

# Latin America COVID-19 Weekly Update

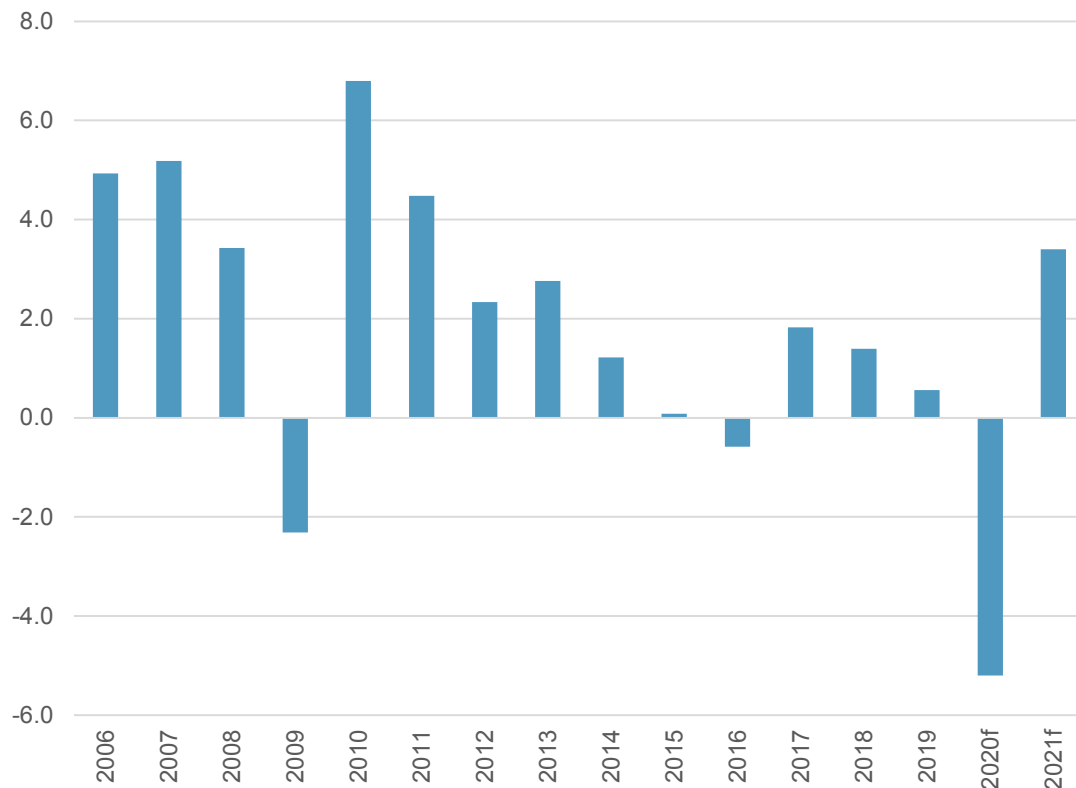
April 20, 2020

# Economic Research

Elijah Oliveros-Rosen  
Senior Economist  
[elijah.oliveros@spglobal.com](mailto:elijah.oliveros@spglobal.com)

