

The Global Crisis: Impact on Latin America

An outline map of Latin America, including Mexico, Central America, the Caribbean, and South America, is positioned on the right side of the slide. The map is rendered in a light gray color and is partially overlaid by a blue rounded rectangular shape that contains the title text.

Gilbert Terrier,
March 16, 2009

Outline of the presentation

- Global crisis and deleveraging
- Latin America in better position this time
- However, with differences across countries
- And further risks down the road
- How best to prepare?

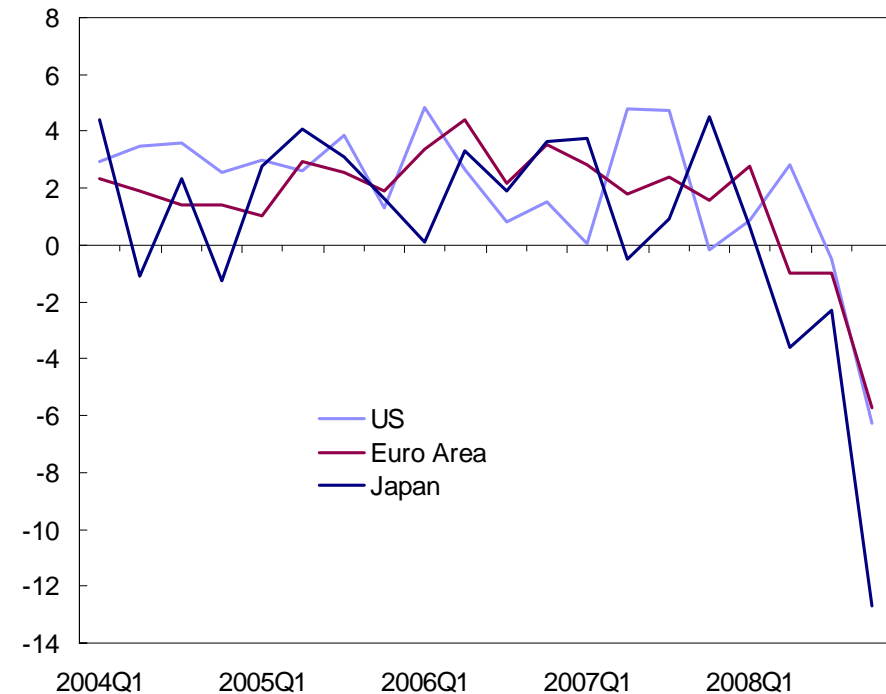
Global bubble: important implications for LAC

- Unusually high commodity prices
- Strong capital inflows in some countries (though not as strong as in East. Europe)
- Optimistic expectations for potential output growth

Global outlook deteriorating fast

- Collapse in growth in advanced economies with clear spillovers to EM
- Continued global deleveraging
- Global trade sharply contracting (esp. Asia), commodity prices down

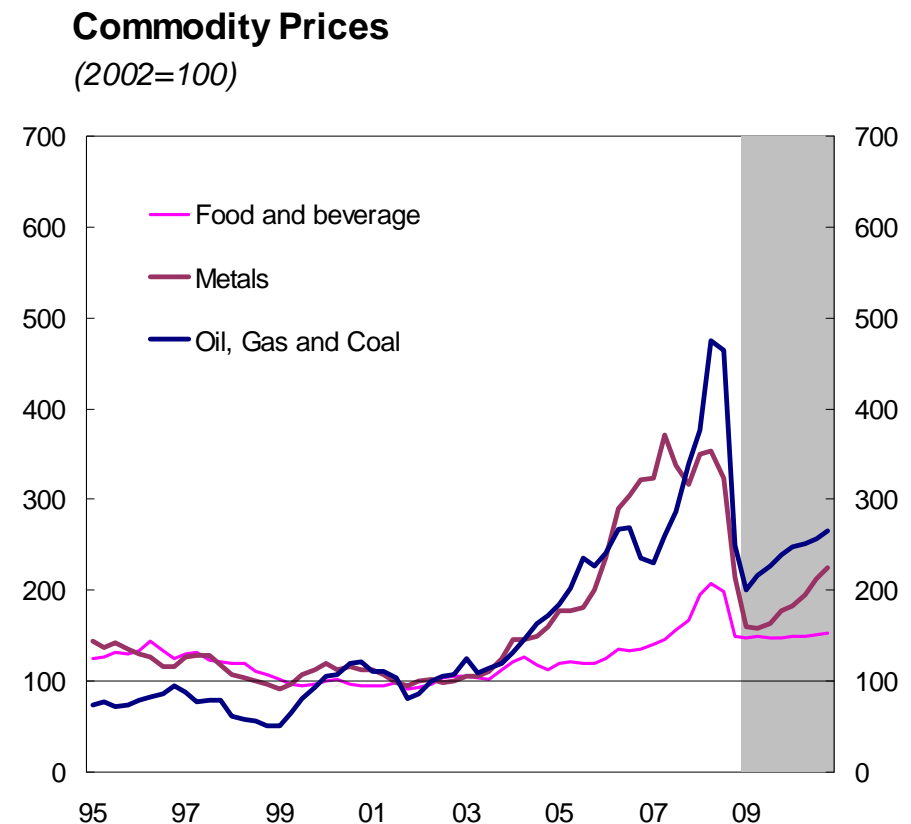
Real GDP Growth in Advanced Economies
(q/q annualized)



Source: Haver Analytics.

What are the key channels of transmission?

- Fall in commodity prices impact on current accounts
- Trade linkages also relevant, though the region is still relatively closed

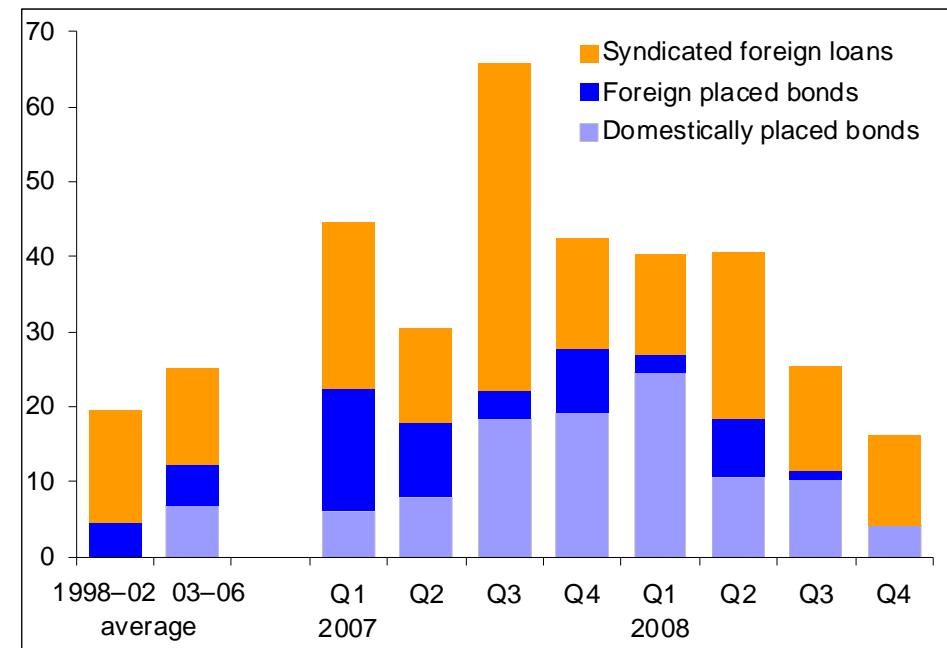


Sources: WEO; and Fund staff estimates.

