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FEATURED Q&A

What Challenges Is Brazil's Economy Facing in 2022?



Next year's presidential election in Brazil will have an impact on the country's economy, commentators say below. Incumbent President Jair Bolsonaro is facing a tough challenge from former President Luiz Inácio Lula da Silva (pictured). // File Photo: lula.com.br.

Q Brazil's economy contracted slightly in the third quarter, dipping into recession, according to state statistics agency IBGE. The first weeks of December have brought another set of disappointing economic indicators in Brazil. Manufacturing and industrial activity declined in October, contracting in nine of the first 10 months of this year. Meanwhile, core retail sales declined in October, adding to retail sales contractions in August and September. What factors have led to Brazil's lower-than-expected economic performance this year? What are the key drivers for the country's economic outlook in 2022? What steps can policymakers in Brazil take to steer the economy toward better results?

A Eduardo Monte Jorge Hey Martins, consultant at BMJ Consultores Associados: "The contraction in the Brazilian economy was mainly due to three factors. First is the extended effects of the Covid-19 pandemic due to the late start of vaccination and the more flexible lockdown and distancing measures. Second, the world's supply chain crisis has affected international prices, making inputs for industrial production more expensive and pressuring national prices. This also affected retail sales, as families had a stricter budget. The last point concerns the withdrawal of economic stimuli, which could not reduce inflation and had a contractionary effect on economic activity. For 2022, a lower growth rate and high inflation are still expected. Higher inflation will pressure the government to take stricter measures to control it. This will directly affect the stimuli for economic activity and reduce growth. However, 2022 is an election year in Brazil,

Continued on page 3

TODAY'S NEWS

POLITICAL

Brazilian Police Search Home of Opposition Leader

Federal authorities searched the home of **Ciro Gomes**, an opposition politician who is expected to make his fourth run for the presidency in next October's election, over corruption related to embezzling state funds.

Page 2

BUSINESS

MMG Shuts Peru Copper Mine Over Local Protests

Residents from several regions have set up roadblocks to the Las Bambas mine, alleging the dust raised by MMG's trucks pollutes their crops and affects their livelihoods.

Page 3

POLITICAL

El Salvador Strips Immunity From Opposition Figure

El Salvador's congress voted to strip opposition politician **Norman Quijano** of legislative immunity over accusations that he made deals with the country's criminal street gangs.

Page 2



Quijano // File Photo: Government of El Salvador.

POLITICAL NEWS

Brazilian Police Search Home of Opposition Leader

Federal Police in Brazil on Wednesday searched the home of **Ciro Gomes**, an opposition politician who is expected to make his fourth run for the presidency in next October's election, the Associated Press reported. The search was part of an investigation into corruption related to embezzling funds slated for building a 2014 World Cup soccer stadium in northeastern city Fortaleza, according to the report. Gomes, 63, who has been a vocal critic of far-right President **Jair Bolsonaro**, denies any wrongdoing and cites political persecution for the case. Gomes' brother **Cid**, currently a senator, is also under investigation and was governor of Ceará when the alleged crimes occurred. An IPEC poll for the presidential elec-



Gomes // File Photo: Brazilian Government.

tions released Tuesday shows Gomes receiving only 5 percent of potential votes, Bloomberg News reported. Former president **Luiz Inácio Lula da Silva** has expanded his lead in the poll, with 48 percent of voter intentions in the first round, as compared to 21 percent for current President **Bolsonaro**, previously an independent who last month agreed to be the candidate for the centrist Liberal Party. No other potential candidate in the poll had more than 6 percent support. The survey was carried out between Dec. 9-13 and interviewed 2,002 people in 144 Brazilian cities. The margin of error is 2 points plus or minus, and the confidence level is 95 percent. [Editor's note: See related [Q&A](#) in the Dec. 2 issue of the Advisor.]

El Salvador Congress Votes to Strip Law-Maker of Immunity

El Salvador's congress voted Wednesday to strip opposition politician **Norman Quijano** of legislative immunity over accusations that he made deals with the country's criminal street gangs, the Associated Press reported. Sixty-six of the Legislative Assembly's 84 lawmakers voted to support the attorney general's petition to open Quijano to prosecution, while 12 lawmakers from his conservative party left the chamber before the vote, according to the report. The allegations stem from the 2014 presidential campaign in which Quijano was the candidate of the conservative ARENA party. Prosecutors say the former San Salvador mayor paid the country's street gangs to support his presidential campaign, which he ended up losing to **Salvador Sánchez Cerén** of the leftist **Farabundo Martí National Liberation Front**. On Wednesday, President **Nayib Bukele** criticized Quijano for living in Honduras, suggesting he was trying to evade judicial proceedings, and today he tweeted the front page of *Diario El Salvador*, a tabloid format newspaper, that made the legislature's vote on Quijano its front-page story. Meanwhile, the U.S. Treasury Department this month accused officials from Bukele's administration of engaging in negotiations with the gangs, which Bukele denies. In a Dec. 8 statement, the Treasury alleged that Bukele's government provided "financial incentives" to the MS-13 and 18th Street gangs in exchange for their help in keeping murder rates down and for their political support to Bukele's **Nuevas Ideas** party. "In addition to Salvadoran government financial allocations in 2020, the gangs also received privileges for gang leadership incarcerated in Salvadoran prisons, such as the provision of mobile phones and prostitutes," the Treasury said. In July, Bukele vowed to double the country's number of military personnel in the next five years to 40,000 troops in a bid to regain control of territories that gangs have dominated for decades. [Editor's note: See related [Q&A](#) in the Aug. 19 issue of the Advisor.]

