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FEATURED Q&A

Will Costa Rica's New Tax Plan Avert a Fiscal Meltdown?



Costa Rican President Carlos Alvarado pushed for the tax reform in an effort to curb the country's fiscal deficit. // File Photo: Costa Rican Government.

Q Costa Rican President Carlos Alvarado earlier this month signed his tax reform into law in a move that seeks to contain the country's growing fiscal deficit, which reached 6.2 percent of GDP last year. What are the most important components of the new tax legislation, and is it enough to pull Costa Rica out of its financial troubles? Which sectors or members of Costa Rican society will the law affect the most? What is the outlook for the country's key economic indicators in the coming year?

A Edna Camacho, economic coordinator in the administration of Costa Rican President Carlos Alvarado: "The tax law has four principal components: 1.) a value-added tax instead of a sales tax and the inclusion of all services; 2.) several changes to the income tax, notably the adoption of a global-income system to substitute the scheduler tax system, as well as the generalization of the tax on income and capital gains by 15 percent, with some exceptions; 3.) the adjustment of several benefits received by public employees; and 4.) the establishment of a fiscal rule that contains current expenditure when the debt reaches certain thresholds, as well as the flexibility of a series of expenditure obligations in specific laws. The tax reform adjustment will amount to 3.5 percent of GDP in 2019-2022, which will eliminate the primary deficit in the year 2022 and bring the financial deficit to 4 percent of GDP that same year. This adjustment will allow the government's debt to stabilize in the medium term, which is the reform's main goal. Moreover, we will continue with a broader agenda in 2019 that includes external budget support loans from multilateral agencies and Eurobond place-

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TODAY'S NEWS

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Colombia's Duque Unveils Anti- Drug Strategy

Colombian President Iván Duque announced the new policy, which centers on prevention and lowering consumption. The country's cocaine production hit a record level last year.

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ECONOMIC

Argentina's Austerity Program Yielding Results: IMF Spokesman

President Mauricio Macri's economic plan, which includes budget cuts, is producing results, the IMF spokesman said.

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POLITICAL

Nicaraguan Lawmakers Strip NGOs of Legal Status

Nicaragua's National Assembly stripped five more nongovernmental organizations that have been critical of President Daniel Ortega's government of their legal status.

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Ortega // File Photo: Nicaraguan Government.

POLITICAL NEWS

Nicaragua's Assembly Blocks NGOs From Operating

Nicaragua's National Assembly on Thursday blocked five nongovernmental organizations that have been critical of President Daniel Ortega from formally operating in the Central American country, Reuters reported. Lawmakers had previously banned five others, including a prominent human rights group, from operating.

“Anyone who dares to disagree with the Ortega-Murillo regime continues to be repressed.”

— José Miguel Vivanco

The assembly, which is controlled by Ortega's allies, stripped the organizations of their legal status, accusing them of being part of a plot to overthrow the government. However, international human rights groups say the lawmakers' move amounted to retaliation against the nongovernmental organizations for calling attention to human rights violations during eight months of anti-government protests. In the violent protests, at least 322 people have been killed, and more than 500 have been jailed, according to the Nicaraguan Center for Human Rights, or Cenidh. The organization was among those that lawmakers banned from operating on Wednesday. Cenidh's president, Vilma Núñez, vowed that the organization will fight to carry on its work. “We are not going away,” Núñez told Reuters in a telephone interview. “I will use all the energy I have left to defend these offices.” The U.S. State Department said the legislators' decision showed the contempt that Ortega and his wife, Vice President Rosario Murillo, have for human rights in Nicaragua. “Their efforts to harass, threaten and repress independent media will not succeed in hiding the systematic oppression of the Nicaraguan

people,” said State Department spokesman Robert Palladino. José Miguel Vivanco, the executive director of the Americas division of Human Rights Watch, called the lawmakers' ban of the organizations a serious attack on the country's civil society. “Anyone who dares to disagree with the Ortega-Murillo regime continues to be repressed,” Vivanco said in a posting on Twitter.

