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FEATURED Q&A

Have Argentina and the IMF Reached a Sustainable Deal?



Argentine President Alberto Fernández's government finalized a debt-restructuring deal with the International Monetary Fund, but the plan has led to a rift in the ruling coalition. // File Photo: Argentine Government.

Q The International Monetary Fund's board on March 25 approved a new \$44 billion debt restructuring plan for Argentina, replacing a failed \$57 billion program from 2018. The debt plan has led to a rift in the ruling Peronist coalition, some of whose members argue the deal will cause further economic strain on the country's population. How good of a deal is the new program for Argentina, and how much belt-tightening will it require of the government and of Argentines? What will the agreement cost the ruling Peronists politically? To what extent will the deal help to put Argentina's economy on a more sustainable path?

A Kezia McKeague, regional director at McLarty Associates:
"For Argentina's famously volatile economy, the long-awaited debt restructuring with the IMF is good news—for the short term. Despite justified criticism of the agreement's lack of ambition, it avoids the worst-case scenario of an imminent sovereign default and greater financial turmoil just as Argentina risks depleting its international reserves. The IMF did not demand significant belt-tightening apart from the politically sensitive issue of energy subsidies; instead, the program consists of a very gradual fiscal adjustment that relies on improved tax collection, without a structural reform agenda that could put Argentina's economy on a more sustainable path. Economy Minister Martín Guzmán succeeded in arguing that a new deal must preclude austerity measures that could hurt economic recovery after a prolonged recession exacerbated by the Covid-19 pandemic. For critics, however, the

Continued on page 2

TODAY'S NEWS

ECONOMIC

Inflation Falls in Venezuela to Lows Not Seen in Years

The Andean nation's price index rose 2.9 percent in February, aided by the wider circulation of hard currencies such as the U.S. dollar, which have led to more stable consumer prices.

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POLITICAL

Press Freedom Groups Decry El Salvador Law

El Salvador's congress has authorized prison sentences of 10 to 15 years for news media that reproduce or disseminate messages from the country's notoriously brutal gangs.

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POLITICAL

U.S. Legislators Criticize Mexico's Top Prosecutor

Democrats in the U.S. Congress have raised alarms over complaints that Mexico's top prosecutor, Alejandro Gertz Manero, is bypassing the nation's independent judiciary and selectively targeting administration opponents.

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Gertz Manero // File Photo: Mexican Government.

POLITICAL NEWS

U.S. Democrats Say Mexican Prosecutor Politicizes Position

Democrats in the U.S. Congress on Wednesday raised alarms over complaints that Mexico's top prosecutor is bypassing the nation's independent judiciary and selectively targeting opponents of President Andrés Manuel López Obrador, the Associated Press reported. In a letter sent Wednesday to Secretary of State Antony Blinken and Attorney General Merrick Garland, the legislators, led by Sen. Bob Menendez (D-N.J.), called on the Biden administration to raise their concerns directly with Mexican counterparts. "López Obrador's tenure has been marked by an increasing pattern of seemingly selective prosecutions disproportionately targeting government critics," according to the letter, a copy of which was obtained by the Associated Press. It added that "President López Obrador's efforts to advance legitimate accountability initiatives must strengthen, not dismantle, democratic institutions and the rule of law." The letter highlighted claims of what they consider "personal vendettas" pursued by Attorney General Alejandro Gertz Manero. The letter notes that López Obrador has publicly attacked a judge who ruled against his energy

policies and called for the resignation of Mexico's top electoral court. The letter raised concerns about criminal charges pressed against Ricardo Anaya, a prominent political opponent of López Obrador. Mexicans head to the polls on Sunday to cast ballots in a recall referendum on President Andrés Manuel López Obrador that he himself called. In a poll published in daily newspaper *El Financiero* in early March, 52 percent of Mexicans said the vote was unnecessary. He is widely expected to pass the referendum, although turnout is expected to be low at only around 20 percent, according to *El Financiero*.

ECONOMIC NEWS

Inflation in Venezuela Falls to Lowest Level in Nearly a Decade

Consumer price increases in Venezuela have slowed to their lowest level in almost a decade, Reuters reported Wednesday, citing data released by the Central Bank. The Andean nation's price index rose 2.9 percent in February, aided by the wider circulation of hard currencies such as the U.S. dollar, which have led to more stable consumer prices. The accumulated increase in prices over the past 12 months

NEWS BRIEFS

Law to Jail Journalists in El Salvador Draws Fire

El Salvador's congress has authorized prison sentences of 10 to 15 years for news media that reproduce or disseminate messages from the country's notoriously brutal gangs, the Associated Press reported Wednesday. The law states that "radio, television, written or digital media" would face 10 to 15 years in prison for "the reproduction or transmission to the general population of messages or statements originating or presumably originating from said criminal groups, that could generate anxiety and panic in the population." The Inter American Press Association said the new law was equivalent to "criminalizing the work of the media and journalists," according to the report.

