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THEDIALOGUE

FEATURED Q&A

What Challenges Face Argentina's New President?

Mauricio Macri is only the third non-Peronist candidate to have won Argentina's presidency since military rule ended in 1983. // File Photo: Facebook page of Mauricio Macri.

Q Mauricio Macri, who takes office today as Argentina's president, has signaled big policy shifts away from those of his predecessor, Cristina Fernández de Kirchner. They include optimism about reaching a debt settlement next year with U.S. "holdout" creditors, and lifting capital controls, a move that could devalue the peso. How difficult will it be for Macri to make sweeping changes in policy? What do these early moves say about his focus for the early stages of his presidency? What do Macri's cabinet picks foretell about his priorities for his first months in office?

A Juan E. Santarcángelo, senior researcher at the Consejo Nacional de Investigaciones Económicas y Técnicas (CONICET) and the Universidad Nacional de Quilmes in Buenos Aires: "The negotiation policy with the vulture funds is one of the most important economic policies that Kirchnerism has left Argentina. The refusal to pay the holdouts at any cost, going against Judge Thomas P. Griesa's ruling, as well as the highly successful rally for support put on by the Argentine government at the United Nations, have both been very important in terms of strengthening Argentina's national sovereignty against speculative interests. President-elect Macri's plan to pay vulture funds on their terms, especially at a time when the U.S. court is beginning to rule in favor of Argentina, is a true defeat to the Argentine people and a victory for the capitalist speculators. It is an error for which generations of Argentines will pay. Macri also seems to indicate that he will be eliminating the fixed exchange rate, which will severely decrease the value of the peso and will lead to high inflation and a sharp decline

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TODAY'S NEWS

ECONOMIC

Moody's Puts Brazil on Review for Possible Junk Status

If Moody's strips Brazil of its investment-grade credit rating, it would be the second of the three major ratings agencies to do so. Such a move would likely cause investors to drain money from the country.

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BUSINESS

Mexico Approves Sanofi's Dengue Vaccine

Mexico became the first country to approve a dengue vaccine for sale, however the approval does not allow for the vaccine to be given to children under nine or tourists.

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POLITICAL

Guatemala's Pérez Molina Formally Accused of Graft

Prosecutors formally accused former Guatemalan President Otto Pérez Molina, who stepped down in September, of corruption.

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Pérez Molina // File Photo: Guatemalan Government.

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ECONOMIC NEWS

Moody's Warns of Possible Brazil Downgrade to Junk

Moody's Investors Service on Wednesday put its credit rating for Brazil on review for a possible downgrade to junk status, Reuters reported. If Moody's downgrades Brazil to junk status after its typical three-month review period, it would become the second of the three major ratings agencies to do so. Standard & Poor's

Rousseff // File Photo: Brazilian Government.

took that action in September. A second downgrade to junk would likely trigger large capital outflows as large foreign investors such as pension funds are required to keep their assets in countries rated investment grade by two of the three agencies. In October, Fitch Ratings downgraded its sovereign credit rating for Brazil, but left it one notch above junk status. In its move Wednesday to put its rating for Brazil on watch, Moody's said it made the decision due to the country's deep severe recession, failed efforts at austerity measures and a growing risk of political paralysis, Reuters reported. The ratings agency added that Brazil is facing "worsening governability conditions" after lawmakers last week moved ahead with impeachment proceedings against President Dilma Rousseff. Also, Brazil's economic and fiscal situation is unlikely to improve beginning in 2017, as analysts had expected, because the effort to unseat Rousseff has diverted attention away from debate on needed economic measures, said Samar Maziad, a senior analyst at Moody's. "It makes a complicated political dynamic even more complicated," he said. Last week, Brazil's government statistics agency announced that Latin America's largest economy had shrunk 4.5 percent in the third quarter as compared to the same quarter last year. The announcement marked the third consecutive quarter of contraction and confirmed that Brazil is in its worst recession in 25 years. The country's rate of inflation has also risen above 10 percent. Also on Wednesday, Moody's downgraded its ratings for Brazil's embattled state oil company Petrobras, the Financial Times reported. In the move, Moody's lowered its ratings for the company to Ba3 from Ba2 and placed them on review for another possible downgrade. "These rating actions reflect Petrobras' elevated refinancing risks in the face of deteriorating industry conditions that make it more difficult to raise cash through asset sales," Moody's said. [Editor's note: See related **Q&A** on the Nov. 2 issue of the Advisor.]

