



**2022 LATAM
OUTLOOK**

2022 LATAM OUTLOOK

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Opening Letter

Understanding Brazilian domestic politics is a challenge that BMJ has always faced with excellence and professionalism. In an increasingly globalized and connected world, we realize that international politics must be addressed with equal importance. The actions of our neighbors and international peers are a growing concern for the Brazilian domestic dynamic and also for our clients. The relentless pandemic and widespread supply shortages in 2021 revealed that a complete political overview is essential for responsible risk management.

Therefore, BMJ has taken on the mission of analyzing Latin America in 2022. New governments and elections with uncertain outcomes will set the players that will determine the success or failure of maintaining the course of the economic recovery initiated in 2021. The Americas are a dynamic combination of extremely diverse countries, with a significant impact on politics and companies based in Brazil. A critical and analytical outlook on the region's future is crucial for managers and decision-makers.

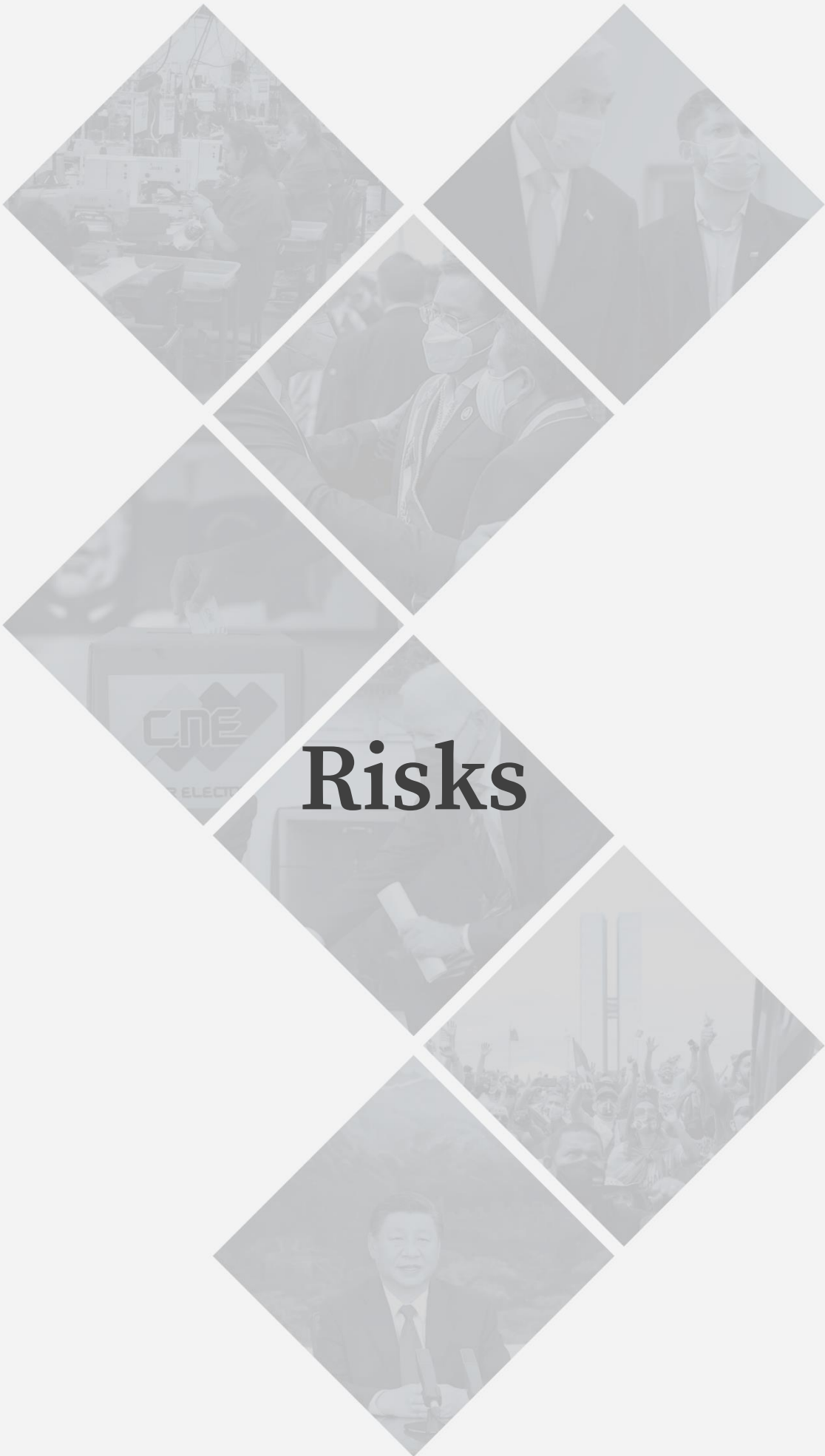
The first edition of the LATAM Outlook was produced by experts from BMJ Associated Consultants and outlines the main trends and risks for the region in 2022. The document analyzes critical issues of the political and economic scenario with a focus on Argentina, Colombia and Mexico, some of the strongest economies of the continent. We sincerely hope that our partners and clients obtain a more detailed perspective on our region's outlook.



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Risks

Political Stability

The socioeconomic impacts of the pandemic will probably continue to regulate political stability in Latin America. Even though most of the region will not have presidential elections in 2022, except for Brazil, Colombia, and Costa Rica, political stability will remain a challenge for countries. On the one hand, the last Latin American elections officialized a "protest vote" for the elected seeking reelection due to the increase in socioeconomic inequalities sharpened by the pandemic. The turnover has caused a domino effect for those who managed to survive the political dissatisfaction; the polarization has been maintained among the general population, and, increasingly, governments have found it more challenging to ensure governability and majority consensus with the Legislative Branch, resulting in more fragile relationships as in Argentina, Ecuador, and Peru. The pandemic has also sharpened the differences between the Branches, which has undermined governability in countries like Brazil, Mexico, El Salvador, and Peru, where conflicts between the other Branches are eminent. The socioeconomic impacts of the pandemic are also relevant to the results of the presidential elections in Brazil, Colombia, and Costa Rica, which may highlight popular dissatisfaction against the ruling base, but at the same time, increase the risks of more populist candidates attracting the electorate.

A report by IPSOS Global Advisor (2021)¹ points out that the major economies of Latin America - Argentina, Brazil, Chile, Colombia, and Peru are among the top eight countries in the world for populism. Political polarization will also be a challenge for political stability in the region. This last risk is likely to be accentuated by the massive use of social networks, bringing other challenges such as fake news and public discontent against institutions and political actors. Another study by LAPOP/American Barometer (2019)² points out that, although most social media users in Latin America support democracy in their respective countries, this group shows the most distrust towards political institutions and traditional media. The Legislative and Judiciary branches are the "least trusted" by users with the highest internet access, reaching 26.5% and 30.4%, respectively. Although there is no significant difference, 33.4% of Latin Americans trust the representation of their respective Executive branches.

¹ IPSOS Global Advisor. **Broken-System Sentiment in 2021: Populism, Anti-elitism, and Nativism**, 2021.

² LAPOP. **The 2018/19 AmericasBarometer**, Vanderbilt University, 2019.

Sanitary

The new omicron variant has caused an exponential increase in new coronavirus cases in Latin America. After reaching the worst pandemic rates in recent years, the region may be better prepared to face the risks of the new wave, especially when considering that the South American sub-region became the leader in vaccination against COVID-19 at the end of last year, with almost 65% of the entire population fully immunized. North America, which includes the United States, Mexico and Canada, has reached almost 60% of the population fully vaccinated, while the Caribbean shows 43%. Considering the whole American continent, the region has 59.7% of the population immunized with both doses (Our World in Data, 2022)³. However, the market still has concerns about the possibility of new restrictions and, consequently, further difficulties in boosting economic growth in the region. Other risks linked to the health issue would be the shortage of COVID-19 tests, underreporting of cases, and the need to implement new vaccination schedules with booster doses. Alternative measures such as the vaccine passport may gain strength if the increase in cases remains in the short term. Uncertainties regarding the impacts of the pandemic may present difficulties in recovering pre-pandemic employment levels and reducing socioeconomic inequality in the region.

Social

Pandemic outbreaks and vaccination progress may curb COVID-19-related widespread dissatisfaction in Latin America, but the region's economic fragility and unequal income distribution are likely to remain stimulating demonstrations and protests against governments. The ongoing high unemployment rates and dissatisfaction with government action may encourage demonstrations such as the Colombian "*paro nacional*" (2021) and the Chilean "*estallido social*" (2019). In both instances, the turnout in protests has led to significant changes in governments' management with setbacks in economic policy in Colombia and the creation of a Constituent Assembly in Chile. Political polarization also boosts popular dissatisfaction. Election disputes in Chile, Peru, and other countries in recent years demonstrate the trend toward polarization in institutional politics, which is expected to occur in countries with elections in 2022, such as Brazil and Colombia. Other countries also encounter challenges in governance and implementation of public policies, raising the possibility of new social conflicts.

³ Our World in Data. **Coronavirus (COVID-19) Vaccinations**, 2022.

According to a survey conducted by the Inter-American Development Bank (IDB, 2022)⁴, the population of Latin America has significantly less trust in its governments than in other regions. The index indicates 0.29 (on a scale of 0 to 1) compared to 0.50 for the rest of the countries in the world. Domestic political environments are important factors in assessing the possibilities of popular dissatisfaction, but the observed regional patterns indicate that the problem is systemic and will continue to be present in 2022. The perceived dissociation between public institutions and the population's wishes indicates that demonstrations and protests will remain in vogue.