Main shocks from external financial conditions and the capital account

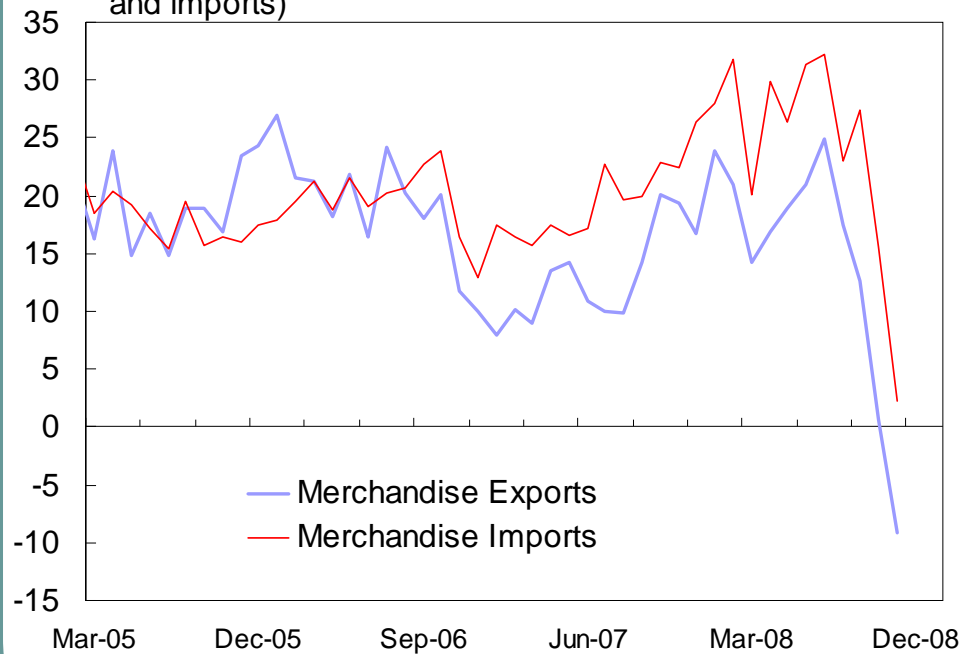
- Strong impact of deleveraging on banks and corporates
- Corporate access to foreign financing much tighter; and large corporate rollover needs in some cases
- Repatriation of capital to safe havens (US)

Private and Quasi-Sovereign Corporate Financing in LAC
(Billions of U.S. dollars)

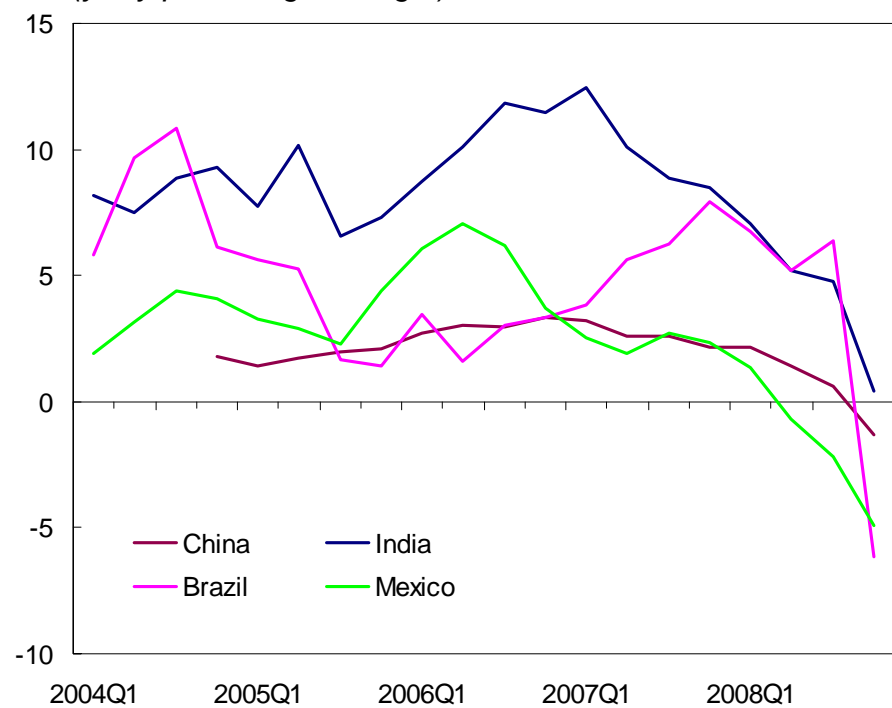


Severe and fast impact on real economy in LAC

LA 7
(Change from a year in the monthly value of exports and imports)



Industrial Production
(y-o-y percentage change)



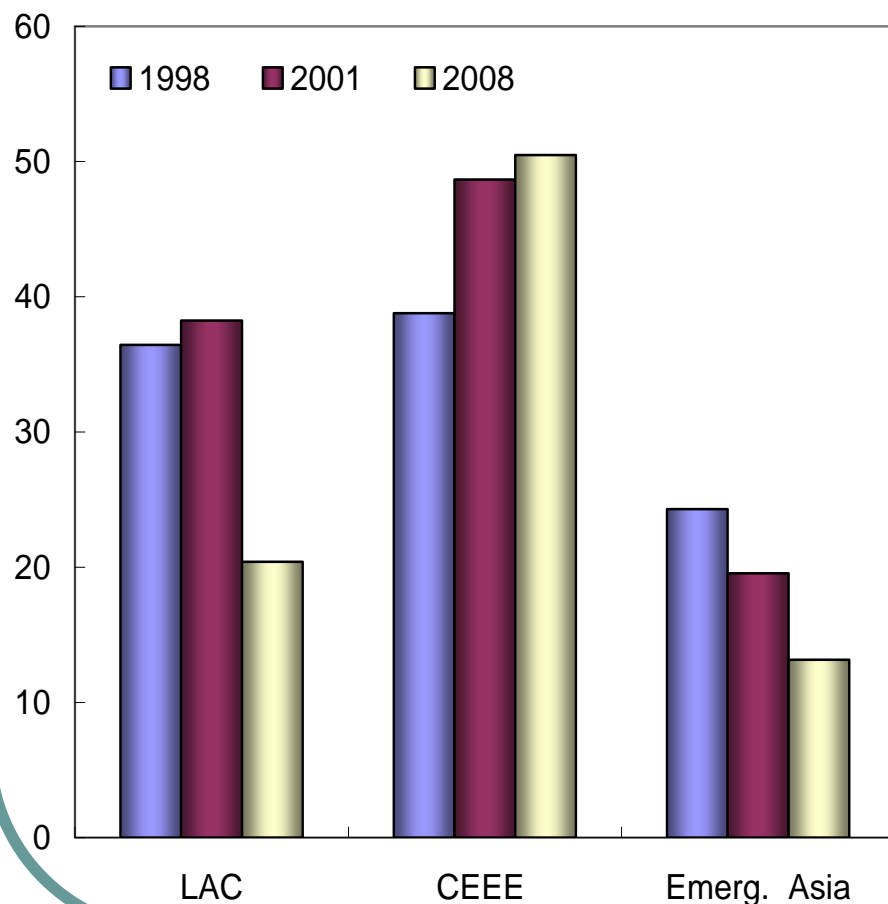
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External and public debt levels have come down

