S&P Global Ratings

Regional Credit Conditions Chair

Jose M Perez-Gorozpe
Mexico City
jose.perez-gorope@spglobal.com
+52-55-5081-4442

Credit Conditions Latin America:

Optimism Fades Despite Fed's Pause

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Key Takeaways

- **Overall:** Optimism is fading despite the Federal Reserve's (Fed's) more dovish tone and the possibility for lower interest rates in the U.S. later this year. Political challenges have been materializing in Latin America's largest countries, and new administrations are facing waning domestic investor confidence as policy uncertainty prevails. Financing conditions, however, have improved compared with the first few months of the year, and highly rated corporations have taken advantage to issue debt with favorable terms. Overall, we expect volatility to continue, driven by trade tensions and domestic policy uncertainty; these conditions will weigh on economic growth expectations.
- **What's changed:** Policy uncertainty in the region's largest countries is becoming more acute, undermining investor confidence and economic growth prospects. On the other hand, the Fed is now leaning towards a more accommodative monetary policy. We now expect the U.S. interest rates could fall 25 basis points (bps) in September. The latter is driven by weaker economic prospects in the U.S. as trade spats escalate and fiscal stimulus fizzles. Geopolitical tensions in the Middle East and likely slower global economic growth for the next year also weigh on investor decisions for Latin America.
- **Risks and imbalances:** Risks are rising in Latin America, despite better financing conditions and potential for lower interest rates in the future. While global investors continue looking for higher yields in emerging markets, domestic players' optimism is faltering as policy uncertainty prevails. The lack of critical reforms in Brazil; the cancellation of major projects, the shift in energy policy, and the lack of long-term direction at the Andres Manuel Lopez Obrador (AMLO) administration; economic slump and the upcoming election in Argentina cloud the economic outlook for the region. Exacerbating the trend are trade fights and U.S. protectionist posture. On the bright side, despite the volatility, which we expect will continue, commodity prices continue to be supportive of countries in the region.
- **Financing conditions:** We expect financing conditions in Latin America to remain supportive, particularly because the Fed has made it clear that rates will remain low. However, market liquidity can erode rapidly upon negative news, specifically related to trade or geopolitical tensions. On the positive side, we expect issuers to continue taking advantage of improving conditions to refinance their maturities and could even anticipate for those that come due in 2020 and 2021.
- **Macroeconomic conditions:** Since our last publication in the first quarter of this year, several external and domestic downside risks have materialized, prompting us to lower our GDP growth expectations for several Latin American economies. Externally, a further escalation in the trade conflict between the U.S. and China (and between the U.S. and Mexico) has increased risk aversion among investors and renewed pessimism towards global growth – an unfavorable environment for investment in Latin America. The region's political landscape has become more challenging, especially in Argentina and Brazil, further worsening an already weak investment picture.
- **Sector themes:** Overall, rated issuers in Latin America are well positioned to weather weaker economic prospects. Nevertheless, downgrades of lower rated entities and tightening refinancing conditions are likely. In general, weaker conditions should lead to a higher negative bias in the region.

(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 June 25, 2019.)

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Table 1

Top Latin America Risks

Volatile capital flows that restrict market access

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

The Fed's more accommodative monetary policy will probably guarantee fairly stable capital flows to Latin America over the coming months, at least for the rest of 2019. Nevertheless, we believe investors have become more cautious and selective over the past months, and while funding conditions have improved, investors will be looking for stronger fundamentals or ask for higher yields to compensate for risk. On the other hand, we don't rule out high volatility episodes.

Increasing U.S. protectionism

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

U.S.–China free trade negotiations remain fluid, and a potential outcome remains uncertain. A potential agreement depends on many factors that transcend purely economic interests. For China, the key risk is that the combined effects of investment restrictions, export controls, and tariffs will rewire supply chains to its competitors and weaken manufacturing investment, particularly in the technology sectors driving growth.

Mexico managed to defuse recent threat from President Trump to impose tariffs if the immigration problem on the U.S. southern border wasn't addressed. However, the risk that President Trump could use tariffs as potential sanction for non-trade related issues exists. Meanwhile, Mexico just approved the Unites States-Mexico-Canada Agreement (USMCA), and Canada is making good progress to do so as well, while in the U.S., Democrats still have doubts about the new agreement.

Regional political challenges

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

Regional political challenges are worsening, and we expect this trend to remain for the rest of the year. In Central America and Venezuela, deep economic woes and unstable political conditions have prompted a large outflow of emigrants. Brazil's failure so far to pass critical reforms has undermined investor confidence and economic prospects. In Mexico, the lack of long-term policy direction, along with the cancelation of critical infrastructure projects and the shift in the energy policy, has stalled investment and growth. Finally, Argentina's weak economy and the upcoming election are critical factors to monitor. Overall, policy uncertainty is acting as a drag on regional economic growth.

Potential for future commodity price shocks

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

We expect commodity-price volatility over the coming months. Into next year, there's a potential for lower prices as global economic growth cools. But so far, favorable commodity prices have benefited the regional economies; healthy economic growth in the U.S. and China has either maintained or increased commodity prices. Also, some supply shocks have contributed to this trend.

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?

In general, Latin American countries are facing a more complex environment. Political risks have been materializing in the region's largest economies, and future panorama doesn't look promising. The latter has imperiled investor confidence and economic growth prospects. At the same time, external conditions are becoming more adverse as trade disputes between the U.S. and China have been escalating, in contrast to the constructive dialogue in the previous quarter. President Trump has also found a powerful tool in tariff threats, which prompted Mexico to agree to a deal to stem migration from Central America to the U.S. Still, the threat of new tariffs remains if Mexico fails to reach Washington's objectives.

Trade spats and the dimming outlook for U.S. economy in 2020 have prompted the Fed to fully withdraw from further interest rate increases. This was such a dramatic policy shift that now we could expect a rate cut as soon as September of this year.

On the bright side, financing conditions have shown some improvement and are especially supportive for issuers with strong fundamentals. Also, despite volatility, commodity prices continue to shore up Latin American economies, and in some cases, supply conditions are driving higher prices.

Assessment of key risks

Risks are worsening in Latin America, despite better financing conditions and potential for lower interest rates in the future. While global investors continue looking for higher yields in emerging markets, domestic players' optimism is waning as policy uncertainty prevails. The absence of critical reforms in Brazil; the cancellation of significant infrastructure projects, the shift in energy policy, and the lack of long-term direction from Mexico's administration; economic malaise and the upcoming election in Argentina weigh on the economic outlook for the region. Trade discord and U.S. protectionist posture also crimp growth prospects for Latin America.

The expectation of lower interest rates in the U.S. and other developed markets will probably keep capital flowing to emerging markets at least for the rest of the year. The latter should result in favorable financing conditions for Latin American issuers, especially for those with strong fundamentals. However, volatile conditions will probably prevail during the second half of 2019 as adverse developments could erode investors' confidence, such as a mounting trade conflict between the U.S. and China, slower-than-expected global GDP growth, cooling growth in China, or the potential for a hard Brexit.

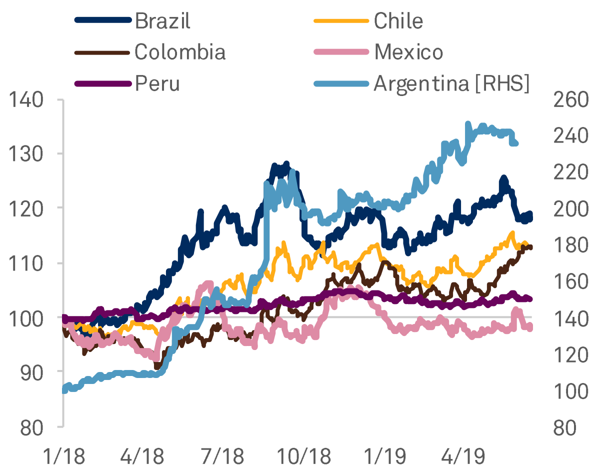
We're revising our trend for U.S. protectionist policies to worsening from unchanged. U.S.–China free trade negotiations remain fluid and a final outcome remains uncertain. After unfruitful conversations in May, the U.S. decided to impose tariffs, followed by China's retaliation. A potential agreement depends on many factors that transcend trade flows, including intellectual property rights and dubious use of technology. While escalation in tariffs would have minimal short-term effects in both countries, indirect spillover would be felt in global economy and some specific sectors. After President Trump's threat to impose tariffs on Mexican exports was defused in recent weeks, the USMCA should be the key topic going forward. On June 19, Mexico has approved the agreement, while Canada is on track to do so as well. However, Democrats in the U.S. still have doubts about sufficient protections in Mexico's labor laws. The latter raises uncertainty about the potential approval of the agreement in the near term.