State Intervention and Business Environment

One risk for achieving an ideal level of state intervention in the region involves the wave of left-wing elected governments. Although almost the entire political spectrum adopts measures that increase state intervention, it is notorious that left-wing governments tend to adopt more measures that expand the state's physical structure, consequently, its action in society. With many countries going through electoral processes, it is also possible that populist measures come into the picture since their appeal to voters can increase the reelection chances of certain candidates. Increased intervention in foreign exchange markets and changes to reserve requirements for deposits in 2020 and 2021 cannot be ruled out either. Combined with measures to regulate capital flows and by establishing currency swaps with Central Banks outside the region, this represented a trend toward increased intervention in the economy that is likely to continue as long as exchange rates and input prices do not regularize.

Moreover, with the suspension of the Doing Business ranking on the ease of doing business with countries, it is expected that there will be less incentive to adopt measures to improve the business environment of countries. This indicator was an essential source of information and incentive about bureaucratic barriers for companies to do business in the country. Finally, one cannot disregard the continuing effects of the coronavirus pandemic in the region. With the omicron circulating in Latin American countries, the possibility of increased state intervention to combat it in 2022 is not out of the question. Furthermore, the return of certain restrictions, especially in the events sector, may hinder the business environment since it will imply increased costs and reduced revenues linked to more rules for the operation of establishments.

⁴ Inter-American Development Bank (IDB). **Confianza: la clave de la cohesión social y el crecimiento en América Latina y el Caribe**, 2022.

Regulatory and Legal

The regulatory environment is expected to present barriers in 2022 resulting from actions taken during the pandemic. The relaxation of rules to prevent certain activities from passing on possible losses to the end user, such as banks, will be difficult to revert. In addition, the regulation of new digital payment methods and cryptocurrencies are likely to occupy part of the regulatory agenda of Latin American countries. Finally, investment regulation measures and greater environmental requirements will also be shaped. With the topic on the world's agenda, the region must adapt in order to remain attractive and in line with the new regulations that emerge around the world.

Fiscal

Fiscal risk is one of the most worrying issues for the market. The ongoing spending to fight the pandemic and the reduction in economic growth expected for the region reduces the fiscal space available and increases the risk of further debt and deficit. Additionally, measures to contain inflation, such as interest rate increases, imply an increase in the value of debts linked to countries' rates. The combination of these factors means that Latin America does not have a good forecast for 2022, especially in the South American region. This region has experienced higher inflationary pressure and a lower growth forecast than other parts of Latin America. The rising food and energy prices will continue to set inflation in the countries.

Environmental

For 2022, extreme events, persistent deforestation and forest fire rates, and the absence of climate change policies will remain the three greatest environmental risks for the Latin American region. These same risks can trigger specific events, such as waves of migration due to extreme weather events related to climate change, like floods, heavy rains, and landslides. Furthermore, a deeper involvement of the United States in Latin America can be expected, which makes the country a prominent actor of Latin American nations on environmental issues - due to President Joe Biden's strong engagement. The European Union is also expected to position itself as a major player around the environmental agenda and international cooperation with the region.

International Politics

Latin America is not expected to have a strong international projection in 2022. With the pandemic and the economic recovery still dominating the agenda, countries will seek opportunities in the USA and China to boost their economies. Both countries will remain competitive for influence in the region, even though this is not the focus of the foreign policy of either one of them. China tends to remain the main trading partner of the South American countries and will seek to expand its presence in the Caribbean countries. Due to the mid-term congressional elections, the US is expected to focus on the domestic environment, with migration and sustainability being the priority agendas for multilateral action in the region. Emerging regional political integration initiatives such as CELAC and PROSUR are not expected to expand significantly in 2022. The focus of regional multilateral cooperation will remain on trade-oriented organizations such as the Pacific Alliance and MERCOSUR. As in 2021, countries tend to focus on the domestic environment and post-pandemic economic and political stabilization rather than cooperation with neighbors.



Events and Trends



Latin America

Elections and a shift Towards the Left

Since 2019, Latin America seems to be living a new paradigm. From the 12 presidential elections in the region since then, 11 have resulted in the victory of an opposition party/name to those in power. The anti-establishment sentiment was triggered mainly by the major corruption cases that undermined party and political leaders, coupled with significant demonstrations and socioeconomic problems aggravated by the pandemic. This scenario has intensified in recent years, leaving aside an old traditionalism where incumbent politicians, from whatever political spectrum, achieved reelection without too much cost or were able to elect their respective successors. Therefore, in 2022 all eyes will be on this movement of dissatisfaction with the ruling classes in office. In Latin America, only three countries will go to the polls in general elections, which include the Presidency and the Legislative branch: Brazil, Colombia and Costa Rica.

In Costa Rica, despite the large number of presidential candidates - 25 so far - there is no huge divergence in their government programs. The main candidates understand that one of the main urgencies will be to manage the country's public debt that could reach USD 2 billion according to recent data from the Ministry of Finance and the external debt negotiations with the International Monetary Fund (IMF). The prevailing scenario for the future government seems to point to the need to increase tax collection and reduce spending. Otherwise, it is expected that more than 50% of the federal budget will be allocated to debt amortization and interest rates. The polls also point to a high number of undecided voters, and it is unlikely that the presidential result will be defined in the first round, as none of the candidates comes close to the necessary 40% of the vote needed to end the race without a runoff. Of the six candidates dominating the race, two represent the traditional political force in the country, former President José María Figueres of the National Liberation Social Democratic Party and former Vice President Lineth Saborío of the Conservative Christian Unity party. Both politicians represent the most traditional sector of Costa Rican politics. Leftist congressman José María Flórez-Estrada, from the *Frente Amplio* party, may also gain competitiveness throughout the race.

However, the elections in Colombia and Brazil will certainly draw most of the attention in 2022. The first round of presidential elections in Colombia is scheduled to occur on May 29. The runoff could take place on June 19. The elections for the Presidential Palace are likely to be influenced by the demonstrations that have been taking place in the country since at least 2019 and occasioned the #ParoNacional in 2021. Given this scenario, opinion polls indicate that the favorite for the presidential

race is the former mayor of Bogotá Gustavo Petro, a left-wing politician and an opposition to the current government of Iván Duque. The attention is focused on Petro because, if polls are confirmed, he will be the first leftist president to take command of the country. *Uribismo*, led by former president Alvaro Uribe, is still trying to present a competitive candidacy to overcome Petro's favoritism and maintain its historical control over the Executive Branch. An opposite scenario to the one projected by the polls could be fueled by a high left-right polarization as has been happening in Latin America's recent history.

In Brazil, the scenario is similar. Current opinion polls indicate that former president Lula (PT) is the favorite for the Brazilian Presidency and outperforms all his opponents in all scenarios tested. President Jair Bolsonaro (PL) faces an enormous crisis of popularity and is trying to make his candidacy more competitive by appealing to the centrists, the parliamentary group that occupies a large part of the government's political articulation. He is also betting on the new *Auxílio Brasil* benefit, a substitute for *Bolsa Família*, to improve his image among the lower-income families. The trend is for a less polarized election regarding the number of candidates running for the Presidential seat compared to 2018, but the dispute should be centered between Bolsonaro and Lula. Third way candidates are still facing difficulties in overcoming the Lula-Bolsonaro polarization. Bolsonaro's performance is also inferior when his name is tested with third way names in an eventual runoff. If this scenario comes true, Bolsonaro would be the first president since re-democratization who does not win reelection to the post. The current president is likely to bet on a compelling speech against other institutions in case of defeat. Some demonstrations contesting this result are expected among Bolsonaro's most ideological segment, but the democratic institutions in Brazil can still contain any excessive movements towards this direction.

The victory of Lula in Brazil and Petro in Colombia could represent a new moment for the progressive wave in Latin America. Since 2019, except for Daniel Ortega in Nicaragua, most elections in the region have declared victory for candidates from the left after a period of rising right-wing governments: Alberto Fernández in Argentina (2019), Luiz Arce in Bolivia (2020), Pedro Castillo in Peru (2021), Xiomara Castro in Honduras (2021) and, recently, Gabriel Boric in Chile (2021). The new turn could be prompted by the sentiment of dissatisfaction that has driven the center-right in recent years, but this time the coronavirus pandemic and responses to the health crisis are a significant weight for the voters. However, a turnaround similar to the "pink tide" from the 2000s is not expected at the moment, mainly because the elected will inherit a different scenario: besides the uncertainties related

to the pandemic, this time, the elected will face a Latin America with moderate growth, higher inflationary pressure, and higher public debt rates (ECLAC, 2022).⁵

MAP: REGIME AND DEMOCRACY SCORES BY COUNTRY IN LATIN AMERICA

Source: 2020 Democracy Index. Economist Intelligence Unit.



⁵ Economic Commission for Latin America and the Caribbean (ECLAC). **Balance Preliminar de las Economías de América Latina y el Caribe**, 2022.

TABLE: CALENDAR OF ELECTIONS IN LATIN AMERICA IN 2022

DATE	COUNTRY	EVENT
February 6	Costa Rica	Legislative and Presidential Elections
March 13	Colombia	Parliamentary Elections
May 29	Colombia	Presidential Elections
June 5	Mexico	Elections for Governors in six States, 39 Mayorships and 25 City Councils
June 19	Colombia	Presidential elections: runoff
July 4	Chile	Deadline for the Constituent Assembly to present the new constitutional text*
September/October	Chile	Ratifying plebiscite for new Constitution
October 2	Brazil	Presidential and Parliamentary elections
October 2	Peru	State and municipal elections

Economy

High inflation and low economic growth should mark Latin America in 2022. This scenario comes after relatively high growth in 2021 due to the low comparative base with 2020 and the persistent crisis in the production chain that affects the world. According to a report by the Economic Commission for Latin America and the Caribbean (ECLAC, 2022)⁶, the region should grow 2.1% in 2022, after having a 6.2% average growth in 2021. Moreover, the inflationary scenario, which showed a 7.1% acceleration in prices in 2021 (except Argentina, Haiti, Suriname, and Venezuela), is expected to remain above the countries' inflationary targets in 2022, converging to the target center by the end of the year or early 2023.

