

LATAM PULSE

This week, **Peru** remains in crisis amid congressional resistance to bringing elections forward. In **Brazil**, there will be another attempt to vote for a spending cap waiver ahead of Luiz Inacio Lula da Silva's inauguration on 1 January. The International Monetary Fund (IMF) should release the next funding tranche to **Argentina**. Meanwhile, **Mexico's** controversial plan to ban biotech corn is likely to face a decision point in January as the US government considers whether to initiate a case under the United States-Mexico-Canada Agreement (USMCA).

Peru

On 20 December, Congress will debate whether to bring forward elections to 2023, having controversially rejected the idea at the end of last week. The re-appraisal comes amid continued protests in various parts of the country that originally broke out after Pedro Castillo was ousted on 7 December. Getting a fragmented Congress, in which self-serving parties dominate, to vote for a new timetable may still be difficult. In parallel, President Dina Boluarte will make changes to her cabinet in the early part of this week, replacing her prime minister Pedro Angulo – who was only appointed on 10 December – with someone with a more political, rather than technocratic, profile. Boluarte had originally proposed bringing elections forward to April 2024 but there is a parallel proposal to hold them in December 2023. Electoral authorities have warned that the shorter the timeline, the more the scope for shortcomings in the organization of the vote. Meanwhile, the earlier the vote, the less time there would be for meaningful political reforms designed to address systemic problems that have contributed to the current crisis.

Brazil

This week should see a last attempt this year to vote for a constitutional amendment (PEC) on a waiver outside the official spending cap for social expenditures. The negotiations between president-elect Luiz Inacio Lula da Silva and House Speaker Arthur Lira on the PEC that proposes BRL 145bn to cover the *Bolsa Familia* and other social programs and foresees BRL 23bn (USD 28bn) for the spending of one-off revenues for investments ran into an impasse last week for two reasons. First, the Supreme Court (STF) began to judge whether the so-called "secret budget" of allocations to politicians created during Jair's Bolsonaro administration is constitutional, thus threatening its existence. Second, negotiations on cabinet appointments between Lira and Lula became more difficult due to demands from legislators who were dissatisfied with Lira's concessions to secure his re-election.

In the meantime, Congress passed a bill on 16 December to institute greater transparency in budget allocations, thus securing an understanding with the STF. More importantly, a STF judge ruled on 18 December that social programs such as the *Bolsa Familia* should not be included under the spending cap, thus facilitating an understanding with Congress - or simply, obviating its need. It is expected that the PEC will clear the House on 20 December, thus making it possible for the 2023 Budget Law to be voted on 21 December by Congress. If changes are introduced in the PEC at the House, the Senate will convoke an extraordinary session to vote on them before a final vote on the budget law.

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Argentina

The International Monetary Fund (IMF)'s Executive Board is expected to approve the third review of the current program before the end of this week. That would unlock a USD 5.9bn funding disbursement that will help the government meet its reserve targets and help see it through the period of the year when USD inflows tend to slow the most. However, as is becoming typical under this program, no sooner is one quarterly review over than the challenges of the next come immediately into view. Next year's primary fiscal deficit target is 1.9% of GDP (down from 2.5% in 2022), which will be difficult to achieve in an election year as Finance Minister Sergio Massa will come under increasing pressure to reverse real spending cuts, not least as he himself may end up as a presidential candidate. The next couple of months will also indicate whether November's monthly inflation rate of 4.9% was down to seasonal and circumstantial factors rather than an indication that inflation is now set to undergo a sustained decrease; inflation over the last 12 months to end-November was 92.4%.

Mexico

The US will be reviewing Mexican government plans to amend its plan to ban biotech corn imports in 2024. The amendments – probably involving differentiation between imports of corn for livestock feed and human consumption – were delivered in a meeting held on 16 December involving the US Trade Representative (USTR) Katherine Tai and Agriculture Secretary Tom Vilsack. After the meeting, Foreign Minister Marcelo Ebrard said that he hoped an agreement could be reached before the end of January to avoid a formal dispute panel under the United States-Mexico-Canada Agreement (USMCA). President Andres Manuel Lopez Obrador (AMLO) is scheduled to meet US President Joe Biden on 9 January; the US National Corn Growers Association (NCGA) has called on Biden to make the corn issue a “critical part” of the meeting. For all Ebrard's pragmatism, AMLO will have the final say. Last week AMLO rowed back on Ebrard's conciliatory stance towards Spain; last February AMLO declared that bilateral relations with Spain were on “pause”.

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