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

LatAm, Real GDP Growth, %

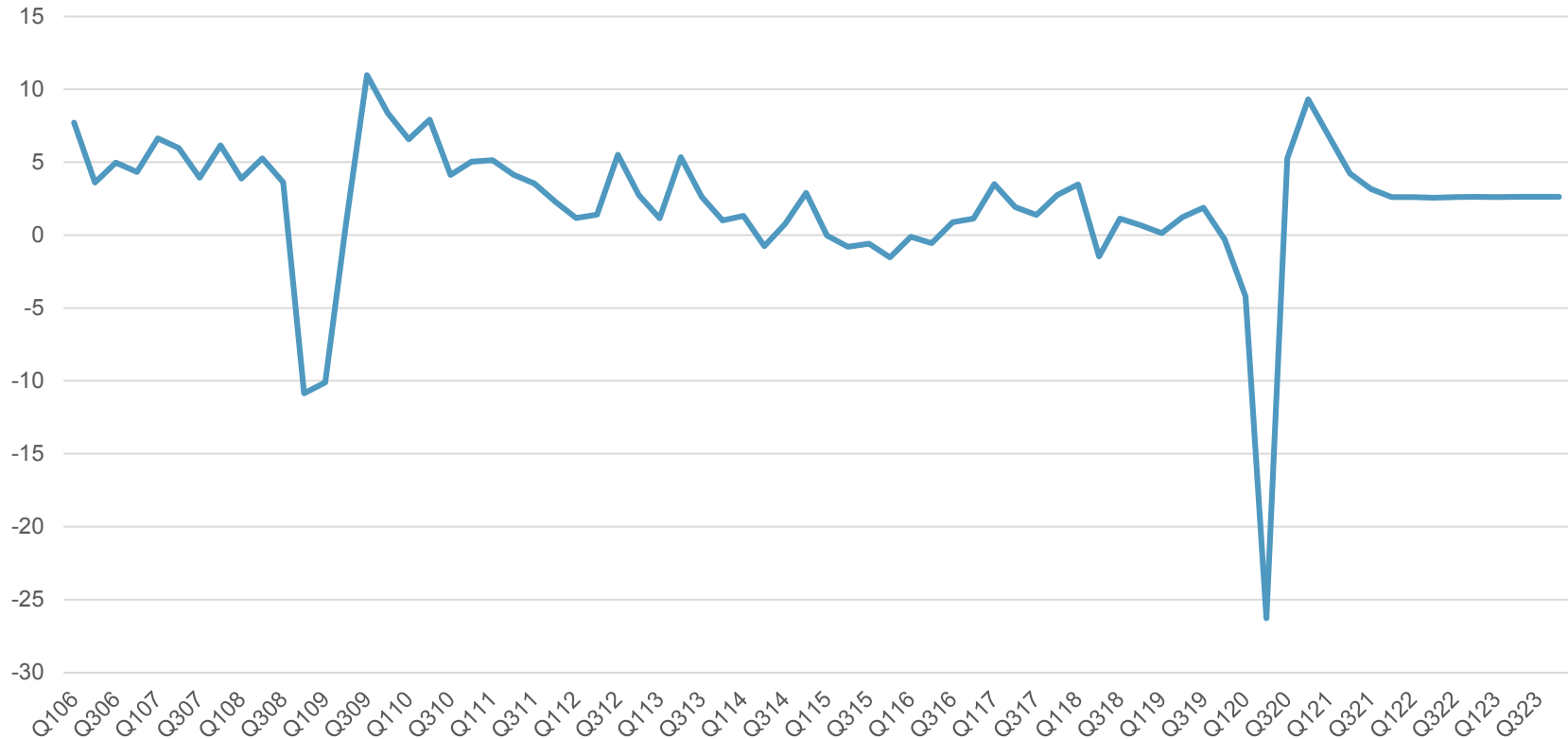


Source: Haver Analytics, S&P Global Ratings.

- **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

Joydeep Mukherji  
Sector Lead – Sovereign  
[joydeep.mukherji@spglobal.com](mailto:joydeep.mukherji@spglobal.com)

Daniela Brandazza  
Sector Lead – International Public Finance  
[daniela.brandazza@spglobal.com](mailto:daniela.brandazza@spglobal.com)

# Sovereign Ratings | Assessing The Strain

Joydeep Mukherji, New York. +1-212-438-7351,  
joydeep.mukherji@spglobal.com

- 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 on 33% of rated Mexican states to negative and 13% were downgraded, still with negative outlook.**

