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## FEATURED Q&A

# Will Argentina Be Able to Reach a Deal With its Creditors?



Argentine President Alberto Fernández's government is seeking debt relief in talks with international creditors. // File Photo: Argentine Government.

**Q** Argentina has extended to May 22 a self-imposed deadline to reach a deal with international bondholders to restructure more than \$65 billion in foreign debt, after its largest creditor groups rejected the government's offer last week. May 22 also marks the end of a grace period for about \$503 million in delayed interest payments. Failure to reach an agreement or make the payment would result in the country's ninth default. What needs to happen for Argentina to avoid a default this month? What are the major sticking points keeping Argentina's government and creditors from reaching a restructuring deal, and are the two sides likely to iron them out before the new deadline? What would default mean for the country and President Alberto Fernández's government?

**A** Jorge Argüello, Argentina's ambassador to the United States: "Argentina's economic problems long predated the current government and have been exacerbated by the current Covid-19 pandemic. President Alberto Fernández has pledged to make Argentina's public debt sustainable and put the country back on a growth trajectory. In April, the government presented to foreign creditors an offer that would responsibly restructure Argentina's debt. This proposal has been praised by a broad, bipartisan spectrum of Argentina's provincial state governors, legislators and more than 1,400 mayors, businesspeople and union leaders. The issue has also garnered global attention, with the IMF acknowledging that Argentina's debt is not sustainable and with more than 150 international economists—including four Nobel laureates—calling for debt relief as the only way to combat

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## TODAY'S NEWS

### POLITICAL

## Brazil, Mexico Report New Daily Records for Covid-19 Deaths

Brazil and Mexico saw their highest daily death tolls from Covid-19, with Brazil reporting 881 deaths and Mexico reporting 353.

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### ECONOMIC

## Mexico's López Obrador Eyes Reopening Key Economic Sectors

Mexican President Andrés Manuel López Obrador today plans to announce the reopenings of the country's auto manufacturing, construction and tourism sectors.

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### POLITICAL

## Bolsonaro Denies Trying to Shield Family From Police Probes

Brazilian President Jair Bolsonaro denied that he attempted to protect family and friends last month from investigations by Brazil's Federal Police.

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Bolsonaro // File Photo: Brazilian Government.

## POLITICAL NEWS

## Brazil, Mexico Report New Daily Records for Covid-19 Deaths

Both Brazil and Mexico reported their deadliest day from Covid-19 on Tuesday, as the Americas emerges as a new global hot spot of the coronavirus pandemic, The Guardian reported. Brazil's health ministry on Tuesday reported 881 additional fatalities in the previous 24 hours, bringing total confirmed deaths from the disease to more than 12,400, and making the South American country the world's sixth worst-affected country by deaths, according to figures compiled by Johns Hopkins University. Brazil, Latin America's most populous country, has been the hardest-hit nation in the region,

**Brazil's health ministry on Tuesday reported 881 deaths from Covid-19 in the previous 24 hours.**

and it has the seventh-highest infection rate in the world, with 178,214 confirmed cases as of this morning. Even with such high figures, scientists believe the real toll could be 15 or even 20 times worse, given the country's inability to carry out widespread testing, Agence France-Presse reported. State governments in Brazil continue to clash with President Jair Bolsonaro, who has downplayed the virus' severity and has called for authorities to lift lockdowns. The president this week issued a decree making beauty salons, gyms and barber shops "essential businesses," allowing their reopening, but several state governors said they would ignore the decree. Both sides have threatened to take the standoff to court. Meanwhile, Mexico confirmed 1,997 new cases of coronavirus on Tuesday, as well as 353 new deaths. A relatively low number of 108 new deaths reported on Monday had spurred hope that Mexico was containing the virus' spread,

as daily tolls had been decreasing since last week. But the figures on Tuesday renewed concerns about the country's response. In total, Mexico has 38,324 confirmed cases of Covid-19 and 3,926 deaths related to it.