The trend for regional political challenges has turned for the worse. Political uncertainty has undermined domestic investors' confidence, which has weakened economic prospects in major economies in the region. Brazil's President Bolsonaro has failed to make decisive progress so far in negotiating with a fragmented Congress over major reforms. As time passes, the six-month old administration's political capital will be fading, making it even more difficult to pass such reforms. The latter has diminished the optimism that we observed at the beginning of the year, and now investors are more cautious about Brazil's prospects. In Mexico, headaches for the administration

keep up piling as migration flows threaten the imposition of U.S. tariffs. U.S. demands come at a bad time for Mexico, because AMLO's administration has taken many measures that have chilled investor confidence, including cancelation of the new airport and substantial changes to the country's energy policies. Moreover, Mexico's officials have failed to shore up investor confidence, despite the government's fiscal discipline and its actions to support Petroleos Mexicanos' (Pemex's) finances. In Argentina, President Macri has failed to improve economic conditions, jeopardizing the administration's reforms due to upcoming elections, which generate policy uncertainty if the opposition wins. Weak economic conditions in Central America and the economic, political, and humanitarian crisis in Venezuela have prompted unprecedented migration flows to neighboring countries, with which Colombia and Mexico are struggling to cope.

Chart 1

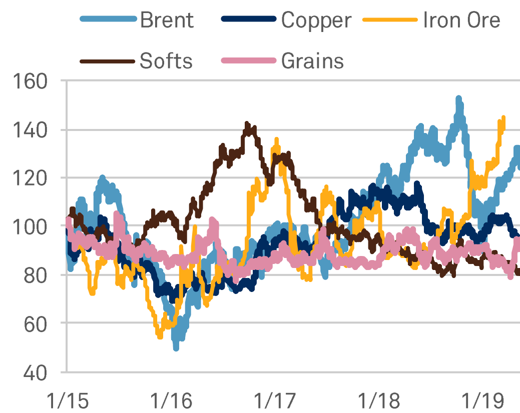
Latin America's Exchange Rate Performance (Jan. 2, 2018=100)



Source: S&P Global Ratings

Chart 2

Commodity Prices (Jan. 2, 2015 = 100)



Source: S&P Global Ratings

Financing Conditions

Primary contact

Sudeep Kesh
New York
sudeep.kesh@spglobal.com
+1-212-438-7982

Jose Perez Gorozpe
Mexico City
jose.perez-gorozpe@spglobal.com
+52-55-50814442

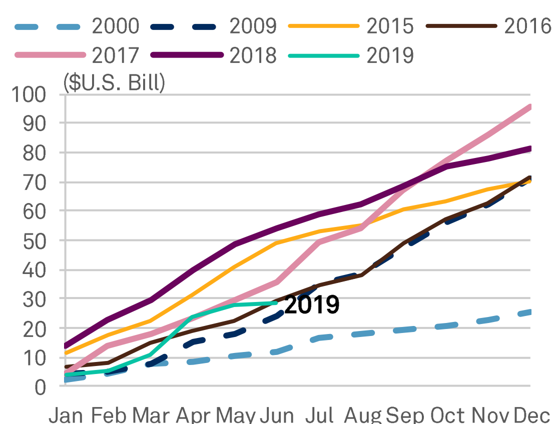
Nicole Serino
New York
nicole.serino@spglobal.com
+1-212-438-1396

We expect financing conditions to remain fairly favorable during the second quarter of 2019 in light of the potentially lower interest rates in the U.S. and other advanced economies. In our view, investors will be more selective and looking for the issuers with more solid fundamentals, given the subdued economic prospects. We expect banks to be more conservative in their origination amid softer business conditions, which will probably tighten credit availability. Consequently, issuers are likely to look for opportunities to refinance their debt in the market. We continue to see low appetite among corporations to increase their leverage and investments, and in general companies are performing liability management.

While financing conditions have improved since the beginning of the year and the pace of bond issuances in Latin America has improved in recent months, the total amount--$28.5 billion as of June 17--remains the lowest in 13 years. This trails year-to-date $28.9 billion in bond issuances in 2016, at the height of the Lava Jato scandal in Brazil. While refinancing appears manageable over the next few years, additional strains among less creditworthy borrowers will most likely appear due to higher debt costs and refinancing needs, and the souring economic outlook despite actions by the Fed and the European Central Bank.

Chart 3

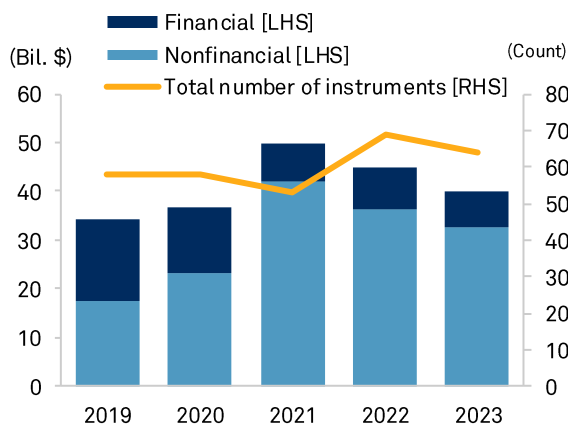
Latin America Corporate (FI and NF) Cumulative Issuance



Data as of Mar. 13, 2019. Source: Thomson Financial; S&P Global Fixed Income Research.

Chart 4

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 June 30, 2018. Source: S&P Global Fixed Income Research.

Neutral conditions. Generally, financing conditions remain balanced according to the Institute of International Finance's (IFF's) survey of lending conditions, which teeter between expansive and restrictive territories and likely to hold for the rest of this year. However, this belies some bifurcation--namely, trade finance and nonperforming loans (NPLs) on one end, and improved demand for loans and marginally better funding conditions on the other end. Demand for loans, which has one of the highest correlations to improved financing conditions in Latin America, appears positive this year, while NPLs (also strongly correlated) offset this with a slightly restrictive outlook, according to IIF's forecast.

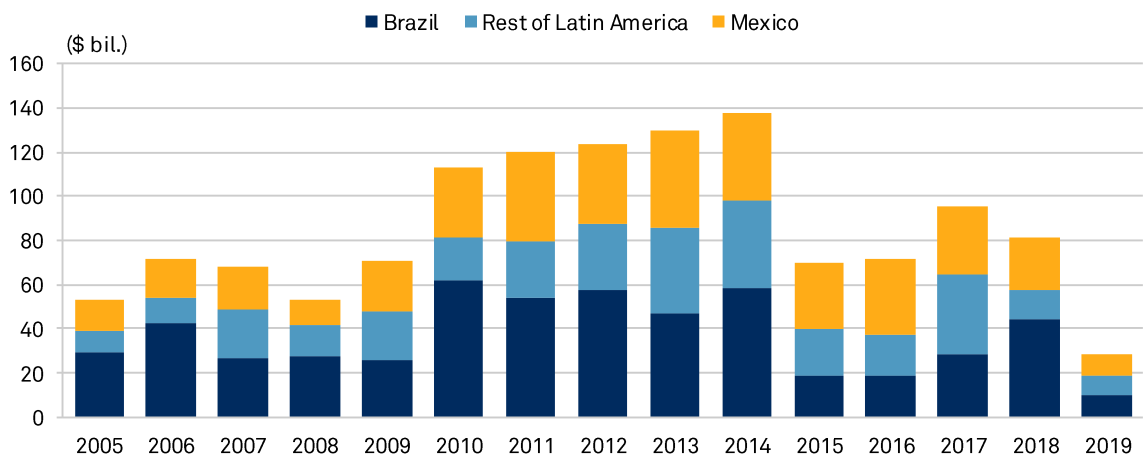
Maturing debt. S&P Global Fixed Income Research expects $207 billion of rated financial and nonfinancial corporate debt in Latin America (including the Caribbean) to mature through 2023--a small fraction of the $10.6 trillion in corporate debt set to mature globally in the same period. Of the total corporate debt maturing in Latin America through 2023, $35.6 billion is due 2019, and scheduled maturities will rise to a peak of $47.8 billion in 2021. The majority (63%) of the debt due 2019 is investment grade (rated 'BBB-' or higher), which should help mitigate refinancing risk because investors' demand for investment-grade debt remains high. We expect the region's corporate refinancing demand to remain largely manageable, especially because corporate issuers

have a multiyear window in which to refinance before the largest sums are due 2021 and 2022, though this schedule is contingent on favorable lending conditions. For more information, see "$207 Billion Of Latin American Rated Corporate Debt Is Set To Mature Through 2023," published June 17, 2019.

