

## Latam Daily: Chile Pension Withdrawals; Colombia Outlook Improves; Peru Investment Up

- **Argentina:** Vehicle production, sales, and exports all pulled back in October
- **Chile:** Second round of withdrawals from pension funds under intense discussion in congress
- **Colombia:** BanRep's staff signaled the possibility of a higher interest-rate path after upward revisions to inflation and economic growth forecast
- **Mexico:** Secretary of Finance presented the state of public finances as of September
- **Peru:** Government ramped up public investment in October; mining investment and output for September disappointed

### ARGENTINA: VEHICLE PRODUCTION, SALES, AND EXPORTS ALL PULLED BACK IN OCTOBER

All three aspects of Argentina's vehicle industry—production, sales, and exports—pulled back in October, as we expected in a reflection of a rebound that is starting to level out amidst surging COVID-19 contagion in the country's main population centres. In data released on Wednesday, November 4, production came down -10.8% m/m from September, which left national vehicle output off -9.8% y/y from October 2019. National sales fell -5.0% m/m, but remained ahead by 22.5% y/y compared with a year ago; in contrast, exports remained weak, falling -17.1% m/m in October to put them down by -23.2% y/y. Across all three sides of the vehicle industry, activity is now back to pre-pandemic levels in a declining sector (chart 1); additional gains are going to be hard to generate.

—Brett House

### CHILE: SECOND ROUND OF WITHDRAWALS FROM PENSION FUNDS UNDER INTENSE DISCUSSION IN CONGRESS

The proposal for a new round of withdrawals from pension funds is under further, intense discussion in the Constitutional Committee of the Chamber of Deputies and we expect the bill to be sent to the full Chamber later today. Although the initiative to permit additional withdrawals of up to 10% of individuals' remaining pension assets has already been approved by the Committee, today, Thursday, November 5, its members (11 representatives from the full Chamber of Deputies) will debate possible articles that would spell out limits on exactly who could take advantage of the proposed withdrawal window. For instance, some conditions under discussion imply that the withdrawals should be counted as taxable income; other draft articles suggest that withdrawals would be exclusively for people who have seen a significant decline in income during recent months. The Committee could very well reach a consensus on a set of these limits today and send the bill to the full Chamber of Deputies for a vote.

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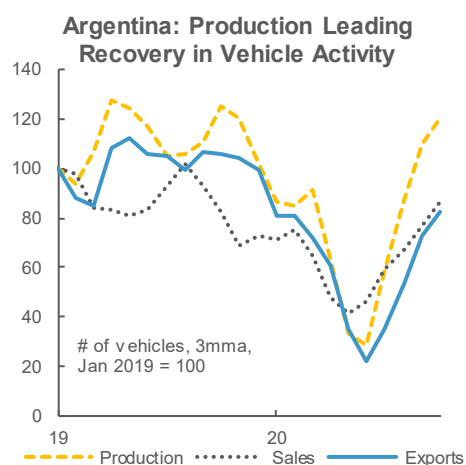
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Chart 1



Sources: Scotiabank Economics, ADEFA.

The bill is likely to be approved by the Deputies, but with these possible limits still under discussion in the Committee it is difficult to project what total potential withdrawals could be. Without these restrictions, estimates have anticipated as much as USD 10 bn. The BCCh, the central bank, as well as the pension fund regulator, have indicated that they are prepared to act to contain the effects of withdrawals on financial assets, but their measures are likely to be less effective than the actions they took in response to the first set of withdrawals. Their capacity to contain the financial effects of withdrawals is inversely linked to how much is potentially pulled out of the pension funds.

—Jorge Selaive

## COLOMBIA: BANREP'S STAFF SIGNALLED THE POSSIBILITY OF A HIGHER INTEREST-RATE PATH AFTER UPWARD REVISIONS TO INFLATION AND ECONOMIC GROWTH FORECASTS

On Tuesday, November 3, BanRep published its October [Monetary Policy Report](#), a document prepared by the central bank's staff rather than the Board, which usually details the staff's expected macroeconomic scenario. This time, the staff mildly revised its outlook to a less negative stance. The report was presented and discussed in the BanRep's usual press conference on Wednesday; our assessment below reflects both the substance of the report and the remarks provided in the meeting.

