

# Latin America COVID-19 Weekly Update

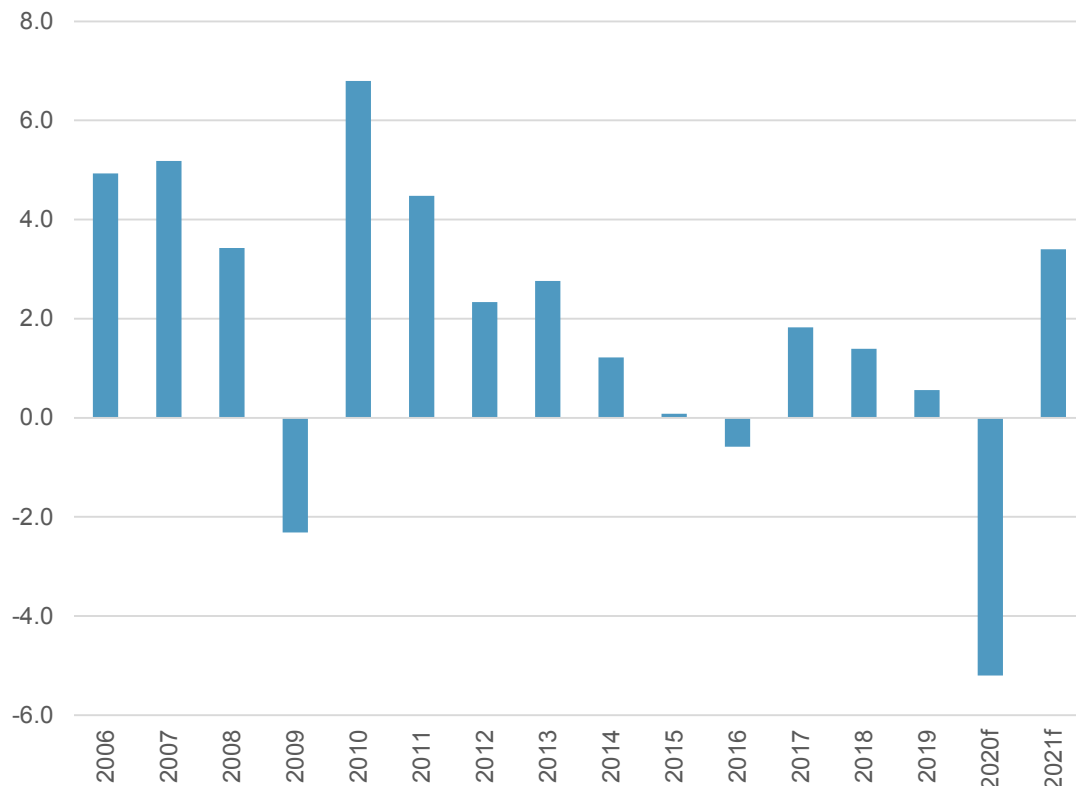
May 4, 2020

# Economic Research

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# LatAm Macro Outlook | Uneven Recovery From COVID-19 Recession

LatAm, Real GDP Growth, %

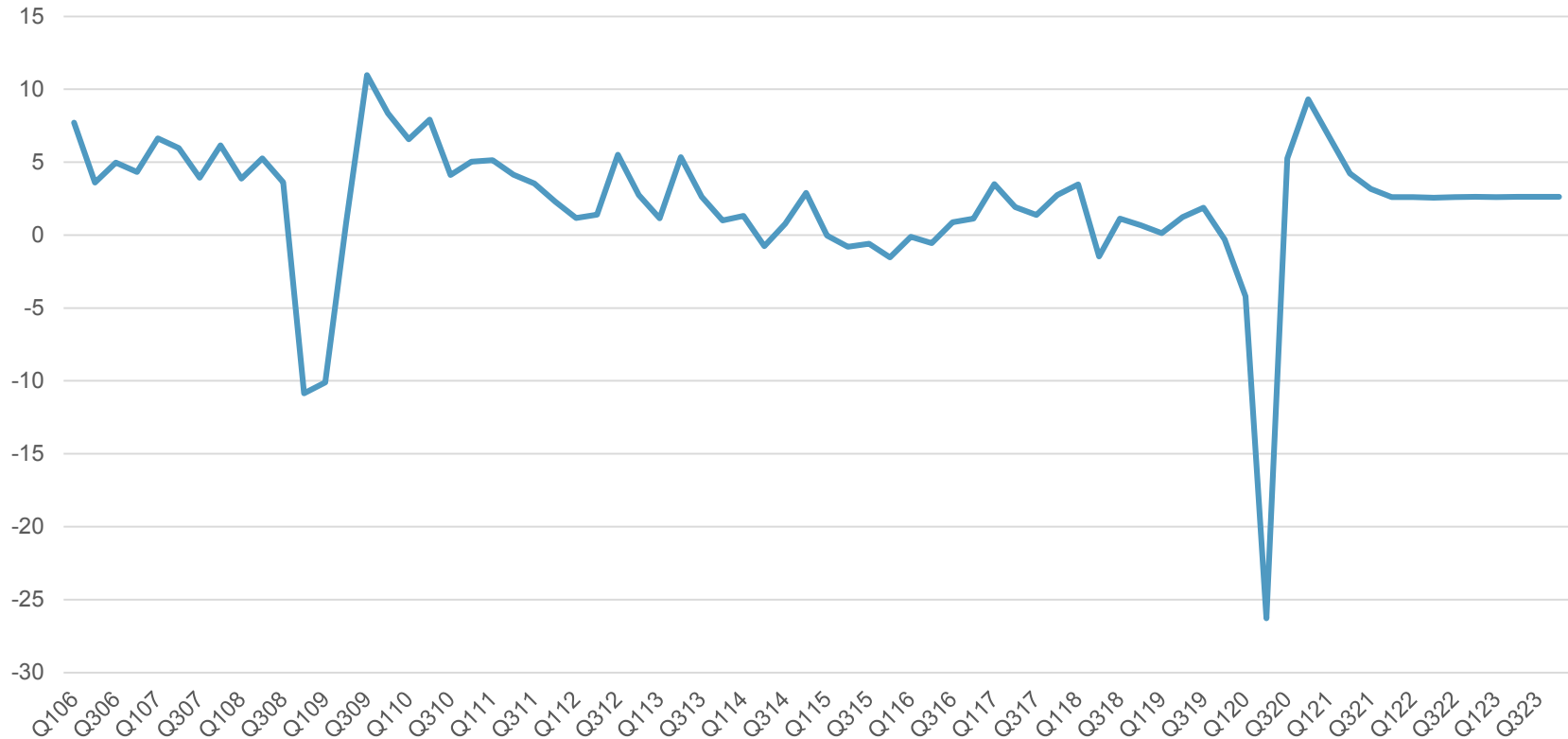


Source: Haver Analytics, S&P Global Ratings.

