

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

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

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President, Boeing Latin America

Jon E. Huenemann
Former Corporate and
Government Senior Executive

James R. Jones
Chairman,
Monarch Global Strategies

Craig A. Kelly
Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto
Director, U.S. Education
Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
Chairman,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

Jaana Remes
Partner,
McKinsey Global Institute

Ernesto Revilla
Head of Latin American
Economics, Citi

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President, Rozental &
Asociados

Shelly Shetty
Managing Director, Sovereigns
Fitch Ratings

FEATURED Q&A

Which Economic Reforms Will Win Approval in Brazil?



As the coronavirus pandemic worsens, Brazilian Economy Minister Paulo Guedes has urged the country's lawmakers to speed up economic reforms. // File Photo: Brazilian Chamber of Deputies.

Q **Brazilian Economy Minister Paulo Guedes on March 11 urged the leaders of the country's Congress to speed up the government's agenda for economic reforms as the economy appears increasingly threatened by the coronavirus pandemic. In response to the outbreak, the administration of President Jair Bolsonaro is also pushing other reforms including allowing businesses to cut workers' hours and wages by as much as half, which the government said would help save jobs. What are the most important reforms that Latin America's largest economy needs now? Which reforms are most likely to win approval in Congress, and which are a tougher sell? How much support does President Jair Bolsonaro have among the country's legislators?**

A **Erich Decat, partner and political analyst at XP Investments:** "Due to the coronavirus outbreak, the congressional discussion about the government's economic reforms announced late last year has been halted. It means that future tax cuts, privatization, a new system for regulating public service and changes to the 'federative pact' aiming to redesign the distribution of finances between the states and the federal government are all in second place. Currently, legislators are engaged only with one issue: how to minimize the impact of Covid-19 on the health system and simultaneously reduce its effect on the economy. Over the last two weeks, Brazilian authorities have announced emergency measures trying to put society and business at ease. In a Saturday conference call with XP Investments, Economy Minister Paulo Guedes said the government intends to inject 800 billion

Continued on page 3

TODAY'S NEWS

POLITICAL

Mexico Declares Health Emergency, Strengthens Rules

Mexico's government issued stricter rules in an effort to contain the spread of Covid-19.

Page 2

ECONOMIC

Argentina to Unveil Debt Restructuring 'Guideposts'

The government of President Alberto Fernández is reportedly expected to unveil a framework for restructuring the country's nearly \$70 billion in foreign debt.

Page 3

POLITICAL

U.S. Eyes Lifting Sanctions, Transitional Gov't in Venezuela

The White House is reportedly readying a plan to lift its sanctions on Venezuela that includes a transitional government there. U.S. Secretary of State Mike Pompeo reportedly discussed the plan with Venezuelan opposition leader Juan Guaidó.

Page 2



Guaidó // File Photo: @jguaido via Twitter.

POLITICAL NEWS

U.S. Eyes Transitional Gov't in Venezuela, Lifting Sanctions

The administration of U.S. President Donald Trump has outlined a plan to lift sanctions on Venezuela including a new proposal to form a transitional government representing allies of both President Nicolás Maduro and opposition leader Juan Guaidó, whom dozens of countries recognize as Venezuela's legitimate interim president, the Associated Press reported today, citing unnamed U.S. officials. Secretary of State Mike Pompeo is expected to present the plan today, according to the report, after having



Pompeo // File Photo: U.S. State Department.

discussed it over the weekend with Guaidó. It was the opposition leader, who also heads Venezuela's opposition-controlled National Assembly, who first made the proposal, indicating the severity of concerns regarding the Andean nation's capability to handle the coronavirus pandemic amid already serious economic and humanitarian crises and a collapsed health system. The plan, dubbed the "Democratic Framework for Venezuela," would require both Maduro and Guaidó to step aside and hand power to a five-member council of state that would govern the country until presidential and parliamentary votes can be held later this year, the Associated Press reported. The National Assembly would appoint four of the members, and the fifth member would be named by the other council members. There is no indication that Maduro will agree to it. The United States is hoping that a Venezuela weakened by the Covid-19 outbreak and the plunge in oil prices,

as well as the International Monetary Fund's recent rejection of a \$5 billion loan in response to the pandemic, will convince Maduro to step down, The New York Times reported. [Editor's note: See related [Q&A](#) in Monday's issue of the Advisor.]

