

Contributors

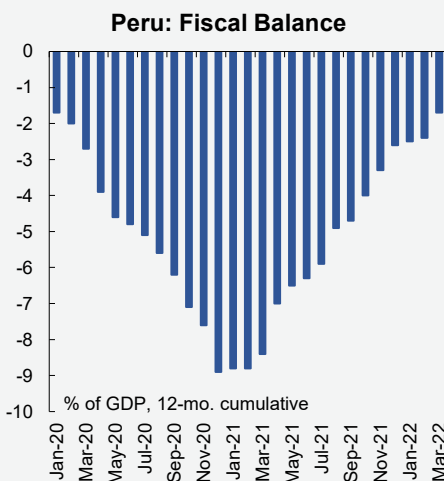
Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

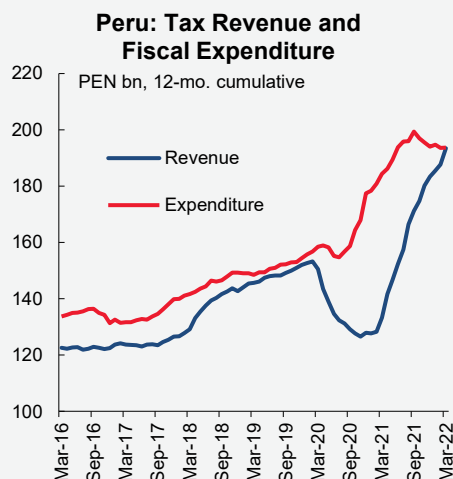
Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Chart 1



Sources: Scotiabank Economics, Minem.

Chart 2



Sources: Scotiabank Economics, BCRP.

Latam Daily: Peru’s Fiscal Accounts Strengthen as Protests Disrupt Mining

- Peru: Fiscal accounts strengthen, but public investment spending stalls while protests disrupt mining production

PERU: FISCAL ACCOUNTS STRENGTHEN, BUT PUBLIC INVESTMENT SPENDING STALLS WHILE PROTESTS DISRUPT MINING PRODUCTION

I. Fiscal accounts just keep on getting better!

Peru registered a tremendous improvement in its fiscal accounts in March and Q1-2022, as the 12-month fiscal deficit shrunk from 2.4% of GDP in February to 1.7% in March (chart 1), according to the BCRP in a [report published just before Easter](#). While this is a very encouraging outcome, it does contain one moderate distortion: about PEN 3 bn of tax payments that had come due in April 2021, but that were only made in March 2022. That said, excluding this transaction, income tax revenue is still up 25%, which is still a very strong number. Note, however, that March was the beginning of the two-month income tax season. Income tax revenue rose 47% y/y in Q1-2022.

The solid fiscal accounts in Q1 mostly reflected extremely strong revenues. High metal prices represented the bulk of the increase in revenue. But the IGV sales tax (VAT) also contributed, rising a formidable 18% y/y. This impressive performance of the IGV tax has been sustained for some time now, and surpasses what one might expect from jobs growth. One of the drivers may be the lagged impact of government transfers to households and the access to savings that took place up until the end of 2021. Yet even this does not seem to be enough to justify the magnitude of the increase, which we believe is likely to also include a structural change in consumer behaviour towards greater digital payments, which are easier to capture for tax purposes.

Although fiscal accounts would have improved even if fiscal expenditure had risen in line with the 2022 budget, the fact that government spending actually declined marginally added to the stronger fiscal picture (chart 2). Current expenditure was flat in Q1. This was expected, as there were no longer any significant COVID-19-linked transfers. What was not expected was the 8% decrease in public investment (table 1). The Castillo

Table 1: Peru—Fiscal Accounts

PEN mn	2021 Q1	2022 Q1	y/y % change
Total Revenue	41987	52087	24.1
Income Tax	13920	20416	46.7
IGV-Sales Tax	18061	21354	18.2
Special Consumer Tax	2290	2368	3.4
Other	7716	7949	3.0
Non-Financial Spending	39573	39169	-1.0
Current Expenditure	31291	31255	-0.1
Public Investment	6399	5869	-8.3
National Government	2503	2168	-13.4
Regional Governments	1083	1106	2.1
Local Governments	2813	2595	-7.7
Other	4132	2491	-39.7
Primary Balance	4663	13364	
Interest Payments	4944	5589	13.0
Fiscal Balance	-281	7775	

Sources: Scotiabank Economics, BCRP.

April 20, 2022

Administration is largely responsible for this result, as investment at national level was down 13%. The decline in public investment may reflect, in part, high anti-COVID-19 spending in 2021. At the same time, public investment growth has been weak for six months now, and it has been our contention that this also reflects the Castillo administration's difficulties executing spending plans.

At the end of the day, fiscal accounts are improving above and beyond what we expected. The current level of deficit, 1.7% of GDP, is not necessarily sustainable, as fiscal accounts typically improve during the March–April tax season, and then slip back a bit during the rest of the year. Even so, our forecast of a 3.0% deficit for 2022 is simply too high given the current fiscal balance, and we are revising it. On balance, we expect that the fiscal deficit for 2022 will fall within the 2.0% to 2.5% of GDP range. Uncertainties remain, however, owing to a number of emerging factors. To begin with, the government has announced a number of tax benefits for fuel and key food staples. So far, this accounts for approximately 0.3% of GDP in lower tax revenue. The question is whether more tax exemptions will be forthcoming? Similarly, while metals prices may remain high for longer (or not), there are questions regarding how social protests will impact mining operations. This is obviously not an easy question to answer. Finally, there is the question of whether the government can improve its spending capability as it makes progress on its learning curve, or if it is too unstable or preoccupied by other issues to improve its execution.

II. Las Bambas announces another halt in operations

The Las Bambas copper mine (MMG) announced yet another halt in operations, to begin on April 20. Las Bambas has reported that approximately 130 people from the nearby town of Fuerabamba had entered its installations on April 14. The company issued a statement expressing its frustration over the protestors' refusal to acknowledge the company's compliance with past agreements. Las Bambas has had to halt operations due to protests multiple times in the past. At this time, it adds to the Cuajone mine, operated by Southern Peru, which has halted operations since February 28 due to protests. Together, the two mines represent approximately 20% of Peru's total copper output.

—Guillermo Arbe

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