New issuances. The $28.5 billion in new bond issuances so far in 2019 consist of roughly $10.2 billion each from Brazil and Mexico, and the remainder ($8.2 billion) elsewhere in Latin America. Slightly more than 70% is domestically or privately (Euro/144A) issued, with Minera y Metalurgica del Boleo S.A.P.I. de C.V., America Movil S.A.B. de C.V., and Corporación Nacional del Cobre de Chile issuing the largest deals so far this year.

Chart 5

Latin America Corporate (FI & NFI) Issuance Volumes



Source: Data as of June 17, 2019. Source: Thomson Financial; S&P Global Fixed Income Research.

Macroeconomic Developments And Assumptions

Primary contacts

Elijah Oliveros-Rosen
New York
elijah.oliveros
@spglobal.com
+1-212-438-2228

(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.)

Since our previous Credit Conditions Committee, several external and domestic downside risks have materialized, prompting us to lower our GDP growth expectations for most Latin American economies. Externally, a further escalation in the trade conflict between the U.S. and China has increased risk aversion and renewed pessimism towards global growth, a setback for investment in Latin America. The political landscape has become more difficult in several countries in the region, especially in Argentina and Brazil, further hamstringing investment conditions.

We now expect a quarter-percentage-point interest rate cut by the Fed this year. Lower interest rates in the U.S. tend to be a positive development for Latin American assets by encouraging capital inflows into the region. While this very much could be the case, there are a couple of reasons that could prevent this from happening. First, financial markets are already pricing in two 25-bps cuts this year, so the risk is that the Fed doesn't match financial markets' expectations (cuts less, or not at all), and conditions actually tighten. Second, easing comes amid growing concerns over global growth, which in itself could discourage, rather than encourage, investment in Latin America, especially in countries where growth is already low and political risk is high.

Recent political developments in Argentina and Brazil have had the most substantial impact on our growth assumptions. In Argentina, the combination of high inflation and restrictive domestic financial conditions has taken a toll on President Macri's approval rate, putting into question policy continuity after the October presidential election. While we assume that the next elected government in Argentina continues to follow through its policy mix that's consistent with the IMF loan requirements, uncertainty over this has increased due to social discontent with the current economic situation. In Brazil, the path to approve social security reform has proven to be a volatile and lengthy process, reversing initial market optimism. While our baseline scenario remains that a version of pension reform will be approved this year, the impact that political volatility has had on investment has been greater than we have initially expected, burdening an already weak economic growth recovery.

Forecast Changes

- **Argentina:** We now expect Argentina's economy to shrink 1.6% this year, compared with a 1.2% contraction previously. Higher-than-expected inflation in early 2019 encouraged tighter monetary policy, while the rising uncertainty over the October presidential election has dimmed an already weak investment picture.
- **Brazil:** We lowered our 2019 growth forecast to 1% (from 2.2% a quarter ago), which implies a similar subpar expansion of the previous two years. Political volatility associated with the process of approving pension reform has held back investment more than we initially expected, and the recovery in household spending has flattened as labor market dynamics remain weak. We assume a pension reform will be approved later this year, which underpins our forecast for real GDP growth of 2.2% in 2020.
- **Mexico:** We also lowered our GDP forecast for Mexico to a 1.3% growth this year from 1.6% previously. The ongoing decline in oil production and a softening in the services sector are main factors behind the slowdown from a 2% growth pace in 2018. We assume trade relations with the U.S. will remain broadly unchanged, although the recent threat of 5% tariffs on Mexican goods going to the U.S. increases the risk of investor uncertainty, especially as we approach the U.S. presidential election in 2020.
- **Chile, Colombia, and Peru:** We lowered our forecasts for Chile and Peru, two economies that have the high degree of direct exposure to the U.S.-China trade conflict through copper exports to China. In both countries, domestic demand has also softened, following a strong 2018. In Chile, we now expect growth of 2.6% this year (down from 3.3% previously), and 3.4% for Peru (from 4.0% previously). We have kept our growth expectations unchanged for Colombia, at 2.9% for 2019.

Key assumptions

- One 25-bps interest rate cut in the U.S in 2019.
- GDP growth in the major advanced economies, while slowing from its peak around the middle of 2018, will remain relatively strong in 2019, and in many cases above potential.
- Recent policy easing in China will stabilize the economy, curbing the abrupt deceleration in growth that took place at the end of 2018.
- The recent steps that Argentina took to accelerate fiscal consolidation will broadly succeed in stabilizing investor confidence in the economy.
- Brazil to approve a version of pension reform this year, but not the ambitious proposal that the government presented in February.
- Our baseline GDP forecast for Mexico assumes continued uncertainty over policies under the AMLO administration that reduces private-sector investment participation in key sectors, such as energy.

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	-1.6	2.2	2.5	3.0	-2.5	-1.5	1.0	1.5
Brazil	1.1	1.1	1.0	2.2	2.5	2.5	0.5	1.0	1.2	1.5
Chile	1.5	4.0	2.6	2.9	3.0	3.0	2.0	2.5	2.5	2.5
Colombia	1.4	2.6	2.9	3.0	3.0	3.0	2.4	2.2	2.3	2.3
Mexico	2.3	2.0	1.3	1.8	2.2	2.2	0.8	1.2	1.5	1.5
Panama	5.3	3.7	4.5	4.5	4.8	5.0	3.0	3.5	3.7	4.0
Peru	2.5	4.0	3.4	3.7	3.9	4.0	2.8	3.0	3.0	3.0
Uruguay	2.7	1.6	0.9	1.9	2.8	3.0	0.5	1.2	2.0	2.2
Venezuela	-15.7	-20.0	-20.0	-5.0	0.0	3.5	-30.0	-15.0	-5.0	-5.0
Latin America	**0.7**	**0.1**	**-0.1**	**1.9**	**2.4**	**2.7**	**-1.2**	**0.1**	**1.2**	**1.3**
Latin America ex. Venezuela	**1.8**	**1.4**	**1.2**	**2.3**	**2.6**	**2.6**	**0.6**	**1.1**	**1.5**	**1.7**

f--Forecast. Source: S&P Global Economics. Note the Latin American GDP aggregate forecasts are based on three-year average (2014-2016) PPP GDP weights. Our GDP numbers are based on seasonally-adjusted series when available.

Table 3

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

(%)	**2019**	**2020**
Argentina	-0.4	-0.3
Brazil	-1.2	-0.3
Chile	-0.7	-0.1
Colombia	0.0	0.0
Mexico	-0.3	-0.1
Panama	-0.5	-0.5
Peru	-0.6	-0.4
Uruguay	-0.6	-0.2
Venezuela	-12.0	-7.0
Latin America	**-1.4**	**-0.6**
Latin America ex. Venezuela	**-0.7**	**-0.2**

Source: S&P Global Economics.

