CANNING HOUSE EDITION

latin american **economy & business**

September 2018 - EB-18-09 ISSN 0960-8702

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This edition of *Latin American Economy & Business* has been produced for Canning House Corporate Members by LatinNews (www.latinnews.com).
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Venezuela's surreal red package

Venezuela's descent into hyperinflationary chaos accelerated in August. A set of economic measures announced on 17 and 20 August, known as the 'red package', was intended to turn the economy around and put it on the path to recovery. But with analysts describing the measures as "incoherent" and even "surreal" there seemed little chance of a change in direction: subsequent announcements have caused additional uncertainty.

The announcements in the second half of August were dramatic. A move to legalise foreign currency markets implied a 96% devaluation of the currency, at least relative to one of the old multiple exchange rates; a new currency, the Bolívar Soberano, was launched, removing five zeroes from the old denomination. The new currency is supposedly backed by the Petro, Venezuela's oil-linked crypto currency (which, as we mention below, may not actually exist). Prices for 25 essential commodities were frozen. At the same time the minimum wage was increased by 3,000%, and, although short on details, a plan was announced to increase Venezuela's massively subsidised petrol prices. In an attempt to reverse the decline in oil production it was announced that PDVSA, the state oil company, is to be tax exempt. The general idea behind the red package appears to have been to inject some purchasing power into the economy, allow for a more realistic exchange rate, and try to boost the oil sector, the only part of the economy capable of earning foreign exchange. Independent economists were unconvinced that it would do the trick, particularly as there was no sign of change in the government's long-standing policy of running a massive fiscal deficit and simply printing money to cover it – regarded as the main engine driving the hyperinflationary explosion.

Further details emerging at the end of August and in the first days of September increased concern. The government said it planned to use the *carnet de la patria* ('motherland card') to allocate scarce resources. The card is essentially a political instrument as it has been distributed mainly to government supporters. It was announced that effective from 1 September state pension payments will be made online, and only through the carnet de la patria website from where funds will be moved to 'digital wallet' for each pensioner. There are about 4.3m pensioners in the country. Emilio Lozada, president of the Venezuelan pensioners' association, has described the initiative as "criminal" since it "causes uncertainty and confusion among the elderly who are not familiar with technology". The association argues that eligibility for pensions payments should continue to be linked to traditional identity cards.

The carnet de la patria also is set to play a key role in petrol pricing. On 1 September President Nicolás Maduro said that a new petrol price would be introduced in 41 municipalities along the border with Colombia, and that it

would be set at "above" the international price, to discourage petrol smuggling into the neighbouring country. The implication was that the new higher prices will then be rolled out across the country, with a lower, subsidised price available only to holders of the motherland card. What the two prices will be, and consequently the size of the differential between them, has not yet been announced. The average, massively subsidised price of petrol in Venezuela is about 1 US cent a litre (the cheapest in the world), compared with 77 cents in Colombia and 83 cents in the United States. There are strong long-term arguments for bringing domestic prices closer to international levels, but an abrupt short-term adjustment could be like the application of shock treatment for a critically ill patient: highly risky.

One of the more bizarre crisis measures has been the announcement that the government will begin selling non-interest bearing 'gold certificates' to savers. Each certificate is said to represent 2.5 grams of Venezuelan 'sovereign gold'. They are being issued by the central bank and can be exchanged for the *bolívar soberano* 90, 180, 270, or 365 days after purchase. Explaining the measure Vice President Tareck El Aissami said he was calling on "workers, pensioners and the Venezuelan family to join the Gold Savings Plan". One explanation is that faced by a massive loss of confidence in both the old and the new currencies, the government is eager to give the impression that it has stronger, more reliable means of exchange such as the crypto-currency Petro and the gold certificates.

However, many see this as no more than a confidence trick. An investigation by *Reuters* news agency has suggested that the Petro doesn't really exist at all. Maduro announced the Petro's launch in February, saying it was backed by 5bn barrels-worth of oil reserves in a 380 square km area around Atapirire, a small village in eastern Venezuela. But a team from the news agency found no efforts are being made to develop those deposits. Maduro has claimed that sales of the Petro have raised US$3.3bn, but this was contradicted by a cabinet minister, Hugbel Roa, who said the technology behind the Petro was still in development and that "nobody has been able to make use of the Petro…nor have any resources been received". The Superintendence of Cryptoassets, the government agency set up to regulate the Petro, does not appear to have offices in the finance ministry or in any other physical location; its president did not respond to requests for information. As for the government's claim that prices are now anchored by the Petro, Alejandro Machado, a Venezuelan computer and crypto-currency expert, told *Reuters* "There is no way to link prices or exchange rates to a token that doesn't trade, precisely because there is no way to know what it actually sells for." Former petroleum minister Rafael Ramírez said it would take at least US$20bn, which the government does not have, to develop the Atapirire oil reserves, commenting "The petro is being set at an arbitrary value, which only exists in the government's imagination."

In the real economy, meanwhile, everything points to a worsening situation. On 31 August the authorities said 131 people had been arrested on charges of sabotaging the red package. They included managers of retail chains accused of "speculating and hoarding basic products". Arcos Dorados, the company that holds the McDonald's franchise in Latin America said it was closing some of its Venezuelan outlets (reports suggested seven out of a total of around 120 were being shut down). The government seized control of Irish cardboard box manufacturer Smurfit Kappa, after charging it with speculation and destabilising the economy. The opposition controlled congress (Asamblea Nacional – AN) said inflation in the last week of August alone had exceeded 50%, and would be somewhere between 400% and 500% in the month. New power cuts halted public transport in Caracas.

BOLIVIA

The rise of the high-rise: construction and real estate trends

As airplanes prepare to land at El Alto airport, passengers stare in awe at a colourful cluster of apartment blocks, amidst an ocean of dirt roads and adobe houses. Made up of seven twelve-story towers, Condominio Wiphala was officially inaugurated by President Evo Morales in February 2016. This landmark social housing project was the first of its kind in El Alto, a sprawling city which lies next to La Paz, Bolivia's administrative capital. Adorned with enormous murals designed by Mamani Mamani, a renowned local artist, the project has also become a tourist attraction of sorts.

Eight hundred and fifty kilometres to the southeast, an infrastructure project covering 180 hectares has been under development for the past four years. Playa Turquesa is no social housing initiative: its main selling point is its 14-hectare artificial lagoon, which promises to become the second-largest of its kind in the world. Considering Bolivia is a landlocked country, the idea of living next to an artificial beach is curious to say the least, but this has not stopped members of Bolivia's growing economic elites, many of whom have readily taken the bait.

Condominio Wiphala and Playa Turquesa can appear antipodal, both geographically and in terms of the social segments that will come to populate them. Yet they share one important feature: both are the product of a real estate and construction boom which has been underway in Bolivia over the past decade. This article explores the drivers behind these trends, and outlines key figures which help to understand it. It then addresses some of the challenges in sight: is this a bubble about to burst, or will the stratospheric ascent of construction achieve a soft landing?

Public investment, private development

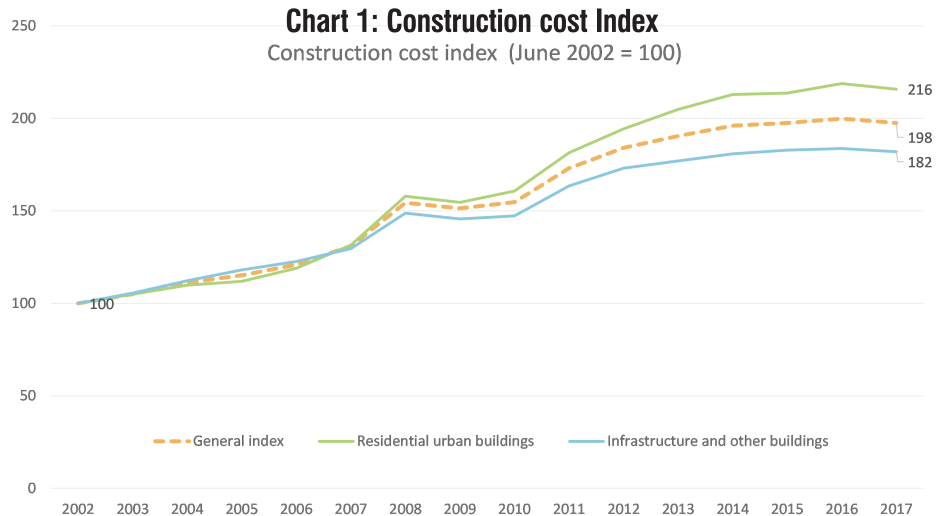
The previous major construction boom in Bolivia took place during the government of General Hugo Banzer Suárez, whose military dictatorship lasted from 1971 to 1978. The country was undergoing a period of sustained economic growth driven by high mineral prices, and investment was further sparked by plentiful foreign credit. Notwithstanding Bolivia's growing indebtedness, which would burden the country for decades to come, these conditions spurred large public construction projects, a trend also reflected in the private sector. Tall apartment blocks sprouted up across La Paz, while new motorways and infrastructure development fuelled the rapid expansion of the lowland city of Santa Cruz.

