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FEATURED Q&A

Will Chile Continue to See Economic Growth This Year?

Chilean President Sebastián Piñera has seen global economic factors weigh on the country's mining sector. // File Photo: Chilean Government.

Q Chile's GDP expanded 0.8 percent in the second quarter, as compared to the previous three-month period. Global trade uncertainties hit mining growth, but investment saw a 4.8 percent increase year-on-year. Meanwhile, the central bank is expected to cut benchmark interest rates in September for the second time this year. What are the most significant factors weighing on Chile's economic growth, and why is the mining sector lagging? How well is President Sebastián Piñera's administration handing the economy, and are there reasons for optimism for the second half of the year? To what extent will expected interest rate cuts boost the economy?

A Manuel Agosin, professor and former dean in the School of Economics and Business at the University of Chile: "Chile has had to face a very uncertain international environment, marked by the trade and currency war that President Trump unleashed against China. Although China's retaliations have been prudent, Chinese patience with Trump is wearing thin. How all this will end, nobody knows. Chile is very dependent on the growth of the Chinese economy. China has become its major trading partner, and Chile's exports are overwhelmingly copper, an important input into many of China's exports to the United States. These exports have softened, and so has its domestic economy. The fall in copper prices and export volumes to China explain to a large extent the deceleration of the Chilean economy. Then there is the domestic uncertainty of the government's inability, so far, to pass an investment-friendly tax reform and other reforms that might have resulted in greater confidence on the part of investors, who are playing the game

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TODAY'S NEWS

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Argentina Eyes Restructuring Debt With IMF

Argentina's government will seek to restructure its debt with the International Monetary Fund and bondholders in order to boost confidence in the country's financial markets, said Finance Minister Hernán Lacunza.

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Mexican President Eyes Pemex Joint Ventures

Mexican President Andrés Manuel López Obrador is reportedly planning to allow state oil company Pemex to again engage in joint ventures with private companies.

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FARC's Márquez Issues Call to Arms

Former Revolutionary Armed Forces of Colombia rebel commander Iván Márquez appeared in a video to issue a call to arms, saying Colombia's government has betrayed the peace accords the two sides signed nearly three years ago.

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Márquez // File Photo: Granma.

POLITICAL NEWS

Former Commander of Colombia's FARC Issues Call to Arms

Iván Márquez, a former commander of Colombia's FARC rebel group, in a video released Wednesday, issued a call to arms and vowed to return to war. "This is a continuation of the guerrilla struggle in response to the state's betrayal of the Havana peace accords," said Márquez, whose real name is Luciano Marín. He added that the FARC would seek to coordinate forces with the National Liberation Army, or ELN, rebels and called for "a new phase of the struggle" under "the universal right that all people have to raise arms against oppression," The New York Times reported. In the video, Márquez appears alongside several other FARC members, including rebel leader Jesús Santrich. Márquez said the FARC will not engage in kidnappings for ransom and will "seek dialogue" with landowners and businesses to convince them to "contribute" to their "struggle," BBC News reported. In the video, Márquez said "more than 500 social leaders have been killed and 150 guerrilla fighters are dead amid the indifference and the indolence of the state."

ECONOMIC NEWS

Argentina Seeking to Restructure Debt With IMF

Argentina will look to restructure its debt with the International Monetary Fund and bondholders in an attempt to stem a confidence crisis that has hit the country's financial markets, the government said Wednesday, The Wall Street Journal reported. New Finance Minister Hernán Lacunza said the government aims to extend the maturity of its debt denominated in local and foreign currencies to stabilize the peso as growing concerns about Argentina's political continuity and its ability to repay its debt prompted a currency crisis earlier this month. Argentina's peso saw a sharp devaluation following the country's primary elections earlier this month, in which Peronist opposition candidate Alberto Fernández trounced President Mauricio Macri. "Every political group wants to win the election, but that's not an excuse to put at risk the well-being of Argentines," Lacunza said, The Wall Street Journal reported. "We have to agree on maintaining stability as a nonnegotiable priority," he added. Earlier this week, Fernández met in Buenos Aires with IMF representatives, later lashing out against the international lender and Macri's government and blaming them for the country's economic stagnation, high inflation and capital outflows. "Those who have generated this crisis, the government and the IMF, have the responsibility of ending and reversing the catastrophe that today a growing portion of Argentine society is going through," he said in a statement, La Nación reported.

