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# Brazil: After football and politics – the economy

**Brazilian growth has disappointed this year. Many economists argue that the country needs new and more dynamic 'pro-growth' policies. But the country has been distracted; first by the Fifa World Cup, and second by the long presidential election campaign, which most likely will stretch to two rounds, with a run-off in late October. The result is that major new policy announcements are not likely until early 2015.**

There is a lot to be done, however. In the Central Bank of Brazil (BCB)'s latest (11 July) weekly survey of economists, the consensus forecast for real annual GDP growth this year dropped again to only 1.05% (down on the 2.5% posted in 2013), while inflation forecasts remained stubbornly high (6.48% was the consensus for 2014, just under the target ceiling of 6.5%). The BCB attributes this year's poor performance to weak consumption and lower investment, although it insists that Brazil will not slip back into recession. There are other problem areas too. In the first quarter, the country registered a record current account deficit of US$40bn. In May, the primary public sector deficit was a worrying BRL11bn (just under US$5bn).

If anything, the World Cup has increased the problem in the short term, boosting inflationary pressures. While beer sales and tourism services have benefitted, there have been many more official or informal holidays. In an average year, there are nine national holidays and seven state or regional ones, for a total of 16. In Rio, which closed down every time the national team played, there have been 12 days off in the first half of the year alone. The Federação das Indústrias do Estado de São Paulo (Fiesp) says that a single day off costs the manufacturing sector US$3.6bn. Sales of cars and other big ticket consumer durables seem to have been hit particularly hard. So from an economic point of view, there will be a bit of a World Cup hangover, as the economy takes time to get moving again.

While the BCB is confident that activity will eventually pick up – citing the global economic recovery and relative currency weakness, which should stimulate exports – business confidence is low and many companies are taking a 'wait and see' position, on election-related uncertainty. Low business and consumer confidence could be a real problem. Analyst Cristiano Romero, writing in the business daily *Valor Econômico*, has warned that "Brazil is beginning to show confidence indicators similar to those of 2009, when GDP was negative between the first and third quarters (with contractions of 2.7%, 2.4% and 1.5% respectively)."

If the opinion polls are to be believed, the most probable outcome of the October race will be the re-election of President Dilma Rousseff. According to media reports, apart from some fine tuning, she will not propose any new policy initiatives until November at the earliest. At that point, she is expected to start rebuilding bridges with a disaffected business community.

**Rousseff**

In an interview with *GloboNews* as the World Cup was closing on 13 July, President Rousseff addressed the sluggish performance of the Brazilian economy. Brazil, she said, would face a new cycle based on investment, competitiveness, education and innovation. The country had "all the conditions to achieve growth rates higher than what we've experienced in recent years".

With the incumbent finance minister, Guido Mantega, not expected to serve a second term, Rousseff may be looking for a replacement able to secure a rapprochement with the private sector. Nor has the main challenger, Senator Aécio Neves of the centre-right Partido da Social Democracia Brasileira, been very specific about his economic policy plans. But by announcing that the former BCB president Armínio Fraga will be his 'economy czar', he has sent a clear signal that he will have a market-friendly approach. Neves, unequivocally, is the candidate favoured by the business community in this election.

## SPECIAL FOCUS

### VENEZUELA

## Pdvsa and the Bolivarian Republic of Venezuela: Comrades in adversity

**The annual accounts of Venezuela's state-owned oil company show that both it and the government are (very) short of cash.**

Petróleos de Venezuela (Pdvsa), the state-owned oil company and government cash-cow, has scale by world standards. Total proven reserves of conventional and extra heavy crude oil of nearly 300bn barrels are the world's largest - and about 12% more than those of Aramco, its peer in Saudi Arabia. Just under one third of the reserves are held by joint ventures (JVs) in which Pdvsa is a majority investor.

### Huge reserves, but no growth

However, as **chart 1** shows, Pdvsa is not a growing business. Total crude production has stagnated at just over 3m barrels per day(b/d). Exports of crude in 2013, at just under 2m b/d, were more or less the same as in 2011. Exports of refined oil products - of about 0.5m b/d last year, have been falling.

**Chart 1: PDVSA - Selected reserves, production and shipment data**

| | 31-Dec-11 | 31-Dec-12 | 31-Dec-13 |
|---|---|---|---|
| **Proven developed/undeveloped reserves:** | | | |
| Natural gas (bn cubic feet) | 195,234 | 196,409 | 197,089 |
| Conventional crude oil (mn bbl.) | 40,187 | 40,598 | 40,054 |
| Extra heavy crude oil (mn bbl.), of which: | 257,384 | 257,137 | 258,299 |
| Controlled by JVs | 92,405 | 92,267 | 92,664 |
| | | | |
| **Oil and natural liquid gas (NLG) production etc. ('000 bbl/day)** | | | |
| Total production | 3,129 | 3,034 | 3,025 |
| Crude oil exports | 1,916 | 2,060 | 1,935 |
| Exports of products | 553 | 508 | 490 |
| | | | |
| Refined in Venezuela | 991 | 932 | 952 |
| Refined outside Venezuela | 1,183 | 955 | 991 |
| Refining capacity in Venezuela | 1,303 | 1,303 | 1,303 |
| Refining capacity outside Venezuela | 1,183 | 955 | 991 |
| | | | |
| **Other items ('000 bbl/day)** | | | |
| Supply to the government for Petrocaribe deliveries | 377 | 463 | 394 |
| Supply to the government for delivery to China | 480 | 530 | 550 |
| Supply for Portugal/Iran/Belarus deals | 99 | 99 | |
| **Subtotal** | **956** | **1,092** | **944** |
| | | | |
| ***Source:*** *PDVSA* | | | |

Petrocaribe Ts & Cs

Petrocaribe system allows for the purchase of market value oil from Venezuela's Pdvsa on preferential payment terms, with a 5%-50% upfront payment (and a grace period of one to two years); the remainder can be paid through a 17-25 year financing agreement at 1% interest if oil prices are above US$40/barrel. Payment is also accepted in kind (goods and services).

The company's refineries have been operating at near full capacity, and have not been increasing throughput.

Pdvsa's annual report for 2013 quantifies the government's (and, therefore, Pdvsa's) commitments to provide oil in support of the government's geopolitical objectives, and to service barter loans. Production dedicated to these ends has been running at about 1.0m b/d over the last three years. In effect, about one third of daily production has been pre-sold. Deliveries under these arrangements fell from 1.09m b/d in 2012 to 0.94m b/d in 2013. Requirements to supply oil to Portugal, Iran and Belarus ended in the earlier year. Deliveries to China rose from 0.53m b/d in 2012 to 0.55m b/d in 2013.

However, deliveries to other countries in the region under the Petrocaribe oil alliance dropped from 0.46m b/d in 2012 to 0.39m b/d in 2013. We suggest that this points to one (or both) of two developments, neither of which is positive. One is a slippage in demand and/or ability to pay on the part of the 17 Petrocaribe client states, which are acquiring Venezuelan oil on concessional terms (*see sidebar*). The other (which we think more likely) is a reluctance and/or inability on the part of the Venezuelan government and of Pdvsa to maintain deliveries at 2012 levels.

## Cutting back on the social programs

**Chart 2** (*overleaf*), which looks at selected items from Pdvsa's income statement, shows that the company's contributions to government-backed social programs have also been reduced. Contributions for social development in 2013 amounted to US$7.8bn, or about half of what they were in 2011. Net contributions to FONDEN, the national development fund, were US$5.2bn, or a little over one third of what they had been in 2011. Even so, net contributions to FONDEN, along with contributions for social development, amounted to almost one eighth of gross revenues from sales of oil and oil products. Net contributions to the Fondo Simón Bolívar para la Reconstrucción (a government-controlled fund for housing) were, last year, relatively small in the overall context of Pdvsa's operations at US$1.7bn, but significant by most other standards.

However, gross revenues have been falling, given the stagnation of output and slippage in the prices received by Pdvsa for its products. Revenues from the sale of oil and other products were basically the same in 2012 (US$124.5bn or so) as in 2011. Subsequently, they dropped by around 9% to US$114.0bn in 2013. Lower oil prices have kept a lid on the purchases of crude oil and products that Pdvsa makes. However, production royalties and depreciation & amortisation expenses have crept upwards over the last two years or so. Most ominously, operating expenses, at US$22.5bn in 2013, were 55% higher than they were in 2011 (if marginally lower than they were in 2012). Operating expenses are among very few items in the company's income statement that are not explained in detail by a note to the accounts. They do not include exploration expenses (of US$0.2bn-US$0.4bn annually over the last three years) or sales, administrative and general expenses (of around US$4.0bn annually).

**The grim truth is this: Pdvsa's gross profit from its core business of extraction, processing and shipment of hydrocarbons (i.e. the sales of oil and products less total expenses, as per *chart 2*) has dropped from just under US$35.6bn in 2011 to US$25.8bn in 2012 to US$16.4bn in 2013.** Of course, these amounts include production royalties, but are before the payment of contributions for social development, transfers to the Fonden or income tax.

