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FEATURED Q&A

Are Social Protests Likely to Break Out Again in Nicaragua?



Street protests last year cost 300 lives and millions of dollars in damage to Nicaragua's economy. // File Photo: Voice of America.

Q Nicaragua's economy, following years of growth, has fallen into a recession after deadly street protests last year caused significant disruptions to numerous sectors. On Feb. 19, the Nicaraguan Congress accepted a \$100 million loan from Taiwan, providing a line of support for President Daniel Ortega's embattled government. Meanwhile, a tax reform plan approved Wednesday raises income taxes for large businesses, broadens the number of products subject to a value-added tax and imposes higher levies on goods such as cigarettes and alcoholic beverages. How much did last year's protests against Ortega hurt Nicaragua's economy, and to what extent will Taiwan's multi-million-dollar loan help revitalize it? What are the most important parts of the tax reform, and are they economically and politically sound? How likely is social unrest to break out again this year, and what is Nicaragua's economic outlook under Ortega's government?

A Mario Arana, director of the Nicaraguan Foundation for Social and Economic Development and former Nicaraguan minister of finance and central bank president: "Nicaragua is about to start a political negotiation process between Daniel Ortega's government and the Alliance for Justice and Democracy after months of stalemate, which for now looks promising. More than an economic solution, the country needs a political one. Taiwan's loan will help, and loans would help the economy much more than a tax reform. It's not wise to introduce a tax reform amid a deepening economic recession, particularly one that intends to collect \$300 million (2.1 percent of GDP), after economic growth was -4 percent in 2018 and projected estimates

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TODAY'S NEWS

POLITICAL

Venezuela Border Impasse Drags On

Venezuelan authorities have blockaded a second bridge to Colombia amid fresh skirmishes between opposition-led protesters and security forces loyal to President Nicolás Maduro.

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POLITICAL

Europe Pressures Jamaica Over Death Penalty

Jamaica has not executed a convict in more than 30 years, but it has kept the death penalty law on the books, as have some other Caribbean nations, bucking European pressure over the policy.

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ECONOMIC

Argentina to Loan \$2.6 Billion to Small Businesses

Argentine President Mauricio Macri announced that his government will provide loans totaling \$2.6 billion to the private sector, as small- and medium-sized enterprises have been particularly hard-hit amid the country's high inflation and currency volatility.

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Macri // Photo: @josecorral via Twitter.

POLITICAL NEWS

Venezuelan Border Restrictions Tighten as Both Sides Dig in

Venezuelan authorities on Wednesday blockaded a second bridge to Colombia amid fresh skirmishes between opposition-led protesters and security forces loyal to President Nicolás Maduro, The Guardian reported. Two shipping containers were positioned across the Simón Bolívar bridge, a major pedestrian crossing between the two countries, following sporadic violence. Despite the blockade, U.S. President Donald Trump said international humanitarian supplies are getting across the border, the Associated Press reported. "We're sending supplies, supplies are getting through a little bit more. It's not easy," Trump said during a press conference Wednesday. "We're getting them into some of the cities and some of the areas that need them the most. It's very difficult, not an easy job," Trump added. The move came as opposition leader Juan Guaidó, who has



Guaidó (L) and Duque // Photo: @jguaido via Twitter.

been recognized internationally as the interim constitutional president, announced plans to travel to Brazil to shore up international support for his cause. Guaidó was scheduled to arrive Wednesday night in Brasília for a two-day visit from Bogotá, where he attended a meeting with U.S. Vice President Mike Pence and the regional Lima Group this week to discuss how to resolve the political and economic crisis in Venezuela, Reuters reported. "The interim president of Venezuela will meet on Thursday afternoon with Brazilian President Jair Bolsonaro at the Planalto Palace," said María Teresa

Belandria, appointed by Guaidó as his ambassador to Brazil and recognized as such by the far-right Bolsonaro government. Meanwhile, Maduro's vice president, Delcy Rodríguez, will travel to Moscow for talks with Russian Foreign Minister Sergei Lavrov on Friday, according to the report. In related news, an opposition legislator and at least three government sources told Reuters Wednesday that at least 8 tons of gold were shipped out of the country last week ahead of anticipated violence on the border last Saturday. The gold was removed in government vehicles between Wednesday and Friday last week when there were no regular security guards present at the bank, legislator Angel Alvarado and three government sources said. "They plan to sell it abroad illegally," Alvarado said in an interview with the wire service.