BUSINESS NEWS

Mexico's López Obrador Eyes Joint Ventures for Pemex

Mexican President Andrés Manuel López Obrador plans to allow state oil company Pemex to resume joint ventures with the private sector next year, said a senior government official with direct knowledge of the policy plans, the Financial Times reported today. The move would be a reversal of López Obrador's previous strong opposition to the country's energy reform, which opened up Mexico's oil sector to private investment after eight decades of state control. The president is also set to revive Pemex's exploration in the deep waters of the Gulf of Mexico, with the aim of jumpstarting investment and production and avoiding a credit rating downgrade for the oil company, according to the report. In June, credit ratings agency Fitch downgraded Pemex's credit rating from investment grade to speculative grade, "or

NEWS BRIEFS

Hurricane Dorian Lashes Virgin Islands, Puerto Rico Avoids Direct Hit

Hurricane Dorian pounded the U.S. and British Virgin Islands Wednesday and sideswiped Puerto Rico, taking down power lines and causing flooding in the region, The Washington Post reported. Puerto Rico avoided a direct hit from the category 1 storm. "This is not Maria," said Puerto Rico Governor Wanda Vázquez, referring to the deadly 2017 hurricane. Dorian is expected to strengthen before striking Florida, possibly on Monday.

Amazon Nations to Discuss Protection, Development: Bolsonaro

Brazilian President Jair Bolsonaro said Wednesday that Latin America's Amazon nations will meet in September to discuss protection and development of the rain forest region, where fires have been burning for weeks, the Associated Press reported. The president emphasized his contention that international offers of aid to help fight fires were an infringement on Brazil's sovereignty over the region. European leaders including French President Emmanuel Macron argue that a global response is required because of the Amazon's critical role in absorbing carbon dioxide from the atmosphere, the AP reported.

Bank Loans Fall, Defaults Rise in Brazil

The number of outstanding bank loans in Brazil dropped 0.2 percent in July, as compared to the previous month, to 3.290 trillion reais ($793 billion), or some 46.9 percent of gross domestic product, the country's central bank said on Wednesday, Reuters reported. Loan defaults rose to 4.0 percent from 3.8 percent in June, while lending spreads expanded to 31 percentage points, from 31.5 percentage points a month earlier, the central bank said.

junk," with a negative outlook, Reuters reported. The two policies would be a sharp reversal of López Obrador's previous plans for Pemex, which he has made one of the key priorities of his government. When he took power in December, the president halted joint ventures with Pemex and put oil block auctions on hold, saying private firms had not met expectations, according to the report. However, his administration has not yet decided if it will fund an annual hedging program that usually costs about $1 billion, diverted toward shielding public finances from oil price fluctuations, the official said, the Financial Times reported.

Mexico's Credijusto Raises $42 Million in Financing Round

Mexican online lender Credijusto has raised $42 million in a financing round, with Goldman Sachs, Point72 Ventures and others investing in the fintech, Credijusto said today in a statement. "This equity raise provides a further boost to the company in its mission to expand credit access for SMEs throughout Mexico," said Credijusto. "Proceeds will be used to support the company's rapid growth trajectory and to launch new products, including digital advisory services and a credit card for SMEs." The financing round comes five months after the lender closed a $100 million credit facility with Goldman Sachs, the statement added. "Credijusto's tech-enabled approach to meeting the financial needs of Mexico's underserved SME segment has huge potential. This is a very large market opportunity in which, after four years of rapid growth, the company has significant competitive advantages," said Pete Casella, a partner at Point72 Ventures. Other investors include Thomvest Ventures, Wolfson Group, Third Lake Capital and Argo Ventures, in addition to existing investors Kaszek Ventures, QED Investors, Broadhaven Capital Partners, John J. Mack and Supernode Ventures. Credijusto said that since it launched four years ago, it has originated more than $90 million in term loans and leases. The Mexico City-based company has 200 employees.

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of 'wait and see.' President Piñera's coalition doesn't have a majority in Congress, and key reforms are yet to be approved. Some (labor and pensions) have been watered down to obtain congressional approval. All of this is adding to the uncertainty affecting business decisions. Finally, the generalized feeling that the world economy is on the brink of a recession doesn't help investment."

A **Gabrielle Trebat, director for Brazil and the Southern Cone at McLarty Associates:** "In June, Chile's central bank revised growth projections downward to between 2.75 percent and 3.5 percent from a previous view of 3 percent to 4 percent, given domestic and external factors. The mining sector, which represents approximately 15 percent of Chile's GDP, has seen productivity affected this year by heavy rains and a two-week strike at Codelco's Chuquicamata copper mine. Domestic consumption and external demand have dipped amid the U.S.-China trade war and ongoing global uncertainty. (The United States and China are Chile's top export markets). Exports decreased by 9 percent between April and June, relative to the same period last year. This decrease in exports has been led by agriculture and mining, both of which have experienced significant tightening amid the uncertainty. To mitigate the impact to the economy, President Piñera announced a stimulus package, including plans to construct thousands of miles of roads in efforts to create jobs and spur investment. The approval of the tax modernization in the lower house of Congress last week—expected to advance in the Senate this year—would lower the tax rate for small businesses and offer other incentives to stimulate investment with a new tax on digital services offsetting revenue losses. Though Chile's interest rate is already among the lowest in the region at 2.5 percent, the Chilean central bank has signaled an appetite for expanded monetary stimulus. However, with the spread between 10-year Chilean and U.S. bond yields at the slimmest in more than a decade, market conditions may not be advantageous for further rate cuts. However, there is good news on the horizon as third quarter economic activity is expected to pick up with manufacturing production expected to grow. Attracting investment will be key for Chilean growth in the second half of 2019, and there is reason for optimism."

