

# The Financial Market Crisis and Risks for Latin America

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**Director**

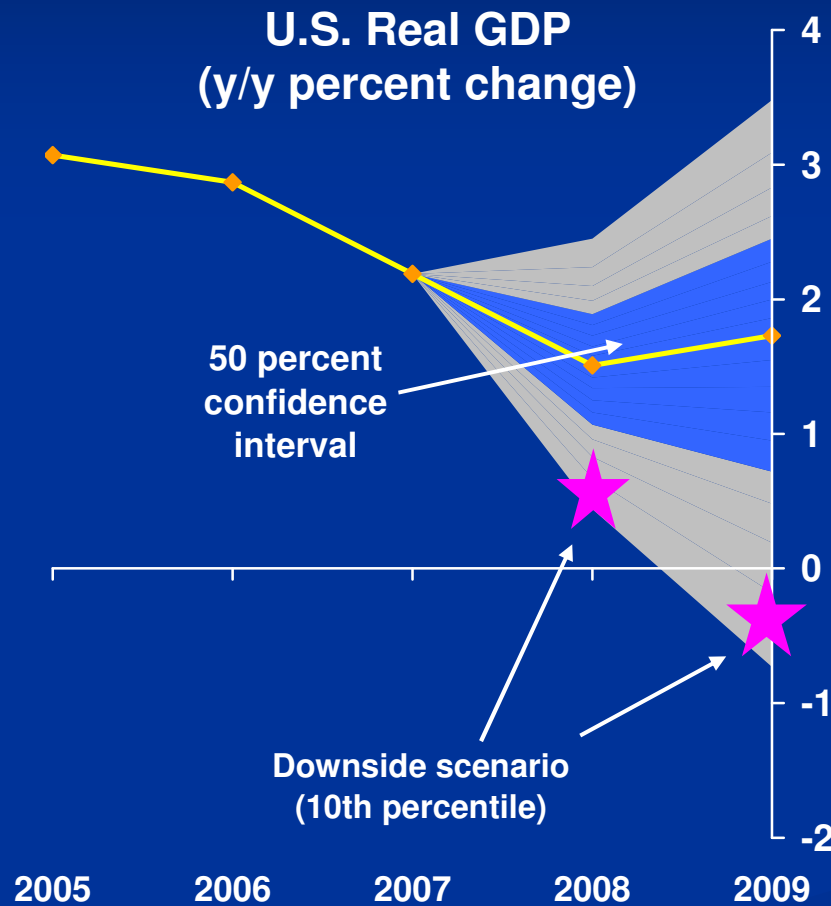
**Western Hemisphere Department  
International Monetary Fund**

**São Paulo, Brazil**

*March 17, 2008*



# U.S. Growth Outlook and Risks



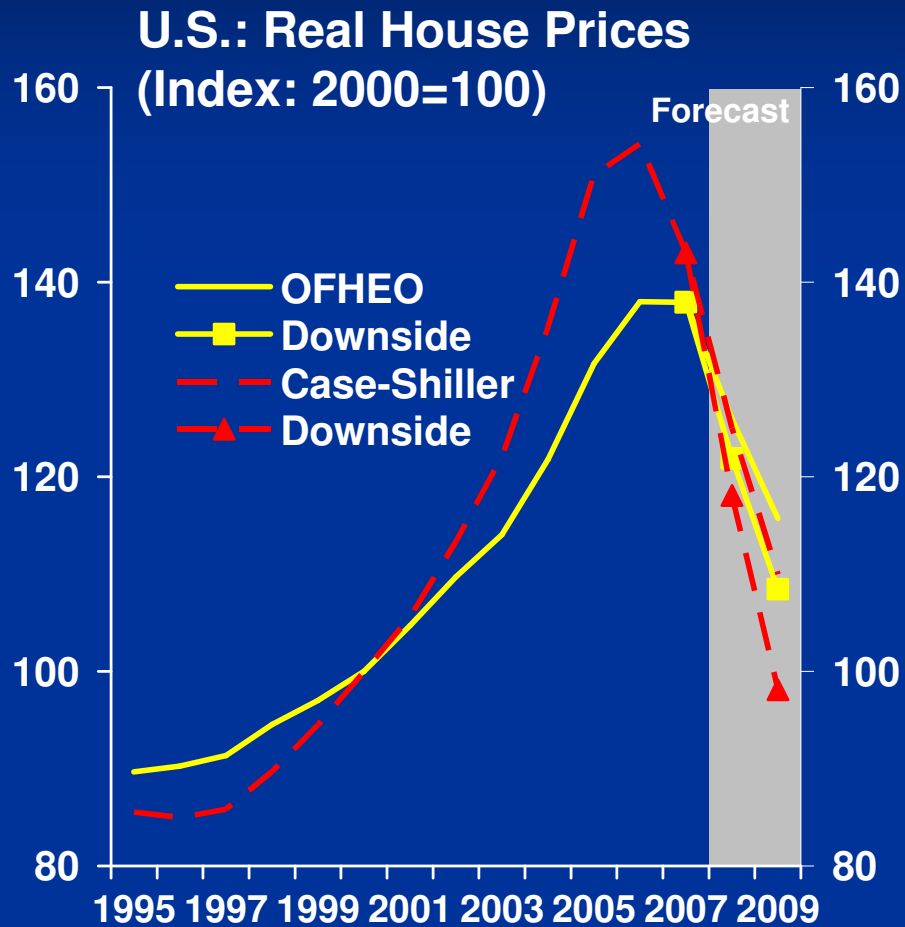
Source: Fund staff calculations.