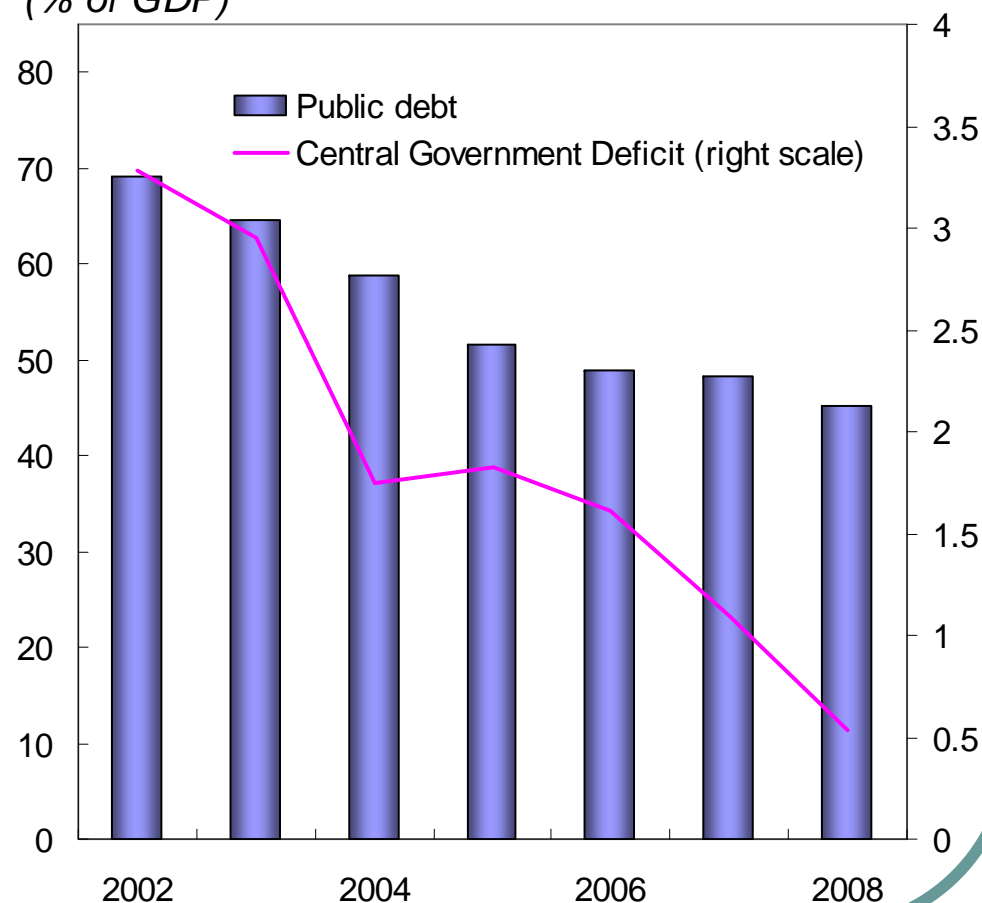
Total External Debt

(% of GDP)



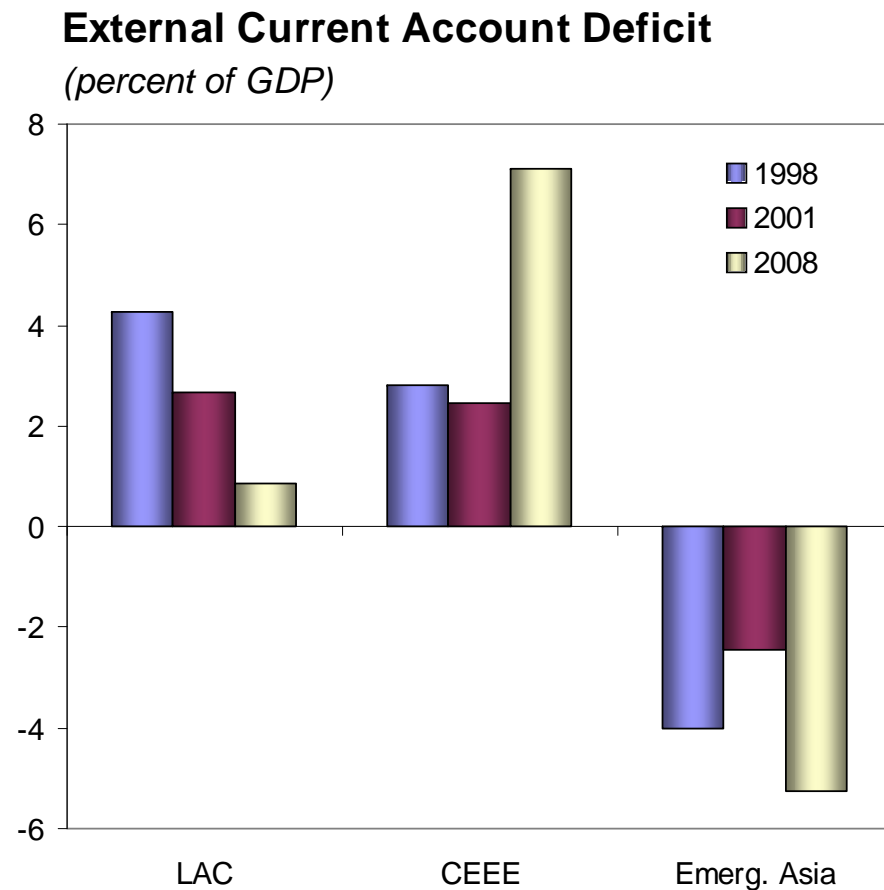
LAC Public Debt and Central Government Deficit

(% of GDP)



Lower external current account deficits

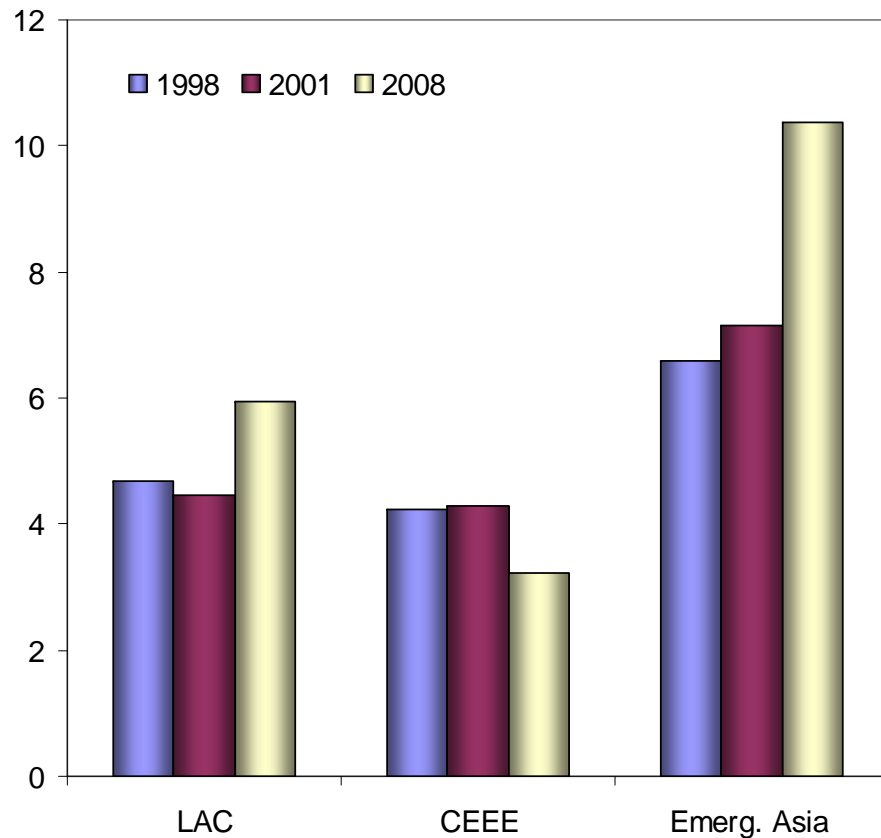
- Current account deficits declined in LAC
- Much better position than Central and Eastern Europe, but worse than Asia



