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FEATURED Q&A

Is Mexico Taking the Right Measures for the Economy?



Mexican Finance Minister Rogelio Ramírez de la O announced new economic measures on Aug. 2. // File Photo: Mexican Government.

Q Mexico's government will not let energy prices rise, and it will seek to increase imports of basic goods, while it will also limit white corn exports in order to increase food reserves, Finance Minister Rogelio Ramírez de la O announced Aug. 2. At the same time, Mexico's government said subsidies to help Mexicans amid rising inflation have cost some \$28 billion this year. What effect are the subsidies, including ones to help consumers pay for gasoline and basic food staples, having on inflation and on the economy? Will the government be able to achieve its goals of strategically increasing imports and limiting some exports, and what effects will those efforts have on prices? What are the major reasons that Mexico's economy beat estimates by growing an estimated 1 percent in the second quarter, and how much will Mexico grow in 2023?

A Ernesto Revilla, managing director and head of Latin America economics at Citigroup: "The Mexican government's inflation fighting announcements are mostly hollow. Inflation forecasts by analysts were largely unmoved after the announcement of the 'Package Against Inflation and Shortage' (PACIC). The main policy that has had a meaningful effect on inflation is the subsidy to the price of gasoline and diesel, which has kept inflation close to 2.5 percentage points lower than what it would have been. However, this measure was in place before PACIC (through many administrations, in fact), and comes at huge fiscal and environmental costs. The expected fiscal cost of keeping gasoline prices low is close to \$21.5 billion, or 2.4 percent of GDP – about half the education budget. This might not be

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TODAY'S NEWS

POLITICAL

Colombia, ELN Rebels Move Toward Restarting Peace Talks

Colombia's peace commissioner and the National Liberation Army, or ELN, rebels on Friday met in Havana in a move toward restarting peace talks that were suspended three years ago.

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BUSINESS

Venezuela's PDVSA Suspends Oil Shipments to Europe

Venezuelan state oil company PDVSA has halted oil shipments to Europe, saying it is no longer interested in oil-for-debt deals.

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POLITICAL

Paraguayan VP to Resign Amid Graft Allegations

Paraguayan Vice President Hugo Velázquez Moreno said Friday that he will resign this week after he was named on a U.S. list of allegedly corrupt officials. Velázquez denied wrongdoing.

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Velázquez // File Photo: Paraguayan Government.

POLITICAL NEWS

Colombia, ELN Rebels Move Toward Restarting Talks

Colombia's government and the country's National Liberation Army, or ELN, rebels on Friday moved toward restarting peace talks, three years after talks were suspended, the Associated Press reported. After a meeting with ELN representatives in Havana, Colombia's national peace commissioner, Daniel Rueda, said the government of new Colombian President Gustavo Petro will take the needed "judicial and political steps" in order to achieve peace with the rebel group, the AP reported. Such steps could include lifting arrest warrants for ELN negotiators who are currently in exile in Cuba, the wire service reported. "We believe that the ELN has the same desire for peace as the Colombian government," Rueda said in a statement. Also on Friday, Petro tapped new commanders for Colombia's military and police, saying he chose the new officials because they have not been accused of human rights violations or corruption, Reuters reported. Petro named General Helder Fernán Giraldo as commander of the armed forces, General Luis Mauricio Ospina as the head of the army and Vice Admiral Francisco Hernando Cubides to lead the navy.

Paraguayan VP to Resign After Being Accused of Graft

Paraguayan Vice President Hugo Velázquez Moreno said Friday that he will resign this week following the inclusion of his name on a U.S. corruption list, the Associated Press reported. Velázquez Moreno was included on the list for his alleged involvement in offering bribes to a Paraguayan public official. Velázquez Moreno said during an interview with a local radio station that U.S. Ambassador to Paraguay Marc Ostfeld's announcement about his alleged

involvement in corruption hit him "like a bucket of cold water." Velázquez Moreno denied wrongdoing and added, "I don't know what he's referring to because he didn't give too many details." The United States also designated Juan Carlos Duarte, a former prosecutor and a close personal and business associate of the vice president, as a part of the corruption list. "Duarte ... offered a bribe to a Paraguayan public official in order to obstruct an investigation that threatened the vice president and his financial interests," U.S. Secretary of State Antony Blinken said in a press statement. Velázquez, Duarte and their immediate family members now banned from entering the United States, the AP reported. The vice president said he is "completely and totally" in the dark about the corruption allegations, and that he wants to resign because he would rather "go out like a common citizen to defend what I think is an injustice," the wire service reported.

