



Latin America Macroeconomic Quarterly Update

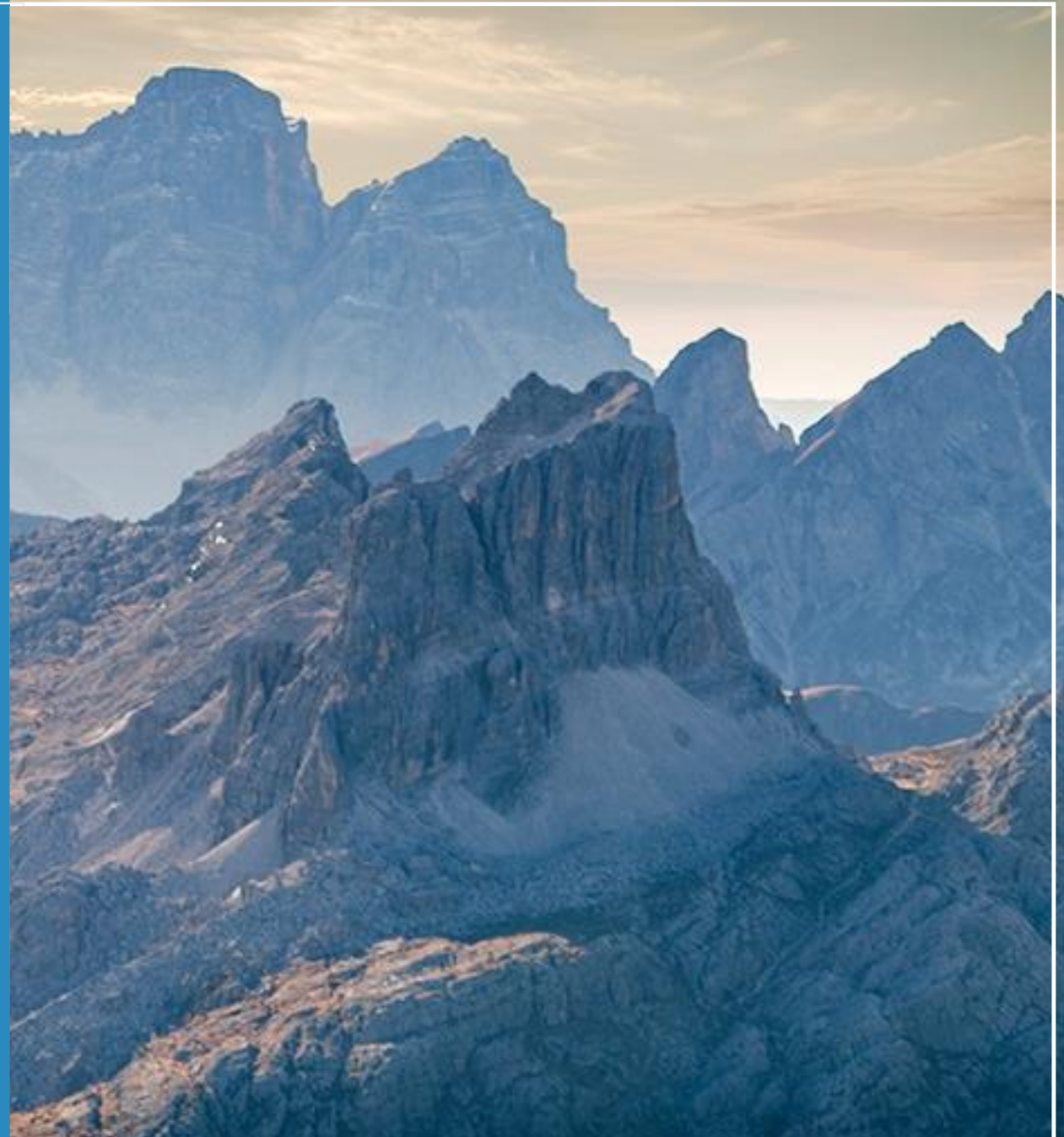
Wednesday, 1st July 2020

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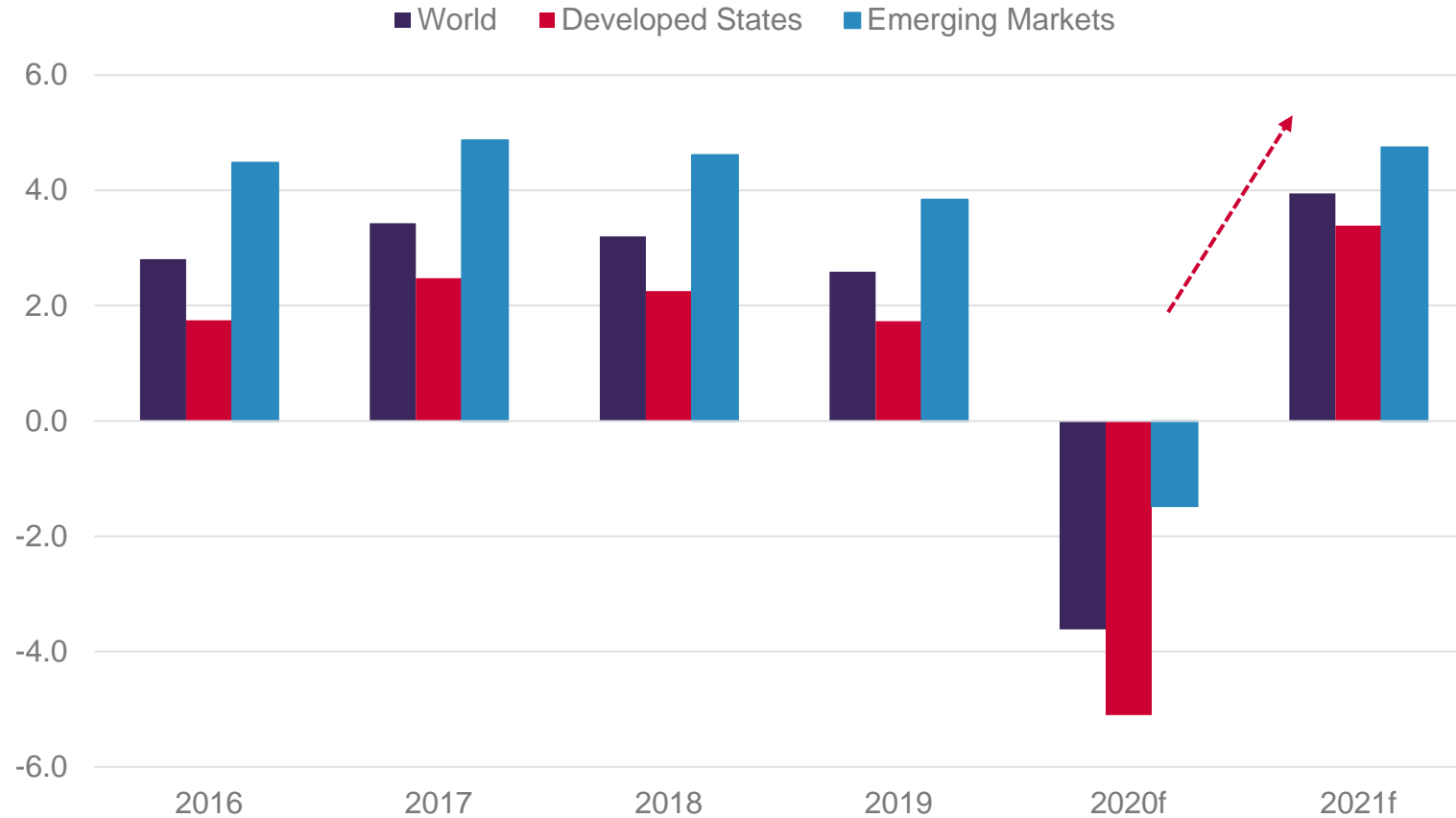
1. Global Overview: Global Economy To Contract Sharply In 2020
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Global Economy Falling Into Deep Recession

Global GDP To Contract By Almost 4% In 2020

Real GDP, %



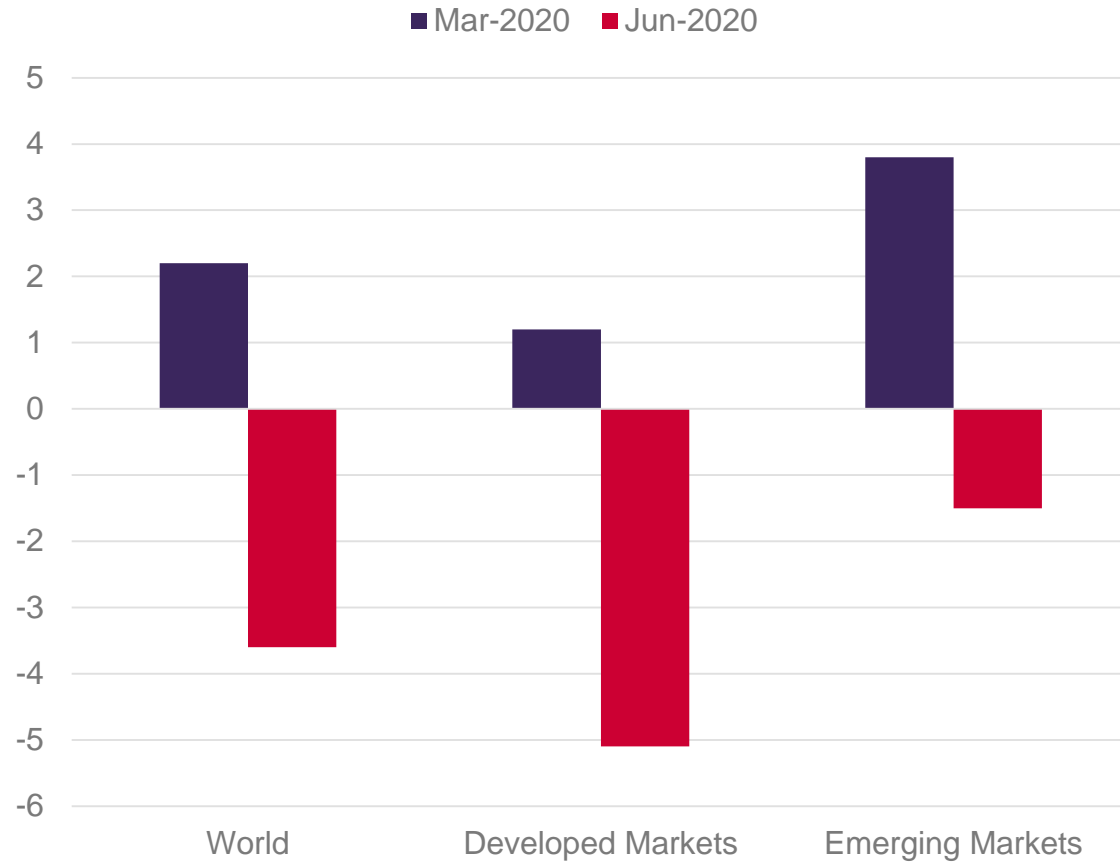
f = Fitch Solutions forecast. Source: Fitch Solutions

- We forecast the global economy to fall into recession in 2020. Output will contract by 3.6%.
- The contraction in growth will be in large part driven by developed markets (DMs), which will see output fall by 5.1% in 2020 given their weak fundamentals and low growth buffers.
- Emerging markets (EMs) will suffer too, with output contracting by 1.5% this year driven by lockdowns, resulting in a decline in investment, consumption and trade.
- The worst of the economic dislocation will be felt in Q2, and the economic outlook should start to improve slowly in Q3 and Q4.
- That said, the recovery will be bumpy and uneven and the global economy will remain vulnerable to additional shocks.

