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FEATURED Q&A

What Does 2019 Hold for Economies in Latin America?



Argentina, where President Mauricio Macri's government faced a currency crisis last year, is likely to remain in recession, Richard Francis of Fitch Ratings says below. // File Photo: Argentine Government.

Q Over the past year, major economic headlines in Latin America included a currency crisis in Argentina, continued deterioration and hyperinflation in Venezuela and the beginnings of Brazil's emergence from its worst recession on record.

What does 2019 hold in store for Latin American economies? Which countries will perform well economically, and which will struggle, and why? What are the main domestic factors, and the main external factors, that will affect the region's economies in the coming year?

A Richard Francis, director of Latin American sovereigns at Fitch Ratings: "Fitch expects regional GDP, excluding Venezuela, to grow by 2.1 percent in 2019 from an estimated 1.5 percent in 2018. However, downside risks persist from the external backdrop with tightening global financing conditions, increased trade tensions, economic slowdown in China, and a possible sharper fall in commodity prices. We expect Argentina, Nicaragua and Venezuela to remain in recession next year. Economic growth could slow in Ecuador, as well. However, Fitch expects some moderate acceleration in many of the key economies in the region, including Brazil, Colombia and Peru. Despite the improved prospects for the region overall and many of the key economies in the region, Fitch expects most economies to continue to grow below their potential. Sovereign ratings pressures continue to build for the region as well. Fitch currently has six negative outlooks for ratings in Latin America and the Caribbean and only one positive outlook. 2019 looks to be another challenging year for the region overall. Elections in Argentina, Uruguay and El Salvador will prove pivotal for each of the next

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TODAY'S NEWS

POLITICAL

Castro Blasts U.S. for 'Confrontation' With Cuba

Former Cuban President Raúl Castro marked the 60th anniversary of the Cuban revolution with a speech blasting the United States for returning to a path of confrontation with the island nation.

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ECONOMIC

Argentina's Energy Secretary Resigns

Javier Iguacel stepped down as Argentina's energy secretary. No reason was given for his departure, but the move followed news that the government plans to boost electricity prices.

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POLITICAL

Bolsonaro Takes Office as Brazil's President

Far-right former army captain Jair Bolsonaro was inaugurated Tuesday as Brazil's president. In his inaugural address, he vowed a return to conservative values and blasted the leftist Workers' Party for the country's ills.

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Bolsonaro // Photo: Brazilian Government.

POLITICAL NEWS

Bolsonaro Takes Office as Brazil's New President

Far-right former army captain Jair Bolsonaro took office Tuesday as Brazil's president, vowing to move the country away from socialism and blasting the leftist Workers' Party for the country's ills, including corruption and an economic crisis. "We have a unique opportunity before us to reconstruct our country and rescue the hope of our compatriots," Bolsonaro said in a brief speech in the lower house of the country's Congress, *The Guardian* reported. "We are going to unite the people, rescue the family, respect religions and our Judeo-Christian tradition," he said. Bolsonaro also vowed to "conserve our values." Additionally, Bolsonaro called for Brazil's "liberation from socialism, inverted values, the bloated state and political correctness." In his inaugural address, Bolsonaro thanked God for his surviving a near-fatal stabbing during a campaign event in September. For the inaugural events, Bolsonaro had requested increased security, the Associated Press reported. Some 3,000 police officers patrolled the events in Brasília, and the military deployed tanks and fighter jets and had anti-aircraft missiles prepared. Officials required journalists to arrive seven hours in advance of the ceremonies, and some complained on Twitter that officials had confiscated food they had brought to eat during the wait. Bolsonaro and his wife Michelle arrived at Brazil's Congress for the inauguration in an open-topped Rolls Royce. Bolsonaro's vice president, Hamilton Mourão, was also sworn in during the ceremonies. Bolsonaro, who has vowed to crack down on criminals, also promised on Tuesday to make it easier for Brazilians to own guns. "Good citizens deserve the means to defend themselves," he said, *The Guardian* reported. Bolsonaro has pledged to protect police officers who kill criminals and called on lawmakers to provide "legal support" for police to carry out their work. "They deserve it and must be respected," he said. The new president has had

the support of Brazil's agribusiness sector, and on Tuesday he said the sector will see from the government an "increase in efficiency" along with "less bureaucracy." Environmental activists have been concerned about Bolsonaro's plans to streamline the environmental licensing process. Indigenous activists have also raised concerns that appeared to be justified in one of Bolsonaro's first official acts as president. Just hours after taking office, he stripped the power of the National Indian Foundation, or FUNAI, to demarcate indigenous reserves and gave it to the Ministry of Agriculture, *Folha de S.Paulo* reported. Also during his inaugural address, Bolsonaro blasted the left-wing Workers' Party, saying it is responsible for the country's problems. "Irresponsibility conducted us to the worst ethical, moral and economic crisis in our history," he said, *The Guardian* reported. Following his inaugural address, Bolsonaro drew praise from U.S. President Donald Trump. "Congratulations to President @JairBolsonaro who just made a great inauguration speech - the U.S.A. is with you!" Trump said in a tweet. A posting on Bolsonaro's Twitter account replied to Trump, saying, "Dear Mr. President @realDonaldTrump, I truly appreciate your words of encouragement. Together, under God's protection, we shall bring prosperity and progress to our people."

