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CAPITAL FLOWS, CRISIS MANAGEMENT AND MONETARY INDEPENDENCE

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Capital Flows, Crisis Management and
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- Emergency Financing
- Debt workouts and PSI

Crisis Characteristics

- Today's crises involve problems and concerns on:
 - Worthiness of the balance sheet of the economy
 - Exchange rate dynamics
- Vulnerability factors originate in:
 - Volatility and contagion: Too much capital inflows before the crisis and too little once the crisis hit.
 - Procyclical management of macro domestic policy
 - Periods of substantially misaligned exchange rate
 - Non performing loans
 - Maturity and currency mismatches
 - LAC economies are dependant on capital inflow

Latin America and the Caribbean: net flows of long term debt (Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Flujo neto de deuda de largo plazo	9 228	7 482	8 470	21 709	18 125	34 535	38 837	35 637	65 703	19 347	13 251
Fuentes públicas	6 694	2 871	1 152	2 658	-1 300	9 284	-8 270	-4 545	9 100	2 241	-2 701
Multilaterales	4 214	1 578	0 935	2 443	-424	1 662	2 545	4 249	11 321	6 954	2 435
Banco Mundial	2 939	406	-871	480	-1 242	-89	363	744	2 409	2 150	1 963
BID y otros bancos de desarrollo	1 274	1 173	1 806	1 963	818	1 752	2 182	3 505	8 913	4 804	472
Bilaterales	2 480	1 293	217	215	-877	7 622	-10 815	-8 794	-2 222	-4 713	-5 136
Privadas	2 534	4 611	7 318	19 051	19 425	25 251	47 106	40 182	56 603	17 106	15 952

Fuente: Global Development Finance 2001, The World Bank

Latin America and the Caribbean: external resources (Net flows in millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 ^a
A. Deuda											
Oficial ^b	6 823	3 435	1 220	2 674	-1 301	9 307	-8 212	-4 447	9 125	2 275	-2 701
Bonos	101	4 133	4 738	20 922	14 306	11 793	29 764	10 562	18 306	19 067	10 965
Bancos comerciales ^c	2 731	1 275	4 302	201	6 212	15 068	16 200	29 646	-7 994	-16 130	4 339
B. Inversión											
Directa	6 758	11 066	12 506	10 363	23 706	24 799	39 387	55 580	61 596	77 047	57 410
Accionaria	896	6 938	8 042	27 185	13 160	7 643	13 893	9 947	1 748	3 893	2 305
C. Donaciones^d	2 350	4 165	2 622	2 908	2 645	3 333	3 181	2 719	3 215	2 949	3 100
D. Fondos compensatorios^e	24 228	12 781	9 268	-3 186	5 293	30 418	-1136	-4 038	8 861	5 790	-7 749

Fuente: CEPAL, sobre la base de cifras oficiales, del Banco Mundial, del Fondo Monetario Internacional y del Banco de Pagos Internacionales.

^a Estimaciones preliminares.

^b Incluye financiamiento bilateral y multilateral, excluido préstamos del FMI.

^c Desde 1998 incluye flujos de corto plazo.

^d Excluye la cooperación técnica.

^e Incluye préstamos y uso del crédito del FMI y financiamiento excepcional. A comienzos del decenio de 1990, el financiamiento excepcional incluyó principalmente intereses morosos; en cambio, en los últimos años incluye recursos de organismos multilaterales, aparte del FMI y de gobiernos de países desarrollados.

Net resource transfers ^a (% of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 ^b
Latin America	-1.6	0.4	2.1	2.3	0.7	1.2	1.3	1.7	1.4	-0.1	0.0	-0.2
Argentina	-4.1	-0.8	2.8	3.9	3.1	0.1	2.0	3.2	3.6	2.0	0.4	-4.6
Brazil	-1.6	-2.1	0.1	-0.4	-0.1	2.8	2.5	0.8	0.9	-0.2	0.8	1.4
Chile	2.9	-2.3	3.4	2.4	3.9	-1.0	2.8	5.5	0.0	-3.8	-1.7	-2.6
Colombia	-5.6	-6.5	-3.7	1.5	3.0	3.2	4.5	3.6	2.1	-2.0	-1.7	-0.4
Mexico	0.9	4.7	4.5	4.6	-0.2	-0.5	-2.8	1.3	1.2	0.3	1.1	1.7

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

^a The net transfer of resources is equal to net capital inflows (including non-autonomous flows and errors and omissions) minus the balance of the income account (net payments of profits and interests). Negative figures indicate net outward resource transfers.

^b Preliminary figures.