## Pdvsa's US$30bn gold mining subsidiary

However, a glance at Pdvsa's total revenues indicates that something like 15% came from 'finance income' in 2013, up from a little over 2% in 2012 and a negligible amount in 2011. An examination of the notes to the accounts shows that most of the US$20.3bn booked as finance income comes from two items.

| Chart 2: PDVSA - Selected items from the income statement (US$m) | | | |
|---|---|---|---|
| **Year ending:** | **31-Dec-11** | **31-Dec-12** | **31-Dec-13** |
| Sales of oil and products | 124,754 | 124,459 | 113,979 |
| Finance income | 765 | 3,152 | 20,347 |
| **Total revenues** | **125,519** | **127,611** | **134,326** |
| | | | |
| Purchases of crude oil and products | 39,783 | 40,012 | 37,017 |
| Operating expenses | 14,511 | 22,974 | 22,544 |
| Depreciation & amortisation | 6,871 | 7,105 | 8,335 |
| Production royalties | 17,671 | 17,730 | 19,262 |
| Finance costs | 3,649 | 3,401 | 2,934 |
| All other expenses | 11,321 | 10,840 | 10,465 |
| **Total expenses** | **90,157** | **98,661** | **97,623** |
| | | | |
| Contributions for social development/ FONDEN | 30,079 | 17,336 | 13,023 |
| | | | |
| **Profit before income tax** | **5,283** | **11,614** | **23,680** |
| | | | |
| Current tax | 5,171 | 4,982 | 12,939 |
| Deferred tax (benefit) expense | -3,164 | 2,297 | -5,094 |
| | | | |
| **Operating profit after tax** | **3,276** | **4,335** | **15,835** |
| Other items (net) | 1,171 | 814 | -2,928 |
| Total comprehensive income | 4,447 | 5,149 | 12,907 |
| | | | |
| ***Memo Items:*** | | | |
| *Contributions for social development* | *15,604* | *9,025* | *7,829* |
| *Gross contributions to FONDEN* | *14,475* | *14,994* | *10,435* |
| *Grants received through FONDEN* | | *-6,683* | *-5,241* |
| *Net contributions to FONDEN* | *14,475* | *8,311* | *5,194* |
| *Net contributions to Fondo S. Bolívar* | | | *1,666* |
| | | | |
| ***Notional gross profits from oil/gas business*** | ***34,597*** | ***25,798*** | ***16,356*** |
| | | | |
| *Profit on sale of 40% of ENA* | | | *9,524* |
| *Forex profit from fall in VEB* | | | *7,817* |
| ***Source:*** *PDVSA* | | | |

"Pdvsa's standard operating procedure is to hold its US dollar revenues on its own books in that currency. It only sells to Banco Central de Venezuela (BCV, the central bank) the minimum foreign currency needed to buy the local currency, Bolivares, that it needs within the country."

The first of the two items is an exchange gain of US$7.8bn. Pdvsa's standard operating procedure is to hold its US dollar revenues on its own books in that currency. It only sells to Banco Central de Venezuela (BCV, the central bank) the minimum foreign currency needed to buy the local currency, Bolivares, that it needs within the country. This is prescribed in the Reform Law of the BCV, which has been effective since 20 July 2005. Usually, Pdvsa is a net debtor in relation to parties within Venezuela with which it deals. In other words, it typically has net liabilities in Bolivares. These local currency liabilities include "accounts payable to the Oficina Nacional del Tesoro (ONT - the Treasury of the Bolivarian Republic); accruals payable to contractors, presented as accruals and other liabilities; accounts payable to domestic suppliers; financial debt in Bolivares and liabilities for employee benefits and other post-employment benefits from local employees." On the other hand, local currency "monetary assets mainly consist of accounts receivable owned by [the government] and other government institutions; fiscal credits to be recovered and prepayments to contractors".

The amounts involved are very substantial. Just before the Bolívar was devalued by just under a third (32%) in early February 2013, Pdvsa's local currency net liabilities amounted to just over US$25.0bn. The devaluation

"The sale of 40% of ENA to the government did not result in a cash payment of US$12.0bn to Pdvsa. Rather, amounts owed by Pdvsa to the government (i.e. accounts payable) were reduced by this amount. At the end of the year, Pdvsa declared a dividend of US$10.0bn. This was not paid in cash. Rather, accounts receivable (specifically from the government in relation to oil provided by Pdvsa for Petrocaribe deliveries) were reduced by this amount."

reduced the US dollar value of the net liabilities by US$7.8bn, and this amount was booked as a gain.

The second, and larger item, was a profit of just over US$9.5bn booked from the sale of a 40% stake in a company called Empresa Nacional Aurífera (ENA). ENA was incorporated in December 2013 with equity of US$30.0bn. According to the notes to the Pdvsa accounts, "ENA is mainly engaged in exploring, developing, producing, transforming, refining, manufacturing and distributing any kind of material deriving from the utilisation of gold mines and fields at all phases". In fact, ENA looks to be a shell company. As Pdvsa's own accounts make clear, ENA did not operate at all during 2013. As we discuss below, the valuation of ENA seems entirely notional.

**This leads to another grim truth: but for the devaluation and the ENA deal, Pdvsa's profit before income tax would not have been US$23.7bn. It would have been US$17.3bn less, or US$6.4bn - a little over half of the US$11.6bn profit before income tax in 2012. Pdvsa simply is not in the position to support the level of contributions to government-backed social programs and the FONDEN that it was making as recently as 2011.**

### Shuffling paper, but not cash, with the government

Several aspects of Pdvsa's balance sheet, which is summarised in **chart 3**, are noteworthy. The first is that the company does not appear to be highly geared. Total financial debt, at US$36.4bn, is not particularly large. As is clear from the income statement, its cashflows are easily able to cope with the interest payments.

Accounts receivable have remained broadly constant. They were boosted by US$30.0bn, being gold exploration rights granted by the government to Pdvsa at the end of December 2013 as a part of the ENA deal. However, given that Pdvsa was unable to determine the true value of the rights, this amount was written off immediately.

The sale of 40% of ENA to the government did not result in a cash payment of US$12.0bn to Pdvsa. Rather, amounts owed by Pdvsa to the government (i.e. accounts payable) were reduced by this amount. At the end of the year, Pdvsa declared a dividend of US$10.0bn. This was not paid in cash. Rather, accounts receivable (specifically from the government in relation to oil provided by Pdvsa for Petrocaribe deliveries) were reduced by this amount.

These transactions reduced both accounts receivable from and amounts payable to related parties (i.e. mainly the government, FONDEN and other official institutions) by roughly the same amount. They ensured that the government did not have to pay US$12bn in cash for the 40% of ENA that it purchased from Pdvsa at the end of last year. They also reduced the amount that the government would otherwise have had to pay for the oil that it needed for its Petrocaribe commitments. As noted above, profit before tax would have been just US$6.3bn last year had it not been for the devaluation of the currency in February and the ENA deal. At US$10.0bn, the dividend is much larger than would ever be contemplated by an enterprise that was operating according along purely commercial lines.

In essence, the government is squeezing Pdvsa for cash, even though the company's ability to support FONDEN and other social programs has diminished. Pdvsa is sharing some of the pain with its JV partners. The notes to the accounts indicate that these liabilities (mainly dividends from the operations) have risen from US$0.8bn in 2011 to US$1.8bn in 2012 to US$2.5bn at the end of last year.

One item in the balance sheet that is not a problem now, but which unquestionably has the potential to become one, is Pdvsa's liabilities for employee benefits to employees, both present at past. The total liability of US$16.6bn is not particularly large in the context of total assets of US$231.1bn. However, it has grown by over 60% since the end of 2011.

| Chart 3: PDVSA - Selected items from the balance sheet (US$m) | | | |
|---|---|---|---|
| | 31-Dec-11 | 31-Dec-12 | 31-Dec-13 |
| Property plant & equipment, net | 98,221 | 115,905 | 129,831 |
| Deferred tax assets | 12,753 | 11,627 | 17,494 |
| Accounts receivable etc. | 7,008 | 9,223 | 9,101 |
| Other non-current assets | 7,491 | 6,787 | 6,962 |
| **Total non-current assets** | **125,473** | **143,542** | **163,388** |
| Inventories | 10,116 | 11,606 | 12,963 |
| Accounts receivable etc. | 31,576 | 41,706 | 36,020 |
| Cash | 8,610 | 8,233 | 9,133 |
| Other current assets | 6,379 | 13,337 | 9,616 |
| **Total current assets** | **56,681** | **74,882** | **67,732** |
| **Total Assets** | **182,154** | **218,424** | **231,120** |
| | | | |
| Share capital | 39,094 | 39,094 | 39,094 |
| Retained earnings | 17,353 | 19,570 | 23,169 |
| Other | 3,243 | 3,243 | |
| Minority interests | 9,939 | 10,579 | 22,223 |
| **Total Equity** | **69,629** | **72,486** | **84,486** |
| | | | |
| Financial debt | 32,496 | 35,647 | 36,353 |
| Employee benefits | 10,192 | 13,797 | 16,624 |
| Accruals and other liabiities | 17,471 | 17,028 | 17,149 |
| Other | 5,333 | 8,406 | 11,282 |
| **Total non-current liabilities** | **65,492** | **74,878** | **81,408** |
| Financial debt | 2,396 | 4,379 | 7,031 |
| Employee benefits | 805 | 1,010 | 1,048 |
| Trade accounts payable | 12,376 | 16,747 | 21,404 |
| Income tax payable | 4,452 | 2,267 | 10,116 |
| Accruals and other liabiities | 24,914 | 44,067 | 24,839 |
| Other current liabilities | 2,090 | 2,590 | 788 |
| **Total current liabilities** | **47,033** | **71,060** | **65,226** |
| **Total liabilities** | **112,525** | **145,938** | **146,634** |
| | | | |
| **Total Equity and Liabiities** | **182,154** | **218,424** | **231,120** |
| | | | |
| ***Memo items:*** | | | |
| *Accounts payable to related parties* | *22,998* | *35,607* | *14,937* |
| *Accounts receivable from related parties* | *23,582* | *31,351* | *26,760* |
| *Liabilities to JV partners* | *796* | *1,750* | *2,544* |
| **Source:** PDVSA | | | |

"Pdvsa's cash flow statement, summarised in **chart 4**, confirms the overall picture of a financially stressed company."

