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FEATURED Q&A

What Will it Take to Rebuild Venezuela's Tattered Economy?

Venezuela's central bank, led by Calixto Ortega, last week released dire figures about the country's economy. // File Photo: Venezuelan Central Bank.

Q **Venezuela's economy contracted 22.5 percent in the third quarter of 2018, as compared to the same period a year earlier, the central bank reported last week on its website. Inflation in the South American country reached 130,060 percent last year, according to the figures. It is the central bank's first official update of economic indicators in more than three years. Why is the Venezuelan government publishing its data now, and are the numbers credible and accurate? Do the figures say anything new about the country's dire economic situation? What would a recovery plan for the Venezuelan economy look like, and what roles could multilateral organizations such as the International Monetary Fund play in such a scenario?**

A **Asdrúbal Oliveros, director, and Guillermo Arcay, economist, both at Ecoanalítica in Caracas:** "Although the exact cause of the publication remains unclear, Venezuela's central bank, BCV, has acknowledged an economic depression of more than five years (-52 percent of GDP). This is the worst endogenously caused economic disaster in Latin American history and could become one of the world's worst if it persists. The BCV recognized that Venezuela's economic woes predate the U.S. oil sanctions. Between 2013 and 2018, they show a collapse of non-oil imports (-89 percent), investment (-87 percent), consumption (-56 percent), manufacturing (-79 percent) and construction (-95 percent). They also show that the private sector suffered most of the blow. It contracted by 40 percentage points more than the public sector. Also, private sector imports declined 94 percent since

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TODAY'S NEWS

ECONOMIC

Fitch Lowers Debt Rating on Mexico

Fitch Ratings lowered its sovereign debt rating for Mexico amid the country's underperforming economy, state oil company Pemex's troubles and concerns about trade.

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Didi Chuxing Launches Service in Colombia, Chile

The Chinese ride-hailing service has started operations through its Didi Express platform in Bogotá and Valparaíso. It also plans to offer taxi-hailing services in Colombia later this year. Didi began international operations last year.

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POLITICAL

Peru's Vizcarra Wins Confidence Vote in Congress

Peru's Congress approved a confidence measure that will allow debate on President Martín Vizcarra's anti-corruption measures to go forward.

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Vizcarra // File Photo: Peruvian Government.

ECONOMIC NEWS

Fitch Lowers Mexico Debt Rating Amid Pemex's Troubles

Fitch Ratings has lowered Mexico's sovereign debt rating, again citing state oil company Pemex's financial troubles, as well as its underperforming economy and external threats on the trade front, The Wall Street Journal reported Wednesday. The credit ratings agency downgraded Mexico's sovereign debt rating to BBB from BBB+ and changed its outlook from negative to stable. The lowered rating "reflects a combination of the increased risk to the sovereign's public finances from Pemex's deteriorating credit profile, together with ongoing weakness in the macroeconomic outlook, which is exacerbated by external threats from trade tensions, some domestic policy uncertainty and ongoing fiscal constraints," Fitch said, El Universal reported. Also on Wednesday, Moody's lowered its outlook on Mexico to negative, saying "further evidence that medium-term growth is in decline, whether as a result of policies that actively undermine growth or because of continued policy unpredictability, would put downward pressure." Mexico's finance ministry declined to comment. President Andrés Manuel López Obrador has previously blasted credit ratings agencies following downgrades earlier this year, saying "they're punishing the country for the neoliberal policies applied in the last 36 years, which were a complete failure," the Financial Times reported. Mexico's GDP shrank 0.2 percent in the first quarter, as compared to the previous quarter. [Editor's note: See related **Q&A** in the March 12 issue of the Advisor.]

POLITICAL NEWS

Peruvian President Wins Confidence Vote in Congress

Peru's Congress on Wednesday passed a confidence vote in favor of President Martín Vizcarra's government, renewing debate on Vizcarra's efforts to push through anti-corruption measures, local newspaper Perú 21 reported. The confidence vote passed on a 77-44 vote, with three abstentions. Vizcarra had asked the opposition-controlled Congress for the vote as part of his effort to win approval for anti-graft reforms that include a push to overhaul campaign financing and restrict legislators' immunity from prosecution, Reuters reported. "This

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2012, and their proportion as a share of total imports shrank to 17 percent in 2018, down from 89 percent in 1999. However, the BCV didn't release all previously hidden figures. Data on some of Maduro's key policy tools is still under the rug. By our estimates, real public sector wages were slashed by 75 percent in the past 12 months to reduce the fiscal deficit, but there is no official data on it. State purchases of gold haven't been updated since May 2018, but shipments to Turkey remain key for public financing, despite U.S. sanctions. The BCV's inflation figures show methodological and internal inconsistencies since 2014 and are widely considered to be underestimated. Furthermore, balance of payment data shows irregularities on several items from the current and financial accounts. Hence, the data published by the BCV is a recognition of the country's crisis but an unreliable source for economic analysis, at face value."

