



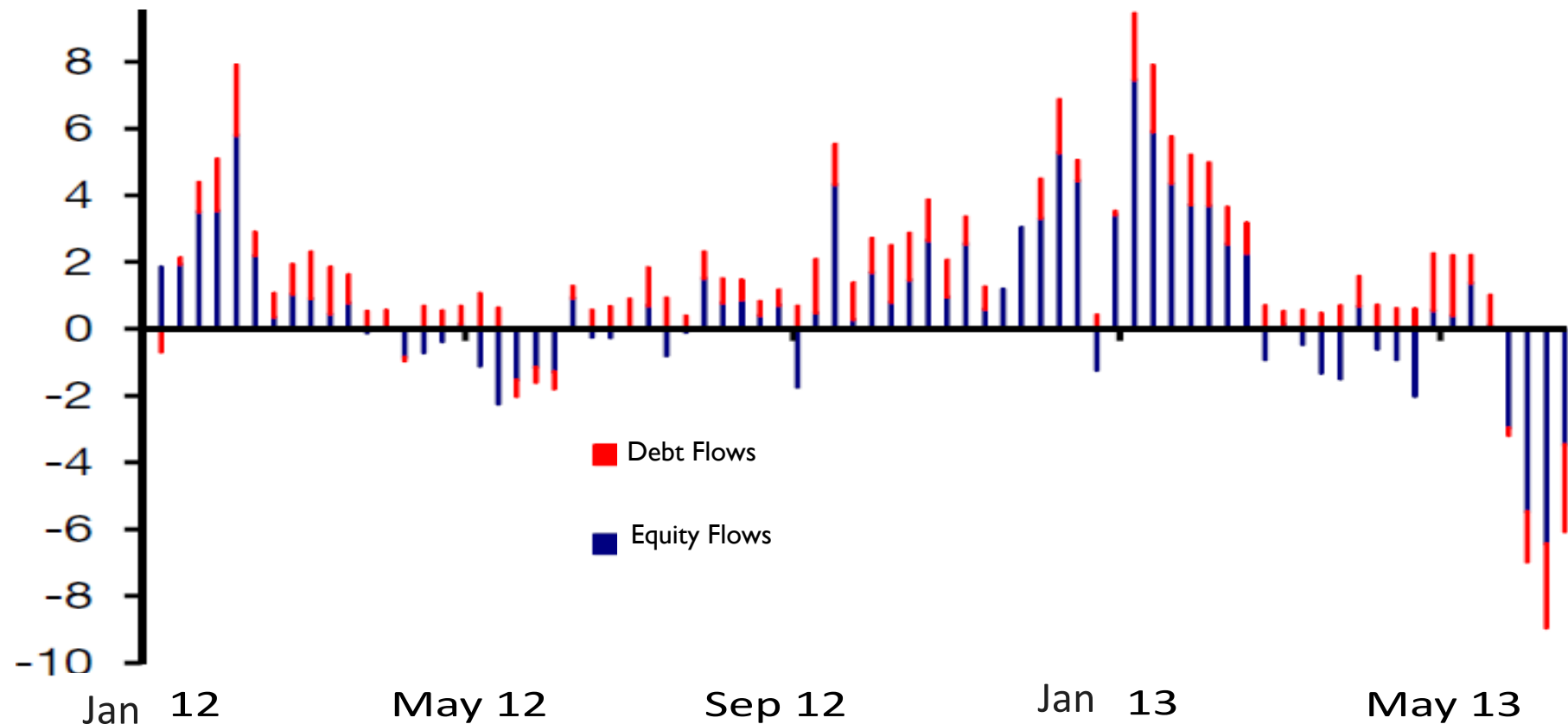
Session 3: Taper Tantrum y Capital Outflows: Dominican Republic

Joel González P.

