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FEATURED Q&A

How Will Monetary Policy in Paraguay Affect Growth?



Paraguay's central bank, led by José Cantero Sienra, in August increased the country's benchmark interest rate by a quarter of a point to 1 percent. // File Photo: Central Bank of Paraguay.

Q **Paraguay's central bank moved to tighten monetary policy last month in an effort to hold down inflation. The interest rate hike came as the government decided to decrease stimulus spending in 2022, following a reduction of temporary cash transfers during the pandemic to those working in the informal sector. How will the central bank's shift in monetary policy affect economic growth, which is projected to reach 3.8 percent in 2022? What other major factors are driving the country's economic outlook for this and next year? How is the Paraguayan population responding to the decrease in pandemic-related stimulus packages, and what will be the social and political consequences of this decision?**

A **Gerardo Ramón Ruiz Godoy, partner at PCG Auditores-Consultores:** "The Central Bank of Paraguay began a gradual process of normalizing the monetary policy rate, increasing it from 0.75 percent to 1 percent to contain inflation, which in 2021 has accumulated a rate of 3.6 percent, threatening to exceed the expected target of 4.5 percent. Obviously, the objective is to maintain low levels of inflation and to avoid punishing the salaried and self-employed sectors, which are the most vulnerable. There is a lot of optimism about the GDP rebound due to the gradual normalization of economic activity and other favorable indicators, such as a higher performance of the primary sector. This is added to the rise in commodity prices, which increased foreign exchange earnings by 30 percent compared to the previous year and favored the 16 percent trade balance surplus at the end of August. The local industry will grow 6 percent, as will foreign investment,

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TODAY'S NEWS

POLITICAL

Chile Arrests Alleged Members of Immigrant Smuggling Ring

Chilean authorities announced they had arrested nine alleged members of a migrant-trafficking ring. While detaining the suspects, authorities found 57 Colombian and Venezuelan migrants who had just arrived from Peru.

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ECONOMIC

Mexican Central Bank Likely to Continue Hikes

Mexico's central bank is likely to continue its cycle of raising interest rates this year, said Bank of Mexico Deputy Governor Jonathan Heath.

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POLITICAL

Haitian Foreign Minister Asks U.N. for Help in Fighting Gangs

Haitian Foreign Minister Claude Joseph asked the U.N. Security Council for help in battling gang violence in the country.

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Joseph // Photo: United Nations.

POLITICAL NEWS

Chile Arrests Alleged Members of Migrant Smuggling Ring

Chilean authorities said Monday they had arrested nine alleged members of an international migrant-trafficking group that has smuggled more than 1,000 migrants out of the South American nation, many heading to the United States, the Associated Press reported. The group is also suspected of bringing people into Chile. The country's Investigative Police said that while detaining the suspects in northern Chile, they encountered 57 Colombian and Venezuelan migrants who had just arrived

The ring has smuggled more than 1,000 migrants out of Chile, authorities said.

from Peru, the AP reported. The migrant-trafficking ring is allegedly led by a Haitian man, as well as people from Peru, Paraguay, Venezuela and Chile, according to the police. All arrested members face charges of unlawful association and migrant smuggling, MercoPress reported. Authorities have found 267 Chilean children aged six or under, all of them offspring of Haitian migrants, on the irregular migration route to the United States via Costa Rica, Guatemala, Mexico, Nicaragua and Panama, the news agency reported. Some children were traveling alone. The investigation into the ring began in January 2020, with support from Interpol, amid a spike in reports of an abnormal outflow of Chilean children of Haitian migrants into Peru. Thousands of Haitians migrated to Chile following a devastating earthquake in 2010, and many found permanent jobs in the Andean nation. However, following the pandemic-led economic downturn and social rejection, many have turned to the United States instead, the AP reported. In recent weeks, the Biden administration's expulsion of thousands of Haitians

from the U.S. border town of Del Rio, Tex., many who have been out of their home country for a decade, has drawn strong criticism.