Castro Blasts U.S. for 'Confrontation' With Cuba

Former Cuban President Raúl Castro marked the 60th anniversary of the Cuban Revolution on Tuesday with a speech blasting the United States for returning to confrontation with the island nation and intervening in Latin America, *Reuters* reported. "Once again, the North American government is taking the path of confrontation with Cuba," Castro said in Santiago de Cuba, where his late brother Fidel declared victory in 1959. Castro said "high-ranking officials" of U.S. President Donald Trump's administration are "trying to blame Cuba for all the region's ills," adding that they instead stem from "ruthless neoliberal policies."

NEWS BRIEFS

Mexican Mayor Killed Just After Being Sworn-in

Shortly after being sworn-in Tuesday, Alejandro Aparicio Santiago, the new mayor of Tlaxiaco, a city of 17,000 in the Mexican state of Oaxaca, was gunned down on his way to a meeting at city hall, the Associated Press reported. Four other people were wounded in the attack. Aparicio initially was taken to a hospital, but he died there later. Authorities have at least one suspect in custody.

Former Argentine Foreign Minister Timerman Dies of Cancer at 65

Former Argentine Foreign Minister Héctor Timerman, who had been battling cancer, died Sunday at age 65, his brother Javier said in a posting on Twitter. Timerman was the country's foreign minister from 2010 to 2015 during the government of then-President Cristina Fernández de Kirchner. In late 2017, he was placed under house arrest amid accusations that he participated in a cover-up of Iran's alleged role in the 1994 bombing of a Jewish center in Buenos Aires, which left 85 people dead. He was released from house arrest in January 2018 and had denied wrongdoing.

Pompeo Meets With Peru's Foreign Minister

U.S. Secretary of State Mike Pompeo met Tuesday with Peru's Foreign Minister, Nestor Cerda, to discuss tensions over migration from Venezuela, the Associated Press reported. A spokesman said Pompeo thanked Peru for taking in hundreds of thousands of migrants from Venezuela fleeing hyperinflation and shortages of food and medicine. Pompeo also conveyed "the need to increase pressure" on Venezuelan President Nicolás Maduro to improve conditions. Pompeo and Cerda met in Brasília, where both were attending the inauguration of Brazilian president Jair Bolsonaro.

ECONOMIC NEWS

Argentina's Energy Secretary Resigns

Argentine Energy Secretary Javier Iguacel resigned last Friday, Reuters reported, citing a government statement. Although the statement did not cite a reason for his departure, the move came within a day of leaked news that the administration of conservative President Mauricio Macri plans to increase electricity



Iguacel // File Photo: Argentine Government.

prices by an average 35 percent this year, according to the report. The government has named Gustavo Lopetegui, currently a presidential advisor with close ties to Macri's cabinet chief Marcos Peña, as the new energy secretary. In a previous job, Lopetegui was in charge of coordinating ministries that included the Energy Ministry, which was headed by former Shell CEO Juan José Aranguren, the Buenos Aires Herald reported. The planned energy price increases are linked to a massive standby financing deal that Macri signed with the International Monetary Fund last year.

BUSINESS NEWS

Peru's Att'y General Dismisses Odebrecht Investigators

Street protests broke out in four cities across Peru after Attorney General Pedro Chávary announced late Monday he had dismissed

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administration's policy orientation as well as their ratings trajectory (both Argentina and Uruguay have negative outlooks). Additionally, there will be new governments in the two largest countries in the region, Mexico and Brazil. In Mexico policy uncertainty has increased, while in Brazil a market-friendly agenda has lifted investor sentiment, but a fragmented Congress could block passage of difficult reforms."

