

Latam Economic Update

- **Argentina:** Markets greet debt restructuring offer with cautious optimism as terms filed with SEC; May industrial and construction activity likely to show small lifts
- **Mexico:** Private consumption and gross fixed investment plummeted drastically in April
- **Peru:** Political risk rises as the clash between Congress and the government over immunity flares up

ARGENTINA: MARKETS GREET DEBT RESTRUCTURING OFFER WITH CAUTIOUS OPTIMISM AS TERMS FILED WITH SEC; MAY INDUSTRIAL AND CONSTRUCTION ACTIVITY LIKELY TO SHOW SMALL LIFTS

Markets are greeting Argentina's fourth debt restructuring [offer](#), released on Sunday, July 5, with cautious optimism as the government proceeded to file its revised terms with the SEC. Altogether, we estimate that the new offer would provide creditors with about 4 more cents on the dollar compared with the authorities' previous offer, taking the NPV of the proposed exchange from about 49–50 cents to around 53–54 cents on a 10% exit yield. This is very close to what most bondholders have demanded and represents a serious improvement over the authorities' initial negotiating position, but at the cost of making Argentina's financing picture in the coming years more challenging: the new terms would deliver about USD 31 bn in debt relief compared with nearly USD 45 bn under the government's original offer.

While we think this new offer, with some possible tweaks, will likely provide the basis for agreement on a debt exchange, some remaining sticking points could include:

- **The absence of a sweetener.** No state-contingent provision has been included in the new terms. Neither the authorities' proposed "value recovery mechanism" based on agricultural exports nor creditors' proposals for GDP-linked elements feature in Argentina's new offer.;
- **Unequal contractual terms.** While holders of the 2005 exchange bonds will retain the right to contractual language from that era which makes future restructuring relatively difficult, holders of the 2016 "Macri" bonds would not be granted access to these terms. The authorities would also have the prerogative to assign bond series in their favour in the calculation of majorities for any future invocation of collective action clauses; and
- **Not all creditors have bought in.** Reports indicate that groups of creditors with blocking majorities in several bond series were not fully engaged in the articulation of this most recent set of terms.

In macro data, industrial production and construction activity in May, out at 15:00 ET today, may show some slight improvement in month-on-month terms since auto plants and some construction projects resumed activity in

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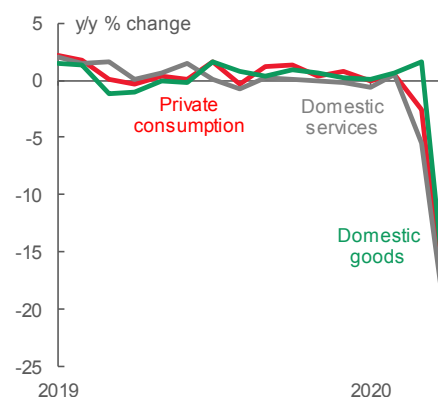
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Chart 1

Mexico: Domestic Private Consumption



Sources: Scotiabank Economics, INEGI.

the latter third of March. Nevertheless, year-on-year comparisons are likely to continue to show industrial activity off by about one third versus 2019 and construction activity down by around two thirds.

—Brett House

MEXICO: PRIVATE CONSUMPTION AND GROSS FIXED INVESTMENT PLUMMETED DRASTICALLY IN APRIL

I. Private consumption growth in April dropped to its weakest pace since 1993 as the lockdown began

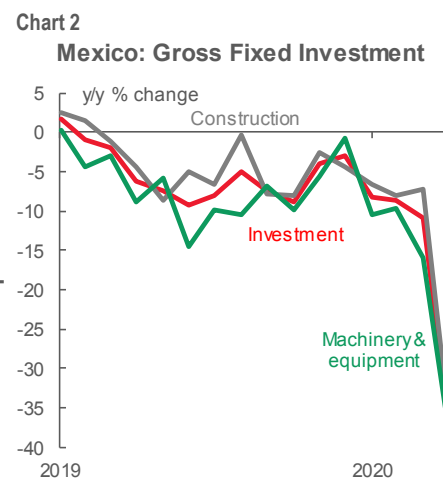
April data released on July 6 printed the weakest growth in private consumption on record since 1993 with a pullback from -2.5% y/y in March to -22.3% y/y n.s.a. in April (versus -0.3% y/y a year ago, chart 1). For the January–April period, consumption growth averaged -6.0% y/y, the lowest rate for the same period since 2009. On a monthly basis, private consumption growth plunged drastically, as it dropped from -2.4% m/m in March to -19.7% m/m in April. With this, we reaffirm our outlook for weak consumption growth for the rest of the year, as high uncertainty is likely to foster cautious consumer behaviour.