The low growth stems from an asymmetry between developed and developing countries in implementing policies to address the economic crisis triggered by the COVID-19. By 2021, only 11 out of 33 countries in the region managed to return to pre-pandemic economic levels, and it is expected that by 2022 3 more countries will achieve this goal.

Fighting inflation also hinders economic growth. With the removal of incentives from the economy through a policy of increasing interest rates, there is less incentive for spending in countries, reducing demand and consequently the production of goods. Despite being an important instrument to combat inflation, inflationary pressure is expected to remain present in 2022 due to the increase in input prices (and not the increase in demand). This, combined with the fact that 30% of the jobs lost in 2020 have not yet been recovered, triggers a highly complex situation in the region for 2022.

Pandemic

Latin America was the region most affected by the coronavirus pandemic, in social and economic terms, registering one third of the world's deaths. South America became the pandemic's epicenter, later becoming a reference in the worldwide vaccination against COVID-19. According to ECLAC (2022)⁷ the effects of the pandemic will still be visible during 2022, mainly because the economic growth projected for Latin America is not sufficient to overcome the growth of unemployment and poverty rates in the region. Therefore, the management of the pandemic should continue to affect the actions of Latin American governments. Vaccination will still be the main challenge since the region

⁶ ECLAC, *op. cit.*

⁷ ECLAC, *op. cit.*

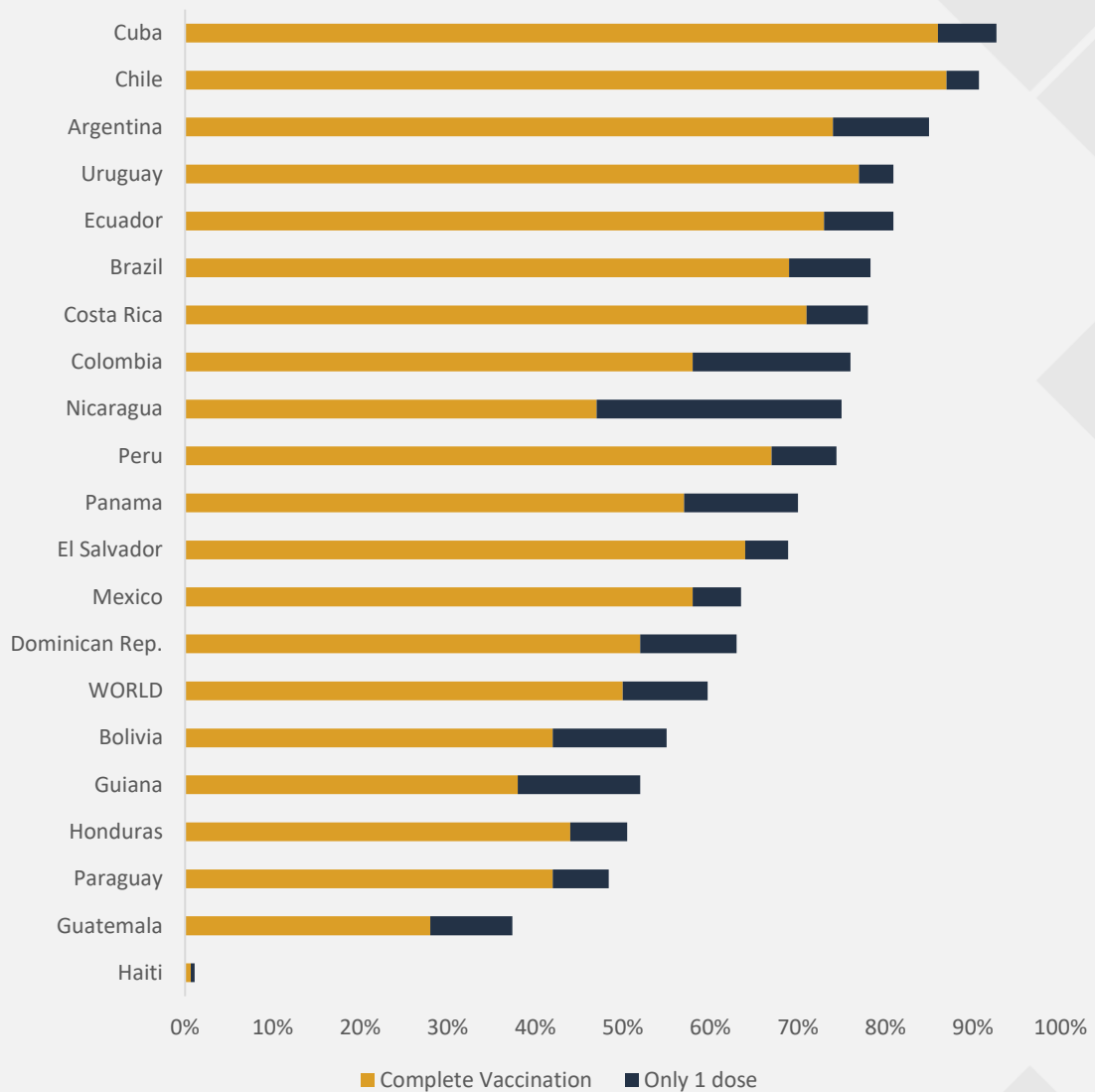
has only 39% of its population fully vaccinated. The impacts of the new omicron variant still pressure governments for a certain urgency in booster dose campaigns. Several international organizations are likely to advocate increased public spending on health care, especially in the short term, to contain further pandemic impacts. Linked to economic issues and the difficulties in reaching pre-pandemic levels, governments should be more cautious about implementing new restrictions, which could further hamper economic growth in the region. The emergence of new variants is likely to remain the main risk monitored, mainly due to the unequal access to the vaccine.

Sectors that have been restricted over the past two years may continue to feel the long-term economic impact of the pandemic, such as events and services, but to a much lesser degree. As much of the region's countries depend on tourism, there should be pressure for the World Health Organization (WHO) to announce regulatory harmonization on immunizers during the year, to make it more flexible for residents of countries that condition the entry of foreigners on select immunizers.

Most countries have experienced a much more rapid increase in omicron cases than previous peaks. Although the odds of developing severe disease have decreased, the more accelerated spread of the new strain continues to challenge Latin American health systems. Thus, continued peaks are expected to be more or less disruptive, depending on the quality of the immunity wall built in each country, the capacity of the health system, and investments in the public health sector.

Vaccinated population in Latin America

Source: Our World in Data, 2022.



Migration

The international migration tide shaping the region is likely to continue through 2022. Moreover, border control across the Americas has become a major migration management issue amid the pandemic. Migration from Haiti, Cuba, Central America, Venezuela, and Colombia shows signs of ongoing mobility within the Americas, specifically to Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, and the United States. Migration from other countries in the region, such as Guyana, Paraguay, and Bolivia, is also likely to show increases in the near future.

Migration from Latin American and Caribbean countries is estimated to grow above 6% during 2022. This number is over double the population growth rate in the destination countries. The migration flow may be combined with a rise in an anti-immigration speech in countries with inadequate public policies to manage migrants. The United States must continue to focus part of its foreign policy on stemming the flow of Central American migration while trying to reverse much of the policies of the Donald Trump era. Given the complexity of the issue, countries are likely to opt for multilateral actions to effectively respond to the migration crisis.

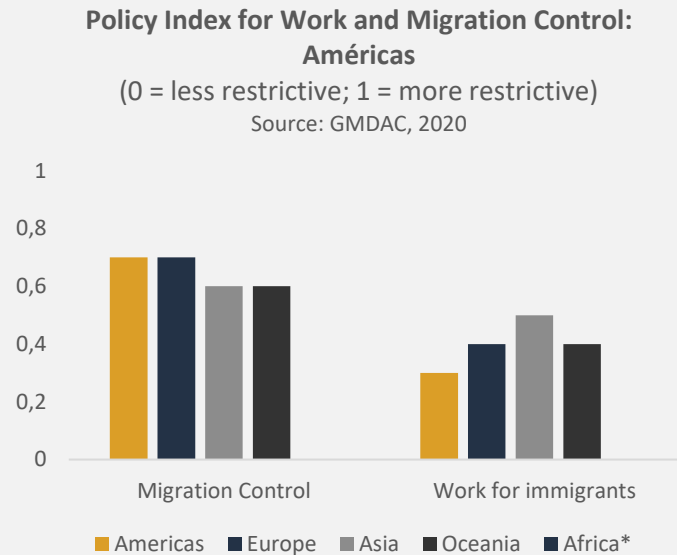
Migration will also be a challenge for new governments facing a high polarization of the issue in their respective countries, as in Chile's case, with Gabriel Boric, and the Colombian President. The anti-immigration sentiment has grown significantly among the most conservative segments in both countries, forcing the new administrations to rethink more effective public policies to contain and adapt to the migratory flows. As migrants arrive in countries that are not historically migrant destinations, such as Panama, Ecuador, or Chile, the challenges of making public policies inclusive will presumably shape the political discourse. It is important to consider that, besides socioeconomic issues, experts have warned that the impacts of climate change could intensify migration flows, forcing a joint action between the environment and migration agendas in several countries. This implies that migration is not an exclusively new phenomenon in Latin America, but many factors potentiate these movements.

One of the characteristics of the migration crisis in Latin America is an intraregional pattern of movement. For economic reasons, Argentina, Brazil and Chile are the most sought-after countries. Venezuela is still the country with the largest number of immigrants leaving in search of better living conditions. In the last five years, more than five million Venezuelans have migrated to another country (IOM, 2021)⁸. A primary concern for civil society organizations is that the pandemic has driven the closure of borders, stricter rules for obtaining legal visas, and increased xenophobic practices and discourse, consequently increasing the vulnerability of this social group. By 2020, more than 10.9 million immigrants worldwide were from South America. Considering America as a whole, the United States (50 million), Canada (8 million), Argentina (2.3 million), Colombia (1.9 million), and Chile (1.6 million) have the highest rates as final destination countries of immigrants (GMDAC, 2022)⁹. The index also points out that America is one of the strictest regions regarding migration control policy (0.7), a scenario that is encouraged by anti-immigration policies in times of economic crises. On the other

⁸ Organização Internacional para as Migrações (OIM). **World Migration Report 2022**, 2021.

