

Latin American Capital Markets: Stylized Facts, Recent Developments, and Issues

FEDERAL RESERVE BANK OF NEW YORK

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The World Bank

Structure of presentation

- ✚ Medium-term trends: "*parece que estamos mal...*"
- ✚ But significant signs of hope are emerging: "*...pero vamos en buen camino*"
- ✚ Selected issues

De la Torre, A. and S. Schmukler, 2006. Emerging Capital Markets and Globalization: Challenges for Developing Countries *Stanford University Press* and *The World Bank*, 2006 (<http://www.worldbank.org/laccapitalmarkets>).

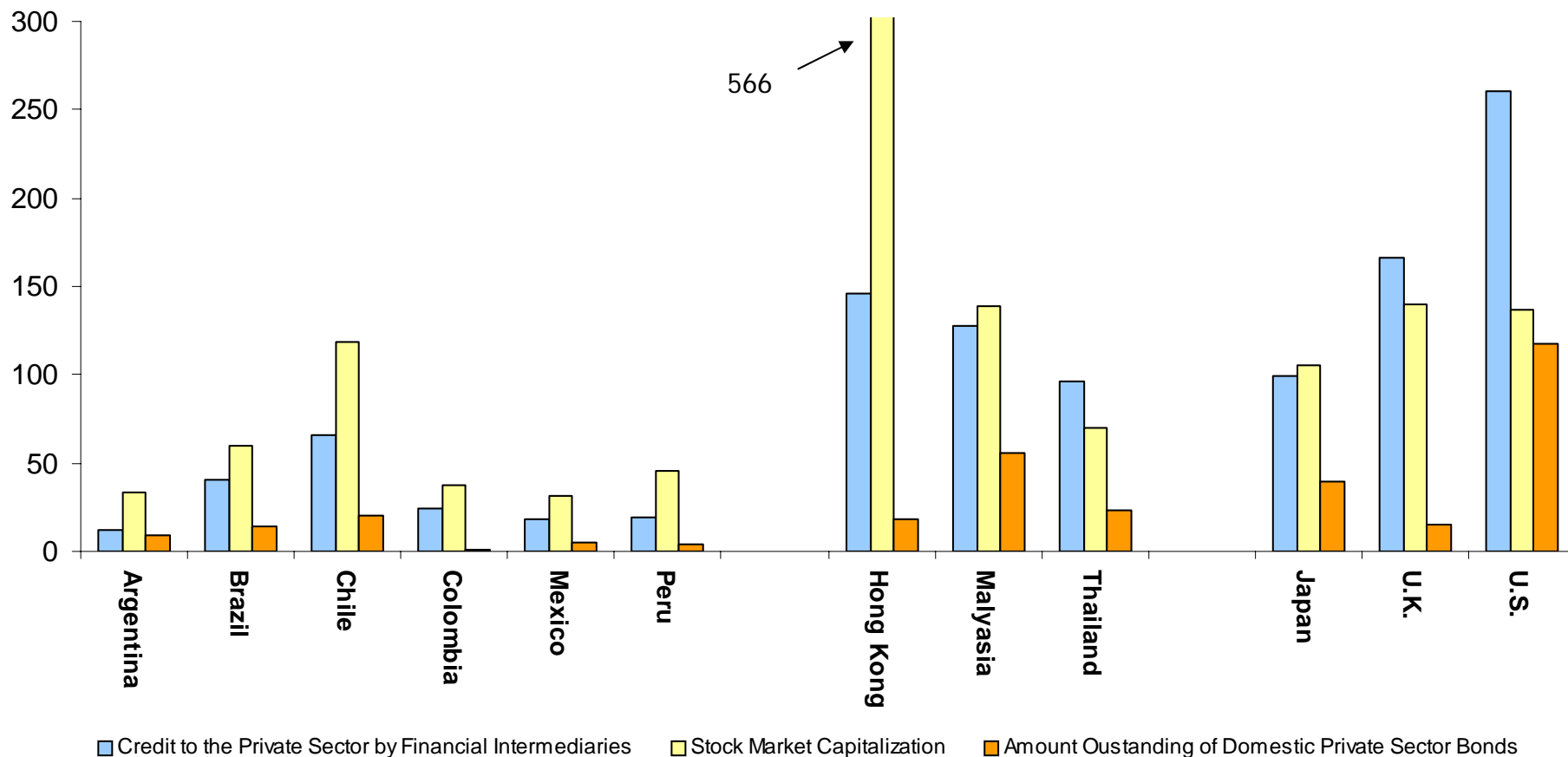
Medium Term Trends

“Parece que estamos mal...”

Latin financial systems are comparatively small, given p.c. income, and macro & institutional fundamentals

