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FEATURED Q&A

Will Brazil Be Able to Fix its Pension System Problems?



Brazil's new economy minister, Paulo Guedes, has said reforming the country's pension system is the biggest challenge facing Brazil. // File Photo: Brazilian Government.

Q Pension reform is Brazil's "first and biggest challenge," Paulo Guedes said as he took office as the country's new economy minister on Jan. 2. The previous day, Brazil's new president, Jair Bolsonaro, vowed that his government would not spend more money than it takes in. The country's pension system has a deficit that is projected to hit 218 billion reais (\$57.2 billion) this year, up from an estimated deficit of 202.4 billion reais last year. What has contributed to the pension system's ballooning deficit? How difficult will it be for Bolsonaro's government to come to agreement with legislators on achieving meaningful pension reform? How critical is it for the government to reduce the deficit, and how should it go about that task?

A **Monica de Bolle, director of the Latin American Studies program at Johns Hopkins' School of Advanced of International Studies:** "The ballooning deficit of Brazil's pension system is the result of a number of factors, including overly generous benefits to segments of the civil service, such as the military and members of the judiciary, the indexation mechanism that ties benefit adjustments to the minimum wage and, most importantly, changing demographics and an aging population. Brazil has no formal minimum retirement age, which means that many are able to take advantage of retirement benefits at a very early age, further adding to expenditure pressures. Bolsonaro will likely face the same difficulties that plagued past Brazilian administrations in passing a comprehensive pension reform that addresses medium-term sustainability issues. Importantly, excessive benefits to

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TODAY'S NEWS

POLITICAL

Venezuela's Assembly Declares Maduro 'Usurper'

Venezuela's opposition-controlled National Assembly declared President Nicolás Maduro a "usurper." The move came after Maduro was sworn in last week for a second term.

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ECONOMIC

Argentina's Rate of Inflation Hit 47.6% Last Year

The figure is the South American country's highest annual inflation rate since 1991 and among the world's highest.

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POLITICAL

'El Chapo' Paid Peña Nieto \$100 Million: Witness

A witness in the U.S. trial of Joaquín "El Chapo" Guzmán Loera testified that the Mexican drug kingpin paid then-President-elect Enrique Peña Nieto a \$100 million bribe not to pursue him. A former spokesman for Peña Nieto called the allegation "false, defamatory and absurd."

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Guzmán // File Photo: Mexican Government.

POLITICAL NEWS

Witness Testifies That ‘El Chapo’ Paid Peña Nieto \$100 Million

A witness in the trial of Joaquín Guzmán Loera, known as “El Chapo,” testified in U.S. federal court Tuesday that the Mexican drug kingpin paid a \$100 million bribe to former Mexican President Enrique Peña Nieto after he was elected but before he took office, The New York Times reported. The witness, Alex Cifuentes Villa, a Colombian drug lord, worked closely with Guzmán between 2007 and 2013 when he was hiding from authorities at ranches in the Sierra Madre Mountains. Cifuentes testified that Peña Nieto reached out to Guzmán around the time that he was elected Mexico’s president in 2012 and asked him for a \$250 million bribe in exchange for agreeing not to seek his capture. Cifuentes told the court in Brooklyn, N.Y., that Guzmán counteroffered, saying he would give the then-president-elect \$100 million. “Mr. Guzmán paid a bribe of \$100 million to President Peña Nieto?” Jeffrey Lichtman, one of Guzmán’s attorneys, asked Cifuentes, The New York Times reported. “Yes,” Cifuentes responded. Lichtman also asked, “The message was

that Mr. Guzmán didn’t have to stay in hiding?” Cifuentes responded, “Yes, that very thing is what Joaquín said to me.” The New York Times and The Washington Post were unable to reach Peña Nieto for comment. Peña Nieto’s former spokesman called Cifuentes’ allegations “false, defamatory and absurd,” The Wall Street Journal reported. Last November, Lichtman alleged Ismael “El Mayo” Zambada García, who stands charged as Guzmán’s co-defendant and is at large, was the true head of Guzmán’s Sinaloa drug cartel and never went to prison because he had paid “millions of dollars” in bribes to Peña Nieto. At the time, Peña Nieto denied the claim, calling it “absurd and laughable,” The Wall Street Journal reported. “How can one suppose that [Guzmán] had bribed this government when it’s this government which caught him twice, and got him extradited, and today he is facing U.S. justice?” Peña Nieto said in a television interview. Mexican marines captured Guzmán in 2014, but he escaped from prison in 2015 and then was recaptured in 2016, all during Peña Nieto’s term. The court may soon hear from Guzmán himself. Soon after the jury was excused Tuesday afternoon, Lichtman informed the prosecution that the defense may call on Guzmán to testify. Lichtman said his putting Guzmán on the witness list does not guarantee that he will be placed on the stand. “If I didn’t put him on the list, it would possibly

