Forum: Economic and Social Council (ECOSOC)

Issue: Stabilizing currencies in South America

Student Officer: Aida Marinaki

Position: Deputy President

PERSONAL INTRODUCTION

Dear Delegates,

My name is Aida Marinaki and I am more than excited to be serving as the Deputy President of the Economic and Social Council in the 8th Platon School Model United Nations Conference. Having noted with admiration the success of the previous sessions of the Platon School MUN Conference and the positive feedback it has received, I feel honored that I am given the opportunity to serve as a Student Officer in this year's Conference.

As an ardent MUNer who has participated in various MUN Conferences as a Student Officer and a Secretariat Officer, I view every time I coordinate the work of a Committee as a challenge and a privilege at the same time; as an opportunity to make the delegates of my assigned Committee understand the value of MUN Conferences and inspire them to continue participating in them. My role during the session will be to explain to you how the work in our Committee will be conducted, assist you, give you advice and guidelines and moderate the discussions that will take place to make sure that you all get involved and participate in them and the procedural rules are followed. Having chaired before I am confident that I will do my best to ensure that you will make the most out of your participation in the Conference. My advice to you is to do as much research as you can prior to the Conference. Preparation is the key for you to be able to contribute creatively and make the discussions fruitful, constructive and interesting. I hope that you find my study guide helpful.

If you have any questions do not hesitate to contact me via email. My email address is ainta.marinaki@gmail.com

I look forward to meeting you and cooperating with you!

Regards,

Aida Marinaki

TOPIC INTRODUCTION

All sovereign states and dependences in South America - with the exception of Ecuador and the French overseas department French Guiana - use their own currencies. During the 1980s most Latin American countries faced chronic monetary instability. Subsequently, the local economies were destabilized and the states of the territory experienced high inflation rates even including periods of hyperinflation and swift fluctuations of the value of their domestic currencies. On top of that, the poor inflation figures had a profound social impact and led to social unrest as the disparity between different social groups with regard to their living conditions and economic competence became more noticeable.

The 1990s decade consisted a landmark for the economies of the South American states. During that period measures aiming to achieving significant improvement of the prevailing economic conditions and replacing the prolonged, chronic economic stagnation with economic growth were introduced, thus changing things for the better. One of the noteworthy results was the drop of the inflation rates that reached a 50-year-low. In order for that goal to be achieved, the two following distinct approaches were adopted; anchoring local currencies to a fixed exchange rate, often linking the local currency to the U.S. dollar, and 'inflation targeting', using monetary policy measures to make sure that preset inflation targets were met.

The implementation of the aforementioned strategies may had had an initial imperative positive impact. Nonetheless, the long-term results were not equally comforting for all the countries of the region, leading to the preservation of the economic instability and disparity between them that still exists. Therefore, it can be easily understood that although a lot of attempts have been made to control the inflation and exchange rates and pursue economic progress, a lot can still be done in order to improve the current situation.

DEFINITION OF KEY TERMS

Currency Currency is a commonly accepted form of money, enclosing coins and paper notes, which is dispensed by a government and dispersed within an economy. Used as a medium of exchange for goods and services, currency is the foundation of commercial activities. In most all circumstances, the central bank of a state has the exclusive right to issue money for circulation. Along with a main unit of currency, these banks issue fractional units, usually in the form of coins.

Peso The peso (meaning *weight* in Spanish, or more loosely *pound*) was a coin that was initiated in Spain and became of vast importance globally. *Peso* is now the name of the monetary unit of numerous former Spanish colonies. The countries that use pesos are: Argentina, Chile, Colombia, Cuba, Dominican Republic, Mexico, Philippines, Uruguay

Centavo The centavo is a Spanish and Portuguese term, derived from the Latin centum, meaning "one hundred", and the suffix -avo, meaning "portion" or "fraction". Centavo means, strictly, "one-hundredth". It is a fractional monetary unit, used to symbolize one hundredth of a basic monetary unit in many states worldwide.

