Press Release

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# Latin America: opportunities outside and within the region

- Euler Hermes, Solunion's shareholder 50/50 with MAPFRE, unveils its country and sector risk ratings for the 1st quarter of 2018: 5 countries and 21 sectors were upgraded, while 3 countries and 10 sectors were downgraded.
- Chile's rating was upgraded from A2 to A1 (medium risk to low risk).
- In Brazil, 5 sectors were upgraded from high to sensitive risk.
- In 2018, Brazil, Mexico and Argentina should drive 75% of regional growth which Euler Hermes expects at +2.3%. But mind political risk: elections and NAFTA renegotiation for Mexico, and highly uncertain elections for Brazil.

After two years of recession in 2015 (-0.2%) and 2016 (-1.2%), Latin America is back to growth (+1.2% GDP growth in 2017) and is expected to accelerate to +2.3% in 2018 and +2.8% in 2019. It still remains below the 2005-2014 average of +3.5%.

**In Latin America, opportunities are arising both from outside and inside the region.**
Domestically, most countries are taming inflation, which fell from an average of +10.7% (In Brazil, Mexico, Argentina, Colombia, Chile and Peru) in 2016 to +7.4% in 2017 and should continue falling to reach +6.1% this year. This supports the consumer's recovery and allowed the easing of monetary policies. The return of confidence and higher risk appetite helped ease further monetary and financial conditions through lower credit spreads and better-performing stock markets. Externally, higher commodity prices and the acceleration of global trade have boosted exports: Mexico (USD35.6bn) and Brazil (USD32.5bn) saw the highest export gains in 2017.
The external outlook is also positive as Euler Hermes expects international trade to continue growing, by +4.4% this year and +3.8% in 2019.

Yet, key risks remain:

- Brazil's medium-term outlook is jeopardized by a halt in structural reform efforts.
- Argentina remains vulnerable to global risks with high inflation and a widening current account deficit(+4.8% of GDP)
- In Mexico, despite the US growth acceleration and a reactive central bank policy, financial flows, the peso, and trade could be affected by NAFTA negotiations and the outcome of the July presidential election.

**A tale of two upgrades**

- **Chile upgraded from A2 to A1**

Growth in Chile should be twice as strong in 2018 (+3.1%) as in 2017 (+1.5%). Investment, which had been depressed for the past 4 years, contributed positively to growth in Q4 2017. Still high copper prices and the strongest business confidence in five years bode well for 2018, after the election of pro-business candidate and former president Sebastián Piñera last November. Early indicators also predict a cyclical upswing in 2018.
On the financing side, credit growth has slowed to moderate levels (to +2.8% over twelve months from above +7% in Q1 2017). The external position is manageable since the current account deficit is entirely covered by net FDI inflows. Public debt is low and public deficit controlled.

- **Brazil: sectors slowly cashing in on economic recovery**

Political transition and the global acceleration brought growth back to Brazil: after a weak +1% in 2017, we forecast GDP growth to reach +2.5% in 2018 and +3% in 2019. Five sectors have exited the “Distress” risk rating: Transportation, Retail, Electronics, Machinery and Household equipment and were upgraded to “Sensitive.” In addition, Brazil registered its first decline in insolvencies early 2018 after six years of consecutive increases (-1% as of end of February).
Yet, political capital remains too limited to pass transformative policies. Public finances, protectionism – Brazil is the country with the highest number of tariffs above 10% – and red tape continue to weigh on economic outcomes.

Find out more on Euler Hermes’ website.

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