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## FEATURED Q&A

### What Countries in the Region are Most at Risk from Inflation?

**Q** Trinidad and Tobago's inflation rate reached a 14-year high in June, while numerous other countries in Latin America also reported higher-than-anticipated inflation data last week. What countries in the region are most at risk from inflation, and why? What policy tools are available to Latin America's central banks in today's economic climate, and how effective can they be?

**A** **Guest Comment: Roberto Baquerizo:** "Inflationary pressures are mounting globally, fueled by soaring commodity and fuel prices. In spite of being a commodity-producing region, Latin America is no exception. The World Bank estimates inflation will increase on average from 6 percent in 2007 to 8 percent in 2008 in Latin America, as steeper food and fuel prices trickle through to local markets. Per these estimates, inflation in Latin America will be 3 percent higher than for the rest of the world. It must be noted that the inflation landscape is uneven with some countries exhibiting much higher inflation than others. On the one hand, inflation is expected to be a challenge for commodity importing countries of Central America and the Caribbean. On the other hand, in other countries such as Venezuela, Argentina, and Nicaragua (whose inflation rate is expected to skyrocket to 25.7 percent, 9.2 percent, and 13.8 percent, respectively) inflation responds to excessive gov-

ernment spending that has outpaced revenue and GDP growth. In all, policy makers face an arduous task in the attempt to contain inflation without constraining growth. Many central banks have already tightened monetary policy stances. Policy makers in Peru, Mexico, Chile, Brazil and Colombia increased benchmark interest rates last month in a bid to control the fastest inflation in years. Mexico, the region's best performer, still predicts inflation could peak at as high as 6 percent, the highest since 2001. However, the rise of the

*Continued on page 4*



### Calderon Renews Calls for Reforming Police System

Mexico City policemen on Tuesday were officially accused of being behind the kidnap-slaying of the 14-year-old son of a millionaire, yielding renewed calls from President Felipe Calderon for reforming the country's criminal justice system.

*Photo: Mexican government.*

## Inside This Issue

**FEATURED Q&A:** What Countries in the Region are Most at Risk from Inflation?.....1

Argentine, Venezuelan Presidents Cancel Visit to Bolivia over Violence.....2

Death Toll in Honduras Land Dispute Climbs to Eleven.....2

Mexico Police Scandal Renews Calls to Reform Criminal Justice System.....2

Chilean Inflation, Economic Growth in July Higher than Expected.....3

Banco Itau Reports Decline in Profit, Stock Gains on Sector's Outlook.....3

## NEWS BRIEFS

**Telecom Argentina Revenues, Profits Rise in 2008**

**Telecom Argentina**, one of country's top three telephone companies, said Tuesday that its second-quarter net profit rose 35 percent over a year ago, to 341 million pesos (\$111.4 million). Net revenues grew 20 percent in the first half of 2008, to just over 5 billion pesos. Cellular business revenues grew 26 percent in the first half of this year, and the company's Internet business grew 36 percent.

**Venezuela's Citgo Grants \$1.5 Million to Maryland Charity**

Venezuelan-owned oil company **Citgo** is making a \$1.5 million donation to a Maryland-based nonprofit group, the charity said Monday. The gift, which will be spread out over four years, will help fund programs for low-income and immigrant workers. Chavez is using Citgo to create a constituency in the United States and also to embarrass the US administration over its social policy shortcomings, Michael Shifter, the vice president for policy at Inter-American Dialogue, told the *Washington Post* Tuesday.

**Ternium Posts \$500 Million in Net Income on South America Results**

Steel company **Ternium** on Tuesday reported second-quarter net income of \$498.9 million, an increase of 3 percent over the first quarter and 58 percent over the same period last year. With principal operations in Mexico in Argentina, Ternium posted net sales of \$2.375 billion, and attributed the increase to higher prices and better foreign exchange rates for Ternium's Mexico debt. The company expects demand and prices in South America to remain at "healthy levels" this year, according to a company release.

