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Creating economic development and growth strategies to deal with migration and change in Central America

The current migration crisis in Central America is tied to missing economic reforms and strategies disconnected from the chronic problems in the region. Reducing high emigration rates resulting from poor economic development can be addressed in one of several ways: as a development problem, as a border control challenge, or as an opportunity to leverage migrant economic contributions.

Any policy intervention should triangulate the economic impact of migration with the drivers that caused it and with the fundamental development problems each migrant-sending country faces. Drivers of migration are immediate factors that create international mobility. They are mostly associated with, but not caused by, fundamental development problems. For example, regional insecurity is a by-product of fundamental development challenges associated with the poor performance of, or lack of, fully-functioning democratic institutions ensuring the rule of law. Similarly, the informal economy is a fundamental development challenge that triggers a lack of economic opportunity.

In turn, differentiated development strategies will capture the realities and the desired outcomes to be achieved. Looking at the regional context, a triangulated approach includes

- Tackling one key value of migration, namely, *formalising savings and assets among remittance recipients;*
- Channelling the savings generated into credit for knowledge entrepreneurs and other small businesses;
- Targeting the formalisation of a small share of informal entrepreneurs in the local economies, particularly where migration is happening.

With this strategy, Central America not only will mitigate the increase in unemployment from slowing migration, increased deportations, and other migrant returns, but also generate growth. This approach will also offer a more realistic perspective to the Alliance for Prosperity (A4P), whose strategy has not yielded desired outcomes (for more on this topic, see the paper 'One step forward for Central America: The Plan for the Alliance for Prosperity'). As was stressed in 2016 about the launch of the A4P, "the proposed strategies dealing with investments in economic growth in agro and tourism industries can hardly create the opportunities that people need to remain in their countries". Three years later, the continued emigration results from the disconnect.

In practical terms, the strategy involves leveraging remittance savings, financing businesses, and matching loans from the financial sector. Savings formalisation for 25% of remittance recipients in the Northern Triangle can bring US$250m into the financial system annually, which can then be mobilised into credit in the areas where families of migrants reside. Moreover, through loan guarantees, such as those of the Development Credit Authority or the Overseas Private Investment Corporation, the financial sector can increase its loan portfolio with an additional US$750m targeting 10% of micro enterprises to strengthen their competitive capacity.

While the international community has invested more than US$50bn between 1980 and 2015 in development assistance, the impacts have been limited. The reasons are complex, but one recurrent issue has been a continued focus on funding agricultural programmes. Development programmes need to focus on human capital, rather than simply agricultural development. This is a matter of equity and economic growth to reduce the gap the region faces with regards to global economic performance and competitiveness.

Formalising and Mobilising Savings for Businesses

Integrating the economic contributions of migrants requires looking at strategies for asset building – particularly local savings formalisation and mobilisation (through financial education and credit) and investments in human capital, like education. Migrant investments, donations, and remittances can be leveraged to build both human and economic capital in those more migration-dependent countries and localities.

As was set out by Manuel Orozco in 'Migrant Remittances and Development in the Global Economy' in 2013, there is an important remittance and migration related value chain associated with savings: its formalisation, and the opportunities it offers for asset-building. It has been demonstrated that the increase in disposable income from remittance transfers increases savings capabilities, and research and field-work in the Central America region by the US-based think-tank Inter-American Dialogue shows that financial advising can help formalise at least 20% of savings among remittance recipients, and makes migration less likely (as set out in the think-tanks article 'Opportunities for My Community Project: A Strategy for Guatemala').

For a region where 80% of the labour force and private sector are in the informal economy, and where the informal economy contributes 20% of GDP, tackling economic informality is fundamental. Formalising savings not only helps people to build wealth, but also helps communities by making capital available for local entrepreneurs, informal or formal. Formalising savings and mobilising them into credit for entrepreneurs will enhance a new competitive and productive space.

At the core of savings mobilisation is the targeting of entrepreneurs in a largely informal and uncompetitive setting. The informal economy lies at the intersection of underdevelopment, the root causes of migration, and migrant capital. Indeed, statistical research by the Inter-American Dialogue shows that a 1% increase in the informal economy has a positive effect on migration, increasing it by 12% in Honduras. Moreover, expanding credit to new sectors – such as education and skills development – for which no substantive financing has existed before, would increase productivity. Financing for education is typically only available for college education in private universities. However, financing education is key to economic growth and development.

Moreover, slowing migration, increased deportations, and the likely return of some TPS holders will increase unemployment and the size of the informal economy. Expanding into new markets can mitigate some of these negative effects.

The way to deal with this situation is to work with the financial sector. Specifically, it is important to reorient investment with existing resources, including those leveraged from remittance savings. A strategy that annually formalises and mobilises 25% of savings among 3 million remittance recipients will bring US$250,000,000 into the formal financial sector, while generating profits. The financial sector can match those savings and expand its credit to 10% of formal microenterprises, while international cooperation and national governments work on formalising 2% of existing informal businesses.

The banking system in Central America is highly liquid, but it is risk averse when it comes to credit because of the low productivity levels of micro and small businesses. However, the financial sector can expand its risk by working with 10% of competitive firms in this category, which encompasses some 700,000 formal businesses, of which the majority are two-person businesses.

The role of the state in this scenario would be to incentivise banks to take greater risk and regulate financial inclusion measures to support greater access. In the first case, taking advantage of the credit guarantees by the Overseas Private Investment Corporation (OPIC) or the United States Agency for International Development's (USAID) Development Credit Authority (DCA) would mitigate risk. Moreover, implementing a type of Community Reinvestment Act would work with local economies and businesses. Increasing credit to 75,000 formal businesses to modernise and improve capacity would also generate create one new job per business. According to the Federal Deposit Insurance Corporation, the "Community Reinvestment Act (CRA), enacted by Congress in 1977 (12 U.S.C. 2901) and implemented by Regulations 12 CFR parts 25, 228, 345, and 195, is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate."

Invest in under-explored markets, such as the knowledge economy

A knowledge-based economy is one formed around an ecosystem of human capital, including knowledge, education, cognitive skills, innovation, and modern social norms. It draws on technological and social networks to create both tangible and intangible value. As such, the knowledge economy depends on the ability and capacity of people to learn and adapt new cognitive skills, techniques, values, and intellectual understanding as they respond to the demands of the global economy (portability, productivity and flexibility). Investment in the knowledge economy could generate at least 40,000 jobs and over US$500 million dollars. And as discussed by Hidalgo and Hausmann in their 2009 paper 'The Building Blocks of Economic Complexity', the knowledge economy is currently the most important source of economic wealth, generating more value and complexity with less manpower through greater use of technology.

A knowledge entrepreneur might provide services in education, technology, professional resources, or technical support, among other things. Tutoring services, for example, by 17,000 service providers in extracurricular education to 200,000 children, can generate $100 per student a year and over US$200m in revenue. This strategy can engage current educators and attract new people to the field.

This perspective of investing credit in services in the knowledge economy is fundamentally important because it addresses various strategic needs: specifically, it tackles both low productivity and highly informal economies.

First, it integrates migrant capital investment and savings from remittances into the financial sector, further mobilising these resources for local development in education, skill formation, and (nostalgic) trade.

Second, this strategy expands and complements – that is, does not replace – existing approaches and financing of economic growth, and creates a new model for much-needed investments in services for the global economy.

Finally, making investments in savings and education as a business strategy will lead to an expansion of opportunities to work and compete in the knowledge economy.

Moreover, it provides people with the necessary skills to adapt to a rapidly-changing and competitive global environment, and therefore contributes to reduce the size of the informal economy insofar as these entrepreneurs aim to modernise. Also, life in the knowledge economy empowers human capital to further transform society by providing people with agency and decision-making opportunities.

