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FEATURED Q&A

What Factors Are Driving the DR's Economic Outlook?



President Luis Abinader is making headway on institutional reforms in the Dominican Republic, Kelli Bisset-Tom of Fitch Ratings says below. // File Photo: Government of the Dominican Republic.

Q Economic activity in the Dominican Republic grew by 47 percent in April, the country's central bank announced, as compared to a pandemic-led drop of nearly 30 percent in the same month last year. The central bank has "conservatively" forecast economic growth of between 7 percent and 8 percent this year, above the country's pre-pandemic annual average of 6.1 percent growth, according to the World Bank. What factors are driving the Dominican Republic's economic outlook? Which sectors were hit hardest by the pandemic, and which are seeing the fastest recovery? What does the government need to do to more effectively transform high economic growth into reduced poverty and inequality?

A Patricio Vimberg, associate director of sovereign and international public finance ratings at S&P Global Ratings: "The Dominican Republic's BB- credit rating reflects its dynamic economy, which is vulnerable to external shocks but usually recovers rapidly afterwards. The country is among the first in Latin America to have regained its pre-pandemic income level. The impressive rebound is explained by a broad fiscal and monetary relief package deployed in 2020, progress on vaccination and a strong recovery in the United States, with record-high remittance inflows. Tourism may take longer to recover as it is subject to external demand and vulnerable to new waves of Covid-19. Nevertheless, we have a negative outlook on the rating due to the country's longstanding inability to pass fiscal reforms needed to contain external, fiscal and debt risks. Absent these reforms, debt has increased beyond 60 percent of GDP, from about 30 percent a decade

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TODAY'S NEWS

POLITICAL

Nicaragua Arrests More Members of Opposition

Nicaraguan authorities arrested five more opposition figures over the weekend, bringing the total number detained to 12. Authorities appear to be rounding up anyone who could challenge President Daniel Ortega's rule.

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BUSINESS

Remittance Firms Cautious on Crypto: Report

Few remittance firms are reportedly offering cryptocurrency services following El Salvador's move to make Bitcoin a legal tender.

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ECONOMIC

Central Bank Chief Expects Mild Impact From Chile Lockdowns

Chile's economy is more resilient now than it was last year and will see only mild economic effects of lockdown measures to curb the spread of Covid-19, said central bank chief Mario Marcel.

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Marcel // File Photo: Chilean Central Bank.

POLITICAL NEWS

Nicaragua Arrests Five More Opposition Figures, 12 in Total

Nicaraguan authorities arrested five additional opposition figures over the weekend as they continue a crackdown against political rivals of President Daniel Ortega, the Associated Press reported. The five arrests suggest Ortega is rounding up anyone who might challenge his rule, beyond potential presidential candidates in the elections scheduled for Nov. 7. A dozen opponents of the government have been detained since June 2. "It's not just potential

“This is not a transition to dictatorship, it is a dictatorship in every way.”

— Hugo Torres

candidates anymore, it's political leaders," Hugo Torres, a former general and dissident of the former Sandinista guerrilla group, told the Associated Press before he was arrested on Sunday. "This is not a transition to dictatorship, it is a dictatorship in every way," he added. The government also detained another well-known Sandinista dissident Dora María Téllez, opposition leader Ana Margarita Vijil, and Suyen Barahona, the leader of a political movement called Unamos. The group was formed by former Sandinistas who split with Ortega for his autocratic tendencies, nepotism and perpetual re-elections, according to the report. On Saturday, authorities arrested Tamara Dávila, who was active in Unamos and a central figure of the opposition coalition Blue and White National Unity. Ortega's "campaign of terror continues with more arbitrary arrests this weekend," Julie Chung, acting assistant secretary for Western Hemisphere affairs at the U.S. State Department, said on Twitter. "OAS members must send a clear signal this week: enough repression. The region cannot stand

by and wait to see who is next," she added. OAS Secretary General Luis Almagro has called on members to invoke a special provision to suspend Nicaragua from the organization.

ECONOMIC NEWS

Economic Impact of Lockdowns Will Be Mild: Chile's Marcel

The economic impact of continued coronavirus-related lockdowns in Chile will be mild, central bank President Mario Marcel told Bloomberg TV in an interview broadcast Friday. He said the country's economy is more resilient to lockdowns than it was last year. Chile's output gap is closing faster than expected, and it is experiencing inflationary pressure from oil and transportation costs, Marcel said in the interview. In this context, the central bank board is evaluating the possibility of raising interest rates over the next several meetings. His comments came as President Sebastián Piñera last week announced sprawling new restrictions in Santiago amid a surge in cases of Covid-19 despite the Andean nation having nearly 60 percent of the population fully vaccinated, BBC News reported.

