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## FEATURED Q&A

### *Which Way Is Latin America's Largest Economy Headed?*

**Q Brazil's government said July 22 that it will cut its expenditures by 10 billion reais ($4.5 billion) and at the same time lowered its forecast for economic growth this year by a half percentage point to 3 percent. Stagflation has become a looming fear in Latin America's largest economy as inflation hovers around the 6.5 percent upper limit of the central bank's target. At the same time, the government has recently been coping with protesters' demands for lower taxes and better public services. Where is Brazil's economy headed? Is the government taking the right actions to boost the economy, and which sectors stand to gain or lose the most as a result? How closely related are social protests with the public's economic concerns?**

**A Drausio Giacomelli, head of emerging market strategy at Deutsche Bank:** "Brazil is at a crossroads. It has made some progress in transferring income to lower classes since the late 1990s, but mostly on the back of lower inflation, plentiful credit and wage policies instead of structural improvements in social security, health and education policies. The new middle class that these policies created has enjoyed higher consumption and naturally favored the incumbent governments in recent elections. However, these demand-boosting policies have reached clear capacity constraints as supply has come well short of the country's growing needs for infrastructure, a more educated labor force and overall productive investment. Brazil's growing pains have more recently been manifested in generalized street protests against corruption and poor services. The new middle class has created additional demands that Brazil's governments have failed to meet. Brazil needs to change its model, which so far has been based on boosting consumption. Loose credit (mainly driven by public banks), inflated minimum wages, broad-based state interventionism, lax policies, limited supply of skilled labor and dwin-

*Continued on page 3*

### Probe of Chile Mine Collapse Finds No One Responsible

A prosecutor has announced that there is not enough evidence to press charges after a 2010 mine collapse in Chile that left 33 miners trapped for more than two months. Former Mining Minister Laurence Golborne (pictured) criticized the decision. See story on page 2.

*File Photo:* El Ciudadano.

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## NEWS BRIEFS

### Honduran Court Convicts Four Offers in 2011 Killings

A Honduran court on Thursday convicted four police officers for their involvement in the murder of the son of Honduras National Autonomous University's president and a friend just outside of Tegucigalpa in 2011, the *Miami Herald* reported. All four officers face up to 40 years in prison after two officers were found guilty of firing the shots that killed the young men and two were found guilty of masterminding the killings.

### Brazil Backing Greece's IMF Loans Despite Envoy's Statements

Brazil's finance minister, Guido Mantega, on Thursday called the International Monetary Fund's managing director, Christine Lagarde, to clarify that statements by Brazil's representative to the IMF criticizing its loans for debt-ridden Greece were not authorized by the government, Reuters reported. In a recent vote over 1.5 billion euros ($1.98 billion) of loans to Greece, Brazil's IMF representative declined to vote. Mantega told Lagarde that if the vote were re-taken, it would receive Brazil's support.

### Lower Profit From Latin America Adds to MetLife's Quarterly Loss

A decline in profit from **MetLife**'s Latin America operations contributed to the insurer's second-quarter loss, Bloomberg News reported. The New York-based company on Wednesday reported a 78 percent decline in net income for the quarter amid rising interest rates that reduced the value of the insurer's derivatives. Net income fell to $502 million from $2.3 billion a year ago. Profit declined 7 percent in Latin America as the company incurred expansion costs.

# Political News

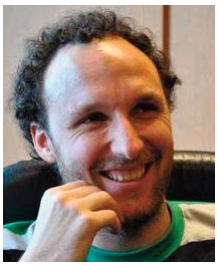
## Probe Into Chile Mine Collapse Finds No One Responsible

