

## Latam Daily: Colombia's Fiscal Reform Plan; Peru to Proclaim President Next Week

- **Colombia:** Awaiting fiscal reform plan shows government will seek income boost from: corporate taxes, government austerity
- **Peru:** Winner of presidential election to be declared next week

### COLOMBIA: AWAITED FISCAL REFORM PLAN SHOWS GOVERNMENT WILL SEEK INCOME BOOST FROM: CORPORATE TAXES, GOVERNMENT AUSTERITY

Colombia's Minister of Finance, José Manuel Restrepo, presented the much-awaited Fiscal Reform package. Labelled the "Social Investment Project," its main goals are to protect vulnerable people, and pursue fiscal sustainability and economic growth.

In his presentation (the official text will be presented before congress on July 20th), Minister Restrepo highlighted that the reform is expected to increase fiscal income by an estimated COP 15.2 tn, the majority of which is envisioned to come from corporate taxes. The package further contemplates challenging targets such as reducing both tax evasion and government administrative expenses. See table 1 for a breakdown of the proposed primary sources of new fiscal revenues.

The fiscal reform would also include changes to the fiscal rule, changing the anchor from fiscal deficit to debt-to-GDP ratio (55% of GDP in the long run); as well as some adjustments to the primary balance. The Minister has not yet provided additional details thus far.

The Government is also planning to extend direct monetary transfers to vulnerable households (ingreso solidario) until 2022 and increase their coverage. Other social measures will include the announced zero-fees at public universities and subsidies through to 2022 for companies that hire young workers. These programs will aim to reduce social tensions, notably ahead of a busy electoral calendar between now and 2022.

While the Minister's presentation was meant as a broad-stroke announcement, the event was attended by important stakeholders including key economic groups, youth leaders, and political congressional representatives. In view of this, we believe that the Fiscal Reform is well-positioned to garner support to pass before the end of August, providing a strong message of fiscal responsibility.

#### CONTACTS

**Adriana Vega**  
613.564.5204  
Scotiabank Economics  
[adriana.vega@scotiabank.com](mailto:adriana.vega@scotiabank.com)

**Guillermo Arbe**  
+51.1.211.6052 (Peru)  
Scotiabank Peru  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Sergio Olarte**  
+57.1.745.6300 Ext. 9166 (Colombia)  
Scotiabank Colombia  
[sergio.olarte@scotiabankcolpatria.com](mailto:sergio.olarte@scotiabankcolpatria.com)

**Jorge Selaive**  
+56.2.2619.5435 (Chile)  
Scotiabank Chile  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

**Eduardo Suárez**  
+52.55.9179.5174 (Mexico)  
Scotiabank Mexico  
[esuarezm@scotiabank.com.mx](mailto:esuarezm@scotiabank.com.mx)

#### TODAY'S CONTRIBUTORS:

**Jackeline Piraján**  
+57.1.745.6300 Ext. 9400 (Colombia)  
Scotiabank Colombia  
[jackeline.pirajan@scotiabankcolpatria.com](mailto:jackeline.pirajan@scotiabankcolpatria.com)

Table 1

Colombia: main sources of new fiscal revenue	Potential additional fiscal revenue – COP and % of additional income)
Fiscal austerity in administrative expenses	COP 1.9 bn – 12.2%
Reduction in tax evasion	COP 2.7 bn – 17.3%
Corporate taxes: Reduction in deduction allowances planned in Financial law of 2019	COP 3.9 tn – 25.0%
Corporate taxes: Increasing income taxes from 30% to 35% from 2022	COP 6.7 tn – 42.9%
Surcharge to the financial sector companies from 2022 to 2025	COP 415 bn – 2.7%

Sources: Scotiabank Economics, Colombia Ministry of Finance.

**It is important to note that the fiscal reform package as presented is insufficient to reduce the debt-to-GDP ratio over the coming years.** Minister Restrepo highlighted that this reform represents two-thirds of what is needed, which means that a new reform should be presented in a couple of years to continue achieving debt sustainability.

**Although we don't expect Colombia to reach investment grade soon (it would take at least 5 years), we believe that fiscal commitment is essential to maintain credibility in local institutions.**

—Sergio Olarte & Jackeline Piraján

#### **PERU: WINNER OF PRESIDENTIAL ELECTION TO BE DECLARED NEXT WEEK**

**Peru's electoral authorities announced yesterday (July 13) that the new President will likely be declared early next week, following the stipulated time needed to officialise the final, vetted results.** This process consists of the electoral court sending the results to the 60 electoral colleges across the country for publication.

**Earlier this week, media outlets reported that the electoral court had concluded resolving the appeals filed by Ms. Fujimori's party, Fuerza Popular, concerning vote annulments.** The total vote count, which concluded four weeks ago, sits at 50.12% for left-candidate Pedro Castillo, against 49.87% for the right's-candidate Keiko Fujimori. New protests can be expected by Fujimori's supporters in the coming days, even as all legal avenues to contest the election result appear to have been exhausted.

**The courts and electoral authorities have been working against the clock, as the current president Francisco Sagasti is due to conclude his mandate on July 28, at which time the new Congress will have been sworn in, coinciding with the date when Peru will celebrate its bicentennial anniversary of independence.**

—Adriana Vega

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