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THEDIALOGUE

FEATURED Q&A

What Forces Are Driving the Region's Economic Growth?

The Caribbean will experience 4.7 percent growth this year, higher than Latin America and the Caribbean as a whole, according to ECLAC. Santo Domingo is pictured. // File Photo: Government of the Dominican Republic.

Q The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) released a report last month forecasting that Latin America and the Caribbean will "resume the path of low growth seen prior to the Covid-19 pandemic," expanding 2.7 percent on average this year. The deceleration in economic activity, which is half the rate of growth the region posted last year, is constraining the labor market recovery, especially for women, according to ECLAC. What factors are driving economic growth in Latin America and the Caribbean this year and next, and which subregions and countries are positioned to do better than others? What tools can policymakers use both to spur job growth as well as tackle inflation? How can vulnerable populations that are being left behind in the increasingly sluggish recovery most effectively be helped?

A Alberto M. Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York: "Across Latin America, real activity during the first half of this year benefited from the from 'post-Covid' economic normalization, particularly among the labor-intensive services sectors, additional fiscal stimulus in several places, terms of trade gains driven by rising commodity prices and gradually firming labor markets. We expect activity to decelerate visibly toward the end of 2022 and anticipate significant headwinds to activity by the first half of next year. Going forward, activity is expected to be negatively affected by rapidly diminishing marginal returns from Covid normalization, high and disseminated inflation, the lagged impact from recent monetary and financial tightening, gradually

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Marina Silva Backs Lula Ahead of Brazil Presidential Vote

Brazilian environmentalist and former presidential candidate Marina Silva on Monday endorsed former President Luiz Inácio Lula da Silva for president.

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ECONOMIC

U.S., Mexican Leaders Discuss Cooperation on Chips, Energy

Top U.S. and Mexican officials on Monday discussed cooperation on semiconductor manufacturing and renewable energy.

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POLITICAL

Ecuador's Lasso Seeks Vote on Security, Reducing Assembly Size

Ecuadorean President Guillermo Lasso said he will seek a referendum on matters including security and reducing the size of the National Assembly.

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Lasso // File Photo: Ecuadorean Government.

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POLITICAL NEWS

Marina Silva Backs Lula in Brazil Presidential Race

Brazilian environmentalist and former presidential candidate Marina Silva on Monday endorsed former President Luiz Inácio Lula da Silva in this year's presidential election after more than a decade of political distance, the Associated Press reported. Silva was a long-time member of Lula's Workers' Party and served as environment minister in his cabinet from 2003 to 2008, when she resigned due to differences with other members of the administration over environmental policy and development matters. She subsequently supported the impeachment of Lula's chosen successor, Dilma Rousseff, and launched three bids for the presidency that, although unsuccessful, saw her receive more than 20 percent of the first-round vote on two occasions. Lula currently leads his main rival, current President Jair Bolsonaro, in the polls ahead of the Oct. 2 election. Speaking at a news conference alongside Lula on Monday, Silva said that their "political reunion came in the face of a grave scenario in [Brazil's] political life," adding that it is necessary "to defeat Bolsonaro's evil seeds," EFE reported. Silva's endorsement is part of Lula's ongoing efforts to reach beyond his left-leaning base and attract the support of centrists, analysts told the AP.

Oil Workers' Union Leader Killed in Colombia

A leader in Colombia's main oil workers' union was killed last weekend, police said on Sunday, Agence France-Presse (AFP) reported. Sibares Lamprea, a leader in Colombia's oil workers' union, the Unión Sindical Obrera (USO), was assassinated by armed men on a motorcycle as he was leaving his father's funeral on Saturday night. The incident occurred in the town of Barrancabermeja, an oil port in northeastern Colombia that is home to the country's largest refinery. Lamprea was also a spokesman for the security guards at the refinery, which is owned by state oil company Ecopetrol. In a statement, the company condemned the attack and called on the authorities to determine what happened and prosecute those responsible. The USO also issued a statement in which it lamented the killing and said more than 100 leaders of the organization have been killed in recent decades.

