



PANTHEON[™]
MACROECONOMICS

INDEPENDENT • INCISIVE • ILLUMINATING

COVID-19: A SAVAGE TOLL ON LATAM'S ECONOMY...

PROSPECTS HAVE TURNED BLEAK

LATIN AMERICA ECONOMIC CHARTBOOK, MARCH 2020

DATA AS AT APRIL 2 | ANDRES ABADIA, SENIOR ECONOMIST
WWW.PANTHEONMACRO.COM | +44 191 2600 309

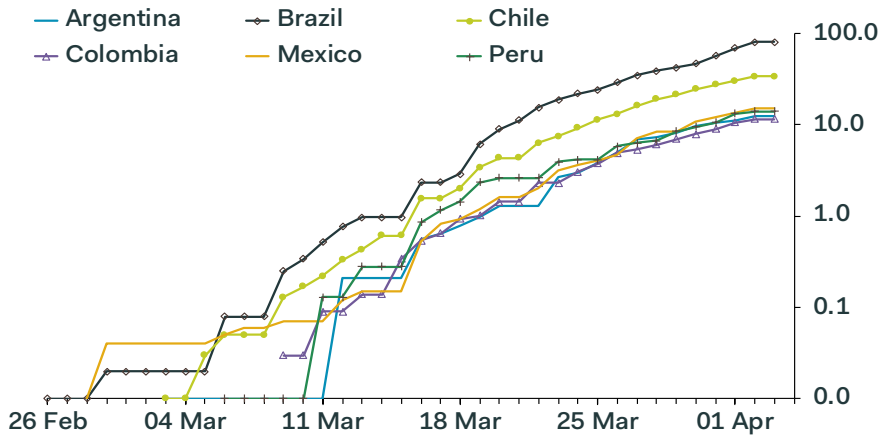
Summary

- **The coronavirus pandemic looks set to spread rapidly throughout LatAm.** The slow implementation of containment measures in some economies, particularly Brazil and Mexico, means that severe problems are looming. Tough times lie ahead if governments fail to put a lid on the spread. The rate of infection is rising in some countries and the outlook is uncertain. Governments will be forced to implement tougher measures, significantly denting LatAm's GDP growth.
- In **Brazil**, President Bolsonaro is failing to take the coronavirus crisis seriously, which likely will deepen the economic and financial damage. The BCB has been forced to cut interest rates to ease the pain, and the combination of low inflation and subpar activity pre-Covid-19 points to further stimulus ahead. Brazil is enjoying low inflation, and leading indicators suggest that it will remain under control in the very near term. Low oil prices, the ample slack in the economy—which likely will be widened by the coming recession, due to the measures to contain the virus—favourable base effects, and anchored inflation expectations will all help to keep inflation at bay. If we are right, the BCB will be able to cut interest rates even further, to 3.25% or less. We expect real GDP to fall at least 1% this year.
- **Mexico's** data in recent weeks highlight the difficult times for the economy even before the pandemic outbreak, and also support the case for further interest rate cuts. We now expect GDP in Mexico to plunge by at least 5.0% this year—a touch worse than the 4.5% drop in 2009—from -0.1% in 2019. The massive hit from low oil prices, Covid-19 and President AMLO's willingness to call snap referendums on projects already underway, is putting the economy under severe strain and placing pressure on Mexico's sovereign credit fundamentals and ratings. S&P has downgraded Mexico to BBB from BBB+, two notches above junk, and maintained the negative outlook, underscoring the country's economic policy uncertainty and Pemex-related contingent liabilities.
- **Colombia**, the fastest growing economy in LatAm, hasn't been immune to the ongoing global meltdown. The government, however, has been very proactive in trying to contain the outbreak. The large-scale shutdown, though, likely will take a substantial toll on almost all sectors, particularly services, and capex and private consumption, which have driven the solid performance in the current cycle. We look for real GDP to fall -0.5% this year, down from 3.4% in 2019. Stimulative fiscal and monetary policies will prevent a recession. BanRep, once the most hawkish LatAm central bank in the current cycle, succumbed on Friday to the global wave of monetary easing and cut the main rate by 50pb, to 3.75%, the lowest since 2014. We expect rates to fall to 3% or lower before mid-year.
- The coronavirus outbreak will further damage the already fragile economic and financial situation in **Argentina**. The government has announced measures to ease the hit from the pandemic, but the economy will suffer for the foreseeable future. The epidemic will also further complicate debt restructuring negotiations, as the government will struggle to pay. President Fernández announced recently that the government is not planning to resume debt payments to the IMF over the next five years, which will allow the country to face the hit from the coronavirus outbreak. The IMF is fully aware of the current situation, acknowledging that the country needs substantial debt relief from private creditors in its debt restructuring, and that there is no scope for bond servicing in the medium term.
- In **Chile**, the outbreak of the coronavirus is developing rapidly and the country is set for a deep recession. The BBCh cut its main base rate by 75bp to 1.0% at an emergency meeting in mid-March, and by 50bp this week. The Bank said that Chile's economic outlook has deteriorated significantly, due to Covid-19 and the financial turmoil. It also announced a series of measures to facilitate the normal functioning of credit markets and the provision of liquidity. We look for GDP growth of close to -4% this year. But much depends on how the virus evolves over the next few months. The path to recovery is unlikely to be plain sailing.
- **Peru's** economy will come under severe strain over the next three-to-six months. Low commodity prices and the measures to contain the virus will hit both supply and demand. China is Peru's main trading partner, by far, accounting for about 30% of total exports. The BCRP cut its policy base rate by 100bp to 1.25% at an emergency meeting in late March. We now expect GDP growth in Peru to fall 0.5% this year, from +2.0% in 2019, and worse than the 1.1% growth in 2009.

COVID-19 in LatAm

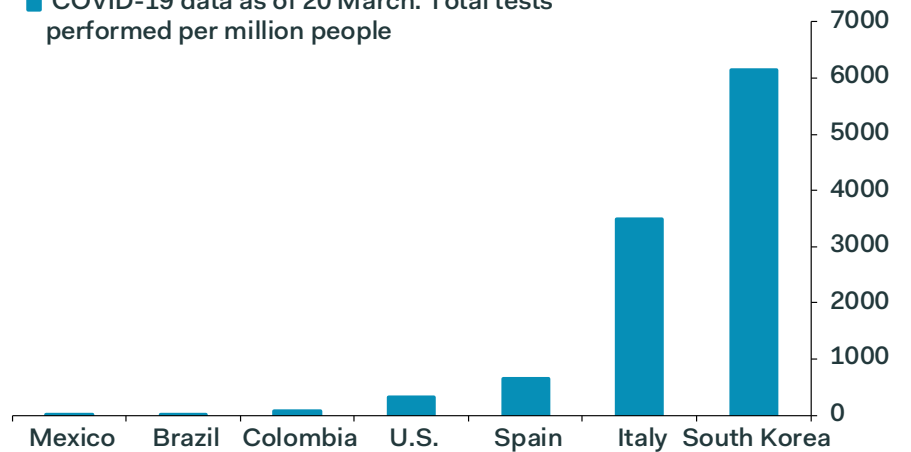
THE WORST NIGHTMARE IN DECADES IS APPROACHING

Coronavirus cases per million, log scale:



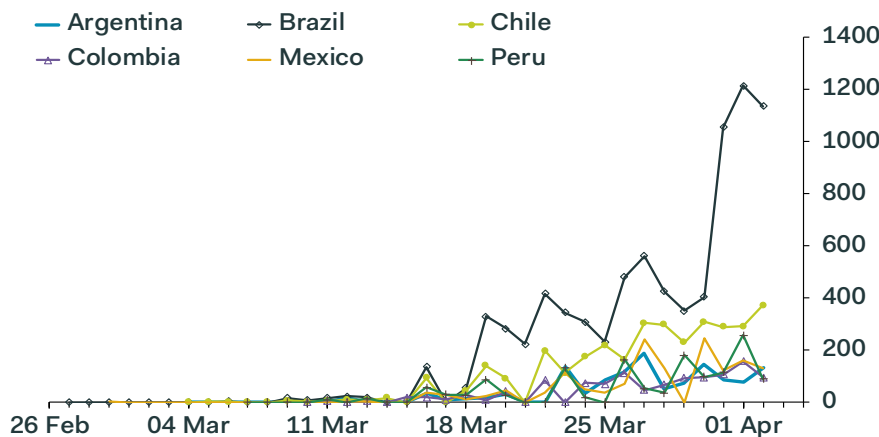
TESTING IS THE KEY

■ COVID-19 data as of 20 March: Total tests performed per million people

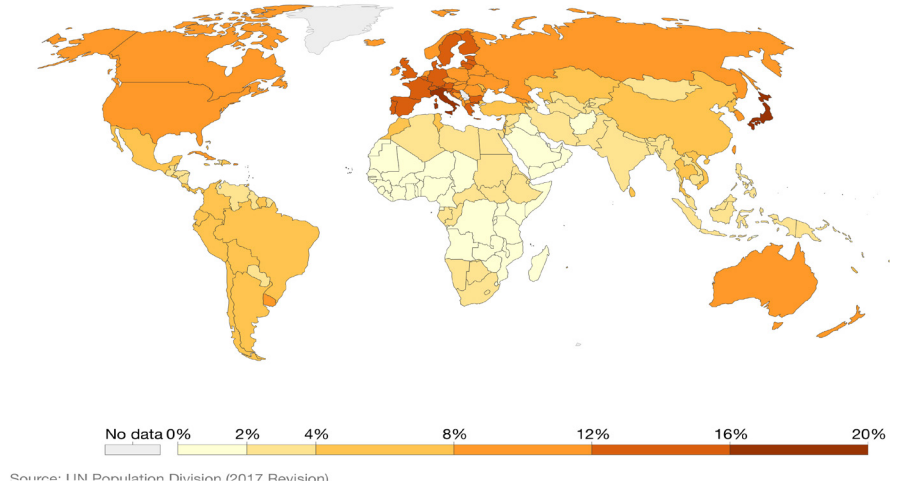


CASE GROWTH IS ACCELERATING IN BRAZIL

Daily change in number of coronavirus cases:



