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FEATURED Q&A

Can Suriname's President Prevent a Debt Default?



Surinamese President Chan Santokhi's government has sought to reduce the country's debt in an effort to strengthen the economy. // File Photo: Government of Suriname.

Q The Inter-American Development Bank said in late August that it expects several Caribbean economies, including Suriname's, to see "double-digit increases in public debt ratios through 2026." The statement followed the one-year anniversary in office of Surinamese President Chan Santokhi, who replaced longtime President Dési Bouterse. What have been Santokhi's biggest successes and setbacks to date, and how has the country's business climate evolved under his administration? How strongly is the country's economy rebounding from the Covid-19 pandemic, and what role could funding from the International Monetary Fund play in its recovery? What is the potential in terms of reserves and production from the country's recent oil discoveries, and how much could investment and exports from the oil sector invigorate the country's economy?

A Steven Debipersad, lecturer and researcher at the Anton de Kom University of Suriname: "The Surinamese government has negotiated with various creditors in the past year and even now to structurally reduce public debt. Debt sustainability is crucial to getting Suriname's economy back on track. The aim is to bring government debt, which now stands at 160 percent of GDP, to 125 percent by 2024 and 60 percent by 2035. To this end, the government is holding intensive discussions with multilateral, bilateral and commercial creditors, both nationally and internationally. President Santokhi's biggest success was stopping the economic downturn. After the deep recession in 2020 (when real GDP contracted 13.5 percent), the economy is slowly starting to recover with a growth forecast of 1.5 percent by 2022. This

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Guatemalans living abroad sent \$1.39 billion back to the Central American country in August, a new monthly record, the central bank announced.

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The state oil company said it was launching the new contract models to sell fuel in order to be "more flexible."

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Macri's Coalition Wins Key Races in Argentina Primary Elections

The conservative Juntos por el Cambio coalition, led by former President Mauricio Macri, won several key races in Sunday's legislative primaries in Argentina. The balloting is seen as a bellwether ahead of the November midterm elections.

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Macri // File Photo: @mauriciomacri via Twitter.

POLITICAL NEWS

Macri's Coalition Wins Key Races in Argentina Primaries

Argentina's main center-right opposition coalition on Sunday won several key races in the country's legislative primaries, dealing a blow to the party of current President Alberto Fernández, Reuters reported. The primaries are seen as a strong indicator of support ahead of the November midterm election. With 84 percent of the ballots counted, the conservative

“Thank you to everyone who went to vote today and gave us another opportunity.”
— María Eugenia Vidal

Juntos por el Cambio, or Together for Change, coalition, led by former President Mauricio Macri, was ahead by about five percentage points in Buenos Aires province. The province has been a key area of support for the current government. Fernández's party also slipped in other races, Reuters reported. If the results are repeated in the legislative elections on Nov. 14, the ruling party could lose its majority in the Senate, along with its status as the largest minority party in the Chamber of Deputies. “Thank you to everyone who went to vote today and gave us another opportunity. We know that it is a task and an obligation,” María Eugenia Vidal, a member of the opposition coalition, as well as a pre-candidate for a deputy seat in the city Buenos Aires and a former Buenos Aires province governor, said of the obligatory vote, EFE reported. In November, half the seats in the Chamber of Deputies are up for election, as are a third of the seats in the Senate. In the capital, the three lists of candidates that the Together for Change coalition presented garnered 48.19 percent of the votes, followed by 24.66 percent for the candidate that the ruling Frente de Todos, or Everybody's Front, presented for

the primaries, EFE reported. “The ruling party lost 1.2 million votes compared to the 2019 [presidential election]; this brings them to a level that, if repeated in November, leaves Alberto Fernández very weakened,” Mariel Foroni, director of consultancy Management & Fit, told Reuters. Following the ruling coalition and the main opposition group, the La Libertad Avanza coalition garnered 13.66 percent of the votes in the city of Buenos Aires, EFE reported. Public support for Fernández's government has lagged amid the country's long recession as well as a poverty rate that has risen to 42 percent, Reuters reported. Those frustrations have come despite recent signs of economic recovery and a falling number of Covid-19 cases.

