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## FEATURED Q&A

# Will the Largest IMF Loan Ever Rescue Argentina?



The International Monetary Fund last month agreed to provide Argentina a \$57.1 billion loan package, the largest in the lender's history. The deal was announced just days after Guido Sandleris was tapped as the country's central bank chief. // File Photo: @gsandleris via Twitter.

**Q** Argentina's central bank chief, Luis Caputo, on Sept. 25 resigned after just three months on the job citing personal reasons amid reports of differences with the International Monetary Fund. Caputo's exit came a day before the IMF agreed to increase the size of the bailout package signed with Argentina earlier this year to \$57.1 billion. The lender also agreed to speed up loan disbursements to Argentina. What precipitated Caputo's departure, and what can be expected of his successor, Guido Sandleris? To what extent will the new agreement with the IMF strengthen Argentina's finances? Over the coming year, what are the biggest risks that Argentina's economy faces, and how will President Mauricio Macri fare politically ahead of the country's presidential election a year from now?

**A** Horacio Verbitsky, president of the Center for Legal and Social Studies in Buenos Aires: "Argentina has broken a record, with three central bank presidents in 90 days, as a consequence of Macri's mistaken policies. The main problem in 2015 was a lack of dollars, given the trade deficit. But Macri was obsessed with the fiscal deficit. To bolster it, he began an insane policy of external debt, which grew by \$200 billion in less than three years. This was possible due to the very low level of debt that Cristina Kirchner left. To avoid the pesos acquired by these dollars causing inflation, he created financial tools with more attractive interest rates, which killed credit and productive investment and from which the new central bank chief, Guido Sandleris, also doesn't know how to escape. For two years, there

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## TODAY'S NEWS

### ECONOMIC

## Guatemala's Morales Seeking \$15 Bn in Loans

Guatemalan President Jimmy Morales requested the development loans during a trip to Washington, where he participated in the Alliance for Prosperity conference.

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### POLITICAL

## Venezuelan Gov't Releases, Expels Student Activist

Lorent Saleh, a student leader and political activist who has been held without trial since 2014, was unexpectedly released due to concerns over his "mental state," authorities claimed. He arrived in Madrid on Saturday.

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### ECONOMIC

## Panama Canal Sees Record Level of Shipments

A record 442 million tons of cargo were shipped last fiscal year through the waterway. However, Jorge Quijano, the canal's administrator, expects a drop in revenue amid trade tensions between the United States and China.

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Quijano // File Photo: Panama Canal Authority.

## POLITICAL NEWS

## Venezuela Releases Student Activist

Venezuela's government on Friday released Lorent Saleh, a student leader and political activist who has been held without trial since 2014, Agence France-Presse reported. Saleh, now 30, was escorted to the airport and put on a flight to Madrid with Spanish government officials. Accused of planning terrorist acts and having links to Colombian paramilitaries, Saleh had been held in the country's intelligence agency building in Caracas. Officials said he was being released due to concerns about his mental state. Last week, authorities say jailed opposition lawmaker Fernando Albán threw himself from the 10th floor of the intelligence agency building, an incident international human rights advocates called suspicious and condemned. According to Albán's friends and family, he never would have contemplated suicide, The Wall Street Journal reported. Upon arriving in Madrid on Saturday, a defiant Saleh told reporters and supporters that "the fight goes on." "What I ask is that we all think about the fact that in Venezuela there are innocent people behind bars, people that have been kidnapped and who deserve to cross the same bridge that I have," Saleh said. Spain has taken a softer stance on

Venezuela in recent weeks, reportedly pushing a plan for the European Union to halt sanctions on the socialist country amid shortages of food and medicine, El Mundo reported Sunday. Spanish Foreign Minister Josep Borrell plans to bring up changes in E.U. policy at a Council of Foreign Ministers meeting today in Luxembourg, according to the report.

## ECONOMIC NEWS

## Guatemala's Morales Seeking \$15 Billion in Loans

Guatemalan President Jimmy Morales last week requested billions of dollars in development loans during the Alliance for Prosperity conference in Washington, Prensa Libre reported. In an effort to increase public spending and boost Central America's largest economy, Morales on Thursday asked U.S. officials including Vice President Mike Pence and State Secretary Mike Pompeo for help in securing \$15 billion in loans over the next decade, adding the aid could come in the form of "payable credits" through the World Bank or the Inter-American Development Bank. Morales said the loans could be used for building one million homes,

## NEWS BRIEFS

## Panama Sees Record Shipments Through Canal Despite Global Trade War

A record high of 442 million tons of cargo was shipped through the Panama Canal in the past fiscal year, a 9.5 percent increase compared to the previous year, Agence France-Presse reported Friday. The increase was largely driven by the transit of liquefied gas carriers. However, canal administrator Jorge Quijano recently said he was expecting a \$50 million drop in revenue next year as trade tensions between the United States and China hit shipments through the waterway.

## Mexican President-Elect Promises Major Health Sector Reforms

Mexican president-elect Andrés Manuel López Obrador promised supporters at a rally in Mérida Friday that, at the end of his six-year term in office, Mexico will have a free public health system based on models similar to Europe and Canada, Milenio reported. He also promised to end corruption in the health sector. López Obrador, who takes office Dec. 1, said Mexico's government currently spends 100 billion pesos, or \$5.3 billion, on medications, yet hospitals face shortages due to corruption and graft, according to the report.

## Banco Nacional de Panamá Sees 15 Percent Growth in Loan Portfolio

Government-owned Banco Nacional de Panamá's total loan portfolio reached \$4.4 billion in September, a 15 percent increase from a year ago, Panamá América reported last week. The bank's private portfolio also expanded, from \$3.4 billion last September to \$3.7 billion this year, a 10 percent increase. Rolando de León de Alba, an executive with the bank, said the figures were "worthy of celebration," the newspaper reported.

