

Monetary policy in Latin America: Lessons from the pandemic

José De Gregorio
School of Economics and Business
Universidad de Chile
BIS, Mexico City, February 2025

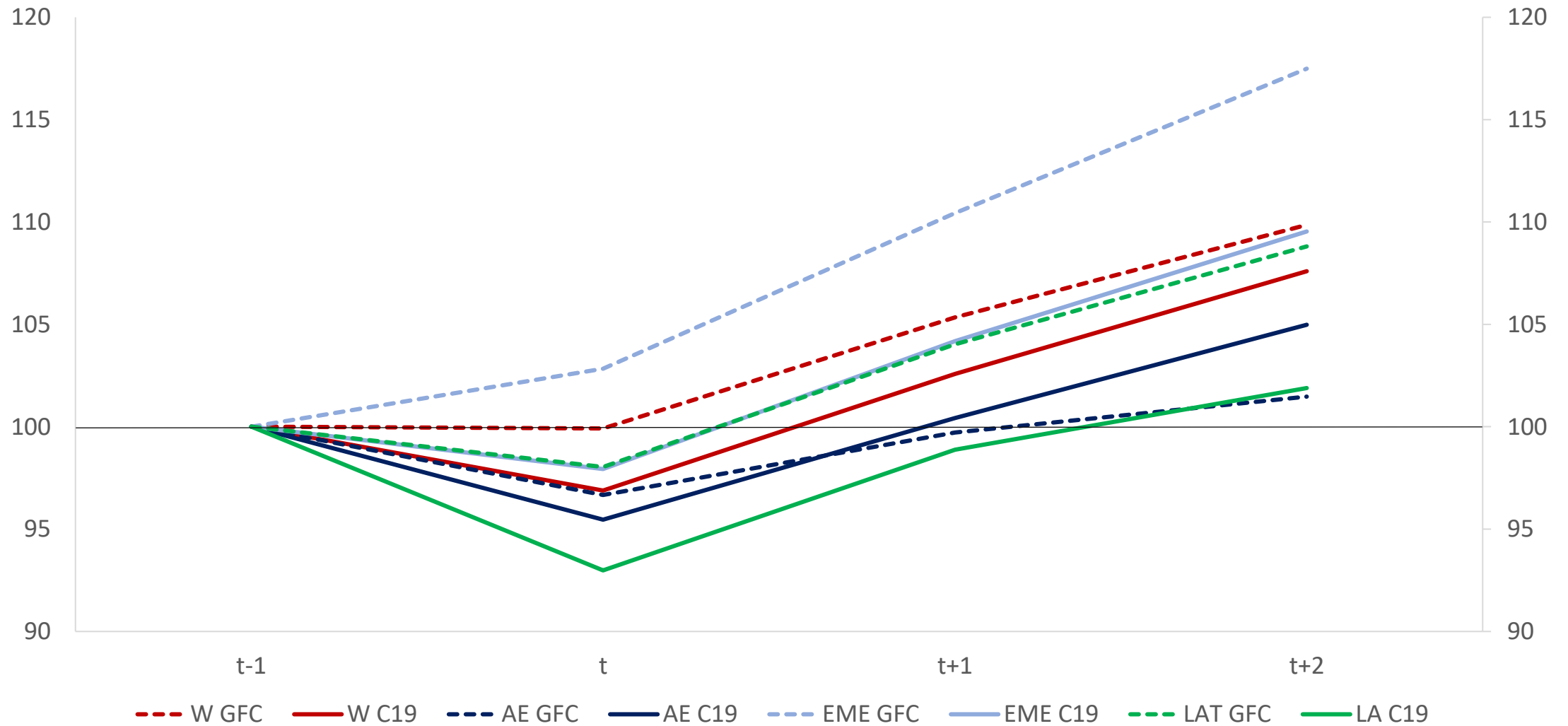
Agenda

1. Policies during the Covid crisis and its impact
2. Inflation and monetary policy after Covid
3. Other macro policy topics
 - Financial integration and hedging
 - Macroprudential policies and capital controls

1. The Covid crisis

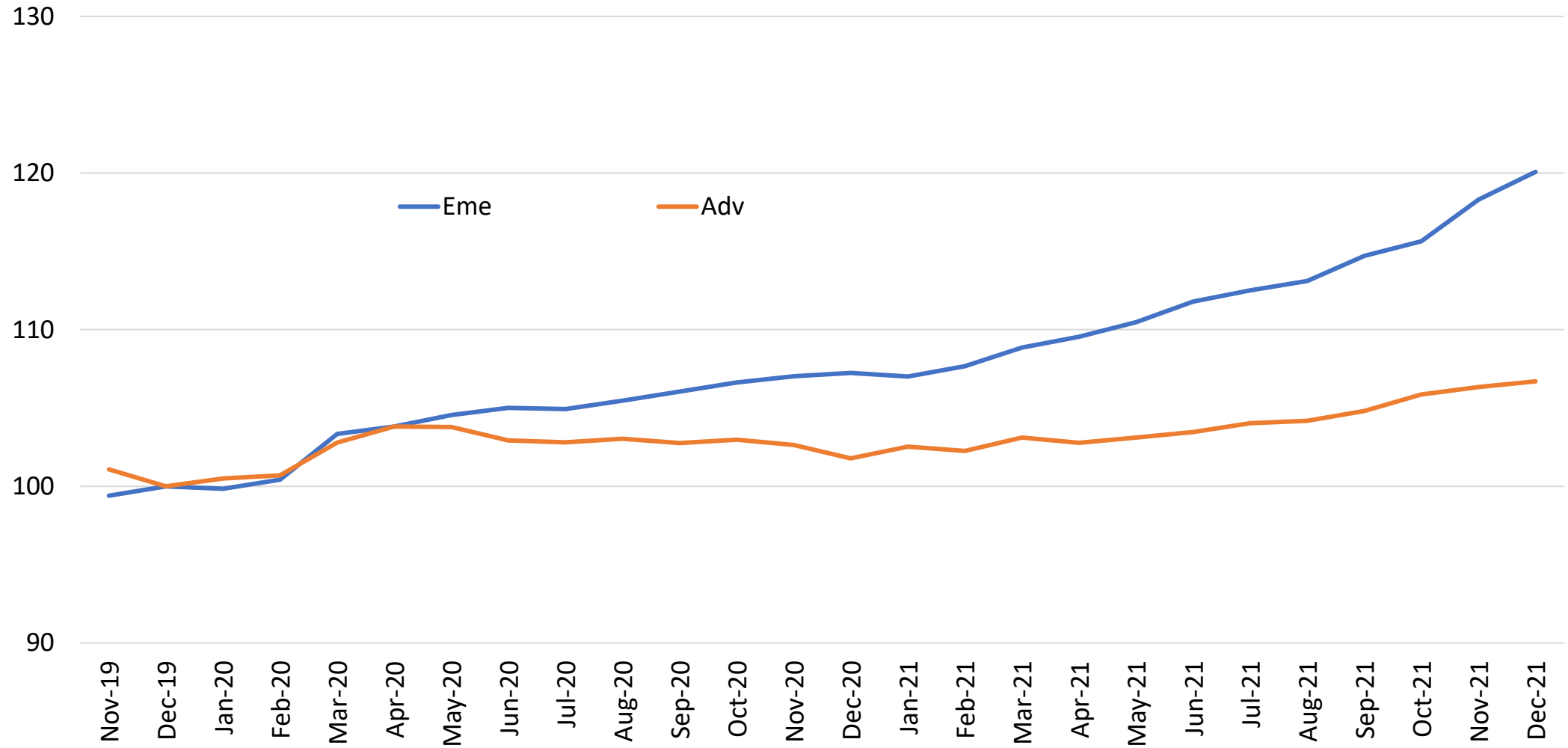
Reference: De Gregorio, José, and Luis Felipe Céspedes. 2021. “Central Banking and Credit Provision in Emerging Market Economies During the Covid-19 Crisis”, In Bill English, Kristin Forbes and Angel Ubide (eds.), *Monetary Policy and Central Banking in the Covid Era*, Center for Economic Policy Research, CEPR-Press, pp. 371-389.

