

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Merike Blofield

Director, Institute for Latin American Studies, GIGA

Devry Boughner Vorwerk

CEO, DevryBV Sustainable Strategies

Joyce Chang

Global Head of Research, JPMorgan Chase & Co.

Paula Cifuentes

Director of Economic & Fiscal Affairs, Latin America & Canada, Philip Morris International

Marlene Fernández

Corporate Vice President for Government Relations, Arcos Dorados (McDonald's)

Peter Hakim

President Emeritus, Inter-American Dialogue

Donna Hrinak

Senior VP, Corporate Affairs, Royal Caribbean Group

Jon E. Huenemann

Council Member, GLG Inc.

James R. Jones

Chairman, Monarch Global Strategies

Craig A. Kelly

Senior Director, Int'l Gov't Relations, Exxon Mobil

Barbara Kotschwar

Executive Director, Visa Economic Empowerment Institute

John Maisto

Director, U.S. Education Finance Group

Nicolás Mariscal

Chairman, Grupo Marhnos

Thomas F. McLarty III

Chairman, McLarty Associates

Beatrice Rangel

Director, AMLA Consulting LLC

Ernesto Revilla

Head of Latin American Economics, Citi

Gustavo Roosen

President, IESA

Andrés Rozental

President, Rozental & Asociados

Shelly Shetty

Managing Director, Sovereigns Fitch Ratings

FEATURED Q&A

How Successfully is Mexico's Gov't Battling Inflation?



Raquel Buenrostro (pictured) was named this month as Mexico's economy minister, succeeding Tatiana Clouthier, who resigned. // File Photo: @SATMX via Twitter.

Q Inflation is reaching decades-high rates around the world, and countries are struggling to contain it. Mexico's annual inflation rate stands at 8.7 percent. The Bank of Mexico cut its economic growth estimates for 2023 to 2.4 percent, while the OECD projects Mexico's economy will expand by only 2.1 percent next year. In this context, Tatiana Clouthier, Mexican economy minister, resigned on Oct 6 and Raquel Buenrostro was named as next economy minister. What is the significance of this change in the ministry and what are its implications? How effective are Finance Minister Rogelio Ramirez de la O's economic policies, including the anti-inflationary package and the Opening Agreement Against Inflation and Scarcity (APECIC) announced on Oct. 3? How is the global economic downturn affecting Mexico's ability to address long-standing social challenges?

A Andrés Rozental, member of the Advisor board, president of Rozental & Asociados and former deputy minister of foreign affairs of Mexico: "Tatiana Clouthier's resignation was mainly a personal blow to President López Obrador. She ran AMLO's successful political presidential campaign in 2018-19 and was a close friend, but it was already clear months ago that Clouthier was no longer part of AMLO's inner circle and was increasingly ineffectual as Economy Minister. Tasked with trying to maintain a relationship with the country's aggrieved private sector, she was unable to counterbalance the hardline members of AMLO's cabinet, especially in seeking to amend the energy legislation that has led to a formal US-Canadian complaint against Mexico for violating the free trade agreement known as USMCA. But even

Continued on page 3

TODAY'S NEWS

POLITICAL

Survey in Brazil Shows Statistical Tie Between Lula, Bolsonaro

A poll published Wednesday shows former Brazilian President Luiz Inácio Lula da Silva leading incumbent President Jair Bolsonaro by just four percentage points, putting them in a statistical tie a week and a half before the runoff election.

Page 2

BUSINESS

Brazil's Nubank Plans Launch of Digital Currency

Brazilian digital banking start-up Nubank said Wednesday that it plans to launch its own cryptocurrency next year.

Page 3

ECONOMIC

Mining Royalty Bill Would Harm Sector: Executives

A mining royalty reform proposed by Chilean President Gabriel Boric's government would harm the sector, company executives said Wednesday.

Page 2



Boric // File Photo: Chilean Government.

