LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Friday, July 27, 2018

FEATURED Q&A

What Will It Take for Latin America to Pick Up Growth?

The International Monetary Fund this month lowered its economic growth outlook for Latin America. On a global scale, IMF chief economist Maurice Obstfeld has called trade tensions "the greatest near-term threat to the world's growth." // File Photo: IMF.

Q In the latest update to its World Economic Outlook, released in July, the International Monetary Fund lowered its economic growth forecast for Latin America to 1.6 percent this year. The IMF had forecast 2 percent growth this year for the region in its April report. The IMF cited factors including strikes and political tensions in Brazil, trade tensions hindering Mexico and tighter financial conditions in Argentina among the reasons for the lowered expectations for growth. Will economic conditions in the region continue worsening this year, or will there be a turnaround? What are the biggest threats to Latin America's economic growth in the second half of this year? Which factors provide the most hope for a pickup in growth before the end of the year?

A **Alicia Bárcena, executive secretary of the United Nations Economic Commission for Latin America and the Caribbean:** "The region has seen sustained GDP growth, which will continue in 2018 for a second consecutive year after contracting in 2015 and 2016. Internal aggregate demand in the region has bounced back, in light of an increase in private consumption and the recovery of investment owing to improved external conditions, especially in the terms of trade. However, various factors have led us to lower our forecasts published in April. The uncertainty generated by the 'trade war' and the revision of major trade agreements such as NAFTA and the Pacific Alliance suggest that external stimuli could negatively affect the region's growth in the future. Additionally, the increase in energy prices and the possible inflationary pressures that may result could push up domestic interest

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Mexico, U.S. Aim to Reach NAFTA Deal in August

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Alckmin Wins Party Support in Brazil Race

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Alckmin // File Photo: Brazilian government.

ECONOMIC NEWS

Mexico, U.S. Aim to Reach Agreement on NAFTA in August

Mexican Economy Secretary Ildefonso Guajardo said Thursday his country and the United States had agreed to speed up talks on updating the North American Free Trade Agreement, aiming to iron out major issues by August, Reuters reported. "The idea is to face complex issues," Guajardo told reporters before meeting U.S. Trade Representative Robert Lighthizer. Talks among the United States, Mexico and Canada had stalled since June when the administration of U.S. President Donald Trump slapped tariffs on Mexican and Canadian steel and aluminum and both countries responded with tit-for-tat measures. Lighthizer told U.S. lawmakers earlier on Thursday that he expected to reach a deal with Mexico "some time in August" and that an agreement with Canada on NAFTA could follow. Advocates for NAFTA have worried that the newly elected president of Mexico, Andrés Manuel López Obrador, who won a landslide victory in the July 1 election, would significantly disrupt NAFTA or pull out of the trade agreement altogether. But so far, López Obrador has pledged full cooperation on the negotiations with the outgoing government during the five-month transition period. Outgoing foreign minister Luis Videgaray tweeted a photo of the NAFTA negotiating team—including López Obrador's proposed lead negotiator, Jesús Seade—pulling suitcases through the Mexico City airport as they headed for talks this week in Washington, Canadian news magazine Maclean's reported. Despite the cooperative gestures among the countries, deep differences remain. López Obrador is not likely to deviate from Mexico's current "redlines," such as the sunset clause, dispute settlement mechanisms and auto content rules, Shannon O'Neil with the Council on Foreign Relations in New York wrote in Bloomberg Opinion on Thursday. "Trump and López Obrador are making nice for now, but there are lots of reasons that won't last," she said.

BRICS Leaders Pledge Unity in Face of Global Trade War

The tenth summit of the BRICS countries—Brazil, Russia, China, India and South Africa—wrapped up day two in Johannesburg on Thursday, with the leaders of the world's five biggest emerging economies reaffirming their commitment to an open world economy in the face of an escalating trade war initiated by the United States, the South China Morning Post reported. "We express concern at the spillover effects of macroeconomic policy measures in some major advanced economies," the joint statement said. "We recognize that the multilateral trading system is facing unprecedented challenges." U.S. President Donald Trump this week said he was "ready to go" with $500 billion in tariffs on imports from China, Bloomberg News reported. In their communiqué, the countries also agreed to establish a São Paulo office for the bloc's multinational lender, the New Development Bank, which aims to provide resources "in the changing global environment." Brazil is slated to host the next BRICS summit in 2019.

