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FEATURED Q&A

Can Carrasquilla Find Ways to Fund Colombia's Budget?



Colombian Finance Minister Alberto Carrasquilla will need to find new ways to address the Andean nation's fiscal gap, Daniel Velandia says below. // File Photo: Colombian Government.

Q Colombia's government is considering the sale of various state assets, including as much as an 8.9 percent stake in state oil company Ecopetrol, to fund budgeted government expenditures this year, Finance Minister Alberto Carrasquilla said last month. Is the government likely to sell some of its Ecopetrol shares, and what implications would this have for the company? To what extent would the sale plug the hole in the budget? What are the reasons behind Colombia's budget problems, and does President Iván Duque's administration have the right plans to fix them?

A Edwin Palma Egea, president of the national board of directors of the Oil Industry Workers' Union (USO): "Our labor union rejects the government's announcement on selling an Ecopetrol share package and will do all that is necessary to prevent it. Ecopetrol is Colombians' leading company. It still retains a state-majority ownership. Giving the private sector a percentage of its shares would be a blow to one of the few remaining assets of the nation. With the sale, the government aims to collect approximately 10 trillion Colombian pesos (\$3.22 billion), but the state itself would cause the state to stop receiving around 700 billion pesos a year in income, as well as the lost ownership of part of the company. It's an absurd business deal. We have issued a call for all citizen and political opposition groups to join us in this campaign to defend Ecopetrol and public property more broadly. When this government was the opposition party, it opposed the sale of Isagen, but now encourages the sale of Ecopetrol, thereby demonstrating its opportunism. The announcement is part of the government's need to

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TODAY'S NEWS

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U.S.: Immigration Impasse Drags On

U.S. President Donald Trump and congressional negotiators sent conflicting signals over the weekend about whether a deal to fund border security and avoid another government shutdown is possible before a Friday deadline.

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Heavy Rains Take Human, Economic Toll in the Andes

At least five people have died in Peru and nine in Chile as a result of floods and mudslides. Chilean President Sebastián Piñera has declared a state of catastrophe.

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POLITICAL

Deadly Protests in Haiti Continue

At least four people have been killed and dozens of police injured as protests in the capital Port-au-Prince and other cities across Haiti stretched into their fourth day. Opposition demonstrators accuse President Jovenel Moïse, who took office in 2017, and other officials of corruption.

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Moïse // File Photo: VOA Creole Service.

POLITICAL NEWS

Deadly Protests in Haiti Continue

At least four people have been killed and dozens injured as protests in the capital Port-au-Prince and other cities across Haiti stretched into their fourth day, BBC News reported Sunday. Opposition demonstrators accuse President Jovenel Moïse, who took office in 2017, and other officials of corruption. Mayors in several cities have canceled carnival festivities scheduled in early March over the unrest. The latest protests broke out after a court report alleged that officials and former ministers had misappropriated development loans made by Venezuela to Haiti after 2008, suggesting that President Moïse had been involved in irregularities. Protesters stoned the Haitian president's residence on Saturday, the Associated Press reported. About a dozen police officers were injured during massive protests that turned into riots and shootings early Friday. Rising inflation rates have also been fueling the protests, according to the report. Haitians have struggled with double-digit inflation for years, along with a sharp drop in the value of the gourde, the national currency, which has fallen 20 percent against the U.S. dollar over the past six months.

Immigration Impasse Could Shut Down U.S. Gov't Again

U.S. President Donald Trump and congressional negotiators sent conflicting signals over the weekend about whether a deal to fund border security and avoid another government shutdown is possible before a Friday deadline, The Hill reported. Negotiations have collapsed over Democrats' insistence on limiting the number of unauthorized immigrants who can be detained by the U.S. Immigration and Customs Enforcement agency, making it unlikely that lawmakers will be able to finalize an agreement that had been expected as soon as today, The

Washington Post reported Sunday. The latest government shutdown, which started ahead of Christmas and extended into most of January, could have cost the United States more than \$10 billion in economic activity, according to media reports. The White House wouldn't rule out a renewed partial government shutdown if an agreement isn't reached. Despite the political discord in Washington, some five million Latin Americans who are planning to move in the next 12 months say they are moving to the United States, according to a Gallup Poll survey released Friday, the New York Post reported, a survey President Trump touted as justification for tighter immigration laws and more border security. California Gov. Gavin Newsom will announce plans today to pull back all members of the National Guard who have been deployed to the border with Mexico, saying the state would not be part of the Trump administration's "manufactured crisis," NBC News reported.