ECONOMIC NEWS

Brazilian Central Bank Chief Predicts End of Credit Cards

Brazilian central bank chief Roberto Campos Neto on Friday said he believes that credit cards will cease to exist because of the growth of open finance, which allows customers to authorize the sharing of financial data with various institutions, Reuters reported. The Brazilian central bank has implemented open finance in phases since last year. During an event on cryptocurrencies, Campos Neto said that through open finance, consumers will be able to manage all aspects of their financial affairs through one "integrator" on their mobile device, instead of using several apps from various banks. Such practices would facilitate the development of products for cash management that would allow consumers to decide to use Brazil's Pix system, which allows for payments between individuals and also between individuals and companies or government offices. "This system eliminates the need to

NEWS BRIEFS

Thousands of Troops Deployed as Violence Flares in Northern Mexico

Mexico has deployed thousands of troops to cities along the U.S. border as violence among gangs has flared over the past several days, BBC News reported Sunday. A gang riot at a prison in Ciudad Juárez spilled into the streets, leaving 11 people dead. Gang violence also hit the Mexican border cities of Tijuana and Mexicali, in addition to Rosarito and Ensenada, where roadblocks were set up and vehicles were hijacked and burned, the Associated Press reported.

Ecuadorian Gov't Blames Organized Crime for Deadly Blast in Guayaquil

Ecuador's government on Sunday blamed organized crime for a deadly attack in Guayaquil, the country's second-largest city, Agence France-Presse reported. The explosion killed five people and injured 16 others. Interior Minister Patricio Carrillo claimed the attack was perpetrated by "mercenaries" involved in drug trafficking. Ecuador, located between major cocaine producers Peru and Colombia, has recently seen an uptick in drug-related crime and murders.

Argentina's Gov't to Offer New Benefits to Oil, Gas Producers

Argentina will offer a series of tax and customs benefits to oil and gas companies that invest at least \$50 million in the country, Reuters reported. Argentine Economy Minister Sergio Massa announced the change last Thursday, and it was formalized on Friday. The measure follows the announcements of similar incentives for the agribusiness and tourism sectors, all of which are aimed at attracting investments in the country and boosting its low level of foreign reserves.

have a credit card," said Campos Neto. "I think that credit cards will cease to exist at some point soon," he added. Some banks are already offering credit through the Pix system, said Campos Neto. Brazilians have widely adopted the Pix system, and the number of transactions on it have already exceeded the number of credit- and debit-card transactions in the South American country, Reuters reported. Pix could expand "at least" to other parts of Latin America, and Canada has also expressed an interest in it, said Campos Neto. Still, the volume of credit- and debit-card transactions grew 36.5 percent in the first half of this year as compared to the same period last year, state-run news agency Agência Brasil reported Aug. 10, citing the Brazilian Association of Credit Card Companies and Services, or Abecs.

BUSINESS NEWS

Venezuela's PDVSA Halts Crude Oil Shipments to Europe

Venezuela has halted shipping crude oil to Europe as it seeks to substitute product swaps for oil-for-debt deals, Reuters reported on Friday, citing three individuals with knowledge of the matter. According to the sources, state oil company PDVSA has reportedly requested that Italy's Eni and Spain's Repsol send it fuel in exchange for future crude oil shipments. In May, the U.S. government eased sanctions on Venezuelan crude oil exports and authorized Eni and Repsol, which are joint owners of the Cardón IV natural gas project in Venezuela, to import Venezuelan oil, according to Bloomberg News. The easing of sanctions came amid the interruption of the supply of oil to Europe following an embargo on Russian crude imports. The resumption of trade was conditioned on PDVSA using proceeds from the exports to pay off billions of dollars of debt accumulated with Eni and Repsol for joint ventures, Reuters reported. However, Venezuela wants to receive fuel in exchange for at least a portion of the shipments, the sources told Reuters.