NEWS BRIEFS

South Korea's Posco Plans \$830 Million Investment in Argentina Lithium Plant

South Korean steelmaker **Posco Group** said today that it plans to invest in a project to commercialize lithium hydroxide production in Argentina, *The Korea Herald* reported. A total of 950 billion won (\$830 million) has been slated to build and operate the lithium hydroxide plant near the **Salar del Hombre Muerto** salt lake in northern Argentina. Construction will begin next year. Once completed in 2024, the plant will be able to produce an annual average of 25,000 tons of lithium, equivalent to the amount used in some 600,000 electric cars.

Jamaican Central Bank Warns of Rising Inflation

The Governor of the Bank of Jamaica, **Richard Byles**, on Wednesday told lawmakers that inflation had become the worst enemy of Jamaican businesses and declared the bank's commitment to lower it, the *Jamaica Gleaner* reported. Between August and October, consumer prices rose above the upper limit of the bank's four to six percent target range, Byles said. He cited the large increases in international commodity and shipping prices as the main reason for the high inflation rate.

Ebanx to Acquire Remessa Online for \$230 Million

Brazil-based fintech **Ebanx** said Wednesday it had agreed to buy money transfer firm **Remessa Online** for 1.2 billion reais (\$230 million), *Folha de S.Paulo* reported. **Remessa Online** says it uses blockchain technology to connect to payment providers around the world. Earlier this year, Ebanx raised \$430 million from private equity firm **Advent International**, Bloomberg News reported. The privately held company, which was valued at more than \$1 billion in 2019, is planning an initial public offering in the coming months.

ECONOMIC NEWS

Mexican Finance Minister Visits Peru

Mexico's finance minister, Rogelio Ramírez de la O, discussed proposals to support the Peruvian economy in a meeting with Peruvian President Pedro Castillo and his cabinet on Tuesday during a visit to the Andean country coordinated by Mexican President Andrés Manuel López Obrador, Reuters reported. In a statement, the Mexican finance ministry said that the countries are working to find ways to strengthen bilateral trade. López Obrador has expressed support for Castillo following recent congressional efforts to impeach him.

BUSINESS NEWS

MMG Halts Copper Production at Peru Mine Over Roadblock

Australia-based miner MMG said today it would shut down production at its Las Bambas copper mine in Peru due to a dispute with a local community that has been blocking a public road to the mine, Reuters reported. "The Company advises that the ongoing dialogue with the Chumbivilcas communities has continued to be unsuccessful with no resolution reached to remove the roadblocks, resulting in the mine running out of critical consumables," MMG said in a statement. Residents from several regions who live along the road to the mine allege the dust raised by the trucks pollutes their crops and affects their livelihoods, according to the report. They have been asking the mine for jobs and economic contributions. Prime Minister Mirtha Vásquez told reporters on Wednesday that "these dialogues sometimes can include delays," but she added that "we cannot sustain this situation for much longer." Shares in the Hong Kong-MMG were down 7 percent on the news, according to Reuters.

FEATURED Q&A / Continued from page 1

and the country will probably have higher government investments in infrastructure while controversial measures are less likely to take place, reducing the oscillation in the market caused by politics. It is worth noting that policymakers are focusing their efforts on controlling inflation with higher interest rates and reducing demand, but the main driver of inflation is coming from higher input prices. It is important to assess the effects generated by measures taken in 2021. Stimulating economic activity and taking actions against the supply chain crisis must be discussed next year."