⁹ Global Migration Data Analysis Centre (GMDAC). **Migration Data Portal**. Acesso em dezembro de 2021.

hand, labor policies for immigrants are more flexible (0.3), while the group represents 7% of the unemployed population in the region.



Relationship with China

The US position of not prioritizing the region in its Foreign Policy may open space for China to further consolidate its position. Commercial partnerships will remain China's focus, with investments in infrastructure remaining an essential means of resource allocation. Beijing also seeks to expand its activities to the Caribbean due to its geopolitically relevant position (close to the USA) and in countries that are more receptive to its investments (with left-wing governments). Although China does not usually limit its investments to politically aligned countries, the rise of left-wing governments in the region added to the economic fragility due to COVID represent an opportunity to increase its presence, even though other nations continue to be important commercial partners. Still, Latin America may not be the priority of Chinese foreign policy, which will still focus on partners in Asia and Africa.

The supply chain crisis that began in 2021 will continue to impact China's actions during 2022 at the international level. The ongoing difficulties to increase trade flows due to the lack of inputs and transportation affects the Asian country in a particularly severe way, and is likely to keep impacting Latin America. In this sense, these difficulties may limit its capacity to expand its influence in the region through trade, especially if it affects the flows with key countries. Despite this, China's leading role as a trading partner of countries, especially in South America, should be maintained. The economic

situation of many of them is still fragile, and, in most countries, there is a strong dependence on the export of commodities, which maintains Asia as an essential partner for the region.

Thus, a more solid economic growth scenario in the Asian country could imply better indexes for economic recovery in the region. The China-Latin America relationship is likely to remain based on a complementary logic between the economies. China currently occupies a prominent place in international trade in the region, disputing this protagonism with the United States. Usually, Latin American countries seek to benefit through this strategy between the two hegemonies, opting for negotiations with both countries in different spaces and priorities. The tendency is for the Asian country to use the main multilateral forums and actions to expand its action in the region, such as CELAC and investments through the ambitious One Belt One Road.

Relationship with the United States

The United States may not focus its diplomatic activities on Latin America in 2022. Biden's first year at the White House has consolidated the expectation that North American foreign policy will return to a multilateral focus and to traditional alliances that have lost strength during Trump's Republican administration. The US government's policy toward Latin America was rather timid in 2021, which is likely to repeat this year. The mid-term congressional elections may also direct Washington's political capital toward domestic issues, further pushing the region into the background. Countries in the Caribbean and Central America are expected to receive the most attention from the country due to their proximity to US territory and the migration crisis that has emerged in recent months.

Partnerships and trade flows will remain quite significant in the relationship with countries in the region. Despite no longer leading the ranking of trade partners of many South American countries, the US will maintain its efforts not to lose more space to China, although with few prospects of establishing a coherent policy to fight China's advances on the continent. In this sense, the trade antagonism position between the countries that has dominated the panorama in recent years should remain, with little chance of the US changing the Chinese influence on the continent.

The priority themes of US Foreign Policy will be migration, environment, and security, especially in the relationship with countries further north from the Equator. The migration crisis affecting Central America and the controversies involving US management of the border with Mexico will keep the topic on the domestic political radar in both the White House and Congress, which significantly strengthens the importance of migration on the US political agenda.

Horizontal themes expensive to the Biden administration, such as sustainability and environmental preservation, may also be more prominent but will probably be brought up in multilateral arenas by the United Nations (UN) or other international organizations. Another concerning point for Washington is the growth of authoritarian governments in the region. The country may use multilateral instances such as the Democracy Summit to reduce the risk and a more critical position through sanctions against regimes like Venezuela and Nicaragua. Moreover, the presidential elections in Colombia are sensitive regarding geopolitical alliances in the region, since a very leftist politician leads the voting intentions in the main US ally in South America. A change of government in the historically conservative country could turn the US government's attention to the region in the coming years.

Relationship with the European Union

The relationship with the European Union (EU) is expected to be guided by environmental issues, especially concerning countries in the Amazon region and forest deforestation. The bloc's environmental policy has been a priority both internally and in its foreign policy agenda, and this is expected to continue in 2022. French President Emmanuel Macron's leadership in the Bloc's Council between January and June should set the tone for the bloc's discourse for the rest of the year. France is one of the most vocal countries in terms of the sustainable development discourse, and Merkel's retirement as Germany Chancellor reinforces Macron's prominent position within the EU. In this sense, issues such as taxing carbon emissions for imported products and legislation to curb illegal deforestation tend to advance in 2022 and impact Latin American countries.

Regarding trade issues, the bloc should continue to be the most relevant partner for the region after China and the US, even if new barriers related to the environment are implemented. The Free Trade Agreement between the bloc and MERCOSUR is the most prominent initiative, but it has few prospects for significant advances. Several European governments remain skeptical about the environmental commitments made by Brazil and must wait for the presidential elections in the country to resume negotiation efforts. The parties have already signed the agreement, but it must be internalized and ratified by the member countries individually.

Multilateralism

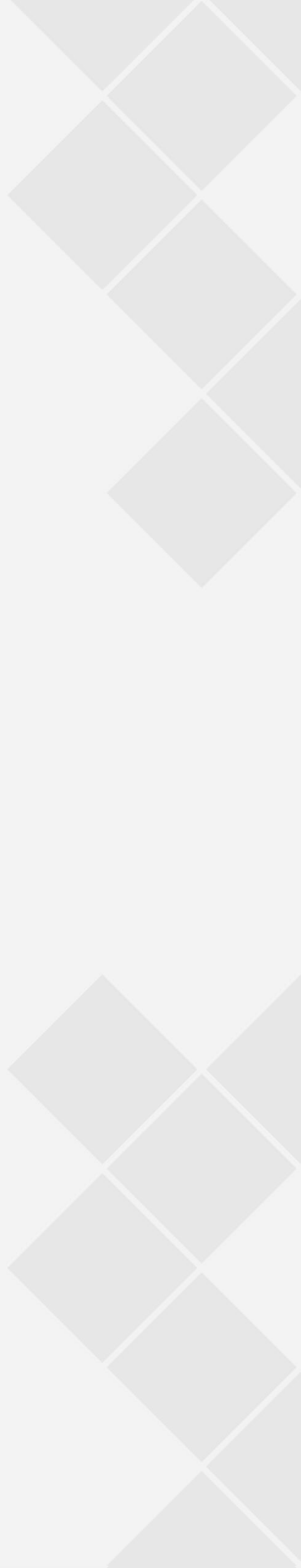
Significant advances in regional cooperation are not expected by 2022. Expressive regional progress in vaccination has not occurred concomitantly with increased regional cooperation as it has in Europe, and substantial political differences tend to keep multilateral initiatives limited. Significant domestic moves in key countries such as Colombia and Brazil are likely to restrain impetus for broader integrations, especially in South America. PROSUR (Forum for Progress and Development in South America) and the Union of South American Nations (UNASUR) tend to remain as politicized organizations without much concrete results, while the Community of Latin American and Caribbean States (CELAC) faces resistance from some countries and does not move forward. Thus, the levels of cooperation seen in the early 2010s are unlikely to be reached in the short term.

The United States might propose multilateral initiatives to address the continent's migration crisis, primarily through the Organization of American States (OAS). The organization will host a meeting between representatives of its 34 members where several topics will be discussed, and migration issues should be brought up as a Biden administration's priority for the region. Sustainable development will also be highlighted in the meetings, as it is the priority of the multilateral cooperation of several regional and non-regional agencies.

From the trade-oriented organizations' point of view, the Pacific Alliance may undergo some specific advances, with the new Chilean government highlighting its importance for the country and the Ecuadorian government seeking to accelerate its definitive entry into the trade bloc. In MERCOSUR, the perspective is of few concrete advances in the bloc's integration agenda. The countries are unlikely to make significant progress in broad agreement negotiations in 2022. The Mercosur-European Union agreement is still likely to suffer obstacles, especially due to the criticism directed at Brazil's environmental policy. With the presidential elections and the possibility of a change in the country's leadership, the European bloc tends not to discuss the text internally. The France Presidency - one of the biggest opponents of the agreement - in the EU Council confirms this perspective, and the bloc will probably continue to criticize Brazil regarding its environmental policy.



Brazil



Social Agenda

The emergence of new variants may remain the main risk related to the pandemic due to asymmetric vaccine access and anti-immunization movements in several countries. It is worth noting that the adherence of the Brazilian population to vaccination is higher than the global average, making the country better able to mitigate the effects with the advance of variants. Governors will be under high electoral pressure and may be more resistant to creating significant restrictions on face-to-face activities. The federal government may also have significantly lower spending to deal with the disease. States and municipalities are likely to remain at the forefront of enforcing pandemic countermeasures such as vaccination passports and local restrictive measures. Public officials may be held accountable for the mismanagement of the disease due to initiatives such as the Pandemic CPI, but President Jair Bolsonaro and other federal officials are not likely to be held significantly accountable in this regard in 2022.

The advance of the pandemic and the population's dependence on the Emergency Aid, combined with a high rejection rate of the government, boosted the discussions around income transfer programs that will be in effect in 2022. *Auxílio Brasil* is now the main program in this sense. It was regulated in November 2021 and came into force with an average ticket of BRL 217, later increasing to of at least BRL 400 until the end of 2022. This implies greater fiscal risk since the whole program with the benefit will represent BRL 50 billion more in the budget. On the other hand, the negotiation of a limitation in the payment of judicial bonds in 2022 and a change in the rule for calculating the spending cap have been necessary, implying more attention from the market on the government's fiscal issue. It is unlikely that the additional benefit will be restricted to 2022 if the prospects for economic growth and unemployment are maintained.