SHARE OF THE POPULATION THAT IS 70 YEARS AND OLDER, 2015



Policy response

ARGENTINA	The government has acted quickly to contain the virus spread. April 1: 1,133 confirmed cases, 34 deaths Full closure of borders, travel restricted, and a nationwide quarantine, beginning on March 20
FISCAL: ±3% GDP	<i>Mostly financed through reallocation from lower priority spending.</i> Increased health spending: including construction of hospitals and acquisition of equipment Support for workers and vulnerable groups: transfers to poor families, increased social security benefits, higher unemployment insurance benefits, and payments to minimum-wage workers Support for hard-hit sectors: exemption from social security contributions, and subsidized loans for construction activities Demand support: spending on public works Anti-price gouging policies: price controls for food and medical supplies Forbearance: Continued provision of utility services for households in arrears, a stay on bank account closures due to bounced checks and credit extension to companies with payroll tax arrears Credit guarantees will be provided to banks' lending to SMEs for the production of foods and basic supplies Part of these measures might be financed through reallocation from lower priority spending The World Bank will lend Argentina USD300M in emergency funds
MONETARY & CREDIT	Support bank lending: Lower reserve requirements on bank lending to households and SMEs Regulations that limit banks' holdings of central bank paper to provide space for SME lending Temporary easing of bank provisioning needs and of bank loan classification rules IMF may hold remote consultations. The government intends to seek a new IMF program.
BRAZIL	President Bolsonaro is still in denial, but governments at a local and regional level are stepping up their efforts to contain the spread. April 1: 6,836 confirmed cases, 241 deaths School closures and restrictions on non-essential services Foreigners' entry through airports is now restricted and borders are closed, with some exceptions
FISCAL: ±4% GDP	<i>Mostly reallocations within the 2020 budget</i> <i>Congress has declared a state of "public calamity" -- No need to comply with the primary balance target in 2020</i> <i>Ability to accommodate exceptional health spending needs</i> Temporary income support to vulnerable households, including the expansion of the Bolsa Familia program, cash transfers to informal and unemployed workers Temporary tax breaks and credit lines for firms with the aim of protecting employment Lower taxes and import levies on essential medical supplies New transfers from the federal to state governments to support higher health spending and as a cushion against the expected fall in revenue Temporary stay of debt payments to states and municipalities, debt renegotiation, and support for credit operations through government guarantees Public banks are expanding credit lines for businesses and households, with a focus on supporting working capital Program for the simultaneous auctions of government securities
MONETARY & CREDIT	Interest rate cut: 50bp to 3.75%; historic low Measures to increase liquidity in the financial system The reserve requirement has been reduced from 25 to 17 The central bank also opened a facility to provide loans to financial institutions Swap facility with the Fed that will remain in place for the next six months, at least The five largest banks in the country agreed to consider requests by individuals and SMEs for a 60-day extension of their maturing debt liabilities
FX	Interventions in the FX spot market and through swaps Repo operations of Brazilian sovereign bonds denominated in USD Swap line with the Fed for at least six months for USD60B

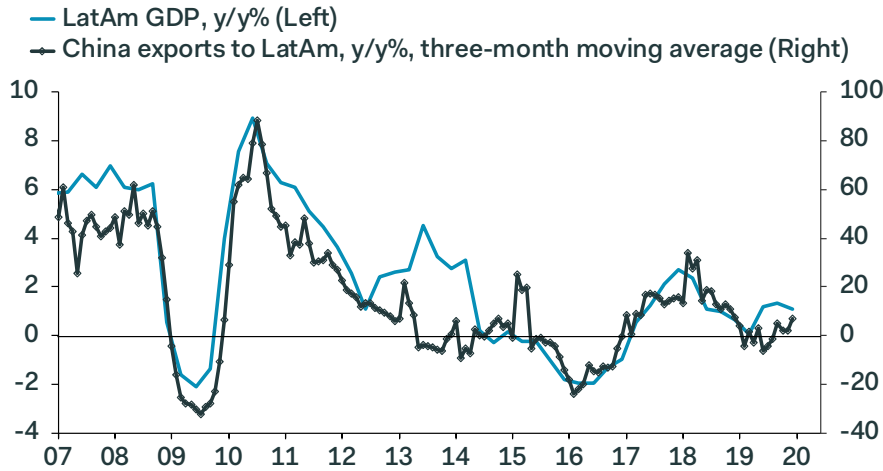


CHILE	<p>The government has been very proactive, declaring a state of catastrophe. April 1: 3,404 confirmed cases, 18 deaths</p> <p>State of catastrophe, travel restrictions, closure of schools, curfews and bans on public gatherings, and a law on teleworking. Overnight curfew.</p> <p>The authorities have also unveiled measures to support employment and provide liquidity</p>
FISCAL: ±5% GDP	<p>Economic aid plan of USD11.7B using a special constitutional clause to free funds without congressional approval</p> <p>Higher healthcare spending</p> <p>Enhanced subsidies and unemployment benefits</p> <p>Tax deferrals</p> <p>Liquidity provision to SMEs</p> <p>Accelerated disbursements for public procurement contracts</p> <p>New Employment Protection law</p>
MONETARY & CREDIT	<p>Interest rate cut: 125bp to 0.50% in March</p> <p>A new funding facility for banks conditional on them increasing credit</p> <p>Inclusion of corporate securities as collateral for the Central Bank's liquidity operations</p> <p>Initiation of a program for purchase of bank bonds; up to USD4B</p> <p>Expansion of the program for providing liquidity in CLP and USD through repo operations and swaps</p> <p>A package of measures to facilitate the flow of credit to businesses and household</p>
FX	<p>Window for possible resumption of FX sales extended until January 2021</p>
COLOMBIA	<p>The government has been very proactive to contain the spread of the virus. April 1: 1,065 confirmed cases, 17 deaths</p> <p>State of emergency on March 17. A 19-day mandatory quarantine started on March 24. Curfew for the elderly. Closure of the borders.</p> <p>The government has also announced economic measures as part of the response.</p>
FISCAL: ±1% GDP	<p>National Emergency Mitigation Fund, which will be partially funded from regional and stabilization funds. Additional budgetary support for health has been announced.</p> <p>Faster direct contracting for services associated with the emergency response</p> <p>New credit line providing liquidity support to all tourism-related companies</p> <p>Delayed tax collection for the tourism and air transportation sectors</p> <p>Reduction of tariffs for strategic health imports</p> <p>Expanded transfers for vulnerable groups</p>
MONETARY & CREDIT	<p>Interest rate cut: 50bp to 3.75% in March</p> <p>Measures to boost liquidity in both the financial and FX rate markets, including extension of access of their liquidity overnight and term facilities to investment companies, expansion of their repos</p> <p>On March 27, S&P downgraded Colombia's credit rating to 'BBB-' from 'BBB'. The Rating Outlook remains Negative.</p>
FX	<p>Liquidity in FX markets</p> <p>New mechanism for exchange-rate hedging</p>

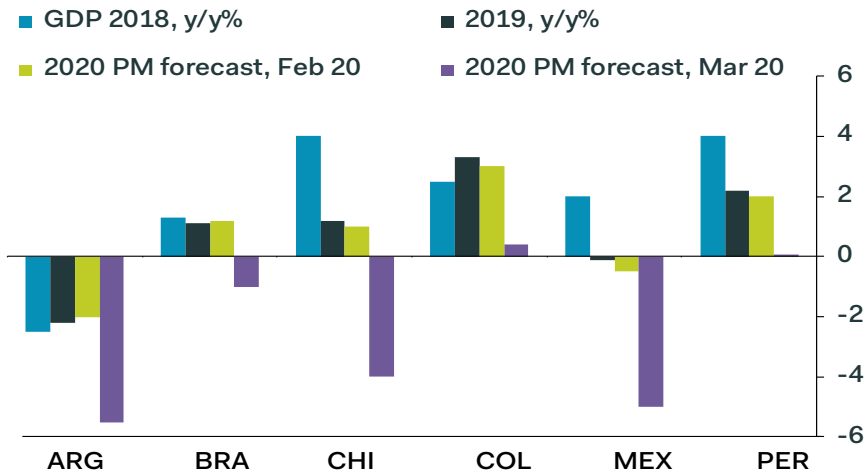
MEXICO	<p>AMLO has been downplaying the coronavirus. In the absence of a large federal response, the fight against the virus has largely fallen to states, municipalities, and private businesses</p> <p>April 1: 1,378 confirmed cases, 37 death</p> <p>Mexico City has forced all public recreational facilities to close and banned gatherings of 50 people or more</p> <p>Travel restrictions, social distancing, declarations of state of emergency in some municipalities and states. Closure of schools. US border crossing restricted in both directions</p> <p>On March 30, Foreign Secretary declared a national health emergency</p>
FISCAL: ±0.8% GDP	<p>The government announced that it would: ensure that the Ministry of Health has sufficient resources and does not face red tape, and has sufficient supply of medical equipment and materials; advance pension payments to the elderly; accelerate the tender processes for public spending to ensure full budget execution; and set-up a Health Emergency Fund to request additional resources from Congress, that could reach up to MXN180B</p> <p>AMLO said that companies should not be waiting for bailouts or tax breaks</p>
MONETARY & CREDIT	<p>Interest rate cut: 50bp to 6.50% in March</p> <p>Extension of the NDF program, in domestic currency, by MXN10B to MXN30B</p> <p>Two NDF auctions; two government bond exchanges</p> <p>Measures to provide MXN and USD liquidity to the banking system and improve the functioning of the domestic financial markets</p> <p>Modification of the debt issuance calendar to ease pressures in the M-Bono curve</p> <p>Credit ratings agency S&P cut Mexico's sovereign rating to BBB from BBB+</p>
FX	<p>Support of USD liquidity</p> <p>Restablishment of a USD60B swap line with the Fed.</p>
PERU	<p>The government has been very proactive, declaring a state of national emergency. April 1: 1,323 confirmed cases, 47 deaths</p> <p>Measures to limit the spread of the virus, including closing of national borders, restrictions to inter-provincial movement, a mandatory two-week national isolation period, and daily curfews</p>
FISCAL: ±2% GDP	<p>The government has approved PEN783M to attend the health emergency</p> <p>Approval of PEN1.2B in direct transfers to support poor households during the national isolation period</p> <p>Similar direct transfers to be made available to a group of independent workers; postponement announced of households' payments of utility bills</p> <p>Three-month extension for the income tax declaration for SMEs and flexibility to enterprises and households in the repayment of tax liabilities</p> <p>A PEN300M fund to help qualified SMEs to secure working capital and/or refinance debts</p>
MONETARY & CREDIT	<p>Interest rate cut: 100bp to 1.25% in March</p> <p>The BCRP has provided liquidity to the financial system through repo operations</p> <p>The superintendence of banks has issued a notification allowing financial institutions to modify the terms of their loans to households and enterprises affected by the Covid-19 outbreak without changing the classification of the loans</p>
FX	<p>The BCRP has been intervening since late February, selling approximately USD2B, or 0.9% of GDP, in FX swaps</p>