- **Recession Is Here.** The COVID-19 outbreak, and its associated economic and financial implications, will push LatAm into a deeper downturn this year, than during the 2008-2009 GFC. We forecast Latin America's GDP to contract just over 5% in 2020. However, we expect growth to bounce to a bit over 3% in 2021
- **Recoveries Will Vary.** We see stronger recoveries in economies such as Chile and Peru, due where the combination of more effective viral outbreak containment policies and robust economic responses will help more rapidly repair the damage to labor market and investment dynamics. Conversely, we see a weaker recovery in places like Mexico where stimulus measures have been limited, and economic weakness preceded the COVID-19 pandemic. Brazil and Colombia fall in the middle of the pack.

# LatAm Macro Outlook| The Depth Of The Downturn Will Be Nearly 3x That Of The GFC, But Length Will Be Shorter

LatAm, Real GDP Growth (q/q SAAR), %



Source: Oxford Economics, S&P Global Ratings. Note: Q120 to Q423 are S&P Global Ratings forecasts. The Latin America GDP growth aggregate represented is a PPP weighted average of Argentina, Brazil, Chile, Colombia, and Mexico.

# LatAm Macro Outlook| Our GDP Forecasts

## Latin America: GDP Growth And S&P Global's Forecasts

(%)	2018	2019	2020	2021	2022	2023
Argentina	(2.5)	(2.2)	(7.0)	2.6	2.5	2.4
Brazil	1.3	1.1	(4.6)	3.3	2.9	2.8
Chile	4.0	1.0	(3.9)	4.6	3.2	3.2
Colombia	2.5	3.3	(2.6)	4.1	3.4	3.3
Mexico	2.1	(0.1)	(6.7)	2.9	2.3	2.0
LatAm 5	1.5	0.6	(5.3)	3.2	2.7	2.6
Peru	4.0	2.2	(3.1)	5.5	3.8	3.7
LatAm 6	1.5	0.6	(5.2)	3.4	2.8	2.6

Note: the LatAm GDP aggregate forecasts are based on PPP GDP weights. LatAm 5 excludes Peru. Source: S&P Global Ratings.

# Sovereigns and International Public Finance

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# Sovereign Ratings | Assessing The Strain

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- Lots of **uncertainty** regarding possible damage to the global economy propelled widespread volatility in equities, credit conditions and commodity prices.
- What started as a **supply chain disruption** has become a **demand shock** resulting in large **monetary** and **fiscal** stimulus from government.
- We **assume COVID-19 to be a temporary hit**. We expect a most likely U shape recovery, coming in 2021.
- We are focusing on **three factors** to assess if a sovereign can absorb the shock while maintaining its current ratings.
  - The **duration** and severity of the epidemic
  - The **timeliness and adequacy** of the policy response
  - The underlying economic and political **resilience –Pre COVID-19 Financial and Economic Health**

# Sovereign Ratings | Latin America And Caribbean

**\*\*Outlook/CreditWatch:** *Stable, Positive, Negative*

Bermuda A+/A+

Chile A+/AA-

Aruba BBB+/BBB+

Panama BBB+/BBB+

Peru BBB+/A-

Turks and Caicos BBB+/BBB+

\*\*Curacao BBB/BBB

\*\*Mexico BBB/BBB+

Uruguay BBB/BBB

\*\*Trinidad & Tobago BBB-/BBB

Montserrat BBB-/BBB-

\*\*Colombia BBB-/BBB

\*\*Bahamas BB+/BB+

Paraguay BB/BB

Bolivia BB-/BB-

\*\*Brazil BB-/BB-

Dominican Republic BB-/BB-

Guatemala BB-/BB

Honduras BB-/BB-

Jamaica B+/B+

Costa Rica B+/B+

Barbados B-/B

Belize B-/B-

El Salvador B-/B-

Nicaragua B-/B-

\*\*Suriname CCC+/C

\*\*Ecuador CCC-/CCC-

\*\*Argentina SD/SD

Venezuela SD/CCC-

Source: Ratings as of April 9, 2020 as published on S&P Global's Global Credit Portal.



# Latin American Local and Regional Governments:

Mexico leading the number of negative outlooks after covid-19 outbreak

LRGs were already facing fiscal restrictions before covid-19 outbreak, and debt levels do not restrict their ratings overall at present.

## When COVID-19 outbreak started in the different countries:

**Argentine LRGs** had negative outlooks on their low ratings due to own particular situations and in some cases we believe that a default is virtually inevitable. We still have ratings above Argentina (currently at SD).

**Brazilian LRGs** had and currently have all ratings with stable outlooks, but budgetary risks loom, while the central government is trying to pass a law to help LRGs to refinance their debts with the federal government and public banks.

