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FEATURED Q&A

How Will Brazil's Economy Perform in the Coming Year?



Brazil's economy, the largest in Latin America, grew 0.1 percent in the third quarter of this year, surprising economists. São Paulo is pictured. // File Photo: Aurélio Scetta via Creative Commons.

Q Brazil's economy grew 0.1 percent in this year's third quarter as compared to the prior three-month period, according to official data released Dec. 5. The growth surprised economists in a Bloomberg survey who had expected a median contraction of 0.3 percent. In the third quarter, the economy grew 2 percent, year-on-year. How well is President Luiz Inácio Lula da Silva managing Brazil's economy, and what are the economy's major driving forces? How is Brazil's economy likely to perform in the coming year? Which industries are seeing the most strength, and which are struggling?

A Drausio Giacomelli, head of emerging market strategy and economics at Deutsche Bank: "The Brazilian economy surprised again—and once more to the upside. The high-frequency indicators pointed to a mild contraction, but consumption pushed activity above zero as compared to the previous quarter. This is encouraging, especially as it points to a coveted soft-landing after a massive increase in interest rates (almost 12 percentage points from mid-2021 to mid-2022). Commodities and especially agribusiness led a fast pace of growth in the first half of the year, while services benefited from yet another round of increase in transfers from the government. Industry and investment lagged. In the second half of the year, the boost from agro and commodities waned, while services decelerated. However, transfers plus resilient labor markets have been supportive enough to prevent the beginning of a recession in the country. Altogether, we expect second-half GDP growth near zero and a moderate acceleration in 2024. Although

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TODAY'S NEWS

POLITICAL

Colombia's ELN Says it Will Halt Kidnappings

Colombia's National Liberation Army, or ELN, rebels said Sunday that they will halt kidnappings for ransom if its cease-fire with the Colombian government is extended. The cease-fire is currently scheduled to last until Jan. 29.

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ECONOMIC

El Salvador Eyes Legal Reforms to Boost Oil & Gas Exploration

Government officials said Monday that they want to attract more investment into El Salvador's oil and gas sector.

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POLITICAL

Mexico's President Seeks Prosecutor's Exit After Killings

Mexican President Andrés Manuel López Obrador said Monday that he wants the resignation of the head prosecutor in Guanajuato, which has faced high levels of violence.

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López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

Mexico's President Wants Prosecutor's Exit After Killings

Mexican President Andrés Manuel López Obrador said Monday that the head prosecutor in Guanajuato state should step down amid high levels of violence there, the Associated Press reported. López Obrador's demand happened a day after 12 people were fatally shot at a holiday party in the town of Salvatierra in Guanajuato state. In the attack, which also injured 11 people, gunmen burst into a religious pre-Christmas celebration in which 40 people, mainly youths, had gathered at a former ranch that was being used as a venue for hire, BBC News reported. The assailants opened fire indiscriminately after guests challenged them, one of the people who was attending told Agence France-Presse. The victims had no connections to organized crime groups, according to the local mayor, BBC News reported. Guanajuato state's prosecutor's office confirmed the killings, and four others in the nearby town of Salamanca, but provided no details about the motive, the AP reported. At his daily news conference on Monday, López Obrador called the incident an "atrocious" crime and tied the high levels of violence in Guanajuato state to increasing drug use there and said the situation needed more attention. "For that reason too, my respectful insistence is that they change the state prosecutor, who has been there 13 years and has colossal political power," said López Obrador, the AP reported. "It's as if he were the governor, supported by groups with a lot of influence," he added. Between last Thursday and Sunday, Guanajuato state recorded 40 killings, according to data that López Obrador presented. Guanajuato recorded the most murders of any state in Mexico between January and September of this year, BBC News reported, citing official figures. Much of the violence is connected to the theft of fuel, and gangs in the state fight each other for control of territory and access to oil pipelines, BBC News reported.

Colombia's ELN Says it Will Halt Kidnappings

Colombia's National Liberation Army, or ELN, rebels announced Sunday that they will halt kidnappings for ransom if its current cease-fire with Colombia's government is extended, the Associated Press reported. The rebels made the announcement in a joint statement with the government at the end of the two sides' fifth round of talks in Mexico City. The cease-fire began in August and is scheduled to last until Jan. 29. The ELN's pledge to halt its kidnappings "is an announcement that is critical for peace in Colombia," said Vera Grabe, the leader of the government's delegation in the talks, AFP reported. Colombians' anger over the ELN's kidnappings soared in October when the rebels abducted the father of soccer player Luis Díaz, who was held for 12 days before being released, the AP reported. Díaz's mother was also kidnapped, but police rescued her within hours. Díaz is a star player on Colombia's national soccer team and currently is a member of Liverpool's team on the English Premier League. The kidnapping of his parents came amid a rise in abductions in Colombia despite the government's efforts to engage in peace talks with rebels. It was unclear whether the ELN's announcement that it would halt kidnappings meant that it would release any of the 38 kidnapped Colombians that it is currently holding.

