



Covid-19 Upends Latin America

Latin America Macro Outlook Quarterly Update

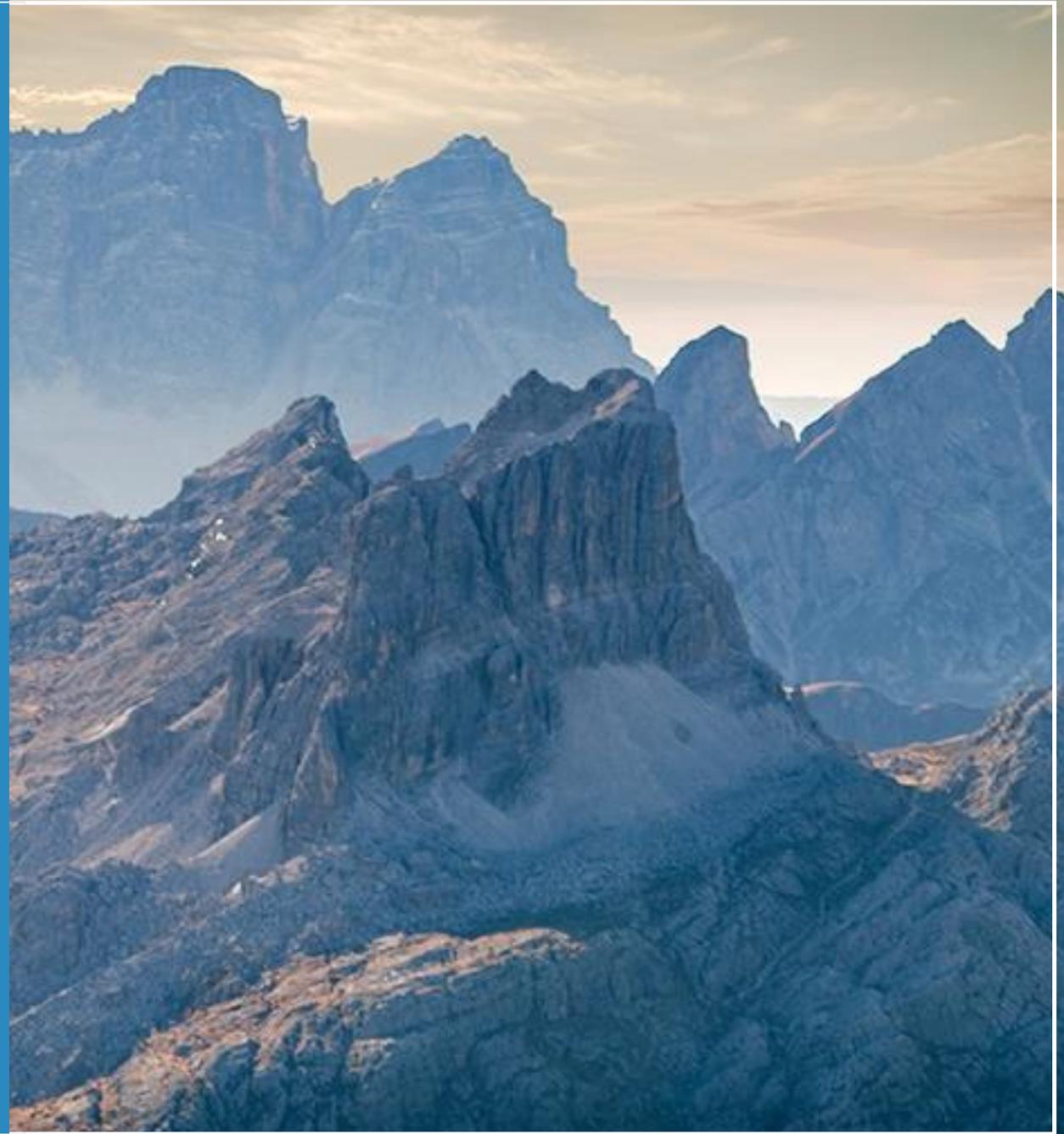
26 March 2020

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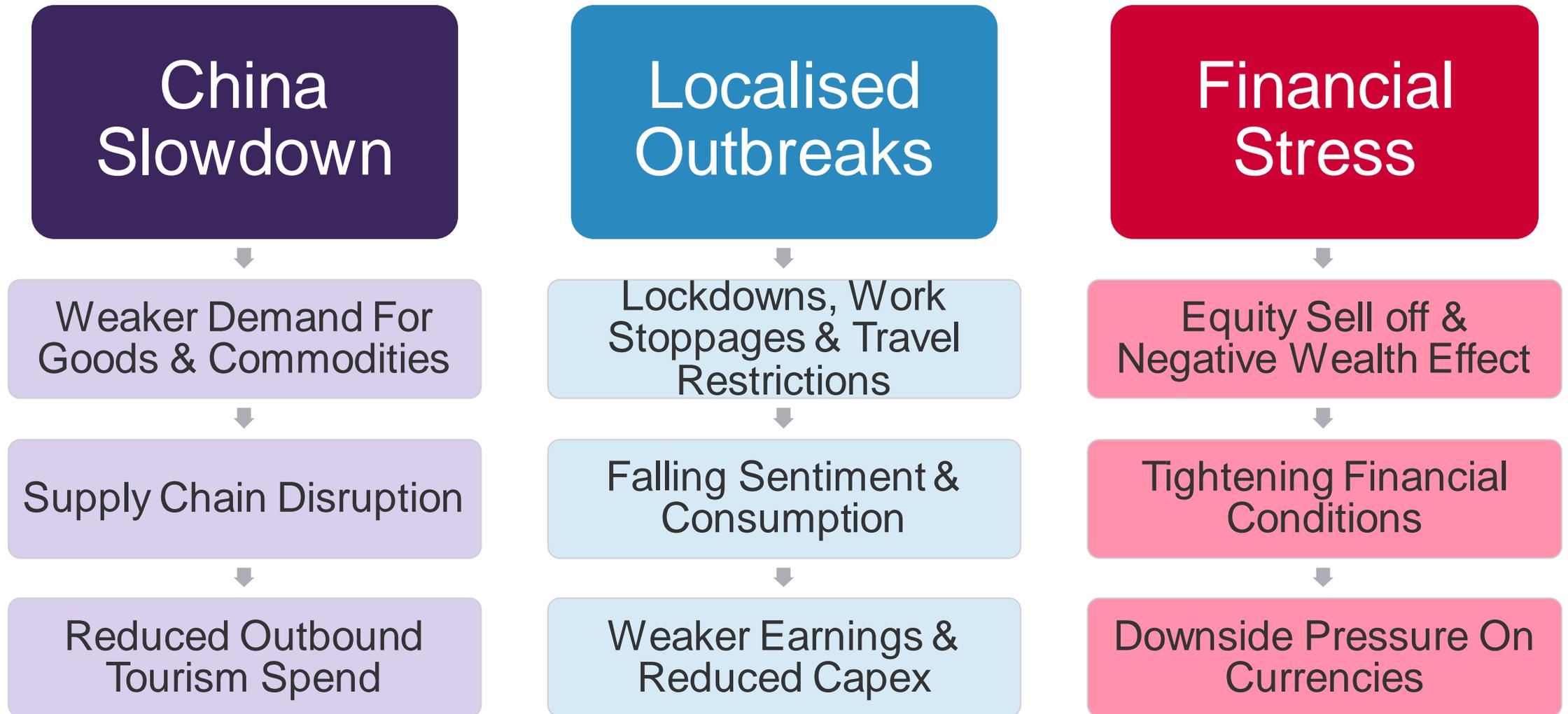
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Covid-19 Feeding Through Three Main Channels

