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CONTENTS

REGIONAL BUSINESS REVIEW

Argentina 2
Government battles global banks

Region 4
Corporación Andina de Fomento goes for growth

Mexico 7
Big shake up – or same old programmes?

Peru 10
Tía María still facing opposition

REGIONAL ECONOMIC REVIEW

Region 12
Everyone wants a little more fiscal space

Chile 14
Trouble comes in threes

Brazil 16
Tough outlook for industry

Cuba 17
What next for the banking sector?

Bermuda 21
Off the floor in 2015?

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Astori the austere

At one level, nothing has changed. The new centre-left Frente Amplio government that took office in Uruguay on 1 March is a continuation of the two Frente Amplio administrations dating to 2005. The new president, Tabaré Vázquez, has done the job before (2005-2010). So too has the new economy minister, Danilo Astori (2005-2008; Astori was also vice-president in 2010-2015). Yet in economic policy terms, a different ball game looks to be shaping up.

Since taking office, the economic team under Danilo Astori has been signalling that things are going to change. The message is measured, but at times it does sound as if a new and different political party is assuming control of the key tax and spend decisions. In his first press conference, Astori mapped out three top priority areas: the first is to open Uruguay more to international markets; the second is to achieve fiscal balance; and the third is to invest in infrastructure.

As a small country within the Southern Common Market (Mercosur), a trade bloc dominated by Brazil and Argentina and which often takes a protectionist stance, Uruguay has traditionally favoured greater trade openness. Now, Astori has expressed this in blunter terms than usual. Uruguay, he said, "is not viable unless we turn the economic opening into a strategic concept". He went on to say that Mercosur was facing its worst period since its creation (in 1991). It was necessary to press forward with the lengthy and stop-start negotiations on a Mercosur-European Union (EU) trade agreement. Significantly, Astori spoke of "transcending" Mercosur, and described it not as a 'destination' but as a "launching platform" for wider trade deals. The new government has also spoken of closer links with the Pacific Alliance (whose members include Mexico, Colombia, Chile and Peru) and which is more explicitly free-trade oriented.

Astori also noted the difficulties caused by the depreciation of the Brazilian Real (which has slipped by 20% against the US dollar since the beginning of this year, while the Uruguayan Peso has depreciated by 3.7%). However, he stressed that Uruguay could manage the problem, "since we are exporting to 140 different countries and China now is our main export market".

On the fiscal front, the economy minister is using new, more austere language. He was direct on this issue too. "I know of no successful policy achieved amid fiscal disorder," he stated. Astori has inherited a fiscal deficit running at around 3.3% of GDP and has made clear that he aims to gradually balance the books. He has indicated that both fiscal and monetary policy will be aimed at bringing inflation down to a 3%-7% band — after reaching nearly 10% in early 2014, it came down to 7.4% year-on-year in February 2015. Spending cutbacks too are on the cards. State-owned companies, said to be responsible for cumulative deficits representing about 2% of GDP, will be

under new scrutiny, particularly the national electricity company, Administración Nacional de Usinas y Trasmisiones Eléctricas (UTE), and the telephone provider, Administración Nacional de Telecomunicaciones (Antel).

An initial sign of what is to come is a decision to put an end to trips abroad for ministers and other top officials unless they have specific authorisation from the budget planning office (Oficina de Planeamiento y Presupuesto [OPP]), which is likely to be a much more powerful body than before. Managerial reorganisations are planned for four ministries (including foreign affairs and industry). Foreign Minister Rodolfo Nin already has asked some policy advisors and itinerant ambassadors to hand in their resignations.

In terms of infrastructure, Astori has suggested that some expensive projects such as the Antel Arena, a new sports centre budgeted at around US$40m, and the new headquarters for state-owned Banco República will be reviewed, "because we have other priorities". While these priorities have not yet been mapped out, the minister has spoken of the need to create a "national competitiveness system" and focus on "diversification and permanent innovation". It appears that the Fondo para el Desarrollo (Fondes), the national development fund set up by former President José Mujica (2010-2015) to support workers' cooperatives, will now be tweaked more in the direction of backing entrepreneurs and small- and medium-sized enterprises (SMEs). Overall, the new economic policy team seems to believe more strongly in systems, planning and processes, in contrast to the rather more fluid decision-making that characterised the Mujica administration. Tellingly, Astori has noted that "in recent years, public sector companies invested a lot, but in an uncoordinated and unplanned fashion. That had an impact on the fiscal accounts".

"I know of no successful policy achieved amid fiscal disorder"

– Economy Minister Danilo Astori

Ironically, some of the steps now being taken – particularly the thinning-out of ministerial special advisors and consultants – were campaign pledges of the defeated centre-right candidates in the 2014 elections. According to Eduardo Bottinelli, director of the local polling company Factum, "it is striking that the economy minister is leading this policy change, as this is the same person who has controlled much of the economic decision-making over the last ten years. It is probable that this [change] is because spending has increased steadily over the last decade, the fiscal deficit has increased, and the international context is now quite different".

Another pollster, Juan Carlos Doyenart of Interconsult, said that President Vázquez "is showing the need to steer a different course with these announcements to cut spending. He is putting the house in order and trying to be prudent with spending. Although he may not say so openly, this is a different line to the one followed by the Mujica administration".

REGIONAL BUSINESS REVIEW

ARGENTINA

Government battles global banks

Argentina is again battling with the banks. One of its targets is Citigroup of the US, while another is HSBC of the UK.

Citigroup finds itself caught up in the legal battle between Argentina on the one hand and the country's holdout creditors on the other. In 2012 New York Federal Judge Thomas Griesa ruled in favour of a group of Argentina's 'holdout' creditors, mainly composed of US hedge funds, in their bond payment dispute with Argentina. After various appeals the ruling took effect in mid-2014. The judge said Argentina could not make payments to the 92% of its bond creditors with which it was not in dispute, unless it made equal

> “Citigroup argues that payments on bonds issued under Argentine law, and made from Buenos Aires through Citi Argentina, should not be affected by Griesa’s ruling. Argentina says that these payments lie beyond his jurisdiction, but Griesa believes otherwise, because Citi is a US-owned institution.”

and simultaneous payments to the holdouts. Griesa had jurisdiction because the bonds were issued under US law and payments were made through the US banking system. Because Argentina has refused to make payments to the holdouts, it has been in partial default since June last year.

Griesa has ruled that no payments can be made through US banks to holders of Argentine bonds unless and until the country resolves its dispute with the holdout creditors. As custodian for Argentine sovereign bond payments, Citibank Argentina has a commercial and legal obligation under local law to process bond coupon payments. But Citigroup, the US parent company, is also obliged by Judge Griesa not to make those payments. Faced with these conflicting demands, Citibank came up with its own solution, trying to sidestep the problem entirely by announcing on 17 March that it would sell its custody business in Argentina.

But the Buenos Aires government won’t play ball. A government source quoted by the *Reuters* news agency on 18 March said, “There is no way we will let them exit their custody business”. President Cristina Fernández earlier had threatened to cancel Citibank’s operating licence if it fails to process a coupon payment to bondholders due on 31 March. Citibank is the 12th largest bank in Argentina, with deposits of ARS22.82bn (about 2.67bn).

Citigroup argues that payments on bonds issued under Argentine law, and made from Buenos Aires through Citi Argentina, should not be affected by Griesa’s ruling. Argentina says that these payments lie beyond his jurisdiction, but Griesa believes otherwise, because Citi is a US-owned institution. On 22 March, Citigroup said that Judge Griesa had reversed his earlier position and allowed its Argentine subsidiary to process interest payments on local Argentine bonds. Judge Griesa will now allow Citi to process the quarterly interest payments on Argentine bonds due on 31 March and 30 June. While Griesa maintains that in principle his ruling also applies to payments handled by Citi Argentina, he has allowed some of these payments to go ahead as exceptions to the rule.

This latest twist in the dispute buys some time for Citi Argentina. It appears that Judge Griesa is again doing a bit of a flip-flop in an attempt to edge the parties closer to a settlement. Citigroup said the two quarterly payments were being permitted “to the extent that certain conditions are satisfied”. The net effect is that Citi Argentina is off the hook – for now. It is still trying to sell its bond custody business in Argentina; even though the Argentine authorities have indicated they will oppose such a move.

One view of the underlying foreign debt dispute is that it is currently unsolvable, because the Argentine government has invested political capital in defying the holdouts (which it calls ‘vulture funds’) and because elections are only six months away. The consensus view remains that it will be left to the next government to try to settle the dispute. If so, the question then arises over whether the third quarter coupon payment – due on 31 October – will be authorised. That falls, awkwardly, six days after the elections (25 October) and just over a month before the new government is due to take office (on 10 December).

Also in the Buenos Aires government’s line of fire is HSBC of the UK. Ricardo Echegaray, head of Argentina’s tax collection agency, Administración Federal de Ingresos Público (AFIP), recently travelled to London to attend parliamentary hearings into allegations that that HSBC helped clients of its Switzerland-based branch evade taxes. According to leaked bank data, those account holders included a number of Argentine citizens. “HSBC built a platform to help clients evade tax” Echegaray stated. The AFIP has filed a criminal complaint against HSBC for tax evasion and illegal tax association. It says the bank helped more than 4,000 of its clients evade taxes. Police raided the Buenos Aires branch of the bank on 8 March. Echegaray demanded that the bank repatriateUS$3.5bn in funds which he said had been moved offshore.

Corporación Andina de Fomento goes for growth

The announcement by the CAF/Development Bank of Latin America of a 50% increase in its authorised capital is just the latest move in a multi-year expansion.

On 10 March, the board and shareholders of the CAF/Development Bank of Latin America (CAF stands for Corporación Andina de Fomento [Andean Development Corporation]) announced a 50% increase from US$10bn to US$15bn. As **chart 1** shows, subscribed capital at the end of 2014 amounted to US$4.25bn, having been US$3.94bn a year previously. Following the latest increase, the CAF has the theoretical ability to increase its subscribed capital by US$10.75bn and the potential to lift total equity from US$8.76bn to over US$19.0bn. By the standards of most commercial banks, CAF is undergeared. At the end of 2014, total liabilities amounted to US$21.73bn, or 71% of total assets of US$30.5bn.

"In spite of a broad mandate which includes a counter-cyclical role, CAF has been increasing its loan portfolio over recent years, even as particular countries in the region have benefited...from high commodity and oil prices."

