

## BOARD OF ADVISORS

### Diego Arria

Director, Columbus Group

### Merike Blofield

Director, Institute for Latin American Studies, GIGA

### 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

### Ernesto Revilla

Head of Latin American Economics, Citi

### Gustavo Roosen

President, IESA

### Andrés Rozental

President, Rozental & Asociados

### Shelly Shetty

Managing Director, Sovereigns Fitch Ratings

## FEATURED Q&A

# Will El Salvador Reach a Lending Deal With the IMF?



The government of Salvadoran President Nayib Bukele would benefit from a lending deal with the International Monetary Fund, Moody's said recently. But some commentators below point out that such a deal is far from certain. // File Photo: Salvadoran Government.

**Q** El Salvador would benefit from a lending program with the International Monetary Fund, or IMF, given the weakened state of its finances, Moody's Investors Service said in May. Earlier in the month, the ratings agency cut Salvadoran sovereign debt by two notches to Caa3, the agency's third-lowest rating, due to "an increased probability of a credit event." The IMF has been in talks with the Central American country's government about several issues, including fiscal transparency and public fund accountability. How likely are El Salvador and the IMF to reach an agreement, and how could one benefit the country's economy? What factors are shaping the possibility of a credit "event" in El Salvador? How significant has private investment been in the Central American country's economic stability, which last year saw its highest levels of private investment in six decades?

**A** Ilan Goldfajn, director of the Western Hemisphere Department at the International Monetary Fund: "IMF staff and Salvadoran authorities continue having regular discussions on key policy issues, including the pace and composition of fiscal measures while supporting growth and protecting vulnerable segments of the population. Our technical teams are also engaged in discussions around anti-money laundering, fiscal transparency, accountability in the use of public funds and strengthening the anti-corruption framework in line with international standards, as well as ways to minimize the risks arising from the country's adoption of Bitcoin as a legal tender. Our goal is to help El Salvador and its people ensure stronger and more inclusive growth."

Continued on page 3

## TODAY'S NEWS

### POLITICAL

## Accused Killer of DR Environment Minister Had Permits Denied

Fausto Miguel de Jesús Cruz de la Mota, who is accused of killing Dominican Environment Minister Orlando Jorge Mera, was reportedly denied several environmental permits.

Page 2

### ECONOMIC

## Jamaica's Central Bank to Issue Digital Currency

The Bank of Jamaica is planning to issue a digital currency following lawmakers' approval of a measure to allow it.

Page 2

### POLITICAL

## Biden Calls for Action on Climate, Development at Summit

In opening remarks at the Summit of the Americas, U.S. President Joe Biden called for action on issues including economic development, climate change and migration.

Page 2



Biden // Photo: @SummitAmericas via Twitter.

## POLITICAL NEWS

## Biden Calls for Action on Development, Climate at Summit

U.S. President Joe Biden arrived Wednesday at the Summit of the Americas and called for progress on issues including economic development, climate change and migration, the Associated Press reported. "At this summit, we have an opportunity for us to come together around some bold ideas, ambitious actions and to demonstrate to our people the incredible power of democracies to deliver concrete benefits and make life better for everyone. Everyone," Biden said in an opening address at the gathering of Western Hemisphere leaders. "And no longer is this a question of what will we do—what will the United States do for the Americas. The question is what we accomplish by working together as true partners with diverse capabilities but equal and mutual respect, recognizing both our individual sovereignty and our shared responsibilities," he added. The summit in Los Angeles marks the first time the United States has hosted the gathering since 1994. Biden is expected to meet today at the summit with Canadian Prime Minister Justin Trudeau and Brazilian President Jair Bolsonaro, the AP reported. Meantime, U.S. Vice President Kamala Harris plans to meet with Caribbean leaders to discuss clean energy, and First Lady Jill Biden is hosting a brunch with fellow presidential spouses, the wire service reported. The summit's guest list has threatened to overshadow the meeting as the White House did not invite Venezuela, Cuba and Nicaragua over those governments' records on democracy and human rights. "Democracy is a hallmark of our region," Biden said in his address Wednesday night. "Our Inter-American Democratic Charter, which grew out of the third Summit of the Americas, captures our unique commitment to democracy as a region. It affirms the right of people throughout the Americas to democracy and our obligation as governments to promote and defend democracy," he added. The U.S. move to leave those countries uninvited led

some other heads of state, including Mexican President Andrés Manuel López Obrador to skip the gathering. López Obrador announced earlier this week that he would visit the White House separately in July and that Mexican Foreign Minister Marcelo Ebrard would attend the summit this week in his place. While the White House did not invite Venezuelan opposition leader Juan Guaidó, whom the United States and several other countries recognize as Venezuela's legitimate president, to the summit, Biden did reaffirm U.S. support to Guaidó in a phone call from Air Force One as Biden headed to Los Angeles, the Voice of America reported. Biden voiced support for "Venezuelan-led negotiations as the best path toward a peaceful restoration of democratic institutions, free and fair elections." Meantime, Venezuelan President Nicolás Maduro traveled Tuesday to Turkey and met Wednesday with President Recep Tayyip Erdoğan, Reuters reported. Erdoğan called Venezuela "a very important partner in Latin America and the Caribbean." He added that trade between Turkey and Venezuela grew to \$850 million last year from \$150 million in 2019 and could rise to \$3 billion.

