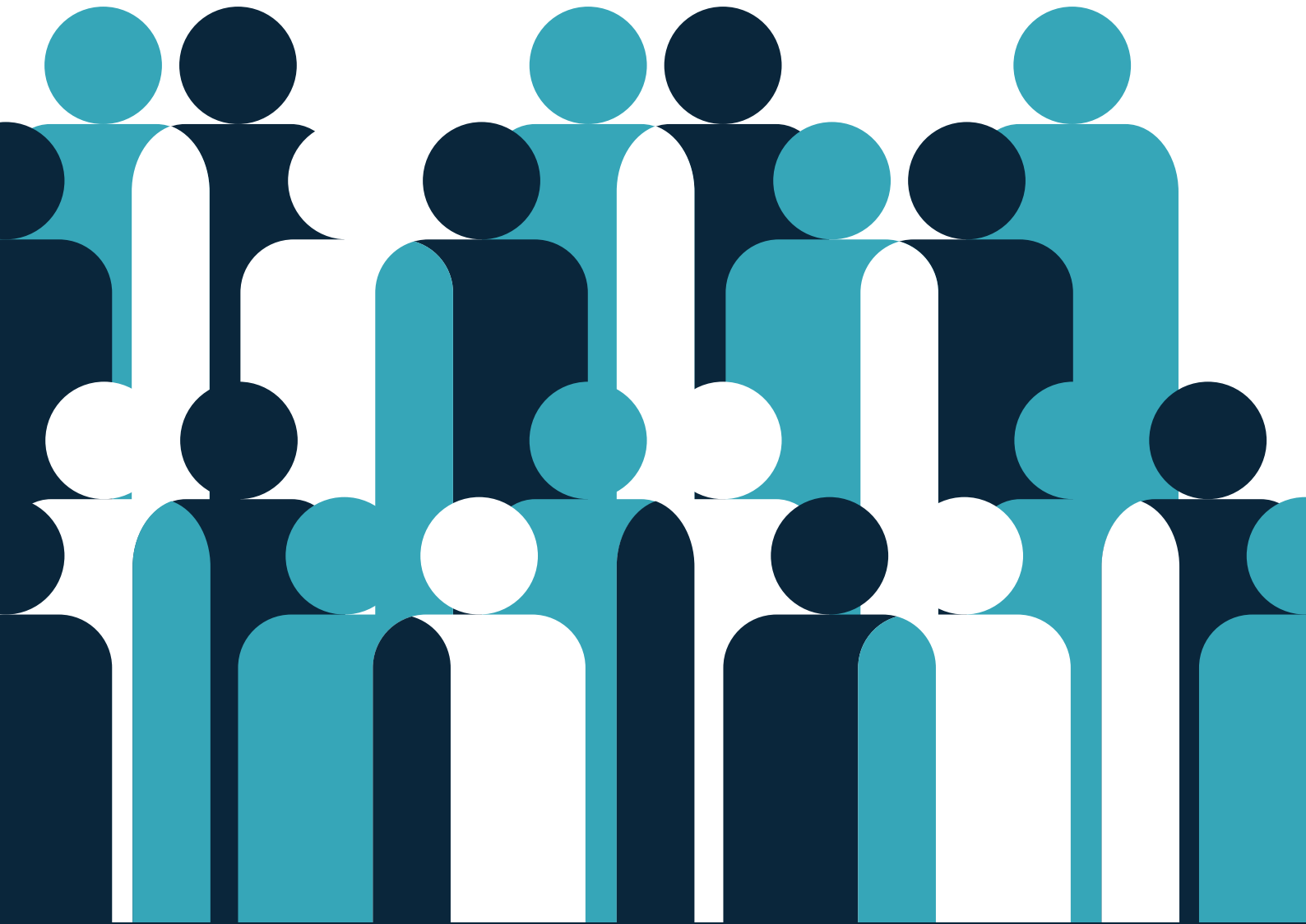


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DEMOCRACY OR POPULISM?
2023 TRENDS IN PUBLIC AFFAIRS



DEMOCRACY OR POPULISM?

2023 TRENDS IN PUBLIC AFFAIRS

April 2023



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PRESENTATION

Lobbying has always been used to drive and change a country's public policy, with interest groups using it to influence public policies from outside the public sector. One of the main changes we are seeing today is that lobbying, defined by the OECD as a "legitimate act of public participation," is becoming not just one tool, but the main tool for transforming public and regulatory policy. The fact that public policy changes are largely driven by the private sector (including companies, associations, and organized civil society in general) is ceasing to be an oxymoron or a conspiracy theory; now, it openly complements classic political participation.

In this report, LLYC's Senior Director of Public Affairs - Spain Dr. Carmen Muñoz highlights one of the main trends surrounding this practice, using not only her own technological background and advanced insight, but also ChatGPT. Following is a brief but interesting analysis of 2023, focusing on the political and economic challenges across the countries where LLYC Public Affairs operates. As consultants serving our clients' legitimate interests, we are committed to growth, job and wealth creation, stability, and the improvement of democracy in all our markets.

Between economic, health, and humanitarian crises, the tension between populism and democracy has already marked the year. In this document, we would like to share our vision of business as an economic and social actor that can create balanced, sustainable, and inclusive economic growth. When we can achieve this, that's the best recipe for peaceful coexistence and strong democracies.

JOAN NAVARRO
Partner and Vice President of
Public Affairs at LLYC

6 GLOBAL TRENDS FOR LOBBYING IN 2023: MORE TECHNOLOGICAL, MEASURABLE, TECHNICAL, AND “GUERRILLA”

Lobbying has always been used to drive and change a country's public policy. Interest groups have used lobbying to influence public policies driven by political and legislative bodies from outside that area. One of the main changes we are seeing today is that lobbying, defined by the OECD as a “legitimate act of public participation,” is becoming not just one tool, but the main tool transforming public and regulatory policy. The fact that public policy changes are largely driven by the private sector (including companies, associations, and organized civil society in general) is ceasing to be an oxymoron or a conspiracy theory; now, it is a reality found in societies that have not kept up with defining new frameworks and rulesets.

In our [2022 Public Affairs Trends Report](#), we talked about technology's impact on analysis and data visualization, as well as on how we communicate (e.g., videoconferencing and instant messaging applications). We also discussed the role companies play as thought leaders when they invest in knowledge and information, which they can then use to better understand complex environments or new realities. The political class needed to face the challenge of regulating not evolutionary models of society, but disruptive models that reflected new (and sometimes unexpected) realities. These can reverse questions and answers and force us all to work within new paradigms.

We saw how technology was responsible for this situation, not only due to new sectors and economic operators but also due to their impact on traditional ones. 20th-century - even late-20th-century! - responses were no longer useful. Nor was much of the institutional architecture that came after World War II, starting with the Bretton Woods institutions. The theoretical framework we have maintained to this point is becoming obsolete. This is true regarding not only major public policies, but also - and above all - the administrative and bureaucratic perspective.

Companies began investing more and more in generating positive impact through their own initiatives, covering trends like corporate political responsibility and Lobbying for Good. Alongside this, the roles played by associations and employers' associations were changing. As greater agility was required to build consensus, these organizations faced the not-so-obvious and not-so-naturally reconcilable challenge of simultaneously maintaining their relevance and representation.

And finally, we saw a growing interest in having the business sector take a larger role in geopolitics and diplomacy as the globalizing (or rather, universalist) utopia lost some steam. Now, we will see where that path has led, from the struggle for regional competitiveness to a defense of a set of values and social model that

Putin's invasion of Ukraine and bloc policy threatens to break (once again).

All these trends have been consolidated into three main areas:

TECHNOLOGY

1. Integration of artificial intelligence, increasing efficiency and automating tasks
2. Data engineering (data-driven lobbying), improving analysis potential and ability to anticipate trends early

ACCOUNTABILITY

1. Increased transparency via regulation
2. Measurement of business and activity reputational impact

COMPETITIVENESS AND DIFFERENTIATION

1. Better regulation through Smart Regulation
2. Campaign lobbying

To explain each of these trends, I am going to use the trending tool of Q1 2023, ChatGPT. It is so popular that the sheer number of users accessing it at the same time has meant I have not always been able to access it while writing this article, as if it were a consultant having a bad day. Let's see if, together, we can describe all of the above.

CARMEN MUÑOZ
PhD and Senior Director of
Public Affairs at LLYC Madrid

INTEGRATING ARTIFICIAL INTELLIGENCE INTO PROCESSES

CHATGPT'S ANSWER:

Technology has revolutionized the way lobbying activities are carried out. Task automation, process optimization, and more efficient information management are just some of the places where technology has had a significant impact on the world of lobbying.

In the past, information was collected and managed manually, which required a lot of time and effort. Today, there are technological tools that allow

data to be collected and analyzed in real time, which in turn facilitates informed decision-making.

Automating repetitive tasks, such as scheduling meetings and managing emails, has freed up time for lobbying professionals to focus on more strategic work. In addition, technology has improved the ability to monitor and track public policy, allowing for a faster and more effective response to change.

