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CONTENTS

BUSINESS FOCUS 4

Mining 4
Pascua Lama on hold

Mining in Mexico 6
Fiscal reform introduces royalty taxes

Brazil's banks 8
Banco do Brasil and Caixa Econômica Federal: reloading the credit cannon

ECONOMIC REVIEW 11

Argentina 11
Grupo Clarín forced into break-up

BRAZIL 14
Has Brazil lost the X factor?

Mexico 15
Is the Pemex workhorse stumbling?

ECUADOR 16
Good performance, but trouble ahead?

PERU 18
What could go wrong?

NICARAGUA 20
On the right track, but in the slow lane

MARKETS REVIEW 22
The bears maul MILA markets – but will not do so forever

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Latin America's logistics challenge

As various multilateral agencies and researchers peer into Latin America's prospects in 2014 and beyond, a persistent theme is emerging. Structural changes in the international economy are no longer as supportive for the region as they were for much of the last decade. In tougher times more self-help is needed. And one area where new policies and investment could have a major impact for the better is the region's rather creaky transport and logistics networks.

On 4 November a Mexican army-navy task force moved in on one of the country's main ports, Lázaro Cárdenas in Michoacán state, on the Pacific coast. State police were disarmed and marched off for what were described as "assessment and background checks". The move was seen as a blow aimed at Los Caballeros Templarios (The Knights Templar), the local drug smuggling and criminal syndicate. It was something of an open secret that the gang had for years bribed and threatened the port authorities, so as to be able to move drugs through the facility, importing cocaine and chemicals needed for the manufacture of methamphetamines prior to their onward shipment into the US.

The gang had also expanded into other legal and illegal businesses. The Caballeros were demanding extortion payments from just about everyone moving goods. This is not just a security and criminal matter: inevitably it is also a big economic issue. Companies using the port found themselves having to pay protection money, an additional expense that reduced their competitiveness. Lázaro Cárdenas, after all, is not a backwater: it is now Mexico's second largest container port, using its direct rail link to Texas to provide an alternative cargo route into the US for importers struggling with the congestion of west coast ports such as Los Angeles.

Consider now a very different situation. If we move to the far south of Latin America, in Punta Arenas in Chile, there is a private brewery there called Cervecería Austral. It has a proud tradition, having been set up by German immigrants who arrived in Patagonia in the late nineteenth century, and is today an important player on the local beer market. But its ability to export is hampered, not by drug gangs, but by something much more mundane. Chile is a geographically elongated country, stretching over 4,000kms from north to south, with its main cities and ports located mainly in the middle. So to ship beer from Punta Arenas to a foreign market it is first necessary to haul it north by road some 1,800kms to the port of San Antonio. This is a lengthy and costly business, and in some circumstances may actually price Cervecería Austral out of the export market entirely.

The connection between the rather disparate cases of Lázaro Cárdenas and Punta Arenas is simple: the cost of logistics across different parts of Latin America is widely considered to be too high, and is being re-examined in the light of the changing role the continent is playing in the world economy. The issue has been deemed important enough to be the main focus of the *Latin American Economic Outlook 2014*, published jointly in October by the UN Economic Commission for Latin America and the Caribbean (ECLAC), the Organisation for Economic Co-operation and Development (OECD), and CAF-Development Bank of Latin America.

The context described in the report is one in which the region grew by an average of 4% per annum in the decade to 2012, supported by rising global trade and commodity prices. The years ahead are promising to be more difficult because of the weakness of the eurozone, the economic slowdown in China, and uncertainty about US monetary policy.

When foreign currency earnings soared due to the commodity boom, a number of countries substituted locally made goods with imports. While this helped meet the consumption needs of the growing middle classes, it did so, the report says, at the cost of stifling innovation and growth in local value added production.

The result is that Latin America still relies heavily on exports of raw materials rather than on more sophisticated finished goods. In 2011, commodities accounted for up to 60% of the region's exports, compared to 40% ten years earlier. With commodity prices now falling, and current account deficits rising, the danger is that Latin America could fall into the so-called 'middle income trap', where the improvement in per capita income grinds to a halt as its economies hit a range of bottlenecks.

"While Latin America's share of global GDP has held constant at between 7% and 9% over the last 20 years, that of emerging Asia has more than doubled."

