The Economic and Financial Crisis

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Content sourced from:

Policy Trade-Offs for Unprecedented Times, IDB Alejandro Izquierdo, Ernesto Talvi CERES

Latin America and the Caribbean in the World, Crisis and Opportunities for Regional Cooperation, ECLAC

OUTLINE

I. Latin America and the Global Crisis: Predominant Views

II. Recent Developments: Green-shoots?

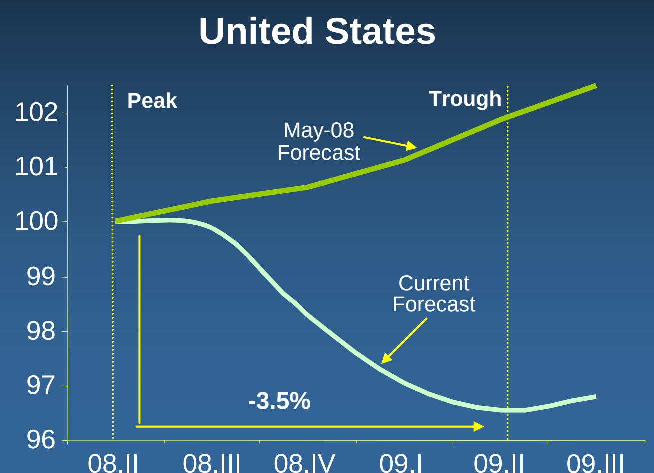
III. ECLAC: Policy Opportunities

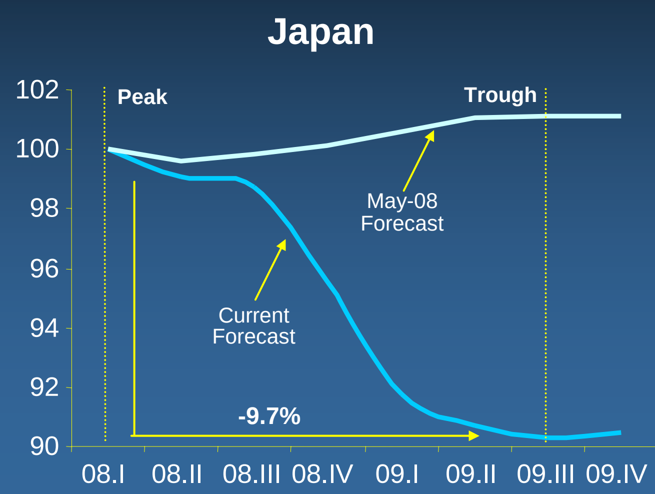
LATIN AMERICA AND THE GLOBAL CRISIS: *PREDOMINANT VIEWS*

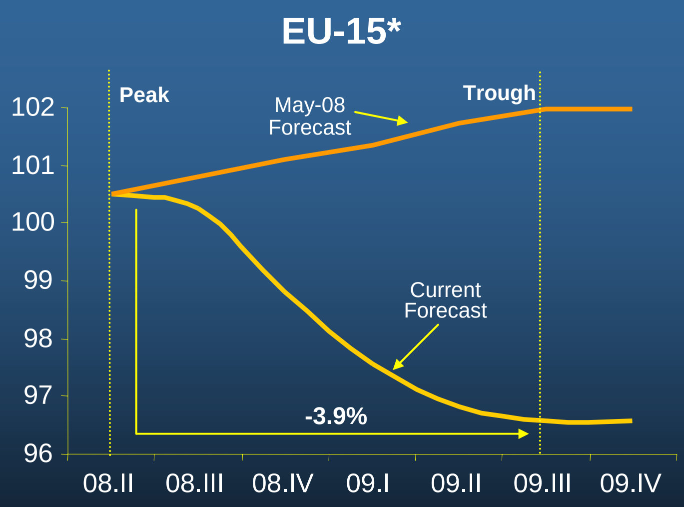
- **As a result of the global crisis Latin America suffered a drastic deterioration in the external environment:**

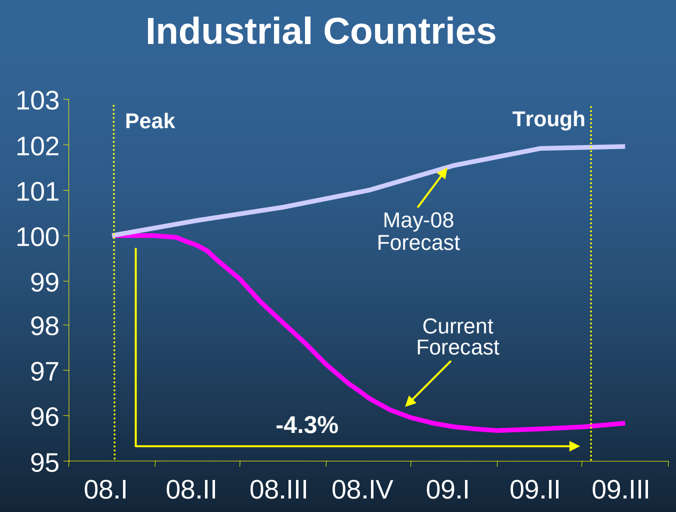
External Factors: *Industrial Countries Growth*

(GDP, real terms)





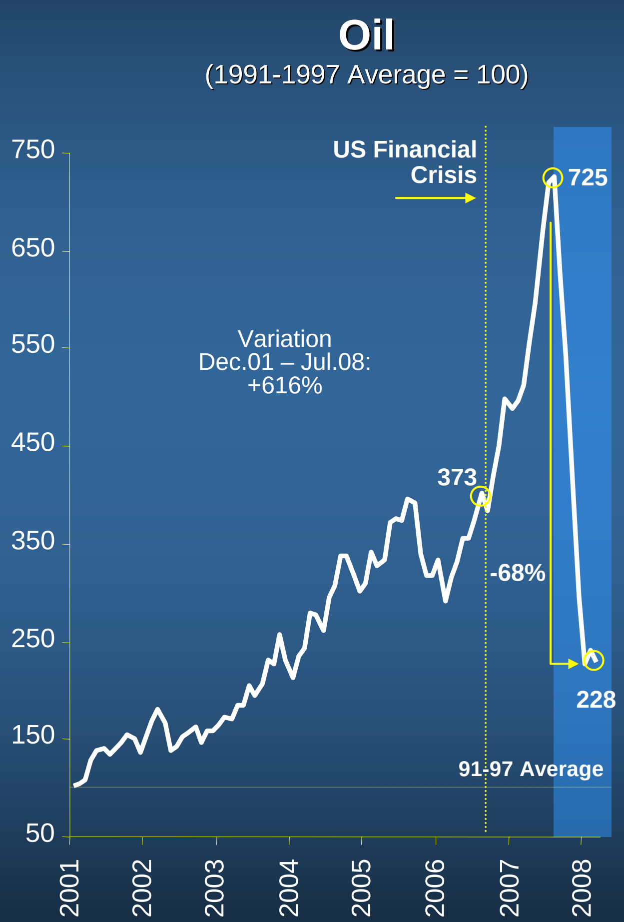




Source: JPMorgan

* EU-15 includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia and Spain.