Exchange rate An exchange rate is the value of a nation's currency in terms of a different currency. Consequently, an exchange rate has two components, the domestic currency and a foreign currency, and can be cited either directly or indirectly. In a direct quotation, the price of a unit of foreign currency is conveyed in terms of the domestic currency. In an indirect quotation, the price of a unit of domestic currency is expressed in terms of the foreign currency. Exchange rates are quoted in prices against the US dollar. Nonetheless, exchange rates can likewise be quoted against another country's currency, which are known as a cross currency, or cross rate.

Fixed Exchange Rate
A fixed exchange rate is a state's exchange rate system under which the central bank or government bonds the official exchange rate to another country's currency or to the value of gold. The aim of a fixed exchange rate system is to preserve a country's currency value within a very constricted band.

Inflation
Inflation is the rate at which the overall level of costs for goods and services is mounting and, subsequently, the purchasing power of currency is dropping. Central banks effort to bound inflation, and circumvent deflation, in order to keep the economy running efficiently.

Inflation Targeting
Inflation targeting is a central banking strategy that rotates around meeting preset, openly presented targets for the yearly rate of inflation. The benchmark used for inflation targeting is normally a price index of a basket of consumer goods, such as the Consumer Price Index (CPI) in the United States.

Alongside with inflation target rates and calendar dates to be used as performance measures, an inflation targeting policy may as well have introduced measures that are to be followed subject to how much the actual inflation rate diverges from the targeted level, such as cutting lending rates or adding liquidity to the economy.

BACKGROUND INFORMATION

At present fourteen currencies are used in South America (this covers twelve sovereign countries, two dependencies, and an integral territory), as all sovereign states and dependencies apart from Ecuador and the French overseas department French Guiana use their own currencies. The currencies that are used are outlined in the following lists.

List of all South American sovereign state currencies

Country	Present Currency	Currency Sign	Fractional Unit	Previous Currency
Argentina	Argentine peso	$	Centavo	Argentine austral
Bolivia	Bolivian boliviano	Bs	Centavo	First boliviano
Brazil	Brazilian real	R$	Centavo	Brazilian cruzeiro real
Chile	Chilean peso	$	Centavo	Chilean escudo
Colombia	Colombian peso	$	Centavo	Colombian real
Ecuador	United States dollar	$	Cent	Ecuadorian sucre
Guyana	Guyanese dollar	$, G$	Cent	Pound sterling
Paraguay	Paraguayan guarani	G/	Centimo	Paraguayan peso
Peru	Peruvian Nuevo sol	S/.	Centimo	Peruvian inti
Suriname	Surinamese dollar	$	Cent	Suriname guilder
Uruguay	Uruguayan peso	$U	Centesimo	none
Venezuela	Venezuelan bolivar	Bs.	Centimo	Venezuelan bolivar

List of all South American dependency currencies

Dependent Territory	Present Currency	Currency sign	Fractional Unit	Previous Currency
Falkland Islands	Falkland Islands pound	£ (FK£)	Pence	Pound sterling
South Georgia and the South Sandwich Islands	British currency	none (no permanent residents)	none (no permanent residents)	none (no permanent residents)

