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## FEATURED Q&A

# Why Has Colombia's Tax Reform Become So Controversial?



Soon after taking office last month, Colombian President Gustavo Petro's government unveiled a tax reform proposal that seeks to raise approximately \$5.8 billion. // File Photo: Colombian Government.

**Q** Within a day of taking office in early August, Colombian President Gustavo Petro's government announced a tax reform proposal that would seek to raise approximately 25 trillion pesos (\$5.8 billion) next year in order to pay for anti-poverty programs. The reform includes higher taxes for people earning more than 10 million pesos per month and new taxes on exports of oil and coal when their prices rise to certain levels. How would the reform affect Colombia's economy and businesses? Would it raise sufficient revenue to pay for the programs Petro has promised? How likely is the reform to win approval in Congress, and what changes might legislators make to the package?

**A** José Ignacio López, executive managing director and head of economic research at Corficolombiana: "The new administration's tax proposal moves in the right direction in some respects but falls short at trying to rebalance Colombia's tax structure, which is skewed against businesses. The proposal seeks 1.7 percent of GDP in additional revenue, of which 0.8 percent of GDP corresponds to higher corporate taxes. The reform would make the tax system more progressive, as it would raise the effective tax rate of the wealthiest 2 percent of households. However, given that the bill raises taxes on dividends and capital gains while maintaining the 35 percent corporate tax rate—among the highest in the region—if approved in its current form, it would discourage new investments in the country, and therefore growth and job creation in the formal sector. We expect that during the next few

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## TODAY'S NEWS

### POLITICAL

## Former Mexican General Arrested in Case of 43 Missing Students

Authorities in Mexico arrested a former army general and three other members of the military in the case of the 43 college students who disappeared in 2014 near the town of Iguala.

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### POLITICAL

## At Least Nine Killed in Stampede at Concert in Guatemala

At least nine people were killed, including three children, at a stampede at a concert in the Guatemalan city of Quetzaltenango.

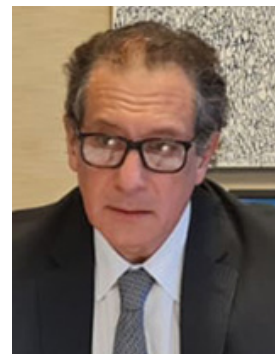
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### ECONOMIC

## Argentina Hikes Key Interest Rate to 75 Percent

Argentina's central bank, led by Miguel Pesce, on Thursday hiked its benchmark interest rate by 550 basis points to 75 percent as it struggles to contain soaring inflation.

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Pesce // File Photo: Argentine Central Bank.

## POLITICAL NEWS

## Ex-Mexican General Arrested in Case of Missing Students

Authorities in Mexico on Thursday arrested a retired army general and three other members of the military for alleged ties to the disappearance of 43 students near the town of Iguala in 2014, the Associated Press reported. Assistant Public Safety Secretary Ricardo Mejía said a fourth arrest would be announced soon. Mejía did not give names of those arrested, but numerous media outlets have reported that the commander of the Iguala base at that time, former Brig. Gen. José Rodríguez Pérez, then a colonel, had been apprehended. The case has drawn international attention. Independent investigations have failed to reach a conclusive account of what happened to the 43 student activists, and the motive remains unclear. Apparently local police pulled the students off several buses they had commandeered in Iguala and turned them over to a drug gang. Their bodies have never been found, though fragments of burned bone have been matched to three of the students. Mexico's top human rights official, Alejandro Encinas, said last month that the government engaged in cov-

er-ups following the incident, and that officials' actions at the time amounted to a "state crime." Also last month, authorities arrested former Attorney General Jesús Murillo Karam in connection with the case. [Editor's note: See related [Q&A](#) in the Sept. 6 issue of the Advisor.]

## Stampede Kills at Least Nine at Concert in Guatemala

At least nine people were killed, including three children, and 20 others were injured in a stampede early Thursday at the end of a rock concert in the Guatemalan city of Quetzaltenango, local daily newspaper Prensa Libre reported. The concert was part of Guatemala's independence day celebrations, and the stampede happened when some 10,000 people tried to leave at the same time. The venue had only two exits, Reuters reported, citing witnesses at the scene. "They closed off the whole area and only left two access [points]," Nancy Quemé, who was at the concert, told the Associated Press. "The entrances seemed really small to me. I stayed pretty far back and decided to leave minutes before the end of the concert," she said. Video circulating on social media showed people pushing and smashing against each other, the AP reported.

