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Panorama LATAM:

Growth picking up at countries of Pacific

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CONTENTS

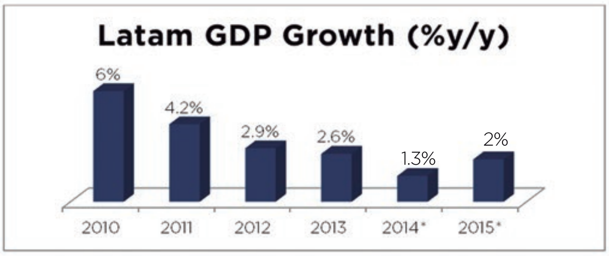
Three decades ago Latin America used to be known by negative terms such as dictatorship, debt crises and high inflation. The region´s GDP increased by an annual average of only 1.5% in the 1980s. One decade later the rate rose to 2.4% and finally achieved 4.2% between 2003 and 2013. Over the years Latam has begun to be associated with economic growth, new middle class, poverty reduction and controlled inflation.

Despite general improvements in the region, growth has surprised on the downside in almost all countries in 2014 (see chart 1). Why and what are the most impacted sectors? This subject will be addressed in the Latam Panorama.

In this edition we will focus on two countries of the Pacific Alliance: Mexico and Peru. Mexico seems to have a positive outlook in the medium term, due to recent structural reforms promoted by its government.This panorama explains why. And the Peru's case is puzzling as well: the country's medium-term prospects are very favorable (Peru has been identified as one of the 10 "new emerging markets" by Coface earlier this year), but the growth momentum has been fading over the past months as well.

We will initially discuss the region´s macroeconomic current environment and highlight on the two countries, both from a macroeconomic standpoint and a sector one. Secondly we assess the extent of the impact on sectors of this sluggish GDP growth in the region. To do so, we detail our Latam sector barometer, which reveals financial performance of companies in different industries coupled with Coface payment experience. The third part will be focused on countries sensitive industries.

CHART 1



Source: Coface

Part I

Macroeconomic current environment

Coface produces country risk assessment for 177 countries, based on the average risk of payment defaults by companies in a given country. This evaluation combines economic and political prospects of the country, the insurance payment experience and business climate assessment. Taking into account the timeline from 2003 to September 2014 for the eight main economies in Latam (in terms of GDP), we notice improvement in 5/8 in the last decade (table 1).

TABLE 1

	Sept 2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Argentina	C	C	C	C	C	C	C	C	C	C	D
Brazil	A4	A3	A3	A3	A3	A4	A4	A4	B	B	B
Chile	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2	A2
Colombia	A4	A4	A4	A4	A4	A4	A4	B	B	B	B
Ecuador	B	B	C	C	C	C	C	C	C	C	C
Mexico	A4	A4	A4	A4	A4	A4	A3	A3	A3	A4	A4
Peru	A4	A4	A4	A4	B	B	B	B	B	B	B
Venezuela	D	C	C	C	C	C	C	C	C	C	D

Evaluation has 7 grades: A1, A2, A3, A4, B, C and D, being A1 the best grade and D the worst one.

Venezuela is a negative example and its assessment is not expected to revert in the near future, as it has been facing rampant inflation and shortages, lack of international reserves and significant state interventionism. **Chile** has maintained itself stable as an A2, the Latin America outlier. **Mexico** also remains with the same grade, but reported volatility. The downgrade in 2009 was associated with U.S. subprime mortgage crisis and its effect over the downstairs neighbor. Over 80% of Mexico´s exports are destined to USA, so it was hardly hit at that time.