## 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

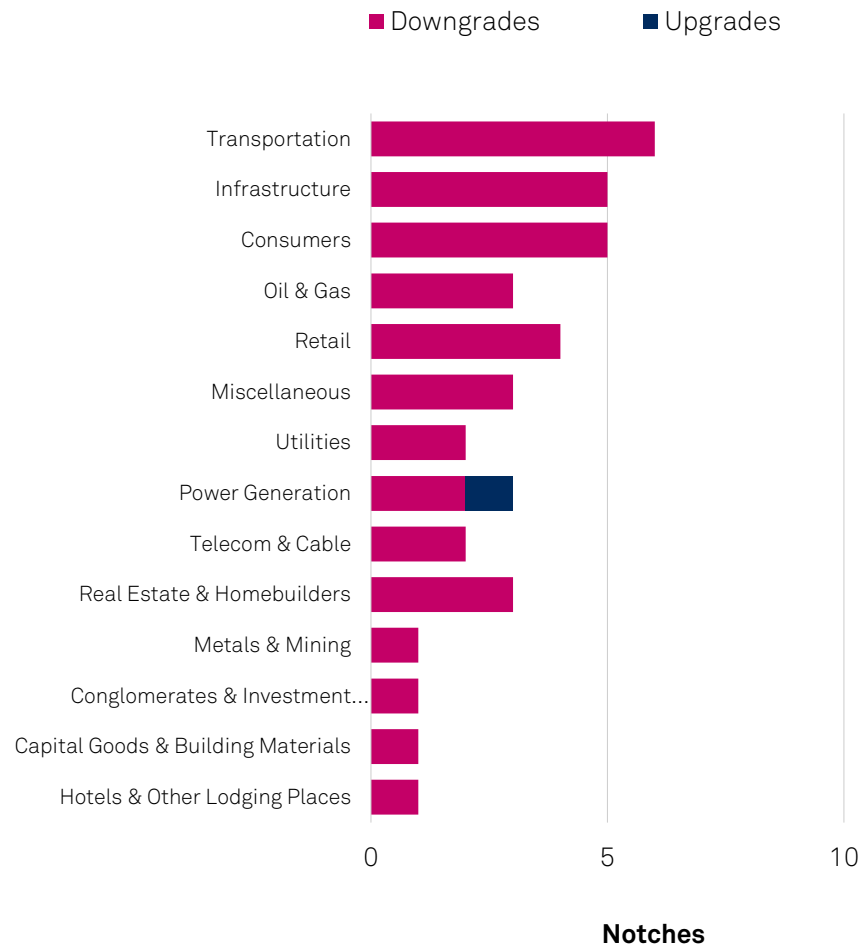
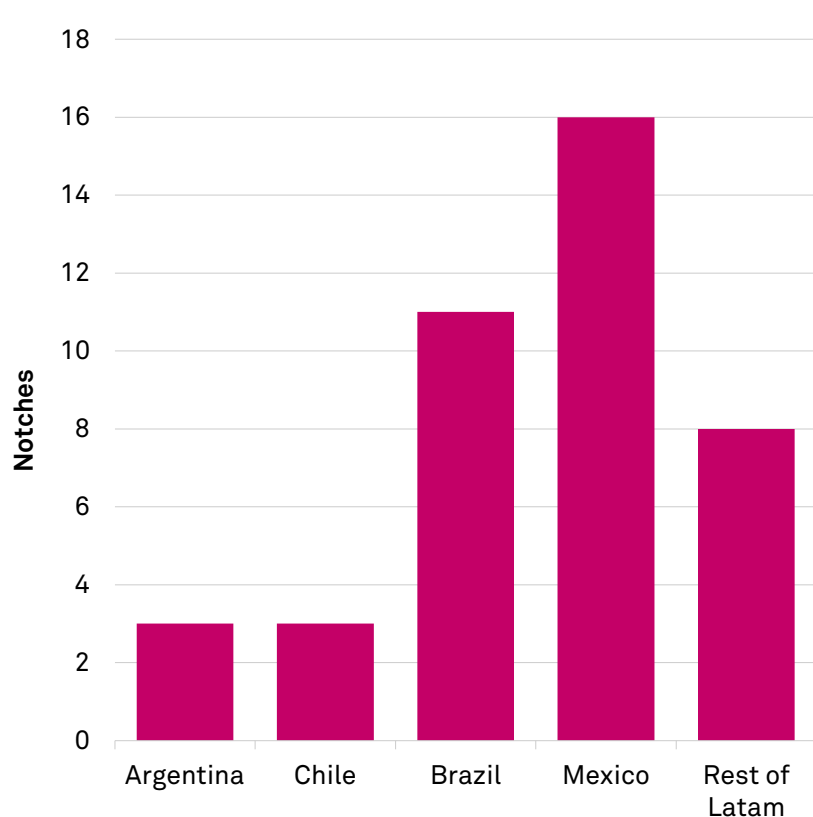
**Risk trend**  
Decreasing  
Neutral  
Increasing

# Corporates

Diego Ocampo  
Sector Lead – Corporates  
[diego.ocampo@spglobal.com](mailto:diego.ocampo@spglobal.com)

Luis Martinez  
Sector Lead – Corporates  
[luis.martinez@spglobal.com](mailto:luis.martinez@spglobal.com)

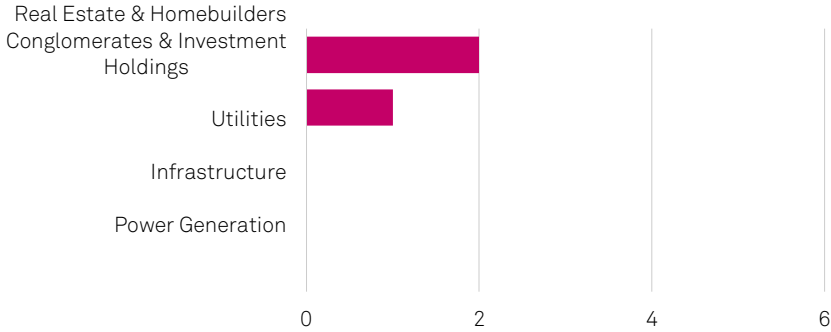
# Corporates & Infrastructure | 41 Downgrades Since The Outbreak