We Have Made Significant Revisions Since March

Global Growth Forecasts Have Changed Significantly

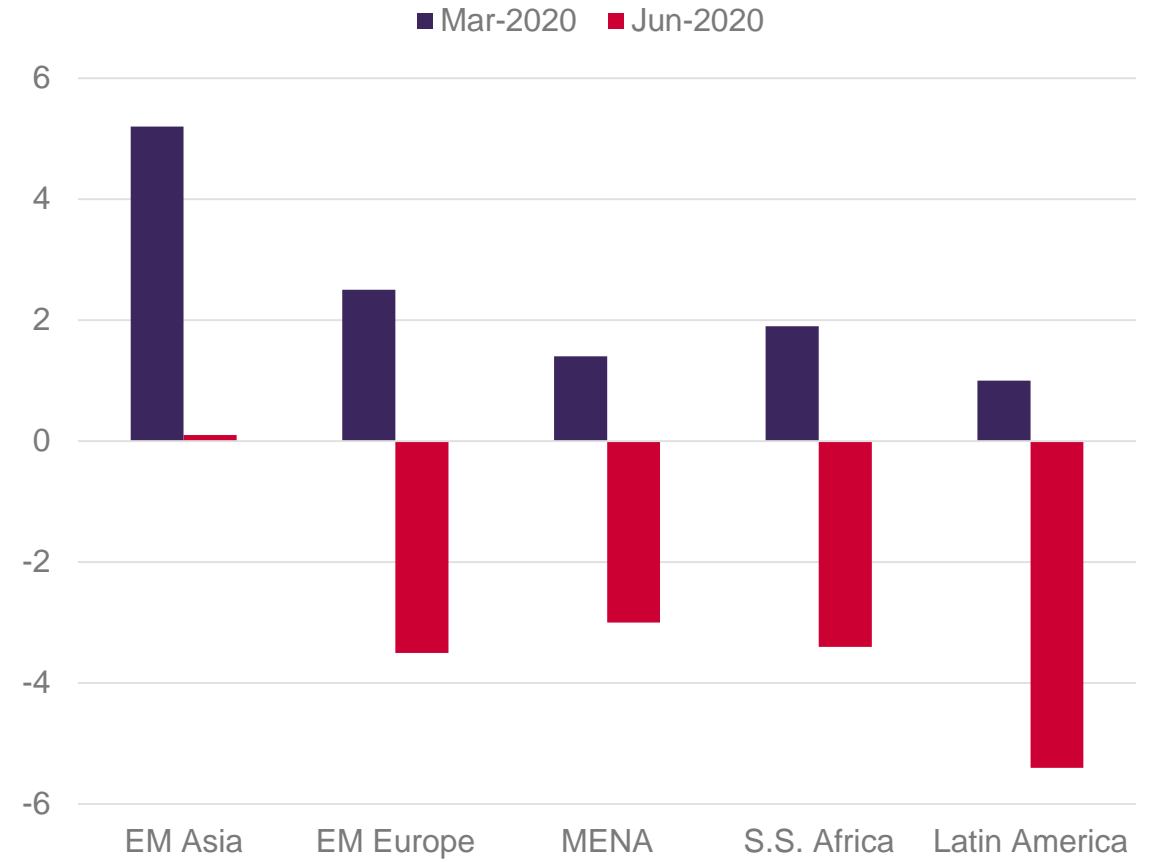
2020 Real GDP Growth Forecast, %



Source: Fitch Solutions

Large Changes Across The Regions

2020 Real GDP Growth Forecast, %

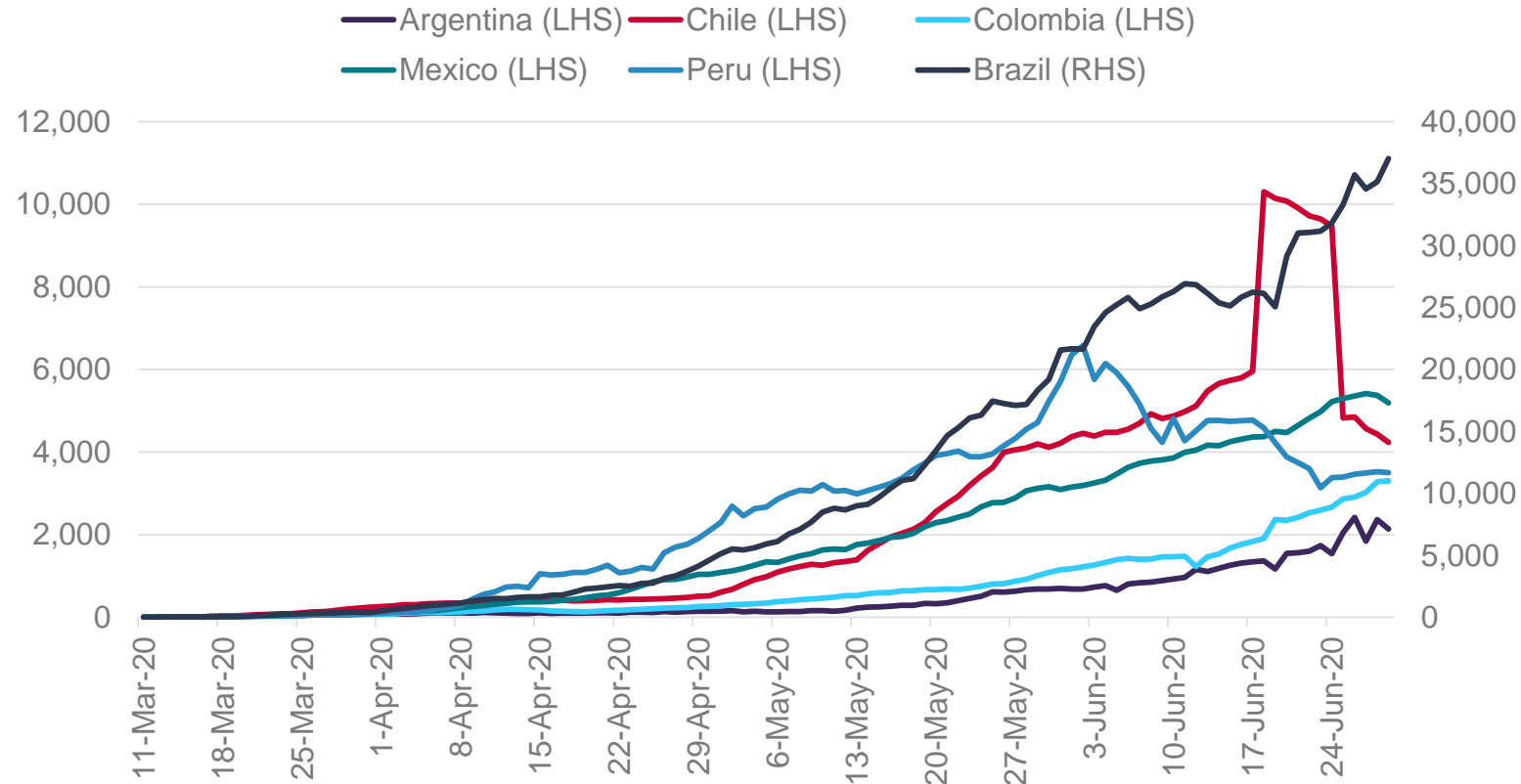


Source: Fitch Solutions

Coronavirus Pandemic Sweeps Through Latin America

New Cases Continue To Climb

Latin America (Selected) – New Daily Cases, 7-Day Moving Average



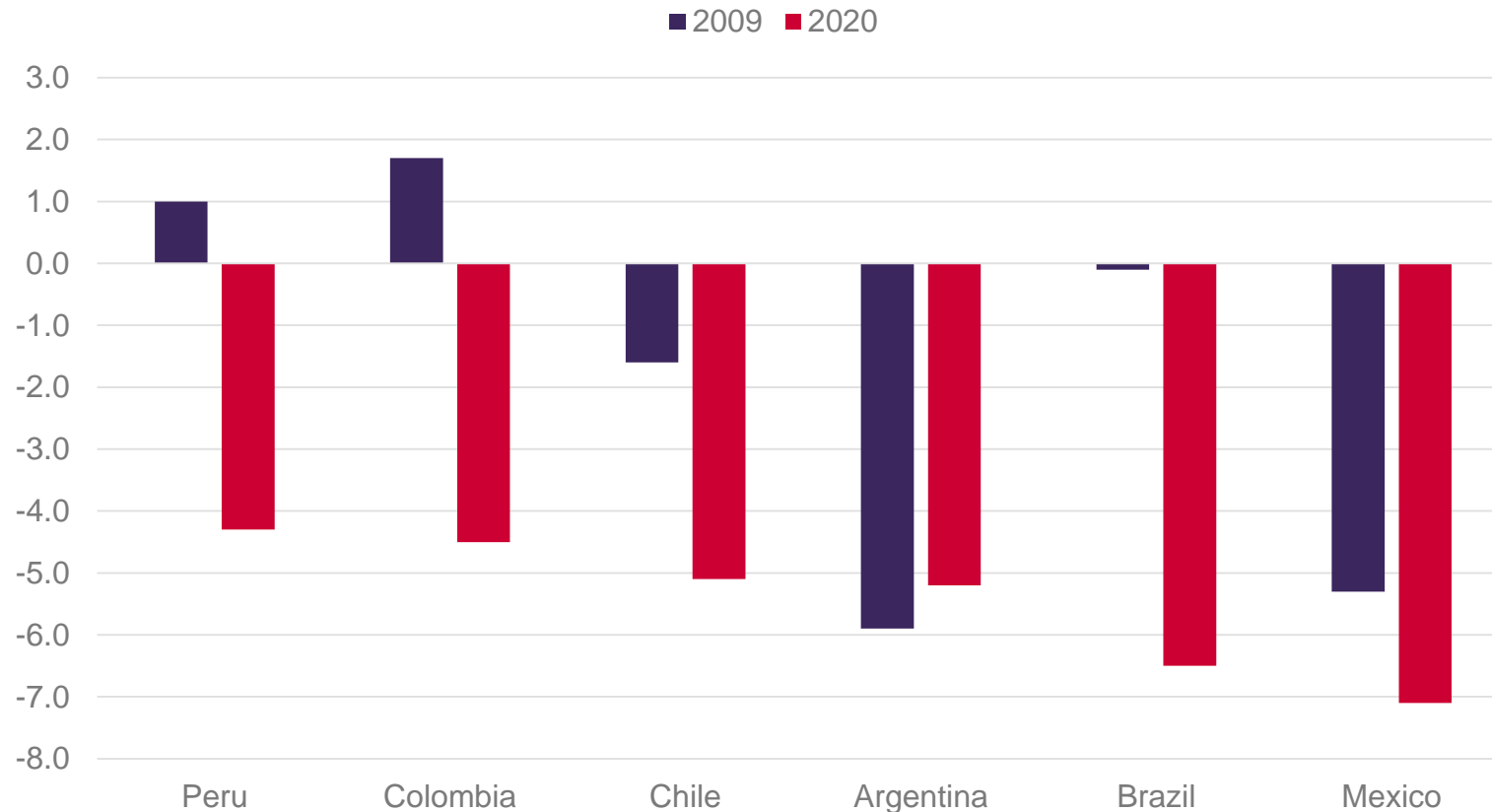
- New daily cases of Covid-19 continue to climb in most of the region's major markets, with Chile and Peru the exceptions.
- As of June 29, Brazil had the 2nd most cases globally, behind only the US, while Peru was 6th, Chile was 7th and Mexico was 11th.
- Overall, while Latin America represents a little over 8% of the world's population, it has so far accounted for over 23% of global Covid-19 cases.
- We expect the region will experience a peak in new daily cases in the coming weeks, followed by a much slower descent in new cases and deaths than in East Asia, Europe and the US.

Note: Data through June 29. Source: ECDC, Fitch Solutions

Virus Spread Poses Downside Risks To Growth Forecasts

Recession Will Be More Severe Than GFC

Latin America (Selected) – Real GDP Growth, % y-o-y



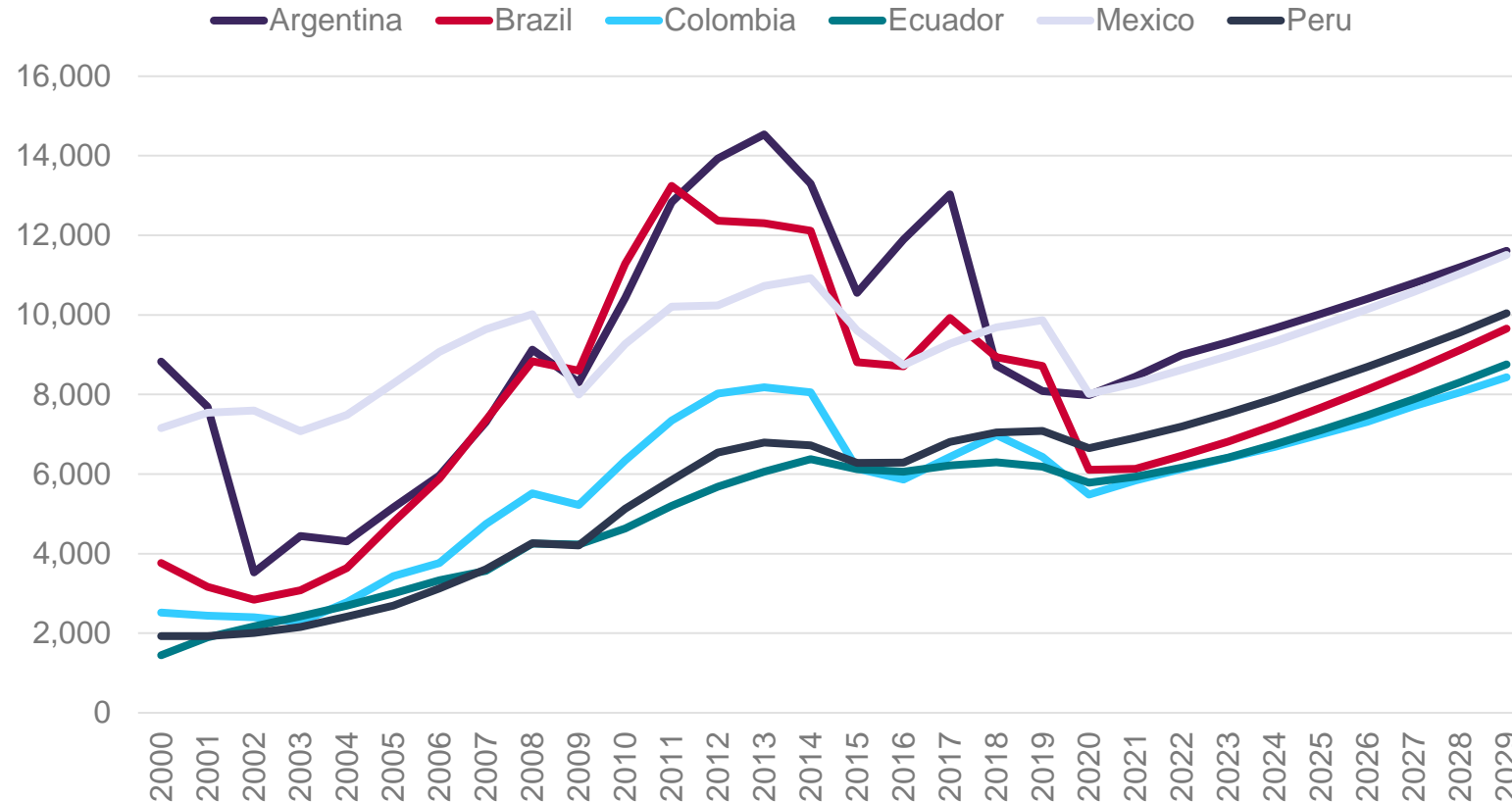
Note: 2020 = Fitch Solutions forecast. Source: National Sources, Fitch Solutions

- The continuing spread of the disease suggests that risks to our growth forecasts for 2020 are to the downside.
- In most markets, our forecasts assume that economic activity begins to recover in H220, but there is a heightened potential of disruptions continuing well into Q3.
- Our forecasts are broadly in line with consensus expectations, though the range of possible outcomes is wide given elevated uncertainty.