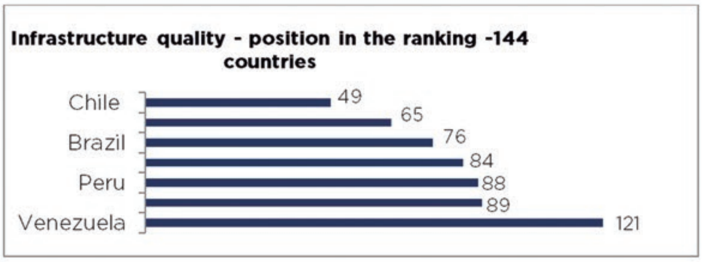
Brazil observed a seesaw behavior, but is better positioned then one decade ago. The country holds very strong international reserves position, attracts expressive amounts of foreign direct investments, but inflation has begun to pressure again, fiscal balance has deteriorated and activity has stagnated. **Peru and Colombia** improved significantly in the last decade. Both reported strong growth rates, increased investments, reduced inflation and were able to deal with domestic issue. In the first case government has been combating illegal mining while the second has been negotiating with FARC. **Argentina** went from a D to a C, but current environment is very sensitive. Country remains in technical default, with very limited international reserves and increasing inflation. Finally **Ecuador** was able to improve its situation after the default in 2008, yet dependence on oil revenue remain high, state interventionism is significant and restriction over imports still rises.

Growth slowing down and two different economic directions

Latin America is a major producer of commodities and a good part of the strong performance observed in recent period was thanks to the rapid growth in China, which pressured the international prices up. The Asian giant demanded high volumes of copper from Chile and Peru, iron ore from Brazil and soya from Argentina. Countries in the region started to record high trade surpluses, but this bonanza period is over. After many years growing around 10% a year, Chinese activity has lost rhythm. For instance, Coface expects Chinese economy to report a growth of 7.4% in 2014 and of 7% in 2015. As a consequence commodities' prices started to fall, impacting Latam´s expansion rates. The region´s GDP is expected to grow by 1.3% in 2014 and by 2% in 2015, much lower than the previous years.

The weaker forecast also reflects the lower world activity and the lack of investments. Infrastructure is a key issue in the region and countries as a whole did not take advantage of the years of strengthened terms of trade to promote reforms. According to the infrastructure index of the World Economic Forum (WEF) the best positioned country in Latin America, Chile, occupies only the 49th position of 144 countries. All other countries stand at weaker positions (chart 2).

CHART 2

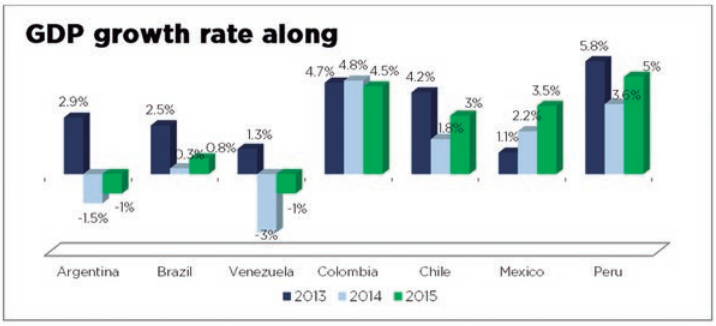


Source: World Economic Forum

During the phase of rapid growth not all countries reported the same behavior and recently some agents began two split the region in two generalists groups. On one side the countries of the Pacific: Mexico, Chile, Colombia and Peru defending free trade and free markets. The other group, composed by countries of the Atlantic, mistrust globalization and in them model the state has a significant role in the economy. In different proportions we can mention Venezuela, Argentina and Brazil. The first group created the Pacific Alliance and has been trying to improve trade partnerships outside the continent, while the second remain basically trapped to the Mercosul. It is certainly difficult to compare Brazil with Venezuela. Inflation in the first country is much lower than in the later one, but it is peeking up in recent years among other reasons due to government´s lack of commitment with fiscal policy. In addition fixed prices have been used as a tool to artificially control inflation, unbalancing relative prices.

Which way to face? The first model seems to be more successful, taking into account the recent results achieved in both groups. In a scenario of free trade, countries tend to focus on the goods in which they hold comparative advantage, increasing productivity gains. Open economies are also more likely to attract investments. Considering activity in 2013 and Coface´s forecast for 2014 and 2015, GDP has been increasing at a higher pace in the Pacific side (chart 3).

CHART 3



Source: Coface

In **Brazil** activity should remain weak in 2015, as a result of lack of investments and of the adjustments in repressed prices (oil and energy tariffs). Interest rates should increase in order to contain already high inflation.

In **Argentina** economic contraction and international reserves shortage will remain. Presidential elections will take place in the end of 2015, so no big improvements are expected in the short/medium term.

