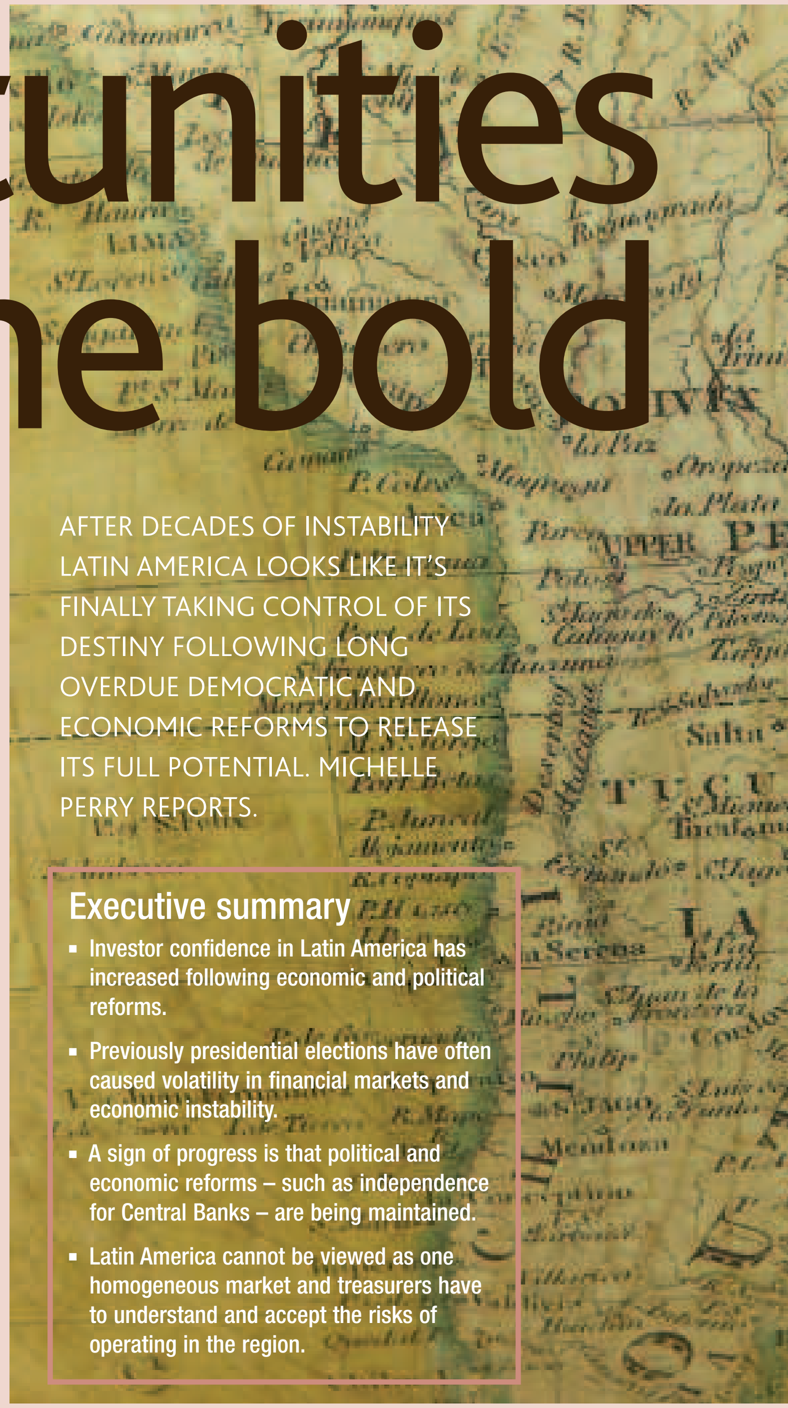
# Opportunities for the bold



AFTER DECADES OF INSTABILITY LATIN AMERICA LOOKS LIKE IT'S FINALLY TAKING CONTROL OF ITS DESTINY FOLLOWING LONG OVERDUE DEMOCRATIC AND ECONOMIC REFORMS TO RELEASE ITS FULL POTENTIAL. MICHELLE PERRY REPORTS.

It's the treasurer's lot to ensure strong business continuity programmes are in place to protect against inherent risks if they are to take advantage of the abundant opportunities that the Latin American region offers, say experts.

In the last 10 years, and more rapidly in the last five years, economic and political reforms have advanced at a rapid pace bringing with it increased confidence from foreign investors.

The economic picture for the region, says Kurt Vogt, Head of Latin America at Citigroup, is sound with a forecast of almost 4% growth for 2006, tame inflation, high commodity prices and strong currencies.

Vogt says there has been strong merger and acquisition (M&A) activity in the region with lots of restructuring, especially in the telecommunications and beverage sectors.

