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FEATURED Q&A

How Well Has Peña Nieto Managed Mexico's Economy?



Signs of slower economic growth in Mexico could lead to discontent ahead of the country's presidential election in July as candidates vie to replace Enrique Peña Nieto. // File Photo: Mexican Government.

Q Mexican President Enrique Peña Nieto, suffering politically with low approval ratings during his final year in office, on Jan. 31 celebrated better economic news, with an impressive \$93 billion oil-sector auction and new data from the national statistics agency showing that growth in the fourth quarter increased more than expected, up 1 percent from the previous quarter. How well have Peña Nieto and his team managed Mexico's economy? What role is the economy playing in the run-up to July's national election? Is central bank chief Alejandro Díaz de León off to a good start since taking over from Agustín Carstens in November, and what priorities and pressures will the new Banxico head be facing in the months ahead?

A Wolfram F. Schaffler Gonzalez, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University: "In Mexico, the end of a 'sexenio,' or presidential term, traditionally has meant more federal and state investments that stimulate the economy in social programs, infrastructure and advertising that directly or indirectly seek to influence voters. This is true for the first six months of the last year of the presidency, while the second half, the 'lame duck' period, sees the opposite. Over the last 30 years, this reality has sometimes generated economic crisis, but apparently 2018 will not be one of those years, even when you consider the multiple uncertainties that are now present, such as the NAFTA renegotiation, the external impact of the U.S. tax reform, and the strength of the U.S. dollar vis-à-vis other national currencies, all of which are external

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Guatemala's Colom, Cabinet Members Accused of Graft

Former Guatemalan President Álvaro Colom and several of his cabinet members, including former Finance Minister Juan Alberto Fuentes Knight, were arrested on corruption charges.

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América Móvil Reports Steepest Loss in 16 Years

The company's earnings in the fourth quarter were dented by the peso's appreciation against the dollar and the euro.

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Peru Pulls Maduro's Summit Invitation

Peru, which is hosting the Summit of the Americas in April, rescinded its invitation to Venezuelan President Nicolás Maduro. Peruvian Foreign Minister Cayetana Aljovín said Maduro is not welcome at the summit.

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Aljovín // File Photo: Peruvian Government.

POLITICAL NEWS

Peru Withdraws Maduro's Invitation to Regional Summit

Peru, which is hosting the Summit of the Americas in April, on Tuesday withdrew its invitation to Venezuelan President Nicolás Maduro to attend the gathering of regional leaders over his government's plan to hold a snap presidential election, the Associated

“His presence will no longer be welcome in said meeting.”

— Cayetana Aljovín

Press reported. The announcement followed the Venezuelan government's announcement that it would hold its presidential vote on April 22, a decision it made without reaching an agreement with opposition leaders on how to ensure that the vote would be free and fair. Peruvian Foreign Minister Cayetana Aljovín made the announcement following a meeting of the Lima Group, which is comprised of more than a dozen countries in the Western Hemisphere that are concerned about Venezuela's political and economic crises. “His presence will no longer be welcome in said meeting,” Aljovín said of Maduro. The Lima Group, which also includes Argentina, Brazil, Canada, Colombia and Mexico, said Venezuela's elections would not be free and fair if the country's opposition was not allowed to participate, BBC News reported. Following several opposition parties' boycott of municipal elections in December, saying the contests would be rigged, Maduro said opposition parties who did not participate would be banned from participation in this year's elections. Venezuela's pro-government Constituent Assembly later backed up Maduro's threat by requiring some of the countries' main opposition parties to re-register for legal status, effectively barring them from fielding presidential candidates this year.

Guatemala's Colom, Cabinet Members Accused of Graft

Guatemalan officials on Tuesday arrested former President Álvaro Colom and former Finance Minister Juan Alberto Fuentes Knight, who is now the chairman of international development confederation Oxfam International, as well as nine other former members of Colom's cabinet, on corruption charges, The New York Times reported. Prosecutors on Tuesday said \$35 million in government funds had been transferred to a consortium of private bus companies known as Transurbano in a deal approved by Colom, Fuentes Knight and other ministers, without proper legal oversight. Nearly a third of the money was spent on equipment that was never used, and it is unclear where the rest of the funds went. Colom is the fourth former president of Guatemala to face charges



Former Guatemalan President Álvaro Colom was arrested Tuesday. // Photo: Radio TGW.