BUSINESS NEWS

Mexico Approves Sanofi's Dengue Fever Vaccine

Mexico on Wednesday became the first country to approve the sale of the world's first dengue fever vaccine, which is produced by French drugmaker Sanofi, Reuters reported. The vaccine, called Dengvaxia, has been approved

Dengvaxia has been approved only for patients between the ages of nine and 45 who live in areas where Dengue fever is endemic.

only for patients between the ages of nine and 45, who live in areas where Dengue fever is endemic, Sanofi said. The vaccine does not yet have approval from Mexico for patients under

NEWS BRIEFS

Guatemalan Prosecutors Formally Accuse Pérez Molina of Corruption

Prosecutors in Guatemala on Wednesday formally accused former President Otto Pérez Molina of corruption and urged that he be put on trial in connection with a bribery scandal involving the country's customs agency, Agence France-Presse reported. Guatemala's public ministry presented a "conclusive declaration" against Pérez Molina, special prosecutor Juan Sandoval told reporters. Judge Miguel Angel Gálvez is expected to decide in January whether to put the former president on trial. Pérez Molina denies wrongdoing.

U.S. Warns it Won't Replace Venezuela's Petrocaribe Program

If Venezuela's newly-elected National Assembly votes to end Petrocaribe, its subsidized oil program for Caribbean and Central American nations, the United States will not be able to provide subsidized oil to the region in Venezuela's place, U.S. Deputy National Security Advisor Ben Rhodes said Wednesday, the Miami Herald reported.

Brazilian Court Orders Bank Secrecy Protection Lifted for Lula's Son

A Brazilian court ordered that bank-secrecy protection be lifted on a company controlled by former President Luiz Inácio Lula da Silva's son, as part of a larger investigation into whether companies bribed Brazilian tax officials, The Wall Street Journal reported today. The court's order is part of an investigation into whether sports marketing firm LFT Marketing Esportivo, controlled by Luis Claudio Lula da Silva, received bribes from a consulting firm that lobbied for tax benefits for car makers in Brazil. The younger Lula da Silva through his lawyer has denied wrongdoing.

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the age of nine or for tourists, which are two of the groups that are most vulnerable to the mosquito-spread disease, Reuters reported. The company will soon seek to roll out the vaccine in Brazil and Colombia, said Olivier Charmeil, head of Sanofi Pasteur, the group's vaccines division, the Financial Times reported. The decision to seek approval in Latin American and Asian countries first represents a departure from the norm of most pharmaceutical companies, which is to debut a product in the United States or Europe before approaching markets in other parts of the world. Mexico's federal medical safety agency said Dengvaxia had undergone testing on 40,000 patients worldwide, and that its manufacturer had proven its safety and effectiveness, the Associated Press reported. The vaccine is said to have a 60.8 percent success rate in preventing patients from contracting one of the four strains of dengue currently circulating, according to a report from the World Health Organization published last year.