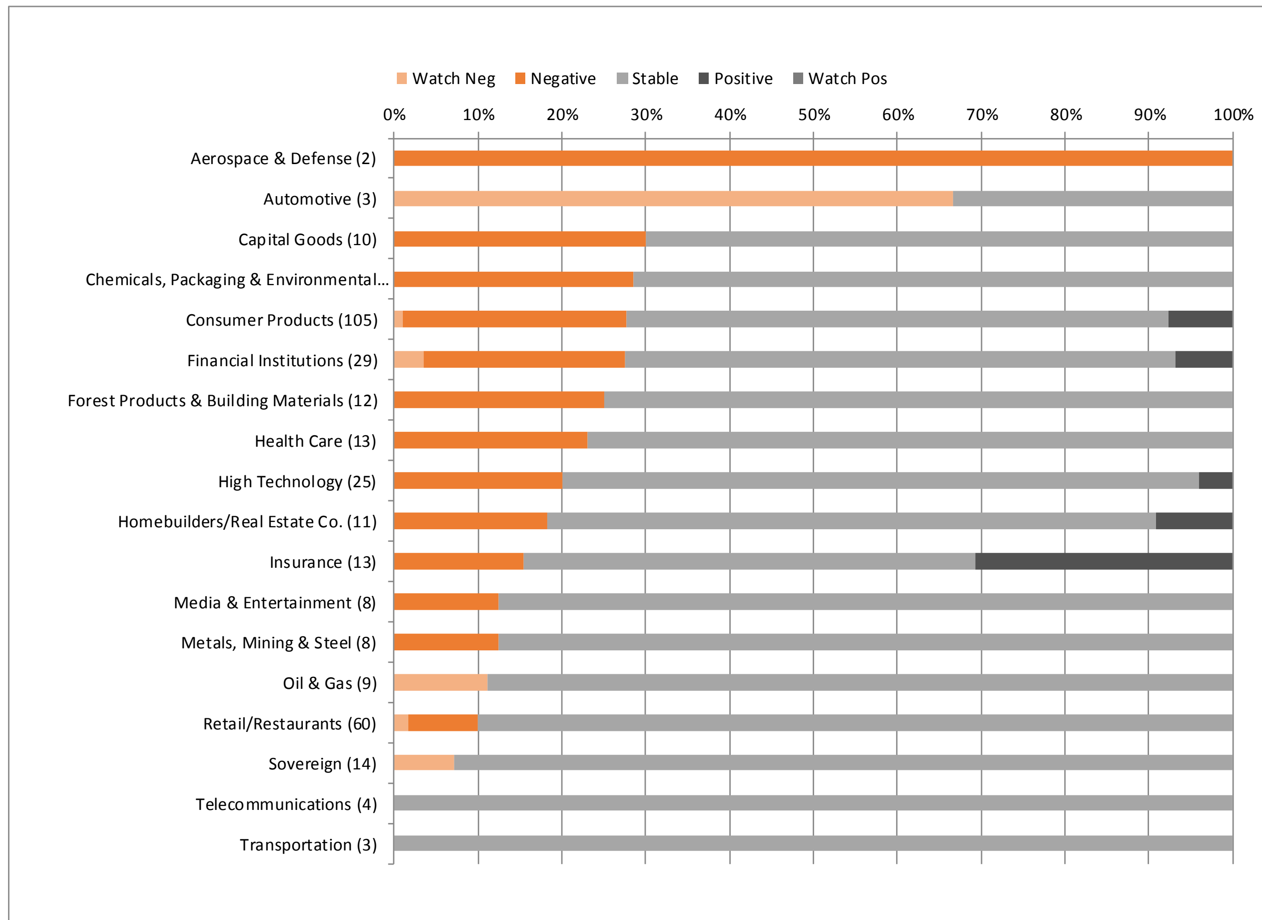
Risks to our macroeconomic outlook

- A deeper-than-expected deceleration in real GDP growth in the major advanced economies for 2019 could chip away at the mild economic recovery we forecast for most Latin American economies in the second half of 2019 and early 2020.
- The ongoing trade dispute between the U.S. and China, if it continues to escalate, could renew risk aversion and lower appetite for emerging markets assets, resulting in periods of capital outflows from Latin America.
- The ratification of the USMCA is still at risk, especially given a political polarization in U.S. Congress. A significant delay in ratifying the treaty could generate another round of uncertainty towards trade and investment relations between the U.S. and Mexico.
- The political situation in Argentina is very fluid, because if Mr. Macri loses the presidential election, it could scuttle the implementation of planned fiscal consolidation measures, threatening an economic recovery.
- Failure to approve a modest-to-ambitious pension reform in Brazil would reverse the recent uptick in business optimism and discourage investment, which would prompt us to revisit our macroeconomic assumptions for the country.
- A more significant change in the AMLO administration's policy direction that either restricts or discourages fixed investment further, would lead us to revisit our assumptions for Mexico again.

Sector Themes

Chart 6

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



Source: S&P Global Fixed Income Research. Data as of May 30, 2019.

Sovereigns

Primary contact

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

- Poor GDP growth throughout the Latin American region, with very little upside to sovereign ratings.
- Global trade tensions pose risk to investor confidence, heightening risk of loss of external liquidity among the lowest rated sovereigns.
- Expectations of low global interest rates should, absent negative shocks, sustain capital inflows into the region.

What's changed?

We revised downward our economic growth forecasts for Brazil and Mexico, while those for most of the region remain low, despite the Fed's reversal of its stance towards policy interest rates. The recovery in Brazil stalled in the first quarter, and the pace of economic growth looks less encouraging for the rest of the year. Domestic political issues, as well as continued uncertainty about trade tariffs will reduce Mexico's economic growth this year. Much of the rest of the region is likely to grow at 2%-3%. Argentina's economic and rating trajectory increasingly depends on expectations about the national election later this year.

Key assumptions

- The Argentine government largely adheres to its difficult austerity program with the IMF and avoids deepening capital flight and currency depreciation.
- Brazil's economy recovers during the remainder of 2019 and the government makes slow progress in key legislation, such as pension reform.
- Global trade spats have only a limited impact on the region, both directly and indirectly (through investor confidence).

Key risks

- Trade conflicts turn for the worse for Mexico, leading to a sudden loss of investor confidence, the peso's depreciation, and an unexpected shift to disruptive economic policy.
- Capital flight from Argentina results in an external liquidity crisis, leading to unexpected policy measures and potential default.
- Lower global growth sparks a sharp decline in commodity prices, worsening GDP growth and external liquidity and hurting sovereign ratings throughout other parts of Latin America.
- The human tragedy in Venezuela gets even worse and sparks a conflict with its neighbors.

What to look for over the next quarter

- The impact of U.S. trade tensions on investor confidence, interest rates, and trade flows.
- Hurdles for the Mexican government to maintain GDP growth and stable public finances.
- The ability of President Bolsonaro to gain approval of reform legislation in a divided Congress amid a fluid political situation.
- Will the Maduro regime stay in power in Venezuela despite worsening economic and social conditions?

Local And Regional Governments (LRGs)

Primary contact

Daniela Brandazza
Mexico City
daniela.brandazza
@spglobal.com
+52-55-5081-4441

- Argentine provinces will continue to struggle with fiscal restrictions, amid a severe economic slump. However, the institutional framework has allowed LRGs to maintain better revenue and expenditure balance, resulting in lower-than-expected debt issuances in the capital market during the first half of 2019.
- Tough finances and high debt continue to take a toll on several Brazilian LRGs, while the majority of local governments face severe operating expenditure pressures, mostly payroll costs and interest payments. As a result, capital expenditures will remain lower than those of international peers. The likely approval of pension reform this year won't necessarily include states and municipalities, so it's currently unclear how they will tackle their pension liabilities.
- During the first half of 2019, the reduction in federal transfers have pinched finances of some Mexican states and municipalities. In part due to this factor, some entities have been unable to reduce their dependence on short-term loans to cover operating expenditures. Most states don't have room to maneuver to slash expenditures or levy higher local taxes to compensate for shortfalls in transfers, which may result in increasing debt in 2019 and 2020.

What's changed?

Financing needs among Argentine LRGs haven't escalated as expected in early 2019, despite high inflation, which raises risks of higher provincial payroll. The majority of gubernatorial elections earlier this year have resulted in reelections, so policy continuity in these provinces is likely after the presidential election in October.