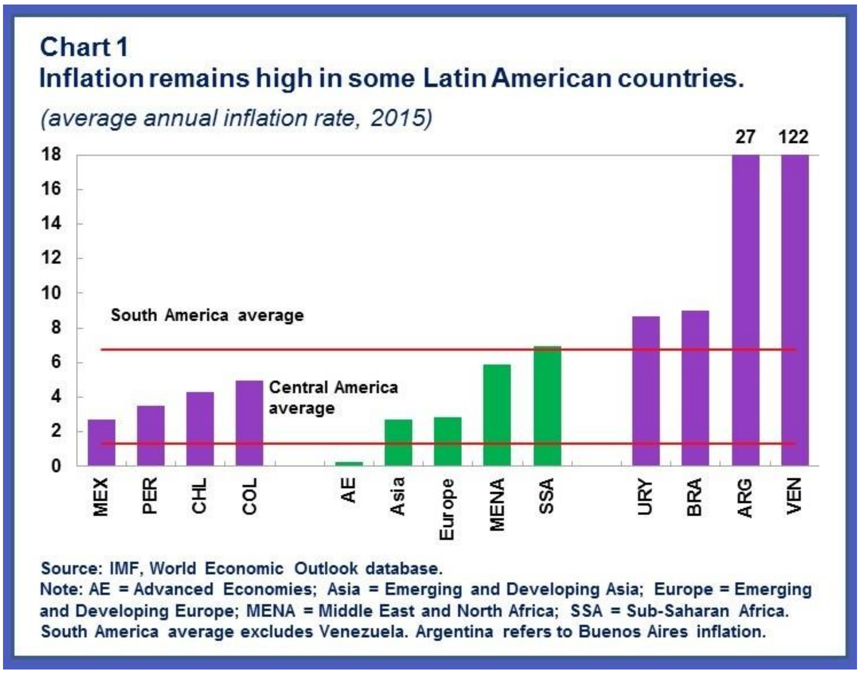
Other South American currencies

Location	Present Currency	Currency sign	Fractional Unit	Previous Currency
French Guiana	Euro	€	Cent	French franc / French Guianan franc

By the 1970s, the global economy had experienced major alterations and Latin American countries were seeing the limits of inward turning growth, which had been built on pessimism about the potential of export-led growth.

During the 1980s-decade, South American countries experienced high rates of large exchange rate depreciations, the size and persistence of which have generated enough effects to push inflation outside central bank target bands in many countries in the region. That destabilized their economies and hindered their economic growth. Although there have been substantial improvements in some area with the implementation of specific financial strategies, in some South American countries inflation has remained obstinately above the targets of their central banks and the highest inflation rates in the world are detected in Venezuela and Argentina, which consist two of the largest economies of the region.

In 1982 South American countries were exposed to extreme risk when interest rates rose in the lending countries and commodity prices fell in the borrowing countries due to their borrowing from U.S. and other international banks. Capital flows to South America overturned, with capital flight from Latin America instantly preceding the 1982 shock.



Source: IMF, World Economic Outlook database

One of the main recurrent economic issues in South America is that several of the region's countries are dependent on the export of prime commodities, either directly or as a result of regional interdependence, for supporting their economies. Nevertheless, the commodity producing nations are not able to determine the price of their exports, which is, more often than not, controlled by trading centers in New York and connected with the value of the U.S. dollar. International variations in the price of these commodities can lead to instability through South America. When commodity prices fall radically, the outcome is a so-called 'commodity shock'. Historically, commodity price shocks have repetitively threatened Latin American economies, since consumer prices have been affected by nominal exchange rate depreciations. Yet, prompt economic expansion in emerging economies such as China and India led to a concurrent rise in demand for South American commodities and to consistent increases in commodity prices.
The International Monetary Fund advocates that external conditions affecting South America have deteriorated in the period from 2010-2016, but will show improvement in 2017.

COUNTRIES INVOLVED IN THE ISSUE

Main Economies of the Area:

Brazil
In 2016, Brazil's stock market, the Bovespa, returned 70% and the country's currency appreciated by 30%. A comparable rate of return in 2017 has not been estimated by investors, but modest returns are being anticipated. The Bovespa Index (the benchmark index of about 60 stocks that are traded on the B3 – a stock exchange located at Sao Paulo, Brazil) is the largest stock exchange in South America and, hence, it is frequently used by investors to study investment trends in the area. The economy in Brazil is recuperating from its greatest severe recession since it started stalking economic data. Succeeding Dilma Rousseff's accusation, Brazil is undergoing an era of political certainty and growing consumer and business assurance. Unemployment is predicted to rise and inflation will gradually return to its target range. A 2016 report on Brazil's economy advocates that Brazil's fiscal stance is slightly contractionary which strikes a respectable balance between macroeconomic necessities and stability. Fiscal modification will permit monetary policy to loosen and promote investment from foreign and domestic sources. This demonstrates that the Brazilian government is devoted to reinstating the sustainability of public finance through a solid route. Brazil's escalating productivity relies on the solidification of its competition, enhancement of infrastructure, and less administrative barriers. A renovation of Brazil's economic governance has been suggested by the Brazilian president Michel Termer and the former governor of the central bank, Henrique Meirelles. According to this plan, public expenditure, including the pension system, will be cut and rules will be lifted, commencing in the oil and gas domian, which has suffered because of over leverage and corruption. Over the preceding 20 years, public expenses have increased per annum by 6%, which has grown the deficit to -2.3% of the Gross Domestic Product