International reserves at more comfortable levels

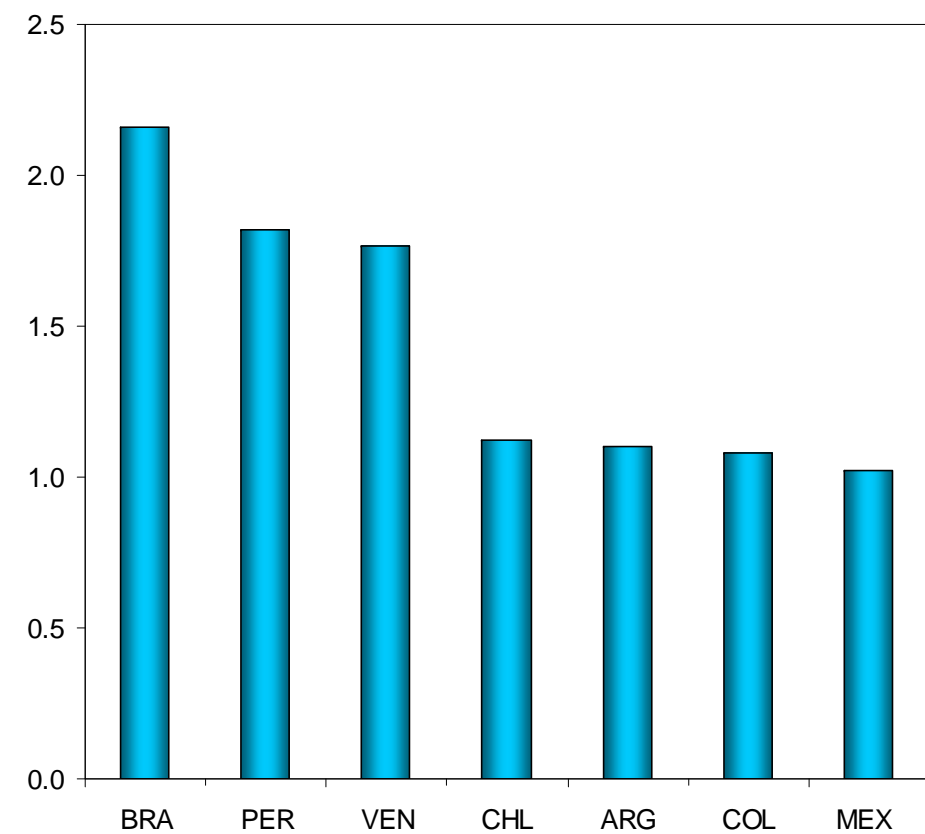
Reserves in Months of Imports

(ratio)



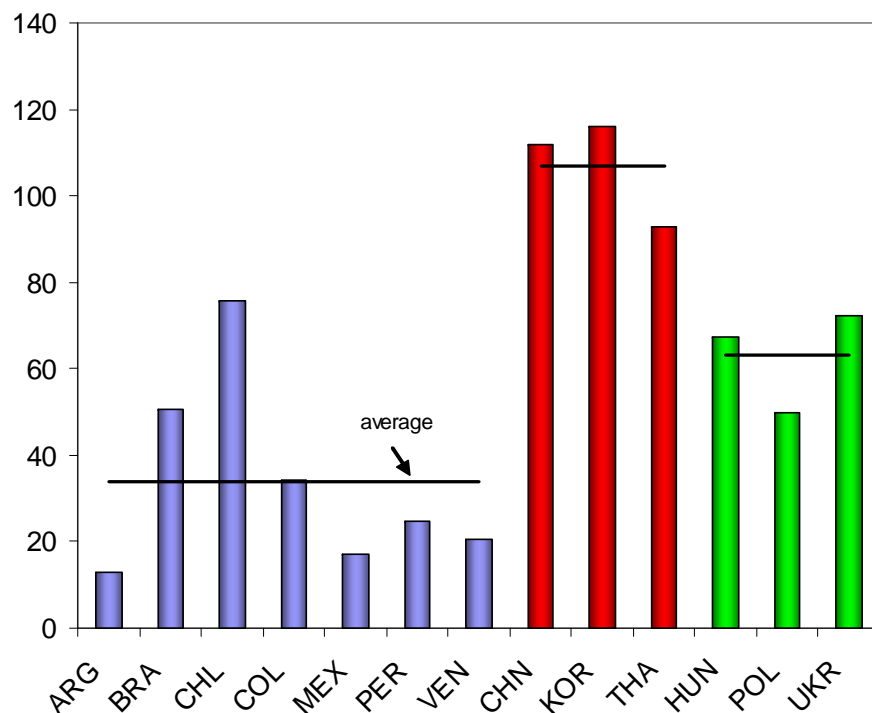
Reserve Coverage of Aggregate External Financing Requirements, 2009

(ratio)



