

8. The tax reform and the fiscal consensus with provinces will allow a reduction of the “Argentine cost” albeit at a gradual pace

The government has managed to reflect the fiscal pacts reached with 23 of the 24 provinces in laws more quickly than was expected following its October election victory. The fiscal responsibility laws and the fiscal consensus approved in December make it possible to rein in provincial primary expenditure growth in real terms at the same time as they allow tax pressure on the private sector to be gradually eased, especially as regards the more distorting provincial taxes such as Gross Income and Stamp. Funds have been reallocated among provinces with, for example, increased participation by Buenos Aires province, while there has been modification of the percentages of resources received by the Nation and the Social Security system, although this has been without any great setback for any of those involved as the drop in revenues was offset by a smaller increase in pension benefit expenditure due to the amendment to the mobility formula finally approved by Congress after serious rioting and clashes with the opposition.

The unrest associated with the pension benefit reform voting leads one to assume that the passing of the labour reform bill to Congress (which does not have the backing of the full spectrum of unions) will be temporarily suspended. On the other hand, the tax reforms and the draft budget for 2018 were swiftly enshrined in law at the end of December in a set of extraordinary sessions. The changes are aimed at cutting the tax burden that weighs down on companies and stimulating investment, but they will be implemented only gradually. Thus the bundling and lowering of employer's contributions to the social security system for minimum wages, the removal of the tax on bank debit and credits and the lowering of the profit tax on undistributed dividends will only materialise over a time frame of 4-5 years.

There are likely to be major political limitations on forging ahead more swiftly with an agenda of supply-side reforms that will allow the country to boost its competitiveness, but the government remains oriented toward its goal of bringing Argentina back onto the world stage to expand the size of the market and generate economies of scale. Despite the hurdles to allowing meat products, sugar and biofuels into Europe, an agreement between Mercosur and the EU is still being negotiated with the shared aim of achieving a political agreement that takes account of the needs of both blocs before mid-2018. Argentina has made progress in the process of applying for inclusion within the OECD and will chair G20, which will provide it with a chance to enhance institutional quality, although it is still too early to know when the economy will be in a position to satisfy potentially bigger world demand at competitive prices. A step in this direction is the executive order to simplify procedure and cut through red tape recently approved by the Executive, one that aims to cut administrative procedure costs for the private sector to produce and export by roughly 1% of GDP.

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