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FEATURED Q&A

Will More Gov't Spending in Brazil Worsen Inflation?



Brazil's Chamber of Deputies (pictured) last week passed a measure waiving a government spending cap that will allow for more than \$7 billion in additional expenditures before the end of the year. // File Photo: Agência Brasil.

Q Brazil's lower house on July 13 approved a constitutional amendment that declares a state of emergency to waive a constitutional cap on government expenditures, allowing for more than 41 billion reais (\$7.6 billion) in extra spending until the end of 2022. Meanwhile, Brazil's annual rate of inflation grew in June to nearly 12 percent, the country's national statistics agency, IBGE, said this month. The central bank has raised its benchmark interest rate to 13.25 percent, its highest level since early 2017 and up sharply from its record low of 2 percent in March 2021. Is the emergency spending decree likely to further increase consumer prices, and what is the forecast for inflation in Brazil for the rest of the year and into 2023? How big of an effect will inflation have on the country's presidential election this October? How much will Brazil's economy expand this year and next, and what are the most important factors that will influence growth?

A Manuel Orozco, director for sovereign and international public finance ratings at S&P Global: "An uneven economic recovery, supply disruptions, new consumption trends, all of it exacerbated by armed conflict in eastern Europe and its impact on food and energy commodities, have resulted in high inflation in Brazil. Inflation has stood above 10 percent since September 2021. The actions of the Brazilian central bank, reversing its monetary policy stance from record-low reference rates to an already restrictive 13.25 percent are consistent with its aim to tame inflation. A significant share of the inflation is still imported and will only decline as developed economies

Continued on page 2

TODAY'S NEWS

POLITICAL

U.S. Releases List of Corrupt Actors in Central America

The U.S. State Department on Wednesday released its list of "corrupt and undemocratic actors" in Central America, listing 60 political figures, judges and others.

Page 2

BUSINESS

Codelco Halts Mining Project Construction After Second Death

Chilean state-owned copper miner Codelco on Wednesday temporarily halted construction on all of its mining projects following the second death of a worker in less than a month.

Page 2

POLITICAL

Gomes Enters Race for Brazil's Presidency

Leftist politician Ciro Gomes, a former lawmaker, finance minister and governor of Ceará state, on Wednesday entered the race for Brazil's presidency. He is polling in the single digits.

Page 2



Gomes // File Photo: Brazilian Government.

POLITICAL NEWS

U.S. Releases List of Corrupt Actors in Central America

The U.S. State Department on Wednesday released its list of “corrupt and undemocratic actors” in Central America, listing 60 political figures, judges and others whom the United States accuses of involvement in graft and undermining democracy in Guatemala, Honduras, El Salvador and Nicaragua. The State Department provided the list to the U.S. Congress in order to comply with the United States–Northern Triangle Enhanced Engagement Act. Section 353 of the law “generally renders the individuals listed in this report ineligible for visas and admission to the United States,” Secretary of State Antony Blinken said in a statement. Among the people on the list are José Ernesto Sanabria, the current press secretary of Salvadoran President Nayib Bukele, who is accused of undermining “democratic processes or institutions by using his position and wielding the presidency’s influence to inappropriately pressure officials in opposition political parties to resign on threat of being

charged with criminal offenses,” the report said. The leader of Bukele’s party in the Legislative Assembly, Christian Reynaldo Guevara Guadron, also was named in the report. The list also includes Juan Carlos Bonilla Valladares, the former director of Honduras’ National Police, who was extradited to the United States in May to face drug trafficking charges. Also on the list are two Guatemalan Supreme Court magistrates who are accused of attempting to stack courts with corrupt judges, as well as nearly two dozen Nicaraguan prosecutors and judges involved in Nicaragua’s imprisonment of opposition presidential candidates.

BUSINESS NEWS

Codelco Halts Mining Project Construction After Second Death

Chilean state-owned copper company Codelco temporarily halted construction of all its mining projects on Wednesday after it reported the death of a second worker in less than one month, Reuters reported. The company’s operational activities are to be suspended until “the

NEWS BRIEFS

Canada Joins U.S. in Taking Action Against Mexico’s Energy Policies

Canada announced Wednesday that it was joining the United States in seeking consultations over Mexican energy policy that Ottawa and Washington say favor Mexican producers in violation of the USMCA accord, The Globe and Mail reported. “Canada has consistently raised its concerns regarding Mexico’s change in energy policy,” said Alice Hansen, a spokeswoman for Canadian Trade Minister Mary Ng. On Wednesday, Mexican President Andrés Manuel López Obrador shrugged off the controversy, saying Mexico is not violating the USMCA.