## Political News

**Argentine, Venezuelan Presidents Cancel Visit to Bolivia over Violence**

Venezuelan President Hugo Chavez and his counterpart, Cristina Fernandez from Argentina, canceled a joint trip to southern Bolivia Tuesday after anti-government protests in different regions of the country led to two deaths and temporarily closed their destination airport, wire services reported. Two Bolivians died and 30 were injured in confrontations between miners and police forces in the western mining city of Oruro, according to EFE. Separate protests against President Evo Morales in Tarija also turned violent, closing the airport where Chavez and Fernandez planned to land. The two leaders were

land dispute, set fire to the home of officer Henry Osorto in broad daylight on Sunday. Five employees and six members of Osorto's family are now confirmed to have been burned, shot and hacked to death with machetes, although Osorto himself was away from home at the time, according to the report.

**Mexico Police Scandal Renews Calls to Reform Criminal Justice System**

Mexico City policemen on Tuesday were officially accused of being behind the kidnap-slaying of the 14-year-old son of a millionaire, and yielded renewed calls from the administration of Felipe Calderon to reform the country's criminal justice system, the *Houston Chronicle* reported. The body of Fernando Marti,

“These people are the enemies of our homeland.”

— President Evo Morales

scheduled to meet with Morales to discuss energy cooperation. Tuesday's protests come just days before a national referendum on whether Morales and eight regional governors should remain in office (editor's note: see related Q&A in the July 10, 2008 [issue](#) of the *Advisor*.) "These people are the enemies of our homeland," Morales told a crowd at a rally in the southern town of Villamontes, shortly after Chavez called him to cancel the visit, Reuters reported. "And because 150-200 people cause trouble at (Tarija) airport ... what are we losing? Bolivia is losing out on signing (energy) contracts," Morales added, according to Reuters. Chavez told reporters in Buenos Aires that "there will be other opportunities" to meet about energy with Morales and Fernandez.

**Death Toll in Honduras Land Dispute Climbs to Eleven**

The death toll from a mob attack on a Honduran police official's home reached 11 on Tuesday, the Associated Press reported. Hundreds of people, who the police official has described as squatters that were angry over a long-simmering

kidnapped two months ago at a phony police checkpoint and later held for \$5 million in ransom, was discovered in a car trunk on Friday. Three men, including a local police commander and one of his agents, have been arrested in connection with the killing, and as many as 14 detectives operating at the Mexico City airport were also under investigation. News of the arrests dominated Mexican media



President Felipe Calderon

Photo: Mexican Government.

Tuesday, according to reports. "The crime wave unpardonably advances because of corruption, the fragility of what we call the rule of law, the inefficiency of police," an editorial in *El Universal* stated. President Felipe Calderon called Tuesday

for greater cooperation between federal, state and local police. Calderon said the Marti killing highlights the need for all Mexican society to fight organized crime, according to a government [press release](#).

## Economic News

### Chilean Inflation, Economic Growth in July Higher than Expected

Chilean inflation came in at 1.1 percent in July over the previous month, the government reported Tuesday. The figure, which excludes fuel and food, is higher than the market expected, Wall Street analysts said. **JPMorgan** analysts wrote in a research note this morning that Chile's central bank will likely hike interest rates in August by 50 basis points, higher than the 25 basis point increase that was forecasted. "Monetary authorities will not be able to moderate the pace of policy tightening in the near term," JP Morgan analysts said. The New York investment bank's year-end policy rate forecast has been revised upward to 8.0 percent, as a result. Yesterday the Chilean peso slid for a third straight day, down 0.4 percent to 512.75 per dollar. A separate government report Tuesday showed the economy expanded 5 percent in June from the year-earlier period, more than the 2.1 percent growth in May, also ahead of market expectations, Bloomberg News reported.

## Company News

### Banco Itau Reports Decline in Profit, Stock Gains on Sector's Outlook

**Banco Itau Holding Financeira**, the second-largest non-government bank in Brazil, reported a decrease in its second quarter net profits, which fell 3.5 percent from the previous year, Reuters reported. The Bank's net income fell to 2.041 billion reais (US\$1.3 billion) from 2.115 billion reais during the same period a year ago, the bank said on its [Web site](#). Despite the lower earnings numbers, Itau stock rose 1.4 reais, or 4.4 percent, to 33.20 reais in Sao Paulo trading on Tuesday, bolstered by a strong outlook for the financial serv-

