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## FEATURED Q&A

# Is Mexico Facing More Economic Pain Than its Neighbors?



The International Monetary Fund is expecting Mexico's economy to suffer a severe recession due to the Covid-19 pandemic. A worker is pictured spraying disinfectant in a Mexico City park. // File Photo: Municipality of Mexico City.

**Q Mexico is facing a severe recession, with the International Monetary Fund predicting that Latin America's second-largest economy will contract 6.6 percent this year, more than double the 3 percent contraction it expects for the global economy. At the same time that countries around the world are bracing for the economic consequences of the coronavirus pandemic, Mexico, like other oil producers, is also facing economic damage from the collapse in oil prices. How well is Mexico's government responding to the rapidly deteriorating economic outlook? Will President Andrés Manuel López Obrador's plans, including more loans for small businesses and for housing, meaningfully boost the economy? How long could Mexico's recession last, and what elements will be key for its emergence from it?**

**A Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Mexico will end up as one of the most affected countries in the region, mainly because of its economic anemia, lack of preparedness for the virus outbreak, the delayed policy response and the high dependence on the U.S. business cycle. The fall in oil prices adds pressure to the country's foreign income and government revenues, although the country holds an insurance coverage. The United States is the main market for Mexico's exports, thus the economy is heavily subject to its neighbor's downturn. The U.S. economy is expected to contract by around 6 percent, which implies a contraction between 6 percent and 9 percent for Mexico, based on Mexico's GDP elasticity to the U.S. business cycle. Where Mexico's economy ends up in

Continued on page 2

## TODAY'S NEWS

### ECONOMIC

## Peru to Begin Lifting Constraints on Key Sectors

Peru's government will start lifting restrictions on sectors including mining and construction as it moves to reopen the economy nearly two months after implementing stay-at-home orders to curb the spread of Covid-19.

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### BUSINESS

## Brazil's Embraer Eligible for Loans of Up to \$1.5 Bn

Brazilian aircraft manufacturer Embraer is eligible to receive credit lines of as much as \$1.5 billion from Brazil's development bank after its planned tie-up with Boeing fell through.

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### POLITICAL

## Eight Killed as Venezuela Foils Armed Incursion

Eight people were killed and two others were captured when Venezuelan forces responded to an armed incursion at the port of La Guaira, said Interior Minister Néstor Reverol.

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Reverol // File Photo: Venezuelan Government.

## POLITICAL NEWS

## Eight Killed as Venezuelan Forces Foil Armed Incursion

Venezuela's government said security forces killed eight people and captured two others as they foiled an armed incursion Sunday morning at the port of La Guaira, near Caracas, The New York Times reported. Venezuelan Interior Minister Néstor Reverol said a group of "mercenary terrorists" had come via speedboat from Colombia in an attempt to overthrow President Nicolás Maduro's government. A retired American Green Beret, Jordan Goudreau, and a returned Venezuelan army captain, Javier Nieto, claimed responsibility for the attack in a video posted to social media. The men said they had launched the so-called Operation Gideon "deep into the heart of Caracas" and that other armed cells were activated in other parts of the country. In the video, Nieto defended the attempt to topple Maduro's government. "It is obvious that the electoral measures, the democratic and political ones of all kinds, have been exhaust-

ed," he said. Goudreau told The Washington Post in a telephone interview that the operation involved "60 troops" who had entered Venezuela by land and sea. The newspaper was unable to independently verify his claims. Goudreau told The Washington Post that he had sought U.S. backing for the effort but did not succeed. He also angrily claimed that he had discussed it with Venezuela's mainstream opposition, but he said the opposition withdrew from the effort. Goudreau and Nieto both live in Florida, where Goudreau runs a security firm, according to The Washington Post.

## ECONOMIC NEWS

## Peru to Begin Lifting Restrictions on Key Economic Sectors

Peru will begin to lift restrictions on key sectors including mining and construction this month, the government said in a decree on Sunday, Reuters reported. Activity in these sectors had been virtually paralyzed since mid-March,

## NEWS BRIEFS

## At Least 46 Killed in Prison Riot in Venezuela's Portuguesa State

At least 46 people have been killed in a riot in the Los Llanos Penitentiary in Venezuela's Portuguesa state, CNN reported Sunday. Dozens of others were injured in the riot, which started during an escape attempt, the cable news channel reported, citing National Assembly Representative María Beatriz Martínez.