Mexico has a serious of positives reforms going on, such as the openness of the oil segment, the end of the telecom monopoly, the reduction in labor market bureaucracy and a very aggressive infrastructure investment plan. Transparency and the efficiency in creating the rules are key to determine the attractiveness to investors.

Activity in **Peru** is expected to recover rhythm in 2015, based on a partial recovery of the mining segment. Despite the lower international prices, the segment is not yet benefiting from the strong investments of the latter years. Central Bank reduced the banks´ reserves requirements (to 10% from 10.5%).

Chile will report improvement in activity in 2015, due to a higher global growth and in response to looser fiscal and monetary policies. The public 2015 budget announced works with a high of 9.8% in expenses (the highest increase since 2009) and Central Bank cut interest rates in 25 b. in October 2014 (now in 3% a.y.).

In **Colombia** GDP has been growing at robust rates, outperforming countries in the region. The main sensitive segments are manufacturing and extractive industries. Despite that retail sales remain strong, thanks to the macroeconomic stable environment and to increasing credit availability. Government keeps pushing investments up in infrastructure, contributing to strong increase in the construction industry too.

Ecuador lost momentum in the first quarter of the year and is not expected to return growing at the same rhythm of 2013. After a high of 4.5% reported in the previous year, activity should expand by 3.8% in 2014 and in 2015. The economy has also been depending on oil revenue, the main source of taxes in the country. The recent decrease in oil prices may threaten government´s aggressive expenses in healthcare and education reforms. s and can be watch listed.

Mexico

Since the signature of the Pacto por Mexico in December 2012, an agreement struck by the three main political parties, the country witnessed a variety of reforms. Peña Nieto was efficient in getting cross-party support and big improvements were done in 2013. Government was able to get approval for a landmark energy reform, bringing an end to a 75-year monopoly of state owned Pemex and by opening the oil and gas industries to private investment, freed up the labor market and has introduced competition to the telecom sector.

Despite the positive economic environment, sluggish growth was reported in the 1H2014 (+1.7% compared with the same period of 2013). The result was mostly associated with the impact of the tax increases in January 2014 and by a strong winter that hit the USA (about 80% of exports goes to the northern neighbor) in the first quarter of 2014.

Activity improved in the third quarter of 2014 YoY (2.2% against 1.6% in 2Q2014), but result came below agents forecast. Industrial production increased by only 2% YoY, mainly due to a drop in mining activity associated with a decrease in oil production. In counterpart construction reported a strong recovery (+4%YoY), after a long turmoil period. After a slim growth of 1.3% reported in 2013, Coface expects GDP to increase by 2.2% in 2014 and to get further rhythm in 2015, as we begin to feel the first effects of the oil reform. The first round of bids is scheduled to start in February 2015 and finish by September 2015. Government will tender 169 blocks covering 28,500 square kilometers.

Even though the reforms´ outlook is positive, President Enrique Peña Nieto has been facing his government´s most serious crisis since he took office in December 2012. On September 26 2014 43 trainee teachers of the southern state of Guerrero disappeared. According to Mexico´s attorney-general, based on the testimony of three detainees, they were kidnapped by local police following an order of Iguala´s mayor and then murdered by drug-traffickers.

This episode has raised two sensitive points: The country´s weak rule of law and government´s inefficiency in tackling violence and impunity. President popularity´s declined since then and other negative events further contribute to the deterioration of Nieto´s image. This may jeopardize the support of foreigner investors, reforms will never achieve its full potential in an environment without a minimum rule of law.

Inflation stands at 4.08% in 2014, above the Central Bank´s target range of 2-4%. Part of the recent increase is explained by the tax hikes and pressure over prices should remain along 2015, fuelled by higher agricultural prices, pass-through currency effects and by wage adjustments. Central Bank´s reference interest rates stands at 3%, the lowest level in record. Hikes will probably occur after the first half of 2015, as the US Fed is expected to deliver its first increase in interest rates in the second quarter of 2015.