External Factors: *Commodity Prices*



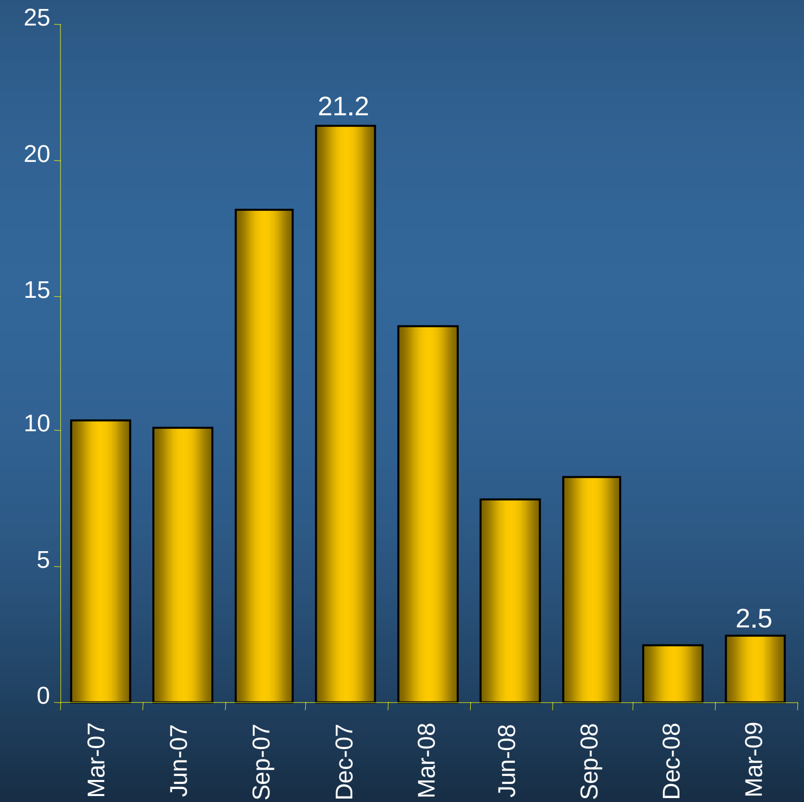
Source: IMF

The End of the Panglossian Period:
International Financial Conditions

Corporate Bond Spreads
(Latin CEMBI; 01-Jan-07 = 100)

	Jan-07	Variation in bps Jan.07-May.08	Jun.08-Mar.09	Total	06-Mar-09
CEMBI	221	87	516	603	824

Corporate Bonds: Issuance
(LAC-7, billions of USD)



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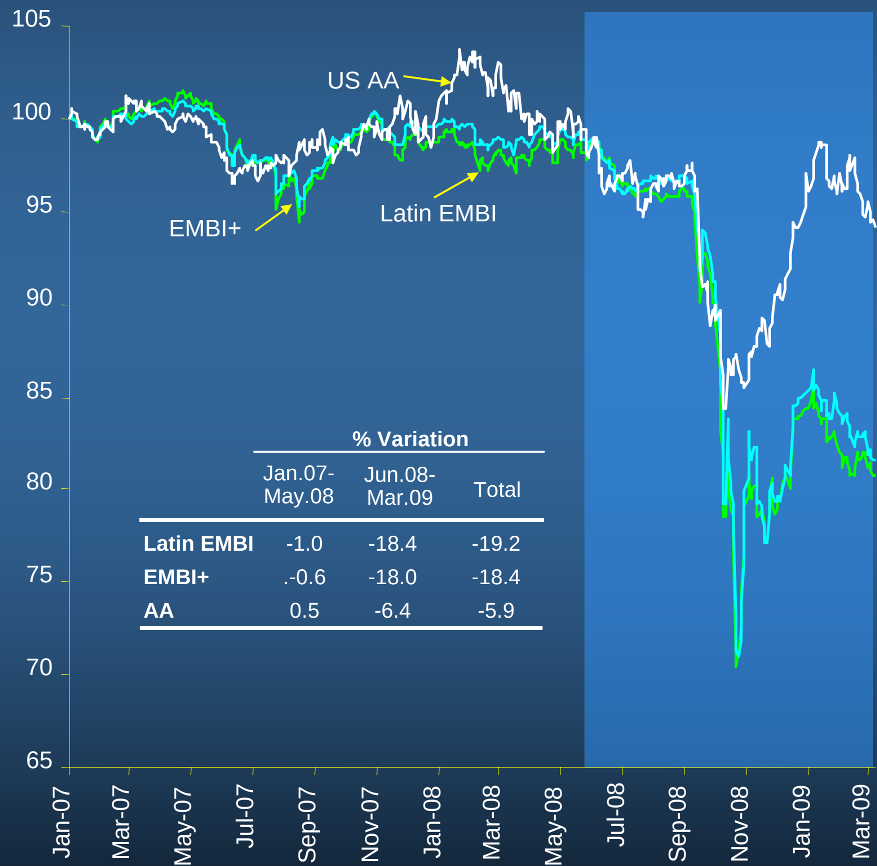
External Factors:
International Financial Conditions

Sovereign Bond Prices

(EMBI+, Latin EMBI and US AA Corporates; Bond Price Equivalent*, 01-Jan-07 = 100)



	% Variation		
	Jan.07-May.08	Jun.08-Mar.09	Total
Latin EMBI	-1.0	-18.4	-19.2
EMBI+	.-0.6	-18.0	-18.4
AA	0.5	-6.4	-5.9

Sovereign Bond Spreads

(EMBI+ and Latin EMBI; Spreads, Basis Points)

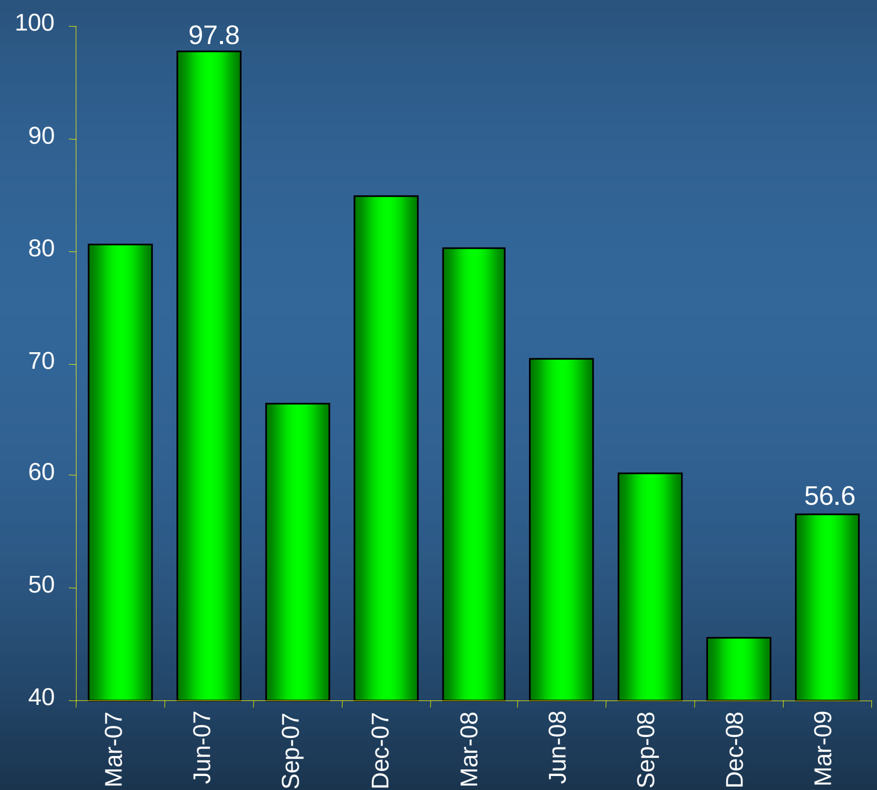
	Jan-07	Variation in bps Phase 1	Phase 2	Total	06-Mar-09
Latin EMBI	186	67	401	468	654
EMBI+	170	71	448	519	689

*Assumes a coupon of 11% and a 10Y maturity.