ices sector in Brazil (editor's note: see related Q&A in the July 30, 2008 [issue](#) of the *Advisor*). Lending at Itau surged 41 percent to 148.1 billion reais (\$94.1 billion) in the second quarter, according to Bloomberg News. Brazil's banks have raked in hefty profits from increased consumer and business lending. A recent hike in domestic interest rates by the Brazilian government in an attempt to contain inflation will not significantly affect that trend, said Silvio de Carvalho, an execu-

tive director at Itau, in an interview with Reuters. Itau saw a significant expansion of its loan portfolio in the second quarter, up 41.3 percent from the previous year and 7.5 percent from the previous quarter, due to growth in personal loans, auto financing and mortgages. **Banco Bradesco**, Brazil's largest non-government bank and Itau's rival, has also benefited from favorable credit markets, recently reporting second-quarter net earnings of 2.002 billion reais.

## Subscriber Notice

*Inter-American Dialogue discussion on*

### The Prospects for Fernando Lugo's Presidency in Paraguay

*with featured speakers*

#### Diego Abente

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National Endowment for Democracy

#### Frank Mora

Professor of National Security Strategy,  
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#### Hugo Alconada

Washington Correspondent,  
*La Nacion* (Argentina)

Tuesday, August 12, 2008

8:30 to 10:00am

1211 Connecticut Avenue, NW, Suite 510  
Washington, DC

To register, email [meetings@thedialogue.org](mailto:meetings@thedialogue.org)  
Please include your name and affiliation.

**Featured Q&A***Continued from page 1*

inflation index in most countries is not yet significant enough to upset years of stability and growth in the region. Furthermore, the motor behind the increase is a supply shock rather than macro-economic distortions, which would imply a permanent increase in prices. Higher inflation rates, however, bring increased interest rates, which can lead to a reduction in economic growth. Banks need to coordinate decisions to avoid causing a severe recession and an even greater increase in unemployment."

**A Guest Comment: Alfredo Coutino:** "The ongoing inflation rebound is a global phenomenon, and not the particular case of single countries or regions. The main cause of this inflationary wave is high international prices of commodities, particularly energy and food. Every country in the world is facing the same problem, but the main root lies in external factors. Of course, each particular country has been affected in a different way, depending on its nature as a net exporter or importer of such commodities. Latin American countries have not escaped this global inflationary wave, since they are open economies. Certainly, countries more affected in the region are those who are net importers of oil, grains and other primary goods. Thus, in the region, inflation is also a generalized event with some countries showing lower inflation and some others higher. Countries with lower inflation are those where the main cause of price increases is international prices, like in the case of Brazil, Mexico and a few others. Meanwhile, countries with higher inflation are those where prices are fueled by both domestic and external factors, like in the case of Chile, Colombia, Peru, Venezuela and Argentina, among others. Since monetary policy is more effective when inflation is caused by demand factors, then a restrictive policy will prove to be ineffective in the cases of Brazil and Mexico where inflation is mostly caused by a supply shock: international prices. However, the policy restriction will effec-

tively fight inflation in countries where demand pressures exist, like in the second group of countries mentioned."

**A Guest Comment: Claudio Loser:** "The inflation numbers that are being reported in Latin America and the Caribbean are clearly the highest in recent years, and represent a break from the trend observed in the last decade or so. However, hyperinflation as it was experienced in the 1980s and early 1990s is most unlikely to come back. Average inflation declined from almost 500 percent by 1990, to a low of 4.7 percent in 2006, as monetary and fiscal policies in the region strengthened in response to a broad anti-inflationary consensus. The world is now confronted with a doubling of food and energy prices, and average inflation is expected to increase to as high as 9 percent this year. However, most countries are taking measures to avoid that the commodity price shock result in a price/wage spiral, and thus inflation will likely decline again in 2009, helped by lower commodity prices. Brazil, Chile, Colombia, Mexico and Peru are clear examples of an active fight against inflation with possible price increases between 5 and 7 percent. The major dangers are found in Argentina, with an unofficial inflation rate of 25-30 percent, and in Venezuela with about 30 percent. These countries, and a few others, have tried to apply non-orthodox policies that resulted in inflation rates well above the trend, with adverse consequences for economic growth and poverty reduction."

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