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THEDIALOGUE

FEATURED Q&A

What Factors Are Shaping Mexico's Economic Outlook?

Mexico's central bank, led by Agustín Carstens, has kept its overnight interest rate at record low of 3 percent since last year in an effort to boost the economy. // File Photo: Mexican Government.

Q Mexico's central bank in mid-August lowered the country's expected growth rate to between 1.7 percent and 2.5 percent, citing a global decline in oil prices as the main reason for this lowered expectation. What will happen to Mexico's economy if oil prices continue to fall or stay at this level? What other factors are shaping Mexico's economic outlook? What more can Mexico's government do to stave off a recession like those occurring throughout many parts of Latin America and most notably Brazil? What is the outlook for Mexico if the U.S. Federal Reserve raises interest rates?

A Rogelio Ramírez de la O, president of Ecanal in Mexico City: "Mexico's economic outlook appeared to worsen after data from the first quarter suggested a modest improvement was possible this year. That is why growth estimates by the government, the Bank of Mexico and market analysts have been revised down several times. Hope of a better second half of the year was based on private investment in oil, new infrastructure projects and a recovery in private consumption after sub-par growth in 2013 and 2014, at 2.2 percent. Of these expectations, only consumption showed a slight improvement, rising 3.1 percent through May. In contrast, private investment in oil projects has not materialized, as lower oil prices have discouraged potential participants in Round One exploration and production bids. With regard to infrastructure, the increase in investment in non-residential construction was only 1.2 percent through May. The outlook has been clouded by the fall in the volume of oil production, and not only by its fall in price. The outlook is made worse by the prospects of interest rate increases in the

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China Providing Venezuela New $5 Million Loan

The loan comes as Venezuela faces deteriorating economic conditions and a plunge in the price of oil, its chief export.

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Argentina Orders HSBC to Replace Unit's CEO

The country's central bank accuses the Argentine unit's CEO of failing to adequately prevent money laundering, a charge the bank rejects.

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POLITICAL

Guatemala's Pérez Molina Stripped of Immunity

Guatemala's Congress on Tuesday voted to strip President Otto Pérez Molina of his immunity from prosecution amid a corruption scandal involving the country's customs agency. The vote could lead to criminal charges against Pérez Molina and his removal from office.

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Pérez Molina // File Photo: Guatemalan Government.

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POLITICAL NEWS

Lawmakers Strip Guatemalan President's Immunity

Guatemala's Congress, in a unanimous vote among the members present and voting, on Tuesday stripped President Otto Pérez Molina of his immunity from prosecution, a step toward possibly removing him from office amid a scandal involving the country's customs agency, the Associated Press reported. Hours later, a judge barred Pérez Molina from leaving the country, BBC News reported. Following the vote of 132-0 in the 158-seat chamber, prosecutors are now able to file criminal charges against Pérez Molina, and a judge could order him to be detained. "Guatemala is showing that nobody is above the law, and as a result this is a message for all current and future public servants that our behavior must be subject to the Constitution," Attorney General Thelma Aldana said at a news conference, the AP reported. Pérez Molina has consistently denied wrongdoing and has vowed not to resign. Following Tuesday's vote, a spokesman for the president said Pérez Molina would be "very respectful and submit himself to the rule of law." The scandal, in which politicians are accused of accepting bribes from businesses in exchange for assessing lower customs duties, has led to massive protests calling for Pérez Molina's resignation. The scandal has led to the resignations of nearly half of Pérez Molina's cabinet, with some ministers saying they wanted to distance themselves from the president. Pérez Molina's former vice president, Roxana Baldetti, resigned before being charged in connection with the scandal. About 200 people had gathered outside Congress on Tuesday, and they erupted into cheers when they learned of the vote to strip Pérez Molina of his immunity. "Excellent! It is a step forward for Guatemala," said retiree Gerardo Corzo, 71, the AP reported. It is unclear when charges may be filed against Pérez Molina, but Aldana has said he is under investigation for alleged bribery, customs fraud and illicit association. Prosecutors and a United Nations commission uncovered the scandal, known as "La Linea," or "The Line," after a hot line businesspeople are said to have called in order to get in touch with corrupt officials. The scandal is believed to have cost the government millions of dollars. The developments came just days before Guatemala's presidential election on Sunday. Pérez Molina, whose term expires in January, is constitutionally barred from being re-elected.

