



Latin America Macroeconomic Update:

Key Themes 2021

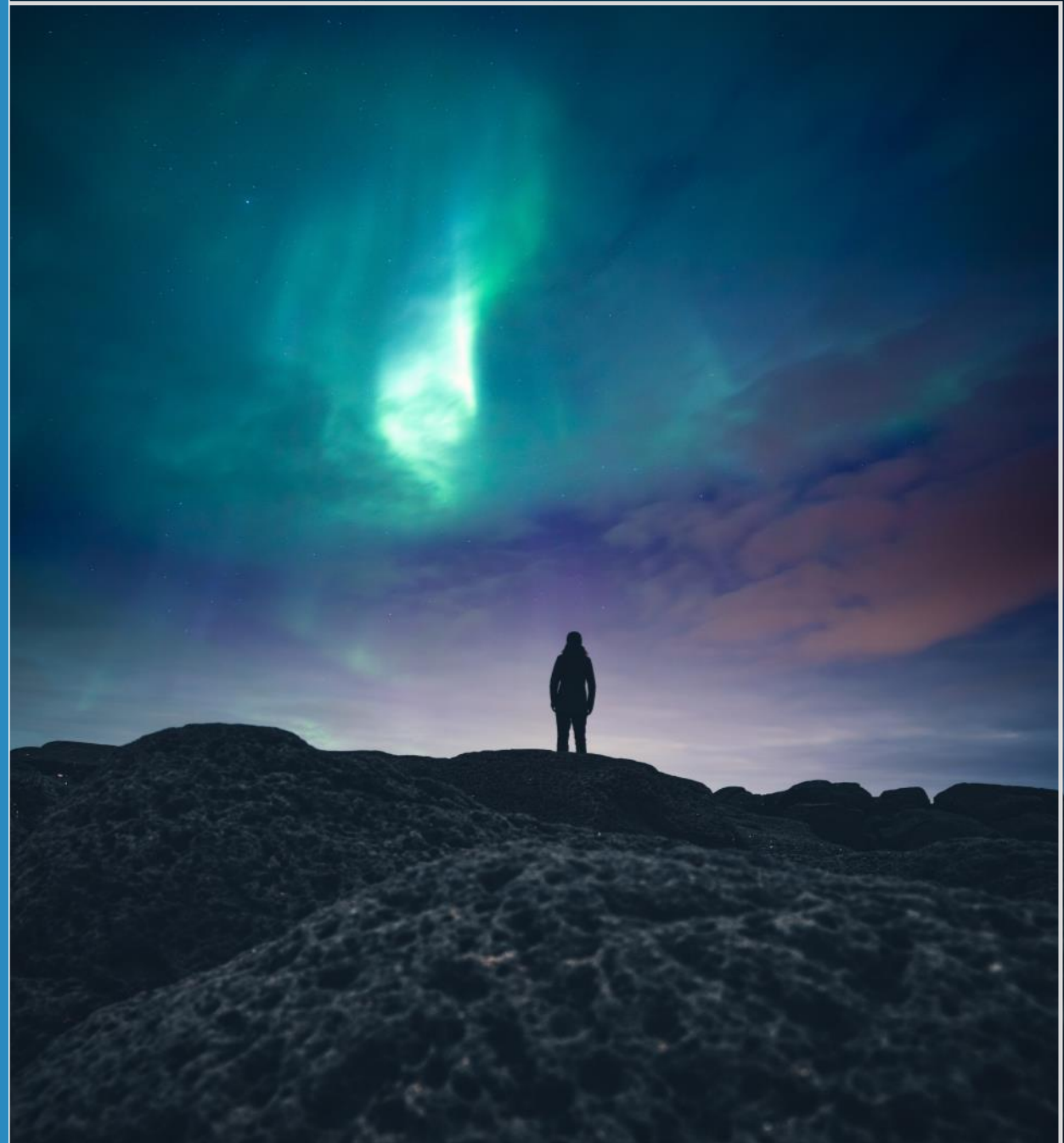
Monday, 18th January 2021

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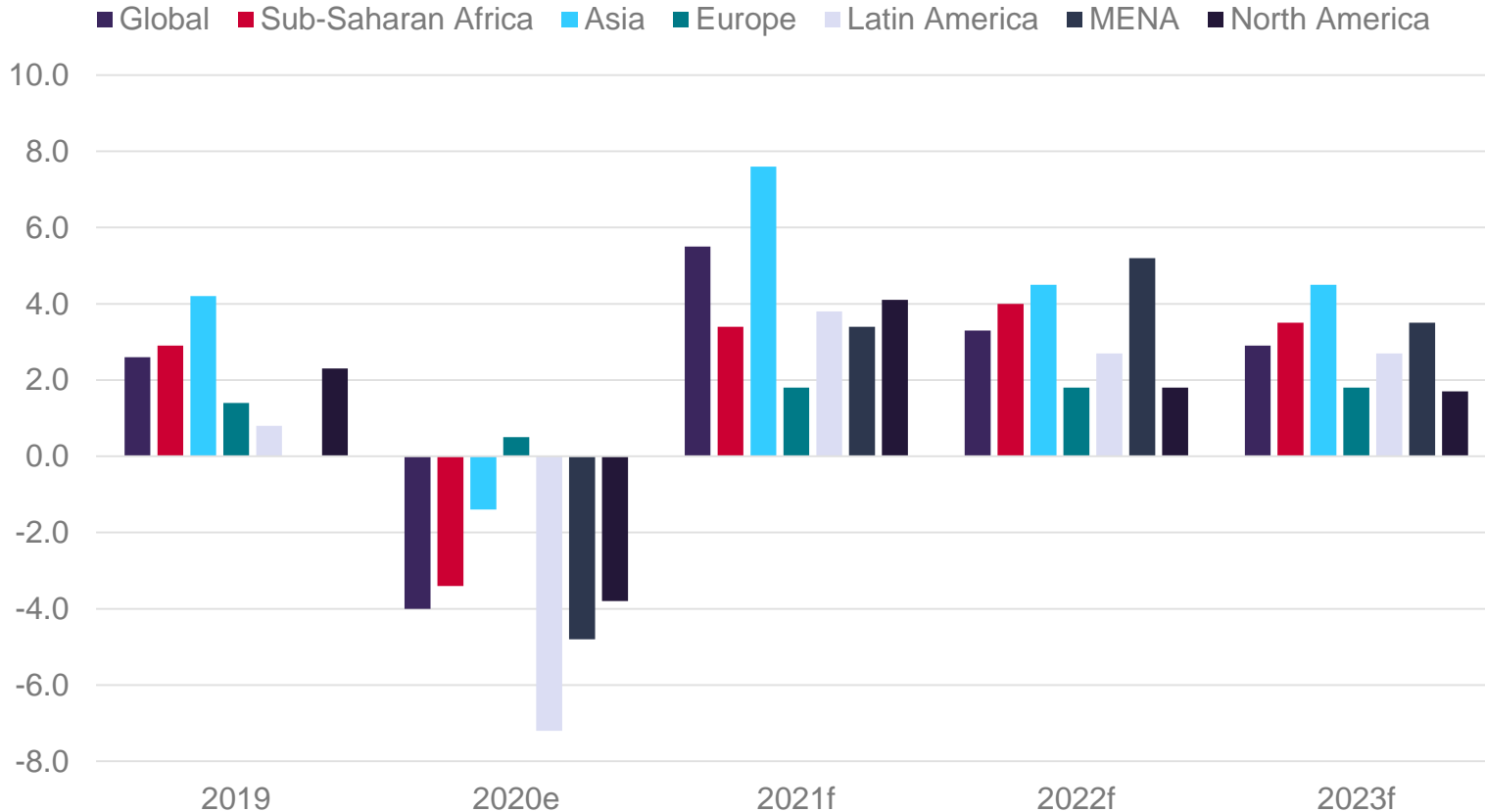
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Theme 1: Latin America's Economic Recovery Will Lag Behind Other Regions