ECONOMIC NEWS

Heavy Rains Take Human, Economic Toll in the Andes

Peruvian President Martín Vizcarra called for national unity Sunday to help citizens recover as heavy rains took a large human and economic toll across a broad swath of the Andes, state news agency Andina reported. At least five people died and dozens of family homes and stores were crushed by mudslides in the municipality of Río Grande, in the Arequipa region. Meanwhile, Peru's environmental watchdog said on Sunday it was investigating a tailings spill from a unit of Southern Copper into a river in an area that has been inundated by heavy rains, Reuters reported. The alarms follow the deaths of hundreds of people in Brazil last month when a mining dam burst there. The Agency of Evaluation and Environmental Enforcement (OEFA) said the spill occurred in the waste deposit area of the Cuajone mining operations of Southern Copper, located in the Moquegua region more than 500 miles

NEWS BRIEFS

Radio Journalist Killed in Mexico's Tabasco State

A radio news host in Mexico's Tabasco State was shot dead on Saturday while eating breakfast at a local restaurant, Reuters reported. The killing of Jesús Eugenio Ramos marks the second journalist murder this year. Tabasco Governor Adán Augusto López pledged an investigation into the crime. "He was a prestigious reporter ... a program with a long history in Zapata," he told reporters. Ramos hosted the news program "Our Region Today" on a local station.

Dominican Tariffs on Mobile Phones to Rise Less Than Expected

The Dominican Republic's customs office has decided to increase import taxes on mobile phones to 8 percent, a less steep rise than previously announced, Listín Diario reported Sunday. The Caribbean nation's General Directorate of Customs (DGA) had planned to increase the tax on mobile phones to 20 percent from the current rate of 3 percent. Business groups had pushed back against the plan, arguing it would restrict customers' ability to acquire the devices, ultimately cutting into the government's efforts to close the digital divide and promote social inclusion.

AMLO Puts New Airport Under Military Control

Mexican President Andrés Manuel López Obrador said Sunday that a newly expanded civilian airport under construction in Santa Lucía will be administered by the Defense Ministry and that the rent will be transferred to the army in order to strengthen its finances, Animal Político reported. Construction to convert the military base into a civilian airport follows AMLO's controversial move to scrap a new \$13 billion airport for Mexico City begun under the previous administration.

southeast of Lima. Investigators said a “flow of a greenish solution” that had been leaking into the Torata River since Friday has stopped. “The environmental emergency occurred due to extreme rainfall throughout the southern zone of the country and, as a result, they activated the contingency plan of the mining unit,” OEFA said in a release. Last year Peru suffered its worst flooding in 20 years. Meanwhile, the president of Chile has officially declared a state of catastrophe following a major flood that killed at least nine people across the northern part of the country. President Sebastián Piñera pledged 20 billion pesos (\$30 million) from the government to support those affected, El Mercurio reported.

BUSINESS NEWS

Russian Bank Denies New PDVSA Accounts for Oil Payments

Russia’s Gazprombank on Sunday denied that Venezuelan state oil company PDVSA had recently opened accounts there, a day after Reuters reported that PDVSA was telling customers of its joint ventures to deposit oil sales proceeds into a new account that had been created at the Russian state-owned lender. As



Quevedo // File Photo: Venezuelan Government.

PDVSA struggles to find buyers due to new U.S. sanctions aimed at blocking Venezuelan President Nicolás Maduro’s access to revenue from crude exports, officials at the oil company have reportedly been circulating information on new payment methods, including the Russian bank account. “We would like to make formal

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fill the budget gap that resulted from tax reforms that have exempted large companies from taxes, and they believe the only way to overcome this situation is to sell strategic state assets such as Ecopetrol. For this reason, we reject this initiative, which affects not just workers, but all citizens. The labor union hopes to begin a round of political and judicial action this month, as well as mobilization efforts, to defend Ecopetrol.”

A Daniel Velandia, director and chief economist for research at Credicorp Capital in Bogotá:
“The option of selling the stake in Ecopetrol is interesting under the current scenario of fiscal challenges and increasing spending needs, especially in social programs. That said, should Duque endorse the proposal, we think that the public debate will be tough, as the government must avoid using the potential proceeds (around 1.1 percent of GDP at current share prices) to fund current expenditures. Minister Carrasquilla has already suggested that the resources would indeed be directed to foster capital investment, but the truth is that the path of

your knowledge of new banking instructions to make payments in U.S. dollars or euros,” wrote PDVSA’s finance vice president, Fernando de Quintal, in a letter dated Feb. 8 to the unit that supervises its joint ventures, Reuters reported. The decision came as joint ventures operating in the South American country, including with U.S.-based Chevron and France’s Total, began withdrawing staff from Caracas. PDVSA has also given a deadline for the joint venture partners to formally decide whether they will continue with their Venezuela projects, Reuters reported, citing two unnamed sources. PDVSA head and Oil Minister Manuel Quevedo said Monday that Venezuela is open to barter-like payments from India in exchange for oil, without giving further details. “The relationship with India will continue, the trade will continue and we will simply expand all the trade and relationship,” Quevedo said, the wire service

fiscal consolidation remains demanding for the upcoming years, which is a risk. In our opinion, the sale of Ecopetrol may make sense if the proceeds meet the need of both cutting the structural deficit and increasing productive investment. Overall, we think that the tax reform approved last December goes in the right direction for economic activity, but it maintains the high uncertainty on

“Should Duque endorse the proposal, we think that the public debate will be tough...”