**Mexican LRGs** faced a combined shock due to covid-19 measures and lower oil prices; both situations with the power to significantly pressure public finances in the short to medium term. **We have changed the Outlook to negative on 46% of rated Mexican states, and municipalities still have a lower proportion of negative outlooks on their ratings.**

## Negative bias on our Latam LRG ratings in 2020

# Latin American LRGs | Increasing Budgetary Risks As Other Regions

## LRGs Key Risk Trends As Of March 31, 2020

	Liquidity	Budgetary performance and budgetary flexibility	Debt burden and contingent liabilities	Institutional, political, and/or sovereign factors
<b>Americas</b>				
Argentine LRGs	Increasing	Increasing	Neutral	Increasing
Brazilian LRGs	Increasing	Increasing	Neutral	Neutral
Canadian Provinces	Neutral	Increasing	Neutral	Neutral
Mexican LRGs	Neutral	Increasing	Neutral	Increasing
<b>AsiaPacific</b>				
Australian LRGs	Neutral	Increasing	Neutral	Increasing
Chinese LRGs	Neutral	Increasing	Neutral	Neutral
Indian LRGs	Neutral	Increasing	Neutral	Neutral
Japanese LRGs	Neutral	Neutral	Neutral	Neutral
New Zealand LRGs	Neutral	Increasing	Neutral	Neutral
<b>Europe</b>				
French LRGs	Neutral	Neutral	Neutral	Neutral
German LRGs	Neutral	Neutral	Neutral	Neutral
Italian LRGs	Neutral	Increasing	Neutral	Increasing
Russian LRGs	Neutral	Increasing	Neutral	Neutral
Spanish LRGs	Neutral	Increasing	Neutral	Neutral
Swedish LRGs	Neutral	Increasing	Increasing	Neutral
Swiss Cantons	Neutral	Neutral	Increasing	Neutral

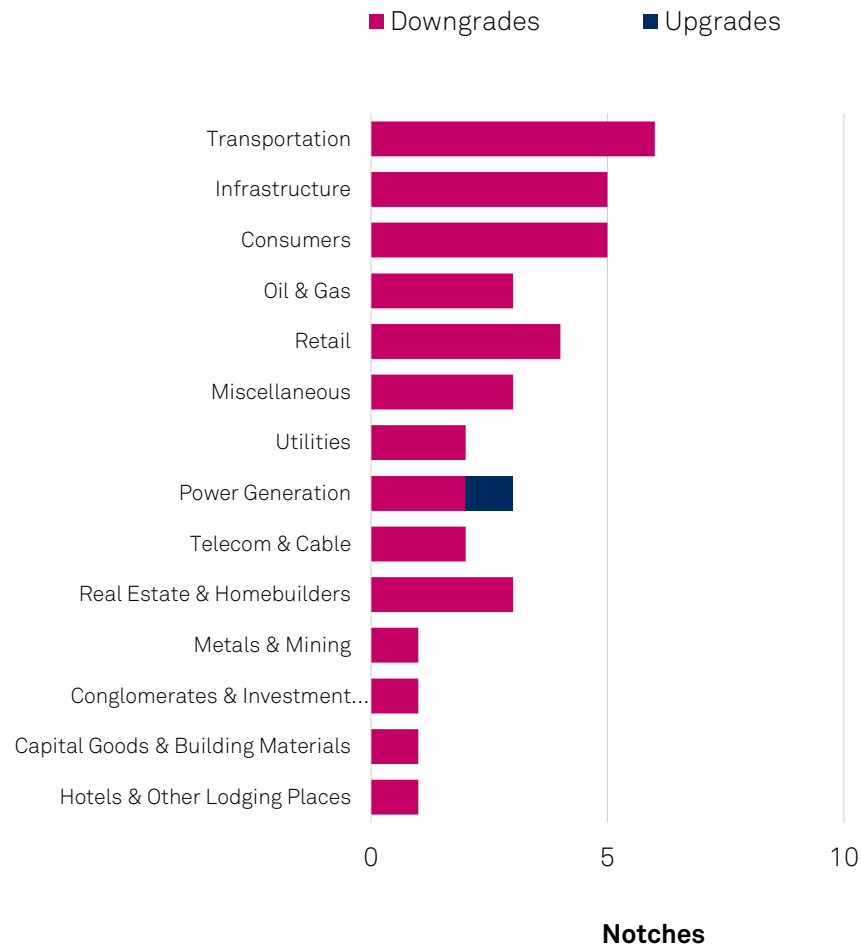
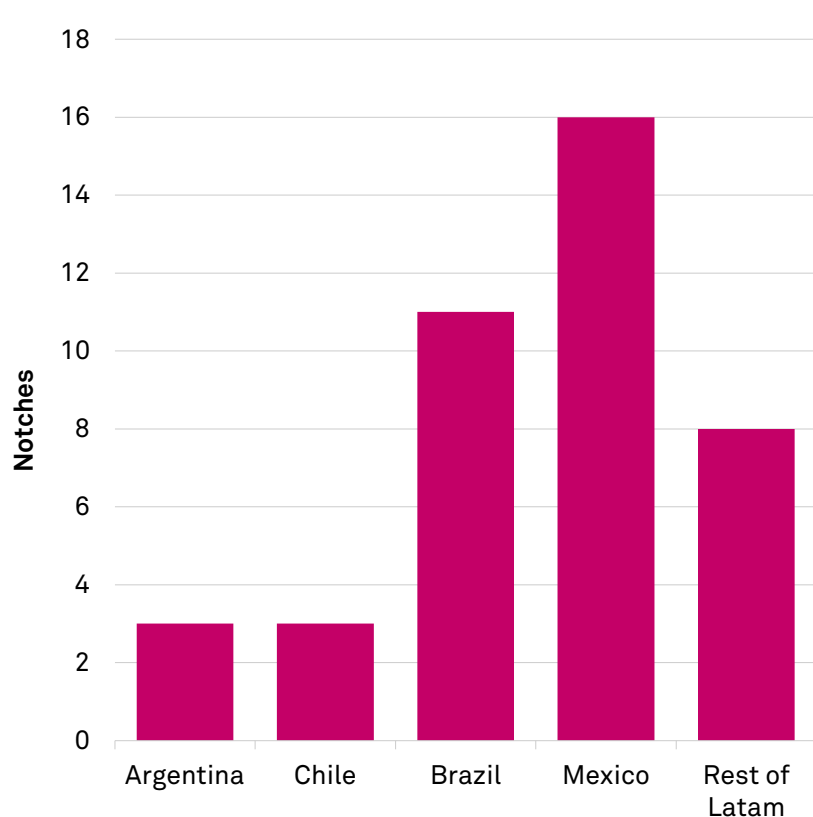
**Risk trend**  
Decreasing  
Neutral  
Increasing