IDB Disburses New Loans for Argentine Tax, Energy Reforms

The Washington-based Inter-American Development Bank on Thursday said it will provide $300 million in "fast disbursement" loans over the next 12 months to help Argentina improve its tax policies and practices. The loan is the first of two disbursements to be provided to the finance ministry seeking to boost growth through private and public investment. Earlier this year, the IDB said it would provide $2.5 billion in support over the next year for market-friendly reforms being promoted by the government of conservative President Mauricio Macri. Argentina faces "a structural challenge of accelerating its medium-term growth and has negotiated new financing from several mul-

NEWS BRIEFS

Plane Crash Kills Paraguay Ag Minister

Paraguayan Agriculture Minister Luis Gneiting was among four people killed in a plane crash, ABC Color reported Thursday. The twin engine jet, carrying the minister, vice minister and another public official to Asunción, fell into a wetland Wednesday night. The national aviation agency inspected the airplane earlier this year and found it to be "as good as new," said the agency's president, Luis Aguirre, according to the report.

Mainstream Conservative Candidate Wins Party Backing in Brazil Race

Five political parties in Brazil jointly endorsed conservative candidate and former São Paulo Governor Geraldo Alckmin ahead of the Oct. 7 presidential elections, the Associated Press reported today. Alckmin has trailed behind with less than 10 percent of support in the polls, which consistently put former President Luiz Inácio Lula da Silva, who has been imprisoned since April, as the frontrunner. However, the parties' support will bring more free broadcast air time during the campaign and the endorsement of more than 1,000 Brazilian mayors.

Hackers Post Thousands of Credit Card Numbers on Social Media in Chile

Chile's bank regulatory agency has confirmed that a group called the Shadow Brokers, best known for hacking the National Security Agency in the United States in 2016, gained access to some 14,000 credit card numbers in Chile and published them on social media, Agence France-Press reported Thursday. The banks affected by the attack, which included Santander, Itaú, Scotiabank and Banco de Chile, have scrambled to cancel the cards and notify clients of the intrusion. The government did not disclose the potential financial losses involved.

tilateral organizations," the IDB noted in a statement. One of the biggest obstacles to growth has been "the low contribution of capital per worker," the IDB said. The multilateral lender also said Thursday it would provide $100 million to finance small-sized renewable energy generation projects in Argentina, mainly biogas and biomass, and efficiency improvements in industrial processes, including equipment replacement and cogeneration. In Argentina, credit to microenterprises and small businesses represents only 3 percent of GDP, although these firms account for at least 50 percent of GDP and generate around 71 percent of total employment, according to the IDB.

BUSINESS NEWS

Vale's Net Income Rises to $76 Million in Second Quarter

Brazilian miner Vale on Wednesday said its net income soared to $76 million for the second quarter of this year, compared to $16 million during the same period last year. The largest iron ore producer in the world broke records for the mineral's production at 96.8 metric megatons and sales at 86.5 metric megatons. Vale's operating income also increased to $8.6 billion from $7.2 billion a year earlier. The main reason behind the increase in net income was rising demand for steel production from China, Vale's biggest market, The Wall Street Journal reported. "The strong performance of the construction and machinery sectors continue to spur demand for steel [in China]," the company said. China's efforts to cut pollution have boosted demand for Vale's ore, since rocks with higher concentrations of iron make for a cleaner production process, according to the report. Moreover, such products sell for higher prices in global markets, contributing to the miner's increase in income. China's domestic iron ore production has taken a hit over the past year, reaching its lowest level in 10 years on a seasonally adjusted basis, according to Westpac Bank, Business Insider reported.

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rates, therefore restricting the potential growth effects of credit for consumption and investment. Persistent imbalances in some economies have diminished their capacity to invest, thus stifling potential growth. The process of fiscal consolidation adopted in some countries implies a lower fiscal impulse than initially estimated. In short, there are several reasons why we have revised our growth forecasts for the region downward, but we are confident that it will continue growing, albeit at low rates."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Despite some adverse factors hitting Argentina, Brazil and Mexico, Latin America is heading to a second year of recovery in 2018. During the first half of the year, the three biggest economies faced headwinds that induced slower economic activity, accompanied by volatility in financial markets. Fortunately, most of those negative factors are under control or even disappeared, which raises the probability of more normal performance for the second half or even the possibility of an economic rebound. In Argentina, the financial support provided by the IMF and the quick response from the government helped contain financial turbulence and reduced the possibility of an economic crisis. In Mexico, the celebration of a pristine election and unquestionable results eliminated the risk of post-election frictions and disruptions. Only Brazil continues to be under political and social tensions in light of the upcoming election in October, in addition to the disruption caused by the workers' strike in May and June. The main risk for the region continues to be the anti-trade measures implemented by the U.S. government and its continuous threats, which raise the probability of a trade war. A second risk is the negative consequences of the Fed's monetary normalization, where higher interest rates impose pressures on Latin American rates and shake domestic financial markets. Moreover, the ongoing depreciation of Latin American currencies, resulting in part from the external threats, is a factor that will continue to improve the competitiveness of Latin American exports. This, together with the improvement in the terms of trade generated by favorable commodity prices, will continue to make net exports an important engine of Latin America's economic performance. The region is heading to post growth of around 1.6 percent in 2018, after 1.3 percent in 2017, if the situation in Brazil does not deteriorate further."