## Guyana Has Received \$60 Mn in Oil Revenues Since Starting Production

Guyana's government on Saturday said it had received about \$60 million in oil revenues just four months after beginning production, the Associated Press reported. The payments are linked to the country's production-sharing deal with offshore operators ExxonMobil, Hess and Nexen, under which Guyana has the rights to five shipments of a million barrels each of oil this year. The South American nation sold its first cargo in February through Royal Dutch Shell's trading unit for \$55 million. Additionally, Guyana recently received \$4.9 million in royalty payments for the oil sold by the consortium.

## IMF Approves \$643 Million in Emergency Aid for Ecuador to Face Pandemic

The executive board of the International Monetary Fund has approved \$643 million in emergency assistance for Ecuador to address the Covid-19 pandemic, the Fund said Friday. Ecuador had requested the aid under the Rapid Financing Instrument. The money will go toward supporting the country's balance of payment needs and its most affected sectors, including the health care system and social protection, the IMF said. The health crisis and the plunge in oil prices have led to a particularly challenging scenario for Ecuador, one of the largest oil exporters in the region.

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2020 depends on the size and speed of the policy response. So far, monetary policymakers have acted by lowering the price of credit and by increasing the quantity of money. However, a defined fiscal response was absent until recently when the government announced measures worth about 2.5 percent of GDP, including direct transfers, credit for small firms and families and resources to continue the construction of a few infrastructure projects. Fiscal measures not only have arrived late and in an insufficient amount, but also they do not represent an additional stimulus since they are the result of the redistribution of the federal budget. Those measures will not boost the economy but rather will mitigate the fall by providing some help to domestic demand. Without the policy stimulus, the economy's fall could

reach a double-digit rate. The duration of the recession depends on two factors: the speed at which Mexico implements its fiscal stimulus and the U.S. recovery. In the best-case scenario, the recession will last until the end of the year, and the recovery will begin early next year. Once more, Mexico's economy will amplify its downturn as a result of the external shock and the limited countercyclical power of domestic policy."



**Kimberly A. Nolan, assistant professor in the Democracy, Human Rights and Rule of Law program at FLACSO-Mexico and**

**Tamara Kay, associate professor of global affairs and sociology at the University of Notre Dame: "Mexico's economy could contract more than the IMF's 6.6 percent**

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when the government mandated strict stay-at-home orders due to the coronavirus pandemic. The decree, published in official newspaper El Peruano, says that exploitation, storage and transportation of large-scale mining could be restarted, as could key construction projects, some related to hydrocarbons. Peru is the second-largest copper producer in the world and largely depends on the sector for economic growth. The first phase of reopening, which is to last four months, requires companies to implement rigorous health protocols to avoid the spread of the virus. Local governments will set such protocols this week, and health authorities will supervise them, the decree said. The country's mining sector and the economy in general have been hit hard by the pandemic. "It is necessary to begin the social and economic recovery," the government said in the decree. Peru has reported more than 45,000 confirmed cases of coronavirus and nearly 1,300 deaths, La República reported. Peru currently has the fifteenth-highest number of Covid-19 cases and related deaths in the world and the second-highest in Latin America, according to the report.

## BUSINESS NEWS

### Brazil's Embraer Eligible for Credit Lines of Up to \$1.5 Bn

Brazilian aircraft manufacturer Embraer is eligible to obtain credit lines of between \$1 billion and \$1.5 billion from Brazilian development bank BNDES and other lenders after a deal to sell its commercial aircraft unit to U.S.-based Boeing fell through, Reuters reported Friday, citing two sources close to the matter. Proceeds from the loan would be used as working capital and export finance, said the sources, who requested anonymity because negotiations remain private. Additionally, Embraer may be included in a relief program for national airlines affected by the coronavirus pandemic, the sources said. Boeing recently announced it had scrapped a 2017 agreement to buy control of Embraer's commercial jets division for \$4.2 bil-

lion, prompting the Brazilian company to begin arbitration proceedings against Boeing, Agence France-Presse reported. "Embraer was not contemplated in our efforts to help the airline industry ... Then there was the issue with Boeing, and it became a candidate [for support],"

one of the sources told Reuters, adding that there is consensus among a bank syndicate that includes BNDES that the company would be eligible for aid. The source said the talks are at an early stage. BNDES and Embraer declined the wire service's request for comment.

