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# Latin America Monitor

## Mexico

### Mexico: August Rate Cut Likely The Start Of An Easing Cycle In Mexico

#### Key View

- We at Fitch Solutions forecast the Banco de México (Banxico) will enact one additional 25 basis point cut by end-2019 to bring its benchmark interest rate to 7.75%.
- It will follow up with 50 points of cuts in 2020, bringing the rate to 7.25%, to support economic activity as inflation continues to decelerate.
- Risks to our forecast are tilted towards a slower pace of cuts than we anticipate, given uncertainty around the global economy and policy direction under President Andrés Manuel López Obrador.

At Fitch Solutions, we expect Banxico will enact one more interest rate cut in 2019. On August 15, Banxico enacted a 25 basis point (bps) cut to its benchmark overnight interest rate to bring it to 8.00%, with one of the five members voting to hold the rate at 8.25%. While in line

...continued on page 2

### Rising Risks To Mexican External Account Stability 3

Mexico's current account deficit will narrow in 2019, as declines in import growth will outpace a corresponding fall in exports. We forecast that Mexico's current account deficit will narrow to 0.7% of GDP in 2019, from 1.8% in 2018, before widening to 1.4% in 2020 as imports recover. Risks to our forecast remain weighted to the downside, as an unorthodox policy shift under AMLO or deterioration in Mexico's trade relations with the US would threaten external account stability.

### Agricultural Production To Expand, Reforms Too Ambitious 4

President Andrés Manuel López Obrador (AMLO) has retained much of his previous popular and legislative support and continues to prioritise developing the country's agriculture sector. However, the widening gap between AMLO's fiery populist rhetoric and political reality suggests that his pledge to radically transform the sector will be difficult to implement, with self-sufficiency an overly ambitious target.

#### REGIONAL INDICATORS

| Latin America        | 2017    | 2018e   | 2019f   | 2020f   |
|----------------------|---------|---------|---------|---------|
| Nominal GDP, USDbn   | 5,513.9 | 5,362.6 | 5,238.9 | 5,516.7 |
| Population, mn       | 635.14  | 641.11  | 647.01  | 652.84  |
| GDP per capita, USD  | 8,681.3 | 8,364.4 | 8,097.1 | 8,450.2 |
| Real GDP growth, %   | 1.8     | 1.5     | 1.5     | 2.4     |
| Inflation, %         | 6.5     | 6.5     | 7.5     | 5.8     |
| Goods exports, USDbn | 1,074.5 | 1,167.3 | 1,217.6 | 1,294.6 |
| Goods imports, USDbn | 1,026.8 | 1,138.3 | 1,188.2 | 1,272.0 |

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

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## LATIN AMERICA RISK INDEX

Our Country Risk Index scores countries on a 0-100 scale, evaluating short-term and long-term political stability, short-term economic outlook, long-term economic potential and operational barriers to doing business. For a detailed methodology, visit [fitchsolutions.com](http://fitchsolutions.com) or contact us using the details on page 1.

| RISK INDEX TABLE        |             |             |             |             |             |             |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                         | Short Term  |             | Long Term   |             | Operational | Country     |
|                         | Political   | Economic    | Political   | Economic    | Risk        | Risk        |
| Chile                   | 77.1        | 70.8        | 83.2        | 68.4        | 64.7        | 71.5        |
| Uruguay                 | 66.9        | 57.3        | 75.3        | 64.2        | 55.0        | 62.3        |
| Mexico                  | 61.3        | 61.7        | 58.3        | 67.3        | 53.0        | 59.1        |
| Peru                    | 59.8        | 69.2        | 62.9        | 66.8        | 49.2        | 59.5        |
| Brazil                  | 59.2        | 56.5        | 68.9        | 63.2        | 49.3        | 57.7        |
| Colombia                | 62.9        | 64.2        | 61.7        | 63.0        | 50.9        | 58.9        |
| Argentina               | 57.7        | 48.3        | 61.6        | 55.9        | 49.1        | 53.6        |
| Ecuador                 | 51.3        | 50.8        | 49.1        | 56.4        | 46.5        | 50.1        |
| Venezuela               | 29.2        | 24.0        | 44.8        | 21.2        | 29.4        | 29.6        |
| <b>Regional Average</b> | <b>58.4</b> | <b>55.9</b> | <b>62.9</b> | <b>58.5</b> | <b>49.7</b> | <b>55.8</b> |
| <b>Global Average</b>   | <b>63.1</b> | <b>52.7</b> | <b>62.0</b> | <b>54.3</b> | <b>49.7</b> | <b>55.2</b> |