Financial Sector Size Across Countries

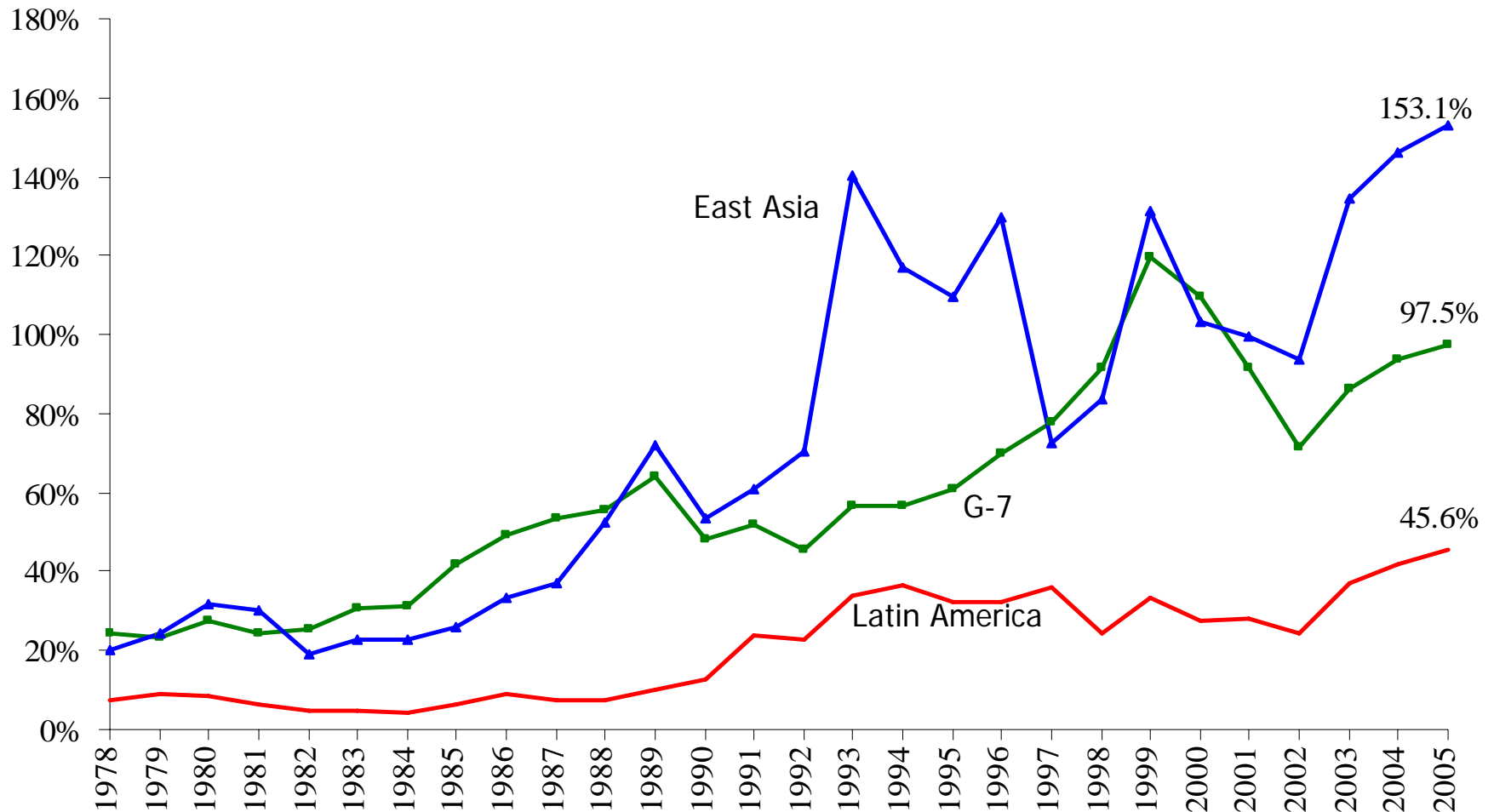
Percent of GDP, 2005



Stock market cap lags but has been picking up

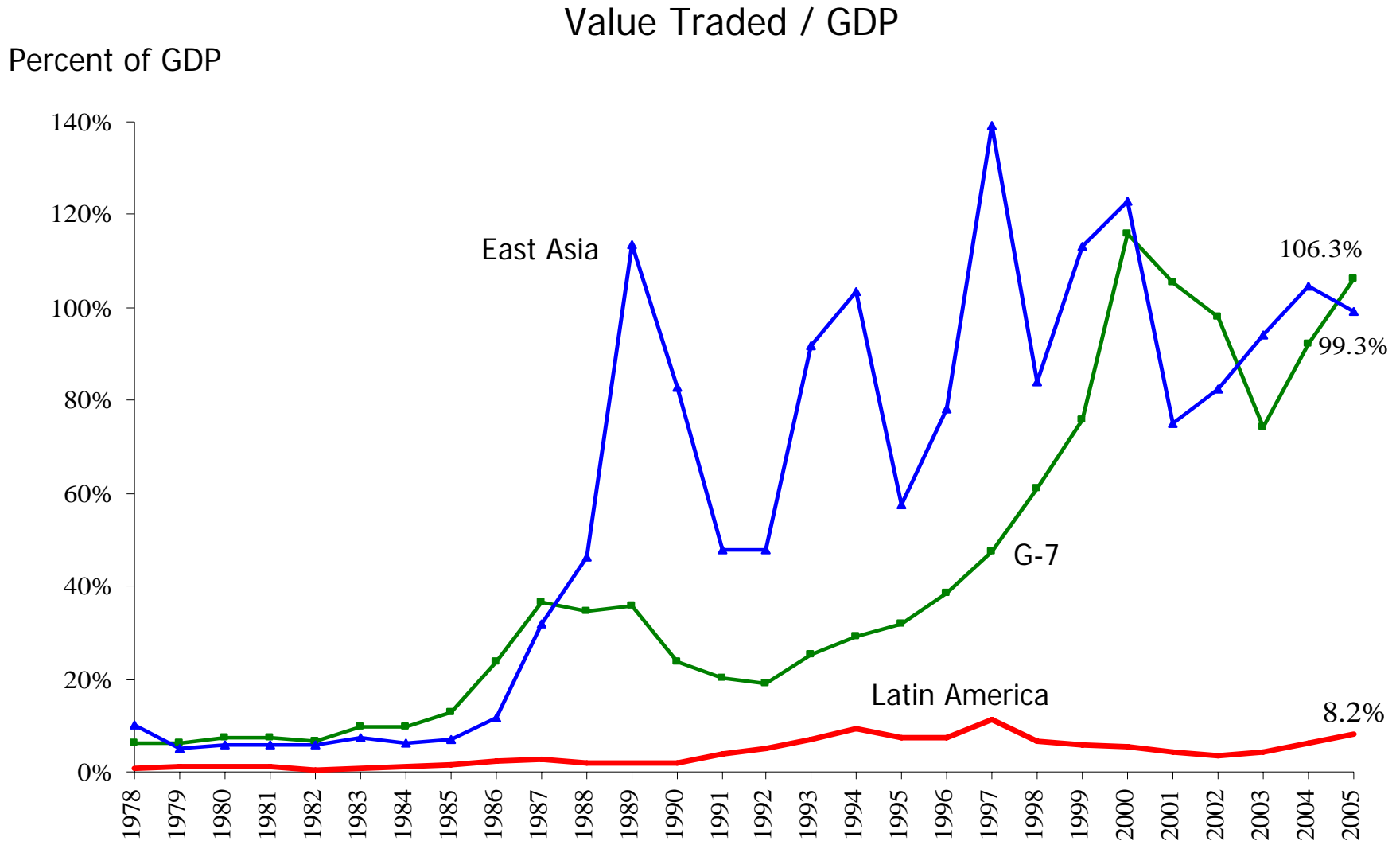
Market Capitalization / GDP

Percent of GDP



Source: S&P Global Stock Market Factbook

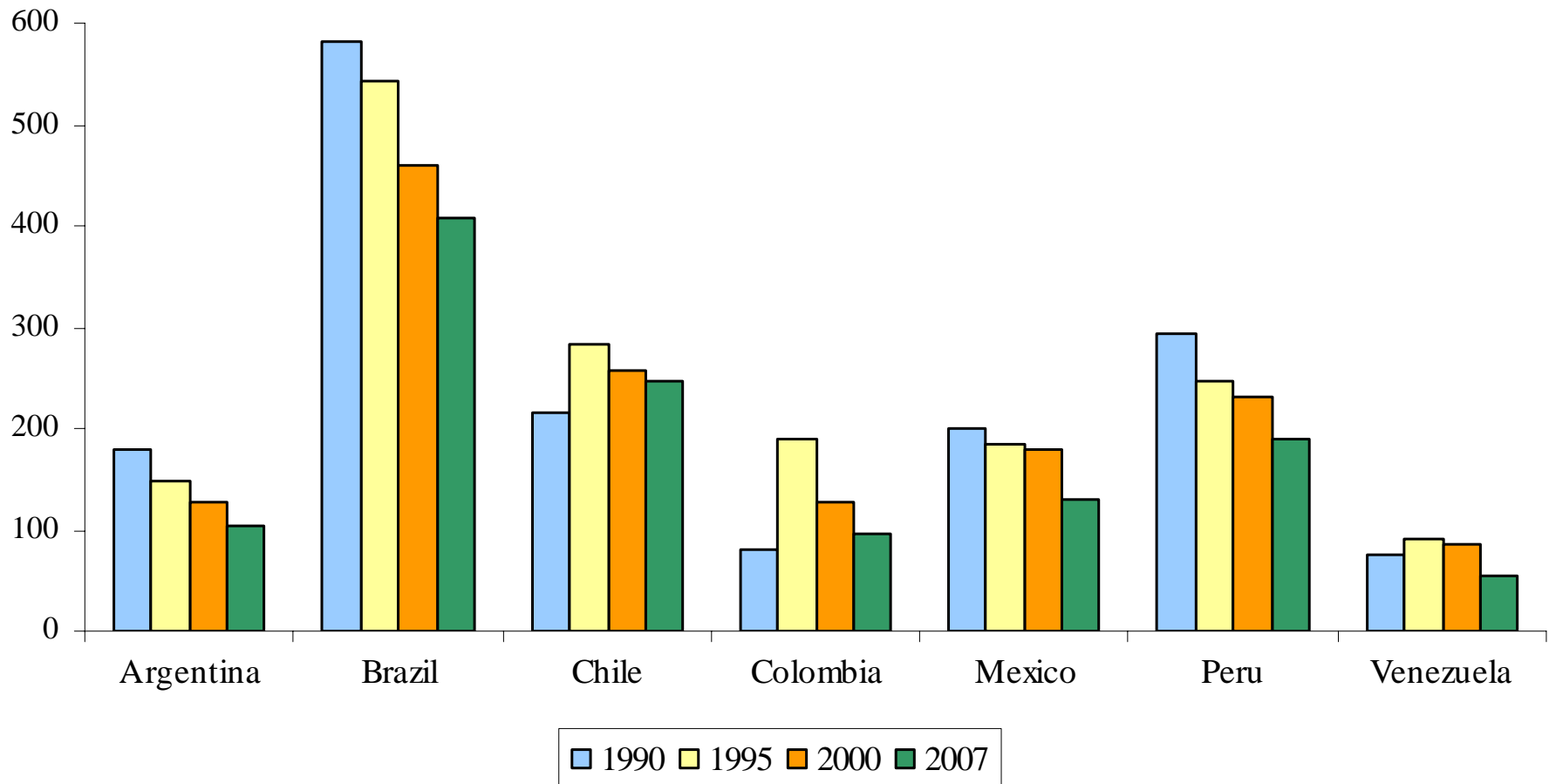
Latin stock markets are highly illiquid...



Source: S&P Global Stock Market Factbook

... and shrinking in terms of listings

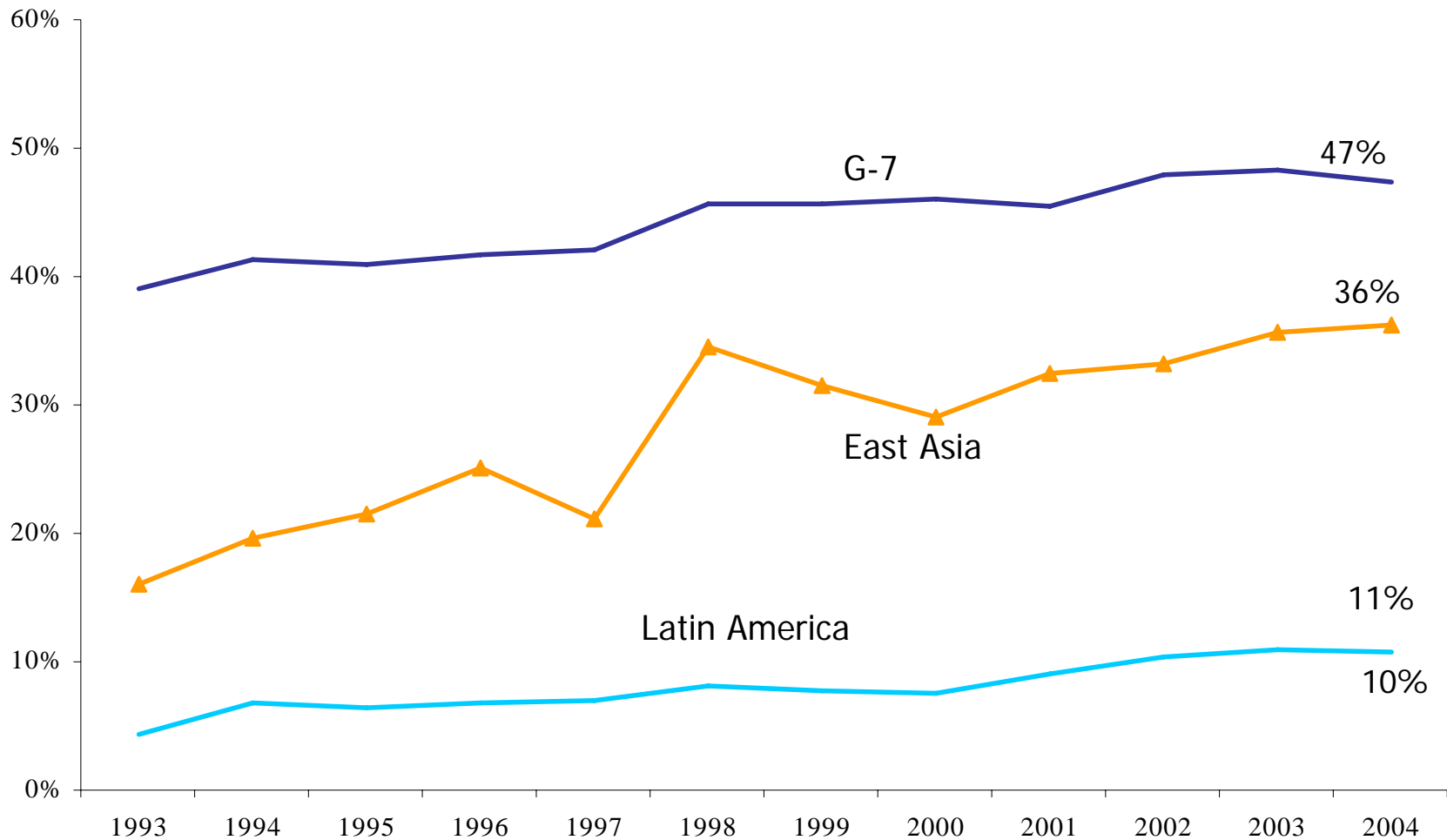
Number of Firms Listed in Domestic Stock Exchanges in Latin America