BUSINESS NEWS

Remittance Firms Reportedly Cautious on Crypto Services

Despite El Salvador's move to make Bitcoin a legal tender, remittance firms are being cautious about offering services related to cryptocurrencies, Reuters reported Friday. Salvadoran President Nayib Bukele has touted Bitcoin's use as a currency for remittance transfers to the Central American nation. However, just a few money-transfer companies are dabbling in the digital currency, the wire

NEWS BRIEFS

No Evidence of Serious Irregularities in Peru Presidential Election: OAS

The Organization of American States has said it found no evidence of serious irregularities in Peru's presidential runoff, but it also called on candidates "not to be proclaimed winners until all the challenges have been resolved," BBC News reported. Results from Peru's election on June 6 are not yet final, though socialist Pedro Castillo held on to a razor-thin lead of about 60,000 votes when ballot counting was finalized late last week. Right-wing Keiko Fujimori has claimed fraud without providing evidence. [Editor's note: See the Advisor's [interview](#) with Cynthia McClintock of The George Washington University.]

Grynspan Approved as Head of U.N. Trade & Development Body

The U.N. General Assembly on Friday approved the nomination of Costa Rican economist Rebecca Grynspan to be the secretary general of the United Nations Conference on Trade and Development, or UNCTAD, the Associated Press reported. Grynspan, a former vice president of Costa Rica, is the first woman and Central American to head the Geneva-based trade and development agency. Since 2014, Grynspan has served as secretary general of the Iber-American General Secretariat, and she was formerly the deputy administrator of the U.N. Development Program.

Brazil's Bolsonaro Fined for Violating Mask Order

Brazilian President Jair Bolsonaro was fined approximately \$110 for violating São Paulo's order that people wear face masks to fight the spread of Covid-19, the Associated Press reported. The fine stemmed from a rally of thousands of mainly unmasked motorcyclists that Bolsonaro led on Saturday.

service reported. “For Western Union and some of the other remittance providers keep in mind that most of the volume in the remittance industry is going from developed markets to emerging markets primarily to people—families and friends—that operate in cash,” Kenneth Suchoski, U.S. payments and fintech analyst at Autonomous Research, told Reuters. “To the extent that Bitcoin isn’t adopted and there’s not widespread acceptance, these remittance providers are still going to be relevant for the years to come.” Western Union had tested the use of Bitcoin and other digital currencies in the past but has not found a good “use case” that significantly saved costs, Suchoski added. Less than 1 percent of global remittance transfers are in Bitcoin, he estimated. However, cryptocurrencies are expected to account for a growing share of remittances, which total more than \$500 billion annually. Among the companies that do offer services related to digital currencies is MoneyGram International, which announced last month that it would allow its customers to use cash to buy and sell Bitcoin at 12,000 retail locations in the United States, Reuters reported. MoneyGram is offering the service in partnership with Coinme, the largest licensed crypto cash exchange in the United States. “We’ve built a bridge to connect bitcoin and other digital currencies to local fiat currency,” MoneyGram told the wire service in a statement. “As crypto and digital currencies rise in prominence, a core barrier to further growth is the on/off ramps to local fiat currencies.” Western Union and other money-transfer companies including Wise, WorldRemit, Remitly, Xoom and Ria Money Transfer did not respond to the wire service’s requests for comment. El Salvador on June 9 became the first country in the world to make Bitcoin a legal tender. Bukele had called for the move, and the country’s Congress approved the measure with 62 out of a possible 84 votes. “It will bring financial inclusion, investment, tourism, innovation and economic development for our country,” Bukele said before the vote, CBS News reported. The same day, Bukele said in a tweet that he had instructed the head of the state-owned geothermal company to put together a plan to use volcanic energy for mining Bitcoin.

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ago. Failure to correct fiscal imbalances and stabilize the debt burden could pose risks to the rating, especially if medium-term economic growth were to decelerate and cease to be a mitigating credit factor. The Abinader administration’s strong legislative mandate bodes well for the reform agenda, although social and political dynamics could lead to further delays. Having one of the lowest revenues to GDP in Latin America, a long-awaited fiscal pact in the coming years would need to focus on increasing tax collections and strengthening the revenue base. However, the government has made progress in passing a delayed electricity reform and bolstering judicial independence, while it pursues other social reforms to the education, health and pension systems.”

