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FEATURED Q&A

Will Colombia's New Finance Minister Make Big Changes?



José Antonio Ocampo was tapped last month as Colombia's incoming finance minister. // File Photo: Columbia University.

Q Colombian President-elect Gustavo Petro on June 30 named economist José Antonio Ocampo as his finance minister. Ocampo has said that the new administration will not raise taxes on companies and that it may cut the corporate tax rate by as much as five percentage points if conditions allow. What does Petro's decision to name Ocampo say about the economic policies he is planning? Is Ocampo the right choice as finance minister? How likely are Colombian businesses to see major tax changes during Petro's administration, and what other changes to Colombia's business environment could the incoming government make?

A Joydeep Mukherji, managing director for sovereign ratings at S&P Global: "The leadership of both the executive and legislative branches of government now contains a wider representation of Colombian society, an important positive trend in a country traditionally governed by narrow segments of society. The challenge facing President-elect Petro is to meet the heightened expectations of voters with limited government revenues amid a worsening global economy. His choice of finance minister, along with negotiations with several political parties to cobble together a formal majority in Congress, shows pragmatism and augurs well for fiscal reform. However, Colombian governments have introduced many tax reforms in the last two decades with only modest results. Finance Minister Ocampo, like his predecessors, understands the structural flaws of the current tax system, but he will face the same obstacles as previous ministers in trying to fix them. The statutory corporate tax rate is higher in Colombia than in Latin Amer-

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TODAY'S NEWS

POLITICAL

Authorities Rescue Nearly 100 From Truck in Mexico

Mexican authorities rescued nearly 100 migrants who had been packed into a truck in Mexico's Veracruz state.

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BUSINESS

Pemex Reports Ninefold Jump in Profit to \$6.5 Bn

High oil prices and a large reduction in its tax bill fueled a ninefold increase in second-quarter profit at Mexican state oil company Pemex. Revenue grew 89 percent in the quarter.

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ECONOMIC

Batakis Sacked as Economy Minister in Argentina, Massa Tapped

Argentine President Alberto Fernández on Thursday removed Silvina Batakis as economy minister, less than four weeks after naming her to the position, and tapped lower house Speaker Sergio Massa to the post.

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Massa // File Photo: Argentine Government.

ECONOMIC NEWS

Argentine Economy Minister Sacked, Massa Named to Post

Argentine President Alberto Fernández on Thursday fired Silvina Batakis, the economy minister he named less than four weeks ago, replacing her in the position with Sergio Massa, the speaker of the lower house of the country's Congress. Fernández also gave Massa broader powers, putting him in control of the government's agriculture and production policies at what analysts in Argentina are calling a "super ministry," The Wall Street Journal reported. Massa now becomes the third person to head Argentina's Economy Ministry in less than a

Fernández also gave Massa control of the government's agriculture and production policies.

month. Batakis was sworn in to the post on July 4 after her predecessor, Martín Guzmán, resigned two days before. "Guzmán's resignation appeared abrupt but was a long time in the making," Kezia McKeague, regional director at McLarty Associates, told the Advisor in a Q&A published July 14. Guzmán had struggled against political forces to implement belt-tightening measures he had negotiated with the International Monetary Fund, including cuts in electricity subsidies, said McKeague. On Thursday, Batakis had just returned to Argentina following a trip to Washington where she met with IMF officials including Managing Director Kristalina Georgieva. The IMF chief said in a tweet that the meeting had been productive and that she welcomed efforts by Batakis to "strengthen fiscal sustainability." Batakis told reporters in Washington that she had the political support of the government's embattled coalition to put in place unpopular economic policies, The Wall Street Journal reported. Under Guzmán, Argentina refinanced a \$44

billion bailout with the IMF with which it agreed to lower spending and reduce money printing. However, Argentina has continued its pace of printing money, and inflation has accelerated to an annual rate of approximately 65 percent, The Wall Street Journal reported. As the country's new economy minister, Massa faces the quickly weakening currency as well as rising social unrest and a fractured government coalition as the country's powerful vice president and former president, Cristina Fernández de Kirchner, opposes the cuts to public spending that the IMF and economists say are necessary to stabilize the country's economy, The Wall Street Journal reported.