In a project in Guatemala providing business coaching to 190 microenterprises working in the Western Highlands on knowledge services, the impact on the local economy was substantive. For example, knowledge-economy entrepreneurs who received technical assistance to increase their competitiveness exhibited more demand for employment and showed greater income increases. Wages paid by entrepreneurs are 12% higher than the average income for employees in other categories of business, and 170% higher than the income for an agricultural daily labourer. Furthermore, these businesses on average invest an additional US$7,000 to improve their operations (*see sidebar*).

Coaching

Coaching interventions have a very positive effect on business competitiveness and performance. Business coaching is tailored for each entrepreneur's needs and schedules. Support typically is aimed at strengthening knowledge services or knowledge and technology in their value chain and operation. For example, a tourism entrepreneur was able to increase profits when he was operating in a deficit. He developed adequate costing procedures using excel forms, and acquired government permits as a tour operator, and thus increased his client base. In another example, an entrepreneur through business planning created combos for low-selling days, making even the slower ones profitable.

Formalise 2% of informal businesses every year

Economic performance in the region is shaped by low levels of productivity associated with the presence of a large mass of businesses and workers operating informally.

Most businesses are unipersonal enterprises operating in saturated merchandise markets, without municipal or government registration (largely due to excessive financial and time related costs), no access to financing, no substantive links to value chains, with limited market access, and no tax contributions. In turn, government revenues are not only low, but competitiveness is highly limited to near-zero profit margins along the commercial operations of these businesses. Thus, economic growth is constrained.

Although efforts to formalise businesses have been a concern, international cooperation and government policy has not been fully sustained, continuous, or benchmarked. That is, some cooperation efforts focus only on the registration process, others on the financing component through microfinance. Moreover, other efforts are limited to a short time-span and government allocation of resources to work with microenterprises is extremely insufficient. Despite evidence, such as that presented in Melanie Khami's article 'Formalization of jobs and firms in emerging market economies through registration reform' in IZA World of Labour in 2014, showing that business formalisation increases employment and revenues, often governments, donors, and the private sector struggle to focus on this issue in a systematic and strategic manner.

Therefore, any approach to economic development and mitigating migration depends on establishing a firm strategy of business and labour formalisation. At a minimum, the strategy needs to focus on ways that formalisation maximises revenue opportunities. A conservative approach would focus on an investment in formalising a certain number of microenterprises in order to enhance their competitive capacity. The strategy should focus on those more likely to succeed as a revenue generating business operation, and with the goal and capacity to generate one more job. Thus, on the national aggregate they will absorb one out of five new workers entering the labour force. In practical terms, it means formalising 60,000 businesses in the Northern Triangle in order to generate employment for an additional 60,000 workers.

A Different Approach to Development

In conclusion, Central America and the Northern Triangle specifically will greatly benefit from an alternative approach to economic growth and development, considering investing in human capital as a resource and commodity, that is, the stock of human resources that create a (socially and economically) active person through values, education, skills, workforce capacity, entrepreneurship, innovation, technology, and networks. This approach of formalising and mobilising capital for entrepreneurship, investing in knowledge economies, and reducing the informal economy is central to tackling migration as well as structural challenges that make the region less competitive. The investment in this sector, largely leveraged by domestic resources from remittances and the banking sector, would partly benefit from international cooperation in technical support. However, the real impact would an increase in growth above 1%, generating 150,000 new jobs.

Labour force and business indicators				
	El Salvador	Guatemala	Honduras	Northern Triangle
Labour force indicators				
Labour force	2,799,821	6,613,075	4,203,333	13,616,229
Formal jobs	660,000	1,700,000	850,000	3,210,000
Informal workers	1,959,875	4,629,153	3,152,500	9,741,528
Unemployment	139,991	330,654	210,167	680,812
Annual increase of labour force	50,000	201,991	100,000	351,991
New annual formal jobs	6,000	20,000	8,500	34,500
Annual informal work	40,500	165,000	85,000	290,500
Business composition				
Formalised businesses	167,000	400,000	175,000	742,000
Informal businesses	668,000	1,600,000	700,000	2,968,000
Microenterprise (1-10) (2)	95.80%	90%	95.80%	3
Small business (10-50) (20)	3.10%	7%	3.10%	0
Medium size (50-100) (68)	0.40%	1%	0.40%	0
Large businesses +100 (330)	0.30%	2%	0.30%	0
Migration indicators				
Deported migrants (2017)	18,838	33,570	22,381	74,789
Migrants with TPS	195,000		57,000	252,000
Deportation scenario 1 (current number + 6% of TPS [for El Salvador and Honduras)	38,000	35,000	28,000	101,000
Deportation scenario 2 (5% increase and no TPS returnees)	19,780	35,249	23,500	78,528
Annual decline in remittances due to TPS termination	$46,800,000		$13,680,000	$60,480,000
Financial access and business investment approach				
Credit to 10% of formal microenterprises	$167,000,000	$400,000,000	$175,000,000	$742,000,000
Formalisation of 2% of microenterprises	13,360	32,000	14,000	59,360
Revenue from 17,000 knowledge entrepreneurs	$36,000,000	$120,000,000	$48,000,000	$204,000,000
Savings from conversion of remittance recipients	$87,500,000	$96,250,000	$56,875,000	$240,625,000
Expected increase in employment/jobs	33,060	82,000	35,500	150,560

BRAZIL

Campos Neto takes over at Brazil's central bank

Roberto Campos Neto, the treasury director for the Americas at Santander bank, will take over the reins at Brazil's central bank once his appointment is confirmed by congress. With congress entering recess in mid-December that may mean he starts the job quickly – or has to wait until mid-February. The current cental bank president, Ilan Goldfajn, welcomed his successor's appointment, describing him as an expert in the financial system and the economy. Market analysts were also pleased by his nomination.

Campos Neto, 49, has spent most of the past 18 years at Santander's local unit and his name had been floated in local media and by transition officials as one of the main candidates to take over at the central bank. He has an economics degree from the University of California, Los Angeles. Before moving to Santander, he worked at Banco Bozano Simonsen as a derivatives and rates trader and on the international fixed income desk.

Notably, his grandfather was the Brazilian economist who, as a planning minister under the rule of General Humberto Castelo Branco, helped implement a series of financial reforms that included the creation of the country's central bank in 1964. As a diplomat, Campos was also a Brazilian representative to the Bretton Woods Conference 20 years earlier. With congress debating a bill to grant full operational independence to the Brazilian central bank, Campos Neto may live to see the realisation of his grandfather's dream.

Campos Neto has worked in the past with Bolsonaro's future economics minister, Paulo Guedes, and has participated actively in transition government meetings in Brasilia. In the same week that Guedes announced Campos Neto's appointment, he also said that Mansueto Almeida, the Treasury Secretary, and another highly respected economist, would remain in his post in the Bolsonaro government.

Goldfajn's legacy

Ilan Goldfajn has run the bank since 2016 and oversaw an easing cycle that pushed the Selic, Brazil's benchmark rate, down to a record low of 6.5 percent from 14.25 percent, while getting consumer prices under control. As political turbulence – mainly in the form of corruption allegations – buffeted the administration of President Michel Temer, Goldfajn was repeatedly praised as "the adult in the room" who kept the Brazilia economy on its sluggish route towards recovery after the worst recession on record.

Goldfajn's continuation at the cental bank had been in doubt since Bolsonaro swept to a resounding second-round election victory on 28 October. Since then, Bolsonaro, a lawmaker who has espoused nationalist, protectionist policies for nearly 30 years, has surrounded himself with liberal-minded economists amid plans to slash spending, privatise state-run companies, and simplify the tax structure.

Campos Neto's nomination is unlikely to mark a major shift in Brazil's monetary policy, according to William Jackson, chief emerging-markets economist at Capital Economics. "We still expect a gradual tightening cycle over the course of next year," Jackson said in a note to clients, adding that the new central bank chief may increase rates at his first meeting in early February as a way to "establish orthodox credentials". Brazil's benchmark rate is expected to rise by 2 percentage points next year to 8.5 percent, he said.

