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THEDIALOGUE

FEATURED Q&A

What Does Chile's Budget Say About Boric's Priorities?

Chilean President Gabriel Boric said last month that he is seeking a 3.5 percent increase in spending next year, a more modest increase than this year. // File Photo: Chilean Government.

Q Chilean President Gabriel Boric said Sept. 28 that he is seeking a 3.5 percent increase in government expenditures next year, a smaller increase than this year, and will focus spending on areas including public security, health care, housing and education. What are the most important initiatives in Chile's budget proposal for next year? How much has Boric scaled back his earlier ambitions for economic and social change in Chile? What changes could Chile's Congress make to Boric's budget proposal?

A Carla Alberti, assistant professor in the Department of Political Science at the Pontificia Universidad Católica de Chile: "The most important initiatives in the 2024 budget proposal focus primarily on areas such as public security, education, health care, housing, emergencies and care. For instance, the budget proposal contains a series of initiatives aimed at strengthening public security, one of the main concerns for citizens in the country, including expanding the capacity of the penitentiary system and creating three new prosecutor's offices. Moreover, the budget assigns additional resources to prevent and combat environmental emergencies, particularly fires. Lastly, President Boric announced resources for the creation of a National Care System. Given the economic situation and the failure of the previous constitutional process, the government has not been able to implement its original program. This budget proposal reflects this and also incorporates the issue of public security as a top priority, which was not part of the ruling coalition's original discourse. Additionally, the lack of agreement in Congress over the fiscal pact has meant that the

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Nicaraguan Gov't Releases, Sends to Rome 12 Catholic Priests

Nicaragua's government said Wednesday that it had released 12 jailed Catholic priests and sent them to Rome following an agreement that it reached with the Vatican.

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Canada's Bank of Nova Scotia to Cut 3% of Work Force

Scotiabank, which has operations in several Latin American and Caribbean countries, said it would cut 3 percent of its work force.

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U.S. Gov't Eases Sanctions Against Venezuela's Oil Industry

The United States on Wednesday eased sanctions against Venezuela's oil industry following a deal between President Nicolás Maduro's government and the opposition on holding an election.

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Maduro // File Photo: Venezuelan Government.

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ECONOMIC NEWS

U.S. Eases Sanctions on Venezuela After Deal on Election

The administration of U.S. President Joe Biden on Wednesday announced that it was easing sanctions on Venezuela's oil industry for six months, a move that came a day after Venezuela's government and the opposition agreed to hold a presidential election next year, The Wall Street Journal reported. The Biden administration said it could reimpose the sanctions if Venezuelan President Nicolás Maduro's government fails to adhere to commitments that the country's opposition hopes will allow for a free and fair election. "The U.S. government retains the authority to rescind authorizations should the representatives of Maduro fail to follow through on their commitments," the U.S. Treasury Department said in a statement. The Treasury added that the general license that allows U.S. companies to engage in previously barred transactions, mainly in Venezuela's energy sector, will be renewed only if Maduro's government "meets the commitments" for elections and "with respect to those who are wrongfully detained," The Washington Post reported. The Treasury Department's announcement was "consistent with our long-standing commitment to provide U.S. sanctions relief in response to concrete steps toward competitive elections and respect for human rights and fundamental freedoms," U.S. Secretary of State Antony Blinken said in a statement. Blinken added that the United States "has also conveyed our expectation and understanding" that by the end of November Maduro will "define a specific timeline and process for the expedited reinstatement of all" candidates in upcoming elections, The Washington Post reported. Blinken added that Venezuela will begin "the release of all wrongfully detained U.S. nationals and Venezuelan political prisoners." The Maduro government released five prisoners, chief opposition negotiator Gerardo Blyde said in a posting on social media site X. Among them was Juan Requesens, an opposition lawmaker who had been jailed on terrorism charges since 2018, The Wall Street Journal reported. Under the sanctions relief, the U.S. Treasury also suspended measures that had barred some financial transactions involving Venezuela's gold industry and ended a prohibition on trading Venezuelan government bonds. In a televised address, Maduro celebrated the sanctions relief, saying he was ready to begin "a new era" with the United States. "Let's turn the page, let's reconstruct relations based on respect, cooperation," said Maduro. "Venezuela, with these agreements and decisions, returns to the oil and gas market with force, progressively," he added.