- Most of the region's governments have already exhausted their fiscal and monetary policy tools, while a weak external environment will undermine foreign investment.

Lost Decade Likely For Many Countries Across The Region

Much Of The Region Unlikely To Recover Commodity Boom Income Levels

Latin America (Selected) - GDP Per Capita, USD



- Latin America's largest economies are increasingly likely to see a lost decade or more, with real incomes in 2025 below those achieved between 2013-15.
- We forecast that in 2020, USD GDP per capita in Latin America's major markets (excluding outliers Peru and Venezuela) will be on average 25.0% lower than their prior peak.
- By 2025, we expect income levels in Argentina, Brazil, Colombia and Mexico will still be below commodity boom highs.
- The region's lost decade since the end of the commodity boom is likely to extend well beyond 2025, as Covid-19 exacerbates prior headwinds that will constrain growth.

Note: 2020-2029 data is Fitch Solutions forecast. Source: National Sources, Fitch Solutions

Slower Trend Growth Across The Region, cont.

Coming Decade Likely To Underperform The Preceding Two

Latin America (Selected) – Real GDP Growth, % y-o-y

	2000-2009	2010-2019	2020-2029f	Difference
Latin America (Region)	2.7	2.3	1.8	-0.5
Argentina	1.6	1.4	2.0	0.7
Bolivia	3.7	4.7	2.4	-2.3
Brazil	3.4	1.4	1.8	0.4
Chile	4.2	3.3	1.9	-1.4
Colombia	4.0	3.6	2.6	-1.1
Costa Rica	4.2	3.6	2.5	-1.1
Ecuador	3.9	2.8	1.8	-1.1
El Salvador	1.5	2.5	1.7	-0.8
Guatemala	3.3	3.5	2.3	-1.2
Honduras	4.4	3.6	2.4	-1.3
Mexico	1.5	2.7	1.1	-1.6
Nicaragua	2.9	3.3	1.5	-1.8
Panama	5.8	6.3	4.0	-2.4
Paraguay	2.4	4.4	3.7	-0.7
Peru	5.0	4.5	2.6	-1.9
Uruguay	1.9	3.1	2.6	-0.5
Venezuela	4.0	-8.7	-1.4	7.3