# Corporates

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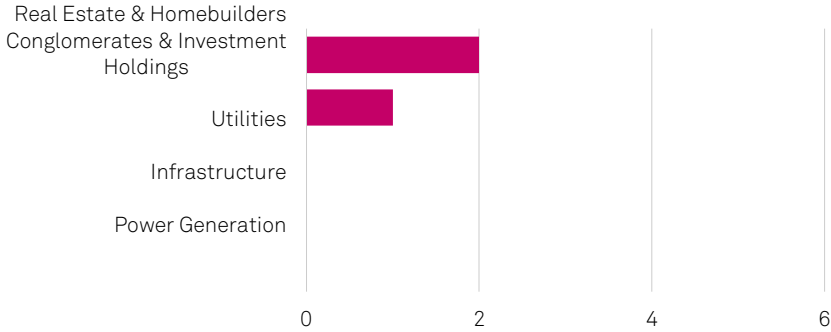
# Corporates & Infrastructure | 41 Downgrades Since The Outbreak



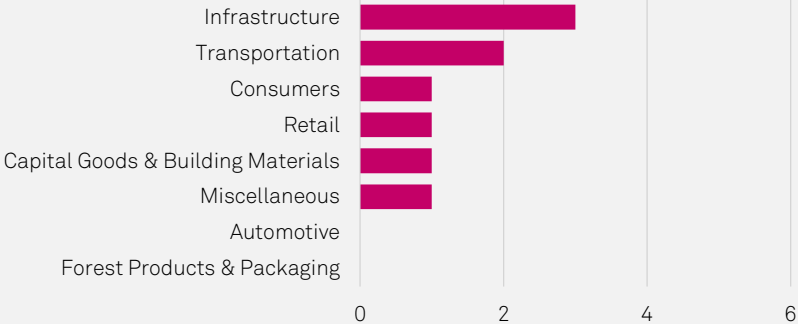
# Corporates & Infrastructure | Brazil & Mexico

## Concentrated The Bulk Of The Actions

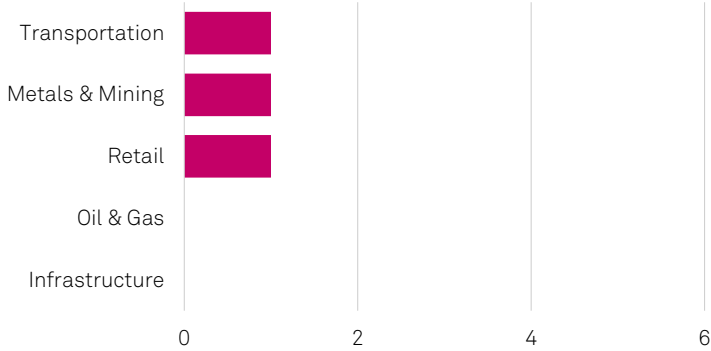
### Argentina



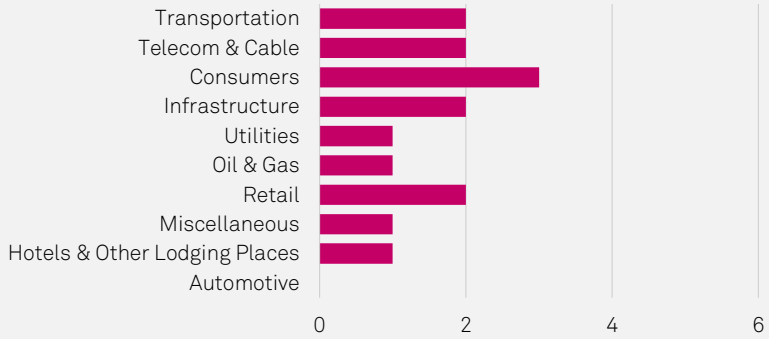
### Brazil



### Chile



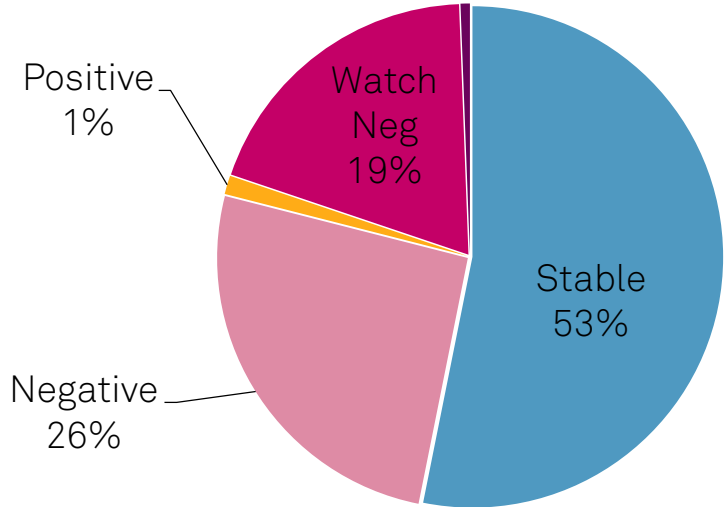
### Mexico



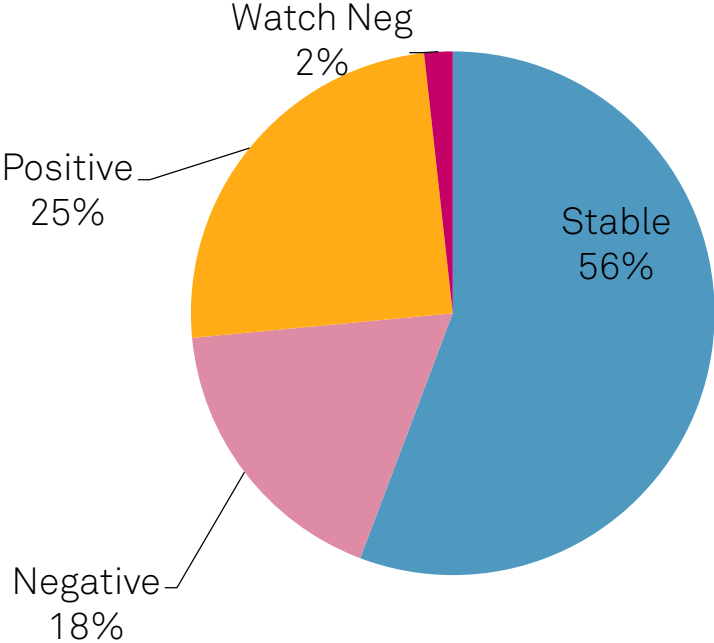
Source: S&P Global Ratings since Feb-27 to April 8, 2020