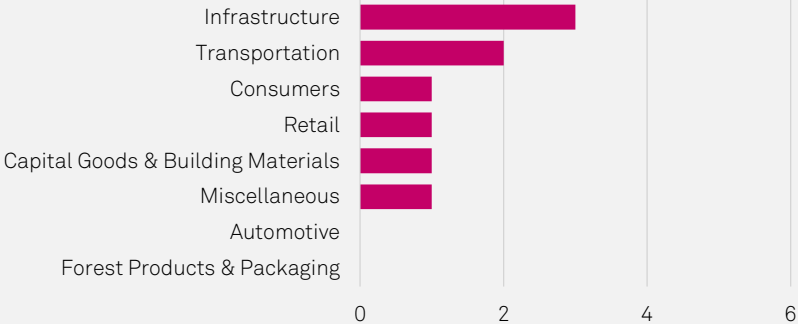
# Corporates & Infrastructure | Brazil & Mexico

## Concentrated The Bulk Of The Actions

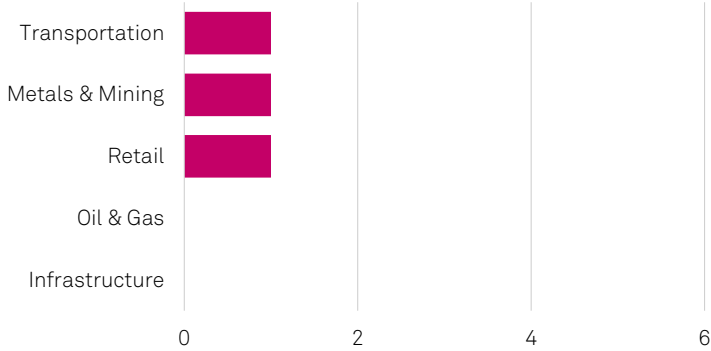
### Argentina



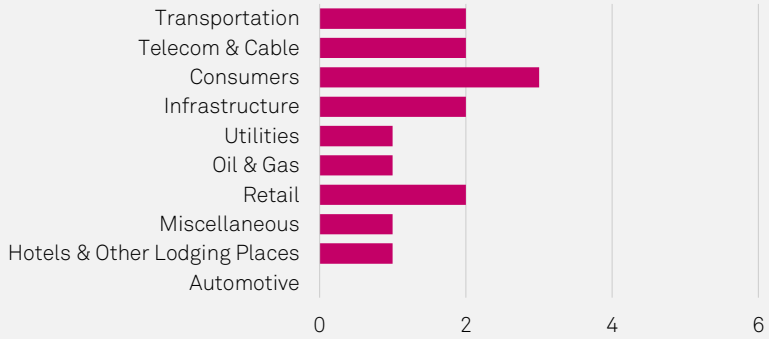
### Brazil



### Chile



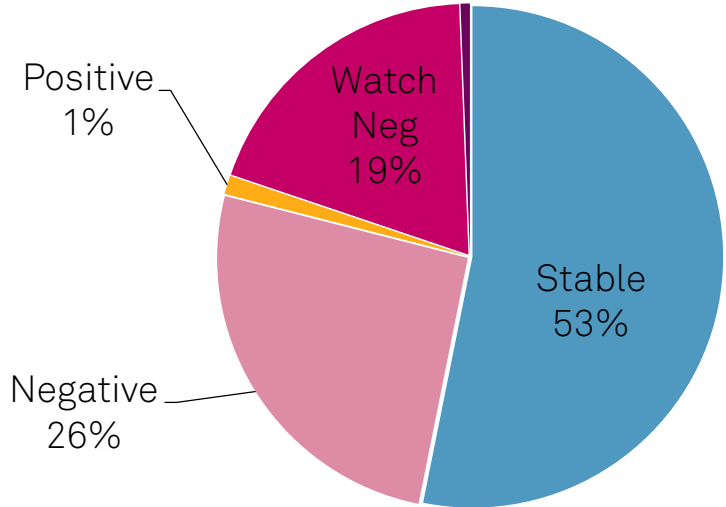
### Mexico



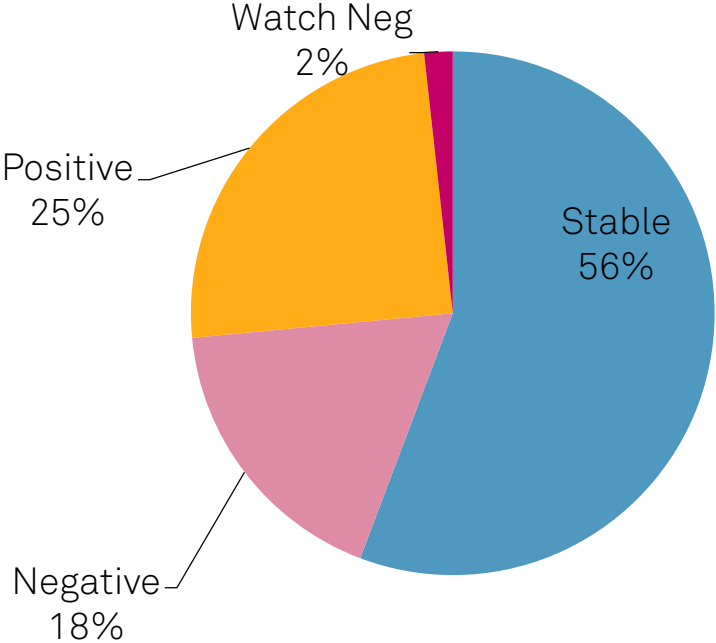
Source: S&P Global Ratings since Feb-27 to April 8, 2020

