

The Financial Market Crisis and Risks for Latin America

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Director

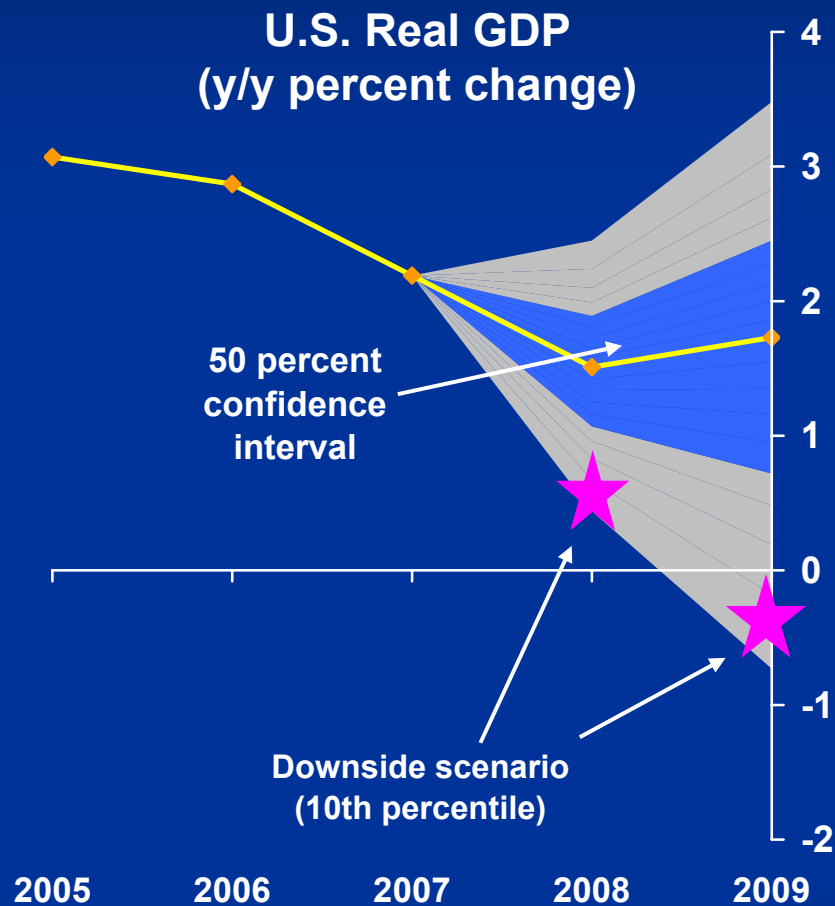
**Western Hemisphere Department
International Monetary Fund**

São Paulo, Brazil

March 17, 2008



U.S. Growth Outlook and Risks

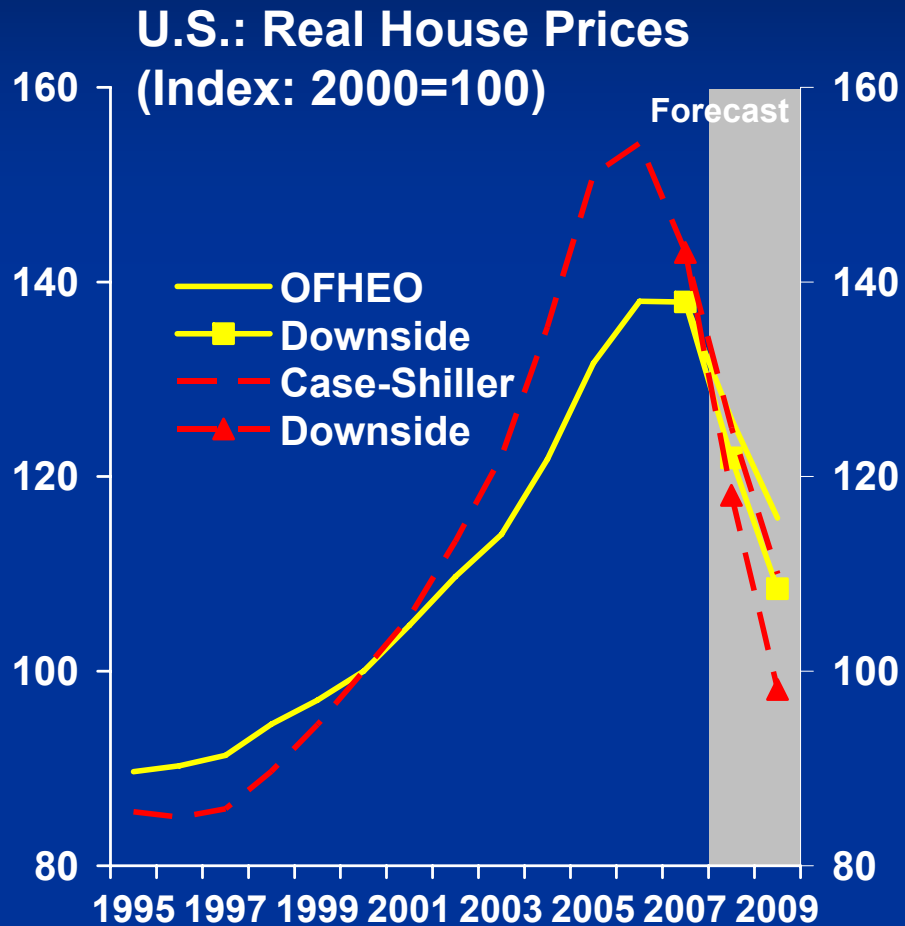


Source: Fund staff calculations.

