EmergingMarketWatch 5 selected EM stories

Belarus

Russia to offer credit support as compensation for tax manoeuvre

- Kremlin says loan sizes have been agreed, but details undisclosed yet
- Gas prices for Belarus to remain unchanged in 2022
- Progress achieved regarding energy cooperation, likely within union state

Ukraine

Interior minister Avakov resigns

- Avakov has served since 2014
- He may be replaced with security council secretary Danilov

Israel

Finance minister to present 2021-2022 budget draft to cabinet in early August

- Final parliamentary approval expected in H1 of November
- No deficit targets are set yet
- Reduction in deficit to come through economic growth, efficiency, productivity

Brazil

Analysts raise forecast scale of tightening for 2021-2022 on inflation pressure

- Next MPC meeting: Aug 4, 2021
- Current policy rate: 4.25%
- EmergingMarketWatch forecast: 75-bp hike (to 5.00%)

Colombia

Govt presents new tax reform proposal, aims to raise collection by COP 15.2tn

- Bill doesn't modify the VAT, the tax base, or the regime for pensions
- Govt to raise the corporate tax by 5pps since 2022
- 40% of additional revenue will come from tax administration

Belarus

Russia to offer credit support as compensation for tax manoeuvre

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- **Gas prices for Belarus to remain unchanged in 2022**
- **Progress achieved regarding energy cooperation, likely within union state**

Russia will offer additional credit support to Belarus as compensation for the tax manoeuvre, according to a statement by Kremlin spokesperson Peskov. It was made after a meeting between President Lukashenko and Russian President Putin yesterday. Peskov also said specific loan sizes had been agreed, but did not share further details. In general, the Belarusian government had estimated projected tax manoeuvre losses at USD 10bn over 2019-2024 or around USD 1.7bn annually.

We remind that in 2020 the two countries reached a short-term agreement, which regulated the issue differently. Russia thus reimbursed USD 4.7 of the USD 7 premium that Russian oil companies receive per ton. Based on total oil deliveries to Belarus, this only amounted to around USD 100mn in compensation per year. Meanwhile, the Kremlin also confirmed gas prices for Belarus will remain unchanged in 2022 (USD 128.5 per 1,000 cubic metres), which is in line with previous statements.

Peskov added progress had been made with regard to bilateral cooperation in the field of energy. This likely refers to union state negotiations, specifically ongoing harmonisation of the last roadmap on common oil and gas markets. The two sides expect to sign binding union state agreements in the fall, which is virtually guaranteed at this point. Practical arrangements for the establishment of common markets and shared policy-making in spheres such as industry and agriculture will begin to appear from 2022 onwards.

Ukraine

Interior minister Avakov resigns

- **Avakov has served since 2014**
- **He may be replaced with security council secretary Danilov**

Arsen Avakov, the interior minister, has submitted his resignation. No reason has been provided thus far, but it has been widely expected since last year that he would be replaced. Zerkalo Nedeli said, citing its sources in the interior ministry that President Volodymyr Zelensky and Avakov got tired of each other. Novoye Vremya reported that Avakov could be replaced with Oleksy Danilov, the current secretary of the security and defence council, which is chaired by Zelensky. Avakov, a former businessman from Kharkov, has been the longest-serving minister in Ukraine. He was appointed as interior minister in early 2014. Avakov botched the reform of police and was implicated in several corruption scandals.

Israel

Finance minister to present 2021-2022 budget draft to cabinet in early August

- **Final parliamentary approval expected in H1 of November**
- **No deficit targets are set yet**
- **Reduction in deficit to come through economic growth, efficiency, productivity**

Finance minister Avigdor Lieberman said on Tuesday he would be aiming to present the 2021-2022 budget draft to the cabinet in the first week of August. The budget will then move to the Knesset, which may hold a preliminary vote in September and the final parliamentary approval is expected in H1 of November. He expressed confidence that the budget package, which will cover a 14-month period will be passed as none of the parties, including from the opposition are in favour of holding of new elections, which would be the fifth since the start of 2019.

Lieberman elaborated that he has not yet set deficit targets neither for 2021 nor for 2022 and commented that the BoI's deficit estimate of 7.1% of GDP for this year was not too optimistic. He also commented that the decline in the gap from 11.6% of GDP in 2020 to 10.1% for the past 12 months through June was a good achievement. The minister said that the structural budget deficit is not going to increase even if no increase in taxes and reduction in spending was planned. He noted that a reduction in the gap would come through economic growth, efficiency and productivity. Lieberman also stated that he would be aiming at economic growth of 5% per year in the following four years.

We note that the last budget in the country was passed in the spring of 2018 and covered 2019. Thus, spending in the following years depend on the 2019 execution, adjusted for inflation. Also, the Knesset had to pass amendments to allow for aiding the economy during the coronavirus crisis.

