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FEATURED Q&A

Has Argentina's Economy Started a Stronger Recovery?



Argentine President Mauricio Macri has focused on implementing market-friendly economic policies since taking office more than a year ago. // File Photo: Argentine Government.

Q Showing signs of recovery, Argentina's economy grew 0.5 percent in last year's fourth quarter as compared to the third, the country's statistics agency said March 21. The farming, energy and construction sectors are seeing increased output, the agency said. Has Argentina's economy reached bottom and started to turn around? Are President Mauricio Macri's economic policies the reason for recent gains, and will they be sustained? Will the economic gains be enough for Macri's Cambiemos coalition to be rewarded in the October midterm elections, or will the election spell trouble for the president's allies in Congress?

A Claudio Loser, visiting senior fellow at the Inter-American Dialogue, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund: "Life is complicated for

Cambiemos and President Macri ahead of the October elections. First, the economic facts: GDP is expected to grow by 2.7 percent this year, indicating an increase in per-capita income, after a three-year average annual decline; inflation remains high at about 30 percent a year, but is declining and still reflects the one-time effects of the unavoidable adjustments in energy prices; the external accounts are strengthening, with foreign reserves having grown by more than \$17 billion since the end of 2015, to the highest level recorded since 2011. Still, poverty, at about 30 percent, remains high; real salaries have declined as unsustainable subsidies were reduced; public finances are very weak and dependent on foreign financing; and the peso is overvalued, except for traditional

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TODAY'S NEWS

POLITICAL

Moreno Claims Ecuador Victory, Lasso Cries Foul

With more than 96 percent of votes counted, ruling party candidate Lenin Moreno had secured 51.1 percent of the votes compared with conservative challenger Guillermo Lasso's 48.9 percent.

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POLITICAL

Venezuela Court Reverses Move to Dissolve Congress

Opposition leaders in Venezuela's National Assembly said Sunday they will begin the process of removing judges from the polarized nation's Supreme Court.

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POLITICAL

Paraguay Closes Congress in Wake of Fire, Shooting

President Horacio Cartes on Saturday fired his interior minister and chief of police and appealed for calm after protests erupted Friday over news of a secret Senate vote that would enable him to run for office again in 2018.

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Cartes // Photo: Government of Paraguay.

POLITICAL NEWS

Moreno Claims Victory in Ecuador, Lasso Cries Foul

Ruling party candidate and former vice president Lenín Moreno claimed victory in Ecuador's presidential vote on Sunday, as supporters of conservative challenger Guillermo Lasso clashed with riot police in major cities, accusing authorities of permitting fraud in the election, the Associated Press reported. Several thousand Lasso supporters were gathered outside the electoral council headquarters in Quito as of midnight to protest in relative calm, according to the report. With more than 96 percent of votes counted, Moreno had secured 51.1 percent of the votes compared with



Moreno addresses supporters Sunday. // Image: TeleCiudadano.

Lasso's 48.9 percent, according to the electoral council. The difference of more than 200,000 votes was called into question by Lasso supporters, who cited exit polls indicating an opposite result. Lasso, 61, has called for a recount in every province of the nation, but the electoral council's head, Juan Pablo Pozo, has appealed to the opposition to recognise the results. International observers had been watching Sunday's race for indications the "pink tide" of left-leaning governments that swept across Latin America during the natural resource boom of the last decade had receded further, following conservative candidate gains recently in Argentina and Brazil. Leftist leaders in Venezuela and Bolivia were quick on Sunday to congratulate Moreno on his victory. A Moreno win would also come as a relief for WikiLeaks founder Julian Assange, who Lasso vowed to

remove from Ecuador's London embassy within 30 days if he won the runoff, Reuters reported. Assange taunted Lasso over Twitter after the vote, suggesting that the businessman leave Ecuador within 30 days instead.

Paraguay Congress Closed in Wake of Fire, Lethal Shooting

Paraguay's Congress remained closed and guarded by armed police Sunday as investigators gathered evidence surrounding events Friday evening that led to the burning of the Senate building and death of an opposition youth leader at the hands of police, ABC Color reported. President Horacio Cartes on Saturday fired his interior minister and chief of police and appealed for calm after protests erupted Friday over news of a secret Senate vote that would enable him to run for office again in 2018, something the constitution has barred since 1992 in the wake of a 35-year dictatorship. While the streets were for the most part subdued this weekend, small groups of protesters were collecting signatures demanding the withdrawal the proposed amendment. Cartes, a wealthy businessman who leads the conservative Colorado Party, offered his "most sincere condolences" to the family of Rodrigo Quintana, 25, the leader of the opposition Liberal Party's youth branch who was reportedly shot in the back by police with live ammunition Saturday as they raided party offices following the riots on congress, adding that "the perpetrators of this horrendous episode will face justice and pay for their actions," the Guardian reported. About 30 people were injured in the raid, including three lawmakers, while police said 211 people, some of them minors, were arrested over the weekend, according to Agence France-Presse. Paraguay's lower house could vote on the re-election proposal as soon as Tuesday, when leaders are scheduled to set the chamber's agenda. However, firemen have warned the Congress building may be at risk of collapsing as a result of the fire, potentially delaying legislative sessions for some time to come, Reuters reported.