NEWS BRIEFS

New Migrant Caravan Sets Off From Honduras Toward United States

A new caravan of roughly 600 migrants began its journey from Honduras toward the United States on Tuesday, with apparent plans to meet another group of 500 Honduran migrants that set off on Monday, The Wall Street Journal reported. “Tell Nancy [Pelosi] and Chuck [Schumer] that a drone flying around will not stop them. Only a wall will work,” U.S. President Donald Trump said on Twitter, referring to top Democrats who have refused to provide the \$5.7 billion Trump demands for a wall at the U.S.-Mexico border.

Venezuela’s National Assembly Declares Maduro ‘Usurper’

Venezuela’s opposition-controlled National Assembly on Tuesday declared President Nicolás Maduro a “usurper,” Reuters reported. Maduro was sworn in Jan. 10 for a second six-year term following an election last May that several countries have called illegitimate. The assembly also passed a measure requesting that dozens of foreign governments freeze bank accounts that are under the control of Maduro’s government.

Argentina’s Inflation Rate Hit 47.6% Last Year: Statistics Agency

Argentina’s annual inflation rate hit 47.6 percent last year, the country’s official statistics agency said Tuesday, the Associated Press reported. The figure is Argentina’s highest yearly inflation rate since 1991 and among the world’s highest in 2018, a year that saw economic turmoil in the South American country as its peso lost approximately half of its value. The largest increases in consumer prices last year were in transportation, health, and food and non-alcoholic beverages, statistics showed.

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privileged groups need to be eliminated, but these groups tend to have a strong political influence. In Bolsonaro’s case, his close ties with the military are likely to force him to yield to pressures to exempt the military from the pension reform. That will lead other powerful interest groups to demand the same thing. This is exactly what happened to Temer’s original pension reform proposal, which saw a substantial dilution due to such pressures. The risk is that, like Temer, Bolsonaro ends up with a watered-down pension reform that does little to alleviate ballooning deficits and adequately address medium-term fiscal sustainability. Reducing the deficit and reforming the system are

critical to reducing debt-to-GDP ratios and ensuring solvency. Without pension reform, the debt-to-GDP ratio is likely to grow without bound, increasing the chances of a fiscal crisis over the next few years. Pension reform is particularly unpopular, which will require substantial political negotiation skills and experience that Bolsonaro does not possess. Temer, a skilled politician who was also well versed in the inner workings of the Brazilian Congress, failed at passing pension reform. Therefore, it is currently difficult to see how Bolsonaro will succeed where Temer failed, despite the fact that he currently enjoys solid support from the new Congress.”

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foreclose the possibility for him to testify," Lichtman told The New York Times. "So, I was just being inclusive."

Brazil's Bolsonaro Signs Decree to Ease Gun Ownership Law

Brazilian President Jair Bolsonaro on Tuesday signed a decree that makes it easier for Brazilians to own guns, Folha de S.Paulo reported. The decree, which Bolsonaro signed in a televised ceremony in Brasília and which takes effect immediately, allows citizens to own guns without having to prove a real need for them. The previous law mandated that Brazilians give their reasons for owning a gun. Bolsonaro, who ran on a promise of law and order, said previous administrations had for years denied citizens their right to own guns. "The people decided in favor of buying guns and ammunition, and we can't deny what the people wanted at that moment," Bolsonaro said at the event, in reference to a 2005 referendum in which 64 percent of citizens voted against banning the manufacturing and sale of guns, the Associated Press reported. The president said the decree only regulates gun ownership and that other measures including rules for carrying weapons are up to Congress. The decree also establishes a limit of four weapons per person. [Editor's note: See related [Q&A](#) on Bolsonaro's security policy in the Nov. 13 issue of the Advisor.]

BUSINESS NEWS

Mexican Senator Wants Tougher Rules for Mining Sector

Mexican Senator Napoleón Gómez Urrutia is seeking tougher labor rules and new regulations for the country's mining companies, including higher taxes, Gómez told Reuters on Tuesday. Gómez, who heads the Senate's labor committee and sits on the mining committee,

THE DIALOGUE CONTINUES

Will Brazilians Back Bolsonaro's Plans to Privatize?