In summary, technology has had a positive impact on task efficiency and automation in the lobbying world. It has allowed for more efficient information management, freed up time to focus on more strategic tasks, and improved ability to monitor and follow up on public policies¹.

Although ChatGPT clearly doesn't want to hurt any feelings with its answer, the reality is that this year, public affairs teams will introduce tools like this one into their day-to-day work to automate simple and repetitive tasks (others, not so much). While there is of course plenty of room for improvement, the speed at which these tools are learning and improving is dizzying. [Stanford University](#) has already published a report on some of the trials carried out, and the year has only just begun. The key now is to actively participate in trial-and-error and to develop protocols for an ethical and honest framework.

¹ChatGPT responses appear in a box. Each box stores the answer ChatGPT gave to a question in line with the numbered title, corresponding to the identified 2023 trends.



“Data-driven lobbying uses data and research to identify key decision-makers, understand their priorities and concerns, and develop targeted lobbying strategies that are more likely to be effective”

DATA-DRIVEN LOBBYING

CHATGPT’S ANSWER:

Data-driven lobbying refers to the use of data analytics and insights to inform and guide lobbying efforts. This approach uses data and research to identify key decision-makers, understand their priorities and concerns, and develop targeted lobbying strategies that are more likely to be effective. The goal of data-driven lobbying is to improve the chances of achieving a desired outcome by relying on data and evidence to inform and support lobbying efforts.

Intelligence analysts and data analysts work together to improve the quality and potential of diagnostics for lobbying, managing large volumes of data to make decisions that go beyond intuition. Today’s data engineering allows us to better reverse engineer how decisions are made and how social, media, and political agendas connect. The great challenge for 2023, however, lies in the early anticipation of major political and regulatory trends.

TRANSPAREN- CY AND REGULATION

CHATGPT'S ANSWER:

Transparency and regulation of lobbying activities are important issues in today's democracy. Lobbyists are pressure groups that seek to influence political decisions in favor of their interests. Although these groups play an important role in representing the demands of certain sectors, it is necessary to ensure that their actions are clear and transparent to avoid conflicts of interest and corruption.

In lobbying, transparency includes an obligation to register and declare their objectives, financing,

and activities before a regulatory body. In addition, it is important that lobbies are transparent about their relationships with politicians and public officials, and that these public servants also declare their links to these groups.

Regulating lobbying activity is essential to ensuring lobbying is legitimate and avoiding conflicts of interest. This regulation includes limits on lobbying activities, such as prohibiting making offers or gifts to politicians, and an obligation to act in an ethical and transparent manner.

In conclusion, transparency and regulation of lobbying activities are fundamental to a healthy democracy, free of corruption. It is important that these groups play

a legitimate role in representing their interests, but they must always do so in a clear, open, and well-regulated manner.

The "in conclusion" is the best part... The truth is, in addition to the needs mentioned above (registering interest groups, publishing senior officials' agendas, maintaining a code of conduct, etc.), we are facing the challenge of incorporating **indirect lobbying** into future regulations. We have already seen this in certain draft pieces, such as the Spanish government's draft bill on transparency and integrity in the activities of interest groups, announced for 2023 (though the country was already working on it at the end of 2022).

"Transparency and regulation of lobbying activities are fundamental to a healthy democracy, free of corruption"



MEASURE- MENT

CHATGPT'S ANSWER:

Measuring lobbying's impact is essential to evaluating how effective strategies and actions carried out by interest groups and organizations are in influencing political and governmental decision-making. This measurement makes it possible to understand the degree to which the established objectives and goals have been met, then, consequently, to adjust or improve future strategies and actions.

Furthermore, measuring the impact of lobbying contributes to transparency and accountability. By understanding the results and impact of lobbying actions, society can assess whether they are in line with its values and priorities.

It is also important to note that measuring the impact of lobbying allows different stakeholders' and organizations' performance to be compared, contributing to fair competition and continuous improvement in lobbying.

In summary, measuring the impact of lobbying is key to ensuring lobbying strategies and

actions are effective, transparent, and accountable. Without it, it is difficult to understand the actual impact of these actions and make informed decisions in the future.

A company's public affairs activity has an impact on its business and reputation. Defining a model for that impact is another challenge facing a field that has spent the last 15 years in a process of professionalization. Even so, it will only be able to reach the pinnacle of strategic areas and boards of directors if it can measure itself too.

“Measuring the impact of lobbying is key to ensuring lobbying strategies and actions are effective, transparent, and accountable”



BETTER & SMART REGULATION

CHATGPT'S ANSWER:

Stakeholders can nurture a system based on smart and better regulation in the following ways:

- Providing information: Stakeholders can provide valuable information and insights to policymakers and regulators about the real-world impact of regulations. This information can contribute to the development of smarter and more effective regulations.
- Encouraging dialogue: Stakeholders can encourage open dialogue between policymakers, regulators, and stakeholders. This can lead to a better understanding of different groups' needs and concerns, helping build consensus around regulation.
- Driving innovation: Stakeholders can help drive innovation and progress by highlighting the need for new solutions and technologies. This can lead to the development of smarter and more effective regulations that are more responsive to society's needs.

However, it is important to ensure that lobbying activities are transparent and free of conflicts of interest. This can be achieved by implementing strong ethical and transparency standards and establishing robust oversight mechanisms. This can help ensure that lobbying activities contribute to (rather than subvert) the development of smart and effective regulation.

What is more, it is no longer that lobbying activity impacts an organization's business and reputation, but that regulation itself (its quality and complexity) impacts a country's

business ecosystem. Economist Juan S. Mora-Sanguinetti recently published an [article](#) in Revista de las Cortes Generales saying "regulation is approved to help citizens and companies mitigate their uncertainty and reduce their transaction costs. Regulation would make up for a possible lack of information in the market." On the other hand, "poorly designed regulations could generate more transaction costs for citizens and businesses instead of reducing them." Working on a more technically sophisticated and dynamic type of lobbying, one capable of simplifying regulation, is another challenge we must face in the coming years.



“GUERRILLA” LOBBYING

CHATGPT’S ANSWER:

The term "*guerrilla* lobbying" refers to unconventional political influence and advocacy tactics. These tactics often involve the use of creative or surprising methods to draw attention to an issue, make an impact on public opinion, or influence political decision-making. In general, this type of lobbying seeks to generate reactions or change opinions in a short period of time.

In addition to all of the above, there is another type of lobbying - "*guerrilla*." This incorporates marketing, communications, and/or advertising to gain leverage, with a focus on short-term results. These processes also include work on [behavioral policies](#), especially in B2C organizations, which seek to improve efficiency by influencing behavior and decisions using behavioral techniques that facilitate consent and adherence to a standard. Food labeling is one example of this.

“Guerrilla lobbying incorporates marketing, communications, and/or advertising to gain leverage, with a focus on short-term results”





EUROPE



THE EUROPEAN CONTEXT OF PERMACRISIS

Several analysts agreed that the term "permacrisis" was the word that best defined 2022. Everything points to the fact that this "long period of instability and insecurity" is going to define the year 2023.

Brussels, or rather the European Union, will be a key player in managing these multiple crises, including the geopolitical, economic and social impact of the war in Ukraine to the pressing need to accelerate the energy transition (while safeguarding the available supply) or the definition of a competitive positioning strategy that favors the development of Europe's industrial sector. Spain

will play an influential role within the EU within this context of uncertainty since it will be holding the EU Council Presidency during the second half of 2023.

Similarly, and inevitably, the European sentiment this year will be largely defined by the end of the cycle, with the European Parliament elections in the spring of 2024. This trend is likely to continue to weaken the support of the major political families that have driven the European project (Christian Democrats, Social Democrats and Liberals), whose projections point to a slight majority (55% of the seats, compared to 60% at present). Despite announcing there will be immediate reforms, this so-called Qatargate has significantly damaged the credibility of the institutions. A few days ago, the President affirmed, "It has destroyed 20 years of trust in

Parliament," and it will not facilitate the citizens' participation at the polls.

We can therefore expect that the new Parliament will complicate consensus-building at the European level considerably. These are not good news given these circumstances where, although the EU has been surprisingly united since 2020, there will be an increasing need to deal with internal differences of opinion when it comes to making decisions of strategic importance. Even if the dreaded "winter of discontent" has not happened yet, the risk of fatigue and discordant voices is real. The response towards China or the extent of the response towards the US Inflation Reduction Act are examples of the challenges that the EU is facing to define and promote a clearer and firmer discourse of its own. Four years

after Von der Leyen announced the arrival of a "Geopolitical Commission", it is clear that we still have a long way to go.

The end of the cycle will accelerate relevant legislative dossiers. The most noteworthy projects are those in the digital sector (with future regulations on chips, AI, and data as the most important projects), energy (with a boost to the reform of the current pricing model) or communication (including regulating the media and illegal online activities that could generate an important debate about privacy and the right to access information). The Spanish Council President will play a key role to promote those initiatives that are closest to their own agenda.

