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Stronger fiscal policies needed

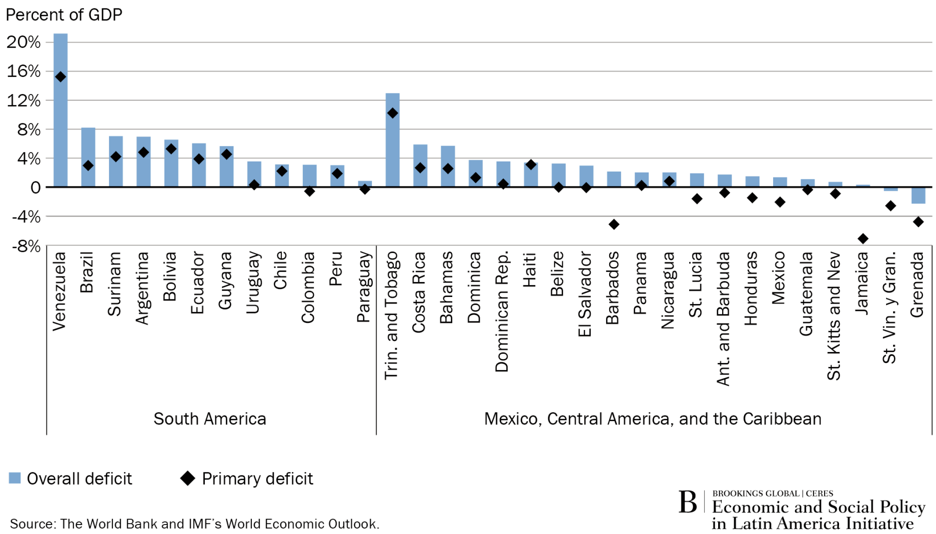
Fiscal policy in Latin America and the Caribbean (LAC) is sub-optimal. Tax administration and design is weak and tax evasion is costing governments over US$340bn, or 6.7% of regional GDP. These are some of the conclusions of a report published in late March, the 'Fiscal Panorama of Latin America and the Caribbean 2018 – Public Policy Challenges in the Framework of the 2030 Agenda'. The report is a regular annual publication by the UN's Economic Commission for Latin America and the Caribbean (ECLAC).

ECLAC has chosen to look at regional fiscal policy through the perspective of the sustainable development goals (SDGs) for 2030 – these are a total of 17 objectives, ranging from eradicating poverty to ensuring clean energy, that governments worldwide have agreed they will try and achieve. It notes that thinking about fiscal policy has evolved. In the past it was seen primarily as an instrument to manage and stabilise the business cycle; now it is also seen as a tool that can spur aggregate demand and investment, and have greater redistributive impact. To help achieve the SDGs, fiscal policy is now being looked at to broaden the tax base, improve the design of the tax system, strengthen administration, and eliminate channels for tax evasion. There is particular interest in using fiscal policy to improve social protection and strengthen personal income tax.

The reality is that LAC tax systems have been underperforming for years. Tax evasion was calculated to total US$340bn in 2015, equivalent to 6.7% of regional GDP in that year. Traditionally, personal income tax collection has been weak. ECLAC describes it as "the Achilles' heel of tax systems". Average regional revenues from personal income tax stood at only 1.8% of GDP in 2015, compared with an average of 8.4% in the developed economies of the OECD. ECLAC executive secretary Alicia Bárcena noted that low revenues from (progressive) personal income tax had led regional governments to rely much more on (regressive) indirect taxes. The net result is that tax systems in the region, the most unequal in the world as far as the distribution of income is concerned, may fail to help the poor.

In cyclical terms, however, 2017 saw relative fiscal improvement. In South America the average primary deficit (excluding debt servicing payments) fell from 1.9% of GDP in 2016 to 1.5% in 2017. In northern Latin America (Central America, Haiti, the Dominican Republic and Mexico) the primary balance switched from a deficit of 0.2% of GDP in 2016 to a surplus of 0.1% in 2017. In the Caribbean, the primary surplus remained steady at 1.0% of GDP. Meanwhile total public debt across the region rose at a slower rate, gaining 0.7 percentage points to 38.4% of regional GDP in 2017. Primary public spending in Latin America actually fell to 15.3% of GDP in 2017, down from 15.5% a year earlier. In the Caribbean it was down to 21.4% of GDP in 2017 from 21.9% in the preceding year. Of course, there are significant variations on a country-by-country basis. While ECLAC focuses on sub-regional groups, separate figures compiled at country level by the Brookings Institute, using World Bank and IMF data, show that the biggest fiscal deficits last year were experienced by Venezuela, Trinidad and Tobago, and Brazil.

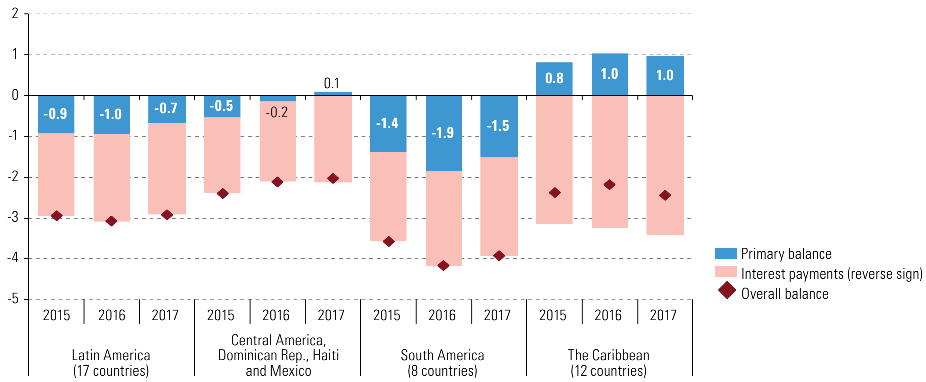
Fiscal deficits in LAC – 2017



Overall public revenues showed signs of recovery last year, ECLAC said, helped by rising GDP and improved royalties from non-renewable natural resources such as fossil fuels and mining products. Tax activism – the degree to which countries introduced new regulations and made changes to their existing tax systems – remained broadly constant with 17 countries making changes. A number sought to increase 'corrective taxes' (on alcohol, tobacco, and gambling); there were increased energy taxes (on specific fuels and electricity) and on foreign trade (levies on imports).

Latin America and the Caribbean overall balance, primary balance and interest payments, 2015-2017

Percentages of GDP



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Which way for the tax burden?

A lot has been written about the 'right' level of taxes: too high and they may discourage private entrepreneurs and investment; too low and the state fails to fund infrastructure and social programmes to reduce poverty. That debate is ongoing. According to website *América Economía*, Mexico is one of the six Latin American countries with the lowest tax revenue in the region, comparatively speaking. Mexican taxes are the equivalent of 17.4% of GDP (a number which includes an increase of 2.3 percentage points achieved as a result of the financial reform of 2013). The other low-tax burden countries include Panama (16.6% of GDP), Peru (16.1%), Venezuela (14.4%), the Dominican Republic (13.7%), and Guatemala (12.6%). The average tax burden for Latin America and the Caribbean is 22.7% of GDP, and the average for the OECD is a significantly higher 34.2%. On average VAT brings in nearly 30% of the region's tax revenues, followed by income and profits taxes, and by other taxes on the production of goods and services.

The Guatemalan dilemma

An IMF team concluded an Article IV mission to Guatemala on 19 March with recommendations that highlight some of the dilemmas around fixing the right level of taxes. The mission praised the country for achieving macro-economic stability but said that from 2019 it should start increasing public spending by 1 percentage point of GDP each year, to fund infrastructure and social programmes and reduce the poverty rate (roughly 60% of the population lives below the poverty line). To achieve this tax revenues, calculated by the Fund at 10.6% of GDP in 2017, should be gradually lifted to 15%.

