S&P Global Ratings

Regional Credit Conditions Chair

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Credit Conditions Latin America:

Political Challenges Will Prevail In 2020

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Key Takeaways

- Overall: We expect political uncertainty will result in another year of weak growth for Latin America in 2020, albeit it should improve moderately compared to this year. We don't predict subdued investment levels across the region to improve significantly in light of continued uncertainty about policies, slower global growth, and in some cases, social unrest.
- What's changed: Political challenges have become more acute in the region and 2020 may bring additional obstacles as the global economy weakens. So far, domestic policy response has been ineffective in encouraging resuming investment and in some cases taming social unrest. A relaxation of monetary policy has brought some relief to financing conditions, but so far not enough to boost growth.
- Risks and imbalances: We expect political uncertainty to remain our key risk for Latin America in 2020. It will be a challenge for governments in the largest economies in the region to resume investor and business confidence, and in some cases to deal with social discontent. Weak economic growth will add to the already challenging panorama. However, progress with respect to U.S. and China trade tensions, along with the potential approval of the U.S.-Mexico-Canada trade agreement (USMCA) could help boost confidence.
- Financing conditions: Financing conditions will remain supportive in 2020, especially for investment-grade issuers, in light of our expectations of lower interest rates for a longer amount of time. Nevertheless, we observe greater risk aversion at the bottom-end of the credit spectrum, because investors are being more selective and prefer more solid fundamentals amid slumping regional economies.
- Macroeconomic conditions: We expect Latin America to see another year of weak growth in 2020, characterized by continued low levels of investment and significant downside risks, mostly associated with uncertain future government policies.
- Sector themes: Sluggish growth and continued policy uncertainty will undermine corporate profits and financial institutions' asset quality.

(Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions [Asia-Pacific, Latin America, North America, and Europe, the Middle East, and Africa]. Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the Latin America committee on Nov. 26, 2019.)

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Table 1

Top Latin America Risks

Regional political challenges

Risk level*	Very low	Moderate	Elevated	**High**	Very high	Risk trend**	Improving	**Unchanged**	Worsening

In 2020, governments in the largest economies in the region will be challenged to resume investor and business confidence, and in some cases deal with social unrest. Political challenges in Latin America have become more acute over the recent months. In some cases, long-standing structural issues such as inequality, poverty, and lack of social mobility have resulted in social unrest and violent protests (i.e. in Chile and Colombia). In other cases, recently elected administrations have failed to bring business and investor confidence as they carry out their plans. While large-scale protests are not occurring throughout Latin America, population sentiment to address these issues is prevalent across the region--hence the changing regimes in countries like Argentina and Mexico. Additionally, the slowing global economy and sluggish domestic growth will be obstacles for the region's governments.

Increasing U.S. protectionism

Risk level*	Very low	Moderate	Elevated	**High**	Very high	Risk trend**	Improving	**Unchanged**	Worsening

Trade and geopolitical tensions continue to dampen business confidence and weigh on growth forecasts. While a "mini-deal" between the U.S. and China seems possible, we do not think this will address the more fundamental dispute over technology, intellectual property, and market access. Furthermore, sustained protests in Hong Kong and responses by the U.S. Congress could add complexity to ongoing U.S.-China trade negotiations.

The USMCA's recent progress might face obstacles as time runs out this year for the U.S. Congress to approve it. The Democrats in the U.S House of Representatives want to ensure that the new agreement guarantees effective enforcement mechanisms of labor and environmental standards. Their concerns will likely push the USMCA vote to 2020, a year in which elections will be the key focus in U.S. politics.

Volatile capital flows that restrict refinancing

Risk level*	Very low	Moderate	**Elevated**	High	Very high	Risk trend**	Improving	**Unchanged**	Worsening

Lower interest rates in advanced economies have supported improving funding conditions and portfolio flows to Latin America to some degree in recent months. Furthermore, domestic markets in the largest economies in the region have become a feasible alternative for financing, offering competitive conditions for local issuers. Nevertheless, volatile conditions remain, and investors are sensitive to changing domestic political developments and external conditions that could weigh on global economic growth. Debt maturity schedules remain manageable for Latin America issuers, and investors continue searching for yield; however, their appetite for lower-rated issuers is waning.

Commodity price volatility

Risk level*	Very low	Moderate	**Elevated**	High	Very high	Risk trend**	Improving	**Unchanged**	Worsening

Commodity prices continue responding to mixed economic and market dynamics, which ultimately results in volatility. We expect this trend to remain in 2020. Commodity prices have recently stabilized after a round of supply shocks. For 2020 we expect softer demand to result in lower prices as the global economy slows, but we cannot rule out the potential for supply shocks, coming for example from geopolitical tensions in the Middle East.

Sources: S&P Global Ratings.

* Risk levels may be classified as very low, moderate, elevated, high, or very high, and are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically these risks are not factored into our base case rating assumptions unless the risk level is very high.

** Risk trend reflects our current view on whether the risk level could increase or decrease over the next 12 months.

Regional Credit Conditions

What's Changed?

Latin America's economic growth this year and prospects for 2020 have continued weakening since our last report, published in September. In our view, political challenges in the region have become more acute, and overall recently elected administrations have failed to boost investor and business confidence. Furthermore, the failure to address long-standing structural issues has triggered social unrest and violent protests in the region. Policy response will likely vary across the region, but we expect potential additional fiscal stimulus in many jurisdictions to try to tame social unrest and in some cases to restore business confidence. Not all countries in the region have fiscal space to support stimulus; therefore, we might see increasing debt levels and weakening sovereign fundamentals. Sluggish domestic growth, slower global economy, and policy uncertainty are all weighing on investment decisions across the region, and we expect these conditions will prevail in 2020.

In Argentina, election results favored the opposition candidate, Alberto Fernandez, which confirmed the primary results, and investors' fears of policy changes going forward. Argentina's new government will have little room to maneuver because the country is facing high inflation levels and its economy will probably continue contracting next year. We predict these conditions will likely result in the country defaulting again on its debt and expect that capital controls will remain; however, our ratings on Argentine issuers already reflect these concerns.

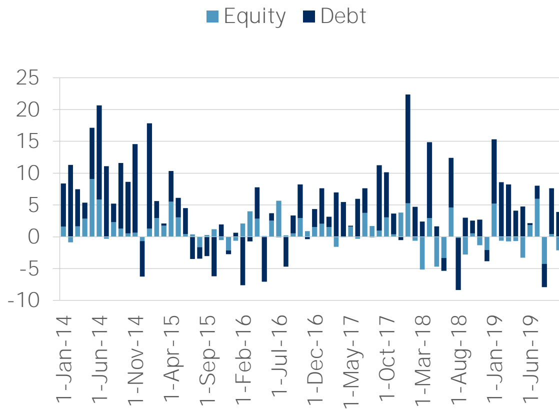
Brazil's government approved the long expected pension reform, which will bring estimated savings of about R$800 billion over the next decade. This will provide some fiscal relief over the long term, and the reform has also boosted confidence in the country's economy. However, we believe that additional policy reforms are necessary in order to achieve a more rapid turnaround in Brazil's fiscal and growth trajectories. In our view, this will bring additional challenges for President Bolsonaro in 2020, especially now that former president Lula da Silva has been released from jail and will probably command an active opposition to the Bolsonaro administration's reform agenda.

In Mexico, President Lopez Obrador's administration policies continues to cast doubts on investor and business confidence, Meanwhile Mexico's economy is about to post its lowest growth since the global financial crisis in 2009. The administration is now working on its infrastructure plans, hoping to boost investor confidence. We expect improving economic growth for 2020, supported by lower interest rates and additional government spending. Regardless, growth will still be disappointing and below the already low 2.2% average for the past decade, which was already low compared with its peers. In our view, downside risks could persist for Mexico if President Lopez Obrador fails to boost confidence and tackle corruption and insecurity, and we believe continued weakening growth could pressure the sovereign rating and also overall business conditions.