In any case, the main debate in Europe throughout 2023, with very relevant implications for a large part of the business fabric, will revolve around Europe's response to the industrial support plans implemented recently by other regions (especially the United States, as well as Japan and China itself). This is not a small debate: The challenge is to provide the technological

leadership of the ecologic and digital transformations. The Commission's announcement just a few days ago of a Green Deal Industrial Plan will have to be implemented in the coming months. The Commission's proposal includes important legislative measures such as the future regulation of critical raw materials and a potential deregulation of the state aid regime, as well as the creation of a new sovereign wealth fund to expand the financial possibilities of Member States with less fiscal room left to operate. The major differences between Member States with regards to the very existence of this fund, its timeline and the funding mechanism, indicate that the negotiations will be extremely complex.

Lastly, the underlying concern is how to provide the EU with the necessary financial resources to meet the necessary funding to invest in "green" and digital technologies. This will require that Europe needs to encourage the "made in Europe" approach both in industry and in innovation. Despite its budgetary increase,

the Multiannual Financial Framework (MFF) does not have the necessary flexibility or scope. Instruments like the Next Generation EU define the path for the future of the Union, which must focus on facing common strategic investments, with financial support and goal alignment, to the succession of crises that we have been facing. Europe is facing a new structural challenge: Overcoming the North-South divide and making bold investments in geo-political and geo-economic positioning to enable the EU to compete, and not just survive, in a rapidly changing environment.

PALOMA BAENA OLABE
Senior Director of European
Affairs & Next Generation EU
at LLYC Madrid

“Instruments such as Next Generation EU mark the path for the future of the Union, which must commit to common strategic investments to face, with financial muscle and alignment of objectives, the succession of crises that we have been facing”



SPAIN 2023, A SUPER ELECTION YEAR

2023 is a key year in Spain. It will be a year framed by a Great Campaign, as the Municipal and Autonomous Community Elections in May and the General Elections at the end of the year will take place. Furthermore, there is the six-month European presidency from July to December 2023.

Thus, these three major milestones will shape the political dynamics of the year, given that the electoral results across all levels of decision-making, local, regional and national will lead to changes in government and, therefore, changes in

the management strategies and priorities of different administrations.

It is worth noting that on May 28th, 13 autonomous communities will be holding elections, and some of them may experience changes affecting their government's political color as well as variations in the current pacts and coalitions. In addition, 8,131 municipalities will elect their mayors, which will lead to changes in the administrations that are closest to the citizens, and will also condition the composition of governmental bodies (Diputaciones, Cabildos and Diputaciones Forales).

And we must not lose sight of the fact that May 28th will be the first round of the national elections, since changes in some of the municipalities that are currently governed by the left,

which is what the polls indicate, may provoke voters to opt for a change at the national level and/or shape the date of the general elections.

We must also take into account both the role of the pacts and agreements planned for both the right and the left of the political chessboard. Since the absolute majorities that the PSOE and the PP enjoyed for years are long gone, not only at the national level, but also in many of the Autonomous Communities, the creation of governments may depend on complicated agreements between different political forces. Therefore, it becomes a challenge for the major parties to get the electoral pacts right, since the agreements made at local or regional level may condition the pacts at national level, if the case arises.

These potential pacts will depend, in part, on the alignment of the political forces that are farther left of the PSOE and, in part, on the decisive role of VOX for the PP's governability in some territories.

There has been a recent reorganization of the political forces leaning further to the left of the PSOE, leading to the establishment of regional pacts such as the Tura Agreement or the alliances between both parties of Podemos and Izquierda Unida (United Left). With this context of agreements and discussions between the forces to the left of the PSOE, it is clear that this is a necessary prerequisite for the eventual success of a single left-wing front, something that the Sumar party clearly intends to achieve.

Joining these parties in a single candidacy would make it easier for Sánchez to reinstate a progressive government, while the fragmentation would make it difficult for him to obtain a clear majority. Meanwhile, the PP is still in the process of integrating with Ciudadanos, while the favorable

forecasts in most polls point to the need for a pact with VOX in order to be able to govern.

The Spanish Presidency is currently underway at a key moment for the current Government, which is currently in the midst of an electoral campaign. Therefore, the Government will try to use this opportunity to improve both its external and internal image. This means the Spanish Government will propose an agenda and carry out specific actions throughout the next six months to improve their public image and, in particular, that of the President in order to be reelected.

This is all being influenced over the coming months by the economic climate and the frictions that are taking place within the ruling government over laws such as the "Sólo Sí es Sí" law, the Transgender Law, the Housing Law and the Animal Protection Law, among others. revalidate his position.

It will be an important year for the future of Spain and for the next four years.

“The political dynamics of Spain in 2023 will be marked by the Municipal and Autonomous Community Elections, the General Elections at the end of the year and the six-month European presidency”

SUSANA CAMARERO
Senior Director of Political
Context Europe at LLYC Madrid



FROM LESS TO MORE: THE SPANISH ECONOMY IN 2023

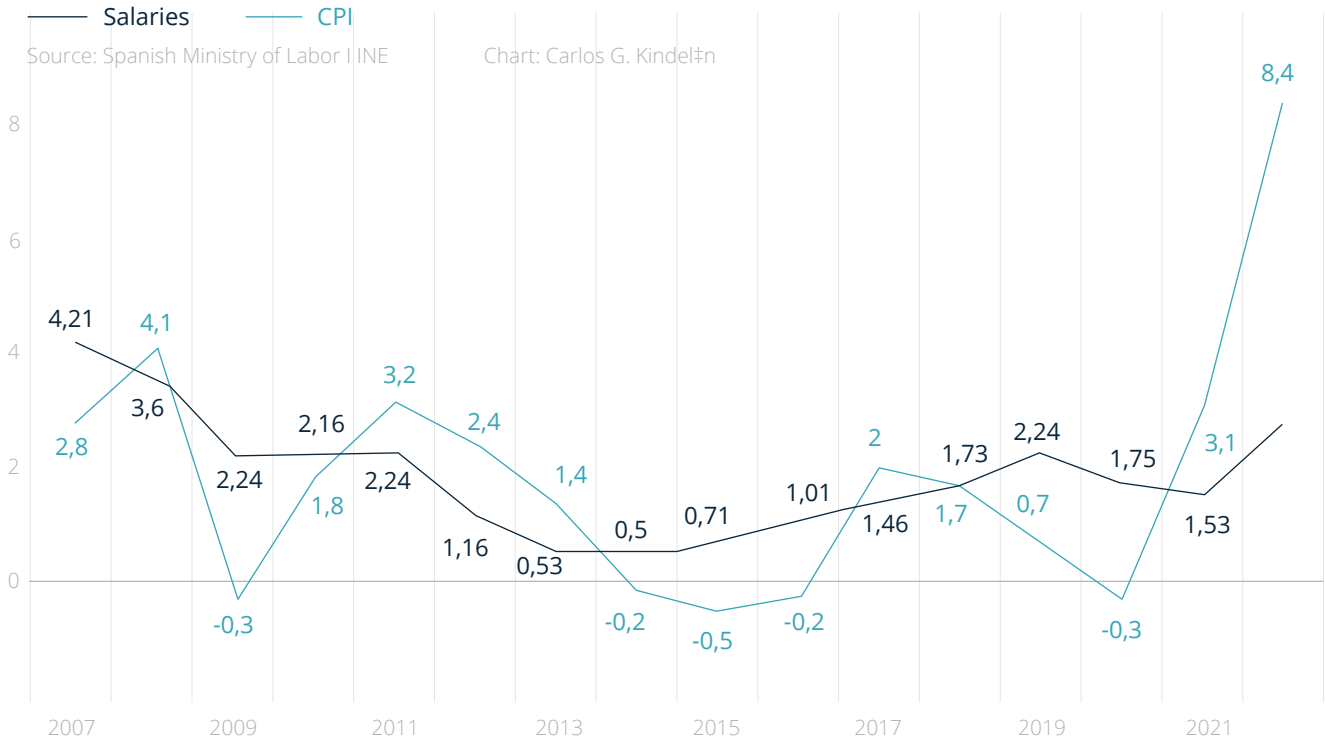
Wage devaluation is once again emerging as the way out of the international crises following the pandemic and Putin's war in Ukraine. Taking place in the traditional way, via inflation, the loss of customer purchasing power is already having two clear impacts in Spain: A fall in household consumption (and therefore GDP growth) and an increase in social inequality (already reflected in national income data). Too many people are being left behind; the government has been enacting

important measures, but they have been shown to have little depth.

Though we have yet to return to pre-pandemic GDP levels, we ended 2022 in a better situation than expected, with resounding 5.5% average GDP growth and clearly declining consumer price index (CPI). But the underlying reality casts a dark shadow of doubt on this year's economic performance; according to all estimates, we will face a sharp slowdown that will reduce average growth to around 1.5%. This is not the recession some have warned of (in fact, forecasts are now shifting upwards), but it is undoubtedly a significant drop in growth. As this is an election year, this topic will undoubtedly be a part of the political power struggle.

If anything sums up the past year, it is the spectacular rise in the international gas prices. Between that and the war in Ukraine, we have seen rises in electricity prices thanks to our peculiar community electricity system (which is now under review) and food prices throughout Europe. This price increase spread to the CPI as a whole from there, worsening the now-forgotten increases inflation had already caused.

