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Moderate growth, with things to worry about

The Inter-American Development Bank (IADB) published its annual report on Latin American and the Caribbean in late March. Its key message - things are looking moderately alright, with regional GDP growth set to pick up to 3% this year, and to 3.3% in 2015. Yet behind that lurk some quite serious worries about how the region will respond to the 'tapering' of monetary incentives in developed economies, and about its reduced resilience to possible external shocks.

The IADB points out that 'doing alright' is not really enough. According to Chief Economist José Juan Ruiz, who helped prepare the 2014 report, entitled '*Global Recovery and Monetary Normalisation: Escaping a Chronicle Foretold*', Latin America, supported by the US and European recovery, is heading towards a trend growth rate of 3.5%. However, this means that it will be lagging behind global growth rates of between 4.0% and 4.5%, and therefore "will be unable to gain ground and protagonism in the world". As he put it, "a 3.5% growth rate possibly will not be enough to meet the social expectations and challenges facing the region". Latin America is also likely to lag behind per capita income growth rates in the US and emerging Asia. One of the key causes for this is identified as the lack of reforms capable of boosting productivity. "Growth rates should be commensurate with the region's potential, but potential growth will not be sufficient to meet many social demands. Consequently, how to enhance potential growth remains an important agenda item", the report notes.

The immediate problem however, is the conundrum posed by the US 'tapering' programme, the gradual withdrawal of the massive monetary injections used to support domestic demand after the crash of 2009. Paraphrasing the famous Gabriel García Márquez novel, the report describes the expected tightening of US interest rates over the next few years as a 'chronicle foretold'. While the background to that tightening, stronger US and European growth, will clearly be a positive for Latin America, monetary normalisation is itself something of a wild card. It may go smoothly, but there is also a risk that it could prompt abrupt falls in asset prices and in some cases currency depreciations. Lower growth in China is also a risk to the Latin American economies.

After assessing various scenarios, the report concludes that for the region as a whole these risks appear to cancel each other out. However, this is not the case for all the sub-regions: "Mexico, Central America and the Caribbean may benefit from a scenario of higher growth in the United States and lower growth in China, while South America may face lower growth as a result" it notes.

> "A 3.5% growth rate possibly will not be enough to meet the social expectations and challenges facing the region...Latin America is also likely to lag behind per capita income growth rates in the US and emerging Asia. One of the key causes for this is identified as the lack of reforms capable of boosting productivity."

Chart 1: Regional economic prospects - As the IMF sees them

	Real GDP Growth %			Consumer Price Inflation %			Current Account Balances % GDP		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Latin America & Caribbean[1]	**2.7**	**2.5**	**3.0**	**6.8**			**-2.7**	**-2.7**	**-2.8**
Mexico	1.1	3.0	3.5	3.8	4.0	3.5	-1.8	-1.9	-2.0
Brazil	2.3	1.8	2.7	6.2	5.9	5.5	-3.6	-3.6	-3.7
Argentina[2]	4.3	0.5	1.0	10.6			-0.9	-0.5	-0.5
Colombia	4.3	4.5	4.5	2.0	1.9	2.9	-3.3	-3.3	-3.2
Venezuela	1.0	-0.5	-1.0	40.7	50.7	38.0	2.7	2.4	1.8
Peru	5.0	5.5	5.8	2.8	2.5	2.1	-4.9	-4.8	-4.4
Chile	4.2	3.6	4.1	1.8	3.5	2.9	-3.4	-3.3	-2.8
Ecuador	4.2	4.2	3.5	2.7	2.8	2.6	-1.5	-2.4	-3.1
Bolivia	6.8	5.1	5.0	5.7	6.8	5.3	3.7	3.7	2.4
Uruguay	4.2	2.8	3.0	8.6	8.3	8.0	-5.9	-5.5	-5.2
Paraguay	13.0	4.8	4.5	2.7	4.7	5.0	0.9	-0.9	-1.6
Central America[3]	4.0	4.0	4.0	4.2	3.8	4.4	-6.9	-6.5	-6.2
Caribbean[4]	2.8	3.3	3.3	5.0	4.4	4.5	-3.7	-3.2	-3.2
Memo Items:									
United States	*1.8*	*2.8*	*3.0*	*1.6*	*1.6*	*1.8*	*-2.3*	*-2.2*	*-2.5*
E. Caribbean Currency Union[5]	*0.5*	*1.4*	*1.8*	*1.0*	*1.2*	*1.8*	*-17.6*	*-17.1*	*-16.7*

[1]Excluding Argentina. [2]Inflation is Argentine government data according to to old (pre-January 2014) methodology. [3]Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. [4]Antigua & Barbuda, the Bahamas, Barbados, Dominica, Dom. Republic, Grenada, Haiti, Jamaica, St Kitts & Nevis, St Lucia, St Vincent & the Grenadines and Trinidad & Tobago. [5]Anguilla, Antigua & Barbuda, Montserrat, Dominica, Grenada, St Kitts & Nevis, St Lucia and St Vincent & the Grenadines.

Source: *IMF World Economic Outlook: Recovery Strengthens, Remains Uneven, April 2014*

Resilience to future shocks in danger unless fiscal policy is reined in

While the region weathered the crash of 2009 well, the IADB is concerned that its resilience to external shocks is somewhat reduced. One area of concern is the fiscal balance, which in 2013 deteriorated in 18 out of 21 countries in the region, relative to 2012. "For the typical country in the region, overall fiscal balances remain 3 percentage points of GDP below pre-crisis levels" the report says. Structural fiscal imbalances (excluding cyclical factors) have worsened.

In response to the 2009 crisis, a number of countries launched discretionary fiscal spending programmes which the report suggests are difficult to reverse for political and other reasons. Overall, Latin American fiscal policy tends to be pro-cyclical rather than counter-cyclical. This lack of automatic stabilisers means that it will be more difficult for Latin American countries to rebuild the necessary fiscal buffers to protect against future external shocks. The report notes: "Automatic stabilisers in the region are small, due to the small share of income tax within the structure of total public sector revenue and the limited role played by unemployment insurance mechanisms, the latter related to high labour informality."

Public vs. private corporate sector debt

On the plus side, the region's public debt ratios have improved significantly since the 1990s and remain at reasonable levels despite the effects of the post-2009 crisis. For the typical country in the region, public sector debt was close

to 100% of GDP in 1994; it fell to 36% in 2008, and since then has pushed up to 42%. Yet the IADB highlights a different worry. Domestic credit levels have doubled in the last four years, non-financial Latin American companies have issued significant amounts of dollar-denominated debts, and those companies now account for something like 60% of the deposits in the financial system. The suggestion is that in certain external shock circumstances, such as a devaluation, the private sector debt profile could pose a significant risk.

Finally, the IADB sketches out the implications for Latin America of a 'Sudden Stop' scenario – an abrupt halt in inward capital flows "whose impact depends on a country's fiscal deficit, on the current account deficit, and the level of dollarization and reserves, among other variables". Andrew Powell, the annual report's main coordinator, notes that, "reserve levels, while higher in many countries, are below levels that are optimal given the risks of a 'Sudden Stop' scenario. We need to take a closer look at reserve levels in this environment of heightened risks and higher fiscal deficits. And we need to monitor private sector currency mismatches and liquidity risks. We cannot be complacent."

"Domestic credit levels have doubled in the last four years, non-financial Latin American companies have issued significant amounts of dollar-denominated debts, and those companies now account for something like 60% of the deposits in the financial system. The suggestion is that in certain external shock circumstances, such as a devaluation, the private sector debt profile could pose a significant risk."

IMF also modest in its near term outlook

Regional economic growth in the next couple of years will be subdued by past standards, as will inflationary pressures in most countries. In early April, the International Monetary Fund (IMF) published its semi-annual 'World Economic Outlook' for the global economy. As **chart 1** shows, most countries in Latin America are expected to grow more slowly in 2014 and 2015 than in 2013: this is in the context of fairly low inflationary pressures and manageable current account deficits.

As ever, a number of countries are outliers. Growth in Paraguay in 2013 was boosted by recovery from earlier drought. Activity in Venezuela remains constrained by the well-documented problems in that country (*see inside for further discussion*). Mexico is the most obvious (and largest) beneficiary of the anticipated acceleration of growth in the US. High debts and current account deficits continue to restrict economic growth in much of the Caribbean sub-region.

Chart 2: Net private capital inflows to developing countries by region

US$bn	2009	2010	2011	2012	2013e
All Developing Countries	**604.2**	**1,035.9**	**1,077.3**	**1,093.6**	**1,078.4**
East Asia and Pacific	255.1	55.6	546.8	482.5	495.3
Europe and Central Asia	52.3	57.3	130.4	128.1	114.2
Latin America and Caribbean	***143.2***	***280.8***	***262.8***	***300.3***	***289.9***
Middle East and North Africa	28.4	30.1	9.0	27.9	19.8
South Asia	79.0	96.1	78.1	92.1	84.7
Sub-Saharan Africa	46.3	46.0	50.1	62.6	74.5
% GDP					
All Developing Countries	**4.1**	**5.8**	**5.2**	**5.0**	**4.6**
East Asia and Pacific	4.1	7.0	6.0	4.7	4.4
Europe and Central Asia	4.2	4.0	8.2	7.8	6.6
Latin America and Caribbean	***3.8***	***6.1***	***5.0***	***5.7***	***5.3***
Middle East and North Africa	2.9	2.7	0.7	2.1	1.5
South Asia	4.9	4.8	3.5	4.1	3.7
Sub-Saharan Africa	5.0	4.1	4.0	4.8	5.3

Source: *World Bank, Global Economic Prospects - Financial Markets Outlook, February 2014*

In its review of regional prospects, the IMF was fairly cautious about the short-to-medium term future. 'The recovery in advanced economies should generate positive trade spillovers [for Latin America and the Caribbean], but these are likely to be offset by lower commodity prices, tighter financial conditions, and supply bottlenecks in some countries.'

