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FEATURED Q&A

How Much Will a Stimulus Plan Aid Brazilian Workers?



Brazilian Economy Minister Paulo Guedes announced last month that the government would give workers access to accounts normally reserved for situations including job loss. // File Photo: Brazilian Government.

Q In an effort to boost Brazil's stagnant economy, the government announced July 24 that it will allow workers to collectively withdraw as much as \$8 billion from accounts that previously could only be used in the event of job loss, retirement or for the purchase of a home. The initiative may add as much as 0.35 percentage points to the country's GDP, said Economy Minister Paulo Guedes. Will the move have its intended effect on the economy? Will most of the money return to the economy in the form of consumer spending, or is it more likely that Brazilians will save it or use it to pay off debt? Is the government's decision to free up these funds a wise move?

A Margaret Daly Hayes, professor of security studies at Georgetown University: "Brazil confronts a difficult economic growth picture in the current and coming year and beyond. The IMF has projected 0.8 percent growth for 2019, reinforcing a trend of the current decade. The decline is due to slowed growth in demand for Brazil's commodity exports as a result of slower global trade in general and particularly in major export markets such as the European Union, the United States and China. Brazil must also address the modernization of its industrial infrastructure, which has not seen needed investment in plants and transportation infrastructure. Brazil has been debating changes to its overly generous retirement system for some time, including before the current Bolsonaro government. Last year, pension payments were responsible for some 56 percent of the budget. In view of the diminished prospects for economic growth, the decision to tap federal

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TODAY'S NEWS

POLITICAL

Venezuela's Maduro Exits Talks With Opposition

Venezuelan President Nicolás Maduro withdrew from talks with the country's opposition, a move that followed tougher U.S. sanctions against the South American country's government.

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BUSINESS

Argentina's Banco Macro Reports 4% Profit Slide in Q2

Argentine bank Banco Macro said its net income for the second quarter totaled 7 billion pesos (\$153 million), a 4 percent slide from the previous quarter.

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POLITICAL

Puerto Rico Gets Third Governor Within a Week

Puerto Rico's Supreme Court ruled new Governor Pedro Pierluisi's governorship unconstitutional and installed the territory's justice secretary, Wanda Vázquez, in the position.

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Vázquez // File Photo: Puerto Rico Department of Justice.

POLITICAL NEWS

Puerto Rico Court Ousts New Governor, Vázquez Sworn in

Puerto Rico's Supreme Court on Wednesday ousted the U.S. territory's new governor, Pedro Pierluisi, who had been in office just five days, and swore in Justice Secretary Wanda Vázquez to the post, giving the island its third governor in less than a week. Just hours before Vázquez was inaugurated as governor, the Supreme Court declared Pierluisi's governorship unconstitutional because both chambers of the commonwealth's legislature had not first confirmed him as secretary of state, CNN reported. Outgoing Governor Ricardo Rosselló handpicked Pierluisi to be his successor by nominating him as secretary of state, placing him next in the line of succession. Puerto Rico's House of Representatives confirmed him to that post, but the Senate did not before he was sworn in as governor upon Rosselló's resignation last Friday. Vázquez previously said that she did not want to be governor, but said Wednesday in a statement that she respected the high ruling and would step in as governor. "Puerto Rico needs certainty and stability," she said in the statement, which was released via Twitter. "We will work together on all that unites us, and we will look for consensus where we disagree," she added in a televised speech late Wednesday, The New York Times reported. Some pundits have said Vázquez might stay in office just long enough to name a new secretary of state who could then take over as governor, CNN reported. "It's almost a joke," said political expert Mario Negrón Portillo. "In a matter of a couple of weeks Puerto Rico has had three governors. Nobody knows what time it is. Honest to God. The economy is standing still because nobody knows what's going to happen. Who wants to invest ... in Puerto Rico if you don't even know who's going to be governor next week? This is a crazy house right now." Vázquez has sustained heavy criticism for her ties to Rosselló, in addition to other controversies. As justice secretary, she has been accused of failing to

launch investigations against members of her party, including Rosselló and his administration's handling of the recovery following Hurricane Maria, which struck the island in 2017. Additionally, Vázquez was under fire last year on allegations that she intervened on behalf of her daughter in a case related to a home theft. She was accused of violating ethics laws, but a judge later ruled that she could not be arrested in the case because of insufficient evidence. [Editor's note: See related [Q&A](#) in the July 31 issue of the Advisor.]