This true "external shock" has had two consequences: The aforementioned loss of purchasing power for European families, and the European Central Bank's (ECB's) return to a classic monetary policy. This reversion has come with interest rate hikes, which wound up impacting both investment and household consumption (through mortgages). This meant average



GDP growth showed a clear shift during the second half of the year, with private variables on the decline. In fact, only exports and public spending saved us from zero growth in Q4 2022.

We reached 2023 with little inertia in domestic demand, leading us to expect a first quarter of 2023 with around -0.1% negative growth. The increase in unemployment in January and, above all, the fall in the number of Social Security contributors both point in this direction. May's municipal and regional elections will take place in a difficult economic climate.

However, all forecasts suggest the year will go from less to more, until we reach that 1.5% average annual growth. Inflation will continue to fall, forcing us to focus on household incomes and investment strength. There is one key variable still in question: Whether or not the ECB will tighten its monetary policy. The institution's latest rate hike was dangerously close to an error, prioritizing the euro exchange rate in the face of all the recession risks surrounding the eurozone.

Keeping in mind that private consumption represents over half of GDP, household spending capacity will depend on employment, wages, mortgage prices, the CPI, and savings accumulated during the lockdowns (which we are already beginning to see come to a close), as well as a lack of any major surprises from the war.

For the first time in democracy, the expected sharp slowdown in growth will not translate into an appreciable increase in our unemployment. In fact, we expect no major changes in unemployment rates. This is due to our country's labor reform, which has two significant consequences: The development of Temporary Lay-off Plans (ERTEs, for the Spanish acronym), which are comparable to other European countries' internal flexibility efforts, and the appreciable drop in temporary and part-time employment compared to pre-pandemic numbers. The increase in public employment is perceptible, although it is too early to know if there has been a change in trend since austerity.

An income pact has been ruled out, but wages will recover some purchasing power in 2023 thanks to lower prices and different wage negotiations by sector. The renewals of collective bargaining agreements will lead to greater increases, though heightened conflict cannot be ruled out.

30% of Spaniards have a mortgage and have already exceeded the resistance limit. With rate revisions, mortgage payments will further reduce their abilities to purchase other products. Unless interest rates are lowered (which is not expected at the moment), this will detract from consumption and growth.

The support most families received during the pandemic has already ended for most families, meaning this additional income will be gone. Now, 40% of Spanish citizens say that they are having difficulty making ends meet - a percentage that inflation will only have increased. Because of this, although overall household consumption will recover throughout the year, this will often be based on credit.

This may widen the gap between families who can access credit and those who simply cannot.

Investment will also tend to grow throughout the year. This is because interest rates are expected to peak at levels similar to just before the 2008 crisis, because the EU Next Generation Funds will begin to reach their intended recipients, and because the electoral cycle will push administrations to accelerate their inaugurations. However, the country's business environment, which is heavily dominated by small companies with little financial resilience, will also suffer a gap (as it always does in times of uncertainty).

During this year, the rapidly modernizing tourism industry will continue to drive growth after practically reaching pre-pandemic levels in terms of both visitor numbers and revenues. The 2023 forecasts for the year as a whole are as follows:

What is striking about these forecasts, which are in line with other analysts', is that, for the first time since its shift to democracy, the Spanish economy will grow more than the Eurozone's. This includes lower inflation and a steady external surplus, but, above all, this will be the first time unemployment will not soar during an economic slowdown.

All this should be seen as proof that the structural changes introduced to the Spanish economy over the last decade are effective, a fact which still eludes many analysts. This election year, the economy will go from strength to strength until it clearly picks up in the last quarter. All this, of course, with permission from Putin and the rest of the black swans, which we are getting used to in the 21st century.

JORDI SEVILLA
Former Minister of Public Administrations, Senior Advisor of Economic Context at LLYC

“For the first time in democracy the Spanish economy will grow more than the Eurozone, with lower inflation, maintaining the external surplus and, above all, it will be the first time in the midst of an economic slowdown that unemployment will not soar”

18

	GDP		INFLATION		UNEMPLOYMENT RATE	
	22	23	22	23	22	23
Germany	1,6	-0,6	8,8	7,5	3,1	3,5
Spain	4,5	1,0	8,5	4,8	12,7	12,7
France	2,6	0,4	5,8	4,4	7,7	8,1
Italy	3,8	0,3	8,7	6,6	8,3	8,7
Portugal	6,6	0,7	8,0	5,8	5,9	5,9
Eurozone (20)	3,2	0,3	8,5	6,1	6,8	7,2



IN AN UNPRE- DICTABLE AND UNEXPECTED YEAR, DIALOGUE IS KEY IN PORTUGAL

Uncertainty, instability, and pressure are the words that best summarize Portugal's outlook for this year with regards to the political, economic and social contexts.

These three words can still surprise many, considering how Antonio Costa won an absolute majority last year that has allowed him to remain as Prime Minister for another four years, following the seven years he has been in office. Today, the Socialist Executive lacks

stability, after 12 resignations in 10 months. While there are growing doubts as to whether the Government will make it to the end of the legislature (2026), the recent leadership of the largest opposition party, the PSD, is still struggling to find cohesion and the right tone. The PSD is not seen by the political elite as a real alternative to power. In fact, this was one of the reasons used by Marcelo Rebelo de Sousa to keep the current Government in office. Meanwhile, the left-wing parties, partners of the Socialists in the previous legislature, as well as the far right, both of which emerged stronger from the last elections, are looking for their own places in the political agenda, thereby increasing the pressure on the Government. The series of resignations are the result of this pressure and scrutiny, not only from the political parties, but also from the media.

As for the economic front, the doubts are centered on how high inflation will remain (which is set at 7.8%, slightly higher than the Government's forecast of 7.4% in 2022) as well as the other consequences of the development of the war between Ukraine and Russia. The Portuguese government has managed to deal with the negative impact on household incomes with one-off direct support measures, without any tax changes expected for the time being, unlike what happened, for example, in Spain, with the reduction of VAT on basic necessities. Economic growth forecasts for 2023 range between 0.7% and 1.5%, with the European Commission and the IMF being the most pessimistic while the Bank of Portugal is the most optimistic (in 2022, GDP growth should have reached 6.8%, according to the Minister of Finance, which is higher than the estimated 6.5%).

Conflicts are the most important issue in the social sphere. According to the latest press report, strikes have increased by 25% in 2022. Protests have been widespread in the transport, health, justice, industry and, most recently, education sectors, where the teachers' strike has been ongoing for more than a month. To a certain extent, the increase in social protests through the unions was to be expected, after years limited by a parliamentary agreement uniting the left-wing parties to the PS. On the other hand, there are new associative movements emerging, some of them non-partisan, and originating both in civil society and in the private sector. There is a new play of forces that does not always fit into the classic model of dialogue through social agreements, where

the big unions and employers' confederations are present. A year ago, António Costa was the first to recognize that, despite the absolute majority, he would be open to dialogue, in and outside of Parliament. However, this openness has now been compounded by an unexpected scenario that has turned dialogue, compromise, and consensus into indispensable elements to guarantee political, social, and economic stability.

Given this context, well-prepared companies are those that invest in continuous monitoring of political, social and regulatory activity, and are able to anticipate risks and opportunities for the sector in which they operate and specifically for their business. It will also be those that are

available to participate proactively in public policy. Every company plays a role in its sector, which in turn has an impact on the Portuguese economy and society as a whole. Now that the focus and efforts will be on economic recovery, companies cannot ignore or underestimate the contribution that their knowledge, experience, and benchmarking can make towards better regulation, stability, and legal certainty for those seeking to maintain and strengthen investments in Portugal. Essentially, towards a greater creation of shared value, through commitment and consensus.

MARÍA EÇA
Public Affairs and Crisis
Director at LLYC Portugal

“Uncertainty, instability, and pressure are the words that best summarize Portugal’s outlook for this year with regards to the political, economic and social contexts”



SOUTH REGION



UNCERTAINTY, ELECTIONS, AND NEW CHALLENGES IN ARGENTINA

On Dec. 10, 2019, after 4 years of Mauricio Macri's leadership, the Alberto Fernandez - Cristina Fernandez de Kirchner ticket entered the Casa Rosada. The Peronist duo won the presidential elections thanks to their promise to reduce poverty, improve purchasing power, and generate improvement after the tough economic situation during the last years of Macrism.

However, whether due to COVID-19 or to bad political and economic decisions, these promises weren't

kept; Alberto Fernandez ended his third year in office with an accumulated inflation rate of 94.8% per year² (the highest since 1991), a poverty rate that reached 36.5%³, and a severe currency devaluation (when he took office, the dollar traded for 70 Argentine pesos on the black market; as of early February, it was 377)⁴. The lack of positive results, mismanagement of these expectations, and political crisis within the ruling party have resulted in concerning disapproval ratings for the government (66.9%)⁵.

