



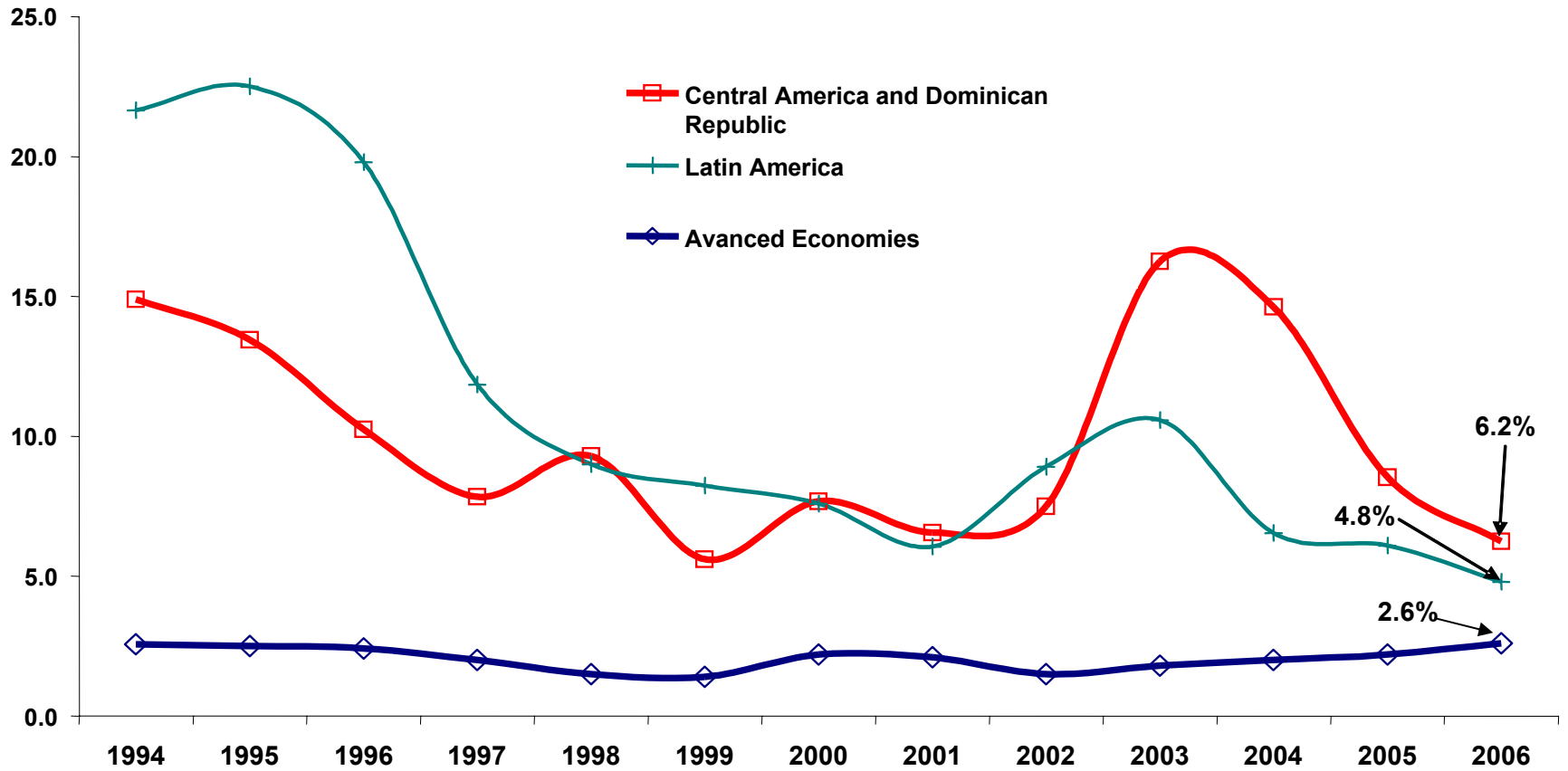
The conduct of Monetary Policy in Central America and Dominican Republic, in an Increasingly Globalised Environment



