FEATURED Q&A

Will Boric’s Tax Changes Strengthen Chile’s Economy?

Chile’s Congress is set to debate President Gabriel Boric’s tax reforms. Boric is pictured Wednesday viewing his government’s 2023 budget. // Photo: Chilean Government.

Q

Major tax reforms proposed by the government of leftist President Gabriel Boric will be debated in Chile’s Congress in the weeks ahead. Some industry groups have criticized aspects of the tax reform measures as unfair and likely to have unintended consequences, such as deterring investment and stifling economic activity. What are the main attributes and shortcomings of the proposed Chilean tax reforms? How likely are they to pass Congress in their current form, and what changes can be expected?

A

Geoffrey Dennis, independent emerging markets commentator: “President Boric’s sweeping tax proposals are not actually a ‘tax reform’ but rather a very large increase in tax revenues to be used to finance higher spending on the government’s social agenda: pensions, housing, education and health care. At under 20 percent of GDP, the tax/GDP ratio in Chile is low by OECD standards, and the goal of this ‘reform’ is to increase this by 4 percentage points by 2026. To raise this amount of money to fund higher spending represents a ‘fiscal reform’ rather than ‘tax reform;’ it is an ambitious leftist agenda. Some taxes will be raised (on income at the upper end and mining royalties with a limit on mortgage tax relief), and new taxes are proposed (capital gains tax at 22 percent from 2023, the end of the tax exemption of rental income and a wealth tax). The main offset is a small reduction in the corporate tax rate from 27 percent to 25 percent. It is little wonder these tax proposals have been criticized. They will be negative for investment (despite lower corporate tax) and for overall econ-
Guatemala’s El Periódico to Halt Print Edition

Guatemalan investigative newspaper El Periódico said Wednesday that it will stop publishing its print edition, a move that came months after authorities arrested the newspaper’s president, José Rubén Zamora, the Associated Press reported. All of the newspaper’s reporters have been laid off, and it is unclear how El Periódico will be able to continue publishing its digital editions, the AP reported. Guatemala’s government has withdrawn its advertising from the newspaper, and it is accused of pressuring businesses to also no longer advertise in El Periódico, the wire service reported. “It has been 30 years of struggle against corruption and impunity, against governmental abuses and terrorism, in favor of freedom transparency and accountability,” Zamora wrote in an editorial from the prison cell where he is being held. Authorities arrested Zamora in July and charged him with money laundering and extortion. Zamora, who denies wrongdoing, has overseen numerous reports about corruption in Guatemala. Mario Recinos, the president of the Guatemalan Association of Journalists, said reporters in the Central American country must operate “amid limits on the freedom of expression, harassment, criminalization of journalism and judicial persecution,” the AP reported. The U.S. government has criticized Guatemala’s government over the weakening of anti-corruption efforts in the country. Last year, the Biden administration canceled the U.S. visa of Guatemalan Attorney General Consuelo Porras who has pursued former prosecutors involved in conducting investigations into corruption. “The criminalization of independent judges and prosecutors in Guatemala, forcing them into exile, is one of the clearest symptoms of the deterioration of the rule of law in Guatemala,” Ursula Indacocchea, director of the Judicial Independence Program at the Due Process of Law Foundation, told the Advisor in a Q&A published Monday.

Brazil’s Economy Grows Less Than Expected in Q3

Brazil’s economy, the largest in Latin America, grew less than expected in the third quarter, state statistics agency IBGE announced today, Reuters reported. The country’s gross domestic product grew 0.4 percent, below the 0.7 percent average estimate from analysts in a Reuters poll. Year-on-year, the economy grew 3.6 percent in the quarter. This year’s third quarter marked the economy’s fifth consecutive quarter of growth. [Editor’s note: See related Q&A in the Nov. 18 issue of the Advisor.]

Chevron Working to Comply With Venezuela Sanctions

Oil major Chevron is working with the U.S. government to ensure its compliance with sanctions on Venezuela after securing a license to expand its operations there, Chief Executive Michael Wirth said on Wednesday, Reuters reported. “We’ll work with our government to be sure we stay in compliance with those sanctions,” Wirth told the Boston College Chief Executives Club. U.S. President Joe Biden’s administration is easing harsh oil trading sanctions it had imposed on the South American country almost four years ago over Venezuela’s presidential election that was widely perceived to be fraudulent and the tightening of an autocratic regime. The license granted to Chevron—the only remaining active U.S. oil company in Venezuela—restricts cash payments to Venezuela, however, pending further talks between President Nicolás Maduro and the opposition party over contested presidential elections, among other issues, The Washington Post reported. “We’ve been trying

Leaders of Mexico, Chile, Colombia, Peru to Meet This Month in Lima

Latin American leaders from four countries will convene in Lima, Peru, on Dec. 14 for a Pacific Alliance summit, Reuters reported on Wednesday. The presidents of Mexico, Chile, Colombia and Peru will gather for the trade bloc’s meeting, in which Peru will assume the pro tempore presidency of the alliance. The meeting, originally scheduled in Mexico City, had previously been postponed after Peruvian President Pedro Castillo was barred from traveling abroad due to an ongoing corruption investigation.