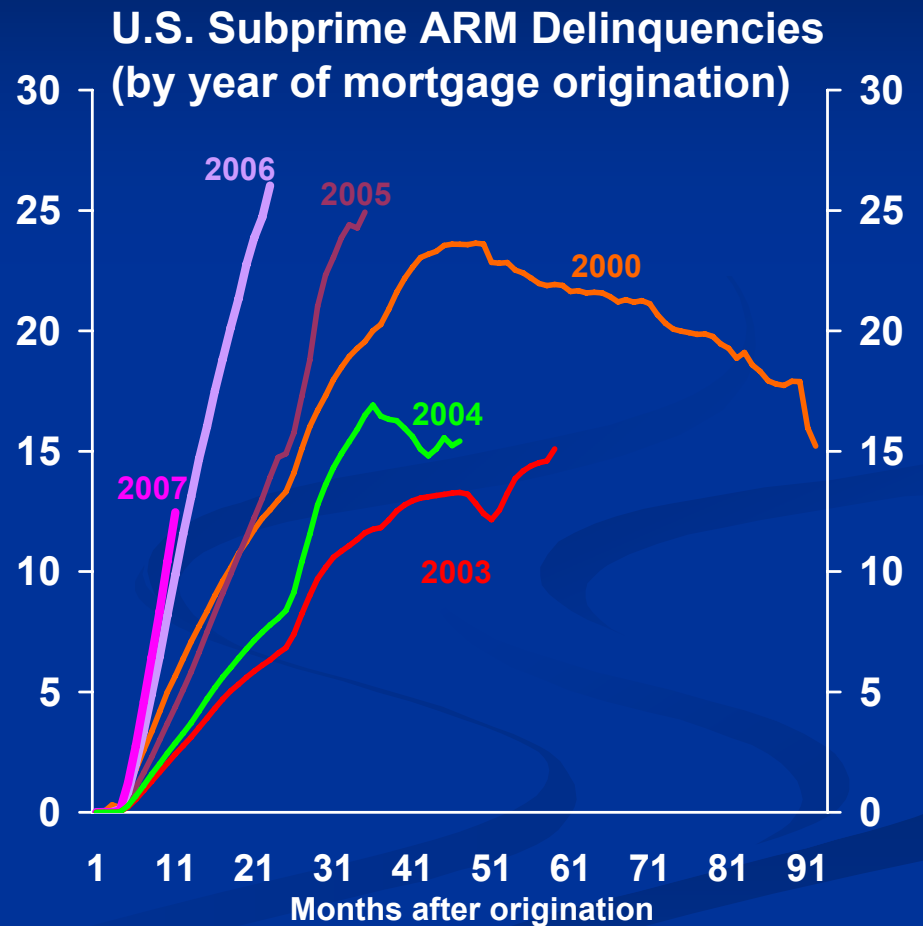
	2008		2009	
	Q4/Q4	Annual	Q4/Q4	Annual
Baseline	0.9	1.5	2.3	1.7
Downside (10th percentile)	-0.4	0.7	-0.2	-0.3

Source: Fund staff calculations.

Downside Risks: Housing (1)

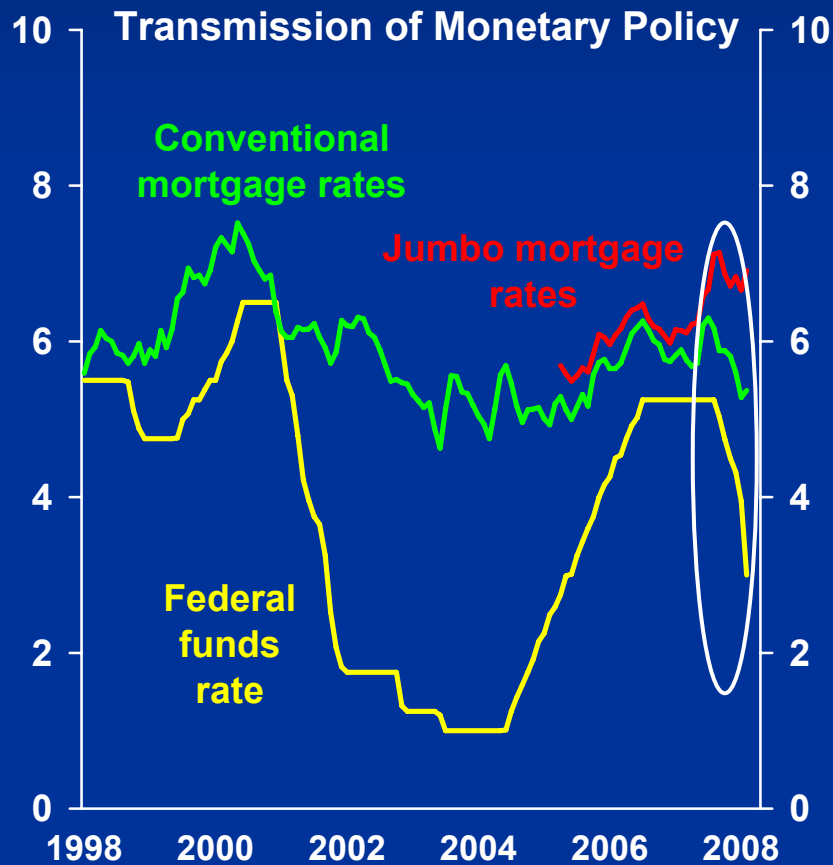


Sources: Haver Analytics; and Fund staff calculations.

