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## FEATURED Q&A

# Can Milei's Shock Therapy Revitalize Argentina's Growth?



Argentine President Javier Milei announced last week a new slate of economic policies he dubbed "shock therapy." // File Photo: Argentine Government.

**Q** Argentine President Javier Milei has prescribed "shock therapy" for Argentina's beleaguered economy, and his government devalued the peso by more than 50 percent on Dec. 12 in one of its first acts in office. Economy Minister Luis Caputo also presented measures to slash public spending and warned that the economic situation would get worse before it improved, as prices are set to jump. What are the most significant parts of the government's new economic plan? What measures will have the largest effects in the short term and in the long term? How much support will these policies receive, and how are businesses and society reacting? How likely are Argentina's Congress or public to reject and fight these measures?

**A** Miguel A. Kiguel, executive director of EconViews in Buenos Aires: "Milei has started his term on the right foot. He inherited an economy that was in intensive care with negative international reserves, a grossly overvalued currency, rampant inflation, a large fiscal deficit and no access to international credit. He is taking steps to correct it. The response has been a stabilization package that includes a very ambitious fiscal adjustment, which is intended to be the anchor of the overall macroeconomic program. The target is to eliminate the overall fiscal deficit through a reduction in expenditures of around 3 percent of GDP and increases in tax revenues amounting to 2 percent of GDP. It will be a difficult goal to reach, but even if he misses the target by some margin, it will mean a major reduction in the fiscal deficit that can open the door to new access to external lending and for a large reduction in inflation. The government was also aggressive on the

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## TODAY'S NEWS

### POLITICAL

## U.S. Frees Saab in Prisoner Swap with Venezuela

The United States secured release for 10 Americans on Wednesday in a prisoner swap with Venezuela that freed Alex Saab, a close ally of President Nicolás Maduro.

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### ECONOMIC

## Mexican Business Group Protests Costly Rail Border Closure

The Mexican Employer's Association claimed Wednesday that the closure of railway crossings at the Texas border is costing them an estimated \$100 million daily in delayed shipments.

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### POLITICAL

## Suriname Court Upholds Bouterse Conviction

A top court in Suriname upheld former President Desi Bouterse's 20-year prison sentence on Wednesday. The leader was convicted in 2019 in connection with over a dozen murders in 1982.

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Bouterse // File Photo: Government of Suriname.

## POLITICAL NEWS

## U.S. Frees Saab in Prisoner Swap With Venezuela

The United States on Wednesday released an imprisoned ally of Venezuelan President Nicolás Maduro in exchange for Venezuela's release of 10 imprisoned Americans and the South American country's extradition to the United States of a fugitive defense contractor who admitted to involvement in a massive bribery scheme, the Associated Press reported. As part of the largest-ever prisoner swap between the two countries, U.S. authorities released Alex Saab, a Colombian businessman and a close associate of Maduro. In 2019, Saab was indicted in connection with a bribery case that bilked some \$350 million from a government housing project in Venezuela, The New York Times reported. Maduro's government called Saab a "victim" of "illegal detention" and said his release was a "symbol of victory" that Caracas achieved through "peaceful diplomacy," the AP reported. U.S. authorities had accused Saab, who landed in Venezuela Wednesday afternoon, of stealing money intended to feed Venezuela's poor. U.S. officials said the decision to release Saab was difficult but necessary in order to win the freedom of the 10 Americans jailed in Venezuela, six of whom the U.S. government had designated as wrongly detained. "These individuals have lost far too much precious time with their loved ones, and their families have suffered every day in their absence," U.S. President Joe Biden said in a statement. "I am grateful that their ordeal is finally over, and that these families are being made whole once more," he added. Among the U.S. citizens that Venezuela released were Jerrel Kenemore and Eyvin Hernandez, whom Venezuelan authorities arrested in March 2022 on accusations of crossing illegally into Venezuela from Colombia, The New York Times reported. As part of the deal, Venezuela also returned Leonard Glenn Francis, a fugitive defense contractor, to the United States, Biden announced. Known as "Fat Leonard," Francis

escaped sentencing in the United States after admitting to involvement in a \$35 million bribery scheme, the largest graft scandal in U.S. military history, The Washington Post reported. Venezuelan authorities arrested Francis last year in Caracas. As part of the agreement, Venezuela also is releasing 20 Venezuelan political prisoners as well as Roberto Abdul, a Venezuelan opposition figure, U.S. officials said, The New York Times reported.

