The Financial Stability Forum (FSF) has just concluded its fourth Latin American regional meeting, held today in Mexico City. Senior representatives from finance ministries, central banks and supervisory and regulatory authorities from various countries in the region attended the meeting, as well as national authorities and international organisations represented on the FSF. The list of institutions represented at the meeting is attached.

Participants exchanged views on strengths and vulnerabilities in the international and regional financial systems. They noted that global and regional economic growth have been resilient in recent years and that continued expansion was expected. Improvements in the terms of trade in most, though not all, countries in the region and strengthened policies have stimulated growth. Benign global financial conditions have lowered funding costs and stimulated capital inflows, helping to strengthen balance sheets in the region. Although core inflation has remained stable and inflation expectations in most mature economies appear well-anchored, the focus of policy makers and financial markets has now clearly shifted from earlier concerns about growth to the threat of rising inflation.

Participants noted the importance of regional economies managing the consequences of these benign conditions, by using the opportunity to complete structural reforms and strengthen buffers to deal with more difficult times. The windfall gain of increased commodity prices for some countries posed challenges in maintaining a fiscal stance that would be robust to a fall-back in those prices. Capital inflows similarly created policy dilemmas, including determining the appropriate size and manner of reserve accumulation. Participants agreed that maintaining and communicating clear policy objectives were crucial, including making clear that the achievement of price stability remained the overriding objective of monetary policy. There was a consensus that exchange-rate flexibility has helped to reduce vulnerabilities. Meanwhile, improving international competitiveness through greater structural flexibility was viewed as important.

Participants commended the improvements in public debt sustainability in many Latin American countries in recent years. These have reflected improved fiscal balances, as well as active debt management operations to extend maturities and increase issuance in local currency. Nevertheless, they noted that public debt levels in many regional economies remained high, and further consolidation of debt and enhancements to debt management were needed given the economic and financial risks to sustainability.

Participants discussed the progress made in recent years in developing domestic securities markets. These have created benefits not only for governments as issuers, by reducing their exposure to foreign exchange risk and diversifying their investor base, but also for a widening group of private sector issuers. Meanwhile, demand for such securities has been growing rapidly, both from the increasingly important domestic institutional investor sector, in particular pension funds, and from foreign investors. Views were exchanged on the appropriate sequencing of policies in this area, including the development of market infrastructure, the encouragement of a diverse set of domestic investors with adequate risk management skills, and the development of derivatives markets. A remaining challenge was to encourage greater private sector issuance, including by reducing the crowding-out of private borrowing by government debt.

Participants shared experiences in the strengthening of financial systems, drawing on lessons learned from the Financial Sector Stability Assessments conducted by the International Monetary Fund and...
the World Bank. Prioritisation of reforms was recognised as a particular challenge, when countries were faced with multiple reform goals and with resource limitations. Assessments against international standards provided useful guidance on reform goals and were helpful in obtaining legislative support. For these assessments to be most useful, assessment priorities should be discussed with the authorities, and the recommendations made more focused and precise, so that authorities can set them within a wider reform agenda. Participants asked the setters and assessors of standards to consider how to enhance the degree of prioritisation and specificity in their work.

Participants noted that banking sector profitability and capitalisation had improved across the region, as economies had stabilised and regulatory and supervisory frameworks had been strengthened. Foreign-owned institutions were playing an important role in the further development of financial systems, providing capital and expertise, including in risk management. At the same time, the presence of foreign financial institutions also created challenges for policymakers and supervisors, that call for deepened coordination and information exchange between home and host supervisors.

The FSF and other meeting participants thanked the Banco de México for its hospitality in hosting the meeting.

Notes for editors. The FSF brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. It was established by the G7 finance ministers and central bank governors in February 1999 to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance. The FSF is chaired by Roger W. Ferguson, Jr., Vice Chairman of the Board of Governors of the Federal Reserve System. The FSF’s Secretariat is based at the Bank for International Settlements in Basel, Switzerland.

The objective of the FSF’s regional meetings is to promote wider exchanges of views on financial vulnerabilities and the work underway nationally and internationally to address them. For further information on the FSF, its membership and previous FSF meetings, visit the FSF website at www.fsforum.org.
Institutions and Groups attending the FSF Regional Meeting
Mexico City, 16 November 2005

Chairman
Mr Roger W. Ferguson, Jr.

Argentina
Banco Central de la República Argentina
Comisión Nacional de Valores

Brazil
Banco Central do Brasil

Canada
Department of Finance

Chile
Ministry of Finance
Banco Central de Chile

Colombia
Superintendencia de Valores

Costa Rica
Banco Central de Costa Rica

France
Banque de France

Germany
Deutsche Bundesbank

Japan
Bank of Japan

Mexico
Ministry of Finance and Public Credit
Banco de México
Comisión Nacional Bancaria y de Valores

Peru
Banco de Reserva del Perú
Superintendencia de Banca, Seguros y AFP

South Africa
South African Reserve Bank

Spain
Banco de España

United States
Board of Governors of the Federal Reserve System
Securities and Exchange Commission

Uruguay
Banco Central del Uruguay

International Financial Institutions
Bank for International Settlements
International Monetary Fund
Organisation for Economic Co-operation and Development
World Bank

International Regulatory and Supervisory Groupings
Basel Committee on Banking Supervision
International Association of Insurance Supervisors
International Organization of Securities Commissioners

Regional Financial Institutions
European Central Bank

Central Bank Expert Groups
Committee on the Global Financial System