

The Fifth Summit of the Americas: Recommendations for Action

Set the Right Agenda: Latin America and Multilateral Institutions

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Executive Summary

The recovery from the crisis in industrial countries might be longer than expected and multilateral institutions will play a crucial role in assuring the long-term macroeconomic stability of Latin American countries.

Precarious access to credit markets for many emerging market governments calls for multilaterals to step in and play a key role as a borrowers-of-last resort, akin to the role that credible governments, such as the U.S. government, play domestically. Full support by multilateral institutions to ensure both the financing of expansionary fiscal programs and of stocks of public debt coming due, does not appear to be either politically or financially feasible.

The natural question then is how to target limited resources to get more “bang for the buck.” The likely evolution of the region’s fundamentals under moderately less optimistic scenarios and the key role of liquidity considerations under precarious credit market conditions, points in the direction of switching the emphasis from traditional expansionary macro policies of uncertain and potentially counterproductive effects, to policies oriented towards reducing the likelihood of a liquidity crisis and a severe economic contraction. In our view, this should be the overriding goal of policy design.

This framework suggests that the role of multilaterals institutions needs to be strengthened. They should also move away from short-term financing, redefine the emphasis of their support, and ensure that countries work towards sustainable fiscal policy.