Note: Scores out of 100; higher score = lower risk. Source: Fitch Solutions

## MEXICO – ECONOMIC OUTLOOK

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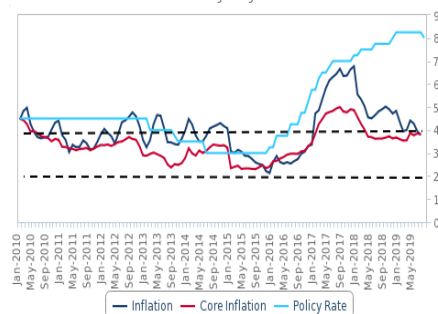
with our forecasts, consensus expectations had leaned towards Banxico holding the rate steady until its September meeting. The bank's communique highlighted slowing inflation, weak growth and a rate cut by the US Fed as the driving factors behind the decision.

While we view this as the beginning of an easing cycle, we expect that Banxico will proceed cautiously. The benchmark rate had been at 8.25% since late 2018, the highest level since 2008, as policymakers sought to bring inflation back to the bank's 3.0% y-o-y target amid concerns about the stability of the Mexican peso (MXN). As one of the most liquid emerging market currencies, the MXN is heavily exposed to shifts in risk sentiment; in addition, domestic conditions such as weak economic growth, recent trade tensions with the US and policy uncertainty under President Andrés Manuel López Obrador (AMLO) have driven significant volatility. As a result, we view maintaining the stability of the MXN via high interest rates as key to Banxico's inflation mandate. A sell-off in the currency following a rates reduction would likely increase imported inflation and raise long-term inflation expectations.

Given these concerns, we expect the bank will enact only one more 25bps cut in 2019, to bring the rate to 7.75%. While inflation has decelerated significantly over recent quarters, and at 3.8% in July is now within Banxico's 2.0-4.0% tolerance band, it has remained relatively stable near the upper end of the band in recent months. Moreover, long-term inflation expectations remain above the bank's 3.0% target, while core inflation has remained between 3.5% and 4.0% for over a year. We do note, however, that money supply growth has slowed in line with tighter monetary policy, which should help combat inflation.

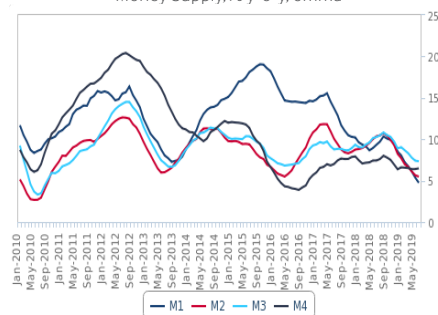
In 2020, we forecast an additional 50bps of interest rate cuts. We expect inflation will continue to decelerate as the effect of contractionary monetary policy and weak economic activity weigh on demand, giving policymakers room to support economic growth. Additionally, we believe that AMLO's appointees to the bank's five-member board, Jonathan Heath and Gerardo Esquivel, are relatively dovish and will likely vote in favour of additional

Rate Cut Follows Long Deceleration Of Inflation  
Banxico Overnight Rate & Consumer Price Growth,  
% y-o-y



Note: Target is 3.0% (2.0-4.0% band). Source: Banxico, Fitch Solutions

Deceleration In Money Supply Growth  
Will Help Curb Inflation  
Money Supply, % y-o-y, 6mma



Source: Banxico, Fitch Solutions

accommodation, as they did at the August meeting. We also note that given general easing of monetary policy around the world, led by the US Fed, the peso will remain relatively attractive on a carry trade basis despite rate cuts by Banxico (see 'Quick View: Fed Delivers 25 Bps Cut, Leaves Room For Some Additional Easing', July 31).

Risks to our forecast are weighted toward slower rate cuts than we expect, or even rate hikes. While there is a risk that growth in Mexico continues to decelerate and lead Banxico to make more aggressive rate cuts, we believe the more pressing risks would push the bank to either hold or hike rates. In particular, we highlight the resumption of trade tensions with the US or an escalation of policy uncertainty under AMLO, either of which could drive a significant sell-off in the peso. This would in turn spark inflation, potentially pushing price growth outside of Banxico's target band and necessitating interest rate hikes.