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

April 8

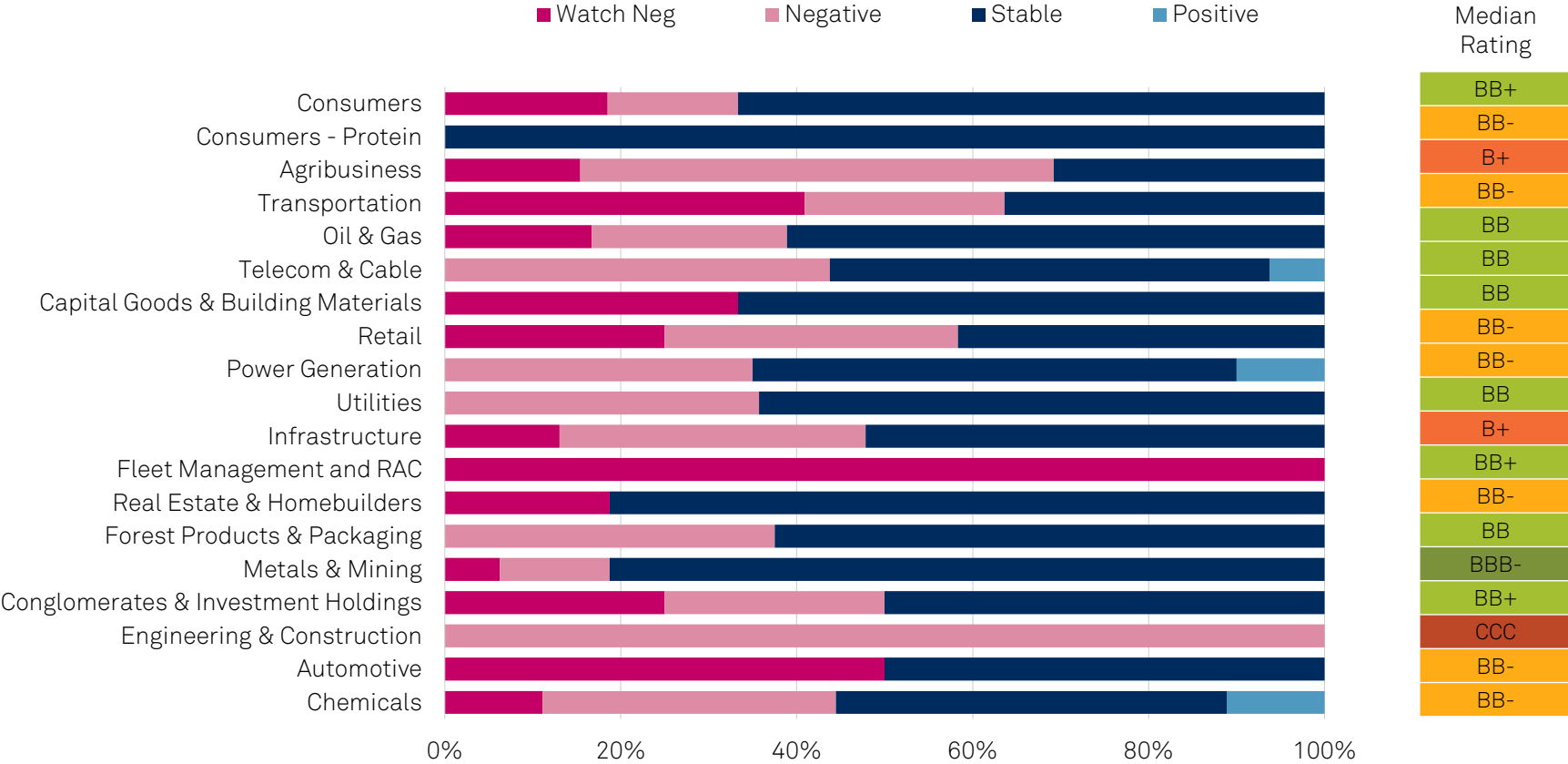


Feb 27



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

Julyana Yokota  
Sector Lead  
[julyana.Yokota@spglobal.com](mailto:julyana.Yokota@spglobal.com)



# Infrastructure | Power - Brazil

## Discounts For Low-Income Clients

Electricity consumption Range (kWh/month)	Current discount	Discount for next 90 days
Up to 30	65%	100%
31-100	40%	100%
101-220	10%	100%

## Major Exposure To Low-Income Clients In Brazil

Company*	Rating	% of clients	% of revenues
Neoenergia	BB-/Stable/--; brAAA/Stable/brA-1+	17%	6%
Equatorial Energia	brAAA/Stable/--	21%	3%
Energisa	BB-/Stable/--; brAAA/Stable/--	N.A.	1%
Enel Americas	BBB/Negative/--	9%	1%
CPFL Energia	brAAA/Stable/--	N.A.	< 1%

\* Companies that we rate with data publicly available. N.A.--Not available.