In Chile, social unrest and several weeks of violent protests pushed the government to announce various policy changes, including a referendum for a potential constitutional change. Ultimately, we believe new government measures will result in additional fiscal spending, although the effects of the implementation of such policies is yet to be seen.

Chart 1

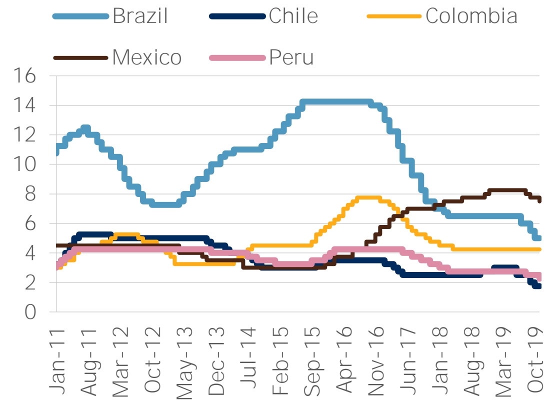
Lower Rates And The Quest For Yield Support Portfolio Flows To Latin America (Bil. $)



Source: Source: National Sources, Bloomberg, IIF.

Chart 2

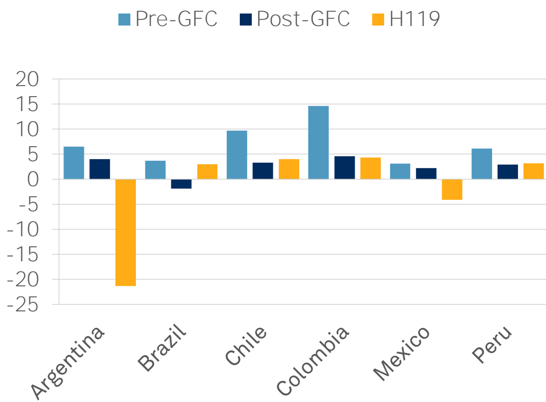
FED And ECB Monetary Easing Allowed For Lower Interest Rates In Latin America



Source: National Sources.

Chart 3

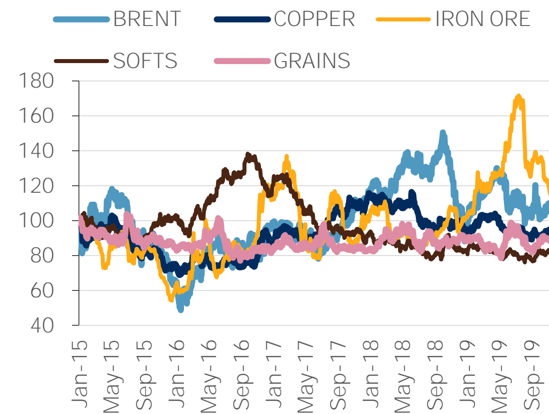
Political Challenges Are Main Drag On Investor Confidence (Avg. Real Fixed Investment Growth)



Pre-GFC (Global Financial Crisis) refers to the average of 2000-2007; post-GFC to the average 2011-2018. Source: S&P Global Ratings, Haver Analytics.

Chart 4

Commodity Prices Will Continue To Be Volatile In Response To Mixed Economic Conditions



Source: Bloomberg.

Financing Conditions

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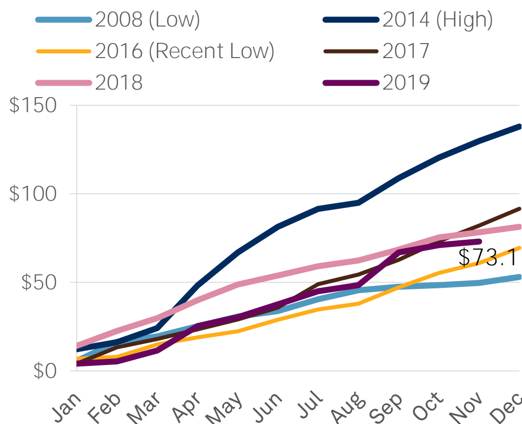
Favorable financing conditions, driven by accommodative monetary policy and easing (though still very guarded) investor sentiment, will likely keep debt financing costs contained through 2020, especially for higher quality borrowers. Weaker borrowers, however, have seen less of a cascading effect of low interest rates onto their effective debt servicing costs compared to their higher-rated peers, because investor selectivity at the bottom-end of the credit spectrum remains elevated even though capital costs are generally low. Refinancing needs drove issuances to rebound in the second half of 2019, though at $73 billion for the year thus far, this is the lowest new bond issuance volume in Latin America since 2016.

We expect banks to be more conservative in their origination in light of softer business conditions and sluggish economic growth, which will likely result in lower credit availability from banks and tighter conditions from these participants. Further, low interest rates hurt bank profitability. Consequently, we expect issuers will look for opportunities to refinance their debt in the market. We continue to see low appetite from corporates to increase their leverage and invest, and in general, companies are refinancing debt.

While refinancing appears manageable over the next few years, additional strains on less creditworthy borrowers will likely appear, brought on by higher debt costs, rising refinancing needs, and potentially weaker economic prospects when current benign conditions eventually wane, although recent actions by the Federal Reserve and the European Central Bank may allow benign conditions to linger for longer.

Chart 5

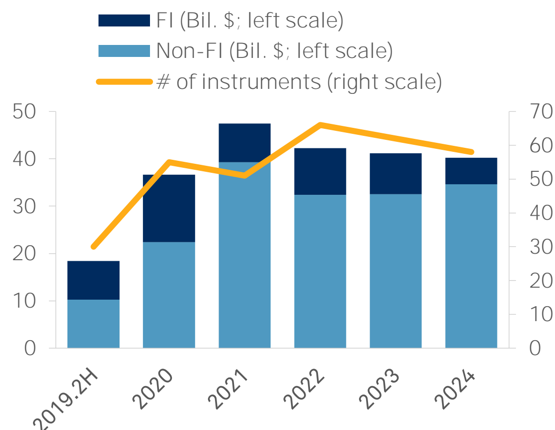
Latin America Corporate (FI And NF) Cumulative Issuance



Data as of Nov. 18, 2019. Source: S&P Global Ratings Research, Thomson Financial.

Chart 6

Latin America Corporate Debt Maturities



Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Excludes debt instruments that do not have a global scale rating. Data as of July 1 2019. Source: S&P Global Ratings Research.

