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FEATURED Q&A

Does Colombia's Budget Address the Right Priorities?



Colombia's Congress has given its approval for the largest budget in the country's history. Social spending has increased "substantially" under President Iván Duque (pictured), Sergio Guzmán says below. // File Photo: Colombian Government.

Q Colombia's Congress last month approved a budget of \$81.7 billion for next year, 8.3 percent higher than this year's and the largest in the Andean nation's history. Most of the money will be earmarked for government operating costs, as well as debt payments, the education sector and pension payments. What are the most important elements of the 2021 budget, and is funding going to the areas in which it is most needed? Is the substantial increase in the budget the right decision, and where will the money come from? What impact will the plan have on Colombia's fiscal deficit and debt load?

A Hernando Zuleta González, professor in the economics department at Universidad de los Andes: "The Covid-19 pandemic has had devastating effects on the Colombian economy. Along with more than 4.8 million jobs destroyed, another 2.8 million workers, despite declaring themselves employed, work zero hours, and 4.5 million more suffered a reduction in the number of hours worked. Consequently, the proportion of households whose total labor income is less than the minimum wage increased from 34 percent to 48 percent. Amid this worrying scenario, the government has presented the budget for 2021. The total budget approved is 313.9 trillion pesos, 19.2 percent higher than the 2020 budget. Operating expenses account for 58.9 percent of the budget. So, with 41.1 percent of the budget, the government must manage the fiscal risk of the economy, generate stimuli for recovery and fight the increase in poverty. For these reasons and in order to ensure the fiscal sustainability of the country, the government included in the original version of the budget 72.5 trillion pesos for debt

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TODAY'S NEWS

POLITICAL

Outcome Unclear in U.S. Election, Could Take Days

Key battleground states continued counting ballots this morning in the U.S. presidential election in which former Vice President Joe Biden is seeking to unseat incumbent President Donald Trump. Full results might not be known for days.

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POLITICAL

At Least Three Killed as Eta Slams Central America

Hurricane Eta slammed into north-eastern Nicaragua as a Category 4 storm, reportedly leading to mudslides that caused two deaths in Nicaragua and one in Honduras.

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BUSINESS

Brazil's Itaú Unibanco Sees Fall in Q3 Profit

Brazil's largest nongovernment lender, Itaú Unibanco, led by Chief Executive Officer Candido Bracher, reported a fall in recurring net income, driven by a surge in loan-loss provisions.

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Bracher // File Photo: LinkedIn.

POLITICAL NEWS

Outcome Unclear in U.S. Presidential Vote, Could Take Days

The outcome was unclear this morning from Tuesday's presidential election in the United States, with the contest headed toward a possible legal showdown and as key states kept counting ballots, The Washington Post reported. President Donald Trump prematurely claimed victory even though millions of votes had still not been counted and about half a dozen battleground states had still not been called, CNBC reported. "A very sad group of people is trying to disenfranchise [people who voted for me] and we won't stand for this," Trump told supporters at the White House just before 2:30 a.m. "We were getting ready for a big celebration. We were winning everything, and all of a sudden it was just called off." More than an hour earlier, Trump's rival, former Vice President Joe Biden, told supporters that he was confident of victory but urged his backers to be patient. "I'm optimistic about this outcome," Biden said in Wilmington, Del. "We knew because of the unprecedented mail-in vote and the early vote that it was going to take a while." He added, "And we have to be patient, and it's not over until every vote is counted." Trump was projected to have won victories in the major battleground states of Florida, Ohio and North Carolina, beating back the possibility of a landslide for Biden. However, results have not yet been clear in other major states, including Pennsylvania, Michigan and Wisconsin. In one of the biggest victories so far in the presidential race, Florida, with its 29 electoral votes, was called for Trump. The incumbent president had 51.2 percent of the vote there, as compared to 47.8 percent for Biden, with 96 percent of precincts reporting, according to the Associated Press. Trump, who last year changed his official residency from New York to Florida, has also long courted the support of Cuban exiles in Miami. Repeated visits by Trump and other administration officials to Miami to announce new sanctions

