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FEATURED Q&A

What Headwinds Is Colombia's Economy Facing?



Colombian President Iván Duque's government may have trouble financing its budget needs next year if the country does not reach economic growth targets. // File Photo: Colombian Government.

Q In July, Colombia's central bank lowered its projection for this year's economic growth by a half percentage point, to 3 percent, well below the government's target of 3.6 percent. Additionally, President Iván Duque's administration may have trouble financing its budget needs next year if economic growth fails to hit its target, said central bank chief Juan José Echavarría. What forces are holding back Colombia's economy? What actions will the government have to take if it is unable to finance its budget next year? How important are Duque's pension and energy reforms to the country's economy?

A Daniel Velandia, director and chief economist for research at Credicorp Capital in Bogotá: "We were not surprised at all with the recent reduction of the central bank's GDP growth forecast, which was overly optimistic since the very beginning. In fact, the market consensus has not projected 3.5 percent expansion for a long time. Domestic demand is running at a solid pace (4.3 percent year-over-year in the first half of this year) amid a healthy performance of both private spending and investment. That said, stronger domestic demand has implied a significant acceleration of imports, so that the trade balance has been a main drag on economic growth since exports remain weak due to moderate oil prices and lower dynamism of some trading partners. I think the forecast error was particularly there in the middle of a complex external backdrop, but the truth is that the Colombian economy is doing well so far this year. Of course, the 3.6 percent government's estimate is even harder to achieve (we keep our long-held

Continued on page 4

TODAY'S NEWS

POLITICAL

Death Toll Rises to 45 in Bahamas, 76,000 Left Homeless

The death toll in the Bahamas after Hurricane Dorian pummeled the Caribbean nation rose to 45, though many more are feared to be dead. The storm left tens of thousands homeless, the United Nations said.

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ECONOMIC

U.S. Tightens Sanctions on Cuba

The Trump administration lowered the amount of remittances that Cuban-Americans can send to the island.

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POLITICAL

Mexico Reduces Flow of Migrants Headed to U.S.: Foreign Minister

The number of migrants detained along the U.S.-Mexico border fell to 63,989 in August, as compared to 146,266 in late May, said Mexican Foreign Minister Marcelo Ebrard.

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Ebrard // File Photo: Mexican Government.

POLITICAL NEWS

Death Toll Rises to 45 in Bahamas, 76,000 Left Homeless

The official death toll rose to 45 on Sunday in the Bahamas as hundreds of survivors waited to be evacuated from the destruction that Hurricane Dorian left across the Caribbean nation, ABC News reported. The powerful storm that parked itself over the Bahamas for days also left some 76,000 people homeless, the United Nations said Friday. The Bahamas' health minister, Duane Sands, told ABC News on Sunday that some victims may have been washed out to sea and may never be recovered, while many other bodies are believed to be buried in rubble. Police in the Bahamas told residents to report any loved ones' disappearance to authorities. "As there are many more persons presumed missing, since they have not been seen or heard from since the passage of Hurricane Dorian, we are appealing to family members to file missing person's reports with the police," said Anthony Ferguson, the commissioner of the Royal Bahamas Police Force. Approximately 10,000 people in the Bahamas' Abaco Islands desperately need food, water and shelter, according to officials. Distributing food to victims was a "challenge," emergency management officials said, adding that drinking water in some areas was not safe to consume or to use for hygiene. In the Abacos, many of the neighborhoods that suffered the worst devastation were shantytowns mostly populated by poor immigrants from Haiti, many of whom are undocumented, The New York Times reported. On Sunday, hundreds of people waited to be evacuated at Marsh Harbour, a community in the Abacos devastated by the storm, ABC News reported. A cargo ship that had just delivered supplies was then used to transport survivors away from the area. "This boat is here to take you to Nassau," Senior Lieutenant William Sturup of the Royal Bahamian Defense Force told the crowd. Many of the evacuees clutched garbage bags and backpacks with the few possessions they had

left. On Sunday, Dorian was downgraded to a post-tropical cyclone. The storm on Saturday night made a final landfall in the Canadian province of Nova Scotia as a Category 2 hurricane after lashing the U.S. Eastern Seaboard. The storm hit Nova Scotia with maximum sustained winds of 100 miles an hour, stripping roofs off homes, toppling trees and knocking down a construction crane in the city of Halifax. On Friday, it battered the Outer Banks of North Carolina as a Category 1 hurricane, hitting the area with rain, floodwaters and sustained winds of 90 miles an hour.