External Factors:
International Financial Conditions

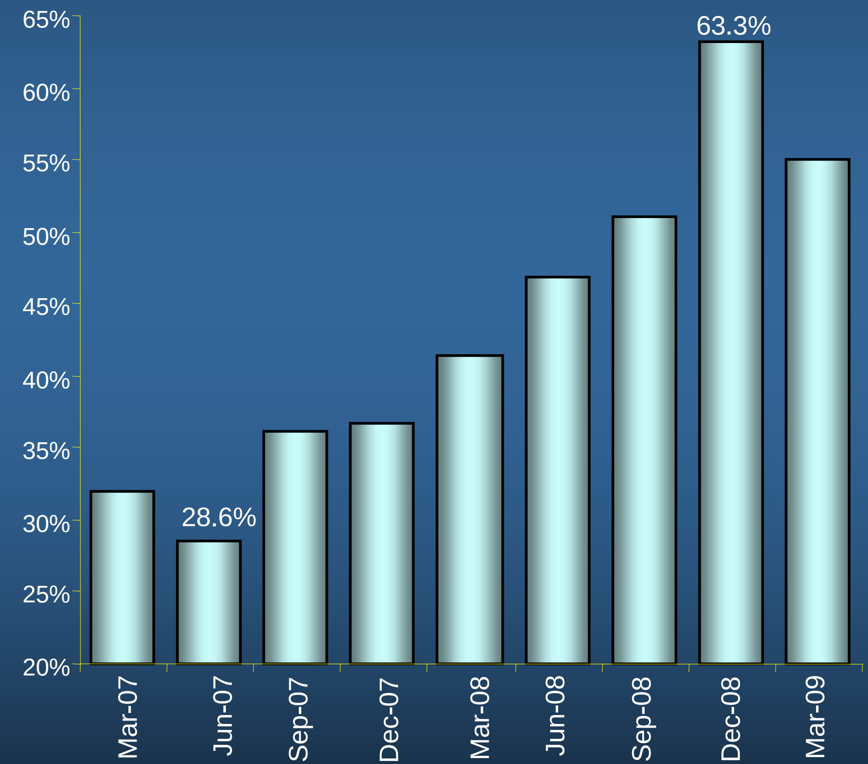
Sovereign Bonds: Issuance

(LAC-7, billions of USD)



Sovereign Bonds: Maturity

(LAC-7, issuances with maturity less than 1 year, % of total issuance)



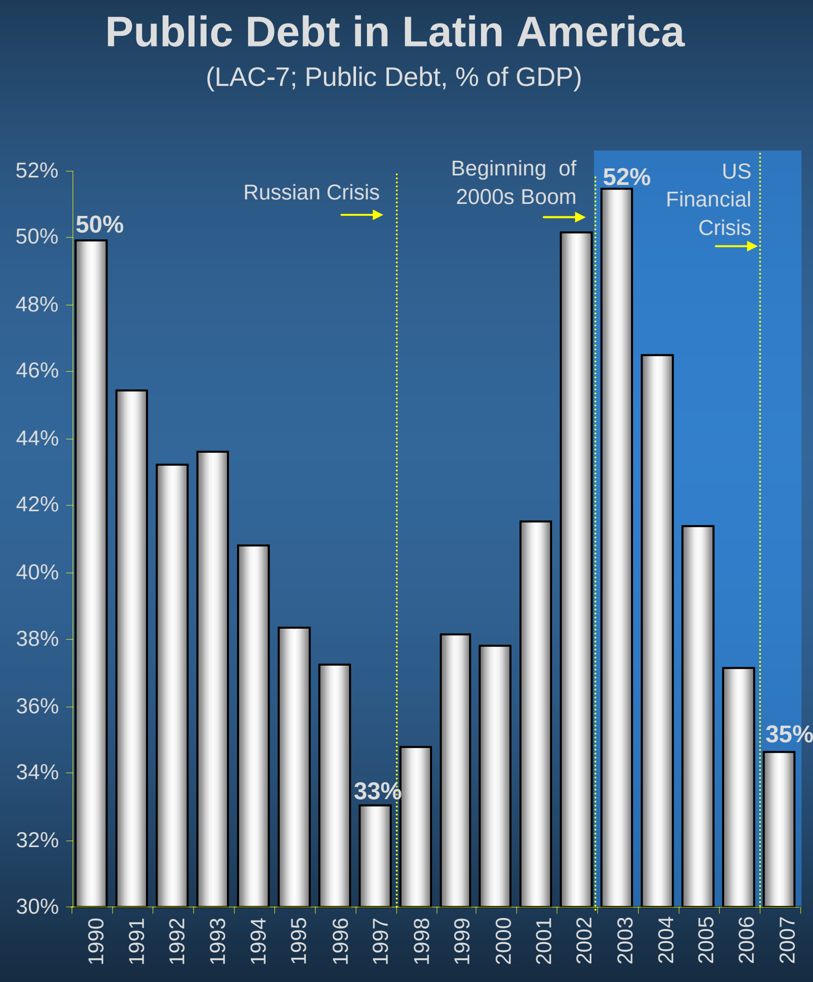
LAC-7 is the simple sum of the seven major Latin American countries, namely Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. These countries represent 91% of Latin America’s GDP.

IDB

LATIN AMERICA AND THE GLOBAL CRISIS: *PREDOMINANT VIEWS*

- **As a result of the global crisis Latin America suffered a drastic deterioration in the external environment**
- **However, Latin America has very strong fundamentals to withstand the worsening of global conditions…**

Latin America:
Fiscal Balance and Public Debt



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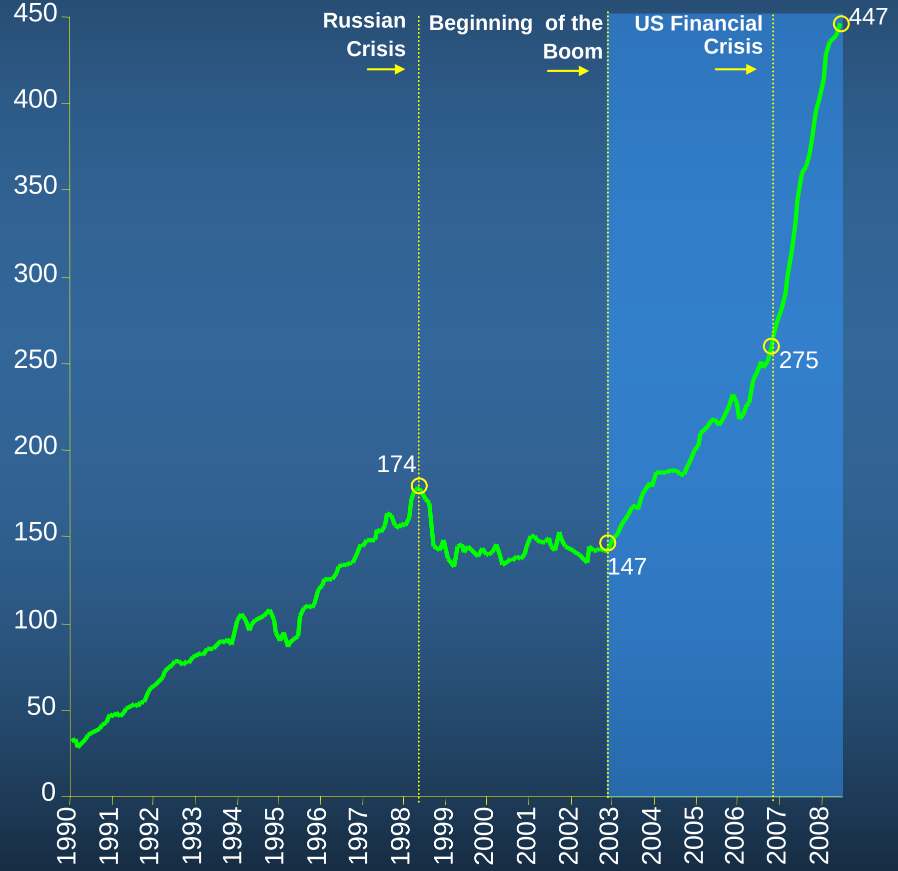
Latin America:
International Liquidity Indicators