Colombia's Duque Unveils New Anti-Drug Strategy

Colombian President Iván Duque on Thursday announced his government's new anti-drug plan, which centers on prevention and driving down consumption, El Tiempo reported. “The integral policy seeks to reduce the availability of drugs in the country and for this it requires that we face illicit crops with integrated measures that include substitution, alternative development, payment for environmental services, eradication,” Duque said after a meeting with the country's national drug council, which approved the new strategy. “It's the first time



Duque // File Photo: Colombian Government.

we're seeing a policy of this nature,” he added. The plan, dubbed “Ruta Futuro,” will approach Colombia's increasing drug production and consumption in a holistic manner, including from educational prevention campaigns to a public health focus and the fight against crime, Duque said, El Heraldo reported. The plan will also seek to dismantle the organization of drug-trafficking groups by attacking their logistic chains and strengthening mechanisms to target money laundering networks. Earlier this year, Duque signed a decree that outlawed

NEWS BRIEFS

Venezuela's El Nacional to Become Online-Only Publication

Venezuela's El Nacional newspaper will run its final print edition today after 75 years of publishing, editors said Thursday, the Associated Press reported. El Nacional is the country's last anti-government newspaper that was circulated on a national level. Amid shortages of paper and incessant government pressure, El Nacional will become an exclusively online publication. “We've endured longer than others,” Miguel Otero, the newspaper's president and CEO, told Spanish daily ABC. “But in the end, we could not persist.”

Bukele Maintains Wide Lead Ahead of El Salvador Presidential Election

Nayib Bukele, a former mayor of San Salvador, is maintaining his wide lead ahead of El Salvador's Feb. 3 presidential election, according to a poll released Thursday, Reuters reported. Bukele, of the right-wing Great Alliance for National Unity party, or GANA, has a 24-point lead over his nearest rival, according to the poll by Central American University. Bukele, 37, has seen his support grow amid his criticism of traditional politicians.

Chile Unveils Chinese-Made Electric Buses

Chilean President Sebastián Piñera on Thursday officially presented the country's first 100 electric buses, which will begin operations on Saturday, CNN Chile reported. The Chinese fleet of buses, which have 80 seats each and offer Wi-Fi connection, air conditioning and individual USB ports, will make approximately 240,000 trips weekly and serve 12 municipalities in Santiago. The buses do not emit carbon dioxide or other greenhouse gases. One-hundred more electric buses are expected to arrive in January.

the possession of even small amounts of marijuana and cocaine in public, allowing authorities to confiscate drugs and impose fines. Colombia has seen its cocaine production soar recently, hitting record levels last year. Production in the Andean country grew roughly 31 percent year-on-year in 2017 to approximately 1,400 metric tons of cocaine, much of which ends up in the United States, according to U.N. statistics, BBC News reported. [Editor's note: See related [Q&A](#) in the Oct. 17 issue of the Advisor.]

ECONOMIC NEWS

Argentina's Austerity Plan Yielding Results: IMF Spokesman

Argentina's economic plan, which includes budget cuts, is producing results, an International Monetary Fund spokesman said Thursday, Agence France-Presse reported. The spokesman, Gerry Rice, added that Argentina now must continue with reforms in order to foster economic growth. The IMF's board is to meet next Wednesday in order to vote on releasing an additional \$7.6 billion from its \$56 billion loan deal with Argentina. [Editor's note: See related [Q&A](#) in the Nov. 30 issue of the Advisor.]

BUSINESS NEWS

Nissan Files Claim in Brazil Court Against Ghosn's Sister

Nissan has filed a claim in a Brazilian court against the sister of Renault's chief executive and former Nissan CEO, Carlos Ghosn, escalating a legal dispute between the Japanese automaker and the Brazil-born businessman, Reuters reported Thursday. Ghosn was arrested in November and indicted this week in Japan over allegations that he underreported his

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ments, regulation of public employment, a review of the structure of public institutions and the rationalization of exemptions. According to a study by the University of Costa Rica, the reform is progressive: 20 percent of the lower-income population will allocate 4.19 percent to pay new taxes while 20 percent of high-income earners will contribute 6.17 percent of their income."