Alfredo Blanco
Executive Secretary CAMC
Barbados, May 10, 2007

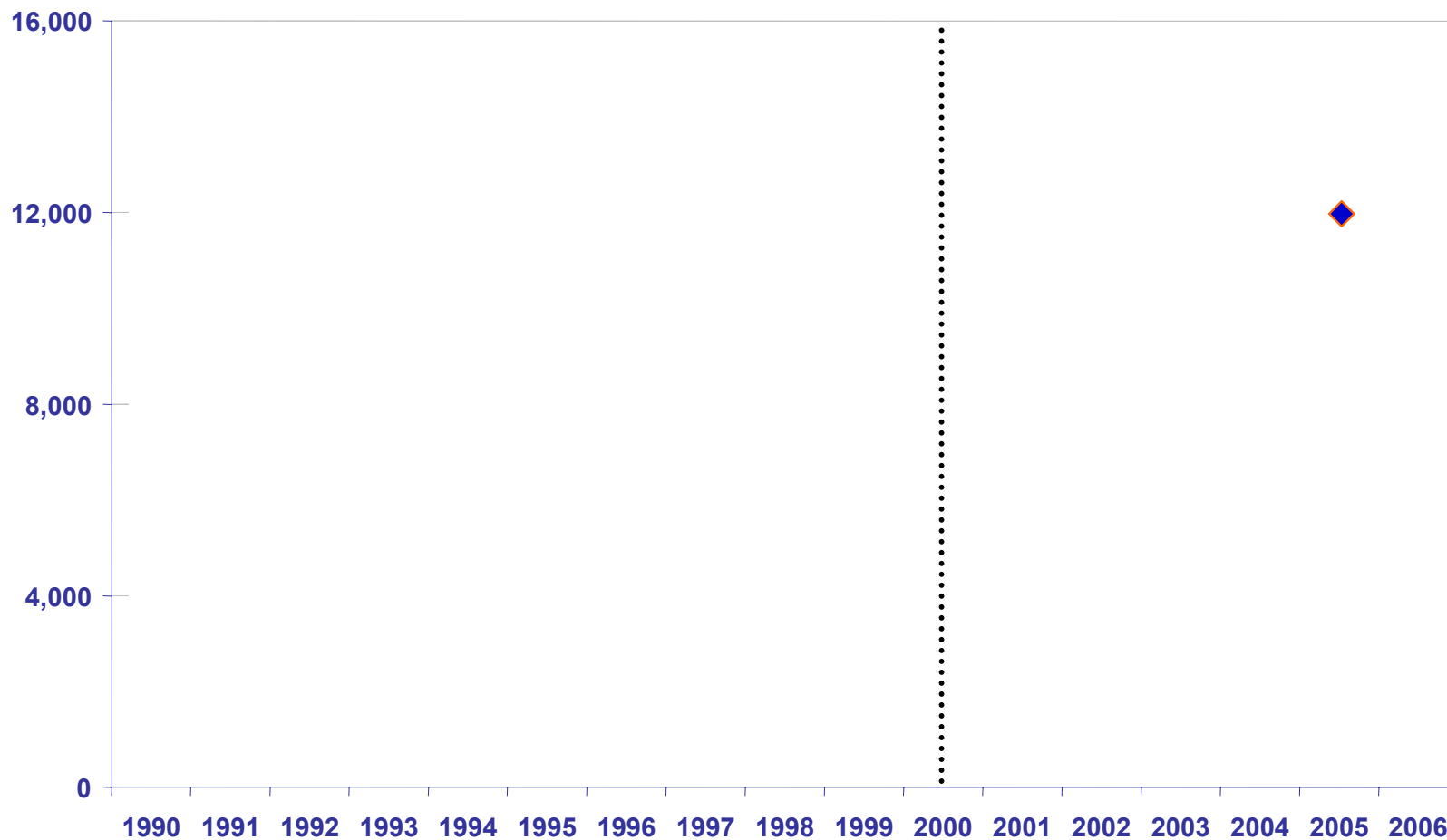
Background

Inflation in Central America and Dominican Republic, Latin America and Advanced Economies