Ortega Releases Prisoners Ahead of Opposition Talks

Nicaragua's government on Wednesday released dozens of people arrested during last year's anti-government protests, a move that came just hours before talks began between President Daniel Ortega's government and opposition members, El Nuevo Diario reported. The closed-door talks have restarted after being stalled for seven months. Human rights groups estimate that at least 770 people have been arrested in connection with the protests that erupted in the Central American country last April after Ortega's government tried to reform the pension system. The government backed off the pension overhaul, but the protests morphed into demands for the resignation of Ortega, who has been president since 2007. Multiple vans carrying the released inmates left Managua's Modelo prison on Wednesday, though it was not clear how many were freed, the Associated Press reported. Some of the people released waved small Nicaraguan flags as they returned to their homes. In the wake of the protests that began last year, Ortega's government has virtually banned demonstrations and also cracked down on media outlets, the AP reported. At least 325

NEWS BRIEFS

Argentina to Provide \$2.6 Billion in Loans to Small Businesses

Argentine President Mauricio Macri announced Wednesday that his government will provide loans totaling \$2.6 billion to the private sector, Reuters reported. The country's small- and medium-sized enterprises have been particularly hard-hit amid the country's high rate of inflation and currency crisis. Argentina's benchmark interest rates, which are currently hovering around 50 percent, have also kept many small businesses from seeking loans. The country's economic activity declined 7 percent in December, according to official data that was released on Wednesday.

Europe Pressures Jamaica Over Death Penalty Policy

Europe has threatened to step up pressure on Jamaica for its retention of the death penalty, The Jamaica Gleaner reported Wednesday. The topic remains high on bilateral and multilateral agendas, Pavel Telička, the vice president of the European Parliament said. Jamaica has not executed a convict in more than 30 years, but it has kept the death penalty law on the books, as have some other Caribbean nations. Jamaica also voted against the last United Nations General Assembly resolution calling for the universal suspension of the death penalty.

Peru Expects Big Benefits From India Trade Deal

Peruvian Foreign Trade and Tourism Minister Edgar Vásquez said on Wednesday that his country's agro-business sector will be the first to benefit from a Peru-India Free Trade Agreement (FTA) currently being negotiated. India is one of the largest consumers of legumes in the world, he noted, positioning Peruvian beans and chickpeas well. "India is the only big and dynamic market with which we do not have a trade accord," Vásquez said.

people were killed during the demonstrations, while some 2,000 were wounded and hundreds more imprisoned. The talks between government representatives and the opposition began at a business institute south of Managua. Journalists were not allowed access to the encounter, which did not include Ortega. The government's side was represented by the country's foreign minister, a student leader and several legislators. The opposition was represented by several business leaders, a politician, an academic and a university student. The Vatican ambassador to Nicaragua and Managua's Roman Catholic cardinal attended as observers. Among the main demands of the opposition is the release of all 770-plus people it considers to be political prisoners.

BUSINESS NEWS

Carrefour Sees Income Rise in Brazil, Argentina

France-based food retailer Carrefour said Wednesday that strong gains in its Latin America operations helped boost sales 1.4 percent worldwide last year. In an earnings release, the company said recurring operating income from its Latin America business last year rose to 767 million euros (\$873 million). In Argentina, the implementation of a commercial turnaround plan allowed recurring operating income "to reach break-even" amid the country's recession and currency turmoil for much of 2018. In Brazil, operating margin increased "strongly" over the year, the company said.

Germany's N26 Plans to Launch in Brazil

Germany-based digital baking startup N26 on Wednesday announced plans to launch its service in Brazil, naming Eduardo Prota as general manager for the unit, the company said in a statement. Prota previously worked for

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range from -7.3 percent to -11 percent for 2019 if U.S. sanctions are implemented. The reform's main elements include an income tax of 3 percent, which businesses are expected to pay monthly as an anticipation of the yearly income tax; a value-added tax of 15 percent for 70 percent of a basic basket of goods that were previously exempted; increased levies for goods such as cigarettes and liquor, an important source of tax col-

“ Social unrest could indeed return if a political solution is not found.”

— Mario Arana

lection revenues; higher taxes for casinos; and elimination of tax exemptions, including for the agricultural sector. This is a totally unrealistic package, politically motivated and probably oriented toward dividing the private sector in the context of the upcoming political negotiations. While not an easy negotiation, the country is at an impasse and undergoing a rapid deterioration of economic and social conditions. This time, negotiations need to be more fruitful. Additionally, U.S. sanctions are imminent and entering a stronger phase. Social unrest could indeed return if a political solution is not found.