Net resource transfers ^a (% of GDP)

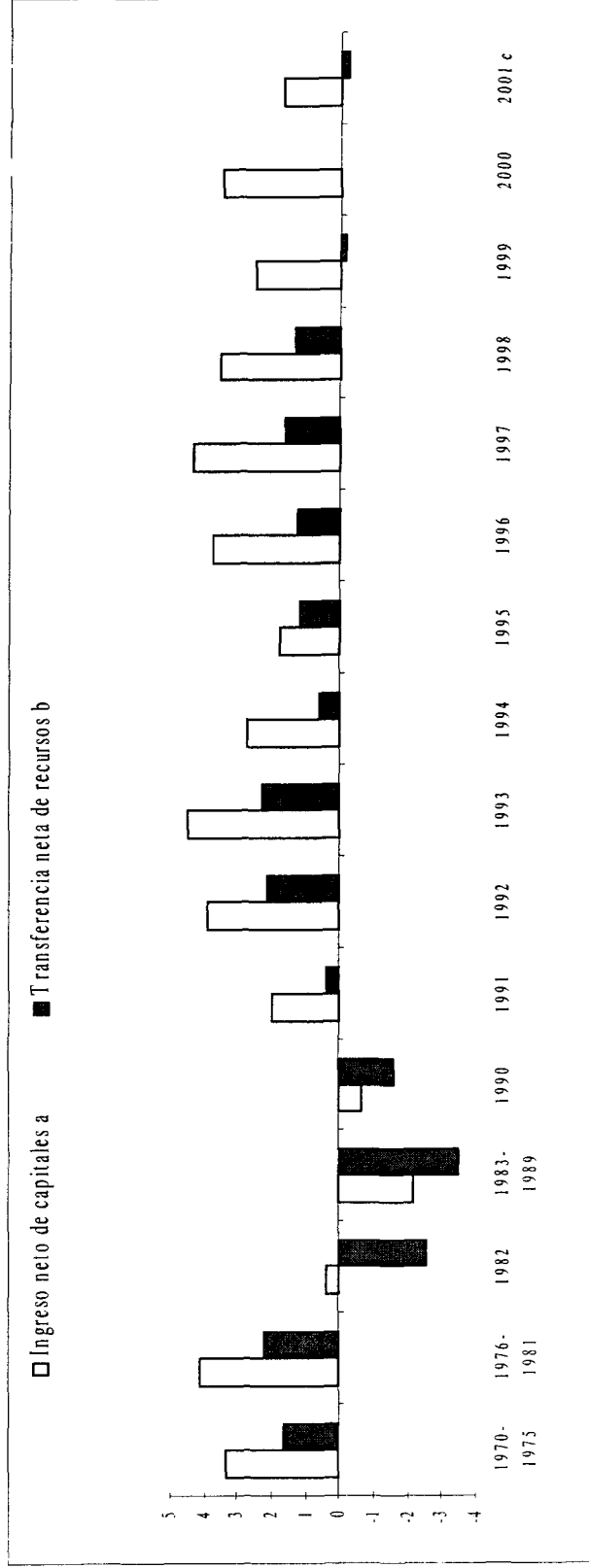
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 ^b
Latin America	-1.6	0.4	2.1	2.3	0.7	1.2	1.3	1.7	1.4	-0.1	0.0	-0.2
Argentina	-4.1	-0.8	2.8	3.9	3.1	0.1	2.0	3.2	3.6	2.0	0.4	-4.6
Brazil	-1.6	-2.1	0.1	-0.4	-0.1	2.8	2.5	0.8	0.9	-0.2	0.8	1.4
Chile	2.9	-2.3	3.4	2.4	3.9	-1.0	2.8	5.5	0.0	-3.8	-1.7	-2.6
Colombia	-5.6	-6.5	-3.7	1.5	3.0	3.2	4.5	3.6	2.1	-2.0	-1.7	-0.4
Mexico	0.9	4.7	4.5	4.6	-0.2	-0.5	-2.8	1.3	1.2	0.3	1.1	1.7

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

^a The net transfer of resources is equal to net capital inflows (including non-autonomous flows and errors and omissions) minus the balance of the income account (net payments of profits and interests). Negative figures indicate net outward resource transfers.

^b Preliminary figures.

Latin America and the Caribbean: net capital inflows and net capital transfers (% of GDP)



- Fuente: CEPAL, sobre la base de cifras oficiales y del FMI.
- ^a Ingreso neto de capitales autónomos (incluidos los errores y omisiones). ^b La transferencia neta de recursos equivale al ingreso neto de capitales autónomos y los no autónomos (Préstamos y uso del crédito del FMI y Financiamiento Excepcional) menos el saldo en la Cuenta de Renta (utilidades e intereses netos).
- ^c Cifras preliminares.

