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Poverty contained?

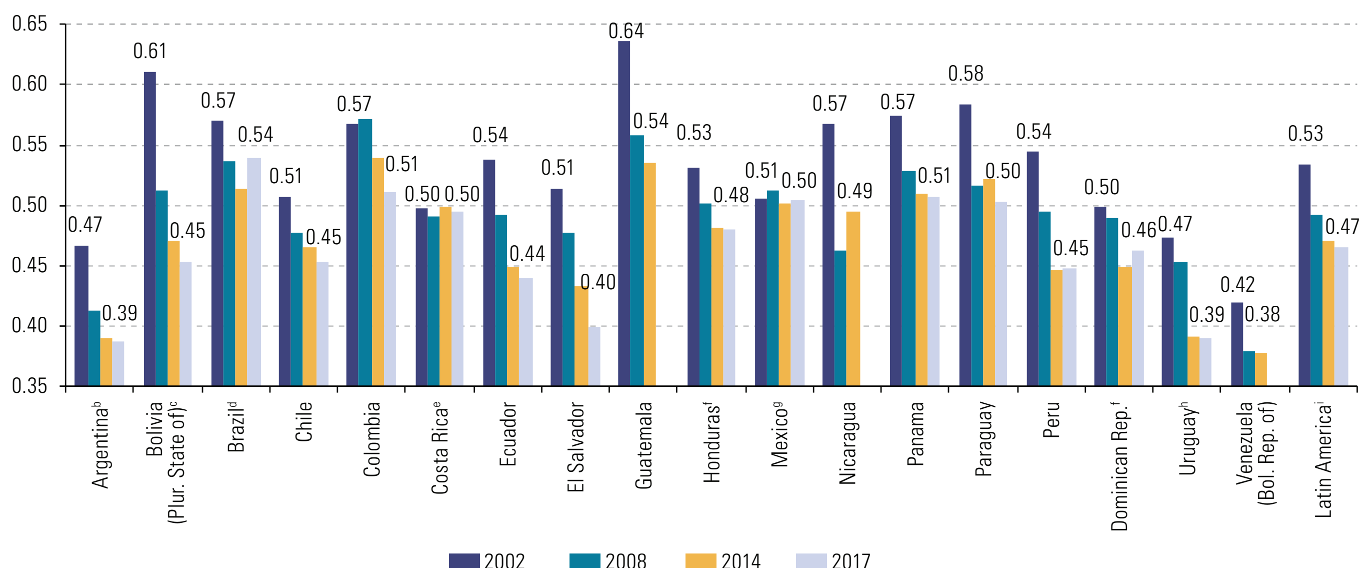
The end of the commodities boom in 2012-2013 triggered five years of slower growth in Latin America and prompted fears that poverty would once more increase. In fact, it did increase in both 2015 and 2016; but data for 2017 just published by the UN's Economic Commission for Latin America and the Caribbean (Eclac) shows that there has been no further deterioration.

According to Eclac's 'Social Panorama of Latin America 2018' report, published in January 2019, 30.2% of the region's population, or 184m people, were living in poverty in 2017. Poverty increased in both 2015 and 2016. Yet it remained broadly unchanged in 2017, and according to the report's calculations, was set to fall in 2018, down to 29.6% of the population or 182m people. On the other hand, within the total number of people classed as poor, the subset of those considered to be living in extreme poverty has increased. In 2017, 10.2% of the population of 62m people were living in extreme poverty. Roughly speaking then, the current situation is that three out of every ten Latin Americans are poor and one of those three is extremely poor.

While there is consensus on some of the big macro-economic forces driving the poverty numbers (among them low per-capita economic growth, narrow labour markets, and unequal distribution of income) there is room for debate over some of the detail. This year Eclac focused on the countries which achieved the greatest reduction in poverty in 2012-2017 and found that they fell into two distinct groups. In Chile, El Salvador, and the Dominican Republic, the key factor was increased wages paid to lower-income households. On the other hand, in Costa Rica, Panama, and Uruguay pensions and transfers to lower income households were most important. According to Eclac, this finding "highlights the importance of providing the population living in poverty with more resources, combining stronger wages with the provision of public transfers and strengthened systems of social protection".

Also of interest is the report's finding that inequality of income has fallen since 2000. The traditional measure of inequality is the Gini index, expressed on a scale from zero (perfect equality) to 1.00 (maximum inequality). The simple average of Gini indices across 18 Latin American countries was 0.543 in 2002 and fell to 0.466 in 2017. This was a move in the right direction, representing a 14.2% reduction in overall income inequality. Yet here, too, the end of the commodities boom has had an effect. The rate of reduction in inequality slowed from 1.3% per annum in 2002-2008 to 0.8% in 2008-2014, and then again down to 0.3% in 2014-2017. There are some signs that social spending has increased in a necessary counter-cyclical direction. Central government social welfare spending in 17 countries rose to 11.2% of GDP in 2016, a slight increase on 2015, and the highest level recorded since 2000. Per-capita social spending nearly doubled in 2002-2016 to the equivalent of US$894, but there were big country-by-country variations.

Latin America (18 countries): Gini coefficient of income inequality, 2002–2017[a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Household Survey Data Bank (BADEHOG). The figures by country shown in the graph may be consulted in annex table I.A1.1 at the end of chapter I.

[a] The calculation of the Gini coefficient included zero incomes.

[b] Urban total.

[c] Figures for 2017 refer to 2015.

[d] Figures for 2017 not comparable with those of previous years.

[e] Figures from 2010 onward not comparable with those of previous years.

[f] Figures for 2017 refer to 2016.

[g] Figures for 2016 estimated on the basis of the 2016 statistical model for MCS-ENIGH continuity.

[h] Figures for 2002 refer to the urban area.

[i] Average based on nearest available year's data for each of the 18 countries.

The report also notes that the region's unequal labour markets are an important factor in perpetuating both poverty and inequality. A shocking 40% of the employed population in the region earns wages below the legal minimum. That proportion is higher among women (48.7%) and young people aged 15-24 (55.9%). Only 50.2% of women are active in the labour market (vs. 74.4% for men). Unemployment is also higher among women. More than half of working women (51.8%) are employed in low productivity sectors, and of those 82.2% are not members of a pension scheme.

REGIONAL ECONOMY REVIEW

REGION

Brazil and Mexico to set the tone

December and January have seen a wide range of estimates, forecasts, and speculations about the economic outlook for Latin America in 2019. Here we look at some of the big themes.

Some of the likely numbers for the Latin American economy in 2019 are frankly, quite boring. The UN's Economic Commission for Latin America and the Caribbean (Eclac) published an update in December, which could be described as pretty much more of the same. It estimated average regional growth of 1.2% in 2018 (down from the 1.3% it had calculated in October) and forecast 1.7% growth for this year (down from 1.8% previously). In other words, growth will accelerate by a deeply unimpressive half a percentage point. Eclac warned that it could be a volatile year, with various risks facing the global economy. They include trade war tensions between the US and China. Another source of concern is that capital inflows into Latin America have been falling as interest rates tighten in the developed economies.

As usual there is a fairly wide dispersion of growth rates among different countries. The forecast for this year shows Central America (excluding Mexico) leading the way and growing by 3.3%, followed by the Caribbean (2.1%), Mexico (also 2.1%), and then South America (1.4%). Thirty out of 33 countries in the region will experience modest levels of positive growth. The three exceptions are Venezuela, whose seemingly never-ending economic crisis will lead GDP to contract by 10%; Argentina, where the effects of last year's currency crisis will spill over into 2019 with a 1.8% contraction; and Nicaragua, where the political crisis will trigger a 2.0% drop.