Brazil

Analysts raise forecast scale of tightening for 2021-2022 on inflation pressure

- **Next MPC meeting: Aug 4, 2021**
- **Current policy rate: 4.25%**
- **EmergingMarketWatch forecast: 75-bp hike (to 5.00%)**

Analysts polled by the BCB increased the amount of tightening expected in 2021 and 2022 due to persistent inflation pressure, according to the BCB's latest poll. Analysts boosted the scale of tightening expected this year to 463bps, up from 450bps before, to bring the key rate to 6.63% at year-end. They continue to expect the central bank's rate-setting Copom to hike its key rate by 75bps to 5.00% from 4.25% at present at the next policy sitting on Aug 4 in what would be the fourth straight such hike after tightening in March, May, and June. They also expect the Copom will raise by another 75bps at its meeting on Sep 22. Analysts likewise raised their 2022 forecast to 7.00%, marking a 25-bp hike from the no move expected the previous week.

The increased scale of tightening comes as inflation continues to mount. The stats office IBGE said last Thurs. that IPCA inflation decelerated to 0.53% m/m in June from 0.83% in May but accelerated compared with a 0.26% gain the year before. That was the biggest jump for a June since 2018 (1.26% m/m). The 12-month pace thus accelerated to 8.35% y/y from 8.06% the month before to continue to run well above the BCB's end-2021 central target of

3.75% (+/- 1.5pps). It also exceeded the top end of the fluctuation band for the fourth straight month. The analysts polled by the BCB expect IPCA inflation will end 2021 at 6.11%.

The higher rate forecasts also come on improved optimism regarding the economy. Economy Minister Paulo Guedes said last week Brazil's GDP will grow by 5.0-5.5% in 2021, stressing the economy was recovering despite the ongoing coronavirus pandemic. Guedes recognized the psychological devastation of the more than 500,000 deaths from the coronavirus, but he said vaccinations were proceeding and the economy was on its feet. The analysts polled by the BCB most recently forecast GDP growth of 5.26% for 2021.

Overall, the Copom continues to aggressively increase its Selic rate as inflation is forecast to remain above the target in 2021 and 2022 and the economic recovery is better than anticipated. The BCB has pointed out the central bank's priority is to control inflation, noting that it will use every tool available to meet the inflation target. The Copom should thus be expected to continue to tighten policy.

Copom structure and latest voting results

Board member	Position	Latest vote
Roberto Campos Neto	Governor	Cut
Fabio Kanczuk	Director of Economic Policy	Cut
Carolina de Assis Barros	Director of Administration	Cut
Mauricio Costa de Moura	Director of Institutional Relations and Citizenship	Cut
Otavio Ribeiro Damaso	Director of Regulation	Cut
Paulo Sergio Neves de Souza	Director of Inspection	Cut
Bruno Serra Fernandes	Director of Monetary Policy	Cut
Joao Manoel Pinho de Mello	Director of Financial System and Resolution	Cut

Source: BCB

BCB Inflation Reports (June is the latest)

Latest Copom policy sitting statement

Latest policy sitting minutes

Selic interest rate historical

Colombia

Govt presents new tax reform proposal, aims to raise collection by COP 15.2tn

- **Bill doesn't modify the VAT, the tax base, or the regime for pensions**
- **Govt to raise the corporate tax by 5pps since 2022**
- **40% of additional revenue will come from tax administration**

Finance Minister José Manuel Restrepo presented the government's new tax reform proposal on Tuesday. This new project is maimed in comparison to the one presented in late April, rebuked by lawmakers both from the opposition and the president's allies. This new bill, thus, aims to raise collection by COP 15.2tn, as previously reported, way short of the COP 23.4tn targeted in the previous stage.

In a massive shift from the previous proposal, the government is not aiming to alter the VAT regime, the tax base or the fiscal conditions on pensions, the minister detailed. Thus, the government will raise the corporate tax rate by 5pps since 2022, to 35%, collecting COP 6.7tn; and only 50% of the regional ICA tax will be deductible from it (down from 100%), raising collection by some COP 3.9tn, Bloomberg reports.

The minister said the government will commit to austerity in its spending but will aim to support small firms. This will yield some 40% of the targeted additional revenue, the minister said. This is a questionable target, that puts too much weight of the reform's goal on the tax administration office.

Overall, the tax reform is not as broad as hoped, in our view, considering the need to go away with several VAT exceptions and considering the bill doesn't aim to broaden a relatively constrained base. However, it reflects the political situation of the nation, considering the needed changes would have caused social unrest, with new nationwide protests, hindering the approval of the reform and risking the already weak political capital of the conservative movement ahead of the looming 2022 presidential election. In this regard, this may very well be the best the Iván Duque administration can deliver to move the country back to a fiscal consolidation path.

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