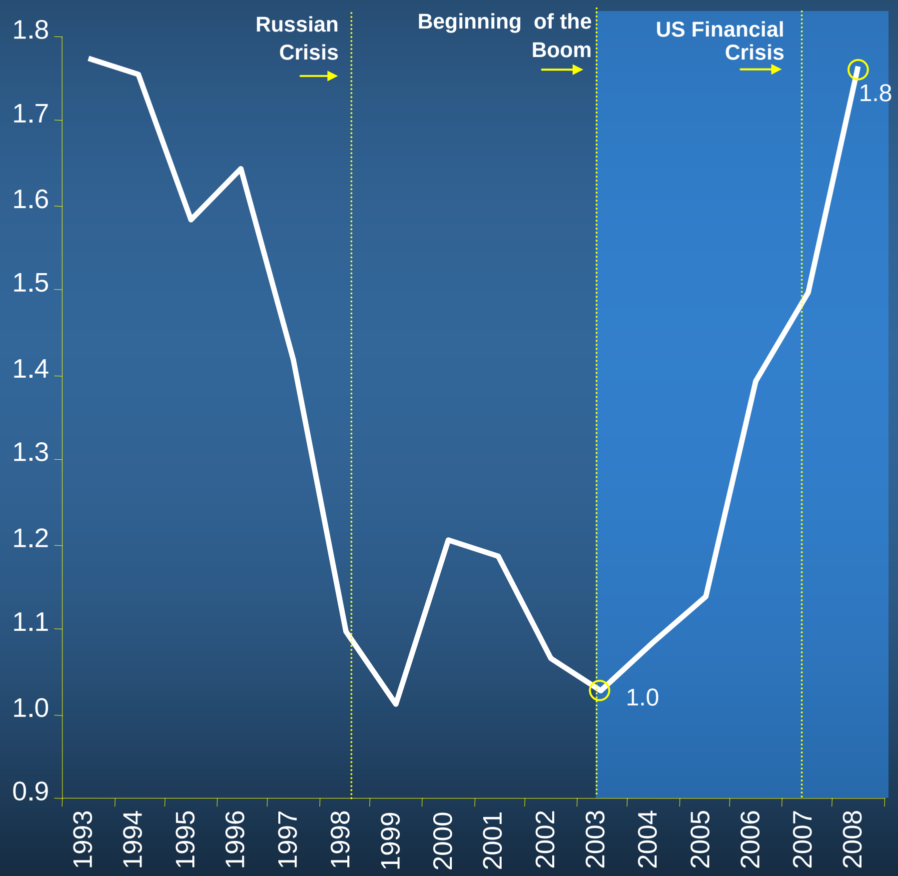
International Reserves in Latin America

(LAC-7, in billions of USD)



Liquidity Indicators in Latin America

(LAC-7*, International Reserves to External Public Debt Amortizations in the next twelve months plus Central Bank Short Term Liabilities)



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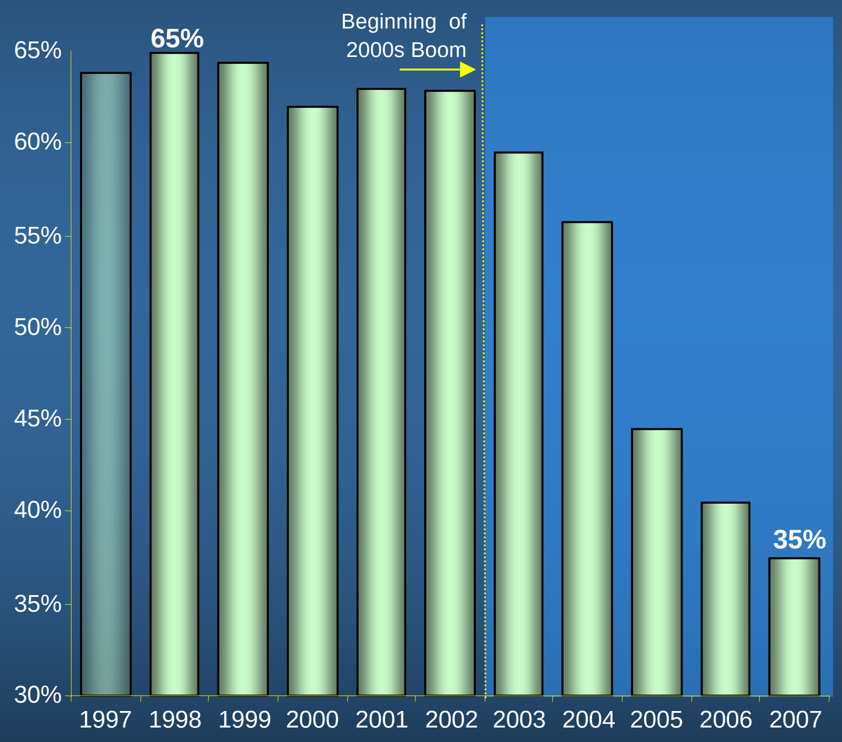
Latin America:
Financial Dollarization

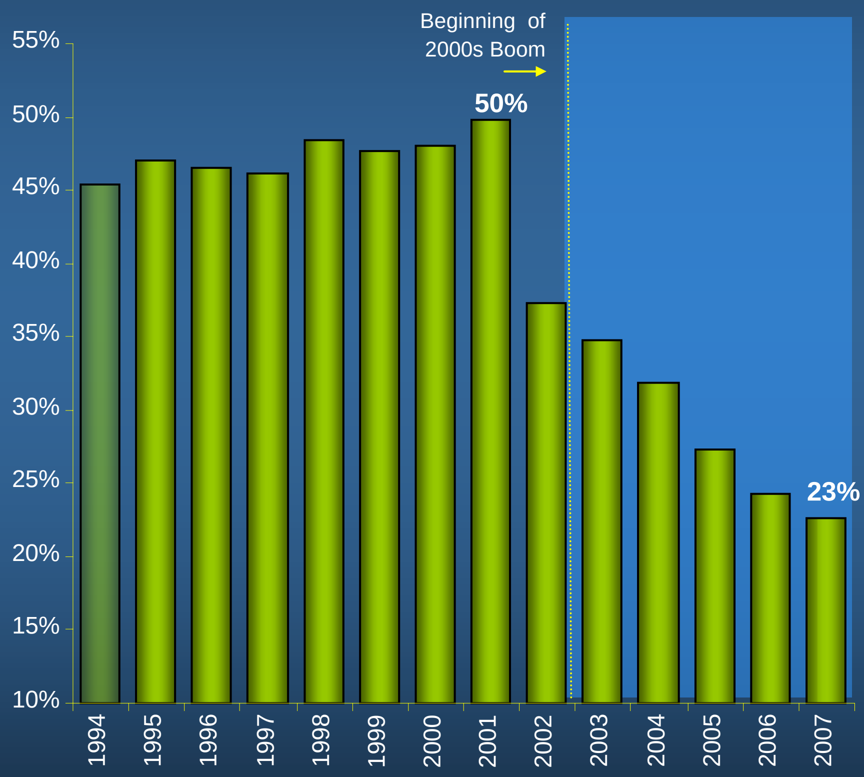
Public Debt Dollarization in Latin America

(LAC-7; Foreign Currency Debt, % of Total Debt)



Credit Dollarization in Latin America

(LAC-7; Bank Credit in Foreign Currency , % of Total Credit)



LAC-7 is the simple average of the seven major Latin American countries, namely Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
These countries represent 91% of Latin America's GDP.
For bank credit figures, LAC-7 excludes Brazil, Colombia and Venezuela.

