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FEATURED Q&A

How Concerned Should Chileans Be About Inflation?



Chile's central bank, led by Mario Marcel, doubled its benchmark interest rate last week in response to a faster-than-expected economic recovery this year. // File Photo: Central Bank of Chile.

Q Chile's central bank on Aug. 31 doubled its benchmark interest rate to 1.5 percent, following faster-than-expected economic recovery this year. The bank emphasized the need to avoid the "accumulation of macroeconomic imbalances," which it said could aggravate already-rising inflation. The bank also revised its predicted economic growth for 2021 from between 8.5 percent and 9.5 percent to between 10.5 percent and 11.5 percent. How have the government's economic stimulus policies in response to the Covid-19 pandemic affected inflation rates, and is the Chilean economy overheating? What is the outlook for consumer prices in Chile in the period ahead, and are they in danger of getting out of control? Was the central bank's hike, the largest in two decades, the right decision to keep inflation at bay, and what could the move mean for the country's economic recovery?

A Carolina Goic, member of Chile's Senate and former president of the Christian Democratic Party: "Chile, like the rest of the world, has been hit hard by the Covid-19 pandemic. The inability of the industries, commerce and service sectors to operate seriously affected our economy, especially the low- and middle-income sectors. Due to the government's late reaction in support of those most in need, as well as its hyper-targeting of the aid, there was a political reaction that ended with a large and unprecedented withdrawal of money from pension funds. To date, three of these large withdrawals have already been made, and a fourth one is likely. This injection of money from contributors, now coupled with significant state and global aid (known as

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TODAY'S NEWS

POLITICAL

Brazil's Bolsonaro Seeks to Smooth Tensions With Supreme Court

Brazilian President Jair Bolsonaro, who has been enmeshed in a feud with the country's Supreme Court, issued a conciliatory statement about the high court, leading to a rally in Brazil's currency and stocks.

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ECONOMIC

U.S.-Mexico Restart High-Level Economic Talks

High-ranking representatives of the U.S. and Mexican governments relaunched economic talks after a four-year pause. Infrastructure, trade and migration were among the agenda items.

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ECONOMIC

Lasso Wants Trade Deals With 10 Largest Economies

Ecuadorian President Guillermo Lasso said he wants free trade agreements with the world's 10 largest economies.

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Lasso // File Photo: Ecuadorian Government.

POLITICAL NEWS

Brazil's Bolsonaro Seeks to Smooth Tensions With Court

Brazilian President Jair Bolsonaro issued a conciliatory statement on Thursday that appeared to be an attempt to smooth over tensions with the country's Supreme Court following repeated verbal attacks by the president on the high court, Reuters reported. Bolsonaro, who has said he will not abide by rulings from Supreme Court Justice Alexandre de Moraes, said his critical statements came from "the heat of the moment," adding that any problems with Supreme Court justices should be resolved in court, Reuters reported. De Moraes is overseeing an investigation of Bolsonaro and two of his sons. Following Bolsonaro's statement on Thursday, Brazil's currency strengthened, with the real gaining 1.8 percent against the dollar. The real had lost 4 percent against the U.S. currency on Wednesday following Bolsonaro's blasting of the Supreme Court. Bolsonaro's moderation in tone on Thursday also led to a 1.7 percent rebound in Brazil's Bovespa stock index. However, Bolsonaro repeated his unsubstantiated claims on Thursday that the country's voting system is vulnerable to interference. The president faces a tough battle for re-election next year as Brazil has suffered the world's second-highest number of Covid-19 deaths after the United States, as well as an inflation rate of higher than 9 percent and a 14 percent unemployment rate. Bolsonaro's approval ratings have plunged, and some recent polls show that former President Luiz Inácio Lula da Silva could defeat Bolsonaro by more than 20 percentage points. On Tuesday, which coincided with Brazil's independence day, more than 100,000 Bolsonaro supporters took to the streets across the country in rallies for the president. Bolsonaro also fired up truckers who showed support for the president by parking on highways, snarling traffic in many areas. In an audio message Wednesday, Bolsonaro had asked the truckers to stand down, the Associated Press reported. In the

message, Bolsonaro said the truckers' protest could cause shortages and worsen inflation. However, many truckers reportedly doubted the authenticity of the recording. Bolsonaro's infrastructure minister, Tarcísio Gomes de Freitas, released a video statement later on Wednesday saying that Bolsonaro's recording was real.