## ECONOMIC NEWS

## Jamaica's Central Bank to Issue Digital Currency

Jamaica's central bank is planning to issue its first digital currency, following legislators' approval of the currency, the Associated Press reported Tuesday. In 2021, Jamaica launched an eight-month pilot program for the digital currency on a smaller scale, and the results partially led to lawmakers' approval. The Jamaican government has said that the new tender will help those in the country without bank accounts. The Central Bank Digital Currency (CBDC), which will go under the name Jam-Dex, joins other Caribbean nations with digital currencies, Caribbean National Weekly reported. Kamina Johnson Smith, Jamaica's minister of foreign affairs and leader of govern-

## NEWS BRIEFS

## Accused Killer of DR Environment Minister Had Permits Denied

Fausto Miguel de Jesús Cruz de la Mota, the man accused of fatally shooting the Dominican Republic's minister of environment and natural resources, Orlando Jorge Mera, allegedly did so because his environmental permits on behalf of several companies were denied, according to judicial documents acquired Wednesday by the Associated Press. Authorities have characterized Cruz, a childhood friend of Mera's, as a "cold and calculating murderer" and are requesting one year of preventive prison for him as they continue the investigation.

## Brazil's Eletrobras Could Raise \$6 Billion in Share Offering

Brazilian state electricity company Eletrobras could raise some \$6 billion in a share offering that is scheduled to be priced today, Reuters reported. The Canada Pension Plan Investment Board and Singaporean sovereign wealth fund GIC are among the bidders, the wire service reported, citing two people with knowledge of the matter. The share offering will result in the privatization of Eletrobras, Latin America's largest utility provider, as the government's stake in the company will be reduced to 45 percent.

## General Motors to Start Production of Chevrolet Tracker SUV in Argentina

General Motors and the Argentine government announced Wednesday that the U.S.-based automaker will start production of its Chevrolet Tracker sport-utility vehicle in the South American country next month, Reuters reported. GM plans to export the vehicle to other countries in Latin America, "mainly to Brazil and Colombia, where 80 percent of the production will be destined," the Argentine government said.

ment business in Jamaica's Senate, said that the new currency will address several challenges for unbanked Jamaicans, as a bank account will not be required for the digital currency.

"What you now will have is a wallet. So, you will



Johnson Smith // File Photo: Jamaica Information Service.

get a CBDC wallet issued by banks or authorized payment service providers ... It is also anticipated that the CBDC will lower the cost associated with providing a national means of payment and provide an alternative to the issuance of bank notes," she said, Caribbean National Weekly reported.

## BUSINESS NEWS

# Slim, Larrea Among Bidders for Citi's Mexico Unit: Report

Mexican billionaire Carlos Slim, who heads Grupo Financiero Inbursa, and Germán Larrea, the owner of mining company Grupo México, as well as Spain-based Banco Santander and Mexican bank Grupo Financiero Banorte have made offers for Citigroup's Banamex unit in Mexico, according to unnamed sources familiar with the talks, Bloomberg News reported Wednesday. Banca Mifel, a small Mexican bank, also made an offer for the Citi unit. Mexican President Andrés Manuel López Obrador has expressed a preference for the unit to be sold to a Mexican owner in order to "Mexicanize" the bank, though he said he is not closing the door to foreign investors, Reuters reported in January. Banco Santander is the only foreign bank thus far to have made a bid on the Citi asset, Bloomberg News reported. Santander's

## FEATURED Q&A / Continued from page 1

**A** **Brendan McKenna, vice president and international economist at Wells Fargo Securities:** "The likelihood of El Salvador securing an IMF program is rather low as of now. IMF officials have been very explicit in encouraging El Salvador to permanently reduce the fiscal deficit and move away from using Bitcoin as a legal form of currency. President Bukele has essentially dismissed the fund's recommendation to scale back the use of digital currency, while the government has done little to demonstrate a commitment to fiscal reform or place the sovereign debt burden on a more sustainable trajectory.