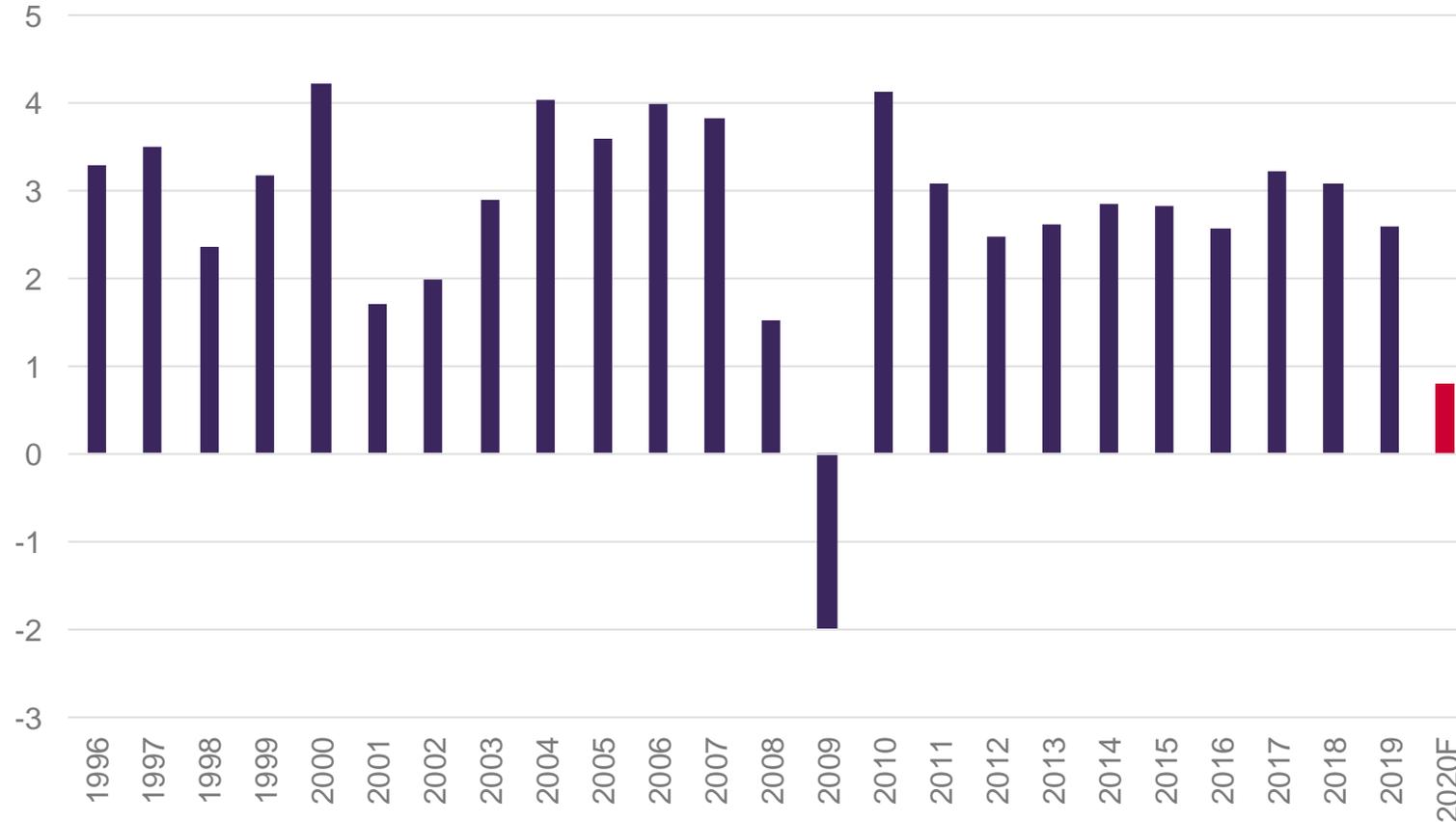


Source: Fitch Solutions

Global Economy Falling Into Recession

Downside Risks To Global Growth of 0.8% In 2020

Real GDP, %



Source: IMF, Fitch Solutions, F = Fitch Solutions Forecast

- We forecast the global economy to fall into recession in 2020. Growth will come in at around 0.8% y-o-y, but could fall lower, and even turn negative.
- Multiple Covid-19 outbreaks will cause both a supply and demand shock to the global economy as economies go into lockdowns.
- Moreover, the sharp tightening of financial conditions is leading to substantial funding pressures and liquidity constraints for businesses.
- We believe that the global economy could start to emerge from recession by late Q420, given that recessions since 1948 have averaged about 10-12 months.
- That said, this view is contingent on authorities being able to contain the spread of the virus in the next two months.

Revisions To Global Growth May Continue For Weeks

Recent Changes To Key Forecasts, More To Come

Real GDP, %

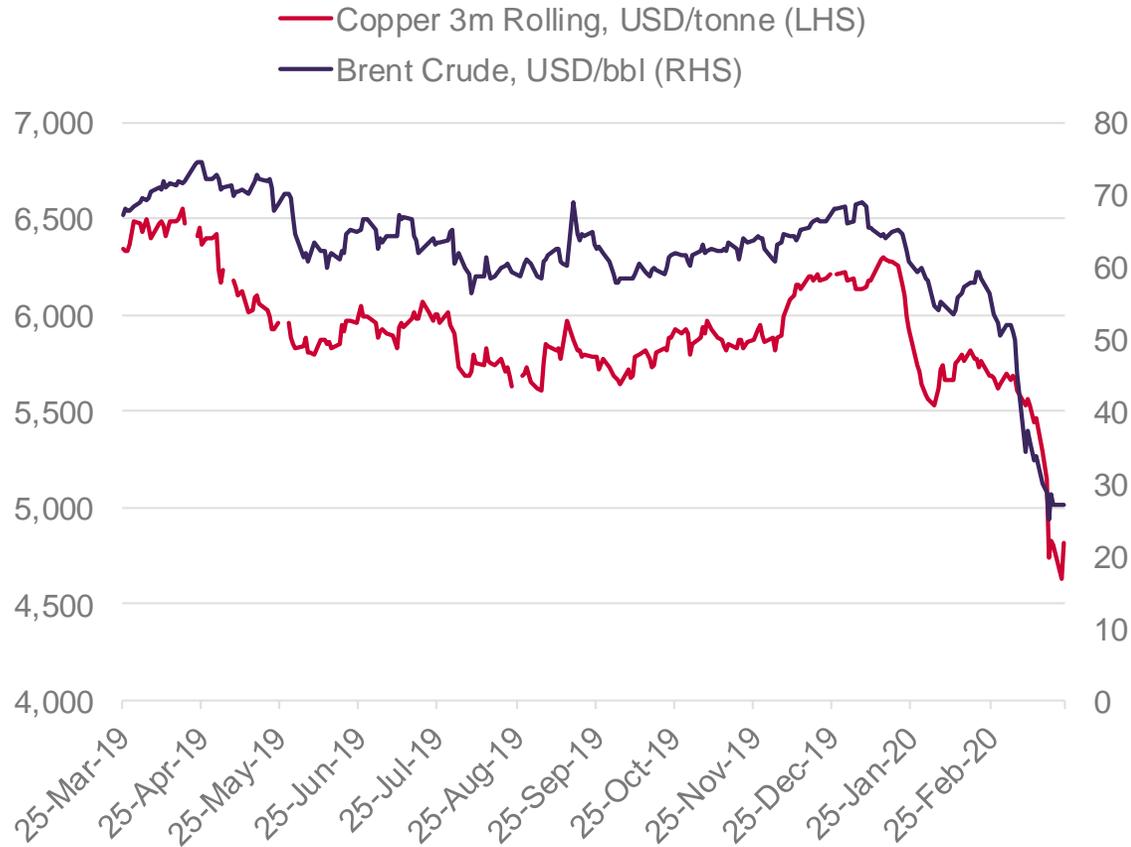
Country	Previous Forecast	New Forecast	Country	Previous Forecast	New Forecast
US	0.9	-1.0	Spain	-1.2	-2.0
China	4.2	2.6	Germany	0.2	-1.0
Japan	-0.2	-1.1	Greece	2.0	-0.3
Philippines	6.0	4.0	Italy	-2.1	-2.9
Indonesia	5.1	4.8	Turkey	3.0	0.4
Australia	2.0	1.6	Russia	1.4	-0.1
France	-1.0	-1.8	South Africa	0.2	-1.9
Brazil	1.6	-1.9	Mexico	-0.2	-2.8

Source: Fitch Solutions

- Our growth forecasts remain highly fluid and are subject to significant downside risks.
- We have revised down US growth to -1.0% and China to 2.6%, but note that we may revise these down again substantially.
- European countries such as Italy, Spain and France will see their economies contract in 2020, as the outbreak continues to spread and lockdowns remain in place. Again, we see significant downside risks to these forecasts given their inability to dramatically slow growth in the number of cases.
- Latin America's and Africa's largest economies will also fall into recession as localized outbreaks emerge.
- Even fast-growing countries like the Philippines and Vietnam will be hit hard.

