



Fifth Annual Meeting LAC Debt Group ***Public Debt Management and the Global Financial Crisis***

1. The Meeting

On April 16-17, 2009, the Fifth Annual Meeting of the Group of Latin American and the Caribbean Debt Management Specialists was held in Montevideo, Uruguay. This event was organized jointly by the Inter-American Development Bank and the Ministry of Economy and Finance of the Republic of Uruguay. The presentations and discussions were focused on the effects of the global crisis on public debt management and the analysis of the debt strategies recently implemented by countries.

This year's Annual Meeting had a record attendance, with public debt managers from 21 countries and representatives from various international organizations, such as the United Nations Conference on Trade and Development (UNCTAD), the Central American Monetary Council, the Caribbean Regional Technical Assistance Center (CARTAC), and the Organization for Economic Cooperation and Development (OECD). Panelists included, among others, Professor Guillermo Calvo, debt managers from Brazil, Colombia, Uruguay and United States, and international investment bankers and credit rating agents.

The topics were discussed within four panels: (i) Global Financial Crisis Impact on Latin America and the Caribbean; (ii) Public Debt Management Strategies during Financial Crisis; (iii) Debt Sustainability; and (iv) Regional Debt Information System. Each panel consisted of a group of presentations about the theoretical analysis and experiences on the topic, followed by a roundtable discussion among countries who exchanged their experiences.

2. Panelists

During the first panel, the main presentation was given through videoconference by Professor Guillermo Calvo, who gave a solid explanation about the effects of the Crisis on the region. This presentation was considered one of the most relevant, as it allowed participants to understand deeply the impacts of the economic crisis, through a rigorous analysis of economic variables and risk indicators.

The panels were characterized by high quality presentations and discussions held afterwards, and they generated great interest among participants that exchanged their local experiences in subjects like the access to global debt markets, the cost of



debt issuance, public debt sustainability, the rating agencies' views on sovereign debt markets and the measures taken to mitigate the financial crisis impact in their economies.

Another key presentation held during the meeting was the study presented by Mr. Guido Sandleris, from the Torcuato Di Tella University. Mr. Sandleris has supported the LAC Debt Group on the development of a regional database of public debt statistics. The project has direct participation of countries, which provided the data for the analysis. During the Meeting, Mr. Sandleris presented the first results of the database, a series of uniformed indicators about the evolution of sovereign debt in the region as of year 2008. This study is a great effort that the LAC Debt Group makes to improve analysis, information and transparency of markets.

3. Main topics discussed

Professor Guillermo Calvo expressed the main causes and actions taken by policy-makers to respond to the financial crisis. Mr. Calvo predicted a probability of a Sudden Stop in the region of approximately 3,7% for the LAC7¹ countries, which is a low value in comparison to the 35,2% predicted for the CAC5². Moreover, he believes that LAC countries may be the first emerging economies to recover from the economic slow down, given that commodity prices are likely to increase at the first sign of global recovery. This will bring back capital inflows to the region, encouraging growth and currency appreciation, but also bringing back inflationary pressures. Finally, Mr. Calvo said that external factors are dominant and policy responses mainly depend on previous precautionary measures taken by governments.

In line with Mr. Calvo's presentation, Mr. Sebastian Nieto Parra from the OECD underlined that the region remains vulnerable to international capital markets' volatility. However, he expressed that, for the public sector, this sensitivity is lower than in the past, as spreads are now much less sensitive to external shocks. One of the reasons that Mr. Nieto Parra appoint to explain this is the improvement of public debt management. He argued that public debt composition is more solid as a result of a reduction in external debt and countries borrowing more actively in local currencies.

Speaking from the investors' side, Mr. Gustavo Cañonero from Deutsche Bank commented that entering into a recession during this year is now inevitable for Latin America. Nevertheless, the region is relatively unleveraged in comparison to prior crisis. Mr. Cañonero argued that decent fundamentals and low inflation are allowing Central Banks to cut rates and moderate the shock.

¹ LAC7 includes: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

² CAC5 includes: Costa Rica, Guatemala, Honduras, Nicaragua and Dominican Republic.



In addition to this, Mr. Michael Cummings from Credit Suisse stated that investors will start demanding a higher premium in order to buy Latin American debt, given that some Emerging Markets-dedicated hedge funds have been liquidated. Although many of the region's sovereign spreads are still near historical lows, they have improved dramatically in recent weeks.