Covid-19, Political Risks To Restrain Latin America's Rebound

Global Real GDP Growth By Region, % y-o-y



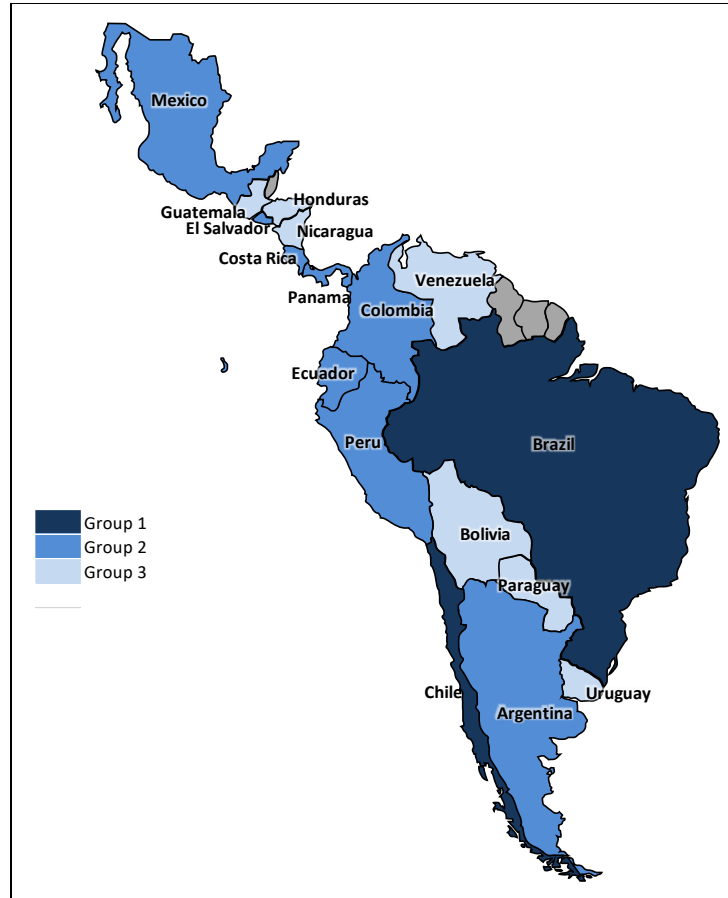
e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

- Latin America will see 3.5% real GDP growth in 2021, among the weakest-performing EM regions.
- The continued spread of Covid-19 will keep restrictions on activity in place and remain a drag on consumer sentiment. The region will also be slower to benefit from the rollout of vaccines.
- Deep scarring in labour markets, due to permanent closures of small and informal businesses, will undermine consumption.
- Finally, nearly all of the region's major economies face significant idiosyncratic political risks, discussed later, which will weigh on investment.

Speed Of Vaccine Distribution Will Shape Economic Recovery

Vaccine Access And Roll-Out Will Vary Considerably

Latin America Regional Vaccine Access Map



Source: Fitch Solutions

- We expect three-speed access to vaccines in Latin America: Group 1 will vaccinate a majority of the priority population by June 2021, Group 2 by September 2021, and Group 3 by February 2022.
- While most wealthier markets began rolling out vaccines in late 2020, distribution is likely to take time given less-developed healthcare systems.
- Access to vaccines for smaller markets is likely to be limited to the WHO's COVAX scheme, and weak healthcare systems will slow distribution.
- We also note political risks related to vaccine rollout, specifically around allegations of corruption.

Theme 2: Anti-Incumbent Sentiment Will Drive Protests And Risks To Policy Continuity In Upcoming Elections

Latin America Election Calendar, 2021

Country	Election	Date	Views
Ecuador	General	7 February	No clear front runner amid wide divisions.
El Salvador	Legislative	28 February	First vote following Bukele's ascent to the presidency.
Peru	General	11 April	No clear front runner amid upheaval.
Mexico	Legislative & Local	6 June	First national vote following AMLO's ascent to the presidency.
Nicaragua	General	7 November	Government pressuring opposition to limit challenge.
Chile	General	11 November	No clear front runner amid constitutional rewrite and frequent unrest.
Honduras	General	28 November	No clear front runner, high risk of competitive populist.

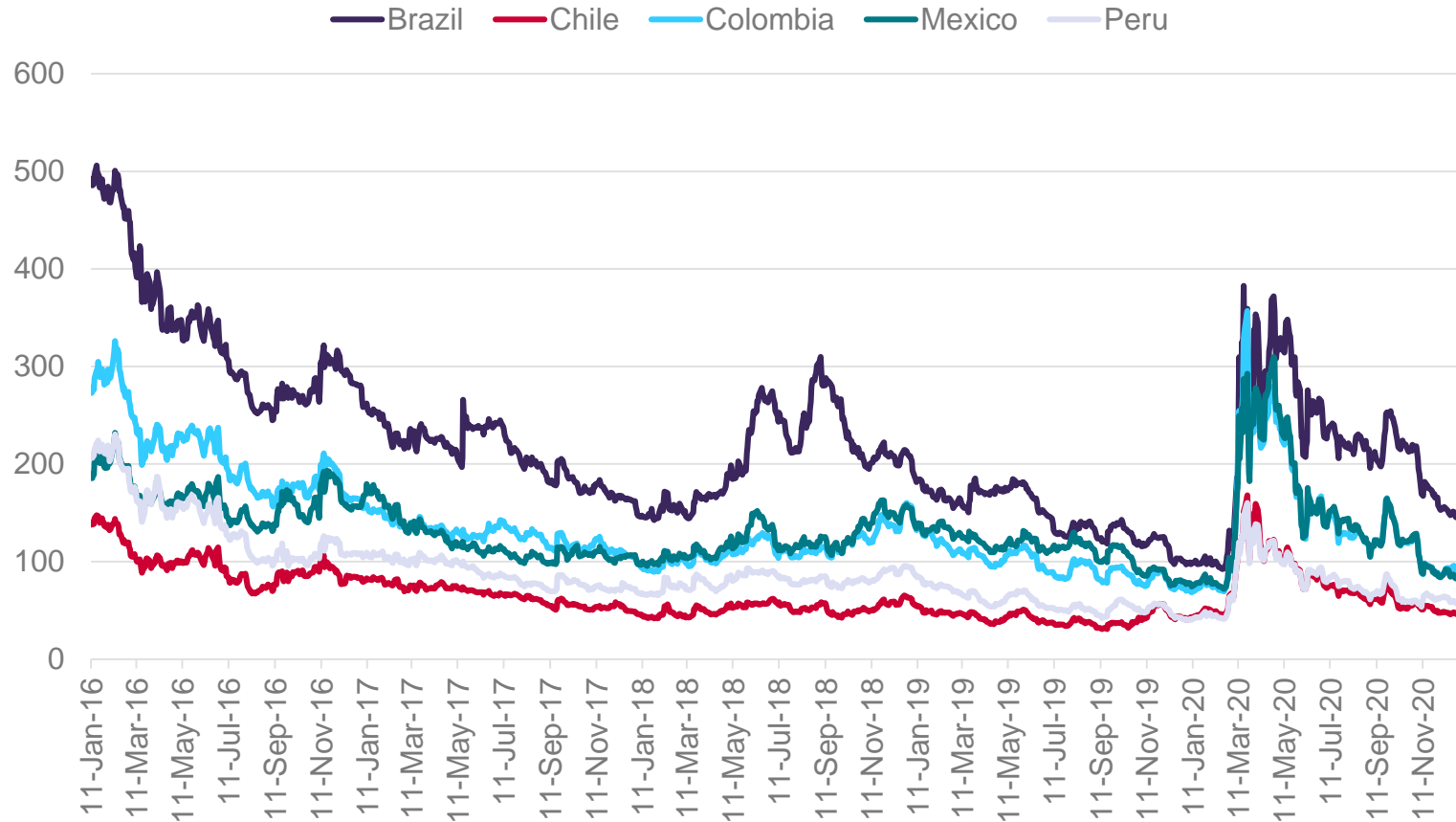
Source: Fitch Solutions

- Latin America will remain firmly in the grip of anti-incumbent sentiment in 2021, as it grapples with fallout from late-2019 protests.
- The region faces years of discontent with declining living standards, high inequality and wavering faith in democratic institutions.
- Covid-19 exacerbated these underlying conditions, driving unrest in some markets and weighing on approval of political leaders.
- Anti-incumbent sentiment will likely define the region's major elections in 2021, with uncertain policy implications.