Source: IMF, central banks, governments

1. EXTERNAL CONDITIONS WERE IMPROVING JUST BEFORE THE OUTBREAK



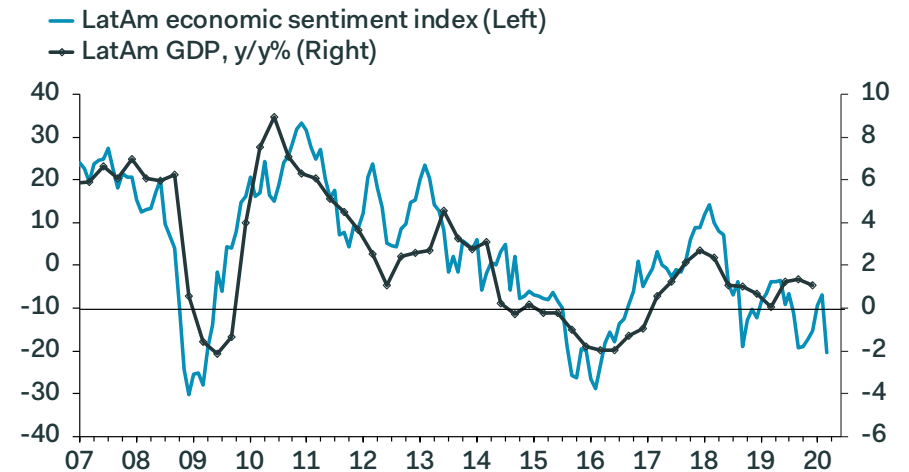
2. A BRUTAL SHOCK FOR LATAM'S PROSPECTS



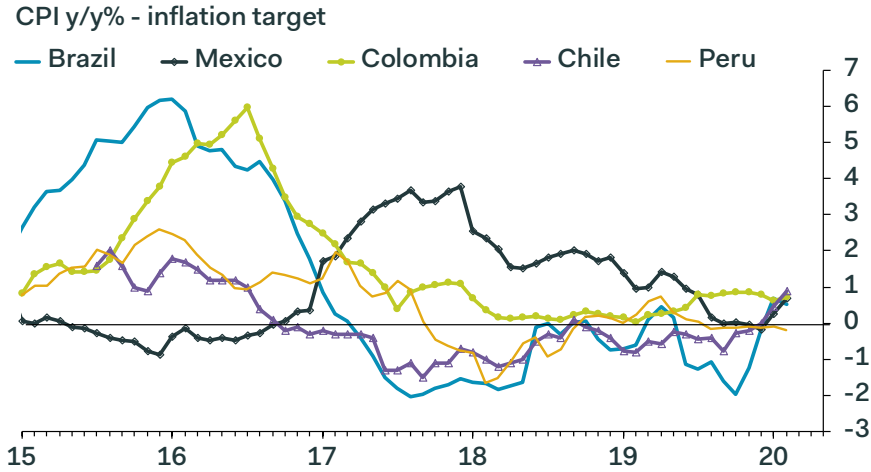
3. NO COUNTRY WILL ESCAPE THE COVID-19 HIT



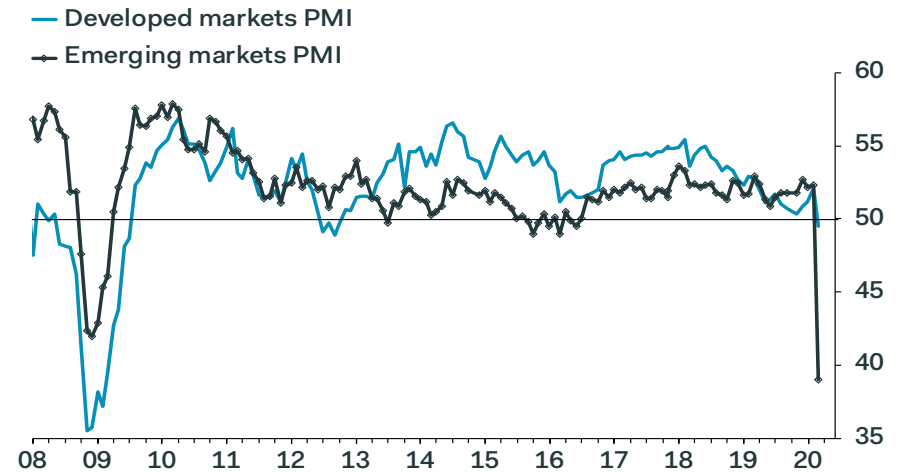
4. SENTIMENT WAS DETERIORATING EVEN BEFORE COVID-19



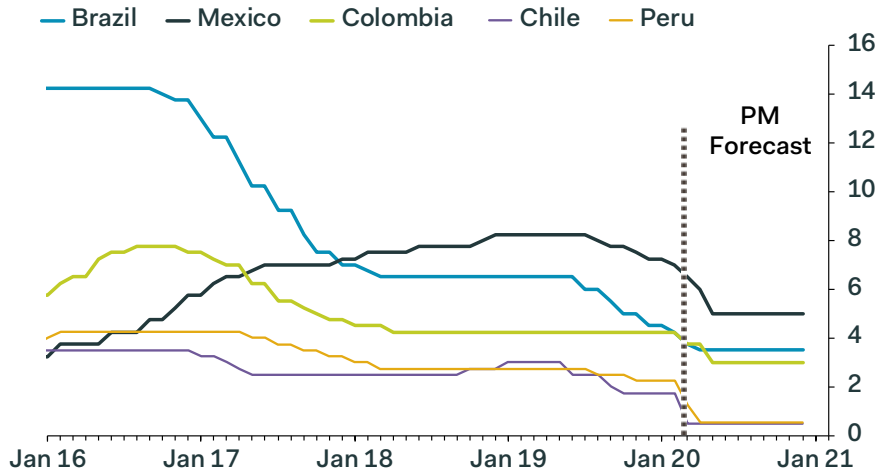
5. THE RECESSION WILL PUSH INFLATION DOWN THIS YEAR



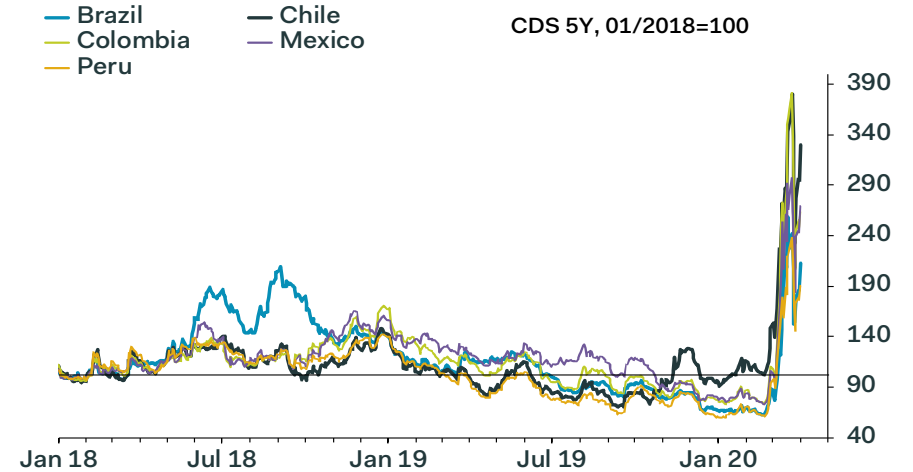
7. ECONOMIC PROSPECTS WERE IMPROVING BEFORE THE OUTBREAK



6. FURTHER MONETARY EASING IS COMING, ESPECIALLY IN MEXICO



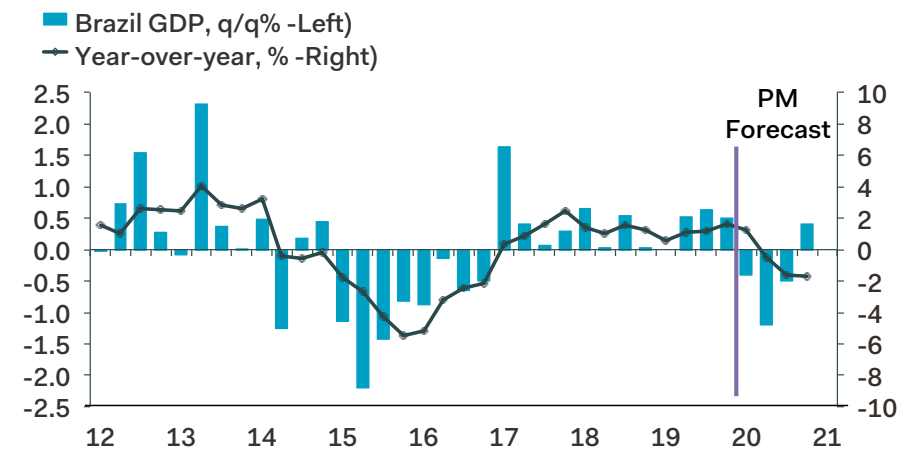
8. THE BIGGEST THREAT IN DECADES; RISK PERCEPTION HAS SOARED



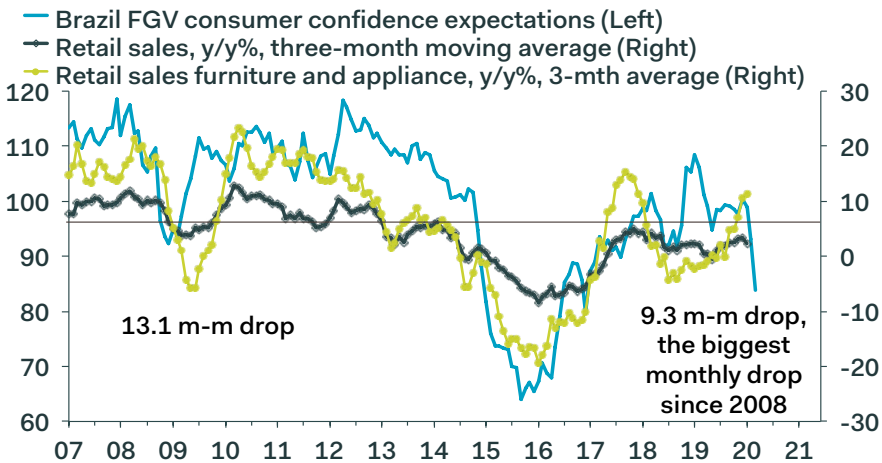
9. BRAZIL: THE ECONOMY WAS WEAK EVEN BEFORE COVID-19



