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FEATURED Q&A

Will Castro Be Able to Tame Honduras' Strained Politics?



Xiomara Castro is to take office today as Honduras' first female president. Competing factions in her ruling Libre party have sought to install rival leaders of Congress. // File Photo: XiomaraCastroZ via Twitter.

Q Xiomara Castro is set to be inaugurated today as Honduras' first female president, breaking 12 consecutive years of National Party rule. However, a dispute in the country's Congress has threatened to overshadow Castro's inauguration, as rival factions of her ruling Libre party have sought to install different leaders for the legislature. What are Castro's biggest objectives for her presidency, and to what extent will her administration be able to achieve them? How will Honduras' shift to the left affect its relations with other countries, such as the United States, China and Mexico? What are the biggest challenges that Castro will have to overcome when she takes office?

A Emily Mendrala, deputy assistant secretary for Western Hemisphere affairs at the U.S. Department of State: "The United States expects strong, mutually beneficial bilateral relations under the Castro administration. The U.S. government is committed to partnering with leaders willing to uphold democratic institutions, combat corruption and protect human rights. Hondurans demonstrated their commitment to peaceful democratic processes in November. The selection of the new provisional leadership at the Honduran National Congress is a sovereign decision. We urge all parties to exercise restraint and resolve differences through peaceful exchange, for the good of all Hondurans. President-elect Castro's stated commitment to combating corruption, including calls for an anticorruption commission with international support, signals a chance for stronger collaboration with the United States and other democratic partner nations to fortify democratic

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TODAY'S NEWS

POLITICAL

Signature Drive to Oust Venezuela's Maduro Falls Flat

A petition drive that could have resulted in a referendum to recall Venezuelan President Nicolás Maduro saw low turnout.

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ECONOMIC

Chile's Central Bank Hikes Key Rate by 150 Basis Points

Policymakers' increase in the benchmark rate, to 5.5 percent, was the biggest such move in two decades.

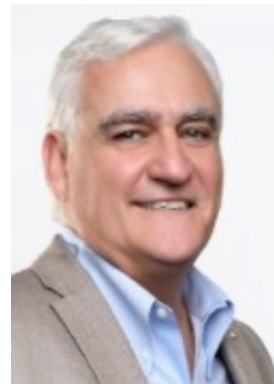
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BUSINESS

Arcos Dorados Reports 24% Growth in Comparable Sales

Arcos Dorados, the world's largest independent McDonald's franchisee, reported 24.2 percent growth in comparable sales on a two-year basis for the fourth quarter. CEO Marcelo Rabach said the company saw positive sales and profitability trends.

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Rabach // File Photo: LinkedIn.

POLITICAL NEWS

Signature Drive to Oust Venezuela's Maduro Falls Flat

A petition drive that could have resulted in a recall referendum against President Nicolás Maduro saw a low turnout on Wednesday as an electoral board friendly to Maduro's government imposed tight restrictions on the gathering of signatures, the Associated Press reported. The National Electoral Council said at least 4.2 million people would have had to sign petitions at voting centers during a 12-hour window on Wednesday for a recall referendum to proceed. That would have required multiple signatures per minute, and there was no sign of turnout anywhere near that level, the AP reported. "The recall referendum is absolutely blocked," Luis Lander, director of the independent Venezuelan Electoral Observatory, said this week, the wire service reported. "The conditions make it absolutely and totally impossible." Venezuela's constitution allows voters to sign petitions for a recall referendum halfway through a presidential term. The electoral council opened 1,200 petition centers on Wednesday, Bloomberg News reported. Last Friday, the council announced when the petition centers would be open to collect signatures, but the close date for the signature drive meant that Maduro opponents had little time to organize beforehand, critics said. "I knew about the process, but I didn't know it was today," physician Gémini Pino, who passed by a signature center, told the AP. "If I see where the places are, I will sign. But I have participated in so many [similar efforts] that I don't know if anything will be achieved today." The electoral council said it would announce the results of the petitioning on Feb. 13 following an audit of signatures, Bloomberg News reported. The next chance voters would have to remove Maduro from office would be the country's presidential election in 2024. Maduro was last re-elected in 2018 in a vote critics denounced as fraudulent. Venezuela's economy just recently emerged from a period of hyperinflation. [Editor's note:

See related [Q&A](#) on Venezuela's economy in Wednesday's Advisor.]

