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FEATURED Q&A

Will New Loans Help Spur Ecuador's Future Growth?



The CAF - Development Bank recently approved \$488 million in loans for Ecuador. Quito is pictured. // File Photo: Ecuadorean Government.

Q The CAF – Development Bank of Latin America has approved \$488 million in financing for Ecuador, the country's Economy and Finance Ministry announced Sept. 15. The loans will be used to install electricity in five rural provinces, as well as pay for health care and education needs, the ministry said. How important are the loans for Ecuador's development agenda? How much of an economic impact will the projects have for the country? To what extent is the country's next president, to be elected on Oct. 15, likely to change the government's pattern of borrowing from multilateral organizations?

A Diego Andrés Almeida, managing partner at Almeida Guzmán & Asociados in Quito: "In the first half of 2023, shrimp surpassed petroleum as the country's main export. Thanks to the CAF loan for \$200 million, shrimp farmers will have access to sustainable energy in the provinces of Esmeraldas, Manabí, Guayas, El Oro and Santa Elena. This will not only benefit the environment but will also reduce production costs for exporters and improve living conditions within rural areas now short in electrification. CAF has also provided a loan for \$117 million to strengthen the National Health System. The funds will be directed to implementing the national health policy to facilitate access for newborns, pregnant mothers and vulnerable populations in rural areas. There are two additional loans for a total of \$170 million aimed at the modernization, promotion and quality improvement of the educational system. Part of those funds will be directed toward the improvement of infrastructure, which will be affected by El Niño, as well as to outdated structures (physical and technological). New architectural

Continued on page 3

TODAY'S NEWS

POLITICAL

Guatemalan Agents Scuffle With Magistrates Over Vote Boxes

Agents of Guatemala's attorney general's office scuffled Saturday with electoral tribunal magistrates when the agents seized boxes containing vote tallies from the country's presidential election.

Page 2

ECONOMIC

Chile's Boric Eyes 3.5% Rise in Spending for Next Year

Chilean President Gabriel Boric said his government will propose a 3.5 percent increase in spending for next year, a smaller rise than this year.

Page 2

POLITICAL

Bermuda's Gov't Recovering From Cyberattack

Bermuda's government is recovering from a "very sophisticated" cyberattack, said Premier David Burt.

Page 2



Burt // File Photo: Government of Bermuda.

POLITICAL NEWS

Guatemalan Agents, Magistrates Scuffle Over Vote Tally Boxes

Agents of Guatemala's attorney general's office on Saturday seized boxes containing tally sheets from the country's presidential election from the Supreme Electoral Tribunal, causing a scuffle with tribunal magistrates, the Associated Press reported. In the confrontation, one magistrate, 70-year-old Maynor Franco, wearing a suit and tie, refused to loosen his grip on one of the boxes as a much younger agent attempted to wrestle it from him, the wire service reported. Another magistrate, Blanca Alfaro, pleaded with agents not to take the boxes, saying they represented voters' will. Alfaro was shoved and fell to the floor during the scuffle. "We are no longer the guarantors of any records," Alfaro told reporters soon after the confrontation, Agence France-Presse reported. "They took all the boxes with the results." The seized boxes contained vote tallies from the first round of the country's presidential election in June, in which lawmaker and former diplomat Bernardo Arévalo won a spot in the August runoff against former First Lady Sandra Torres. Arévalo went on to win a landslide victory in the second round. The confrontation came as Attorney General Consulelo Porras and prosecutor Rafael Curruchiche have investigated Arévalo's Semilla party over allegations that it was not properly registered years ago. The U.S. government has accused both Porras and Curruchiche of undermining corruption investigations. "The United States is gravely concerned with continued efforts to undermine Guatemala's peaceful transition of power to President-elect Arévalo," U.S. State Department spokesman Matthew Miller said Sunday in a statement. Miller said the seizure of the electoral materials, which followed attempts to strip electoral tribunal magistrates of their immunity from prosecution and raids on facilities that house election results, amount to "anti-democratic behavior" that "undermines Guatemala's democratic institutions

and is inconsistent with the principles of the Inter-American Democratic Charter." Saturday's raid also drew condemnation from the Organization of American States and the European Union, AFP reported.

