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FEATURED Q&A

Is Latin America & the Caribbean Facing Insolvency?



World Bank Chief Economist Carmen Reinhart said this month that Latin America is too dependent upon external finance. // File Photo: Inter-American Dialogue.

Q World Bank Chief Economist Carmen Reinhart warned this month of Latin America's increasing potential to fall into insolvency after taking on unprecedented levels of debt during the coronavirus pandemic. The region's banks, many of which have offered borrowers grace periods, are uncertain how many small businesses and households will be able to repay their debts, she said. How deeply are Latin America and the Caribbean nations in debt, and which countries and sectors face the highest risk of insolvency? How will access to and the cost of credit for the region change in the years ahead? How can policymakers prepare for a more organized restructuring of massive debt loads, and could global frameworks and international resources do a better job of addressing the problem than in past debt restructurings in countries such as Argentina, Ecuador and Venezuela?

A Adam Boehler, chief executive of the U.S. International Development Finance Corporation (DFC): "When DFC launched late last year as America's development bank, we could not have foreseen how this new U.S. government agency would be called upon to respond to a global crisis that threatens livelihoods and developing world economies. As stay-at-home orders and limited border crossings made it difficult for businesses to operate, we responded quickly to inject liquidity into markets where private financing was constrained. In recent months, DFC launched a \$4 billion rapid response liquidity facility to provide additional support to projects affected by the pandemic, and we approved multiple projects to support

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TODAY'S NEWS

POLITICAL

Street Protests Pick Up Across Venezuela

Protests have picked up again across Venezuela as discontent among citizens rises amid shortages of fuel, water and household supplies and the failure of public services.

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POLITICAL

AUC's 'Jorge 40' Back in Colombia

Colombian authorities said the former head of paramilitary group United Self Defense Forces of Colombia (AUC) is back in the country to respond to accusations that he was behind atrocities ranging from mass killings to torture.

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ECONOMIC

Brazilian Judge Halts Minister's Move on Coastal Ecosystems

A judge in Brazil has suspended plans by Environment Minister Ricardo Salles to revoke rules protecting tropical mangroves and other fragile coastal ecosystems.

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Salles // File Photo: Brazilian Government.

POLITICAL NEWS

Street Protests Pick Up Across Venezuela

Protests have picked up again across Venezuela as discontent among citizens rises amid shortages of fuel, water and household supplies and the failure of public services, a local nongovernmental organization said on Tuesday, Reuters reported. The Caracas-based Venezuelan Observatory of Social Conflict said it had received reports of more than 100 protests since last weekend in 19 of the Andean nation's 23 states. "We're looking at a new wave of protests with the particularity that this time the protagonists are those living in Venezuela's villages and towns," said Marco Ponce, the observatory's director. In the past, protests mostly occurred in Caracas. However, the government has prioritized the capital city for fuel deliveries to gas stations, which has somewhat tempered discontent there. In the rest of the country, Venezuelans are waiting in line days for gasoline that frequently does not arrive. Ponce added that the administration of President Nicolás Maduro has sent security forces to quash the protests, which has led to at least 50 arrests. Local watchdog Foro Penal reported Monday that at least 214 people have been detained, and four killed, during protests in Venezuela this year, The Guardian reported. In related news, the U.S. permanent representative to the Organization of American States, Carlos Trujillo, on Tuesday addressed what he called "massive human rights violations" by Maduro's government during an OAS special session on the situation in the country, referencing the "systematic decimation of Venezuela's democratic institutions" and "ongoing electoral fraud."

AUC's 'Jorge 40' Returns to Colombia

Colombian authorities said Tuesday the former head of paramilitary group United Self Defense Forces of Colombia (AUC) is back in the country to face accusations that he was

behind atrocities ranging from mass killings to torture, El Universal reported. Rodrigo Tovar Pupo served 12 years in prison in the United States under a 16-year sentence for drug trafficking. Also known as "Jorge 40," Tovar Pupo faces more than 30 arrest warrants in Colombia, according to EFE. He is currently under police custody in the Andean country awaiting trial. Tovar Pupo and his accomplices in the AUC have been accused of operating as power brokers in the northern Caribbean region of Colombia, killing political opponents of allies who, while in elected office, protected his crime group's trafficking in arms and drugs, according to Colombia Reports. The AUC is widely believed to have used its battles with leftist rebels as cover to hide illicit activities.

