



MONEY, FINANCE AND CAPITAL FOR THE NEXT DECADE

The 10th Annual Conference by
The Central Reserve Bank of Peru
and
The Reinventing Bretton Woods Committee

Sacred Valley, Peru Hotel Tambo Del Inka

July 23-25, 2018

Monday, July 23

14:00 – 18:00

Welcome Participants and Sightseeing Tour

20:00 – 22:00

Cocktail Reception

Offered by the Governor of the Central Reserve Bank of Peru

Tuesday, July 24

8:30 – 8:45

Welcome Coffee and Registration

8:45 – 9:00

Opening Remarks

- ❖ **Julio Velarde**, Governor, Central Reserve Bank of Peru
- ❖ **Marc Uzan**, Executive Director, Reinventing Bretton Woods Committee
- ❖ **Alejandro Izquierdo**, Chief Economist, IADB

9:00 – 10:30

Session I: Benign Normalization? Is the Macro Economic Equilibrium Being Restored?

Chair:

- ❖ **Pilar L'Hotellerie-Fallois**, Associate General Director of International Affairs, Bank of Spain

Speakers:

- ❖ **Catherine Mann**, Global Chief Economist, Citi Research
- ❖ **Nouriel Roubini**, CEO and Chairman, Roubini Macro Associates, and Professor of Economics at NYU Stern School of Business
- ❖ **Keyu Jin**, Professor of Economics, London School of Economics

Advanced economies seem to have embarked into a phase of self-sustained growth. Those results are a testimony to the success monetary policies implemented over the last decade, in very exceptional and challenging circumstances and an environment of great uncertainty. In the US, monetary policy is being progressively normalized. In Europe, the "easing bias" has been abandoned and policymakers have stated that deflation risks have disappeared. Major uncertainties remain Are global markets entering a new era of volatility as the world adjusts to higher interest rates after a decade of ultra-loose monetary policy? Are generalized financial imbalances emerging? Will 2018 be the start of a stronger period of global economic performance or is it already the late cycle exuberance before another crunching halt? Will the high debt level pose new risks to financial stability, Could the debt overhang create new crises? Is the IMS capable of handling potentially large-scale defaults? Could an increased debt service impede economic growth?

10:30 – 11:00

Coffee Break and Photo Session

11:15 – 13:00

Session II: Benign Spillovers? Implications for Capital Flows and Exchange Rates

Chair:

- ❖ **José Dario Uribe**, President, FLAR

Speakers:

- ❖ **Luis Oganes**, Managing Director and Global Head of Emerging Markets Research, JP Morgan
- ❖ **Wilhelmina Mañalac**, Assistant Governor, Central Bank of Philippines
- ❖ **Jonathan Ostry**, Deputy Director, IMF Research Department
- ❖ **Sebnem Kalemli-Ozcan**, Neil Moskowitz Professor of Economics, University of Maryland

Global factors have become important drivers of domestic financial conditions. That concern is especially acute for policymakers in small, open economies and emerging market because they have only limited ability to influence domestic financial conditions. This reality affects not just financial assets, which are easily traded across borders, but also fixed assets that are non-tradable. If these global financial factors are increasingly important, do they pose constraints on policymaking? How have policymakers thought about such constraints? Given the importance of global factors as drivers of domestic financial conditions: Is it possible for policymakers to fulfill their hope of achieving a timely and effective monetary policy? What role do global financial conditions play in driving the behavior of capital flows? What is the role of capital flows measures?

13:00 – 15:00

Lunch

15:00 – 16:15

Session III: An Evolving Policy Monetary Framework? Target and Instruments

Chair:

- ❖ **Andres Fernandez Martin**, Senior Research Economist, IADB

Speakers:

- ❖ **Refet Gurkaynak**, Professor of Economics, Bilkent University
- ❖ **Marek Mora**, Member of the Board, Czech National Bank
- ❖ **Jacob Frenkel**, Chairman, JP Morgan Chase International

- ❖ **Carlos Vegh**, Chief Economist for Latin America and the Caribbean, The World Bank
- ❖ **Tony Volpon**, Managing Director, Chief Brazil Economist, Latin America UBS
- ❖ **Andy Powell**, Principal Advisor of the Research Department, IADB

The world economy needs to tackle the challenges of monetary normalization in advanced countries, including: timing, consequences, and the meaning of normalization. Unwinding these extraordinary policies will be demanding and central banks currently have very little margin to respond should a new crisis arise. This situation creates risks not only for monetary policy makers, but also for the stability of the overall economy. The traditional models that the Federal Reserve and other central banks are using to forecast inflation are backward looking and will unlikely capture current fast moving technological developments. Numerous discussions are under way regarding the adequacy of the current monetary toolbox to address a sharp downturn. Should central banks raise inflation target above the current 2 percent level? What should emerging countries do? Experiences of countries based will be addressed.