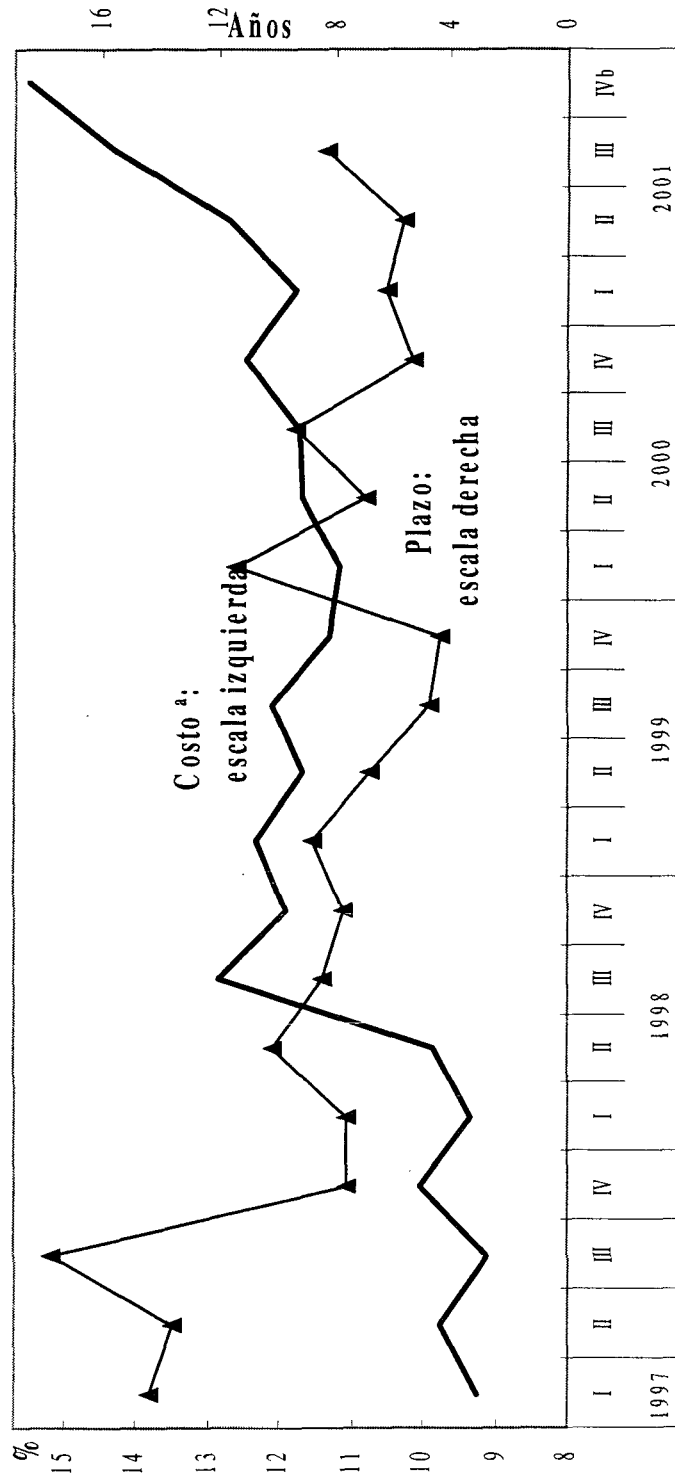
Correlations in total returns of the EMBI+ for select Emerging Markets

	ARGENTINA	BRAZIL	BULGARIA	ECUADOR	PHILIPPINES	MOROCCO	MEXICO	NIGERIA	PANAMA	PERU	POLAND	RUSSIA	VENEZUELA
ARGENTINA	1	0.81	0.77	0.50	0.15	0.80	0.74	0.74	0.81	0.78	0.77	0.40	0.81
BRAZIL		1	0.97	0.71	0.20	0.98	0.97	0.96	0.98	0.98	0.97	0.63	0.99
BULGARIA			1	0.65	0.11	0.98	0.98	0.94	0.96	0.98	0.96	0.53	0.97
ECUADOR				1	0.72	0.64	0.66	0.81	0.74	0.71	0.71	0.89	0.73
PHILIPPINES					1	0.11	0.09	0.36	0.28	0.24	0.24	0.74	0.23
MOROCCO						1	0.99	0.95	0.98	0.98	0.96	0.55	0.98
MEXICO							1	0.94	0.96	0.96	0.96	0.55	0.97
NIGERIA								1	0.98	0.97	0.97	0.69	0.97
PANAMA									1	0.99	0.97	0.64	0.98
PERU										1	0.97	0.62	0.97
POLAND											1	0.58	0.66
RUSSIA												1	0.66
VENEZUELA													1

Source: Bloomberg, on the basis of JP Morgan figures.

