# Latin America COVID-19 Bi-Weekly Update

## June 1, 2020

S&P Global Ratings

# Economic Research

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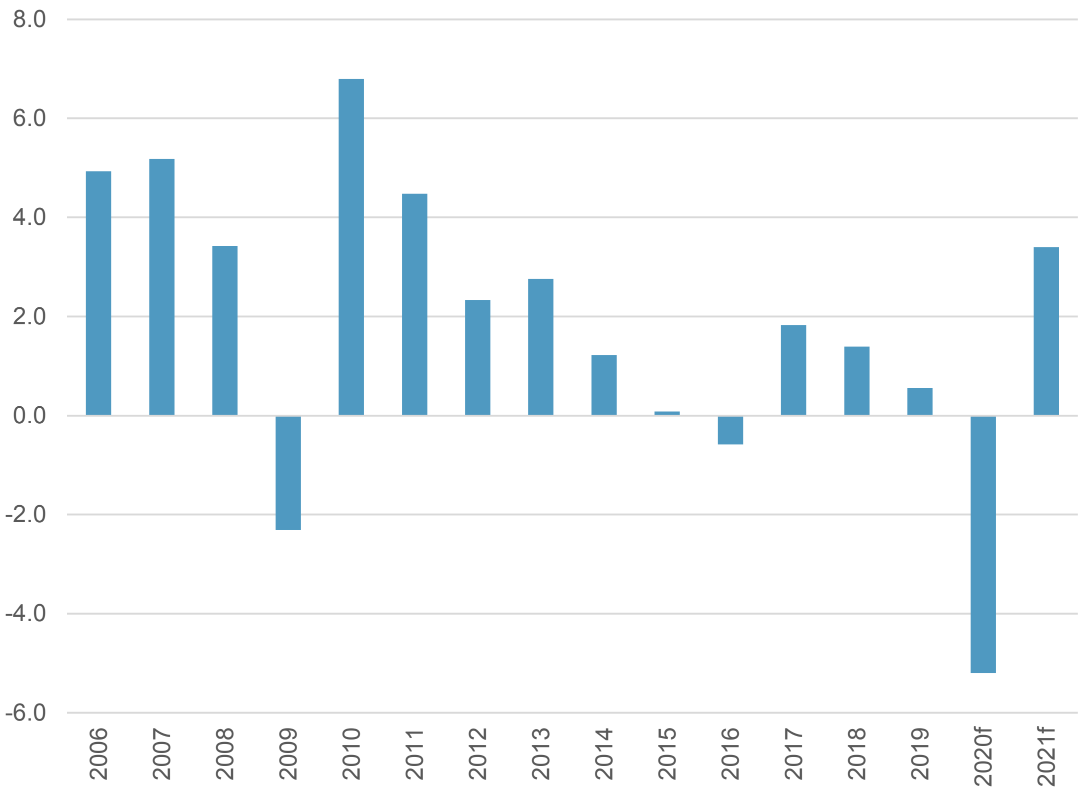
# LatAm Macro Outlook| Uneven Recovery From COVID-19 Recession

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, ex expect growth to bounce to a bit over 3% in 2021

- **Recoveries Will Vary**. We see stronger recoveries in 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 were stimulus measures have been limited, and economic weakness preceded the COVID-19 pandemic. Brazil and Colombia fall in the middle of the pack.

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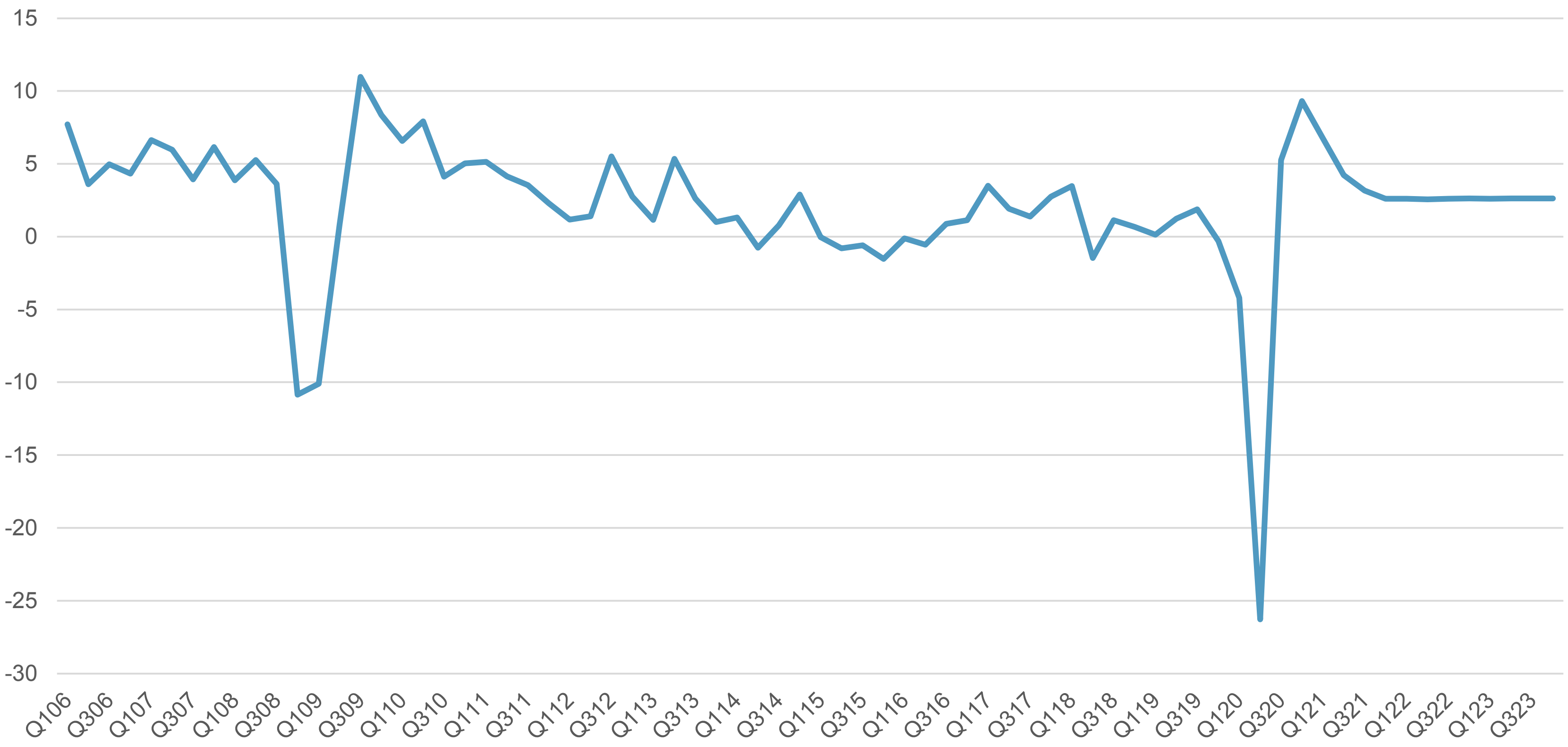
# LatAm Macro Outlook| The Depth Of The Downturn Will Be Nearly 3x That Of The GFC, But Length Will Be Shorter