Chart 1: CAF Balance Sheet (USDmn)

End of:	2013	2014
Cash	1,692	1,420
Securities & Investments	6,612	8,728
Gross Loans & Equities	18,232	19,436
Derivatives	418	384
Accrued Interest & Commissions Receivable	242	292
Other Assets (Net)	222	235
TOTAL ASSETS	**27,418**	**30,495**
Deposits	3,264	3,697
Commercial Paper	2,936	1,853
Borrowings	1,629	1,515
Bonds	11,193	13,860
Other Liabilities	580	806
Total Liabilities	19,602	21,731
Subscribed Capital*	3,941	4,250
Additional Paid-in Capital	1,343	1,911
Reserves	2,326	2,464
Retained Earnings	207	138
Total Equity Items	7,817	8,763
TOTAL EQUITY & LIABILITIES	**27,418**	**30,495**
CAF Income Statement (USDmn)		
*Authorised capital of US$10bn at the end of 2014		
Source: *CAF*		

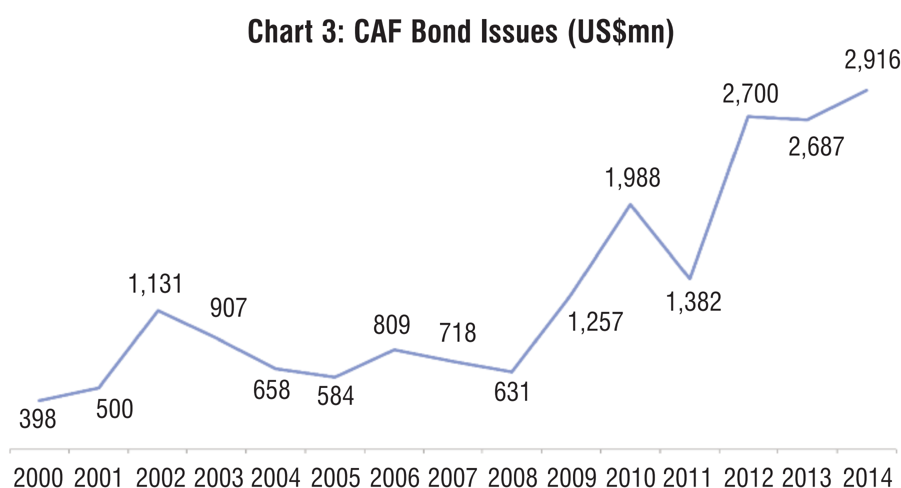
In spite of a broad mandate which includes a counter-cyclical role, CAF has been increasing its loan portfolio over recent years, even as particular countries in the region have benefited (prior to September 2014) from high commodity and oil prices. Outstanding loans (including small equity holdings) rose from US$11.77bn at the end of 2009 to US$19.44bn at the end of 2014, as **chart 2** shows. By way of contrast, the Inter-American

Development Bank (IDB – another regional development bank, with different shareholders and mandate to that of CAF) increased its portfolio of loans to the region from US$58.0bn at the end of 2009 to US$70.7bn at the end of 2013. The World Bank's portfolio of loans to clients in Latin America and the Caribbean amounted to US$28.6bn at the end of June 2014. The activities of these three development banks are dwarfed, however, by that of Brazil's national development bank, Banco Nacional de Desenvolvimento Econômico e Social (BNDES). As of the end of September 2014, BNDES' assets included loans of US$250.8bn and securities of US$63.0bn.

Chart 2: CAF Loan Portfolio (US$mn and % change), End:		
2009	11,772	
2010	13,878	17.9%
2011	15,093	8.8%
2012	16,502	9.3%
2013	18,232	10.5%
2014	19,436	6.6%
Source: *CAF*		
[NB World Bank Portfolio of loans in region, end June 2014 of US$28.6bn; BNDES Portfolio of Loans, end Sep 2014 of US$250.8bn and of Securities of US$63.0bn; IDB Portfolio of loans of US$70.7bn at end of 2013, up from US$58.0bn at end 2009].		

CAF funds its activities mainly through the issuance of bonds. From 2002 to 2008, the general trend in issuance was downwards. Issuance of US$631m in 2008 was a little over one half of that 2002. In 2009, in spite of the volatility in financial markets in the wake of the global crisis, CAF's issuance doubled to US$1.2bn. Except in 2011, its issuance of bonds has risen steadily since then, and reached US$2.92bn in 2014, as **chart 3** shows. In mid-January 2015, the CAF raised US$1bn through the issuance of three-year floating rate bonds. The rate is based on three-month LIBOR plus a 0.55% margin.

Chart 3: CAF Bond Issues (US$mn)



Source: *CAF*

CAF considers consistent profitability and excellent quality of assets to be among its strengths. Over the five years to the end of 2013, annual loan approvals increased from US$9.17bn to US$12.1bn. Loans to sovereign borrowers have typically accounted for half of the total loans approved each year. Provisions for loan losses have generally been low. The CAF's net interest income rose from US$211m in 2013 to US$260m in 2014, as might be expected given the expansion of the loan portfolio at a time of extraordinarily low interest rates in global financial markets. Total income, though, fell from US$206m to US$138m. The fall in total income was partly due to the absence of a write back of loan losses of US$83m in 2013. It was also due to a rise in operating expenses, as **chart 4** shows.

Chart 4: CAF Income Statement (US$mn)

	2013	2014
Interest Income	508	570
Less Interest Expense	-297	-310
Net Interest Income	211	260
Provision/Credit for Loan Losses	83	-22
Net Interest Income After Provisions	294	238
Non-Interest Income	16	23
Non-Interest Expense	-106	-125
Other Items	2	2
Total Comprehensive Income	**206**	**138**
Source: *CAF*		

In short, the latest increase in authorised capital is not due to a sharp deterioration in the CAF's financial condition. Commenting on the increase in, the bank's executive president, Enrique García, noted that it "strengthens the [counter]-cyclical role in view of the evolution of the international financial environment". This raises the question of which countries (and which governments) are most likely to increase their borrowings from the CAF as it further increases its activities.

Some indications are provided by the breakdown of CAF's loan portfolio as of the end of 2014. The largest country exposures were Venezuela (15% of the total), Ecuador (15%), Argentina (14%), Peru (12%) and Brazil (10%). Loans to Bolivia also accounted for nearly 10% of the total.

Over the course of 2014, loan exposures increased to Argentina (by US$260m), Bolivia (US$156m), Brazil (US$277m), Uruguay (US$130m), Venezuela (US$40m), Ecuador (US$88m) and Panama (US$368m). However, exposures to Colombia, Mexico and Peru fell.

Recent announcements from the CAF have highlighted planned or actual loans for: electrical infrastructure in the central region of Venezuela (US$100m), Panama (US$100m) and Ecuador (US$200m); underwater cables in Lake Maracaibo (to improve the supply of electricity to the northwest region of Venezuela); the first stage of the Río Colorado-Bahía Blanca aqueduct in Argentina (US$150m); improvement of potable water services in greater Buenos Aires (US$120m); US$75m for various projects overseen by the Fondo Financiero para el Desarrollo de la Cuenca de la Plata (FONPLATA), a regional infrastructure fund; Line 2 of the Lima and Callao metros (US$150m); highways in Bolivia (US$159m); and various infrastructure and energy projects in Brazil (US$550m).

Looking forward, we expect that the CAF will further increase its exposure to those governments and countries most affected by the slippage in energy and minerals prices and/or by domestic challenges. Conversely, it may maintain its exposures to those countries that are best placed to benefit from the continuing recovery of the US economy. Panama appears to be the exception.

"Looking forward, we expect that the CAF will further increase its exposure to those governments and countries most affected by the slippage in energy and minerals prices and/or by domestic challenges. Conversely, it may maintain its exposures to those countries that are best placed to benefit from the continuing recovery of the US economy. Panama appears to be the exception."

The Corporación Andina de Fomento

Founded in 1970, the Caracas-based Corporación Andina de Fomento (CAF), latterly rebranded the CAF/Development Bank of Latin America, is owned by the governments of 16 countries in Latin America, as well as Spain and Portugal, along with 13 private

banks from the Andean region. The CAF's stated role is to "promote sustainable development and regional integration". Importantly, it considers that it also has a counter-cyclical role. Like other development banks, it has a wide variety of products and services. These include loans, credit lines, structured finance, guarantees, investment banking and financial assistance services, equity investments and corporation funds and technical assistance.

As of end-2014, the CAF's loan portfolio amounted to US$19.44bn (including US$292m in equity investments). By country, the largest exposures were Venezuela (US$3.0bn), Ecuador (US$2.8bn), Argentina (US$2.72bn), Peru (US$2.3bn), Brazil (US$1.9bn), Bolivia (US$1.9bn) and Colombia (US$1.77bn).

With ratings of AA-, Aa3 and AA- from Fitch Ratings, Moody's Investor Services and Standard & Poor's respectively, CAF considers itself to be the highest-rated Latin American frequent issuer of bonds. In the 20 years to the end of 2013, the CAF raised over US$20bn through 119 bond issues on international capital markets. The base of investors in CAF bonds is a diverse one. In 2013, for instance, the CAF was the first Latin American issuer in the Australian dollar (Kangaroo) market, raising A$575m (US$605m) in two issues. It has been the most frequent Latin American issuer in the Swiss franc market and raised SFr600m (US$644m) in three issues during 2013. It was also present in the German Schuldschein market, raising €200m (US$265m). Private placements were made in US dollars, Euros, yen and Hong Kong dollars. CAF also maintains commercial paper programs in the US (US$2bn) and Europe (US$3bn).

MEXICO

Big shake up – or same old programmes?

> "By January 2015, instead of 12 bidders fighting for two licences, there were only two for two."

It looked audacious and ambitious. President Enrique Peña Nieto's telecoms and broadcasting reforms set out to shake up Mexico's entrenched oligopolies, challenging the power of Carlos Slim in telephony and chipping away at the dominant position of the Azcárraga family (owners of the *Televisa* network) in television. In telephony, the changes have indeed encouraged AT&T of the US to come into the local market and challenge Slim's América Móvil. In television, the regulator has just announced the award of two new nationwide terrestrial licences. But this long-awaited and apparently radical move may turn out to be much less earth-shattering than was hoped by some, or feared by others.