Suneel Bakhshi, Executive Vice President, Global Head of emerging markets, corporate banking at Citigroup, confirms the region's recent success in financial stability. "It's striking when you look back 10 years, even five years, to see how the opportunities have shifted," says Bakhshi.

"There has been a dramatic re-rating of country risk in the emerging markets. Probably the largest shift is in a positive direction," says Bakhshi, who has worked in emerging markets for more than 20 years.

Urgent financial sector reforms there have led higher trading volumes in M&A. Colombia was in the top 12 destinations for M&A capital in the last year. The other 11 were countries outside Latin America.

Ahead of presidential elections next year in both Mexico and Brazil, two of Latin America's leading economies, treasurers gathered in London at BAT headquarters, which has had a presence in the region for around 100 years, to consider the future climate for treasury in Latin America.

"The cloud on the horizon that may or may not materialise are the elections," Vogt says.

Previous upheaval, volatility in financial markets and economic instability following presidential elections has taught foreign investors to go cautiously into the region.

In recent years the majority of the region's countries have swung to the left leaving many foreign investors more wary of the situation given past experience. The trend however looks set to continue as Manuel Lopez Obrador, former Mayor of Mexico City and presidential candidate for left wing political party the PRD, remains a popular choice for the July 2006 presidential elections in Mexico. Brazil goes to the polls in October 2006.

Still, elections wherever they are always bring uncertainty. The result of the German elections, which ended in a hung parliament in September, is causing uncertainty in the markets in Europe.

Latin America, however, is evolving into a more economically and politically stable environment for inward investment. Over the past five years, unlike in previous years where each political administration has overridden rivals' reforms, political leaderships have become more progressive and retained important economic reforms, such as giving independence to central banks.

"Governments have high international reserves and flexible exchange rates so they have a better ability to absorb shocks," says Vogt.

## Executive summary

- Investor confidence in Latin America has increased following economic and political reforms.
- Previously presidential elections have often caused volatility in financial markets and economic instability.
- A sign of progress is that political and economic reforms – such as independence for Central Banks – are being maintained.
- Latin America cannot be viewed as one homogeneous market and treasurers have to understand and accept the risks of operating in the region.


Chile and Peru are currently investment grade with the possibility of Brazil reaching investment grade level shortly. Brazil is the largest economy in the region and is predicted to grow exponentially in the coming years. With a population of around 180 million, Vogt predicts the telecoms sector is set to grow at around 20% a year.

"So the vulnerability of finances has reduced significantly. In the past they would grow and their current account would go negative. That's not happening now," he says.

Despite looming elections Vogt says Mexico has progressed immensely in recent years. After Mexico finally ousted the right wing party PRI, which had ruled for more than 70 years, in 2000, the 2006 elections will be the first handover since real democracy happened, according to Vogt.

"It's a pretty good environment with sustainable growth. The question is why it isn't growing at 7 or 8%. If they really want growth more structural change needs to happen, like a true fiscal reform," says Vogt.

Treasurers cautiously agree the region is improving for treasury management.

"They are becoming more mature in their political systems. Although [Manuel] Lopez is more left than centre-left," says Neil Wadey, Group Treasurer of BAT, disputing the suggestion by Vogt that the candidate was centre-left.

"There are risks and there are massive opportunities. It's a symptom of what those markets have always been," says Wadey.

That said, neither Wadey nor Michiel Moolenaar, Head of Central Treasury Operations at Shell International, have treasury centres there. Both said it was a tricky environment to work in because of the lack of uniformity.

"Latin America is still very much market by market unlike the rest of the world that is more uniform," says Wadey.

As for funding, both said they took a centralised funding approach because it was cheaper, avoiding, unless absolutely necessary, local funding.

Wadey, who has raised local finance recently in Mexico, says: "If there's a strong opportunity to fund locally we will look at it but we have to look at the structure and length of time it takes."

Valentina Antill, Director of Derivatives and Structured Products in Latin America sales and trading at Citigroup, acknowledged there are difficulties in this area.

"One disadvantage is that it takes some paperwork to get the first deal done but then it doesn't have to be repeated for the next," she explains. Antill adds that it normally takes between one and two months in Mexico and Colombia for the first funding transactions.

Ultimately, Wadey says as a treasurer you have to accept all the risks and work to put in place prevention and detection methods. Then you can reap the rewards from the opportunities that the region holds.

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## Box 1. Emerging markets seminars

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**BREAKFAST BRIEFINGS:**

Central & Eastern Europe, Middle East & Africa (CEEMEA)
Key countries: Russia and South Africa
Key topics: black economic empowerment and capital repatriation
11 October 2005
Citigroup, Stirling Square, 5-7 Carlton Gardens, London.

Asia – Key countries: China and India
Key topics: regional liquidity and shared service centres
28 October 2005
Citigroup, Stirling Square, 5-7 Carlton Gardens, London.