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FEATURED Q&A

Will Brazil's Economy Keep Recovering in 2018?



Brazil began clawing its way out its deep recession last year, but uncertainty abounds as candidates seek to succeed President Michel Temer in the country's October election. // File Photo: Brazilian Government.

Q Brazil's central bank on Dec. 6 cut its benchmark interest rate to a record low of 7 percent in a unanimous decision. Over the past year, the bank has lowered borrowing costs as inflation remains below the government's official target. Meantime, government statistics agency IBGE recently announced that the country's economy had grown for a third straight quarter in the three-month period through September. How is Brazil's economy faring overall, and what is the outlook for 2018? Is growth being driven by internal demand or are rising commodity prices behind recent gains in macroeconomic data? Will the central bank be able to cut rates further this year without unleashing inflation?

A Paulo Vieira da Cunha, partner at Verbank Consulting, LLC in New York: "Brazil's recovery is firm. After a contraction in investment for 14 quarters, with a drop in the investment rate to 15 percent of GDP from 21 percent of GDP, even as GDP fell more than 8 percent in real terms, one may have expected a rebound. Instead, what leads the recovery is household consumption, partly fueled by policy, but mainly as a reflection of quick deleveraging of household debt. Indeed, debt accumulation is again on the rise and this, together with a rise in real incomes, prompted by a faster-than-anticipated drop in inflation and, of late, a slow increase in employment, sustains—and will continue to sustain—the recovery. The cyclical pickup in 2018 could be large, around 3 percent year-over-year. But much depends on the background to the presidential election. Uncertainty is what keeps investors at bay, unwilling to convert rising profits into brick and mortar. Uncertainty

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Mexicans Send Record Level of Remittances

Mexicans living abroad sent home \$26.1 billion between January and November 2017, up from \$24.1 billion for the same period a year earlier.

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BUSINESS

Regulator Accuses Eight Former Petrobras Execs

Brazil's securities regulator formally accused eight former executives at Petrobras of corruption in connection to the massive graft scandal at the state-run oil company.

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POLITICAL

Opposition Seeks Month of Protests in Honduras

Honduras' leftist opposition has called for a month of demonstrations to protest incumbent President Juan Orlando Hernández's claim to victory in the country's disputed election. Hernández is to be sworn in for a second term on Jan. 27.

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Hernández // File Photo: Honduran Government.

POLITICAL NEWS

Opposition Calls for Month of Protests in Honduras

Honduras' opposition on Tuesday called for a month of demonstrations to protest President Juan Orlando Hernández's claim to victory in the country's bitterly contested presidential election, Agence France-Presse reported. Supporters of leftist presidential candidate Salvador Nasralla, who had an early lead in partial results from the Nov. 26 vote, have said the balloting was rigged in Hernández's favor.

“Nobody should obey a usurper government.”

— Manuel Zelaya

The incumbent was declared the winner of the close vote three weeks after Hondurans went to the polls, following a partial recount and delays that electoral officials blamed on technical problems. Nasralla has demanded that the election results be annulled. He said Tuesday that his supporters would engage in “protest actions” including a march Saturday in the country's second-largest city, San Pedro Sula. “We have a strategy that we are going to develop in this month of January,” Nasralla told supporters in the capital, Tegucigalpa. The chief coordinator for the opposition, former President Manuel Zelaya, told reporters Tuesday that “the president is Nasralla.” Zelaya, who was ousted from the presidency in a 2009 coup, added, “Nobody should obey a usurper government.” Nasralla last month met with Organization of American States Secretary General Luis Almagro. The OAS has called for a new election, saying the November balloting “was characterized by irregularities and deficiencies, with very low technical quality and lacking integrity.” Hernández has called on the country's leaders to accept his re-election. Violent protests in the days following the election

have left at least 31 people dead, according to the government's National Commission on Human Rights. [Editor's note: See [Q&A](#) on Honduras' disputed election in the Dec. 20 issue of the Advisor.]

