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FEATURED Q&A

Is Costa Rican President Alvarado Off to a Good Start?



Costa Rican President Carlos Alvarado last month touted new investments from Coca Cola as evidence of the country's favorable business climate. // Photo: @CarlosAlvQ via Twitter.

Q Costa Rican President Carlos Alvarado, who marks his 100th day in office in mid-August, is facing a worsening fiscal situation. On July 31, the Treasury Ministry sent lawmakers a budget proposal to cover a previously unreported internal debt of \$1 billion, or 1.73 percent of GDP, inherited from the previous administration. Alvarado told the *Advisor* in June that he was “really committed” to shrinking the country's fiscal deficit through the approval of spending cuts and tax reforms this year, but his proposal has stalled in Congress. What issues has Alvarado prioritized during his first 100 days? Is his “coalition government” delivering on its promises? Will he be able to reach a deal with Congress regarding the country's growing budget problems?

A Ottón Solís, Costa Rica representative at the Central American Bank for Economic Integration and founding member of the Citizen's Action Party (PAC): “Ethics in government, austerity, sustainability in the technology of transport, updating of human rights and respect for the role of all political parties represented in parliament—manifest through numerous appointments of their members to top positions—have been President Alvarado's priorities during his first 100 days in office. He has shown political acumen and courage in four key areas towards reaching a solution—albeit partial—to the fiscal deficit. Firstly, far from hiding the problem as a way of protecting the public image of his predecessor and friend Luis Guillermo Solís, he was totally transparent from day one about the inherited grim numbers. Secondly, he not only appointed two prominent figures of op-

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TODAY'S NEWS

POLITICAL

Duque Sworn in as Colombia's President

Iván Duque, Colombia's youngest elected president, promised to “make corrections” to the country's 2016 peace accord with the FARC guerrillas.

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ECONOMIC

Tourism Sector in Nicaragua Loses 70,000 Jobs

Street protests and killings in Nicaragua since April has put 70,000 people in the hospitality sector out of work and caused \$230 million in lost revenue for the industry, which has seen international business dry up.

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POLITICAL

Former Argentine Vice President Sentenced

Amado Boudou, Argentina's former vice president and economy minister, was jailed and sentenced to nearly six years in prison for corruption, passive bribery and conducting business “incompatible with public office.”

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Boudou // File Photo: Argentine government.

POLITICAL NEWS

Duque Sworn in as Colombia's Youngest President to Date

Iván Duque was sworn in as Colombia's youngest elected president on Tuesday, *El Tiempo* reported. Duque, 42, took the oath of office in Bogotá in the presence of nearly a dozen regional heads of state including Mexico's Enrique Peña Nieto and Ecuador's



Duque // Photo: Colombian government.

Lenín Moreno, *Agence France-Presse* reported. From the United States, U.N. Ambassador Nikki Haley led the delegation, with Gov. Rick Scott of Florida attending. In his inaugural speech, Duque promised to "make corrections" to the peace deal with leftist rebels that he inherited from his predecessor, Juan Manuel Santos, who won the Nobel Peace Prize in 2016 in recognition of his achievement in ending a half century of armed conflict with the Revolutionary Armed Forces of Colombia rebels. However, the peace deal has divided the country, with conservatives concerned about the terms being too lenient on rebels who committed crimes. It remains unclear if the peace will last, with armed groups still roaming the countryside and few employment alternatives to illicit crimes to make a living. "The moment has come for all of us to unite to fight against illegal groups," Duque said, promising to get tough on crime, drug trafficking groups and other armed and rebel groups. "We will make corrections to ensure that the victims receive truth, proportional justice, reparations and not a repetition." Colombia's conflict left at least 260,000 dead, some 60,000 missing and millions displaced.

Former Argentine VP Sentenced for Graft

Amado Boudou, Argentina's former vice president and economy minister, on Tuesday was jailed and sentenced to nearly six years in prison for corruption, *La Nación* reported. Boudou, who held office during the administration of former President Cristina Fernández de Kirchner, was found guilty of an attempt to buy a money-printing company through a front business. In 2010, when he was economy minister and before becoming vice president, Boudou lifted a bankruptcy declaration against a currency firm owned by Nicolás Ciccone, Ciccone Calcográfica, in return for an equity stake. A court in Buenos Aires found him guilty of committing "passive bribery" and conducting business "incompatible with public office," *BBC News* reported. Ciccone was given a four-and-a-half-year sentence. The court also sentenced José María Núñez Carmona, a friend and partner of Boudou, to five years and six months in prison. Alejandro Vandebroele, a friend of Núñez Carmona, who was considered a frontman of Boudou, was sentenced to two years in prison with a stayed sentence. Boudou maintains his innocence and says he will appeal the ruling.