Haitian Foreign Minister Asks U.N. for Help Fighting Gangs

Haitian Foreign Minister Claude Joseph on Monday asked the United Nations Security Council for help in battling gang violence and crime, saying that the existing U.N. political mission needs to focus on strengthening security and law enforcement institutions in the crisis-ridden country, the Associated Press reported. "It's vital to take account of the new realities that the country is facing and that the mandate is adjusted accordingly," Joseph told the council. Haiti has been immersed in a political crisis following the July 7 assassination of President Jovenel Moïse, exacerbated by back-to-back natural disasters, with an earthquake and a hurricane killing more than 2,200 people and destroying tens of thousands of homes in August, the AP reported. Even before those events, gang violence had been on the rise, with kidnappings tripling last year, according to the United Nations. "The Haitian state has practically disappeared," Juan Gabriel Valdés, a former special representative and head of the U.N. mission in Haiti, told the Advisor in a Q&A published May 5, when Moïse was still in power. "The increase in poverty and urbanization in neighborhoods of Port-au-Prince has multiplied an evil that Haiti has carried for a long time: the existence of armed gangs that live off the kidnapping of people," Valdés said, adding that "police lack sufficient preparation" and "support from the government has not been clear." With Moïse's death, gangs have become even more powerful, at times disrupting the delivery of humanitarian aid for victims of the August earthquake. The United Nations said violence has forced 19,000 Haitians from their homes in recent months, pushing them into makeshift shelters in unsanitary conditions, the AP reported. "The insecurity challenges in Haiti are incredibly nuanced and multifaceted," Haiti's ambassador to the United States,

NEWS BRIEFS

Venezuela's Oil Exports Drop to Lowest Level in Nearly a Year

Venezuela's oil exports dropped to their lowest level in almost a year in September due to a shortage of diluents that has hit production in the country's main oil-producing region, the Orinoco Belt, Reuters reported Monday, citing documents and tanker tracking data. Exports reached 414,000 barrels per day last month, a 34 percent decrease from August and the lowest level since October 2020. Venezuela's extra-heavy crude needs to be mixed with diluents to reach exportable grades.

Brazil's Petrobras Pays \$853 Million to U.S. Authorities

Brazilian state oil company Petrobras said Monday that it had paid \$853.2 million to the U.S. Department of Justice and the Securities Exchange Commission as part of a 2018 deal with U.S. authorities, Reuters reported. With the payment, the Justice Department's monitoring of the company will end. The monitoring had begun following a corruption probe in connection to Petrobras as part of the massive Car Wash graft investigation in Brazil, which implicated high-level politicians as well as businesspeople, including several former Petrobras executives.

Costa Rica's Banco Nacional to Finance Coffee Productivity Program

Costa Rica's Banco Nacional is allocating four billion colones (\$6.3 million) for a coffee-sector productivity program, El Mundo reported Monday. The program will seek to boost production in the Central American country's coffee sector through replacing old plantings with more productive varieties of coffee plants that are also more resistant to disease, the newspaper reported.

Bocchit Edmond, told the Advisor in the same Q&A. He added that Moïse's government had increased the budget for the National Police and implemented "an aggressive strategy to dismantle gangs."

ECONOMIC NEWS

Mexican Central Bank Likely to Continue Hikes

Mexico's central bank is likely to continue its tightening cycle, with one or two increases in its benchmark interest rate likely this year, Bank of Mexico Deputy Governor Jonathan Heath told Reuters Monday in an interview. "This is my personal opinion, that the cycle of hikes is not over yet, that perhaps we're not too far from the end. Of course, this will depend much on the evolution of many different indicators," Heath told the wire service. Last Thursday, the central bank increased its benchmark interest rate by a quarter percentage point to 4.75 percent. Four of the central bank's five board members, including Heath, voted for the hike. "Although the shocks that have increased inflation are expected to be transitory, due to their variety, magnitude, and the extended horizon over which they have affected it, they may pose risks to the price formation process and to inflation expectations," the central bank said in a statement accompanying the rate increase, Bloomberg News reported. The Bank of Mexico, or Banxico, has increased its key rate by 25 basis points at all three of its most recent policy meetings, Reuters reported. The moves to tighten monetary policy should help contain inflation, Heath told Reuters. Consumer prices in Mexico rose 0.42 percent in the first half of September to an annual rate of 5.87 percent. That was above the annual rate of 5.59 percent recorded in August and above the central bank's 3 percent target, plus or minus one percentage point. For the full month of September, annual headline inflation was likely to be "very near" 6 percent, said Heath.