Private sector bond markets trail behind

Domestic Private Sector Bonds Outstanding

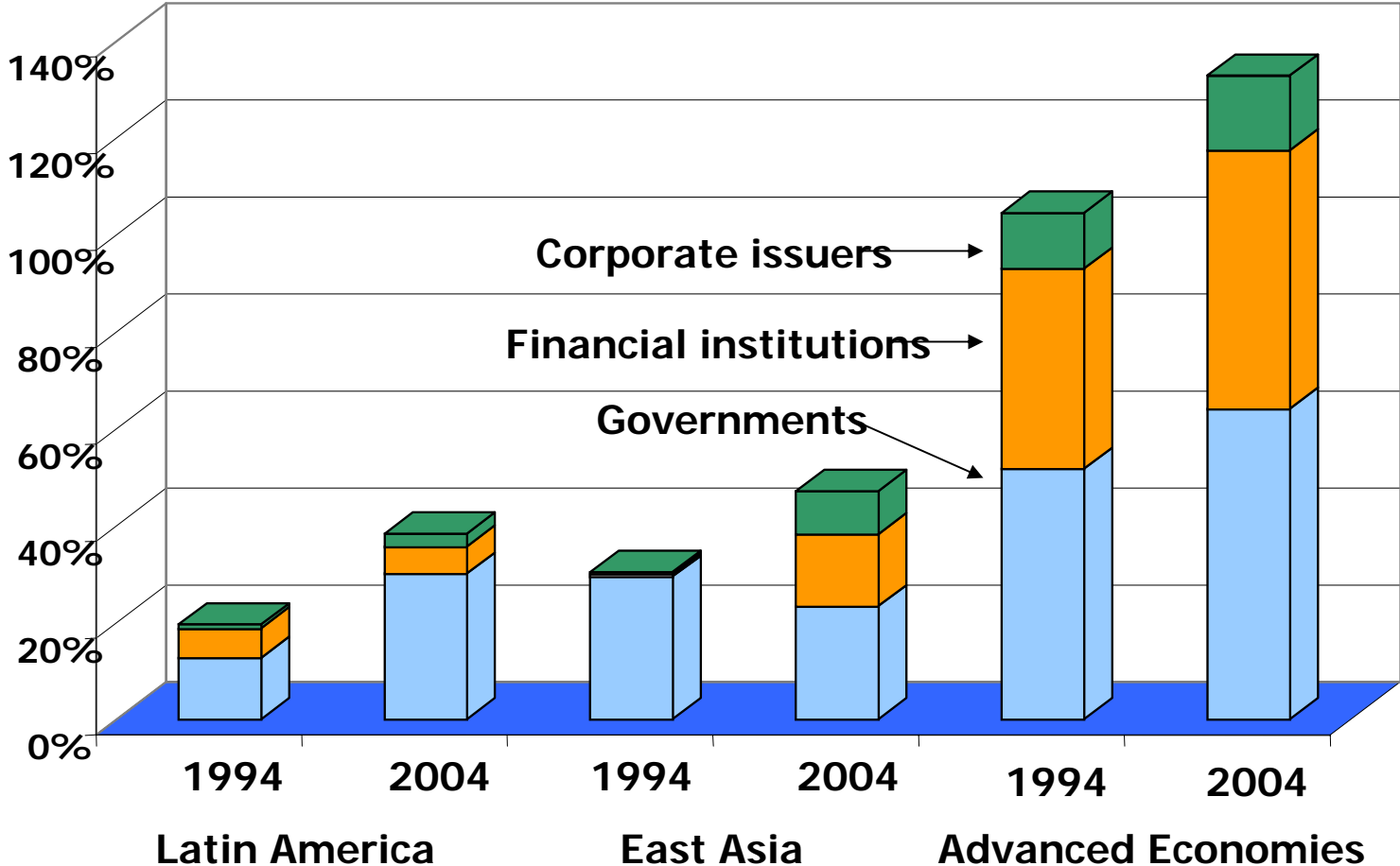
Percent of GDP



Source: BIS, World Bank

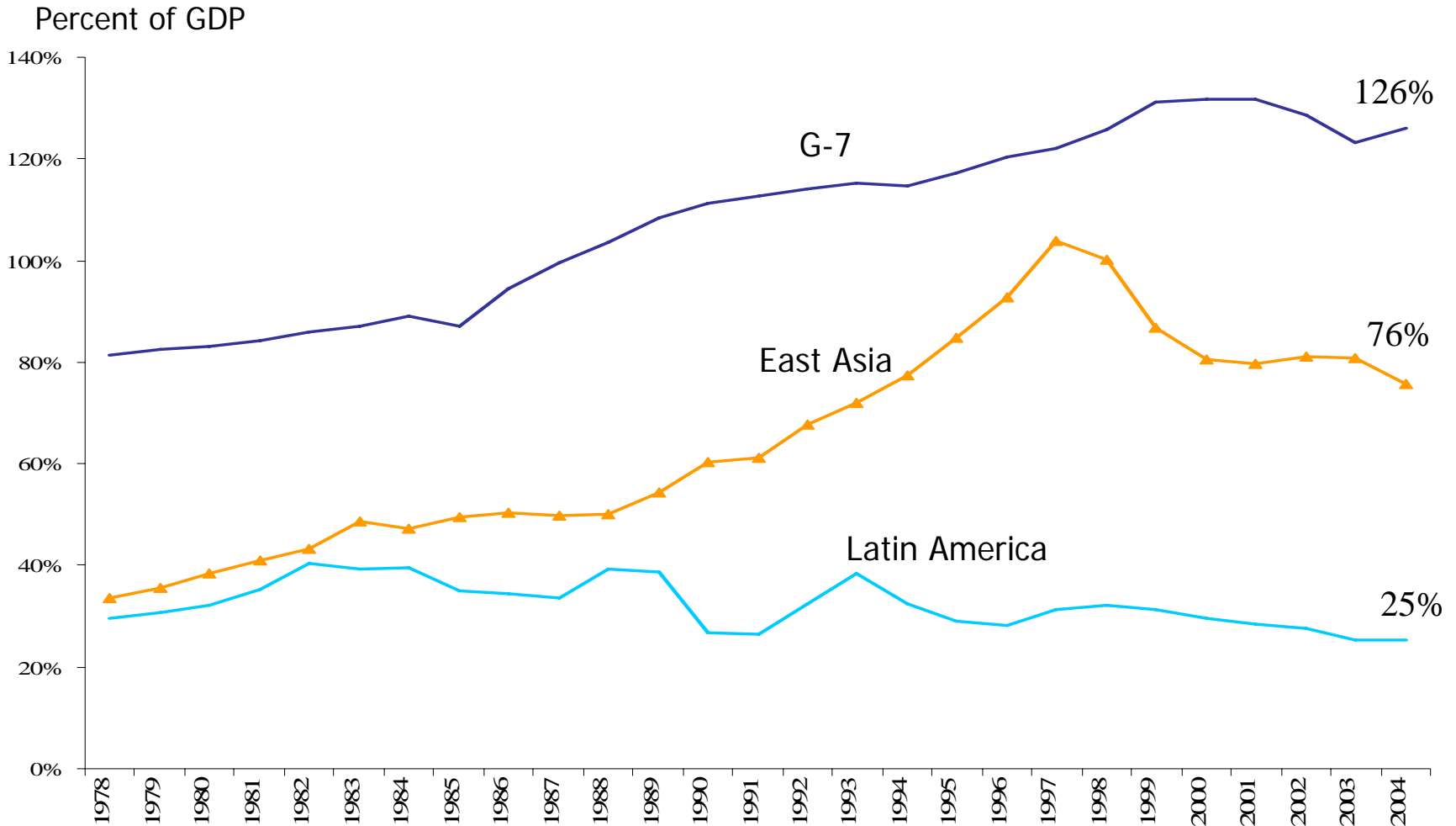
But corporate bond markets relatively small in general

Domestic bonds as a share of GDP, simple average



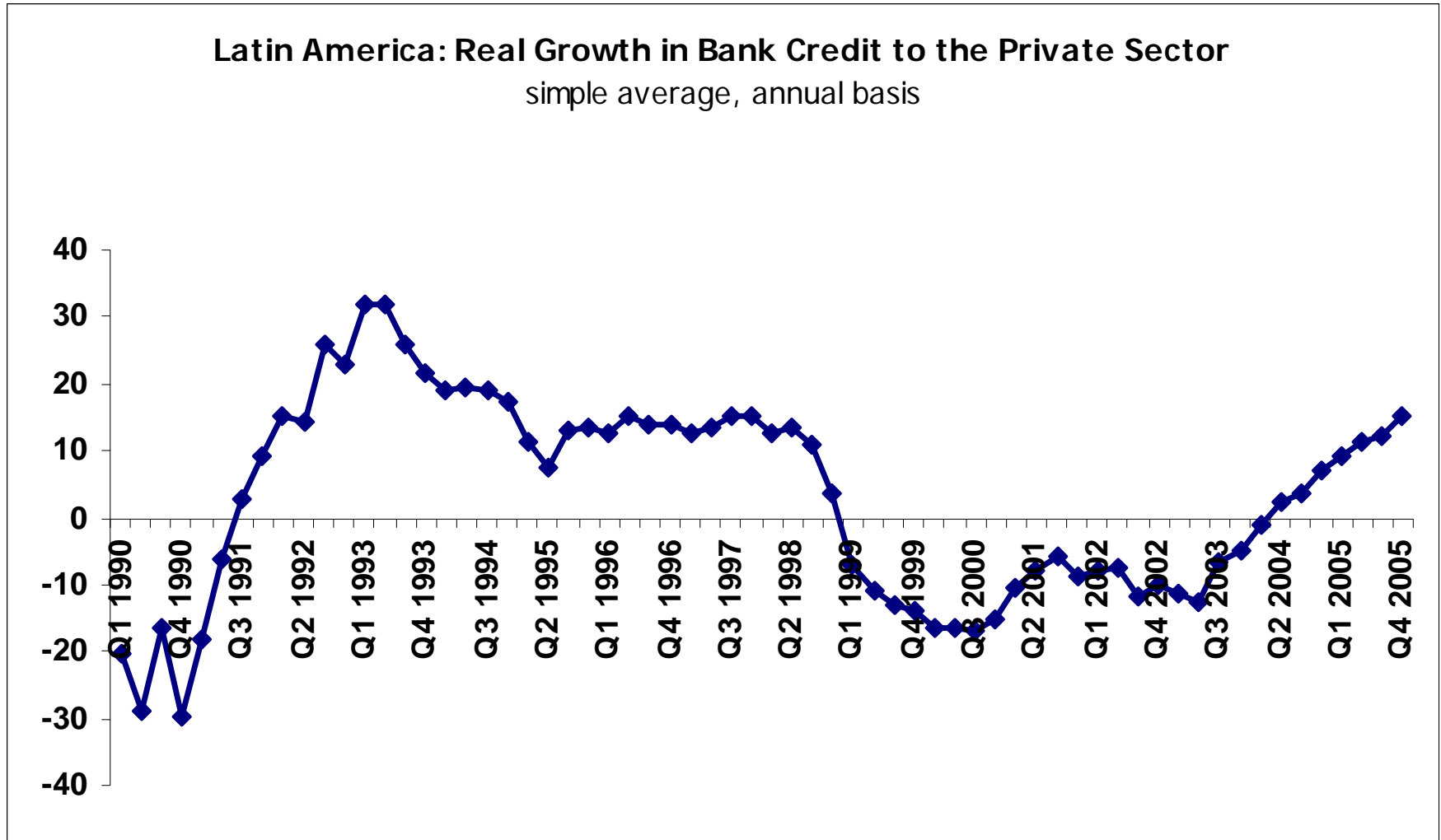
Bank credit has not compensated...

Credit to the Private Sector by Financial Institutions



Source: World Bank

... despite a vigorous pick up in credit growth

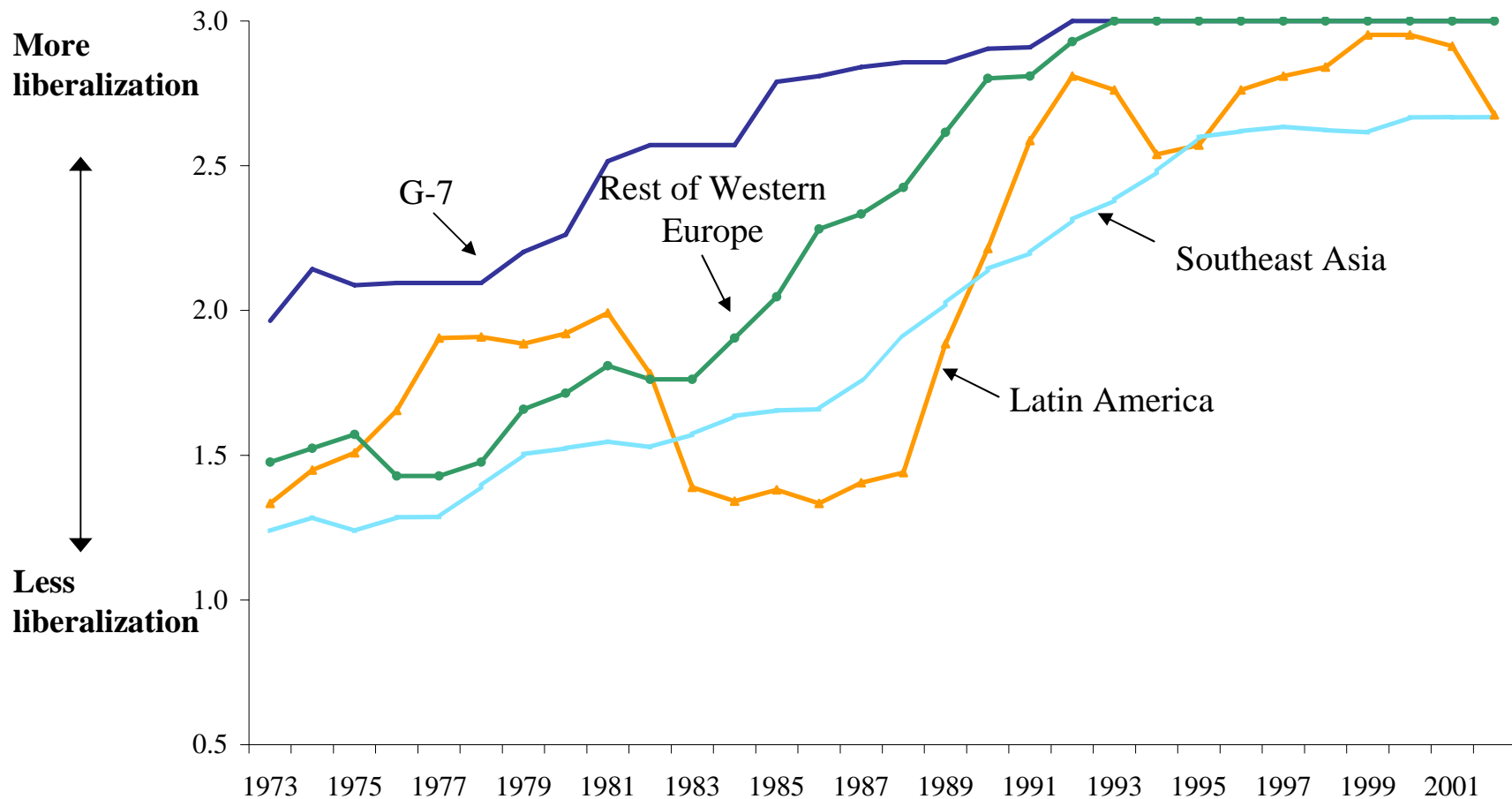


Countries: Argentina, Bolivia, Chile, Colombia, Costa Rica, Ecuador, El Salvador, México, Perú.

Real Growth: Nominal credit deflated by CPI.

Source: IMF International Financial Statistics.