The report proposes a series of policy measures to avoid this outcome. To meet rising middle class demands for efficient and high quality public services, it recommends tax reforms to raise fiscal revenue, and a series of steps to improve the efficiency and quality of government spending.

It also says that Latin America needs to adjust to a world economy whose centre of gravity is shifting towards Asia. While Latin America's share of global GDP has held constant at between 7% and 9% over the last 20 years, that of emerging Asia has more than doubled. To connect to the Asian boom, the region must diversify its exports and integrate into new global value chains. Doing this will require action to "address existing supply-side bottlenecks, permit an efficient flow of goods and services, adopt simplified customs procedures, and improve logistics".

One reason improving the logistics sector will be particularly effective is that it plays such a big part in existing Latin American trade. No less than 57% of the region's exports are classified as perishable or logistics-intensive, compared to only 17% in OECD countries. The freight costs of getting Latin America exports to their points of destination are nine times higher than the import tariff costs; in the US they are only twice higher. While Latin America has done a lot to reduce tariff costs and sign free trade agreements, the report stresses there is now comparatively much more benefit to be won by driving down logistics costs.

The report suggests there are both 'hard' and 'soft' logistics costs, and both need to be reduced. The hard costs relate to the network of roads, railways, ports and airports, which need to be a) modernised; b) repositioned to try and better serve neglected geographic regions that nevertheless have potential comparative advantages; and c) also be better integrated for inter-modal connectivity.

Reducing hard costs, however, is a long-term business, as it requires time and resources – multi-year investment projects, in fact. Soft costs can be tackled in the short term: they include warehousing, customs and certification procedures, the use of information and communication technologies to streamline goods handling, and the promotion of competition in freight transport. Cleaning up Lázaro Cárdenas could be described as action on a 'soft cost'.

A separate report by the from the Inter-American Development Bank (IDB), ('*Too Far to Export – Domestic Transport Costs and Regional Export Disparities in Latin America and the Caribbean*'), also published in October, points out that some potentially very competitive exporters are disadvantaged by poor freight transport systems. Apart from the plight of beer producers in Punta Arenas, it highlights wood product exporters from Pucallpa in the Peruvian Selva (located 466 miles of unpaved roads away from the port of Callao), metal products producers in Villavicencio, Meta department, in Colombia (685 miles to the port of Cartagena) and soya producers in Mato Grosso, Brazil (1,400 miles to the congested port of Santos).

"The freight costs of getting Latin America exports to their points of destination are nine times higher than the import tariff costs; in the US they are only twice higher. While Latin America has done a lot to reduce tariff costs and sign free trade agreements, the report stresses there is now comparatively much more benefit to be won by driving down logistics costs."

This report notes that "high domestic transport costs can push exports to concentrate in just a few areas of the country with facilitated access to customs, while squeezing gains or simply locking out of trade large swaths of the country." Significantly, this report also confirms that a reduction in logistics costs can have a more-than-proportionate positive impact on exports. It suggests that a 1% reduction in logistics-related *ad valorem* costs in Colombia could increase exports by as much as 7.9% in the agriculture sector, 7.8% in manufacturing and 5.9% in mining. The IDB estimated that, were new roads to be built in Peru's Selva and Sierra departments, the domestic shipping costs of local businesses would drop 15%-40%, while their exports would increase 10%-23%.

Brazil's latest airport concessions raise US$9.0bn

The operating concession for Rio de Janeiro's Galeão airport was heavily contested on 22 November, with the final winning bid nearly four times higher than the minimum required R$4.83bn (US$2.11bn) and 31% above the second highest bid. A consortium led by Brazil's Odebrecht and Singapore's Changi Airport Group put down a 'knock-out' bid of R$19bn (US$8.3bn) to get the rights to operate Brazil's second busiest airport for 25 years.

There was a similar frenzy for the 30-year operating concession for Belo Horizonte's Confins airport, where a group led by the Brazilian infrastructure operator CCR won with a bid of R$1.82bn. The consortium, which includes the operators of Zurich and Munich airports (Flughafen Zuerich AG and Flughafen München), lifted its offer by 30% to beat out a rival group including the Brazilian construction firm Queiroz Galvão and Spain's Ferrovial. In February 2012, the concessions for the São Paulo and Brasília terminals went for R$24.5bn (US$11bn), more than four times the minimum bids.

