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FEATURED Q&A

Can Argentina and the IMF Come Up With a Good Deal?

Argentine Economy Minister Martín Guzmán held talks this week with the head of the International Monetary Fund, Kristalina Georgieva, at a conference in Vatican City hosted by Pope Francis. // Photo: Argentina Government.

Q Argentine Economy Minister Martín Guzmán said his meeting Jan. 28 in New York with International Monetary Fund officials was "very productive," adding that he discussed his country's economic situation and the sustainability of its debt with IMF officials. The meeting will be followed by a mission that the IMF will be sending to Argentina in February. What do Argentina's government and the IMF want to get out of the talks? What would constitute success for each side? How much influence will the IMF exert in public policy in Argentina under the government of new President Alberto Fernández?

A **Kezia McKeague, director at McLarty Associates:** "The Fernández administration has repeatedly stated that its objectives are restoring the sustainability of public debt, stabilizing the economy and ensuring both sustainable economic growth and protection of the most vulnerable. The IMF's statements to date have reiterated that the institution shares these goals, and we can expect a similar press release about 'productive dialogue' following the staff mission to Buenos Aires in mid-February. For now, however, the IMF may stay on the sidelines while closely watching the evolution of the private debt restructuring—a more contentious battle. Success for the Argentine government would be postponement of the payments on principal due to the IMF in 2021. In a telling omission, the IMF did not include Argentina in its latest report on Latin America's economic outlook, citing a high degree of uncertainty. The IMF is unlikely to exert significant influence

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U.S. Oil Executives Sent to Prison in Venezuela

Six U.S. oil executives previously under house arrest in Venezuela were arrested hours after U.S. President Donald Trump met with Venezuelan opposition leader Juan Guaidó in the White House.

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Chinese Demand Rises for Mexican, Brazilian Beef

Chinese demand for Mexican beef is expected to grow by more than 40 percent this year, in part due to disruptions prompted by the spread of the coronavirus. Brazilian producers also saw increased demand last month.

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POLITICAL

Ecuador Hits Correa With New Graft Charges

Prosecutors in Ecuador opened a new investigation into former President Rafael Correa. Next Monday the country's top court is expected to begin criminal proceedings against him.

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Correa // File Photo: Ecuadorean Government.

POLITICAL NEWS

U.S. Oil Executives Sent to Prison in Venezuela

Six U.S. oil executives previously under house arrest in Venezuela were arrested hours after U.S. President Donald Trump met with Venezuelan opposition leader Juan Guaidó in the White House, the Associated Press reported Thursday. The Venezuelan government's SEBIN intelligence police rounded up the executives, who worked at Venezuelan state oil company PDVSA's U.S.-based refiner, Citgo, according to Alirio Zambrano, the brother of two of the six detained men. "We demand to know they are safe but more importantly their freedom!" he wrote on social media. Carlos Añez, whose stepfather is one of the detainees, said officers on Wednesday night "came to the apartment,

Abrams // File Photo: U.S. Government.

told my father that they had to take him, to bring a change of clothes, they took his GPS off his ankle and took him away," Reuters reported. Añez has had no communication with his stepfather since. The arrest came two months after the men were granted house arrest and just hours after Trump hosted Guaidó, whom the United States and dozens of other countries consider Venezuela's legitimate president, in the White House, as a show of support. The executives were arrested in November 2017 after being called into a meeting at PDVSA's headquarters in Caracas, accused of several crimes, including embezzlement, money laundering and conspiracy, Reuters reported. The United States has previously called for the group's release. In a briefing with reporters Thursday, Special Representative for Venezuela Elliott Abrams said the State Department had confirmed the six executives were transferred to a Caracas prison. "We condemn this cruel and indefensible action and demand that their long, unjust detention come to an end and they be allowed to leave Venezuela," Abrams said during the briefing.

Ecuador Hits Correa With New Charges as Court Case Looms

Prosecutors in Ecuador opened a new investigation on Thursday into former President Rafael Correa over allegations that he took illegal financial contributions from private companies and businesspeople for his Alianza PAIS governing party, Diario Las Américas reported. The alleged payments were made between 2012 and 2016, according to the report. Meanwhile, next Monday the country's top court is expected to open criminal proceedings against Correa, The Economist reported. At least 20 other people are also accused in the case, charged with taking and giving bribes, which they deny. Correa moved to Belgium shortly after leaving office, where he has criticized the administration of President Lenín Moreno, a former ally and a vice president who served under him. He accuses Moreno of targeting him out of political motivations. The Supreme Court trial could determine whether or not Correa can return to the Andean country and influence legislative elections that are scheduled next February.