Another investment banker, Mr. Vladimir Werning from JP Morgan focused on the actions followed by the US Government in order to mitigate the impact of the crisis. He commented that as the crisis advanced, government protection has broadened. In line with this, the Public Private Investment Program (PPIP) followed by the FED aims to avoid extending protection towards nationalization.

In the afternoon session, Mr. Stephen Vajs, from the US Department of Treasury, began the presentation on countries' experiences. Mr. Vajs focused his presentation on the response given by the US Treasury to the crisis and on the US fiscal environment. On the latter, he commented that economic and financial market volatility has had an impact on the fiscal outlook. He also suggested that despite that the Treasury revisits its assumptions and forecasts when issuing debt, the overall strategy remains consistent. Mr. Vajs also commented that the figures of public debt issuance during 2008 are hard to understand. As an example, he stated that in 2008 \$5,5 trillions were issued in 238 auctions and \$249 billions were paid in net interest, the latter representing 8% of Government expenditure. Additionally, Mr. Vajs explained that the US Treasury issues over \$4 trillion per year in practically daily auctions, making them unable to operate opportunistically.

During the following presentations, representatives from Uruguay, Colombia, Brazil, Nicaragua and Jamaica explained their individual experiences on public debt management strategies in the past months. Explaining the Uruguayan case, Mrs. Azucena Arbeleche, from the Ministry of Economy and Finance of the Republic of Uruguay commented that before the development of the crisis, Uruguay had taken measures for diminishing roll-over and foreign exchange risks. Also, Uruguay had diminished the percentage of debt with multilateral organisms from 42% in December-2005 to 21% in February-2009, exchanging it for private debt. Mrs. Arbeleche also explained that the Uruguayan bond spread has been impressively high in comparison with other Emerging Countries, and that the roll-over risk remains as the top priority for the Uruguayan Government for the following months. Finally she argued that the funding restrictions that Uruguay is facing nowadays make it necessary to improve funding from multilateral banks.

Speaking on behalf of the Ministry of Finance and Public Credit of Colombia, Mr. William Ortiz expressed that the strategy of issuing public debt needs to incorporate the analysis of investors; whether they are private investors, pension funds, collective investors or simply speculators. By knowing investors' thoughts, issuers will be able to



obtain lower rates in order to have a sustainable debt and longer terms to ease the roll-over risk.

In relation to Mr. Ortiz opinion, Mr. Andre Proite from the Brazilian National Treasury explained that as a result of the strategy adopted by the Brazilian Government in the last years, they have been able to increase the average maturity (from 35 months to 42 months) of the Federal Public Debt and have reduced the percentage of debt maturing in 12 months (from approximately 39% to 25%). Additionally, they have been able to increase the amount of Fixed Rate and Inflation Linked debt, reducing interest rate and inflation risks.

To explain the Nicaraguan experience, Mr. Uriel Perez from the Ministry of Finance and Public Credit of Nicaragua, expressed that recently they have been able to reduce de Total Debt/GDP ratio from 195,6% in 2003 to 72,3% in 2008. Mr. Perez argued that this achievement allowed the country to allocate resources to their Poverty Reduction Strategy and has also improved the financial position of Nicaragua. However, the debt ratios are still very high in comparison with their relative performance and they still continue to be a HIPC country and have not achieved short-term debt sustainability yet.

On behalf of the Ministry of Finance and the Public Service of Jamaica, Mrs. Dian Black, explained that the collapse of the US markets had a spill-over effect in the emerging markets bonds. Investors flew to safer assets, avoiding high yielding emerging market bonds, and generating a decrease in Jamaica's bond prices. Moreover, the Jamaican financial sector increased the need for liquidity support, which was finally provided by the IDB and the Bank of Jamaica. However, credit rating agencies had revised downward Jamaica's rating, perceiving unfavorable effects of the crisis on their fiscal and external accounts. In contrast, Mrs. Black suggested that rating agencies have all recognized Jamaica's willingness to service its debt in a timely manner.