An investigation by a Chilean prosecutor into the 2010 collapse of a Chilean mine that trapped 33 miners underground for two months has found no one responsible for the incident, BBC News reported. The prosecutor said there was insufficient evidence in the case to press charges against regulators or the owners of the San José mine, located near the town of Copiapó. All 33 miners were eventually rescued. Miners reacted angrily to the prosecutor's closing of the case. "This is a disgrace to Chile's justice system," one of the men, Mario Sepulveda, told the Associated Press. "It is impossible that in an accident of this magnitude no one is held responsible. Today, I want to dig a deep hole and bury myself again, only this time, I don't want anybody to find me." Another miner, Luis Urzúa, said he contacted lawyers who have been representing the group after hearing of the decision. "[They] told us to be calm. We have another lawsuit, for negligence," Urzúa told Agence France-Presse. Former Chilean Mining Minister Laurence Golborne, who oversaw the rescue operation, also criticized the decision. He told Chile's Radio Cooperativa that government regulators had ordered the mine's owners to construct an emergency exit, but they failed to do so. If an emergency exit had been built, the miners "would not have spent 70 days trapped," said Golborne. However, Catherine Lathrop, an attorney representing the mine's owners, praised the prosecutor's decision. "We have always maintained that it was a regrettable accident. Just that, an accident, and neither was it possible to establish any responsibility of my clients in this case," said Lathrop, BBC News reported. The mine owners were previously ordered to reimburse the government for a quarter of the $22 million cost of the rescue operation. The miners have hoped that a pending lawsuit accusing Chile's National Service of Geology and Mining of failing to properly inspect the mine would bring them reparations of $500,000 each.

> "Today, I want to dig a deep hole and bury myself again, only this time, I don't want anybody to find me."
>
> — *Mario Sepulveda*

## U.N. Body Warns Uruguay Over Possible Marijuana Legalization

The United Nations' International Narcotics Control Board has warned Uruguay over lawmakers' advancement of a bill that would legalize marijuana, BBC News reported. The lower house of Uruguay's Congress approved a measure this week that would legalize the drug and put the government in charge of growing and selling it to registered users. The Senate still must approve it before it can become law. The International Narcotics Control Board said the law would be "in complete contravention to the provisions of the international drug treaties to which Uruguay is party." The measure would violate the Single Convention on Narcotic Drugs of 1961, which bars cannabis' sale for recreational use. The independent board established by the United Nations is comprised of experts who monitor countries' adherence to drug treaties. If Uruguay adopts the law, it "might have serious consequences for the health and welfare of the population and for the prevention of cannabis abuse among the youth, said the INCB, according to BBC News. Supporters of the legislation argue that putting the government in control of marijuana sales would take profits away from drug dealers and keep some users away from harder drugs. "The



Sabini

*File Photo: Twitter.*

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regulation is not to promote consumption; consumption already exists," said Sebastián Sabini, a lawmaker from the center-left Amplio coalition. Some 22 metric tons of marijuana are sold annually in Uruguay, according to the country's National Drugs Committee. The Senate is expected to vote on the legislation in October, and it could become law by the end of the year.

# Economic News

## Chile's Banking Sector Profits Decline in Year's First Half

Chile's banking sector profits declined 4.47 percent in the first six months of the year as compared to the first half of 2012, the country's banking regulator announced Thursday, Reuters reported. The regulator, known as SBIF, said profits for January through June this year totaled 802.14 billion pesos ($1.59 billion). Lower interest margins, softer economic activity and credit provision spending took a toll on earnings, the regulator said. However, the regulator added that banks' total spending on loan provisions declined in June as compared to May, boosting profits to a monthly rise of 29.6 percent in June. The banking sector's total loans grew 9.1 percent in the year's first half as compared to the same period last year, to 107.07 trillion pesos, said SBIF. Chile's largest bank in asset terms, **Santander Chile**, posted profit of 167.58 billion pesos in the period. The country's largest bank by income, **Banco de Chile**, earned 243.33 billion pesos.

*Chilean banks' total spending on loan provisions declined in June as compared to May, according to the regulator.*

**Featured Q&A**

*Continued from page 1*

dling confidence have all contributed to inflating labor costs, poor productivity growth, widening current accounts and inflation. With elections ahead and the need to tighten policies amid increasing disarray in its coalition base, the government seems cornered. It is time to change the growth model with renewed focus on supply (education, private investment, infrastructure and increasing competitiveness), but that requires leadership and courage. Meanwhile, we should continue to see the currency, inflation and growth bear the brunt of the adjustment imposed by tightening global liquidity."