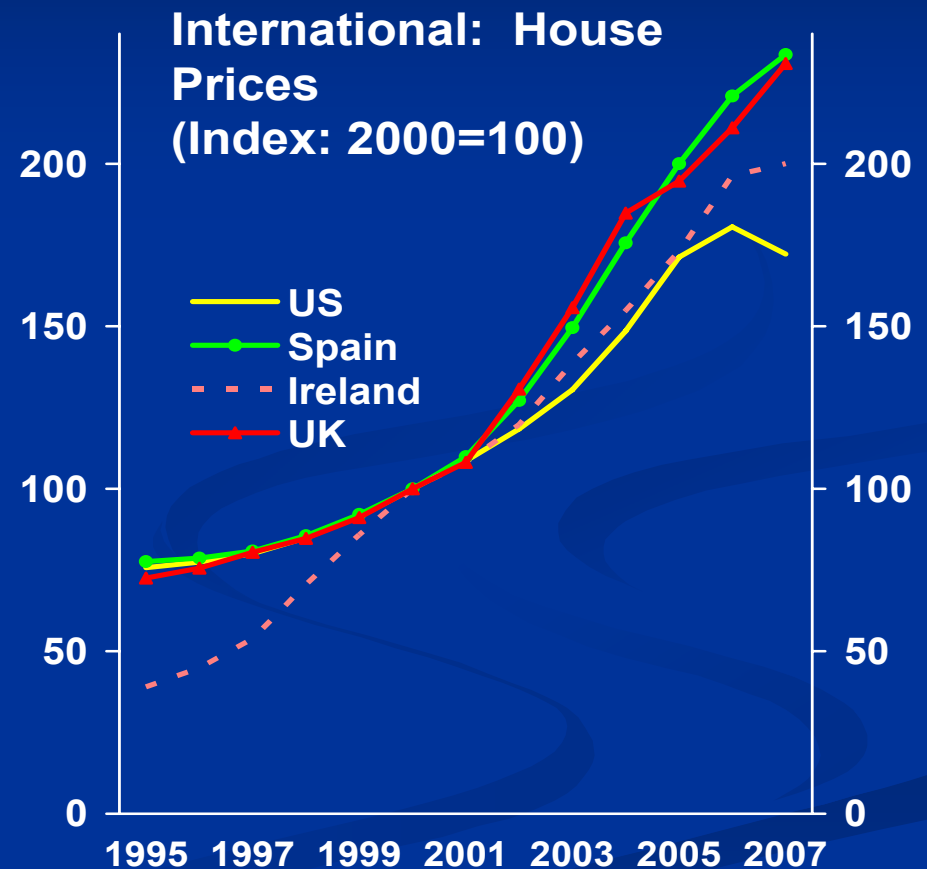


Sources: Merrill Lynch; Intex; and Fund staff calculations.

Downside Risks: Housing (2)

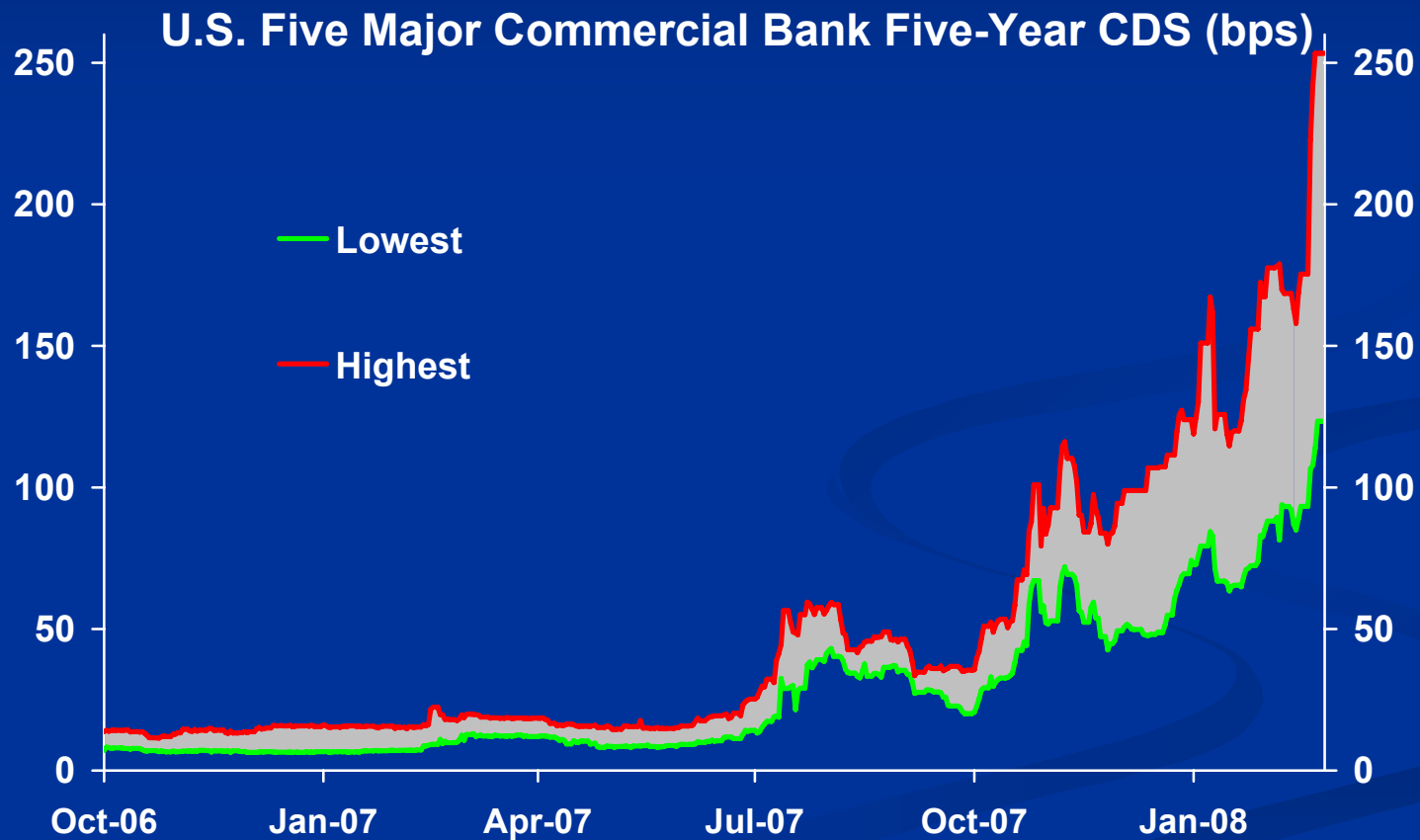


Source: Haver Analytics.



Source: Haver Analytics.

Downside Risks: Strains in the Core Financial System (1)



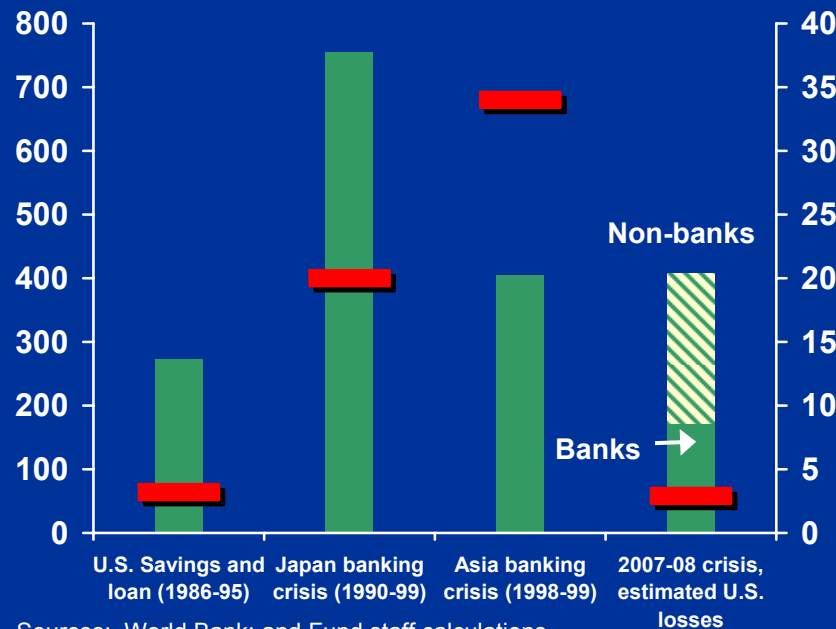
Source: Bloomberg.