Bermuda's Gov't Recovering From Cyberattack: Premier

Premier David Burt of Bermuda said last Thursday that the government is recovering after experiencing a "very sophisticated" cyber-attack late on Sept. 20, the Associated Press reported. The intrusion was detected early the next morning by the Department of Information and Digital Technology. "This remains a very sensitive matter," the premier said, indicating that an in-depth forensic audit is underway to figure out how the attack occurred. Burt called the incident was a "sophisticated and deliberate" attack against the government that has triggered "unprecedented stress on basic government systems," in a statement on the government's website. British authorities are investigating who was behind it, Bloomberg News reported. Since the attack, the government has taken all operations offline, and the payroll system is not yet back in place. Some email functionality has returned, and the premier said he expects the government switchboard to be fully operational by today. Four meetings with the premier's cabinet have taken place in the wake of the incident, with a focus on how to continue delivering "critical public services" despite the incident.

ECONOMIC NEWS

Chile's Boric Eyes 3.5% Spending Rise for Next Year

Chilean President Gabriel Boric said his government will propose a 3.5 percent increase in spending next year, a smaller increase than this

NEWS BRIEFS

Exxon, Hess Exit Kaieteur Exploration Block Off Coast of Guyana

ExxonMobil and its partner, Hess Corp., have exited the Kaieteur exploration block off the coast of Guyana, Reuters reported Friday. The companies made the move as oil producers have been focusing on other opportunities in the larger Stabroek block. "Our withdrawal from the Kaieteur block has no impact on our commitment to seeking further exploration and development opportunities and to generating additional value for the government and people of Guyana," ExxonMobil said. Exxon plans a production capacity of more than 1.2 million barrels per day from Stabroek by 2027.

Colombia's Central Bank Holds Key Interest Rate Unchanged

Colombia's central bank on Friday held its benchmark interest rate at 13.25 percent for the third time in a row, Reuters reported. The bank cited stubborn inflation that, although beginning to slow, remains high and far from the bank's target. Five of the central bank's seven board members backed the decision to keep borrowing costs steady, while two of the members supported a cut of 25 basis points.

Panama Canal Authority Lowers Number of Daily Transits to 31

The Panama Canal Authority announced on Saturday that the number of ships allowed to travel via the waterway per day will be reduced from 32, in August, to 31, the Associated Press reported. The decision comes on the heels of a drought that has reduced maximum efficiency at the canal, which would average between 36 and 38 ships per day under normal conditions. Nine ships will be allowed to use the new, bigger NeoPanamax locks per day, and 22 will be handled daily through the older Panamax locks.

year, Bloomberg News reported Friday. Boric said his budget for the coming year will focus on priorities including public security, education, housing and health care, the news service reported. Chile's level of inflation is expected to end this year at approximately 4 percent amid fiscal responsibility that helped to stabilize the country's economy, Boric added. "The year 2024 will be marked by the revival of the economy, and this budget seeks to accompany that revival by putting the people first," the president said in a televised speech. Boric has struggled to advance his campaign vows to scrap the country's private pension system and raise taxes in order to raise money for spending on social programs, the Financial Times reported.

BUSINESS NEWS

Brazil's Petrobras Gets Permit to Drill in Potiguar Basin

Brazilian state oil company Petrobras has received a permit to research oil in an offshore site in Brazil's Northeast region, Bloomberg News reported Friday. Ibama, Brazil's top environmental agency, issued Petrobras the license to research the Potiguar Basin located in the Equatorial Margin, according to Mines and Energy Minister Alexandre Silveira. Drilling in the area is scheduled to commence next month, after the arrival of a rig to the location, the company said via email, Brazil Energy Insight reported. After that, the plan is to survey the area to assess economic potentiality, as well as the extent of the oil discovery made in 2013 in the Pitu well. The Equatorial Margin is considered one of the last promising oil exploration opportunities in Brazil, and its approval will allow technicians to make progress in studies in the necessary conditions to research the Foz do Amazonas basin as well, Silveira said. Petrobras has been waiting for months to receive the permit to initiate research in Foz do Amazonas, but it was forced to move the rig to Potiguar after it did not receive the government's approval, Reuters reported on May 2.

FEATURED Q&A / Continued from page 1

and teaching models will guarantee universal, inclusive and quality access to students from rural and marginal urban areas. These lines of credit will also provide funds to the Ecuadorean economy, which are urgently needed. The results of the election will mark a new era in respect to relationships with multilateral agencies. Candidate Daniel Noboa seems to have a more open relationship with traditional agencies, while Luisa González comes from the Correa line, which relied on Chinese and other unconventional funding mechanisms."