## CAPITOL HILL WATCH

A Look at U.S. Congressional Activity on Latin America

### Leahy Calls on El Salvador's Bukele to Protect Civil Liberties Amid Covid-19

U.S. Sen. Patrick Leahy (D-Vt.) on April 16 blasted Salvadoran President Nayib Bukele for what critics have called arbitrary arrests of hundreds of people who allegedly violate strict lockdown orders amid the Covid-19 pandemic. "Every leader has a responsibility to unite their countries to combat COVID19 in a manner that protects civil liberties and upholds the independence of courts, which are fundamental to democracy," Leahy said on Twitter. "President Bukele is no exception," he added, referring to a Human Rights Watch report that accuses Bukele of encouraging "excessive use of force" and "draconian enforcement" of coronavirus-related measures. Hundreds of people who allegedly violated Bukele's strict social-distancing orders have been arrested in El Salvador and taken to so-called quarantine centers, which Human Rights Watch said are "overcrowded" and have "unhygienic conditions that threaten health." Bukele has also defied several rulings that the constitutional chamber of the country's Supreme Court has issued against the detentions, saying he "could not follow orders" that he said would lead to the deaths of Salvadorans.



Leahy // File Photo: @SenatorLeahy via Twitter.

### Engel Expresses Concern Over Police Protest in Haiti Amid the Pandemic

U.S. Rep. Eliot Engel (D-N.Y.), who chairs the House Foreign Affairs Committee, on April 27 expressed concern over recent events in Haiti involving a police protest that same day. "Very concerned about the #Haitian police's planned anti-gang raid and potential impact on civilians during this pandemic," Engel said through the committee's official Twitter account. "The Haitian government must protect the rights of all citizens," he added. On April 27, dozens of police officers took to the streets of the Haitian capital city of Port-au-Prince to demand government pay, despite social-distancing concerns amid the coronavirus outbreak, the Voice of America reported. Some civilian supporters accompanied the police officers, who said they were prepared to continue with protests until their demands are met. At least one person was injured in the unrest, VOA reported.



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prediction. The AMLO administration's inadequate economic choices during the current coronavirus crisis means the recession will be deep and prolonged. The measures being considered include loans to small businesses, the possibility for workers to draw on social security plans, additional income support for pensioners and the temporary suspension of mortgage payments through federal housing programs. This piecemeal approach, however, will not stave off economic disaster because a large part of the Mexican economy consists of informal and small businesses and microenterprises that exist outside of the social security regime. They will not be helped by programs cycled through its channels. Rather than trigger major government spending to cushion the economy, AMLO has moved in the opposite direction, refusing to increase debt or taxes. He has doubled down on his signature 'republican austerity' plan, which seeks to cut the federal budget to its bare bones and caps social spending under the guise of rooting out corruption. The collapse of oil prices provides an additional blow to the federal budget. AMLO's response is to bludgeon the federal bureaucracy with more budget cuts, forcing federal employees to bear the burden for the oil-induced shortfall with a 25 percent wage cut and the requisition of their legally mandated end of the year salary adjustment, the 'aguinaldo.' This austerity, coupled with AMLO's painfully slow and inadequate response to the public health crisis caused by the coronavirus, is further eroding Mexicans' confidence in his administration and leadership."

**A** **Wolfram F. Schaffler González,** director of the Texas Center for Border Economic and Enterprise Development at Texas A&M

**International University:** "According to many specialists, the worst social and economic consequences of the pandemic are still to

come. Mexico's economy was already in a difficult situation before Covid-19, and the current government's fact-challenged policies and attitudes make it difficult to face what seems will be prolonged damage. President López Obrador's pet projects (including the Mayan Train and the Dos Bocas Refinery) are not the way to energize and protect the economy. Those investments could be better used to help small businesses and independent professionals to survive. The private sector also very much needs to be more involved with the public sector—not vilified. Their interests (having their businesses survive and make money) are not at odds with those of the government of retaining jobs and keeping the economy afloat. Businesses of all sizes need to be protected even more, especially because more people work informally than formally in Mexico. If you protect businesses with tax-producing jobs, there will be more money to support those informal jobs, many of which are held by people who are also recipients of AMLO's populist cash-disbursing programs (which depend on taxes collected mostly from businesses). As it is, the economy will suffer, without a doubt, and the impact on lives lost and closed businesses will most certainly throw a wrench into AMLO's plan of his Morena party sweeping the 2021 mid-term election. Reactionary policies, instead of strategic planning, as well as insufficient funds for anything beyond the social-electoral programs that the current government loves so much, make me think it will be very difficult for Mexico's economy to prevent a long-term recession (but I hope I'm wrong)."

*The Advisor requested a commentary for this issue from Mexico's embassy in Washington but did not receive one.*

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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