LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Thursday, March 7, 2019

FEATURED Q&A

Did Ecuador Do the Right Thing in Embracing the IMF?

President Lenín Moreno (R) met Wednesday with the World Bank's new vice president for Latin America, Axel van Trotsenburg. // Photo: Ecuadorean Government.

Q **Ecuador last month reached a $4.2 billion staff-level financing agreement with the Washington-based International Monetary Fund, in addition to announcing $6 billion in loans from several other multilateral lenders. Did President Lenín Moreno do the right thing in embracing the IMF, an institution his predecessor, former President Rafael Correa, once declared he did "not want to have anything to do with?" Are the terms of the loans favorable to Ecuador, and will there be a political cost to Moreno for making the deal? How important are the loans to Ecuador's economic stability, and to what extent will the funds enable Moreno's government to start making good on its debt payments to China in the near future?**

A **Nathalie Cely, president of the Centro de Competitividad in Quito and Ecuador's former ambassador to the United States:** "Even though the move toward sustainable public finances has come late, it is a necessary step that had to be taken with or without the IMF. Most attention has been placed in reducing the fiscal deficit through public investment cuts. However, the most salient problem is Ecuador's unfavorable debt profile. Currently, the government is pressured by interest and capital payments on foreign debt with high interests and short maturities. Some debt has even included payment through future oil shipments, which affects future income. The government will most likely concentrate its efforts on reducing the fiscal deficit. The size of the financing package and the current needs for liquidity will probably mean that the debt profile is not adjusted significantly. The way in which the deficit is reduced will determine how recessive and politically

Continued on page 2

TODAY'S NEWS

POLITICAL

U.S. Warns Banks Against Commerce With Venezuela

U.S. National Security Advisor John Bolton issued a statement warning banks and financial services companies against conducting transactions with Venezuela under embattled President Nicolás Maduro.

Page 2

POLITICAL

Trump Pressures GOP Over Border Emergency Vote

U.S. President Donald Trump tweeted "stay united" ahead of a Senate vote in which four Republicans are expected to break ranks and join Democrats in blocking his bid to build new wall-like structures on the Mexico border.

Page 2

ECONOMIC

Argentine Teachers Stage 72-Hour National Strike

Buenos Aires Province Governor María Eugenia Vidal said 38 percent of teachers joined the strike, while union leaders said the figure was closer to 90 percent.

Page 3

Vidal // File Photo: Argentine Government.

POLITICAL NEWS

U.S. Warns Banks Against Commerce With Venezuela

U.S. National Security Advisor John Bolton on Wednesday issued a statement warning banks and financial services companies against conducting transactions with Venezuela under embattled President Nicolás Maduro. "The United States is putting foreign financial institutions on notice that they will face sanctions for being involved in facilitating illegitimate transactions that benefit Nicolas Maduro and his corrupt network," the statement read. "We will not allow Maduro to steal the wealth of the Venezuelan people." Sanctions levied by the United States in recent weeks have been increasingly constricting Venezuela's already struggling oil and gas sector. Plans by the German operator of a portion of the Venezuelan state oil company's tanker fleet to return 10 vessels because of unpaid fees prompted a unit of state-run PDVSA on Tuesday to declare a maritime emergency, Reuters reported. Dozens of suppliers and partners have stopped working for the company, according to the report. Meanwhile, Maduro on Wednesday declared Germany's envoy to Caracas persona non grata and gave Amb. Daniel Kriener 48 hours to leave, accusing him of meddling, BBC News reported. Kriener was among a group of foreign diplomats who greeted opposition leader Juan Guaidó upon his return to Venezuela on Monday. Germany, which recognizes Guaidó as interim president, says the decision will only escalate tensions. Guaidó countered the expulsion by saying his government supports Kriener. "The Ambassador of the Republic of Germany in Venezuela, Daniel Kriener, has our total support and recognition," Guaidó tweeted on Wednesday. In a separate development, Maduro's government arrested U.S. journalist Cody Weddle and his Venezuelan colleague on Wednesday morning, later releasing them. Both Maduro and Guaidó have called on their supporters to march in the streets on Saturday.