ECONOMIC NEWS

Mexicans Send Home Record Level of Remittances

Mexicans living abroad sent a record amount of remittances home in 2017, with the majority of the cash coming from Mexicans living in the United States, according to Mexico's central bank, CNN reported Tuesday. The two driving forces behind the increase were reportedly Mexico's weak peso relative to the dollar, and U.S. President Donald Trump's threats to impose a tax on remittances sent from the United States to Mexico in order to help fund a border wall between the two countries. From January to November, Mexicans sent a total of \$26.1 billion in cash shipments home, up from the \$24.1 billion during the same period a year earlier and the highest-ever recorded figure for



Trump // File Photo: White House.

that period of time. Remittances are Mexico's largest source of foreign income, beating out oil exports, which reached only \$18.5 billion during the period from January to October of 2017. The low value of the peso also meant that a dollar went further in Mexico. Currently, one dollar is worth 19.5 pesos, up from an all-time low value in January of last year. The value of the Mexican currency fell after Trump won the presidential election in November

NEWS BRIEFS

At Least 48 Killed as Bus Plunges Off Cliff North of Lima

A bus carrying 57 passengers to Lima was struck by a tractor-trailer and plunged down a cliff on a narrow strip of highway called “Devil's Curve” about 43 miles north of the Peruvian capital on Tuesday, killing at least 48, according to police and fire officials, the Associated Press reported. The bus fell down the slope and onto a rocky beach, where passengers' bodies were thrown out of the bus onto the rocks.

Brazil Ends 2017 With \$67 Billion Trade Surplus

Brazil saw a \$67 billion trade surplus at the end of 2017, in line with market predictions and within the range projected by the government, a signal that the economy is continuing to recover from its worst-ever recession on record, Agence France-Presse reported Tuesday. The trade surplus is 40.5 percent higher than its 2016 level. This year, the economy is projected to grow 2 percent, according to the United Nations-backed Economic Commission for Latin America and the Caribbean, higher than the projected 0.2 percent growth for last year. The government is projecting a more optimistic 3 percent for this year and 1.1 percent growth for last year.

'Phantom' Workers in Argentina's Congress Nabbed in Crackdown

Nearly 200 workers who rarely show up for their duties in Argentina's Congress have been caught in an attendance crackdown, daily newspaper La Nación reported Tuesday. The country's Congress implemented a new attendance control system two months ago. Authorities have started proceedings to remove 160 of the 190 “phantom” workers from their positions, and the 30 others have resigned.

2016, due to concerns that he would make good on campaign promises to withdraw from the North American Free Trade Agreement and to impose tariffs on Mexican exports to the United States. Neither of those campaign vows has materialized, leading the peso's value to increase slightly from a year ago.

BUSINESS NEWS

Regulator Accuses Eight Former Petrobras Executives

Brazilian securities regulator CVM last Friday formally accused eight former executives at state-run oil company Petrobras of corruption, as the world's largest graft investigation continues for a third year, Reuters reported. According to a legal filing by CVM, the accusations relate to irregularities in the contracting process for three drill ships and include two former CEOs of the company, Maria das Graças Foster and José Sérgio Gabrielli. The accusa-



Foster // File Photo: Brazilian Government.

tions come from an investigation that began in March 2016. Former services head Renato Duque, former supply chain head Paulo Roberto Costa, former international business head Nestor Cerveró, former CFO Almir Barbassa, former exploration and production head Guilherme Estrella and former gas and energy head Ildo Sauer have also been accused. Several of the accused have already been convicted of separate corruption-related offenses. The investigation is part of the larger Lava Jato corruption probe. Petrobras did not immediately respond to Reuters' request for comment.

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is also what will bind the central bank. It signaled a cut for February, and we expect this will happen, driving the rate down to 6.75 percent. It is keeping its options open for March. At issue is the failure, so far, of the political center to define a viable single unifying candidate, binding together the PMDB, PSDB, DEM and satellite parties. If this happens, sentiment could change quickly—for the better. Then the road would be open for a further cut in rates, and there would be higher prospects for an investment rebound starting late in the year, certainly into 2019-2020."

