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FEATURED Q&A

Will Brazil's Pension Overhaul Lead to Additional Reforms?



Brazilian President Jair Bolsonaro last month won legislative approval of his landmark pension reform. // File Photo: Brazilian Government.

Q Brazil's Senate last month approved a landmark pension reform, marking a victory for President Jair Bolsonaro and paving the way for his economic team to introduce further reforms. The overhaul is estimated to save Brazil some \$196 billion over 10 years, a lower amount than in the government's original proposal. How significant is Brazil's long-awaited pension reform, and to what extent was the bill watered down in the Senate? What sorts of overhauls is Bolsonaro's economic team likely to pursue now, and how important are such measures to improving the country's business climate? Will Bolsonaro's recent spat with members of his Social Liberal Party affect the government's ability to push legislation through Congress?

A Erich Decat, political analyst at XP Investments: "The pension reform that the government proposed, and the Brazilian Congress approved, might be the most important economic measure of Bolsonaro's mandate. Although it was watered down during the congressional discussion, even after changes to the bill, the president's economic team can pride itself on having drawn up the most profound pension reform ever seen in Brazil. Bear in mind that the government managed to push the bill through without a formal coalition—a political tool that previous presidents had at their disposal. The foundation for the reform was laid on May 26, when thousands of protesters took to the streets in support of different causes, including changes in the retirement system. This kind of protest had never been seen before. From this moment on, center-right lawmakers (the majority) started pushing the bill forward in Congress. Another side effect of the

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Six Children Among Nine Killed in Mexico Ambush

The members of a prominent American Mormon family had been traveling in three vehicles when they were attacked. The motive for the ambush was unclear.

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ECONOMIC

IMF Expecting Guyana's Growth to Soar 86 Percent

The International Monetary Fund said the country's annualized real GDP will skyrocket as a result of its new oil production. The IMF is expecting that the country will have the world's fastest economic growth next year.

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POLITICAL

Guatemala's Next President to Break Ties With Maduro

Guatemalan President-elect Alejandro Giammattei said that when he takes office in January, he will sever diplomatic ties between his country and the government of Venezuelan President Nicolás Maduro.

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Giammattei // File Photo: Giammattei Campaign.

POLITICAL NEWS

Six Children Among Nine Killed in Mexico Ambush

At least nine people of a prominent American Mormon family—six children and three women—were killed Monday when gunmen ambushed their vehicles in northern Mexico, *The New York Times* reported. The members of the LeBarón family, which has lived for decades in a fundamentalist Mormon community near the U.S. border, were traveling in three vehicles from the state of Sonora to the state

“Six little kids were killed, and seven made it out alive.”

— Julián LeBarón

of Chihuahua when the assailants attacked. Julián LeBarón, a cousin of the three women who were driving the vehicles, described the attack in a telephone interview with *The New York Times*. He said his cousin Rhonita was traveling to Phoenix to pick up her husband, who works in North Dakota. They planned to reunite to celebrate their wedding anniversary. Her car broke down, and the gunmen began shooting and set the car on fire, said LeBarón. Rhonita was killed, as were an 11-year-old boy, a 9-year-old girl and twins who were less than a year old, he said. Some eight miles ahead, the attackers ambushed the two other cars, killing the two other women, a 4-year-old boy and a 6-year-old girl, LeBarón added. Several children also escaped, some of whom hid by the roadside during the attacks. “Six little kids were killed, and seven made it out alive,” said LeBarón. The children who survived were flown by helicopter to a hospital, he added. “They intentionally murdered those people,” LeBarón told the newspaper. “We don’t know what their motives were.” One of the women exited her car and put up her hands. “They shot her point blank in the chest,” LeBarón told *The New York*

Times. The family has historically spoken out about violence in northern Mexico, but it was unclear whether they were specifically targeted, or whether the ambush was a case of mistaken identity, the newspaper reported. The family had not received any threats, other than general travel warnings against traveling to Chihuahua, where they typically went to go grocery shopping and buy fuel, said LeBarón. A decade ago, two members of the same family were killed after confronting drug gangs that effectively control nearby areas. Mexico’s Department of Security and Citizens’ Protection said National Guard troops, along with state police officers and army troops reinforced local authorities following “reports about disappearance and aggression against several people” in the area, the *Associated Press* reported.