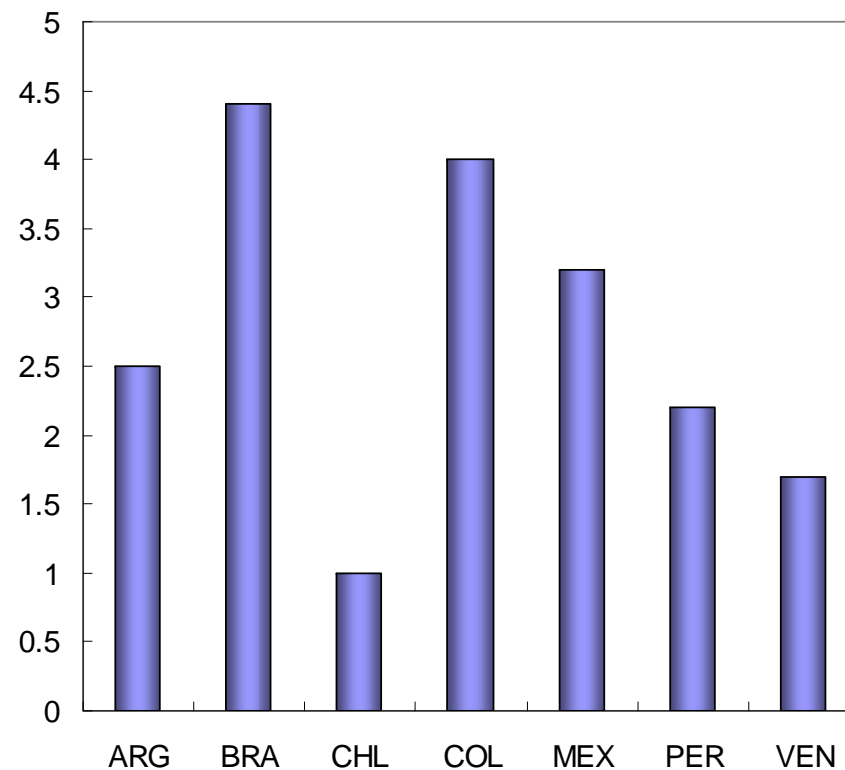
Moderate credit and NPLs ratios

2008 Credit to the Private Sector
(percent of GDP)



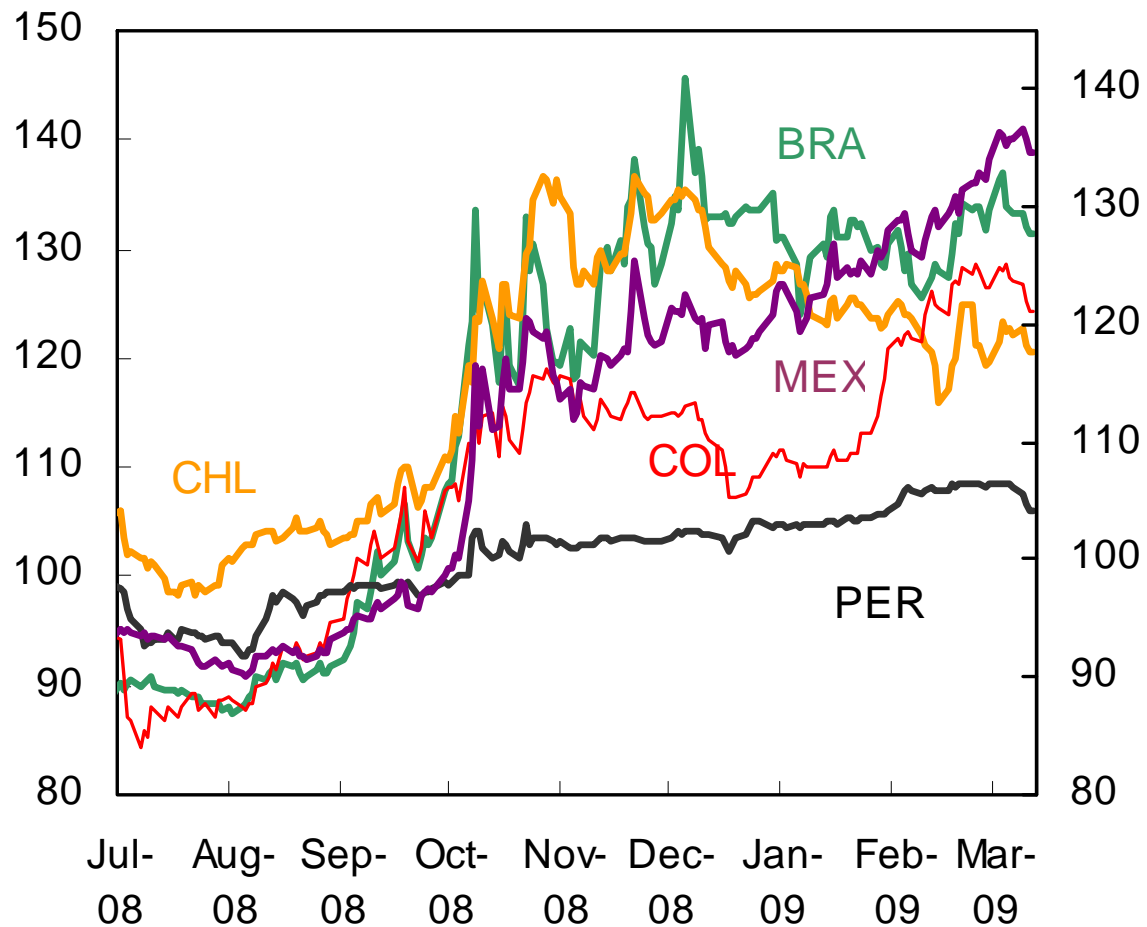
2008 NPLs

(percent of total credit)



Flexible exchange rates: key shock absorber in some countries

Exchange rates
(Jan. 2007=100)

