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FEATURED Q&A

Will Colombia's Economy Thrive or Keep Struggling?

Colombia's central bank, led by Juan José Echavarría, last month cut its key interest rate amid signs of continued struggle in the economy. // File Photo: Colombian government.

Q **Colombian central bank policymakers on April 28 cut their key interest rate by a half percentage point amid slowing inflation and indications that the country's economy will continue struggling in the near term. What is at the root of Colombia's economic weakness, and what is its outlook for the rest of this year? Which sectors are poised to grow, and which are lagging? To what extent is the government's peace accord with the FARC rebels translating to increased investment and economic growth?**

A **Alberto Bernal, chief strategist at XP Securities:** "Colombia's rate of economic growth has slowed markedly in the last couple of years following the retrenchment seen in commodity prices. In addition, the higher-than-expected pass-through that consumer prices have experienced from the sustained foreign exchange weakening process has also eroded the purchasing power of less well-off consumers in Colombia. Also, the need to keep the fiscal outlook from deteriorating further following the collapse in commodity prices forced the Santos administration to increase taxes on consumers last year in order to keep the fiscal deficit from increasing further. The good news is that the evidence is clearly showing that inflation is slowing relatively quickly, a development that will most likely allow Colombia's central bank to deliver a meaningful adjustment in intervention interest rates. We expect the bank to cut rates down to 5 percent in the next couple of months and to hold rates stable at that level until at least the end of 2018. Such monetary stimulus will likely allow Colombians to increase consumption in durables going forward. The other wildcard on the growth

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At Least Two Killed in Latest Violent Protests in Venezuela

The two men were killed in separate protests in western Táchira state. Some 40 people have been killed in more than a month of unrest in the country.

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The meatpacking company posted a lower-than-expected first quarter net income of 422 million reais, or $135.7 million, far below the consensus estimate.

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Veteran Journalist Killed in Mexico's Sinaloa State

Javier Valdez, who covered Mexico's drug war and founded the weekly newspaper Riodoce in Sinaloa state, was forced from his vehicle and fatally shot outside the newspaper's offices.

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Valdez // File Photo: Luis Antonio García Sepúlveda via CC.

POLITICAL NEWS

Veteran Mexican Journalist Fatally Shot in Sinaloa State

Veteran Mexican journalist Javier Valdez, an expert on Mexico's drug war and founded the weekly newspaper Riodoce in Sinaloa state, was forced from his vehicle on Monday and fatally shot in the state capital, Culiacán, just outside the newspaper's offices, The Wall Street Journal reported. Valdez, who also wrote for national daily newspaper La Jornada and authored several books on Mexico's drug war, was well-known to correspondents in Mexico who sought out Valdez in order to learn about the drug trade in Sinaloa, home to Mexico's largest drug cartel. "He was intercepted outside of Riodoce. It looks like an execution," Adrián López, editor of Sinaloa-based newspaper Noroeste, told The Wall Street Journal. "His loss is a blow to Mexican journalism and to the Mexican public, who see a shadow of silence spreading across the country," said Joel Simon, executive director of the Committee to Protect Journalists. The group awarded Valdez its top honor, the International Press Freedom Award, in 2011 for his coverage of the drug war in Sinaloa. Valdez was the sixth journalist killed this year in Mexico, where 15 journalists were murdered last year, according to the government. In a posting on Twitter, Mexican President Enrique Peña Nieto condemned Valdez's killing and offered his condolences, adding that he ordered federal authorities to assist local officers in investigating the murder. U.S. Ambassador to Mexico Roberta Jacobson also condemned Valdez's killing. In addition to several journalists being killed in Mexico, several others have been harassed. Last weekend, about 100 armed men surrounded and detained a group of seven journalists, including reporters from Agence-France Presse, and stole their equipment. Authorities have not solved any of the murders of journalists this year in Mexico.

"His loss is a blow to Mexican journalism and to the Mexican public, who see a shadow of silence spreading across the country."