Downside Risks: Strains in the Core Financial System (2)

Comparison of Financial Crises

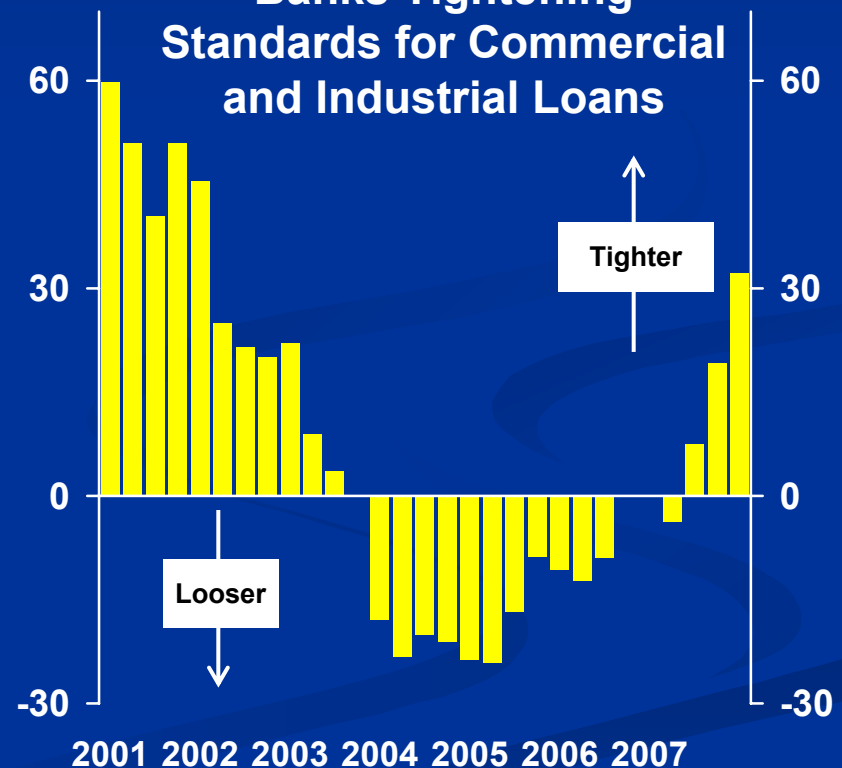
(Preliminary estimates)

- Losses (in billions of US\$, left scale) 1/
- Losses (in percent of GDP, right scale)



Sources: World Bank; and Fund staff calculations.
1/ For previous crises, fiscal losses were used.

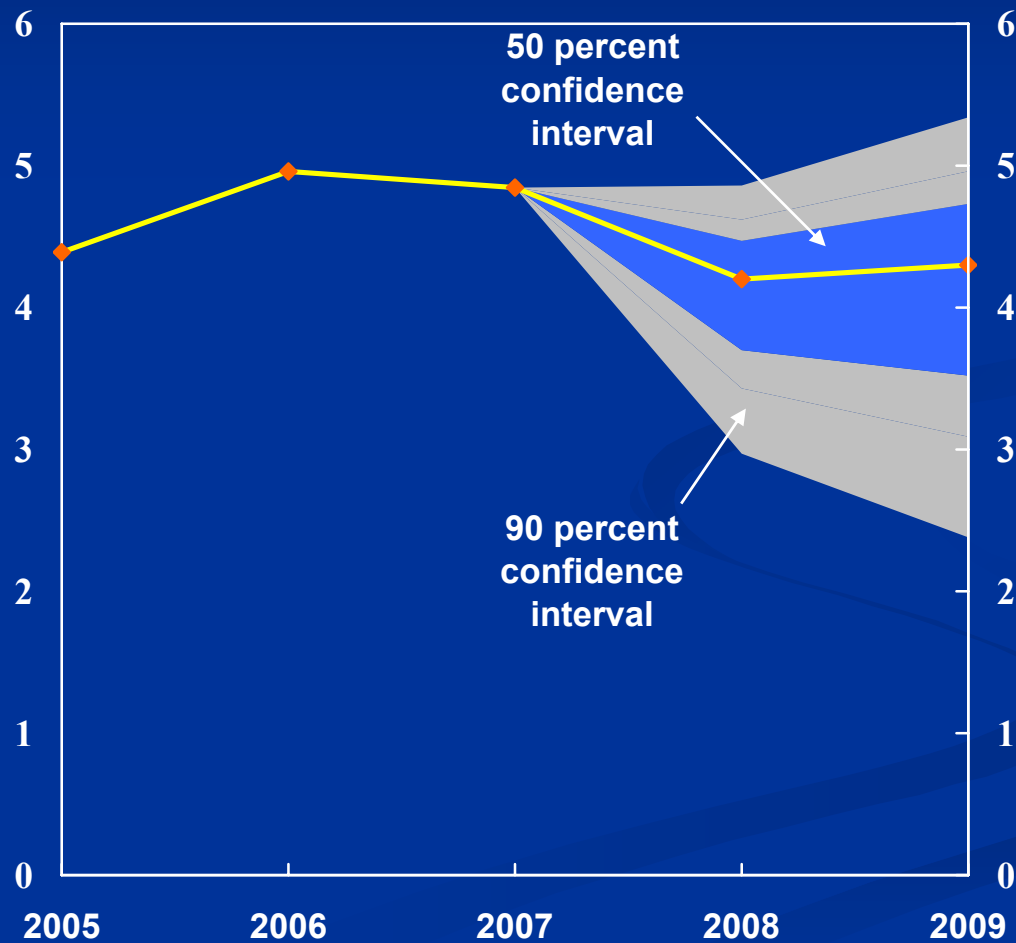
U.S.: Net Percentage of Banks Tightening Standards for Commercial and Industrial Loans



Source: Haver Analytics.

Global Growth Outlook

Global Real GDP
(y/y percent change)



Source: Fund staff calculations.

