LATAM Market Update

- **Mexico: Government urges citizens to stay at home for the next month**
- **Peru: Authorities announce US$26 bn in resources to confront COVID-19 and economic downturn**

MEXICO: GOVERNMENT URGES CITIZENS TO STAY AT HOME FOR THE NEXT MONTH

Health Undersecretary, Hugo Lopez Gatell, strongly urged everyone to stay at home for a month, stressing that this could be the most effective way to contain the spread of COVID-19 in Mexico. Furthermore, all non-essential government activity has stopped beginning this Monday, and government has exhorted the private sector to stop non-essential activities as well, although staying at home and stopping non-essential business activities are just recommendations at this stage, without restrictive measures.

—Miguel Saldaña

PERU: AUTHORITIES ANNOUNCE US$26 BN IN RESOURCES TO CONFRONT COVID-19 AND ECONOMIC DOWNTURN

In a coordinated effort, the Finance Minister, María Alva, and the head of the Central Bank, Julio Velarde, pre-announced a number of significant fiscal and monetary measures over the weekend. The measures involve a huge US$26 bn (S/ 90 bn), or 12% of Peru's GDP. The objectives appear to include: 1. Contain COVID-19; 2. Ensure that the payment chain is not broken; 3. Provide a safety net to low-income households; 4. Provide a safety net to small and micro businesses; 5. Counter the short-term impact of the State of Emergency; 6. Stimulate an early and adequate recovery.

The breakdown of economic measures worth 12% of GDP is more or less as follows: fiscal spending 5.5% of GDP; Central Bank loan guarantees 4% of GDP. The remaining 2.5% would include increased access to pension funds, worker compensation, and tax benefits.

Note that much of the S/ 90 bn will not involve the use of fiscal resources. Approximately a third consists of guarantees by the Central Bank for private bank loans to, reportedly, a universe of 350,000 small and micro businesses. Another third is earmarked for early stages of COVID-19 containment and support of the economy, including a S/ 4.5 bn stipend for low-income families. This segment would also include the use of resources from private forced savings schemes, including partial access by individuals to their Worker Compensation Fund (CTS – Compensación por Tiempo de Trabajo) and the possibility that 2.6 million people who have not worked in the last 12 months withdraw up to S/ 2,000 from their Pension Funds (this has yet to be approved by Congress). The remaining third would be used in a recovery phase.

CONTACTS

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
Scotiabank Economics
eduardo.suarez@scotiabank.com

Guillermo Arbe
511.211.6052 (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

The Finance Ministry plans to submit a bill to Congress that would allow a certain amount of low-income individuals to have limited access to the pension funds. This would counter another bill being prepared in Congress to allow all those in the private pension fund system to be able to withdraw up to 25% of pension fund resources. Alva rightly said that this magnitude of access would wreak havoc on the pension fund system and the markets in which they participate.

Considering that the package of measures involves the use of CB guarantees, access to private savings, and tax benefits, the actual fiscal impact will be less. Depending on the details and timing, the measures could raise the fiscal deficit to between 6% and 8% in 2020, and keep it over 3% in 2021. This would be the highest deficit in recent memory, and reminiscent of the debt crisis levels of the 80s. There is a crucial difference, however, in that this debt would be temporary, not structural.

Another difference is that the emergency spending finds the country in a position of fiscal strength. The government would use, in part, savings that are held in the financial system, and would tap—to some degree—the US$5.8 bn Fiscal Stabilization Fund. The next step would be the IMF, where Peru would reportedly be seeking a US$18 bn contingency loan. The IMF is scheduled to meet (virtually) on April 17-19, to design new financing facilities. Finally, the country would still need to issue sovereign bonds.

Central Bank head Velarde also stated that the CB would lower its reference rate, currently at 1.25%, to 1.0%. We expected this for April, but believe that another 25bps cut may be in the cards for May.

Minister Alva indicated that, once COVID-19 is contained, certain sectors—such as tourism—will need to be “reconstructed” through a combination of subsidies and tax benefits.

The Central Bank president also stated that the details on the S/30 bn in measures the CB is working on to ensure that the payment chain is not broken will be announced on Wednesday. The CB would guarantee loans for working capital. The main aim is to ensure that businesses continue being considered creditworthy by banks.

Meanwhile, the curfew has been extended and now starts at 6pm and ends at 5am. Previously 8pm to 5am. Furthermore, army reserves have been called up. The government must be wondering if they can avoid protests and contain noncompliance much longer.

—Guillermo Arbe