ECONOMIC NEWS

Chinese Demand for Mexican, Brazilian Beef on the Rise

Chinese demand for Mexican beef is expected to grow by more than 40 percent this year, in part due to disruptions prompted by the spread

NEWS BRIEFS

Toyota Plans to Increase Mexican Auto Production

Japanese car maker Toyota is planning to increase production at its new plant in Mexico's central state of Guanajuato to 100,000 vehicles a year by 2021, as part of the company's shift to manufacture its popular Tacoma pickup truck in Mexico rather than in the United States, the company said Thursday, Reuters reported. The Guanajuato plant, in addition to Toyota's older facility near the U.S. border, will bring the company's Mexican production to 266,000 trucks per year when at full capacity, Toyota added.

Odebrecht Sues Peru for $1.2 Billion in Dispute Over Pipeline Contract

Brazilian construction giant Odebrecht this week carried out its threatened arbitration claim at the International Center for the Settlement of Investment Disputes against Peru, El Comercio reported. The company is seeking $1.2 billion over measures the Andean nation took after the construction group admitted to paying hundreds of millions in bribes to win projects in 12 countries. The case comes three years after Peruvian officials ended the company's gas pipeline concession.

Notorious Colombian Drug Cartel Hitman Dies

The most notorious hitman working for Colombian drug lord Pablo Escobar has died of esophagus cancer, El Tiempo reported Thursday. Jhon Jairo Velásquez, who went by the nickname Popeye and boasted of killing 300 people for Escobar, was 57 years old. He was released from prison in 2014 after serving more than 20 years and launched a YouTube channel, attracting more than a million followers. He was sent back to jail in 2018 on extortion charges, BBC News reported. He died in a Bogotá hospital.

of the coronavirus, according to Mexico's top cattle association, Reuters reported Thursday. Although buyers in China, the virus' epicenter, represent just 4 percent of Mexico's foreign beef sales, the Asian market has been a steady source of growth, especially since most shipments previously went only to Hong Kong, Reuters reported. The coronavirus has sparked concerns about domestic food security in China, amid widespread belief that the virus originated at a food market selling wildlife in the city of Wuhan in Hubei province. The Chinese government has locked down the province, which is one of China's main food-producing centers, in a bid to contain the epidemic. It has also imposed travel restrictions, which block the movement of animals and feed, and curbed output at feed mills and slaughterhouses, the wire service reported. Rogelio Pérez, the top trade official for Mexican cattle growers association AMEG, said that Mexican sales to China resulting from the aftermaths of the virus outbreak could amount to one-third of the overall 40 percent sales growth. Meanwhile, Mexican factories could take a hit, as China has become an increasingly important part of global supply chains, producing components that Mexican manufacturers need, The New York Times reported. Brazil's beef exporters are also hoping to take advantage of the disruptions caused by the outbreak. Brazil's largest meatpackers, JBS and BRF, said last week that the coronavirus outbreak could help boost Chinese demand for their products, as the virus fans concerns about domestic food safety in China, Reuters reported. Brazilian beef exports rose by 9.84 percent in January driven by a surge in sales to China, according to the report.

New Rules for Brazil Foreign Investment Set for May: Gov't

The administration of Brazilian President Jair Bolsonaro will have new rules ready next month that will allow foreign companies to bid for government projects and become suppliers to the government without having to set up a formal Brazilian subsidiary, Folha de S.Paulo reported today. The measure, which is being drafted by the economy ministry, aims to bring more international groups in to develop infrastructure projects such as highways, railways and airports, as well as diversify the companies that provide the government with services. Under current law, foreign companies require local representation to participate in bids, which adds costs for those not already present in the country. The measure would be formalized next month and take effect starting in May, according to the report. In addition to infrastructure, areas the ministry wants to open up to more foreign providers include medicines, hospital supplies, computer programs and surveillance services. Studies show that 10 percent of Brazil's GDP revolves around public purchases. Brazil's massive "Car Wash" bribery scandal, which effectively halted major public works projects for an extended period starting in 2016, coincided with a deep recession that the country is only now starting to recover from. Economy Minister Paulo Guedes said on Thursday that Brazil's economy will grow this year at twice the pace of last year, saying he remains confident that more than 2 percent growth will materialize, Reuters reported.

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on Argentine public policy in the absence of a new IMF program with the government, though the Fernández administration has so far hewed to fiscal responsibility, albeit with a more dovish monetary policy. Resolution of the external debt is certainly Fernández's top foreign policy priority, as seen in his tour of Europe this week and his appointment of Jorge Argüello as ambassador to Washington. An experienced and capable diplomat and close friend to Fernández, Argüello will be very focused on the relationship with the IMF and maintaining crucial U.S. support at the international financial institutions, in coordination with similarly experienced officials such as Gustavo Béliz, Sergio Chodos and Cecilia Nahón, among others. It is still early days for this new chapter in the long story of Argentina's relationship with the IMF."