ECONOMIC NEWS

U.S., Mexico Restart High-Level Economic Talks

The United States and Mexico on Thursday relaunched high-level economic talks after a four-year pause, as top members of the governments of U.S. President Joe Biden and his Mexican counterpart, Andrés Manuel López Obrador, met to discuss issues including infrastructure, trade and migration, the Associated Press reported. Biden started the high-level economic cooperation initiative in 2013 when he was vice president, but the talks were stopped under former President Trump's administration. U.S. Vice President Kamala Harris opened Thursday's meeting by highlighting the Biden administration's desire to work with "our friends, our partners." She also emphasized the importance of strengthening relations at this moment, citing the Covid-19 pandemic, climate change, cyber threats and supply chain disruptions as high priorities for both countries. "Mexico is our closest neighbor ... and a strategic partner and one of our most important economic relationships. Mexico's economic stability is in the interest of the United States," Harris said. López Obrador, who did not attend the talks, lauded the meeting during his daily news conference. "There has not been attention to the population that is obligated to migrate," he said. "There hasn't been in years. Nothing. Everything is [containment]. Everything is coercion. And that is not how social problems are resolved," the president added. The delegations did not discuss the reactivation of the United States' "Remain in Mexico" policy, which forces asylum seekers to stay

NEWS BRIEFS

Ecuador's Lasso Wants Trade Deals With World's 10 Largest Economies

Ecuadorian President Guillermo Lasso said Thursday that he wants to sign free trade deals with the world's 10 largest economies as part of his government's strategy to incorporate Ecuador into the Pacific Alliance regional trade bloc, which includes Mexico, Peru, Chile and Colombia, EFE reported. This would involve agreements with the United States, China, Japan, South Korea and the Euro-Asia group, the president said. Lasso added that he sees Mexico as a pathway into the Pacific Alliance. [Editor's note: See related [Q&A](#) in the Sept. 3 issue of the Advisor.]

Peru's Central Bank Doubles Key Rate to 1%

Peru's central bank on Thursday doubled its benchmark interest rate to 1 percent, up from 0.5 percent, in its second consecutive increase, Reuters reported. Inflation has begun to spread throughout much of Latin America, including Peru, the world's second-largest producer of copper. Many countries in the region have been hiking interest rates this year after dropping them to historic lows last year.

ExxonMobil Announces New Oil Discovery Off Coast of Guyana

U.S. oil company ExxonMobil on Thursday announced a new oil discovery in the Stabroek block off the coast of Guyana, bringing the number of discoveries in the block to at least 20, Reuters reported. Exxon leads a consortium, which includes Hess Corp. and China's CNOOC, that is operating the 6.6-million-acre Stabroek block. The company said the latest find would add to the previous recoverable resource estimate of more than nine million barrels of oil. Exxon did not detail the size of the newly found reserves.

in Mexico while they await court dates in the United States, according to Mexican Foreign Minister Marcelo Ebrard, Reuters reported. Ebrard also said the two presidents are to meet soon, though no date has been defined.

BUSINESS NEWS

Santander Brasil Buys Online Real Estate Firm Apê11

Santander Brasil announced Wednesday that it is buying online real estate marketplace Apê11 for an undisclosed amount. Under the deal, the Brazilian subsidiary of Spain's Santander Group will hold 90 percent of Apê11. "The company is experiencing strong growth in its operations and has technology that is robust enough to expand its offer with financial services and products currently provided by the bank," Sandro Gamba, the director of real estate business at Santander Brasil, said in a statement. "This digital platform will allow us to accelerate the development of integrated solutions for all real estate market stakeholders." Apê11, which was established in 2018, "pioneered the digitization of the journey of buying houses and apartments," Santander Brasil said. The platform currently includes properties in the city of São Paulo, but Santander Brasil said its integration with the bank's operations will allow for expansion across Brazil. The bank is focused on "building a real estate ecosystem" that will reduce overlap of various parts of the process of buying and selling real estate, said Gamba. The Apê11 platform uses a proprietary system that combines data and artificial intelligence "to offer a friendly and intuitive environment," Santander Brasil said. The platform will direct potential properties of interest to users and will also provide information about neighborhoods, the bank added. The online real estate company's founder, Leonardo Azevedo, said the integration of Apê11 with Santander will aid innovation in products and services for end users. The deal is subject to regulatory approval.