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.*

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# 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

**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*

*Outlook/CreditWatch: Stable, Positive, Negative*

*** Changed since March 2020*

**Bahamas *BB/BB*

Paraguay *BB/BB*

**Bolivia *B+/B+*

**Brazil *BB-/BB-*

**Dominican Republic *BB-/BB-*

Guatemala *BB-/BB*

Honduras *BB-/BB-*

**Jamaica *B+/B+*

Costa Rica *B+/B+*

Barbados *B-/B*

El Salvador *B-/B-*

Nicaragua *B-/B-*

**Suriname *CCC+/C*

**Belize CCC*/C*

**Ecuador SD*/SD*

**Argentina *SD/SD*

Venezuela *SD/CCC-*

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*Source: 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 |
|---|---|---|---|---|
| **Americas** | | | | |
| Argentine LRGs | Increasing | Increasing | Neutral | Increasing |
| Brazilian LRGs | Increasing | Increasing | Neutral | Neutral |
| Canadian Provinces | Neutral | Increasing | Neutral | Neutral |
| Mexican LRGs | Neutral | Increasing | Neutral | Increasing |
| **AsiaPacific** | | | | |
| 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 |
| **Europe** | | | | |
| 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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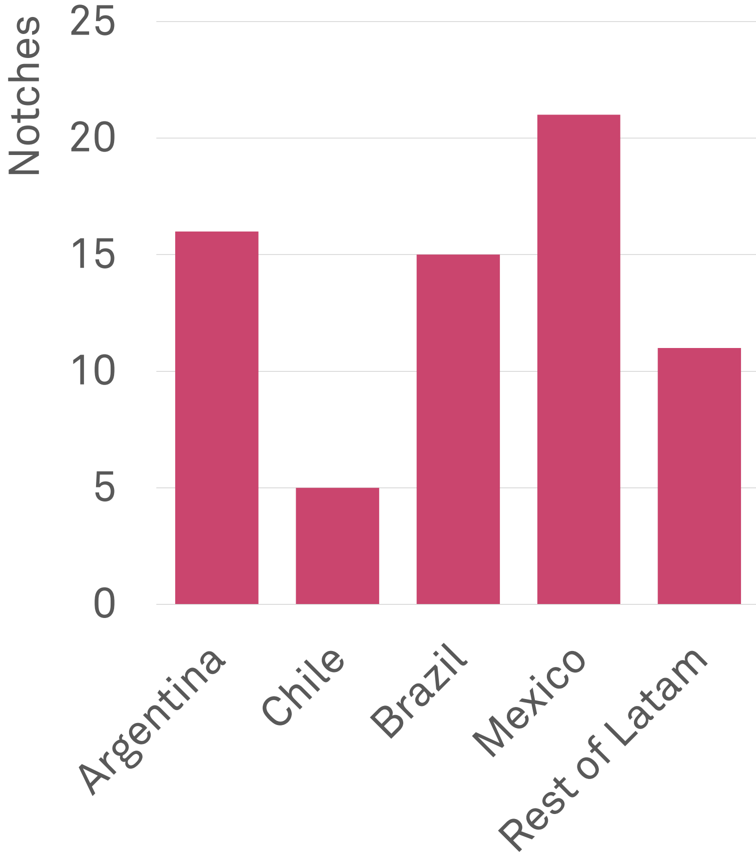
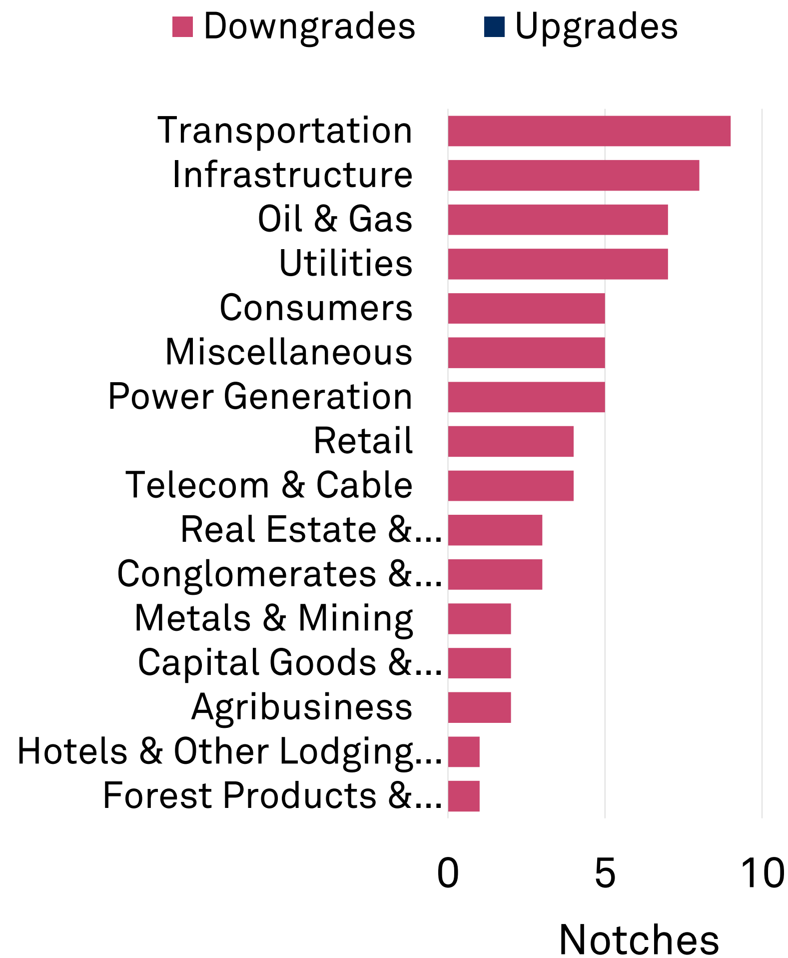
# Corporates & Infrastructure | 68 Downgrades Since The Outbreak

