

Macroprudential and capital flow management measures: insights from a Latin American economy

Horacio Aguirre - Economic Research, Central Bank of Argentina (BCRA)

“Sharing lessons and policy experiences for mobilising financial resources for development in the time of crisis”

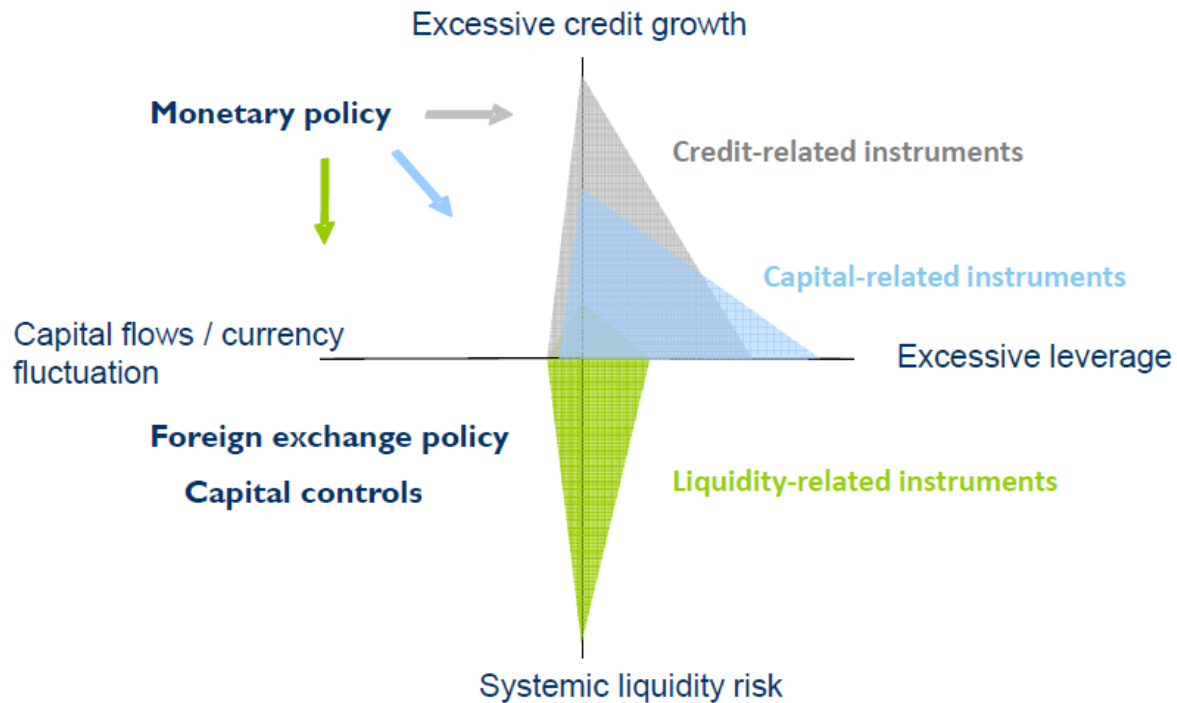
UNCTAD – virtual event

7 July 2022



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Note: all views are the discussant's own and do not necessarily represent those of BCRA.