### Part-funding (inefficient) capex by squeezing the trade creditors

Pdvsa's cash flow statement, summarised in **chart 4**, confirms the overall picture of a financially stressed company. Capital expenditure (Capex) in 2013 amounted to around US$23.3bn. As we have seen, this was not sufficient to increase output. Depreciation & amortization has been rising, but at around US$8.3bn is much less than the capital expenditure. Given that net new borrowings were just over US$4.0bn, about US$9bn came from other all other sources. Those sources included a US$7.9bn rise in trade accounts payable. Meanwhile, Pdvsa has been husbanding cash by allowing increases in tax and other liabilities (or being permitted to do so).

In short, Pdvsa and its shareholder, the Bolivarian Republic of Venezuela, are comrades in adversity. Pdvsa's annual capital expenditure of tens of billions of US dollars is barely maintaining production volumes. Cashflow is being reduced by the relentless rise of operating costs (and, over the last two years, the fall in the price of crude oil -from US$100/barrel to US$98/barrel - and gas - from US$5.24 to US$3.97). Pdvsa already has made a significant reduction to its contributions to FONDEN and to other social programs. It is squeezing its suppliers and its JV partners.

**Chart 4: PDVSA - Selected items from the cash flow statement (US$m)**

| | 31-Dec-11 | 31-Dec-12 | 31-Dec-13 |
|---|---|---|---|
| Depreciation & amortisation | 6,871 | 7,105 | 8,335 |
| Gain from sale of 40% of ENA (non-cash) | | | -9,524 |
| Increases in accounts receivable | -17,978 | -12,113 | -21,588 |
| Increases in trade accounts payable | 2,239 | 4,371 | 7,924 |
| Increased income tax and other liabilities | 44,259 | 34,048 | 56,930 |
| Payments of income tax, royalties etc. | -18,032 | -12,156 | -22,753 |
| | | | |
| Capital expenditure | -17,908 | -25,032 | -23,306 |
| | | | |
| Net new borrowings | 6,213 | 5,593 | 4,031 |
| | | | |
| *Memo Item: In December 2013, PDVSA formed a subsidiary Empresa Nacional Aurífera (ENA). PDVSA then sold a 40% stake in ENA to the government for US$12bn and booked a profit of just over US$9.5bn. This was not paid in cash. Amounts owed by PDVSA to the government were reduced by US$12bn. At the end of the year, the government made a grant, nominally worth US$30bn to PDVSA: this grant was the right to undertake gold exploration and mining activities.* | | | |
| *Memo Item: In December 2013, PDVSA declared a dividend to the government of US$10bn. This was not paid as cash. Rather, amounts owing by the government to PDVSA in respect of Petrocaribe deliveries were reduced by US$10bn.* | | | |
| ***Source:*** *PDVSA* | | | |

For its part, the government has reduced the amount of money that it has to pay Pdvsa for oil that is used for Petrocaribe commitments. It has done that by extracting a US$10bn dividend from Pdvsa, even though the oil giant is marginally profitable and faces a number of strategic problems. The dividend would have been unjustifiable but for the US$17.3bn boost to earnings which came from two one-off events - the devaluation and the profit from the ENA deal. Central to the ENA deal was the concept that 40% of the new shell company was worth US$12.0bn in late December 2013, even though it had not commenced trading.

"For its part, the government has reduced the amount of money that it has to pay Pdvsa for oil that is used for Petrocaribe commitments. It has done that by extracting a US$10bn dividend from Pdvsa, even though the oil giant is marginally profitable and faces a number of strategic problems."

To date, Pdvsa has had sufficient financial strength and cashflow to shelter the government (through payments of royalties, taxes, contributions to social programs and dividends) from the generally downwards move in energy prices.

The latest data suggests that this is no longer the case. Both of the comrades in adversity are far more vulnerable to a fall in the price of oil - whether as a result of a crisis in China or some other reason - than they were one or two years ago.

## All (economic) power to Rafael Ramírez?

**Amid the often chaotic and confusing ebb and flow of Venezuelan politics, analysts jumped on two important incidents in June. On 13 June, Rafael Ramírez, the energy minister, president of Pdvsa and *de facto* economic policy supremo, made a speech to investors in London in which signalled a move towards more pragmatic economic policies, including an eventual re-unification of the country's various exchange rates. Then on 17 June President Nicolás Maduro announced the dismissal of Jorge Giordani from his job as planning czar.**

Ramírez and Giordani are two engineers whose lives and careers have been intimately intertwined with Venezuela's 'Bolivarian Revolution'. Both have spent more than ten years close to the heart of economic policy-making. In the latest turn of events, Ramírez is definitely in, and Giordani is unequivocally out.

How did this happen? Giordani served as finance and then planning minister for much of the 14-year presidency of the late President Hugo Chávez (1999-2013), but seems to have been saddled with the blame for the country's catastrophically bad exchange rate management system, which he helped design and introduce in 2003. Although President Maduro publicly thanked him for his services to the Revolution, Giordani responded with a furious open letter accusing Maduro of a lack of leadership and attributing the difficulties of the multi-tier exchange rate system not to any policy mistakes or misconceptions of his own, but to the incompetence and corruption of others. Giordani's letter has sparked a new – and very public – round of bitter factional struggles within the ruling Partido Unido Socialista de Venezuela (PSUV).

Ramírez, by contrast, has moved more deftly. He made his reputation in the April 2002 coup attempt against President Chávez, and went on to help defeat a lengthy strike at Pdvsa (December 2002-February 2003) and establish a new pro-government management in the company. He is famous, or notorious, for saying Pdvsa was '*roja, rojita*' ('red, very red' – a reference to the colour of the *Chavista* movement). Pdvsa of course, as Venezuela's main source of foreign exchange, has been essential to the survival of the government (its 2012 revenues of US$124bn represented 30% of Venezuelan GDP). With Giordani out, Ramírez has now become the clear economic policy 'czar' in the country.

"No person in Venezuelan history has ever held the job of oil minister, president of PDVSA, and chief economics minister. I venture to say that nobody short of Hugo Chávez has ever wielded as much power in modern Venezuelan history. Is it an exaggeration to suggest Ramírez is now more powerful than Maduro?"
*- Juan Nagel, caracaschronicles.com*

As the well-known blogger Juan Nagel noted on the website *caracaschronicles.com*, "no person in Venezuelan history has ever held the job of oil minister, president of PDVSA, and chief economics minister. I venture to say that nobody short of Hugo Chávez has ever wielded as much power in modern Venezuelan history. Is it an exaggeration to suggest Ramírez is now more powerful than Maduro?"

If he does in fact have all this power, the question is what he will do with it. At his presentation to investors in London, billed as the first of a series of meetings "to re-establish relations with the financial markets" he said, "We need to reach a balance in the exchange rate system. It's clearly demonstrated that it is no longer suitable for our economy. Therefore we are going to go in a transition period towards a convergence of those exchange rates".

At the moment, Venezuela has an official rate of BF6.3/US$ (used almost exclusively for imports of food and medicines) , a secondary 'Sicad 1' rate of around BF10/US$ (used for imports from designated 'strategic' sectors), a Sicad 2 rate hovering at around BF50/US$ (used for everything else), and a black market rate that has been trading at around BF70/US$ and has come in only slightly from previous highs of BF80/US$ since the Sicad 2 was introduced early this year – indicative of the continued acute dollar shortage locally.

While Ramírez gave no details of how the convergence will be achieved, analysts believe he may be aiming at somewhere between the Sicad 1 and Sicad 2 rates: the government has recently been moving increasingly more transactions to the Sicad 2 rate, which already constitutes a rolling devaluation, effectively.

Ramírez said the aim of convergence was to eliminate distortions and return to growth. To boost investor and creditor confidence, the country would also move off-budget funds (like the National Development Fund [FONDEN] and the China Fund) back into the central bank's official reserves, he added. This would boost official foreign currency reserves, which were down 18% year-on-year to a low of US$21bn as of end-June.

In a comment clearly aimed at improving perceptions of the country's ability to borrow and service its debt, Ramírez also indicated that Venezuela's total debt to China is lower than the market estimate of around US$40bn. In fact, he said, Venezuela had borrowed US$41bn from China over the last seven years, but had already paid back US$24bn of that amount. Ramírez also suggested the government would consider a step that in the past has been unthinkable: reducing the massive domestic subsidies for petrol (these subsidies are believed to cost at least US$12bn-US$15bn a year).

"Luis Vicente León of the local consultancy Datanálisis says that to be effective, exchange rate unification will need to be complemented by eight other measures, including devaluation, an elimination of the fiscal deficit, higher petrol prices, a reduction of preferentially priced oil exports to political allies, and reductions in money supply growth."

So will Ramírez use his power to preside over a return to more orthodox economic policies, and will these succeed in resolving the country's economic crisis? The consensus among independent observers at this stage seems to be no more than 'perhaps'. Their view is that eliminating the multi-tier exchange rate system is a necessary but not sufficient move to resolve the country's financial mess. There is much else wrong with the economy. The recent pattern has been for a massive fiscal deficit to be covered by central bank money printing, which has fuelled inflation (the annual rate was 61% in May). There are widespread shortages across the entire economy. The International Monetary Fund (IMF) expects GDP to contract by around 1% in real annual terms this year.

Venezuelan bond prices have nevertheless recently rallied on the back of the statements by Ramírez and increases in oil prices (Brent oil rose to over US$115 a barrel for the first time in nine months, boosted by new signs of political instability in Iraq). In theory, higher oil revenues would help reduce Venezuela's fiscal deficit and stabilise the economy. But according to Alberto Ramos, chief Latin American economist at Goldman Sachs, "The level of macroeconomic dysfunction is so deep that the story isn't really about oil prices anymore. Unless policies change dramatically, I'd be concerned even with the oil price at US$150 a barrel". Luis Vicente León of the local consultancy Datanálisis says that to be effective, exchange rate unification will need to be complemented by eight other measures, including devaluation, an elimination of the fiscal deficit, higher petrol prices, a reduction of preferentially-priced oil exports to political allies and reductions in money supply growth.