NEWS BRIEFS

Mudslides in Colombia Kill 254 People

Colombian President Juan Manuel Santos said Sunday there are no more people officially missing after mudslides killed at least 254 over the weekend in Putumayo province, CNN reported. More than five inches of rain Friday night caused three rivers surrounding the southern city of Mocoa to overflow and bury the town of 25,000 inhabitants in mud and debris. Santos said 170 victims had been identified thus far, with 43 children among the dead with 22 more hospitalized. A further 203 people were injured, many severely.

Latin America Will Need \$350 Billion in New Aircraft by 2035: Report

Latin America will require 2,570 new passenger and freighter aircraft worth \$350 billion between last year and 2035, Aerospace Technology reported today, citing a new Airbus Global Market Forecast report. The region's growing middle class will double the size of Latin America's existing in-service fleet of 3,000 passenger and freighter planes over the next two decades, the report predicts, a rate on par with the world's annual average of 4.5 percent.

Japan Leads Investment in \$317 Million IDB Fund

Japan and a group of Latin American and Caribbean countries will lead a \$317 million capital replenishment of the Inter-American Development Bank's Multilateral Investment Fund, or MIF. Latin American and Caribbean countries will provide \$166.8 million to the MIF, with Japan donating \$85 million, and the balance provided by Spain, Canada, China, and five other European countries. Israel is also becoming a donor to the MIF, which historically had received most of its funding from the United States aimed at poverty reduction, the IDB said in a statement Sunday.

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exporters. Even considering these negative factors, there is a positive tendency in the economy, mostly a consequence of the government policies. However, the Peronist opposition, even if disjointed, is in control of Congress and ahead of the elections, the Kirchnerista movement, together with more extreme groups, are making life very difficult for the Argentine population through strikes, demonstrations and day-to-day disruptions, ahead of the elections. Because of the cuts in subsidies, the middle class is upset, and may express its unhappiness through a protest vote. This clouds the prospects of Cambiemos. However, in response to the Kirchnerista actions, and the fresh memory of their widespread corruption and abuse of power, a vote of support for Macri, of course subject to the government's frequent tactical mistakes, may result."

A Felipe Yapur, journalist at Radio Nacional and Tiempo Argentino: "The Argentine economy has not stopped falling, and worse, it has not yet reached bottom. Data provided by INDEC, which relies on the government, says that industrial production, which contributes the largest number of registered workers, accumulated a drop of 3.5 percent in this year's first quarter. The main reasons for this economic, social and political crisis are the measures that President Mauricio Macri has taken since he took office in December 2015. The severe devaluation of the peso, the indiscriminate opening to imports and a significant increase in electricity, water and gas rates have triggered an inflationary spiral that has caused an increase in unemployment and closings of small- and medium-sized businesses that drive labor growth. In addition, the food industry declined by 4.2 percent year-over-year in February. The drop in consumption did not take long. The only sectors that have benefitted are banking, agriculture and mining. These not only have relatively small workforces, but they also do not pay additional income taxes on ex-

traordinary earnings. Therefore, sectors that were already healthy are now even stronger. These statistics do not allow us to envision a favorable scenario for Macri's government in the October midterm elections."

A Juan Cruz Díaz, managing director of Cefeidas Group in Buenos Aires: "Economic data shows mixed results. Many indicators are still lagging, despite some signs of recovery (the country has officially exited recession, according to statistics agency INDEC). The economic situation, in particular inflation and the consequent salary negotiations, is on the minds of voters and will be an important factor in the outcome of the midterms. A sense that the economy is improving would boost the government's prospects of picking up seats. However, there are still several months until the election, and in most scenarios, the government will come out better than it was before. Even in a scenario where the opposition wins the symbolically important Buenos Aires province and more seats overall, this would not necessarily represent a resounding defeat for the government, given that opposition legislators elected this year are likely to be less antagonistic. The majority of seats up for grabs were the ones elected in the 2013 midterms, at a time when former President Cristina Fernández de Kirchner was enjoying strong support and had significant influence in picking the candidates. Opposition actors elected this year are more likely to be chosen by the provincial party structure, meaning governors will exercise more influence over their behavior. The Macri administration has established a good working relationship with many opposition governors, which has been important in moving legislation through Congress. An important unknown variable is if CFK will run in Buenos Aires province. A CFK candidacy could split the opposition Peronist vote and would also play into the government's electoral strategy which, in the absence of concrete economic results