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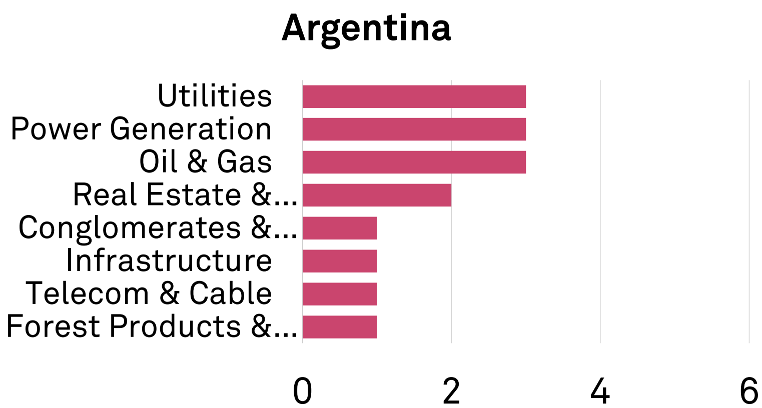
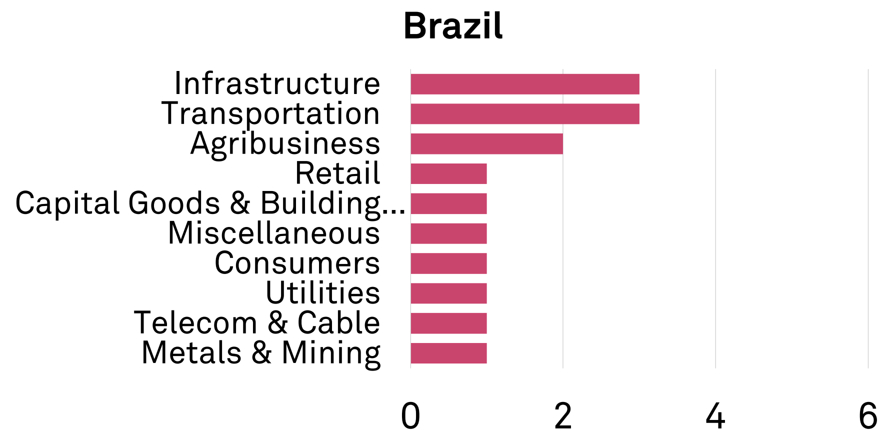
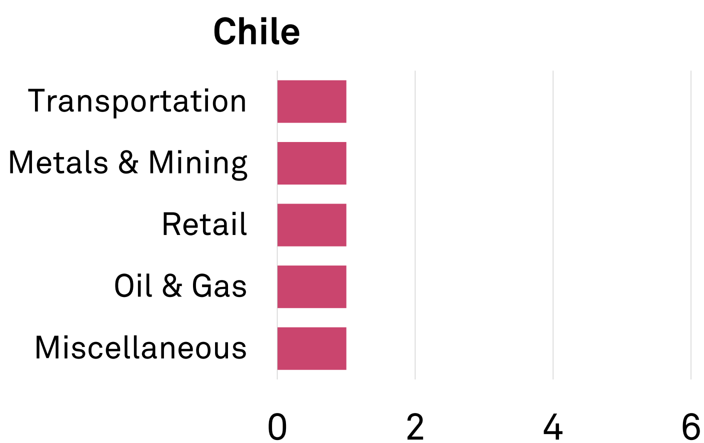
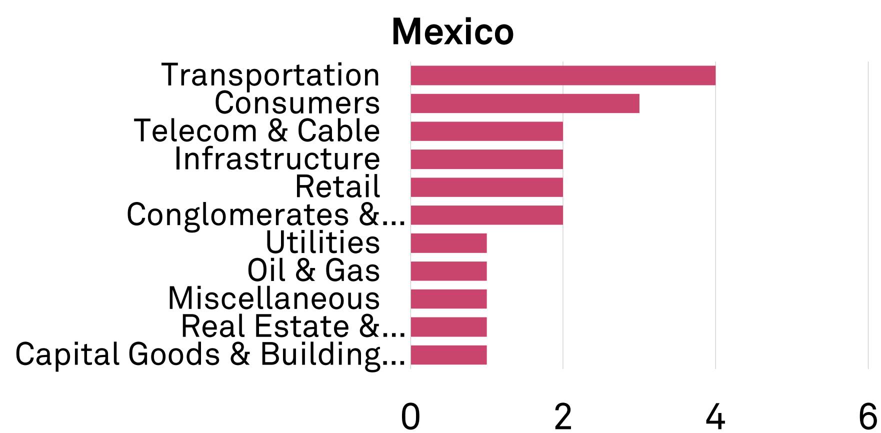
Source: S&P Global Ratings since Feb-27 to May 18, 2020