The problems have already been recognised by investors. As **chart 2** shows, net private capital inflows to the region have basically stabilised over the last four years or so. Given the ongoing growth in most economies, inwards foreign investment has fallen relative to overall GDP.

But, what happens if the US economy grows more rapidly than is generally expected, with the result that the Federal Reserve has to taper its asset purchase program more quickly and/or hint at an increase in official interest rates? As **chart 3** indicates, the World Bank observed a double digit rise in gross capital flows to the region last year. Crucially though, widespread volatility in global financial markets in the middle of 2013, when investors first started to fret about the possible implications of tapering, resulted in a slump in inwards investment into the region's equity markets. Monthly inflows through the second half of 2013 were just US$1.7bn, or about half of levels in the first six months of last year. Fortunately, increases in bank loans more than made up for this.

"On balance, there is reason for optimism....Even if *all of* the most likely shocks take place in coming months, the region as a whole should still perform reasonably well. The (uninspiring) performance of regional stockmarkets and currencies over the past year or so, and the change in inwards capital flows, suggests that a lot of the risks and challenges have already been discounted by investors."

Chart 3: Gross capital flows to Latin America and the Caribbean region

US$bn	Total	Equity	Bond	Bank Loans
Total, 2012	149.5	19.8	92.8	36.9
Total 2013	177.6	29.2	98.3	50.1
% Change	18.8	47.4	6.0	35.6
Ave. Jan-May 2012	11.6	1.2	8.6	1.9
Ave. Jul-Dec 2012	13.9	2.2	7.5	4.3
% Change	19.6	83.3	-13.0	126.5
Ave. Jan-May 2013	15.1	3.4	9.4	2.4
Ave. Jul-Dec 2013	16.1	1.7	8.6	5.8
% Change	6.0	-51.5	-8.6	147.3

Source: *World Bank, Global Economic Prospects - Coping with policy normalization in high-income countries, Jan. 2014*

The various countries of Latin America and the Caribbean are far from homogeneous. The World Bank notes that across the region as a whole, the current account deficit rose from 1.7% of GDP in 2012 to 2.6% in 2013. This was due largely to slowing growth in export volumes, along with lower commodity prices. In US dollar terms, prices for agricultural products, metals and precious metals slipped by 7.2%, 5.5% and 16.9% respectively last year. As **chart 4** indicates, the impact in terms of trade was sizeable and negative for Suriname, for instance. Conversely, various countries in Central America and the Caribbean, such as Costa Rica, St, Lucia, Dominica, St Vincent & the Grenadines and Haiti, all received a terms of trade boost.

As mentioned above, and as **chart 5** shows, the IADB does not expect that its three potential shocks combined (an acceleration in US growth, financial market volatility arising from monetary tapering; and a marked deceleration of growth in China) would have much impact on the region *taken as a whole*. Under its baseline forecasts, the IADB is looking for real GDP growth across Latin America and the Caribbean to accelerate to 3.3% in 2014-16, from 2.6% in 2013. In the event of all three shocks combined, it estimates that annual growth in 2014-16 would slow only marginally, to 3.2%.

Chart 4: Impact of lower commodity prices on terms of trade (% GDP), 2013

Country	% GDP
Surinam	-6.0
Guyana	-3.1
Paraguay	-2.6
Nicaragua	-2.4
Honduras	-1.3
Peru	-1.3
Belize	-1.2
Bolivia	-1.2
Guatemala	-0.8
Colombia	-0.6
Argentina	-0.6
Ecuador	-0.4
El Salvador	-0.3
Brazil	-0.2
Jamaica	-0.2
Mexico	-0.1
Dom. Rep.	0.0
Panama	0.0
Venezuela	0.0
Costa Rica	0.1
St Lucia	0.2
Dominica	0.4
St V. & G.	0.5
Haiti	0.7

Source: *World Bank, Global Economic Prospects - Coping with policy normalization in high-income countries, Jan. 2014*

Chart 5: The impact of three shocks - as the IDB sees it

SHOCK 1: US GDP growth rises to 4.0% by 2015

SHOCK 2: US Equity returns fall to 3-4% in 2014-16

SHOCK 3: China's GDP growth falls to around 5.5% in 2016

Real GDP Growth %

	2012	2013	2014-16 Baseline	2014-16 Three Shocks
Argentina	1.6	3.5	2.8	2.1
Bolivia	5.0	5.4	5.0	4.9
Brazil	1.0	2.3	2.8	2.4
Chile	5.3	4.4	4.5	4.1
Colombia	4.0	3.7	4.4	4.0
Costa Rica	5.2	3.5	4.1	4.5
Ecuador	5.2	4.0	4.0	4.3
El Salvador	1.9	1.6	1.7	1.7
Jamaica	-0.5	0.4	1.7	1.6
Mexico	3.8	1.2	3.4	3.7
Nicaragua	4.2	4.2	4.0	4.4
Paraguay	-0.4	12.0	4.7	3.9
Peru	6.3	5.4	5.8	5.7
Trinidad & Tobago	0.1	1.6	2.2	2.1
Weighted Average	2.7	2.6	3.3	3.2

Source: *Inter-American Development Bank (IDB), Global Recovery and Monetary Normalization: Escaping a Chronicle Foretold?*

In relation to the larger economies in the region, the IDB's calculations suggest that the combined shocks would have the greatest impact on Argentina, reducing annual GDP growth in 2014-16 from 2.8% to 2.1%. The effects are also assessed as being negative for Brazil (reducing growth from 2.8% to 2.4%); Chile (from 4.5% to 4.1%), and Colombia (from 4.4% to 4.0%). However, the impact on Peru, where growth would slow from 5.8% to 5.7%, would be marginal.

In contrast, the strengthening of the US economy on Mexico would dwarf everything else; with the result that growth there would accelerate faster, at about 3.7% year-on-year, rather than 3.4%. For most of the smaller economies, the combination of the three shocks would have little effect: the main exception appears to be Paraguay.

On balance, there is reason for optimism. Regional economies are not likely to perform particularly well in the near term relative to how they fared prior to the global crisis of 2008-09. However, even if *all of* the most likely shocks take place in coming months, the region as a whole should still perform reasonably well.

The (uninspiring) performance of regional stockmarkets and currencies over the past year or so, and the change in inwards capital flows, suggests that a lot of the risks and challenges have already been discounted by investors. It is also possible that Mexico becomes one of the fastest growing of the major emerging markets globally over the next two years or so.

To the extent that other economies suffer problems, these are far more likely to be home-grown than the consequences of developments in the global economy and financial markets. In the meantime, and as we discuss inside, particular industries and companies will benefit from positive secular trends.

ARGENTINA

Retailing in Argentina

Rampant inflation, crimped household budgets, lacklustre economic growth, volatile financial markets and limited access to foreign currency had little adverse impact on the fortunes of Argentina's retailers over the last year or so. This year should be a fairly good period for them as well.

According to the national statistics institute (INDEC), total sales through the country's supermarkets rose from ARS104bn (US$13bn) in 2012 to ARS131.7bn (US$16.5bn) in 2013 – an increase of 26.7%. Supermarket sales in the first two months of 2014 were up 32.9% year-on-year over the corresponding period of 2013. Of course, these numbers need to be considered in the context of annual consumer price inflation of 25% or more. Nevertheless, it is reasonable to conclude that most of the supermarket operators (and other retail companies) achieved real growth over the course of 2013. The INDEC's figures indicate that overall real (i.e. inflation-adjusted) GDP growth in Q313 was 5.5% year-on-year. Growth in the wholesale and retail trade and repairs segment was 6.8%.

Any analysis of the fortunes of Argentina's retailers is complicated by the fact that much of the activity is accounted for by private companies or unincorporated 'mom & pop' operations. According to the International Markets Bureau of Canada's agriculture ministry, such small retailers account for about half of all grocery sales in Brazil, Argentina, Venezuela and Colombia. Large-scale grocery supermarket chains account for another 25%. Convenience stores, pharmacies and other chains speak for the remainder.

"Inflation in Argentina is sufficiently high that most households have a strong incentive to spend and consume."

Nevertheless, to the extent that major retail companies have commented on the performance of their Argentine operations in 2013, it is clear that most were reasonably pleased with outcomes. As **chart 1** indicates, the French giant Carrefour was satisfied with its profitability last year. This was in spite of rising wage costs and a government-imposed price freeze on some of the items stocked in the company's supermarkets and hypermarkets. Press reports in February 2014 indicated that Carrefour, along with the local subsidiary of US giant Wal-Mart, as well as some other companies, had been fined for failure to maintain adequate inventories of the 194 basic goods that have been subject to official price controls since the beginning of the year. At less than US$200,000 in each case, it is quite probable that the fines are small relative to the losses that might have been suffered had the retailers kept adequate stocks.

The comments of Avon, best known for its direct sales of cosmetics, are also telling. Avon benefited from the introduction of some new products. However, sales were really boosted by an increase in ticket value *in real terms* (emphasis added). The Chilean retail group Cencosud, which operates supermarkets, hypermarkets and home improvement stores in Argentina, also remarked favourably on a 'flexible pricing environment.' In essence, inflation in Argentina has reached a level where, for most consumers, it is not readily apparent whether they are paying a higher real price than they were previously.