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Venezuela Court Reverses Decision to Dissolve Congress

Opposition leaders in Venezuela's National Assembly said Sunday they will begin the process of removing judges from the polarized nation's Supreme Court and urged supporters to take to the streets on Tuesday to back the move, El Universal reported. National Assembly first vice president Freddy Guevara told supporters that the Constitutional Chamber of the Supreme Court of Justice, or TSJ, had broken the law last week in dissolving the already weakened Assembly. "These judges that gave a coup d'état cannot go unpunished," said Guevara. Even the country's attorney general, Luisa Ortega, a longtime government ally, had broken ranks and declared the decision a "breach of constitutional order" in a rare public rebuke,

“The rupture of the constitutional order continues.”

— Juan Matheus

Reuters reported. On Saturday, at the request of Maduro's government, the Supreme Court eliminated the most contentious part of its ruling, but not before international condemnation further eroded President Nicolás Maduro's shaky standing as the leader of a democracy. Despite the TSJ's reversal, "the rupture of the constitutional order continues," opposition lawmaker Juan Matheus told supporters Sunday. The Organization of American States is due to meet today to debate the situation in Venezuela, the Associated Press reported. In practical terms, the threat to remove judges is unlikely to come to pass, analysts say. However, the threat of street violence continues to mount. Riot police firing tear gas faced down small street protests in Caracas and other cities across the country over the weekend, according to media reports.

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to tout, has focused on making the election a referendum on the legacy of the Kirchners, especially allegations of corruption. However, the symbolism of a win by CFK in this scenario would be a major blow to the government.”

A **Juan Santarcángelo, senior researcher at the Consejo Nacional de Investigaciones Económicas y Técnicas (CONICET) and the Universidad Nacional de Quilmes in Buenos Aires:** “Although Argentina’s economic activity grew by 0.5 percent in the fourth quarter, it’s a phenomenon of such small magnitude that it is still far from being consolidated. This meager growth can be explained by the growth that has been concentrated in specific sectors, like agriculture; but many of Argentina’s sectors are not only failing to experience growth, they are continuing to decline. One of the most important cases is that of manufacturing, which, according to the Foundation for Latin American Economic Research, or FIEL, contracted by 9.5 percent in February year-over-year. Likewise, it’s been verified that investment is not increasing, and that industry is operating at 60 percent capacity. In this context, it’s difficult to imagine that the economy is making a comeback. The Macri administration has significantly increased Argentina’s debt levels. Under the administration’s management, inflation has risen to its highest rate in recent years, the level of activity and consumption has collapsed, industry continues to fall, there have been budget cuts in science and technology, unemployment continues to rise and the government has permitted the disproportionate increase of taxes and tariffs, among other measures. In no way do these policies help drive economic growth, much less development, so unless there is some inkling of radical change being made to economic policy, the situation will continue to deteriorate. The electoral scenario is a dilemma for Cambiemos in terms of economic policy, because the coalition has to decide whether to maintain its current economic policy

framework or try to recover economic activity and domestic consumption. If changes aren’t made, the Cambiemos coalition will surely have a weak performance in the upcoming elections.”

A **Carlos Fara, president of Carlos Fara & Asociados in Buenos Aires:** “There are indeed signs of economic recovery, although it is early to say whether that means the country has already emerged from the recession. Considering that this year’s inflation will be lower and exports will grow somewhat, the recovery is without a doubt more sustainable than in the time of Cristina Kirchner. The business climate is different, and the

“**The recovery is without a doubt more sustainable than in the time of Cristina Kirchner.**”

— Carlos Fara

measures taken by the national government have collaborated with indicators of economic improvement. However, the feeling of the people in the street is different, since optimism has been wearing away, especially over the last two months. By the time of the elections, the economy will register its greatest growth of 2017, so that will have some positive impact on voters. However, the recovery may not be deep enough to give the government a forceful triumph. It may win in the province of Buenos Aires, which represents 38 percent of the electorate. If that happens, it will be prominent in media headlines, even if the overall national result is not the same.”

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

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