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THEDIALOGUE

FEATURED Q&A

What Will Weakness in the Peso Mean for Colombia?

Colombia's currency is trading at record lows against the U.S. dollar. Proposals from presidential candidate Gustavo Petro are causing uncertainty for investors, Andres Martinez-Fernandez says below. // File Photo: Facebook Page of Gustavo Petro.

Q The Colombian peso is trading at near-record lows against the U.S. dollar. The peso was at more than 4,000 to the greenback in early January and has recovered only slightly since then. The Colombian currency sank to 4,238 per dollar in March 2020, at the beginning of the Covid-19 pandemic. What are the implications of a weak peso for Colombia's exports, rate of inflation and consumer spending? How likely is the low-valued peso to become an issue ahead of the country's legislative and presidential elections this year? What impact would the leading presidential candidates have on the value of Colombia's currency and the country's economy?

A **José Manuel Restrepo, Colombia's finance minister:** "The first thing to note is that the exchange rate phenomenon is global. In other words, when the dollar is compared against the basket of the most representative currencies in the world, or against similar countries in Latin America, a similar increase is seen. This is due to several factors. One of them, and perhaps the most important, is that we are still in the midst of the uncertainty of Covid-19. In addition, the inflationary reality itself, which is generated in the United States and Europe, also implies an impact on the exchange rate, as well as a general trend of increasing prices in the world. In our case, there is an increase as a result of the uncertainty of the upcoming presidential and legislative elections, as there are uncertainties whenever we are close to an election, and this tends to push the rate up. From a fiscal perspective, we have been making efforts to deal with this increase in the exchange rate. We did it with the Social Investment Law, which

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TODAY'S NEWS

POLITICAL

Suspect in Killing of Haiti's Moïse Extradited to U.S.

Rodolphe Jaar, who stands accused in connection with the assassination last July of Haitian President Jovenel Moïse was extradited to the United States from the Dominican Republic.

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BUSINESS

PDVSA's Debt Level Grows to Nearly $35 Billion

Venezuelan state oil company PDVSA's debt grew to $34.9 billion last year, according to a government statement. PDVSA regained some of its production in 2021.

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ECONOMIC

Brazil's Poor Must Take Precedence Over Fiscal Discipline: Lula

More budget resources should be allocated to helping the poor, said former Brazilian President Luiz Inácio Lula da Silva, who is expected to seek the office again in this year's election.

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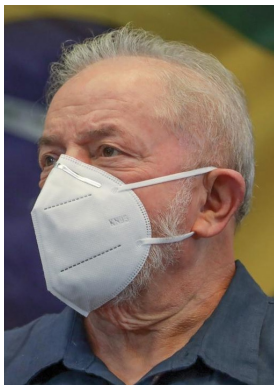

Lula // File Photo: Facebook Page of Luiz Inácio Lula da Silva.

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POLITICAL NEWS

Suspect in Killing of Haiti's Moïse Extradited to U.S.

A businessman accused in connection with the assassination last July of Haitian President Jovenel Moïse was extradited Wednesday to the United States from the Dominican Republic, where he was arrested earlier this month, the Associated Press reported. Rodolphe Jaar is scheduled for an initial appearance today in U.S. federal court in Miami, a spokeswoman for the Department of Justice told the wire service. Jaar once served as an informant for the U.S. government and was convicted on drug trafficking charges a decade ago. Authorities in the Dominican Republic arrested Jaar on Jan. 7, six months to the day after Moïse's assassination. He was detained after crossing into the Dominican Republic following months of hiding in Haiti, the Miami Herald reported. The hit squad that purportedly included Colombian commandos and Haitian police officers allegedly piled into vehicles leaving Jaar's home in Petionville, just outside Port-au-Prince, before driving to Moïse's nearby home in the early morning hours of July 7. The president was killed in his bedroom, and his wife was shot multiple times but survived the attack. Jaar is the second person to be extradited to the United States in connection with Moïse's killing. Earlier this month, U.S. authorities arrested a former Colombian soldier, Mario Antonio Palacios after he fled to Jamaica from Haiti, the Associated Press reported. a judge in Jamaica ordered him to be deported to Colombia, but he was detained during a layover in Panama and was flown to the United States. Another suspect, former Haitian Senator John Joël Joseph, was arrested last Friday in Jamaica. Joseph is being held on an alleged immigration violation, but a Haiti National Police investigative report accuses him of being part of the planning of the assassination. Joseph is scheduled for a court appearance today in criminal court in Kingston, the Miami Herald reported.