Interestingly, Avon does not regard Argentina as being a 'highly inflationary economy': in this respect, Argentina is different to Venezuela, where Avon also has a presence. However, the inflation in Argentina is sufficiently high that most households have a strong incentive to spend and consume. In the domestic appliance market, where the typical ticket price is quite high relative to average weekly incomes, leading companies such as Frávega and Rodo provide an additional incentive in the form of loans with zero interest applicable for the first year. To a certain extent, these retailers are providers of

What some of the leading companies are saying:	
Carrefour (Hypermarkets and supermarkets under Carrefour and Carrefour Express brands)	[Operations in] Argentina performed pretty well (in 2013) in a context of government-mandated price freeze and increasing wage [costs for the company]'
Avon Inc. (Cosmetics / direct sales)	Total revenues in Latin America down 3% in US$ terms, but up 6% in constant dollar terms, at US$4,841mn in 2013. 'The region's constant dollar revenue growth was primarily due to higher average order, which benefited from pricing, including inflationary impacts, primarily in Argentina and Venezuela, and new Beauty product launches. Active Representatives were relatively unchanged. ... During 2013, Avon Argentina represented approximately 4% of Avon's consolidated revenue, 10% of Avon's consolidated operating profit and 6% of Avon's consolidated adjusted operating profit. ...If the exchange rate was devalued by approximately 50% from the average exchange rate of Argentina's 2013 results, and using the 2013 results, Avon's annualized consolidated revenues would likely be impacted by approximately 2% and annualised consolidated operating profit would likely be negatively impacted by approximately 3% prospectively. This sensitivity analysis was performed assuming no operational improvements occurred to offset the negative impact of a devaluation.' Avon does not account for Argentina as a highly inflationary economy (unlike Venezuela).
IRSA Inversiones y Representaciones SA (Leading commercial real estate company)	[In H213] our shopping centres' sales grew by 28.6% [relative to H212] and portfolio occupancy increased to 98.8%.' Within IRSA's centres, anchor store sales were up 26.9% relative to H212: Other increases were: clothing and footwear (27.8%) entertainment (18.7%) home (29.9%) restaurant (29.1%) miscellaneous (30.8%) and services (80.9%). '[In relation to 2014], our shopping centres [should] maintain their growth rate and continue to exhibit sound invoicing figures and occupancy rates close to 100%, hand in hand with our tenants' strong commitment, who keep choosing our spaces both in the City of Buenos Aires and the inner regions of Argentina, to position their brands. We expect that ... we will continue to consolidate as the leading shopping centre company in Argentina, adding new properties and footage to our current portfolio, including new top brands among our tenants and devising new ways to continue offering the best commercial proposals to our visitors.'
Fallabella (department stores and home improvement stores under Sodimac, Falabella brands)	Department store revenues rose by 15.1% in 2013 to US$620mn. Home improvement store revenues increased by 21% to US$245mn. Year-on-year same store basis sales growth was running at about 30% through 2013 in both of Fallabella's Argentine businesses.
Cencosud (Supermarkets, hypermarkets and home improvement stores under Disco, Vea and Jumbo brands. Also leading real estate owner)	Cencosud had supermarket same store basis sales growth of 21.5% in 2013, with average ticket rising 27.7%. On a same stores basis, sales of the home improvement business rose by 38.7%. For both businesses, the numbers of tickets fell slightly. Revenues from the group's shopping centres in Argentina increased during 2013, in spite of the weakness of the Argentine peso vis-a-vis the Chilean peso. Supermarket gross margins rose thanks to 'an improved commercial strategy and a more flexible price environment.' Cencosud 'is the leading operator of commercial arcades in Argentina with a 40% market share and with a store occupancy rate of 98%.'
Sources: *Company reports*	

assets that offer a hedge against inflation to households who may not have the wealth to invest in the real estate market or ready access to foreign currencies and gold. Among the other companies profiled in the chart, Chile's Falabella also achieved real growth in its department stores and home improvement warehouses.

The recent and widespread industrial unrest in Argentina highlights how a number of (mainly public sector) workers see themselves as being disadvantaged by the high inflation. However, there are evidently many other households whose real disposable incomes have held up over the last year or so – or increased. Both Cencosud and IRSA Inversiones y Representaciones SA, leading owners and operators of shopping malls, have highlighted how their occupancy rates are nearly 100%. In its latest semi-annual report, IRSA confirmed that, across most categories, its tenants enjoyed strong real growth in sales through H213.

The comments of Cencosud and IRSA suggest that, so far, neither company is being affected by retailers' promotion of online sales. The websites of leading local groups such as Rodo and Frávega (electrical appliances) or Farmacity (pharmaceuticals and personal care products) confirm that, as in the rest of the world, Internet sales are growing in importance in Argentina. It is probable that some of the companies have boosted overall sales through their online offerings.

In mid-January, we argued that financial market commentators had grossly over-estimated the risk of a massive and monetary crisis in Argentina. Since then, initiatives on the part of the government, and other developments, have reduced the likelihood of catastrophe: this has been recognised in financial markets. Although an exogenous shock could yet cause problems, policymakers (and other actors) appear, as of mid-April 2014, to be doing a good job of 'muddling through' the various challenges.

This means that 2014 should, overall, be another good year for Argentina's leading retailers (and, indeed, the numerous smaller family operators). Top line numbers will be distorted by rates of inflation that are high by most standards. Foreign companies' bottom line results in their own currencies will be compressed by softness in the Argentine peso. However, businesses should expand in real terms. Because of Argentina's peculiar economic history, retailers will continue to play a key role as provider of financial services (through the offering of own branded credit cards and consumer loans) and vendors of products that afford some protection against inflation.

"Because of Argentina's peculiar economic history, retailers will continue to play a key role as provider of financial services (through the offering of own branded credit cards and consumer loans) and vendors of products that afford some protection against inflation."

In the event that actual and expected inflation fell dramatically, and Argentina moved into a virtuous circle in which long-term interest rates fall and the currency stabilises/rises, retailers will have to rethink their business models. However, most have the advantages of an established presence, strong brands, access to prime locations, access to the capital that they need and, most importantly, an intimate understanding of how to operate in a complicated business environment. Argentine retailing is an industry in which the barriers to entry are quite high.

REGION

The golden age of insurance in Latin America

In spite of patchy economic growth in much of the region, and rising interest rates in Brazil, premiums and profits at Latin America's leading insurance companies surged in 2013. The good times should continue in 2014 and beyond.

One of the largest corporate deals to take place in Latin America in 2013 was the formation of BB Seguridade Participações SA, the holding company for Banco do Brasil's various insurance businesses. Aside from massive economies of scale, the combination of the insurance operations of Banco do Brasil with the Brazilian business of Spanish giant MAPFRE sought to exploit various advantages. In an institutional presentation in early 2014, BB Seguridade noted that it was combining 'bancassurance with [its] own brokerage, getting advantage of the captive access to [the] Banco do Brasil distribution network.'

Today BB Seguridade is one of the largest providers of pension and *Capitalização* premium bonds, with substantial market shares in most of the markets that it serves. In 2013, gross written premiums amounted to BRL14bn. The company received BRL23bn in pension contributions and BRL6.3bn for *Capitalização* bonds. Revenues of BB Seguridade's brokerage operation, which has exclusive access to Banco do Brasil's network of 5,450 branches and 63,141 automated teller machines (ATMs), is the largest in the region. Like the other leading Brazilian insurers, BB Seguridade would rate as an enormous composite insurer in most other countries.

Chart 1: BB Seguridade Participações SA - Selected Metrics			
	2013 Est.	2013 Actual	2014 Est.
BB Seguridade - Adjusted ROAE[1]	37-41%	35.9%	44-49%
Premium Growth BB MAPFRE SH1[2]	37-49%	33.7%	24-32%
Premium Growth - BB MAPFRE SH2[3]	15-20%	17.2%	19-26%
Premiums - Pension Plans/ VGBL/ PGBL	30-40%	27.1%	33-47%
Contributions - Capitalização Bonds	50-65%	62.0%	10-15%

[1]Return on Average Equity
[2]Mainly ordinary life, credit life and agricultural insurance
[3]Non-life insurance

Source: *BB Seguridade Participações SA - Institutional Presentation 2014*

As **chart 1** shows, BB Seguridade's overall profitability (in terms of Return on Average Equity or ROAE) for 2013 was marginally less than what the company had been looking for at the time of its formation. Premium growth in the BB MAPFRE SH1 joint venture (JV), which focuses on life insurance and agricultural lines, was also a little lower than had been anticipated, as was premium growth in the BrasilPrev business (which provides traditional pensions, as well as the VGBL and PGBL savings products that are roughly analogous to 401(k) plans in the US).

"The industry is dominated by companies that can leverage economies of scale, among other advantages. Thanks to product innovation and imaginative approaches to distribution, insurance premiums are rising faster than nominal GDP in much of the region."

Nevertheless, the absolute level of profitability has been extremely high, at nearly 36%. The growth in premiums across all businesses has been well into double-digits. At above 60%, the rise in sales of *Capitalização* bonds has been particularly impressive.