Gomes Enters Race for Brazil’s Presidency

Leftist Brazilian politician Ciro Gomes on Wednesday officially entered the race for Brazil’s presidency, the Associated Press reported. About 8 percent of respondents in a June Datafolha poll said they would vote for Gomes. Former President Luiz Inácio Lula da Silva received support from 47 percent of respondents in the poll, while current President Jair Bolsonaro had the support of 28 percent. The vote is to be held Oct. 2.

Argentina’s Economy Registers Unexpected Growth in May

Argentina’s economy grew 0.3 percent in May as compared to April, an unexpected expansion following a Bloomberg News survey in which economists anticipated a 0.5 percent decline in economic activity, the news service reported, citing government data published Wednesday. The Argentine economy grew 7.4 percent compared to the same period last year. Argentina’s central bank expects that the country will go into a brief recession later this year, with contractions in the second and third quarters, Bloomberg News reported.

FEATURED Q&A / Continued from page 1

raise their own interest rates. We forecast inflation at 8 percent by December 2022 (an average of 10.5 percent for 2022) and 4.1 percent by December 2023 (an average of 5 percent in 2023). The emergency spending decree that allows an increase on ‘Auxílio Brasil’ reflects both a real need for fiscal support and electoral opportunism. Beyond these two factors, recent events reflect the difficulty of Brazil to implement timely fiscal policy without compromising the credibility of the fiscal rule, due to slow progress of the Brazilian political institutions to address a highly rigid budgetary structure and to stimulate stronger economic growth. Our ‘BB-’ credit rating already captures the slow institutional progress as well as a very weak

fiscal performance, with general government deficits of over 6 percent of GDP on average over 2022-2025, and net general government debt levels of 70 percent of GDP by 2025.”

A **Mauro Cazzaniga, economic analyst at BMJ Consultores Associados:** “Although the extra spending tends to worsen an already delicate fiscal situation, the increased tax revenue in 2022 due to inflation should partially offset the increased debt and its negative effects. Inflation is expected to slow down until the end of the year to an 8 percent annual rate due to oil prices stabilizing and recent fuel tax cuts, although diesel oil prices, used for land transporta-

Continued on page 4

correct compliance with the security controls at each site has been reviewed," the company told Reuters. Sebastián Andrés Méndez Castro, 32, was killed Wednesday in a work-related accident while carrying out maintenance activities at the company's Chuqui Subterránea project, Codelco said in a statement. It was the second fatal accident on a Codelco project in 10 days. Rubén Francisco Trigo Escobar, 50, an employee of Consorcio Belaz Movitec, was

“Codelco will implement urgent measures to ensure compliance with standards and protocols...”

— Codelco

killed in a work-related accident at Codelco's Rajo Inca project, the company said earlier this month. Codelco has been under pressure since Escobar's death to explain the company's work conditions and safety precautions, Reuters reported. Chilean lawmakers in the lower house's mining commission hosted a session to discuss the Raja Inca incident. "Codelco will implement urgent measures to ensure compliance with standards and protocols in all its operations and projects, both for its own workers and contractors," Codelco said Wednesday.

Credit Suisse Signs Wealth Management Deal With Actinver

Swiss lender Credit Suisse signed an alliance agreement with Mexico-based local wealth manager Corporación Actinver to develop their wealth management businesses in Mexico, Credit Suisse said Wednesday in a statement, Reuters reported. The agreement will allow Credit Suisse to transfer clients with primarily domestic needs in addition to a group of relationship managers to Actinver. Credit Suisse will, however, maintain its relationship and advisory services with Mexico-based clients that have complex, global needs, the lender added, the wire service reported. "Jointly, we will offer

IN PROFILE

Luis Gilberto Murillo, First Afro-Colombian Official to Be Ambassador to the United States

Name:

Luis Gilberto Murillo

In the News:

Luis Gilberto Murillo was tapped by President-elect Gustavo Petro as the incoming ambassador of Colombia to the United States on July 12. With this appointment Murillo would become the first Afro-Colombian official to step into the role as the country's primary envoy to Washington. Murillo was former presidential candidate Sergio Fajardo's running mate during the most recent election cycle in the Andean country. He has U.S. citizenship, which he will have to renounce following his official swearing in after Petro's inauguration on Aug. 7.