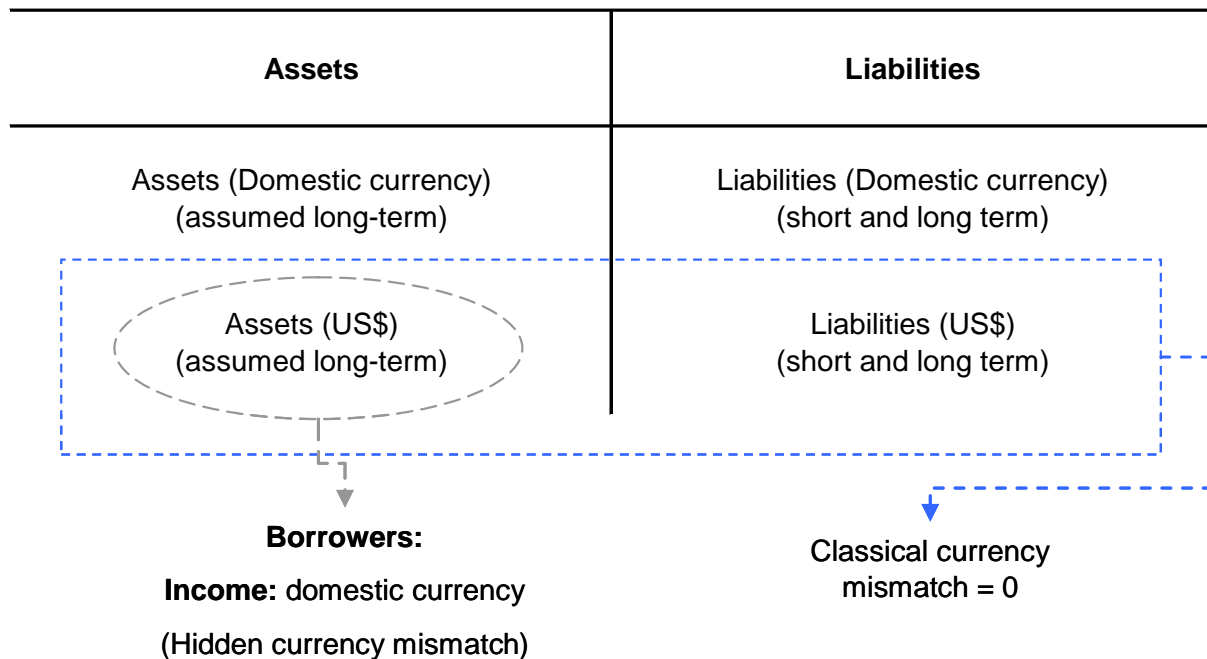
Source: own elaboration based on Lim et al. (2011)

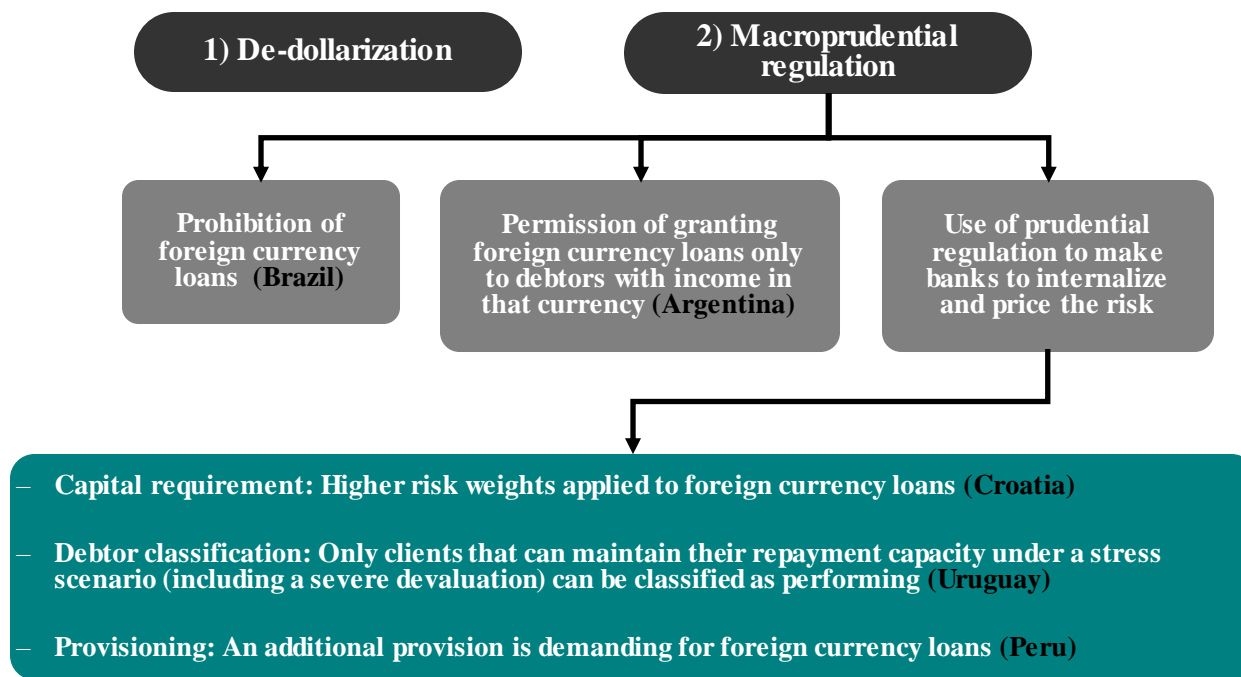
The financial stability rationale behind MPP, FXI and CFMs

