

Responding Proactively to the Economic Slowdown

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Days after the 2009 World Economic Forum on Latin America ended, the International Monetary Fund (IMF) issued a sobering outlook for the global economy, predicting a contraction of 1.3% this year.

The Latin American and Caribbean economy is set to shrink 1.5% due to a fall in commodity prices and a drop in exports and tourism, it said.

The hardest hit would be Mexico (-3.7%) and Venezuela (-2.2%), the former because of its close economic and trade relations with the US. Brazil's economy, meanwhile, would be reduced by 1.3%. The strongest performer on the continent would be the Peruvian economy, which would expand by 3.5%. Recovery for the region - the IMF forecast - would come in 2010, with 1.6% growth expected.

The consensus among participants at Rio was that Latin America has been, among the regions of the world, least affected by the global economic turmoil and will emerge from the slump sooner than others will. Moreover, the region's financial sector has withstood the turbulence of the sub-prime mortgage crisis and the severe credit crunch.

"Latin America has become a net exporter of financial stability," said Young Global Leader Ricardo Villela Marino, Chief Executive Officer, Latin America, Banco Itaú Unibanco, Brazil, and Co-Chair of the World Economic Forum on Latin America.

"There are no off-balance-sheet exposures in Brazil, there are no special investment vehicles - they aren't allowed - and regulators have complete access," explained Pedro Moreira Salles, Chairman, Banco Itaú Unibanco, Brazil.

In Brazil, no bank has failed so far, Villela Marino noted. "The banking system is intact and working normally." Latin America "is not dropping down into a financial crisis, but is facing one in the real economy," Pamela Cox, Vice-President for Latin America and the Caribbean, World Bank, Washington, DC, agreed. Yet "this is not your mother's crisis."

The region's resilience is due to better macroeconomic fundamentals, thanks to reforms implemented over the years and better governance than in the past. In many countries, banking systems have been strengthened, regulatory frameworks tightened, public debt paid down and foreign exchange reserves have piled up. The downturn that Latin America is experiencing today "is cyclical, not structural," Villela Marino declared.

To be sure, the region is not out of the woods. While the bankers may be confident that they have seen the worst and may even discern some light at the end of the tunnel, in general industrialists and manufacturers at Rio, particularly exporters, were more pessimistic. Brazil may not escape recession, cautioned Paulo Antonio Skaf, President, Federação das Indústrias do Estado de São Paulo (FIESP), Brazil.

There may be liquidity in the financial system, but credit is not yet flowing, he observed. "You can have money in the banking system, but it does not mean it necessarily is reaching the companies' coffers." There are certainly threatening clouds on the horizon that could still cause trouble for many

economies. Unemployment is set to increase, which could lead to social unrest and political instability.

"We are beginning a round of elections" over the next 18 months, warned Mauricio Cárdenas, Director, Latin America Initiative, Brookings Institution, USA. "That of course increases the chance of populism and the undertaking of policies that are not sensible. This risk exists in certain countries." He also warned that, if the US economy lingers in recession, Latin America's downturn could get worse. Companies, in particular, would be hard pressed if they could not roll over debt in still volatile international capital markets.

However, participants did not dwell on the threats to an early rebound for Latin America. Instead, they focused on what the region must do now so that it takes full advantage of the recovery. Companies, for example, should seize the day. "It is easy to take a short-term view and just duck for cover," said Timothy P. Flynn, Chairman, KPMG International, USA, and Co-Chair of the World Economic Forum on Latin America.

"One must continue to invest and take a longer term view. Economies will recover; capital will flow again. So what are you doing in your organization to prepare for the turnaround?" He reckoned: "Those who don't miss the opportunity to take advantage of this crisis will be the winners as we move forward."

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