

Contributors

James Haley
 Special Advisor
 416.607.0058
 Scotiabank Economics
jim.haley@scotiabank.com

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Latam Charts: Maturing Recoveries

- **Accurately predicting recessions is notoriously difficult. In part, this reflects an ongoing debate over whether most expansions “die of old age,” or prematurely end because of excessively aggressive monetary tightening by central banks concerned with rising inflation.**
- **There is evidence that Latam recoveries are morphing into expansions, as output returns to pre-pandemic levels. And while there is little reason to think that nascent expansions are at risk of dying of old age, the risks of recession may be rising.**
- **But if the expansions are at risk of an untimely demise, the blame, arguably, should be put on central banks in the advanced countries, not their Latam peers.**

There is an ongoing debate in economics whether expansions “die of old age” or are “murdered,” as former Fed Chair Ben Bernanke once quipped. The debate revolves around the factors that transform economic expansion into recession—the effects of excessive debt accumulation and highly levered household and business balance sheets, coupled with increased risk-taking, on the one hand, or excessively aggressive monetary tightening by central banks that overshoot policy settings as they struggle to contain inflation, on the other hand. In a week that saw the Federal Reserve hike its key policy rate 50 basis points and bring forward plans to shrink the size of its balance sheet in a double-barrelled barrage to reduce inflation, the debate is of interest for more than merely theoretical reasons.

For the avoidance of doubt, there are few, if any, grounds to conclude that the economic expansions underway across the Latam region are at immediate risk of dying of old age. After all, it is just over two years since the pandemic shock, when activity seized up as public health mandates to restrict the spread of the virus were put in place. And while output has returned to its pre-pandemic level in most Latam countries, reaching that milestone can hardly be considered an indication of geriatric expansion. The fact that employment has generally lagged the recovery of output, with employment still below pre-pandemic levels, should dispel that contention.

But there are signs that recoveries across the region are maturing. Strong growth in 2021 reflected the “dead cat bounce” from pandemic-induced contractions in 2020: given low bases for comparison, the re-opening of economies, as mobility restrictions were relaxed, was bound to generate high growth rates. These adolescent growth spurts are making way for slower growth, a characteristic of more mature expansions. For instance, Scotiabank’s team in [Santiago](#) notes that, while Chile’s monthly GDP data for March came in above market expectations at 7.2% y/y, the q/q contraction reflects convergence towards trend GDP. Similarly, our experts in [Lima](#) have pointed out that, with m/m growth flat, February GDP growth of 4.9% y/y may not be as strong as it appears. In [Mexico](#), Scotiabank’s team recently highlighted the results of Banxico’s expectations survey, which shows slightly weaker growth (and higher inflation). The message here is that slowing growth does not necessarily presage issues of grave concern, even if there is a possibility, as in Chile, of a mild technical recession, as growth transitions to a more sustainable rate. Meanwhile, Colombia has closed the output gap between potential output and actual output, completing the transition from recovery to expansion.

Signs of maturing recovery are also found in labour markets across the region. In [Peru](#), for example, employment stagnated in March while the three-month moving average unemployment rate for Lima increased again. Likewise, [Chile’s](#) unemployment rate for the first quarter of 2022 increased as labour force growth outpaced job gains. And

in [Colombia](#), employment contracted on a seasonally-adjusted basis in March. Yet, despite these setbacks, there are positive signals coming from labour markets. Most important is the evolving composition of job gains, as formal jobs continue to increase while informal jobs decrease and gaps between male and female participation rates close.

In short, recent labour market trends may be consistent with sustained expansion. This is because early in a recovery firms may be uncertain about the durability of the expansion—particularly so with the threat of another COVID-19 wave looming over the outlook. In such circumstances, they are more likely to meet demand by re-employing less-skilled contingent workers who can easily be laid off if the recovery proves false. More formal employment, which typically involves skilled workers, entails higher costs of both hiring (to ensure the right job-skills match) and firing (separation payments).

At some point, however, as recovery becomes expansion, productivity and profitability can be enhanced by retaining more skilled workers. Moreover, unskilled workers can morph into skilled workers as they gain firm-specific human capital and move up the firm's internal labour market promotion ladder. In this perspective, stagnating employment reflecting higher formal job creation that fails to keep pace with the loss of informal jobs could be a favourable development if it reflects these human capital investments.

In normal circumstances, recent developments would be unlikely to raise alarms that an expansion is nearing its expected lifespan—except current circumstances are anything but normal. As noted in the last edition of the [Latam Weekly](#), we are emerging from a once-in-a-century pandemic while fighting the economic collateral damage from Russia's war on Ukraine.

These twin gales of economic destruction have propagated a series of supply-side and commodity price shocks that have pushed global inflation higher, well above central banks' inflation targets. These price pressures do not ineluctably imply we are on the cusp of a new age of inflation. However, they do challenge central bank price stability commitments and threaten to unleash expectations of inflation going forward. Central banks must therefore act with determined resolve to keep expectations well anchored; in this respect, the current conjuncture undoubtedly explains the Fed's more hawkish stance compared to just a few weeks ago.

The danger now is central banks having to move more aggressively to avoid expectations becoming unmoored. And given the uncertainty that pervades the outlook, such a response entails an increased risk of overshooting, as central banks mis-calibrate the degree of restraint required to achieve the fine balance needed to both anchor expectations and support sustained growth. Inflation that erodes purchasing power through the [real balance effect](#) is one source of possible miscalibration.

Moreover, it might be the case that the only way to return inflation expectations to central banks' target range is through a deliberate effort to choke demand to such an extent that excess supply puts downward pressure on prices and thus expected inflation. It is inconceivable this could be achieved without a recession or, equivalently, a sustained period of below-potential growth.

The inescapable conclusion is that, while the risk of economic expansions dying from old age seems remote, the possibility of an unnatural death is rising. But if expansions in the Latam region are murdered, to use Bernanke's phrase, it may not be local central banks, which have been proactively rebalancing monetary conditions over the past year, that are culpable. In just the last week, [Colombia's BanRep](#) raised its reference rate 100 bps in a more hawkish split vote while Chile's BCCh hiked its policy rate 125 bps today in a unanimous decision. Scotiabank economists across the region expect additional increases in the weeks ahead.

Rather than Latam central banks, those responsible for the potential untimely and premature death of economic expansions around the globe may well be advanced country central banks that failed to act with comparable prescience, temporizing with growing inflationary pressures, and those whose war to overturn the international order unleashed a gale of higher commodity prices.

