



**Sovereign Hotspots:  
Emerging Markets Outlook for 2009  
January 27, 2009**

# **Latin America: The Party is Over**

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## Latin America Sovereign Ratings

Country	IDR Rating	Outlook
Chile	A	Stable
Mexico	BBB+	Negative
Aruba	BBB	Stable
Brazil	BBB-	Stable
Peru	BBB-	Stable
Colombia	BB+	Stable
El Salvador	BB+	Negative
Guatemala	BB+	Stable
Panama	BB+	Positive
Costa Rica	BB	Stable
Uruguay	BB-	Stable
Venezuela	B+	Stable
Dominican Republic	B	Stable
Jamaica	B	Negative
Suriname	B	Stable
Bolivia	B-	Stable
Ecuador	RD	n/a
Argentina	RD	n/a



## Latin America's Ratings: The Tide Is Turning

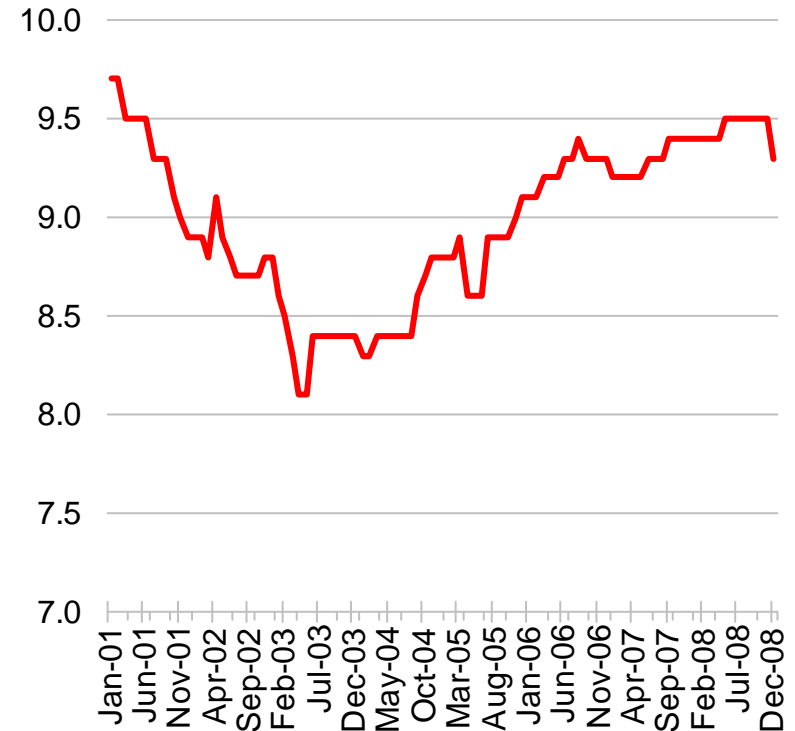
### Positive Actions in 2008

- > Brazil upgraded to 'BBB-' in May '08
- > Peru upgraded to 'BBB-' in April '08
- > Panama Outlook to Positive in Feb '08

### Negative Actions in 2008

- > December:
  - Ecuador's downgraded to RD
  - Venezuela downgraded to 'B+'
  - Argentina Local Currency downgraded to 'B-'
- > November:
  - Ecuador placed on Rating Watch Negative
  - Jamaica downgraded to 'B' and Outlook revised to Negative
  - Mexico Outlook revised to Negative
  - Chile Outlook Revised to Stable from Positive
- > El Salvador Outlook revised to Negative in October
- > Dominican Republic Outlook revised to Stable in September
- > Argentina's issuer rating remain in Restricted Default