ECONOMIC NEWS

Nicaragua Tourism Sector Loses 70,000 Jobs, \$230 Million

Street protests and violent repression in Nicaragua since April has put 70,000 people in the hospitality sector out of work and caused \$230 million in lost revenue, local media reported Tuesday. Lucy Valenti, the head of Nicaragua's National Tourism Chamber, or CANATUR, told members at a national meeting that tourism had become "paralyzed." "We are not at all normal. International tourism is practically zero," Valenti said, citing the closures of small and large hotels that are being hurt by the lack

NEWS BRIEFS

Electric Fleet Conversion Could Save \$64 Billion

Converting the current fleet of buses and taxis operating in 22 Latin American cities into electric vehicles today would save \$64 billion in fuel costs by 2030, a U.N.-backed study released Tuesday showed. The conversion would avoid the emission of 300 million tons of carbon dioxide equivalent and save 36,500 people from premature death, according to the report, which was conducted by the U.N. Environment and International Automobile Federation with support from Spain and the European Union. The report recognized Argentina, Chile, Colombia, Costa Rica, Panama and Uruguay for taking the most advanced steps on the issue.

Maduro Blames Leaders of Opposition for Attack

Venezuelan President Nicolás Maduro on Tuesday accused opposition lawmakers of having a role in a failed attempt to assassinate him with armed drones over the weekend, *Reuters* reported. In a public speech, Maduro said Julio Borges, now living in exile in neighboring Colombia, was a co-conspirator in the plot. Another opposition lawmaker, Juan Requesens, who has been arrested by police, was also singled out by Maduro in the speech.

Kosmos Spends \$1.23 Bn on Gulf of Mexico Deal

Texas-based oil company Kosmos Energy on this week announced it will expand into the Gulf of Mexico with a new deal to acquire Deep Gulf Energy from its private equity owner for a total of \$1.23 billion. The acquisition will boost Kosmos' production by 25,000 additional barrels of oil equivalent per day, and it is expected to "generate significant free cash flow," the company said in a statement. In the second quarter, Kosmos saw a net loss of \$103.3 million, compared to an \$8.5 million net loss a year earlier.

of foreign exchange. Business owners are also concerned about an increase in the minimum wage, slated for September. Major air carriers have significantly cut their flight schedules to Nicaragua as well.

BUSINESS NEWS

American Tower Sues TV Azteca for Missed Loan Payments

Boston-based American Tower Corp is seeking to recover nearly \$100 million from Mexico's TV Azteca in court, Reuters reported Tuesday. In the suit filed in New York state, the telecommunications infrastructure firm claims Mexico's second-largest broadcaster has defaulted on a loan, according to court papers. American Tower's MATC Infraestructura unit, which owns and operates cell towers, said TV Azteca failed to make a payment on a loan from MATC and has not indicated it will resume doing so. The total damages being sought includes \$6 million in back interest, American Tower said in an earnings release last month. "TV Azteca has been evasive and uncooperative," the company said in court papers. TV Azteca has moved to dismiss the case, saying it had not been served properly, according to Reuters. The company did not confirm or deny having defaulted on the loan in court papers. Last month, TV Azteca said net sales rose 11 percent in the second quarter of 2018, as compared to the same period last year. However, operating income fell by 93 percent in the second quarter, largely due to costs of broadcasting the FIFA World Cup in Russia and soccer in general, the company's chief executive, Benjamín Salinas, said in an earnings release. "The associated costs of this event—and soccer in general—makes this a business line that is gradually less sustainable from a financial perspective, as it affects the consolidated profitability of the company," Salinas said. "We are obligated to review the soccer business in a comprehensive manner and to evaluate the viability of staying there," he added.

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posing parties to the most important cabinet positions—presidency and finance—but also gave them key roles in the negotiations with parliament. President Alvarado went ahead with these decisions in spite of complaints within his own party. Thirdly, he started his administration by placing rigorous upper limits on the petroleum-country-like salaries of the top management of banks and other public sector companies. Up until now that was a no-go area for the president of the country. Finally, he announced deep cuts to some of the public employees' abusive bonuses granted during the reign of right-wing populism enthroned by the traditional parties. All in all, President Alvarado so far has shown hints of a statesmanship not seen for decades in Costa Rica. This might turn out to be key for a positive outcome for the tax bill."