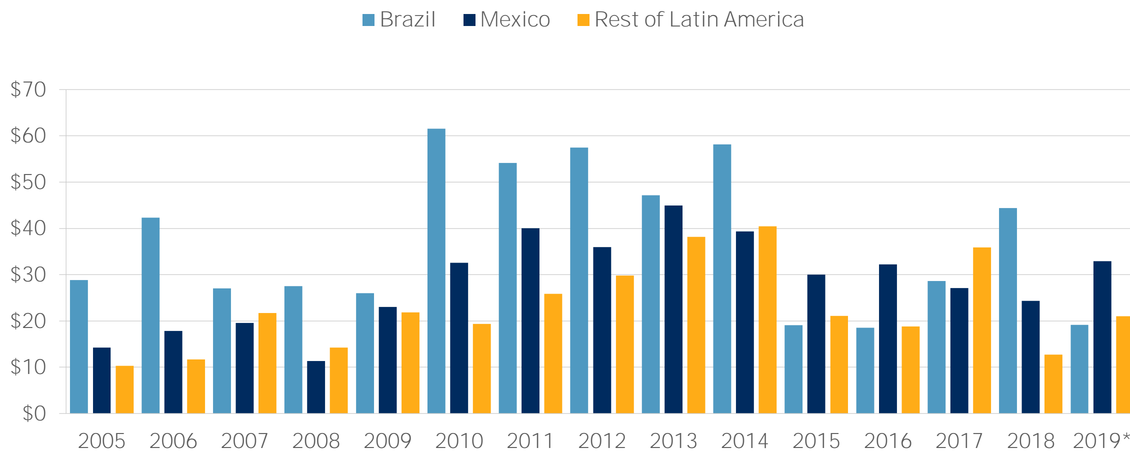
Lower interest rates for longer. Low interest rates, driven by loose monetary policy, continue to benefit debt servicing costs for higher quality borrowers at the expense of bank profitability and fewer financing options for weaker borrowers. In anticipation of weakening economic prospects, which drove central banks' dovish stance in the first place, less creditworthy issuers face higher investor selectivity and relatively high funding costs. Nevertheless, borrowers with healthier balance sheets will continue to see lower funding costs in the short term and marginally improved demand for loans is likely to continue. On the other hand, trade finance and nonperforming loans (NPLs) will likely worsen somewhat and credit spreads will widen at the lowest end of the credit spectrum amid a backdrop of deteriorating economic prospects and greater investor selectivity.

New issuances. New issuance rebounded in the second half of 2019 to the present level of $73 billion, which as noted above is still the lowest issuance volume since 2016 but a far cry from the meager $5 billion seen through February (then the lowest volume in a decade). Mexico has driven issuance so far in 2019 with $33 billion (primarily because of refinancings, especially from PEMEX).

Brazil's issuance volume of $19 billion remains quite low and matches the paltry volume seen in 2015 and 2016 during the height of the Lava Jato operation.

Chart 7

Latin America Corporate (FI And NFI) Issuance Volumes



Source: Data as of Nov. 18, 2019. Source: Thomson Financial; S&P Global Fixed Income Research.

Macroeconomic Developments And Assumptions

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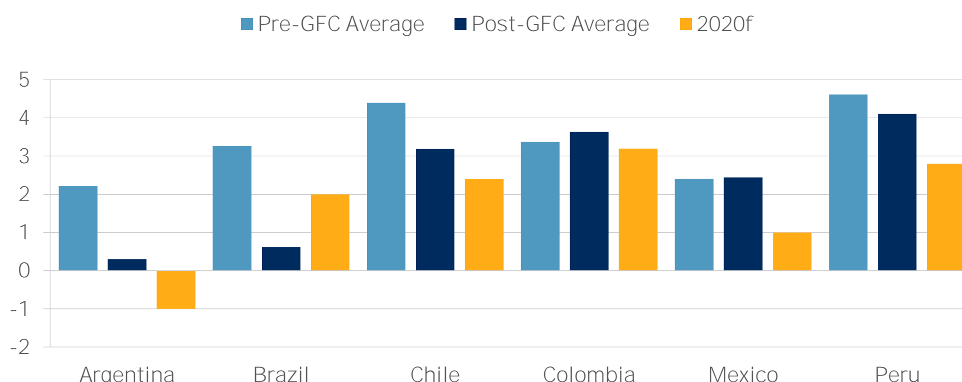
(Editor's Note: The views expressed in this section are those of S&P Global Ratings' economics team. While these views can help to inform the rating process, sovereign and other ratings are based on the decisions of ratings committees, exercising their analytical judgment in accordance with publicly available ratings criteria.)

Still Disappointing Growth For The Region Next Year

We expect 2020 to be another year of low growth for Latin America, as many economies around the world experience some of their lowest growth rates since the 2008 global financial crisis. We see the region growing less than 2% for a seventh consecutive year – we project aggregate GDP growth of 1.5% for the six largest economies in the region (LatAm 6) in 2020, albeit an improvement from 0.5% in 2019. The main reason for continued slow growth in the region is the underwhelming levels of investment. In most cases, weak investment is due to uncertain domestic political dynamics. The impact of those negative dynamics has been amplified by concerns about the trajectory of global trade and global growth in the last couple of years. The main reason we see a moderate improvement in growth in 2020 compared to 2019 has to do mainly with looser monetary conditions abroad and domestically, and in some cases also due to the subsiding effects of several political-related shocks, such as delays in public investment associated with the transition in government in Mexico. The risks to our growth projections in most cases continue to be concentrated in the downside, and mostly related to the evolution of domestic policies that have taken a toll on investors' perception of growth in the region.

Chart 8

Real GDP Growth %



Source: S&P Global Ratings, Haver Analytics. Note: Pre-GFC (Global Financial Crisis) refers to the average of 1999-2007, and Post-GFC to the average of 2011-2019f.

Several important developments have taken place since our last quarterly update at the end of September, but the outcome of those events progressed broadly as expected, meaning these events haven't significantly altered our 2020 GDP growth outlook. More specifically, the opposition won Argentina's October presidential election, as most expected, and we continue to expect the country's economy to contract about 1% in 2020 amid rigid financial conditions. In Brazil, the government approved the long-awaited pension reform, and the final version of the bill was within the parameters that most observers anticipated, supporting our unchanged expectation for growth to improve to 2.0% in 2020 from 0.8% this year. In contrast, recent unexpected social and political instability in Chile and Peru have prompted us to lower our 2020 growth outlook for these countries. In our view, the instability reflects the pent-up social and political tensions that are present in much of the region due to constrained upward socio-economic mobility. We also lowered our 2020 GDP growth projection for Mexico to 1.0% (from 1.3%), as the data has been weaker than we expected, especially on the investment side, a trend we broadly expect to continue into next year.

Forecast Changes

- Argentina: The economic scenario will be very challenging for President-elect Alberto Fernandez's incoming administration, with high levels of policy uncertainty, especially regarding the government's large and rising debt burden. We assume financial conditions will remain rigid throughout most of 2020 amid capital and price controls, and a likely debt restructuring. We forecast the economy to contract 1% in 2020, following a 3% contraction in 2019, with the risks to our outlook firmly to the downside.
- Brazil: The approval of pension reform is an important step in addressing the government's rapidly rising debt ratios, but more needs to be done to further progress on that issue, especially regarding rigidities on public spending. We continue to expect growth to improve to 2.0% in 2020 from 0.8% in 2019 as investment prospects improve and the slow cyclical recovery from the 2015-2016 recession continues. The reform agenda driven by the current administration poses some upside risks to our growth outlook, but we note that the polarized state of the legislature poses significant risks to the approval of additional bills that require constitutional change.
- Mexico: Data continues to reflect a significant weakening in growth in 2019, driven by a sizeable decline in both private and public fixed investment. We believe 2020 will be a year of continued sluggish growth, with the Mexican economy expanding at one of its slowest rates since the global financial crisis, about 1.0%, according to our revised forecast. This does imply an improvement compared with 2019 growth, mainly due to the subsiding effect that this year's transition of government had on public investment, less of a drag from the ongoing decline in oil production, and looser monetary policy abroad and domestically. The risks to our growth outlook for Mexico are mostly to the downside, given the high degree of uncertainty generated by several policies by President Lopez Obrador's government, especially towards the energy sector.
- Chile, Colombia, and Peru: We recently lowered our growth outlook for Chile and Peru due to the recent outbursts in social and political instability that have taken place over the last couple of months. In Chile, social unrest was initially triggered by an increase in metro fares, but expanded to reflect dissatisfaction towards policies in areas such as social security and education. The Chilean protests have been accompanied with disruptions to ports, transportation, and mining operations. We therefore lowered our 2020 GDP growth forecast by about 40 basis points (bps) to 2.4% (and made a similar adjustment in magnitude to our 2019 estimate). In Peru, political paralysis following the President's dissolution of the legislature and call for a parliamentary election is disrupting public investment, and thus we've lowered our 2020 GDP growth outlook by 20 bps to 2.8%. In Colombia, we have kept our 2020 GDP growth forecast unchanged at 3.2%, underpinned by a recovery in oil production and stable growth in the services sector. However, recent social unrest in Bogota and other major Colombian cities, where protesters have taken to the streets to oppose labor and pension reform, among other government proposals, pose a significant downside risk to our growth outlook for Colombia.