Fast forward to 2006, the country was about to enter a new period of accelerated economic growth. One of the first measures taken by President Evo Morales after assuming office was the nationalisation of the hydrocarbon sector. This move massively increased public oil and gas revenues from US$674m in 2005 to US$5,489m in 2014, the year in which this source of income reached its peak. GDP grew almost fourfold, from US$9.5bn in 2005 to US$37.5bn in 2017 (at current US dollars), averaging an annual increase of 4.9%.

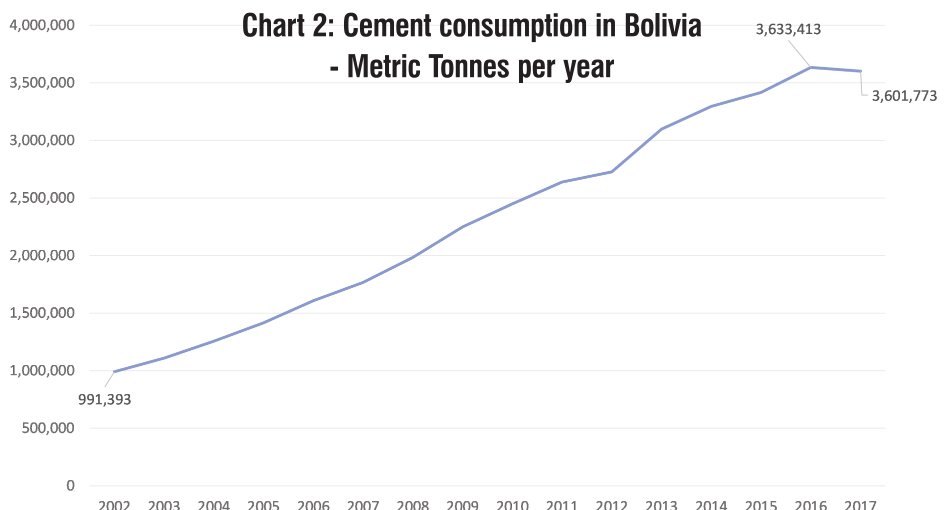
Public investment rapidly exploded in line with Bolivia's newfound wealth, and private spending and investment followed suit, as it had done thirty years earlier. Construction and public works grew at an even faster pace than GDP, from US$244m in 2005 to US$1.1bn in 2017, an increase of 453%. Correspondingly, the total value of construction as a share of GDP rose from 2.2% in 2005 to a peak of 3.2% in 2016.

Given the growing demand for private and public infrastructure, construction costs have been steadily increasing. While part of this trend can be attributed to the rising price of construction materials, it is arguably more closely linked to labour costs. Manual construction work has been a traditional source of employment for rural migrants to urban areas, as well as unskilled workers. The minimum wage has increased more than fourfold from 2005 to 2017, directly impacting a large portion of workers in the construction industry, which in 2017 made up 9% of the country's labour force.

The following chart is indicative of the demand for different segments of this market. The sharpest increase across the board took place between 2007 and 2008, but over the following years there was a bifurcation in these indices, suggesting a larger increase for residential urban construction compared with other types of infrastructure. Much of this is likely due to small and medium-sized construction projects in metropolitan centres such as La Paz, whose houses in many residential neighbourhoods are rapidly being replaced by multi-story apartment blocks.



A recent driver of economic activity in residential construction and real estate has been the promulgation of Law 393 in 2013, which regulates interest rates for mortgages deemed to promote social housing. Prospective new homeowners buying property (whose cost does not exceed c.US$150,000) can apply for loans in Bolivianos (US$1=Bs6.96), at rates between 5.5% and 6.5%, two to three percentage points below standard commercial rates. These mortgages can cover the full price of these properties, opening up the market to those whose savings do not allow them to put forward initial down-payments. Certain mortgage requirements have also been relaxed, allowing many borrowers to prove their creditworthiness despite not having a formal source of employment. The law further requires



Charts based on data provided by Bolivia's National Institute of Statistics (INE)

the banking sector to allocate at least 60% of their portfolios to productive and social housing loans. By June 2018, 58,538 families had benefitted from these mortgages, for a total of US$2.2bn, representing approximately 38% of the US$5.8bn housing loan market. Census data further provides clues about the trajectory of home ownership in Bolivia: in 2001, 67% of Bolivian families were homeowners, rising to 70% in 2012.

Yet some data indicate that many of these construction trends may have already peaked. Cement consumption is a key indicator for total activity in the sector, and it is a remarkable fact that 2017 registered the first decrease in over 15 years, marginally going down to 3,601,77 tonnes, from a peak of 3,633,413 tonnes in 2016. This is further corroborated by the fact that new construction permits granted went down from 6,770 in 2016 to 5,841 in 2017, a 16% decrease.

The number of registered companies in Bolivia increased roughly in line with the number of construction firms from 2010 to June 2018 (264% vs 266%). However, the proliferation of estate agents has outpaced this trend, growing by 414%. These figures suggest that compared with construction, tertiary markets for real estate sales and lettings remain comparatively buoyant. A record year was recorded in 2013 in terms of company registration, with 6,048 new construction firms and estate agents, compared with 2,407 in 2017, further implying a slowing tendency.

Cementing construction growth

Construction projects have become a ubiquitous sight across Bolivia's metropolitan regions, particularly in the residential sector, and there has been an explosion in new and existing properties listed for sale. Despite the conspicuous dynamism of these sectors, there is scant information regarding trends in property prices, and a significant part of commercial activity has arguably been based on speculation and intuition.

Researchers at the Bolivian Central Bank (BCB) have attempted to construct rudimentary price indices, partly motivated by the need to identify possible market bubbles. One study ranging from 2002 to 2012 (based on newspaper listings) estimated that asking prices for houses and apartments increased by over 250% in the country's three main cities during this period. A later study, based on these same cities, found a 42% increase in apartment prices, and a 74% increase in house prices, in the four-year period starting 2011. More recently, UltraCasas, an online portal where sellers can list their properties to let and sell, points towards a significant slowing, and even reversal in these trends, from December 2015 to March 2018. Prices in La Paz have decreased by 1%-2%, whereas in Santa Cruz only apartment prices have increased by around 5%, while prices in the market for houses appears to have remained stagnant. There is no consistent methodology across these indices, and they merely reflect property asking prices, with no reliable aggregate register of final transactions. Javier Delgadillo, the vice minister for housing, recently remarked that putting together an "observatory" is a key priority for this sector.

There is substantial, though not conclusive, evidence that growth in the construction sector reached its peak around 2016, and has begun to linger and sway towards contraction. Available data do not indicate a sharp decrease, but rather points towards a gradual slowing of activity levels which nonetheless remain high. Data regarding property sales are more ambiguous, yet there are signs that demand is not meeting the plentiful supply at current prices, and that slight real-estate price decreases are beginning to show. Public investment has traditionally been a source of fuel and confidence in the Bolivian economy, and President Morales recently announced it would reach a new high of US$7.49bn in 2018, a 48% increase on 2016, the current record-holding year. Yet markets may be showing early signs of uncertainty regarding the outcome of Bolivia's upcoming general elections in October 2019. History tells us that if there is something Bolivian investors fear more than slowing economic growth, it is political instability.