Theme 3: Accommodative Financing Conditions Will Ease Immediate Fiscal Strains

CDS Spreads Show Risk Tolerance Amid Monetary Interventions

Latin America (Selected) – 5-Year USD CDS Spread, bps



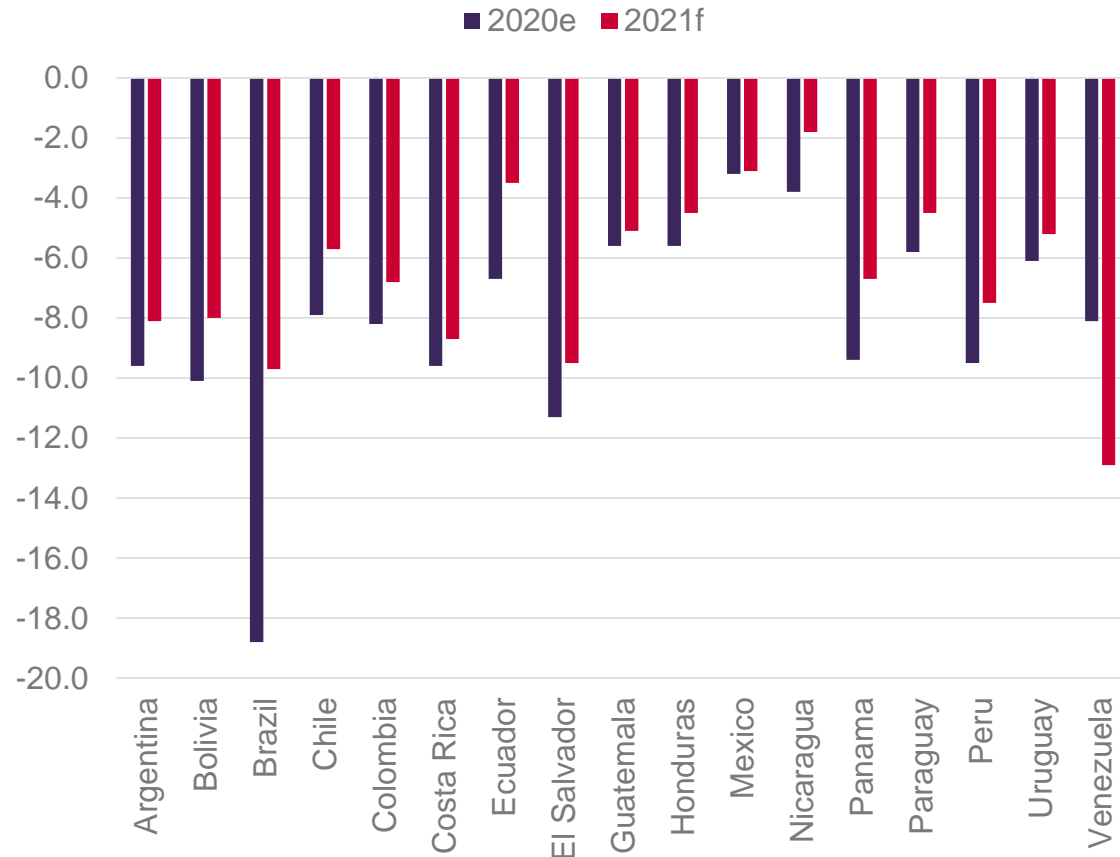
Source: Bloomberg, Fitch Solutions

- The continuation of ultra-loose monetary policy across DMs will allow Latin American sovereigns to pursue a gradual pace of fiscal consolidation.
- Nearly every regional government ran a historically wide deficit in 2020, as revenues collapsed and spending spiked.
- However, monetary interventions calmed markets, and an economic recovery and the hunt for yield should keep borrowing costs contained.
- Many of the region's governments will benefit from a structural decline in inflation, though we expect growing divergence driven by idiosyncratic political risks.

Hunt For Yield To Benefit Latin America

Low Borrowing Costs To Allow For Gradual Consolidation

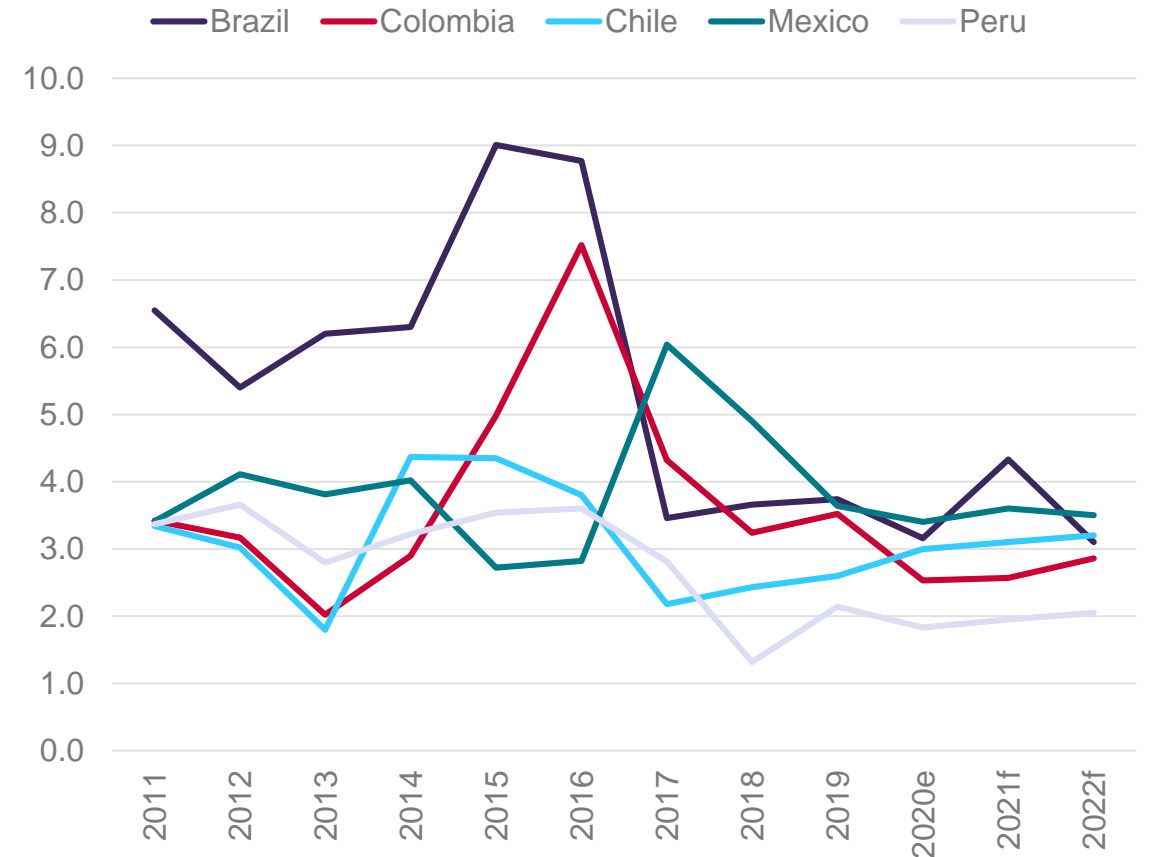
Latin America – Budget Balance, % of GDP



e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

Contained Inflation Will Support Real Returns

Latin America (Selected) – Average Consumer Price Inflation, % y-o-y

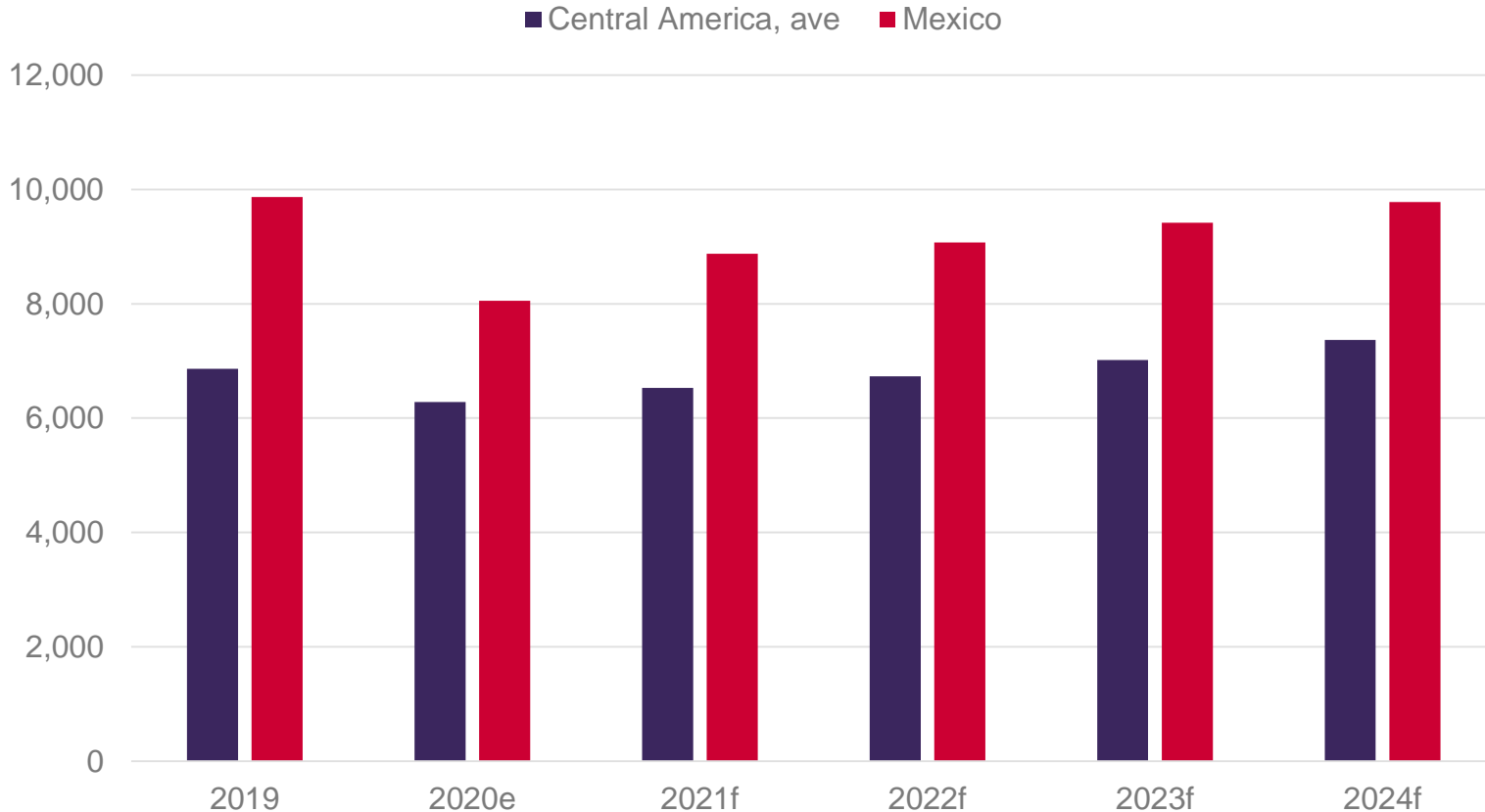


e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

Theme 4: US President-Elect Joe Biden Will Strengthen Economic And Diplomatic Engagement With The Region