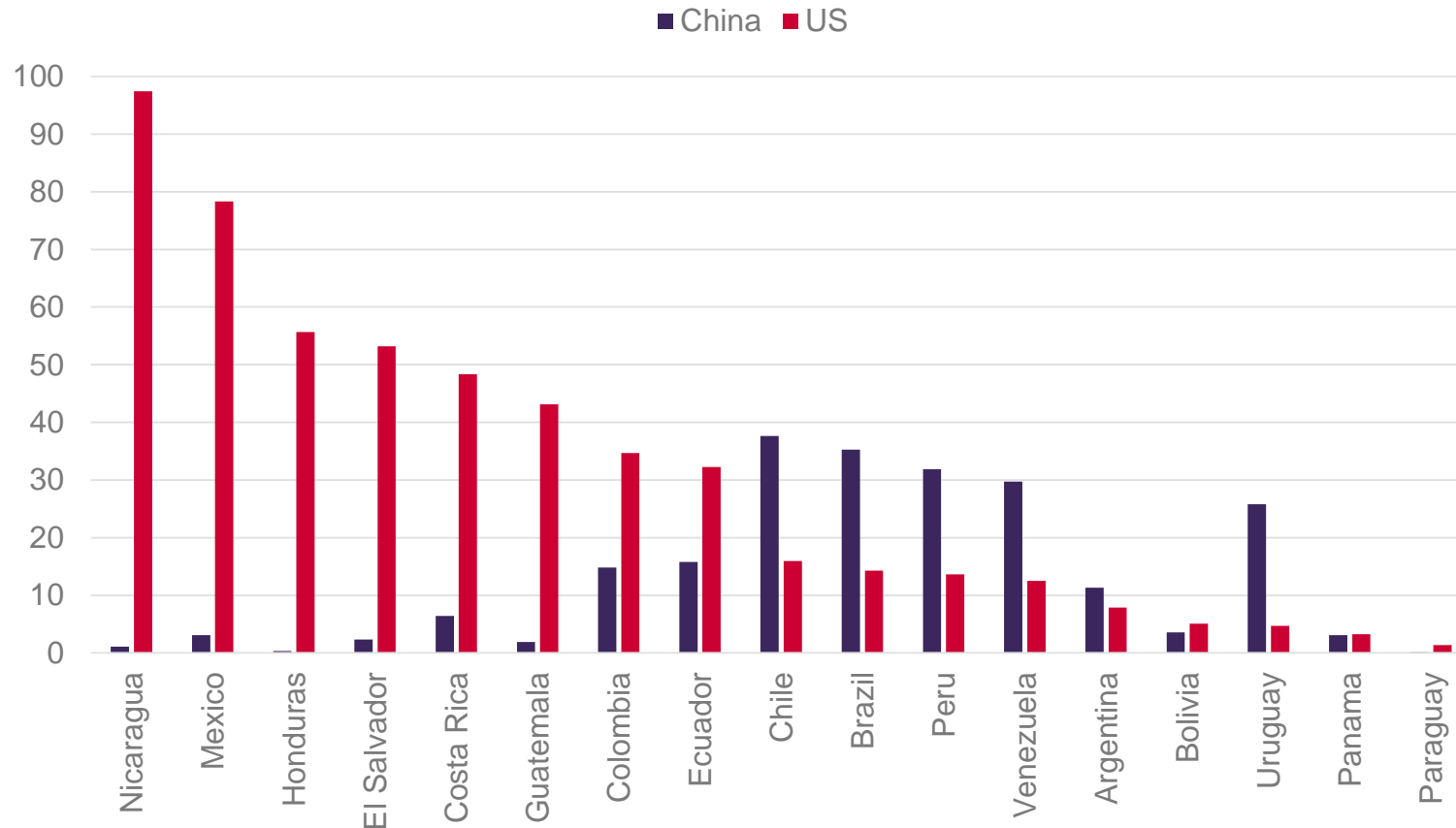
Note: 2020-2029 data is Fitch Solutions forecast. Source: National Sources, Fitch Solutions

- A confluence of factors will combine to curb the region's growth over the coming years.
- We expect global growth rates will slow as the pandemic leads to higher debt loads, de-globalisation efforts and trade tensions that will undermine the viability of Latin America's export-led growth models.
- In particular, China's efforts to rebalance its economy and pursue slower, more consumption-driven growth will weigh on demand and commodity prices.
- The primary sectors that have drawn capital into the region face a weaker outlook, while governments' ability to drive new investment will be limited by rising debt burdens.

Supply Chain Disruptions Create Potential Opportunities

Regional Trade Relationships Could Shift

Latin America - Goods Exports to US & China, % of Total (2019)



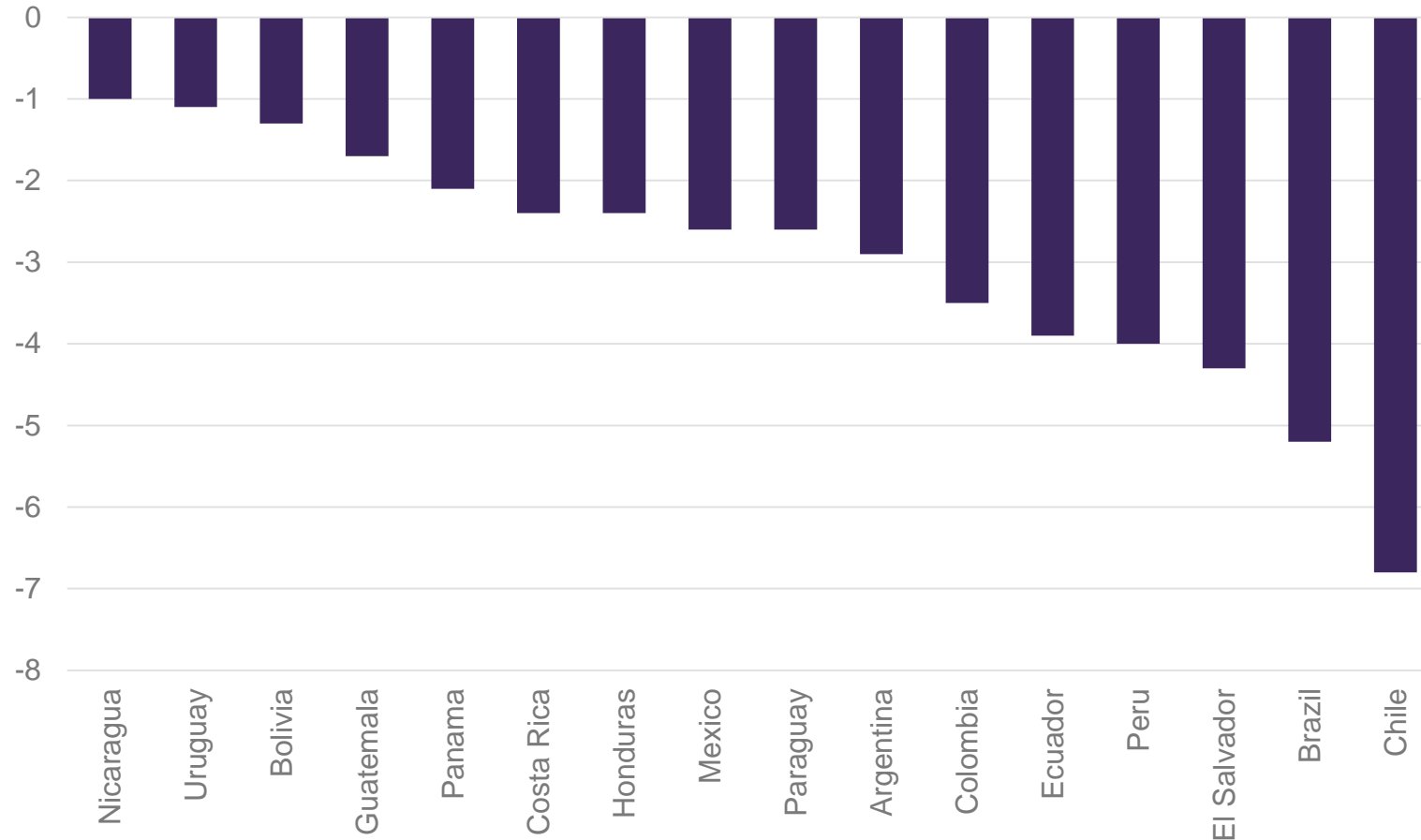
Source: Trade Map, Fitch Solutions

- While Covid-19 has overwhelmingly intensified the challenges facing Latin America, the region could benefit from nascent efforts to shift supply chains away from China.
- US manufacturers' supply chains already incorporate Mexico, and there are ties to Central America for low value-add manufacturing such as textiles.
- US companies looking to near-shore production could expand in the region, particularly if rising costs in Vietnam and other Southeast Asian markets make Central America more cost-competitive.
- However, this would require political commitment from the US, while infrastructure would be a bottleneck.

Expanded Deficits Will Present Long-Term Policymaking Dilemmas

Fiscal Deficits Will Widen Significantly In 2020 From Previous Year

Latin America - Forecast Change In Budget Balance 2019/20, % of GDP



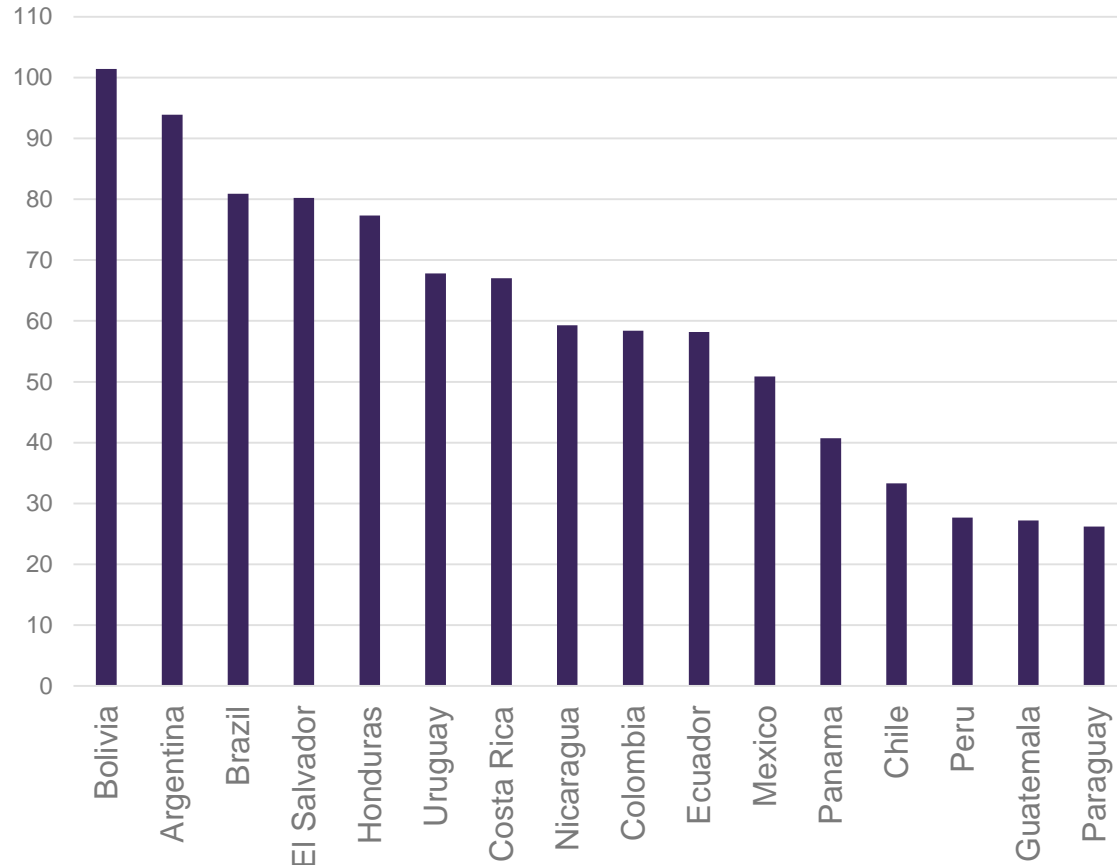
- A less supportive external environment will complicate policymakers' already-difficult task of enacting structural reforms to boost the region's growth potential.
- Significant protests in H219 caused reform efforts to stall throughout much of the region, and these will be even more difficult in a post-Covid-19 world.
- Every market will head into the coming years with wider deficits and larger debt loads, likely limiting fiscal space to support consumption and boost investment.
- However, policymakers will struggle to distribute the costs of fiscal consolidation, as both spending cuts and higher taxes will be difficult to justify to the public.