ECONOMIC NEWS

U.S., Mexico Officials Discuss Cooperation on Chips, Energy

U.S. Secretary of State Antony Blinken led a delegation to Mexico City on Monday for an annual meeting of the U.S.-Mexico High-Level Economic Dialogue (HLED), The Wall Street Journal reported. The U.S. delegation focused its agenda on two measures that President Joe Biden signed recently: the $280 billion Chips and Science Act, which fosters semiconductor manufacturing, and the Inflation Reduction Act, which the administration hopes will advance cooperation in the renewable energy sector in Mexico, according to the report. "We have already heard from all the semiconductor companies that as they build new manufacturing facilities in America, they would like to see the rest of their supply chain in North America," said U.S. Commerce Secretary Gina Raimondo. Mexican officials said that the discussions included a security dialogue to be held next month in Washington and a summit of North American leaders in December. Mexican Foreign Minister Marcelo Ebrard told reporters that both sides agreed that the HLED, which was dormant for several years until the United States and Mexico relaunched it in August 2021, was not the place to discuss an energy dispute that the United States has filed against Mexico. The dispute took up "no more than 5 percent of the conversation today," Ebrard said.

NEWS BRIEFS

Ecuador's Lasso Seeks Referendum on Security, Shrinking Assembly

President Guillermo Lasso on Monday announced that he will ask Ecuadoreans to vote in a referendum on eight questions that relate to constitutional amendments in areas of citizen security, strengthening democracy and protecting the environment, El Comercio reported. Specific proposals include a reduction in the number of lawmakers, allowing the military to support police work to fight drug trafficking and efforts to protect water sources, Reuters reported.

Chilean Government Announces Plan to Increase Investment

Chile's government on Monday rolled out a plan to promote investment through next year that includes targeted tax breaks and incentives, Reuters reported. Finance Minister Mario Marcel said the package aims to boost investment by at least five percentage points in 2023. The plan includes a $500 million tax credit fund for green businesses that have a "high multiplying effect." Marcel also plans to reopen foreign investment offices in Europe and North America, with a focus on construction, energy, transport and mining.

Western Union Acquires Brazil-Based Digital Wallet Te Enviei

Financial services company Western Union on Monday announced that it acquired Brazil-based digital wallet Te Enviei. In a statement, Western Union said that the acquisition is part of its efforts to accelerate the launch of a broader range of digital financial services in Latin America following the successful launch of its digital banking offering in Europe in February.

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Argentine Economy Minister Vows to Stick to IMF Deal

Argentine Economy Minister Sergio Massa said Monday that the South American country's government will stick to a plan that it agreed to with the International Monetary Fund by gradually reducing its budget deficit amid soaring inflation, The Wall Street Journal reported. Massa met in Washington with IMF Managing Director Kristalina Georgieva, and the two said that the lender's program with Argentina would remain intact. Georgieva praised Massa's "strong commitment and drive to achieve the goals of the program," the newspaper reported. Georgieva also said Massa, who took office as Argentina's economy minister six weeks ago, has taken "strong steps" to stabilize the country's economy, Bloomberg News reported. Argentina and the IMF reached an agreement earlier this year to refinance a $44 billion bailout that kept the country from defaulting on its debt. In exchange for the IMF's agreement to push back debt payments, Argentina's government agreed to lower its fiscal deficit and pare back energy subsidies, The Wall Street Journal reported. Argentina's government also agreed to lower the central bank's financing of the treasury, which has fueled inflation that some private economists in Buenos Aires have estimated will hit 100 percent by the end of the year, the newspaper reported. "Minister Massa could obtain considerably more money if he were to better implement the program agreed to with the IMF," Claudio Loser, a visiting senior fellow at the Inter-American Dialogue and former head of the IMF's Western Hemisphere Department, told the Advisor in a **Q&A** published Sept. 9. "He claims he will pursue that program, but domestic politics is a significant obstacle and likely will not disappear soon," Loser added. Massa has been in the United States for the past week and has met with other officials, including at the Inter-American Development Bank, which cited Argentina's compliance with the IMF deal in increasing its lending to Argentina by an additional $400 million.

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more exigent credit conditions and softer external impulse to growth given the expected deceleration of the global economy (softening of commodity prices and the terms of trade). Furthermore, in a number of places, including Argentina, Brazil, Chile, Colombia and Peru, heightened political and policy uncertainty are expected to affect sentiment, and through it, spending decisions by both households and firms. The high and highly disseminated inflation pressures remain a key policy challenge. Inflation should be fought with determination as it is a highly socially regressive tax on low-income households, and if left unchecked, it will undermine the underpinnings of growth and social progress. The best contribution central banks can give to deliver sustainable socially inclusive medium-term growth is to deliver low and stable inflation. Bringing inflation down to more moderate levels may have a short-term cost in terms of activity and employment, but leaving inflation unchanged will certainly have a much larger cost. And to fight inflation, interest rates are the most neutral, effective and efficient instrument to do so in the macro policy toolbox. Vulnerable segments of the population should be supported in the short-term by existing social safety net provisions, and over the medium term by investment-friendly policies that support growth and job creation."