The outlook for real GDP growth in 2020 was revised to the upside from -8.5% y/y to -7.6% y/y in a range between -9% y/y and -6.5% y/y. The positive revision came after the strong economic contraction in H1-2020, which ended up being a bit smaller than anticipated. The pace of economic recovery in Q3 is now expected to be a touch better than previously forecast. The central bank staff emphasized that continued uncertainty regarding the possibility of new lockdowns hangs over their projections, and for now, this means that the forecasts should not be construed as a base case.

On the inflation side, BanRep staff revised its forecast to the upside to 1.9% y/y and 2.6% y/y in 2020 and 2021, respectively, from the previous expectations of 1.5% y/y and 2.3% y/y. The upward revision reflected offsetting effects from weaker demand on one hand and, on the other, higher biosecurity-related costs and greater FX pass-through effects. We expect CPI inflation at 2.0% y/y by the end of 2020 and 2.8% y/y by 2021 (see the October 31 [Latam Weekly](#); chart 2). However, annual inflation should decline temporarily between February and April due to statistical base effects from foodstuff inflation; this should be seen as a transitory episode before inflation moves up a convergence path toward the 3% target.

Regarding the external balance, staff anticipates that the current account deficit should narrow in 2020: weaker domestic demand is expected to lead to smaller import flows and also to lower profits for companies with FDI in Colombia, which implies smaller FX outflows as profits are repatriated. The current account deficit is now projected at -3.4% of GDP in 2020, below the previous estimate of -3.7%. For 2021, the deficit is expected to return to -3.7% of GDP. External financing needs are thought to be well covered, especially since FDI should rebound in 2021.

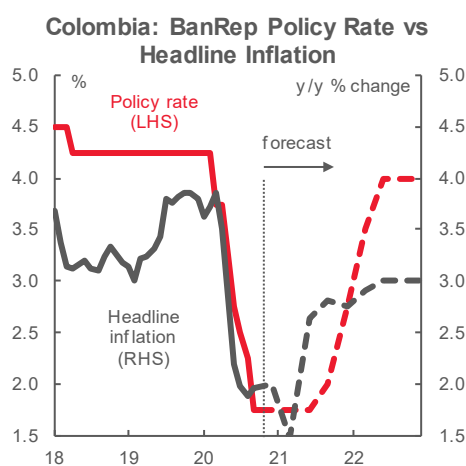
The central bank's staff noted that its expected monetary-policy-rate path is mildly higher than market consensus; however, the differences between them are not materially large in view of the size of recent stocks and continued volatility. In the BanRep's most recent survey of economic analysts, the consensus anticipated rate stability in the coming months and, on average, one 25 bps hike to 2.00% by the end of 2021. Our expectation points to a 2.75% rate by the end of 2021, which means that rate hikes would start in September 2021.

—Sergio Olarte & Jackeline Piraján

## MEXICO: SECRETARY OF FINANCE PRESENTED THE STATE OF PUBLIC FINANCES AS OF SEPTEMBER

At the end of October, the Secretary of Finance presented the results of the public finances as of September. In the period from January to September 2020, the balance of the public sector reported a deficit of MXN 308.5 bn, which was smaller than programmed, but exceeded the shortfall observed in the first nine months of 2019. The financial situation of the public sector was determined by: (1) a smaller federal government deficit, which amounted to MXN 264.1 bn, lower than the

Chart 2



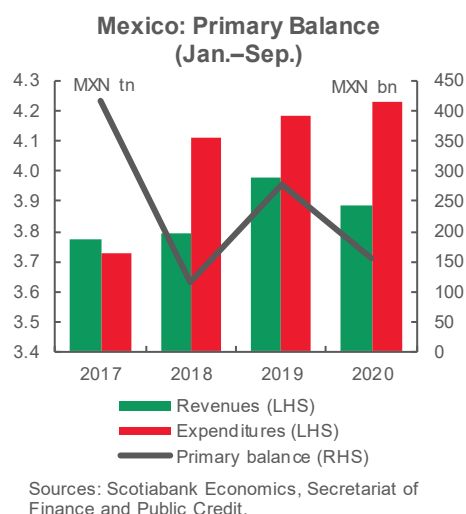
Sources: Scotiabank Economics, BanRep, DANE.

MXN 418.3 bn deficit budgeted; and (2) a larger deficit for Pemex at MXN 216.9 bn, a little more than double the MXN 105 bn shortfall programmed.