# Corporates & Infrastructure | Downgrade Potential Remains High In Corporate LatAm

April 8

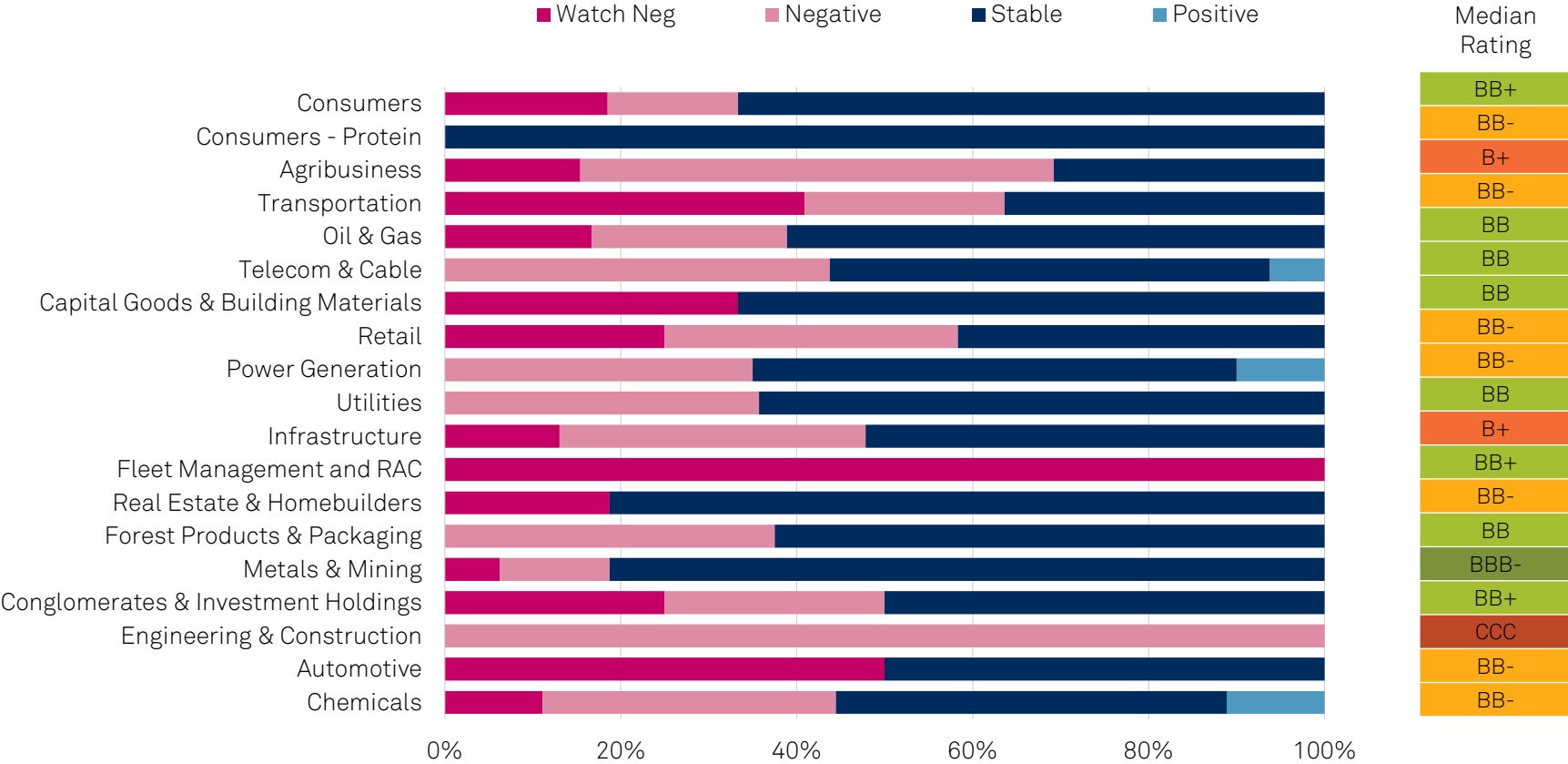


Feb 27



Source: S&P Global Ratings as of Feb-27 and April 8, 2020

# Corporates & Infrastructure | Downgrade Potential Remains High In Corporate LatAm



Source: S&P Global Ratings as of April 8, 2020

# Infrastructure

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# Infrastructure

## Recent ratings activity

- Air Traffic deterioration impact caused two downgrades:
  - ACI Airport Sudamerica Downgraded To 'CCC' From 'BB' On Likely Further Traffic Deterioration And Liquidity Constraints. Credit Watch Negative
  - Aeropuertos Argentina S.A. 2000 Downgraded To 'CC' From 'B-' On Debt Exchange Offer, Outlook Negative
- Change in the outlook of Panama Sovereign caused similar action on two Government related entities:
  - Autoridad del Canal de Panama : A/ Negative
  - Aeropuerto Internacional de Tocumen S.A.: BBB+/Negative
- New issuance:
  - SABESP`s proposed BRL 1.45billion debentures due October 2021 rated brAAA