A Francisco Chacón, former Costa Rican congressman and former minister of communications:

"Undoubtedly, the Alvarado administration's number one priority in its first 100 days has been the approval of the taxes needed to attenuate the fiscal deficit. In Congress, the government has found a constructive attitude in the main opposition party, PLN, the first sign being the approval of the 'fast track proceeding,' a legislative mechanism that allows setting a deadline for voting and without which the approval of the tax reform would be impossible. Moreover, PLN has been consistently in favor of creating a value-added tax for years, so no problems should be expected regarding the reform's content. Certainly, the irresponsible attitude of Luis Guillermo Solís' government and the nondisclosure of relevant information regarding the missing \$1 billion in his administration's last budget complicate negotiations in Congress, especially with the second-largest legislative faction, PRN. However, I believe that by the voting deadline in September, the government will

have the 29 necessary votes for the reform's approval. Having said that, the fact is that an increase in taxes alone is far from solving the fiscal deficit problems if the main drivers of spending (public sector salaries, pensions, collective bargaining and institutional reform) are not also addressed. In this field, the government's proposal has been positive but quite insufficient, and the opposition has been excessively complacent. It's also unclear if the government has the will and/or the political capital to lead these changes once taxes are approved. Equally worrisome is the slowdown effect the reform may have on the already stagnant economy."

A Juan Carlos Hidalgo, policy analyst on Latin America at the Cato Institute: "The debate on how to tackle the country's delicate fiscal situation has consumed the first 100 days of the Alvarado administration. Unlike the previous Solís administration, which refused to put in place measures related to spending, the current government has implemented executive actions that slow the growth of salaries in the public sector—the leading cause of the unsustainable fiscal deficit. However, the fiscal reform bill being discussed in the Legislative Assembly continues to emphasize an increase in taxes. The Alvarado administration is resisting budget cuts, and instead favors a gradual approach to containing spending. This has undermined its support among the population, which in recent months has been exposed to a series of news stories on the pervasiveness of abusive salaries and luxury pensions in the public sector and, thus, demands stronger signs of austerity. In the Legislative Assembly, where the government's caucus only has 10 out of 57 congressional seats, the bill faces an uncertain outlook. Though it is likely that a fiscal reform that includes a new value-added tax will be approved in the coming months—which is the government's main goal—it is

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also possible that the compromises the Alvarado administration will have to reach with opposition parties to make it happen may weaken the bill's revenue potential. In that case, even with the approval of its fiscal reform proposal, the government will continue to face a deteriorating fiscal situation unless it adopts meaningful spending cuts."

A **Todd Martínez, director for Latin America Sovereigns at Fitch Ratings:** "Costa Rica's fiscal problem is perhaps the most difficult challenge facing the Alvarado administration. Spending pressures have led to a significant structural deterioration in public finances over the past decade, and the situation is worsening as cyclical factors that provided some relief in recent years (namely low energy prices and interest rates) are fading away. And now the fiscal imbalance also appears to be having more visible negative consequences for the real economy. The Alvarado administration and Congress are clearly showing greater urgency around the issue with the pending 'fast track' fiscal reform bill. However, Costa Rica's cumbersome legislative process and the government's lack of a majority pose challenges to the bill's passage, or risks of delays and/or dilution. The need for an extraordinary budget this year may further complicate already difficult negotiations. So even if the bill advances, it is not yet clear

how much and how quickly it could contribute to lowering the deficit and stabilizing the rapidly rising debt burden. Last year, the International Monetary Fund estimated that 3 percent of GDP in measures was needed to stabilize debt, but the needed adjustment could now be closer to 4 percent given

“Even if the bill advances, it is not yet clear how much and how quickly it could contribute to lowering the deficit...”

— Todd Martínez

additional deterioration seen since then. Achieving such a large fiscal adjustment will require additional tax hikes and/or spending cuts beyond this initial reform bill, and will make it a challenging term for President Alvarado."

Editor's Note: After the commentaries above were received, Costa Rica's government announced that the debt level was bigger than what the Treasury declared last week. The extraordinary budget proposed will not cover it, and the Treasury reportedly will issue an additional extraordinary budget proposal later this week.

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 freetrial@thedialogue.org

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