Gabriel Contreras, president of Mexico's telecommunications regulator, the Instituto Federal de Telecomunicaciones (Ifetel), described the award of the two new television licences as "an unprecedented process to increase competition and pluralism" in the Mexican TV market.

Under the terms of the government's telecoms and broadcasting reforms, Ifetel offered two 20-year free-to-air TV licences to companies prepared to bid a minimum of US$60m each. In the end, it got well above what it was asking for in financial terms: the two winners were Grupo Radio Centro, with a bid of MXN3.06bn (US$198m) and *Cadena Tres*, which offered MXN1.81bn (US$117m). Each acquires the right to broadcast on 123 open frequencies and the obligation to extend coverage over the next five years to 153 cities. In doing so, they will compete with the two incumbent giants in the industry: *Televisa* and *TV Azteca*. Although there are different measurements, it is broadly acknowledged that *Televisa* has a 65% share of the existing TV market, with *TV Azteca* taking around 30%.

For a number of reasons, a tender process that started out with very high expectations has ended up being thought of as a somewhat disappointing. "Unfortunately, there has been little appetite to participate from investors", commented Irene Levy of broadcasting lobby group Observatel, adding, "a key reason is that foreign investors were limited to participating only as

minority partners of Mexican bidders". Notwithstanding that exclusion, an initial group of 12 well-known Mexican companies and conglomerates had expressed strong interest in the licences. But the group was rapidly narrowed down as bidders dropped out. By January 2015, instead of 12 bidders fighting for two licences, there were only two for two: so the last two bidders in the race were proclaimed winners in what ultimately turned out to be a non-competitive process, at least in the final stage.

Various reasons have been given for falling levels of investor interest. One is that since the heady days of President Peña Nieto's first year in office, general business expectations have taken a knock-back. While the economy continues to grow at a moderate pace, hopes of a "Mexican moment', fuelled by an investment-led boom, have faded. The collapse of international oil prices has prompted fiscal austerity measures, and more may be in store. Politically, the president and his inner circle have been severely criticised over human rights, corruption and alleged conflicts of interest. Facing a slump in his approval ratings, many believe that President Peña Nieto has had to fall back on a close relationship with *Televisa* and will therefore ensure that there is no fundamental threat to the network's interests. But there are also industry-specific factors. In particular, in a multimedia age there are doubts over the stand-alone profitability of new free-to-air TV channels, along with worries over the impact of Mexico's transition from analogue to digital signals.

> "Both new licences are digital; theoretically all analogue signals will be switched off on 31 December this year, leaving the four main competitors to battle it out entirely through digital technology. But the switchover is running behind schedule. No less than 45% of Mexico's TV households are still using analogue sets."

For whatever reason, a number of potential contenders dropped out of the race. One of them was the so-called 'King of Copper', Germán Larrea, who controls the Grupo México mining group and who in October last year resigned from the *Televisa* board in what was interpreted as a prior step to launching his own media venture. Some say that the famously publicity-shy Larrea was also influenced by the bad media coverage (partly at the hands of *Televisa* and *TV Azteca*) that he received late last year over the pollution of rivers in northern Mexico caused by an accident at one of his copper mines.

Others to withdraw from the race included Grupo IAMSA (which has interests in aviation and road transport), Grupo Lauman (which supplies telecoms equipment and owns the newspaper *El Financiero*), and Grupo Mac Multimedia (which owns 15 newspapers and three radio stations). In January, rather late in the day, the Centro Nacional de Estudios Tepeyac, part of the Organización Editorial Mexicana (OEM) media conglomerate led by Mario Vázquez Raña, also withdrew from the race.

Of the two winners, Grupo Radio Centro made the highest bid. Like many others in Mexican broadcasting, it is a family-based business, currently led by Francisco Aguirre, who has worked in radio since the age of 16. Francisco's father ran *Channel 13 TV* between 1968 and 1972, and the family is said to believe that it lost that franchise as part of a politically-motivated coup by the government of the day: winning back a national channel four decades later is therefore seen as a kind of historic restitution. Telecoms and broadcasting expert Gabriel Sosa Platas of the Universidad Autónoma Metropolitana (UAM) describes Grupo Radio Centro as a conservative outfit, oriented towards Catholicism and "family values", although he also recognises some editorial diversity in its approach.

Cadena Tres, the second licence winner, is run by Olegario Vázquez Raña, the son of a Spanish immigrant who made his initial fortune though a furniture company (Hermanos Vázquez). Olegario and his older brother Mario diversified and built up the family fortune, but they had a falling out in 2005. Mario (who died earlier this year) focused on the OEM media group, while Olegario competed against him through Grupo Imagen, which today controls the newspaper *Excelsior* and two local TV channels in Mexico City: *Excelsior TV* and *Canal 3*.

> "This reform faces lots of challenges including a difficult market structure and a slow digital switchover. I think that *Cadena Tres* and Grupo Radio Centro will end up having to get together to challenge *Televisa* and *TV Azteca*. The reform has taken too long, and it might even be too late, but there is still some good news: there are more options and so there is likely to be more quality."

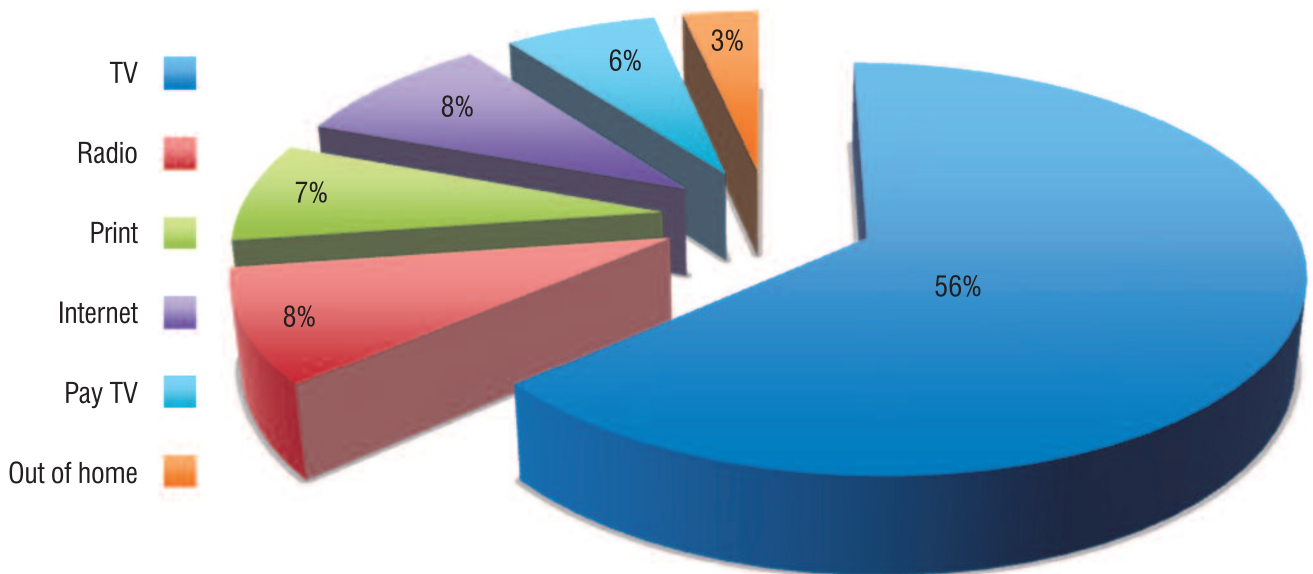
Olegario is known for his good relations with successive governments, including the ruling Partido Revolucionario Institutional (PRI). He was also close to the centre-right Partido de Acción Nacional (PAN) administration led by former President Vicente Fox (2000-2006). Running two local TV channels means that Olegario's *Cadena Tres*, arguably, is better prepared for 'going national' than Grupo Radio Centro, which has less TV experience. But Sosa Platas says that the *Cadena Tres* record in Mexico City is "in some ways disappointing, because it has followed an editorial line which is complacent with the political and business establishment, and has not differentiated itself from what is already on offer from the *Televisa-Azteca* duopoly".

One of the reasons for thinking the new licences may not shake up the TV market as much as originally expected concerns the transition from analogue to digital television. Both new licences are digital; theoretically all analogue signals will be switched off on 31 December this year, leaving the four main competitors to battle it out entirely through digital technology. But the switchover is running behind schedule. No less than 45% of Mexico's TV households are still using analogue sets: these sets cannot receive the new licence holders' programming. A slow switchover makes it harder and slower for the new broadcasters to gain market share. Francisco Aguirre of Grupo Radio Centro has already complained, "It is not fair that we are paying for a market that doesn't yet exist".

To try to speed up the switch to digital, the government has come up with a controversial initiative: to give away up to 12m digital TV sets to poorer Mexican families. The project has come under fire from several directions. Opposition parties note that the give-away just happens to be taking place ahead of the June 2015 mid-term elections: it could be interpreted as nothing more than a vote-buying scheme. Yet so far, because of fiscal austerity measures, the project has been cut back to the distribution of only 2m sets.

56% and falling?

Distribution of advertising spend, Mexico, 2011



Source: *Confederación de la Industria de la Comunicación Mercadotécnica, US Media Consulting*

However the switchover goes, there are also worries over how fast the new licence holders can get their broadcasting operations onto a profitable footing. Ifetel's own projections suggest that the new channels will need until 2020 to gain an 8.5% market share each. Total revenue from TV advertising is currently estimated at around US$3-US$4bn per annum, so if that

were to remain constant, the new broadcasters might be looking at capturing 8.5% of that cake – about US$255m-US$340m each, in five years.

But the problem is that the cake is not remaining constant: a lot of advertising revenue is moving from free-to-air TV to other platforms, and particularly to pay-TV and the Internet. José Otero, of consultancy 4G Américas, has pointed out that in the US media market in 2013, the Internet advertising spend exceeded the free-to-air advertising spend for the first time. "For this reason, many TV stations have for the last few years been trying to complement their free-to-air revenues with revenues from other digital platforms including mobile telephony", Otero says.

"...a lot of advertising revenue is moving from free-to-air TV to other platforms, and particularly to pay-TV and the Internet. José Otero, of consultancy 4G Américas, has pointed out that in the US media market in 2013, the Internet advertising spend exceeded the free-to-air advertising spend for the first time."

