

18° FORO
LATIBEX



OPENING SPEECH
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24 November 2016

Good morning, ladies and gentlemen,

Welcome to the 18th Latibex Forum, which once again brings together more than 30 of the largest companies in Latin America and Spain with over 250 investors, analysts and brokers from throughout Europe, to spend two days exploring the outlook for their businesses in the region.

Recent projections from the IMF suggest that the GDP of Latin America will contract by around 0.6% in 2016, although it expects this trend to reverse in 2017, with GDP in the region growing by 1.6%. These projections have already been reviewed downwards twice so far this year, against the backdrop of the fragile global recovery.

The performance of countries in the region has been weaker than other emerging economies, although there are some exceptions to this generalised weakness. Disparity is the general pattern in Latin America, with its diversity provoking sharply differing economic performance, and each country being subject to different internal and external factors.

Brazil has been the weakest performer, suffering its worst recession for decades, although figures for the last two quarters confirm that this will now be less severe than feared. Its GDP will shrink by 3.3% in 2016, caused by the collapse in commodity prices, a severe institutional crisis and insufficient progress in implementing structural reforms. Stabilisation of commodity prices and an easing of political and social tensions appear to have resulted in the recession bottoming out in 2016, with growth returning in 2017.

Mexico will grow by 2.1% in 2016 and 2.3% in 2017, according to the IMF. Whilst still reasonable, this weaker than expected performance has been due to a poor showing by exports, particularly as a result of the oil crisis, and weak growth in the USA.

Peru is at the most positive end of the spectrum, with growth of 3.7% in 2016 and 4% in 2017.

Turning from macroeconomics to the markets, this year offers some good news in share prices. The region's indexes have offset the declines of recent years in 2016. Currency effects have also been very positive in the case of the Brazilian real, which has appreciated by 22%. The FTSE Latibex Top - comprising the leading shares listed in euros on the Latibex market - has performed very strongly, being up 60% this year.

In summary, Latin America has put in its weakest macroeconomic performance since 2009, although there are some signs that it has bottomed out and we can expect a degree of improvement next year. Whether this trend becomes established will depend on the ability to combine structural reforms with policies to mitigate the adjustments required. The major challenges remain the development of infrastructure and education, and bridging the digital divide.

Specialist bodies in the region have highlighted the need for a more inclusive and deeper financial system in the region. They emphasise the need for reforms to bolster regulation and supervision, foster the rights of investors and ensure adequate disclosure of information, and other policies to increase the size of the securities market.

The fragility of domestic financial systems was not balanced by foreign investment flows in 2015: in fact, both contracted significantly and are not expected to recover in 2016. In particular, foreign Fixed-Income investors have been less active. Whilst some US\$140 billion of international bonds were issued in 2014, this will have fallen to US\$90 billion by the end of the fourth quarter of 2016: even so, this is still four times higher than pre-crisis levels.

Most of these issuances derive from the private sector, particularly banks and energy companies, with the major absentees being smaller companies. It should also be noted, on the other hand, that most of the assets of the financial

system are held by commercial banks. The assets of the five largest banks in the region account for 70% of the total asset portfolio, according to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). And the lending of these banks is focused on the distribution and finance sectors, far outstripping manufacturing, which is a very important sector for SMEs in general. There have therefore been calls for development banks to play a leading role in fostering lending for production.

The impact of more traditional funding structures and services - such as “leasing” and “factoring” - has been very limited. For example, factoring accounts for less than 2% of total SME funding. Risk capital has also failed to penetrate the region adequately.

We believe that funding for companies cannot be resolved without concerted action across multiple sectors. Bank financing should be supplemented by the sources we have mentioned, but, most importantly, the markets have to take the leading role.

The region's stock markets have felt the effects of the recent crisis, on their size, liquidity and financing capacity. They have shrunk considerably in relation to GDP, averaging just 44% at year-end 2015. Bolstering their liquidity is also important. The ratio of their trading to their size stands at 23%, compared to 32% for emerging economies. In a nutshell, Latin American securities market have considerable space to grow into, with the clear objective of facilitating access to finance for Latin American companies.

The development of securities markets as a funding tool is of fundamental importance for the region's financial systems. This will not just increase the volume of funds available to companies, but will also diversify and balance funding sources. Even if we accept the argument that access to stock markets is more difficult for smaller companies, if the region's large companies could use the capital increase mechanism more intensely, they would at least free up funds for lending, which could be channelled to smaller companies. This would

improve growth conditions for smaller companies, helping them attain the critical mass needed to access the financial markets, kicking off a virtuous circle.

Financial innovation could also help improve company financing, as ECLAC highlights in its recent “Economic survey of Latin America”. And this innovation should also extend to the securities markets, which can provide innovative solutions. Two of the panels at our Forum will be discussing financial innovation through “fintechs” and the role of innovation as a factor for growth in the region.

Talking of smaller companies, I want to take this opportunity to mention the possibility of creating alternative markets specifically designed for such companies, with simpler and more streamlined requirements and procedures, offering funding through Equities and Fixed Income instruments. Two such markets - managed by BME - are becoming well established in Spain. The Mercado Alternativo Bursátil or MAB for its Spanish acronym, has provided over €950 million in capital to more than 60 companies since its launch in 2009. These companies increased their capital by €242 million in 2016. And the Mercado Alternativo de Renta Fija, or MARF for its Spanish acronym, which has now been operating for three years, during which time it has carried out €3 billion in issuances for its wide range of companies.

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 in these businesses than the region's economic size ought to attract. We must seek to ensure that the business and financial information produced by these companies is disseminated effectively to investors, so they can make the best possible investment decisions. Combating this lack of knowledge is one of the targets that BME sets itself every year, and this has led us to organise this Latibex Forum, which has attracted both specialist investors and entrepreneurs interested in moving into the region.

Latibex is not only a valuable source of information, it is also a market offering a simple and efficient alternative for Eurozone investors. It has been providing a satisfactory solution to the structural difficulties involved in trading and back-office functions for several years. This system of agreements among central depositories, banks, custodians and stock exchange members, and an information system replicating the original requirements of each market, enables European investors - even the smallest - to access Latin American securities.

The Latibex Forum gives us an opportunity to consider all of these aspects in more depth. The Forum has attracted leading professionals representing companies from Mexico, Brazil, Chile and Peru, who will be debating with fund managers and representatives of specialist institutions. The 13 panels on the programme will cover a wide range of topics, ranging from the viewpoints of macroeconomic experts and investors dedicated to the region, to analysis of the leadership role of women in Latin American companies. We will, of course, be examining the situation in major economic sectors, such as energy, real estate, tourism, infrastructure and construction and finance. And participants will be able to hold private, bilateral meetings over the two days of the Forum. More than 400 such meetings have been scheduled.

Finally, I would like to thank the sponsors who have made this Forum possible, including Deloitte and Santander, which have demonstrated their commitment to this initiative through their support since it was first held.