José Antonio Ocampo, a former Colombian finance minister (1996-1997) highlights the fact that in the last five years Latin America has recorded average GDP growth of only 0.5%, which he describes as anaemic. In his view the region has suffered "a lost half-decade". Many countries are struggling with internal problems, fiscal imbalances, and big political changes. Peru, Colombia and Chile are among the best large and medium-sized performers. The international environment is unsupportive, with protectionism on the rise, the recovery in commodity prices is potentially going into reverse, and inward portfolio capital flows are slowing down.

Ocampo highlights what he sees as a big underlying problem – rapid and premature deindustrialisation. As he puts it, "the most significant long-term slowdown has occurred in Brazil and Mexico, the region's two largest economies and the main success stories of industrialisation". By his calculations, from 1950-1980, when industrialisation was in full swing, Latin America experienced an average growth rate of 5.5%. Yet since 1990 the region has experienced a slowdown in growth to roughly half that level: 2.8% per annum. He wants the region to continue to exploit its comparative advantage in natural resources but to do so while supporting manufacturing by boosting economic integration, investing much more in infrastructure, and in research and development.

One of the most intriguing aspects of the year ahead is that the region's two largest economies – Brazil and Mexico – have new presidents who could be described respectively as populists of the Right and of the Left. Despite the different economic problems experienced by the two countries, and the different proposed policies to deal with them, the stock exchanges in both countries have enjoyed initial rallies (Andrés Manuel López Obrador [AMLO] took office in Mexico on 1 December, while Jair Bolsonaro did so in Brazil on 1 January). How to explain this?

Writing for *Bloomberg*, Aline Oyamda and Vinicius Andrade take the view that capital markets are booming in "lockstep" in both countries, but that the bulls will soon be disappointed, also in both. Bolsonaro has promised privatisations and spending cuts. Brazil's Ibovespa's index is trading at a record high. But his proposals to reform pensions and cut the fiscal deficit are likely to struggle to make progress in a fragmented congress, leaving what the writers describe as "ample room for disappointment". His government has had a somewhat shaky start with a couple of policy reversals and miscommunication between officials (*see our article below, 'Brazil's stock market booms, but will it last?'*). Strategists say that as the administration hits congressional difficulties, the Brazilian currency may begin to weaken.

In Mexico, AMLO is not a privatisation fan. He wants to spend money to help the poor, and has a solid majority in congress to help him do so. He has

worried the private sector, for example by cancelling the new Mexico City airport project and considering extra bank taxes. But despite this, there has initially been enough to cheer the stock exchange. Unlike Brazil, Mexico is not struggling with a massive fiscal deficit. Growth prospects look steady, if modest. The 2019 budget has been widely applauded for preserving a significant degree of fiscal responsibility. Mexican stocks generated the world's highest dollar-denominated returns in AMLO's first month and a half in office. However, the rally is in part a rebound after weakness in late 2018. Investors remain wary. Greg Lesko of Deltech Asset Management in New York says, "Ultimately AMLO calls the shots. I could easily see him capping interest rates at banks, or some such left-wing policy that would be awful." Lesko adds that Brazil's new direction could be "incredibly good for markets" but adds that there are "tons of execution risks".

Mauro Leos, an associate managing director at ratings agency Moody's Investors Service has also commented on the outlook for the region's top two economies. He says, "What is unique in Brazil is the ultra-liberal agenda economically" which he says is the most radical of the last 20 years in the country. It signals a potential "new era", but, he warns, "The question really comes from how much the new administration will be able to deliver." In his view, "Mexico is the complete opposite." The country has a history of greater stability and better fiscal management. "AMLO represents a break with the past when it comes to most everything, but interestingly his message has been very clear that it is regime change with one exception: fiscal responsibility." Leos argues that it may be difficult for AMLO to deliver his promises and maintain fiscal balance. He notes that "there is a certain scepticism from the markets and investors" on this point.

Looking to the year ahead, *Financial Times* Latin America editor John Paul Rathbone has produced five impressionistic bullet points. These are first, what he describes as "more smoke than fire" in Brazil as new President Jair Bolsonaro struggles to manage congress and falls short of high expectations for reform. Second, "full speed ahead" in Mexico as the new president there gets into his stride, "for better or for worse". Third, improvement in Argentina helped by a good harvest. Fourth, what he describes as economic and political drift in Colombia. And fifth, an ever-worsening situation in Venezuela as oil production keeps on falling and Venezuelans keep on emigrating.

MEXICO

The economics of oil theft

The death of 91 people from a fuel pipeline explosion on 18 January in Tlahuelipan, Hidalgo state, has highlighted the risks of the government's campaign against fuel theft. Here we look at the economic background.

Full details of the explosion are still under investigation. It is known that hundreds of people from a local village had rushed to the gushing duct to collect fuel. Some reports say the pipeline had been punctured by huachicoleros – the name given to fuel thieves – while others suggest the leak was accidental. In any event it came as the new government of President Andrés Manuel López Obrador stepped up its campaign against fuel theft, which has led to the temporary closure of many pipelines. As it sends in the army to secure the pipelines, the government has switched to using tanker trucks for deliveries to petrol stations.

Without enough trucks to meet demand, there have been shortages of fuel in many states. According to some reports the Tlahuelipan villagers had flocked to the leaking pipe lured by the prospect of free petrol at a time of local scarcity. Hidalgo governor Omar Fayad says the tragedy was partly caused by the scarcity: "People said there's gasoline here, it is free, it's spilling onto the ground, let's get it." Questions are being asked about the role of state oil company Pemex, said to have known of the leak but not to have done anything about it for a number of hours. Pemex chief executive Octavio Romero has said there will be a full investigation. There are also questions about the role of the army, which was present at the site but failed to evacuate the area before the explosion. President Andrés Manuel López Obrador said the tragedy had not weakened his resolve to fight fuel theft. He told a press conference "I won't take a single step backwards. I can only offer people apologies, if this action causes sacrifices, harm, and inconveniences."

Fuel theft is a serious underlying problem in Mexico. The country's motor fuel market is the sixth-largest in the world with daily demand of around 1.18m barrels of petrol and diesel. The country's drug cartels have moved into the fuel theft business. Liberalisation of energy markets under the previous government has increased the retail price of fuel, meaning that the theft business has become more profitable. According to an estimate by *Reuters* news agency around one-fifth of total national petrol consumption, or 150,000 barrels per day (bpd), is siphoned off by the huachicoleros and is then re-sold to complicit petrol stations. Pemex says that fuel theft costs it around US$3bn every year. Much of it is accomplished by puncturing parts of the country's 17,000km pipeline network. In the first 10 months of 2018 there were 12,500 illegal taps to the network. President López Obrador has claimed that Pemex employees are complicit with 80% of total theft.

Adding to the cost is the fact that Pemex's six domestic refineries have been operating below capacity, due to underinvestment, poor maintenance, and frequent accidents. Last year the refineries operated at about a third of their 1.63mn bpd installed capacity. As a result, Mexico imports significant volumes of petrol from the US (621,000bpd last October). Rail tankers ship much of this across the US-Mexico border. Lopéz Obrador wants to boost domestic refinery output and cut imports from the US. But to do so the security of the system needs to be improved.

The key problem for the government is that its strategy to fight fuel theft itself carries significant costs and risks. The idea is to temporarily close pipelines to allow security to be tightened and upgraded, and during the interim period, to rely on delivery by the truck tankers. But there aren't enough truck tankers and this method of delivery is 14 times more expensive than through pipelines. The authorities have been unable to avoid shortages in six or seven states, including parts of Mexico City.

These shortages have themselves had a negative economic impact. Business groups say shortages of diesel – some of which have been experienced in the state of Guanajuato and elsewhere – can disrupt supply chains. Car manufacturers say they are finding it difficult to fill the tanks of new vehicles. Employers' association COPARMEX said losses from fuel shortages in the second week of January totalled around US$66m. Jaime Reusche of US ratings agency Moody's Investors Service commented, "The impact of fuel shortages on Mexico's economy and fiscal accounts will be limited unless the situation becomes a prolonged problem that has a serious impact on economic activity."