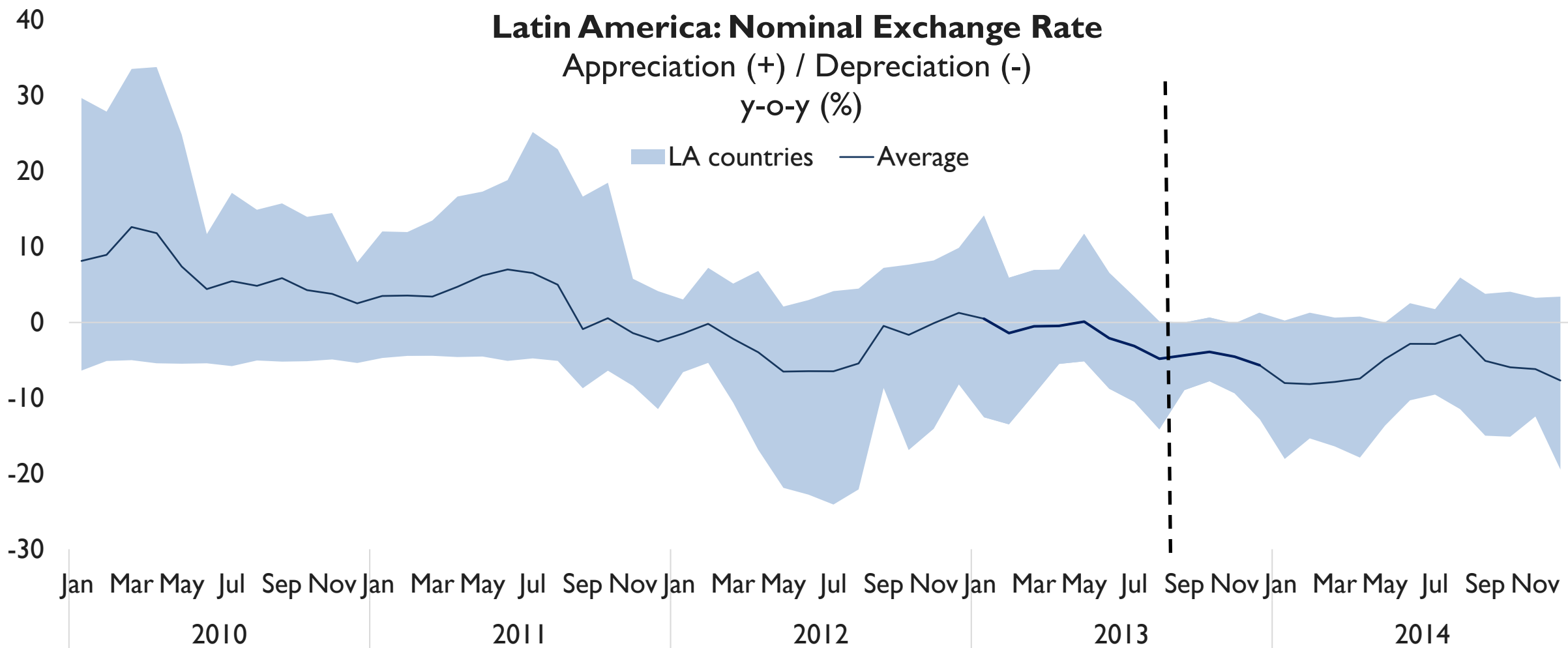
September 2019

Given the possible change in monetary policy stance in the **US**, emerging markets experienced a **significant reversal of capital flows...**

