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Latam Daily: Colombia Pension Reform Draft; Banking Worries Hit Markets

- **Colombia: First thoughts about the preliminary draft of the pension reform**

Calm trading during the Asia session turned sharply into a massive risk-off move in early European hours with concerns about Credit Suisse heightening. The chairman of the bank's largest shareholder (Saudi National Bank) said that they will "absolutely" not provide more assistance—though this results from rules that would be applied once the 10% ownership threshold is breached, rather than a clear aversion to putting more money into the bank; CS's share price is down about 20%, at writing.

With the very negative risk mood, SPX futures are off ~2% (compared to 3% losses in Europe cash markets) and there has been no clear sense of a reversal forming. We await news or statements from central bank officials to help lift the market mood, with worries about the financial system now perhaps more focused on Europe than on the US. Commodity prices are on the backfoot, with oil down 0.5%, copper down 1.8%, and iron ore down 0.5%. The USD is catching a strong haven bid, with the MXN at the opposite side of this trade and lagging all the majors with a 1.6% decline on the day while the JPY leads thanks to its haven appeal (up 0.4%).

The Latam day ahead presents Colombian and Peruvian macro data at 11ET. Peru's unemployment rate and monthly GDP will be monitored for the lingering impact of protests in the country. Although these lessened in intensity in recent weeks, January economic activity data should show a sharp contraction in year-on-year growth. This is well-anticipated by the BCRP so today's data should not materially alter their monetary policy path. As for Colombia, It will be the retail sales print (and not manufacturing/ industrial production) that catches our eye to determine the odds that BanRep sticks to its hiking path at its late-March meeting (we anticipate a 25bps increase then). Still, the global market mood around financial stability will likely remain the main driver of market moves in the Latam region today.

—Juan Manuel Herrera

COLOMBIA: FIRST THOUGHTS ABOUT THE PRELIMINARY DRAFT OF THE PENSION REFORM

Yesterday, the Government revealed details about the Pension Reform proposal in a meeting with Colombia's main business association. It is worth noting that it is a draft that could change if the Government includes comments from the other actors in the ongoing round tables. We will know the official proposal on Thursday, March 16.

The proposal establishes a pillars scheme in which:

- The first pillar will cover a universal pension for the vulnerable elder population (~2.5 million people) and payments of one-quarter of the minimum wage of ~50 USD per month (during the campaign, governments talked about a subsidy of around ~100 USD, half the minimum wage). This money would come directly from the government budget, so there would be no withdrawals from the current stock in AFP's AUMs.
- The second pillar will subsidize people who contributed during their labor stage but didn't have enough resources to have a pension.
- The third pillar will involve a mandatory contribution to the public system on over earnings of 3 minimum wages (which represent 90% of current contributors to the

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private pension system). In that regard, despite the first thought is that we will lose a main actor in the COLTES market (pension funds), the Government is proposing a fund to invest the contribution to the public system in the domestic public debt. There is not yet a concrete explanation how this fund works, but it is clear that the Government knows that the public debt market is in danger if AFPs disappear.

- The fourth pillar is voluntary saving.

For now, the draft is not discussing parameters (i.e., contributions rates, replacement rates, age of retirement). We think that this discussion will pick up during the Congress debates.

Our take:

- The Government is probably repeating its strategy of initiating the discussion with significant demands and, after that, splitting the difference during the political negotiation.
- In our opinion, the current proposal could increase the noise in markets at the beginning. In any case, we think that the point about contributions to the public system is a key point to negotiate; alternative proposals from recognized think tanks are talking about contributions to the public fund up to one minimum wage (which impacts 40% of current affiliates of private pension funds). However, we have to wait and see the official position of traditional parties in Congress.

—Sergio Olarte, María (Tatiana) Mejía & Jackeline Piraján

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