Outlook for Latin America

Direct Links to Global Volatility

Many positives for region:

- No subprime exposure
- Small securitization market
- Appears to be small off-balance sheet risks
- Overall, mortgage markets are small
- Equity prices broadly in line with fundamentals, although commodity-sensitive

The Impact on Sovereign Spreads Has Been Modest

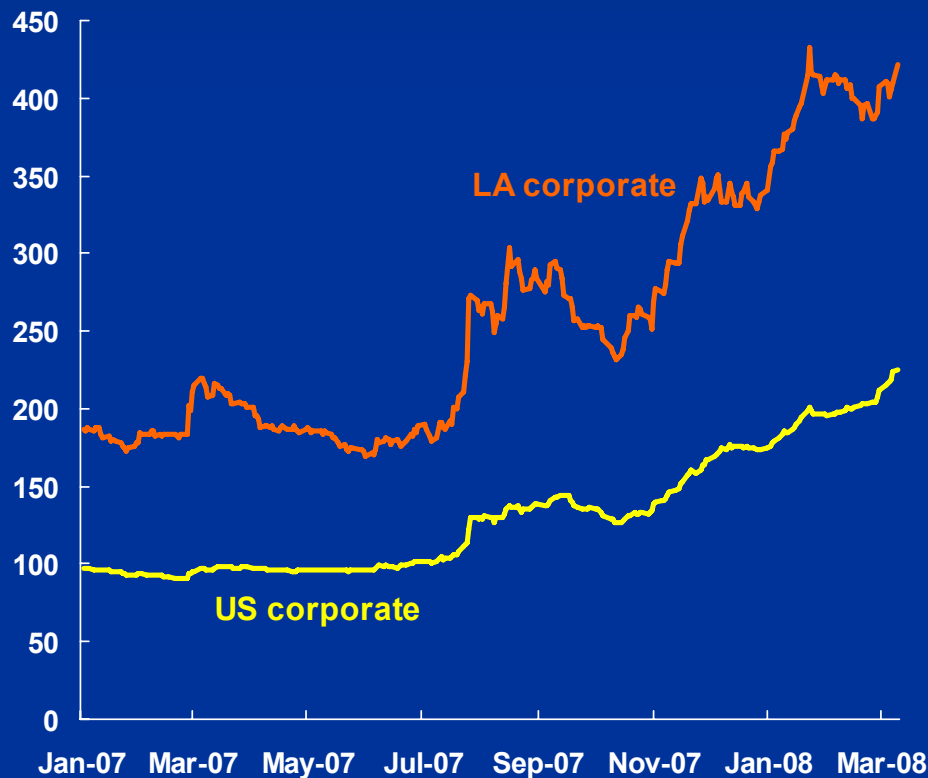
Emerging Market Sovereign and U.S. High Yield Spreads
(Basis points)



Sources: Bloomberg; and Datastream.

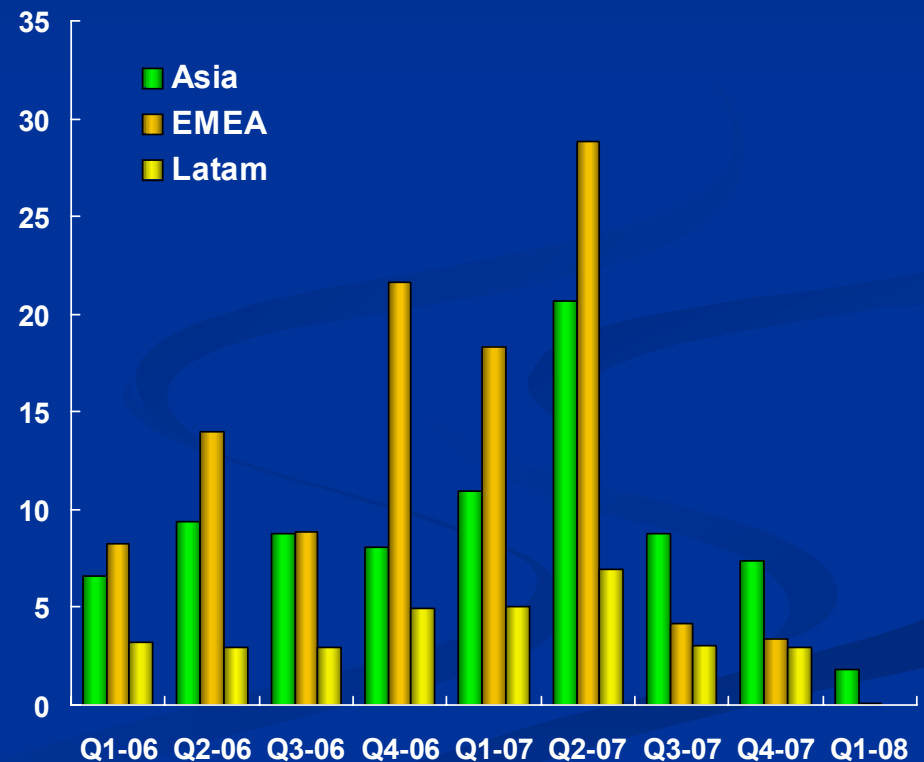
Corporate Access to Financing May Be Of Greater Concern (1)

LA and US Corporate Spreads
(Basis points)



Source: Credit-Suisse.

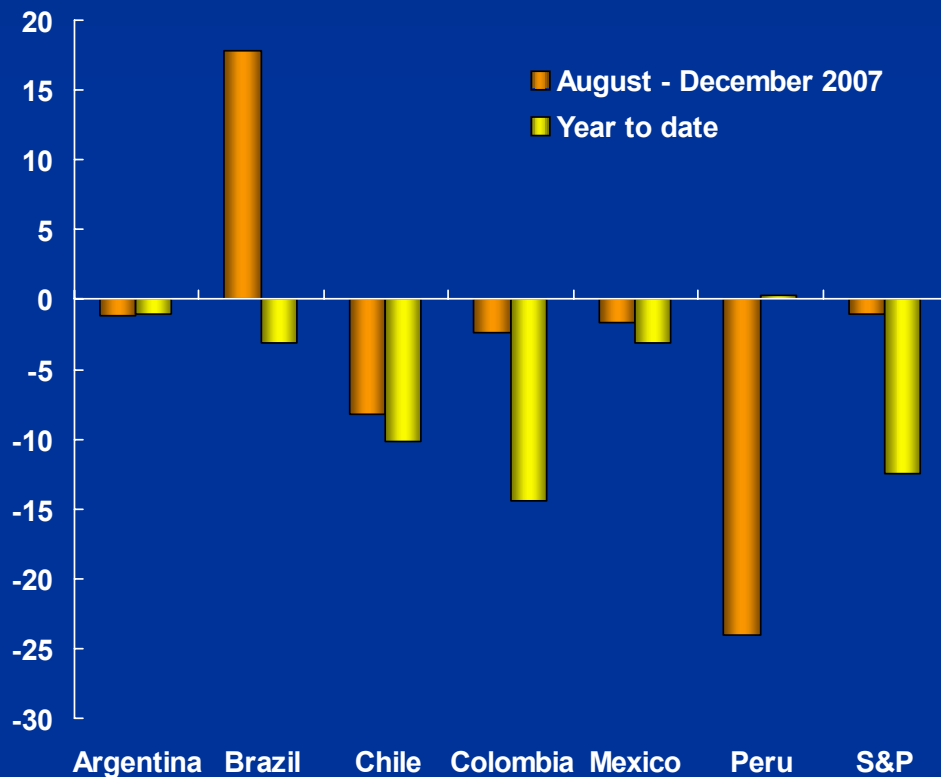
Emerging Market Private Sector Bond Issuance
(Billions of U.S. dollars)