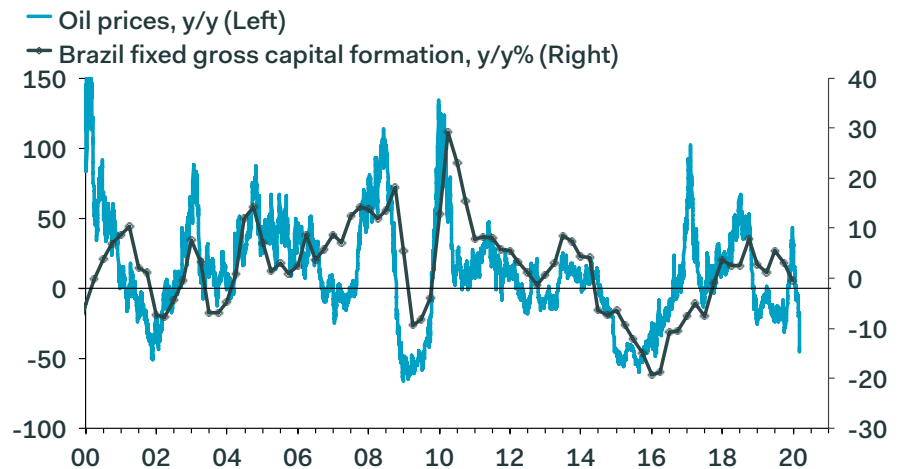
11. ECONOMIC ACTIVITY LIKELY WILL COLLAPSE



10. RETAILERS WILL SOON START TO FEEL THE HIT

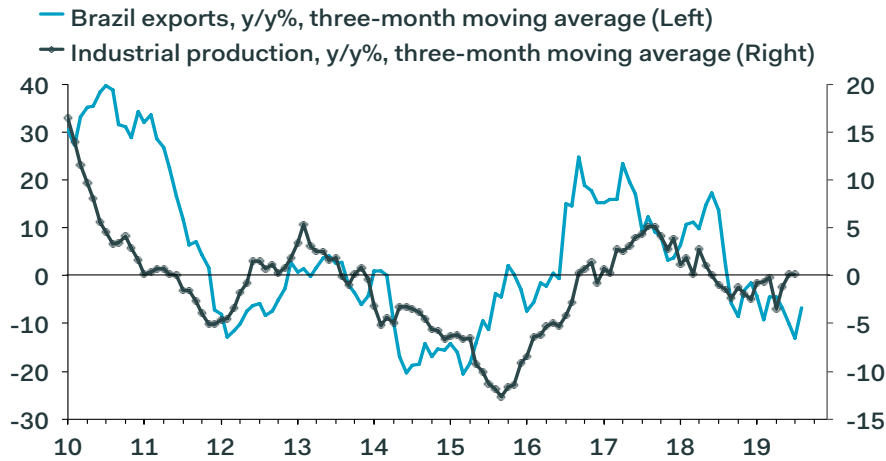


12. LOW OIL PRICES ARE NET BAD FOR BRAZIL

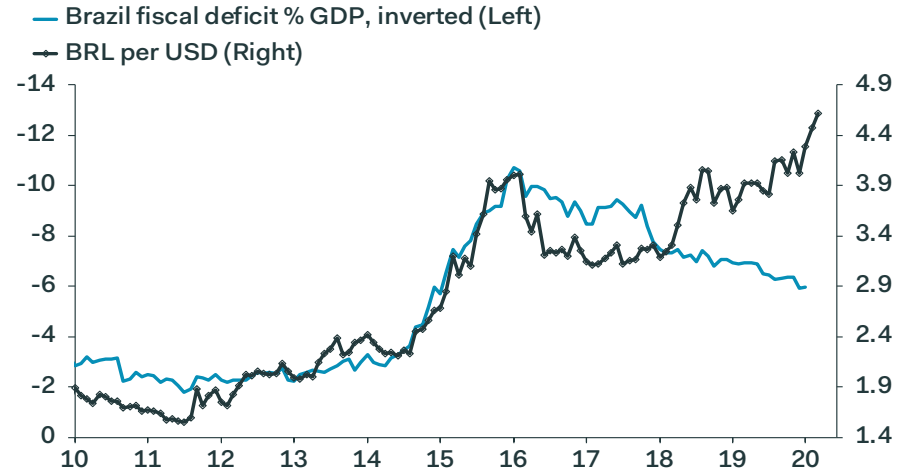




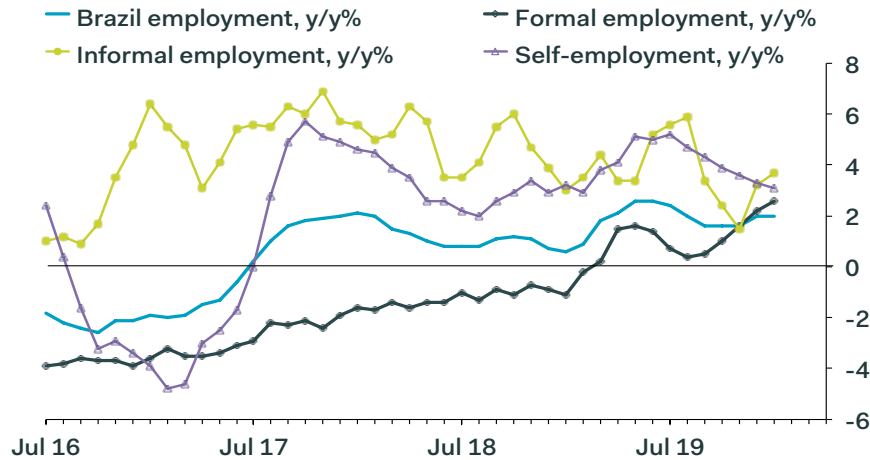
13. INDUSTRIAL OUTPUT IMPROVED IN EARLY Q1, BUT WILL FALL SOON



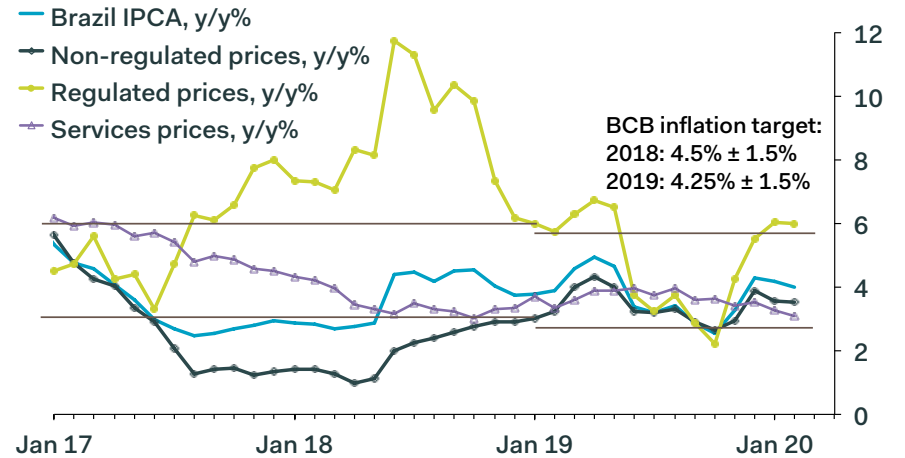
15. THE BRL SELL-OFF HAS BEEN DRIVEN MAINLY BY EXTERNAL WOES



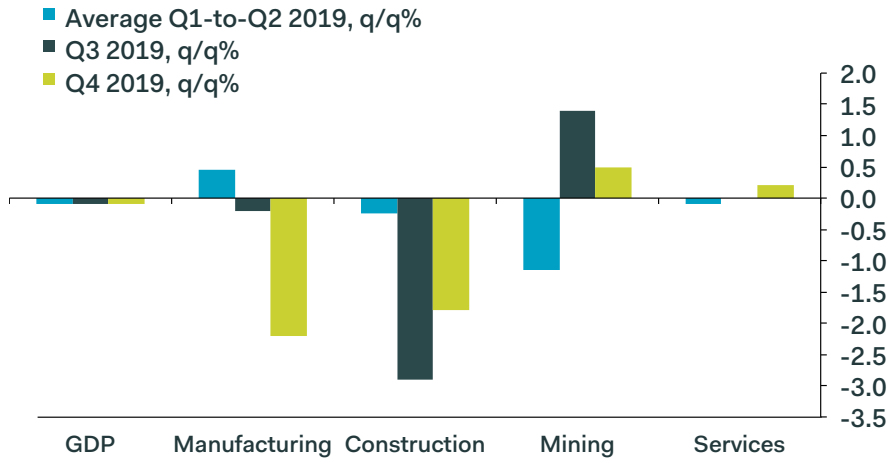
14. A BENIGN EMPLOYMENT PICTURE BEFORE COVID-19



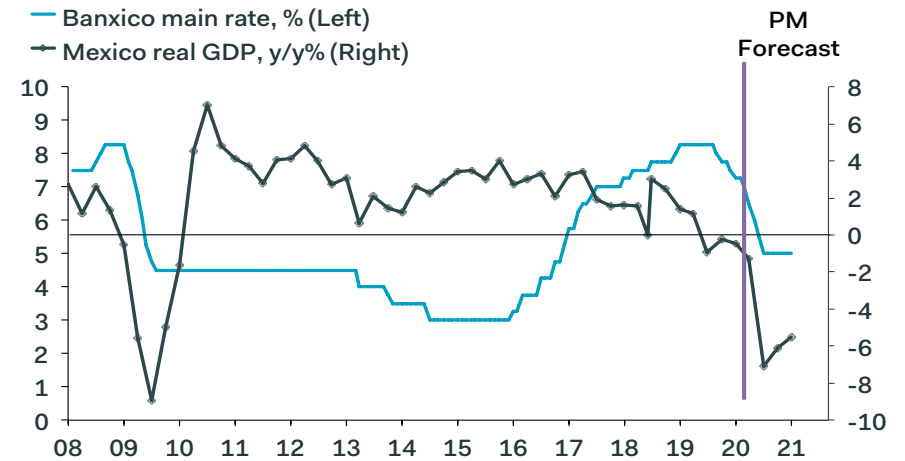
16. INFLATION IS LOW, BUT FUNDAMENTALS ARE NOT IMPORTANT NOW