A **Miguel A. Kiguel, executive director of EconViews in Buenos Aires:** "The debt negotiations are entering a critical phase. The government announced an ambitious timetable in which it intends to reach a deal with the bondholders by the end of March. The incentives for Argentina to reach an agreement are clear, namely, to regain access to the credit markets, which is essential to end a decade of stagnation and restore growth. It seems clear that Argentina does not have a solvency problem, as net debt represents less than 50 percent of GDP, though it faces a liquidity problem, as it has lost access to the markets due to uncertainty about policies, especially about its willingness to undertake the reductions in the fiscal deficit that will restore credibility among investors. So far, the discussions have centered on the offer's financial conditions, namely, on the relief on interest payments and on principal that the government will request, and little has been said about the way in which Argentina will pay in the future. What is missing so far is a medium-term economic program to convince bondholders that there is a plan to make debt sustainable and that spells out the fiscal effort and structural reforms that the government intends to make. The IMF could play an important role in this area, both regarding its blessing of such a program and as auditor of the fiscal and monetary accounts. The IMF is a senior creditor, and hence its approval of the macro-debt-sustainability plan should help to increase the participation of bondholders in a deal. In recent days the government and the province of Buenos Aires failed in their

> **"The bottom line is that a macro-program is a precondition for a successful debt restructuring."**
> **— Miguel A. Kiguel**

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attempts to restructure some bonds. One of the main reasons for this outcome was the lack of medium-term plan. The bottom line is that a macro-program is a precondition for a successful debt restructuring."

A **Bruno Binetti, nonresident research fellow at the Inter-American Dialogue:** "Two months into his term, there is much we don't know about Fernández's plan to tackle the debt problem. The renegotiation with private creditors will include a haircut along with the extension of maturities, but crucial details are lacking, including the debt reduction the government expects. It is good news that the Argentine Congress quickly authorized the renegotiation with the support of the opposition. However, the government wants to reach a deal with private creditors before April, when payments begin to accumulate. That might be unrealistic, since bondholders could demand that Argentina reaches a deal with the IMF first, to guarantee that the country has a sustainable plan to meet its obligations. Kristalina Georgieva, who inherited this problem, faces a dilemma. She wants to build a constructive relationship with Fernández and preserve the reputation of the IMF, tainted once again by a crisis in Argentina. At the same time, the Fund has strict rules that limit its ability to be lenient, in order to avoid moral hazard. Fernández has already increased taxes and reduced pensions to improve the fiscal situation, but this will not be enough. In order to extend the repayment of its $44 billion bailout over a longer period of time, the IMF will likely demand a medium-term agreement with strict macroeconomic conditions. Accepting this will be politically painful for Fernández, but with the possibility of default looming large on the horizon, he has few alternatives."

> **"The Fund has strict rules that limit its ability to be lenient."**
> — Bruno Binetti

A **Orlando Ferreres, founder and president of Orlando J. Ferreres & Asociados in Buenos Aires:** "After the meetings held with IMF senior officials and additional meetings with debt creditors in the United States, Argentina's Economy Ministry published the schedule of actions and agreements to solve the issue of restructuring the country's public debt. Among other points, it includes the government's choice of advisors to solve this difficult program. According to our estimates, apart from the fundamental problem of maturities with very short periods, the government as part of the program will seek the extension of terms, although this may not be enough. In addition, a reduction on principal and interest that may reach 25 percent of the principal will be procured, although there may be a mix of debt and interest in the cut, in order for the unpaid amount to be reasonable for Argentina's foreign and fiscal sector. The Economy Ministry has also published the schedule of a meeting at the Vatican regarding foreign debt in general and its renegotiation. Argentine President Fernández, among other things, met Pope Francis a few days before said meeting, in which it is expected to get general definitions regarding the restructuring of public debt that could be applied to Argentina. A favorable outcome is expected in connection to Argentina's public debt, which has already been put into practice with the Lebad, treasury bonds adjusted by the banks' interest rate plus 400 or 525 points depending on the maturity, when the rate of a bond issued by the city of Buenos Aires in the spot market pays a bank's interest rate (Badlar) at 800 points. This treasury bond is getting Letes offers, very short-term treasury bills with a lower rate than the one of the spot market. The confirmations of the Argentine debt restructuring will materialize toward the second quarter of 2020, and we expect them to be positive."

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