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FEATURED Q&A

How Important Is a New Deal With the IMF for Argentina?



Argentine Economy Minister Martín Guzmán announced earlier this month that the country's government is seeking an Extended Fund Facility with the International Monetary Fund. // File Photo: Argentine Government.

Q Argentina's government will seek an Extended Fund Facility from the International Monetary Fund, Economy Minister Martín Guzmán said Nov. 9. The new program would update a \$57 billion agreement with the IMF that failed to prevent the country's fall into a recession and a sovereign default. How important is a new deal with the IMF to Argentina's economy, and what would a good deal for Argentina consist of? What would an agreement mean for investment in Argentina? What would the IMF likely require of Argentina in order to strike a deal, and would changes required by the IMF get adequate political support in Argentina?

A Claudio Loser, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund: "A new agreement would be Argentina's 12th with the IMF since the mid-1980s, a record for the region. This agreement is crucial to consolidate Argentina's financial sustainability, and it would help build confidence about its economic policies, creating the basis for renewed official and private flows. Within an Extended Arrangement, the Fund may offer financing that effectively restructures obligations for the next three years (\$44 billion) and extends payments for up to 10 years. Given its multilateral nature, the IMF cannot provide debt forgiveness to Argentina, with a high, even though declining, per capita income. Financial support is granted only in the context of an economic program. The IMF strongly supported Argentina in the private debt renegotiation process and agrees that the fiscal adjustment should be gradual, given the Covid pandemic. The government has announced a

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TODAY'S NEWS

POLITICAL

Biden to Prioritize Immigration Bill in First 100 Days

U.S. President-elect Joe Biden plans to send an immigration bill to the U.S. Senate that contains a pathway to citizenship for more than 11 million undocumented people living in the U.S. within his first three months in office.

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ECONOMIC

Mexico Gains Jobs in Informal Sector

Mexico's unemployment rate improved slightly in the month of October. Informal labor and micro-businesses saw the biggest recovery in jobs that were lost to the pandemic-led lockdown.

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POLITICAL

Venezuela's Guaidó Hopes for Renewed Backing of United States

Venezuelan opposition leader Juan Guaidó told Reuters that he hopes to maintain bipartisan U.S. support as presumptive President-elect Joe Biden prepares to take office in January.

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Guaidó // File Photo: Alex Cabello Leiva.

POLITICAL NEWS

Biden to Prioritize Immigration Policy in First 100 Days

U.S. President-elect Joe Biden (D) said Tuesday that he planned to use his first 100 days in office to take action on an immigration bill, *The Hill* reported. "I will send an immigration bill to the United States Senate with a pathway to citizenship for over 11 million undocumented people in America," Biden said. However, analysts say that if the U.S. Senate remains under Republican Party control after two run-off elections scheduled for January, that legislation is unlikely to pass Congress, according to the report. Biden's predecessor, Republican U.S. President Donald Trump, who continues to dispute the Nov. 3 election result despite fading legal options, took a hard line on immigration, especially from Central America and Mexico, making the issue a centerpiece of his 2016 campaign and the first several years of his administration. Hundreds of children from the region seeking entry to the United States have been rendered effective orphans as a consequence of Trump's directive to split up families apprehended at the U.S. border. Recent hurricanes hitting Central America are likely to spur more migration northward, the Associated Press reported Tuesday. On Monday, Biden picked Alejandro Mayorkas, the first Latino named to his Cabinet, to head the U.S. Department of Homeland Security, where he is expected to push to reverse Trump's immigration policies, *NBC News* reported Monday. Mayorkas, a Cuban American, still needs confirmation from the Senate to run the department, which is the nation's third-largest in terms of

employees. Sen. Bob Menendez (D-N.J.), who is also Cuban American, called Mayorkas a "smart and natural pick" to lead DHS.

Venezuela's Guaidó Hopes for Bipartisan Support From U.S.

Venezuelan opposition leader Juan Guaidó, whom the United States and dozens of other countries recognize as the South American nation's legitimate president, told *Reuters* Tuesday in an interview that he hopes to maintain bipartisan U.S. support as presumptive President-elect Joe Biden prepares to take office in January. "Any president in the world today would want to get closer to a solution to the crisis in Venezuela," Guaidó told the wire service. "We want to have bipartisan support. It's a challenge for us, not for the new administration ... to show a path toward a viable solution." Aides to Biden say he does not plan to change the U.S. government's approach toward Venezuelan President Nicolás Maduro, whom the United States sees as illegitimate. The administration of U.S. President Donald Trump has slapped numerous sanctions on Venezuela's government, including measures that restrict Venezuela's oil exports and also that block U.S. citizens from doing business with Maduro's government. However, Biden is likely to face pressure to ease some sanctions, including restrictions on the South American nation's imports of gasoline and [diesel fuel](#). Venezuela's information ministry did not immediately reply to a request by *Reuters* to comment on Guaidó's statements. On Dec. 6, Venezuela is scheduled to hold congressional elections that Guaidó and his allies have agreed to boycott, saying the vote will be rigged in favor of Maduro and his socialist allies. However, the opposition has split over the issue, as Henrique Capriles, who ran twice for president unsuccessfully against Maduro, has said he would support the elections. "A new opposition split should surprise no one: for as long as chavismo has been in power, unity has bedeviled Venezuela's fractious and diverse anti-chavista coalition," Alejandro Velasco, as-

