



**BANCO CENTRAL DO BRASIL**



**EUROPEAN CENTRAL BANK**

**BANCO DE ESPAÑA**

## **PRESS RELEASE**

### **Second High-Level Seminar of the Eurosystem and Latin American Central Banks held in Rio de Janeiro on 26 November 2004**

The Second High-Level Seminar of the Eurosystem and Latin American Central Banks took place today in Rio de Janeiro. The Seminar was hosted by the Banco Central do Brasil and jointly organised together with the European Central Bank and Banco de España. A workshop at expert level to prepare this Seminar had been held in Lisbon on 14-15 October 2004, organised by the Banco de Portugal and the European Central Bank.

Today's Seminar was attended by Governors and high-level representatives of Latin American and Eurosystem central banks, as well as by high-level representatives of the Inter-American Development Bank, the UN's Economic Commission for Latin America and the Caribbean (ECLAC), the Center for Latin American Monetary Studies (CEMLA) and the Central American Monetary Council. The aim of the Seminar was to continue the policy dialogue between central bankers of Europe and Latin America that was initiated at the first Seminar in Madrid in 2002.

The discussion today focused mainly on the fiscal, external and financial system environment under which central banks operate, and reviewed the various experiences in both regions.

#### **Fiscal environment**

The first session discussed the role, desirability and feasibility of fiscal rules versus market-based mechanisms as a way to achieve fiscal discipline, against the background of the European and Latin American experiences in recent years. These experiences have highlighted the relevance of a firm fiscal policy anchor for monetary policy, as well as the challenges posed to the conduct of monetary policy in the absence of such an anchor. It was noted that Europe's rules-based framework for fiscal policy had helped reduced fiscal deficits in the context of the introduction of the single currency and should remain in place in the future, while its implementation should be strengthened. In Latin America, the implementation of an explicit rules-based framework for fiscal policy remained challenging in light of the

underlying structural characteristics of many economies in the region, although some institutional arrangements could play an analogous role. However, the successful experience with fiscal rules in some economies, coupled with the progress in terms of fiscal consolidation and the improvement in the overall domestic fiscal framework in the region in recent years, was regarded as very encouraging.

### **External environment**

The second session focused on the trade-off central banks face in pursuing price stability and financial stability in the context of vulnerabilities through external debt and external financial shocks. The importance of central bank independence that has been enhanced in both Europe and Latin America in the last decades was underscored. In the latter region, however, external debt dynamics and sustainability concerns may still affect the conduct of monetary policy in a number of countries. The successful reduction of these vulnerabilities by several Latin American economies in recent years was recalled and the importance of increasing private and public saving in the continuation of this process was recognised.

### **Financial system environment**

The third session explored the importance of financial structure and the degree of financial market development for the conduct of monetary policy, comparing the experience of Latin American and European economies. It was noted that the effectiveness of central bank policy in transmitting monetary impulses depends, among other factors, on its credibility, the financial structures of an economy and the degree of financial development. It was further emphasised that the financial set-up may largely define the type of shocks central banks may have to respond to. In both regions, due to the dominance of banks in the financial system, the credit channel for the monetary policy transmission mechanism was deemed to be essential, though its relative importance in some countries was thought to be on the decline. In addition, ways to improve the smooth functioning of the monetary transmission mechanism in Latin America were discussed, including the deepening of capital markets and the reduction of distortions from taxation instruments.

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Governors thanked the Banco Central do Brasil for the outstanding organisation of today's Seminar in Rio de Janeiro and underscored the value of this unique form of policy dialogue between Latin America and Europe, which they will continue in the future.

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