POLITICAL NEWS

Mexican Authorities Rescue Nearly 100 Migrants From Truck

Mexican authorities on Wednesday rescued nearly 100 migrants who escaped from an overheated trailer driven by smugglers in the state of Veracruz, Reuters reported. "They broke through the roof of the trailer because they were suffocating and since there was a gas station nearby, the employees there helped them escape," said José Domínguez, the director of civil protection in the nearby town of Oluta. He said that following a Wednesday night 911 call, authorities found at least 94 migrants following a search of the truck and the nearby brush, the wire service reported. Cristóbal Cisneros Valencia, a civil protection paramedic, said several migrants had jumped out of the trailer, BBC News reported. "That is why most of the injuries we treated were ankle and knee fractures, with damaged sense of balance," he added. Last month, 53 migrants who were packed into a tractor-trailer died in San Antonio, Tex., and they are believed to have died of heat exhaustion and dehydration. A U.S. grand jury on July 20 indicted four men in connection to the case, Reuters reported. Texans Homero Zamorano Jr., the alleged truck driver, and Christian Martinez could face the death

NEWS BRIEFS

Lula Maintains 18-Point Lead Ahead of Bolsonaro in Brazil: Survey

Leftist former Brazilian President Luiz Inácio Lula da Silva maintained a double-digit lead over right-wing President Jair Bolsonaro ahead of the country's October presidential election, according to a Datafolha survey released Thursday, Reuters reported. Lula had the support of 47 percent of respondents in the poll, while Bolsonaro had the support of 29 percent. Lula's lead in the latest poll slipped one percentage point as compared to a June survey.

Britain's High Court Rules Against Venezuela's Maduro in Gold Dispute

Britain's High Court today ruled against Venezuelan President Nicolás Maduro in his effort to take control of \$1 billion worth of gold in vaults at the Bank of England, Reuters reported. The court said that the Maduro-backed Venezuelan Supreme Court's efforts to reduce opposition leader Juan Guaidó's authority over the gold reserves should be disregarded. "This decision represents another step in the process of protecting Venezuela's international gold reserves and preserving them for the Venezuelan people," Guaidó said in a statement.

Panama's Martinelli Seeks Return to Presidency in 2024

Former Panamanian President Ricardo Martinelli on Thursday announced that he will run as an independent candidate in the country's 2024 presidential election, Reuters reported. The former president faces open corruption investigations for his alleged role in the sprawling scandal involving Brazilian construction firm Odebrecht. Martinelli, who was Panama's president from 2009 to 2014, said in a Twitter posting that he wants to be "the candidate of all independent Panamanians."

penalty or life in prison if they are convicted, the wire service reported.

BUSINESS NEWS

Pemex Reports Ninefold Increase in Net Profit to \$6.5 Bn

Mexican state oil company Pemex on Thursday reported that its second quarter net profit jumped to \$6.5 billion, more than nine times greater than the same quarter last year, Reuters reported. During this year's second quarter, revenue at the company, led by CEO Octavio Romero, increased to about \$32.8 billion, an 89 percent increase from last year. High oil prices and a significant reduction in Pemex's tax bill aided the company's profits, the wire service



Romero // File Photo: Mexican Government.

reported. Pemex's debt, one of the highest in the world for an oil company, during the second quarter held steady at \$108.1 billion. "In the context of high oil prices and elevated refining margins, Pemex is reporting positive results that it should analyze with caution," said Akza Advisors energy project manager Arturo Carranza, Reuters reported. "The company was unable to increase oil production or improve in cash flow. Its financial debt is also overwhelming," he added. Prices for Mexican crude during the April-to-June period increased by more than 60 percent year-on-year, the wire service reported. "Increases in short-term profitability may ... provide Pemex with capital reserves," Dino Barajas, chair of global project finance practice group at Baker Botts, told the weekly Energy Advisor in a June 17 [Q&A](#).

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ica and OECD countries on average (before accounting for tax breaks). Lower rates and a wider tax base would likely boost overall collections and encourage private investment. Similar changes could improve collections of personal income and value-added taxes. However, it will require strong political leadership to get Congress to approve such changes. Despite a rapid economic recovery from recession, the social and political legacy of the pandemic is likely to limit the political scope for imposing a higher tax burden on the country. It remains to be seen if the growing inclusiveness of the country's political system helps overcome some of the obstacles that constrained past attempts at tax reform."

