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## FEATURED Q&A

# Will Chile See a Deep Recession or a Quick Rebound?



The coronavirus pandemic has begun taking a toll on Chile's economy, which grew just 0.4 percent year-on-year in the first quarter, according to the central bank, led by Mario Marcel. The second quarter is expected to be much worse. // File Photo: Chilean Central Bank.

**Q** Chile's economy is likely to contract 7.2 percent in the second quarter due to the economic shock of the coronavirus pandemic, analysts said in a central bank poll released May 12. Also this month, the International Monetary Fund said Managing Director Kristalina Georgieva would endorse Chile's request for a two-year \$23.8 billion flexible credit line. Which economic sectors are likely to see the most pain? How long could Chile's recession last? How important will the IMF support be to Chile's economic recovery?

**A** Richard Francis, director of Latin American sovereigns at Fitch Ratings: "Last week, Fitch revised its GDP forecast in Chile to contract by 3.9 percent in 2020, compared with our previous forecast for a 1.9 percent contraction. The revision reflects the extension of domestic lockdown measures and the coronavirus' broader effects across emerging markets, such as falling commodity prices, higher funding costs and capital outflows. The government has announced a large fiscal package representing 8 percent of GDP and is seeking ways to further stimulate economic activity. The central bank has lowered policy rates to the lower bound, announced its intent to maintain low rates for longer and provided liquidity to credit markets through a bond-buying program, among other measures. These policies should help support growth. A flexible credit line with the IMF should help address additional downside risks and promote confidence. Although we expect a significant bounce in growth in 2021 as domestic and external demand recover, there is a risk of lasting economic damage stemming

Continued on page 2

## TODAY'S NEWS

### POLITICAL

## Brazil Records More Than 1,100 Daily Covid Deaths

On Tuesday alone, Brazilian health officials reported 1,179 deaths from Covid-19, the country's highest daily death toll from the disease. Brazil has the third-highest number of confirmed cases in the world.

Page 2

### BUSINESS

## AT&T Shutting Down DirecTV in Venezuela

The company said it is shutting down DirecTV in Venezuela because it is unable to comply both with U.S. sanctions on the Andean nation and with the terms of its license to operate there.

Page 3

### ECONOMIC

## Ecuador's Moreno Seeks \$4 Billion in Budget Cuts

Ecuadorean President Lenín Moreno announced cuts, including lowered salaries for government employees, closure of some embassies and sales of state-owned enterprises.

Page 2



Moreno // File Photo: Ecuadorean Government.

## POLITICAL NEWS

## Brazil Records More Than 1,100 Covid Deaths in One Day

Brazil on Tuesday suffered its largest number of daily deaths from Covid-19 as coronavirus tears through the South American country, CNN reported. Health officials confirmed that 1,179 people died from the disease and that 17,408 more people were infected on that one day. Just in São Paulo, 324 people were confirmed to have died from Covid-19 on Tuesday.

Altogether, the country has 271,885 confirmed cases and 17,983 reported deaths from the disease as of this morning. Just days ago, São Paulo Mayor Bruno Covas said the city's health system could be near collapse as patients fill up beds and hospitals start reaching capacity. São Paulo officials have moved up holidays normally celebrated later in the year to this week and next week in an effort to get people to stay home and slow the virus' spread. "The city is coming to the limit of options," Covas

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

from the current crisis. The possibility of a longer-term hit was highlighted by Chile's Experts Advisory Council, which recently reduced its annual trend growth forecasts by nearly one percentage point through 2024. As with other sovereigns, our forecasts are subject to higher-than-normal uncertainty around the duration and the intensity of the pandemic, creating further downside risks to growth. As a result of the fiscal policy measures, Fitch expects the fiscal deficit to reach 10 percent of GDP and debt-to-GDP to rise to 36 percent, up from 28 percent last year. Fitch revised its outlook on Chile's 'A' long-term foreign currency rating to negative in March, primarily as a result of fiscal and growth concerns even before the full extent of the pandemic was known. The continuing deterioration in near-term economic and fiscal prospects increases the importance of formulating credible medium-term plans,

told reporters on Sunday, adding that 90 percent of the city's intensive care beds were full. "We need to decide if we want to test the limits, or if we will be prudent and firmly maintain social isolation for the time needed so that the health system doesn't collapse. We are closer than we would like." President Jair Bolsonaro has downplayed the threat of the virus, likening it to a "little flu," and has urged businesses to reopen, saying quarantines and lockdowns will damage the economy. On Tuesday, U.S. President Donald Trump said he was considering a ban on travelers entering the country from Brazil.