A Miguel Collado Di Franco, executive vice president at the Centro Regional de Estrategias Económicas Sostenibles (CREES) in the Dominican Republic: “Border closures and travel restrictions on nationals of other countries have severely affected local tourism activity. Tourists’ arrival is 42 percent lower as compared to the first four months of 2020. This is the country’s most important economic activity and the hardest-hit sector. The Dominican Republic’s tourism industry represents almost 20 percent of the country’s GDP. From our perspective, until the sector fully recovers, the economy won’t experience pre-pandemic output levels, regardless of recent economic growth rates. It could have been anticipated that the economy was going to reach high growth rates in April 2021, since in April 2020 the economy was almost entirely closed. Thus, it was expected that sectors that were most severely affected last year, such as construction, manufacturing and commerce, would show significant growth rates. GDP growth rates help explain what is happening in an economy, as long as data is reliable. Thus, it is important to achieve sound economic growth, that is, growth

that can sustain economic prosperity, as opposed to artificial growth based on fiscal stimulus programs and monetary policies that promote inflation. On the contrary, in order to achieve lasting economic growth and development, countries need structural reforms that help increase productivity, create new jobs and raise real wages. In the Dominican Republic, structural changes should include a simplified tax system with low and uniform rates; reforms in energy sector, including fuels; and changes to reduce costs in transportation and the labor market.”

A Kelli Bissett-Tom, director for Americas sovereign ratings at Fitch Ratings: “The Abinader administration has made headway on the Dominican Republic’s (BB-/Negative) institutional reform—including an independent attorney general, corruption investigations, a pledge to increase police pay, and budgetary efficiency and transparency measures. Also, public electric utility management reforms are yielding savings. Some of the reforms could help increase business confidence and private investment and reorient growth from public to private sources—collectively fostering long-term positive ratings momentum. The Dominican Republic’s policy momentum is strong, but there are also near-term gaps that increase risks for durability of the reform efforts. Important fiscal questions remain open, including the government’s capacity to close a Fitch-estimated 1.4 percent of GDP average fiscal gap during 2022-2025 after assuming substantial electricity system savings continue and robust macroeconomic and external conditions prevail. Government (nonfinancial public sector) debt/GDP leapt amid the pandemic to 58.2 percent in 2020 from 41.7 percent in 2019. Institutional structures to ensure the longevity of many reforms have not been installed, increasing risks of policy reversal relative to peers that have established longer-term safeguard mechanisms. The judiciary has

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been strengthened and enjoys autonomy from the current president, but the public prosecutor's office budget still depends on Congress. Electricity management measures have reduced the public electric utilities' domestic U.S. dollar debt service, but the state retains a large role in the electricity system, and some structural plans are progressing slowly. The government has taken strides to tighten expenditure and prioritize pandemic health and social allocations, tighten procurement controls and increase budgetary performance transparency. However, the broader public debate has stopped short of the public financial accountability measures adopted by some 'BB' category peers to strengthen fiscal policy credibility and anchor public expectations over time."

A **Mary Fernández Rodríguez, founding partner at Headrick Rizik Álvarez & Fernández in Santo Domingo:** "Numerous official publications as well as anecdotal evidence make it clear that the Dominican Republic's economy is growing at a much faster pace than most other Latin American countries. Our country is highly dependent on tourism, free zones, mining and remittances from abroad. Although 2020 saw a decrease in all of the country's main sources of income, we have experienced a remarkable comeback during the first five months of this year. The tourism and construction sectors were the hardest hit during the pandemic. A year later, the construction sector, free zones, and the manufacturing and consumer goods sectors are experiencing the fastest recoveries. The success of the national vaccination plan as well as the plan for reactivation of the tourism sector can be seen as partly responsible for this recovery. The recovery of the U.S. economy is also a factor to consider. There has been an increase in remittances of almost 65 percent in comparison to the past 12 months, mostly coming from Dominicans living in the United States. Renewed confidence by the private sector could be attributed to the new gov-

ernment's efforts to combat corruption by designating an independent attorney general. Also, significant growth in foreign private investment in the areas of infrastructure and energy are noticeable. It is obvious, however, that the government must work to translate this growth into less poverty and inequality. We are hopeful that the crackdown on corruption and better government spending will help bring more people out of poverty."

A **Cateryn Vucina, advisor at Latin America Invest:** "Tourism-dependent economies have suffered more than most amid the pandemic, but with the increasing availability of vaccines and prospects for a resumption of international travel, things are looking brighter. The recovery of economic conditions in the United States, vaccination rates and the Caribbean countries' ability to maintain health protocols and limit both imported cases and community transmission have influenced the behavior of tourism and remittances in the Caribbean. Dominicans in the United States are benefiting from the American Rescue Plan. Undoubtedly, this new aid package contributes to increasing the flow of remittances from the United States to the Dominican Republic, as well as to the recovery of the Dominican Republic's tourism sector. The Dominican Republic's central bank reports that in the first two months of 2021, remittances increased 31.3 percent year-on-year. Prospects for the reactivation of the tourism sector in the Caribbean depend on a better performance of the U.S. economy, together with the global advancement of vaccination programs against Covid-19 and the continuous ability of Caribbean countries to control the spread of the virus. Countries in the Caribbean region can do much to support a rapid recovery through forward-looking policies aimed at ensuring they are well positioned to take advantage of post-pandemic preferences with respect to travel and tourism, services trade and investment."

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