

São Paulo / Paris, January 14, 2015

Latin America - Growth picking up for Pacific countries

Three decades ago, Latin America was associated with negative terms such as ‘dictatorship’, ‘debt crises’ and ‘high inflation’. Over the years, the region has begun to be associated with economic growth, the new middle class, poverty reduction and controlled inflation.

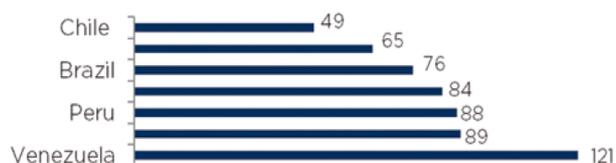
In this edition of Panorama, we have decided to focus on two countries of the Pacific Alliance: Mexico and Peru. Mexico appears to have a medium term positive outlook. Peru’s case is also interesting and the country’s medium-term prospects are very favourable. Peru was identified as one of the 10 ‘new emerging markets’ by Coface earlier this year.

Regional GDP growth slowing down

Latin America is a major producer of commodities and a good part of the strong performance observed in recent periods was thanks to China’s rapid growth. Countries in the region started to record high trade surpluses, but this bonanza period is over. After many years growing at around 10% a year, Chinese activity has lost its rhythm. As a consequence, commodity prices have begun to fall, impacting Latin America’s expansion rates. The region’s GDP is expected to grow by 1.3% in 2014 and by 2% in 2015 - much lower than in previous years.

The weaker forecast also reflects lower global activity and lack of investment. Infrastructure is a key issue in the region and countries as a whole did not take the opportunity to implement reforms during the years of strengthened terms of trade..

Infrastructure quality - position in the ranking -144 countries



The best positioned country in Latin America, Chile, occupies only the 49th position in a worldwide ranking of 144 countries. All other countries of the region are ranked lower (as shown left).

Source: World Economic Forum

One region and two directions

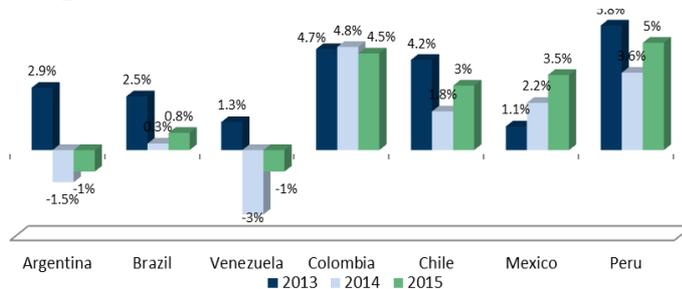
On one side of Latin America, the countries of the Pacific (Mexico, Chile, Colombia and Peru) are defending free trade and free markets. On the other side, in the countries bordering the Atlantic, mistrust of globalization and state-run models play significant roles in the economy.

The first group created the Pacific Alliance, and has been trying to improve trade partnerships outside the continent, while the second group remains trapped within the Mercosul.

So, how do the groups compare?

Taking into account activity in 2013 and Coface’s forecasts for 2014 and 2015, GDP has been increasing at a higher pace in those countries bordering the Pacific.

GDP growth rates in Latin America



Source: Coface

Sector outlook between medium and high risk

The general outlook for Latin America is between medium and high risk. This result is achieved based on a weighted average of the countries’ GDPs. It is worth noting that the five main economies (Brazil, Mexico, Argentina, Colombia and Chile) together represent 83% of the region’s GDP.

Within the context of slower regional GDP growth, many sectors report a deterioration of their perceived risk. In this edition of Panorama we discuss the outlook for each segment in the

region in more detail.

Latam Sector Barometer			
Sectors	Risk Level	Sectors	Risk Level
Agro-food	●	Automotive	●
Retail	●	Construction	●
Textile-clothing	●	Chemicals	●
Metals	●	Pharmaceuticals	●

● Moderate Risk ● Medium Risk ● High Risk ● Very high Risk

Source: Coface

We also focus, in a special section, on two segments of the Mexican and Peruvian economies. These industry focuses are construction for Mexico and mining for Peru. The first faced turmoil in 2013 and is now beginning to recover. The second, a major sector of the Peruvian economy, has experienced a slowdown in activity in recent months.

Latin America unlikely to increase at its previous rhythm

In 2015, activity in Latin America is unlikely to increase at its previous rhythm, mainly due to lower international prices for commodities.

“The intensity of the effect of this in each economy also depends on the importance of exports as a proportion of each country’s GDP. For instance Brazil is considered as a closed economy, as exports accounted for only 11% of its GDP. The ratio is more significant in Argentina (13%), Colombia (17%), Peru (25%), and finally Chile (27%),” explains Patricia Krause, Economist for Coface’s Latin America region.

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