Q **Stocks in Brazil's Bovespa index hit record highs in the first days of the year amid investor optimism about the new government of President Jair Bolsonaro. In his inaugural address, Bolsonaro pledged to "carry out important structural reforms," and within days of taking office, he announced plans to privatize 12 airports and four seaports. Will Bolsonaro's privatization plan achieve the results he anticipates? What roadblocks could his privatization agenda encounter? Which industries are poised to prosper under his plan, and which will lag behind? What other initiatives should Bolsonaro undertake to spur economic growth?**

A **Peter Sufrin, independent Washington-based analyst:** "While addressing pertinent issues such as pension reform, tax simplification, corruption, unemployment and violence, the new Bolsonaro administration has witnessed the positive response of Brazil's financial markets to its program for privatization. Nonetheless, the political and economic situation remains fundamentally complex. Privatization in Brazil has roots dating back decades. In the 1990s under Franco, Collor, and Cardoso, Brazil saw the successful impact of privatization in terms

of fresh foreign equity investment, improved balance of payments and enhanced investor confidence. Though discouraged by Lula, privatization was revived under Rousseff and Temer, but has now led ironically to a tentative policy under Bolsonaro. Brazil's new leader has vowed not to privatize key financial institutions such as BNDES, Caixa and Banco do Brasil. However, at the same time, Economy Minister Paulo Guedes plans to fully privatize national champion Petrobras, the symbol of Brazil's economic might and prowess. Adding to the uncertainty, military cabinet members and many in Congress sustain an anti-privatization posture, but simultaneously support the primacy of investment and job creation for ordinary Brazilians. The privatization issue has further implications—notably, in regards to the stance of the Brazilian populace, which does not see privatization leading to positive wealth and income equality. Ultimately, the fundamental ambivalence of the Bolsonaro administration's policy strikes at the political, economic and social core of Brazil."

EDITOR'S NOTE: The comment above is a continuation of the [Q&A](#) published in the Jan. 10 issue of the Advisor.

used to be a prominent mining-union leader before leaving for Canada to avoid embezzlement charges he said were politically motivated. The lawmaker told Reuters that years of loose regulation of companies such as Mexico's copper giant Grupo México have led to inequality and a concentration of wealth in Mexico. "They are going to have to review the policies and practices they have had," Gómez said, the wire service reported. "We want them to do it in a voluntary and flexible manner, without conflicts. That's the goal, but they have brutally resisted," he

added. Among the policies he is considering, Gómez mentioned the prospect of increasing taxes for mining companies and changes to the terms of canceling concessions. Gómez, who is a member of President Andrés Manuel López Obrador's Morena party, said he had no particular tax rate in mind and that he hopes talks on the topic will begin in the next regular Senate session in February, Bloomberg News reported. Grupo México shares fell as much as 2.4 percent to 44 pesos in afternoon trading.

FEATURED Q&A / Continued from page 2

A **Milko Matijascic, researcher at the Institute of Applied Economic Research (IPEA) in Brasília:** “The sharp increase of the so-called pension deficit involves many problems. First, the population is aging, increasing benefit expenses. Second, the Brazilian labor market traditionally presents high levels of unemployment and reduced levels of regular jobs, limiting the potential number of regular contributors to pension schemes. Finally, since 2014, the economic crisis has severely affected Brazil, deteriorating tax collection and increasing

“**The sharp increase of the so-called pension deficit involves many problems.**”

— **Milko Matijascic**

the precariousness of local labor markets. Promoting effective pension reform involves a complex political process. For instance, 60 percent of votes in two rounds are required in the Chamber of Deputies and the Senate to approve a constitutional reform. Representatives of rural workers, populations living in smaller municipalities and those involved with trade unions have aggressively opposed pension reforms since the 1990s. Reducing pension expenditures can ensure social security's effectiveness as a public policy. For example, the current benefits plan allows the insured to retire early and remain employed in the labor market, accumulating both salary and benefits. Administrative costs are high and require attention in Brazil.

Those problems increase public spending and divert resources that otherwise could be allocated more effectively. Finally, authorities intend to adopt individual pension accounts, as in Chile. This decision usually involves increasing public spending in order to fund the transition cost between a pay-as-you-go and fully funded pension schemes.”

A **Pedro Rossi, professor at the economics institute of the State University of Campinas:** “First, it must be remembered that the public pension system in Brazil is responsible for making poverty in old age a residual problem. There are important corrections to be made, especially with regard to the pensions of public service workers, such as the military, but a radical switch to a model of capitalization can have important distributional effects, including increasing poverty. In addition, it is necessary to understand the Brazilian fiscal deficit within the context of the greatest crises in the country's recent history, where austerity measures have had an important role. Social security is not responsible for the huge fall in revenues due to the crisis, the rise of unemployment and informality. Restoring a normal scenario of growth and an increase in employment are important for a healthy fiscal adjustment. Therefore, one should think about the impact of the fiscal adjustment measures on growth, in addition to its distributional impact. In this context, a balanced pension reform focused on the reduction of privileges can make an important fiscal contribution in the medium term, but it is not the short-term solution for the Brazilian economy.”

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