ECONOMIC NEWS

Remittances to Guatemala Set New Monthly Record

Guatemalans living abroad sent \$1.39 billion back home in August, the highest-ever monthly total for remittances to the Central American



Recinos // File Photo: Guatemalan Government.

country, the central bank announced Sept. 9. The monthly total for August was 32.2 percent higher than the total in August 2020. For the first eight months of this year, Guatemalans living outside the country sent back \$9.71 billion, which was also a record for that period, and 38.5 percent higher than the amount Guatemala received for the same months last year. Guatemala's remittances, most of which come from the United States, have set records

NEWS BRIEFS

Leader of Peru's Shining Path Rebels Dies at 86

Abimael Guzmán, the leader of the Shining Path guerrillas in Peru, died at age 86 on Saturday in a military hospital due to an illness, said Justice Minister Aníbal Torres, the Associated Press reported. Guzmán, who was captured in 1992 and sentenced to life in prison for terrorism and other crimes, led Shining Path insurgencies against the state beginning in 1980. He was involved in a series of car bombings and assassinations.

Former Venezuelan Intelligence Chief Arrested in Spain

Spanish police detained Venezuela's former chief of intelligence, Hugo Carvajal, in Madrid late last Thursday, nearly two years after he avoided extradition to the United States on drug-trafficking charges, The New York Times reported. Carvajal was a key figure of Venezuelan President Nicolás Maduro's government before breaking with him in February 2019, when he released a video accusing Maduro of leading a corrupt dictatorship with links to drug trafficking. Carvajal fled to Spain that same year, where he was arrested but then released after a Spanish court deemed the drug-trafficking charges against him too “abstract.”

A.M. Best Affirms Ratings of Brazil's Junto

A.M. Best on Friday affirmed the financial strength rating of A- and the long-term issuer credit rating of “a-,” with a stable outlook, of Brazilian insurance service company Junto, which includes Junto Seguros and Junto Resseguros, the ratings agency said. “The ratings reflect Junto's balance sheet strength, which A.M. Best assesses as strongest, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management,” A.M. Best added.

every year since 2010, according to central bank statistics. Fifty percent of Guatemala's remittances go to consumption, while the other half goes to savings and construction, EFE reported, citing central bank President Sergio Recinos. Along with exports, remittances are among the most important forms of income for the Guatemalan economy. Last year, Guatemala received a record \$11.34 billion in remittances, higher than the \$10.51 billion it received in 2019. This year, the Guatemalan central bank expects the country to receive \$12.4 billion in remittances. More than three million Guatemalans live abroad, mainly in the United States, according to the Central American country's Ministry of Foreign Affairs. Some 59 percent of Guatemala's population lives below the poverty line, EFE reported.

BUSINESS NEWS

Brazil's Petrobras to Launch New Contract Models

Brazilian state oil firm Petrobras announced Friday it would launch new contract models to sell fuel in a bid to be "more flexible" in order to increase its competitiveness in the refining sector, Reuters reported. In a securities filing, Petrobras said the new models would help it adjust to market conditions, though it said there would be no change in its pricing policies. The company has been selling some of its refineries as it seeks to focus on development of its pre-salt oil fields off the country's coast. "In the current market scenario, characterized by the entry of imported products by third parties and by the divestment process of refining assets, it is necessary to promote investments in some commercial and operational clauses," Petrobras said. So far Petrobras has signed deals to sell the REMAN refinery in the northern state of Amazonas to local company Ream Participações, as well as the RLAM refinery in Bahia state to Mubadala Investment Company, the United Arab Emirates' state-owned sovereign wealth fund. Four others of Petrobras'

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turnaround was only possible by aligning expenditures with the government's earning capacity. Support from various programs for Covid-19 vaccines has also been crucial. This resulted in almost 45 percent of the target population receiving at least one dose. A major setback, however, is not having the support of the International Monetary Fund, although almost all preconditions have been met. The big challenge is adjusting the economy before oil revenues start flowing in. This ensures sustainable spending of 'petrodollars' and helps protect against the resource curse. Depending on the plans of TotalEnergies and Apache, which they will submit before year-end, first oil could be feasible as early as 2025. Depending on the outcome, the country will see stronger growth figures as has been the case in neighboring Guyana. Now is the time for Suriname to lay a solid foundation toward sustainable development and prosperity."