GDP GFC and Covi-19 (2008=100, and 2019=100)



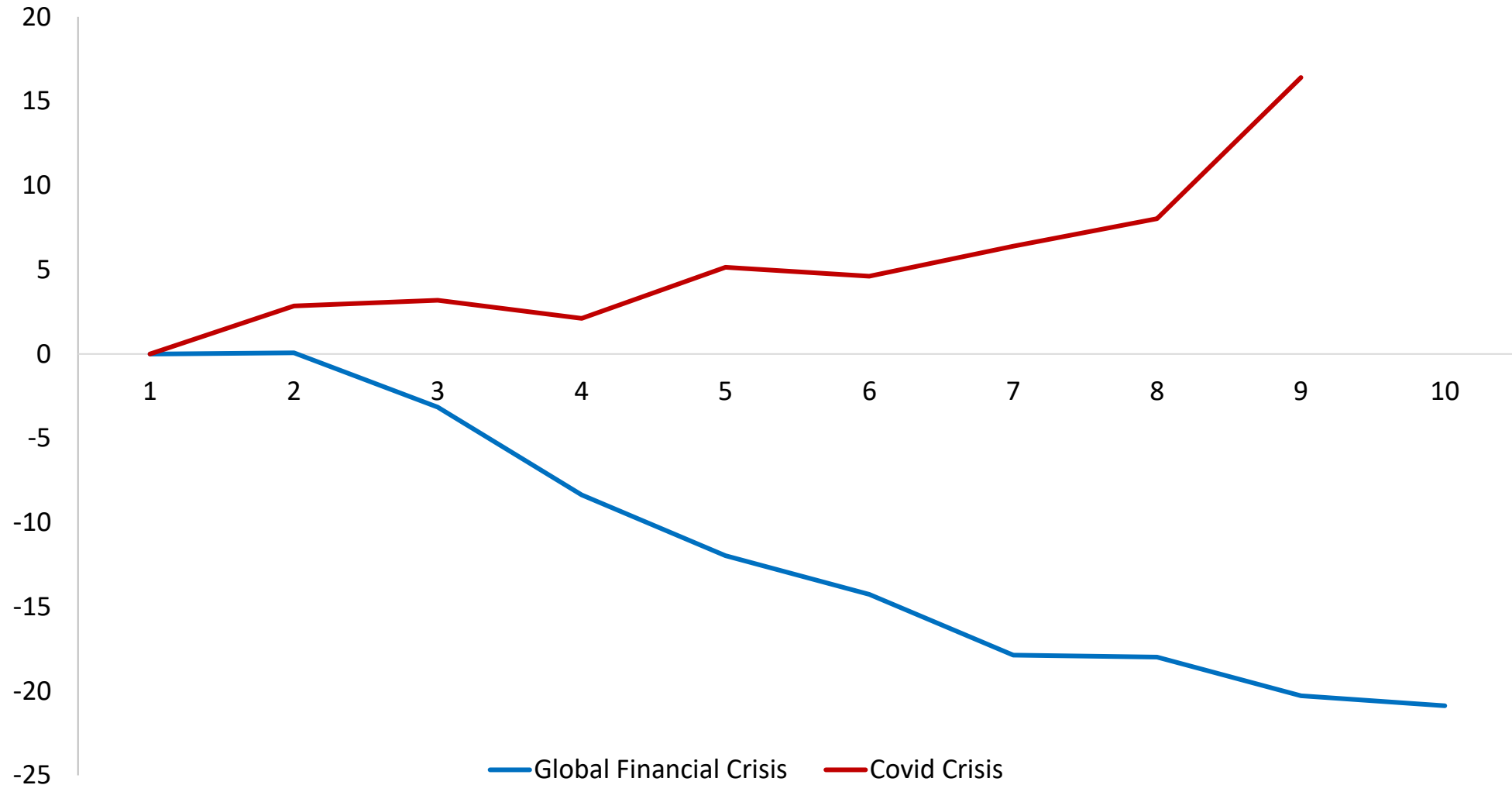
Source: IMF

Loans to the private sector



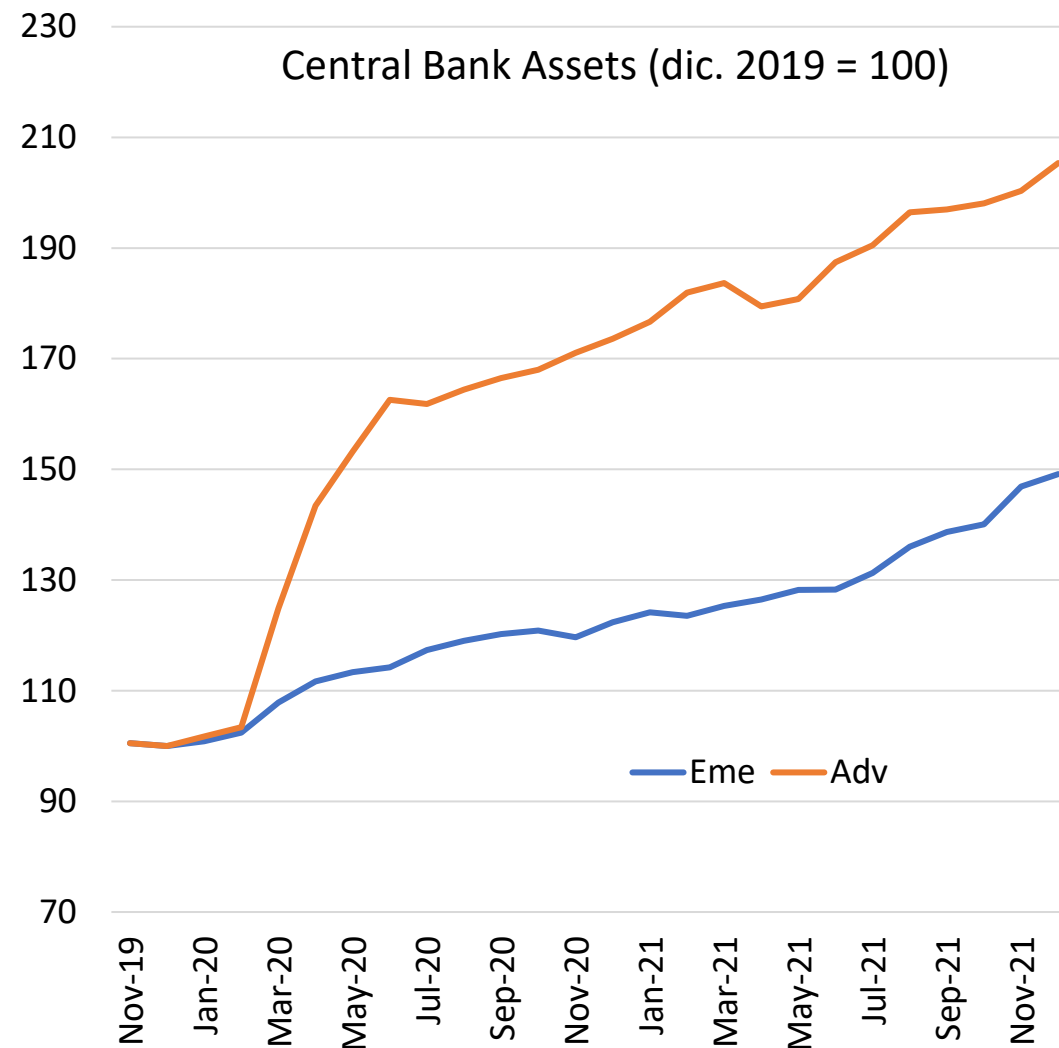
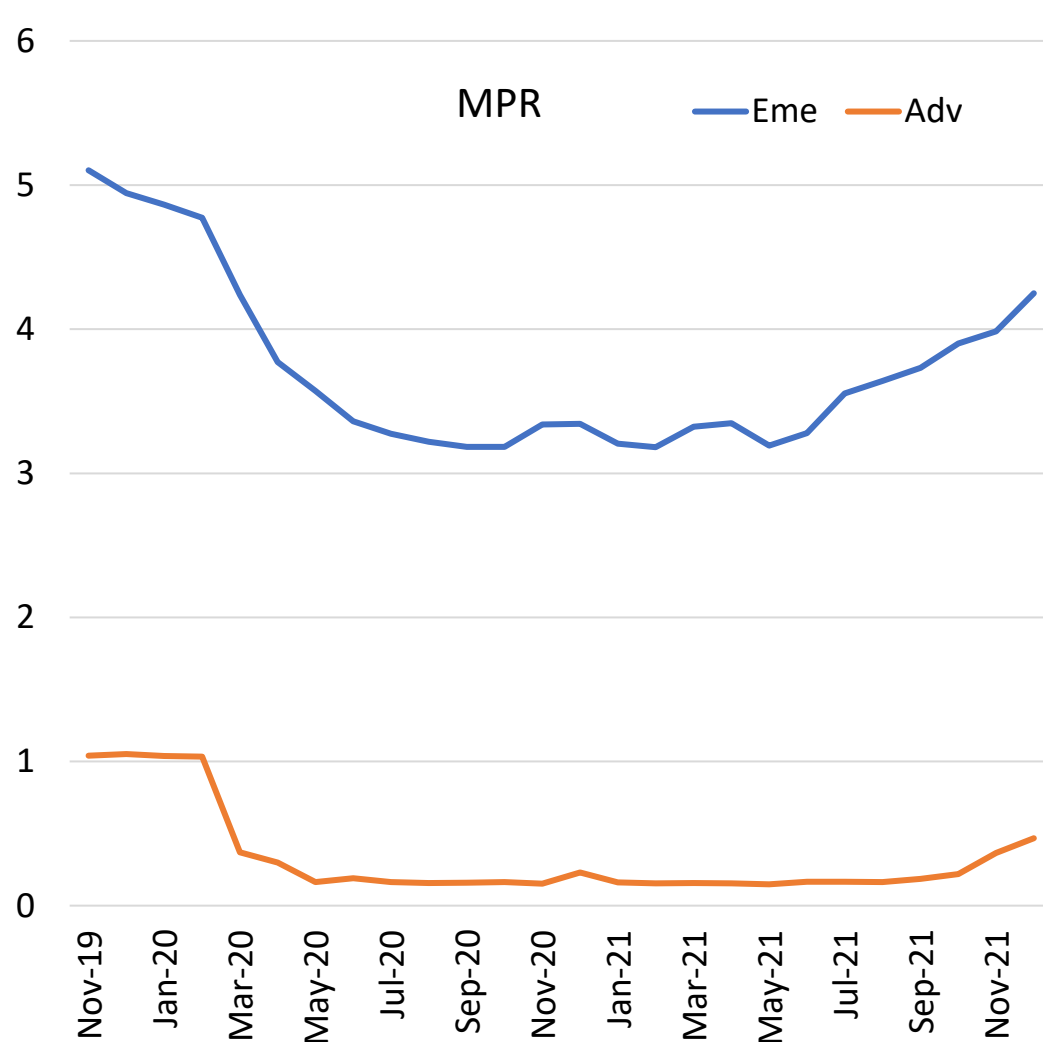
Source: National central banks.