Government and Public Institutions

Bolsonaro's affiliation to the Liberal Party (PL) includes the automatic alignment with the so-called *centrão* - a multipartisan group from the center-right wing which supports the government - but is not restricted to the new party. Bolsonaro tends to choose a vice-president who is part of the parliamentary group and to count on leaders of the old politics in his campaign cabinet. This

movement, however, does not necessarily mean the complete emptying of other core strengths, such as technical, military, and ideological names since some are still central pillars in maintaining distinct niches of the Bolsonaro electorate. Also, it is possible to expect that, despite the alignment, the *centrão* will remain engaged in less controversial issues, such as the economic and reform agenda. Despite this, it is unlikely to automatically support President Bolsonaro's agenda of customs and conservatism. Besides, Bolsonaro's migration to the PL, which may form the most extensive bench in the House, tends to facilitate the negotiation process in Congress in the short term. Maintaining technical names in strategic positions in the economic team and in other cabinets will be one of the main challenges to accommodate the *centrão* and the private sector interests. The alignment with the current political structure of the government may also boost the progress of other more technical agribusiness-related agendas, especially considering the relationship between Bolsonaro and Arthur Lira (PP/AL), who will enter 2022 in his last term as House Speaker. Still, it is possible to consider that the relationship with the Federal Senate may remain unstable: Senate President Rodrigo Pacheco (PSD/MG) may continue adopting a more independent position concerning the Presidential Palace than the House.

Of the 23 ministers in Bolsonaro's administration, six have already confirmed they will leave their positions to run for reelection to the House of Representatives, and three other ministers could run for state governments. According to the electoral rules, ministers, judges, and the military have until April 2 to perform the process of disqualification from office if they intend to run for any elective office in 2022. The changes may open space for *centrão* to exert pressure to fill temporary vacancies. In an eventual victory of President Bolsonaro in the 2022 elections, the parliamentary group may also continue to dominate the government's political agenda and exert pressure to occupy more space in strategic positions in the Ministries.

STF And TSE Presidencies

Justice Rosa Weber will head the Supreme Court (STF) as of September 2022. Thus, Justice Luiz Fux will remain in office for most of the year and during the approach of the first round of elections but will leave in the month preceding them. Rosa Weber has a more discreet profile than most of her peers. Still, she has already decided against the government on multiple occasions in pandemic-related cases. In some instances, Weber may have a confrontational posture, especially if they involve attacks on the STF itself. The government faces important trials next year, and a less favorable presidency could hurt their outcome, although not in a very significant way. In turn, Justice Luís

Roberto Barroso hands the Presidency of the Superior Electoral Court (TSE) over to Justice Alexandre de Moraes in August 2022, two months before the first round of elections. Moraes has a history of friction with President Jair Bolsonaro, and a scenario of tension may remain during the 2022 election campaign. Moraes is the rapporteur in the STF on issues about fake news dissemination. This position generated several criticisms by Justice Moraes to the government and tends to be a point taken to the TSE during and after the campaign, especially considering that Moraes has already indicated that he will continue to engage the issue. The TSE may establish stricter sanctions for the political class involved in fake news dissemination and other electoral crimes for legislative candidacies.

Elections

The 2020 municipal elections signaled that the anti-establishment sentiment had lost strength among Brazilian voters, with the population opting for more experienced politicians in the management of the public machine. The expectation is that this scenario will remain in the 2022 election, which is already noticeable in the results of polls. The loss of strength of the anti-establishment sentiment is a trend at the international level, with movements of the so-called anti-politics maintaining the support of specific niches but with little strength to head victorious presidential lists. New entrants and movements that try to distance themselves from the "old politics" may remain represented within Congress, but with less possibility of standing up to the *centrão*.

With the scenario bringing incentives to known politicians, the polarization between Bolsonaro and Lula da Silva in the presidential race is high. Both candidates are widely known to the population and have a loyal voter base. It is also doubtful that both would receive less than 20% of the valid votes in the first round. The pandemic effects and the slow pace of economic growth give Lula da Silva a momentary advantage. However, this scenario may change with the expansion of income transfer policies and the intensification of campaigns recalling the corruption scandals of the PT administration. Currently, several postulants have been presenting themselves in the race as a competitive third-way candidacy, but with the exception of Ciro Gomes (PDT) and Sergio Moro (Podemos) none scores above two digits in the polls.

Antibolsonarism will be one of the main narrative lines explored by presidential candidates opposing the federal government. President Jair Bolsonaro is expected to suffer the most direct criticism and maintain the highest rejection rates during the election campaign, especially in the first round. A significant decrease in the government's rejection rates depends on the expansion of income transfer

programs. Still, the anti-PT feeling, which had a vital role in the 2018 elections, may remain relevant in 2022. Bolsonaro and the third-way candidates may also explore this. The alternative candidates will need to oppose the two spectrums that currently polarize the debate. Lula da Silva may seek a moderate figure with a good relationship with the market to occupy the vice presidency on his ticket to mitigate this scenario and dialogue with a broader electorate. However, the inconsistent positioning of the former President, who continues to relativize authoritarian leftist regimes and to mention controversial agendas such as media regulation, may be ammunition for his opponents.

President Bolsonaro may be pinned as the main responsible for the country's high number of deaths and cases due to COVID-19. At the same time, he may continue to reiterate that his actions were motivated to preserve the economy. The pandemic may be mostly under control in the months leading up to the election, reducing its impact on promises and electoral campaigns. A similar scenario of using the pandemic discursively may happen for the House and Senate elections, even if in a smaller way than in the Executive races. Elected legislators can engage with the theme to highlight their contributions during the pandemic, but in a limited way, since the most concrete measures in this regard were spearheaded by the Federal or state Executive Powers.

Economy

The lack of inflationary control witnessed in 2021, with domestic prices reaching historic levels, is likely to weigh heavily on politics this year. A drastic reduction in the price level is not seen on the short and medium-term horizon, causing the household budgets to be reduced and creating pressure on the government. In particular, the supply chain crisis and fuel prices are expected to impact prices and economic growth in 2022. The government will be tougher in terms of inflationary control, and its primary weapon for this is the basic interest rate. Its increase to control inflation incurs a reduction in the pace of growth of economic activity. If the remedy is more potent than necessary, this growth can be reduced in a way that increases unemployment. The recently acquired autonomy of the Central Bank encourages that the institution will manage to keep a distance from political pressures and continue to adopt a measured approach to interest rate adjustments.

Economic activity is likely to grow in 2022 but not at the same level as in 2021. This is because 2021 was an atypical year for economic activity. Economies that come out of recessions and crises, as was the case in 2021 after the sharp decline in 2020, tend to have a higher-than-average growth rate in

the following period. After this significant increase, we do not see a tendency to boost activity at the same level. This is likely to occur in 2022, as growth is set to return to the same as before or lower.

Foreign direct investment in 2022 will depend mainly on internal tensions due to elections and economic growth. Both factors are risks for foreign investors, who have already shown that they are not willing - for the most part - to face the kind of stress suffered due to the pandemic in Brazil. The so-called "Brazil Cost" makes investors more aware of internal issues that may affect their business. A reduction in the level of FDI as transpired in 2020 is not expected, despite possible instability (which may not escalate throughout the year). Even if somewhat modest, the return of investors in 2021 shows that the country still attracts business and offers profitability. The most likely scenario is higher investment rates than in 2021 due to domestic stability and the unfulfilled vacuum created by the pandemic.



Argentina

International Monetary Fund

Argentina reached an agreement with the International Monetary Fund (IMF) to refinance USD 44.5 billion in debt. This new agreement is good news for Fernandez's administration since it could allow it to consolidate its recovery process and reduce the uncertainties of investors and companies. Regarding the initial deal, Argentina will continue with price controls as part of its inflation strategy, as well with the FX policy currently in place, without large devaluation jumps. In addition, the government will not seek labor reform or privatize public companies. Because of this, the government will gain more time to organize the public accounts and enter the 2023 elections with a more optimistic scenario after losing the mid-term legislative elections in November.

Some of the main points of the agreement are:

- Goal of a primary fiscal deficit of 2.5% in 2022, 1.9% in 2023 and 0.9 % in 2024;
- Plans to reduce monetary emission, reducing Central Bank assistance to the Treasury to 1% of GDP in 2022, 0.6 % in 2023, and "near zero" in 2024.

The IMF's fiscal deficit reduction targets are highly challenging for Argentina, as there would be no extraordinary taxes in 2022, nor new increases in grain taxation. For the IMF, the priority is to have macroeconomic projections showing how Argentina will generate foreign currency based on policies that allow the economy to grow without resorting to new public debt.

The political agreement with the IMF also depends on internal affairs. The government needs to show the Fund's support for an eventual pact from the largest number of political parties, especially those with a strong presence in Congress and with electoral possibilities of occupying executive positions in the future. For this reason, to improve credibility and confidence, the government will have to provide a stabilization plan agreed upon with the leading social actors from the opposition, but also with social movements, labor unions, and entrepreneurs.

Although Fernández has declared that this deal does not contemplate restrictions that could delay the country's development, the most left-wing bloc of Peronism disagrees with the plan. Thus, part of the kirchnerism believes that such a program would hinder the country's economic growth. Regarding the final document that must be sent to the National Congress for approval, IMF staff and the Argentine authorities will continue their work towards reaching a Staff-Level Agreement in early 2022. A final agreement on a program arrangement would be subject to the approval of the IMF's Executive Board. Negotiating with the opposition and keeping the ruling coalition unity will be the next challenges for the government.

