OPENING SPEECH

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Welcoming address and presentation - Julio Linares, Vicepresident of Telefónica.

For the first time this century, Latin America has ceased to grow. The region, which had emerged unscathed from the last financial crisis with an enviable bill of health, has now been caught up in a combination of adverse factors: a sharp drop in commodity prices, a slowdown in China and noticeably slacker private investment and consumption, chastised by the dwindling confidence of businesses and households. ECLAC and the IMF are forecasting an estimated 0.3% decrease in Latin America's GDP in 2015, although it will regain a positive trajectory by 2016.

As always, the patterns observed in the region's various countries are heterogeneous. Whereas Mexico is growing at 2.5%, Brazil is contracting in the same proportion. Brazil's inflation is running at 10% while the central bank attempts to contain it by keeping interest rates at 14.25%, their highest mark in 9 years. GDP in Chile, Peru and Colombia is growing at between 2 and 3%, halving their economic performances in the course of the decade.

This contraction has been reflected on securities markets. Bond investors have drastically cut back positions, amid unequal performances on equity markets. The major player in this environment, the Brazilian stock market, has lost 6% this year so far. Its Peruvian and Colombian counterparts have also notched up substantial losses. The Mexican exchange, however, has been operating in positive territory, with a 3% gain.

From the European point of view this scenario has been made considerably worse for investors holding portfolios in euros due to a substantial depreciation of Latin American currencies, in similar fashion to all emerging markets. Brazil's real has now lost 30% against the dollar in 2015, the greatest fall by any of the emerging currencies. This has brought the FTSE Latibex Brazil down by 34% in the year, while the blue-chip FTSE Latibex TOP – which is made up of the market’s 15 main stocks - has taken a fall of 25%.

However, although this situation may invite a reversal of positions on Latin American securities markets, strategic investors that have operated portfolios there for decades see it as an opportunity for some long-term positioning.

Reality cannot be ignored. Latin America has some of the world's most extensive natural resources at much lower operating costs, including oil, metals, minerals and agricultural produce. Demand, and therefore prices, will rise in the long run as global growth takes hold again. Moreover, this is a region with a young population, and demographic trends and considerable social development in the course of this century will help drive economic growth. Finally, it cannot be ruled out that the technology gap still in place with respect to more developed nations could be closed up in a much shorter time than it took those same nations to reach their current level.

Trends in the prices of commodities constitute an external factor that cannot be controlled, but the other two, social progress and technological development, can be boosted through public policy measures and proper reforms: education, technological infrastructure, encouragement of innovation, investment in R+D etc.

This would in turn boost the confidence of private investors to resume the virtuous circle observed in the course of the last decade. The necessary finance must be available to this end. Perhaps you would allow me to dwell on this point.

The latest annual ECLAC and IMF reports on the region - the latter, in fact, was presented this week in Madrid - both agree as to the main challenge: Latin American nations require more financial development, access to finance is far from satisfactory, and financial systems are underdeveloped even in terms of their macroeconomic basis.

The availability of finance for businesses, especially smaller businesses, is quite limited, restricting their production capacity and growth potential. The situation keeps companies in a permanent state of vulnerability and low growth, and has serious consequences in terms of poverty and social inequality in Latin America.

This may be observed in a large portion of the world amid our current crisis.

In the case of Latin America, it should be borne in mind that only 40% of small businesses and 70% of large companies have access to bank loans or lines of credit, according to ECLAC and World Bank data.

By and large, the region's financial systems lack a certain amount of depth, and tend to focus on commercial banking and the short run. With certain exceptions, its capital markets are still on the small side, with low levels of capitalisation and limited trading volumes, mostly concentrated around a small amount of equities. All this entails a poor financing capacity and high costs.

It is for this reason that the contribution by stock markets could be a vital factor, as in other parts of the world, to balance out sources of finance, or at least those of the largest companies. Over the last four years the Mexican, Brazilian, Chilean and Peruvian stock markets have racked up $150 billion in capital increases, although this trend tailed off in 2014 and 2015.

It is significant that these four stock markets, where the aggregate volume of capitalisation is double that of the Spanish stock market, have furnished 27% less finance in the last five years, and furnished less than half of it in 2014.

Boosting the financing mechanism of securities markets is therefore a major challenge for the region, despite the progress made in the course of the last decade. The main multilateral bodies, particularly those working close to the region such as the Andean Development Corporation (CAF) and the Inter-American Development Bank (BID), are pointing out the need to implement reforms to ensure proper regulation and supervision in a bid to reduce potential asymmetries of information in other imbalances.

The Spanish stock market also faces some major challenges. Over the last five years it has maintained a financing pace that has made it one of the world's most effective ones, furnishing more than €215 billion for businesses since 2011, at a point when it was more difficult for Spanish companies to secure finance through bank loans. By September 2015, with a gradual restoration in the flow of credit, BME-listed companies had increased capital by €37 billion. The finance supplied via capital markets is still insufficient, however.

This means that initiatives seeking to provide finance on markets for small and medium-sized enterprises are extremely valuable. Not only because of their specific results, which always seem rather paltry in comparison to the size of the problem, but also because they demonstrate that these companies can indeed secure alternative finance, and indicate the direction to be taken.

Two years ago BME set up a market specializing in fixed income issues (the Alternative Fixed Income Market or "MARF") for medium-sized businesses. The market had a good response at the outset, and attained issues worth €1 billion. Meanwhile, the Alternative Stock Market or "MAB", which focuses on providing capital for smaller enterprises, attracted €80 million in 2015 and has garnered more than €400 million since its launch, for a total of 32 companies. Both play a crucial role in our financial system, and public and private institutions are duty-bound to support them.

One of the most complex challenges facing a market is to succeed in efficiently disseminating any economic and financial information generated by the companies, and ensure that this information is properly analysed by investors to enable them to take the best possible decisions. In the same way as a lack of knowledge of smaller businesses creates a barrier that prevents them from entering markets, ignorance of Latin American firms on the part of many European investors leads to fewer positions on these businesses than the region's economic size ought to attract. Combating this lack of knowledge is one of the targets that BME has set itself year by year, and this has led us to organise this Latibex Forum, which is not only attended by portfolio investors, but also by businesses wishing to move into the region.

Latibex is not only a valuable centre of information, but also a market offering a simple and efficient alternative for the Eurozone investor. For years it has provided a satisfactory solution for structural difficulties in connection with both trading and the back office. A system of agreements among central depositories, banks and custodians and stock exchange members, and an information system replicating the original requirements of each market, enable European investors, even the smallest investors, to gain access to Latin American securities.

We have assembled the best macro-analysts specialising in the region, and we will also have some of the most experienced investors on hand to share their opinions with us. Once again, expectations are running high this year: 40 companies and over 250 investors and analysts will be in attendance.

It only remains for me to express my gratitude for the vital assistance of our sponsors, headed up by Deloitte, whose response to this annual encounter also bears out their unequivocal commitment to Latin America.

The floor goes to Julio Linares, Vicepresident of Telefónica.