

Latam Economic Update

- **Colombia: Changing strategy—Living with the virus**
- **Mexico: Economy reported historical contractions during Q2-2020; June figures continued to exhibit annual reductions**
- **Peru: The Constitutional Court strikes down Congressional road tolls law, with implications for public pension fund law**

COLOMBIA: CHANGING STRATEGY—LIVING WITH THE VIRUS

After 161 days of strict lockdown, President Duque announced that mandatory lockdown strategy has ended in Colombia as some indicators point out a moderation of the pandemic spread (charts 1 & 2). Mandatory isolation was implemented since March 25 and was adjusted to allow new activities to open gradually. From September 1, the government's lockdown strategy will focus on the infected and potentially infected population. The new approach is called "selective isolation" with free mobility and focus on individual responsibility. However, concerts, sporting events and other activities bringing large crowds together will remain banned.

The first phase of mandatory isolation lasted 33 days, and we estimate that 33% of the economy was in lockdown. The second phase saw a gradual lifting of some restrictions, allowing the construction to restart as well as some manufacturing activities. The third phase re-opened the entire manufacturing sector, wholesale, and some retail businesses such as vehicle maintenance and laundry services; at this phase, we estimate that more than 80% of the economy could operate.

The fourth stage, allowed retail commerce and implemented pilot programs in activities such as restaurants, religious events, and commercial flights. It is worth noting that despite the national mandate, more than 90% of the economy was allowed to operate, though local government control over decisions held some of that back.

That said, Monday's announcement was crucial as key cities such as Bogota and Medellin followed the national government in announcing a return to normal with social distancing protocols. It is worth saying that Bogota's Mayor, Claudia Lopez, adopted the hardest line on re-opening strategy during the first four phases. Indeed, she had announced strict quarantine in half of Bogota's neighborhoods recently, which was lifted following significant social pressure from business associations, making us think that recent opening announced were highly influenced by the economic crisis generated by lockdowns.

Preliminary announcements from the government were that free mobility will be allowed and that isolation will be an autonomous decision of citizens who notice some COVID-19 symptoms. In Bogota, economic activities will be permitted under an alternating scheme, four days (Monday to Wednesday) will be

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabank.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

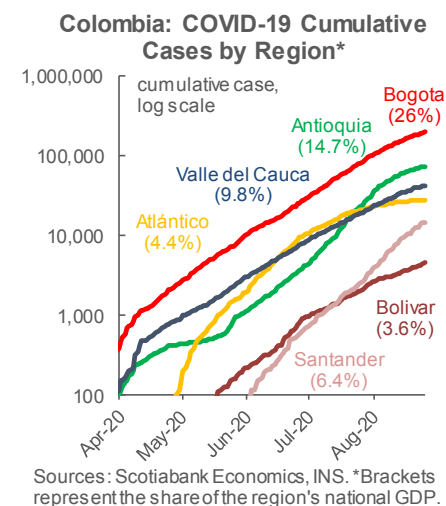
Marc Ercolao
416.866.6252
Scotiabank Economics
marc.ercolao@scotiabank.com

TODAY'S CONTRIBUTORS:

Jackeline Piraján
57.1.745.6300 (Colombia)
Scotiabank Colombia
jackeline.pirajan@co.scotiabank.com

Paulina Villanueva
52.55.5123.6450 (Mexico)
Scotiabank Mexico
pvillanuevac@scotiabank.com.mx

Chart 1



for businesses with low social contact such as wholesale and manufacturing activities. In contrast, other activities with higher social interaction will be allowed from Thursday to Sunday. In Medellín, the opening will be extended to outdoor activities such as theaters, churches, sports activities, parks, and auto-cinemas. In November nightclubs and some large-scale events are expected to operate. Bogota and Antioquia account for almost 40% of the Colombian economy, which makes us confident of an economic rebound.

In summary, the re-opening in Colombia is accelerating, which would shift economic growth dynamics to the upside; however, it will take several quarters for economic activity to return to pre-pandemic economic activity levels.

Unemployment is still high, and prohibitions of large-scale events will continue to hinder employment. That said, the limit on the demand side is now the main challenge for a speedy economic rebound in Colombia. Our GDP forecast will remain stable since there is a risk on a second wave, and we will wait until the re-opening consolidates further.

—Sergio Olarte & Jackeline Piraján

MEXICO: ECONOMY REPORTED HISTORICAL CONTRACTIONS DURING Q2-2020; JUNE FIGURES CONTINUED TO EXHIBIT ANNUAL REDUCTIONS

According to figures released by INEGI on August 26, the revised Gross Domestic Product (GDP) figures for Q2-2020 showed a slightly smoother fall than anticipated in their previous estimate; though it still represents a historical reduction. GDP contracted -18.7% y/y in Q2-2020 versus -18.9% y/y previously (chart 3), remaining slightly above our estimate of -19.3% y/y, however, our average forecast for this year is maintained at -9.08% y/y. During the first half of 2020, GDP registered a real annual contraction of -10.1% y/y.