Bank Robberies Down by 36 Percent in Brazil

The number of bank robberies and attempts in Brazil fell by 36 percent in 2021 as compared to the previous year, the Brazilian Federation of Banks said this week, Agência Brasil reported. The data includes 90 percent of the country's banks. Attacks on ATMs also fell last year, by 38 percent. The banking industry association said that investments in security and digital channels helped lower the number of attempted bank thefts, according to the report.

Online Retailer Jüsto Raises \$152 Million

Mexico City-based Jüsto, an online grocer with operations in Mexico, Brazil and Peru, announced today it has raised \$152 million in an investment round led by General Atlantic, an equity firm. Jüsto said it will leverage the new capital to fund expansion in its three current markets, as well as to grow into new geographies in Latin America. Jüsto was founded in 2019 by chief executive Ricardo Weder as Mexico's first online grocery platform to have no physical store presence.

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agreement simply punts Argentina's structural problems to the next administration, with the IMF's own managing director noting that the risks to the program are 'exceptionally high.' Nevertheless, after two years of talks, this outcome likely represents the best the IMF could negotiate with this government in power and given the constraints of Argentina's polarized politics. Even with a weak agreement, President Fernández secured congressional approval only thanks to the center-right opposition—and the kirchnerista wing of his own fractious coalition voted no, with an eye to the 2023 presidential

elections. While tensions within Frente de Todos have intensified since the governing coalition's loss in the November 2021 midterm elections, the IMF deal has caused an even greater rift, with the Argentine press reporting that the president and vice president are not on speaking terms, and some analysts commenting on the existence of parallel governments. In sum, resolution with the IMF has averted an even greater financial and political crisis for the Fernández administration, but it will do little to address Argentina's growing macroeconomic imbalances and persistently high inflation."

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reached 284 percent at the end of March, still among the highest inflation rates in the world. However, inflation in the first quarter of this year slowed to 11.4 percent, according to Reuters calculations. Meanwhile, Venezuela's economy after years of devastating contraction could grow 20 percent in this year, according to Credit Suisse, Bloomberg News reported Wednesday. Economists at the investment bank said increased hydrocarbon output and high global prices for oil, which have surpassed \$100 per barrel most days in March and April so far, have been bolstering economic activity in Venezuela. Last month, a U.S. delegation traveled to Caracas to meet with President Nicolás Maduro and other officials in his government. Characterized by Maduro as "respectful" and "cordial," the meeting took place as the administration of U.S. President Joe Biden is seeking to boost global oil supplies in light of its decision to halt oil imports from Russia over the war in Ukraine. The trip generated significant "blowback" from Maduro critics, however, with U.S. Sen. Marco Rubio (R-FL) telling the Advisor that it was "a shameless decision" and "slap to the face" of the U.S.-recognized interim government led by President Juan Guaidó and the Venezuelan opposition. "Begging for oil was such a disastrous move that the White House has reportedly backtracked, at least for now," Rubio added. [Editor's note: See related [Q&A](#) in the March 21 issue of the Advisor.]

BUSINESS NEWS

Online Payments Company PayU Buys Tecnipagos

Netherlands-based online payments company PayU has struck a deal to acquire Tecnipagos, which operates payments and electronic deposits platform Ding, from Bogotá-headquartered CredibanCo, Pymnts.com reported Tuesday. The acquisition will broaden PayU's coverage in Colombia and will give it a presence in more than 50 other countries, the website reported. The transaction is subject to regulatory approval in Colombia, PayU and

THE DIALOGUE CONTINUES

What Challenges Await Costa Rica's Next President?

Q **Rodrigo Chaves, an economist and former finance minister, defeated former President José María Figueres in Sunday's presidential runoff election in Costa Rica. Chaves, who ran as an anti-establishment maverick, has criticized Costa Rica's traditional political parties and has vowed to bypass the Legislative Assembly by holding public referendums. To what can Chaves attribute his victory, and what will be the main challenges he faces after he takes office May 8? What are Chaves' main policy objectives, and will he succeed in getting them implemented? What does the 57 percent voter turnout, low by Costa Rican standards, say about Chaves' popularity and mandate to govern?**