Impact Of Covid-19, Hurricanes Increases Need For Aid

Latin America (Selected Markets) – GDP Per Capita, USD



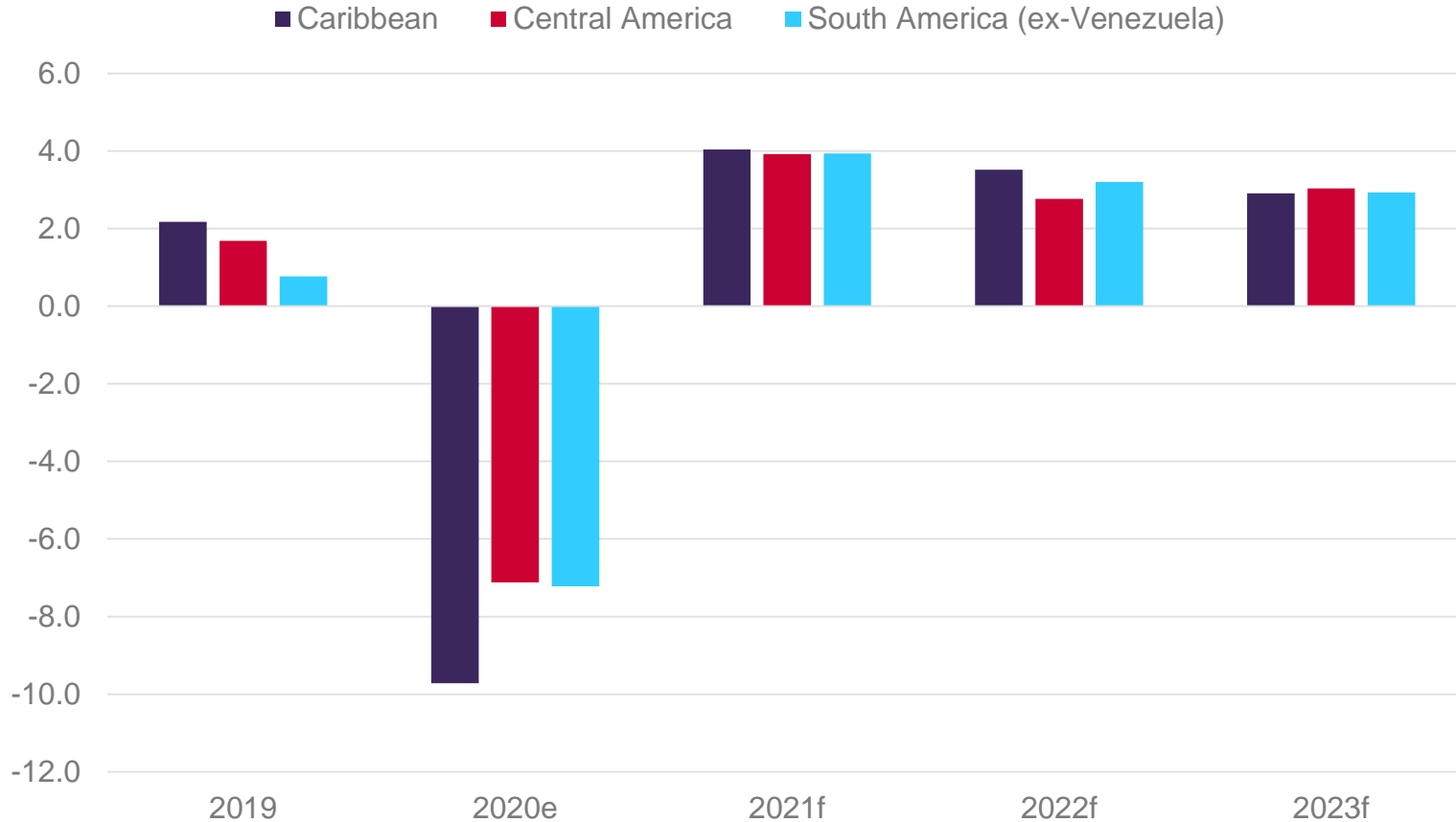
e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

- Joe Biden will likely pursue a more multilateral approach towards Latin America than his predecessor Donald Trump's 'America First' foreign policy.
- This will likely include increasing foreign aid for Central America, easing immigration policies and prioritising governance and human rights.
- Biden will also pursue multilateral cooperation on Venezuela and prioritise climate change, likely leading to friction with Brazilian President Jair Bolsonaro.
- Biden will overlap with Trump in some respects, including adherence to the USMCA and pushing back against China's influence in the hemisphere.

Theme 5: A Slow Recovery In The Tourism Sector Will Weigh On The Caribbean

Deep Recession, Subdued Recovery For Tourism-Dependent Markets

Latin America & The Caribbean (Regional Averages) – Real GDP, % y-o-y



e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

- Following border closures in Q220, we estimate that Caribbean real GDP fell by an average of 9.7% in 2020.
- The Caribbean's economic recovery is highly dependent on tourism demand in the US and other DMs, which in turns depends on the rollout of vaccines.
- We do not expect a strong increase in demand until H221 at the earliest, underpinning our forecast for modest 4.0% growth in 2021.
- In the long term, Covid-19 may shift demand from cruises to longer-term stays, while airlines' significant losses may reduce flights to the region.