Weak finances continued to squeeze Brazilian LRGs during the first half of 2019, while borrowing was subdued. We don't expect a potential pension reform at national level to include states and municipalities.

Mexico's sluggish economic growth and lower federal transfers to states and municipalities have exacerbated fiscal challenges during the first half of 2019. Capital expenditures remain lower than in past years, and some entities may look to private-public partnerships (PPPs) in coming years, as well as debt issuances to finance infrastructure or services.

Key assumptions

- Argentina's economic malaise to continue during 2019, and the IMF program to keep pressure on the sovereign to comply with the 2019 fiscal targets. Provincial governments would need to plan prudently as inflation remains high and access to external financing remains tight. Debt burden still poses foreign exchange risks because some provinces have a high proportion of their debt in dollars or linked to it.
- Brazil's central government to maintain its guarantees of states' debts and offer transparency to its monitoring of LRGs' finances. We also consider access to external financing would remain restricted. Potential pension reform in Brazil wouldn't benefit states and municipalities in the shorter term.
- In Mexico, new institutional arrangements could undermine public policy effectiveness at local level in coming years, if governors and the appointed state delegates don't coordinate actions to address local finance issues. The relatively weak institutional framework continues to limit LRGs' creditworthiness.

Key risks

- Deeper-than-expected economic contraction in Argentina, and unexpected political conflicts between the provinces and the central government could undermine our base-case assumptions for the rest of 2019 and 2020.
- Increasing budgetary pressures, which could erode liquidity positions, could push more Brazilian LRGs to delay debt repayments. This would lead us to revise the institutional framework of Brazilian LRGs to a weaker category, which could impact their creditworthiness.

- Increasing political discretion in Mexico to transfer resources to resolve underfunding issues at local level, a rising number of highly-indebted states, and lesser fiscal transparency.

What to look for over the next quarter

- Argentine provinces' fiscal performance in the second half of 2019, given that inflation and currency stability are key for overall stability. Also, we still believe that a few provinces may issue debt in the domestic and international markets, so we would monitor LRGs' debt trends because of exposure to the dollar.
- We're remain concerned about Brazilian states that have very limited ability to tackle their fiscal and debt burdens. We would monitor for any changes in the institutional framework--predictability, revenue and expenditure balance, and transparency and accountability--in 2019 and 2020, because this could prompt us to revise our base-case expectations.
- We will keep monitoring the Mexican states' financial policies and how they cope with the lower federal transfers in the second half of 2019, because some of them have already heavily depend on short-term debt.

Nonfinancial Corporations

Primary contact

Diego Ocampo
Buenos Aires
diego.ocampo@spglobal.com
+55-11-3039-9769

Luis Manuel Martinez
Mexico City
luis.martinez@spglobal.com
+52-55-5081-4462

- Appetite for Latin American corporate bond issuances is slightly improving, and refinancing risks are largely contained.
- Mexican corporations' access to capital markets is vulnerable to a pessimistic investor sentiment about the country's slower economic growth trajectory and weak business environment.
- Financing conditions for Latin American companies may face downside risks in the near term, as the U.S. economy encounters increasing headwinds.
- Political risks continue to inhibit the region's growth prospects, and private investment remains subdued.

What's changed?

Investor sentiment towards Latin American credit risk is skittish due to a number of external and internal factors. Yet appetite for corporate bond issuances has been slightly rising in recent months, while refinancing risks remain low. Mexico's government has taken decisions across key economic sectors that have brought discomfort to the market, undermining investor confidence and increasing concerns about the country's growth prospects. This, along with market perception of higher political risks, has raised yields of Mexican corporate issuers above those of peers in the region.

For issuers in some countries of the region, domestic funding has become more relevant than from the international markets. In Brazil, for instance, 2019 is the third year in a row that the amount issued domestically by corporations is set to outpace that of cross-border issuances. This is particularly so for companies that generate revenues in Brazilian reals, because the cost of issuing domestically tends to be more competitive than doing so with a foreign currency instrument that carries an exchange-rate hedge. However, shorter tenors in domestic markets could make debt more expensive in terms of duration.

Argentine issuers are grappling with the uncertainties over the October presidential election. Fear of a populism comeback and recession have pushed investors away from Argentine credit, prompting spreads on Argentine bonds over the U.S. treasuries to soar to mid-900s. This is also preventing issuers from tapping international markets. So far, sectors with better perspectives are agribusiness, utilities, and oil and gas, the latter of which benefits from the rising output at the unconventional formation, Vaca Muerta.

Key assumptions

- Market access may tighten for the rest of the year due to political uncertainty and sluggish economic activity across the region.
- Capital investments will be subdued by slow growth prospects and industrial overcapacity across sectors.
- Positive consumer sentiment will generally contain downside risks on growth and profitability, particularly for some sectors such as consumer products, retail, and telecom.

Key risks

- External economic and geopolitical risks could trigger renewed volatility in capital flows and slide in the regional currencies, with repercussions on consumption, investment decisions, and leverage of companies exposed to foreign currency debt.
- Our view of commodity prices is largely unchanged, but the worsening trade relations between the U.S. and China could dim global demand and reduce commodity prices.
- A deterioration of the Mexican economy would undermine the credit quality of domestically-focused companies, which could hinder market access and increase the cost of financing.

What to look for over the next quarter

In Mexico, macro fundamentals continue to support consumer demand. A record high, although declining, consumer confidence index, a relatively low unemployment rate, sustained growth in consumer credit, and robust inflows of remittances are driving this trend. However, a recent slowdown in retail and auto sales could signal that consumption may be gradually cooling. In addition, a potential shift in the U.S. trade policy that brings trade tariffs into play could have immediate implications for Mexico's corporate sector. The magnitude of the impact would vary by industry, although the credit quality of exporters would very likely be exposed.

In Brazil, the complexities of policymaking have taken center stage as Congress deliberates important reforms. The timing and magnitude of those reforms remain unknown, but given their potential impact on Brazil's fiscal deficit and debt trajectory, long-term investment decisions remain mostly on hold. This is keeping a lid on infrastructure and other related sectors such as building materials, engineering and construction, steel, and capital goods. Meanwhile, export-oriented sectors with strong fundamentals are benefiting from relatively benign conditions, such as pulp and paper, beef and poultry, sugar and ethanol, and iron ore. The latter sector is recovering from a deadly dam collapse earlier this year in Brazil thanks to strong prices.

Infrastructure

Primary contact

Candela Macchi
Buenos Aires
candela.macchi
@spglobal.com
+54-11-4891-2110

Pablo Lutereau
Buenos Aires
pablo.lutereau
@spglobal.com
+54-11-4891-2125

Julyana Yokota
Sao Paulo
julyana.yokota
@spglobal.com
+55-11-3039-9731

- So far, Mexico's new administration made few advances in its infrastructure and energy policy plans. Although we still believe that private participation will be necessary to continue developing infrastructure projects in the country, in the short term we expect a marked shift towards public funding.
- Brazil's infrastructure investments have risen somewhat slower than originally projected in the first half of the year. We expect the speed of the existing concessions to be mostly contingent to the macroeconomic conditions.
- The transformation of the energy matrixes in the region continues to gain momentum. We perceived a significant reduction in the use of fossil fuel-based power generation because of the entrance of the renewable energy-based facilities, reducing carbon dioxide emissions. Chile made great advances in the past weeks through several agreements with major players that committed to take out a diverse pool of coal-fired power plants from operations.

What's changed?

The AMLO administration's infrastructure plan continue to progress at a very slow pace amid many uncertainties, particularly related to the private sector's level of participation and potential funding sources for major projects, including the Maya train, the Isthmus of Tehuantepec Intermodal Corridor, or the new commercial airport at Santa Lucia's military base in Mexico City.