Key Economic Charts

Chart 1

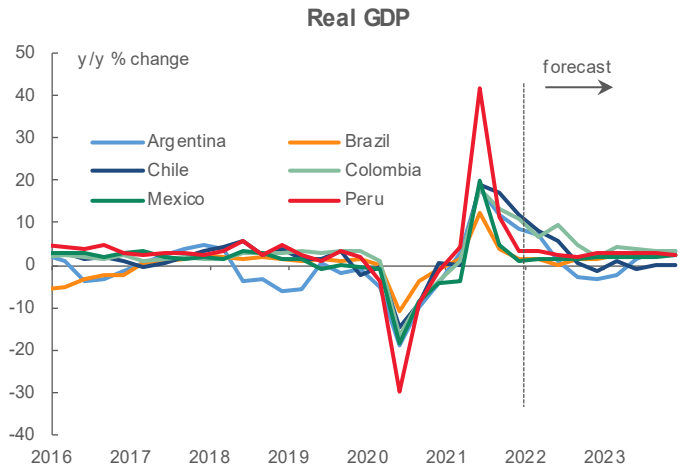


Chart 2

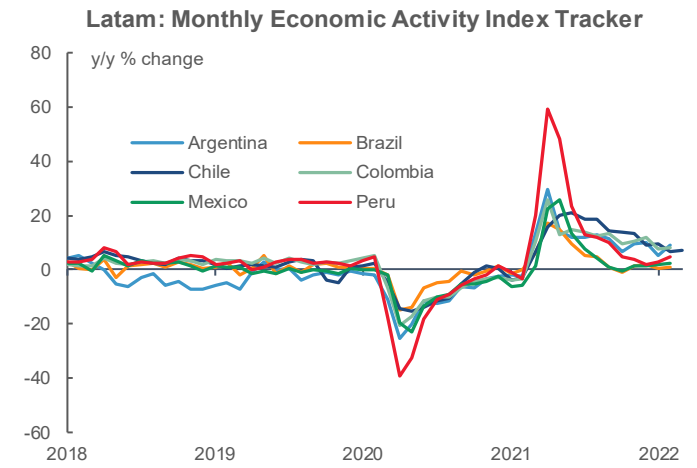


Chart 3

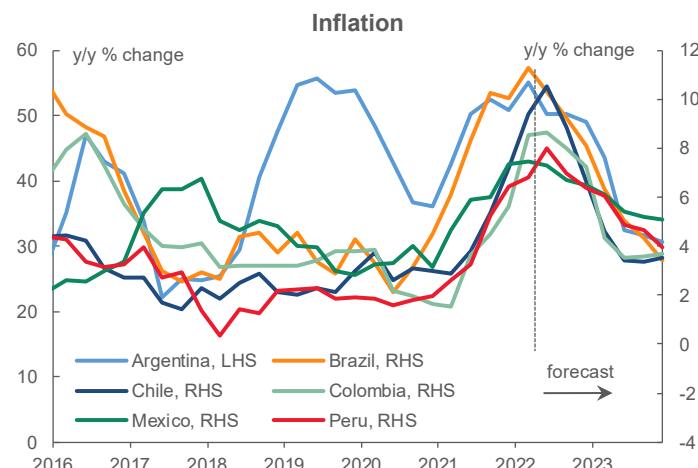


Chart 4

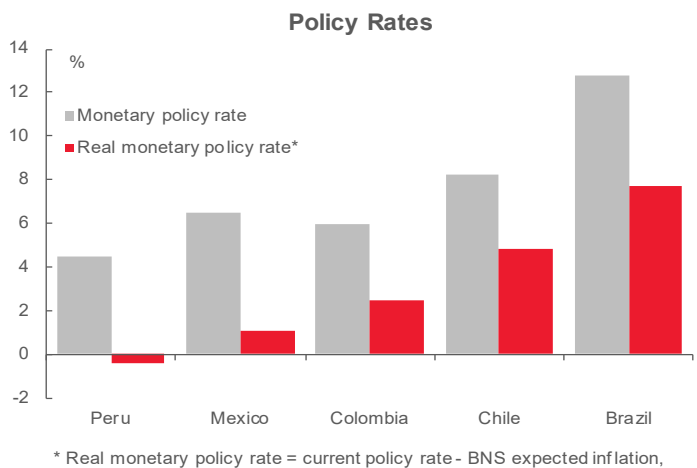


Chart 5

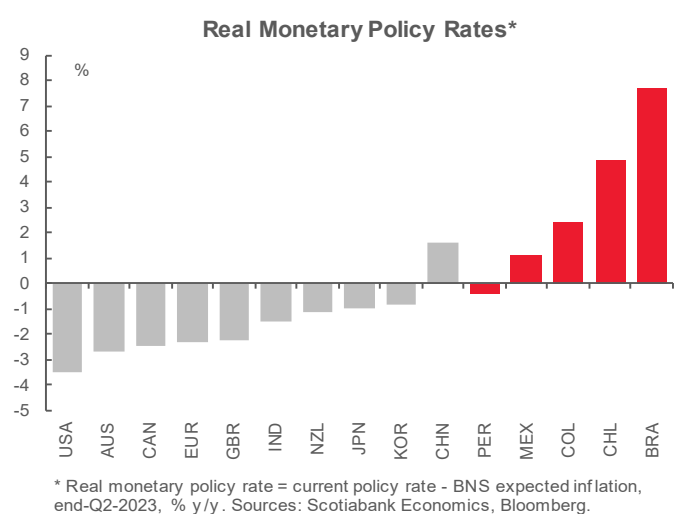
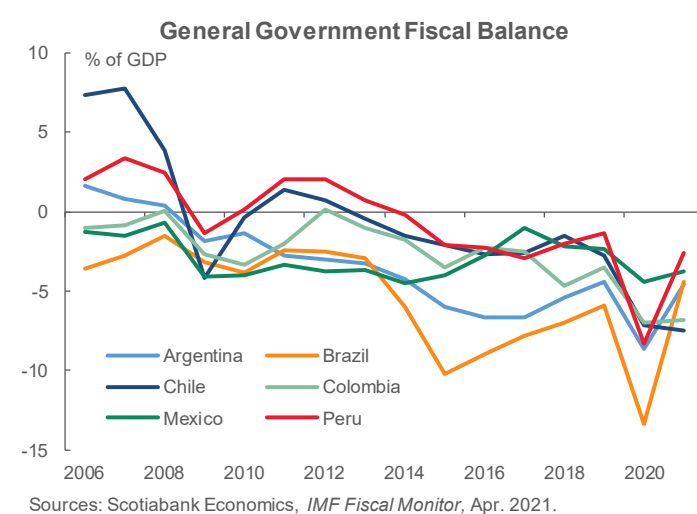


Chart 6



Key Economic Charts

Chart 7

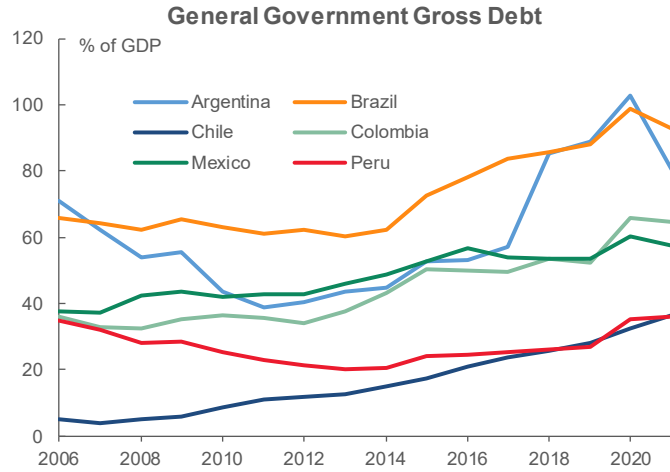


Chart 8



Chart 9

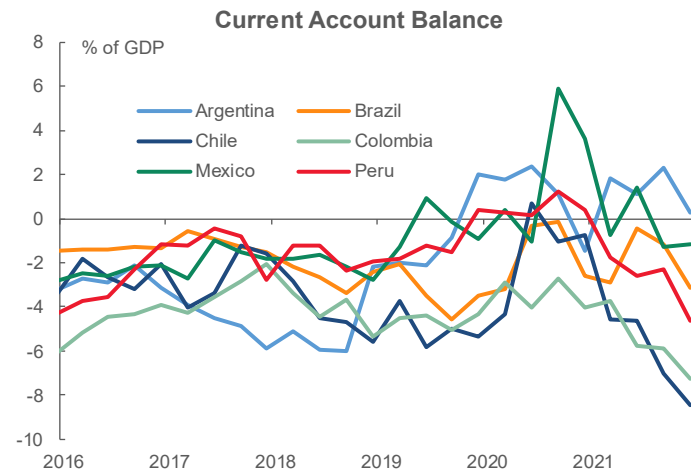
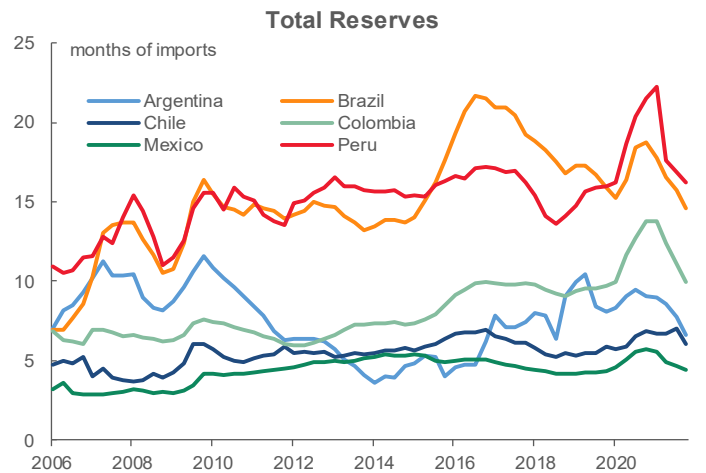


