COFACE ECONOMIC PUBLICATIONS

SEPTEMBER 2017

By Patricia Krause, Coface economist based in São Paulo

Time to address the infrastructure gap in Latin America

2

WEAK DEVELOPMENT OF INFRASTRUCTURE IN THE REGION
Poor record in improving investment rates

Inadequate infrastructure – a major hindrance to regional competitiveness

4

Public – Private Partnerships a solution for restricted government budgets

7

THE ROLE OF REGIONAL GOVERNMENTS IN WEAK INFRASTRUCTURE
Political environment undermines the attractiveness for private investors

Improving the outcome of infrastructure investments

During the commodity super-cycle that lasted over a decade, until around 2014, Latin American economies showed robust performance.

Growth was possible even in the context of generally weak infrastructure. Higher revenues from the exports of primary goods led to the expansion of public and private domestic consumption. Activity throughout these years was driven by the flourish of an emerging middle class and by populist governments that disregarded the cyclical feature of commodities. The setback in international prices, which became more apparent as from mid-2014, had strong repercussions on growth and exposed vulnerabilities in the region. The ensuing weaker terms of trade caused the depreciation of Latin America's floating currencies against the USD. This depreciation was not enough to boost the competitiveness of manufacturing goods and instead led to the deterioration of trade balances. This, in turn, prompted large twin deficits in the region's current and public accounts. Following two years of negative growth, regional activity is expected to emerge from recession in 2017. Nevertheless, Coface forecasts a somewhat lackluster performance, of just 1.2%.

The poor performance of recent years highlights the region's competitiveness challenges. This problem results from a combination of factors, including labour regulations, heavy taxes, general education levels, bureaucracy and weak infrastructure.

This Panorama analyses indicators in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Peru, with a particularly sharp focus on the weaknesses of the region's infrastructure – a major factor in its economic slowdown. The Economic Commission for Latin America and the Caribbean (ECLAC)[1] estimates that the region needs to invest 6.2 % of its annual GDP, for the period from 2012 to 2020 (roughly 320 billion dollars), in order to eliminate the gap between supply and demand. This is far above the current level of investment, as none of the region´s major economies is currently investing more than 3 % of its GDP in infrastructure.

With public expenditure under pressure, Public Private Partnerships have gained strength in the region. According to the Economist Intelligence Unit Index for PPP investments, Chile, Colombia and Brazil provide, respectively, the first, second and third best environments for private public partnerships. Overall, the environment for fostering these partnerships has somewhat improved, due to better legislation, but there is still room for further development. Lack of transparency, unappealing conditions and limited sources of funding are just some of the issues that still need to be addressed. Last but not least, public infrastructure works are still associated with corruption in many countries – as witnessed by the escalation of political scandals recently. If foreign investors are to be attracted, these events need to be combated with tougher sentences.

1/ Economic Infrastructure Investment in Latin America and the Caribbean Bulletin number 332

ALL OTHER GROUP PANORAMAS ARE AVAILABLE ON
www.coface.com/Economic-Studies-and-Country-Risks

coface
FOR SAFER TRADE