A Carolina Caballero, associate director for sovereign and public finance ratings at S&P Global Ratings: "Ecuador has yet to tap global capital markets since its 2020 default and restructuring. Complex political dynamics marked the completion of the IMF program last December amid political uncertainty: the call for new elections and questions about any future administration's willingness to tackle the country's fiscal imbalances to support timely commercial debt repayment. Given limited market appetite for Ecuador's debt, the Lasso administration actively engaged with official creditors and with multilateral institutions in particular to fund the government's financing needs. The nearly half billion in financing from CAF is part of \$3 billion in official borrowing included in the government's financial planning for this year. That said, our B- rating contemplates the fact that financing needs are still significant. We estimate that the general government deficit will expand to 3.5 percent of GDP in 2024 from a balanced position last year, reflecting lowering oil revenues. Financing needs may reach \$6.5 billion in 2024 and will likely increase to more than \$7 billion once commercial debt and IMF payments start kicking in 2026 (we assume continued rollover of local bonds mostly held by the social security agency). Absent global market access, close links with official creditors remains key for Ecua-

dor's next president. Cutting expenses will be challenging, especially ahead of regularly scheduled 2025 elections. Austerity has affected education, health and security and weakened the popularity of the last two administrations."

A Santiago Mosquera, head of research at Analytica Investments in Quito: "The 2023 budget, approved late last year, outlines total financing sources amounting to \$6.8 billion, of which \$2.9 billion is expected to be disbursed by multilateral organizations, including \$650 million from CAF. However, certain assumptions within this budget are facing challenges, notably the GDP growth projection of 3.1 percent. This raises

“The issuance of new foreign debt is an unlikely and inadvisable option...”

— Santiago Mosquera

concerns that the total financing requirements could escalate from \$7.7 billion to a minimum of \$9 billion in 2023, unless the government implements budget cuts. To address this growing fiscal imbalance, the government must seek additional funding avenues. Unfortunately, the local market is grappling with significant hurdles, exemplified by the liquidity constraints faced by the Social Security Institute, a key buyer of local bonds issued by the Finance Ministry. This limitation makes it impractical to absorb more domestic debt. Simultaneously, the foreign market poses its own set of challenges. Foreign investors are apprehensive about the government's current and future liquidity positions, the hefty repayment schedule, and the heightened uncertainty stemming from the electoral calendar. Consequently, the issuance of new foreign debt is an unlikely and inadvisable option, given prevailing

Continued on page 4

FEATURED Q&A / Continued from page 3

yields. As a result, a substantial portion of the required additional financing must be sourced from multilateral organizations. Alternatively, the government could explore untapped oil-backed facilities with China to bridge the funding gap effectively. Using international reserves held by the central bank, as suggested by both presidential candidates, would first require a change in the monetary code and most likely be poorly received by local and foreign economic agents.”

A **Alberto Acosta Burneo, editor of Weekly Analysis in Guayaquil:** “Shrimp is Ecuador’s second-largest export product (\$7.3 billion in 2022, or 22 percent of the total). Last December, the government removed the diesel subsidy for shrimp farming use for all production units with an area greater than 30 hectares. Grupo Spurrier estimated that subsidized diesel represented, on average, 6.2 percent of the total cost. The elimination of the shrimp farming diesel subsidy doubled the share of diesel in the cost structure, posing a competitive challenge in a global environment of declining shrimp prices. The

solution is electrification, which involves supplying a demand of 1,610 MW (equivalent to 18.4 percent of effective installed capacity in 2021). The cost of electrification would reach \$520 million, of which \$250 million would be for primary transmission, according to Artiexpor. In July 2019, CAF approved a \$200 million credit line to build and enhance transmission lines to shrimp farms, replacing diesel consumption. However, the Ministry of Finance did not extend sovereign guarantees to CNEL, stating that this state-owned company lacks audited financial statements and cannot be a creditworthy entity. Therefore, this financing was not used. Finally, on Sept. 15, the Ministry of Economy and Finance found a mechanism to sign the \$200 million credit agreement with CAF for the reinforcement of the electrical distribution networks in the shrimp farming sector. The objective is to electrify approximately 42,000 hectares, marking a significant step in enhancing competitiveness for a vital sector of the economy.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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