While Ramírez may enjoy unprecedented economic policy-making powers, his room for manoeuvre is limited by Venezuela's very fragile economy and by the furious political faction fighting within the PSUV. Boosting oil output and revenue is no easy task, since as we noted earlier Pdvsa's output has still not fully recovered from the effects of the 2002 strike more than a decade ago (oil output last year was 2.9m b/d, still beneath the pre-strike level of 3.0m b/d). Reducing fuel subsidies ahead of next year's congressional elections would be especially difficult. These and other unpopular moves may put Ramírez in firing range of the increasingly bitter factional infighting within the ruling party.

## CHILE

### Codelco faces key challenges

**All is not well at Corporación Nacional del Cobre de Chile (Codelco), the state-owned copper mining company that is one of the driving forces of the Chilean economy. In the first quarter, pre-tax profits fell 38% to US$539m, on the back of an 11% fall in international copper prices relative to the year-earlier period. There are concerns over how the corporation will fund the heavy investments it needs to offset falling copper ore grades and depleted mines. And on 6 June, the chief executive officer (CEO), Thomas Keller, stepped down after policy disagreements with the board of directors.**

In some ways, it is a familiar story. Codelco, like Mexico's state oil company Petróleos Mexicanos (Pemex) or the giant Petróleos de Venezuela (Pdvsa), is a goose that lays golden eggs. Over decades, governments have appreciated those eggs, become reliant on, and even addicted to them, as they represent a vital stream of revenue for the treasury. But now the eggs are getting more difficult to produce; the goose is unhappy and it needs some care and attention (read investment) to get it laying again. Something has to change.

The big challenge for Codelco is that it needs to invest heavily to maintain and increase copper output. Last year, it noted that, with current technology, existing ores at its Chuquicamata open cast mine (the largest copper mine in the world) will run out in ten years time. There is still a lot more copper there, but to extract it Codelco will need to go underground, digging four 1,500m tunnels to add some 140,000 tonnes of copper ore output per day. The underground mining operation could come onstream in 2018 and be completed by 2060. It is considered one of the most ambitious mining projects in the world today, and would have an initial investment cost of some US$4.2bn. Codelco's unions have reservations, because employment at the mine would fall. New investment is also needed at the El Teniente mine, which is over 100 years old. Energy costs are rising. Elsewhere, in its controversial proposed US$6.8bn expansion at its Andina mine, Codelco must convince environmental critics that it is doing enough for the protection of glaciers in the Andes, measures now required by law. Under Codelco's current investment proposals, more than US$20bn will be required to increase output by around 10% this decade. The corporation has warned that without the investments, output will fall by more than half.

This is where the corporation's rather old-fashioned governance becomes a problem. First, under existing legislation, after paying taxes and royalties Codelco in effect hands over all its profits to the government, which decides on a piecemeal basis how much to keep for the treasury and how much to give back for reinvestment. The system means Codelco's investment programme is at the mercy of the cash needs of the government of the day. At the end of June, the new government led by President Michelle Bachelet said Codelco could have a relatively miserly US$200m back from last year's profits. Admittedly, the administration described this as an interim measure and said it was working on new legislation to put Codelco's long term financing on a more sustainable footing. In July, Codelco said it had separately raised EUR600m (around US$816m) in 10-year bonds for its long term investment needs.

In second place, Codelco is run by a board, where political considerations can loom large. There are nine members. Three are appointed by the government of the day, two are worker representatives, and four are independents selected from within the mining industry. When governments change, the pattern has been for the three government board members to be replaced. In

**LS Nikko-Codelco JV**

On 10 July South Korea's LS Nikko announced a US$96m joint venture with Codelco (66%-34% respectively) for a gold and silver smelting complex in Mejillones. The plant is slated to produce 5.0 tonnes (t) of gold annually, 540t of silver and 200t of selenium. Construction on the plant will begin this year, with operations due to start in mid 2016.

May, President Bachelet duly appointed Oscar Landerretche, an economist, as the new chairman, along with two new directors, Dante Contreras (another economist) and Laura Albornoz (a lawyer). On 6 June, the board said CEO Thomas Keller had been dismissed in a 5-3 vote, with one director abstaining (how individual board members voted was not revealed). Octavio Araneda, a senior manager, has been appointed interim CEO pending the search for a full time replacement. Both Landerretche and Keller have been relatively open about their differences of opinion. Landerretche said Codelco was moving into a new phase that would require new leadership. Keller, who had been in the job for only two years (like his immediate predecessor) had focused resolutely on cutting costs and developing long-range investment plans. The first of those priorities had brought him into conflict with Codelco's unions, which were involved in various strikes last year.

Juan Carlos Guajardo, an executive at Chile's Centre for Copper and Mining Studies (Cesco), is very critical of Keller's removal. He says the board decided to sack the CEO based on only two years in the job, too short a time for a proper assessment, adding "the new board supported the unions' view, which is a very negative thing to do to those who believed Codelco was going to be more independent". Landerretche has defended the importance of a dialogue with Codelco's workforce and has said he is interested in the collaborative models implemented in German, Scandinavian, and Japanese companies, and that this does not preclude action to "sustain and deepen" Keller's cost-cutting initiatives.

In reality, the new government is only now beginning to consider how to handle Codelco. Because of the administration's high profile plans to introduce free university education, it has been assumed that it will be unwilling to relax its control over Codelco finances. But in early June, the deputy finance minister, Alejandro Micco, stated: "this government believes in a stronger Codelco, which requires more investment". He was less forthcoming on where the money might come from, although he suggested that if Codelco didn't want to raise money on capital markets it might be given access to Chile's sovereign funds (offshore wealth funds, which stood at US$23bn at the end of February).

## CHILE

### Bachelet's pension reform: missing all the points

**The formation of a state-owned Administradora de Fondos de Pensiones (AFP) will probably not make the pensions system more competitive. Nor will it extend coverage to the poorest Chileans. Further, it will not deliver changes that would improve an already strong system.**

In mid-June, Chile's President Michelle Bachelet signed a bill that provides for the establishment of a state-owned Administradora de Fondos de Pensiones (AFP - pension fund management company). This initiative is one of 50 reform measures that Bachelet promised to undertake in her first 100 days in office following her election for a second (non-consecutive) term. (She first served in 2006-2010).

The strategic objective is to reduce income inequality in Chile. While by many metrics Chile's overall economic performance has been (very) good in recent years, not all of its citizens have shared in the benefits. According to the World Bank, Chile's Gini index was 52.1 [where a score of 0 implies perfect equality and a score of 100 implies perfect inequality in income distribution] in 2009, the latest year for which the data is available. The corresponding figures for other Latin American countries include: Argentina (2010) 44.5; Mexico (2010) 47.2; and Uruguay (2010) 45.3. In fact Chile has the highest Gini index of any member of the Organisation for Economic Co-

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operation and Development (OECD). Along with Mexico, Chile is the only Latin American country in the OECD.

The tactical aims are to make the pensions market more competitive (in terms of fees and services) and to dramatically extend the coverage of the AFP system. Many workers who are self-employed, in the informal economy, working in isolated areas or on low incomes do not contribute to the system. The president noted that of a total of 9.6m workers eligible to participate in the system, only 5m actually contribute to it.

In March 2008, during her first term, Bachelet had introduced new, basic Solidarity Pensions (Pensiones Solidarias) for the poorest 60% of the population not covered by the AFP system. She also introduced a monthly top-up (Aporte Previsional Solidario - currently CLP82,053 or US$148) for low-income workers that had contributed to the AFP system for at least 20 years, but had not accumulated a nest egg large enough to support them in retirement.

"The tactical aims are to make the pensions market more competitive (in terms of fees and services) and to dramatically extend the coverage of the AFP system. Many workers who are self-employed, in the informal economy, working in isolated areas or on low incomes do not contribute to the system. The president noted that of a total of 9.6m workers eligible to participate in the system, only 5m actually contribute to it."

As of early July, it was nigh on impossible to find commentary supportive of the notion of a new state-owned AFP. Eugenio Tuma of the left-leaning Partido por la Democracia (PPD), one of the five parties in the ruling Nueva Mayoría coalition, saw the reform as being insufficient. Bárbara Figueroa, the president of the umbrella trade union organisation Central Unitaria de Trabajadores (CUT) called for a total transformation of the pensions system. The conservative opposition coalition Alianza por Chile described the new reform as unneccessary. Commentary in the international financial services trade press has been generally unfavourable.

The available hard numbers suggest that the AFP system is substantial, efficient, steadily growing, transparent and competitive. Comprehensive data is provided monthly by the Superintendencia de Pensiones (SP - the pension fund regulator of Chile). As **chart 1** shows, the combined total assets under management (AUM) of the six AFPs amounted to US$169bn. This is equivalent to roughly 60% of GDP, which is high by the standards of most countries that have private pensions systems and very high by the standards of poorer OECD members.

**Chart 1: Chile's Administradoras de fondos de pensiones (AFPs): At a glance**

| | | AUM US$bn | 12 mth. Growth |
|---|---|---|---|
| Capital | Grupo Suramericana (Colombia) | 35.45 | 14.2% |
| Cuprum | Principal Financial (US) | 35.48 | 19.3% |
| Habitat | Chilean Chamber of Construction | 44.14 | 17.0% |
| Modelo | Sociedad de Inversiones Atlántico | 2.46 | 85.1% |
| Planvital | Generali (Italy) | 4.55 | 13.4% |
| Provida | MetLife (US) | 47.25 | 16.6% |
| **Total** | | **169.34** | **17.3%** |

***Sources:*** *Superintendencia de Pensiones (figures as at 30 June 2014) Institutional Investor*

All six of the AFPs have enjoyed double digit growth in AUM over the last year, thanks in part to the performance of financial markets and in part to contributions (which come from employees, who must pay in 10% of salaries up to the equivalent of around US$3,150 per month, for a maximum contribution of the equivalent of about US$315 per month). Consolidation has reduced the number of AFPs from over 30 in the late 1990s to just six today. Each of the six is owned/backed by a large (and often foreign) institution.