Regional Commodity Producers Getting Hit Hard

Key Export Prices Plunge



Source: Bloomberg, Fitch Solutions

Key Commodity Prices Expected To Bottom

Spot Price Performance (As of March 24) & Forecasts

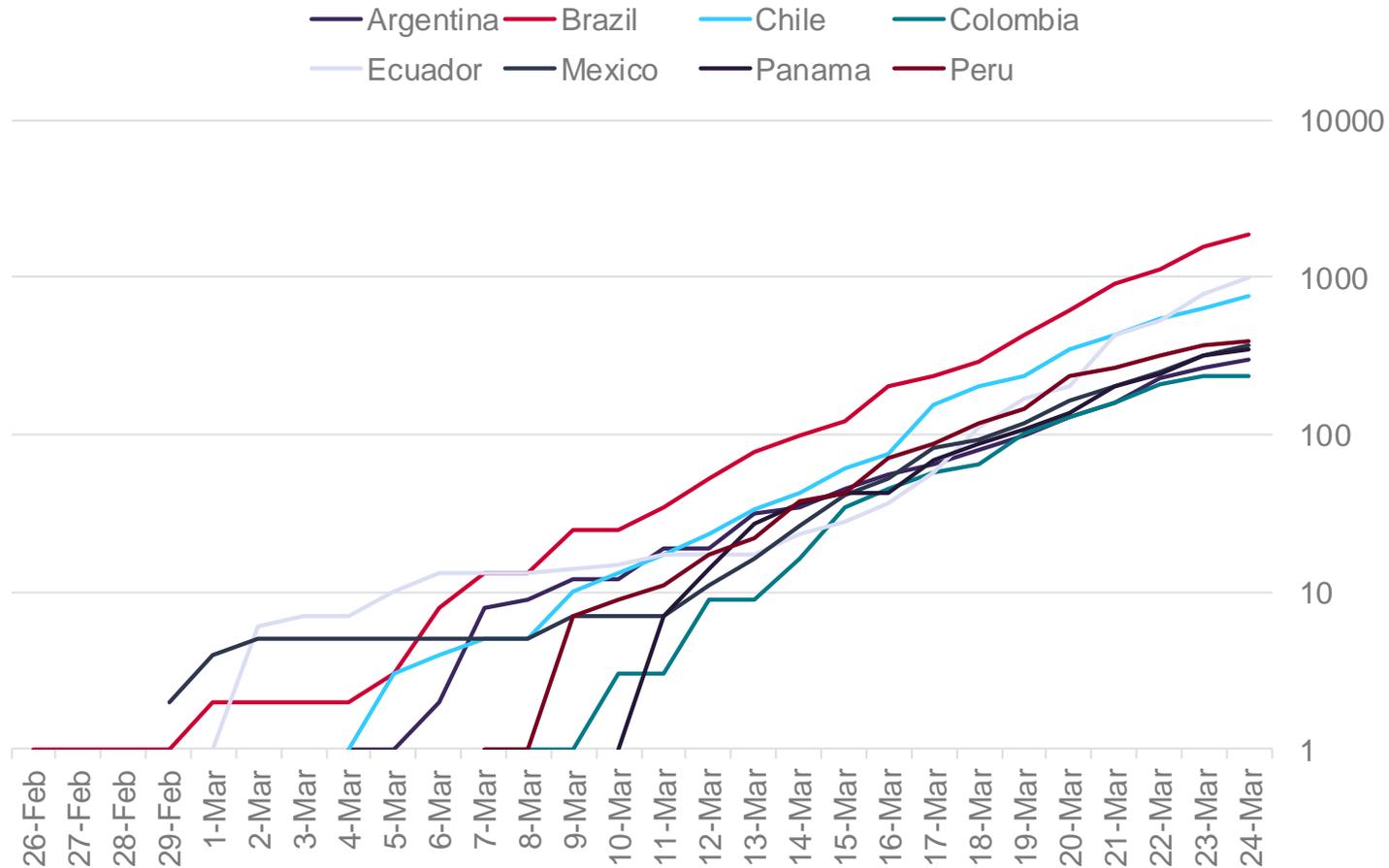
	Spot Price, USD	YTD Spot Return, %	Forecast 2020 Ave	Forecast, % y-o-y
Oil	26.77/bbl	-59.4	43.20/bbl	-32.7
Copper	4,835/tonne	-21.7	5,900/tonne	-2.0
Iron	83.02/tonne	-3.4	85.00/tonne	-5.6
Soybean	887c/bsl	-5.9	925c/bsl	2.8

Source: Bloomberg, Fitch Solutions

Covid-19 Now Spreading Across Latin America

Policymakers Rush To Slow The Spread

Latin America (Selected) – Total Confirmed Cases Of Covid-19 (Log Scale)



Source: European Centre for Disease Prevention and Control, Our World In Data, Fitch Solutions

- Covid-19 is now likely present in every market in the region, with testing efforts just beginning to illustrate the extent of its spread.
- Brazil, Ecuador and Chile currently have the largest number of confirmed cases, but others are close behind.
- Policymakers are scrambling to develop responses to slow the virus' spread and mitigate its economic toll.
- The outbreak is a worst-case scenario for the region, adding localized commerce disruptions on top of flagging external demand and market volatility.

Latin America Is Ill-Prepared For A Pandemic

Latin America Pandemic Vulnerability Matrix

Key Strengths & Vulnerabilities By Category

	Global Health Security Index Score	Doctors (Per 100,000 Population)	Hospital Beds (Per 100,000 Population)	Total Government Debt, % of GDP, 2020f	Budget Balance, % of GDP, 2020f
Argentina	58.6	39.6	50	89.5	-4.5
Bolivia	35.8	16.11	11	50.0	-7.3
Brazil	59.7	21.5	22	81.8	-6.0
Chile	58.3	10.8	22	29.5	-4.0
Colombia	44.2	20.84	15	46.1	-2.3
Costa Rica	45.1	11.5	11.6	63.4	-5.7
Ecuador	50.1	20.5	15	40.7	-2.6
El Salvador	44.2	15.69	13	74.3	-3.2
Guatemala	32.7	3.55	6	25.2	-2.3
Guayana	31.7	7.99	16	54.6	-2.5
Honduras	27.6	3.14	7	42.2	-2.7
Mexico	57.6	22.48	15.2	49.9	-2.3
Nicaragua	43.1	10.06	9	58.4	-3.6
Panama	43.7	15.7	23	39.9	-2.5
Paraguay	35.7	13.66	13	25.0	-3.0
Peru	49.2	12.7	16	25.0	-1.9
Suriname	36.5	12.27	31	56.1	-4.5
Uruguay	41.3	50.5	28	66.4	-3.6
Venezuela	23	19.24	8	N/A	-25.3

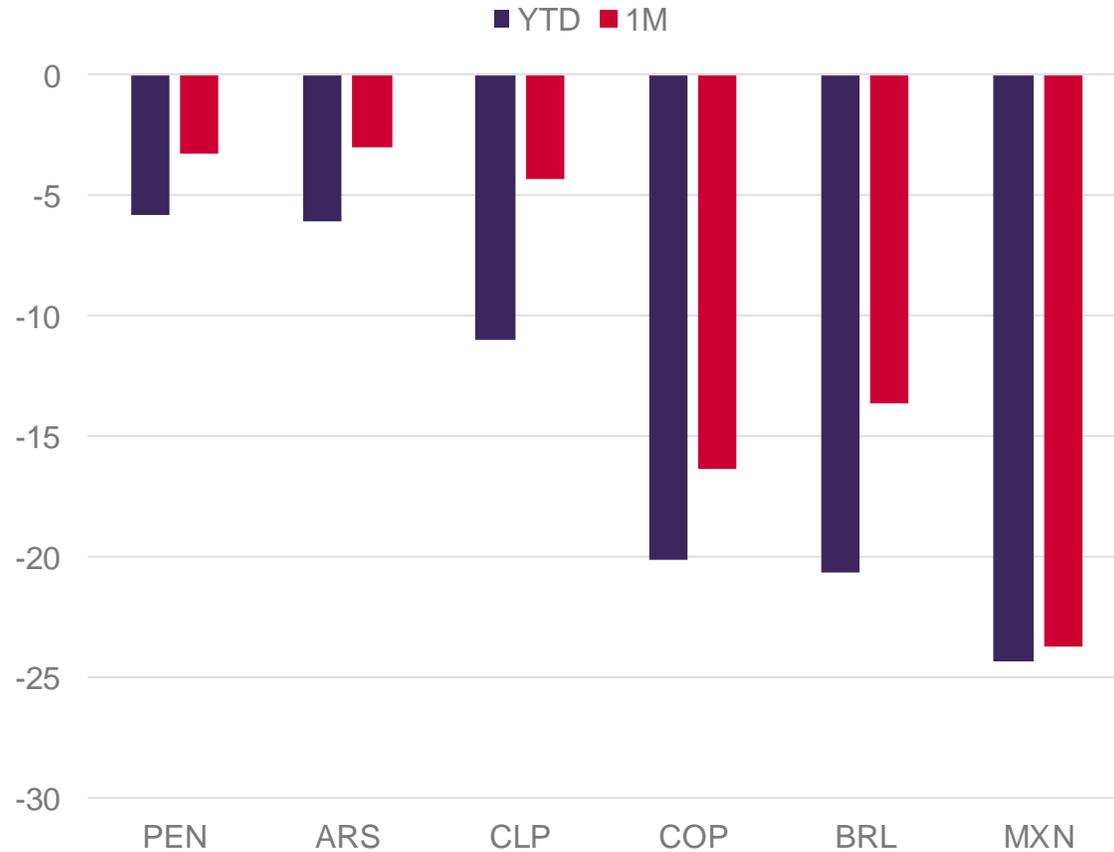
- We previously highlighted the spread of Covid-19 into the region as a downside risk to our outlook.
- Latin America's health infrastructure is poorly prepared to contain a pandemic, creating a significant risk of breakdown.
- High levels of urbanisation, recent political instability and limited resources to contain and contact trace the infected suggest the region is likely to see a rapid spread.
- Venezuela, Honduras and Guatemala have particularly weak health systems, with Venezuela seeing increases in the spread of communicable diseases amid its crisis.