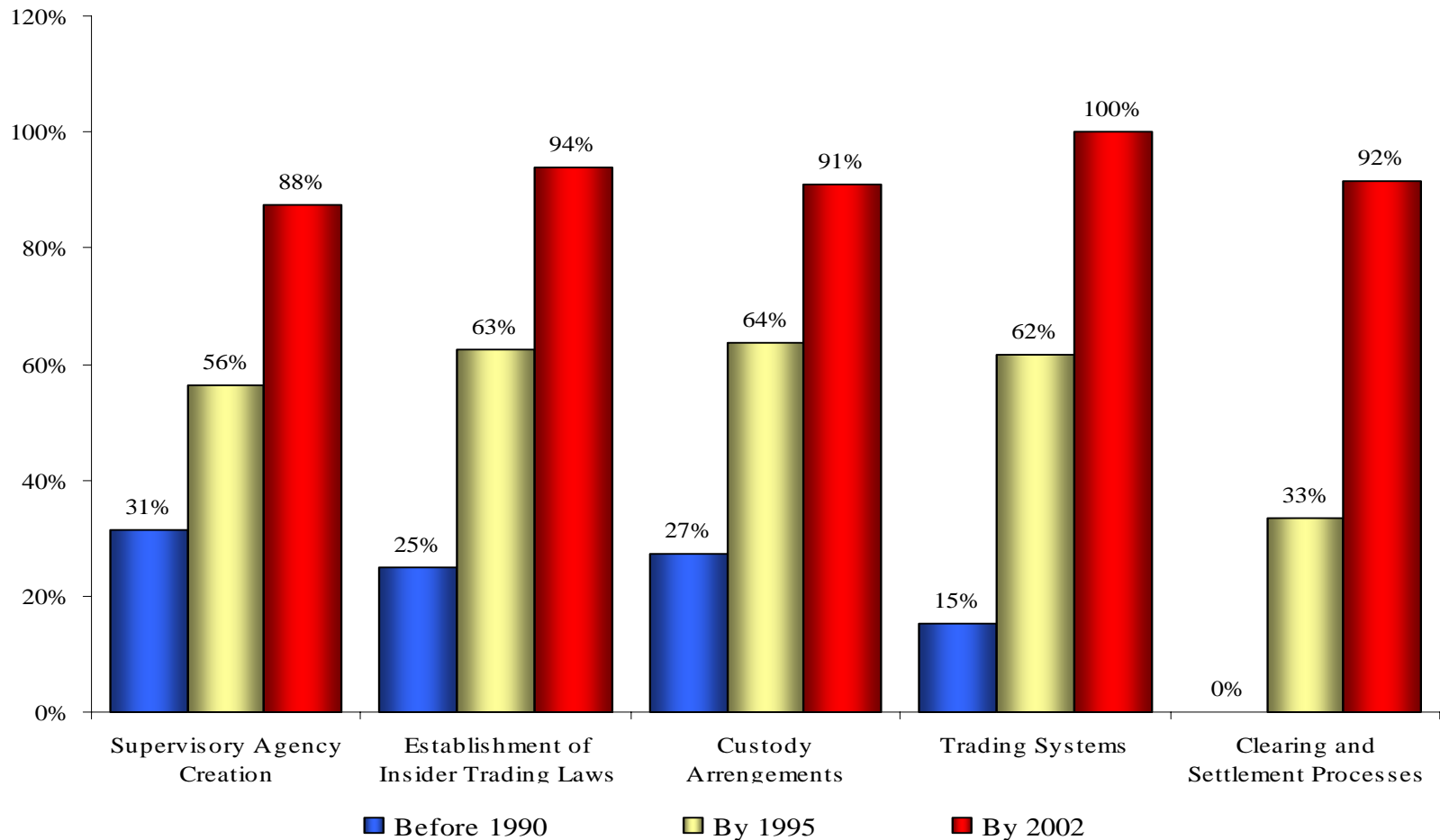
Disappointing outcomes stand in contrast with aggressive liberalization...



The liberalization index is calculated as the simple average of three indices (liberalization of the capital account, domestic financial sector, and stock market) that range between 1 and 3, where 1 means no liberalization and 3 means full liberalization. These data are then aggregated as the simple average between countries of each region.

...and intense capital markets-related reforms

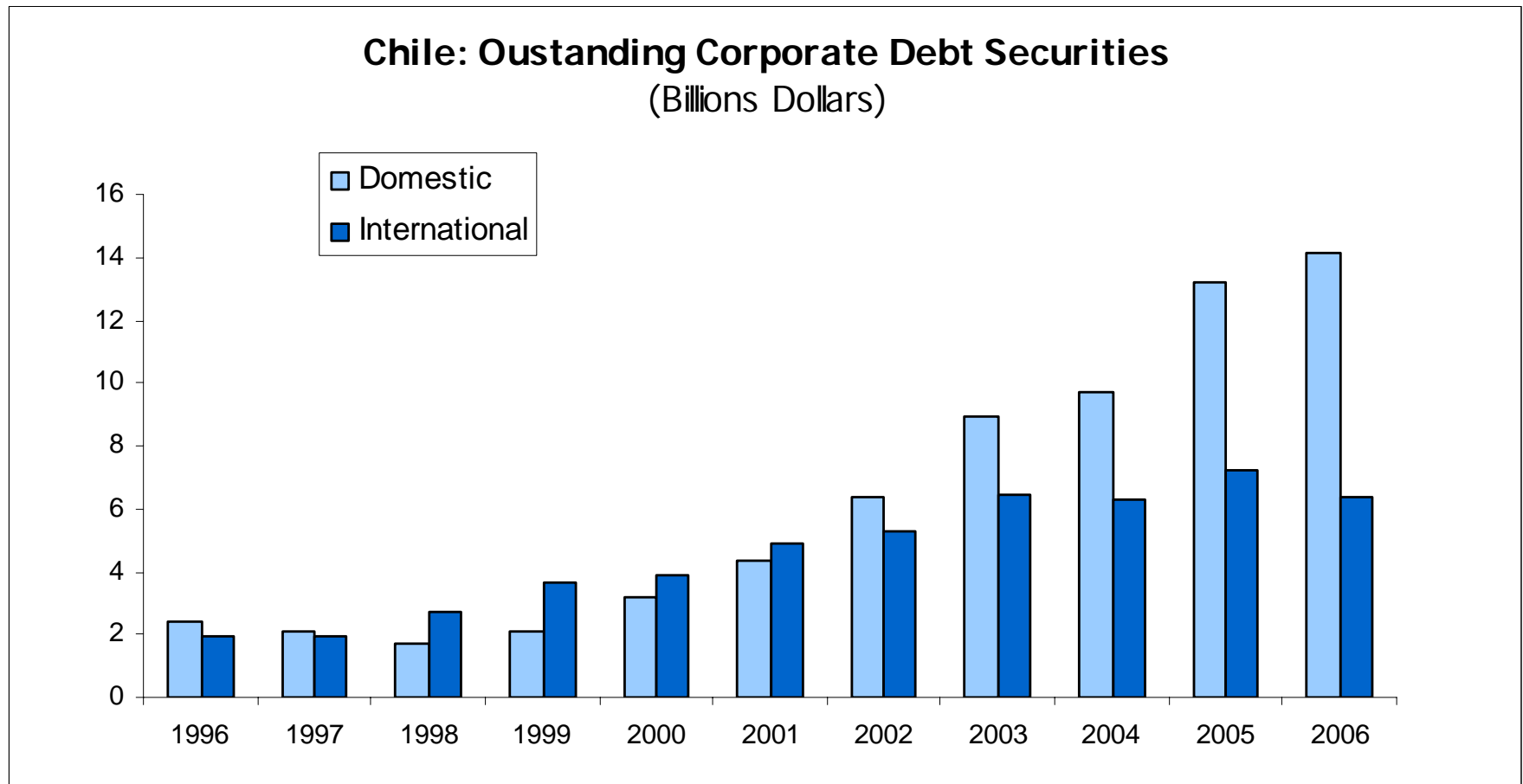
Percentage of Latin American Countries Having Implemented Reforms



Hopeful Signs

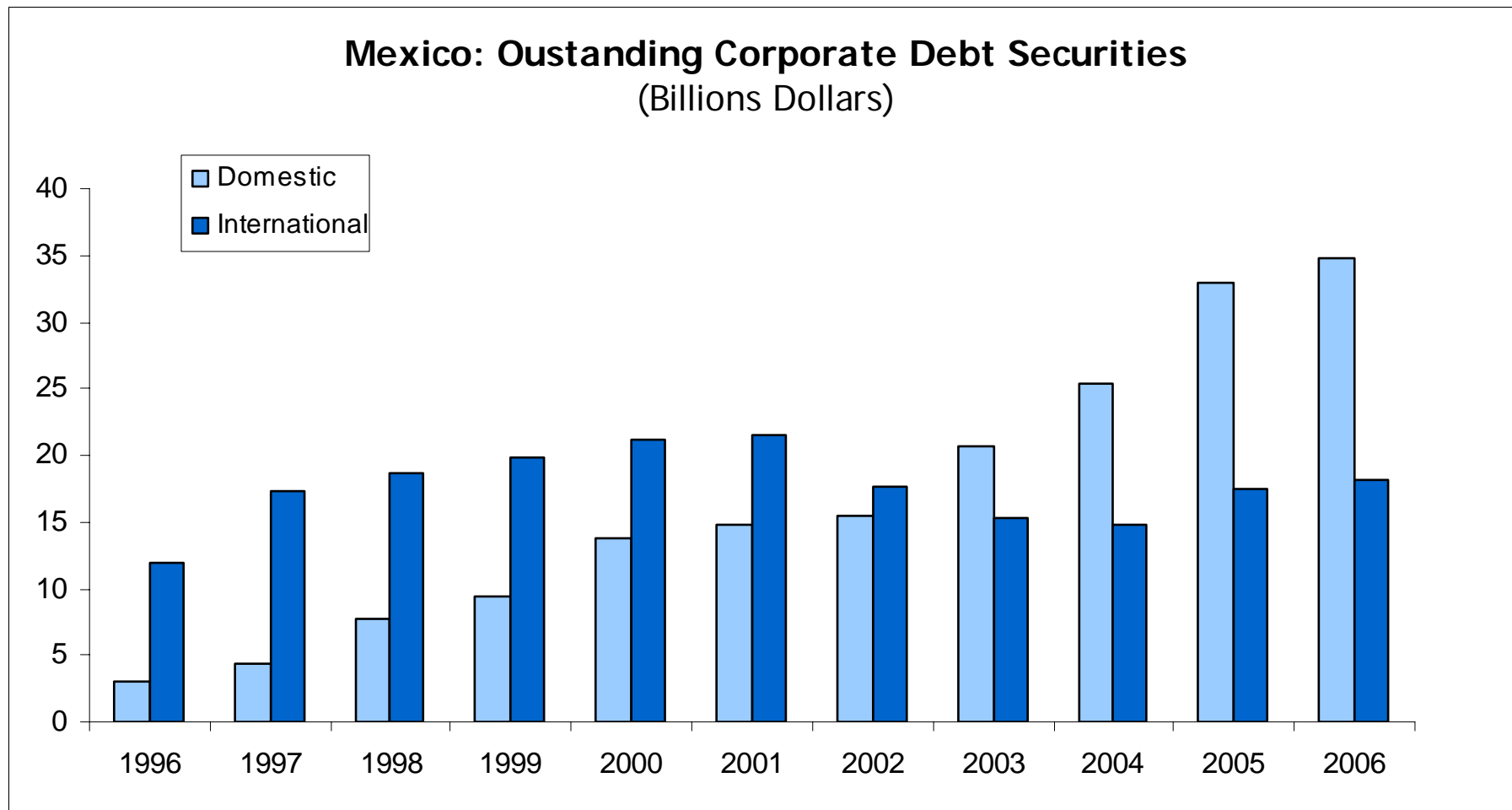
“...pero vamos en buen camino”