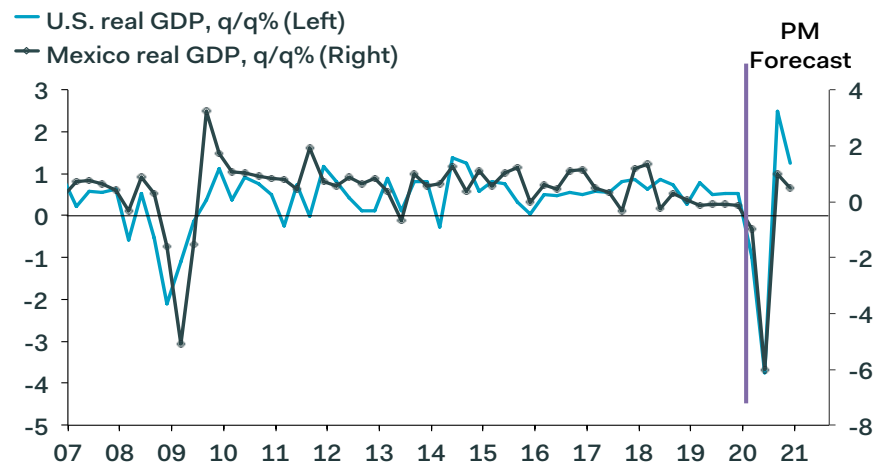
17. MEXICO: THE ECONOMY ENDED 2019 POORLY...



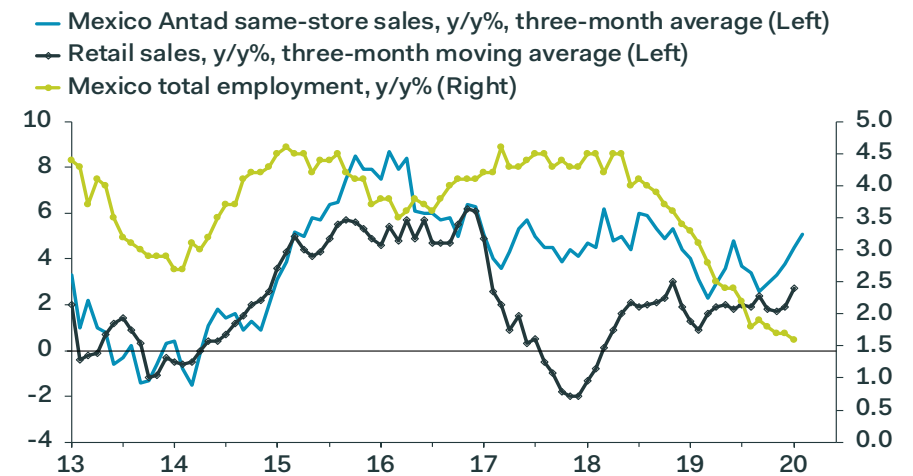
19. GLOBAL THREATS WILL CONTINUE TO HURT



18. ...AND THE NEAR-TERM OUTLOOK IS GRIM

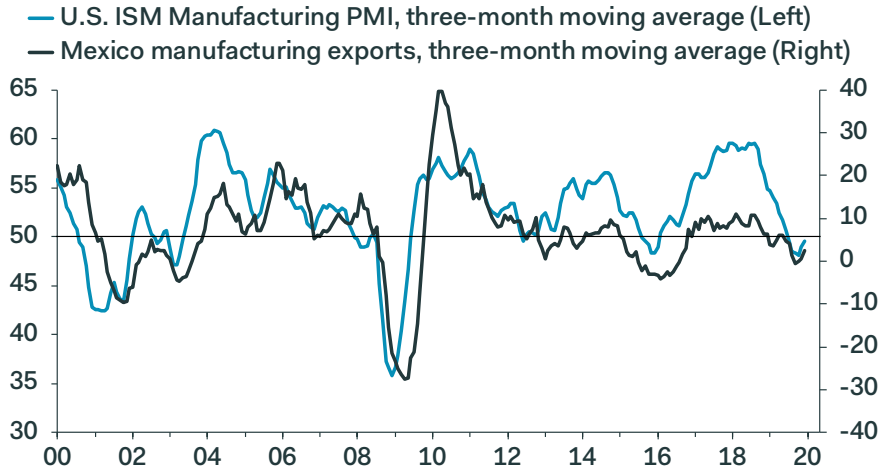


20. CONSUMPTION IMPROVED SLIGHTLY IN Q1, BUT IT WILL SLOW SOON

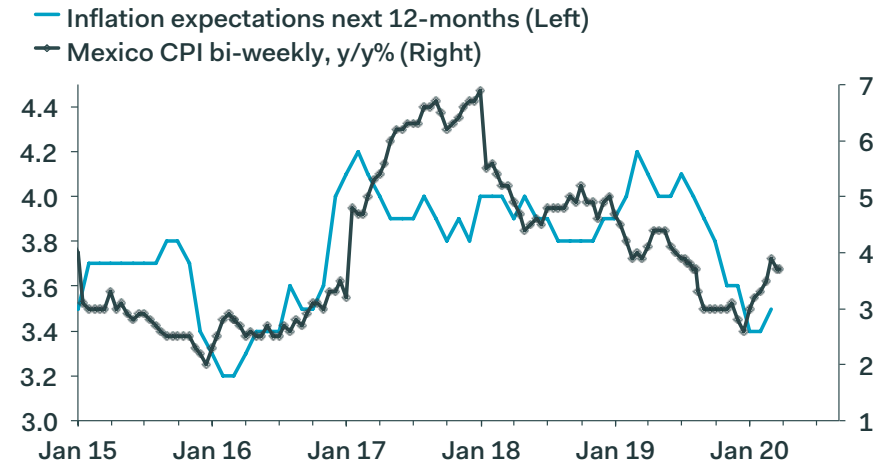




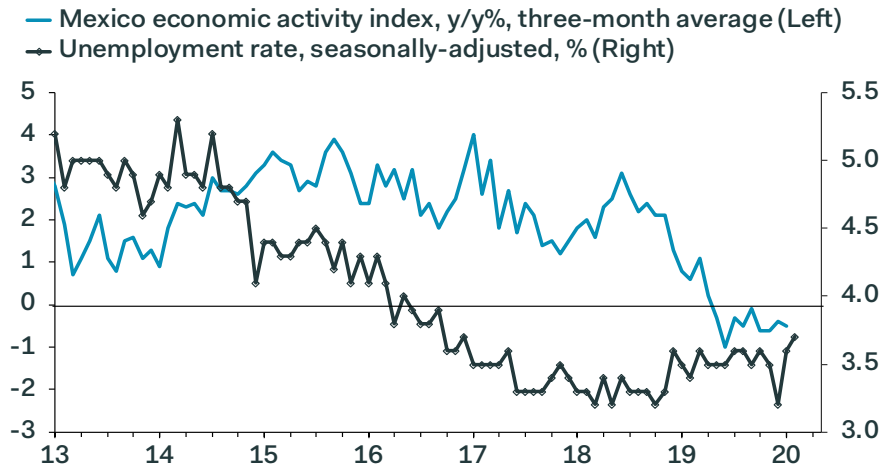
21. EXTERNAL CONDITIONS WERE ALREADY EXTREMELY FRAGILE



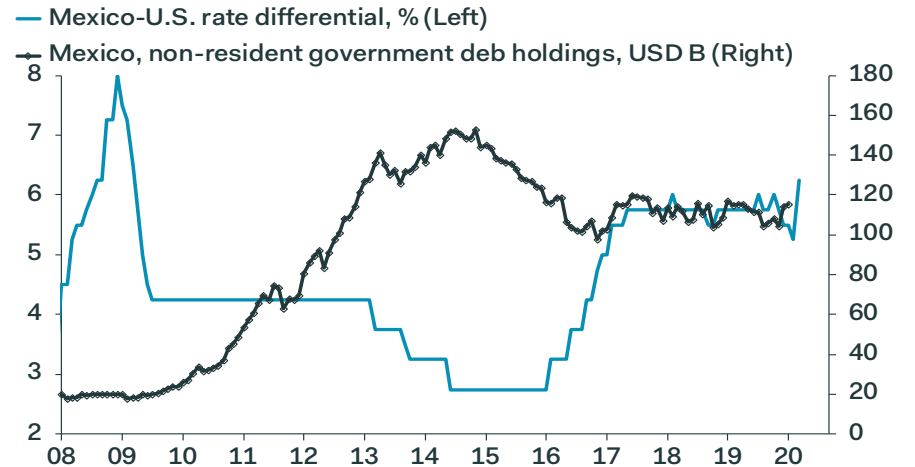
23. THE RECESSION WILL PUSH INFLATION EXPECTATIONS DOWN



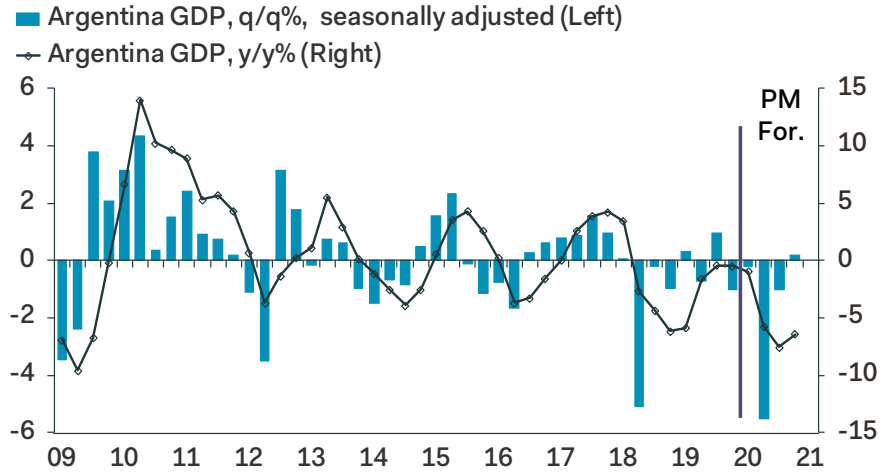
22. BANXICO WILL HAVE TO CUT RATES EVEN FURTHER



