LATIN AMERICA ADVISOR

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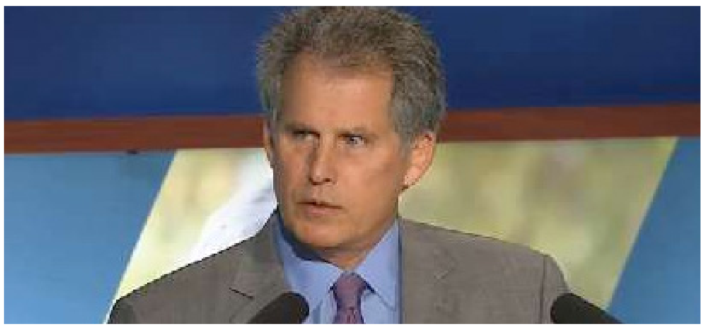
FEATURED Q&A

Why Is Economic Growth in Latin America Slowing?



The International Monetary Fund, now headed by Acting Managing Director David Lipton following the recent departure of Christine Lagarde, last month lowered its economic growth forecast for Latin America. // File Photo: International Monetary Fund.

Q The International Monetary Fund in July cut its economic growth forecast for Latin America this year by more than half, from 1.4 percent down to 0.6 percent. What factors are weighing on the region's economic growth? Which Latin America and the Caribbean countries are expected to fare the best and worst, and how likely is economic growth to bounce back next year? How much are external factors, including China's outlook, influencing economic trends in Latin America, and will this continue into the foreseeable future?

A Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York: "The beginning of the year across Latin America was unquestionably challenging, particularly so on the growth front for the largest economies. The real business cycle dynamics in Brazil and Mexico ended up frustrating earlier expectations to a very significant extent: real GDP growth flattened out in last year's fourth quarter, only to dip into outright negative territory during this year's first quarter. Argentina remained mired in recession under the weight of tight fiscal and monetary policy and purchasing power, as well as eroding high inflation. Venezuela is in a long-lasting economic depression with no end in sight. Finally, the small open Andean economies also witnessed a significant loss of the growth forward momentum in the first quarter despite low policy and political uncertainty and an absence of major macroeconomic imbalances. In Argentina, Brazil and Mexico, the disappointing growth dynamics reflected mostly domestic factors. The political and policy environment remained

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TODAY'S NEWS

POLITICAL

U.S. Seeking Migration Deals With El Salvador, Honduras

The United States wants to make deals on migration, similar to its agreement with Guatemala, with El Salvador and Honduras, said Acting Homeland Security Secretary Kevin McAleenan.

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BUSINESS

Petrobras Reports Highest-Ever Quarterly Profit

The Brazilian state oil company said asset sales boosted its second-quarter profits.

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ECONOMIC

U.S. Commerce Secretary Details Economic Plan for Venezuela

U.S. Commerce Secretary Wilbur Ross said in Brasília that after a political transition in Venezuela, the United States will ease sanctions, promote credit and take other actions to help rebuild Venezuela's economy.

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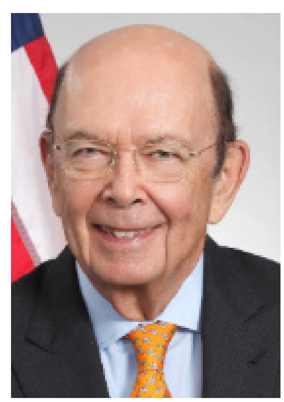

Ross // File Photo: White House.

ECONOMIC NEWS

U.S. Commerce Sec'y Details Venezuela Economic Plan

U.S. Commerce Secretary Wilbur Ross on Thursday detailed a plan to rebuild Venezuela's battered economy, The Wall Street Journal reported. The plan would be contingent on the departure of President Nicolás Maduro and his replacement by opposition leader Juan Guaidó, whom the United States and dozens of other countries recognize as the country's legitimate leader. "For immediate relief, the United States will ease sanctions, promote domestic and international trade credit, deploy technological advisers and engage international financial institutions to rebuild confidence in Venezuela's new economic policies," Ross told business executives from across Latin America at a round table in Brasília organized by Washington-based CG/LA Infrastructure, Reuters reported. In the long term, Venezuela has oil, gold and other resources that can be used to rebuild its economy, Ross said. He added that the country needs a reversal of its "terrible" mismanagement through a boost of its private enterprise and investment. That would help foster sustainable growth, and the country would benefit from capital infusions and new management skills to rebuild the country's oil, gas and power sectors, he said. "Reversing socialism will be done by facilitating private investment, rehabilitation of power generation and oil-bidding rounds," said Ross, The Wall Street Journal reported. When asked by reporters on Thursday, U.S. President Donald Trump said he is considering a blockade or "quarantine" against Venezuela. "Yes, I am," he answered when asked whether he is contemplating such actions against Venezuela in response to involvement in the country by Russia, China and Iran. Trump did not elaborate on what such a move would entail. [Editor's note: See related **Q&A** in the June 6 issue of the Advisor.]