Brazil's inflation slows more than forecast in mid-November

Brazil's inflation slowed more than expected in the month through mid-November, reinforcing expectations that the policy makers will leave their key interest rate unchanged this year. The IPCA-15 index rose 0.19 percent from mid-October, after a 0.58 percent jump in the prior month, the national statistics institute reported on 23 November, below most analysts' forecasts. Lower electricity costs helped push prices lower. Twelve-month inflation slowed to 4.39 percent.

World Bank's Levy Returns to Run BNDES

Joaquim Levy, the World Banks's Chief Financial Officer, has been appointed to head the Brazilian state development bank, BNDES. Like the future economy minister Paulo Guedes, and the future head of Petrobras, Roberto Castello Branco, Levy is a University of Chicago-educated economist. His nomination provoked a certain amount of resistance from president-elect Jair Bolsonaro, due to Levy's ties to previous Partido dos Trabalhadores (PT) administrations. The fact Guedes was able to push his appointment through anyway shows Bolsonaro has considerable faith in his economic guru.

Levy served as former president Lula da Silva's treasury secretary from 2003-2006. Then, shortly after her re-election in October 2014, President Dilma Rousseff appointed Levy to the finance minister in an attempt to signal to investors that she was serious about tackling public spending. Nicknamed 'scissorhands', Levy struggled to push much of his austerity agenda through an increasingly hostile congress. He also received little support from the left-wing administration that was largely uncomfortable with his approach. Eventually, he resigned in 2015 amid waning support. Not long afterwards, congress voted to impeach Rousseff.

In his new job Levy will be well qualified to take charge of selling off state-controlled companies, according to Elena Landau, an economist who helped supervise the privatisation of public firms in the 1990s. "He's the right person to head the bank because he really knows how it works," said Landau. "I expect that he'll reduce the size of the bank's portfolio."

At an event in Rio de Janeiro on 22 November, current BNDES chief Dyogo Oliveira told reporters that the bank had already sold stakes in companies worth R$8bn (US$2.1bn) from January to the end of October this year. Oliveira says that he expects that number to rise to R$12bn by the end of 2018.

Brazil's government does not have capacity to invest in infrastructure, even with an eventual pension reform, and privatisations and concessions are the only way, Oliveira said during the event. The country's current investment levels are "completely insufficient", and must surpass 20% of GDP for the economy to grow near potential, he said

New faces at Caixa and Banco do Brazil

On 21 November, future economy minister Paulo Guedes selected Pedro Guimaraes to be the new had of the state bank Caixa Economica Federal. Guimaraes is known as a specialist in privatisation and holds a PhD in Economics from the University of Rochester. He is currently a partner in the Brasil Plural investment bank, and has some 20 years of experience in Brazil's financial sector. However, his appointment was not without controversy. The public prosecutors' office complained that Guimaraes is the son-in-law of Leo Pinheiro, an executive from the OAS construction firm who was convicted and sentenced in the Operation Carwash corruption investigation. The Banco Plural also stands accused of involvement in some shady deals with meat-packing giant and its holding company J&F/JBS.

Guedes also announced the appointment of Rubem Novaes as the new president of the state bank Banco do Brasil, Latin America's largest bank in terms of assets. Novaes also holds a PhD in Economics from the University of Chicago. He's a contributor to the Rio-based Liberal Institute, a former head of the small enterprise initiative Sebrae, and also former director at BNDES. Prior to the

Chile-Brazil FTA

On 21 November, Brazil and Chile signed a Free Trade Agreement that expanded the terms of the FTA signed back in 1996. This expanded FTA treats 24 areas non-tariff areas – including the exclusion of "roaming" charges for cell phone and data transmissions.

announcement he was already working as part of the government-elect's transition team, with responsibility for formulating its privatisation plans.

Speaking on 22 November Novaes said that privatisation would be his priority and that Banco do Brasil under his stewardship will look for operations that move the capital markets.

COLOMBIA

U-turn on VAT leaves a hole in the budget

Faced by widespread opposition, the government of President Iván Duque has abandoned plans to widen the scope of value-added tax (VAT). As a result, it needs to find some other way of plugging a US$3.5bn hole in the budget.

The government has abandoned its plan to reduce the fiscal deficit by extending the scope of VAT to cover many staple items. It had proposed to reduce VAT to 17% from 19%, but extend its scope from 60% to 80% of the basket of basic goods used to measure the cost of living. The net effect would be to increase revenue. But the move was widely criticised as regressive (even though steps were taken to cushion the impact on the poor). On 22 November President Duque tweeted that "The government and Congress have reached an agreement not to tax the essential basket [of goods], we are still working to find alternatives that allow us to finance social programmes." The numbers are difficult. Finance minister Alberto Carrasquilla is seeking to raise COP14tn (US$4.335bn) as part of his financing reform package. Within that, the extension of VAT to cover basic food items was to deliver the lion's share, additional revenue totalling COP11.3tn (US$3.5bn). Some reports suggested congressional negotiations have identified alternative tax measures that might raise COP10tn (US$3.09bn), still somewhat short of the target.

Senator Fernando Araujo, of Duque's Centro Democrático (CD) party, commented "The 14 trillion pesos shortfall needs to be found to be able to act with fiscal responsibility, comply with the so-called fiscal rule and prevent Colombia from losing its investment grade, which would be very serious for Colombia because it would make the public debt more expensive." Some reports indicated that officials were considering bridging the gap by easing the 2019 fiscal deficit target to 2.9% of GDP, up from 2.4%. The deficit is currently estimated to be running at 3.5% of GDP meaning that in all scenarios a significant fiscal tightening is needed. Other proposals in the overall fiscal package include raising personal taxes on middle-class and high-income earners (considered to be comparatively low by Latin American standards), while reducing corporate tax rates (considered to be comparatively high). There are also plans to improve tax collection and combat evasion.

The danger of a credit downgrade is real. Moody's Investor Services maintained its Baa2 rating for Colombia in February of this year, but reduced the outlook to 'negative' from 'stable'. Earlier, in December last year, Standard & Poor's had downgraded the country's rating to BBB-, just one notch above junk status, on concerns over the country's ability to reduce its fiscal deficit.

Third-quarter GDP

DANE, the government statistics agency, reported in November that third-quarter GDP had expanded by 2.7% year-on-year. The news was welcomed by private sector organisation Asociación Nacional de Empresarios de Colombia (ANDI) saying it was consistent with its 2.5%-2.7% forecast growth for calendar 2018. ANDI president Bruce Mac Master Rojas said it showed the economy was "consolidating" after a few

years of mediocre growth. He highlighted 2.9% growth in the manufacturing sector backed up by a recent business opinion survey that showed 61.8% of respondents were describing their company's situation as 'good', up from 51.8% a year earlier.

Julián Arévalo, dean of the Faculty of Economics at Universidad Externado, said the bottom of the business cycle had been reached in Q3 2016, since when a gradual recovery has made itself felt. He nevertheless expressed concern over agriculture, livestock and fishing, construction, and the financial sector, all of which had lagged behind the overall growth rate in the economy. Agriculture and livestock grew by only 0.1%, partly because of a 15% drop in coffee production. The so-called 'orange economy' (activity related to the creative arts, entertainment, and leisure) had also lagged with growth of around 1%. Economists at Bancolombia nevertheless said the Q3 data had surprised on the upside: they welcomed signs of recovery in construction and mining.

ARGENTINA

The hard slog

The IMF concluded its second review of the US$56.3bn stand-by agreement with Argentina on 26 November, paving the way for disbursement of a US$7.6bn tranche of the loan. While the economic adjustment programme is progressing, keeping it on track in 2019, an election year, will be a major challenge.

