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FEATURED Q&A

Will a Minimum Wage Increase Help Salvadorans?



Salvadoran President Nayib Bukele has proposed a 20 percent increase in the country's minimum wage. // File Photo: Salvadoran Government.

Q Salvadoran President Nayib Bukele said July 1 that he was seeking a 20 percent increase in the minimum wage, citing the impact of global inflation on the country's poor. Bukele added that his government would subsidize medium-, small- and micro-sized enterprises for a year in order to compensate for the wage increase. Is the wage hike likely to win approval? How much would such a move aid Salvadorans, and how will businesses and informal workers be affected? What are Bukele's most significant economic policies, and how well are businesses doing under his administration?

A Livia Honsel, director and lead analyst for international public finance ratings at S&P Global Ratings: "The pandemic has severely hurt El Salvador's economy, further deteriorating social conditions. This year's partial recovery will be driven by a benign external environment, as investment is expected to remain very low in view of elevated political tensions and poor checks and balances. In this context, the government is inclined to raise current spending, such as the wage hike, despite an eroded fiscal situation and climbing debt (which reached 87 percent of GDP last year). The government has also shown little appetite to implement unpopular reforms. Any presidential decision will easily win approval in the Legislative Assembly, which Bukele's Nuevas Ideas party controls. However, sources for financing are becoming scarcer. We expect El Salvador (B-/stable) to rely on pending multilateral loans and short-term domestic debt to cover its large financing needs in 2021, even though more creative solutions could emerge. The country has been in negotiations with the IMF for a multiyear

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TODAY'S NEWS

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U.S. Sanctions Cuban Defense Minister López

The administration of U.S. President Joe Biden sanctioned Cuban Defense Minister Álvaro López Miera and a special Interior Ministry unit, accusing them of repression of peaceful protesters during demonstrations this month.

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ECONOMIC

Brazil Coffee Crops Hit By Frost, Prices Soar

Unusually cold weather has damaged coffee crops in Brazil, leading prices to escalate.

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POLITICAL

At Least 22 Inmates Killed at Ecuador Prisons

Riots at two Ecuadorean penitentiaries left at least 22 people dead. President Guillermo Lasso on Thursday declared a state of emergency in the nation's prisons and dismissed the country's prisons director.

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Lasso // File Photo: Ecuadorean Government.

POLITICAL NEWS

At Least 22 Killed in Riots at Two Ecuadorean Prisons

Ecuadorean President Guillermo Lasso on Thursday declared a state of emergency in the country's prisons after at least 22 inmates were killed and dozens were injured in riots at two penitentiaries, the Associated Press reported. The riots broke out Wednesday afternoon at Guayaquil's main prison, the Litoral Penitentiary. Fighting between rival gangs also happened at the Latacunga prison in central Ecuador, according to authorities. Police and prison officers eventually regained control of the prisons, though nine officers and 59 inmates were injured. In a posting on Twitter, police said inmates tried to escape from the

“I want to tell the mafias that try to intimidate this country that they are wrong.”

— Guillermo Lasso

Latacunga prison, but added that authorities had recaptured 78 inmates. In declaring the state of emergency, Lasso said the government would take swift action. “I want to tell the mafias that try to intimidate this country that they are wrong,” said Lasso, the AP reported. “They are wrong if they think our hand is going to shake. We are going to use all our legal powers to impose the rule of law and guarantee peace and human rights in prisons in Ecuador.” Lasso added that he was replacing the country's prisons director, Edmundo Moncayo, with retired army Col. Fausto Cobo. For years, Ecuadorean officials have tried to reduce violence at the country's prisons, which house approximately 38,000 inmates, Reuters reported. Many of the country's prisons are overcrowded. Former Interior Minister Gustavo Larrea said this week's fighting was among gang members who have “relative control” of the penitentiaries and try to continue controlling gang operations happen-

ing outside, the AP reported. Deadly riots occur with relative frequency in Ecuador's prisons. Last month, two people were killed and 11 were injured in a fight between rival gangs. About 80 prisoners were killed in February during fights in the country's prisons.