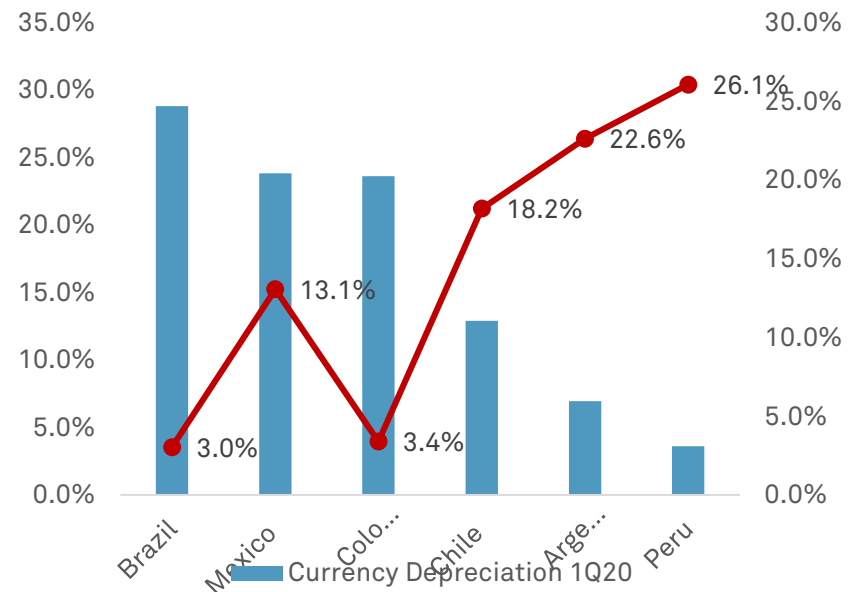
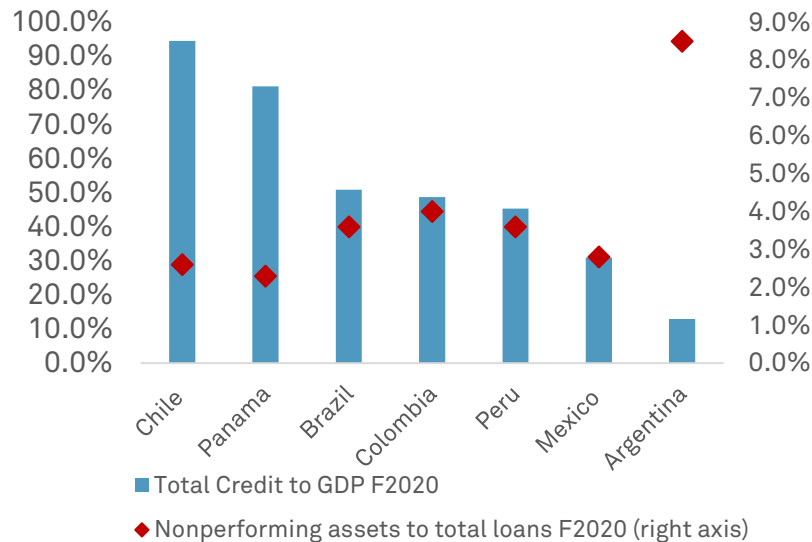
# Financial Institutions

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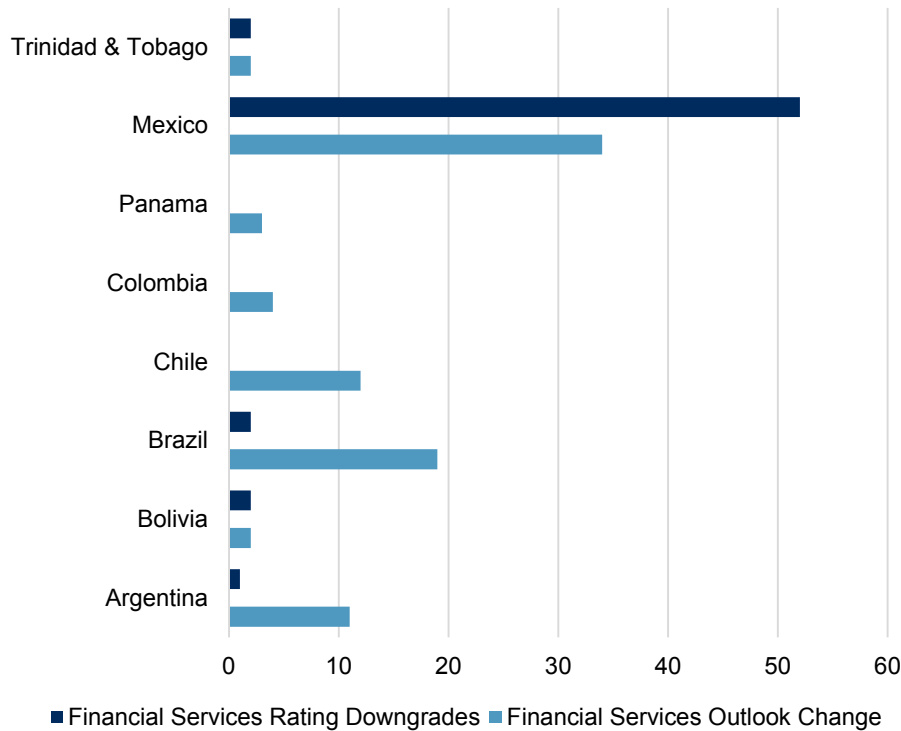
# Financial Institutions | Asset Quality Shock Amid The Coronavirus Outbreak

- We expect a shock on asset quality indicators especially from small-to mid-size enterprises (SMEs) and self-employed workers; but most probably full recognition will be delayed due to regulatory forbearance.
- Major banks can cope with a temporary disruption in capital markets because deposits provide the bulk of their funding and due to the absence of significant debt maturities in 2020.