A **Robert Bottome, former editor and publisher of VenEconomía:** "Venezuela's central bank reported that the country was in a deep recession (down 22.5 percent year-on-year) as of last year's third quarter at a time that annual inflation was running well over

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NEWS BRIEFS

U.S., Mexican Officials Continue Talks on Tariffs

U.S. and Mexican officials will meet again today to continue discussions on U.S. President Donald Trump's threat to slap a 5 percent tariff on all Mexican exports, a measure which is set to come into effect next Monday, Bloomberg News reported. Trump, who is in France, said today that progress was made during a meeting between Mexican Foreign Minister Marcelo Ebrard and top U.S. officials at the White House on Wednesday, adding that "something pretty dramatic could happen" in the coming days. He also said Mexico has to "step up to the plate" to avoid the tariffs.

Colombian Senate Promotes General Despite Rights Concerns

Colombia's Senate on Wednesday voted almost unanimously to make Gen. Nicacio Martínez, the head of the country's army, a four-star general amid a public outcry over human rights concerns, the Associated Press reported. Human rights groups in Colombia are pushing for Martínez to resign following revelations that he allegedly ordered troops to increase attacks against guerrillas and criminals, which they say could again lead to soldiers reporting "false positives," or killing innocent civilians and passing them off as guerrillas in order to earn extra pay.

Brazil, Argentina Discuss Reducing Mercosur's Common External Tariff

Brazil and Argentina have entered discussions on reducing the Mercosur trade bloc's common external tariff, Reuters reported Wednesday, citing sources in both countries' governments. The bloc, which also includes Paraguay and Uruguay, has tariffs of 14 percent on average for goods from outside Mercosur. A tariff reduction could spur more trade.

vote now implies the beginning of talks with the government," independent lawmaker Juan Sheput told a local television station, saying discussions would soon begin with Vizcarra's administration on the anti-corruption measures. Lawmakers debated the confidence vote for nine hours on Tuesday before resuming debate on Wednesday. If a no-confidence vote had resulted, Vizcarra's cabinet would have been dissolved, and the president would have been able to call new legislative elections. He had called for the confidence vote after moves by the opposition to block his agenda for reforms. Vizcarra's political enemies accused him of using the maneuver to pressure lawmakers to pass the anti-graft measures. Vizcarra took office in March of last year after his predecessor, Pedro Pablo Kuczynski, resigned amid bribery accusations involving Brazilian construction conglomerate Odebrecht, which has admitted to paying off politicians in several countries.

Former Salvadoran President Saca to Plead Guilty

Former Salvadoran President Tony Saca has reached a deal with prosecutors to plead guilty to charges that he bribed a judicial official in order to provide him information in a civil case that Saca was facing, the Associated Press reported Wednesday. He will reportedly face a sentence of community service. Saca is already serving a 10-year prison sentence after pleading guilty to siphoning more than $300 million in public money in order to benefit his businesses and other recipients.

THE DIALOGUE CONTINUES

Has Trump Gone Too Far With New Tariffs on Mexico?

Q U.S. President Donald Trump announced last week that he would impose new tariffs that could rise as high as 25 percent on all of Mexico's exports to the United States unless Mexico "substantially stops" the flow of migrants coming to the United States. What effect will the tariffs have on the economies of both countries, and how has the private sector reacted? Will the duties, which Trump announced less than two weeks after the United States reached a deal with Mexico and Canada to eliminate steel and aluminum tariffs, derail the pending ratification of the USMCA trade accord? What other developments could affect the USMCA's ratification? Will the USMCA be ratified during Trump's current term in office?