So far, most of the advances were related to the energy sector. In May 2019, the Secretary of Energy presented the National Electric System Development Program 2019 – 2033 (PRODESEN). According to this plan, the state-owned utility Comision Federal de la Electricidad (CFE) expects to connect around 6,260 megawatt (MW) of new capacity by late 2020, which was under construction before AMLO took office. New bidding rounds should occur only in the medium term and mostly for thermos, and to a lesser extent, renewables technologies. CFE is pursuing the utilization of the existing gas pipelines and more importantly, a replacement of contaminant fuel sources for more ecologically friendly ones. We expect to have a clearer view of CFE's strategy in July, when the company unveils its plan.

The year started with optimism in Brazil--investors were hoping for economic activity to pick up after the new administration took office. In the first 100 days of the administration, 23 concessions were auctioned (12 airports, 10 port terminals, and one railroad), and Petroleo Brasileiro S.A. - Petrobras completed the R$33.5 billion sale of its main midstream asset, Transportadora Associada de Gas S.A. – TAG, to a consortium consisting of the French company Engie S.A. and the Canadian fund Caisse de Dépot et Placement du Québec. This year, we observed a greater number of infrastructure issuances, which surpassed R$10 billion, than in previous years in the domestic market fueled by relatively low rates. However, for the second half of the year, we expect lower activity, because the market awaits for more visibility on the reforms. The infrastructure concession agenda for the near term includes three port terminals (two in the Santos port and one in the Paranagua port) scheduled for August, two new energy auctions--51 gigawatt (GW) for initial delivery in January 2023 (LEN A-4) by June 28 and the second for delivery in January 2025 (LEN A-6).

In line with Chile's decarbonization of the energy matrix program, several electricity conglomerates announced in June 2019 agreements with the Ministry of Energy to stop operations at eight coal-fired units that have an aggregate installed capacity of around 1,570 MW, around 6.5% of the country's installed capacity.

Finally, despite greater clarity of the leading candidates for the presidential election in October, we believe market conditions in Argentina will remain still adverse. This is particularly relevant for the six roads auctioned in June 2018 under the new PPP, because they haven't yet secured financing, and for some infrastructure companies that are exposed to refinancing risk.

Key assumptions

- Slower revenue growth pace in the infrastructure sectors of Argentina, Mexico, Brazil, and Peru following our revised GDP growth forecasts for these countries. We correlate GDP to both traffic levels in transportation assets (including toll roads, airports, and ports) and energy demand.

Key risks

- Still low power spot prices in Peru and Chile. We've seen record low prices in both markets in the past few months that resulted from a combination of lower demand amid slower growth and the entry of renewable energy into the system with lower variable costs.
- Shorter tenor power purchase agreements. We believe recontracting dynamics for power utilities might change amid low spot prices, adding pressure to the average life of the contracted capacity, and therefore, to the cash flow predictability for the long term.
- The decarbonization movement in some countries might also add pressure to the fossil-fuel power plants' recontracting dynamics.

What to look for over the next quarter

In Mexico, further developments related to the energy framework, particularly considering the upcoming release of CFE's new business strategy.

Bolsonaro's administration slated 59 new projects to be auctioned starting in 2020 requiring R$1.4 trillion in investments during the concession period. So far, most of the issuances in the domestic infrastructure sector occurred among mature and experienced integrated power conglomerates, such as Centrais Elétricas Brasileiras S.A. - Eletrobras (a R$5 billion debentures issuance in April), Neoenergia S.A. (R$1.5 billion in May), and Cemig Distribuicao S.A. (R$3.7 billion in June). The companies used the proceeds for liability management and to fund capex. The funding for new projects was still relatively limited. We will continue to monitor this trend.

In Argentina, main risks continue to be the volatile economic conditions and lack of financing. We don't expect new PPP projects at least until the first round of corridors is able to secure the financing.

Colombia will conduct soon auction of the renewable energy plants, which failed early this year.

Financial Services

Primary contact

Cynthia Cohen Freue
Buenos Aires
cynthia.cohenfreue@spglobal.com
+54-11-4891-2161

Alfredo Calvo
Mexico City
alfredo.calvo@spglobal.com
+52-55-5081-4436

- Political uncertainties, disappointing economic performance, and trade disputes have chilled investor confidence in most countries in the region, weakening corporations' demand for credit and lending growth. However, Latin American banks' low dependence on external funding, high liquidity levels, and funding profiles mainly consisting of core customer deposit will help them deal with fluctuating investor confidence.
- We still expect asset quality stabilization in Brazil, Peru, and Colombia thanks to more stringent underwriting strategies implemented in recent years. Although economic growth in Chile has moderated, we expect relatively stable asset quality performance.
- Argentine banks' asset quality has deteriorated due to the weaker operating environment, but credit losses remain manageable. In Mexico, declining investor confidence is hurting economic activity, and asset quality metrics could weaken from healthy levels.

What's changed?

Political uncertainties in Brazil, combined with weaker-than-expected economic recovery during the first quarter have dragged down business confidence. We now expect credit growth to be 6%-8% in 2019. Corporations have continued to deleverage and their overcapacity have depressed credit demand. NPLs have dropped from the peak of 3.5% of total loans in 2017 to 3.0% in March 2019. We expect them to continue decreasing to about 2.6% in 2019 and 2020.

Waning investor confidence and uncertainty about the AMLO administration's energy policy are hurting economic activity and investment. However, thanks to banks' cautious lending standards implemented during the past years, NPAs (which are fully covered by reserves) and charge-offs have been improving to historically low levels. Still, if weak economic growth persists, hurting employment dynamics, we expect asset quality metrics to deteriorate. We consider that under the challenging economic scenario for Mexico, the severity of the impact on the banking system will depend on how long it takes the economy to rebound. A longer timeframe will cause the banks' asset quality and operating performance to suffer. Asset quality indicators in the Argentine banking system have eroded as a result of the difficult operating conditions in the corporate and consumer lending segments, with NPLs rising to 4.5% and 3.8%, respectively. However, a single exposure in the corporate segment explains about 1% of the total rise in NPLs, and metrics remain relatively manageable compared with the international standards. The government's adjustment plan to reduce fiscal deficit and achieve IMF's program goals has battered economy, which is further exacerbated by the "wait and see" momentum among investors and in business decisions due to the uncertainty over the likely presidential election winner. In this context, banks are taking a conservative approach towards lending, which is prompting credit to contract. We consider the low banking penetration (credit-to-GDP ratio is slightly below 15%), low exposure to cyclical lending segments such as small to midsize enterprises or microcredit, healthy margins, and granting of foreign currency loans only to borrowers with dollar-based revenues will help banks overcome the difficult scenario.

In Colombia, credit demand remains low, and we expect lending growth at 7%-8% for 2019-2020. After the deterioration of asset quality since 2015, we expect the NPA ratio to stabilize at around 3% in 2019 and 2020 due to improving economic conditions and slightly higher credit demand. In Peru, political challenges and weaker economic performance are reducing business confidence and credit growth.

In Chile, we expect economic growth and business confidence in 2019 to moderate from the robust levels in 2018, but remain supportive. Investors remain alert to developing events that could turn for the worse, such as trade negotiations between the U.S. and China or growth in China. As such, conditions for banks remain satisfactory but cautious. Therefore, we expect credit growth to be about 9%.

Key assumptions

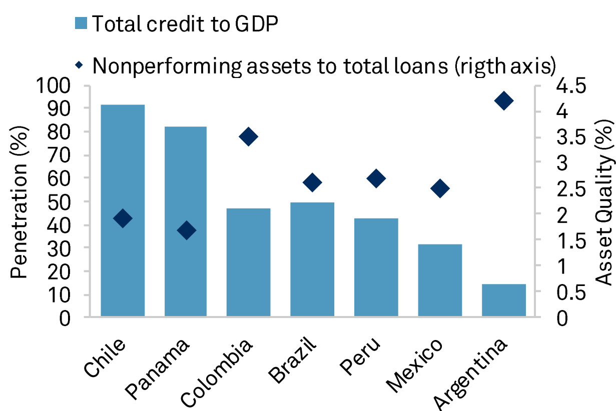
Political uncertainties and muted economic performance during the first quarter have softened business confidence in most countries in the region. As a result, we expect credit growth to be modest.

Investors' appetite for emerging markets remains volatile, but Latin American banks' low dependence on external funding, high liquidity and customer deposit funding will help them withstand this risk during political and global trade uncertainties.

