INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Senior Partner,
Aimara Capital LLC

Jane Eddy
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Latin America

Jon Huenemann
Vice President,
U.S. & Int'l Affairs,
Philip Morris Int'l

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

Craig A. Kelly
Director, Americas International Gov't Relations,
Exxon Mobil

John Maisto
Director,
U.S. Education Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President,
Rozental & Asociados and Senior Policy Advisor,
Chatham House

Everett Santos
President,
DALEC LLC

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.

FEATURED Q&A

Will Peru's Economy Continue Struggling This Year?

Q Peru posted weaker-than-expected growth of just 0.31 percent in November, the weakest monthly result since 2009, according to recent data released by state statistics agency Inei, and a sign that the economy was still struggling despite official forecasts that economic growth would begin to rebound in late 2014. What is behind Peru's struggling economy? What is the outlook for economic growth in the Andean nation this year?

A Erich Arispe, director in the sovereign group of Fitch Ratings: "After averaging 6.7 percent in the aftermath of the global financial crisis, Peru's growth dropped to an estimated 2.4 percent in 2014 dragged by supply shocks to mining and fishing, weaker domestic investment, most notably by regional governments, and deteriorating external demand and copper prices. In spite of increased financial market volatility, Peru's policy coherence and credibility, strong external buffers and low government debt have allowed for vigorous counter-cyclical monetary and fiscal policies. The central bank has cut its policy rate by 75 basis points since the first half of last year and repeatedly reduced local currency reserve requirements for banks. Government revenue and expenditure measures could provide a fiscal stimulus of up to 2 percent of GDP this year. Hence, the economy could regain momentum averaging 4.7 percent in 2015-16 also supported by rising mining production and the execution of infrastructure projects. However, a further decline in copper prices and public investment under-execution could weigh on growth recovery. In the context of lower commodity prices and tighter global financing conditions, Peru's challenge is to improve competitiveness and productivity to support medium-term growth prospects. Nevertheless, the repeal of the labor reform law by Congress at the end of January highlights the challenge of securing growth-supportive reforms in the

Continued on page 2

Bendine Named Chief Executive Officer of Brazil's Petrobras

Brazilian state-run oil company Petrobras on Friday named Aldemir Bendine, the head of Banco do Brasil, as its new CEO. An analyst called Bendine's selection "underwhelming," and the state oil company's shares slid on Friday. See story on page 2.

Photo: Brazilian Government.

Inside This Issue

FEATURED Q&A: Will Peru's Economy Continue Struggling This Year? 1

Petrobras Names Banco do Brasil Chief as New CEO 2

Head of Venezuelan Grocery Chain Denies Hoarding Claim 2

Gunmen Abduct at Least 12 in Mexico's Guerrero State 2

Peru Posts Record Trade Deficit Amid Lower Prices for Metals 3

The Dialogue Continues: Does Colombia's Tax System Discourage Investment? 3

Copyright © 2015, Inter-American Dialogue

NEWS BRIEFS

Gunmen Abduct at Least 12 in Mexico's Guerrero State

Gunmen have abducted at least 12 people in Mexico's Guerrero state, the same state where 43 college students were kidnapped and purportedly killed last September, BBC News reported Saturday. Most of the people taken in last week's kidnapping were workers at the Media Luna mine, which is owned by Canada's **Torex Gold Resources**, according to a spokesman for the state prosecutor.

Former Mandela Lawyer to Represent Venezuela's López

Human rights lawyer Irwin Cotler, a former Canadian justice minister and attorney general who helped defend Nelson Mandela, will join the legal team of jailed Venezuelan opposition leader Leopoldo López, the politician's party said Thursday, Reuters reported. The Popular Will party said Cotler will travel to Caracas in the coming days to "actively join" López's defense. In addition to serving as counsel to South Africa's Mandela, Cotler has also represented prisoners of conscience in the Soviet Union, Latin America and Asia.

Eruption of Guatemala's Fuego Volcano Prompts Evacuations

Guatemala's Fuego volcano erupted on Saturday, spewing large columns of ash and prompting scores of evacuations. The volcano, which had calmed down on Sunday, covered nearby towns in ash, and Guatemala City's La Aurora airport suspended flights due to coverings of ash on the runway, Agence France-Presse reported. Guatemala's natural disaster agency warned people to remain alert in case volcanic activity increases.