The reports from other leading Brazilian insurers in relation to their operations during 2013 have been similarly upbeat. Porto Seguro, for instance, noted that total written premiums increased by one fifth to BRL11.6bn. This was partly due to higher volumes (thanks to cross-selling of products to customers): the numbers of cars insured under Porto Seguro's three main brands rose by 10% to 4.6m over the course of 2013, for instance. SulAmérica reported that it benefited from both higher prices and volumes in its motor insurance and health insurance businesses. Bradesco Seguros achieved 12% growth in total premiums, thanks to double digit rises in health insurance premiums and *Capitalização* bond sales. Itaú Unibanco noted that its sales of *Capitalização* bonds had expanded at a more measured pace: nevertheless, the number of *Capitalização* bonds held by its clients rose from 11.8m to 14.5m over the course of 2013.

Although the details vary from company to company, all the Brazilian majors have benefited from scale, brand, multi-channel distribution, diversified portfolios of products and innovation in terms of products and services offered. For its part, BB Seguridade has also launched a dental health insurance joint venture with Odontoprev and has taken a stake in reinsurer IRB-Brasil Re. The companies have pricing power. In addition, disciplined control of costs means that claims and expenses ratios have been falling.

BB Seguridade's views of the likely trends in 2014 are shown in **chart 1**. Growth in sales of *Capitalização* bonds should decelerate: as discussed above though, this is in the context of an explosive increase in 2013. In contrast, the increases in premiums in BB Seguridade's other businesses should be more rapid this year than last year. Perhaps most importantly, overall profitability will increase even further, and from an already high level.

Several conclusions can be drawn from this. In the health insurance subsegment, the insurers are doing a good job of convincing Brazilian households of the attractiveness of their offerings. In the non-life segment, insurers are selling motor vehicle insurance – including the compulsory DPVAT (to use its Portuguese initials) and voluntary lines – as well as property insurance to first time users. Although the slowing of the overall economy and the stickiness of inflation has had an adverse impact on the disposable

> “The (very) strong growth in premiums and contributions for the various life insurance offerings suggests that the segment is still developing as an important conduit for organised savings.”

incomes of some Brazilian households, this has not crimped the appetite for insurance of the household sector as a whole. The (very) strong growth in premiums and contributions for the various life insurance offerings suggests that the segment is still developing as an important conduit for organised savings. Put another way, the rise in interest rates has been seen as being consistent with improved returns from the various offerings (and, presumably, promoted as such by the banks that have been distributing them).

Chart 2: Allianz in Latin America - Selected Metrics
*Property & Casualty premiums up 11% to €2,350mn in 2013
*Life premiums up 31% to €329mn, thanks mainly to growth in Mexico.
*Operating profit up 4.2% to €136mn after adverse currency effects up 15.2% before effects
*Property & Casualty premiums in Argentina up 11% to €298mn: internal growth was 53%
*Allianz is looking for growth rates in its Argentine business to continue in 2014.
*Total premiums in Brazil more or less unchanged at €1,450mn: internal growth was 12.7%
*Allianz expects good efficiency gains from its new IberoLatAm business platform.
*Property & Casualty premiums in Colombia fell by 10% to €355mn: internal growth was -2.8%.
*However, operating profit in Colombia surged thanks to a lower combined ratio.
*Total revenues in Mexico rose by 21% to €504mn. Growth was driven by life insurance premiums, which surged by 67%.
Source: *'Allianz focuses on growth in Latin America', Allianz SE Press Release, 10 March 2014.*

For its part, Germany’s Allianz has also been positive about developments in its Brazilian business. In local currency terms, total premiums rose by nearly 13%. In Brazil and elsewhere in the region, Allianz expects that it will achieve significant efficiency gains from the introduction of its new business platform. In the other three Latin American countries in which Allianz operates – Colombia, Argentina and Mexico – the company has benefited from higher premiums and/or improved cost ratios. Allianz expects that the strong growth of its business in Argentina will continue in the coming year. The details are shown in **chart 2**.

Chart 3: Grupo Sura/ Suramericana - Premiums		
	2013 US$mn	**Growth %**
Life insurance - Colombia	1,028	13.4
Property & Casualty Insurance - Colombia	737	7.0
EPS SURA Health Insurance - Colombia	559	12.1
Workers Compensation - Colombia	341	14.2
Asesuisa - El Salvador	104	10.6
SURA - Dominican Republic	74	6.5
SURA - Panama	50	13.1
Other	231	21.3
Total	**3,124**	**12.0**
NB Sura AM EBITDA up 6.6% at US$437mn in 2013		
Sura AM AUM of US$113bn, up in all six countries over the year.		
Source: *Grupo Sura Management Presentation*		

Suramericana, the element of Colombia’s Grupo Sura that is the leading insurance company in that country, with a market share of over 23% and about 8.0m customers, reported that it, too, had achieved sold increases in premiums last year in all its main businesses. Premiums also rose at double-digit rates in Suramericana’s smaller operations in Panama and El Salvador. Following its purchase of ING’s regional pensions management business, Suramericana’s Sura AM operation is one of the largest regional investment managers. Over the course of 2013, Sura AM’s assets under management (AUM) increased to US$113bn, and rose in each of the six countries in which the company operates (Chile, Colombia, Mexico, Peru, Uruguay and El Salvador). The details are shown in **chart 3**.

Chart 4: MAPFRE América - Selected Metrics				
				Local Currency
Premiums €mn	**2012**	**2013**	**Change**	**Change**
Brazil	4,761.4	5,036.1	5.8%	20.4%
Venezuela	818.7	963.3	17.7%	73.7%
Mexico	697.3	695.0	-0.3%	-4.0%
Colombia	588.9	713.9	21.2%	30.2%
Argentina	336.4	322.5	-4.1%	18.6%
Chile	329.5	317.2	-3.7%	1.9%
Peru	276.7	311.7	12.6%	20.5%
Central America	255.4	263.9	3.3%	
Others	249.4	263.3	5.6%	
Puerto Rico	335.4			
Total	**8,649.1**	**8,886.9**	**2.7%**	
*Ecuador, Paraguay, Dominican Republic and Uruguay				
***Source:** MAPFRE Year end 2013 results: Presentation for investors and analysts, 11 February 2014*				

Like Allianz, the results achieved by MAPFRE América, the Spanish giant's regional (composite) insurance operation were affected by the weakness of most of the relevant currencies vis-à-vis the euro. MAPFRE América's businesses in Colombia and Peru achieved very good real growth in 2013. In spite of extremely difficult economic conditions, MAPFRE América's Venezuelan operation wrote (non-life) premiums of nearly €1bn last year. The details are shown in **chart 4**. Zurich Santander, the JV that leverages the brand and branch network of the Spanish banking group with Zurich Insurance Group's capital and products, also performed well in 2013, as **chart 5** indicates. Like BB Seguridade, Zurich Insurance Group is very upbeat about the prospects for insurance businesses in Latin America.

"The current decade may eventually be seen as something of a golden age for insurance in Latin America."

Chart 5: Zurich Santander - Key Metrics
*Statutory profit before tax of US591mn in 2013, up 27%.
*Dividends of around US$430mn paid
*Gross written premiums and insurance deposits up around 10%
*Net book value up 52% to US$268mn.
*APE basis new business life premiums up 26% to US$821mn.
*Zurich Insurance Group's global outlook for 2014 includes 'continued strong performance from Zurich Santander'.
***Source:** Zurich Insurance Group, Annual Results 2013 - Analysts' Presentation, 13 February 2014*

In short, Brazil is emphatically not the only country in which trends are favourable for both non-life and life insurers. The various corporate deals over recent years which produced BB Seguridade and Zurich Santander, and which gave Grupo Sura a leadership position as a regional asset manager and provider of private pension products, mean that the industry is dominated by companies that can leverage economies of scale, among other advantages. Thanks to product innovation and imaginative approaches to distribution, insurance premiums are rising faster than nominal GDP in much of the region. In spite of fluctuations in global investors' appetites for emerging markets risk, and consequent volatility in financial markets, life insurance and private pensions are clearly becoming more important. The success of Allianz in Argentina and MAPFRE América in Venezuela shows how global majors can expand their businesses even in face of challenging economic financial conditions. These are positive secular trends, which should continue through 2014 and beyond. The current decade may eventually be seen as something of a golden age for insurance in Latin America.

World Cup not so exciting for airlines

According to latest estimates, over 600,000 people will be visiting Brazil during the upcoming FIFA World Cup, the once-every-four years football extravaganza due to be held between 12 June and 13 July. Some US$11bn has been spent on preparations for the event. The matches will be held in 12 different cities across the country. The vast majority of the visitors – perhaps over 90% - will get to the country and to the different venues by air. On paper, this should mean a bonanza for Latin American and international airlines. In reality, apparently not: airline executives are decidedly down in the mouth about the whole thing.

Germán Efromovich, the Brazilian businessman with a controlling stake in Avianca, the Colombia-based regional airline, is certainly not hyping the World Cup travel experience. At a recent conference, he suggested that Brazil is just not ready for the expected surge in air travel demand. "You're going to spend three hours going around in circles, you'll go to another city 300kms away, and you'll put the passenger in a bus or taxi, and he'll arrive after the match is over. Then we'll see what happens," he said.

"People coming to Brazil are going to be shocked, especially Americans, by how bad the airports are. There won't be any catastrophic issues... but they will be chaotic and as ugly as heck."

- Consultant Paul Irvine

Enrique Cueto, the Chilean chief executive of LATAM Airlines (the partnership between Chile's LAN and Brazil's TAM) was in agreement. "I don't know who's going to win the games, but the airlines are going to lose with the World Cup" he said, adding, "if you do things right with operations you can wind up with a draw. You get it wrong and you don't get to a game on time and you'll soon see what you get." Given that actually getting to the game ranks pretty high in the average football fan's requirements, these top executives are clearly deeply concerned about the possibility of things going wrong, with all the associated bad press and reputational damage.