MEXICO

US-Mexico deal not the full Nafta

A major breakthrough – or just another step in a long, complicated, and unfinished story? Broadly speaking, that was the reaction to the announcement on 26 August that Mexico and the United Stated had reached an agreement on renegotiating their trade rules, which they hoped Canada, the third member of the North American Free Trade Agreement (Nafta) might also be able to sign up to.

From Mexico's point of view, the announcement can be given some positive spin. Ever since the election of US President Donald Trump there has been deep uncertainty over the future of bilateral trade between the two countries, a major negative for the Mexican economy. Settling the dispute should give a degree of security to local business. It also means that outgoing President Enrique Peña Nieto may be able to sign a two- or three-way deal by November, clearing the way for incoming President Andrés Manuel López Obrador (AMLO) to be sworn into office on 1 December with one fewer foreign policy problem to worry about (AMLO has made it clear he wants to concentrate on domestic policy issues such as tackling poverty and crime). A smoother transition in December is important (indeed, the peso rallied on news of the deal).

There is, however, a powerful argument in the other direction, with two main points. First, although details have not been revealed, there is much to indicate that the deal is actually quite bad for Mexico. Second, there is also a fear that it is far from done yet: Canada is unhappy with the terms on offer and even if a separate US-Mexico pact is signed (something Trump says he would favour) the US Congress could conceivably refuse to endorse its terms during the course of 2019.

The details of the deal have not been officially confirmed, but there have been extensive leaks. The automobile industry has been at the heart of the talks. The agreement reportedly increases the Nafta local content requirement from 62.5% to 75% of the value of each vehicle. In addition, nearly 50% of regional content must come from plants where workers earn at least US$16 an hour. Since the average Mexican manufacturing wage is US$2.30 an hour, this part of the deal will provide a strong incentive for the car companies to relocate operations back to the US or Canada – exactly what Trump has been seeking. In addition, *Reuters* news agency reported that a side-letter establishes that the US will still be able to impose punitive 25% 'national security' tariffs on imports of Mexican cars, SUVs, and components that exceed certain quotas. Last year Mexico exported nearly 1.8m vehicles to the US: the quota is reported to have been set at 2.4m, while the quota for components is set at US$90bn. Mexican economy minister Idelfonso Guajardo defended the deal in comments to a local radio station, saying that on top of current exporting capacity, negotiators had put in room for "an additional 40% of growth".

But Mexican steel makers association Canacero, which has been complaining of the imposition of so-called 'Section 232' 25% steel tariffs on its exports by the US (this is the legislation that allows the US to cite national security considerations) said any Nafta deal should exclude such punitive measures. In a statement Canacero said "It's difficult to understand how Mexico could accept updating Nafta without resolving the problems created by the application of the measure under Section 232."

The less positive outlook for Mexico is that uncertainty will not be dispelled. Given substantial differences between the US and Canada, the negotiating process could be further delayed. And any bilateral or trilateral deal will have to be ratified by the US Congress, which may prove to be less cooperative with the Trump White House after the US mid-term elections in November.

MEXICO

Questions over AMLO's Maya train project

Presidents often have pet projects. For Mexico's outgoing Enrique Peña Nieto it has been the US$13bn-plus new Mexico City international airport. President-elect Andrés Manuel López Obrador (AMLO) doesn't share that enthusiasm. He has questioned its value and suggested that there should be a public consultation in October on whether to drop it. But is AMLO's alternative – a US$6.2-US$7.8bn tourism-focused rail project in the Yucatán peninsula, known as the Tren Maya – going to offer better value for money? Opinions are divided.

AMLO, who takes office on 1 December, is upbeat about what the Tren Maya may be able to offer. He initially spoke of a 900km rail link running through the states of Quintana Roo, Chiapas, and Tabasco. But by August the specification had expanded to include Campeche and Yucatán and to take the total length up to 1,500km. The President-elect says the proposal is for a "modern, cultural and tourism-oriented" rail service, to help develop one of the poorest regions of the country, which, because of its rich Maya indigenous history, is also "one of the world's most important cultural sites". The train is intended to link various big tourist attractions including Cancún, Tulum, Calakmul, Palenque, and Chichen Itzá. AMLO has said the government will use revenue from the tourism tax – around US$367m a year – as its contribution to fund the project. That will not be enough, so the intention is to attract private sector partners though a concession bidding process that is to be launched on 1 December, his first day in office. With that quick start, AMLO hopes the whole project may be completed during the first four years of his six-year term in office.

Reactions have been varied. One of the issues is financing. Pablo Azcárraga, president of tourism industry lobby Consejo Nacional Empresarial Turístico, has complained that the proceeds of the tourism tax are needed to promote Mexico as an international destination. "Trying to finance a train by taking funds away from the tourism industry would put us in a real squeeze; it

could kill us," he said. A more optimistic view came from José Manuel López of the Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo (Concanaco) who said its members were interested in what the project could deliver but that efforts should be made to look at other sources of finance. Concanaco thinks local farmers could use the train to ship their produce to markets elsewhere in Mexico.

A big concern is environmental. The proposed path of the railway line crosses through the Calakmul Biosphere Reserve as well as through tropical rainforest. It also will cut through areas inhabited by indigenous communities and through cooperatively owned land (known in Mexico as *ejidos*). Negotiating land rights could be complex, although the plan is for part of the tracks to be laid on the route of the old southeast railway, where the government already holds the right of way. Mexico anthropology and history institute INAH (Instituto Nacional de Antropología e Historia) says it will advise on how to protect ancient Maya ruins and sites of archaeological value and that when necessary to protect them, the route will be modified.

Various analysts have said that to maximise revenues the Tren Maya should be a mixed passenger and freight operation. It has been suggested it could carry tourists during the day and freight during the night. However, at the moment the Yucatán peninsula is a net importer of freight flows from the rest of the country, meaning there would be unused capacity on the return leg. Enrique Rico of Spanish engineering consultancy IDOM says combined passenger and freight services are often used in Europe, but it is important to get the engineering balance right in terms of train speeds, gradients, and other features. Rico also warns that building a 1,500km train route is a complex project and is more likely to take five or six years: getting it done in four years will be a stretch. Typically, he says, the big cause of delay is the time it takes to deal with land issues and to negotiate the necessary rights of way.

Also worth considering is the country's track record on projects of this type. Although experts agree that investment in rail has a critical role to play as a cost-effective transport mode in Mexico's future development, the country's recent record on delivering projects has not been good. The current government had earlier proposed building a shorter 278km railway in Yucatán, but abandoned it amidst enforced budget cuts. In addition, a high-speed rail link between Mexico City and Querétaro was abruptly cancelled in 2014 amid concerns over corruption, to the anger of the Chinese consortium that had already won the contract. Eduardo de la Peña, an infrastructure specialist at Deloitte Mexico, says "These infrastructure projects can be a great success or a total failure. Everything depends on how they are structured. Yes, it could change the economy of the southeast of the country in the next ten to 15 years, but the government has to be very careful over how it involves the private sector."

ARGENTINA

Another wave of the currency storm

At different points in the last few decades a long list of Argentine presidents and ministers have tried to draw a line in the sand, defending the national currency against waves of apparently remorseless speculative attack. It usually hasn't ended well. President Mauricio Macri undertook the latest defence of the peso on 29 August; while the currency markets have now calmed a little, the government remains under pressure.

Argentina seems to have had more currency crises than other countries have had hot dinners. Over the years those who have tried to face down the markets have sometimes found their reputations destroyed in the process. One of the most memorable phrases was uttered on national television in

Further measures announced

On 3 September President Macri and finance minister Nicolás Dujovne announced further measures designed to try to build confidence. There will be a new export tax and a further round of government budget cutbacks, including a 50% reduction in the number of ministries. The tax is to be set at 4 pesos per US dollar's-worth of primary exports (nearly 10% of value at current exchange rates) and 3 pesos per US dollar for all other exports, and would raise additional funds equivalent to around 1.1% of GDP in 2019. Dujovne said the government would now aim for a balanced primary budget in 2019 (excluding interest payments) and a surplus equivalent to 1% of GDP in 2020. Commenting on the measures Macri said "We know it's a bad, terrible tax that goes against what we want to foster: more exports to create more quality jobs... but it is an emergency."

