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FEATURED Q&A

Is Argentina Taking the Right Steps to Control Inflation?



Argentine President Alberto Fernández's government froze prices on numerous household goods amid high inflation. // File Photo: Argentine Government.

Q Argentina's government on Oct. 19 froze prices on more than 1,400 household products until early next year in an effort to curb inflation that is running at an annual rate of 53 percent. What are the main reasons behind Argentina's rising consumer prices? What effects will the price freezes have on consumers, businesses and on the inflation rate? What will be the political consequences of Argentina's inflation rate, and of the price freezes, on the country's Nov. 14 midterm elections?

A Alberto Bernal, chief emerging market and global strategist at XP Investments: "Argentine authorities' move to freeze prices of household goods is a clear indication that the Fernández administration is becoming increasingly concerned about the outcome of the November midterm elections. The PASO elections in September delivered a clear warning to the government about the possibility of the ruling coalition losing control of the Senate. The unprecedented economic collapse brought upon by the Covid-19 pandemic, in tandem with Argentina having had implemented one of the world's strictest lockdowns, has destroyed consumer confidence and made people very cynical about the country's future. Added to such a complex social situation, Argentina once again defaulted on its debt in May 2020, forcing interest rates sharply higher and all but fully closing the private sector's capacity to get credit from the outside world. With the IMF program on pause and no capacity to issue new debt, the Fernández administration was forced to depend on the central bank's printing press to pay for salaries, subsidies, pensions and all other government expenditure needs.

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Brazilian state oil company Petrobras posted 31.14 billion reais (\$5.34 billion) in profit for the third quarter, beating analysts' estimates.

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Mexico's Economy Contracts in Q3

Mexico's gross domestic product contracted 0.2 percent in the third quarter, the first contraction since the country began recovering from the Covid-19 pandemic.

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Venezuela Reportedly Sought Prisoner Swap With U.S.

Venezuelan President Nicolás Maduro reportedly sought to swap six imprisoned U.S. citizens, the so-called Citgo 6, in exchange for ally Alex Saab. Saab was extradited this month to the United States where he faces money laundering charges.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

Venezuela Reportedly Sought Prisoner Swap With U.S.

Venezuelan President Nicolás Maduro's government last year sought a prisoner swap with the United States, offering to free six imprisoned U.S. citizens in exchange for the release of businessman Alex Saab, a key Maduro ally, the Associated Press reported Thursday, citing people with knowledge of the matter and message exchanges seen by the wire service. A top Maduro aide and Richard Grenell, a close ally of then-U.S. President Donald Trump, discussed the offer in September 2020 during a meeting

Saab is expected to plead not guilty to money laundering charges on Monday.

in Mexico City, the AP reported, citing one of the people who was involved in organizing the meeting. The Trump administration rejected the offer, the wire service reported. Earlier this month, Saab was extradited from Cape Verde to the United States to face money laundering charges. U.S. prosecutors accuse Saab, an alleged financier for Maduro, of being behind a corruption network involving a Venezuelan government-subsidized food program. Saab has denied wrongdoing and has called the accusations against him politically motivated. Former U.S. Rep. David Rivera (R-Fla.) said he helped to organize the meeting last year between Grenell and the top Maduro aide after Maduro's government expressed interest in releasing the jailed Americans, known as the Citgo 6, in addition to two Green Berets who were connected to a failed cross-border raid in Venezuela, the AP reported. Grenell declined to tell the AP what the meeting was about, but he denied that it involved a potential prisoner swap. "I never discussed a swap. It wasn't something we were interested in nor was it

a point of negotiation—ever," he told the wire service. "The purpose of the meeting was clear to everyone who was actually negotiating." Saab is to be arraigned on Monday and will enter a plea of not guilty, his lawyer, Henry Bell, told Reuters on Thursday. "Of course our client will be pleading not guilty when arraigned," said Bell. Saab's lawyers have characterized his extradition as a kidnapping.