— Joel Simon

ECONOMIC NEWS

Brazilian Fintech Could See $24 Bn in Revenue in 10 Years

Brazilian financial technology firms could generate a combined $24 billion in revenue over the next decade, posing a threat to the market share of the country's large, established banks, according to a new report from Goldman Sachs, The New York Times reported. Among the most promising segments of the market are payments, lending, insurance and personal finance, said the report, entitled "Fintech Brazil's Moment." Brazil's highly concentrated banking sector means the impact of fintech on the sector will be greater in Brazil than in other countries, the report found. "We believe the Brazilian financial system is particularly susceptible," said the report's authors, Carlos G. Macedo, Marcelo Cintra, Steven Goncalves and Nelson Catala. Brazil's top five banks, not including development banks, hold 84 percent of the country's loans, creating "an oligopolistic market structure," the report said. The top five banks also have 90 percent of the country's bank branches, an increase from 71 percent a decade ago, the report added, pointing out that the market is more concentrated since the 2008 financial crisis. In comparison, the top five banks in the United States have about 20 percent of the country's bank branches. Bank fees and interest rates in Brazil are also among the world's highest. "We believe this unique market structure positions fintechs to have a larger impact in Brazil than in other developed markets," said the report's authors.

NEWS BRIEFS

Authorities Intercept Ship Carrying 5.5 Metric Tons of Cocaine Off Ecuador

Spanish and Ecuadorean authorities in a coordinated drug seizure intercepted a ship off the coast of Ecuador that had more than 5.5 metric tons of cocaine bound for Spain, officials said Monday, the Associated Press reported. The ship off the coast of Ecuador had been loaded with Colombian cocaine in the Pacific and had planned to pass through the Panama Canal into the Atlantic to Europe. The shipment is believed to have been organized by a drug-trafficking ring in Galicia. Spanish police also announced Monday they had stopped a ship that was carrying 2.5 metric tons of cocaine in a joint operation with the U.S. Drug Enforcement Agency, Britain's National Crime Agency and Portuguese police.

At Least Two Killed in Latest Violent Protests in Venezuela

At least two more people were killed Monday in the latest violent protests in Venezuela, the Associated Press reported. The two deaths were reported in separate demonstrations in western Táchira state. Some 40 people have been killed in a month and a half of unrest surrounding anti-government protests in Venezuela.

Chile, China Agree to New Cooperation on Tech

Chile and China have agreed to strengthen coordination and cooperation efforts in order to bolster their strategic partnership in sectors including connectivity, information communication, high-tech sectors and astronomy, the two countries said in a joint statement Monday, Chinese state news agency Xinhua reported. Chilean President Michelle Bachelet has been on a state visit to China and attended the Belt and Road Forum for International Cooperation in Beijing.

BUSINESS NEWS

GraceKennedy Posts $8.78 Million in Profit for First Quarter

Jamaican financial services and food conglomerate GraceKennedy Limited posted a first quarter net profit of 1.14 billion Jamaican dollars, or approximately $8.78 million, a 28 percent drop year-over-year, The Jamaica Gleaner reported Sunday. The decline in profit was due to higher costs in both divisions, with earnings per share falling to 1.02 Jamaican dollars per share, down from 1.50 Jamaican dollars per share during the same period a year earlier. The group's banking and investments division posted a net profit of 107.1 million Jamaican dollars during the first quarter, insurance posted 87.5 million Jamaican dollars and money services posted 751.4 million Jamaican dollars in profit. The Kingston-based company's food-trading segment delivered a profit of 725.6 million during the same period. The insurance segment saw an 11 percent decline in profit year over year, while the food trading division saw a 15 percent decline. The insurance segment experienced higher revenues during the first quarter year-over-year, but its net profit was negatively affected by higher costs. During the first quarter, GraceKennedy renamed EC Global Insurance Company as GK Insurance. Both GK General Insurance Company and the GK Insurance saw an increase in revenues. On May 8, the group divested its 30 percent stake in Trident Insurance Company. The proceeds totaled approximately 56 million Jamaican dollars. The financial group saw increased volumes of business in its remittances division.

JBS Misses Estimates Amid Meat Scandal

Brazilian meatpacker JBS on Monday posted a lower-than-expected first quarter net income of 422 million reais, or $135.7 million, far below a consensus estimate of 857 million reais, as the company dealt with the effects of a food safety scandal at its company and other meatpacking companies in Brazil, Reuters reported. Earnings before interest, tax, depreciation and amortization dropped by 31 percent to 2.14 billion reais during the first quarter. JBS said the effects of the scandal in which meatpacking companies allegedly bribed health officials in return for less rigorous health inspections at their plants would not be lasting. JBS has denied wrongdoing. The scandal caused some foreign exporters to temporarily halt the import of Brazilian meats. The scandal may push JBS to postpone its IPO of its food processing unit, JBS Foods International, the Financial Times reported. Authorities are separately investigating loans JBS received from development bank BNDES.