## Bolsonaro Denies Attempting to Shield Family From Probes

Brazilian president Jair Bolsonaro on Tuesday denied that he tried during a cabinet meeting last month to shield family and friends from investigations by the country's Federal Police, the Associated Press reported. Bolsonaro's denial came hours after prosecutors, police investigators, government officials and lawyers reviewed a video recording of the cabinet meeting, the AP reported. The video emerged after former Justice Minister Sérgio Moro, who resigned in protest from Bolsonaro's government, accused the president of trying to interfere during that meeting in police investigations in Rio de Janeiro, where members of his family and friends have business interests. Moro has reportedly told investigators that Bolsonaro threatened during the meeting to fire him if he did not change the leadership of the Federal Police and its division in Rio de Janeiro. Last month, Bolsonaro fired Federal Police head Maurício Valeixo and attempted to replace him with Alexandre Ramagem, a family friend. However, Brazil's Supreme Court blocked Ramagem's appointment, leading Bolsonaro to instead name Rolando Alexandre de Souza, a close aide to Ramagem, to the position. Bolsonaro has denied trying to meddle in Federal Police investigations. Bolsonaro has said the video of the cabinet meeting did not prove the allegations raised by Moro, who resigned in protest over Valeixo's firing. However, Moro's lawyer, Rodrigo Sánchez, said in a statement that he was invited to watch the video and that the contents proved Moro's allegations, the AP reported. Bolsonaro said he did not imply in the video that he planned to interfere in police investigations, only that he was seeking to protect his family members' safety. Bolsonaro was stabbed in 2018 during a campaign

## NEWS BRIEFS

## IMF Director Plans to Back Chile's Request for \$23.8 Billion Credit Line

The International Monetary Fund's executive board met on Tuesday to discuss Chile's request for a two-year, \$23.8 billion flexible credit line, with IMF Managing Director Kristalina Georgieva recommending its approval, the Fund said in a statement. Georgieva will endorse the credit line when the executive board meets again to make a formal decision in the coming weeks. Chilean authorities intended to treat the credit line as precautionary, the Fund said.

## Moody's Downgrades Belize Debt Ratings

Moody's Investors Service on Tuesday downgraded Belize's long-term foreign-currency and local-currency issuer and senior unsecured debt ratings to Caa1 from B4, citing the "very high probability" of a deferral on interest payments or distressed exchange on Belize's market debt given the economic fallout of the coronavirus pandemic, the ratings agency said in a statement. Moody's also changed the country's outlook to negative from stable, a decision it said reflects that downside risks could surpass levels consistent with a Caa1 rating.

## Sweden's Nynas Says it's No Longer Subject to U.S. Sanctions on Venezuela

Sweden-based oil refiner Nynas said Tuesday that it is no longer subject to U.S. sanctions on Venezuela as Venezuelan state-owned oil company PDVSA has sold its majority stake in the company, Reuters reported. Nynas, which Finland's Neste Oil partially owns, entered a court-administered process last year to free itself from sanctions on PDVSA. Last October, the U.S. Treasury effectively banned the company from importing Venezuelan oil, leaving it unable to pay its debts.

appearance. “The safety of my family is one thing. I am not and I was never worried about the federal police,” said Bolsonaro. “The federal police never investigated anyone of my family, that does not exist in the video.” The video was shown privately in Brasília as part of the Supreme Court’s investigation into Moro’s claims, The Guardian reported. [Editor’s note: See related [Q&A](#) in Monday’s issue of the Advisor.]

## ECONOMIC NEWS

## Mexico’s AMLO Eyes Reopening Key Economic Sectors

Mexican President Andrés Manuel López Obrador is set to announce an outline for reopening the economy today during his daily news conference, Reuters reported. The plan is focused on the country’s auto sector, whose supply chains are closely linked to U.S. carmakers, according to the Mexican government’s health committee. The U.S. government and automotive companies have called on Mexico to restart factories that serve the U.S. market, as the Latin American nation deals with a rising number of coronavirus cases. Mexico sends 80 percent of its exports to the United States, and it is the United States’ largest trading partner, with bilateral commerce worth more than \$600 billion. Other sectors that will soon reopen include construction and tourism, Agence France-Presse reported. As part of the plan, the Mexican government will expand coronavirus testing and set clear criteria for which regions and which activities will be able to resume operations normally, according to the report. Reopening “can happen,” said Alejandro Macías, who was responsible for Mexico’s response to the swine flu pandemic in 2009. “What we can’t do is open blindly, because a disaster will happen,” he added. López Obrador has been pushing for businesses to restart amid forecasts that the Mexican economy could contract as much as 10 percent this year, Reuters reported.

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the Covid-19 pandemic and set the economy on a sustainable path. Many creditors have supported Argentina’s offer, while others have not—with several indicating that there are better alternatives. We remain open to discussing any proposal that meets the sustainability objectives we need to secure, including through interest rates, capital reduction, grace periods and extension of maturities different from those we proposed. Hence, the government is eager to receive from creditors their counterproposals, assess them diligently in good faith and thereby move forward with the negotiation. Without an orderly resolution, both Argentina and its creditors confront the prospect of a damaging default. The government deems an agreement to be within the parties’ reach and also assigns to it the outmost importance for the country to weather this period of turmoil and return to growth.”