of corruption due to investigations headed by the United Nations-backed International Commission against Impunity in Guatemala, or CICIG. Colom and Fuentes Knight appeared at an initial court hearing alongside other cabinet members, where they were formally told that they have been accused of embezzlement and fraud, Prensa Libre reported. Colom and several of the former ministers have since been detained until a hearing scheduled for Feb. 23. “For us, everything was legal,” Colom said before Tuesday's hearing, The New York Times reported. “I am sure there will be nothing at the end.” Oxfam International's executive director, Winnie Byanyima, said Fuentes Knight had informed the organization that he had “cooperated fully with the investigation in the confidence

NEWS BRIEFS

Fire Destroys Haiti's Iron Market, Fire Dep't Too Low on Fuel to Respond

A fire early Tuesday morning destroyed Haiti's Iron Market, a tourist attraction in Port-au-Prince, while many of the vendors, whose cash and merchandise were left inside, were celebrating Carnival, the Voice of America reported. It was unclear what started the fire, but witnesses said a fire alarm began ringing in the market around 3 a.m. When witnesses called the nearest fire department, they were told firetrucks were too low on fuel to respond. Firemen from a station approximately four and a half miles away responded to the call, but were unable to arrive in time to stop the blaze from consuming the entire market.

British Judge Upholds Arrest Warrant of Wikileaks' Assange

A British judge has upheld an arrest warrant for Julian Assange, which means the Wikileaks founder continues to face detention if he ever leaves Ecuador's embassy in London, The Guardian reported. Judge Emma Arbuthnot said she found the argument that it was not in the public interest to pursue Assange for skipping bail to be unpersuasive, saying, “Defendants on bail up and down the country, and requested persons facing extradition, come to court to face the consequences of their own choices. He should have the courage to do the same.”

América Móvil Reports Steepest Loss in 16 Years

Mexican telecommunications giant América Móvil on Tuesday reported its largest loss in 16 years for the fourth quarter, Reuters reported. The company was hampered in the quarter by the peso's depreciation against the dollar and the euro. The company had a net loss of \$575 million for the quarter.

he did not knowingly transgress rules or procedures.” Fuentes Knight’s arrest followed the eruption of a scandal at Oxfam in which staff members at the charity reportedly hired prostitutes, possibly including some who may have been underage, while delivering aid in Haiti in 2011. The country director at the time had also previously worked in Chad, where similar allegations surfaced and no action was taken. Oxfam, whose deputy chief executive resigned over the scandal, has acknowledged that the sexual misconduct took place, but the charity has denied that it engaged in a cover-up.

BUSINESS NEWS

U.S. Prosecutors Charge Ex-PDVSA Officials With Graft

U.S. prosecutors have charged five former officials at Venezuelan state oil company PDVSA with involvement in a multi-billion-dollar graft scheme, and also said they believe that the former head of the state oil company and ambassador to the United Nations, Rafael Ramírez, received bribes as part of the scheme, though he was not charged in the indictment, a U.S. official familiar with the investigation said, the Associated Press reported. Ramírez was not named in the partially sealed indictment but was listed as “Official B,” and was said to have received a portion of the bribes from vendors, the U.S. government official said. Among those charged with soliciting bribes in exchange for helping vendors receive quick payments and contracts with the oil company are PDVSA’s former chief of corporate security and loss prevention, Rafael Reiter; a former general manager at PDVSA’s procurement unit Bariven, César Rincón; Nervis Villalobos, a former Venezuelan vice minister of energy; and Luis Carlos de León, a former official at a state-run electric company, Reuters reported. The four men were all arrested in Spain in October. Ramírez, who has denied wrongdoing in the past, resigned from his U.N. post in December and his whereabouts are unknown.

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uncertainties. The most important internal uncertainty in Mexico is the result of this year’s election. While the economy might change at a moment’s notice, President Enrique Peña Nieto’s government is closing strong in the economic arena. Growth is within what is expected and has a good outlook, the peso has rebounded, inflation has decreased, job creation has grown and FDI in the energy sector has hit an all-time high since the 2013 energy reforms. While it remains to be seen how the interplay of these uncertainties relate to changes in the markets, and to the new policies that are to be expected when the new president of Mexico is sworn in, whoever he or she is, at this moment in time, the outlook for the Mexican economy appears stable, with a slight but steady tendency to grow, and eventually overcome internal or external challenges.”