### Latin America Average Ratings Level

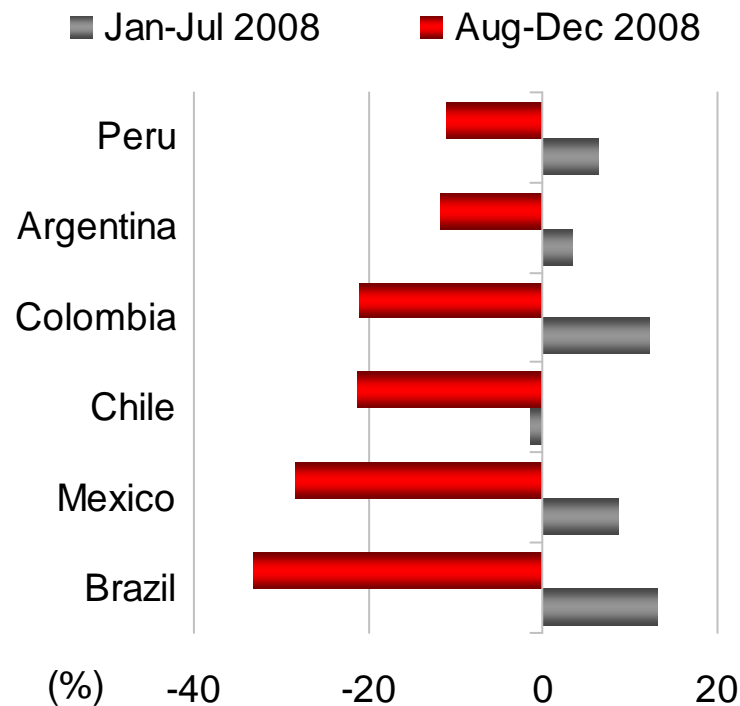


Source: Fitch Ratings

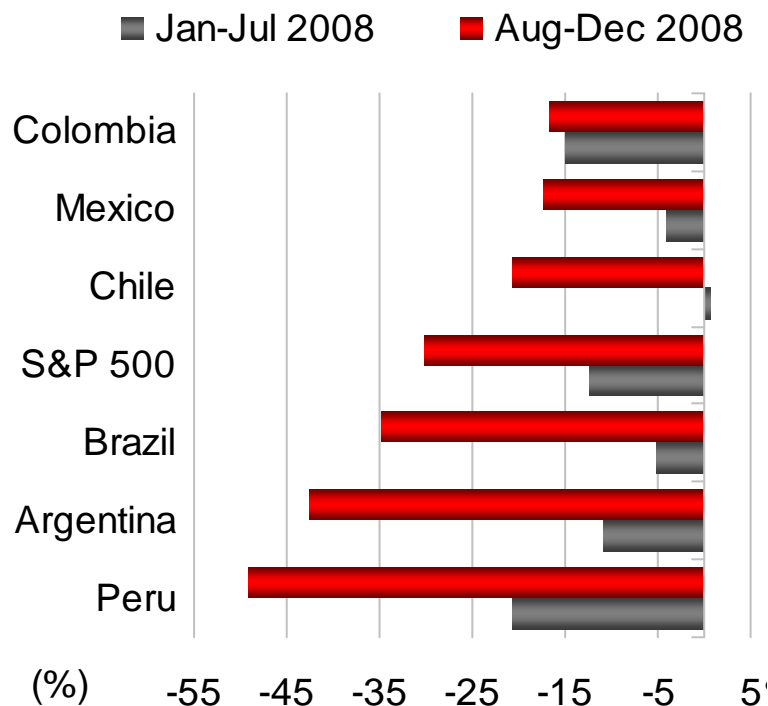


# Financial Re-Coupling Takes Hold

## Regional Currency Movements (% change)



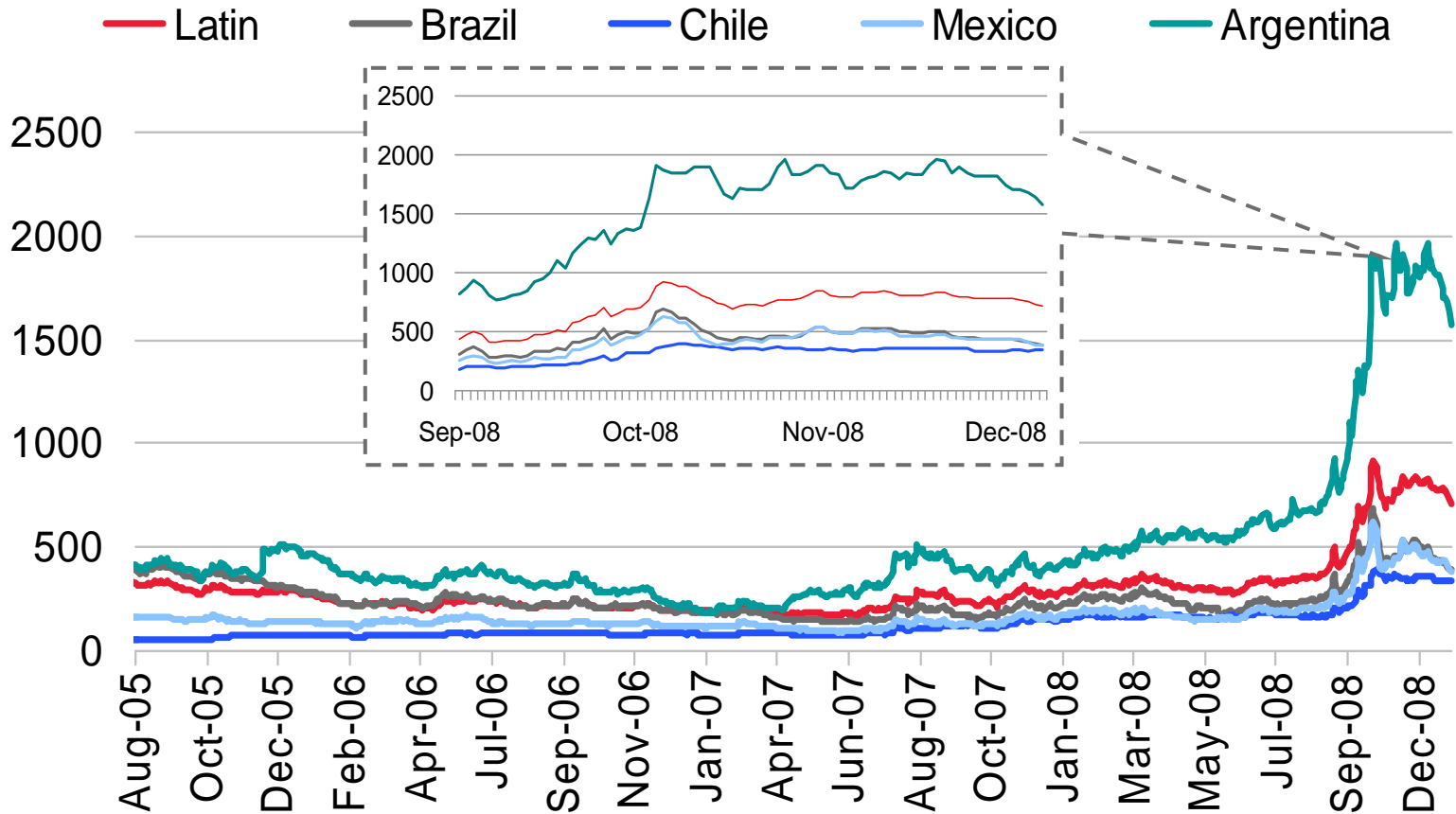
## Local Stock Markets (% change)





# Financial Contagion Reaches Latin America

## Sovereign Spreads

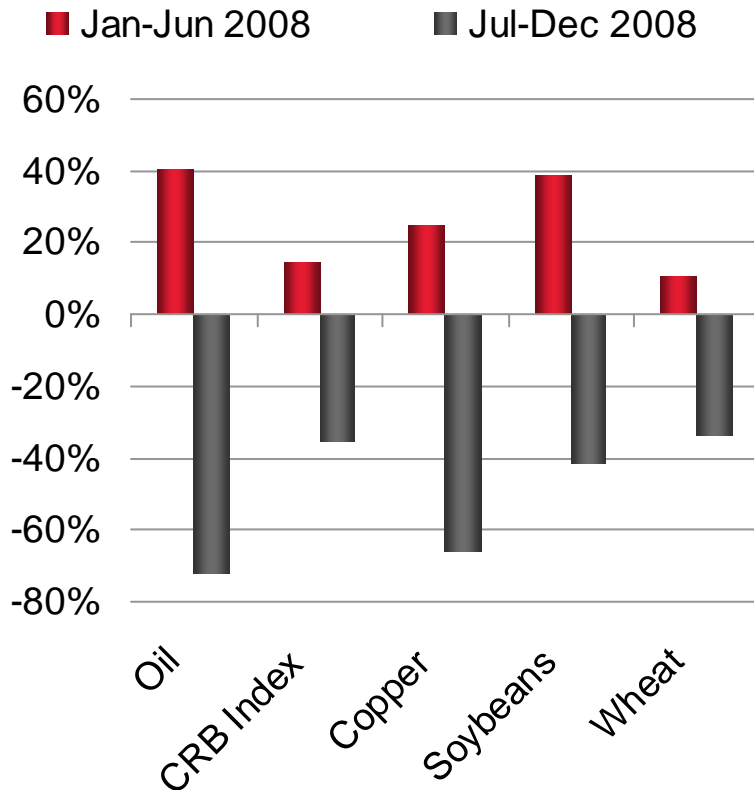


Source: Morgan Markets



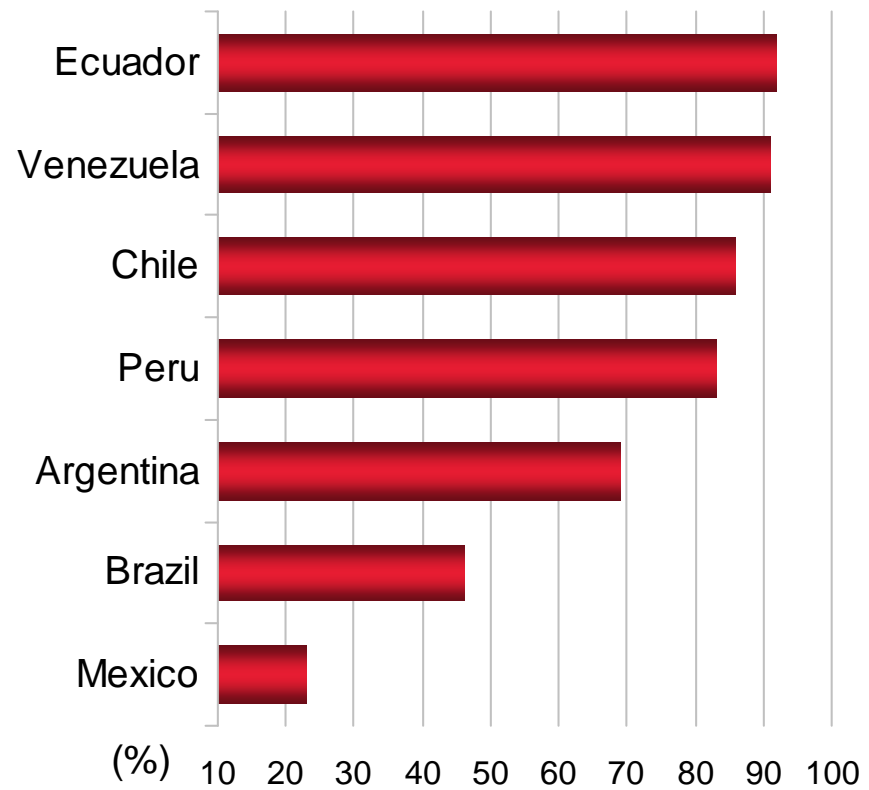
## Why The Adjustments?