The government has not yet formally responded to the idea, but conservative business groups have long opposed any increase in the tax burden (according to the Superintendencia de Administración Tributaria, SAT, tax revenues peaked at 12.1% of GDP in 2007, a level they have not surpassed since). Others are concerned about bureaucracy and corruption, which limit the ability of the government to spend any extra revenue efficiently. The IMF mission said that reforms of the procurement law, to increase public scrutiny, "have led to slower execution of spending, given continued reluctance by public officials to execute projects because they could be personally liable". More therefore needed to be done to "speed up execution without diluting the appropriate focus on governance". Looking ahead, the key task is therefore to reform the administration of spending as well as to raise taxes. Given the state of play in congress, it looks unlikely that the administration of President Jimmy Morales will be able to deliver such a comprehensive reform in his remaining 20 months in office.

REGIONAL ECONOMY REVIEW

MEXICO

Positive signs on Nafta?

As this issue went to press there were indications that Canada, Mexico and the United States might be close to announcing a partial deal on their renegotiation of the North American Free Trade Agreement (Nafta). The news came despite the fact that Mexico and the US continued trading criticism and tweets over border security and migration issues.

Nafta optimists pointed to the fact that the three countries' negotiating teams had been called to a meeting in Washington in early April. The eighth formal negotiating round (there have been seven so far) was said to have been put on hold pending the outcome of these high-level consultations. Sources said the US government had come round to the view that it was best to complete the renegotiation ahead of the Mexican elections due on 1 July. Doing that would mean it could be submitted to the US congress for ratification before the November mid-term elections. The possibility of a trade war with China might also be encouraging Washington to get the Nafta question resolved more quickly. Mexican economy minister Idelfonso Guajardo, a key player in the talks, suggested that the leaders of the three countries might be seeking to make an announcement before or during the upcoming summit of the Americas in Lima on 13-14 April.

One interpretation was that the three countries were seeking to do a deal on the central issue of local content in trade in automobiles, leaving other difficult and complex chapters to be dealt with later. A source cited by *Reuters* news agency said the understanding between them was "Let's hammer out as much as we can, with the specific focus on automotive, and if we can declare an agreement in principle in Lima, that's a good moment for everybody." The initial US position on North American content in automobile trade was that it should be increased to 85% from 62.5%; in addition all vehicles shipped by Canada and Mexico into the US market should have a minimum 50% of US content. Over the last month there were various reports that the US had softened its position. Some said that the US was now asking that to qualify for Nafta free trade, automobiles should contain components made by workers earning specific wage levels. On 5 April Canadian Prime Minister Justin Trudeau said Nafta talks had progressed and “hopefully there will be some good news coming”.

REGION

The Brookings view

Brookings, the US-based economic and social think tank, in collaboration with the Uruguay-based Centro de Estudios de la Realidad Económica y Social (CERES), has just published a collection of essays focusing on the economic policy dilemmas facing the region, under the title ‘Spotlight Latin America’. Here we summarise some of the insights in four important areas: pensions, informality, education, and the region’s economic links with Asia.

Despite reasonable levels of global economic growth, Brookings notes that the risks facing Latin America and the Caribbean remain significant. It says that the world’s advanced economies are witnessing a surge of support for political movements that promote “illiberal protectionist and anti-immigration policies” threatening the post-World War II rules of the international order. Against this backdrop, the region is struggling with slower growth and with ongoing internal and external economic imbalances. In fact, it faces a policy trilemma. It must (i) achieve long-term inclusive development; (ii) preserve credibility in public finances; and (iii) safeguard social safety nets introduced during the last 15 years.

The pensions problem

Unfunded pension spending is described as possibly the single greatest threat to long-term fiscal stability in the region. In their essay, Augusto de la Torre and Heinz Rudolph break the problem down into three parts. These are, first, the pay-as-you-go defined benefit pensions schemes (PAYG-DB); second, the fully funded, defined contribution schemes (FF-DC); and third, the non-contributory ‘social’ pension schemes designed to help poorer income groups. Some combination of all these schemes exists in many Latin American countries. In principle, it might be hoped that different combinations of the three schemes would between them provide affordable and sustainable pensions throughout the region.

But De La Torre and Rudolph make it clear that is not happening right now. For short-term gain, politicians are prone to avoid increasing contribution rates to PAYG-DB systems, thereby building up a massive future funding deficit. This is made more acute by the rapidly ageing population, which means that the ratio between those paying in and those taking out pensions is deteriorating. In addition, PAYG-DB systems are overgenerous to some workers (typically the military and civil servants) at the expense of others. Brazil’s PAYG-DB system is described as a “fiscal time bomb”. Unreformed, the present value of future pension deficits approximates to 150% of GDP. The authors make it clear that without reform the pension deficit will zoom up from around 4% of GDP in 2026 to nearly 16% by 2066. The outgoing government’s reform proposals (submitted to, but not approved by congress) would limit that to 8% of GDP by 2066 – still too high.

The FF-DC system, originally developed in Chile and often run by private sector providers, was initially seen as an alternative that would solve the problems of the defined contribution systems. But it has been disappointing in various respects. Coverage has not expanded as much as initially hoped: in fact, the two contributory systems between them cover only around 30% of the population. Another problem with FF-DC is that final value of the monthly pensions they generate has also disappointed. There have been further problems with the levels of commission, with limited annuity markets, and with the treatment of workers who move between formal and informal employment. Finally the social or non-contributory pensions, while now adopted by 14 countries, have benefits in providing an income for the poor and elderly at reasonable cost (about 0.5% of GDP on average). But they provide little incentive for the formalisation of employment, and the fiscal cost may begin to edge up (in Argentina it already represents 2.5% of GDP).

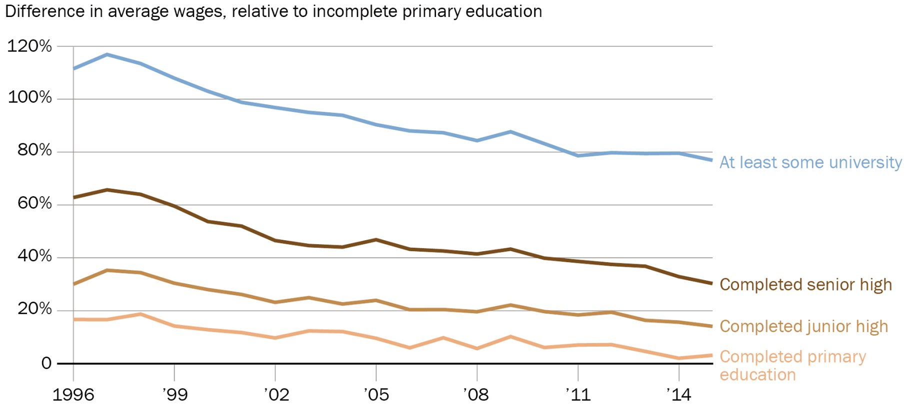
De La Torre and Rudolph conclude that further pension reform is unavoidable. Countries will have to make parametric changes (raising minimum retirement ages, raising contribution and/or cutting back benefits). More will need to be done to encourage saving for retirement and reducing informality. Non-contributory or social pensions will have to be better integrated into the overall pension mix, while controlling their fiscal cost.

Informality limits demand for skilled labour

To accelerate growth and reduce poverty it has long been argued that Latin America needs to increase its productivity. The key to doing that, in turn, has been seen as improving the quantity and quality of education. But in his essay, Santiago Levy (a non-resident fellow at CERES) has uncovered a puzzling fact. Looking at Mexico in 1996-2015 he finds that the returns on education have actually been falling. The premium, measured in salary terms, for more educated workers, relative to those with incomplete primary education, has been coming down.

Returns to education in Mexico have been decreasing

While the supply of educated workers has increased, demand has lagged



Source: Santiago Levy and López-Calva, 2016.
Note: In each year, the numbers are the ordinary least squares estimates of a Mincer-type regression, controlling for workers' age, location, gender, and hours of work.

BROOKINGS GLOBAL | CERES Economic and Social Policy in Latin America Initiative

Levy says the explanation is that the supply of educated workers has exceeded demand. Why? He cites the tortilla and trucking industries as examples. In both, large and small companies co-exist. The bigger tortilla companies use sophisticated machines, engineers, accountants, and people with business degrees. The smaller tortilla companies only need people with basic literacy. If the big companies were to push the small, informal ones out of business, then demand for skilled labour would increase. But the Mexican paradox is that big and small coexist. The low-productivity informal sector is resilient. The same is true of trucking where services can be provided by large companies hiring hundreds of drivers or by hundreds of self-employed drivers each operating their own truck. The big companies also employ accountants, engineers and logistics specialists. But despite being more efficient, they haven't pushed the self-employed truckers out of business.