"Reversing socialism will be done by facilitating private investment, rehabilitation of power generation and oil-bidding rounds."

— Wilbur Ross

POLITICAL NEWS

U.S. Seeking Deals on Migration With El Salvador, Honduras

The United States is looking to sign "similar agreements" on migration with Honduras and El Salvador as it has with Guatemala, Acting U.S. Department of Homeland Security Secretary Kevin McAleenan said on Thursday in Guatemala City, Reuters reported. McAleenan was in Guatemala to discuss the controversial "safe third country" deal it reached last week with the government of Guatemalan President Jimmy Morales. The agreement would require many of the Central American migrants passing through Guatemala to apply for asylum there instead of continuing to the United States. Guatemala's Constitutional Court last month barred the administration from signing such a deal, but Morales' government ignored the ruling and signed it anyway following threats from U.S. President Donald Trump that he would impose tariffs and other penalties on Guatemala if it didn't. "This is not something that the United States is asking to work on with Guatemala alone. We see this as a regional responsibility," McAleenan

McAleenan // File Photo: U.S. Customs & Border Protection.

NEWS BRIEFS

Mexico Implements New Rules Designed to Make Unions More Democratic

New rules to make Mexico's labor unions more democratic have taken effect, with unions having four years to comply with the measure requiring secret ballots on contracts, the Associated Press reported Thursday. Unions must now publish public notices and upcoming contract votes as well as provide prior information on contracts to union members, the Labor Department said. The new requirement is meant to eliminate the practice in which pro-company "protection" unions sign contracts without consulting the workers.

Colombia's Ecopetrol to Begin Fracking in U.S.

Colombian state-run oil company Ecopetrol said Wednesday that it will begin fracking operations in the United States, according to Colombia Reports. The fracking operation will be carried out in Midland, Tex., in a joint venture with U.S.-based oil company Occidental Petroleum. The fracking venture is the company's first and "in line with our new strategy," Chief Executive Officer Felipe Bayón told reporters. Ecopetrol has been seeking to expand its operations outside Colombia.

German Authorities Seize 4.5 Tons of Cocaine in Container From Uruguay

German customs authorities have seized 4.5 tons of cocaine in a shipping container that came from Uruguay, the Associated Press reported today. The drugs, which have an estimated street value of $1.1 billion, were seized two weeks ago on a container headed to Antwerp, Belgium. The paperwork said it was carrying soybeans, but authorities instead found 4,200 packets of cocaine in 211 black sports bags. It was Germany's biggest single seizure of cocaine ever, according to the report.

said during a speech, Reuters reported. "We are now seeking discussions with Honduras and El Salvador about similar arrangements." The U.S. administration has also pushed for Mexico to sign a similar deal, which the Mexican government has so far refused to do. Many have criticized the deal, with Guatemalan presidential candidate Sandra Torres saying the country lacks the resources to care for its own people, "much less to have foreigners here and attend to them," the Associated Press reported.

Nicaragua Says Talks With Opposition Are Over: Vatican Envoy

The government of Nicaraguan President Daniel Ortega sent a letter to the Vatican's envoy to the Central American nation saying that talks with the opposition on resolving the country's political standoff are over, the Associated Press reported Thursday. According to Apostolic Nuncio Waldemar Somertag, the government said the talks "concluded with the definitive absence of the other side." The opposition walked away from the dialogue in May in an effort to pressure the government to free some 700 people it considers political prisoners. The government said in June that it had released all demonstrators imprisoned in connection with the deadly anti-government protests that began more than a year ago.

BUSINESS NEWS

Petrobras Reports Highest-Ever Quarterly Profit

Brazilian state oil company Petrobras on Thursday registered its highest-ever quarterly profit, surpassing analysts' estimates, in large part due to billions of reais raised in asset sales, Reuters reported. In a securities filing, Petrobras posted its second quarter net profit, which reached 18.87 billion reais ($4.92 billion), well above the Refinitiv consensus estimate of 8.06 billion reais at current exchange rates. However, net income would have dropped to 5.20 billion reais if adjusted for nonrecurring items, CEO Roberto Castello Branco said in a statement, the Financial Times reported. Earnings before interest, taxes, depreciation and amortization, or EBITDA, were in line with market estimates, at 32.67 billion reais. So far this year, the company has raised some $12.76 billion from asset sales, including $8.72 billion from the sale of gas pipelines to French energy company Engie in April, according to the filing. In July, Petrobras sold a majority stake in its fuel distribution unit, BR Distribuidora, for $2.3 billion. Fifty-seven percent of Petrobras' production in the second quarter came from pre-salt fields, the company said. Petrobras last week cut production targets for this year to 2.7 million barrels of oil equivalent per day (boepd), down from a previous forecast of 2.8 boepd.