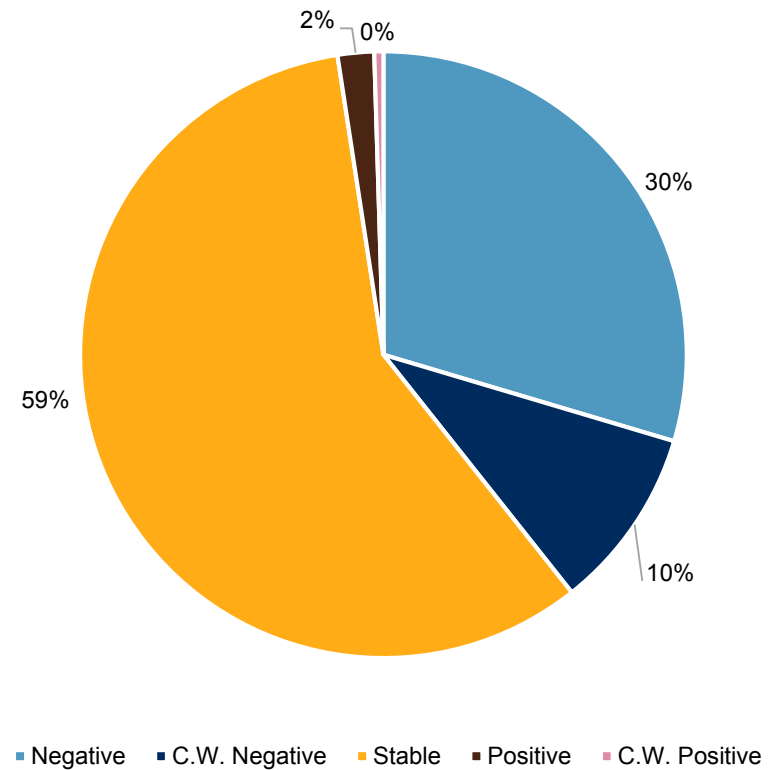


# Financial Institutions | Rating Actions Since The Beginning Of COVID-19 Outbreak In The Region

## Number Of Downgrades And Outlook Revision

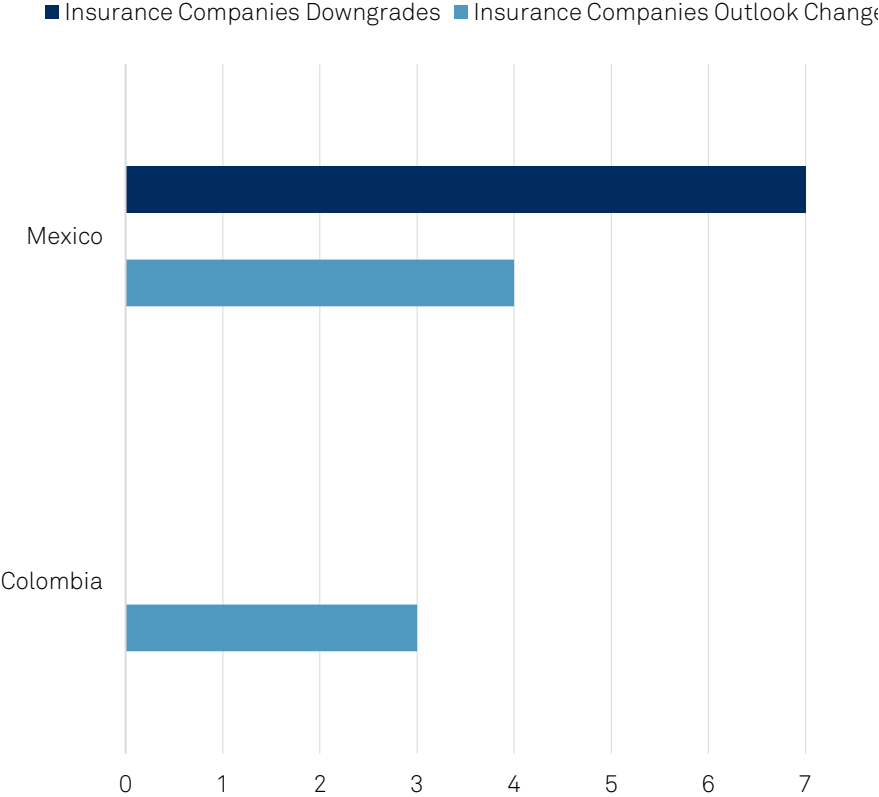


## Outlook Distribution As Of May 4

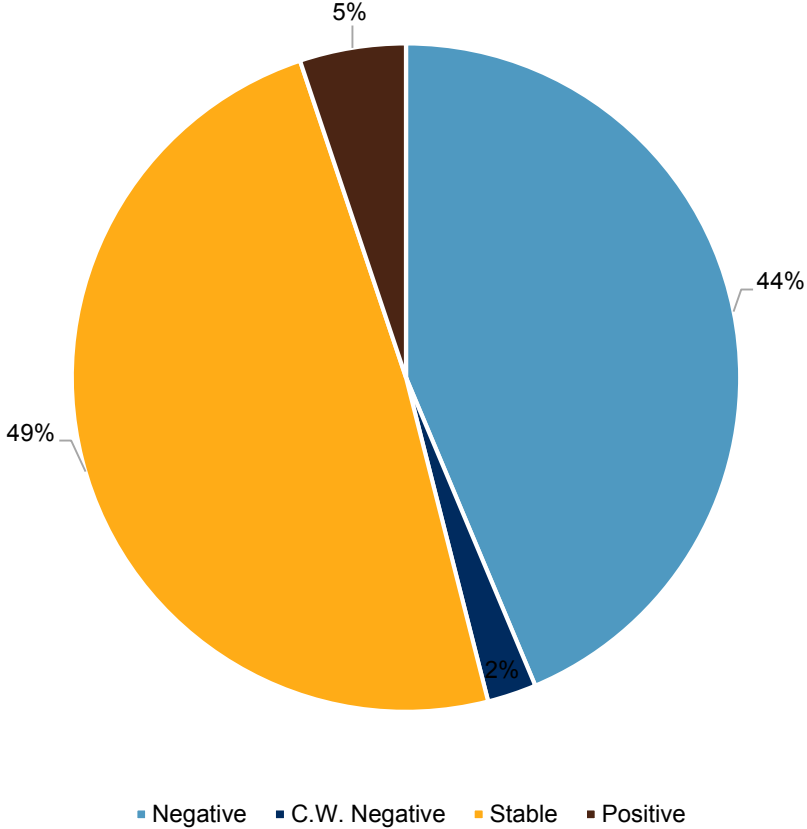


# Insurance | Rating Actions Since The Beginning Of COVID-19 Outbreak In The Region

Number Of Downgrades And Outlook Revision



Insurance Outlooks as of May 4



# Structured Finance

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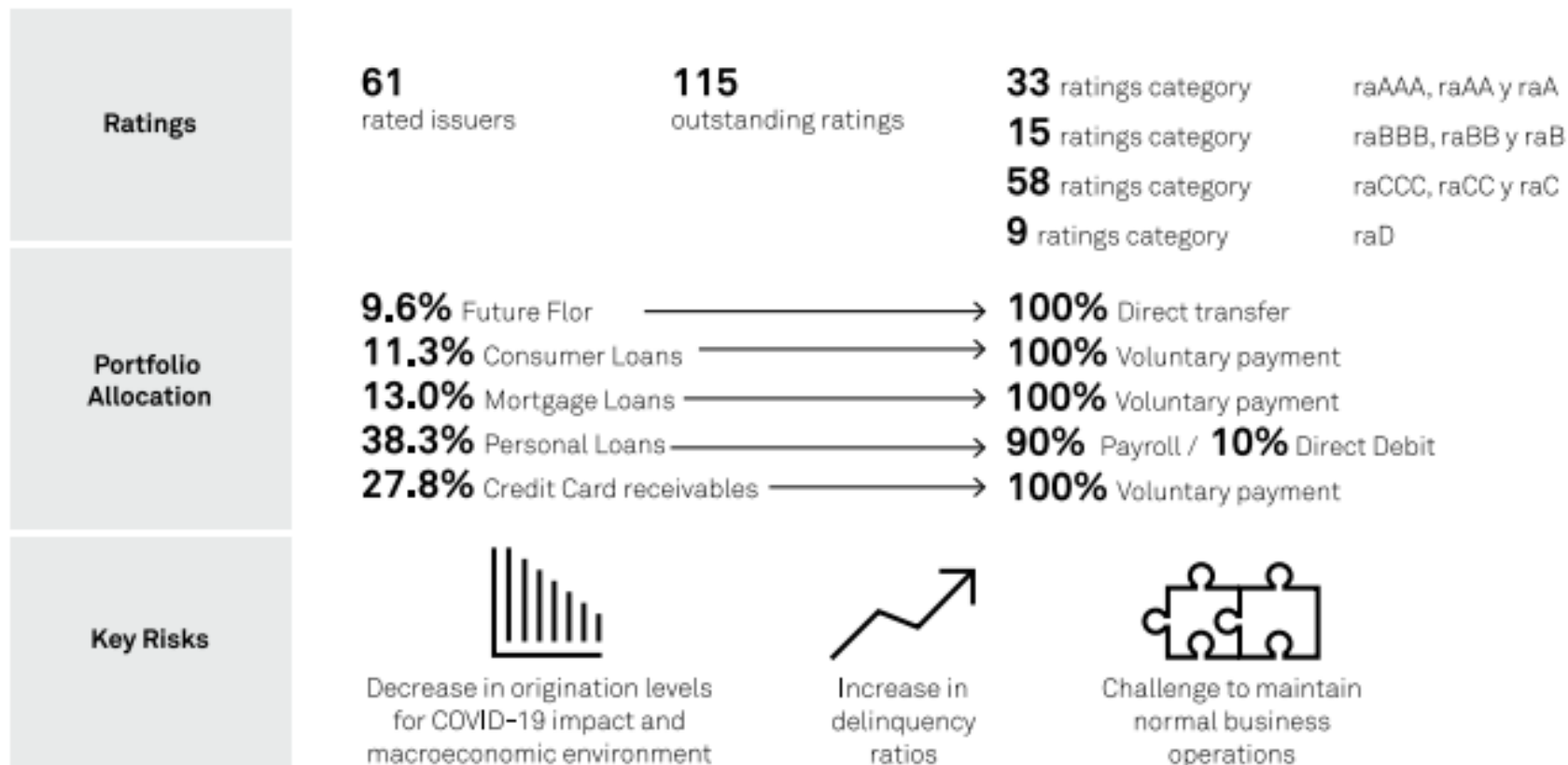
# Structured Finance | Major Risks In Latin America Securitization

- 1 Transactions with low levels of liquidity reserves
- 2 Government or servicer relief programs
- 3 Closed stores of servicers using a buy-here/pay-here collection process
- 4 Closing of stores in shopping malls backing rated CMBS transactions
- 5 Impact of potential obligor, counterparty, and sovereign downgrades
- 6 Effect of social distancing on the cash flow for transactions linked to transportation
- 7 Persistent deterioration of collateral performance
- 8 Increased concentration in transactions supported by trade receivables.

*Source: S&P Global Ratings*