1981 when a hapless economy minister, Lorenzo Sigaut, pronounced "those who bet on the dollar will lose". His bravado was spectacularly counter-productive. Almost immediately Argentines rushed out to buy more dollars and the national currency lost 30% of its value in a matter of days.

Fast forward more than thirty years and it seems that the story hasn't changed very much. The peso has been losing value since April. A record US$50bn stand-by agreement signed with the IMF in June – the largest in Argentina's history – did not fully turn the tide. A new speculative sell-off on 29 August cut the currency's value by 8%. There was a further 13% plunge on 30 August. That brought the total year-to-date decline against the US dollar to 51.7%, a steeper drop than that suffered by another troubled emerging markets currency, the Turkish lira (down 42.9% in the same period).

The government tried to hold back the onslaught. On the 29th President Macri posted a two-minute *YouTube* video announcing plans to bring forward disbursements of the IMF credit. The message was designed to calm the markets, but had the opposite effect. The next day – which is now already known as 'black Thursday' – the central bank announced a crisis 15 percentage-point increase in is benchmark interest rate, taking it from 45% to an unprecedented 60%. It was not until Friday (31 August) that the peso began to rally. Macri's reputation has not been destroyed, but the credibility of his economic programme and his hopes of re-election in 2019 have both taken a bad knock.

What went wrong? There are various answers. One is that Macri's 'gradualist' approach to correcting the big economic imbalances he inherited in 2015, including a massive fiscal deficit, which the markets initially supported, has lost favour as investors have pulled away from emerging markets. Other factors have also been in play. The worst drought in three decades has cut Argentina's export earnings this year. The discovery of a public works corruption scandal, even though it took place under the previous government, has had a present-day negative impact on the construction sector and on confidence levels. Some analysts point to the country's heavy borrowing from 2016-2017, which created an artificially strong peso. Alberto Ramos of Goldman Sachs told *Bloomberg*, "It is important to say that the Macri administration did not create the problem. This is the cost of the populist experiment he inherited. But the price of gradualism is that you depend on the kindness of strangers. Market sentiments change and that leaves you vulnerable, and then your only option is to adjust under duress."

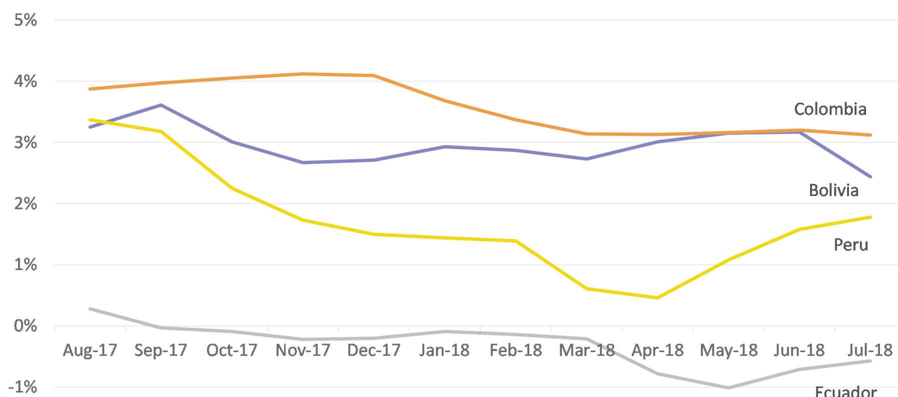
There has also been criticism of the government's short-term crisis management. Interior, public works and housing minister Rogelio Frigerio has acknowledged there were what he called "unforced errors". Macri's announcement that the stand-by disbursements would be brought forward appears to have initially caught the IMF by surprise, and there was confusion for several hours. Strategy has not been consistent (the central bank cut interest rates as recently as last January). One report spoke of "a mix of bad luck, bad communication, and confusing policies". The price of these tactical errors is likely to be higher in Argentina than in other countries, because there is such a strongly embedded history of previous currency and payments crises: the disastrous 2001/2002 default and devaluation is vividly remembered.

In response to the sharp increase in interest rates, consultancy Capital Economics made three points. These were first, that the government has significant foreign debt repayments falling due this year, particularly in November; second, that the government will need to rebuild shaken investor confidence in its ability to meet the fiscal targets agreed with the IMF; and third, that Argentina's fiscal and current account deficits mean that it will remain "extremely vulnerable to swings in investor risk appetite".

ECONOMIC HIGHLIGHTS

ANDEAN COUNTRIES

Andean Countries: Inflation rate (%)
Percentage variation (year-on-year)



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

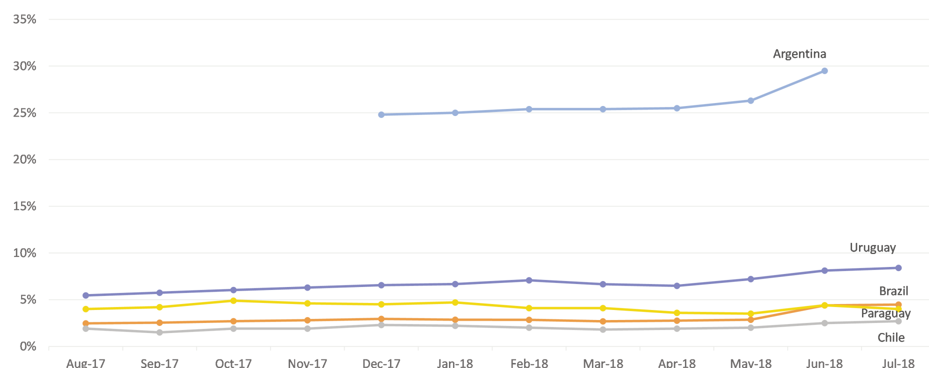
Andean Countries: GDP growth (%)
Quarterly figures are year-on-year growth

GDP	end 2017*	2018 forecast**	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Bolivia	3.9%	4%	3.9%	Not available yet	Not available yet	Not available yet
Colombia	1.8%	2.6%	1.3%	2%	1.6%	2.2%
Ecuador	1%	1.3%	3.3%	3.8%	3.0%	Not available yet
Peru	2.5%	3.5%	2.4%	2.5%	2.2%	3.2%
Venezuela	-9.5%	-5.5%	No data	No data	No data	No data

**Figures from the United Nations Economic Commission for Latin America & Caribbean December 2017*
***Figures from the United Nations Economic Commission for Latin America & Caribbean April 2018*
Quarterly growth based on figures from the local central banks. Bolivia has ceased providing quarterly y-o-y GDP data.

BRAZIL & SOUTHERN CONE

Brazil & Southern Cone: Inflation rate (%)
Percentage variation (year-on-year)



GDP growth (%)

	End 2017*	2018 forecast**	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Argentina	-1.30%	2.20%	3.00%	3.80%	3.90%	3.60%
Brazil	-0.90%	2.00%	-1.21%	-0.17%	0.99%	1.29%
Chile	1.50%	2.80%	0.50%	2.50%	3.30%	4.10%
Paraguay	4.00%	4.50%	1.50%	3.10%	4.50%	4.10%
Uruguay	3.00%	3.20%	2.80%	2.20%	2.00%	2.20%

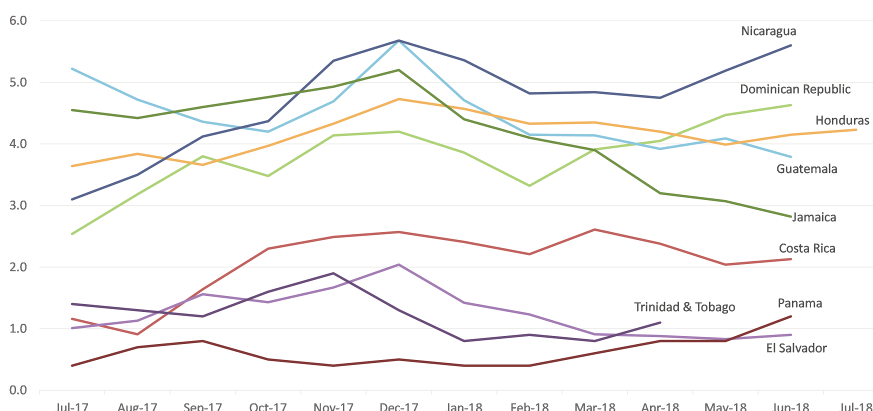
Annualised quarterly growth based on figures from local central banks.