Meanwhile, the primary balance for January to September YTD showed a surplus of MXN 156.7 bn (chart 3), considerably higher than the programmed surplus of MXN 87.9 bn, although -45.4% lower than that recorded a year earlier. Looking at the details:

- Total revenues amounted to nearly MXN 3.9 tn during the first nine months of 2020, a fall of -5.4% y/y and an undershoot of MXN 235.8 bn with respect to the program.** Oil revenues during January to September amounted to only MXN 397 bn, a decline of -45.7% y/y, the most pronounced fall on record (i.e., since 1991) for the first three quarters of the year and well below the MXN 705.2 bn programmed in the budget. Oil revenues were hit by the pandemic-induced rapid weakening in international demand for hydrocarbons, as well as efficiency problems related to the country's production platform. As for tax revenues during January–September, they decreased by -0.9% y/y, which took them below their programmed amount for the first time this year;
- Total net expenses between January and September amounted to just over MXN 4.2 tn, while the month of September saw a strong contraction of -23.4% y/y; and**
- The finance ministry has remained committed to its strategy of providing a limited fiscal response to the pandemic without contracting new debt; nevertheless, public debt has still increased to 54.5% of GDP.** The Finance Secretary argued that more than half of the rise in the debt-GDP ratio from the end of 2019 was due to the depreciation of the peso against the US dollar.

Chart 3



In addition, it should be noted that the government's extraordinary use of public funds and trusts, which are rapidly being depleted, compensated for weak economic activity and tax revenue shortfalls through end-September. Ongoing economic setbacks imply continued gaps in public finances through the end of the year, but the government's room to manoeuvre to fill these holes is progressively narrowing.

—Paulina Villanueva

## PERU: GOVERNMENT RAMPED UP PUBLIC INVESTMENT IN OCTOBER; MINING INVESTMENT AND OUTPUT FOR SEPTEMBER DISAPPOINTED

President Vizcarra announced yesterday, Wednesday, November 4, that public investment had risen 6.6% y/y in October, to an all-time monthly high for any October of PEN 3.65 bn. This came after an only modest decline of -0.5% y/y in September. Pres. Vizcarra also stated that, with the prodding of the Executive, Congress had allowed for an increase in the sovereign funding guarantee for the Majes irrigation project, while would allow it to go ahead. Both announcements add to our sense that the government is intensifying its efforts to accelerate economic growth in the fourth quarter.

Pres. Vizcarra also stated that he had sent Congress a request for the impeachment (“vacancia”) process to take place on Friday, November 6, rather than on Monday, November 9 as currently scheduled. He argued that it was time for the country to turn the corner on an issue that is creating uncertainty.

Table 1

Peru: Metal output growth, September 2020

	Copper	Gold	Zinc	Silver	Lead	Iron	Tin	Molybdenum
y/y % change	-11.38	-32.92	12.08	-11.73	-14.82	35.86	29.37	10.73
m/m % change	-11.38	2.08	-0.28	10.15	8.27	2.32	17.10	-6.09
YTD y/y % change	-16.57	-35.41	-12.53	-26.48	-25.29	-18.98	-8.01	11.23

Sources: Scotiabank Economics, Ministry of Energy and Mines.

**The Ministry of Mines published on Tuesday, November 3, data on mining output and investment for September.** Numbers for both were disappointing. Mining investment was down -37% y/y and has yet to rebound significantly since the lockdown. This is not all that new, however, and we had already modified our investment growth forecast from -23% y/y during the lockdown to -28% y/y at present. Mining investment growth is trending at -28.9% y/y in the year-to-date.

**Mining GDP growth was -10.8% in September, as already reported by the National Statistics Institute, and we now have the details (table 1).** Copper led in the downturn, declining -15.7% y/y: Southern Perú (-16.0%), Cerro Verde (-7.9%), Antamina (-27.9%), and Las Bambas (-22.1%) all contributed to the decline. These are mines that, for the most part, still faced temporary shortages of workers owing to COVID-19. Antamina, however, was a case apart: lower copper production at Antamina was compensated for by a 63% y/y increase in zinc output. This implies that Antamina shifted from working areas with high copper grades to working areas with high zinc grades, as has happened in the past. As a result, Peru's zinc output rose 12% y/y in September.

**The silver lining in the generally poor metal production data is that the output of most metals rose in month-on-month terms.** Note that the decline in gold output, and silver to some degree, reflected mine depletion more than the lockdown, and is set to persist for some time.

—Guillermo Arbe

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