### Commodity Prices (% change)



Source: Bloomberg

### Commodity Dependence (%)

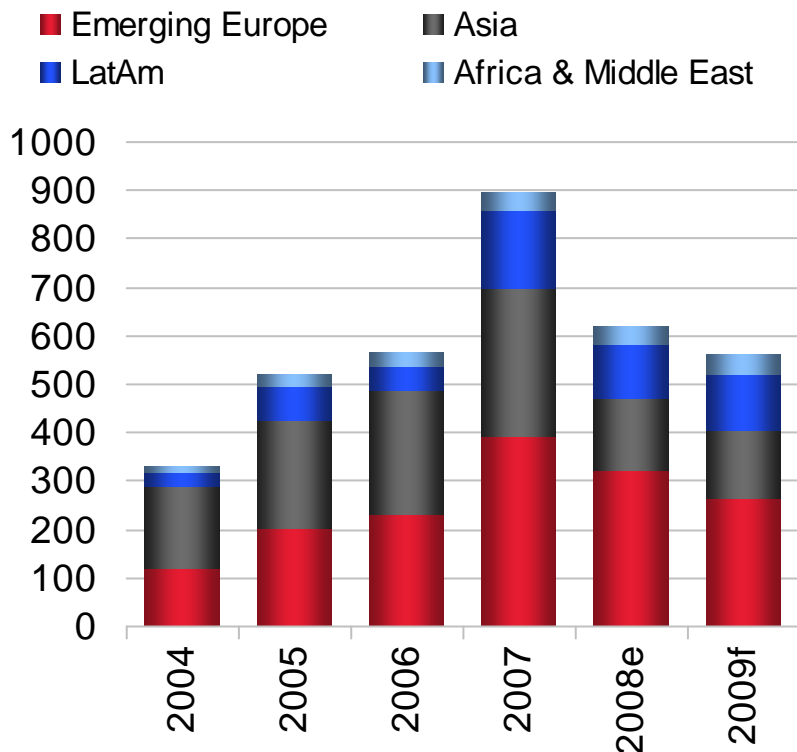


Source: Fitch Ratings



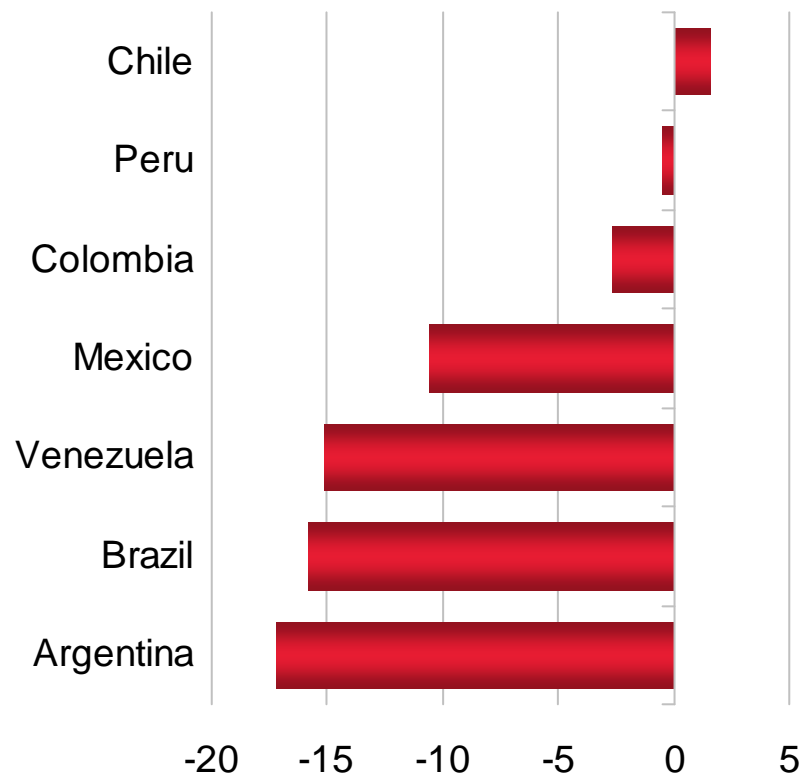
# Global Credit Squeeze To Affect Latin America