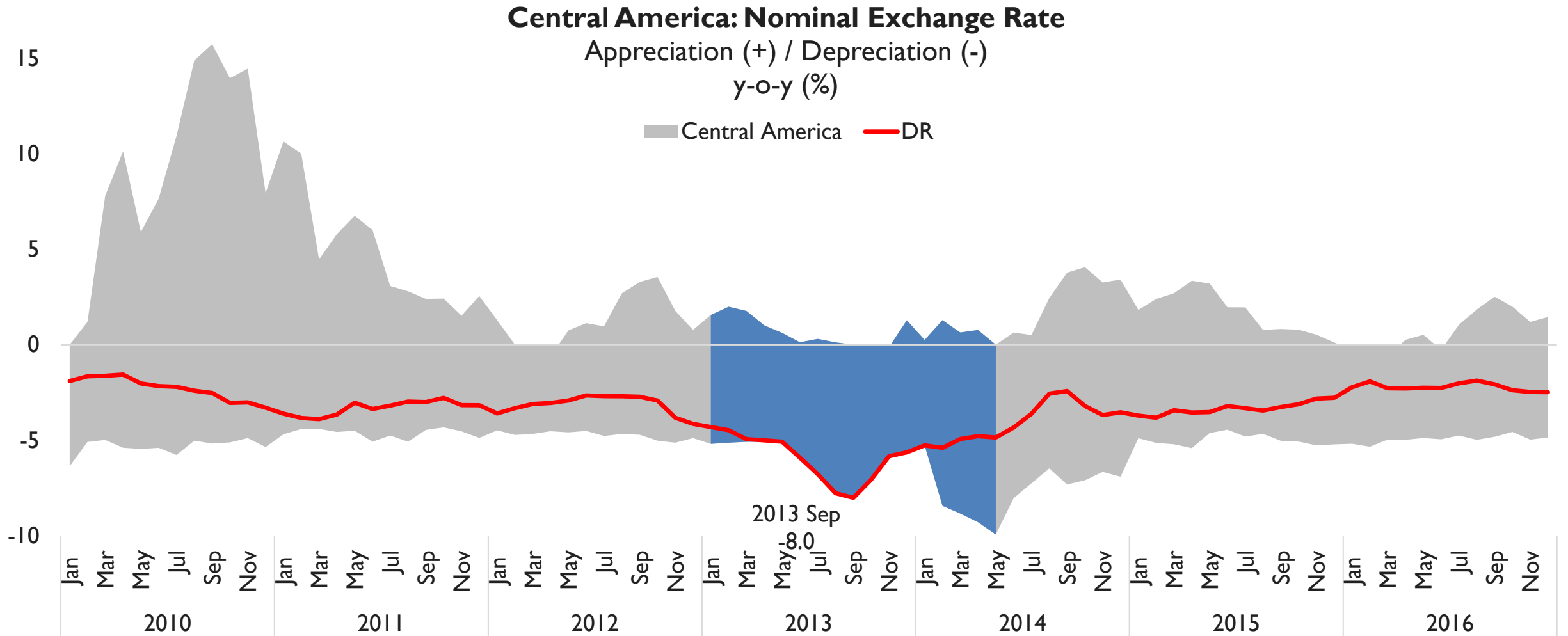
Debt and Equity Flows to Emerging Markets
(Billions USD)



The taper tantrum generated an accelerated return of capital to the US and pressured exchange rates in the region, including the DR...

