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FEATURED Q&A

Will a New IMF Deal Help Costa Rica's Financial Stability?



Costa Rican President Carlos Alvarado Quesada's government reached a deal last week for a \$1.75 billion program with the International Monetary Fund. // File Photo: Facebook page of Carlos Alvarado Quesada.

Q Costa Rica's government announced Friday that it had reached an agreement with the International Monetary Fund under a fiscal adjustment program primarily focused on spending cuts. What are the most significant elements of Costa Rica's deal with the IMF, and is it a realistic path toward financial stability? Is the country's Legislative Assembly likely to approve the agreed-upon reforms soon? To what extent will public opinion, including a rejection of tax increases that resulted in nationwide protests last year, influence the government's ability to effectively implement necessary reforms?

A Ottón Solís, Costa Rica representative at the Central American Bank for Economic Integration and former presidential candidate for the ruling Citizens' Action Party (PAC): "The government has reached an agreement with the IMF, under a fiscal adjustment program based primarily on expenditure reductions. The authorities have reinforced their commitment to comply with the fiscal rule approved in 2018 and will have to get lawmakers to sanction legislation aimed at setting limits on growth of the public employment bill. These expenditure pledges will be complemented with some new taxes and the elimination of a number of tax exemptions. Under the agreement with the IMF, Costa Rica vows to move from a primary deficit of just under 3.4 percent of GDP to a surplus of 1 percent over a period of three years. The agreement will spawn positive expectations and therefore higher investment and GDP growth. Additionally, such highly regarded 'certification' will undoubtedly reduce interest rates on debt renewals, making

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TODAY'S NEWS

ECONOMIC

Chilean President Names New Finance Minister

Chilean President Sebastián Piñera named Rodrigo Cerda as the country's new finance minister. Cerda replaces Ignacio Briones, who stepped down in advance of an expected presidential bid later this year.

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BUSINESS

Mexico's TV Azteca Taps Rodríguez Sánchez as CEO

Mexican television network TV Azteca's board of directors named Rafael Rodríguez Sánchez as the network's new chief executive officer.

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POLITICAL

Colombian Defense Minister Holmes Trujillo Dies of Covid-19

Colombian Defense Minister Carlos Holmes Trujillo, 69, died early this morning of complications of Covid-19, President Iván Duque announced.

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Holmes Trujillo // File Photo: Colombian Government.

POLITICAL NEWS

Colombian Defense Minister Dies From Covid Complications

Colombian Defense Minister Carlos Holmes Trujillo, 69, died early this morning from complications of Covid-19, President Iván Duque announced. "With deep pain and sadness, I have received the news of the death of our defense minister, Carlos Holmes Trujillo," said Duque. "I cannot express the pain I feel." Duque also said he wanted to offer his support to Holmes Trujillo's wife, children and other family members. Holmes Trujillo died in a Bogotá

I cannot express the pain I feel."

— Iván Duque

military hospital where he had been in intensive care, Reuters reported. Holmes Trujillo tested positive for the novel coronavirus on Jan. 12. "Carlos Holmes was my friend, my companion in fighting, my teammate and my minister in two departments," said Duque. "His life was a reflection of a vocation for public service." Holmes Trujillo had served as Duque's defense minister since November 2019. Before that, he was his foreign affairs minister, and he also served as interior minister and education minister in previous governments, as well as the mayor of Cali in the late 1980s. Holmes Trujillo was also a member of the National Assembly that reformed Colombia's constitution in 1991, Reuters reported. Holmes Trujillo tested positive for the novel coronavirus one day after the Foreign Affairs Ministry announced that Foreign Minister Claudia Blum had been infected. Other high-profile Colombians who have contracted Covid-19 include Vice President Marta Lucía Ramírez, who tested positive in November, and First Lady Juliana Ruiz, who tested positive in October. Duque has not tested positive, though he is tested regularly because of his busy schedule and high potential for exposure, Reuters reported. Colombia has

more than two million reported infections and more than 51,000 related deaths, according to Johns Hopkins University. Covid-19 cases have increased sharply in Colombia since Christmas. More than 15,000 new infections were reported per day in the second week of January, as compared to approximately 7,000 in the beginning of December, the Associated Press reported.