Note: 2020 = Fitch Solutions forecast. Source: National Sources, Fitch Solutions

Higher Debt Loads & Funding Costs May Prompt A Fiscal Adjustment...

Elevated Debt Loads In Much Of Region Limits Space

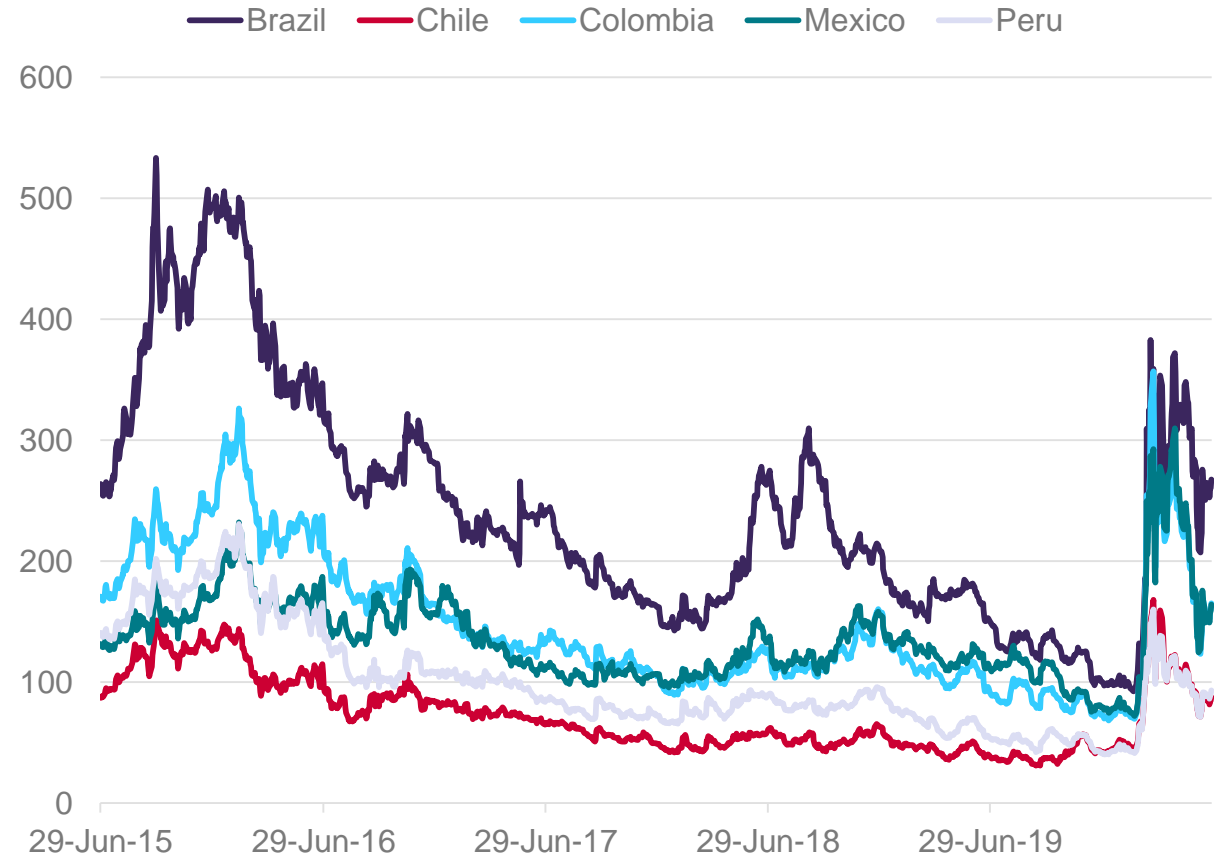
Latin America – Forecast Total Government Debt (End-2020), % of GDP



Source: National Sources, Fitch Solutions

CDS Spreads Reflect Fiscal Pressure

Latin America (Selected) – 5-Year USD Credit Default Swaps, Basis Points

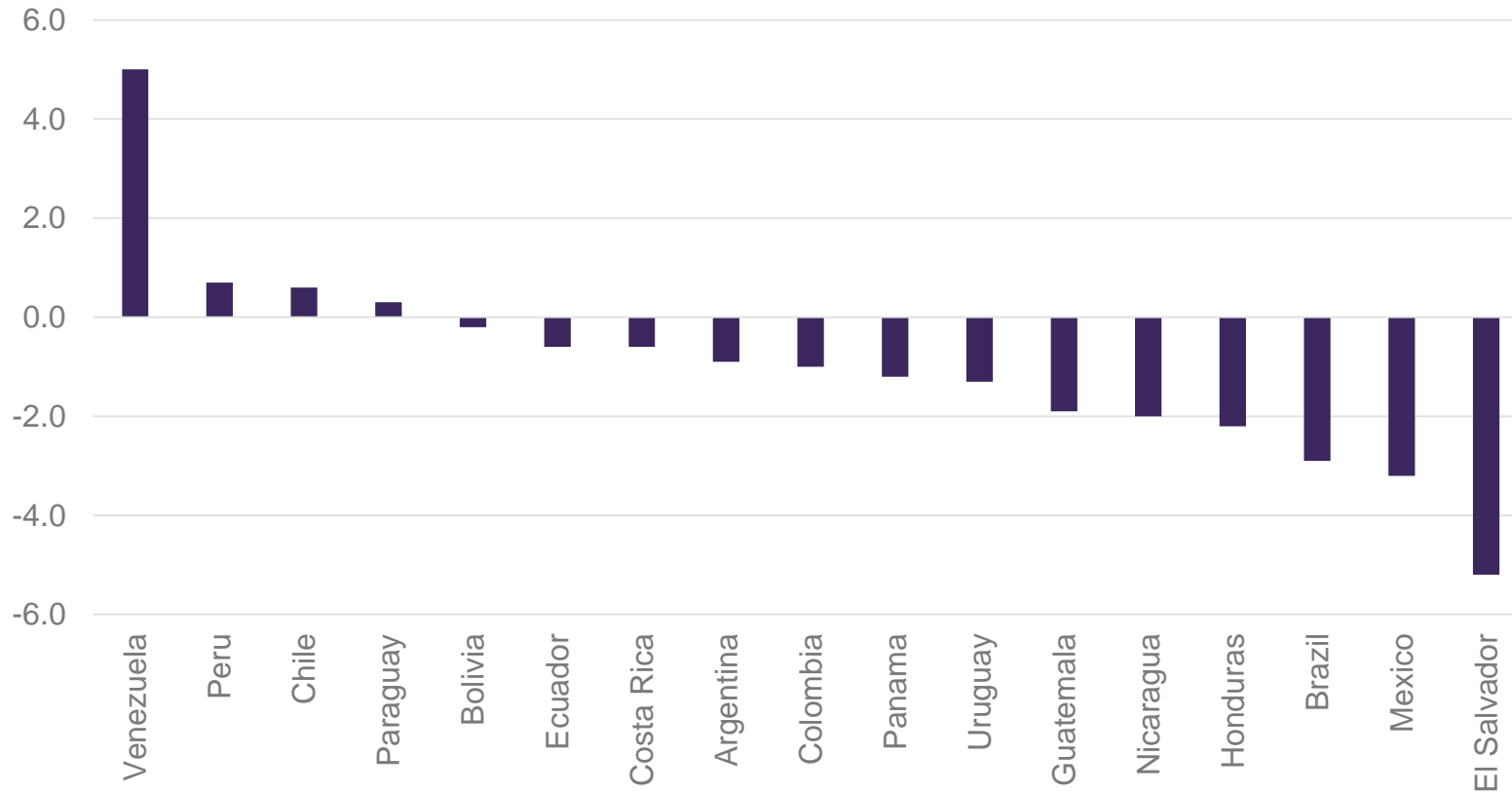


Source: Bloomberg, Fitch Solutions

...Or Political Pressure May Keep Public Spending Elevated

Political Risk Profile Weakens Across The Region

Latin America - Change In Short-Term Political Risk Index Score, Dec-2019 To Jun-2020, Out Of 100



