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## FEATURED Q&A

# What Challenges Will Goldfajn Face at the IMF?



Ilan Goldfajn, who previously headed Brazil's central bank, is to take office in January as the director of the International Monetary Fund's Western Hemisphere Department. // File Photo: Central Bank of Brazil.

**Q The International Monetary Fund on Sept. 13 tapped Ilan Goldfajn as the new director for its Western Hemisphere Department. The former Brazilian central bank chief is to replace retiring Alejandro Werner in the post in January. What skills does Goldfajn bring to the job? What are the main sticking points he will have to address in the IMF's talks with Argentina about reworking its failed \$45 billion loan program, and what challenges must he address in the IMF's dealings with other countries, such as Ecuador and Costa Rica? How big of a role is the IMF playing in Latin America and the Caribbean's economic recovery, and what are the most important challenges facing Goldfajn in his new position?**

**A Ottón Solís, special advisor to the president of Costa Rica:** "The Keynesian reaction to the economic crisis of 2008 and 2020 in the advanced economies, the success of Chinese state capitalism and the failures of Washington Consensus neoliberal policies have renewed mainstream enthusiasm for industrial policies. Therefore, the pressures and cross-conditionality strategies of multilateral financial institutions and the Paris Club members toward encouraging the implementation of fully fledged privatizations and shock fiscal adjustments in poor and emerging economies should be a thing of the past. Mr. Goldfajn has a solid academic background and broad practical experience both in the private and public sectors. As president of the Central Bank of Brazil, he saw the positive effects of the anticyclical expansionary monetary—quantitative easing—and fiscal policies that are now mainstream in the United States and other rich economies. He is also

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## Nearly 77% of Venezuelans Living in Extreme Poverty: Study

Almost 77 percent of Venezuelans are in extreme poverty amid hyperinflation and the country's economic collapse, according to a local university study.

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## France-Based Natixis Opens Chile Office

French multinational financial services firm Natixis has opened an office in Chile, its sixth in Latin America.

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### POLITICAL

## Deaths Soar to 116 in Ecuador Prison Riot, Hundreds of Police Sent In

The death toll soared to 116 in Ecuador's deadliest-ever prison riot, which began Tuesday. President Guillermo Lasso said gangs have turned prisons into a ground for power disputes.

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Lasso // File Photo: Ecuadoran Government.

## POLITICAL NEWS

## Deaths Soar to 116 in Ecuador Prison Riot, 400 Police Sent In

The death toll from a gang war that started Tuesday morning inside an Ecuadorean prison has soared to 116, and authorities sent 400 police officers into the penitentiary early this morning in an effort to restore order following sounds of explosions and gunshots there, BBC News reported. Ecuador's national police tweeted video of officers marching into the Guayas prison complex, also known as the



Ecuador's national police sent 400 officers into the prison early this morning. // Photo: @PoliciaEcuador via Twitter.

Litoral Penitentiary, in Guayaquil. Among the dead, at least five inmates were reportedly beheaded, the Associated Press reported. At least 80 others have been injured in the fighting, Reuters reported. "It is unfortunate that criminal groups are attempting to convert prisons into a battleground for power disputes," President Guillermo Lasso told reporters in Guayaquil, the AP reported. "I ask God to bless Ecuador and that we can avoid more loss of human life." The clashes at Litoral were the most deadly outbreak of violence ever in Ecuador's prison system, Reuters reported. Clashes in Ecuadorean prisons last February left 79 people dead, and rioting in July resulted in 22 deaths. The clashes that began Tuesday started when inmates from one wing of the prison crawled through a hole in order to enter a different wing, where they attacked members of a rival gang, BBC News reported. Police officers managed to free six cooks who had been trapped in the wing where the fighting broke out, and only two police officers were injured,

BBC News reported. Although police officers entered the prison to restore order on Tuesday, shooting began again Tuesday night and into Wednesday. The Litoral prison houses inmates who are members of the Los Choneros gang, which is believed to have links to Mexico's Sinaloa drug cartel. Another Mexican gang, the Jalisco New Generation cartel, is attempting to form alliances with Ecuadorean gangs in order to take control of drug trafficking routes currently controlled by the Sinaloa cartel, BBC News reported.

