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## FEATURED Q&A

# Will Paraguay Be Able to Hold Down Inflation?



Paraguay's central bank (pictured) last month hiked the country's benchmark interest rate to a seven-year high. // File Photo: Radio Nacional del Paraguay.

**Q** Paraguay's central bank on March 22 increased the country's benchmark interest rate to 6.25 percent, a seven-year high, in an effort to stem inflation, which is running at its fastest rate in more than a decade. Consumer prices in February increased to 9.3 percent from 7.9 percent the month before, with fuel and foodstuffs representing an estimated 70 percent of the month's increases. What are the key causes for Paraguay's rising inflation, and is the central bank taking the right action to fight it? How well is President Mario Abdo Benítez managing the country's economy, and which of his policies are having the biggest economic impact? What are the major obstacles facing Paraguay's economy, and what can be done to counter external factors that may be shaping its outlook the rest of the year?

**A** Sebastián Acha, president of the World Compliance Organization and executive director of PRO Desarrollo Paraguay: "According to the latest report from the Central Bank of Paraguay, the country will close the year with an inflation rate of 6 percent. These numbers, which seem very optimistic to specialists, cannot hide the highest inflationary escalation in the last 10 years, and currently the fourth highest in Latin America. The central bank's efforts to raise interest rates are among several measures that the government should take to deal with this phenomenon that—although it affects the entire region—becomes much more sensitive in a country that has become accustomed to low and highly predictable inflationary cycles over the last decade. In addition, this measure in our economy does not have

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## TODAY'S NEWS

### ECONOMIC

## Chilean, Argentine Presidents Agree to Stronger Energy Cooperation

New Chilean President Gabriel Boric met in Buenos Aires with his Argentine counterpart, Alberto Fernández, as the two countries agreed to stronger cooperation on energy-related issues.

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### ECONOMIC

## Argentina Wants China to Fully Fund Power Plant

Argentina wants China to fully fund a new \$8.3 billion power plant. Argentina previously agreed to finance 15 percent of the planned facility's cost.

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### POLITICAL

## Peru's Castillo Lifts Curfew Amid Protests

After meeting with lawmakers, Peruvian President Pedro Castillo on Tuesday lifted an all-day curfew that he had declared the night before in order to quell violent protests.

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Castillo // File Photo: Peruvian Government.

## POLITICAL NEWS

## Peru's Castillo Lifts Curfew in Lima Amid Protests

Peruvian President Pedro Castillo on Tuesday lifted an all-day curfew for Lima that he had declared the night before in an effort to quell violent protests over rising food and fuel prices, Bloomberg News reported. Castillo ended the curfew in the afternoon after meeting with lawmakers, some of whom urged him to lift the order, saying it infringed upon fundamental rights. The curfew marked the first time that a Peruvian president had ordered people to stay inside in order to control protests since the administration of now-jailed former President Alberto Fujimori, who shut down the country's Congress and judicial system and dispatched tanks into the streets in 1992 amid unrest over social and economic issues, the Associated Press reported. On Tuesday in Lima, more than 1,000 people protested the curfew. Even as Castillo met with legislators, a demonstration near Congress became violent, with protesters clashing with police on horseback, who

responded by firing tear gas, Bloomberg News reported. Demonstrators also attacked the headquarters of the country's judiciary, leading Interior Minister Alfonso Chavarry to threaten that authorities would use force in order to quell the violence. Earlier on Tuesday, Castillo's cabinet met with members of Congress to discuss ways to address inflation that is running at its highest rate in more than two decades. "We must start working together to address the people's problems," Congress' vice president, Lady Camones, told local radio network RPP. Consumer prices rose 6.82 percent last month in Lima as compared to the same month last year, the highest rate since August 1998.

## ECONOMIC NEWS

## Chile's Boric Meets With Fernández in Buenos Aires

In a trip meant to strengthen relations, a Chilean delegation led by President Gabriel Boric met with Argentine President Alberto Fernández and other officials in Buenos Aires

## NEWS BRIEFS

## El Salvador's Bukele Threatens to Stop Feeding Jailed Gang Members

Salvadoran President Nayib Bukele threatened to stop providing food for imprisoned gang members during a speech on Tuesday at a graduation ceremony for new police officers and soldiers, the Associated Press reported. The threat came amid a government crackdown on gang crime which has led to a state of emergency that suspends a number of constitutional rights. Since the start of the state of emergency on March 27, about 6,000 alleged street gang members have been imprisoned, the AP reported.