Olegario Vázquez certainly appears to be thinking that way: "We don't exclude forming alliances with telecom companies further ahead" he told the news agency *Reuters*. "We understand the challenges of new technology perfectly well, and we understand that the younger generation is consuming content through other digital platforms" he added.

But competing across platforms is a costly affair. "The new entrants will need to make a lot of investments to generate their own quality content, and I'm not sure these two will have the capacity to raise enough money to compete", Ramiro Tovar, a telecoms consultant, told the *Wall Street Journal*. Admittedly, because Ifetel has declared *Televisa* to be a dominant player, the new arrivals will gain access to some of *Televisa*'s existing infrastructure (such as its network of transmitters) on favourable terms.

According to Mony de Swaan, another analyst (and between 2010 and 2013 the head of the former regulator, Comisión Federal de Telecomunicaciones [COFETEL]): "This reform faces lots of challenges including a difficult market structure and a slow digital switchover. I think that *Cadena Tres* and Grupo Radio Centro will end up having to get together to challenge *Televisa* and *TV Azteca*. The reform has taken too long, and it might even be too late, but there is still some good news: there are more options and so there is likely to be more quality".

PERU

Tía María still facing opposition

The future of Southern Copper's long delayed US$1.4bn Tía María copper and silver mining project in Peru was again in some doubt amid local protests developing in March. Meanwhile, Occidental Petroleum settled an environmental dispute with indigenous communities in the Peruvian Amazon.

Extractive industries are often seen as a mixed blessing in Peru. Mineral and precious metals mining, together with oil and gas exploration and production, lie right at the heart of the country's economic growth over the last decade, and have helped achieve significant poverty reduction. Yet at the same time big projects can cause environmental damage and disrupt local communities. It has fallen to the government to try and strike a balance between the two.

Doing so has proven particularly difficult in the case of the Tía María project, centred on one of the world's largest copper deposits, in the province of Islay, Arequipa region. If developed, the mine eventually would be able to produce 120,000 tonnes a year of copper cathodes, starting from 2017-2018. The project was suspended in 2011, following a series of deadly environmental protests. Since then, Southern Copper, a subsidiary of Grupo México, has been seeking to get all the necessary permits to proceed. In August 2014, the company said it had secured approval of a new environmental impact study. In January

2015, it said it had all the necessary permissions to go ahead; Southern Copper now plans to use desalinated water from the Pacific Ocean for the project, for example. However in the same month, the ministry of energy and mines (MEM) said that a construction licence was still pending.

What seems to have brought the issue back centre stage was the announcement of a new round of protests by local opponents of the project. According to Arequipa's regional president, Yamila Osorio, local mayors are supporting farmers, who are worried over dust emissions, wind direction and seepage. Local mayors were also said to be demanding construction of a hospital, drinking water projects and a dam. The central government led by President Ollanta Humala responded by calling roundtable discussions in Arequipa designed to defuse tensions and seek to broker a deal. Cabinet Chief Ana Jara was thought likely to take part, along with the ministers of energy and mines, environment and education.

On 17 March Prime Minister Ana Jara travelled to the town of Andahuyalas, Apurímac region, to sign an eight-point document outlining a series of agreements reached between government representatives and local protesters demonstrating against a local electricity firm, Electro Sur Este (Else). Local civil society groups in Apurímac had called an indefinite general strike in protest at Else's poor service and recent bill increases. Clashes on the fifth day of the strike left 36 people (13 civilians and 23 police officers) injured, on police reports.

Meanwhile, the US oil major Occidental Petroleum said that it had reached an out-of-court settlement to compensate indigenous communities from Peru's northern Amazon for contamination. The amount was not disclosed, but will be used to fund community development projects.

The case has a long history. It began when five Achuar communities, supported by Amazon Watch, an environmental group, sued Occidental in US courts in 2007, claiming that the company had spilled oil and dumped toxic by-products in their territory over a period of three decades ending in 2001, causing a range of health problems including premature deaths and birth defects. The area concerned covers some 400,000 hectares around the Corrientes river basin near Ecuador.

In 2001, Occidental handed the area over to Argentina's Pluspetrol, which subsequently was fined a total of US$17m for pollution. Pluspetrol has also faced protests by local communities. Pluspetrol's oil licence in Block 1–AB, which produces between 15,000 and 17,000 bpd, expires in August next, and Perupetro, the state hydrocarbons agency, is expected to invite bidding for it in April. While opposing the oil companies, Achuar leaders have also accused the central Lima government of failing to clear up contamination in the area.

It remains to be seen how strongly local communities will oppose extractive projects this year. According to the ombudsman's office, which tracks protests and conflicts in the country on a monthly basis, the number of protests fell to 107 in February, down from 158 in January. The protests included Tía María, along with Ayacucho villagers demanding a halt to exploration work by Minera Laconia, and demonstrations against Newmont Mining's Minas Congas project. There were also demands for profit sharing and more jobs at China Minmetals' Las Bambas copper mine, and at Buenaventura's La Zanja gold mine. The total number of conflicts remained fairly constant at 211, up from 210 in January. Of the 142 'socio-environmental' conflicts, 95 (or 67%) related to mining, and about one-quarter were concentrated in the highland regions of Ancash, Apurimac and Puno.

The newly-appointed interior minister, José Luis Guadalupe, has said that officers from the new elite police unit, Dirección de Intervención Rápida de la Policía Nacional (DIRINRAP), first unveiled by President Humala in May 2014 (with 5,000 officers), will be deployed to play a crucial role preventing a flare-up of social conflicts ahead of the 2016 general election. He noted that in the last general election year – 2011 – there was a sharp increase in conflicts, with a danger of this happening again next year. "We've created the rapid intervention force, which is available immediately, within a few hours, to reach any part of the country", the minister said. "Our job is to maintain order, and when order and the rule of law are affected, we are going to act with rational force".

Segura cuts 2015 GDP forecast again, but optimistic about recovery

Finance Minister Alonso Segura in mid-March cut the official GDP forecast for 2015 to 4.2%, from 4.8% in January (and an originally-forecast 5%+). Last year's real annual GDP growth of 2.4% was the slowest since 2009. Segura said that a November stimulus package, including cuts in corporate and personal income taxes and an increase in capital spending, will be strongly supportive of growth this year. The fiscal stimulus in 2015 will be the equivalent of 1.8% of GDP, the highest in 15 years and more than double the level of 2014, the minister said.

On 19 March the finance ministry sent a bill to congress to allow it to exceed the structural budget deficit limit for the next three years, as part of the plans to stimulate growth. The government now plans to post a structural deficit of 2.5% of GDP in 2015, falling to 2% in 2016, 1.5% in 2017 and 1% in 2018. Under Peru's fiscal framework, the structural deficit is not meant to exceed 1% of GDP.

In comments published by *Bloomberg*, Segura said that US$33bn in public-private infrastructure projects, along with increased copper production from new mines, will bolster growth from 2016 onwards. According to the minister, copper output is projected to rise by 9% in 2015 and by 27% in 2016. Zinc and iron output will also rise, offsetting declines in gold output, the minister noted. As such, Segura forecast real GDP growth of 5.5% in 2016, with an upward bias. GDP grew by 1.68% in January according to latest figures by the national statistics institute (Inei), which said that the result was driven by a 5.6% increase in activity in the mining sector.

REGIONAL ECONOMIC REVIEW

REGION

Everyone wants a little more fiscal space

Times are relatively hard for a number of regional economies. To differing degrees, commodity and hydrocarbons exporters have experienced falling revenues and fiscal imbalances. Yet a new report by the UN's Economic Commission for Latin America and the Caribbean (ECLAC) has a rather reassuring message. Public debt levels are low, and the region has "enough fiscal space to apply countercyclical policies and boost production development", it argues. However, the report, entitled, '*Fiscal Panorama of Latin America and the Caribbean 2015: Policy space and dilemmas*', does draw attention to the fact that income tax in Latin America is a very weak instrument and needs to be reformed.

"Broadly speaking, Latin America is half as efficient as the OECD in using taxes and transfers to reduce inequality."

A simplified argument can be made as follows: one set of Latin American countries were hit by the end of the commodity boom in 2011: another slightly overlapping group suffered because of the collapse in hydrocarbons prices in 2014/15; both have seen export earnings and government revenues fall, and fiscal deficits widen. No country can indefinitely cover years of budget deficits through borrowing and ever increasing its levels of debt. At some point – as Greece found out during the Euro crisis of the past five years – confidence crumbles, the money runs out and bad things happen, usually in the shape of a painful correction via deep recession.

ECLAC's latest report provides an insight into how far away such a nasty prospect might lie for Latin America as a whole. The reassuring answer can be summarised as "a lot further away than it was in 1989". Taking a simple average of 19 Latin America economies, the report shows that external debt rose consistently (and apparently unstoppably) from about 20% of GDP in 1970 to almost 100% in 1989. But at that point the trend changed. The debt-to-GDP ratio fell sharply in 1990-97, increased again in 1998-2003, dropped during the core commodity boom years of 2004-2008, and since then has been broadly stable.

Indeed, public external debt as a proportion of GDP has come full circle and is now lower than it was back in 1970. In ECLAC's words, "the past 25 years have

seen external public debt fall dramatically in the region from slightly over 70% of GDP in the early 1990s to 16% of GDP in 2014." Several other things also happened as debt gearing decreased. A lot of the debt became longer term, a higher proportion was issued at fixed interest rates, more was held by local savers, and more moved into local currency. ECLAC also points out that, as might be expected, there are quite wide variations between countries. Since 2000, 11 countries reduced debt as a proportion of GDP. In three, Venezuela, Costa Rica and Guatemala, it remained constant (at least according to officially reported data), while in five it rose (Chile, the Dominican Republic, El Salvador, Mexico and Uruguay). Brazil had the highest public debt to GDP ratio in the region, at 62% in 2014, but its net debt was much lower.