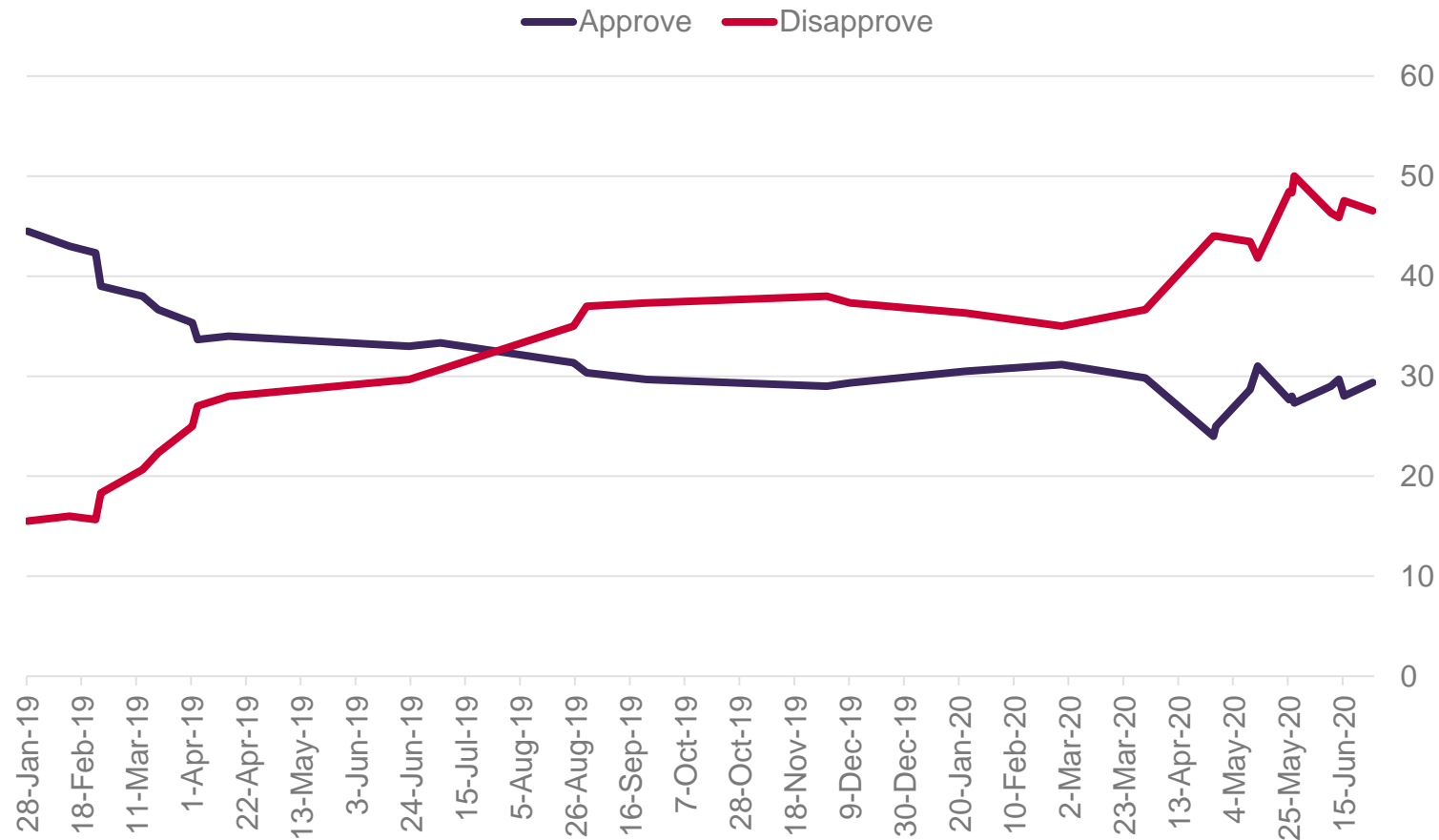
Source: Fitch Solutions

- The combination of weak growth and strained government resources will exacerbate already significant threats to political stability in Latin America.
- A decline in living standards, high economic inequality and wavering faith in democratic institutions have driven significant protests across the region over recent years.
- Covid-19 has brought a temporary reprieve, as lockdown orders have brought street protests and unrest to a halt and most leaders have seen a rise in approval ratings.
- However, as the health crisis passes, governments across the region will face heightened pressure to support household incomes.

Brazil: Deep Recession And Instability In Regional Epicentre

President Bolsonaro Vulnerable Amid Rising Rejection

Brazil – Presidential Approval Rating, %



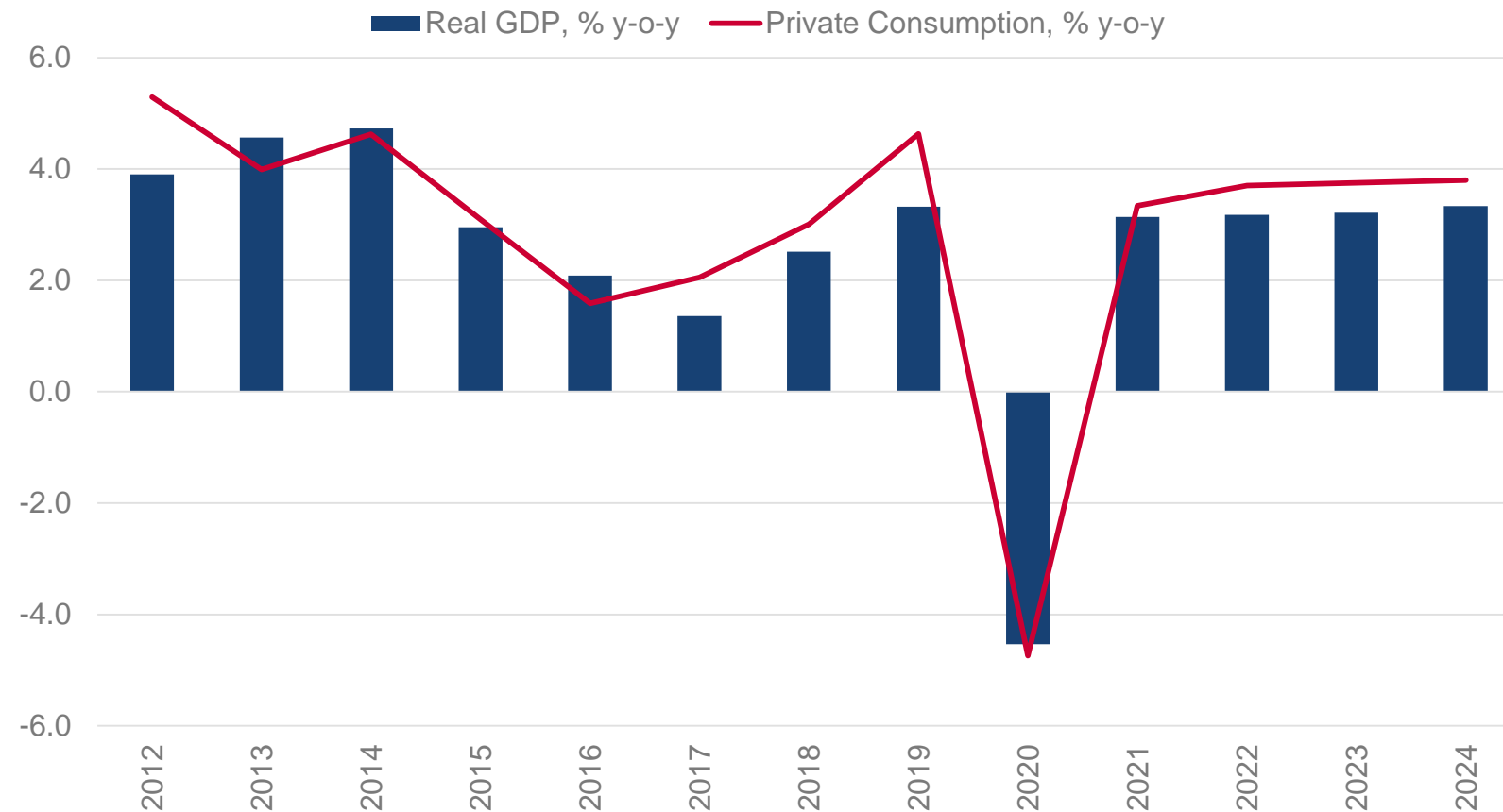
Note: Levels represent average of most recent polls. Source: Various, Fitch Solutions

- Brazil is now a global epicentre of Covid-19, and is experiencing an economic, political and public health crisis. We forecast real GDP to contract 6.5% in 2020.
- President Jair Bolsonaro's uneven response has failed to contain the spread of Covid-19, and his administration is now facing rising public and intragovernmental opposition.
- As Bolsonaro focuses on maintaining his hold on power, reform and liberalisation efforts will likely be left behind.
- Meanwhile, we forecast the fiscal deficit will reach its widest point in history, 15.0% of GDP, over the coming quarters as revenues fall and expenditures head higher.

Colombia: First Recession This Century, With Quarantine Still In Place

Covid-19 Will Undermine Economic Activity, Consumption

Colombia – Real GDP & Private Consumption



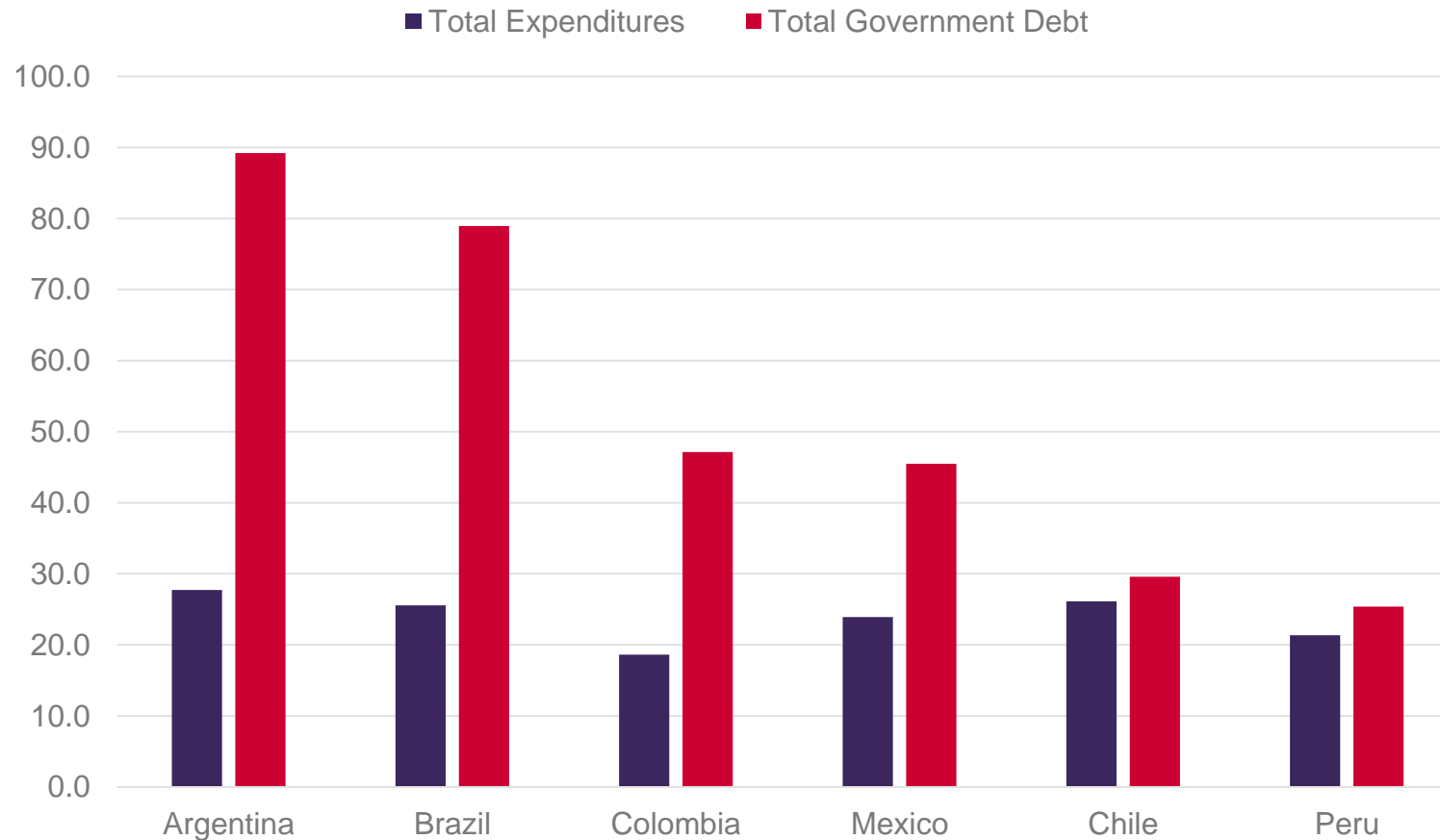
- We expect real GDP in Colombia will contract 4.5% y-o-y in 2020, from a 3.3% expansion in 2019.
- Private consumption will be particularly hard-hit as the Covid-19 economic shock causes a surge in unemployment.
- Meanwhile, restrictions on industrial production and lower oil prices will compound the recent decline in goods exports.
- While fiscal and monetary stimulus will help to contain the downside pressures to growth, wider fiscal deficits and an increase in public debt will present a policymaking dilemma in the medium-to-long term.

