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## FEATURED Q&A

# Is the IMF's Massive Argentina Loan Program Working?



Argentine President Mauricio Macri's government negotiated the largest ever loan provided by the International Monetary Fund. // File Photo: Argentine Government.

**Q** The International Monetary Fund and Argentina reached an agreement on July 5 to allow the release of a \$5.4 billion disbursement under the South American country's loan program with the lender. The deal came just days after economists in an Argentine central bank survey said they expected the country's economy to contract 1.4 percent this year. To what extent is the IMF's record \$56 billion loan program for Argentina working? Are President Mauricio Macri's economic policies laying the foundation for future economic stability? What will the departure of IMF Managing Director Christine Lagarde, who has been tapped to lead the European Central Bank, mean for Argentina?

**A** Kezia McKeague, director at McLarty Associates: "The IMF loan provided a lifeline to the Argentine economy following the 'sudden stop' of external financing in 2018. As a consequence of the crisis of confidence in international credit markets, the Macri administration committed to ambitious fiscal targets while protecting social programs, and the central bank ultimately opted for a policy of zero growth of the monetary base. While the economy remains in recession and inflation remains stubbornly high, these policies are laying the foundation for stronger macroeconomic fundamentals. The Indec statistics bureau announced on July 16 that the June inflation figure was the lowest yet of 2019, with the president of the central bank predicting continuation of the downward trend, albeit in a potentially nonlinear fashion. In addition, 'pax cambiaria'—the exchange-rate stability

Continued on page 2

## TODAY'S NEWS

### POLITICAL

## Argentine Gov't Names Hezbollah a Terrorist Group

Argentina's declaration freezes the group's financial assets in the South American country and came as Argentina marked the 25th anniversary of a deadly bombing of a Jewish community center in Buenos Aires.

Page 2

### BUSINESS

## Walmex Reports Nearly 10 Percent Profit Rise, Beats Estimates

Walmart de México said sales jumped in the second quarter, due in part to the Mother's Day holiday. Net profit during the quarter rose to \$455.8 million.

Page 3

### POLITICAL

## El Chapo's Jail Conditions 'Inhumane': López Obrador

Mexican President Andrés Manuel López Obrador said drug kingpin Joaquín "El Chapo" Guzmán's jail conditions are "inhumane."

Page 2



López Obrador // File Photo: Mexican Government.

## POLITICAL NEWS

## El Chapo's Jail Conditions 'Inhumane': AMLO

The jail conditions of Mexican drug lord Joaquín "El Chapo" Guzmán are "inhumane," Mexican President Andrés Manuel López Obrador said Thursday, a day after the kingpin was sentenced in the United States to life in prison, Reuters reported. A jury convicted Guzmán in a Brooklyn, N.Y., courtroom in February at the conclusion of an 11-week trial, and a judge on Wednesday sentenced him to a life prison term plus 30 years. At his regular morning news conference on Thursday, López Obrador said prison terms like Guzmán's, "a sentence for life in a hostile jail, hard, inhumane," make life no longer worth living for an inmate. In addition, López Obrador expressed concern for Guzmán's victims. "I also have many victims in mind," said López Obrador. "It's something very painful." The president added that society needs moral reforms. "We will continue to create a better society, supported by values, that is not based on accumulating material wealth, money or luxury," he said. López Obrador has sought to quell violence in Mexico by creating a new militarized police force. Last year, 33,000

people were killed in Mexico, a record number. Homicides continued to surge following López Obrador's inauguration last December. When asked if he expected a spike in violence following Guzmán's sentencing, López Obrador said he did not. "No, on the contrary. We think that bit by bit the number of criminal incidents will decline." In addition to imposing the life prison sentence, U.S. District Judge Brian Cogan ordered Guzmán to pay \$12.6 billion in forfeiture. López Obrador said Thursday that his government would explore whether Mexico would be able to claim his assets, adding that Foreign Minister Marcelo Ebrard would oversee the matter. "These resources, these assets legally belong to Mexico and the matter will be considered on a legal basis," said López Obrador. "I believe that the United States will agree." [Editor's note: See [Q&A](#) on Mexico's new National Guard in the April 17 issue of the Advisor.]

## Argentina Designates Hezbollah a Terrorist Organization

Argentina on Thursday designated Hezbollah a terrorist organization, ordering a freeze on the group's financial assets, just as the country marked 25 years since an attack blamed on

## NEWS BRIEFS

## Brazil's Bolsonaro Says He'll Nominate Son Despite Popularity Blow

Brazilian President Jair Bolsonaro reiterated on Thursday that he intends to nominate his son Eduardo to be ambassador to the United States, even if it hurts his popularity, Reuters reported. He said his son, who currently serves as a congressman representing São Paulo, is prepared to be Brazil's envoy, adding that he has a good relationship with the United States. If nominated, Eduardo Bolsonaro would need to be confirmed by the Senate Foreign Relations Committee before passing to the full Senate for approval.

