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FEATURED Q&A

Should Mexico Follow the IMF's Advice on Taxes?

The International Monetary Fund has said Mexico needs a tax reform, but President Andrés Manuel López Obrador has resisted raising taxes. // File Photo: Mexican Government.

Q Mexico should carry out tax reforms after its economy recovers from the downturn brought by the Covid-19 pandemic, directors of the International Monetary Fund said Nov. 4. Mexico should broaden the country's tax base and raise state or local taxes, among other measures, the IMF directors said. Does Mexico need a tax reform as the directors say, and if so, what should such a reform include? How likely are President Andrés Manuel López Obrador, Mexico's Congress and state leaders to implement any changes? How would higher taxes affect Mexico's economic recovery?

A Eugenio Grageda, senior counsel at Holland & Knight: "Even though tax collections are at an all-time high, Mexico's current economic situation calls for the implementation of short-term tax incentives as opposed to escalations in tax rates. A tax reform that increases sources of revenue and broadens the tax base is indeed necessary, especially if it accomplishes this without creating disincentive effects in the economy. In fact, broadening the base or implementing certain new taxes could indeed give the government more tools to support public welfare in these difficult times. Yet, the convenience of implementing a tax reform for the sole purpose of raising federal or local tax rates before the economy recovers is questionable. Mexico has already seen, under the umbrella of BEPS, one of the most serious tax reforms implemented in 2020, and another that will become effective in 2021. It is likely that in the next year or two, this administration will propose a third tax reform attempting to raise corporate and individual tax rates. This is a mistake that would harm any potential chances of a

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TODAY'S NEWS

POLITICAL

Authorities Find 113 Bodies in Secret Grave Near Guadalajara

Authorities in Mexico have discovered a clandestine grave containing 113 bodies and additional human remains near Guadalajara. Jalisco state, where the mass grave was found, is the home of the Jalisco New Generation drug cartel.

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ECONOMIC

Peruvian Gov't Launches Sale of $4 Billion in Debt

The debt sale included a rare century bond, according to the country's economy ministry.

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POLITICAL

Belize's New Prime Minister Tests Positive for Covid

Johnny Briceño, who became Belize's prime minister earlier this month, has tested positive for the novel coronavirus. Briceño will be isolating for the next two weeks, his office said.

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Briceño // File Photo: Facebook page of Johnny Briceño.

POLITICAL NEWS

Mexican Authorities Recover 113 Bodies From Secret Grave

Authorities in Mexico have recovered 113 bodies and additional human remains from a clandestine grave near Guadalajara, the Associated Press reported Monday. Thirty of the victims had been identified, Jalisco state's attorney general, Gerardo Octavio Solís, said late Sunday. Authorities discovered the secret burial site in El Salto, southeast of Guadalajara, last month. The state is the home of the Jalisco New Generation Cartel, one of Mexico's most violent and powerful drug trafficking organizations. Between 2006 and Sept. 30 of this year, authorities have recovered 897 bodies from secret graves in Jalisco. In late October, at least 59 bodies were discovered in a grave site in neighboring Guanajuato state.

ECONOMIC NEWS

Peru's Government Launches Sale of $4 Billion in Debt

Peru has launched the sale of $4 billion worth of debt, including a rare century bond, the economy ministry said Monday, even as the Andean nation has been rocked by political turmoil over the past two weeks, the Financial Times reported. Peru launched the sale of $1 billion of century bonds, as well as $2 billion of notes set to mature in 2060 and another $1 billion of 12-year bonds. The century bond, which expires in 2121, was placed at a coupon rate of approximately 3.23 percent, according to José Olivares, the director general of the public treasury in Peru's economy ministry, Reuters reported. "We were pleasantly surprised by the demand, at the peak it was over $15 billion," Olivares said. The sale comes as Peru has been managing a political crisis over the past two weeks, during which it has had three presidents. Congress on Nov. 9 voted to remove President Martín Vizcarra from office, swearing in Manuel Merino, the legislative body's president, to replace Vizcarra. Following massive protests against the move, Merino resigned, and Congress then selected Francisco Sagasti as the country's interim president. Sagasti was sworn in last week, and he is expected to head Peru until a new president takes office in July following national elections scheduled for next April.