ECONOMIC NEWS

Mexico's Remittances Expected to Surpass \$50 Bn for First Time

Mexico's annual amount of remittances is expected to surpass \$50 billion this year for the first time, the Associated Press reported Wednesday. The amount would exceed nearly all other sources of the country's foreign income, the wire service reported. As a percentage of Mexico's gross domestic product, remittances have nearly doubled over the past decade, from 2 percent of GDP to 3.8 percent of GDP in 2020, according to government statistics. In that 10-year period, the percentage of households receiving the money transfers from Mexicans living abroad reportedly rose from 3.6 percent to 5.1 percent. For January through November of last year, Mexico's remittances grew by nearly 27 percent, according to official statistics. The country is now the world's third-largest recipient of remittances after India and China. Mexico now accounts for approximately 6.1 percent of the remittances sent worldwide, according to a government study, the AP reported. The strength of the U.S. economic recovery from the Covid-19 pandemic is likely to continue supporting remittance flows from the United States to Mexico, Tara Hariharan, director of global macro research at NWI Management, told the Dialogue's biweekly Financial Services Advisor in a [Q&A](#) published Aug. 25. "Remittances should be cushioned by rising numbers of Mexicans who are long-term U.S. residents and are increasingly obtaining U.S. citizenship and access to social security," said Hariharan. If Mexican officials want to address the country's "high reliance on remittances," they should seek to implement "structural reforms that would be broadly positive for domestic growth, productivity and competitiveness, such as bolstering Mexico's infrastructure, improving governance, easing

NEWS BRIEFS

Chile's Central Bank Approves Largest Rate Hike in 20 Years

Chile's central bank on Wednesday hiked its benchmark interest rate by 150 basis points to 5.5 percent, its largest increase in 20 years, Reuters reported. The bank's board members voted unanimously for the aggressive increase in an effort to curb inflation. Consumer prices jumped 7.2 percent last year, far above the central bank's target of 2 percent to 4 percent. Policymakers said the "evolution of inflation continues to face significant risks," Reuters reported.

Singapore Signs Free Trade Agreement With Pacific Alliance

Singapore signed a free trade agreement with the Pacific Alliance, which is made up by Chile, Colombia, Mexico and Peru, in an effort to facilitate both trade and closer relations with Asia, Alliance governments said Wednesday, Reuters reported. The agreement seeks to aid in cooperation in the energy, digital, infrastructure and food industries, the wire service reported, citing a statement from the Colombian government.

Brazil's Outstanding Public Debt May Rise 14% This Year

The Brazilian outstanding public debt is projected to increase as much as 14 percent this year as compared to last year's level of 5.61 trillion reais (\$1.03 trillion), Reuters reported Wednesday, citing a forecast by the Brazilian Treasury. The public debt is expected to rise to a range between 6 trillion and 6.4 trillion reais. Brazilian policymakers have been increasing borrowing costs, making bonds more attractive to investors. The Treasury is also seeking to sell more floating rate debt, Reuters reported.

the cost of doing business and promoting education," she added.

BUSINESS NEWS

Arcos Dorados Reports 24% Growth in Comparable Sales

Arcos Dorados, the world's largest independent McDonald's franchisee on Wednesday reported a 24.2 percent increase on a two-year basis in the fourth quarter. The sales figures exclude Venezuela. "We are very pleased with our performance in 2021 and are particularly encouraged by the positive trends in both sales and profitability during the second semester of the year," Marcelo Rabach, the company's chief executive officer, said in a statement. The Montevideo-based company's earnings before interest, taxes, depreciation and amortization, or EBITDA, in the fourth quarter surpassed its previous quarterly record, set in 2019, Rabach added. "We begin the 2022 to 2024 growth cycle excited about the direction of the business," said Rabach. "We plan to open the highest-ever three-year total of free-standing locations, re-accelerate restaurant modernizations and further expand our digital leadership," he added. Arcos Dorados said it plans to open at least 55 new restaurants this year and 200 or more new locations by 2024. The company added that it expects approximately 60 percent of its gross restaurant openings during that period to be in Brazil. The next-largest number of openings are planned for Chile, Panama and Costa Rica, the company said. Arcos Dorados added that it is planning to modernize some 400 restaurants by 2024. This year, the company is anticipating total capital expenditures between \$180 million and \$200 million, which it said will be fully funded with cash on hand and generated from operations. Total capital expenditures through 2024 are expected to total some \$650 million. The spending will focus on openings, modernizations, maintenance and digital capabilities, Arcos Dorados said.

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institutions and strengthen the rule of law. On the economic front, the new Castro administration's emphasis on improving governance could enable greater investment and job growth, allowing Hondurans to benefit from the U.S. government's Call to Action for private investment in northern Central America, which in 2021 lined up \$1.2 billion in new investments for Honduras and its neighbors. Under this framework, for example, Nespresso has committed to sourcing beans from Honduras for the first time, and Microsoft is bringing broadband Internet access to rural communities. As Castro faces calls for improved security, we will continue joint initiatives to reduce violence. We remain committed to assisting Honduras as it fights the pandemic, building on efforts that have included the donation of nearly 3.9 million Covid-19 vaccine doses to date."

