LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Friday, November 30, 2018

FEATURED Q&A

Will Argentina's Troubled Economy Recover Next Year?

Argentine President Mauricio Macri faced economic turmoil this year, leading him to seek a credit line with the International Monetary Fund. // File Photo: Argentine Government.

Q This year, Argentina's economy unexpectedly experienced a currency rout and financial market distress that forced the government of President Mauricio Macri to seek a massive and unpopular $57 billion backstop from the International Monetary Fund, ushering in a period of fiscal austerity and sky-high interest rates. What happened? Will 2019 bring calmer waters for Argentina, or are new surprises around the bend? What is the outlook for Argentina's key economic indicators in the year ahead, and what factors are driving them?

A Joydeep Mukherji, sector specialist of sovereign ratings in the Americas at S&P Global Ratings: "This is Argentina's 11th IMF program since the 1980s, reflecting a legacy of volatile economic performance and sharp changes in economic policies. The government had to seek an amended program after ineffective policy implementation contributed to a second bout this year of capital flight, currency depreciation and higher interest rates in August and September. The IMF program provides sufficient external funding until after the October 2019 national elections, but political pressures could undermine its implementation. We expect GDP to fall 2.5 percent in 2018 and almost 1 percent in 2019, before growing 2.5 percent in 2020. Average annual per capita GDP growth was negative 0.7 percent during 2012-2017. We expect the current account deficit to fall toward 4.6 percent of GDP in 2018 from nearly 5 percent last year, driven by currency depreciation and falling domestic demand. The impact of both recession and a weaker currency, along with a recovery in agricultural exports, should contribute to

Continued on page 3

TODAY'S NEWS

ECONOMIC

Leaders of U.S., Mexico, Canada Sign Trade Accord

U.S. President Donald Trump, Mexican President Enrique Peña Nieto and Canadian Prime Minister Justin Trudeau signed the deal, which is intended to replace NAFTA, in Buenos Aires on the sidelines of the G-20 Summit.

Page 2

ECONOMIC

Brazil's Economy Grows at Fastest Pace in 18 Months

Brazil's economic growth accelerated in the third quarter as the country recovered from a truckers' strike.

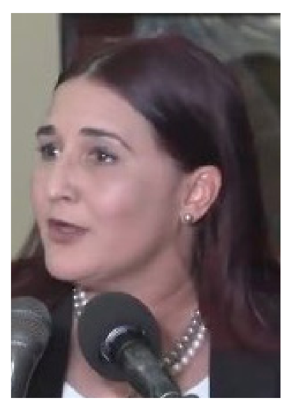
Page 2

POLITICAL

Cuba Accuses U.S. of Unfairly Denying Visas

Cuba accused the United States of unfairly denying visas to Cuban Embassy officials. Cuban Foreign Ministry official Johana Tablada said the Trump administration has stopped replying to multiple requests for visas.

Page 2



Tablada // Photo: @JohanaTablada via Twitter.

ECONOMIC NEWS

Leaders of U.S., Mexico, Canada Sign New Trade Accord

The leaders of the United States, Mexico and Canada today signed a revised trade accord to replace the 24-year-old North American Free Trade Agreement and that changes several of the regulations that govern the flow of commercial goods across the continent, USA Today reported. U.S. President Donald Trump, Mexican

Peña Nieto, Trump and Trudeau signed the new trade accord this morning in Buenos Aires. // Photo: White House.

President Enrique Peña Nieto and Canadian Prime Minister Justin Trudeau signed the United States-Mexico-Canada Agreement, also known as USMCA, on the sidelines of the G-20 Summit in Buenos Aires. "This has been a battle, and battles sometimes make great friendships," said Trump. "This is a model agreement that changes the trade landscape forever." All three leaders have said the new agreement is good for the economies of their countries. The pact, which was signed on the last day of Peña Nieto's presidency, still must be ratified by lawmakers in all three countries before it can take effect. Mexico's Congress is expected to take action first. Andrés Manuel López Obrador takes office as the country's new president on Saturday, and Mexico's Senate is expected to ratify the agreement quickly so that the new administration can turn its attention to domestic issues. In the United States, a new Congress starts work in January, with Democrats in control of the House of Representatives. A vote in the U.S. Congress may not happen before March or April and could potentially happen as late as the second half of next year, Ohio-based international trade attorney Daniel Ujczo of law firm Dickinson Wright, told USA Today. "There's still a lot of work to do on this deal before we hit the finish line," he said. Trump, however, expressed confidence for Congress' ratification of the accord. "I don't expect to have much of a problem," he said. Canada's Parliament is not expected to consider the agreement's ratification until after the U.S. Congress passes it. In Canada, the deal has been seen with skepticism, particularly by dairy farmers. The Trump administration's tariffs on steel and aluminum could also complicate the trade deal's ratification. "We need to remove the tariffs on steel and aluminum between our two countries," said Trudeau. The tariffs began earlier this year with the United States using national security as a justification for imposing them on the metals. Canada and Mexico retaliated by imposing related tariffs against the United States, and all the tariffs still remain in place, CBC News reported. Canada is also changing the order of the countries in the acronym describing the accord, calling it CUSMA in its version of the name. [Editor's note: See related **Q&A** in the Oct. 11 issue of the Advisor.]

