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FEATURED Q&A

What Headwinds Is Chile's Economy Facing This Year?



Rosanna Costa became the Central Bank of Chile's first female governor in February. The previous governor, Mario Marcel, resigned in late January to become finance minister under new President Gabriel Boric. // File Photo: Chilean Government.

Q The Chilean central bank on May 18 said that Chile's economy grew 7.2 percent in the first quarter of 2022 compared to the first three months of last year. However, the country's gross domestic product contracted 0.8 percent during the same period, relative to the previous three months—a worse performance than the forecast 0.4 percent drop. The country's mining, forestry, agriculture and fishing industries all declined, according to the central bank. What caused the worse-than-expected contraction, and what can be done to mitigate further economic declines? Why are some economic sectors, such as services and retail, doing better than others? What are the biggest domestic and international threats to economic stability and growth in Chile?

A Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile: "Chile faces a challenging economic scenario with inflation running just over 10 percent and with slowing growth and investment. Inflation has proven to be difficult to control due to internal pressures resulting from large injections of funds from ongoing government support programs related to the pandemic, as well as several congressionally approved withdrawals from the private pension system and external factors including rising prices of food and fuel. Mortgage payments for Chileans have increased between 25 percent and 30 percent because of higher interest rates and the inflation-indexed nature of mortgage lending in Chile. Sectors such as services—particularly those associated with technology—continue to do well, as individuals and companies move to more hybrid opera-

Continued on page 2

TODAY'S NEWS

POLITICAL

Leftist Nations Blast Exclusions From Summit

Countries making up the leftist ALBA bloc of Latin American nations condemned the exclusion of some countries from next month's Summit of the Americas, which the United States is hosting in Los Angeles.

Page 2

BUSINESS

U.S. Renews Chevron's License to Keep Operating in Venezuela

The Biden administration has renewed oil major Chevron's license to continue its operations in Venezuela through the end of November.

Page 3

POLITICAL

Petro, Hernández Head to Runoff in Colombia Election

Leftist Senator Gustavo Petro and independent businessman Rodolfo Hernández won the most votes in the first round of Colombia's presidential election.

Page 2



Petro // File Photo: Petro Campaign.

POLITICAL NEWS

Petro, Hernández Head to Runoff in Colombia Election

Leftist senator and former guerrilla Gustavo Petro and independent businessman Rodolfo Hernández emerged as the top vote-getters in the first round of Colombia's presidential election on Sunday and will face each other in a runoff on June 19. With nearly all the votes counted, Petro won 40.32 percent of the vote, and Hernández garnered 28.15 percent, according to Colombia's election authority. A candidate would have needed more than 50 percent of the vote to win the election outright in the first round. Federico "Fico" Gutiérrez, a center-right former mayor of Medellín, came in third, with 23.91 percent of the vote. Vote totals for other candidates, including Sergio Fajardo, a former mayor of Medellín and former governor of Antioquia province, were in the single digits. The election was seen as a repudiation of Colombia's political class. If elected, Petro would be Colombia's first leftist president, and Gutiérrez, who failed to win a spot in the runoff, had the support of current President Iván Duque's conservative party. "What is in dispute today is change. The political parties allied to the government of Duque, his political project, has been defeated in Colombia," Petro told celebrating supporters in Bogotá, the Associated Press reported. "Colombia's total vote

launches that message to the world: A period is ending; an era is ending," he added. Soon after the results were announced, Gutiérrez conceded defeat and endorsed Hernández. "Knowing that our position is decisive for the future of Colombia, we have made a decision ... we do not want to lose the country," said Gutiérrez, the AP reported. Petro has vowed to make economic changes, including a tax reform, and has said he wants to change how the country fights drug cartels and other armed groups, the AP reported. Hernández, a former mayor of Bucaramanga, has promised to fight corruption and donate his presidential salary if elected. A recent poll by Invaer showed that Petro would have 50 percent support in a runoff, with Hernández getting 47.4 percent, The Wall Street Journal reported. [Editor's note: See In Focus [article](#) on the election in the May 24 issue of the Advisor.]