# Corporates & Infrastructure | Argentina, Brazil & Mexico Concentrated The Bulk Of The Actions




*Source: S&P Global Ratings since Feb-27 to May 18, 2020*

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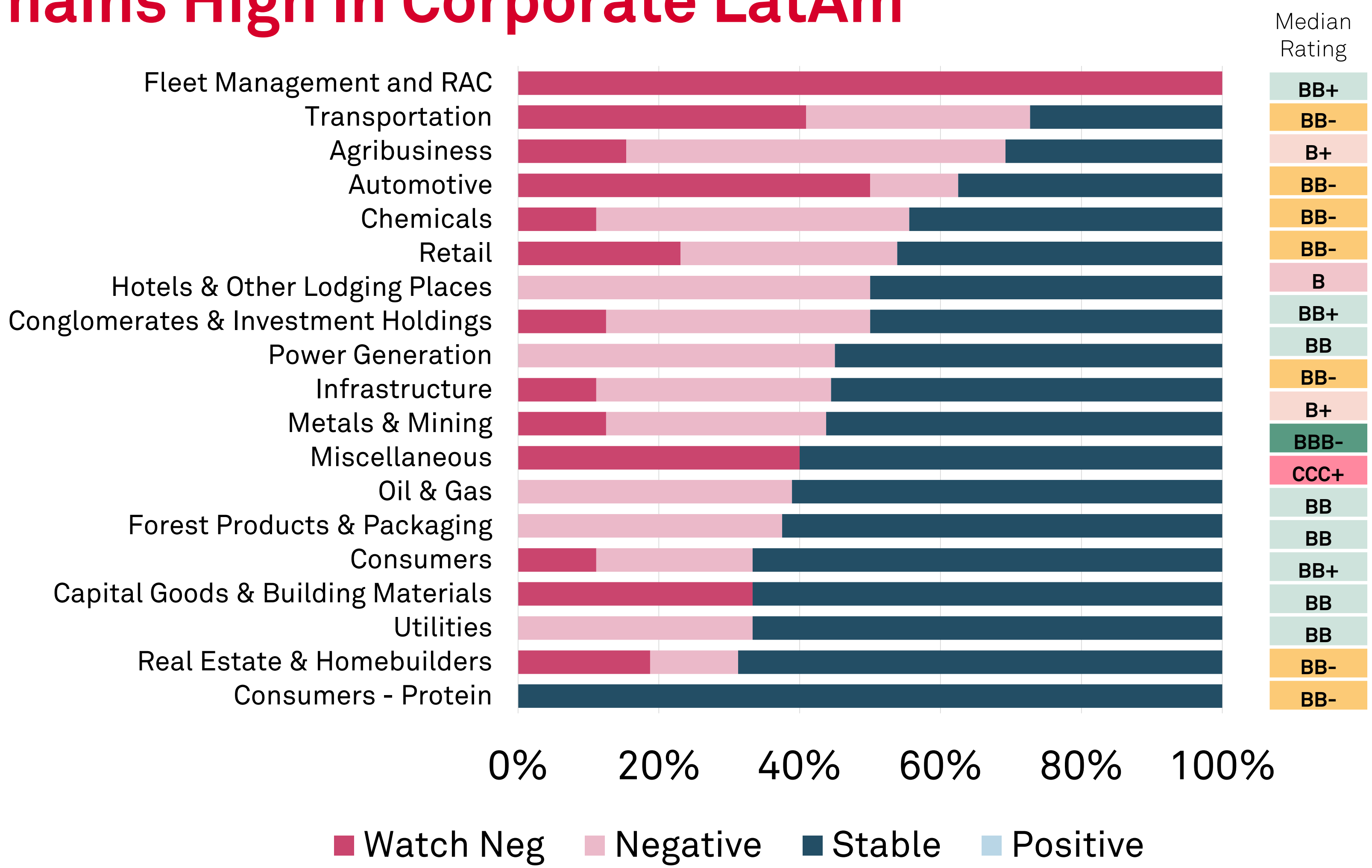
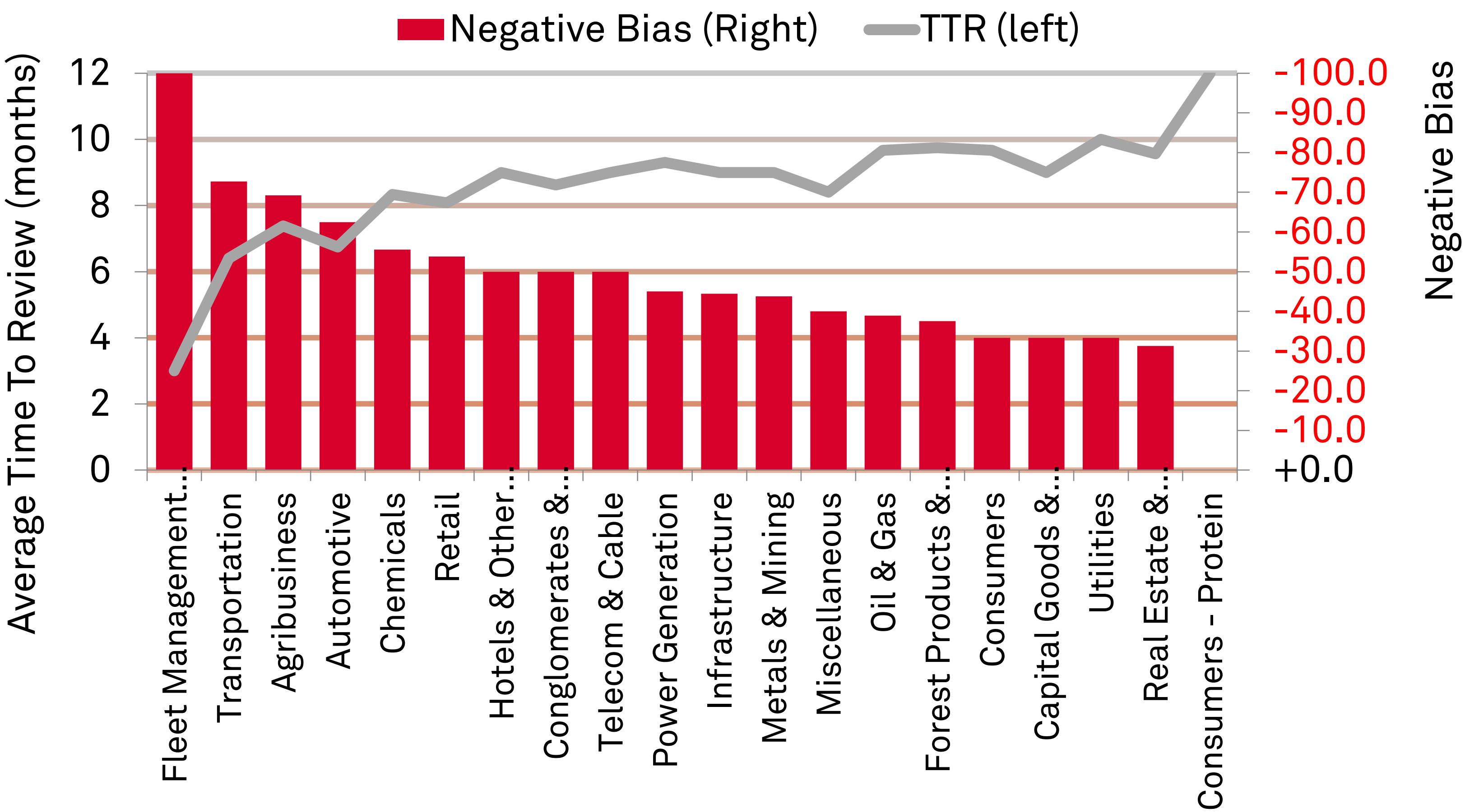
# Corporates & Infrastructure | Downgrade Potential Remains High In Corporate LatAm