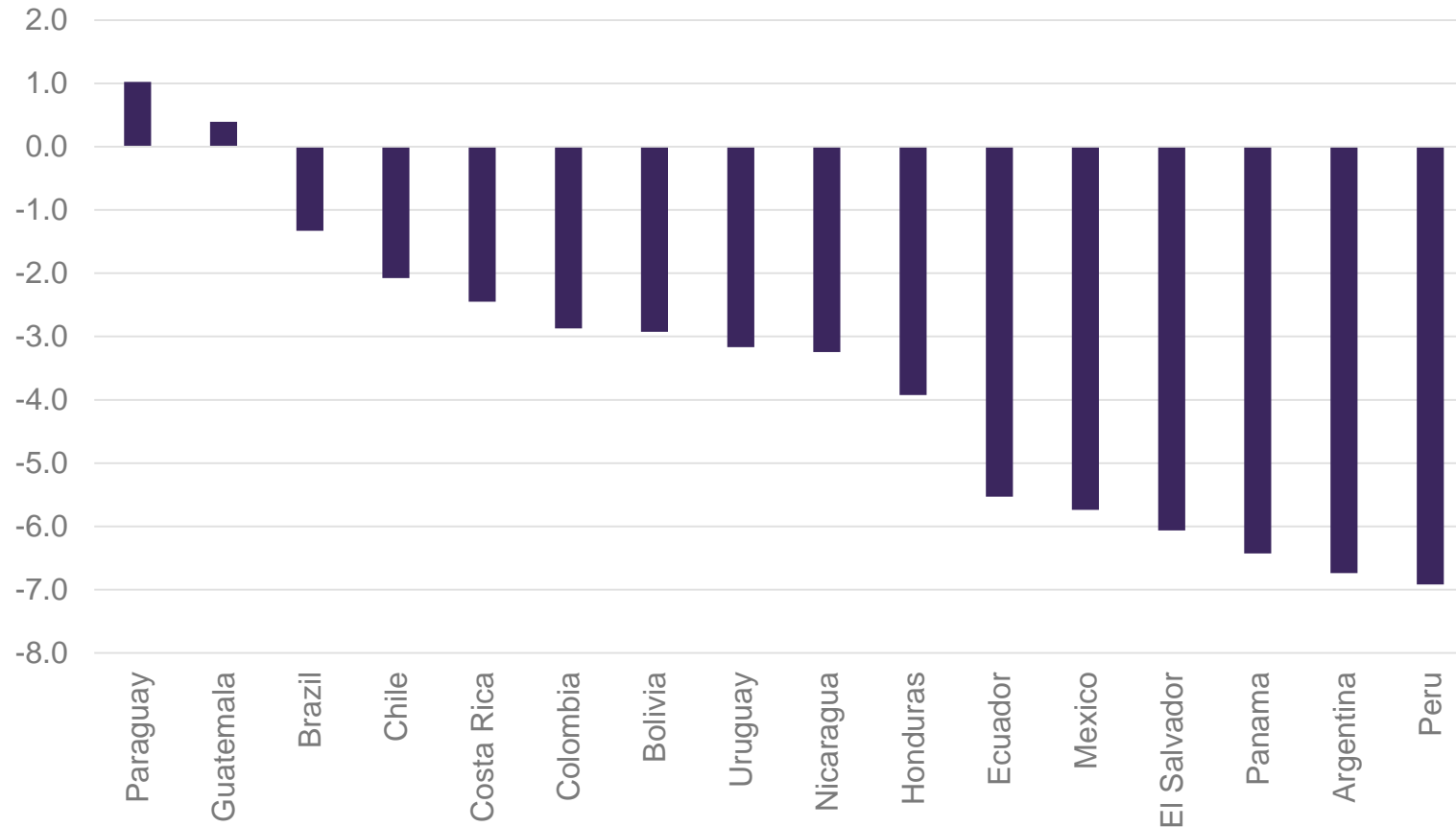


Country Outlooks

Latin America Will Not Fully Recover In 2021

Region's Economies Will Remain Smaller In 2021 Than 2019

Latin America – % Change In Real GDP (LCY) 2021 To Real GDP (LCY) 2019



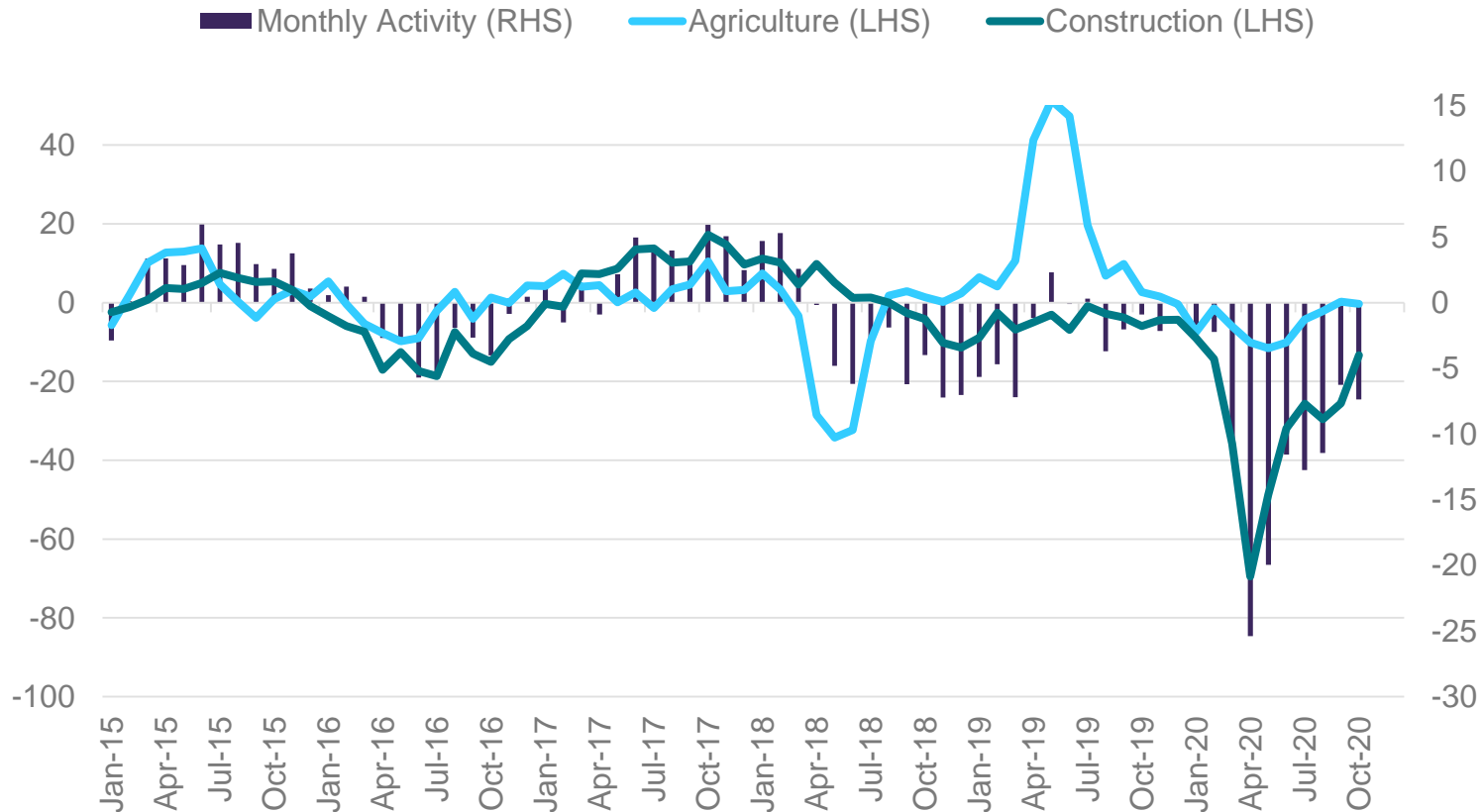
Source: National Sources, Fitch Solutions

- Nearly all Latin American economies will end 2021 smaller than they were prior to the Covid-19 crisis.
- The stronger performers are likely to be those that had shallower contractions in 2020, stronger fiscal stimulus measures and earlier access to Covid-19 vaccines.
- The weaker performers are likely to be those that had deeper contractions in 2020, less effective stimulus measures and later access to Covid-19 vaccines.
- Commodity exporters will also see tailwinds from rebounding global trade.
- In most markets, vaccine rollouts are an upside risk, while political uncertainty is a downside risk.