Company News

Petrobras Names Banco do Brasil Chief as New CEO

Brazilian state-run oil company **Petrobras** on Friday named Aldemir Bendine, the head of **Banco do Brasil**, as its new chief executive officer. Bendine's selection followed the forced resignation of Maria das Graças Silva Foster who stepped down along with other top executives in the wake of the long-running kickback scandal at the company. An analyst said Bendine is seen as a safe but "underwhelming" choice to head Petrobras, and the company's shares slid 6.9 percent Friday, the Associated Press reported. "The new leader at Petrobras needs to be somebody with market credentials, but also someone who is politically savvy and has the trust of the president," João Augusto de Castro Neves, Latin America director at the **Eurasia Group**, told the AP. "Bendine has much more of the latter." Ultimately, "the market will give him the benefit of the doubt, but the fact [President Dilma Rousseff] chose an underwhelming name without market credentials will make the process of Petrobras regaining market credibility longer," he added. Prosecutors say the kickback scheme at Petrobras operated for more than a decade and involved large sums of money being funneled to the ruling Workers' Party and allied parties. In the scandal, contractors are alleged to have paid inflated prices to the state oil company, with some of the money being siphoned to the political parties and some Petrobras directors, BBC News reported. The Workers' Party has denied the allegations. Several people, including three former Petrobras executives, have been arrested in connection with the investigation.

Foster

File Photo: Brazilian Government.

Head of Venezuelan Grocery Chain Denies Hoarding Claim

The head of a Venezuelan supermarket chain that President Nicolás Maduro's government took over denied on Sunday Maduro's claims that the company is

Featured Q&A

Continued from page 1

current political context. In addition to defections in the ruling party's congressional representation, opposition parties seem to be already gearing up for general elections in 2016 with a more confrontational stance. Continued political noise and further polarization could lead to policy paralysis and undermine domestic confidence, thus adding additional risks for Peru's growth outlook."

Hugo Santa María, partner at APOYO Consultoría in Lima: "Last year was difficult for the Peruvian economy due to changes in the international environment. The external environment was adversely affected by a slowdown in growth in China and Europe, lower commodity prices and a stronger U.S. dollar. But bad luck also struck Peru this year. On the local scene, adverse climate conditions affected agriculture and fishing production, while operating problems at some mining wells caused a drop in production. Additionally, the public sector further aggravated the deceleration: public investment fell due to execution problems and corruption at the sub-national government level. In this context, Peru's GDP grew 2.5 percent in 2014, which is the lowest rate posted in five years. In 2015, we expect GDP to grow around 4 percent. The result will undoubtedly depend on whether the country is luckier this year. If climate conditions are better this year than last, the agriculture and fishing sectors will

Continued on page 4

Copyright © 2015, Inter-American Dialogue

hoarding food in order to destabilize the country, *The New York Times* reported. "They know there's a huge issue with food scarcity in Venezuela, and they do not want to be responsible," José Vicente Aguerrevere, the chief executive of the **Día Día** chain, said of Maduro's government. Maduro last week ordered the chain of 35 small grocery stores in 16 cities to be taken over by a government-run supermarket chain. Aguerrevere said he didn't know why Maduro singled out his company. Government agents went to Día Día's warehouse last week and accused the chain of hoarding after finding a large amount of food there. "The warehouse was full of all kinds of products," said Maduro in ordering the takeover. He accused Día Día of "hiding corn and cooking oil," *The New York Times* reported. However, Aguerrevere said the facility is the company's only warehouse and has a three-day supply of goods. "If you go to our distribution center you go, 'Wow, it looks like a lot.' But if you do the math, it's only three days of inventory," Aguerrevere told the newspaper in a phone interview from his home in Boston. He added that the warehouse has a seven-day supply of some items. Maduro's government has charged Día Día's general manager, Manuel Morales, with sabotage and attempting to destabilize the economy. Aguerrevere said Morales was detained at the presidential palace after meeting with a vice president in charge of the country's food supply. "He is illegally detained," said Aguerrevere. "It's crazy. He's totally not guilty. It's not fair to his human rights." In recent days, Maduro has also ordered the arrest of two executives at **Farmatodo**, the country's largest chain of pharmacies.