Venezuela's Maduro Pulls Out of Talks With Opposition

Venezuelan President Nicolás Maduro withdrew his government from this week's negotiations with the opposition that had been aimed at resolving the country's political crisis, a move that followed the Trump administration's latest round of sweeping sanctions, The Wall Street Journal reported today. "I've decided we're not going to continue," Maduro said on television. "This week, the North American imperialists went crazy. The Bolivarian fury is ready for battle," he added. His remarks came



Maduro // File Photo: Venezuelan Government.

in response to U.S. President Donald Trump's executive order, signed on Monday, which froze all Venezuelan government assets subject to U.S. jurisdiction and banned transactions with the South American country's government, unless specifically exempted. It virtually threatens to sanction any company or individual, foreign or American, that does business with Maduro's government or anyone with links to it, according to the report. Representatives

NEWS BRIEFS

Brazil's Supreme Court Blocks Order to Send Lula to Penitentiary

Brazil's high court on Wednesday blocked a judge's order to move former President Luiz Inácio Lula da Silva from a prison in the southern city of Curitiba to a penitentiary for common criminals in São Paulo, the Associated Press reported. The Supreme Court's 10-1 ruling came after Lula's lawyers appealed State Judge Paulo Sorci's order, which followed a previous ruling by another judge, who had authorized the move at the request of Brazil's federal police. Lula's supporters were troubling residents who live near Curitiba prison, police alleged.

Former Banamex CEO Medina Mora Dies at 69

Influential Mexican banker Manuel Medina Mora, who was an executive at Citigroup for many years and served as CEO of the bank's operation in the country, then known as Banamex, died Wednesday at 69 after a battle with multiple sclerosis, Reuters reported, citing Citi's Citibanamex unit. He was diagnosed with the disease just months after he retired, El Financiero reported. Medina Mora was credited with turning around the lender and making it Citi's most important foreign operation, Reuters reported. However, his legacy was tarnished by loan fraud scandals at the unit.

Chile Registers Trade Deficit of \$29 Mn in July

Chile registered a trade deficit of \$29 million in July as weak copper prices continued, the central bank said Wednesday, Reuters reported. Copper is Chile's main export product, and the country sold \$2.64 billion worth of copper in July, the bank said. Total exports reached \$5.77 billion, down 4.6 percent year-on-year, while imports grew 0.5 percent to \$5.80 billion. It was Chile's first negative trade balance since October.

of Maduro and of the Venezuelan opposition were scheduled to hold two days of talks in Barbados, which were to be mediated by Norway. Venezuela's Foreign Ministry said it would review its participation in future talks, but did not say it would abandon them altogether, The Wall Street Journal reported. On Wednesday, opposition leader Juan Guaidó, whom the United States and dozens of other nations recognize as Venezuela's legitimate interim president, said the tougher sanctions are "penalties for those who steal and profit from misery," Agence France-Presse reported. If Maduro stepped down today, "the sanctions will be lifted tomorrow," he added.

BUSINESS NEWS

Banco Macro Reports 4 Percent Profit Slide in Second Quarter

Argentine bank Banco Macro's second quarter net income totaled 7 billion pesos, or roughly \$153 million, down 4 percent from the previous quarter, the lender said in a statement on Wednesday. Recurring net income amounted to 7.8 billion pesos, increasing 2.1 billion pesos, or 37 percent, from the January-March period. The bank's financing to the private sector grew 705 million pesos quarter over

The bank's recurring net income rose 37 percent from the first quarter.

quarter and 23.8 billion pesos year-on-year, totaling 174.7 billion pesos. Commercial loans, especially overdrafts, drove this growth, the statement said. In the second quarter, Banco Macro's total deposits also rose 4 percent to 284.3 billion pesos, or 84 percent of the bank's total liabilities. Private sector deposits grew 7 percent, about 16.2 billion pesos. The lender's accumulated annualized return on average assets was 7.7 percent, while its accumulated annualized return on average equity was 47

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retirement funds is understandable, if still risky. Recipients of the handouts may use the windfall to pay down debts or to make purchases they could previously not afford. However, such purchases are not likely to have a significant impact on the overall economy, while they will reduce the federal government's cash at hand to deal with other issues. The decision to use these funds is bold but also risky. Funds may not be on hand to address other crises."