An IMF mission led by Roberto Cardarelli concluded a week-long visit to Argentina on 16 November, praising the economic team for progress to date, including getting the austere 2019 budget approved by congress. The mission stressed that eliminating the primary deficit (which the 2019 budget seeks to achieve) "is a necessary step to reduce the government's financing needs and put the debt-to-GDP ratio on a downward path". It also praised the central bank (Banco Central de la República Argentina, BCRA) for its exchange rate and monetary policies. Since September the BCRA has been allowing the peso to float within a pre-determined exchange rate band, and enforcing zero percent monthly growth in the monetary base (M0). This showed that financial markets were stabilising after the extreme volatility of August and September.

While there has been progress, big challenges lie ahead. The federal government deficit has narrowed from 4% of GDP last year to 2.5% in the 12 months to October. This means that the calendar 2018 target – 2.5% of GDP – is almost certain to be met. That said, further tightening is required in 2019. In fact, the government has so far achieved about one-third of the overall fiscal squeeze required over the three-year lifetime of the IMF programme. The full adjustment, if achieved, would be one of the largest ever achieved by any country under an IMF programme.

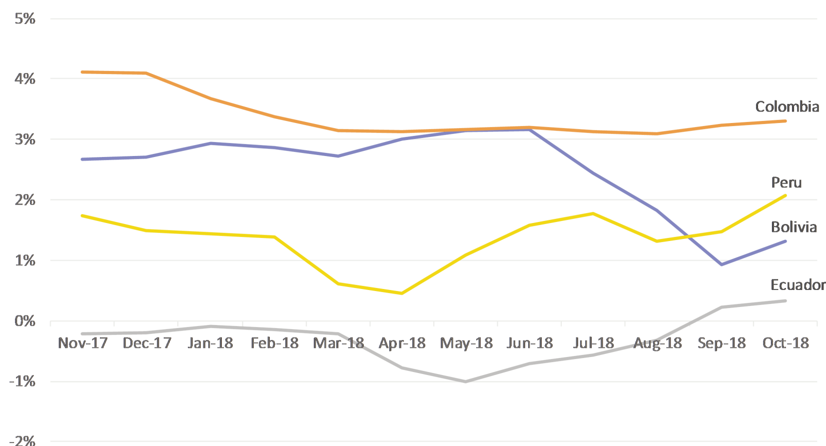
With an eye on the October 2019 presidential election, the government needs to be able to point to some things getting better at some point next year. But there are no guarantees that hoped-for good news will arrive on cue. Interest rates remain extraordinarily high (they have however fallen from 70%-plus to around 65%). This means economic activity will continue to contract over the next few quarters. Driven by peso depreciation, 12-month inflation soared to 46% in October. The government hopes it will fall a little by the end of this year, and more by mid-2019, but that will still make wage negotiations with the trade unions in early 2019 extremely difficult. A range of short-term indicators are still worrying. Supermarket sales were down 7.9% in September. Economic activity fell 1.6% in August, according to the EMAE indicator (a GDP proxy).

ECONOMIC HIGHLIGHTS

ANDEAN COUNTRIES

Andean Countries: Inflation rate (%)

Percentage variation (year-on-year)



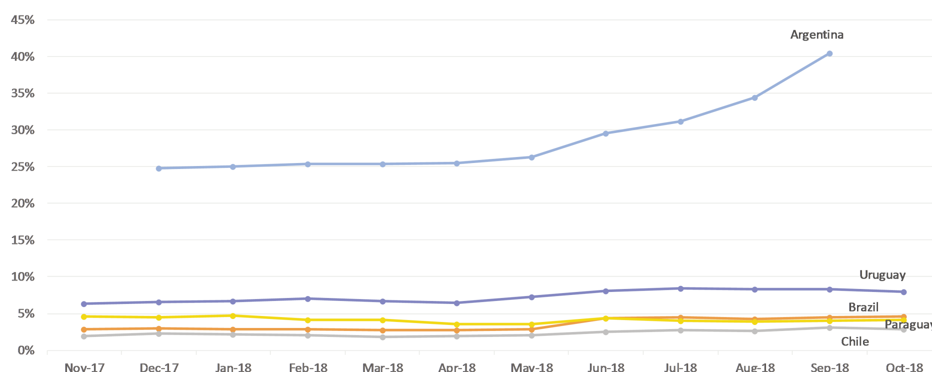
Source: *Local central banks. No reliable data available for Venezuela.*

Andean Countries: GDP growth (%)						
Quarterly figures are year-on-year growth						
GDP	**end 2017***	**2018 forecast****	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**
Bolivia	4.2%	4.3%	Not available yet	Not available yet	Not available yet	Not available yet
Colombia	1.8%	2.7%	2.0%	1.6%	2.2%	2.8%
Ecuador	3.0%	1.0%	3.8%	3.0%	1.9%	0.9%
Peru	2.5%	3.9%	2.5%	2.2%	3.2%	5.4%
Venezuela	-13.0%	-15.0%	No data	No data	No data	No data
**Figures from the United Nations Economic Commission for Latin America & Caribbean (Eclac) August 2018. **Figures from Eclac Oct 2018.*						
Quarterly growth based on figures from the local central banks. Bolivia has ceased providing quarterly y-o-y GDP data.						

BRAZIL & SOUTHERN CONE

Brazil & Southern Cone: Inflation rate (%)

Percentage variation (year-on-year)



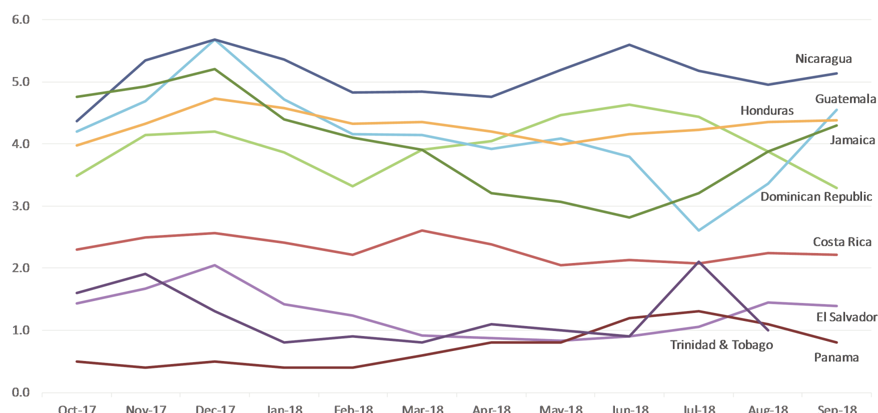
Country			GDP growth rate, quarterly annualised figure*			
	End 2017**	**2018 forecast****	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**
Argentina	1.30%	2.20%	3.80%	3.90%	3.60%	-4.20%
Brazil	0.90%	2.00%	-0.17%	0.99%	1.29%	1.03%
Chile	1.50%	2.80%	2.50%	3.30%	4.10%	5.30%
Paraguay	4.00%	4.50%	3.10%	4.50%	4.10%	6.20%
Uruguay	3%	3.20%	2.20%	2.00%	2.20%	2.50%
** Figures from local Central Banks*						
*** Figures from United Nations Economic Commission for Latin America and the Caribbean*						

ECONOMIC HIGHLIGHTS

CENTRAL AMERICA & CARIBBEAN

Central America & Caribbean: Inflation Rate

Percentage variation (year-on-year, selected countries, latest available data)

