LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Tuesday, March 29, 2022

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Devry Boughner Vorwerk
CEO, DevryBV Sustainable Strategies

Joyce Chang
Global Head of Research,
JPMorgan Chase & Co.

Paula Cifuentes
Director of Economic & Fiscal Affairs,
Latin America & Canada,
Philip Morris International

Marlene Fernández
Corporate Vice President for
Government Relations,
Arcos Dorados (McDonald's)

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
Senior VP, Corporate Affairs,
Royal Caribbean Group

Jon E. Huenemann
Council Member,
GLG Inc.

James R. Jones
Chairman,
Monarch Global Strategies

Craig A. Kelly
Senior Director,
Int'l Gov't Relations, Exxon Mobil

Barbara Kotschwar
Executive Director, Visa Economic
Empowerment Institute

John Maisto
Director, U.S. Education
Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
Chairman,
McLarty Associates

Beatrice Rangel
Director,
AMLA Consulting LLC

Jaana Remes
Partner,
McKinsey Global Institute

Ernesto Revilla
Head of Latin American
Economics, Citi

Gustavo Roosen
President,
IESA

Andrés Rozental
President, Rozental &
Asociados

Shelly Shetty
Managing Director, Sovereigns
Fitch Ratings

THEDIALOGUE

FEATURED Q&A

How Much Will a New Stimulus Plan Help Brazilians?

Brazilian President Jair Bolsonaro launched his "Income and Opportunity Program" on March 17. // Photo: Brazilian Government.

Q Brazilian President Jair Bolsonaro's administration is planning to provide approximately 165 billion reais ($32 billion) of economic stimulus this year through a program known as the "Income and Opportunity Program." The initiative includes early payment of pension checks, the expansion of payroll-deductible loans and a new microcredit program. The payment for pensioners is expected to be released in July, a few months before the October presidential election. Why is the Brazilian government launching this plan now, and what are its most significant components? Who will benefit from the program, and how will it affect small and medium-sized enterprises in the South American country? To what degree could it bolster support for Bolsonaro, who is currently trailing former President Luiz Inácio Lula da Silva in the polls?

A **Anya Prusa, senior director at Dentons Global Advisors-Albright Stonebridge Group:** "Social spending traditionally ticks up in an election year in Brazil for a simple reason: it tends to boost incumbent popularity. Against a backdrop of accelerating fuel and food prices, President Jair Bolsonaro is undoubtedly eager for any advantage as October approaches. This latest stimulus package is just part of a bigger government push to reduce the strain of high inflation and low growth on Brazilians' pocketbooks, from the government's Auxílio Brasil welfare program to the recent effort to cut fuel taxes. There are some signs that these earlier stimulus measures have helped to boost the president's approval ratings: recent polls show that Bolsonaro has chipped away at the gap between himself and his

Continued on page 3

TODAY'S NEWS

POLITICAL

Peru's Castillo Survives Second Ouster Attempt

Peruvian President Pedro Castillo survived the second impeachment attempt against him as Congress fell short of the number of votes needed to remove him from office.

Page 2

BUSINESS

Silva e Luna Sacked as CEO of Brazil's Petrobras

Brazilian President Jair Bolsonaro tapped academic and energy consultant Adriano Pires as chief executive officer of state oil company Petrobras, ousting CEO Joaquim Silva e Luna.

Page 3

POLITICAL

Honduran High Court Approves Hernández's Extradition to U.S.

Honduras' Supreme Court approved the extradition of former President Juan Orlando Hernández to the United States, where he faces drug trafficking and weapons charges.

Page 2

Hernández // File Photo: Facebook Page of Juan Orlando Hernández.

COPYRIGHT © 2022, INTER-AMERICAN DIALOGUE

POLITICAL NEWS

Honduran Justices Approve Hernández's Extradition to U.S.