A **Barbara Kotschwar, senior private sector specialist at the World Bank:** "Latin America came into 2018 with an economic bounce; by mid-year, however, the growth spurt has lost steam, as reflected in the downward revisions of the growth numbers. Although higher commodity prices may boost growth prospects for countries such as Chile and Colombia, the factors that led to the downward growth revisions—tighter financial conditions, weaker currencies, market stress in the large South American countries, political turmoil and a truckers' strike in Brazil—will continue to influence growth prospects for the rest of the year. Stable elections in Colombia and Mexico mitigate the political risk somewhat, but the region's outlook continues to be subject to headwinds from rising global protectionism and, particularly for Mexico, the uncertain outcome of NAFTA renegotiations. Effects of recent U.S. tariff policies, if sustained, should begin to be felt in the second half of this year, and would temper the second quarter's uptick in the U.S. growth effect on Latin American economies. On a positive note, successful conclusion of a mutual recognition agreement in the Pacific Alliance, steps toward closer relations between the Pacific Alliance and the Mercosur and continuing Mercosur-E.U. negotiations sends signals that the region is not following a protectionist trend. Any trade and investment effects,

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however, will likely not manifest in time to recover the growth momentum."

A **Carlos de Sousa, senior economist for Latin America at Oxford Economics:** "The economic outlook has worsened for Latin America on aggregate for this year. We also expect regional GDP to expand by 1.6 percent in 2018, a considerable downgrade from our more optimistic 2.4 percent projection from six months ago. The main culprits lie in Brazil and Argentina. In the case of Brazil, a truck drivers' strike in May caused economic activity to nosedive by 3.3 percent on the month, but leading indicators for June point to a V-shaped recovery, corroborating our view that the strikes alone will have only a temporary impact on activity. However, the strikes took place at a terrible moment for Brazil, just as the country started to face important external headwinds such as an appreciating U.S. dollar (increasing inflationary pressures), worsening sentiment toward emerging markets (increasing the government's borrowing costs) and weaker demand from Argentina and Europe. In Argentina, it is not only the souring market sentiment that caused a 26 percent depreciation of the peso, which was evidently overvalued in real terms back in April and forced the country to seek an IMF financial assistance program, the country is also undergoing its harshest drought in 50 years. To put it into perspective, economic activity fell 5.8 percent year-over-year in May, but, excluding the agricultural sector, was up 0.5 percent, as agricultural production fell by a staggering 35 percent year-over-year. Looking ahead, things are moving in the right direction for Argentina even if growth will likely be null in 2018. Next year will be very challenging though, due to the presidential election. The rest of the region is looking much better. Our outlook for Mexico remains roughly unchanged as AMLO's election was perfectly foreseeable. Chile's economy is booming despite the weakness of copper and the peso, and the outlook for Colombia is looking brighter amid higher oil prices and the election of a business-friendly president."

A **Desmond Lachman, resident fellow at the American Enterprise Institute:** "Sadly, there are all too many reasons to believe that the IMF will prove to have been too optimistic in forecasting that over the next year or two the Latin American economy will avoid a hard landing. Among the more important of these reasons is that the United States, the world's largest economy, is running an inappropriately expansive fiscal policy at this late stage in the U.S. economic cycle. That is bound to force global interests rates higher and to accelerate the reversal of capital flows to the emerging market economies that is already in evidence. There are also other reasons: President Trump is now leading us toward a global trade and currency war; China, the world's second-largest economy and the main consumer of international commodities, is slowing after many years of artificially credit-induced economic growth; Brazil, South America's largest economy, is on an unsustainable fiscal path at a time that it is entering a period of considerable political uncertainty; and it is highly probable that it is only a matter of time before the new Italian government precipitates another round of the Eurozone sovereign debt crisis. Of course, there is always a chance that the unusual constellation of risks listed above does not materialize and that the IMF's rosy Latin American economic scenario comes to pass. However, it would seem that all the clues are pointing in the opposite direction."

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2018

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
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