## U.S.: GDP growth scenarios

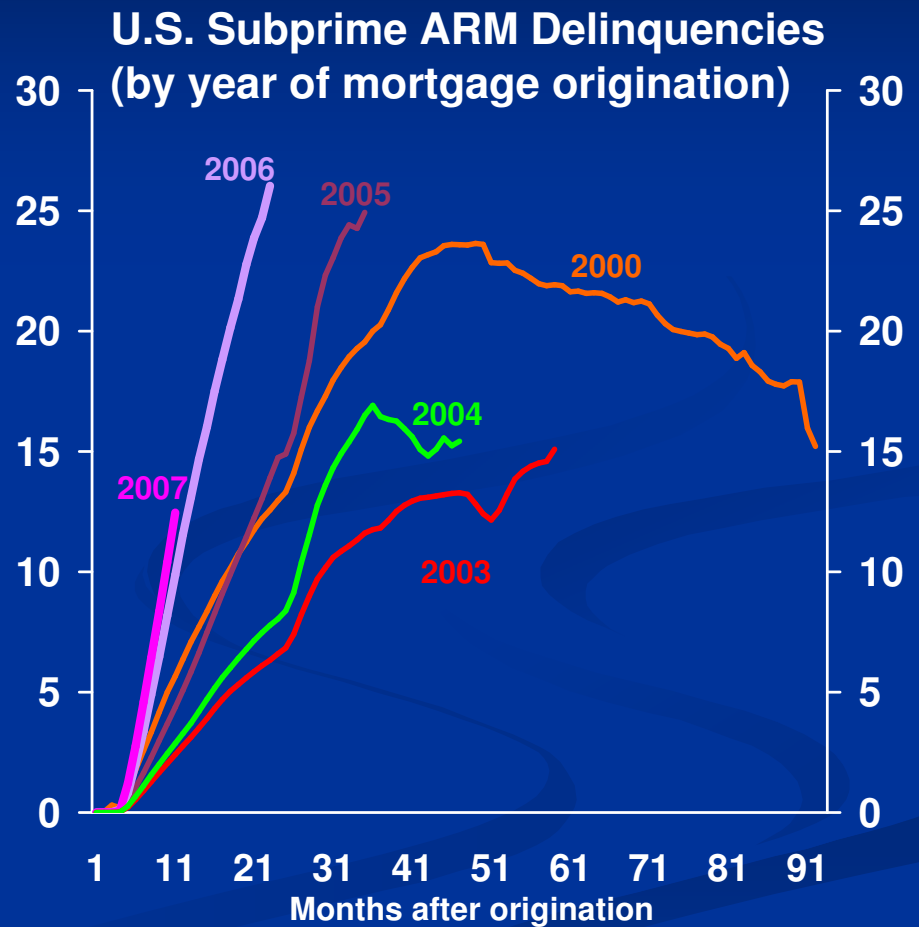
|                               | 2008  |        | 2009  |        |
|-------------------------------|-------|--------|-------|--------|
|                               | Q4/Q4 | Annual | Q4/Q4 | Annual |
| Baseline                      | 0.9   | 1.5    | 2.3   | 1.7    |
| Downside<br>(10th percentile)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

Source: Fund staff calculations.

# Downside Risks: Housing (1)

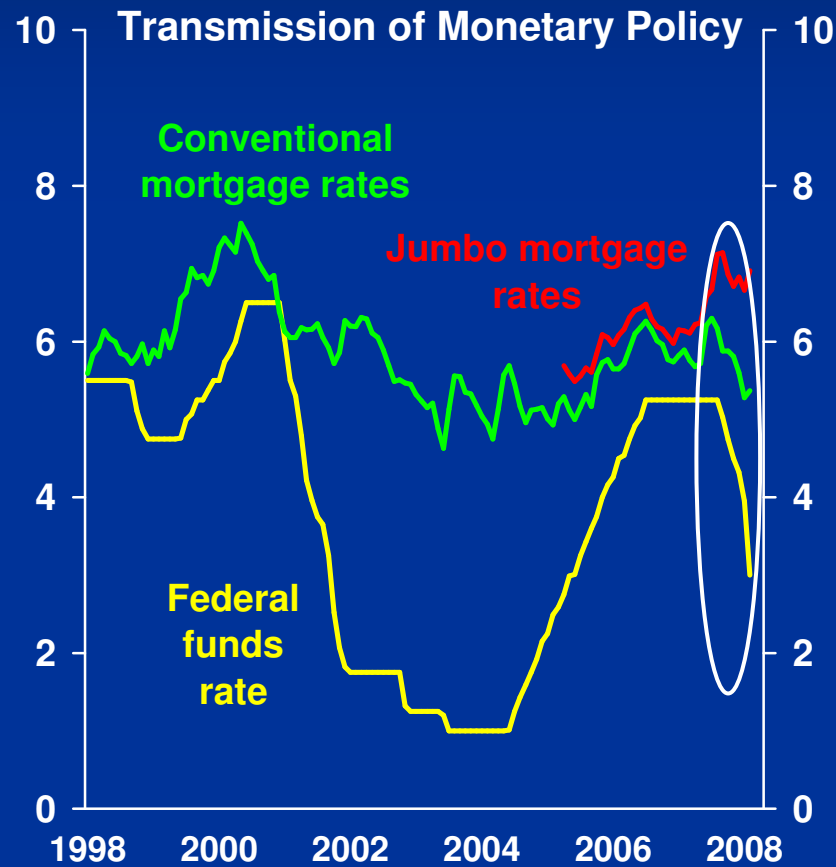


Sources: Haver Analytics; and Fund staff calculations.

