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FEATURED Q&A

Why Are Food Prices Rising So Sharply in Brazil?



Rising food prices have been driving Brazil's rate of inflation higher. A corn field in Mato Grosso do Sul state is pictured above. // File Photo: State of Mato Grosso do Sul.

Q Brazil in October posted its fastest inflation rate for that month since 2002, driven by soaring prices for food staples such as rice and tomatoes, which registered double-digit price increases, Bloomberg News reported. What is behind rising food prices in Brazil, and is it only a temporary shock? How is the inflation rate, which was marginally higher than expected in October, affecting monetary policy and efforts to boost the ailing economy? What is the outlook for inflation in Brazil in 2021?

A Helen Harris, research associate for the Southern Cone and Brazil at McLarty Associates: "In November, annual food price inflation reached a high of 12.1 percent, contributing heavily to the headline inflation rate of 4 percent. This increase can be attributed to many economic forces, including higher agricultural commodity prices, strong foreign demand for food items driven by China's economic recovery and a depreciated Brazilian real. The prices of corn, wheat and soybeans are now above pre-pandemic levels. Moreover, a good portion of Brazil's domestic food production is heading toward international markets, such as China, decreasing local supply. Additionally, since food items are basic needs, their domestic demand is unlikely to waver significantly, even during an economic crisis. Finally, the depreciated real has also contributed to higher domestic prices of agricultural products traded internationally. While this seems to be a temporary shock, it probably will not revert until the first quarter of 2021, when harvest season for some staples, such as beans and rice, picks up

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TODAY'S NEWS

POLITICAL

Mexican President Marks Two Years in Office

Mexican President Andrés Manuel López Obrador marked two years in office on Tuesday. In a speech delivered at the National Palace, he defended his administration's response to the coronavirus pandemic.

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ECONOMIC

Remittances to Mexico Rise 10 Percent

Mexicans received \$33.56 billion in remittances this year through October, an increase of 10.4 percent as compared to the same period last year, the country's central bank said Tuesday.

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ECONOMIC

India Hopes to Import Venezuelan Oil Under Biden

India will seek to resume imports of oil from Venezuela and other places after U.S. President-elect Joe Biden takes office next month, oil minister Dharmendra Pradhan said today.

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Pradhan // File Photo: Indian Government.

POLITICAL NEWS

Mexican President Remains Popular at Two Years in Office

Mexican President Andrés Manuel López Obrador marked two years in office on Tuesday. In a speech delivered at the National Palace, the leftist leader defended his administration's response to the coronavirus pandemic and thanked health care workers for their dedication. "We have ensured that no sick person lacks medical and hospital care, and we have saved thousands of lives," he said, *El Universal* reported. Opposition leaders criticized López Obrador's speech, saying he has failed to improve the lives of average citizens. "The president is in a bubble, the information he shares about how he perceives his government is very far from reality," *Damián Zepeda* of the right-of-center PAN party told the newspaper. López Obrador's job approval rating has remained high despite the economic recession and lockdowns resulting from the pandemic, staying above 57 percent since taking office and at points surpassing 70 percent. In related news, public health officials in Mexico are requesting millions of pesos in new state funding to purchase equipment and supplies in order to control the coronavirus pandemic. After surpassing 100,000 deaths attributed to the

virus, the National Institute of Respiratory Diseases is running out of tests to diagnose the disease and needs 64.7 million pesos (\$3.22 million) from the finance ministry to purchase them. Meanwhile, the Social Security Institute, or IMSS, has requested 33.5 million pesos for modular care facilities as hospitals run out of space to treat patients. The ISSSTE, an agency that provides assistance to federal workers, has requested an additional \$141 million for pandemic-related aid in the 2021 budget.

ECONOMIC NEWS

Mexico's Remittances Rise 10 Percent YTD Through October

Mexicans received \$33.56 billion in remittances this year through October, an increase of 10.4 percent as compared to the same period last year, the country's central bank said Tuesday, EFE reported. The increase in October was the sixth monthly rise in the country's level of remittances, Reuters reported. That month, the country received \$3.6 billion in remittances, a 14.1 percent increase as compared to the same month last year, the central bank said. The number of transactions, which mainly originated in the United States, rose 7.6 percent in October, year-on-year, and the average amount

NEWS BRIEFS

Climate Shocks Hit Ag Sector in Central America

The economies of Nicaragua, Honduras, El Salvador and Guatemala are likely to see long-term "climate-related shocks" in their agricultural markets following back-to-back hurricanes last month, credit ratings agency Moody's said Tuesday. "The two storms have wrought significant physical damage to the agriculture-reliant economies and will compound existing fiscal and economic challenges," Moody's said. [Editor's note: See related Q&A in the Nov. 16 issue of the Advisor.]

