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## FEATURED Q&A

# What Is Holding Back Paraguay's Economic Growth?



Paraguay's central bank, led by José Cantero Sienna, in April lowered its forecast for the country's economic growth. // File Photo: Paraguayan Government.

**Q** Paraguay's government on June 10 announced a plan to accelerate the disbursement of \$1.5 billion into various sectors, including public infrastructure and agriculture, to stimulate the economy. It also seeks to create some 50,000 direct new jobs through the investment. The central bank in April lowered its outlook for the country's economic growth this year from 4 percent to 3.2 percent, warning it could be even lower. What factors are weighing on Paraguay's economic growth? What are the most important areas that the government's economic package targets, and is it enough to boost the economy? What is the outlook for Paraguay's key economic indicators in the year ahead?

**A** Humberto Colman, deputy finance minister of Paraguay: "Paraguay has been suffering from several shocks that are affecting the economy. There have been supply shocks, with the drop in international prices and the adverse weather for agriculture and energy production. There have also been demand shocks, with slower growth and the exchange-rate situation in neighboring countries. To counteract this situation, a set of 'immediate actions to strengthen investment, employment and social assistance' have been committed, seeking to mitigate the impact on the economy and on families. The measures—which are part of the National Development Plan—focus on 2019, understanding that the shocks described above are transitory. The measures were grouped into three pillars. In the 'acceleration of investment' pillar, we are to speed up the public infrastructure plan for \$1.1 billion, seeking to sustain the creation of 50,000 jobs. In the

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## TODAY'S NEWS

### POLITICAL

## Nicaraguan Pro-Government Forces Committed Abuses: HRW

Nicaragua's National Police and other pro-government forces were responsible for hundreds of killings and thousands of injuries during anti-government protests, Human Rights Watch said in a report.

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### POLITICAL

## Opposition Wants Guyana Elections in Three Months

The People's Progressive Party wants early elections ordered by the Caribbean Court of Justice within three months.

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### ECONOMIC

## Mexican Senate Ratifies USMCA

Mexico became the first country to ratify the successor to the North American Free Trade Agreement, with its Senate approving the deal. Jesús Seade, Mexico's top trade negotiator, expressed hopes that the United States and Canada will soon follow suit.

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Seade // File Photo: @JesusSeade via Twitter.

## ECONOMIC NEWS

## Mexican Senate Ratifies USMCA

Mexico on Wednesday ratified the United States-Mexico-Canada Agreement, or USMCA, with its Senate voting 114-4 with three abstentions to approve the trade deal, The Wall Street Journal reported. The vote made Mexico the first of the three countries to ratify the successor accord to the North American Free Trade Agreement, or NAFTA. "Approved!

“Approved! Mexico takes the lead, with clear signs that our economy is open.”

— Jesús Seade

Mexico takes the lead, with clear signs that our economy is open,” Jesús Seade, Mexico’s top trade negotiator, wrote in a posting on Twitter. “We are confident that our partners will soon do the same for the sake of a strong North America, with clear rules, attractive for investment, stable and competitive.” U.S. President Donald Trump praised Mexico’s ratification of the accord and tweeted, “Time for Congress to do the same here!” U.S. Trade Representative Robert Lighthizer said Mexico’s ratification of the pact was a “crucial step forward.” Trump, Canadian Prime Minister Justin Trudeau and then-Mexican President Enrique Peña Nieto signed the USMCA last November. Canada and Mexico began the process of legislative approval for the deal in May after coming to an agreement with the United States to end a dispute over steel and aluminum tariffs. Some of the biggest challenges to the accord may be from the U.S. Congress, where House Speaker Nancy Pelosi (D-Calif.) has expressed concerns about the pact and wants assurances that Mexico will enforce labor rules so that lower costs for labor will not lead companies to move jobs from the United States to Mexico, The Wall Street Journal reported. The trade deal is also expected to win passage in Canada,

where Trudeau’s government has a majority in Parliament. Canadian Foreign Minister Chrystia Freeland told reporters last week in Washington that Canada plans to move “in tandem” with the United States in ratifying the deal, The New York Times reported. “We think of it as a kind of Goldilocks approach,” she said. “We’re not going to go too fast, we’re not going to go too slow,” she said. [Editor’s note: See related [Q&A](#) in the Feb. 20 issue of the Advisor.]