Note: This matrix is not a ranking of the countries as the categories are not scored or weighted. Source: NTI, JHU, WHO, Fitch Solutions

Latin American Markets Roiled By Risk-Off

Latin America FX Vs. USD

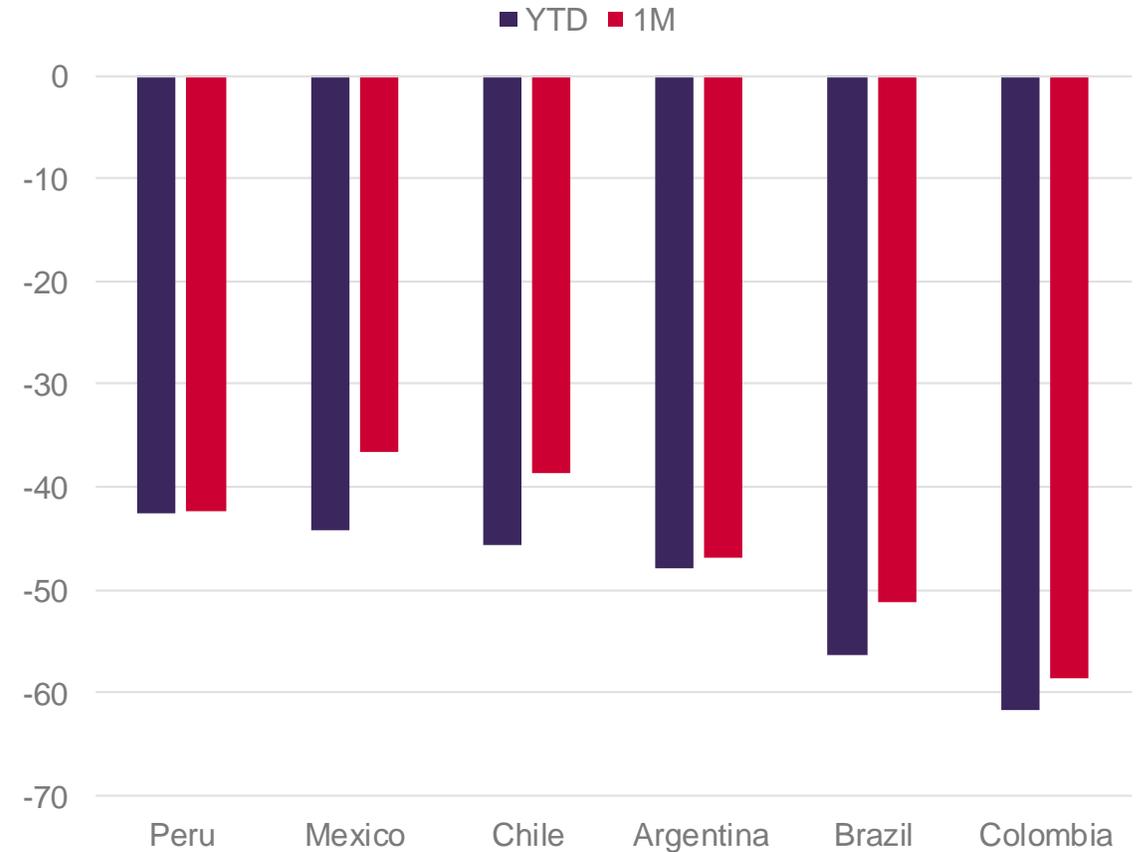
% Spot Return (As of March 24)



Source: Bloomberg, Fitch Solutions

Latin America Equity Indices (USD)

% Return (As of March 24)

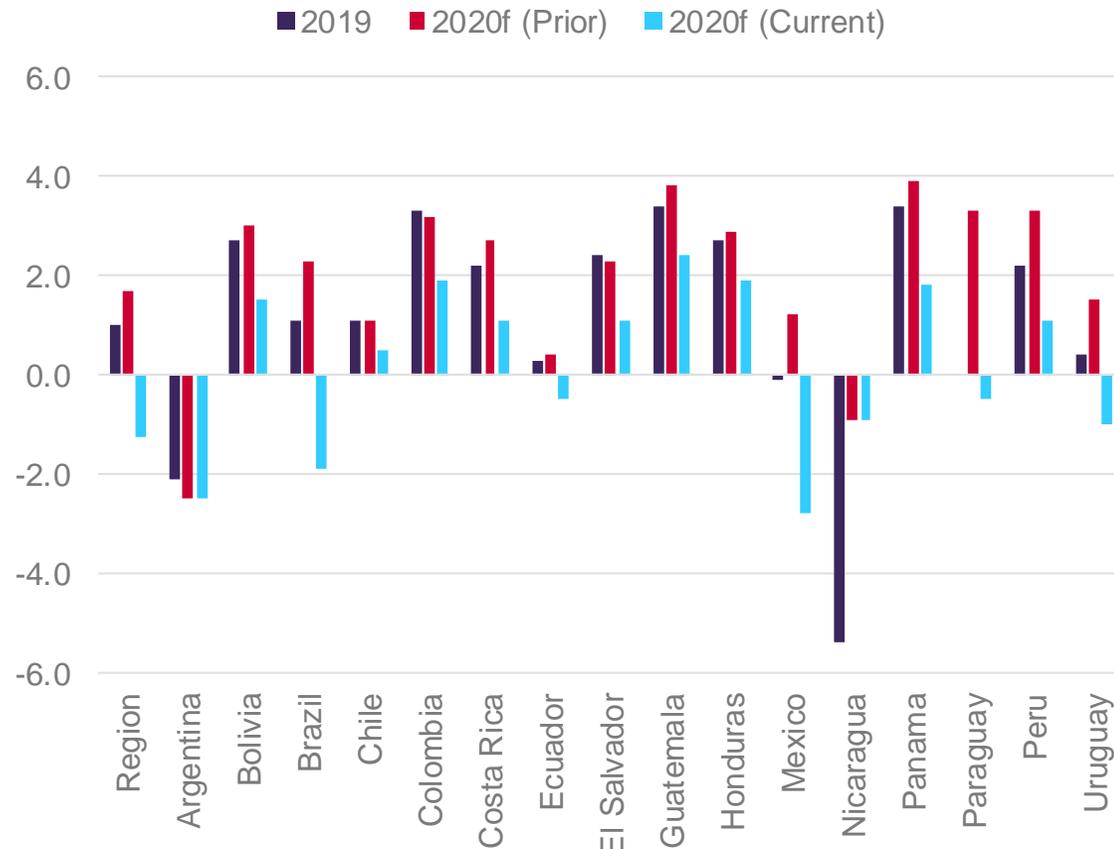


Source: Bloomberg, Fitch Solutions

Latin America Likely Pushed Into A Recession

Growth Outlooks Deteriorate Amid Cascading Pressures

Latin America (Selected) – Real GDP Growth Forecasts



f = Fitch Solutions forecast. Source: Fitch Solutions

Downward Revisions Across The Board

	2019	2020f (Prior)	2020f (Current)	pp change
Region	1.0	1.7	-1.3	-3.0
Argentina	-2.1	-2.5	-2.5	0.0
Bolivia	2.7	3.0	1.5	-1.5
Brazil	1.1	2.3	-1.9	-4.2
Chile	1.1	1.1	0.5	-0.6
Colombia	3.3	3.2	1.9	-1.3
Costa Rica	2.2	2.7	1.1	-1.6
Ecuador	0.3	0.4	-0.5	-0.9
El Salvador	2.4	2.3	1.1	-1.2
Guatemala	3.4	3.8	2.4	-1.4
Honduras	2.7	2.9	1.9	-1.0
Mexico	-0.1	1.2	-2.8	-4.0
Nicaragua	-5.4	-0.9	-0.9	0.0
Panama	3.4	3.9	1.8	-2.1
Paraguay	0.0	3.3	-0.5	-3.8
Peru	2.2	3.3	1.1	-2.2
Uruguay	0.4	1.5	-1.0	-2.5
Venezuela	-34.1	-10.6	-10.6	0.0