Focus on

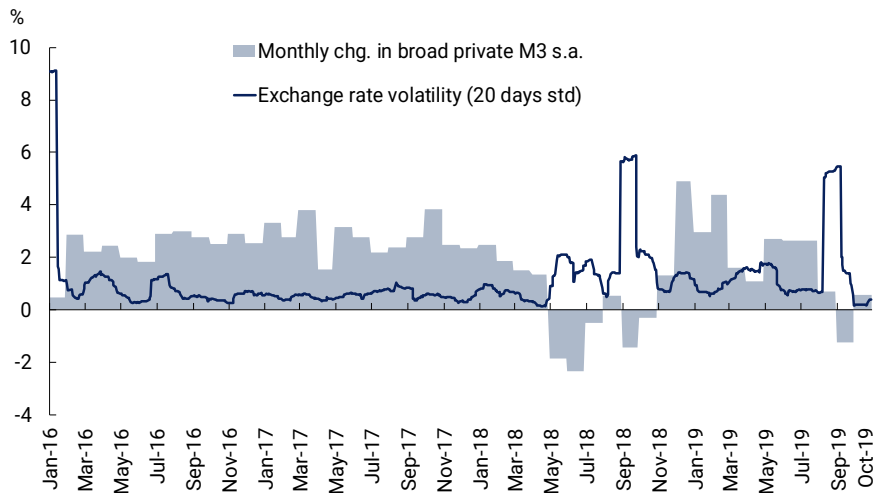
- Balance sheet effects
- “Hidden” currency mismatches
- Destabilizing FX volatility
- Limited market development
- Currency substitution rather than intertemporal substitution