Source: Dealogic database.

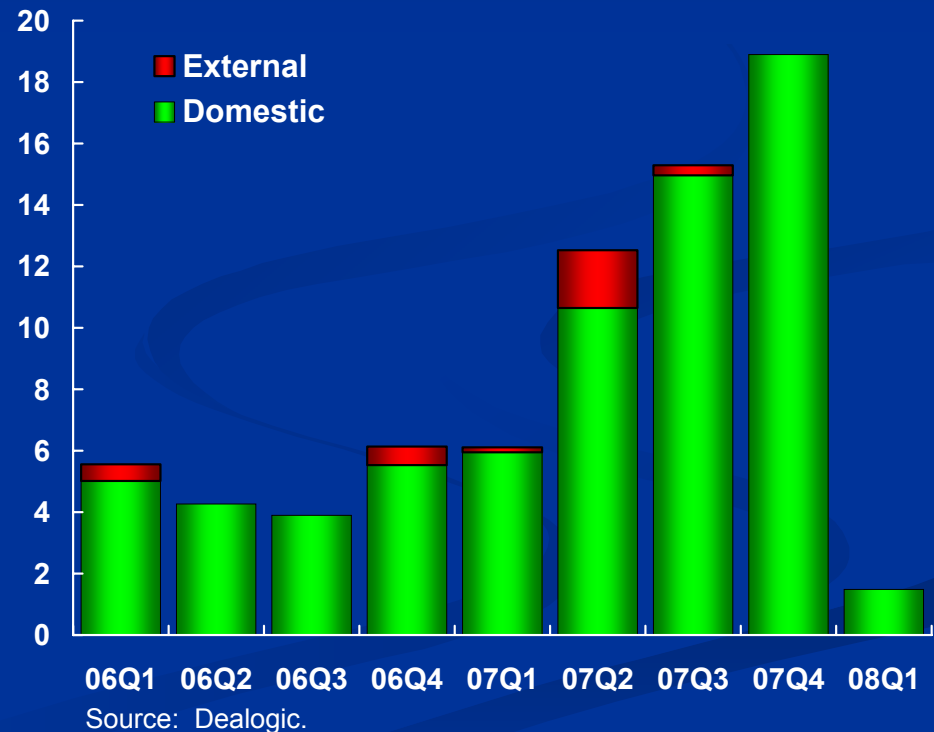
Corporate Access to Financing May Be Of Greater Concern (2)

Stock Prices
(Percent)



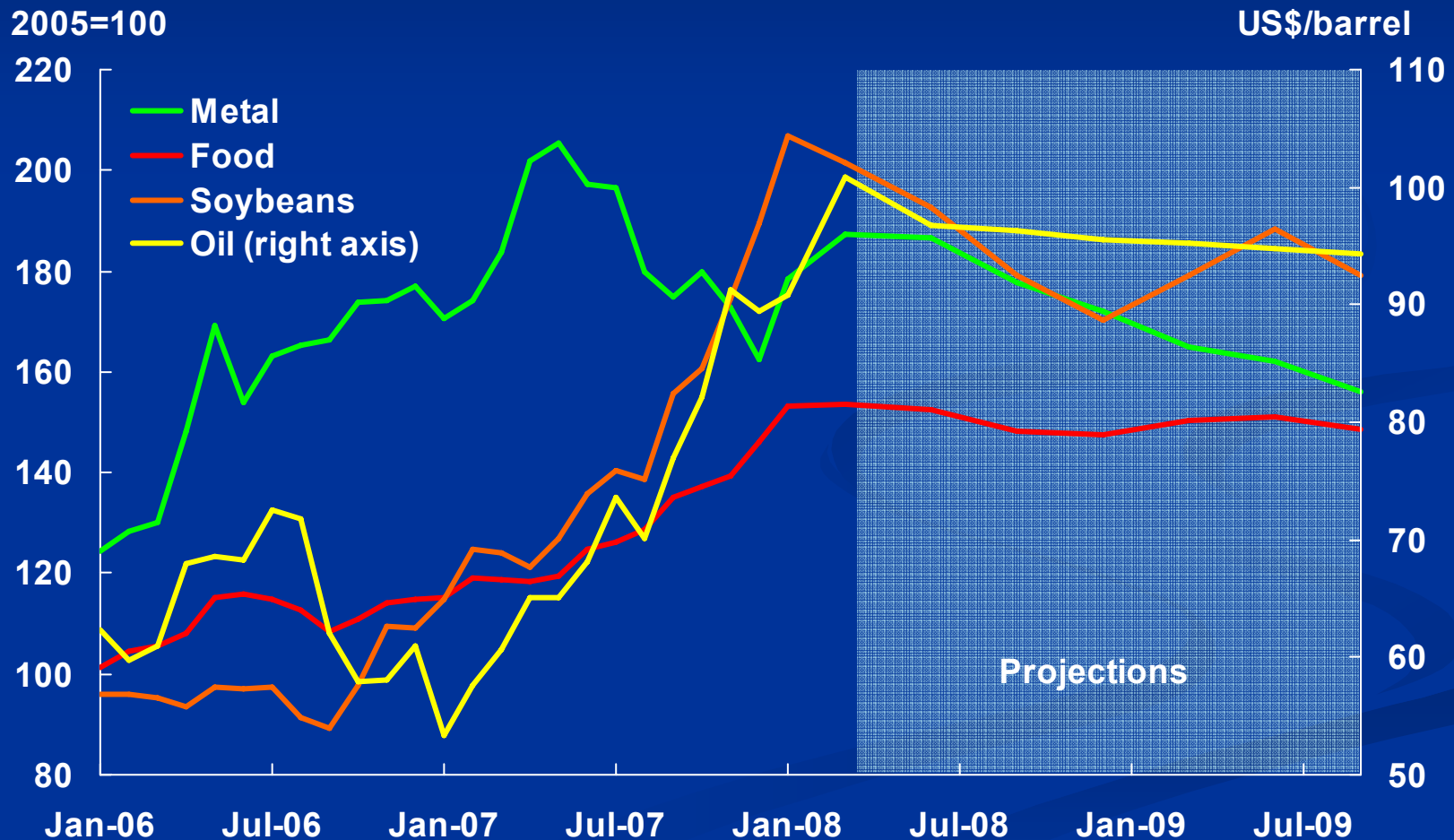
Source: Bloomberg.

