

Latam Daily: Peru Constitutional Court Ratifies Status Quo; Argentina Wealth Tax

- Argentina: Tax and pension reforms advance
- Peru: Constitutional Court ratifies the status quo, but avoids defining “moral incapacity”

ARGENTINA: TAX AND PENSION REFORMS ADVANCE

Early on Wednesday, November 18, Argentina's lower house, the Chamber of Deputies, approved a bill for what the government claims will be a one-off tax on the assets of wealthy individuals. The tax would be imposed on Argentine households—not companies—whose declared assets exceed ARS 200 mn (USD 2.5 mn at the current official exchange rate of USDARS 80.27) and would scale up progressively to a maximum of 3.5% on assets in Argentina and 5.25% on assets held outside of the country. Estimates imply that the tax would affect somewhere between 9,000 and 12,000 people; the authorities hope it would raise about USD 3 bn, equivalent to about 0.7% of GDP. Related revenues would be earmarked as follows: 20% for COVID-19-related medical supplies, 20% for programs to help SMEs, 15% for social development programs, 20% for student scholarships, and 25% for natural-gas development programs. The bill has moved to the Senate where it is due to be debated before end-November.

Wealth taxes have been tried and abandoned in several advanced economies and emerging markets, in part because they rarely raise the funds projected, are easily circumvented, push capital abroad, and violate the principle that the same income shouldn't be taxed twice. Such a levy would not likely feature in IMF conditionality for the new EFF loan under negotiation.

The Argentine authorities also moved ahead on Wednesday with adjustments to the public pension system. The government announced that pensions would increase by 5.0% in December, above October's 3.8% m/m headline inflation rate, but this implies a 35% y/y nominal increase for 2020 as a whole, spot on our forecast for the year's increase in the national CPI (see our November 14 [Latam Weekly](#)). At the same time, the government is pressing ahead with the development of a systematic framework for future pension adjustments that will likely feature in any program eventually agreed with the IMF since pensions account for nearly two-thirds of public spending.

The national government's October budget balance is due for publication later today. Economy Minister Guzman has promised that the Treasury would not draw on BCRA financing in November and December, which may imply he foresaw a narrowing in the deficit in October on the back of further recovery in the economy.

—Brett House

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PERU: CONSTITUTIONAL COURT RATIFIES THE STATUS QUO, BUT AVOIDS DEFINING “MORAL INCAPACITY”

In a four-to-three vote, the Constitutional Court (Tribunal Constitucional) found that Congress did not violate the Constitution in removing ex-President Vizcarra. Furthermore, in an extremely controversial decision, the Court also held, essentially, that there was no reason to provide a more precise definition of the Constitution’s concept of “moral incapacity” as grounds for the removal by Congress of a President.

What this means:

1. The removal of ex-President Vizcarra was not unconstitutional;
2. All acts that followed, including Merino’s resignation and the designation of Francisco Sagasti to the Presidency, are valid. The *status quo* remains; and
3. In the future, Congress has total freedom to interpret the concept of “moral incapacity” as cause for removing a President. In practice, the only requirement would be to obtain 87 votes out of 130, i.e., a two-thirds majority.

After the ruling was announced, different members of the Court gave different reasonings for the decision. One argument given was that the issue had become moot: events had moved on. Another point made was that the ruling reflected political prudence and an effort to avoid inflaming the political climate. More controversially, one member of the Court floated the idea that the concept of moral incapacity should be vague in order to provide flexibility for each particular situation.

The Court’s decision is likely to affect the prestige of the Court itself, but it’s hard to see a situation arising in which Congress would once again seek the removal of a President in the short term. In the medium run, Congress itself has the wherewithal to define the concept of moral incapacity in the Constitution. This will probably not occur under the current Congress, but could take place in a future one.

—Guillermo Arbe

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