> "They know there's a huge issue with food scarcity in Venezuela, and they do not want to be responsible."
>
> *— José Vicente Aguerrevere*

Economic News

Peru Posts Record Trade Deficit Amid Lower Prices for Metals

Peru's central bank said Saturday that the country's trade deficit for 2014 amounted to $2.554 billion, its largest trade deficit on record, Reuters reported. The shortfall happened amid a global fall in commodity prices. Peru also posted a trade surplus of $142 million for December, however. The December figure ended nine consecutive months of deficits, according to the central bank, which is headed by Julio Velarde. In December 2013, the country recorded a trade surplus of $629 million. Lower prices for Peru's metal exports, a decline in gold production and weak output of copper crimped the country's export earnings in 2014. Peru recorded a trade deficit of $40 million in 2013, its first in 12 years.

Velarde

File Photo: Agencia Andina.

The Dialogue Continues

Does Colombia's Tax System Discourage Investment?

Q Although Colombia passed a tax reform late last year, the nation's tax system is "inefficient and regressive" and discourages investment and job creation in addition to limiting access to financial services, the Organization for Economic Cooperation and Development said in a report published Jan. 19. Does Colombia's tax system discourage investment and job creation? What changes could the country make to its tax laws that would protect revenues while also improving efficiency?

A Verónica Navas Ospina, partner at EConcept in Bogotá: "Colombia has postponed a so-called 'structural' reform of its tax system for quite some time now. This essentially means simplifying the system, eliminating numerous loopholes and distortions (among which the most salient results from the financial transactions tax) and increasing the tax base. Making the tax system more efficient involves reducing the number of VAT rates (currently eight) and converging toward a single generalized rate, which currently stands at 16 percent, while reducing exemptions in order to facilitate collection. Attempts to reform the VAT in the past have encountered substantial political resistance because it is considered to be regressive. And in practice, exemptions on food (among others) benefit mostly the richest share of the population as they spend the most on these items. Hence, it is best to deal with inequality with direct transfers to the poor, avoiding distortions in the tax system. In order to promote economic activity and boost the country's competitiveness, income tax rates (currently at 43 percent) should be reduced, and the base should be expanded. Currently, income tax payments are concentrated in a small share of the population, and it is mostly corporates that bear this burden. Congress has also traditionally viewed increasing the base as regressive; however, systematically increasing taxes on the country's productive sector limits the economy's capacity to grow and create jobs. The tax system should be used to further a virtuous circle by which economic activity is allowed to expand. Lower income tax rates on a larger and more dynamic economy should result in higher and sustainable tax revenue."

Editor's note: The above is a continuation of a Q&A published in the Feb. 3 issue of the Advisor.

Copyright © 2015, Inter-American Dialogue

Featured Q&A

Continued from page 2

rebound. Additionally, the extraordinary and unexpected decline in oil prices will release resources in the economy. Nevertheless, the final result will also depend on the efforts made by different sectors to manage a difficult external context and the uncertainty that is typical in any pre-election year. Mining production is needed, and investment in infrastructure projects must not be delayed. If all of this takes place, we will post a better result this year than last."

Carlos Paredes, director of Inteligencia Financiera in Peru: "The main reasons for Peru's recent economic slowdown are lower commodity export prices, a slowdown in investment demand as large investment projects keep suffering delays and the political climate worsens, and negative transitory supply shocks (for example, delays in the start-up of operations of large mining projects and lower fishing landings due to abnormal oceanographic conditions). While it is expected that the negative supply shocks of 2014 will turn into positive statistical jumpstarts in 2015, the first two factors will keep economic growth below potential. Moreover, domestic demand may be slowed down even further by the lack of experience of recently elected regional officials in implementing public investment projects and the bearish behavior that could characterize private investors due to the proximity of presidential elections in April 2016. Therefore, GDP growth in 2015 is expected to be in the 3 to 4 percent range."

> "Domestic demand may be slowed down even further by the lack of experience of recently elected regional officials..."
>
> *— Carlos Paredes*

Tap Into the Archive

Photo: Matthew Petroff

Subscribers can now access more than 2,000 archived editions of the **Latin America Advisor** through a new IP-protected, keyword search portal. That's more than 6,000 expert commentaries, all at your fingertips. Send an email to freetrial@thedialogue.org for access.

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2015

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director, Finance & Administration
Ariel Fiszbein, Director, Education Program
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Senior Fellow
Jeffrey Puryear, Senior Fellow
Lisa Viscidi, Director, Energy Program

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

Copyright © 2015, Inter-American Dialogue