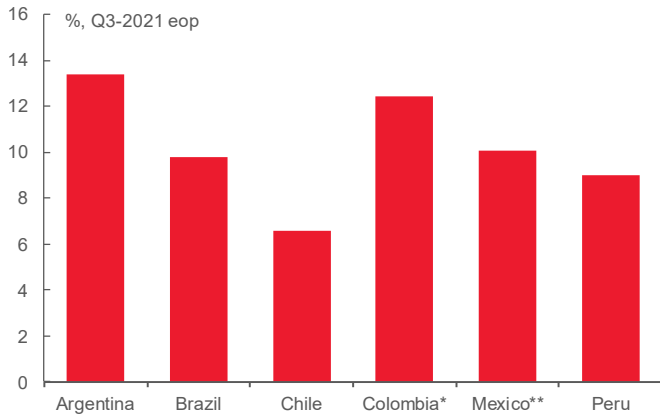
Chart 10



Key Market Charts

Chart 1

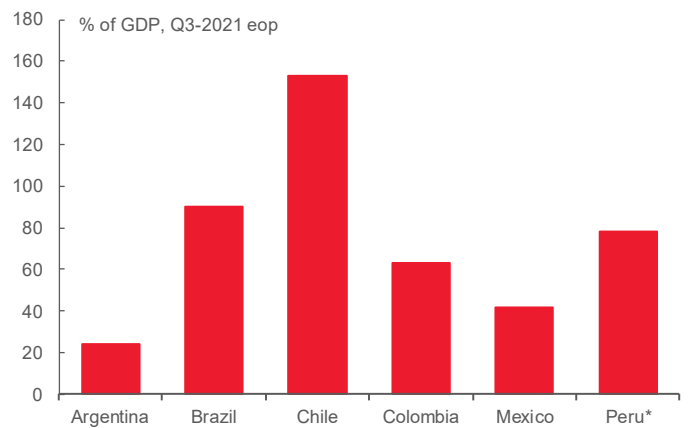
Bank Capital to Assets Ratio



* Data to Q4-2021. ** Data to Q1-2021. Sources: Scotiabank Economics, IMF.

Chart 2

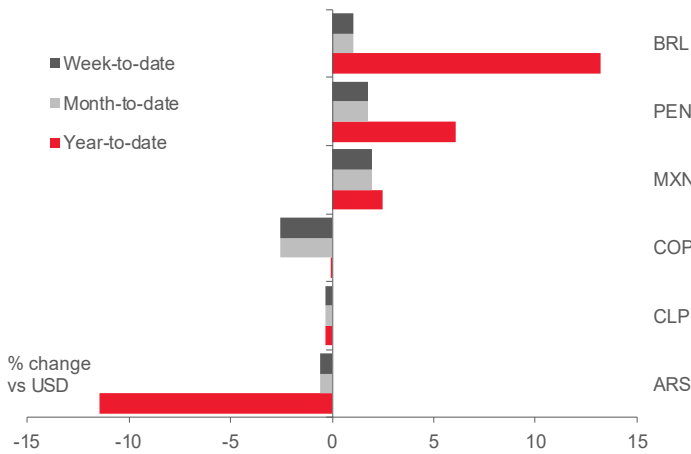
Domestic Credit to Private Nonfinancial Sector



* Data to Q4-2021. Sources: Scotiabank Economics, BIS, Haver Analytics.

Chart 3

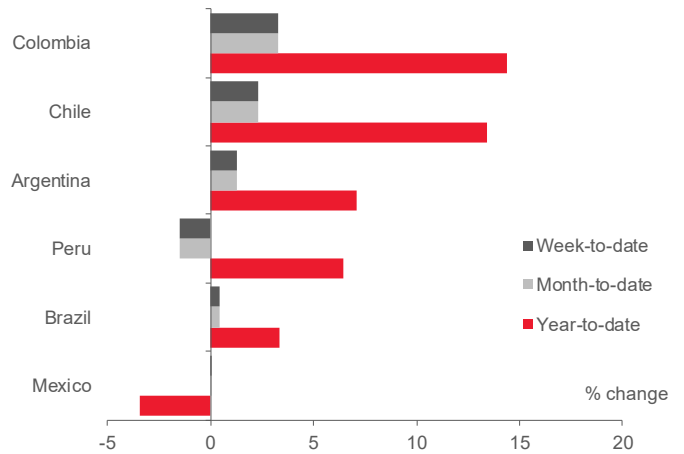
Latam Currencies Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 4

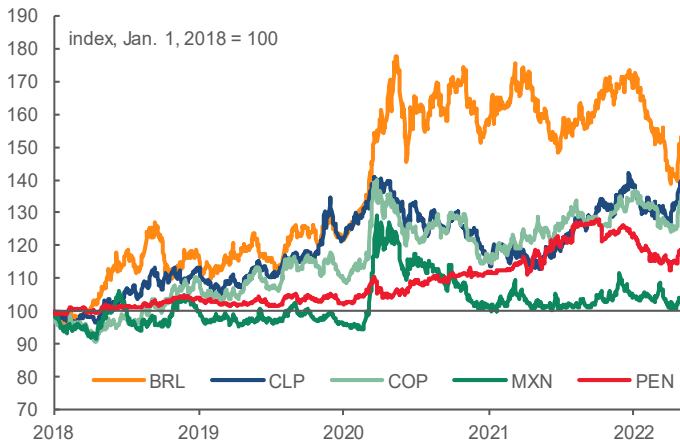
Latam Equities Performance



Sources: Scotiabank Economics, Bloomberg.

Chart 5

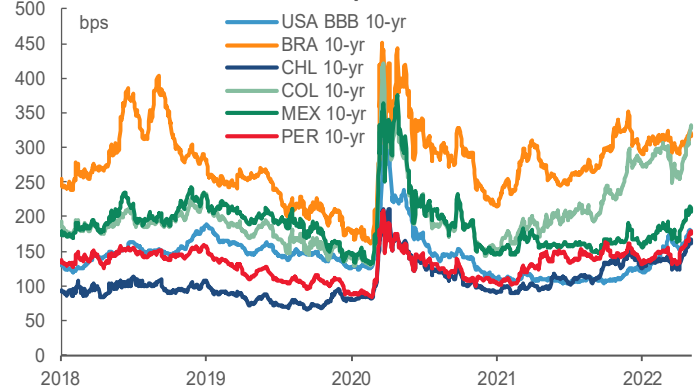
USD vs Latam Currencies



Sources: Scotiabank Economics, Bloomberg.

Chart 6

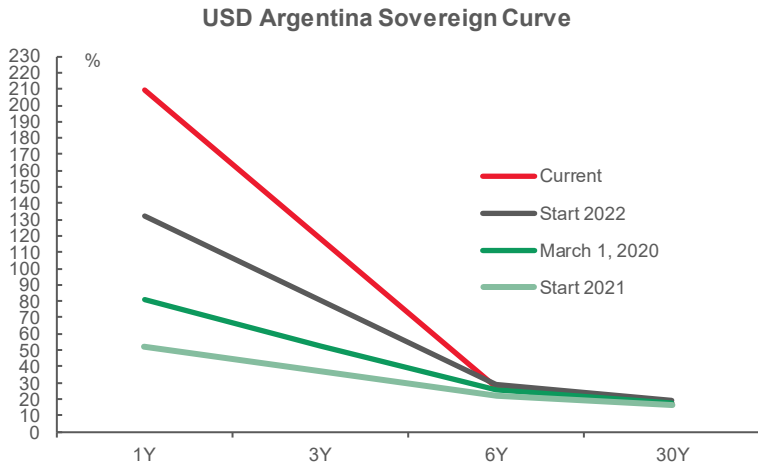
10-yr CDS Spreads: Latam Sovereigns & US BBB Corporates vs US*



*Sovereigns vs US swaps; BBB corporates vs 10-yr USTs. Sources: Scotiabank Economics, Bloomberg.