Speaking at an investment conference on 22 October, the minister for civil aviation, Wellington Moreira Franco, criticised the arrangement that requires Infraero, the state-run airport operator, to control a least a 49% stake in the country's privatised airports. "This model […] is a sacrifice for the country. As it [Infraero] doesn't have its own capital, it's the treasury which provides the financial support to allow its participation. This needs to change", the minister, from the Partido do Movimento Democrático Brasileiro (PMDB), said. This represents a marked change in position from a little earlier this year, when he insisted "it was not time to reconsider" Infraero's level of investment. The next day he was slapped down by the cabinet secretary, Gleisi Hoffmann. "I did not hear the minister's comments", she said. "I don't know in what context he was speaking, but the current model […] we do not intend to reverse. The purpose of Infraero's participation in the concession process is exactly so it can work alongside the big operators and improve its capacity to manage and to expand its expertise".

BUSINESS FOCUS

MINING

Pascua Lama on hold

Capital-intensive mining projects involve putting in a lot of money upfront (often quite literally sinking it into the ground), and hopefully starting to reap significant profits some years down the line when production and sales begin. Between those two points - starting a project and making money out of it - there is inevitably a period of risk, nervousness and uncertainty. In some of the more difficult cases when things are not going well, investors must decide whether to go on spending - or to cut their losses. This is exactly the decision confronting the Canadian mining giant Barrick Gold Corp, which announced at the end of October that after spending over US$5bn on developing the Pascua Lama gold mine, straddling the Chilean-Argentine border, it has put the entire development on hold.

Pascua Lama was facing a series of complex problems. Although requiring massive investment (around US$8.5bn at the last estimate), once it comes on stream it is expected to produce 850,000 ounces of gold annually during its first five years, at comparatively low operating costs. But Barrick's ability to get to that profitable point is being threatened by a cocktail of problems including political and environmental opposition, the recent fall in world gold prices (down by almost 20% over the last year), and significant cost overruns linked to the remote location of the mine, strike action and legal delays over permits. Barrick itself is struggling to reduce a heavy debt load (US$14.6bn) and has announced a new share offer to try and do so.

Taken together, these factors seem to have persuaded the company to call a pause. On 31 October, it said it was halting development work on the mine. Executives were keen to stress that this was not the end of the line. Barrick would start up Pascua Lama again "when conditions warrant", and would explore new strategic partnerships or royalty deals in due course to get the project moving again. Chief Executive Jamie Sokalsky stated: "the project has been, and continues to be, a top priority for the company, and also our biggest challenge".

One of the big problems has been growing environmental concern about the project on the Chilean side of the border. A local Chilean indigenous group, the Diaguita, had initiated legal action against Barrick, claiming that the mine would contaminate groundwater in the Huasco Valley and damage glaciers in the dry Atacama region. Although Barrick denied it, the group claimed that arsenic, aluminium and copper residues were polluting the Estrecho River. In response, a Chilean court ordered a halt to construction work earlier this year, saying that Barrick had committed serious environmental violations. The Chilean Supreme Court upheld that ruling in September (*see box*). Barrick therefore needs to carry out remedial and other work to try and get the approvals necessary to resume: it says it has agreed in principle to build a new water treatment plant and to monitor the glaciers.

On 11 October a Chilean appeals court admitted a fresh appeal seeking a freeze on the Pascua-Lama mine on the grounds that Barrick's subsidiary Compañía Minera Nevada had engaged in "illegal and arbitrary acts," in relation to the "installation, execution and realization of works and activities ... that were not authorized by the environmental regulator (SMA)."

There are other legal entanglements to resolve, however. A separate case against Barrick involves a constitutional injunction filed with the Antofagasta Court of Appeals in Chile. There is also a criminal lawsuit over the alleged falsification of documentation.