VENEZUELA

Economic emergency measures – not much changes

The country is suffering the worst economic crisis in a generation. The president started a disputed new six-year term in office with a major package of economic measures. In any other country the measures would be subject to serious analysis and scrutiny. But this is Venezuela, where a succession of emergency packages has failed to change anything.

Embattled Venezuelan President Nicolás Maduro opened his new presidential term with a state of the nation speech delivered on 14 January. He made three major announcements. One, minimum wages will go up 300%. Two, there will be a dialogue with business leaders. And three, the government will increase its reliance on transactions conducted through its preferred crypto currency, the Petro.

The three measures are expected to have little or no effect. The minimum wage increase is almost meaningless in a country with six-to-seven-digit inflation. The new monthly minimum wage will be VEF18,000 (around US$6.70), trailing way behind the galloping cost of living. It will be funded by printing more money and feeding further hyperinflation. Convincing almost no-one, the president went on to say his government was not an enemy of the private sector and invited business leaders to join him "in a Venezuela that is great, prosperous, and socialist". Meanwhile, few Venezuelans have any confidence in the Petro, which is supposedly backed by petroleum reserves that the country cannot afford to extract from under the ground. Commenting on the announcements, Asdrubal Oliveros of consultancy Ecoanalítica said, "It's a sort of déjà vu. There is nothing there that allows one to think that Venezuela will exit the deep crisis it's experiencing."

In the absence of reliable statistics, it is still difficult to quantify the ongoing collapse of the economy, but the International Monetary Fund (IMF) and others have estimated this year's GDP contraction at 5%-10% and inflation in excess of 1.35m%. Francisco Rodríguez, chief economist at Torino Capital in New York, says inflation this year will reach 23 million percent. Venezuela has the world's largest oil reserves, but production has slumped by a third from 3.5m barrels per day (bpd) in 1999 when the chavista government came to power to around 1.2m bpd in 2018. According to the UN, 2.3m Venezuelans have fled the country in the last two years. The total living outside the country is thought to be 4m, more than 10% of the population.

ARGENTINA

Tackling the deficit-inflation dilemma

The good news is that Argentina is on track to meet its fiscal deficit-reduction targets agreed with the IMF. The bad news is that inflation is still high, and austerity is painful.

Finance minister Nicolás Dujovne insists that Argentina is on track. The primary fiscal deficit (excluding interest payments) came down from 3.8% of GDP in 2017 to 2.4% in 2018, a fall of 1.4 percentage points. The reduction came despite the fact that as a result of court rulings, the federal government had to increase its transfers to the provinces to 47% of total tax revenue, up from 44% in 2017. Dujovne believes the reduction in the deficit will be enough to trigger the next US$10.8bn disbursement of Argentina's record

stand-by agreement with the International Monetary Fund (IMF), due in March. He is also upbeat about the plan to eliminate the primary deficit entirely during the course of 2019.

The plan is that a lower deficit, coupled with tight central bank control of the monetary base, will eventually lead to reduced inflation. The key word in that sentence, open to interpretation, is "eventually". The reality is that in its first three years in office, the administration of President Mauricio Macri has had a very poor record on inflation. Last year retail prices rose by 47.6%, the highest rate in 27 years. Admittedly, this reflects a crisis year when the currency came under repeated speculative attack with major pass-through effects on domestic prices. But it also shows the government's inability to unwind an ongoing wage-price spiral.

Across December and January, it was also evident that attempts to reduce energy and transport subsidies – dictated by the need to reduce the fiscal deficit – are having short-term inflationary effects. The government announced large increases in public utility tariffs. They included a 38% increase in public transport tariffs, a 55% increase in electricity rates, and a 35% increase in domestic gas prices. The increases triggered torchlight protests by some labour unions and other organisations on 10 January. Energy secretary Javier Iguacel announced his resignation and was replaced by Gustavo Lopetegui, a presidential adviser. Iguacel did not give a reason for his departure, but it was believed to be related to the downgrading of his role (his department lost ministerial status as a result of austerity measures).

The large utility tariff increases are necessary to reduce subsidies (energy subsidies are calculated at US$4.3bn in the first 112 months of 2018). The government will seek to reassure all parties that after the adjustment, the monthly inflation rate will resume its downward trend. But the danger remains that the tariff increases will re-ignite inflationary expectations, boost wage demands, and once more fire up the cycle of wages and prices. The official projection is that inflation will fall to 28.7% this year, still uncomfortably high in an election year.

BRAZIL

Brazil's stock market booms, but will it last?

The São Paulo Bovespa stock index is one of the best performing in the world in 2019. Shortly after the inauguration of Jair Bolsonaro it entered record territory and has risen around seven percent so far in January, while the real has strengthened around two percent since the start of the year. Investors are buying into the traditional optimism that characterises the start of a presidential term, as well as the promises that Bolsonaro has made to liberalise Brazil's notoriously closed economy. But with congress yet to start work, can this optimism survive contact with Brazil's fractious politics?

Brazil investors are betting Economy Minister Paulo Guedes will deliver on a slimmed-down state and tackle the fiscal woes of Latin America's largest economy. But the new administration's first days in office were rife with backtracking and miscommunication, reflecting a lack of experience with the colossal state apparatus as well as disagreement within the government.

In one of his first acts as cabinet chief, Onyx Lorenzoni fired over 300 staff, among them the civil servants charged with overseeing ministerial ethics and the ones who briefed the president. Paralysis and error followed.

Bolsonaro gave a speech about tax hikes which had to be rapidly refuted by his own economic team. The president apologised soon after, repeating his refrain that he knows "nothing" about economics. Nevertheless, that doesn't stop him from taking a leaf out of President Donald Trump's book, by tweeting about every new stock market high.

Pension Reform

The key issue for the new government is pension reform. Without tackling the ballooning deficit of the social security system, Brazil's public debt will rapidly become unsustainable. So far, the signs here are not so encouraging for markets. Bolsonaro raised the idea of a new minimum age for retirement which most still considered too young, angering the Guedes team.

What's not clear at this stage is whether the government will try to pick up from where the administration of President Michel Temer left off, and work to revitalise that proposal. Doing so would save a significant amount of time, as the basic outline has already passed through the committee stages in congress. Bolsonaro, however, has been publicly dismissive of the bill.

The other key question for the government is whether it will include the military in the pension reform. Proportionally, the pension deficit for members of the armed forces is much bigger than that of the population at large. The generous perks enjoyed by the military and their family – until 2000 the daughters of military personnel were entitled to a full lifetime pension following the death of their fathers – appears unsustainable given the size of the deficit. To claim a full pension requires 30 years of active service, meaning that many retire before reaching the age of 50 (*see our article below, 'Pension reform ideas start to circulate'*).

However, many senior members of the military have spoken out against a reform to their benefits, arguing the sacrifices and risks they face throughout their career justifies a generous return. With six of Bolsonaro's 22-member cabinet ex-armed forces personnel, they also have the president's ear. But unless Bolsonaro can persuade the military to make sacrifices, he may struggle to persuade other Brazilians, including the ones in congress responsible for passing any reform.

Political consultancy Eurasia says the government's teething troubles probably aren't enough to affect the odds that pension reform is approved. But, it says, those odds weren't great to start with: the measure is widely unpopular. The legislation will test the radical new approach that Bolsonaro is taking with congress. Rather than negotiate with party leaders directly, he prefers to talk to congressional caucuses, but there is obviously no guarantee that the evangelical or farming caucus all think as one when it comes to pension reform.

