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FEATURED Q&A

How Can Colombia Revitalize its Sluggish Economy?



Colombian President Gustavo Petro is facing an economy that is growing slower than analysts had expected. // File Photo: Colombian Government.

Q Colombia is entering a period of lackluster economic growth and low tax revenues, and the country's gross domestic product expanded by a lower-than-expected 1.1 percent in the first quarter as compared to the previous three months, Bloomberg News reported May 20. What are the main factors holding back Colombia's economy? Which sectors are struggling the most, and which are doing relatively well? What actions do the country's government and central bank need to take in order to strengthen the country's economy?

A Daniel E. Velandia O., head of research and chief economist at Credicorp Capital in Bogotá: "The economy's significant slowdown can be explained, to a large extent, by the elevated level of interest rates. The domestic cost of financing remains near the highest level of the last 25 years, which has contributed to a significant adjustment of both private consumption and investment, after their solid dynamism in 2021 and 2022. In fact, the deceleration of households' spending was widely expected following two years of unsustainable pace. That said, the investment nosedive (a 25 percent drop last year) has also been the response to heightened regulatory uncertainty as President Gustavo Petro's administration has proposed to carry out important changes to the rules of the game in strategic sectors of the economy, including oil and gas, electricity, health care, housing and infrastructure. Although radical changes have not been implemented due to the proper functioning of institutions, entrepreneurs seem to be

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TODAY'S NEWS

POLITICAL

Biden Announces New Caps on Asylum at Border

U.S. President Joe Biden on Tuesday announced new restrictions on migrants' ability to request asylum for as long as illegal border crossings remain at elevated levels.

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BUSINESS

Chile's Enami Seeing Interest on Lithium Project

Chilean state-owned mining company Enami said Tuesday that its Altoandinos lithium project in the Atacama region is attracting significant interest from potential partners.

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ECONOMIC

Mexican Finance Minister Seeks to Reassure Investors

Amid selloffs in Mexican stocks and the country's currency following Sunday's election, Finance Minister Rogelio Ramírez de la O said Tuesday that the incoming government is committed to fiscal discipline.

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Ramírez de la O // File Photo: Mexican Government.

POLITICAL NEWS

Biden Announces New Cap on Asylum at Southern Border

U.S. President Joe Biden on Tuesday announced new restrictions on migrants' ability to request asylum at the country's border with Mexico, The Washington Post reported. The move, which administration officials said will block migrants' access to asylum in the United States when illegal border crossings remain above 2,500 per day on average, came five months ahead of the U.S. presidential election and amid criticism that Biden has done too little to stem illegal migration. The order was to go into effect immediately as the number of daily arrests for illegal border crossings is currently above 2,500 and has not been below that number since January 2021, the month Biden took office, the Associated Press reported. "We must face the simple truth: To protect America as a land that welcomes immigrants, we must first secure the border and secure it now," Biden said in remarks at the White House, The

Washington Post reported. "If the United States doesn't secure our border, there's no limit to the number of people who may try to come here," he added. Migrants who are not eligible for asylum protections under the new restrictions will be sent back to their home countries unless they convincingly express fear of persecution that would allow them an exemption under more stringent screening, according to administration officials. Biden's unilateral action followed the defeat last February of a bipartisan border security deal in Congress that most Republicans rejected at the urging of former President Donald Trump, who is to face Biden in the November election. Biden said he preferred to shore up the border via legislation rather than through executive action but added, "Republicans have left me no choice," the AP reported. Trump "told the Republicans ... that he didn't want to fix the issue, he wanted to use it to attack me," said Biden. "It was a cynical, extremely cynical, political move and a complete disservice to the American people who are looking for us not to weaponize the border but to fix it," he added. Over social media, Trump said Biden had "totally surrendered our Southern Border," adding that the order was "all for show" ahead of their debate on June 27.

NEWS BRIEFS

Brazil's Economy Grows 0.8% in First Quarter

Brazil's economy expanded by 0.8 percent in the first quarter of this year, a turnaround from a 0.1 contraction in the previous quarter, according to figures released Tuesday by IBGE, the state statistics agency, Reuters reported. While an increase in consumer demand and stronger investments have brightened Brazil's economic outlook, devastating flooding in southern Brazil has presented a crisis for the government, which will necessitate major state spending.

