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FEATURED Q&A

What Factors Are Weighing on Mexico's Economy?

Mexico's central bank, led by Alejandro Díaz de León, recently cut its forecast for the country's economic growth. // File Photo: Notimex.

Q Mexico's economy contracted last year for the first time in a decade as gross domestic product shrank 0.1 percent in seasonally adjusted terms, with industrial production falling a sharp 1.8 percent. Meanwhile, citing the global coronavirus outbreak, Mexico's central bank late last month cut its forecast for economic growth this year and now expects GDP to expand by between 0.5 percent and 1.5 percent, down from the previous estimate of between 0.8 percent and 1.8 percent. What are the main factors weighing on Mexico's economy? Is GDP likely to contract again this year, or will the economy return to growth? Which sectors will fare the best this year, and which will suffer the most?

A Rogelio Ramírez de la O, president of Ecanal in Mexico City: "Economic growth appears to have become the elusive element for the current Mexican government at the start of its second year. Coronavirus has only exacerbated last year's difficulties for growth, leading to the first downward revision in the Bank of Mexico's outlook. Setting coronavirus aside, as we know little of its potential impact, the main factors weighing on the economy are related to domestic drivers of consumption and investment, which in 2019 fell well below their historical growth rates. Consumption seldom grows at less than 3 percent, while investment growth weakened since 2016, but was still up 0.1 percent through 2018. In both cases, their performance in 2019, consumption up 1 percent and investment falling 5.1 percent through November, are well beyond their usual range, suggesting that a bounce in 2020 is more likely rather than further weakening. Now, the

Continued on page 3

TODAY'S NEWS

POLITICAL

Women's Strike Shutters Stores, Schools in Mexico

Stores and schools were shut down, universities canceled classes and streets were empty in Mexico as hundreds of thousands of women participated in a nationwide strike to protest violence against women.

Page 2

BUSINESS

Heineken to Invest $183 Mn to Expand Brazil Brewery

The Dutch brewer will expand its Ponta Grossa brewery in Brazil, a move that will boost its production by 75 percent, the company said.

Page 3

ECONOMIC

Argentine Farmers Begin Four-Day Strike

Farmers in Argentina began a strike in protest of the hike in export taxes for soybeans and their byproducts by the government of President Alberto Fernández.

Page 2

Fernández // File Photo: Argentine Government.

POLITICAL NEWS

Women's Strike Closes Stores, Schools in Mexico

Hundreds of thousands of women in Mexico participated in an unprecedented nationwide strike to protest a recent wave of violence against women, bringing much of the country to a halt on Monday, The Wall street Journal reported. Many shops that women own or manage were closed, and most schools and universities suspended classes. Streets across Mexico City were empty, as were public transport buses, El País reported. It was not clear whether the strike reached the country's rural areas, where poverty and inequality make it harder for women to skip work. Photographs on social media showed deserted roads in other large cities, including León, in the conservative state of Guanajuato, and Puebla. The call to strike aimed to bring attention to rising violence against women and authorities' failure to provide security, as well as to raise awareness about the importance of women in the country's daily life, The Wall Street Journal reported. The strike followed the murders last month of a young woman and a girl. "This is a turning point for the feminist movement in Mexico," said Luz Estrada, who heads the National Citizens' Observatory of Femicide, an advocacy group. "It is an awakening of consciousness. Women are not willing to remain silent anymore in the face of violence and discrimination," she added. [Editor's note: See related **Q&A** in the Feb. 27 issue of the Advisor.]

ECONOMIC NEWS

Argentine Farmers Strike in Protest of Export Taxes

Farmers in Argentina on Monday began a four-day strike protesting the government's hike of export taxes for soybeans and the crop's products, EFE reported. Three of Argentina's four main rural associations last week announced the strike over the decision by the administration of President Alberto Fernández to increase soy export taxes to 33 percent, from 30 percent previously, amid the country's deep economic crisis. Industry experts said the effects would likely be visible as of today, when grains and beef already sold would not arrive at ports, Reuters reported. "Surely, tomorrow we'll feel it," Guillermo Wade, head of Argentina's CAPyM port operators' chamber, said on Monday, referring to the port area of Rosario. Nearly 80 percent of the country's grains and byproduct exports are shipped from that port. "The activity in the port area [of Rosario] is completely normal," Wade added, saying that the strike is not expected to hurt grains shipments because export companies have reserves in their ports. The strike is reminiscent of a previous conflict between farmers and the Peronist government of former President and current Vice President Cristina Fernández de Kirchner from 2007 to 2015. Her government and agriculture producers were involved in a fierce dispute, which reached a high in 2008 when she attempted to raise taxes on soy exports but massive protests forced the administration to back down, Reuters reported.

