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FEATURED Q&A

Will Brazil's New Economic Team Produce Results?

When Brazil's presidency changes hands on Jan. 1, among the new economic officials will be incoming Economy Minister Paulo Guedes. // File Photo: Agência Brasil.

Q Brazilian President-elect Jair Bolsonaro recently picked key members of his economic team, including Roberto Campos as head of Brazil's central bank and World Bank CFO Joachim Levy to run state development bank BNDES. The president-elect's incoming economy minister, Paulo Guedes, also announced that Mansueto Almeida had agreed to stay on as treasury secretary. What can Brazilians expect from Bolsonaro's economic team? Will they implement the right policies to boost growth? Will Brazil's economy bounce back quickly, or will it continue to see a slow recovery in the year ahead?

A Paulo Vieira da Cunha, partner at Verbank Consulting, LLC in New York: "The new economic team includes respected and capable, if several unproven, administrators. Encouragingly, it has taken to heart the recommendations of the outgoing team, choosing to keep some of its key players. It comes in with a wave of goodwill and renewed expectations, at least concerning the economy. The road to robust growth in the near term is a pickup in private domestic investment, after a 30 percent drop in total investment since the first quarter of 2014. Net exports could help. However, given that renewed investment would demand an increase in imports, it is best not to count on it. A fiscal boost is out of the question. On the contrary, a contraction is a precondition for success. Monetary policy and the credit cycle are, however, cyclically supportive. Households and businesses deleveraged and are ready to assume new credit; the banking system rebuilt its lending capacity, including at BNDES. Real interest rates are at historical

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TODAY'S NEWS

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Costa Rica's Alvarado Approves Tax Reform

Costa Rican President Carlos Alvarado signed a new tax reform into law. The measure seeks to control the Central American nation's growing deficit.

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Uruguay Rejects Former Peruvian President's Asylum Request

Former Peruvian President Alan García had sought asylum at the Uruguayan ambassador's residence in Lima. He is facing corruption allegations.

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POLITICAL

Mexico's President Creates Panel on Missing Students

Mexican President Andrés Manuel López Obrador on his second full day in office ordered the creation of a truth commission to reinvestigate the case of the 43 students who went missing in Guerrero State in 2014.

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López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

Mexico's President Creates Panel on Missing Students

On his second full day in office, Mexican President Andrés Manuel López Obrador on Monday ordered the creation of a truth commission to re-examine the case of the 43 students who disappeared in 2014 in the city of Iguala, in Guerrero State. "I assure you there won't be impunity in this sad and painful case," López Obrador said at the presidential palace in Mexico City, alongside family members of some

> **"I assure you there won't be impunity in this sad and painful case."**
> **— Andrés Manuel López Obrador**

of the missing students, who were in training to be teachers, The New York Times reported. "I hope that we will soon know the truth. That there's justice and an example is set so never again human rights are violated in our country, so that no other Mexican suffers the disappearance of their children," he added, The Guardian reported. Mexico's incoming deputy interior minister for human rights, Alejandro Encinas, will lead the panel. The probe will begin under the direction of a special prosecutor's office, and officials say it will consider all possibilities in the case, including ones that the government has already ignored or eliminated, The New York Times reported. The students vanished after municipal police attacked the buses in which they were riding. After an investigation, the government of then-President Enrique Peña Nieto concluded that the students were then turned over to a drug gang, which killed them and incinerated their bodies in a garbage dump. Authorities have been able to identify the remains of only one of the students. The case has been seen as emblematic of Mexico's disappearances, corruption and violence, as well as the impunity that has surrounded crimes in the country. The truth commission's members will include relatives of the missing students, their advocates and government officials. The panel will consider the recommendations of the United Nations and the Inter-American Commission of Human Rights, whose experts examined the case in 2015 and rejected the Mexican government's official version of the events surrounding the case. Just last week, Mexico's autonomous National Human Rights Commission criticized the Peña Nieto government's handling of the case, listing several irregularities, including signs that some witnesses in the case had been tortured.

