

We are pleased to announce that the Center for Financial Stability (CEF) has published its Working Paper No.27 "**Comparative Policies on Foreign Exchange and Capital Mobility: Argentina, Brazil, Chile and Peru**". The document, available in English, has been written by Maria Streb, economist.

In case you are interested in the document, you can request it by email at [seminario@cefargentina.org](mailto:seminario@cefargentina.org) or by phone at (54-11) 4328-7280.

### Abstract

Financial liberalization in the capital market is expected to avoid undesired arbitrages, boost international and regional capital mobility and promote investment, encouraging growth. But to be successful, financial liberalization requires a stable macroeconomic policy environment and prudential regulations supported by efficient supervision of financial intermediaries. While capital controls generate distortions, overabundance of capital mobility has been in part responsible for financial crisis in emerging markets. The discussion in academic and policy forums regarding possible gains and risks for recipients of international capital flows is not settled and there is an extensive literature on both sides. There is consensus among some economists, based on empirical evidence, that financial liberalization may generate instability in the short run, but in the long run it has a positive influence on investment and growth. The path to financial development is certainly not straightforward. This paper deals with the asymmetries in the foreign exchange framework between Argentina , Brazil , Chile and Peru , focusing in the foreign currency and foreign capital mobility policies, as well as the transactions costs when issuing securities. A brief history of the evolution of the regulations in Argentina and Brazil since the nineties is available in an Annex.

As seen through the essay direct and indirect controls, prudential norms... are variants used by the four countries to slow down the volatility of capital flows, the pressure over the foreign exchange rate and/or foreign shock transmissions. Chile and Peru are the most liberalized of the sample. Although, Brazil experienced a gradual process of liberalization during the nineties that was reinforced in the current century, the country still has important restrictions showing certain resistance to financial integration. In Argentina , the liberalization of its capital account in the nineties was deeper than in Brazil . Nevertheless, currently Argentina is the country of the sample with more capital controls and interventions in the foreign exchange market.

An alternative approach to capital controls in order to manage risks associated with capital flows is to strengthen prudential policies in the capital markets affecting risk-taking on the part of financial institutions. Prudential regulations do not focus capital flows directly, but they do affect their composition, volume and volatility and may well be used as capital controls. In fact, capital controls and prudential controls are becoming gradually intertwined as countries deregulate their financial sector and liberalize the capital account. The relationship between them requires careful study and coordination in order to put limits in the balance sheet risks while liberalizing. The set up and upkeep of prudential standards rely on public regulation and supervision, internal practices and controls together with market discipline.