Argentina: Overlapping Crises Keep Growth Outlook Suppressed

Limited Recovery In Key Economic Sectors Thus Far

Argentina - Monthly Sector Activity Indicators, % y-o-y



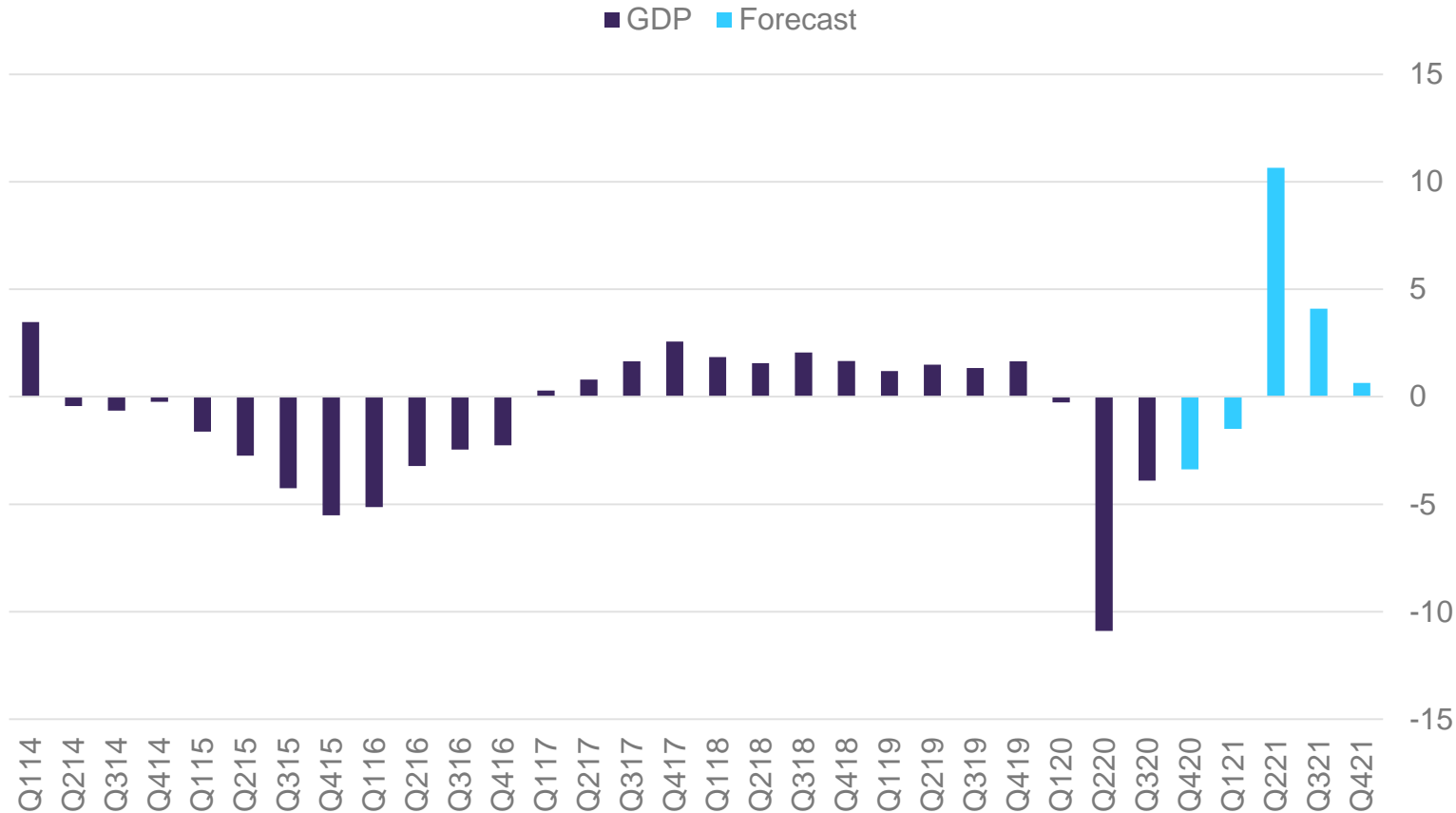
Source: INDEC, Fitch Solutions

- We at Fitch Solutions forecast real GDP growth of -11.7% in 2020 and 3.0% in 2021.
- High inflation and policy uncertainty are compounding the dislocations caused by Covid-19, keeping consumption, investment and exports weak.
- A weak labour market and the government's limited ability to support consumption suggest household incomes will struggle and consumption will remain weak.
- Export growth will be limited, given an overvalued official exchange rate and taxes on key exporting sectors.
- Investment is likely to remain on the sidelines due to the poor operating environment and interventionist policies.

Brazil: Consumption-Driven Rebound Faces Limits

Brazil's Rebound Likely To Decelerate As Spending Tapers Off

Brazil – Quarterly Real GDP Growth, % y-o-y



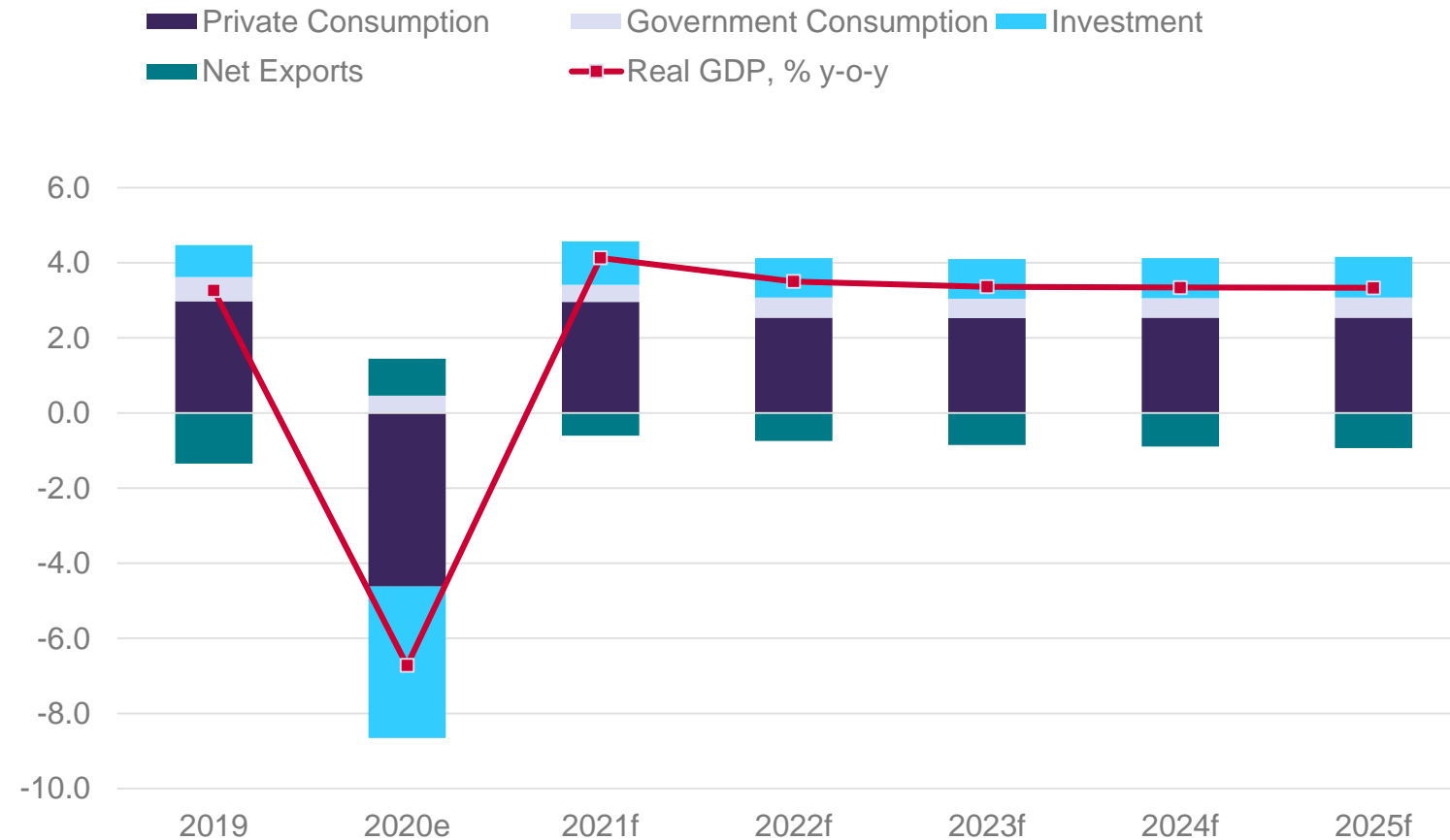
Source: IBGE, Fitch Solutions

- We at Fitch Solutions forecast real GDP growth of -4.7% in 2020 and 3.5% in 2021.
- Brazil has seen one of Latin America's quickest economic rebounds, driven by stimulus spending on consumption.
- However, consumption growth is likely to slow over the coming months, as income support is reduced and the labour market remains weak.
- Commodity exports will provide some support to growth over the coming quarters, a positive spill-over from China's rapid recovery.
- Policy uncertainty and the government's shift away from liberalising reforms will undermine investment and medium-term growth.

Colombia: Improving Confidence, Stimulus Will Support Bounce Back

Consumption, Investment Will Strengthen From 2020 Lows

Colombia – Contribution To Real GDP Growth, pp



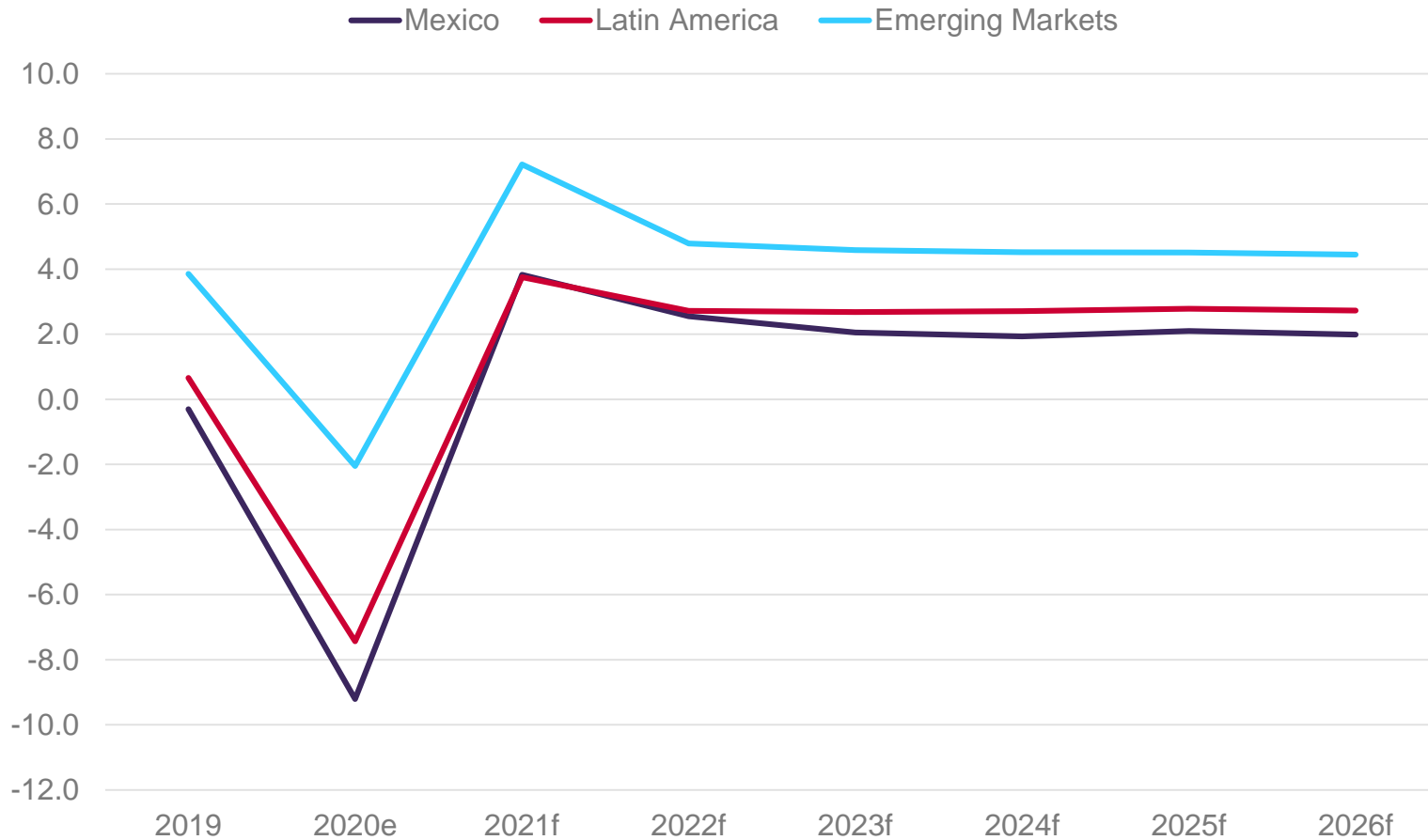
e/f = Fitch Solutions estimate/forecast. Source: DANE, Fitch Solutions