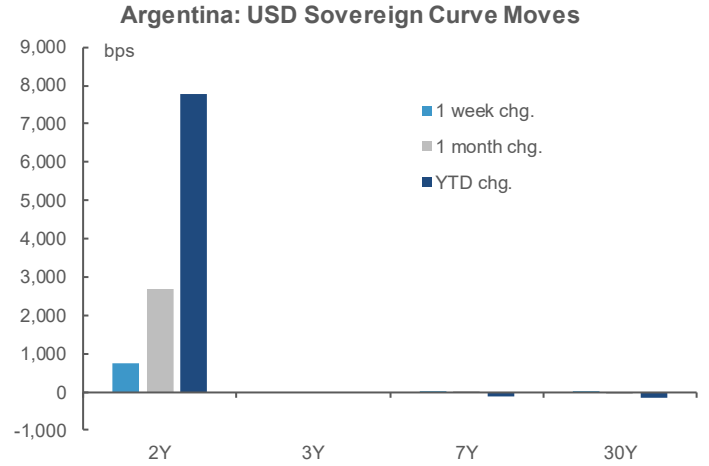
Yield Curves

Chart 1



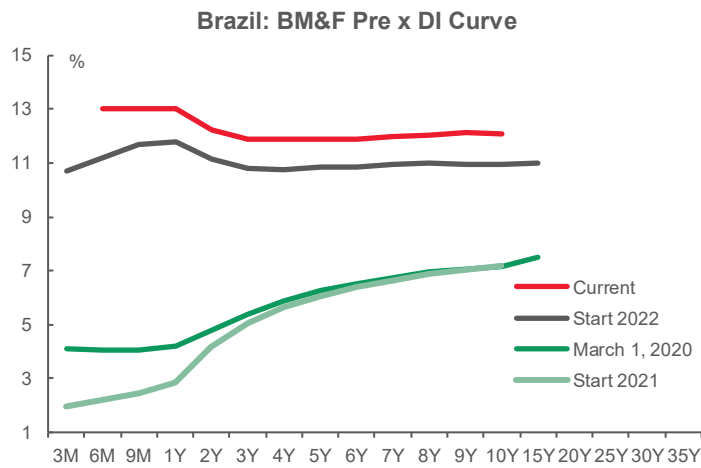
Sources: Scotiabank Economics, Bloomberg.

Chart 2



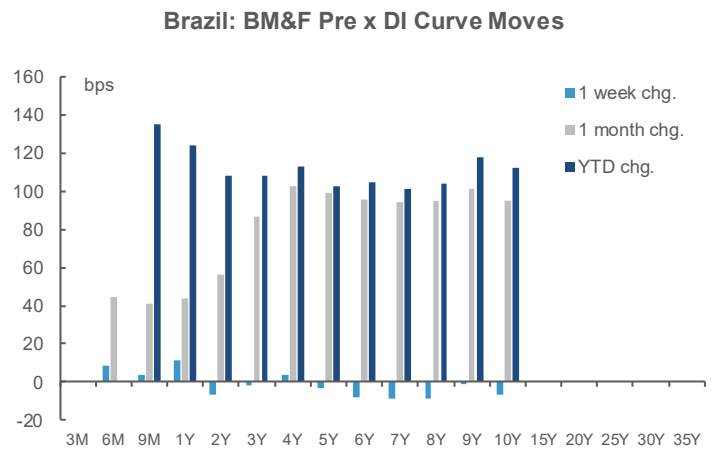
Sources: Scotiabank Economics, Bloomberg.

Chart 3



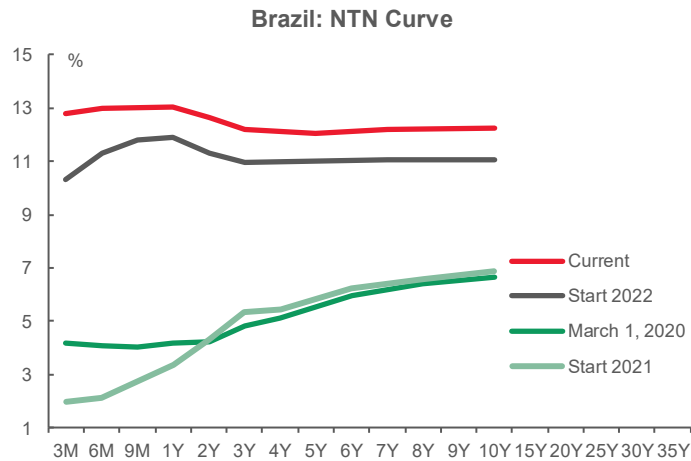
Sources: Scotiabank Economics, Bloomberg.

Chart 4



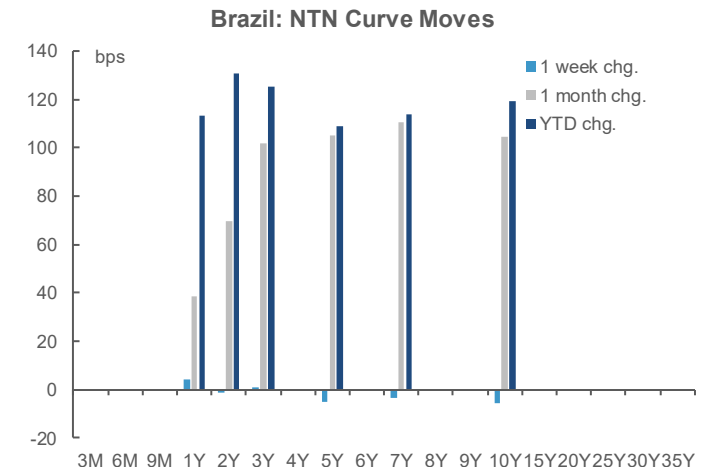
Sources: Scotiabank Economics, Bloomberg.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

Chart 6

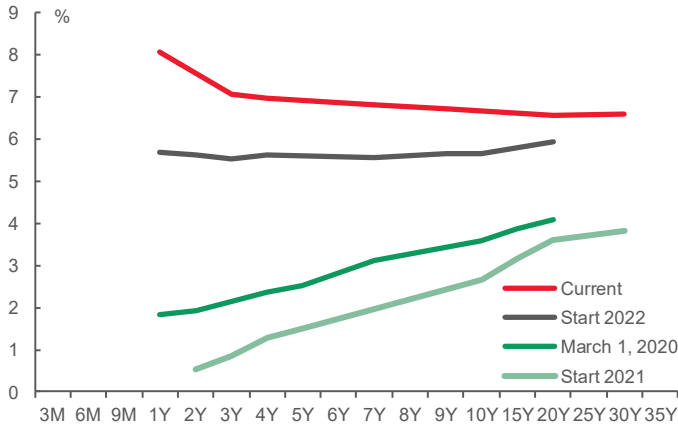


Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 7

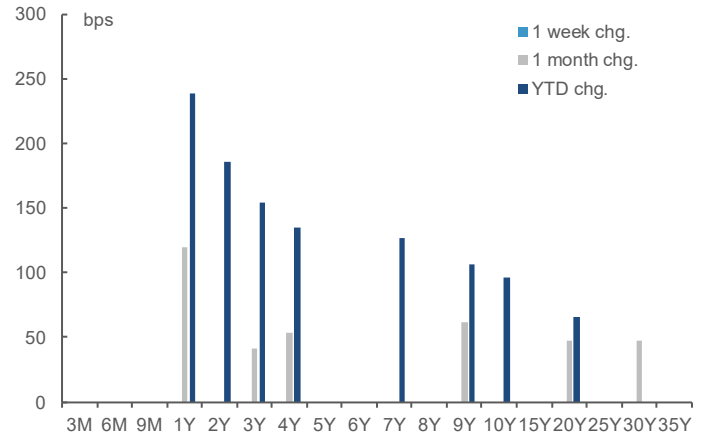
Chile: Sovereign Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 8