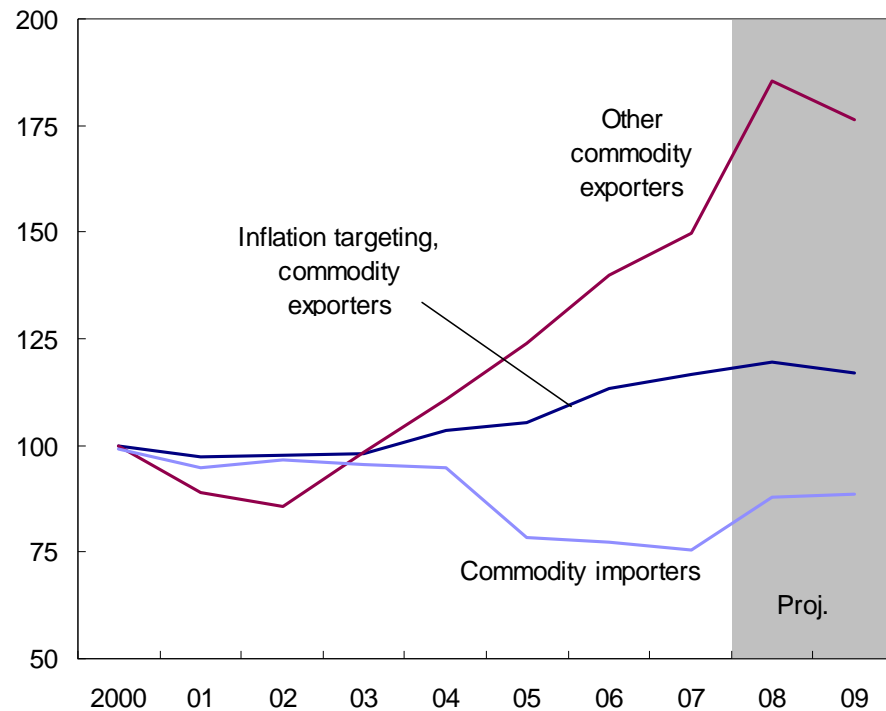


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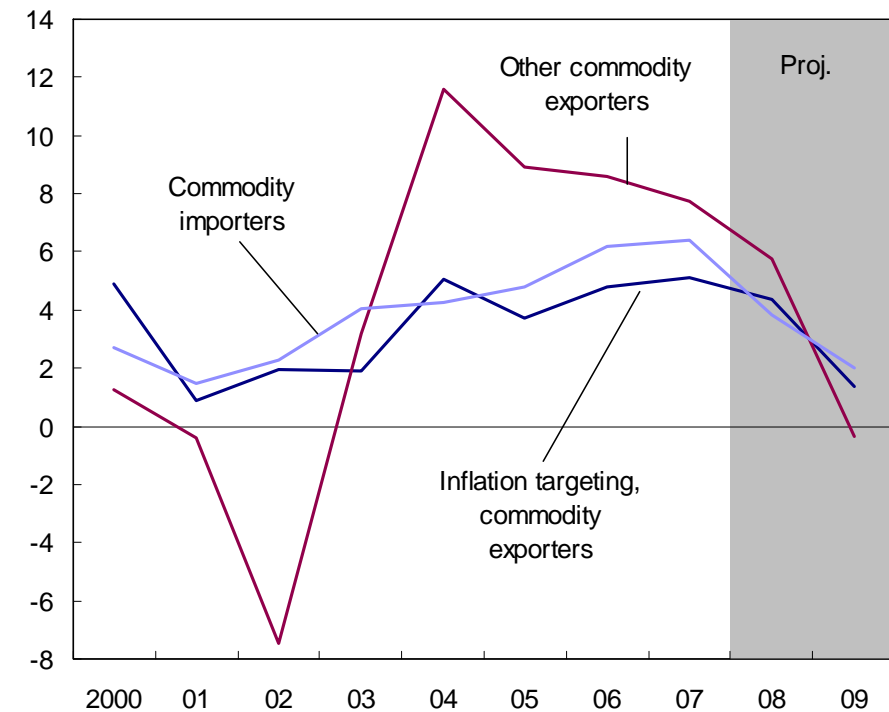
However, important asymmetries across the region

Terms of Trade 1/
(Index 2000=100)



Source: IMF staff calculations.
1/ PPP-GDP weighted average.

Real GDP Growth 1/
(Annual percent change)



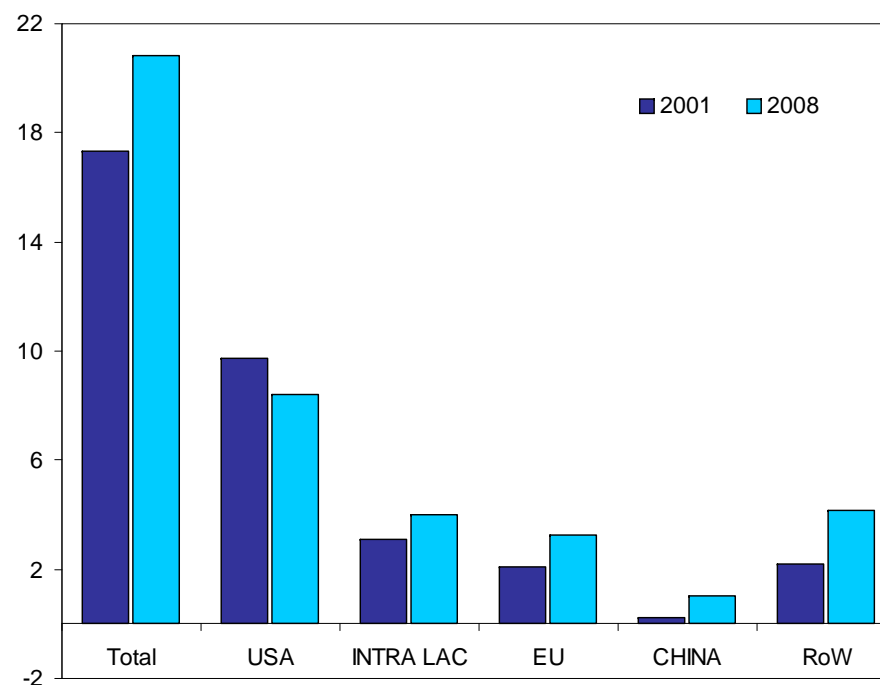
Source: IMF staff calculations.
1/ PPP-GDP weighted average.

IT commodity exporters includes Brazil, Chile, Colombia, Mexico, and Peru. Other commodity exporters includes Argentina, Bolivia, Ecuador, Venezuela, and Trinidad and Tobago. Commodity importers includes the remaining LAC countries.

Also varying exposure through trade

- Trade linkages less relevant than in other regions (Asia)
- But strong ties to the US in Mexico, Central America, and the Caribbean
- Impact also through remittances and tourism

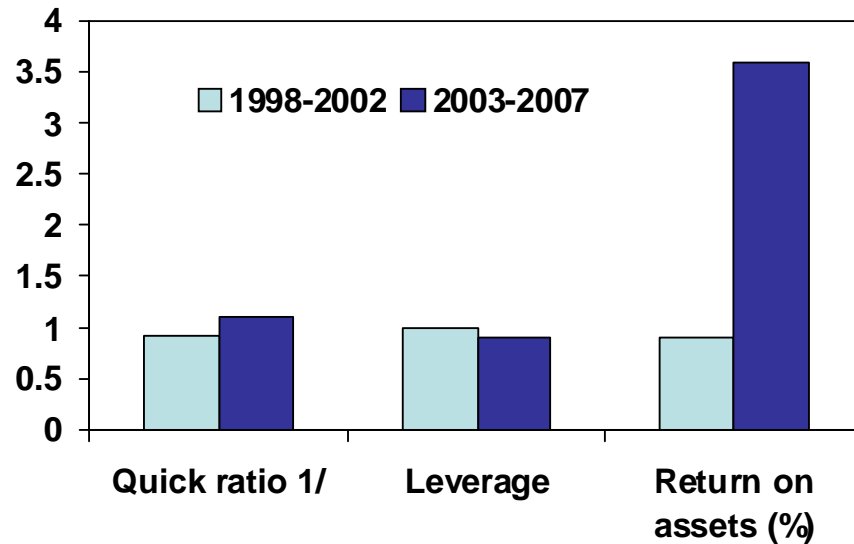
LAC Total Exports
(In percent of GDP)



Source: Direction of Trade.

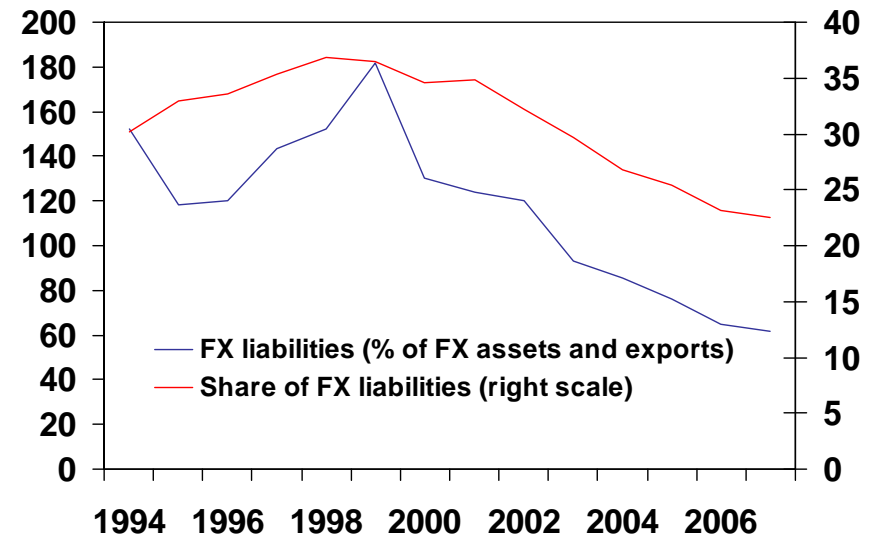
Corporate balance sheets generally improved

Stronger balance sheets in LA7 non-financial listed firms



1/ Current assets (net of inventories) / current liabilities.