## Brazilian Electricity Distributors

- Provisional Measures 949 and 950: low-income clients with electricity consumption of up to 220 kilowatt hours (kWh) will be entitled to a 100% exemption of their electricity bills between April 1 and June 30 this year.
- To compensate the Brazilian government will direct up to R\$900 million to the electricity sector fund, Conta de Desenvolvimento Energetico (CDE). Instead of receiving the cash from residential clients, distributors will receive it from CDE and indirectly from the Brazilian Treasury.
- In our view, this can provide funding to cope with some issues that Brazilian distributors are facing, including:
  - Energy surpluses following weaker economic activity;
  - Increase in the portion of energy costs that are denominated in dollars; and
  - Increase in delinquency, especially after a measure that temporarily prohibited companies to disconnect residential customers that are not paying their bills.

# Infrastructure | Latest Rating Actions and Emerging Risks

- Revised Global economic downturn with (2.4)% drop in GDP in 2020 to further impact our traffic assumptions for Roads. In particular the pace of expected recovery in 2021.
- We revised the outlook on three domestic infrastructure entities to negative from stable in Dominican Republic, following similar action on the sovereign because their ratings are capped at the sovereign.
  - Aeropuertos Dominicanos Siglo XXI S.A (Aerodom): BB-/Negative
  - AES Andres B.V. : BB-/Negative
  - Empresa Generadora de Electricidad Itabo S. A. (Itabo): BB-/Negative
- Prior to the pandemic, Chilean toll roads were affected by the government's decision to freeze the tariff adjustment after the protests that the country faced in October 2019. As a result:
  - we lowered the ratings of Autopista Central and Vespucio Norte to A- and BBB-, respectively, and placed both ratings in negative Credit watch listing, indicating a further impact if the duration of the social distancing measures are extended for more than 2 months;
  - we affirmed the ratings of Costanera Norte at A/Stable because it present a larger cushion its coverage metrics, on top of a 12 months debt service reserve account supporting its short financial flexibility to absorb the negative impact of traffic plunge.

# Financial Institutions

Cynthia Cohen Freue  
Sector Lead – Financial Institutions  
[cynthia.cohenfreue@spglobal.com](mailto:cynthia.cohenfreue@spglobal.com)

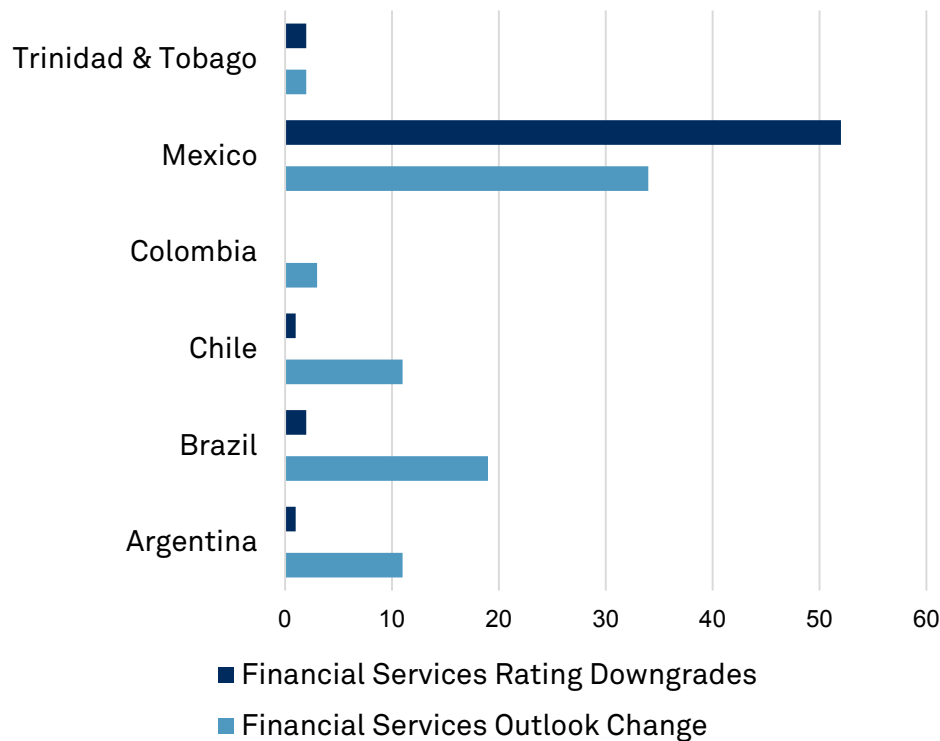
Alfredo Calvo  
Sector Lead – Financial Institutions  
[alfredo.calvo@spglobal.com](mailto:alfredo.calvo@spglobal.com)