Key assumptions

- We don't anticipate additional Fed rate cuts, but expect the effective Fed funds rate to remain low in 2020 at 1.625%, and the bias in monetary policy in advanced economies to generally remain looser rather than tighter.
- We expect a gradual deceleration in GDP growth in most advanced economies through the rest in 2020. We see a 25%-30% probability of a U.S. economic recession over the next 12 months, but predict growth remaining close to its potential in 2020.
- We assume recent policy easing in China will stabilize the economy towards the government's target of 5.8% in 2020.
- Regarding Argentina, we assume a somewhat orderly debt restructuring process. If that were not the case, we would revisit our GDP growth projections.
- Our baseline GDP forecast for Mexico assumes continued uncertainty about policies under President López Obrador that reduce private sector investment participation in key sectors such as energy. We also assume that public investment improves in 2020 compared this year after the typical delays in the first year of a new administration.

Table 2

Latin America's GDP Growth

			Baseline scenario				Downside scenario			
(%)	2017	2018	2019f	2020f	2021f	2022f	2019f	2020f	2021f	2022f
Argentina	2.7	-2.5	-3.0	-1.0	1.5	2.0	-3.5	-2.5	0.0	1.0
Brazil	1.1	1.1	0.8	2.0	2.2	2.5	0.7	1.0	1.2	1.5
Chile	1.5	4.0	2.0	2.4	2.9	3.0	1.8	1.9	2.2	2.5
Colombia	1.4	2.6	3.2	3.2	3.3	3.3	3.0	2.5	2.5	2.5
Mexico	2.4	2.0	0.1	1.0	1.5	1.8	-0.1	0.4	0.9	1.0
Panama	5.3	3.7	3.5	4.0	4.5	5.0	2.8	3.0	3.5	3.5
Peru	2.5	4.0	2.4	2.8	3.0	3.5	2.0	2.2	2.5	2.8
Uruguay	2.6	1.6	0.5	1.5	2.3	2.8	0.2	1.0	1.8	2.0
Venezuela	-15.7	-19.6	-20.0	-5.0	0.0	3.5	-30.0	-15.0	-5.0	-5.0
Latin America	0.9	0.4	-0.5	1.2	2.0	2.5	-1.2	-0.1	0.9	1.2
LatAm 6	1.7	1.4	0.5	1.5	2.1	2.4	0.3	0.7	1.2	1.5

f--Forecast. Source: S&P Global Economics. Note the Latin American GDP aggregate forecasts are based on three-year average (2015-2017) PPP GDP weights. Our GDP numbers are based on seasonally-adjusted series when available. LatAm 6 includes: Argentina, Brazil, Chile, Colombia, Mexico and Peru

Table 3

Changes In Baseline GDP Growth Forecast From The Third-Quarter 2019 Credit Conditions Report

(%)	2019	2020
Argentina	0.0	0.0
Brazil	0.0	0.0
Chile	-0.4	-0.4
Colombia	0.0	0.0
Mexico	-0.3	-0.3
Panama	0.0	0.0
Peru	-0.2	-0.2
Uruguay	0.0	0.0
Venezuela	0.0	0.0
Latin America	-0.1	-0.1
LatAm 6	-0.1	-0.1

Source: S&P Global Economics.

Risks to our macroeconomic outlook

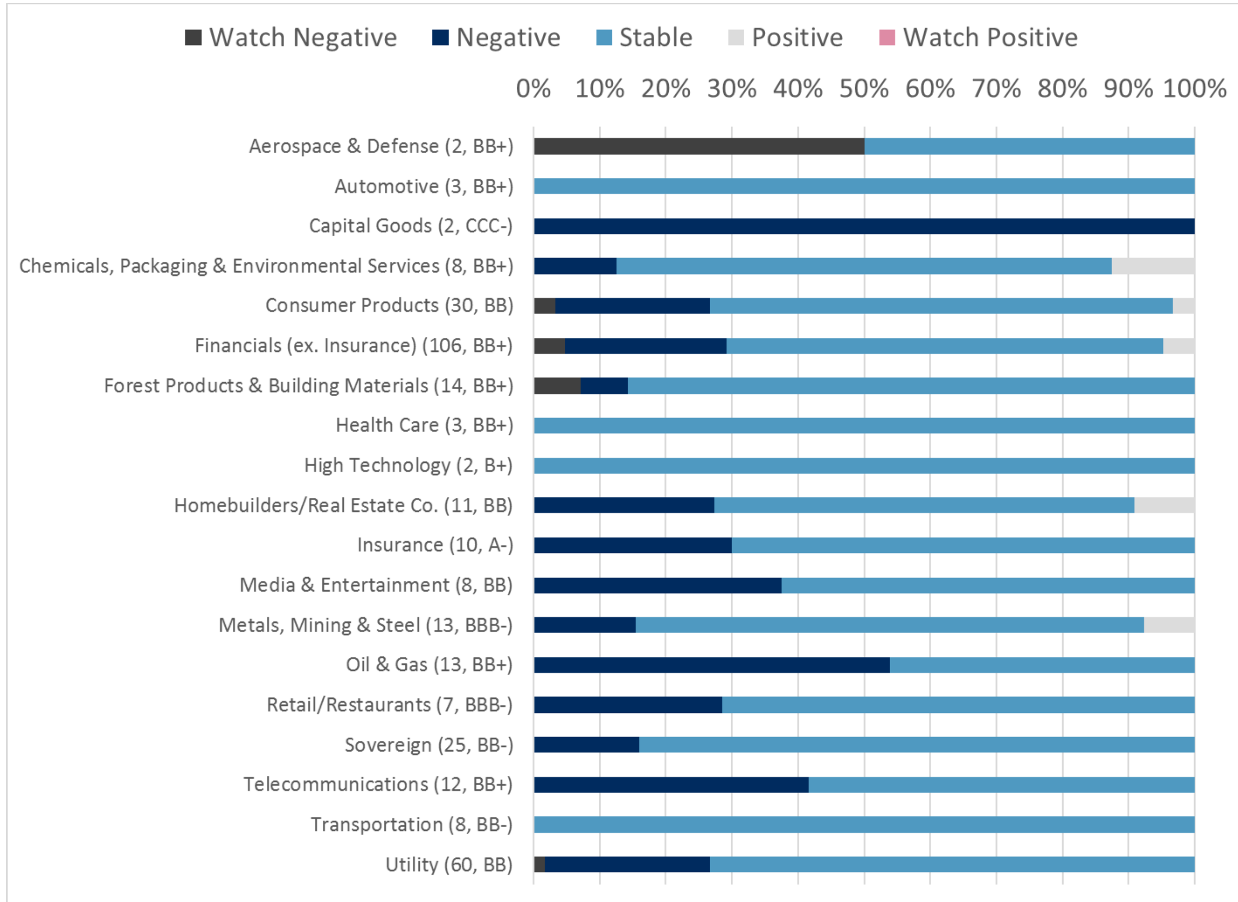
- A more pronounced deceleration in real GDP growth in the major advanced economies than what we currently assume could challenge the mild recovery we forecast for most Latin American economies in 2020.
- If the ongoing trade dispute between the U.S. and China escalates as the U.S. presidential election campaign picks up, it could renew risk aversion and lower appetite for emerging market assets, resulting in capital outflow from Latin America.
- While there has been a significant push to ratify USMCA in recent months, its approval remains at risk of political infighting ahead of the upcoming U.S. presidential election. A significant delay in ratifying the treaty that would replace NAFTA could generate another round of uncertainty about trade and investment relations between the U.S. and Mexico.
- The political situation in Argentina is very challenging and still very fluid, and downward pressure on the currency and on the government's debt profile could trigger more drastic policy measures that could result in a more protracted downturn in domestic demand that we currently project.