^a Data from 12/31/93 to 01/18/2002 of the EMBI + (excluding Qatar, South Korea, Turkey and Ukraine).

Condiciones de las emisiones internacionales de bonos



Facing Crisis

- Different combinations of vulnerability factors determine the depth of the crisis and the strategy to face it.
- Liquidity vs solvency problems.
- Availability of policy instruments
 - Exchange rate
 - Interest rate
 - Fiscal Policy
 - Capital account regulations
- Crisis are not only financial problems but they involve large and lasting real and social costs.

Managing Crisis

- Managing crisis implies large problems for public policies:
 - Speed: intervention must be implemented quickly
 - Cost: magnitude and distribution
- Crisis prevention is a key element of crisis management
 - Anticyclical macroeconomic policies
 - Capital account regulation
 - Stabilization and liquidity funds.
- Three stages from the moment a country is hit by a crisis:
 - Initial attempt to defend the currency
 - IMF and official rescue programs or PSI
 - Rescue programs on the real economy

Exchange Rate

- Even though there are cost in adjusting the exchange rate, it seems better to let an adjustment in early stages of a crisis. Cost of unsuccessful defense are large.
- Neither unsterilized intervention nor interest rate defense have avoided exchange rate adjustments.
- Liquidity provision can help smooth exchange rate adjustments: IMF complemented by Regional Funds
- Capital regulation are an option to smooth exchange rate adjustment
- Flexible regimes are better for crisis management and prevention.

Emergency Financing

- Temporary issue of SDRs should become the major source for IMF emergency financing
- Access to contingency credit lines should be improved:
 - Speed up
 - Avoid stigmatization
- Regional arrangements should complement IMF:
 - Providing liquidity
 - Sustain trade links
 - Access to private capital markets
- Conditionality should be more tailor made to specific circumstances
- Difficulties to differentiate between liquidity and solvency problems imply that debt workouts should be a complement to emergency financing.

IMF loans and credits and exceptional financing ^a (Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001 ^b
Latin America (19 countries)	24 228	12 781	9 268	-3 186	5 293	30 418	-1 136	-4 038	8 861	5 790	-7 749	17 278
IMF loans and credit	1 202	-1 072	-1 289	-1 019	-1 352	12 991	-1 667	-4 045	2 916	-896	-10 797	15 968
Exceptional financing	23 026	13 853	10 557	-2 168	6 646	17 427	531	7	5 945	6 687	3 048	1 310
Argentina, Brazil and Mexico (as % of total)	61.0	63.2	54.3	...	14.8	92.5	...	87.2	85.8	77.2	...	93.2
Argentina	3 739	2 846	1 574	-6 840	1 364	2 221	616	-33	-654	-826	778	9 400
IMF loans and credit	-257	-590	131	1 214	460	1 916	366	-33	-654	-826	778	9 400
Exceptional financing	3 996	3 436	1 443	-8 054	904	305	250	...	...	...	...	...
Brazil	10 000	5 055	4 031	1 819	617	-49	-286	...	9 329	8 983	-10 322	6 700
IMF loans and credit	-771	-566	-399	-504	-133	-49	...	...	4 789	4 059	-6 876	6 700
Exceptional financing	10 771	5 621	4 430	2 323	750	...	-286	...	4 540	4 924	-3 446	...
Mexico	1 043	181	-572	-1 175	-1 199	25 960	-2 057	-3 487	-1 072	-3 685	-4 286	...
IMF loans and credit	958	161	-572	-1 175	-1 199	11 950	-2 057	-3 487	-1 072	-3 685	-4 286	...
Exceptional financing	85	20	...	...	...	14 010	...	...	...	...	...	...

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

^a In the beginning of the 90's, the exceptional financing included principally **intereses morosos**, but in the last years, it includes resources of multilateral organisms (without IMF) and resources from governments of developed countries.

^b Preliminary estimates

Debt workouts and PSI

- This is one of the core issues in the current debate:
 - Case by case and voluntary basis
 - Orderly debt work out procedures
- Need for an appropriate mix of finance adjustment and conditionality
- Role for IFI:
 - Speed up and facilitate debt workout procedures
 - Establish multilateral rules and arbitration mechanisms for standstills
 - Evaluation and support to bonded debt restructuring comparable to Paris Club and consistent with medium term debt sustainability
 - Facilitate HIPC initiative for eligible countries