TABLE 2

Mexico	2012	2013	2014 (f)	2015 (f)
GDP	4.0%	1.3%	2.2%	3.5%
Inflation	3.6%	4.0%	4.0%	3.5%
Private Consumption	4.6%	2.9%	2.1%	3.5%
Budget balance (1)	-4.5%	-4.1%	-4.2%	-4.0%
Public debt (1)	43.2%	46.3%	48.0%	49.0%
Exports of goods and services	3.5%	1.2%	6.5%	6.0%
Industrial Production	2.6%	-0.6%	2.7%	6.0%
Unemployment Rate (2)	5.0%	4.9%	4.9%	4.9%
Current account balance (1)	-1.3%	-2.0%	-1.9%	-2.0%

Pct of change in real terms, except (1) % of GDP and (2) % of labor force
Source: Inegi, Coface, IMF and Oxford Economics

Interview

Jonathan Heath
Economist and professor at the Universidad Autónoma Metropolitana UAM

Mexican Central Bank expects GDP to increase by 3.7% in 2015. Do you think this rate is achievable? Which components will push up activity?

The Federal Government has set projected growth for 2015 at 3.7%, slightly below the consensus forecast coming from financial institutions and other analysts, while many think that the Mexican economy can even grow above 4.0%. Most of the factors that limited growth to 1.1% in 2013 and have held it below 2% in the first half of 2014 have been overcome. Most important, non-oil export growth has been picking up in response to an improving US economy (the IMF is forecasting US growth above potential for the remaining of 2014 and 2015). Private investment is starting to respond and should slowly improve with new opportunities arising from reforms. Household consumption is also growing, albeit at a still slow pace. Finally, government spending, especially investment, should start impacting growth.

The energy reform was a landmark. How long will it take to feel the positive effects over the economy? Which are the main challenges to be tackled?

Investment outlays should start picking up going into 2015, but most of the positive effects should be felt as of the second half of the Pena Nieto administration (2016-2018). The main challenges will be in the solicitation and contract awarding processes, which will most likely be much less transparent than promised. Weak rule of law and security challenges will also be a major hurdle.

Construction was hardly hit in 2013, due to new rules in housing policy, drop in public works and delays in infrastructure development. Figures of 2014 show that this industry remains sensitive, but last June industrial production index for construction expanded for the first time in 19 months. Do you think this is a signal of a nascent recovery?

Construction activity must be broken down into its components to better understand what is going one. Residential construction has been growing (at a slow pace) since the beginning of this year and should pick up slowly throughout the next quarters. Nevertheless, it will be hard to visualize a return to past dynamics because many of the big developers lack resources. The component that has delayed an overall recovery in construction is public works and infrastructure, as it has registered a negative trend since the start of 2010. The amount of resources, however, which the Federal Government has promised in this direction, should turn the trend upward soon. The third component of construction, specialized projects, has been growing since the end of last year, but represents only a small percentage of the overall construction industry.

The penetration of loans in Mexico is one of the lowest in the region. Is the financial reform launched recently launched likely to revert this scenario? How do you see the credit performance in the near future?

Credit deepening should continue to improve over the years, as credit from the financial system to the non-financial private sector should grow systematically above GDP growth. It is not clear, however, that the new financial laws and reform will create the incentives to accelerate this growth in a significant manner. The major hurdles still facing credit growth are weak property rights and questionable rule of law in many areas. At the same time, the government's debt increase will be crowding out the private sector.

In April 2014 President Enrique Peña Nieto announced the National Infrastructure Plan, which expects to raise 7 trillion pesos (around 590 billion USD) from 2014 until 2018. This plan includes 743 projects in areas, such as energy, communication and transport. Do you think this target is achievable?

The target is achievable and the government will be prioritizing this Plan throughout the rest of Pena Nieto's administration. The main issues, however, are efficiency and efficacy (productivity and usefulness). Many of the projects may not really contribute to future growth in economic activity, while over-spending and corruption may prove to be major stumbling blocks.

Peru

During the last years Peru outperformed its Latin American peers, but GDP has slowed down in 2014. GDP grew by 3.8% in 12 months accumulated until the 3Q2014. Peru is a major producer and exporter of mineral commodities, such as gold, copper and silver. Around 70% of the country´s exports are commodities and China is the main destiny. The lower Chinese growth rhythm and its impact over international prices were felt in Peru´s economy. It is worth noting that mining segment was also hit by the combat of illegal activity, protests against the environmental effects, delays in Toromocho mine works and the by Yanacocha´s poor gold production.