- Brazil will likely see a very active 2020 political agenda with several bills in the pipeline, many that involve constitutional amendments. Given the very divided legislature and still low economic growth, the potential that the government will under-deliver on policy objectives is high.
- In Mexico, failure to execute delayed public investment plans in 2020 and additional polices by President López Obrador that either further restrict or discourage fixed investment would lead us to revisit our assumptions for the country.

Sector Themes

Chart 9

Outlook Bias Distribution Of Latin American Issuers By Sector, October 2019



Source: S&P Global Fixed Income Research. Data as of October 2019.

Sovereigns

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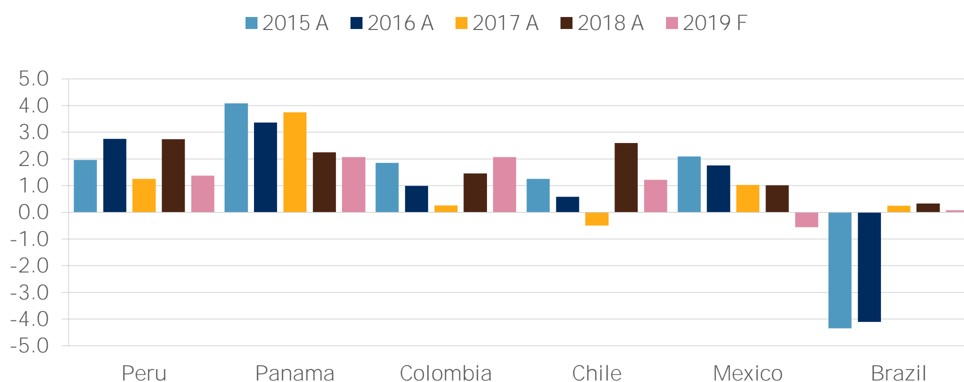
- We expect Argentina will default again after its recent default on domestic-issued debt. Argentina defaulted on its debt after primary elections in August presaged the electoral victory of opposition candidate Alberto Fernandez of the Peronist party.
- Poor growth in 2019 and low private sector confidence support the negative outlook on Mexico. A key question over the coming months is whether or not the Mexican government will resort to unorthodox measures, or a looser fiscal policy, in the event of prolonged low GDP growth.
- The passage of important pension reform in Brazil raises hopes for passage of tax, administrative, and other reforms that could boost GDP growth.
- Violent protests in Chile have led the government to give higher priority to social spending. We will monitor whether or not the recent public protests in Chile have more than a transitory and moderately negative impact on GDP growth and public finances.
- Rising social protests in many countries could lead governments to loosen fiscal policy and incur more debt.

Chart 10

Per Capita GDP Growth Is Slowing Again, Especially In Brazil And Mexico



Source: National Sources, S&P Global Ratings calculations.

Local And Regional Governments (LRGs)

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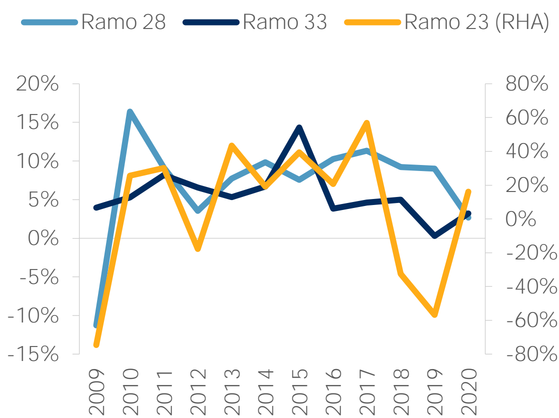
- We expect Argentine provinces to remain under increasing pressure, and there could be a potential sovereign default toward the end of 2019 or in 2020.
- Brazilian LRGs will continue to have significant fiscal rigidities next year because mandatory expenditures represent a high proportion of the total budget, and a potential pension reform at state level would not ease the pressure in the short term.
- Mexican states and municipalities will have to deal with budgetary restrictions toward the end of this year and in 2020, and some states will increase debt moderately to finance capital expenditures or close budget gaps.

Chart 11

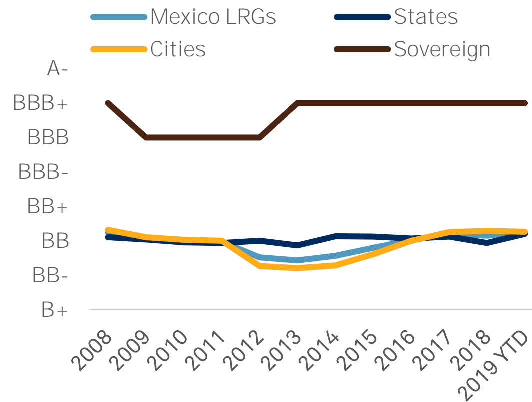
Changes In Mexican LRG Federal Transfers



Source: SHCP with S&P Global Ratings calculations.

Chart 12

Mexico's LRG & Sovereign Rating History



Source: S&P Global Ratings.

Nonfinancial Corporations

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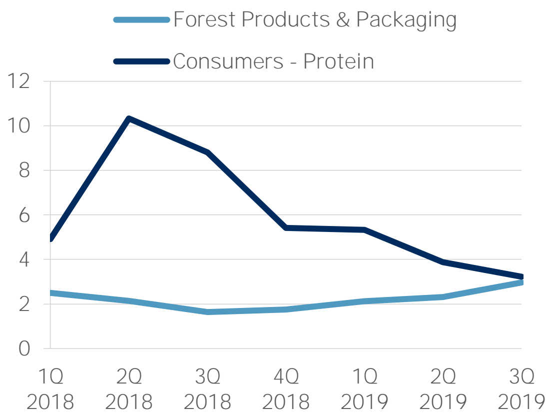
- Operating performance and credit metrics could come under pressure in the next twelve months due to stagnant growth in the region's largest economies, as well as weaker prices of certain commodities. However, companies' smooth debt maturity profiles and limited capital investment requirements will likely contain liquidity risks.
- Social upheaval in Chile is likely to hurt fourth quarter results of Chilean retailers, consumer companies, airlines, and oil distribution companies. However, we don't expect impacts on ratings in the short-term for these sectors. Longer term, if social claims were to pressure public spending, we believe there are chances for higher payroll costs, increases in mining royalties, and probably higher income taxes (or at least less of a chance for a reduction, as had been planned by the current administration).
- A fairly stable economy in Brazil is supporting credit conditions for corporations there, and the approval of the pension reform sets the ground for additional reforms to foster growth, which could improve business conditions of core sectors such as infrastructure, building materials, consumers, retail, homebuilding, steel making, and real estate.
- We expect investment of Mexican companies to shrink in 2020 due to increased risk aversion and expected low growth, although the credit profiles of main sectors should remain stable. If approved, the new USMCA would commence in 2020 and may cause manufacturing costs and prices of vehicles sold in the U.S. to modestly increase over time, but we don't expect it to meaningfully hurt Mexican automakers' credit quality.

