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## FEATURED Q&A

# Is Economic Policy in Brazil Headed in a New Direction?



In recent weeks, several officials have departed Brazil's Economy Ministry, which is headed by Paulo Guedes. // File Photo: Brazilian Government.

**Q** Brazilian Economy Minister Paulo Guedes this month acknowledged a “stampede” had exited his department following a string of high-level resignations, including a businessman tasked with privatizing state companies and a pro-market undersecretary for macroeconomic policy. Guedes said he has no intention of stepping down. Why are officials resigning from the Economy Ministry? What will the departures mean for the government's economic policy? How well is President Jair Bolsonaro advancing his economic agenda?

**A** Paulo Vieira da Cunha, partner at Verbank Consulting, LLC in New York: “The main loss at the Economy Ministry was former Treasury Secretary Mansueto Almeida, who left from sheer exhaustion after four years of excellent work, serving two administrations. His replacement, Bruno Funchal, is a younger clone; competent, capable and with an impressive track record as the secretary of finance in the state of Espírito Santo. The other losses, with the exception of Rubens Novaes and Salim Mattar, followed similar reasons and were ably replaced by well-selected internal appointments. Novaes and Mattar were ideologues without awareness of how to work with the realpolitik of their jobs. Presently, as the discussions about the 2021 budget and the new framework for social assistance indicate, the real opponent of Paulo Guedes is Jair Bolsonaro. He remains an erratic, opportunistic and incompetent manager, without a sense of strategy other than for searching the limelight through factoids devoid of policy

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## TODAY'S NEWS

### POLITICAL

## Venezuela Using Covid-19 to Crack Down on Dissent: HRW Report

The government of Venezuelan President Nicolás Maduro is using the Covid-19 pandemic to crack down on dissent and tighten control over Venezuelans, Human Rights Watch said in a report.

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### BUSINESS

## Brazil's Nubank Raises \$300 Mn in Equity Investment

The Brazilian fintech start-up raised the money from five investors, according to a securities filing.

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### ECONOMIC

## Peru's Economy Ministry Expects 12 Percent Plunge

Peru's Economy Ministry said it expects the country's GDP to contract by 12 percent this year. Economy Minister María Antonieta Alva said the country has not seen such levels of decline in more than 30 years.

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Alva // File Photo: Peruvian Government.

## POLITICAL NEWS

## Venezuela Using Covid to Crack Down on Dissent: Report

The government of Venezuelan President Nicolás Maduro is using the coronavirus pandemic to crack down on dissenters and tighten control over the population, Human Rights Watch, or HRW, said in a report published today. Since declaring a state of emergency to fight Covid-19 on March 13, "Venezuelan authorities have arbitrarily detained and prosecuted dozens of journalists, health care workers, human rights lawyers and political opponents who criticize the government," HRW said in a statement. "The state of emergency has emboldened security forces and armed pro-government groups that already have a record of torture and extrajudicial killings to crack down even more harshly on Venezuelans," said José Miguel Vivanco, director for the Americas at HRW. "In Venezuela today, you can't even share a private message criticizing the Maduro government via WhatsApp without fear of being prosecuted," he added. HRW's Venezuela specialist and deputy director for

the Americas, Tamara Taraciuk, said the crack-down was happening "under the radar" while the world is distracted by the pandemic, The Guardian reported. Some cases involved physical abuse and torture, she added. The Andean nation has recorded just 358 confirmed coronavirus deaths, well below the nearly 120,000 in neighboring Brazil, but experts agree that the real number is likely to be much higher than the government admits and is likely to deteriorate as the country's already collapsed hospitals continue to struggle, The Guardian reported.

## ECONOMIC NEWS

## Peru's Economy Ministry Expects 12% GDP Plunge This Year

Peru's economy is expected to contract by 12 percent this year, the deepest plunge in three decades, the economy ministry said Thursday, Gestión reported. Economy Minister María Antonieta Alva said the Andean nation has not seen such levels of economic decline since 1989. Peru, which has experienced one of the worst coronavirus outbreaks in the region

## NEWS BRIEFS

## Bondholders to Decide Today on Argentina Restructuring Proposal

After four months of tense talks between Argentina and international bondholders, and multiple delayed deadlines and amendments since the government's initial offer in April, creditors will decide today whether to accept the country's \$65 billion restructuring proposal, Reuters reported. The three main creditor groups, which hold a large portion of the bonds, have already backed the deal. An agreement is key to help Argentina out of default and to revamp the economy after three consecutive years of recession.