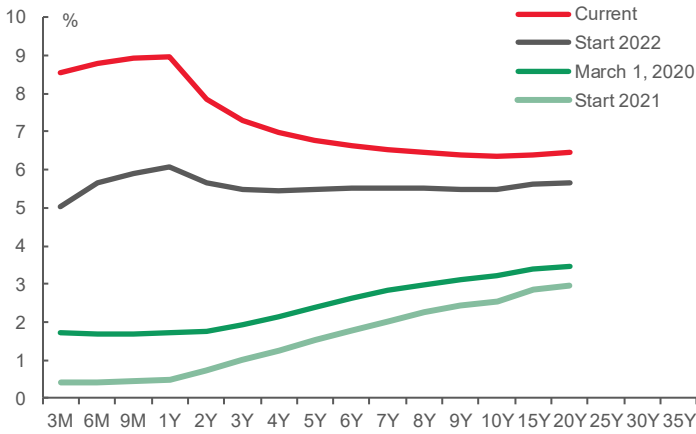
Chile: Sovereign Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 9

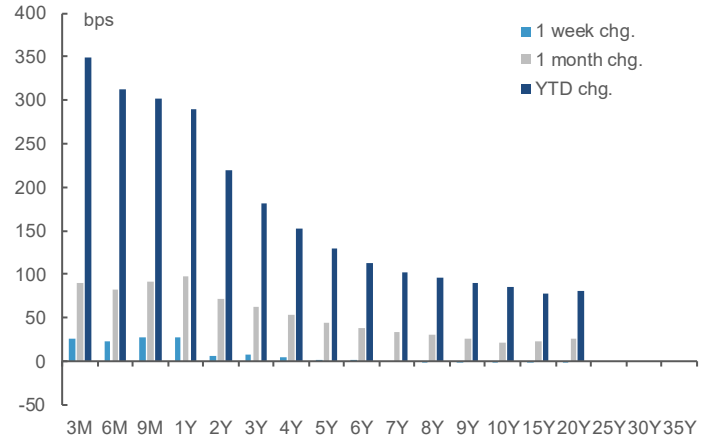
Chile: Fixed x Camara Swap Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 10

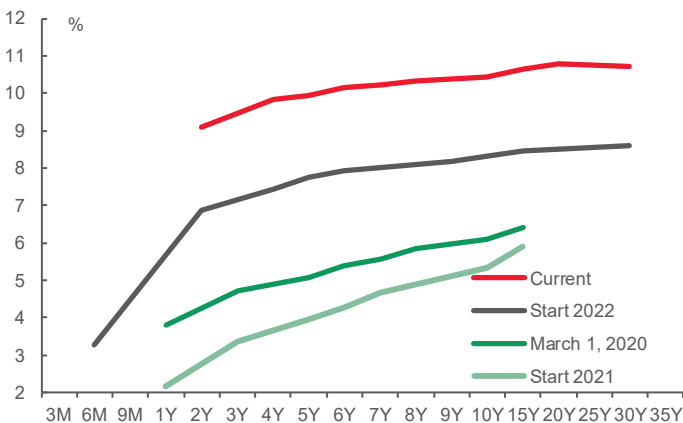
Chile: Fixed x Camara Swap Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 11

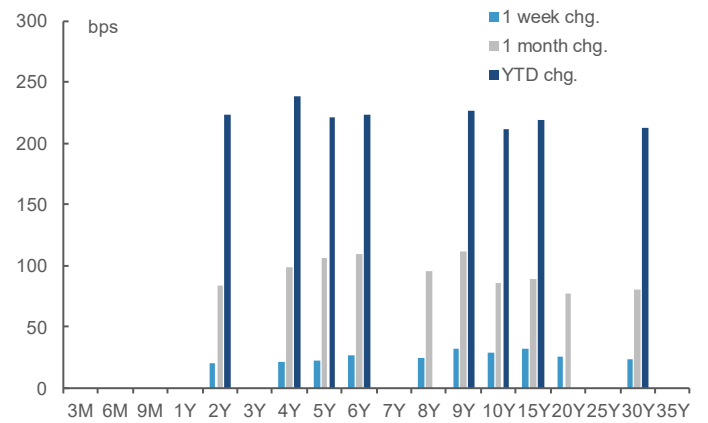
Colombia: Coltes Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 12

Colombia: Coltes Curve Moves

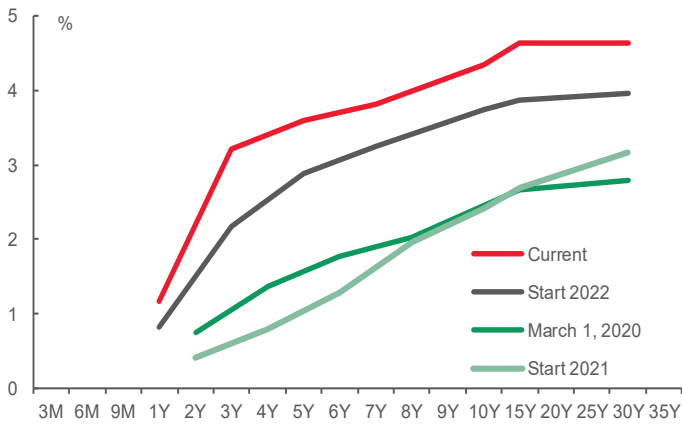


Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 13

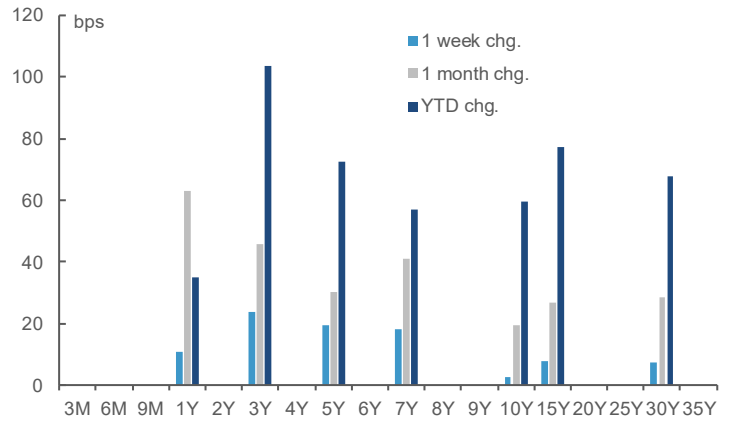
Colombia: UVR-Indexed Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 14

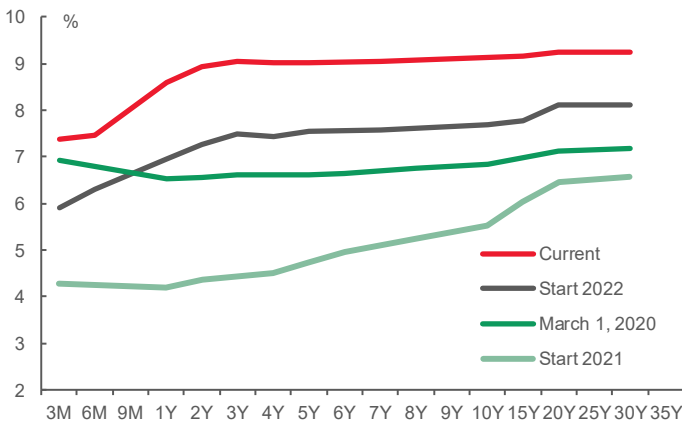
Colombia: UVR-Indexed Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 15

