LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Wednesday, October 26, 2016

FEATURED Q&A

What Must Argentina Do to Curb Inflation?

Early this year, President Mauricio Macri's administration said it hoped to end this year with inflation of between 20 and 25 percent. However, the inflation rate is expected to be closer to 40 percent. // File Photo: Argentine Government.

Q **In the face of an expected inflation rate of nearly 40 percent this year, according to a central bank poll of economists, Argentines by the thousands are crossing the border, including into Chile, to buy consumer goods, with some waiting in lines up to eight hours in order take advantage of prices that can be three times lower. What are the consequences of the price imbalances for the local economies on the border areas? What should Argentina do about its inflation problem? How long will it take to bring Argentina's currency and inflation back in line?**

A **Carlos Fara, president of Carlos Fara & Asociados in Buenos Aires:** "The problem is not only for neighboring economies, but for the whole of the domestic industry. Seventy-five percent of Argentina's GDP comes from domestic consumption, and this consumption is supplied mainly by small and medium enterprises. The vast majority of these SMEs do not export, so any leakage of external consumption hinders their livelihoods in the long term. President Macri's government began fighting inflation from the beginning. This included leaving the central bank in the hands of more professional and autonomous policymakers, who are reducing the monetary issue and maintaining a high level of positive interest rates. That has made the price slowdown palpable, and the consensus among economists is that inflation will come down from 40 percent a year to 23-25 percent in 2017. It is estimated that the country can achieve an annual single-digit inflation rate by 2019. Beyond that, the government does not want to use the

Continued on page 4

TODAY'S NEWS

ECONOMIC

Marcel Tapped as Chile's Central Bank Chief

Mario Marcel will succeed current central bank chief Rodrigo Vergara when his term ends in December. The appointment suggests that policymakers may pursue more expansionary policies.

Page 2

BUSINESS

Brazil Boosts Profits of Spain's Santander

The lender reported a 1 percent rise in net profit to 1.7 billion euros ($1.9 billion), beating estimates. The bank's Brazil unit helped drive profits, despite falling net profit from Spain and Britain.

Page 3

POLITICAL

Mexico's Ruling Party Expels State Governor

The Institutional Revolutionary Party expelled outgoing Veracruz Governor Javier Duarte, who has been accused of involvement of organized crime and money laundering.

Page 2

Duarte // File Photo: Mexican Government.

POLITICAL NEWS

Mexico's Ruling Party Expels State Governor

The Institutional Revolutionary Party, or PRI, of Mexican President Enrique Peña Nieto on Tuesday expelled outgoing Veracruz State Governor Javier Duarte, who has been accused of involvement in organized crime and money laundering, Reuters reported. "The expulsion of Javier Duarte de Ochoa was decided because it has been proved ... that he systematically violated the party rules and ethics codes," the PRI said in a statement. Duarte failed to show up on Tuesday at a hearing of the party's justice committee, and his whereabouts are unknown, the wire service reported. Last month, the PRI suspended Duarte's membership following the launch of a federal investigation into allegations of embezzlement and diversion of public money. Duarte's expulsion marked the ruling party's re-affirmation of its fight against corruption, the party said. Duarte has denied wrongdoing. His term in office has been marked by an increase in gang violence in Veracruz State as well as a doubling of state debt.

ECONOMIC NEWS

Brazil's Lower House Advances Public Spending Cap

The lower house of Brazil's Congress on Tuesday approved legislation to establish a federal cap on public spending, a victory for President Michel Temer, Reuters reported. The Chamber of Deputies passed the measure on a vote of 359-116. It would create a constitutional amendment to limit public spending growth to the rate of inflation for the previous 12 months for as long as 20 years. The lower house still must vote on a series of suggested changes to the measure's text before it is sent to the Senate. A high level of government spending and the massive corruption scandal at state-run oil company Petrobras have cost Latin America's largest economy investor confidence and its investment-grade credit rating. The country's budget gap increased last year to more than 10 percent of Brazil's GDP. The legislation for the spending cap provides for its potential revision after 10 years. Temer has argued that limits to government spending are crucial, but the opposition Workers' Party of former President Dilma Rousseff has sought to block the cap's approval, saying it would take health services and education away from those most in need. In order to win more support for the measure, Temer's government agreed to postpone caps on education and health spending until 2018. Brazilian Finance Minister Henrique Meirelles has expressed confidence that the Senate would approve the legislation by mid-November without changes. "Approval of the amendment as it stands will be an important signal to economic agents, consumers, investors and businessmen that Brazil is serious about the fiscal problem and committed to undertaking reforms needed to restore growth," Meirelles said before the vote, Reuters reported.