Colombia's FARC Political Party Changes Name

The political party of the demobilized Revolutionary Armed Forces of Colombia, or FARC, rebel group has changed its name in hopes of gaining more political support in congressional elections next year, the Associated Press reported Monday. The political party will now be called "Comunes," or "commoners," the wire service reported. The new name was chosen during the party's second national assembly, which ended Sunday after three days of meetings, Reuters reported. "We agreed that the FARC name generates resistance in some sectors of society," the party said in a statement, the AP reported. "That is why we decided on a new name ... that gathers the dreams and aspirations of our founders." The former rebel group was allowed to create a political party and was given 10 seats in Colombia's Congress for eight years as part of its 2016 peace accords with the government. The party kept the FARC acronym for the political party, but changed the words it represented, to the Common Alternative Revolutionary Force. But the political party has fared poorly. Its presidential candidate withdrew early from the race in 2018 after suffering a heart attack, and the party garnered just 0.2 percent of the vote in that year's congressional elections, the AP reported. The party has also splintered, with some members joining other leftist movements and others returning to arms. The former rebel group has also seen violence against its members, with more than 250 former rebels being murdered since the signing of the peace agreement in 2016.

NEWS BRIEFS

Suriname's President Tests Positive for Covid-19

Surinamese President Chan Santokhi has tested positive for Covid-19, he announced Sunday, saying he was feeling strong and had no symptoms, Caribbean National Weekly reported. Santokhi said he would remain at home and work from his private residence for the next several days. The government's information service said contact-tracing is ongoing, and several members of Santokhi's cabinet who were with him in recent days are undergoing testing.

Mexican Billionaire Carlos Slim Contracts Covid, Has Mild Symptoms

Mexican billionaire Carlos Slim has contracted Covid-19 with "minor symptoms," his son said Monday in a tweet. Slim, 80, was at the National Institute of Health Sciences and Nutrition for "clinical analysis, monitoring and timely treatment," said his son, Carlos Slim Domit. Slim Domit said his father began having symptoms more than a week ago. The announcement came a day after Mexican President Andrés Manuel López Obrador announced that he had been infected. The cases are not likely to be related as the men do not regularly see each other, the Associated Press reported.

Chilean President Names Cerda Finance Minister

Chilean President Sebastián Piñera on Tuesday appointed Rodrigo Cerda as the country's new finance minister following the resignation of Ignacio Briones, who stepped down ahead of an expected presidential bid later this year, Reuters reported. Cerda, who will be tasked with advancing a controversial pension reform in Congress, previously served as macroeconomic advisor and chief advisor at the Finance Ministry during Piñera's first presidential term, La Tercera reported.

BUSINESS NEWS

Peruvian Company Develops Test for Covid-19 Variants

Peru-based company BTS Consultores Research has developed a Covid-19 molecular test kit that can detect the variants discovered in the United Kingdom, South Africa and Brazil, state news agency Andina reported Monday. Digemid, a directorate within the country's Health Ministry that oversees safe access to medication, has authorized the test's entry into the Peruvian market, the Voice of America reported. The test kit, known as CavBio, consists of six reagents based on RT-PCR methodology, which is used to detect the novel coronavirus in a swab sample. "We have technically demonstrated that the variants can be detected," said Milagros Zavaleta, a research director at BTS Consultores Research. The test kit does not distinguish among the different variants, but it does confirm the detection of the virus, Zavaleta added. The CavBio test is now ready for commercialization in Peru, Andina reported, and Zavaleta said talks are ongoing with laboratories and clinics for the sale of the first kits.

TV Azteca Taps Rodríguez Sánchez as Chief Executive

Mexican television network TV Azteca announced Monday that its board of directors named Rafael Rodríguez Sánchez as the new chief executive officer, part of an effort to renew the firm, including through structural, organizational and financial changes, TV Azteca said in a statement. Rodríguez previously served as TV Azteca's legal director. The statement also announced that Benjamín Salinas, the former CEO, is now vice president of the board of directors of Grupo Salinas, which owns the media company. TV Azteca is one of the two largest producers of Spanish-language television programming in the world.

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it feasible to keep them at levels below GDP growth, which is required for shifting the debt-to-GDP ratio toward a downward trend. The government has excluded from the proposal some of the most contentious items that led to demonstrations last year. Moreover, under the agreement, none of the emblematic public entities and assets will be privatized, while no public employee will be sacked or endure a wage reduction. So, there should not be cause for social unrest. Unfortunately, the political vims for the February 2022 elections are just starting, and some traditional unrelenting contenders seem to be ready—once again—to put politics above country. It is critical that electoral motivations are kept in check so as not to jeopardize the implementation of the agreements reached with the IMF."