BUSINESS NEWS

Petrobras Beats Estimates in Posting \$5.34 Bn in Profit

Brazilian state oil company Petrobras on Thursday posted above-expectation profit of 31.14 billion reais (\$5.34 billion) for the third quarter, Reuters reported. A Refinitiv poll had estimated profits well below that figure, at 20 billion reais. Petrobras' earnings before interest, taxes, depreciation and amortization, or EBITDA, reached 60.74 billion reais. One-off items drove the increase in net income, with divestments and a win in a major tax dispute



Bolsonaro // File Photo: Brazilian Government.

helping as well, Reuters reported. The company earlier this year backtracked on a decision made at the beginning of the Covid-19 pandemic to revise down its long-term projections for Brent prices, which drove up the value of its assets. Without nonrecurring items, quarterly net income would have been 17.37 billion reais, Petrobras said. Just hours before the quarterly reports were made public, President Jair Bolsonaro blasted Petrobras, saying it was too profitable and would have to contribute more to society. "It should be a company that makes

NEWS BRIEFS

Int'l Criminal Court Shelves Probe of Colombia War Crimes

The International Criminal Court said Thursday that it had shelved a preliminary investigation, launched in 2004, into crimes committed during Colombia's five-decade armed conflict, Agence France-Presse reported. ICC prosecutor Karim Khan said Thursday that Colombia was adequately probing and prosecuting such crimes itself.

Cuba's National Assembly Passes Laws to Said to Broaden Legal Rights

Cuba's National Assembly on Thursday passed a series of laws broadening citizens' legal rights, addressing voids identified by activists who say Cuban authorities thwarted due process during July's unprecedented anti-government protests, Reuters reported. Cuban legislators and judges said the new legislation increases protection for those accused of a crime and intends to improve transparency. However, "the laws ... still give officials considerable discretion and only time will tell how they use it," William LeoGrande, professor at American University, told Reuters.

Biden Administration Reportedly Preparing More Nicaragua Sanctions

The administration of U.S. President Joe Biden is working with international allies to prepare sanctions on Nicaragua in response to the country's Nov. 7 election, which the United States has criticized as a sham, Reuters reported today, citing an unnamed senior State Department official. The source said the U.S. government is also reviewing Nicaragua's participation in the Central America free trade agreement. Nicaraguan President Daniel Ortega has arrested or exiled virtually all possible opponents in the upcoming election.

a profit that isn't so high as it has been lately," Bolsonaro said during his weekly live broadcast on social media, the wire service reported. The president has been involved in a spat with the company, twice this month floating the idea of privatizing it. Bolsonaro has expressed frustration that he is being blamed for fuel price increases that are part of company policy and which he has tried to stop. The president is facing strong political pressure over the high fuel prices, especially from truckers, who are among his most loyal supporters and who are threatening to strike, The Rio Times reported.

ECONOMIC NEWS

Mexico's Economy Contracts 0.2% in Third Quarter

Mexico's gross domestic product contracted by 0.2 percent in the July-September period, as compared to the previous quarter, the first quarterly decline since recovery from the pandemic began, according to preliminary data from national statistics agency INEGI released Friday, Reuters reported. The seasonally adjusted contraction, which followed an unexpected dip in August, is a setback for Mexico, whose economy last year suffered the sharpest decline since the Great Depression of the 1930s. Economists said a resurgence in the spread of Covid-19 as well as global supply chain disruptions hurt economic activity during the summer and contributed to the slump, the wire service reported. Since the second quarter of 2020, Mexico had posted four consecutive periods of quarterly growth, including an increase of 1.5 percent in the third quarter of this year. "The recovery from the pandemic will not be a straight line," Charles Seville, senior director for Americas Sovereigns at Fitch Ratings, told the Advisor in a Q&A published Aug. 13. "Even prior to the pandemic, growth had ground to a halt in 2019, reflecting a wait-and-see attitude on the part of some private investors in view of the administration's policy initiatives affecting business. This factor has not gone away."

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Despite the central bank's diligent work to absorb as much newly created liquidity as possible, monetary policy has proven unable to generate enough confidence in the population about the future value of the peso. The parallel foreign exchange rate now stands almost 100 percent above the value of the official exchange rate. This development is a death knell for a country that 'thinks' in U.S. dollars—because of very complicated past experiences that took place when people decided to give saving in pesos a chance. The implementation of price controls may prove able to slow the pace of inflation for a few weeks, in that manner helping to reduce some of the damage that the Fernández administration may bear in the upcoming midterm elections. But the reality is that price controls have never worked, nor will they ever work, especially in Argentina, unless those controls come attached to a very credible macroeconomic stabilization plan. Hopefully, this will be the avenue that the Fernández administration will choose to take in the forthcoming months—that is, making the responsible decision to sign a new multi-year and sustainable lending agreement with the IMF in the very short term."