for the year ending in April 2016. Forecasts for the Brazilian economy have brought hope between entrepreneurs and investors. The yield on the Brazilian bond has fallen from 17% in January 2016 to 13% in June 2016, demonstrating confidence in the economic future of Brazil.

Chile

Chile's economy is expected to grow in 2018 as a result of an increase in investment and private consumption and the high demand for Chilean exports. The economic activity in 2016 was supported by the services sector and reduced by mining and manufacturing. An increase in unemployment from 6.5% to 7.1% is projected. The investment environment in Chile is expected to undergo a positive change and will be realized by minor investments in mining, and a ricochet in other sectors. Actions to intensify productivity and investment will contribute to supporting sustainable growth and diversifying the economy. In 2016, inflation receded to 2.7%, 0.3% lower than the central bank's goal. Chile's economy is mostly connected to the mining industry, though it is not the only significant industry in Chile. An eighth of the working population is engaged in this industry. Codelco (a Chilean state owned copper mining company) is the world's biggest copper exporting company. Chile also mines gold, silver, and cement materials. While Chilean administrations have put effort to diversify the economy, a strong mining industry has been the foundation for monetary stability.

Argentina

Economic growth in Argentina is expected to increase in 2018 by OECD (Organization for Economic Cooperation and Development) due to financial reforms that have been applied recently. In 2016, Argentina restructured the national statistics agency, triggering an upgrade in Argentina's trustworthiness. This empowered the central bank to hold inflation, increase interest rates and address exchange rate pressures. The most recent inflation data illustrate that the inflation rate will stabilize at a 1.5% month over month, with anticipations anchored at 20% year over year. 2016 has confirmed the credibility of the Argentine central bank and its transparency efforts. The government is pursuing to amend wages at the level of inflation while unions are trying to adjust past inflation targets. Argentina experienced a low point of financial activity in mid-2016. The decline in Gross Domestic Product reached -3.4% in the second quarter of 2016. BBVA (Banco Bilbao Vizcaya Argentaria, a multinational Spanish banking group) research expects developments in the coming years for industrial activity focused on overseas markets, due to the recovery of Brazil. Domestic consumption commenced improving at the end of 2015 driven by higher retirement earnings catalyzed by the application of the historical reparations program. Oil-cake, soya beans, crude soya bean oil, maize, and diesel-powered trucks were Argentina's top exports in 2015.

Colombia

Colombia has a solid export sector. The top commodities exported in 2015 include petroleum, coal, coffee, and cut flowers. A research of the BBVA shows that investment and consumption have gone through modification, which led to the fall of domestic demand below the total Gross Domestic product. Economic growth a rate of 2.4% was predicted for the year 2017. Decreasing imports and lesser profit deportation made the deficit stand at 4.8% of the GDP at the end of 2016. Current exchange rate levels will aid the rectification of the external. At the end of 2016, the Congress of Colombia established a tax reorganization bill, with aiming at making public accounts more maintainable and replacing profits that the government lost from the oil sector. This reform is projected to increase non-oil revenue by 0.8% of the Gross Domestic Product and will progressively increase in the following years. The latest economic data support a stoppage of progress comparative to previous estimates. This slow growth is happening in all sectors of domestic demand. Private consumption relieved in accordance with a drop-in consumer sureness and the slowdown was further than the drop of outlay in durable products.