Ruling Base

The defeat in the mid-term elections in November was a huge hit to the *Frente de Todos* coalition, as it intensified tensions within the ruling party. It should be noted that Peronism is a political movement that brings together diverse opposing social sectors within its own supra-partisan structure, coexisting with highly conflicting orientations. Thus, currently, within the current ruling base, there are sharp differences between three movements:

- **Kirchnerism:** Refers to the allies of Vice-President Cristina Fernández de Kirchner. It is the most left-wing bloc of Peronism, with more interventionist slogans and greater state participation in macroeconomic processes.
- **Albertism:** With a moderate tendency, they are closer to President Alberto Fernández. The group has the support of traditional sectors of Peronism.
- ***Frente Renovador*:** Corresponds to the House Speaker, Sergio Massa.

One of the main challenges for the governing coalition in the coming months will be to preserve unity and strengthen ties with allies in the provinces in order to reach a new agreement with the IMF and inject more than USD 45 billion in debt payments. The negotiations with the Fund have raised tensions as more pragmatic sectors of Peronism support IMF agreement to avoid a default, while the more radical wing resisted proposed cuts in government spending and subsidies, advocating a more radical government stance against IMF demands.

Peronist governors and the General Confederation of Labor (CGT) are likely to become Alberto Fernández's main bases of political support in order to guarantee the country's governability. In the long term, the alliance with regional sectors seeks to create favorable space for his reelection in 2023, despite his defeat in the mid-term elections. In the next two years, most of Fernández's activities should focus on an agenda aimed at his possible reelection. Meanwhile, Máximo Kirchner, Vice President Cristina Kirchner's son, has become a key player in the *Frente de Todos* coalition. Some segments are considering Máximo's candidacy for the Presidency in 2023, which could culminate in new tensions between the government's core forces.

Opposition

The new Congress that emerged at the polls last November will remain in office with Alberto Fernández for the next two years. It is essential to note that the ruling party lost its own quorum in the Senate for the first time since the return of democracy, going down from 41 to 35 senators. In the House of Representatives, of the 127 seats, the *Frente de Todos* obtained 50, while *Juntos por el Cambio* obtained 61. Thus, the new balance of power may test the unity of Peronism to agree on a common agenda, amid growing internal tensions.

After losing the mid-term legislative elections, the government will have to negotiate in Congress with a stronger opposition. This could lead to more effective checks and balances, but also to a more volatile policy-making process.

In the *Juntos por el Cambio* coalition, the three parties that make up the coalition (Mauricio Macri's PRO, the centenarian *Unión Cívica Radical* and the *Coalición Cívica*) are divided into eight blocs. The internal divisions show the struggle within the center-right opposition for the 2023 presidential race. Tensions within the main opposition alliance could increase as the elections approach, weakening the Fernandez government's opponents.

State Intervention and Business Environment

State intervention and economic regulation are fundamental aspects of Peronist economic policy. Thus, Alberto Fernández is expected to prioritize control measures in different segments of the industry in order to reduce expectations of devaluation and contain inflation. However, these measures may lead to a consequent increase in relative price imbalances and prevent investment and trade opportunities.

Food price stabilization programs should be extended throughout this year. For the pharmaceutical industry, the government is expected to implement reference prices for medicines, following the temporary price freeze agreement reached with laboratories last November. The agreements aim to contain inflation. Argentina ended 2021 with an index of 50.9%. For 2022, the Central Bank estimates an inflation rate of 55%. Initially, in the budget proposal for the new fiscal year, the government projected that the inflation rate this year would be 33%, but opposition legislators rejected the

forecast, considering it unrealistic. The relationship with the agricultural sector is expected to remain tense, especially after the government extended the ban on the sale of seven cuts of beef abroad until the end of 2023 and established a regulatory framework for the marketing and export of cattle for the next two years.

GDP, Inflation and Economic Growth

Argentina, along with Venezuela, presents one of the highest inflation rates in the Latin American region. For 2021, the indicator reached 50.9% in the year-to-date and within the target stipulated by the government. For 2022, the market projects an acceleration of 54.8% in prices, but the Economy Minister, Martín Guzmán, outlined a projection where the increase would be 33%. The high inflation in Argentina has historical reasons, with a high monetary emission tied to a constantly depreciating currency and interest rates below the exchange rate, which are expected to continue in 2022.

Regarding economic growth, Argentina has one of the highest growth rates in 2021. It is expected that the country will end the year with a GDP 9.8% higher than in 2020. For 2022, however, the figure should be 2.2%, close to the region's average. The reduction in growth occurs precisely because of the accelerated recovery in 2021 with a low comparative base for last year. It is expected that by the end of the year, the situation of price control and export quotas will be normalized, fostering economic growth for the country. It is important to mention that Alberto Fernández's government has a much more moderate line than former President Cristina Kirchner's administration, which could facilitate communication with some economic sectors around the economic recovery agenda.



Colombia

Presidential Election

In Colombia, there is no possibility of reelection, even non-consecutive. Each presidential term lasts four years. The elected President will govern the country between 2022 and 2026. The first round of voting will take place on May 29 and the runoff on June 19. Some of the main pre-candidates have not yet been defined, as their party coalitions will still hold internal consultations to choose a candidate. Current opinion polls point to the favoritism of Gustavo Petro, leftist pre-candidate of the Historic Pact coalition. There is still no consensus on who is the candidate with the best chances of opposing Petro in an eventual runoff, but some of the leading candidates are former Finance Minister Óscar Iván Zuluaga (*Centro Democrático*), from current President Iván Duque's party, and independent Rodolfo Hernández.

The 2022 elections indicate an unprecedented situation in the country, with the potential victory of the left with Gustavo Petro. Colombia has not been controlled by a leftist government for any period of time in recent decades, which distinguishes it from most other South American countries. Since then, only conservative candidates have won presidential elections. Under former President Alvaro Uribe (2002-2010), *Uribismo* has become one of the dominant political movements in the country, winning 4 of the last 5 presidential elections. The growing unpopularity of this movement and the current President Iván Duque, Uribe's political patron, reinforces the difficulties of this ideological camp for these elections. The absence of unity between the conservative and center candidates also contributes to this perspective. A convergence between the two segments is unlikely, at least before the runoff. The tendency is that these camps will remain fragmented until the parliamentary elections in March and, potentially, until the first round of presidential elections in May. Still, it is worth noting that a large part of the electorate can still rally around a more center-based name compared to Zuluaga (*uribista* candidate) or Petro.

In this sense, despite his lead in the polls and signs of the left's strength in recent elections in Latin America, Petro is likely to face a high resistance in an eventual runoff. The former mayor of Bogotá faces high rates of rejection (44%, according to recent polls) for his past participation in the M-19 guerrilla movement and the historic conservatism of the Colombian electorate. Petro also faces some resistance among minority wings within the left, although not enough to substantially threaten his arrival in the June runoff. It is worth noting that the candidate is an experienced politician, holding a prominent position in the Senate since 2018 and governing the country's capital, Bogotá, between 2010 and 2018. In addition, he has already made nods to more conservative and centrist traditional

political leaderships in an attempt to garner votes from these segments, a strategy that should be maintained during the campaign.

Parliamentary Elections

The parliamentary elections will elect the parliamentarians who will compose the country's Congress between 2022 and 2026. Both Senate and House elections will be by proportional representation, and terms of office will last for four years.

- **SENATE:** 100 of the 108 seats will be allocated with the proportional representation result in a single electoral district; two will be reserved for indigenous populations, one seat for the runner-up in the presidential race, and five automatically reserved for the *Comunes* (a party that resulted from the 2016 Peace Agreement with the FARC). Petro was elected senator after losing the race in a runoff to Iván Duque in 2018.
- **HOUSE OF REPRESENTATIVES:** of the 188 seats, 162 will be allocated with the proportional representation result in the states, two will be reserved for Afro-Colombian populations, one for indigenous populations, and one for Colombians living outside the country. 5 are reserved for the *Comunes* and 16 for regions especially affected by the civil conflict that has affected the country. The last seat is reserved for the second-place vice-presidential candidate.

The elections are expected to maintain a fragmented party distribution in the legislature, in which the Executive Branch will need to form coalitions to ensure governability. Given the conservative history of elections in the country, the majority of parliamentarians are likely to tend toward the center. Therefore, an eventual left-wing government would have difficulties approving significant reforms. Moreover, the "Historic Pact" coalition is betting on a strategy of launching candidates focused on boosting the presidential candidate, which could lead to a disadvantage against strong candidates from the rest of the political spectrum. Still, it is worth noting that the popular dissatisfaction with the Duque administration is also reflected with the disapproval of the Congress performance, which should lead to an above-normal renewal of representatives and fewer politicians being reelected.

The congressional elections will also be a baseline for the presidential elections. Given that they take place on March 13, more than two months before the first round of presidential elections, the results may impact the formation of alliances and perceptions of the strength of the main candidates for Presidency.

Security

In 2022 the Peace Accords that ended the conflict with the FARC will complete 6 years. Despite the official end of the conflict, security concerns and conflicts involving drug trafficking have remained on the political agenda ever since. The issue is expected to be brought up during the presidential and parliamentary elections and will continue to affect the population's daily lives, especially in rural areas. It is worth noting that other active guerrilla groups (such as the National Liberation Army) and drug trafficking groups are still significantly active in more isolated regions of urban centers.

Concerning the 2016 Peace Accords, many of the conservative candidates considering running for election are expected to maintain a critical position toward the agreement and its implementation. *Uribeismo* is against the signed agreement, criticizing it as too soft on Farc members. The Duque government has sought to modify several clauses during its mandate. A victory of the left or the center in the presidential elections would tend to strengthen the provisions of the document and its implementation.

Drug trafficking also involves the diplomatic relationship between Venezuela and Colombia. The Duque government accuses Nicolás Maduro's government of protecting and financing Colombian armed groups in an attempt to destabilize the country. Dialogue with neighboring countries will be one of the government's priorities in 2022. From an electoral point of view, the guidelines on how to conduct the relationship with Venezuela are expected to be integrated into the discourse of the main candidates. The current Colombian government has recognized Juan Guaidó as the self-proclaimed President of Venezuela since 2019, accusing the Maduro government of being illegitimate and dictatorial. Venezuela's reopening of the land border for trade in late 2021 is a positive sign of rapprochement for 2022, but a significant change before the new President takes office in August is unlikely.