Ernesto Revilla, managing director and head of Latin America economics at Citigroup: "Latin America is doing better in 2022 than analysts expected only nine months ago. Economic activity has been more resilient, given the continued strength of the consumer, who is still enjoying the post-pandemic opening and freedom to indulge. High commodity prices have also helped the region, which is mostly commodity producing (outside Central America and the Caribbean), and global financial conditions have not tightened as much as high inflation would warrant. This increased optimism about 2022 is, alas, not translated to 2023. While growth forecasts for 2022 have increased meaningfully in the last months (particularly for Brazil, Colombia, Mexico, Panama and Uruguay), those of 2023 have come down. Indeed, external conditions—particularly because of higher rates in the United States,

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>
> **— Ernesto Revilla**

and the slowdown in China—will not be favorable to Latin America next year, while internal uncertainty associated with politics will continue weighing on investment and growth. In this uncertain and volatile environment, there will be differentiation across countries. There is a wide heterogeneity in Latin America between countries that have strong fundamentals (Mexico), complicated politics (Peru), medium-term fiscal challenges (Brazil), big current account deficits (Chile) or even a twin deficit—fiscal and external—problem (Colombia). Asset prices will react accordingly. In the face of a hazy outlook, policymakers should continue to focus on protecting the most vulnerable populations through well-targeted social programs, while constructing a credible narrative of medium-term growth and stronger fundamentals. This relatively calm period represents an opportunity to prepare for uncertain waters ahead."

Elijah Oliveros-Rosen, lead economist for Latin America at S&P Global Ratings: "Latin America and the Caribbean, as much of the rest of the world, continues to recover from the pandemic downturn, in the midst of an increasingly uncertain and challenging global economic backdrop. The

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rising likelihood of weaker demand in the regions' main trading partners, in particular the United States, but also Europe, means that the incomplete recovery from the pandemic could face a setback. The global inflation shock is pushing up interest rates around the world, notably in the United States, which is in turn increasing borrowing costs in the region, especially in those with a higher share of U.S. dollar-denominated debt. Under such dynamics, we expect the region to enter a period of below-trend growth through the rest of 2022 and into 2023, with higher-than-average inflation. Economies with strong central bank credibility, such as is the case in most of the major larger countries in the region, will be better able to keep inflation expectations anchored and eventually return them to target. Economies that are highly reliant on external demand, not just of goods, but also services, such as tourism, as is the case in the Caribbean, could see growth deteriorate substantially in the event that the United States and European economies enter a period of economic weakness. Households that were the most hurt by the pandemic downturn, mainly lower and middle incomes, are also the most vulnerable to setbacks. As a result, policies that provide safety nets to those income brackets, such as unemployment insurance, could be the most effective in supporting an inclusive economic recovery."

Carlos A. Végh, Fred H. Sanderson Professor of International Economics at Johns Hopkins University's School of Advanced International Studies: "After the Covid-induced recession of 2020 (when GDP fell by 7 percent), the region had a strong rebound in 2021 with GDP growing by 6.8 percent. This year, with estimated growth of 2.5 percent, signals the return to a more normal, yet relatively low, growth rate, in line with pre-pandemic years when growth was constrained by chronically low productivity, a lack of private and public investment, and dismal public infrastructure. Naturally, all else equal, the current commodity boom should imply that net commodity exporters (most of South America) will fare better than net commodity importers (the Caribbean and most of Central America). The long-term structural problems have been compounded this year by three factors: 1.) lingering supply-chain bottlenecks related to the pandemic; 2.) higher food and energy prices due to Russia's invasion of Ukraine; and 3.) the U.S. Federal Reserve's sudden tightening of monetary policy, which has led to depreciating currencies in the region and, hence, more inflationary pressures. As a result—and in spite of lackluster growth—many central banks in the region have aggressively raised policy interest rates to prevent inflation from reaching double digits. From a social point of view, the most vulnerable, who already suffered disproportionately under the pandemic, are being hit the hardest by the rise in basic food and energy prices. Poverty will thus continue to grow, in particular among women and minorities. To protect them, governments should stick to conditional cash-transfer programs and ensure the provision of basic health, education and other essential social services. Careful budgeting will be needed since fiscal space is limited and public debts are large."

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>
> **— Carlos A. Végh**

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

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