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was a lack of investment. But, this year, institutional investors in Argentine stocks and bonds have left, one after another. If Sandleris maintains the central bank bills (Lebac), treasury bills (Letes and Lecaps) and liquidity bills (Leliqs), interest payments will devour any savings for public works, salaries and social benefits. If Sandleris rescinds them, the money will be directed toward buying dollars. Since April, the peso has lost half of its value against the dollar. And in Argentina, the transfer of devaluation to prices is nearing 40 percent, fanning inflation. Salaries' loss in value is generating social unrest. With only the IMF backing,

Macri's failed government is paying the consequences of his botched policies. Even Christine Lagarde forecasts he'll conclude his term in full stagflation."



**Bruno Binetti, non-resident fellow at the Inter-American Dialogue:**

"Through the new agreement with the IMF, which guarantees its financing needs until 2020, Argentina wants to reassure investors that it can service its debt, contain inflation through a very strict monetary policy and achieve fiscal consolidation in 2019. Caputo resigned because he favored a more activist

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developing ports and building new highways in Guatemala. Over the past year, some 80 infrastructure projects were canceled amid graft allegations in connection to construction companies. "We can't break an economy in the name of the fight against corruption," Morales said in an interview during his trip, Bloomberg



Morales // File Photo: Guatemalan Government.

News reported. "We need to create jobs." Guatemala's economy contracted to 2.8 percent last year. Morales said the country's GDP could grow to 3 percent this year, adding that his government will increase budget expenditures this year to its highest amount in 25 years. During his trip, Morales also said Guatemala had not received "a penny" of the \$2.6 billion the United States had pledged under the Alliance for Prosperity program, which aims to boost development in the Northern Triangle countries of Central America to curb migration north. Morales criticized the U.S. government's requirements in exchange for releasing the funds, saying in an interview on Friday that "not even Switzerland could comply with conditions they have given us," Bloomberg News reported.

## BUSINESS NEWS

# Banco do Brasil Allows Transactions Through WhatsApp

Customers of state-run lender Banco do Brasil can now carry out financial transactions through instant messaging application WhatsApp, Brazilian government-run news agency Agência Brasil reported last week. Latin America's largest bank has been gradually rolling out up to 11 types of financial services

through WhatsApp to 500,000 customers every week, and it expects all account holders will be able to make transactions through the messaging app in the coming weeks. Since June, Banco do Brasil has offered banking consultations via WhatsApp and Twitter, but customers are now also able to make money transfers, track their cards, access the balances of their current and savings accounts and issue card invoices, among other uses. All operations are handled by an artificial intelligence system. According to the bank, customer transactions

are secured with end-to-end encryption, The Rio Times reported. Financial technology in Brazil has expanded in recent years, with more than 200 fintech companies offering services in the South American country, the Financial Times reported recently. Last year, Goldman Sachs estimated the potential revenue pool for Brazilian fintech was 70 billion reais, or roughly \$18 million, over the next 10 years, the newspaper reported. [Editor's Note: See related [Q&A](#) in the June 14-27 issue of the Financial Services Advisor.]

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## Nicaragua Crisis: New Paths Forward?

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Director, Frente Amplio para la Democracia

and

#### **JOSÉ PALLAIS**

Former Deputy Minister of Foreign Relations of Nicaragua

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## FEATURED Q&amp;A / Continued from page 2

stance of the central bank to defend the peso. In contrast, Sandleris negotiated the agreement with the IMF and will bring more coherence to the economic team. The extent of the crisis took the government by surprise, and its initial reaction showed worrying signs of improvisation and lack of coordination. President Macri is now forced to end his gradualist strategy: he must reduce public spending, raise taxes and accept sky-high interest rates amid a sharp recession. The economy will contract by 2.6 percent this year and 1.6 percent in 2019, according to the IMF. Meanwhile, the sharp devaluation of the peso has fueled inflation, which will top 40 percent in 2018. Not surprisingly, social tension and political polarization are on the rise. Austerity and public utility bill increases have further eroded support for the government. All this takes place only a year before the next presidential election. With his approval rating standing between 30 and 40 percent, Macri could win another term as long as the economy shows signs of recovery by mid-2019 and the Peronist opposition remains divided in kirchnerist and non-kirchnerist factions. That's a big if. It will be a long and bumpy road until October 2019."

**A** **Todd Martinez, director in the sovereign ratings group at Fitch Ratings:** "Despite the fact that the original IMF program quickly went off track, the IMF's continued support for Argentina and the revamp of the stand-by arrangement is an important support for the sovereign's 'B'/Stable rating at this juncture. First, it helps dispel doubts about the government's ability to meet its financing needs, given that the recovery of market access hasn't panned out as previously expected. Second, it provides very strong incentives to

keep fiscal consolidation on track, and the 2019 budget negotiations have shown positive signs in this respect. The key risk we are assessing is how deep and severe the economic recession will be, chiefly because this could affect tax collections and make the ambitious fiscal consolidation targets even harder to achieve. So far, the consolidation

“**The key risk we are assessing is how deep and severe the economic recession will be...**”

— **Todd Martinez**

strategy the government has chosen appears to be one that minimizes negative growth effects. For example, raising export taxes was certainly a microeconomic setback for this market-oriented government, but could be the best option in macro terms by putting the burden of fiscal consolidation on sectors that benefit from peso depreciation. The major monetary tightening under the revamped stand-by arrangement could also weigh on growth, but it may also be good news if it succeeds in stabilizing expectations, given uncertainty has been a key driver of the fall-off in economic activity. Nevertheless, the outlook is very difficult and uncertain and could have implications for Macri's re-election chances, so we'll be closely monitoring this and if it poses risks to the continuity of the current policy course."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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