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The Interactive Forum for the Region's Leaders

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Advisor ANALYSIS

Q

Argentina has received its loan package from the IMF. The package comes with stipulations, one of them being pension reforms. With the division among the Alliance party, do you think that De La Rúa can successfully lead the country in adhering to these regulations?

A

"Other" Vote, Board Commentary: Peter de Svastich: "Argentina's IMF loan package came with a number of strings and targets attached. Pension reform is one of the things that can clearly be measured against a specific target, and this will have to be negotiated with the legislature. A far greater difficulty entails a vast overhaul of Argentina's Byzantine tax structure. This has made Argentina's tax code one of the most onerous in the world. The greatest burden does not lie in the income tax alone, but rather it is centered on a vast array of VAT and other indirect taxes - all of which impact in a cascading fashion on all aspects of domestic consumption. This is where the real challenge lies."

"De La Rúa will not be in a position to implement pension reforms without a compromise with unions and the opposition party."

-Manuel Marrero

an election year, and even though the Alianza's image has recovered some from its rock bottom 8 percent approval rate, they must be concerned that this is an anti-popular measure and will hurt their election chances. This leaves a Presidential Decree, which will be loudly protested and most likely successfully blocked or delayed in the Courts. This gives the President two choices. One is to accept changes on key parts of the reform which will not be satisfactory to the IMF and will hurt the overall efficacy of the project. The other is to delay until after the elections and push it through by decree, hoping to win in the courts."

"Other" Vote, Guest Commentary: Gustavo Casir: 2 "Please note that the US\$40 billion loan package that Argentina is receiving also includes loans from foreign countries (such as Spain) and

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The Dialogue Continues

A guest continues the dialogue from a previous Advisor ANALYSIS.

Advisor ANALYSIS

Q

Alan Garcia, the former President (1985-90) who left Peru in economic ruin in 1990 with rising Marxist violence and 7,650 percent inflation, and who is wanted by courts on charges of receiving \$1 million in bribes, has announced his intention to again run for President. With the scandal surrounding Montesinos and Fujimori, do you think Peru is poised for another tainted election?

A

Guest Commentary: Alonso Rey: * "Alan Garcia's announcement of his intention to run for Presidency once again, did come as a shock to most of the population. Nonetheless, there are some people who think that his return to Peru is in some way a blessing due to the political crisis that the country has been going through in the past years. This is an opinion that is not shared by the vast majority of Peruvians who will vote in the upcoming elections. According to the latest poll conducted by *Apoyo, Opinión y Mercado*, just published, 65 percent of Peruvian voters said they would definitely not vote for Alan García. This is a clear message that they have not forgotten the disaster that resulted from his first, and hopefully last, term in power. Currently, it seems unlikely that the elections will be carried out in a manner other than what is to be a democratic process. The transitional government has enacted a regulation establishing that all governmental agencies have to insure that all public institutions have to be neutral in the elections and forbidden all political acts in any government establishments. Peruvians hope and are quite confident that these elections will truly represent the people's wishes. In addition there are some international non-governmental organizations that will foresee the elections, such as the OAS and the Carter Institution, among others."

* Alonso Rey B., Partner, Estudio Uria Abogados, Lima, Peru

Brazil's Jobless Rate Plunges To 3-year Low

Brazil's jobless rate fell in December to its lowest level in three years after the retail and service industries hired more workers to meet holiday demand. The 30-day unemployment rate fell to 5.6 percent from 6.8 percent in November, the government said. A Bloomberg news survey of 10 economists forecast a decline to 6.2 percent. The jobless rate fell after retailers hired workers to assist during the Christmas season. "December was the month that turned the year around, said Maria Aparecida Baider, who runs the **Luigi Bertolli** clothing at the Market Place mall in Sao Paulo. "We're optimistic about 2001." A plunge in the jobless rate is one of the strongest indicators that Brazilian consumers have begun to boost spending. "The economy is on an up cycle," said Paulo Leme, chief emerging markets economist with **Goldman, Sachs & Co.** "Employment overall is rising." With the government predicting a 4.5 percent expansion this year, retailers such as Luigi Bertolli plan to keep some of their temporary holiday staff on the payroll. Of thirteen workers that Baider hired to meet holiday shopping demands, five have been kept on full time to boost the store's

staff to 25. December's unemployment came to a total of 7.1 percent. Brazil's jobless rate is based on the number of unemployed in the country's six largest metropolitan areas. The rate reflects the percentage of people polled during the month of December who had looked for a job in the previous 30 days but were unable to find work. The seven-day unemployment rate for December fell to 4.8 percent, from 6.2 percent in November, the government said. That rate reflects the percentage of people polled during December who had looked for a job unsuccessfully in the previous seven days. Based on the seven-day rates, retail and service industries led job creation in December. The number of jobs in the retail industry rose to 2.72 million in December from 2.67 million during November. Service industry jobs increased to 9.41 million, up from 9.38 million in the previous month.

