Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Lima Awaits Protestors; GDP Misses

- **Peru: Congress enacts minimum pension law; new pension withdrawals on the way**

It's a quiet start to a busy week, with US markets closed for MLK Jr day. There were no major data releases nor developments in the G10 space over the weekend or today to significantly impact the global market mood ahead of one of the most anticipated BoJ decisions in a while on Wednesday.

The Latin American weekend was punctuated by building social unrest in Peru, as protesters from the southeast of the country head to Lima, reportedly totaling 3,000 people according to RPP radio. The Boluarte Government and Congress remain under enormous pressure to resign, though again the president ruled out resigning in an address on Friday, and economic cracks are becoming clearer by the day.

On Friday, the Las Bambas mine stopped work on safety concerns, a few days after it suspended shipments of copper concentrate. The mine's administrator is concerned with unrest at the nearby Antapaccay as protestors threatened to shut down operations there.

Behind the fog of the protests, the country reported weaker than expected GDP growth in November, coming in at 1.68% y/y versus a median forecast of 2.3% and following a 2.0% expansion in the previous month. On the flip side, unemployment in Lima fell to 7.1% in December from 7.6%—compared to 7.8% in December 2021 but above the pre-pandemic level of 6.1% in December 2019.

We continue to monitor the situation in Peru as the country has renewed the state of emergency for 30 days, which allows the army to step in to control protesters.

In Colombia, President Petro announced that the government will review all mining contracts granted to date, with a reform to the country's mining code also in the works on the basis of environmental concerns (water). After a few months of relative quiet from Petro after scaring investors with talk of capital flows taxes in the fall, the weekend's 'announcement' will likely remind markets of the unpredictability of government policy in Colombia—possibly further restricting capital investment, as well as endanger the value of the country's assets. We await (any) details on what changes are being considered and when these would be implemented.

—Juan Manuel Herrera

PERU: CONGRESS ENACTS NEW PENSION LAW; NEW PENSION WITHDRAWALS ON THE WAY

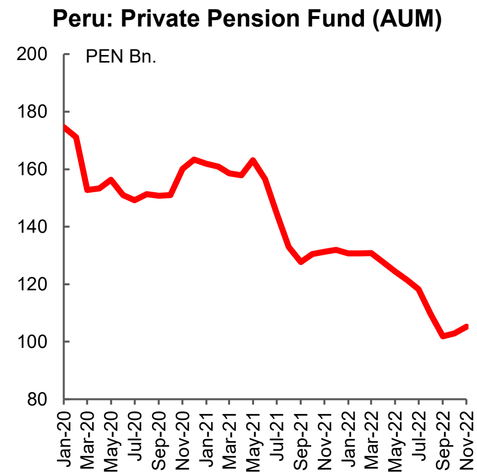
Congress promulgated on the Friday 13th the Minimum Pension Law, which potentially opens the door to new withdrawals from pension funds, impacting long-term savings. The reform will encourage individuals affiliated with the private pension system to save enough to guarantee a minimum pension level—in an amount not less than the basic basket determined by the INEI (national stats agency), at the individual's discretion—while allowing affiliates who exceed the minimum pension threshold to freely withdraw the excess funds permanently.

Since the start of the pandemic, six separate withdrawals from private pension funds have been allowed, resulting in a 40% drop in the value of assets under management (AUM) between February 2020 and November 2022 (chart 1), with 2.5 million accounts showing a zero balance due to withdrawals (SBS, October 2022). Thus, individuals who still participate in the private pensions system are those that have the highest balances, and would therefore be more likely to have excess savings with respect to the minimum self-imposed threshold.

There are no official estimates yet, but market sources suggest that between USD4bn (15% AUM) and USD8bn (28% AUM) could be withdrawn. This increases uncertainty around the price of assets that comprise the investment portfolios—bonds, shares, and foreign exchange—and it is probable that, as has happened in the past, it will also trigger additional measures by the BCRP to soften the impact on local financial markets.

This initiative began in January 2022, when the Economic Commission approved the bill despite having an unfavorable opinion among authorities (banking regulator and Ministry of Economy). Congress approved it in June 2022 with modifications—such as the withdrawal of funds that exceed the threshold—and on July 5, 2022, the government stopped extending the deadline for its questioning, opening the door for Congress to enact it, as it finally happened last Friday. **The next step is that the government must regulate the law later than 90 days from Friday** (until mid-April 2023).

Chart 1



Sources: Scotiabank Economics, BCRP.

—Mario Guerrero