From an international point of view, the US may remain an important regional partner of Colombia. Considering the US policy to combat drug trafficking and the strategic position of the South American country as a gateway to Central America, Colombia should remain a strategic and influential geopolitical actor. Moreover, it is worth noting that the critical position towards Venezuela and the regime of Nicolás Maduro also contribute to the rapprochement with the US regime, which also does not recognize the current Venezuelan government. A victory by Petro, who has already declared his intention to re-engage with Venezuela, could tighten the relationship with the US, but is unlikely to end the ties between the countries in the short term.

New Paro Nacional

A new wave of protests like the "*Paro Nacional*" that took place in early 2021 is unlikely. The climate of popular dissatisfaction with the government is expected to continue during Iván Duque's term but will manifest itself primarily through voting in elections. If the poll results are confirmed, Colombia will join other countries in the region that seeks to implement the "protest vote" against the political orders in office. The difficulties arising from the pandemic and the economic crisis will continue to impact the population in 2022, but to a lesser degree than in 2021. The popular perception of worsening economic indicators such as inflation and unemployment tends to be counterposed by the economic recovery of 2021, when the country's GDP grew above the continent's average. Therefore, this is not expected to be reflected in large protests. It is worth mentioning that the *Paro Nacional* arose after popular dissatisfaction against Duque's tax reform that would result in higher prices for basic goods. In an election year, controversial issues tend to be left on the back burner.

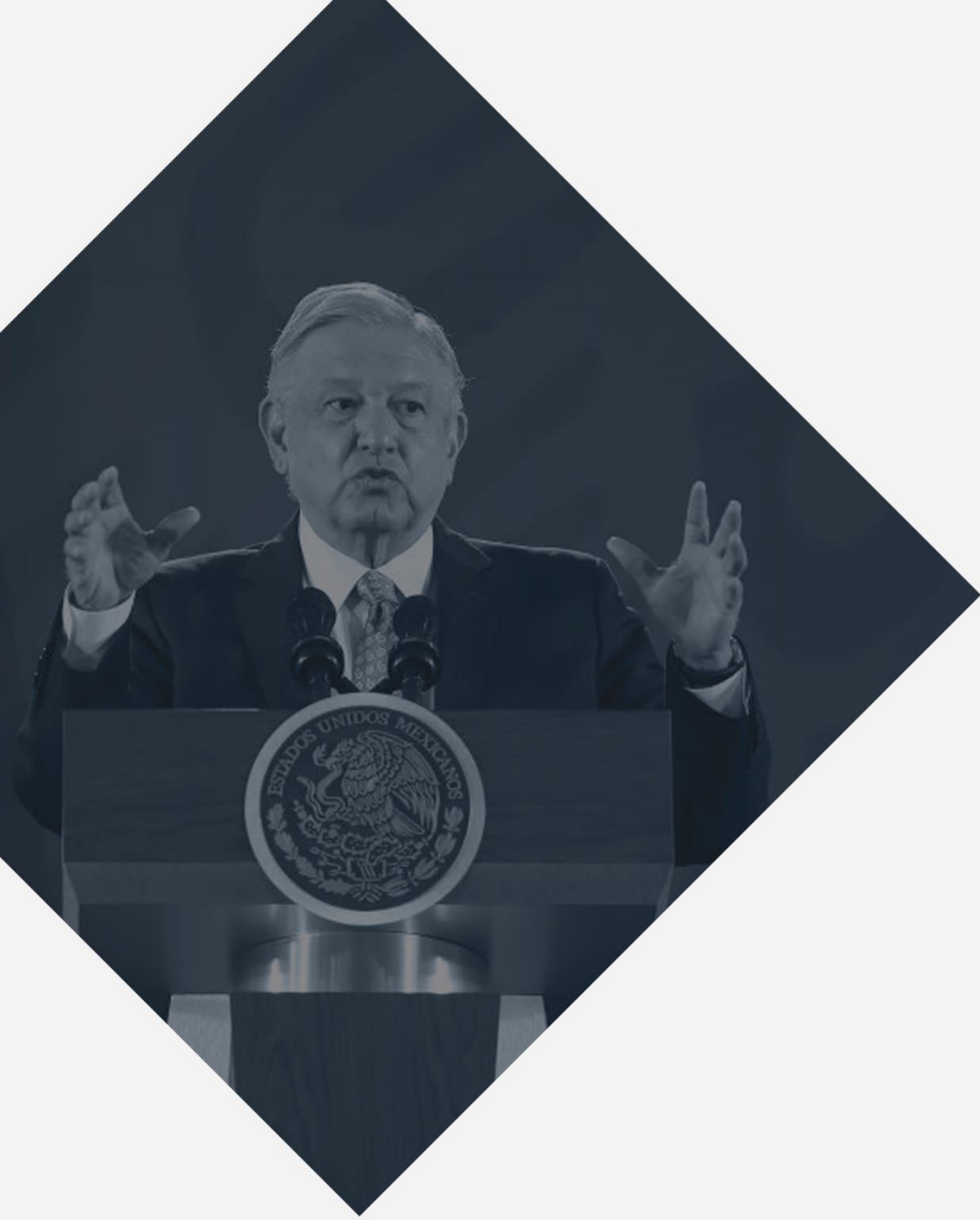
In practice, this does not mean that popular acts will not occur. Issues such as urban and rural violence, economic inequality, and disagreement with some economic reforms will remain prominent, as they require long-term solutions from the government. Systemic aspects of the country's economy, such as continuing high unemployment rates, will also keep the government on the alert for protests, especially if the recovery slows down.

A new head of state taking office in the second half of the year also tends to restrain large demonstrations from the inauguration until the end of the year. Considering that wide-ranging and unpopular reforms are not likely to occur soon after the inauguration, it is unlikely that a government action will provoke a new wave of acts. Moreover, the new government is expected to try to distance itself from unpopular measures that brought it to a halt in the first moment, such as a radical tax reform.

GDP, Inflation and Economic Growth

Colombia showed one of the highest economic growths in the Latin America in 2021. The country is expected to close 2021 with a GDP increase of 9.5%, while the region's average was 6.2%. In 2022, growth is expected to be 3.7%, lower than in 2021, but still above the average for the region (2.1%) and South America (1.4%). The slowdown in growth comes as the boost provided by investment in the country last year wanes and labor market conditions improve. In addition, fiscal consolidation is expected in the medium term for Colombia due to the tax reform plan approved in September, along with a fiscal rule re-established after a two-year suspension due to the pandemic.

About inflation, it is necessary to point out that the country closed 2021 with an acceleration of 5.62% in prices. For 2022, this indicator may rise above 4%, the ceiling of the inflation target for the country. The price of food was the primary factor of 2021, affecting mainly the lower-income segment of the population. The recent currency devaluation and the increase in the minimum wage should have a major effect on the indicator in 2022, and a stronger monetary policy cannot be ruled out. It is important to note that price increases in the basic food basket and essential sectors were the main drivers of mass mobilizations throughout 2021 in Colombia, keeping inflationary risk as one of the main drivers for social demonstrations, especially during the election period.



Mexico

Energy Reform

One of the main campaign and government proposals of Andrés Manuel López Obrador (AMLO), energy reform is one of the primary agendas of the Mexican government for this year. AMLO's proposal establishes that the state-owned energy company, *Comisión Federal de Electricidad* (CFE), will hold 54% of the power generation market in the country. Despite having the support of 13 governors and the Head of Government of Mexico City, the proposal still faces resistance in Congress. Between January and February, congressmen and stakeholders in the electricity sector will discuss AMLO's proposal for electricity reform in 12 sessions. The setbacks result from the mid-term elections in June 2021, when President López Obrador's party, Morena, lost its absolute majority in Congress. Even with the alliance with other parties, such as the PT and Partido Verde, Morena still does not reach the qualified majority (two-thirds) to approve constitutional reforms, which implies direct negotiations with opposition parties, such as *Movimiento Ciudadano* (MC), PRI and PAN. The government coalition's forecast is to complete the vote on the Energy Reform by April, a very ambitious schedule considering the difficulties surrounding the agenda.

Another major challenge for AMLO's energy reform will be to overcome international resistance, particularly from the United States. Recently, the US Senate Finance Committee requested US trade representatives to more strongly oppose the reform. According to the legislators, AMLO's proposal violates the agreements reached by the Mexico, United States and Canada Treaty (T-MEC) in the energy, labor, agricultural and economic sectors. The imbroglio gained momentum after the Mexican government suspended the import authorization of more than 80 US companies over Pemex, the Mexican oil company, and the CFE. Another major challenge for the state-owned energy company will be to keep up with the lower cost and cleaner energy production implemented by the last reform in 2013, consequently impairing the country's chances of achieving its sustainable goals. Moreover, there is a concern that private energy generators will find obstacles to sell energy directly to large consumers. For the government, the proposal is a priority, but its advance could mean further caution for foreign and private investments in the country, which could harm the country's economic growth and the return to pre-pandemic socioeconomic indexes. If the proposal does not succeed, the tendency is that López Obrador will intensify his attacks on other institutions under the pretext that the matter is of popular interest.