Guatemala’s Next President to Break Ties With Maduro

Guatemalan President-elect Alejandro Giammattei said Monday that his government will break off all diplomatic relations with Venezuelan President Nicolás Maduro, *Reuters* reported. Center-right Giammattei, who won the country’s runoff election in August, is set to take office on Jan. 14. He told reporters his administration would recognize opposition leader Juan Guaidó as Venezuela’s leader. “I think it’s the right thing to do,” Giammattei said, *Reuters* reported. “There are other South American [governments] that will do the same,” he added, without providing further detail. On Saturday, new Salvadoran President Nayib Bukele expelled Maduro’s diplomatic corps from the country, saying that he would instead bring in a new diplomatic team representing Guaidó. In response, Maduro kicked out El Salvador’s diplomats from Venezuela, as well. However, Bukele said on Twitter that his government had not assigned any envoys to the South American country, so all diplomats expelled had been named by his predecessor, Salvador Sánchez Cerén, whom he said Maduro called a friend. On Monday, Mexican President Andrés Manuel López Obrador said he would not take sides in

NEWS BRIEFS

Brazil’s Bolsonaro to Unveil Reform Proposals

Brazilian President Jair Bolsonaro is set to present new reform proposals to address the country’s budget deficit today in Congress alongside Economy Minister Paulo Guedes, *Reuters* reported. The new measures are likely to be met with skepticism among lawmakers, as Bolsonaro faces a crisis within his own party, according to the report. Proposals include cutting tax breaks by 10 percent, freeing up government funds to pay down public debt and ending job stability for new civil servants, among others, government officials said.

Peruvian Judge Orders 14 Lawyers Jailed in Odebrecht Probe

A Peruvian judge on Monday ordered 14 lawyers be jailed amid a probe into whether they allegedly favored Brazilian construction giant Odebrecht in public works contracts, *Al Jazeera* reported. Each lawyer was ordered to spend 18 months in preventive detention for allegedly participating in 42 arbitration processes that in total provided Odebrecht nearly \$250 million. The lawyers denied the accusations and have appealed the ruling. [Editor’s note: See related [Q&A](#) in the May 14 issue of the *Advisor*.]

Investments in Mexico Fintechs May Delay Sector’s First IPO: Report

Investments by firms including SoftBank and General Atlantic in Mexican financial technology firms may mean a delay in the sector’s first initial public offering, *Mergermarket* reported Monday, citing two industry executives and an attorney in the sector. Fintechs in Mexico will need to invest capital raised in funding rounds before turning their attentions to a possible IPO, María Ariza, the CEO of *Bolsa Institucional de Valores*, told the media company.

the dispute between El Salvador and Venezuela. "We're not going to make a statement in favor of either one because they are both sister nations and governments that we respect," he said during his regular news conference, Reuters reported.

ECONOMIC NEWS

IMF Expecting Guyana's Growth to Soar 86% Next Year

Guyana will see its economic growth soar 86 percent next year, up from 4.4 percent this year, the International Monetary Fund predicted, CNBC reported Monday. Annualized real GDP is expected to increase dramatically, the fastest economic growth in the world, driven by the country's oil production, which is set to begin next month. "The reason the IMF is projecting that is because Guyana has the highest amount of oil for each individual person of any country in the world," Natalia Davies Hidalgo, a freelance Latin America analyst, told CNBC. "And it could have more, as production hasn't even started, and new discoveries are still being made," she added. The IMF expects Guyana's GDP to reach about \$15 billion by 2024, up from a \$4 billion annual GDP currently, Bloomberg News reported. However, Hidalgo told CNBC that the IMF's projection is "ambitious," citing a lack of regulatory legislation in the country that could bring project delays and nonpayment in the infrastructure sector, as well as political uncertainty.

Argentine President-Elect Meets With AMLO in Mexico City

In his first foreign trip since winning last month's election, Argentine President-elect Alberto Fernández met with Mexican President Andrés Manuel López Obrador in Mexico City on Monday, the Associated Press reported.

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protest was that legislators were discouraged from impeding debates on economic reforms, part of which was the pension reform, despite controversies, such as the infighting between President Bolsonaro and his party. Despite the success, the pension reform is just the first step toward balancing Brazil's budget, which has been a huge issue over the past years. From now on, the government's main short-term goal is the overhaul of the public servant management system, which might see some current benefits cut. Other structural changes, such as the tax reform and privatization of big state companies, such as state utility Eletrobras, are less likely to succeed."