India Hopes to Resume Venezuelan Oil Imports in a Biden Administration

India will seek to resume imports of oil from Venezuela and other places after U.S. President-elect Joe Biden takes office next month, oil minister Dharmendra Pradhan said today, Reuters reported. India was an important destination for Venezuelan oil before stopping purchases after President Donald Trump imposed unilateral sanctions on the country, as well as Iran, since taking office in 2017. Sanctions on oil from Iran and Venezuela have blocked up to 3 million barrels per day (bpd), or 3 percent of world supply, although Venezuela's production has fallen sharply in recent years to a relative trickle of what it had been at its peak.

Ford to Invest \$580 Mn in Argentina Production

Detroit-based Ford said Tuesday it will invest \$580 million to manufacture a new generation of Ranger pickup trucks in Argentina, *La Nación* reported. Ford has partnered with Germany's Volkswagen on the project, part of a global alliance between the two companies called Project Cyclone. During the first ten months of this year, Ford Argentina sales decreased 41 percent to 26,804 units, industry website Ford Authority reported last month.

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again. Although inflation remains on an upward trend, recent estimates for 2020 GDP growth have undergone positive revisions, with markets expecting a fall of 4.8 percent, as opposed to 6.5 percent forecast in June. Service consumption is projected to pick up once the pandemic and social distancing subside, even though a reduction in emergency financial aid will likely decrease household spending. The next meeting of the central bank's Monetary Policy Committee, or Copom, scheduled for Dec. 8-9, is unlikely to change the benchmark interest

rate, keeping the Selic at 2 percent, as market participants expect inflation to reach only 3.4 percent in 2021."

A Paulo Vieira da Cunha, partner at Verbank Consulting in New York: "Within the consumer price index (IPCA), inflation in tradables accumulated to 4.7 percent through October; the 'food at home' subcomponent accumulated to 12 percent. Meanwhile, inflation in nontradables accumulated to 1.7 percent; 0.4 percent in the 'personal expendi-

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sent increased by 5.9 percent. The rise in October beat market expectations, Alberto Ramos, the managing director and head of Latin America economic research at Goldman Sachs in New York, said in a note. Due to the 9.3 percent depreciation of the Mexican peso against the U.S. dollar since September 2019, remittances grew 25.7 percent in October when measured in local currency, said Ramos. "The sharp contractions of activity and employment in the U.S. have not impacted in a visible way the flow of remittances to Mexico," said Ramos. "Solid workers' remittance flows have been adding support to the current account and to private consumption, particularly for low-income families, who have a high propensity to consume and are the overwhelming recipients of such transfers."

BUSINESS NEWS

Alvarez & Marsal Hires Brazil's Former Minister of Justice

Professional services firm Alvarez & Marsal said Tuesday that Sérgio Fernando Moro has joined the company as a managing director, based in São Paulo. Moro served in the government of far-right President Jair Bolsonaro as minister of justice and public security from



Moro // File Photo: Lula Marques/Agência PT.

the start of his administration on Jan. 1, 2019 through April this year, when he resigned, citing Bolsonaro's intention to meddle in investigations. The president had also recently fired the chief of federal police, Maurício Valeixo, an ally of Moro's in investigating graft in government. In 2015, Moro gained fame and public popular-

ity as a federal judge overseeing the massive "Car Wash" corruption probe that ultimately led to the prosecution of former President Luiz Inácio Lula da Silva. For the past six years, the investigations revealed billions of dollars in bribes and led to the unprecedented arrests of high-level government officials and business

elites across Brazil and in numerous countries around the world. However, Bolsonaro, who campaigned against corruption, has dropped his support of the task force running the investigations, claiming "there is no more corruption in my government." [Editor's note: See related [Q&A](#) in the Sept. 3 issue of the Advisor.]

TECH BRIEFS

Advent International to Acquire Sophos Solutions

U.S.-based private equity company Advent International has agreed to acquire Sophos Solutions, a provider of technology consulting services for Colombia's banking industry, from the Colombia Securities Exchange, or BVC, Pitchbook reported last week. Advent bought the company for \$129 billion pesos (about \$35.5 million), according to the report. The transaction included the stakes from Sophos' other shareholders. BVC owned the majority of the company, which was founded in 2006, since 2015. Sophos provides software development and technology consulting services for the financial, securities and banking sectors in the Andean nation and other Latin American countries, including in areas such as mobile banking and product customization, Pitchbook reported.

