

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

CEO,
DevryBV Sustainable Strategies

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

Paula Cifuentes

Director of Economic & Fiscal Affairs,
Latin America & Canada,
Philip Morris International

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon E. Huenemann

Former Corporate and
Government Senior Executive

James R. Jones

Chairman,
Monarch Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

Jaana Remes

Partner,
McKinsey Global Institute

Ernesto Revilla

Head of Latin American
Economics, Citi

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados

Shelly Shetty

Head of Sovereign Ratings,
Latin America, Fitch

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

What Is The Fallout of This Month's Protests in Ecuador?



Ecuadoreans took to the streets this month in locations including Guayaquil (pictured above) in violent anti-government protests. // File Photo: Ecuadorean Attorney General's Office.

Q Widespread protests against fuel price increases in Ecuador this month left at least eight people dead and thousands injured. They also led to more than \$100 million in lost oil revenue and other economic damages. For now, President Lenin Moreno has reversed course on the austerity measures, part of a plan backed by the International Monetary Fund to address a gaping fiscal shortfall. What is the financial and economic fallout of this month's street protests and violence in Ecuador? What can Moreno do to address the nation's fiscal situation under the current political environment? Have investors soured on Ecuador in face of the recent turmoil?

A Nathalie Cely, president of Centro de Competitividad in Quito and former Ecuadorean ambassador to the United States: "After 11 days of violent protests over the elimination of longstanding fuel subsidies, Ecuador has finally regained normality after President Moreno reversed course and left fuel prices untouched. During the protests, 20 oil fields were affected, compromising 1.5 million barrels of crude oil exports which, in turn, represented \$84 million in lost revenue and \$48 million in funds needed for repairs. Additionally, some estimates put the total costs of lost fiscal revenue, economic and productivity losses, and damages to public and private property north of \$1.5 billion. However, the fallout is not only financial; there are also political and social consequences. Having budged after an initially firm position, President Moreno is left on weak political standing, where he is now forced to open any new economic measures to dialogue. Having lost an initial estimated fiscal savings of \$1.4 billion,

Continued on page 3

TODAY'S NEWS

ECONOMIC

Chile Cancels APEC Summit, Climate Meeting

President Sebastián Piñera said Chile, which has been gripped by massive protests, was backing out of hosting the Asia-Pacific trade summit and the U.N. climate change meeting.

Page 2

POLITICAL

OAS to Conduct 'Binding' Audit of Bolivia Election

The Organization of American States is sending a 30-person team to conduct an audit of the Andean nation's disputed Oct. 20 presidential election.

Page 2

POLITICAL

Colombia's Duque Launches Hunt for Killers of Indigenous Leader

Colombian President Iván Duque launched a military offensive to pursue the killers of an indigenous leader who was slain, along with four unarmed guards, in Cauca Department.

Page 2



Duque // File Photo: Colombian Government.

ECONOMIC NEWS

Chile Cancels APEC Summit, U.N. Climate Change Meeting

Chilean President Sebastián Piñera announced on Wednesday that the country will no longer host a major Asia-Pacific trade summit and a United Nations climate change meeting, which had been scheduled for later this year, as protests continue in the South American nation, *The New York Times* reported. In a speech at La Moneda presidential palace, Piñera said



Piñera // Photo: Chilean Government.

the “difficult circumstances” in the country are the reason why Chile decided to withdraw from hosting the U.N. COP-25 climate change conference and the Asia-Pacific Economic Cooperation, or APEC, summit. The abrupt decision underscores how disrupting the protests have been for a country that has long been regarded as an example of stability in the region, according to the report. “As President, my duty is to put the needs of the Chilean people 1st,” Piñera wrote on Twitter. “In these difficult times, with great pain, we have decided to cancel the #APEC and #COP summits. Our priority is to safeguard public order, give urgent solutions to social demands + implement an inclusive dialogue,” he added. Canceling the climate meeting leaves organizers scrambling to find a new venue capable of hosting nearly 20,000 delegates expected to attend. The cancellation of the APEC summit poses a challenge to the United States and China, which had been expected to sign an interim trade deal at the gathering. The White House said it still expects to sign an initial trade agreement with

China in November, but no alternate location had yet been set for the countries’ presidents to meet, Reuters reported.