**Capital Inflows to Latin America (USDbn)**



Source: Institute of International Finance

**Potential Reserve Losses in 2009 (USDbn)**

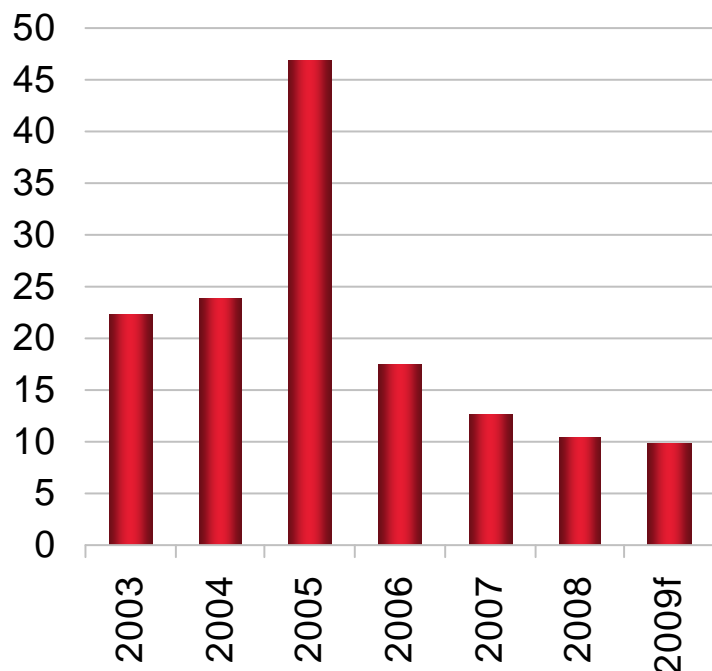


Source: Fitch Ratings

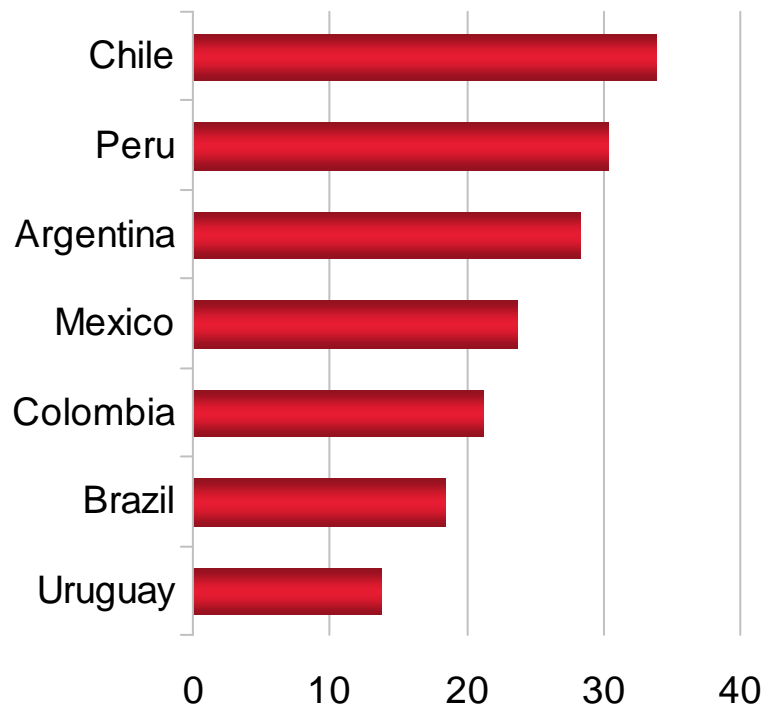


# Reduced International Capital Market Activity Will Affect Latin America

## Sovereign External Issuance (USDbn)



## Gross Domestic Savings, 2008e (% of GDP)

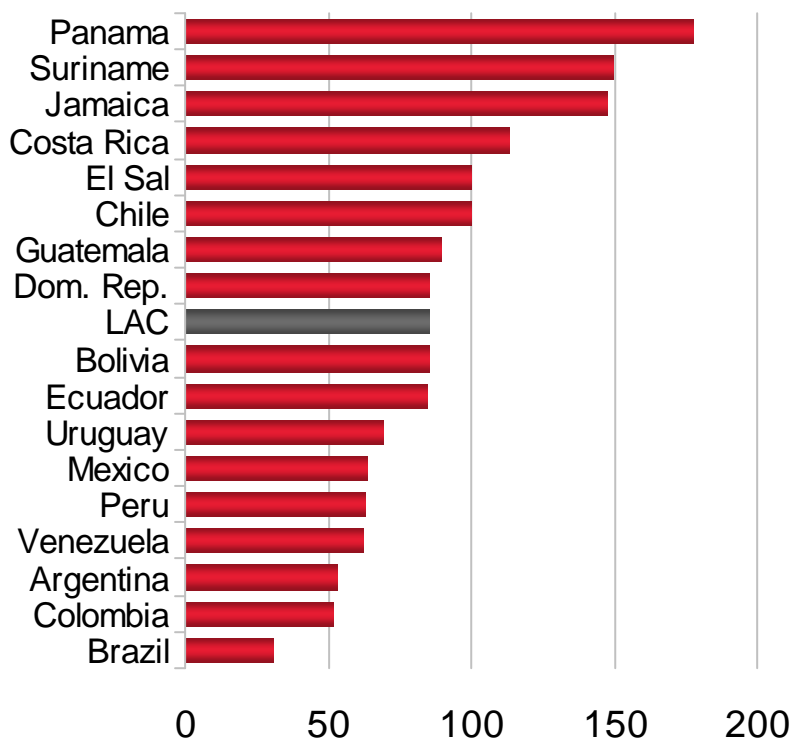


Source: Fitch Ratings



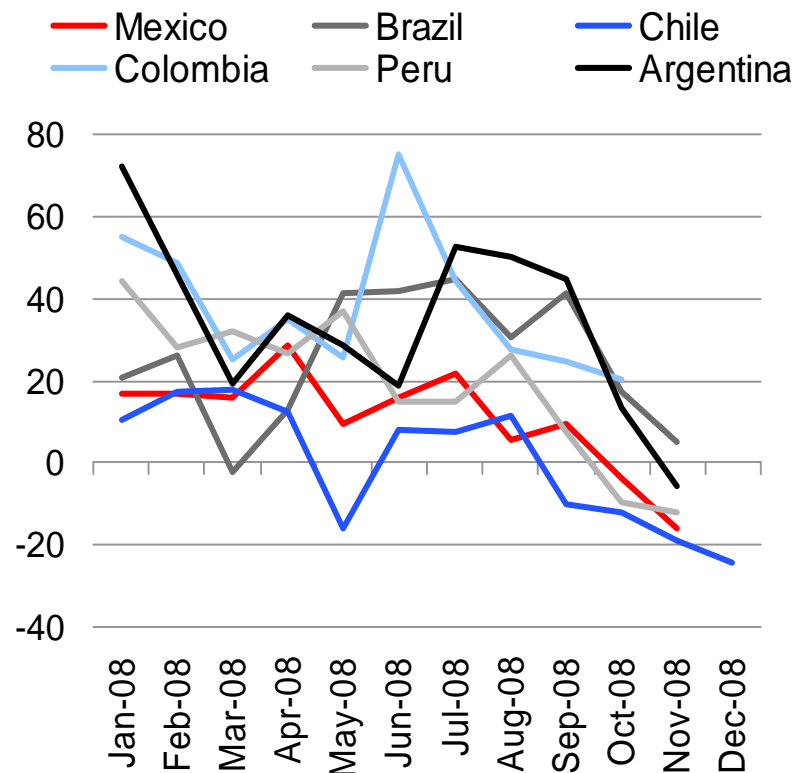
# Global Downturn To Affect Latin America

## Trade Openness (% of GDP)



Sources: Fitch Ratings

## Export Growth – 2008 (% YoY)

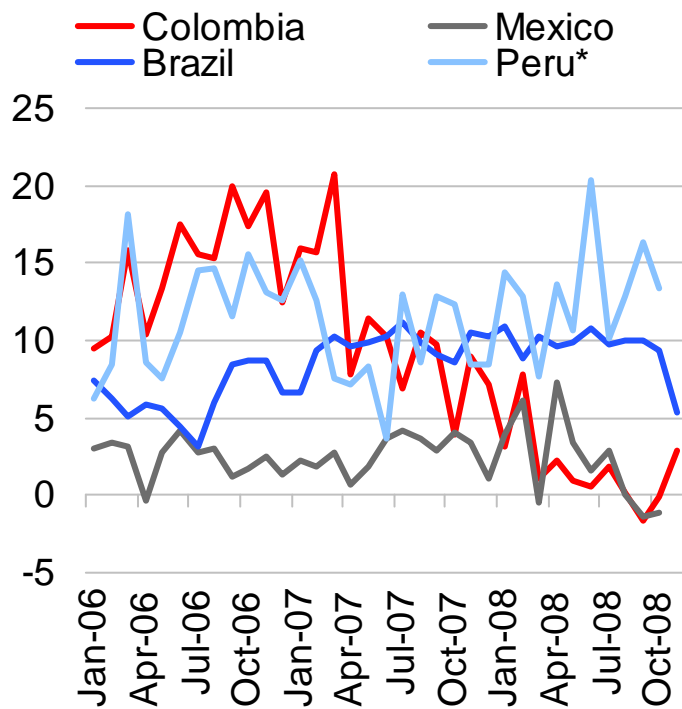


Sources: Central Banks, National Statistics Institutes, Fitch Ratings



## Domestic Demand Momentum To Slacken

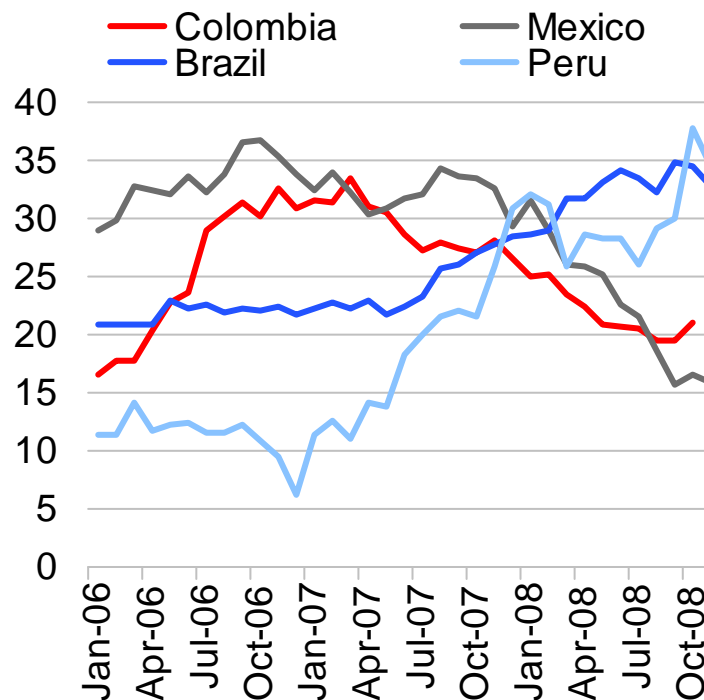
**Retail Sales Index  
(%, Annual Growth Rate)**