Latin America: Gross Equity Issuance
(Billions of U.S. dollars)



Commodity Price Increases Have Been Spectacular

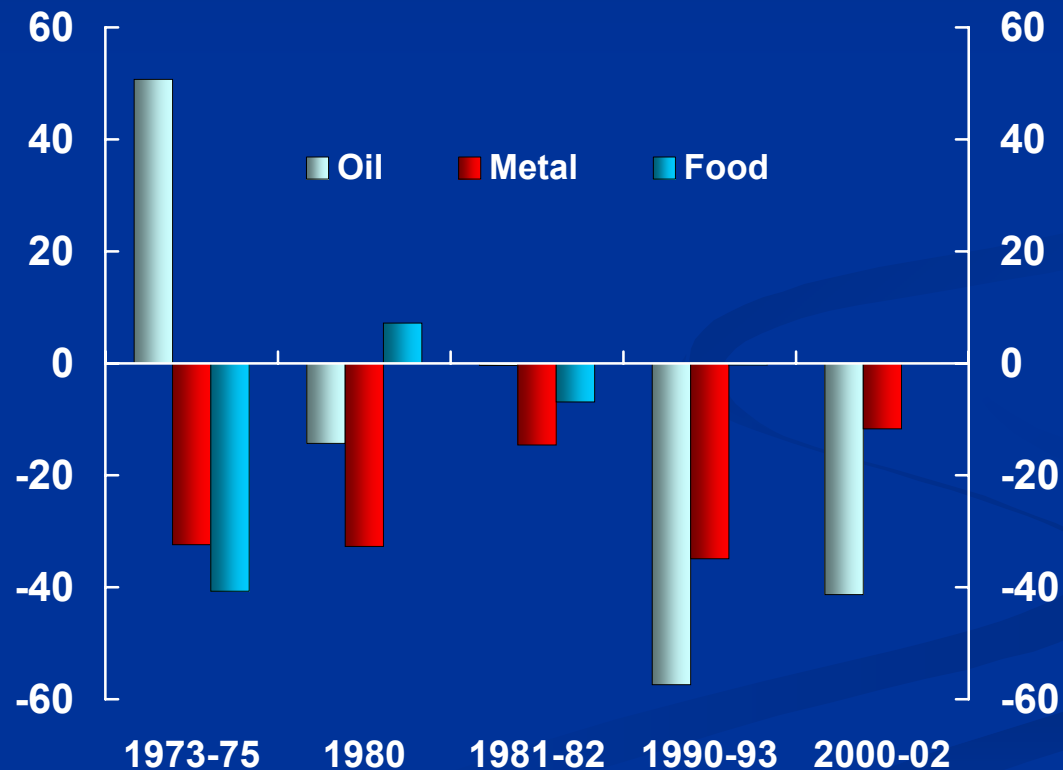
Oil, Food, and Metal Prices



Source: IMF Research Department.

But A Sharp Reversal Would Put Pressure on the Region

Commodity Price Change During past Global Downturns

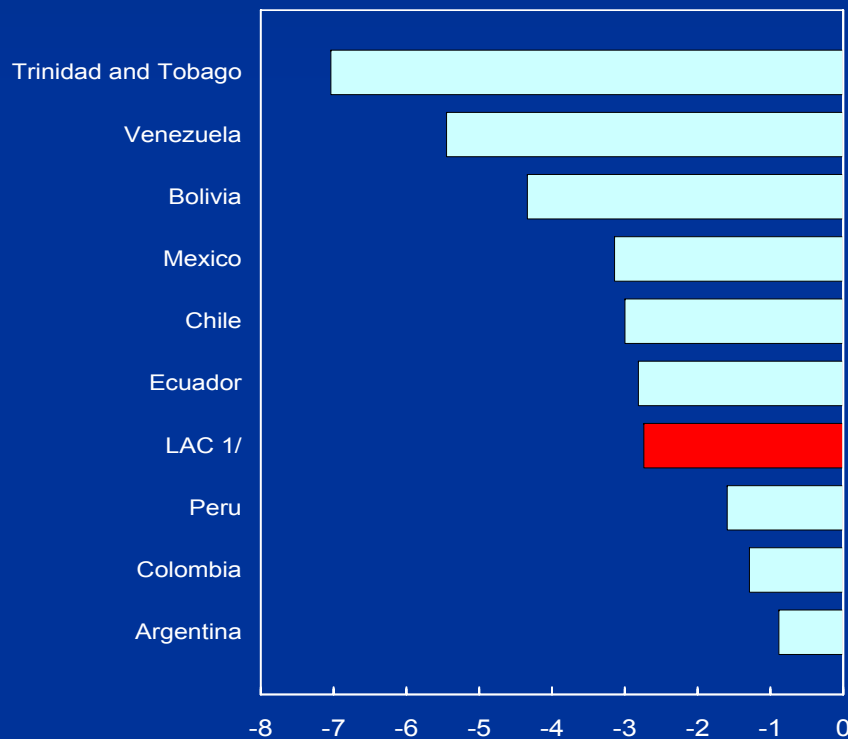


Source: Fund staff calculations.