Credit growth EMEs (% , quarter, y-o-y with respect to pre-crisis)

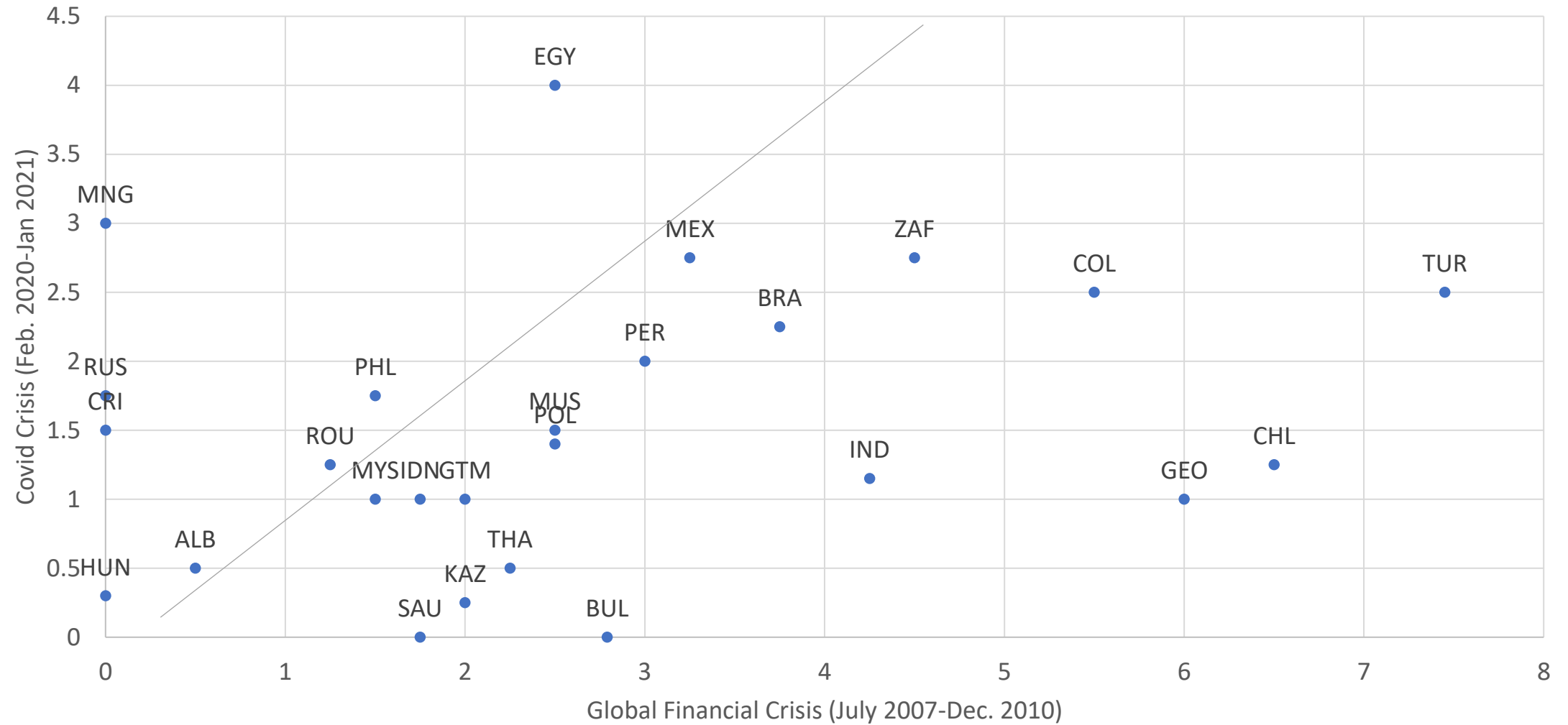


Source: National central banks.