Further, the investment returns from the AFPs' funds have, for the most part, been respectable, even allowing for management fees. Each AFP offers five different types of pension funds, ranging from Type A (most risky) to Type E (most conservative). AFP members can choose up to two different strategies for their savings. As **chart 2** indicates, just under 40% of the overall AUM is invested in Type C (intermediate) funds. However, the remaining 60% or so is divided broadly evenly between the other four Types. As one would expect, Type A funds have delivered the best absolute returns, both over the last 12-months and the long-term, while Type E funds have delivered the smallest returns. Paradoxically though, the conservative Type E funds have outperformed all other Types through the last three years.

| Chart 2: Chile's pension funds: true to label, but not in the last three years | | | | |
|---|---|---|---|---|
| | **1-year** | **3-year (p.a.)** | **Since Sep-02 (p.a.)** | **Memo: % AUM** |
| Type A- Most risky | 11.70% | 2.43% | 6.95% | 16.1% |
| Type B - Risky | 9.07% | 2.22% | 5.81% | 16.6% |
| Type C - Intermediate | 8.38% | 3.25% | 5.30% | 38.1% |
| Type D - Conservative | 7.49% | 4.10% | 4.86% | 15.7% |
| Type E - Most conservative | 5.96% | 5.09% | 4.14% | 13.5% |
| ***Source:*** *Superintendencia de Pensiones (figures as at 30 June 2014)* | | | | |

"For now...our assessment would be that the Bachelet administration has rushed to make a decision that will please no-one. It will not improve the competitiveness of the AFP system. Nor, by itself, will it extend the social welfare benefits that are available to the poorest Chileans. Further, it does not address the issues that have been identified by experts."

Bachelet's first administration introduced a mechanism that has already improved competition between the AFPs in terms of costs. In 2008, the regulator began to 'auction' the right to enrol new members to the AFP system over the following two years. The AFP that levies the lowest fees (which, in Chile, are usually defined as a percentage of a worker's salary) wins. Press reports from mid-June - and citing former SP head Solange Berstein - indicate that across the system as a whole, the average fee is 1.4%. AFP Modelo, which won the auctions in 2008 and 2010, lowered its fee to 0.77%. AFP Planvital, which won the 2014 auction, reduced its fees to 0.5%. About 250,000 new members enter the AFP system annually.

In terms of AUM, the average fee charged by Chile's AFPs is equivalent to around 0.6%. The lowest fee that has emerged as a result of the auction equates to approximately 0.2%. By the standards of organised savings in other countries, these numbers are low. For example, the annual fees for the MySuper products offered by the leading Australian industry funds (i.e. trade union-backed defined contribution savings schemes that are run on a not-for-profit basis) are generally equivalent to about 0.85% of AUM.

| **Chart 3: Chile's pension system: as seen from Melbourne** |
|---|
| Score: 66.4 Overall Rating: B (along with Switzerland, Sweden, Canada, Singapore and the UK)<br>'A system that has a sound structure, with many good features, but has some areas for improvement, which differentiates it from an A grade system.'* |
| |
| Over the last year, the ratings of Chile's system for adequacy, sustainability and integrity have all improved. |
| |
| 'Chile's retirement income system comprises means-tested social assistance a mandatory privately-managed defined contribution system based on employee contributions with individual accounts managed by a small number of AFPs and a framework for supplementary plans sponsored by employers (the APVC schemes) for employee contributions.' |
| |
| Recommendations: (1) raise level of mandatory contributions to increase net replacement rate (2) introduce mandatory contributions from employers (3) increase retirement ages for men and women (4) continue to provide the minimum pension for the poorest pensioners. |
| |
| *With an overall score of 80.2, Denmark was the only country with an A grade system. |
| ***Source:*** *Australian Centre for Financial Studies/Mercer, Melbourne Mercer Global Pension Index 2013.* |

In short, it is not immediately obvious what advantages a state-owned AFP would offer potential members, given that it would be competing with six established players who are delivering reasonably good performance and who are leveraging scale (and, in some cases, the know-how of their parent) to provide quality services for low fees. Further, it is not apparent how the new state-owned entity will address the basic problem, which is the low income levels of many of the people who are not members of AFPs.

As **chart 3** indicates, this is also the view of the Australian Centre for Financial Studies (ACFS, a consortium of Monash University, RMIT University and Financial Services Institute of Australasia) and global consultants Mercer in their Melbourne Mercer Global Pension Index report for 2013. Overall, the report assessed Chile's pension system favourably. However, the last of the four recommendations was that the government continue to provide the minimum pension for the poorest pensioners. Other suggestions to improve what is already, by world standards, a very good system, included: an increase in the level of mandatory contributions; an increase in the retirement ages for both men and women; and the introduction of mandatory contributions from employers.

Further details of the modus operandi of the new AFP should become available in coming months. For now, though, our assessment would be that the Bachelet administration has rushed to make a decision that will please no-one. It will not improve the competitiveness of the AFP system. Nor, by itself, will it extend the social welfare benefits that are available to the poorest Chileans. Further, it does not address the issues that have been identified by experts in recent analysis that is global in scope. For all these reasons, we think that the reform misses all the points.

## MEXICO

### Lagarde calls for financial inclusion

**At a two-day financial inclusion forum in Mexico City in late June, President Enrique Peña Nieto, Finance Minister Luis Videgaray and IMF Managing Director Christine Lagarde focused on what they said is a key sector of the population: the unbanked.**

Not everyone in Mexico has a bank account. In fact, most people don't. Financial exclusion is possibly one of the biggest single obstacles to faster economic growth in the country. Discussion of the issue at a high-powered forum in late June revealed two things: first; that the problem is deep-rooted and widespread, and second; that the International Monetary Fund (IMF) thinking about the relationship between inequality and growth may be changing quite fundamentally.

"Most of Mexico's poor don't do banking. Only 27% of the adult population has access to financial services, compared to 40% on average across Latin America."

Most of Mexico's poor don't do banking. Only 27% of the adult population has access to financial services, compared to 40% on average across Latin America and the Caribbean. The unbanked tend to be made up of the poor, small informal enterprises, and women. Only one of every five Mexican women is served by a formal financial institution. Globally, some 2.5bn people don't have bank accounts: Mexico seems to have a particularly important concentration of them. The other side of the coin, noted Finance Minister Videgaray, is that a majority of the population – around 60% – have used informal savings or credit networks. Half of Mexico's rural municipalities lack banks or cash machines.

A novelty at the forum was the strong call for 'pro-poor' reform made by Lagarde, perhaps at odds with the traditional perceptions of an IMF that appeared indifferent to the fate of lower income groups. She noted that despite recent progress in lifting people out of poverty, Latin America remained the most unequal region of the world. Bringing financial services

> "We find that inequality is bad for growth... in and of itself. And we can say that redistribution by itself doesn't seem to be bad for growth, unless it is very large."
> - *Jonathan Ostry, IMF.*

to the poor had "enormous advantages". As she put it, "greater financial inclusion is a proven mechanism through which governments can work to reduce inequality and strengthen the role of women in the economy. Improved access to finance allows households to smooth out consumption over time and insure against risks. It also encourages entrepreneurship, and it may allow small businesses to grow beyond subsistence and informality, and ultimately contribute to strong and durable growth and job creation".

Lagarde suggested that extending banking services, along with reducing informality in labour markets and the recent education, telecoms and energy reforms were all important steps to increase competitiveness and kick Mexican growth into a higher gear, above the slow 2.3% average GDP expansion it has registered in the last 15 years. Videgaray and other Mexican officials were keen to point out that the reforms approved so far do have a financial inclusion component. Videgaray noted that the 2013 banking reform required all state-owned banks and lending institutions by law to have gender-targeted lending programmes. "We know that lending to women is a low risk business, because they pay back the debt when they are trusted to do so. Mexican development banks are now obliged to believe in, and bet on women" he said.

Lagarde was also optimistic about the potential of new mobile technologies to boost financial inclusion. She noted the success of M-PESA, the Kenyan mobile payments system that now offers nationwide coverage independent of traditional banks, and noted that Mexico was experimenting with a government-to-person (G2P) payments system called 'Oportunidades' which "has helped draw previously unbanked beneficiaries into the formal financial network".

Lagarde's comments offer a glimpse of the IMF's progressive change of thinking over the relationship between inequality and growth. For decades, the fund's insistence on the need for economic adjustment via austerity programmes has put it in the position of favouring growth over redistribution, or growth at the expense of equality. However, it sponsored a major academic study published in February this year which argued that "It would … be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable, but also because the resulting growth may be low and unsustainable". One of the authors of the paper, Jonathan Ostry, said at the time, "we find that inequality is bad for growth… in and of itself. And we can say that redistribution by itself doesn't seem to be bad for growth, unless it is very large". The finding led Nicholas Mombrial of the anti-poverty group Oxfam to state: "In the bad old days, the IMF asked governments to cut public spending and taxes. We hope that this research and Christine Lagarde's recent statements are a sign that they are changing their tune".