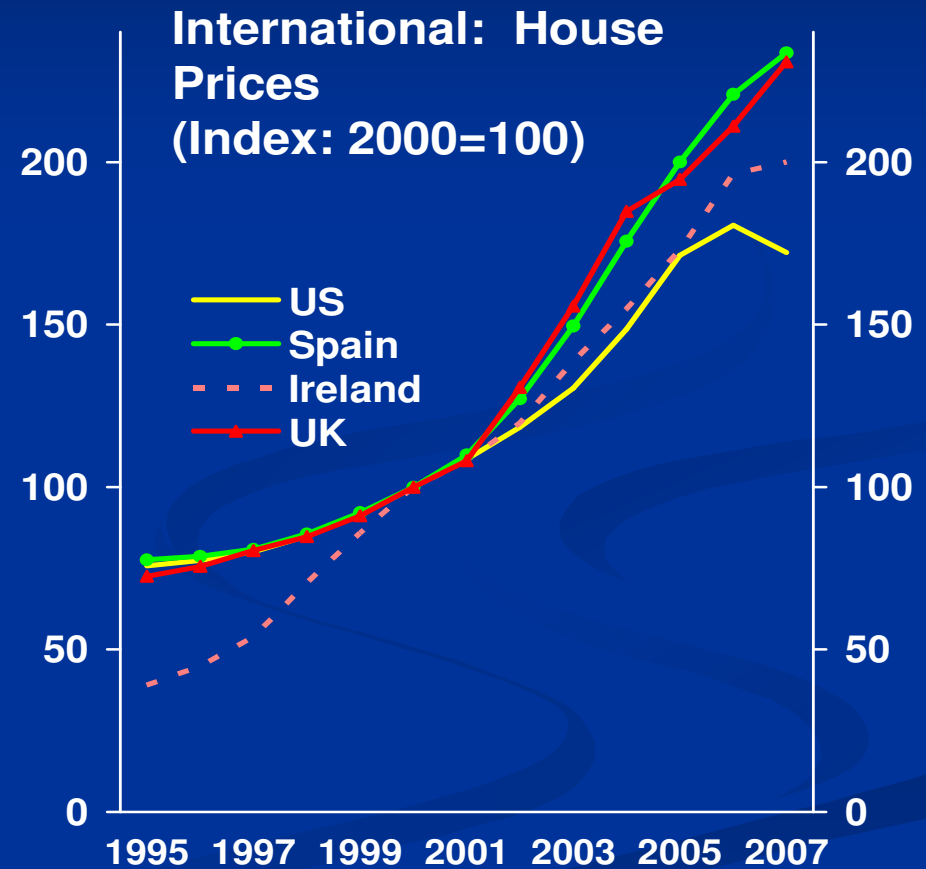


Sources: Merrill Lynch; Intex; and Fund staff calculations.

# Downside Risks: Housing (2)

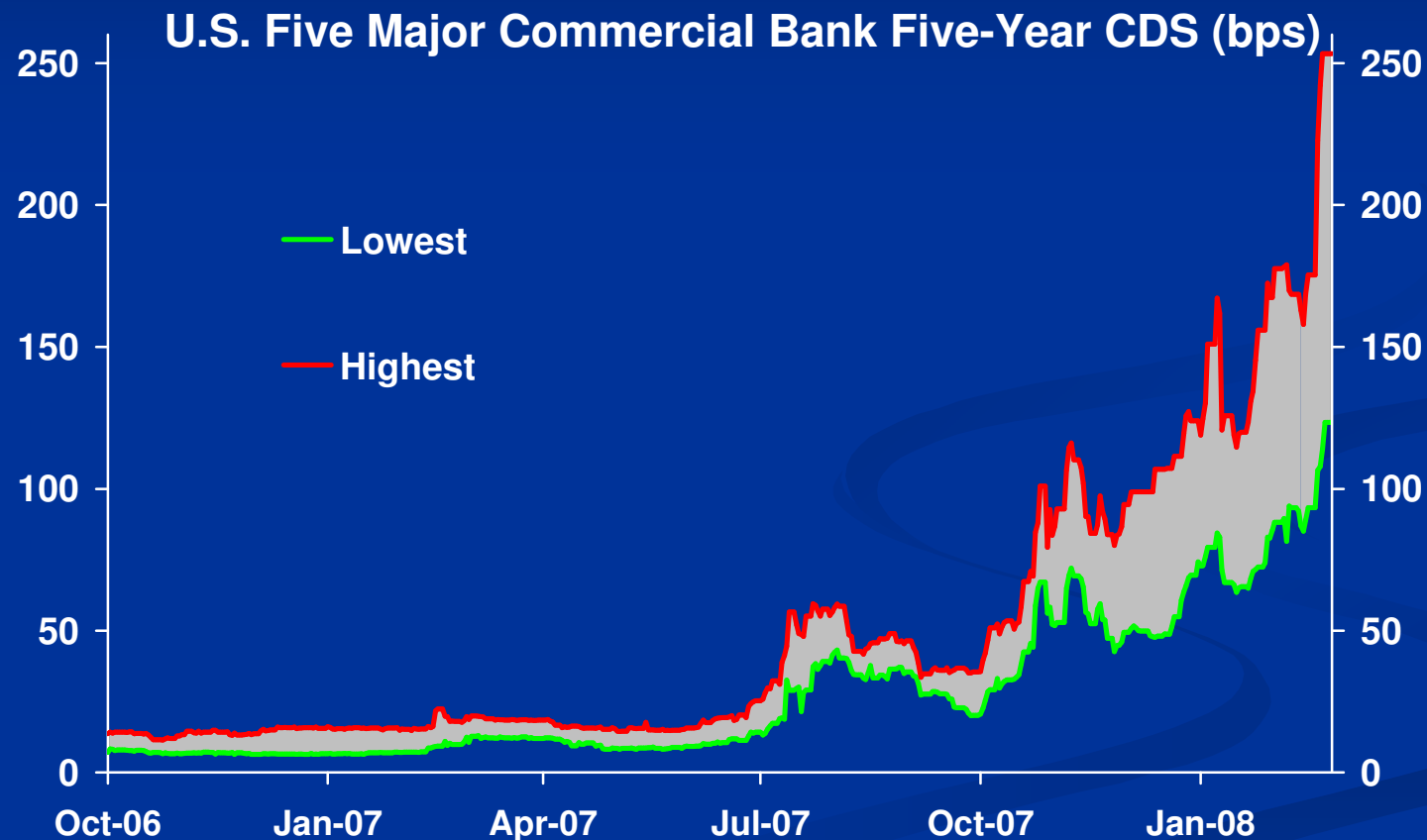


Source: Haver Analytics.