Trade Balance is not the only impacted channel, investment as well is highly correlated with terms of trade. Total investment slumped by 3.4% years over year in the third quarter of 2014, achieving a contraction of 0.6% in 12 months accumulated. Public investments have been impacted by serious implementation problems in local and regional governments. Private investments have also fallen, due to a business confidence slow recovery.

In this manner, Coface expects GDP to shift from a 5.8% growth in 2013 to 3.6% in 2014. Despite the slowdown, fiscal figures remain sound and the Central Bank may reduce interest rates from current 3.5%, in order to boost economy. Activity should recover pace in 2015, with rebound of mining production, still low unemployment rate (5.7% in October 2014) and solid credit growth (+17.1% in 12 months until the second quarter 2014). Construction is expected to recover rhythm, as infrastructure gets momentum and retail and services segments will maintain its strong performance.

TABLE 3

Peru	2012	2013	2014 (f)	2015 (f)
GDP	6,0%	5,8%	3,6%	5,0%
Inflation	2.7%	2.9%	3,0%	2.2%
Private Consumption	6.1%	5.4%	4.1%	5.1%
Budget balance (1)	4.4%	3.3%	3.2%	3.2%
Public debt (1)	21.2%	20,0%	19.3%	19.2%
Exports of goods and services	2.3%	-3.8%	-2.1%	5.5%
Unemployment Rate (2)	6.8%	5.9%	6,0%	6,0%
Current account balance (1)	-3.3%	-4.5%	-5.2%	-5,0%

Pct of change in real terms, except (1) % of GDP and (2) % of labor force
Source: Inei,Coface, IMF and Oxford Economics, EIU

Sector Barometer

Coface´s sector barometer reveals financial performance of companies in different industries coupled with Coface payment experience. In Latam the general outlook stands between medium and high risks. The result is also achieved based on a weighted average of the countries´ GDPs. It is worth noting that the five main economies are respectively Brazil, Mexico, Argentina, Colombia and Chile. Together they represent 83% of the region's GDP. In this manner countries that are growing at a lower rate (Brazil) or are even expected to contract this year, such as Argentina, have a significant rate in each regional sector barometer.

In a context of slower regional GDP growth, many sectors reported a deterioration of its risk perception. Below we will discuss the outlook of each segment.

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

Agro-food: medium risk

In Brazil the agro segment is expected to achieve record crop and rural credit supply has increased. However, profitability has been impacted by lower international prices, higher interest rates and costs (significant dependence on imported fertilizers). In Chile, Ecuador and Peru the scenario is also of medium risk.

In counterpart perspective are of high risk in Mexico, Argentina and Colombia. Mexican food segment was impacted by higher taxes implemented in January 2014. For Argentina agriculture is a crucial source of dollars (especially soya). Many farmers prefer to delay crop sales, due to lower international prices and as they expect high devaluation of the Argentinean Peso (in addition to the one of end January 2014). The enactment of the Supply Law in September 2014, which allows the government to intervene in the pricing and output levels of large companies, should penalize those who accumulate raw materials or products.

Retail: medium risk

Scenario diverges among the region. In Brazil risk remain at medium level, as sales slowed down due to lower growth in real wages and credit condition has deteriorated. In Argentina current environment is also of medium risk, in accordance with economic recession and the effects of high inflation over real disposable income. In Mexico, Peru and Colombia risk stands at moderate level. The first one reported a weak first half of 2014, but activity is expected to get momentum as consumers get adapted to the taxes implemented in late January. In the other two remaining countries retail segment have good opportunities, as a result of rapid growth, declining unemployment rates and higher real wages.

Textile-clothing: high risk

Risk is at high level in almost the whole region. The Asian relatively cheap tissue is a threat to local industries and imports has been increasing, without rebound signal. Lack of competitiveness is mainly explained by high labor cost, fierce competition, high tax burden and weak financial administration (many companies are subject to familiar management).