A Fernando Llorca-Castro, ambassador of Costa Rica to the United States: "Costa Rica's fiscal problems have existed for several decades, and the administration of President Carlos Alvarado Quesada began the path toward their solution, with the most recent tax reform, which the Legislative Assembly approved before the Covid-19 pandemic. Unfortunately, the Costa Rican economy has been particularly affected by the drastic decrease in tourist activity, which had been growing satisfactorily before the pandemic. Despite this situation, the government has made historic efforts in terms of controlling expenditures. Minister of Finance Elian Villegas recently announced that the deficit that was initially projected to be 9.2 percent of GDP for 2020 barely reached 8.3 percent of GDP. Likewise, the debt that had been forecast to exceed 70 percent of GDP reached a level of 69.8 percent. This allowed us to start the negotiation process with the IMF in the best way possible. We hope the agreement will help Costa Rica in the face of the economic reactivation process in which we find ourselves, especially the process of economic reactivation in the

tourism sector. Since Dec. 24, Costa Rica has taken advantage of its public health sector, which provides universal coverage, to

“The government has made historic efforts in terms of controlling expenditures.”

— Fernando Llorca-Castro

administer the vaccine against Covid-19. In a few months, we hope to offer international tourists not only the best tourist destination that we have always been, but also the safest amid the pandemic, both for travelers and for citizens."

A Carlos Denton, executive director of CID/Gallup: "Costa Rica's public sector, for decades the bedrock of national stability, has now become a source of conflict. In the 2021 budget, 53 percent goes to salaries (the average in OECD countries is 22 percent), 42 percent goes to cover debt payments, and the remainder does not cover basic operational expenses. Since 2008, the country has been routinely borrowing from international sources, but lenders are now raising interest rates to unmanageable levels because of the perceived risks. Leaders saw an agreement with the International Monetary Fund as the only path to solvency, and one was reached last Friday. The agreement, under which Costa Rica committed to many changes, must first be approved by the IMF's Board of Directors and by Costa Rica's Legislative Assembly. One commitment, on the cost side, is to approve a national public employment act, which is now being debated in the legislature. The proposed law, which public-sector workers' unions fiercely oppose, would eliminate dozens of 'extras' that bureaucrats enjoy. Some of these are 'exclusivity' (no moonlighting), obtaining

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a university degree, a fixed annual raise for longevity, cost of living and, in some institutions, even more esoteric 'extras,' such as government dock workers earning a full day of pay simply for coming to work on time for a month. On the income side, the government proposed to tax lottery prizes, to raise taxes paid by owners of luxury housing and to institute a global (as opposed to territorial) income tax."

A **Gisela Sánchez, president of the Costa Rican-American Chamber of Commerce:** "The agreement with the IMF will not only allow access to the credit facility, but more importantly, it gives a seal of guarantee to investors and risk rating agencies on Costa Rica's compliance with the deal's components. To stabilize its public finances, Costa Rica needs to correct the imbalance between income and expenses that we have been carrying since 2007, with growing fiscal deficits that have been aggravated by the pandemic. The country must also improve its current debt structure, which has high interest rates and significant short-term maturity dates. We need a smaller, more

efficient and more effective state. We must redesign and simplify the state apparatus. The great challenges are the reform of public employment and the modernization of the state. We do believe a realistic reform is possible in the coming months if there is political will. However, public opinion is very

“We need a smaller, more efficient and more effective state.”
— Gisela Sánchez

relevant, especially because we are starting an electoral period, and political parties will focus on winning votes. This could pressure groups to halt or block key reforms in public employment and state reform. This is why the business sector decisively supports the stabilization of public finances in order to refocus Costa Rica on innovation, investment attraction and competitiveness."

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

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter & Associate Editor
achacon@thedialogue.org



Michael Shifter, President

Rebecca Bill Chavez, Nonresident Senior Fellow

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Advisor Video

Venezuela's Political Situation

A Latin America Advisor interview with Vanessa Neumann, former Juan Guaidó-appointed Venezuelan ambassador to the United Kingdom



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