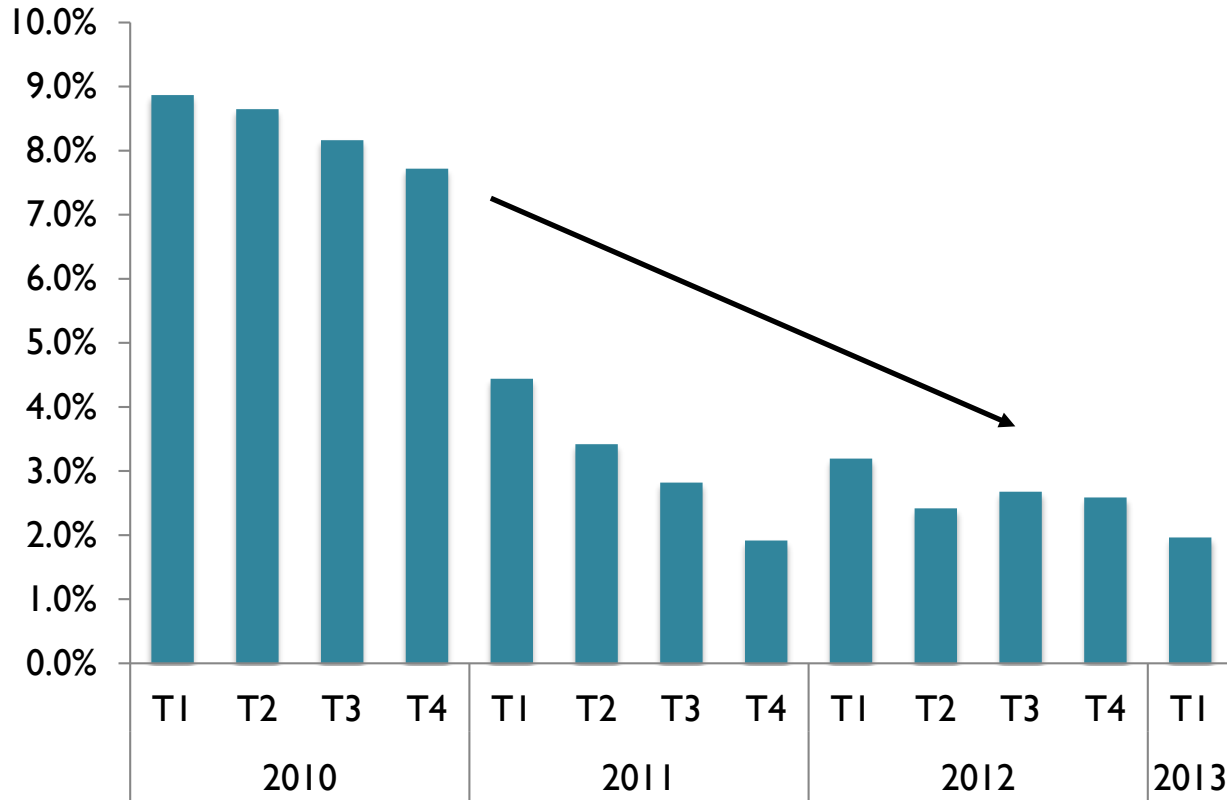


Likewise, the Dominican peso presented a significant depreciation, the largest since the domestic financial crisis...



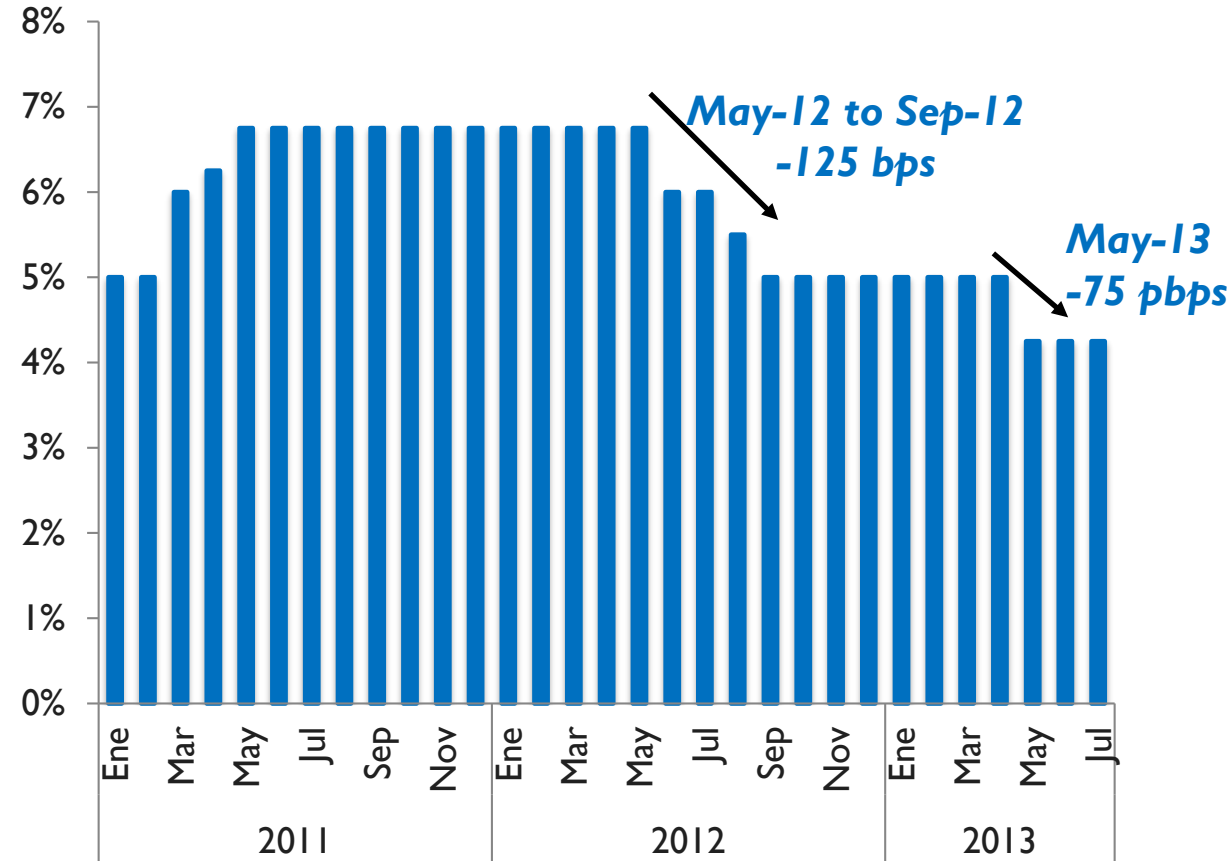
In DR, the monetary policy stance was expansionary at the moment of taper tantrum fueling exchange rate depreciation...