## POLITICAL NEWS

## Nicaraguan Pro-Gov’t Forces Committed Rights Abuses: HRW

Nicaragua’s National Police and other pro-government forces killed more than 300 people and injured more than 2,000 in a crackdown against protesters that began in April of last year, according to a report by Human Rights Watch released Wednesday. Police and armed pro-government groups also committed widespread abuses including extrajudicial executions against “largely unarmed” protesters, and detainees were subject to “electric shocks, severe beating, fingernail removal, asphyxiation and rape,” the report said. They were also denied medical care, with government forces retaliating against doctors who sought to provide care, the Voice of America reported, citing the report. Prosecutions against hundreds of detainees have seriously violated due process and other fundamental rights, with anti-government protesters undergoing closed door trials and denied the right to confer privately with their lawyers, the report said. Around 62,000 Nicaraguans have fled their country since the crackdown began, according to the U.N. High Commissioner for Refugees. The government of President Daniel Ortega has accused the opposition of plotting a coup and protesters of instigating violence. According to the Office of the High Commission for Human Rights, by the end of the protests in August of last year, 22 police officers died in the context of the protests, Human Rights Watch said.

## NEWS BRIEFS

## Mexico to Launch Job-Creation Program for El Salvador

Mexico’s government plans to launch a new program to create jobs in El Salvador, which will be part of its Central America development plan, Mexican Foreign Minister Marcelo Ebrard said Wednesday, Reuters reported. The development plan is an effort to slow migrants from heading from Central America to the United States. U.S. President Donald Trump has pressured Mexico to stem the flow of migrants heading north.

## Brazilian Central Bank Keeps Interest Rates Unchanged

The board of Brazil’s central bank on Wednesday voted to keep its benchmark Selic interest rate unchanged at a record low of 6.5 percent, a decision that analysts widely expected, Bloomberg News reported. Policymakers have maintained borrowing costs steady for more than a year. In a statement, the board said progress on reforms, including a proposed pension overhaul that seeks to save nearly 1 trillion reais (\$259.1 billion) over 10 years, is “essential” for a cut in structural interest rates and a sustainable economic recovery.

## Argentina’s Jobless Rate Increases to 10.1 Percent

Unemployment in Argentina reached 10.1 percent in the first quarter of this year, up from 9.1 percent during the same period last year, according to national statistics agency Indec, El País reported. It is the highest unemployment rate since 2006, with some 220,000 jobs lost since the economic recession began in April of last year. In the same period, economic activity fell 5.8 percent, as compared to the January-March period a year ago, and underemployment rose to 11.8 percent, up two percentage points year-on-year.

## Guyanese Opposition Wants Early Elections Within Three Months

Guyana's opposition People's Progressive Party, or PPP, wants the early elections ordered by the Caribbean Court of Justice this week to be held within the next two to three months, RJR News reported Wednesday. The Trinidad-based Caribbean Court of Justice, or CCJ, on Tuesday ruled that the Guyanese National Assembly's no-confidence vote against the government of President David Granger last December was valid, ordering early elections to be held in the South American country. Granger, who accepted the court's decision, is waiting on a recommendation from the Guyana Elections Commission before setting a specific date, though he said on Tuesday that the vote would be held in late November in order to give the country's independent election body time to create a new registry of voters, Reuters reported. Bharrat Jagdeo, who heads the PPP, criticized the plan, saying the registry was not needed and that the Constitution states that general elections should be held within three months of a no-confidence motion, RJR News reported. Granger's government initially challenged the December no-confidence vote, in which one of his own coalition's lawmakers joined opposition legislators for a total of 33 votes against Granger. The government brought the decision to court, arguing that the PPP needed 34 votes to pass the motion, not the 33 that it received. [Editor's note: See related [Q&A](#) in the Jan. 14 issue of the Advisor.]

### BUSINESS NEWS

## Rappi Partners With Visa to Offer Prepaid Card in Brazil

Colombia-based delivery startup Rappi is working with Visa to roll out a prepaid card in

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'social protection' pillar, there will be extraordinary transfers, with implements for family farming, food vouchers, social housing and others that would add up to \$100 million. And, finally, the 'support for production and trade' pillar, in which there are resources for the refinancing and financing of loans for \$250 million, as well as cost reduction measures for border trade. Economic growth is likely to shrink in 2019, but we are confident that the actions committed will allow us to recover dynamism and protect the most vulnerable."