U.S. Sanctions Cuban Defense Minister Following Protests

The administration of U.S. President Joe Biden on Thursday sanctioned Cuban Defense Minister Álvaro López Miera and a special unit of Cuba's Interior Ministry, accusing them of repression of peaceful protesters during massive demonstrations in Cuba on July 11, the U.S. Treasury said in a statement. “This is just the beginning—the United States will continue to sanction individuals responsible for oppression of the Cuban people,” Biden said in a statement. “I unequivocally condemn the mass detentions and sham trials that are unjustly sentencing to prison those who dared to speak out in an effort to intimidate and threaten the Cuban people into silence.” The Cuban Interior Ministry unit targeted in the sanctions is the Brigada Especial Nacional del Ministerio del Interior, the White House said, accusing the unit and the defense minister of “facilitating the repression of peaceful, pro-democratic protesters” during the demonstrations that began on July 11. The actions block assets that the sanctioned individuals or entities have in the United States and bar people subject to U.S. jurisdiction from carrying out transactions with them, the Treasury said. Cuban authorities have arrested some 500 people who were among the thousands who took to the streets in the anti-government protests, The Wall Street Journal reported earlier this week. “The U.S. trade embargo does place restrictions on the Cuban economy, but many Cubans are tired of their government blaming the ‘blockade’ for all their woes and refusing to address the chronic dysfunction of the Cuban economy and political order,” Coco Fusco, professor at the Cooper Union in New York, told the Advisor in a [Q&A](#) published Tuesday.

NEWS BRIEFS

Colombian Authorities Arrest 10 in Attacks on Duque, Military Base

Colombian authorities have arrested 10 people in connection with last month's attacks on a helicopter in which President Iván Duque was traveling and on a military base, Reuters reported. The car bombing at the military base in the city of Cúcuta injured 44 people, including two U.S. military advisors. No one was hurt when Duque's helicopter was hit by multiple bullets in the Catatumbo region.

El Salvador's Attorney General Orders Arrest of Former President

El Salvador's attorney general's office on Thursday ordered the arrest of 10 government officials from the administration of former President Salvador Sánchez Cerén, including the former president himself, La Prensa Gráfica reported. Although Sánchez Cerén was reportedly out of the country, five other high-ranking officials from his government were detained. The charges allege Sánchez Cerén personally embezzled half a million dollars when he was vice president of the country between 2009 and 2014.

Britain Sanctions Two in Connection With Venezuela Food Scandal

Britain's foreign secretary on Thursday placed sanctions on Colombian businessmen Alex Nain Saab Morán and Álvaro Enrique Pulido Vargas, whom the United States accuse of bilking millions of dollars from Venezuela's public food and housing programs, Agence France-Presse reported. Saab, who has a Venezuelan diplomatic passport and has been described as President Nicolás Maduro's envoy, was indicted two years ago in Miami on money laundering charges. He has been detained in Cape Verde for more than a year.

BUSINESS NEWS

Walmex Reports 3.3% Rise in Earnings for Second Quarter

Walmart's Mexico unit, Walmex, said Thursday that total revenues grew 3.3 percent in the second quarter of this year, with strong growth of 10.1 percent in the company's Central America operations, on a constant currency basis, and 6.1 percent in Mexico. Same-store sales grew 4.7 percent during the quarter, although exchange rate factors negatively affected revenue growth in Central America, Walmex CEO Guilherme Loureiro told investors in a presentation Thursday. Net profit increased almost fivefold to 9.8 billion Mexican pesos (\$486 million). Profit was lower than in the year-earlier quarter, however, because of a tax settlement with the Mexican government, Dow Jones reported.

ECONOMIC NEWS

Brazil Coffee Crops Hit by Cold Weather, Prices Soar

Unusually cold weather has damaged crops in Brazil's main coffee-growing regions, shaking up prices for this year's crop, Reuters reported Thursday. Coffee nurseries were also hit by the freezing temperatures, which could complicate replanting plans and potentially harm prospects for next year's harvest. Coffee futures soared 10 percent on Thursday, with prices posting their largest single-session gain since early 2014, sending coffee prices to their highest point in more than six years, MarketWatch reported. Brazil's worst drought in nearly a century had already cut Brazilian coffee production before the cold snap. Coffee exports have also been coping with high shipping rates and supply chain bottle-necks this year, according to Bloomberg News. "The market's worst fears

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program, but there is much uncertainty about an agreement following recent political decisions. The delay increases concerns over refinancing risk, somehow contained in the short term by the absence of commercial external debt amortizations before 2023 and a captive investor base in the pension funds and local banks. In addition, it complicates access to funding from other multilateral organizations. We could lower credit ratings over the next 12 months if El Salvador faces difficulties accessing external financing from official creditors and international markets and fails to implement corrective fiscal actions, which could stress local market conditions."