Local corporate bond markets are taking off in some countries ... like Chile



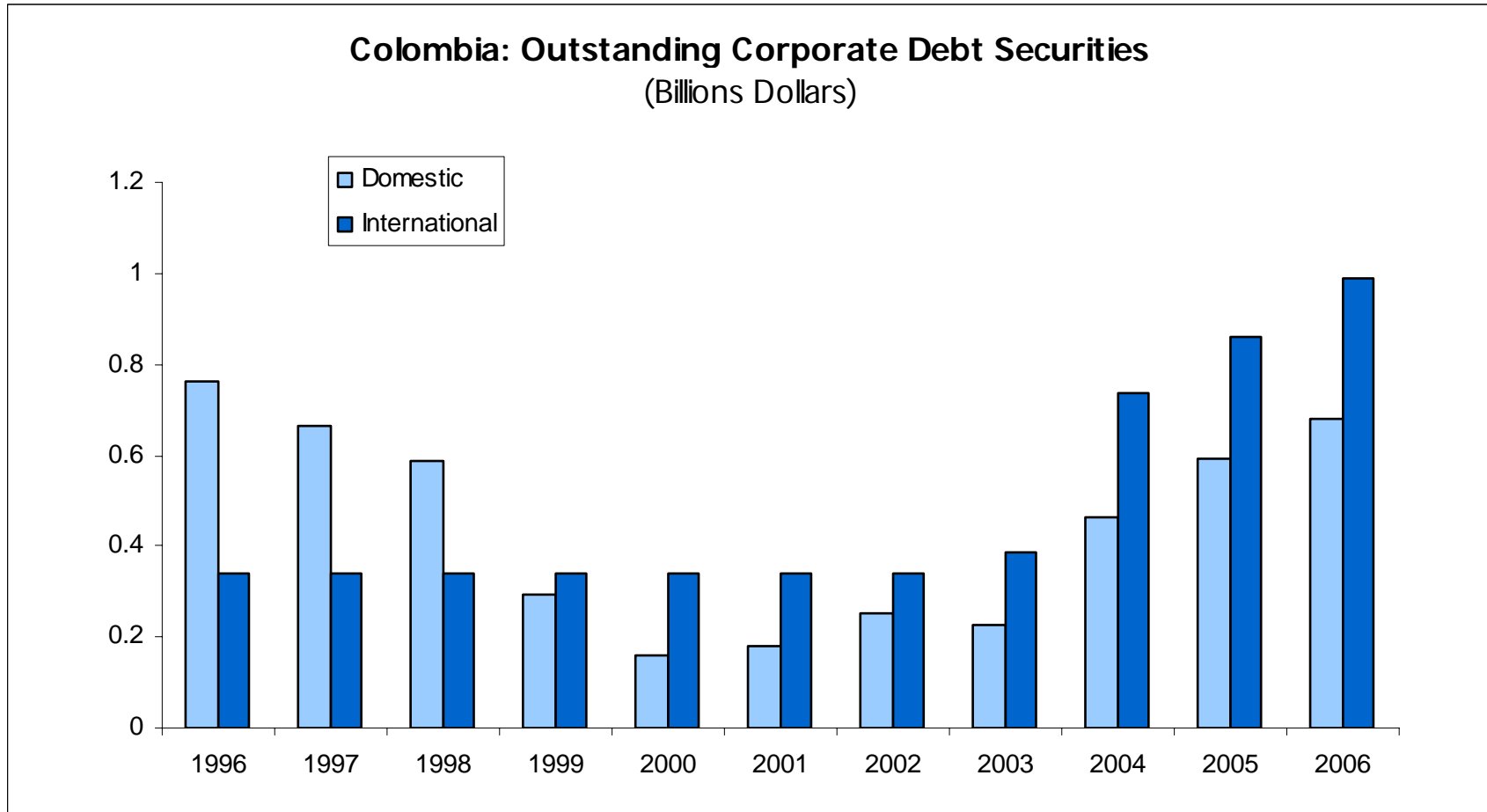
Source: Bank for International Settlements

... Mexico...



Source: Bank for International Settlements

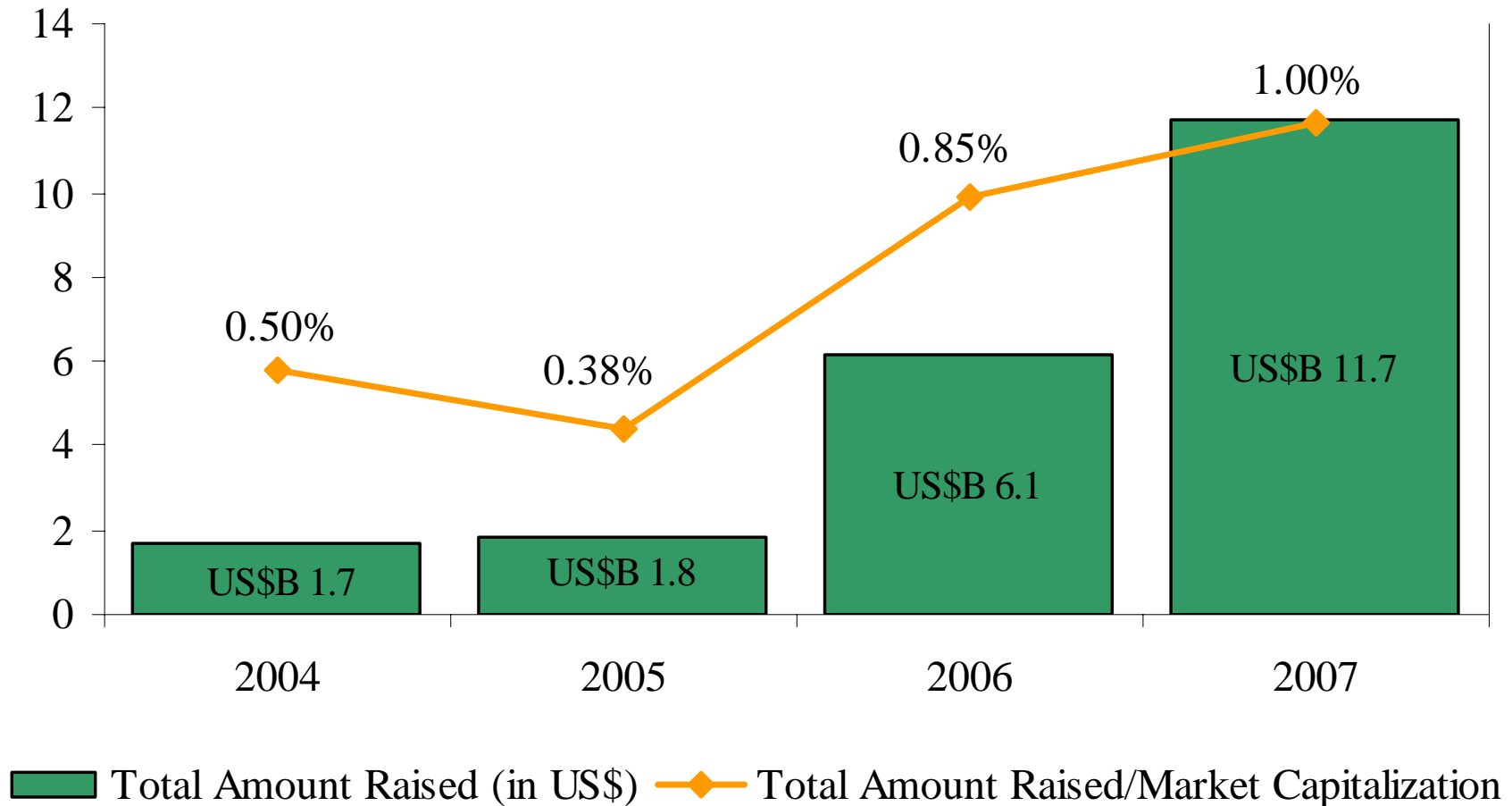
... and, to a much lesser extent, Colombia



Source: Bank for International Settlements

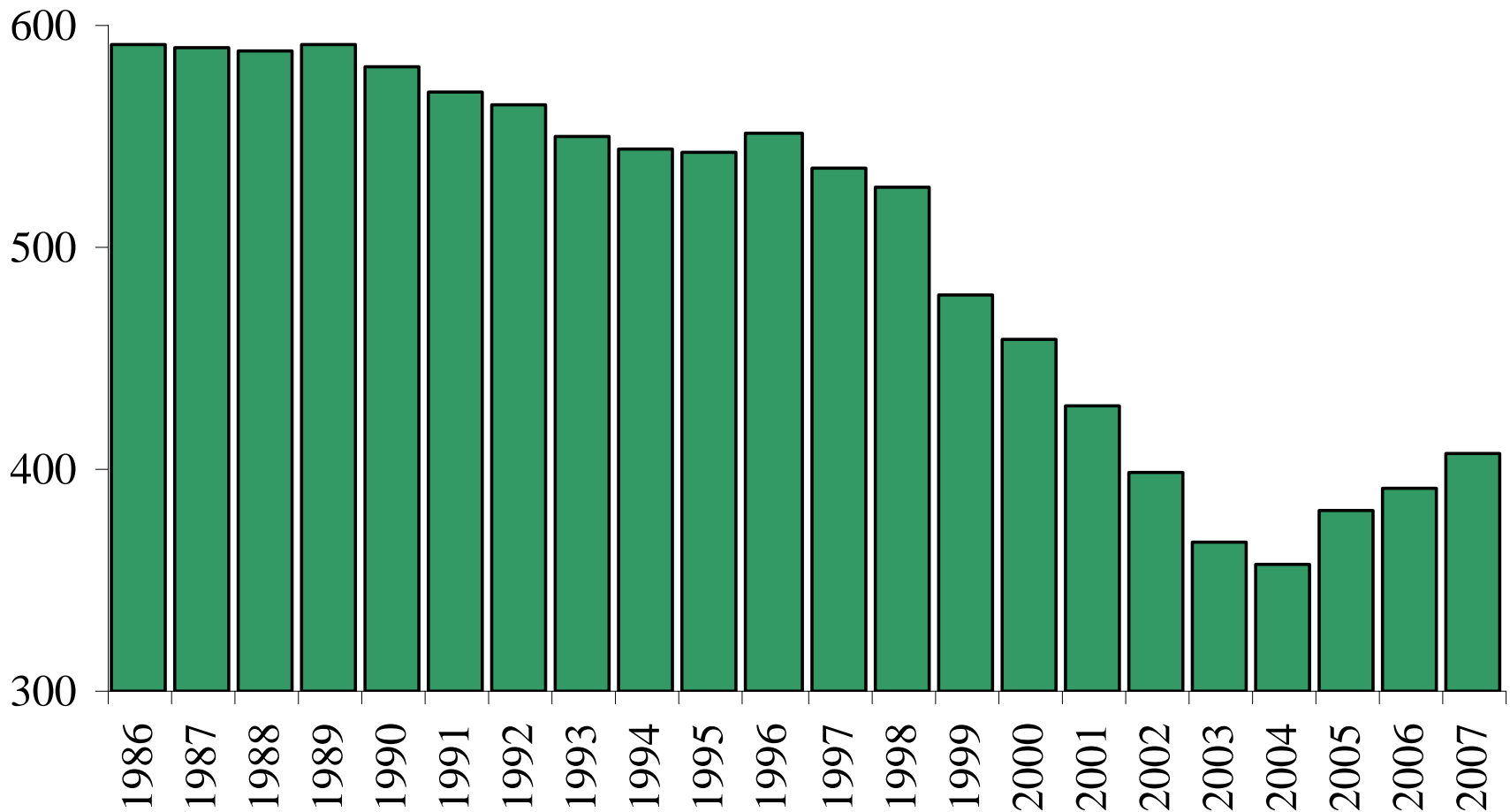
Significant IPO activity in Brazil...

Total Amount Raised (in millions) and Relative Importance – BOVESPA Stock Exchange