*Source: S&P Global Ratings as of May 18, 2020*

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




*Negative Bias: The difference between the negative bias (the proportion of issuers on Negative Outlook or placement on CreditWatch with Negative Implications to the total rated portfolio) and the positive bias (the proportion of issuers on Positive Outlook or placement on CreditWatch with Positive Implications to the total rated portfolio).*

# Infrastructure

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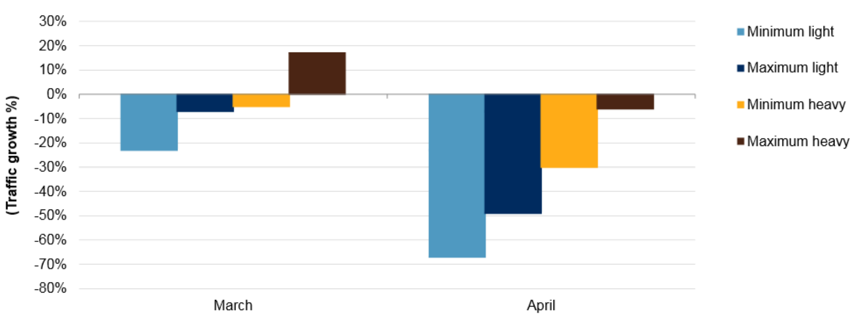
# Infrastructure | Mexican Roads

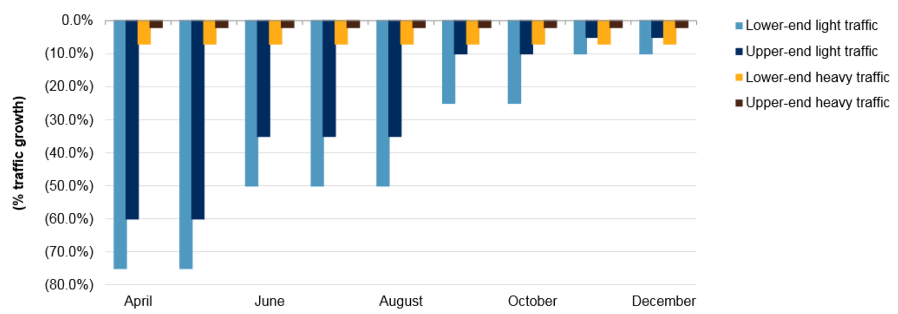
- Traffic for Mexican toll roads has steeply dropped because of restrictions related to the pandemic, but volumes should recover quickly once these restrictions are lifted.
- We believe the impact from the pandemic will most affect subordinated series, while senior debt will be more resilient.
- In our view, notable downside risks for toll roads remain, depending on the length and severity of the pandemic.