A **Ottón Solís, Costa Rica representative at the Central American Bank for Economic Integration and founding member of the ruling Citizen's Action Party (PAC):** "Important components of the bill include that regulations on both indirect and direct taxes are substantially upgraded and government workers' benefits are trimmed, and the law sets out a fiscal rule aimed at curbing non-capital expenditure. The reform moves the country from a sales tax to a value-added tax system, and it broadens the tax base to include services. The changes also increase income taxes on salaries at the high end of the scale and on financial investments. The measure also introduces a capital gains tax. This is the first time in Costa Rica's history that a law reduces government workers' benefits instead of increasing them. No public employee will face a wage cut, but the rate of increase of take-home pay will definitely decrease. The fiscal rule imposes increasingly severe limits on current government expenditure when the public debt-GDP ratio exceeds certain pre-established limits. The impact of

compensation. Nissan has also accused him of using company funds to pay for personal expenses. The court document showed Nissan as the claimant and Claudine Bichara de Oliveira as the defendant and mentioned "unjust enrichment." Further details were not immediately available to Reuters. The company told the wire service that the claim was "not specifically a request for judgment against Oliveira," but "a notice to protect Nissan's interest

the bill on the fiscal deficit will be gradual, attaining its full bearing in three years, when it should slash it by half. By then, the primary deficit will have been eliminated. More than 80 percent of the forthcoming revenue will burden the top 20 percent income earners, but the bill will also have some impact on

“ This is the first time in Costa Rica's history that a law reduces government workers' benefits instead of increasing them.”

— Ottón Solís

all consumers and on public-sector workers. The paradox of Costa Rica is that, setting aside the fiscal issue, the country's economic situation is robust. High-tech foreign investment maintains its vigorous pace, exports keep increasing, inflation remains low, foreign reserves are 67 percent above the minimum level recommended by the IMF and GDP growth is higher than the average for Latin America. The government has announced an aggressive public investment program to be fully financed, above all by the Central American Bank for Economic Integration, while the IDB and the World Bank have expressed willingness to negotiate a macro-loan that would be used to exchange internal for external debt and to lengthen maturities."

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from the statute of limitation" of another three-year-old legal document. Neither Oliveira nor a representative for the Ghosn family responded to Reuters' request for comment. In a written statement on Thursday, Renault's board said Ghosn would remain as chairman and chief executive of the France-based automaker after an internal probe concluded there was no financial wrongdoing in France, The Wall Street Journal reported.

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A **Francisco Chacón, former Costa Rican congressman for the opposition National Liberation Party (PLN) and former minister of communications:** “The approval of the tax reform is an important yet insufficient step toward the country’s public financial health. There are four elements to the reform: 1.) replacing the sales tax with a value-added tax and extending it to services; 2.) increasing income tax on higher wages and pensions and introducing a tax on capital gains and the principle of global income; 3.) limiting the payment of annuities and

“**The approval of the tax reform is an important yet insufficient step toward the country’s public financial health.**”

– Francisco Chacón

other recognitions and capping severance payments; and 4.) creating a fiscal rule to pin government expenditure to GDP growth and debt level. The main effect of the reform would be sending a message of relative optimism to financial markets and allowing the government to have access to the debt in better terms than the current ones, thereby obtaining temporary relief. However, the first reaction of ratings agencies such as Moody’s was not positive, which surprised many. The outlook for economic growth and jobs in 2019 is not promising, either. The law will affect all sectors, but especially the services sector, whose importance has grown in the last decade. The immediate next steps should be an integral reform to the public

employment regime and the rationalization of the public sector, which would involve the closing of obsolete and/or redundant institutions, together with an ambitious agenda of economic reactivation. There is awareness of this need in the government and among the opposition. The challenge will be to find a way to make that happen without provoking political disruptions in an already tense environment.”

A **Alberto Trejos, professor of economics at INCAE Business School:** “The law is a very significant first step to pull

Costa Rica out of fiscal difficulties, but it still requires some other steps, particularly better regulation of the terms of public-sector employment, as the government has already suggested in a second law that it is expected to propose in early 2019. The most important component of the law is a revision of the sales tax, both to transform it into a VAT and to significantly reduce the list of exempt goods and services. It also increases the rate at the top bracket of the wage tax and makes other changes to the non-wage income tax. The reform in itself is quite progressive, so most of the effects will fall, as they should, on the wealthiest 25 percent of the population. Next year still looks like a hard year (with moderate growth, rising interest rates and a weakening currency), but it would have gone from hard to chaotic had the reform not been passed. The president is to be congratulated not only for responsibility and firmness in attempting what his predecessor consistently put off, but also for the political dexterity at getting this passed in record time.”

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 fretrial@thedialogue.org

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