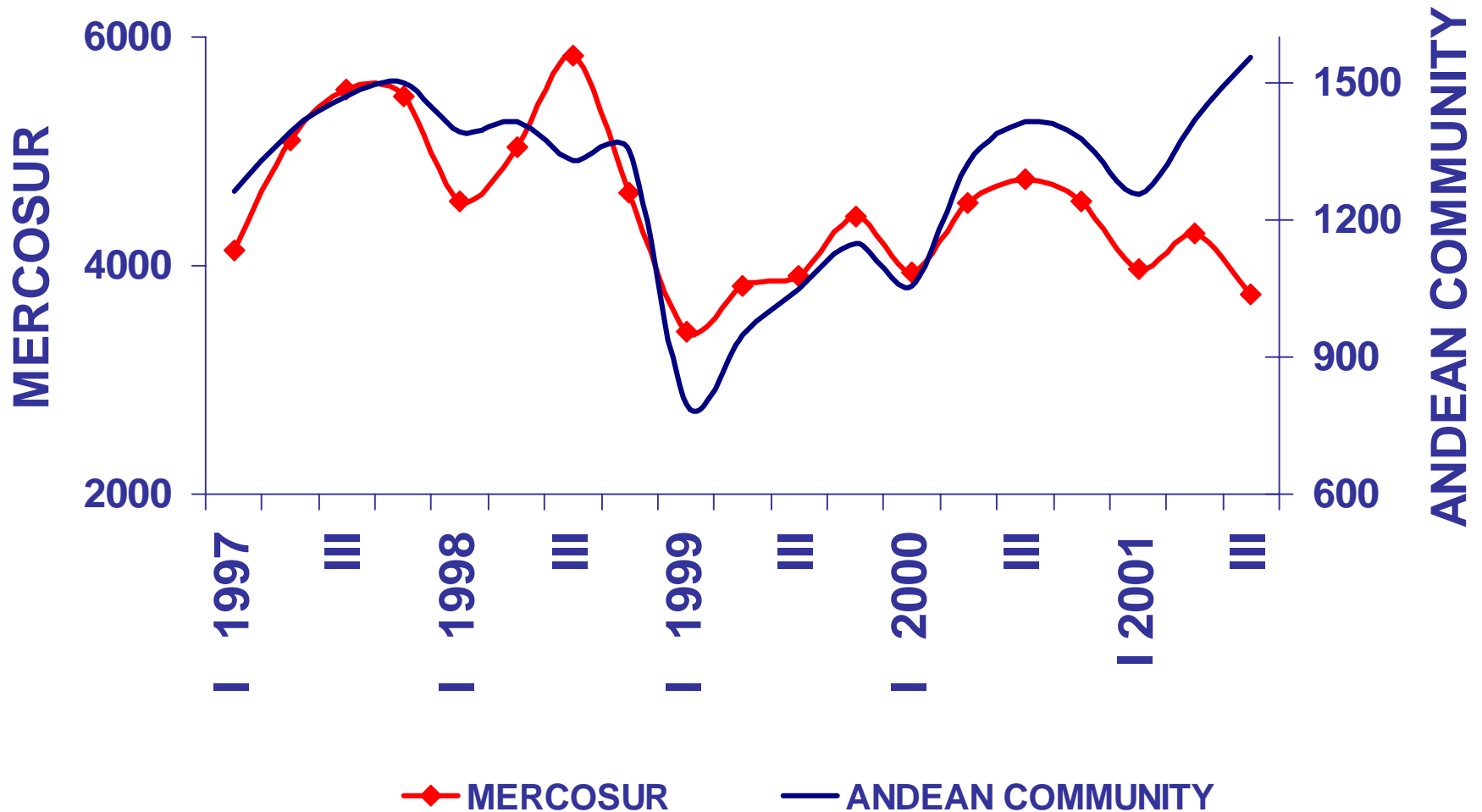
STRONG ASSOCIATION BETWEEN CAPITAL FLOWS AND ECONOMIC GROWTH: ANNUAL CYCLES



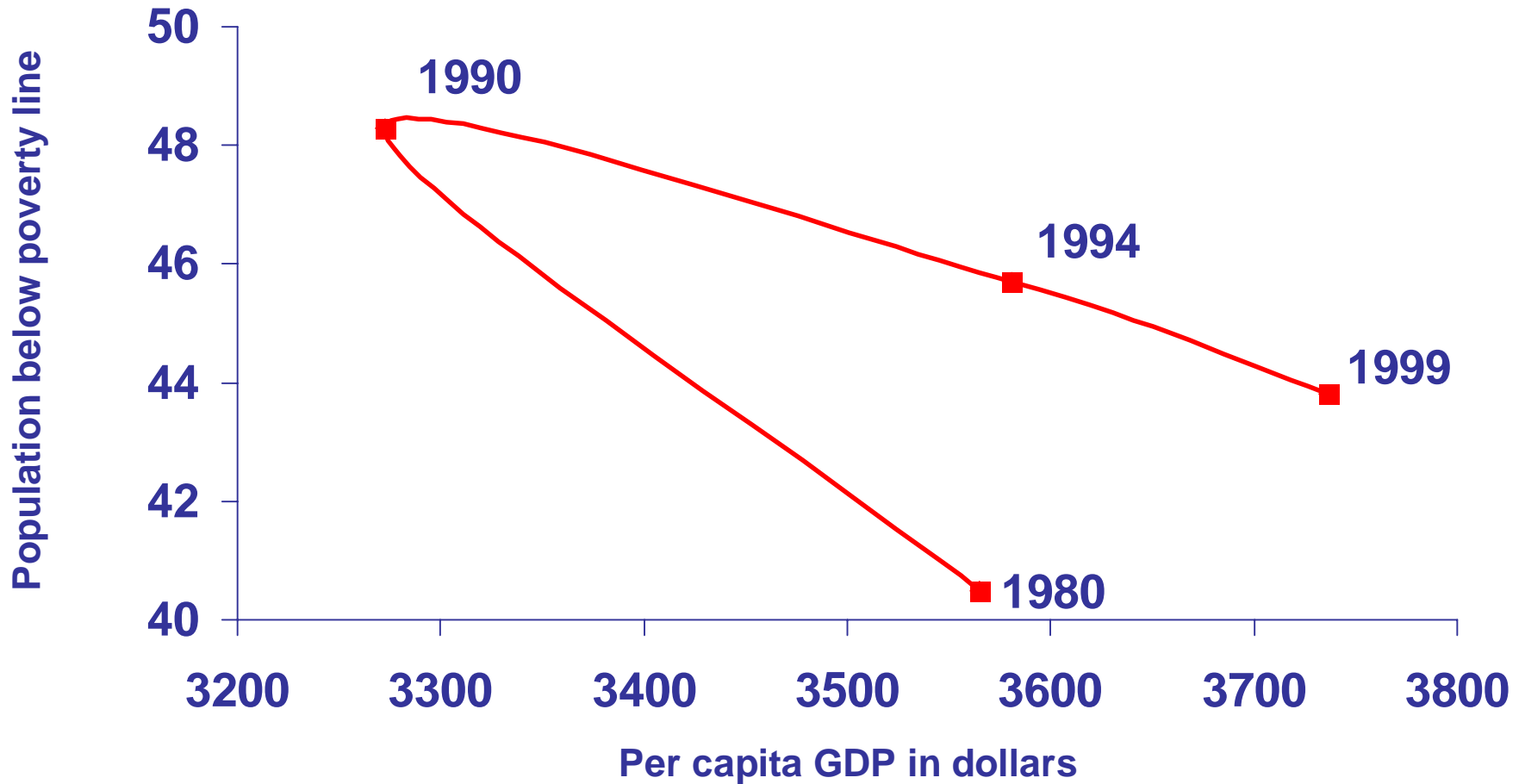
HIGH COSTS OF INSTABILITY

- Defensive microeconomic strategies
- Desincentive to fixed capital investment
- High cost of financial crises
- Sharp swings of intra-regional trade
- Desincentive to permanent job creation
- Ratchet effects of business cycles on poverty

SHARP SWINGS OF INTRA-REGIONAL TRADE



RATCHET EFFECTS OF BUSINESS CYCLES ON POVERTY



BASIC PROBLEM: MACROECONOMIC AND FINANCIAL ASYMMETRIES

- Large differences in financial development
- Pro-cyclical capital flows
- Pro-cyclical macroeconomic policies

IT IS ESSENTIAL TO REDUCE MACROECONOMIC VOLATILITY THROUGH AN INTEGRATED RESPONSE

- National
- Regional
- International

DOMESTIC POLICY RESPONSE: BROAD VIEW OF MACROECONOMIC STABILITY

- Real instability is very costly.
- Nominal (inflation, budget deficits) as well as real targets (stable growth, employment, poverty reduction) are needed
- Public as well as private sector imbalances matter
- Flows as well as balance sheets matter (domestic financial sector, proper national liability structures)

DOMESTIC POLICY RESPONSE: BROAD VIEW OF MACROECONOMIC STABILITY

- Flexible macroeconomic policies
 - Medium-term fiscal framework, based on structural targets
 - Room for anti-cyclical monetary policies
 - Managed exchange-rate flexibility
- Liability policies: prudential approach
 - Improve external and internal debt maturities
 - Reduce exchange-rate mismatches
- Strong financial sector regulation and supervision
- Deep financial sectors