**2020 Traffic Growth Versus 2019 Baseline**
Mexican toll roads traffic growth




Source: S&P Global Ratings.


**Traffic Expectations For Mexican Toll Roads In 2020**
Forecasted Until December 2020




Source: S&P Global Ratings.

# Infrastructure | Airports

- Airports across the world face a long, slow climb to recovery from the fall in traffic and revenues due to the COVID-19 pandemic lockdowns and travel restrictions.
- Notwithstanding the long-term infrastructure significance of airports, we expect their financial strength and flexibility will be eroded over the foreseeable future by the magnitude and duration of the current airport sector shutdown, an anemic recovery, capacity restructuring, and heightened counterparty risks of airlines

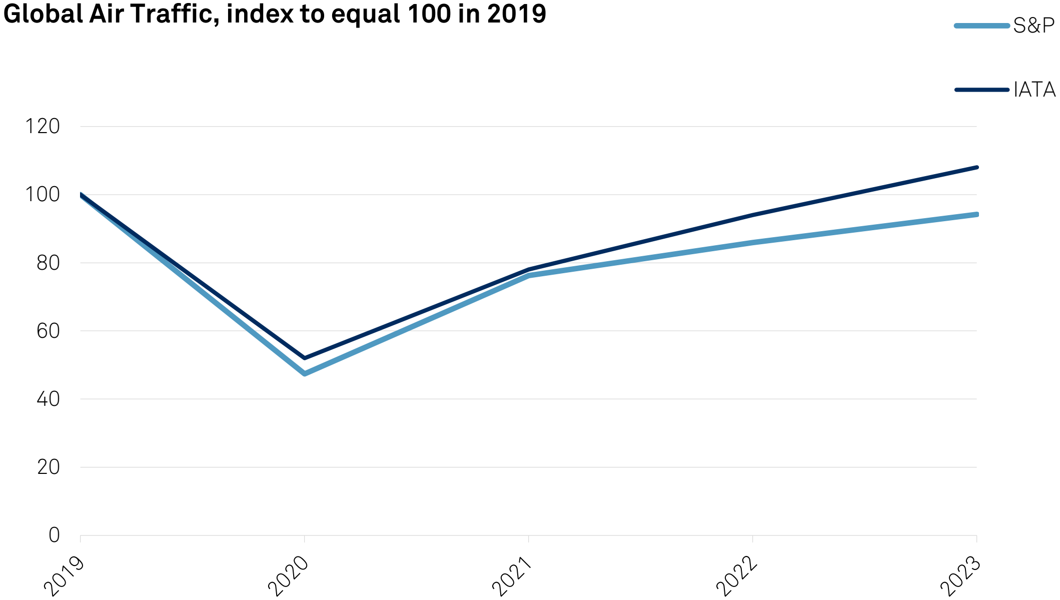
## Revised Base Case Assumptions for Global Passenger Air Traffic

(from 2019 real traffic)

| Year | Current estimate |
|---|---|
| 2020 | Negative 50%-55% |
| 2021 | Negative 25%-30% |
| 2022 | Negative 15%-20% |
| 2023 | Negative 5%-10% |

## Our Estimate for Global Air Traffic Volumes is Slightly Less Optimistic Than IATA Estimates

Global Air Traffic, index to equal 100 in 2019




Source: S&P Global Ratings. IATA



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# Financial Institutions

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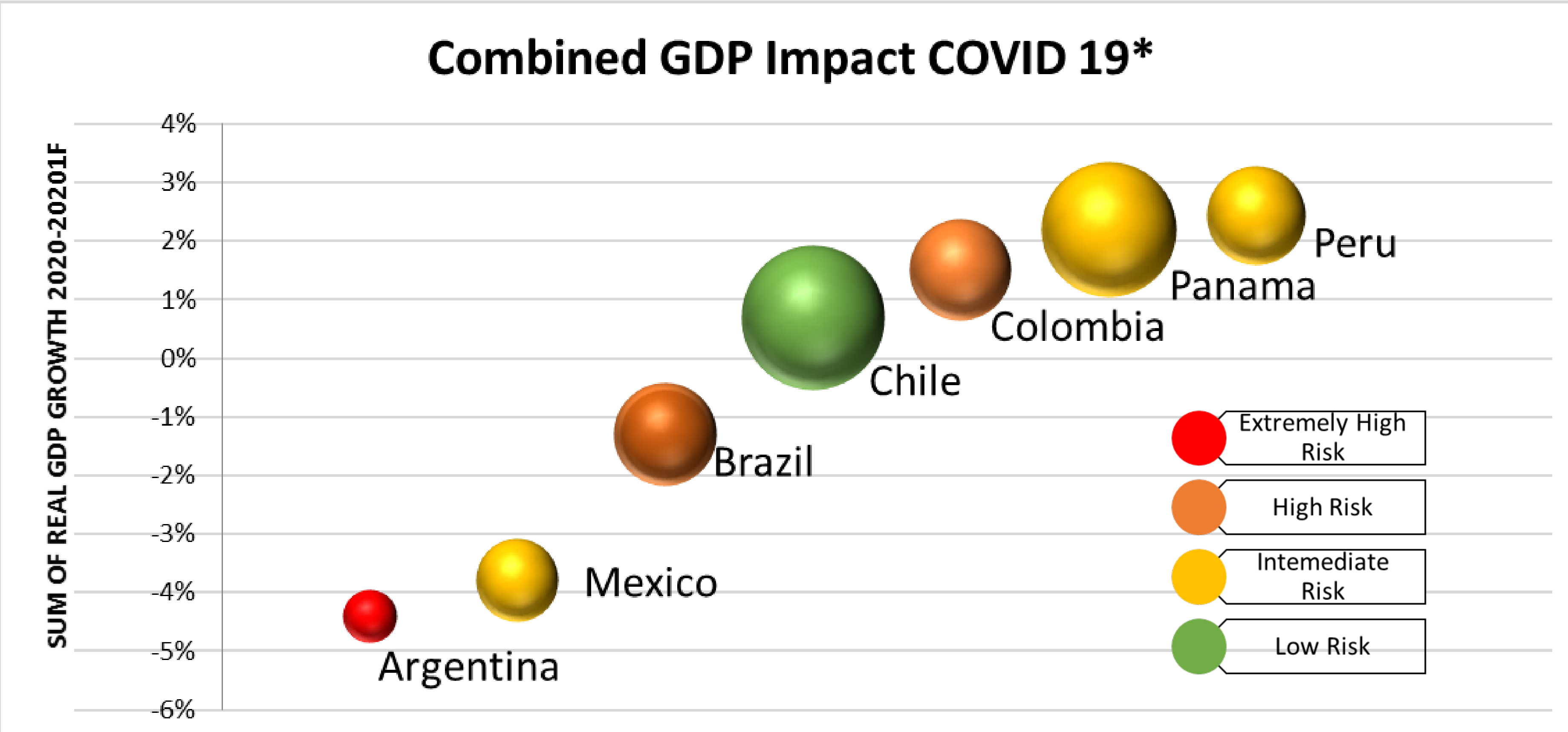
# Financial Institutions | COVID-19 IMPACT ON LATAM




