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## FEATURED Q&A

# Will Argentina Be Able to Reach a Deal With the IMF?



Economy Minister Martín Guzmán has been leading the Argentine government's talks with the International Monetary Fund. // File Photo: Argentine Government.

**Q** Argentina should make a “credible and solid” macroeconomic plan that includes the gradual lifting of currency controls, the International Monetary Fund said in a Sept. 2 report. Argentina’s prospects for market access depend on such a plan and on “structural reform,” the IMF added. How likely is Argentina to devise a plan that satisfies the international lender, and what should the plan include? What effects have currency controls had on Argentina’s economy and businesses operating there? What would be the economic impact of Argentina unwinding its currency controls, and how likely is President Alberto Fernández’s government to take that action?

**A** María Eugenia Vidal, former governor of Buenos Aires province: “Not because of the International Monetary Fund, but rather because of the Argentines, our country needs a plan that defines a course of where we want to be in two, five and 10 years. It should point the way for the private sector to make investment, saving, production and employment decisions. No country can develop with inflation close to 50 percent per year and more than 40 percent of its population below the poverty line. In the short term, this plan should include parameters regarding the fiscal, monetary, exchange and financial trajectories. This is so that the private sector can channel its savings and count on what financing it will have available for its own investment, which is the true engine of the economy. The controls are an abnormality, a transitory tool for an unusual and unjustified currency drain, to avoid unnecessary volatility. But these controls cannot be a permanent mechanism that result in 12 different prices for the currency,

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## TODAY'S NEWS

### ECONOMIC

## Mexico Inflation Rises Faster Than Forecast in Sept.

New data pushed the 12-month inflation rate up to 5.87 percent, while the core price index, an indicator of consumer prices that excludes energy and agricultural products, rose to its highest annual rate in almost four years.

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### BUSINESS

## Embraer Stock Rises on Air Taxi Deals

Shares in Brazilian aircraft maker Embraer rose 12 percent after the company said that its subsidiary Eve has signed a memorandum of understanding with Bristow Group to sell up to 100 electric air taxis.

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### POLITICAL

## Biden Admin. Defends Policy on Haitians

White House Press Secretary Jen Psaki defended the Biden administration's handling of Haitian migrants at the U.S. southern border in the face of growing criticism.

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Psaki // File Photo: White House.

## POLITICAL NEWS

## Biden Administration Defends Policy on Haitian Migrants

The administration of U.S. President Joe Biden on Thursday defended its handling of Haitian migrants at the U.S. southern border in the face of growing criticism over its decision to expel Haitian nationals, *The Hill* reported. "Our policy process has continued to be the same with Haiti as it is for anybody coming through an irregular migration across our border," White House Press Secretary Jen Psaki told reporters during a [briefing](#), noting that those who are not expelled under Title 42 are placed in detention



Foote // File Photo: U.S. State Department.

or an alternative, including being released into the country with a notice to appear or register with authorities. In a strongly worded resignation letter dated Wednesday, veteran diplomat Daniel Foote, who had been named Biden's envoy to Haiti, said, "I will not be associated with the United States' inhumane, counter-productive decision to deport thousands of Haitian refugees and illegal immigrants to Haiti, a country where American officials are confined to secure compounds because of the dangers posed by armed gangs in control of daily life," the *Miami Herald* reported. Meanwhile, public outrage over a photo of migrants being pursued by border patrol agents on horseback this week continued to grow. The Department of Homeland Security on Thursday said it has temporarily suspended the use of horse patrols in Del Rio, Tex., amid an investigation into border agents aggressively chasing Haitian migrants. Despite the controversy, U.S.

officials are rapidly processing and expelling thousands of Haitians at the border. While some 15,000 migrants had gathered under the international bridge in Del Rio last week, about 4,000 remained on Thursday, Department of Homeland Security officials said, the Associated Press reported. About 1,400 migrants have been sent to Haiti on 13 flights, expelled under the pandemic public health authority known as Title 42. Another 3,200 were in U.S. custody and being processed, while several thousand have returned to Mexico, the AP reported.