Some 1,200 Police Officers Deployed to Rio de Janeiro Favela

Approximately 1,200 police officers were deployed Wednesday to the Rio de Janeiro's Jacarezinho slum and surrounding areas as part of authorities' actions to "reclaim territory" in the city's favelas, the Associated Press reported. The operation began at dawn and was part of an ongoing effort to improve services and increase the police presence in at least two favelas, Jacarezinho and Muzema, said Rio de Janeiro Governor Cláudio Castro. "We have started a great process of transformation for the communities in the state of Rio. We spent months developing a program that changes the lives of the population, bringing dignity and opportunity," said Castro, the AP reported. "The operations today are just the start of that change that goes well beyond security." By Wednesday afternoon, authorities had arrested dozens of people, but there were no instances of violent confrontations, police said. Many of the arrests were made in Muzema, which the "milícia" organized crime groups control, The Guardian reported.

BUSINESS NEWS

Peru Demands Compensation From Repsol for Oil Spill

Peru is demanding compensation from Spanish oil company Repsol following a disastrous oil spill caused by waves following last Saturday's eruption of an underwater volcano near Tonga, The Guardian reported. Peruvian Prime Minister Mirtha Vásquez told reporters Wednesday that Repsol "apparently" lacked an oil-spill contingency plan, the newspaper reported. The South American nation's foreign ministry said Repsol should "immediately compensate" for the spill, which caused "serious harm to hundreds of fishermen's families" and "put in

NEWS BRIEFS

Brazil Must Prioritize Helping Poor Over Fiscal Discipline: Lula

Former Brazilian President Luiz Inácio Lula da Silva said in a news conference on Wednesday that poverty and inequality reduction must be the country's priority over fiscal discipline, Reuters reported. The leftist presidential candidate said that more budget resources should go to social programs, regardless of a constitutionally mandated spending cap. "Brazil has to put the poor back in the budget and tax the rich," he said.

Rights Court Calls on Mexico to Keep Probing 2001 Death of Activist

The Inter-American Court of Human Rights, or IACHR, has told Mexico's government that it must continue with its probe of the death of activist Digna Ochoa, which occurred more than more than 20 years ago, citing an "absolutely deficient investigation," Reuters reported. Ochoa, a human rights lawyer, was found dead in October 2001. The Mexican government committed serious errors in the investigation, the IACHR said, adding that the mistakes were "a violation of the obligation to guarantee the right to life."

Stokes Steps Down From Scotiabank Position in Jamaica

Adrian Stokes, the senior vice president and head of insurance and wealth for Scotia Group in Jamaica, is stepping down, The Gleaner reported Wednesday. Stokes joined the company in 2010 and held several positions there, including vice president of business analytics and president of Scotia Jamaica Life Insurance Company, the newspaper reported. Gary-Vaughn White, Scotia Group's senior vice president of treasury in Jamaica will head Scotia Investments Jamaica Ltd., the bank said.

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danger the flora and fauna" in two protected areas. Some 6,000 barrels of oil spilled into the ocean during the offloading of a tanker at the La Pampilla refinery. The spill led authorities to close three beaches near the spill. Images on television and social media showed dozens of dead birds, including the rare Humboldt penguin, drenched in oil. Officials at the Repsol-managed refinery originally described the spill as "limited," but the company has faced public ire of what critics say was a slow response to the spill. Repsol spokeswoman Tine van den Wall Bake denied in an interview with Peruvian radio network RPP that the company was responsible for the spill.

Debt Level of Venezuela's PDVSA Grows to $34.9 Billion

Venezuelan state oil company PDVSA saw its consolidated financial debt rise approximately $400 million to $34.9 billion last year, Reuters reported, citing a government statement released Wednesday. Approximately 75 percent of PDVSA's outstanding debt as of December was linked to loans–primarily bonds–that the company had taken out, and the remaining 25 percent was related to bonds and loans taken out by joint ventures and subsidiaries, the wire service reported. Following U.S. financial and trade sanctions, PDVSA has paused its payments to bondholders and other creditors. The company regained some of its production in 2021, however, reaching one million barrels per day of output for the first time in almost three years, Reuters reported in December. In a **Q&A** published in the Dec. 24 issue of the Dialogue's weekly Energy Advisor, Jeremy Martin and David Voght, vice president for energy and sustainability at the Institute for the Americas and managing director at IPD Latin America, respectively, said PDVSA has reached some of its 2021 production targets because of international assistance. In addition to resources from Iran, Russia and Turkey, Martin and Voght pointed to China as the most critical actor, as it is the "single largest consumer of Venezuelan crude."

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seeks the gradual and orderly adjustment of public finances, and the generation of new permanent income. Recognizing that for macroeconomic management in Colombia we have a flexible exchange rate policy with a clean float, we are aware of the efforts that we have to make in fiscal matters, and that is why the Social Investment Law collected 1.8 percent GDP in permanent and temporary income and reintroduced the Fiscal Rule. Furthermore, we will continue working on a process of diversification of our export sources, which have shown very positive results, since non-traditional exports have had the best results in the past 13 years in Colombia."