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emergency family income), has caused a noticeable increase in circulating money. Faced with this scenario of rising prices driven by higher demand, the reaction of the central bank, an autonomous and technical entity, seems to be very reasonable. Economists expected an increase in the interest rate, and there was only surprise at the magnitude of the increase. However, it is still low: 1.5 percent. All of this occurs in the context of an election and during the working period of the Constitutional Convention, the body in charge of drafting the new constitution, where the need to safeguard the autonomy of institutions such as the central bank is becoming evident, as it has proven to be above the pressures and passions of times of turmoil."

A Wilfredo Araya, commercial director at Chile's Financial Market Commission: "Raising interest rates is the most powerful tool a central bank has to control inflation, and the bank preferred to use this measure to the extreme instead of putting together an economic package that allows inflation to be controlled with other mechanisms it has available. The sharp increase of the interest rate—the highest in 20 years—executed in the bank's last Monetary Policy Meeting is tainted not only by the role the central bank must play to control inflation, but also by the pressure to weaken the possibility of a fourth withdrawal of workers' provisional funds that members of Congress are discussing. This increase will raise the cost of credit for families. While the central bank's decision could have been better, it is in line with its role. Despite the rate increase, and considering that there are still important seasonal patterns that drive consumption (such as the Christmas and New Year's holidays) along with the important stimulus package that the government and opposition have developed through an agenda of common minimums, there could continue to be pressure on prices. This could overheat the

economy even more, which could potentially exceed the 5.7 percent inflation the central bank estimated at the end of the year, considering that its goal is to keep inflation at 3 percent."

A Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile: "Recent politically popular decisions by Chile's Congress allowing for as many as three separate withdrawals from obligatory pension savings (AFPs), with a fourth in sight, on top of the government's emergency family support (IFE), have resulted in an economic disequilibrium, including a higher-than-expected surge in consumer

“High inflation is a challenge to long-term growth and is particularly damaging for the middle class...”

— Kathleen C. Barclay

spending and pressures on the fiscal balance caused by an accumulation of high levels of foreign debt. The result has been an acceleration of inflation, at 4.5 percent for the last 12 months, with the expectation of further increases if not contained. Large injections of liquidity have produced high short-term growth rates that are not sustainable in the long run in the absence of stronger investment to support economic growth and employment. The central bank's decision to raise its benchmark interest rate by 75 basis points, the largest increase in 23 years, was prudent and in line with its mandate to control inflation, with a target range of 2-4 percent. Its projections for reduced levels of growth in 2022 and 2023 reflect the lack of sustainability of such uncontrolled spending resulting from poor fiscal and legislative policies. High inflation

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is a challenge to long-term growth and is particularly damaging for the middle class, which relies on long-term funding of as long as 30 years to finance home purchases, as well as affecting the poor through increasing food prices. The Chilean central bank now forecasts 2022 growth to drop sharply to 1.5-2.5 percent in 2022 and to 1-2 percent in 2023. The rise in interest rates is a call for greater fiscal and legislative responsibility to support a sustainable recovery.”

A **Guillermo Holzmann, director of Analytika Consultores:** “The central bank’s rationale is aimed at protecting macroeconomic balances and maintaining Chile as an example in the context of emerging countries with a reasonable and, at times, successful management of the economic situation, as well as the control of the pandemic through wide rollout of two-dose vaccines. The central bank wants to prevent the overheating of the economy and higher inflation, as well as to provide a warning about a fourth withdrawal of funds in the Chilean AFPs, which would soon have an obvious impact on the economy. This message was directed at the banking industry, senators, representatives and financial operators. The central bank also wants to control the expectations of Chileans who have received various

forms of economic aid from the government (through a significant increase in state debt), including IFE, which extends until November and, eventually, December. The management of the market’s and population’s expecta-

“ **The central bank ... wants to control the expectations of Chileans who have received various forms of economic aid from the government...**”

– Guillermo Holzmann

tions has been the objective of the central bank. Policymakers’ powerful intervention is also understood as necessary given the debates that took place in Congress, which is very fragmented and has populist and electoral expressions, as well as the debate in the Constitutional Convention, where some members still have not overcome the idea that it is not up to them to re-found the country, an objective that is not in the mandate given to its members.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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An Inter-American Dialogue discussion with Andrea Bonime-Blanc, GEC Risk Advisory LLC
María José Cortés Loreto, Atlas Renewable Energy
Ben Ho, BlackRock

View a webcast of the Aug. 26 discussion.

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