A Carolina Costa, regional director for Latin America at McLarty Associates: "Brazil's economy is struggling to emerge from a deep recession. In fact, in early July, the government revised its own economic growth estimates downward, reducing its forecast for 2019 from 1.6 percent to 0.81 percent and dropping the 2020 projection from 2.5 percent to 2.2 percent. Against this reality, the government is under enormous pressure to find ways to boost growth. The July 24 measure, which allows Brazilian workers to make an early withdrawal of as much as 500 reais (approximately \$125) from their 'Guarantee Fund for Length of Service' (FGTS) accounts—an obligatory social insurance fund—is a way to address the issue. This strategy isn't new. In 2017, then-President Michel Temer released 44 billion reais from FGTS accounts with the intent of increasing consumer spending. At the end of the designated withdrawal period, the government announced the measure had an impact of 0.61 percentage points on the country's GDP, and household consumption grew 1 percent after having retreated 4.3 percent the year before. As such, while this program may help to boost the economy, it is unlikely that the impact will be very signifi-

percent, according to the statement. Banco Macro is Argentina's second-largest bank, and the sixth-largest lender in the country in terms of deposits and lending. Earlier this week, JPMorgan Chase rose its price target

cant or lasting. The decision to free up these funds is not unwise, but it must be viewed as just another building block to help the economy along until Brazil can benefit from the much-needed structural reforms, such as in the pension and tax systems."

A Milko Matijascic, researcher at the Institute of Applied Economic Research (IPEA) in Brasília: "The partial release of the FGTS funds will have uncertain results. It changes, in part, a system created by the military governments of the mid-1960s to replace workers' employment stability, then granted to those who remained in their jobs for at least 10 years. The FGTS is a defined contribution fund financed by employers at a rate of 8 percent of the worker's salary.

Workers fearing unemployment may reject these measures."

— Milko Matijascic

Workers can withdraw from their FGTS accounts if they are fired without reason, when they retire or if they decide to purchase a home. Currently, the FGTS funds primarily finance the construction industry in Brazil. It is difficult to predict whether Minister Paulo Guedes' measures may boost GDP by 0.35 percentage points. Since 2014, Brazil has faced its worst economic crisis with severe loss of the population's purchasing power, high unemployment levels and major household indebtedness. For those in debt, the most rational use of FGTS is to reduce fami-

Continued on page 4

for Banco Macro, from \$57 to \$61, according to a research report sent to investors, Mayfield Recorder reported. The New York-based investment bank currently has a neutral rating on Banco Macro's stock.

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ly debt. However, the consumption needs of those in dire straits may prevail, increasing demand in the Brazilian economy. The number of individuals who can raise their savings with withdrawals from FGTS does not seem to be relevant. The interest of those currently employed in the withdrawal of the FGTS is still unknown, mainly because it implies the loss of access to FGTS resources if they are fired, which may undermine their livelihoods, since Brazilian unemployment insurance has low values and is paid for five months at the most. Workers fearing unemployment may reject these measures."

A **Marcos Casarin, head of Latin American macro services at Oxford Economics in London:**

"In the current context of Brazil likely returning to a technical recession in the first half of 2019, we think the government's decision to inject up to \$8 billion into the economy from FGTS funds is a wise one, for a couple of reasons. First, the economy needs some source of exogenous shock to exit its current quagmire. And second, the measure is fiscal-neutral, as it doesn't jeopardize the government's multi-year commitment to fiscal consolidation. We at Oxford Economics are a little more skeptical regarding the effect on GDP, with our

estimates pointing to a 0.2 percentage point boost to GDP, which will only be felt in 2020, as the bulk of funds will be withdrawn in the fourth quarter. We think the impact will be smaller than what the government estimates because around a third of it will likely be used to pay off consumers' debt, which has

“We think the government’s decision to inject up to \$8 billion into the economy from FGTS funds is a wise one...”

— Marcos Casarin

grown to 44 percent of disposable income (as compared to 41 percent two years ago). We've been arguing for quite some time now that Brazil's growth model since the recession ended is not sustainable, as it's too reliant on consumers running down on their savings. Without more savings, Brazil won't be able to fund badly needed investment projects to improve its infrastructure network and boost potential growth."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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The Last Straw: Puerto Rico After "Ricky Leaks"

An Inter-American Dialogue discussion with Pedro Reina Pérez, University of Puerto Rico
José A. Delgado, El Nuevo Día
Gretchen Sierra-Zorita, Consultant

View a webcast of the Aug. 1 discussion.

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