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FEATURED Q&A

What Do Sunday's Midterm Results Mean for Argentina?



Among the opposition winners in Sunday's legislative election in Argentina was former Buenos Aires Province Governor María Eugenia Vidal (center), who was elected to a seat in the Chamber of Deputies. // Photo: @mariaavidal via Twitter.

Q The Peronist coalition of Argentine President Alberto Fernández suffered a major defeat in Sunday's midterm legislative elections, losing control of the country's Senate. While the Peronists appear to have maintained their position as the largest bloc in the lower house, they lost seats there, which will force them to negotiate with smaller parties. What are the main reasons behind the Peronists' losses in the election? What will the results mean for the president's agenda, including his government's negotiations with the International Monetary Fund and his ability to win passage of a long-term economic plan? How successful will Fernández be in cooperating with the opposition—and with competing factions within his own coalition?

A Miguel Kiguel, executive director of EconViews in Buenos Aires: "The midterm elections marked an important victory for the opposition, which won by nine percentage points at the national level. The opposition comfortably carried key provinces such as Mendoza, Córdoba, Santa Fe and Entre Ríos, and it managed to gain the flagship province of Buenos Aires by 1.5 percentage points. It seems that the president is trying to strengthen his leadership and move toward moderation, announcing that there will be an agreement with the IMF and that he will send Congress a medium-term economic program. At the same time, he said he will resist any type of macro-adjustment, which of course, the IMF would like to see. In the meantime, there is no room for inaction. The central bank has no reserves, the real exchange rate continues to appreciate, the spread between the official

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TODAY'S NEWS

POLITICAL

Ecuador's Prisons, Military Heads Resign After Riot

The leaders of Ecuador's prison system and the armed forces resigned after a riot that left at least 68 people dead over the weekend at the country's Litoral penitentiary.

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BUSINESS

Brazil's XP Acquires State in Vista Capital

Brazilian brokerage XP announced that it has acquired a minority stake in local asset manager Vista Capital, which has more than 4.5 billion reais (\$827 million) in assets under management.

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POLITICAL

Ally of Venezuela's Maduro Pleads Not Guilty in U.S.

Colombian businessman Alex Saab, an ally of Venezuelan President Nicolás Maduro, entered a plea of not guilty to money laundering charges in U.S. federal court in Miami.

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Saab // File Photo: www.alexsaab.co.

POLITICAL NEWS

Heads of Ecuador's Prisons, Military Resign After Riot

The leaders of Ecuador's prison system and the armed forces have resigned following the latest deadly riot in a notorious penitentiary, BBC News reported Monday. President Guillermo Lasso accepted the resignation of Bolívar Fernando Garzón Espinosa, who had served just 47 days as director of the SNAI prison authority, returning Fausto Cobo to the position, *El Universo* reported. On Sept. 28, Lasso had replaced Cobo with Garzón, a former military official, after the country's worst-ever prison riot, which left more than 100 inmates dead at the Litoral penitentiary. It was also the site of last weekend's riot, in which at least 68 inmates were killed. After Saturday's riot, Lasso also accepted the resignation of Vice Admiral Jorge Cabrera as chief of Ecuador's joint command of the armed forces, replacing him with General Orlando Fabián Fuel, Reuters reported, citing Lasso's communications office. Lasso also tapped Brigadier General Luis Burbano to become the new commander of Ecuador's army, the wire service reported. The government has blamed gang rivalries for the outbursts of violence at the Litoral prison.

U.S., U.K., Canada Impose Sanctions on Nicaraguan Officials

The United States, the United Kingdom and Canada on Monday imposed sanctions on Nicaraguan officials in a coordinated response to the Central American nation's Nov. 7 presidential election, which was widely denounced as a sham after the government arrested virtually all candidates who could have mounted a serious challenge to President Daniel Ortega's re-election, Reuters reported. The administration of U.S. President Joe Biden slapped sanctions on nine Nicaraguans, among them the energy

minister, vice minister of finance and the entire Public Ministry of Nicaragua. Meanwhile, the United Kingdom targeted eight officials, including Vice President Rosario Murillo, who is also Ortega's wife. Murillo is considered a key power broker in Nicaragua. Canada imposed sanctions against 11 Nicaraguan officials. "In support of democracy for Nicaraguans, [the U.S. Treasury] sanctioned an Ortega-Murillo government ministry and 9 government officials," U.S. Secretary of State Antony Blinken wrote on Twitter. "The U.S. joined by our international partners, will act swiftly to promote accountability for Nicaraguan officials who have undermined democracy." Nicaragua's government did not immediately respond to Reuters' request for comment. Ortega has blasted the United States as "Yankee imperialists" and accused it of undermining the country's electoral process. The concerted sanctions came just days after the General Assembly of the Organization of American States on Friday voted to condemn the Nov. 7 presidential election. The resolution instructs the body's permanent council to prepare a prepare outlining "appropriate actions" to be taken against the Nicaraguan government.