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front will remain tied to the continued effort of the Santos administration to deliver on infrastructure. It is undeniable that the administration has proven to be effective in delivering better infrastructure to Colombians, and that effort is also keeping aggregate growth dynamics from slowing down much further. We also think the delivery of better infrastructure will help to accelerate the rate of growth of Colombia's total factor productivity by at least a permanent 0.5 percent year-on-year once the bulk of the construction is done. On the peace accord front, I remain quite agnostic. The reality is that 90 percent of Colombia's economic activity was already taking place in areas that were not directly affected by FARC violence. Therefore, even if growth skyrockets in that 10 percent of land just mentioned, the effect on aggregate growth will not be meaningful. The reduction of violence is obviously a very worthy goal, but the economic relevance of this agreement should not be overstated."

A **David Ross, global fund manager at La Financière de l'Echiquier in Paris:** "Colombia's problems today are derived from yesterday's successes. Colombia was very fortunate at the beginning of this decade by benefiting from a one-time security dividend as well as $100-per-barrel oil. While there is hope that the FARC peace treaty would provide a similar economic boost to the economy like the one achieved from improved security, this is unlikely to happen. The FARC-controlled areas are not very important to the official economy; therefore, the impact of the peace treaty will have very little effect on economic growth. Another positive jolt, high oil prices, distorted the economy by providing an influx of foreign investment, a windfall for government budgets and rapid job creation. The consequent collapse in oil prices and the economic shock it caused has reversed all of those positives, leading to slower employment growth, reduced government revenues and a depreciated peso, creating conditions for slower growth, higher taxes, and increased inflation. Add in the central bank's earlier interest rate increases to protect the peso and slow inflation, and you have the recipe for a poorly performing economy. The good news is that the economy is stabilizing on many fronts. With oil prices in a sustainable range and the peso rebounding, the central bank was able to decrease interest rates in April. Further rate cuts this year should be expected as part of a program to restore domestic demand. While this will have limited impact this year as consumers are facing higher taxes, the economy should experience improvement in 2018."

"The FARC-controlled areas are not very important to the official economy."
— David Ross

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A **Alexander Chalmers, managing director of Avenida Capital:** "Colombia continues what, according to the IMF, has been a 'remarkably smooth adjustment to a combination of external and domestic shocks guided by a strong policy framework.' The focus of this adjustment in the first quarter has shifted from inflationary pressures and current account balance, to the impacts of the tax reform on household consumption and industrial confidence. Likewise, the country is still facing uncertainty regarding the new U.S. president's economic and foreign policies, including his support for the implementation of the peace accords, and changes in trade policies. This is particularly relevant since the United States is Colombia's main trading partner, accounting for more than 30 percent of total exports. However, thanks in part to the positive news from Colombia at the end of last year, including the peace deal, both exports and foreign investment coming into the country in this year's first quarter had the highest volume registered since March 2011. While GDP is expected to pick up mildly, between 2.2 percent and 2.5 percent, the country could see an even steeper recovery if it is able to successfully implement its reform agenda described in the Colombia Repunta program. The program has the potential to boost GDP growth by an additional 1.3 percent and create an additional 750,000 jobs. It is based on a 9.2 billion peso infrastructure investment budget, coupled with a 4 billion peso investment in education infrastructure and completed with an additional 4 billion pesos as the initial investment in the post-conflict implementation schedule. Finally, with the successful end of the peace negotiations, the focus has shifted from accords to implementation. Currently the Colombian Congress is analyzing a budget proposal to assign 1.5 billion pesos for the first phase of the implementation. Half of that amount will be devoted to substituting illegal crops. The remaining will be distributed among the ministries of education, health, agriculture, and the office for victims' reparation among others. We see the future of the country as extremely positive, with government support and controls in place to maintain steady growth with fiscal discipline."

> **"We see the future of the country as extremely positive..."**
> **— Alexander Chalmers**

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