## Tens of Thousands Protest Milei's Economic Plans

Tens of thousands of demonstrators gathered in the streets of Buenos Aires on Wednesday to protest newly inaugurated President Javier Milei's economic policies, El País reported. The protests, backed by over a hundred Argentine organizations, came only ten days after Milei took office; since then, the libertarian president has announced cuts to public spending, a devaluation of the Argentine peso, government deregulation and privatization of state-run industry. "The situation in public schools is desperate. There are children who go hungry, sometimes they come to the classroom without having eaten, and with Milei it will get worse because food prices soared after the devaluation," Catalina, a teacher from the capital's suburbs, told El País at the rally. A massive deployment of police on the streets of the capital was meant to control crowds and prevent road blockages, but the city was inundated by a swell of demonstrators that surpassed expectations for the rally's turnout. Milei threatened to deny public benefits to demonstrators who blockaded roads, a move that some activist groups accused of criminalizing the right to protest. Crowds concentrated in the Plaza de Mayo, in front of the presidential palace, and spilled out into nearby avenues—but disruption to traffic was ultimately minimal. Police and demonstrators briefly clashed, and two men were arrested, the Associated Press reported. Organizers at the rally delivered speeches calling upon the nation's trade unions to declare a general strike, the wire service reported. In a

## NEWS BRIEFS

## Suriname Court Upholds Conviction Against Former President

Suriname's top court on Wednesday upheld a 20-year prison sentence for former President Desi Bouterse following his 2019 conviction in connection with the killings of 15 political opponents in 1982, the Associated Press reported. Bouterse was sentenced in the case both in 2019 and 2021 but had appealed the decisions. "We have received a gem of a verdict," Hugo Essed, an attorney for the victims' relatives, told the AP.

## Chilean Conglomerate Announces Plan To Sell Forestry

Empresa Copec, the Chilean industrial conglomerate, announced on Wednesday its decision to sell some of its forestry assets to Klabin, the Brazilian pulp and paper company, Reuters reported. The deal, which will be mediated through Copec's forestry subsidiary Arauco, is worth approximately \$1.16 billion. Approximately 56 percent of the deal includes productive land from Paraná state, in addition to 31.5 million metric tons of standing wood, equipment and machinery.

## Argentina Sells \$3.7 Billion Worth of Treasury Peso Debt

Argentina auctioned approximately \$3.7 billion worth of treasury debt denominated in its local currency on Wednesday, the Financial Times reported. The move, targeting Argentine banks, is part of the government's attempt to deal with debt accumulated by local creditors. The notes were first issued by the central bank to resolve Argentina's skyrocketing inflation, after the government printed too many pesos to solve its fiscal deficit. The bonds have yields of minus 15.95 per cent and minus 4.53 per cent.

televised address Wednesday night, Milei appeared undaunted by the day's demonstrations, promising to "return freedom and autonomy to individuals and start to transform the enormous amount of regulations that have blocked, stalled and stopped economic growth in our country," the AP reported.

## ECONOMIC NEWS

# Mexican Employers Estimate \$100 Million Daily Loss Due To Rail Border Closure

The Mexican Employer's Association said on Wednesday that the U.S. decision to close railway crossings at the Texas border is costing \$100 million in daily delayed shipments, the Associated Press reported. In a statement, the Association referred to U.S. Customs and Border Protection's (CBP) temporary decision to close the stations located in El Paso and Eagle Pass as a "failure of migration policy." The Mexican Employer's Association statement was echoed by dozens of other agriculture and rail companies that signed a letter urging U.S. Homeland Security Secretary Alejandro Mayorkas to reopen the border crossings, Reuters reported on Wednesday. Customs and Border Protection first closed one of two bridges available to vehicles in Eagle Pass on Dec. 18 in response to CBP's decision to redirect personnel as it struggles to respond to the surge in migrants arriving at the U.S. border, Reuters reported. "We energetically but respectfully call on the governments of Mexico and the United States to address the migration crisis which is affecting the flow of goods, given that this measure only damages the economies of both nations," the Mexican Employer's Association said. CBP apprehended over 10,000 migrants on Monday—a near record-high—the same day that Mexico's immigration authority said it would cease migrant removals to address budget shortages, Reuters reported.

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external front, as it devalued the currency to 800 pesos. It seems to be a clear overshooting, but the decision might imply more inflation but will also help to reduce the impact on interest rates. The policy package will lead to a big jump inflation in December and January, though if everything goes right it should recede in the second quarter to the pre-devaluation levels of around 10 percent per month. Milei has surprised most of us. He has been bold on fiscal and exchange rate policies and prudent on the monetary side, correcting some of the mistakes that Macri made in 2015. But there are big challenges as he needs Congress to pass the necessary laws, especially the structural reforms, and to maintain popular support during the initial difficult parts of the adjustment process."