Credit losses have widened in 2018, but will stabilize or improve starting in 2019, with the exception of Argentina where we expect stabilization in 2020, and in Mexico we expect an uptick from record low levels of delinquency and credit losses.

Chart 7

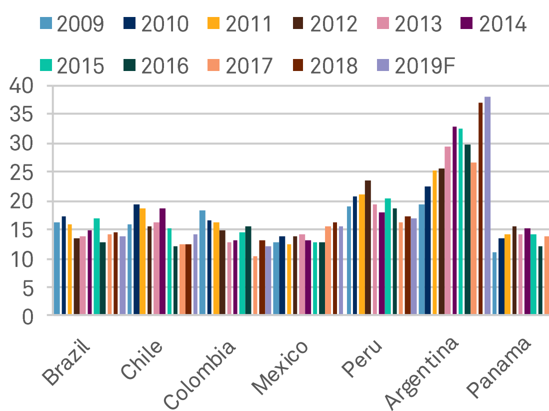
Credit To GDP And Asset Quality, 2019 Forecast



Source: S&P Global Ratings

Chart 8

Latin American Banks' Return On Equity



Source: S&P Global Ratings

Key risks

- Political uncertainties prevail. Changes in economic policies in Mexico, difficulties in passing the reforms in Brazil, the presidential election in Argentina, and political turbulence and corruption investigations in Peru continue posing risks to the financial systems.
- Weak investor confidence and economic growth in Mexico could pressure asset quality and credit supply.
- Still high inflation and interest rates in Argentina, combined with weak economic conditions, could hinder household debt payment capacity at a greater pace than our expectations.
- Cyber security is a rising threat, as seen in recent attacks on institutions in Mexico and Chile.

What to look for over the next quarter

We will continue monitoring for any significant changes in economic policies in Mexico. In Argentina, deteriorating economic conditions could weaken the government's political standing ahead of the presidential election.

Weaker-than-expected economic prospects for the region–either due to low commodity prices, business confidence, or internal demand--or higher interest rates pressuring consumers' debt repayment capacity or corporations' operating performance could dent asset quality metrics and capitalization of the Latin American banking systems.

Structured Finance

Primary contact

Jose Coballasi
Mexico City
jose.coballasi@spglobal.com
+52-55-5081-4414

Cathy de la Torre
New York
cathy.de.la.torre@spglobal.com
+1-212-438-0502

- As we had expected, issuances in Brazil are growing significantly.
- We're looking closely at collateral performance in Mexico, given its weakening economy.
- Asset diversification continues to be a theme in the region, new originators (and asset classes) could debut in the coming months.

What's changed?

In line with our expectations, issuances in Argentina during the first quarter of 2019 were down 60% from the first quarter of 2018. We continue to expect that the main issuances will be backed by regional credit card receivables and unsecured consumer loans. New issuances have picked up in April and May, but we don't foresee real growth in issuance volume for 2019. This reflects that most Argentine issuers have already reduced origination volumes and are focusing more on high-quality obligors. Also affecting issuance volumes are the higher financing costs and the reference rate, and the political uncertainty in light of the election in October.

Total issuances in Brazil rose 50% in the first quarter of 2019. There has been a significant increase in issuances from certificates of agribusiness receivables (CRAs). Issuances of traditional Fundos de Investimentos em Direitos Creditórios (FIDCs; credit receivables funds) were below our expectations. However, we continue to expect FIDCs to be the main source of asset diversification through 2019, specifically those to be backed by consumer assets (unsecured, credit cards, payroll-deductible, and autos) and trade receivables.

Brazil's political challenges and hurdles in approving major reforms added uncertainty that contributed to a slowdown in new issuances toward the end of the first quarter. In addition, investors' appetite has receded due to the volatile exchange rates and looming possibility of further interest rates cuts through the first quarter. Nevertheless, demand for new investments persists, and we continue to see nontraditional and traditional issuers aiming to tap the market. However, weaker GDP growth could impair investor sentiment and slash issuances in 2019.

Among the new originators, the number of fintechs continues to grow in Brazil, resulting in rising competition. The credit card payment processing companies remain very aggressive in their battle for market share. Fintechs specializing in consumer credit, personal loans, and even residential loans are expanding their portfolios, and we expect the number of issuances by these new originators to continue to increase. However, given that they're young entities poses hurdles for large issuance placements, especially when investors seem to be more selective.

We continue to believe that issuances in Mexico will remain flat in 2019. Equipment asset backed securities (ABS) transactions originated by nonbank financial institutions will continue to dominate new issuances, followed by a handful of consumer loans securitizations. In the first three months of 2019, the spread over Mexican rate, Tasa de Interés Interbancaria de Equilibrio (TIIE), averaged 280 bps for deals rated in the 'mxAA (sf)' category, compared with 240 bps in 2018. Notably, in the first quarter, we observed the largest spread on a deal rated 'mxAA (sf)': 300 bps over TIIE. We attribute this increase to tepid investor confidence.

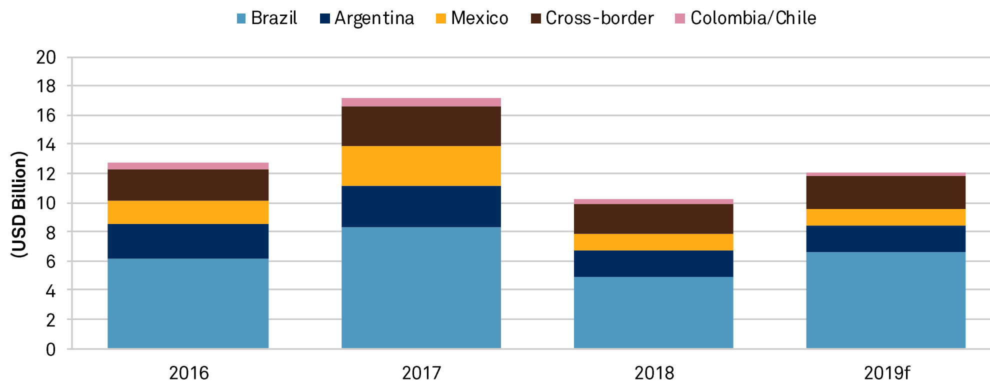
The performance of some transactions backed by equipment loans and leases has already weakened, which prompted us to increase our base-case loss assumptions in some transactions. However, the ratings on such deals remained unchanged because of higher credit enhancement levels, which mitigated credit risks. In most of these cases, the transactions have already started their amortization phases, which has allowed them to deleverage and increase their credit enhancement levels. In others, we've seen credit metrics maintained due to extraordinary contributions from their originators. Given the potential slowdown of Mexico's economy, we will continue to follow closely the collateral performance of our rated portfolio, and we could take rating actions if performance deteriorates beyond our expectations.

We continue to believe that infrastructure-related certificate repacks in frontier markets across the region and Latin American fintech companies' funding needs could also bring securitization

opportunities. We're already seeing some activity related to these type of repacks in new jurisdictions, such as Paraguay. Furthermore, oil companies are seeing new hedging opportunities as prices rise, so there could be activity related to export future flows as there was before the sharp decline in oil prices.

Chart 6

Structured Finance Issuances In Latin America



Source: S&P Global Ratings

Key assumptions

- New issuances in Latin America to range between $11 billion and $13 billion this year, driven primarily by a rebound in Brazilian traditional securitization, residential mortgage backed securities (RMBS), and covered bonds.
- A stable collateral performance. Although Argentina's struggling economy could spike delinquencies, the short tenor of deals, coupled with credit enhancement via subordination and excess spread, should allow the current ratings to remain unchanged.
- Infrastructure projects across the region could bring securitization opportunities, such as the Metro de Lima in Peru.

Key risks

- Argentina's economy could weaken further, pressuring the placement of new deals because the economics behind the deals wouldn't make sense amid high interest rates. Similarly, inflation levels and salary renegotiations could further worsen current delinquencies.
- Mexico's GDP could grow more slowly than we currently expect and unemployment to rise, which could weigh on the performance of some consumer loan deals.