Behind that concern is the technical worry that the air travel system in Brazil is just not robust enough. In the last ten years, the number of Brazilian air travellers has more than tripled to around 200m per annum. Despite advances, and the expansion and modernisation of airline fleets, the country's airport and air traffic control infrastructure has struggled to keep up. One sign of this is that around 4% of all of Brazil's scheduled commercial flights are cancelled or not completed due to weather, mechanical, or staffing issues, about double the rate in the US.

While the government has been investing to increase system capacity, the consensus is that projects are still running behind where they need to be. Many Brazilian airports are still operating beyond their technical capacity. Expansion projects underway are being implemented by both private sector and public enterprises. Two years ago President Dilma Rousseff privatised a number of key airports. But results have been mixed. Earlier this month, she inaugurated the shiny new south terminal at Brasília, built by the Argentina-based concession holder Corporación América and Brazil's Engevix. The project is on track for completion in May, before the World Cup starts. But others have not been so lucky. In Fortaleza, the venue for six World Cup matches, travellers will have to use a temporary canvas terminal building. In Viracopos, outside São Paulo, the new US$800m international terminal will not be ready on time. Some of the private operators point out that work has been delayed by slow and bureaucratic authorisation and environmental approval processes. At the start of March Infraero, the government aviation infrastructure agency, said airport expansion projects in seven World Cup cities were less than 50% completed. A government official cited by the *Reuters* news agency said that Guarulhos in São Paulo "is where we expect to get most blowback" – there, the automated baggage check and immigration systems are not going to be ready in time.

According to Paul Irvine, a Rio-based travel agent, "people coming to Brazil are going to be shocked, especially Americans, by how bad the airports are. There won't be any catastrophic issues… but they will be chaotic and as ugly as heck." John Strickland of JLS, an aviation consultancy, adds: "it seems that sufficient improvement will not be in place in time for the event, and airlines will pay the price with delays and disrupted flights bringing in the influx of traffic."

On the plus side, in cooperation with government officials Brazil's commercial airlines are re-drawing air-routes to reduce congestion. Using GPS positioning, software developed by General Electric, and advice from the Brazilian budget airline GOL, the new system offers a more efficient use of airspace and allows planes to fly closer together, reducing congestion. Budget airline Azul Linhas Aéreas says the new approach could help it reduce flying time on the Rio de Janeiro – Sao Paulo shuttle by about 4-5 minutes on each flight, which could represent an annual saving of US$10m. Chief Executive David Neeleman says this is important, because jet fuel in Brazil costs around 17% more than the global average, due to state-controlled pricing. Colonel Gustavo Oliveira of the Department of Airspace Control says "if we didn't make this change now, we wouldn't cope with the World Cup demand".

While it is clear that airlines will do everything they can to get all visitors to all matches on time, since so much of their reputation will be on the line, few think they are going to make money in the process. LATAM's Cueto points out that while there will be a spike in football visitors to Brazil, other types of travel are likely to decline. In particular, he expects to see a steep fall in business travel during the World Cup. He also points out that June-July is usually high season for outbound travel from Brazil to Europe and Miami: "Now, we don't know if they will go to Miami or Europe, or if they will decide to stay in Brazil". TAM's chief executive Marco Antonio Bologna also said that lost revenue from business travel would not be offset by World Cup traffic. "During the Cup we're expecting a slower flow, less demand", he said.

"While it is clear that airlines will do everything they can to get all visitors to all matches on time, since so much of their reputation will be on the line, few think they are going to make money in the process."

REGIONAL ECONOMIC REVIEW

BRAZIL

A year of reckoning for Eletrobrás?

This year Eletrobrás, the state-controlled Brazilian electricity generation and distribution company, faces big challenges. After announcing the second largest loss of a publicly listed Brazilian company in 2013 (a total of US$2.74bn), the company's chief executive José da Costa Carvalho Neto has vowed to get the utilities group back into the black in 2014. Yet to do so he must find a way to cope with lower hydro-electric power supplies resulting from recent drought, the expected big spike in electricity demand in-June-July, when some 600,000 visitors are due to arrive for the World Cup, and the political pressures swirling around October's general election.

Last year was pretty bad for Eletrobrás. The company posted losses of BRL6.2bn (US$2.74bn), the second biggest recorded among the country's Bovespa-listed enterprises, placing it behind OGPar (the new name for Eike Batista's crippled OGX mining group), which plunged into the red to the tune of a massive BRL17.4bn (US$7.7bn). This was the third consecutive year of losses at Eletrobrás, and although the numbers were slightly better than in 2012, investors remain concerned.

Presenting the results, Costa Carvalho noted that the losses were principally due to two major non-recurring factors. The biggest was the cost of the early

renewal of key 30-year power generation and distribution concessions offered by the government in 2012 as part of a deal whereby companies in the sector had to agree to reduce tariffs to consumers by 20%. The cost to Eletrobrás of those tariff reductions was around BRL8.75bn (US$3.87bn) in 2013, Costa Carvalho said, noting that "if I had had that money we would have made a profit in 2013, but if we failed to renew those concessions, then we would have been back registering a loss by 2015".

The second big non-recurring factor was the cost of an ongoing restructuring programme, as Eletrobrás seeks to become more efficient. During 2013, a total of 4,200 staff took early retirement or redundancy, at a cost of BRL1.72bn (US$760m). According to the chief executive's estimations, if it hadn't been for those two one-off factors Eletrobrás would have recorded a profit of BRL1.2bn (US$530m) in 2013. As it is, he said, all company projections showed that Eletrobrás would be back in the black this year. The company has committed itself to capital expenditure of BRL14bn (US$6.19bn) in 2014, the largest level yet, and according to its business plan, taking total capex to BRL61bn (US$26.95bn) between now and 2018.

"This was the third consecutive year of losses at Eletrobrás, and although the numbers were slightly better than in 2012, investors remain concerned."

A successful turn-around may indeed be in prospect, but the management still faces a number of questions. One of these is that the real costs of the 2012 agreement with the government are not entirely pinned down, and the reckoning has been somewhat complicated by the weather. A serious drought emerged last year and has stretched into 2014. Brazilian generators are heavily reliant on hydroelectric supply (around two thirds of the energy generated in the country is hydro-based), and at times of drought companies must switch to more expensive thermal generators (powered by coal, gas or nuclear energy). The government had agreed to pay the generation and distribution companies a fixed amount to compensate them for the early termination of their concessions in 2012, and it has also subsequently offered budgetary support for the extra drought-related generation costs. According to newspaper *O Estado de S. Paulo*, at the time the new concessions and tariff reduction deal was struck in 2012, Eletrobrás believed it was going to receive BRL30bn (US$13.2bn) from the government; but to date it has been paid only BRL14bn (US$6.16bn) or less than half of that amount.

In March, the government announced it had reached agreement with a group of Brazilian and international banks on a BRL11.2bn (US$5bn) loan to support the power industry through the drought. The money will be channelled initially to the Câmara de Comercialização de Energia Elétrica (CCEE), the wholesale power market operator, which in turn will lend it on to individual power sector companies such as Eletrobrás; repayments will begin to fall due in 2015, when it is assumed that the drought will be over and/or electricity tariffs will have been raised.

A second question is whether Eletrobrás can meet electricity demand through the FIFA World Cup and avoid rationing or big tariff increases in the politically sensitive period running up to the general election on 4 October. Some nervousness over this is understandable. According to a government report in November 2013, 22% of 148 energy projects for the World Cup were running behind schedule. A separate and more recent report has estimated that 71% of the country's transmission projects (not just World-Cup related) are running behind schedule. On 4 February this year some 6.0m people in 11 states were affected by power cuts. At the time, the authorities insisted that they were due to a transmission short-circuit, and not to any fundamental supply-demand imbalance. And on 9 April the Brazilian power sector regulator, Aneel, said that three power companies, including the Eletrobrás subsidiary Chesf, were being barred from the next transmission auction, due on 9 May, because they were behindhand on existing project schedules. Chesf led the list of culprits, with 16 infraction notices; the average work delay for each of the three companies was 13.5 months.

According to José Rosenblatt of a local energy consultancy, PSR, "rationing or not, the drought's impact on Brazil will be large. There's no way to avoid it. Guilherme Schmidt, a Rio-based energy lawyer, made the point that "the credibility of the government rests on [President Dilma] Rouseff's handling of the drought." The president is well aware of the political implications. The introduction of rationing in the previous big energy crisis in 2001-2002 was a key factor stoking dissatisfaction with the government of the day (led by Fernando Henrique Cardoso of the Partido da Social Democracia Brasileira [PSDB], president for two terms between 1995 and 2003), and helping the left-wing Partido do Trabalhadores (PT) win power for the first time ever in the October 2002 general election. Rousseff's first job in that new PT government was as energy minister, a position she held in 2003-2005.

Once more, power supplies are politically sensitive in the run-up to an October general election. A report by investment bank BTG Pactual suggests that if the drought continues Brazil should order a 5% reduction in power consumption between May and October this year, a period that includes both the World Cup and the elections. However, many analysts expect that for electoral reasons the government will seek to postpone either rationing or the tariff increase that many now see as inevitable until after the October elections.

"A second question is whether Eletrobrás can meet electricity demand through the FIFA World Cup and avoid rationing or big tariff increases in the politically-sensitive period running up to the general election on 4 October."