f = Fitch Solutions forecast. Source: Fitch Solutions

Policy Responses Taking Shape Across The Region

Latin America Policy Response Matrix

Key Actions Taken Over Recent Weeks

Country	Travel Restrictions	Event Restrictions	Institutional Closings	Fiscal Stimulus	Monetary Stimulus
Argentina	Y	Y	Y	Y	Y
Bolivia	Y	Y	Y	N	N
Brazil	Y	Y	Y	Y	Y
Chile	Y	Y	Y	Y	Y
Colombia	Y	Y	Y	Y	N
Costa Rica	N	Y	Y	N	N
Cuba	Y	Y	N	N	N
Dominican Republic	Y	N	N	N	N
Ecuador	Y	Y	Y	Y	n/a
El Salvador	Y	Y	Y	N	n/a
Guatemala	Y	Y	Y	N	N
Haiti	Y	N	N	N	N
Honduras	Y	Y	Y	Y	N
Jamaica	Y	Y	Y	N	N
Mexico	N	Y	Y	N	Y
Panama	Y	Y	Y	N	n/a
Paraguay	Y	Y	Y	N	Y
Peru	Y	Y	Y	Y	Y
Uruguay	Y	Y	Y	N	N
Venezuela	Y	Y	Y	N	N

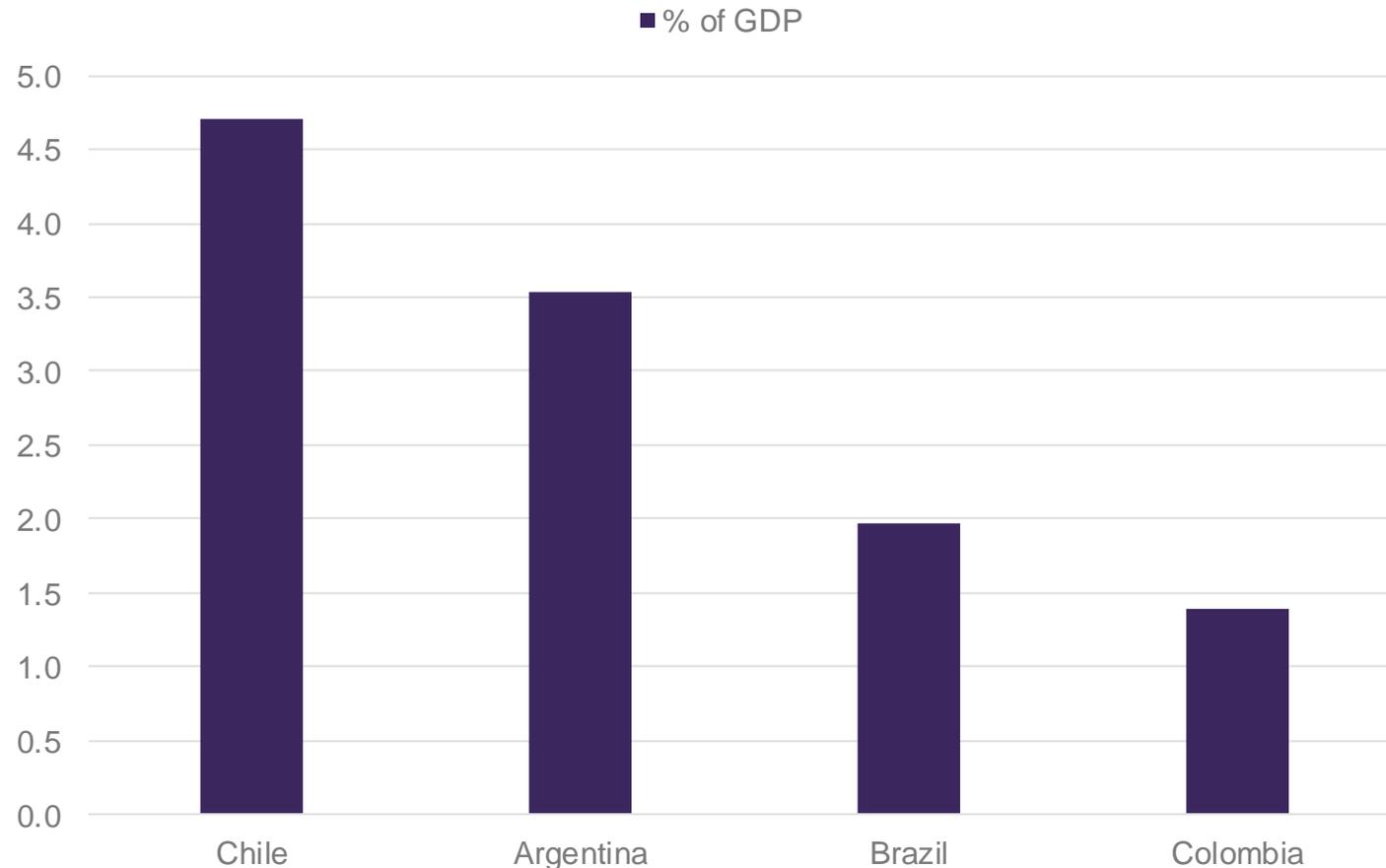
Source: Local media reports, Fitch Solutions

- Nearly all countries in the region have now taken measures to contain the virus, including travel restrictions and the temporary suspension of schools and universities.
- Many have learned from the experiences in Europe and the US, and took action relatively early in their outbreaks.
- Most of the region's largest central banks have moved to cut interest rates, and fiscal stimulus packages are in the works.
- Key outliers are Brazil and Mexico, where the federal governments have continued to downplay the severity of the crisis.

