



¡Viva La Economía Nueva! Latin America Emerges from the Financial Crisis

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Having seen its share of economic turmoil, Latin America is emerging from the financial crisis with a growth rate that is the envy of northern trading partners. The region is exhibiting newfound strength and stability, particularly in the banking sector, which is poised for explosive growth as Latin America plays a more dominant role in the global economy.

Latin America Looks Ahead

No part of the world went unscathed by the global financial crisis, but Latin America has not suffered as badly as other regions. With the developed nations of the northern hemisphere struggling to jump-start their sluggish economies, Latin America is moving ahead at a strong pace. So strong, in fact, that a recent report by the International Monetary Fund (IMF) stated that many Latin American economies in 2010 face the prospect of “overheating.”

Leading the charge is Latin America’s largest economy, Brazil, which recently had its 2010 growth target revised from 5.5% to 7.1% by the IMF. Brazil, long a leading commodities producer, has developed sophisticated manufacturing and technology sectors to complement its traditional industries. In addition, Brazil has begun reaping the benefits of financial reforms it enacted during the 1990s. These reforms, which include inflation targeting, a floating exchange rate, and prudent management of public finances, are fundamentally changing the way Brazil, and Latin America, does business.

On the heels of Brazil’s growth is Latin America’s second largest economy, Mexico, which had its 2010 growth rate raised upwards of 5% by the IMF. Mexico is followed by Argentina, Chile, and Peru, which are projected to grow in the 4-5% range. The most notable laggard is Venezuela, where fears of business expropriations are, to no surprise, dampening investment activity and dragging the economy to a projected negative growth rate in 2010.

Latin America's banking sector is poised for explosive growth as the region plays a more dominant role in the global economy.

Special Relationship with China

A key driver of Latin American economies is their burgeoning trade relationship with China. In 2009, Latin America conducted over US\$140 billion in trade with China, a 40% increase over 2007 levels, and a remarkable 20-fold increase from a decade ago. China now ranks among the top-five import sources, as well as top-five export destinations, for every major Latin American economy. For Brazil, China has jumped to become the country's largest trading partner, surpassing the US, which has slipped to number two.

The Chinese economy, driven by manufacturing, has an immense need for raw materials which Latin America has in abundance. And China is not only buying to meet its immediate needs, but also looking long-term as it helps to develop Latin American infrastructure. Witness the summer 2010 railway deal between China and Argentina, in which China provides financing, as well as railway equipment including locomotives, train cars, and tracks, in a US\$10 billion overhaul of Argentina's railways.

Credit Where Credit is Due

While governments from California to Ireland to Greece are facing credit downgrades, it is no small surprise that many Latin American countries have recently been awarded credit upgrades. Within the past year, the credit ratings of Brazil and Peru have risen to investment grade, joining Chile, which has earned this rating for several years and received a further upgrade this summer by Moody's Investors Services.

Playing a key role in Latin America's improving financial infrastructure are the region's banks, which have displayed remarkable stability. While many US and European banks are struggling with underperforming loans and risky investments, Latin American banks have exhibited much stricter lending and investing standards. Investments, for instance, have been focused on exchange-traded and fixed-income products, rather than on higher-risk equity securities and exotic derivatives.

Opportunities to Bank On

While Latin American banks have exhibited a conservative risk profile, they have been aggressively targeting a consumer market for its untapped potential. Latin American banks have popularized online banking in more developed regions, while making inroads in less developed regions where as much as 80% of the population has never before had a bank account.

Large banks such as BNY Mellon are also developing electronic interfaces for smaller banks that allow Latin Americans abroad to send money home in an efficient and low-cost manner. Services such as BNY Mellon's Remit Worldwidesm, a white label remittance solution, allows retail banks to move more aggressively into a business currently dominated by wire service companies like Western Union. Banks are also adding facilities to allow Latin Americans abroad to pay bills remotely at designated locations. This strategy is already showing success in Central America, where the percentage of the banked population has grown considerably in the past three years.

To attract a wider customer base in a region where payment in cash remains a regular means of doing business, many banks in the region have begun allotting a certain percentage of their credit portfolio to microfinance. In the past two years, banks have attracted small businesses - Pequeña y Mediana Empresa (PyMES) - with free transactions, up to a certain amount per month, as loss leaders. In addition, these banks, primarily based in Brazil, Peru, and Central America, are providing seminars and courses on financial planning and business.

Innovative Banking Strategies

The desire by many multinational corporations to cut costs in the wake of the global financial crisis has driven greater technological integration within both Central and South America. Several US and European-headquartered global financial institutions have started to bring their regional banks onto a single technology platform to allow them to provide a seamless service to multinational companies operating throughout the region. Large Latin American banks are also moving away from country-specific solutions to standardize their payment system throughout the region.

Virtually all forecasts for Latin America predict steady economic growth into the foreseeable future and this leads to considerably brighter prospects for the region's banking industry. Continued political stability in the region will be necessary to ensure this, and that remains an issue to be watched in a few countries, but the overall picture is positive.

Worldwide, Latin America is increasingly seen as an attractive destination for foreign capital, where traditional investors from the US and Europe are supplemented by newer investors from China, India, and Russia. This is providing new opportunities across Latin America for both regional and global financial institutions, which are positioned to take advantage through greater integration and payments innovation.

About the Author

John Hernandez is Managing Director with BNY Mellon Treasury Services. He has acquired expert knowledge of the cash and treasury management industry in a career that spans over two decades. John joined BNY Mellon in 2005 after working in the treasury services organizations of Barclays Bank and Bank of America. His prior responsibilities include Latin America head of marketing, sales and service, and head of implementation for cash management solutions. John has been a speaker at various industry conferences and events. Past topics include best practices in international banking, workers' remittances, and private-label solutions for the financial industry.

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