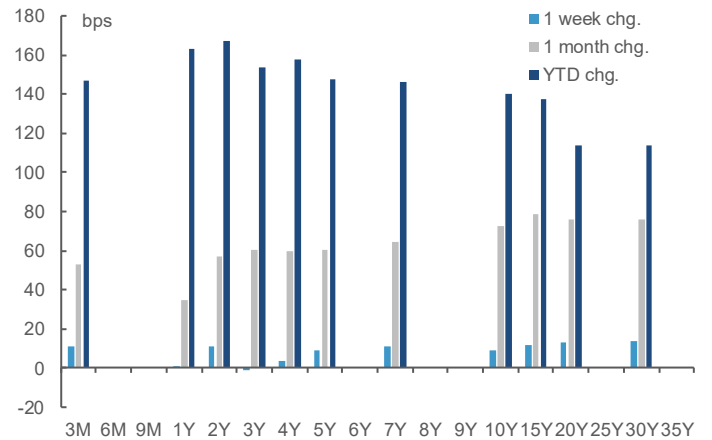
Mexico: M-Bono Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 16

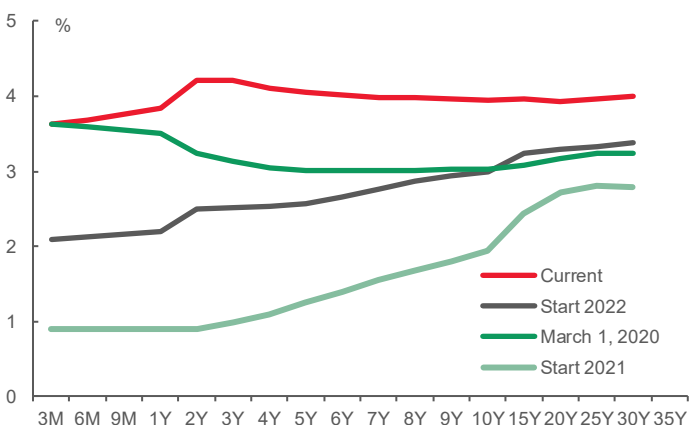
Mexico: M-Bono Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Chart 17

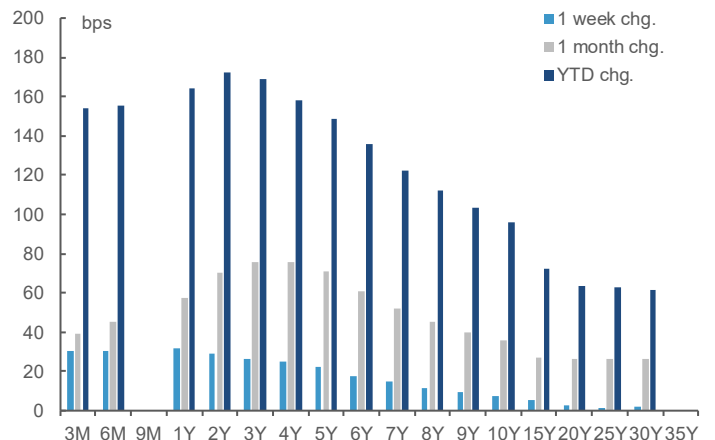
Mexico: Udibonos BVAL Yield Curve



Sources: Scotiabank Economics, Bloomberg.

Chart 18

Mexico: Udibono Curve Moves



Sources: Scotiabank Economics, Bloomberg.

Yield Curves

Chart 19

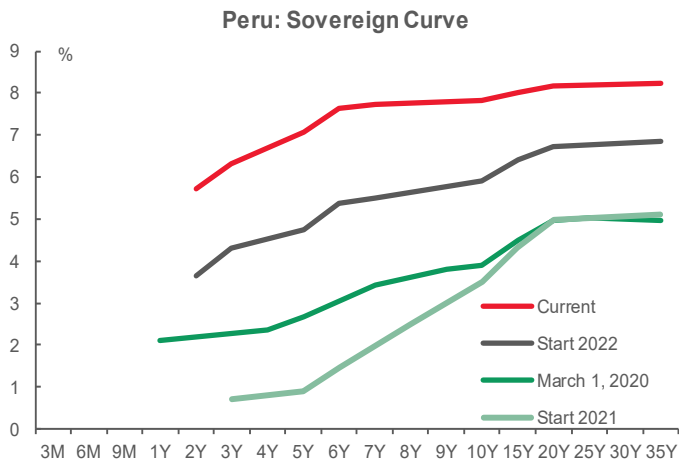
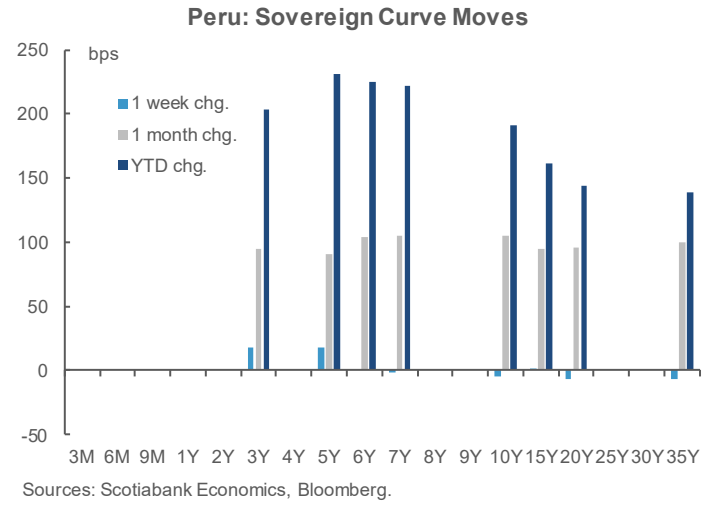
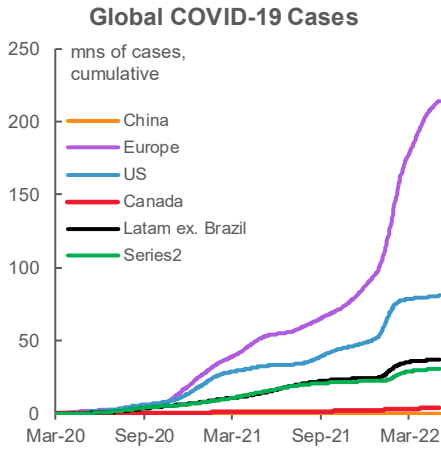


Chart 20



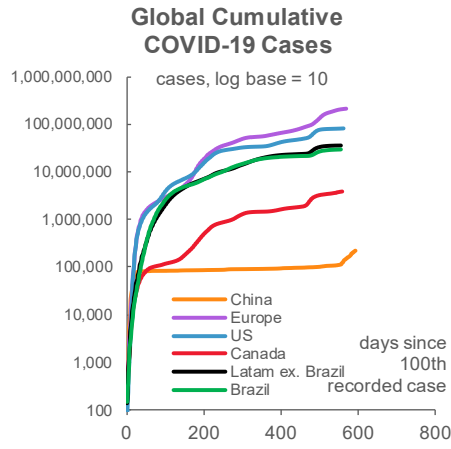
Key COVID-19 Charts

Chart 1



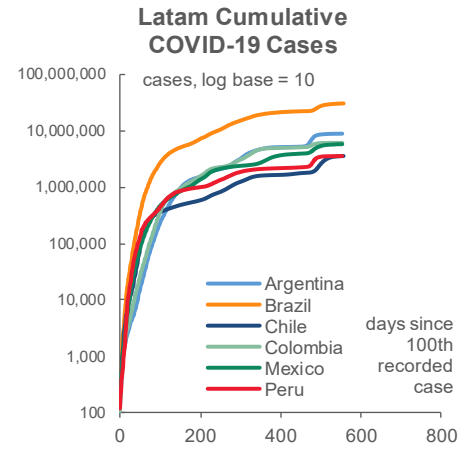
Sources: Scotiabank Economics, Johns Hopkins University, Oxford University.