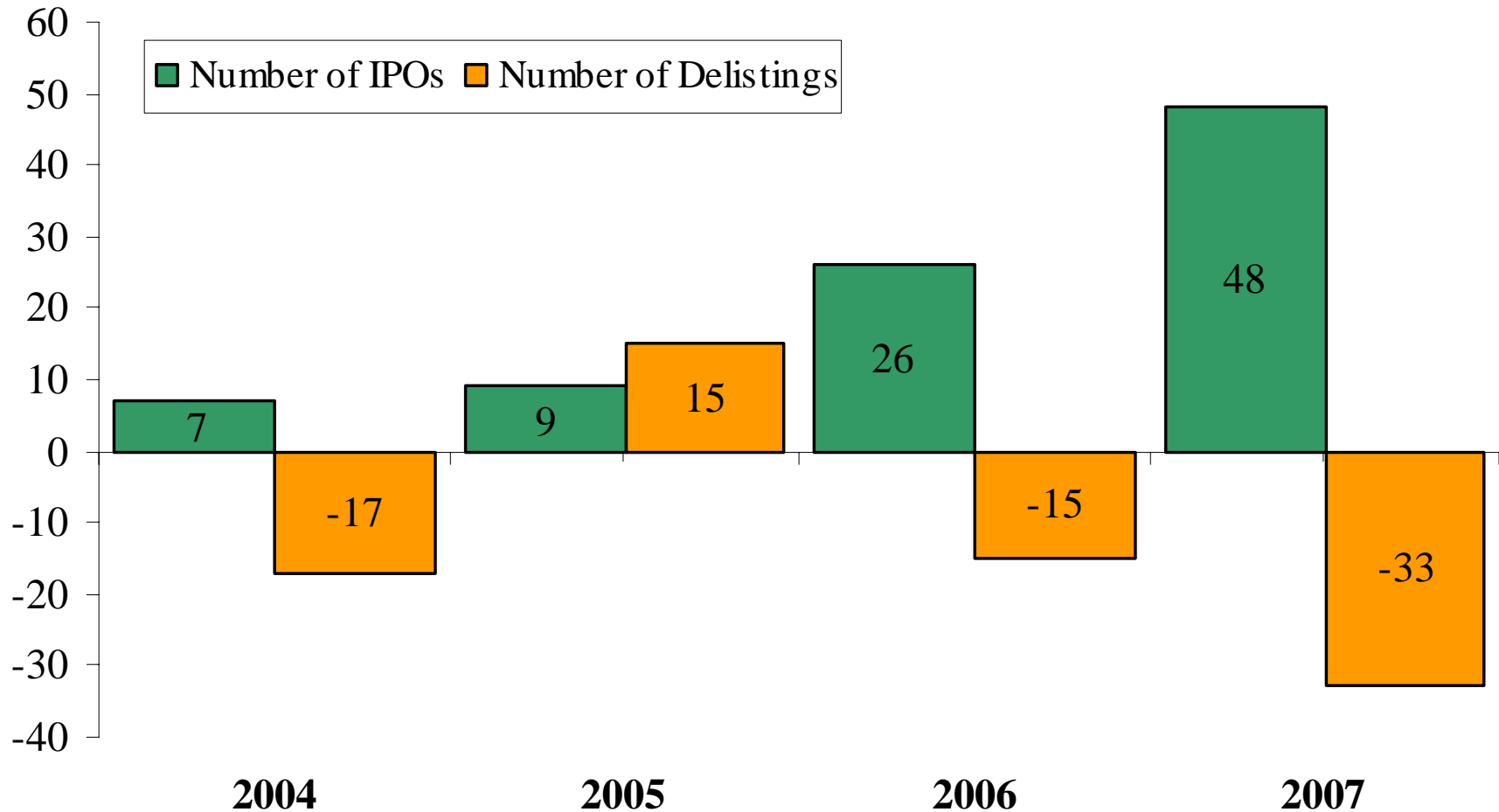
... where listings are finally on the rise...

Number of Listed Companies in Brazil



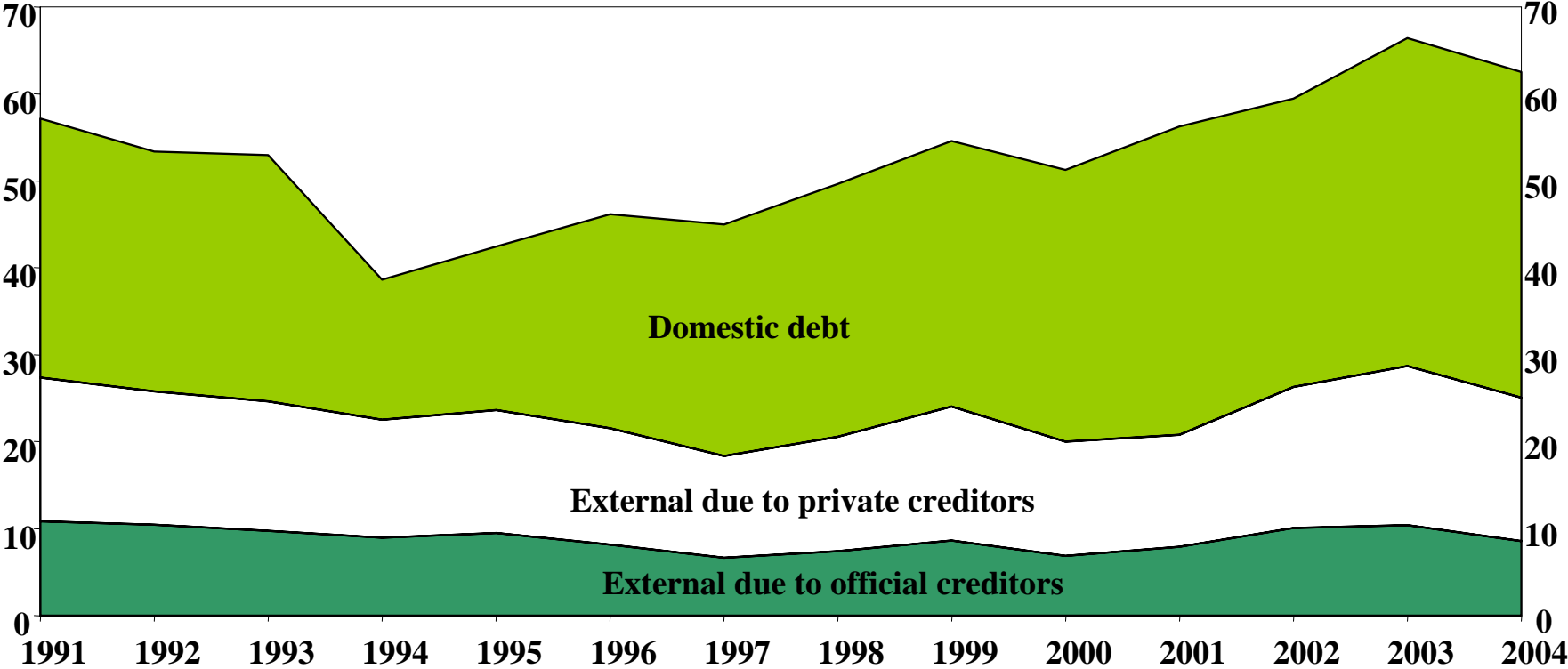
... although de-listings continue

Number of IPOs – BOVESPA Stock Exchange



The share of domestic public debt has risen

Composition of Public Debt in Emerging Latin American Countries



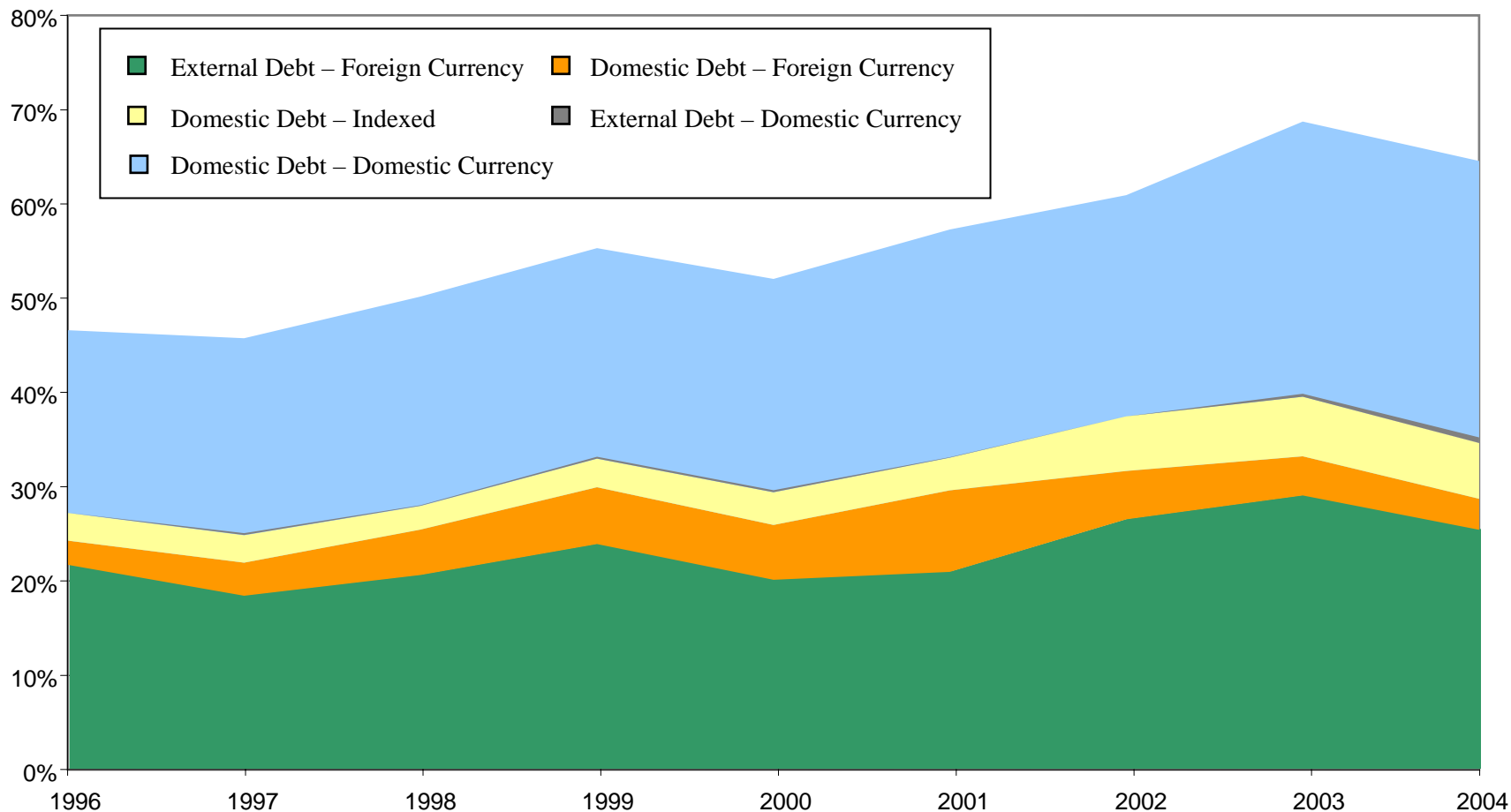
Source: Authors' calculations based on CLYPS (2006).

Note: Countries included are Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Mexico, Panama, Peru, Uruguay, and Venezuela.

... as has the share of domestic private bonds

Domestic Private Sector Bonds Outstanding

Percent of GDP

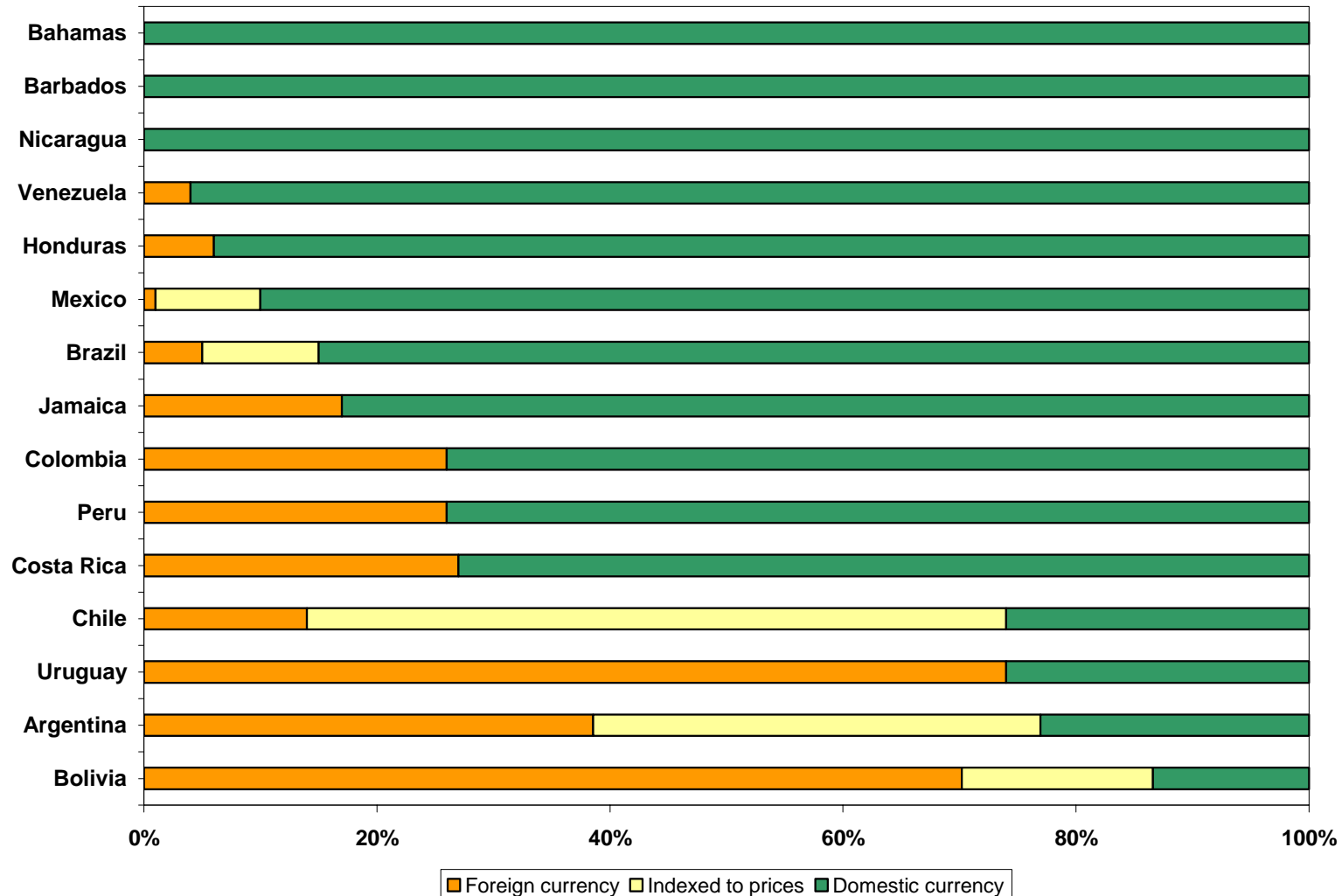


Countries included: Argentina, Brazil, Chile, Colombia, Mexico, Panama, Uruguay and Venezuela