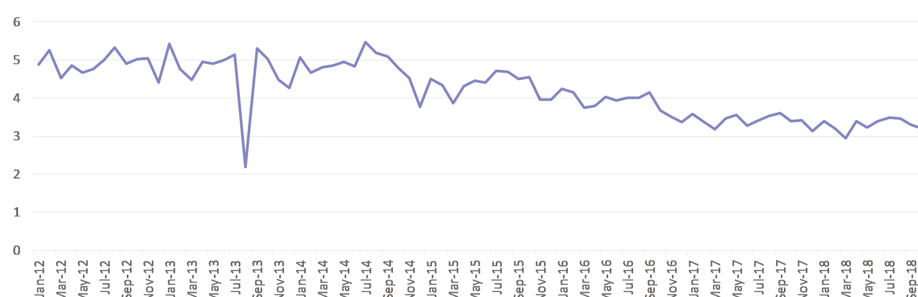


Central America & Caribbean, selected countries: GDP growth (%)						
GDP	**end 2017***	**2018 forecast****	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**
Costa Rica	3.9%	3.3%	2.8%	3.2%	3%	3.3%
Dominican Republic	4.9%	5.4%	3%	6.5%	6.4%	7.1%
El Salvador	2.4%	2.4%	2.4%	2.41%	3.4%	2.5%
Guatemala	3.2%	2.9%	2.7%	2.9%	2%	2%
Honduras	3.9%	3.9%	6.5%	3.6%	3.1%	3.3%
Nicaragua	4.9%	0.5%	3.2%	4.3%	2.3%	3.9%
Panama	5.3%	5.2%	5.4%	4.9%	4.2%	4.2%
Jamaica	1.2%	1.3%	range: 0.5%-1.5%	range: 1.0%-2.0%	range: 1.0%-2.0%	2.2%
Trinidad & Tobago	-2.3%	1.5%	2.7%	-1.2%	3.1	Not yet available
**Figures from the United Nations Economic Commission for Latin America & Caribbean Dec 2017*						
***Figures from the United Nations Economic Commission for Latin America & Caribbean August 2018*						
Quarterly growth based on figures from the local central banks, year-on-year growth						

MEXICO & NAFTA

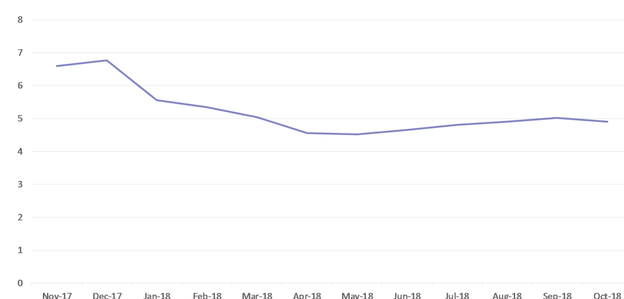
Mexico's unemployment rate

Economically active population



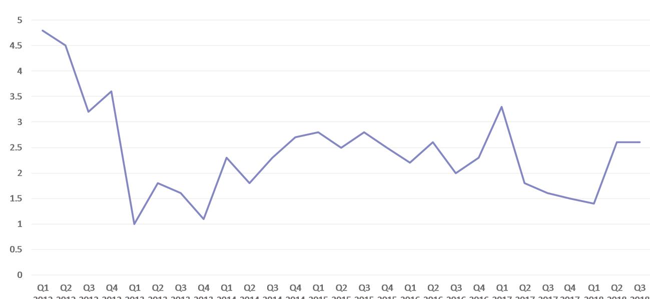
Mexico's inflation rate

Percentage variation (year-on-year)



Mexico's GPD

Percentage variation (year-on-year)



Source (all Mexico Highlights data): *National Statistics Institute (Inegi)*

COSTA RICA

Brighter prospects for tax reform

Prospects for the successful passage of a tax reform proposal are much more encouraging than they were several weeks ago. On 23 November, the constitutional chamber (CS) of Costa Rica's supreme court (CSJ) ruled unanimously that the tax reform proposal is constitutional and that the bill only needs the backing of a simple majority in the Legislative Assembly to be approved.

There had been serious concerns about the future of the 'Ley de Fortalecimiento de las Finanzas Públicas' (law to strengthen the public finances) following a ruling on 16 October by the CSJ's plenary court that the government must amend four areas of the bill before the judiciary would sign off on the legislation. These points did not affect the main tax proposals, but instead related to interaction between the government and the judiciary (including the Planning Ministry's oversight of public employment in the judiciary). However, the CS has now ruled that it finds no procedural flaws in the bill, meaning that the government is under no obligation to make final changes before returning it to the Legislative Assembly for a second congressional vote.

Passage of the bill seems all but assured

The fact that the CS has also specified that the bill only needs the support of a simple majority is also positive. There had been speculation that the government might need to secure a two-thirds majority (which it did not have in the first vote, in which the bill received the backing of 35 out of 57 legislators). Given that the government easily secured a simple majority in the first vote, passage in the second – and final – vote is now all but assured. Given that one of the main goals of the tax reform bill is to raise revenue, the successful passage of the legislation is likely to help reduce the fiscal deficit, which at around 7% of GDP remains extremely large, as well as arrest a recent sharp rise in the public debt stock, which now stands at around 70% of GDP.

Other developments in recent weeks indicate that the authorities are seeking to consolidate the public finances. Just days before the CS's ruling on the tax reform proposal, the chamber approved a proposal by the government to reduce so-called 'luxury' public-sector pensions. There are currently 61,000 former civil servants who receive extremely high pensions, of up to C12m gross per month (equivalent to just under US$20,000); the government has proposed reducing the maximum entitlement to C2.7m (US$4,500). The CS has ruled that this proposal is constitutional, giving the green light to the submission of a formal pension reform bill. The director for pensions has since indicated that there may even be scope for a further reduction in the maximum pension ceiling. Assuming some success in this area, this will help trim expenditure.

Scope for limited currency strengthening

These developments followed several weeks of more marked volatility in the country's financial markets, with the Costa Rican currency coming under significant pressure. The colon had already weakened from C570:US$1 in early September to around C590:US$1 in late October, but the currency weakened sharply in the first half of November, to over C620:US$1. The Costa Rican judiciary gave no indication that this volatility had any bearing on the decision to give the green light to tax reform and pension changes, but markets appear to have settled somewhat since mid-November, with the colon strengthening to C600:US$1 in late November.

Although there is likely to be some scope for further local-currency appreciation, the colon is set to remain relatively weak by recent historical comparison (it traded at C500-550:US$1 for much of 2011-2016 and C550-570:US$1 during 2017 and most of 2018). This reflects the fact that, despite better prospects for fiscal reform, the public finances will remain in a precarious state. In mid-

November, the international credit ratings agency Fitch Ratings put Costa Rica on alert for a ratings downgrade. The country outlook was already on 'negative'; the most recent warning means that a downgrade will occur within 90 days unless significant progress is made to improve the public finances. Fitch made specific reference to the tax reform proposal, but also to the looming repayment of three-month treasury bills that were issued by the central bank to the government in September for emergency budget financing. Difficulties in accessing international capital markets is precluding sovereign bond issuance, reinforcing the government's financing difficulties.