Visas

The Minister for Tourism, Marcelo Álvaro Antônio, has proposed allowing citizens from Canada, US, Australia, and Japan to visit Brazil without the need for a visa. Traditionally, Itamaraty has followed a reciprocal policy for the elimination of visas. Whether the Foreign Office will accept this proposal from the Ministry of Tourism is an open question. The answer is probably 'yes' because of the policy directives of the new Foreign Minister.

BRAZIL

Bolsonaro tries to woo investors in Davos

On Sunday 20 January President Jair Bolsonaro took a flight to Davos for the annual meeting of the World Economic Forum. His aim is to present to investors a new Brazil that has turned the page on years of corruption and statism. With the absence of Donald Trump, as well as other regional presidents, such as Maurici Macri or Andres Manuel Lopez Obrador, Bolsonaro is likely to be one of the big stars. He has even been invited to address a lunchtime audience by the World Economic Forum (WEF) chairman, Klaus Schwab, a rare honour for a Latin American leader.

Investors are like to be all ears, given the possibility that the world's ninth-largest economy may finally become more business-friendly after more than a decade of interventionist policies from previous governments. Even after a 20 percent rally over the past four months, the main index of the Sao Paulo stock exchange is still 40 percent below its all-time high in dollar terms.

Yet, so far, the president has little more to offer than words. His political acumen has yet to be tested in congress, and Bolsonaro does not have much of a track record as a legislator. In 30 years in the lower house, only two of the bills he sponsored were approved. It hardly helps his case that less than three weeks into his administration he is already dogged by a swirl of corruption allegations involving his eldest son, Flavio, a senator-elect and a close adviser to the president. Jair Bolsonaro has cancelled his planned press conference in Davos to avoid awkward questions from the travelling press. Not the start he would have liked.

Still, Brazil is a hot topic among investors who are perhaps unlikely to be deterred due to the country's huge potential. Latin America's largest economy not only sits on large energy reserves, but it also has a massive consumer market with pent-up demand for all sorts of quality goods and services, from premier health care to cheaper cars and better roads. And in a taste of the kind of deals that may flourish under a Bolsonaro administration, the former paratrooper this month signed off on the merger that will give Boeing control over Brazil's Embraer, the world's third-largest plane maker.

Options are not limited to the aviation industry, where caps on foreign ownership were lifted last year. Up for sale are as many as 200 state-owned companies, including energy giant Eletrobras. As a result, the head of Brazil's anti-trust agency, Cade, expects a 30 percent increase in M&A activity this year.

CNN Brasil

CNN is establishing a news channel in Brazil. One of the main organisers comes from *TV Record*, Vice-President Douglas Tavolaro (who will be the CEO of CNN International Brazil), and the other is the founder of the MRV construction firm, Rubens Menin. Tavolaro is the author of a biography of *TV Record* owner Bishop Edir Macedo.

The Entourage

The president's entourage will include his anti-corruption tsar, former judge and now Justice Minister Sergio Moro, as well as the head of his economic team, Paulo Guedes. The University of Chicago-trained Guedes is expected to outline plans to downsize government, cut pension benefits, and slash import tariffs. Both men are likely to receive a warm reception among the Davos crowd.

But one man who is less likely to charm investors is Ernesto Araujo, the new foreign minister, who is an unabashed critic of globalisation. Among one of the theses published by Aruajo is a suggestion that Brazil should form a "Christian pact" with the US and Russia. The new foreign minister argues for a conservative, Christian values-based policy, which regards China with deep scepticism. Such scepticism is likely to run counter to Brazil's commercial interests given that China is Brazil's biggest trading partner by far.

Araujo's presence highlights some of the inconsistencies within the Bolsonaro administration and it is too early to say whether the moralists, the 'Chicago Oldies' – as Guedes describes his team – or the military will ultimately triumph in shaping he government's agenda. But for the time-being, investors are excited.

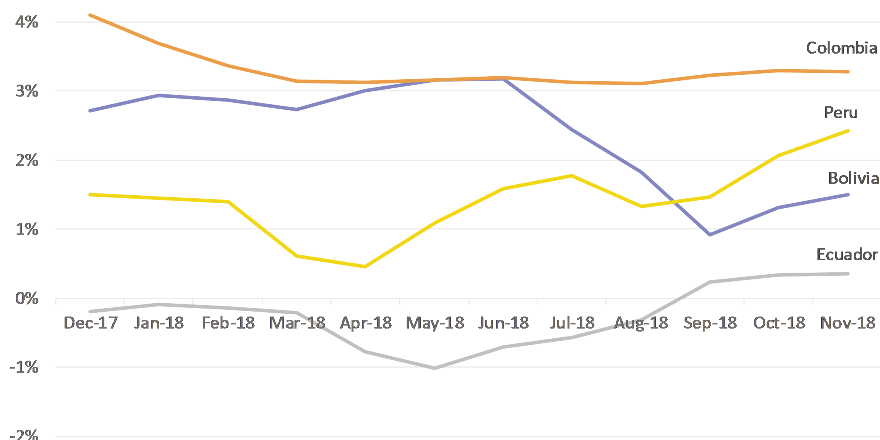
"It's a unique moment that you have a government that is unabashedly liberal," Alberto Ramos, chief Latin America economist at Goldman Sachs, told *Bloomberg*. "We've never seen that in Brazil."

ECONOMIC HIGHLIGHTS

ANDEAN COUNTRIES

Andean Countries: Inflation rate (%)

Percentage variation (year-on-year)



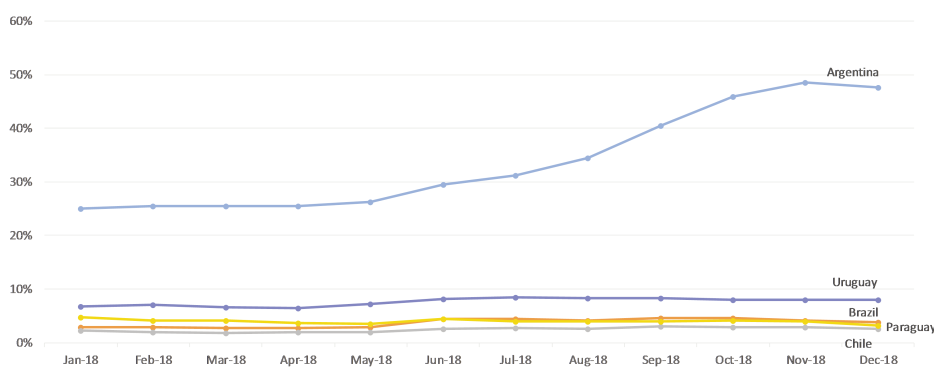
Source: *Local central banks. No reliable data available for Venezuela.*

Andean Countries: GDP growth (%)						
Quarterly figures are year-on-year growth						
GDP	**end 2017***	**2018 forecast****	**Q4 2017**	**Q1 2018**	**Q2 2018**	**Q3 2018**
Bolivia	4.2%	4.3%	Not available yet	Not available yet	Not available yet	Not available yet
Colombia	1.8%	2.7%	1.6%	2.2%	2.8%	2.7%
Ecuador	3.0%	1.0%	3.0%	1.9%	0.9%	Not available yet
Peru	2.5%	3.9%	2.2%	3.2%	5.4%	5.3%
Venezuela	-13.0%	-15.0%	No data	No data	No data	No data
**Figures from the United Nations Economic Commission for Latin America & Caribbean (Eclac) August 2018. **Figures from Eclac Oct 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)