A **Pablo Duncan-Linch, founding partner and country director for Costa Rica at CLC Global:** "Chaves' victory is the result of a rebellion against the elites. The difficult economic situation in recent years, together with structural needs, has generated a situation of malaise and anger toward the traditional political class, mainly in the rural and coastal provinces of Costa Rica, which have the country's highest levels of poverty and social exclusion. Although Costa Rica

has high social indexes, it still faces challenges in terms of inequality. In addition to the groups who perceive themselves as excluded from the benefits of the development model, some people have been distraught with corruption, especially in public works, that is attributed to the establishment. Another group has been upset with the inability of various administrations to resolve urgent structural problems, such as reforms of some public institutions. Chaves' rhetoric has focused on the country's economic crisis, with increasing poverty, inflation and foreign debt. During his campaign, Chaves declared that he intended to implement some of his economic proposals by decree in order to reduce the cost of living. Among his main challenges as president will be structuring his government, working on the formation of alliances in the face of an unfavorable legislative balance, uniting the country after a complex election campaign, dealing with confrontations with some of the main media organizations and to build trust, considering the low turnout in the elections."

EDITOR'S NOTE: The comment above is a continuation of the [Q&A](#) published in Tuesday's issue of the Advisor.

Techipagos said in a statement. "PayU is a company that has accompanied the evolution of online payments in Colombia and now seeks to extend its service offering to increase the financial inclusion of small and medium-sized businesses in the country," Francisco León, PayU's chief executive officer for Latin America, said in a statement. "This acquisition is part of our growth plan, aiming to respond to the permanent challenges that a dynamic market with enormous possibilities demands from us," he added. The acquisition also "re-

flects PayU's desire to build valuable Internet businesses for merchants and consumers that provide useful products and services to millions of people in their daily lives," chief executive Mario Shiliashki said in a statement. He added that Colombia is the company's "most important hub in Latin America." PayU allows users to receive online payments that are made with credit cards, bank transfers, cash and other forms of payment, according to PayU's website. The company also says it is integrated "with all processing networks."

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A **Juan Cruz Díaz, managing director, and Roland Huxley, lead specialist, at Cefeidas Group in Buenos Aires:** “The deal with the IMF is a positive development for the country in that it removes the uncertainty hanging over the economy generated by the untenable repayment program set out in the original agreement. Argentina will now avoid having to use its limited international reserves to make what would have been crippling repayments for a total of \$19 billion by year’s end, with an additional \$20 billion due in 2023. Instead, Argentina will now begin a more gradual six-year repayment plan in the second half of 2026. While the new repayment plan buys Argentina breathing room, implementing policies to meet the deal’s conditions, such as a reduction in Argentina’s fiscal deficit from 3 percent of GDP today to 0.9 percent by 2024, will require significant political capital. Critically, the governing Frente de Todos (FdT) coalition does have a majority in either house of the legislature, and, given the skepticism toward the IMF from the wing allied to Vice President Cristina Fernández de Kirchner, President Alberto Fernández had to rely on the support of the opposition Juntos por el Cambio (JxC) coalition to secure congressional approval of the agreement. Now, the government must strive to find savings to meet the IMF’s fiscal targets, but proposed cuts that could be seen as a hardship to the FdT base will likely face pushback, and JxC’s support is not assured. Subsidies for utilities, and energy tariffs in particular, are likely to be one area of government spending earmarked for cuts, although this will likely be unpalatable to some sectors of the governing coalition. Ongoing tensions in FdT over the appropriate policy program to meet the IMF’s objectives may strain the unity of the coalition and risk alienating parts of its base ahead of general elections in 2023, while giving JxC issues to capitalize on.”

A **Bruno Binetti, nonresident fellow at the Inter-American Dialogue:** “As it gave its consent, the IMF board said risks to the agreement were ‘exceptionally high.’ That is an understatement: both sides know that the deal is unsustainable. President Alberto Fernández claims that the agreement does not imply a fiscal adjustment, but the targets he accepted say otherwise. Argentina slashed its primary deficit from 6.5 percent in 2020 to 3 percent in 2021, but balancing the budget in 2025 as promised would require painful cuts to energy and transport subsidies, pressuring inflation upward. With prices expected to rise by 60 percent this year, Argentina also pledged to drastically reduce the central bank’s financing of the treasury and return to positive interest rates, which will cool the economy even further. These goals are not just politically hard due to the resistance of Vice President Cristina Fernández de Kirchner, who is practically out of the government even though her people still control key state agencies. They are also economically unfeasible given the disruption brought by the Ukraine war. Argentina’s wheat exports have increased, but so have imports of oil and gas. Global inflation is accelerating, and the U.S. Federal Reserve is due to increase interest rates throughout 2022, hitting emerging market economies. Argentina will struggle to find ways to cover the deficit: all ‘easy’ spending cuts have been made, and even more tax increases are almost inevitable. With each quarterly revision of the agreement, the government might face the agonizing decision of breaking with the IMF or deepening the adjustments and see its public support, and its coalition, collapse.”

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

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