## Mexico Will Critically Need Foreign Investment: Central Bank Chief

Foreign investment will play a critical role in Mexico's economic recovery, central bank governor Alejandro Díaz de León told Nikkei in a recent interview, the Japanese financial newspaper reported today. The central bank said this week that Mexico's economy could contract by between 8.8 percent and 12.8 percent this year, possibly the worst year since the 14.8 percent plunge recorded in 1932 during the Great Depression. "We're going to need a good strategy for investment to recover," Díaz de León said.

## U.S. Army Unit Will Restart Activities in Colombia: Defense Minister

A U.S. Army unit will be able to restart its activities in Colombia after senators in the Andean nation determined that the unit's activities did not constitute a deployment of foreign troops in the country, Reuters reported Thursday, citing Colombia's defense minister. A Colombian court had previously ordered the 53-person specialist unit to halt training after opposition legislators filed legal action over its presence.

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content. Bolsonaro needs Guedes, and this is why Guedes survives. It is said that they have a personal bond. However, Bolsonaro's presumed espousal of the 'liberal agenda' was never for real, likely based on the self-serving notion that it was, at the time, 'anti-establishment.' Guedes' own liberal agenda is moribund, overtaken by a brutal expansion of public spending and the reach of public programs made necessary by the crisis. Like many before him in his position, his job now is to protect the public sphere from misguided and wrongheaded proposals coming from the president and his allies and to keep expectations of fiscal control alive. Without them, another crisis would surely follow. It's a tough job, and it is unclear how long he will survive or have the stamina to

face it. His main allies are groups within Congress, and it is Congress that holds the reins of the policy agenda."

**A** **Welber Barral, senior consultant at BMJ Consultores Associados and former Brazilian foreign trade secretary:** "The two former secretaries (Salim Mattar and Paulo Uebel) were very successful in the private sector, but they were clearly frustrated with the slow pacing of their proposals for privatizations and for administrative reform. This frustration derived from the complex, time-consuming task of any attempt to improve the Brazilian legal system. But clearly, they felt that the presidential palace should be more committed to these reforms. Guedes quickly

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with more than 600,000 confirmed cases of Covid-19, saw its economy fall by more than 30 percent in the second quarter amid lockdowns aiming to contain the spread of the virus. The quarterly contraction was among the deepest in the world, Reuters reported. Alva also forecast that the country's fiscal deficit will rise this year to 10.7 percent of GDP, up from a deficit of 1.6 percent last year. The government allowed the economy to begin reopening in May after a strict quarantine. The ministry forecasts a recovery in 2021, with economic growth reaching 10 percent due to stronger consumption and private investment as well as better public spending, Gestión reported.

## BUSINESS NEWS

### Brazil's Nubank Raises \$300 Mn in Equity Investments

Brazilian financial technology start-up Nubank has raised \$300 million in equity investments, Reuters reported Thursday, citing a filing with the U.S. Securities and Exchange Commission. According to the document, five investors participated in the new funding, though the filing did not disclose their names. The document was filed with the regulator in June, but news of it did not surface until this week when a Brazilian financial blog reported on it, according to Reuters. Investors that have already put money into Nubank include TCV, Tencent Holdings, DST Global, Sequoia Capital, Dragoneer Ribbit Capital, Kaszek and Thrive Capital, the wire service reported. While credit cards usually carry fees in Brazil, Nubank offers them for free. The start-up reached 26 million clients in June, making it the South American country's second-largest issuer of credit cards. The largest is Itaú Unibanco, the country's largest lender, according to a note by analysts at UBS. Nubank's credit card transactions grew 54 percent in the first half of this year, in contrast to declines at banks including Itaú, Banco Bradesco and Banco Santander Brasil. Nubank also had a "healthy" asset quality trend, said UBS analysts. Last week, Nubank posted its

## THE DIALOGUE CONTINUES

### Does Argentina's Judicial System Need an Overhaul?

**Q Thousands of protesters took the streets of Argentina's largest cities this month in protest of the government's sweeping proposals for judicial reform, which critics say is an attempt by President Alberto Fernández to manipulate the court system at a time when his vice president, former President Cristina Fernández de Kirchner, is under investigation for alleged corruption. What aspects of Argentina's judiciary need the most improvement? What are the main points of the government's reform plan, and do they address the judicial system's core problems? Why has the proposal sparked controversy, and how might such a reaction affect its passing?**