## REGION

### Wanted: action on innovation, science and ICT

**Much of the recent debate on the sluggish growth rates in Latin America and the Caribbean leads onto the subject of low productivity, and from there to the region's relatively poor record on innovation, science and ICT (information and communications technology). There is limited hard data on this: but what is available does give cause for concern.**

In June, the Economic Commission for Latin America and the Caribbean (ECLAC, also known for its Spanish/Portuguese acronym CEPAL) held its first regional conference on science, innovation and ICT in Santiago, Chile. Addressing the meeting, Chile's foreign minister, Heraldo Muñoz, noted that countries in the region invest only 0.67% of GDP in research and development (R&D), compared to a global average of around 1.8%. "If we want to seriously face the challenges of economic development we have to recognise that we have been lagging for some time" he added, noting that there is not one Latin American higher education institute in the ranking of the world's top 100 universities (*see sidebar*). To improve, Muñoz called for greater collaboration between the public sector, universities and business groups.

ECLAC's executive secretary, Alicia Bárcena, said that governments needed to start by increasing science and technology budgets. She estimated that average public spending on these budgets is in the region is around 0.6% of GDP, while the average for developed economies in the Organisation for Economic Co-operation and Development (OECD, which includes Mexico and Chile) is 2.5% of GDP. She called on delegates to "formulate proposals for regional integration of science and technology policies". The conference also issued a statement calling on ECLAC member countries to "favour complementarity between innovation and education systems, to meet the demand of production and to develop long term policies".

In some ways, the region is only now beginning to come up with a diagnosis of the severity of the problem. Gathering reliable data is difficult. But at least one attempt, the 'Global Innovation Index (GII)' compiled by the World Intellectual Property Organisation (WIPO) with partners Johnson Cornell University and the INSEAD business school, confirms the 'must do better' verdict. This approach involved creating a GII based on a mix of hard data and opinion surveys across innovation 'pillars' intended to measure factors such as institutions, human capital and research, infrastructure, market sophistication and business sophistication - these six innovation 'input' pillars to be assessed alongside two further pillars of innovation 'outputs', namely knowledge and technology outputs and creative outputs.

Not surprisingly perhaps, the resulting GII ranking for 2013 showed wealthier countries at the top end, although there was no direct mechanical correlation between GDP per capita and innovation. The ranking was led by Switzerland, with score of 66.59 on a 0-100 scale, followed by Sweden, the UK, the Netherlands, the US and Finland in that order. The highest Latin American and Caribbean countries in the ranking were Costa Rica, Chile, Barbados, Uruguay, and Argentina in that order.

**Latin America & Caribbean Innovation Rankings**

| Country | Score | Global Ranking |
|---|---|---|
| 1. Costa Rica | 41.54 | 39 |
| 2. Chile | 40.58 | 46 |
| 3. Barbados | 40.48 | 47 |
| 4. Uruguay | 38.08 | 52 |
| 5. Argentina | 37.66 | 56 |
| 6. Colombia | 37.38 | 60 |
| 7. Mexico | 36.82 | 63 |
| 8. Brazil | 36.33 | 64 |
| 9. Peru | 35.96 | 69 |
| 10.Guyana | 34.36 | 78 |

***Source:*** *The Global Innovation Index 2013 – WIPO, INSEAD, Johnson Cornell University.*

A study carried out jointly in Brazil by the Instituto Paulo Montenegro (linked to the market research company Ibope) and lobby groups Ação Educativa and Instituto Abramundo yielded some worrying results. After interviewing just over 2,000 respondents aged 15-40 with at least four years of primary school education, it concluded that 64% of them lacked or had only basic scientific aptitudes. They struggled, for example, to describe the road-holding qualities of cars with worn tyres in wet and dry conditions.

**Brazilian unis fare the best**

In the QS World University Rankings 2013/14, compiled in association with the UK's Times Higher Learning, the University of São Paulo (USP) was the best ranked, yet it fell outside the top 100 at no. 127. In the QS Latin American University Rankings 2014, six of the top 10 were Brazilian, two Chilean, two Mexican and one Colombian. The Catholic Pontifical University of Chile (UC) was ranked the best, followed by the USP, University of Campinas (São Paulo), the Federal University of Rio de Janeiro (UFRJ) and Universidad de los Andes, Colombia.

Only 12% of people in managerial roles demonstrated adequate knowledge. The majority had difficulty in explaining criteria their companies should use to invest, to select appropriate technologies, or to reduce negative environmental impacts. According to Ricardo García, the president of Abramundo, respondents demonstrated "a tendency to replicate, to copy what already exists, instead of innovating".

Clearly, ICT has an important part to play alongside educational improvements and greater R&D spending. Better access to the Internet can play a role in making the region more connected, increasing efficiency, and providing opportunities for innovation and entrepreneurship. The story here is mixed, with some important advances, but still a long way to go. According to a recent study by US Media Consulting, Internet penetration in Latin America will have reached 60% of the population by 2015 (which of course means that 40% still remain on the wrong side of the 'digital divide'). The consultancy says that greater access has in part been delivered by the spread of smartphones, particularly in Chile and Mexico.

## CUBA

### When Google came visiting

**It popped up as an intriguing story on *14ymedio.com*, the website set up by the Cuban dissident blogger Yoani Sánchez, who reported that a delegation from Google, led by CEO Eric Schmidt, was visiting Cuba to meet officials and independent activists, and to promote an "open and free internet". By re-tweeting a comment by Sánchez on the visit, Schmidt indirectly confirmed it was going ahead.**

Cuba stops well short of offering free Internet access. It has one of the lowest Internet penetration rates in Latin America. It is estimated that only 2.6m of the island's 11.2m inhabitants have some form of web access, but that is mainly through government centres, foreign companies, and tourist hotels. Those who do have access are restricted to government-approved sites. Access speeds are painfully slow. *14ymedio.com*, billed as the first independent digital newspaper in Cuba, has been blocked various times by the authorities, which often suggest that Sánchez is a fifth-columnist in the pay of the US government.

**Google Ideas**

Schmidt officially was in Cuba with Google Ideas, which describes itself as "a think/do tank that explores how technology can enable people to confront threats in the face of conflict, instability or repression". Jared Cohen, the director of Google Ideas, is a former US State department staffer.

The Google delegation, which included Jared Cohen, Brett Perlmutter and Dan Keyserling, stayed in the country for two days and visited the Universidad de Ciencias Informáticas (UCI), which was set up in 2008 and has 5,000 students. *14ymedio.com* said the visitors were encouraged by Cuba's IT potential, despite the fact that the country is being held back by limited connectivity. For many years, the government blamed the US trade embargo for Cuba's limited access to the web. However since the arrival of a fibre-optic link from Venezuela in 2011, the island has at least the technical potential for full access.

Schmidt has visited a number of authoritarian countries to promote free Internet access, including North Korea in January 2013. In an interview with the *Wall Street Journal* last year, he said Cuba was top of the list of countries he wanted to visit. The Cuban authorities made no initial comment on the visit, but the official newspaper *Granma* followed it up, noting that Cuba cannot access many of Google's online services because of the US trade embargo. In his own blog, Schmidt described the embargo as flying in the face of common sense. Separately, Roberto Veiga, who runs another independent website, *Cuba Posible*, said he expected the Havana government to allow greater web access because the development needs of the country required it.

### Schmidt says embargo counter to US interests

Schmidt wrote that the half-century old US embargo and the State Department's refusal to remove Cuba from its list of states that support terrorism "defy reason". "There are dozens of countries we call our allies and we are free to travel to, that present much worse threats and concerns to the US".

He stressed that the embargo has allowed Chinese IT firms to make inroads in Cuba. "The blockade makes absolutely no sense to US interests: if you wish the country to modernize the best way to do this is to empower the citizens with smart phones (there are almost none today) and encourage freedom of expression and put information tools into the hands of Cubans directly. The result of the blockade is that Asian infrastructure will become much harder to displace."

Visiting Cuba a couple of weeks later, Russia's President Vladimir Putin announced that Russia planned to install a ground station for its GLONASS satellite navigation system in Cuba, as part of a February 2013 bilateral agreement on space cooperation. Putin said the stations would give Cuba access to services and satellite communications technologies not available to it under the US embargo.

## REGIONAL ECONOMIC REVIEW

## REGION

# El Niño keeps the region guessing

**The El Niño weather pattern – complex, unpredictable, and sometimes provoking severe global agricultural and economic disruptions – may be on its way, shaping up in the eastern Pacific, off the Peruvian coast. On the other hand, latest indications from meteorologists are that a severe El Niño may not be developing this year. Whatever happens is important for Latin American economies, but some analysts say they are now more resilient than they were during the last severe El Niño, which hit in 1997-1998.**

El Niño is an unusual weather pattern that originates in the Pacific, usually lasts a year and creates a whole sequence of complex effects including droughts in some parts of the world and floods in others. While meteorologists are still seeking to understand the process, it usually begins with rising water temperatures in the eastern Pacific and a switch to prevailing westerly winds. There have been four El Niños since 2000, most of which were relatively benign. Strong El Niños are to be feared: the last one in 1997/1998 caused an estimated US$40bn worth of damages worldwide and may have led to 20,000 deaths in extreme weather events. Some scientists fear that global warming may increase the frequency of severe El Niños.

"If you go by historical frequency, there's a 25% chance of El Niño to occur at any time" said Rupa Kumar of the UN's World Meteorological Organisation (WMO) in late June, adding, "now we have 60% - which is more than double the historical probability." The WMO probability calculation is based on monitoring water temperatures and other data. It initially said El Niño could start in June-August, but subsequently attached a higher probability to a later start, in October-December.

