



Seminário Internacional
**Desafios e Oportunidades para a Integração
Financeira e Monetária na Região**

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Regional Monetary Integration Perspective

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Overview: Key Messages of Report

- Key message of report: **Virtuous currency internationalisation** that fosters ‘real’ regional integration (trade and production)
- **Regional currency internationalisation** is the use of regional currencies as unit of account (trade and financial transactions), means of settlement (trade and financial), (and store or value)
- **Variegated** currency internationalisation and **structural hurdles** for emerging market currencies

Overview : Challenges to Virtuous Currency Internationalisation

1. Microeconomic and **macroeconomic** challenges
2. Currency internationalisation and **public policy** ('proactive' currency internationalisation)

Microeconomic Challenges

- Regulatory heterogeneity (Ernani et al.)
- Institutional heterogeneity and underdevelopment
 - **Recommendation 1:** Develop and extend regional payment, clearing and settlement mechanisms (SML)
 - **Recommendation 4:** Commission a study of the costs and benefits of introducing regional currency derivatives to hedge regional exchange rate risk

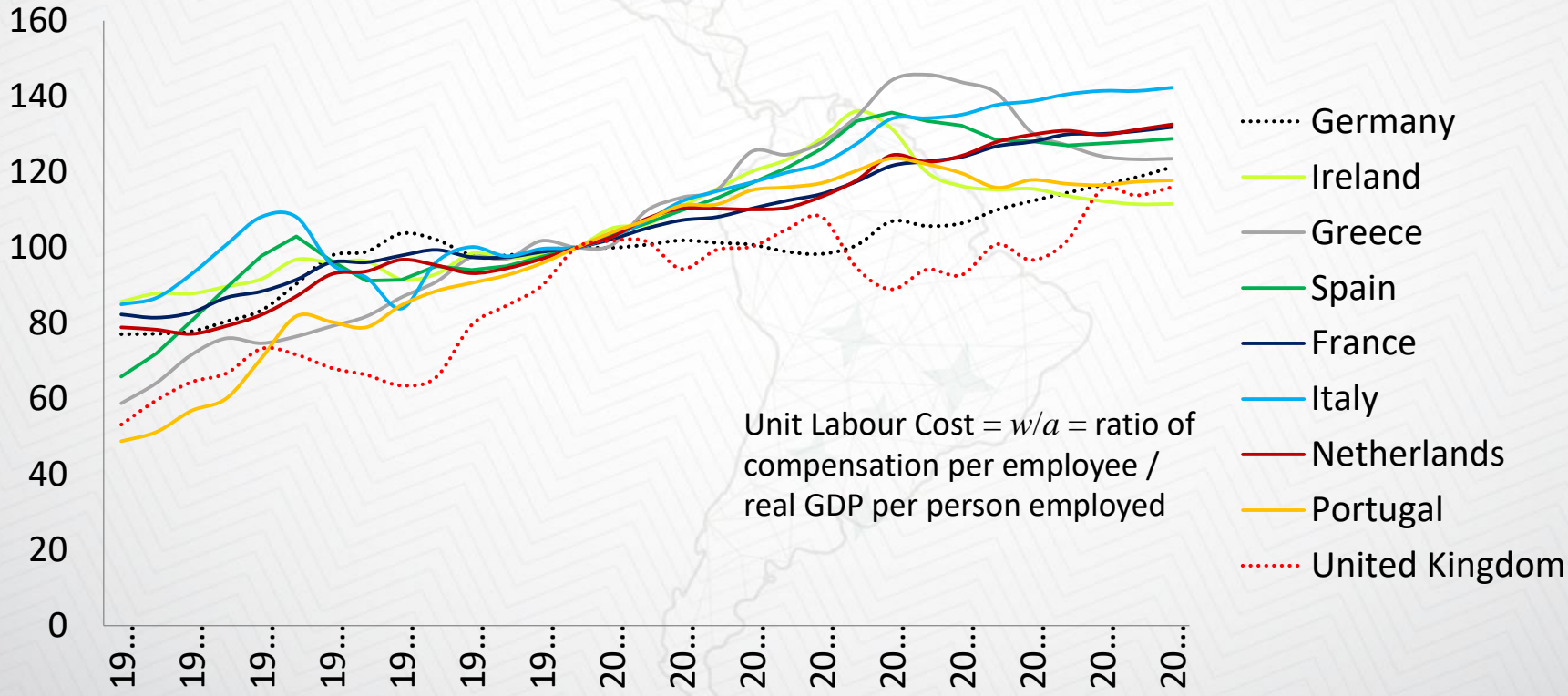
Macroeconomic Challenges

- No virtuous currency internationalisation will happen in the context of **excessive macroeconomic volatility** and **misalignment of key macroeconomic variables**
 - High volatility of emerging market currencies often independent of domestic economic conditions (push vs. pull factors)
 - Macroeconomic misalignment (interest rates, fiscal situation, **prices...**)

Macroeconomic Challenges:

Macroeconomic Misalignment in Europe

Competitiveness (nominal ULC, index: 2000=100)



Macroeconomic Challenges

- **Recommendation 3:** Enhance collaboration, macroeconomic and regulatory coordination, and harmonization between central banks and regulatory agencies
 - Key macroeconomic variables (Europe: Macroeconomic Imbalance Procedure)
 - Exchange Rate > need for regional exchange rate management
 - Parity? Exchange rate regime?
 - Impossible Trinity/Duality
- Country heterogeneity possible with solidarity

Macroeconomic Challenges

- **Recommendation 6:** Maintain countercyclical macro-prudential measures as part of the macroeconomic toolkit
 - Both regional and external
 - Regulatory convergence
 - Aims beyond financial stability? Capital controls?
- **Recommendation 2:** Commission a study to analyse the risks and opportunities of a more elaborate system of bilateral swap agreements
 - Conditional on regulatory, institutional and macroeconomic collaboration

Virtuous Currency

Internationalisation and Public Policy

- **International monetary asymmetries** and the US Dollar as first mover/top currency
- Emerging market currencies are latecomers and face **structural hurdles** > Internationalisation biased towards (volatile) investment currencies
- Negative feedback dynamics and **vicious cycles**
- **Need for public policy** to support virtuous currency internationalisation ('proactive' currency internationalisation)

Virtuous Currency

Internationalisation and Public Policy

- Stable macroeconomic framework (see above)
- Market regulation and incentives (e.g. SML usage)
- Service provision through public (regional) institutions (Chinese experience), for example:
 - SML: Clearing, settlement and liquidity (credit) provision by regional central banks
 - Provision of local currency funding and trade credit by regional trade and development banks
 - Infrastructure funding (FOCEM)