Latam Daily: More Peru Pension Withdrawals Likely as GDP Growth Slowed in September

- **Peru: Congress approved another round of early pension-fund withdrawals; September growth indicators improved only slowly**

PERU: TWO CLEAR DEVELOPMENTS

I. Congress approved another round of early pension withdrawals

Congress voted heavily in favour of allowing a second round of early withdrawals from pension funds in deliberations on Monday, November 2. This time around the withdrawal cap was set at PEN 17,200 and applies only to those pension account holders who have not worked over the last twelve months. Another, more radical, initiative that would have allowed individuals to withdraw 100% of their pension assets was also considered, but tabled for now. Withdrawals will be allowed in three monthly parts of, at most, PEN 4,300 each. Given that the weaker of the two proposals was approved, there is a good chance that the Executive will not veto the bill; it has at most 30 days to act on it. Once the bill is signed into law, the Banking Superintendent has 15 days to enact the relevant procedures or regulations needed to activate the law.

Congress also voted in favour of a separate initiative allowing for the withdrawal of up to PEN 4,300 for those who have been out of work in October and did not make contributions to their pension accounts.

II. September growth indicators, improving only slowly

INEI published a number of growth indicators for September on Sunday, November 1 (table 1). The indicators were more positive than negative, and yet

Table 1

Peru: September growth indicators

	Current month		Previous month
	Sept. y/y % change	m/m* % change	Aug. y/y % change
Positive growth			
Cement	9.7	6.1	1.3
Fishing	7.3	nd	-6.5
Gov't current spending	13.5	5.9	6.9
Business loans	26.1	-0.3	26.2
Mortgage loans	4.1	1.0	4.1
Negative, but improving			
Electricity	-1.8	6.4	-3.0
Gov't investment	-3.2	36.7	-18.7
IGV sales tax revenue	-5.6	6.1	-11.7
Vehicle sales	-5.8	17.7	-13.0
Employment–Lima	-23.9	nd	-26.8
Negative and lagging			
Mining / oil & gas	-12.2	-5.5	-11.1
Consumer loans	-3.9	-0.4	-2.3
Credit card loans	-5.0	-0.8	-4.2

* m/m is Scotiabank Perú estimates based on INEI information.
Sources: Scotiabank Perú, Instituto de Estadística e Informática.

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not quite as positive as one would have liked them to be. The stronger growth indicators included cement demand, government spending, and business and mortgage loan approvals. The fishing industry also had a good month, but September is out of season, so its weight is low. The data for cement demand was not new, as a good approximation was provided in October by the local association of cement companies; cement demand is a component of construction GDP. Government investment is another major component in construction GDP; although public investment was down -3.2% y/y in September, it still showed a remarkable 36.7% m/m improvement over August's -18.7% y/y.

Business loans growth remained consistently strong in September, but this was a reflection of the Reactiva liquidity program's activity rather than a sign of real, growth-linked demand. In contrast, mortgage loans growth, up 4.1% y/y in September, reflected real activity and was in line with both cement sales and with other signs of a vigorous real-estate market.

More than half of indicators were still down, in y/y terms, in September, but many of them showed an improvement over previous months. Unfortunately, sectors of the economy that are driven by external demand are not keeping up. Mining's poor performance was particularly notable. In contrast, September indicators linked to domestic demand clearly improved, albeit not in a uniform fashion. Some of this improvement, however, was offset by mining.

Looking forward, October is set to be another matter. Most indicators driven by domestic demand should continue improving in October. A case in point is electricity, which was down only -0.2% y/y in October, a mild improvement over -1.8% y/y in September. Furthermore, it is our understanding that government investment growth should finally have turned positive in October. Mining output should be much closer to normal as the sector's workforce gets better at dealing with the pandemic.

—Guillermo Arbe