A Shelly Shetty, head of Latin America sovereign ratings at Fitch: "The reform aims to stabilize the pension spending-to-GDP ratio. However, savings in the near term will be small, and the social security deficit will still hover around 3 percent of GDP in 2020. While the reform was diluted compared to the original proposal targeting savings of just over 1.2 trillion reais, the final savings are larger than the market's initial expectations. The government is preparing additional fiscal and productivity/growth enhancing reforms to submit to Congress in the coming months. The main reforms under consideration include the '3D' reform to re-

duce budgetary rigidities, an administrative reform to restructure public sector careers and a reform to enhance the 'golden rule'

“ “ **The outlook for continued legislative-executive cooperation on reforms is unclear...**"

– Shelly Shetty

that would introduce automatic spending adjustments when in breach of the rule. The government expects to submit its own version of the tax reform in order to simplify the complex system and boost competitiveness. The content of the tax reform is uncertain while vested interests could weigh on its progress. The outlook for reform can be clouded by political risks leading to delays, dilution or shelving of certain reforms. The outlook for continued legislative-executive cooperation on reforms is unclear, especially as President Bolsonaro's administration lacks a stable and reliable allied base in Congress. Moreover, local elections in October 2020 could shorten the window for reforms. Finally, the reform outlook could also suffer if the economy underperforms in the coming months."

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With the aim of strengthening bilateral and regional cooperation, Fernández said the two discussed improving what he called a deteriorated commercial relationship and mutual concerns over political upheaval in countries such as Chile and Ecuador. Venezuela was barely mentioned, as both presidents' viewpoints are well-known, he said. Fernández added that he and López Obrador, both considered leftists, share a similar vision of the Americas and the world, one he said prioritizes equality and lifting marginalized people. "They are alternatives to what has ruled in recent years, for example in Argentina, and it is a return to finding a political sys-

tem that returns equity lost in Latin America, the equilibrium lost in Latin America, the social equality lost in Latin America," Fernández said in a news conference following the meeting, the AP reported. Before the encounter, López Obrador said he was willing to help Argentina during its economic recession. "We are going to improve our economic and trade relations," he said. In a conference in Cuba, Venezuelan President Nicolás Maduro said there has been a calling for López Obrador and Fernández to head "a new progressive front" in Latin America and the Caribbean, adding they will both "play a key role in the hemisphere," Clarín reported.

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A **Milko Matijascic, researcher at the Institute of Applied Economic Research (IPEA) in Brasília:** “The pension reform introduced significant changes, including, for the first time, a minimum retirement age. Furthermore, the number of years of contributions required to receive a full benefit was increased from 35 to 40 years for men and 35 (up from 30) for women. The benefit calculation also no longer eliminates the lowest 20 percent of contributions made during the working years. All of these changes will

“**Next on the agenda are a tax reform and an administrative reform, which are already being debated.**”

— **Milko Matijascic**

reduce expenditures in the short term, with increased fiscal savings after the transition period. The Senate changes were modest compared to modifications introduced in the Chamber of Deputies. The Senate did introduce a new constitutional amendment to reform the public pensions of states and municipalities. This would generate significant fiscal savings, but it was not politically viable when the original pension reform was introduced in the Chamber of Deputies. In the Chamber, significant reforms of rural and welfare pensions, as well as a plan to introduce Chilean-inspired individual accounts, were stripped from the constitutional amendment. The pension reforms represent the first major overhaul from the current administration. Next on the agenda are a tax reform and an administrative reform, which are already being debated. However, these may face political obstacles as they make

their way through the legislative process. Furthermore, it is possible that the wave of protests underway in Chile, Ecuador and other countries may also create potential difficulties in approving new reforms.”

A **Monica de Bolle, director of the Latin American Studies program at Johns Hopkins University's School of Advanced Interna-**

tional Studies (SAIS): “The approval of the pension reform is very good news for Brazil and for the medium-term fiscal sustainability of the economy. Although total savings over the next decade will be less than originally envisaged, they are sufficient to give Brazil substantial breathing room, paving the way for public investment spending that has been decimated due to severe economic challenges. Public investment is crucial for accelerating Brazil's lackluster growth. Sadly, however, that does not seem to be the direction that the Bolsonaro administration wishes to head toward. Economy Minister Paulo Guedes has produced a wish list of reforms in the wake of pension reform approval, but they lack a coherent unifying strategy and ignore the substantial political constraints involved. These political bottlenecks have been made worse by infighting within Bolsonaro's party as well as his refusal to build a stable coalition with other parties within Congress. Although tax reform has been hailed as the next priority, it is much more difficult than pension reform as it involves many political actors, notably governors of states that are in financial difficulty. Hence, it is my view that we won't see much more in the way of reforms over the next three years.”

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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

Rebecca Bill Chavez, Nonresident Senior Fellow

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