NEWS BRIEFS

Dominican Republic's New President Regrets Lack of Communication on Budget

Reflecting on his first 100 days in office, President of the Dominican Republic Luis Abinader said he regretted not properly explaining new taxes included in the 2021 budget that have led to public pushback, *Listín Diario* reported Tuesday. Abinader said his administration was still in talks with the financial sector as well as Barrick Gold, a major source of tax revenue, when it submitted the proposal to Congress. "I think then we didn't explain well to the population what our proposal was," Abinader said.

Colombian First Lady Tests Positive for Covid-19

The first lady of Colombia, María Juliana Ruiz, has tested positive for coronavirus, according to a statement from the Office of the Presidency on Tuesday, *CNN* reported. "At this time, she is asymptomatic and following the isolation protocols established by the Ministry of Health," the statement said. Colombian President Iván Duque, 44, has tested negative, according to the statement.

China's Embassy in Brazil Rebukes President's Son

China's embassy in Brazil on Tuesday issued a statement saying the son of far-right President Jair Bolsonaro had harmed relations between the two countries with comments critical of telecommunications equipment firm Huawei, *Reuters* reported. Eduardo Bolsonaro, 36, a member of the Chamber of Deputies, has made statements that "darken the friendly atmosphere between the two countries and hurt the image of Brazil," China's embassy said on Twitter. This month Brazil joined the U.S.-led Clean Network, an alliance that seeks to exclude technology that Washington views as manipulated by China's government, which companies based in China have denied.

SUBSCRIBER NOTICE

The Advisor will not be published tomorrow or Friday due to the Thanksgiving holiday in the United States. The next edition will be circulated on Monday, Nov. 30.

sociate professor at New York University, told the Advisor in a [Q&A](#) published Sept. 14. “More surprising is that it took this long.”

ECONOMIC NEWS

Mexico Gains Back Jobs But Mainly in Informal Sector

Mexico’s unemployment rate improved slightly in the month of October, state statistics agency INEGI said Tuesday. Of the 12 million people who left the country’s “economically active population” in April, about 10.2 million had rejoined by October, INEGI said, rising from 53.8 million to 55.6 million people. Meanwhile, the unemployment rate fell to a historically still-high 4.7 percent in October from 5.1 percent in September. INEGI said a recovery in trade, informal employment, as well as a growth of those employed in micro-businesses, helped boost October’s numbers. Informal employment in October amounted to 29.7 million, while the labor informality rate stood at 56 per-

“**The labor market has shown some signs of gradual improvement, but overall there is still significant slack in the system.**”

— Alberto Ramos

cent, an increase of 1.1 percent as compared to the previous month. “The labor market has shown some signs of gradual improvement, but overall there is still significant slack in the system,” Goldman Sachs economist Alberto Ramos told clients in a research note Tuesday. Ramos added that 8.9 million individuals of working age were classified as outside the active labor force (that is, did not work and did not look for a job) but were available to work, which equates to one-fifth of Mexico’s working-age population remaining outside the labor force.

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path to fiscal balance at the primary level, and with a sharp reduction in monetary issuance. The IMF would also likely require a devaluation of the commercial exchange rate and a simplification of the system. It may also request to reform labor legislation, making it more flexible, and introduce reforms to the retirement and tax structure. However, the Kirchnerista bloc of Congress has issued a combative statement demanding noninterference on policies. This can only create difficulties and may end up in a stalemate that will be much more detrimental for Argentina than for the IMF.”

A **Kezia McKeague, director at McLarty Associates:** “A new deal with the IMF is now a top priority of Argentina’s economic team. The Fernández administration hopes to delay a heavy repayment schedule for the existing IMF debt, thus providing cash flow relief over the next several years. Some media reports have also speculated about potential fresh funds from the lending institution—a possibility that would allow for less reliance on central bank emission to finance public spending amid concerns about high inflation. Either way, Minister Guzmán’s announcement that Argentina will seek an Extended Fund Facility, rather than a revised Stand-By Arrangement, is good news for investors because the former funding facility requires commitment to major structural reforms. An IMF-negotiated economic plan would likely entail a modest reduction of the large fiscal deficit, easing of the complicated foreign exchange restrictions that have dampened investor sentiment and, ideally, a focus on addressing microeconomic obstacles to growth, such as inflexible labor laws and a high tax burden. Although the IMF is unlikely to demand significant austerity in the context of a global pandemic, a credible roadmap to achieve such reforms would do more to boost much-needed market confidence than the mere debt restructuring. If finalized early next year, a new IMF program

