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FEATURED Q&A

How Can Argentina Overcome Its Latest Currency Problems?



Argentine Economy Minister Martín Guzmán assured the public on Sunday that the nation's financial system "is fine, it is robust" and that "there is no need to be afraid." // File Photo: Argentine Government.

Q Former Argentine President, and current Vice President, Cristina Fernández de Kirchner said Oct. 26 that the country's "bimonetary economy," in which Argentines earn and spend money in pesos but save and import using U.S. dollars, is not sustainable and must be fixed. Fernández called for a political pact to resolve the situation. What is at the heart of Argentina's currency problems? What changes does the country's economy need in order to avoid future currency crises? Will politicians of opposing parties be able to work together to pass meaningful monetary reforms?

A Lisa Schineller, managing director and lead analyst for sovereign and international public finance ratings at S&P Global Ratings: "One of Argentina's key sovereign credit rating weaknesses is the lack of monetary policy flexibility and price stability. This has persisted across multiple administrations over decades; inflation averaged more than 20 percent during the last 20 years, and a history of hyperinflation lingers. The failure to establish a consistent monetary and exchange-rate policy framework with an independent central bank has undermined the peso as a meaningful store of value for local residents. It limits the breadth and depth of local capital markets that support financing for Argentina's public and private sectors in pesos and by residents, which instead have relied on borrowing in foreign currencies and from nonresidents. This trend reinforces and reflects vulnerabilities of the Argentine economy. Instilling confidence in the peso, however, goes beyond monetary and exchange-rate policies. Weaknesses in political institutions and an ideological divide across the political class

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TODAY'S NEWS

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Hurricane Eta Bears Down on Nicaragua

Hurricane Eta turned from a tropical storm to a Category 4 hurricane over the course of Monday, and it is likely to only get stronger as it approaches Nicaragua's coast today.

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U.S. Assures Eni That Repairs in Venezuela Not Under Sanctions

Photos of a floating crude facility that is tilting to its side have sparked concerns of a potential environmental disaster.

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Peru's President Faces 2nd Attempt at Impeachment

Opposition members in Peru's Congress pushed through a motion Monday that requires President Martín Vizcarra to face an impeachment vote, the second such attempt by the Andean nation's legislature this year.

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Vizcarra // File Photo: Peruvian Government.

POLITICAL NEWS

Peru President Faces Second Attempt at Impeachment

Opposition members in Peru's Congress pushed through a motion Monday that requires President Martín Vizcarra to face an impeachment vote, the second such attempt by the Andean nation's legislature this year, the Associated Press reported. A plenary session of Congress approved the measure with 60 votes in favor, 18 abstentions and 40 against. It would take 87 votes to remove the president from office. Vizcarra has been summoned by prosecutor Germán Juárez, a member of the Lava Jato corruption investigative team, to respond today to allegations that he took bribes when he was governor of the southern



Juárez // File Photo: Peruvian Government.

department of Moquegua, El Comercio reported. Vizcarra's impeachment will be debated and voted on Nov. 9, after either the president or his lawyer present his defense. If removed from office, he would be replaced by the head of Congress until elections are held. Vizcarra's presidency has been marked by clashes with Congress, which he dissolved last year in a controversial move. New lawmakers were elected in January, but the president still lacks Congressional allies. General elections are scheduled for next April, and Vizcarra's term ends in July. The president survived his first impeachment trial Sept. 19, when just 32 lawmakers voted for the motion. He is the second Peruvian leader facing impeachment proceedings in less than three years. His predecessor, Pedro Pablo Kuczynski, resigned in 2018 over a

vote-buying scandal. [Editor's note: See related Q&A in the Sept. 24 issue of the Advisor.]

ECONOMIC NEWS

Hurricane Eta Bears Down on Nicaragua

Hurricane Eta turned from a tropical storm into a Category 4 hurricane over the course of Monday, and it is likely to only get stronger as it approaches Nicaragua's coast today, CNN reported. With sustained winds of 150 mph, the slow-moving storm has the lowest pressure of any storm this season, according to the report. Eta ties the record for the highest number of named storms in a single season set in 2005. The U.S.-based National Hurricane Center said Monday afternoon that Eta is likely to strengthen into a Category 5 storm before making landfall, warning of life-threatening conditions such as flooding, landslides and nearly 3 feet of rain in portions of Central America. The storm was expected to move over northern Nicaragua through Wednesday night and then across central portions of Honduras on Thursday, the Hurricane Center said. Nicaraguan authorities evacuated inhabitants from low-lying areas along the Caribbean coast on Monday and shipped in emergency supplies, according to its national disaster response agency, The New York Times reported.