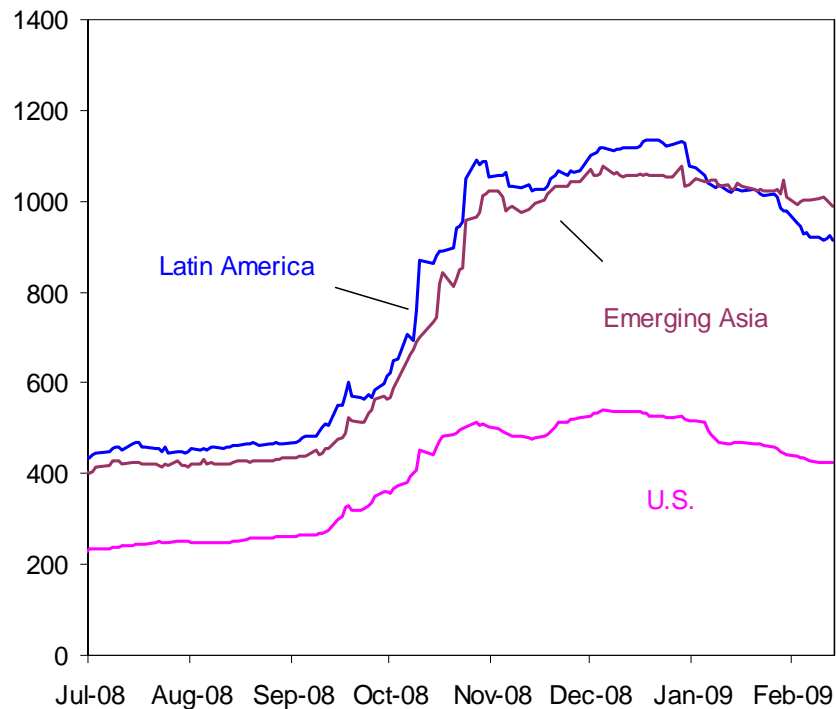
Lower *on-balance sheet* exposure to FX debt



Spreads have moved up

Corporate Spreads

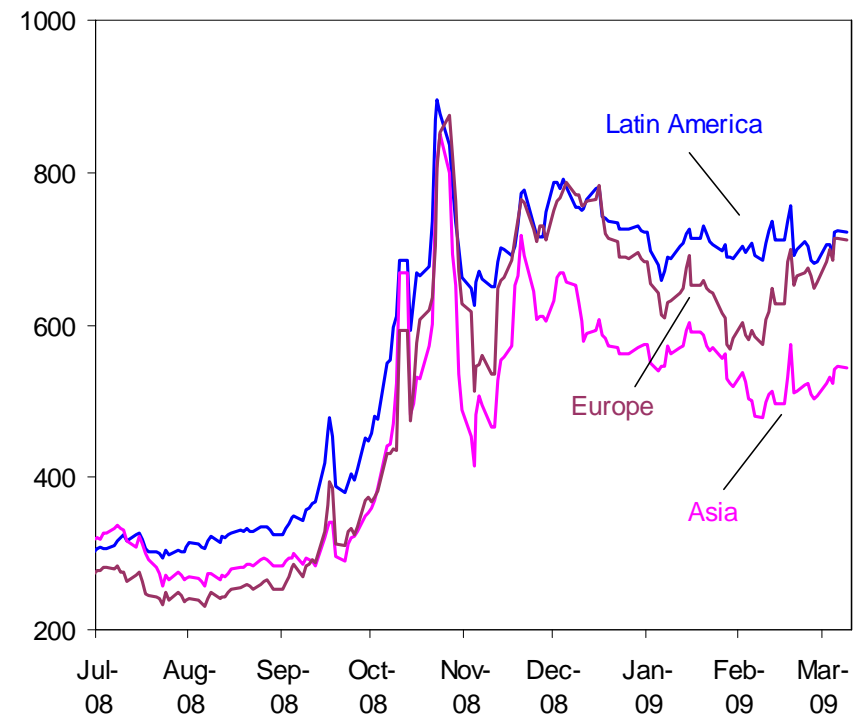
(all asset class, basis points)



Source: Credit Suisse.

EMBI+ sovereign spreads

(basis points)

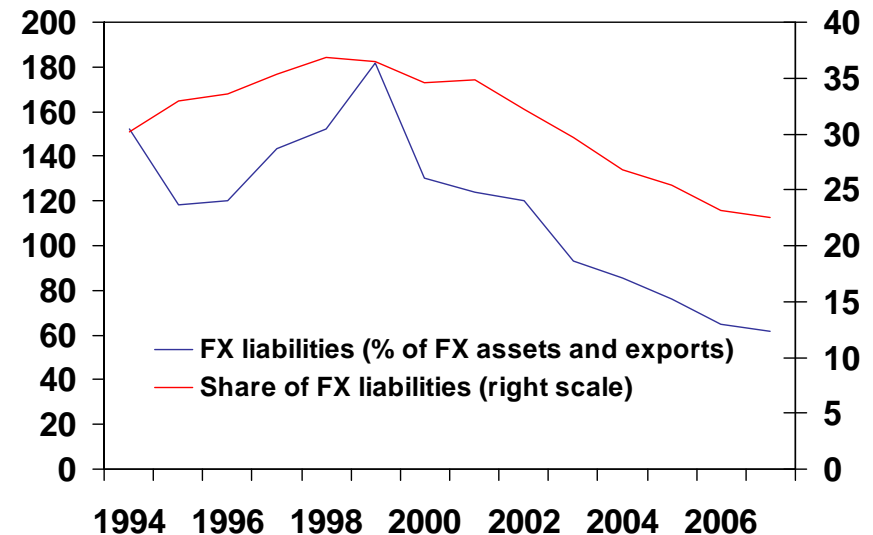


Source: Datastream

Corporate vulnerabilities persisted, not always identified ex ante

- In general, lower corporate exposure to FX debt
- *Off-balance sheet* exposure through derivative positions
- Substantial losses in some corporates in BRA and MEX following sharp FX depreciations
- Large corporate rollover needs in 09-10

