REGIONAL INSIGHT

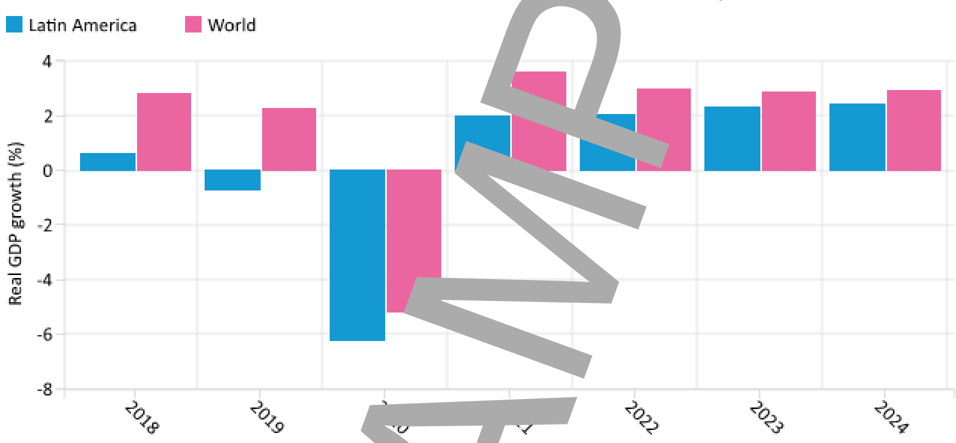
Trend: Deteriorating rapidly

Headline Regional Issues

- Our regional trend indicator is at 'deteriorating rapidly' as Latin America becomes the new epicentre of the coronavirus pandemic.
- Overburdened health infrastructure and uneven official responses to outbreaks have heightened Latin America's vulnerability to severe socioeconomic and political impacts.
- Restrictions on travel and public gatherings have curbed public agitation against several regional governments...
- ...but discontent will keep political/instability risks elevated post-pandemic, particularly in Bolivia, Chile and Colombia.
- Emergency monetary easing and fiscal packages have been announced to mitigate the economic fallout of the Covid-19 pandemic.
- Venezuela's crisis has created an unprecedented humanitarian, social and economic disaster: the steep economic contraction has dragged down the regional average.

REGIONAL OUTLOOK

Regional Growth Forecast

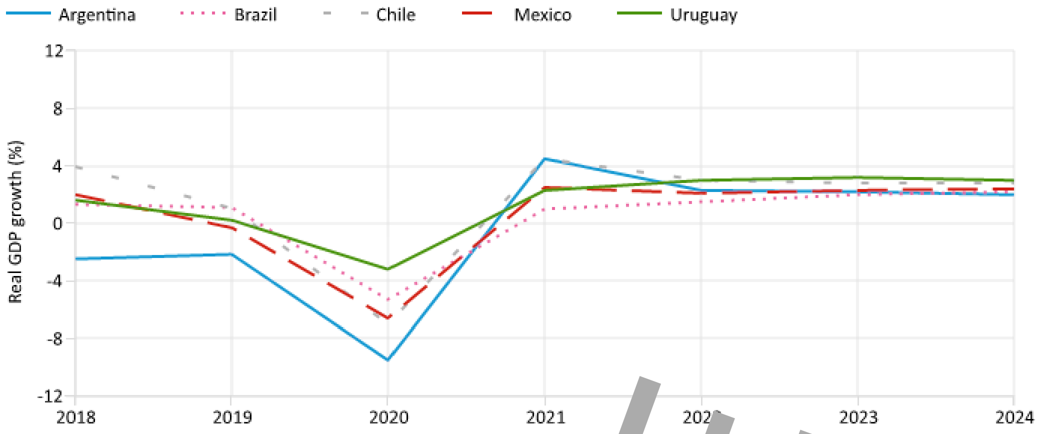


Source: Haver Analytics/Dun & Bradstreet

China's economy is recovering from the coronavirus outbreak, while other major regional trade partners - EU members and the US - phase in the resumption of normal business, even as they work to contain outbreaks. But Latin America's near-term outlook remains heavily clouded by the extent of the regional pandemic. Since March, closures and other restrictions to reduce the spread of coronavirus throughout the region have deeply depressed output from non-essential sectors. The regional tourism sector has also been dealt a severe blow, while investors' exit from emerging markets has hit equities and put FDI spending on hold indefinitely. Leading currencies - including the Brazilian Real - recorded new levels of weakness against the USD dollar in recent times. The downward revision of our 2020 regional growth forecast to negative territory remains subject to significant downside risks.