What to look for over the next quarter

- Collateral performance in Argentina continues to be a focus of our attention.
- Debut of new originators in Brazil and evolution of market sentiment.
- GDP growth prospects and unemployment figures in Mexico.
- Collateral performance of ABS equipment transactions in Mexico.
- Some issuances in the cross-border market.

This report does not constitute a rating action.

Related Research

- Credit Conditions Asia-Pacific: Return Of Uncertainty, June 27, 2019
- Credit Conditions EMEA: Double, Double, Toil And Trouble, June 27, 2019
- Credit Conditions North America: Trade, Fed U-Turn Cloud The Outlook, June 27, 2019

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	Satisfactory	No change	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	No change	Same	Stable
Building materials	Weak	No change	Same	Stable to Negative
Chemicals	Satisfactory	Somewhat weaker	Same	Stable
Consumer products A (including protein and bottler)	Satisfactory	Somewhat weaker	Same	Stable
Consumer products B (agro)	Satisfactory	Somewhat stronger	Same	Stable
Forest products	Satisfactory	Somewhat weaker	Lower	Stable
Merchant power	Satisfactory	Somewhat weaker	Same	Stable to Negative
Metals and mining	Satisfactory	No change	Same	Positive to 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 to Negative
Telecom	Satisfactory	No change	Same	Stable
Transportation	Satisfactory	No Change	Same	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	8	Extremely high	Very high	High	9	Stable	High	High	Very high	7	Stable
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 May 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	Somewhat weaker	Stable to negative	Stable to negative
Brazil				
Commercial assets	Weak	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
Colombia				
RMBS	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	42.0	25.0	19.0	12.0
Brazil	2.9	3.7	3.9	4.0	4.0	4.0
Chile	2.3	2.1	2.9	3.0	3.0	3.0
Colombia	4.1	3.2	3.4	3.0	3.0	3.0
Mexico	6.8	4.8	3.5	3.0	3.0	3.0
Peru	1.4	2.2	2.5	2.1	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	50.00	35.00	25.00	25.00
Brazil	7.00	6.50	6.00	6.00	6.5	7.0
Chile	2.50	2.75	2.50	2.50	3.00	3.50
Colombia	4.75	4.25	4.25	4.25	5.00	5.00
Mexico	7.25	8.25	8.00	7.50	7.00	7.00
Peru	3.25	2.75	2.75	2.75	3.50	4.00

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	50.00	58.00	63.00	65.00
Brazil	3.31	3.87	3.95	3.95	4.00	4.00
Chile	615	696	690	695	700	700
Colombia	2,984	3,250	3,250	3,000	3,350	3,350
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)

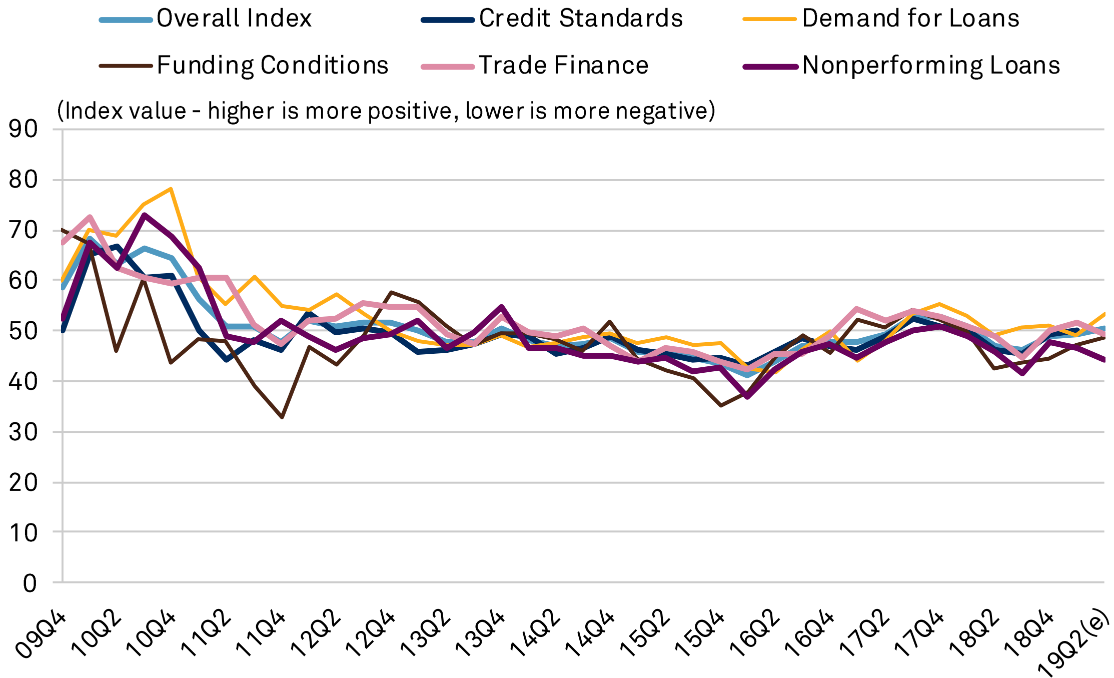
	2017	2018	2019f	2020f	2021f	2022f
Argentina	16.56	27.81	44.50	54.00	60.00	64.00
Brazil	3.19	3.65	3.90	3.95	3.98	4.00
Chile	649	641	685	692	697	700
Colombia	2,951	2,956	3,200	3,275	3,325	3,350
Mexico	18.91	19.23	19.50	20.25	20.75	21.00
Peru	3.26	3.29	3.35	3.43	3.47	3.50

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

Appendix 3: Reference Charts

Chart 10

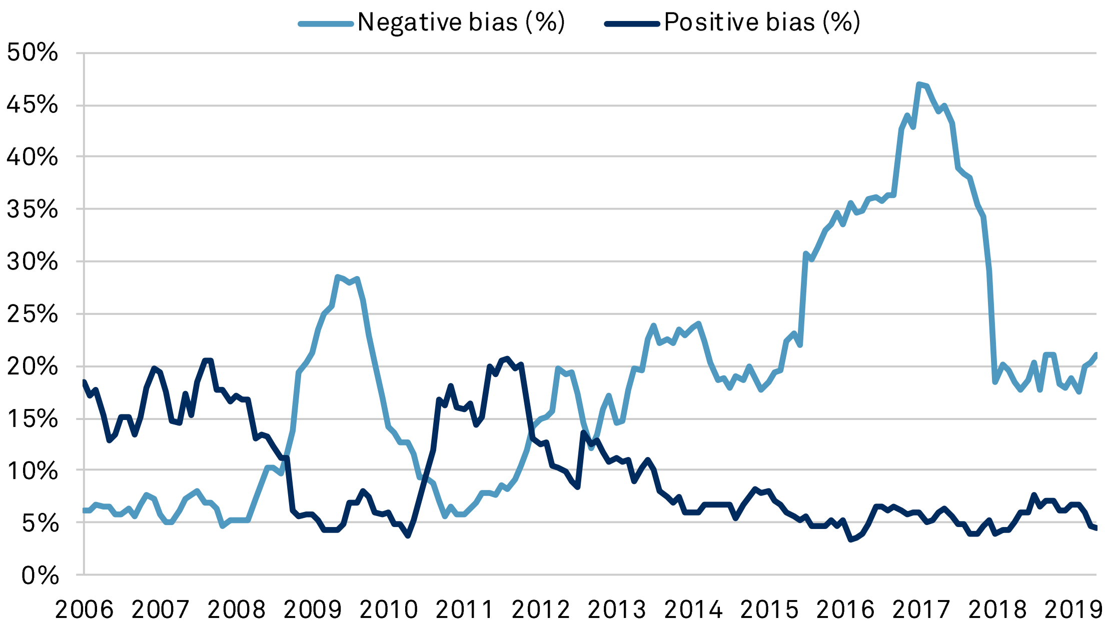
Institute of International Finance Survey of Lending, Latin America



e-Estimated. Source: IIF. Data as of May 13, 2019.

Chart 11

Latin America Negative And Positive Bias (%)



Source: S&P Global Fixed Income, S&P CreditPro. Data as of May 30, 2019.

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