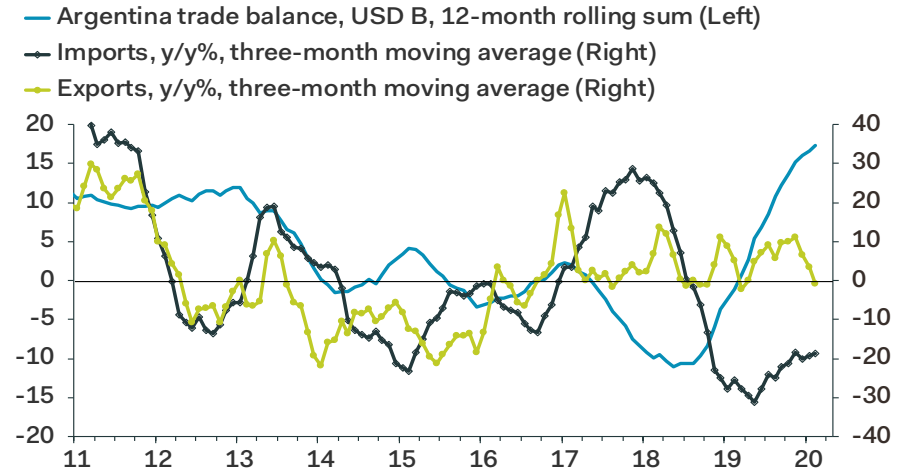
24. HIGH INTEREST RATES WILL ACT AS A SHIELD IN MEXICO



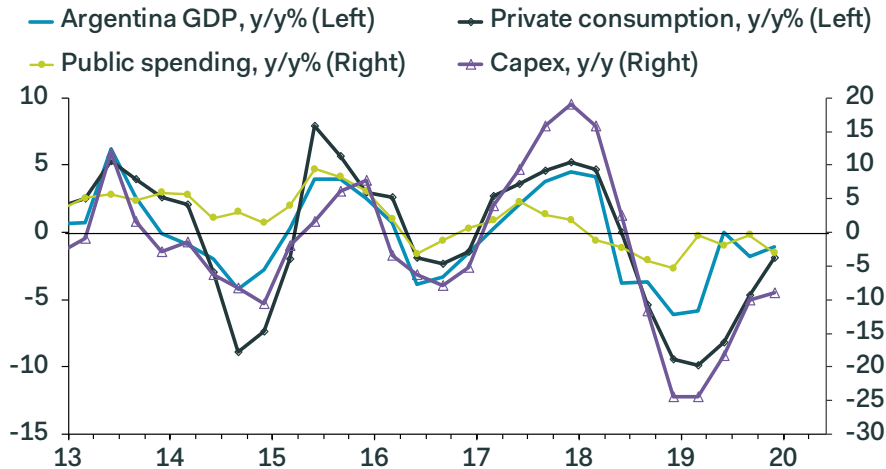
25. ARGENTINA: GDP TO FALL FURTHER



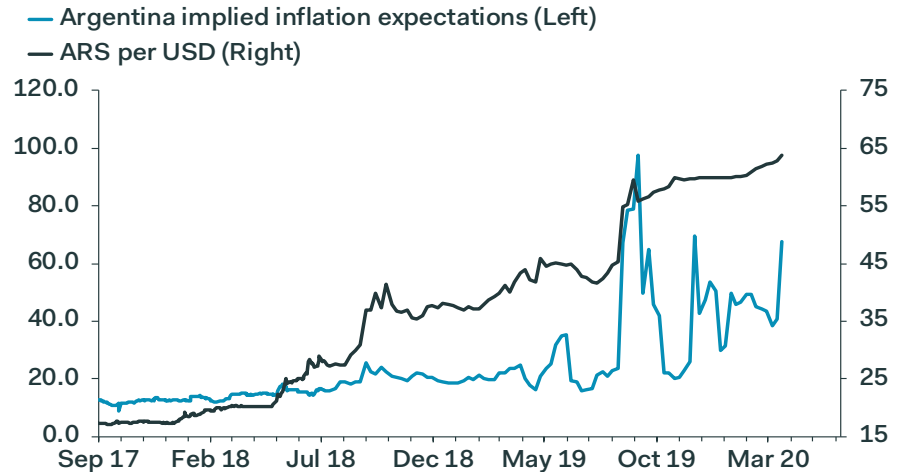
27. EXPORTS WILL FALL THIS YEAR



26. THE ECONOMY WAS ON THE MEND BEFORE COVID-19

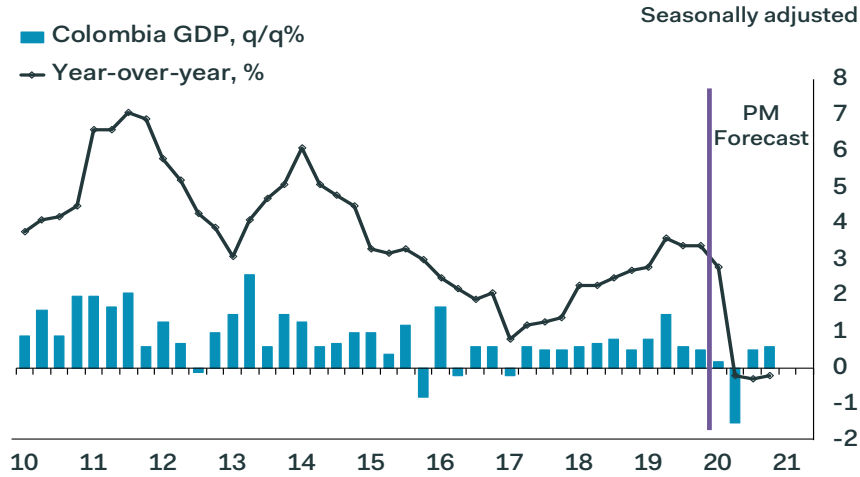


28. THE RECESSION WILL PUSH INFLATION EXPECTATIONS DOWN

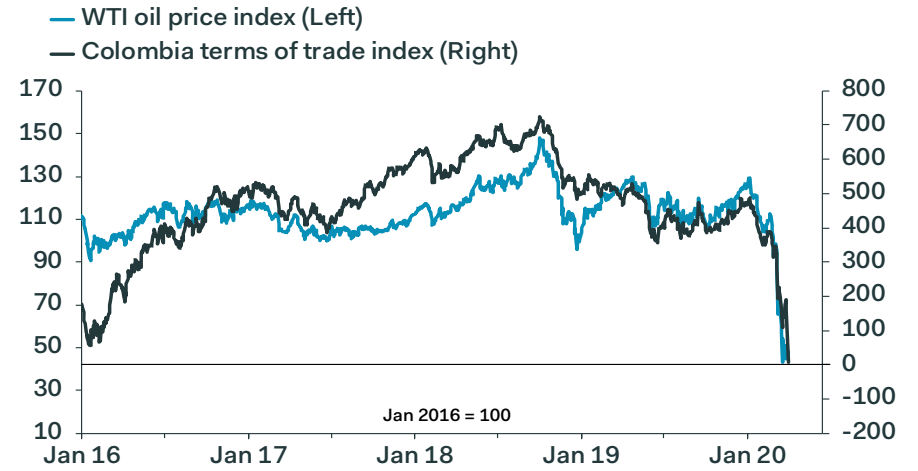




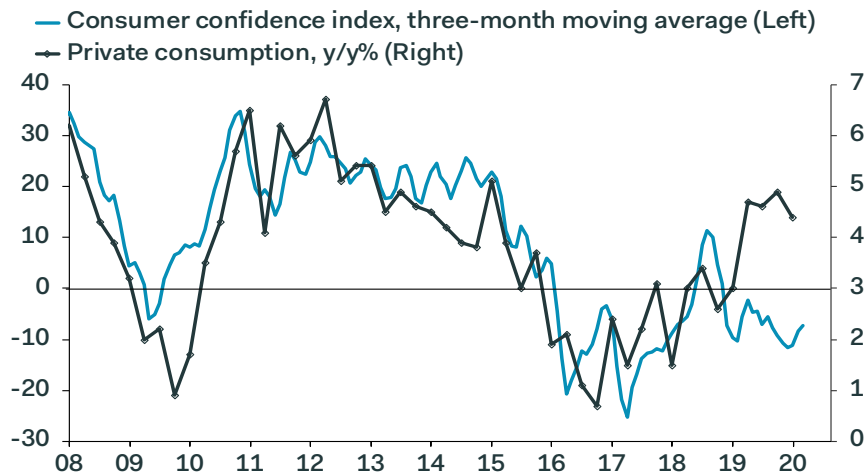
29. COLOMBIA: LOW OIL PRICES AND COVID-19 TO HIT THE ECONOMY



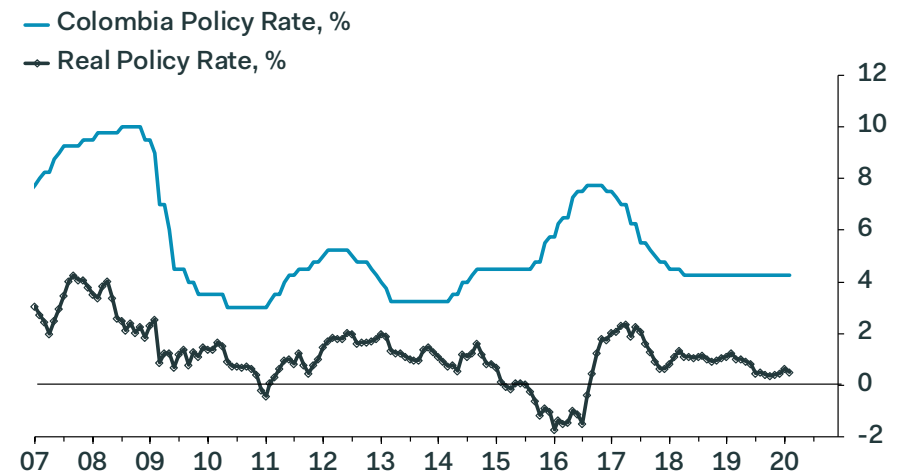
31. THE EXTERNAL ACCOUNTS ARE COLOMBIA'S ACHILLE'S HEEL