# Structured Finance | How COVID-19 Will Affect Origination And Delinquency Levels In The Argentine Financial Trust Market

## Argentine financial trust market overview





# Structured Finance | COVID-19 Related Rating Activity

Latin America Structured Finance Rating Actions Through April 24, 2020(i)						
Action	ABS consumer	CMBS	Future flow	Receivables	Repack	Total
Downgrade	--	--	1	--	--	1
Negative CreditWatch placement	18	2	--	14	3	37
Withdrawal	1	--	--	--	--	1
Total(iv)	19	2	1	14	3	39

(i)Based on an aggregate count of rating actions listed in our public press releases. We will be updating this summary table on a weekly basis, which may be subject to revisions from time to time. For the most up-to-date version, please refer to the most recent publication. (iv)Generally includes all public rating actions related to the COVID-19 impact. ABS--Asset-backed securities. CLO--Collateralized loan obligation. CMBS--Commercial mortgage-backed securities. TOB--Tender option bond. SPUR--S&P Global Ratings underlying rating.

# Related Research

- [COVID-19 Credit Update: Latin American Structured Finance Begins To Feel The Pandemic's Effects, Apr 29, 2020](#)
- [How COVID-19 Will Affect Origination And Delinquency Levels In The Argentine Financial Trust Market, Apr 30, 2020](#)

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