Note: 2020-2024 data are Fitch Solutions forecast. Source: National Sources, Fitch Solutions

Peru: Short-Term Economic Strain Will Quickly Turn To Recovery

More Fiscal Space Will Aid Peru's Economic Rebound

Latin America (Selected) – 2019 Public Expenditures & Government Debt, % Of GDP



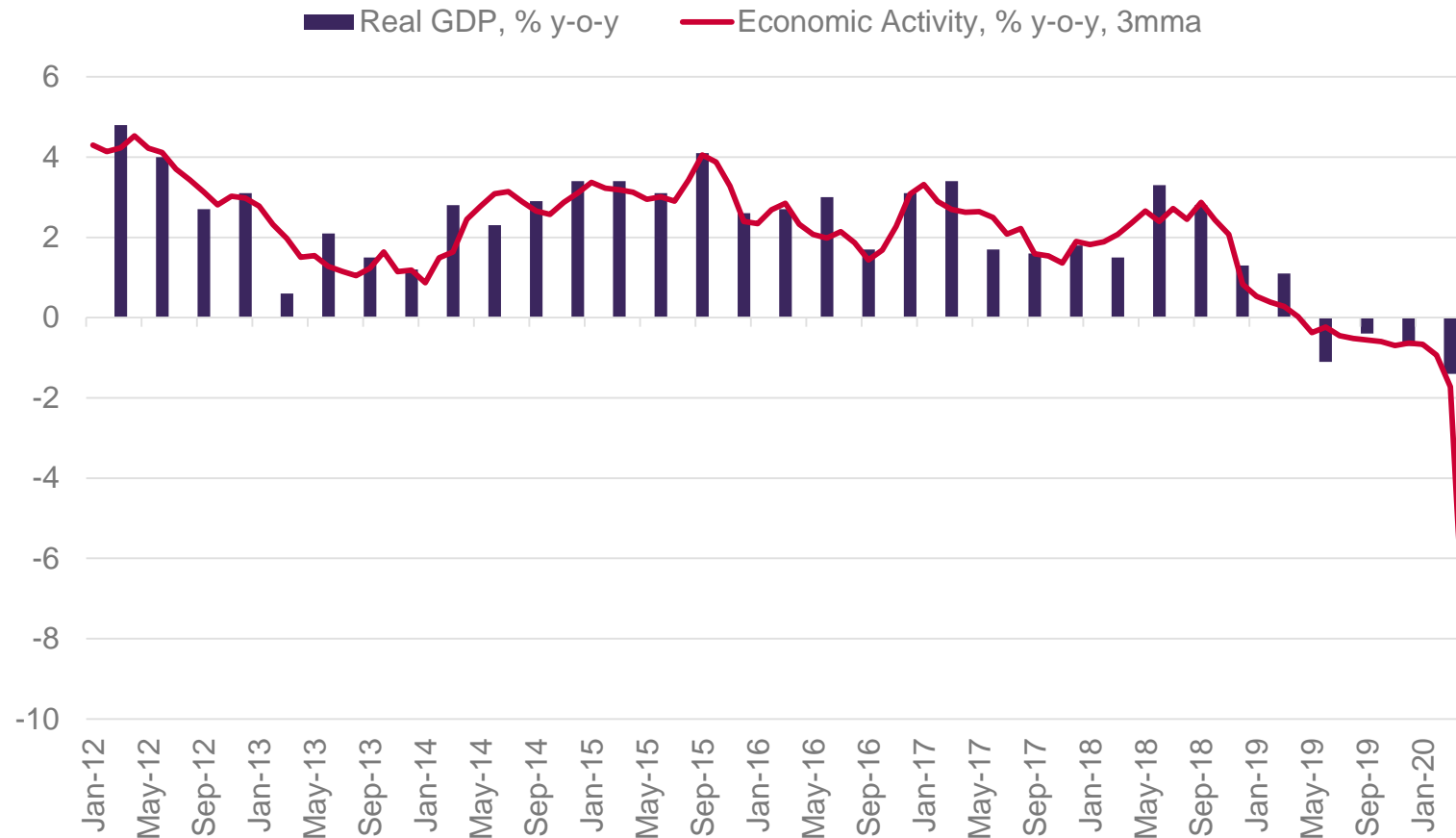
Source: National Sources, Fitch Solutions

- Although Peru instituted one of the region's most stringent national lockdowns, the country has been particularly impacted by Covid-19. As of June 29, it ranks in the top ten in the world in confirmed cases and deaths.
- We forecast real GDP will contract 4.3% in 2020, with risks to the downside, as economic activity hits bottom in Q220.
- However, the country's ample fiscal flexibility and higher copper prices will support its economic rebound beginning in H220.
- The finance ministry and central bank have committed PEN90.0bn (12.0% of GDP) in stimulus money, and the Vizcarra government has pledged funding for the recovery phase.

Mexico: Economy Reopening, Despite Concerning Data

Monthly Data Points Towards Massive Contraction in Q220

Mexico – Quarterly Real GDP Growth And Economic Activity Index



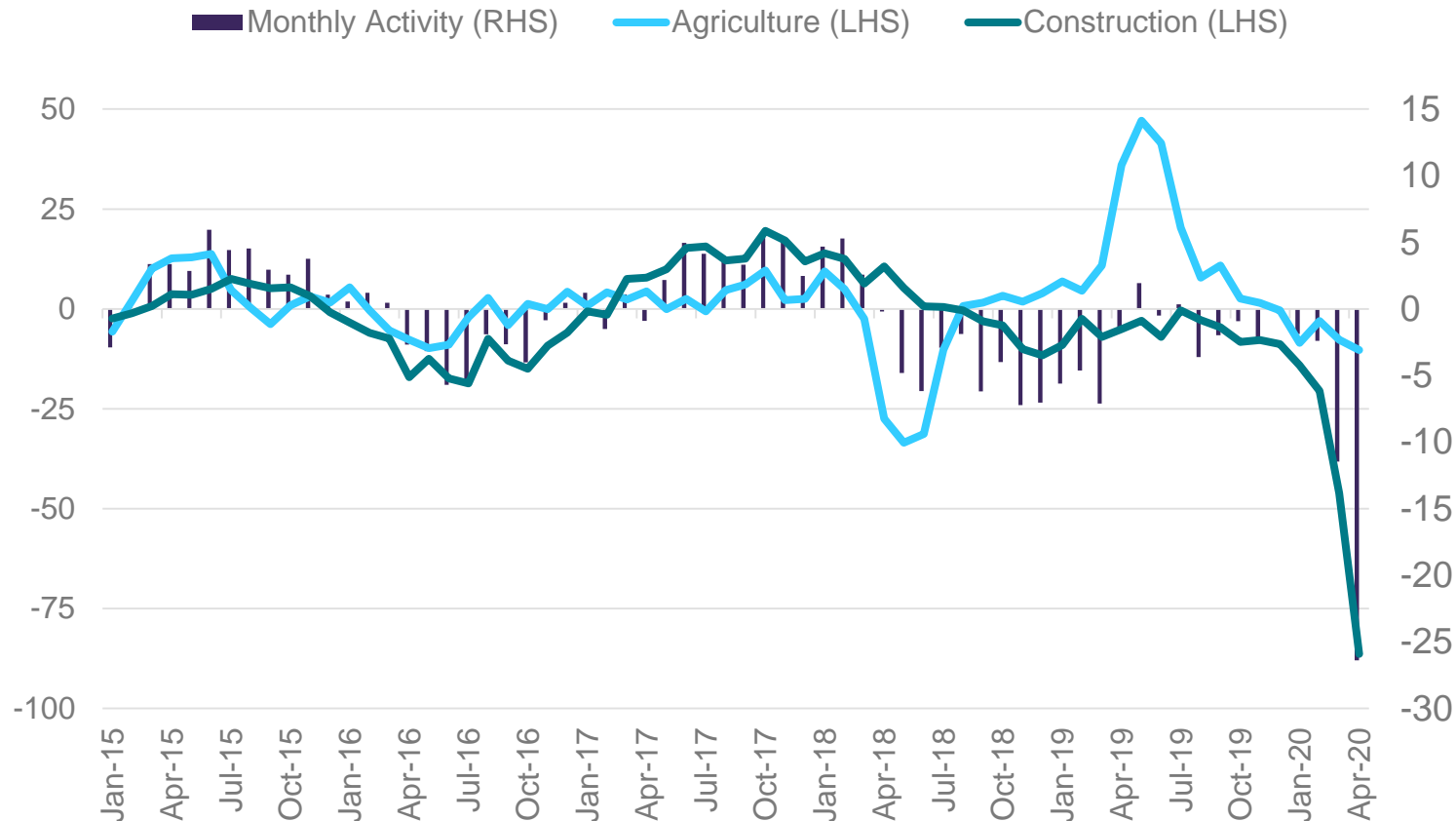
Source: Bloomberg, Fitch Solutions

- We have revised down our 2020 forecast for Mexico to -7.1%, from -5.7% previously, with risks strongly to the downside.
- Although new daily cases continue to grow, President Andrés Manuel López Obrador (AMLO) began reopening the country's economy on June 1.
- The government's fiscal response has been minimal. While Banxico has stepped up, implementing 225bps of rate cuts in 2020, this is unlikely to compensate for the lack of stimulus spending.
- Risks to sentiment remain significant, from rising cases, erratic policymaking under AMLO and risks to public finances from national oil company **Pemex**.