Compared with the United States, big and small enterprises, with higher and lower productivity, co-exist much more in Mexico. In US manufacturing, the most productive companies are four times more productive than the average. In Mexico, they are 16 times more productive than the average. Levy concludes, "First, the demand for educated labour depends on the type and size of firms present in the economy. Second, when resources are misallocated toward small informal firms, the relative demand for workers with more years of schooling will be depressed." He also concludes that lower misallocation would lead to higher wages in Mexico. That would reverse the falling return on education. Misallocation of resources occurs not just in Mexico, but in various countries across the region: therefore it must be driving two undesirable outcomes – low productivity, and depressed demand for more educated workers. Levy warns that "the potential productivity gains from a more educated labour force can…be just that, potential. It is not all about supply."

The potential for leapfrogging education

Despite Levy's proviso about labour market demand, it is widely recognised that better education has to be a high priority for Latin America. In their essay Rebecca Winthrop and Adam Barton say that the region faces the daunting prospect of having to overcome not one, but two major barriers to better education. The first, on which there has been some progress, is to try to catch up with the more developed countries. In 2006-2015 average Latin American reading scores have improved by 6.6%, as measured by the OECD's Programme for International Student Assessment (PISA). While that is encouraging, the Inter-American Development Bank (IDB) says the region is still decades behind reaching the scores of more developed nations; even Chile, the best performing country in the region, is not catching up sufficiently.

The second barrier is the fact that accelerating social and technological change is moving the goal posts. The 'fourth industrial revolution' – the name given to the current digital revolution – is radically changing the skills needed to compete. Winthrop and Barton cite research showing that over 40% of Latin American youth feel they lack the skills necessary to thrive in their current positions. As they put it, "Even if Latin America manages to close the academic achievement gaps of today, students will still not have the broad range of skills they need for work and life in the coming decades."

The need therefore is to find a way of 'leapfrogging' these two barriers – in other words, to find ways to rapidly accelerate educational progress. Surprisingly perhaps, the authors are quite upbeat about the region's ability to find what they call a "leapfrog pathway". They cite a study they have conducted (along with Eileen McGivney) into some 3,000 cases of education innovation world-wide. Roughly 15% of the total came from Latin America, where there are "notable" innovation hubs in Brazil, Mexico, Colombia and Chile.

One example they cite is the Brazilian programme known as Núcleos Avançados em Educação (known as NAVE), conducted in some state technical schools, which gives students 3-year training programmes in digital skills such as game design, multimedia design, or digital scriptwriting. The programme is supported by mobile phone company Oi and stresses collaborative learning. In Colombia Sistema de Aprendizaje Tutorial (SAT) is an alternative secondary school programme for rural areas, using community tutors to guide pupils through learning that is relevant to their lives (mathematics, for example, may be taught in relation to a farm census). Apart from Colombia the SAT system is being used in Brazil, Ecuador, Honduras and Nicaragua. Data from Honduras showed that participants in SAT scored 45% higher on government exams than candidates from non-SAT villages.

The value-added route to Asia?

In his essay Antoni, Estevadeordal says that in response to the rise of US protectionism, the region faces a double challenge: it must "reignite" its trade with Asia, the world's fastest-growing region, while at the same time finding a way to diversify and add value to its largely natural resource-based exports to the region. He notes it has taken only 20 years for Asia to become Latin America's second-largest trade partner, after North America (and ahead of Europe). The priority now should be to address obstacles to accessing Asian markets for more sophisticated products, held back by high tariffs, tariff escalation, and regulatory standards. He notes that a subset of Latin American countries led by Chile and Peru (and to a lesser extent Costa Rica, Mexico, and Colombia) account for nearly all formal trade agreements with Asia, while important players such as Brazil and Argentina have none at all.

Navigating a route to more balanced and diversified trade with Asia will be complex. There are a number of trade blocks and possible pathways to take. They include the Trans Pacific Partnership (TPP) from which the USA withdrew last year. It now consists of 11 countries and has been renamed the Comprehensive and Progressive Trans Pacific Partnership, or CPTPP. It is also possible that a number of Asia-Pacific countries will join the Pacific Alliance (formed by Chile, Colombia, Peru and Mexico). Canada, Australia, New Zealand and Singapore are already associate members. Another potential vehicle for trade deals is the Regional Comprehensive Economic Partnership (RCEP), a group of 16 Asia Pacific countries including China. In 2016 Chile, Mexico, and Peru expressed interest in joining RCEP. Since 2014, meanwhile, the Asia-Pacific Economic Cooperation block (APEC) has been calling for a formal Free Trade Area of the Asia Pacific (FTAAP) – however, to date no formal negotiations have begun. Estevadeordal says Latin America must negotiate a way through all these initiatives to lay the foundations for further increases in trade and investment flows with Asia, but should do so while also pushing for further integration within the region.

REGION

Putting some numbers on climate change

Predictions of global warming and extreme weather generate serious concern but often seem to be somewhere in the indeterminate future and, on top of that, difficult to quantify. But a report just published by the World Meteorological Organisation (WMO)[1] shows climate change is happening now and is having measurable economic effect on Latin America and the Caribbean.

Global temperatures in 2017 were around 1.1 degrees centigrade (°C) above the pre-industrial era. This was more than halfway towards the upper limit of a 2.0°C increase by the end of the century, set by the December 2015 Paris Agreement (known as COP 21) in an attempt to contain the process of global warming. In fact, the Paris Conference urged countries to reduce emissions and pollution to achieve a more ambitious target – keeping the increase to not more than 1.5°C.

What the WMO report does is make clear that we are living with significant climate change right now. The warmest year yet recorded globally was 2016. 2017 was a little cooler, but it was still one of the three warmest years ever recorded, and the warmest year not affected by an El Niño weather event. The WMO says 2017 also saw rising sea levels, increasing concentrations of greenhouse gases, and shrinkage of Arctic and Antarctic sea ice. Globally, warmer weather has increased vulnerability to heat-related illness. Around 30% of the world's population now lives in climactic conditions that deliver deadly temperatures at least 20 days a year.

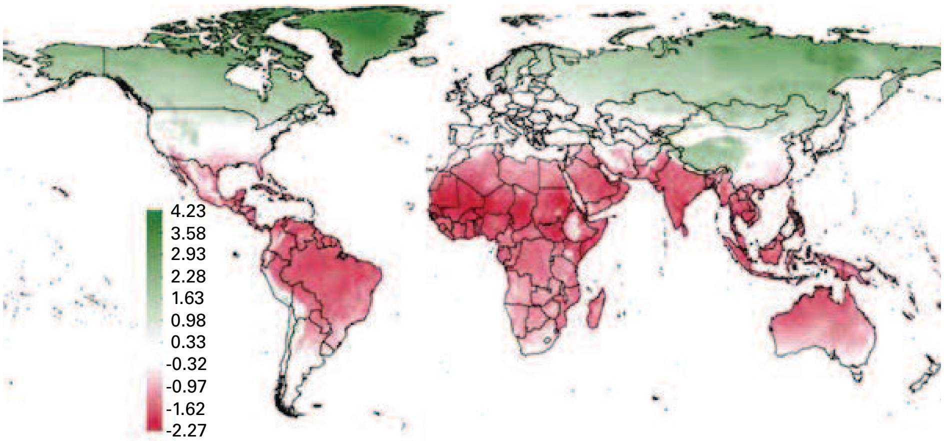
Last year was also the year with the highest documented economic losses associated with severe weather and climate events. Among the most notable, in August and September three major devastating hurricanes made landfall in several Caribbean islands and in the United States. Hurricane Irma damaged an estimated 90% of properties in the Caribbean island of Barbuda.

[1] 'WMO Statement on the State of the Global Climate in 2017' March 2018

Existing losses and reconstruction costs are estimated at about 9% of the GDP of Antigua and Barbuda. Dominica, hit by hurricane María, suffered damage and loss estimated at 1.3bn or 224% of annual GDP. María also caused the longest power blackout in the history of the United States: 35% of the population of Puerto Rico had no electricity for at least 3 months.