By components, domestic goods and services growth fell sharply from -2.2% y/y in March to -21.2% y/y in April, as domestic goods consumption growth dropped from 1.5% y/y to -20.3% y/y and domestic services consumption pulled back further from -5.6% y/y to -22.1% y/y. Regarding domestic goods consumption, all sub-components showed strong setbacks, with durable goods consumption falling from -2.4% y/y to -48.3% y/y, non-durable goods dropping from 4.1% y/y to -5.7% y/y, and semi-durable goods falling from -8.6% y/y to -75.6% y/y. Imported goods consumption growth also dropped from -5.8% y/y to -31.8% y/y.

II. April gross fixed investment printed the worst setback since 1995

In April data released July 6, gross fixed investment (GFI) fell for the 15th consecutive month, with the pace of decline quickening from -11.0% y/y in March to -36.9% y/y n.s.a. in April (chart 2). For the January–April period, GFI also fell strongly at -15.9% y/y compared with the same period in 2019, the weakest number for those four months since 1995.

By components, equipment and machinery growth fell from -16.0% y/y in March to -37.9% y/y in April. Construction investment also declined from -7.2% y/y to -36.2% y/y, with its residential subcomponent dropping from 3.0% y/y to -40.8% y/y and non-residential from -11.3% y/y to -31.4% y/y. The COVID-19 crisis deepened the prior domestic uncertainty around investment; considering the ongoing low levels of business confidence, we expect investment to continue to decline for the rest of the year.



—Miguel Saldaña

Sources: Scotiabank Economics, INEGI.

PERU: POLITICAL RISK RISES AS THE CLASH BETWEEN CONGRESS AND THE GOVERNMENT OVER IMMUNITY FLARES UP

Politics has displaced the economy and COVID-19 on the front pages of the newspapers in Peru, as the government and Congress spar over Congressional immunity. The government had been pushing for some time to narrow the scope of Congressional immunity, as part of its political reform agenda. On Friday, July 3, however, Congress voted down an initiative to curtail Congressional immunity. Furthermore, Congress voted against a separate initiative that would prevent individuals who have court sentences under appeal (“sentencia en primera instancia” in Spanish) from being able to run for elected office. Both votes in Congress went against the government’s political reform agenda. In response, on Sunday, July 5, President Vizcarra announced the government would hold a referendum on these two issues. Faced with the possibility of a referendum outside of its control, Congress proceeded to muddle things further by quickly calling an emergency session to take place immediately on that very same Sunday. A new law was approved with 110 votes in favour, 13 against, in a 130-seat Congress, which, in essence, establishes that immunity is lifted from members of Congress, but only for illegal acts unrelated to the exercise of their Congressional functions. For instance, under this act members of Congress would lose immunity with respect to acts of corruption before they were members of Congress, but not for acts committed while they are members. However, Congress also added an

unexpected provision, namely that immunity is similarly eliminated for the President and members of the cabinet. President Vizcarra responded by saying that Congress had sought a law that would be deemed unconstitutional by the Courts, thereby ensuring that it would never be put into effect. Cabinet head Vicente Zeballos, along with a number of political analysts, called the move an act of revenge on the part of Congress. Since the new law requires a Constitutional amendment, Congress needs a second vote, which is likely to take place quickly.

A number of constitutional experts have stated that what Congress is doing is not legal, and, as such, is not likely to be implemented. However, the political noise that is being created is discouraging, especially in view of the Presidential and Congressional elections coming up in nine months.

Just as the immunity issue was dominating the news and tilting in favour of the Vizcarra government's position, another news item appeared that could have a negative impact on Pres. Vizcarra and the perception of him as a crusader against corruption. On Sunday, July 5, a news program revealed that one of President Vizcarra's brothers-in-law had been awarded government contracts while Vizcarra has been in office. Questions as to the legality of this emerged immediately. However, even if the propriety of the contracts is ultimately upheld, the issue has the potential to significantly tarnish Vizcarra's image at a time of heightened sensibility in the country on issues of corruption.

—Guillermo Arbe

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