

Chapter 1 of 3: Connecting to growth in Latin America; the macroeconomic picture

Silvia Pavoni	<p>Hello and welcome. My name is Silvia Pavoni, Economics Editor of The Banker and I will be presenting the third in a series of 5 videos we are doing with HSBC titled "Connecting to Growth". We are going to talk about Latin America today and investment opportunities in infrastructure. I'm joined by HSBC Global Head of Infrastructure Arturo Recio and the bank's Global Head of Infrastructure Finance, Stuart Lea.</p> <p>Now, Latin America as a region has really enjoyed quite healthy economic growth levels. This has been coupled with a more stable picture on the political side and on the micro-economic side. But it has also meant that the region's infrastructure needs are becoming bigger and bigger, and we are closing on this infrastructure bottle neck really, if we want to call it so. So, what was behind the region's economic growth and what opportunities lie ahead for the private sector in this space?</p>
Stuart Lea	<p>Well I think in terms of the growth itself it's coming very much from the population growth, it's been in part driven by the resources aspects within the region, and I think it's also driven by a greater level of political stability within the key countries that are driving this growth. And I think that in looking at corporates, looking at banks, looking at investors, there is a very strong appetite to get involved in infrastructure. There's also a very strong linkage between expenditure on infrastructure and therefore economic growth. It's very much a facilitator of economic growth. And when these investors look at where to put their capital around the world, there's typically more capital than opportunities. And I think with less opportunities being apparent in the core markets of Australia, of Europe, perhaps of North America, I think it's been a virtuous circle of excess capacity to invest in infrastructure and then separately this wonderful economic growth story in South America and this improving framework for tenders, this improving political stability and therefore we see it as a very good opportunity for matching investor's desire for long term, stable assets with a very strong demand locally within Latin America for infrastructure to be built.</p>
S.P	<p>So there is...there are lots of opportunities but are you also seeing in the private sector, whether from Latin America or international, investors actually investing in the region?</p>
Arturo Recio	<p>Well actually the main issue here is that the needs of infrastructure are so great that, potentially, the local financing levels available plus the local groups which many of them are actually very credible, very professional conglomerates, I think now they need to be complemented by new equity, people that are actually bringing new, fresh money in order to actually complete the projects, they bring new expertise to certain areas of the infrastructure world. So I think it's a combination of both. In that there's a need for more equity, more capital and actually bigger and more complex projects as well. So I think that that's the main...those are the main characteristics.</p>
S.P	<p>Where are you expecting this equity, this money to come from? From construction companies? From corporates? From institutional investors? From other kinds of sources?</p>
S.L	<p>It's a combination of all of those, and I think that in looking at regions in which investors aren't based today they are looking at all the factors in terms of a deal pipeline, stability of regulation and legal rights within contracts. And I think if they can see that pipeline of transactions, not just in one country but in more than one country, they will use that to base themselves in the region</p>

	<p>and see that as a 5 to 10 year window for investing rather than going into the country for a specific project, a one-off, and returning. So I think there is the development money locally, both within the development banks, both within the corporates locally, but to really drive that growth in infrastructure, as Arturo mentioned before, we need to also attract this capital source from outside of the region into the region to complement what's there already locally.</p>
A.R	<p>I think, obviously, traditional corporates such as the Spanish companies that you have seen, Latin America has a very important market. I think they have been complemented by other companies coming from Asia, they see very much an opportunity in the resources and energy on the infrastructure in general. I think you see other investors on the infrastructure, financial investors, that they were thinking of Latin America as a potentially...more of an unknown market, but given the opportunities in countries such as Mexico, Brazil, they are opening up their minds to actually these type of economies and opportunities so you actually see a bigger number of potential investors in many of their transactions.</p>
S.P	<p>Very good, so we've set the scene for Latin America, it's economic growth and potential, and we're now going to move on onto specific projects that may be of interest.</p>