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unsettled. Policy and political uncertainty remained high by historical standards, turning consumers more conservative in their spending and firms' more defensive in their investment decisions. With the exception of Venezuela, and perhaps also Mexico, we expect the growth profile to firm in this year's second half, supported chiefly by further monetary accommodation, facilitated to a significant extent by the significant dovish shift of the policy rate outlook in both developed and emerging markets. In Brazil, progress on an ambitious liberal reform agenda is expected to contribute to firm sentiment indicators and through leverage a cyclical recovery that has so far been the weakest on record. In Mexico, policy direction uncertainty is expected to continue to weigh down on investment spending and growth overall. Overall, the Andean economies—Chile, Colombia and Peru—are expected to deliver the highest growth rates in Latin America, but even there, it will be underwhelming in absolute terms (3 percent or lower)."

A **Ernesto Revilla, member of the Advisor board and head of Latin American economics at Citigroup:** "The global outlook has weakened, and Latin America has been no exception. Real GDP is expected to grow by 1 percent in 2019, below its 10-year average of 2 percent. In Mexico, expectations for 2019 growth have been revised down to 0.2 percent as higher policy uncertainty takes its toll on investment, coupled with a tight fiscal policy. The investment mood among the private sector is set out to remain hesitant. In Brazil, the recovery remains disappointing, and the growth forecast has been trimmed to 0.7 percent for 2019. We don't see a clear driver after the pension reform is approved.

> **"The global outlook has weakened, and Latin America has been no exception."**
> **— Ernesto Revilla**

The behavior of animal spirits will depend on the government's success in pushing further its reform agenda. The Andean nations have been able to hold better than their peers within this context of deteriorating outlooks for growth. While we have downgraded our forecasts for Chile and Peru, they remain at a fairly healthy 2.7 percent and 3 percent, respectively. In Chile, the deceleration has been tied to the mining sector and in Peru to investment. Nonetheless, we expect a pickup soon. Colombia is the only country among the big Latin American economies that is expected to grow more than it did last year. Looking forward, higher market volatility and an escalation of trade tensions between China and the United States pose some risks to our outlook. In order to mitigate them, the region needs to continue working in improving its economic fundamentals. We believe Latin America has

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plenty of untapped potential, and increasing productivity is a challenge that can be accomplished."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Latin America has been facing economic difficulties in 2019, which have reduced the region's possibilities to recover. Growth has been revised downward significantly, from 2 percent at the beginning of the year to a rate lower than 1 percent at present. Domestic and external factors have been playing against this year's recovery. First, the escalation of a tariff war initiated by the U.S. government against its main trading partners introduced a lot of uncertainty, affecting trade volumes and investment decisions. Second, the deceleration of China's economy has affected the demand for Latin American primary exports. Third, the region has not been able to accelerate productive investment given the lack of reforms, but also because of uncertain political changes in Brazil and Mexico. Lastly, the prolonged recession in Venezuela and Argentina has dragged down the region's growth. There are three groups of major countries in the region's economic picture: In deceleration (Chile, Mexico and Peru), in moderate acceleration (Colombia, Panama and, to a lesser extent, Brazil), and in recession (Argentina, Venezuela and Nicaragua). As a result, we expect Latin America to decelerate in 2019 to a rate around 0.6 percent, from 1 percent in 2018. However, since Mexico's economy remains weak, and growth has been revised from 2 percent to 0.5 percent, the region's growth is still subject to further revision. The main risks on the horizon are the materialization of a trade war, a faster and deeper global deceleration and a prolonged anemia of investment in the region given governments' inability to deepen structural changes. In the end, Latin America's recovery is postponed for one more year, at least."

> **"Domestic and external factors have been playing against this year's recovery."**
>
> **— Alfredo Coutiño**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

Advisor Video

The Last Straw: Puerto Rico After "Ricky Leaks"

An Inter-American Dialogue discussion with
Pedro Reina Pérez, University of Puerto Rico
José A. Delgado, El Nuevo Día
Gretchen Sierra-Zorita, Consultant

View a webcast of the Aug. 1 discussion.

PLAY

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