Temer // File Photo: Brazilian Government.

Brazil Sees Inflows Jump Ahead of Amnesty Expiration

Brazil had nearly $1.6 billion in net financial inflows between Oct. 19 and Oct. 21, a senior central bank official said, Reuters reported Tuesday. The jump in financial inflows has been attributed to the upcoming end-of-month expiration of an amnesty for the repatriation

NEWS BRIEFS

Vatican to Open 'Dirty War' Archives to Victims, Families

The Vatican announced it will open to victims and relatives its archives on Argentina's "Dirty War," during which thousands of people were tortured, killed or disappeared while the country's was under military rule from 1976 to 1983, BBC News reported Tuesday. The decision was made at the request of Pope Francis, who wanted to open the files "in the service of truth, justice and peace." Many victims accuse the Roman Catholic Church of complicity in the Dirty War by failing to speak out against the abuses.

Obama to Visit Greece, Germany, Peru Next Month

U.S. President Barack Obama will travel to Peru from Nov. 18-20 as part of what may be his last scheduled foreign trip before his term ends in January. The White House said Tuesday in a statement that Obama will also visit Greece and Germany before traveling to Peru. During his visit to Peru, Obama will attend the Asia Pacific Economic Cooperation, or APEC, Leaders' Summit and will meet with leaders of other Trans-Pacific Partnership, or TPP, member countries. Obama will also meet with Peruvian President Pedro Pablo Kuczynski.

Marcel Tapped as Chile's Next Central Bank Chief

Chilean President Michelle Bachelet on Tuesday appointed economist Mario Marcel as head of the country's central bank, The Wall Street Journal reported. The appointment comes amid expectations that the bank could pursue more expansionary policies in order to stimulate growth as inflation eases in the coming months. Marcel will succeed central bank President Rodrigo Vergara on Dec. 10, when Vergara's term ends.

of irregular assets held abroad. The measure pardons Brazilians holding undeclared assets abroad in exchange for paying a fine. The speaker of Brazil's lower house of Congress said he expects the program to bring in $25.6 billion in fines for the government. The head

The speaker of Brazil's lower house expects the program to bring in $25.6 billion in revenue from fines.

of economic research at Brazil's central bank, Tulio Maciel, said net financial inflows had reached $740 million for the first 21 days of the month, with high inflows offsetting high outflows at the beginning of the month. Brazil's capital had for months been seeping out of the country amid a deep recession and a far-reaching corruption scandal, despite having among the world's highest interest rates. Many analysts predicted that investors would return to the country following former President Dilma Rousseff's ouster from office, but inflows did not immediately increase. Brazil had $50 billion in financial outflows this year from Jan. 1 to Oct. 14, central bank data shows. Analysts believe the outflow trend will diminish as investors rush to take advantage of Brazil's amnesty program before the Oct. 31 deadline.

JOB POSTINGS

EDITOR'S NOTE: We are pleased to share Latin America-related job postings that companies reading the Advisor and others have posted recently.

Liberty Mutual: Vice President, International Strategy and Operations, Boston

Abbott: Senior Security Risk Intelligence Analyst, Abbott Park, Ill.