Fiscal Responses Taking Shape

Significant Spending Plans Seek To Mitigate Economic Fallout

Latin America (Selected) – Estimated Size Of Initial Fiscal Stimulus Proposals



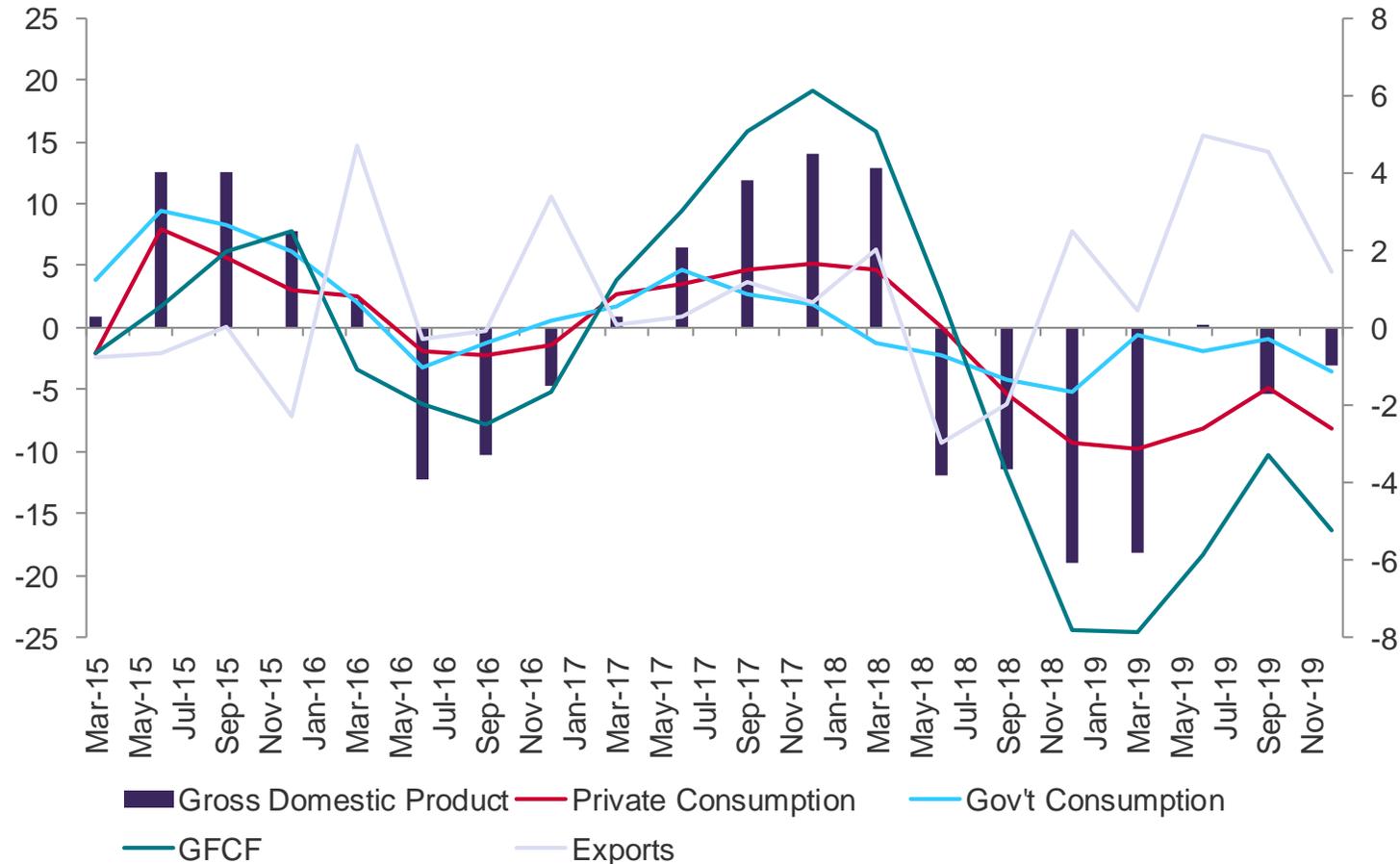
Source: Local media, Fitch Solutions

- Several countries have announced large fiscal packages, and more are likely to follow.
- Deficit reduction efforts are off the table, although financing is unclear.
- Tax cuts, holidays or delays are initial measures, because they are faster to implement.
- Spending is generally being focused on cash assistance to low income families and credit lines for businesses.
- There is little political opposition to stimulus, as all sides have an incentive to mitigate the crisis.

Argentina: Covid-19 Complicates Already Uncertain Outlook

Already In Crisis Before Covid-19

Argentina – Quarterly Real GDP Growth, % y-o-y



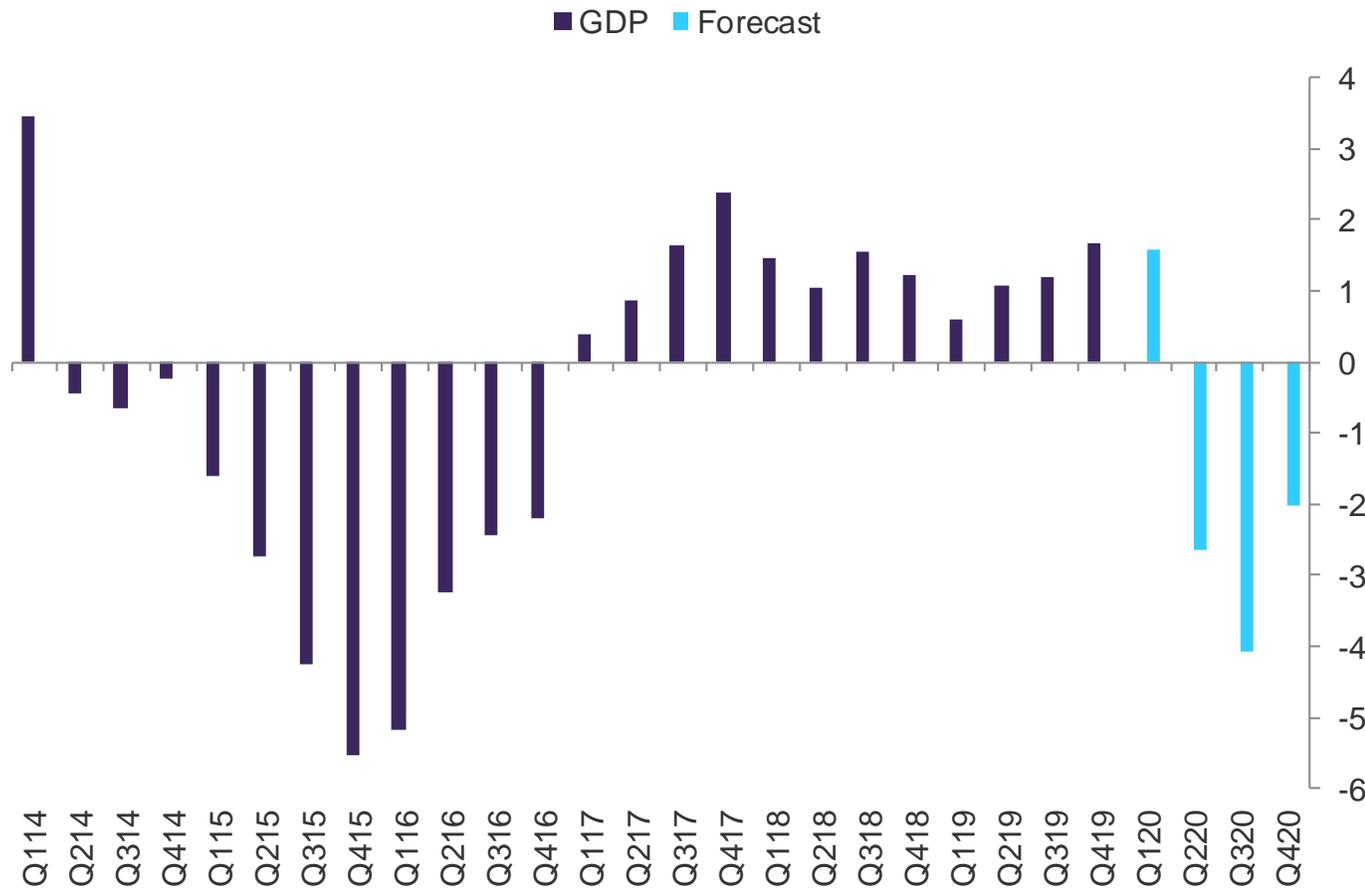
Source: IBGE, Fitch Solutions

- We forecast real GDP to contract 2.5% in 2020, with risks to the downside amid a nationwide shutdown.
- Consumption, investment and exports will all fall sharply over the coming quarters, as Covid-19 adds to headwinds from uncertainty and external pressures.
- The federal government has stimulus measures in the works, but their ability to backstop consumption is likely limited.
- Debt talks now face an additional layer of uncertainty.
- Fernández's proactive response appears to be helping consolidate his influence.