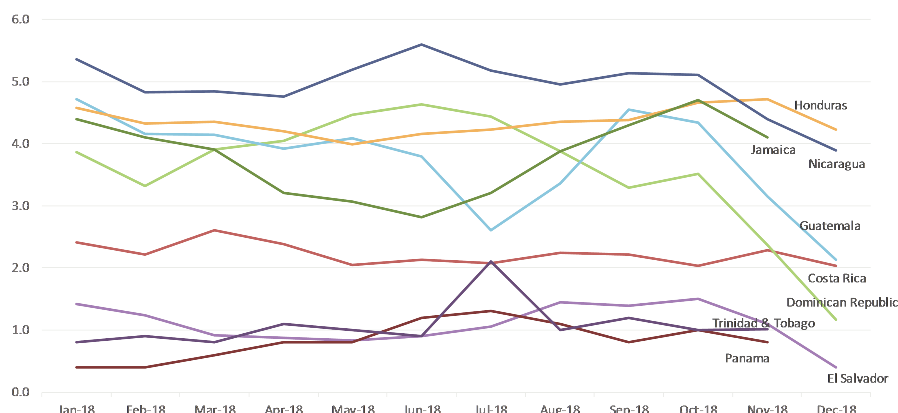
Country			**GDP growth rate, quarterly annualised figure***			
	End 2017**	**2018 forecast****	**Q4 2017**	**Q1 2018**	**Q2 2018**	**Q3 2018**
Argentina	1.30%	2.20%	3.90%	3.60%	-4.20%	-3.50%
Brazil	0.90%	2.00%	0.99%	1.29%	1.03%	1.27%
Chile	1.50%	2.80%	3.30%	4.10%	5.30%	2.80%
Paraguay	4.00%	4.50%	4.50%	4.10%	6.20%	1.10%
Uruguay	3%	3.20%	2.00%	2.20%	2.50%	2.10%
** Figures from local Central Banks*						
*** Figures from United Nations Economic Commission for Latin America and the Caribbean*						

ECONOMIC HIGHLIGHTS

CENTRAL AMERICA & CARIBBEAN

Central America & Caribbean: Inflation Rate

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

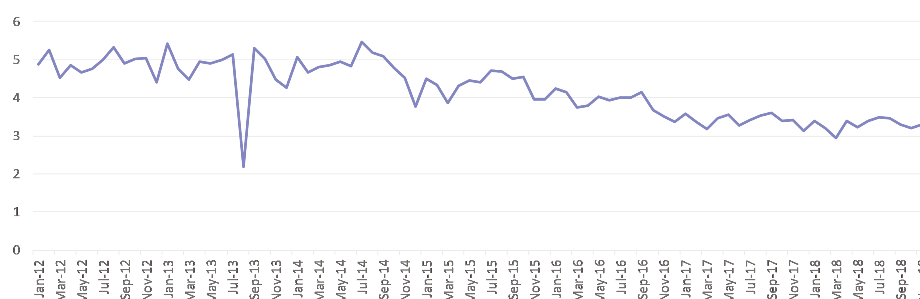


Central America & Caribbean, selected countries: GDP growth (%)						
GDP	**end 2017***	**2018 forecast***	**Q4 2017**	**Q1 2018**	**Q2 2018**	**Q3 2018**
Costa Rica	3.9%	3.3%	3.2%	3%	3.3%	2.1%
Dominican Republic	4.9%	5.4%	6.5%	6.4%	7.1%	7.3%
El Salvador	2.4%	2.4%	2.41%	3.4%	2.5%	2.1%
Guatemala	3.2%	2.9%	2.9%	2%	2%	Not yet available
Honduras	3.9%	3.9%	3.6%	3.1%	3.3%	3.1%
Nicaragua	4.9%	0.5%	4.3%	2.3%	3.9%	-4.8%
Panama	5.3%	5.2%	4.9%	4.2%	4.2%	3.6%
Jamaica	1.2%	1.3%	range: 1.0%-2.0%	range: 1.0%-2.0%	2.2%	Not yet available
Trinidad & Tobago	-2.3%	1.5%	-1.2%	3.1	Not yet available	Not yet available
**Figures from the United Nations Economic Commission for Latin America & Caribbean December 2018*						
Quarterly growth based on figures from the local central banks, year-on-year growth						

MEXICO & NAFTA

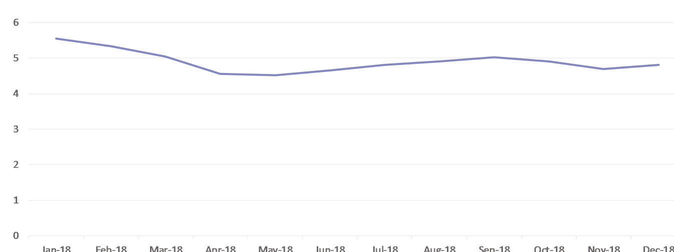
Mexico's unemployment rate

Economically active population



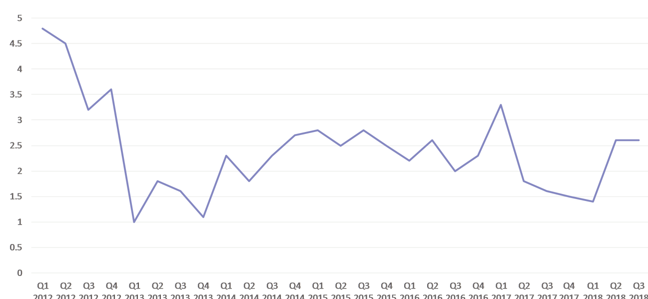
Mexico's inflation rate

Percentage variation (year-on-year)



Mexico's GPD

Percentage variation (year-on-year)



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

Pension reform ideas start to circulate

The new government has begun to reveal its ideas for tackling the most pressing problem weighing on Brazil's public finances: pension reform. Whether any of the proposals currently being mulled by the economic team will pass muster in congress is, of course, another matter. Three previous attempts to reform Brazil's social security system, under the last three presidents, were abandoned amid opposition in the legislature.

This time, things may be different. With Bolsonaro in Davos, vice president Hamilton Mourao, a former army general, gave an interview in which he acknowledged that it was likely that military personnel would have to work for longer to earn their pensions. At present they need 30 years of active service and that number is likely to rise to 35. Similarly, the widows of members of the armed forces look set to pay taxes on their pension income.

Another idea currently under discussion is whether to increase civil servants pension contributions from 11% to 14%, though there has not been any firm decision taken yet. Bolsonaro himself is reportedly opposed to the idea, but given his self-confessed ignorance of economic matters and his willingness to backtrack, this may not be an insurmountable opposition.

Notably, the increase in contributions could be done by a normal legislative bill or a so-called provisional measure. In both cases, to become law it would only require a simple majority in congress, rather than the three-fifths needed for a constitutional amendment.

From January to November 2018 the pension deficit for the fund that pays the one million retirees of the public sector, including the armed forces, reached R$85.5bn. There are only 632,000 currently working people in Brazil's public sector. Meanwhile, the deficit for Brazil's non-public sector retired workforce is R$188.6bn, in a fund that pays to around 30 million beneficiaries.

Inflation

On 14 January, the Getulio Vargas Foundation (FGV) business school and think-tank published figures showing that in 2018 inflation for senior citizens was 4.75%, above the standard IPC-BR-Brazilian Consumer Price Index, which stood at 4.32%. Food and clothing prices were particularly important items for senior citizens.

Similarly, on 15th January, the Institute for Applied Economic Research (Ipea) released data that showed that in December inflation of consumer prices for the poorest families in Brazil was 0.21% versus 0.09% for the more wealthy families. This was because of increases in the prices of basic items that poorer families consume.

Amazon Warehouse Opens

Retail giant Amazon opened its first distribution center in South America on 22 January. Locatated in Cajamar, 45km outside of Sao Paulo, the 47,000m^2 warehouse stocks over 120,000 different products, a number that is expected to grow along with demand.

The world's most valuable company has been in Brazil for six years, but it has offered a far narrower selection of goods than in most other countries. While the Cajamar warehouse is the first in South America, Amazon has 10 in India, 12 in China, and 18 in Europe. In the US, it has 18 warehouses in California alone. The company has not revealed exactly how many people are working at its new warehouse, although it says the number is in the 100s.