Murillo // File Photo: Inter-American Dialogue.

Background:

Murillo, 55, was born in the largely Afro-Colombian province of Chocó, on Colombia's Pacific coast, one of the country's poorest regions. He studied engineering in the Soviet Union at the State Geological Prospecting University in Moscow. In 2000, Murillo was kidnapped in Colombia by a right-wing paramilitary group. After being released hours later, he and his family fled to Washington. There, Murillo worked at several international development organizations, including the World Bank.

In 2016, Murillo was named Colombia's minister of environment and sustainable development during the administration of former President Juan Manuel Santos, for whom he also served as the manager of the Pacific Plan Program. Murillo served twice as the governor of his home province of Chocó, and he worked as the director of the province's regional environmental authority, Codechocó.

Of Note:

Murillo thanked Petro for his appointment in a Twitter posting. "It is a great responsibility to lead bilateral relations with the U.S.," he said. "We will work to strengthen the paths of peace and carry out coordinated work to bring greater prosperity to our two nations," he added.

Sources: Associated Press, Inter-American Dialogue

our clients the best of both platforms," said Credit Suisse Mexico CEO Nicolas Troillet. "Clients with predominantly domestic needs will benefit from a broader suite of local solutions and services provided by Actinver, meanwhile allowing CS Mexico to further focus and invest in our core strength of advising clients with more complex, global needs," Troillet added. "This strategic alliance effectively positions

us to attract new clients and reinforces our commitment to offer quality investment alternatives to our clients," Héctor Madero, the chief executive officer of Actinver, said in a statement released by Credit Suisse. The agreement must still be submitted for approval to regulatory entities, and both companies will continue to work with their clients during the transition period, the statement said.

FEATURED Q&A / Continued from page 2

tion, remain high. As economic issues have been a major concern of voters, we expect that lower fuel prices and lower inflation could potentially turn part of the middle class, where most of the undecided voters are, to Bolsonaro, while cash transfers to the lower income classes should have a more limited effect as they have more consolidated preferences for the Workers' Party. Current forecasts for this year's GDP are nearing 2 percent in contrast with estimates below 1 percent at the beginning of the year, as employment and economic activity have been increasing. In this sense, the spending package should also contribute positively to GDP. However, it should create a more adverse scenario in 2023 as it leads to higher inflation, most likely above the target ceiling of 4.75 percent, and high interest rates for a longer period. Thus, in 2023, Brazil will likely face the lagged effect of this year's interest rate hikes, as well as a possible global recession, combined with the results of increased spending—so it is expected to have near-zero GDP growth next year."

A lone Amorim, economist at the Brazilian Institute of Consumer Protection (IDEC): "For IDEC, from the point of view of consumers, populist measures do not solve the problem of hunger, unemployment and inflation. The uncertainty of the political framework in Brazil compromises an estimate of a drop in inflation for 2023. The economic

measures in force are insufficient to reduce inflation. The policy adopted for strategic sectors such as oil, gas and electricity, which affected the entire production chain, together with the base interest rate increase by 12 percentage points and rising agricultural commodity prices, contributed to food regulatory stock and created an environment of domestic shortages and rising prices. In addition to the effects of the pandemic, the population continues to suffer from unemployment, reduced purchasing power and food insecurity that already affects 33 million Brazilians and represents important setbacks in public policies. The cost of living will be the main topic in the political debate, surrounded by much fake news and new desperate measures to disguise reality and temporarily delay price increases. The package that the government announced is timid, valid only for this year and does not combat the problem. Additionally, it causes a hole in the public budget that will be left for the next administration. For 2023, the international price of agricultural commodities and oil should continue to pressure prices internally and guarantee a margin for GDP growth, supported by economic policies that do not favor social programs and are insensitive to the situation of hunger and misery of the low-income population."

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

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The **Latin America Advisor** gets answers to the questions that informed executives are asking, every business day, so that you can rest easy.

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