Session 3: Taper Tantrum y Capital Outflows: Dominican Republic

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

*Reference year 2007*
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 Graph]
Considering the possible impact on financial stability and market expectations, the CBDR decided to increase the MPR by 200 bps...

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

Source: BCRD
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.