A Felipe Camargo, senior Latin America economist at Oxford Economics: "The reasons for the slowdown can be summarized in weak supply-side pre-existing conditions, economic policy and political uncertainty. Prior to the Covid-19 outbreak, Brazil was already on a weak growth path, about 1.75 percent quarter-on-quarter in annualized terms. This has much to do with a deterioration in supply-side fundamentals during the last decade, mostly productivity. Expansionary policy in 2020 helped the economy to regain its pre-pandemic output levels. Now that policy ammunition is over, growth is back to its previous ceiling. Also, in 2021 the country went through a major policy shift. The central bank has just decided to close the policy rate 7.25 percentage points above its starting level in January this year. This, along with a likely primary fiscal surplus after last year's deficit of 10 percent of GDP, is an unprecedented policy tightening that could easily explain the sudden halt in domestic demand. Lastly, Brazil is headed for a very polarizing presidential race next year. With the opposition currently leading opinion polls, we cannot rule out the chance of a big shift in the economic agenda. This means uncertainty, which curbs business sentiment and takes its toll on consumption, investment and therefore growth. To tackle this supply-side ceiling to growth, policy-

makers have to shift the focus back to the reform agenda. Reforms to simplify the tax system or increase openness to trade are key. Yet those can only have their full impact in a much longer horizon, meaning that there's very little left to do to improve the 2022 outlook. The main engine for growth in 2022 is still the reopening of services, and the economy can still benefit from a solid vaccination rollout this year."

A Samar Maziad, vice president and senior analyst in the sovereign risk group of Moody's Investors Service: "According to government statistics, Brazil's economy contracted by 0.1 percent in the third quarter of 2021. This followed a contraction of 0.4 percent in the second quarter. Two consecutive quarterly contractions signal that the economic recovery from the pandemic shock is losing steam. This adds to the risk that activity may remain subdued ahead of next year's election. We now expect real GDP growth around 4.8 percent in 2021 and 0.6 percent in 2022, which is much lower than

“The main driver for the weakening activity is the contraction of the agriculture sector...”
— Samar Maziad

our earlier forecast for growth next year. The main driver for the weakening activity is the contraction of the agriculture sector by 8 percent on a quarterly basis, with coffee, cotton and corn leading the decline. However, the services sector grew by 1.1 percent as the pace of vaccination accelerated over the past few months. Household consumption and government consumption grew 0.9 percent and 0.8 percent respectively in the same period. We expect household and government consumption to be the main drivers

Continued on page 4

FEATURED Q&A / Continued from page 3

for growth next year. However, we see some downside risks related to persistent high inflation and monetary policy tightening. Weakening growth performance also presents downside risks to fiscal outcomes next year. Revenue performance has been strong in 2021, supporting a significant reduction in Brazil's fiscal deficit from 13 percent in 2020 to 6 percent of GDP this year. We expect Brazil's debt burden to remain around 85 percent of GDP in 2022 after peaking at almost 89 percent of GDP in 2020. We expect the fiscal deficit to remain around the same level in 2022, despite planned expansion of social programs. However, weaker growth and still-high inflation add downside risk to revenue collection, which may weaken fiscal performance. Maintaining the pace of fiscal consolidation in line with Brazil's spending ceiling will remain key to supporting the sovereign's credit profile."

A **Manuel Orozco, director for sovereign and international public finance ratings at S&P Global:** "We recently affirmed our BB-/stable ratings on Brazil based on moderate economic growth expectation and a prolonged fiscal consolidation. Brazil's economy already bounced backed to pre-pandemic levels in 2021, thanks to extensive countercyclical economic policy, favorable external conditions and higher than expected economic resiliency.

We expect Brazil to grow at 4.8 percent in 2021. The combination of ongoing and fast monetary tightening by the central bank due to surging inflation, upcoming national elections and investor concerns about long-term fiscal policy will constrain consumption and investment in 2022, resulting in GDP growth below 1 percent. Brazil's growth over 2023-2024 at around 2 percent reflects the government's efforts to bolster policy predictability (such as granting legal independence to the central bank) and recent measures to encourage more investment in the gas, energy and sanitation sectors, as well as implementation of an ambitious program to reduce the government's stake in electricity utility companies and to advance with privatization and concessions. Higher growth over the long term to levels more comparable with peers with the same level of economic development will depend on Brazil's institutional capacity to tackle fiscal spending rigidity to allow a faster fiscal consolidation and to increase public investment, while also continuing to incentivize greater private sector participation through structural reforms aiming to lower the so-called 'Brazil cost,' a mix of burdensome red tape (including a complex tax code), rule of law and corruption."

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



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THE DIALOGUE

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Toward Pandemic Recovery in Latin America and the Caribbean—Exploring New Dimensions of Japan-US-LAC Interregional Cooperation

8:00 – 9:30 AM ET
Thursday, December 16
Online via Zoom

Moderator

Margaret Myers
Director, Asia and Latin America Program
Inter-American Dialogue

Panelists

Peter Natiello
Acting Assistant Administrator for Latin America and the Caribbean
USAID

Sachiko Imoto

Senior Vice President
Japan International Cooperation Agency

Angelo Guerra

Chief Executive Officer
NEC Brasil

Keiji Inoue

Senior Economic Affairs Officer, International Trade and Integration Division
ECLAC

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Leticia Chacón

Reporter
lchacon@thedialogue.org

Mark Kennedy

Reporter
mkennedy@thedialogue.org

THE DIALOGUE

Michael Shifter, President

Rebecca Bill Chavez, Nonresident Senior Fellow

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