Latam Daily: Chile's Second Round of Pension-Fund Withdrawals Nearly a Reality

- **Argentina: Tax-revenue growth slowed in November**
- **Chile: Second round of pension-fund withdrawals nearly a reality**

ARGENTINA: TAX-REVENUE GROWTH SLOWED IN NOVEMBER

Argentina's national government saw monthly tax-revenue growth slow in November, from ARS 642 bn in October to ARS 649 bn, a small relatively small ARS 7 bn gain after a ARS 36 bn m/m increase from September to October (chart 1). While the print was very close to our projection, it may imply a challenge at the margin for Economy Minister Guzman's pledge not to tap the BCRA for financing in the last two months of 2020 and early-2021.

—Brett House

CHILE: SECOND ROUND OF PENSION-FUND WITHDRAWALS NEARLY A REALITY

The Labour Committee of the Chamber of Deputies has approved the bill that would enable a second round of withdrawals from pension funds. Account holders who make withdrawals, but who have a monthly income of less than USD 2,000 would not pay taxes on these monies. The maximum withdrawal per person envisaged is similar to that of the first round of withdrawals (i.e., USD 5,600) and, according to the pensions regulator, total withdrawals from the pension system could amount to around USD 15.4 bn or 6% of GDP at the top end of projections.

Some additional macro and legislative details are worth noting:

- **The pension bill will be voted on in the Lower House by the end of this week, with an expectation that it would be ratified soon after by the Senate.** The Government expects to have the bill published in the official gazette next week;
- **The pension funds would have 10 days to disburse the first half of any withdrawals requested by contributors.** The remainder would be transferred 10 days later. Therefore, at least part of the withdrawals is expected to be delivered before Christmas;
- **The pension funds have been preparing for these outflows by maintaining enhanced liquidity in their asset management.** Despite this, we have already begun to see some upward creep in yields, which reflects both actual and anticipated divestment of both sovereign and corporate fixed-income instruments. We have also seen some appreciative pressure on the peso in response to realized and coming moves by the pension funds to liquidate foreign assets;
- **The first round of pension-fund withdrawals earlier this year amounted to about USD 18 bn and generated short-term inflationary pressures on**

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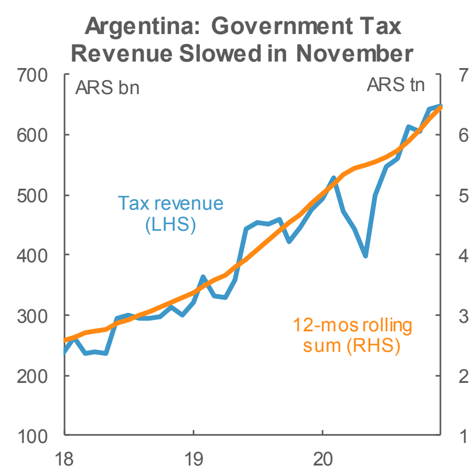
Chart 1



Sources: Scotiabank Economics, Min. of Economy.

goods prices stemming from increased retail and industrial demand, especially in the food sector. We expect to see continued short-term inflationary effects from the combination of the coming second round of withdrawals and the Government's fiscal support to households. We expect the impact on the CPI to be most pronounced in the months of December, January, and February;

- **The implications for economic activity should amount to around 1.5% of GDP, which could be felt as early as December 2020 and certainly during the first quarter of 2021.** This implies that our 2020 and 2021 GDP growth forecasts are now somewhat fluid. In view of the combination of October's disappointing IMACEC GDP proxy and the potential boost to spending from the second round of pension withdrawals, we now see 2020's real GDP contraction falling in a range between -5.2% y/y, our current forecast, and -6.1% y/y. We need some additional information to narrow this down toward a point estimate under a new baseline scenario and will keep this under review. We currently anticipate a 5.1% y/y expansion in 2021; and

- **The central bank faces two key challenges.** On the one hand, it needs to contain the financial impact of additional withdrawals of pension assets and mitigate undesired increases in interest rates. On the other hand, the BCCh needs to deliver a credible message that the effect of pension-fund withdrawals should be transitory, the withdrawals are not likely to generate relevant gains in investment or employment, and, therefore, they should not change the course of monetary policy. We expect this message to be delivered in the last *Monetary Policy Report* (*IPoM*) for 2020, which is due to be published on Wednesday, December 9.

—Jorge Selaive