Chart 13

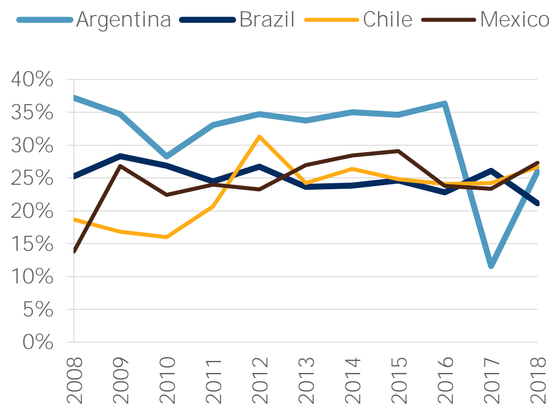
Net Debt To EBITDA Median Ratios For Rated Companies (Rolling Twelve Months)



Source: S&P Global Market Intelligence, S&P Global Ratings calculations.

Chart 14

Effective Income Tax Rate Paid By Latin American Corporations (% Of EBT)



Median for rated companies. Source: S&P Global Market Intelligence, S&P Global Ratings calculations.

Infrastructure

- Despite regulatory incentives for shifting to non-conventional renewables, we observed that the weakening economies in the region resulted in a deceleration of energy demand growth. This trend ultimately resulted in energy oversupply in markets like Brazil and Chile, which caused short-term volatility in spot prices. We expect challenging re-contracting conditions for long-term PPAs, in particular in Chile, where the recent temporary freeze on electricity tariffs might affect single-asset renewable projects, while we expect large conglomerates to be in a position to absorb the negative impact this disruption has created.
- In Mexico, we expect the upcoming release of the new administration's infrastructure program and thereafter, CFE's new business plan, which should give us more visibility about the energy policy going forward. In Argentina and with a newly elected president (Mr. Alberto Fernandez), the key issue is whether or not the new administration will modify the utilities sector and how radical the change could be. We believe that Fernandez's administration may seek to dilute planned tariff increases that were expected to follow CPI, lessening the burden on households' disposable income but hampering the system's operating performance.
- We expect sluggish economic growth to hurt the pace of volume performance of transportation infrastructure assets, especially in Mexico. In Chile, after the Ministry of Public Works (MOP) announced it would eliminate the annual adjustment for the rates of all domestic urban toll roads starting in January 2020, we project slightly lower revenues. Compensation mechanisms are still being defined and include an extension of the concession or additional payments at the end of the concession. We expect marginal impact to the ratings on Chilean toll roads because despite lower revenues, the financial metrics of most toll roads will continue to be robust and consistent with the current ratings.
- Brazil continues to launch its infrastructure investments plan for approximately R$50 billion (about $12.5 billion) to expand airports, roads, railways, and ports over each concession tenor. The government's plan is to leverage increased investor confidence after the Pension Fund Reform was approved in late October to attract private capital to deploy this ambitious infrastructure transportation program, on top of existing new energy and transmission line expansion, and boost GDP growth. The pipeline for 2020 includes five toll road concessions and 22 regional airports.

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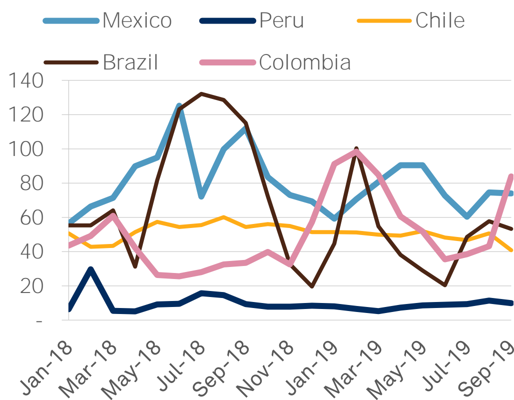
Chart 15

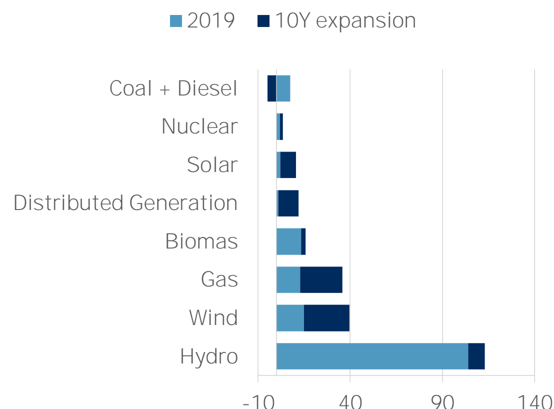
Electricity Spot Price Latin America ($/MWh)



Source: S&P Global Ratings.

Chart 16

Brazilian Energy Matrix: Expansion 2019-2029 (GW)



Source: S&P Global Ratings, EPE – PDE 2019-2029.

Financial Services

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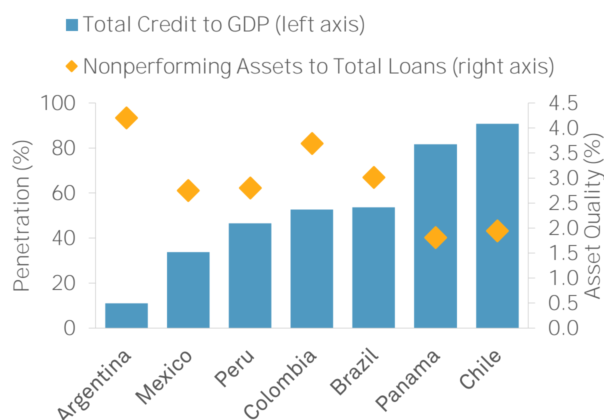
- We believe Latin America is growing below its economic potential, and the limited investments in the region keep lowering credit demand for banks, mainly due to political dynamics and rising social protests in many Latin American countries. The social protests in many countries including Chile, Bolivia, Ecuador, Venezuela, Colombia--along with political uncertainties in Argentina, Mexico, and Peru--could result in persistently weak investment and economic activity, pressuring banks' operating performances.
- In Brazil, commercial banks continue to post sound operating performance thanks to improvements in efficiency and lower provisioning needs, while government-owned banks are moving forward with the privatization agenda and reducing their participation in the banking system. In addition, the passage of the pension reform in Brazil could boost investment, resulting in stronger lending growth.
- Mexican banks' asset quality and profitability metrics remain resilient amid a weakening economy with low credit demand.
- After presidential elections in Argentina, local banks are in "wait and see" mode, waiting on policy direction from the president-elect. Deposit withdrawals remain, but banks have been able to cope with the situation given their strong liquidity levels, which have recently been stabilizing.

Chart 17

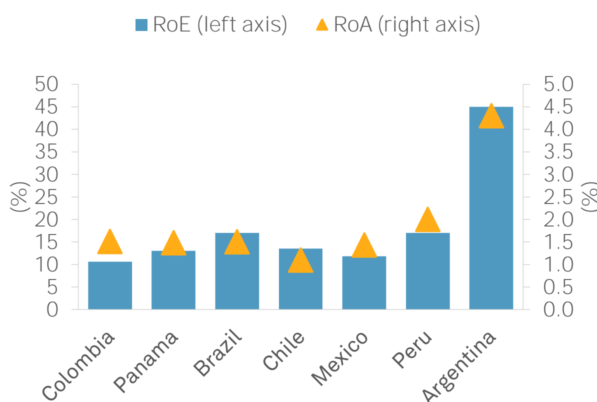
Credit To GDP And Asset Quality, 2019 Forecast



Source: S&P Global Ratings.

Chart 18

Latin American Banks' Profitability



Source: S&P Global Ratings.