REGIONAL STRATEGY

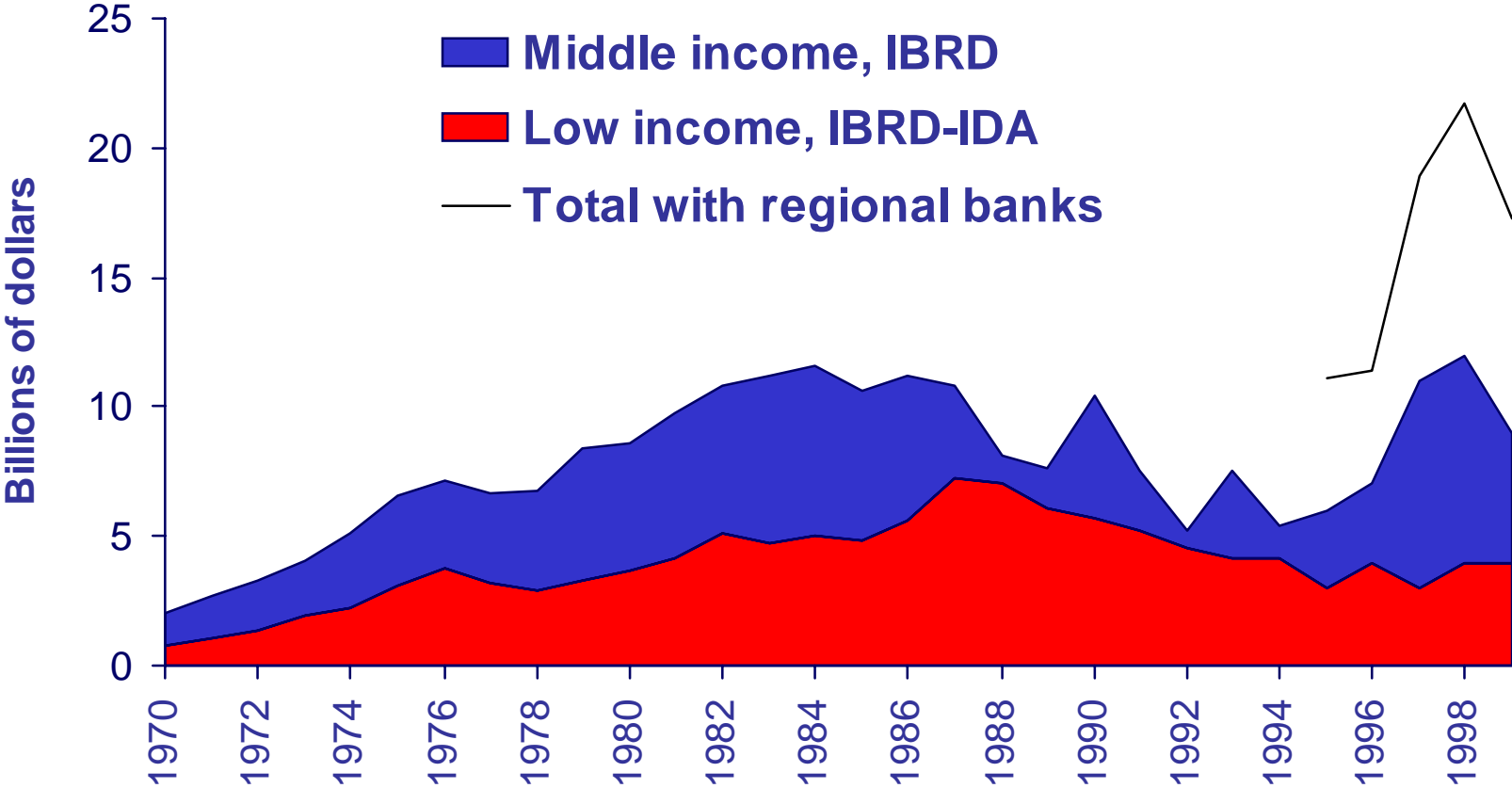
- Enhance the role of regional financial institutions:
 - Development banks
 - Reserve funds or swap arrangements
- Macroeconomic and financial policies
 - Exchange of information
 - Peer review
 - Common macroeconomic targets
 - More explicit policy coordination

...eventually leading to common currency areas

INTERNATIONAL FINANCIAL REFORM: OBJECTIVES

- Reduce instability of capital flows in source countries
- Critical role of multilateral financing:
 - Guarantee access to countries that lack it
 - Anti-cyclical financing

ANTI-CYCLICAL FINANCING HAS BEEN AN ESSENTIAL FEATURE OF MULTILATERAL DEVELOPMENT BANKS



INTERNATIONAL FINANCIAL REFORM: COMPREHENSIVE APPROACH

- Stronger macroeconomic surveillance, with preventive focus
- More information and better prudential regulation of financial markets
- The IMF should gradually become a (quasi) lender of last resort, with active use of SDRs
- Multilateral mechanisms to deal with debt overhangs, with a focus on solvency issues

INTERNATIONAL FINANCIAL REFORM: COMPREHENSIVE APPROACH

- Meet ODA targets
- Enhanced role of multilateral development banks: anti-cyclical, catalytic role
- Clear redefinition of the scope of conditionality
- Autonomy of developing countries to choose exchange rate regime and capital account regulation
- More balanced representation of developing countries in IFIs

RECOGNIZE THE SYNERGIES BETWEEN REGIONAL AND WORLD INSTITUTIONS

- The IMF of the future as a network of regional reserve funds
- Network of surveillance of macroeconomic and financial policies
- Network of development banks

IFIs SHOULD HAVE AS A MAJOR TASK TO SUPPORT THE CREATION OF THESE NETWORKS

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