## IFC to Keep Pace of Brazil Investments Regardless of Election Result: Official

Martin Spicer, the International Finance Corporation's (IFC) director for Latin America and the Caribbean, said Tuesday that the private-sector arm of the World Bank will continue to maintain its pace of environment-focused investments in Brazil regardless of the results of the South American country's presidential election in October, Reuters reported. Approximately 60 percent of the group's annual investments in Latin America and the Caribbean have sustainability as their primary regulation, the wire service reported.

## Mexican President Asks U.S. Agriculture Sec'y for Help on Rising Prices

Mexican President Andrés Manuel López Obrador on Tuesday expressed concern to visiting U.S. Agriculture Secretary Tom Vilsack about the rising prices of food and asked him to work with Mexico to soften the impact of the price increases, Reuters reported, citing Mexican Agriculture Minister Víctor Villalobos. López Obrador also asked his cabinet for proposals on containing inflation, Villalobos added.

## FEATURED Q&amp;A / Continued from page 1

repercussions as in other countries because the transmission of the monetary policy has different characteristics. The price of fuel, as well as the very high levels of informality and contraband, push for the upward spiral to continue. The exclusion of 74 percent of the economically active population from the financial system is another cause that leads to over-indebtedness and dependence on informal agents in the credit sector, pushing them into a vicious cycle of informality and illegality. The census to be carried out in the middle of this year may be the first tool to be able to better calibrate sectoral policies as well as the definition of priorities regarding the management of public finances, which must begin with the rationalization and optimization of public spending."

**A** **Karim Lesina, executive vice president and chief external affairs officer at Millicom:** "Paraguay's economy has faced various shocks, causing the downward revision of its growth estimates from 0.5 percent to -1.8 percent in 2022. The severe drought, leading to a loss of approximately 60 percent of the soybean harvest, stands out. The economy has also been affected by the international rise in fuel and food prices. Despite this, poverty has remained stable at 26.9 percent, largely thanks to social transfer programs implemented during the pandemic. Also, the rapid and efficient action of the government was helped by advancing digital payment tools, such as Tigo Money, spurring the financial inclusion

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on Monday, Reuters reported. They vowed to strengthen economic, energy and cultural ties. Argentine Economy Minister Martín Guzmán and Chilean Energy Minister Claudio Huepe Minoletti signed a joint declaration that committed the two countries to strengthen energy cooperation, including boosting exports of Argentine liquefied natural gas to Chile, as well as the reopening of the Neuquén-Biobío

“Although for a long time we have been looking in other directions ... our base is Latin America.”

— Gabriel Boric

natural gas pipeline, the wire service reported. “Although for a long time we have been looking in other directions ... our base is Latin America,” Boric said at a press conference, EFE reported. Argentine exports to Chile totaled \$351 million—with liquefied natural gas being the prime export—while Chilean exports to Argentina reached \$53 million, according to official figures from January 2022, Reuters reported. For his part, Fernández spoke of “the need to unite Latin America, which has been divided so much ... Chile and Argentina do not have a mountain range that divides them, but rather unites them,” he said, newspaper La Diaria reported. [Editor’s note: See [Q&A](#) on Boric in the March 11 issue of the Advisor.]

## BUSINESS NEWS

### Argentina Wants China to Fully Fund \$8.3 Bn Power Plant

Argentina is requesting that China fully finance a new \$8.3 billion nuclear plant project in the South American country, Reuters reported Wednesday. The China National Nuclear Corporation, or CNNC, signed a deal with the Argentine government in February, agreeing to shoulder 85 percent of the nuclear plant’s

## THE DIALOGUE CONTINUES

### Will Travelers Embrace Mexico’s New International Airport?

**Q** Mexican President Andrés Manuel López Obrador inaugurated the new Felipe Ángeles International Airport on March 21, three years after he halted the construction of a separate \$13 billion airport project. Twenty-seven miles away from the center of Mexico City, the \$4.1 billion airport was built by the Mexican army on an army air base and will initially handle approximately 16 flights each day. To what extent will travelers embrace the airport, and what will be its economic impact? How much will the new airport relieve congestion at the existing Mexico City International Airport? What reasons were behind López Obrador’s cancellation of the much larger Texcoco airport project in 2018 and his embrace of the Felipe Ángeles airport?