Brazil’s Lula Likely to Meet With Biden Before Taking Office: Aide

Brazilian President-elect Luiz Inácio Lula da Silva will likely meet with U.S. President Joe Biden before Lula takes office on Jan. 1, aide and former São Paulo Mayor Fernando Haddad said Wednesday, Reuters reported. Lula will receive an invitation to meet with Biden during a meeting on Monday with U.S. National Security Advisor Jake Sullivan and Juan Gonzalez, a senior advisor to Biden and senior director for the Western Hemisphere at the National Security Council, an unnamed source told Reuters.

IDB Approves $500 Mn Loan for Argentina to Help Mitigate Climate Change

The Inter-American Development Bank approved a new $500 million loan to Argentina, the Economy Ministry said in a statement on Wednesday, Reuters reported. The credit line will be granted in one installment this month and aims to mitigate the adverse effects of climate change, such as flooding and prolonged drought. “This loan focuses on supporting climate planning capacity, promoting green finance and promoting the circular economy,” the statement said.
to hang in there for a better day in Venezuela, to be part of building a better future for it. That’s really what the opportunity is there,” Wirth said. Last week, Venezuela’s government and the opposition signed a preliminary agreement on a humanitarian spending plan aiming to release billions of dollars frozen abroad, BBC News reported.

Luma Energy Wins Extension of Puerto Rico Contract

Luma Energy, which has faced heavy criticism over worsening power outages in Puerto Rico, on Wednesday won a last-minute extension on its contract in the U.S. territory, the Associated Press reported. Luma, a consortium comprised of Canada-based Atco and U.S.-headquartered Quanta Services, received the extension in a 4-1 vote by the board of the Puerto Rico Electric Power Authority. A member representing the public interest cast the one dissenting vote. The extension of Luma’s contract will bring $122 million in revenue to the consortium, the AP reported. In a statement, the consortium said, “despite an array of inherited challenges, Luma has made significant progress over the last 18 months addressing key infrastructure challenges, as well as improving the reliability and resiliency of the system,” the wire service reported. On Tuesday, the Puerto Rico Public-Private Partnerships Authority also voted, in a 3-2 decision, to extend Luma’s contract. Two board members who represent the public interest abstained from the vote. In August, Puerto Rico Governor Pedro Pierluisi criticized the consortium, saying he was unsatisfied with its performance. However, the governor has since said that Luma is working on strengthening the Puerto Rico’s power grid and that finding a different company to handle the project would further delay progress. “Canceling the contract makes no sense right now,” Pierluisi told reporters on Wednesday, the AP reported. “We all want both Luma and the Electric Power Authority to improve their performance to have a more stable electric service,” he added. Puerto Rico has faced worsening power outages that led the U.S. government to begin securing barges and land-based generators last month in order to prevent blackouts. Hurricane Maria largely destroyed the territory’s power grid in 2017, and only emergency repairs have been made so far, the AP reported. Puerto Rico has numerous challenges in providing electricity, Rocío M. Velez, legal advisor at SGH2 Energy Global, told the Dialogue’s weekly Energy Advisor in a Q&A published Oct. 21. “Puerto Rico is extremely dependent on fossil fuels to run its power grid, and the above ground transmission lines will continue to be an issue, every other year for any hurricane above 60 miles per hour that strikes the island,” she said.

Would Conciliatory Gestures From the United States Lead to Change in Cuba?

Eighteen former Latin American and Caribbean leaders signed a letter that was released Nov. 2, calling on the United States to end its six-decade embargo on Cuba and also remove the Caribbean country from its state sponsors of terrorism list. The letter’s release came just ahead of an annual vote in the United Nations in which member states voted overwhelmingly for the 30th year to condemn the embargo. While U.S. President Joe Biden’s administration has made some friendly moves toward Cuba, such as offering $2 million in hurricane relief, it has also been critical of Cuba’s human rights record. How likely is the United States to make more conciliatory gestures toward Cuba, and what can the United States expect in return? What is the state of Cuba’s private sector, and how much opportunity does it offer to Cuban entrepreneurs? How developed are business ties between the countries, and how likely are they to get stronger?