- We forecast private consumption and investment will drive 4.1% y-o-y growth in 2021, from an estimated 6.7% contraction in 2020.
- Rebounding business and consumer confidence signal that growth will return in H121, despite the recent re-introduction of Covid-19 restrictions in several cities.
- Additionally, the government will increase public spending over the coming years to fund investment projects and create jobs following the economic shock of Covid-19.
- However, President Iván Duque's government will likely seek fiscal consolidation measures in 2021, which could pit the government against its coalition partners and the broader public.

Mexico: Rebound Likely To Lag Peers, As Critical Election Looms

Mexico To Underperform Global Emerging Markets

Real GDP Growth, % y-o-y



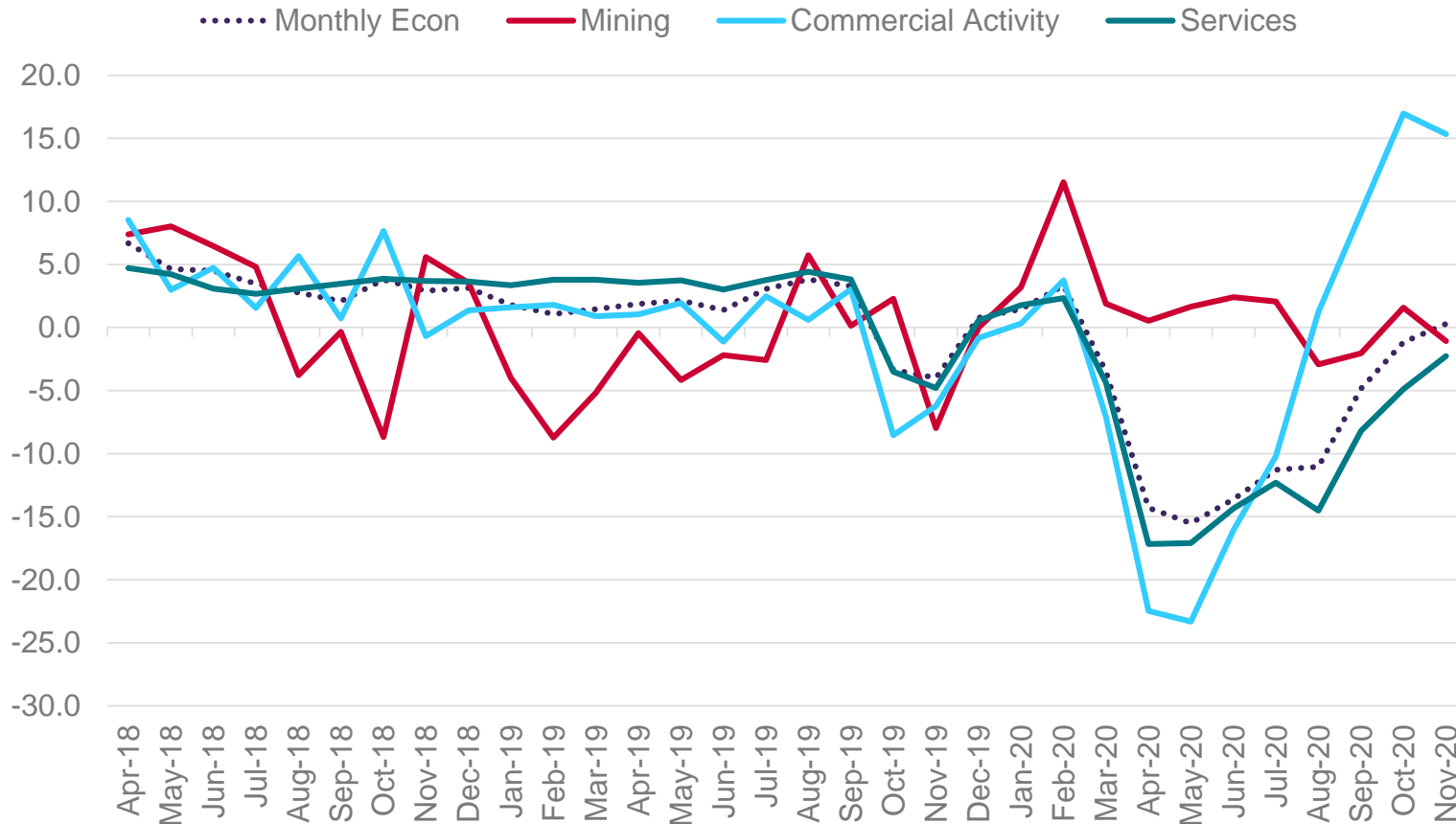
e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

- Mexico will rebound to 3.8% growth in 2021, after an estimated 9.2% contraction in 2020, as the pandemic shock subsides.
- The bulk of the recovery will likely take place in H221, as it will take time for the vaccine to be distributed, though greater demand from the US will help in the short term.
- Mexico's recovery will trail many major EMs, due to fall out from minimal fiscal stimulus and uncertainty over policy.
- Midterm legislative elections in June will determine how much control President Andrés Manuel López Obrador has over policy in the second half of this term.

