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FEATURED Q&A

Why Has Almeida's Departure Rattled Brazil's Markets?



Brazil's treasury secretary, Mansueto Almeida, announced that he would step down at the end of July. // File Photo: Agência Brasil.

Q Brazilian Treasury Minister Mansueto Almeida announced in June that he would be stepping down. Bruno Funchal, currently the ministry's director of programs, will succeed Almeida by the end of July. Financial markets in Brazil were turbulent following the news, with the real currency dropping as much as 3 percent against the U.S. dollar. Why is Almeida resigning, and what does his replacement mean for Brazil's direction in terms of economic policy? What message does Almeida's stepping down send to investors and the business community? To what extent will his resignation hurt support for and confidence in the government of President Jair Bolsonaro?

A Erich Decat, partner and political analyst at XP Investments: "Treasury Secretary Mansueto Almeida's decision to step down had an impact on the stock market and raised some questions from investors about the future of Brazil's economic policy. Bear in mind that Almeida is well known as an advocate for fiscal discipline and for his strong support of the federal spending ceiling. In short, the ceiling establishes that the federal government cannot spend more than it raises. However, it's important to point out that the reaction to Almeida's resignation only had a short-term impact on investors' moods. This is because, first, the writing had been on the wall since the end of 2019, and second, because the new secretary, Bruno Funchal, has been on the economic team since the beginning of President Bolsonaro's term. Funchal is also an economist and did an excellent job when he was the finance secretary of Espírito Santo state. This means

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TODAY'S NEWS

POLITICAL

Authorities Arrest 12 in Attack on Mexico City Security Chief

Heavily armed gunmen on Friday attacked Mexico City's top police official, Omar García, in an incident that left three people dead and García wounded.

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BUSINESS

Brazil Announces \$127 Million Deal on Covid Vaccine

Brazil's government announced Saturday it had reached a deal with pharmaceutical maker AstraZeneca and Oxford University in the United Kingdom to produce a coronavirus vaccine that is in the testing phase.

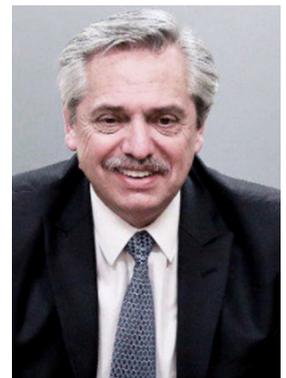
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ECONOMIC

Argentina Sends 'Final' Offer to Foreign Creditors

Argentine President Alberto Fernández has prepared a new and "final" offer for foreign creditors holding \$65 billion in debt as July's deadline approaches.

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Fernández // File Photo: Argentine Government.

POLITICAL NEWS

Authorities Arrest 12 in Attack on Mexico City Security Chief

Mexican authorities over the weekend carried out a series of raids while investigating the attempted assassination of Mexico City's security secretary, BBC News reported. Heavily armed gunmen on Friday attacked Mexico City's top police official, Omar García, in an incident that left three people dead and García wounded, Mayor Claudia Sheinbaum said. Authorities said Sunday the Jalisco New Generation cartel made alliances with three other criminal groups to carry out the brazen attack, El Universal reported. Two of the people killed were part of García's security detail, while the third one was a passerby. García said he had



García // File Photo: Mexican Government.

suffered three bullet wounds as well as injuries from various pieces of shrapnel, but he is expected to recover. Twelve alleged assassins have been detained and charged with homicide, attempted murder and other crimes. The three criminal groups, La Unión Tepito, Tláhuac Cartel and the ACME group, provided vehicles, warehouses and sheltered the hitmen prior to the attack. The operation cost several million pesos to undertake, according to the report. Friday's attack came less than two weeks after a federal judge and his wife were gunned down in their home in the western state of Colima, the Associated Press reported. District Court Judge Uriel Villegas Ortiz and his wife, Verónica Barajas, were standing outside their home around midday June 16 when at least five assassins opened fired and fled. The judge

had been investigating organized crime. Mexico's government has accused the Jalisco New Generation cartel in that crime as well.