POLITICAL NEWS

Colombia Indigenous Leader Killed, Hunt for Killers Launched

Colombian President Iván Duque on Wednesday launched a military offensive to hunt down the killers of an indigenous leader and her four unarmed guards in the province of Cauca, *The Guardian* reported. The government blamed dissident factions of the demobilized Revolutionary Armed Forces of Colombia, or FARC, for the murder of Cristina Bautista, the leader of the semi-autonomous Tacueyó reservation, and the four guards. In the attack, assailants shot at a convoy of armored sport-utility vehicles carrying the group and also hurled hand grenades at it, the newspaper reported. Six other people were wounded in the attack as the gunmen opened fire on an ambulance that arrived at the scene to render assistance to the victims. The attack followed the indigenous guardsmen’s capture of three FARC dissidents, according to an initial investigation. Duque traveled to the area on Wednesday, accompanied by the country’s defense minister and interior minister, and condemned the attack. “Clearly, here we have a longstanding threat of drug trafficking groups, and of dissidents, who want to intimidate the population,” Duque told reporters in the town of Santander de Quilichao. Duque added that he ordered the military to “find the criminal group responsible for the attack,” BBC News reported. Some indigenous leaders criticized Duque, however, saying he has not done enough to address attacks since the FARC signed a peace accord with the government of then-President Juan Manuel Santos in 2016. “The government says the right things, but doesn’t do anything,” Eduin Marcelo Capaz, a local indigenous council’s human rights coordinator, told *The Guardian*. “Duque will say whatever he has to to cover up

NEWS BRIEFS

OAS to Conduct ‘Binding’ Audit of Bolivia Election: Foreign Minister

The Organization of American States will send a 30-person team to Bolivia to conduct an audit of the country’s disputed Oct. 20 presidential election, said Foreign Minister Diego Pary, the Associated Press reported. The audit will be “binding,” with all parties being obliged to adhere to the results, Pary said. Incumbent President Evo Morales was announced as the winner, edging out challenger Carlos Mesa by just enough of a margin to win in the first round, sparking protests. Mesa has said the tally was altered, adding that the opposition does not support the audit, whose terms he said were “agreed on unilaterally.”

Brazil Central Bank Cuts Key Rate by Half Percentage Point

Brazil’s central bank on Wednesday cut its benchmark interest rate for the third consecutive meeting following the congressional approval of a landmark pension reform that has sparked hopes for an economic recovery, *The Financial Times* reported. The Selic rate was taken down to a new low of 5 percent on Wednesday after the monetary policy committee cut the rate by 50 basis points.

BBVA Sees 31% Slide in Profit Despite Solid Earnings in Latin America

Spanish lender BBVA’s profit dropped 31 percent in the third quarter, despite solid earnings growth in the bank’s Latin American businesses, Reuters reported today. Underperformance in Spain and a decline in profit offset gains in Latin America, particularly in Mexico, where earnings rose 6 percent in the third quarter and where BBVA makes more than 40 percent of its net profit. In South America, net profit rose 32 percent, according to the report.

his government's ineffectiveness and disinterest in protecting us." Colombia's human rights ombudsman has said that 486 activists and defenders of human rights have been killed since January 2016. Violence has also surrounded local elections that happened on Sunday in Colombia. At least seven candidates were murdered across the country ahead of the vote. [Editor's note: See related [Q&A](#) in the Oct. 11 issue of the Advisor.]

BUSINESS NEWS

Santander Brasil Expects Pressure on Interest Income: CFO

Santander Brasil's net interest income is likely to be under pressure in the coming quarters, Chief Financial Officer Angel Santodomingo told analysts in a conference call on Wednesday, Reuters reported. Santodomingo added that the bank aims to offset potential pressure in margins, expected as the South American country's interest rates hit all-time low levels and competition increases, with higher fee income and lower operating expenses. "The bank has to analyze its costs in an industrial way," he said, Reuters reported. He also said he sees room for improvement in Santander Brasil's efficiency. The unit is Santander's most profitable. Brazil led Santander's third-quarter earnings in South America, which rose 36 percent and helped the Spanish lender's profit up by 7 percent even as earnings in Europe contracted, Bloomberg News reported. Santander Brasil's profits were in turn driven by the retail segment. The unit's net recurring income, which does not include one-off items, was 3.705 billion reais (\$926.60 million), up 19.2 percent year-on-year, and beating analysts' estimates of 3.48 billion reais, Reuters reported. However, units in Santander Brasil were down 2.8 percent in morning trading today. Chief Executive Sergio Rial this month said the Brazilian unit expects its loan book to grow by more than 10 percent annually through 2022.

FEATURED Q&A / Continued from page 1

Moreno is likely to only eliminate subsidies for gasoline (and leave diesel untouched) at an estimated savings of \$370 million. A recently presented 'economic recovery' bill including tax, monetary and public finance reforms has an estimated tax collection of \$700 million. If this bill were to pass as is (something that is unlikely due to political opposition to tax increases), Moreno would still fall short of the quantitative targets put in place under the EFF agreement with the IMF. Investors have caught a whiff of this, and this has been reflected in international financial markets' pricing of Ecuador's risk. Given that Moreno showed his commitment to fiscal consolidation and the IMF's public difficulties with Argentina, the consensus is that Moreno will be able to negotiate some flexibility in the IMF's target and maintain the EFF. This, however, does not solve Moreno's problems. He is still facing local discontent with austerity measures while investors and IMF staff will surely be disappointed by the watered-down economic reforms. President Moreno will have a difficult remainder of his presidential period trying to reach consensus on an economic plan that needs to focus on employment and competitiveness as well, not only fiscal consolidation."