EME banks balance sheets



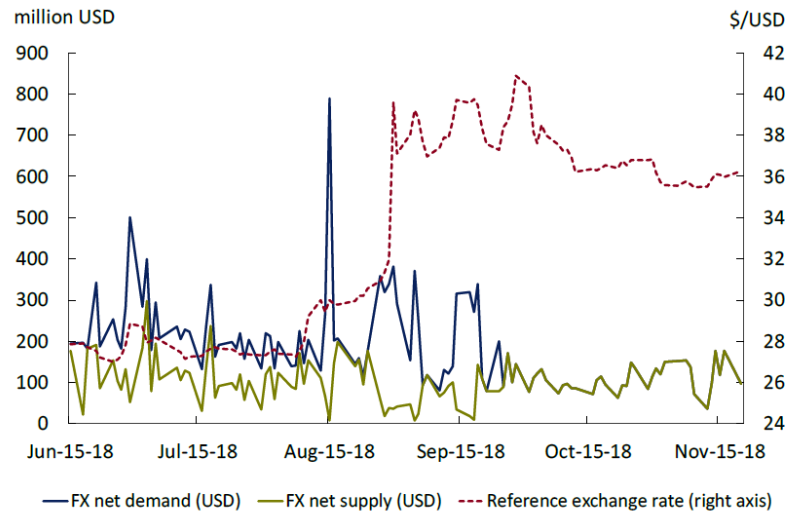


Argentina: fx volatility and savings in local currency

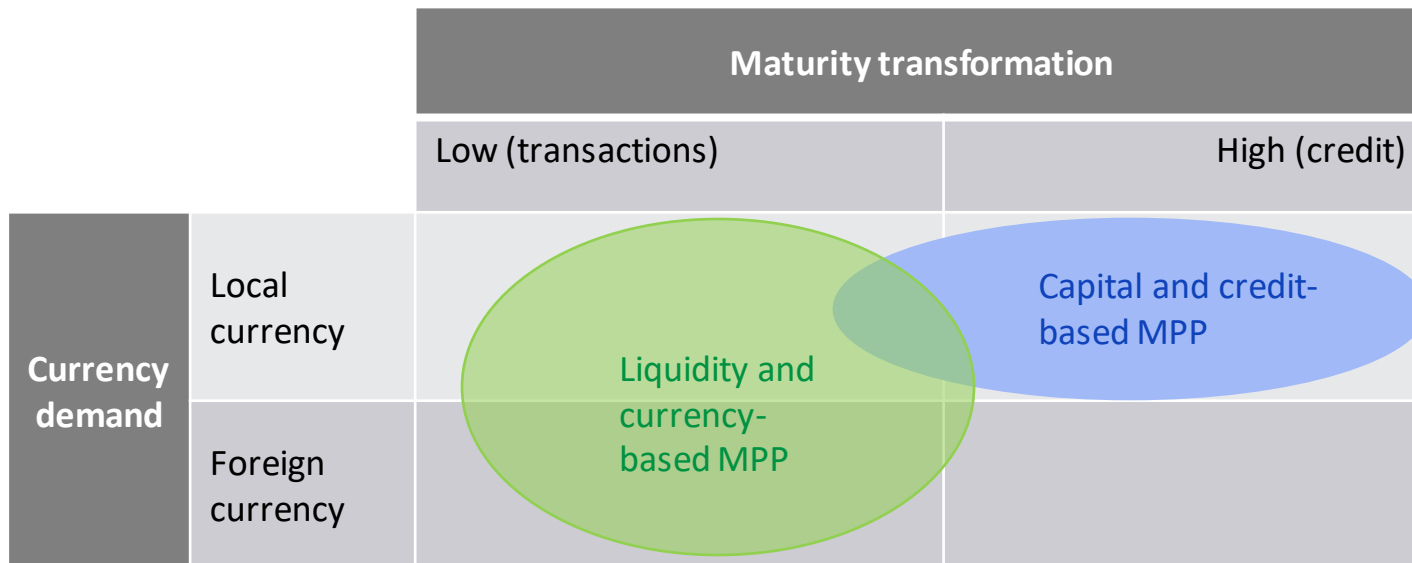


Source: Carrera, Aguirre and Raffin (2020)