## MEXICO – ECONOMIC OUTLOOK

# Rising Risks To Mexican External Account Stability

### Key View

- Mexico's current account deficit will narrow in 2019, as declines in import growth will outpace a corresponding fall in exports.
- We at Fitch Solutions forecast that Mexico's current account deficit will narrow to 0.7% of GDP in 2019, from 1.8% in 2018, before widening to 1.4% in 2020 as imports recover.
- That said, risks to our forecast remain weighted to the downside, as an unorthodox policy shift under AMLO or deterioration in Mexico's trade relations with the US would threaten external account stability.

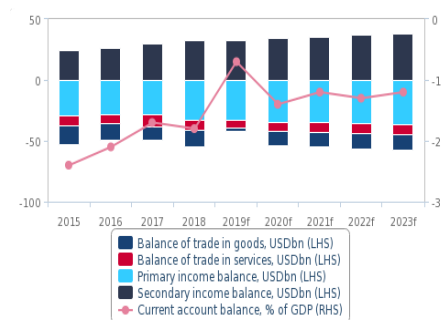
Goods export and import growth will remain soft in the months ahead, helping to narrow Mexico's current account deficit. Export and imports grew only 3.7% y-o-y and 0.2%, respectively, in H119, amid a general deceleration in economic activity (see 'Mexican Economy Facing Mounting Internal And External Headwinds', June 10). This contributed to a significant narrowing of Mexico's current account deficit to USD5.6bn in Q119, from USD9.8bn in Q118.

While we expect export growth will continue to slide due to falling oil and gas production and a modest slowdown in US growth, it will likely outpace import growth (see 'More Tariffs Could Spell More Pain And Risk Of Uncontrollable Disputes', May 31). Relative weakness in the Mexican peso and a steep deceleration in economic growth will weigh on demand for consumer and intermediate goods in the coming months, leading to an overall slowdown in imports. In addition, our view is that Mexican export growth will decelerate in 2019 and will likely lead to a corresponding slowdown in import demand, due to the high level of interconnectedness of North American supply chains. In 2018, intermediate goods accounted for 76.5% of total imports.

Remittances will also help narrow the current account deficit. While Mexican emigration to the US has fallen in recent years, the tight US labour market will support wage growth and the ability of Mexico's large emigrant population to send money home. However, we caution that the pace of remittance growth has slowed in recent months; remittances grew 3.7% y-o-y in H119, down from 10.5% in 2018, limiting its impact on the current account.

Risks to balance of payments stability have risen significantly in recent months. Although our core view is that capital inflows will likely cover external financing needs, we see significant risks to portfolio investment from erratic policymaking under President Andrés

Shifts In Goods Trade To Narrow C/A Deficit In 2019  
Current Account Balance, USDbn



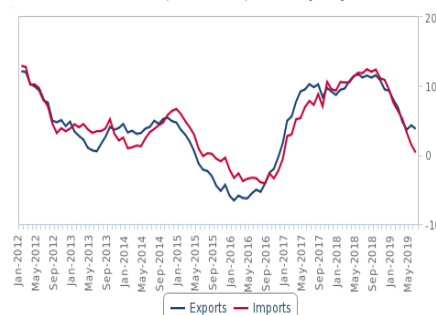
f = Fitch Solutions forecast. Source: Banxico, Fitch Solutions

Manuel López Obrador (AMLO). While AMLO's approach to governing has been relatively pragmatic thus far, a more pronounced shift towards protectionist, populist policies would drive capital outflows and pressure Mexico's external accounts.

In addition, the potential for a fall in US demand for Mexican goods poses a significant risk to our net export forecasts. This risk stems from three factors:

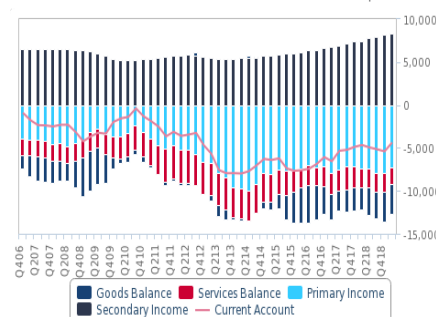
- Trade tensions between the US and Mexico escalated in June following US President Donald Trump's threat to place tariffs on all Mexican imports. While the threat was suspended following an agreement between the two countries to reduce illegal immigration to the US via Mexico, the risk of re-escalations in tensions will persist ahead of the 2020 presidential election, introducing uncertainty into Mexico's relationship with its primary export market (see *'Quick View: US-Mexico Agreement Removes Tariff Threat, For Now'*, June 10).
- The ratification process for the revised North America Free Trade Agreement, the USMCA, remains bogged down in the US Congress. We have highlighted potentially insurmountable obstacles to its passage in the US, with a stalemate possibly re-escalating tensions within the trade bloc (see *'USMCA Facing Long Road To US Ratification'*, February 22). In the past, President Trump has threatened to issue notice of withdrawal from NAFTA should the USMCA not be implemented.
- We see growing risks to US economic growth. While recent data prints show that the US economy remains broadly resilient in the face of global economic headwinds, it is not immune to them (see *'Quick View: Solid Q2 Growth, But US Economy Increasingly Bifurcated'*, July 26). Weakening global growth and persistently high trade tensions may undermine US growth more than we expect going forward, reducing demand for Mexican exports.

Downward Trend Likely To Persist In Coming Months  
Total Goods Exports & Imports, % y-o-y, 6mma



Source: Banxico, Fitch Solutions

Deficit Has Gradually Narrowed In Recent Quarters  
Current Account Breakdown, USDm, 4qma



Source: Banxico, Fitch Solutions

## MEXICO – INDUSTRY OUTLOOK

# Agricultural Production To Expand, Reforms Too Ambitious

### Key View

- President Andrés Manuel López Obrador (AMLO) has retained much of his previous popular and legislative support and continues to prioritise developing the country's agriculture sector.
- However, the widening gap between AMLO's fiery populist rhetoric and political reality suggests that his pledge to radically transform the sector will be difficult to implement, with self-sufficiency an overly ambitious target.
- While white corn will remain the country's main crop and a consumer staple, we see limited opportunities for significant increases in production given the narrow scope of AMLO's support programmes.
- Ongoing production growth in the livestock sector will keep imports of yellow corn elevated.

A year on from his landslide victory in the Mexican general elections of July 2018, President Andrés Manuel López Obrador (AMLO) has retained much of his previous popular and legislative support and continues to prioritise developing the country's agriculture sector. However, his administration has faced growing criticisms amid flagging economic growth, persistent high levels of crime and sometimes erratic policy formation.

Regarding agriculture, the widening gap between AMLO's fiery populist rhetoric and political reality suggests that his pledge to radically transform the sector will be difficult to implement (although we still see him successfully expanding agricultural production to a degree). His target of making Mexico completely self-sufficient in food production over the next few years is overly ambitious given the country's

high dependence on agricultural imports and other structural deficiencies. Moreover, his stance on important issues such as large-scale agribusiness versus indigenous smallholder farming, modernising agricultural practices and the use of genetically modified organisms (GMOs) remains unclear. Against this backdrop, we examine Mexico's key strengths as well as the opportunities and threats that could potentially reshape the country's agribusiness industry over the next five years.

### Land, Labour, Consumer Demand And Trade To Support Agriculture

Mexico's large tracts of arable land and its diverse climate, combined with a growing population of more than 125mn people that can provide both a steady supply of labour and a domestic consumer market, make it well suited to large-scale agricultural production. Additionally, over the past decades, Mexico has transitioned from one of the world's most protectionist economies to one of the most open to trade. In 1994, prior to the implementation of the North American Free Trade Agreement (NAFTA), soon to be superseded by the US-Mexico-Canada Agreement (USMCA), tariffs on corn imports stood at more than 200%. Over the years, however, Mexico's leaders have reduced public debt, introduced a balanced budget rule, stabilised inflation and built up the country's foreign reserves. This has given a major boost to farm exports, which have tripled since NAFTA's ratification.