According to insurance company Munich Re, global disaster losses from weather and climate-related events in 2017 came to US$320bn, the largest annual total on record. Extreme weather threatens food supplies: according to the World Food Programme, over 80% of the world's food-insecure people live in countries with degraded environments prone to natural hazards. The UN's Food and Agriculture Organisation (FAO) says that agriculture (crops, livestock, fisheries, aquaculture, and forestry) accounted for 26% of all damage and losses associated with medium-to-large scale climate-related disaster.

The economic costs of global warming



Source: *World Meteorological Organisation*

Citing calculations made in the IMF's World Economic Outlook (WEO) the report says increases in temperatures have uneven effects on economic growth. In countries which already have relatively hot climates, rising temperatures lower per-capita economic output by reducing agricultural production, reducing the productivity of workers exposed to heat, slowing investment, and damaging health. The effects are non-linear, as rising temperatures can actually increase per-capita output in some of the world's colder areas. However, the net global effect, and the net effect in LAC, will be negative. For the average emerging market economy, a 1°C increase from an average of 22°C is calculated to lower growth in the same year by 0.90%. In an average, low-income developing country, a 1°C increase from an average of 25°C will lower economic growth by 1.2%. As the map shows, global warming is set to reduce growth in the major economies of LAC, including Brazil and Mexico, to levels below their current potential.

PERU

Tuesta to chase investment

Peru has a new President: Martín Vizcarra, who was sworn in on 23 March after Pedro Pablo Kuczynski was forced to resign amid a storm of corruption allegations and congressional hostility. The country also has a new minister of economy and finance (MEF), David Tuesta, sworn in as part of a new cabinet on 2 April. It looks as if the broad outlines of economic policy will not change: the new government – which is due to serve for just over three years in office until mid-2021 – will focus on rebuilding private sector confidence and investment.

President Vizcarra has signalled he will continue following the pro-market, broadly centre-right policies of his disgraced predecessor. Whether he will be able to build a working majority in the politically divided congress remains to be seen, but for the moment a political truce appears to have broken out amid the exhausted combatants. Fuerza Popular (FP), the right wing populist party led by the Fujimori family that brought repeated no confidence motions against Kuczynski's ministers, has been weakened by internal disagreements and lost its outright congressional majority. FP leaders have signalled that they will, initially at least, give the new government the benefit of the doubt. FP deputy Milagros Salazar said, "This is not the moment to criticise. Let's hope the ministers get to work to rebuild the country."

Vizcarra's new ministerial team is largely technocratic. The president has favoured people with specialised knowledge, experience in administration, and in a number of cases with a background in regional government. The new prime minister is César Villanueva, from a small centrist party, who has held the job once before during the presidency of Ollanta Humala (2011-2016). Tuesta, the new supremo at MEF (the third in less than a year) is an economist who worked for Spanish Bank BBVA and for CAF, the Andean Development Corporation. Also important for the economy are Francisco Ísmodes at energy and mining and Daniel Córdova at the ministry of production – both have private sector backgrounds. Edmer Trujillo is the new minister for transport and communications (an important area of investment).

The new team has mapped out some general economic policy priorities. In his inauguration speech Vizcarra promised to combat corruption. He has also committed his administration to accelerating the reconstruction programme in the north of the country, following the disastrous floods and mudslides experienced in early 2017. Vizcarra said that only 10% of the US$7.745bn reconstruction budget had actually been spent in the first year, which was far too slow. Minister for production Daniel Córdova says he will re-invigorate a plan to diversify the economy away from excessive reliance on extractive industries such as mining and oil and gas. A programme to do this, known as the Plan Nacional de Diversificación Productiva (PNDP), which was downplayed during Kuczynski's 20 months in office, is to be dusted off. The PNDP seeks to provide support for a range of different productive 'clusters' around the country.

For his part, Tuesta has indicated that one of his priorities will be to tackle the fiscal accounts. He has argued that political chaos, uncertainty and "decisions taken with good intentions but poor results" have eroded tax collection, while the government was trying to boost spending to kick-start a recovery. The resulting squeeze had led to a fall in public sector investment. Tuesta told the *El Peruano* newspaper, "This situation, for a developing country, is a crime. So we have to create the fiscal room based on a rapid restructuring of public spending."

According to César Peñaranda of the Instituto de Economía y Desarrollo Empresarial (IEDEP), part of the Lima Chamber of Commerce, the extended political crisis has brought current economic growth rates down to around 3%, or one percentage point below the IMF's growth forecast for the country in 2018. In his view the main negative effect of the crisis has been to reduce and postpone the hoped-for recovery in private investment levels. Peñaranda was also highly critical of one of Kuczynski's last decisions as president, a 9.4% increase in the minimum wage, which he said would only contribute to expanding the informal, non-tax paying sector of the economy. The positive reaction to the new government and ministerial team allowed for "moderate optimism" about the future, but growth was still likely to be one percentage point lower this year.

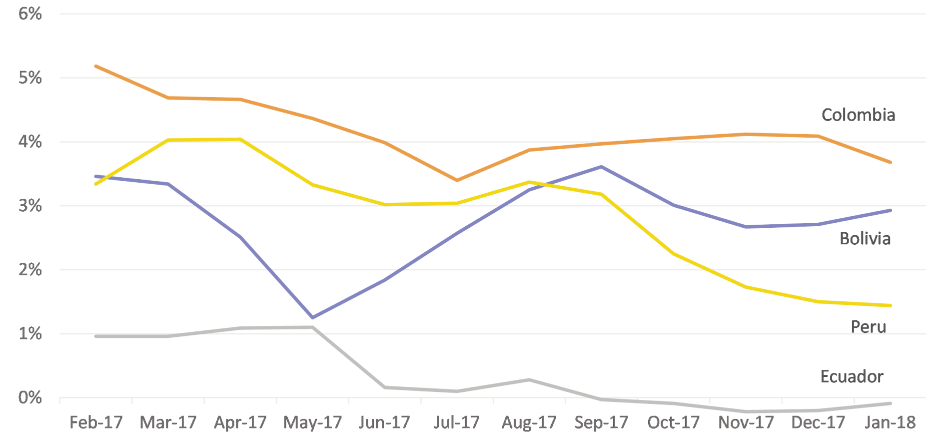
Peñaranda stressed that growth is still about half what it was during the best years of the commodity boom. Three percent growth, he added, is insufficient to reduce poverty, create sufficient new jobs, and raise living standards in Peru. To begin to achieve some of those things the head of IEDP said it is essential for Peru to achieve annual growth of 4% or more.

ECONOMIC HIGHLIGHTS

ANDEAN COUNTRIES

Andean Countries: Inflation rate (%)

Percentage variation (year-on-year)



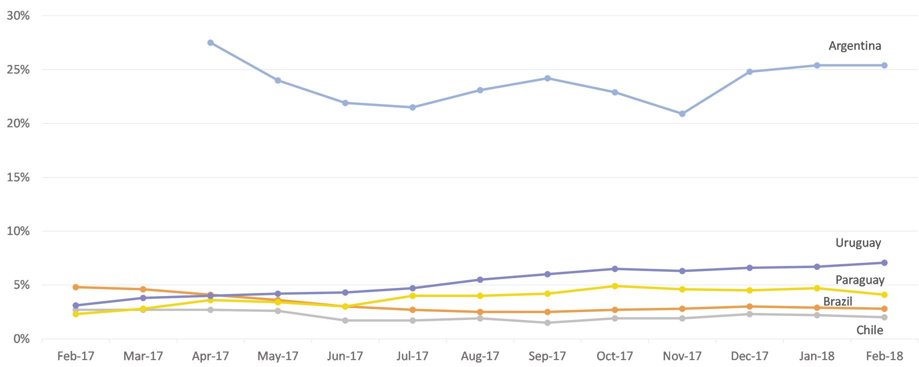
Source: *Local central banks. No reliable data available for Venezuela.*