Policy responses to the Pandemic

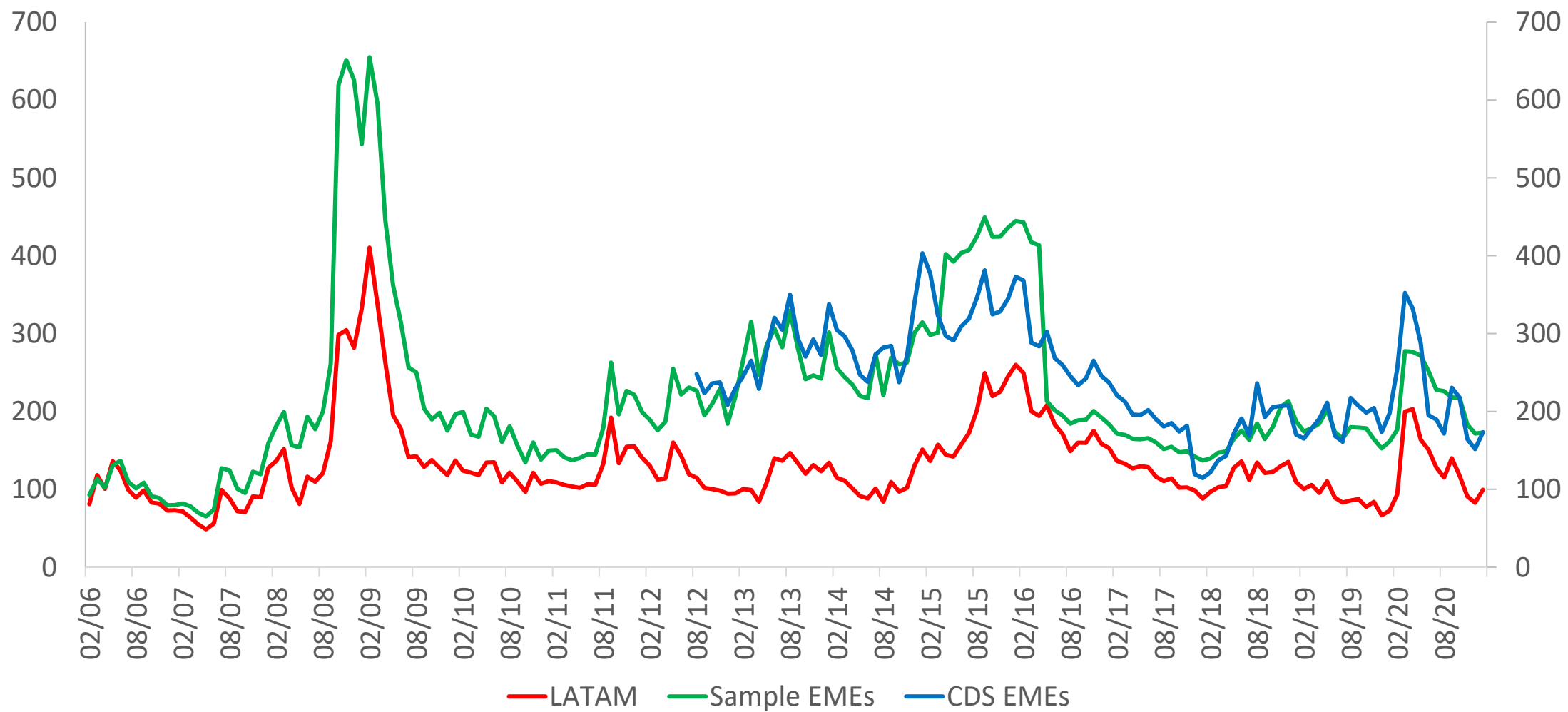


Reduction in MPR in EMEs