**A Thomas Rideg, managing director of Global Intelligence Alliance:** "Brazil's economic advance in the last two decades would have been more impressive if it were not bottlenecked by the famous 'Brazil cost.' This cost—mostly related to corruption, bureaucracy and a lack of investments in infrastructure—has always been a known fact for investors, but it has only recently become a phenomenon to the average citizen. Corruption is today blatantly transparent in several areas, and impunity has become appalling to citizens. Also, the emerging C class is now aware of how much tax is paid on top of products and services, and of the inadequacy of basic public services and infrastructure. On top of paying taxes comparable to European standards, Brazilians are also required to pay for things including private education, health and transportation. Further, commercial establishments have recently begun to issue receipts breaking down the 'tax percentage' within the total fees, and the high taxes are visibly apparent to everyone. High taxes are the absolute opposite of economies of scale, and it is scale that drives an economy, not heavy taxes. Despite all of this, Brazil was the last in and first out of the 2008-2009 financial crisis because of its strong internal market, which makes the country less dependent on external factors than any other market in the region. The factors behind the protests (corruption and high taxes) have been part of Brazil for decades, but the actual protests are a result of the internal evidence of this corruption and awareness of high taxes in comparison to other countries. I see cuts in expenditures as a positive response to these protests because it has a large focus on discretionary government expenses. The list of other necessary government responses is extensive, but this is a positive start. There is no doubt that the much-needed tax reform in Brazil will improve the economic outlook. Though seen as a bit alarming in the short term, this is a much needed and long-due move for 'order and progress.' "

> "Though seen as a bit alarming in the short term, this is a much needed and long-due move for 'order and progress.'"
>
> *— Thomas Rideg*

**A Albert Fishlow, professor emeritus at the School of International and Public Affairs at Columbia University:** "The Ministry of Finance demonstrates a long lag in its regular revisions of growth rate predictions and policy changes. For some time, estimated growth for 2013 has been lowered to between 2.0 and 2.5 percent, with only a modest advance for 2014. Much of the recent concern has been on higher inflation—both by international banks and Brazilian citizens—spilling over to demands for greater social expenditure during the protest marches. Trying to satisfy both simultaneously is hardly easy. The underlying problems are Brazil's low rate of investment—less even than its neighbors, not to mention China and India—and the inefficiency of its already large social outlays. They add up to low growth of

*Continued on page 4*

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**Featured Q&A**

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productivity, pressures for tariff protection by the industrial sector and high rates of inflation in the service sector. Large gains in the terms of trade during the Lula years, accompanied by diminishing unemployment, avoided, but did not resolve, the issue."

**Gilberto M. A. Rodrigues, professor at the Universidade Federal do ABC in São Paulo and board member of the Coordinadora Regional de Investigaciones Economicas y Sociales in Buenos Aires:** "The global economic crises affecting Brazilian growth is a problem per se. But the new political scenario in Brazil that arose from the huge street protests created a new demand for better and more accessible public services that could shock against some orthodox economic policies. From a federal perspective, the core of the Brazilian economy is the employment rate, which has not fallen despite foreign economic threats and emerging domestic political changes. The Rousseff administration needs to cut public expenditures, but those cuts would affect the president's ability to govern and her administration's relationship with Congress. One of the main cards the federal government has in its hands is a whole package of transportation infrastructure projects, which will attract new and huge foreign investments in the coming months. Transportation contracts between state and private companies are now under revision, and both the São Paulo municipal and state governments took actions to reduce transportation tariffs. The recent protests were not under the spirit of a 'spring;' rather they were related to the Brazil's economic growth in the last years. That growth improved economic human rights for the poor, without the same level of development in political and civil rights. There is an evident crisis of political representation in Brazil at the federal, state and local levels, and this will certainly lead all governments to reduce or at least not raise public tariffs in the short run."

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*The* Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*


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**Erik Brand**
General Manager, Publishing
ebrand@thedialogue.org

**Gene Kuleta**
Editor
gkuleta@thedialogue.org

**Megan Cook**
Reporter, Assistant Editor
mcook@thedialogue.org



**Inter-American Dialogue**

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