Andean Countries: GDP growth							
Quarterly figures are year-on-year growth							
GDP	**End 2017***	**2018 forecast***	**Q3 2016**	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**
Bolivia	3.9	4	4.7	4.2	3.8	3.9	-	-
Colombia	1.8	2.6	1.2	1.6	1.2	1.3	2	1.6
Ecuador	1	1.3	-1.6	1.5	2.2	3.3	3.8	-
Peru	2.5	3.5	4.5	3	2.1	2.4	2.5	2.2
Venezuela	-9.5	-5.5	-	-	-	-	-	-
**Figures from the United Nations Economic Commission for Latin America & Caribbean December 2017*								
Quarterly growth based on figures from the local central banks								

BRAZIL & SOUTHERN CONE

Brazil & Southern Cone: Inflation rate (%)

Percentage variation (year-on-year)



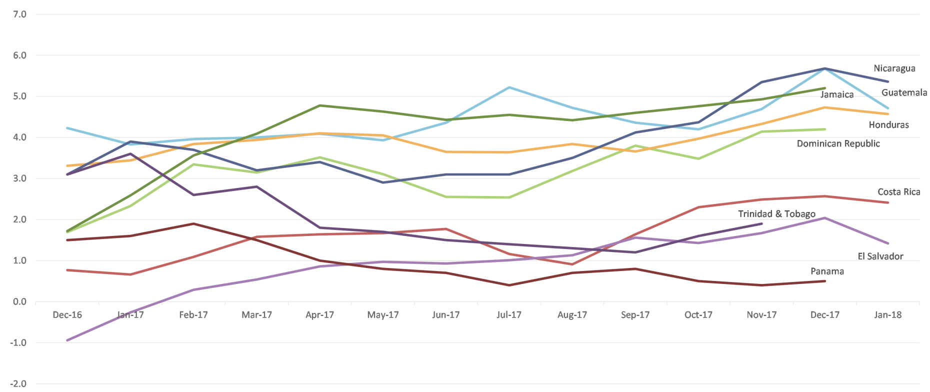
Southern Cone: GDP growth (%)							
Quarterly figures are year-on-year growth							
	End 2016 (from CEPAL August 2017)	**2017 (from CEPAL October 2017)**	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**
Argentina	-2.20%	2.40%	-1.90%	0.40%	2.90%	4.20%	-
Brazil	-3.60%	0.70%	-2.50%	-0.40%	0.30%	0.10%	2.1%
Chile	1.60%	1.50%	0.50%	0.10%	0.90%	1.50%	-
Paraguay	4.10%	4.00%	-0.30%	3.40%	-2.40%	3.00%	-
Uruguay	1.50%	3.00%	N/A	4.40%	2.80%	2.20%	-
Annualised quarterly growth based on figures from local central banks.							

ECONOMIC HIGHLIGHTS

CENTRAL AMERICA & CARIBBEAN

Central America & Caribbean: Inflation Rate

Percentage variation (year-on-year, selected countries, latest available data)

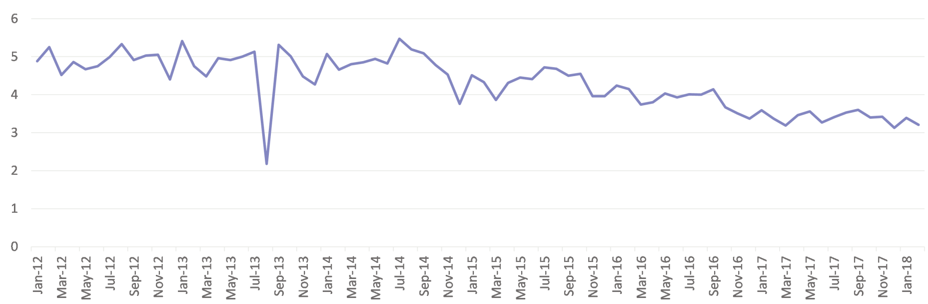


Central America & Caribbean, selected countries: GDP growth							
Quarterly figures are year-on-year growth							
GDP	**end 2017***	**2018 forecast***	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**
Costa Rica	3.9	4.1	4.1	2.9	2.7	2.8	-
Dominican Republic	4.9	5.1	5.9	5.3	3	3	-
El Salvador	2.4	2.5	2.6	2.3	2.3	2.4	-
Guatemala	3.2	3.5	3	3	2.3	-	-
Honduras	3.9	3.9	4.4	5.9	4.5	6.5	-
Nicaragua	4.9	5	3.8	6.6	4.3	-	-
Panama	5.3	5.5	4.5	6.2	5.4	5.4	4.9
Jamaica	1.2	1.3	1.4	0.1	-0.1	range of 0.5%-1.5%	
Trinidad & Tobago	-2.3	0.5	-6.9	-6.9	-3.2	-	-
**Figures from the United Nations Economic Commission for Latin America & Caribbean Dec 2017*							
Quarterly growth based on figures from the local central banks							

MEXICO & NAFTA

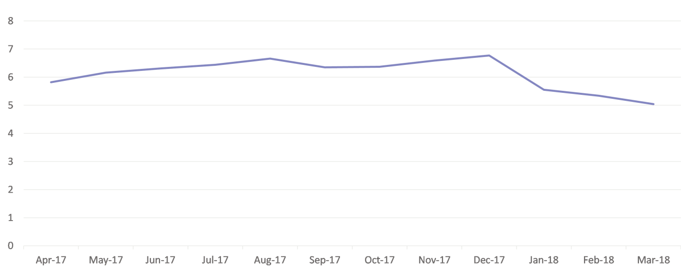
Mexico's unemployment rate

Economically active population



Mexico's inflation rate

Percentage variation (year-on-year)



Mexico's GPD

Percentage variation (year-on-year)

Source (all Mexico Highlights data): *National Statistics Institute (Inegi)*

Political noise versus the economy

Two parallel stories are unfolding in Brazil. Story one is a political soap opera, full of twists, turns and surprises, as the campaign for next October's general election gathers pace. Story two is that Latin America's largest economy is chugging along with an unspectacular but steady economic recovery. For the moment the two stories appear relatively decoupled from each other: but that could change.

A lot has been happening in Brazilian politics. A compressed summary would have to lead with the arrest of former President Luiz Inácio Lula da Silva (2003-2011) on 8 April, after scenes of high drama in São Paulo. Lula's imprisonment – he must serve a 12-year sentence on corruption charges – sharply reduces, but because of legal uncertainties, does not entirely eliminate, his chances of running in this year's election. The race for this election remains wide open. Another related headline is that Henrique Meirelles joined the exodus of ministers and officials, stepping down from the finance ministry on 6 April (those who want to stand for elections must resign from public office six months before the polls). Meirelles, who has in effect been Brazil's economic policy-maker-in-chief for nearly two years, joins the crowded, but at present not very popular, field of would-be centrist candidates for the presidency. Also jostling for position in that narrow space are current President Michel Temer (who has said he may after all be a candidate), Geraldo Alckmin (who has just stepped down as governor or São Paulo), and various other party leaders.

At this stage none of the centrists has more than single-digit percentage approval rates. For the moment the opinion polls suggest that the electorate, deeply troubled and polarised by corruption, crime, and the failings of Brazil's political system, is more attracted by politicians of the left or of the far right. Lula on the left, and populist Jair Bolsonaro on the extreme right, are among the few candidates who have registered double-digit support. If Lula is excluded, it is still not entirely clear how the votes of his supporters will be reallocated among the other candidates.

Some investors are untroubled by the latest developments and see the current situation as benign. From that point of view the big story remains the economic recovery, with the current level of political noise considered to be more of a side-show. They take the view that there is still time for the presidential race to settle down, for the political centre (or moderate left/moderate right) to come up with a viable presidential and vice-presidential ticket, and for support for the more extreme candidates to begin to burn itself out. Indeed, one outsider not from the political extremes, former Supreme Court Justice Joaquim Barbosa, was considering joining the race, and there may be others. The investors' ideal scenario would be for the next government, taking office in January 2019, to be pragmatic and market friendly, and to have the political expertise needed to tackle the type of structural economic reforms that will be required to make the recovery sustainable.

There are indeed indications that the benign scenario, while not guaranteed, is at least a possibility. Roughly half of the 29-strong ministerial team has now stepped down to join the election campaign. Their replacements have been drawn from the second division of Brazilian political leaders, but there will at least be continuity in economic policy: Meirelles is being replaced by his former number two at the finance ministry, Eduardo Guardia, widely seen as a very competent figure (before joining the ministry in 2016 Guardia had for three years been executive director of the Bovespa, the São Paulo stock exchange.)

