

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs
Cargill

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

W. Bowman Cutter

Former Partner,
E.M. Warburg Pincus

Dirk Donath

Senior Partner,
Catterton Aimara

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon Huenemann

Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones

Chairman, ManattJones
Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

José Antonio Ríos

Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Shelly Shetty

Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

Will a New Team Turn Argentina's Economy Around?



Nicolás Dujovne was named Argentina's new treasury minister last month. // File Photo: Argentine Government.

Q Since taking over as Argentina's president a year ago, Mauricio Macri has implemented free-market measures in an effort to spur the economy and attract foreign investment.

However, the country's economy contracted for the fourth consecutive time in last year's third quarter, and Macri in December dismissed his finance minister, Alfonso Prat-Gay, and split his ministry of treasury and finance into two cabinet departments. What kinds of economic policies can be expected of new Treasury Minister Nicolás Dujovne and new Finance Minister Luis Caputo? What policies should the Macri administration push in order to restore the country to growth? To what extent will midterm legislative elections in October complicate efforts to reduce the country's fiscal deficit and pass other needed reforms?

A Daniel Filmus, Parlasur deputy, researcher at the National Scientific and Technical Research Council (CONICET) and professor at the University of Buenos Aires: "Mauricio Macri's economic policies have had serious consequences.

All indicators show a negative trend. GDP has decreased, inflation was at its highest level in 15 years, the fiscal deficit increased sharply, external indebtedness grew, income distribution was regressive, thousands of companies shut down and so on. Foreign investments also did not arrive. Social indicators also accompanied this trend. Unemployment, poverty and indigence increased. Purchasing power fell, and the domestic market collapsed. Investment in key areas such as science and technology declined. All of this caused the fall of Alfonso Prat-Gay. However, in order to

Continued on page 3

TODAY'S NEWS

POLITICAL

U.S. May Sanction Venezuelan Officials in Food-Related Graft

Members of Congress are calling for sanctions following a report that Venezuela's military is at the center of a corruption scheme tied to distribution of scarce food in the country.

Page 2

ECONOMIC

Remittances to El Salvador Rise to \$4.58 Billion

The money transfers, mainly from the United States, increased 7.2 percent last year to their highest level in the country's history.

Page 2

POLITICAL

Peña Nieto Vows to Protect Mexican Interests in Talks With U.S.

Mexican President Enrique Peña Nieto vowed to protect Mexican migrants, investments and other national interests ahead of talks with the new administration of U.S. President Donald Trump.

Page 2



Peña Nieto // File Photo: Mexican Government.

POLITICAL NEWS

Peña Nieto Vows to Protect Mexican Interests in Talks With U.S.

Mexican President Enrique Peña Nieto on Monday vowed to protect migrants, investment and other national interests ahead of negotiations with the United States under newly inaugurated President Donald Trump, The Wall Street Journal reported. Peña Nieto outlined the country's

“Mexico doesn't believe in walls; our country believes in bridges.”

— Enrique Peña Nieto

position on future relations between the two countries and said he would seek to reach agreements that would benefit both sides. “We will work for a border that unites us, not one that divides us,” he said. “Mexico doesn't believe in walls; our country believes in bridges.” The remarks came as Trump on Monday signed an order to withdraw the United States from the Trans-Pacific Partnership, a 12-nation trade agreement that includes Mexico, Canada, Peru and Chile. Trump also signed an order stating his intention to renegotiate the North American Free Trade Agreement, or NAFTA. Mexican Foreign Minister Luis Videgaray and Economy Minister Ildefonso Guajardo will lead a Mexican delegation to Washington this week to begin talks with senior Trump administration officials. Peña Nieto plans to visit the United States by the end of the month. The Mexican president also said Monday he would negotiate bilateral trade agreements with members of the TPP, as well as with the United Kingdom, once it leaves the European Union. [Editor's note: See [Q&A](#) on how Trump's policies may affect Mexico's level of foreign investment in the Jan. 10 issue of the Advisor.]