Brazilian Real Weakens On Cellular Phone Auction

Brazil's *real* weakened against the U.S. currency as the governments \$3.4 billion mobile phone license auction ran into delays and investors said fewer companies will place bids than originally expected. The *real* fell by 0.2 percent on Thursday to 1.975 *reais* per dollar

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private institutions in Argentina (banks and pension funds, the funds of which have in part already been disbursed). In reference to the division in the Alianza, you should note that, to my knowledge, none of the parties constituting the Alianza has taken any significant, overt actions toward a formal dissolution of the party. While the Alianza is displeased, formal party action has been limited. Action taken has been mainly instigated by the various minor political fractions comprising the Alianza, and such action limited to the voicing of their objections in the national media. In regards to the proposed pension reform, the government appears determined to promptly adopt the new legislation. A few weeks ago, the Federal Government issued an executive decree intended to implement such reforms immediately. By issuing this decree, the Federal Government intended to avoid discussion on the issue by the Congress (with the significant delay that it would have meant). Notwithstanding the Federal Government's exhibition of courage, the reforms to the pension system are being challenged (mainly by the unions) in front of the courts and the matter will likely end up being determined by Supreme Court ruling. In any event, according to recent ballots in Argentina, the reforms are supported by the public opinion."

"Other" Vote, Guest Commentary: Manuel Marrero:³ "Other. De La Rúa will not be in a position to implement pension reforms without a compromise with unions and the opposition party. Moving forward with pension reforms will require substantial amounts of political capital from De La Rúa and the national government. These reforms are the primary topic of union rally's and other political pressures the De la Rúa administration has been facing over the past several weeks. As a result of the internal crisis within the Alliance party that led to the resignation of the vice-president last November, De La Rúa has less power to lead social reforms without negatively impacting the welfare of many and public opinion. Also bear in mind that Argentina will hold elections to re-elect congress during 2001. These elections are being considered to be a measurement of Argentina's approval rating and satisfaction level with the new government. It is therefore highly unlikely that De La Rúa will continue to push for the acceptance of pension reforms without giving something in return. That compromise could be the modification or elimination of other social and economic reform programs that directly impact union leaders such as the privatization and de-regularization of the health-care system, for example."

- 1) Frank Holder, Senior Vice President, Region Head, Latin America, Kroll Associates
- 2) Gustavo Casir, International Associate, Simpson Thacher & Bartlett
- 3) Manuel Marrero, Vice President, Latin America Operations, Progress Software, Latin America

from Wednesday's close at 1.989 *reais*. Trading volumes were less than normal on Wednesday, as the Brazil's largest financial center, Sao Paulo was on holiday. **Anatel**, the country's telephone regulator, projects delays in the series of three wireless licenses auctions that were supposed to begin next Tuesday. The delay can be attributed to a federal judge who ordered the postponement on claims that the auction rules may not be clear to all of the potential bidders. Analysts and currency traders feel that less participation in the auctions by foreign telephone giants like the U.K.'s **Vodafone Group Plc**, which did not appear at Anatel to register for the auctions, may limit the amount of U.S. dollars coming into Brazil. "The fact that the

foreign companies aren't coming isn't good news," said Jose Alfredo da Justa, a currency trader with Liberal Asset Management in Rio de Janeiro. "It may mean less dollar inflow." As of now, Anatel has confirmed that Brazilian companies including **Brasil Telecom**, **Tele Norte Leste Participacoes** and **Tele Centro Oeste Celular Participacoes**, as well as Italy's **Telecom Italia SpA**, are planning to bid for the nine wireless licenses being handed out in three different regions. Foreign companies, like the United Kingdom's **Vodafone**, **Bell Canada International** and **Portugal Telecom SGPS SA**, have yet to indicate whether or not they will bid.

Venezuela's Chavez To Host G-3 Meeting In Early April

Venezuelan President Hugo Chavez will host a two-day meeting with his Mexican and Colombian counterparts in April to revive the Group of Three (G-3) trade pact, Foreign Minister Jose Vicente Rangel said Wednesday. Chavez had previously said the meeting would take place in March, but he will now meet with Mexican President Vicente Fox, and Colombian leader Andres Pastrana on April 5-6, Rangel told journalists. The G-3 was created in 1994 as a 10-year agreement to boost trade between the three Latin American nations through the gradual elimination of protectionist trade barriers. However, it lapsed into inactivity in 1997 after the previous Venezuelan government blocked plans to include other Andean nations. The foreign ministers of the three nations are due to meet in Mexico on February 10-11 to discuss the agenda for the presidential summit. Left-leaning Chavez has established himself as a leading advocate of political integration in the region since taking office two years ago. However, in economic terms his government has preferred nationalism, establishing tariff barriers to the entry of some agricultural products and sparking a row with Colombia over cross-border transportation. ■

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