

THE OPPENHEIMER REPORT

Lending crisis not fatal

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Most international economists say that while the U.S. mortgage lending crisis will not have a catastrophic impact on Latin American economies, it could hurt them somewhat. I would add that, in the longer run, it may actually have a positive impact on the region.

Judging from what I heard in interviews with some of the region's top economists this week, there are two ways in which the U.S. lending crunch could hurt Latin America:

First, the so-called sub-prime lending crisis in the United States has already created a credit crunch in world markets, which is moving lenders to stay away from countries they perceive as potentially risky, such as Venezuela and Argentina. This had led leading risk-assessing agencies to increase these nations' "country risk" ratings, which makes it more costly for them to get loans or ease payment conditions.

Over the past four months, Argentina's country risk has soared from 240 points to about 490, Venezuela's from 231 to 509, Brazil's from 139 to 216, and Colombia's from 119 to 200.

Second, and perhaps more important, a possible slowdown in the U.S. economy will hurt Latin American exports. Mexico and Central America, which depend heavily on their exports to the United States, would be the most affected. Some financial institutions, such as Merrill Lynch, have recently revised down their U.S. economic projections for 2008 to 1.5 percent, from 2.3 percent.

José Luis Machinea, head of the United Nations' Economic Commission for Latin America and the Caribbean, told me in a telephone interview Wednesday that his group is maintaining its forecast that Latin America will grow by 5 percent this year, and by 4.6 percent in 2008.

"We think that this will be a manageable financial crisis because central banks from the developed world have decided to intervene aggressively, and because Latin America is much better prepared for a situation like this than in the 1990s," Machinea said. "Today, Latin American countries have more foreign reserves, fewer public debts and smaller foreign debt payments."

He added, however, that "if there is a slowdown in the world economy that lasts for more than six months, it will definitely hurt the region."

Guillermo Perry, chief economist for Latin America and the Caribbean with the World Bank, told me that his office has not yet lowered its economic projections for the region, either. "There is nervousness, but it's too early to do that," he said.

"If the Federal Reserve manages to contain the crisis, the impact on Latin America will be marginal," Perry said. "If there is a U.S. economic slowdown, the impact would be bigger, but would not mean the end of the region's [5-year-old] growth cycle."

Paulo Leme, chief economist for emerging markets research with the Goldman Sachs investment bank, told me that "we have not yet revised our economic projections for Latin America. At this point, the responsible thing to do is to indicate the direction, which is to the downside."

Claudio Loser, a former head of the International Monetary Fund Western Hemisphere department who is now an analyst with the Inter-American Dialogue think tank in Washington, D.C., said the world credit crunch will probably move financial institutions to soon lower their 2008 Latin American economic growth projections to about 4 percent. Venezuela's economy could slow down to 3.5 percent next year, and Argentina's to 4 percent, he said.

My opinion: There may be an upside to all of this. The world credit crunch will reward Latin American countries that have carried out responsible economic policies, because lenders and investors will remain confident in their future. Conversely, it will punish populist countries that have used their soaring exports' income for temporary feel-good measures, because investors and lenders will be much more reluctant to do business with them.

Latin America's populists -- ranging from Venezuela's narcissist-Leninist president to Argentina's somewhat more subdued leader -- may have no alternative but to do what China, India and Eastern Europe have been doing for many years: think long-term and invest in the future. If the crisis doesn't get out of hand, it could actually force some countries to come to their senses.