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FEATURED Q&A

Will Coronavirus Lead to Economic Collapse in Brazil?

Brazilian Economy Minister Paulo Guedes said lockdowns related to the Covid-19 pandemic could lead Latin America's largest economy to collapse. // File Photo: Agência Brasil.

Q Economy Minister Paulo Guedes has said Brazil could see an "economic collapse" by the end of the month due to coronavirus-related lockdowns in the country, warning of food shortages and "social disorder." Meanwhile, the government on May 13 slashed its economic outlook for this year to a contraction of nearly 5 percent, down from a March forecast of zero growth. How deep a recession is Brazil facing, and how long might it take for the economy to recover? Which sectors will fare the worst in the period ahead, and what is the government doing to alleviate the impact? How likely is "economic collapse" to occur in the coming weeks, and what might that look like if it does?

A Paulo Vieira da Cunha, partner at Verbank Consulting in New York: "It is often said that this crisis is without precedent, and it is. Forecasting is more premonition than prediction—truer for Brazil, where the policy response has been haphazard, even irresponsible. The supply shock is already large, and it continues. Worse is what is likely to happen to demand. The uncertainty of policy and the lack of effective leadership amplify the loss in income, increase precautionary savings (for those who may save at all) and delay any investment response. This is why most analysts say the contraction in 2020 is likely to be closer to 10 percent than 5 percent. The recovery in the years ahead is likely to be slow, burdened by pre-existing weaknesses, the anemic upturn after the recession of 2015-2016 and the lack of structural reforms that will now be delayed or forgotten. The main uncertainty is politics. A crisis of governance precedes the Bolsonaro administration, but

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Cuba has asked the Paris Club of major bondholders for a delay in repayment of its debt until 2022 due to the coronavirus pandemic.

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Mexican President Andrés Manuel López Obrador ordered an investigation into allegations that the government of his predecessor, Enrique Peña Nieto, awarded contracts to firm allegedly tied to the former president's family.

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Bolivian Health Minister Marcelo Navajas was arrested in connection with a probe into allegations that the government overpaid for ventilators to treat Covid-19 patients. His lawyer called the arrest "an infamy."

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Navajas // File Photo: Bolivian Government.

POLITICAL NEWS

Bolivia's Health Minister Arrested in Ventilators Case

Bolivian Health Minister Marcelo Navajas was arrested Wednesday in connection with an investigation into allegations that the government paid inflated prices for ventilators to treat patients suffering from Covid-19, the Financial Times reported. Navajas had been in office for just six weeks. His attorney, Rosario Canedo, confirmed Navajas' arrest, calling it "an infamy." She said to reporters in La Paz, "Are we living under the rule of law, or are we living in a dictatorship and under a totalitarian government?" Local media had reported that the government overpaid for the ventilators, leading Interim President Jeanine Áñez to order an investigation on Tuesday. Bolivian newspaper Página Siete reported that the government paid $4.7 million for 170 ventilators on a contract worth $1.2 million, though other newspapers reported that it bought 179 ventilators, citing different prices. On Wednesday, Áñez tweeted that the contract was worth $4.8 million and that the government had paid just over $2 million of it. She vowed that "every cent that has been stolen will be returned," the Financial Times reported. Áñez added that she would bring those responsible for the overpayment to justice.

Venezuela's Guaidó Accuses Maduro of Staging Incursion

Venezuelan opposition leader Juan Guaidó on Wednesday accused President Nicolás Maduro of orchestrating and financing an alleged failed incursion this month, without providing hard evidence to back up the claim. During an online **event** hosted by the Inter-American Dialogue, Guaidó accused Maduro's government of being behind the so-called "Operation Gideon," in which a group of apparent mercenaries, including several Venezuelan dissidents and two Americans, purportedly attempted to infiltrate the country by sea on May 3. Guaidó, whom dozens of countries recognize as Venezuela's interim president, accused Maduro of using the incident as a propaganda tool to smear and persecute the opposition. "This has been a huge propaganda apparatus … Not only was this operation infiltrated, but also financed by the dictatorship," Guaidó said. "Given the result [of the incident], which only benefits the dictatorship, this much seems almost obvious," he added. Maduro has said the plot had the goal of killing him. During the event, Guaidó again denied any involvement in the incident. Though some of his advisors, who have since resigned, previously met with those who claimed responsibility for the plan, Guaidó said such "strategy meetings" were held a long time ago and "have nothing to do" with the botched plot. Among the people that Venezuelan authorities arrested in connection with the incident earlier this month is former U.S. Army special forces soldier Luke Denman. In a heavily edited video that Maduro's government released, Denman held up to the camera a contract for the plot purportedly bearing Guaidó's signature. Guaidó has called the contract a fake. U.S. President Donald Trump has also denied involvement in the incident. Venezuela's Ministry of Communication and Information did not respond to an email from the Advisor seeking comment on Guaidó's accusation. [Editor's note: See related **Q&A** in Tuesday's issue of the Advisor.]