EMD Serono: Regional Communications Lead, Latin America, Miami

Macquarie: Latin America Infrastructure Analyst, New York

PIMCO: Account Manager, Latin America, New York

Fitch Ratings: Director, Latin America Sovereigns, New York

Inter-American Dialogue: Field Coordinator, Financial Education, Guatemala

BUSINESS NEWS

Walmex Reports Jump in Profits for Third Quarter

Wal-Mart de México's growth in sales and profit increased in the third quarter amid credit and employment growth as well as low inflation, The Wall Street Journal reported. Walmex reported a 10.05 billion Mexican pesos, or $543 million, profit during the three months from July through September, up from 5.92 billion pesos year-over-year. Net profit from continuing operations increased by 17 percent from a year before to 6.7 billion pesos. Sales rose by 11 percent to 126.86 billion pesos, and earnings before interest, taxes, depreciation and amortization rose 12 percent to 11.79 billion pesos. Walmex shares closed down 0.4 percent on Mexico's stock exchange before the report's release. Same-store sales rose by 7.2 percent in Mexico and 5.6 percent in Central America, due in part to the depreciation of the Mexican peso against Central American currencies, which led to higher growth in peso terms. "In particular in Mexico, we had a difficult base of comparison and a competitive environment with a lot of promotional activity," Walmex Chief Executive Guilherme Loureiro said, indicating that tough comparisons and aggressive competition, rather than a deceleration in retail, were to blame for the relatively slower sales growth.

Brazil Boosts Profits of Spain's Santander

A better performance in Brazil helped drive third-quarter profits of Spain's Banco Santander, which today beat estimates, Reuters reported. The bank said today that it had a 1 percent rise in net profit to 1.7 billion euros ($1.9 billion). That compared to an average estimate of 1.5 billion euros in profit in a Reuters poll. In Brazil, the lender posted increases in profit and net interest income as compared to the second quarter and to last year. In a statement accompanying the earnings release, Santander's chairman and executive director, Ana Botín, said the bank is on track to meet its goals for this year. "We expect to finish 2016 with profit

Botín // File Photo: Banco Santander.

growing against the year before, which will allow us to increase the dividend per share and profit per share," said Botín. The bank's net interest income and net profit in Brazil rose for the second consecutive quarter following a drop last year in that market, because of the South American country's deep recession. Santander's performance in Mexico, which, like Brazil, outperformed a consensus estimate by analysts at Jefferies, Reuters reported. Last month, Santander cut its goal for group profitability, in addition to its targets for Spain and Britain, citing low interest rates and the British vote to leave the European Union.

FEATURED Q&A / Continued from page 4

exchange rate as a tool to improve competitiveness, while not altering internal relative prices."

A **Andrés Asiain, director of the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires:** "The relative increase in prices in a country is not just a question of changing prices, but also the evolution of the value of its currency in relation to its peers. In that sense, although Argentina has had a higher level of inflation than most of its trading partners, it is also true that its peso has depreciated sharply against other currencies. With this in mind, Argentina's price competitiveness analyzed through its real exchange rate (which takes into account relative levels of inflation and the prices of currencies), does not indicate a significant rise against its major partners. The Scalabrini Ortiz Center for Economic and Social Studies has followed the evolution of competitiveness since 2001 and has done so substituting price statistics from the previous administration, which was suspected of manipulation, with credible provincial indexes. The comparison shows that Argentina was 31.4 percent more competitive in September of this year than it was in late 2001. The improvement in competitiveness was 50 percent with respect to Brazil (which suffered a sharp depreciation in the real in recent years), 5.8 percent as compared to the United States, 44.3 percent as compared to China and 26.9 percent as compared to the European Union. Comparing the situation in September of this year with the same month last year, the peso's devaluation against other currencies more than offset the high domestic inflation rate, enabling an overall improvement in competitiveness by 22 percent, in addition to 47 percent compared to Brazil, 14 percent as compared to the United States, 9 percent as compared to China and 14 percent with respect to the European Union. Thus, Argentines' purchases in neighboring countries' border areas is mainly explained by price differences of gasoline and duty-free electronic devices, which are cheaper than in Argentina, but they do not indicate a general rise of inflation in the economy."

A **Daniel Artana, chief economist at FIEL in Buenos Aires:** "Argentina is relatively expensive in dollars. Every time similar conditions have happened in the past, it has encouraged Argentines close to the borders to shop in neighboring countries. The evident consequence is that economic activity in Argentine border areas deteriorates. The central bank has a rather ambitious program to reduce inflation to 5 percent in three years. Other countries in the region have been able to achieve such a target in no less than four or five years. The strong peso is a consequence of a relatively tight monetary policy together with a lax fiscal policy that relies on foreign financing of a large part of the deficit.

> **"The evident consequence is that economic activity in Argentine border areas deteriorates."**
> **— Daniel Artana**

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2016

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
freetrial@thedialogue.org