ECONOMIC HIGHLIGHTS

CENTRAL AMERICA & CARIBBEAN

Central America & Caribbean: Inflation Rate

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

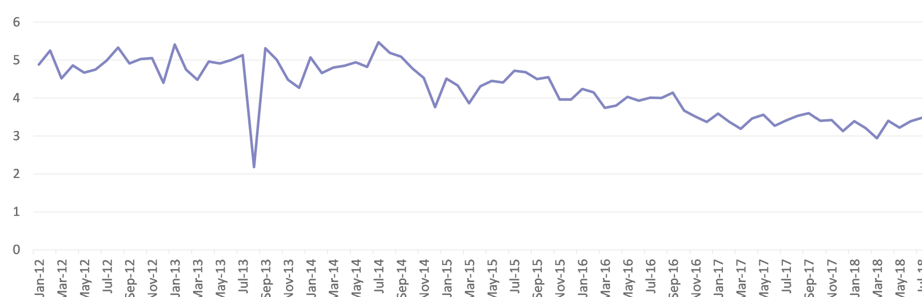


Central America & Caribbean, selected countries: GDP growth (%)						
Quarterly figures are year-on-year growth						
GDP	**end 2017***	**2018 forecast***	**Q2 2017**	**Q3 2017**	**Q4 2017**	**Q1 2018**
Costa Rica	3.9%	4.1%	2.7%	2.8%	3.2%	3%
Dominican Republic	4.9%	5.1%	3%	3%	6.5%	6.4%
El Salvador	2.4%	2.5%	2.3%	2.4%	2.4%	3.4%
Guatemala	3.2%	3.5%	2.3%	2.7%	2.9%	2%
Honduras	3.9%	3.9%	4.5%	6.5%	3.6%	3.1%
Nicaragua	4.9%	5%	4.3%	3.2%	4.3%	2.3%
Panama	5.3%	5.5%	5.4%	5.4%	4.9%	4.2%
Jamaica	1.2%	1.3%	-0.1%	range of 0.5%-1.5%	range of 1.0%-2.0%	range of 1.0%-2.0%
Trinidad & Tobago	-2.3%	0.5%	-3.4%	2.7%	-1.2%	Not available yet
**Figures from the United Nations Economic Commission for Latin America & Caribbean Dec 2017*						
Quarterly growth based on figures from the local central banks						

MEXICO & NAFTA

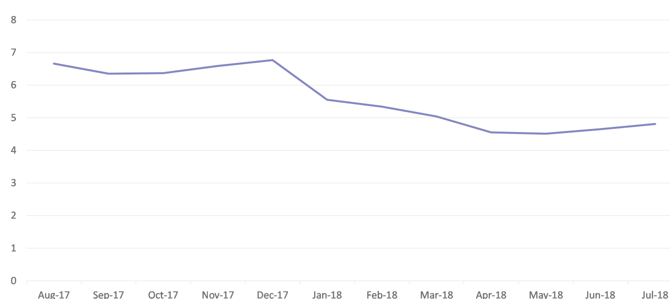
Mexico's unemployment rate

Economically active population



Mexico's inflation rate

Percentage variation (year-on-year)



Mexico's GPD

Percentage variation (year-on-year)

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

Eclac trims back growth

Latin America and the Caribbean: Growth of Gross Domestic Product (projections)

Country or region	GDP growth	
	2017	2018
Latin America and the Caribbean	**1.2**	**1.5**
Argentina	2.9	-0.3
Bolivia (Plurinational State of)	4.2	4.3
Brazil	1.0	1.6
Chile	1.5	3.9
Colombia	1.8	2.7
Ecuador	3.0	1.5
Paraguay	4.8	4.4
Peru	2.5	3.6
Uruguay	2.7	2.3
Venezuela (Bolivarian Republic of)	-13.0	-12.0
South America	**0.8**	**1.2**
Costa Rica	3.2	3.3
Cuba	1.6	1.5
Domincan Republic	4.6	5.4
El Salvador	2.3	2.4
Guatemala	2.8	2.9
Haiti	1.2	1.8
Honduras	4.8	3.9
Mexico	2.0	2.2
Nicaragua	4.9	0.5
Panama	5.4	5.2
Central America and Mexico	**2.3**	**2.5**
Central America	**3.4**	**3.4**
Latin America	**1.2**	**1.5**
Antigua and Barbuda	3.1	4.2
Bahamas	1.4	2.5
Barbados	0.6	0.0
Belize	0.7	2.6
Dominica	-9.5	-6.4
Grenada	5.1	3.5
Guyana	2.2	3.0
Jamaica	0.5	1.3
Saint Kitts and Nevis	1.3	2.4
Saint Vincent and the Grenadines	0.5	1.3
Saint Lucia	3.8	2.1
Suriname	1.5	2.7
Trinidad and Tobago	-2.3	1.5
The Caribbean	**0.0**	**1.7**

Source: ECLAC (Economic Survey of Latin America and the Caribbean, August 2018)
Note: Central America includes Cuba, Domincan Republic and Haiti

The UN's Economic Commission for Latin America and the Caribbean (Eclac) in August published its latest economic outlook for the region, cutting back its 2018 GDP growth forecast to 1.5%, down from the 2.2% it had pencilled in last April.

Eclac says growth next year will be led by domestic demand and a small increase in investment; it will happen in an international context marked by uncertainty and volatility. Among the risks are the possibility of a global trade war, increased capital outflows from emerging economies, currency depreciation, and "a global economic expansion that is tending to lose momentum". Overall regional growth will nevertheless remain positive despite big variations between countries. The South American economies will be rather sluggish, with growth of 1.2%. The Caribbean will do a little better with expansion of 1.7%, while the Central American economies will push ahead more smartly with 3.4% growth. The Dominican Republic will be the fastest growing country in the region with a 5.4% increase in GDP, followed by Panama (5.2%), Paraguay (4.4%) and Bolivia (4.3%).

For the region as a whole tax collection will remain steady at around 17.8% of GDP (almost a one percentage point increase on 2017). Inflation (excluding hyperinflationary Venezuela) will average 6.5% (up from an estimated 5.3% for 2017). Unemployment will stop rising, and stabilise at around 9.2%. Eclac executive secretary Alicia Bárcena said governments should seek to encourage recovery without resorting to excessive fiscal stimulus; one way of achieving that would be to increase regional integration initiatives. Eclac's 'Economic Survey of Latin America and the Caribbean 2018' which contains these predictions also analyses investment performance, noting that gross fixed capital formation rose from 18.5% to 20.2% of GDP between 1995 and 2017. There was encouraging growth of investment in machinery and equipment, which rose from 4.7% of GDP from 1995-2003 to 8.1% from 2010-2016, seen as particularly positive because "it allows for incorporating greater technological content and laying the foundations for improving productivity and sustaining growth".

Higher oil prices failing to bolster the region's economies

In recent years, high oil prices have generally boosted economic performance in the region, via increased export earnings and stronger government spending. However, the increase in oil prices so far this year does not seem to be having a significant positive impact on the region's net energy exporters. Even though Brent oil prices are approaching US$80/barrel – a level not seen since late 2014 – GDP growth in Latin America looks set to remain weak. Indeed, the Economic Commission for Latin America and the Caribbean (Eclac) are forecasting growth of just 1.5% this year, up only marginally from 1.2% last year.