Real GDP
Growth y-o-y (%)



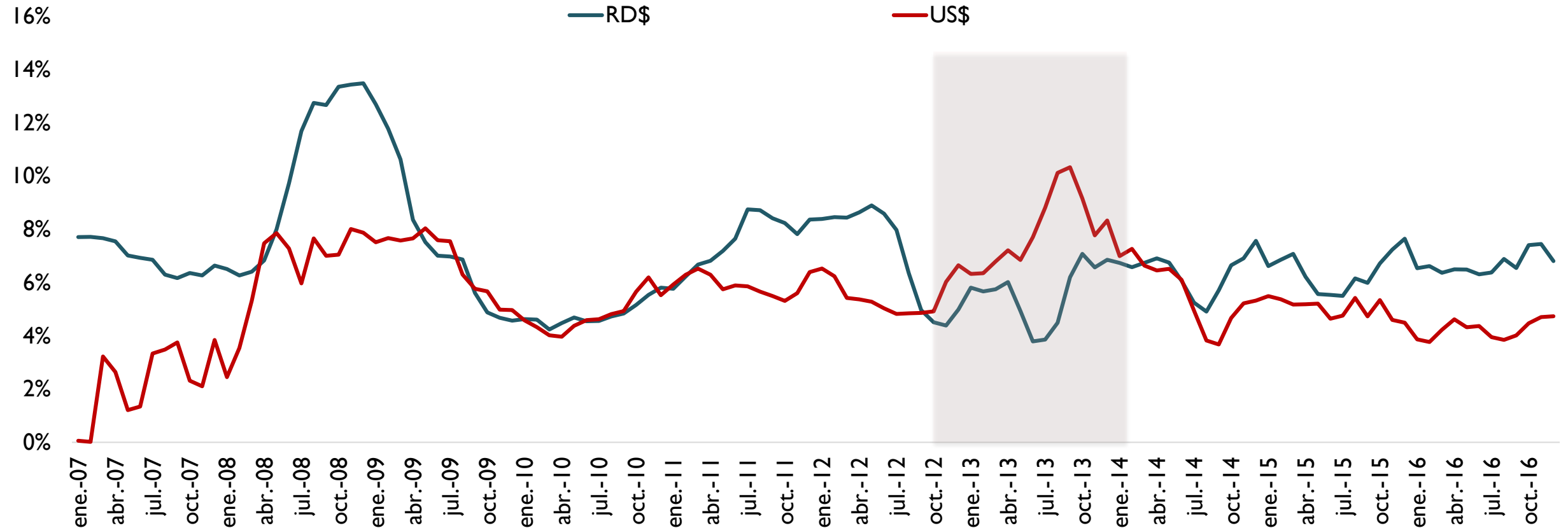
*Reference year 2007

CBDR: Interest Rate Corridor



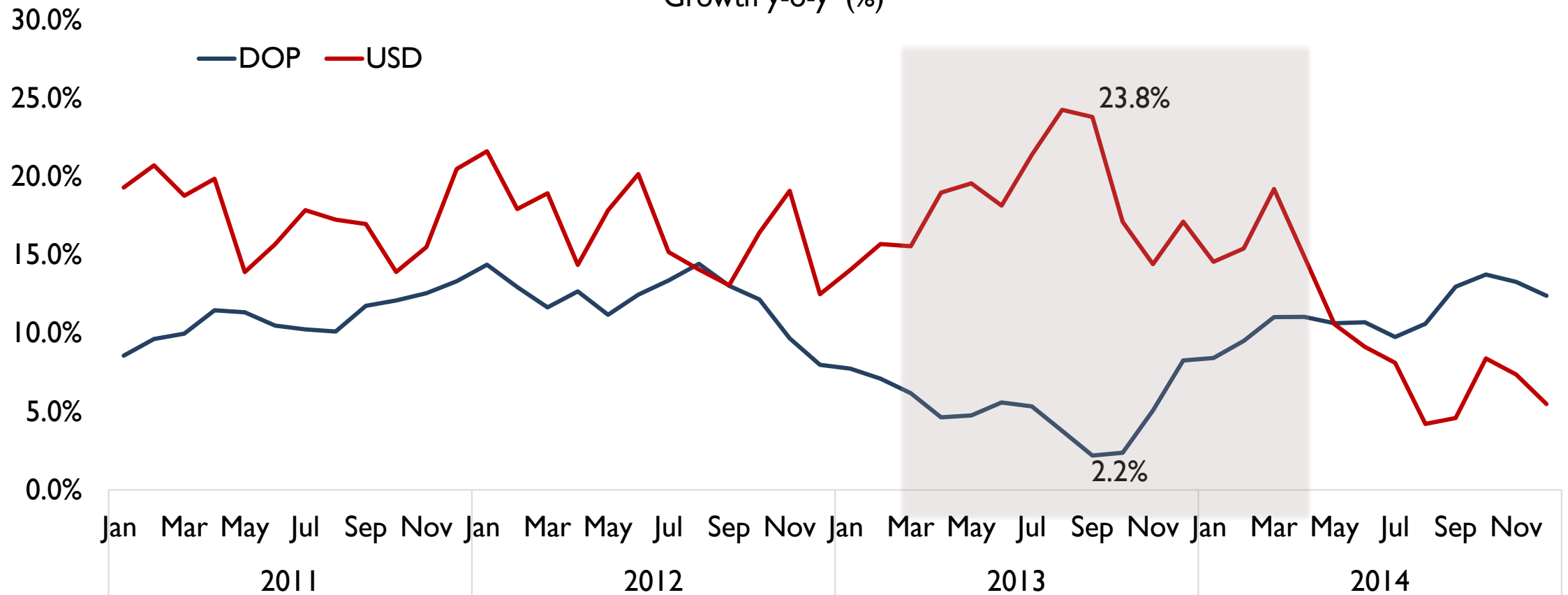
The combination of lower domestic interest rates and higher exchange rate depreciation deteriorated the interest rate differential...