ECONOMIC NEWS

Costa Rica's Alvarado Signs Tax-Reform Measure Into Law

Costa Rican President Carlos Alvarado late on Monday signed a controversial tax-reform bill that seeks to control the country's growing fiscal deficit, La Nación reported. The bill was approved earlier the same day, with 34 of the 57 lawmakers voting in favor of the legislation, as hundreds of opponents gathered outside

Alvarado // Photo: Costa Rican Government.

the Legislative Assembly. "With the approval of the reform today, Costa Rica has avoided a crisis and takes a step that brings stability and confidence," Alvarado wrote on Twitter, adding that a new era of optimism, hope and certainty had begun. The proposal replaces the current sales tax of 13 percent with a value-added tax of the same percentage, which applies levies

NEWS BRIEFS

Uruguay Rejects Former Peruvian President García's Asylum Request

Uruguay's government on Monday rejected an asylum request from former Peruvian President Alan García, who is being investigated on corruption allegations, the Associated Press reported. Uruguayan President Tabaré Vásquez said there was no indication that García was being targeted for political reasons. García had sought asylum at the Uruguayan ambassador's residence in Lima, but was forced to leave and later said he would cooperate with authorities.

Duque Urges Maximum Fines for Companies Involved in Bribery

Colombian President Iván Duque on Monday said the country's trade and industry regulator should impose the highest possible sanctions on any company involved in taking or paying bribes, Reuters reported. At an event in Bogotá, Duque said he would not tolerate graft in Colombia, adding that companies engaging in corruption were not only committing a criminal offense, but also a "serious breach of the right to competition." The maximum fine levied by the regulator is 78 billion pesos, or $24 million, Reuters reported.

Brazil's Petrobras Forms Venture With Murphy Oil for Gulf Exploration

Brazilian state oil company Petrobras on Monday said it had closed a joint venture deal with U.S.-based Murphy Oil to explore deep-water oil and gas fields in the Gulf of Mexico, according to a securities filing, Reuters reported. Petrobras, which will have a 20 percent stake in the venture, received $795 million for the deal. Murphy, which will oversee operations, expects to increase its total production in the Gulf of Mexico to approximately 60,000 net barrels of oil equivalent per day.

on some goods and services that had previously been excluded. Costa Rica registered a fiscal deficit of 6.2 percent of GDP last year, which would have increased to 7.2 percent had the bill not been approved, according to the central bank. Public-sector workers began a strike against the tax reform bill on Sept. 10, which they allege will disproportionately affect lower and middle-class families, the Tico Times reported. The strikes, which several courts have declared illegal, have not been officially lifted, but most workers have returned to their jobs. [Editor's note: See related Q&A in the Sept. 26 issue of the Advisor.].

Mexico Offers to Buy Back $6 Bn in Airport Construction Bonds

Mexico's new presidential administration on Monday offered to partially buy back $6 billion of bonds sold by the previous government to finance a major airport project in Mexico City, which President Andrés López Obrador has vowed to cancel, Expansión reported. On López Obrador's second full day in office, the Mexico City Airport Trust, or Mexcat, said it would repurchase up to $1.8 billion of debt issued to fund the airport. In exchange, bondholders would make "certain modifications to the issue covenants" to loosen their rights on the remaining debt, Mexcat said, the Financial Times reported. Bondholders include asset managers Schroders, T. Rowe Price and Lombard Odier. Investors welcomed the news, with a $3 billion bond due in 2047 trading as high as 86 cents on the dollar after having been trading at 75 cents before. "The principal objective of the repurchase and consent request is to give flexibility to Mexcat in the event that the new administration makes changes," the finance ministry said, the Financial Times reported. In October, López Obrador said he would cancel the $13 billion airport project, whose construction was underway and about one-third complete. The decision came after a public vote, in which less than one percent of registered voters participated. [Editor's note: See related Q&A in the Nov. 14 issue of the Advisor.]

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lows, without immediate inflationary threats. Nevertheless, in an environment of heightened uncertainty, high unemployment and expected low growth, it is likely that credit will follow the recovery, not lead it. Thus, the dependency is on 'renewed animal spirits.' Today in Brazil, confidence equates to delivered results on government reforms, the social security imbroglio above all. The first half of 2019 will be a critical period of wait-and-see. If the new administration delivers, if it can tame and lead Congress to meaningful legislative outcomes, it could be contemplated with the start of a virtuous cycle. That is what the Temer administration expected in 2017. It didn't happen. There is now a new opportunity, arguably, under a clearer political mandate. Let's hope it succeeds."