Kezia McKeague, regional director at McLarty Associates: “Despite dire macroeconomic conditions and ongoing political repression, the Cuban private sector has expanded at a steady clip since the Cuban government granted legal status to small and medium-sized enterprises (known as MiPYMES) in September 2021. As part of a Cuba Study Group delegation that traveled to Havana in November for meetings with Cuban independent society, I witnessed first-hand the creativity of entrepreneurs and the challenges they face, from lack of raw materials and financing to high employee turnover due to rampant emigration. Nevertheless, numerous MiPYMES are taking full advantage of unprecedented flexibility to innovate, import and export goods and services, and scale. Indeed, as Cuba’s centrally-planned economy collapses, the private sector is increasingly filling the void left by uncompetitive state enterprises. While entrepreneurs’ efforts represent a hopeful opening in an otherwise bleak economic and political context, the key question asked by foreign diplomats in Havana is whether the rapid evolution of private enterprise is here to stay—or whether, as in the past, the government will crack down once conditions improve. Cuban officials’ mixed messaging towards entrepreneurs, though more favorable as of late, still fuels the uncertainty. In Washington and Miami, however, interest in further conciliatory gestures towards Cuba will remain scant until the hundreds of protesters jailed for participating in the anti-government protests of July 11, 2021, are released. Nonetheless, the Biden administration should issue a general license to allow direct U.S. private sector investment in private MiPYMES—in keeping with its policy goal of supporting the Cuban people.”

EDITOR’S NOTE: The comment above is a continuation of the Q&A published in the Nov. 10 issue of the Advisor.
nomic growth, although this will be offset by higher social spending and the simultaneous reforms to the pension system. This policy mix takes Chile further away from the high growth, low tax, free market policies of the 1980s-1990s. Some modifications to this sweeping tax bill are likely in Congress with the most vulnerable pieces of package being the wealth tax and the sheer size of the new capital gains tax. This process is far from over."

Hugo Benedetti, director of the economics and finance department of the ESE Business School at the University of the Andes in Chile: "The proposed tax reform has a loaded populist title: ‘Justice and Development.’ With an overly ambitious goal of pocketing an additional 4 percent of GDP, industry representatives, economists and tax experts have widely opposed the initial proposal. Regarding the ‘justice’ theme, the proposal seeks public support by including a set of progressive taxes targeting the wealthy and big corporations. For instance, the marginal rate increases to 43 percent for individuals with annual incomes greater than $60,000; it introduces an annual wealth tax of 1 percent for individuals with net equity over $5 million and 1.8 percent in the case of net equity of more than $15 million, as well as an exit tax applicable to those changing their tax domicile. For corporations, changes include the disintegration of the tax scheme, proposing a corporate tax of 25 percent plus a 22 percent withholding on dividends, raising total tax loads up to 43 percent. Increasing the total government tax revenue from 20 percent to 24 percent of GDP without explicit policies on government spending and investment can be viewed as a risky macroeconomic measure. Considering that Chile's GDP is forecast to decrease by 1 percent in 2023—the worst economic forecast in Latin America—such additional tax pressure can hardly be linked to increased development. Given the aggressiveness of the proposal, many have viewed it as the government’s ‘wish list,’ and it will likely turn into a long and sour negotiation in Congress."

Martina Constanza Ogaz Aguilar, analyst of investment studies at EuroAmerica in Chile: "The tax reform presented by the government of Gabriel Boric considers four main ways to increase collection by around 4 percent of GDP. Among these are measures against evasion and avoidance, a wealth tax, income tax and royalties. These efforts have been questioned given the impact that this reform could have on investment and national savings. Chile is also facing a scenario of high local political and economic uncertainty with projections of low growth for the coming years and a process of constitutional discussion that could further harm investment. In particular, I would point to the discussion on mining royalties. This debate has highlighted the competitiveness of Chile’s mining sector as compared to other producing countries and how the tax reform could affect production at a time when demand for copper could rise significantly in the face of the advancement of electric vehicles. The promotion of a wealth tax has also been highly questioned. According to projections of this reform, this change would collect little revenue and would harm savings and investment. All in all, this tax reform will likely undergo several modifications in Congress. The focus should be on collection, which is necessary given the greater demand for fiscal spending. However, it should not harm investment, which would lead to a prolonged stagnation of economic growth."

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