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FEATURED Q&A

Will Colombia's Revised Tax Plan Win Approval?

Colombian President Iván Duque's government this month proposed a revised tax reform. The government withdrew an earlier version in May after it sparked violent protests. // File Photo: Colombian Government.

Q **Colombian President Iván Duque on July 20 presented lawmakers with a nearly $4 billion tax reform bill, a more modest proposal than a plan his government presented in April, which sparked weeks of deadly protests and nationwide strikes. How much of a chance does the new plan have at winning approval in Congress, and how might lawmakers revise it? Does the public support the plan, and what chance is there that protests will again derail it? To what extent would Duque's new plan address Colombia's fiscal problems, and would its passage help Colombia to regain its investment-grade status, which it lost in early July?**

A **Richard Francis, director of Latin American sovereigns at Fitch Ratings:** "Colombia's revised tax reform proposal is consistent with Fitch's assumptions at our most recent sovereign rating review on July 1, when we downgraded Colombia to 'BB+'/Stable. The updated proposal's 1.2 percent of GDP target is about half that of the April proposal, and the corporate income tax measures essentially amount to unwinding some cuts and deductions introduced three years ago. Furthermore, a large part of the adjustment depends on tax administration and expenditure control measures, which are uncertain as to timing and size. The government also announced the expansion of certain pandemic support measures though the end of 2022, including the Solidarity Income program and employment subsidies. Therefore, we forecast a large 6.9 percent of GDP deficit next year, with downside risks if tax administration does not deliver envisaged revenue benefits, if the new proposals are watered down, or the government is unable to divest assets

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Biden to Discuss Protests With Cuban-Americans

U.S. President Joe Biden is to host Cuban-Americans today at the White House to discuss historic protests that broke out in the Caribbean nation earlier this month.

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TotalEnergies, Equinor Exit Venezuela Venture

TotalEnergies and Equinor have decided to exit their Petrocedeño joint venture in Venezuela. State oil company PDVSA will now own 100 percent of the venture.

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Peru's Castillo Names Far-Leftist as Prime Minister

New Peruvian President Pedro Castillo swore in Guido Bellido as his prime minister. The appointment of Bellido, a far-leftist, quashed some expectations that Castillo might seek to govern from closer to the center.

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Bellido // File Photo: Facebook Page of Guido Bellido.

POLITICAL NEWS

Peru's Castillo Names Far-Leftist as Prime Minister

New Peruvian President Pedro Castillo on Thursday swore in Guido Bellido, a fellow far-leftist, as his prime minister, quashing hopes by moderates that Castillo would govern from closer to the center, Reuters reported. Castillo also swore in most of his cabinet, but he did not name a finance minister. Bellido is under investigated for alleged "apology for terrorism," which is a crime in the Andean nation. In an interview with local media in April, he defended members of the Maoist Shining Path rebel group, which killed tens of thousands of people in the 1980s and 1990s, The Guardian reported. The cabinet swearing-in ceremony on Thursday night began more than two hours late, and the person expected to be named finance minister, leftist economist Pedro Francke, left the venue just before it started, Reuters reported. Francke's departure at the last minute raised questions about whether he had rejected the job just as he was about to take office. The incomplete cabinet that Castillo swore in included several other far-left figures and only two women, The Guardian reported. [Editor's note: See **Q&A** on Peru's finances including comments by Francke in the Feb. 17 issue of the Advisor.]

Biden to Discuss Protests With Cuban-Americans

U.S. President Joe Biden will host Cuban-American political leaders, social activists and artists at the White House today to discuss historic national protests organized in Cuba on July 11, NBC News reported. Biden's foreign policy team is reportedly weighing new sanctions on Cuba's government, as well as options for providing Internet access to the island's population. Yotuel Romero, one of the performers of the song "Patria y Vida," which became an anthem for protesters this month, will reportedly be at the meeting. The White House has consulted several Cuban-American leaders and members of Congress since the protests, which were harshly repressed, swept through the country. Democrats in Florida, which swung for Republicans by in large in the 2020 U.S. election, have been urging their party leaders to embrace the protests against Cuba's communist regime, CNN reported. In related news, Biden on Thursday picked Cuban-American Frank Mora as his nominee for U.S. ambassador to the Organization of American States, the Miami Herald reported. Mora, who previously served as a deputy assistant secretary of defense for the Western Hemisphere, would play a key role in garnering international support for U.S. policy in Cuba, as well as other sensitive areas such as Nicaragua and Venezuela.

