PRESS RELEASE

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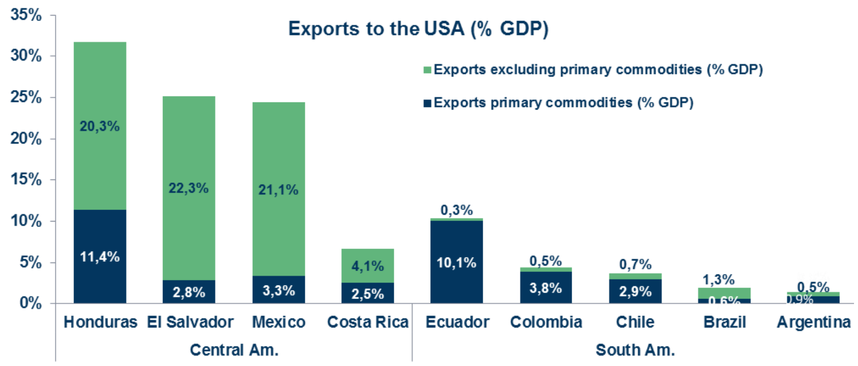
How could “Trumponomics” affect Latin America’s economies?

Political developments in the US have caused uncertainties over the trade policies that could be implemented and the region’s vulnerability to tighter financial conditions.

Central America and Mexico are the most exposed to US protectionist measures

Costa Rica, El Salvador, Honduras and México are the countries in the region that are the most vulnerable to any eventual import measures imposed by the United States. This is due to their high level of trade exposure to the US (which is also, more specifically, focused on manufactured goods). In addition to their overexposure to the US, these countries’ GDPs are more dependent on exports than other countries in the region are.



Based on the assumption that Trump’s administration is expected to initially focus on countries with which the US has a strong trade deficit, Mexico’s position is particularly sensitive. In 2016, Mexico’s trade surplus with the US was only exceeded by those of China, Japan and Germany.

Within the region, only two of the other countries analysed in this focus, Ecuador and Colombia, reported trade surpluses with the US in 2016. These two countries could therefore also eventually be targeted by the US administration. Nevertheless, this scenario is rather unlikely, given their irregular and weak contribution to the US´s total trade deficit.

NAFTA in the crosshairs

Uncertainties surrounding the NAFTA agreement could also delay investments, and particularly reduce the inflow of foreign direct investments. Another issue which has caused concern, is Trump´s threat to tax the remittances of Mexican labourers in the US to their country of origin. So far these resources have not been impacted.

According to the Peterson institute for International Economics[1], if NAFTA was to come to an end, the peso would probably devalue by more than 25%. Mexican-produced cars would therefore be likely to become more competitive in the United States, which would further add to the trade deficit (in contrast to what the US administration is trying to achieve).

Monetary Impacts

Even if Trump is able to carry out the promises made during his campaign, they would be unlikely to cause a climb in Latin American policy rates (with the exception of Mexico). Inflation generally hiked in Latin America throughout 2016. These rises came within a backdrop of challenging weather conditions, which put pressure on food prices. Nevertheless, this trend has dissipated in 2017. In response, the Central Banks of Colombia, Chile, Peru and especially Brazil have eased their benchmark interest rates.

In order to evaluate the possible spill over effect of Trumponomics on debt denominated in foreign currencies, the evolution of Latin American economies' CDS[2] and the recent behaviour of their exchange rates need to be taken into account.

As regards the nominal exchange rate, there were no Latin American countries that reported major depreciations when Trump won the presidential elections. Once again, the strongest volatility was seen with the Mexican Peso. In 2016, the currency depreciated by 19 % against USD, but in mid-January this year it began to rebound.

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[1] PIIE: Trump's NAFTA Approach Could Worsen US-Mexico Trade Deficit, March 2017

[2] CDS - Credit Default Swap is a financial swap agreement that the seller of the CDS will compensate the buyer (usually the creditor of the reference loan) in the event of a loan default (by the debtor) or other credit event.

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