In this complex 2023 context, Argentines must elect their next president and vice president, 22 governors, 130 deputies, and 24 senators. While the ruling party struggles to settle its internal differences and improve the economic situation, the opposition is deciding who will best represent

the country's disappointed voters, who are disillusioned with the current ruling party. The uncertainty and instability Argentina has become accustomed to generates great challenges and opportunities for strategic public affairs management.

New authorities and the need for allies

Dec. 10, 2023, a new national government will take office in Argentina. This could mean new actors with different perspectives on the country's public affairs. By that time, companies should have already considered the various possible scenarios, mapped out various key stakeholders, and at least begun forging positive relationships with them. Anticipation is key to adapting to change.

²INDEC - Cumulative Consumer Price Index 2022.

³INDEC - EPH: Incidence of Poverty and Indigence - First semester of 2022.

⁴Dolar Today - Free dollar exchange rate as of 6/2/2023.

⁵ZUBAN / CÓRDOBA & ASOC. National Survey January 2023

Polarized country, divided Congress

LLYC's [The Hidden Drug](#) study revealed Argentina as the country in the region with the second-highest level of polarization in its digital conversations, behind only Brazil. This is very clear in politics, and Congress is no exception - today, the ruling party is only able to hold sessions because it has built consensus with numerous provincial forces (since it does not have its own quorum in either of the two Chambers). The upcoming congressional elections are expected to maintain or even worsen this division, which will make it extremely challenging for the next president to create the regulatory framework necessary for their administrative plan. This will also affect companies, as influencing or promoting regulations will be very complex.

A closed economy and the need to open doors

As a result (or cause) of the serious economic situation, the government's decisions have turned Argentina's economy into one of the most regulated and closed in the world. Price controls, import closures, exchange restrictions and tightening of intercompany transfers are just some of the measures that have been implemented in recent times, and they greatly affect the regular operations of the country's businesses. Although new officials are expected to take power in 2023, it is very likely that the Argentine economy is not ready for a quick about-face. The private sector should continue managing its relationships with decision-makers in order to overcome these economic barriers and continue to operate with any degree of "normalcy."

Need for growth in increasingly strategic sectors

The urgent need to create quality jobs, paired with the scarcity of foreign currency, has led to general consensus among political decision makers regarding the need to promote some key sectors. These include the knowledge economy, mining (with lithium as the main actor), oil & gas, renewable energies, and agro-industry, among others. Companies engaged in these activities must be prepared to make a qualitative leap, taking advantage of these opportunities and managing the looming communication, political, and regulatory challenges if they want the necessary freedom to operate.

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**JUAN IGNACIO DI
MEGLIO**
Director of Public Affairs
at LLYC Argentina

“The uncertainty and instability Argentina has become accustomed to generates great challenges and opportunities for strategic public affairs management”



EXPECTATIONS FOR BRAZIL'S DEVELOPMENT IN 2023

The third Lula administration began with attacks on the government's headquarters on Jan. 8, the most serious strike against democracy since the country's redemocratization in 1988. That afternoon, criminals destroyed portions of the Supreme Court, Planalto Palace, and National Congress, signaling that the year's main challenges would be **pacifying its populace and defending democracy**.

The attacks certainly did not work as intended. Instead of driving tension between the executive, legislative, and judicial branches, they brought the three together

to denounce the anti-democratic attacks. This suggested the year would be marked by **more peaceful, cordial relations between the branches of government**, increasing the perception that doing politics within the bounds of ethics and law is not something to be ashamed of.

Here, we must ask an important question: How will the government relate to the military, which the Bolsonaro administration gave greater political clout? One of the most important changes in the government's intended 2023 strategy will be **restructuring the military's role**, disengaging it from politics and eventually returning it to its constitutionally mandated role of defending the nation against external threats. Tensions will decrease with time, but at a time when it is imperative to restore institutional normality as

soon as possible, the government should seek a more proactive line of communication.

The economy is another issue. The new Brazilian government is planning to adopt an expansionist policy, with increases in interventionism and state investments in that area. This has generated a series of questions from the market, which demands fiscal reorganization, administrative and tax reforms (among others), and continued labor reform. As such, the new year must involve seeking **balance between fiscal and social responsibility**.

If the economic watchword is "balance," the environmental one should be "drastic turnaround." In 2023, the government will commit to **sustainable exploitation** and restructuring its inspection agencies. The global community

should see a more active Brazil in debates on climate security, protection of the Amazon and other biomes, respect for indigenous communities, deforestation, and others. The resumption of the Amazon Fund, creation of the National Climate Security Authority, and repeal of environmentally unfriendly regulations are just a few signs that **Brazil is returning to the forefront of debates on sustainability, environmental protection, climate change, and deforestation.**

These changes highlight another trend for Brazil in 2023: A resumption of **Brazilian Diplomacy**

through Itamaraty. This signals an end to its political isolation, with the country resuming productive dialogues with nations with diverse political views. It is strengthening relations with the European Union; prioritizing a South-South agenda by reestablishing MERCOSUR's strength and taking a more active role in BRICS discussions; establishing itself as an interested intermediary in discussions between the United States and China; and changing its role in relation to issues such as the creation of the Palestinian State. All this suggests a much more active and committed **Brazil in multilateral discussions in this new year.**

“Brazil's main challenges for the year will be pacifying its populace and defending democracy”

**FELIPE MENDONÇA
PELETEIRO**

**Manager of Public Affairs
at LLYC Brazil**



CHILE 2023, THE YEAR OF THE PLEBISCITE

Undoubtedly, the most important milestone that Chilean society will experience this year is the upcoming referendum in order to approve or reject the new Constitution. This will be drafted by the new Constitutional Council, a mixed body that combines a group of experts with advisors elected by the public. In contrast, the Constitutional Convention gathered 155 members that were elected entirely by the citizens and whose text that was ideologized, reformist and focused on exacerbating differences instead of uniting Chileans- was rejected by an overwhelming majority of Chileans (62%), last September.

This mandatory vote, which will be held in December, is an attempt to settle the recent conflict that led to the so-called "social outburst" of October 18, 2019, (a movement similar to the one recently experienced in Peru), where metropolitan railroad stations burned down and violence took over the city of Santiago and other major cities across the country. However, a week later, on October 25, one and a half million Chileans peacefully went out to the streets in favor of a new social pact. This is the most massive demonstration since democracy's return in 1990, which gave rise to this process that has gone on longer than expected by all citizens, and which should come to an end with the approval of a new constitution.

But the constitutional issue is not the only issue that President

Gabriel Boric faces. Boric has been in office for almost a year and -with three years left in his term- has received the lowest approval ratings ever.

The greatest concern for citizens today is insecurity. Crime, drug trafficking, and organized crime rates have increased in recent years. According to Carabineros data, kidnappings increased 74% during 2022 and major crimes like homicides, home robberies, and car thefts increased 45% compared to 2021.

The President and the ruling coalition government- including the most radical left-wing parties - will also face an unprecedented economic recession. According to ECLAC data, Chile and Haiti are expected to be the only countries in the region that will experience negative growth.

With inflation running rampant (13% in 2022), and uncontrolled immigration (in some cases, illegal), the government will also have to manage conflicts in the southern macro zone and in the northern border.

As if the above were not enough, September 11 is the 50th anniversary of the military coup that overthrew President Salvador Allende. This coup included the bombing of the La Moneda presidential palace, which ended with the President's life. Allende committed suicide in his office in the presidential palace, and this marked the beginning of a military dictatorship that lasted for the next 17 years.

This anniversary- which still creates a divide between Chileans and is marked by human rights violations committed by the armed forces, is also marked by a profound national

economic transformation that earned its recognition as one of the countries with the highest economic growth in the region - will officially be commemorated by the government. This will surely ignite controversy over the Popular Unity government (1970-1973) again, and remind many of the horrific human rights violations committed during the military dictatorship.

Finally, the President made two promises during his campaign that ultimately led him to victory, and they were based on the idea of making structural changes that would make Chile a fairer country. However, these changes: A tax and pension reform, are currently being discussed in Parliament, where the ruling government does not have a majority.

“The most important milestone that Chilean society will experience this year is the upcoming referendum in order to approve or reject the new Constitution”

FRANCISCO AYLWIN
President of LLYC Chile and
Chairman of the Advisory
Board in Chile



ANDEAN REGION



2023, THE YEAR TO CONSOLIDATE GUSTAVO PETRO'S GOVERNMENT OF CHANGE IN COLOMBIA

There were very high expectations with the arrival of Colombia's first leftist government. On one hand, there is the concern for the economic sector, but on the other hand, there is also hope among voters to see a social transformation based on equity in 2023.

An ambitious legislative plan that will consolidate the reforms of the new government

In the second half of 2022, Gustavo Petro's government reaffirmed its ability to govern by approving important bills in Congress that included tax reform, the 'total peace' law, and the first phase of political reform. In 2023 there will be an additional set of bills like the National Development Plan, the law of submission, and four structural reforms that were previously advertised during the electoral campaign: Political, health care, labor and pension reforms.

There is a growing concern about modifying the established rules of the game, but there is also a high expectation that the "**Government of Change**" will guarantee economic growth,

increase capital investments and generate employment that will boost consumption and national production, especially in the agricultural sector, in line with their promises.