BUSINESS NEWS

Western Union Closes its 407 Locations in Cuba

Western Union closed its 407 offices in Cuba, a move that resulted from U.S. sanctions on the communist nation, the Associated Press reported. "The problem is not the closure of Western Union, but that Western Union is practically the only U.S.-to-Cuba provider of remittance payments," Manuel Orozco, the director of the Center for Migration and Economic Stabilization at Creative Associates International in Washington, told the AP. "The impact will be felt." Cuba's government does not release statistics on the amount of remittances that are sent to the island, but economists estimate that the country receives billions of dollars in money transfers annually. About half of the total comes from the United States, and 20 percent of the overall amount goes through Western Union, Orozco estimates. People outside of Cuba can still use other banks and other financial services companies to send money to people in Cuba, or they can send it through people traveling there, the wire service reported. Additionally, senders have also used cryptocurrencies to send money to Cuba, according to Cuban economist Omar Everleny Pérez. The closure of the Western Union locations came after the administration of U.S. President Donald Trump banned U.S. companies from doing business with Fincimex,

NEWS BRIEFS

Belize's New Prime Minister Tests Positive for Covid-19

Belize's new prime minister, Johnny Briceño, has tested positive for the novel coronavirus and will be isolating for the next two weeks, the prime minister's office said in a statement on Monday, Reuters reported. Briceño, of the People's United Party, was selected to head the Central American nation earlier this month, replacing longtime Prime Minister Dean Barrow, who had been Belize's leader since 2008.

Honduran Central Bank Expects Contraction of as Much as 9% This Year

Honduras' central bank said on Monday that the damage caused by Hurricane Eta will worsen the country's economic performance this year, shaving off an additional percentage point from economic growth and leading to a contraction of between 8 percent and 9 percent, Reuters reported. This includes the forecast of the economic fallout from the Covid-19 pandemic. It would be the country's sharpest recession on record. Honduras' previous worst economic performance on record was in 1954, when its economy contracted 6.5 percent, said Wilfredo Cerrato, the central bank's president.

Jamaica Focused on Next Tranche of Renewable Energy Projects: Official

Jamaica's science, energy and technology minister, Daryl Vaz, said the Caribbean country's government is focusing on executing its next tranche of renewable energy projects that will bring the country closer to its goal of generating 30 percent of its electricity from renewable sources by 2030 and half its electricity from renewable sources by 2050, the government said Sunday in a statement. Vaz said the country has made significant progress toward these goals over the past decade.

a Cuban-military controlled company that controls remittances to the island. U.S. officials accused Cuba's military of violating human rights and supporting the government of Venezuelan President Nicolás Maduro, which the United States sees as illegitimate. The Cuban government refused to use a finance company that was not tied to its military, and Western Union was unable to find a way around the sanctions. In a **Q&A** published last week in the Dialogue's Financial Services Advisor, Julia Yansura, program manager for Latin America and the Caribbean at Global Financial Integrity, said money transfers will still get through to Cuba, including through informal channels. "New U.S. sanctions are likely to drive much of this flow underground, though overall impacts will depend on how long the sanctions remain in place," she said.

Chile's GeoPark Selling 10% Interest in Brazil Gas Field

Chile-based oil and gas explorer GeoPark announced Monday that its board of directors has approved an agreement to sell its 10 percent nonoperated working interest in the Manati gas field in Brazil to Rio de Janeiro-based company Gas Bridge in a transaction worth 144.4 million reais ($27 million). That amount included a fixed payment of 124.4 million reais in addition to an earn-out of 20 million reais, which GeoPark said is subject to the obtaining of several regulatory approvals. The transaction is effective Dec. 31 and is subject to conditions including Gas Bridge's acquisition of the remaining 90 percent of the working interest in the Manati gas field, as well as its operatorship. GeoPark, which is headquartered in Santiago, said two other nonoperating partners in the Manati gas field consortium, which have a combined 55 percent interest in the gas field, have already announced agreements to sell their working interest to Gas Bridge. GeoPark's sale of its interest in the field to Gas Bridge is expected close in the fourth quarter of next year, subject to regulatory approvals and agreement to sell by the rest of the consortium.