## ECONOMIC NEWS

## Mexico Inflation Rises Faster Than Forecasts in Sept.

Inflation in Mexico rose more than expected in the first half of September, up 0.42 percent in the first two weeks of the month, MarketWatch reported, citing data released Thursday by the National Statistics Institute (INEGI). The figure pushed the 12-month inflation rate up to 5.87 percent. The core price index, an indicator of consumer prices that excludes energy and agricultural products, rose to its highest annual rate in almost four years. Food and energy prices also rose during the period. The Bank

**Persistent pressures on inflation are sources of discomfort."**

— Alberto Ramos

of Mexico raised interest rates in June and August, and Thursday's data likely will trigger another rate increase soon, analysts said. "Persistent pressures on inflation are sources of discomfort and will likely prompt the [central bank] to hike [rates] at least once more before the end of the year," Alberto Ramos, an economist at Goldman Sachs, told clients in a research note Thursday. However, Ramos added that Mexico still has "significant slack"

## NEWS BRIEFS

## Colombia's Duque Calls on U.S. to Continue Economic Sanctions on Venezuela

Colombian President Iván Duque on Thursday called on the United States to continue imposing sanctions on Venezuela's government until there is "a clear transition to democracy" in that country. In an interview with Bloomberg News while in New York for meetings at the United Nations, Duque rejected the notion that U.S. sanctions, which have restricted Venezuela's ability to sell oil and import gasoline, have contributed to migrants flooding into Colombia, according to the report.

## Peru Officials Order Body of Former Shining Path Leader Cremated

Peruvian officials on Thursday ordered the cremation of the body of Abimael Guzmán, the leader of the Shining Path guerrilla group who died in jail at age 86 earlier this month, state news agency Andina reported. The decision was made in order to "avoid putting national security and internal order at risk," prosecutors said. Guzmán's family had requested the return of his body for burial, according to the Associated Press.

## Kraft Heinz Acquires Brazilian Condiments Maker Hemmer

Chicago-based Kraft Heinz on Thursday announced that it agreed to acquire Brazil's Companhia Hemmer Indústria e Comércio, or Hemmer, for an undisclosed sum. The century-old condiments and sauces company is based in Santa Catarina state. "Hemmer is a legendary company in Brazil [and has been] growing net sales significantly," said Rafael Oliveira, international zone president at Kraft Heinz, in a statement. The transaction is subject to regulatory approvals by antitrust authorities in Brazil.

in the economy, combined with a severe credit crunch and a relatively well-anchored peso currency, “so there is likely no pressing need at this juncture to push the policy rate much higher.” [Editor’s note: See related [Q&A](#) in the Aug. 13 issue of the Advisor.]

## BUSINESS NEWS

# Embraer Stock Rises on New Air Taxi Deals

Brazilian aircraft maker Embraer said in a securities filing on Thursday that its subsidiary Eve has signed a memorandum of understanding with Bristow Group to sell up to 100 electric aircraft, Reuters reported. Eve will deliver the first vertical takeoff and landing (eVTOL) aircraft to Bristow by 2026. Both companies will develop an urban mobility model to operate the aircraft, focusing on areas such as regulatory development, eVTOL certification and autonomous operation, Embraer said. The announcement helped push Embraer’s shares to close up 12 percent on the Brazilian stock exchange Thursday, Folha de S.Paulo reported. eVTOLs are electric vehicles with vertical landing and takeoff capabilities and aim to provide a cheaper and less polluting alternative to helicopters. Eve had announced agreements to sell several hundred such aircraft in recent months with Flapper, an on-demand flight charter company in Latin America, as well as deals in Singapore, Europe and the United States. Meanwhile, earlier this week, Dublin-based aircraft leasing company Avolon announced a partnership in Brazil that involves the purchase and/or lease of 250 electric vertical takeoff and landing aircraft. The deal with Gol, Brazil’s largest airline, and Grupo Comporte, a transport operator, aims to “commercialize an eVTOL ride sharing platform in Brazil,” Avolon said in a statement, which added that the service is ideal for congested cities such as São Paulo. The company’s VA-X4 aircraft, which claims to have “zero carbon footprint,” will be manufactured by Britain’s Vertical Aerospace. Low-cost carrier GOL currently operates a fleet of 127 Boeing 737 aircraft.

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even with international prices favorable to our exports. It is necessary to reverse the cause of the drain (distrust), not to suppress the consequences. The relaxation of these currency controls will be a consequence, rather than the beginning of a plan. I do not see an advance in the approach or in the will of the current government in that sense. On the contrary, in the face of difficulties, the instinctive reaction is to sharpen controls and the repression of the demand to save, travel, import and export. In the long term, experience also shows that our country requires prudent regulation of financial flows. Crises usually incubate during the abundance phase, which abruptly reverses in the face of a change in expectations due to a political change or an external event. Avoiding the next crisis is a primary objective of any consistent economic program for our country.”