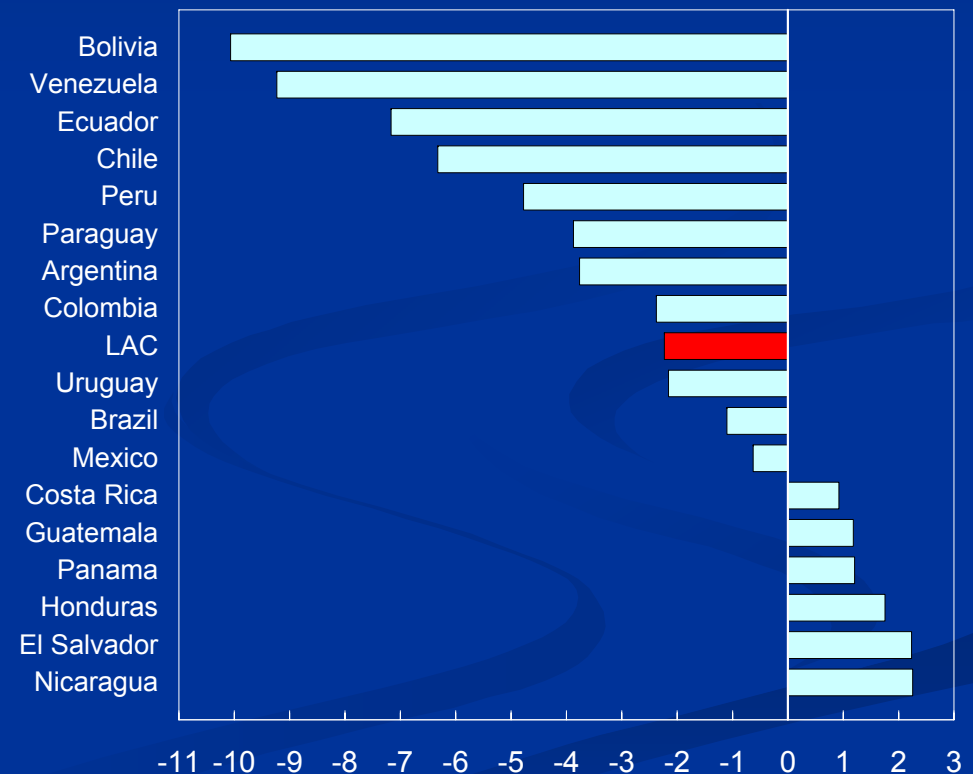
With Significant Impact on Both Fiscal and External Positions

Effect of a 35 percent decline in commodity price:

Change in Fiscal Balances
(In percent of 2007 GDP)



Change in Trade Balances
(In percent of 2007 GDP)1/

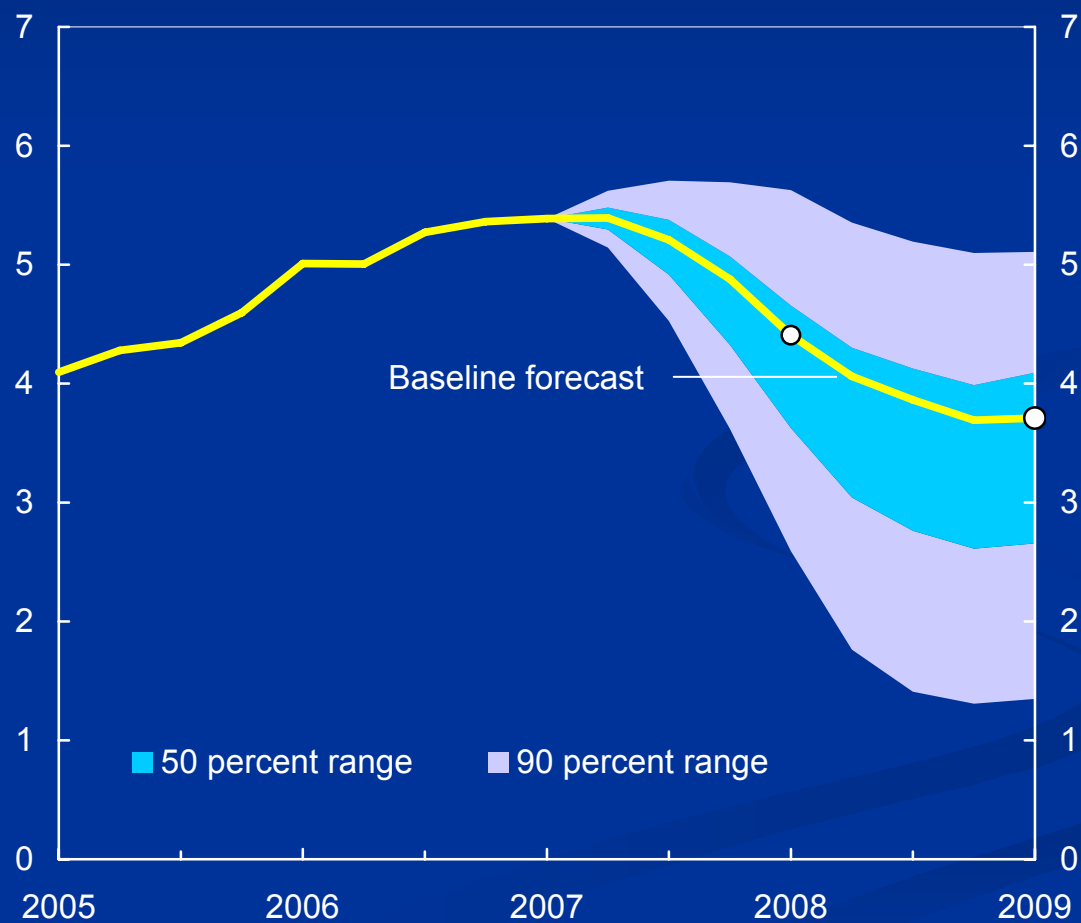


Sources: National authorities, and IMF staff estimates.
1/ PPP-weighted average of the 9 countries with public commodity revenue above 2 percent of GDP.

Sources: WEO, UNCOMMTRADE database, and IMF staff estimates.
1/ PPP-weighted average of 17 available countries.

Latin America: Growth Forecast

LA6 Growth Forecast - Balance of Risks
(Annual average growth rates in percent)



Source: WHD Regional Economic model.

Policy Conclusions

- Latin America is now reaping the rewards of past investments to reduce vulnerabilities
- However, given global conditions, complacency would be a big mistake
- The potential for weaker commodity prices, and its impact on fiscal positions, should encourage much greater restraint on spending growth
- Supervisory authorities should maintain close contact with their counterparts in industrial countries and strengthen disclosure and reporting frameworks