Banco Santander, Cielo and several startups. "Millions of people in Brazil are suffering from bad banking experiences and high fees," said Prota. "We think that money management should not be a time consuming and frustrating experience." N26 says it can simplify banking and "empower people in Brazil to take control of their finances." In January, N26 raised \$300 million in a fundraising effort that values it at \$2.7 billion. Prota added that N26 wants to establish a partnership with a Brazilian bank in order to offer customers a range of mobile banking services, Reuters reported. Prota said

That's probably another reason why the government has been willing to engage in domestic negotiations once again. Taiwan's loan is totally insufficient, considering the very large fiscal gap. The 2018 budget was not financed completely, a larger gap is added in 2019, and assumptions about loans from foreign and domestic sources in the budget are also unrealistic. The fiscal deficit this year (officially \$700 million) is twice the size than the previous year, and it is underestimated. The fiscal and social security gaps are rapidly accumulating and leaving the government strapped for cash."

A Lucy Valenti, president of Nicaragua's National Tourism Chamber (CANATUR): "The political and social crises that Nicaragua has been experiencing since last April dealt a serious blow to the country's economy. Basically, all sectors in the economy have been affected, as has employment and the generation of foreign exchange. The uncertainty created by the crisis has strongly affected the financial system, which has been facing the exit of deposits from banks. This, in turn, has brought on suspension of loans, which directly affects productive activity and services. Uncertainty about the present and the future of the country given the absence of a political agreement, the lack of credit, the flight of capital, the freezing of foreign

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N26 has not yet decided whether it will operate as a bank in Brazil, and it has not applied for a banking license in the South American country. N26 currently has 2.5 million clients in 24 countries in Europe. In Brazil, it will be competing with digital banks including Nu Pagamentos, Banco Inter and C6Bank. Brazil has the most tech startups among Latin American countries, most of which are focused on financial services, according to a recent study by the Inter-American Development Bank. [Editor's note: See related Q&A in the Feb. 14-27 issue of the biweekly Financial Services Advisor.]

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direct investment, unemployment and the drastic reduction of domestic consumption are leading the country to collapse, with all of its consequences, including increasing poverty and the closure of many businesses. Adding the tax reform—plus the social security reform, which increases employer contribution, hikes of fuel prices and the raising of the minimum wage—would practically be the ‘coup de grace’ that kills already agonizing businesses. The analysis we have carried out jointly with fiscal experts leads us to conclude that such reforms make absolutely no technical or logical sense, given that they wouldn’t lead to the government’s objective of collecting revenue to fill the hole in the budget. It would actually lead to the opposite. The country’s economic outlook is dark in 2019 if a political consensus that guarantees long-term stability by ensuring democratic institutionalism, the rule of law and the respect of the freedom and human rights of citizens outlined in the Constitution, is not achieved. If this is not guaranteed, a new surge of violence could occur again.”

A **Adolfo Pastrán, director of digital news media Informe Pastrán:** “It’s evident that violence, instability, human loss, private and public property destruction and road-blocks in 2018 would have consequences. The government warned it repeatedly during the previous, failed dialogue. It brought economic losses of \$1.3 billion. Taiwan’s loan will go into this year’s approved budget plan. The loan was contracted under a 20-year term, including a five-year grace period, at a six-month LIBOR interest rate plus 1 percent. It will be amortized through consecutive semi-annual installments. The government has proposed maintaining free education and health care, transport subsidies, electricity subsidies for consumers of less than 300 monthly kilowatts, and social programs. The

money will help these, for the benefit of the poor. The tax reform had been pending since last year—the business sectors and the IMF knew this. Its objective is guaranteeing economic growth, employment, and the well-being and social security of Nicaraguans. It aims to restart the last five years’ average of 5.2 GDP growth; continue reducing poverty; maintain free health care and education; broaden electricity coverage; and support infrastructure projects. The reform doesn’t create new taxes; it increases large businesses’ income tax from 1 percent to 2-3 percent. The increase of levies on selective products such as cigarettes and alcoholic beverages doesn’t include popular products. A tax compensation for large companies was also established. Many large enterprises participated in the reform’s consultation, giving it absolute legitimacy. Nicaragua’s government days ago met with the OAS to discuss the country’s situation, emphasizing the importance of continuing such dialogue with the end of advancing electoral reforms toward the 2021 elections. The government also met with business groups representing the private sector. Several members of the church were also invited. The meeting confirmed the need for inclusive, serious and frank negotiations. The most high-level Nicaraguan authorities have said they are open to dialogue to seek creative and realistic solutions. They have stated their commitment to permanent agreements that benefit all Nicaraguans, particularly those who fight poverty on the daily. Let’s hope for a new dialogue, one that is constructive, and which has valid mediators, and agreements for the good of Nicaragua.”

Editor’s note: The Advisor received the comments above before Wednesday’s talks between the government and opposition began and Congress passed the tax reform (see related story on page 2).

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter
achacon@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

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