ECONOMIC NEWS

Brazilian Judge Halts Minister's Move on Coastal Ecosystems

A judge in Brazil has suspended plans by the government of far-right President Jair Bolsonaro to revoke rules protecting tropical mangroves and other fragile coastal ecosystems, BBC News reported Tuesday. Environmental advocates feared property developers would try to replace large areas of mangrove swamps with new resorts for tourists. Federal Judge Maria Carvalho in Rio de Janeiro noted the "obvious risk of irreparable damages to the environment" in the decision. The National Council for the Environment, chaired by Environment Minister Ricardo Salles, on Monday approved the repeal of its resolutions 302 and 303, which had established criteria for the preservation of coastal areas of mangroves and sandbanks, as well as areas around water reservoirs, Folha de S.Paulo reported. The council also revoked resolution 284, which submitted irrigation projects to the environmental licensing process. Agriculture uses nearly three-fourths of the water consumed in Brazil, according to the report. Bolsonaro's administration has faced mounting pressure both at home and abroad over its en-

NEWS BRIEFS

Chilean President Aims to Increase Public Spending by 9.5 Percent Next Year

Chilean President Sebastián Piñera on Tuesday introduced a budget that includes a 9.5 percent year-on-year increase in public spending, Reuters reported. In a televised speech, the conservative called the spending "very austere" in light of the coronavirus pandemic and demands for economic recovery. Piñera announced on Sunday the launch of \$2 billion in subsidies aimed at creating new jobs or recovering those lost during months of lockdown.

Guatemala to Allow Businesses to Open After Lockdown

Starting Thursday, Guatemala's government will allow businesses such as bars, theaters and gyms to reopen after being shuttered for months due to the coronavirus pandemic, Prensa Libre reported Tuesday. Limits on attendance and other measures will still be in place based on a color-coded alert system. The Central American country has recorded 3,238 deaths from Covid-19 and roughly 91,000 people infected with the virus, including President Alejandro Giammattei, the Associated Press reported.

Newmont Mining Forms Joint Venture in Colombia

Denver-based Newmont Mining said Tuesday that it has formed an exploration joint venture in Colombia with Agnico Eagle Mines. The 50-50 venture, which will be operated by Agnico Eagle, will explore the Anzá gold project and advance other prospective gold targets "of district-scale potential" in Colombia. The project is located 50 kilometers west of Medellín and 60 kilometers south from Zijin Mining's Buritica operation. Newmont is a leading gold company and a producer of copper, silver, zinc and lead.

vironmental policies. In Tuesday's presidential campaign debate in the United States, Democratic candidate Joe Biden accused President Donald Trump of allowing Brazil to degrade its environment, saying he would gather the nations of the world to collect \$20 billion to halt the deforestation of its rain forests or impose "significant economic consequences" on Brazil, UPI reported. [Editor's note: See related [Q&A](#) in the Sept. 21 issue of the Advisor.]

Mexican Banking System in Stable Condition: CESF

Mexico's banking system is stable, with high levels of capital and enough liquidity to face the unprecedented economic damage brought by the coronavirus pandemic, the country's Financial System Stability Council, or CESF, said Tuesday. "The Mexican financial system remains in a solid position," the Council said in a statement. The group is headed by Finance Minister Arturo Herrera, and its members include representatives from the central bank, banking regulators and insurers, Reuters reported. The Council warned, however, that the financial sector is facing substantial challenges, especially regarding the operation of the market, credit flows, containment of liquidity problems and adequate risk management. "Some institutions must continue efforts toward diversifying their sources of financing," the Council said. While there are "elements of strength" in intermediaries such as brokerage houses, entities in the insurance and surety sectors, retirement savings and investment funds, other actors such as popular financial companies and credit unions show "a profile of higher credit risk," the Council said. The statement came days after Mexico's finance ministry and banking regulator announced the extension of tools to allow banks and financial intermediaries to restructure loans and other credits to clients, Reuters reported last week. As part of the measures, the government will extend until next year several temporary rules that are aimed at avoiding defaults and losses of collateral.

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lending to SMEs throughout Latin America. Financing of up to \$150 million will help Ecuador's Banco Pichincha expand lending to women-owned and -led micro, small and medium enterprises, addressing a major barrier to credit facing the country's women, who have been disproportionately affected by the economic challenges of Covid-19. The pandemic has resulted in an unprecedented crisis, exacerbating the struggle developing countries often have with insufficient access to credit. DFC's core mission is to work to mobilize capital to advance stability and prosperity. We have more than \$8.5 billion invested in Latin America, which represents the largest share of our global portfolio, and we support multiple projects to increase liquidity across the region. In Guatemala, we approved a \$200 million loan to Banco Industrial to support lending to SMEs, particularly those owned by women and rural borrowers. In El Salvador, we approved a \$10 million loan to expand access to affordable mortgages. Investment will be essential to a sustained economic recovery, and DFC's swift response is mobilizing investment to the communities that need it most."