A **Brendan McKenna, vice president and international economist at Wells Fargo Securities:** "Petro's decision in naming Ocampo as finance minister is a signal that Petro will indeed moderate his stance on key economic issues over the course of his administration. Ocampo is a well-respected economist and technocratic policymaker with a long history of implementing sound economic policies, and his appointment has calmed local financial markets and taken some politically driven depreciation pressure off the peso. His latest commentary at least suggests the Petro administration will exercise more fiscal discipline than maybe initially expected and will respect the existing fiscal rule and focus on improving the government's public finance position. Ocampo was the right choice. Markets can be a little more comfortable that Colombia's economic model will not be upended, that public finances will improve and that some of the more radical proposals Petro suggested on the campaign trail may not be implemented. Lower corporate tax rates are very possible. Colombia's corporate tax rate was recently raised under Duque and is higher than peer Latin American tax rates as well as elevated in the context of broader emerging markets.

Should fiscal discipline be achieved, there is scope for lower corporate tax rates to go into effect. Aside from tax rates, the business environment could see changes relating to corporate tax exemptions. Both

“**Markets can be a little more comfortable that Colombia's economic model will not be upended...**”

— **Brendan McKenna**

Petro and Ocampo are aligned on the philosophy that more local corporations should be paying federal taxes and that not all current exemptions are justified. Revisiting certain exemptions would likely result in higher tax revenues and at the same time could provide further rationale for lower corporate tax rates in the future."

A **Karla Schiaffino, senior analyst for Latin America at Verisk Maplecroft:** "Markets have responded well to President-elect Petro's designation of an experienced, well-regarded economist as the next finance minister. In our view, investors can expect a moderation of Petro's campaign proposals. For instance, Ocampo has highlighted the importance of coordinating with the business sector, while recognizing fiscal realities that will affect policy making—especially regarding the energy sector. The public has also welcomed Ocampo's designation, and Petro's approval rating has improved significantly since winning at the ballot box. This suggests that Ocampo—and other cabinet appointments—will help Petro overcome some of the governance challenges inherent to a polarized political environment. Ocampo has said he will not be looking to increase taxes on companies. Rather, the expected fiscal reform will target the individual wealth of high-income households. Notably, for

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the extractives sector, Petro has hinted at a reduction of tax incentives. This has fueled uncertainty around contract sanctity and the stability of the fiscal terms for companies already operating in Colombia. Moreover, Petro's ambitious environmental program would tighten regulations for large extractives and infrastructure projects. However, in the next year, reforms will be contingent on Petro's ability to foster cohesion within a cabinet with a broad range of movements and interests present. Moreover, if Petro's pledges fail to materialize, we expect his early approval rating gains to erode before the end of his first year in office."

A **Renzo Merino, vice president and senior analyst in the Sovereign Risk Group at Moody's Investors Service:** "The incoming Petro administration faces the challenge of balancing the need to foster investment-led growth, continue the fiscal consolidation process and address rising social tensions. Building consensus among different economic and political agents will be necessary to secure broad support for the government's agenda and to build investor confidence. Mr. Ocampo's ample experience in public administration, as finance minister and central bank board member, provides him with policy insight as well as a deep understanding of how different factors interact with each other to ensure steady progress is achieved on all fronts. In this respect, a critical task in his role as finance minister will be to provide clear messaging on how the government will go about accomplishing the different goals present in President Petro's agenda. The fiscal reform will be the first major test of the new administration, as it is a necessary condition to assure fiscal sustainability over the medium term and to provide budget space for the government to pursue its social policies. Ensuring that an increased tax intake does not weigh on business confidence will be crucial for

investment to become a key growth driver. Official estimates project the reform could increase tax revenue by about 5 percent of GDP. Government officials have provided preliminary indications of the content of the tax package, which would reduce tax exemptions applicable to large corporations and could lower corporate income tax rates for small and medium enterprises. Beyond fiscal reform, clarity on policies that will affect the energy and agricultural sectors will be also crucial to avoid a deterioration of Colombia's business and investment environments."

A **Maria F. Valdés, coordinator of tax issues at Friedrich-Ebert-Stiftung in Colombia:** "By choosing Ocampo as minister, Gustavo Petro has chosen perhaps the most influential Latin American heterodox economist, who also has significant prestige in the country and great respect from all sectors, from the right to the left;

“ [Ocampo's] appointment was undoubtedly a great choice.”

— Maria F. Valdés

his appointment was undoubtedly a great choice. Gustavo Petro's plans have the economy at their core, with an ambitious goal that involves industrializing the country and turning Colombia into a net exporter, one can therefore expect from the incoming government not only a reduction in corporate taxes but also a significant increase in programs to support Colombian companies, especially the small ones and those belonging to the popular economy."

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