Term Recall

Term recall is also a priority agenda for AMLO in 2022. The President intends to call for a new popular consultation so that voters can choose whether the President will remain in office for the next three years. AMLO also advocates for the practice to be banned by future rulers. However, the proposal is still being resisted, mainly by the National Electoral Institute (INE), which claims no budget is available to hold a new popular consultation in 2022. The INE's statements have opened a conflictive line between the Executive and Electoral branches, with daily attacks by López Obrador and his allies on the autonomous body. The government's proposal is to conduct the consultation in April. There are some necessary points to consider when analyzing this risk. The first is that if AMLO fails to hold the consultation, the tendency is for a much more aggressive posture among the other branches, which could increase the risks for political stability and the levels of polarization in the country, raising distrust about the country's independent institutions. The second point is that López Obrador is still an extremely popular politician. The latest opinion polls indicate that he has the highest ratings in the region, with 60% average of popular approval. This implies that the recall process would have a merely symbolic character. The government is aware of its popularity ratings and that the consultation would not lead to a result contrary to its expectations.

The popular approval achieved by the process could imply, as a consequence, an opportunity for more incisive nods and speeches by AMLO, damaging the stability of democratic institutions and the relationship between the other branches of government, since the recall would serve as a political instrument for intensifying conflicts between the other actors. The scenario highlights an imminent danger of risks in the region, such as signs of democratic fragility, challenges in governance issues, and the growing concentration of power among populist leaders with authoritarian biases. The scenario could be even more intense if the governing bench in the Congress impels the term revocation, its success or failure, as an opportunity for AMLO's electoral reform, which, among other points, would facilitate the dismissal of the members of the Electoral Council and the Electoral Tribunal and hamper the institution's autonomy.

Another relevant point is that, in addition to its purely political nature, revoking a mandate would imply expenses not contemplated by the current budget provided to the INE, resulting from a cut made by the government itself. Moreover, if the electoral body has sufficient resources to implement AMLO's proposal, there is still the risk of not having concrete results. In the last popular consultation advocated by the government, which sought to carry out the political assessment of former presidents, the INE registered only 8% participation. For a consultation to be considered valid, 40% of

eligible citizens must participate, around 37 million Mexicans today. With Morena's presence falling in important districts, it is still unlikely that the ruling base will be able to mobilize this contingent in the short term.

Infrastructure Projects

The federal government has three priority projects for 2022: the Felipe Ángeles international airport, the Dos Bocas refinery, and the Tren Maya. In late December 2021, López Obrador issued a new decree to transform his government's infrastructure agenda - energy, environmental, port, airport, water, sanitary, and other matters - as a matter of national security and public interest. The government intends to avoid any legal embargoes in the priority agenda and speed up bureaucratic procedures, such as the facilitation of licenses and authorizations in a maximum of five working days. Moreover, the Mexican government has opted to increase military participation through the Secretariat of National Defense in civil works, giving more power and autonomy to the Army, which organizations have criticized. Some indigenous organizations have also questioned the government's priority agenda, claiming that the megaprojects hurt the autonomy of the communities. The Tren Maya proposal, however, is not expected to be completed until 2023. The Secretariat of Communication and Transportation (SCT), the main body for infrastructure projects, will have a budget of more than USD 3 billion for railroad, road and air projects, remaining one of the priority agendas for the government throughout 2022.

One of the great challenges for this sector is a historical condition. Infrastructure still has difficulties maintaining a long-term characteristic and vision, which would minimize the excessive ruptures in different sexenniums. Historically, the different federal administrations have bet for a more segmented agenda that often complies with their own political interests and temporary needs. The pressure is not exclusive to López Obrador's government, but it highlights a certain urgency to think about long-term infrastructure projects and programs that involve economic and social development capable of surviving different administrations and six-year periods.

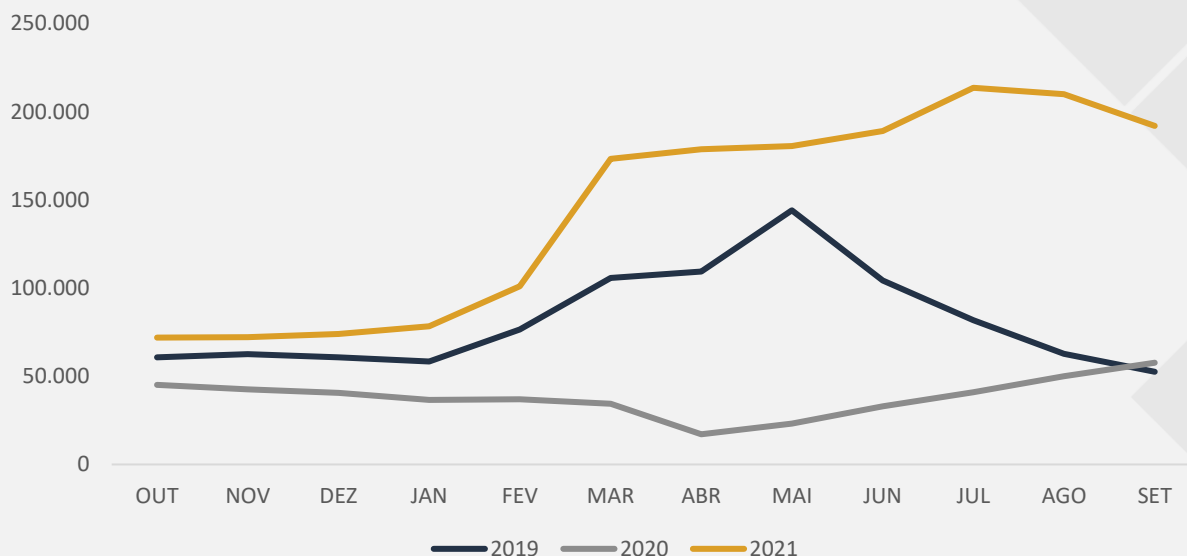
Migration

The migration crisis in Mexico is expected to remain one of the main foreign policy vectors for the country, besides the coronavirus pandemic. Since Joe Biden's administration resumed a series of protocols of Donald Trump's anti-immigration policy, "Remain in Mexico", the Mexican government has been charged by the United States for more concrete actions to contain the migration, given that Mexico is considered a transit country. One of the reforms implemented by Biden is to enable immigrants to receive faster legal assistance while waiting for their asylum applications. Meanwhile, the Mexican government will continue to press Washington for mutual cooperation to improve conditions along the southern border, on issues such as shelter construction, internet access, and improved enforcement and security. However, it is important to consider that there is an effort by the new administration to end Trump's policy, which was only resumed after a court decision. The White House has submitted a request to the US Court for clarification on whether the government will be required to maintain the program. The pressure is coming from states that see the migration with more concern, such as Texas and Missouri. Before the program was reintroduced, immigrants who applied for asylum after crossing the Mexico-US border could await the verdict on US soil. The Supreme Court currently has a conservative majority, which could mean difficulties for the Biden administration to reverse some of Donald Trump's anti-immigration policies.

The issue is also considered a concern for the Mexican government, since one of President López Obrador's main proposals was to decrease the flow of immigration across the borders, which did not prove feasible last year, when the flow of immigrants surpassed the records of 2019 and 2020. In 2019, the Department of Homeland Security detained more than **977,000 immigrants** at the border with Mexico. In 2020 the number dropped to **458,000**, but in 2021 more than **1,7 million people** were detained at the border. The search for better socioeconomic conditions is one of the main causes of immigration, a scenario enhanced by the impacts of the pandemic.

Immigrants detained at the border with Mexico

Source: U.S. Customs and Border Protection, 2022.



With a much more Central American-oriented foreign policy, Mexico has been pressuring the United States to ensure that, in addition to counterpart investments in security and border improvements, Washington supports and funds other socioeconomic programs for Central American countries. The United States and Mexico recently announced a similar program, *Sembrando Oportunidades*, which will provide scholarships and schooling for young people from Honduras, El Salvador, and Guatemala. The project is similar to López Obrador's national policy, *Sembrando Vida*, which seeks to encourage environmental conservation and stimulate agroforestry projects in more vulnerable country areas. The beneficiaries of *Sembrando Vida* receive a monthly amount of MXN 5,000 to carry out work on their respective lands with a focus on sustainability and regional development in the short, medium, and long term. The *Sembrando Oportunidades* project should also prioritize agricultural activities and will be driven by the Mexican Agency for International Cooperation (Amexcid) and the United States Agency for International Development (USAID). The investment amounts of each country have not yet been disclosed, as well as the beginning of the program. The agreement is good news for Mexico, mainly because the United States was still resisting what would be the best methodology to curb the migratory waves in the region. Historically, the United States has not offered a direct disbursement for policies of this size either. In a two-way street, the reduction in migration flows could benefit the popularity ratings of both administrations, but mainly of Joe Biden, who has been facing a reduction in approval ratings in recent months.

GDP Inflation and Economic Growth

Mexican inflation is expected to remain above the 3% inflation target in 2022, after closing 2021 at 7.36%, the highest level in more than 20 years. According to the Bank of Mexico, inflation is expected to reach 6.7% in the first half of the year, but to close the year at 3.5%. Despite the lower figure than in 2021, the pressure due to the crisis in the production chain and the uncertainties due to the advance of the omicron variant still affect market expectations about the economy.

Accordingly, economic growth is also expected to slow down in 2022. According to the ECLAC report (2022), Mexico is expected to grow 5.8% in 2021. For 2022, the expected is 2.9%. The reduction is due to the country's interest rate increase to combat inflation and the slowed recovery that occurred in the third quarter (and is expected in the fourth quarter) of 2021. Although the 2.9% growth is low when compared to 2021, the 2021 comparative base was also low. Moreover, the growth is above the region's average for 2022. It should be noted that such expectations may be altered if there is a deceleration of the omicron variant and the consequent reduction of external concerns about the country's recovery. So far, the federal government has ruled out new restrictions to deal with the new wave of the pandemic that could affect the country's economic growth. Restrictions on the trade and tourism sector could further accelerate this risk. Also, new restrictions on the northern border with the United States concern the Mexican government in its economic recovery agenda. The market will also be attentive to the federal government's attempts to negotiate the electricity reform in the country, which intends to prioritize state power over the production and distribution of energy, maintaining a certain fear regarding economic stability and, consequently, stagnating foreign and private investments.



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