BUSINESS NEWS

Caixa Seguridade Delays IPO Amid Oil Plunge, Virus: Report

Brazilian insurance provider Caixa Seguridade on Monday decided to cancel its initial public offering amid concerns about the spreading coronavirus outbreak and the plunge in oil prices, Reuters reported. State-run bank Caixa Econômica Federal, the insurer's controlling shareholder, had planned to conduct the offering in April, but it has decided to push the offering back by three to six months, two sources told the wire service on condition of anonymity because the discussions are private.

NEWS BRIEFS

Venezuelan Opposition Plans March to National Assembly

Venezuela's opposition plans a march today in downtown Caracas to the country's Legislative Palace in an effort to regain control of the building, which lawmakers loyal to President Nicolás Maduro took control of in January, Reuters reported. For weeks, opposition National Assembly President Juan Guaidó, whom dozens of countries recognize as the country's legitimate president, has urged Venezuelans to join the rally.

Armed Men Steal More Than $14 Million in Heist at Santiago Airport

Police in Chile are looking for a group of armed men who stole $14 million and 1 million euros from a security van at Santiago airport, in an incident that has been dubbed "the heist of the century," The Guardian reported Monday. At least seven attackers, some carrying shotguns and one a rifle, were involved in the robbery, which left two security guards injured. It was the latest in a wave of robberies in Chile, where criminals are taking advantage of the country's unrest to carry out criminal activity.

Costa Rica Suspends Mass Gatherings in Bid to Stem Coronavirus Outbreak

Costa Rican authorities on Monday announced several preventive measures in response to the spreading coronavirus epidemic, including the suspension of mass gathering events and working from home for all positions that allow it, the Tico Times reported. President Carlos Alvarado said in a press conference that concerts, horse parades and regional festivals would be suspended for at least two weeks, and soccer matches and other sporting events would be held without spectators. Costa Rica has nine confirmed cases of coronavirus.

The offering had been expected to raise in excess of 10 billion reais ($2.12 billion), which would make it Brazil's largest IPO so far this year. Caixa did not respond to a request for comment by Reuters. Companies in Brazil have been considering a record number of IPOs and follow-on offers this year amid the country's lowest interest rates on record and a robust outlook for economic growth. However, the coronavirus outbreak has roiled markets worldwide and has led to increased uncertainty about global growth amid worries about dampening consumer demand and supply chain disruptions. Bankers in Brazil had been expecting almost 200 billion reais in share offerings this year, as homebuilders, banks and retailers have been among the 25 companies that have filed documents with the country's securities regulator ahead of planned IPOs. A delay in Caixa Seguridade's IPO could also represent a complication for Brazilian President Jair Bolsonaro's plans to raise billions of dollars this year through sales of state-owned assets, which may now fetch lower prices amid the market turmoil, Reuters reported. Most companies with planned IPOs have not yet ultimately decided whether to proceed with the offerings, three sources told the wire service. Firms can wait for about two weeks before finally deciding on whether to go ahead with the offerings after filing with securities regulators. Some companies are already close to deciding to back away from planned initial public offerings, such as Banco Daycoval, which had planned to raise $1 billion in a stock flotation in coming weeks, a source close to the bank told Reuters. On Monday, Brazil's real currency fell to a record low against the U.S. dollar, and its stocks entered a bear market amid the plunge in oil prices, Bloomberg News reported. The country's benchmark equity index tumbled 12 percent on Monday, its largest fall in 21 years. The index is down 28 percent since its peak in January.

Bolsonaro // File Photo: Brazilian Government.