A Ernesto Revilla, managing director and head of Latin American economics at Citigroup: "In addition to the grief of the many lives lost, the main legacy of this crisis for all countries will be high levels of debt and difficult politics. Debt increased everywhere. The IMF had estimated that debt in advanced economies would increase by 9 percent of GDP on average and in emerging markets by 12 percent of GDP. With a long pandemic, it might be worse. These significant deteriorations in fiscal positions were necessary to prevent bigger downturns in economic activity, job losses and failing firms. However, how to deal with the debt will be a central economic question of the next decade. This crisis will also leave a very complicated political terrain to navigate. Again, this is not exclusive to the

emerging world—witness the road to the U.S. presidential election. In Latin America, social unrest and protests were unsettling the region in the end of 2019. Add to the mix that created the unrest a dramatic health crisis and an economic shock that has deepened inequalities, and we have a fragile environment for debt repayment. The debt explosion and complicated politics interact in distressing ways. To deal with the debt, Latin American countries would need a combination of growth, tax reforms and reduced spending. All of these become much more complicated without popular support. Unfortunately, there are increasing odds that barring those solutions, old Latin American evils will return. Financial repression, monetary financing of deficits and complicated restructurings of debt might be in the menu for many countries in the 2020s."

A Joydeep Mukherji, managing director of Latin American sovereign ratings at Standard & Poor's in New York: "Sovereign debt will increase by a record amount in 2020, but the willingness and ability of sovereigns to service their debt on time and in full depends more on their monetary flexibility and economic resilience than on their government debt-to-GDP ratios. Most of the debt increase will happen in a small number of investment grade sovereigns (Chile, Peru, Colombia, Mexico) or in others with substantial domestic capital markets (Brazil), limiting the risk of default. Moreover, debt servicing may rise less than the debt burden, due to likely low interest rates. Many countries have improved their debt profile in recent years, making it less vulnerable to spikes in interest rates or the exchange rate. Nevertheless, many sovereigns (Uruguay, Paraguay, Nicaragua, Jamaica, Honduras, Guatemala, Dominican Republic, Costa Rica and Bolivia) still have more than 40 percent of their debt in foreign currencies, highlighting vulnerability to sudden changes in the exchange rate. We have lowered proportion-

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ately more ratings in this region than in the world as a whole since the outbreak of the pandemic, demonstrating the comparatively bigger impact of the global downturn in Latin America. However, the recent sovereign defaults in the region have not all been caused by the pandemic. Both Venezuela and Argentina had defaulted before the outbreak of the pandemic, and Ecuador and Suriname had very low ratings prior to the pandemic. These defaults happened in countries with a history of prior sovereign defaults. While more generous debt relief and greater official lending would help, the real challenges lie in domestic politics and policies.”

Alicia Bárcena, executive secretary of the United Nations Economic Commission for Latin America and the Caribbean

(ECLAC): “ECLAC estimates that central government debt in Latin America will increase by 9.3 percentage points of gross domestic product this year to reach 55.3 percent of GDP, the highest level in the last 20 years, although still below that of developed countries. The problem is much more acute for the Caribbean, where central government debt stands at almost 70 percent of GDP with several countries posting ratios around or above 100 percent of GDP even before the Covid-19 pandemic. Despite rising debt levels, in the medium-term, fiscal policy must remain expansionary to provide a solid

base for economic recovery and for building better societies after the Covid-19 crisis; now is not time for fiscal austerity. Making expansionary fiscal policy sustainable going forward requires expanding fiscal space by bolstering tax revenues. The region’s tax take is low (23.1 percent of GDP compared to 34.3 percent of GDP for OECD countries)

“There is a role for international cooperation to provide greater policy space.”

— Alicia Bárcena

and is skewed toward regressive indirect taxation. Tax evasion is endemic; ECLAC estimates that in 2018 Latin America lost \$325 billion in revenues, or 6.1 percent of GDP, to tax noncompliance and \$85 billion—or 1.6 percent of regional GDP—in illicit financial flows as a result of trade misinvoicing. Beyond bolstering tax revenues, there is a role for international cooperation to provide greater policy space. The international community must address the most urgent debt problems through suspensions on debt repayments and debt relief. ECLAC’s proposal for debt relief and the creation of a resilience fund for the Caribbean would address debt issues.”

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Advisor Video

The Future of U.S. Sanctions

A Latin America Advisor interview with Marta Colomar Garcia, administrative managing partner at Diaz, Reus & Targ

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