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FEATURED Q&A

Has Duque Gotten Colombia on a Path to Steady Growth?

Colombian President Iván Duque over the past year oversaw economic growth that beat market expectations. // File Photo: Colombian Government.

Q Colombia's economy expanded 3.3 percent last year, the government's statistics agency announced this month, beating market expectations of 3.2 percent growth. What factors led to Colombia's 2019 economic performance, and will the positive trend continue? Why did Colombia perform better last year as compared to other Latin American economies? What has the government of President Iván Duque done right in terms of economic policy, and what should it do to make sure the benefits of growth are more widely distributed across society?

A Daniel Velandia O., director and chief economist for research at Credicorp Capital in Bogotá: "Both the political and the economic cycles played a role in the performance of the economy last year. As for the former, Iván Duque's presidential victory in 2018 significantly reduced political uncertainty after several years of tension amid the peace negotiations and the increase in support for leftist candidates, which led to far-left Gustavo Petro reaching the runoff. As a result, Duque's victory led both firms and households to reactivate consumption and investment after a period of 'spending containment.' On their part, oil prices have recovered in recent years, and both inflation and interest rates have materially decreased after the peak reached in 2016 (9 percent and 7.75 percent, respectively), meaning better conditions for all components of domestic demand. In addition, Duque has increased the minimum wage at the fastest pace in the last 40 years in real terms, leading to an important rise in workers' disposable income. Importantly and, contrary to other countries, Duque managed to

Continued on page 3

TODAY'S NEWS

POLITICAL

São Paulo Sees Region's First Case of Coronavirus

A 61-year-old São Paulo man who recently traveled to Italy is Latin America's first confirmed case of the disease, which threatens to become a global pandemic.

Page 2

BUSINESS

Tupperware's Shares Dive Amid Mexico Accounting Probe

Tupperware Brands said an internal accounting investigation at a unit in Mexico could delay publication of its annual report.

Page 3

ECONOMIC

Mexico's Economy Contracts for First Time Since 2009

Mexico's economy contracted 0.1 percent last year, the first time in a decade that the country's GDP has shrunk on an annual basis, according to revised data. During his campaign President Andrés Manuel López Obrador had promised annual growth of 4 percent.

Page 2

López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

Latin America's First Coronavirus Case Appears in São Paulo

Latin America recorded its first case of coronavirus as a 61-year-old São Paulo man was confirmed to have been infected, O Estado de S.Paulo reported Tuesday. Between Feb. 9 and 21 the man had traveled to Italy, where at least 300 people have been infected with the virus and 11 people have died because of it. The Brazilian patient was examined at Albert Einstein Hospital in São Paulo, is doing relatively well and will be isolated at home, O Estado de S.Paulo reported. The local government in São Paulo is attempting to find everyone who had contact with the man, from his flight back to Brazil until his hospitalization. The Brazilian patient's diagnosis came during Brazil's carnival holiday, a major travel period when revelers fill the streets in the country's main cities to celebrate. This week, fears over the virus have roiled global stock markets, wiping out more than $3 trillion of value as investors grapple with the uncertainty of the virus and its potential effects on the global economy, Reuters reported. Brazil's stock market has been closed since last week due to carnival, but it is set to open today at 1 p.m. local time. Brazilian funds in exchange-traded funds in New York have lost nearly 6 percent of their value this week. On Tuesday, the U.S. Centers for Disease Control and Prevention said it expects a wider spread of the virus in the United States, and officials there said they are preparing for a potential pandemic. Fourteen locally diagnosed cases have been confirmed in the United States, The Wall Street Journal reported. The strain of the virus responsible for the outbreak, COVID-19, is believed to have originated late last year in Wuhan, China, in a market selling wildlife. So far, it has infected nearly 80,000 people and killed more than 2,700, mostly in China, Reuters reported. Shares of Miami-based cruise companies plunged on Tuesday amid worries about the disease and after Jamaica and the Cayman Islands denied permission to the Meraviglia, an MSC Cruises ship, to allow passengers to disembark over fears that a crew member could have the virus, the Miami Herald reported. MSC Cruises is privately held and did not respond to the newspaper's request for comment. [Editor's note: See related **Q&A** in the Feb. 11 issue of the Advisor.]