Mexico Declares Health Emergency, Strengthens Rules

Mexico's government on Monday issued stricter rules in an effort to try to contain the rapidly spreading coronavirus as the number of cases in the country and deaths associated with it surged, Reuters reported. As of this morning, the country had 1,094 confirmed cases of Covid-19 and 28 related deaths. A day earlier, there were 993 confirmed cases and 20 related deaths. The new restrictions include a reduction of the number of people who can gather in one place to 50 and an extension of a halt to nonessential activities. Though Mexico has a relatively young population, it also has among the world's highest rates of diabetes and obesity, increasing concern about its potential vulnerability to the virus. Foreign Minister Marcelo Ebrard announced the new restrictions and said individuals or companies who broke the rules would face penalties. The order would be in place until April 30, officials said. Unlike several other leaders in Latin America, Mexican President Andrés Manuel López Obrador, over concern about Mexico's economy, has not ordered drastic measures such as a lockdown in order to contain the spread of coronavirus. Elsewhere in the region, several prominent leftist politicians called for Brazilian President Jair Bolsonaro's resignation, saying his downplaying of the threat posed by the virus will mean the loss of many lives in Brazil, The Guardian reported. "Brazil and the world are facing an emergency unprecedented in modern history ... [and] in our country the emergency is exacerbated by an irresponsible president," said the manifesto published Monday in *Folha de São Paulo*. "Jair Bolsonaro is the greatest obstacle to urgent decisions being taken to reduce the spread of the infection [and] save lives." The

NEWS BRIEFS

Brazil Development Bank Working on Emergency Financing for Airlines

Brazilian development bank BNDES is working on an emergency-financing package for airlines as they face the downturn caused by the coronavirus pandemic, Reuters reported Monday. The bank's president, Gustavo Montezano, said BNDES is planning to use convertible debentures at low interest rates to help airlines cover the costs of their operations.

Costa Rican President Vows to Protect Indigenous Land Rights

Costa Rican President Carlos Alvarado said he is committed to protecting indigenous land rights while compensating nonindigenous people living in protected areas, according to an interview with The Guardian published Monday. His remarks followed the murder of an indigenous leader earlier this month. Alvarado said he believed one of the problems with indigenous land protection was a lack of enforcement, because the state "has not had the capacity—mainly economic—to protect the land rights of the people." There are 24 protected indigenous territories in Costa Rica.

Jamaica to Impose Nationwide Curfew for Seven Days to Fight Virus

Jamaican Prime Minister Andrew Holness announced on Monday that the government would impose a nationwide curfew for seven days, starting Wednesday, in response to the Covid-19 pandemic, the Jamaica Observer reported. The curfew would begin at 8 p.m. each night and run through 6 a.m., with exemptions for essential services and critical industries. Holness said the government expects to see a significant rise in the number of Covid-19 cases. Jamaica on Monday reported 36 confirmed cases of the virus.

document was signed by prominent leftists including former presidential candidates Ciro Gomes and Fernando Haddad. On Sunday, Bolsonaro ignored a call for social distancing by his own health minister, saying, “We’ll all die one day.” Bolsonaro on Monday said he wanted no further quarantine measures because jobs are being destroyed, adding that the poor are suffering disproportionately, Reuters reported. Brazil’s Senate approved legislation on Monday to guarantee some of the poorest Brazilians 600 reais (\$117) in income monthly for three months. Brazil has 4,661 confirmed cases of Covid-19 and 165 deaths.

ECONOMIC NEWS

Argentina to Unveil ‘Guideposts’ for Restructuring Debt

Argentina this week will unveil “guideposts” for a restructuring of its nearly \$70 billion in foreign debt, but the country will not yet make a formal proposal to creditors, Reuters reported Monday, citing a person briefed on the government’s plans. The administration of President Alberto Fernández had initially set the end of March as a deadline for securing a deal with bondholders but has faced delays in the process, most in light of the coronavirus pandemic. Argentina is in talks with private creditors and major backers, including the International Monetary Fund, to avoid a default, which could cut off its access to global market as the country battles recession and inflation. “There’s been some necessary delay from the coronavirus that was obviously unanticipated,” the source, who asked Reuters not to be identified because the ongoing talks are not public, told the wire service. The person also said the government intends to make an interest payment of nearly \$225 million today in a bid to keep creditors at ease. Argentina’s economy ministry did not immediately respond to Reuters’ request for comment. Economy Minister Martín Guzmán has previously said Argentina cannot service its current debt loads.

FEATURED Q&A / Continued from page 1

reais (\$156 billion) into the economy. Some of the intended measures would have to be approved by Congress, which wants to score political points with the solution. How long will lawmakers keep the economic reforms on the backburner? Today, nobody knows. If the crisis lasts until June or July, as some Brazilian health authorities believe, the chances of voting on structural reforms in 2020 diminish. From these months onward, lawmakers will also be paying attention to the municipal elections, which take place in October. And after the elections, Congress may well focus on the succession of the speakers of the lower house and the Senate. Therefore, the coronavirus pandemic might push the reform debate to 2021, when new congressional players will orchestrate it.”

A Welber Barral, senior consultant at BMJ Consultores Associados and former Brazilian foreign trade secretary: “The tax reform is certainly the most important. Brazil’s tax system is unnecessarily complex and time-consuming for companies, a certain source of legal unpredictability and of transactions costs on business in Brazil. The government is also proposing an administrative reform, which is important to increase the efficiency of the public sector. Other proposals to minimize red tape and to reduce the interference on the private market are also being implemented or pending before Congress. There is no consensus about the tax reform, and resistance from the states is expected. The current proposals focus on the creation of a value-added tax, and the states are concerned that the federal government will have more power on its management. The administrative reform has the lobby of federal employees against it. None of these proposals are easy to sell, and their implementation will require strong leadership and public support. The president estranged himself from his party (PSL), while his proposed party has not yet been created. Opposition parties, however,

were not able to create a common front to oppose Bolsonaro’s proposals. Chamber of Deputies Speaker Rodrigo Maia has been an important stabilizing actor who has achieved the approval of necessary measures and blocked requests of impeachment against the president.”

