June 15, 2020

Latam Economic Update

- **Argentina: Final government debt-exchange offer in "days or weeks"**
- **Chile: Treasury increases new stimulus package to USD 12 bn**
- **Colombia: Retail sales and manufacturing posted historical contractions in April**
- **Mexico: Job creation in May exhibited another decline**
- **Peru: The fiscal deficit soars in May, and yet the number is not as bad as it could have been**

ARGENTINA: FINAL GOVERNMENT DEBT-EXCHANGE OFFER IN "DAYS OR WEEKS"

On Friday, June 12, Argentina's government extended the offer period for its debt exchange for a fourth time, from June 12 to June 19, with indications that it is likely to be extended again. Economy Minister Guzman said that the government would provide another set of improved offer terms in the coming "days or weeks" in order to win sufficient consent from creditors to move forward with a treatment of USD 65 bn on bonds in default. Creditors continue to indicate that they do not foresee the immediate pursuit of litigation since discussions remain constructive. The NDAs governing the talks expire on Tuesday, June 16, but could be renewed, so it's not clear this represents any kind of hard deadline.

Also on Friday, the settlement auction on outstanding CDS that were triggered by Argentina's default on its external-law bonds determined that CDS holders will receive about 68.5% of amounts covered by the swaps. The ISDA panel indicated that the relevant bonds were valued at 31.5%.

—Brett House

CHILE: TREASURY INCREASES NEW STIMULUS PACKAGE TO USD 12 BN

After long negotiations with Congress over consideration of the economic proposals of a broad group of economists, the government has decided to increase the amount of a new fiscal stimulus from USD 10 bn to USD 12 bn to face the crisis caused by COVID-19. With this fund, social benefits and economic recovery plans would be financed for up to 24 months. In particular, higher current expenses such as direct transfers to families, support for workers and companies, and higher health expenses would be covered. Also, the package would include additional public investment and new economic measures, including transitory tax benefits.

Among other measures, the plan includes:

- Increase by about 30% the emergency family income that is delivered to households without other sources of income during these months;

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@scotiacb.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

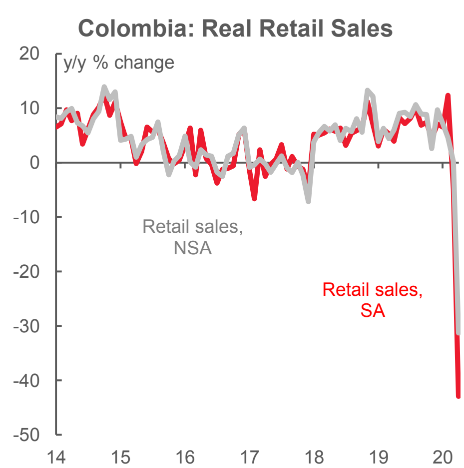
TODAY'S CONTRIBUTORS:

Carlos Muñoz
56.2.2619.6848 (Chile)
Scotiabank Chile
carlos.munoz@scotiabank.cl

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

Daniel Mendoza
52.55.5123.2684 Ext. 31797 (Mexico)
Scotiabank Mexico
damendoza@scotiabank.com.mx

Chart 1



Sources: Scotiabank Economics, DANE.

- Deliver freely available resources to municipalities to be used to support their populations in the context of the emergency. The distribution of these resources will be made according to criteria including overcrowding, concentration of the elderly population, and poverty, among others;
- Extend the unemployment insurance benefits; and
- Economic recovery measures:
  - ◊ Expand the coverage of the COVID-FOGAPE program by eliminating the deductible from the state guarantee, thereby allowing companies with sales greater than UF 1 mn (about USD 35 m) to also access the program, subject to the same cap and guarantees today applicable to those firms with sales below that amount. They will also consider lowering the cap of the interest rate to be charged to the debtor;
  - ◊ Extend the rescheduling of SMEs' property tax so that fees unpaid in the first half of 2020 are paid in 2021;
  - ◊ Extend the subsidies to the hiring of women and young people from 40% to 60% of the most vulnerable population for the duration of the pandemic;
  - ◊ Update and promote the portfolio of more than USD 14 bn in road projects, dams, airports, hospitals, and others in the bidding plan, originally scheduled for 2019–23, and incorporate new areas such as railways and telecommunications infrastructure (for example, the installation of antennas required by 5G technology); and
  - ◊ Extend the duration of the instant depreciation benefit to investments made until December 2022 and evaluate the extension of instant depreciation to 100% of the corresponding investments.

Although the content of the package is agreed between the opposition and the government, there is still discussion regarding its financing. The opposition calls for new money to be used, through increased debt and the use of the Economic and Social Stabilization Fund (ESSF), while the government proposes to reallocate planned 2020 spending to finance part of the plan. More details will be known in the coming days when the plan is formally announced by the Treasury.