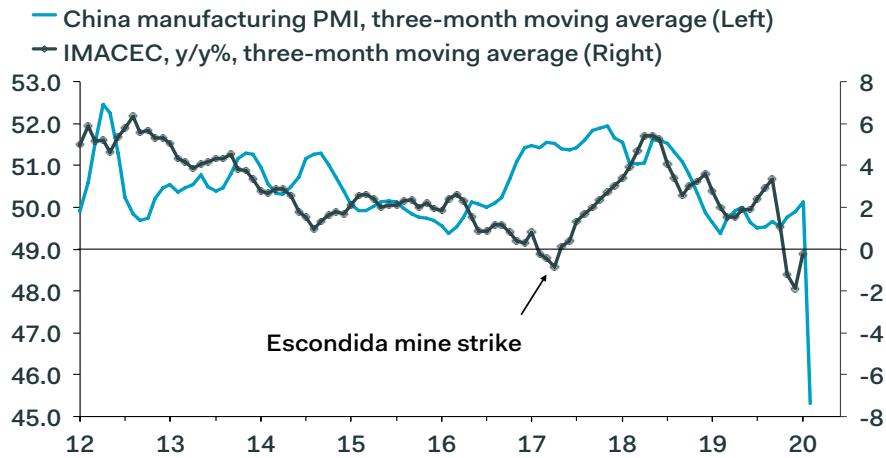
30. DEFYING LOW CONFIDENCE, BUT NOT FOR LONG



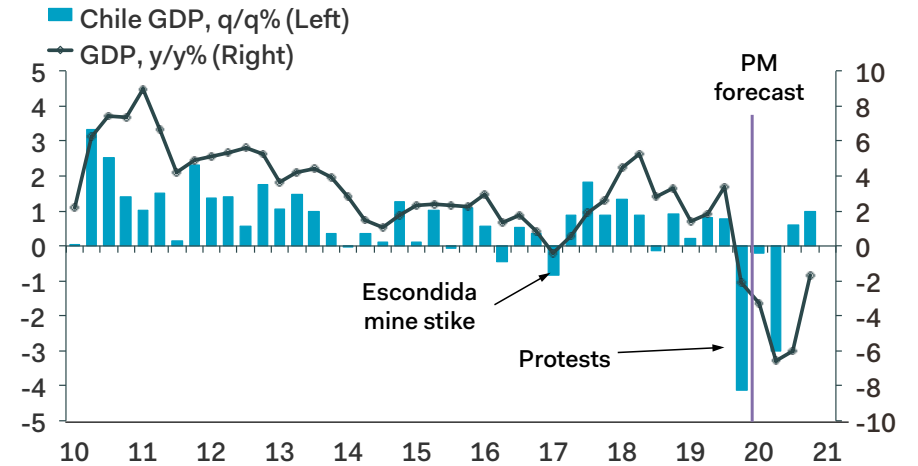
32. FURTHER INTEREST RATE CUTS IF THE COP STABILISES



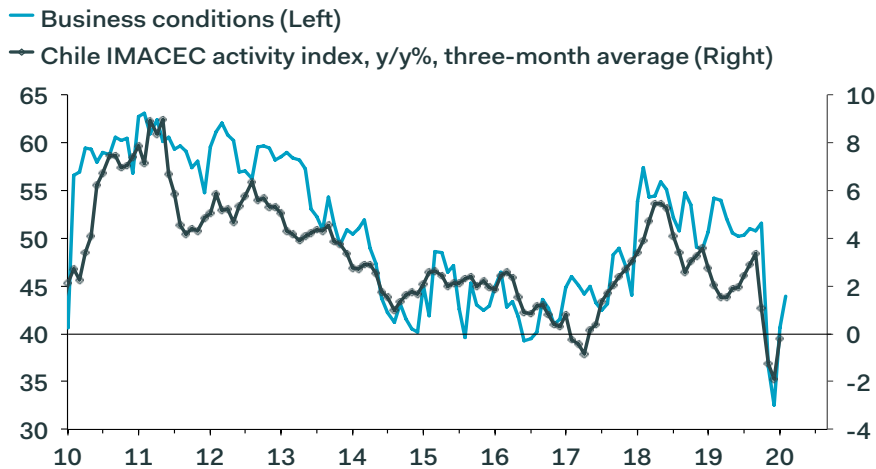
33. CHILE: THE ECONOMY WAS STABILIZING BEFORE COVID-19...



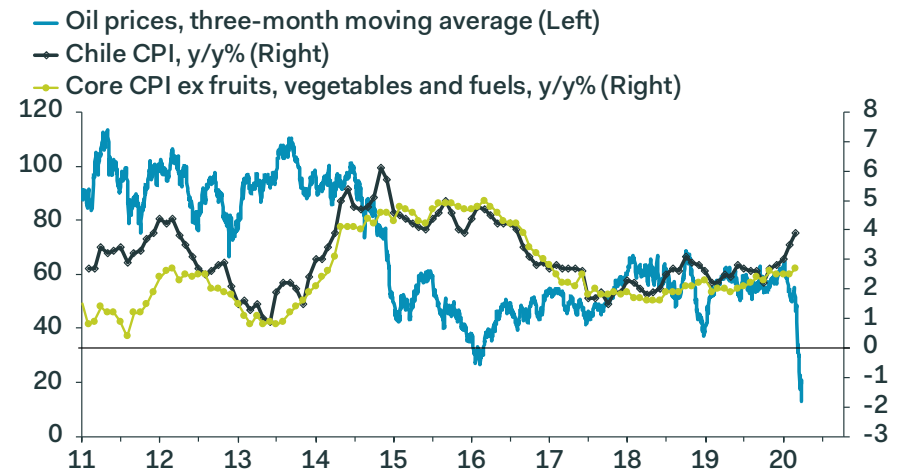
35. BUT NOW A HUGE RECESSION IS ON THE CARDS



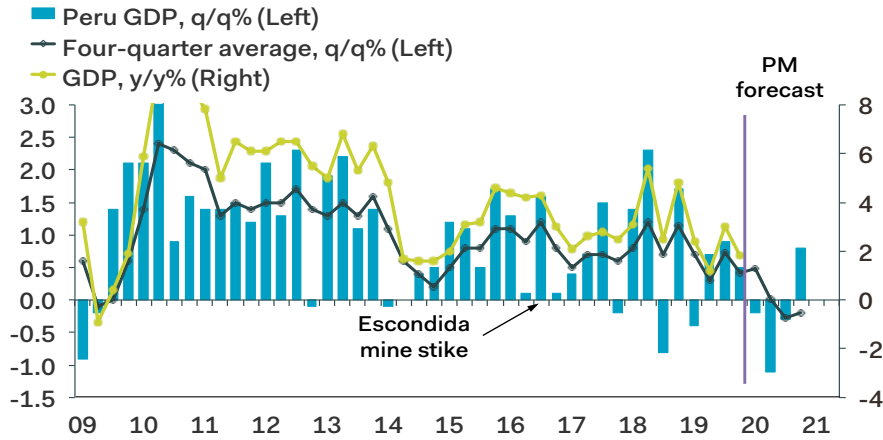
34. ...AND LEADING INDICATORS WERE ON THE MEND



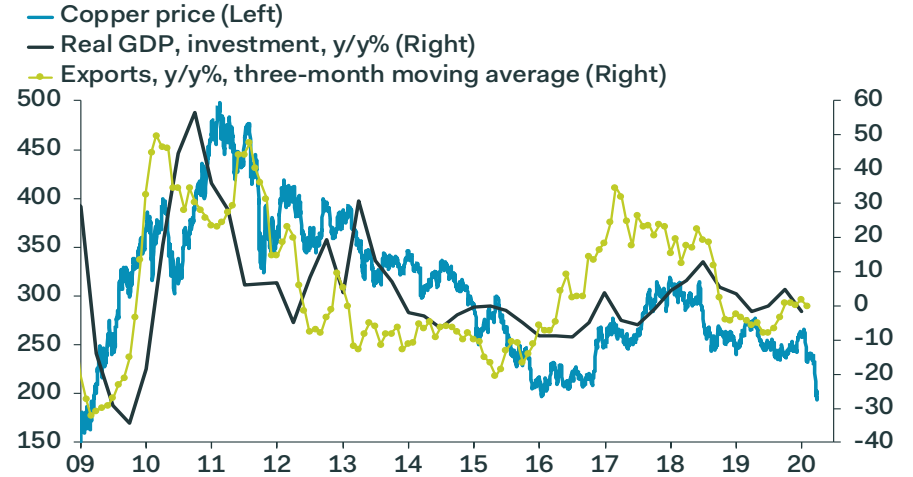
36. INFLATION REBOUND IS TEMPORARY; DOWNSIDE FORCES WILL PRE-



37. PERU: THE ECONOMY WILL SUFFER THIS YEAR



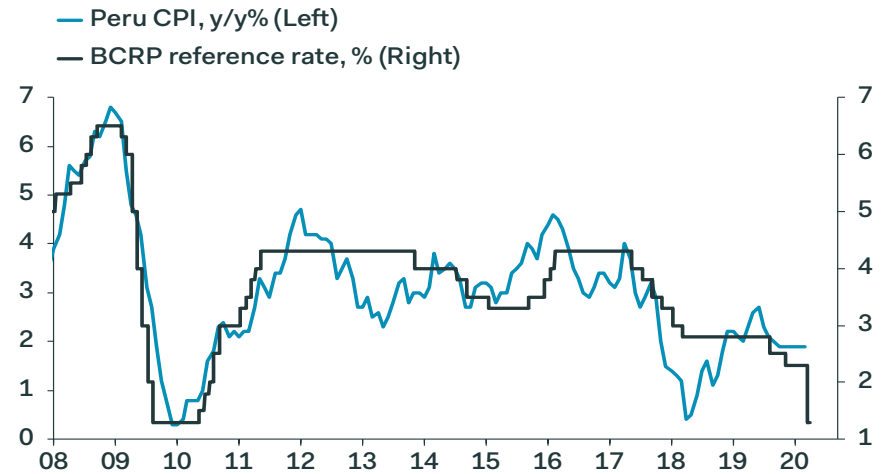
39. CONDITIONS HAVE TURNED EXTREMELY CHALLENGING