## ECONOMIC NEWS

## Extreme Poverty Hits Nearly 77% of Venezuelans: Study

Nearly 77 percent of Venezuelans live in extreme poverty as the country continues its seventh consecutive year of hyperinflationary economic collapse, according to a local university study published Wednesday, Reuters reported. The 2020-2021 National Survey of Living Conditions (ENCOVI), conducted by researchers at the Andrés Bello Catholic University in Caracas, found that 76.6 percent of Venezuela's 28 million residents live in extreme poverty, up from 67.7 percent last year. The increase was due in part to the Covid-19 pandemic and fuel shortages, according to the study. At least 20 percent of respondents said they had no gas for their cars, which in turn hurt their employment prospects, the wire service reported. The ENCOVI survey was created in 2014 in response to the lack of official public data, according to Pedro Luis España, a sociologist at the university who contributed to the study. When measured by income only, 94.5 percent of the population in Venezuela lives in poverty, the worst number in the region, according to the ENCOVI study, which was conducted through questionnaires distributed to 14,000 households in 21 of the 23 states of the country between February and April. In a speech on Wednesday, opposition leader Juan Guaidó called on Venezuelans to protest for free and

## NEWS BRIEFS

## U.S., Mexico to Hold High-Level Security Talks in October

U.S. and Mexican officials are to hold high-level security talks in Mexico City on Oct. 8, Mexican Foreign Minister Marcelo Ebrard said Wednesday, Reuters reported. The U.S. delegation will include Secretary of State Antony Blinken, Homeland Security Secretary Alejandro Mayorkas and Attorney General Merrick Garland, Ebrard said.

## Indigenous Groups Protest Property Invasion Penalties in Paraguay

Indigenous groups took to the streets of the Paraguayan capital of Asunción on Wednesday in protest of a law that criminalizes the invasion of private property, the Associated Press reported. Seven police officers were injured, and demonstrators also set cars on fire and engaged in other acts of vandalism, authorities said. The unrest began after the Chamber of Deputies passed an amendment to the land invasion law that would increase the penalty from four to six years in prison for those who illegally occupy private property. Indigenous groups often invade properties as part of their demand that land be given to poor farmers.

## Brazil Agency Approves Power Line That Would Cut Through Reserve

Brazilian environmental enforcement agency Ibama has granted an environmental permit to state utility Eletrobras and private energy holding company Alupar Investimento to build a 440-mile power line in the country's Amazon region, the companies said Wednesday, Reuters reported. The power line, which would connect the cities of Manaus and Boa Vista, would also cut across the protected Waimiri-Atroari Indigenous reserve.

fair elections, EFE reported. Ninety-five percent of the country is impoverished, he said in a posting on Twitter.

## BUSINESS NEWS

# France's Natixis Opens Chile Office, Zaldivar to Head It

French multinational financial services firm Natixis Corporate & Investment Banking announced Tuesday that it has opened an office in Chile following approval by Chile's financial regulator. Natixis said Roberto Zaldivar, who was previously a company consultant, will head the new office as senior country manager. The Chile office is Natixis' sixth in Latin America. The company already has offices in Argentina, Brazil, Colombia, Mexico and Peru, the company said in a statement. "Latin America has been a strategic region for Natixis Corporate & Investment Banking for the past 45 years," the company said. The Chile office will help Natixis to "deepen its relationship with clients and enhance their access to the bank's global offering." Natixis manages its coverage of Latin America through its Latin American platform, which is based in New York. It offers financing including in infrastructure, mining, aviation, trade and export, as well as acquisition finance, the company said. Natixis is also active in capital markets, debt capital markets and economic and cross asset research. "We are delighted to deepen our commitment to Chile by opening a representative office and by naming Roberto as senior country manager, as part of our strategy to better support our clients operating in the country," said Helena Radzyski, the head of Natixis' Latin America platform and the executive to whom Zaldivar will report. Before starting at Natixis, Zaldivar worked in debt capital markets at Scotiabank Chile and focused in local bond offerings and international debt capital markets origination. He previously was debt capital markets head at ABM Amro Chile and also worked for Bank of America and Banco Santander Chile.

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aware that when key firms are threatened, governments of capitalist economies have no bounds regarding rescue measures, going from protectionism to massive subsidies and even nationalization. He also knows that under democracy there are severe tradeoffs between political stability and structural reform. Thus, we might expect that instead of pushing for the conventional orthodoxy, Mr. Goldfajn will become a powerful voice within the IMF, not against fiscal discipline and debt sustainability—by now even progressive economists understand that deep public-sector trimming is the unavoidable cost of not having a soundly financed public sector—but for flexibility regarding the time necessary to achieve the desired targets. This is what Argentina and other countries need."