Peace - The challenge ahead when negotiating with illegally armed groups

Last year, Law 2272 known as the Total Peace Law was approved. This law broadened the State's authority to negotiate with illegal organizations and defined it as a "priority" and "cross-cutting" policy. Thus, when the year began, there were 5 decrees signed for a bilateral ceasefire with 5 illegal organizations. However, the ELN had agreed to resume the negotiation agenda in August of 2022 since it had been suspended in 2016, pointing out that it was not a concerted decision, which

led to withdrawing the Decree. As such, 2023 began with an uncertain outlook in terms of making peace intentions effective, as well as the breach of the bilateral ceasefires, the increase in murder rates and the reduction of military operations across the national territory.

The power of the regions

On October 29, there will be local elections across the 32 departments and 1,123 municipalities in the country. The elections will define the new Government's ability to expand its political strength in cities, while the opposition will be able to regain relevance in the political scene. It will also determine the continuity or the change of the political tendencies that dominated the administrations in major cities like Bogotá, Medellín and Cali, thereby determining their future relationship with the national government.

Inflation/devaluation and social impact

2022 was a challenging year for the Colombian economy. The inflation rate was 13.1%, the highest of the century, and the peso devalued by 20.7%, the third largest devaluation since 2000.

Although inflation is expected to decrease by 2023 (8.63%), it is still very high and the greatest impact is expected to affect the lower classes since they must give up a greater portion of their income when prices rise. Similarly, the Government's 2023 Financial Plan and the main financial entities

indicate the currency will remain in a range between 4,700 and 4,800 pesos, which will increase the price of the consumer goods in Colombia. There are many imported goods and a large part of the national production depends on external inputs, which also raise their value with the devaluation of the Colombian peso.

The economy and the fight against climate change

According to Gustavo Petro, climate change is based on the decarbonization of the economy and the energy matrix. The development of the industry, the agricultural sector and the creation of a smart society — which the Government seeks to promote as a priority over other sectors such as mining and hydrocarbons — are expected in 2023.

On the other hand, the Ministry of Mines and Energy is planning to present a roadmap for a "Just Energy Transition," outlining the future of mining, oil exploration, and exploitation contracts, as well as the role of gas. This debate will continue to be at the center of the public agenda and will generate differences of opinion, even within the government itself, given that the country's main source of income will inevitably suffer.

International agenda

President Petro is focusing on achieving a more active role in regional integration by promoting a binding dialogue around the main conflicts in Latin America. For example, he intends to return

to Unasur and has sought to build a decarbonized economy with his neighbors in order to promote an energy transformation.

This year, there is a progressive agenda projected for Venezuela. There are high expectations as to how relationships with Nicaragua are going to be dealt with after Petro made some remarks about his counterpart and the United States. This comes after the announcement of a radical transformation that involves the construction and consolidation of peace and is not focused on weapons and war.

LUZ ÁNGELA SÁNCHEZ
Senior Director of Public Affairs
at LLYC Colombia



ECUADOR 2023, GOVERNANCE AT STAKE IN THE REFERENDUM

Ecuador faces an unprecedented triple electoral process that will take place on February 5, 2023. 5,660 sectional authorities and the seven members of the Council for Citizen Participation and Social Control (CPCCS) will be elected that day. In addition, the referendum proposed by President Guillermo Lasso, who is making a risky bet, hopes to gain the favorable majority support of the population for the eight questions raised to amend the Constitution that has been in effect since 2008 for matters related

to security, institutionalism, and the environment. The results of these elections will determine the degree of governance that Lasso's government will have in order to push the agenda for the second half of the four-year term in office.

Citizens will go to the polls with a predominant mood of pessimism about the future⁶, disapproval of the authorities⁷ and dissatisfaction with democracy⁸. This is a dangerous combination, as seen in the two violent indigenous strikes of October 2019 and June 2022. Citizens no longer believe the State is capable of solving problems, and therefore seek alternative solutions outside of democratic channels and institutions to ensure their demands are heard. For this reason, in each election, citizens have sought to place their trust in new actors that classify themselves as "non-political", which further

aggravates the political parties' crisis. As an example: 77% of the mayors will seek reelection through a political tent that is different from the one that won the 2019 sectional elections. Therefore, the result will most likely be a fragmented political chessboard again, which will force political organizations to build alliances and seek figures for the 2025 presidential elections.

In this sense, despite the polls are predicting a favorable outcome for most of the questions in the Referendum, the high level of disapproval towards the government of Guillermo Lasso, and the revelation of alleged corruption in companies of the strategic sectors, could lead the citizens to vote 'No' instead. In the event that the people vote in favor, the government will obtain an important victory. However,

⁶ 67% believe that the country's situation will worsen (Market, Dec. 22).

⁷ 82% disapprove of the performance of the President of the Republic and 88% disapprove of the performance of the National Assembly (Perfiles de Opinión, Dec. 22).

⁸ Only 33% believe that democracy is preferable to any other form of government. This is not only the lowest percentage in all of Latin America, but also the most significant decrease: in 2018 it was 50%, and in 2015 it was 71% in 2015 (Latinobarómetro, Oct. 21).

it will have to manage people's expectations about how it will be able to solve the problems of security, institutionality and environment with the constitutional amendments; especially the first one, given that more than 52% of the population considers that insecurity is the country's main problem (Market, Dec. 22). In the event that the people vote "No", the government will face a complicated scenario, where it will face a strong opposition, with greater control over the National Assembly⁹ and an indigenous movement that has warned about calling for mobilizations that seek to block and destabilize the government.

“Ecuador faces an unprecedented triple electoral process that will take place on February 5, 2023”

JUAN SEBASTIÁN SALCEDO CALDERÓN
Director of Public Affairs
at LLYC Ecuador

⁹ On May 14, the National Assembly will renew its authorities, which means that the opposition parties - currently in the majority - will take control of the presidency of the National Assembly and its specialized commissions.



PERU'S PROSPECTS IN 2023, THE NECESSARY WAY OUT OF THE CONFLICT

Since December 7, Peru has been facing a huge social conflict that is mainly concentrated in the southern regions of the country, following Pedro Castillo's impeachment, after he failed to carry out a coup d'état.

Dina Boluarte became the first woman to occupy the position and, after just over 60 days in office, she faces a very unstable political and social landscape. The State of Emergency declarations, that allow the suspension of rights, including freedom of transit and assembly, as well as

allowing the National Police and the Armed Forces to intervene in homes and/or establishments to restore order, has not had the desired results.

The escalation of the conflict, with 58 deaths to date, continuous blockades of national roads, suspensions at airports and installations that could be considered sensitive for the normal functioning of the country, in addition to the destruction of government buildings (police stations, judicial headquarters, mainly), has led to food, fuel and medicine (mainly) shortages in the southern part of Peru, while tourism sector has suffered tremendous losses.

Internationally, the outlook for the Peruvian economy is unfavorable, due to the strong deceleration of world growth,

which is below the average of the last two decades, as well as higher financing costs in order to control inflation. In addition, the growth of the gross domestic product may be affected because of a contraction in public and private investment, coupled with a slowdown in domestic consumption.

With regards to raw material exports, the sector might benefit from the increase in export volumes thanks to the expansion of the Quellaveco mining operation, which could be offset by a drop in copper prices at the international level. On the other hand, the agro-export sector would benefit from China's recent announcement to abandon the "zero Covid" policy, which would increase the demand for these products.

Regarding raw material exports, despite a reduction in the international price of copper, the sector would be compensated by the increase in the volume of exports, following the expansion of the Quellaveco mining operation. On the other hand, the agro-export sector would be favored by China's recent announcement to abandon the "zero covid" policy, which would increase the demand for such products.

Imports will remain stable according to the Central Reserve Bank (BCR) projections. However, the BCR forecasts high inflationary levels for 2023, similar to the previous year, at 8.4%.

In view of this, the political and social context of Peru in 2023 is complex. There are significant economic and social challenges, such as the fight against poverty, inequality, corruption and citizen security, which are the subject of complaints and so far have not been efficiently addressed by the government.

As a result of the suspension of activities in the tourism and related services sector, as well as the announcement that the mining sector will not invest heavily this year, and the negative international perception

of legal stability starting to take effect, Peru's domestic situation continues to be a challenge.

In this sense, the Peruvian authorities face the challenge of recovering the lost legitimacy, in order to build spaces for dialogue with the different social and business sectors.

DARWIN PARDAVÉ
Director of Public Affairs
at LLYC Peru

“The Peruvian authorities face the challenge of recovering the lost legitimacy, in order to build spaces for dialogue with the different social and business sectors”



NORTH REGION



2023, END OF TERM ELECTIONS IN MEXICO

Approximately two years before the end of President Andrés Manuel López Obrador's term in office and the confirmation of the continuation of the so-called "Fourth Transformation," Mexico is going through a complex scenario driven by a growing social polarization and geopolitical circumstances that affect global value chains, commodity prices, and rising inflation.