A **Adrián Bonilla, research professor and former secretary general of the Latin America Social Sciences Institute (FLACSO):**

"The plan for a stabilization program implies the need to first assess whether or not it can be implemented. The Ecuadorean government underestimated its proposal's impact on society and made a serious mistake. The government does not have stable political support, and the population has a low view of it. The president does not control parliament and faces a climate of social dissatisfaction, which is evident in the polls. The Ministry of Finance's plan proposed a series of compensatory measures to mitigate the effects of the adjustment for employers and businessmen, but it did not prioritize work-

ers and the poorest. The social response was an indigenous and popular uprising that put the continuity of the government at risk and demonstrated the adjustment proposal's political weakness. It is necessary to note that, after two years of friendly policies

“The plan for a stabilization program implies the need to first assess whether or not it can be implemented.”

— Adrián Bonilla

for investors and entrepreneurs, they have not responded, and instead continue with mindsets lacking innovation and investment, demanding additional protections from the state. Nor has there been external investment in the recent past—not because of social turbulence, but rather because of the absence of major projects and caution in the face of a government that sees itself as transitional. Liberal proposals have not reactivated the economy. On the contrary, they have contracted it. The least expensive option that the government could take at the moment would be to focus on subsidies first, to then vindicate fuel prices, collect taxes efficiently, increase the value-added tax and further reduce public spending. These measures' impact will be less on the economy of the people than the original plan, and expected resources may eventually be recovered."

A **Luis Ortiz, director of political commentary podcast Voces:**
"The events in Ecuador are the result of ill-advised political and economic judgment on the part of Lenín Moreno's government, and I fear that the economic cost of the social uprising is yet to be felt. The government's mishandling of the protests worsened an already chaotic

Continued on page 4

FEATURED Q&A / Continued from page 3

situation. Instead of acknowledging people's grievances and being open to dialogue, Moreno accused them—without proof—of being Maduro sympathizers and responded by sending the military to confront mostly unarmed civilians. Of course, the social turmoil affected investors' confidence and the country's economic outlook. In just a few days, protesters took over oil fields, and oil production was cut by half. State-owned oil company Petroamazonas declared force majeure, anticipating that it would not be able

“The events in Ecuador are the result of ill-advised political and economic judgment on the part of Lenín Moreno's government...”

— Luis Ortiz

to fulfill contracted deliveries, which sent a further message of uncertainty to investors. Ecuador's emerging market bond index (EMBI) immediately increased after the announcement of the suspension in oil production. It increased again after the government struck a deal with indigenous groups, conveying the image of a government unable to push for reforms. The country's EMBI now exceeds 800 basis points and is likely to remain at that level as the government's hands seem tied, and it has little room to maneuver. The IMF announced that it will accommodate the new political scenario, but it surely expects reforms to continue and fiscal adjustments to be implemented, either through revenue or expenses. However, with an expectation of 0.5 percent GDP growth for 2020 and a deeply polarized country, any economic reform that could generate the \$1.4 billion (1.4 percent of Ecuador's GDP)

that is the equivalent to the removal of fuel subsidies will require political leadership that President Moreno sorely seems to lack.”

A **Daniela Chacón Arias, executive director at Fundación TANDEM and former Quito vice mayor and city council member:** “Ecuador has subsidized fuel price since the 1970s, therefore any measure that would reverse this situation was going to be unwelcomed by many social sectors and cause protests. This is a situation that the government should have foreseen and planned accordingly, initiating a dialogue process well before the announcement. Any financial plan, whether it is backed by the IMF or just needed to address the fiscal gap, has to anticipate the social impact in a country that still faces staggering inequalities and is undergoing an economic crisis. For Ecuador's fiscal and economic sake, it is important for the government to eliminate the fuel price subsidy. However, the measure will have to include a progressive elimination for diesel and compensations for the most affected, especially in the short term. The crisis is testing Moreno's government and its ability to forge an agreement that addresses social sectors concerns but that responds to a sound fiscal plan. Which one shall suffer? The current political situation together with a weak government could imply that Moreno will not reach the commitments made with the IMF. Therefore, it is time for the government to show real commitment in terms of reducing public expenditure and combating corruption, so that Ecuadoreans don't feel as if the crisis that the Correa government generated is being paid by the most vulnerable.”

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

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

 THE DIALOGUE

Michael Shifter, President

Rebecca Bill Chavez, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Michael Camilleri, Director, Rule of Law Program

Kevin Casas-Zamora, Nonresident Senior Fellow

Héctor Castro Vizcarra, Nonresident Senior Fellow

Julia Dias Leite, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Peter Hakim, President Emeritus

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, Asia and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Xiaoyu Pu, Nonresident Senior Fellow

Jeffrey Puryear, Senior Fellow

Mateo Samper, Nonresident Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Denisse Yanovich, Director of Development and External Relations

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

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.