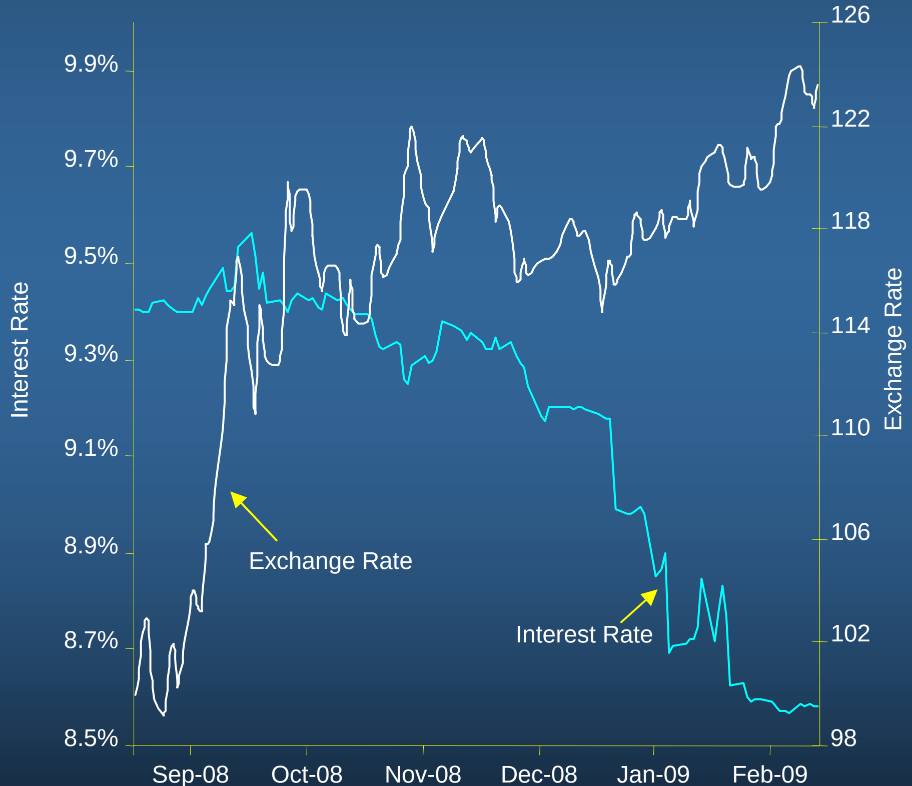
LATIN AMERICA AND THE GLOBAL CRISIS: *PREDOMINANT VIEWS*

- As a result of the global crisis Latin America suffered a drastic deterioration in the external environment
- However, Latin America has very strong fundamentals to withstand the worsening of global conditions…
- …and thus better equipped to pursue countercyclical monetary and fiscal policies to mitigate the impact of adverse external shocks

Latin America:
Monetary and Fiscal Policy Response

Monetary Policy

(LAC-7*, Interbank interest rate and Nominal Exchange Rate, in % and Sep-15-08=100)



Fiscal Stimulus Announcements in Latin America

(% of GDP)

	ON - BUDGET		OFF – BUDGET	TOTAL
	Revenue-side	Expenditure-side		
Argentina	5.1	0.2	1.1	**6.4**
Brazil	0.3	0.1	3.3	**3.6**
Chile	1.0	1.1	0.7	**2.8**
Mexico	0.5	1.0	0.0	**1.5**
Peru	0.0	1.4	1.1	**2.5**

Source: Credit Suisse

LAC-7 is the simple average of the seven major Latin American countries, namely Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. These countries represent 91% of Latin America's GDP.

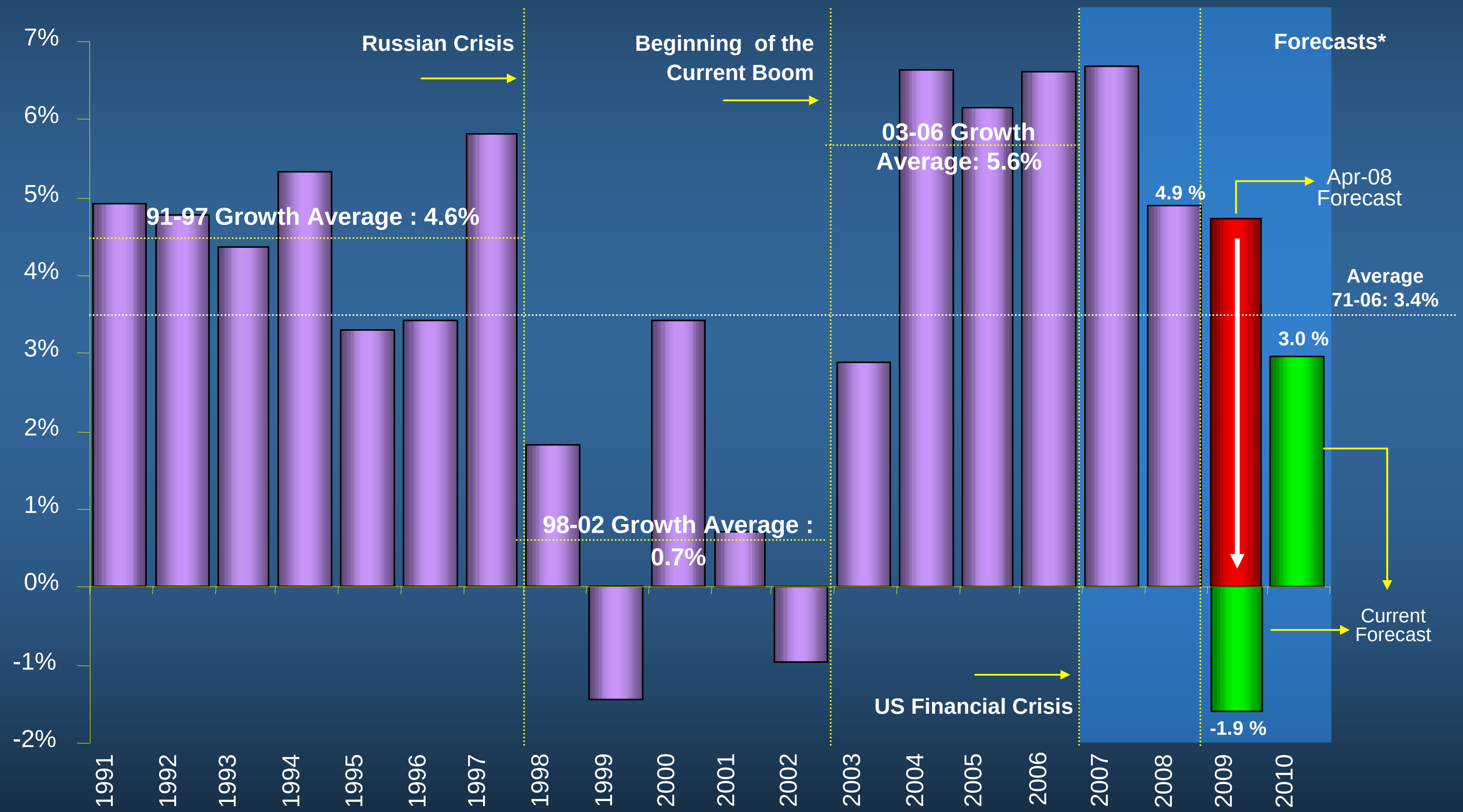
*Excludes Argentina and Venezuela

LATIN AMERICA AND THE GLOBAL CRISIS: *PREDOMINANT VIEWS*

- However, Latin America has very strong fundamentals to withstand the worsening of global conditions…
- …and thus better equipped to pursue countercyclical monetary and fiscal policies to mitigate the impact of adverse external shocks
- **As a result, the recession in 2009 will be relatively deep but short lived, the region will return to positive growth in 2010…**

Market Forecasts:
Economic Performance

(LAC-7; real GDP, annual variation)



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*Source: JPMorgan

LATIN AMERICA AND THE GLOBAL CRISIS: *PREDOMINANT VIEWS*

- However, Latin America has very strong fundamentals to withstand the worsening of global conditions…
- …and thus better equipped to pursue countercyclical monetary and fiscal policies to mitigate the impact of adverse external shocks
- As a result, the recession in 2009 will be relatively deep but short lived, the region will return to positive growth in 2010…
- …and liquidity crises and economic collapses, so prevalent in the past, will be largely avoided