Leftist Nations Blast Exclusions From Los Angeles Summit

A group of leftist countries meeting in Havana on Friday blasted the United States for excluding some countries from the Summit of the Americas, which is to be held June 6-10 in Los Angeles, Reuters reported. The U.S. government has said it will not invite the governments of Venezuela or Nicaragua, saying that only governments that respect democracy are welcome at the gathering, the wire service

NEWS BRIEFS

Brazilian Authorities Confirm 91 Deaths Amid Floods in Northeast

Officials in Brazil's northeastern Pernambuco state on Monday confirmed 91 deaths due to flooding over the weekend, the Associated Press reported. Rescue crews were still searching for 26 people who remain missing, officials said. Brazilian President Jair Bolsonaro flew over parts of the state capital, Recife, as well as neighboring Jaboatão dos Guararapes, the AP reported. Bolsonaro said his helicopter was unable to land due to the soaked terrain. The government is making emergency funds available to municipalities, said Daniel Ferreira, the minister of regional development.

Suriname Planning to Auction Deepwater Oil Blocks by Year's End

Suriname's state oil company, Staatsolie, is planning to auction deepwater oil blocks at the end of this year and will also auction shallow water blocks next year, Reuters reported Monday, citing the company's managing director, Annand Jagesar. TotalEnergies has discovered enough reserves to make production worthwhile, he said.

Singapore's Thunes Partnering With Colombia-Based MOVii

Thunes, a Singapore-based payments company, last week announced a partnership with MOVii, a digital banking and mobile payments platform in Colombia. The two companies aim to launch an instant cross-border payments service using mobile wallets. MOVii says it currently has more than three million mobile wallet users, which customers use to transfer money to family and friends. The partnership will allow Colombians working and studying abroad to send remittances home through the service, the companies said in a statement.

FEATURED Q&A / Continued from page 1

tions to meet workers' demands and to improve productivity. Retail benefits, for the moment, from funds accumulated from government subsidies and the tail end of the cash withdrawals from the private pension system. For more capital-intensive industries, investment is slowing, reflecting lower global growth expectations—including for China and the United States. Within Chile, increasing security challenges associated with violent events in the south, increasing

insecurity in Santiago and immigration in the north have produced uncertainty around investment decisions. The biggest challenge facing Chile is political. The government will need to manage high expectations for social change while maintaining fiscal responsibility and public order within the context of an unfavorable economic scenario, both internally and externally, as well as within the context of the process to develop a new constitution."

Continued on page 4

reported. The summit coordinator has said that it is up to the White House whether Cuba would be invited, though Cuban civil society activists have reportedly been invited to attend, Reuters reported. However, even if invited, Cuban President Miguel Díaz-Canel said last week that he would not attend “under any circumstances.” The 10 countries that make up the ALBA bloc, which includes Cuba, Nicaragua and Venezuela, released a joint statement from Havana saying that they “reject the exclusions and discriminatory treatment at the so-called Summit of the Americas in Los Angeles.” Bolivian President Luis Arce said that if the United States wants “to have a meeting among friends, let them do it, but don’t call it the Summit of the Americas,” Agence France-Presse reported. [Editor’s note: See [Q&A](#) about the summit in the May 10 issue of the Advisor.]

BUSINESS NEWS

U.S. Treasury Renews Chevron’s License for Activity in Venezuela

The U.S. Treasury on Friday renewed oil major Chevron’s license to continue limited operations in Venezuela, which is under U.S. sanctions, Reuters reported. The license, which extends through the end of November, allows Chevron to continue operating in Venezuela under the same terms that the U.S. government has given the company since 2020. The license allows the company to perform basic maintenance of wells that it operates jointly with Venezuelan state oil company PDVSA, the Associated Press reported. The Treasury also authorized Halliburton, Schlumberger, Baker Hughes and Weatherford International to maintain their assets in Venezuela, Reuters reported. In March, a high-level U.S. delegation met with Venezuelan President Nicolás Maduro to discuss the possibility of easing some sanctions in exchange for the sale of oil and conditions including renewed negotiations with the Venezuelan opposition. [Editor’s note: See related [Q&A](#) in Friday’s Advisor.]

COMINGS & GOINGS

Angelo Named Director of the Perry Center

Paul Angelo has been named the new director of the William J. Perry Center for Hemispheric Defense Studies, effective June 21. He succeeds retired Army Lt. Gen. Frederick S. Rudesheim, who served in the position for about four years. Angelo is a fellow for Latin America studies at the Council on Foreign Relations, where he researches migration, insecurity and strategic competition in the Western Hemisphere. He has served several tours with the U.S. Navy, including one as an instructor at the Naval Academy, where he previously studied. The Perry Center is located at the National Defense University in Washington.