Source: Haver Analytics.

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



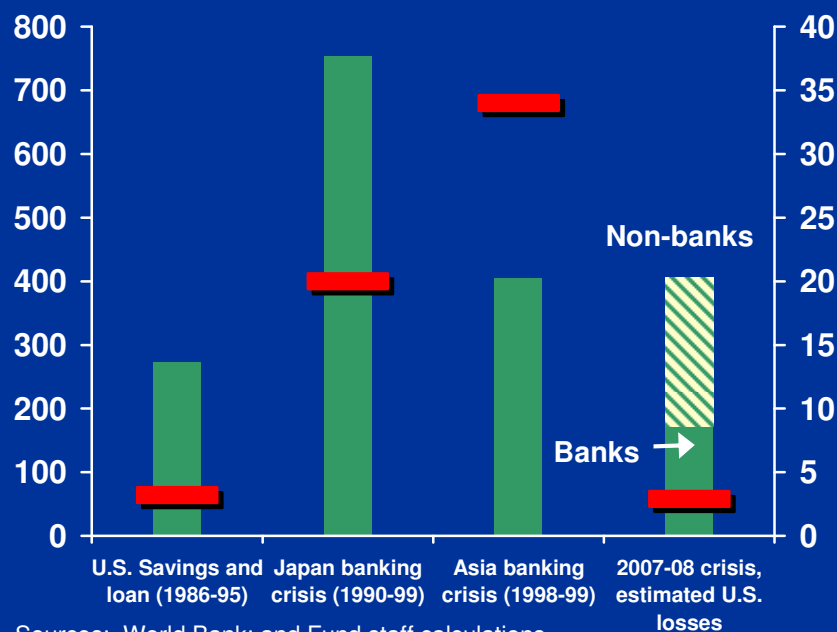
Source: Bloomberg.

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

## Comparison of Financial Crises

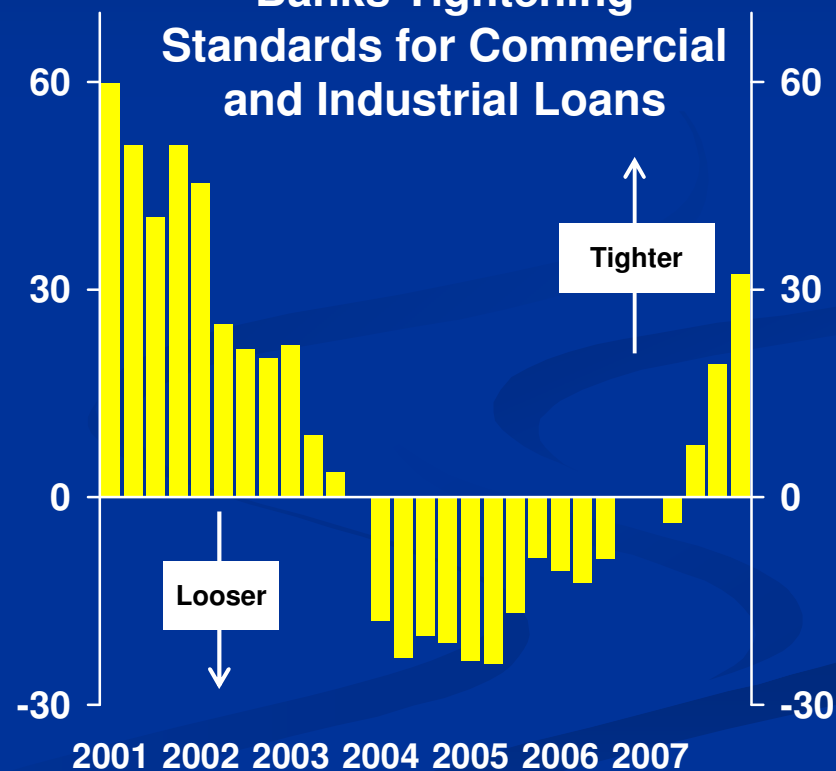
(Preliminary estimates)

- 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.