Economically, the trade rearrangement caused by Russia's invasion of Ukraine caused shortages and inflation in Mexico, as well as limited growth. It seems unlikely that

the structural conditions of the Mexican economy and current public policies will successfully and quickly overcome this challenge. At the same time, the political climate is characterized by the dominance of a pro-government narrative that blurs the separation of powers and counterweights, generating concerns about the democratic state of the country. Likewise, the results of the upcoming state elections may reveal the weaknesses of Mexican democracy. These elections will also serve as a preamble to the presidential elections of 2024.

2023 will shape all aspects because of the great number of changes and events ahead; It will be a tumultuous and dynamic period that will lay the foundations for a near future that goes beyond the 365 days of the year.

Changes to the Electoral Counselors, changes to the secondary electoral laws, the new presidency of the Supreme Court of Justice, the local elections in Coahuila and the State of Mexico, as well as the definition of candidates for the 2024 presidential election are just some of the milestones that are expected to influence Mexico's political life over the next 12 months and will define the risk management agenda for all the organizations.

As we enter what may be considered the last operational year of President Andrés Manuel López Obrador's six-year term, the expectations of the results for the end-of-term projects will surely set the tone and sense of the narrative for the various groups that the administration itself classifies as allies and adversaries.

In light of a possible recession during the second half of the year. This might have been caused by the U.S. slowdown, resistant inflation and the continuation of restrictive measures by the Bank of Mexico. As a result, economic growth will probably be lower than expected, which will have an impact on consumer confidence and consequently on the investment plans of many companies.

The economic situation and its subsequent impact on public resources could further aggravate the country's major problems, restricting the budget in strategic areas such as health, security and infrastructure. It could also affect the government's operation and erode the credibility and strength of institutions, favoring opacity and the concentration of power.

It exposes organizations to an unprecedented state of uncertainty and vulnerability, by subjecting them to increased

regulatory burdens, continuity risks and reputational vulnerability, as well as putting them in an adversarial narrative where they are portrayed as entities focused only on the generation of economic value amidst a highly polarized society.

The government of the so-called "Fourth Transformation" in Mexico is running out of time. Thus, there is a high probability of witnessing more radicalized decisions guided by an electoral logic, which will continue to open new fronts for the operation of organizations, further reducing the room for a reaction and thus forcing corporate leaders to find tools that will allow them to anticipate their competition and manage the situation.

MARILYN MÁRQUEZ
Director of Public Affairs at
LLYC Mexico

“Mexico is going through a complex scenario conditioned by a national environment of growing social polarization and a geopolitical context that affects global value chains, commodity prices and rising inflation”



DOMINICAN REPUBLIC, SOLID ECONOMIC RECOVERY POST-COVID

The Dominican Republic is one of the Central American economies with the highest economic growth in the last decade. With an average sustained growth of over 5%, the prospects for stability and GDP growth make 2023 a year of high expectations in key sectors for foreign investments.

Wage increases and inflationary pressure

Despite the positive economic outlook, the Dominican Republic has not been exempt from the

inflationary impact of the post-cooling crisis and the war in Europe.

According to data issued by the Central Bank of the Dominican Republic, the cost of the basic food basket increased by more than 30% during 2022 and inflation remained in the range of .29%, with a noticeable tendency to stabilize in the last quarter of 2022. For this reason, the Central Bank raised interest rates to discourage consumption and control inflation.

So far, this situation has not generated significant social movements, even though surveys indicate that the cost of living is the main concern among Dominican families.

Tourism as a great engine of the economy

Since 2020, the government has bet heavily on tourism as a fast track to economic recovery. This has had an impressive result, exceeding the average of 8 million tourists per year in Dominican territory.

Likewise, the government continues promoting the legal framework of public-private alliances, as a mechanism to attract foreign investments that boost and diversify the tourism offer. An example of this is the Pedernales megaproject, which bets on a multimodal offer that includes a cruise port, hotel, and amusement parks.

Institutional and legal reforms

At the start of President Luis Abinader's term in 2020, the "Presidential Call for the Institutional Strengthening and Efficient Management of the State" was promoted together with the Economic and Social Council (CES), a consultative body of the Executive Branch with constitutional rank, which has members from social, labor and business sectors to open a "National Dialogue," in order to build consensus and implement the reforms proposed by the President.

These reforms include:

- 1- Transparency and Institutional Reform;
- 2- Electric Sector Reform;
- 3- Water Sector Reform;
- 4- National Police Reform;
- 5- Reform for the Modernization of the State;
- 6- Educational Quality Reform;
- 7- Health and Social Security Reform;

- 8- Transportation Reform;
- 9- Reform for Digital Transformation;
- 10- Labor Reform;
- 11- Hydrocarbon Sector Reform;
- 12- Comprehensive Fiscal Reform.

Most of these discussions are stagnant. Therefore, there are no expectations of important changes before the elections scheduled for 2024. However, by 2023, the agreements and consequent changes in the electricity, labor, and electoral sectors are expected to take place.

2023, the pre-electoral year

2023 is a pre-electoral year, beginning with municipal elections in February and congressional and presidential elections in May of 2024.

Currently, there are three political parties dominating the political landscape: el Partido Revolucionario Moderno (the governing party); la Fuerza del Pueblo (the main opposition party) and the Partido

de la Liberación Dominicana (PLD), which is also the opposing party. So far, the governing party seems to be concentrating a greater amount of sympathy. Therefore, the probability that President Luis Abinader will run for reelection is high. The fragmentation of the opposition, which remains divided, could facilitate the reelection, unless there is an alliance between the two main opposition forces that could force a second round or run-off scenario.

The congressional scenario has witnessed a turnover with new figures and young leaders that refresh the list of candidates. This is beginning to generate hope for change within both chambers, including strong bets from influential stakeholders in the private sector.

JOSÉ GREGORIO CABRERA
Senior Director of Public Affairs at LLYC Dominican Republic

“With sustained average growth exceeding 5%, the prospects for stability and growth of Dominican GDP make 2023 a year of significant expectations in key sectors for foreign investment”



AN UNEQUAL PANAMA, MORE SOCIAL TENSIONS, TRENDS FOR 2023

The Panamanian protests in 2022 - were unprecedented in their form, with regards to the stakeholders involved and its duration - and were the product of a series of factors that the State left unnoticed and were then heightened with the pandemic.

The post-Covid crisis and inflation caused the prices of food, medicines and fuel to increase in the midst of unemployment. Monthly salaries were fixed between \$290 and \$315. According to the Authority for Consumer

Protection and Defense of Competition (ACODECO), the basic food basket totaled \$280.71 in September 2022. According to Bloomberg data, this places the prices of basic food baskets in Panama as the fourth most expensive food basket in Latin America, and is only surpassed by Honduras (\$285.6), Venezuela (\$382.0) and Guatemala (\$417.4).

Panama is a paradox: it is a high-income country, but is marked by inequality. The picture shows that the nation will grow between 4.2% and 5% in 2023, but the downside shows a country with an unemployment rate of 9.9%, an increase in informal employment and the fact that 1 in 4 Panamanians is poor.

According to the Ministry of Economy and Finance (MEF), during fiscal year 2021, the Government

granted \$2,315 million in subsidies, with low-income households being the most benefited. Of the total subsidies directed to Panamanian households, 49% corresponds to COVID-19 aid, 14.6% for electric subsidies, 14.5% to Universal Scholarships or PASE-U, 7.6% for the "120 to 65" program, 3.9% for liquefied gas, 3.5% to preferential interest and 2.5% for transportation (Metrobus).

Therefore, one of the biggest challenges lies in meeting this subsidy burden and covering the public debt of almost \$42 billion.

Institutional reforms, time is running out

The Actuarial Technical Board and the Actuarial Department of the Social Security Fund (CSS) concluded that the reserves of the defined distribution subsystem of

the Disability, Old Age, and Death (originally known as “IVM”, “Invaliddez, Vejez y Muerte” in Spanish). These reserves and trust funds will be depleted between the last quarter of 2023 and the first quarter of 2024, unless there is an early reform to the Law. By 2023, there will be a net deficit of \$1,123.3 million, which will increase to \$1,287 million in 2024, before any contributions made by the State.

This means that the funds that cover the pensions of more than 380,000 people will be exhausted in less than 24 months. The three major rating agencies, which maintain Panama's investment grade, have warned about the urgency of avoiding this collapse because of its serious economic and social consequences.

In order to face the problem, there is a need to increase the retirement age, raise the quotas and change the system, among other parametric measures that have triggered warnings in all sectors. There is consensus on the urgency of the issue, but a disagreement on how to solve it.

2023, pre-electoral year

The electoral calendar became active last year starting with the signature collections required for independent presidential candidates. The primary elections will take place in the first semester of the year. This will provoke the resignation of several cabinet figures, such as the Vice President and Minister of the Presidency, José Gabriel Carrizo, seeking to lead the PRD for his re-election.

The elections will take place in May 2024 and will be held in a single day in order to elect the President of the Republic and his Vice President. The elections will also cover 20 Central American Parliament deputies; 71 National Assembly deputies; 81 mayors; 11 councilmen and 701 representatives of corregimiento, all with their respective alternates, for the constitutional period of July 1, 2024 to June 30, 2029.