MEXICO

Economic ramifications of the Oceanografía scandal

It is not yet known how big the scandal around Oceanografía, Mexico's ill-fated oil and offshore services company, will turn out to be, but it has already had implications for national politics, for the future of the country's energy reforms, for banking regulations, for Mexico-US relations, and for Citigroup, the US banking giant.

One of the first signs that something was amiss came on 11 February, when the Mexican finance ministry (Secretaría de Hacienda y Finanzas Públicas [SHFP]) said it had banned Oceanografía from receiving any government contracts for 21 months, following the discovery or irregularities in nine contracts it had signed with the state oil company Petróleos Mexicanos (Pemex). Just over two weeks later, on 28 February, the federal attorney general's office (Procuradoría General de la República [PGR]) said it had initiated an investigation into the company's affairs. It emerged that Banamex, a major Mexican bank owned since 2001 by Citigroup of the US, had lent Oceanografía a total of US$585m, supposedly guaranteed by the company's Pemex contracts: however on US$400m of these loans the guarantees were found to be fake: so Banamex had to write them off as a total loss.

On 25 March, Oceanografía's chief executive, Amado Yáñez Osuna, was placed under house arrest under an *arraigo* (a court ruling giving the PGR 40 days to lay formal charges). The company itself, with headquarters in Ciudad del Carmen, Campeche, and a staff of 11,000 workers, has been temporarily taken over by the authorities, and is likely to go out of business. The Mexican congress has started its own investigation; on 4 April in the US, the FBI said it too was launching a criminal probe into the role of Citigroup and its subsidiary Banamex in the Oceanografía affair. On 11 April, the PGR confirmed it had filed a formal bankruptcy request in the company's name.

One factor making the affair particularly politically sensitive is that although Oceanografía was set up in 1968, much of its growth came during the two successive administrations of the centre-right Partido Acción Nacional (PAN), under the presidencies of Vicente Fox (2000-2006) and Felipe Calderón (2006-2012). The PAN is now in opposition. It has been alleged that Fox's two stepsons, Manuel and Jorge Bribiesca Sahagún, played a key role in

securing large Pemex contracts for Oceanografía. Both own shares in the company. But Fox has insisted that neither he nor his family have anything to hide from investigators.

The affair has become entangled in current political struggles. The Partido Revolucionario Institucional (PRI) government led by President Enrique Peña Nieto in December 2013 secured congressional support for his landmark energy reform bill, designed to loosen Pemex's monopoly and attract new foreign investment into the country's oil and gas sector. To implement the reform, however, the government also needs to get approval for so-called secondary or enabling legislation, and for this it depends on the PAN. On 13 March, the PAN broke off negotiations on the secondary legislation, complaining that the investigation of responsibilities in the Oceanografía case was being used by the PRI as a political lever to extract concessions. The PAN-PRI negotiations eventually resumed two weeks later in early April. Matters are particularly delicate because the PAN is divided into two opposing factions. One, led by the party president Gustavo Madero and supported by Fox, is broadly supportive of the PRI's current reform agenda. The other, more loyal to Calderón, wants the party to follow a more militant opposition role.

The PRI itself has not been entirely above getting entangled in the Oceanografía affair. At the end of March, Senator Arely Gómez of the PRI had to resign from the helm of a just-created special senate commission investigating the affair: she had noted a conflict of interest, as she is a distant cousin of the company's chief financial officer, Martín Díaz Álvarez.

While Pemex would appear to be a victim rather than a perpetrator of fraud in this case, much of the debate in Mexico concerns whether the large and complex state company, whose internal audit and control systems have often been criticised, can be made fit for its future purpose, where it will need to manage even greater external contracts than it does at present, adjudicate between competitive bids and manage partnerships with internal oil companies. The 'Oceanografía factor' may therefore have a real impact on the secondary energy reform legislation.

“While Pemex would appear to be a victim rather than a perpetrator of fraud in this case, much of the debate in Mexico concerns whether the large and complex state company, whose internal audit and control systems have often been criticised, can be made fit for its future purpose, where it will need to manage even greater external contracts than it does at present, adjudicate between competitive bids and manage partnerships with internal oil companies.”

Banamex

Both Banamex and its parent, Citigroup, also appear to have been straightforward victims of fraud, but the US and Mexican regulatory authorities are not exactly overflowing with sympathy. There are various reasons for this. One is that although full details of what happened are still being investigated, Banamex has had to acknowledge that at least one of its employees was involved. According to sources, an employee left Banamex taking documents bearing forged signatures that were key to the US$400m fraud. US regulators appear to be testing the hypothesis that Citigroup/Banamex have had a culture of lax internal controls, making them part victims, part enablers. The FBI investigation will look at whether a lack of internal controls led to the fraud, and whether warning signs were ignored. There are already precedents in this area. In its 2013 accounts, Banamex admitted losses of US$80m on bad loans to Mexican homebuilding companies. In the same year, two 'rogue' fixed income traders were sacked for carrying out unauthorised transactions thought to have led to losses amounting to "tens of millions of dollars" according to sources quoted by the news agency *Reuters*. And a separate US investigation led by federal prosecutors in Massachusetts is looking into how the group applied money-laundering controls, particularly through the subsidiary Banamex USA, a division specialising in US-Mexico financing. Overall 2013 earnings have had to be written down by US$235m (after tax) to take account of the Oceanografía losses. And on 14 April Citigroup had to admit it had discovered a second batch of fraudulent

loans at Banamex, totalling some US$30mn, and involving another Pemex supplier, said to be Campeche-based Evya.

In a letter to shareholders, Citigroup CEO Michael L. Corbat said, "we continue to investigate what took place in Mexico and are working to identify any areas where we need to strengthen out controls through stronger oversight or improved processes". Citigroup also appears to have cut the pay received by Banamex CEO Miguel Medina Mora, who last year earned US$9.5m, down from US$11m in 2012. One analyst, Richard Bove of Rafferty Capital Markets, noted: "Mexico is important to Citigroup because Manuel Medina Mora operates out of there and he runs the whole consumer finance business for Citigroup worldwide".

"Both Banamex and its parent, Citigroup, also appear to have been straightforward victims of fraud, but the US and Mexican regulatory authorities are not exactly overflowing with sympathy. There are various reasons for this. One is that although full details of what happened are still being investigated, Banamex has had to acknowledge that at least one of its employees was involved."

VENEZUELA

De-coding Sicad 2

On 24 March the Venezuelan government introduced another widely trailed modification to its now-multiple exchange rate system. Hailed by some as a move towards greater pragmatism, the jury is out on whether it will help get the region's most troubled economy back on track.

By launching a second arm of the Sistema Complementario de Administración de Divisas (Sicad 2), the Socialist government moved from having two to three official exchange rates. Prior to 24 March, there were two rates, the official rate of BF6.3/US$, reserved for imports of government-designated essential goods, like certain basic goods and medicines, and the Sicad 1 rate, a heavily managed floating rate linked to irregular auctions run by the Central Bank, which since its been up and running properly has been hovering at around BF11/US$. The Sicad itself was brought in to complement the main FX agency, the Comisión de Administración de Divisas (Cadivi), which used to be the main FX arbiter but was abolished in late 2013, apparently riddled with fraud. Alongside the official rates is an (illegal) 'parallel' (i.e. black market) rate, which in an economy dominated by scarcities and rampaging domestic inflation, had soared to around BF85/US$ earlier this year, according to the one or two websites that published it (which took as their benchmark the average black market rate on the Venezuela-Colombia border, where there is a lucrative smuggling trade in fuel, food and, increasingly, all sorts of consumer goods).

With the introduction of the Sicad 2, there are now four exchange rates in the country - three official and one 'parallel'. Three features of the Sicad 2 stand out. The first is that it is based on a daily trading system, with a range of banks and businesses submitting offers to buy dollars up to 11.30 am every day, and the central bank announcing the average price of the dollars it has sold in the afternoon. The second is that the government launched Sicad 2 at the unexpectedly high rate of BF51.8/US$, implying a potentially significant de facto devaluation (depending of course on the proportion of total transactions that take place at this rate). And the third is that in its first few weeks Sicad 2 appears to have successfully taken some of the steam out of the black market rate, which has dropped back from the high 80s down to the high 50s.

Very broadly speaking, comment on Sicad 2 has divided into two camps. Some see it as a significant change in economic policy, perhaps even a definitive move towards a more market-friendly stance by the authorities. Venezuelan bonds rallied quite strongly on news of the new rate. Other analysts however believe that amid the country's economic chaos it changes nothing: some are continuing to talk of a possible Venezuelan default later

this year, or as Capital Economics put it, a situation where "President [Nicolás] Maduro may soon be faced with a stark choice between servicing the government's debt or importing basic goods."

Henkel García of the Caracas-based consultancy Econométrica said: "Without doubt, it's the biggest monetary adjustment in Venezuela's history", although he cautioned that much would depend on Sicad 2's weighting in overall trade. President Maduro claimed that Sicad 2 would cover only 7%-8% of dollar sales in the country, with 80% still taking place at the lowest official rate of BF6.3/US$. But Alberto Ramos of Citibank said, "It is indeed a stealth devaluation, as many of the transactions in the economy are going to close at this rate, not the official rate. This is a massive devaluation, there's no doubt about it." The *Wall Street Journal* called Sicad 2 "a rare attempt by the Socialist government at loosening currency controls". Taking the same line, Francisco Rodríguez of Bank of America noted "this is the first time in more than a decade that Venezuelan authorities have tried to fix a problem by reducing instead of increasing regulation."