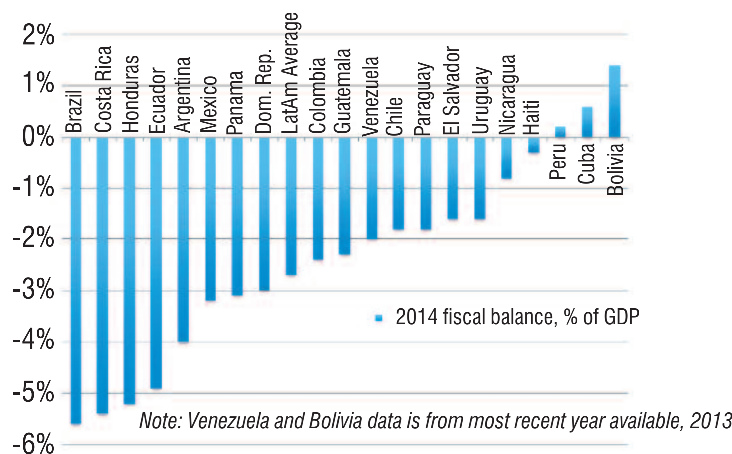
> "[T]he past 25 years have seen external public debt fall dramatically in the region from slightly over 70% of GDP in the early 1990s to 16% of GDP in 2014."
>
> *- ECLAC*

Of great importance to governments now is the concept of 'fiscal space' – the idea of having some spare resources in hand and room to manoeuvre during the bad times. While ECLAC acknowledges that it is difficult to come up with a precise way of measuring fiscal space, it takes the view that "most Latin American countries will have some available fiscal space for 2015". One way of using these "rainy day" resources is to boost public and private investment during a cyclical downturn. On the public investment side, ECLAC says: "This makes sense insofar as publicly-funded investment projects can boost output in both the short and long terms without increasing the debt-to-GDP ratio, especially in periods when the economy has idle capacity and clearly identified infrastructure requirements, as is the case in the region".

Governments that don't have or don't want to use their fiscal space are forced into public sector budget cuts. Here, ECLAC warns against over-enthusiasm. "Spending containment measures should take into account the need to protect investment and avoid vicious circles whereby fiscal overadjustments strangle growth and tax revenues, ultimately widening the deficit and increasing the public debt burden".

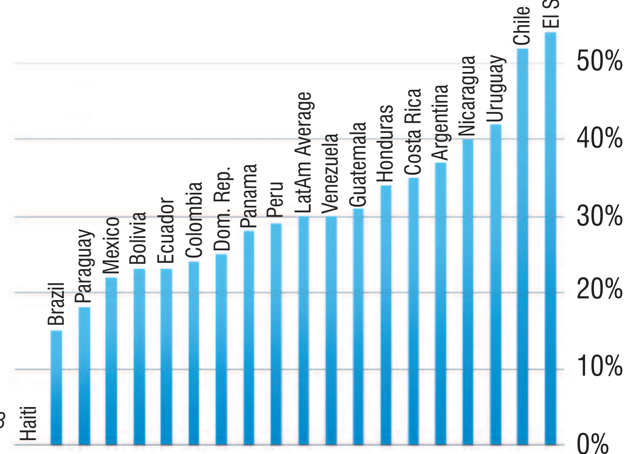
Government budget deficits, 2014

Central government balances as a % of GDP



Not like Greece

Gross external debt as % of GDP in 2014



Source: *ECLAC*

Turning to the tax side, ECLAC suggests looking again at the fiscal treatment of non-renewable resources. According to its calculations, for seven Latin American oil producing countries, fiscal revenues from hydrocarbons slipped from 7.8% of GDP in 2013 to 6.7% of GDP in 2014. Non-tax revenues (mainly royalties) from minerals and metals in a group of six producing countries remained relatively stable across the two years at 0.2% of GDP, which ECLAC attributes to the fact that the decline in prices commenced in 2011 and has now largely stabilised. The report recommends reassessing tax and royalty regimes to try to 'smooth out' revenue flows, commenting that "the fiscal sustainability of these countries will depend on their ability to offset declining tax revenues, at least partly, through reforms to strengthen those taxes that are unaffected by the price volatility of a small number of commodities."

ECLAC notes that regional tax systems remain notoriously inefficient when it comes to the continuing need to tackle inequality and redistribute income. It does this by comparing Latin America and the advanced economies of the Organisation for Economic Co-operation and Development (OECD). The 'market' distribution of income (i.e. the distribution of income before taking into account the effect of taxes and transfers) is only slightly more unequal in Latin America than it is in the OECD. The big difference, however, is that taxes and transfers are much more effective at reducing inequality in the OECD than they are in Latin America. Using the Gini coefficient of income distribution (where 100% represents absolute inequality and 0% represents theoretical perfect equality of income distribution), ECLAC says its calculations show that OECD tax and transfers reduce the Gini coefficient by 17-19 percentage points, while in Latin America only a three percentage point reduction is achieved through direct fiscal measures, with another six points achieved through state provision of education and health services. Broadly speaking, Latin America is half as efficient as the OECD in using taxes and transfers to reduce inequality.

Part of the reason for this, the report suggests, is because of the especially weak role of income tax as a policy instrument in the region. While it is designed as a progressive tax (with marginal rates ranging from 25% to 40% for the higher earners), rates of tax actually paid by the top 10% of income earners are very low "as a result of evasion, avoidance, exemptions and deductions, as well as the preferential treatment of capital income, which in some countries is taxed at a lower rate than labour income and in others not at all" the report says. While the income rate tax actually paid by the top decile of the population in countries like Mexico, Argentina and Uruguay is around 8%-10%, in Honduras, Ecuador, Venezuela and Paraguay it comes down to under 4%. This leads ECLAC to state bluntly, "The weakness of income tax is the main structural problem facing the tax systems of Latin America".

"The weakness of income tax is the main structural problem facing the tax systems of Latin America."

CHILE

Trouble comes in threes

Chile is considered one of the least corrupt countries in Latin America. Yet all of a sudden there are three major cases in the headlines, and an embarrassed government is promising new measures to strengthen ethical standards.

The first case, known as the Caval affair, was revealed by the magazine *Qué Pasa* on 5 February. The state-owned Banco de Chile had lent US$10m to a company called Exportadora y de Gestión Caval. The money was used to buy and then re-sell land in Machalí, generating an almost overnight profit of US$5m. On the face of it, nothing illegal took place. But Natalia Compagnon, the owner of the company, is married to Sebastián Dávalos, the son of President Michelle Bachelet (meaning that the scandal has also been dubbed 'Nuera-gate' ['daughter-in-law-gate]').

The loan was made on 16 December 2013, only one day after Bachelet won the election that was to return her to the presidency for a second term (her first was in 2006-2010). And Dávalos, later to be appointed socio-cultural director of the presidency (an unpaid position running a charity), appears to have played a key role in securing the deal. It looked suspiciously close to influence peddling. The government initially tried to shrug it off as a "private transaction". But on 13 February, Dávalos resigned from his government role; on 23 February he and his wife Natalia also resigned from the Partido Socialista (PS), one of the five parties in the ruling centre-left coalition, Nueva Mayoría. President Bachelet, initially slow to respond to the scandal, has had to apologise and her approval rating has taken a sharp dip since.

Anti-corruption measures

The new presidential advisory council comprises 16 of the country's senior academics, economists and legal experts. It is tasked with drafting proposals to strengthen the country's legal framework in a bid to eradicate influence-trafficking, the abuse of power and corruption. Proposals aim to tighten up existing controls, draw up a new code of practice and establish appropriate sanctions for offenders. Separately, a bill to better regulate political party financing is before congress and the executive hopes for approval by late May. President Bachelet also has suggested a constitutional reform to create new sanctions for politicians found to have broken the law in the course of securing their elected posts.

If the first case is embarrassing for the government, the second and third ones paint the centre-right opposition in an unflattering light. The tax authorities and the courts have been investigating the large local firm Sociedad Química y Minera de Chile (SQM) and other companies for siphoning off illegal campaign contributions to the main right-wing party, Unión Democrática Independiente (UDI), historically closely linked to the 1973-1990 dictatorship led General August Pinochet. The SQM chairman is billionaire mining magnate Julio Ponce Lerou, the late Pinochet's son-in-law. By mid-March, up to a quarter of the company's US$6bn market capitalisation had been wiped out, as shares plummeted on news of the allegations. Three board representatives from Canada's PotashCorp, which holds a third (32%) of SQM, resigned after the rest of the board did not agree to their demand for "an exhaustive, transparent and independent investigation".

Linked to the SQM scandal and bigger in its ramifications is a third case, dubbed 'Pentagate'. In early March, four executives from the financial holding company Penta Group, along with a former government official, were arrested. Penta is a major Chilean financial services group, with estimated assets of US$30bn. Along with other officials, including two in the country's internal revenue service (Servicio de Impuestos Internos [SII]), they stand accused of tax fraud, bribery and money laundering. Those arrested include Penta's owners, Carlos Alberto Delano and Carlos Eugenio Lavín, who also had ties to the UDI. Prosecutors said that the Penta Group had "a culture of tax evasion" and had become "a machine to defraud the state". The UDI party president, Ernesto Silva, announced his resignation on 11 March due to his links to Penta, which came to light as part of the SII's audit of the company last year.

Ironically perhaps, according to the latest (2014) Annual Corruption Perceptions Index (CPI) compiled by the Berlin-based NGO, Transparency International, Chile is considered the fourth least-corrupt country in the Americas (behind Canada, Barbados and the US in that order). It is seen as having much higher ethical and legal standards than some of its neighbours, such as Brazil (ranked 12th in the hemisphere), Mexico (21st), Argentina (22nd) and Venezuela (which comes bottom of the regional ranking at 31st, just behind Haiti).

So there are at least two readings of the latest revelations. The first, simply, is that all countries suffer corruption. Three high profile cases coming together do not necessarily alter Chile's overall position in the rankings. Aldo Cassinelli, dean of the political science faculty at the Universidad Central de Chile, put forward a second interpretation. He told the (Argentine) website *Infobae*, "It is not that Chile is free from corruption and influence peddling. The difference is in how you react to specific cases. They can be hidden or confronted. In Chile's case they get confronted. Society exerts pressure and the political class, whether in opposition or in government, takes decisions".

According to this line of thinking, in Chile there is faster resolution of cases, with officials resigning or businessmen being investigated, than in many other neighbouring countries, where cases tend to drag on for much longer without resolution. For her part, President Bachelet has reacted by calling for a range of new anti-corruption measures. Henceforth, she wants officials and former presidents, including herself, to be obligated to make detailed declarations of their assets. The president has also set up a 16-strong commission (formally a 'presidential advisory council') under a respected local economist, Eduardo Engel, to report back with proposed anti-corruption measures within 45 days.