A José Pio Borges, president of the Brazilian Center for International Relations: “Bolsonaro has negligible support in Congress and has broken relationships with governors. Any reforms that are passed might be approved through a direct initiative of Congress or the interaction between Congress and some competent ministers. There are three groups of reforms: First and most important are those necessary to fight the pandemic, meaning additional funding on the federal, state and municipal levels, over and above all pre-established limits imposed by laws or the constitution. These will certainly pass. Second are the reforms to help people and businesses through this difficult period—a depression we have not seen in 90 years. Third is the pension fund reform, which both houses and the president approved. Although its fiscal effect is mostly in the long term, it was important to create momentum and change expectations, especially of foreign investors. Another positive achievement was the preliminary trade agreement between Mercosur and the European Union after 20 years of negotiations. After too long being a group of countries joining to avoid opening to the world, Mercosur changed its course and made the first move to present itself as a group jointly open to the world. That change was possible because of the liberal views of Argentina’s and Brazil’s governments, and because Brazil’s economy ministry led the country’s negotiations. However, the government has insisted on passing a public employment reform, which will be very difficult to approve with GDP growing less than 1 percent a year (before the pandemic). Also a big mistake,

Continued on page 4

FEATURED Q&A / Continued from page 3

in my view, was to spend political capital to approve a law to privatize Eletrobras, instead of selling its assets, which the Supreme Court had already approved.”

A **Paulo Vieira da Cunha, partner at Verbank Consulting:** “The response to the crisis has been chaotic, and no one is more accountable than the president. So far, the administration has prepared nearly 50 measures. Less than a handful have been implemented or are likely to win approval in Congress. The central bank acted decisively, but the reach of its measures is limited. They encourage potential credit supply, but lenders are even more risk-averse, and the surge in demand is in segments least likely to have access to credit. Keeping financial markets functioning is essential to avoiding a downfall but, in the short run, it does not do enough to improve welfare. Delaying tax obligations also helps corporations but is much less valuable for the overwhelming majority with incomes below the tax threshold. Allowing for flexibility in the labor legislation, similarly, is of relevance only for a subset of the largest corporations and may benefit employers more than employees. Congress and governors have taken the initiative. The measures proposed by the speaker of the house are in the right direction. The administration’s proposed aid to informal workers was tripled and finally approved. The reach of the existing safety net will be widened. Governors are following epidemiological recommendations. To be sure, this will increase the fiscal deficit at a time when the fiscal adjustment is incomplete and the capacity to pay will crash. But Congress seems to be aware that these measures should be exceptional, with strong sunset clauses, as allowed under the ‘Budget Ceiling’ legislation that has been in effect since 2017. Of course, it would be better to approve the increase in social expenditures at the same time as the proposed constitu-

tional amendments changing the budgetary procedures, reducing the cost of the civil service and reforming the tax code. It would be better, but impossible, and all we can hope for now is that Congress takes seriously its commitment to both help address the crisis and deal with the fiscal implications for medium-term sustainability.”

A **Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach:** “The time is ripe to do away with the 1988 constitution, which, while useful in building consensus around the relaunching of democracy in Brazil, has become a straitjacket that does not allow for a healthy growth of either the economy or civic society. To be sure, the current Brazilian constitution reflects the mobilization of special interests, client relations and protectionist economic values that aim to fend off globalization. The result has been periods of growth followed by economic crashes, mounting corruption and reduced innovation. Brazil needs the oxygen of freedom in the economic and political realms. But this cannot be achieved through a model that allows businesses to overprice products while keeping away competition. As the hemisphere further enters the digital economy, Brazil should have a huge comparative advantage in this transformation, given the size of its market. Also, Brazil did an extremely good job in liberalizing telecommunications. As a result, Internet penetration is deep in Brazil, and usage of social networks rivals that of developed countries. A new constitution guaranteeing fundamental principles and rules of procedure to aggregate interests and resolve conflicts would liberate Brazil’s growth potential.”

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 © 2020

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter & Associate Editor
achacon@thedialogue.org



Michael Shifter, President
Rebecca Bill Chavez, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Michael Camilleri, Director, Rule of Law Program
Kevin Casas-Zamora, Nonresident Senior Fellow
Héctor Castro Vizcarra, Nonresident Senior Fellow
Julia Dias Leite, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Peter Hakim, President Emeritus
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, Asia and Latin America Program
Manuel Orozco, Director, Migration, Remittances & Development
Xiaoyu Pu, Nonresident Senior Fellow
Jeffrey Puryear, Senior Fellow
Mateo Samper, Nonresident Senior Fellow
Tamar Solnik, Director, Finance & Administration
Lisa Viscidi, Director, Energy Program
Denisse Yanovich, Director of Development and External Relations

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 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.