

LATAM Market Update

- **Chile: Historically low approval of the government—67% in favour of changing the Constitution; Government announces new pension reform—6% of additional contribution with half of that going to collective savings**
- **Colombia: In 2019 consumer confidence deteriorated, assessment of the country's situation weighed**
- **Peru: Election polls show voters are still undecided**

CHILE: HISTORICALLY LOW APPROVAL OF THE GOVERNMENT—67% IN FAVOUR OF CHANGING THE CONSTITUTION; GOVERNMENT ANNOUNCES NEW PENSION REFORM—6% OF ADDITIONAL CONTRIBUTION WITH HALF OF THAT GOING TO COLLECTIVE SAVINGS

The survey of the Center for Public Studies (CEP) corresponding to December was published showing a low approval of the government of President Sebastián Piñera. The results of the CEP survey leave the President with a 6% approval and a rejection of 82%, that is, the president worst evaluated since the return to democracy. Similarly, 55.5% would rate the current economic situation in the country as bad or very bad, being the highest figure in this area in 14 years. In 12 months ahead, 27.2% believe that the situation will get worse. Along these lines, 61% of respondents believe that Chile is currently stagnant while 55% of respondents support the demonstrations that began in Chile on October 18th, while 11% reject them. Also, 10% who supported them initially, today rejects them. According to the survey, 67% of those consulted approve a new Constitution, while 13% reject the creation of a new fundamental charter.

Even though, 40% of respondents believe that the way to solve the country's problems is through reforms to the laws to make structural changes and 37% believe they can be solved with a new Constitution.

This survey, considered to be of better statistical quality compared with other weekly surveys, would only confirm what we already knew regarding government approval (low), and the constituent process (high, but not overwhelming). Our view is that an economic context of low economic growth and increases in unemployment over the coming would continue to lead to a tighter result in the referendum next April. **For us, it is not entirely clear that the alternative to change the constitution will win, and even less that the constituent assembly alternative will be the path chosen by the Chileans.**

In Chile, the Pension System is organized into a scheme with three basic pillars: a poverty prevention pillar, a mandatory contribution pillar and a voluntary savings pillar. The combination of these components seeks, on the one hand, to guarantee that individuals may maintain a similar standard of living during their active work and retirement stages, and, on the other, to eliminate poverty among the elderly and disabled. The goal of the solidarity pillar is to prevent poverty in these situations of vulnerability. This pillar consists of a non-contributory pension

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called the Basic Solidarity Pension (Pensión Básica Solidaria, or PBS), and a complement to the contributory pension called the Solidarity Pension Payment (Aporte Previsional Solidario, or APS).

The mandatory contribution pillar is a single nationwide scheme of financial capitalization in individual accounts managed by single-purpose private companies called Pension Fund Administrators (AFPs). This is a defined contribution scheme; in other words, the contribution rate remains constant and the benefits are calculated using actuarial formulas, according to the balance each individual has accumulated at retirement.

The new pension reform presented by President Piñera creates a new pillar, called Collective Saving Pillar. This savings will be managed by a state entity and financed with a 3% contribution from the employer. This program, together with helping to further improve pensions, will deliver benefits whose amount will not depend on life expectations or changes in profitability; offer a minimum pension guarantee for those who regularly contribute; and finance dependency insurance for retired who remain in that physical condition.

With respect to the mandatory pillar, the contribution will be gradually increased by 3% (reaching 13% in 6 years), paid by the employer, and recorded in personal accounts, whose balance will be used to increase the final pension of the respective worker.

Our perception is that this reform will cost not less than US\$ 3.5 billion within the horizon of the next few years, with an important fiscal cost in the short-term given that pensions will increase as soon as the law is approved, but the additional contribution of 3% will only be achieved in 6 years. **From the political side, we see less resistance to this reform, so it would be more likely to be approved during the first semester. In fact, Piñera wants it to be approved before April.**

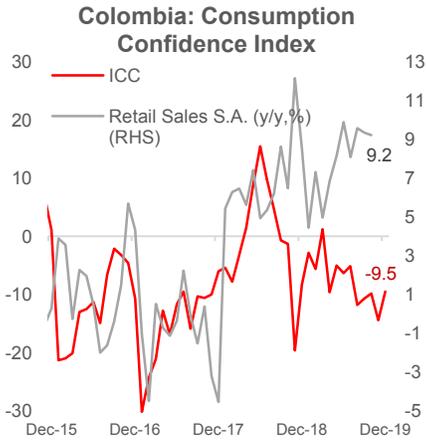
COLOMBIA: IN 2019 CONSUMER CONFIDENCE DETERIORATED, ASSESSMENT OF THE COUNTRY'S SITUATION WEIGHED

December's consumer confidence index (CCI) improved but remained in a negative balance. The index now stands at -9.5pps, better than the -14.4 pps in November, but worse compared to December 2018 (-8.3 pps). Monthly CCI recovery was due to both components, the Consumer Expectation Index, and Economic Conditions index, mainly due to a strong assessment of the household situation. For 2019, on average, consumer confidence deteriorated (-7.4pps on average) compared with 2018 (-0.5 pps).