Source: BIS, World Bank

Most domestic public debt is now in local currency or indexed to the CPI

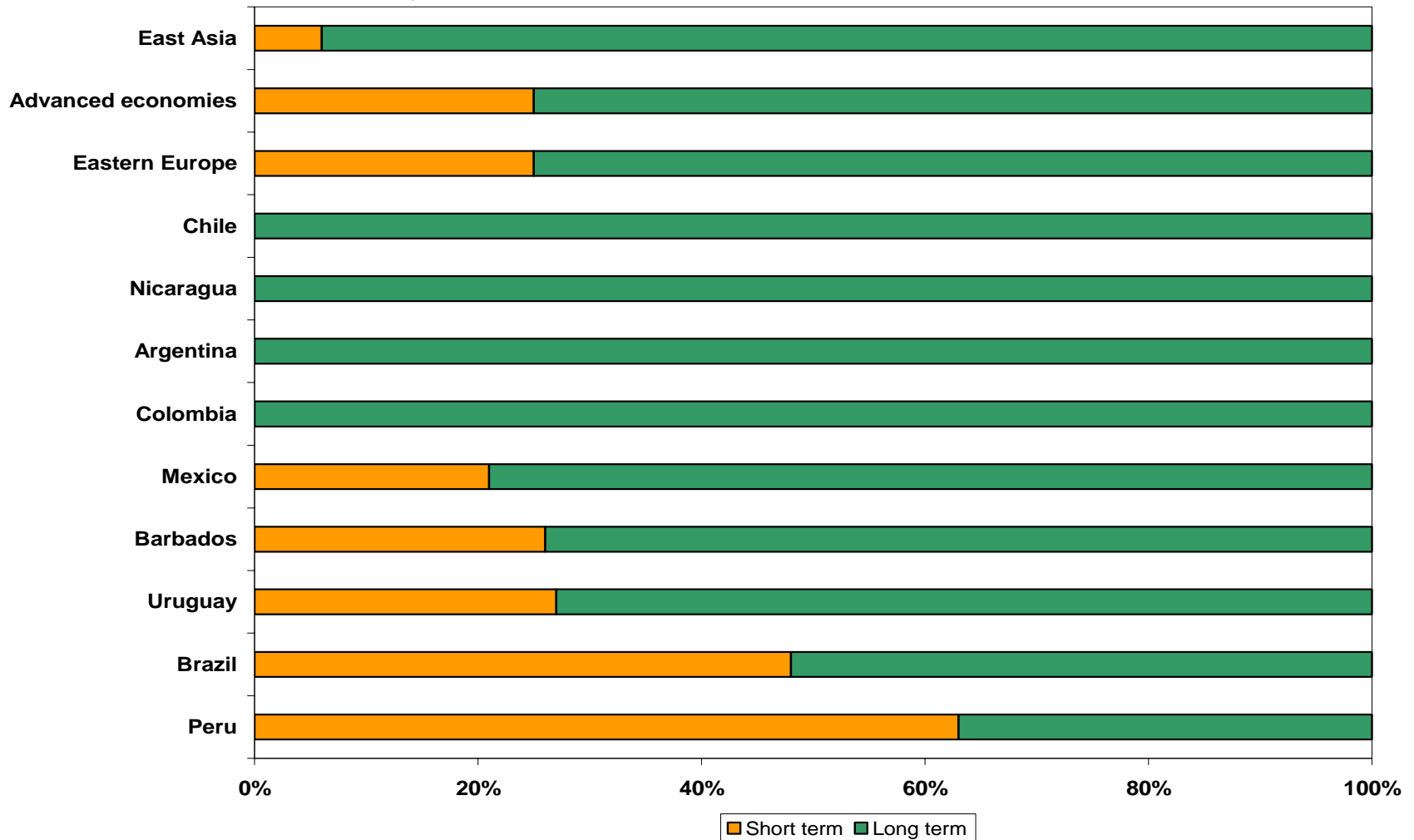
Currency Composition of Domestic Public Debt, 2004



Source: Cowan et al. (2006).

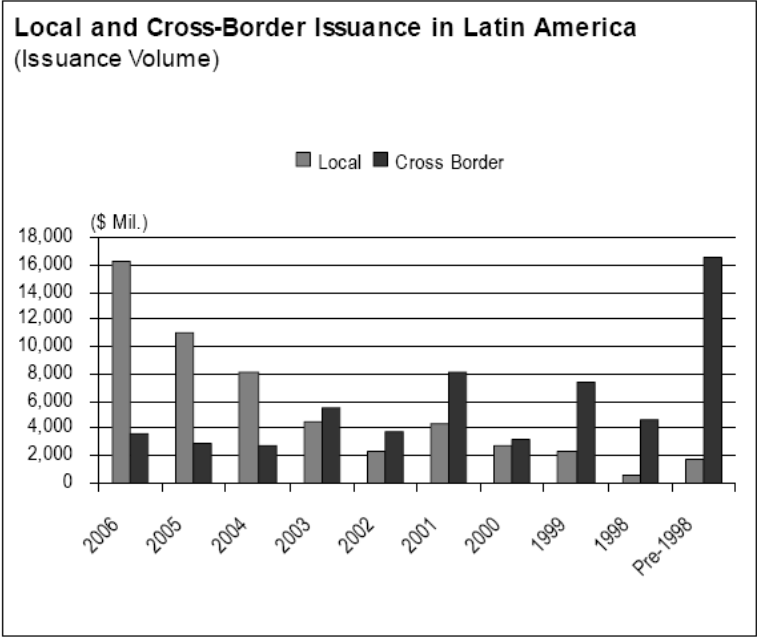
The maturity of domestic public debt has lengthened

Maturity Composition of Domestic Public Debt, 2004

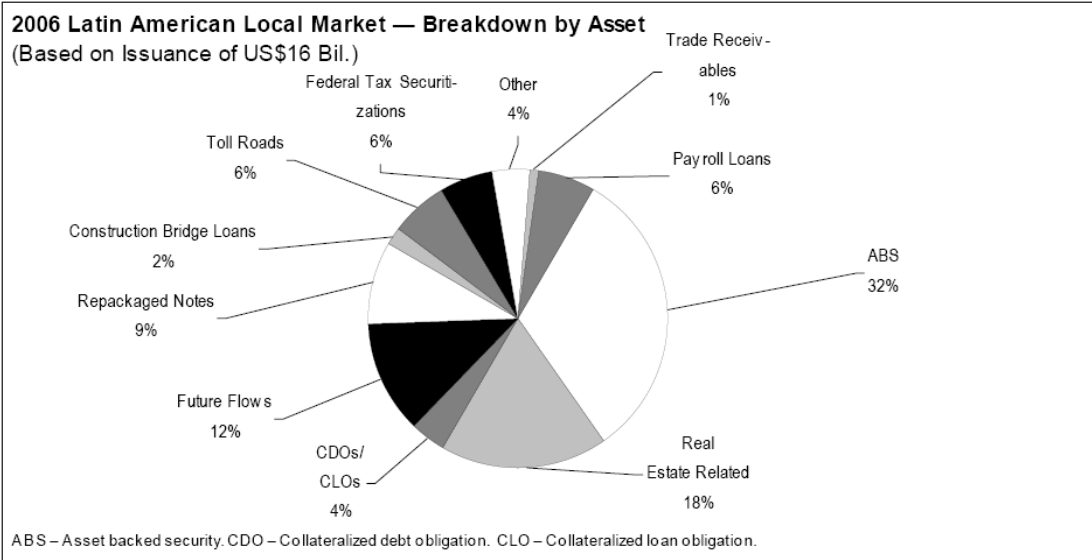
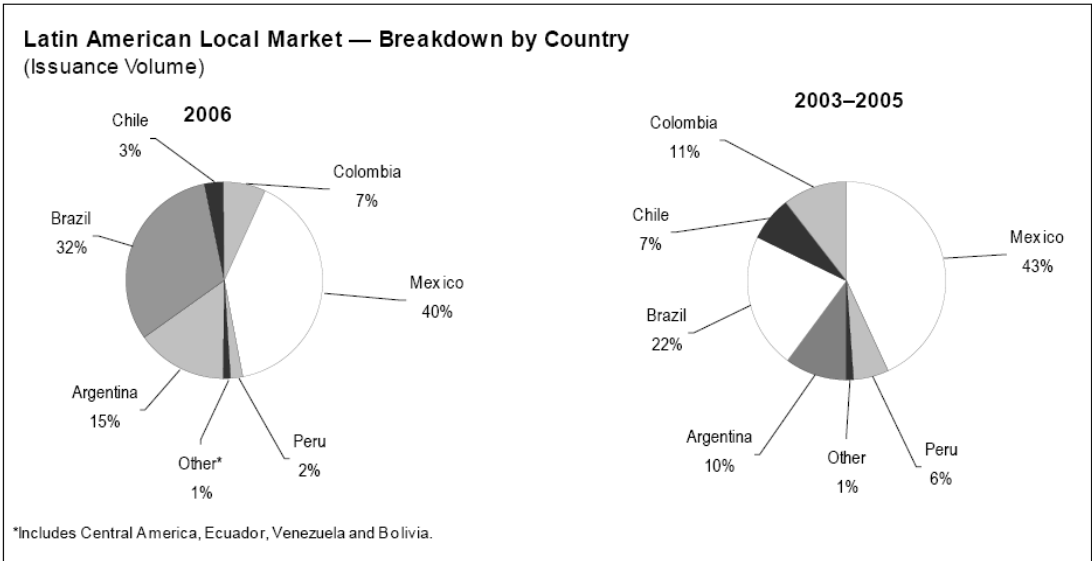


Securitization is taking off

Total issuance in 2006 was approximately \$20 billion, about 90% of which was domestic