A report for BTG Pactual suggest that the company will face stiff competition in Brazil from well-established players, like B2W and Magazine Luiza, which have invested heavily in improving their range of products and delivery services in recent years.

GUYANA

Upcoming early election raises questions over future economic policy stance

The prospect of an early election in Guyana following a motion of no-confidence that was tabled by the opposition on 21 December has raised uncertainties about the likely policy stance that the next administration will adopt. This is particularly relevant given that the opposition has been critical of contract terms agreed with the US oil major ExxonMobil for development of offshore energy reserves.

On 21 December, the opposition People's Progressive Party/Civic (PPP/C) tabled a no-confidence motion against the government, which it won by a narrow one-vote margin (33-32 votes in the 65-seat National Assembly) following the surprise defection of Charrandas Persaud, from the Alliance For Change (AFC, a small party within the ruling coalition), who voted to support the opposition. Although the government has challenged the results in the high court, if the judiciary backs the result of the no-confidence vote, a general election must be held within 90 days of the December vote.

Implications for Guyana's economy will very much hinge on the result of the election. Given that the current president, David Granger, has been receiving cancer treatment in Cuba there had been some uncertainty about whether he would seek re-election, but on 21 January the People's National Congress Reform (PNC/R, the largest party in the ruling coalition) endorsed him as their candidate. He will face a former housing minister, Irfaan Ali, who was selected by the main opposition People's Progressive Party (PPP) as their presidential candidate in mid-January. The PPP's leader, Bharrat Jagdeo, is not constitutionally permitted to run for election given that he has already served two terms as president.

PPP criticises oil policy

The main focal point with regard to the next administration's policy stance will be in relation to energy. ExxonMobil found offshore oil in 2015, with reserves believed to hold around 5bn barrels, and production expected to begin in early 2020, reaching 750,000 barrels per day by 2025. However, the PPP has been highly critical of the terms of the production-sharing agreement that the current government signed with ExxonMobil. In a press conference last September, Jagdeo indicated that while the PPP would honour the contract signed with ExxonMobil if it returned to power, it may seek to renegotiate contracts signed since then. These contracts included similar terms as offered to ExxonMobil, but the PPP has argued that Guyana is no longer a "frontier market" now that oil reserves have been proven, so contract terms should be more favourable to Guyana on the basis that the country needs to offer fewer incentives to lure international oil firms.

Given that the prospect of an early election has come as a major surprise, with political parties only in recent days confirming their presidential candidates, parties have not yet drawn up detailed campaign manifestos. As such, it is difficult to gauge whether the official fiscal and monetary policy stance will shift in the coming years. If the PNCR wins re-election, either on its own or in coalition with the AFC, policy would be unlikely to shift dramatically. However, President Granger would have to ensure that the large oil receipts that are set to begin hitting the state coffers from next year are used efficiently in terms of promoting economic development. Recent moves to put in place

fiscal stabilisation rules, to set aside some of the commodity windfall in years of high energy prices, are likely to continue under a Granger-led administration.

Broad policy continuity is likely

Notwithstanding the criticism of contract terms by the PPP, a dramatic shift in policy stance under a PPP government looks unlikely. Both the PNCR and the PPP would be likely to prioritise lifting economic growth and making sure that the expansion of the energy sector filters down into sustainable and material improvements in living conditions, including greater job creation. Regardless of who wins the election, the next government will also have to deal with potentially-tricky relations with neighbouring Venezuela, whose government continues to lay claim to territorial waters. Although there is little sign that the Venezuelan government would actually seek to seize Guyana's oil assets (notwithstanding Venezuela's interfering with two ships under contract to ExxonMobil in December, *see our Latin American Security & Strategic Review [SSR-19-01]*), the continuing escalating of the Venezuelan economic crisis raises risks of renewed diplomatic spats, as their government seeks to detract attention from domestic woes.

ECUADOR

Oil production struggles

Central Bank data confirms that oil production remained lacklustre in late-2018. With the Organisation of Petroleum-Exporting Countries (OPEC) introducing new, reduced quotas for the first half of 2019, Ecuador will come under pressure to reduce oil output further. Coupled with several other gloomy data releases, the near-term economic outlook remains weak.

Full-year oil production figures are not yet available, but data through to November paint a disappointing picture of the state of play in the key energy sector. Oil production stood at 515,000 barrels per day (bpd) in November, broadly similar to levels recorded in recent months and below the 521,000bpd in November 2017. Although production at the state-owned Petroecuador has slipped slightly (from 402,000bpd in November 2017 to 401,000bpd a year later), output in privately-operated fields as fallen more noticeably, dropping from 119,000 bpd to 114,000 bpd over the same period. This is likely to reflect that the privately-operated concessions tend to be located more mature oil fields, where a lack of investment in recent years (as a result of both depressed international oil prices and the unfriendly operating environment under the previous Rafael Correa government) has hampered production capacity.

OPEC cuts will constrain performance

The government hopes to lift GDP growth in 2019, which according to data released in early January, remained weak at 1.4% year on year in the third quarter of 2018. Given that the oil sector is key to economic performance, the authorities have long been hoping for an upturn in oil production. However, the decision by OPEC in December to cut production quotas for the first half of 2019 will throw a spanner into the works for the Ecuadorian government. OPEC published a country-by-country breakdown of its revised production quotas in mid-January; according to this, Ecuador will be required to keep oil output below a maximum threshold of 508,000 bpd until at least the end of June. With domestic consumption of oil derivatives continuing to rise firmly and refinery throughput failing to increase significantly, the import bill is rising (oil imports rose from 3.9m barrels in November 2017 to 4.4m barrels in November 2018) and the volume of oil exports is falling.

Part of the problem remains limited domestic refining capacity. According to the Energy Intelligence Agency (EIA), refinery capacity stands at 175,000bpd,

making Ecuador reliant on imports despite its energy reserves. The authorities have long been seeking to lift refining capacity, but the results of a recent audit into public spending on oil-related infrastructure under the previous Correa government have shown that funds were mis-allocated. The Moreno administration requested that the UN oversee an independent audit, with the results made public in early January. In some cases, billions of US dollars were spent on refineries (including a half-built refinery that has since stalled, owing to insufficient funding) with no significant increase in throughput capacity. Reflecting the severity of the reported mis-spend, the authorities are currently considering whether to launch legal proceedings against some individuals involved in the projects.

Weak oil outlook will hamper broader economy

Aside from the impact that reduced oil production volumes will have on real GDP growth, with Brent oil prices now trading lower, at around US$60/barrel in mid-January (the lowest level in nearly a year), the implications for Ecuador's fiscal and external accounts are also negative. In early 2019, the finance ministry confirmed that the budget deficit came in at US$3.3bn in 2018 (equivalent to 3% of GDP) but with both average oil production and prices likely to be lower in 2019, further fiscal consolidation will be difficult. The same is true for export earnings, which rose by double-digit levels on an annual basis throughout most of 2018. Lower exports are likely to push the merchandise trade account into deficit, which in turn will raise the current-account deficit. With the latest data showing that inward foreign direct investment (FDI) is still low, overall prospects for 2019 remain weak. As the economy is dollarised, there is no risk of a balance-of-payments induced crisis, but the economy is far from firing on all cylinders.

JAMAICA

Government targets development of stock market

The authorities are seeking to use the stock exchange as a way of raising funds for national infrastructure projects, in a bid to reduce pressure on government spending and enable a continued fall in public debt.