\* Commerce Gross Domestic Product Index

Sources: National Statistical Institutes, Fitch Ratings

**Gross Domestic Credit to the  
Private Sector (%, Annual Growth Rate)**

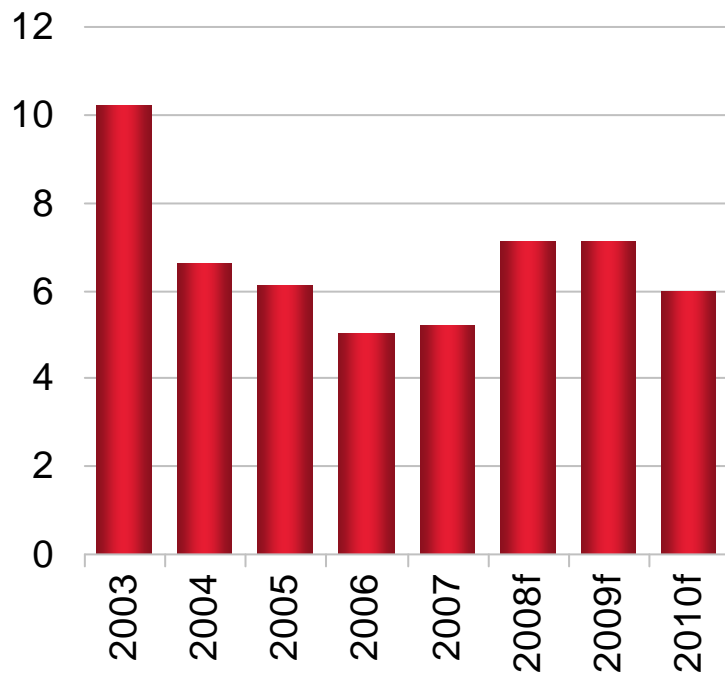


Sources: Central Banks, Fitch Ratings



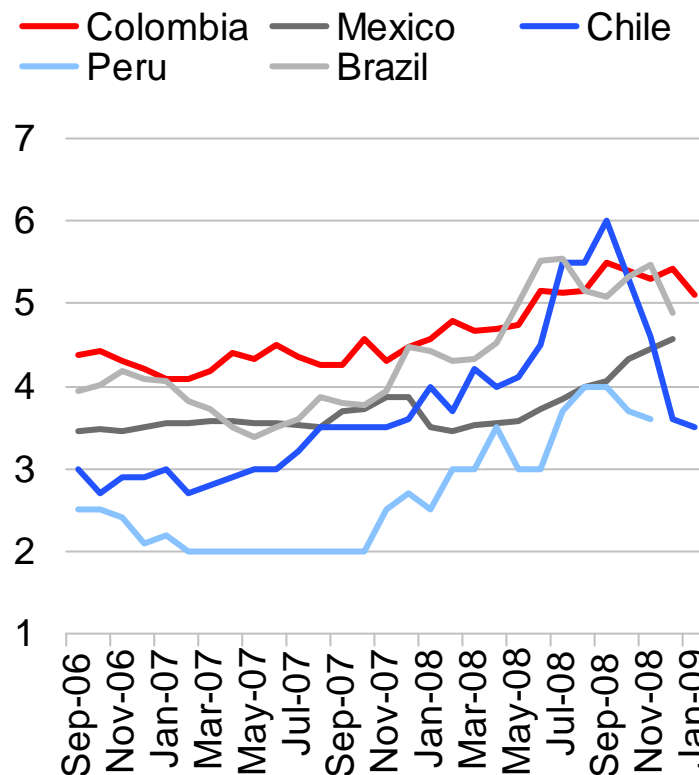
# Can Counter-Cyclical Monetary Policies Be Implemented In The Short Term?

**Regional Average Consumer Prices (%)**



Source: Fitch Ratings

**One Year Inflation Expectations (%)**

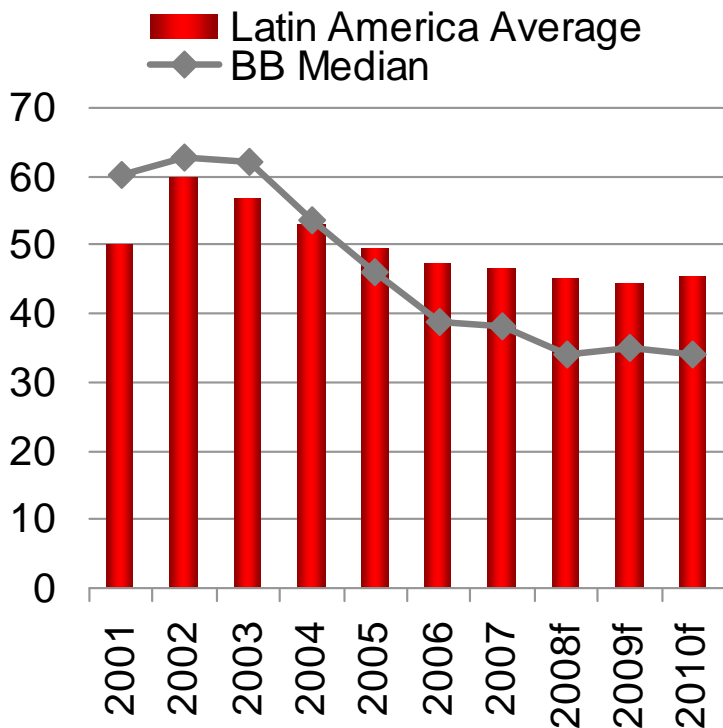


Sources: Central Banks, Fitch Ratings



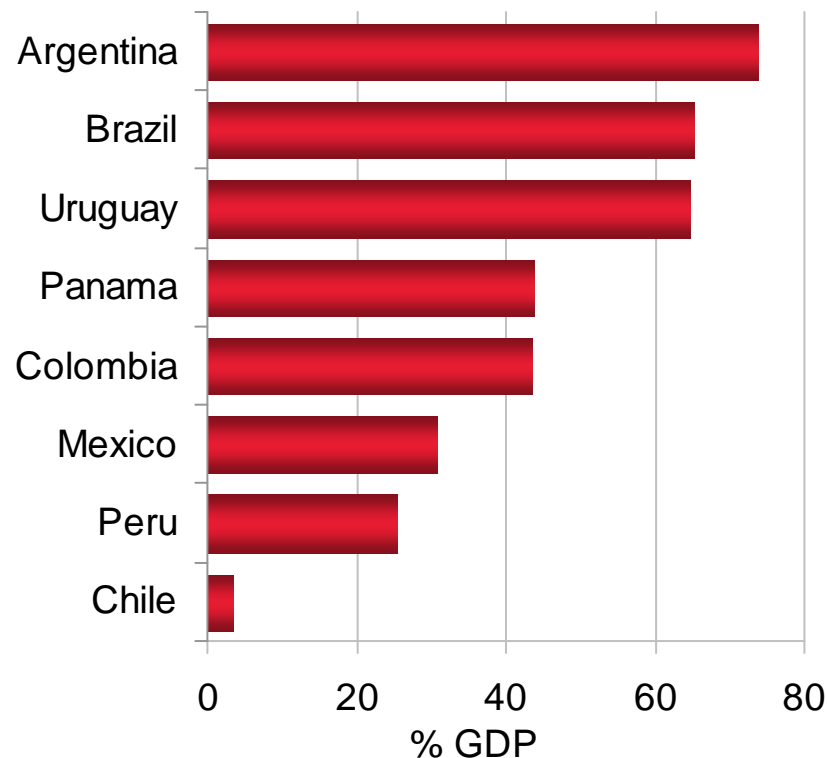
# Large-Scale Fiscal Stimulus is Not Feasible in Latin America