A **Sergio Urzua, associate professor of economics at the University of Maryland:** "Chile is facing a major challenge. As a small open economy, the country is constantly affected by the volatility of global markets. To some extent, this explained the poor performance of the economy between 2014 and 2017. Yes, the economy recovered in 2018 (with a growth rate of 4 percent), but the increasing tensions between Washington and Beijing as well as a longstanding political debate regarding the nation's pro-growth structural reforms (such as tax) explain why GDP forecasts have been sliding during the first half of 2019. In this context, a recently announced fiscal package will help offset the complex international landscape, and a new monetary stimulus might contribute to this cause in the short run. Overall, these efforts will probably sustain a GDP expansion of between 2.5 percent and 3 percent for the coming years. However, without structural reforms aimed at modernizing Chile's institutions (such as the public sector, labor market, schooling system, social protection), the country will struggle to close the gap with the developed world in the long run."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "In 2019, Chile's economy has moderated toward rates more consistent with its own production capacity, after a strong rebound in 2018. Growth this year will be around 2.5 percent, although there is the risk of growth slowing further toward 2 percent. The economy has

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not escaped the effects of negative external shocks, particularly because of its high degree of openness. Threats and restrictions to international trade, particularly the U.S.-China tariff war, have not only affected volume of trade and prices, but also introduced financial volatility and uncertainty, thus affecting investment decisions particularly in emerging markets such as Chile: a world producer and exporter of mining products, particularly copper. The deceleration of China's economy has affected the demand for commodities, mining products especially. This partly explains the underperformance of Chile's mining sector. On the positive side, domestic investment has shown some recovery in the past two years, thanks to a more favorable business environment created by the more pro-market policies of the Piñera administration. This, together with the increasing possibility of approval of some reforms (fiscal, pension, health), will help improve confidence and expectations, and consequently accelerate investment in the medium term. In an effort to support the economy's performance, in an environment of below-target inflation, the central bank is moving monetary policy into expansionary territory. Unfortunately, since the economy's production capacity remains limited, the monetary easing cannot do much to propel growth beyond 2.5 percent this year and 3 percent next year. The only recipe to put Chile's economy in a path of high, stable and healthy growth is increasing the accumulation of capital through the acceleration of physical and human investment. If the trade war materializes and worsens, the world economy will be at risk of recession, with emerging markets the most affected."

> **"Growth this year will be around 2.5 percent..."**
>
> **— Alfredo Coutiño**

A **Peter M. Siavelis, chair and professor of political science and international affairs and associate director of the Latin American and Latino Studies Program at Wake Forest University:** "Much has been made of the strength and diversification of Chile's economy. Despite these trends, Chile remains a dependent country in the world economy, extraordinarily vulnerable to external shocks. Mineral exports continue to constitute the lifeblood of the country's economy. Exports account for one-third of GDP, and commodities make up 60 percent of total exports, with copper providing 20 percent of government revenues. Uncertainties regarding global trade, and principally the U.S.-China trade war, have prompted a 17-percent drop in copper prices, translating into a peso at a three-year low and rising unemployment. These trends, in turn, have led to dampened domestic consumption, further checking growth. Projections for GDP growth for 2019 were downgraded from 3.5 percent in April to 3.2 percent in August; not disastrous by any means, but still a worrying sign of things to come if the trade war continues. Nevertheless, Chilean governments of all ideological stripes have been prudent in their economic management compared to other countries in the region, relying on reserves to invest during hard times. The combination of an anticipated additional cut in the benchmark interest rate in September and a $600 million stimulus package aimed at infrastructure development announced by Finance Minister Felipe Larraín this week is likely to shore up domestic economic growth. This new spending is part of a wider array of $3 billion in stimulus projects that the Piñera government initiated in the last six months. Despite economic headwinds, sensible fiscal and interest rate policies, combined with strong fundamentals, make Chile's medium-term economic prospects less vulnerable than other countries in the region as the trade war wages on."

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