The Jamaican stock exchange has hit the headlines in early 2019 for all the right reasons, with *Bloomberg* reporting that the country's main index registered the largest gains in US-dollar terms (29%) during 2018 out of all of the 94 countries that it tracks. The results were not just a one-off; over the past five years, the stock-market index has risen by nearly 300%, way ahead of other countries. It is perhaps on these coat-tails that the government is seeking a further development of its capital market, with Finance Minister Nigel Clarke emphasising its intentions while addressing investors at a forum in the capital, Kingston, in mid-January. He stated that the country had infrastructure needs totalling "hundreds of billions of [Jamaican] dollars" in the next few years and if the authorities managed to part-finance some of these plans via equity, the government would be able to continue to shrink its public debt:GDP ratio from around 100% currently to a targeted 60% by 2025.

Capital markets will develop only slowly

This is a laudable goal, but several structural barriers are likely to prevent rapid development of the stock market that would enable equity financing. Firstly, part of the reason that the stock market has registered such sharp growth levels is that the stock market is extremely small. It is positive that the stock market is expanding, but the pace of growth is magnified by the fact that it comes from such a low base for comparison. Only 37 firms are listed on the main exchange and total stock market capitalisation is extremely low (a fraction of the size of many individual companies listed on larger overseas exchanges). The head of the Jamaica stock exchange has indicated that she expects another 20 compa-

nies to list on the exchange over the course of 2019, but even if that materialises, the exchange will remain small in comparative terms.

Developing capital markets is a slow and drawn-out process and requires not only growth in the number of listed firms, but also the development of accompanying financial instruments and the presence of sufficient numbers of investors to boost demand. The fact that the Jamaican market remains small and that some market participants will have ongoing reservations about the weak underlying economic situation are, in practice, likely to hamper the governments' efforts in this area. This will be particularly true if international investor confidence wavers in the face of slower global economic growth, a sharp deceleration in the Chinese economy, or escalating trade tensions between the US and its major trading partners. All of these factors have the potential to affect global stock market development, including the exchange in Jamaica. However, with the authorities remaining determined about the necessity of sticking rigidly to International Monetary Fund fiscal targets, a sharp rise in public spending (relating to infrastructure spending) is unlikely. A scaling back of infrastructure plans is, instead, more probable, although this will inevitably take its toll on potential long-term GDP growth.

REGIONAL BUSINESS REVIEW

BOLIVIA

Navigating a "sea of gas"

According to hydrocarbons minister Luis Sánchez, Bolivia has discovered a "sea of gas" in the Subandino Sur, part of the Huamampampa Profundo formation that stretches across the departments of Santa Cruz, Chuquisaca, and Tarija. Yet independent analysts think there may be an element of hype, with the country's key gas sector suffering both supply-side and demand-side challenges.

In January, Sánchez said that the Boyuz-X2 well, drilled by a consortium formed by Repsol, Shell, Pan American Energy and state-owned YPFB, was one of the most important gas finds in Bolivia in the last 20 years. At a depth of around 7,800 metres there was evidence of gas and liquids that, in his words, "lead it to be said, estimated and assured that we are dealing with a mega-reservoir". The announcement was made during a visit to the well by President Evo Morales, already in pre-campaign mode as he controversially seeks a fourth term in polls due in October. Others were much more cautious. Álvaro Ríos, a former hydrocarbons minister (2003-2004), said further drilling to beyond 8,000 metres along with well tests would be necessary over the next few months before the claim of a large find could be confirmed; whether such a find was commercially viable would also require further analysis, not least to establish how extensively the sub-surface gas may be mixed with water.

The reality is that there are big question marks over the future of the Bolivian gas industry, which has played such a big part in the country's recent record of strong economic growth. Question one is whether the country has enough gas to keep on exporting at current rates. Proven reserves currently stand at 10.7 trillion cubic feet (TCD). At current production and export rates they will last only for around 10 years. In January, Brazilian oil and gas regulator ANP recommended that state oil company Petrobras should diversify and reduce its reliance on gas imports from Bolivia, because gas reserves in the neighbouring country "could be insufficient to meet domestic demand and the volumes set in existing export contracts with Brazil and Argentina." This in part explains why the Bolivian government is stepping up its exploration efforts, announcing that 17 new wells will be drilled in 2019.

But there are also questions on the demand side, which even if reserves are boosted, could still undermine President Morales' vision of turning his country into a major South American energy hub. The IMF has already warned that US$4.3bn-worth of planned investment in gas separation and petrochemical plants may be unwise because of the limited volume of reserves. Gas production in Brazil has meanwhile been increasing, and could expand further due to the development of that country's offshore pre-salt fields, suggesting that when existing contracts that are due to end in 2019-2020 are renegotiated, the volumes may be reduced. A 2017 report by the Oxford Institute of Energy Studies (OIES) suggested that such a reduction "may have unintended consequences for Bolivia's economy, which is heavily dependent on gas exports to Brazil and Argentina". Gas accounts for nearly 30% of Bolivia's total exports. Indeed, demand from Argentina is also expected to fall as that country develops its giant Vaca Muerta shale oil and gas fields in Patagonia. Argentine officials have said that in two years' time they will no longer need to import any gas from Bolivia.

Still locked in a territorial dispute with Chile, landlocked Bolivia is looking to Peru for a potential solution to the gas export dilemma. Also in January, the Bolivian minister met Francisco Mezzano, his Peruvian counterpart. They said the two countries were looking at various energy integration and collaboration proposals. One of them would involve building a pipeline to the Peruvian port of Ilo, together with a liquefaction terminal, which would allow Bolivian LNG to be exported out to Pacific Rim markets.

REGION

Despite obstacles, e-commerce set to grow

E-commerce is set to grow dramatically in Latin America, despite a range of bureaucratic and logistical obstacles.

According to credit card company MasterCard, e-commerce will rise to exceed US$80bn-worth of sales across Latin America in 2019, double the estimated US$40bn achieved in 2016. The company says that the number of people who have shopped online will rise to 156m, up by 23.8% when compared with the 126m people who did so in 2016. According to Jeff Wilson, a MasterCard regional executive, as online retailing grows, Latin American consumers are demanding a faster, more secure, and user-friendlier online shopping experience. The company said it was taking various initiatives in 2019 to improve security, for example by introducing better authentication procedures.

At regional level the e-commerce sector is moving fast, generating a number of headlines. In January, Chile's finance minister Felipe Larrain said the government was considering a 19% tax – nearly double the original proposal – to be levied on multinational digital commerce companies with local operations. The aim would be to match the current 19% VAT rate paid by Chilean companies on domestic sales. The move would affect big international online retailers such as Amazon, Netflix, Spotify, and Uber, which are based outside Chile, but which offer their goods and services in the country. The final rate is not decided but is under discussion amid a wider tax-reform package. The right-wing government of President Sebastián Piñera has argued that Chile has benefited from the rollout of the digital economy, but that it is only fair that foreign companies targeting Chilean consumers should contribute to the country's development.

Global e-commerce companies have found it difficult to enter some of the most attractive Latin American markets. Amazon has found it hard to make progress in Brazil. It has been active in the country since 2012, but was

initially restricted to selling Kindle e-readers and ebooks. An attempt to sell more physical products, known as its First Party programme, with a dedicated local web platform, has struggled to make headway. The company encountered a host of obstacles: among them very poor logistics, bureaucracy, an intensely complicated tax system, and strong local competitors. The homegrown competitors include B2W Digital (owner of Lojas Americanas and Submarino) and Magazine Luiza. The latter is widely seen as a big local success story. These retailers are able to combine online sales with a physical network of retail outlets. As a result, they offer consumers the chance to 'click and collect' (to buy online but pick up the goods at a nearby physical store), thereby side-stepping some of the difficulties posed by door-to-door delivery in a country with notoriously poor transport links.