ECONOMIC NEWS

Mexico's Economy Contracts for First Time in a Decade

Mexico's economy contracted last year for the first time in 10 years, driven by drops in industrial production and investment, revised government data confirmed Tuesday, The Wall Street Journal reported. Gross domestic product contracted by 0.1 percent in seasonally adjusted terms in the fourth quarter from the previous three-month period, the national statistics institute said. That figure was revised down from flat in preliminary data released last month. GDP fell 0.5 percent in the fourth quarter as compared to the same period a year earlier, and it was down 0.1 percent for the full year, the first annual contraction since the global crisis of 2009. Industrial production also fell, by 1.8 percent last year, with the largest declines in mining and construction, as well as a slowdown in manufacturing output. The drop in investment has been a major point of criticism during the first year in office of President Andrés Manuel López Obrador, who had promised 4 percent growth annually during his six-year term. Foreign direct investment remained steady at approximately $33 billion last year, but private and public fixed investment fell 5.1 percent through November. "The outlook

> **"The outlook for investment spending remains lackluster."**
>
> **— Alberto Ramos**

NEWS BRIEFS

Mexico Concerned About U.S. High Court Ruling on Boy Killed at Border

Mexico's government on Tuesday expressed "deep concerns" over a ruling by the U.S. Supreme Court in the case of a 15-year-old Mexican boy killed on Mexican soil in 2010 by a U.S. Border Patrol agent who shot at him from the U.S. side of the border, saying it would set a precedent, Reuters reported. The Supreme Court on Tuesday barred the boy's family from suing the agent in U.S. courts.

Nicaragua's Economy Contracts Further in 2019

Nicaragua's economy registered a deeper contraction last year, as compared to the previous year, according to International Monetary Fund estimates released Tuesday, Reuters reported. The Central American country's GDP declined by 5.7 last year, compared to 3.8 percent a year earlier, the IMF estimated, while inflation increased 6.1 percent, compared to 3.9 percent in 2018. Anti-government protests calling for the resignation of President Daniel Ortega began nearly two years ago.

Colombia's Ecopetrol Reports 14.7% Rise in Annual Net Profit

Colombian state-owned oil company Ecopetrol on Tuesday reported a 14.7 percent rise in net profit, to 13.3 trillion pesos ($3.87 billion) for last year, Reuters reported. The company said a successful commercial strategy for its heavy crude oil boosted results. In the fourth quarter, Ecopetrol's net profit soared 51.5 percent to 4 trillion pesos ($1.16 billion), according to the company's filing with Colombia's financial regulator. "2019 was an outstanding year in operational and financial terms for Grupo Ecopetrol," CEO Felipe Bayón said in a statement. The company drilled 20 wells last year, above its goal of 12, it said.

for investment spending remains lackluster," Alberto Ramos, an analyst at Goldman Sachs, wrote in a note on Tuesday. "High interest rates and exigent domestic financing conditions, as well as an overall modest outlook for final domestic demand should all remain a drag on investment spending," he added.

BUSINESS NEWS

Tupperware's Shares Dive Amid Mexico Accounting Probe

The shares of Tupperware Brands fell sharply to a record low on Tuesday after the consumer-products company warned of pressure on its sales and profit and said an internal accounting investigation in Mexico could move back completion of its annual report, The Wall Street Journal reported. Tupperware a day earlier said it had opened a probe into accounting for its Fuller México beauty-products business, adding it would ask the U.S. Securities and Exchange Commission for a 15-day extension to file its latest annual report in part due to the investigation. For its current fiscal year, the company estimates a decline in sales of at least 10 percent and a profit of no more than $1.23 per share. Based on that outlook, Tupperware said it would likely need relief concerning a debt ratio tied to a $650 million loan agreement from last March in order to "avoid a potential acceleration of debt," The Wall Street Journal reported. The company also has $600 million in bonds due in June of next year, according to filings. "The more dire their cash situation gets, the harder it's going to be to refinance those bonds," independent analyst Doug Lane told The Wall Street Journal. The stock plummeted more than 43 percent on Tuesday, marking Tupperware's largest one-day percentage decline in extremely active trade, MarketWatch reported. Nearly 12.6 million shares changed hands by early afternoon, more than seven times the stock's 65-day average volume.

FEATURED Q&A / Continued from page 1

win approval for a tax reform that substantially cut corporate taxes (firms will save roughly 1 percent of GDP in taxes this year, versus 2018), which has driven a boost in investment. Other factors—strong investment from regional and local governments, a large increase in remittances from countries such as the United States, Spain and Chile, and immigration from Venezuela—also contributed to faster economic growth, especially through higher consumption of basic goods. We expect the positive momentum to continue this year as fundamentals are set to remain relatively unchanged. That said, domestic demand's strong performance in 2019 and the expected lower public spending in the first year of mayors' and governors' terms will imply that the economy will grow at a similar pace in 2020 amid a demanding statistical base (we have 3.2 percent). The developments around announced major infrastructure projects in Bogotá worth roughly 3 percent of GDP, including the construction of the metro, will be a key factor to monitor ahead, as their effective execution would mean a relevant upside risk to economic activity, especially from 2021 onwards."