* Bubble Size Credit / GDP

Source: S&P Global Ratings

Data as of: End April 2020

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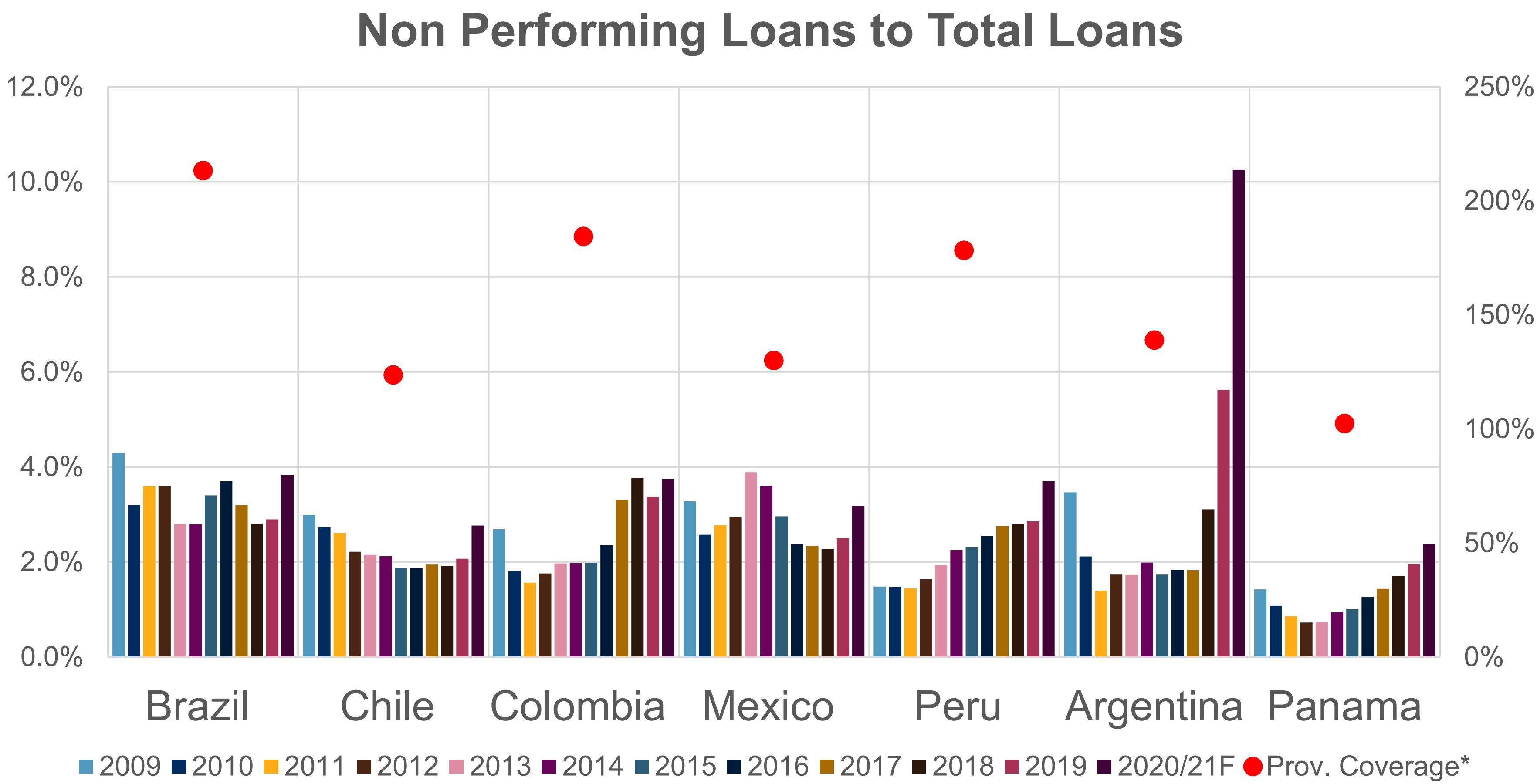
# Financial Institutions | Impact on Asset Quality




* Loan loss provisions over non-performing loans (right axis)

