

Euler Hermes: Low oil prices to cut Latin American growth by 0.4pp

SÃO PAULO, Brazil – 9 MARCH 2015 – [Euler Hermes](#), the worldwide leader in trade credit insurance, estimates that dramatically lower oil prices will negatively impact Latin American trade and fiscal balances, shaving 0.4 percentage points from regional real growth. Euler Hermes’ latest report also reveals that real GDP will slow to around +0.5 percent in 2015, compared to the +0.9 percent estimated for 2014.

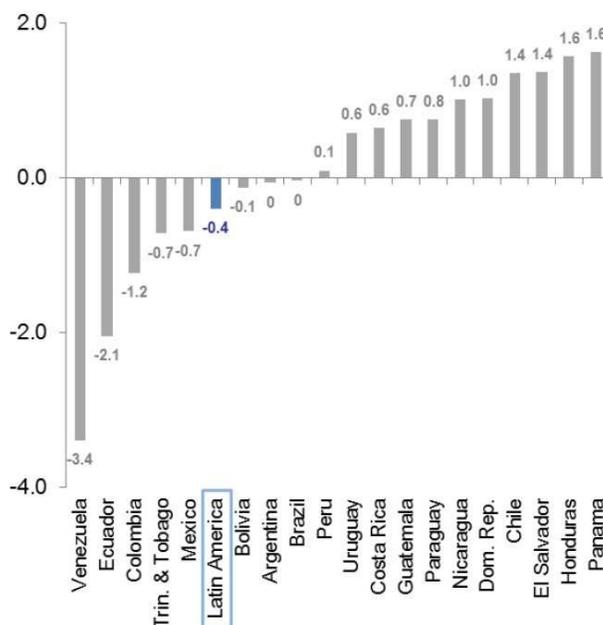
“This decline in oil prices will be an additional threat to an already dangerous landscape, making 2015 a very challenging year for Latin America,” said Daniela Ordonez, Euler Hermes economist for Latin America. “In addition to low oil prices, the fall in other commodity prices will affect the value of regional exports. The slowdown in China – the main Latin American export market – and still sluggish demand from developed markets will continue to weigh on export volumes.”

The fall in oil prices since July 2014 has been drastic, with Brent crude plummeting by over 50 percent to its lowest level since 2008. While prices are expected to gradually recover in the coming months, they will remain comparatively low. Euler Hermes estimates the annual average to be around US\$64/barrel in 2015, 40 percent lower than the 2012-2014 average. This unexpected nature of the reversal trend will be a game changer for Latin American economies, which were largely dependent on oil price expectations of US\$100/barrel or above.

The effects of the oil price decline will vary sharply between countries.. As Brazil has recorded broadly-based external and fiscal oil accounts, the impact on real growth in the short term should be minor. However, in the medium term, the country’s oil sector investment plans may be adversely affected the longer oil prices remain at low levels. This could discourage investment in the exploitation of the Brazilian pre-salt oil reserves.

“Brazil’s major short-term risk centers on the investment outlook for Petrobras, as several planned investments could be delayed or canceled based on oil prices,” said Rodrigo Jimenez, CEO of Euler Hermes Brazil. “As Petrobras accounts for 10 percent of investments in Brazil, this could have a huge impact on economic growth.”

Direct effect of a 40 percent fall in oil prices on real growth (percentage points)



Source: Euler Hermes

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Euler Hermes' regional headquarters for the United States, Canada and Brazil is located in Owings Mills, Md. Founded in 1893, Euler Hermes is North America's largest and longest-established provider of trade credit insurance and accounts receivable management solutions. The company protects and insures around \$120 billion of regional trade transactions annually, serving small, medium and multinational clients across a range of sectors. The company employs 430 people regionally and serves clients from more than 50 locations in North America and Brazil.

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