Trump Pressures GOP Over Border Emergency Vote

U.S. President Donald Trump on Wednesday urged Republican Party rebels not to support legislation rejecting his invocation of emergency powers for funding more wall construction on the U.S. border with Mexico, Agence

FEATURED Q&A / Continued from page 1

costly the adjustment will be. With local elections coming up this month, and Moreno facing decreasing approval ratings, political uncertainty will increase in the short term. Hopefully, President Moreno and his team will be able to convey the importance of moving toward financial sustainability to muster support in the National Assembly. If completed, the program with the IMF and multilateral lenders will improve economic stability and long-term growth potential. However, deeper structural problems that hinder competitiveness and productivity will remain even when the fiscal problems are solved. Ecuador is not competitive vis-à-vis its neighbors. Because of dollarization, Ecuador cannot devalue to increase competitiveness. Other policy mechanisms will need to be identified, such as human capital improvement and exponential technologies adoption programs, to increase Ecuador's competitiveness in sectors where there is already a comparative advantage. Before the Correa administration, there was very little protection for workers. Now the country has moved to the other extreme, where stringent labor laws weigh on productivity and competitiveness. It's important that the government proposes a labor reform that considers new technologies and work trends while boosting private sector competitiveness. To safeguard any social unrest stemming

Continued on page 4

NEWS BRIEFS

Mexican Central Bank in Talks with Retailers Over Mobile Payment System

Mexico's central bank is in talks with retailer Amazon.com to launch a new government-backed mobile payment system that would allow consumers to pay for online purchases using QR codes, Reuters reported Wednesday. The bank's head of payments, Jaime Cortina, told the news service that Argentina-based rival MercadoLibre had also approached the bank about adopting the system. Mexico hopes the payment system, known as CoDi, will bring more people into the formal financial sector.

Bolsonaro Unleashes Wave of Criticism Over Tweet

Foes and allies alike condemned Brazilian President Jair Bolsonaro on Wednesday for tweeting an obscene video of carnival revelers that he apparently intended as a sort of culture war shaming tactic, Folha de S.Paulo reported. Congressional allies fear the tweet, which prompted some opponents to call for his resignation, could diminish the newly elected leader's clout amid contentious negotiations over pension reform. With fewer than 100 days in office, Bolsonaro has only a 39 percent approval rating, according to a recent CNT poll.

SoftBank Launches New $5 Bn Latin America Fund

Tokyo-based SoftBank Group today launched a new $5 billion growth fund for Latin America. The SoftBank Innovation Fund is "the largest-ever technology fund" focused exclusively on Latin America, the company said. Plans include a new hub that will help SoftBank portfolio companies enter Latin America, navigate the local markets and broaden their geographic reach in the region. Marcelo Claure, the Bolivian-American who last year stepped down as the CEO of Sprint, will serve as chief executive.

France-Presse reported. "Stay United!" Trump tweeted ahead of a Senate vote in which four Republicans are expected to break ranks and join Democrats in blocking Trump's controversial measure. According to some lawmakers, Trump exceeded his authority when he invoked special powers to override congressional opposition to funding for extra border wall construction. However, Trump has said he will respond with a veto, which Democrats likely will not garner enough votes to override. Meanwhile, lawmakers dissected Trump's immigration policies on Wednesday during a contentious hearing, The Hill reported. Republicans saw the venue as an opening to back the president's belief that conditions at the southern border are an emergency, while Democrats asserted that Trump's policies have made border conditions worse. A series of government reports have revealed the chaos and confusion that ensued when the Trump administration's "zero tolerance" policy was rolled out, CNN reported. A Health and Human Services inspector general report, for example, has found that thousands more children had been separated from parents than previously acknowledged. The exact figure is uncertain because there was no system to track them. U.S. Homeland Security Secretary Kirstjen Nielsen said the United States is on track to apprehend 900,000 undocumented immigrants at the southern border this year. Meanwhile, in a surprising turn under leftist President Andrés Manuel López Obrador, Mexican authorities have in some aspects been collaborating with the Trump administration on immigration policy, The New York Times reported last week. Mexican authorities have been blocking migrants at border towns, refusing to allow them onto international bridges, intercepting unaccompanied minors and helping to manage lists of asylum seekers on behalf of the U.S. authorities to limit the number of people crossing the border, according to the report. Breaking with past practice, Mexico's government has also allowed the United States to send more than 120 men, women and children back to Tijuana while they await decisions on their asylum applications.