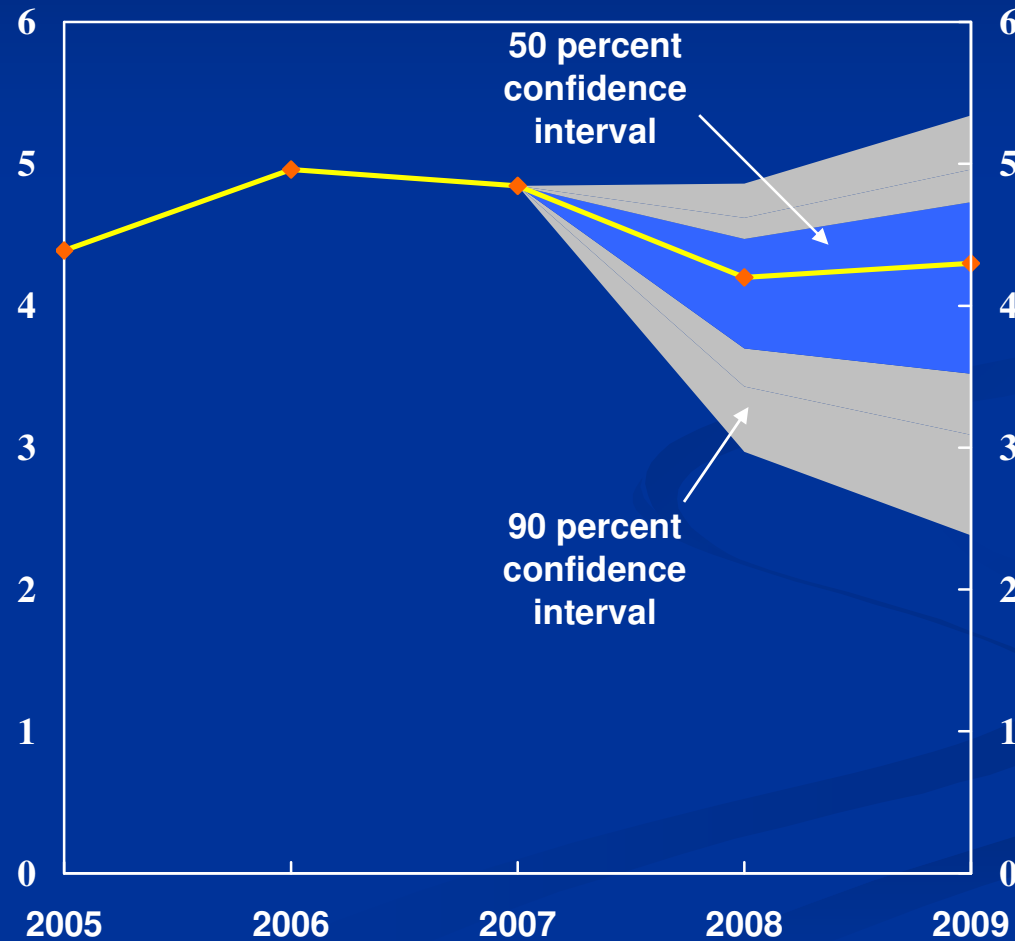
## U.S.: Net Percentage of Banks Tightening Standards for Commercial and Industrial Loans



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

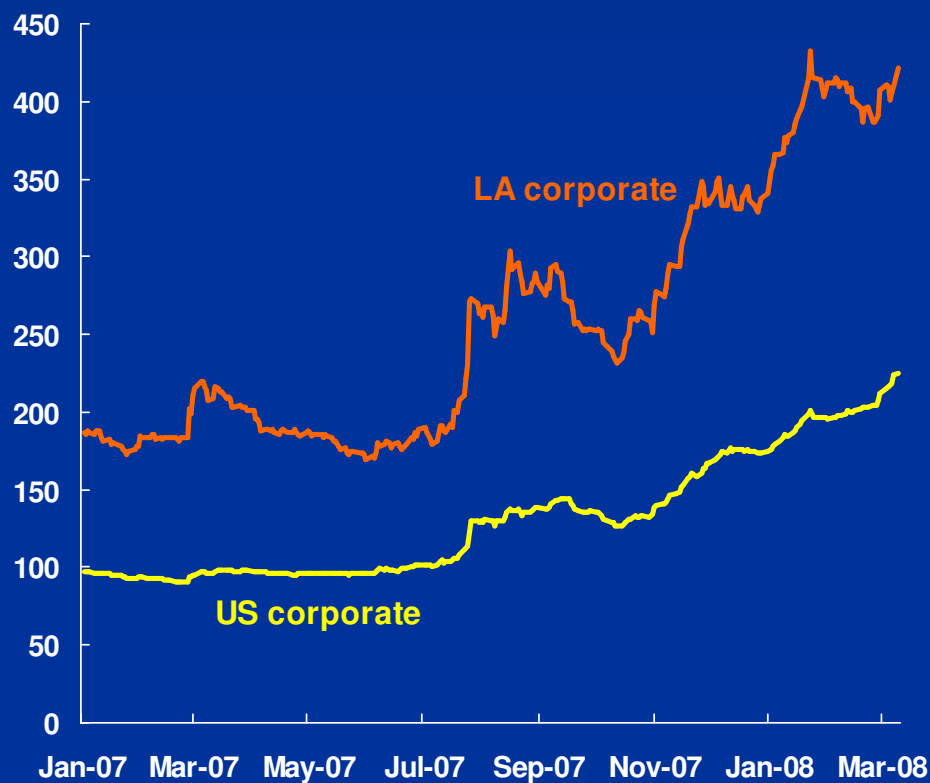
Emerging Market Sovereign and U.S. High Yield Spreads  
(Basis points)



Sources: Bloomberg; and Datastream.