Lower *on-balance sheet* exposure to FX debt



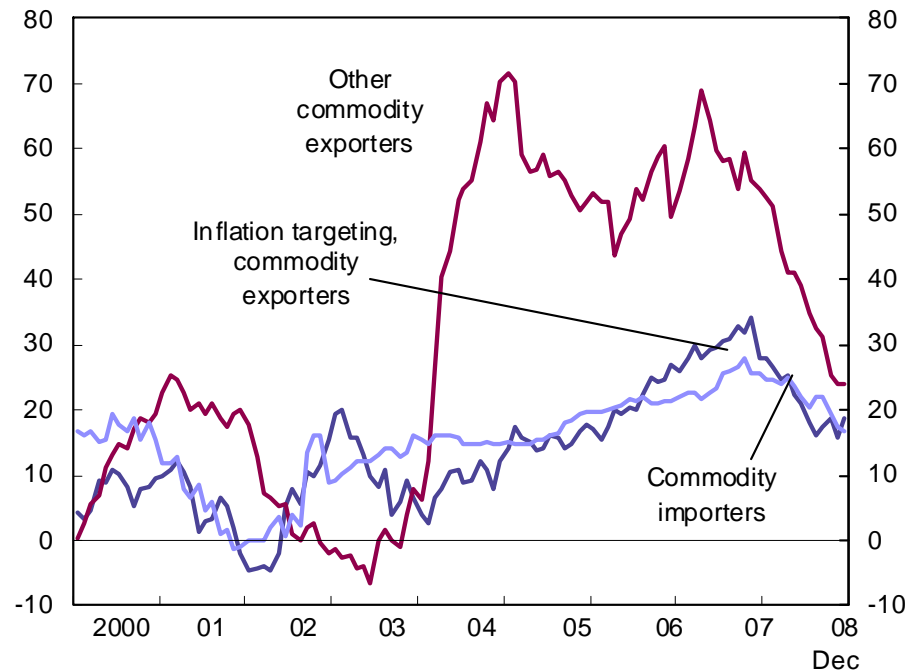
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Risks going forward: reversal of credit boom

- Credit risks important
- Liquidity hoarding by banks (credit squeeze)
- NPLs may rise sharply

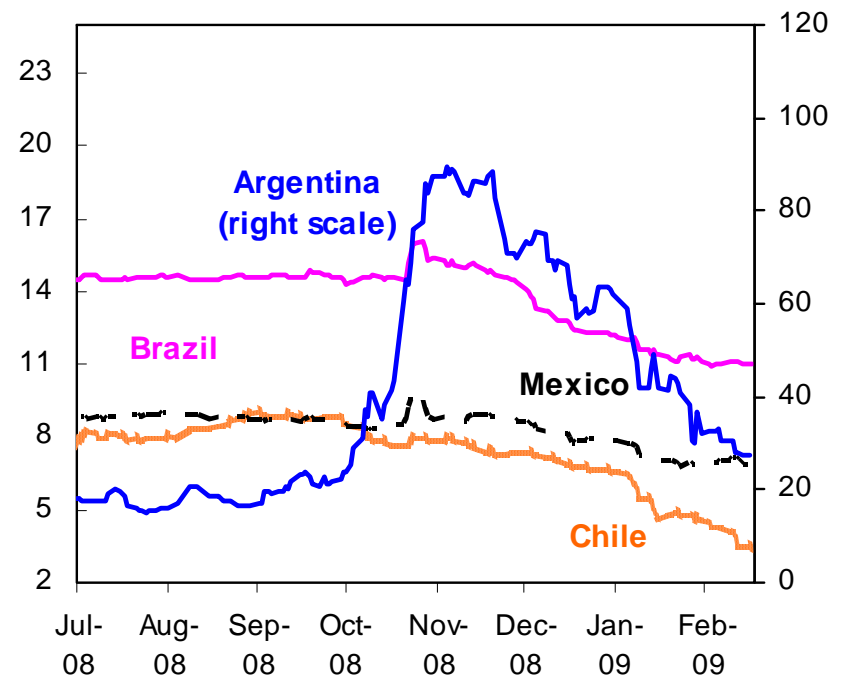
Credit to the Private Sector 1/
(12-month percent change)



Risks going forward: domestic liquidity conditions

- Lower foreign financing leading to tighter domestic liquidity
- Active policy response has helped
 - Provision of domestic liquidity
 - Cut in monetary policy rates
 - Special FX lines for corporates

Local Currency Interest Rates
(percent; one-year swap)



Risks going forward: commodity prices moving south?

- Commodity prices remain well above 2002 level
- Some speculation that they could rise—partly linked to fate of US dollar
- But also potential to go down

Percentage difference of current level of commodity prices 1/

	Max in 2008	Ave. 2002
Food and Beverage	-29	48
Oil, Gas and Coal	-58	101
Metals	-54	61

1/ Commodity indices measured in dollar terms.

Risks going forward: further considerations

- Risks of protectionism
 - Some movements toward trade restrictions
 - Subtle “buy domestic” campaigns as well
- Protracted global deleveraging
 - Continued tight foreign financing conditions
 - Rollover risks for credit lines
 - Lower FDI

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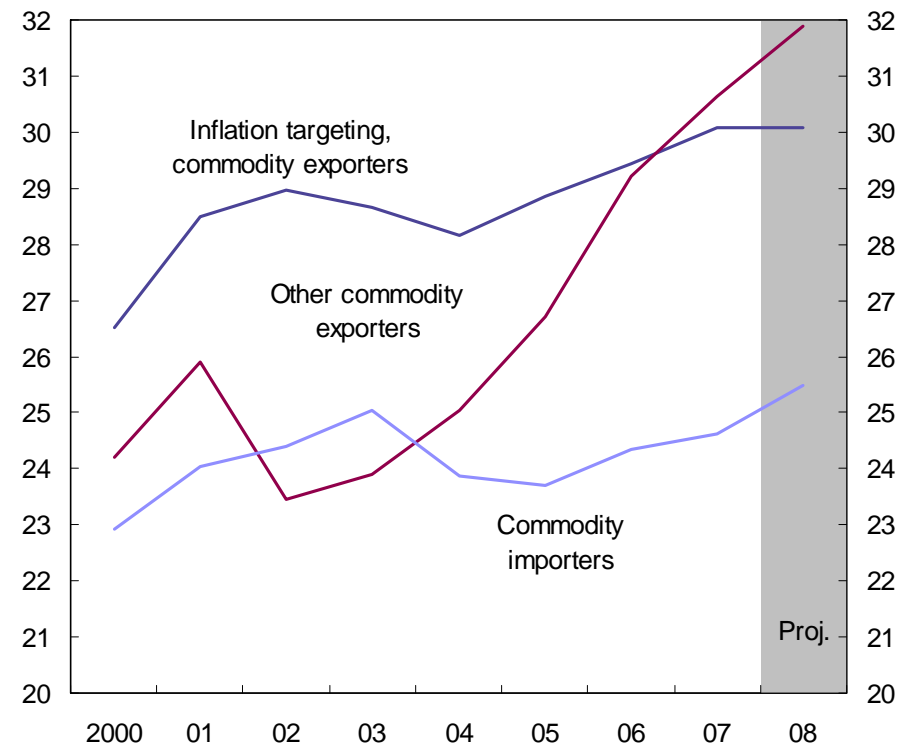
Preparing for continued financial stress

- **Critical role for central banks**
 - Balance sheet expansion: how far?
 - Quality of assets: which ones?
- **Bank resolution**
 - Strengthen bank resolution mechanisms
 - Recapitalize deposit insurance funds

Preparing for continued financial stress

- Scope for countercyclical fiscal policy?
- Strengthen social safety nets
- Financing constraints?
- Importance of credible and sustainable medium-term fiscal frameworks

Primary Expenditure 1/
(Percent of GDP)



Source: IMF staff calculations.
1/ PPP-GDP weighted average.

Preparing for continued financial stress

- Issue: Recycle liquidity back to emerging markets
- IMF can help, but resources are limited
 - US\$ 150 bn + US\$ 100 bn from Japan
 - Seeking to double/triple resources
- New facilities to ring fence economies with good track records

Thank you very much!