A **Kezia McKeague, director at McLarty Associates:** "Argentina's chronically high inflation—the subject of extensive study—is most often attributed to recurrent fiscal deficits that, in turn, require growth in the money supply to sustain. Underlying these inflationary monetary and fiscal policies, moreover, is a persistent lack of either political consensus around basic economic goals or faith in the domestic currency. Under the Fernández administration, we see all these dynamics at play, particularly as the government turns on the fiscal spigot for electoral reasons, increasing the supply of pesos and creating expectations of additional price increases. The latest iteration of price freezes—which the new secretary of internal trade announced without prior agreement

with the consumer products and retail sectors—will prove difficult to implement and will further aggravate tensions with the business community. In a particularly harsh statement that echoed comments from other major private-sector associations, AmCham Argentina called the measure a repetition of

“Price controls often succeed only in delaying the day of reckoning...”

— Kezia McKeague

past errors, a 'time bomb' and an 'artificial recipe for the control of the inflationary spike.' Indeed, price controls often succeed only in delaying the day of reckoning, leading to more rapid inflation down the road. In the meantime, economists' study of price freezes shows that they cause shortages of the affected products and deter investment. Nevertheless, Argentine governments often rely on controls when public alarm about inflation grows, with the best case for the measure resting on aid to vulnerable populations. Following an inflation rate of 3.5 percent in September alone, the Fernández administration knows that the decline of the average real salary has much to do with its poor performance in the recent primary elections. However, the new price freezes are unlikely to either ameliorate inflation or improve the governing coalition's electoral prospects on Nov. 14."

A **Lisa M. Schineller, managing director and lead analyst for Sovereign & International Public Finance Ratings at S&P Global Ratings:** "Rising consumer prices in Argentina should not be taken in the broader context of an uptick in global inflation following the impact of the Covid-19 pandemic on supply chains, shifts in service, demand

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for goods and higher food and energy prices. Argentina's struggle with inflation—having averaged more than 30 percent over the past decade—is longstanding. This poor track record incorporates several administrations with different approaches to monetary and exchange rate policies and/or regimes. It reflects ongoing fiscal imbalances, loose monetary policy and entrenched inflation expectations that inform wage negotiations. A shallow local capital market has implied intermittent recourse to central bank

“Argentina's struggle with inflation—having averaged more than 30 percent over the past decade—is longstanding.”

— Lisa M. Schineller

financing over the years, and in the current context with global capital markets closed to Argentina and multilateral lending constrained by the absence of an IMF program, this financing weighs even more prominently on inflation. Last but not least, the depreciation of the peso and the dollarized nature of the Argentine economy inform the 50 percent inflation outlook for this year, and potentially next year. The official peso has depreciated some 50 percent annually on average over the past three years, and some 30 percent this year. This doesn't consider the gap and pressure between the official and various parallel rates. Freezing prices is not a structural remedy to offset these various imbalances, but rather a short-term strategy that will likely imply future adjustment in prices; this will be incorporated in businesses' and households' expectations and decisions. The challenging growth and inflation outlook look to inform the outcome of the November midterm elections based on the results of the September PASO, with losses for the ruling coalition. While some adjustment in the composition of Congress

may imply some changes, S&P sees any potential policy outcomes on the margin. The 2023 presidential election will play a more determinant role in whether Argentina can tackle longstanding structural macro and micro imbalances to lower inflation.”

A **Andrés Asiain, director of the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires:** “The rise in prices at the global level is related to the impact of the pandemic and the policies implemented to confront it. A strong injection of liquidity to sustain people's income accompanied the paralysis of large productive sectors. The macroeconomic result was an increase in money supply coupled with a sharp reduction in consumption levels due to restrictions on activity. Unconsumed income during the pandemic generated a stock of liquidity that was turned over to consumption as restrictions were relaxed and a return to economic activities began. The consequence was a rapid increase in global demand that supply could not fully satisfy, given temporary restrictions in the supply of energy and certain productive inputs. These bottlenecks during the return to 'normalcy' generate cost increases that end up driving prices higher, resulting in the recent acceleration in global inflation. Global inflation puts extra pressure on economies such as Argentina, which had already been seeing high inertial inflation, aggravated by the transition to post-pandemic normalcy. This is especially true for the food sector, which the global rise in raw materials has hit hard. Faced with this situation, the government promoted the freezing of food prices, betting on moderating the impact of the rise in inflation on food. This is a key issue in a society that has a significant percentage of its population living below the poverty line.”

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