Also unusual was the fact that Rodolfo Marco Torres, Venezuela's newly appointed finance minister (and an army brigadier general), gave signs of seeking some kind of rapprochement with international financial markets in a rare interview granted to the *Financial Times* of London. "Our debt yields have fallen, and we can get them down much more. We have always paid our debts, we always will. We are a responsible country. Sicad 2 is a beginning. You cannot block out the sun with a single finger," he said, although he would not be drawn on what other measures, if any, were in the pipeline.

Inflation

Inflation was 2.4% month-on-month in February, down from 3.3% in January, but it was a steep 57.3% year-on-year, fuelling the opposition-led protests.

Those that believe that nothing has fundamentally changed see Sicad 2 as a partial devaluation designed purely to help the government administer its massively inefficient top-down, state-controlled economic system. In economic textbooks, devaluations are designed to alter the terms of trade, boosting exports and limiting imports, thereby improving external balances and reserves. But in Venezuela, exports are inflexible - over 90% consist of crude oil, and oil production has been in decline for a decade since the government responded to a crippling Pemex strike in 2003 by firing key managerial staff and heavily intervening in the sector – while private sector imports already have been squeezed to such an extent that the economy is riddled by scarcities (before it suddenly ceased to be published, the central bank's scarcity index stood at 28% in January, meaning that one in four of a basket of tracked consumer goods was hard to find or unavailable on supermarket shelves).

So the real objective of Sicad 2 may be purely to improve the government's financial position. Critics point out that by selling its oil revenue dollars at 50-plus bolívares each rather than at 6.3, the government will be better placed to continue to fund its politically important and large-scale social welfare programmes. While reliable statistics are lacking, the government's budget deficit in 2013 is estimated at anywhere between 9.6% and 15% of GDP, which is both massive and unsustainable. Printing money, incurring debt, and fuelling inflation have been used for years by the Socialist government to fund the deficit, inevitably followed by devaluation. The Sicad 2 will help narrow the deficit this year – perhaps by as much as three percentage points of GDP, as well as reducing the government's local currency-denominated public debt burden. While most devaluations tend to boost domestic inflation, in Venezuela's dysfunctional economy the Sicad 2 may actually help reduce inflationary expectations, to the extent that businesses will rely less on the black market exchange rate as their pricing guide (and on the expectation that the supply of goods will also improve).

Foreign companies take the hit

While operating in Venezuela has been a high-risk activity for many international companies for a number of years, the introduction of the Sicad 2 has forced a many of them to formalise exchange rate losses that were previously implicit.

A number of multinationals have begun to write off exchange rate losses suffered by their Venezuelan subsidiaries. The process started with US car manufacturers. Ford said it would take a Venezuela-related charge of US$350m in its first quarter 2014 accounts, while General Motors said it would be taking a pre-tax charge of US$400m for the same reason. In a filing to the US Securities and Exchange Commission (SEC), GM said it had previously valued the net assets of its Venezuelan subsidiaries at the official exchange rate of BF6.3/US$, but effective from 31 March was switching to the Sicad 1 rate (currently at around BF11/US$). However, there is doubt over whether foreign companies will get access to exchange at the Sicad 1 rate when desired (the government has been clear that certain sectors serving the domestic consumer market will be given preferential access), or whether they may, for example, be shunted off to the new and significantly less favourable Sicad 2 rate (which on 22 April was trading at about BF49/US$).

Earlier this year, Ford's chief financial officer (CFO), Bob Shanks, admitted: "we've taken production way, way down in Venezuela because of a lack of dollars. We cannot get our money out. That market is basically on ice at the moment." According to the main automotive association, Cámara Automotriz de Venezuela (Cavenez), only 817 cars were sold in the country in February. "To give you an idea of how bad that is and how dollar and parts shortages are biting in combination with an incredibly overvalued Bolívar and a dollar shortage, in February of last year, 8,058 new cars were sold" noted Russ Dallen of Caracas Capital Markets.

Proctor & Gamble (US), Colgate-Palmolive (US) and Telefónica (Spain), have all said they will move to the Sicad 1 rate in accounting for their Venezuelan operations. So too has General Cable Corporation, the US-owned copper, aluminium and fibre optic products company, which said it "expects to record a charge in the range of US$80m to US$85m in the first quarter of 2014 results."

But Brink's, the US security and armoured car provider, said it was revaluing its Venezuelan assets at the Sicad 2 rate, because this was "the only rate at which Brink's has been able to successfully exchange its bolivars for US dollars". It noted that if revalued at the Sicad 2 rate, its US$447m in revenues from Venezuela in 2013 would have declined by 88% to approximately US$56m. Following the news, the company's shares suffered their steepest drop in the last two years.

Coca-Cola also revalued at the Sicad 2 rate, a change that led to a US$247m charge on its global first quarter accounts. There have been reports that other companies such as the US broadcaster DirecTV and the online auction site MercadoLibre may also be forced to move to Sicad 2. According to the financial newswire *Bloomberg*, rebasing its accounts at the Sicad 2 rate would reduce DirecTV's cash holdings by 26%, while earnings per share could drop 9% to 11%.

Pedro Arnt, CFO at MercadoLibre, had said earlier in the year, "Our Venezuelan operation remains profitable and more importantly self-

Reserves stabilise at the US$20bn mark

International reserves held by the central bank stood at US$20.7bn on 16 April, down from US$26bn a year earlier. Venezuela's oil has averaged US$92.6/barrel to date in 2014, down from US$99.5/b in 2013 and US$103.4/b in 2012. The central bank has not yet published trade data for the final quarter of 2013 or the first quarter of 2014. In the first three quarters of last year exports totalled US$66.9bn and imports US$43.7bn.

sustaining. We continue to manage our Venezuelan business for the long run, confident that in a more favourable future, our commitment to that market will offer the right returns." But analyst Yaron Reuven (of Reuven Capital Investments) insisted that the situation "is a much, much, worse scenario than the company is portraying. It's almost become the equivalent of subprime mortgages. You really didn't know what they were worth until it was already too late".

REGION

Good Infrastructure Investment Outlook

The outlook for infrastructure investment in Latin America this year is, according to various reports, looking good. Optimism is based on the wide range of attractive opportunities, and the pressing need to begin to reduce the region's longstanding infrastructure investment deficit, a key step in the struggle to improve productivity. However, the fact that something is needed doesn't always mean it will happen: there are also a range of financial and managerial obstacles to overcome.

"...Latin America, along with Africa, spends less than any other region in the world on infrastructure investment, an amount equivalent to only 1.7% of GDP."

An April 2014 report by the international ratings agency Standard & Poor's (S&P) highlighted what it described as the "positive' outlook for the region's infrastructure sector this year, although it noted that activity remained highly dependent on government incentives and financial support. In Mexico, it singled out the upcoming tender for the US$3.1bn Mexico City–Querétaro passenger rail project, which is due to be made public in May, and forms part of the government's multi-year US$314bn plan to develop highways, airports, ports and railways. In Brazil, S&P drew attention to the US$720bn worth of infrastructure investment required over various years under the second phase of the government's growth acceleration programme (Programa de Aceleração do Crescimento 2 [PAC 2]), with an emphasis on power and transport, but it warns of "some slowdown in the second half of the year" after the end of the World Cup and in light of the October general election. S&P also highlights Colombia's offer of nine highway tenders, valued at around US$5.64bn.

An earlier report from BNamericas Intelligence, released in March, said that Peru and Colombia would lead infrastructure investment opportunities this year "given the huge deficit in highways, ports, airports, and railways coupled to market-friendly policies" (both countries, along with Chile and Mexico, are members of the outward-looking Pacific Alliance trade group). This report was based on a survey of project and engineering managers, who were asked to identify countries with the best opportunities. Peru led the list (identified by 50.8% as the most attractive), followed by Colombia (47.5%); with Mexico and Brazil in third and fourth places respectively. The report noted that Peru expects to attract investors this year with the US$5.6bn Lima Metro Line 2, a US$556m Cusco airport project and a US$103m Pisco port expansion proposal.

The Washington-based consultancy CG/LA Infrastructure in mid-April published its 2014 'Strategic Top 100 Latin American Projects' report, which highlights and ranks what it says are the top 100 projects underway in the region in the next three to 18 months. Across 20 countries in the region, it says the total value of these projects is US$138.7bn, and that combined, they have the capacity to create employment for 2.1m people. Each project is scored on a weighted system according to its contribution to competitiveness (40%), with productivity, job creation, business creation, and environmental and carbon efficiency all given equal weights (10% each) and a separate country

The Top 10 Latin American Infrastructure Projects							
Rank	**Project Name**	**Country**	**Sponsor**	**Project Stage**	**Project Sector**	**Project Value**	**Project Score**
1	Aquatacama Pipeline	Chile	Vinci	Feasibility	Water & Wastewater	US$15bn	70.41
2	National Fibre Optic Dorsal Network	Peru	Proinversión	Pre-investment studies	ICT	US$420m	70.41
3	Inambari Dam and Transmission Line	Peru-Brazil	CAF	Construction to start 2015	Electricity Generation	US$2.37bn	66.66
4	Bogotá Metro	Colombia	IDU	Engineering Studies Underway	Urban Mass Transit	US$3.6bn	64.64
5	Metro Line 3	Panama	JICA	Feasibility Study	Urban Mass Transit	US$2.8bn	63.31
6	Malleco Wind Farm	Chile	Malleco SPA	Feasibility	Electricity Generation	US$500m	61
7	Metro de Quito – Phase 2	Ecuador	Quito Metropolitan Government	Bidding	Urban Mass Transit	US$1.5bn	59.81
8	Drinking Water Supply Expansion and Improvement – Lima	Peru	Proinversión	RFP – October 2014	Water & Wastewater	US$400m	59.08
9	Corredor Bogotá – Buenaventura	Colombia	DNP	Bidding	Highways and Bridges	US$1.8bn	58.89
10	Costanera Central Highway	Chile	Ministry of Public Works (MOP)	Planned	Highways and Bridges	US$1.98bn	58.89

Source: *CG/LA Strategic Top 100 Latin American Infrastructure 2014 Report*

rating criteria also applied (20%). The results (*see table*) show projects in Peru, Colombia, Chile, Ecuador, and Panama all appearing in the top 10.