ECONOMIC NEWS

El Salvador Eyes Legal Reforms to Spur Oil Exploration

Government officials in El Salvador announced Monday that they would seek legal reforms to boost oil and gas exploration in the Central American country, Reuters reported. The changes would be an effort to attract invest-

NEWS BRIEFS

Mexico's Grupo Carso Agrees to Buy Stake in Two Oil Fields

Mexican global conglomerate Grupo Carso announced in a company filing on Monday that it had reached agreement for the indirect purchase of a 50 percent stake in offshore oil fields in the Gulf of Mexico, Reuters reported. Grupo Carso will pay \$530 million for the stake in the Ichalkil and Pokoch oil fields, which currently produce 16,350 barrels of crude oil equivalent per day. The agreement must still be approved by regulators.

Tecpetrol Planning for 100,000 bpd of Output at Argentina Oil Fields

Argentina-based Tecpetrol is expecting to produce 100,000 barrels per day of crude oil at its Puesto Parada and Los Toldos II projects in the Vaca Muerta formation in the South American country, Oil & Gas Journal reported Monday, citing CEO Ricardo Markous. In Argentina, Tecpetrol has also invested \$3.5 billion in the Fortín de Piedra field in Vaca Muerta and produces as much as 24 million cubic meters of natural gas per day.

Solway Backs IACHR's Ruling on Indigenous Rights in Guatemala

Swiss mining company Solway Investment Group on Monday said it agreed with the Inter-American Court of Human Rights (IACHR) decision that ruled Friday against Guatemala for violating the rights of the Indigenous Q'eqchi' people, the Associated Press reported. The IACHR ruled that Guatemala must recognize Indigenous property rights to lands that had been used for the construction of a nickel mine. Solway has interests in Guatemala but was not a party to the case. While the company agreed with the decision, it maintained that it could continue mining outside that area.

ment into the sector and also modernize the legal framework for hydrocarbons exploration, state energy authorities said in a statement, the wire service reported. The reforms would also involve allowing data companies to examine existing projects and then sell the information they collect to oil companies. El Salvador's government also wants to form partnerships with companies that have experience in oil and gas exploration in order to determine the location of those resources in the country, Reuters reported.

BUSINESS NEWS

Repsol, PDVSA Agree to Broaden Joint Venture

Multinational Spanish energy firm Repsol signed an agreement on Monday with Venezuelan state-owned oil company PDVSA to amend the terms of their Petroquiriquire joint venture in Venezuela to expand crude and gas output, Reuters reported. "We are going to lift production. We have completed the planning of the agreements we are signing. They all have output forecasts and plans for operation expansions," said Venezuelan oil minister Pedro Tellechea, who signed the agreement in Caracas with officials from Repsol, Reuters reported. Two other PDVSA joint ventures with U.S. oil major Chevron were also approved for extension last week by Venezuela's National Assembly. The U.S. Treasury Department lifted sanctions on PDVSA in October, allowing the state-run oil firm six months of new investments and partnerships. The Petroquiriquire joint venture involves three oil fields: the Quiriquire, Mene Grande and Barúa Motatán fields—located in the states of Monagas, Zulia and Trujillos, respectively—and the venture on the whole is owned 60 percent by PDVSA and 40 percent by Repsol, Offshore Technology reported. Estimations put production of the venture at 20,000 barrels per day of crude this year and 40 million cubic feet per day of gas, Offshore Technology reported.

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another boost in transfers seems unlikely, easing monetary policy will help consumers. Industry may recover—globally—with a little help from policy stimulus in China, but this is likely to take place only late in the year. While agriculture could post another strong year, it seems unlikely to beat 2023. We believe that Brazil could grow 1.5 percent in 2024, but a lot depends on the ability of this administration to anchor fiscal accounts and boost sentiment. The enacted and proposed increase in taxation combined with pro-spending fiscal policies will continue to hamstring the economy."

A **Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York:** "The macro and policy/political outlook for Brazil is still dominated by the fiscal dynamics and the government's struggle to comply with the fiscal targets. The new fiscal framework failed to anchor expectations. The fiscal dynamics—primary balance and debt—improved in 2021-22 but deteriorated anew in 2023. The government is pursuing an aggressive tax-and-spend strategy. Micro and regulatory policies are slowly deteriorating. Growth was resilient during this year's first half, but the economy downshifted visibly in the second half. Real GDP recorded a soft but slightly higher than expected +0.1 percent quarter-on-quarter seasonally adjusted increase in the third quarter, validating a sharp deceleration from the above-trend 1.0 percent month-on-month seasonally adjusted second quarter print and the bumper harvest-driven large 1.4 percent quarter-on-quarter seasonally adjusted expansion during this year's first quarter. Final domestic demand eased to 0.4 percent quarter-on-quarter, seasonally adjusted, (from 0.7 percent quarter-on-quarter, seasonally adjusted in the second quarter) supported by both private and government consumption but dragged down by the sizable contraction of gross fixed investment (-2.5 percent