- **By components, the industrial sector fell more sharply compared with the same quarter last year, from -2.6% y/y to -25.7% y/y, and the service sector shrank further from -0.7% y/y to -16.2% y/y.** The agricultural component showed a modest reduction, going from 0.9% y/y to -0.5% y/y (versus -0.7% y/y).

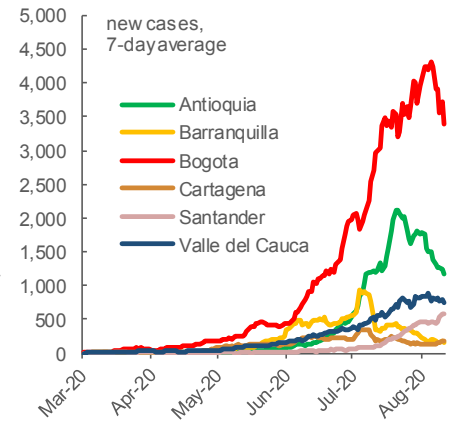
In a positive sign, according to the Global Indicator of Economic Activity (IGAE in Spanish), the Mexican economy advanced 8.9% m/m in June from May due to a monthly recovery in its two main components. Industry presented its best historical monthly increase, going from -1.2% m/m to 17.9% m/m, while services grew from -3.2% m/m to 6.2% m/m. However, productive activity continued to exhibit annual reductions in the first half of the year, with the y/y decline still near historical lows (chart 4).

It is foreseeable that the economic weakness will persist, despite the gradual re-opening of economic sectors beginning in May, and extending to the end of the year to a lesser degree; thus, the outlook for subsequent quarters is still subject to a high degree of uncertainty, where the conduct of economic policy represents one of the main factors that may hinder the path towards a prompt recovery.

— Paulina Villanueva

Chart 2

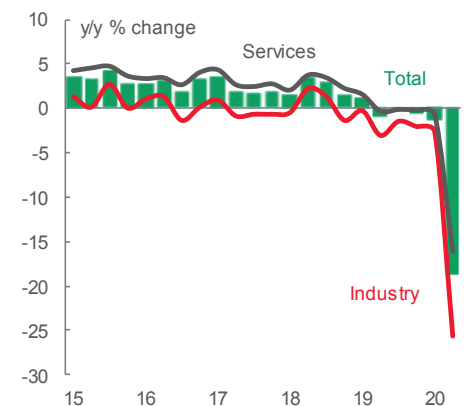
Colombia: New COVID-19 Cases



Sources: Scotiabank Economics.

Chart 3

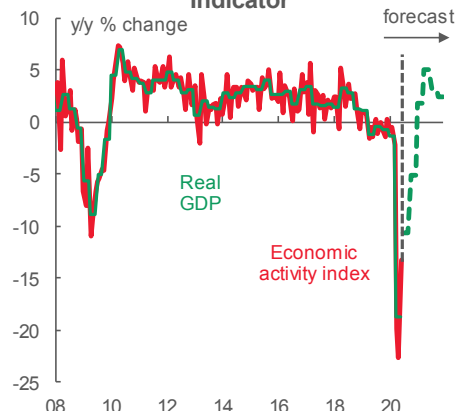
Mexico: GDP



Sources: Scotiabank Economics, INEGI.

Chart 4

Mexico: Global Economic Activity Indicator



Sources: Scotiabank Economics, IBGE.

PERU: THE CONSTITUTIONAL COURT STRIKES DOWN CONGRESSIONAL ROAD TOLLS LAW, WITH IMPLICATIONS FOR PUBLIC PENSION FUND LAW

The Constitutional Court (Tribunal Constitucional) struck down as unconstitutional a law given by Congress on May 8 suspending road tolls. After Congress overrode a government veto, the government took the law to the Court. The Court, with the unanimous vote of its members, declared the tolls law unconstitutional in that it intrudes on a contract between private parties and affects concession contracts that are legally binding. A few toll operators had already taken the law to lower courts, which had acceded to their demands that the law be suspended in these individual cases. The determination by the Constitutional Court is encouraging in regard to other Congressional laws that the government may take issue with, including the law approved by Congress earlier this week mandating an up to PEN 4,300 payment to public pension fund affiliates. The expectation is that the government plans to take the law to the Constitutional Court, once Congress overrides a likely government veto. The decision by the Court on the tolls law ratifies the perception that the Constitutional Court is fairly straightforward in determining the Constitutionality of matters brought to its attention, which suggests that it would also consider the pension fund law unconstitutional, as it would require government disbursements, which the Constitution forbids Congress to do.

—Guillermo Arbe

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.