**A Horacio Verbitsky, president of the Center for Legal and Social Studies (CELS) in Buenos Aires:** "The protest was a parade of high-end cars, with few people and violent slogans, similar to QAnon, flat-earthers, anti-vaxxers and anti-Semites. The opposition (and the influential media) interpreted it as a massive mobilization, which it wasn't. The motivation wasn't clear either. The convening ads on social media, made in different languages with the techniques of Steve Bannon, generically attack politics,

financial results for the first half of the year, saying it had a net loss of 95 million reais (\$17.3 million), Contxta reported. However, the fintech firm added that it had more than doubled its customer base. Nubank added that its loss was less than the 139 million reais it lost in the first half of 2019. Additionally, Nubank said its transactions volumes increased 54 percent in the first half, year-on-year. Nubank added that its credit cards had a default rate of 5.8 percent, below Brazil's market average for the period. It also increased its provisions for

the coronavirus lockdown, inflation and poverty, in addition to the judicial reform. In the Senate, the reform's critics were not able to identify one single article that would favor Vice President Cristina Fernández de Kirchner (CFK), since current cases will continue in the same courts that are reviewing them now. However, the confrontation with CFK is the main factor unifying the fragmented opposition. A valid criticism is that the judicial reform is not a priority for society amid a pandemic and an economic and social crisis. But the same can be said about the closed opposition to the reform. At the CELS, we have questioned the project, not because it will ensure impunity for anyone, but rather because it does not deepen the process begun in 2014, which former President Macri halted, of transitioning from an inquisitorial system (in which the judge investigates and punishes) to an accusatory system (in which the investigation is carried out by a prosecutor and the judge guarantees the legality of the procedure). That is the substantive reform that is still pending."

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**EDITOR'S NOTE:** The comment above is a continuation of the Q&A published in Thursday's issue of the Advisor.

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bad loans by 16 percent in the first six months of the year, Contxta reported. In reporting the first-half results, Chief Financial Officer Marcelo Kopel said the loss was expected. "The loss is a decision, and therefore expected as part of the current growth strategy," he said in the fintech's blog post last week. "We chose to invest in the company, people and the development of new technologies to continue delivering the best experience to our customers. This model is well known and used by technology companies."

## FEATURED Q&amp;A / Continued from page 2

reiterated his economic policy, and the government's commitment to fiscal responsibility. And Bolsonaro seconded him on this discourse. The central question is whether this situation will result in restraining pressures for fiscal expenditures, and on the effectiveness of negotiations with Congress to approve the reforms, especially the tax reform, which is essential to facilitating business in Brazil. The pension reform, which was approved last year, and the emergency package of social subsidies and credit measures were relevant to mitigate this annus horribilis. And Congress was very supportive of these measures, with little action from the opposition parties. The administration is still learning how to implement the regulatory certainty that could boost investment in crucial areas, such as sanitation and infrastructure."

**A** lone Amorim, economist at the Brazilian Institute of Consumer Defense (IDEC): "For IDEC, changes in the economic team reflect the absence of a government program and inexperience in the political articulation of the members that make up the federal government. Since the beginning of the current government's term, there has been a turnover of names in various ministries. The most important during the pandemic, the Ministry of Health, has been without a representative for more than 100 days, and more than 117,000 Brazilians have been killed by Covid-19. The government's lack of concern for health and the growing death toll shows that the population is at risk and that

the policies adopted have been ineffective in combating the pandemic. The government has prioritized the economy, as happened with the financial sector, which received resources of 1.3 trillion reais to help the economy, prioritizing only large companies.

“ Pressure is likely to grow and increase fear in the market.”

— lone Amorim

While millions of small businesses have disappeared from the market and millions of consumers have entered the statistics of over-indebtedness, the government has focused on the political agenda of the 2022 presidential campaign. The economic team so far, which has been spared criticism by sectors of the economy that have benefited from the measures proposed since the beginning of the current government, has begun to receive pressure amid the slowdown in privatizations, administrative and tax reforms and the forecast of spending on Covid-19 surpassing GDP this year. These government measures raised market concerns and generated internal pressures that triggered the departure of technicians from the ministries. The pressure is likely to grow and increase fear in the market."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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**Erik Brand**  
Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**  
Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Anastasia Chacón González**  
Reporter & Associate Editor  
[achacon@thedialogue.org](mailto:achacon@thedialogue.org)

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