A **Juan Carlos Sikaffy, president of the Honduran Council of Private Enterprise (COHEP):** "Every new beginning is a new opportunity, and as such we see this new mandate of President-elect Castro. We will have our first female president, who also ends an era of governments led by either one of the two traditional parties: the National and Liberal parties. Along with these changes, we also must address the many challenges from past administrations, a pandemic and natural disasters that we have inherited. The new Castro administration must focus on solving problems such as rule of law, reducing the processes needed to establish business and transforming them to online processes, strengthening public institutions, reducing times and costs for imports and exports, capacity building for our people, improving the health and education systems, improving the energy sector, as well as the national budget and reducing national debt. These are not all easy tasks, and the government cannot address them alone. It needs the participation and compromise of everyone, including the private sector, as well as civil society

and academia, who must work together to make sustainable solutions to the challenges. But the events that took place last Sunday, which resulted in the appointment of two parallel heads of Congress and the expulsion of 18 wayward deputies from the new ruling party, generated a division in the Libre party. This concerns us businessmen. We have called for dialogue between the parties, which is what we need to achieve an efficient government that provides us with a climate of peace and stability in all senses. We ultimately need job generation, more opportunities, more transparency and more development."

A **Christine Wade, professor of political science and international studies at Washington College in Chestertown, Md.:**

"Xiomara Castro's resounding victory was perhaps the most positive political development out of Honduras, maybe even Central America, in quite some time. With a mandate to root out corruption, fight drug trafficking, stop the employment and economic development zones (ZEDEs) and provide some measure of social justice to Honduras' poor and marginalized communities, her agenda is very ambitious. Castro's ability to make significant progress on corruption and drug trafficking was always going to be her main challenge. Criminal networks are so deeply rooted in state institutions that dismantling them will take years and significant international support. This is one area where properly directed U.S. assistance could have a big impact. Whatever honeymoon Castro might have expected was cut short last weekend when 20 Libre legislators voted with the National Party in circumvention of Libre's agreement with the PSH party regarding congressional leadership. As a result of two parallel elections, there are now two individuals claiming to be president of the Honduran Congress. Even before her inauguration, splits within her party and the machinations of the National Party and its

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backers threaten not only Castro's agenda, but the stability of the political system as well. Moreover, Castro is now faced with a faction of her own party that cannot be relied on to vote the party line, threatening any prospects of a simple majority in Congress—and her agenda. This crisis exposes just how critical dismantling corrupt criminal and political patronage networks is for the future of Honduras."

A **Hugo Llorens, former U.S. ambassador to Honduras:** "Xiomara Castro's landslide electoral triumph is a historic achievement by any measure. First, she is the first woman to be elected as head of state in a nation where political power has traditionally been the reserve of men. Second, her victory smashed the once-unassailable lock on power of the National and Liberal parties. President-elect Castro leads a Libre party that is an amalgam of the old progressive wing of the Liberals and adds a mass of disaffected youth of all classes clamoring for bold change. Castro is ideologically progressive and has a strong popular mandate to pursue deep reform. At the same time, Hondurans want virtuous leaders committed to common-sense approaches to tackle crime, improve health and education, advocate for social equity and create an investment climate to provide them decent jobs and wages. These high expectations will not be easy to fulfill. Powerful status quo political, economic and criminal interests will be arrayed against her to maintain the existing corrupt system. Thus, Castro needs strong international support if she has a chance to deliver, and so far, she has prudently shown a willingness to work closely with traditional democratic allies in the United States and the European Union. As the United States engages, it must be willing to listen, not preach, and mobilize a level of government and private resources that can genuinely make a difference. To deliver success, Castro must herself avoid sterile ideological traps and leverage her mandate and moral

authority to unite the Honduran people in a common cause."

A **Lucas Perelló, visiting instructor of international studies at Marymount Manhattan College:**

"President-elect Castro has an ambitious plan for her four-year term—none other than to 're-found' a country that the National Party looted for more than a decade. The most pressing goal is to adopt policies that reduce poverty and violence, which force thousands of Hondurans to migrate each year. Castro will also prioritize the fight against corruption and impunity and might extend an invitation to an international anti-graft commission, similar to Guatemala's defunct CICIG. Regarding foreign policy, Castro will collaborate with the Biden administration in their shared interest of addressing the root causes of migration. Castro might also break diplomatic ties with Taiwan and recognize the People's Republic of China. The main problem, however, concerns Castro's ability to govern. The president won as the candidate of a last-minute alliance between her left-wing Libre party, the centrist PSH party and other smaller forces. The coalition secured victory, but governing remains an open question. The Libre-PSH pact hangs by a thread, and Castro does not control her party—evidenced by the fact that several Libre lawmakers broke ranks with Castro to elect Luis Redondo as president of Congress. Instead, they joined forces with the outgoing National Party and most of the Liberal Party to elect Jorge Cáliz. As a result, Honduras now has two legislatures claiming legitimacy. The political crisis that erupted before the inauguration put a sudden end to the optimism stemming from Castro's historic triumph. Unless Castro and the congressional leadership sort out their differences, Honduras' political situation will worsen before it gets better."

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

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