ECONOMIC NEWS

Cuba Asks Paris Club for Delay in Debt Repayments

Cuba has asked the Paris Club of major bondholders for a delay in the repayment of its debt until 2022, blaming the economic fallout of the coronavirus pandemic, diplomatic sources told Agence France-Presse on Wednesday. In a letter to the 14 countries of the Paris Club, which includes Britain, Canada, France and

NEWS BRIEFS

Venezuelan Military to Escort Iranian Tankers Delivering Fuel

Venezuela's military will escort Iranian tankers delivering fuel to the Andean nation as soon as they reach Venezuela's exclusive economic zone, Defense Minister Vladimir Padrino said Wednesday, Reuters reported. The military would "welcome them in and thank the Iranian people for their solidarity and cooperation," he said. Opposition leader Juan Guaidó said the shipment should "alarm" Latin America.

Mexico City to Gradually Begin Reopening Economic Activity June 1

Mexico City will begin a gradual reopening of economic activities on June 1, Mayor Claudia Sheinbaum said on Wednesday as the country recorded its largest coronavirus-related daily death toll and cases continue to increase, the Associated Press reported. The number of Covid-19 deaths nationwide rose by 424 on Wednesday to 6,090, well above last week's record of 353 deaths reported in one day. Total confirmed cases of the virus reached 56,594, but experts believe the real number to be much higher due to a lack of sufficient testing.

Costa Rica Reaches Deal to Allow Entry of Panamanian Truckers

Panama and Costa Rica have reached a deal to allow Panamanian truck drivers to enter Costa Rica under strict health control protocols and reopen the Paso Canoas cargo passage at the countries' border, Panama's government said Wednesday, QCosta Rica reported. The announcement followed a blockade by Panamanian carriers in protest of Costa Rica's move to prevent the entry of foreign drivers to curb the spread of Covid-19. More than 60 truck drivers at Costa Rica's southern and northern borders have tested positive for the novel coronavirus.

Japan, Cuban Deputy Prime Minister Ricardo Cabrisas proposed "a moratorium for 2019, 2020 and 2021 and return to paying in 2022," the source said. Two other diplomats confirmed the information. The island nation last year missed more than $30 million in payments, which were due under a 2015 restructuring deal that had been considered as a step toward integrating Cuba into the international financial community, Reuters reported. "The agreement is extremely beneficial for Cuba and that they could not pay speaks volumes about how broke they are," one diplomat told the wire service in February, when news broke that Cuba had failed to meet its 2019 payments. Also that month, Cuba committed to settling that debt by May, but the pandemic has hindered that plan, AFP reported. According to one source, the letter says that Cuba would reassess its economic situation in 2021 to determine if it could resume payments then.

BUSINESS NEWS

Mexico's López Obrador Orders Probe Into Contracts

Mexican President Andrés Manuel López Obrador on Wednesday ordered a probe into allegations that the government of his predecessor, Enrique Peña Nieto, irregularly awarded lucrative contracts to a firm allegedly tied to Peña Nieto's family, Reuters reported. According to Mexican newspaper El Universal, between 2013 and 2018 Peña Nieto's government awarded $640 million in contracts to Plasti-Esteril, a firm his family founded in 1991, and medical supply company Baxter International. Baxter, which owns Plasti-Esteril, said the firm was set up by the Peña family but that the family sold all its shares to private investors in 1992. "This family completely stopped having any type of shareholding in Plasti-Esteril in 1992," Baxter said in a statement, which added that it took over complete ownership of the company in 1999.