South American Countries Sign Pact to Protect Amazon

Seven South American countries on Friday signed a pact to protect the Amazon rain forest through disaster response coordination and satellite monitoring, in response to fires that have been burning in higher numbers than in the recent past, Reuters reported. Representatives of Colombia, Bolivia, Ecuador, Peru, Suriname, Guyana and Brazil signed the pact during a summit in the jungle city of Leticia in southern Colombia, where they also agreed to work on reforestation, BBC News reported. The seven nations also agreed to step up efforts in education and in increasing the role of indigenous communities in dialogue. The presidents of Colombia, Bolivia, Ecuador and Peru attended the meeting, while Suriname sent its vice president and Guyana sent its natural resource minister. Brazilian President Jair Bolsonaro, who did not attend due to medical reasons, joined the meeting via video conference, and Foreign Minister Ernesto Araújo attended in person. "This meeting will live on as a coordination mechanism for the presidents that share this treasure—the Amazon," said Colombian President Iván Duque, BBC News reported. "Goodwill alone is not enough anymore," said Peruvian President Martín Vizcarra. "Forest fires in the Brazilian Amazon have increased 83 percent this year, according to government data, and fires have also recently been raging in Bolivia, Reuters reported.

NEWS BRIEFS

Mexico Reduces Flow of Immigrants to U.S. by More Than Half: Ebrard

Mexico has reduced the number of immigrants traveling through its territory toward the United States by more than 50 percent over the past three months, Mexican Foreign Minister Marcelo Ebrard announced Friday, The New York Times reported. Earlier this year, U.S. President Donald Trump threatened to slap tariffs on Mexican imports unless the country did more to stem the flow of migrants heading north.

Salvadoran President Launches OAS-Backed Anti-Corruption Panel

Salvadoran President Nayib Bukele on Friday announced the launch of an independent commission to fight corruption, known as the International Commission Against Impunity in El Salvador, or CICIES, Reuters reported. Bukele said he created the agency, which the Organization of American States will back, through presidential decree. The United Nations is also considering a request from Bukele to support the commission, which was inspired by CICIG, a similar U.N.-backed anti-graft body in Guatemala. [Editor's note: See related [Q&A](#) in the Aug. 22 issue of the Advisor.]

U.S. Vows Additional Money for Female Entrepreneurs Fund

Paraguayan President Mario Abdo Benítez on Friday met with U.S. President Donald Trump's daughter, Ivanka, who serves as a special advisor to her father, MercoPress reported. During the meeting, which was part of a trip that also included stops in Argentina and Colombia, Ivanka Trump announced the United States would commit an additional \$500 million for a fund to help women entrepreneurs in the region, the Women's Prosperity and World Development Initiative.

ECONOMIC NEWS

U.S. Reduces Amount of Remittances That Can Be Sent to Cuba

The administration of U.S. President Donald Trump on Friday toughened sanctions against Cuba, lowering the amount of money that Cuban-Americans can send to family members in the communist nation, the Associated Press reported. The Treasury Department set a new per-person limit of \$1,000 that can be sent to the island each quarter. The new limit takes effect Oct. 9 and also will bar transfers of money to non-family members in Cuba. "We are taking additional steps to financially isolate the Cuban regime," Treasury Secretary Steven Mnuchin said. The Obama administration removed limits on family remittances in 2009, but the Trump administration has reversed course.

BUSINESS NEWS

Banco do Brasil, UBS Reportedly in Talks for Joint Venture

Brazilian state-controlled lender Banco do Brasil and UBS Group are engaging in advanced talks about an investment banking joint venture, according to two sources with knowledge of the matter, Reuters reported Friday. The Brazilian bank confirmed in a securities filing that it was talking with potential partners for its investment banking unit, but the filing did not specify a partner. In the filing, Banco do Brasil said it is "considering alternatives to increase its capital markets activity that may include the reorganization of its investment banking unit and potential partnerships," *O Estado de S. Paulo* reported. The deal, which would combine Banco do Brasil's investment banking unit and UBS' Brazil division, could be signed as soon as next month, the sources told Reuters. UBS would have a controlling stake to avoid operational hurdles, the sources added.

THE DIALOGUE CONTINUES

Will China's Slowdown Imperil Latin American Economies?