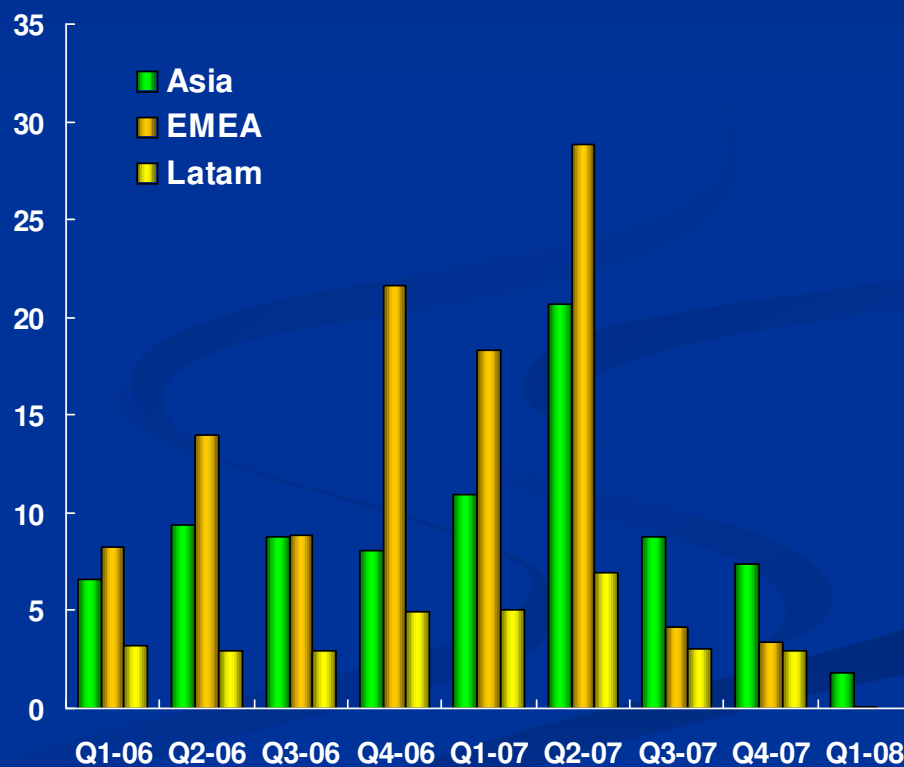
# Corporate Access to Financing May Be Of Greater Concern (1)

**LA and US Corporate Spreads**  
(Basis points)



Source: Credit-Suisse.

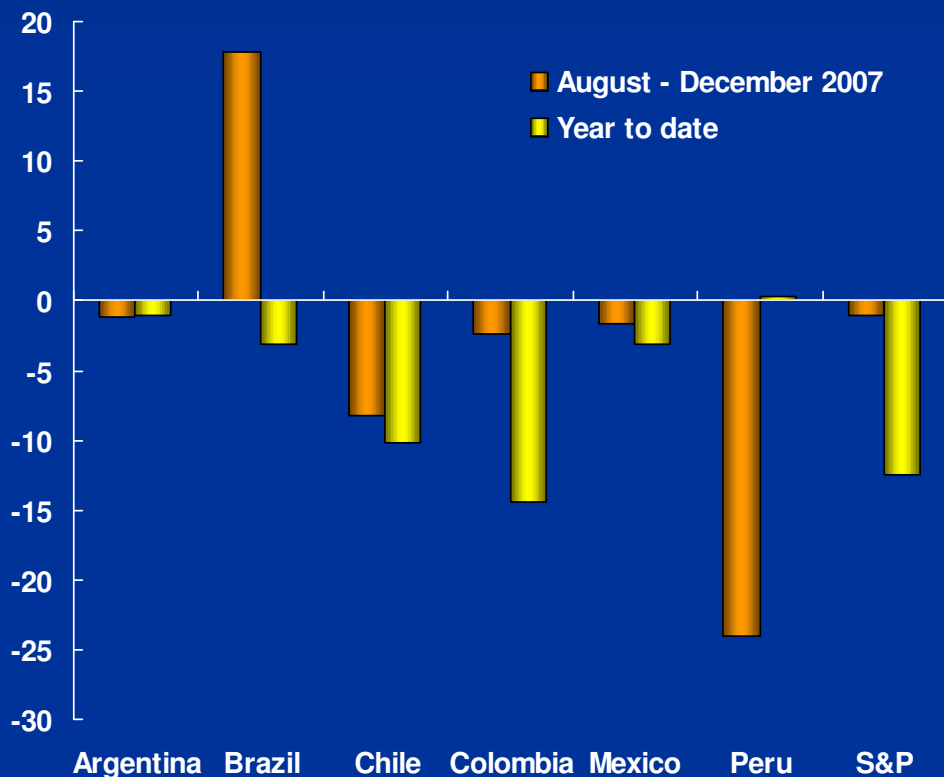
**Emerging Market Private Sector Bond Issuance**  
(Billions of U.S. dollars)



Source: Dealogic database.

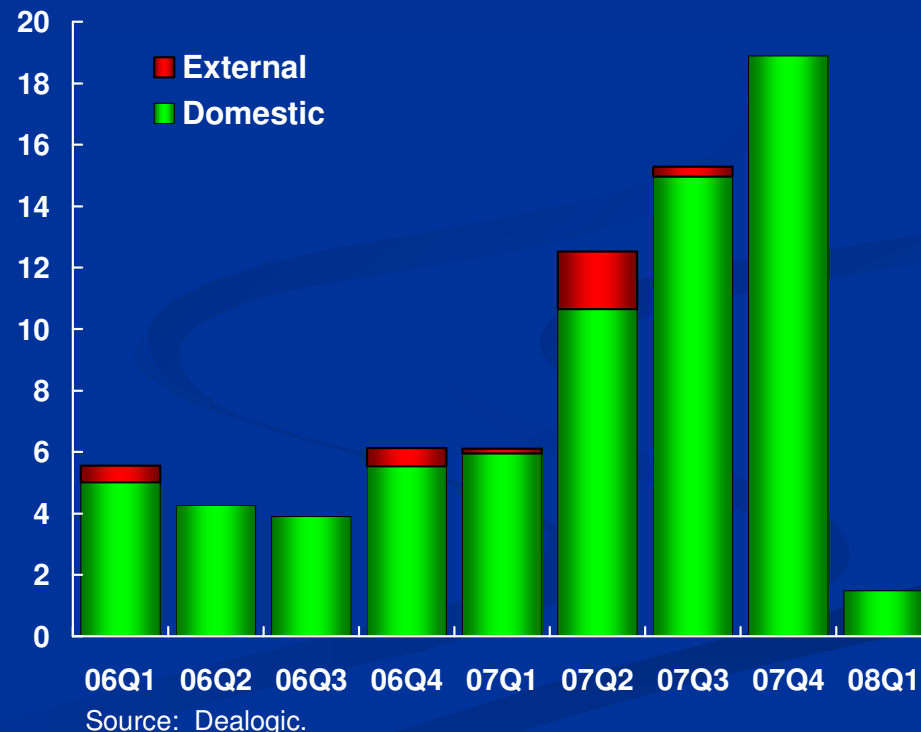
# Corporate Access to Financing May Be Of Greater Concern (2)

**Stock Prices**  
(Percent)



Source: Bloomberg.