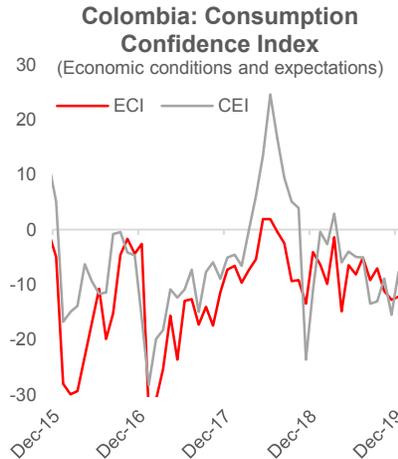
December's consumer confidence remained in negative territory, and it continues to show divergence between consumers' assessment of the country's situation and the assessment of the households' situation, which is consistently higher but has been weakening in recent months, which we associate with last year's social unrest in November. During 2019 CCI remained in negative values most of the time, and all the components deteriorated compare with 2018 results, which contradict hard data dynamics such as retail sales, which kept strong results during 2019. However, as mentioned in previous reports, assessment of the household economic future was consistently better than the assessment of the country situation, which helped to boost private consumption. More interesting is the fact that the former indicator pointed out that consistently consumers are constructive in the near future, which is, in fact, in line with good results in domestic demand indicators.

Consumers' willingness to buy durable goods deteriorated again and is at the worst level in two years, a thing to keep an eye on. These signals are compatible with the recent exchange rate depreciation and are one of the reasons why the FX pass-through could be moderate (people could be sensitive to price changes).

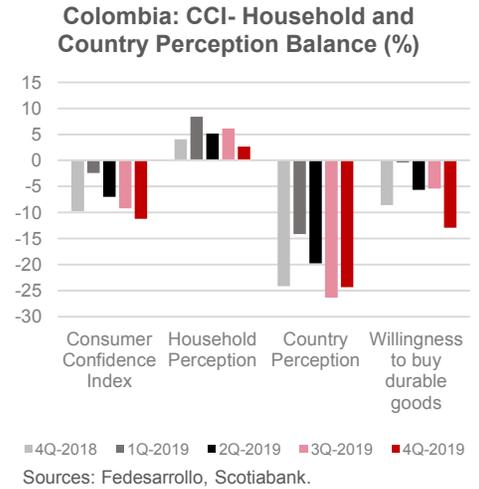
All in, the survey's result doesn't change our base case scenario of private consumption that will continue supporting economic growth, but probably at a more moderate pace. Social uncertainty due to the continuation of nationwide protests could continue to weigh on consumers' confidence.



Sources: DANE, Fedesarrollo, Scotiabank.



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—Sergio Olarte & Jackeline Piraján

PERU: ELECTION POLLS SHOW VOTERS ARE STILL UNDECIDED

According to a poll conducted by the local firm CPI on January 7–11, around 54% of voters are undecided on which party to vote for at the January 26th congressional elections. An additional 19% stated they would issue a blank or void vote (note that voting is mandatory in Peru). Thus, only a little over a quarter of voters have decided on a party to vote for. Of this 27% of decided votes, Acción Popular leads with 14.8% of valid votes. Acción Popular is a moderate center-right party which did well in the 2018 regional and local elections. Fuerza Popular, the main opposition party in the previous elections, would garner 11.8% of votes, followed by Alianza Para el Progreso (center, but somewhat populist), 11.0%, Partido Morado (center-right), 10.5%, the leftist Frente Amplio with 7.3%, and centrist Somos Perú with 6.8%. These would be the parties most likely to surpass the threshold of 5% of votes required to gain seats in Congress, although it is possible that other parties obtain a great enough portion of undecided votes to get through in the end. The poll suggests that no party will have a commanding majority, and that Congress will be rather fractured. Fuerza Popular, which aggressively opposed the government in the past Congress, will still be strong, but not nearly as strong as before, which should make for better relationships between the new Congress and the government. Most of the six leading parties are pro-market in general, although some have a significant populist bias.

The electoral authorities have determined that all parties participating in the January 26th congressional elections will maintain their registered status afterwards, regardless of the results. This has implications for the 2021 elections. Current regulations establish that parties that obtain under 5% of votes in elections must lose their status as registered parties and, thus, forego the possibility of automatically being able to participate in later elections. If this regulation had applied to the January 26th elections, it would have significantly narrowed the field of candidates in 2021. The recent, and unexpected, determination to not apply this regulation to the January 26th elections means that there will once again be a wide array of presidential and congressional candidates in 2021. The electoral board determined that the 5% threshold would not apply to the January 26th elections due to the exceptional nature of these elections.

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