—Carlos Muñoz

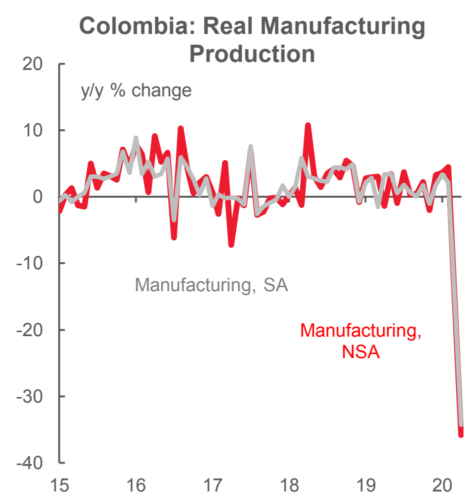
COLOMBIA: RETAIL SALES AND MANUFACTURING POSTED HISTORICAL CONTRACTIONS IN APRIL

On Friday, June 12, DANE released real retail sales and real manufacturing production data for April. Real retail sales contracted by -42.9% y/y (chart 1), worse than market expectations (-30.5% y/y). Real manufacturing production fell by -35.8% y/y (chart 2), also below market expectations (-30% y/y). According to our estimates, in April, 34% of the economy was shut down, which was the most severe stage of the quarantine. Although contractions in coincident indicators should continue, we expect better numbers in May since we estimate the economic shutdown was reduced to around 24% of economic activity. The above numbers are in line with our expectation that GDP contracted by -10.6% y/y in Q2-2020.

The quarantine to contain the COVID-19 pandemic started on March 25; however, April was the most restrictive month, especially for non-essential activities that were almost all closed. In April, only two retail sales items showed y/y increases: essential goods such as foodstuffs (13.5% y/y) and cleaning products (4.5% y/y). On the negative side, non-essential goods purchases contracted the most, especially gasoline (-54.1% y/y) and vehicles (-94.4% y/y). Year-to-date retail sales contracted by -7% y/y.

On the manufacturing side, production in 33 out of 39 subsectors fell in year-on-year terms in April. The worst-performing sectors were those related to construction, transport, and commercial activities. Specifically, mining-related construction materials fell -88% y/y, the beverage sector declined by -59.2% y/y, and oil refining dropped -43.9% y/y—all of which accounted for 42% of the manufacturing contraction. It is worth noting that the manufacturing decline is equivalent to a shutdown of 12 business days in the industry. Manufacturing has contracted by -2.1% y/y year-to-date.

Chart 2



Sources: Scotiabank Economics, DANE.

April was the worst month for economic indicators and, although the negative data will continue, contractions will be more moderate in the coming months. In fact, indicators such as gasoline sales, energy demand, and credit card transactions confirm that April was the bottom for economic activity, while in May, a gradual recovery of those indicators began.

In terms of monetary policy, the central bank projects a contraction in Q2-2020 GDP between -15% and -10% y/y, which supports the perspective of gradualism for adjustments in the monetary policy rate. We think BanRep will cut the monetary policy rate by -25 bps to 2.50% at the June 30 meeting, further cuts will be data-dependent, given the high uncertainty regarding the recovery process.

—Sergio Olarte & Jackeline Piraján

MEXICO: JOB CREATION IN MAY EXHIBITED ANOTHER DECLINE

According to the Mexican Institute of Social Security (IMSS), job creation figures for May, published on June 12, continued to report negative results for both the first five months of 2020 and the cumulative 12 months to May, mainly driven by the health emergency.

- Formal-sector jobs of workers affiliated with IMSS decreased by 344,526 in May, the worst result for May since 1997, "as a consequence of the effects derived from the health emergency", the IMSS stated.
- In the first five months of 2020, 838,272 formal jobs were lost, while in the last 12 months 799,740 jobs were lost, the worst results in at least 23 years.
- The annual rate of job creation deepened its drop from -2.2% y/y in April to -3.9% y/y in May. Consecutive months of contraction have not been seen since 2009.
- Meanwhile, the number of employers affiliated with IMSS (0.99 mn) decreased by 3,295 during May.
- In contrast, the nominal increase in wages of workers contributing to IMSS was quite strong during May (up 8.1% y/y), which may reflect layoffs for low-wage workers.

These results reaffirm that in 2020 the loss of employment will exceed one million formal jobs, as anticipated by the Central Bank of Mexico's survey of economic expectations. Depending on its causes, the strength of the wage dynamic could inhibit employment once the economic activity begins to recover.

—Daniel Mendoza

PERU: THE FISCAL DEFICIT SOARS IN MAY, AND YET THE NUMBER IS NOT AS BAD AS IT COULD HAVE BEEN

The fiscal balance figures for May 2020, released on June 11 by the BCRP, are a mix of good and bad. Peru's fiscal balance for the January–May period went from a clear surplus in 2019 (PEN 9.4 bn or USD 2.7 bn) to a clear deficit in 2020 (PEN -11.2 bn, or USD -3.4 bn), but this change in direction was expected, given the lockdown. At first sight, this is terrible for this time of year, as April–May is the income tax payment season. And, yet, the deficit was not as bad as it could have been. The deficit for the month of May was just about PEN 570 mn lower than in April, when we were expecting it to be about par, although the difference was mainly due to a one-off income tax payment linked to an acquisition.

The decline in both fiscal revenue and expenditure was considerable in May. Fiscal revenue fell -29% y/y in the month of May, and -18% y/y for the January–May period. The value-added tax for domestic purchases dropped nearly -44% y/y, which gives us a better idea of just how much consumption declined during the lockdown. At the same time, government spending fell -4.9% y/y, led by a sharp -75% y/y decline in public investment. This was harsh and was not compensated by the nearly 12% y/y increase in government current spending. The strong decline in public investment helped buoy up the fiscal balance a bit, but is disappointing in terms of supporting GDP growth.

Annualized, the deficit in the year-to-May is around 4% of GDP, and is tracking below our expectations. May results are not enough, quite yet, to lower our 9% of GDP fiscal deficit forecast for 2020, considering the high level of uncertainty. Doing so in the future will depend crucially on how strongly government spending will pick up post-lockdown.

—Guillermo Arbe