*"If you go by historical frequency, there's a 25% chance of El Niño to occur at any time.... Now we have 60% - which is more than double the historical probability." - Rupa Kumar of the UN's World Meteorological Organisation (WMO)*

Fears of a strong El Niño were boosted in June, with water temperature readings three degrees higher than average off the Peruvian coast. These higher temperatures hit anchovy stocks, as the fish move to deeper coastal areas where fishmeal vessels cannot operate. But ENFEN (Estudio Nacional del Fenómeno El Niño), Peru's specialist meteorological agency set up to study and monitor El Niño, has said temperatures are now falling back towards average. According to Gustavo Laos, ENFEN's technical coordinator, "It is still too early to know what will happen by end of the year, but we estimate that sea temperatures will maintain near normal or increase to a moderate El Niño off the Peruvian coast. We do not expect a strong El Niño on the coast, at least for now."

A report by the international ratings agency Moody's Investors Service released in early July says Latin American countries are now better placed to withstand an El Niño disruption. It notes that because of flooding in some areas and droughts in others, Latin American governments will face calls to spend money on emergency aid to cover agricultural shortfalls and to put towards infrastructure reconstruction. El Niño will reduce economic activity however, cutting tax revenues just when demands for extra spending will peak.

However, Moody's says that a lot of governments have strengthened their fiscal position since the 1990s. Gursan Zurita, a credit officer at Moody's, suggested that the Brazilian government will be in good enough shape to deal with any additional spending. He noted that some of El Niño's effects will be positive for Brazil: heavier rains in the south of the country will, for example, help raise water levels in hydroelectric reservoirs, boosting electricity generation capacity (Paraguay may also benefit from this). Around 70% of Brazil's electricity supply comes from hydroelectric sources. The soya crop will also be helped by extra rainfall. But sugar output is likely to decline by around 3%.

Chile, another economy reliant on hydroelectricity, would also benefit from heavier rainfall. But Peru was likely to suffer a net negative effect, with a lower anchovy catch and flooding and mudslides likely to cause significant damage to infrastructure. Peru produces 30% of the world's fishmeal, worth around US$2.1bn per annum in exports. Avocado, wheat, rice and corn production could also be hit. The region's banks, Moody's said "seem not only to have good asset quality, but they also seem to be better capable to manage risk compared with prior years."

> "A report by the international ratings agency Moody's Investors Service released in early July says Latin American countries are now better placed to withstand an El Niño disruption."

## ARGENTINA

### To default or not to default?

**As this issue went to the press, it was not yet clear whether Argentina would stumble into a new foreign debt default at the end of July, with uncertain but clearly negative repercussions.**

Argentina's apparently intractable foreign debt crisis boils down to the separate interests and negotiating powers of three different types of creditor. The first and largest group are the 92% of creditors who accepted a renegotiation of their debt titles following the 2002 default. These creditors accepted new exchange bonds issued in 2005 and 2010 with a write-down on face value of approximately two thirds. From Argentina's point of view they are the 'good creditors' who have taken their share of the pain following the country's massive financial crisis the beginning of the noughties. Roughly 7% of creditors refused to accept the write-down: they are troubling 'hold-out' creditors. And about 1% not only refused to accept the write down, but started legal action in the US court system to get payment in full (many of the bonds were issued under New York law). Many of these 1% are hedge funds who bought the defaulted bonds at knock-down prices as a speculative play, so seen from Argentina's point of view they are definitely 'the bad guys'. Just in case anyone missed the point, Argentine officials call them "vulture funds".

The problem for Argentina's Economy Minister Axel Kicilloff is that after over a decade of legal action, the bad guys won. New York Judge Thomas Griesa ruled that a group led by NML Capital and Aurelius Capital Management must be paid US$1.33bn plus interest. After a decision by the US Supreme Court not to intervene, Griesa lifted a stay of execution on his order. Kicilloff initially tried to ignore this, sending a routine coupon payment of over US$500m for distribution to the exchange bondholders before the due date of 30 June, through the Bank of New York Mellon (BONY). Judge Griesa ordered the bank not to make the payment and the money is sitting temporarily frozen in an account at the bank. The judge says Argentina

**Conditions**

According to various sources, Argentina continues to insist on two points. One is that Judge Griesa should re-impose the stay of execution on his ruling, to allow more time for negotiation and push back the threat of default at the end of this month. The second is that any settlement with the holdouts be formally declared 'non-voluntary' to protect Argentina from any RUFO claims. Given the lack of trust on both sides, reaching a mutually acceptable agreement is difficult. Argentina was not moved to negotiate when the stay of execution was in place and Judge Griesa will not be in too great a hurry to re-impose it until he is satisfied there is a cast-iron agreement in place.

cannot pay the exchange bondholders unless it makes an equal and simultaneous payment to the holdouts. As Argentina has so far refused to do so, the situation has reached stalemate – and if the exchange bondholders are not paid their coupon after a 30 day grace period – which expires at the end of July – Argentina will be back in default, for the second time in 12 years.

After a month of claims and counter claims, indirect negotiations through the New York court-appointed mediator, Daniel Pollack, may reach a breakthrough, although success is not guaranteed. It is politically hard to stomach, but Argentina may at the end of the day be prepared to pay off the "vultures" in a phased fashion, perhaps with new bonds.

The hedge funds have indicated that a deal along the lines of Argentina's recent restructuring of Paris Club debts or its compensation payments to the Spanish oil company Repsol might be acceptable. But Argentina says that if it pays the US$1.33bn it could expose itself to up to US$15bn worth of unaffordable 'me too' claims from the 7% of holdouts who have neither settled nor litigated so far. It even fears that the exchange bondholders might have a legal case to re-open the 2005 and 2010 bond swaps. A deal might have to be post-dated to after 1 January 2015, when the so-called RUFO clauses [rights upon future offers] expire. These clauses say that if Argentina voluntarily offers better terms to one group of creditors, then the others have the right to demand the same treatment.

An alternative may be to establish that any deal with the litigant holdouts will not be voluntary, but court-enforced. Most analysts take the view that a new Argentine default is avoidable if all parties act rationally and calmly in their best interests: but the combination of a short negotiating window (around two weeks), political impetuousness, and different negotiating styles and cultures still also means that things can go badly wrong.

## MEXICO

## The big investment question

**President Enrique Peña Nieto has made a series of upbeat statements about investment in Mexico. But important questions are still being asked about the quality of the country's infrastructure.**

In May, the president almost doubled his goal for public and private infrastructure investment. Between now and 2018, the aim is to invest MEX7.7trn (US$587bn). "With bigger and better infrastructure, there are more opportunities to attract productive investment, generate jobs and families' incomes" Peña Nieto said. His market-friendly policies received a boost on 3 July, when the German automaker BMW said it would invest US$1bn in a new luxury car assembly plant in San Luis Potosí. And on 10 July, he welcomed a statement from the Consejo Mexicano de Negocios (which represents 39 top Mexican companies) that its members this year are planning investments worth US$27.45bn. He said it was a sign of confidence in his programme of reforms.

While the growth of actual and planned investment is clearly positive for Mexico, analysts say it is important not to lose sight of the serious infrastructure deficits that are still a live issue. A key part of the government's strategy is its flagship energy reform (currently under discussion in the senate), which aims to attract international oil companies back into Mexico to help the state-owned Petróleos Mexicanos (Pemex) boost stagnating production and exports. One important area for new oil and gas exploration and production will be offshore, in the Gulf of Mexico.

A private sector corporate adviser pointed out to *Latin American Economy & Business* that any international oil group operating in the Gulf needs an operational base. Options include Tampico, Coatzacoalcos, Ciudad del

Carmen and Veracruz. But he felt that none met all the necessary requirements. These include acceptable levels of security, good pipeline infrastructure, good port facilities, and access to a pool of skilled labour.

While the violent battle between rival drug cartels in Tampico has been given wide coverage, he felt this was not the worst problem. Much more serious were the other factors, particularly the "terrible" state of ports and pipelines, and the acute lack of a well-educated work force, reflecting deficiencies in the Mexican education system. All these would take years to turn around. In the meantime he said the best port from which to run a major offshore operation in the Mexican Gulf was probably New Orleans in the US, for the incentives it offers. Other options might include the well-established Houston.

"While the violent battle between rival drug cartels in Tampico has been given wide coverage, [our source] felt this was not the worst problem..."

**German car companies plough US$2.36bn into Mexico**

On 3 July BMW announced a US$1.0bn investment to build a new plant in the central Mexican state of San Luis Potosí. Harald Krüger, head of BMW's manufacturing unit and a member of BMW's board of directors, said the plant would be an important part of BMW's global network, and would provide direct employment for an initial workforce of 1,500 by 2019, the first year of production. The plant will have an estimated annual production capacity of 150,000 units.

"Mexico is an ideal location for the BMW Group", according to Krüger, citing its growing economy, strong industrial capacity and a highly qualified and motivated workforce. He also noted Mexico's competitive position in the region and its numerous commercial agreements with other countries, including the US, as additional advantages. BMW has been present in Mexico since 1994. In 2013, it sold 13,992 vehicles in Mexico.

A few days earlier, on 30 June, Germany's Daimler AG announced a plan to invest US$1.36bn to produce next-generation compact cars in Mexico with partner Renault-Nissan. Most of the investment will be in the existing Nissan plant in Aguascalientes state, which will be upgraded to reach an annual production capacity of 300,000 units.

**Pemex results slide**

According to Pemex's latest financial figures, published on 28 June, revenues from crude oil exports in the first five months of the year amounted to US$16.3bn, down 10.1% on the US$18.08bn registered in the same year-earlier period. Crude export revenues in May totalled US$3.35bn, down 6.5% year-on-year. The volume of crude exports has also declined. In the first five months of 2014, Mexico exported an average of 1.14m barrels per day (Mob/d), a 3% fall on the 1.18 Mob/d exported in the same period of 2013.

On 30 June, the ministry of finance (SHCP) reported that total oil revenues reached US$37.8bn in the five months to May, a 0.5% fall in real terms over the same year-earlier period. According to the SHCP, the fall was due partly to a 4.2% annualised fall in output at Pemex. Mexican crude export prices have averaged US$92.8/barrel (/b) to date in 2014, from US$100.8/b in 2013.