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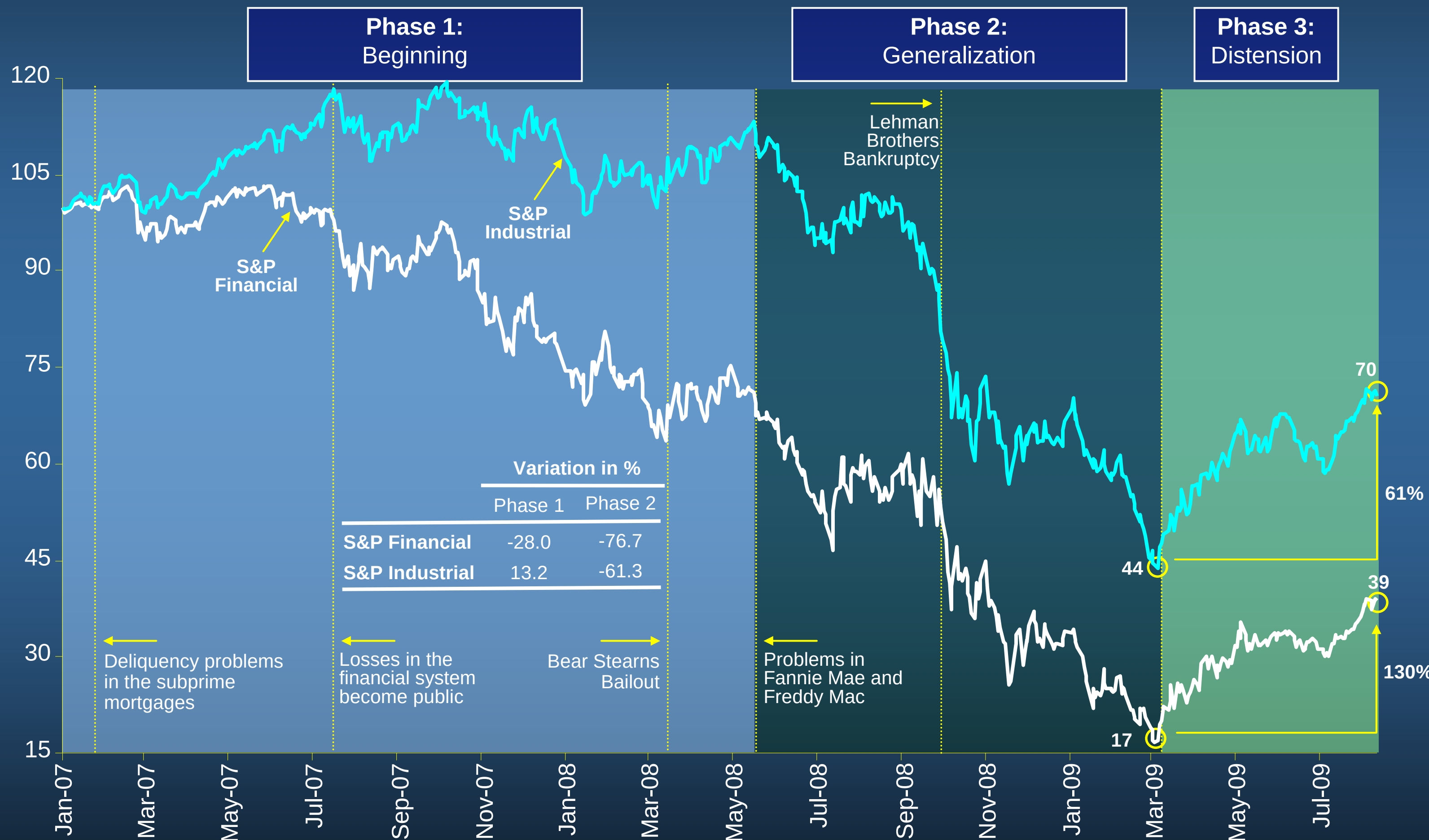
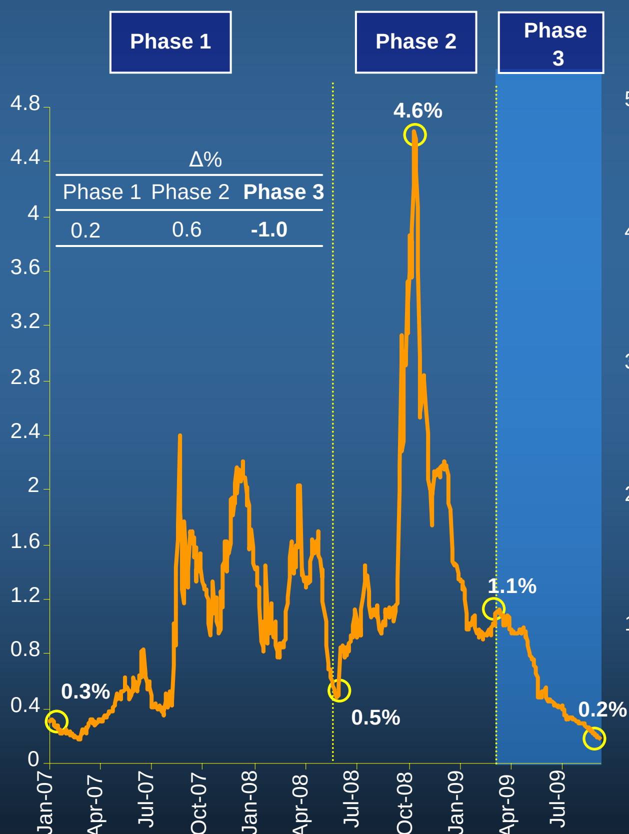
US Financial Crisis:
Green Shoots



US Financial Crisis: *Thermometers*

Interbank rate

(Libor Spread over 3-month US Treasuries, in %)

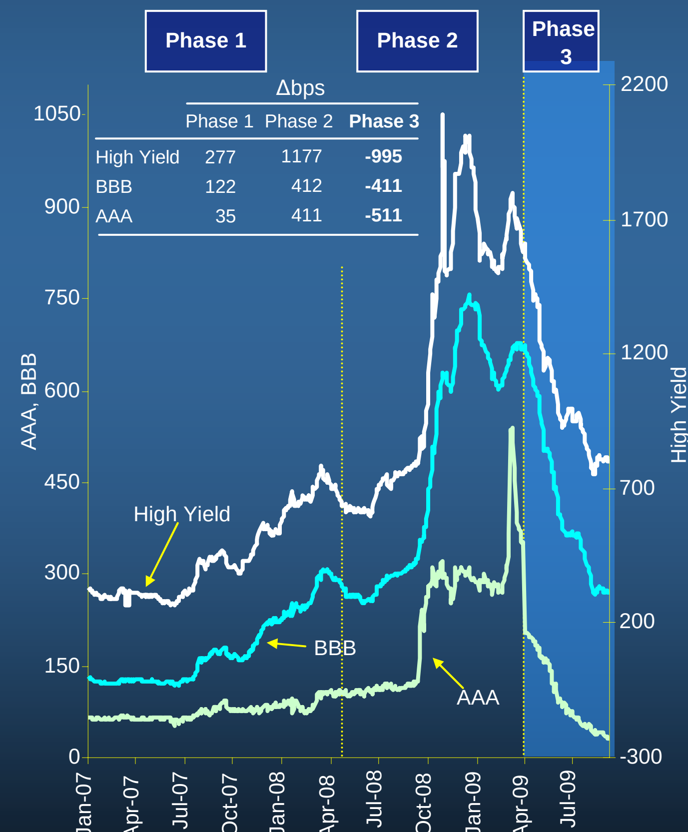


Financial Institutions Spread

(Money Center Banks*, bps)