POLITICAL NEWS

Nicaragua Releases, Sends to Rome 12 Jailed Catholic Priests

Nicaragua's government said Wednesday that it released 12 Roman Catholic priests who had been jailed on various charges and flew them to Rome following an agreement that it reached with the Vatican, the Associated Press reported. President Daniel Ortega's government said the priests were sent to Rome after productive talks with the Vatican, adding that the agreement showed "the permanent will and commitment to find solutions," the AP reported. The church's top official in Nicaragua, Cardinal Leopoldo Brenes, did not immediately respond to a request for comment by the wire service. The government did not say why the priests were being sent to Rome other than to say it was a move to "secure and defend peace," Reuters reported. Ortega at times has accused Roman Catholic leaders of plotting to overthrow his government. The accusations have led to the arrests of priests, with some being accused of treason and other crimes. Bishop Rolando Álvarez, who was convicted in Nicaragua on conspiracy charges and sentenced to 26 years in prison, was not among the priests sent to Rome, the AP reported. Álvarez's sentencing followed Nicaragua's sending

NEWS BRIEFS

Brazil Congressional Panel OKs Report Calling for Charging Bolsonaro

A Brazilian congressional panel on Wednesday approved a report recommending that former President Jair Bolsonaro and some of his close associates be charged with crimes including an attempted coup in connection to the riot by thousands of his supporters on Jan. 8 in Brasília, Reuters reported. The probe, which has been underway for months, also recommends that civil or criminal charges be filed against 60 other individuals. In the riot, Bolsonaro supporters broke into and ransacked Brazil's presidential palace and the buildings housing the Supreme Court and Congress. Bolsonaro has denied wrongdoing.

Musk Expresses Caution on Planned Tesla Factory in Mexico

Tesla CEO Elon Musk said Wednesday that he is concerned about high interest rates on car buyers and expressed hesitation on the company's plans to open a factory in Mexico, Reuters reported. The Musk's comments came after Tesla missed Wall Street's expectations on third-quarter gross margin, profit and revenue. Musk said he was cautious about proceeding "full tilt" on the planned factory in Mexico.

Mexico to Host Migration Summit With Regional Leaders on Sunday

Mexican President Andrés Manuel López Obrador plans to host a summit on migration on Sunday with several Latin American leaders in attendance, the Associated Press reported Wednesday. The leaders of Cuba, Venezuela, Haiti, Honduras, Ecuador and Guatemala are expected to attend, said López Obrador. Other countries are planning to send representatives to the summit, at which attendees are to discuss the root causes of migration.

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more than 200 prisoners to the United States in a deal that the U.S. government had brokered. Álvarez had refused to board that flight. Clergy members in Nicaragua have reported government surveillance of religious services and assaults in connection with what they have said is a crackdown on priests and institutions that are affiliated with the church, Reuters reported. Clergy have also reported arrests and property seizures. Ortega's government has cited security concerns for some of its actions against clergy and the church, Reuters reported. [Editor's note: See related **Q&A** in the Feb. 24 issue of the Advisor.]

BUSINESS NEWS

Scotiabank Plans to Cut 3 Percent of Work Force

Bank of Nova Scotia will terminate 3 percent of its work force and take a writedown of 590 million Canadian dollars ($432 million) on its investment in a China-based bank, Bloomberg News reported Wednesday. The moves are part of a large restructuring that emphasizes cost cutting, a main focus of new Chief Executive Officer Scott Thomson. Canada's third-largest lender by assets, Scotiabank has operations in Latin American and Caribbean countries including Mexico, Peru, Chile, Colombia and Jamaica. Thomson said he plans on "optimizing operations" at the bank's international units through centralization, Forbes México reported. Thomson is expected to give more details on the job cuts during an investor day to take place on Dec. 13, Bloomberg News reported. The cuts come amid sluggish revenge growth and rising deposit costs that Thomson faces in his new role. At an investor conference in September, he said that he adopted the mantra of "better, faster and at a lower cost" at his previous position as CEO of industrial equipment dealer Finning International, and that he plans to deliver "relentless discipline around cost management" at Scotiabank. Thomson became the bank's CEO on Feb. 1.

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reform to the pension system, also key to the government's agenda, has not moved forward as expected. The budget proposal will be discussed in a particularly tense political moment. The recent political scandal, which involved suspected irregularities in the transfer of state funds to a series of nongovernmental organizations close to the ruling coalition, will certainly influence the discussion. It is thus likely that opposition parties will focus on issues related to corruption and the strengthening of controls over how state funds are spent, although the budget law already includes several articles on this. More generally, right-wing politicians have already begun voicing their concerns about whether the level of public spending in the budget law is appropriate given the country's growth rate."