U.S. May Sanction Venezuelan Officials for Graft Tied to Food

Members of the U.S. Congress are calling for sanctions against Venezuelan officials following an Associated Press report that the South American country's military is at the center of a corruption scheme tied to the distribution of scarce food in the country, the wire service reported Monday. Venezuelan President Nicolás Maduro has given the military increasing control of the country's food supply amid widespread shortages of basic staple foods. The report that the AP published last month detailed a chain of corruption by the military related to food distribution, including kickbacks to generals for food contracts and bribery related to moving food out of ports. Some of the food is bought in the United States, with bribes flowing through the U.S. banking system, according to the report. “When the military is profiting off of



Cardin // File Photo: U.S. Senate.

food distribution while the Venezuelan people increasingly starve, corruption has reached a new level of depravity that cannot go unnoticed,” said U.S. Senator Ben Cardin (D-Md.), the ranking member of the Senate Foreign Relations Committee. Senator Marco Rubio (R-Fla.) called on U.S. President Donald Trump to take action against the officials named in the report. “This should be one of President Trump's first actions in office, said Rubio. U.S. prosecutors are investigating senior officials in Venezuela, including military officials, for laundering money through the U.S. banking system, people with knowledge of the investigation told the AP. No charges have been filed, and Maduro's government has not responded to the

NEWS BRIEFS

Brazilian Health Officials Confirm 25 Deaths in Yellow Fever Outbreak

The Brazilian Health Ministry said it has confirmed 47 cases of yellow fever and 25 deaths as a result of the mosquito-borne disease, the Associated Press reported Monday. Authorities say they are also investigating another 160 suspected cases of the disease. The outbreak is centered in the east-central state of Minas Gerais, whose governor declared a state of emergency following an initial report of eight deaths. The government said it sent two million extra doses of the vaccine against yellow fever to Minas Gerais, and that hundreds of thousands of additional doses will be sent there and to nearby Espirito Santo this week.

Trump Reinstates Ban on Foreign Aid for Providers Discussing Abortion

U.S. President Donald Trump on Monday reinstated a ban on foreign aid for health providers abroad who discuss abortion as an option to those whom they serve, The New York Times reported. The move revives the “Mexico City policy,” so named because then-U.S. President Ronald Reagan first announced it during a visit there in 1984.

Remittances to El Salvador Reach Highest-Ever Level in 2016

Remittances to El Salvador increased by 7.2 percent in 2016 year-over-year, reaching their highest level in the country's history and the sharpest increase in a decade, the country's central bank said Monday, Reuters reported. Remittances totaled \$4.58 billion last year and were mostly sent from the United States. The spike in remittances comes as U.S. President Donald Trump has proposed using a remittance tax to pay for a wall along the country's border with Mexico.

report. Also on Monday, several thousand people marched in an anti-government protest in Caracas, though protest organizers had hoped for much larger nationwide demonstrations, The Washington Post reported. "Motivation has decreased because the opposition doesn't have a common aim," Luis Vicente León, the president of polling firm Datanalisis, told the newspaper.

BUSINESS NEWS

Peru Terminating Pipeline Contract With Odebrecht

The Peruvian government has decided to terminate a contract with a consortium led by Brazilian construction giant Odebrecht to build a \$7 billion natural gas pipeline, Mines and Energy Minister Gonzalo Tamayo said Monday, The Wall Street Journal reported. The government's move was the latest setback for the company, which has been at the center of a massive corruption scandal. The Southern

The consortium also faces a \$262 million penalty.

Peruvian Gas Pipeline consortium, of which Odebrecht owns a 55 percent stake, failed to meet Monday's deadline to "obtain this financing from the international financial community as a sign of their capacity to bring this project forward," Tamayo said. Spain's Enagas owns a 25 percent stake in the consortium, and Peru's Graña y Montero owns 20 percent. Tamayo said the consortium would also face a \$262 million penalty for not being able to complete the construction of the 700 mile-long pipeline, which was intended to transport natural gas from the Amazon to towns across the southern highlands and on the Pacific. Tamayo said the

FEATURED Q&A / Continued from page 1

change this trend, just changing names isn't sufficient. It is necessary to change policies. Nothing allows for this change. The government is continuing to bet on debt to sustain a fiscal deficit and the dynamism of sectors that have little impact on the real internal economy. In a world that will show more difficult economic conditions, the consequences are predictable. To make matters worse, this is a legislative election year, and efforts will be aimed at expanding the debt in order to sustain the deficit. This has already caused the resignation of the president of Banco de la Nación, Carlos Melconian. This will further complicate the economy's future recovery. Reasonable policies that generate equilibrium and macroeconomic stability and at the same time support the growth of the domestic market, using credit as a lever for innovation, production and national industry as well as the recovery of consumption capacity and a progressive distribution of income seems to be the only way to reverse the present situation."