# Financial Institutions | Asset Quality Shock Amid The Coronavirus Outbreak

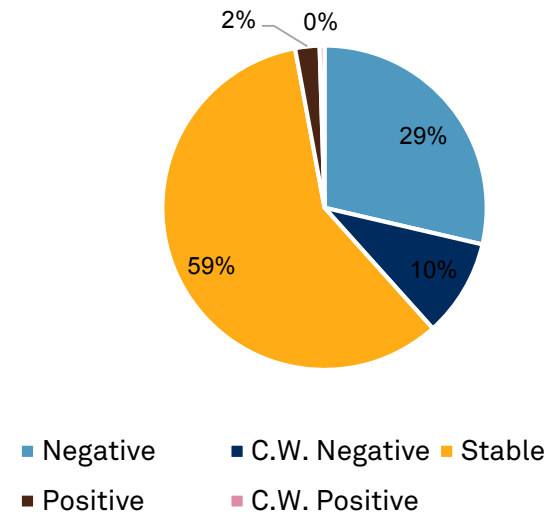
- We expect a shock on asset quality indicators especially from small-to mid-size enterprises (SMEs) and self-employed workers; but most probably full recognition will be delayed due to regulatory forbearance.
- Despite strong net profits of LATAM banks at the onset of the crisis, they will weaken due to higher provisions. The deterioration will depend on the duration and intensity of the effects on the economy.
- 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.
- Deposit base of large banks is benefitting from flight to quality, given that investors and depositors are shying away from the capital markets and funds, while parking their funds in banks. However, smaller banks and financial companies do not benefit from this trend.