on the Cuban and Venezuelan governments, as well as rhetoric against socialism, has long been part of Trump's electoral strategy, according to former administration officials and both Republican and Democratic political strategists, Politico reported. The election also whipsawed financial markets overnight, including currencies. The Mexican peso lost 4 percent in late-night trading against the U.S. dollar before recovering some ground, Reuters reported. Turnout in this year's presidential election, which included votes cast early and by mail, may be the highest in more than a century, The Washington Post reported. According to Edison Research, more than 157 million ballots have been cast in the presidential election, which would represent a turnout of 65.7 percent among eligible voters. Turnout was 60.1 percent in the last U.S. presidential election in 2016. This morning, Republicans were also hanging on to their majority in the U.S. Senate, with right-wing candidates fending off challenges in several key states. Democrats also appeared to be holding their majority in the House of Representatives, though they seemed to fall short of their hopes to expand their majority in the lower chamber of Congress. Voters in Puerto Rico were also waiting for results this morning in the U.S. territory's gubernatorial race. Pro-statehood candidate Pedro Pierluisi was holding a narrow lead over his rival, Carlos Delgado. With 95.11 percent of precincts reporting, Pierluisi was leading Delgado 32.40 percent to 31.36 percent, according to Puerto Rico's electoral commission.

At Least Three Killed as Hurricane Slams Nicaragua, Honduras

Hurricane Eta hit northeastern Nicaragua on Tuesday as a Category 4 storm, reportedly leading to at least three deaths as the storm crashed into trees and homes and took down power lines, The Wall Street Journal reported. The center of the storm made landfall at around 4 p.m. Eastern Time near the municipality of Puerto Cabezas on the country's Caribbean coast, with maximum sustained

NEWS BRIEFS

Brazilian Prosecutors File Charges Against President's Son

Brazilian prosecutors said today that they have filed charges against Senator Flávio Bolsonaro, a son of President Jair Bolsonaro, on charges of embezzlement, money laundering and running a criminal organization, The Wall Street Journal reported. Flávio Bolsonaro has been under investigation in connection with an alleged scheme to siphon off taxpayer money in his former job as state deputy in Rio de Janeiro. He has previously denied wrongdoing. Sixteen other people were also charged in relation to the case.

Mexican Prosecutors Tried to Get Warrant for Videgaray: López Obrador

Mexican President Andrés Manuel López Obrador said Tuesday that federal prosecutors had attempted to get an arrest warrant for former Treasury and Foreign Relations Secretary Luis Videgaray, who has been accused of being involved in bribery and illegal campaign financing, the Associated Press reported. However, a judge rejected the request for an arrest warrant, the president said. Videgaray, who has said the accusations are "false ... absurd, inconsistent and reckless," was a close ally of former President Enrique Peña Nieto.

Brazil's Itaú Unibanco Sees Fall in Q3 Profit

Brazil's Itaú Unibanco, the largest nongovernment lender in the South American country, on Tuesday registered a fall in recurring net income in the third quarter, driven by a surge of nearly 41 percent in its loan-loss provisioning as compared to a year earlier, Reuters reported. The bank's third-quarter recurring net income, which does not include one-off items, was 5.03 billion reais (\$873.87 million), higher than the 4.938 billion reais estimate by Refinitiv.

winds of almost 140 miles an hour. Nicaraguan media reported that a mudslide had killed two artisanal miners, Reuters reported. Meanwhile in Honduras, just north of Nicaragua, Eta brought flooding and landslides, and the country's fire department reported the death of a 13-year-old girl in a landslide, the wire service reported. According to Nicaraguan officials, at least 30,000 people were evacuated, with some in shelters set up by the government or in churches and other buildings, and more than 30,000 homes were left without electricity in addition to material damage, Confidential reported. Eta, which has now weakened to a tropical storm with maximum sustained winds 60 miles an hour, is still moving over Central America but could veer toward Florida over the weekend, the Orlando Sentinel reported.

ECONOMIC NEWS

Brazil Manufacturing Expands at Record Pace in October

Brazil's level of manufacturing grew last month at a record pace, according to a survey of purchasing managers' activity, Reuters reported. The IHS Markit purchasing managers' index report showed record high prices of inputs and outputs as a result of a persistently weak exchange rate, as well as lower expectations for future output, the wire service reported. In October, the headline PMI index rose 66.7 percent, as compared to a 64.9 percent rise in September. The October increase was the highest since the index was first tabulated in February 2006. Levels above 50 show expansion, while levels below that number show contraction. Brazil's manufacturing and industry output seem to have recovered from the worst of the economic effects of the Covid-19 pandemic, Reuters reported. "Monthly rates of expansion for output, new orders, exports and employment were at or near record highs," said Pollyanna De Lima, the associate economics director at IHS Markit.

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service. With regard to public investment, which is fundamental for economic recovery, the government included 56.7 trillion pesos. However, in the negotiation with Congress, debt service was reduced to 70.5 trillion pesos, and public investment increased to 58.9 trillion pesos. With these modifications, Congress is committed to a recovery driven by public spending, running the risk of additional increases in public debt. On top of this risk, government projections about tax revenue rest on the assumption of a fast recovery. If this optimistic scenario does not happen, tax revenue is going to be lower than expected, and there will be an increase in fiscal vulnerability."