Argentina: interbank fx market net supply and demand

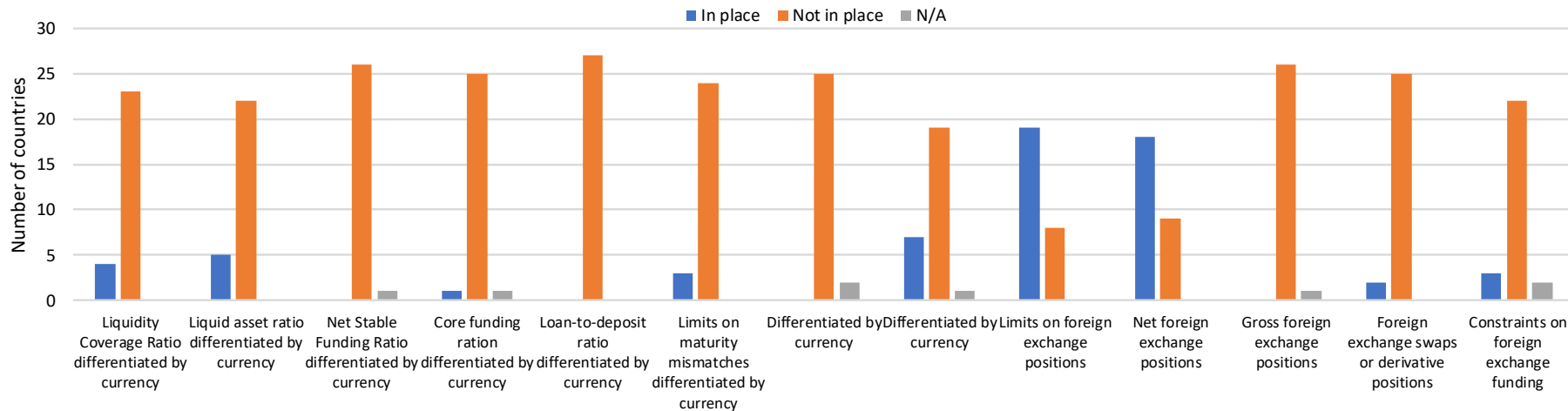


Source: Aguirre, Cañonero and Torriani (2019)



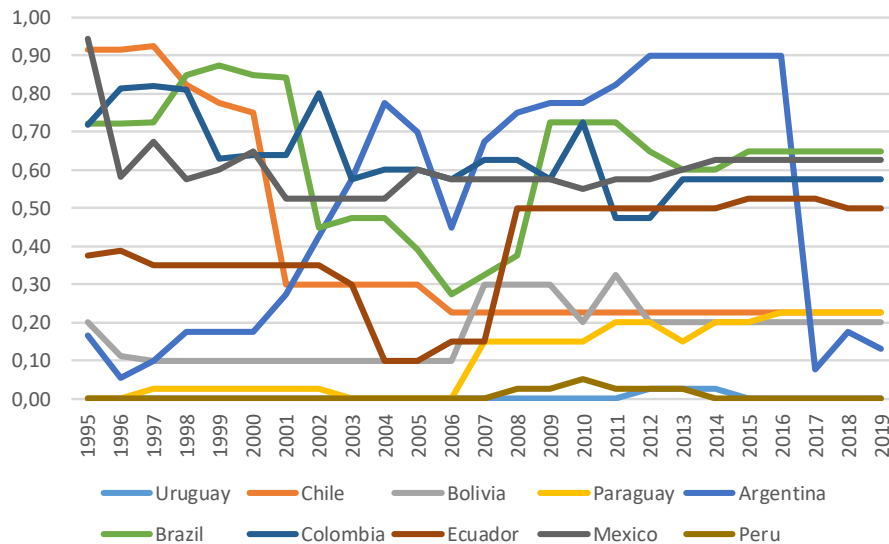
- Local currency market development together with higher foreign investors' base
- If they evaluate gains and losses in USD, unhedged holdings of EME local currency bonds increase the risk exposure for the investors
- Fx risk shifted from borrowers to lenders.
- Generalized EME Fx depreciation can trigger sales, pushing up bond spreads (also: pressure on reserves if CB wants to moderate depreciation)
- Takeaways (Shin et al 2020): need sound policy frameworks, plus regional and global FSN, plus a **strong domestic investor base**

Currency-based Macprudential Measures (27 countries from Latin American & The Caribbean, 2018)