Citgo Representatives, Venezuelan Opposition Seeking Pause in Auction

The supervisory boards of Venezuelan-owned, U.S.-based oil refiner Citgo and the country's opposition met recently with U.S. officials in an effort to delay a court-ordered Citgo share auction that is intended to help repay creditors, Reuters reported Tuesday. The first bidding round's top offer failed to break \$8 billion, and Citgo's 18 creditors are seeking \$21.3 billion in claims. A second round of bidding is slated to close next Tuesday. Venezuelan representatives want a pause in the process until after the country's presidential election in July.

Argentina's Petrolera Aconcagua Energia Planning IPO Next Year

Argentina-based oil driller Petrolera Aconcagua Energia is planning an initial public offering next year in order to finance an expansion, the Buenos Aires Times reported Tuesday, citing a person familiar with the matter. The company is currently in the initial stages of planning the listing, according to the person, who was unnamed due to the internal nature of the discussions. Aconcagua announced last year that it would submit bids for fields that state oil company YPF is selling.

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cautious, thus putting large-scale investment projects on hold until they have more clarity. Under this scenario, the worst performing sectors currently are housing, infrastructure and manufacturing, while some services and public spending-related activities have shown a better performance with the speeding up of budget execution playing a role. Although domestic demand is likely to recover gradually going forward amid lower inflation and interest rates, sustained economic growth will only be possible under a scenario of lower political and regulatory uncertainty. The outcome of the major reforms (pensions, health, labor) and clarity about the alleged need of undertaking constitutional changes, as President Petro has stated, are set to be key factors for the future performance of the economy."

A **Jennapher Lunde Seefeldt, associate professor of government and international affairs at Augustana University:** "Petro's policy instability has contributed to a lack of investor confidence. Large promised reform projects have stalled in an unsupportive Congress, and Petro's approval rating is declining. In office, Petro's lofty goals for a more redistributive economy have shifted many times, adding to policy insecurity. The emphasis on health care, housing and labor reforms, while noble and necessary, do not have enough funding and project contracts risk being unfulfilled. Business owners receive discrepant messages regarding government rules and mandates. This inconsistency creates a confusing environment for domestic and international stakeholders.

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ECONOMIC NEWS

Mexican Finance Minister Seeks to Reassure Investors

Mexican Finance Minister Rogelio Ramírez de la O on Tuesday sought to reassure investors that the incoming government of President-elect Claudia Sheinbaum will remain committed to fiscal discipline, the Financial Times reported. In a hastily scheduled call that lasted two minutes, Ramírez de la O vowed to cut the government's budget deficit and also remain committed to orthodox economic policies. "Our project is based on financial discipline, abiding by [central bank] autonomy, adherence to the rule of law and facilitating national and foreign private investment," he said. Sheinbaum, who won a landslide victory in Sunday's election, said Ramírez de la O would stay on as finance minister in her administration. Sheinbaum's commanding election victory and the ruling Morena party's dominant showing in congressional and state elections led to a sell-off in Mexican stocks and in the country's currency. The benchmark IPC stock index plunged 6 percent on Monday but rebounded 3.3 percent on Tuesday. Traders, however, have continued to sell the peso, which is down 5 percent against the U.S. dollar since the election. [Editor's note: See [Q&A](#) on the election in Tuesday's Advisor.]

BUSINESS NEWS

Chile's Enami Seeing Interest on Lithium Project

Chilean state-owned mining company Enami said Tuesday that its Altoandinos lithium project is attracting substantial interest from potential partners, Bloomberg News reported. The project, which consists of three salt flats in Chile's Atacama region, will be able to produce 20,000 metric tons of lithium by 2032 and three times that number by 2037, the news service

THE DIALOGUE CONTINUES

What Challenges Face Mexico's First Female President?

Q **Claudia Sheinbaum of the ruling Morena party was elected Mexico's first female president on Sunday in a landslide. She defeated Xóchitl Gálvez of the National Action Party and Jorge Máynez of the Citizens' Movement party, both of whom conceded. Also on Sunday, Mexicans voted for more than 20,000 local, state and congressional candidates, and the ruling party is projected to have also won both chambers of Congress. What are the biggest challenges facing Sheinbaum when she takes office on Oct. 1? What are the main initiatives she is likely to push, and to what extent will her policies differ from that of her predecessor and mentor, outgoing President Andrés Manuel López Obrador? How well will she be able to work with Mexico's Congress, and with other countries, including the United States?**