A **Richard Francis, director of Latin American sovereigns at Fitch Ratings:** "Colombia's 2021 budget, approved in Congress in first debate, calls for an increase in spending from 2020 to combat the coronavirus pandemic and reactivate the economy. The government suspended its fiscal rule in 2020 for two years. The government's projected central government deficit of 5.4 percent of GDP is slightly above the deficit outlined in the Medium-Term Fiscal Framework (MTFF) published in June and down from 8.2 percent of GDP projected in 2020. Most of the increase is in capital spending as the government seeks to reactivate the economy after the sharp contraction this year. The lower deficit is therefore coming mostly from improved revenues in 2021. However, Fitch projects a higher deficit of 5.9 percent of GDP in 2021 (and more than 9 percent in 2020), given expectations for lower revenues as a result of our lower growth forecasts. We believe risks are mainly to the downside. In Fitch's view, some of the underlying assumptions for the medium-term growth trajectory are optimistic. The government projects GDP growth of 6.6 percent in 2021, above 5 percent from 2022-23 and above 4 percent through 2025, citing the large output gap that has emerged after the pandemic.

There is uncertainty on both the new potential and the pace at which the output gap closes, which could undermine medium-term revenue assumptions. General government debt-to-GDP will continue to rise in 2021,

“ We believe risks are mainly to the downside.”

— Richard Francis

after reaching nearly 60 percent in 2020, up from close to 45 percent in 2019. Returning to the fiscal rule in 2022 would mean a budget deficit target of 2.5 percent of GDP, according to the government. In its MTFF framework, the government outlined the need to raise structural revenues by 2 percent of GDP. The feasibility of a tax reform is uncertain, especially as Colombia heads for presidential and congressional elections in early 2022, although the government has a long track record of passing tax reforms to increase revenues."

A **Martha Elena Delgado, director of macroeconomic and sectoral analysis at Fedesarrollo in Bogotá:** "The 2021 national budget amounts to 28.2 percent of GDP and, although that amount presented to Congress has not changed, discussion in the legislature did modify its composition, with an increase in the budget earmarked for investment and a decrease in the budget earmarked for debt. By sector, it is only known so far that education remains the sector with the most resources, followed by the defense and police sector, the health sector and the labor sector. However, it is important to note that the budget without debt is reduced to 21.5 percent of GDP, which represents a substantial amount as compared to previous years and also includes fewer resources as compared to this year, if the additional 30 trillion pesos to address the pandemic are

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taken into account. In this sense, the budget is in line with a necessary adjustment to reduce the fiscal deficit in 2021 and finance the higher debt incurred in recent months. There are two risks associated with the budget. The first is a worse prospect for economic growth in 2020, which would limit tax collection and reduce government revenues. Second is that the government plans to carry out an asset disposal of 1.2 percent of GDP in 2021, which may not be politically viable. Given the potential reduction in public revenues, new sources of financing should then be sought in a context of high uncertainty and an economy whose debt increased from 50 percent in 2019 to 66 percent in 2020."

A **Sergio Guzmán, director of Colombia Risk Analysis:** "The 2021 budget is designed as a response to the recession, to keep the government open and to provide solutions for prolonged unemployment and lower aggregate demand. Under President Duque, social spending and the GDP-to-debt ratio have increased substantially. However, the government's efforts are likely to fall short, given the magnitude of the crisis: more than 10 percent of businesses (approximately 80,000 commercial establishments) have

closed permanently, formal unemployment exceeds 16.8 percent, and, according to the government, close to 1.6 million families have reduced the number of meals per day from three to two. S&P's decision last week not to downgrade Colombia suggests trust in the country's fiscal and monetary policy institutions but also offers a stern warning that the government must urgently increase its revenue position to maintain its investment-grade rating. If precedent is a good suggestion, the government's 2021 tax reform is likely to maintain its proposed tax cuts to corporations, seek to extend the country's 19 percent VAT taxes to include all items in the basic consumption basket, increase the tax base by lowering income tax thresholds and aggressively tackle tax evasion. These reforms are not likely to be well-received politically (what tax increments are?), and although they are likely to include a VAT refund to the lowest quintile of the population (which the government has been piloting since the beginning of the pandemic), they are also likely to be ill-timed electorally ahead of the 2022 elections."

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2020

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter & Associate Editor
achacon@thedialogue.org



Michael Shifter, President

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at ebrand@thedialogue.org

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Advisor Video

BP's Energy Outlook

A Latin America Advisor interview with Jorge León, oil and gas supply economist, BP Group



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