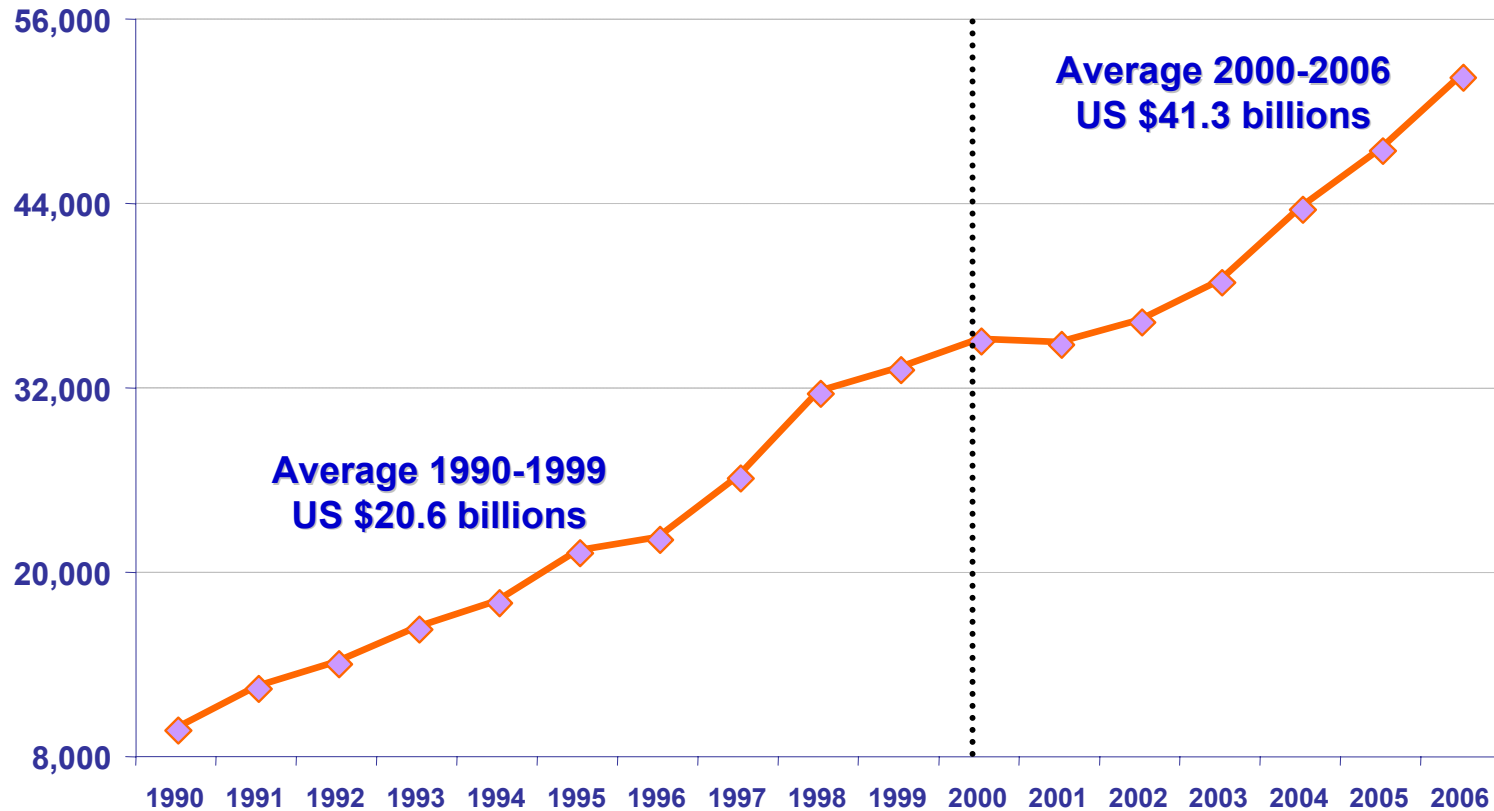
CARD: Net Current Transfers

Central America and Dominican Republic:
Net Current Transfers -including Remittances-
(Millions of US \$)