38. BUSINESS CONFIDENCE WAS ON THE MEND JUST BEFORE COVID-19

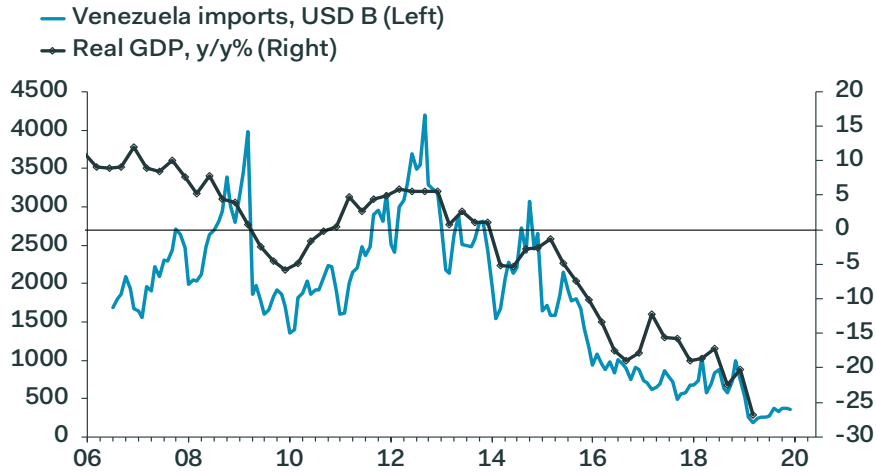


40. INFLATION IS NOT A CONCERN RIGHT NOW

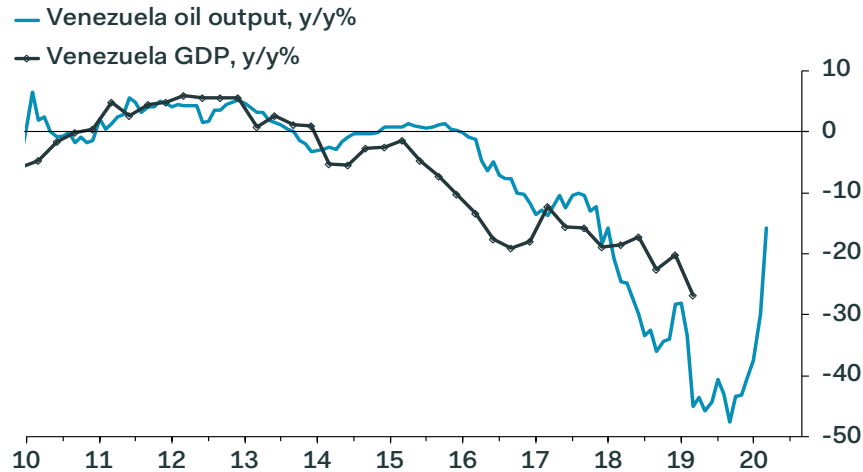




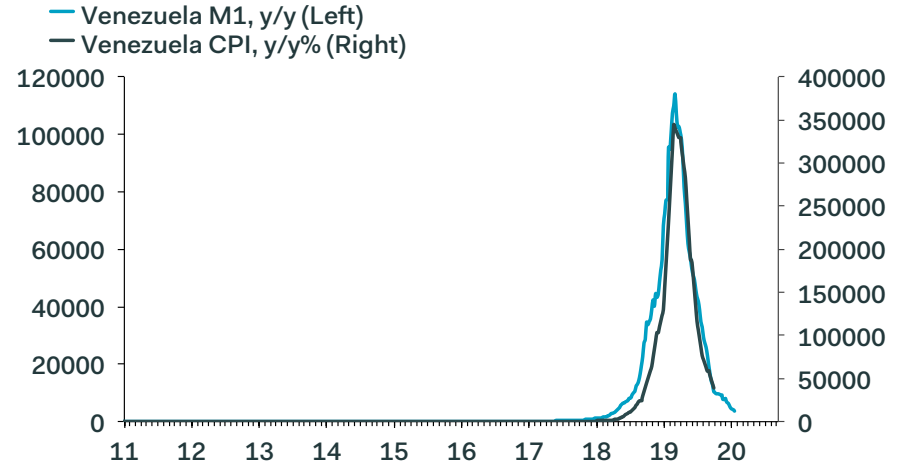
41. VENEZUELA: THE ECONOMIC TURMOIL CONTINUES



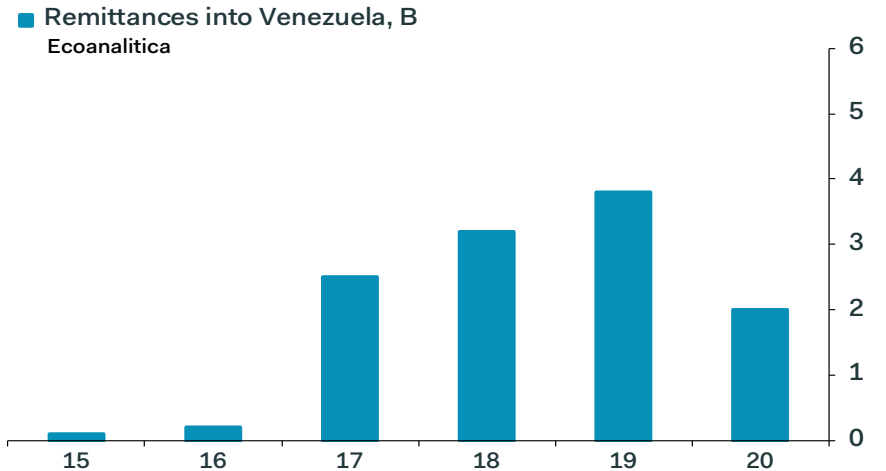
42. OIL MARKET CONDITIONS HAVE TURNED FOR THE WORSE



43. INFLATION IS "EASING", BUT REMAINS ABSURDLY HIGH



44. REMITTANCES LIKELY WILL BE HURT BY TRAVEL BANS

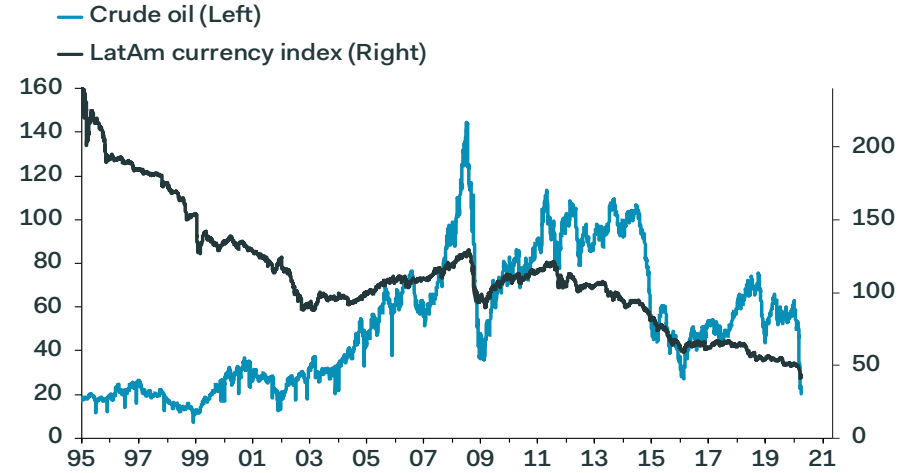




45. THE CORONAVIRUS HAS PUT COMMODITY MARKETS UNDER STRAIN



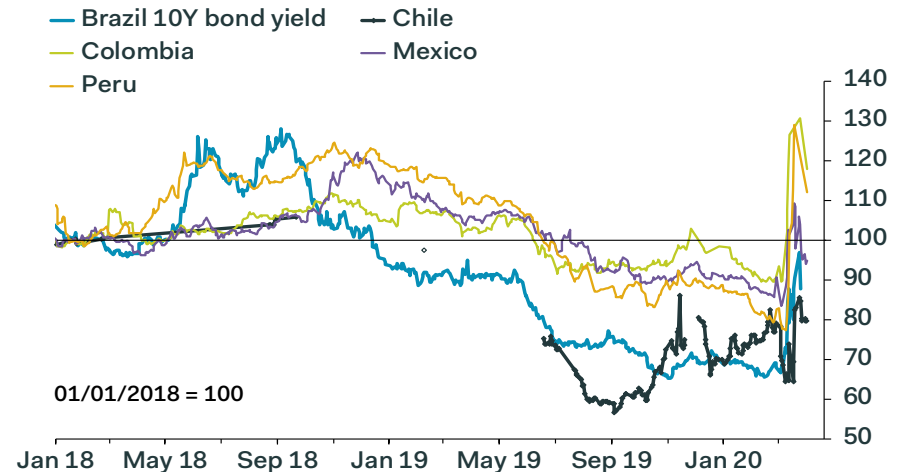
47. CURRENCIES ALSO HAVE BEEN HIT



46. STOCKS HAVE STUMBLER ON VIRUS CONCERNS



48. LONG-TERM RATES HAVE SUFFERED HIGH VOLATILITY





GDP (year-over-year, %)	2017	2018	2019	2020	2021
Argentina	2.7	-2.5	-2.2	-5.5	0.5
Brazil	1.3	1.3	1.1	-1.0	1.5
Chile	1.3	4.0	1.2	-4.0	1.8
Colombia	1.8	2.5	3.3	-0.5	2.0
Mexico	2.0	2.0	-0.1	-5.0	1.0
Peru	2.5	4.0	2.2	-1.0	1.5
Venezuela	-16.0	-20.0	-30.0	-50.0	-10.0
<i>Latin America</i>	1.6	1.1	0.7	-2.0	1.3

Inflation, CPI (year-over-year, %, average)

Argentina	26.0	33.9	53.6	45.0	35.0
Brazil	3.5	3.7	3.7	3.5	3.6
Chile	2.2	2.4	2.3	2.4	2.4
Colombia	4.3	3.2	3.5	3.2	3.5
Mexico	6.0	4.9	3.7	3.3	3.2
Peru	2.8	1.3	2.1	2.1	2.4
Venezuela	34K	20K	130K	55K	50K
<i>Latin America ex-Venezuela and Argentina</i>	2.9	2.7	2.7	2.7	2.6

Central Bank Rate (end of year)

Argentina	28.75	59.30	63.00	35.00	20.00
Brazil	7.00	6.50	4.50	3.25	3.50
Chile	2.50	2.75	1.75	0.50	0.50
Colombia	4.75	4.25	4.25	3.00	3.00
Mexico	7.25	8.00	7.25	5.00	5.00
Peru	3.25	2.75	2.25	0.50	0.50