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FEATURED Q&A

Will Uruguay See Strong Economic Growth This Year?



Uruguay's economy may have seen growth of 4 percent last year, said Marcela Bensión of the country's Economy Ministry. // File Photo: Uruguayan Government.

Q The economic policy director of Uruguay's Economy Ministry, Marcela Bensión, said earlier this month that it is not unreasonable to forecast that the country's economy grew 4 percent last year, a more optimistic scenario than the 3.4 percent growth that the International Monetary Fund predicted for 2021. What will be the main factors fueling Uruguay's economy in the year ahead? Which sectors of the country's economy will thrive, and which will struggle in 2022? How much is Uruguay's economy tied to those of Brazil and Argentina, and how will those bigger neighbors' economies affect Uruguay this year?

A Nicolás Albertoni, professor in the Department of Administration and Business at the Catholic University of Uruguay: "The current government's 'responsible freedom' policy meant that Uruguay's economy was never completely shut down.

It is difficult to say which sectors will thrive and which will struggle this year as we are still in the middle of a global recession. However, we know that the food sector (especially meat) is benefiting well from international prices. Beyond that, a country such as Uruguay that has shown good management of the pandemic—both socially and in terms of health policy—can become a unique destination for investors and retirees looking for secure countries amid an uncertain global economy. That is why, even during the pandemic, Uruguay is very well positioned to receive tourists and investments. Uruguay's exports grew 56 percent year-on-year in December and 43 percent overall last year. Goods exports also hit a historical record in 2021, with growth every month. Brazil receives 16 percent of Uruguay's

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TODAY'S NEWS

POLITICAL

Former Haitian Senator Arrested in Connection With Assassination

Former Haitian Senator John Joël Joseph was arrested in Haiti in connection with the assassination last July of Haitian President Jovenel Moïse.

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BUSINESS

Vista Oil & Gas Buying Stakes in Two Concessions in Argentina

Mexico's Vista Oil & Gas announced that it is buying half of the stake that Germany-based Wintershall Dea has in two concessions in the Vaca Muerta oil deposit in Argentina.

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ECONOMIC

Venezuela's GDP Grew 7.6% in Third Quarter: Maduro

Venezuela's economy grew 7.6 percent in last year's third quarter, said President Nicolás Maduro. He said the economy likely grew 4 percent for 2021 as a whole.

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Maduro // File Photo:
@NicolosMaduro via Twitter.

POLITICAL NEWS

Former Haitian Senator Arrested in Moïse Murder Case

Former Haitian Senator John Joël Joseph was arrested Friday in Jamaica in connection with the assassination last July of Haitian President Jovenel Moïse, Reuters reported. Jamaica's national police announced Joseph's arrest on Saturday but gave few other details about the arrest. Days after Moïse was fatally shot in his home on July 7, Haiti's then-National Police Chief Leon Charles said Joseph was a key suspect and alleged that he had planned meetings related to the planned assassination and also allegedly supplied weapons. Jamaican authorities arrested other people along with Joseph and were trying to determine whether the others are family members of the former senator, Jamaica's police superintendent, Stephanie Lindsay, told the Associated Press. "For more than one reason, we're not sharing more information," Lindsay told the AP. Joseph is a member of Haiti's Tet Kale party, of which Moïse was also a member. He is the second person to have been arrested in Jamaica in connection with the assassination. In October, authorities there arrested former Colombian soldier Mario Antonio Palacios Palacios. The U.S. Justice Department said Jan. 4 that Palacios had agreed to travel to the United States, where he is now in custody and charged in connection with Moïse's murder. Among those celebrating Joseph's arrest was former Haitian Foreign Affairs Minister Claude Joseph, who is not related to the former senator and who briefly served as the country's interim prime minister following Moïse's assassination. "The arrest of John Joël Joseph shows that there will be no hiding place for those who are directly or indirectly involved in the assassination," Claude Joseph wrote, adding that the international effort he launched following the murder continues seeing successes, the Miami Herald reported. Haitian police have arrested or implicated more than 40 people in connection with the killing, including more than a dozen

former Colombian soldiers, a Haitian-American preacher and members of Moïse's security detail, The Wall Street Journal reported. However, none of the suspects arrested in Haiti has been charged, the newspaper reported.