POLITICAL NEWS

Poll Shows Statistical Tie Between Lula, Bolsonaro in Brazil

A poll published Wednesday shows former Brazilian President Luiz Inácio Lula da Silva leading his rival, current President Jair Bolsonaro, by just four percentage points, putting the candidates in a statistical tie a week and a half before the country's runoff election, Reuters reported. In the Datafolha poll, Lula had 49 percent support, and Bolsonaro had 45 percent. A previous poll five days earlier showed a gap of five percentage points, with Lula having 49 percent support and Bolsonaro having 44 percent. The latest poll had a margin of error of two percentage points, and it showed that 94 percent of voters have already decided on the candidate they will support in the second round on Oct. 30, Reuters reported. Polls leading up to the first round on Oct. 2 routinely showed Lula with a double-digit lead. The survey released Wednesday was the first since the two candidates faced each other in a debate in which Bolsonaro attacked corruption scandals that happened during Lula's presidency and also that of his successor, Dilma Rousseff, also a member of Lula's Workers' Party. In the latest poll, Datafolha interviewed 2,912 voters from Oct. 17-19. Also on Wednesday, Lula published an open letter to Brazilian evangelicals, aimed at countering accusations that he would persecute them if elected, the Associated Press reported. In the letter, which was read at a gathering of evangelical leaders at a hotel in São Paulo, Lula expressed respect for religious freedoms. "We are living at a time in which lies are used intensively with the objective of stoking fear in people of good faith, pushing them away from a candidacy that is defending them more," Lula said in the letter, the AP reported. "That is why I felt a need to reaffirm my commitment to freedom of religion in our country," he added. Opinion polls have shown Lula losing support among evangelicals. [Editor's note: See [Q&A](#) about the upcoming election in the Oct. 4 issue of the Advisor.]

ECONOMIC NEWS

Chile Royalty Bill Would Harm Mining Sector: Executives

A mining royalty under debate in Chile would harm the sector by affecting competitiveness abroad and would also encourage mining companies to re-evaluate their investments, executives said Wednesday, Reuters reported. The government of President Gabriel Boric has proposed a royalty reform that would include a portion of tax due from mining companies based on sales and another portion based on profitability, which would increase as the price of copper rises. In a speech to lawmakers, Rene Muga, the vice president of corporate affairs at BHP said the legislation under debate would hurt the company's competitiveness abroad, its operations in other countries and investment. "It is our duty to warn that in a highly competitive global world, Chile cannot disproportionately increase its taxes without significantly affecting investment levels," said Muga, Reuters reported. The reform would lead BHP to reconsider \$10 billion worth of investments that it previously announced. The miner had designed the investment package "without considering such an excessive tax burden increase," Muga added. Additionally, Rene Aguilar, the vice president of corporate affairs at Antofagasta Minerals, said the proposed changes would lead taxation to exceed 48 percent, putting Chilean mining companies' tax burden at similar levels to those of Congo, Mongolia and Zambia, the wire service reported. "It is essential to consider the depreciation of investments in the calculation of mining income," Aguilar told legislators. "This is a very relevant point, especially for groups like Antofagasta, which has a potential investment portfolio of close to \$5 billion for the coming years," Aguilar added. Both Muga and Aguilar acknowledged that the mining sector could contribute more in tax revenues, but they said any increases should happen through collaborative agreements between the government and mining companies in order to maintain the

NEWS BRIEFS

OAS Plans to Meet Today to Discuss Political Situation in Peru

The Organization of American States plans to meet today to discuss Peru's political situation as President Pedro Castillo denounced what he said was an attempted coup against his government, Reuters reported. Peru's attorney general filed a constitutional complaint against Castillo on the grounds of "very serious indications of a criminal organization" that had allegedly "taken root in the government." Castillo is facing multiple investigations by the prosecutor's office and has denied all accusations.

Mexican 'Buy Now, Pay Later' App Nelo Gets \$100 Million Credit Line

Mexican "buy now, pay later" application Nelo received a \$100 million credit line from Victory Park Capital, a U.S.-based private equity firm, Reuters reported on Wednesday. The funding provides Nelo capital to grow its business in an increasingly competitive market, with other firms such as Kueski and Aplazo providing similar services. The app allows interest-free installments over time, and its popularity ballooned during Covid-19 lockdowns.