**“ The possibility of reaching an agreement with the IMF is very low.”**

— Brendan McKenna

ry. Without a willingness to address these IMF concerns and pre-conditions, I think the possibility of reaching an agreement with the IMF is very low. However, should a program be secured, El Salvador could benefit by seeing public finances improve. A program would likely be designed to cut fiscal expenditures, reduce subsidies and over time lower the debt-to-GDP ratio. Right now, El Salvador's debt burden is unsustainable as the government has put expansionary fiscal policies in place. Denominating foreign exchange reserves in Bitcoin has also significantly reduced external buffers and has left the government with little to no financial resources to service existing debt. Financial markets have noticed the deterioration in sovereign creditworthiness and pushed

chair, Ana Botín, said the bank would attempt to buy Banamex if it could pay cash, in order to maintain its capital and dividends. López Obrador had requested that both Slim and Larrea participate in the sale, according to

El Salvador's bonds deep into distressed territory, signaling that a credit event could be imminent. To attract private investment, on which El Salvador's economy has become increasingly reliant, a solid reform agenda and commitment to the agenda will need to be put in place. Unless public finances improve, the probability of default recedes and more credible and orthodox policymaking is implemented, receiving private investment will be extremely difficult."

**A** **Ricardo Castaneda, senior economist and coordinator for El Salvador and Honduras at Instituto Centroamericano de Estudios Fiscales (Icefi):** "El Salvador's financial situation has been complicated for several years; however, with the weakening of democratic institutions, the lack of a fiscal plan and the adoption of Bitcoin, this situation has deteriorated. According to the Emerging Market Bond Index (EMBI), El Salvador now has the second-worst level in Latin America, below only Venezuela. To give an example, this means that if El Salvador had issued bonds in the international markets a year ago, the interest rate it would have paid would be between 7 percent or 8 percent. If it did so now, it would have to pay around 30 percent, assuming that someone were to lend it money. That is why it is urgent to reach an agreement with the IMF. However, this depends on whether the Salvadoran government accepts conditions on issues of transparency and democratic governance—aspects that I do not anticipate it will accept. Nevertheless, in January 2023 the government has to pay \$800 million of maturing bonds, and at this point, they do not have the money to pay it, so that could be a compelling reason to accept the

Continued on page 4

Bloomberg's sources. Citigroup's decision to sell Banamex, its largest branch network in the world, aligns with Citi CEO Jane Fraser's efforts to focus the bank's operations on U.S. credit-card offerings and wealth management.

## FEATURED Q&amp;A / Continued from page 3

commitments with the IMF. But the fund must be careful not to become a partner that finances the consolidation of an authoritarian regime in the country.”

**A** **Siobhan Morden, managing director at Amherst Pierpoint Securities:** “It’s clear that there is no IMF option. Despite more than a year of promises, there has been no progress toward a formal IMF program. The current distressed prices have completely unwound this option with no apparent goodwill from El Salvador to compromise on what’s necessary for a formal IMF program. The release of the Article IV review last January provides some valuable insight as well as recommendations. It’s a tough list, including a cumulative 4 percent of GDP fiscal adjustment (2022-2024), the reversal of Bitcoin as legal tender, as well as other good governance criteria. The latter recommendations may prove nonstarters. This is not to say that El Salvador cannot design its own credible medium-term economic program with fiscal discipline as an anchor. There are two potential paths toward debt sustainability in El Salvador: either fiscal discipline under their own IMF-style program or higher-trend GDP growth from either Bitcoin-related tourism or investment. The financing stress should eventually reveal whether the

Bukele administration pivots toward fiscal discipline. The chronology of cash flow stress typically first exhausts financing options, then cuts back on spending and finally draws down the stock of assets. El Salvador is still in the early stages of what could be

“It’s clear that there is no IMF option.”  
— Siobhan Morden

a protracted muddling-through on cashflow management. Bitcoin remains mostly a distraction and not a viable solution for either near-term financing or fiscal stress. It’s difficult to quantify the optionality of higher medium-term Bitcoin-related GDP growth that could stabilize the debt burden. Tourism has yet to recover to pre-Covid levels, while the weak policy framework remains a deterrent to foreign direct investment. The medium-term policy management remains undefined and hence explains the pessimism of the low bond prices and prospects for weak debt sustainability.”

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

## LATIN AMERICA ADVISOR

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

**Erik Brand**

Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**

Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Leticia Chacón**

Reporter  
[lchacon@thedialogue.org](mailto:lchacon@thedialogue.org)



**Rebecca Bill Chavez**, President

**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**, Director, Migration, Remittances and Development Program

**Xiaoyu Pu**, Nonresident Senior Fellow

**Jeffrey Puryear**, Senior Fellow

**Michael Shifter**, Senior Fellow

**Tamar Solnik**, Director, Finance & Administration

**Lisa Viscidi**, Nonresident Senior Fellow

**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](http://www.thedialogue.org)

Subscription inquiries are welcomed at [ebrand@thedialogue.org](mailto: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.

LATIN AMERICA ADVISOR

# Financial Services Advisor

The answers to questions that informed executives are asking.

Upgrade your subscription with the Inter-American Dialogue’s biweekly Financial Services Advisor. Send an email to [ebrand@thedialogue.org](mailto:ebrand@thedialogue.org) today.

SUBSCRIBE