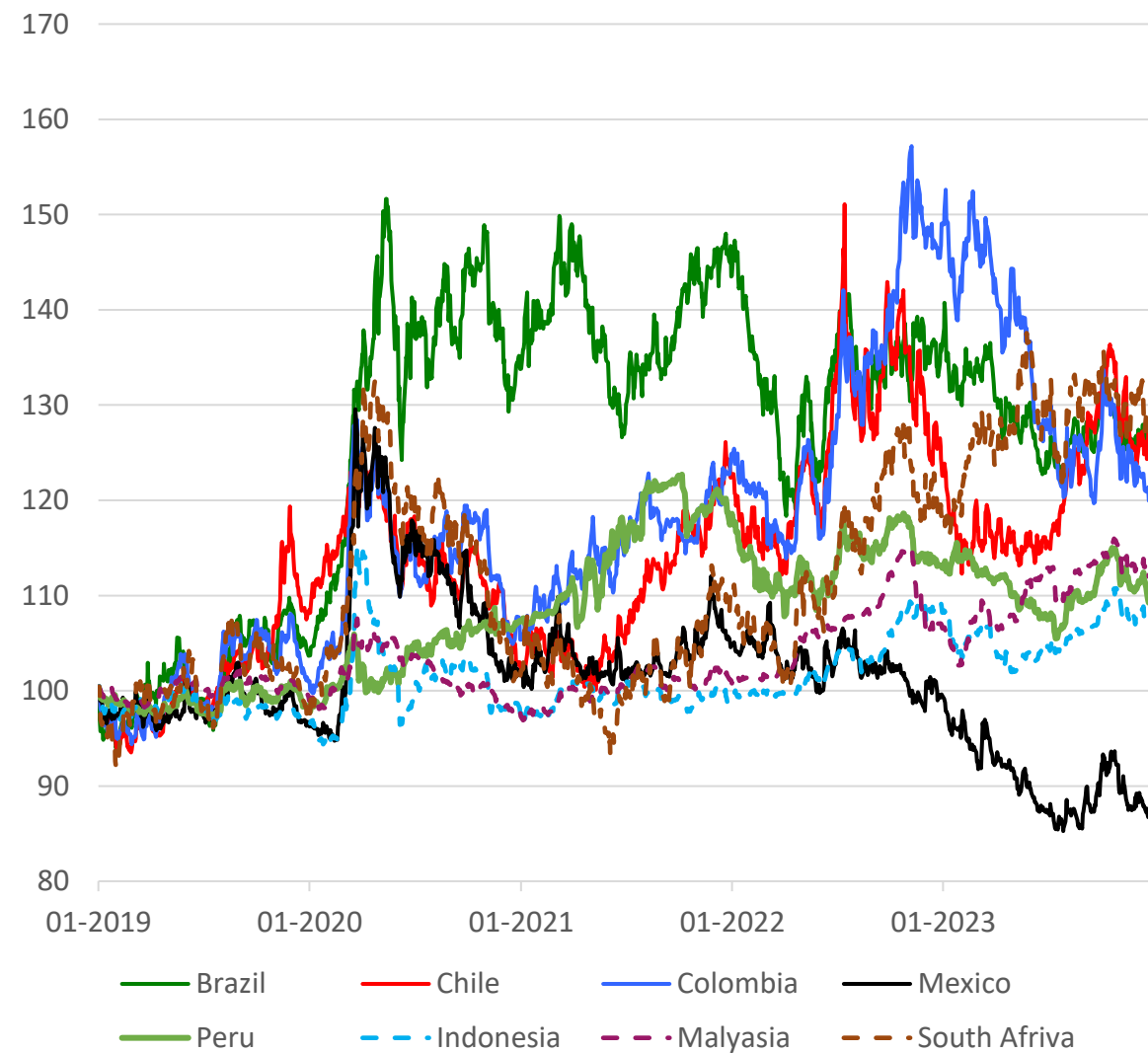
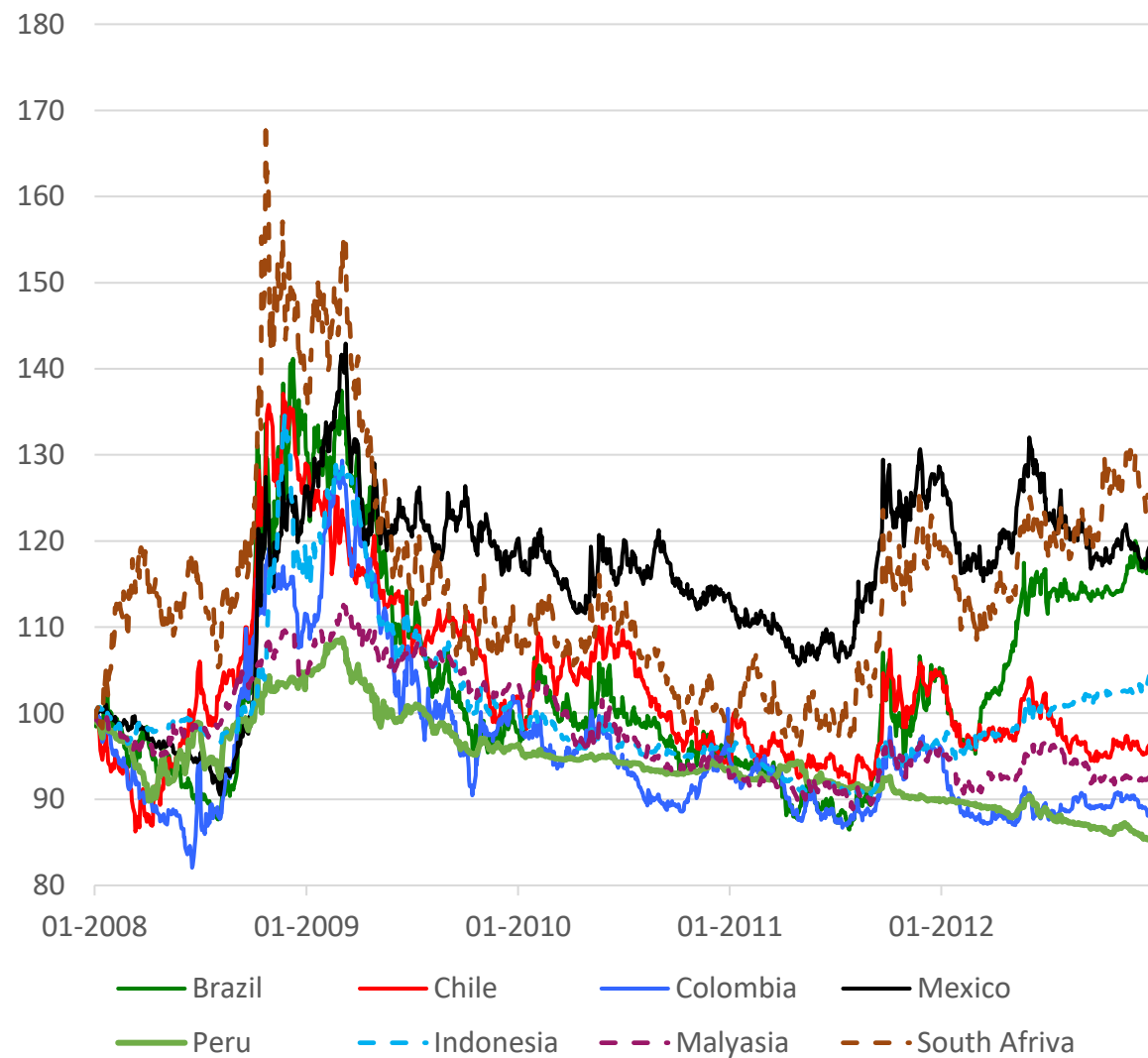