With six months to go before the elections, and eight to go before the new government takes office, the economic recovery is widely expected to keep on ticking over. Industrial production data for February was weaker than expected, but the sector has nevertheless grown in nine of the past 12 months and is expanding at a reasonable 2.8% year-on-year rate. Inflation has come down sharply – although it may drift upwards over the next few months (perhaps influenced by food prices) it is still expected to end the year at 3.5%-4.0%. This has supported consumer purchasing power and allowed pro-growth cuts in interest rates. After growth of 1.1% in 2017, the IMF expects Brazilian GDP to grow by 1.9% this year and by 2.6% in 2019.

There is of course a less-than-benign scenario in which the narratives of economic recovery and political uncertainty crash into each other, rather than coexist. Investors might simply get spooked by the uncertainty over the elections, triggering financial market turbulence. There was a small hint of that on Monday 9 April (the first trading day after Lula's weekend arrest) with the Ibovespa stock exchange index falling by 1.8%. "Both Henrique Meirelles and Geraldo Alckmin did not show big gains from this Lula exit. The first surveys show this, and the market should wait for those numbers," said Regis Chinchila of brokers Terra Investimentos. Other analysts said news of a possible presidential bid by former Justice Barbosa were taken by the markets as likely to weaken the appeal of existing centrist candidates.

Also on the downside, the corruption allegations that have bedevilled Brazilian politics and business could persist over the next few months. Police have arrested two of President Temer's close associates (José Yunes and João Batista Lima) who are accused of bribe-taking in connection with the extension of operating concessions at Santos, Brazil (and Latin America's) largest port. The president could be implicated, which would destabilise the last remaining months of his time in office. The decision, in the last round of ministerial changes, to appoint Wellington Moreira Franco as the new minister for mines and energy, could also have negative consequences. Moreira Franco, already serving as a minister, has been accused of corruption and his appointment to yet another ministry is being seen as a ploy to maintain his partial immunity from prosecution (ministers can only be tried by the supreme court, which has a big backlog of cases). His predecessor had been committed to privatising power company Eletrobras. The markets were worried that Moreira Franco's appointment would negatively affect the privatisation programme, and wiped US$1bn off the equity value of the state-controlled company.

VENEZUELA

Currency redenomination looms

Ten years after the former President Hugo Chavez oversaw a currency revamp that saw three zeroes knocked off the existing bolivar, with the launch of a new "strong" bolivar (bolivar fuerte), current President Nicolas Maduro is doing the same thing. In late March, the president announced that the new "sovereign" bolivar (bolivar soberano) would launch from 4 June, with new banknotes that in effect have three zeroes eliminated from the existing bills.

The government has stated that the monetary changes will help tackle chronic cash shortages and address hyperinflation, but this is extremely unlikely to occur because the Banco Central de Venezuela (BCV, the central bank) is continuing to print money ever more rapidly. Among the few statistics that the bank actually publishes are figures on money supply; according to this data, broad money supply – which includes cash in circulation plus instant-access deposits – was rising at a rate of 3,013% per year at the end of March. That implies that money supply is over 30 times higher than a year ago, which is generating huge inflationary pressures by virtue of the fact that there is significantly more cash in circulation chasing a scarce number of goods.

New currency unlikely to halt hyperinflation

The central bank stopped publishing inflation several years ago, but several domestic sources measure price data in order to fill this publishing gap, including the opposition-dominated national assembly, as well as several private economists. According to the national assembly's latest figures, inflation rose by 80% during February alone, bringing annual inflation up to 6,147%. An opposition congressman, Angel Alvarado, noted that if recent exponential growth in inflation continues, Venezuela may be headed for inflation of over 131,000% later in the year.

There are no signs that the central bank will slow the printing of money with the launch of a newly denominated currency. Moreover, the process of replacing so much domestic liquidity with new banknotes is likely to be chaotic. The government introduced new higher denominations of the existing currency, the bolivar fuerte, in December, withdrawing some of the lower denominations of banknotes at the same time, but the process was disordered. The government began withdrawing the smaller notes before sufficient quantities of new larger notes had been sourced, leading to a liquidity crunch. Part of the problem is that the new banknotes were imported, as domestic paper shortages preclude large-scale printing by the central bank itself, with reported payment delays slowing the arrival of the new notes.

Logistical challenges mount

Replacing the entire currency will be even more challenging. The fact that the government has stated that the operation will take place comparatively soon gives little time to source a completely new monetary base. This contrasts with the 2008 redenomination, which had a much longer lead-up planning period (the government announced the redenomination in March 2007, to take effect from the following January). The monetary conversion also was spread over a much longer period, with the public able to use old bolivares for cash payments for several years, whereas President Maduro aims to complete the switch-over in the space of a single calendar month.

The reality is that Venezuela's currency situation will remain highly distorted after the new banknotes enter circulation. Perhaps the only real upside is that the general public will require a lower volume of notes for everyday purchases, but amid hyperinflation this benefit is likely to prove fleeting. Amid ongoing shortages of US dollars, strict currency controls will remain in place, which will continue to fuel the black market, where a US dollar currently trades for over BsF36,000. Hyperinflation raises the risk that the new, "sovereign" bolivar will quickly become worthless, which will either require new larger denomination banknotes, or the introduction of another replacement currency.

Higher oil prices are not helping

Higher global oil prices have provided little respite. Venezuelan oil export prices have risen from US$40/barrel last June to around US$60/barrel so far this year, but stocks of international reserves have only edged up marginally, from US$9.5bn at the beginning of 2018 to US$10bn in early April. It is likely that falling oil production volumes are partly offsetting higher prices. Data from the International Energy Agency (IEA) reveals that oil production fell by 60,000 barrels/day (b/d) in February alone, taking output to 1.55m b/d – significantly lower than 2.05m b/d a year earlier.

However, given that external debt is not being serviced, international reserves would have been expected to have risen more firmly given the recovery in oil prices. The fact that reserves have only edged up suggests that either the government is spending more foreign currency on sourcing imports, or that the US dollars earned from oil exports are being redirected. With the army in de facto control of many areas of the economy, including energy and food distribution, there is very little transparency about how and where oil export earnings are being spent. With data from the International Monetary Fund (IMF) indicating that import spending by the Venezuelan government dropped by one-third last year, despite the recovery in oil prices, it is highly likely that much of this money is being misspent.

'Petro' sales launch

The government's need to source foreign currency therefore remains pressing, which partly reflects recent efforts to launch a crytocurrency known as the 'petro' (it also serves as an attempt to circumvent US financial sanctions). Following a month of pre-sales, the petro became available for public sale in late March, with President Maduro stating that people will be able to purchase the oil-backed cryptocurrency with a variety of foreign exchange, including Russian roubles, Chinese yuan and Turkish lira. The president has indicated that sales have so far brought in the equivalent of US$5bn, but given that there remains a high level of uncertainty about how the virtual system functions, and that international investors are likely to remain highly wary of financial transactions with the Venezuelan state, the figure has been widely regarded as highly inflated.

BAHAMAS

Controversy over tax blacklisting by EU

More stringent tax transparency requirements on the part of the international community are having implications for governments presiding over economies with significant offshore banking sectors – including the Bahamas. Both the OECD, under the auspices of the Financial Action Task Force (FATF), and the G20 have published lists of non-cooperative tax jurisdictions for several years. Although Bahamas has featured occasionally previously – including on the FATF's blacklist from 2000-2001 – it has not been blacklisted since then.

The EU is the latest member of the international community to begin publishing a list of non-cooperative tax jurisdictions. The Bahamas avoided being blacklisted in the EU's first such list in December 2017, but the EU flagged significant concerns about information exchange and international cooperation on tax issues. At the time, it placed the Bahamas on a watch-list alongside seven other Caribbean economies that had suffered damage from the most recent hurricane season, essentially giving these countries extra time to respond to areas of EU concern before a decision was made about whether to blacklist these countries. To ensure that countries stay off the EU's list, they must fulfil the following criteria:

- Comply with international standards on automatic exchange of information and information exchange on request.