Tough outlook for industry

The Brazilian political and economic crisis is taking its toll on the industrial sector. The main problem is caused by low levels of consumer and investor confidence, reflecting the political crisis over corruption, at a time when fiscal austerity measures are restricting demand. Despite this, according to the national statistics institute (IBGE), industrial production rebounded by 2% month-on-month in January, the biggest gain in 19 months. Unfortunately, it looks more like a blip than a trend.

The month-on-month jump in January was driven partly by a 9.1% increase in capital goods output, led in particular by higher production of new trucks, after workers returned from holidays at various key assembly plants. Taking into account fairly steep falls in November and December 2014, overall industrial output in the rolling quarter to January was still negative. The annual rate was down a sharp 5.2% year-on-year over January 2014. Of the 79 sectors surveyed, 60 registered a fall in output. Among the worst performers was the car industry, with a decline of 18.2%. And in the rolling 12-months to end-January, output was down by 3.5%, the worst performance since 2010. Analysts also suggest that continuing structural problems, including poor logistics and infrastructure, have also played a part.

"The central bank (BCB)'s weekly survey of economists has continued deteriorating, with the BCB's latest (20 March) *Focus* consensus report suggesting that GDP will contract by 0.83% this year (with only a tepid rebound to just 1.2% in 2016)."

Consumer confidence fell to its lowest level since records began (in 2005) at the end of February, according to statistics from the Fundação Getulio Vargas (FGV). The FGV's consumer-confidence index polls 2,000 families in Brazil's seven largest cities. It measures their willingness to make purchases of various types of consumer goods and gauges expectations about employment, income and economic opportunities. Echoing this, official data from the IBGE on retail sales and employment levels is also pointing downwards.

Brazil's remarkable ability to maintain high levels of employment in recent years despite a steady slowdown in its rate of economic growth may also be eroding. According to data from two leading São Paulo-based manufacturing lobbies, Federação das Indústrias do Estado de São Paulo (Fiesp) and Centro das Indústrias do Estado de São Paulo (Ciesp), a total of 9,500 industrial workers lost their jobs in the state in February, bringing total job losses in the preceding 12 months to 150,500. Paulo Francini of the Fiesp/Ciesp economic research department warns that industry may not be able to rehire workers quickly, as it has in the past. "In 2010, we quickly recovered the jobs we had lost in 2009. Employment came back up in a relatively short time. In 2015 we are not going to quickly recover the jobs lost in 2014. The outlook for 2015 is negative". It is also the case that with reported severe delays in payments to companies implementing the government's infrastructure programme, Programa de Aceleração do Crescimento (PAC), February's job figures are expected to look grim.

Real down, interest rates up

On 4 March, one US dollar was briefly worth just over R$3, putting the Brazilian currency at its weakest level for over 10 years. It has since fallen to R$3.24/US$. The Real's fall in early March was attributed to the decision by the senate president, Renan Calheiros, to block the government's attempt to pass a tax-raising bill (ending the exemption on payroll taxes for certain businesses). Speaking to the daily *O Globo*, the economist Rodolfo Oliveira said, "the government is going to have difficulty with its fiscal adjustment and there will be political barriers in the way." While the Real was already weakening against the dollar, due to Brazil's deteriorating economic situation, political uncertainty is now undermining it yet further.

Since January, the Real has lost almost 15% of its value against the dollar. Although the new economic team, led by Finance Minister Joaquim Levy, is attempting a

process of fiscal retrenchment, the task is being complicated by Brazil's sluggish growth, rising unemployment and 7% inflation. As part of the austerity package designed by Levy, the government put forward a provisional decree for the quick approval of congress to eliminate a number of tax breaks. The proposal, due to net the government R$25bn (US$8.5bn), is one of several designed to reduce a budget deficit that almost tripled during President Rousseff's first term.

The government now is seeking other means of achieving its objective. Although congress can cause the executive a severe headache, the government can still pass significant cost-cutting and revenue-raising measures without the legislature's endorsement. According to the financial daily *Valor*, of the R$111bn in savings announced by the economic team, only 22%, or R$24bn, requires the explicit approval of congress. Still, other factors will affect the executive's ability to force through its programme, not least Brazil's overall economic performance and the significant possibility of social unrest.

Meanwhile, the central bank (BCB)'s weekly survey of economists has continued deteriorating, with its latest (20 March) *Focus* consensus report suggesting that GDP will contract by 0.83% this year (and with only a tepid rebound to just 1.2% in 2016). The consensus inflation forecast rose to 8.1%. If confirmed, this would be the highest level of inflation since 2004, when it topped 7.6%.

On 5 March, the central bank's monetary policy committee (Copom) raised the benchmark Selic interest rate again, by 50 basis points, taking it to 12.75%. The decision was unanimous and means that the Selic is now at its highest level since January 2009. The note accompanying the decision gave no further information as to the Copom's thinking. A majority of analysts believe that there will be a further rise in April. Inflation is running at an annualised rate of 7.14%, way above the BCB's target range of 4.5% +/- 2%.

"Society is tired of paying taxes" Skaf said...The industrial sector accounts for around 13% of Brazilian GDP, but contributes 33% of total tax payments."

Paulo Skaf, the Fiesp/Ciesp president, has commented that while the business community agrees with the government on the need for a fiscal adjustment, it doesn't necessarily agree on how it should be achieved. Skaf said he opposed balancing the books by increasing taxes, and instead favoured cutting public spending. "Society is tired of paying taxes" he said, noting that the tax burden had increased from about 10% of GDP sixty years ago to 37% now. According to Skaf, the industrial sector accounts for around 13% of Brazilian GDP, but contributes 33% of total tax payments.

One of the problems for Brazil's industrialists is that the political crisis itself creates uncertainty and delays for the fiscal adjustment package. According to the international ratings agency Moody's Investors Service, "Unprecedented low approval for a sitting president is likely to undermine the government's political standing in negotiations with Congress over an economic package that includes significant fiscal consolidation measures that we view as fundamental for arresting negative trend in Brazil's fiscal and debt metrics".

CUBA

What next for the banking sector?

The liberalisation of trade and investment flows between Cuba and the rest of the world is good news for foreign banks (from Spain, Canada, France and Trinidad & Tobago) already providing trade finance services through their representative offices in Havana. Some local Cuban banks and non-bank financial institutions involved with trade finance should benefit too. However, wholesale liberalisation of the banking sector is very unlikely until the authorities have identified a sustainable alternative to the complicated dual currency system and worked out how that alternative should be introduced.

In mid-March, press reports indicated that there has been progress in negotiations between the Cuban government and the Paris Club of 20 creditor governments (i.e. Russia plus 19 developed countries). The Cuban government stopped servicing its Paris Club debt in 1987, having renegotiated its debt payments for 1982-86 the previous year. The last negotiations, back in 2000, broke off without a result. The Paris Club reported that Cuba owed its members $35bn at the close of 2012, rising to US$37bn in late 2013. In late 2013, there were signs of tentative efforts again, with a Paris Club delegation reportedly travelling to Havana for exploratory talks. At the same time, Russia suddenly announced that it had reached a deal with Cuba to forgive some US$29bn of Cuba's Soviet Era debts, of which about US$20bn was Paris Club debt. (Under the deal, Russia agreed to forgive US$20bn plus interest, while Cuba reportedly would pay US$3.2bn over 10 years in settlement of the remaining 10%). Observers suggested that the unilateral move by Russia may have rankled with other Paris Club members. In any case, a year ago, in April 2014, news agency *Reuters* reported that talks between Havana and the Paris Club were beginning again.

"Since 2011, Cuba has restructured its debt with China, Japan (commercial creditors), Mexico and Russia, reworking its debt payment schedules. Should the new Paris Club negotiations result in further restructuring (and potentially a write down of some of the debt), this will improve Cuba's current account balance and give the government much greater access to global capital markets."

Bruno Bézard, director general of the French government's treasury, and ex officio chairman of the Paris Club, has suggested that Cuba's remaining debt owing to the Paris Club now amounts to around US$15-US$16bn, of which one third is owed to France alone. The negotiations are significant, because forgiveness of at least some of the debt is expected to be on the agenda for discussions between Cuba's President Raúl Castro and France's President François Hollande, when he visits Cuba in May.

Since 2011, Cuba has restructured its debt with China, Japan (commercial creditors), Mexico and Russia, reworking its debt payment schedules. Should the new Paris Club negotiations result in further restructuring (and potentially a write down of some of the debt), this will improve Cuba's current account balance and give the government much greater access to global capital markets. The fact that the negotiations are finally taking place can be seen as another step in the improvement of trade and investment links between Cuba and the rest of the world, including the US.

Other recent developments in Cuba have included a rise in the number of inbound tourists to over 3mn for the first time ever in 2014, visits to Cuba by US House of Representatives Minority Leader Nancy Pelosi (D-CA) and other US legislators, a US congressional bill seeking to lift the trade embargo against Cuba, and announcements by American Express, Mastercard and Netflix that they will extend their operations to Cuba. This all followed President Barack Obama's December 2014 executive moves to ease the embargo, including measures to facilitate trade and financial transactions between the two countries.

On 19 March, the president of the Inter-American Development Bank (IDB), Luís Alberto Moreno, noted that there remained some obstacles to Cuba's having a direct relationship with the institution. However, it is possible that President Castro's presence at the Summit of the Americas, hosted by the Organisation of American States (OAS) in Panama on 10-11 April, will be a prelude to Cuba's re-adhesion to the OAS, membership of which is a prerequisite for dealings with the IDB.

All of this could be positive news for international banks with a presence in Cuba already. Potential opportunities include trade finance, payments, transaction services (such as cash management and working capital management) and the handling of remittances. These banks are also well placed to assist foreign investors who want to take advantage of the gradual reduction in barriers to trade and capital flows.

As of mid-March 2015, the Banco Central de Cuba (BCC) identifies nine foreign banks with representative offices in Cuba. One of these is Havin Bank Limited, which was set up in 1972 as the UK-based international

banking subsidiary of Banco Nacional de Cuba (BNC). The activities of the representative office of National Bank of Canada (NBC) include trade finance and the provision of advice to clients in relation to investment in Cuba. The representative office of Spanish giant Banco Bilbao Vizcaya Argentaria (BBVA) has also been involved with trade finance and the funding of industrial projects in which foreigners have been investing. The representative office of Lebanon's Fransabank manages a portfolio of short- and medium- term loans.