**General Government Debt  
(% of GDP)**



Source: Fitch Ratings

**Government Debt, 2008e  
(% of GDP)**

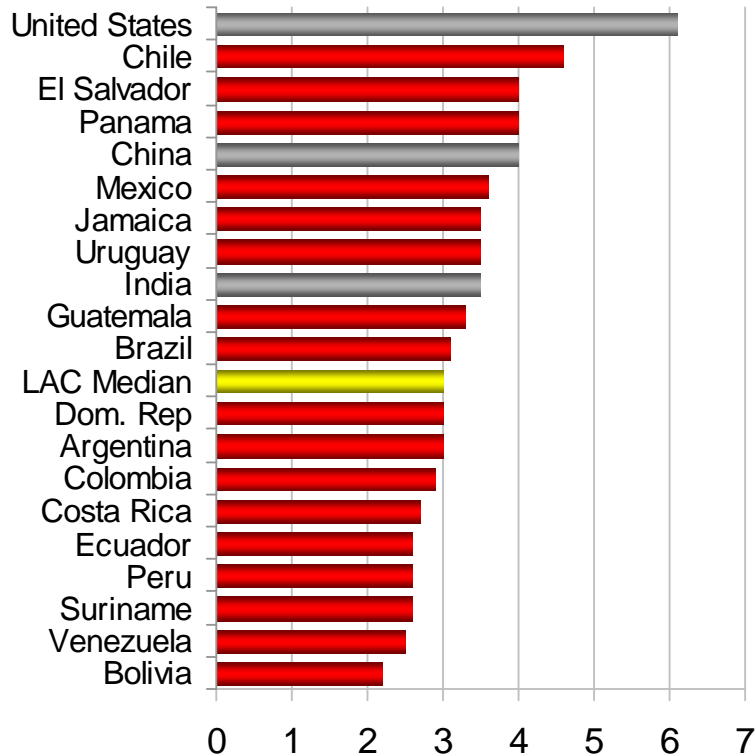


Sources: Central Banks, Fitch Ratings



# Infrastructure Push in the Region Could Face Constraints As Well

**Overall Ranking of Infrastructure (% of GDP)**



Source: World Economic Forum

**Overall Ranking of Infrastructure**

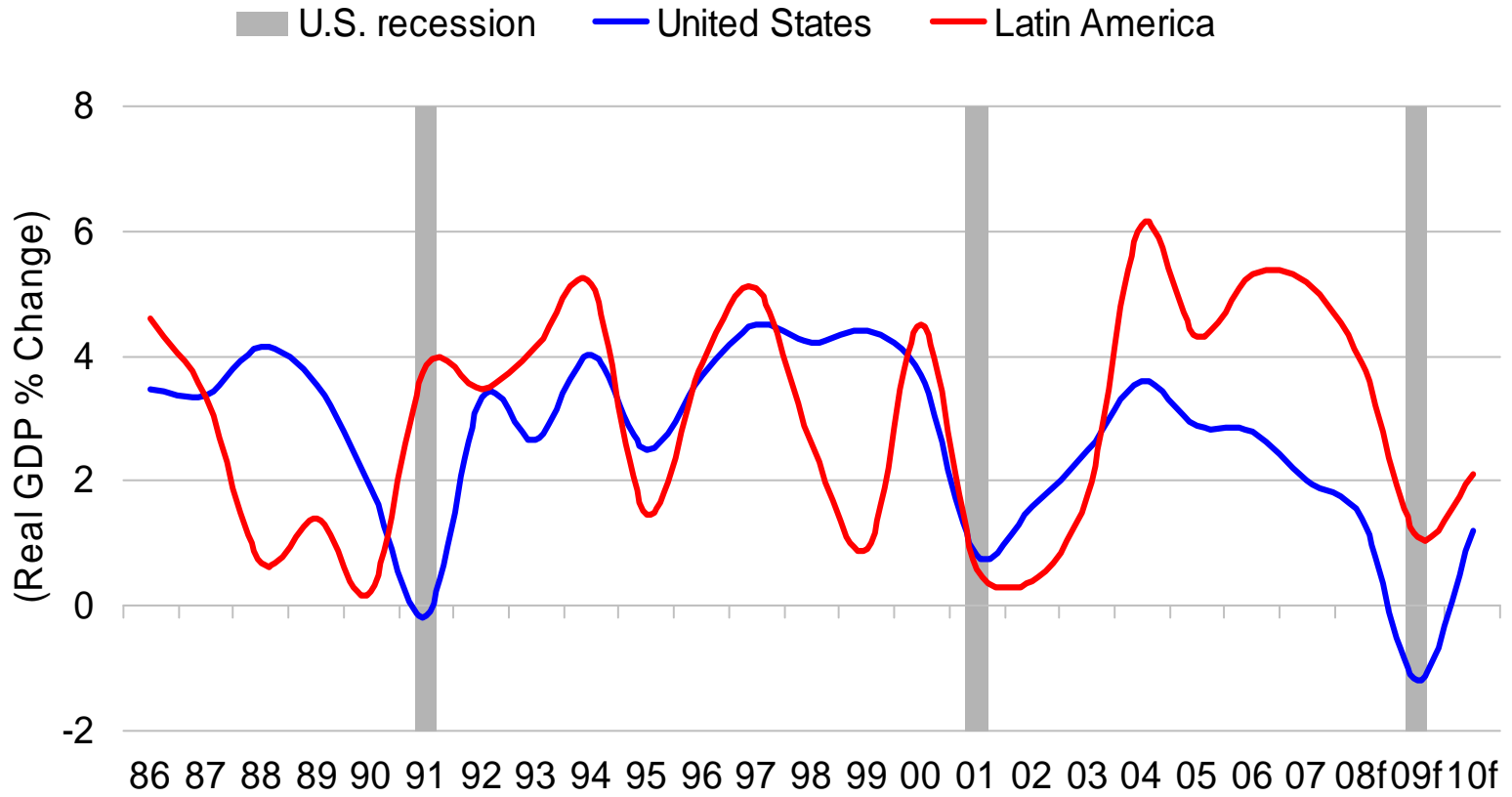
Country	Infrastructure Plan	Total Investment (Bns of local currency)
Brazil	Program of Accelerated Growth 2007-2010	503.9
Mexico	National Infrastructure Plan 2007-2012	2532.0
Colombia	National Development Plan 2006-2010	69.1