ECONOMIC NEWS

Argentina Sends New and 'Final' Offer to Foreign Bondholders

Argentina's government has submitted what it called a new and "final" payment proposal to restructure nearly \$65 billion in debt held by external creditors, Clarín reported Sunday. Officials told the local newspaper that this is the "first time" that, at the highest level of government, there is confidence that the proposal will be accepted. According to the report, government officials have received a positive response from a "good number" of foreign bondholders, but the largest companies, which include BlackRock, Fidelity and Ashmore, have yet to react to the offer. A response from them is expected later this week, according to the report. Earlier this month, Argentina pushed back the deadline for its restructuring to July 24 as the two sides appeared to be at an impasse. The so-called Ad Hoc creditor group, which is made up of 13 international asset managers and is the largest bondholder group, and Argentine negotiators had accused each other of refusing to cede ground in the negotiations, CNBC reported. The government of President Alberto Fernández said it could not "responsibly commit" to new terms creditors had proposed, saying parts of the offer were "largely inconsistent with the debt sustainability framework necessary for Argentina to restore macroeconomic stability and make progress towards a program with the IMF." The South American country technically fell into its ninth sovereign debt default last month after having missed overdue interest payments, and a deteriorating economic outlook could make the situation more difficult for all parties involved. Argentina's economy was facing recession for a third year even before the coronavirus pandemic hit, and now some analysts

NEWS BRIEFS

World Bank Approves \$300 Million Loan for Costa Rica

The World Bank on Friday announced it had approved a \$300 million loan for Costa Rica to face the economic fallout brought on by the coronavirus pandemic, Reuters reported. The money will be earmarked toward supporting small and medium-sized businesses as well as developing environmentally sustainable projects. The loan will contribute to "efforts to conserve jobs and prevent people from falling into poverty," Seynabou Sakho, the World Bank's director for Central America, said in a statement.

Argentine Doctors Expect Covid-19 Peak in July

Argentine doctors expect the South American country to reach the peak of the coronavirus pandemic in July, as winter sets in, warning of possible strains in hospitals, Reuters reported. Argentina last week surpassed 50,000 cases after initially controlling the virus with a tough quarantine. Cases have increased fivefold since mid-May. "We estimate that the number of infected people will keep rising for the next 20 days or so," said Juan Ciruzzi, the executive director at the Eurnekian Hospital in Buenos Aires, in part due to eased lockdowns.

Mexico's Exports Plummet 54 Percent in May

Mexican trade plummeted for a second consecutive month in May, registering plunges in both imports and exports due to the economic fallout of the coronavirus pandemic, the national statistics agency said Friday, Reuters reported. Mexico's international sales fell 54.1 percent year-on-year, while imports declined by 43 percent. The shutdown of nonessential businesses since mid-March mostly affected the country's manufacturing sector, especially the auto industry, whose sales sank 89 percent.

are expecting a record economic contraction. The South American country's industrial output plunged 33 percent in April, and the IMF earlier this month cut its forecast for growth this year, to a contraction of 9.9 percent.

BUSINESS NEWS

Brazil Reaches Deal With AstraZeneca on Covid-19 Vaccines

Brazil's government announced Saturday it had reached a deal with pharmaceutical maker AstraZeneca and Oxford University in the United Kingdom to produce a coronavirus vaccine that is in the testing phase, the Associated Press reported. Health Ministry authorities said at a news conference that Brazil will pay \$127 million and receive material to produce 30.4 million doses in two batches in December

The total deal is for 100 million vaccines, enough to reach nearly half of Brazil's population of 210 million.

and January. The total deal is for 100 million vaccines, enough to reach nearly half the population of 210 million, to be produced by local vaccine maker Fiocruz. As of Sunday, Brazil had more than 1.3 million confirmed cases of Covid-19 and more than 57,600 deaths, according to a tally by Johns Hopkins University. Countries across Latin America and the Caribbean, a region in which no nation was listed among the World Health Organization's top 15 countries in the world most actively pursuing a vaccine for Covid-19, have worried that "vaccine nationalism" in developed countries will limit or delay access to coronavirus vaccines. "The chaotic experience of accessing unpatented, low-level technologies, such as masks and other protective gear, should be

FEATURED Q&A / Continued from page 1

he is intimately familiar with the current economic policies, and that we won't see a turnaround. In other words, we do not expect any continuous turbulence due to the change of secretary, which is crucial for investors. However, in the medium term, Funchal has to find answers to complex issues left behind by his predecessor, such as how to balance the budget and the disastrous fiscal outcome that will emerge after the Covid-19 crisis and how to revive the economy. The lack of answers can have a potential impact on investor confidence, but surely not only in the short term."