URUGUAY

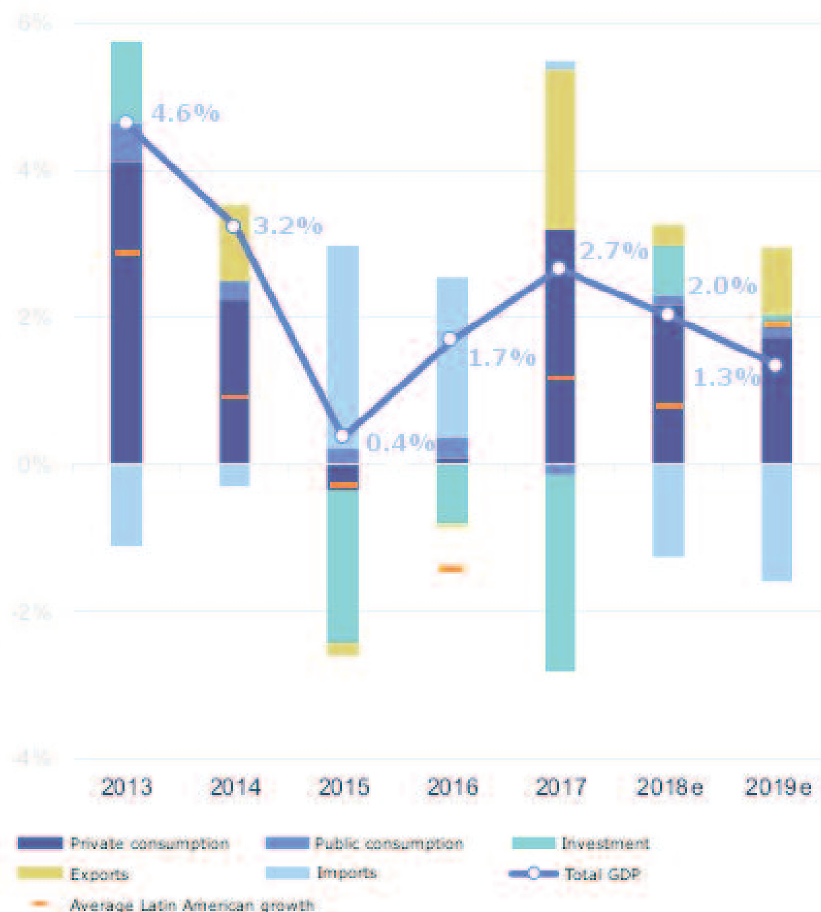
Lower growth predicted

The economic crisis in Argentina has caused Spanish bank BBVA to trim back its forecasts for GDP growth in Uruguay in 2018 and 2019, although it argues that the smaller country is less exposed to the ups and downs in Argentina than it used to be.

BBVA says that unlike its situation during the Argentine crisis of 2002, the Uruguayan economy is now more diversified and resilient. But growth will still be slower than previously expected due to cooler domestic consumption, sluggish private investment, and lower exports because of the impact of drought in agricultural and livestock areas.

The report looks at five main transmission channels for the Argentine crisis to impact Uruguay and concludes that only one remains material: tourism revenues will be down this summer because fewer Argentines will visit. The depreciation of the Argentine peso has made holidaying in Uruguay 35% more expensive for would-be Argentine tourists. The trade channel is less of a threat, because Uruguay has diversified its exports and moved up the value chain. The financial channel is also less threatening because non-residents hold a lower share of total deposits and the Uruguayan banks are well capitalised. Debt leverage is not a major problem since the Uruguay has agreed a rescheduling with its creditors. And finally, the energy channel is also less of a problem: Uruguay depends less on fuel imports from Argentina as it has invested heavily in renewable energy sources.

Contribution to economic growth



Source: *BBVA Research and BCU*

Taking into account domestic factors as well, BBVA now expects GDP growth to fall from 2.7% in 2017 to 2.0% in 2018 and to 1.3% in 2019.Weaker consumption and investment will play a part next year, and exports will be lower because of the drought (which hit soya exports in particular). BBVA expects the current-account deficit to widen from 0.4% of GDP this year to 2.4% in 2019. Meanwhile both fiscal and monetary policy is expected to remain restrictive. The government has struggled to reduce the public-sector deficit that in the first nine months of this year stood at 3.9% of GDP. Reducing it further will require politically difficult structural reforms on the spending side.

CUBA-VENEZUELA

Trump considers sanctions on Cuban officials

Individual sanctions on some senior Venezuelan officials have been in place for several years, but there are indications that US President Donald Trump is considering extending these to certain Cuban officials, who the US government suspect of providing advice and support to the Venezuelan government.

These moves form part of an overall hardening stance on the part of the US government towards the Cuban and Venezuelan regimes. Since taking office, President Trump has rolled back many of the measures passed by his predecessor, Barack Obama, that had led to a partial rapprochement with Cuba. Speculation about the end of economic sanctions against Cuba, which had risen sharply under Obama, has all but disappeared. In September, President Trump renewed the 'Trade with the Enemy Act', which forms the cornerstone of the Cuba embargo, for another year while in early November the United Nations (UN) voted overwhelmingly to condemn the Cuba embargo.

"Troika of tyranny"

The US National Security Advisor John Bolton has given evidence of the Trump administration's hardening stance towards Cuba and Venezuela. In a speech in early November, Bolton spoke of a "troika of tyranny", labelling these countries – in addition to Nicaragua – as the cause of "immense human suffering…enormous regional instability…and a sordid cradle of communism in the western hemisphere". The National Security Advisor extended sanctions to a number of Cuban companies with suspected ties with the Cuban government and military, as well as firms engaging in gold exports from Venezuela.

In addition, he indicated that the US government was considering whether to allow US citizens with outstanding property claims in Cuba (which relate to the seizure of property by the Cuban state shortly after Fidel Castro came to power in 1959) to sue foreign companies that have since invested in the Cuban property market. Although this would in practice prove extremely difficult, not to mention controversial, it is an indication of the US government's tougher rhetoric. In this context, a further extension of sanctions to Cuban officials suspected of advising and supporting the Venezuelan government would come as little surprise, given the hardening of the US government's tone.

It remains doubtful whether any of these measures will have a significant impact on the longevity of either the Cuban or Venezuelan administrations. The sanctions on companies will limit both countries' ability to trade internationally and secure inward investment – which will have a detrimental impact on both countries' economies – while personal sanctions against individuals in both governments will hamper diplomatic ties. However, both the Cuban and Venezuelan governments have to date demonstrated an ability to withstand severe economic strain, as well as diplomatic isolation. As such, there is a sense that the latest moves by the US government are likely to prove primarily symbolic.

JAMAICA

The inflation conundrum

Contrary to previous battles with above-target inflation, the current policy dilemma facing the Jamaican authorities is how to prevent inflation from falling back below the 4%-6% target band, which prompted a Consultation Clause with the IMF as part of the government's borrowing agreement earlier this year. Recent signs are positive, with annual inflation rising in October, albeit as a result of higher supply-side oil and food prices, rather than stronger domestic demand.

Jamaica is not an economy that it accustomed to grappling with low inflation. Annual inflation has traditionally been high in Jamaica, frequently creeping into double-digits, so government concerns about prices have tended to focus on the extent to which inflation is exceeding official targets. Monetary policy formulation, in turn, has often been crafted with this in mind, with benchmark interest rates having been traditionally fairly high, in an effort to keep inflation under control.

Inflation set to rise

However, inflation has surprised on the downside for much of this year. Despite a spate of interest rate cuts, prices have increased only gradually, with annual inflation falling from 5.3% in December 2017 to just 2.8% in June 2018. This triggered a Monetary Policy Consultation Clause (MPCC) that forms part of Jamaica's borrowing agreement with the International Monetary Fund (IMF): as inflation fell below the official June target of 5% plus or minus 1.5 percentage points at the test date (June), the Jamaican authorities were required to consult with the IMF Board on the reasons for the deviation of inflation from the target and the authorities' proposed policy responses.

Recent signs, however, have been more positive. Annual inflation rose to the lower boundaries of the 4%-6% target range in September and continued to rise in October, reaching 4.7%. However, rather than reflecting firmer domestic demand (which would have boosted overall private consumption and thus strengthened GDP growth), the acceleration in inflation reflects higher supply-side prices. Rising international commodity prices have lifted food and fuel prices in Jamaica, with the food sub-sector of the consumer price index registering inflation of 5.6% in October, up from less than 3% in June-July. Utility prices registered inflation of 7.3% in October, up from 4% in June.

IMF broadly supportive of progress

In the IMF's most recent review of the Jamaican economy, published in early November, the Fund noted that the Jamaican authorities had reinforced that they viewed the recent spate of below-target inflation results as a temporary deviation and were confident that inflation would return (and remain in) the 4%-6% target band. The Fund emphasised that monetary policy decisions took between four and eight quarters to feed through to inflation, implying that the period of interest rate cuts (that began in August 2017 and finished in May 2018) will continue to have an impact on lifting inflation for some time. Nevertheless, the government has requested a modification of the MPCC to reduce the lower boundary of the inflation target band, presumably to guard against a renewed fall in annual inflation.