**A** Alma Caballero, director at McLarty Associates: “The recent inauguration of the \$3.7 billion Felipe Ángeles International Airport (AIFA) marked the completion of one of President López Obrador’s flagship infrastructure pet projects three weeks before his recall referendum. This comes after López Obrador’s decision three years ago to ditch the \$13 billion Texcoco Airport, which the previous government partially built. López Obrador argued that the project was riddled with corruption. Built at a military base, the

cost. In the agreement, Argentina agreed to cover the remaining 15 percent. Jorge Sidelnik, the executive director of Nucleoeléctrica Argentina, the state-owned local partner for the project, said that the country is “aiming for 100 percent in terms of financing from China to guarantee no delays given the problem we have with funding,” Reuters reported. Argentina is currently making an effort to stem high debt levels, as well as reach a fiscal balance by 2025, to comply with a recently finalized deal

newly inaugurated airport has been contentious, given the military’s role in the project as well as its inconvenient location, cost effectiveness, accessibility and ability to relieve congestion from the existing Mexico City international airport, which is nearly 50 kilometers from the AIFA. The military’s involvement in the construction and management of the airport is yet another example of the expanding role of Mexico’s military in sectors unrelated to security. Furthermore, the Mexican federal audit office said that the defense ministry had not reported approximately \$993.2 million used in the construction of the airport, which is not expected to be profitable until 2026. Skepticism also remains surrounding the operability with the existing airport given airspace congestion. Thus far, only four commercial airlines (non-US carriers) have confirmed operations at AIFA, and the only international passenger flight heads to Caracas. Thus far, Mexican airlines are currently barred from flying from the AIFA to the United States after the U.S. Federal Aviation Administration lowered its air safety rating for Mexico last year.”

**EDITOR’S NOTE:** The comment above is a continuation of the [Q&A](#) published in the March 31 issue of the Advisor.

with the International Monetary Fund. MK Verreen, program assistant for the Energy, Climate Change & Extractive Industries program at the Inter-American Dialogue, told the Advisor in a [Q&A](#) published Feb. 24 that in the eyes of the IMF, “the possibility that Belt and Road participation increases Argentine debt could agitate relations.” She added, “Transparent negotiations will be essential to navigating these partnerships and jumpstarting a just, green recovery in Argentina.”

## FEATURED Q&amp;A / Continued from page 2

of a population in which approximately 70 percent of citizens do not have a bank account. Paraguay's potential is also aided by certain structural factors that sustain the country's macroeconomic performance. The country generates one of the world's highest levels of electricity per capita. It also has the youngest population in South America, the simplest and lowest tax rates in the region and the oldest currency in Latin America, with a stable trajectory. Lastly, Paraguay has a strategic geographic location, with a market that reaches approximately 340 million consumers and high levels of trade openness."

**A** **Andrea Picaso, general coordinator of the National Programme of Postgraduate Scholarships Abroad "Don Carlos Antonio López":** "Paraguay, like the rest of humanity, is going through the complex context of a post-pandemic economy and an uncertain war scenario between Russia and Ukraine, with potentially significant consequences. Both situations have generated pressure on prices, commodity supplies and other strategic materials in the world. Even with inflation levels above the target range in recent months, both the Central Bank of Paraguay and the Ministry

of Finance have built institutionalism and economic strengths that allow inflationary expectations to be anchored. Therefore, a gradual convergence toward the target range is expected. However, climate change, technological advances, the challenge of taking advantage of the demographic dividend and the benefits of the energy matrix are crucial. With this, the country needs to continue to increase the supply and use of advanced human capital. The gap between Paraguay and other countries in the region is significant. Public sector services have challenges of quality and user satisfaction, while for companies the challenges come from the side of productivity and innovation. For this purpose, a set of policies has been defined as part of the government agenda. One of the emblems is the National Postgraduate Scholarship Programme 'Don Carlos Antonio Lopez' (BECAL), with public-private governance that seeks to continue contributing to improving the performance of public institutions and private companies by incorporating advanced human capital, prioritizing the strengthening of capacities in science, technology, research and innovation."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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**Erik Brand**

Publisher

[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**

Editor

[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Leticia Chacón**

Reporter

[lchacon@thedialogue.org](mailto:lchacon@thedialogue.org)

**Mark Kennedy**

Reporter

[mkenedy@thedialogue.org](mailto:mkenedy@thedialogue.org)



**Michael Shifter**, President

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**Denisse Yanovich**, Director of Development

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Subscription inquiries are welcomed at [ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

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