Source: Bloomberg.

CDS

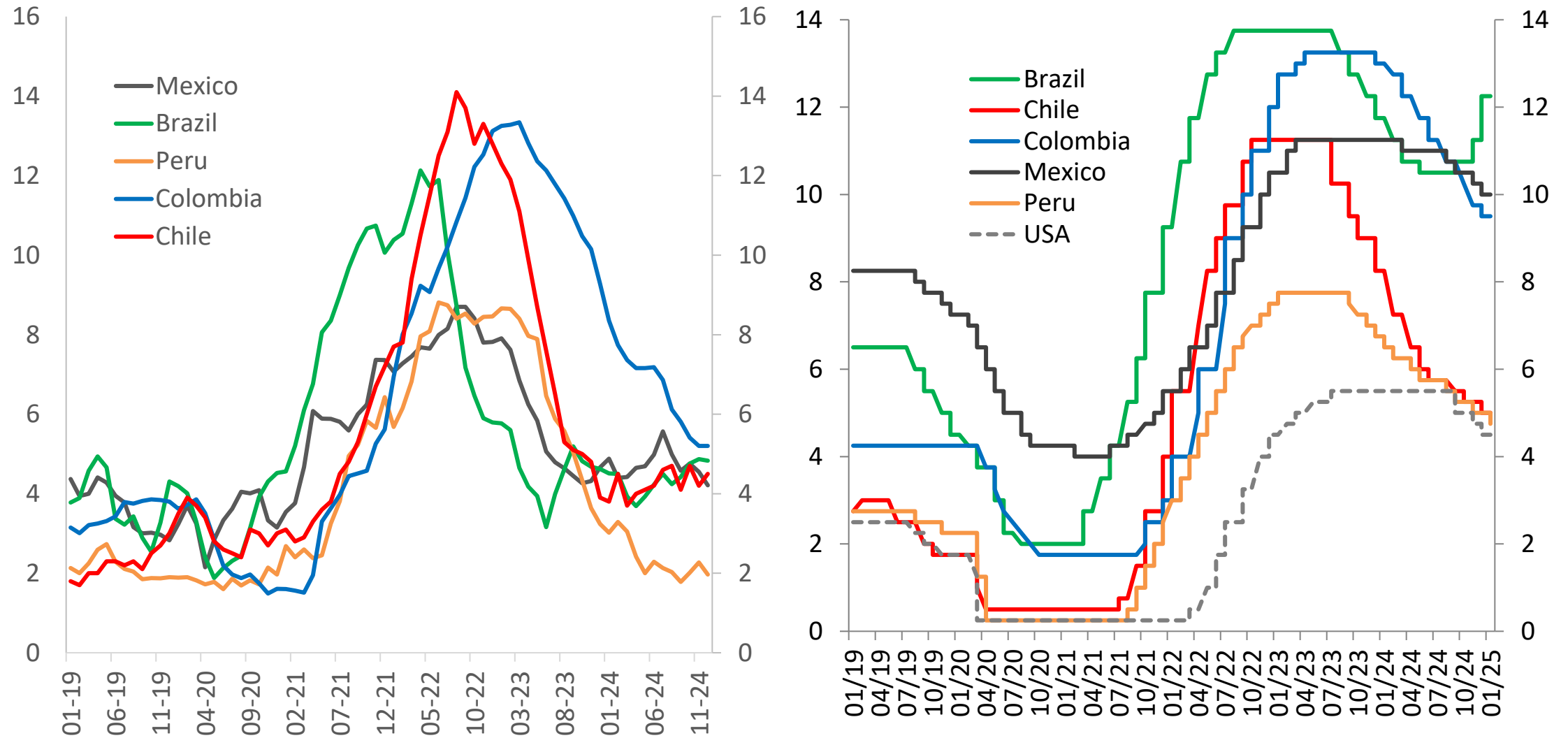


Exchange rates: GFC and Covid



2. Inflation and Monetary Policy after Covid

Inflation (left) and MPR (right) (%)