More broadly, the IMF continued to praise the progress made by the Jamaican authorities in consolidating the public finances, reducing unemployment and engendering greater macroeconomic stability. Continued emphasis is being placed on broader reforms to improve the operating climate for businesses, in a bid to lift private investment and bolster GDP growth, which remains weak. With this in mind, the authorities are preparing a reform to the Customs Act, with the Jamaica Customs Agency (JCA) stating in late November that they expect a draft reform to be presented to parliament in 2019. In the November IMF review, the Fund pencilled in a submission date of March, noting that implementation for that date remains on track. Few concrete details of the proposed changes have been made public, but the JCA has emphasised the need for modernisation and greater efficiency, with a view to facilitating international trade and aligning Jamaica's legislation with current international best practices. This follows ongoing efforts to roll out Jamaica's 'Single Window Project', which will provide one central hub for import, export, and transit-related regulatory paperwork, helping to improve communications between port authorities and customs offices and other regulatory agencies. The Single Window Project is due to be rolled out over the next 36 months.

MEXICO

Trade issues still cloudy as USMCA launches

As this issue went to press the leaders of the United States, Mexico, and Canada were due to sign the new USMCA treaty, replacing the North American Free Trade Agreement, on 30 November at the G20 summit in Buenos Aires. This might point to a new era of predictable trade rules across the North American region. Then again, it might not.

The argument in favour of the USMCA is that, although compromises had to be made to reach agreement, the new set of rules it embodies gives trade between the three countries (which totals more than US$1.112tn) a predictable and reliable framework. So, the planned signing by US President Donald Trump, outgoing Mexican President Enrique Peña Nieto (on what will be his last day in office), and Prime Minister Justin Trudeau should be a good thing, allowing a big collective sigh of relief. That said, there is a counter view: that trade disputes are set to continue and maybe even worsen.

One big fly in the ointment is the imposition of 10%-25% tariffs on imports of aluminium and steel from Mexico and Canada into the US last June. The tariffs were imposed by the Trump administration on "national security" grounds and led both countries to respond with their own countervailing tariffs on goods imported from the US. Mexico and Canada are hoping that the US tariffs will be lifted as the USMCA is signed, allowing this particular dispute to be unravelled, but Washington has not yet moved to do so, and some analysts believe the US may be looking to extract further concessions. The politically sensitive US auto industry, which Trump sought to protect, continues to struggle, with GM announcing multiple plant closures (and criticising the impact of the metal tariffs).

It is also possible that some of the USMCA provisions could be re-opened. The treaty needs to be approved by legislatures in the three countries. In the US, the Democrats now control the lower house and could seek to question labour and environmental provisions. In Mexico left wing President-elect Andrés Manuel López Obrador has a new majority in congress. Although he has not targeted the USMCA, he could change his stance because of other bilateral issues such as migration. In Canada new federal elections are due by October 2019, narrowing the window for treaty approval.

REGIONAL BUSINESS REVIEW

BRAZIL

Investors Welcome New Petrobras CEO

Roberto Castello Branco, the new CEO of Brazil's oil giant Petrobras, is the third University of Chicago-trained economist to join the new government. A fierce critic of fuel subsidies and an eager proponent of privatisation, Castello Branco's appointment highlights once more the future administration's plans to liberalise the economy. However, the political sensibilities surrounding Petrobras are such that selling off its assets is likely to prove a significant challenge.

Investors welcomed the news on the expectation that Castello Branco will continue the work of his predecessor, Ivan Monteiro, when he takes office on 1 January. Shares in the company rose almost two percent on the Ibovespa stock index on the day the news became public. Most analysts believe that the new CEO will continue the divestment push started under Monteiro and minimise political involvement in the company.

As well as its starring role in Operation Carwash, the biggest corruption scandal in Brazilian history, Petrobras lost vast amounts of money under the administration of President Dilma Rousseff as a result of fuel subsidies. By selling fuel at lower-than-market value, the company is estimated to have lost around $40 billion between 2011 and 2014. Castello Branco has been a fierce critic of fuel subsidies.

"In Brazil, like in Venezuela, oil is used as an instrument of populism to redistribute income to interested parties, through legal and illegal means," he wrote in a May 28 article published by the Fundacao Getulio Vargas think tank. "Petrobras was nearly destroyed from adopting prices below international parity."

'Transfer of Rights'

The rights to 5 billion barrels of government oil were transferred to Petrobras in 2010 as payment for shares the state bought in the company as part of a $70 billion sale of new stock. But as the producer drilled the area, it found much more crude than it was entitled to in the deal, leaving the government with a surplus while Petrobras remained the sole company allowed to operate those fields. The area is attractive and low-risk because Petrobras has already made major discoveries there, equipment is on site, and taxes have been paid.

After the devastating truckers' strike of May this year, the government of President Michel Temer was forced to implement a diesel subsidy reimbursement programme that is set to expire on 31 December. Castello Branco – and President-elect Jair Bolsonar – look set to dodge a bullet thanks to declining oil prices. If, as expected, they unwind the deal in accordance with their pro-market philosophy, reaction is likely to be muted as diesel prices fall.

Castello Branco was the main oil expert involved in Bolsonaro's campaign. He recently said Petrobras should continue to sell assets including fuel unit BR Distribuidora and even raised the possibility of a full privatisation. Bolsonaro himself however has toned down expectations of a blanket sell-off as he repeatedly argued during the campaign and afterwards that the oil producer is strategic for Brazil. Still, he has supported selling Petrobras's refineries, a process that has been difficult to accomplish amid uncertainty about the future of fuel price policies. Castello Branco forms part of Bolsonaro's transition team, allowing him to coordinate with the Petrobras's outgoing administration.

Deep-sea oil battle

In a sign of the political battles to come, Bolsonaro is struggling to advance the sale of up to $30bn worth of deep-sea oil reserves, just like Temer. Last week senate chief Eunicio Oliveira put on hold a key bill authorising an auction of the area, dealing a blow to Bolsonaro's hopes that a path would soon be clear for oil majors to bid for the fields. This would remove from Petrobras the exclusive rights to operate in the so-called 'transfer of rights' area, a controversial proposition in a country where nationalism and oil tend to go hand in hand.

At stake is a portion of the country's so-called pre-salt crude reserves buried deep beneath the Atlantic Ocean's seabed, which state-controlled Petroleo Brasileiro SA has shown are commercially viable. Exxon Mobil Corp. and Royal Dutch Shell Plc have expressed interest in the deposits, which are estimated to hold more crude than Norway's proven reserves.

Pushing ahead with the sale is proving to be a daunting task, as the president-elect's team needs to negotiate with dozens of political parties and states with different agendas.

BRAZIL

Brazil's exporters fret over Jerusalem embassy move

Brazil's meat exporters are eyeing President-elect Jair Bolsonaro's plans to relocate the South American country's embassy in Israel from Tel Aviv to Jerusalem with unease. Bolsonaro announced his intention to move the embassy in an interview with the conservative Israel Hayom newspaper in early November, prompting a congratulatory tweet from the Israeli Prime Minister, Benjamin Netanyahu. Shortly afterwards, Egypt decided to postpone an official visit by the Brazilian foreign minister.

While Bolsonaro has made no secret of his longstanding admiration for Israel, some Brazilian exporters fear he may not have given due weight to the commercial implications of his proposal. While Brazil ran a $419 million trade deficit with Tel Aviv in 2017, it ran a $7.1 billion dollar surplus with the 22 nations of the Arab League that year, a figure that represents 10 percent of Brazil's total trade surplus.