Metals: high risk

China is responsible for 50% of world´s total steel production and consumption, so its representativeness to determine international price is very meaningful. Many Chinese steelmakers are state-owned and the decision of how much to produce does not necessarily connected to economic reasons, implying in world steel over supply and so lower prices. In Brazil the segment was also impacted by the lower demand of its main consumers: automotive, construction and capital goods industries. In Argentina the sensitive scenario of its automobile industry has also impacted the metal industry. The scenario is of medium risk in Mexico, Chile, and Ecuador. In Mexico sector is benefiting from the strong performance of the automobile and manufacturing segments. In the near future the landmark oil reform will increase the steel demand in the country.

Automotive: medium risk

Along the region risk is at high level in Brazil, Argentina and Chile. After many years of solid growth, Brazilian auto industry reported a difficult 2014. Production decreased by 15.3% and sales contracted by 7.1% in 2014. The main reason are the lower economic activity, deteriorated credit conditions, new security rules and tax hikes implemented in January 2014. Brazilian and Argentinean auto market are closely linked to each other, so the crisis that the latter one has been experienced (recession and lack of international reserves) has also impacted the first one. In Chile the scenario is also challenging. Sales decreased by 10.8% from January to November 2014, as consumer spending has softened considerably in recent months. Confidence indexes are slowing down and investments are waning, due to lower copper international prices and the tax reform that is expected to take place in the near future.

On the other direction, risk is moderate in Mexico. Since the implementation of NAFTA in 1994, Mexican´s auto production has taken a big leap and became export oriented. It has benefited from its proximity to the USA and the cheap labor force, which makes the country very competitive. Many assemblies have been opening new plants in the country. Production increased by 7.5% and sales expanded by 4.5% in the first nine months of 2014 compared with the same period of 2013. Activity also slowed down in Peru in 2014, after strong growth in the last years. Delays in investments can be pointed as the main reason and it should rebound in 2015.

Construction: high risk

In Brazil the perspective is negative to the corporate segment, due to oversupply of real estate releases against weak demand associated with slowdown in economic activity. For homebuilder's scenario is slight better, due to country´s housing deficit and strong mortgage credit supply. The year of 2014 will be marked by slowdown in infrastructure investments, which is very common in presidential election years. In the three first quarters of 2014 the segment decreased by 5.1% compared with the same period of 2013. Outlook in Chile, Argentina and Colombia are also sensitive. The first two cases can be explained by sharp decrease in country´s investments rates. The latter increased by 3.7% in the three first quarters of 2014, but late payments have been reported.

In Mexico segment underwent difficulties in 2013 (see details in part 3), due to the new rules for housing market, economic slowdown, drop in public works, delays in infrastructure development and in government´s payment. In 2014 activity remain weak, but it's expected to get momentum with the 2014-2018 National Infrastructure Plan announced in April 2014. Government expects to reach MXN 7.7 trillion pesos (568 bi USD) in public and private investments.

Chemical: high risk

The region as a whole faces lack of competitiveness due to relatively high costs. In Brazil for instance, chemical trade deficit stands at 31.5 billion USD in 12 months until October 2014. Notwithstanding, the shale gas exploitation by the USA has also revolutionized the global cost chain. Countries in Latam, such as Brazil, Mexico and Argentina, hold reserves of this gas, but production has not begun yet. The Mexican energy should positively impact their local industry in the medium term. Despite the general sensitive outlook for Latam´s chemical industry, the recent drop on oil international prices may positively contribute reduce naphta´s cost used as raw material in the industry.

Pharmaceuticals: moderate risk

Despite the lower growth of disposable income in many countries in recent period, it has improved if we consider the last decade. These have contributed to boost pharmaceutical industry in Latam. In most of the countries, Industry has been increasing in a much higher rate than the general industry.

Part III

Sectors

In this section we will focus on two segments of the Mexican and Peruvian economies. In this edition the industries are construction for Mexico and mining for Peru. The first faced turmoil in 2013 and now is starting to recover. The second one is major sector of the Peruvian economy and has passed to a slowdown in activity in recent months.

Construction in Mexico: finally rebound signals

2013 was a year to forget to the Mexican construction segment. It contracted by 5.6%, mainly impacted by the housing policy changes conducted by the government and by delays in infrastructure projects. Activity remained weak in the first half of 2014, but it has started to report rebound signals. In the third quarter of 2014 construction increased by 4% YoY, against -0.6% in the 2Q2014 and -2.2% in the first one.