A Ricardo A. Cevallos, founder of Ricardo A. Cevallos & Asocia-dos in El Salvador: "A government's economic decisions must always have an analysis behind them. This helps people understand the reasoning behind it. Like other executive and legislative orders in El Salvador, many of them have been approved with little or no discussion. In the case of El Salvador, its labor code specifically requires a deep analysis of the cost of living in the country—something that has not happened. To the current administration's benefit, the minimum wage is to be reviewed every three years, and it was supposed to have been reviewed last year. Twenty percent may seem like a large number, but the last increase was done under an FMLN administration, and it was similar at a 20.8 percent increase in 2018. A large sector of the economy in El Salvador is informal, so most employees will not benefit from the measure. Subsidies would not be necessary if the economy could withstand the measure; temporary subsidies are a soothing medicine only. Raising the minimum wage should be

have been realized this year," a local commodities trader told MarketWatch. Brazil accounts for a third of the world's coffee production, according to industry trade association CNA.

a part of a complete program to reactivate the economy, and at the center of it should be the creation of new job opportunities through establishing new businesses. However, the local economy is not showing

“A large sector of the economy in El Salvador is informal, so most employees will not benefit from the measure.”

— Ricardo A. Cevallos

significant increases in new investments. Contrary to trying to create more jobs, the government announced that it will continue providing 'food packages' to help. This may be justified in extreme conditions, but it would be better not to keep people dependent on the government every month."

A Richard Francis, director of Latin American sovereigns at Fitch Ratings: "In Fitch's view, El Salvador's most pressing economic issues are the deterioration in debt sustainability metrics caused by last year's Covid-19-induced recession, large fiscal deficits in 2020-21, over-reliance on domestic market borrowing for high government funding needs and vulnerability to weaker external market financing conditions. These are the main factors behind Fitch's negative outlook. We estimate the government's unidentified funding gap for this year at about \$929 million, rising to just over \$1 billion in 2022 and more than \$1.75 billion in 2023. The IMF and the government appeared close to agreement on fiscal and monetary measures that would be required.

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The sector sustains 265,000 coffee producers, the majority of whom are smallholders. The freeze could also cut into production of other important crops in Brazil.

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However, recent actions such as dismissing five Constitutional Court justices and the attorney general in May and withdrawing from the anti-corruption body set up with the OAS in June could hinder an agreement. Additionally, Bukele has also made recent unpredictable economic policy choices, such

“Over the medium term, the increase would have a negative impact on businesses...”

— Richard Francis

as the decision to adopt Bitcoin as a legal tender alongside the dollar and a proposed 20 percent increase in the minimum wage. The government has pledged to subsidize micro, small and medium-sized companies for 12 months to cover the increase. Over the medium term, the increase would have a negative impact on businesses by increasing costs as well as an upfront fiscal cost at a time with the government is already running large deficits. The increased spending measures go against the fiscal consolidation strategy that would be at the heart of any IMF program. Furthermore, we believe any program would include efforts to improve

governance, including anti-corruption measures. Without a program, it is unclear how the government plans to meet its financing needs in 2021-23.”

A **Fernando Farrar, associate at BLP Abogados in El Salvador:** “The National Minimum Wage Council has already approved the increase that the president announced, and the respective executive decrees have been published in the government’s official gazette. The approved increase is 20 percent for all sectors of the economy (commerce, services, industry, textile maquilas, agroindustry and agriculture) and will be obligatory beginning Aug. 1. With this increase, the minimum wage for the commerce, services, industry, and agroindustry sectors will be \$365 per month. It is important to bear in mind that this wage is used to calculate, among others: fines provided for in multiple administrative laws, entry levels for government authorizations and thresholds to define types of public procurement processes. The Salvadoran government has announced that it will make use of the Trust for the Economic Recovery of Companies (FIREMPRESA) to subsidize the minimum wage increase for micro, small and medium-sized businesses for up to 12 months.”

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Q&A

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LATIN AMERICA ADVISOR

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