## ECONOMIC NEWS

## Ecuador's Moreno Seeks to Save \$4 Bn Amid Pandemic

Ecuadorean President Lenín Moreno on Tuesday announced a series of measures in an effort to save \$4 billion in the wake of the

including fiscal reforms on the revenue or expenditure side, to sustainably restore growth and stabilize debt."

**A** **Pablo Heidrich, assistant professor in the global and international studies program at Carleton University:** "Tourism and retail will likely be the most affected as the lockdown and its aftermath will reduce international as well as domestic movements of people most significantly. Tourism represents close to 5 percent of the Chilean economy, and it is a sector well developed across most of its geography. It involves many small- and medium-sized firms and is very labor intensive. A shock decrease for its services will in turn cascade through the rest of the economy. Retail is another very large sector in Chile, mostly linked to access to consumer credit at high interest

Continued on page 4

## NEWS BRIEFS

## Costa Rica Expected to Sign Accession Deal With OECD Within Days

Costa Rican President Carlos Alvarado Quesada and Angel Gurría, the secretary general of the Organization for Economic Cooperation and Development, are expected to sign an accession agreement within days for the country to join the organization, MercoPress reported Tuesday. Last Friday, the OECD said its 37 members had approved Costa Rica's entry, which will make it the first Central American nation to be a member of the OECD.

## El Salvador's Assembly Moved to Reopen Economy in Defiance of Bukele

El Salvador's Legislative Assembly on Tuesday approved legislation to reopen the country's economy in four phases spanning 120 days, in defiance of President Nayib Bukele, who has said he will veto the law, EFE reported. Bukele says the law will result in "massive contagion" of Covid-19. Tensions between the president and lawmakers have intensified in recent days over differences on how to respond to the coronavirus pandemic, after Bukele extended a state of emergency declaration without the approval of Congress, a move he backtracked following a Supreme Court order.

## Argentina Debt Talks Could Extend Past Friday Deadline: Guzmán

Argentine Economy Minister Martín Guzmán said Tuesday that talks with international creditors to restructure nearly \$65 billion in foreign debt could continue beyond the looming May 22 deadline, CNBC reported. "There is a big chance" that the deadline will be extended, he said during a webcast, "so that we can eventually make the amendments that are necessary in order to achieve a sustainable deal with our creditors."

coronavirus pandemic, El Comercio reported. Among them, the president said he would cut the salaries of government employees, shut down some embassies and sell off several state-owned enterprises, including a newspaper, a TV station, a railway company and a state-owned airline that has lost more than \$400 million over the past five years, the Associated Press reported. Ecuador has been among the worst-affected countries in the region by both the pandemic and the plunge in international oil prices, one of its main exports. Moreno said the spending cuts are necessary to control debt and prioritize health and education. "We are fighting to stop infections and reduce the number of deaths wrought by coronavirus," the president said in a television address, the AP reported. "But at the same time, we need to stop our economy from collapsing," he added. The government last year operated on a budget of \$31 billion, but it expects its revenues to drop by \$8 billion this year. Last month, the country's economy minister said he expected GDP to contract by at least 4 percent this year.

## BUSINESS NEWS

### AT&T Shutting Down DirecTV Operations in Venezuela

AT&T announced Tuesday that it has shut down its DirecTV Latin America operations in Venezuela, effective immediately. The U.S. telecommunications company said the Trump administration's sanctions on Venezuela ban the broadcast of government-run Globovisión and state oil company PDVSA's channels, both of which are required under DirecTV's license to provide pay television service in the Andean nation. "Because it is impossible for AT&T's DirecTV unit to comply with the legal requirements of both countries, AT&T was forced to close its pay TV operations in Venezuela, a decision that was made by the company's U.S. leadership team without any involvement or prior knowledge of the DirecTV Venezuela team," the company said in a statement. Direct-

## HEALTH BRIEFS

### Dengue Epidemic Rages On Across Latin America

A dengue epidemic that emerged in late 2018 continues to be felt across Latin America, with infections of the mosquito-borne disease surging to a record high of 3.1 million last year, according to the Pan American Health Organization, or PAHO, but the disease has taken a backseat to the Covid-19 pandemic, Al Jazeera reported May 12. More than 1,500 people died from dengue last year in Latin America and the Caribbean. There is some concern that cases of dengue are going underreported as people stay away from hospitals over fears of contracting the novel coronavirus. For example, according to Ecuador's health ministry, dengue cases peaked at 888 in the week of March 14, but the week of April 4, when the coronavirus outbreak was in full flare, they fell to 257. "Cases haven't decreased, the diagnosis of cases has decreased, which confirms the system has totally collapsed," said Esteban Ortiz, a global health researcher at Quito's University of the Americas. PAHO expects cases of dengue to begin to decline in the second half of 2020.

