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FEATURED Q&A

Can Argentina's Macri Prevent an Economic Crisis?



Argentine President Mauricio Macri met with his cabinet this week at the Casa Rosada. // Photo: Argentine Government.

Q Argentine President Mauricio Macri announced on May 8 that his government was seeking assistance from the International Monetary Fund in an effort to avoid a currency and financial crisis like ones the country has suffered in the past. The request followed decisions by Argentina's central bank, which is grappling with an inflation rate of more than 25 percent, to sharply hike interest rates and spend billions of dollars in reserves to shore up the peso, whose value has plummeted against the U.S. dollar. What is behind the slide in the Argentine peso, and what more can the central bank do to address the problem? Is Macri making the right move by seeking help from the IMF, or will he pay a political price at home for embracing the Washington-based lender? Is Argentina at risk of falling into a full-blown financial and economic crisis this year?

A Thomas Morante, partner at Holland and Knight in Miami, and Barbara Efrain, associate at Holland & Knight in Los Angeles: "To stem the continuing depreciation of the peso and halt runaway inflation, Argentina's Central Bank raised interest rates, increasing borrowing costs while pesos are simultaneously being exchanged for dollars at an alarming rate. The interest rate increases are exacerbating fears among foreign investors that the government may delay much needed, though politically unpopular, fiscal reforms. Against this backdrop, President Macri began talks with the International Monetary Fund to borrow \$30 billion or more to hopefully prevent a financial crisis. If granted, the credit lines could help strengthen the peso and provide

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TODAY'S NEWS

POLITICAL

Colombia, ELN Resume Peace Talks in Havana

The original host for the talks, Ecuador, in April pulled its support for the negotiations as it faced headline-grabbing violence along its border with Colombia. Both sides will aim for a new ceasefire deal in the Havana talks.

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ECONOMIC

Peru Imposes New Taxes in Bid to Improve Health

Business groups warn the new taxes on sugary drinks, alcohol, cigarettes and cars that pollute will lead to more contraband and piracy.

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POLITICAL

López Obrador's Lead Narrows in Mexico Election

Ricardo Anaya, who heads a coalition of right- and left-leaning parties, is closing in on populist López Obrador, according to polls released this week. Jose Antonio Meade of the ruling PRI party remained in third place.

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Anaya // File Photo: Anaya Campaign.

POLITICAL NEWS

López Obrador's Lead Narrows in New Mexico Election Polls

The front-running candidate in Mexico's July 1 presidential election, Andrés Manuel López Obrador, known as AMLO, has seen his lead narrow in two new opinion polls, Bloomberg News reported Thursday. The latest survey from GE-ISA shows Ricardo Anaya, who heads a coalition of right- and left-leaning parties, trailing



López Obrador // File Photo: AMLO Campaign.

populist López Obrador by 6 percentage points, down from a 9-point gap in the previous poll. José Antonio Meade of the ruling PRI party remained in third place in the poll. Meanwhile, a different Reforma newspaper poll showed Anaya gaining 4 points on the front-runner, while a Bloomberg poll tracker shows López Obrador's lead over Anaya at 14 percentage points, as compared to 21 percentage points in

April. A strong performance last month in the first of three televised debates may have given Anaya a boost, according to the report. Despite the gains by Anaya, López Obrador's continued lead and national reputation still present a formidable challenge to candidates back in the pack, analysts say. "It would take a significant set of mistakes by AMLO to lose this election," blogger James Bosworth told the Advisor last month. [Editor's note: See related [Q&A](#) in the April 23 edition of the Advisor.]

Colombia, ELN Resume Peace Talks in Havana

Colombia's government and the National Liberation Army, or ELN, rebel group renewed peace talks Thursday in Havana, Reuters reported. Their original host, Ecuador, in April pulled its support for the negotiations as it faced headline-grabbing violence and kidnappings along its border and the guerrillas continued to wage attacks in Colombia. Both sides will aim for a new ceasefire deal in the Havana talks, according to the report. "We are conscious that we need to make decisive steps and the time has arrived to finalize a stable and more robust bilateral ceasefire," said the Colombian government's chief negotiator, Gustavo Bell. Colombia has been at war with the ELN since 1964, but it has been smaller than the Revolutionary Armed Forces of Colombia, or FARC,

NEWS BRIEFS

Copa Airlines Suspends Flights to Venezuela

Copa Airlines has suspended all flights to Venezuela through July 4 amid tensions between that nation and Panama, where Copa is based, Latin Business Traveler reported Thursday. The airline says Venezuela's government enforced the suspension, which could be extended, as part of the diplomatic and economic break between the two nations. Copa is offering refunds, and passengers can also change their destination to a different city served by Copa. The airline on Wednesday reported net income of \$136.5 million for the first quarter of 2018.

Peru Imposes New Taxes in Bid to Improve Health

In a bid to address health problems and boost state coffers, Peru's government on Thursday increased excise taxes on sugary drinks, alcohol, cigarettes and cars that pollute, Reuters reported. The finance ministry said the tax on each cigarette would rise 50 percent, to 8 cents, and high-sugar drinks would now be taxed at 25 percent instead of 17 percent. Beverages with more than 20 percent alcohol content and used cars powered by petroleum-derived gasoline will also face higher taxes. Business groups warn the tax hikes would lead to more contraband and pirated goods.

Brazilian Banks Allowed to Close for World Cup Games Next Month

Brazilian regulators this week declared that banks nationwide can change the opening hours of their branches on the days when the Brazilian soccer team plays matches at the World Cup in Russia, Agence France-Presse reported Thursday. The usual mandatory minimum of opening for five hours will be reduced to four, the central bank said. The World Cup, which Brazil has won five times, kicks off next month.