A **Rodolfo Rueda, partner, and Jorge Aguilar, senior policy advisor, at Holland & Knight:** "Having achieved a constitutional majority in the Chamber of Deputies, and possibly in the Senate, as well as garnering support from 24 governors and more than 26 local congresses, Claudia Sheinbaum will face no obstacles in executing and implementing public policies. It is anticipated that she may advance the constitutional reforms

reported, citing government projections. President Gabriel Boric has pursued tapping more of Chile's lithium reserves—the largest in the world—and while the state will control much of the lithium projects being pursued, Enami can negotiate its own terms with private partners. Enami released the first results of its \$10.5 million drilling campaign in the Aguilar flat on Tuesday, presenting brine samples that show a concentration of 740 milligrams of lithium on average per liter, Bloomberg News reported.

of President López Obrador, including reforms to the judiciary, electoral changes, a ban on fracking, prohibition on the commercialization of vaping products, as well as the elimination of regulatory and independent bodies such as the Energy Regulatory Commission and the National Institute for Access to Information. While it is true that Sheinbaum will encounter no impediments to continue implementing policies aimed at consolidating the fourth transformation in Mexico, it is important to note that her actions will be constrained by three major milestones. The first will occur at the beginning of her government, as the president will inherit a country with a budget deficit of 1.69 billion pesos, equivalent to 4.9 percent of the country's GDP. Approving these reforms during her first year could have negative effects on the country's economic stability. The second will be influenced by the outcome of the U.S. election, as it is expected that if Donald Trump wins, he will be much more assertive in enforcing the USMCA. Lastly, during 2026, she could face a recall in accordance with the procedure established in the federal mandate revocation law."

EDITOR'S NOTE: The comment above is a continuation of the [Q&A](#) published in Tuesday's issue of the Advisor.

Interested firms have until Friday to register to partner with Enami to fund, develop and run new lithium projects in Chile. Resistance from Indigenous communities has derailed several mining projects in Chile, and mining the metal stands to disrupt the flow of water to communities of Indigenous peoples living nearby. "We will lose everything," Flores de Callata, of the Indigenous Kolla people, told the Associated Press last March. [Editor's note: See related [Q&A](#) in the April 12 Energy Advisor.]

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Add in guerrilla activity in many regions, and it appears risky to do business in Colombia. The 2022 tax reforms hit the oil, gas, and infrastructure sectors hardest. The government has not allowed for new oil/gas exploration contracts or for the increase of tolls to offset costs of infrastructure projects. These actions have violated existing contracts in one way or another, leading current and prospective investors to question the validity and security of contracts under a shaky rule of law. Working with businesses in a consistent manner is key to ensuring economic stability and growth. Petro's reindustrialization plans could prove useful, provided that public-private cooperation occurs. This plan aims to increase investments and diversify exports while focusing on sustainability and reducing reliance on extractable resources. However, petroleum and coal make up about half of the state's exports and bring in about \$30 billion a year, so it's unlikely the state will significantly alter this revenue stream."

A **Manuel Orozco, director for sovereign and international public finance ratings at S&P Global:** "Colombia posted an impressive post-pandemic economic recovery, averaging real growth of 9 percent over 2021-2022. That said, it was mostly driven by consumption, causing a significant increase in inflation. As in other large Latin American economies, Colombia's central bank moved to a highly restrictive monetary stance, helping to gradually correct macro imbalances. Under a high interest environ-

ment, most large Latin American countries (except for Mexico) saw declining rates of investment, but at a 25 percent decline, Colombia's was by far the largest. Other than monetary policy, the drop in Colombia is explained by weak private sector sentiment due to ongoing debate on structural aspects of the economy, including pensions and

“**Government policy pragmatism will be key to gradually strengthening private sector sentiment and strengthening investment.**”

— Manuel Orozco

health care systems, plus relatively large fiscal deficit expectations for 2024-2025 after a recent tax reform. With inflation at an annual rate of 7.2 percent as of April, the central bank's monetary stance is likely to continue to be restrictive this year and translate into weak economic growth. As a result, government policy pragmatism will be key to gradually strengthening private sector sentiment and investment. In January, we affirmed Colombia's 'BB+' rating but revised its outlook to negative, due to the risk of persistently weak investment that may pose risks to our expectation that GDP growth will return to its trend rate of just above 3 percent in the next couple of years."

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