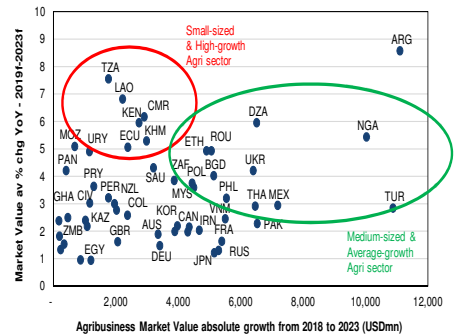
### Agricultural Production To Expand, Livestock To Outperform

Mexico is currently a major global exporter of fruit, vegetables and sugar and a notable exporter of corn and meat (although an overall net importer of these two products). The country is an important consumer and importer of oilseeds, dairy and high-fructose corn syrup. Across the commodities we cover, we forecast agricultural production to grow over the 2019-2023 period but – with the exception of sugar and wheat – at a slower pace than over 2014-2018. Regarding corn, the country produces mainly white corn, much of which is exported (Mexico is self-sufficient in this corn variety), while yellow corn is imported for livestock feed. We forecast corn production to rise to 28.4mn tonnes by 2022/23, from 26.7mn tonnes in 2018/19 and from less than 18mn tonnes before NAFTA. For sugar, we forecast production growth to average 1.2% y-o-y over 2019-2023 following modest declines over 2014-2018. Livestock products will also grow over the next five years (although at a slower pace than previously). Pork, poultry and beef production growth will average 2.5%, 2.6% and 1.7% respectively. On the one hand, agricultural production will be supported by numerous government support programmes that AMLO has begun to roll out in 2019, but on the other hand, hampered by a number of structural barriers.

### In Line With Campaign Promises, AMLO Amplifies Farmer Support...

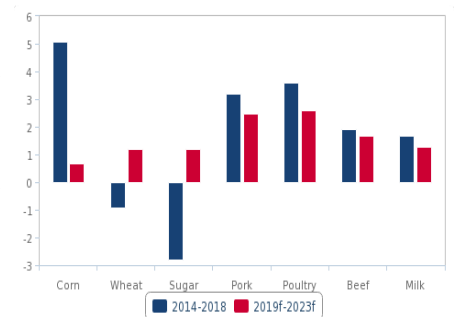
New agricultural support programmes will boost output from smallholders. In line with the rhetoric espoused throughout the presidential campaign, AMLO has in recent months promised to amplify support for small-scale farmers. The Production for Wellbeing subsidy programme that will replace the previous Proagro Productivo programme will allow small producers with up to five hectares (ha) of non-irrigated (or 0.2 ha of irrigated) land to receive a subsidy of MXN1,600/ha and medium producers with 5-20 ha MXN1,000/ha. The government will also guarantee smallholders (with 5.0 ha of land or less) above-market prices for corn, edible beans, wheat for bread, rice and fresh milk; introduce fertiliser support programmes; and plant more fruit trees. Commodities will be purchased and distributed by a new government agency called Food Security Mexico (SEGALMEX). Official sources estimate that approximately 2mn Mexican farmers will be eligible for the programme in 2019. Other support mechanisms not yet clearly defined, such as hedging systems, will also likely feature in 2019 and 2020.

Downward Trend Likely To Persist In Coming Months  
Total Goods Exports & Imports, % y-o-y, 6mma



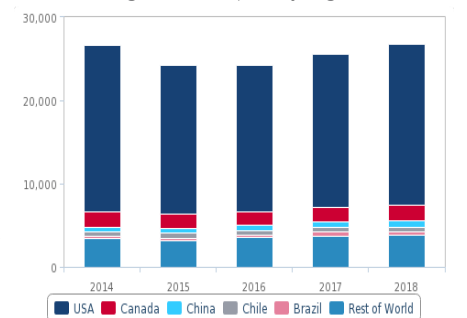
Source: Banxico, Fitch Solutions

Production Growth To Slow  
Mexico – Production Growth (avg. % chg y-o-y)



f = Fitch Solutions forecast. Source: USDA, Fitch Solutions

Mexican Agribusiness Dependent On The US  
Mexico – Agribusiness Imports By Origin (USDmn)