Brazil: Reform Agenda Off The Table Amid Covid-19

Recession Likely As Covid-19 Spreads

Brazil – Quarterly Real GDP Growth, % y-o-y



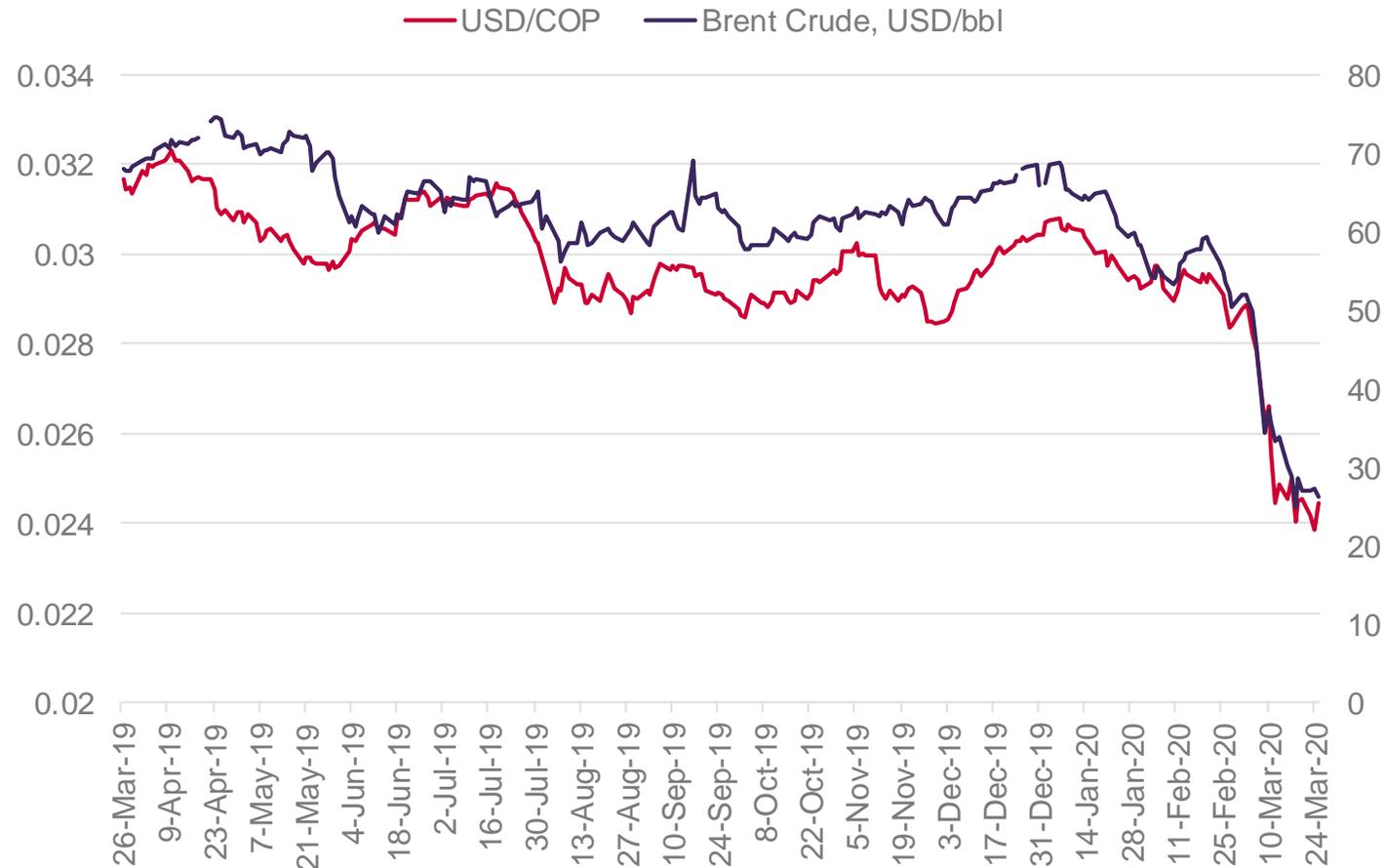
Source: IBGE, Fitch Solutions

- We now expect real GDP growth of -1.9% in 2020, down from 2.3% just weeks ago.
- The federal government has been slow to enact containment measures, although cities like São Paulo have been more proactive.
- Consumption, investment and exports will be hit by a domestic demand shock and deteriorating external demand as the global economy contracts.
- Monetary and fiscal stimulus measures will be enacted, but the reform agenda is likely off the table for the foreseeable future.
- President Bolsonaro's downplaying of the crisis creates political risks.

Colombia: Significant Slowdown Likely

Sustained Oil Price Weakness Will Weigh On COP

Colombia – Exchange Rate & Brent Crude Oil



Source: Bloomberg, Fitch Solutions

- We have revised down our 2020 real GDP growth forecast for Colombia from 3.2% to 1.9%.
- From March 25, Colombia will enforce a 19-day self-quarantine policy, likely in concert with a proposed USD1.5bn financial package that will provide short-term payments to over 10mn Colombians.
- The recent collapse in oil prices will negatively impact Colombia's fiscal and current account positions, which rely heavily on energy revenues and exports.
- President Duque's response has earned mixed reactions, generating some controversy with local and regional governments.

Ecuador: Oil Price Plunge To Create Massive Strains

Sharp Fall In Oil Export Values Will Lead To Import Cuts

Ecuador – Oil Exports & Goods Imports, USDbn



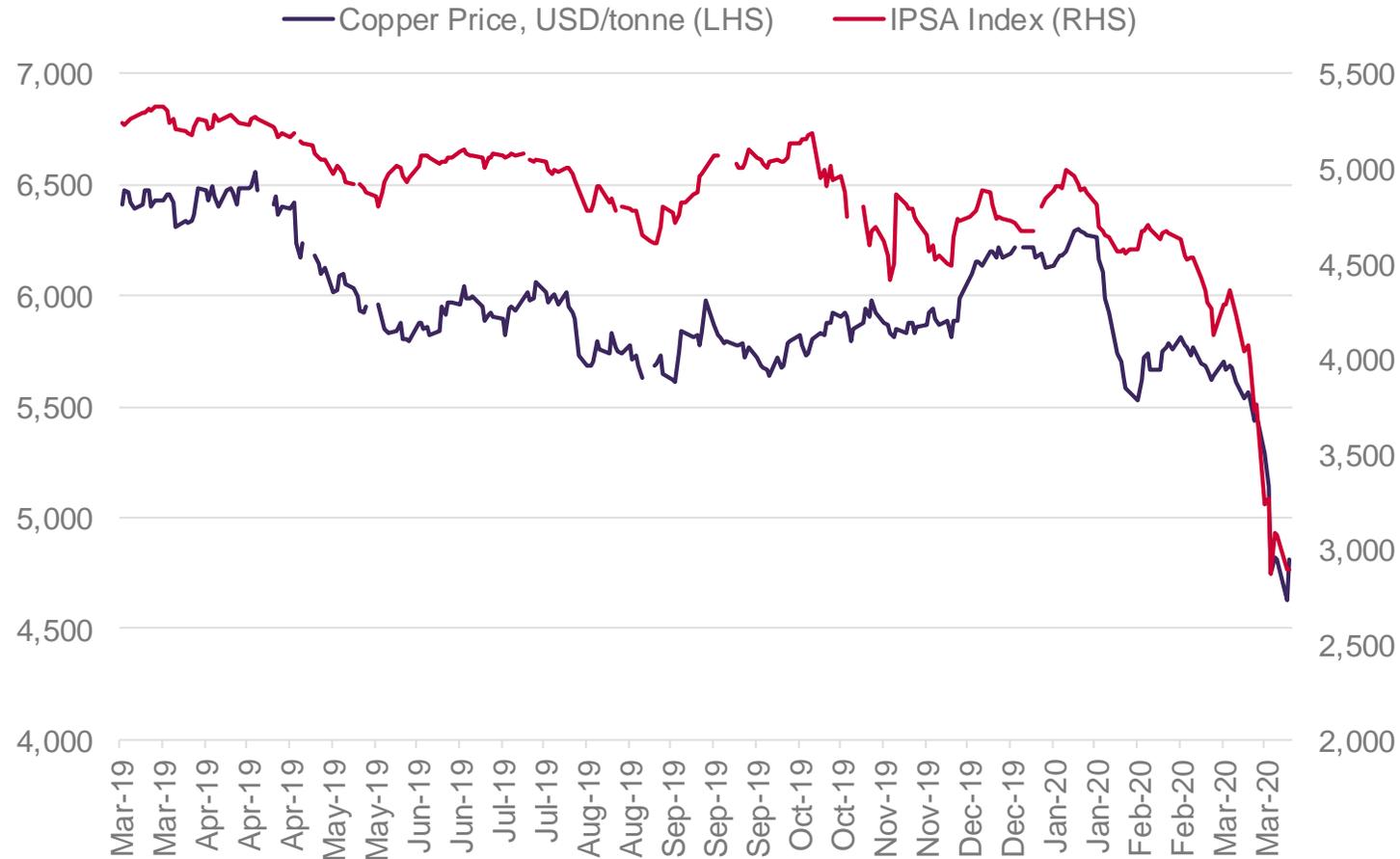
Source: Bloomberg, Fitch Solutions

- The collapse of global oil prices will push Ecuador into a recession over the coming quarters, as it will force the government to drastically curtail imports and expenditures and raise significant concern over debt sustainability.
- At Fitch Solutions, we forecast real GDP will contract 0.5% y-o-y in 2020, with risks weighted to the downside.
- Commerce disruptions as a result of the spread of Covid-19 locally and the significant risk of unrest will further weigh on consumption.
- Near-term debt obligations significantly limit the government's ability to enact stimulus measures.