Cuba Deploys Security Forces to Prevent Protests

The Cuban government early on Monday deployed security forces in anticipation of a planned protest demanding democracy, the latest sign of boiling social discontent in the Caribbean nation, *The Wall Street Journal* reported. Police officers in Havana and other cities, including secret police and civilian militants stationed at the homes of protest organizers, prevented protesters from marching, the newspaper reported, citing residents in several Cuban cities. There were no reports of massive demonstrations, but dissidents said the government's security deployment demonstrates its nervousness about mounting discontent among Cubans, palpable since unprecedented and spontaneous anti-government protests last July. "The surveillance is intense," Manelyn

NEWS BRIEFS

Ally of Venezuela's Maduro Pleads Not Guilty in U.S.

Colombian businessman Alex Saab, a close ally to Venezuelan President Nicolás Maduro, pleaded not guilty on Monday during his arraignment in U.S. federal court in Miami in connection with money laundering charges, the Associated Press reported. Saab stands accused of paying bribes to siphon off \$350 million from Venezuelan state contracts to build housing for Maduro's government. After seven charges were dismissed, he is facing just a single count of conspiracy to commit money laundering. [Editor's note: See related [Q&A](#) in the Nov. 1 issue of the Advisor.]

El Salvador Receives First Shipment for LNG Plant

El Salvador on Monday received the first shipment from a storage and regasification vessel to supply the country's new liquefied natural gas, or LNG, plant, President Nayib Bukele said, Reuters reported. Speaking in the town of Acajutla, the president said the plant will supply 30 percent of the country's energy as well as diversify its energy mix, reduce greenhouse gas emissions to below 600,000 tons of carbon dioxide per year and allow El Salvador to begin using natural gas to generate electricity.

Mexican Start-up Aplazo Raises \$27 Million in Series A Funding Round

Mexico-based start-up Aplazo, a buy now, pay later platform, has raised \$27 million in a Series A round led by Oak HC/FT and with participation by investment firms Kaszek and Picus Capital, Aplazo said Monday in a statement. Four months ago, Aplazo raised \$5.25 million in a seed round. Aplazo said it plans to use the money from the Series A round to boost its growth. In the past four months, Aplazo said it has increased its total processing volume by more than eight times.

Morales, a member of a Catholic charity in the eastern city of Camagüey, told The Wall Street Journal. "Neighbors from the Committees for Defense of the Revolution are making rounds," she added, in reference to neighborhood watch committees that monitor dissident activity. Opposition activists, many of them young artists, had organized the "Civic March for Change" as a nationwide rally scheduled for Monday afternoon to protest the lack of liberties under the Communist Party that has ruled Cuba for more than six decades, The New York Times reported. However, fearing violence, organizers toned down their plans in recent days.

BUSINESS NEWS

Brazil's XP Acquires Minority Stake in Vista Capital

Brazilian brokerage XP has acquired a minority stake in local equity and hedge fund manager Vista Capital, XP announced today in a statement. "This transaction reinforces XP's strategy to develop the most complete ecosystem of managers and distributors in Brazil," XP said. "Additionally, the development of independent asset managers meets XP's strategy by contributing to an increase in secondary market liquidity, helping to democratize investment products to more Brazilians." XP did not disclose the terms of the deal or the size of the stake in its statement. Vista Capital has more than 4.5 billion reais (\$827 million) in assets under management, including multimarket and equity investment funds. The firm was founded in 2014 in Rio de Janeiro. The deal is XP's ninth acquisition of an asset manager since last year as the company has been seeking to grow its operations beyond distribution of securities, Reuters reported. "Both teams expect that, along with Vista's ability to further develop new products, it can grow its [assets under management], and benefit both the asset manager and our funds platform," XP added in its statement.

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and the parallel exchange rates exceeds 100 percent and has become an unsurmountable obstacle to increase reserves, the fiscal deficit remains high and there is a need to cut at least energy subsidies. Additionally, the country risk remains above 1,700 points, making the debt unsustainable unless there are changes. These indicators are a nonstarter for an IMF program. We believe that, in the end, the moderate wing of the government coalition will prevail and that Argentina will avoid entering into arrears with the IMF by reaching an agreement by March. The opposition will probably not endorse the program, but it will not block it, either. It won't be smooth sailing until then, but in the end, both Argentina and the IMF will have to make compromises."

