

# Video transcript

## Latin American outlook

Andre Loes, Chief Economist for Latin America, HSBC

**Chris Brown-Humes, Managing Editor for Global Research:** Hello, I'm Chris Brown-Humes, Managing Editor for Global Research. I'm joined from São Paulo today by Andre Loes, our Chief Economist for Latin America, to discuss his latest quarterly report on the region.

**Andre, you've just cut your forecast for LatAm. What explains this?**

**Andre Loes, Chief Economist for Latin America, HSBC:** Yes, Chris. There has been an across-the-board downgrade for GDP growth forecast in the region. We are now forecasting the region to grow on average, 2.7 per cent this year. In the beginning of the year, we were forecasting this to be closer to 3 per cent. We have slashed down many countries in terms of the GDP growth forecast. The reason why the reduction, in the average, for the region has not been bigger than that is just because Brazil is rebounding from a very low growth in 2012 when the country grew only 0.9 per cent.

**So what are the main drivers behind this downgrade?**

I would say we have three reasons. The first one is that China is slowing down, as has been pointed out by our China economics team, and this has direct impact in many South American countries. The second is that, with China slowing down, you also have an impact in commodity prices - another important point. This materialises in terms of growth for the region in three channels: last exported values, a problem with investments which are commodity related in the region that may not be viable with lower commodity prices and a negative wealth effect which will hurt consumption. And the third reason is more country specific. You have in many countries of the region problems with political uncertainty, business and consumer sentiment which is hurting domestic demand.

**Andre, let's turn to the two big economies in your region, Brazil and Mexico. What's their outlook?**

Yes, Chris. Brazil is one of these economies where these country-specific reasons I mentioned is clearly more important. First-quarter GDP came in disappointing. China also has some impact in our downgrade from 2.6 to 2.4 per cent forecast for this year. Rising inflation is touching consumer and business sentiment and recently, street protests have also added to the uncertainty of the picture. So we see Brazil with this combination of modest growth and sticky inflation from now to the presidential elections of October 14. In the case of Mexico, the weakness of the growth in the beginning of the year was basically related to the US growing less than expected in the first quarter and also to the fact that this was a new government. Of course, typically, the governments, they don't spend much in the beginning of the term. But we see a better picture in the second half for Mexico with the US set to grow more and the government starting to speed up its spending.

**Looking more broadly across your region, what scope do countries have to make a policy response?**

Well, Latin America still retains a lot of policy fire power, although it's less than it used to be five years ago and it's unequally distributed among the region. You have countries like Peru and Chile which are bright spots. They have a lot of leeway to respond and to unleash counter-cyclical policies. Countries like Colombia, Mexico and Brazil have reasonable policy fire power, less than the two countries I mentioned before. And in the case of Brazil, I would say that, at the margin, the higher inflation situation is reducing part of the leeway that the country has in monetary policy. And then you have countries like Argentina and Venezuela which are on the weaker side of the spectrum. Argentina with very high inflation - 25 per cent - already accelerating the fiscal easing. If you have an additional external shock, it's very difficult for this country to react and really smooth this with other policy measures. The same for Venezuela.

**And looking at monetary policy, which countries do you expect will be cutting interest rates in the second half of this year and which will be raising them?**

We only expect Chile to cut interest rates this year going forward in the region of 50 basis points. Colombia already cut a lot from last year up to some months ago so pre-emptively has eased monetary policy. Mexico did already a 50-basis points cut. And a country like Brazil, because of the reason I mentioned in terms of the very sticky inflation,



has been obliged to hike interest rates instead of cutting, despite of the fact that growth is weak. We expect Brazil to hike another 150 basis points from now to year end. An important point is that in a region where current-account deficit has deteriorated over the last year, a more external, a more challenging external environment has the risk of putting more pressure on the exchange rates for more depreciation. These of course could be a limitation for monetary-policy easing in the different countries of the region at some point.

**Andre, thanks for joining us today.**

My pleasure, Chris.