- Avoid unfair tax regimes. Zero-rate or very low rates of corporation tax are permitted, but only as long as it does not encourage offshore centres without domestic economic activity.

- Demonstrate commitment to implement the OECD's Base Erosion and Profit Shifting (BEPS) minimum standards.

Despite government efforts to avoid blacklisting, on 13 March the EU confirmed the Bahamas' inclusion on its list of non-cooperative tax jurisdictions, alongside Saint Kitts & Nevis and the US Virgin Islands. In terms of rationale, the EU simply stated that these countries had failed to make commitments "at a high political level in response to all of the EU's concerns".

Government lobbies EU heavily

It is unclear how long the Bahamas will remain on the list, with the government complaining vociferously about its inclusion and lobbying heavily for its immediate removal. The Ministry of Finance has issued a statement stating that the government has been consistently engaged with the EU's Code of Conduct Group and that it is on track to meet its December 2018 target date for the implementation of the areas of concern indicated. Several ministers flew off straight away to Brussels in an effort to engage the Code of Conduct Group directly over these issues, arguing that miscommunication and misunderstandings clouded the EU's view about recent government developments on the tax transparency front. They are urging the EU to announce the Bahamas' delisting on 12 April (as we went to press, an announcement was still awaited), with a view to finalising this in a meeting of EU finance ministers on 25 May. The government has expressed confidence about securing the country's immediate delisting, although it remains unclear whether the EU would want to execute such an immediate about-turn, as such a rapid de-listing following significant government lobbying could in itself invoke criticism about its processes and independence.

REGIONAL BUSINESS REVIEW

REGION

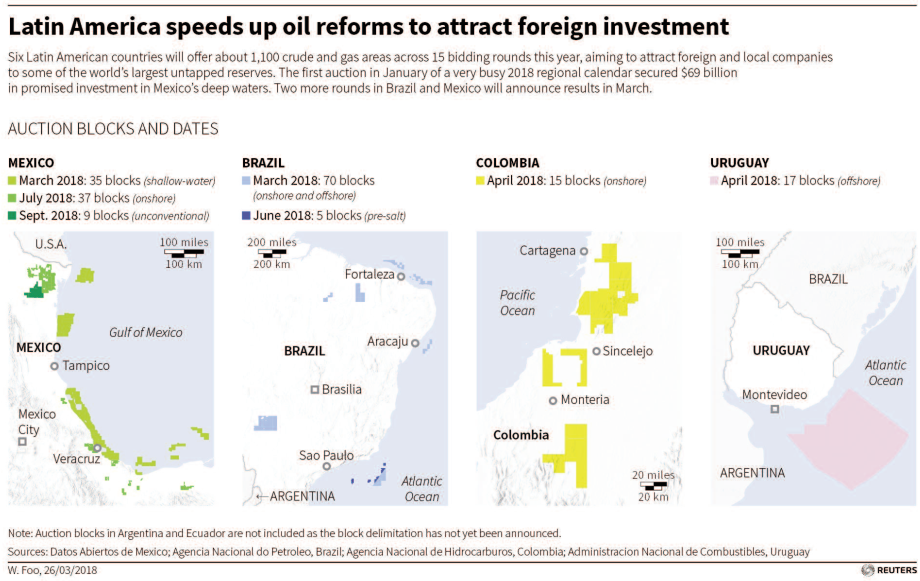
Record number of oil and gas auctions

More on-and-offshore acreage will be auctioned in the region this year than ever before, providing a possibly unique opportunity for international oil and gas companies to win exploration and production contracts in different parts of Latin America and the Caribbean.

Pablo Medina of Welligence, an oil and gas consultancy, says "In 2018, countries in the region will hold the most licensing rounds in history." Total outstanding oil and gas investment pledges in Latin America and the Caribbean are currently estimated at US$110bn. A number of factors have come together to make 2018 a special year in the Latin American oil and gas industry. First, over the last few years political and policy changes have opened up previously untouched areas of the continent to private exploration. Notably, Mexico's 2013 energy sector reforms have led to successive licensing rounds that have put an end to over seven decades of state monopoly in the country. The advent of centre right governments in Argentina (late 2015) and Brazil (2016) has also liberalised the approach there. Second, after the slump of 2014-2016 oil prices are set to continue recovering (the IMF calculates that prices rose by 23.1% in 2017, and forecasts that they will gain a further 11.7% this year). In third place state oil companies such as Petrobras in Brazil and Pemex in Mexico have been weakened by financial pressure and allegations of corruption: they now lack the resources and technical knowledge to develop deposits on their own. Finally, in fourth place, a wave of general elections (not least in oil producers Colombia, Mexico, and Brazil) means that today's opportunities may not last forever. Industry executives are concerned that from next year there could be a switch back to greater energy nationalism, meaning that current relatively favourable terms and conditions may not last.

A survey conducted by *Reuters* news agency suggests that as many as 1,100 oil and gas blocks will be offered for auction this year. The greatest number will be in Brazil, which is expected to offer 850. Brazil and Colombia are planning to offer permanent rolling auctions similar to those used in the United States. Mexico is offering 81 blocks, a mix of shallow water, onshore, and non-conventionals, across auction rounds in March, July and September. In Colombia 15 blocks are being auctioned in April, with a further 25 offers expected in May, followed by licences to conduct offshore seismic studies in Colombian Caribbean waters. Argentina is expected to offer a total of 225,000 square km (this area has not yet been broken down into blocks). There is also a range of exploration areas on offer from Ecuador, Uruguay, Paraguay, and Guyana, among others.

Broadly speaking, the terms of the current exploration and production (E&P) contracts are favourable to international companies. Partly because of the effect of the 2014-2016 oil price slump they now include tax breaks, reduced royalties, relaxed qualification criteria, longer terms, and more flexible local content rules. Consultancy Wood Mackenzie has commented, "Latin America's upstream sector enters 2018 with strong momentum as recent investor-friendly regulatory changes have enticed operators back to the region." Julio César Vera, president of the Colombian association of oil engineers (Asociación Colombiana de Ingenieros de Petróleos – Acipet), says Latin American countries need "rules of the game that allow them to be competitive for both public and private investment. The rules should guarantee that investment is long term, sustainable, and compliant with international standards of environmental protection." Horacio Cuenca, research director at Wood Mackenzie, has noted "Although there is some political uncertainty ahead, the immense exploration and development opportunities available in the region will keep optimism high." Some do not entirely share that optimism: one oil industry executive who wanted to remain anonymous told *Reuters*, "There is a feeling that these could be the last auctions for a while."



In Brazil the outgoing centre-right government of President Michel Temer is pushing through multiple E&P auctions. In early April the government announced it would hold a fifth round pre-salt offshore auction in June, which would include some blocks held back in March. In the late March auction ExxonMobil won eight exploration blocks in areas near the pre-salt layer. In that auction the government received US$2.4bn in investment pledges and awarded 22 of 68 blocks on offer.

One of the big issues in Brazil is that uncertainty over the outcome of the October elections has been running at very high levels. The next government is due to take office in January 2019. Former centre-left President Luis Inácio Lula da Silva (2003-2011) was considered the front-runner to be re-elected, but after his arrest on corruption charges this month he is likely to be excluded as a candidate. Ciro Gomes, another leftist candidate, has suggested he would consider expropriating any energy assets that are awarded this year, but his chances of winning are believed to be relatively low. Marina Silva, another candidate, would emphasise stricter environmental protection and favour renewable energy. Oil industry executives say that if a leftist government does emerge, it may tighten some of the more generous terms in current contracts, but would not stop the licensing process in its tracks. A centre or centre-right government could be expected to maintain the current terms. The economic policies of Jair Bolsonaro, the far right populist candidate, remain unpredictable: while taking a broadly pro-market position he has criticised Chinese involvement in Brazil's extractive sector. Jimena Blanco, Head of Americas Research at Verisk Maplecroft, says "Given the scale of the investment needed to fully develop the pre-salt, no government is likely to stray too far from the current trajectory."