Source: S&P Global Ratings

Data as of: End April 2020

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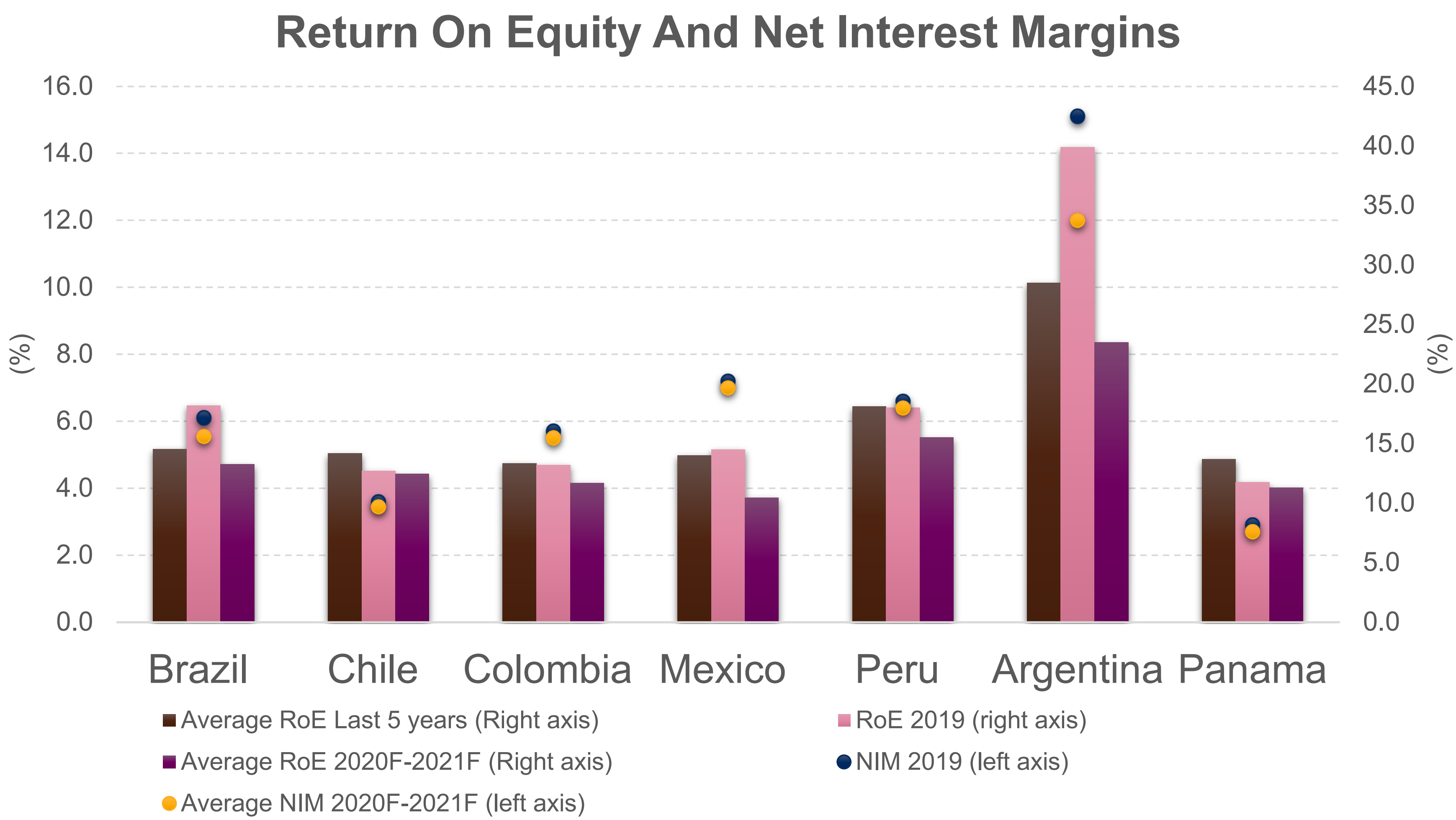
# Financial Institutions | Impact on Profitability




Source: S&P Global Ratings

# 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 | COVID-19 Related Rating Activity

| Structured Finance Rating Actions Through May 22, 2020(i) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| **Rating action** | **ABS consumer** | **ABS commercial** | **CMBS** | **Future flow** | **Receivables** | **Repack** | **CDO** | **Total** |
| Downgrade | - | - | - | 2 | 1 | 3 | - | 6 |
| Negative CreditWatch placement | 18 | 1 | 2 | - | 14 | 3 | - | 38 |
| Downgrade with negative CreditWatch placement | - | 2 | - | 1 | - | - | 1 | 4 |
| Withdrawal | 1 | - | - | - | - | - | - | 1 |
| Total(v) | 19 | 3 | 2 | 3 | 15 | 6 | 1 | 49 |

(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, refer to the most recent publication. (ii)Generally includes all public rating actions related to the COVID-19 impact and/or the decline in oil prices. (iii)Includes seven SPURs. (iv)Outlooks generally limited to covered bonds. (v)Generally includes all public rating actions related to the COVID-19 impact. (vi)Generally applicable to covered bonds; can include movements from positive to stable and stable to negative. ABS--Asset-backed securities. CLO--Collateralized loan obligation. CMBS--Commercial mortgage-backed securities. TOB--Tender option bond. VRDO--Variable rate demand obligation. CDO--Collateralized debt obligation. SME--Small and medium-sized enterprise. ABCP--Asset-backed commercial paper. SPURs--S&P Global Ratings underlying ratings.

# Related Research

- Airports Face A Long Haul To Recovery, May 28, 2020
- Mexican Toll Roads Remain Vulnerable Amid COVID-19; Recovery Could Come Quickly As Restrictions Ease, May 26, 2020

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