Country	Counter-Cyclical Fiscal Package (% of GDP)
Chile	2.8
Mexico	1.4
Peru	2.0

Source: Ministries of Finance Planning Agencies, Fitch Ratings



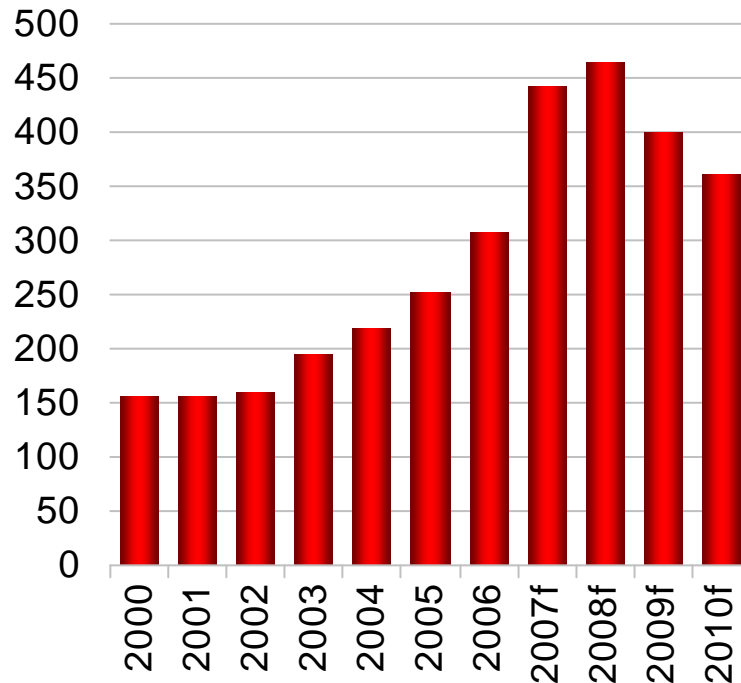
# Real-Sector Re-coupling Is Underway



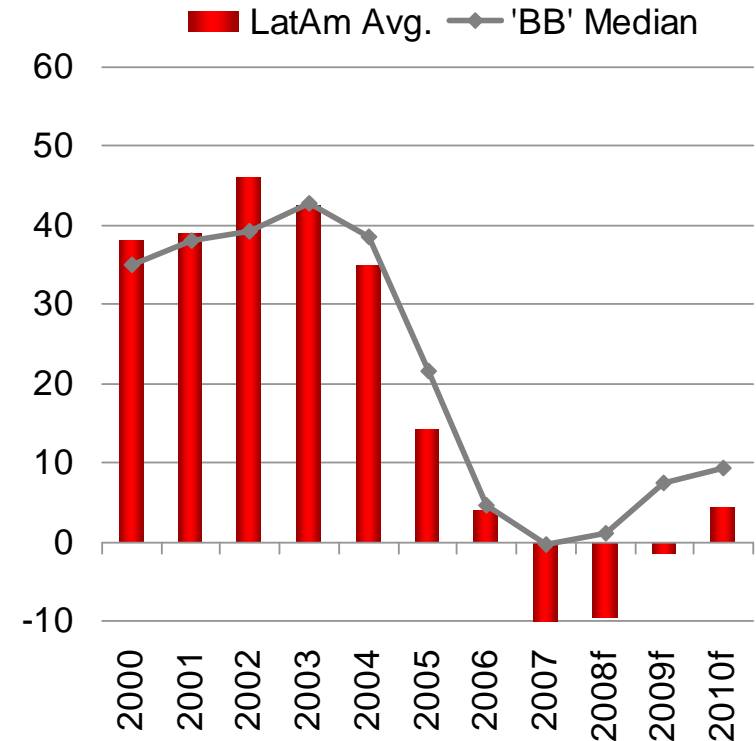


## But Latin America Better Prepared Than Before

**International Reserves  
(USDbn)**



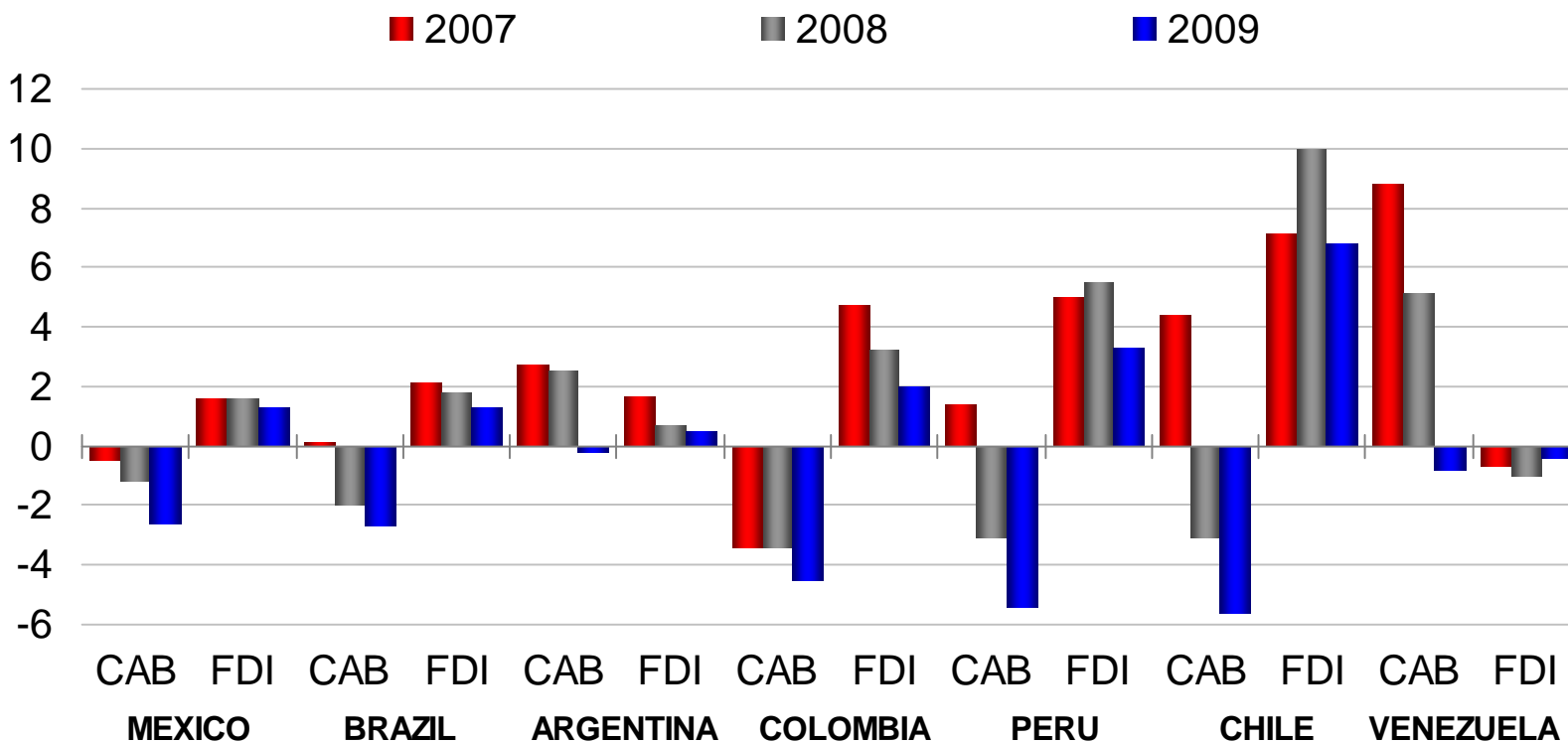
**NPXD  
(% of CXR)**





## Weakening CABs But Better Financed

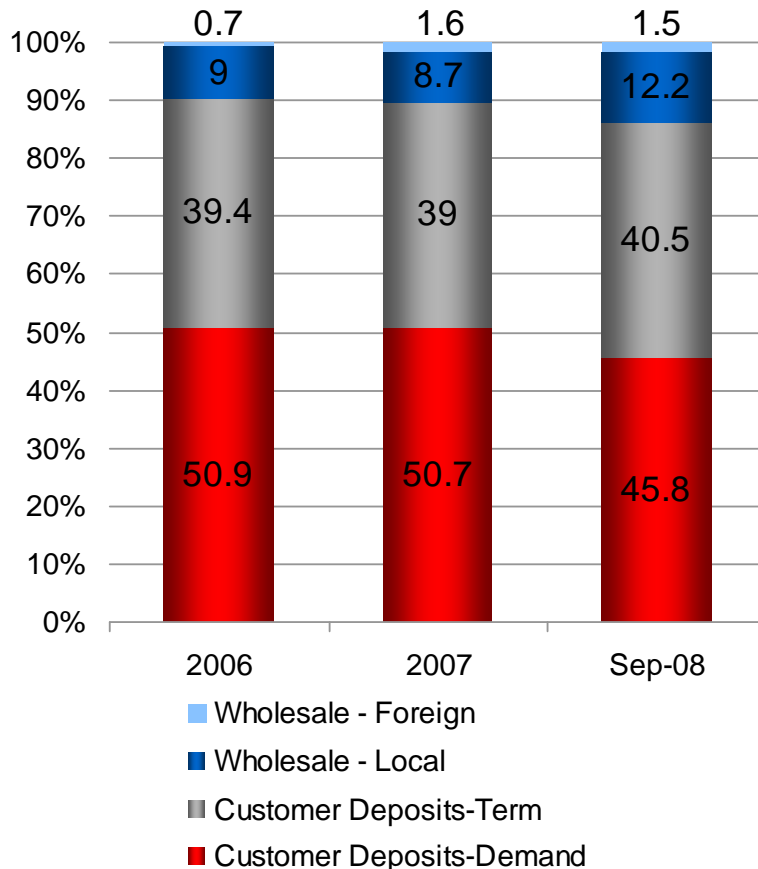
### Current Account Balances & Foreign Direct Investment (% of GDP)