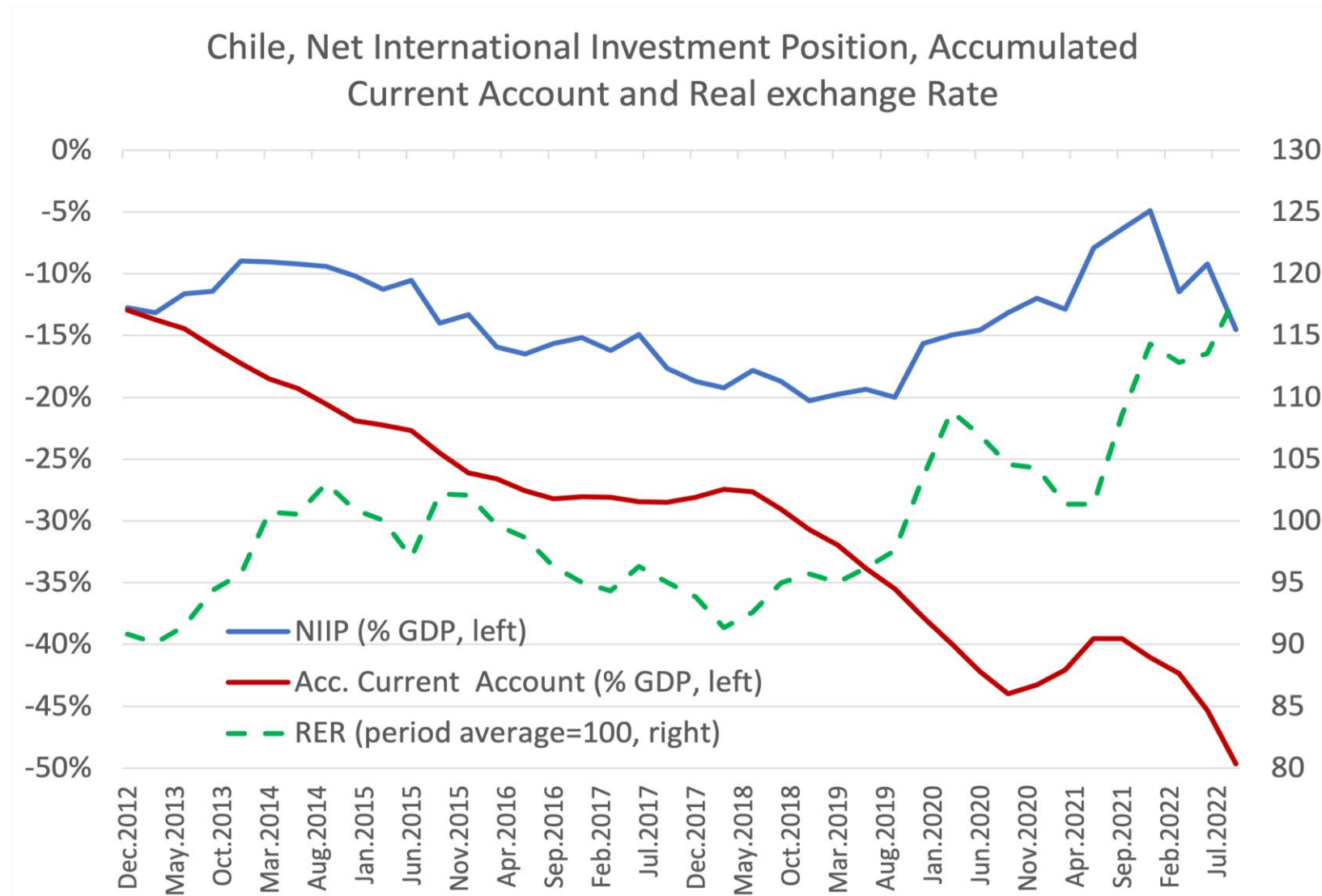


Other Macro Policy Issues

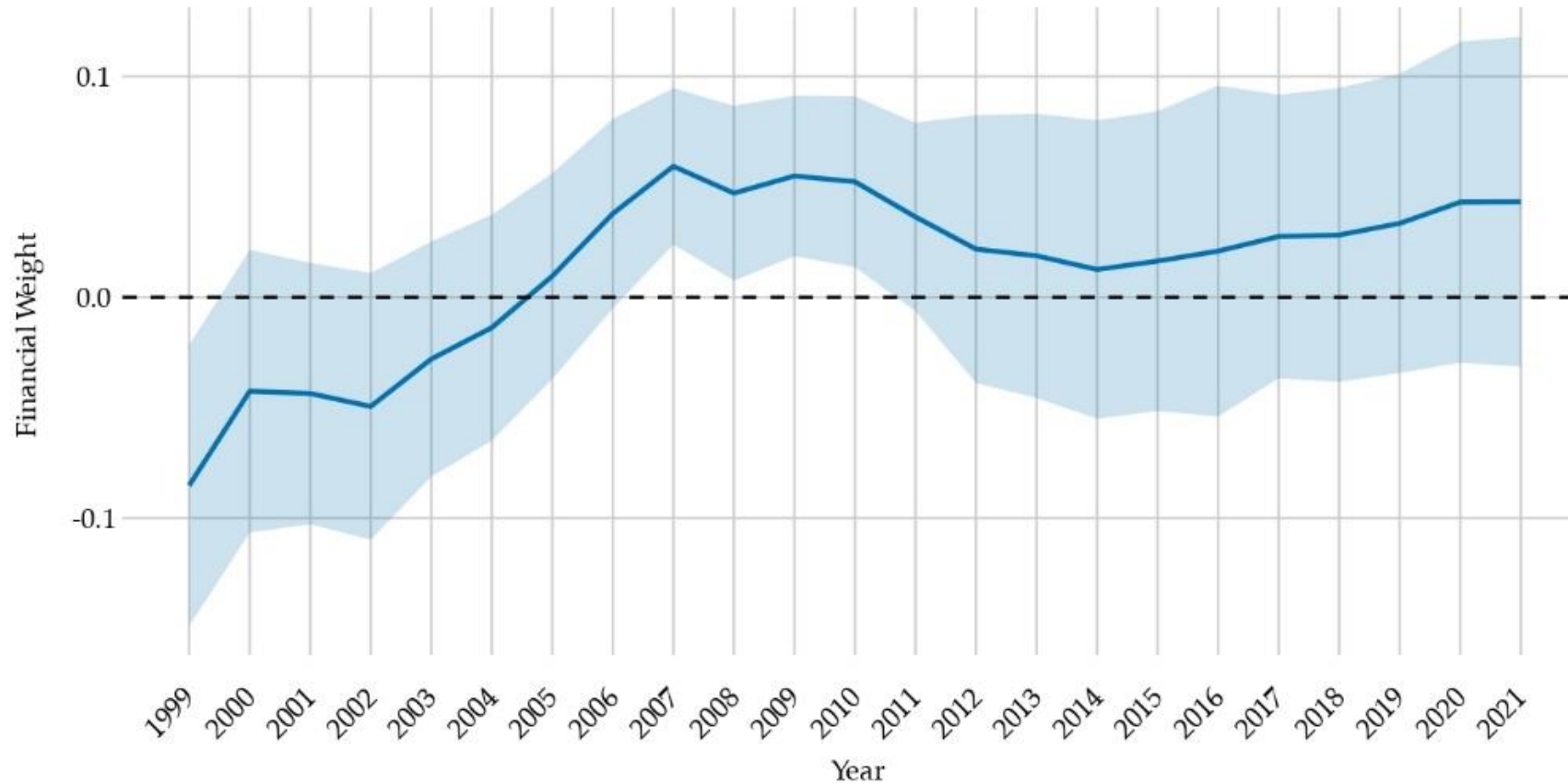
Risk sharing and Exchange rate in EMEs

Reference: De Gregorio, José, and Benjamín Peña. 2024. “Valuation Effects, Exchange Rates, and Risk Sharing in Emerging Market Economies.” mimeo, Universidad de Chile.