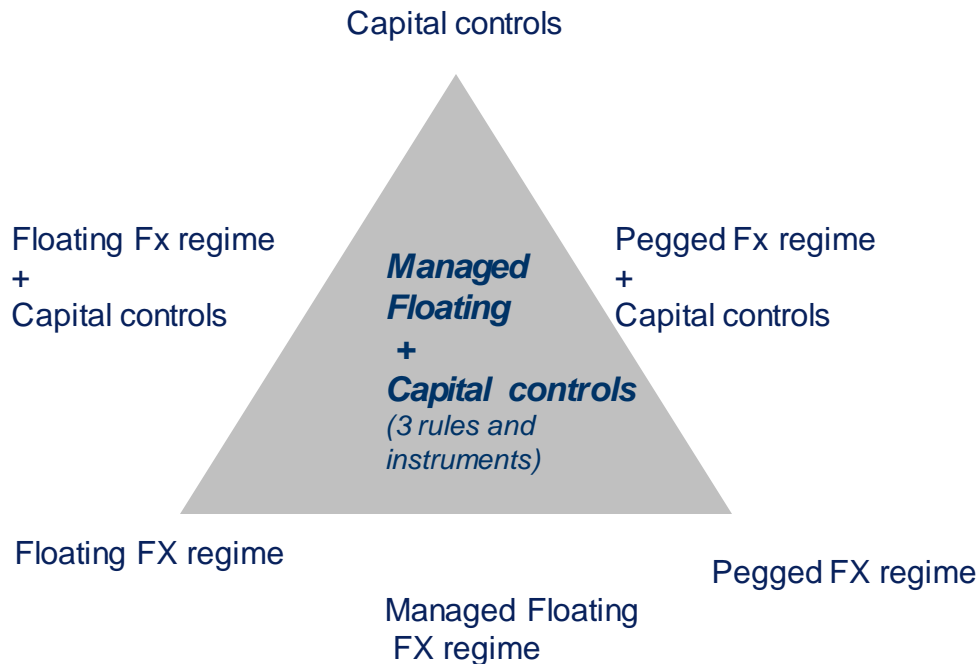
BCRA based on the IMF's Macprudential Policy Survey database

Capital flows overall restrictions index: selected Latin American countries, 1995-2019



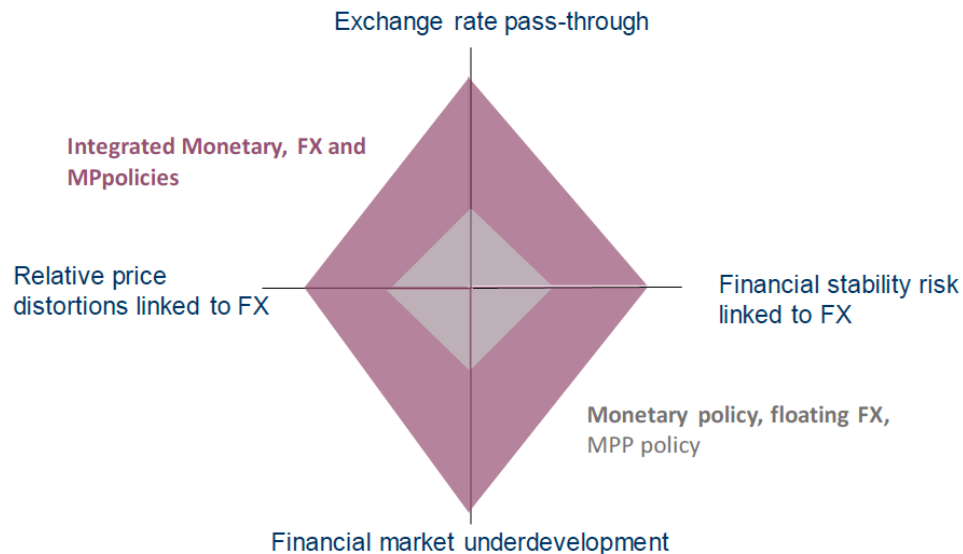
Source: Fernández, Klein, Rebucci, Schindler and Uribe (2016)

- Beware of fast and strong deregulation of capital flows (sequencing, sectoral orientation, etc.)
- Beware of “corner” Fx regimes
- Beware of (hidden) currency mismatches: currency-based MPP pays.
- Development of LCBMs is no “silver bullet” for financial stability and financial sector development. Role of NBFi.
- Covid-19 crisis: CFMs gave (temporary) policy space



Source: Escudé (2015)

- Monetary, FX, Macropru and CFMs. Recent work by IMF (IPF, IV review) and BIS.



Source: Aguirre et al (2018)

Thank you!