Liberty Mutual Posts $427 Mn Loss for Q3

Boston-based property and casualty insurer Liberty Mutual on Wednesday posted a loss of $427 million for the third quarter, its largest quarterly loss in at least a decade, due to costs it incurred through scaling back its operations in Venezuela and also because of some investments in the energy sector, Bloomberg News reported. By comparison, the company posted a profit of $605 million for the same period last year. In this year's third quarter, Liberty Mutual had an impairment charge of $690 million related to its operations in Venezuela, which it plans to consider discontinued and held for sale. In a conference call with analysts in August, company executives said Venezuela's economic problems, such as a falling currency and skyrocketing inflation, took a toll on the company's earnings. Additionally, energy assets, including natural-resources partnerships and direct investments in oil and gas wells accounted for 4.1 percent of Liberty Mutual's portfolio, and the plunging price of oil deepened the insurer's losses in the third quarter. "Our continuing strong operating performance was masked in the third quarter by a nonrecurring loss of approximately $700 million from the deconsolidation of our Venezuelan subsidiary and energy investment-related losses, Liberty Mutual's chairman and chief executive officer, David H. Long, said Wednesday in a statement. The company's third-quarter loss was the largest since at least 2004. In the fourth quarter of 2012, it had a $234 million loss because of Hurricane Sandy.

Venezuela's economic problems, such as a falling currency and skyrocketing inflation, took a toll on the company's earnings.

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in real wages. What's more, redistributive policies will be abandoned, which will lead to acute economic recession and eventually inequality, poverty and low levels of production. The cabinet Macri has chosen is, as expected, comprised of individuals with extremely orthodox economic ideals and officials who have no previous history in the areas over which they are going to preside, as is the case with Rabbi Bergman on the environment, for instance. Macri's cabinet reflects an economic policy that will hold the market in the highest regard and will severely limit the role of the state by subordinating national interests to the decisions of the big powers and economic policy."

Claudio Loser, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund: "Argentina's incoming government will have to overcome strong headwinds. The new economic cabinet is eminently prepared for the task. The appointees are young-ish and experienced, although they have had only limited government tenure. Alfonso Prat-Gay as minister of the treasury and finance brings field knowledge, and he has gained political experience. Federico Sturzenegger, another partner of Macri, is a natural candidate to manage the central bank, while Rogelio Frigerio, the future minister of the interior, also has had practical training. With the help of others, they can do a good job. However, the task ahead is daunting. A large opposition in Congress will force them to move carefully. The central bank's cash position is critical, with very low liquid reserves and with future dollar contract obligations for yet-unknown amounts. The world environment is in a serious situation, while the self-generated conflict with the holdouts still stands and drowns out all kinds of sustained support. The internal work is the most difficult, since they must move quickly to exit the 'cepo' or clamp, move the exchange rate, modify the pace of fiscal spending, and seek to reduce inflation. The government may seek to be more gradualist than the country can afford, and not ask for help from the IMF. If that were to happen, the imbalances will remain, and the hopes for improvement can disappear quickly. Chances are good, however, that they move promptly as a team. If so, there is hope for Argentina to resurrect from its ruinous state."

"The government may seek to be more gradualist than the country can afford, and not ask for help from the IMF."

— Claudio Loser

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Estanisalo Malic, economist at the Centro de Estudios Económicos y Sociales (CESO) and professor of macroeconomics and the history of economic thought at the Universidad de Palermo in Buenos Aires: "The strong public figures in President-elect Mauricio Macri's cabinet are centered on the economic sector. From Alfonso Prat-Gay (economy) to Federico Sturzenegger (central bank), they are known for their work with transnational banking, which implies that the future government will give the economy and the 'holdout' lenders priority. Given Argentina's low level of liabilities in foreign currencies, the country has ample room to maneuver in the case of re-accessing financial markets. The full liberalization of the capital account seems to be the new economic team's priority, as the team gives the same dubious reasoning that it will have a positive effect on real economic indicators. Another challenge for the incoming government is how to reduce inflation. However, other early announcements with respect to the future policy surrounding exchange rates merely generated a sense of shock or uncertainty, sharply driving up prices. Given the explicit support that the agricultural exportation sector gave for the new policies, it would be difficult for the new economic team to resist the pressures of devaluing the peso. However, the search for a depreciated real exchange rate seems to be at odds with the high level of employment that is already a reality in Argentina. Depreciating the peso would likely lead to strong wage resistance and would accelerate inflation in the short term."

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>
> **— Estanisalo Malic**

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