Brazil to Align With Japan, U.S. on Telecom

In the coming weeks, Brazil plans to sign a declaration with the governments of the United States and Japan that seeks to defend a reliable and secure telecommunications network, Folha de S.Paulo reported today. The United States has been pushing for the text to specify 5G technologies in a bid to thwart China's top equipment manufacturer, Huawei, from gaining more ground in South America's largest economy, according to the report. However, Brazil is reportedly advocating for more generic language in the declaration. The

NEWS BRIEFS

Chile Posts Lower Growth Rate But Sees Recovery in Jobs in September

Chile's economic activity fell 5.3 percent in September year-on-year, the Central Bank said Monday, Reuters reported. However, the economy grew 5.1 percent from the previous month, a trend President Sebastián Piñera said signaled a turnaround from the worst period of the coronavirus pandemic. "We have succeeded in beginning to recover the jobs we have lost," the president said in a video posted on Twitter, noting that 291,000 jobs were recovered in September.

Campaigning Begins for Venezuelan Elections

Campaigning begins today in Venezuela for next month's parliamentary election, Agence France-Presse reported. President Nicolás Maduro is looking to take back control of the National Assembly, whose speaker and opposition leader, Juan Guaidó, is demanding a boycott of the Dec. 6 vote. The National Assembly is the only branch of government in opposition hands, but it has been left impotent since 2017 when the Maduro-picked Supreme Court declared it in contempt.

AT&T Sells Puerto Rico Assets to Liberty Latin America for \$1.95 Billion

Dallas-based AT&T said Monday that it has completed the sale of its wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands to Liberty Latin America. The transaction, which provides AT&T with \$1.95 billion in cash, includes more than one million wireless subscribers, as well as employees, network assets and spectrum, real estate and leases. In a statement, AT&T said it will retain DIRECTV, certain global business customer relationships, as well as its FirstNet public safety platform responsibilities and relationships.

country's 5G auction was originally set to be held last March, but it was delayed due to the Covid-19 pandemic. Advocates for China's technology say the nation's suppliers offer the most advanced and cost-effective 5G solutions available, and that a ban on Huawei would delay Brazil's rollout of 5G at a critical time for its economic recovery after years of recession.

BUSINESS NEWS

U.S. Assures Eni That Repairs in Venezuela Not Under Sanctions

Italian oil company Eni's efforts to prevent an oil spill from a floating crude facility in Venezuelan waters do not violate sanctions, the U.S. State Department said Monday, Reuters reported. Recent images showing the Nabarima vessel, which is owned by a joint venture between Eni and Venezuelan state oil company PDVSA, tilting to its side have sparked concerns of a potential environmental disaster. The ship, which has been stranded for two years in the Gulf of Paria between the Andean nation and Trinidad and Tobago, is carrying some 1.3 million barrels of crude. That's five times more oil than what was leaked during the 1989 Exxon-Valdez oil spill in Alaska, one of the worst environmental catastrophes in modern history, National Geographic reported. Eni had been holding off on trying to offload the oil over fears of violating U.S. sanctions against PDVSA. "Eni's plan to safely offload the Nabarima FSO received on Thursday, Oct. 29, a green light from the U.S. authorities, confirming that the current sanctions policy does not prevent the company from offloading the cargo and repairing the vessel," Eni said in a statement. The company is now awaiting PDVSA's approval of the plan. The Venezuelan firm has also been planning to offload some of the crude by transferring 10,000 barrels of crude per day from their ship. Trinidad and Tobago's energy minister, Franklin Khan, said recently that there was no "immediate risk" of the vessel tilting.

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have contributed to a broad track record of sharp changes in both macroeconomic and microeconomic policies following changes in political leadership. The swings and changes in policies and rules of the game—be it the tax or foreign exchange rate regime, or the privatization vs. expropriation of assets—have weighed on growth, consistent fiscal performance and an ability to meet debt service. Taken together, this weighs on the value, stability and confidence of the peso. Building common ground for policy fundamentals across the political spectrum to engender predictability, and a track record of policy consistency across governments to support and deliver higher growth, low inflation and better fiscal outcomes, would likely support the peso."