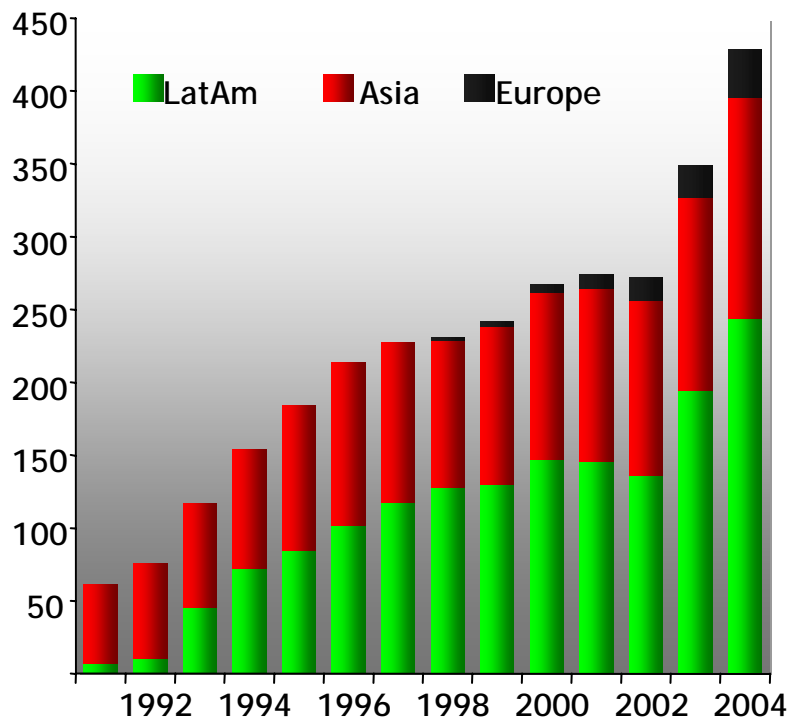


Source: FitchRatings

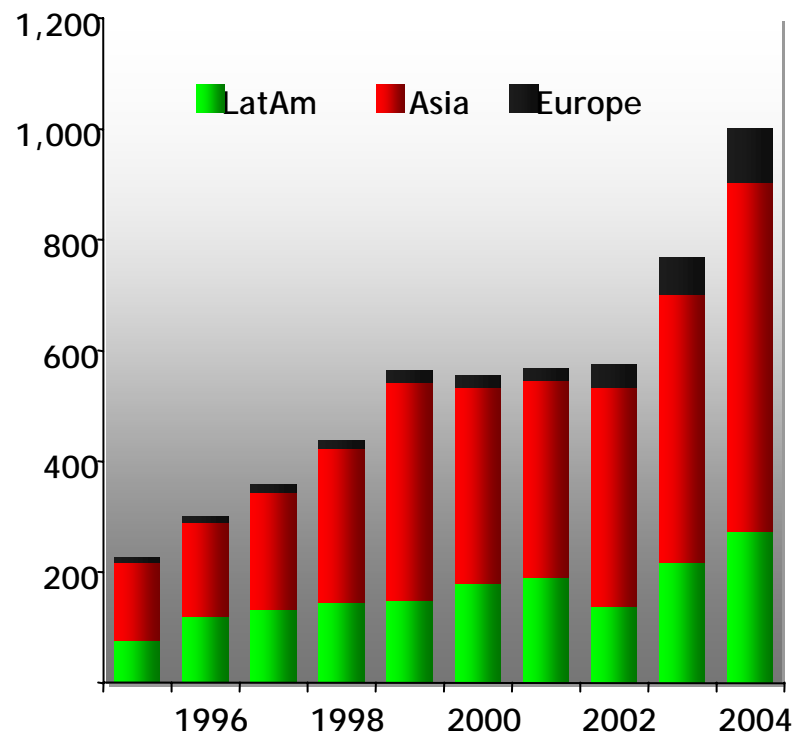


Local markets are supported by institutional investor funds, although mostly at the margin...

Pension fund assets under management in emerging markets (USD bn)



Mutual fund assets under management in emerging markets (USD bn)



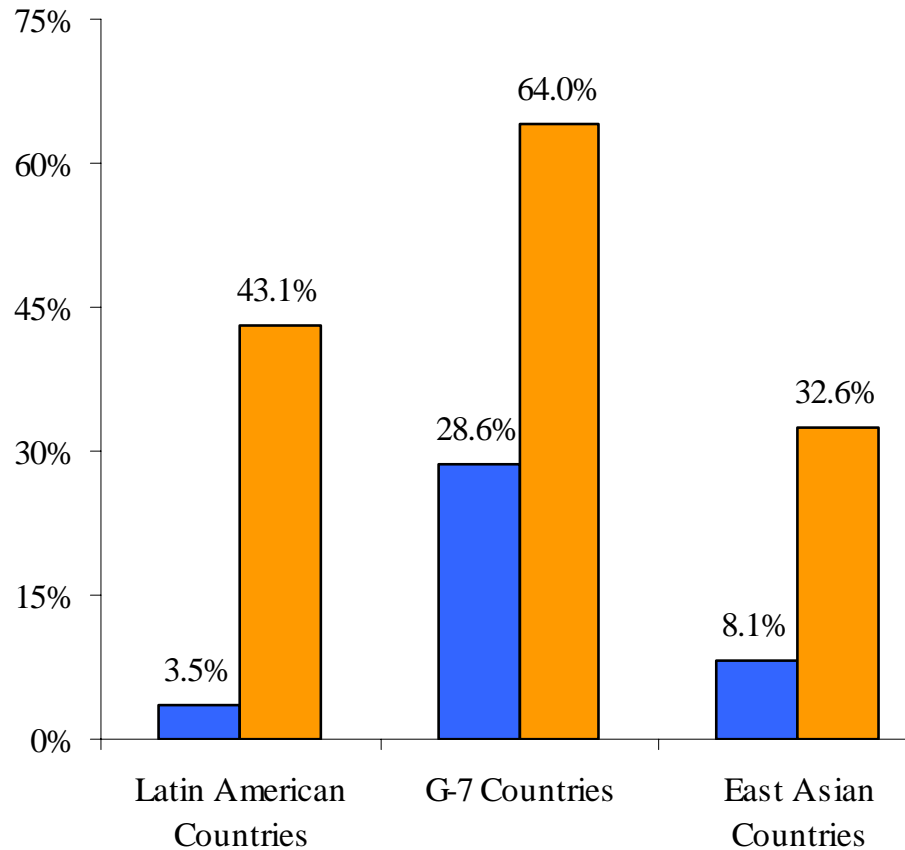
Selected Issues

Stock market: size and internationalization

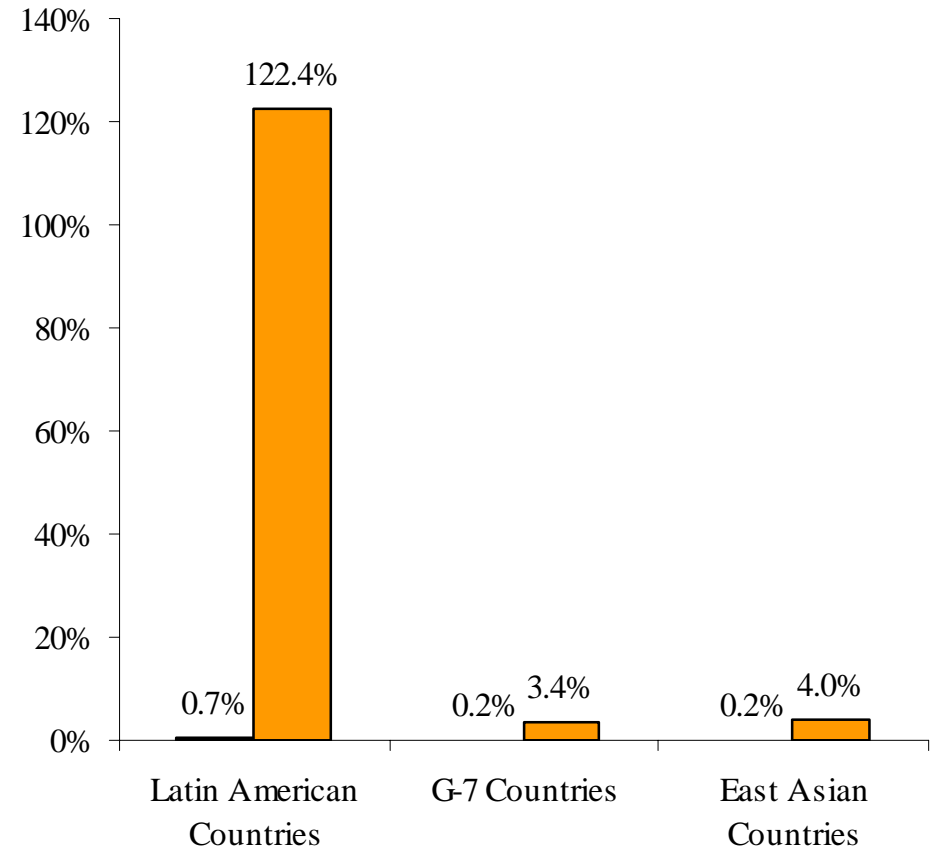
- ✚ Beyond governance and shareholder rights
- ✚ Internationalization
 - ✳ Reforms boost internationalization relative to local market activity
 - ✳ Internationalization, in turn, undercuts local stock market liquidity
 - ✳ Internationalization does not generate balance sheet vulnerability
- ✚ Size matters
 - ✳ Size of market – network & agglomeration effects; pools of funds
 - ✳ Size of issues – liquidity
 - ✳ Relatively few assets needed to achieve diversification benefits
- ✚ A “light” version of equity markets for small countries?
- ✚ Regional integration superior to global integration?

Internationalized Firms Gaining Importance

Market Cap of Internationalized Firms / Total Stock Market Capitalization



Value Traded Abroad / Value Traded Domestically



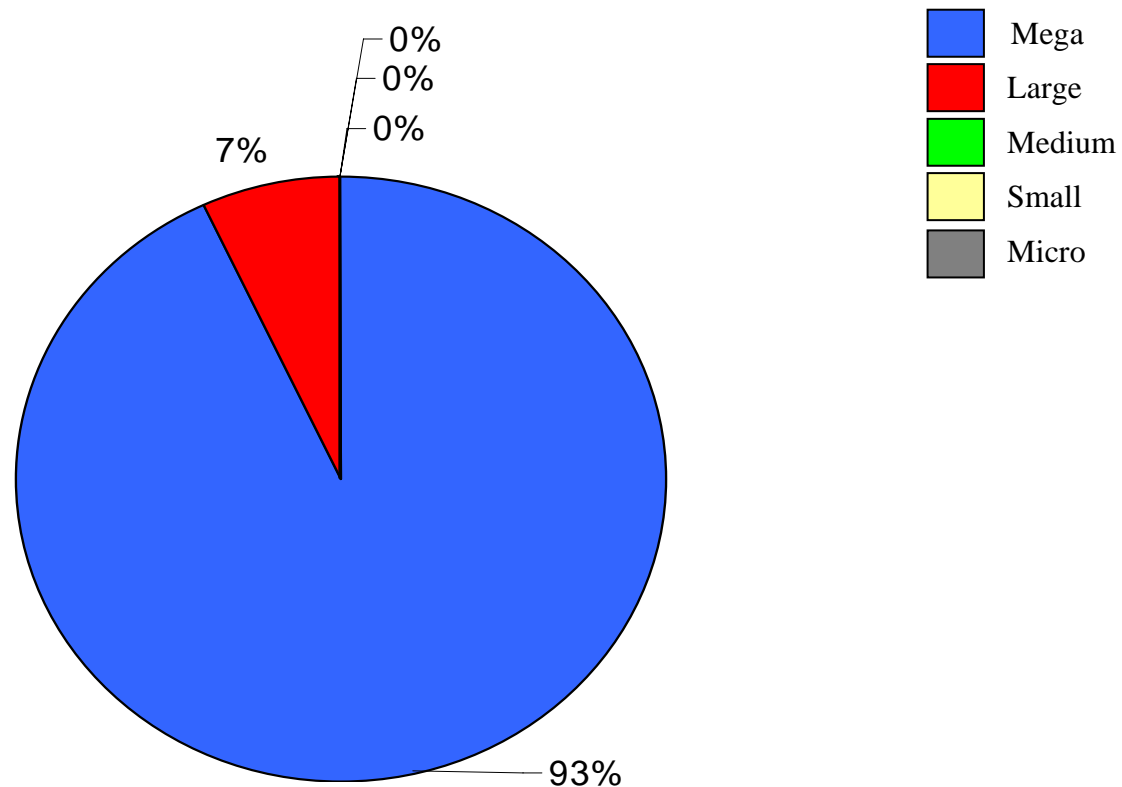
1990 2000

Bond markets

- ✚ Is the shift to domestic markets by governments crowding in the private sector?
- ✚ Is the reduction in mismatches a durable trend?
- ✚ Is the bond market only for the large enterprises?
- ✚ Do banks move down market in the absence of competition from bond markets?
- ✚ Will reform seize the current opportunity of abundant liquidity in search of Latin credit assets?

Only large companies access bond markets in Chile

Chile – Corporate Bond Issues in the Local Market by Firm Size
(Cumulative Issues for 2000-2003)



Mega firms are defined as those with annual sales net of VAT above UF600,000 (US\$17.2 million); large firms have sales between UF100,000 (US\$2.8 million) and UF600,000; medium firms have sales between UF25,000 (US\$0.7 million) and UF100,000; small firms have sales between UF2,400 (US\$68,688) and UF25,000 and micro firms have sales below UF2,400. Micro firms represent around 82 percent of all firms, while small firms are 15 percent and medium firms two percent. Large and mega firms combined account for only one percent of all firms. *Source: World Bank (2004)*

Thank you