TIMELINE OF EVENTS

Year	Event
1970s	Latin American countries are adversely affected by major global economic alternations
1982	South American countries are at stake as a result of the fluctuations of exchange rates
1989	Articulation of the Washington Consensus
2010 – 2017	The IMF notes the deterioration of external conditions for South America, while, nonetheless, expecting future improvements

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

During the late 80s and early 90s, a series of structural reforms were undertaken by South American governments to try to respond to the financial instability of the South American economies. As a result of the aforementioned adjustments, fiscal crashes that formerly produced decade-long debacles now have a duration of one or two years. Where pecuniary frameworks have improved considerably over the past two decades, the rate at which currency depreciations are passed through to domestic prices has lowered significantly compared to the past. Transactions among countries

in Latin America prospered from less than one-fifth of the area total international commerce early in the decade to near one-half of all trade in 1999. The few authoritarian impulses that resurfaced during the decade have hitherto been kept under control by domestic and international pressures and electoral procedures have become common. However, in other Latin American states, exchange rate pass-through remains larger than secured.
Among several other measures, steps were implemented to try to stabilise volatilisable currency exchange rates. In essence, two distinct approaches were adopted to accomplish this goal. The first approach included 'inflation targeting', using monetary policy measures to guarantee that predetermined inflation targets were accomplished. The second approach enclosed anchoring local currencies to a fixed exchange rate, oftentimes connecting (or 'pegging') the local currency with the US dollar. In most instances, a combination of both approaches was used to stabilize the exchange rate and curb inflation.
Initially, both approaches seemed successful. Countries that opted for a more inflexible exchange rate anchor policy managed to almost instantly handle the depreciation of their currencies and were capable of bringing inflation rates down to single figures within a brief time period. As an outcome, the states with the highest pre-stabilization inflation rates chose more rigid exchange-rate anchor strategies. Nonetheless, the exchange rate anchors proved excessively inflexible to address fluctuation on the global market and, therefore, these countries were incapable of converting their initial success into long-term stability. On the other hand, countries which had undergone more mild rates of pre-stabilization inflation introduced inflation targeting measures. Although these economies enjoyed comparatively slow and modest short-term success, their economies were more able to enforce monetary-based measures to counter fluctuations on the global market and proved to be more stable in the long term.

The Washington Consensus, which was articulated by the British economist John Williamson in 1989, addressed the economic crisis that countries in Latin America were experiencing. The Washington Consensus is a set of 10 economic policy instructions considered to comprise the "standard" reform package promoted for developing countries that suffer due to unfavorable economic conditions.

POSSIBLE SOLUTIONS

A prerequisite for achieving the stabilization of currencies is the improvement of the economies of South American countries alongside the establishment of strong trade bonds between them and foreign trading partners. By adopting the appropriate monetary strategies South American countries would be able to maintain the trade agreements that already exist between them and foreign investors as well as establishing further trade and financial agreements to expand their foreign direct investment (FDI) sources. The aforementioned objective could be achieved by ensuring the implementation of measures such as those provided by the Washington Consensus. Such measures could enclose:

- The introduction of a certain degree of trade liberalization, such as the liberalization of imports, with specific emphasis on the removal of quantitative restrictions. This practice would be complemented by the liberalization of inward foreign direct investment (FDI). The abolishment of regulations that hinder market entry or limit competition, apart from those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions, and the imposition of market determined interest rates could also be viewed as a way to enable South American markets attract more foreign investors.

- Efforts aiming at the redirection of public expenses from subsidies toward broad-based provision including primary education, health care and infrastructure investment supplemented by necessary taxation system reforms would also contribute significantly toward altering the general economic outlook of the countries and consist the foundation for additional progress in the economic domain.

Furthermore, the possible approaches of the issue that have been analyzed in the previous attempts section of the Study Guide could consist a basis for the further development of the economic policies of South American countries. It has been indicated by them that opting for more flexible exchange rates and not anchoring currencies at a pre-set exchange rate can make the financial markets of the countries more easily adaptable to the conditions that prevail in international markets and, therefore, can be proven to be beneficial for their economies in the long term. Hence, deciding upon how the value of the currency of each state is determined according to its policy and economic strategy and goals is a factor of profound significance. Lastly, all economic and social measures that are likely to lead to lead to economic development and growth of the affected economies, will be beneficial for their economic stability and thus most likely increase the trust of trade partners and other economies; that will definitely play a role in improving the instability of the exchange rates in the regions of South America.

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