Source: Trade Map, Fitch Solutions

### ...But Self-Sufficiency Remains Elusive

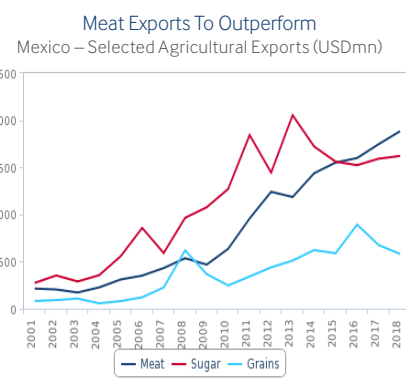
However, production will grow at a modest pace, and the government's goal of complete self-sufficiency in food remains overly ambitious. First, while we believe the various support mechanisms that AMLO has introduced will boost production to an extent, in practice they will most likely not be enough to encourage import substitution. Taking corn as an example, the funds allocated for the purchase of this commodity come to a total of MXN6.0bn. In 2018/19 the country will produce approximately 26.7mn tonnes of white corn. The value of this production, using the proposed guaranteed price of MXN5,610/tonne, would be around MXN150.0bn (5610 x 26.7) – well above the total funds available for government corn purchases. Overall, if the total available funding for corn of MXN6.0bn was spent on corn purchases, it would account for around 4% of our total 2018/19 forecast production value. To reach self-sufficiency in corn, output would need to grow by at least 50%. Second, local reports suggest that SEGALMEX, the government agency in charge of purchasing and distributing crops in the price guarantee programme, has weak infrastructure and limited transport networks. These government support schemes will, therefore, be unlikely to sufficiently accelerate production growth, particularly for grains.

### Agri-Commodities: Winners And Losers

While white corn will remain the country's main crop and a consumer staple, we see limited scope for significant increases in production. The above programmes provide little clarity on important issues such as improving productivity, either through technology, better management practices or the use of GMOs. Smallholder farms in predominantly southern states (the main recipients of the new price floors and subsidies) tend to use indigenous seed varieties and manually cultivate crops – limiting yield growth potential (corn yields in Mexico have been stagnant since 2014/15). By contrast, a minority of producers, largely in the northern states, use improved seed varieties and operate large-scale and highly mechanised agribusiness operations. Nevertheless, the Mexican government has given clear priority to supporting smallholder farms over large-scale producers. Large farms recently held protests in Sinoloa and Sonora in light of the lack of support for commercial farming.

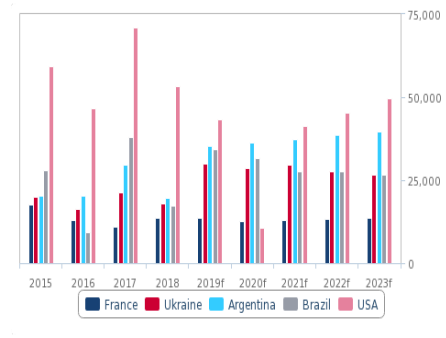
Imports of yellow corn, which have risen dramatically since 2013, will remain on an uptrend over the coming years, supported by Mexico's growing livestock sector. The increasing popularity of corn for animal feed in Mexico was primarily driven by the drop in corn prices in 2014 following the end of the commodities boom. We continue to forecast the top corn-exporting countries (the US, Brazil, Argentina, Ukraine and France) to register production surpluses out to 2022/23, ensuring there is ample supply available for export. The new USMCA trade deal, which will maintain NAFTA's zero tariffs on all food and agricultural products, will continue to give the US preferential trade access to Mexico.

With respect to the use of GMOs, it remains a contentious issue, with AMLO himself often being an outspoken critic. However, AMLO's administration, is comprised of a somewhat paradoxical team, which makes it difficult to gauge the long-term growth trajectory of Mexico's agriculture. On the one hand, Victor Suarez Carrera, the new undersecretary for food self-sufficiency, has a strong background in agro-ecology and opposes the use of GM crops. Similarly, María Elena Álvarez-Buylla, the country's new science minister, is a plant biologist who also opposes GM use. By contrast, Victor Villalobos, the agriculture minister, has previously been closely aligned with companies such as Monsanto and has been charged with developing policies for the use of GMOs. AMLO's chief of staff, Alfonso Romo, formerly led Seminis, a GMO seed company that was sold to Monsanto.



Source: Trade Map, Fitch Solutions

Ample Corn Supply Amid Top Exporters  
Select Countries – Corn Production Balance ('000 tonnes)



f = Fitch Solutions forecast. Source: USDA, Fitch Solutions

## LATIN AMERICA – ECONOMIC OUTLOOK

# GDP Roundup: Facing Downside Risk Amid US Slowdown

### Key View

- We at Fitch Solutions expect economic activity growth will broadly stagnate across Latin America and the Caribbean over the coming quarters.
- Global trade tensions are undermining commodity prices and export demand, exacerbating idiosyncratic political risks in most major markets and weighing on investment.
- Central American and Caribbean economies are exposed to slowing growth in the US, which will reduce remittances and demand for goods and services exports.

