

Latam Daily: More Strong Data on Peru's End to 2020; Pension Reform Showdown

- **Peru: Private investment surprised to the upside in Q4-2020; external accounts were strong too; government set to veto pension reforms**

PERU: PRIVATE INVESTMENT AND CONSUMPTION SURPRISED TO THE UPSIDE IN Q4-2020; EXTERNAL ACCOUNTS WERE STRONG TOO; GOVERNMENT SET TO VETO PENSION REFORMS

I. Private investment and consumption surprised to the upside in Q4-2020

The BCRP [released](#) figures for Q4-2020 GDP domestic demand components on Thursday, February 18. We had already estimated a **-1.7% y/y decline in GDP for the quarter on the basis of monthly data (table 1)**. The greatest surprise in the breakdown was the quarter's 9.4% y/y increase in private investment (chart 1), much better than the 0% y/y (nil) annual growth we were expecting. Private investment contracted deeply during the lockdown, and, in fact, fell -17.2% y/y over the whole of 2020. We are still not seeing a strong expansion in capital spending outside of mild investment growth in mining—even though the real estate market is booming. Much of the investment that is taking place is likely focused on technology and digitalization, as well as new buildings, spurred by the change in consumption patterns linked to COVID-19. We were aware of this, but it was hard to gauge the scale of these developments.

Another pleasant surprise came in consumption, which registered a mild **-1.5% y/y annual decline in Q4-2020 (table 1, again)**. Employment metrics have improved, but not enough to account for this level of consumption. It appears that government transfers to households and access to regulated savings accounts (mainly pension assets) have had larger-than-expected impacts on consumption. This would be good news since a combination of transfers and access to savings could provide liquidity to households equivalent to up to 5% of GDP in 2021.

II. Strong external accounts in 2020

The BCRP also released on February 18 its 2020 balance of payments (BoP) figures, which showed a current account surplus of **0.5% of GDP**. Financial accounts saw a surplus of USD 9.5 bn, driven mainly by government bonds issuance with a net inflow of USD 9.8 bn. The USD 7.8 bn trade surplus for 2020 had been published previously. Overall, the 2020 BoP was USD 5.6 bn in surplus, which took net international reserves to USD 74.7 bn, on par with over 25 months of imports. Peru's external accounts are very, very strong, and are set to get even stronger in 2021 as metal prices are forecast to move higher.

III. Government set to veto pension reforms

Finance Minister Waldo Mendoza stated on February 18 that the government would veto the pension reform bill currently under consideration in Congress. If Congress were to override the veto, the government would take the issue to the Constitutional Court. Congress is considering a proposal that would limit the role of private pension funds and partially merge the private system with the public pension system.

—Guillermo Arbe

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Table 1

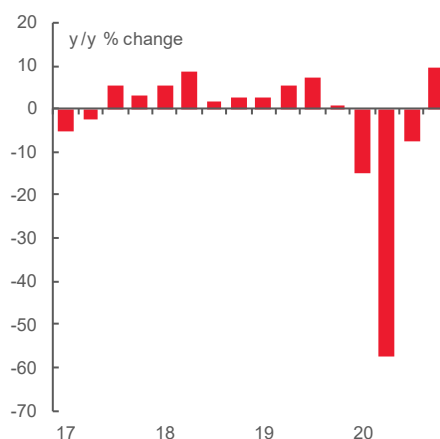
Peru: Real GDP growth, demand side, y/y %

	Q4-'19	2019	Q4-'20	2020
GDP	1.8	2.2	-1.7	-11.1
Domestic demand	2.0	2.4	0.0	-9.8
Private consumption	3.0	3.0	-1.5	-8.7
Gov't current spending	2.6	2.1	21.7	7.5
Private investment	0.9	4.0	9.4	-17.2
Public investment	-5.8	-1.4	8.6	-17.7
Exports volume	1.2	0.7	-11.2	-20.0
Imports volume	1.6	1.2	-5.6	-15.6

Sources: Scotiabank Economics, BCRP.

Chart 1

Peru: Real Private Investment



Sources: Scotiabank Economics, BCRP.

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