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FEATURED Q&A

Will Argentina's Economy Start Improving Soon?



Argentine President Mauricio Macri's government, which last year negotiated a multibillion-dollar loan program with the International Monetary Fund, has been facing several dismal economic indicators. // File Photo: Argentine Government.

Q Argentina's state-run statistics institute in recent weeks has published downbeat economic indicators, including a report that the country's gross domestic product shrank 6.2 percent in the fourth quarter—the worst quarterly performance since 2009. Also, Argentina's poverty rate in the second half of last year rose to 32 percent, six percentage points higher than in 2017. Will economic conditions in Argentina begin improving this year? Is the \$57 billion loan program that Argentina and the International Monetary Fund agreed upon last year helping the country's economy? What do President Mauricio Macri's government and the central bank need to do in order to return the country to economic growth?

A Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York: "Argentina's macroeconomic picture remains weak: a deep recession, rising unemployment and poverty, inflation tracking above 50 percent, policy rate above 65 percent, an unsettled foreign exchange market and, overall, very tight domestic financial conditions. Furthermore, the outlook is complex and risky: political and policy uncertainty remains high and financial markets' sentiment very fragile. But not all is dire. In our assessment, the policy mix is, in broad strokes, where it needs to be to deal with Argentina's main macro imbalances: a large current account deficit and perennially large fiscal imbalances financed by either inflationary money creation and/or unstable and unsustainable external borrowing. Furthermore, the authorities' policy resolve and conviction have been tested and so far remain strong. But that is, unfortunately, not

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TODAY'S NEWS

ECONOMIC

Business Leaders Call on Trump to End Border Threat

Mexican and U.S. business leaders called on U.S. President Donald Trump to end his threats to close the border between the two countries, which the head of the U.S. Chamber of Commerce said would bring "disastrous consequences."

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POLITICAL

Canada Ended Aid to Nicaragua Last Year

Canada's government suspended aid to the Central American country in response to President Daniel Ortega's crackdowns on protesters.

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POLITICAL

Maduro Orders Expansion of Venezuelan Militia

Venezuelan President Nicolás Maduro ordered that the country's civilian militia be expanded by one million members. The militia, which reports to him, currently has some two million members.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

Venezuela's Maduro Orders Expansion of Civilian Militia

Venezuelan President Nicolás Maduro on Saturday ordered that the country's civilian militia, which answers directly to him, be expanded by a million members, Reuters reported. Maduro's call to expand the militia, which his mentor and predecessor, late President Hugo Chávez, created in 2008, came as opposition leader Juan Guaidó has sought to persuade Venezuela's military to end their loyalty to Maduro. Guaidó, the head of the opposition-controlled National Assembly, is internationally recognized as the country's interim president. Maduro's call to increase the size of the militia is seen as an attempt to shield himself politically and also protect him physically, BBC News reported. During a rally with militia members in Caracas, Maduro praised the force, saying it is ready to "defend, with arms in hand, [the] peace, sovereignty, territorial integrity and independence and the life of our homeland." The militia currently has about two million members, and Maduro called on them to also become involved in agriculture in Venezuela. The country's economic crisis, which includes skyrocketing inflation and shortages of several basic goods, has left many Venezuelans unable to acquire food. "With your rifles on your shoulders, be ready to defend the fatherland and dig the furrow to plant the seeds to produce food for the community, for the people," Maduro told the militia members. Guaidó has offered amnesty to members of the military who switch sides to support him, but the military's top leaders have remained loyal to Maduro. Hundreds of Venezuelan soldiers have requested asylum in Colombia, Reuters reported. Meantime, the pace of politically motivated arrests has soared in Venezuela, according to nonprofit human rights group Foro Penal, The Washington Post reported Friday. This year is on track to have the highest number of political prisoners in two decades in the South American country, the rights group said, adding that

more than 900 people are being held across the country for political reasons. Recently, government agents detained Guaidó's chief of staff. Detainees are being held in increasingly poor conditions on flimsy charges, said Foro Penal's director, Alfredo Romero. Venezuelan counterintelligence forces have inflicted torture on detainees that has become "systematic, planned and structural," the group said. It has recorded at least 50 cases of torture, including sexual abuse, strangulation using plastic bags and cuts to detainees' feet using razor blades. Maduro's government has defended agents' arrests, including that of Guaidó chief of staff Roberto Marrero, saying government agents are arresting hardened criminals. "I want it to be clear that the Bolivarian revolutionary government will not hesitate to combat terrorist groups and send them to prison. What they do is not politics, it's simply terrorism," Maduro said March 22. Also last week, authorities in Spain arrested a former Venezuelan spy chief, Hugo Carvajal, who also was a legislator in Maduro's ruling party, The New York Times reported. Spanish police arrested Carvajal on an extradition request from the United States, where he is wanted on drug trafficking charges. U.S. prosecutors accuse Carvajal of coordinating the smuggling of some 5,600 kilograms of cocaine from Venezuela to Mexico in 2006, the Associated Press reported. On Saturday, Carvajal appeared before a judge in Madrid and denied any links to drug trafficking. The judge ordered that Carvajal remain jailed while a court reviews the U.S. extradition request. [Editor's note: See [Q&A](#) Venezuela in the March 28 issue of the Advisor.]