Brazil's Economy Grows at Fastest Pace in 18 Months

Brazil's economy picked up in the third quarter, expanding at its fastest pace in 18 months as the country recovered from a truckers' strike earlier this year that crippled growth, the Financial Times reported Friday. Gross domestic product grew by 0.8 percent in the July-September period, compared to the previous three months, when there was growth of 0.2 percent with seasonal adjustments, according to data released by the national statistics agency, IBGE. Compared to a year ago, GDP grew by 1.3 percent in the last quarter, below the 1.6 percent increase expected. Still, it is the fastest growth registered since the 1.1 percent reported in the first quarter of last year, Valor Econômico reported. "The robust 0.8 percent quarter-on-quarter expansion in Brazilian GDP

NEWS BRIEFS

Canada Reviewing Presence in Cuba After Another Diplomat Falls Ill

Canada is reviewing its diplomatic presence in Cuba after another diplomat fell ill with mysterious symptoms similar to those that have affected other envoys to the Caribbean nation, Reuters reported Thursday. Canadian and U.S. diplomats in Havana first started complaining of dizziness, nausea and headaches a year and a half ago. Another Canadian envoy began showing symptoms this past summer, government officials said. The cause of the ailments remains unknown.

Venezuela's Maduro Hikes Minimum Wage

Venezuelan President Nicolás Maduro on Thursday increased the country's minimum wage by 150 percent to grapple with what he called an economic war waged by the United States, comparing U.S. President Donald Trump to Adolf Hitler, the Associated Press reported. "Just like Hitler persecuted the Jewish people, Donald Trump persecutes the people of Venezuela," he said. Maduro blames U.S. sanctions for Venezuela's five-year recession. The boost brings minimum wage to 4,500 bolívars a month, roughly $11 on the common black-market exchange.

Cuba Accuses U.S. of Unfairly Denying Visas

Cuba on Thursday accused the United States of unfairly denying visas to officials at the Cuban Embassy in Washington, the Associated Press reported. Johana Tablada, Cuba's deputy head of U.S. affairs, told the AP that the Trump administration has stopped replying to multiple requests for visas, something she says has not happened for two decades. Cuba's foreign ministry said the United States has denied six visas for Cuban diplomats since September of last year.

in [the third quarter] was flattered by the recovery from disruptions caused by the trucker drivers' strike in May," said William Jackson, chief emerging markets economist at Capital Economics, the Financial Times reported. Following Brazil's two-year recession, the worst in the country's history, unemployment remains at roughly 12 percent, and the budget deficit equals 7 percent of GDP. Brazilian President-elect Jair Bolsonaro has reined in investor confidence and has promised key reforms, including an overhaul to the pension system. He takes office Jan. 1.

BUSINESS NEWS

Brazil's Odebrecht Reportedly Seeking to Renegotiate Debt

Brazil's Odebrecht is working with local restructuring firm RK Partners to renegotiate part of its bank debt, Reuters reported Thursday, citing four unnamed sources with knowledge of the matter. Earlier this week, the construction conglomerate announced it had hired New-York based Moelis & Co and two law firms to restructure $3 billion in bonds issued by Odebrecht's financial unit. RK Partners will reportedly work with Odebrecht to try to retain a portion of the revenue brought by the sale of assets such as Peru's Chaglla hydroelectric plant and a stake in Brazil's San Antonio hydroelectric plant, instead of having all proceeds go to creditors, one source said, the wire service reported. The renegotiation may involve subsidiaries including Odebrecht Transport, a construction unit of Odebrecht Engenharia e Construção and agroindustrial firm Atvos. Initially, Odebrecht had reportedly considered selling assets in some of these units to pay off debt, but decided it was not practical. Some of the construction company's creditors include private banks such as Bradesco, Itaú and Banco Santander, as well as state-controlled development bank BNDES, Banco do Brasil and Caixa Econômica Federal.