Q **The growth of China's industrial output cooled in July to a 17-year low, the government's National Bureau of Statistics said Aug. 13. The data followed downbeat factory surveys, weaker-than-expected bank lending and a rising jobless rate in Chinese cities, among other gloomy indicators. The weakening economic conditions come as China is engaged in a trade war with the United States. In July, Ecuadorean President Lenín Moreno expressed hopes that the United States and China would resolve their dispute, saying that when big countries fight, smaller ones pay the price. How is China's cooling economy and the trade war affecting Latin American countries? Which countries in the region have become most dependent on China's growth? What can Latin American countries do to protect themselves in the context of economic weakening in China?**

A **Julia Dias Leite, senior non-resident fellow with the Asia & Latin America Program at the Inter-American Dialogue and executive director of the Brazilian Center for Foreign Affairs (CEBRI):** "Despite short-term gains in certain export sectors, the net result of the escalation of the China-U.S. trade war is highly detrimental to Latin American countries, considering the negative impact on global growth forecasts and the overall retraction in international trade. Despite Trump's recent hints on a possible reopening of negotiations with Beijing, following the G7 summit, the trade dispute has already led to some reshaping and shorten-

ing of value chains, which are unlikely to be fully reversed. In the short term, the trade war has produced significant gains for Brazilian soy exports, which reached a record high in 2018, moving Brazil ahead of the United States as the top global soy exporter. However, the price premium on soy exports comes at the expense of the competitiveness of Brazilian beef production, which already faces significant sanitary restrictions in China. Moreover, China's currency devaluation, motivated by U.S. tariffs, might collaterally damage trade with emerging countries. In addition, the cooling of China's industrial output, featuring downfalls in infrastructure investment and steel output, might potentially affect imports of raw materials from Latin America, including iron ore from Brazil and copper from Chile. It is noteworthy that commodity-dependent countries in the region are particularly vulnerable to such external shocks, aggravating unfavorable terms of trade and market dependency. As the Chinese economy rebalances toward consumption and services, opportunities arise for Latin American countries to supply the Chinese market with higher value-added goods, including animal protein exports. In the case of Brazil, however, the overall agenda of increasing export value-added and enhancing integration to global value chains depends on a series of pending productivity-oriented reforms."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Aug. 23 issue of the Advisor.

Banco do Brasil has been looking for partners since last year in an effort to boost its investment banking business and had been in talks with several banks, but the presidential election

last October interrupted the process, Reuters reported. The search was resumed in March, when new chief executive Rubem Novaes began his term, according to the report.

FEATURED Q&A / Continued from page 1

projection of 3.3 percent). Undoubtedly, the fiscal accounts remain the main challenge as lower economic activity and/or oil prices may jeopardize the outlook and the government forecasts. We believe that wide room exists to cut public spending, especially in subsidies that are directed to medium and high brackets of the population. It should be the focus ahead and, in that sense, a pension reform including the removal of high subsidies will be key for the future of fiscal accounts."

A **Alberto Bernal, chief emerging market and global strategist at XP Securities:** "My view remains that the central bank's technical department is being quite conservative in its growth estimates. I forecast that the Colombian economy will expand between 3.3 percent and 3.4 percent year-on-year in 2019, on the back of good growth in gross fixed investment. The data has continued to show that imports of capital goods are expanding at a decent pace, in large part because of the healthy dynamism that the oil industry is showing at this time. In other words, my sense is that the forecast of the Finance Ministry staff will prove more accurate than the one generated by the central bank staff. Now, what is holding back the Colombian economy? Why is this country not growing at a faster rate? The answer to that, in my view, is low productivity growth. And low productivity growth continues to be, for the most part, a function of the lingering high cost of doing business in Colombia. Despite some advancements, regulations in Colombia remain too strict, corporate taxes too high and physical infrastructure remains precarious. Colombia needs to work much harder on fixing the 'micro' in order to be able to boost the 'macro.'"

A **César Caballero, manager at Cifras & Conceptos in Bogotá:** "Colombia's economy grew 3 percent during the first half of this year. That was 0.6 percent lower than the government expected. That means that the economy is having a small recovery. It is growing but still weak. I have the impression that we have a problem of householders' disposable income. First, the unemployment rate is growing. Second, Duque's tax reform, with VAT and an increase in the number of people covered by the income tax, has slowed consumption. In addition, the public

“**For next year, everything depends on the Constitutional Court's expected ruling on the legality of the tax reform.**"

— César Caballero

sector is being very slow this year, and exports have fallen. The combination of lower consumption by the international sector, exports, the public sector and householders, has resulted in slow economic activity. Also, the outcome of Duque's pension reform is still unknown. For next year, everything depends on the Constitutional Court's expected ruling on the legality of the tax reform. It is expected to happen this month. If it is totally approved, the government will face a new source of deficits next year due to the enormous tax breaks given to companies."

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