### Puerto Rico Hospital and Health Care Sector Could Face Losses of \$1 Billion Due to Pandemic

Puerto Rico's hospitals are estimated to have registered losses of as much as \$202 million in the first 60 days of lockdown measures, through May 14, according to research by Birling Capital Advisors published May 11. If quarantine measures are extended, or if the pandemic continues through December, Puerto Rico's hospital and health care sector could face losses of nearly \$1 billion, according to the study. Additionally, based off these assumptions, at least 30 hospitals would have to "dramatically reduce operations" by the end of the year, and another 15 would have to close permanently. The report calls for a lending program of \$1.5 billion in funding from the U.S. government to support hospitals in the U.S. territory in order for them to preserve operations, enhance capacity and increase resilience.

### Cuba Begins Mass Testing for Novel Coronavirus

Cuba has begun mass testing for Covid-19 as it appears to have slowed new infections, with new cases falling to fewer than 20 per day from a peak of around 30 daily cases in April, Reuters reported May 12. Since the first infection was reported in the Caribbean nation two months ago, there have been more than 1,800 confirmed cases and 79 deaths related to it. The country implemented some lockdown measures, closing its borders as well as the tourism industry, schools and public transportation. However, stay-at-home rules have also sharpened shortages of basic goods in the Communist nation that were rampant even before the crisis, according to the report.

TV was the country's most popular television service, providing many foreign channels as alternatives to the long-suffering local television industry that has been hit by Venezuela's hyperinflationary economic crisis, Reuters reported. Some users said their screens went blank, while others said they continued to

receive foreign channels but were not getting local ones, according to the wire service.

DirecTV has been a source of entertainment for millions of Venezuelans for several years, and photographs show the company's antennas on zinc roofs of low-income cinder-block houses in some of the country's poor neighborhoods.

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

rates. The same shock reduction in demand will also drastically affect retail outlets and reduce their labor requirements. It is hard to say how long Chile's recession may last as much depends on the measures that the government takes in the second half of 2020 and the international context in which Chile will operate in 2020-2021. At the very minimum, the recession could last 12 to 18 months and perhaps up to three years. The IMF support is a good backstop to have in case fiscal finances get out of control. However, it is unlikely to happen as the Chilean government will most likely tap into domestic banks first, thus providing local capital with very necessary profitable venues for investments in a depressed macroeconomic context. The IMF also improves its own credit basket by placing Chile there, a factor that shouldn't be omitted in the bilateral relationship."

**A** **Manuel Orozco, director for sovereign and international public finance ratings at S&P Global Ratings:** "We currently expect Chile's economy to contract by around 4 percent in 2020 and see a V-shaped rebound to around 4.6 percent in 2021 as economic output recovers from the lockdown measures and the hit to global demand due to Covid-19. Our base case for growth assumes

that Chile's significant policy response will be generally effective and will contribute to its economic recovery. Fiscal and monetary measures include added funds to the health system, protections for employment and family income, as well as sustained liquidity and access to credit for banks and businesses. Our base case assumes that Chile will tap domestic and international debt markets and use part of its wealth fund assets to finance its policy response. We also expect that a weak peso and domestic demand, combined with low oil prices, will result in Chile's current account deficit falling to around 1 percent in 2020, which will be covered by FDI, helping to smoothen foreign-exchange pressures in Chile. The IMF's flexible credit line will likely help to reduce peso volatility and give the central bank some additional space for its monetary response. That said, in April, we revised our outlook on Chile to negative, given rising global uncertainty and the risk of a weak recovery in global trade, which combined with the legacy of recent public protests, could limit GDP growth below our base case, contributing to a greater and longer erosion of Chile's public finances and a rating downgrade."

*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 © 2020

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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

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# Advisor Video

## The Political Crisis in Brazil

A Latin America Advisor interview with Gabrielle Trebat, managing director for Brazil & the Southern Cone at McLarty Associates.

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