Brazil, Mexico, Venezuela, Colombia, and Ecuador are the region's largest oil producers, but none of them are expected to register particularly firm GDP growth this year. The legacy of a highly distorted policy framework in Venezuela means that higher energy prices are having no impact in alleviating the severe economic distress. Until hyperinflation took hold several years ago, there had long been speculation about the break-even oil price needed to eliminate the fiscal deficit, with calculations generally ranging from US$100-US$250 per barrel, but the depth of the economic crisis makes it unfeasible for oil prices to return to a market level that would return the economy to growth. As such, Eclac is projecting another double-digit contraction this year. Prospects in Ecuador are better, but still poor, with Eclac projecting a deceleration from 3% GDP growth in 2017 to 1.5% this year. Brazil, Mexico and Colombia are all expected to register an acceleration in underlying growth, but Colombia is the only country forecast to break through the 2% market.

Production volumes are falling in many oil producers

There are two main reasons why higher oil prices are not providing the boost to the region's economies that they have done in the past. The first is that production volumes remain fairly weak, with many countries registering year-on-year falls in output, which dilutes the positive impact arising from higher prices. The fact that production quotas remain in place for members of OPEC is not really a factor, since output in Venezuela, at 1.26m barrels per day (b/d), is already well below the country's 2.07m b/d quota, indicating that the state oil company PDVSA is simply unable to generate higher levels of oil output. Ecuador is the only other country in the region to be a member of OPEC, but the government stated a year ago that it did not intend to abide by its production quota of 520,000 b/d, citing fiscal difficulties. That said, Ecuador has not been able to generate firm growth in oil output, with long-running underinvestment in the sector preventing rising volumes. Underinvestment in Mexico is also the main reason behind a continued slide in production levels. Meanwhile, while the picture is slightly more positive in Brazil and Colombia, oil output is stable rather than rising.

The other factor explaining the weak pass-through from higher oil prices to the local economy is that many governments are tightening their belts, which limits the extent to which windfall oil income can stimulate private-consumption led expansion. Global trade tensions have raised country risk, making it more difficult for countries (particularly emerging markets) to tap international capital markets and, when they do so, increasing the cost of doing so. Efforts to reduce budget deficits are, in many countries, being led by cuts in public spending. As such, the prospect of the start of another commodities 'supercycle', in which sharp rises in oil prices help trigger a rapid acceleration in GDP growth, does not appear to be in prospect.

ECUADOR

Government efforts to drum up private investment

As President Lenin Moreno has increasingly distanced himself from his predecessor, Rafael Correa, the current government's economic policy stance has become steadily more pro-market. A raft of announcements over the course of recent weeks underline the extent to which Moreno is seeking to engage private investors in an effort to bolster the local economy.

The centre-piece of the government's policy towards private investment is the 'Ley de fomento productivo', which was tabled earlier this year and finally approved by the National Assembly on 21 August. It includes tax breaks for investors in some priority industries, which include export-oriented manufacturing, as well as construction and tourism. New investors will not have to pay corporation tax in these areas for up to 20 years. Other benefits include lifting a tax on capital outflows, which would incentivise businesses seeking to transfer profits abroad. The legislation also includes important provisions related to international arbitration that are designed to alleviate concerns about investment protection. In May 2015, the Correa administration removed a paragraph from article 42 of the existing legislation on investment protection that stated that Ecuador would abide by the rulings of international arbitration courts. The same paragraph has been reintroduced to the recently-approved 'Ley de foment productivo'.

Fitch downgrade, despite government efforts to trim spending

Meanwhile, the government is undertaking other business-friendly measures. In late August, the authorities announced the start of a process of gradually lifting retail petrol prices (which are heavily subsidised) towards market prices. This is designed to cut earmarked fiscal spending, which in theory should free up greater funding for capital infrastructure projects. Other efforts to streamline the public sector include a reduction in the number of ministries, with the government also announcing in mid-August the elimination of five ministries and the merger of several others. Privileges reserved for senior civil servants will also be reined in, including cutting spending on mobile phone tariffs, security for personnel (except for those deemed 'high risk'), and private vehicle transport.

Despite these efforts, concerns remain about the underlying health of the Ecuadorian economy, particularly with relation to the ability to plug the persistent fiscal deficit. In recent weeks, the government has secured US$1.1bn in funding, comprised of US$500m raised through a repo agreement with US bank Goldman Sachs, as well as US$638m in multilateral loans from the IDB and CAF. However, this has been insufficient to alleviate some concerns about financing. On 17 August, the sovereign credit ratings agency Fitch downgraded Ecuador from a 'B' to a 'B-', citing greater financing restrictions facing the government, as well as a continued deterioration in some key macroeconomic indicators, including public debt and GDP growth. Even in the light of recent government efforts to cut current expenditure, Fitch still estimates that the financing requirement will rise from US$5.8bn in 2018 to US$8.5bn in 2019, with debt interest payments accounting for a heavier burden than in recent years.

REGION

Higher metals prices having a more positive impact

Metals prices, although showing some differing trends on the back of particular supply and demand trends in individual markets, have risen across the board over the past year. This mainly reflects ongoing strong

growth in demand from Asia (China, in particular), but it also reflects rising investor interest on the back of higher oil prices.

Latin America remains a key source market for many metals, with Chile and Peru respectively the world's largest and third-largest copper producers in the world; Peru and Bolivia the world's third- and fourth-largest tin producers; and Brazil the second-largest producer of iron ore. Brazil is also an important aluminium and nickel producer, while Bolivia produces reasonably large quantities of tin and silver, and Argentina aluminium.

Chile and Peru both set to perform strongly

Higher metals prices will have a much more noticeable positive impact on the Chilean and Peruvian economies than higher oil prices are having on the region's main energy producers. Eclac is projecting an acceleration in GDP growth from 1.5% in 2017 to 3.9% in 2018 in Chile, and from 2.5% to 3.6% in Peru. In Chile's case, this reflects much better underlying economic policy management, with firmer business confidence leading to a surge in investment. A recently-unveiled bill to simplify the tax code is likely to further facilitate investment. Export volumes are rising quickly, with copper output up by over 12% year on year in the first half of 2018. Notwithstanding a widening of the budget deficit in recent years, Chile's public finances are in comparatively good shape, meaning that aggressive spending cuts are not necessary in order to bolster sovereign creditworthiness.

Peru is also benefitting from an investment-led acceleration in GDP growth, with investment in the country's mining sector proving particularly strong in recent months. New capacity slated to come on stream later this year looks set to increase production volumes, which will lift exports. The quality of the policy framework is not as supportive as in Chile, reflecting political instability, weaker infrastructure, and a less investor-friendly business environment, but the economy remains in decent shape, with higher metals prices providing a boon to overall economic performance. Bolivia is in a similar position, with firm growth in fixed investment (including in the mining sector) buoying overall GDP growth, which Eclac is projecting will come in at 4.3% in 2018, identical to the rate registered last year (and the fourth-highest in the region, behind the Dominican Republic, Panama and Paraguay).

REGIONAL BUSINESS REVIEW

REGION

Tough times for coffee producers

In August international coffee prices dipped below two psychologically important floor levels: US$100 per bag, and US$1 per lb. The fall means many coffee farmers are now in loss-making territory. It led to a joint statement by producers in the world's number one and number three coffee exporting countries – Brazil and Colombia – questioning the structure of the international coffee market and warning that the "survival of 25 million coffee families worldwide" is being jeopardised.

There are lots of different coffee price indicators, relating among other things to different bean types (such as arabicas, robustas, Colombian milds, or Brazilian naturals) and units of volume (60kg bags or pounds). Unfortunately for coffee farmers, at the moment all are pointing downwards. The ICO Composite price index (compiled by the International Coffee Organisation) had dropped in July to 107.20 US cents/lb, a year-on-year fall of 2.9%, representing the lowest monthly average in more than a decade (in fact, since 2007). By the end of August the composite had dipped further crossing below the 100 cents mark to reach 99.04 US cents/lb.

Colombia's coffee-growers' association, the Federación Nacional de Cafeteros (FNC), says that the price of Colombian milds has been falling month on month for the last 22 months, meaning that the value of the national harvest, which last year was around US$2.55bn, has this year dropped by around US$500m (production has remained fairly stable).