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the best use of those resources, especially as the benefit goes to the highest income deciles. Nevertheless, in the minds of many, is it better to spend them subsidizing gasoline rather than fueling bad ideas, or political operation. The other measures in PACIC are mostly cosmetic. The support for fertilizers and agricultural programs was already in the budget. The limit on white corn exports is inconsequential as Mexico exports little and imports a lot of it. In sum, PACIC follows other announcements (such as the public-private infrastructure drives) that repackage existing policies and seem inconsequential. Of course, the main inflation fighting mechanism is monetary tightening by Banxico, which will continue to hike rates until they reach a level closer to 10 percent. The Fed, and its impact on U.S. growth, remains the most important determinant of Mexico's prospects in the short term."

A Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City: "It is probable that without federal government subsidies, inflation in Mexico would be higher, although not much higher. According to Finance Minister Rogelio Ramírez de la O, without such subsidies, inflation would exceed 10 percent, although in July it was 8.16 percent. Nevertheless, let us remember that the institutions in charge of holding back inflation are central banks. As Deputy Finance Minister Gabriel Yorio recently pointed out, the fiscal package put forward is just a 'complementary action' in this regard. We should also analyze the vast fiscal resources being consumed on subsidies. Some 430 billion pesos in subsidies have gone to gasoline, 73 billion to electricity, and 69 billion to food security. Subsidizing gasoline is regressive, as it benefits people with more resources and harms the environment. Mexico, a country that collects few taxes and has growing needs in security, justice, education and health, could spend those funds on more pressing needs. In such

a difficult international atmosphere, it is good news that the country has grown more than expected and that public resources are being channeled to food security. Nevertheless, with some adjustments in fiscal policy that would allow us to better invest in the future, we could continue to beat forecasts well beyond the second quarter of 2022."

A Wolfram F. Schaffler González, external advisor to the Nuevo Laredo Custom Brokers Association and a historian of Mexican

international trade: "The reality of Mexico's economic fluctuations is unknown for most of the population. Macroeconomic indicators, interest rates, dollar-peso exchange rates and GDP are totally removed from the day-to-day survival of millions of Mexicans, who gauge the impact of the economy on how much food they have on their tables and/or how much more they are paying for electricity or gasoline. For the Mexican President Andrés Manuel López Obrador's government, the mantra of 'poor people first' is achieved, according to many critics, by creating more social welfare recipients, as the number of people under the poverty line has constantly grown during his government. Covid also had a role in this. The recent National Survey of Employment and Occupation shows that 34 percent of all Mexican households are now recipients of government welfare programs, 4 percent higher than in 2021 and 2015, when the highest numbers were recorded. Poverty is now the harsh reality of 44 percent of the population. You must consider this when AMLO repeatedly has said that poor people support him and his party more than the rest of the population does. By subsidizing gasoline and controlling imports and exports, AMLO hopes to stifle an increase in inflation while also increasing internal food reserves. I hope he achieves this, but we cannot ignore that every action of his government necessarily must be viewed through the prism of how much it electorally benefits his

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party and his objective of holding on to the presidency in 2024.”

A **Alma Caballero, director at McLarty Associates:** “Mexico’s National Statistics Institute (INEGI) recently announced that annual inflation stood at 8.15 percent in July—well above the central bank’s target range of 3 percent, plus or minus 1 percent. Meanwhile, the central bank raised its benchmark interest rate by 75 basis points to 8.5 percent—its 10th consecutive rate hike. The interest rate has been attributed to the ‘increased uncertainty, the accumulated inflationary pressures from the pandemic and the geopolitical conflict.’ This has resulted in pressures on Mexican energy and agricultural prices and exchange rate depreciation. The Ministry of Finance reached a voluntary agreement (PACIC) with the business sector to guarantee fair prices of various products in the basic food basket. The Finance Ministry has mentioned that PACIC has ‘contained inflation’ and noted that if it were not in place, inflation would be 2.6 percentage points higher. Several economists have said that despite the pact’s progress, concern remains that Mexican officials will expand basic basket products (currently 24) under

PACIC, resorting to price controls. The OECD recently projected that Mexico’s economy will expand by 1.9 percent in 2022 due to the expected gradual improvement in the labor market, remittances and increased vaccinations. The growth outlook for 2023 stands at

“**The OECD recently projected that Mexico’s economy will expand by 1.9 percent in 2022...**”

— Alma Caballero

1.6 percent, according to the OECD, and 1.2 percent, according to the IMF. This results from an expected deceleration in the United States, higher interest rates and the current uncertainty eroding the country’s investment climate, which could potentially damage the USMCA dispute settlement system arising from the recent dispute pertaining to Mexican energy policy.”

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

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Q&A

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