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fast recovery. As opposed to new rates, tax reform in the coming years should rather be focused on 1.) eliminating VAT exemptions, 2.) increasing the tax base, 3.) implementing new taxes with wealth distributive potential such as a temporary wealth tax and 4.) the creation of an ensured set of consistent incentives for investment and enterprise, such as temporary reductions in capital gain rates, depreciation allowances or credits on employment."

A **Rogelio Ramírez de la O, president of Ecanal in Mexico City:** "The IMF suggestion that Mexico broaden its tax base and tap neglected, until now, sources of taxes is a valid one in a general sense but unlikely to find receptive ears. For one thing, the IMF itself has called on countries to apply countercyclical fiscal policies to face the negative effect of the current pandemic and business cycle on output and employment. Yet, increasing taxes in an economy in recession in 2019 and 2020 is a challenge, to say the least. Additionally, while generalizations (such as a low tax revenue share of GDP) are a start for discussing policy options, the IMF seems to set aside that the government has a diagnosis and a political mandate to optimize the use of public spending before considering any taxes. The extent to which such spending increased by 3.3 percentage points of GDP from 2008 to 26.6 percent in 2016, led naturally to the diagnosis that much could be gained by addressing the corruption, wastage and neglect of public resources, which were normal practices of past governments. Corruption, the open theft of public resources, has been recently publicized in the 'Estafa Maestra.' Wastage, the multiplication of government offices and bureaucratic structures has occurred, with little, if any, value to add to the public good. And there has been neglect in the numerous and large bad business deals that previous governments have signed, such as those with Odebrecht. No tax increase in any form would be justified in the eyes of the Mexican taxpayer, let alone with a view of political economy, while these exemplary cases are not prosecuted to their full legal end. It is interesting how international organizations have missed the potential that better management of public resources would represent to growth and welfare in Mexico."

A **Alma Caballero, director at McLarty Associates:** "The Mexican economy is one of the hardest hit by Covid-19. The Finance Ministry (SHCP) expects GDP to fall by 8 percent while market expectations average an 11 percent contraction. The government has refused to use relevant fiscal stimulus as has been the case throughout the G-20 and Latin America. Instead, the president has decided to carry on with austerity measures while the SHCP continues to channel government funds for AMLO's flagship infrastructure projects. The administration's economic policy has been characterized by a lack of certainty, which has dramatically eroded the investment climate. Sudden changes in regulations coupled with ideologically driven policies leave little room for the economy to recover. An economic rebound would require the AMLO administration to provide certainty for private investment and use fiscal stimulus and digitalization as tools to help the poor, the unemployed and SMEs (which represent 42 percent of Mexico's GDP). With AMLO promising not to raise taxes until 2021, the Economy and Finance Ministries are looking to boost

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> **— Alma Caballero**

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revenues by elevating the penalties for tax evasion and increasing the efficiency of tax collection. Rather than focusing on tax reform as the solution to the economic impact of Covid-19, Mexico should focus on making digitalization a national priority. Creating and implementing a national plan that fosters the Mexican digital market's growth will lead to a broadening of the tax base by facilitating labor formalization without hindering the already strained relationship with the private sector. Helping more businesses adapt to our new reality and granting broader access to the digital economy will unlock Mexico's economic competitiveness and address the economic impact of the health emergency. Let us not use pre-Covid tools to develop key components of our post-Covid world."

A **Manuel Montoya Ortega, general director of the Automotive Cluster of Nuevo León:** "More taxes on the same actors will affect our economy. The government has very actively looked at the same taxpayers, and it is not doing anything to address the informal economy. We don't see any kind of incentives for the private sector, but we don't want the government to continue raising taxes and eliminating tax deductions. A useful measure would be to apply VAT to food and medicines, so all people will have to pay taxes, including those in the informal economy. An unfortunate strategy the fiscal offices are applying is to return VAT to the companies that export. As per IMMEX rules, imported goods that will be used for exports are not taxed in Mexico. However, importers have to pay them and then ask for a refund.

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But Mexico is taking longer to return these taxes to the companies. This strategy is putting pressure especially on small and medium-sized businesses that are part of the export value chains. President López Obrador's proposal to ban job outsourcing is challenging companies that are used to subcontracting third parties to hire temporary personnel. This will increase costs for manufacturing companies that currently do not need to hire people for noncore activities, such as cleaning services, security and logistics. The government is forcing all employers to pay social costs for all the people, even those who are not their employees."

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