> **"Guatemala is showing that nobody is above the law..."**
>
> **— Thelma Aldana**

ECONOMIC NEWS

China Providing Venezuela New $5 Billion Loan

Venezuelan President Nicolás Maduro said Tuesday that China will provide the South American country a $5 billion loan, The Wall Street Journal reported. This assistance comes at a time when Venezuela is facing extremely poor economic conditions as a result of low global oil prices. The money from China is being allocated to help Venezuela increase its oil production, said Maduro. Though he gave no further information, a source at PDVSA told

Maduro // File Photo: Venezolana de Televisión.

NEWS BRIEFS

Brazil's Odebrecht Convicted of Using 'Slave-Like' Conditions

Brazil's Odebrecht Group was convicted by a Brazilian labor court of forcing their Brazilian employees into "slave-like" working conditions at an ethanol refinery project in Angola, Reuters reported on Tuesday. Odebrecht Group was fined 50 million reais ($13 million) in damages. This ruling comes after the CEO of Odebrecht Group, Marcelo Odebrecht, was sent to prison for his involvement in the Petrobras corruption scandal. Odebrecht and his company was part of a cartel of construction companies that defrauded Petrobras.

Chile's Central Bank Lowers Growth Expectations

Chile's central bank reported a slower expected growth rate and a higher inflation rate than it had originally predicted earlier this year, Bloomberg News reported on Tuesday. GDP is expected to rise only 2 to 2.5 percent this year, though the central bank had originally expected a 2.25 to 3.25 percent growth. Inflation is now expected to rise 4.6 percent, up from a 3.4 percent prediction earlier this year. In a report, Chilean policymakers said, "Second quarter data showed a greater weakness in activity and demand, while business and consumer confidence expectations deteriorated again."

Argentine Central Bank Orders HSBC to Replace Unit's Chief Executive

Argentina's central bank has ordered London-based HSBC to replace its chief executive officer in the South American country within 24 hours, BBC News reported today. The central bank said Gabriel Martino had failed to properly prevent money laundering, a charge the bank denies. In November, Argentina accused HSBC of helping clients evade taxes, which it denies.

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United States. Lower oil revenue has hit public finance and compelled the government to reduce spending, which has especially hurt investment. And the risk of higher U.S. rates has caused a depreciation of the peso and will probably cause the modest increase in consumption to halt or reverse. With public debt rising and the fiscal deficit continuing, the government has no room to maneuver. The Bank of Mexico would increase interest rates if the peso remains as weak as it is today, but such an increase will further dampen growth. Other factors influencing the outlook are lack of security in many regions and loss of confidence in the business and the consumer sectors."

Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City: "Mexico is committed to fiscal discipline and macroeconomic stability. Fortunately, the country's international reserves are at a healthy level of $188 billion. The peso-to-dollar exchange rate has been affected by oil prices as much as it has been affected by risk factors in the international environment, like the Greek economic crisis and the financial crisis in China. If the Fed increases the federal funds rate, it is predicted that the rate in Mexico will significantly increase, as well. Fortunately, the Mexican economy is diversified, and income from oil represents approximately 8 percent of Mexico's GDP and 30 percent of the government's income. Various sectors in the Mexican economy are performing well, including the automotive industry and manufacturing. Right now, it's necessary to apply measures that will promote investment and economic development, like, for example, by spurring the development of an incentive infrastructure for increased participation in investment management companies, such as the Retirement Fund for Administrators, or AFORES, and other insurers, with the goal of investing in long-term projects, fulfilling the lack of state resources and creating an exchange rate with long-term attractive performance. This new step will require better efficiency with spending and will privilege those programs that are most profitable, both socially and economically speaking."

Antonio Ortiz-Mena, head of the economic affairs section at the Mexican Embassy in Washington: "It is important to look beyond the current juncture to correctly assess the situation and prospects of the Mexican economy. In terms of macroeconomic stability, the country has weathered the crisis extremely well. Inflation is within the Banxico target rate of 3 percent. The peso has been affected by the turmoil, with a depreciation against the dollar of 13.75 percent during 2015, which is lower than the rate experienced by other emerging market currencies, such as the Colombian peso and the Brazilian real. Mexican exports have also fared well in comparison to other Latin American countries that rely on China as their main export market, especially because 85 percent of Mexican exports are manufactures and about 80 percent are destined for the United States, which puts Mexico in a very different situation from other emerging markets. Banxico has reacted to this environment by increasing the amount of U.S. dollars it provides daily from 200 million to 400 million. This is a smoothing mechanism and the flexible exchanger rate has proved to be an asset during times of turmoil. The transparent manner in which Banxico conducts the management of exchange rate and monetary policy gives great assurance to domestic and foreign investors alike. GDP growth rates are certainly below the potential of the Mexican economy, but the importance of the macroeconomic stability that Mexico enjoys should not be minimized. It sets the basis, together with the deep economic reforms in energy, telecommunications and competition policy that are still being implemented, for higher rates of sustained economic growth. In a turbulent