In Mexico the front-runner in the elections due in July (the new government is set to take office in December) is the left wing candidate Andrés Manuel López Obrador (also known by his initials AMLO). He has criticised the 2013 energy reforms and says he will "review" the over 90 E&P contracts that have been signed since then. However, most analysts believe that a full-scale reversal of the 2013 reforms is not on the cards. Current Pemex chief executive Carlos Trevino has said "The speed of the auctions could be slower and even stop, but the reform is protected in the constitution, which requires two-thirds of the senate and the lower house to change." Rocio Nahle, a Mexican congresswoman and adviser to AMLO on energy issues, told the *Wall Street Journal* in March that "There won't be new oil auctions until we assess the results delivered by the first auction." She was keen to insist however that no already-signed contracts would be cancelled. "Investors can be calm, we'll respect the law."

To try and ensure victory AMLO has sought to move closer to the centre-ground in terms of Mexican economic and energy policies. His critics have been trying to portray him as a Venezuelan-style revolutionary and oil nationalist, while members of his team have gone out of their way to deny any validity in the comparison. Venezuela, arguably the most oil-rich and oil dependent country in the region, shows no sign of relaxing its nationalist energy policies, although the country's deep economic crisis and partial debt default is taking a toll. Oil production has dropped from a one-time high of 3m barrels per day to around 1.5m bpd (*see our Venezuela article in this issue*). According to the US-based Centre for Strategic and International Studies (CSIS), China is set to increase its effective control of the Venezuelan industry, receiving more oil shipments as payment-in-kind for loans made to the country over the last decade. Presidential elections are due in May. The opposition says they will be neither fair nor free, and that incumbent President Nicolás Maduro will seek to perpetuate himself in power. Maduro aims to continue existing energy policies. One opposition candidate, Henri Falcón, says if he is victorious he will open up the oil industry and seek out US$12bn in investment to reactivate it. At this stage his chances of winning are rated as low: analysts agree however that rebuilding Venezuela's oil and gas sector will take years, if not decades.

GRENADA

Large offshore oil find

Grenada's prime minister, Dr Keith Mitchell, announced on 11 March (just a day before the islands' general election in which his New National Party (NPP) won a clean sweep of parliamentary seats) that a "significant oil and gas find" had been located in the country's waters. If subsequent exploration yields positive results, Grenada's medium-term economic prospects could be significantly improved, with energy earnings aiding the fiscal position in particular.

The oil and gas discovery was made by a Russian energy firm, Global Petroleum Group (GPG), in one well, which appears to have millions of cubic feet of gas ready to be exploited, but Dr Mitchell also stated that other wells offered even more promising prospects. The prime minister even went so far as to state that Grenada could be a "massive" supplier of oil and gas, allowing the country to become "the dominant Caribbean economic powerhouse in ten years". However, some more critical voices, including the political opposition, responded more cautiously to the announcement, pointing out that tests have not yet concluded that the gas is of a sufficiently high quality to be commercially viable.

A long time coming

The announcement follows several years of preparatory work. The government signed a production sharing agreement with GPG in March 2008, simultaneously issuing an exploration license to the Russian firm. Little work was done initially, but GPG began collecting seismic data in 2013, eventually beginning drilling in 2017. The government has also been engaged in seeking to attract investment from other foreign energy firms, passing in July 2017 the Hydrocarbons Exploration Incentives Bill.

Given the tiny size of Grenada, with a population of only around 107,000, the development could have significant repercussions on the islands' economy. The economy is currently dominated by services, including financial services, government services, and tourism, but if oil and gas production does eventually come on stream the contribution from industry could be increased, helping diversification and lifting GDP growth – which is already relatively firm by regional comparison, at around 4%-7% in recent years. It could also have a significant impact on Grenada's trade dynamics, as the country is entirely dependent on imported fossil fuels to meet its energy needs. This would be likely to reduce the current-account deficit, which stands at around 15% of GDP according to the IMF.

Energy income would help cut public debt

The public finances would also benefit if oil and gas production comes on stream. High levels of public debt have long been an area of concern and although the government has done a credible job of reducing debt:GDP ratios, from over 100% of GDP in 2014 to around 66% of GDP of GDP currently, public debt is still high and the country remains vulnerable to external shocks, including natural disasters and swings in demand from key tourism source markets. Energy-related fiscal income could help reduce the public debt:GDP ratio further, as well as free up revenue for investment in other areas.

REGION

Corporate radar

Amazon in Brazil talks: Us online retailer Amazon.com was in late March reported to be involved in talks to acquire the Via Varejo retail chain in Brazil from the controlling group Casino Guichard Perrachon SA of France. Via Varejo sells electronic goods and electric appliances: it has a chain of over 900 outlets across the country and is also one of Brazil's largest online retailers. The talks came after Casino agreed to market its Monoprix high-end groceries through an agreement with Amazon. Sources said Via Varejo might be sold to Amazon or might be run as part of a joint venture or similar association between the two companies.

Trade war could hit CAP: Chile's iron ore and steel producer Compañía de Acero del Pacífico (CAP) could get caught up in the US-China steel tariff dispute. Two thirds of CAP's iron ore sales go to China. CAP is meanwhile the top producer of steel for the domestic Chilean market. In this domestic steel market it has already been under strong competitive pressure from Chinese imports. The pressure led CAP to close down two blast furnaces in 2013 and to downsize its steel production by 40%. Now the US announcement of a 25% tariff on steel imports poses a new difficulty. CAP executives say that companies shut out of the US market are going to seek to place their products elsewhere, creating more downward pressure on international steel prices. Chile already has some selective tariffs of its own – for example there is a 38% import tariff on wirebar imports from China. But CAP thinks policies to protect the local industry have been no more than "lukewarm".

Executives told Spanish newspaper *El País* "Having high quality steel is important for the mining sector, and above all for the construction of earthquake-resistant buildings. On important building projects Chile cannot take the risk of using anything other than locally-produced steel." The company reported US$130.2m in profits last year.

Telcos discuss elimination of roaming charges: Various Latin American countries have agreed to look at ways of eliminating roaming charges for mobile phone users travelling within the Americas. The initiative came at the 7th assembly of the InterAmerican Telecommunications Commission (Comisión InterAmerican de Telecomunicaciones – Citel) held in Buenos Aires in March. A motion was approved committing member countries to "take action to allow greater transparency and accessibility, including the elimination of additional charges for mobile itinerancy ('roaming') with particular attention to the needs of frontier zones". Among those supporting the idea were Argentina, Barbados, Brazil, Canada, Colombia, the United States, and Trinidad and Tobago. Citel officials said eliminating roaming charges would support digital inclusion across the region. The mobile phone companies reacted to the idea in a positive, but cautious manner. Alberto Samuel Yohai, president of the Colombian telecommunications association, said the proposal was "interesting as long as it is introduced with the agreement of the operating companies". Yohai added that it should be part of a wider package including other measures to facilitate foreign investment in the telecoms sector. Analysts noted that it had taken the European Union ten years of talks before it eliminated roaming in 2017. One issue that would need to be resolved was double-taxation of calls made by 'roamers' – at present some pay VAT on the same call to their 'home' tax authority and to the tax authority of the country in which they are roaming. Other analysts suggested that some telecom operators might themselves end roaming charges for purely commercial reasons – as part of a strategy to increase their market share. Two years ago Claro (owned by Mexico-based América Móvil) introduced an option for 'roaming at local tariff rates' as an incentive to its customers. Movistar (owned by Telefónica of Spain) currently offers a flat international roaming rate set at US$7 a day.

Marfrig buys into US: Brazilian meat company Marfrig Global foods said in early April that it has agreed to pay US$969m to buy a controlling interest in National Beef Packing Co of the US. The deal would make it the world's second-largest beef producer. The transaction would give it a 51% stake in National Beef. To finance the purchase the Brazilian company said it was selling another US-based firm, Keystone Food. Analysts reacted positively to the deal which they said would reduce overall levels of debt and improve Marfrig's ability to compete on a global level. Altin Kalo of Steiner Consulting Group commented "Brazil has faced barriers to sell beef into the US and this is just one way to get exports into the US. If you can't sell beef here, come in and buy a US company." The US banned imports of fresh Brazilian beef almost a year ago over safety concerns, but Marfrig has been shipping beef to the US from its production units in Uruguay. Investment bank BTG Pactual said the deal would make Marfrig "a more focused and less leveraged protein operator, with a highly diversified beef footprint in South America and the United States"

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