Mr. Alejandro Izquierdo from the IDB presented a study called *Policy Trade-offs for Unprecedented Times: Confronting the Global Crisis in Latin America*. In that working paper, Mr. Izquierdo commented that Latin America, and Emerging Markets as a group, would largely decouple from the global crisis. This will contribute to mitigate the impact of the global crisis in world economic activity and to an orderly adjustment of global imbalances. Furthermore, he argued that the region has strong fundamentals to withstand the crisis, being better equipped to pursue countercyclical monetary and fiscal policies than in the past. Mr. Izquierdo believes that the 2009 recession will be relatively deep but short lived, and that positive growth will return in 2010. He found that liquidity crises and economic collapses will be largely avoided in this time, given that the impact of the global crisis should be limited to the real sector.



Mr. Izquierdo continued his analysis on the construction of a liquidity indicator to simulate the possible impacts of the crisis. For this purpose he provided two possible scenarios on the global economy. On one hand a V-shaped global recovery, in which the dynamic of key macroeconomic fundamentals suggest that the predominant views on the region are largely correct. On the other hand, an L-shaped scenario, in which the region would experience negative growth in 2009 and 2010 and an average growth close to zero in the next five years. He found particularly interesting policy trade-off while following an expansionary fiscal policy between mitigating recessionary pressures and weakening liquidity positions. He believes that multilaterals should step in and play de role of lenders (and borrowers) of last resort, such as the US Government did domestically. However, particular attention must be paid on the most effective way to channel multilateral intervention and its financial cost. According to Mr. Izquierdo, multilaterals should not only consider medium and long-term financing of fiscal deficits, but also provide long-term refinancing of maturing obligations.

4. Concluding Session

Following the past practices of the LAC Debt Group, elections of the new members of the Steering Committee were carried out during the Concluding Session. On this opportunity, Mexico took the Presidency of the Steering Committee in substitution of Colombia, who remained in the Steering Committee with the Vice-presidency. Other members of the Steering Committee elected were Brazil, Guatemala, Jamaica, and Uruguay. The new Steering Committee will perform for the next two years.

In the closing session, panelists and speakers expressed their satisfaction with the general group dynamic and the exchange of experiences, which benefit the integration not only of the group as a whole, but also among the participants.

Finally, participants highlighted the need of maintaining IDB support for continuing with the LAC Debt Group initiative, and improving its functioning as a technical cooperation between countries, given its importance for debt managers and considering the positive results obtained in previous and in this last meeting.

May 8th, 2009



5. List of Participants

	Country	First Name	Last Name	Organization
1	Argentina	Fabián Gustavo	Dall'O	Ministerio de Economía y Finanzas Públicas
2	Bahamas	Mary	Mitchell	Public Treasury Department
3	Bahamas	Serena	Bethell	Central Bank of Bahamas
4	Barbados	Esworth	Reid	Ministry of Finance
5	Brazil	Andre	Proite	Tesoro Nacional de Brasil
6	Chile	Patricio	Sepúlveda	Ministerio de Hacienda
7	Chile	Liliana	Cancino	Ministerio de Hacienda
8	Colombia	William	Ortiz	Ministerio de Hacienda y Crédito Público
9	Costa Rica	Melvin	Quirós	Ministerio de Hacienda y Crédito Público
10	Dominican Republic	Athemayani	Del Orbe	Secretaría de Estado de Hacienda
11	El Salvador	Roberto	Gavidia	Ministerio de Hacienda
12	Guatemala	Rosa María	Ortega	Ministerio de Finanzas Publicas
13	Haití	Guyvard	Decastro	Ministry of Finance
14	Honduras	Luisa Antonia	Rivas	Secretaria de Finanzas
15	Honduras	Oscar Alexis	Quiroz	Secretaria de Finanzas
16	Honduras	Carlos	Carías	Banco Central de Honduras
17	Jamaica	Dian	Black	Ministry of Finance and the Public Service
18	México	Rodolfo	Campos	Secretaría de Hacienda y Crédito Público
19	Mozambique	Jaime	Delgadillo	Ministerio de Finanzas Mozambique
20	Nicaragua	Uriel	Pérez	Ministerio de Hacienda
21	Panamá	Yasbeck	Ramos	Ministerio de Economía y Finanzas
22	Paraguay	Modesto	Fariña	Ministerio de Hacienda
23	Suriname	Theo	Boomsma	Suriname Debt Management Office
24	St Lucia	Francis	Fontenelle	Financial Secretary
25	United States	Steve	Vajs	US Treasury Department
26	Uruguay	Álvaro	García	Ministerio de Economía y Finanzas del Uruguay
27	Uruguay	Andrés	Masoller	Ministerio de Economía y Finanzas del Uruguay
28	Uruguay	Carlos	Steneri	Ministerio de Economía y Finanzas del Uruguay