Richard Francis, senior director at Fitch Ratings: "The weakening of the Colombian peso is due to several factors: 1.) a weakening of sovereign creditworthiness as a result of the deterioration in fiscal metrics, 2.) a much higher current account deficit due to strong consumption driving up imports, 3.) political uncertainties surrounding the 2022 elections and 4.) the prospects of more aggressive U.S. Federal Reserve tightening in the coming months. On the positive side, the weaker peso will likely boost non-oil exports while slowing the growth of imports, which will lead to some narrowing of the current account balance over time. On the negative side, the weaker peso will negatively affect inflation in the near term, which could propel the central bank to increase the pace of its rate hikes (the central bank raised rates 50 basis points in its December meeting). An important impact of a weaker peso from a sovereign ratings perspective is the impact on the debt burden, given that about 40 percent of Colombia's debt is denominated in U.S. dollars. Furthermore, higher interest rates—both foreign and domestic—will also increase Colombia's borrowing costs as well. On the political side, inflation is likely to be a key issue in the upcoming presidential and congressional elections. As noted, political uncertainties are likely a source of the peso's weakness. For example, Gustavo Petro is calling for an end to oil exploration to phase out Colombia's dependence on oil, which would affect exports (oil and coal represent 46 percent of total exports) and foreign direct investment over time. This would harm the external accounts as well as economic prospects, with negative implications for the peso."

Karla Schiaffino, Americas senior analyst, risk insight at Verisk Maplecroft: "The Colombian peso was one of the most devaluated currencies in 2021, and it began 2022 above the threshold of 4,000 pesos to the U.S. dollar, despite slight gains during the second week of the year. The peso is likely to remain above 3,900 to the dollar over the coming months, with mixed impacts. On the positive side, a weaker peso lowers the price of Colombian exports in hard currency, benefiting sectors heavily hit by the pandemic—agribusiness in particular. However, Colombia imports 19 percent of its staple food products. A weaker peso makes these products more expensive and feeds into inflation. There are a couple of risks to consider: lower consumer demand dampens the overall economic outlook for 2022, and reduced purchasing power, especially in relation to food staples, can fuel discontent and civil unrest, and social tension has remained elevated since 2019. At the end of 2021, better-than-expected economic performance seemed to bode well for President Iván Duque's Democratic Center Party. However, the improvement in economic performance has yet to boost the standing of the Democratic Center's presidential candidate—Óscar Iván Zuluaga—ahead of the election in May. The latest surge in Covid-19 infections weakens the economic outlook and, therefore, we do not expect the Democratic Center's chances to improve significantly before the presidential election. Although the field remains crowded, leftist

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Gustavo Petro remains the front-runner. There is still a high percentage of undecided voters, so uncertainty will continue to affect market sentiment, potentially driving further peso depreciation as we near election day."

Andres Martinez-Fernandez, senior analyst for Latin America at FrontierView: "A weak peso generally supports export activity, and we have seen that dynamic play out with the strong performance of Colombian exports in recent months. However, a weak peso also creates challenges for the domestic economy by driving up the cost of inputs used for domestic production of manufacturing and agricultural goods, among others, while also raising costs for imported consumer goods. This causes distortions, bringing elevated inflationary pressures, and eventually takes a toll on consumer spending as well as B2B demand. These will be key challenges for the Colombian economy in 2022, which are being amplified by the upcoming elections. Indeed, with Colombia's public finances deteriorated by the pandemic, political uncertainty is having an outsized impact on the peso, pushing down its value even as oil prices and the broader economy rebound. A victory by the more traditional presidential candidates would bring stability to the exchange rate and a modest peso recovery, as they represent broad continuity for the business environment and the government's finances. However, disruptive policy proposals by populist front-runner Gustavo Petro, including political intervention in monetary policy and a moratorium on oil exploration, present a substantial source of uncertainty for investors which is driving down peso demand as the election nears. While Petro would face limits in implementing his platform, his victory would bring continued foreign exchange instability and devaluation. Given the stark differences between Petro's economic platform and those of other leading candidates, it's clear that the exchange rate and the post-pandemic direction of Colombia's economy will be major issues of debate in the run-up to the elections."

Brendan McKenna, vice president and international economist at Wells Fargo Securities: "As far as the peso, a weaker currency would make Colombia's exports more competitive, which could aid growth. However, a weaker currency likely means the rate of local inflation would rise and consumer spending would fall, dynamics that could offset the positive impact of more competitive exports. I don't think the value of the peso is going to be a major issue ahead of this year's election. Issues such as wealth inequality and public spending should be key for voters, and I expect Congress and the next president to be the candidates who gather support for political platforms centered around those issues. Candidates with political ideologies that are more unorthodox in nature or are perceived as less business-friendly can place depreciation pressure on the peso. The impact on the economy will depend on what policies can be implemented, although if policies such as reducing Colombia's oil exports are implemented, the impact on the local economy could be significant."

> **"Issues such as wealth inequality and public spending should be key for voters..."**
>
> **— Brendan McKenna**

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

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