Structured Finance

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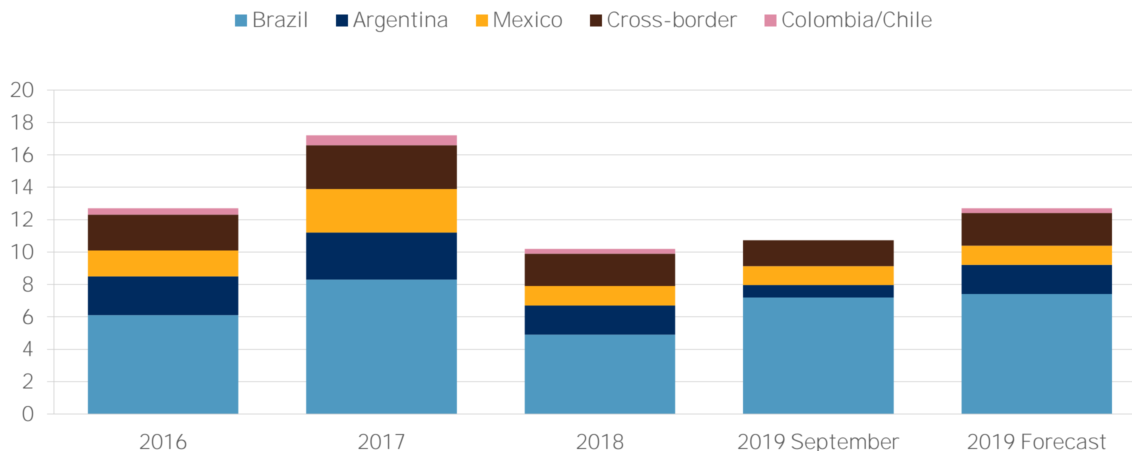
- We expect overall collateral performance in the region to remain stable, despite expected sluggish economic growth. An exception will probably be Argentina because challenging economic conditions will continue.
- In Argentina, the turbulent economy will likely affect the credit quality of the assets that back up the structured finance issues we rate. We've observed increasing delinquency levels, with a few exceptions (like residential mortgage trusts originated by banks). Argentina's worsening economic outlook has hurt individuals' repayment capacity, reduced their purchasing power, and increased relative debt.
- In Brazil, as the economy slowly climbs out of its deep recession, the country is turning its attention to jump-starting recovery in its real estate market. Authorities approved regulation intended to widen the pool of funds available to finance purchases of homes in the country and attract a significant amount of investors to Brazil's incipient RMBS. Nevertheless, we also believe that indexing mortgages to IPCA comes with risks that must be monitored. Brazil's highly volatile economy increases the risk of a sudden rise in inflation, which could result in a higher debt burden for homeowners, increased delinquencies, and weaker credit quality of securitized mortgages.
- In Mexico, we continue to follow closely the performance of ABS consumer and equipment transactions. Despite the weak third-quarter 2019 GDP growth in Mexico, we did not observe further weakness in our rated portfolio (relative to the first quarter of 2019).

Chart 19

Structured Finance Issuance – Latin America



Source: S&P Global Ratings

Related Research

- Credit Conditions EMEA: Low Growth, Lower Rates, Dec. 3, 2019
- Credit Conditions North America: Recession Risk Has Eased Slightly –For Now, Dec. 3, 2019
- Global Credit Conditions: A Precarious Balance, Dec. 3, 2019
- Credit Conditions Asia-Pacific: Rate Relief, Risks Remain, Dec. 3, 2019
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- Global Outlook: Banks Can Largely Fend Off Tougher 2020, Nov. 18, 2019
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- S&P To Monitor The Impact Of Protests And Unrest On Chile's Financial System, Oct. 30, 2019
- Brazil Has Passed Pension Reform: What's Next?, Oct. 24, 2019

This report does not constitute a rating action.

Appendix 1: Ratings Trends And Surveys

Table 4

Latin American Sovereigns And IPF

	Economic conditions	Economic conditions outlook	Budgetary performance	Sector outlook
Brazil	Weak	No change	Same	Stable
Mexico	Weak	Weak	Same	Negative
South America (excluding Brazil)	Satisfactory	No change	Same	Stable
Central America & Caribbean	Weak	No change	Same	Stable
Mexico IPF	Weak	Weak	Same	Negative
Argentina IPF	Weak	Weak	Same	Stable
Brazil IPF	Weak	No change	same	Negative

IPF—international public finance. Source: S&P Global Ratings.

Table 5

Latin American Corporate And Infrastructure Sector Trends

	Current business conditions	Business conditions outlook	Financial trends outlook	Sector outlook
Aerospace and defense	Satisfactory	No change	Lower	Stable
Auto suppliers	Satisfactory	Somewhat weaker	Same	Stable to Negative
Building materials	Weak	Somewhat weaker	Lower	Stable to Negative
Chemicals	Satisfactory	Somewhat weaker	Lower	Stable to Negative
Consumer products A(branded products)	Satisfactory	No change	Same	Stable to Negative
Consumer products B (agro & protein)	Satisfactory	Somewhat stronger	Higher	Stable
Forest products	Weak	No change	Lower	Stable to Negative
Merchant power	Satisfactory	Somewhat weaker	Same	Stable to Negative
Metals and mining	Satisfactory	Somewhat weaker	Same	Stable
Oil and gas	Satisfactory	No change	Same	Stable
PPP/Infrastructure project finance	Satisfactory	No change	Same	Stable
Real estate: homebuilders	Weak	Somewhat weaker	Same	Stable to Negative
Regulated utilities	Satisfactory	No change	Same	Stable
Retail	Satisfactory	No change	Same	Stable
Telecom	Satisfactory	No change	Same	Stable
Transportation	Satisfactory	No Change	Higher	Stable

Source: S&P Global Ratings.

Table 6

Latin American Banking Industry Trends

		Economic risk factors					Industry risk factors				
Country	BICRA group	Economic resilience	Economic imbalances	Credit risk in the economy	Economic risk score	Economic risk trend	Institutional framework	Competitive dynamics	System wide funding	Industry risk score	Industry risk trend
Argentina	9	Extremely high	High	Extremely High	10	Stable	High	High	Very high	7	Negative
Brazil	6	Very high	High	High	7	Stable	Intermediate	High	Intermediate	5	Stable
Mexico	4	High	Low	High	5	Negative	Intermediate	Intermediate	Low	3	Stable
Colombia	6	High	High	High	7	Stable	High	Intermediate	Intermediate	5	Positive
Peru	5	High	Very low	Very high	6	Stable	Low	Intermediate	Intermediate	3	Stable
Chile	3	High	Low	Intermediate	4	Stable	Low	Intermediate	Low	3	Stable

Source: S&P Global Ratings. Data as of Oct. 29, 2019.

Table 7

Latin American Insurers And Reinsurers Sector Trends

	Current business conditions	Business conditions outlook	Sector outlook
Mexico	Satisfactory	No change	Stable
Brazil	Weak	Improving	Stable
Colombia	Satisfactory	No change	Stable

Source: S&P Global Ratings.

Table 8

Latin American Structured Finance Sector Trends

	Current collateral performance	Collateral performance outlook	Sector fundamentals	Ratings trends
Argentina				
Consumer assets	Satisfactory	Weaker	Negative	Negative
Brazil				
Commercial assets	Satisfactory	No change	Stable	Stable
Consumer assets	Satisfactory	No change	Stable	Stable
RMBS	Satisfactory	No change	Stable	Stable
Future flows	Satisfactory	No change	Stable	Stable
Mexico				
Commercial assets	Satisfactory	No change	Stable	Stable
Consumer assets	Satisfactory	No change	Stable	Stable
RMBS	Satisfactory	No change	Stable	Stable
Future flows	Satisfactory	No change	Stable	Stable
Cross-border				
Future flows	Satisfactory	No change	Stable	Stable

Source: S&P Global Ratings.