## Chile Cuts Price Estimate for Copper Amid Lower Demand From China

The Chilean Copper Commission, Cochilco, on Thursday lowered its price expectation for the metal amid falling demand from China, Agence France-Presse reported. In its second-quarter report, Cochilco said it lowered its expectation for copper prices this year to \$2.89 per pound, down from the previous estimate of \$3.05 per pound.

## AT&T Reportedly Exploring Potential Sale of Puerto Rico Unit

AT&T is exploring options for its Puerto Rico unit, including potentially selling it for approximately \$3 billion, Reuters reported Thursday, citing sources familiar with the matter. AT&T is looking to cut the debt pile it took on to purchase Time Warner Inc. for \$85 billion last year. The wireless carrier's business in Puerto Rico includes Internet, television, landlines and business services. It has about \$300 million in 12-month earnings before interest, tax, depreciation and amortization, the sources said. AT&T cautioned that it is possible no deal will materialize.

## FEATURED Q&amp;A / Continued from page 1

so intimately connected to Argentina's political stability—has prevailed since the central bank secured the IMF's endorsement of greater firepower to intervene as needed within the peso's flotation bands. This 'currency peace,' coupled with the selection of a veteran Peronist politician as Macri's running mate, has considerably improved the mood in the Casa Rosada. Nevertheless, the Argentine economy has a tough road to return to growth. The latest IMF forecast assumes real GDP growth of 1.1 percent in 2020 (cut in half since the previous IMF review), though with a brighter FDI picture and trade balance. In the medium term, the centrist consensus in Argentina is that the country

requires labor, tax and pension reforms to achieve growth—impossibilities in an election year and early priorities in the case of a second term for Macri. To the administration's relief, the resignation of Christine Lagarde received headlines in the Argentine press but will mean little for the continuity of the IMF's program. Although Acting Managing Director David Lipton is known as a monetary hawk, the IMF has already proved flexible in customizing orthodox policies to Argentina's unique needs. More important than the personalities involved is the White House's fulsome support of Argentina on the IMF's executive board."

Continued on page 4

Hezbollah killed 85 people and wounded more than 300, Clarín reported. Thursday was the anniversary of the 1994 bombing of a Jewish community center in Buenos Aires, one of the deadliest anti-Semitic crimes since World War II. The bombing was one of two attacks attributed to Hezbollah, a political and military group supported by Iran, in Argentina. The terrorist designation came one day before U.S. Secretary of State Mike Pompeo is scheduled to participate in a regional counterterrorism conference in Buenos Aires, as well as in a commemoration ceremony of the victims of the 1994 bombing, The New York Times reported. Pompeo's visit comes at a time when "the U.S.-Iran policy has been isolated in Europe and found little support among traditional parties. So, the State Department is looking for unusual allies to tighten the screws on Iran," Benjamin Gedan, an Argentina expert at the Woodrow Wilson International Center for Scholars, told The New York Times. "Argentina can help the United States tell a compelling story of Iran's support for terrorism," he added.

## ECONOMIC NEWS

### Argentine Refineries Seeing Surge in Oil Supply: Local Gov't

Argentina's refineries are seeing a surge of oil supply due to higher levels of shale oil production in the South American country, Neuquén Province's government said Wednesday, S&P Global Platts reported. In May, the country's refineries were operating at a capacity of 78.3 percent, on average, their highest level in seven months, the government's statistics agency, Indec, said earlier this week. The increase in shale oil production was due to the "takeoff in Vaca Muerta," the location of major shale oil and gas deposits. Argentina's oil production grew 4.2 percent in May to 505,651 barrels per day, according to Argentina's Energy Secretariat. Output from Vaca Muerta has offset declines in the country's conventional oil production. The formation has allowed Argentina to halt crude imports and increase refineries'

run rates. Argentina has not imported crude oil for more than a year, and it has started exporting crude, S&P Global Platts reported, citing Neuquén's governor, Omar Gutiérrez. Crude exports rose 30.1 percent year-on-year in May, to 46,306 barrels per day. The higher run rates are likely to boost production of refined products, which have seen demand slump amid Argentina's recession. Gasoline sales in the country declined 3.7 percent in May to 151,147 barrels per day, according to the Energy Secretariat.