In a unanimous ruling Monday, Honduras' Supreme Court approved the extradition of former President Juan Orlando Hernández to the United States where he faces drug trafficking charges, The Wall Street Journal reported, citing a court spokesman. U.S. prosecutors accuse Hernández of helping to smuggle tons of cocaine in exchange for bribes, accusations he has denied. U.S. authorities leveled the charges against him and requested his extradition just hours after he left office on Jan. 27. The former president stands charged with one count of conspiracy to manufacture and import cocaine as well as two counts of illegally using weapons, including machine guns, over at least 18 years, The Wall Street Journal reported, citing the extradition request. Lawyers for Hernández, who was arrested at his home in Tegucigalpa in February, had appealed to Honduras' Supreme Court to block his extradition. However, the court's 15 justices rejected the appeal on Monday after deliberating for four hours. Iván Martínez, one of the former president's attorneys, lamented the ruling. "Though we do not agree with any of the decisions ... we have to respect it, that is the rule of law," said Martínez, the Associated Press reported. Hernández's brother, Juan Antonio "Tony" Hernández, was sentenced in the United States in March 2021 to life in prison after being convicted on drug and weapons charges.

Peru's Castillo Survives Second Attempt to Oust Him

Peruvian President Pedro Castillo, who took office last July, on Monday survived a second impeachment attempt against him as Congress fell short of the number of votes needed to remove him from office, Reuters reported. Fifty-five members in the 130-seat unicameral Congress voted to oust Castillo, while 87 votes would have been needed. "I salute that common sense, responsibility and democracy prevailed," Castillo said in a tweet following the vote, the Associated Press reported. "I recognize the lawmakers who voted against the vacancy, and I respect the decision of those who did. I call everyone to turn this page and work together for the great challenges of the country," he added. Although the vote avoids a new political crisis in Peru, Castillo's administration has been turbulent, with four cabinets during his eight months in office. "Unfortunately, a bid to oust me through impeachment has become the central axis of the political and journalistic agenda since my election; this cannot continue," Castillo told lawmakers in a speech before the vote, Reuters reported. Castillo is the target of preliminary investigations into possible corruption, which he denies. Castillo's government is facing "an unstable equilibrium," former Peruvian Vice President Mercedes Aráoz told the Advisor in a **Q&A** published March 16. "Another corruption scandal or a confession of one of his closest advisors can strengthen the possibility that he will be removed from office," she said.

El Salvador Arrests More Than 1,000 in Gang Crackdown

Salvadoran President Nayib Bukele said Monday in a posting on Twitter that authorities had arrested more than 1,000 suspected gang members in a crackdown following a surge in killings over the weekend. Authorities reported 87 gang-related killings last weekend, the Associated Press reported. By comparison, the country reported 79 homicides in all of February. Early Sunday, El Salvador's Congress approved Bukele's request for a 30-day state of emergency that will result in a suspension of some constitutional rights, including freedom of association and the right to a state-sponsored attorney for people accused of crimes. The state of emergency allows people arrested to be detained without access to a lawyer for

NEWS BRIEFS

Massacre at Cockfight Leaves 20 Dead in Mexico's Michoacán State

A group of gunmen stormed a cockfight in a small town in Mexico's Michoacán state on Sunday night, killing 20 people, authorities said Monday, The Guardian reported. The assailants, who were wearing military uniforms, burst into the cockfight with assault rifles, firing on the crowd of mainly middle-aged men, the newspaper reported. Two small trucks had been used to block the highway leading to the site. Mexican police told local media that they had found the bodies of 16 men and three women at the scene; one additional victim died while being transported to a hospital.

Brazil's Bolsonaro Spends Night in Hospital With Abdominal 'Discomfort'

Brazilian President Jair Bolsonaro was discharged this morning from a hospital in Brasília after being admitted on Monday with abdominal "discomfort," his office said, Reuters reported. Early this morning, Communications Minister Fabio Faria said Bolsonaro was released and was feeling "super well."