ECONOMIC NEWS

Venezuela's Economy Grew 7.6% in Third Quarter: Maduro

Venezuela's economy is recovering and grew 7.6 percent in the third quarter of last year, President Nicolás Maduro told lawmakers in a speech last weekend, the Financial Times reported Monday. The country's economy likely grew more than 4 percent in 2021, said Maduro, who called the growth "a marvelous achievement." He added that the country's exports leapt 33 percent last year. "After five years of economic war, boycott and blockades, Venezuela is back on the path of economic growth," said Maduro, the Financial Times reported. Economists' estimates on Venezuela's growth vary widely. "Our forecast for 2021 was for consolidated growth of 2.5 percent, and for 2022 we are predicting growth within the range of 3-5 percent," Tamara Herrera, chief economist at Caracas consultancy Síntesis Financiera, told the newspaper. Credit Suisse recently said it expected Venezuela's growth for 2021 to be 8.5 percent, and it predicted a 4.5 percent expansion this year. Credit Suisse said its estimates stem "largely from the improvement in oil output" as well as other factors including a greater level of dollarization and rising tax revenues. Economic expansion over the past year in Venezuela would mark the country's first rise in gross domestic product in eight years, the Financial Times reported. Over that time, the Andean nation's economy has shrunk approximately 75 percent. Venezuela also broke a four-year bout of hyperinflation as Maduro's government slowed the printing of money and the U.S. dollar grew in popularity. In December, prices rose 7.6 percent as compared to November, the central bank said,

NEWS BRIEFS

Brazil's Lula Widens Lead Against Bolsonaro in New Poll Ahead of October Vote

Support for former Brazilian President Luiz Inácio Lula da Silva, who is expected to run against current President Jair Bolsonaro in this October's election, surged in a new poll released last week, Reuters reported. Lula led Bolsonaro by 17 percentage points in the survey by polling firm Ideia, which was published Jan. 13 in weekly business magazine Exame. If the election were held today, Lula, would receive 41 percent of the vote, with 24 percent for Bolsonaro, according to the poll. In a previous poll released in December, 37 percent of respondents said they would vote for Lula, and 27 percent for Bolsonaro.

Chilean Court Orders Suspension of Lithium Contracts Auction

A Chilean court on Friday halted a lithium contracts auction that began earlier in the week, Reuters reported. The regional governor of the Atacama region and Indigenous communities requested the suspension over several concerns. The auction is part of the country's plan to boost production of lithium which is used in car and cellphone batteries.

Rio de Janeiro Seeking to Incentivize Use of Cryptocurrencies

Rio de Janeiro will create a working group to study how to incentivize the use of cryptocurrencies and use them to bolster the city's economy, Mayor Eduardo Paes announced Friday in a decree, Bloomberg News reported. The incentives could include offering discounts on taxes when paying in Bitcoin, according to the decree. In an event on Thursday, Paes said Rio de Janeiro would invest 1 percent of its public funds in cryptocurrency, Valor Econômico reported.

Bloomberg News reported. The latest inflation figures marked a full year that the country saw inflation below 50 percent, the threshold that economists generally use to define hyperinflation. Venezuela's annual inflation rate stood at 686.4 percent at the end of last year, down from nearly 3,000 percent in 2020, the central bank said, the Financial Times reported.

BUSINESS NEWS

Vista Buying Stake in Wintershall's Vaca Muerta Concessions

Mexican petroleum giant Vista Oil & Gas is buying a 50 percent of German company Wintershall Dea's stake in a pair of concessions in the Vaca Muerta oil fields in Argentina, Reuters reported on Monday. The deal is reportedly worth \$140 million and includes the retraction of a \$77 million up-front payment that Vista made last September, the wire service reported. Wintershall said the deal stems from a decision to refocus its extraction efforts in the Argentine shale deposit on natural gas. The firm also said in a separate announcement that it was shutting down all of its operations in Brazil, Reuters reported. Vista's acquisition of the Argentina oil field stakes gives the Mexican company control of 25,231 additional acres in the Vaca Muerta region, increasing its holdings to 183,084 acres in total, the company said. It will also add up to 150 new well locations to its Vaca Muerta portfolio, Vista added. "This deal is a unique opportunity that allows us to continue expanding our leadership in Vaca Muerta and to reaffirm our commitment to its development by incorporating high-potential assets, in which we plan to capture significant operational synergies," Miguel Galuccio, Vista's chairman and CEO, said in a press statement. [Editor's note: See [Q&A](#) on oil production in Argentina's Vaca Muerta formation in the Feb. 26, 2021 issue of the Dialogue's weekly Energy Advisor.]

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exports, and Argentina receives 5 percent, so any change in those economies will not have the same impact of a few decades ago, when they represented around 30 percent of Uruguay's exports. Lower dependence on our volatile region is making Uruguay less vulnerable to the economic changes of its major neighbors. However, the lack of solid free-trade agreements that may allow Uruguay to solidify its diversification is a challenge to be resolved in the short term. Uruguay's regional dependence on Mercosur has limited Uruguay's ability to sign FTAs not involving Mercosur. The current Uruguayan government is proactively working to promote more flexibility in the regional bloc and allow its members to negotiate bilateral trade deals. Indeed, Uruguay has an open conversation with China to start negotiations for a bilateral FTA, and it is open to continuing talks with other countries with the same objectives."