Sergio Urzua, professor of economics at the University of Maryland and international research fellow at Clapes UC: "Once upon a time, Chile stood as an example of progress in Latin America. Those days, however, seem like a distant memory. Over the past decade, the nation has fallen into the middle-income trap, struggling to chart a course out of it. In 2023, Chile's GDP is expected to contract by 0.4 percent, according to the World Bank, a situation it shares with only Argentina in the region. Can we look to 2024 for a strong recovery? Not quite. The nation's central bank anticipates a modest expansion (1.25-2.25 percent), in line with Chile's estimated 2.1 percent long-term growth rate (2023-32). The figures raise concerns among those tracking the nation's fiscal deficit and debt-to-GDP ratio, surging from less than 10 percent in 2010 to around 40 percent in 2023. The authorities have been slowly recognizing the severity of the situation. This may explain the clash between two emerging perspectives ignited by President Boric's budget proposal. One perspective recalls Chile as the 'economic jaguar' of the 1990s and deems a 3.5 percent increase in government expenditures inadequate for social progress and recovery. The other sees the 'jaguar' as a relic, the 3.5 percent as fiscally irresponsible and worries about the meager long-term growth. The Boric administration's economic track record adds to its unease. These tensions should lead to political compromises on critical budget matters like public security, an anti-corruption agenda, and housing. Yet, tense negotiations may address broader issues such as bureaucratic hurdles, the educational catastrophe and a new fiscal/tax reform. These transcend President Boric's budget proposal, which the Congress must vote on by Nov. 30, and require flawless strategies. Unfortunately, frustration and confusion created by the middle-income trap are rushing their debate. This is how this trap, this virus, propagates in developing countries."

Peter DeShazo, visiting professor of Latin American, Latino and Caribbean Studies at Dartmouth College and former U.S. deputy assistant secretary of state for Western Hemisphere affairs: "Boric's budget proposes large increases in health, housing and education aimed at Chile's least privileged sectors as well as a big hike in public security spending, which is politically popular across the board. In announcing the budget, Boric appealed for support by underscoring commitments to both reducing social and economic inequality and to fiscal responsibility and transparency. During a 60-day review period, Congress can make changes to the spending bill. On the revenue side, the picture is more complicated. GDP growth in 2023 will be flat at best, and the outlook for 2024 is for only modest growth. The economy—and fiscal revenue—remain overly dependent on external factors, above all demand for and price of copper and other minerals. While the public debt-to-GDP ratio has ballooned in recent years, it is still one of the lowest in the OECD, as is Chile's tax-to-GDP ratio. The new mining royalties

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law that takes effect in January will provide some help and Boric is pressing ahead on tax reform through a reconfigured 'Fiscal Pact' aimed at generating more revenue, although this initiative faces stiff opposition in Congress. Looming large is the Dec. 17 constitutional plebiscite that could result in a major defeat for the far-right political forces that have dominated the drafting of the new charter: polls indicate that it will be rejected by a large margin. If so, more moderate, centrist political forces could be empowered to seek consensus positions that would benefit the national good."

Gabrielle Trebat, managing director for Brazil and the Southern Cone at McLarty Associates: "Since taking office in early 2022, President Boric has faced substantial governability challenges that have been exacerbated by, among other reasons, a majority conservative Congress that opposes his social programs, a divided population with strong anti-incumbency sentiment and a slow economic recovery from the pandemic. Boric had a short honeymoon phase, and his approval ratings have remained low throughout his term. With the rejection of Boric's tax reform proposal by Congress as well as the draft constitution in last year's national referendum, his administration has recognized that a more pragmatic and conciliatory approach with Congress is needed in order to meet some of the demands from the Chileans who elected him. In this context, while the 2024 budget proposal came with a 3.5 percent increase in government expenditures, the increase is more modest than 2023 when the administration was more bullish on congressional approval. In the 2024 budget, the government has highlighted as priority areas public security, education, health care and housing. Important initiatives include the construction of six hospitals next year and the increase of the housing budget by 12 percent, with a goal of building 260,000 houses during this term. While the government remains ambitious that they can work with Congress to push the 2024 budget through, it is unlikely that this will come without significant compromises with the opposition."

Patricio Navia, clinical professor of liberal studies at New York University and professor of political science at Universidad Diego Portales in Chile: "The norm is that Congress always threatens to cut the budget in areas that are key to government interests to force it to make concessions and increase spending in areas that are priorities for the legislature. This year, the government is proposing a 3.5 percent increase in the budget, but as the economy is expected to grow by around 1 percent in 2024, this budget increase, though smaller than in 2023, is seen as excessive by opposition leaders. Since the high interest rates are increasing the cost of servicing the public debt (an admittedly low figure), the 3.5 percent increase will only give marginal room to the government to fund additional social services spending. The Boric government's ambitious plans to increase social spending and improve pensions relied on a major tax increased that failed to pass earlier in 2023. The government might attempt to try to pass a more moderate tax hike in 2024, but the chances of passage are slim. The same goes for the ambitious pension reform. While there is room for a gradual increase in monthly contributions to individual pensions accounts, the government's ambitious overhaul of the pension system, which sought to give the public sector more power and it sought to curtail the pension private savings accounts scheme, does not have enough support to pass in Congress. The 2024 pension announcement reflects the government's realization that it lacks support to advance its ambitious reform agenda. The bad news, though, is that it seems that even this scaled back set of government priorities will struggle to find enough votes to pass unchanged in an increasingly hostile legislature."

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