For those who think in terms of coffee bags, the price has also fallen below a psychological floor. Speaking at the end of August, Evelio Alvarado of Guatemala's Asociación Nacional del Café (Anacafé) lamented that the international price for September deliveries, which had been US$110 per bag at the beginning of the month, had slumped under US$100 per bag to reach US$97.25. The Guatemalan exporters' association says these price levels are below the cost of production and are "unsustainable". The biggest Latin American coffee producers last year were Brazil (51m bags), followed by Colombia (14.m bags), Honduras (8.35m), Peru (4.28m), Mexico (4m), and Guatemala (3.8m).

The fall in prices is attributed to a number of factors. Since the end of the commodities boom global demand for coffee has been somewhat softer. Brazil is also heading for a record crop, and a weaker Brazilian currency has helped exert downward price pressure. But Latin American coffee producers are making an additional point: they argue that there is a large overhang of coffee stocks held in consuming countries, and that it is often used for speculative purposes, increasing the intensity and volatility of the downward-heading price cycle.

Colombia's FNC points out that the price paid to domestic coffee farmers is linked to the international price for mild coffee (known as Contract C) through a formula which takes account of coffee quality and exchange rate movements. This domestic price has fallen 19% in the last year, putting the 3.5m Colombians who depend on the coffee industry in a very bad economic situation. The domestic price now stands at the equivalent of around 84 US cents/lb. The FNC says farmers need to earn the equivalent of 140 to 150 US cents/lb to be able to pay for fertilisers and make a small profit. Colombian production costs are higher than in Brazil because much of the coffee is grown in mountainous areas and has to be harvested by hand, whereas in some areas of Brazil the harvest is mechanised.

The newly inaugurated government of President Iván Duque has responded by setting up a COP100bn (US$34m) emergency fund. It is to be used to help support farmers – details of the distribution mechanism have yet to be publicised. On 27 August representatives of both the Brazilian and Colombian coffee sectors met in Brasília and issued a strongly-worded joint communiqué. It stated, "Of major concern are the external factors that negatively affect international prices and producers, such as the financial speculation of

actors outside the chain who, in a constant and perverse way, pressure coffee prices, forcing migratory movements motivated by poverty and the expansion of illicit crops in some countries." It also singled out large coffee trading and retailing companies for imposing "abusive payment terms of more than 200 days, which massacre any possibility of economic sustainability for producers". Despite talking of sustainability, in theory these multinationals are accused of undermining it in reality by the use of sharp practices. International NGOs that promote coffee cultivation are also castigated and are asked to "take responsibility for absorbing the resulting production surpluses". Overall the statement argues that coffee stocks would better be held in the producing countries, where they can help iron out peaks and troughs in the coffee price cycle, instead of in the consuming countries where they are used for speculation, increasing price volatility.

URUGUAY

Renewable energy on the up

Uruguay is moving forward with its quiet de-carbonisation programme: the latest national energy balance (Balance Energético Nacional 2017 – BEN) published by the ministry of industry, energy and mining reveals that last year renewable energy sources continued to expand.

Last year 62.4% of the energy produced in Uruguay came from renewable sources, against 37.6% that was non-renewable. This showed continued growth of 'clean' over 'dirty' energy. During the course of the year the country was able to achieve a 7.4% reduction in carbon dioxide emissions. Another important piece of data in BEN is that for the second year running the contribution from biomass to the primary energy balance exceeded that made by petroleum and petroleum products, by 43% to 36%. Biomass is defined to include wood, plant, and animal materials. The other main contributions to the primary energy balance came from hydroelectricity (13% of the total) and solar and wind energy (6.3%).

The biggest changes have been happening in the generation of electricity. No less than 98% of electric energy came from renewable sources. Power generation was up by 3% in 2017, but the use of fossil fuels in electricity generation slumped by 46%. As a result fossil fuels accounted for only 2% of electricity generated, down from 3% in 2016. For the first time last year solar energy generated more electricity than fossil fuels. Uruguay now has 243MW of solar panel generating capacity, and 1,511MW of installed wind farm capacity. The reduction in fossil fuel dependence was perhaps accelerated by the 9-months closure of the La Teja refinery for maintenance.

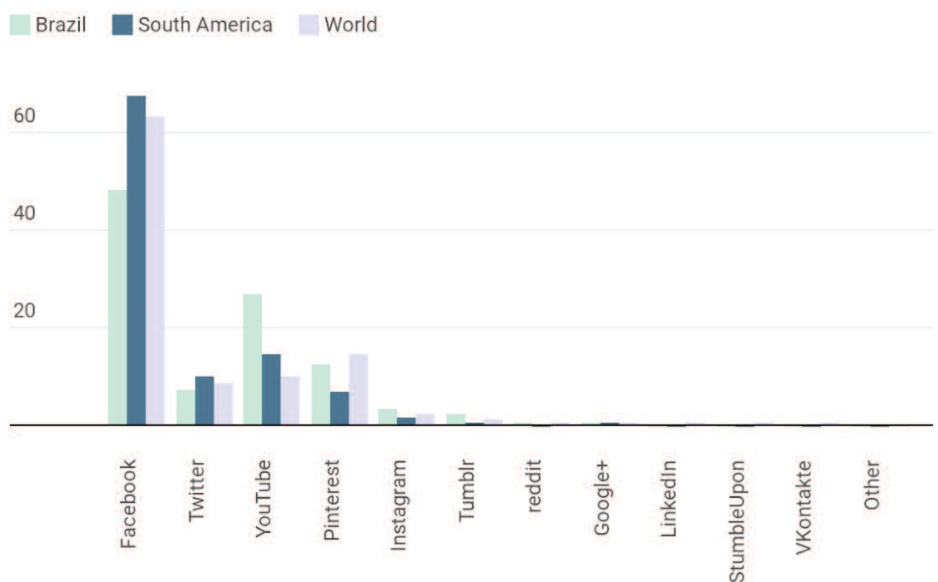
Jorge Dosil, head of wind energy at state-owned power company UTE, who is also president of the Uruguayan renewable energy association (Auder), says that the outlook for both wind and solar energy is highly encouraging. In part this is because they work well together – as he puts it, in Uruguay's typical climate, when the wind stops blowing the sun comes out. He expects installed solar panel capacity to triple by 2022. One of the drivers is that the energy-efficiency of solar panels is rapidly increasing. Dosil argues that the next big step in Uruguay's decarbonisation road map will come with the introduction of electric vehicles (EVs). Here too he highlights the "brutal" pace of technological change: the distance a battery power electric vehicle can travel without recharging jumped from 140km to 300km in just a year. Many forecasts suggest that EVs will take off in Europe from 2022 onwards, and Dosil thinks Uruguay will be close to that date too. He also makes a bold prediction: "From the 2020s Uruguay will be a rich country. It has abundant renewable energy and water, the two things that are going to be most valuable in the near future. We are well positioned. We are not going to suffer because we don't have oil. Those who have oil will not be using it."

Familiar but different

Social media is big in Brazil. There are plenty of well-known online platforms and highly sophisticated consumers, making it easy for international companies to conclude that they are dealing with a familiar and well known e-commerce landscape, comparable to that of the United States and Europe. But familiar is not identical: there are important variants and unique local features that could make the key difference between commercial success and failure.

All the data highlights the importance of Brazilian social media. With a population of over 210m, the country has 139m internet users (66% of the population) and 13m active social media users (a 62% penetration rate – well above the global average of 42%; not that far behind the North American penetration rate of 70% and the UK penetration rate of 66%). The number of active social media users in Brazil jumped 7% in the year to January 2018 (mobile social media users rose by 9%). On average those Brazilian who are connected spend an impressive 3 hours 39 minutes using social media every day, making it a prime route for companies to reach out to their existing and potential customers.