Chile: Loosened Lockdown, Vaccine Prospects Lift Outlook

Chile Returned To Growth In November

Chile— Monthly Economic Activity, % y-o-y



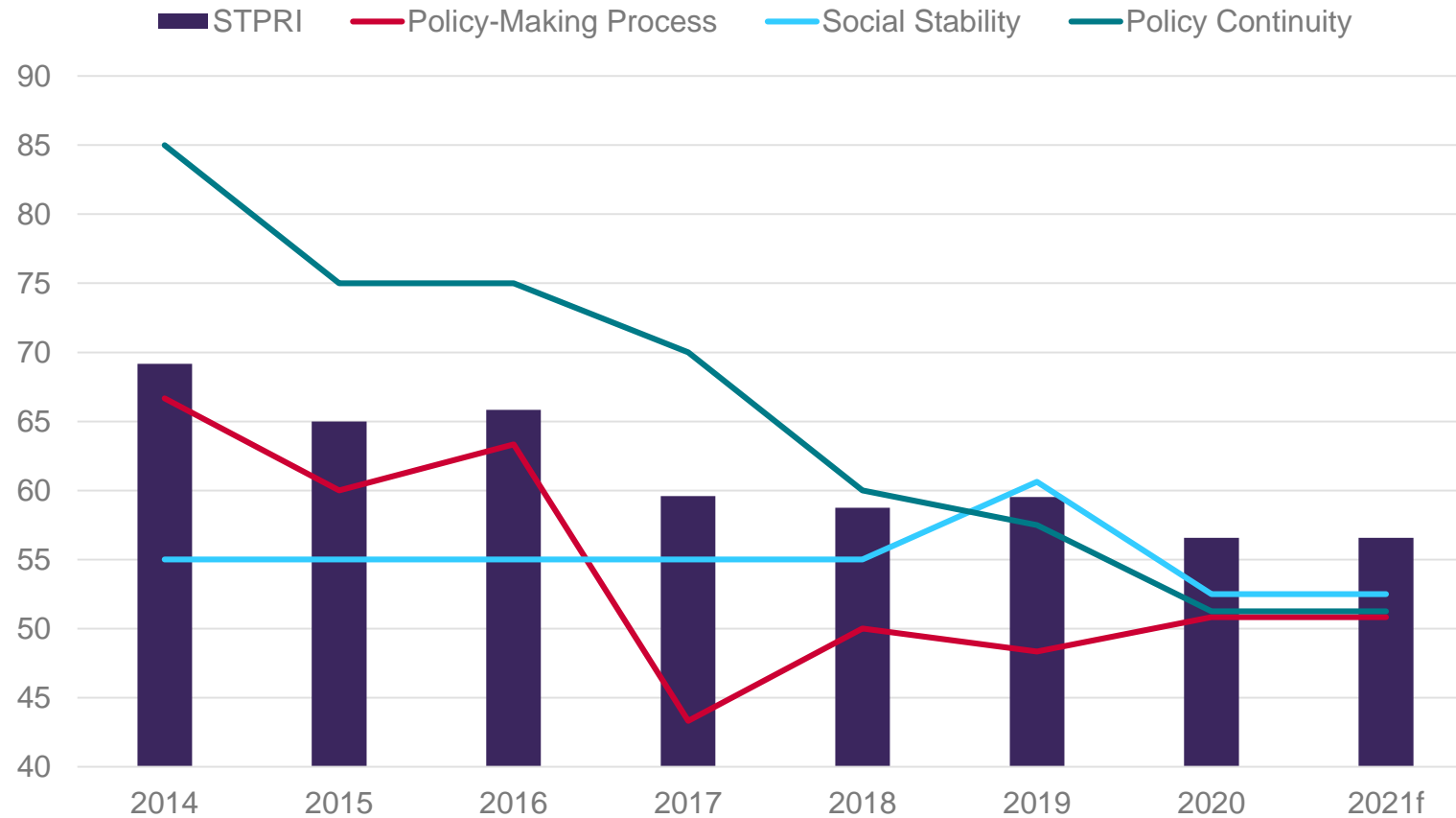
e/f = Fitch Solutions estimate/forecast. Source: National Sources, Fitch Solutions

- We forecast real GDP growth of 4.2% y-o-y in Chile in 2021, following an estimated 6.0% contraction in 2020.
- Chile's aggressive vaccination programme will allow a quicker return to normal economic activity, boosting private consumption.
- Strong external demand, particularly from China, and rising commodity prices will bolster export growth.
- Potential for renewed social unrest during packed electoral calendar in 2021 will weigh on investment.

Peru: Political Risks Loom Amid Positive Growth Outlook

Sustained Risks May Disrupt Business-Friendly Economic Model

Peru – Short-Term Political Risk Index (STPRI), Out Of 100



f = Fitch Solutions forecast. Source: Fitch Solutions

- We forecast Peru will be the fastest growing of Latin America's largest economies in 2021, expanding 6.2% y-o-y, albeit from an estimated 12.3% contraction in 2020.
- While our core view is that the political centre will hold in the April 2021 election, we note elevated risks to policy continuity and stability following the political turbulence of 2020.
- The Covid-19 shock will also prompt policymakers to raise spending in the coming years.
- Peru's score of 56.6 out of 100 in our Short-Term Political Risk Index is the lowest score in over ten years, which suggests that investor and business confidence may flag in 2021.



Q&A

The Year Ahead: Key Themes for 2021

As the world struggles to emerge from the Covid-19 crisis, Fitch Solutions Country Risk & Industry Research analysts outline the key themes that they believe will play out globally, regionally, and across core industries, over the coming year.

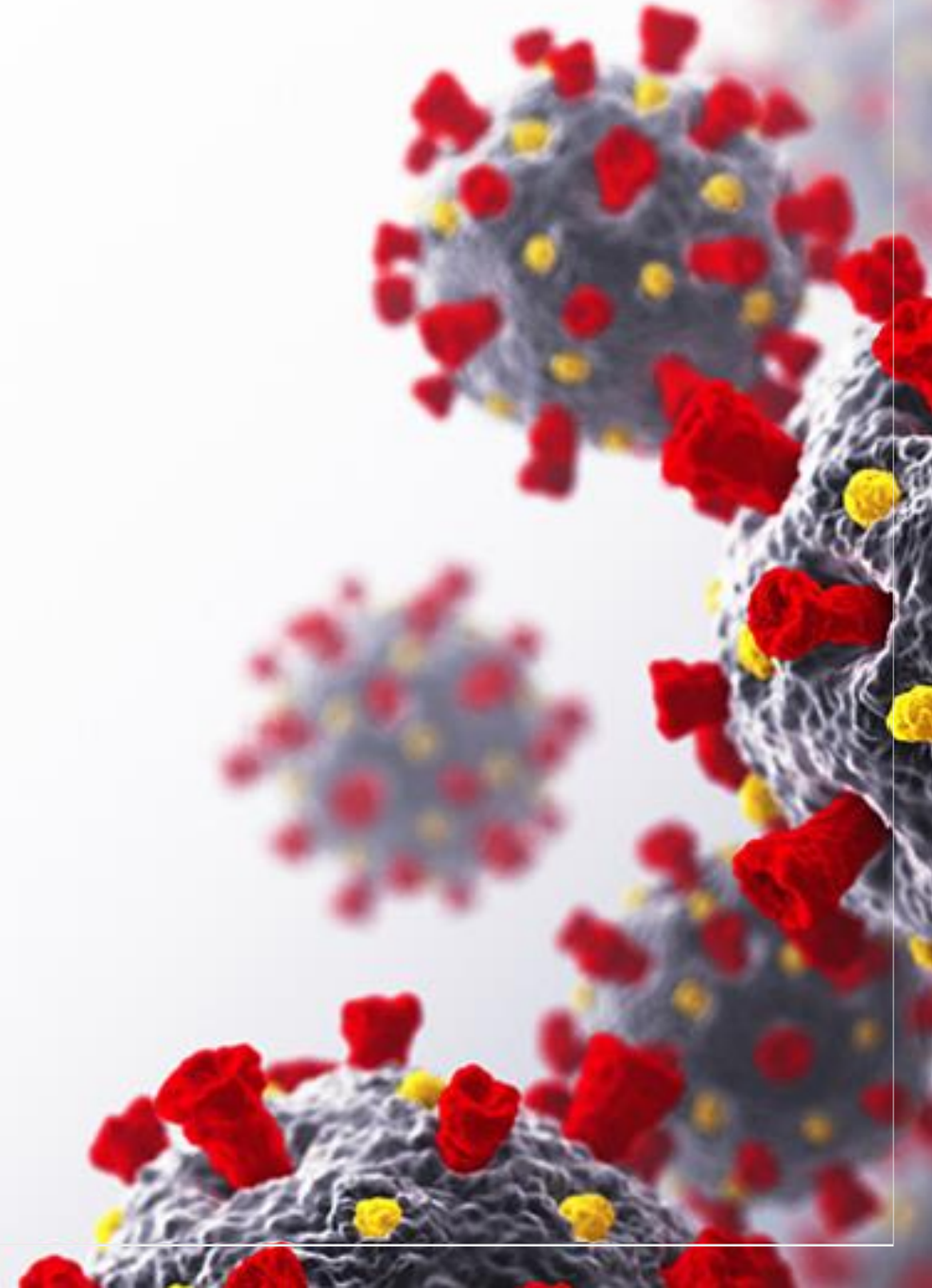
Find out more at fitchsolutions.com/topic/year-ahead-key-themes-2021



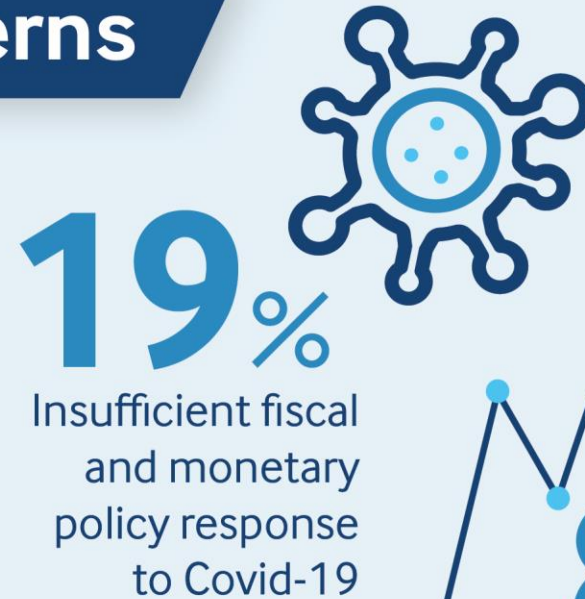
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Biggest Economic Concerns



Read the latest report to see how your sentiment aligns with those of your peers. The report is available for you to download via the resource list.

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