Heineken to Invest $183 Mn to Expand Brazil Brewery

Dutch beer maker Heineken will spend 865 million reais ($183.14 million) to expand its Ponta Grossa brewery in Brazil, the company said Monday, Reuters reported. Heineken said it will make the investment this year and next and said that the move would boost beer production by 75 percent. "We are bringing forward by one year all the investments of our strategic plan. Brazil is a key market for us," Mauricio Giamellaro, the chief executive officer of Heineken Brazil, told the wire service. "Basically, we are building a new brewery." Brazil has been a more important market for sales than Europe or the United States for Heineken, the world's second-largest brewer after Anheuser Busch InBev, Reuters reported. Heineken's announcement came a day after Ambev announced that it would invest 2 billion reais to build a new brewery in northern Brazil, as well as a malting factory in the southeast and a can-production unit.

FEATURED Q&A / Continued from page 1

factors that weaken consumption growth are some losses in jobs, mainly relating to the sharp fall in construction and some changes in consumer confidence. Whereas in investment, the main driver was the slow start of large public investment projects, which is instrumental for many private investment projects, at least in construction and services. It would thus be extraordinary to see in 2020 a replication of the same drivers that were active in 2019 preventing a turning point in consumption and investment. In addition, Pemex's crude oil output has stabilized and is now likely to rise gradually. And uncertainty over U.S.-Mexico trade is no longer a factor. Sectors where it is logical to expect an upturn in activity are construction, infrastructure development, transportation, telecoms and forestry."

A **Wolfram F. Schaffler González, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University:** "This year, Mexico's economy hinges on three things: whether COVID-19 becomes a true worldwide pandemic, the U.S. election and the willingness of Mexico's business sector to participate with the government on its infrastructure and energy programs. If Chinese exports to the United States decrease due to diminished production, Mexico could become a replacement supplier of some of those items and would hope to remain one after the epidemiological threat is gone. Related to this is the possibility that President Trump might close the U.S.-Mexico border if he feels the need to do so. If this happens, the disruption of supply chains will affect the economies of all three North American nations. Regarding the 2020 U.S. election, there are two reasons to think it might have a negative impact on the Mexican economy. If Bernie Sanders is the Democratic presidential candidate, he has promised to reopen the USMCA, which will renew the uncertainty that recently ended. The other is if President Trump goes back to the border rhetoric prevalent during his 2016 campaign. On the bright side, the business community is willing to participate in President López Obrador's National Infrastructure Program

> **"If Bernie Sanders is the Democratic presidential candidate, he has promised to reopen the USMCA..."**
> **— Wolfram F. Schaffler González**

Continued on page 4

FEATURED Q&A / Continued from page 3

($42 billion applied over five years to 147 projects, 72 of them in 2020). Reuters also recently reported that Mexican companies plan to invest $92 billion in energy projects, which go from natural gas production to exploration, storage and transportation. Finally, Mexico's economy might also benefit from more consumer spending due to higher minimum wages and the expected positive impact some sectors, such as construction, manufacturing, mining and fibers, will see once USMCA is operational."

A **Alma Caballero, director at McLarty Associates:** "The main factors weighing on the Mexican economy combine domestic and external factors that include low levels of productivity, which is key to unlocking long-term growth, and the high levels of remittances from the United States that support household consumption in Mexico and contribute 3 percent of the country's GDP. Despite the Mexican economy witnessing its first annual contraction since the 2009 economic crisis, President López Obrador continues to dismiss concerns about slower growth caused by the uncertain economic climate, austerity measures, increasing security concerns and the rapid deterioration of institutions that provide the legal framework to protecting domestic and foreign investments. Financial institutions are now revising their 2020 growth forecasts for Mexico. Banxico is projecting GDP growth between 0.5 percent and 1.5 percent, and the IMF and OECD are predicting growth rates of 0.9 percent and 0.7 percent, respectively. Citibanamex also recently decreased its growth projections to 0.7 percent from 0.9 percent. Based on the internal political and productivity factors coupled with external shocks such as the coronavirus outbreak and the U.S. presidential election, the Mexican economy is unlikely to return to growth in the near future. Sectors that are poised to suffer the most in Mexico this year could potentially include tourism, oil and gas, and pharma, compared to retail and fintech, which will probably fare best."

> **"President López Obrador continues to dismiss concerns about slower growth..."**
>
> **— Alma Caballero**

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

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter & Associate Editor
achacon@thedialogue.org

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ebrand@thedialogue.org