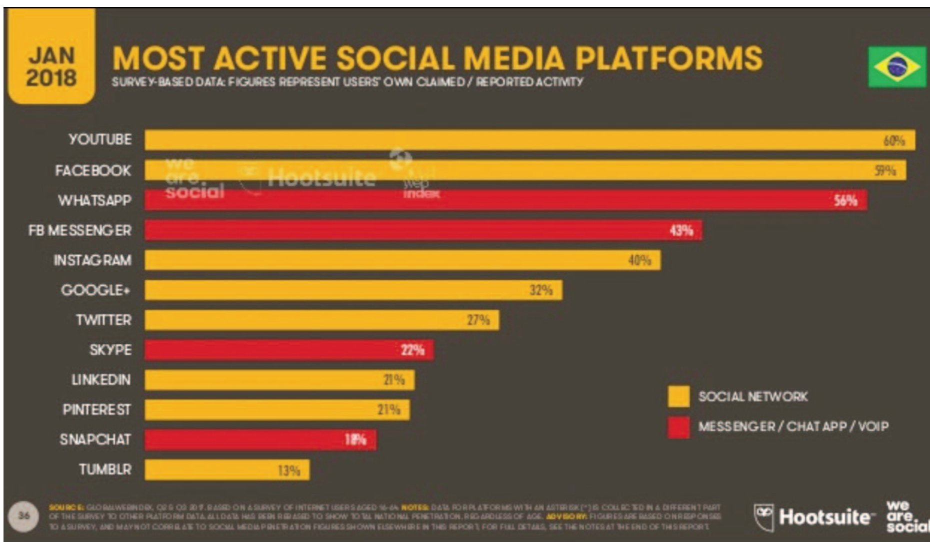
Yet social media platforms have followed a slightly different pattern of growth to that seen in other parts of the world. Brazil's first steps into the social media world were marked by the launch and growth of Orkut, a network created by Google, in the years after 2004. Orkut was big in Brazil and in India. But by today's standards it was rather slow and clunky and when the time came, was unable to fend off the competitive challenge of the user-friendlier Facebook. With a cleaner design, and faster process for sharing pictures and videos, Facebook became a key gateway for Brazilians accessing the internet.



Writing for website *The Brazil Report*, João Citounadin points out that today Brazil's social media market shares differ from those prevalent globally and regionally. Despite its importance, Facebook's market share is under 50%, compared with over 60% on average, both globally and in South America. Citounadin points out that Twitter has a lower rate of adoption in the country while Instagram, YouTube, and Pinterest are more intensely used. YouTube in particular has an above-average share. He suggests that this is because of a cultural factor: Brazilians love videos and images. In fact,

according to one survey, which appears to contradict the market share data, Brazilians actually claim to be more active on YouTube than on Facebook.

Brazilian companies are now spending around BRL14.8bn (US$3.6bn) a year on the digital industry with about one-third of that going to banner advertising and social media. They began by simply transferring radio and TV content to the web; but are now moving to a much more 'digital first' approach. This year Gol airlines showed what can be done. To mark its 17th anniversary it launched a Facebook campaign which improved its ad recall rate by 10 percentage points and brought 234,000 unique visitors to its promotional website in one day. Home appliances company Casas Bahía also got good results form an integrated TV and social media advertising campaign.



Another peculiarity of the Brazilian e-commerce market is that Amazon does not reign supreme – at least not yet. The US-based company entered the Brazilian market in a very low-key way in 2012, initially focusing on e-readers, books, and streaming movies. The online sales market, including physical goods, is still dominated by Argentina-based Mercado Libre, and by Brazilian competitors Magazine Luiza and BTW Cia Digital. Mercado Libre's Brazil revenues grew by a reported 80% last year; the company also opened a new warehouse near São Paulo to ship third-party goods. BTW is owned by the bricks-and-mortar retail chain Lojas Americanas, and has received a big capital injection from investment fund 3G Capital. It has an annual membership-fee based shopping club branded 'Prime', the name already used by Amazon in other markets; in Brazil, Amazon is able to use 'Prime' only for its streaming video offer. Magazine Luiza is also building an e-commerce operation on top of a bricks-and-mortar network of 800 shops.

An executive at Magazine Luiza told *Reuters* news agency earlier this year that its strategy is to use its existing physical stores as "free distribution centres". The challenge for e-commerce in Brazil is very poor transport infrastructure, meaning that companies have to spend 15% of their revenues on fulfilment, compared with 8% in the United States. Another difference with the US: bureaucracy and taxes. Unlike the US, where Amazon was initially exempt from online sales taxes, in Brazil e-commerce companies have started up facing more red tape and the obligation to pay significant sales taxes.

What then are the special factors that companies operating in Brazil need to bear in mind when using social media? One is that in an election year there has been growing concern over manipulation and 'fake news'. This is relevant to online commerce because growing mistrust of social media in general may seep though and increase consumer worries over online shopping. While in the US the growth in online shopping has had a negative effect on shopping mall sales, some argue that in Brazil the malls will hold out better, simply because consumers see them as a safe and welcoming place where they can pay for items securely. A second and obvious point – also highlighted in the election campaign – is that some voters and consumers are not on social media (in fact, four out ten Brazilians do not use social media). Social media use tends to be lower among the poor and in certain regions such as the northeast of the country. The election campaign is a reminder that for certain segments of the electorate, traditional or 'old' media – radio and television – may be the most effective marketing channels.

CUBA

Authorities explore liberalisation of railways

The publication of the Extraordinary Gazette No 42 on 22 August sets out possible changes to the management and operation of the national railways network. Combined with recent statements by officials, it appears that the government is open to the idea of foreign investors entering the sector, which until now has been entirely dominated by state provision.

The publication of the Extraordinary Gazette has been accompanied by supporting legislation, in the form of the Decree Law 348, which was first outlined a year ago but is set to finally come into effect on 21 September. This allows for foreign participation in the railway network, both in terms of passenger and cargo freight, with firms having the right to bid for rights as sole providers, or in joint collaboration with the state railway provider, Ferrocarriles de Cuba (FCC). The authorities have given no indication of a preference, but given a long-running caution towards private investment and a desire to closely monitor the terms and progress of any deal, it is likely that the government may look more favourably on joint bids rather than foreign firms' efforts to secure sole operator rights. Interested firms are required to submit data gleaned from feasibility studies, alongside a detailed business plan.

The announcement forms part of broader efforts to upgrade the country's dilapidated physical infrastructure. The railway network was once well-developed, with a large network of track serving both the needs of the sugar industry and passengers. However, severe underinvestment in recent decades has meant that much of the 11,000km of existing track is not operational. Even lines that do currently work face extremely low speed restrictions on the back of safety concerns related to poor maintenance. The Cuban government has reached agreements with both the Russians and the French to boost investment in the sector, but the latest announcement is clearly designed to open the sector to a larger number of participants.

Any improvements will be some way down the line

It is unclear whether this development will have a significant positive impact on the Cuban economy in the near term. The Cuban government has repeatedly stated its intention to welcome more foreign investment over the course of recent years, but often this has been followed by moves to rein in investors' ability to operate. Even when this has not been the case, extremely drawn-out processes for receiving investment approvals – not to mention the ongoing existence of US economic sanctions – have deterred most investors. There are some signs of an acceleration, with a Guernsey-based firm remarking earlier in 2018 that they had managed to conclude negotiations with the authorities over a hotel construction process in just six months (which, according to the firm's chief executive, marked "quite a record"). However, given the long lead times required for feasibility studies and construction for physical infrastructure projects, any noticeable improvements in the provision of railway services will take some time.

LATIN AMERICAN ECONOMY & BUSINESS is published monthly (12 issues a year) by **Latin American Newsletters**, Intelligence Research Ltd., Hamilton House, Fourth Floor, Mabledon Place, Bloomsbury, London, WC1H 9BB, Tel: +44 (0)203 695 2790 Email: subs@latinnews.com or visit our website at: **http://www.latinnews.com**. Subscription rates will be sent on request. Overseas subscription sent by airmail. **EDITOR: ANTON DITTNER. CONTRIBUTORS: ANDREW THOMPSON, AMARU VILLANUEVA.** Printed by Quorum Print Services Limited, Units 3&4, Lansdown Industrial Estate, Gloucester Road, Cheltenham, Glos. GL51 8PL. **COPYRIGHT © 2018 INTELLIGENCE RESEARCH LTD.** in all countries. All rights reserved. No part of this publication maybe reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, electrical, chemical, mechanical, optical, photocopying, recording or otherwise, without the prior written permission of the publishers. Registered as a newspaper by Royal Mail. **REFERENCES:** Back references and cross-references in the current series will be made thus: EB-18-01 will indicate Economy & Business Report, 2018, issue 1.