"Naturally, given we have very important trade with Arab markets, especially the market in Halal meat, this is an issue that worries us," said Pedro Parente, the CEO of BRF SA, the largest supplier of chicken to the Arab nations in the Gulf Cooperation Council. The Arab world is Brazil's second-largest food export market, after China, according to Reubens Hannun, the president of the Arab-Brazil Chamber of Commerce.

Moving the embassy would "at the very least generate noise, and could lead to some negative effects," Hannun said. "Ideally things would remain the way they are." A deterioration in the relationship might also impact potential investment in Brazil by Arab sovereign wealth funds, he added. The Saudi Agricultural and Livestock Investment Company (Salic) is the second-largest holder of Minerva SA, South America's top beef exporter.

Food dominates the list of Brazilian exports to the Arab League, and the South American country is the world's largest exporter of Halal meat, from animals killed in accordance with Islamic law. "Arab people want to consume more Brazilian products," Hannun added. "This could jeopardise their positive disposition."

The Egyptian ambassador in Brasilia, Alaaeldin Wagih Mohamed Roushdy, said that the Brazilian foreign minister's trip to Cairo was postponed due to scheduling conflicts, but he added that he had taken note of the president-elect's statements on the embassy. "Egypt's position is clear with regards to the issue of Jerusalem and the Palestinian issue in general," he said. "We firmly believe in a two-state solution and the establishment of a Palestinian state with East Jerusalem as its capital."

Real honeymoon over

With a month to go until President-elect Jair Bolsonaro takes over, there are signs that the initial market euphoria that greeted his election has started to wear off. In late November the central bank intervened to calm the markets after a strong demand for dollars triggered the real's biggest drop in 18 months.

Labour reform, one of the flagship economic policies of the administration of President Michel Temer, marked its one-year anniversary in November. To date the new legislation has helped bring down dramatically the number of lawsuits brought by aggrieved workers and cut the amount of damages they seek in compensation. However, it has largely failed in its efforts to generate new jobs. Unemployment remains stubbornly high at 12% and the legislation has not helped create a plethora of part-time job opportunities, as many of its architects had hoped.

In October last year the then-finance minister, Henrique Meirelles, said that the legislation would create six million jobs. Since then, however, unemployment has only reduced from 12% to 11.9% and 12.5 million Brazilians remain out of work, according to the official statistics institute IBGE. From January to September this year, just 719,089 jobs in the formal sector were created according to Caged, the official employment indicator.

Hopes that the reform would also result in more flexible, part-time jobs have also failed to materialise. The government had hoped to create 2 million of this kind of job in three years; the equivalent of 55,000 a month. From November 2017 to September 2018, just 47,100 jobs of this type were created.

Public consultations rattle the markets

Incoming President Andrés Manuel López Obrador (AMLO) is giving Mexico a taste of his own particular brand of participatory democracy – a series of 'consultations' on a wide range of projects and proposals. The business community definitely doesn't like it.

López Obrador, a left-wing populist, won the presidential elections with a landslide on 1 July and was due to be sworn into office on 1 December. It now looks as if the five-month interregnum splits neatly into two periods. Up to about mid-October AMLO reassured investors and financial markets about his plans for the country, and the peso gained strength against the US dollar. But from late October through all of November the president-elect has been consistently rattling the markets: the peso, along with the stock market, has been plunging.

The first honeymoon period was marked by various developments. AMLO made business-friendly appointments, notably of Alfonso Romo as his cabinet chief and Carlos Urzúa as finance minister. He promised to pursue fiscal responsibility and cut wasteful spending; he said he would respect the independence of the central bank (Banco de Mexico, also known as Banxico). With his support, the outgoing administration was able to negotiate a new free trade agreement with the US and Canada (now known as the USMCA), apparently fending off uncertainty over a lurch to protectionism by the right-wing populist in the White House, Donald Trump.

But then came what, from the business community's point of view, was a series of mis-hits. AMLO has promised to govern with a form of participatory democracy where major issues and projects will be subject to non-binding public 'consultations'. The first was held at the end of October and resulted in the cancellation of the already one-third completed US$13bn-plus project for a new Mexico City airport, which is to be scrapped in favour of an alternative plan to renovate the existing airport and build two new runways at the Santa Lucía military airbase.

Multiple concerns have been expressed over this decision. One is that the consultation was flawed: it was not run by the electoral institute, but by an NGO with limited resources; polling booths were available in only about one-fifth of the country's municipalities; security procedures were insufficient to prevent double-voting; and in the end only about 1% of the electorate actually took part. Critics felt the full costs and benefits of the new airport plan were not properly assessed, voters had insufficient information, and the decision could turn out to be a lot more costly that has been suggested. Although AMLO has promised to compensate contractors, for the private sector the main conclusion seems to be one of increased uncertainty on all public works contracts. As a result of the airport decision ratings agency Fitch put Mexico on negative outlook. Moody's Investors Service sovereign risk analyst Jaime Reusche said this was "a negative sign for long-term investment in the country, which could discourage investment in the medium term and slow down growth".

More was to come. AMLO's party, the Movimiento de Renovacion Nacional (Morena), presented a bill in congress (later withdrawn) that would have limited bank commissions (one of the key sources of financial sector revenue). This led to the biggest one-day fall in the Mexican stock exchange in the last seven years, a 5.8% drop on 8 November. The bill also seemed to have caught Urzúa, the incoming finance minister, by surprise – he warned

that "the impacts on public finances and stability in the financial sector" would need to be taken into account. Another stock exchange plunge was triggered on 22 November when the majority Morena block in congress tabled a bill to toughen controls on mining companies. Some proposals could lead to companies losing their existing licences if it is found the projects have had negative social or environmental impact.

Another public consultation was held on 24 and 25 November. This sought citizen approval for ten big projects, all supported by the incoming president. They include the US$6.3bn Tren Maya project which he believes will boost tourism and economic development in the impoverished south of the country. Also on the list was the construction of a US$2.5bn refinery in Dos Bocas in AMLO's home state of Tabasco, and youth training and employment programmes costed at around US$5.4bn. Unsurprisingly perhaps, all were approved with over 90% of the votes, although the turnout remained only a tiny proportion of the electorate. A further consultation, on his proposal to create a new National Guard, is planned for March 2019.

Carlos Petersen, a Mexico specialist at consultancy Eurasia Group, argues that the public consultation process marks a major shift. With the memory of past financial crises still present, for the last 20 years successive Mexican governments have pursued macroeconomic stability and tried to make policies as predictable as possible to encourage investors. Above all, governments have sought to reassure the financial markets. But Mexico under AMLO will change. Petersen says "His views on issues he cares deeply about, such as the airport, energy, or social policy, will be pushed forward regardless of what the market signals. Economic and market rationality are not what will drive the core of the new government's decisions, it will be political and ideological. And this represents a major qualitative and material change to the way government in Mexico operates and to the signals that the market and investors will have to learn to read and understand."

AMLO of course has a clear democratic mandate that can be seen as overruling the need to please the financial markets. He already identified and defended some of his key projects during the election campaign. But there are nevertheless doubts that the way the public consultations are being managed could unnecessarily alienate the business sector, thereby risking lower investment and growth. There are also questions over whether the budget numbers actually add up. AMLO has to some extent tied his own hands by making potentially contradictory commitments. He has promised not to increase debt in real terms; he has promised to spend more on developing the south of the country; and he has promised to cut taxes in the north along the border with the US. He has also promised to build refineries and to cut oil exports. And all this is to be achieved while generating a primary budget surplus equivalent to 0.8% of GDP in the 2019 budget. In theory this can be done by reallocating resources and eliminating wasteful spending. Yet there has been little detailed information on how this will be achieved. It will fall to incoming finance minister Carlos Urzúa to square the circle and finalise next year's budget by a deadline of 15 December.

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