Appendix 2: Economic Forecasts

Table 9

Latin America CPI Inflation

(%)	2017	2018	2019f	2020f	2021f	2022f
Argentina	24.8	47.6	55.0	40.0	25.0	19.0
Brazil	2.9	3.7	3.1	3.7	3.8	4.0
Chile	2.3	2.1	2.9	3.0	3.0	3.0
Colombia	4.1	3.2	3.9	3.2	3.0	3.0
Mexico	6.8	4.8	2.9	3.0	3.0	3.0
Peru	1.4	2.2	2.1	2.2	2.0	2.0

f--Forecast. Source: S&P Global Economics.

Table 10

Latin America Policy Rate

(%, year-end)	2017	2018	2019f	2020f	2021f	2022f
Argentina	28.75	59.25	68.00	45.00	35.00	30.00
Brazil	7.00	6.50	4.50	4.50	5.00	5.50
Chile	2.50	2.75	1.75	1.50	2.00	2.75
Colombia	4.75	4.25	4.25	4.25	5.00	5.00
Mexico	7.25	8.25	7.25	6.50	6.50	6.50
Peru	3.25	2.75	2.25	2.25	2.75	3.25

f--Forecast. Source: S&P Global Economics.

Table 11

Latin America Exchange Rate ($, Year-End)

	2017	2018	2019f	2020f	2021f	2022f
Argentina	18.65	37.70	65.00	85.00	90.00	95.00
Brazil	3.31	3.87	4.10	4.15	4.20	4.20
Chile	615	696	750	735	740	745
Colombia	2,984	3,250	3,350	3,400	3,400	3,400
Mexico	19.67	19.65	20.00	20.50	21.00	21.00
Peru	3.24	3.37	3.40	3.45	3.50	3.50

f--Forecast. Source: S&P Global Economics.

Table 12

Latin America Exchange Rate ($, Average)

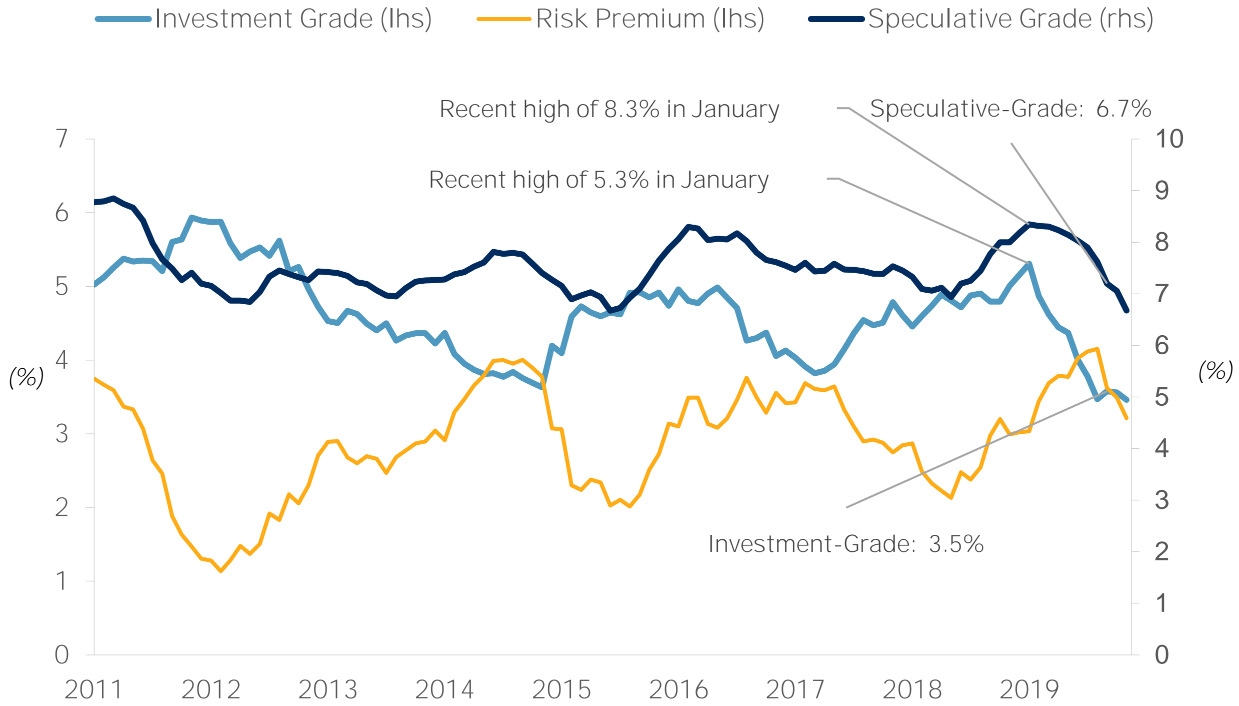
	2017	2018	2019f	2020f	2021f	2022f
Argentina	16.56	27.81	48.50	75.00	88.00	93.00
Brazil	3.19	3.65	3.94	4.11	4.16	4.20
Chile	649	641	700	743	743	745
Colombia	2,951	2,956	3,275	3,375	3,400	3,400
Mexico	18.91	19.23	19.30	20.25	20.75	21.00
Peru	3.26	3.29	3.35	3.43	3.48	3.50

f--Forecast. Source: S&P Global Economics.

Appendix 3: Reference Charts

Chart 20

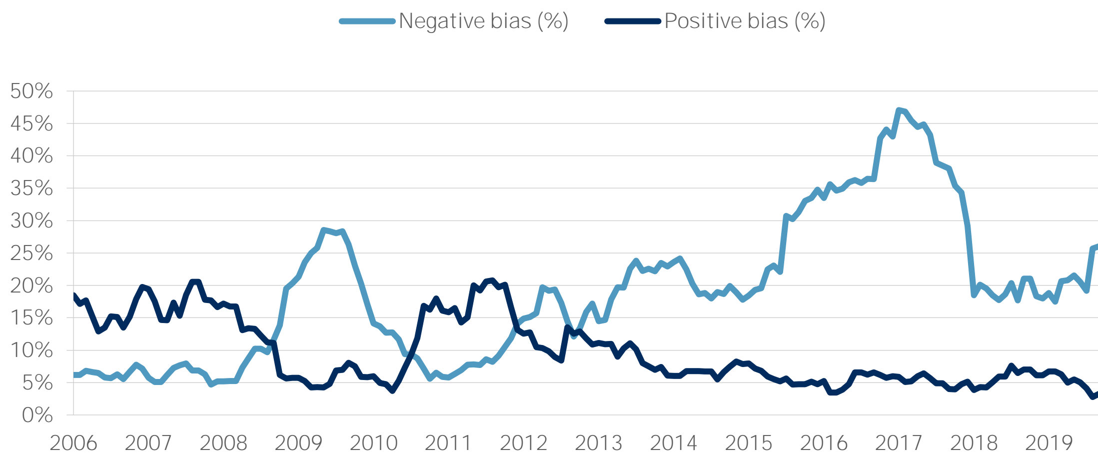
Average Yields For New Bond Issuances Dip After Central Bank Actions, But Risk Aversion Persists



Average yields computed on all new bond issuances in Latin America on a trailing-12 month basis; risk premium defined as difference between average speculative-grade and investment-grade yield. Data as of Nov. 30, 2019. Source: Thomson Financial; S&P Global Ratings.

Chart 21

Latin America Negative And Positive Bias (%)



Source: S&P Global Ratings Research, S&P CreditPro. Data as of Oct. 31, 2019.

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