Bank deposit yields, expressed in local currency



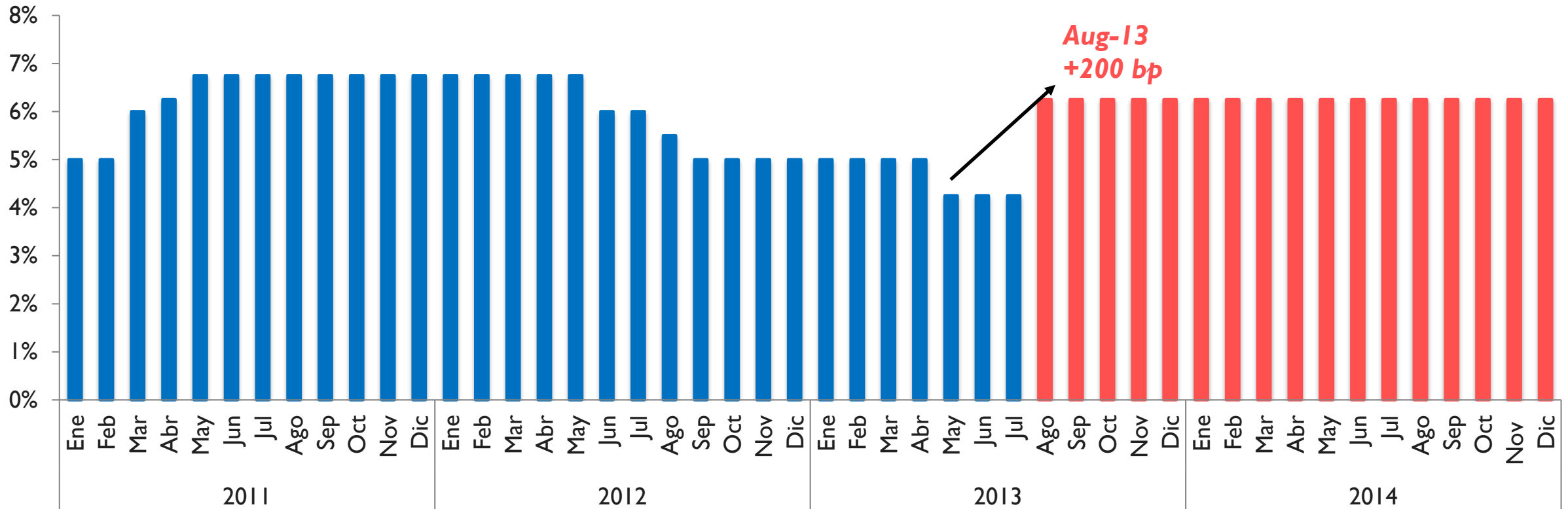
Rather than significant capital outflows, the taper tantrum caused a currency substitution within the local financial system...