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additional reserves. But if the IMF demands that Argentina reduce its deficit in exchange, government spending would likely be reduced, and Argentines would be affected. IMF involvement is also reminiscent of the crises Argentina experienced in the early 2000s, when the peso lost 70 percent of its value, and the government imposed the corralito, forbidding withdrawals from U.S.-denominated bank accounts. The current situation, with soaring inflation, a weakening peso, and a request to the IMF, looks like the beginning of a crisis with political overtones.

While the pro-market reforms of the Macri Administration continue, the benefits have been slow to materialize. Meanwhile, the government's promises to cut inflation to 15 percent in 2018, from its current level of 25.4 percent, seem overly ambitious—and IMF demands will likely be unpopular. While foreign investors appear optimistic about the IMF involvement, memories of the past linger. There is growing fear that President Macri could be voted out in 2019, and his incremental pro-market reforms could then give way to economic policies of the past."

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rebel group which reached a peace accord in 2016. In related news, at least 21 former FARC members have been murdered in Colombia year-to-date, a state prosecutor in charge of a special unit investigating crimes during the peace transition said this week, Caracol radio reported. Of the total, at least nine cases have already been resolved with the culprits captured, while the other cases are still open. It remains unclear whether talks with the ELN will continue after presidential elections this year. Conservative candidate Iván Duque holds a relatively strong lead over rivals ahead of the first round of elections scheduled for May 27, with 34 percent of voters saying they planned to back him, a survey by Cifras y Conceptos showed on Thursday, Reuters reported.

BUSINESS NEWS

Scotiabank Spends \$130 Million for Peru Credit Card Stake

Bank of Nova Scotia has struck a deal to buy a majority stake in a Peru-based lender associated with retailer Cencosud, the Financial Post reported. Scotiabank, as the Canadian financial services company is known, said in a release that its Peruvian subsidiary had agreed to pay around \$130 million for a 51 percent interest in Banco Cencosud, which offers credit cards and consumer loans in Peru. The company has more than 315,000 active clients and around \$240 million in outstanding loans in the country, the release added. The deal would make Scotiabank the second-largest issuer of credit cards in Peru when the transaction closes, if regulators approve it. The deal also includes a 15-year partnership between the two companies to manage the credit card business and provide other products and services, similar to arrangements that Scotiabank and Cencosud already have in Chile and Colombia. In the first quarter of 2018, Scotiabank's Peru unit posted a 4 percent increase in profits over the same period last year, El Comercio reported.



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To learn more about the conference and to register, click [here](#)

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A **Horacio Verbitsky, president of the Center for Legal and Social Studies in Buenos Aires:** “This crisis was generated by the incompetence of the government, which boasted at the beginning of its term that controlling inflation would be very simple. In a complicated international situation (with falling exports and a rising prime rate), Macri renounced legitimate inflows through the suppression and elimination of retentions on primary export taxes, from which the presidential family benefited. To compensate, he scrapped subsidies and implemented enormous increases in energy tariffs. The central bank dismantled monetary regulations, making the inflow and outflow of currencies unrestricted and leaving exporters with no obligation to pay taxes on the dollars that they receive for their sales, as well as relieving them of obligations to bring dollars to Argentina, with which they then speculate on prices and spread uncertainty. The financing of operating costs in pesos with dollars created unmanageable debt in dollars and treasury bills, which were emitted to rid the market of the pesos that were released in the Treasury’s purchase of those dollars. No country in the world has indebted itself as much as Macri’s Argentina. The stock of treasury bills is already greater than reserves, an important portion of which are the deposits of personal accounts in the banking system. In theory, this would be compensated for with what Macri called a ‘flood of investment.’ But that never materialized, which seems understandable in a country whose cabinet members have their assets abroad due to a lack of confidence, as the energy minister proclaimed. The financing of an unsustainable proportion of the dollars that enter the country leaves immediately through tourism, forming of foreign assets, imports, and transfer of profits abroad. The IMF will impose more severe austerity measures, with zero net effect on the balance, since any deficit reduction achieved by adjusting spending and public investment will

be offset by new interest payments. Growth this year will be nonexistent and inflation will be between 25 and 30 percent. Resistance against Macri’s unsustainable politics, both socially and financially, will increase.”

A **Marcelo O. de Jesús, independent consultant from Argentina:** “Last Friday, Argentina raised the interest rate to 40 percent, and this Tuesday the government announced it is turning to the IMF to get a loan of around \$30 billion. Is Argentina facing a new crisis? The answer is ‘No, but...’ Investors in Latin America recently shifted from local currencies back to the U.S. dollar (once the Federal Reserve Bank raised U.S. Treasury bond rates), increasing the value of the dollar. Yet Argentines see the dollar as the ‘cure’ for inflation—it is a fixation. The government knows this, and, after failing to control the rate by selling \$5 billion in reserves in one week, it increased rates to 40 percent. Macri’s government says that they are caught between two contradictory goals: controlling public expenditure while keeping subsidies to the poor, and reducing subsidies to public services, thereby making them more expensive and increasing inflation. As Carlos Pagni wrote, Argentines have the right to feel confused, since just a few days ago the government announced good economic news (more jobs, economic growth) and now it is resorting to the IMF. At this time, Macri’s administration continues to enjoy good political capital: it won parliamentary elections against former President Kirchner and is politically welcomed around the world. But if inflation remains high (approximately 9 percent for the first quarter), it will have a negative impact and Argentines, not just big investors, will begin thinking of buying dollars.”

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2018

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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

ISSN 2163-7962

Subscription inquiries are welcomed at fretrial@thedialogue.org

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