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which ended the first half of 2021 with a 12 percent increase. These aspects, along with the dynamism of the construction of public and private works, will underpin the GDP growth forecast for the end of 2021 and 2022. The decrease in stimulus packages will harm a part of the population, but as economic activity normalizes, employment will increase. Paraguay has maintained a great discipline of fiscal, exchange and monetary policies for almost three decades, which has been fundamental for economic growth. This will make it possible to absorb a large part of the deficiencies resulting from the discontinuation of economic aid maintained last year during the pandemic."

of 2022. The increase in prices of the basic food basket affects the family economy, limiting expenditures in the face of fixed family

 **The current profile of monetary policy is to remain highly expansive."**

— Flora Rojas

income, which is why Paraguay needs public policies focused on generating the economic conditions necessary for the stability of households."

A **Flora Rojas, general director of CEMAF in Paraguay:** "Paraguay is going through an extreme drought and decline in its rivers' water levels, which translates to low navigability of the rivers, in addition to the forest and grassland fires that affect agriculture, livestock and foreign trade. Additionally, fuel prices increased, and it should be noted that Paraguay is not an oil producer but rather an importer of the commodity. The family basket registered variations between the second and third weeks of July, and of the 60 prices evaluated, 33 had increases of 21 percent on average. The Central Bank of Paraguay unanimously decided to increase the monetary policy interest rate by 25 basis points to 1 percent, which is the first modification of this rate after more than a year. The central bank considered it appropriate to initiate a gradual process of normalization of monetary policy to guarantee compliance with the inflation target in the medium term. The current profile of monetary policy is to remain highly expansive in order to continue supporting economic recovery. Year-on-year inflation was 5.2 percent in July, exceeding the central bank's target of 4 percent, which induced the bank to adjust monetary conditions in a timely and decisive manner in order to guarantee convergence at the end

A **Sebastián Acha, president of the World Compliance Organization and executive director of PRO Desarrollo Paraguay:**

"The great challenge of economic policy in Paraguay is the formalization of the economy. In accordance with the policies that the government adopted during the pandemic, two-thirds of the subsidies went to people in the informal labor market. This demonstrated the tremendous shortcomings in the formalization of the labor market, which harms the country, as well as the great quantity of workers who, due to the pandemic, have started to substitute their permanent jobs for occasional work activities. The measures of the central bank directly reach only 28 percent of the population that is financially included. Thus, the vast majority do not have a stimulus that registers on the tax rolls or in the payroll of formal workers. The asymmetry is also observable between public officials (who, for the most part, did not have salary cuts during the pandemic) and private sector workers, who find themselves in the group of formal jobs that received meager state pay while complying with all the regulations. The results are visible. The year is expected to close with the highest inflation rate in the last 10 years, which puts growth projections for 2022 at

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risk. The only viable action is to generate an aggressive stimulus to formalize the economy by reducing the bureaucratic costs of formalization and guaranteeing microcredits for the low-income faction that today is part of the informal labor market."

A **Leticia Carosini, faculty member in the Faculty of Economic Sciences at the Universidad Nacional de Asunción:** "The

Paraguayan central bank has considered it appropriate to continue with the monetary policy normalization process to guarantee the achievement of its medium-term goals. However, the existing uncertainty of these last months of 2021 means that the monetary authority will have to review its normalization process to guarantee the so-called convergence to 2022. Paraguay is affected by the policies adopted by Argentina and Brazil, with which it maintains trade relations within Mercosur. Thus, even when Paraguay makes an effort to maintain a certain stability and tries to adopt measures to reactivate the economy, these external factors or shocks that it may receive from neighboring countries would have to be anticipated in order to adopt the corresponding measures. Monetary policy measures, such as those related to interest rates, continue to be expansive. Paraguay's economy con-

tinues its reactivation process hand-in-hand with economic sectors such as livestock, services and manufacturing, and mainly due to the positive expectations generated by the planned advance of immunizations and the reduction of Covid-19 infections, which



Paraguay's economy continues its reactivation process..."

— Leticia Carosini

have stimulated greater mobility of the population. Paraguayans' solidarity and stoic spirit have made it possible for the country to react more quickly than the government did in 2020, not only with measures for community meals, but also with initiatives of solidarity support to people affected by the virus. Nevertheless, continuing this situation for another year has not only affected the credibility of public policy measures, including monetary policy, but there has also been an increase in criminal activity, and the government is in turn facing accusations and criticism of its actions."

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

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Advisor Video

Nearshoring in Latin America

A Latin America Advisor interview with Tara Hariharan, director of global macro research at NWI Management

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