quarter-on-quarter, seasonally adjusted, the fourth consecutive quarterly decline). Hence, the recent mix of growth—resilient consumption and retrenching investment—is of poor quality and inflationary. Finally, net exports contributed positively to quarterly sequential activity. Leading and coincident indicators suggest activity remained soft in this year's fourth quarter, and we anticipate an also weak first quarter of next year. Real GDP growth is expected to downshift from 3.1 percent in 2023 (levered by a record harvest in the first quarter and significant fiscal stimulus) to 1.7 percent in 2024, given tight monetary and financial conditions, high levels of household indebtedness, low levels of economic slack (unemployment rate at the non-accelerating inflation rate of unemployment), soft confidence indicators and the turnaround in the credit cycle. This is expected to be mitigated by significant fiscal (federal fiscal transfers to low-income households with a high propensity to consume) and quasi-fiscal (credit by public banks) stimulus and positive outlook for oil and gas production. Our forecast assumes a weak policy and regulatory mix."

A **Manuel Orozco, director for sovereign and international public finance ratings at S&P Global:** "Still at moderately weak levels, Brazil's economy continued to surpass expectation in 2023, and we now expect growth closer to 3 percent. The stronger-than-expected growth this year includes a very strong agricultural performance, which by far will be the outperformer among sectors, thanks to very favorable weather conditions and a decade long productivity gain that allowed for record high outputs. Moreover, the agricultural sector has a very significant spillover effect that, amid strong employment indicators, a recovery of real wages (thanks to monetary policy taming inflation) allowed for very resilient private sector consumption. More importantly, the track record of positive surprises extends to

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2019-2023, supported by a series of reforms passed since 2016 that have helped to gradually improve Brazil's economic conditions. The consumption tax reform will add to this track record. Still, untapping stronger growth, more consistent with emerging markets peers, and potentially a higher rating (currently at BB- with a positive outlook), Brazil's government will need to address the very weak fiscal situation that in our opinion continues to partially explain structurally high interest rates and relatively low levels of investment."

A **Bruna Rizzolo de Oliveira Pinheiro, consultant at BMJ Consultores Associados:** "Agriculture has been Brazil's best-performing sector in 2023, growing 18.8 percent, despite a drop in the third quarter (-3.3 percent). The service sector, which represents around 70 percent of Brazil's economic activity, has also performed well, growing 2.6 percent. Lastly, the industry sector had the lowest economic growth in the first three quarters of the year, at 1.2 percent. Within this sector, the extractive industry had expressive growth until September (7.9 percent), while the transformation industry experienced a decrease (-1.6 percent) in the period. The GDP growth is a consequence of Lula's program to boost production and income transfers (household expenses grew 1.1 percent), as well as reforms being implemented. The new fiscal framework and the advance of policies that ensure fiscal balance increased credibility, while the uncertainties that existed at the beginning of the year have been reduced, allowing the country to grow. Even though Brazil's GDP surprised economists, the result indicates that the country's economic activity is slowing down, given that the country grew 0.9 percent in the second quarter of 2023. For 2024, Brazil is expected to have a smaller economic growth, due to national and international conjunctures. Domestically, 2024 will be a regional election year, which will demand an increase in campaign

expenditures by the government, threatening the goal of a zero fiscal deficit, which can lead to fiscal instability. Internationally, geopolitical conflicts and restrictive monetary policies from the main economies should reduce international trade, possibly affecting Brazil's economy."

A **Joel Korn, president of WKI Brasil and senior international partner at UPITE Consulting Services:** "Although somewhat better than expected, Brazil's third-quarter GDP signaled a continued anticipated slowdown in economic expansion. While services posted a stronger than expected performance, excessively high interest rates, albeit in a downward trend, combined with uncertainties in the fiscal front regarding the country's ability to meet revenue targets, continued to hinder new investments, especially in the industrial sector, and also to undermine consumer disposable income. Moreover, most of the impact of the agriculture sector's crop in the country's GDP was reflected in the first half of the year and, therefore, its weight in the last quarter was significantly lower. The 'Industry Transformation' sector, which excludes extractive segments (such as oil and gas as well as iron ore) remains very weak, accumulating a negative 18.3 percent expansion since 2014. This is well reflected in the country's fixed capital formation, currently at only 16 percent of GDP, compared to 21.3 percent 10 years ago. Investments in equipment and machinery as well as in other sectors that are highly sensitive to interest rates, such as construction, will remain under pressure well into next year, when Brazil's GDP is projected to expand at a slower pace, at the moment estimated at between 1.5 percent and 2 percent. The final approval of the tax reform, though there is room for improvement, along with a sound monetary policy by the central bank leading to continued reductions in interest rates, should pave the way for a more favorable investment climate and sustainable economic growth in 2024."

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