29	Uruguay	Azucena	Arbeleche	Ministerio de Economía y Finanzas del Uruguay
30	Uruguay	Victoria	Buscio	Ministerio de Economía y Finanzas del Uruguay
31	Uruguay	Antonio	Juambeltz	Ministerio de Economía y Finanzas del Uruguay
32	Uruguay	Mariella	Maglia	Ministerio de Economía y Finanzas del Uruguay
33	Uruguay	Analía	Ardente	Ministerio de Economía y Finanzas del Uruguay
34	Uruguay	Teresa	Chaves	Ministerio de Economía y Finanzas del Uruguay
35	Uruguay	Inés	Millán	Ministerio de Economía y Finanzas
36	Uruguay	Macarena	Suanes	Ministerio de Economía y Finanzas
37	Uruguay	Michael	Borchartd	Ministerio de Economía y Finanzas del Uruguay
38	Uruguay	Andrés	Bialitosky	Banco Central del Uruguay
39	Uruguay	Umberto	Della Mea	Banco Central del Uruguay
40	Uruguay	Eduardo	Ferrés	Banco Central del Uruguay
41	Uruguay	Alberto	Graña	Banco Central del Uruguay
42	Uruguay	Fabio	Malacrida	Banco Central de Uruguay
43	Uruguay	Pablo	Oroño	Banco Central de Uruguay
44	Uruguay	Gabriel	Platzman	Banco Central de Uruguay
45	Uruguay	Licandro	Tono	Banco Central de Uruguay
46	Uruguay	Lylián	Uberto	Banco Central de Uruguay
47	Uruguay	Antonio	Zarillo	Banco Central de Uruguay
48	Uruguay	Ana	Salveraglio	Banco Hipotecario de Uruguay
49	Uruguay	Gretel	Yaffe	Banco Hipotecario de Uruguay
50	Uruguay	Alejandra	Dufrechou	Banco de Seguros
51	Uruguay	Lorenzo	Weitzner	Bolsa Electrónica de Valores
52	CARTAC	Michel	Marion	CARTAC
53	SECMCA	José Alfredo	Blanco	Consejo Monetario Centroamericano
54	SECMCA	Jorge	Barboza	Consejo Monetario Centroamericano
55	Credit Suisse	Michael	Cummings	Credit Suisse
56	Deutsche Bank	Gustavo	Cañonero	Deutsche Bank
57	Fitch Ratings	Lorna	Martin	Fitch Ratings
58	IDB	Rafael	Hernández	Inter-American Development Bank
59	IDB	Alejandro	Izquierdo	Inter-American Development Bank



60	IDB	Esteban	Molfino	Inter-American Development Bank
61	IDB	Francisco	Chong	Inter-American Development Bank
62	IDB	Vanessa	Granados	Inter-American Development Bank
63	IDB	Sergio	Ríos	Inter-American Development Bank
64	IDB	Edgardo	Demaestri	Inter-American Development Bank
65	IDB	Joaquín	Thul	Inter-American Development Bank
66	IDB	Jimena	Chiara	Inter-American Development Bank
67	JP Morgan	Vladimir	Werning	JP Morgan
68	Moody's	Gabriel	Torres	Moody's Investors
69	Moody's	Mauro	Leos	Moody's Investors
70	OECD	Sebastián	Nieto Parra	OECD Development Centre
71	Standard and Poors	Sebastián	Briozzo	Standard and Poors
72	Standard and Poors	Roberto	Sifón Arévalo	Standard and Poors
73	UNCTAD	Marcelo	Tricárico	UNCTAD
74	UNCTAD	Manuela	Jander	UNCTAD
75	Univ. Torcuato Di Tella	Guido	Sandleris	Universidad Torcuato Di Tella
76	Univ. Torcuato Di Tella	Fernando	Giuliano	Universidad Torcuato Di Tella

6. Group Photo

