

MARKET TALK: 2022 OUTLOOK

LOANS

Latin America is poised for a rise in loan activity in 2022, as banks dip into the cash reserves they built up during the pandemic. Mexican companies likely will be the busiest borrowers, while Brazil and Colombia could see declines in the run-up to presidential elections.

BY RODRIGO ALONSO CRUZ

Loans activity is expected to grow in 2022, as banks seek opportunities to use the cash reserves that they amassed during the COVID-19 pandemic for growth.

Banks are in a good position to do this. After the onset of the pandemic in March 2020, they managed their capital reserves and solvency levels prudently, helping them to emerge on better footing to return to growth. The region's banking sector, indeed, posted a 17% increase in net profits to \$12.4 billion in March 2021 from \$10.6 billion a year earlier, according to data from the Latin American Banking Federation.

A busy loan market in the region will be Mexico.

“We’ll see reactivation in the investment plans of various companies,” says Alonso Molina, head of investment banking and finance at BBVA México. This will create a host of “refinancing opportunities.”

This may not come as a surprise to banks. Mexico led loan activity in the fourth quarter of 2021 at \$5 billion, followed by Colombia at \$4.1 billion and Brazil at \$3.1 billion, according to data from Dealogic. The lending in Mexico, however, was less than the \$8.1 billion in the year-earlier period, while activity in Brazil and Colombia increased over the same period.

The year-on-year decline in loan activity in Mexico stems largely from the country's sluggish economic recovery, says Janneth Quiroz, chief economist at the Mexican brokerage firm Monex.

Mexico's economy rebounded with 6.2% growth in 2021 from a pandemic-led contraction of 8.3% the previous year, according to data from the International Monetary Fund (IMF). The economy is expected to slow to 4% in 2022, the IMF forecasts. Quiroz, however, says it could be even slower at 3%.



Alonso Molina

At BBVA, Molina says that despite his bank's ample supplies of money for lending, many corporations have reduced their demand for loans, making it harder for the bank to sustain its loan portfolio levels.

Most of the loan activity, Quiroz says, will be the health care, electrical appliances, manufacturing, power generation and storage services in the first half of 2022.

Mexico Leads Loan Activity

in billions

	Deal Value Q4 2021	Deal Value Q4 2020
Mexico	5 8.05	
Colombia	4.05 1.16	
Brazil	3.12 2.62	
Chile	0.38 2.7	
Peru	0 1.02	
Guatemala	0 0.52	
Panama	0 0.18	

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Politics could slow loan demand in Brazil and Colombia, both of which face presidential elections in 2022.

A sign of what could happen is in Chile, where the run-up to general elections at the end of 2021 depressed the appetite for loans.

Many projects that require financing in Chile are “on standby” because of the elections, says Matías Zegers, co-managing partner at DLA Piper Chile, a law firm.

When activity revives, it is likely that energy companies will lead on the demand side, he adds.

“The market that is hottest right now and that will continue is energy,” he says, led by generation projects with power-purchase agreements in place, as well as small to medium distributed generation projects, says Zegers. LF

Top 5 LatAm and Caribbean Loans Deals

Sept 1-Nov 30, 2021

Pricing Date	Deal Type	Deal Value USD (Proceeds) (m)	Company	Company Nationality	Currency
Oct 27 2021	Leveraged	4,000	Ecopetrol SA	Colombia	US Dollar
Oct 29 2021	Leveraged	3,250	Cemex	Mexico	US Dollar
Nov 19 2021	Investment Grade	2,000	Vale SA	Brazil	US Dollar
Sep 13 2021	Investment Grade	1,750	Grupo Bimbo	Mexico	US Dollar
Oct 28 2021	Leveraged	625	Natura Cosméticos SA	Brazil	US Dollar

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