ECONOMIC NEWS

Business Leaders Call on Trump to End Border Threats

Business leaders from Mexico and the United States on Friday jointly called on U.S. President Donald Trump to halt threats to disrupt trade along the two countries' borders following days

NEWS BRIEFS

U.S. Secretary of State Visits Migrant Camp in Colombia

Wrapping up a four-country tour of Latin America, U.S. Secretary of State Mike Pompeo on Sunday visited a Venezuelan migrant camp in the Colombian border city of Cúcuta, the Associated Press reported. During the trip, which was designed to put additional pressure to force Venezuelan President Nicolás Maduro from office, Pompeo also visited Chile, Paraguay and Peru.

Canada Suspended Aid Last Year to Nicaragua

Canada suspended aid to Nicaragua last August in response to President Daniel Ortega's crackdowns on anti-government protests beginning last April, a decision that had not been publicly announced until now, a foreign ministry spokeswoman said Sunday, CBC reported. Aid was cut off in a secret memorandum to give Ortega room to reverse course without seeming to be surrendering to foreign pressure, said Brittany Fletcher, the spokeswoman, adding that Canada still provides support to NGOs and international organizations in Nicaragua. The Central American country received roughly \$20 million in aid annually from Canada.

Colombia Boosts Aid to Coffee Farmers by \$32 Mn

Colombia will provide coffee farmers with an additional \$32 million in subsidies and tree replacement aid, President Iván Duque said on Saturday, Reuters reported. International coffee prices, which have dropped to around or below \$1 per pound this year, have left Colombian coffee growers struggling. Duque's administration had previously promised to spend roughly \$50 million on help for coffee farmers but agreed to the increase after the coffee-growers federation last week said that amount was not enough.

of cargo delays, Reuters reported. At a meeting in the eastern Mexican city of Mérida, which government officials from both nations attended, business lobbies rebuked Trump's threats to close down the border. Tom Donohue, the head of the U.S. Chamber of Commerce, said such a move would bring "disastrous consequences." Donohue also urged the Trump administration to exempt Mexico and Canada from steel and aluminum tariffs imposed last June before the Mexican Congress approves the United States-Mexico-Canada Agreement, or USMCA, the wire service reported. Mexican President Andrés Manuel López Obrador, who was sitting next to Donohue, warmly applauded his speech, according to Reuters. "And let's not confuse migration problems with trade problems and industry problems," said Carlos Salazar, the president of Mexico's powerful CCE business lobby, following Donohue's remarks. Salazar was seated on the other side of López Obrador and next to U.S. Commerce Secretary Wilbur Ross, who did not address the news conference. Trump in recent weeks had threatened to close off the border with Mexico to stop the stem of Central American migrants making their way into the United States through the frontier, The Wall Street Journal reported. He later backed off the shutdown threats but said he was considering imposing tariffs on Mexican cars to pressure Mexico's government to step up efforts to curb illegal migration.

BUSINESS NEWS

U.S. Sanctions Firms That Send Oil From Venezuela to Cuba

The U.S. Treasury on Friday announced financial sanctions on four maritime shipping companies and nine of their oil tankers for delivering Venezuelan crude to Cuba, stepping up efforts to pressure what it called "the illegitimate regime of former Venezuelan President Nicolás Maduro," Agence France-Presse reported. "We continue to target companies that transport Venezuelan oil to Cuba, as they

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enough. Given deep-rooted, long-lasting structural imbalances, the current policies need to remain in place for a while longer in order to deepen and cement the macro rebalancing of the economy. On all counts, the macro adjustment is painful, and long, but so far has been implemented broadly in line with the policy commitments the authorities have undertaken under the agreement with the IMF. The economy may be weak, but the present policy approach is conventional. The weak state of the economy was not generated by the current set of policies. Quite to the contrary, it is the current set of orthodox/conventional policies that should, in due time, rebalance and heal the economy, finally overcoming some of Argentina's perennial structural weaknesses. What is needed is to stay the course and persevere, particularly on fiscal consolidation. That requires policy continuity beyond the current year, and here is where macro policy intersects with the unpredictable world of politics. Market anxiety reflects the fact that it is unclear that out of this year's elections will emerge an administration that is committed to continuing the adjustment and to preserving a functional relationship Argentina's lender of last resort: the IMF. Reversing the current policy mix in 2020 would likely precipitate a macroeconomic crisis and possibly also a costly and complex public-debt restructuring."