Private Deposits
Growth y-o-y (%)



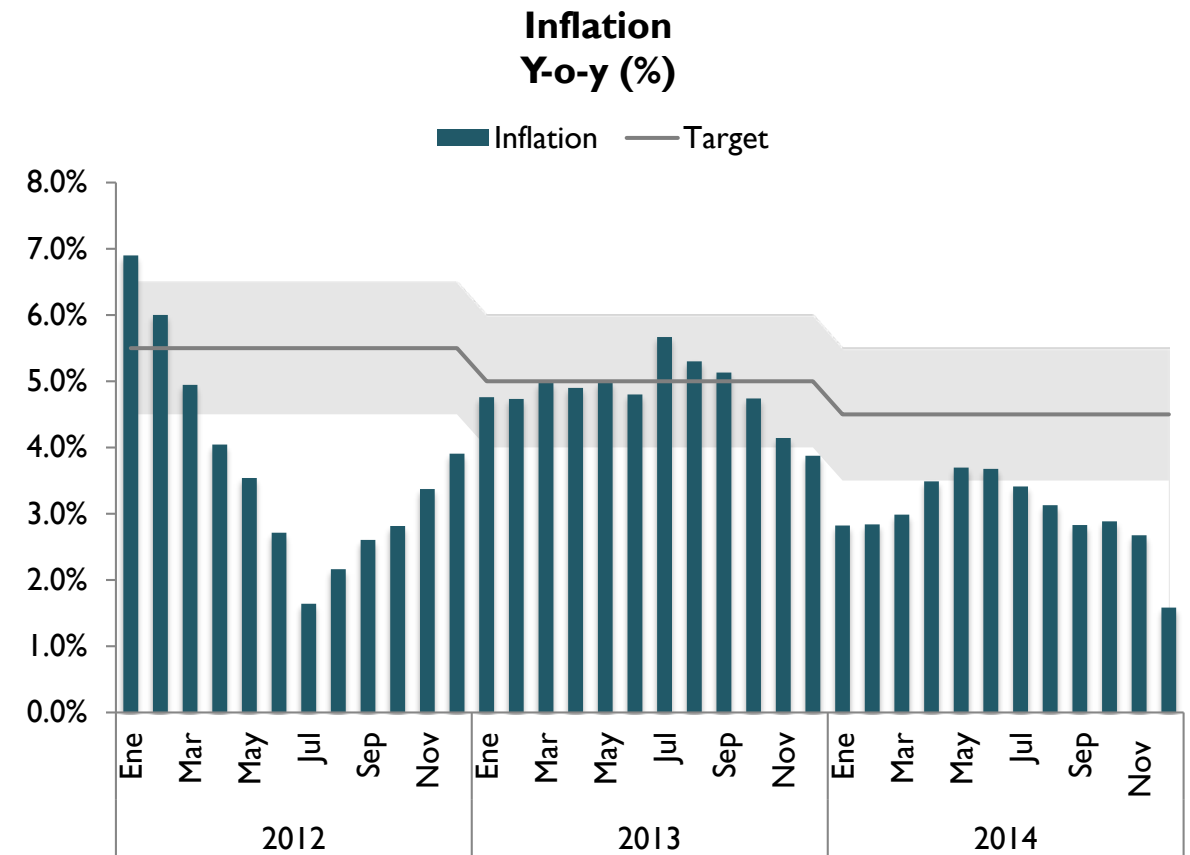
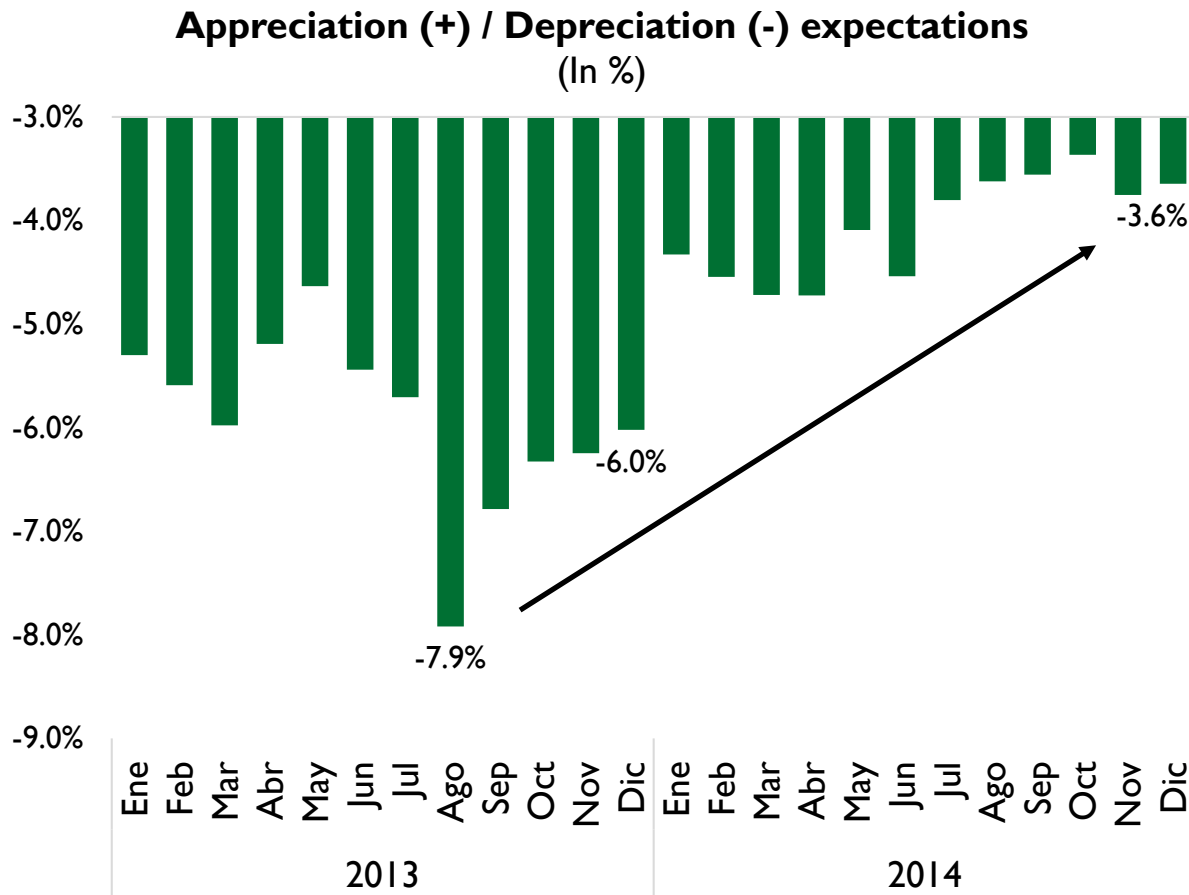
Considering the possible impact on financial stability and market expectations, the CBDR decided to increase the MPR by 200 bps...

CBDR: Interest Rate Corridor



Additionally, the CBDR conducted exchange market interventions to reduce the exchange rate volatility...

These policies reduced inflationary pressures and lowered depreciation expectations...



... however, it became increasingly evident that conventional MP had to be complemented with a formal macroprudential framework.