**A** **Juan Cruz Díaz, managing director of Cefeidas Group in Buenos Aires:** "The government has emphasized that the most important part of its economic plan revolves around tackling the budget deficit, and the initiatives announced last week are the first steps in that direction. Milei hopes to achieve a balanced budget by 2024 to curb the country's inflationary trend in the long term. Nevertheless, many of these austerity policies will have a significant impact on the lower and middle classes, which will see a reduction in subsidies for transit and energy, along with a sharp rise in inflation due to the peso devaluation and the end of price control programs set by the previous administration. Milei is trying to implement the harshest economic measures at the beginning of his presidential term, when he enjoys greater legitimacy and support and is more likely to mitigate the negative impact of these unpopular initiatives on his approval ratings. So far, only left-wing parties and social movements have threatened to mobilize in the streets in protest. However, the window of opportunity is quite short. If the new president is unable to deliver quick results

or compensatory policies to those who bear the brunt of the burden, his popularity could be compromised, as could his prospects for getting his ambitious reform agenda through Congress, where his party is in the minority. It is important to note, however, that while last week's announcements focused on the macro level, the specifics of the micro-level measures may vary as they will be subject to political negotiation and therefore modification. As a result, it is difficult to assess the future impact of the measures based on the information available so far."

**A** **Claudio M. Loser, visiting senior fellow at the Inter-American Dialogue, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund:**

"President Milei found a macro situation in disarray, and his team has reacted promptly, but it has not yet announced a longer-term strategy. The new authorities have taken important measures, including the peso devaluation, but they have maintained the inherited multiple exchange rate system, although in a simplified manner. The focus has been on public finances, which in Argentina have been the true source of existing imbalances. The announced measures include cuts in expenses and subsidies and increases in taxes—which Milei had indicated he would avoid. In practice, the increase in taxation consists of taking some of the significant gains that exporters will get in the short term, charging importers as the effective prohibition that existed for most is lifted, and reintroducing the income tax coverage, which the previous administration irresponsibly had reduced, with Milei's support. The government did not have an operating team until just weeks before it took office, which may explain the missing details. The announcements are in the right direction but require a medium-term plan. The coming months will be difficult, and Argentines are not characterized by their patience. There

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will be fierce opposition from labor unions and social movements. Congress is not necessarily on the president's side, but it will likely support the required reforms, even with considerable noise against it. While the financial markets seem to like the current policies, the honeymoon is almost over. There will be no summer break for Milei."

**A** **Tobías Belgrano, international political consultant:** "During his recorded announcement, new Economy Minister Luis Caputo outlined a set of policies to curb public spending and tackle inflation. Three measures stood out: subsidy cuts in public transport, oil and electric bills; devaluation of the official currency to 800 pesos per dollar; and a reduction of resources for provincial governments. The impact of subsidy cuts and devaluation was evident in supermarket prices. While the libertarian government introduced income policies for the poor, the middle class was left out to dry. Production costs surged due to currency devaluation for importing machinery and supplies. Additionally, subsidy cuts for oil increased logistics costs. Analysts predict nearly 20 percent inflation during Milei's first month in office. At the political level, there was a significant cut in transfers to provincial governments and a halt to opening bids for new public works. This affects local governors' ability to sustain government structure, particularly in regions where the state is the predominant employer. Even developed provinces like Buenos Aires are considering issuing their own currency, a strategy used during the major economic crisis of 2001. In Argentina, governors exert substantial influence among legislators, suggesting that Milei could face potential conflicts with Congress. However, the core issues in the government's expenditures, namely the retirement system and the central bank liquidity notes, 'Leliqs' remain unaddressed. Leliqs are financial instruments used to decrease banks' demand for U.S. dollars and are linked to inflation.

Furthermore, the persistence of exchange restrictions has led to short-term stability and increased financialization of the economy. The libertarian revolution has shifted to conservatism, accompanied by Caputo's expanded influence."

**A** **Geoffrey Dennis, independent emerging markets commentator:** "The overarching economic challenges facing President Milei are very high inflation (therefore, a plunging peso) and a large budget deficit, with particular imbalances at the provincial level. Therefore, while Milei has backed away from his more radical pre-election proposals, recent announcements are constructive. The 50 percent+ devaluation of the 'official' peso/dollar rate and the institution of a crawling peg bring the currency much closer to its black-market rate. Spending cuts and tax increases will help to address Argentina's large budget deficit, and reduced transfers to the provinces are helpful. Will these remedies succeed? President Carlos Menem's program in 1991 is a useful model. Argentina does not have the resources to dollarize its economy today, but the eventual transition of the peso to a fixed-dollar peg (Menem's Convertibility Plan was yet more restrictive) would lead to sharply lower inflation. (I see fixed exchange rates as a 'shock' policy only, with floating rates being far better for emerging markets long-term.) This diet of sharp fiscal tightening, high real interest rates and a fixed currency peg will be unpopular in the short term, but it would reap enormous benefits in terms of financial stability and lower inflation in the long term. The central bank has the independence, in principle, to enact tough monetary policy. However, the whole program will hang on whether Congress approves significant fiscal tightening, especially the curbing of provincial deficits. Investors should be hopeful, but we have seen so many false dawns in Argentina that skepticism is thoroughly justified."

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