Britain Launches Project With Movistar's Wayra

The government of the United Kingdom and Wayra, telephone company Movistar's open innovation and venture capital hub, on Monday launched the "Scale-up UK 2021" project, an initiative that aims to identify and support regional tech scale-ups that are seeking to expand their operations to Europe and, more specifically, to the U.K. market, the British Embassy in Buenos Aires announced. During the first stage, the project will include the mapping of around 50 scale-ups from Argentina, Chile and Uruguay, particularly small and medium-sized enterprises with the potential to expand operations internationally to at least two countries. Ten of the scale-ups will then be selected to present their expansion plans to a jury of local and U.K. experts next year. The final stage will include the selection of two winning scale-ups that will participate in a program to soft-land their business in the British market, according to the statement.

Televisa Has 'Substantial Power': Mexico Regulator

Mexico's telecommunications regulator, or IFT, has notified Mexican broadcaster Grupo Televisa that it exercises "substantial power" in its core television business in certain regions in the country, opening the door for possible measures to boost competition, Reuters reported last week. The broadcast giant, the world's largest producer of Spanish-language video content, said in a statement that the regulator's ruling came after the company's acquisition of cable and Internet provider Axtel's residential fiber optic business and related assets in 35 local districts. Televisa added that the resolution did not imply any anticompetitive behavior, but the IFT is set to launch a new review in order to "determine if some asymmetric measures will be necessary," Televisa said. The broadcasting company said it viewed the regulator's ruling as "inconsistent" with other decisions on substantial power in the same market.

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tures' subcomponent. These developments were not entirely surprising. Wholesale inflation (IPA) had been accelerating at a much faster clip than inflation in consumer prices. While the economy is in recession, food consumption has grown. It is estimated that 43 percent of the population received some form of government support during the pandemic. Moreover, the global increase in agricultural commodity prices coincided with a sharp depreciation of the Brazilian real. Thus, the passthrough from depreciation was large and fast. The strange occurrence is that, usually, the opposite is the case: An increase in agricultural commodity prices leads to an appreciation of the real—as Brazil is a major food exporter. Core inflation remains low, and this matters for monetary policy. (In fact, inflation ex-food and energy accumulated only 1 percent in the first 10 months of 2020.) Why then did the real

“Core inflation remains low, and this matters for monetary policy.”

— Paulo Vieira da Cunha

depreciate, and so sharply? Here is a hint for a probable underlying, and more threatening, cause of inflation. Adverse expectations triggered the depreciation: At issue is the fiscal cliff facing the economy in 2021 and the current administration's incapacity to deal with it. The fiscal roots of inflation in Brazil are deep and problematic. It was the turnaround in the fiscal stance starting in 2016 and until the onset of the pandemic that reduced inflation. If there is a reversal, inflation could destabilize—a worrisome harbinger for 2021. Despite the large output gap and the lingering effects of the pandemic, the central bank would have to reverse course. It has preannounced as much, making its current

stance conditional on the maintenance of the fiscal anchor; that is, on strict adherence to the fiscal expenditure ceiling. The bottom line is that a lot is riding on the fiscal decisions to be made early next year; if they go the wrong way, inflation expectations could quickly accelerate to beyond 4 percent, the target for 2021.”

A **Thomaz Favaro, director of Brazil and the Southern Cone at Control Risks:** “Covid has had a major impact on inflation in Brazil. In January, the country had its lowest monthly figure since the real currency was established in 1994; by October, however, inflation had risen to its highest level for that month since 2002. Like many Covid-related issues, the spike is likely to be temporary as it reflects foreign-exchange depreciation as well as consequences of recent stimulus programs, which allowed consumers to maintain expenditures despite a massive increase in unemployment. As such, inflation is unlikely to significantly affect monetary policy, at least in the short term—it is worth noting, for example, that inflation forecasts remain below the central bank's target for the year (4 percent). Going forward, a lackluster economic recovery in 2021 is unlikely to add significant pressure on prices. Another key development to watch is the evolution of a bill in Congress that provides formal independence to the central bank. Control Risks assesses that this legislation is likely to be approved in the upcoming months, ensuring higher governance stability and policy continuity for the central bank, ultimately reducing long-term monetary and regulatory risks.”

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