A **Arthur Deakin, co-director of the energy program at Americas Market Intelligence:** "Santokhi inherited an economy with debt at 160 percent of GDP and a trailing five-year annual inflation rate that exceeded 20 percent. As a commodity-based export economy, the pandemic accelerated the president's pursuit of an IMF loan. By unifying the country's exchange rates and placing a new monetary framework to bring down inflation, Santokhi created a more stable and sustainable fiscal environment for both businesses and individuals. The IMF recognized the president's efforts and preliminarily agreed to a \$690 million deal. Yet, the program is subject to buy-in from Suriname's creditors, which expect the country to include its future oil revenues in its debt repayment capacity. Highly indebted

refineries are in ongoing sales processes, while the company has found no buyers for its RNEST refinery in the northwestern state of Pernambuco. There have been some delays

Puerto Rico, which received more than \$100 billion in federal aid after being devastated by two Category 5 hurricanes, showed that it is reasonable to allocate a percentage of those funds to repay local and international creditors. At a price of \$60 per barrel of oil,

“**At a price of \$60 per barrel of oil, the Surinamese government could earn more than 10 times the debt it currently owes.**”

— Arthur Deakin

the Surinamese government could earn more than 10 times the debt it currently owes. Like Guyana and Brazil's pre-salt reserves, the crude found in Block 58 is light and sweet, with low breakeven costs and quick recovery rates. To effectively transform its economy, Suriname will have to break free from its patronage system, fomented by a post-civil-war constitution that was based on political tradeoffs to keep people from returning to an informal economy. The appointment of the president's wife and the vice president's brother to the board of state oil company Staatsolie is a bad sign. The government must create a strict sovereign wealth fund with independent oversight to ensure proper use of its newfound oil revenues."

A **Silvana Amaya, senior analyst at Control Risks:** "President Chandrikapersad Santokhi's inauguration in July 2020 marked a shift in Suriname's political landscape. Upon taking office, Santokhi pledged to restore economic and financial stability to the country and combat the deep-seated

Continued on page 4

in the sales schedule for the refineries, in part due to the pandemic but also because critics have raised questions over the constitutionality of the move.

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corruption that characterized Bouterse's government. However, he has not completely fulfilled his promises, in part due to Covid-19 pandemic. Also, a rise in inflation and the increased cost of living has cost Santokhi public support, so it will be difficult for him to push through big reforms due to his low popularity. The National Assembly on June 25 approved the government's 2020-22 Recovery Plan to increase public investment in the country's struggling economy. The plan is part of Suriname's agreement with the IMF, which is designed to increase state funding in areas such as education, health care and other social sectors. The plan also contains emergency spending designed to combat the effects of the Covid-19 pandemic. The main challenge that Santokhi's government currently faces is sovereign risk. This is due to tenuous ongoing negotiations with private creditors in an effort to restructure the country's debt. Creditors rejected the government's offer of a 70 percent nominal cut on its debt and wanted oil royalties to be included in the negotiations, a specific condition that the government rejects. The reinstatement of the payments is likely to place Suriname at high risk of sovereign default, as it has already undergone three

defaults since the beginning of the pandemic, thus affecting the business environment with instability and reputational liability. Increased risks of a sovereign default are

“The main challenge that Santokhi's government currently faces is sovereign risk.”

– Silvana Amaya

likely to cause a further decrease in foreign capital as businesses will remain wary of investing in the country. However, the oil industry boom in neighboring Guyana has also benefited the business environment and economy in Suriname, where there is an expectation that offshore exploration will be just as successful. How Suriname's government uses that opportunity is yet to be seen.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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Advisor Video

Twenty Years of the Democratic Charter in the America

An Inter-American Dialogue discussion with Luis Almagro, Secretary General, OAS Diego García-Sayán, U.N. Special Rapporteur Mariclaire Acosta, President, Justicia Transicional México

View a webcast of the Sept. 9 discussion.

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