ECONOMIC NEWS

Argentine Teachers Stage 72-Hour National Strike

A 72-hour teachers' strike starting Wednesday delayed the start of a new school year for many Argentine students, Reuters reported. Only six of the country's 24 provinces began classes on time. "We are starting this year's classes in the streets, to demand dignified salaries," teachers' union official Eduardo López told local radio. Teachers marched outside schools holding signs calling for salaries that keep up with the South American country's persistently high inflation, among other demands. In the province of Buenos Aires, the largest school district in the country, Governor María Eugenia Vidal said 38 percent of teachers joined the strike, while union leaders said the figure was closer to 90 percent. According to the central bank's monthly survey in February, the median expectation for 2019 inflation rose sharply to 31.9 percent, with expectations for next year rising as well, to 20.3 percent. Teachers received a 32 percent raise in 2018 and want an additional 16 percent increase before negotiating their 2019 contract, according to Reuters. The strike comes ahead of national elections scheduled in October. Voter sentiment on the economy and the pro-market policies of President Mauricio Macri will likely play a major role at the polls, analysts say. [Editor's note: See related **Q&A** in the Feb. 19 issue of the Advisor.]

FEATURED Q&A / Continued from page 2

from a labor reform, it is important to have a worker re-training program in place, so workers who are laid off can enhance their skills and employability."

A **Jaime Carrera, economist and secretary of the Fiscal Policy Observatory (OPF) in Quito:** "Ecuador has a high public deficit and financing needs of between $9 billion and $10 billion for the 2019-21 period. The central bank's reserves are minimal, as is the economy's liquidity. The government desperately issued $1 billion 10-year-term trash bonds in January, with a high interest rate of 10.75 percent. There was no other option than turning to the IMF and multilateral organizations for loans. The signing of the expanded service agreement sets loans of $10.2 billion for three years. The loans have favorable conditions in terms of costs and terms, and interest rates of less than 5 percent. The deal with the IMF includes a comprehensive economic program, which

> **"Undoubtedly, the agreement with the IMF will have a significant political cost for the government."**
> **— Jaime Carrera**

seeks a public sector surplus and fiscal and economic sustainability. It incorporates structural reforms in the labor market, productivity, the central bank's autonomy, the monetary and financial sector, investment guarantees, the tax system, fiscal transparency and the protection of social sectors. The government approaching the IMF and multilateral organizations provides credibility to the economic policy and removes uncertainty regarding the nonpayment of public debt. Nevertheless, the country must win its own credibility by strictly complying with the program's objectives. In this regard, questions have arisen regarding whether the program will find political and social viability, whether it reflects the government's convictions and whether society will adopt the program as its own. Undoubtedly, the agreement with the IMF will have a significant political cost for the government."

A **Juan J. Paz-y-Miño Cepeda, Ecuador-based contemporary historian:** "The IMF has a clear neoliberal vision for the economy, and its conditions in exchange for loans for Latin American countries have not changed. That the government of Lenín Moreno chose to strike a deal with the IMF and other multilateral institutions amounts to an about-face with respect to Rafael Correa's administration and that, ultimately, contradicts the economic and social regime that the 2008 Constitution established. Moreno has complied with the slogans of business elites that have been repeated for decades and which we can summarize in three axes: reducing the size of the state, suppressing or reducing taxes and making labor relations more flexible. Moreno trusts that the business model will raise investments and capital, which will bring employment and well-being, and that, moreover, the IMF's support will stabilize the economy. But historical experience with the business model (from the last decades of the 20th century and the beginning of the 21st century) contradicts this governmental utopia. Even if we don't know the concrete terms of the IMF deal, the official statements confirm that Ecuador will adopt economic policies similar to those of the past. For the moment, it is difficult to foresee what sorts of reactions the IMF deal will ignite. But even if macroeconomic indices improve and assuming the crisis stabilizes (including fixing debts with China), the country's structures will not change, nor will inequality or the concentration of wealth. In the long term, the living and working conditions of the population will deteriorate, to the benefit of traditional elites."

LATIN AMERICA ADVISOR
is published every business day by the
Inter-American Dialogue, Copyright © 2019

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org

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
ebrand@thedialogue.org