A **Marcos Vinicius Chiliatto Leite, economic affairs officer at the Economic Commission for Latin America and the Caribbean:**

"ECLAC's recent report, Preliminary Overview of the Economies of Latin America and the Caribbean, points out that the contraction in Brazil's GDP has come to an end, with annual growth of 0.9 percent expected for 2017. However, demand and production figures do not yet indicate sustained improvement. Consumption and investment are still low, and public investment has been reduced sharply in the context of fiscal adjustments. The good news stems from an export shock, which will result in a record surplus of goods in the trade account. The unemployment rate peaked in March and has been falling since then, but this improvement reflects the increase in the employment of informal and own-account workers, while formal employment levels have still not picked up. With weak economic activity and strong agricultural production, annualized inflation fell to 2.5 percent in September, a historically low level. This downward trend resulted in a decline in the benchmark interest rate from 13.75 percent in December 2016 to 7 percent in December 2017. However, in terms of economic stimulus, the lower real interest rate has not had such a significant impact. In December 2016, the real interest rate (discounting inflation over the 12

previous months) stood at 6.93 percent, compared with 5.67 percent in September 2017. Despite efforts at fiscal adjustments, the public deficit remains high, and debt

“Demand and production figures do not yet indicate sustained improvement.”

— Marcos Vinicius Chiliatto Leite

continues to grow. The absence of growth in public spending means that fiscal policy cannot serve as an anti-cyclical growth stimulus. Stronger economic growth is needed to stabilize the debt, and fiscal policy—particularly investments—could play a key role together with lower interest rates."

A **Joel Korn, president of WKI Brasil and senior international partner at UPITE Consulting Services:** "Despite the convoluted political situation, permeated by ongoing corruption investigations, 2017 marked the beginning of a long-awaited economic recovery, following a painful two-year recession. Economic growth near 1 percent, albeit still modest, has been fueled especially by the strong performance of the agriculture sector and the beginning of consumer confidence recovery, as a result of a sharp drop in inflation and a corresponding easing of the monetary policy. Measures to pump liquidity, along with declining interest rates, have helped stimulate retail activities. The huge fiscal deficit, though, remained the 'Achilles heel,' notwithstanding Congress' approval of a cap in expenditures and the government's efforts to curtail controllable expenses. The outlook for 2018 is for continued economic recovery at a faster pace, within the range of between 2 percent and 3 percent,

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despite a predictable intense and difficult political environment that will precede the presidential election. A favorable external market for commodity exports along with continued measures to stimulate demand will contribute to the expansion. Economic and social policies, however, will depend heavily on the government's ability to secure

“The outlook for 2018 is for continued economic recovery at a faster pace.”

— Joel Korn

Congress' approval for the pension reform, the single-most important fiscal constraining factor. The passing of the reform, along with a firm commitment to move forward with public concessions and privatizations, will go a long way toward mitigating the effects of the uncertainties surrounding the succession of the Temer administration from 2019 onward. It remains to be seen, however, whether the government will succeed in overcoming the challenges that lie ahead in an intense political year. A positive perception of investors and consumers will pave the way for a more favorable business

climate, thus triggering a badly needed reversal of the high unemployment level and improved social conditions.”

A Welber Barral, senior consultant at Barral M Jorge Consultores Asociados and former Brazilian foreign trade secretary:

“The Brazilian economy has reacted after a three-year downturn, and may reach 1 percent growth in 2017. There is, consequently, a positive effect on federal income that may improve the level of public debt next year. The current expectation is for 2.8 percent GDP growth in 2018. It could even reach a higher mark, if reforms (albeit partial) are approved. The results from agricultural exports in 2017 were outstanding, and that produced a positive effect on the trade balance. But internal demand was a crucial factor, and the large size of the Brazilian domestic market explains the economic recovery. The current benchmark interest rate is already the lowest in Brazilian history. Reducing it further would require very predictable inflation—and that is not the easiest bet in an election year, when we often see an increase in public spending.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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The Crisis in Honduras: What Happened and What's Next?

An Inter-American Dialogue Discussion with
Carlos Dada, El Faro
Lisa Kubiske, Former U.S. Ambassador to Honduras
Juan Gonzalez, The Cohen Group

View a webcast of the Dec. 19 discussion.

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