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GLOBAL ECONOMICS

LATAM DAILY

April 5, 2022

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Latam Daily: Peru Protests Lead to Tax Relief

- **Peru: The Castillo Regime introduces tax benefits to appease expanding protests**

PERU: THE CASTILLO REGIME INTRODUCES TAX BENEFITS TO APPEASE EXPANDING PROTESTS

The Castillo Government has faced a nationwide trucker strike since March 28. The strike has evolved into broader protests by all types of transportation workers, including buses and taxis. The strike itself has been followed by acts of vandalism in a few places, including Lima, which led authorities to close schools on Tuesday, April 5.

Talks between truck drivers and the government appeared successful over the weekend, but other transportation workers did not lift their strike. Following the talks with truckers, the government temporarily lifted the Selective Consumption Tax (Impuesto Selectivo al Consumo, ISC) on diesel and low-octane gasoline until June 30, 2022, with a possibility of a six-month extension. This is a 30% tax that was put into place many years ago in, part to motivate a switch from more contaminating to less contaminating fuels. Additionally, 84 and 90 octane gasoline and Petroleum Liquified Gas (propane) will be included in the country's Fuel Price Stabilization Fund from April to June. The government has also promised to take a look at road tolls contracts, with a view to freezing toll prices, if possible.

It's interesting that the government has limited the ISC tax benefit to three to nine months. It is possible that the measure will be further extended after nine months, but apparently the hope on the government side is that in this general timeframe the global spike in fuel prices will have reversed. Finance Minister Oscar Graham has stated that the measure represents a PEN 250mn loss in monthly tax revenue, equivalent to 0.3% of GDP in 2022 if the measure is maintained for the full year.

The government is wary of the risk of unrest spreading and that one of the triggers is inflation, which reached 6.8% in the twelve months to March. To help counter inflation, the government is also seeking to temporarily eliminate the 18% sales tax, here called Impuesto General a las Ventas, IGV, on key staples such as chicken, meat, eggs and flour. A bill has been sent to Congress, which is likely to approve the initiative. Finance Minister Graham expects this to cost PEN 50mn per month in lower tax revenue, which we estimate would represent 0.1% of GDP if the tax benefit is maintained for the remainder of 2022.

The government has also raised the minimum wage by 10%, from PEN 930 to PEN 1,025, to go into effect in May. According to Finance Minister Graham, this would benefit 700,000 workers, about 12% of the formal workforce. We estimate this would increase private consumption by 0.2% in 2022.

Although these measures could have a material impact on inflation, the situation is still in flux, and we prefer to wait until the dust settles before revising our forecast.

—Guillermo Arbe