**A** **Kezia McKeague, director at McLarty Associates:** “In this ongoing game of chicken, one side will need to blink first in order to avoid default. Ideally, however, both parties would attempt to find common ground. The Argentine government would need to improve its initial offer and reveal some detail about its economic plan, while the principal creditor groups would need to provide a counteroffer that acknowledges Argentina’s solvency challenges. Alternatively, as some economists have proposed, a temporary solution would be a ‘standstill’ agreement to postpone debt service and renegotiate under a more stable, post-Covid-19 economy. For now, the major sticking points are the proposed three-year moratorium on payments and a cut in average coupon payments from 7 percent to 2.3 percent, which many investors have criticized as an unreasonable reduction from a serial defaulter. There is little sign of a deal in sight. Although President Fernández publicly favors the avoidance of default, the IMF’s assessment that Argentine debt is ‘unsustainable’ emboldened the gov-

ernment in the restructuring; more recently, the pandemic gave it another reason to play hardball in the hopes that creditors would be less likely to insist on tough repayment terms in a context of global financial distress. For the Fernández administration, a default would represent a jump into the unknown, with both reputational and economic

“There is little sign of a deal in sight.”

— Kezia McKeague

costs. Foreign direct investment and credit to domestic private firms have declined in the aftermath of previous sovereign defaults, hitting tax revenues and increasing reliance on central bank emissions to finance public spending. The impact of the pandemic response on a pre-existing recession will make these costs even more painful to bear—and the medium-term political consequences for the diverse governing coalition even more uncertain. In the near term, however, the Fernández administration has effectively garnered broad domestic support for the debt restructuring strategy and is enjoying high approval ratings for its management of the Covid-19 crisis.”

**A** **Arturo Porzecanski, chair of the International Economic Relations Program at American University:** “It is too late for Argentina to avoid a default, at least on the bond that went unpaid, unless the authorities remit the \$503 million they owe before the end of the grace period. As it is, the Alberto Fernández administration has been defaulting on local-law debt obligations (in both pesos and U.S. dollars) since taking office in December, almost three months before the Covid-19 pandemic arrived in Argentina. Thus, unless the overdue amount is paid, the existing state of default will merely be generalized to encompass the first

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of potentially all foreign-law, foreign-currency debt obligations. The major sticking points are that Fernández is repeating the mistakes made in 2004, when he was Néstor Kirchner's cabinet chief. First, he has taken no initiatives to improve the business climate, regain the confidence of investors or reduce wasteful public spending. Second, he has not lined up support from the IMF, to which Argentina owes almost \$50 billion needing to be repaid between now and 2024, or from other bilateral or multilateral government creditors. Third, he came up with a debt-restructuring plan on his own and presented it to investors on a take-it-or-leave-it basis. Fourth, instead of focusing on attaining maximum debt relief this year and next, to account for the cost of the pandemic, the plan needlessly punishes investors for several decades to come. Making matters worse, in 2004 and subsequent years, world commodity prices boomed, generating the fiscal resources that investors would not provide, but now Argentina is experiencing a commodity bust."

**A** **Horacio Verbitsky, president of the Center for Legal and Social Studies in Buenos Aires:** "Argentina has been in default since 2019, when Macri announced the 'reprofiling' of bonds for \$10 billion. Macri contracted the highest indebtedness in the two centuries since independence. He obtained the largest IMF loan since its inception, and he defaulted on commitments that he himself signed. Kirchner canceled debts that were taken on during the military dictatorship of 1976. Cristina Fernández de Kirchner paid debts that the dictatorship took on when

it defeated Perón in 1955. Macri only took 15 months to break his word. He left the highest inflation in three decades and the highest known poverty record. That is why he was the only Latin American president not to be re-elected. Fernández is trying to remedy this catastrophe, with a sustainable

“It’s not about bondholders losing; but rather, that they gain less.”

— Horacio Verbitsky

proposal that, according to the IMF, should involve a trimming of between \$55 billion and \$85 billion. With the pandemic, there are dozens of countries and hundreds of corporations queuing up to declare default. When the interest rates in the United States and in Europe are zero, and the price of a barrel of oil is negative, an offer that includes interest payments of 2.3 percent, a waiver until 2023 and just 5 percent of capital withdrawal is not a hostile offer. It's not about bondholders losing; but rather, that they gain less. The government is trying to get out of the default that Macri left, but it won't sign an economically, socially and political unsustainable agreement. Being self-sufficient in food and energy, and having an outstanding technological and scientific capacity, there is life after default for Argentina."

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

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

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

**Anastasia Chacón González**  
Reporter & Associate Editor  
[achacon@thedialogue.org](mailto:achacon@thedialogue.org)

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