## NEWS BRIEFS

## El Salvador's Bukele to Seek Re-election Despite Constitutional Prohibition

Despite El Salvador's constitution prohibiting presidents from having consecutive terms, President Nayib Bukele said Thursday he would run for re-election after his current term ends in 2024, Reuters reported. In 2021, the Central American country's Supreme Court, composed of judges appointed by lawmakers from Bukele's party, ruled that a second consecutive term was permissible in spite of the language in the constitution. Bukele, 41, enjoys very high popularity ratings, although human rights advocates criticize his tough-on-crime tactics.

## Pope Asks Nicaragua's Government to Allow Return of Nuns

Pope Francis said Thursday that he has asked the government of Nicaraguan President Daniel Ortega to allow the return of nuns of the Missionaries of Charity, which was founded by Mother Teresa, Reuters reported. Ortega's government expelled 18 nuns of the group in July amid its crackdown on the church and other groups not affiliated with the government.

## Brazilian Airline Gol to Pay \$41 Million to Settle Bribery Allegations

The U.S. Department of Justice announced Thursday that São Paulo-based airline Gol will pay more than \$41 million to resolve parallel bribery investigations by criminal and civil authorities in the United States and Brazil. The company was charged with conspiracy to violate the anti-bribery and "books and records" provisions of the Foreign Corrupt Practices Act (FCPA). "Gol paid millions of dollars in bribes to foreign officials in Brazil in exchange for the passage of legislation that was beneficial to the airline," alleged Assistant Attorney General Kenneth A. Polite Jr.

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weeks, the government will revise the proposal to dampen the effect of the reform on investment as well as some of the initiatives that would significantly raise taxes for the oil industry."

**A** **Andrés Martínez-Fernández,** senior analyst for Latin America at FrontierView: "President Petro has built alliances with most of the major parties in Congress, giving him majorities in both legislative chambers. However, his majorities depend heavily on the support of more moderate and establishment political parties that will seek to curb

his policy agenda. Indeed, legislators are already effectively pushing back on many of the measures in Petro's proposed tax reform, including those dealing with dividends and free-trade zones. A modified tax reform is likely to eventually receive congressional approval. However, these adjustments by Congress could lower the reform's revenue gains. Even so, the reform would substantially increase tax burdens on Colombian businesses and consumers just as economic growth begins to slow amid high inflation. This scenario will make it harder for firms and households to shoulder these costs, and they will likely further dampen the outlook

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## ECONOMIC NEWS

## Colombian Oil Producers Seek Changes in Tax Plan

Colombia's association of private oil producers on Thursday called for the government to modify its tax reform and remove a proposed tax on oil exports and a prohibition on energy companies offsetting taxes with royalties, Reuters reported. Shortly after taking office in August, Colombian President Gustavo Petro proposed a reform aimed at increasing tax income by approximately \$5.8 billion next year to finance social spending and anti-poverty programs, according to The Financial Times. The bill would implement a new 10 percent tax on income earned when oil prices exceed \$48 per barrel, Reuters reported. Instead, the Colombian Petroleum Association (ACP), which represents private oil companies operating in the South American country, recommended that the government instead levy a surcharge based on production. Oil prices this year are projected to average \$104 per barrel, which would mean additional income of 24 trillion pesos (\$5.46 billion) for the government in 2022, but the proposed tax would raise costs for the sector and threaten the viability of many projects, according to the ACP. The business association has said that the government should instead increase the regular tax rate by one percentage point once the price of oil exceeds \$75 per barrel and another two and then three percentage points when it passes \$85 or \$95 per barrel, respectively.

## Argentina's Central Bank Hikes Key Interest Rate to 75%

Argentina's central bank on Thursday raised its benchmark interest rate, a move that came one day after the latest government figures showed that consumer prices have increased nearly 80 percent in the past year, Bloomberg News reported. Argentina's central bank raised the

## THE DIALOGUE CONTINUES

### Why Are Brazil's Indigenous People Facing Attacks?

**Q** **Attacks against Indigenous people in Brazil and invasions by illegal miners and loggers of their territories escalated dramatically last year, the Catholic Church's Indigenous Missionary Council said in an annual report released Aug. 17. The report counted more than 300 invasions of Indigenous lands last year, more than triple the number as compared to 2018, when President Jair Bolsonaro was elected. What are the main reasons behind the escalation in attacks on Indigenous communities and invasions of their lands? What should authorities do to address the problem? Why is illegal logging and mining on Indigenous lands growing in Brazil, and what steps should be taken to prevent that activity?**

