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FEATURED Q&A

Will Ecuador Soon See Major Labor Reforms?



Ecuadorian President Guillermo Lasso last month proposed a series of labor reforms to the National Assembly. // File Photo: Ecuadorean Government.

Q Ecuadorian President Guillermo Lasso proposed a tax reform and new labor regulations to the country's National Assembly on Sept. 24 as part of an expansive economic growth plan. Lasso has called the proposals, which target approximately \$700 million in new revenue, "urgent." However, his party lacks a majority in the legislature, which would have to approve the reforms in order for them to become law. What are the most significant elements of Lasso's reform package? How would the new labor regulations affect unemployment and labor conditions in light of the Covid-19 pandemic? Are lawmakers likely to approve the reforms, and what is at stake both economically and politically if they don't?

A Nancy Medina Carranco, dean of the School of Economic Sciences at Universidad Central del Ecuador: "President Lasso presented the so-called 'law for the creation of opportunities' to the National Assembly, which returned it because it was considered harmful to the rights of Ecuadoreans. This law basically includes two topics: taxes on the wealthiest and labor reform, which are essential for solving problems such as the large external debt (\$63 billion, representing 63 percent of Ecuador's GDP), the fiscal deficit (\$7 billion) and very high unemployment figures (only three out of every 10 Ecuadoreans are formally employed). The president is also seeking to obtain taxes from the middle class. However, there is no political will to crack down on tax evasion. Doubling the current tax burden would result in the 100 largest companies paying an additional \$1.4 billion annually, meaning that in five years \$7 billion would be raised. As for the labor reform, it is

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POLITICAL

Blinken, López Obrador Discuss Cooperation on Security

U.S. Secretary of State Antony Blinken, Mexican President Andrés Manuel López Obrador and other top officials from both countries met to discuss a new security arrangement.

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ECONOMIC

Brazil's Annual Inflation Rate Hits Double Digits

Brazil's annual rate of inflation hit 10.25 percent, the first time since 2016 that the country's inflation has hit double digits.

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POLITICAL

Redrafting Constitution Not a Priority: Peruvian Prime Minister

Redrafting Peru's pro-market constitution is not currently a priority for the country's government, said new Prime Minister Mirtha Vásquez.

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Vásquez // File Photo: Peruvian Government.

POLITICAL NEWS

Blinken, López Obrador Discuss Security Cooperation

U.S. Secretary of State Antony Blinken and Mexican President Andrés Manuel López Obrador, along with other top officials of both nations, met Friday in Mexico City to discuss the countries' security partnership and ways to overhaul the 13-year-old Mérida Initiative. "It's time for a comprehensive approach to our security cooperation" that focuses on "not only strengthening law enforcement, but also public health, the rule of law, inclusive economic opportunities," Blinken said Friday, The Washington Post reported. Mexican Foreign Minister Marcelo Ebrard said the countries' new agreement, called the Bicentennial Framework, was more expansive than Mérida and would aim to lower Mexico's homicide rate, decrease drug abuse, fight weapons trafficking and seize chemicals used in the production of drugs such as fentanyl and methamphetamines. "The success of this accord will not be measured by the capture of one drug lord and a big news conference," said Ebrard. While Mérida has funneled billions of dollars in aid from the United States to Mexico, it has not succeeded in lowering the rate of homicides Mexico or drug trafficking that occurs there, The Washington Post reported. The U.S. State Department said last Thursday that it hoped to have a detailed plan for the new security partnership ready by January 2022, the Financial Times reported. Some experts have seen the mere existence of security talks between the two countries as a positive step. "The fact that we're talking again is enormously important," Pamela Starr, a professor at the University of Southern California, told the Financial Times. The relationship between the two countries grew more tense during the administration of former U.S. President Donald Trump and was significantly damaged last year when U.S. authorities detained former Mexican Defense Minister Salvador Cienfuegos on drug trafficking charges without notifying Mexico in advance. Mexico's government responded by

pushing for Cienfuegos' release, saying the allegations against him were without merit, and it passed a law that limits the activities of foreign agents in Mexico. The United States eventually dropped the charges against Cienfuegos. "Mexico and the United States must redefine their security priorities for a new binational strategy—one that respects sovereignty and responds to the actual causes of insecurity," Roberta Jacobson, a former U.S. ambassador to Mexico, told the Advisor in a Q&A published Aug. 17. Immigration through Mexico has also become a more difficult issue in U.S.-Mexico relations. The Biden administration's mass expulsion last month of Haitian immigrants from an encampment in the border town of Del Rio, Tex., led to widespread condemnation. Friday's high-level talks also came on the same day that Mexican officials said authorities had detained 652 migrants, including approximately 350 children, in three refrigerated double-trailer trucks near the U.S.-Mexico border, The Wall Street Journal reported. Mexican authorities detained four men who were allegedly in charge.