A Tamara Kay, associate professor of global affairs and sociology at the University of Notre Dame: "President Trump's threat to impose tariffs on all Mexican products was aimed less at Mexico than at Democrats who are pushing back against his trade and immigration policy agendas. And it is likely to backfire. President Trump has to convince House Speaker Nancy Pelosi to bring the USMCA to the floor, and convince her and a significant number of Democrats to vote for it. There are two reasons the Democrats may not want to pass the USMCA in its current form. First, the agreement lacks 'swift and certain enforcement' of labor and environmental standards. It also has provisions that would allow pharmaceutical companies to charge high prices for medicine. Labor unions, environmental organizations and consumer rights groups, working with key Democrats, are demanding the inclusion of enforcement mechanisms and the elimination of provisions that will lock in high drug prices. Second, Pelosi and the Democrats may not support the USMCA because they do not want to give President Trump a victory on NAFTA before the 2020 elections. They will likely argue that his USMCA does not transform NAFTA, but actually replicates provisions that hurt the environment and consumers, and most importantly, key parts of his base—manufacturing workers who will not get their jobs back under his new NAFTA. If he doesn't deliver on NAFTA, Democratic presidential candidates will have a strong message going into 2020 that the president who claims to be the best dealmaker, and who promised to renegotiate or terminate NAFTA, came up short."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Monday's issue of the Advisor.

BUSINESS NEWS

China's Didi Chuxing Launches Service in Colombia, Chile

Chinese ride-hailing platform Didi Chuxing has launched operations in Chile and Colombia, Reuters reported Wednesday. The company rolled out Didi Express, which allows users to book a ride with a private car owner, in Bogotá and in Valparaíso, Chile's third-largest city, earlier this week. It plans to begin offering taxi-hailing services in Colombia later this year, Didi said in a statement. The company already has operations in Brazil, where it acquired local start-up 99 for $1 billion, and in Mexico, Tech Crunch reported. Didi is China's largest ride-hailing service and began international operations last year, with Latin America as a key focus of its expansion strategy, according to the report. Chile and Colombia are "two important centers of growth and innovation in the region," Mi Yang, who leads Didi's operations in Central and South America, said in a statement. Didi also operates in Taiwan, Japan and Australia and has stakes in other transportation services such as Lyft and Bolt. Earlier this year, Reuters reported that Didi was seeking to hire managers in Colombia, Chile and Peru.

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130,000 percent. The numbers appear to understate the gravity of the crisis, but at least they point downward. Savings are wiped out just as much with inflation at 130,000 percent as with inflation at one million percent. The announcement is less important for its content—that the economy has collapsed. It is more important that the Maduro administration has finally decided to stop pretending that there is no crisis and that reports of hunger and collapsed hospitals, electricity and water service were fake news being distributed by enemies of the regime. For one, it was the realization that the Maduro government had become the laughing stock of the entire world with its stubborn insistence that all was normal and that the crises simply did not exist. For another, it may be to prepare Venezuelans for policy changes to be announced later this month. But, most likely, it was just another ploy to buy time. Most informed observers know what has to be done. Maduro and the Cubans also know what has to be done. The economy must be opened, price and exchange controls must be eliminated and private investment must be encouraged in all activities, including oil, and the nation's debts must be restructured with help from the IMF. But don't hold your breath."

A Pedro M. Burelli, managing partner B+V Advisors, LLC and former member of the board of Petróleos de Venezuela (PDVSA): "Venezuela's crisis is massive, unprecedented and deepening. It's also multidimensional and perverse. Facts abound to support this dire description. While the long-delayed release of financial data by the central bank was the result of heightened pressure from the board of the International Monetary Fund, the data itself was considered incomplete, inconsistent and/or unreliable by the IMF staff. Dueling claims to power by former President Nicolás Maduro and interim President Juan Guaidó have led to complete paralysis on almost all matters of national interest and concern. If this situation were to continue, we will face a catastrophic collapse and a humanitarian crisis few countries in the world have faced outside, or even as a result of, war. If Guaidó's push for a transitional government were to succeed, it would have to juggle multiple crises and rapidly shift priorities with little time or room for failure. While the economic and social collapse garners most of the attention, it will be the multifaceted security situation that will challenge the newcomers the most. Governability will be severely tested by organized criminal gangs, diehard and armed 'colectivos,' a certain percentage of the armed forces that in all likelihood will resist regime change and, last but not least, by Colombian guerrillas that roam freely and profit amply in vast extensions of Venezuela. The initial cost of the economic rescue package has been calculated at around $100 billion and contemplates a massive facility from the IMF, and the active involvement of the World Bank and the Inter-American Development Bank, among others. The cost of guaranteeing the security of the new administration and of millions of citizens, of reclaiming territorial sovereignty and of creating the conditions for the successful execution of such an ambitious economic and social rescue plan has yet to be calculated. Quantifying this critical endeavor should be today's priority."

> **"Venezuela's crisis is massive, unprecedented and deepening. It's also multidimensional and perverse."**
> **— Pedro M. Burelli**

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