**A** **Peter Sufrin, independent Washington-based analyst:** "The recent attacks in Brazil reflect the profound ambivalence that has characterized the nation's policy toward its Indigenous peoples for centuries. Since the arrival of the Portuguese in 1500, Brazil's native peoples have had to cope not only with disease, slavery and violence, but also with policies of domination that have endured through the present time. Granted, there have been some exceptions, for example, with the progressive policies

of explorer Cândido Rondon in the early 20th century, the founding of FUNAI in 1967 and the formulation of the 1988 constitution setting out laws for human rights and land protection. But for the most part, the concerns of Indigenous communities have been seen as impediments to Brazil's economic and social agendas. Bolsonaro has left nothing to doubt, implementing policies of repression in favor of miners, loggers and agribusiness in the exploitation of the Amazon that threaten to eliminate the native population's environmental and legal rights. With the possible return of Workers' Party leadership, there may be reason for hope. Lula has promised to stop illegal mining and once again fund FUNAI and IBAMA, but by and large, Brazil's Indigenous community will remain politically, economically, socially and culturally marginalized. The struggles of Brazil's native population coping with institutionalized violence resonate not only in the nation but have symbolic significance for the Indigenous experience in all of the Americas."

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**EDITOR'S NOTE:** The comment above is a continuation of the [Q&A](#) published in the Sept. 8 issue of the Advisor.

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benchmark Leliq rate by 550 basis points to 75 percent, its ninth hike this year. On Wednesday, the government released figures showing that inflation in July had hit its highest level in 30 years. Central bank chief Miguel Pesce and Economy Minister Sergio Massa met earlier this week with IMF Managing Director Kristalina Georgieva and reaffirmed their commitment to the deal signed between the parties. The deal makes fighting inflation a priority, and the Argentine government committed to keeping interest rates higher than inflation. The Argen-

tine peso is under pressure as the government earlier this month launched a preferential exchange rate for soy producers with the aim of incentivizing exports, Reuters reported. Soy producers are able to exchange their export earnings for pesos at a rate of 200 pesos per dollar, above the official exchange rate of 140 pesos per dollar. Thursday's interest rate hike had widely been expected to help contain devaluation pressures generated by the resulting spike in liquidity and as a measure aimed at fighting inflation.

## FEATURED Q&amp;A / Continued from page 2

for business investment and consumer spending. The Petro administration aims to offset this effect and bolster growth through expanded government spending. The spending plan that Petro laid out as a candidate is highly ambitious, and its cost would exceed even his previous tax reform revenue goal of 50 trillion pesos. The administration has said higher oil revenues will compensate for a less aggressive tax reform, but oil prices remain highly volatile, having already fallen by more than 16 percent since Petro was elected. While oil prices may yet rebound, a continued decline is entirely realistic and would bring additional fiscal pressures. Even if prices remain high, Petro would still have to significantly curb his previous spending plans.”

**A** **Nicholas Borges, political analyst at BMJ Consultores Asociados:** “Tax reform is a critical issue for Gustavo Petro after the citizen discontent and protests last year boosted his presidential campaign. Tax reform was among the protesters’ demands last year. Petro’s reform is an ambitious project, but he may be forced to review some parts of it. We’ve already seen some moves

in that direction. The economy minister recently announced that the government gave up on ending a gasoline subsidy in border areas and taxing gold exports. Despite this, Petro will continue to bet on the need to create new taxes, but his government will need to engage in talks with market participants and representatives to move forward. Petro’s broad reform may suffer some changes as Congress debates it. Centrist legislators and the market are still trying to convince the government that taxes on oil and coal could lead to an increase in the price of fuel and energy. The issue highlights that the president will need to negotiate in order to implement it. Even though we consider his original proposal may undergo some changes in the legislative process, Petro still has one good piece of news. Unlike Iván Duque, who presented a tax reform in 2021 that caused massive mobilizations, Petro may use his honeymoon period and high popular support (56 percent according to the latest polls) to implement his ambitious agenda and pressure Congress on it.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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# Advisor Video

## Offshore Wind Energy in LAC – Gauging Speed and Direction

An Inter-American Dialogue discussion with Thiago Barral, Empresa de Pesquisa Energética Ramón Fiestas, Global Wind Energy Council Mark Leybourne, World Bank Leila García da Fonseca, Wood Mackenzie

View a webcast of the Sept. 8 discussion.



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