A **Carolina Costa Hurtado, director of the Brazil and Southern Cone Practice at McLarty Associates:** "Although Brazil exited its steep two-year recession last year, GDP growth was just 1.0 percent, and the economy is projected to grow just 1.4 percent in 2018. President-elect Jair Bolsonaro's economic team will be focused on boosting growth by reducing the fiscal deficit, lowering debt interest payments and attracting foreign investment. His team is led by several very capable individuals who will have the opportunity to develop a pragmatic approach to tackle the challenges. But key questions about the overall team dynamic remain unanswered. First, how will Paulo Guedes confront a steep learning curve? He will have a great deal of authority as economy minister, since his position will combine the Finance, Budget and Trade Ministries. However, despite his outstanding career, he has not managed a large government bureaucracy. Ultimately, he may need assistance from more experienced policymakers to make deeper changes. Second, how will the team proceed on the much-needed pension reform? Bolsonaro has not yet offered a detailed proposal beyond supporting the gradual introduction of a fully capitalized system during his election campaign. Pensions remain a politically sensitive issue, so it will be tough to build a sound congressional coalition to support reform proposals.

> **Key questions about the overall team dynamic remain unanswered."**
> **— Carolina Costa Hurtado**

Until the upcoming Bolsonaro administration addresses these key questions, a rapid return to growth during its first year remains challenging."

A **Juliano Griebeler, director of government affairs at Barral M Jorge Consultores Associados:** "The appointments show that Paulo Guedes has autonomy on the selection of his economic team, reducing the uncertainties of how much the president-elect, who has a more nationalist opinion, would interfere in this area. We have already seen some of the names appointed to government roles, and we can expect an economic agenda focused on strict fiscal control, aimed at reducing government spending and at establishing more partnerships with the private sector to attract investment. This increase in private-sector investment will only materialize if the pension reform is approved. Some structural problems still need to be addressed for Brazil to have a quick recovery. There are three institutional aspects that make us believe that the economy may not recover as fast as expected: the new governability system that Bolsonaro is trying to implement might take time to function; the change of the Congress, including 20 percent who never before occupied an elected position, will also take a time to make sense of itself; and the new decision

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process inside the new super ministries needs to be tested. The president-elect will have to negotiate with Congress while he uses public opinion to pressure legislators and tries to implement a new governability system. This will probably push the approval of the pension reform to the second half of next year and strain the relationship between lawmakers and the president."

A **Gilberto Rodrigues, professor of international relations at the Federal University of ABC:** "Brazil can expect a wild, ultra-liberal approach from Bolsonaro's economic team. Their conception of development is anti-national and softens Brazil's sovereignty and its control over its strategic resources. Paulo Guedes is called 'super-minister' of economy, which makes market actors believe he will have sufficient power to go forward with his ultra-liberal policies. Privatization is one of his obsessions. But will the state-minded generals who will occupy strategic positions in Bolsonaro's government allow the privatization of Petrobras? Will they allow Brazil to lose control over Embraer? Or will they agree with Guedes' team to go ahead and reform public servants' pensions, including theirs? It seems that Bolsonaro is playing a double game with the market. On the one hand, he will a have a very market-friendly team; on the other hand, he will have a cluster of military officials who are not so liberal regarding strategic resources. And because Brazil is a federation, there is also the subnational arena. A significant part of the public debt is subnational, and the conditions for restraining credit and launching state reform will not be very easy to negotiate with governors and mayors. Additionally, the market's honeymoon with Bolsonaro may bring more foreign investment to Brazil during the first year of his government."

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

JOB POSTINGS

EDITOR'S NOTE: We are pleased to share Latin America-related job postings that readers of the Advisor and others have posted recently.

Visa: Marketing Director, Latin America and the Caribbean, Miami

DIRECTV Latin America: Intranet Manager, Miami

SWIFT: Compliance Manager, Latin America, Miami

FTI Consulting: Consultant, Public Affairs, Washington

USAID: Democracy Specialist, Washington

Partners of the Americas: Vice President Education and Global Citizenship, Washington

Americas Society / Council of the Americas: Director of Media Relations, New York

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org

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