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it is now virtually unmanageable. The bright spot, as it has been since the mid-2000s, is agribusiness, which remains resilient and, despite faulty logistics, is still capable of competing in a world of diminishing demand and falling commodity prices. The fast depreciation of the Brazilian real helps. With low inflation, low levels of dollar indebtedness and import dependence—now that investment is at a standstill—a weak currency is a boon. It is the automatic stabilizer to the wave of capital outflows. They will continue: Not only foreigners, but also domestic investors, are readjusting their portfolios. Expectations of a quick turnaround and/or large interest rate differentials to the rest of the world are no longer a safeguard for the bleak near-term outlook."

> **"The recovery in the years ahead is likely to be slow..."**
> **— Paulo Vieira da Cunha**

A **Joel Korn, president of WKI Brasil and senior international partner for the Americas at UPITE Consulting:** "The pandemic's effects caught the country at an early stage of a long-awaited recovery, following six consecutive years of economic stagnation, which encompassed a recession in 2015-2016 and negligible annual growth of slightly more than 1 percent. While a contraction of 5 percent in 2020 is a reasonable assumption, the forecast will be subject to further adjustments depending upon how long the current state of paralysis lasts. Minister Guedes' bleak outlook of 'economic collapse' should be interpreted within the context of a concern with a prolonged period of lockdown. However, while a gradual lifting of restrictions on movement may help economic activities and benefit millions of people whose subsistence depends on day to day work, I don't expect a meaningful impact on demand and supply for the remainder of the year. Uncertainties with the unprecedented times that we are living, fueled by a double-digit and escalating unemployment rate, make individuals wary about their future, prompting stricter consumer spending and behavior changes. This will continue to affect a broad spectrum of economic sectors, particularly tourism and nonessential services, retail, financial services, durable consumer goods and manufacturing, especially in capital-intensive industries. On a positive note, Brazil will continue benefiting from its competitive agribusiness sector as a major contributor to exports. On the political front, President Bolsonaro's strained relations with Congress and ongoing negotiations to realign alliances for needed legislative support, along with imminent municipal elections still scheduled for the second half of the year, is likely to further delay the passing of overdue tax and administrative reforms. This may well hinder the attraction of private sector investments, especially for infrastructure projects and privatizations. Against this background, I believe economic recovery won't start until next year, at best. Meantime, the government should continue implementing the enhanced social assistance and financial aid programs, along with liquidity measures and access to credit for micro and small-size companies. In addition, fiscal responsibility, policies to address income distribution imbalances, structural reforms and a competitive regulatory framework are crucial ingredients to restore investor and consumer confidence toward an economic turnaround."

A **Marcos Casarin, head of Latin American macro services at Oxford Economics in London:** "The economic collapse Minister Guedes was referring to is already taking place to some extent. Although official data

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for economic activity in April and May will only be known in a few months, high-frequency indicators from payments methods already show the worst economic contraction on record during those months. Moreover, Brazil is also facing a health crisis, with the country likely to be the worst-affected emerging economy in terms of its Covid-19 death toll. Our latest forecast is for GDP to contract 4.8 percent in 2020, which is not much different from the government's latest estimates. The economic cost will be felt across the board, but sectors such as aviation, tourism, hospitality, entertainment and some manufacturing subsectors will be hit the hardest. Brazil's crisis response is among the largest in the emerging market world and includes cash handouts to households, credit lines to businesses and increased ICU supply. The big question mark at the moment is how society will pay for this extra 6 percent of GDP in public spending."

> **"The economic collapse Minister Guedes was referring to is already taking place to some extent."**
>
> **— Marcos Casarin**

A **Pedro Rossi, professor at the economics institute of the State University of Campinas:** "The pandemic strikes Brazil during the greatest economic crisis in its history, with a weakened social structure, more than 10 million people unemployed and a weakened social protection network due to austerity policies. The country, however, has the instruments to mitigate the impacts of the crisis. It does not have a significant public external debt, it has foreign exchange reserves, and it has public banks and a consolidated social policy set of instruments. Paradoxically, the biggest obstacle to overcoming the crisis is the ideological belief in the free market and in austerity policies and the unjustifiable fear of public debt. The idea of deepening austerity policies in the immediate post-health crisis could lead Brazil to economic and social collapse."

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

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