A Joel Korn, president of WKI Brasil and senior international partner for the America at UP-ITE Consulting: "The likelihood of Treasury Secretary Mansueto Almeida's resignation—for personal reasons—was somewhat expected for several months and publicly known. Besides holding a key position in the economic team since the previous administration—he was then secretary of economic policy—Mansueto was a reference of credibility for fiscal policies and relentless commitment to discipline in budget execution. He designed and implemented the plan for states' debt restructuring. His departure should not alter the government's fiscal constraint directives under Economy Minister Paulo Guedes, albeit the inevitable and imperative financial assistance programs imposed by the unprecedented conditions associated with the Covid-19 pandemic. Given that Almeida's successor is already a member of the economic team and has the required qualifications for the position, the effects of this change at the helm of the Treasury will not in itself have an impact on

avoided at all costs," researcher Arachu Castro at Tulane University told the Advisor. On Friday, the WHO and two nonprofits unveiled an \$18 billion plan to procure two billion doses of eventual coronavirus vaccines for developing

investors' and the business community's confidence in Brazil. It remains to be seen, though, how the government will cope with the potential pressures for allocation of very

“ Mansueto was a reference of credibility for fiscal policies and relentless commitment to discipline...”

— Joel Korn

limited unrestricted funds as a result of the ongoing political negotiations to expand its congressional support. A more favorable risk perception and the strengthening of investor confidence remain dependent upon effective actions to mitigate the current uncertainties associated with institutional and regulatory stability, the ability to deliver the crucial tax and administration reforms, public service concessions and privatizations and last, but not least, a major reversal in the government's policies and responsibility toward biodiversity conservation."

A João Ricardo Costa Filho, professor of economics at Fundação Getúlio Vargas and Ibmec in São Paulo: "In a country marked by a long tradition of fiscal recklessness, investors see the soon-to-be former treasury secretary, Mansueto Almeida, as a representative of fiscal sustainability. This is why the reaction to the announcement of his departure was so strong, with currency depreciation and a fall in the stock markets. For those with high expectations of a strong structural reforms endeavor (yet

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nations. The Global Alliance for Vaccines and Immunization, or GAVI, and the Coalition for Epidemic Preparedness Innovations, or CEPI, will spearhead the effort. [Editor's note: See related [Q&A](#) in the June 8 issue of the Advisor.]

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to be materialized), Almeida was seen as an essential player. Now he is leaving. Why would he leave? One hypothesis is that the treasury secretary would remain only while he had the support of Finance Minister Paulo Guedes, and his departure means that he

“Investors see the soon-to-be former treasury secretary, Mansueto Almeida, as a representative of fiscal sustainability.”

— João Ricardo Costa Filho

no longer does. Another is that it is just a long-postponed end of cycle, with Almeida's natural departure to the private sector. One could not rule out a combination of both. A smooth transition with another fiscal expert, Bruno Funchal, signaled the continuation of economic policy and calmed the markets—for now. The Covid-19 turmoil will leave a painful legacy in terms of inequality, high unemployment, bankruptcies, debt and hurdles to grow, besides the horrible impacts on the health front. Will the confidence investors have had in the government continue? That depends on how the government deals with 'the day after tomorrow.' Even if the president's share of faithful supporters does not change, the patience of local investors

can run out in the same way that foreign investors' patience did: with more promises than actions.”

A Henrique Bezerra, country manager for Brazil at Speyside Group: “Mansueto is very well regarded by the financial sector, especially those identified with more orthodox economic policies. The understanding that the crisis created by Covid-19 required countercyclical measures meant that Mansueto and the policies he defended would have to be put on hold, convincing him it was time to leave the government. The exit was being openly negotiated for months, and his replacement, Bruno Funchal, signaled continuity of an austere fiscal policy mindset and the spending ceiling that Minister Paulo Guedes defended (after the pandemic is over). However, we at Speyside estimate that the government will lose an important interlocutor with Congress. There is also a genuine fear that the devastating economic effects of the pandemic and the growing need for political support for Bolsonaro's failing government will mean increased public spending in exchange for political support and any chance at re-election in 2022.”

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

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Q&A

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LATIN AMERICA ADVISOR

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