Chart 2



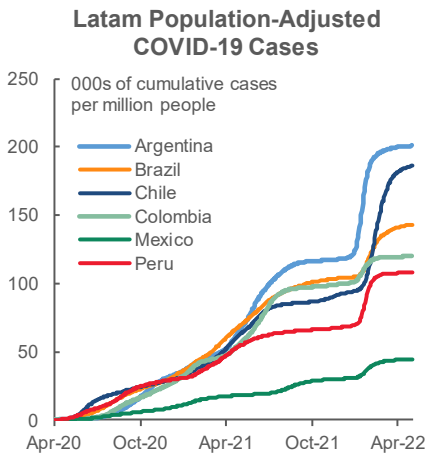
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 3



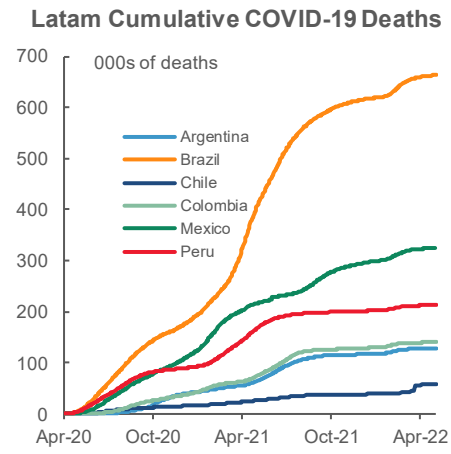
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 4



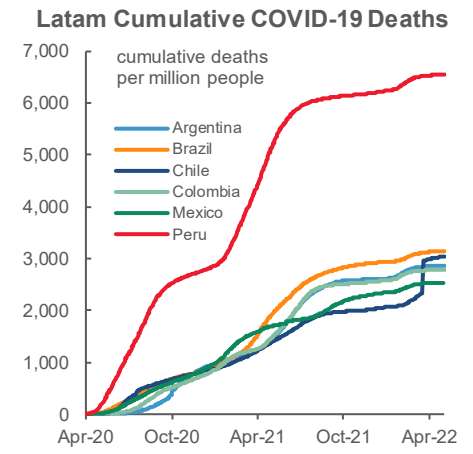
Sources: Scotiabank Economics, Johns Hopkins University, United Nations.

Chart 5



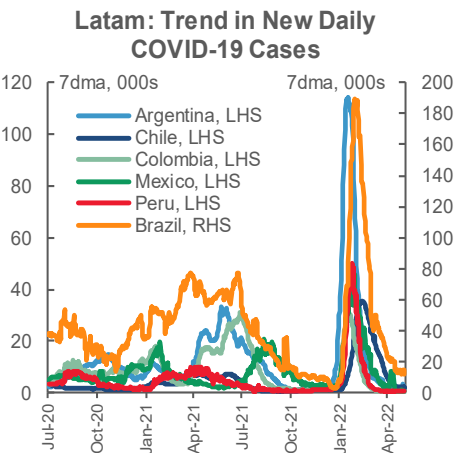
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 6



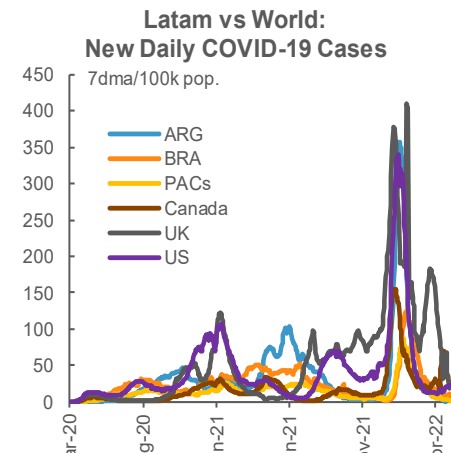
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 7



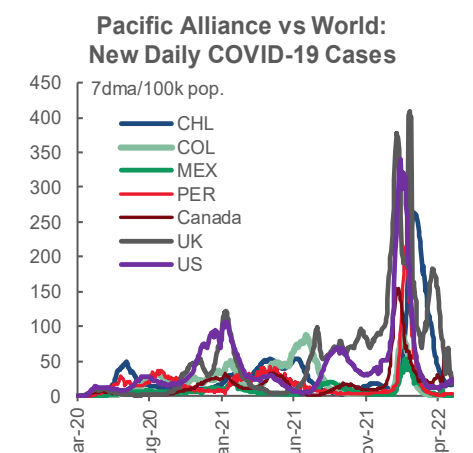
Sources: Scotiabank Economics, Johns Hopkins University.

Chart 8



Sources: Scotiabank Economics, JHU.

Chart 9



Sources: Scotiabank Economics, JHU.

Key COVID-19 Charts

Chart 10

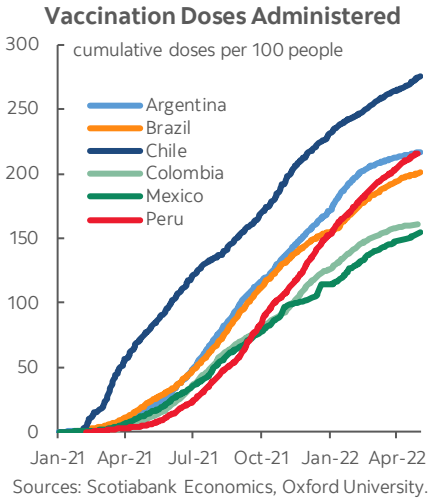


Chart 11

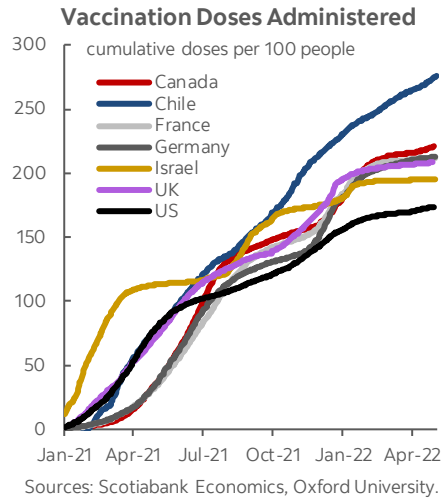
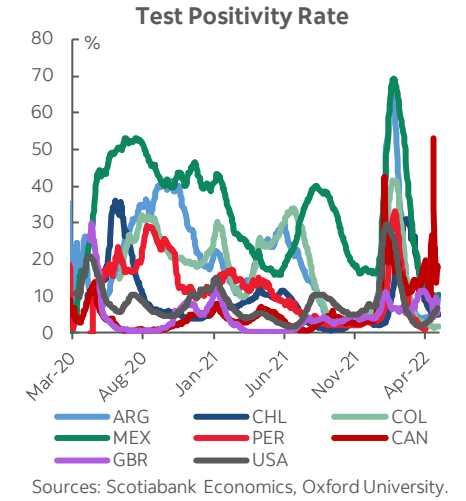