A **Kezia McKeague, director at McLarty Associates:** "The Argentine economy is experiencing a crisis of confidence that is depleting central bank reserves and posing a significant political test for the young Alberto Fernández administration. Cristina Fernández de Kirchner's rare public statement on economic policy acknowledged the recurrence of one of Argentina's deepest structural problems—a lack of faith in the peso's value. The nervous public's rising demand for dollars, despite tight restrictions on access to foreign exchange, has led to a large 'brecha' (gap) between the official value of the peso and that of the black market. The pressure on the exchange market has most economists predicting an inevitable devaluation, despite President Fernández's promises to the contrary. The political risk for the government is that a devaluation would further fuel inflation, another Achilles' heel of the Argentine economy. In reality, the problem is more about an excess of pesos than a shortage of dollars, as the Central Bank prints money to cover the fiscal deficit in the absence of other sources of financing. In this regard, the Ministry of Economy's

Nov. 2 announcement limiting remaining 2020 transfers from the Central Bank to the Treasury represents a modest step in the right direction. While this measure will buy some time, the economy needs a fiscal adjustment and strong signals to improve the investment climate, including the unwinding of unsustainable price controls. The Fernán-

“ **The pressure on the exchange market has most economists predicting an inevitable devaluation...**

— Kezia McKeague

dez administration could find common cause with the opposition on a political pact, but only if it encompasses an ambitious economic plan to reduce public spending and address macroeconomic imbalances. However, the infamous 'la grieta' (a gap of another kind) in Argentine politics does not bode well for efforts to reduce the 'brecha.' As the International Monetary Fund recently put it, Argentina faces dramatic challenges with no easy solutions."

A **Benjamin Gedan, senior advisor to the Latin America program and director of the Argentina Project at the Woodrow Wilson**

Center: "Cristina Fernández de Kirchner is right to call for a national consensus on economic management. Argentina's repeated lurching between pro-market and statist policies discourages investment. She's also right to raise alarms about the country's dependence on the U.S. dollar, and the failure of all political parties to persuade savers to trust the national currency. Regrettably, the divisive former president is the wrong messenger to convoke a national dialogue. Her approval rating is 30 percent, according to Poliarquía, and you can see why. Even

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as she highlighted the need for ‘an agreement between political, economic media and social actors,’ she assailed the private sector for ‘anti-Peronist bias.’ Worse still, her statement undermined the more moderate President Alberto Fernández; a quarter of Argentines now believe she calls the shots in the Casa Rosada. Fortunately, Argentina could ease pressure on the peso without solving the political fractures known as the ‘grieta.’ Today’s currency crisis reflects deep anxiety over overspending by a government with little capacity to borrow money and no clue how to produce a budget surplus. The primary deficit this year is projected to hit 7.3 percent of GDP, largely financed by money printing. Unsurprisingly, inflation expectations are through the roof; analysts say prices will rise by 51 percent over the next year, according to the latest central bank survey. That would be unusual any time, but especially amid a 12 percent GDP collapse. Subsidies for public utilities are unsustainable, contributing to inflationary jitters. Meanwhile, despite strict capital controls, the country is running out of dollars to defend the peso. Almost everyone believes a devaluation is nigh.”

A **Andrés Asiain, director of the Scalibrini Ortiz Center for Economic and Social Studies in Buenos Aires:** “The exchange rate tension that Argentina is experiencing forces us to rethink strategies to confront the problems of a bimonetary economy, which has historically exacerbated the shortage of dollars. Former President Cristina Fernández de Kirchner’s call for a grand national agreement should be used to advance measures that allow the substitution of the dollar as a currency for

savings and real estate operations. One such measure could be the possible launch of an indexed currency (adjusted for inflation or to the movement of the dollar) to coexist with the peso, but which allows the substitution of the dollar as a savings instrument. Within the banking system, this would facilitate the expansion of savings in indexed deposits, as the banks would no longer be the guarantors of paying investment. Banks would take pesos and buy hard currency from the central bank, in the same way they do today when a

“ **A grand national agreement should be used to advance measures that allow the substitution of the dollar as a currency for savings and real estate operations.”**

— Andrés Asiain

deposit is made in dollars. This would help avoid banks’ discouragement of deposits at indexed rates in a context where their assets perform mostly below inflation. Outside the banking system, this would allow for an alternative option to the dollar to channel the informal economy’s surplus, which by nature cannot access investments within the financial system. Through a series of regulations, its use could be extended to real estate operations, when that sector reopens. As such, a local currency could be created, one that fulfills the function of saving, which our battered peso lost against the dollar, thus expanding the margins for economic policy.”

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