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



# Commodity Price Increases Have Been Spectacular

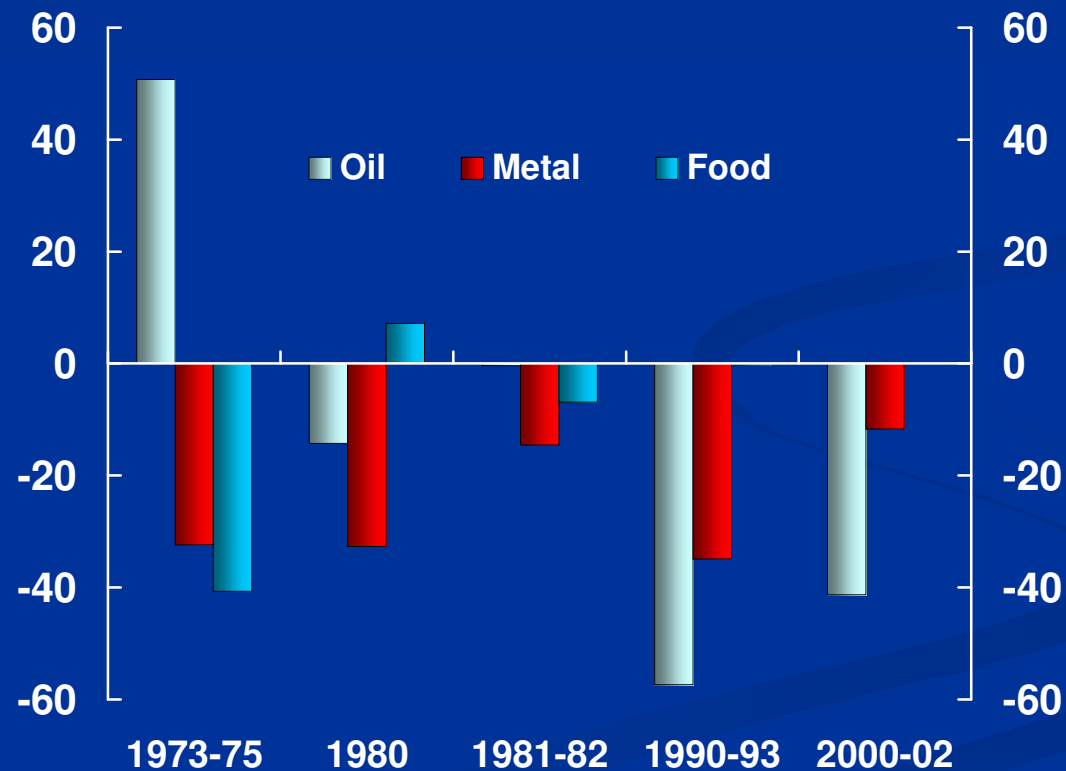
## Oil, Food, and Metal Prices



Source: IMF Research Department.

# But A Sharp Reversal Would Put Pressure on the Region

Commodity Price Change During past Global Downturns

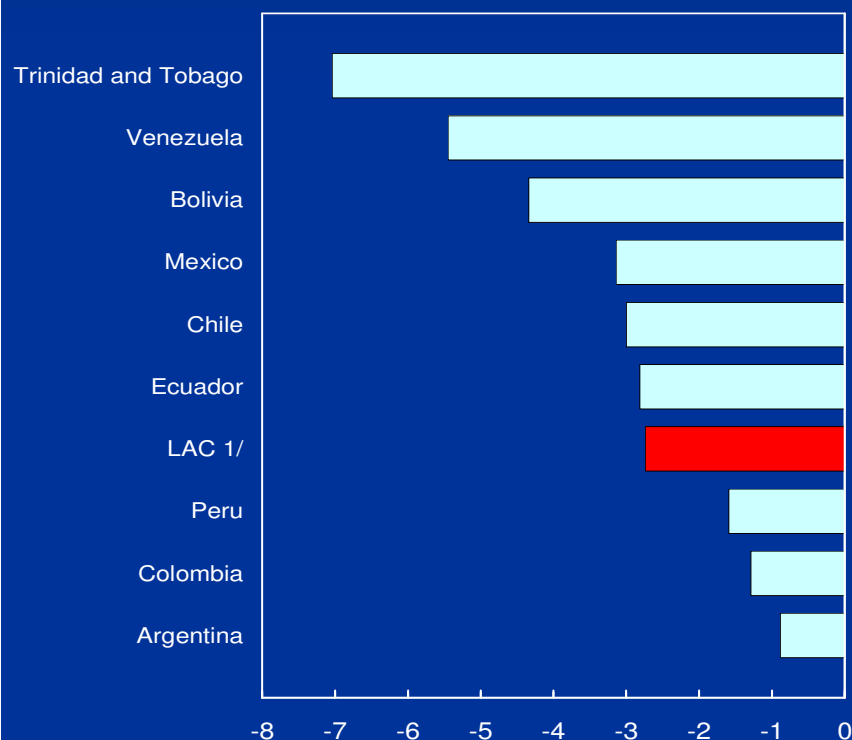


Source: Fund staff calculations.