**A** **Claudio M. Loser, president and CEO of Centennial Group Latin America and former head of the Western Hemisphere department at the IMF:** “Argentina finds itself again in an impossible policy and political quandary. The statement by the IMF that the country ‘should make a credible and solid macroeconomic plan ... and structural reform’ is firmly supported by the current economic reality. Almost certainly because of its performance, the government has suffered a major electoral setback during the PASO primary voting, reflecting a reaction to poor management of the economy. More importantly, the unhappiness appears directed to the Kirchnerista anti-market approach and continued limitations imposed on Economy Minister Guzmán. Even so, powerful Vice President Cristina Fernández de Kirchner and her followers want to remove the economic team and pursue a more expansionary macroeconomic policy, while tightening controls on the economy. President Fernández is resisting these pressures, but from a weakened position. Currently it is

possible to envisage two scenarios: 1.) The economic team continues its well-advanced technical negotiations with the IMF, with the objective of concluding negotiations after the November midterm elections, and

“**Argentina finds itself again in an impossible policy and political quandary.**”

— Claudio M. Loser

establish a reasonable plan, with a liberalization of the economy, including existing currency restrictions; or 2.) Cristina prevails, the economic team is changed, expenditures and money printing accelerate, with adverse consequences on inflation, the balance of payments and the blue (black market) exchange rate and investment. The new team has to re-establish negotiations, but from a weaker financial position, and the outlook becomes bleak, contrary to her wishes. It is possible that the second scenario will occur, leading the economy to continued stagnation against the best interests of all Argentines.”

**A** **Daiana Fernández Molero, former undersecretary of microeconomic programming in Argentina’s Treasury Ministry:** “A plan that satisfies the IMF is highly improbable, at least in the short term. Leading up to the nationwide primaries on Sept. 12, the Frente de Todos went against sound economic policy. It bet that printing money, deepening foreign exchange and price controls, freezing tariffs and banning meat exports would ensure victory. Instead, the government suffered a resounding defeat. With midterm elections a mere two months away, a turn toward the IMF’s recommendations is unlikely. If anything, radicalization seems to be in the cards. Vice President Cristina Fernández de Kirchner

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has pressured for greater fiscal stimulus to boost the purchasing power and recoup votes. Even if the government were willing to shift to a more orthodox economic policy, it is unclear whether it would be able to do so. Currently, it lacks internal unity, voter support and the credibility needed to enact necessary reforms. Neither extreme radicalization nor orthodoxy, however, are the most likely scenarios. Despite an annual inflation rate of 51 percent and a 40 percent poverty rate, what we will probably see is more of the same: state intervention, greater taxation and the hope that commodity prices stay high to help fill depleted government coffers. While in the short term the scenario remains bleak, the opposition's strong showing in the primaries, if confirmed in November, bodes well for the future. Particularly noteworthy were the strong showings of candidates who argued for removing the barriers to private enterprise that block sustainable economic growth. Perhaps a long-awaited necessary change of mindset is finally in the making."

**A** **Kezia McKeague, director at McLarty Associates:** "Despite the need to delay a heavy repayment schedule, prospects for Argentina achieving a comprehensive deal with the IMF appear increasingly dim in the wake of the government's defeat in the recent primary elections. As the political crisis last week made clear, rifts within the governing coalition remain the primary obstacle to meeting the IMF's requirement for full political support for an eventual agreement. President Fernández's cabinet reshuffle ceded further influence to allies of the powerful vice president, Cristina Fernández de Kirchner (CFK), who support tight capital controls, reliance on monetary emission to finance an increasing fiscal deficit and a policy mix of price controls, import restrictions and subsi-

dies—measures that hinder the chances for a deal that will satisfy the IMF. The government's principal debt negotiator, Minister of Economy Martín Guzmán, remained in place despite Kirchnerista criticism, but the heavy loss in the primary elections has weakened his negotiating power with new staff at the lending institution, as well as his margin of

“Prospects for Argentina achieving a comprehensive deal with the IMF appear increasingly dim...”

— Kezia McKeague

maneuver vis-à-vis the CFK faction, which publicly disputes his plan for a 10-year repayment schedule. When talks resume after the midterm elections on Nov. 14, however, they will at least be backed by a more powerful opposition in Congress. Ideally, Guzmán would achieve an agreement known as an Extended Fund Facility, which requires a commitment to major structural reforms and would likely include an easing of the complicated foreign exchange restrictions that have depressed investor sentiment. Such a program would boost much-needed market confidence but is impossible to imagine in the short term given both the government's lack of a big-picture economic plan and the difficulties in reconciling divergent views within the Frente de Todos coalition. What is more realistic, according to most analysts, is a postponement of Argentina's payments or a low-conditionality loan, in order to avoid the worst-case scenario of default."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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