

## Latam Economic Update

- **Argentina:** New policies to deal with economic strains
- **Chile:** President Piñera announces new measures to face the pandemic; national accounts data for Q1-2020 released
- **Mexico:** New operational rules in the energy sector raise concerns; auto sector restarts

### ARGENTINA: NEW POLICIES TO DEAL WITH ECONOMIC STRAINS

Monday, May 18, saw the Argentine government renew its restrictions on layoffs for another two months to help keep workers connected to their place of employment. The regulations are not accompanied by wage or other payroll subsidies, which means that businesses remain responsible for payroll taxes and other deductions—a heavy burden during the extended quarantine.

The national government also moved ahead with its decision to impose a USD 45/bbl price on purchases by refiners of local oil, around USD 10/bbl higher than relevant international benchmarks. The development of Vaca Muerta remains the main focus of the order. In order to take advantage of the fixed price, local oil producers have to promise to keep activity at or above 2019 levels and they cannot tap the FX market. The fixed price will remain in effect until end-2020.

—Brett House

### CHILE: PRESIDENT PIÑERA ANNOUNCES NEW MEASURES TO FACE THE PANDEMIC; NATIONAL ACCOUNTS DATA FOR Q1-2020 RELEASED

With a call for unity of all political forces, President Sebastián Piñera announced on May 17 five new social measures to confront the COVID-19 crisis in Chile. At the end of the first weekend of the largest government-declared quarantine to contain the outbreak, the President highlighted the delivery of 2.5 mn boxes of food and other items to the most vulnerable families in the country and the middle class in need. In addition, given difficulties in accessing bank loans, Piñera also reported that "a state guarantee fund and a network of non-bank financial institutions are being structured" in order to support SMEs more quickly. The third announcement featured the launch of a mental health plan that will include a digital platform for consultation and support. As for the challenges faced by some families to care for and isolate those ill with COVID-19, the government will expand the network of health residences nationwide to welcome people in need, with older adults having priority. Finally, the "quantity and quality" of the information provided by the authorities will be improved in the face of the progression and impact of the pandemic in Chile.

On May 18, the BCCh, the central bank, released national accounts data for Q1-2020 which showed a 0.4% y/y gain (chart 1), above the -0.1% y/y decline expected in the BBG survey. In seasonally adjusted terms, Q1-2020 registered a 3.0% q/q gain, reflecting the pick-up in activity, particularly in services, following

#### CONTACTS

**Brett House, VP & Deputy Chief Economist**  
416.863.7463  
Scotiabank Economics  
[brett.house@scotiabank.com](mailto:brett.house@scotiabank.com)

**Guillermo Arbe**  
51.1.211.6052 (Peru)  
Scotiabank Peru  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Mario Correa**  
52.55.5123.2683 (Mexico)  
Scotiabank Mexico  
[mcorrea@scotiabank.com.mx](mailto:mcorrea@scotiabank.com.mx)

**Sergio Olarte**  
57.1.745.6300 (Colombia)  
Scotiabank Colombia  
[sergio.olarte@co.scotiabank.com](mailto:sergio.olarte@co.scotiabank.com)

**Jorge Selaive**  
56.2.2939.1092 (Chile)  
Scotiabank Chile  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

#### TODAY'S CONTRIBUTORS:

**Carlos Muñoz**  
56.2.2619.6848 (Chile)  
Scotiabank Chile  
[carlos.munoz@scotiabank.cl](mailto:carlos.munoz@scotiabank.cl)

**Miguel Saldaña**  
52.55.5123.0000 Ext. 36760 (Mexico)  
Scotiabank Mexico  
[msaldanab@scotiabank.com.mx](mailto:msaldanab@scotiabank.com.mx)

Chart 1



the social unrest in October 2019. Nevertheless, despite the surprise expansion in Q1, the data were partially influenced by measures decreed by the health authorities and adopted voluntarily by the population to contain the COVID-19 pandemic from mid-March onward, which significantly impacted education, trade activities, transportation, and restaurants and hotels, among others.

**Domestic demand fell -2.6% y/y in Q1, dragged down by household consumption, which contracted -2.2% y/y.**

Consumption was hit by the partial suspension of classes, restrictions imposed on the mobility of people, and controls on the operation of retail, food, and leisure activities. Expenditures on services were hit hardest, followed by spending on durable goods, particularly on vehicles and technology.

—Carlos Muñoz

**MEXICO: NEW OPERATIONAL RULES IN THE ENERGY SECTOR RAISE CONCERNS; AUTO SECTOR RESTARTS**

**On Friday May 15, the Secretary of Energy published new operational rules for the national electrical system, prioritizing carbon- and oil-based energy against renewable energy sources—sources that are dominated by private firms.** In the new “*Reliability, Safety, Continuity, and Quality in the National Electrical System Policy*” policy statement, economic criteria for electric generation are disregarded. Instead, the new policy prioritizes power and speed of generation in order to “get a reliable and constant energy flow in the country”, as stated by the Energy Secretary, Rocio Nahle. This new policy imposes a series of limits on renewable energy, limits permits for new wind and solar projects, and prohibits construction of energy plants in places with low transmission capacity.

**With the publication of this official document, which was not accompanied by the necessary regulatory impact report, the government increases its control over the energy sector, in line with the presidential aim of CFE and Pemex pre-eminence over private firms.** In response, the Canadian embassy and European Union’s representatives, as well as several corporate chambers, raised concerns about the investment outlook and the increasing uncertainty in the market.

**In line with the return to work of the auto industry in the US, mining, construction, and automotive sectors in Mexico restarted activities on Monday May 18.** Recent legislation declared the sectors “essential” and strategic for the Mexican economy.

—Miguel Saldaña

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.