A Miguel Kiguel, executive director of EconViews in Buenos Aires: "The Macri administration during its first year concentrated its efforts on correcting the large distortions in relative prices, on resolving the default to restore access to international credit and on dismantling the systems of price and foreign exchange controls. In addition, the government took important steps to de-regulate the economy and improve the business climate. Despite these positive measures, this first year was difficult, as the economy suffered a deep recession and high rates of inflation. But these effects were largely anticipated, due to the 'tough' policy measures that the government put in place. Inflation has now

government is studying options to decide who should finish the pipeline, and the government may ultimately decide to auction off the project to new bidders. In separate statements, Enagas and Graña y Montero said that according to

receded and has dropped from around 4.5 percent per month in the first half of the year to around 1.5 percent. The biggest concern is growth, as the economy remained in recession at least until last November. In December, there was scattered evidence of a recovery, and there seen to be green shoots in agriculture and even in consumption. Will they develop or dry-up? Most likely, the economy this year will enjoy growth, mainly because the factors that led to the recession have been reversed: interest rates dropped, public works are on the rise, inflation has stabilized at lower rates and real wages are up. The recent changes in the cabinet do not signal a change in policies, they are intended to achieve better teamwork. Dujovne is an experienced economist with an excellent reputation and who is likely to closely monitor government expenditures, while Caputo is well-known for his ability to manage debt. All in all, Argentina is likely to maintain a friendly investment climate, and the economy is up for a year of growth and much lower inflation."

A Paula Alonso, associate professor of history and international affairs and director of the Latin American and Hemispheric Studies Program at The Elliott School of International Relations at The George Washington University: "Argentina has lifted capital controls, agreed with holdout bond investors, improved economic statistics and published a set of targets on inflation and fiscal deficits. A road-show announced Argentina is back, relations with the IMF have been normalized and the country will chair the G20 in 2018. However, the previous government left the Macri administration with a massive fiscal deficit and a myriad

Continued on page 4

their contract, Peru must use the funds from a new auction to compensate them for their investments, adding that they expected to receive back a significant portion of their investments within the next three years.

FEATURED Q&A / Continued from page 3

of microeconomic problems, distorting economic incentives. Fearing their impact on the economy and on social cohesion, progress has been relatively slow on these issues. The new treasury minister, Nicolás Dujovne, is a highly respected economist, a fiscal hawk and a budgetary expert who will try to further reduce spending by enhancing efficiency. Dujovne is helped by better-than-expected results from the recent tax moratorium, reducing the financing requirement for 2017. However, the gov-

“The previous government left the Macri administration with a massive fiscal deficit and a myriad of microeconomic problems....”

— Paula Alonso

ernment faces a tricky juggling act. It must issue around \$10 billion of debt this year and must continue to bring inflation down and reduce the fiscal deficit. However, at the same time, it needs to attempt to boost growth in the face of headwinds, as growth still falters in Brazil, global interest rates rise and U.S. trade policy may become more restrictive. The outcome will affect the mid-term election in October. Indeed, one of Macri's main political achievements in his first year has been his success in negotiating

(with costly concessions) significant laws in a Congress where 'Cambios' only has 87 out of 257 seats in the lower house and 15 out of 72 in the Senate. He has also succeeded in establishing good relations with key provinces, including those in the hands of the opposition. The election will be a decisive political battle; it will not only define Macri's power and the future of 'Cambios,' but it will also begin to define the leadership of the fragmented Peronist Party. The government is betting that the economic recovery will be strong enough at polling time.”

A Daniel Artana, chief economist at FIEL in Buenos Aires: “The new economic team should be more focused on achieving gradual improvement in the fiscal accounts. Last year, the government was able to comply with its target for the primary deficit, but with the help of one-off fines collected from the tax amnesty. The target for this year assumes an additional improvement of 0.6 percent of GDP. It would be a very positive signal if the new team achieved this fiscal target in a year of crucial mid-term elections, without using creative accounting. The economy will rebound in 2017. However, to consolidate medium-term growth, Argentina needs to increase investment and to raise productivity. The government is working slowly on reforms to improve productivity.”

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2017

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Nicole Wasson

Reporter, Assistant Editor
nwasson@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Kevin Casas-Zamora, Director, Peter D. Bell Rule of Law Program

Ramón Espinasa, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Alejandro Ganimian, Nonresident Fellow

Peter Hakim, President Emeritus

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, China and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Jeffrey Puryear, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

LATIN AMERICA ADVISOR

Financial Services Advisor

The answers to questions that informed executives are asking.

SUBSCRIBE