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Reuters back in March that China had plans to extend a "special" loan to Venezuela, and would require that Venezuela hire Chinese employees to help with oil production, CNBC reported. China also renewed a separate $5 billion loan to Venezuela earlier this year, and in 2007, late President Hugo Chávez borrowed $50 billion from China, helping Chinese companies extend their reach into Venezuelan markets, which suffered from shortages of basic goods, even then. Most of the loans given to Venezuela from China have been repaid in shipments of oil. Maduro also said during a recent "In Contact with Maduro" show, that currently Venezuela sends 700,000 barrels of oil per day to China.

BUSINESS NEWS

Enel Green Power Investing $600 Mn in Brazil Solar Farms

Enel Green Power plans to invest $600 million in new solar farms in Brazil, Bloomberg News reported Tuesday. The unit of Italian utility Enel won contracts last week to sell power from three solar farms in northern Brazil, making it the country's biggest supplier of electricity generated from sunlight, according to the report. Plans include constructing the Horizonte MP project with 103 megawatts of capacity, the 158-megawatt Lapa solar farm and the 292-megawatt Nova Olinda facility. The contracts are scheduled for completion by 2017. Brazil is planning to offer another 1,000 MW solar tender in November. Worldwide last year, Enel Green Power had a generation capacity equal to approximately 32 billion kWh from water, sun, wind and the Earth's heat, or enough to meet the energy needs of more than 11 million households, according to the company.

The company is Brazil's largest provider of sunlight-generated power.

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global economy, Mexico continues to be a safe bet."

Alfredo Coutiño, Director for Latin America at Moody's Analytics: "The continuous revisions of Mexico's growth estimates have to do with optimistic expectations generated by the government and the central bank and also with changing conditions in the external environment. Optimistic official expectations were the result of an underestimation of the economy's structural weakness and overestimation of new reforms. In fact, the government's diagnosis does not recognize that the economy continues to suffer from the same structural obstacles and inefficiencies from the past. But also, they did believe that the approval of reforms by itself was going to be sufficient to put the economy on a strong growth path. It seems that they initially forgot that structural changes take time to increase the economy's production capacity. In addition, the global economy, and particularly the U.S. recovery has been slower than expected. A prolonged recession in Europe and the recent deceleration in China have complicated the outlook for Mexico. Since Mexican authorities initially viewed the fall in oil prices as a temporary event, they rejected implementation of preventive fiscal adjustments until reality forced them to cut the federal budget. Unfortunately, the fiscal reform in place did not reduce or eliminate dependence on oil revenues. Low oil prices are the new norm, and the government needs to re-learn how to live with austerity. Otherwise, fiscal indiscipline will again put macroeconomic stability at risk. Certainly, Mexico is one step ahead of other Latin American countries since it has approved and put in place most of the 11 structural reforms originally proposed. This will help the economy in the medium and long term. However, the economic impact will be lower than what the government expected, since most of the reforms were washed out."

Roberto Salinas León, president of the Mexico Business Forum: "It seems that lowering forecasts for economic growth in Mexico has become a 'new normal.' The significant drop in global oil prices has hurt federal revenues, and the expectation of monetary normalization in the U.S. economy has also occasioned significant stress, particularly in the foreign exchange market, where the peso-dollar parity has experienced a sharp over-shooting. But such conventional explanations, while appealing, can also become sources of complacency. This is the third year that growth estimates have seen a downward revision, which, independent of a complicated external environment, should lead policymakers to focus attention on other factors. The government needs to work on improving conditions for doing business, especially at state and local levels, where regulatory largess and arbitrariness is rampant, and chokes small and medium size enterprises with huge and very damaging transaction costs. Wholesale regulatory simplification remains a key item in the policy agenda. The new program of structural reforms, while welcome, will take time to yield the expected dividend—and will depend very crucially on a transparent process of implementation, especially on ensuring that investments are approved in accordance with the letter of the law, and not due to corruption and cronyism. The financial authorities would do well to revisit the hugely complicated and anti-competitive tax structure, which has significantly hurt everyday consumption, and undertake a real reform that puts simplicity and generality as its top priorities. Indeed, it is a telling feature of policy debate that the focus is on how low estimates will drop for economic growth, or how high we expect the exchange-rate parity to reach, whereas a more constructive debate would be on how to systematically secure new productive investment, and with it, much higher rates of economic growth over the long-term."

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