## Latin American Banks: In Better Shape

### Mexican Funding Mix



- > Largely funded at home, low dependency on international funding flows
- > History of deposit stability in most: flight within, rather than from, the system
- > Generally low degree of “dollarized” lending in major markets (Peru and Costa Rica are principal exceptions)
- > Regulators in principal markets have been proactive with measures to boost liquidity and partially replace lost crossborder trade financing



## Latin America: Macroeconomic Pressures Are Building

Regional Aggregates	2004	2005	2006	2007	2008e	2009f	2010f
GDP (%)	6.1	4.3	5.3	5.2	3.9	1.1	2.1
GDP per capita (USD, mkt exchange rate)	4,197	5,036	5,807	6,721	6,981	6,744	7,266
Average inflation (%)	6.6	6.0	5.0	5.2	7.1	7.1	6.0
Government Balance (%)	-1.7	-0.9	-1.3	-0.7	-1.0	-2.3	-2.3
Government debt (%GDP)	52.7	49.3	47.1	46.7	45.0	44.9	46.1
Current account deficit (%GDP)	1.0	1.4	1.6	0.5	-0.9	-2.8	-2.7
NXD (%CXR)	47.8	19.7	6.5	-4.6	-7.0	-4.1	-2.0
NPXD (% CXR)	34.8	14.1	3.8	-10.0	-10.9	-3.9	-0.4
Liquidity Ratio (%)	90.1	99.5	112.3	135.5	154.0	155.4	138.9



## ...But The Extent Of Dislocations Will Differ Across The Region

### CAMP I

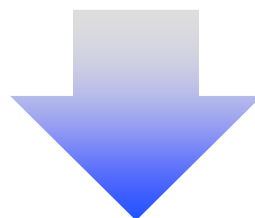
Chile  
Mexico  
Brazil  
Peru  
Colombia  
Panama



Slower growth, lower inflation, manageable current account deficits, policy resilience and potential multilateral funding could help in mitigating funding gaps.

### CAMP II

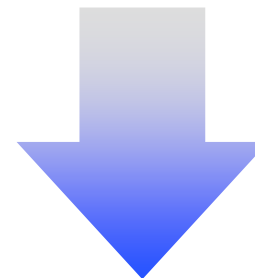
Costa Rica  
El Salvador  
Guatemala  
Dominican Republic  
Jamaica



Small open economies very exposed to U.S. recession. Larger CADs, relatively lower external liquidity, could see credit pressures.

### CAMP III

Argentina  
Venezuela  
Ecuador  
Bolivia



Unsustainable policies will come into sharper focus. Sharper economic slowdown, double-digit inflation, external and fiscal liquidity pressures, higher risk of political and social instability.



## Latin America: What to Monitor in 2009?

- > Near term liquidity challenges
- > Vulnerability to lower commodity prices and global trade
- > The extent of FX intervention and reserves loss in the region
- > Overall Policy response to growing global uncertainties
- > Political and social risks given dwindling economic fortunes
- > Biggest Risks:
  - Longer and Deeper U.S. and Global Recession
  - Sharper than expected decline in commodity prices
  - Continued disruption in the international capital markets



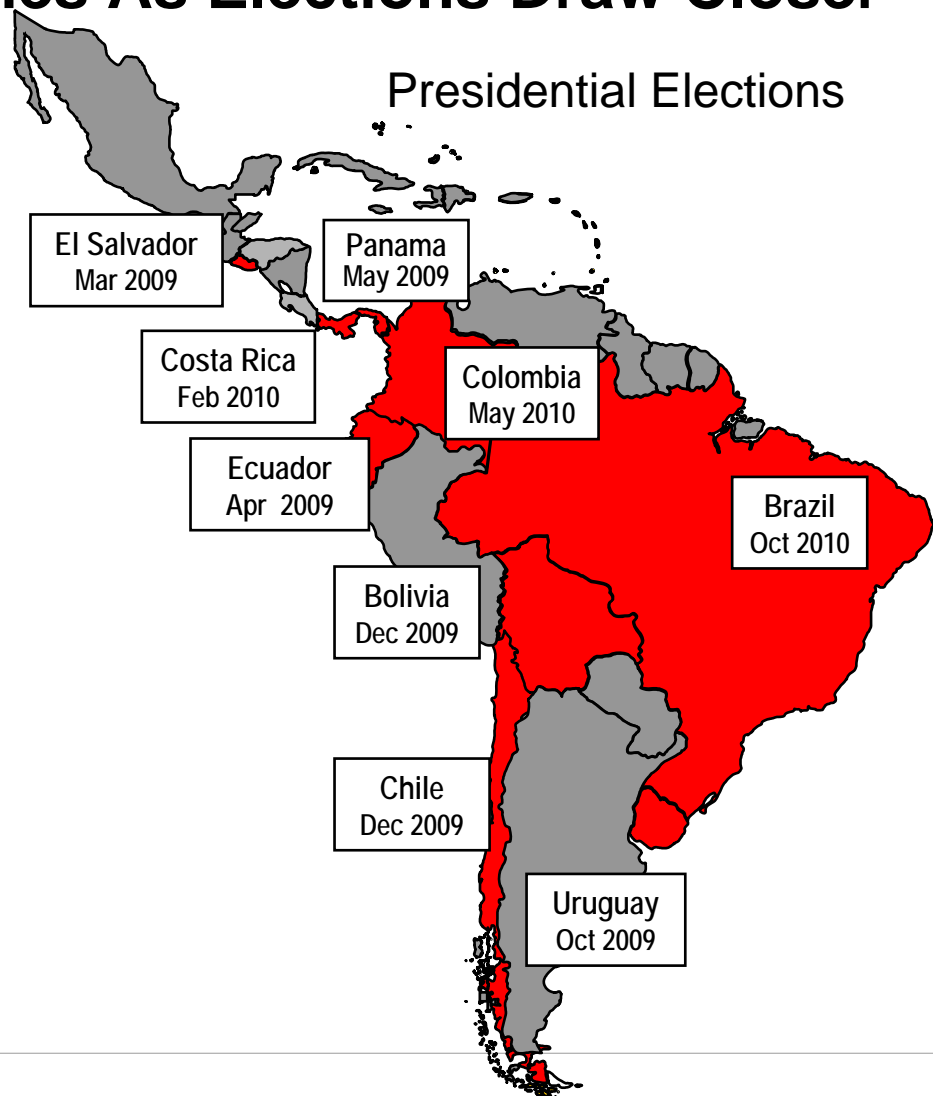
# Mind the Politics & Policies As Elections Draw Closer

## Parliamentary Elections

El Salvador	January 2009
Bolivia*	January 2009
Venezuela*	February 2009
Mexico	July 2009
Argentina	October 2009
Colombia	March 2010
Dom. Rep.	May 2010
Venezuela	December 2010

\* Constitutional reform referendum.

Source: [www.electionguide.org](http://www.electionguide.org)





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