Goldwind in Advanced Talks to Build Wind Turbine Plant in Brazil

Chinese wind turbine manufacturer Goldwind is in advanced talks to build a turbine factory in Brazil, a company executive said Wednesday, Reuters reported. The factory will produce turbines for use in Brazil and may also export equipment to other South American countries, the executive, Roberto Veiga, told reporters at a wind industry event. Veiga said turbines from the plant would start to be delivered in 2024, though did not say where exactly it would be located or what it would cost.

stability of those businesses. Nelson Altamirano, a professor of economics at National University in San Diego, told the Advisor in a [Q&A](#) published July 11 that he expects “a long and intense negotiation process,” adding that the reform could be changed in Chile’s Congress. “I expect the royalty tax to be maintained in the legislature, but the actual rates may be revised down a little in exchange for some sort of tax regime stability for big mining companies,” Altamirano told the Advisor.

BUSINESS NEWS

Brazil’s Nubank to Launch Digital Currency Next Year

Brazilian digital banking start-up Nubank announced Wednesday that it will launch its own cryptocurrency, Nucoin, next year, CNBC reported. The new cryptocurrency represents “another step ahead in our belief in the transformative potential of blockchain technology and to democratize it even more, going beyond the purchase, sale and maintenance of cryptocurrencies in the Nu app,” Fernando Czapski, general manager for Nucoin at Nubank, said in a statement. Built on the Polygon network, the new digital currency will aim to reduce transaction costs and processing time, and its value will fluctuate based on supply and demand, similar to Bitcoin, Nubank said. Earlier in October, Mastercard launched a new tool called Crypto Secure, while Paypal and Robinhood offer trade in cryptocurrencies. Last year, the Financial Times reported high levels of crypto adoption in developing countries. In Argentina, the push for crypto came after decades of distrust in the banking system, high inflation and rigid currency conversion limits imposed by banks. In Brazil, the cost and bureaucracy of legacy financial systems are pushing the trend, the newspaper reported. However, cryptocurrencies are currently facing a downturn that is eating away at their value. [Editor’s note: See related [Q&A](#) in the Aug. 25-Sept. 7 issue of the biweekly Financial Services Advisor.]

FEATURED Q&A / Continued from page 1

more damaging to Mexico’s government than the minister’s resignation has been the wholesale firing within the Economy Ministry of many of the trade officials involved in negotiating a resolution to the energy sector complaint, including the highly respected deputy minister for international trade, Luz María de la Mora. Coming in the middle of these difficult trilateral discussions, the replacement of the negotiating team will surely make the government’s possibilities of resolving the dispute much less probable. If no solution is found within a reasonable time frame, the U.S. and Canada will call for an arbitration panel to decide the issue, which Mexico is almost certain to lose, and consequently face substantial tariff penalties on its exports to its North American partners. As far as inflation in Mexico is concerned, the central bank has been hiking interest rates more or less in line with the U.S. Federal Reserve and the government negotiated a price freeze on a basic basket of food and other necessities with the country’s large retailers, but neither measure seems to have fundamentally altered the rise in prices for corn tortillas and other essentials. GDP growth figures have been consistently downgraded by international lending institutions and Mexican analysts overwhelmingly believe that AMLO’s six-year term will end in 2024 with zero, or even negative cumulative economic growth. This unprecedented state of affairs will saddle AMLO’s successor with a failed economy and an inability to address urgent social issues such as health care, education and extreme poverty.”

Amanda Mattingly, managing director at ACM Global Intelligence: “The shakeup of President López Obrador’s economic team is evidence that his administration is struggling and has not been able to tame inflation in Mexico. Mexico is not alone in dealing with rising inflation, of course, but the change in economy minister from Tatiana Clouthier to Raquel Buenrostro

is evidence that López Obrador’s plan to address inflation is not working and economic growth is slowing. Part of López Obrador’s plan included agreements with private sector companies to cap rising food prices in exchange for government subsidies, but food prices are still trending upward despite the nearly \$28 billion in government subsidies this year to large private companies like Wal-mex and Gruma. Whether or not anti-inflation measures will help reduce rising energy prices is another issue. As the new economy minister, Buenrostro will have to work with Finance Minister Rogelio Ramírez de la O to implement the APECIC and produce economic results for the Mexican people. At the same time, Buenrostro is now in charge of negotiating with the United States and Canada in a significant energy trade dispute, and it’s not clear that she is up to the task coming from a tax authority background. Still, the reality is that Mexico’s economy is so intertwined with the United States, that a slowing U.S. economy, a stronger dollar and higher U.S. interest rates will affect Mexico. López Obrador’s questionable economic policies have so far failed to deliver the change he promised, and now, as the United States sneezes, he and his new team will have to try to fend off a cold.”