A Joydeep Mukherji, managing director of Latin American Sovereign Ratings at Standard & Poor's in New York: "Decelerating world GDP growth, rising U.S. interest rates and concerns about new barriers to cross-border trade will set the background for economic trends in Latin America in 2019. The world economy is projected to grow around 3.7 percent in 2019, similar to its pace in 2018. Emerging market economies are likely to grow just under 5 percent, more than double the pace of growth in advanced economies (around 2.1 percent). The Latin America and Caribbean region (excluding Venezuela) is likely to grow only 2.2 percent in 2019, slower once again than emerging Asia and Sub-Saharan Africa. Panama is likely to be the fastest growing country in the region, expanding around 5 percent, likely followed by Peru at just below 4 percent. We expect that Venezuela and

a team investigating a massive corruption scandal related to construction firm Odebrecht, the Associated Press reported. Chávary said he removed the team's chief prosecutor, José Domingo Pérez Gómez, because he had questioned his election as attorney general, as well as a team coordinator, Rafael Vela, who had supported Pérez. Pérez had accused Chávary of taking steps to cover up investigations into several former heads of state. President Martín Vizcarra denounced the move. "I express my strong rejection of the removal of the prosecutors in charge of the most important corruption investigation cases,"

Argentina are likely to again be in recession in 2019. The modest pace of economic expansion in much of Latin America largely reflects structural weaknesses, especially poor productivity. In general, the region continues to have low private and public sector investment. For example, investment in infrastructure has been around 2

“In general, the region continues to have low private and public sector investment.”

— Joydeep Mukherji

percent of GDP in Brazil, and slightly lower in Mexico, compared with just below 5 percent in faster-growing India and over 8 percent in China. Poor infrastructure, along with shortcomings in the education system, contribute to low productivity and weak external competitiveness. As a result, too much GDP growth in Latin America depends on public sector spending and the non-tradable sector of the economy. In contrast, private sector spending (including for investment) and the tradable sector of the economy play a comparatively bigger role in driving GDP growth in many Asian countries."

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he said. "The head-on fight against corruption and impunity is a priority of this government," Vizcarra said on Twitter. The dismissal came just weeks before executives at Odebrecht, which has admitted to distributing \$29 million in bribes in Peru over more than a decade, were set to reveal evidence against powerful former Peruvian officials. Anti-corruption advocates fear the Brazilian company will now back off plans to testify because it is not going to have guarantees of what had been agreed to with the dismissed prosecutors, according to the report. [Editor's note: See [Q&A](#) on corruption in Peru in the Oct. 24 issue of the Advisor.]

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A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "After an unexpected economic moderation in 2018, Latin America will report some economic improvement in 2019. Recovery in investment, together with improvement in the terms of trade, will be the drivers of growth. The incipient recovery that started in 2017 was interrupted in 2018, with the region's economy dragged down by the prolonged recession in Venezuela and the contraction in Argentina. In 2019, the region will

“After an unexpected economic moderation in 2018, Latin America will report some economic improvement in 2019.”

— Alfredo Coutiño

gain some momentum, benefiting from a more general improvement, with growth trending up along the year. The expansion will be driven by further advances in Brazil, Colombia, Peru and Uruguay, followed by a normalization in Chile. Mexico will report moderation due mainly to the typical economic deceleration in the first year of a new government. Argentina and Venezuela are expected to report less negative rates. The region's performance will be led by South America, followed by Central America which is highly dependent on the U.S. market. Further advance in structural reforms in Chile, Brazil, Peru and Colombia, countries ruled by more pro-market governments, will give a push to fixed investment and production capacity. Mexico and Venezuela will be the

only two countries where the investment ratio will adjust downward in 2019. Hence, Latin America will advance toward growth of 1.4 percent in 2019, almost twice the 0.8 percent reported in 2018. External risks lie in a potential trade war between the United States and China, higher U.S. interest rates, fears of recession in the United States with a deeper correction in stocks and a fall in commodity prices. On the domestic front, Brazil's challenge is to quickly correct the fiscal imbalance and keep the economy growing. Mexico's risk is the uncertainty and doubts about the way the new government will run politics and economics given its strong populist bent.”

A **Marcos Casarin, head of Latin American macro services at Oxford Economics in London:** "Our expectation that Latin America's GDP growth will nearly double to 1.7 percent in 2019 is based on the recovery in Brazil, which should grow faster than 2 percent for the first time since 2013. But it's not all good news. We expect Ecuador and Costa Rica to face fiscal challenges, Chile to suffer another sovereign rating downgrade and Mexico to keep a very tight monetary stance, despite feeble growth as risk premiums on Mexican assets remain elevated; this will leave Mexico with relatively high real interest rates. We also expect Brazil to grow faster than Mexico for the first time since 2013, as Bolsonaro's government passes a pension reform, further boosting the positive momentum in Latin America's largest economy. Perhaps surprisingly, we expect Argentina to stay on track with its IMF program and Venezuela to keep making payments on the PDVSA 2020 bond in a bid to avoid losing Citgo.”

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