As president Enrique Peña Nieto took office in 2012, he decided to shift the housing policy of his predecessor. The former model was based on constructing housing estates in remote areas where land was cheap, notwithstanding access to transport, water and electricity were either expensive or difficult. In this manner, the new government has encouraged the building of skyscrapers closer to the city centers instead. The turning point from one model to the other caused a turmoil in the housebuilders' finances, due to high inventory level and the higher cash flow necessity of the new standard. Out of the four largest companies of the segment, three defaulted on their debt. Two were suspended from the Mexican Stock Exchange in mid-2013 and the third one in 2014.

The market has been rehearsing a recovery in 2014, as the remaining companies started to get used to the new environment. The segment activity reported a first marginal high in March 2014, after 15 consecutive months of contraction on a yearly comparison. According to the last available data, a boost of 6.8% was verified in October 2014 compared with the same month of the previous year.

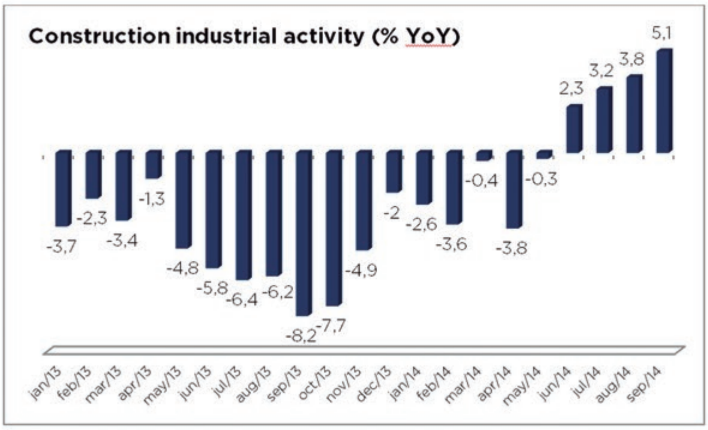
Infrastructure works was also strongly hit in 2013, due to changes in government. This caused some delays in works and payments. Breaking down to construction of civil engineering works, segment contracted by 6% in 2013. Activity is still weak, but it is expected to get momentum with the 2014-2018 National Infrastructure Plan (NIP). The MXN 7.7 trillion (568 bi USD or 45% of GDP) budgeting amount was considered very aggressive by the market and more than double the value proposed by the former government. The majority of the resources (3.9MXN or USD) should be directed to the energy sector, in line with the landmark energy reform approved in end 2013.

Furthermore together with communication, transport is also expected to be a major focus and to achieve MXN 1.3 trillion (96 bi USD) in investments considering the same timeline. Lead to the modernization of country´s infrastructure, projects to improve airports, roads, highways, railways and ports will be launched. The two last ones are expected to outperform the other ones.

It is worth noting that urban planning and housing are also expected to benefit from the NIP, as they were included by the first time in the 2014-2018 Program. The budgeted amount is of 1.9MXN (140 bi USD), the second-largest investment ´s receptor. The low penetration of loans in the country is also a challenge to this segment. Assets to GDP stand around 40%, one of the lowest in the region. In support to open up the market, in July 2014 Infonavit (the largest mortgage provider in Mexico) raised the loan maximum threshold to MXN 850 thousand (63 thousand USD) and has turned possible to pay in 30 years with fixed rate in local currency.

Growth is expected to get momentum in 2015, as country´s activity picks up, as it started to verify the first positive effects of the energy reform and with the 2014-2018 National Infrastructure Plan. The speed and the intensity of this recovery will depend on how successful the government will be in materializing all these projects. The big issue will be to attract private investment, which implies an environment of strong and clear rules. On November 2014 government gave a negative signal to the market, as they decided to cancel a train deal with a Chinese -led consortium and seek new bids after the legality of the process was questioned.

