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

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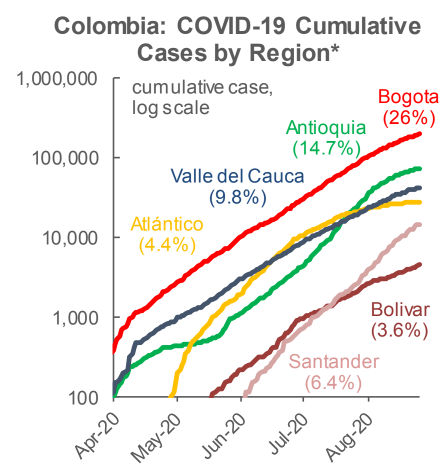
Chart 1



Sources: Scotiabank Economics, INS. *Brackets represent the share of the region's national GDP.

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 Medellin, 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 on 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.

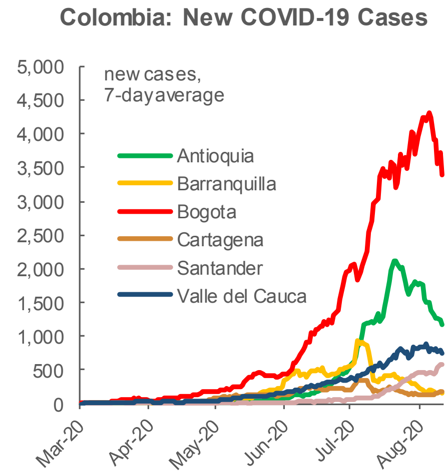
- **By components, the industrial sector fell more sharply compared with the same quarter last year, from -2.6% y/y to -25.7% y/y, and the service sector shrank further from -0.7% y/y to -16.2% y/y.** The agricultural component showed a modest reduction, going from 0.9% y/y to -0.5% y/y (versus -0.7%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

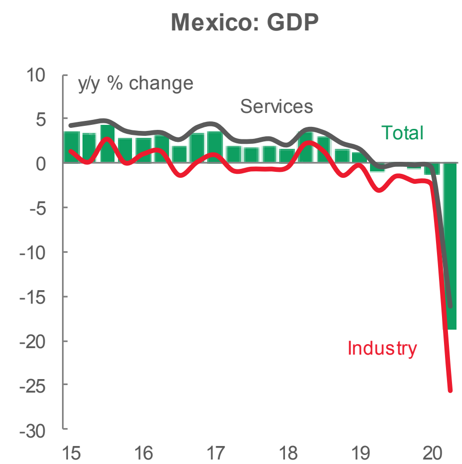
— Paulina Villanueva

Chart 2



Sources: Scotiabank Economics.

Chart 3



Sources: Scotiabank Economics, INEGI.

Chart 4

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 Constitutional) 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