At Fitch Solutions, we have grown more downbeat on the near-term growth outlook for Latin America due to persistent global trade tensions. Our aggregate regional real GDP growth forecast now stands at 1.5% y-o-y in 2019, implying flat growth from 2018. Our forecast for 2020 has also been cut to 2.4%, from 2.7% previously, reflecting our expectation that trade tensions will persist into next year. With the risks of a protracted global slowdown, or even recession, on the rise, we acknowledge that risks to our forecasts are weighted to the downside.

### Latin America Majors: Q219 Offers Few Signs Of Strength

We see increasingly little scope for sustained growth in most of the region's major economies over the near term. With few exceptions, economic activity prints from Q219 have shown little improvement from broadly disappointing Q119 results. In most economies, weak export demand and commodity prices have hurt the primary and tertiary sectors, government spending constraints have limited the public contribution to consumption and investment and policy uncertainty has undermined private investment. These headwinds have weakened labour markets and eroded consumer confidence, hurting private consumption, which has been the major driver of growth over recent quarters in most markets.

With no end to US-China trade tensions in sight, we have grown more downbeat on the price outlook for several of the region's key commodity exports, principally copper and oil. That suggests that anticipated improvements in activity in Chile, Colombia and Peru may take longer to materialise, as it suggests exports, public revenues and investment will remain weak. In Argentina, Brazil and Mexico, political risks continue to add weight to concerns over the external environment, keeping investment subdued. Argentina is heading toward a highly competitive October general election that poses risks to policy continuity should President Mauricio Macri lose his bid for re-election. While Brazil appears increasingly likely to deliver a major pension reform long considered essential by investors, its political environment remains volatile and prospects for additional pro-growth reforms, such as tax reform, are poor. In Mexico, which barely escaped a technical recession in Q219, President Andrés Manuel López Obrador's erratic policymaking, and continuing tensions with the US, will remain a headwind to investment.

Increasingly accommodative monetary policy from the region's central banks could offer some support to economic activity. Amid weak domestic demand, contained inflation and increasingly dovish monetary policy in developed markets, most central banks have cut interest rates. However, while lower rates could promote some investment and big-ticket purchasing among local firms and consumers, weakening business confidence and the presence of lingering output gaps in many economies suggest that the benefits will be muted over the near term. Moreover, escalating global trade tensions and the risk of a prolonged global slowdown or recession could lead to risk-off sentiment that would create a policy dilemma for the region's central banks: keep interest rates low to support activity but risk falling behind the curve on inflation driven by currency weakness; or reverse course on interest rates to slow capital outflows but stifle activity.

### Central America: US Becoming A Major Headwind

Our growth forecasts for Central America remain broadly constructive over the near term, with growth in most markets expected to remain in line with 2018's prints. Exports to the US and remittance inflows from migrants working in the US underpin consumption and external account stability, and the US's stronger than expected growth in H119 has broadly supported our views. However, with US growth likely to slow over the coming quarters, the region will likely see a corresponding slowdown in headline growth rates due to reduced export demand and decelerating remittance growth.

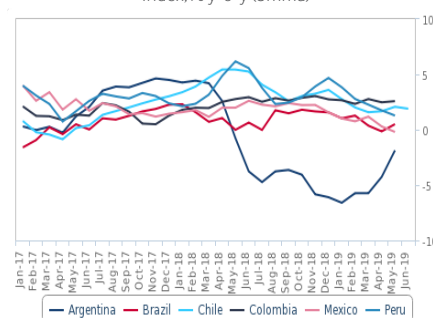


However, US antagonism toward the region and domestic political instability are increasingly likely to exacerbate the region's slowdown heading into 2020. Over recent weeks, US President Donald Trump has renewed his threats to cut off federal aid flows to most of the region's governments, a move that would place significant additional fiscal constraints on governments that have already been struggling to contain sizeable fiscal gaps. The US has also pressured the region's governments to take more aggressive steps to halt migration flows out of the region, efforts that are broadly unpopular with the region's publics. Added to widespread discontent with corruption and insecurity across the region, political volatility will weaken investment and undermine the medium-term growth outlook.

### Caribbean: Growth Likely Peaking

We continue to see stronger growth in the Caribbean in 2019, although this in large part reflects the recovery of several key markets from devastating hurricanes in 2017. Beyond 2019, the region faces a slowdown due to slower growth in the US and European Union, which are the key source markets for the region's tourism industry and remittance inflows from migrant workers. While tourism activity will likely remain robust, growth is likely reaching a near-term peak, which will place a cap on the expansion of local labour markets and investment. Many governments in the region continue to face constrained finances due to significant debt loads, limiting their ability to stimulate demand. Greater regulatory pressure from developed markets on the use of offshore financial sectors also poses risks to the region's financial services industries.