are profiting while the Maduro regime pillages natural resources," U.S. Treasury Secretary Steven Mnuchin said in the statement, adding that "Venezuela's oil belongs to the Venezuelan people and should not be used as a bargaining tool to prop up dictators and prolong oppression." The United States and dozens of other countries reject Maduro's presidency, instead recognizing opposition leader and National Assembly head Juan Guaidó as Venezuela's legitimate interim president. The latest U.S. sanctions, which freeze any U.S. assets companies hold and block them from much of the global financial system, target three Liberian shipping corporations, and another based in It-

A **Andrés Asiain, director of the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires:** "The economic program agreed to between the Argentine government and the IMF derived from a serious crisis. The \$57 billion credit that the organization provided Mauricio Macri failed to stabilize the economy. The reason for this

“**This policy exacerbates exchange-rate volatility and ends up having the opposite effect that it sought.**”

— Andrés Asiain

failure is that the lender's credit only allows for the delay of debt payments until the presidential election in October, leaving a 'high probability of insolvency' going forward, as the IMF's own economists admit in their official documents. For its part, in an attempt to divert the organization's dollars to pay the debt, the IMF prohibits the government from intervening in the exchange market. For this, it demands a free-dollar policy within broad exchange bands and little power to intervene outside of them. This policy exacerbates exchange-rate volatility and ends up

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aly, AFP reported. The Trump administration on April 5 had slapped new sanctions on Venezuela's government, targeting shipments to Cuba, which provides the South American government with intelligence and counterintelligence, The New York Times reported. In response, Venezuelan Foreign Minister Jorge Arreaza last week said Venezuela would continue honoring its oil commitments to Cuba despite the sanctions, Reuters reported. Venezuela is estimated to be shipping Cuba between 20,000 and 50,000 barrels of oil per day, according to White House officials and oil industry experts, the wire service reported.

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having the opposite effect that it sought—it increases the demand for dollars as a form of caution against the fear of a sudden devaluation. The central bank tries to counteract this demand with high interest rates for peso-denominated assets by subsidizing the financial system, which stops lending to the private sector, to accumulate central bank securities, the so-called LELIQs. This policy generates a high quasi-fiscal deficit and, moreover, it does not manage to contain the demand for foreign currency, since the high rate is not enough to compensate for the risk of devaluation implicit in the broad bands of exchange-rate flotation. Additionally, the IMF imposed a zero-deficit policy, forcing the country to paralyze public works and sharp increases in price rates. Increases in the cost of public services and the value of the dollar, fueled by the erroneous exchange-rate policy, give impulse to inflation that already exceeds 50 percent this year. The resulting deterioration of the population's real income causes a reduction of the internal market, already hit by the high interest rates and the paralysis of public works. The consequence is an economy in depreciation: a combination of high inflation with a sharp drop in productive activity."

A **Kezia McKeague, director at McLarty Associates:** "Recent economic indicators have indeed been discouraging—and the levels of inflation are particularly frustrating for President Macri's economic team in the wake of the contractionary monetary policy instituted last October. Nevertheless, a gradual recovery is expected in the coming quarters. The drivers will be agricultural exports, aided by a more competitive exchange rate and a record harvest, and some recovery in consumption. Investment, however, will remain stagnant given high

real interest rates and political uncertainty in the run-up to the October presidential election. The IMF loan helped to stabilize the economy following two significant currency crises last year, and the government's subsequent progress in correcting the high fiscal and external deficits—at the heart of the 2018 crisis in confidence—will reduce

“**More is needed than the appropriate monetary regime to address the country's long history of inflation.**”

— Kezia McKeague

Argentina's vulnerability to external shocks going forward. Inflation will remain high this year, but the central bank's commitment to zero monetary-base growth—and the elimination of transfers to the treasury to finance the fiscal deficit—will mitigate the inflationary recipes that have been hallmarks of Argentina's economy. Nevertheless, as the central bank's leadership acknowledged in Washington last week, more is needed than the appropriate monetary regime to address the country's long history of inflation. The government has made some progress on microeconomic reforms and improved regulations and investment in infrastructure, but deeper structural reforms will be needed for strong and equitable growth. Those reforms, however, will be too ambitious for a highly uncertain election year. As the Macri administration prepares for a tough re-election battle, the priority will be currency stability, even at the cost of economic activity."

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter
achacon@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

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