## BUSINESS NEWS

### Walmex Beats Estimates With 10% Profit Rise for Q2

Walmart de México's second-quarter profits were up nearly 10 percent, beating expectations as sales jumped due in part to Mother's Day and the summer season, the company said

Thursday. Net profit during the quarter rose to 8.75 billion pesos (\$455.8 million), up from 7.9 billion pesos in the same period a year ago and considerably above market expectations. A Reuters poll of six analysts had forecast Walmart de México, also known as Walmex, would report a 0.8 percent increase in net profit, expecting it to be affected by higher financial costs under new accounting standards implemented this year in Mexico. Walmart de México said that if the standards had been imposed last year, net profit would have risen 13.2 percent, Reuters reported. Walmart brand stores in Mexico saw "robust" growth thanks to discounts in connection with summer vacation season, Mother's Day and Father's Day, said the retailer, which is Mexico's largest. Total revenues increased 5.2 percent, with online sales up by 50 percent, in line with growth the previous quarter. Earnings before interest, tax, depreciation and amortization, or EBITDA, for the quarter totaled 16.3 billion pesos, which represented 10.5 percent of total revenues and a 20.5 percent increase as compared to a year ago, the company said.

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## Confronting Latin America's Economic Challenges: What Can the Region Do?

### SPEAKERS

**Joyce Chang**  
Chair of Global Research,  
J.P. Morgan

**Santiago Levy**  
Nonresident Senior Fellow,  
The Brookings Institution

**Monday, July 22, 2019**  
**2:00-4:00 p.m.**

**Inter-American Dialogue**  
**1155 15th Street NW, Suite 800**  
**Washington, DC 20005**

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## FEATURED Q&amp;A / Continued from page 2

**A** **Rayan Akill, specialist, and Megan Cook, lead specialist, both in the political and regulatory risk/strategic affairs practice at Cefeidas Group in Buenos Aires:** “The IMF deal was agreed to and then renegotiated in periods of high currency volatility, prompted partially by lack of confidence in the government’s ability to repay its debt. The program has been effective to the extent that the peso has largely stabilized this year, following a period of high volatility in 2018. At the same time, the Macri administration has remained committed to meeting the targets established in the deal, including reducing the fiscal deficit, a historic contributor to cyclical volatility in Argentina. However, this is being achieved at the expense of economic growth, rising unemployment and poverty, and inflation has proven more difficult to tame than anticipated. The IMF program is designed to address Argentina’s immediate economic challenges, but long-term sustainable economic growth will require a broader coordinated program of reforms and policy continuity. Overall, Argentina’s economy remains very susceptible to risks. As the elections approach, the IMF has been meeting with opposition candidates to try and ensure continuity of the program and to ease concerns surrounding a possible default. We believe the program will remain in place after the elections, but the terms of the deal will most likely be renegotiated to ensure that Argentina meets its debt payments. Lagarde’s impending departure should not change the entity’s relationship with Argentina. Although the agreement was undoubtedly facilitated by the good relationship between Treasury Minister Nicolás Dujovne and Lagarde, the deal between Argentina and the IMF goes far beyond this. This is the IMF’s largest-ever loan program, meaning the organization has a vested interest in its success. Given the historical negative associations with the IMF in Argentina, the institution also sees this as a chance to reform its reputation. It has shown flexibility throughout the program

and will most likely continue to do so after Lagarde is gone. Argentina also retains the support of the United States, which has been an important actor in ensuring the IMF’s ongoing support toward Argentina.”

**A** **Pablo Heidrich, assistant professor in the Global and International Studies Programme at Carleton University:** “The IMF loan program has worked in the short-term to stabilize the economy, and it helped Argentina avoid a debt default in late 2018. However, it is not working to restore Argentina along a growth path with a balanced fiscal budget and a sustainable current account. Some of its requirements have been positive, such as raising taxes on commodity exports and services, while others have been extremely negative, such as keeping extremely high interest rates to shore up the peso. President Macri’s economic policies are not laying the foundation for future economic stability because his government is not addressing the lack of productivity in the economy and instead is falling back on an appreciated currency again to reduce inflation. Very substantial idle industrial capacity, falling wages and growing unemployment point to government policies missing the chance to restart growth through a truly competitive exchange rate and lower interest rates. Christine Lagarde’s departure will not mean very much for Argentina as the agreement is already in place. The interim IMF authority might be politically stricter with Argentina but ultimately, this country is (again) its biggest debtor, and the IMF can hardly afford to let it go down as another failed intervention. Therefore, leniency will be continued in 2020, surely in a new Macri administration, maybe less likely in a new Peronist government.”

*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, Copyright © 2019

**Erik Brand**

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

**Gene Kuleta**

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

**Anastasia Chacón González**

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



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**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)

ISSN 2163-7962

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

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