CHART 4

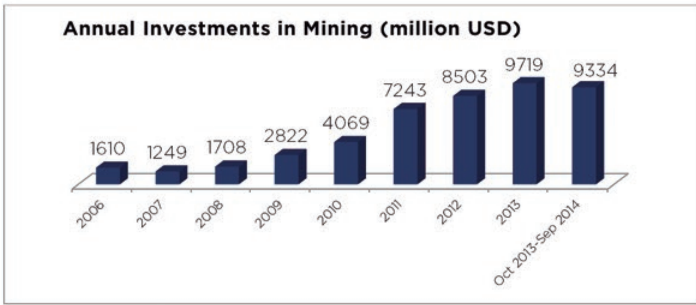


Source: Inegi

Mining in Peru: weaker environment in 2014

Peru currently occupies the 7th place among the Top 10 leading mineral- producing countries. It is the largest producer of gold and silver in Latam and the second main supplier of copper. The activity represents around 14.7% of the country´s GDP and is responsible for 55.9% of all exports. The period of political stability that took place after Fujimori's departure in 2000 and the Chinese demand for mineral commodities rapid growth encouraged strong investments inflows into the mining sector in recent years (see chart 5). Despite its leading position 2014 has proven as a negative year to the industry and outlook will remain sensitive in the short term. Investments, for instance, dropped 4% in 12 months accumulated until September 2014.

CHART 5



Source: Minem

The lower world economic activity, specially the slowdown in China´s growth rhythm has impacted the world international prices of the main commodities. With exception of zinc, all other mineral commodities produced by Peru reported a decrease in its quotation from the 2013 closing to the end September 2014 (see table 4). This impacts Peruvians GDP through exports, which represents 24% of total activity. From January to September 2014, mineral exports dropped by 21.2% compared with the same period of the previous year.

TABLE 4

Major Metals Quotation					
	Copper (US$/Lb.)	Lead(US$/Lb.)	Zinc(US$/Lb.)	Silver(US$/Oz.)	Gold(US$/Oz.)
Dec 2013	332,32	97,17	86,65	23,86	1411
Sep 2014	311,72	96,26	104,06	18,37	1238,82
% change	-6,20%	-0,90%	20,10%	-23,00%	-12,20%

Source: London Metal Exchange (LME) and BCRP

The lower international prices also reflect over investments. In accordance with the high representativeness of this industry in the country, deteriorations in the terms of trade are associated with reduction in investments. For instance, it contracted by 5.9% in the first nine months of the year.

From January to August 2014, mining activity contracted by 1.43%, mainly due to lower copper and gold production (together they represent 50.8% of the total). This slowdown was not only caused by lower international prices, but also reflects the effect of government´s combat against illegal mining in the country. Informal mines are estimated in 25% of the country´s total sample. Furthermore delays were also reported in investments plans, impacting productivity.

Local protests against the environmental effects of mining activity have also played an important role, as they impact negatively over project development. The country has been reporting some violent protests by local communities in mining areas fighting against the environmental impact of mining activity. The most notorious was regarding the Conga cold mining project which was suspended at the end of August 2012.

Generally the lower international prices, delays in investments delivery and protests will continue impacting mining activity in the country. The segment GDP is expected to contract in 2014, but should recovery in 2015 as investments in new mines and in expansion gets mature.

[1] Mining territory is defined as a region where the segment represents 4% or more of the regional economy.

Part IV
Conclusion

Activity in Latin America should not increase at the same rhythm as before in 2015, mainly due to lower commodities international prices. According to Scotia Bank, commodities account for 45% percent of the regions exports indeed. In Brazil and Argentina soft commodities are the most representative ones. Colombia depends basically on oil prices and Chile, while Colombia and Peru are more sensitive to mineral ones.

The intensity of the effect in each economy depends also on the representativeness of exports in 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%).

This end of the commodity boom will affect sectors by various ways. Admittedly commodity exporters will feel the pain of lower international prices (like the metal sector for example), but sectors depending on commodities as inputs could benefit from this trend. In addition, some other sectors are immune from international commodity price fluctuations are assessed by Coface as moderate (like the pharmaceutical sector) or average risk (like retail and automotive). Finally, weaker commodity prices reveal weaknesses of the non-commodity sectors. Industries among Latam face big challenges such as low productivity, inadequate transport infrastructure, high bureaucracy and weak rule of Law in some cases. Deal with this limitations and work to shift this scenario is key to achieve long term strong growth rate.