PRESS RELEASE

Taiwan, 23 May 2018

Election season in Latin America: Growing political risks undermine economic essentials

- **Presidential elections to be held in Colombia, Mexico and Brazil over the coming weeks and months, aim to address widespread dissatisfaction with incumbent political systems in the region**
- **Coface's political risk index shows that social fragilities & corruption are the most serious issues**
- **Political uncertainties could trigger problems such as a decline in equities, lower corporate and consumer confidence and delays in decisions on investment and spending**

Political risks in Latin America are linked to social fragility and corruption

Latin America has a track record of being led by dictatorial political systems and populist governments. The Coface Political Risk Index[1] takes into consideration various risk aspects related to security, political and social fragility issues. Terrorism is not a major concern, but inadequate social frameworks, negativity surrounding corruption issues and a relatively high rate of homicide, are all factors that are undermining the region's growth perspectives. The macroeconomic variables included in the model (such as GDP per capita, the unemployment rate, inflation and income inequality) are usually weak points for Latin American countries.

In terms of conflicts, Mexico has the poorest performance across the region, mainly due to the increasing violence of gang wars. In 2017, its homicide rate surpassed that of 2011 - the peak year of the country's drug war. In contrast, Colombia has registered a significant improvement. Violence related to guerrilla groups has considerably declined, thanks to an agreement signed between the Colombian government and the Armed Forced of Colombia (FARC). Nevertheless, despite these clear improvements, there are still some dissident groups operating in the country.

Corruption is another issue in the region. It became particularly acute when Operation Car Wash began in early 2014 and the tip of the corruption iceberg was observed for the first time in Brazil. In all, this scandal revealed that 11 countries were involved in bribes, amounting to an estimated value of USD 788 million.

Elections in Mexico and Brazil marred by general dissatisfaction with traditional politicians

The erosion of general trust shown in traditional political institutions is creating opportunities for outsider contenders. A number of candidates are promoting themselves under the flag of anti-corruption. Mexico and Brazil are therefore facing a complicated political landscape.

[1] Daudier, J.-L., Nizard, R. & Tozy, S., *Coface Panorama: The rise and rise of political risks,* Paris, 2017

Mexico's left-wing candidate, Andrés Manuel López Obrador, is leading the polls by a wide margin. He has historically positioned himself against private investments and industries that are traditionally run by the state. Nevertheless, the breadth of ideological divergence among his political allies could hamper his ability to build a strong coalition and gain congressional support.

Although Brazil's population shows a widespread level of dissatisfaction with traditional politics, paradoxically the current favourite remains former president Lula - who was convicted of money laundering and passive corruption in July 2017. He will probably not be able to run under local electoral law. Amid this judicial battle there is a controversial candidate - Jair Bolsonaro. A former military officer, he has been described by the media as "pro-gun and antigay". In a simulation where Lula is not able to run, Jair Bolsonaro would be the next most popular candidate. If, however, former president Lula does not run, he appears to be the front runner in all simulations.

Regional growth may be hampered by political uncertainties

Political risks' rebound has already had some impact on regional growth. One example of this has been the spill-over effect from Operation Car Wash, which has clearly been a contributing factor to Brazil's worst recession.

The region's GDP is expected to gain further impetus in 2018, with a growth forecast of +2.4% YOY - following a rebound in 2017 (1.1% YOY), two years of recession prior to that and a recovery from the slump in commodity prices observed since 2014.

Current political uncertainties could cause further damage via two transmission channels that are likely to aggravate each other: a decline in equity markets and an increase in bond rates, combined with lower levels of corporate and household confidence (prompting delays or cancellations in investment or spending decisions). In the event of a long-lasting government vacuum, any freeze in public spending would have a negative impact on activity.

MEDIA CONTACT
Grazia LI - T. +886 2 7734 0287 – grazia.li@coface.com