Chile: Economic Weakness Compounds Domestic Uncertainty

Chilean Assets Plunging Amid Rout In Global Copper Prices

Chile – Copper Price & Equities Index



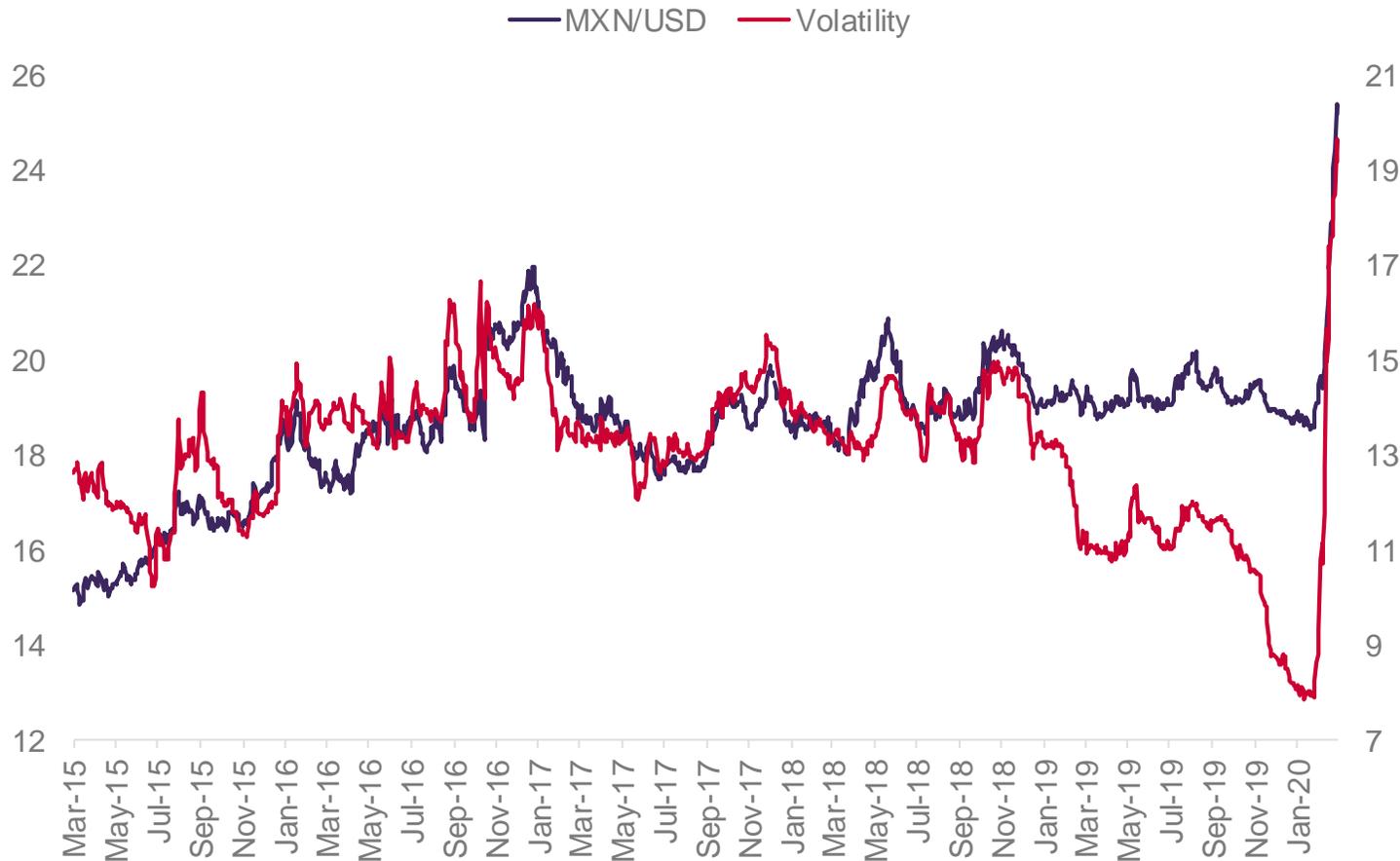
Source: Bloomberg, Fitch Solutions

- We have revised down our 2020 real GDP growth forecast for Chile from 0.9% y-o-y to 0.6%.
- Large-scale monetary and fiscal stimulus will help mitigate the impact of the crisis.
- At approximately 4.7% of GDP, President Sebastián Piñera's proposed stimulus package is the largest in the country's history.
- While Piñera's approval rating has ticked up in the early days of the coronavirus crisis, a botched response and delayed votes could raise risk of unrest like that seen in October-November 2019.

Mexico: Recession Likely As AMLO Downplays Crisis

Mexican Financial Markets Upended By Shift In Global Sentiment

Mexico - Exchange Rate, MXN/USD And 1-Year ATM Implied Volatility



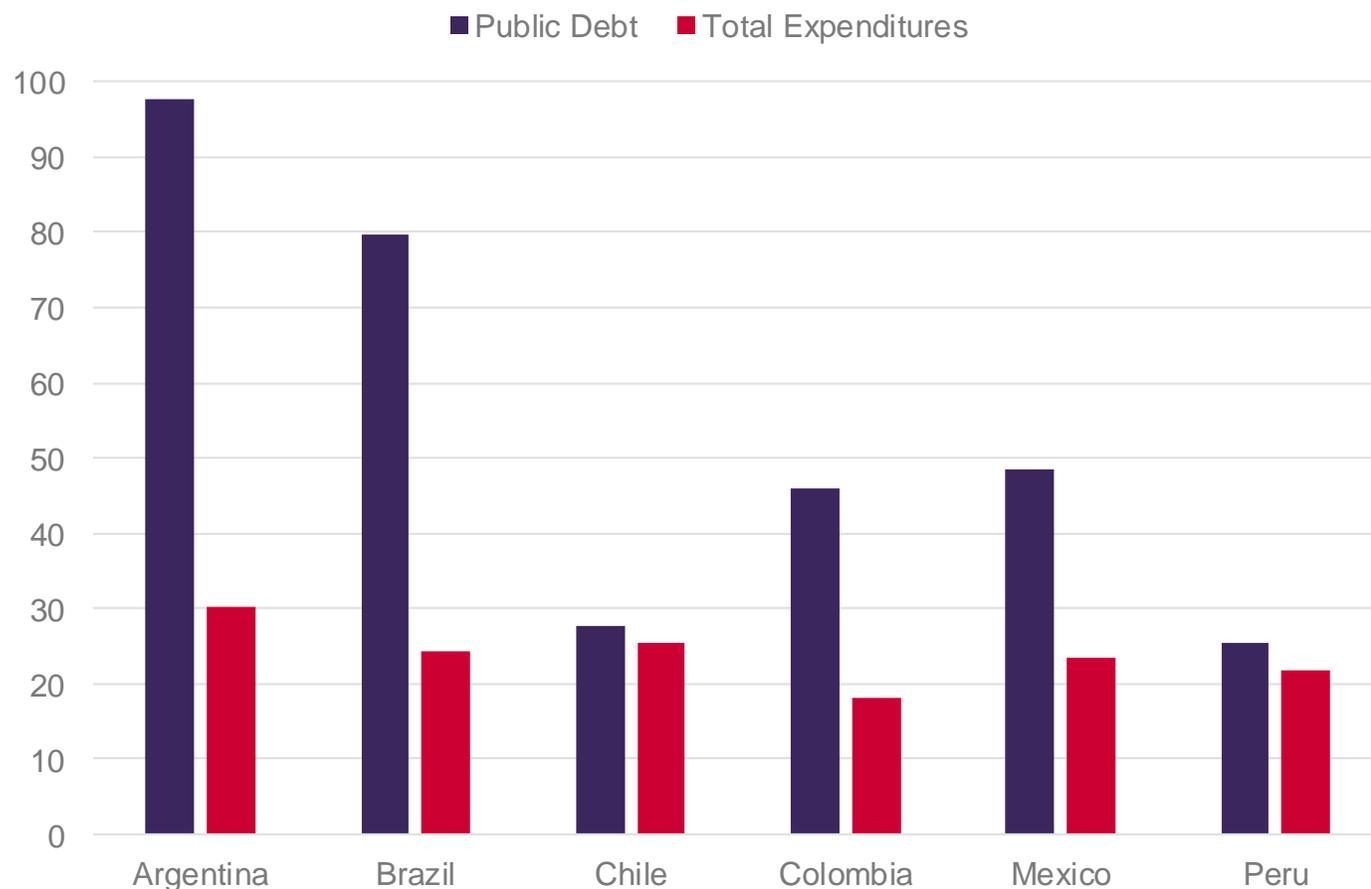
Source: Bloomberg, Fitch Solutions

- We have revised down our 2020 forecast for Mexico to -2.8%, from 1.0% previously, amid disruptions to export demand, remittance flows, investment, tourism and financial markets. Risks are to the downside.
- The country has been slow to respond to its domestic outbreak, only implementing full social distancing measures on March 23.
- President Andrés Manuel López Obrador (AMLO) has repeatedly downplayed the virus, and his government has not yet introduced large-scale fiscal stimulus.
- Banxico has stepped up, enacting a 50bps rate cut and implementing measures to support market liquidity.

Peru: Slowdown To Be Mitigated By Policy Response

Peru Has More Policy Flexibility For Covid-19 Response

Latin America (Selected) – Public Debt & Total Expenditures, % of GDP (2019)



Source: National Governments, Fitch Solutions

- President Martín Vizcarra has launched stringent restrictions on mobility and commercial activity.
- Public perception of his response has been extremely favourable, with his approval rating hitting 87% in recent polls.
- Real GDP growth in Peru will likely slow from the 2.2% expansion in 2019 to 1.1%.
- However, the government has significant fiscal space to increase spending, given relatively narrow deficits and low debt over recent years.
- Vizcarra has increased healthcare spending and will likely increase household subsidies over the coming months.

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