Little Sign Of A Rebound To Come  
Latin America (Selected) – Monthly Economic Activity Index, % y-o-y (3mma)



Source: National sources, Fitch Solutions

## MEXICO – DATA & FORECASTS

|   | 2015    | 2016e   | 2017e   | 2018e   | 2019f   | 2020f   | 2021f   |
|---|---------|---------|---------|---------|---------|---------|---------|
| Nominal GDP, USDbn                                | 1,168.9 | 1,076.7 | 1,158.5 | 1,224.4 | 1,270.3 | 1,360.8 | 1,467.6 |
| Real GDP growth, % y-o-y                          | 3.3     | 2.9     | 2.1     | 2.0     | 1.1     | 1.5     | 2.2     |
| GDP per capita, USD                               | 9,592   | 8,729   | 9,284   | 9,702   | 9,956   | 10,554  | 11,266  |
| Industrial production, % y-o-y, ave               | 1.0     | 0.0     | 0.6     | 0.9     | 1.9     | 2.2     | 2.7     |
| Population, mn                                    | 121.86  | 123.33  | 124.78  | 126.19  | 127.58  | 128.93  | 130.26  |
| Consumer price inflation, % y-o-y, eop            | 2.1     | 3.4     | 6.8     | 4.8     | 3.3     | 3.2     | 3.9     |
| Consumer price inflation, % y-o-y, ave            | 2.7     | 2.8     | 6.0     | 4.9     | 3.9     | 3.7     | 3.8     |
| Central bank policy rate, % eop                   | 3.25    | 5.75    | 7.25    | 8.25    | 7.75    | 7.25    | 6.50    |
| Exchange rate MXN/USD, ave                        | 15.87   | 18.68   | 18.92   | 19.23   | 19.35   | 19.25   | 19.26   |
| Exchange rate MXN/USD, eop                        | 17.23   | 20.73   | 19.66   | 19.67   | 19.40   | 19.10   | 19.42   |
| Budget balance, MXNbn                             | -637.7  | -503.8  | -238.5  | -496.9  | -640.1  | -751.6  | -780.7  |
| Budget balance, % of GDP                          | -3.4    | -2.5    | -1.1    | -2.1    | -2.6    | -2.9    | -2.8    |
| Goods and services exports, USDbn                 | 403.9   | 398.8   | 437.4   | 479.9   | 485.8   | 512.9   | 550.2   |
| Goods and services imports, USDbn                 | 427.2   | 419.6   | 458.2   | 502.5   | 495.5   | 532.1   | 569.5   |
| Current account balance, USDbn                    | -28.2   | -22.4   | -19.4   | -22.2   | -9.1    | -18.8   | -18.3   |
| Current account balance, % of GDP                 | -2.4    | -2.1    | -1.7    | -1.8    | -0.7    | -1.4    | -1.2    |
| Foreign reserves ex gold, USDbn                   | 176.7   | 176.5   | 172.8   | 174.8   | 177.4   | 182.7   | 186.4   |
| Import cover, months                              | 5.4     | 5.5     | 4.9     | 4.5     | 4.6     | 4.4     | 4.2     |
| Total external debt stock, USDbn                  | 426.9   | 422.5   | 455.1   | 489.1   | 519.1   | 554.9   | 592.7   |
| Total external debt stock, % of GDP               | 36.5    | 39.2    | 39.3    | 39.9    | 40.9    | 40.8    | 40.4    |
| Crude, NGPL & other liquids prod, '000b/d         | 2,592.0 | 2,459.6 | 2,228.3 | 2,072.7 | 2,006.6 | 1,985.7 | 2,021.9 |
| Total net oil exports (crude & products), '000b/d | 920.5   | 842.1   | 678.9   | 623.5   | 594.1   | 548.6   | 544.9   |
| Dry natural gas production, bcm                   | 42.4    | 38.0    | 33.6    | 30.8    | 29.2    | 28.4    | 28.0    |
| Dry natural gas consumption, bcm                  | 33.5    | 34.6    | 27.1    | 21.3    | 18.1    | 17.4    | 17.6    |

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