Corporate Spreads

(bps over US Treasuries)



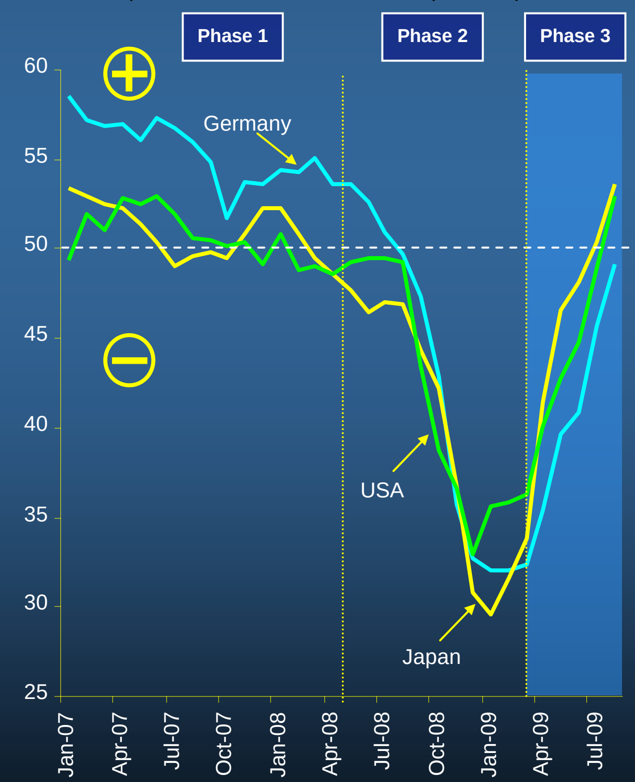
* Weighted average spread of JP Morgan, Bank of America, Citibank and Wells Fargo

External Factors for LAC: Impact of the US Financial Crisis

External Factors

World Growth	Commodity Prices	International Financial Conditions

Manufacturing PMI*
(Diffusion Index, over 50= expansion)



Commodity Prices
(S&P GSCI Commodity Index, 03-Jan-07 = 100)

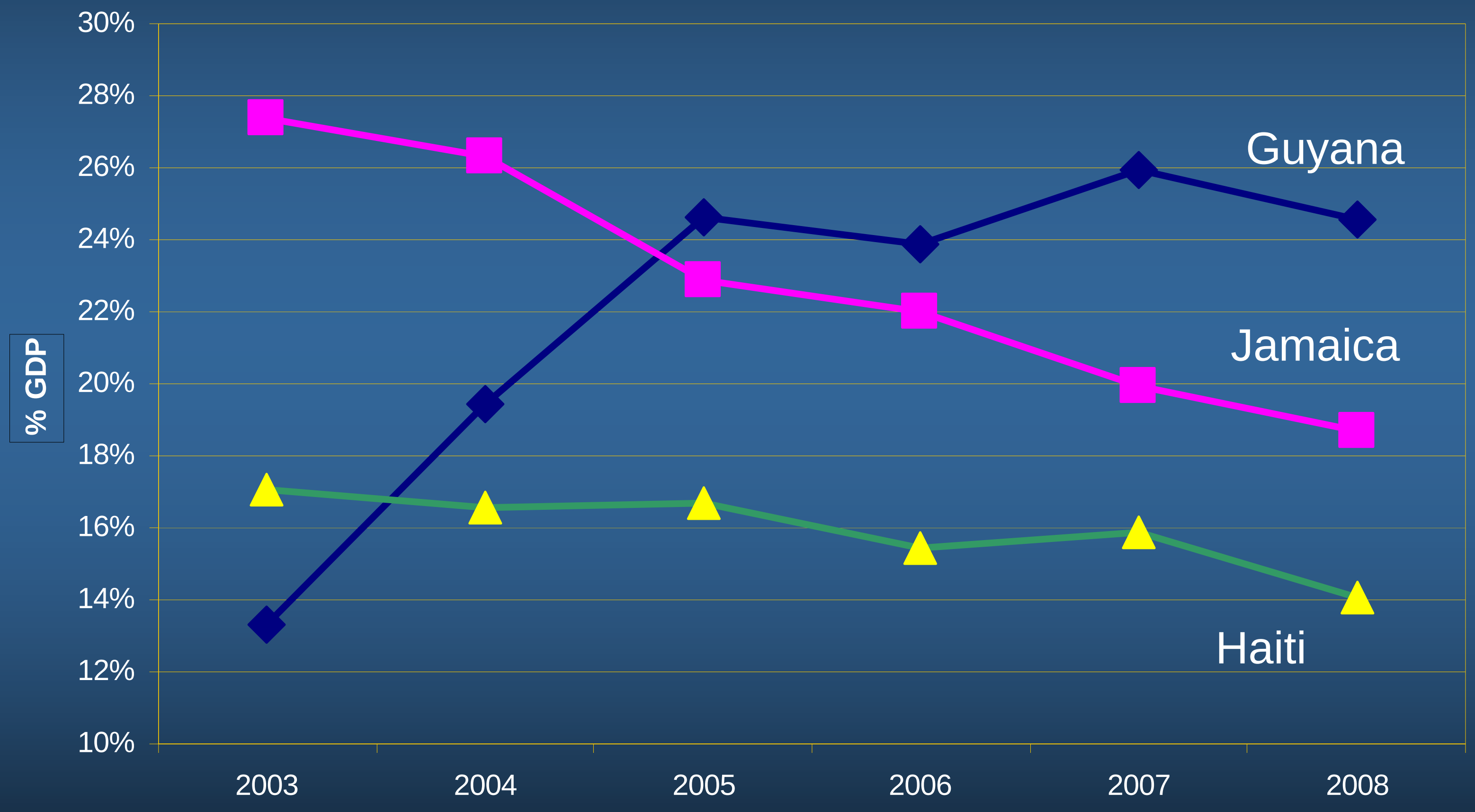
Spreads
(EMBI+, Latin EMBI, Spread in basis points)