**A** **R. Andrew Nickson, honorary reader in public management and Latin American studies at the University of Birmingham:**

"Short-term growth prospects have been hit by the regional slowdown affecting Brazil and Argentina, as well as by the lower world price of soybean and severe flooding in the last quarter of 2018, which hit state road-building and the private construction sector. The recession in Brazil has reduced the operations of the tourism sector in border towns, while the recession in Argentina has reduced the scale of remittances. In March, the government announced a \$900 million counter-cyclical boost to public expenditure. It is a measure of the weakness of its impact that the government increased the package to \$1.5 billion. Only one-quarter of the revised boost in public investment can have an effect in the short term. This covers extra social welfare spending for vulnerable groups, including handouts for flood victims, an expansion of the Tekoporã conditional

Brazil that is linked to its digital wallet, Reuters reported Wednesday, citing executives from the two companies. The deal will give Rappi customers an additional way to pay beyond its current QR code method. "It is the first of many financial solutions we plan to offer to our users," Ricardo Bechara, who co-founded Rappi in Brazil, told Reuters. The company delivers groceries and medications, among other

cash transfer program and more low-cost housing units. There are fears that in the rush to disburse these funds, the traditional structures of clientelism will distort the selection of beneficiaries. Also envisaged is a \$254 million boost in lending and debt re-

**“ Only one-quarter of the revised boost in public investment can have an effect in the short term.”**

– R. Andrew Nickson

structuring to the agricultural and commerce sectors. There will also be a reduction for six months in import duties on capital goods and a boost to limits on duty-free purchases. However, the bulk (76 percent) of the expenditure boost targets physical infrastructure, especially road-building. Funding for almost all projects is already in the 2019 budget. However, each will require congressional approval and then a lengthy tendering process before work can start. The public works ministry has a terrible record for slow disbursement. The drought at the start of the 2018-2019 agricultural year reduced the soybean harvest by nearly one-quarter from the previous year, leading to an estimated reduction of \$1.5 billion in export earnings. Given that soybean remains the central engine of the economy, there will be a negative effect on output across the board. The central banks' April economic indicator was 5.3 percent lower than a year earlier. Finance

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products on-demand. Rappi began operations in Brazil in 2017 and now provides its service in more than 20 cities across the country. Bechara said the company's growth in Brazil is at the highest rate of any of the seven Latin American countries where it has operations. The deal with Visa will also allow Rappi to develop better rewards programs, Visa executive Fernando Pantaleão told Reuters.

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Minister Benigno López expects that the new measures will produce an upswing as early as the second half of 2018, but that remains extremely unlikely.”

**A** **Verónica Serafini, former coordinator at the social economics unit of Paraguay's Finance Ministry:** “The factors that influenced economic growth in the last decade were mainly agricultural exports, such as soya, meat and other basic products; production and sale of energy; border trade with Brazil; and to a lesser extent, the expansion of services, some linked to agricultural production. Despite many years of high average GDP growth—5 percent (2003-2013) and 4 percent (2014-2017)—the results have been unsatisfactory in the creation of quality jobs, the reduction of poverty and inequality, and tax collection. Therefore, Paraguay remains among the countries of greatest inequality, more than 20 percent of the population remains in poverty, with 40 percent at risk of falling back into it, and its tax burden is one of the lowest in Latin America—around 13 percent of GDP. The economic package gives great strength to agricultural production and investment in infrastructure. These two measures boost economic growth but remain below the average of the last decade and have few effects on the welfare of the population. To have positive effects on people, this economic package must promote infrastructure with a high impact on employment and production of family farming. GDP growth will remain above the population growth rate, which is positive, but with a high dependence on the weather and the international context. There is an inflationary risk in the important foods for the family basket. This year's economic decisions will be key to transforming the economy and the transition toward more inclusive growth, one that is less volatile and dependent on exogenous factors.”

**A** **Sebastián Acha, former legislator and executive director of PRO Desarrollo Paraguay:** “The government has shown firmness in the fight against organized crime, but its actions do not naturally result in economic reactivation. There are several internal and external factors to consider. The main internal factor is the lack of management capacity in the most sensitive ministries—public works and education—to positively stimulate the economy, given the amount of funds that they, together, have available for infrastructure. The heads of these ministries are two actors who do not belong to the in-

**“The external crisis is the regional crisis.”**  
— **Sebastián Acha**

ternal hierarchical structure of the Colorado Party, who do not have the collaboration of the middle managers (the political leaders) at the time of receiving guidelines from their highest authorities. The result? The execution of less than 20 percent of the budget for public works. This has been felt in the ‘brake’ of commercial activity generally mobilized by public works. The external crisis is the regional crisis. Brazil and Argentina continue to be in a period of stagnation, lowering their economic growth expectations. Cross-border trade between Ciudad del Este and Brazil, which has always been a reference point to determine the economic health of the neighboring country, has shrunk by 70 percent. Meanwhile, Argentina still has too many uncertainties to establish itself, as it has been at some point, as an important sector for tourism trade. The efficiency of the government's ‘emergency plan’ will depend on whether it is able to deal with these factors, while reconsidering whether it's a good time for its tax reform proposal, which, for many, is untimely.”

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