This report notes that Latin America, along with Africa, spends less than any other region in the world on infrastructure investment, an amount equivalent to only 1.7% of GDP. The transport infrastructure deficit alone has been said to explain why retailers and manufacturers in Latin America have to hold on-site inventories about twice the size of those in the US. The report suggests that "most countries in Latin America need to increase their infrastructure investment by 250% within 5 years, and some countries, Argentina for instance, need to increase investment in the right infrastructure projects by 350%."

Glaucia Galp, a director of Fitch Ratings in Brazil, says most countries in the region need to close the infrastructure investment deficit because doing so "improves competitiveness and has a virtuous effect on growth, generating a positive impact on the sustainability of the economy."

While many agree on the need for a massive increase in infrastructure investment, there are significant obstacles in the way. Norman Anderson of CG/LA warns that "governments are notorious for developing wish lists of infrastructure projects without giving much thought to 'why' or 'how'". He adds that "funding is a major obstacle for the region, because it is not clear where the equity is going to come from", and calls for government action to mitigate risks for institutional investors and equity partners.

"The transport infrastructure deficit alone has been said to explain why retailers and manufacturers in Latin America have to hold on-site inventories about twice the size of those in the US."

In Peru, Alejandro Olmeño, general manager of Norway's SN Power, says that getting a hydroelectric project off the ground requires no less than 120 permits from government agencies, ministries, and local authorities. Others say it can take 75 months to take a project from the planning stages through to completion and operation.

REGIONAL ECONOMIC BRIEFS

MEXICO | **Combating money laundering.** The Mexican government will shortly publish a blacklist of firms and individuals linked to drug-trafficking and terrorism, the finance minister, Luis Videgaray, announced in Washington on the margins of the annual spring meetings of the World Bank and International Monetary Fund. Videgaray said that the government would work closely with banks to prohibit the financial transactions of those allegedly involved in money laundering or financing terrorism. The blacklist will be based on lists produced by the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury, whose secretary, Jack Lew, Videgaray also met this week; a United Nations list; and Mexico's own designations.

MEXICO | **Tuna dispute with US drags on.** On 10 April Mexico's economy ministry issued a public statement calling on the US government to "fully comply" with the World Trade Organization (WTO)'s resolutions over the use of 'dolphin safe' labels for canned tuna. Tuna regularly swim with dolphins, particularly in the Eastern Tropical Pacific Ocean (ETP) region, and as a result fishermen working in the region often target dolphins to catch the tuna, but in doing so injure and drown thousands of dolphins every year. In an attempt to dissuade these practices, the US launched the 'dolphin safe' tuna labelling programme in 1990 and encouraged consumers to buy products bearing this label over those that did not. To be certified as 'dolphin safe' by the US authorities, fishing companies operating in the ETP must provide them with statements from boat captains and independent on-board observers that no dolphins were chased or netted during fishing operations.

Mexican fishermen have long complained that such requirements were designed specifically to target them. They argue that since their practices are certified by international regulatory bodies, the US 'dolphin safe' tuna labelling requirements are spurious and over the years have succeeded in unfairly limiting the access of Mexican tuna to the US market, affecting Mexico's tuna industry. In support of these claims, the Mexican government presented a formal complaint before the WTO in 2008 arguing that, as they stood, the US's 'dolphin safe' tuna labelling requirements were discriminatory against Mexican tuna fishermen, who predominantly operate in the EPT.

In a series of resolutions, the latest in 2012, the WTO agreed with Mexico and ordered the US government to modify its requirements in order to ensure that these do not discriminate against Mexican tuna fishermen. However, despite minor changes introduced to the 'dolphin safe' tuna programme by the US authorities last year, Mexico maintains that these have not completely rectified the situation. According to the statement issued by the Mexican economy ministry, "The US has not modified substantive aspects that limit the access of Mexican tuna to the US market […] continuing to affect Mexican exports of tuna products".

The economy ministry statement points out that Mexico has already requested the WTO to convene an arbitration panel to review its complaint and issue a final ruling, which could be announced before the end of the year. Should the arbitration panel once again rule in favour of Mexico, the economy ministry says the country would be allowed to adopt retaliatory trade measures against the US.

China opens up to Brazilian maize

On 8 April the Chinese government announced that it had authorised maize imports from Brazil. China, the world's second largest maize consumer, primarily sources maize from the US. But Beijing suspended US maize imports in November 2013, after it discovered that one shipment contained a genetically modified variety of the crop not approved for use in China. The Chinese government said that in order to make up for the shortfall in supply it would look to increase imports from alternative suppliers like Argentina, Peru and Brazil. But Brazil, the world's second largest maize exporter, had yet to be authorised by China's national sanitary authority (AQSIQ).

URUGUAY | **Lower risk of contagion from Argentina.** On 7 April Fitch Ratings Agency published a special report highlighting that Uruguay's banking system is now significantly stronger than in 200, when it was severely impacted by the economic crisis that hit Argentina. The report's findings will be welcomed in Uruguay given that Argentina is once again facing financial and economic difficulties. Santiago Mosquera, Fitch's director of the Latin America Sovereign Group, said that the report found that Uruguay's "substantive external and fiscal buffers, together with its improved fiscal position, large contingency lines, flexible exchange rate regime and sound financial system" give the country "significant space to manoeuvre through potentially more adverse developments in Argentina".

Mosquera noted that as a result of the debt de-dollarisation programme carried out by the Uruguayan government since 2007, the country's banking system is now "significantly stronger than a decade ago, when negative spillovers from Argentina ignited a run on the country's highly-dollarised financial system".

According to the Fitch report, the level of dollarisation of Uruguay's financial system now stands at 74% of all bank deposits which, while high, is still much lower than the 90% level observed in 2001. More significantly, the report points out that the exposure to foreign-currency deposits held by non-residents (predominantly Argentine nationals) has decreased from 41% in 2002 to 15% last year.

However, Mosquera warned that despite the increased strength of Uruguay's financial system "a severe [economic] downturn in Argentina could still have an important impact on Uruguay's economy through a variety of transmission channels", such as bilateral trade, tourism and investment. Particularly, Mosquera explained that while the level of Argentine cash deposits in Uruguayan banks has fallen significantly, since 2007 there has been an increase in Argentine Foreign Direct Investment (FDI) into Uruguay that has "somewhat replaced the traditional accumulation of deposits in Uruguayan banks". Fitch estimates that, on average, 29% of FDI into Uruguay came from Argentina between 2007 and 2012. A pronounced economic downturn in Argentina would reduce FDI inflows into Uruguay.

CUBA | **New foreign investment law.** An extraordinary session of Cuba's National Assembly on 29 March approved a new law designed to entice new foreign investors into the state-owned and sanctions-constrained economy. The new law is the outcome of a long process of review and debate, in which reformers managed to convince doubters of the need for more foreign investment to strengthen Cuban economic growth and development. The terms for foreign investors are improved by the law and, perhaps more significantly, the government led by President Raúl Castro has made a commitment to adopt a more open approach in its dealings with potential partners. The extent of change will become apparent in the coming months, as regulatory details are published and new procedures are introduced within the government institutions that negotiate agreements.

Changes contained in the law, like reduced taxes and a streamlined approvals process, are designed to attract new foreign business partners. Despite these changes, the overall framework for foreign participation remains intact. The new law strengthens guarantees for investors in areas of concern. It provides further reassurance to those fearing nationalisation, specifying the conditions under which it can be allowed and the compensation to which the investor would be entitled. It also specifies legal protection against previous owners of Cuban assets who might make claims under the 1996 Cuban Liberty and Democratic Solidarity (Libertad) Act (known as the Helms-Burton Law).

The greatest uncertainty for investors is the future of US sanctions against Cuba, which not only close the US market for Cuban exports but also make it difficult to obtain inputs, secure access to international finance and conduct foreign exchange transactions. The combination of US restrictions on Cuban trade and financing and the Cuban government's controls on the scope of foreign investment will continue to constrain foreign investor participation in the Cuban economy. Nonetheless, the new law and regulations, combined with the Cuban authorities' new interest in attracting new partners, will open the way for a new batch of joint venture projects.

Paraguay's poverty rate plummets

A new report from Paraguay's technical planning secretariat, based on the results of the 2013 national household survey (EPH), put the country's poverty rate at 23.8% in 2013, down from 32.4% in 2011. The number of people considered poor (those earning between US$68 and US$107 a month) was down both in rural areas (from 44.8% to 33.8%), as well as in urban areas (from 23% to 17%). Paraguay has posted an average economic growth rate of 7.6% since 2010. It has signed up to the United Nations Millennium Development Goals, which include a commitment to eradicating extreme poverty and hunger by 2015.

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