The arrival in Cuba of other foreign banks has been more recent. In May 2002 Republic Bank, the largest universal banking group in Trinidad & Tobago, opened an office in Havana. According to the BCC, Republic Bank has been financing Cuban trade since 1999, through the discounting of bills, direct loans and the provision of letters of credit. Spanish group Bankia is also present in Cuba, having inherited the operations of Caja Madrid. Bankia owns 60% of Corporación Financiera Habana (CFH). Launched in late 1998, this was the first joint venture (JV) finance company in Cuba. The other shareholder in the JV is Cuba's Banco Popular de Ahorro (BPA). Although it is regarded by the BCC as a non-bank financial institution, CFH offers many trade finance products that are provided by the other banks with representative offices in Cuba.

In 2011, BPCE International et Outre-Mer (BPCE-IOM) opened a representative office to provide trade finance. BPCE-IOM is a subsidiary of France's second largest universal banking group, based on the cooperative banking networks of Banque Populaire and Caisse d'Epargne.

“Canada's Scotiabank opened a representative office in Havana in 2012, to focus on trade finance. Like Royal Bank of Canada (RBC) and Canadian Imperial Bank of Commerce (CIBC), Scotiabank has a broad footprint across the region.”

Canada's Scotiabank opened a representative office in Havana in 2012, to focus on trade finance. Like Royal Bank of Canada (RBC) and Canadian Imperial Bank of Commerce (CIBC), Scotiabank has a broad footprint across the region.

At the margin, some of the local Cuban banks and non-bank financial institutions will also benefit from the liberalisation process. The majority are involved in trade finance to some extent. Nevertheless, a quick look at the basic profiles of these organisations, as provided by the BCC, suggests that financial sector reform will be a much more gradual process than the liberalisation of trade and investment getting underway.

Most of these indigenous Cuban financial institutions were established in two waves. The first was in 1997 when, among much else, the central banking functions of the BNC were transferred to the BCC, a new institution; the BNC continued to operate as a commercial bank. The second was in 2002 in a series of further reforms

Further, most of the institutions have fairly specific objectives in terms of their activities, the currencies in which they operate and the (mostly corporate/institutional) clientele that they serve. The implication of this is that the financial system has evolved in an ad hoc way. Institutions have been launched or changed in response to (usually challenging) changes to Cuba’s financial environment. New institutions have been given fairly well defined objectives, so that they fit neatly within the centrally planned economy.

It cannot be coincidental that the foreign players present have only been permitted to open representative offices and are dedicated principally to the provision of trade finance. These are banks with a commitment to the Caribbean region, and who come from countries that are regarded by the government of Cuba as being friendly. Crucially, they can efficiently provide Cuban firms and foreign firms operating in Cuba with access to funding that would otherwise be unavailable.

In most respects though, the foreign banks on the island are not in competition with the Cuban banks. While some domestic sectors – like tourism – have been opened up to foreign participation, this is not true of the financial sector.

Who is who in Cuba's financial sector?

1. According to **BCC**, Banco Exterior de Cuba is the main local bank that specialises in international trade finance.
2. **Banco Industrial de Venezuela-Cuba (BIVC)**, which was set up in 2005, also offers trade finance products and processes remittances for Venezuelan diplomats (and other citizens) residing in Cuba. Interestingly, the BCC notes that the BIVC also participates in debt rescheduling operations.
3. The other seven institutions are quite diverse and, in general, have specific areas of focus. Aside from being the minority shareholder in CFH, **BPA** is the main savings bank in the country. According to the BCC, BPA served around 40% of the population in 2001, the latest year for which the central bank provides information.
4. The main commercial bank is **BNC**, which served as the central bank from 1948 to 1997, when most central banking functions were transferred to the BCC. BNC is still the agent for the government and the BCC in relation to their foreign currency debts. BNC has around 180 branches across Cuba.
5. **Banco de Crédito y Commercio (BANDEC)** is another major universal bank. Established in 1997, it serves enterprises, and provides accounts in national pesos (CUP), convertible pesos (CUC) and foreign currencies.
6. Set up in 1984, **Banco Financiero Internacional** operates mainly in foreign currency.
7. **Banco Internacional de Comercio**, which was established in 1993 serves state owned enterprises.
8. **Banco Metropolitano**, which was set up in 1997 serves embassies, foreign entities in Cuba and the people who work for them.
9. Since 1996, **Banco de Inversiones** has acted as a corporate advisor, trustee, custodian and agent in relation to investment deals.

One obvious reason is that it is not yet clear what will replace the current dual currency system. The authorities have said that currency unification is in the pipeline. However, very little is known as to the schedule or shape of the process.

The challenge for the authorities is two-fold. First, they must identify a new currency regime that will be sustainable. A currency peg, presided over by a formally constituted currency board, is one (but not the only) possible solution. (Latin American Economy & Business, July 2013). The government's improved access to global capital markets should facilitate the introduction of a currency peg, should the authorities wish to do so. The improvement in relations with the US means that the US dollar is a more acceptable foreign currency to which the peso can be pegged than was the case even six months ago. Given the potential for US-Cuba trade to grow, it is becoming a more logical currency as well.

The second thing is to work out is how to introduce any new system with minimal disruption to existing institutions designed to work in the context of the dual currency system. Neither the CUC nor the CUP serve as wholly satisfactory means of exchange nor units of account. Nor do they adequately perform the other key function of money – to act as a store of value. A rapid move to a situation where there is only one currency, and that currency is a store of value, could result in a massive withdrawal of deposits from the BPA, given that it is the main institution serving households. People would, for the first time, feel that they had money that could be spent. Given its status as the main commercial bank, the BNC would also in this situation be vulnerable to a run on deposits. It is unlikely that the more specialised commercial banks, which exist to serve (mainly) Cuban state-owned enterprises, would be unaffected either.

In short, the authorities cannot consider the question of how to reform the currency system without at the same time giving consideration to what sort of financial sector should exist in Cuba afterwards. The latest developments are consistent with greater trade between Cuba and the rest of the world, greater Foreign Direct Investment in Cuba, increased access of the government (and perhaps other Cuban entities) to global capital markets and, in all probability, stronger economic growth. However, real reform of the economy will only be possible when the dual currency system is replaced by something new. At that time, there will be very dramatic changes to the Cuban financial sector.

It remains to be seen to what extent Cuba's nine domestic commercial banks will be able to participate in the growth in trade.

In a similar way, the 17 non-bank financial institutions which are overseen by the BCC are quite specialised. Eleven are involved to some degree with trade finance.

Non-bank financial institutions

1. **FINCOMEX Limited** is the one of the oldest of these companies. It was incorporated in Jersey in 1997 to provide banking services to Cuban enterprises as a part of industrial restructuring (and, in particular, that of the sugar sector).
2. Since 1997, **RAFIN SA** has also been involved in trade finance. Its services include factoring and forfaiting (the discounting of commercial bills). RAFIN SA operates in free trade zones and industrial parks.
3. **FIMEL SA** provides financial engineering and business management services. It was established in 1998.
4. Set up five years later, **Gilmar Projects SA** performs a similar function, but operates in hard currency.
5. In 1999, **Novafin Financière**, a Swiss financial institution dedicated to trade finance, opened an office in Cuba.

6. **FINEXIM SA** was set up in 2010, expressly as a trade finance institution.

7. **Corporación Financiera Azucarera (ARCAZ)**, which was set up in 2002, provides a range of products and services to state owned enterprises in the agribusiness sector. It is authorised to operate in hard currencies.

8. **Financiera para el Turismo SA (FINATUR)** has been serving the tourism industry in a similar way since 1992.

9. A second company, **FINTUR SA**, has also been serving the tourism industry since 1994.

10. **CFH**, as noted above, was the first JV financial services business. It serves foreign companies that are looking to operate in Cuba.

11. Finally, **Financiera Iberoamericana SA** was established in 2002 as a 50:50 JV between Grupo Nueva Banca and Spain's Banco Sabadell. It provides a range of corporate banking services to Cuban entities.

12. Established in 1994, **Casas de Cambio SA (Cadeca)** is the institution which oversees the operation of the official currency market, in which the CUC is fixed at parity to the US dollar and in which the value of the CUP is determined by the forces of supply and demand.

13. **Grupo Nueva Banca**, founded in 1993, is essentially a financial holding company. It is the principal shareholder in Banco Internacional de Comercio and has close links to the various ministries and the state owned enterprises for which they are responsible.

14. As its name suggests, **Compañía Fiduciaria** is a trustee company. It is also a subsidiary of Grupo Nueva Banca.

15. **Financiera Cimex (FINCIMEX) SA** is incorporated in Panama. Since 1984, it has been authorised to handle remittances to Cuban households from outside Cuba. It is also authorised to operate as a card processing centre.

16. **Compañía Financiera** is an asset management company. It keeps hard currency accounts with Banco Financiero Internacional and Banco Internacional de Comercio. It was set up in 2002.

17. **RED SA** has run Cuba's ATM network since 2009.

BERMUDA

Off the floor in 2015?

Thanks in part to spending related to the 2017 Americas Cup, and in part to an upturn in construction, Bermuda's long recession may end in 2015. However, the strategic challenges facing the tourism sector and (especially) the International Business sector will remain substantial.

Chart 1: Economy of Bermuda - Selected Metrics

	2007	2008	2009	2010	2011	2012	2013	2014
Gross (re) insurance premiums (US$bn)	124.4	123.6	119.8	107.7	107.6	120.5		
Number of bed-nights sold by hotels/homes ('000)		1,679	1,437	1,442	1,430	1,414	1,681	1,408
Cruise ship visitors ('000)			319	348	416	378	340	364
Regular visitors ('000)			236	232	236	232	236	229
Gross addition to housing stock (units)				375	393	228	117	
Estimated value of new projects started (US$mn)				164	303	107	85	
Bank loans to residents (US$mn)		6,013	6,320	6,178	6,234	5,674	5,238	4,941
Retail sales index (2006=100)	104.3	106.0	102.1	97.3	94.2	94.7	94.6	96.2
Total employment				39,087	37,399	35,443	34,277	33,487
CPI Inflation (All items %)				2.4	2.7	2.4	1.8	2.0
GDP at current prices (US$mn)		6,110	5,806	5,744	5,551	5,538	5,574	
Real GDP Growth (%)		1.5	-5.3	-2.1	-3.3	-4.8	-2.5	
Net Public Debt (US$mn)		277	482	759	1,002	1,477	1,772	1,987

NB Real GDP growth in 2014 has been estimated at between 0.0% and -1.5%. The government is looking for an increase in real GDP of up to 1.5% in 2015.