Variation in bps

	Phase 1	Phase 2	Phase 3
Latin EMBI	67	471	-302
EMBI+	71	448	-292

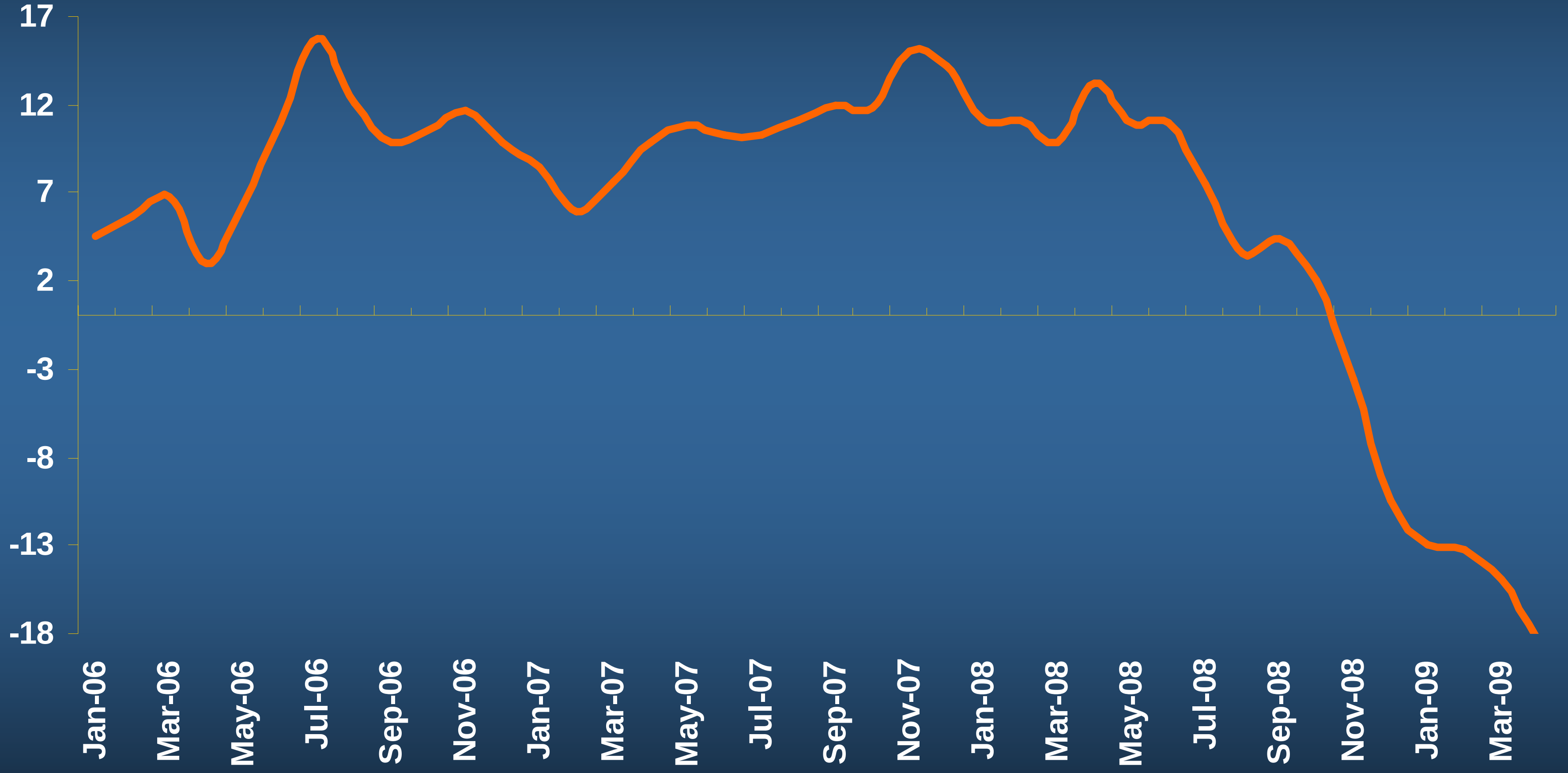
* Purchasing Managers Index

Remittances Declining Where Needed Most

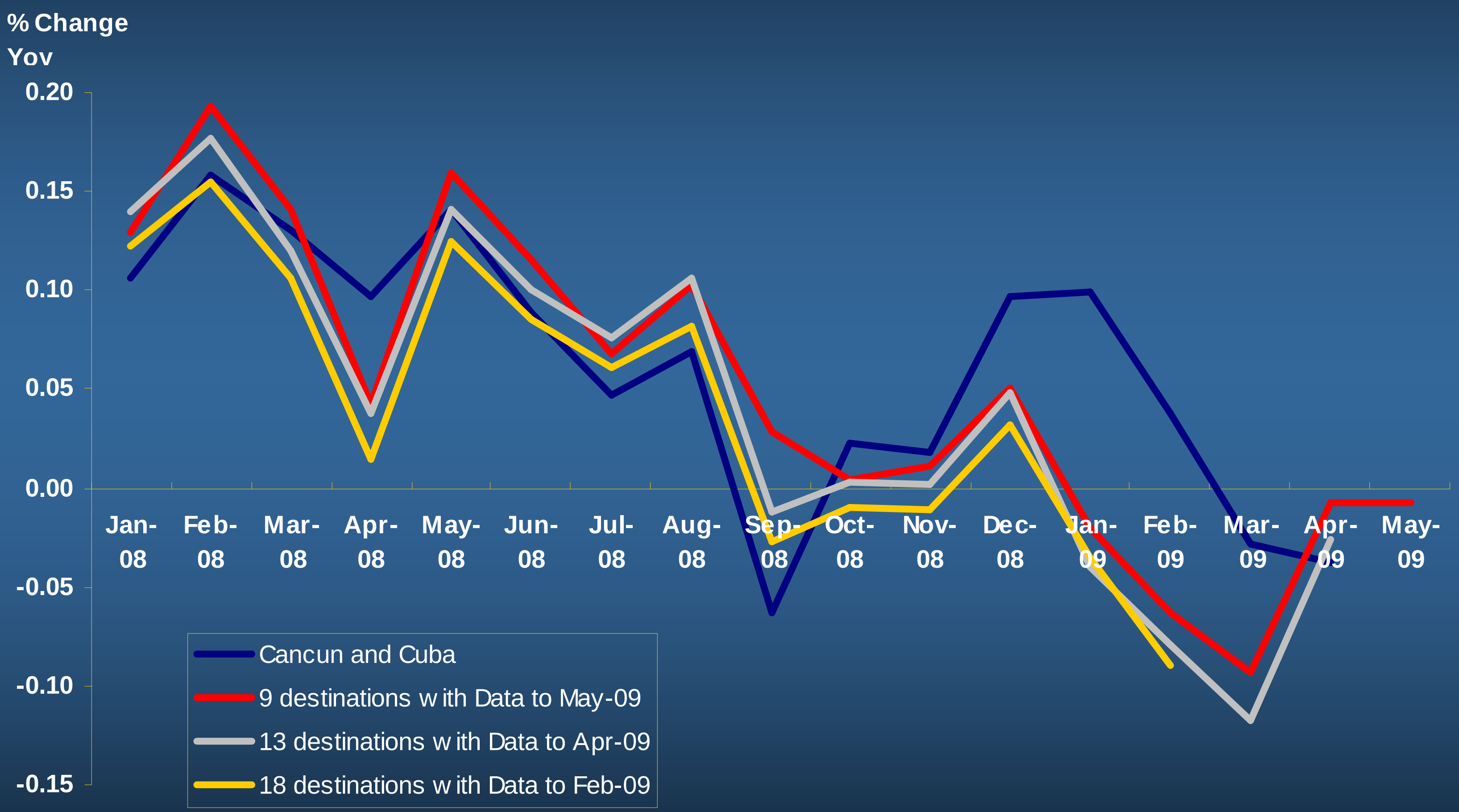


Remittances to Jamaica

Annual Variation, 3 Month Moving Average



Tourist Arrivals in the Caribbean



- Catastrophic scenarios seem to have been ruled out as distension continues, making scenarios covered in our report more relevant.

- Will recovery be quick (as initially predicted by markets) or will it be more protracted (as experience on financial crisis would tell)?

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ECLAC: Crisis and Opportunities for Regional Cooperation (Selected Policy Opportunities)

- While the future path of recovery remains unclear, the crisis has revealed opportunities for improved regional cooperation
- To avoid the errors of previous crisis, governments of the region should aim to adopt coordinated, participatory and mutually informed policy responses. Particularly fiscal policy, financial regulation, re-establishment of capital flows, and support for intraregional trade, measures to avoid protectionism.
- New international conditions call for greater regional cooperation to both contain the crisis and improve the region's position in the global economy. Cooperation requires a solid and effective regional institutional framework.

ECLAC: Selected Policy Opportunities

- Differences on trade issues should not be an obstacle to cooperation. ECLAC highlights:
  - Integration of trade policy with policies on productive development, innovation, and FDI.
  - Strengthening the link between goods, services, and investment.
  - Transport, infrastructure, and financial services are important components of systemic competitiveness.
  - Natural-resource-based activities should not be underestimated as a tool to increase productivity, improve innovation, employ skilled labour, and promote FDI linkages.

ECLAC: Selected Policy Opportunities (continued)

- Combat protectionism and work towards the conclusion of the Doha Round.
- A more coordinated approach to tightening ties with Asia-Pacific
- Redoubled efforts to build broadened regional economic forums and cooperative initiatives.

Working Group One
The Economic and Financial Crisis

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