Liberty Latin America Names Jacobson to Board

Former United States Ambassador to Mexico Roberta Jacobson has been appointed to the board of directors of Liberty Latin America, a leading communications company in Latin America and the Caribbean. Jacobson brings more than 30 years of experience in U.S. and Latin American relations to the role, including as a former assistant secretary of state for Western Hemisphere affairs and a former member of the National Security Council. She is a member of the Inter-American Dialogue.

Colombia’s Goebertus to Direct Latin America Region at Human Rights Watch

Colombian activist and politician Juanita Goebertus has been named the new Americas Division director at Human Rights Watch. She begins work in August and replaces longtime director José Miguel Vivanco, who recently stepped down. Goebertus is currently a congresswoman in Colombia. Tamara Taraciuk, who has been serving as acting Americas director, will continue to run the division through July, after which she will become deputy director, a newly created leadership position at the organization.

MetLife Hires Stein as Latin America Data Chief

New York-based MetLife has hired Carolina Stein as chief data and analytics officer for Latin America, effective May 23. She will be based in Buenos Aires. Previously, Stein was head of product at Coface, a global credit insurance company, where she led market strategy and execution. Her experience includes a role as vice president of data and analytics at Equifax.

Lozano Named EVP and President for Latin America at Mondelez

Snack foods maker Mondelez International last month named Mariano Lozano its executive vice president and president for Latin America. Previously, he spent more than two decades at Danone working in Europe, Africa and North America. Lozano holds an industrial engineering degree from the University of Buenos Aires in Argentina.

FEATURED Q&A / Continued from page 2

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Chile's economic contraction in the first quarter was not a surprise as it was largely anticipated even by policymakers as a healthy way to return to normal. Beyond the unfavorable external environment, which added some uncertainty, Chile's slowdown is mostly a domestically manufactured event. The main factor behind it is the necessary policy normalization to deactivate the risk of imbalances in an overheating economy. First, domestic demand is facing the effects of the vanishing fiscal stimulus that existed previously, together with the absence of the extra spending produced by withdrawal of savings from pension funds. Second, monetary policy is quickly tightening to fully eliminate the stimulus and put conditions in neutral territory given the galloping inflation. Third, double-digit inflation is introducing an additional brake to household consumption given the erosion of purchasing power. All these factors produced the policy-induced economic slowdown during the first quarter of the year. Nothing should be done to avoid it as it is a necessary policy to cool the economy off and leave it in shape to perform at its steady state. The economy has certainly developed distortions as in the case of persistent inflation and a boom of imports, clear signs of the existence of an excess demand in the economy. Chile faces the threat of an inflation inertia that requires policy treatment, as well as the risk of an external imbalance that could introduce additional restraints to the economy's performance. Fortunately, favorable prices of copper and other commodities are providing some relief to external accounts and to the government's coffers, which could provide some countercyclical power in case of a potential external shock. Unfortunately, this year Chile must suffer the hangover resulting from a prolonged fiscal and monetary party."

A **Guillermo Holzmann, professor at the University of Valparaíso in Chile and CEO of Analytika Consulting:** "Despite the fact that Chile maintains its economic and financial advantages, as well as a significant degree of international confidence in its institutional process, this does not prevent the macroeconomic objectives, previously considered to overcome the pandemic, from being significantly affected by the impact caused by Russia's invasion of Ukraine, influencing a rapid process of deceleration and increase in inflation. Chile's dependence on the international economy is an important factor in this case. However, it is necessary to add that the political process and the weakness and gaps in the political leadership of the government add reasonable doubts about the future, and the possibility that Chile maintains and/or perfects its growth and economic development strategies. President Boric's idea of carrying out a long-term plan is perceived as a dependent variable of the constitutional plebiscite on Sept. 4. Added to this are the high levels of social insecurity expressed in acts of terrorism, as well as greater urban and political violence, which have installed a climate of polarization that only helps to weaken the state and strengthen those who want a democracy that is insufficient to overcome internal conflicts. These two dimensions, the international one and its impact on Chile, and the domestic one marked by a poorly evaluated constituent process—accompanied by intense and frequent demonstrations of violence and terrorism with a perception of increasing insecurity and growing polarization—define the risks and threats to stability and democratic governance in Chile. Undoubtedly, the scenario after Sept. 4 will define economic projections and the ability to adapt to changes in the international system, both geostrategically and geoeconomically."

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