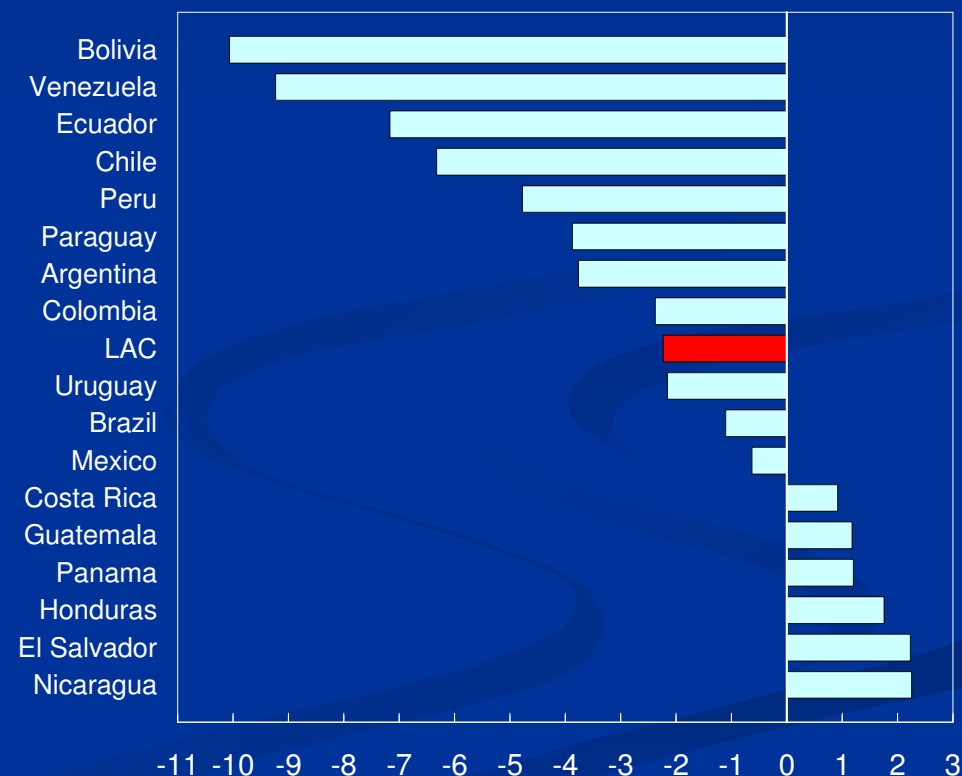
# With Significant Impact on Both Fiscal and External Positions

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/



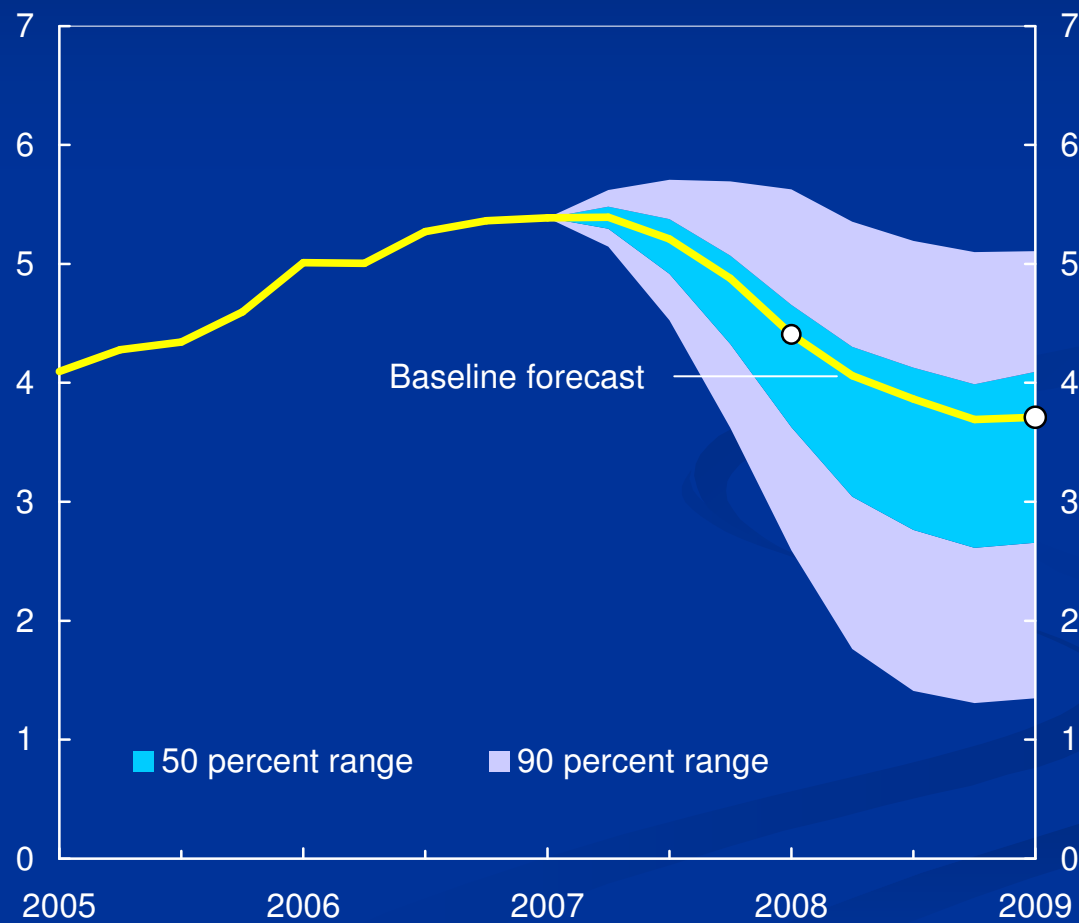
Sources: National authorities, and IMF staff estimates.  
1/ PPP-weighted average of the 9 countries with public commodity revenue above 2 percent of GDP.

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