Fitch: LatAm Countries Could be Negatively Impacted by U.S. Double-Dip or China Hard-Landing

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Fitch Ratings-New York-05 October 2011: According to a new special report issued by Fitch Ratings today, a potential 'double-dip' in the U.S. or a hard-landing in China would have negative economic implications for Latin American countries. The scale of dislocation would vary across the region contingent on countries' starting economic position, fiscal and external buffers, and policy flexibility. Sovereign ratings could suffer in some cases, depending on the depth and duration of the shock and the authorities' policy response. However, neither of these scenarios is Fitch's base case. 'We believe that economies with strong trade links to the U.S. economy, particularly Mexico and the Central American nations, could contract or decelerate sharply if a 'double-dip' occurs in the U.S.,' said Santiago Mosquera, Director at Fitch. Demand for their exports would collapse, and given the nature of their export-oriented industries and the spill-over effects to other sectors, domestic demand and employment could be negatively affected. A decrease of tourists and reductions in family remittances from the U.S. would have a major effect in some of the smaller economies rated by Fitch including Aruba, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, and Jamaica. Contrary to other countries in the region, tourism and remittances-dependent economies have only modestly recovered from the previous recession as labor market conditions in originating countries remain weak. Despite the increase in trade between China and Latin America in recent years, the impact from a potential hard-landing in China comes from its effects on commodity prices. 'Commodity-exporting countries in the region would see their external accounts deteriorate, although in most cases, external buffers are relatively strong to prevent a currency or a balance-of-payments crisis,' added Mosquera. However, countries like Argentina and Venezuela may face increased currency pressures while Ecuador could potentially see a harder economic adjustment due to its dollarized fx regime. Broadly, adverse terms of trade shock will slow growth dynamics in the region due to spill-over effects on domestic demand and a possible reduction in capital flows. More importantly, pressures will build on public finances, particularly where governments show strong dependence in commodity-related revenue (Bolivia, Ecuador, Venezuela, Mexico), have limited manoeuvre fiscal space (Argentina, Brazil, Colombia, Ecuador, Mexico, and Venezuela), and lack large fiscal savings (all but Chile and Peru). The special report 'Latin America: Between Two Giants (Impact of a Potential Renewed US Recession or a Chinese Slowdown)' is available on Fitch's website at 'www.fitchratings.com'. Contact: Santiago Mosquera Director +1-212-908-0271 Fitch, Inc. One State Street Plaza New York, NY 10004 Shelly Shetty Senior Director +1-212-908-0324 Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com. Additional information is available at 'www.fitchratings.com'. Applicable Criteria and Related Research: Latin America: Between Two Giants