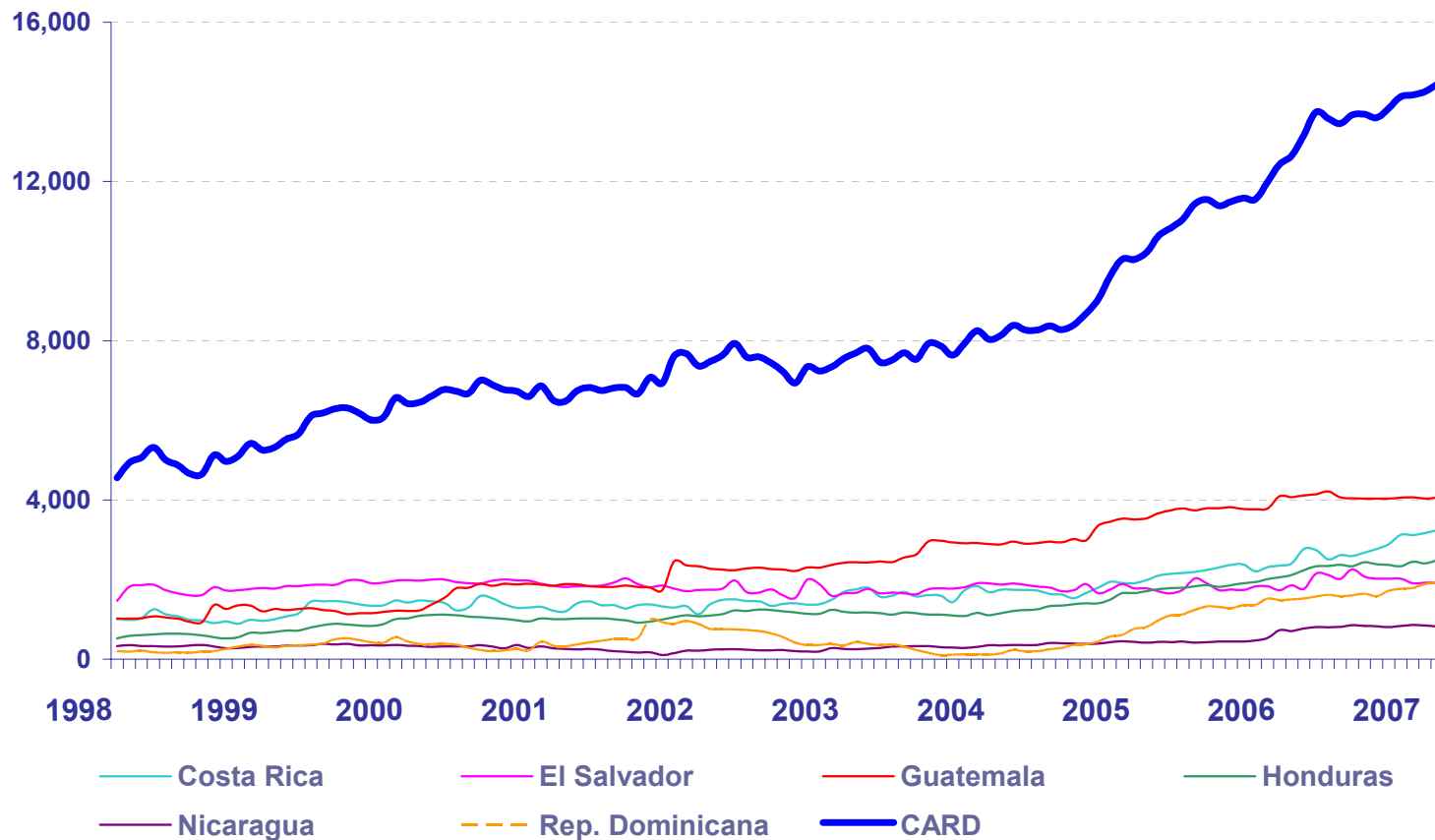
CARD: Capital Inflows

Central America and Dominican Republic:
Capital Inflows. (Millions of US \$)



CARD: Accumulation of Reserves

Central America and Dominican Republic:
Net International Reserves (Millions of US \$)
(1998:01 - 2007:02)



Monetary Frameworks in CARD

...towards flexibility

Countries	Before 2000	After 2000
El Salvador	Monetary Targeting	Dollarisation (2001)
Nicaragua	Crawling Peg	Crawling Peg (2007?)
Costa Rica	Crawling Peg	Bands (2006)
Honduras	Bands	Bands (2006)
República Dominicana	Monetary Targeting	Monetary Targeting (2006)
Guatemala	Monetary Targeting	Towards Inflation Targeting (2002)

The Case of Guatemala, since 2002

- New Organic Law of the Central Bank.
- Nine Indicative Variables.
- Towards Forward Looking Approach.
- Inflation Forecasting.
 - Semi-Structural Model.
 - Mechanisms of Transmission.
- Transparency.
- Accountability.



BANCO DE GUATEMALA

BOLETÍN DE PRENSA

La Junta Monetaria, en su sesión celebrada el 25 de abril de 2007, decidió elevar la tasa de interés líder de la política monetaria en 25 puntos básicos, de 5.25% a 5.50%..... Luego de haber conocido el balance de riesgos de inflación, los resultados del corrimiento mecánico del Modelo Macroeconómico semiestructural y la orientación de las variables indicativas,



BANCO DE GUATEMALA

BOLETÍN DE PRENSA

.... tomó en consideración que los pronósticos de inflación presentados por los departamentos técnicos del Banco de Guatemala, tanto para 2007 como para 2008, se ubicaban por arriba de la meta establecida para cada uno de esos años, aspecto que, en el contexto del esquema de metas explícitas de inflación, aconsejaba restringir la política monetaria.

.....However

- ⊕ There are still important challenges to improve the efficiency in the conduct of Monetary Policy in an increasingly globalised environment.
 - ➡ Large Quasifiscal Deficits.
 - ➡ The structure of foreign exchange markets.
 - ➡ Less developed capital markets.

Agenda

- ◆ The CAMC is working on harmonization of policies.

Matrix of policies

- Harmonization in legal reserve requirements.
 - Harmonization in instruments used in open market operations.
 - Transparency: inflation report and surveys of inflationary expectations.
- ◆ A Monetary Union is not yet under discussions.

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