— Daniel Velandia

fiscal accounts, considering that the positive impact on fiscal income from higher taxes on individuals will be offset by lower corporate taxes from 2020 onward. Again, while it is positive for competitiveness, the room to charge additional taxes on individuals seems now more restricted, implying the need to look for other alternatives ahead.

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reported. Meanwhile, tensions between Maduro and opposition leader Juan Guaidó, who has been recognized by numerous countries as the legitimate interim president under constitutional law, have continued to build over humanitarian aid arriving in neighboring countries from the United States and elsewhere, BBC News reported. The military, which backs Maduro, last week blocked humanitarian aid in Colombia from entering Venezuela, with Maduro blasting the United States for sending food and medicine while imposing sanctions that he said hurt the Venezuelan people. “This is a macabre game, you see? They squeeze us by the neck and then make us beg for crumbs,” he said at a news conference Friday. Guaidó on Sunday vowed to open humanitarian aid routes, pushing for the military to allow the aid in and calling the blockage a crime against humanity, BBC News reported.

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We think that the measures approved to fight against evasion and avoidance may prove positive, but maybe not in the short term. Thus, options such as the sale of Ecopetrol will gain in relevance. Also, changes to public spending are required, including a pension reform.”

A Sergio Calderón Acevedo, financial expert at the Arbitration and Conciliation Center of the Bogotá Chamber of Commerce:

“Colombia’s public finances can still be straightened out, though not without huge efforts and sacrifices, after the disastrous management of former President Juan Manuel Santos and his finance minister, Mauricio Cárdenas, especially during the 2014-2018 term. Despite immense windfall income thanks to high oil prices in the first half of the decade, the previous government squandered it buying agreements in Congress and with an uncontrolled increase of the public payroll, as well as in a failed peace process. Santos and Cárdenas tripled the internal and external public debt, and this is reflected in the enormous burden that the debt service represents. Moreover, the pension gap of approximately \$17 billion a year is getting bigger and bigger, and Iván Duque’s government will have to advance the reform, a move the previous administration avoided. There is a consensus on the need for a radical change in the pension system, which will surely result in protests and discontent. But it’s inevitable. The sale of a part of Ecopetrol will not help alleviate the structural problem of public finances. In the best-case scenario, the sale of an 8.9 percent stake in Ecopetrol would bring approximately \$3.5 billion in revenue, which is barely the value the state must pay sooner or later for judicial decisions against it. The solution to Colombia’s budget problem must address various issues, especially labor informality—which has reached 50 percent in the most optimistic estimates—and tax evasion. The state tax agency (DIAN) must be modernized, and tax evasion must be de-

cisively penalized. It also requires restarting talks on broadening the VAT, an issue which was demagogically defeated by the political class in the proposed financing law at the end of 2018. Finally, we must rationalize public spending to dismantle the parallel payroll that Santos and Cárdenas created, and stop corruption, as most resources end up back in the pockets of politicians.”

A Francisco Barnier González, financial and business consultant and columnist for Portafolio:

“The sale of Ecopetrol assets, particularly an 8.9 percent stake in the company, would be justified if the resources obtained were capitalized back into Ecopetrol in order to make investments in exploration and production needed to improve output and increase reserves. As is well known, a winning structure in the oil sector lies essentially in the ability to achieve successful exploratory results and grow oil reserves. The government—the majority shareholder—should not increase the dividends in an irresponsible manner and in a way that is inconsistent with the fulfillment of these long-term objectives. The implications of this sale decision as an inadequate dividend policy would be that the company would not have sufficient resources to focus on increasing current production and to achieve a production goal consistent with the government’s resource requirements, which could actually help solve the imbalance of public finances in a real and non-transitory way beyond 2019. Moreover, the structural problem of public finances is larger, and it requires the government to take the necessary long-term measures to stabilize tax revenue by expanding the taxpayer base and formalizing the economy, to control evasion and to perform an integral process of restructuring public spending in a way that cuts costs and invests in growth.”

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter
achacon@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

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