A Benjamin Gedan, deputy director of the Latin American Program and director of the Argentina Project at the Woodrow Wilson Center: "President Alberto Fernández's response to Sunday's midterms was encouraging. He promised a dialogue with the opposition and suggested Argentina was close to an agreement with the International Monetary Fund (IMF) over its \$44 billion debt. Both are long shots, and it is easy to be skeptical about the prospects for a truce in Argentina's partisan combat, or even consensus inside the fractious Peronist coalition. Still, signals of moderation were unmistakable. Fernández, a University of Buenos Aires law professor, triumphed two years ago as a pragmatist. His popularity surged early in the pandemic thanks to regular press conferences alongside the top opposition figure, Buenos Aires Mayor Horacio Rodríguez Larreta. But the influence of his pugilistic vice president, Cristina Kirchner, undermined that problem-solver image. Today, he is just another warrior in Argentina's bitter political divide. Argentina's IMF negotiations were a victim of Fernández's makeover, as his position hardened. The election results are an opportunity to change

course. The urgency of avoiding a default to the IMF, and the reliance on opposition votes in Congress, offer Fernández an excuse to reconsider his economic policy, which leans heavily on deficit spending and price and capital controls. Similarly, Argentina's need for foreign investment and IMF support offer Fernández an excuse for a tougher posture toward the dictatorships in Cuba, Nicaragua and Venezuela. These pivots would not be easy, as the midterms badly weakened Fernández. However, though Kirchner retains a veto on policy, she is also a diminished figure, whose unpopularity contributed to losses in Peronist strongholds such as Buenos Aires province and Santa Cruz."

A Bruno Binetti, nonresident fellow at the Inter-American Dialogue: "The opposition obtained a resounding victory on Sunday, but Peronism is relieved because it gained votes as compared to the catastrophe of the September primaries, especially in Buenos Aires province. Regardless, the midterms change little about the challenges facing Argentina. The main one is the state of the economy. GDP won't recover to pre-pandemic levels until 2023, and even then, it will be lower than in 2017. Real wages are down, annual inflation tops 50 percent and meager central bank reserves are used to defend an overvalued peso. Further, Argentina cannot repay the \$17 billion due to the IMF next year, so a renegotiation is urgent. Finding a way out of this labyrinth is made more difficult because the ruling coalition is internally divided and came close to falling apart after the primaries. President Fernández has lost much political capital while Vice President Cristina Kirchner opposes spending cuts, which the IMF demands. She also distrusts Economy Minister Martín Guzmán. Looking ahead, no party will have a majority in either house of Congress, which should encourage collaboration but is more likely to generate paralysis. Opposition leaders distrust Fernández's belated call for cooperation

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and long-term economic planning, fearing he wants to distribute the political costs of tough reforms that even his own coalition resists. As time to agree with the IMF runs out and the country starts looking toward the 2023 presidential election, the only certainty is that the next two years will be socially, economically and politically volatile in Argentina."

A **Martín Planes, lead specialist, and Roland Huxley, specialist, in the Public Policy, Risk and Strategy Practice at Cefeidas**

Group: "A combination of the Covid-19 pandemic, economic stagnation and a series of scandals presented challenges that the governing Frente de Todos (FdT) coalition was ultimately unable to overcome in Sunday's midterm legislative elections. Further, the apparent disenchantment with the main coalitions, as reflected in the low turnout and increased support for the leftist Frente de Izquierda and libertarian La Libertad Avanza coalitions, contributed to the government's defeat. Nevertheless, the government has been able to draw solace from its improved electoral performance since the September primaries, after which it shifted its campaign strategy to focus on voters' daily concerns and build a narrative of cautious confidence. Indeed, its poor performance in the primaries meant expectations for the general elections were muted. Although the government performed above these expectations, in an effort to preempt concerns over the election's impact on the economy, President Alberto Fernández released a prerecorded national address in which he announced that he will be sending Congress a bill in December that includes a multiyear economic program based on agreements reached with the IMF, crucially with the support of the entire FdT coalition, including Vice President Cristina Fernández de Kirchner. While there has been little change to the balance of power in the lower house, where FdT's loss of two seats and opposition coalition Juntos

por el Cambio's gain of just one seat mean FdT remains first minority, the government has lost quorum in the Senate. As such, Fernández's call in his address for dialogue and collaboration reflects a new dynamic in which the government will depend on the backing of legislators from provincial parties to pass legislation, making it more politically costly to do so, albeit not impossible."

A **Carlos Fara, president of Carlos Fara & Asociados in Buenos Aires:** "President Alberto Fernández did not fulfill his promise to

lead with a moderate style of government, a promise he made when he won the election in 2019. His government has been more confrontational in style and more interventionist in economic activity. To that, it is necessary to add the mismanagement of the pandemic, a deepening of the economic crisis and a blurring of his leadership due to permanent conflicts with Vice President Cristina Fernández. This led to a climate of pessimism more than a year ago. This negative electoral result takes away the president's legitimacy to impose unfriendly economic measures and room for maneuvering within his own government coalition, which has not defined the direction he really wants to take, whether moderation or radicalization. In the short term, the president can only propose to the opposition agreements on specific issues of urgent need, such as the approval of the 2022 budget and support for an agreement with the IMF. Moreover, he has neither outward credibility nor support within his own coalition to propose a more ambitious cooperation agenda. The winning opposition will have a very cautious attitude and will avoid being trapped in negotiations without a clear destination that hinder its competitiveness for the 2023 presidential election."

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue ISSN 2163-7962

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

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