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IMF Regional Economic Outlook Sees Latin America Recovering More Quickly from the Global Crisis Relative to Advanced Countries

The impact of the global recession on the Latin America and Caribbean (LAC) region has been severe and wide-ranging, but the region is now better positioned to weather the current downturn and is expected to emerge from the financial crisis earlier than the advanced economies, according to the latest *Regional Economic Outlook: Western Hemisphere* report of the International Monetary Fund (IMF). The report also predicts that economic activity in LAC will suffer less than in previous global downturns.

The Fund estimates the LAC region will hit bottom in the first part of 2009 and will begin to grow in the second part of the year, while growth in advanced economies may not turn positive until the middle of 2010. According to the latest IMF forecasts, the LAC economies will shrink 1.5% in the current year and return to a positive growth rate of 1.6% in 2010. That compares to a drop of 3.8% for advanced economies in 2009 and no growth in 2010.

“There is no doubt that the region is being hurt by the global turmoil,” said Nicolas Eyzaguirre, director of the IMF’s Western Hemisphere Department. “But the region has a much higher level of preparedness today in terms of stronger public finances and financial sectors, and policies that help cushion external shocks. As a result, the region is not facing a fiscal crisis, as some other developing regions, or a banking crisis, as the United States and much of Europe. Looking back at previous global downturns, the LAC region would normally trail the world economy by one or two percentage points. Now, however, we expect the region to keep up with world growth, which, in relative terms, is a positive development.”

Mr. Eyzaguirre noted that, in contrast to past downturns, when policymakers in the region had to react defensively to external shocks with spending cuts and interest rate hikes to avoid a deeper downward spiral, this time around they have been able to respond in a very different way: with active policies to boost output and employment. They have been able to implement more counter-cyclical policies than at any other time. To different degrees, according to each country’s condition, governments have been able either to maintain public expenditure or increase it. “Many central banks were able to provide liquidity and interest rates were lowered,” Mr. Eyzaguirre said.

The external shocks hitting the region have been unusually severe, the latest outlook notes. All countries have sustained a loss of external demand, and many have also suffered a deterioration in their terms of trade as commodity export prices plunged. Countries with relatively large manufacturing sectors have been especially hard hit. Income from remittances and tourism is also sinking. And external financing has become more costly for all, with some borrowers cut off from financing, the regional outlook explains.

Against all this, the region had accumulated many sources of strength and resilience during the past decade—although to varying degrees. Many countries have made important strides in strengthening fiscal positions and public debt structures, solidifying financial systems and their regulation, anchoring inflation expectations, and building more credible policy frameworks. And a significant number of countries count on greater flexibility of their exchange rates as part of their adjustment process. “The lesson emerging from Latin America is that stronger fundamentals pay important dividends when external conditions deteriorate,” Mr. Eyzaguirre said.

Banking Systems and Lending in LAC

The *Regional Economic Outlook* also discusses the impact of the crisis on the region’s financial systems. Chapter III of the report analyzes the impact of the global financial crisis on LAC’s banking sectors, and concludes they are much more resilient than in the past because earlier weaknesses, such as exposure to currency depreciation and reliance on external financing, have been reduced considerably.

Chapter IV considers whether the international banks that are active in the LAC region will transmit advanced countries’ credit crunch to the region. While bank loans from abroad already have contracted, the report predicts that credit extended by local affiliates of foreign banks—which is more important to most countries—will continue to be more resilient.

The full text of the *Regional Economic Outlook* is available in the IMF’s website, at www.imf.org.