BUSINESS NEWS

TotalEnergies, Equinor Exit Joint Venture in Venezuela

Paris-based oil producer TotalEnergies and Norway's Equinor have decided to exit their joint venture in Venezuela, Bloomberg News reported Thursday. Venezuelan state oil company PDVSA will now own 100 percent of the Petrocedeño venture, which produces extra-heavy crude oil from the Orinoco Belt in Venezuela, transports it and transforms it into light crude oil. According to a statement from TotalEnergies, the transaction was carried out for a "symbolic amount in exchange of a broad indemnity in relation to the past and future participation of TotalEnergies in Petrocedeño." The deal will result in the recognition of an exceptional capital loss of $1.38 billion in the financial statements of TotalEnergies. Arnaud Breuillac, the president for exploration and production at TotalEnergies, said the sale is in line with a strategy of "focusing new oil investments on low carbon intensity projects, which does not correspond to extra-heavy oil

NEWS BRIEFS

Thousands Take to Streets in Guatemala Following Prosecutor's Firing

Thousands of protesters took to the streets and blocked major highways in Guatemala on Thursday to demand the resignation of President Alejandro Giammattei and his attorney general, Consuelo Porras, Prensa Libre reported. Pressure has been building domestically and abroad since Porras fired anti-corruption special prosecutor Juan Francisco Sandoval on July 23. The United States this week said it had "lost confidence" in Porras. Giammattei expressed his concern Thursday that a suspension in U.S. cooperation would be "counterproductive" to fighting organized crime and corruption, the Associated Press reported.

Brazilian Officials Begin Mass Vaccination Program in a Rio Favela

Health authorities in Brazil on Thursday began a novel mass immunization program in a large poor neighborhood, or favela, of Rio de Janeiro in a bid to control and monitor the spread of Covid-19, the Associated Press reported. Researchers leading the effort say they are not aware of another program elsewhere in the world that has specifically focused on slums. Although more than 1.5 million people live in Rio's favelas, research of this type is usually done in hospitals and health clinics that do not exist there for the most part.

Banco Santander Chile Reports $253 Mn in Profit

Banco Santander Chile on Thursday reported $253.4 million in net income for the second quarter, the Associated Press reported. The bank said it had earnings of 54 cents per share for the quarter. The bank also posted revenue of $935.6 million for the quarter. Its shares have risen approximately 2 percent since the beginning of this year.

development projects in the Orinoco Belt." Although Total, as the company was formerly known, once was a major player in Venezuela, last year less than 0.5 percent of the company's combined oil and gas production came from the Andean country. Petrocedeño is one of the largest projects in the Orinoco Belt and possibly the largest private investment project in the history of Venezuela, Francisco Monaldi, director of the Latin American Energy Program at Rice University, said in a tweet Thursday. "The abandonment of the project reflects two very bad circumstances for Venezuela ... The lack of prospects for improvement in the investment environment and the lower interest of European companies in extra-heavy crude due to CO2 emissions," Monaldi said.

Banco de Bogotá to Test Crypto Transactions

Colombia's oldest commercial bank, Banco de Bogotá, is planning a pilot program to test deposits and withdrawals using a cryptocurrency exchange, CoinDesk reported Thursday. The program is part of a government initiative to test the use of cryptocurrencies for banking transactions. Through the program, which is to start early next month, Banco de Bogotá will allow its customers to perform the transactions through Chilean crypto exchange Buda.com, according to the exchange's country manager for Colombia, Alejandro Beltrán. The bank and the exchange are still defining the exact terms and conditions of their contract for the service, said Beltrán. "Banco de Bogotá has been very detailed and careful in this process, which is understandable since it is entering a new world and they want to understand it in all its dimensions," he said. In January, the Colombian government's financial watchdog, the Financial Superintendency of Colombia, announced that out of 14 applicants, it had chosen nine crypto firms to test banking services as part of a year-long pilot program. The partnership between Banco de Bogotá and Buda.com is the second such service to be launched in Colombia this year.

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as planned (estimated at 0.6 percent of GDP next year) in an election year. We expect debt to rise to 64 percent of GDP in 2022 from 61 percent in 2021 before stabilizing in 2023. Fitch believes the revised reform is likely to pass after the government consulted widely on its proposals, which rely largely on corporate tax measures while increasing social expenditure. However, the president's low approval rating, upcoming congressional and presidential elections scheduled for March and May 2022, respectively, and a possible resumption of anti-government protests could threaten the reform or lead to more watering down. We believe the new proposal will help stabilize public debt-to-GDP ratio in 2023 but that further fiscal adjustment would be needed to place the debt ratio on a steadily declining path. If the government were able to lower debt, over time it could help restore some of the fiscal credibility that Colombia lost pre-pandemic and help lead to positive ratings momentum."