Chart 12



Market Events & Indicators for May 6–20

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
May-06		Central Bank Survey		--	--	--	--
May-10	15:00	Wages (m/m)	Mar	--	--	3.13	
May-12	15:00	Greater Buenos Aires CPI (m/m)	Apr	--	--	6.7	
May-12	15:00	Greater Buenos Aires CPI (y/y)	Apr	--	--	55.93	
May-12	15:00	National CPI (m/m)	Apr	--	--	6.7	
May-12	15:00	National CPI (y/y)	Apr	--	--	55.1	
May-17	15:00	Capacity Utilization (%)	Mar	--	--	64.3	
May-19	15:00	Economic Activity Index (m/m)	Mar	--	--	1.8	
May-19	15:00	Economic Activity Index (y/y)	Mar	--	--	9.1	
May-19	15:00	Exports Total (USD mn)	Apr	--	--	7352	
May-19	15:00	Imports Total (USD mn)	Apr	--	--	7073	
May-19	15:00	Trade Balance (USD mn)	Apr	--	--	279	
May-19		UTDT Leading Indicator	Apr	--	--	1.17	
May-20		Budget Balance (ARS mn)	Apr	--	--	-99753.3	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
May-06	7:00	FGV Inflation IGP-DI (m/m)	Apr	--	0.68	2.37	
May-06	7:00	FGV Inflation IGP-DI (y/y)	Apr	--	13.83	15.57	
May 5-6		Vehicle Exports Anfavea	Apr	--	--	38898	
May 5-6		Vehicle Production Anfavea	Apr	--	--	184786	
May 5-6		Vehicle Sales Anfavea	Apr	--	--	146819	
May-09	7:00	FGV CPI IPC-S (%)	07-May	--	--	1.08	
May-09	7:25	Central Bank Weekly Economist Survey		--	--	--	
May-09	14:00	Trade Balance Weekly (USD mn)	08-May	--	--	2032.9	
May-10	4:00	FIPE CPI - Weekly (%)	07-May	--	--	1.72	
May-10	8:00	Retail Sales Broad (m/m)	Mar	--	--	0.2	
May-10	8:00	Retail Sales Broad (y/y)	Mar	--	--	0.3	
May-10	8:00	Retail Sales (m/m)	Mar	--	--	-2.6	
May-10	8:00	Retail Sales (y/y)	Mar	--	--	1.3	
May-11	8:00	IBGE Inflation IPCA (m/m)	Apr	--	0.99	1.62	
May-11	8:00	IBGE Inflation IPCA (y/y)	Apr	--	12.09	11.3	
May-12	8:00	IBGE Services Volume (m/m) SA	Mar	--	--	2.3	
May-12	8:00	IBGE Services Volume (y/y) NSA	Mar	--	--	7.4	
May 9-13		Current Account Balance (USD mn)	Mar	--	--	-2414	
May 9-13		Foreign Direct Investment (USD mn)	Mar	--	--	11842.6	
May 9-13		Net Debt % GDP	Mar	--	--	56.62	
May 9-13		Nominal Budget Balance (BRL bn)	Mar	--	--	-22.545	
May 9-13		Outstanding Loans (m/m)	Mar	--	--	0.8	
May 9-13		Personal Loan Default Rate (%)	Mar	--	--	4.71	
May 9-13		Primary Budget Balance (BRL bn)	Mar	--	--	3.471	
May 9-13		Total Outstanding Loans (BRL bn)	Mar	--	--	4710.96	
May-16	7:00	FGV CPI IPC-S (%)	15-May	--	--	1.08	
May-16	7:25	Central Bank Weekly Economist Survey		--	--	--	
May-16	8:00	Economic Activity (m/m)	Mar	--	--	0.34	
May-16	8:00	Economic Activity (y/y)	Mar	--	--	0.66	
May-16	14:00	Trade Balance Weekly (USD mn)	15-May	--	--	2032.9	
May-17	4:00	FIPE CPI - Weekly (%)	15-May	--	--	1.72	
May-17	7:00	FGV Inflation IGP-10 (m/m)	May	--	--	2.48	
May 20-26		Tax Collections (BRL mn)	Apr	--	--	164146.66	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
May-06	8:00	CPI (m/m)	Apr	1.0	1.0	1.9	The m/m increase could be explained by rises in volatile
May-06	8:00	CPI (y/y)	Apr	10.0	10.1	9.4	items, mainly foods and transport.
May-09	8:30	Copper Exports (USD mn)	Apr	--	--	4945.8	
May-09	8:30	Exports Total (USD mn)	Apr	--	--	9481.44	
May-09	8:30	Imports Total (USD mn)	Apr	--	--	8217.55	
May-09	8:30	International Reserves (USD mn)	Apr	--	--	48319	
May-09	8:30	Trade Balance (USD mn)	Apr	--	--	1263.89	
May-10		Central Bank Economist Survey		--	--	--	
May 6-11		Vehicle Sales Total	Apr	--	--	37867	
May-18	8:30	Current Account Balance (USD mn)	1Q	--	--	-7554	
May-18	8:30	GDP (q/q)	1Q	-0.4	--	1.8	We estimate a GDP expansion of 7.9% y/y for the first quarter
May-18	8:30	GDP (y/y)	1Q	7.9	--	12.0	of 2022, consistent with our forecast of a GDP growth of 3% in 2022.
May-20		Central Bank Meeting Minutes		--	--	--	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for May 6–20

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
May-09		Consumer Confidence Index	Apr	--	--	--	-17.8
May-13	11:00	Industrial Production (y/y)	Mar	--	--	--	7.5
May-13	11:00	Manufacturing Production (y/y)	Mar	8.5	--	--	10.7 Economic activity indicators will maintain positive y/y expansion. Manufacturing will show a positive contribution from sectors related to mobility, while retail sales probably will show the effect of the VAT holiday.
May-13	11:00	Retail Sales (y/y)	Mar	7.9	--	--	4.9
May-13		Central Bank Economist Survey		--	--	--	--
May-16	11:00	Imports CIF Total (USD mn)	Mar	--	--	--	5826.68
May-16	11:00	Trade Balance (USD mn)	Mar	--	--	--	-1101.8
May-16	12:00	Economic Activity NSA (y/y)	Mar	6.5	--	--	8.1 The economy is expected to continue performing strongly by the end of Q1-2022, the services sector contributing significantly, but also with a better contribution from other sectors such as construction. Given the still strong kick-off in 2022, we now expect the economy to grow by 5.8% in 2022.
May-16	12:00	GDP NSA (y/y)	1Q	6.6	--	--	10.8
May-16	12:00	GDP (q/q)	1Q	-1.12	--	--	4.3

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
May-06	7:00	Gross Fixed Investment (%)	Feb	--	--	4.5	8.6
May-09	7:00	Bi-Weekly Core CPI (%)	30-Apr	--	--	0.14	0.44
May-09	7:00	Bi-Weekly Core CPI (y/y)	30-Apr	--	--	7.14	7.16
May-09	7:00	Bi-Weekly CPI (%)	30-Apr	--	--	0.23	0.16
May-09	7:00	Bi-Weekly CPI (y/y)	30-Apr	--	--	7.7	7.72
May-09	7:00	CPI Core (m/m)	Apr	--	--	0.72	0.72
May-09	7:00	CPI Core (y/y)	Apr	--	--	7.15	6.78
May-09	7:00	CPI (m/m)	Apr	--	--	0.6	0.99
May-09	7:00	CPI (y/y)	Apr	--	--	7.73	7.45
May-09	7:00	Vehicle Exports	Apr	--	--	--	262494
May-09	7:00	Vehicle Production	Apr	--	--	--	305976
May-10	10:00	International Reserves Weekly (USD mn)	06-May	--	--	--	199175
May-10		ANTAD Same-Store Sales (y/y)	Apr	--	--	--	8.8
May-10		Nominal Wages (m/m)	Apr	--	--	--	8.06
May-12	7:00	Industrial Production NSA (y/y)	Mar	--	--	--	2.5
May-12	7:00	Industrial Production SA (m/m)	Mar	--	--	--	-1.05
May-12	7:00	Manuf. Production NSA (y/y)	Mar	--	--	--	6.91
May-12	13:00	Formal Job Creation Total	Apr	--	--	--	64.6
May-12	14:00	Overnight Rate (%)	12-May	7.00	7.00	7.00	6.50
May-17	10:00	International Reserves Weekly (USD mn)	13-May	--	--	--	199175
May-20		Banamex Survey of Economists		--	--	--	--

PERU

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
May-12	19:00	Reference Rate (%)	12-May	5.00	--	--	4.50
May-16		Economic Activity (y/y)	Mar	--	--	--	4.92
May-16		Lima Unemployment Rate (%)	Apr	--	--	--	9.4
May 16-27		GDP (y/y)	1Q	3.5	--	--	3.2

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

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Website:	Click here to be redirected
Subscribe:	anibal.alarcon@scotiabank.cl
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