FEATURED Q&A / Continued from page 1

a further fall in the external deficit toward 2 percent of GDP in 2019. We expect continuity in market-friendly economic policies that reduce inflation, lower the fiscal deficit and restore GDP growth after the 2019 elections. Although the IMF program has scheduled total disbursements of $5.8 billion in 2020 and 2021, it assumes that the sovereign will have regained access to external commercial funding after 2019. Continued growth depends on maintaining access to external funding (from official lenders in 2019 and from private lenders thereafter), given the government's high debt burden and the small size of domestic capital markets."

A **Marina Dal Poggetto, economist and executive director of Eco Go Consultores in Buenos Aires:** "The second agreement with the IMF was successful in putting the brakes on the risk of an inflationary spiral with the dollar's uncontrollable jump. The increased amount and acceleration of disbursements and the tightening of monetary and fiscal policies consistent with the 'double zero' delayed questions about the country's default and contributed to the stabilization of the peso. However, country risk continues to be at 700 basis points, with debt that expires in 2020 yielding double or more the 4.5 percent 2019 bond yields. This reflects enormous political uncertainty within a context in which the adjustment of shocks triggered by the market improves the basics of the economy but is not enough to turn the 'overweight' portfolios. The shock forced an aggressive adjustment to external and fiscal imbalances at the cost of a deep recession that limits but does not prevent the transfer to devaluation prices (in 2018, GDP is estimated to fall 2.8 percent and inflation to reach 48 percent). The 2020 financial program seems to be stressed only if credit is still closed to Argentina after almost two years of net charge-offs with the market and a debt with the IMF that expires after 2020, forcing those who take the reins at the end of next year to keep with the international lender's program. The possibility to lower inflation expectations in 2019 will be associated mainly with the calm of the dollar in a context of free capital mobility, facing an uncertain world and with society 'resisting' the recession as we enter an election year."

A **Mario Rapoport, professor emeritus of economics at the University of Buenos Aires:** "Macri's call on the IMF for help is due to ideological convictions and a serious strategic error. I think both of these factors have combined. He has totally deregulated imports, gravely harming the industrial sector, while maintaining the annulment or reduction of withholdings on agricultural products, minerals and other primary goods. The adjustment of the IMF and zero-deficit had already started beforehand. He liberalized trade at moments where the world started to implement protectionist policies, thus harming the industry. His only objective was obtaining foreign investment, but he didn't have a visible plan and was making the Argentine domestic market less attractive as seen by drops in GDP, consumption and employment. Now, Macri has asked for a standby loan from the IMF to pay the debts he created by himself, partly based on the low levels of debt previously and thinking on possible refinancing such as in the past. But the world has changed. He didn't have an effective, concrete economic or political plan, and he got back on the financial bicycle

"Macri's call on the IMF for help is due to ideological convictions and a serious strategic error."
— Mario Rapoport

Continued on page 4

FEATURED Q&A / Continued from page 3

with no control over the dollar while sinking the internal market with the 'tarifazos' (increasing public services' rates), layoffs and inflation. The internal budget will come from the taxes of a sunken country, except for the sectors Macri favored. He dreams of going back to the 19th century agro-exporter past. But that time has passed. In the past, Argentina had the British market, and some of the European market, secured. But now, it's under the United States' hegemonic sphere, and that country does not need our products. Macri's famous global hypermarket is a utopia, given the current protectionist policies. In addition to all of these, there is the more-than-possible chance of a change in government and policies. I think Christine Lagarde and the majority of Argentines will not sleep soundly, especially knowing that all IMF interventions either have not solved the problem or have brought conflict later on."

A **Agustín Crivelli, economist and professor at the University of Buenos Aires:** "The outlook for 2019 is far from encouraging for the Argentine economy. Amid a huge crisis, resulting from a policy of over-indebtedness without any precedent, Argentina will default on its external debt in 2021 at the latest. Most probably, next year we'll see investors begin to move in anticipation, shedding Argentine debt papers and in this way accelerating the default. In order to avoid it, the Argentine government would need to raise levels of renewal of short-term placements by more than 50 percent, an unlikely scenario given the elections, in which the chances of re-election fall every day at the same pace that the economic crisis deepens. In this context, what will most likely happen in 2019 is a marked dollarization of portfolios, with bond rates and treasury bill rates growing rapidly as the election approaches. The government's deal with the IMF means the economy has debt maturities of more than $30 billion annually beginning in 2021 with no additional sources of financing. We clearly have a road in front of us that leads, as in 2001 with the IMF, to another, newer default."

> **"The outlook for 2019 is far from encouraging for the Argentine economy."**
> **— Agustín Crivelli**

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2018

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org

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

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org