16:15 - 16:30

Coffee Break

16:30 – 18:00

Session IV: Transformation of Money and Finance – Can and Should Central Banks Issue Digital Currencies? Will Banks Be Relevant for Payments?

Chair:

- ❖ **Eduardo Suarez**, Vice President for Latin American Economics, Scotiabank

Speakers:

- ❖ **Barry Eichengreen**, Professor of Economics and Political Science, Berkeley Economics at the University of California
- ❖ **Ousmène Mandeng**, Senior Fellow, London School of Economics
- ❖ **José Manuel Gonzalez-Paramo**, Executive Board Member, BBVA
- ❖ **Henning Vöepel**, Director, Hamburg Institute for International Economics and Professor of Economics, HSBA Hamburg School

In the BIS's annual report and central banks around the world have been looking at the future role of crypto assets and the future of digital assets. The associated distributed ledger technology has the potential to question the responsibilities of central banks, including the conduct of monetary policy, ensuring the safeguarding of financial stability, providing for secure and efficient payment and settlements system. How should digital currencies be regulated? What is the future of the banking system and financial intermediation? These are preliminary considerations for this high-level session.

20:00 – 22:30

Dinner

Hosted by the Central Reserve Bank of Peru

Wednesday, July 25

8:30 – 9:00

Welcome Coffee

9:00 – 10:30

Session V: An International Financial System with Multipolarity: Implications for the Global Financial Architecture and Policy Macro Coordination

Chair:

- ❖ **Marc Uzan**, Executive Director, Reinventing Bretton Woods Committee

Speakers:

- ❖ **Carlo Monticelli**, Vice Governor, Council of Europe Development Bank
- ❖ **Joshua Aizenman**, Chair, Professor of Economics, UC California
- ❖ **Pascal Saint-Amans**, Director of Fiscal Affairs, OECD

Is the world facing a global governance disruption and move away from the rules of the game built over many decades? There is also some aspect of innovation has to do with the new economy. Eight of the world's most highly valued companies are technology businesses. With a market capitalization of 4,7 trillion dollars, and a new type of workforce, these companies can have a huge macro impact. It is essential to discuss how intangible assets have transformed the economy and to outline the necessary changes that the financial system and financial institutions will need to undergo to adjust to these new conditions and how international taxation convergence for the new economy might be the new chapter for global governance.

10:30 – 10:45

Coffee Break

10:45 – 12:30

Session VI: Money Finance Capital for the Next Decade: The Return of the Great Moderation?

Chair:

- ❖ **Julio Velarde**, Governor, Central Reserve Bank of Peru

Speakers:

- ❖ **Jacob Frenkel**, Chairman, JP Morgan Chase International
- ❖ **Alejandro Izquierdo**, Chief Economist, IADB
- ❖ **Carlos Fernandez Valdovinos**, Governor, Central Bank of Paraguay
- ❖ **Carlos Vegh**, Chief Economist for Latin America and the Caribbean, The World Bank

Contrary to previous periods of monetary tightening the current tightening cycle in the United States, financial conditions are not actually tightening. In fact, they have eased somewhat. Is it the return of the great moderation?

Amongst the many lessons to be drawn from the experience in the last decade, that will be discussed by the panellists *Reconciling price and financial stability is more difficult than was expected*.

The difficulty was not apparent before the crisis. In retrospect as the "Great moderation" was partly an illusion. Monetary policy was successful in engineering a sustained period of stable growth and stable prices. Beneath the surface, however financial imbalances developed with excess leverage, dangerous maturity transformation and credit booms. Once the crisis erupted, those imbalances led to a paralysis in most money and debt markets, and the transmission mechanisms of monetary policy were severely impaired. Central Banks had to intervene forcefully and took a de facto intermediation role.

❖ *Low interest rates and the zero-lower bound are effective constraints*

All advanced economies have hit the zero-lower bound in the last decade. All have consequently adopted unconventional monetary policies, through forward guidance, asset purchases, and, in the Euro area, negative interest rates, in order to push down the yield curve and long-term interest rates. Those policies have been extremely successful in avoiding deflation

Those two phenomena – financial instability and low interest rates – are related. In particular, low interest rates may fuel instability by encouraging risk taking and the search for yield. Unconventional monetary policies, while very effective, come with some negative side effects on financial stability. Overall, if advanced economies move towards a permanent low interest rate regime, the trade-off between price and financial stability will worsen permanently.

12:30 – 14:30

Lunch and Participant Departure