A **Manuel Orozco, director for sovereign and international public finance ratings at S&P Global:** "The new fiscal reform continues to show the Colombian government's commitment to fiscal sustainability. The current proposal is the result of a fast but important process of consultation with different economic and social groups, and with crucial political backing from the business community. Moreover, the current reform is less ambitious than the prior proposal and does not directly touch individuals, which makes it more likely that Congress will approve it this year. We expect this fiscal measure to help stabilize net general government debt at just above 60 percent of GDP during 2021-2024, which is consistent with our assumptions sustaining our BB+ long-term foreign currency rating on Colombia. However, there is a risk that the higher taxes could potentially translate into less investment and lower potential GDP and also boost inflation if companies pass along higher costs to their customers. Lastly, a structural reform to expand the individual tax base is still needed to stabilize public finances over the long term, as expenditure pressure will remain to improve Colombia's safety nets, education, health and pension systems."

A **Sergio Guzmán, director of Colombia Risk Analysis:** "This is not a structural tax reform, and it does not pretend to be. Instead, it is a reform that responds to the government's short-term financing needs and the political realities in play ahead of the next congressional and presidential elections. The reform's scope is surprisingly limited, and its language is concise and direct—a welcome innovation for Colombian legalese political culture. Although there seems to be an acknowledgment that Colombia needs to improve its fiscal position and reduce its debt-to-GDP ratio, there is no unity on how to pay for it, an issue that is likely to re-emerge during the campaigns. The government's proposal slightly raises corporate income taxes, eliminates a series of tax benefits and introduces a surcharge on financial institutions. The lack of public pushback from the private sector on these measures, for which they intensely lobbied before, can be understood as a concession. Under the reform, social spending remains high, and many of the pandemic-related subsidies will stay in place until the end of 2022. Although their permanence is unsustainable, eliminating subsidies or phasing them out altogether would be politically catastrophic for the government. Whereas the Ministry of Finance is hoping for a clean and speedy passage of the reform, members of Congress are bound to meddle in the process with their electoral interests in mind. Opposition groups will be constantly looking for opportunities to reignite protests and indignation toward the government. Both of these factors are likely to affect the government's timeline.

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The political considerations ahead and the content of the reform suggest that the next administration must also introduce changes to the tax code in an environment of growing political polarization, congressional obstruction, and impatience from rating agencies and investors. Where some see growing risks, others are bound to find opportunity."

A **Maria F. Valdés, coordinator of tax issues at Friedrich-Ebert-Stiftung in Colombia:** "It is very likely that this bill will pass in Congress. A key reason is that, before it was officially presented to the public, the bill was discussed with parties close to the president. Finance Minister José Manuel Restrepo likes to call it a 'consensus proposal,' which means that it already has the approval of a significant majority of members of Congress. This reform does not reform much. As a result, it is not creating discontent to the same level as the April bill did. The fact that this reform will not have a direct negative impact on the middle and lower classes has been described by many protesters and opposition members in Congress as a triumph of the strike. President Duque's proposal is cosmetic, unambitious, and wisely designed to pass the fiscal problem along to his successor, who will be elected next year. This is so evident that rating agencies will soon realize that this law will not solve Colombia's fiscal problem."

A **Andrés Martínez-Fernández, senior analyst for Latin America at FrontierView:** "By removing tax increases on consumption and the middle class, Colombia's revised tax reform has eliminated the core elements that made the original proposal unacceptable for congressional leaders and sparked widespread social unrest. The expansion of social spending programs through this reform stands to further alleviate lingering social tensions, even as economic anxiety remains high. As a result, the new proposal is highly likely to receive swift approval in Congress, despite the efforts of some political figures to mischaracterize its content and rally a new wave of protests. Absent substantial macroeconomic shocks, this proposed reform can act as a bridge for Colombia's government through this period of pandemic recovery. However, it will not be sufficient to restore long-term fiscal balance and regain the country's investment-grade status. This reform once again postpones a necessary expansion of Colombia's tax base in the face of growing fiscal imbalance and expanded demands for social spending. There is also uncertainty around the revised proposal's ability to deliver on even its lowered revenue goal of 15.2 trillion pesos, as it relies on complex sources of revenue such as still-recovering business activity, combating tax evasion and new austerity for operational government expenses. All of this points to the need for another tax reform under Colombia's next president. However, adopting a robust reform that expands the tax base will remain politically perilous even after the country recovers further from the pandemic, and the 2022 elections leaves uncertainty around the next government's willingness to pursue such a reform."

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— Andrés Martínez-Fernández

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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