may also contribute to alleviating the sharp decline in foreign exchange reserves. The challenge for President Fernández, however, will be reconciling divergent views within the governing coalition, as most recently demonstrated by a letter from Peronist senators demanding concessions from the IMF. In this regard, the government’s recent decision to require congressional approval of an IMF deal aims to ensure adequate political support in Buenos Aires through the imprimatur of Cristina Fernández de Kirchner, the vice president and leader of the Senate. Meanwhile, in Washington, Argentina expects the support of the incoming U.S. administration—a decisive voice as the IMF’s largest shareholder.”

A **Agustín Crivelli, economist at the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires:** “The agreement reached with the IMF to renegotiate the debt contracted with the organization in 2018 by the previous government is very important for the Argentine economy in the coming years. It should not be forgotten that the IMF granted the Stand-By Agreement in a political decision rather than a technical one, given that Argentina was clearly in a situation that contradicted the Fund’s statute, which in its Article VI establishes that ‘no member country may use the general resources of the Fund to face a considerable or continuous capital outflow.’ That was exactly what happened with all the disbursements that the agency made. Thus, the IMF, given its certain degree of co-responsibility, should agree to convert the fallen Stand-By Agreement to an EFF without conditions, which refinances longer-term commitments and allows the country to grow again, increase its exports and enable it to make the payments. Otherwise, if we seek to condition the EFF on a reform agenda that further cuts income levels, it is very possible that we will again face an agreement that will be impossible to fulfill, both politically and economically. It is

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necessary to understand that Argentina has already made a strong adjustment, wages and pensions are at ridiculously low values, and it does not seem feasible or advisable to continue on that path.”

A **Megan Cook, manager of the Political & Regulatory Risks/ Strategic Affairs practice at Cefeidas Group in Buenos**

Aires: “A new IMF agreement is a key part of the government’s efforts to improve debt sustainability, and the outcome of the negotiations will be a major factor in shaping the future direction of the country. A well-done deal could help provide a roadmap for the economy, build confidence in the country’s direction and support efforts to attract investment, but the politics will have to be managed carefully. The government has asked for an EFF in the hope of delaying repayment of the \$44 billion loaned to Argentina during the Macri administration. EFFs are usually tied to some sort of structural reform conditions, and the main question now is what the terms and conditions of the agreement will be. An IMF deal could involve deep economic reforms, particularly aimed at correcting fiscal imbalances. Already, the government is making some efforts in that direction: reducing the scope of some pandemic relief programs, presenting a 2021 budget that aims to reduce the fiscal gap, developing a tax reform and sending a bill to Congress that would require legislative approval for future international debt issuances. Reforms could be unpopular and imply political costs for the government, and indeed some parts of the governing coalition have already raised concerns about the deal. Nevertheless, the pushback has been relatively limited thus far. The government is working hard to manage the politics around the deal by tying the need to renegotiate to a perceived failure of the previous administration, and by pushing the idea that the Kristalina Georgieva-led IMF is not the ‘old IMF.’ It has additionally begun making concessions

in other policy areas to appease the parts of the coalition that are most likely to oppose a deal. For its part, the IMF seems highly aware of the political salience of its actions and is likely to move carefully. The IMF is just wrapping up an extended fact-finding mission to Argentina; it will be important to monitor the evolution of the situation over the coming weeks.”

A **Orlando Ferreres, president of Orlando Ferreres and Asociados in Buenos Aires and former vice minister of economy of Ar-**

gentina: “According to Argentina’s national statistics institute, INDEC, inflation grew by 3.8 percent last month. The basic food basket, which includes the main expenses of a working family, grew by 5.7 percent. Inflation is growing due to fiscal imbalances that are currently under correction as a result of an eventual agreement with the IMF and the local government. The fiscal primary deficit, that is, before debt interest payments, which was estimated at 8 percent of GDP, is now estimated at 7 percent of GDP for this year because of many fiscal adjustments, such as the elimination of the Emergency Family Income (IFE) and other subsidies to people in connection with the Covid-19 pandemic. There is also an incorporation of new taxes. For 2021, we can estimate that with the economic recovery of the new year, the primary deficit budgeted at 4.5 percent of GDP can be recalculated at 3 percent of GDP. That deficit is still very high, and it will push inflation over 50 percent for 2021, when the national budget is estimated at 29 percent. The government is trying to lower the parallel exchange rate. It is also trying to reduce the value of the blue-chip swap, which has reached peaks of more than 100 percent of the official value. This blue-chip swap easily operates with bonds or stock at the stock exchange. It is purchased in pesos and received in dollars in an international account, but someone must make the dollars available.”

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