Some analysts argue that a first wave of successful Latin American e-commerce players will now face stronger competition as the global online retailers begin to better understand local markets. In this view Amazon will eventually crack the Brazilian market, perhaps through alliances or other ways of solving the problems posed by the country's poor logistics. In this view, MercadoLibre, the biggest local regional player, will also face more of a challenge. MercadoLibre (MELI) was founded in Argentina, listed in the US in 1999, and launched an IPO on the Nasdaq in 2007. It has the largest online marketplace and e-commerce platform in the region, operating across 19 South and Central American countries. It initially used the eBay marketplace model (in fact eBay was an early investor in MELI, although it exited in 2016).

MELI also offers retail financing and has a logistics network. Its share price has surged 235% over the last three years. According to Billy Duberstein of US investing site *The Motley Fool*, "MercadoLibre has strong roots in Latin America and knows the idiosyncrasies of the culture, for now at least, this offers it a clear advantage over Amazon." Yet analysts now expect its growth to level off somewhat: as it steps up investment in payments systems and delivery networks to face tougher competition, profitability may be squeezed, and debt leverage may increase.

Various analysts remain upbeat about the spread of e-commerce despite the difficulties. Fitch Solutions expects annual average growth of 11.9% in Latin American up to 2022. It describes Latin America as a "high risk, high reward" online market, with Brazil and Mexico the most attractive countries. Online shopping in Mexico should benefit from last year's conclusion of the Nafta 2.0 trade negotiations with the United States and Canada (otherwise known as the US-Mexico-Canada agreement, or USMCA) which will reduce uncertainty and boost cross-border e-commerce. Chile is seen as one of the more secure and stable markets, while Argentina, Peru, and Colombia may be affected by weak purchasing power. Across the region Fitch sees the big corporate battle being mainly a two-way affair between Amazon and MercadoLibre.

Economics site *Focus Economics* predicts that online sales will grow by 19% per annum over the next five years, above the global average of 11%. Total sales value could reach US$118bn by 2021. It says two of the world's fastest-growing online retail markets are in Latin America: Colombia and Argentina. Average annual spending per user is expected to grow from US$275 to US$330 over the next three years. Brazil is currently the largest online market place with an estimated US$17bn-worth of purchases in 2016. It was followed by Mexico (US$7bn) and Argentina (US$5bn). Yet all markets also face obstacles. *Focus Economics* comments, "Logistics, traffic and infrastructure are major issues in Latin America where logistics alone can amount to 15% of the cost of what's sold, well above other regions. Many online retailers have put logistics on the back burner for years, focusing on the user experience through purchase, and as a result it can take weeks for a purchase to arrive at the customer's door…"

CHILE

Copper set for modest improvement

Copper production and export earnings look set to increase this year, despite worries over China and the state of the global economy.

Cochilco, the Chilean copper commission, is maintaining a modestly optimistic outlook for production and exports of the metal this year. In January it said it is expecting the international price to rise to US$3.05/lb in 2019, and to US$3.08/lb in 2020. These prices were unchanged on Cochilco's November 2018 projections. They represent an advance of around 4.8% on the US$2.92/lb average achieved last year. Mining minister Baldo Prokurica said US-China trade tensions were holding prices back in the short term (copper was trading at around US$2.74/lb in mid-January). Uncertainty over Brexit (UK withdrawal from the European Union) might also cause volatility.

However, Cochilco was optimistic that there would be a "positive signal" in relations between the two economic superpowers that would ultimately prove beneficial for global demand of the metal in 2019. The commission expected total production in Chile to rise by 1.6% this year, to 5.941m tonnes, thereby positioning Chile for increased copper export values. Last year (2018), copper exports totalled US$36.495bn. Prices this year would be helped by a 2.5% increase in copper demand from China and by a 10% increase from India. Global demand for copper would increase by 2.4%.

In Chile, both short- and long-term production prospects are reasonably good. Last year's output growth reflected recovery at the giant Escondida mine (the world's largest, majority-owned by BHP-Billiton), which had suffered a 44-day strike in 2017, along with growth at Collahuasi (controlled by Anglo American and Glencore). In contrast, output at state owned Codelco dropped marginally during the course of the year. A separate Cochilco report brought encouraging news for the industry. It said total production could increase by nearly 30% in the next ten years to over 7m tonnes. The report acknowledged that output from existing mines will drop by nearly one-fifth due to falling ore grades. However, it argues that according to existing plans for additional capacity and the development of new mines will more than offset this effect.

BRAZIL

Ex-admiral appointed chairman of state oil giant Petrobras

Until January 2018, Fleet Admiral Eduardo Bacellar Leal Ferreira commanded the Brazilian Navy. Now he's overseeing the board of the state oil giant, Petrobras. Ferreira will be the chairman of a new-look 10-member board that will be entrusted with securing Petrobras' steady recovery from its notoriously central role in the long-running corruption investigation, Operation Car Wash. Roberto Castello Branco, grandson of the eponymous liberal economist who served as the first planning minister during the military dictatorship, is the chief executive.

In his first few weeks in office, Castello Branco has been ruthless about removing the last vestiges of the Workers' Party from senior positions in Petrobras management. In truth, the state oil giant has been following a much more pro-market agenda since 2016, but the final exit of those

appointed under former president's Luiz Inacio Lula da Silva and Dilma Rousseff marks a symbolic shift for a company often divided between its private and state stakeholders.

Half of the executive board has been promoted by President Jair Bolsonaro's government, including Castello Branco. The others were replaced in 2018 by the administration of then-President Michel Temer. "A new era begins with a long-term strategic vision and goal of generating value for shareholders and for Brazil," Castello Branco said in the filing. "Changes in Petrobras management reflect the new orientation."

The top executives are now aligned with a liberal, pro-investor policy set by Bolsonaro's right-wing government. In an internal company video interview sent to workers in early January, Castello Branco stressed that he would like to end the company's virtual monopoly in oil refining and make Petrobras a world leader in oil production. The CEO also dismissed the idea of a full privatisation.

Selling off assets
Petrobras is preparing to sell its system of gas pipelines, refineries and fertiliser plants. The sale of the gas pipeline network (TAG) in the Northeast and North is most advanced and should yield some US$ 9 billion. Some 60% of refineries in the South and Northeast will be sold in auctions to be organised shortly. Between 2019 and 2023, Petrobras hopes to receive some US$26.9 billion for the sale of certain assets.

US Investigation

Petrobras plans to continue trading oil and products in the US, despite firing one of its key traders and suspending business with major oil trading firms on bribery allegations. The oil giant said it has fired Houston-based trader Rodrigo Berkowitz and opened a widespread internal investigation after the Brazilian Federal Police said he and others demanded kickbacks in trading contracts. A Brazil judge issued an arrest warrant for Berkowitz on 3 December.

Other Petrobras employees have also been charged as part of the Carwash probe for allegedly negotiating bribes with trading firms including Trafigura Ltd., Glencore Plc., and Vitol Group in contracts with the state-controlled producer. Business with those companies has been temporarily suspended, Petrobras said on 20 December. An LPG trader has been also been dismissed by Petrobras.

Reality-show trading

Rio de Janeiro-based brokerage house Ativa is trying to increase interest in stocks among Brazilians, creating a reality TV show in a country obsessed with the genre. 'Money Master' is due to air on the brokerage's website during first week of February. The idea is fairly simple: Six teams of traders have 50,000 reais ($14,000) each to invest in stocks, with the day's worst performer eliminated from the competition until the two-team runoff on Friday, 8 February. The winner gets a free trip to New York; the runner-up gets a top-of-the-range chair.

Over 150 people applied to be a contestant on the first two days of signups, according to Rebeca Nevares, a partner at the brokerage who came up with the idea, having been on a similar show herself in 2008 (she came in second). The show may get an extra boost from the Sao Paulo stock index's record rally this year, and Nevares hopes it helps make ordinary Brazilians more comfortable with the idea of trading equities and, ideally, opening an Ativa account.

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