A **Sergio Guzmán, director of Colombia Risk Analysis:** "Despite the good news about GDP growth, Colombia continues to be vulnerable to external shocks due to its twin deficits. According to the central bank, the current account deficit last September was $10.3 billion, that is, 4.4 percent of GDP. Meanwhile, the country has a fiscal deficit goal of 2.2 percent for 2020. Shocks such as the continuity of the U.S. trade war with China, global oil prices and monetary policy adjustments from the United States or Europe are likely to influence fluctuations in the peso. International ratings agencies have been very cautious about the country. To maintain the country's investment-grade credit rating, Colombia must work to improve the stability of public finances and increase collection. The government's fiscal deficit will continue in 2020, in part because the proposed fiscal reform, called the Economic Growth Law, induces a deficit that contains about $3 billion in corporate tax refunds, as well as tax reductions for low-income groups. The Ministry of Finance's calculations on the tax reform estimated that greater economic growth, accompanied by an increase in foreign direct investment and contributions from fighting tax evasion, would make up for the tax exemptions to large companies. However, if these goals are not met, it is very likely that the government will resort to decreeing extraordinary dividends, or maybe even sell off its stake in different state-owned companies, such as Ecopetrol or ISA."

A **Martha Elena Delgado, director of macroeconomic and sectorial analysis at Fedesarrollo in Bogotá:** "Colombia's GDP growth in 2019 closed at 3.3 percent, aligned with Fedesarrollo's forecast since December 2018. As expected, private consumption and investment boosted economic activity last year. In terms of consumption, this behavior was fueled by remittances, higher real salaries and Venezuelan migration, while investment increased due to the expansionary cycle of the economy since 2016 and the 'Economic Growth Law,' which reduced taxes for capital goods imports in order to boost private sector dynamism. Relative to sectoral growth, trade and transportation, public administration and financial services were the activities that showed the highest growth rates, consistent with the expansion in aggregate consumption. Colombia was Latin America's fastest-growing economy in 2019, and it is expected to maintain this position in 2020 and 2021. Decades of macroeconomic stability played a fundamental role in keeping a solid and sustainable economy, based on the strength of the country's economic institutions and the implementation of prudent fiscal and monetary policies. The most important challenges

Continued on page 4

FEATURED Q&A / Continued from page 3

ahead are increasing potential growth, bringing down the unemployment rate (10.5 percent in 2019) and continuing to reduce poverty (27 percent of the total population in 2018) and extreme poverty (7.2 percent of the total population in 2018). The recent tax reform, which reduced corporate capital costs and introduced a simplified tax system for small and medium enterprises, is a first step. In order to continue a reform agenda, the country should focus in exports diversification, human capital training, deepening its capitals market and making the social security system more progressive."

A **Oscar Ardila, head of investor relations and responsible investing at AshmoreAVENIDA:** "In 2019, higher industrial and commercial confidence were reflected in demand for credit and financial services. Low interest rates and the stable expansionary stance on monetary policy by the central bank, alongside the tax reform, fueled the dynamic and resulted in 3.3 percent growth, the highest since 2014. Despite Colombia's outperformance in the region, it is important to understand why other Latin American economies did not perform in tandem. As a region, Latin America has underperformed other emerging market regions. However, there is no one driving factor that applies across the board, and internal conditions in each country are responsible for their own performance. In Chile, social unrest and sustained protests in the fourth quarter decimated growth expectations. In Mexico, a weaker investment environment has contributed to the economy's stagnation. In Argentina, unresolved structural problems and the most recent election results have limited the growth outlook, while in Peru, the combination of political uncertainty and weaker commodity prices have contributed to the slowdown. In Colombia, President Duque's government has passed an unpopular but necessary tax reform, while promoting the country as an investment destination through the reactivation of the 4G program, Bogotá's metro, infrastructure projects in the Caribbean coast and a wave of venture capital investing. Over the short to medium term, and as long as consumer confidence levels increase in line with the overall economy, internal demand can be expected to become an additional economic driver sustaining the current pace of growth."

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

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