A **Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York:** “Notwithstanding the domestic and external risks and challenges, we reckon that the economy continues to be well-managed, the policy approach conventional and market-friendly, and, on all counts, there are no signs of major deep-seated domestic or external macro imbalances. In fact, in the calibration of monetary, foreign exchange and fiscal policy, the authorities have been steadfast in responding proactively to the evolving challenges in the quest to strengthen domestic macro fundamentals. Furthermore, the authorities have embraced a number of important structural reforms; key among the reforms are the opening of the severely under-invested and inefficient oil and gas sectors to private capital. While growth has been modest and uninspiring, the labor market remains strong, with the unemployment rate currently at multi-year lows. More than the performance of the economy and the broad macro picture, law and order issues, such as corruption and public security, and

the role of the state in the economy, will likely feature prominently during the election campaign. Central Bank Governor Díaz de León is off to a very strong start. Under his leadership, the monetary authority has been clear in its communication and guidance and

“**While growth has been modest and uninspiring, the labor market remains strong...**”

– Alberto Ramos

steadfast in the calibration of monetary policy to deal with the current inflation challenges and to build resilience against the significant risks and uncertainties that lie ahead. Finally, in coming months, the central bank may face pressure to ease monetary policy to support domestic demand. However, in our assessment, the overriding priority of the central bank should be to deliver low and stable inflation (i.e. preserve the successful inflation-targeting framework as the nominal anchor of the economy), for that is the best contribution the monetary authority can give to sustainable socially inclusive growth. In addition, the central bank should act, as it has been doing, to preserve the public and social good that is financial stability.”

A **Alfredo Coutiño, director for Latin America at Moody’s Analytics:** “Mexico’s economy ended last year with the traditional deceleration that has characterized the fifth year of each government in the past three decades. The economy grew 2.1 percent, after 2.9 percent in 2016 and 3.3 percent in 2015. Compared with the previous two administrations, the economy advanced half a percentage point more, as an average in the present government. However, despite the series of reforms implemented, the root

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of the limited growth was unresolved anemic investment. Since the economic program of the government targeted productivity instead of the accumulation of capital, growth remained limited to a potential rate of only 2.5 percent. After the start of the administration in 2013, and until 2016, economic policy turned expansionary on purpose. As a result, growth increased only transitorily but not sustainably, and the macroeconomic imbalances widened. During the first half of the administration, the fiscal deficit widened, government debt accelerated, external imbalance deteriorated and, more recently, inflation started to trend up (since mid-2016) after falling below the 3 percent target.

The fiscal indiscipline was accompanied by monetary accommodation, even to the point of making monetary policy subject to fiscal dominance, to some extent. This year, the economy will benefit from the expansionary effects of the political cycle, since the extra spending to finance political campaigns and the electoral process will boost domestic demand. But also, after the election, the economy will suffer the opposite effect: contraction of spending. This year, the central bank was left with no option other than tightening beyond neutrality, given the galloping inflation that reached a rate of more than twice the 3 percent target at the end of 2017. The central bank needs to reinforce its commitment with the monetary mandate: price stability, by effectively using the monetary instrument to domesticate inflation."

A **Juan Carlos Hartasánchez Frenk, senior director at Albright Stonebridge Group:** "The Mexican economy showed great resilience last year. Few would have expected that a year ago. The Mexican government had just announced profound cuts to public spending, and Donald Trump's election had led to a sharp depreciation of the peso. However, fueled by record remittances, higher ex-

ports and tourism, the economy grew above 2 percent. Investor confidence increased with a dynamic and stronger domestic market and the consolidation of some structural reforms. Inflation, unfortunately,

“**The Mexican economy showed great resilience last year. Few would have expected that a year ago.**”

– Juan Carlos Hartasánchez Frenk

was the escape valve, increasing to levels not seen in the past 15 years (close to 7 percent). Controlling inflation in 2018 will be a thorny task for Alejandro Díaz de León. On Feb. 8, Banxico raised interest rates by 25 basis points, to a level of 7.5 percent. This is the second consecutive raise with Díaz de León at the helm of the bank. Although the interest hikes have successfully lowered inflation expectations for 2018 to just over 4 percent, Díaz de León will face significant challenges to controlling inflation without negatively affecting the economy. Most significantly, the Fed's expected tightening of monetary policy, international market volatility, tax reform in the United States and uncertainty over NAFTA and Mexico's presidential election can debilitate the peso and create inflationary pressures; depending on their degree, these pressures could push Banxico to further increase interest rates and adversely affect economic growth. Indeed, any reduction to economic growth expectations will affect the presidential election campaign, and can represent a fatal blow to the PRI's aspirations."

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