NB Official unemployment rate of 9.0%

Source: *Ministry of Finance - National Economic Report of Bermuda 2014, 2015/16 Budget*

As a small and very open economy, Bermuda should have derived much benefit from the strong recovery in the US, with which it has strong links. However, the island has suffered from a long recession. There has not been positive GDP growth since 2008.

Relative to the island economies of the Caribbean, many of which have larger populations, Bermuda is wealthy (with a per capita GDP in excess of US$80,000) and diversified, in that it has a globally competitive International Business sector and a substantial tourism industry. The other key elements of the economy are construction and domestic consumption.

“Relative to the island economies of the Caribbean, many of which have larger populations, Bermuda is wealthy (with a per capita GDP in excess of US$80,000) and diversified, in that it has a globally competitive International Business sector and a substantial tourism industry. The other key elements of the economy are construction and domestic consumption.”

As **chart 1** shows, all four sectors have been contracting. Premiums written by the island's massive insurance industry, dominated by reinsurers focused mainly on property & casualty risks and offshore captive insurers, have stagnated. There were fewer cruise ship visitors in 2014 than in 2011 or 2012. The number of other visitors has been unchanged for years, and they stay for fewer nights on aggregate than in 2009, in the immediate aftermath of the global financial crisis. Construction, particularly residential, has slumped. Total retail sales in 2014 were about 4% below those of 2006. Total employment, on an island whose entire population is around 64,000, slipped from 39,087 in 2010 to 33,487 last year. In spite of expatriate workers (and some Bermudans) leaving to seek their fortunes elsewhere, the official unemployment rate is 9.0%. Given this grim environment, it is perhaps unsurprising that Bermudans have been paying down debt. Total bank lending to residents has contracted by about one fifth since 2011.

In his budget speech on 20 February last, Finance Minister Everard ('Bob') Richards said that the government would continue to follow a 'Two Track' economic management approach this fiscal year (ending in March 2016). The 'First Track' involves stimulating the economy; the 'Second Track' focuses on control and reduction of government spending. The government is looking for real GDP growth of between 0.0% and +1.5% to March 2016. This follows a contraction of similar magnitude over the past year.

In short, the government thinks that calendar 2015 should see a fresh revival of growth in Bermuda's economy. A major opportunity is the country's hosting of the 35th America's Cup in 2017, which it was awarded in December 2014. This is expected to result in additional spending of US$250m over the next three years, with another US$250n in infrastructure investment to support the event (including, for instance, the base for Team Oracle, the defending US champions). In addition, the tourism sector should benefit from the efforts of the Bermuda Tourism Authority (BTA) to gain certification as an official Destination Marketing Organisation (DMO) from Destination Marketing Organisation International. The BTA is also undertaking a number of initiatives to encourage visitors to spend more when they come to the island (see **chart 2**).

Various developments in the International Business centre are also positive. Bermuda is a leading domicile for catastrophe bonds and other insurance-linked securities (ILS). The Bermuda Development Authority (BDA) is promoting asset management and trust-related business. It is hoped that the development of a new Limited Liability Company (LLC) structure will encourage incorporations of enterprises in Bermuda. The BDA is also looking at the potential to attract life sciences/biotech companies and Canadian e-commerce companies to the island.

However, the strongest potential appears to lie in the construction sector. The completion of the King Edward VII Memorial Hospital has freed up capacity. Including the new infrastructure needed for the 2017 Americas Cup, projects worth almost US$1bn should get underway over the next two years or so. This includes a proposed public private partnership (PPP) deal to build a new US$255m new terminal at the main airport. All this activity is in the context of an overall economy that is around US$5.5bn in size.

Chart 2	Opportunities	Challenges
Tourism	America's Cup 2017 - estimated US$250mn in spending over three years	Long term decline in visitor numbers
	Bermuda Tourism Authority: seeking DMO certification	Decline in visitor spending
	Initiatives to encourage tourists to spend more	
Construction	St Regis - St George's US$140mn over 2-3 years	Completion of King Edward VII Memorial Hospital
	Ritz Reserve US$160mn over 2 years	
	Hamilton Princess Phase II US$40mn over 2 years	
	Pink and Sinky Bay Beaches US$35mn over 1-2 years	
	Ariel Sands colony development, US$50mn over 2 years	
	America's Cup infrastructure US$250mn over 2 years	
	PPP for US$255mn new airport terminal	
	Expanding Tynes Bay Waste Management Facility	
	Upgrading of airport runway	
International Business	Bermuda Development Agency: promoting asset management and trust & private client business	Contraction of global reinsurance premiums
	Creation of new Bermuda Limited Liability Company (LLC) encourage incorporations	Low interest rates compressing (re)insurers' investment earnings
	Potential investment by life science/biotech and Canadian E-Commerce companies.	
	Insurance-linked securities (ILS)	

In the meantime, the structural challenges confronting the government and other decision-makers remain considerable. The long-term decline in visitor numbers and spending suggests that Bermuda is not seen as being good value for money by US and Canadian tourists. These are the two key markets, accounting for 71% and 13% of overall arrivals respectively in 2014, according to the BTA. There has been strong growth in arrivals from Europe (outside the UK), but such visitors account for only about 3% of the total.

More crucially, there is downwards pressure on prices and profits in the global reinsurance market (and in many national property & casualty markets). This is due to extremely low interest rates, which affect the (re) insurers in two ways. The direct impact is to make harder for insurers to maintain and grow investment income. The indirect impact is that hedge funds and other institutional investors have increasingly seen ILS as attractive investments (not least because their returns are not correlated with those of other asset classes). The result of this is that there is an overcapacity (i.e. a surfeit of capital) in the global reinsurance market, which likely will remain. ACE Limited, one of the world's leading property & casualty insurers and a member of the Association of Bermuda Insurers & Reinsurers (ABIR), reported that its gross reinsurance premiums written fell from US$1.06bn in 2013 to US$994m in 2014. XL Group plc, another ABIR member, noted that its reinsurance premiums dropped from US$1.89bn to US$1.71bn. Minister Richards noted in his budget speech that reinsurers had responded to the challenging conditions through a wave of mergers, in order to maximise economies of scale. This has not been good news for Bermuda, as the fortunes of its International Business sector depends on the number of insurers who are active, as well as on the quantity of premiums written.

The 'Second Track' of the government's policy has been to rein in spending, in order to move towards a balanced budget. This task has become more important in recent years as the government's debt burden has risen. Net public debt has gone from US$277m in 2008 to US$1.9bn as of end-2014. The overall debt burden is still at a manageable level, relative to the economy and the government's revenues. However, the government is keen to ensure that this remains the case.

Chart 3: Government of Bermuda Budget (US$m)		
	2014/15	2015/16
Revenue	901.7	931.3
Current Account Spending*	945.8	912.7
Current Account Balance*	-44.1	18.6
Interest on Debt	113.5	117.6
Current Account Balance less Debt Interest	-157.6	-99.0
Sinking Fund Contribution	47.7	52.3
Surplus Available for Capital Spending	-205.3	-151.3
Capital Spending	62.0	52.3
Budget Surplus (Deficit)	-267.3	-203.6

*Excluding debt service and sinking fund contribution

The government thinks that its borrowing requirement in 2015/16 will be US$125m, amid an overall deficit of US$220m, less money available in the government's sinking fund. Total debt servicing costs in 2015/16 are calculated to be US$170m: this includes interest payments of US$118m and sinking fund contributions of US$52m. In the context of current spending for all other purposes of US$912m, this means that debt service is already substantial.

As **chart 3** indicates, a key policy associated with the 'Second Track' is an increase in current revenues, from US$902m in 2014/15 to US$931m in 2015/16. This rise should be due in part to the anticipated growth in the economy. It is also due to a range of tax increases. Payroll tax rates will be increased for both employers (by 0.5% to 14.5%) and employees (by 0.25% to 5.5%). Land Tax will be boosted by a lift in the rate on Annual Rental Values (ARVs) for commercial properties from 4.4% to 5.5%. The Corporate Service Tax Rate is rising from 6% to 7%. The departure tax for each passenger using the airport will be lifted from US$35 to US$50. Various fees for Department of Marine and Ports' services will also be increased. Taking a longer term view, the government has requested technical assistance from the Caribbean Regional Technical Assistance Centre (CARTAC), a regional organ of the International Monetary Fund (IMF), to broaden the tax base.

The government is also hoping to reduce current expenditure from US$946m in 2014/15 to US$913m in 2015/16. In his budget speech, Minister Richards warned that these cuts may involve public sector lay-offs. If such lay-offs occur, they will represent a major change. To date, much of the retrenchment since 2008 has been in the private sector. The government, for its part, had reached an agreement with the public servants' union for workers to take a monthly 'furlough', one day of unpaid leave. However, this agreement expires at the end March and the current union leadership has shown no appetite for extending the 'furlough', in spite of the government's argument that it saved public sector jobs. This is in the context of a 20% increase in the overall number of public servants since 2007, even as the economy has stagnated.

Measures announced by the government so far to reduce spending include: cutbacks to financial assistance; changes to the health insurance plan for government employees, a suspension of some of the government's contributions to the Public Service Superannuation Fund; a hiring freeze (including the elimination of vacant posts); the curtailment of some public services; and the extension of the early retirement eligibility plan to public servants aged 55, down from 60 currently.

In short, economic activity in Bermuda in 2015/16 will be boosted by a one off surge in construction (which is only partly related to the 35th Americas Cup). It remains to be seen whether or not the latest BTA initiatives can counter the tourism sector's slow decline. Meanwhile, the outlook for the International Business sector in general, and the (re)insurers in particular, remains challenging. Until structural issues like the over-supply of capital in the global (re)insurance industry are resolved, it will be difficult for Bermuda's economy to achieve anything other than pedestrian rates of growth. This, in turn, will make it harder for the government to balance its budget– which is necessary if it is to reduce the debt burden.

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