**A** **Gabrielle Trebat, managing director for Brazil and Southern Cone at McLarty Associates:** "Goldfajn, who is highly regarded in Brazil's financial, political and academic circles, brings a solid understanding of the IMF and its processes given his tenure at Brazil's central bank. An immediate challenge will be to support Latin America's post-Covid economic recovery in a way that sustains inclusive growth and addresses persistent inequality. Renegotiating Argentina's \$45 billion IMF deal is another short-term challenge. Talks between Argentina and the IMF have already stalled this year as the country faces payment deadlines for \$2 billion out of the \$40 billion owed. The surprising defeat of the Peronists in the September primaries has exposed tensions in the Fernández administration and reflects waning public confidence in economic management. With poverty levels around 40 percent, Fernández is under pressure to deliver greater fiscal stimulus, potentially tempting him to defy the IMF to shore up political support. Goldfajn will have to maneuver carefully to avoid a worst-case scenario of Argentina's default. Supervising Costa Rica and Ecuador,

which recently made progress on IMF deals, will also feature high on the radar. The IMF's loan agreement with Ecuador of \$800 million for budgetary aid nears conclusion. Costa Rica's Legislative Assembly approved a \$1.8 billion loan despite protests. As with the rest of Latin America, Costa Rica and Ecuador may require additional funding to support recovery from the Covid-19 pandemic. Long-term, Goldfajn is well positioned to impart lessons from Brazil's successful adaptation to digital banking given the instrumental role the central bank has played in supporting the growth of fintechs and digital payments firms in the country."

**A** **Agustín Crivelli, researcher and professor at the University of Buenos Aires:** "The appointment of Ilan Goldfajn, who is replacing Alejandro Werner as negotiator with Argentina, makes it clear, in case there was any doubt about it, that the IMF remains the same and has not changed in its positions. Goldfajn is an orthodox liberal economist and a fervent defender of inflation-targeting schemes, which have led Argentina down the path of recession, high levels of inflation and virtual default since January 2018 (when sovereign bonds ceased to be accepted in the international market). This is product of the absurd process of over-indebtedness between 2016 and 2017, which the current government solved with the exchange involving private bondholders in July 2020. So the expectations of the negotiations with the IMF are not good if the interlocutor of the fund is a defender—and even a friend and co-author of academic articles with then-Argentine officials—of the policies applied during the Macri administration, when all of the \$45 billion from the IMF was used for capital flight. The only possible path is that of a fair and sincere negotiation, in which the IMF assumes its share of responsibility and allows Argentina to reach a repayment scheme for its debt with the organization. This should be compatible with economic

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growth, along with the recovery of the levels of internal consumption and of the impoverished Argentine population.”

**A** **Pablo Heidrich, associate professor in the Global and International Studies Program at Carleton University in Ottawa:**

“Goldfajn is an insider of the Brazilian financial industry, with ample experience in Brazilian central banking and IMF internal politics. His politics are highly conservative, with a strong policy bias for maximizing fiscal austerity and maintaining financial markets liberalization. He is known as a very frontal negotiator. With Argentina, he will face Buenos Aires’ demands for special treatment (for example, extending the repayment period to more than 10 years and reducing loans’ interest rate), which he will surely dismiss with IMF Board support. Besides that, Mr. Goldfajn will personally push for the quickest possible elimination of currency controls, a rapid devaluation of the official rate, the reduction or elimination of service subsidies and a gradual reduction of the government deficit. A showdown is surely coming in the Argentine case, the largest loan the IMF has ever made to

any Latin American country. The IMF role will keep growing as more Latin American and Caribbean nations face a protracted recovery, along with the reckoning from past excessive indebtedness and failing competitiveness. Goldfajn’s challenges are

“**A showdown is surely coming in the Argentine case...**”

— Pablo Heidrich

twofold: on one side, more countries in the region will demand more funds from the IMF with much less stringent conditions; and on the other, the IMF and United States, the most influential stakeholder, no longer favor his own personal hawkish perspective on finance and development. Either Mr. Goldfajn will find himself alone and quickly resign, or he will suddenly change his politics and policy preferences to keep his new job.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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Charles Dalton, World Bank Group  
Maria Clara Horsburgh, Roche  
Adrean Scheid, Arnold & Porter

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