# REGIONAL MARKETS REVIEW

## REGION

## Latin American financial markets in 2014: buyers prefer bonds

**Investor appetite for Latin American bonds has been very strong to date this year. Issuers recognised this, and took advantage of interest rates that are low by historic norms.**

Collectively, the stock markets of the world's emerging markets had to contend with three challenges in the first half of 2014. One was the ongoing economic recovery in the US (and, to a certain extent, in the UK and Germany). This was widely seen as being likely to divert funds from emerging markets to developed countries and threaten the low cost of capital from which all have benefited for much of the time since the global financial crisis of 2008-09. The second was the possibility that the 'tapering' of asset purchases by the US Federal Reserve (the Fed) would have an adverse impact on financial markets. The third was the possibility that a crisis emanating from the massive shadow finance sector in China would cause economic growth to slow markedly there.

"The first six months of 2014 saw mixed fortunes for the region's investment bankers."

In the event, none of these problems came to a head. As of mid-July, the latest forecasts from the Federal Reserve suggest that US economic growth this year will be 2.1%-2.3%. In March, the Fed had been looking for an expansion of 2.8%-3.0%. However, the forecasts were wound back once it became clear that activity contracted in the first three months of the year (in part because of the impact of severe winter weather). The latest numbers imply that growth in the world's largest economy will accelerate in the second half. The Fed continues to look for an expansion of 3.0%-3.2% in calendar 2015. Nevertheless, as **chart 1** indicates, global stock markets generally have not performed badly.

**Chart 1: Stock market performance - US$ terms**

| MSCI Index | 3MTD | YTD | 1 Yr |
|---|---|---|---|
| Brazil | 5.68% | 7.76% | 8.82% |
| Chile | 1.32% | -1.62% | -13.94% |
| Colombia | 5.70% | 10.69% | 6.86% |
| Mexico | 6.22% | 0.86% | 5.70% |
| Peru | 7.55% | 12.11% | 10.95% |
| Andean Region | 3.65% | 4.37% | -4.04% |
| EM Latin America | 5.50% | 5.28% | 5.73% |
| EM Asia | 6.31% | 5.64% | 14.31% |
| EM Eastern Europe | 6.35% | -4.25% | 8.63% |
| | | | |
| EM (Emerging Markets) | 5.64% | 4.80% | 11.75% |
| World | 4.15% | 4.96% | 21.62% |

***Source:*** *MSCI*

The low volatility in equity markets and generally tranquil conditions in fixed income markets suggests that the Fed's 'tapering' — which has been underway for some months and is due to be completed following the October meeting of the Federal Open Market Committee — is something investors can tolerate. All major central banks have indicated that they remain committed to maintenance of very low official interest rates for some time to come.

As we have discussed in recent editions, a shadow finance crisis in China remains a distinct possibility - notwithstanding that moves by the authorities in Beijing through the first half of 2014 appear to be having the desired effect. Because China's financial system is not fully integrated with that of the rest of the world, a crisis in some parts of the shadow finance sector would not impact directly on the global economy. Rather, it would have an indirect effect, contributing to volatility in some financial markets, changing perceptions of emerging markets risk and - most importantly - curbing Chinese demand for imports from the rest of the world.

As the Inter-American Development Bank (IDB)'s March 2014 report, '*Monetary Normalization - Escaping a Chronicle Foretold?*' explains, the impact of the three shocks on each of the various countries in Latin America varies quite markedly. In the event of all three shocks occurring, overall regional growth in 2015 and 2016 likely would be similar to what it would have been in any event. The impact on Mexico and Central American countries would generally be positive (thanks mainly to their links to the US economy), however falling commodity prices would pose challenges for countries like Chile, Colombia, Brazil and Argentina.

In spite of this, there has been relatively little variation in the performance of each of the various Latin American markets over recent months, as **chart 1** shows. Indeed collectively, they have performed broadly in line with both emerging markets and developed markets since the beginning of the year. Peru has been the most obvious outperformer, but not by a dramatic margin. Chile has been an underperformer, but this has mainly been because of the slippage in the peso vis-a-vis the US dollar, as **chart 2** shows. Lingering softness in domestic demand and in the US economy in the first three months of 2014 contained expectations for corporate profits in Mexico: however, the stock market has been an obvious beneficiary of the change in perceptions that has accompanied the rebound in the US economy.

| Chart 2: Currency movements vs US dollar, H114 | |
|---|---|
| Argentine peso | -19.84% |
| Brazilian real | 7.44% |
| Chilean peso | -4.48% |
| Colombian peso | 2.73% |
| Mexican peso | 0.76% |
| Peruvian sol | -0.22% |
| Uruguayan peso | -5.99% |
| ***Source:*** *FT* | |

"The first six months of 2014 saw mixed fortunes for the region's investment bankers."

Given the persistence of inflation, the sluggishness of domestic demand and other well publicised problems, the strength of the Brazilian Real has been one of the surprises of the first six months. We suggest that this is indicative of a rise in inflows of foreign direct investment (FDI), along with an improvement in investors' appetite for emerging market risk generally. At its meeting on 27-28 May, the central bank's monetary policy committee (Copom) noted that inwards FDI in the 12 months to the end of April had amounted to US$64.5bn: over the same period, Brazil's current account deficit was US$81.6bn. At the same meeting, the Copom noted that its economic forecasts assumed a exchange rate of R$2.20/US$, and a benchmark Selic rate of 11.0%. At the previous meeting, on 1-2 April, the Copom had envisaged an exchange rate of R$2.30/US$ and a Selic rate of 10.75%.

The first six months of 2014 saw mixed fortunes for the region's investment bankers. According to financial research group Dealogic, some US$14bn was raised from equity capital markets in the six months to the end of June, in 25 deals. The amount of money raised was about 38% lower than in the first half of 2013. The number of transactions was the lowest for a comparable period since H109, when there were nine deals. Conversely, the value of project finance transactions undertaken in Latin America grew by 5% to US$20bn, raised through 70 deals.

However, the region's debt capital markets have been extremely active. As **chart 3** shows, a wide variety of bond issues have been announced or completed in recent weeks. In some cases, the deals have been notable because they are the largest of their kind (such as the US$522m offering of local bonds by the Peruvian highway operator Rutas de Lima). In other instances, they have been the first of their kind: Santander Chile, for instance, was the first Latin American issuer to tap the Tokyo Pro-Bond Market. Ecuador's government has returned to global bond markets with a higher-than-expected US$2.0bn issue, the first since its selective default on US$3.2bn of sovereign debt declared 'illegitimate' in December 2008. Commentators suggest that the Dominican Republic's US$1.25bn issue in April will not be its last for this year. Perhaps most crucially, many of the issues have long tenors, with maturities of 25 or 30 years.

We draw a number of conclusions from all this. First, global debt investors are still attracted to the bond offerings of Latin American issuers because of their decent nominal and real yields, at a time when interest rates generally remain very low. Second, and as noted above, perceptions of risk have been improving. Third, while many of the region's listed companies face challenges that may constrain growth in earnings, those challenges are not sufficiently serious to challenge their ability to service debt. Fourth, by most standards, corporate and government issuers across the region are still under-geared. Fifth, Latin American financial markets are becoming more closely integrated with those of the rest of the world. For now, we think that it is reasonable to look for these positive trends and themes to continue through the second half of 2014.

"For now, we think that it is reasonable to look for these positive trends and themes to continue through the second half of 2014."

**Chart 3: Latin American debt capital markets - selected developments in H114**

| | |
|---|---|
| **01-Jul-14** | Peruvian highway operator Rutas de Lima issues PEN1.46bn (US$522mn) in bonds. This is the largest local currency issue ever in Peru. The issue includes 22 and 25 year maturities. |
| **27-Jun-14** | Mexico's Pemex says that its MXN15bn (US$1.15bn) issue (with 5, 10 and 11 year maturities) is over three times oversubscribed. |
| **18-Jun-14** | Ecuador's government returns to global bond markets with a US$2bn 10-year issue. |
| **12-Jun-14** | Local press reports indicate that Peru's government is looking to raise US$4.5bn through its first bond issue in global markets since 2012. |
| **05-Jun-14** | Mexican micro-credit provider Banco Compartamos raises MXN2bn (US$155mn) through 5-year bond issue. |
| **03-Jun-14** | São Paulo water utility Sabesp is planning a BRL500mn issue of 3-year bonds, according to press reports. |
| **02-Jun-14** | Press reports indicate that América Móvil will raise upto MXN25bn (US$1.94bn) in 5-year and 10-year peso denominated international bonds. |
| **20-May-14** | Banco Popular is the seventh Colombian company to issue corporate bonds, raising COP350bn (US$182mn). |
| **30-Apr-14** | The government of the Dominican Republic raises US$1.25bn through the issue of 30-year global bonds. |
| **16-Apr-14** | Santander Chile places JPY27.3bn in 3-year and 5-year notes on the Tokyo Pro-Bond Market. Santander Chile has previously issed bonds in AUD, CHF and US$ since the beginning of the year. |
| **15-Apr-14** | Colombia's Superfinanciera approves GrupoSura's plan to issue up to COP1.3bn (US$675mn) in securities. |
| **10-Apr-14** | BBVA Chile makes its first CHF denominated issue - CHF150mn (US$170mn) in 3-year bonds. |
| **10-Apr-14** | Brazilian steelmaker Gerdau raises US$500mn in 30-year global bond issue. |
| **13-Mar-14** | Minas Gerais water utility Copasa announces plan for BRL250mn bond issue. |
| **14-Jan-14** | Brazilian development bank BNDES issues EUR650mn in 5-year global bonds. |
| ***Source:*** *Business News Americas* | |

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