“The paradox of Panama is that it is a high-income country, but with marked inequality”

MARGORIETH ELISA TEJEIRA MARTÍNEZ
Senior Director of Risk and Crisis at LLYC Panama



PUBLIC AFFAIRS TRENDS IN CENTRAL AMERICA

Given social and institutional changes, unpredictable electoral cycles, complicated political dynamics and misaligned governmental and legislative priorities, Central American states will continue to face challenges in addressing structural issues like immigration, security, climate change, economic development, poverty, and inequity.

Given this complex scenario, the main trends that will impact public affairs efforts in the region during 2023 are:

Evolution of the social license to operate

The region still shows institutional weaknesses and legal and citizen insecurity, which is why these public affairs efforts will continue to be linked to strengthening businesses' social license to operate. They will also develop by means of community communication initiatives about the shared benefits of different types of investments; and these initiatives, while remaining relevant, are evolving towards major public policy issues. These include wages, labor rights, competition, product quality and protection of the environment. Stakeholder dialogue must therefore be linked to corporate purposes and values as well as environmental, social, and governance (ESG) criteria, the Sustainable Development Goals

(SDGs) and the principles of socially responsible investments.

In order to understand the new consensus and build a transparent narrative, this will require more creativity, cross-disciplinary skills, and innovation.

Business and political culture shocks

Old family businesses and multinational companies coexist in the region. While the former faces a changing landscape where the traditional political powers they had built relationships with are now disappearing, the latter brings practices that are not always accepted within the region's political and business cultures. These challenges imply adapting the company's relationship strategy to the economic, social,

and cultural reality of each country while recognizing the singularities and adapting it to each context.

Increased regulation

The serious socio-economic challenges and administrative shortcomings pressure governments to adopt urgent public policy and regulatory "solutions" that almost never have an appropriate regulatory, institutional and cost-benefit assessment, and thus generate false expectations among the population.

The uncertainty about certain social and technological changes creates political-electoral incentives to generate regulations for issues like the collaborative economy, cryptocurrencies, metaverse, cybersecurity, among others. In all cases, the challenge is to generate spaces dedicated to influence and co-create initiatives backed by science, technology, data, and experience.

Polarization

Central America is less polarized than other regions, but it is not excluded from this phenomenon. The actions of public affairs teams should focus on issues where the company has control, avoid unnecessary controversies that may influence discussions and may affect corporate reputation in

the eyes of consumers, suppliers or authorities of one or the other tendency.

Highly complex issues

In order to influence the public agenda in fragmented societies that have complex political agendas and major socioeconomic challenges, it is necessary to provide more analysis, anticipation, transversality and innovation to nurture decision making, adding to the more traditional execution of public affairs knowledge in various areas such as communication, data, economics, marketing, methodological, evaluation capacity and deep digital learning.

In the face of the uncertainty in 2023, the main challenge in Central America consists of fostering the development of valuable relationships between companies and organizations with their stakeholders, which improves corporate reputation, and increases the ability to influence and negotiate. This will benefit society in a dynamic, interconnected and polarizing regional environment. We are prepared.

PABLO DUNCAN
Managing Partner of CLC
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Affairs

“In the face of the uncertainty in 2023, the main challenge in Central America consists of fostering the development of valuable relationships between companies and organizations with their stakeholders, which improves corporate reputation, and increases the ability to influence and negotiate”



THE U.S. TOWARDS THE 2024 PRESIDENTIAL PRE-CAMPAIGN

As we look ahead to 2023, we anticipate a year marked by the 2024 presidential campaign, growing tension with Beijing and its political and trade implications, and a divided Congress seeking to block the Biden administration at every turn.

The 2024 Presidential Pre-Campaign

2023 is a political year rather than an election year; it must be interpreted through the

lens of the 2024 presidential election, since the United States is widely known for its increasingly long presidential campaign periods. Already, many political players are warming up for the campaigns. The federal government, congress, corporations, foreign governments, multinationals and multilaterals know how the relationship and communication dynamics change when Washington D.C. goes into “election mode.”

2023 will be defined by the start of the U.S. presidential campaign. We have already seen the official announcements of multiple Republican Party candidates, including Former President Trump, who made his candidacy official much earlier than usual. Ex-Gov. Nikki Haley of South Carolina was expected to

officially announce his candidacy in February of this year and Gov. DeSantis would announce his own later in 2023. Although there are multiple nominations on the Republican side, we expect a polarized front between Trump and a strong opponent like DeSantis. So far in the [Morning Consult](#) polls, the polarization between these two candidates has remained stable over the last 12 months.

An official announcement of President Biden as candidate is expected in the coming months from the Democratic Party as well. We foresee a possible contender on the left flank as a symbolic candidacy, but barring health issues, there is a high probability that President Biden will be the Democratic nominee.

International politics dominated by China

Tensions involving trade and commerce will continue to grow as tensions between the United States and China continue to escalate. We are already continuing to see how legislation and executive actions limit investments by U.S. citizens in China, creating incentives to migrate the supply chain to other regions, and creating sanctions with certain entities in China. We do not expect to see a change in this trend in the near term, with the most important variable being whether one of the two sides will

seek to escalate the political trade conflict. There was a particular piece of news that went unnoticed about the [restrictions on China's technology sector](#) aimed at undermining progress in a strategic area of China's economy. We expect more measures of this nature.

A divided Congress presents an opportunity

The era of passing major bipartisan legislation is over. It is unlikely to see bills as significant as the Infrastructure and Inflation Reduction Act in 2023 and 2024. These legislative achievements

had significant votes from the Republican side. We are expecting a major confrontation between the executive branch and the legislature on the issues of public spending and fiscal deficit. However, this confrontation could prove to be very risky if the public perception suggests that it puts the currently vulnerable economy at risk. It is up to each of the parties and congress to bring their arguments into the public sphere and clarify who is responsible. We expect an agreement may surface in order to avoid freezing the federal government and avoid jeopardizing the economic stability.

“As we look ahead to 2023, we anticipate a year marked by the 2024 presidential campaign, growing tension with Beijing and its political and trade implications, and a divided Congress seeking to block the Biden administration at every turn”

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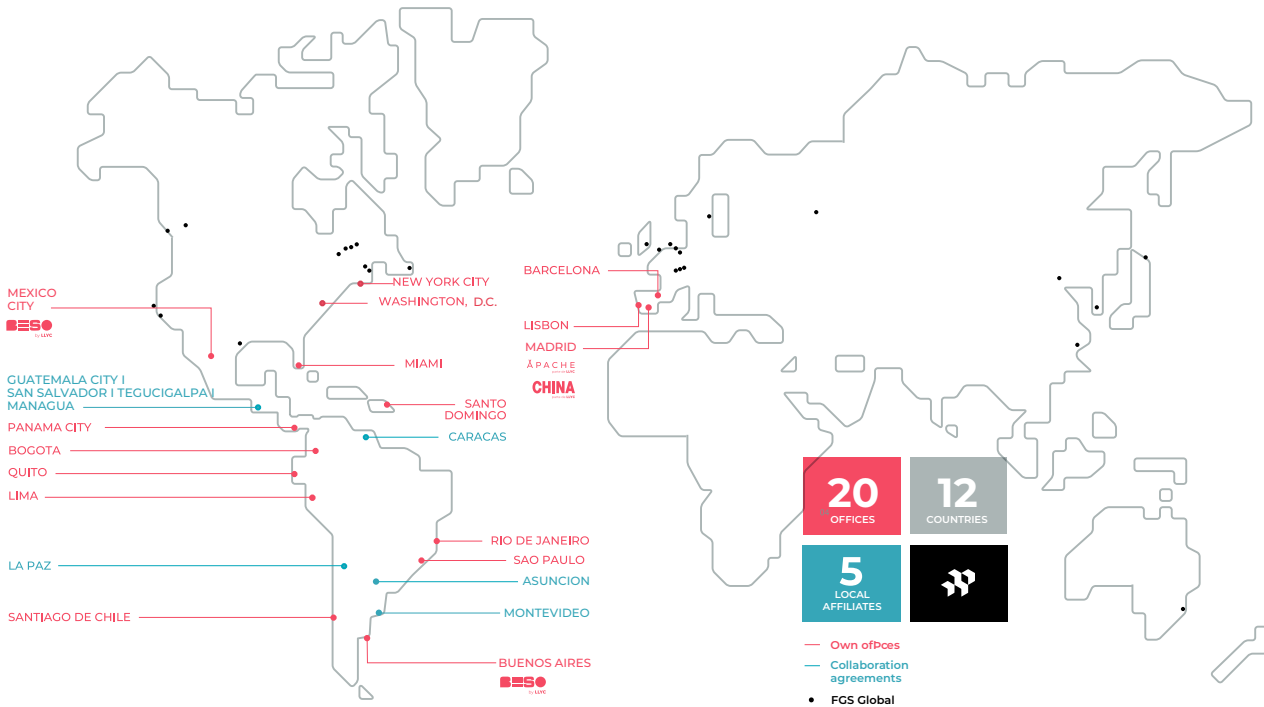
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