Argentina: President To Face Pressure As Economy Falls Further

Nationwide Lockdown Measures Bring Economy To Standstill

Argentina – Monthly Economic Activity By Sector, % y-o-y



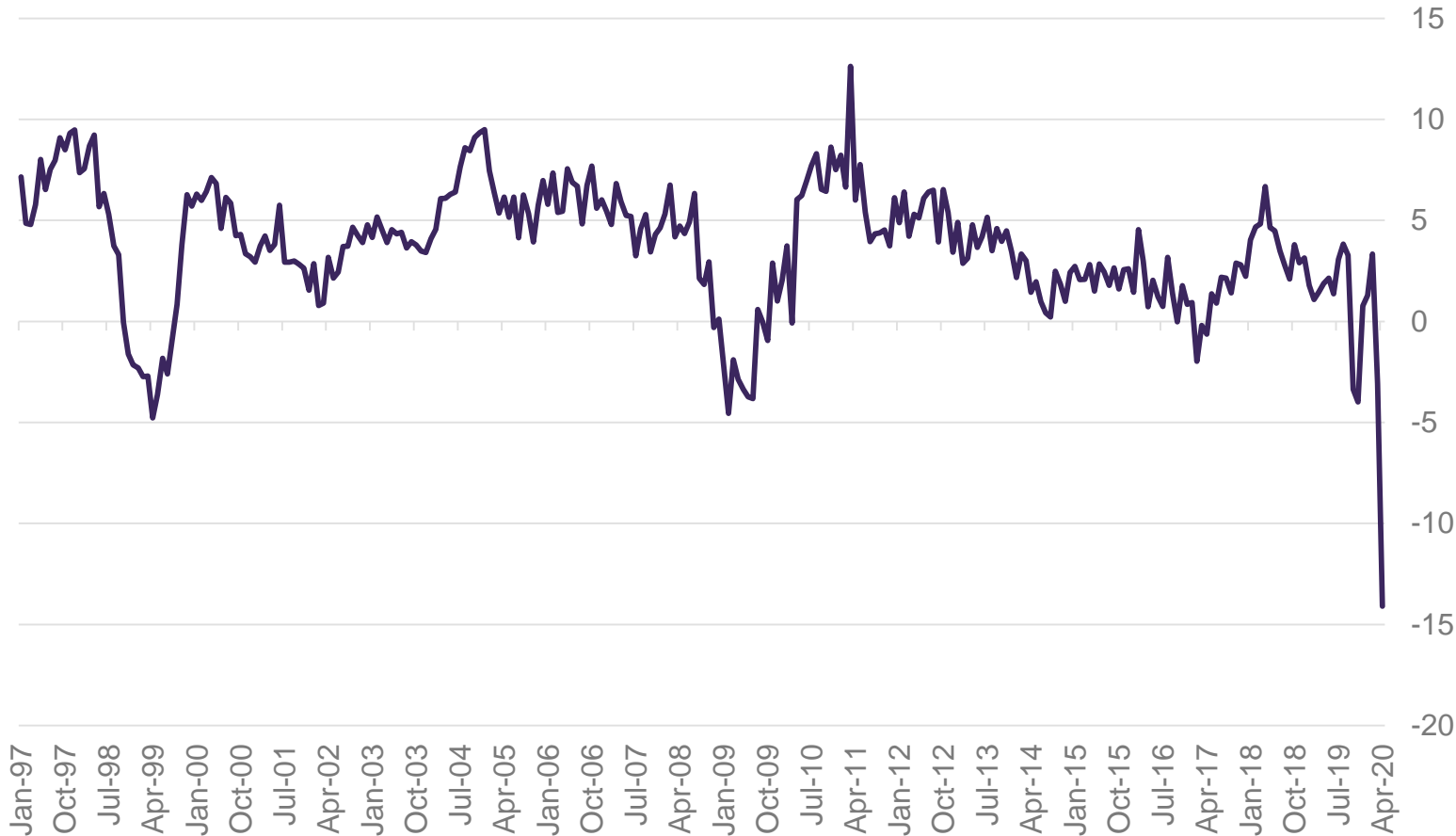
Source: INDEC, Fitch Solutions

- Argentina's recession will be among the region's most severe, due to the extension of lockdown measures in Buenos Aires and continuing uncertainty over debt restructuring.
- In addition, President Alberto Fernández's moves to nationalise a domestic agricultural exporter shows that his government is pursuing increasingly interventionist economic policies.
- We also expect inflation will rise in the coming months amid continuing exchange rate pressures and rising expectations, weighing on household incomes.
- Pressure from unions and civil society groups is likely to rise as attention turns toward economic conditions.

Chile: Falling Into Steep Recession Amid Covid-19 Outbreak

Historic Contraction, With Further Declines Likely In May

Chile – Monthly Economic Activity Index, % y-o-y



Source: Bloomberg, Fitch Solutions

- We forecast that real GDP in Chile will contract by 5.1% y-o-y in 2020 as the country's domestic Covid-19 outbreak further dampens economic activity.
- In April, the Chilean economy contracted 14.1% y-o-y. This data, and Chile's rising death toll from the coronavirus, suggest the economic impact will carry through Q220.
- Recent political news has been positive, as street protests have disappeared and Piñera's approval ratings have risen.
- However, the government's uneven response to the pandemic, high unemployment and upcoming elections increase the risk of renewed unrest.

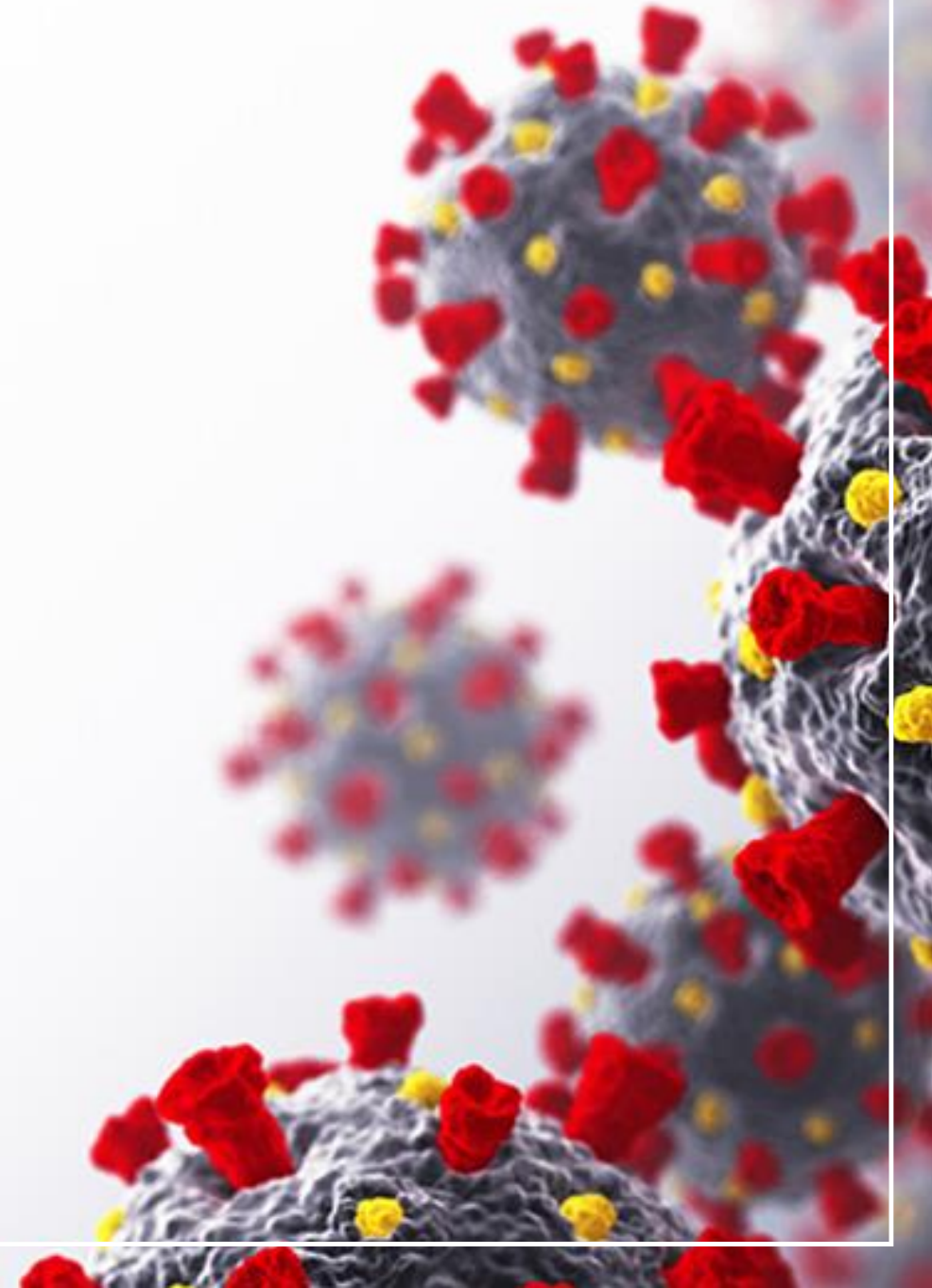


Q&A

Connected Thinking in Challenging Times

Coronavirus research from Fitch Ratings, Fitch Solutions Country Risk & Industry Research, and Fitch Solutions Leveraged Finance Intelligence is now available to all on Fitch Connect.

Find out more at fitchsolutions.com/coronavirus



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