ECONOMIC NEWS

Brazil's Annual Inflation Rate Hits Double Digits

Brazil's main measure of inflation, the Extended National Consumer Price Index, or IPCA, in September rose 1.16 percent, the biggest change for a month of September since 1994 and the first time since 2016 that annual inflation passed the double-digit mark, rising to 10.25 percent, state statistics agency IBGE said Friday. September's increase in prices was driven to a large extent by intense inflation pressures on industrial and manufactured goods, as well as a major price shock for fuel. Brazil's worst drought in almost a century has put pressure on hydroelectric output, forcing producers to turn to more expensive sources of power. The price of electricity rose 6.47 percent in September from August, and it is up almost 30 percent as compared to the same month last year,

NEWS BRIEFS

Brazil's Covid-19 Death Toll Surpasses 601,000

The number of deaths in Brazil caused by Covid-19 has surpassed 601,000, state news outlet Agência Brasil reported Monday. The total number of people in Brazil infected with Covid-19 since the start of the pandemic has reached 21.5 million. About 59 percent of the country's population has been vaccinated, according to Reuters. Brazilian President Jair Bolsonaro, who has downplayed the severity of the pandemic, said on Monday that he did not want to be "bored" with questions about passing the milestone of 600,000 Covid-19 deaths.

Redrafting Constitution Not a Priority for Peru's Gov't: Prime Minister

New Peruvian Prime Minister Mirtha Vásquez last week said redrafting the country's pro-market constitution is not currently a priority for the government, despite it having been a key campaign promise of leftist President Pedro Castillo, Reuters reported Friday. A former head of Congress, Vásquez took office Wednesday to replace Guido Bellido, whose controversial statements had rattled investors. Castillo's election in July sparked fears about the potential for nationalizations of key industries.

Mexican Insurance Start-up Crabi Gets \$4 Million in Seed Funding

Mexico-based insurance start-up Crabi announced Friday that it had received \$4 million in seed money in an investment round led by Kaszek Ventures, Contxto reported. Crabi provides auto insurance and allows users to receive quotes and compare policies via the company's app. Crabi, which is headquartered in Guadalajara, could see expansion as only three out of every 10 vehicles in Mexico are insured, according to Mexico's Commission for the Protection of Financial Services Users.

The Wall Street Journal reported. The drought, along with unusual freezing temperatures in recent months, have also hit the country's massive agricultural sector hard. The price of meat has risen by almost 25 percent over the past year. The sharp rise in prices could have political implications for national elections on Oct. 2 next year, especially among poor voters who feel the negative effects of inflation the most, according to the report. While the September inflation data was lower than market analysts had expected, the likelihood that the central bank will be able to drive inflation to the 3.50 percent target in 2022 is low, Goldman Sachs economist Alberto Ramos told clients in a research note.

BUSINESS NEWS

Mexican Banks to See Mixed Effects From Rate Hikes: Fitch

Mexican financial institutions face an operating environment that remains challenging, and tighter monetary policy will lead to mixed results on banks' credit profiles, Fitch Ratings said Friday. Mexico's central bank on Sept. 30 raised its benchmark interest rate by 25 basis points to 4.75 percent, the third consecutive rate increase of that size since June. Fitch forecasts one more quarter-point hike this year. "Fitch expects the increasing interest rate trend, if accompanied by sustainable loan growth, will benefit Mexican banks' profitability and equity over the medium term, especially at the larger entities," Fitch said. The net interest margin of Mexican banks has historically increased amid gradually rising policy rates when they are accompanied by "reasonable loan growth," the ratings agency added. Mexican banks are heavily reliant on low-cost deposits, which make up 64 percent of the sector's interest-bearing liabilities, according to Fitch. During the last major tightening cycle, the sector's net interest margin rose 129 basis points to 6.9 percent at the end of 2018 as compared to 5.6 percent at the end of 2015.