Vestas Receives Order for Wind Project in Argentina

Denmark-based wind turbine manufacturer Vestas said today that it has received an order from steel pipe producer Tenaris for a wind farm project in Argentina. Vestas said it will provide 24 wind turbines in for the Buena Ventura project in Buenos Aires province. Through the deal, Vestas will also deliver a 20-year management service agreement, the company said. The turbines are to be delivered in the third quarter of this year, Vestas said. Tenaris announced its plans for the wind farm last month in order to lower emissions from its Siderca mill, Renewables Now reported. Tenaris is planning to invest $190 million in the project.

COPYRIGHT © 2022, INTER-AMERICAN DIALOGUE

as long as 15 days, the AP reported. Bukele also ordered a complete lockdown of imprisoned gang members in their cells, barring them from going outside for any recreation. "We have 16,000 'homeboys' in our possession," Bukele tweeted on Monday. "Apart from the 1,000 arrested in these days. We seized everything from them, even their sleeping mats, we rationed their food and now they will no longer see the sun." He added. "STOP KILLING NOW or they will pay for it too." Last December, the U.S. Treasury claimed in a report that Bukele's government secretly negotiated a truce with gang members, which Bukele has denied. "Since Bukele took office, there has been a drastic drop-off in homicides, leading to a rise in his popularity," Leonor Arteaga, a program director at the Due Process of Law Foundation, told the Advisor in a **Q&A** published on Aug. 19. He attributes this success to his territorial control plan, which remains a secret, but security experts and journalists believe he has a clandestine truce with gangs in order to lower homicides. This strategy has created a fragile peace that a gang can break at any moment, which could explain the recent peaks in violence," Arteaga added. El Salvador registered a historic low in homicides in 2020, but killings began increasing in the first half of 2021.

BUSINESS NEWS

Brazil's Bolsonaro Ousts Petrobras CEO Silva e Luna

The CEO of Brazilian state-run oil company Petrobras was fired on Monday amid growing political pressure to contain fuel prices in an election year, Bloomberg News reported. The dismissal of chief executive Joaquim Silva e Luna means the state oil producer will have its third CEO in little over a year, according to the report. Silva e Luna's ouster comes less than a month after Petrobras announced it would raise the price of both diesel and gasoline, a move that could be politically costly for President Jair Bolsonaro, who faces re-election in October. The move caused Petrobras shares to plummet on Monday. In a related development, Brazil's mines and energy ministry announced it would put forward the names of two new board members at a shareholders' meeting in April, Reuters reported Monday. Bolsonaro has tapped academic and energy consultant Adriano Pires as Petrobras' CEO, and Rodolfo Landim, a sports magnate with oil experience, is to be named the company's new chairman, according to Reuters. The state oil producer has pegged domestic fuel prices to international market rates, but until recently has used subsidies to keep the price of gasoline and diesel artificially low. But international prices have risen amid Russia's invasion of Ukraine, and consumers and politicians have complained about the rising prices just seven months before Brazilians will head to the polls. [Editor's note: See related **Q&A** on how rising fuel prices are putting political pressure on Bolsonaro in the Nov. 5, 2021 issue of the Energy Advisor.]

FEATURED Q&A / Continued from page 1

top challenger, former President Luiz Inácio Lula da Silva, since the start of this year. However, while the margin has narrowed, Lula retains a comfortable lead, and recent polls also indicate that nearly one third of Brazilians blame Bolsonaro for higher fuel prices; another 22 percent blame Petrobras. This new stimulus package is unlikely to provide enough of a boost for Bolsonaro to overcome these negatives by October. Many of the new stimulus package's programs will be welcomed by lower and middle-income Brazilians, but the initiative pales against the economic challenges ordinary Brazilians are facing, from unemployment to inflation—particularly as higher government spending will only add to Brazil's inflationary pressures."