Despite fiscal packages to protect households from Covid-19's economic impact, the lack of real change suggests that agitation against corruption, inequality and austerity will resurface post-pandemic. Uncertainty over policy-making in Brazil and Mexico contributes to already battered investor confidence and could hinder the region's recovery after the pandemic ends. Further ahead, administrations still face the challenge of balancing unimpressive growth with unrelenting demands for better public services/greater accountability: voters' intolerance for corruption among public officials and the business class - and growing dissatisfaction over environmental and climate-change issues - will remain features of the political environment. Medium- to long-term growth rates are subject to structural constraints that weigh on efficiency and productivity, weakening the region's global competitiveness.

Outlook for Key Regional Countries



Source: Haver Analytics/Dun & Bradstreet

The regional economy is set to contract deeply in 2020 as the coronavirus outbreak remains uncontained, with Brazil a hotspot and other countries struggling to 'flatten the curve' of infection rates. Severe impacts of Covid-19 triggered additional downgrades for regional economies including Brazil and Colombia. This followed Argentina's rating outlook shift to 'deteriorating rapidly' as consumption, investment and trade were battered. In addition, failure to pay USD500m in overdue coupon payments in May led to Argentina's ninth sovereign default. The government is negotiating with creditors to avoid a disorderly default.

The huge surge in coronavirus cases in Brazil and escalating political turmoil involving President Jair Bolsonaro have put tax and administrative reform on the back burner. The probability of a swift recovery from the current crisis - which has dealt a severe blow to investment, exports and consumption - is low, and declining. We continue to monitor political and insecurity risks given Bolsonaro's controversially slow and weak response to the Covid-19 outbreak and the political maelstrom around the president - who has led anti-lockdown protests and whose alleged interference in criminal investigations led to the resignation of Justice Minister Sergio Moro.

In Mexico towns in states 'free' of coronavirus were among the first to resume business in a phased reopening. The crucial automotive, construction and mining industries were also reopened in the first phase. Inward remittances will fall in H2 given that tens of millions of workers in the US have filed for unemployment claims since mid-March, notwithstanding some US jobs recovery in Q2. And recent big swings in global oil prices have piled more pressure on the debt-laden state-owned oil company Pemex, which is a fiscal drain. We still anticipate an elevated risk of a sovereign downgrade unless Pemex's multi-year production decline is arrested, its shaky finances are markedly improved and/or public finances are shielded.

Ratification of the trade deal between Mercosur and the EU was dealt a blow when the Netherlands rejected the proposed pact, citing unfair competition for EU farmers and insufficient environmental protections. The trade agreement aims to eliminate more than 90% of bilateral export tariffs. EU members have expressed concerns about the competitive advantage of Latin America's agriculture sector and the impact on EU farmers. Finally, we maintain our extremely downbeat outlook for Venezuela and expect regime change by end-2020, with the US adding new pressure on the current regime, having charged President Nicolas Maduro with drug trafficking.

Recommendations

- Plan for extended and severe negative impacts from the Covid-19 pandemic given regional governments' generally limited fiscal scope to mitigate severe negative effects.
- Expect ratification of the EU-Mercosur deal to take even longer than previously anticipated given anticipated additional objections from EU members.
- Where possible, hedge against currency exposure as regional currencies are battered.
- Ensure compliance with domestic anti-corruption laws (including those in home countries) to avoid heavy penalties and to minimise reputational risk.
- Expect challenges due to bureaucracy, inadequate infrastructure, and corruption.
- Incorporate environment-friendly policies, where possible, to increase indemnity against rising public protests on climate change/environmental concerns.