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an attack on human rights. Workers would lose many things for which they have fought, such as the 40-hour work week. In addition, this law would cause the existence of two types of workers, some with more benefits than others. Ultimately, the government's action favors businesspeople, not the vast majority who are currently in a critical situation."

A **Diego Andrés Almeida, managing partner at Almeida Guzmán & Asociados:** "On Sept. 29, the National Assembly's Administrative Council (CAL) returned the draft law to the president. The decision was based on a report from the Legislative Technical Unit that indicates that the measure covers more than one specific matter, for which, in its opinion, it may be unconstitutional. The General Secretariat of Communication of the Presidency has said the best alternatives will be reviewed to establish actions that benefit Ecuadoreans. The proposed reforms aim to create jobs and promote economic growth through incentives for private investment. The main reforms proposed in the legislation include: 1.) an alternative labor regime for the creation of job opportunities; 2.) temporary contributions for the post-Covid-19 economic boost, which is ultimately a wealth tax; 3.) a temporary voluntary tax regime for the regularization of assets abroad; 4.) reforms to the Internal Tax Regime Law, which contains, among other benefits, the elimination of VAT and ICE on certain prod-

During that time, the Bank of Mexico raised its policy rate 500 basis points to 8.25 percent. Net interest margin in the sector was 6 percent in June, "reflecting lower loan growth and a lower interest rate cycle," Fitch said. Despite those benefits, Mexican banks' trading income might see negative immediate effects from higher interest rates, particularly in connection to income related to valuations of fixed-income securities portfolios, the ratings agency said. Trading income has historically represented

ucts and services, and the elimination of inheritance tax for children and spouses; and 5.) reforms to other laws in economic and productive matters. It seems clear that the bill in question is optimistic in its economic,

“ The proposed reforms aim to create jobs and promote economic growth through incentives for private investment.”

— Diego Andrés Almeida

fiscal and labor projections. The lack of a majority in the National Assembly will make it difficult for the president to carry out the legal reforms that the country needs. The problem is greater as, because of political interests, even parties of the traditional Ecuadorean right remain opposed to the Lasso administration."

A **Mónica Rojas, dean of the School of Economics at Universidad San Francisco de Quito:** "The draft Organic Law for the Creation of Opportunities, Economic Development and Fiscal Sustainability seeks among its objectives to increase tax revenues through a reform of current tax regulations, promote job creation by making the conditions for hiring and employment more flexible, and create a scheme parallel

Continued on page 4

a small share of Mexican banks' earnings, however, averaging 5 percent of total gross income, according to Fitch. Wider net interest margins "could more than compensate" for any such losses in the near term. Fitch added that higher interest rates could pose challenges for the profitability of nonbank financial institutions because of the extent to which they rely on wholesale funding and also need liquid resources for growth and to maintain their credit profiles, the ratings agency added.

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to the current one and attract investment in the mining, energy and hydrocarbons sectors through legal reforms. Each component is relevant in its field. The first would increase tax collection to reduce the deficit of more than 5 percent of GDP, the second would promote hiring labor by creating new hiring mechanisms, flexible hours and other benefits for new hires, and the third would attract national and international investment in strategic areas that require high levels of capital. It is estimated that in Ecuador less than 30 percent of the economically active population has a formal job. The bill proposes the creation of a regulation parallel to the one in force for new employment contracts, which have conditions that in some contexts are considered as setbacks to acquired labor rights. The tax reform seeks to increase collection by 1.5 percent of GDP in the next two years through the creation of special temporary contributions to companies that registered profits during the pandemic and on personal assets for those who register assets of more than \$500,000. It also proposes a modification to the income tax, increasing the percentages

to be paid for those individuals who register income of more than \$2,000 per month. The greatest impact of the reform is the change in the income tax scheme. With the decision

“The greatest impact of the reform is the change in the income tax scheme.”

— Mónica Rojas

of the CAL to return the proposed draft, the president has some alternatives. He could review the legislation, divide it by subject and send it again as two or three independent bills, take the subjects to a plebiscite or even dissolve the National Assembly. This is a brake on the government's objectives of boosting the economy by making the labor market more flexible.”

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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