NIIP: The Chilean Experience



EMEs: Average USD Net Financial Weights

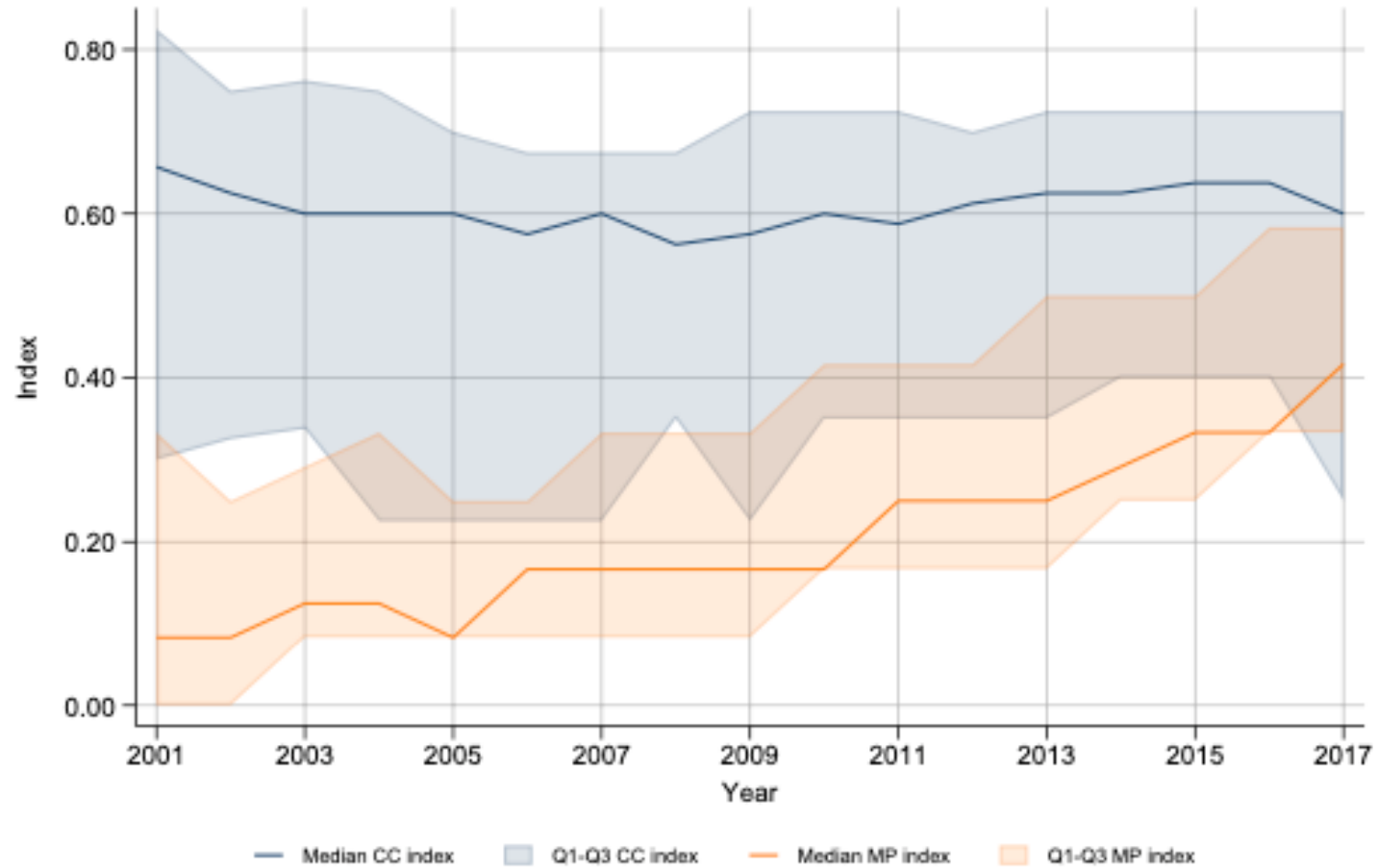


This figure plots the evolution of the average net financial weight for the US dollar as defined by [Lane and Shambaugh \(2010\)](#) for 20 emerging economies. Their values capture the relation between net foreign assets and bilateral exchange rate changes against the USD. Positive values imply that a depreciation against the USD increases the value of countries' net foreign assets.

Macroprudential Policies and Capital Controls

Reference: Andreasen, Eugenia, José De Gregorio, Mauricio Jara and Alberto Undurraga-Flotts. 2024. “The Impact of Capital Controls and Macroprudential Policies: Firm Financial Constraints and Substitution Effects,” .” mimeo, Universidad de Chile.

Capital controls and Macprudential Policies



Data from Fernandez et al. (2016) and Cerutti et al. (2017)

Investment sensitivity

Table 1: Impact on financial constraints

	(1) None	(2) Country	(3) None	(4) Country
Cash x CC	0.167*** (0.030)	0.090** (0.045)	0.172*** (0.031)	0.095** (0.045)
Cash x MP	-0.084** (0.039)	-0.130** (0.061)		
Cash x F			0.026 (0.046)	-0.012 (0.055)
Cash x B			-0.072*** (0.020)	-0.081** (0.036)
Cash	0.018 (0.025)	0.075** (0.034)	0.016 (0.025)	0.068** (0.034)
Size	-0.012*** (0.001)	-0.016*** (0.002)	-0.012*** (0.001)	-0.016*** (0.002)
Debt/Assets	-0.049*** (0.004)	-0.040*** (0.006)	-0.050*** (0.004)	-0.041*** (0.006)
Tobin's Q	0.013*** (0.001)	0.013*** (0.001)	0.013*** (0.001)	0.013*** (0.001)
Short-time debt	-0.011*** (0.001)	-0.007*** (0.002)	-0.012*** (0.001)	-0.007*** (0.002)
Constant	0.281*** (0.020)	0.360*** (0.037)	0.278*** (0.020)	0.357*** (0.037)
Observations	34,581	34,581	34,581	34,581
R^2	0.481	0.554	0.482	0.555
Firm FE	Yes	Yes	Yes	Yes
Country-year FE	Yes	Yes	Yes	Yes