Julio César Arteaga, professor in the school of economics at the Universidad Autónoma de Nuevo León: “Secretary

Clouthier was seen as a person who could facilitate dialogue with the business sector, but when she resigned, she indicated that she could no longer contribute more. This leads me to conclude that the arrival of the new secretary will mean less dialogue with economic agents, which is relevant due to the consultations on energy policy that the United States and Canada have requested under the USMCA. This controversy might not be resolved favorably for Mexico, and the dialogue to reach a solution could be important. Additionally, the Finance Ministry

Continued on page 4

FEATURED Q&A / Continued from page 3

does not have room to implement economic policies that contribute to economic growth, and the anti-inflationary package will not be able to control inflation. However, I anticipate that inflation will begin to be contained as the increases in the reference rate by the Bank of Mexico have brought real yields to positive levels. This will begin to have effects in reducing the growth of the economy and, therefore, reduce the rate of inflation. Achieving or not meeting social challenges in Mexico are determined more by local issues than by what happens in the rest of the world, despite the strong connections that Mexico has in terms of commercial aspects with other nations."

A **Elí Sanchez, senior financial analyst at A.M. Best:** "The appointment of presidential loyalist Raquel Buenrostro signals a tougher stance against Mexico's North American partners in the United States-Mexico-Canada Agreement (USMCA) and a continuation of nationalist energy policy. President López Obrador ultimately retains tight control over the government, however, limiting the impact of the change of economy minister. Mexico also has introduced multiple measures aimed at reducing inflation by increasing food production and reducing suppliers' regulatory costs.

The Opening Agreement Against Inflation and Scarcity (APECIC), the most recent of these measures, provides exemptions to certain import regulations for participating companies while introducing export bans on some foods. Though APECIC will likely slow food inflation, it is unlikely to reverse food price rises that currently stand at almost 15 percent, and export bans will lead to higher inflation in other areas of the economy as they depress the value of the peso. The inflationary environment is likely to affect the entire insurance industry—A.M. Best's core focus—as the demand for life insurance products could decline if the returns offered by the industry do not keep up with those offered in the market through more liquid investments. On the property/casualty side, supply chain disruptions and rising loss costs could hamper segment dynamics. Additionally, rising interest rates continue to affect the balance sheets of insurers with long-term obligations. However, insurers with developed enterprise risk management capabilities have been able to mitigate its effects. A.M. Best will continue to monitor claims management amid inflation and currency fluctuations across the industry."

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue ISSN 2163-7962

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
ekuleta@thedialogue.org

Lara Kovandova

Reporter
lkovandova@thedialogue.org



Rebecca Bill Chavez, President

Bruno Binetti, Nonresident Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Senior Advisor

Kevin Casas-Zamora, Nonresident Senior Fellow

Julia Dias Leite, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Sandra García Jaramillo, Nonresident Senior Fellow

Courtney Guthreau, Director of Development

Selina Ho, Nonresident Senior Fellow

Edison Lanza, Nonresident Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, Asia Program

Manuel Orozco, Director, Migration, Remittances and Development Program

Xiaoyu Pu, Nonresident Senior Fellow

Jeffrey Puryear, Senior Fellow

Michael Shifter, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Daniela Stevens, Director, Energy, Climate Change & Extractive Industries Program

Lisa Viscidi, Nonresident Senior Fellow

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

Subscription inquiries are welcomed at ebrand@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

Q&A

EVERY
BUSINESS
DAY

LATIN AMERICA ADVISOR

Readers can suggest topics or trends to be covered in the Latin America Advisor's daily Q&A section.

ASK HERE