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

## Number Of Downgrades And Outlook Revision

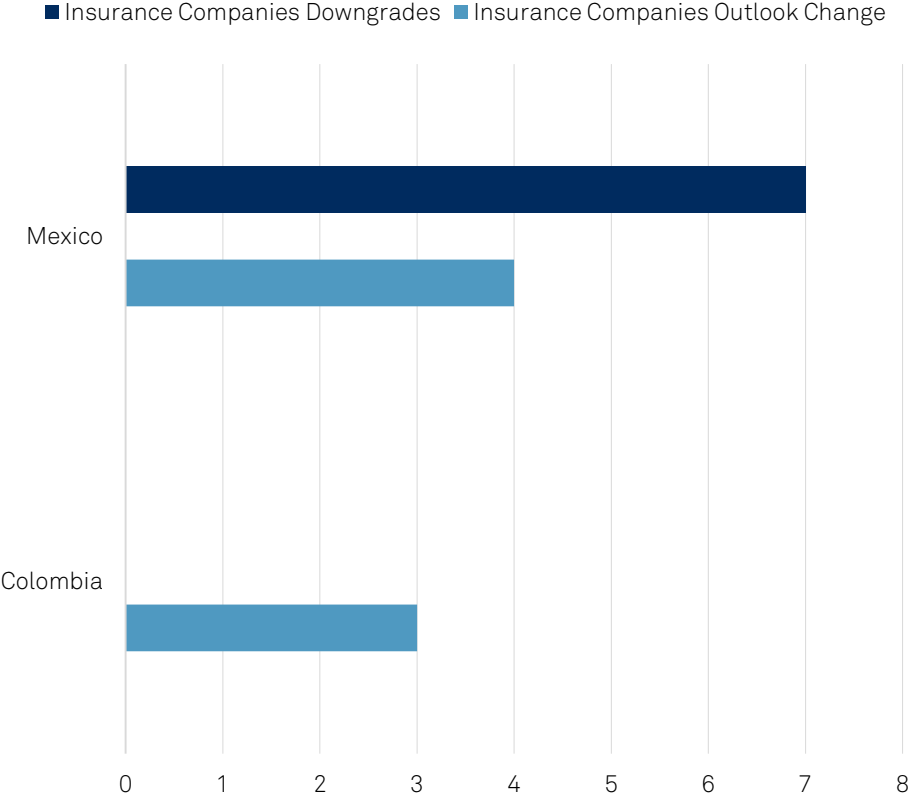


## Outlook Distribution As Of April 17

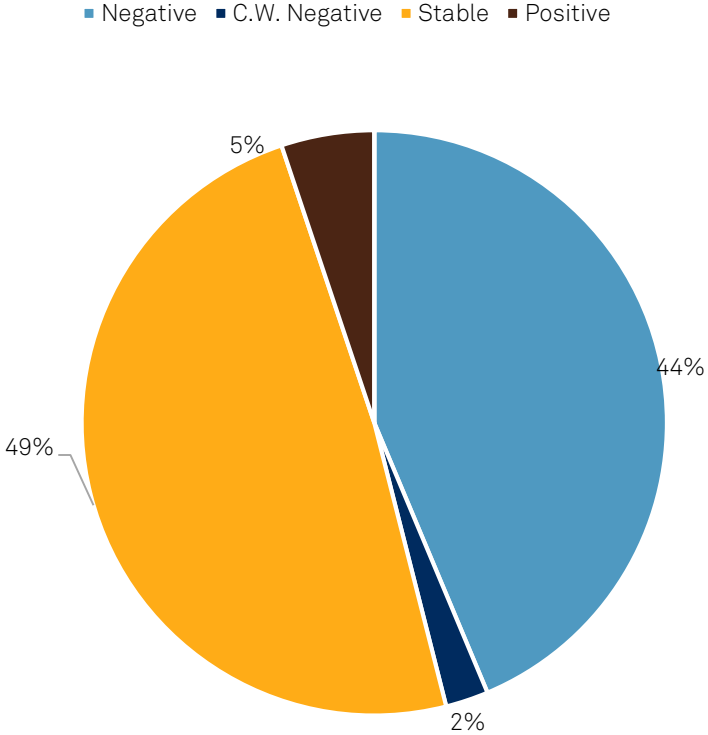


# Insurance | Rating Actions Since The Beginning Of COVID-19 Outbreak In The Region

**Number Of Downgrades And Outlook Revision**



**Outlook Distribution As Of April 10**



# Structured Finance

José Coballasi  
Sector Lead  
[jose.coballasi@spglobal.com](mailto:jose.coballasi@spglobal.com)

# Structured Finance | Seven Emerging Risks In Latin America Securitization

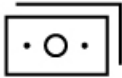
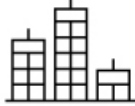







- 1 Transactions with low levels of liquidity reserves
- 2 Government or servicer relief programs
- 3 Closed stores of servicers using buy-here/pay-here collection process
- 4 Closing of stores in shopping malls backing rated CMBS transactions
- 5 Impact of potential obligor, counterparty, and sovereign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

*Source: S&P Global Ratings*



# Structured Finance | COVID-19 Fallout Threatens Mexican Equipment ABS

## Mexican Equipment ABS Market Snapshot

<p><b>Collateral Characteristics</b></p>	 <p><b>MXN23.5</b></p> <p>Billion in securitized collateral</p>	 <p><b>11,700</b></p> <p>Obligors; 2.7 contracts per borrower</p>	 <p><b>25 - 21</b></p> <p>Remaining term – seasoning (in months)</p>
<p><b>Top Concentrations</b></p>	 <p><b>Geographic</b></p> <p><b>36.5%</b></p> <p>In Mexico City, followed by Jalisco with 12%</p>	 <p><b>Industry</b></p> <p><b>20%</b></p> <p>Borrowers focused in trade; transportation follows with 15%</p>	 <p><b>Equipment type</b></p> <p><b>83%</b></p> <p>Of financed assets are transportation equipment</p>
<p><b>Key Risks</b></p>	 <p><b>Liquidity</b></p> <p>Relief programs may affect transaction's short-term cash flow</p>	 <p><b>Performance</b></p> <p>We expect defaults to increase</p>	 <p><b>Operational</b></p> <p>Risk may affect smaller originators</p>

Source: S&P Global Ratings.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

# Structured Finance | COVID-19 Related Rating Activity

## Latin America COVID-19 Related Rating Activity Through April 10, 2020

Action	ABS Consumer	CMBS	Future Flow	Receivables Repack	Total	
Downgrade			1		1	
Negative CreditWatch placement	18	2		4	3	27
Withdrawal	1					1
Total(i)	19	2	1	4	3	29

(i) Generally includes all public rating actions related to the COVID-19 impact.

# Related Research

- Economic Research: Economic Recovery From The COVID-19 Pandemic Will Be Uneven Across Latin America, April 17, 2020
- Economic Research: COVID-19 Deals A Larger, Longer Hit To Global GDP, April 16, 2020
- COVID-19 Fallout Threatens Mexican Equipment ABS Performance, April 15, 2020
- Brazilian Electricity Distributors Can Withstand 90-Day Period Of Unpaid Bills Among Low-Income Clients, Apr 14, 2020

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Australia: S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

[spglobal.com/ratings](http://spglobal.com/ratings)