Troy Benavides, associate for Brazil and the Southern Cone at McLarty Associates: "Amid a tight fiscal environment, rising inflation and interest rates, elevated levels of household debt and an uncertain election outlook, the Bolsonaro administration is announcing measures to alleviate pressures on consumers without aggravating government spending. The same day Bolsonaro announced the stimulus package, the Economy Ministry revised its 2022 GDP growth projection downward from 2.1 percent to 1.5 percent. Despite a significant recovery since the pandemic, unemployment is forecast to stagnate in the double digits for 2022. Additionally, real household wages have fallen by more than 10 percent since 2020 and have reached the lowest point recorded by Brazil's National Statistics Agency (IBGE). To alleviate inflationary pressure on consumers, the Economy Ministry also announced import tax exemptions on food products and ethanol, as well as a 10 percent reduction in tariffs on capital and IT goods. While the stimulus measures have high electoral appeal, they will likely have a limited economic impact. The early payment of pension checks simply advances payouts that would occur at the end of the year to before the elections. While the new microcredit program expands access to credit for small- and medium-sized enterprises to invest in capital equipment and other goods for their businesses, it risks increasing debt levels over the long term. The administration's economic efforts—including stimulus programs, tax cuts on industrialized goods, the Auxílio Brasil cash transfer program and others—may not be sufficient to guarantee Bolsonaro's re-election, but the gap between him and his primary opponent Lula continues to tighten in the polls."

> **"While the stimulus measures have high electoral appeal, they will likely have a limited economic impact."**
>
> **— Troy Benavides**

Continued on page 4

COPYRIGHT © 2022, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 3

Leandro Ferreira, head of the Brazilian Basic Income Network: "The Bolsonaro administration's announcement of an economic stimulus package is no surprise under the electoral circumstances. The package is untimely and poorly organized in terms of social impact on the target demographic. The main measures of it are the possibility of withdrawing funds from workers' career-saving funds—the Fundo de Garantia por Tempo de Serviço—and the anticipation of formal workers' '13th wage,' an annual bonus-like benefit paid in December of every year. Those are simply resources owned by the workers being mismanaged to let Bolsonaro profit from the political calendar, as the presidential election is taking place in October. Additionally, the expansion of financial credit margins to poor people, especially those in programs such as Auxílio Brasil, the successor of the well-known Bolsa Família program, are going to reinforce the financialization of social policy, using assured benefits as collateral to loans with no guaranteed efficacy. This package ignores the needs of vulnerable people that could only lean on the emergency benefits from Covid-19 crisis responses but have not recovered their income so far. From March 2020 through October 2021, recurring payments have lifted millions of people out of poverty using a policy option pushed forward by civil society and Congress. Instead of taking electoral advantage, Bolsonaro should focus on reducing the number of people living in vulnerable situations, managing inflation rates better and overcoming the cost-of-living crisis of all Brazilians, especially when it comes to acting and regulating the food and energy markets."

> **"The package is untimely and poorly organized in terms of social impact on the target demographic."**
>
> **— Leandro Ferreira**

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

Job Opportunity

Reporter, Latin America Advisor

Inter-American Dialogue

Learn more at thedialogue.org/careers

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue ISSN 2163-7962

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Leticia Chacón
Reporter
lchacon@thedialogue.org

Mark Kennedy
Reporter
mkennedy@thedialogue.org

THEDIALOGUE

Michael Shifter, President
Rebecca Bill Chavez, Nonresident Senior Fellow
Bruno Binetti, Nonresident Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Senior Advisor
Santiago Cantón, Director, Rule of Law Program
Kevin Casas-Zamora, Nonresident Senior Fellow
Julia Dias Leite, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Sandra García Jaramillo, Nonresident Senior Fellow
Selina Ho, Nonresident Senior Fellow
Edison Lanza, Nonresident Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, Asia Program
Manuel Orozco, Senior Fellow
Xiaoyu Pu, Nonresident Senior Fellow
Jeffrey Puryear, Senior Fellow
Tamar Solnik, Director, Finance & Administration
Lisa Viscidi, Nonresident Senior Fellow
Denisse Yanovich, Director of Development

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

Subscription inquiries are welcomed at
ebrand@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.