A Mariana Zepeda, Latin America analyst at FrontierView: "As 2022 kicks off, Uruguay's standout vaccination campaign will continue to bear economic fruit. Not only did high vaccination levels bolster economic activity and improve market confidence, but they also drove gradual labor market recovery, which could help boost still-sluggish consumption. As the government works to pursue new trade agreements outside Mercosur, Uruguay's export sector continues to be the most likely outperformer, particularly amid still-high commodity prices in 2022. Still, Brazil and Argentina are Uruguay's largest trade partners after China, and slowdowns in these markets could weigh on Uruguay's 2022 performance. In 2021, these markets' losses were Uruguay's gains: Uruguay's exports were a roaring success as Argentina implemented beef export restrictions—enabling Uruguay's beef producers to step in—and Brazil faced a hydroelectric crisis amid challenging weather conditions, bolstering Uruguay's 2021 electricity exports

by more than 40 percent year-over-year. This trend may not persist to the same degree in 2021, but the country's beef and electricity exports are still likely to remain elevated in 2022. Additionally, the UPM pulp mill project is still chugging along, and combined with various railway and port projects, should help bolster medium-term growth. Still, there are risks to Uruguay's outlook, including inflation, which has eroded real wages, and vulnerability to external shocks. On the political front, President Luis Lacalle Pou will face a referendum on his administration's key urgent consideration law, or LUC, in March, which could weaken his government's ability to continue to pursue its policy agenda."

A Todd Martinez, senior director in the Sovereigns Group at Fitch Ratings: "Uruguay's firming recovery was a supporting factor in our decision to revise the outlook on its BBB- rating to stable from negative in December. We upped our 2021 growth forecast to 3.4 percent from 2.5 percent after second-quarter data showed resilience to the coronavirus outbreak. Strong third-quarter data should lead to further revisions of around 4 percent. Uruguay's recovery remains relatively subdued despite the revisions, however, albeit partly due to a more conservative countercyclical policy effort that meant narrower use of policy ammunition and avoided exacerbating already high inflation. We project growth will moderate to 2.7 percent in 2022 and around 2 percent in following years as a pulp megaproject finishes. This is stronger than the anemic pre-pandemic average (0.8 percent in 2015-2019), supported by strong agricultural prices, improved business confidence and institutional stability. We think Uruguay should be resilient to turbulence in Brazil and Argentina and even stands to benefit in some respects (for example, via relocation of investments and individuals), but faces headwinds in others, mainly in tourism, given how expensive it has become. However, a 2

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percent growth pace is weak. Investment/GDP currently around 18 percent is the lowest among 'BBB' peers despite the pulp megaproject. This reflects competitiveness issues—high fuel costs, slipping education outcomes and labor market rigidities—that the government has acknowledged but has been challenged to address via reforms given ideological divergence within its coalition. Trade opening is a bright spot on the microeconomic agenda, however, and a trade agreement with China under consideration could have important benefits."

A Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach: "Uruguay is benefiting from an absence of the rule of law and market unfriendly economic policies in Argentina. This is behind two developments that are strengthening Uruguay's finances and capacity to attract foreign direct investment. The first is inflows of capital as corporate leaders and other influential middle-class members send their savings, profits and dividends to Uruguay. The second is talent inflows. As corporate leaders set foot in Montevideo, they develop downstream links

to local companies while also investing in small- and medium-size companies that are busy creating links between the local economy and the rest of the world. As a result, innovation is peaking, links to the rest of the world are multiplying and the country is better positioned to become a nearshoring

“Uruguay is benefiting from an absence of the rule of law and market unfriendly economic policies in Argentina.”

— Beatrice Rangel

investment target. Other development-inducing factors include educational reforms that former President Tabaré Vázquez tackled in his first term. These reforms included access to computers for all children and STEM-promoting curriculums. In short, Uruguay today seems to have taken the Singapore road to development, which basically stands on two pillars: rule of law and promotion of innovation."

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Advisor Video

Nicaragua 2022 – Is a Political Transition Possible?

An Inter-American Dialogue discussion with Laura Chinchilla, Former President of Costa Rica
Hugh Adsett, Canada's Ambassador to the OAS
Carlos Fernando Chamorro, Confidencial Magazine
Ana Lucía Álvarez, Economist, human rights defender
Jesús Tefel, National Blue and White Unity
Gonzalo Koncke, Organization of American States

View a webcast of the Jan. 12 discussion.

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