In addition to the environmental issues, labour relations have also been difficult. In late October some 300 unionised workers on the Chilean side of the project voted in favour of strike action. A stoppage was due to begin in the second week of November, but in the light of Barrick's wider announcement that it was shelving all development work, the strike was called off. The Chilean workers still managed to settle a new deal with the company including a 5% wage increase, improved benefits, a once-off bonus and

On 8 October Mining Minister Hernán de Solminihac and Andrés MacLean, the executive vice president of Chile's state copper commission (Cochilco), said that Chile, the world's largest copper producer, was expected to produce around 5.7m tonnes (t) of copper this year, a record high and up 4.9% on 2012. In July, Cochilco had forecast output of 5.5mt for the year. De Solminihac attributed the increase to improved production forecasts at key mines including Escondida, the world's largest mine, controlled by BHP Billiton. Cochilco also marginally raised its view for 2013 average copper prices to US$3.32 per pound, up from US$3.27 in June.

improved severance pay. Union president Alexis Spencer said the improved severance pay element was crucial because, "we don't know what the future holds… we've been informed by a reliable source that job cuts are coming. But they haven't told us how many people will be affected, because they don't know the details yet."

The union also expected to hold talks with workers on the Argentine side of the project to coordinate their positions in future. Although shelving the project is almost certain to mean a reduction in staffing levels, Barrick has said it will continue to carry out maintenance and environmental work, to keep open the option of re-starting the project at minimum extra cost at some point in the future.

The political impact of the suspension of the project is somewhat different on either side of the frontier. Paradoxically, the decision seems less of a blow to traditionally market- and investment-friendly Chile, and more damaging to Argentina, which has frequently taken a nationalist stance and railed against multinational corporations. A key factor on the Chilean side of the frontier is the growing importance given to environmental concerns across the political spectrum. Mining Minister Hernán de Soliminihac told a local radio station that "the difficulties they've had aren't due to our norms, but rather to the breach of the conditions outlined in their environmental permit. We regret the decision."

Chile's President Sebastián Piñera, a businessman on the right of the political spectrum, stressed that the project "could become one of the largest gold mines in the world. Furthermore it could generate a lot of employment opportunities in the Atacama region. But, as they are aware, Barrick has not seriously and responsibly complied with all that has been established under the environmental standards resolution". The former Socialist president Michelle Bachelet (2006-2010) – who is expected to succeed Piñera (in March 2014) after winning the first round of the presidential elections on 17 November – has also insisted on the importance of meeting environmental standards. The project originally was approved in 2006 by the also-socialist government led by Ricardo Lagos (2000-2006). With a healthy economy and significant investment inflows on other projects, the Chileans can perhaps afford to see one of them get held up.

The situation in Argentina is different. The Peronist party government led by President Cristina Fernández, having disagreed with and expropriated some international companies, now paradoxically finds itself more dependent one or two big investment deals. Falling foreign currency reserves have raised the pressure on the government. "Even if the cancellation isn't specifically related to Argentina's economic policies, it's still bad news for the economy and the government" said Ignacio Labaqui, an analyst at Medley Global Advisors.

Barrick's Pascua Lama, along with Exxon's Vaca Muerta shale oil and gas project, was among the few remaining big foreign investment deals expected to bring much-needed dollars into Argentina's coffers. Earlier this year, Brazil's Vale suspended an US6.0bn potash project because of concerns over rising costs and Argentine inflation. Foreign investment in Argentina was around 2.6% of GDP in 2012, compared to around 11.3% in Chile.

Chile's supreme court ruling

On 25 September Chile's supreme justice court upheld a July decision by a local appeals court suspending the Pascua-Lama operations in Chile until the necessary infrastructure to protect the environment is in place. In a statement issued the following day Barrick declared itself "pleased" with the ruling, which rejected an appeal presented by local indigenous communities for Barrick's license to be revoked altogether on environmental grounds. The court found that the measures ordered by the Copiapó appeals court were sufficient to protect constitutional guarantees. In April, the appeals court had ordered Barrick to suspend operations in Chile on environmental concerns, in response to a request filed in October 2012 by representatives of the Diaguita community, which claimed that the project threatened local water supplies and endangered three glaciers, Toro 1, Toro 2 and Esperanza.

Fiscal reform introduces royalty taxes

Mexico's fiscal reform bill, approved by both houses of congress at the end of October and now awaiting the signature of President Enrique Peña Nieto, has not gone down well with the country's mining industry. The general aim of the bill was to boost non-oil tax revenues to strengthen the government's fiscal position. Most economists agreed that with some of the lowest general taxation rates in the Organisation for Economic Cooperation and Development (OECD), Mexico definitely needs to strengthen government finances. But Mexico's mining industry, the biggest in Latin America, says it has been unfairly singled out and is being asked to make a disproportionate contribution.

The main new provision in the bill, which is expected to come into force at the beginning of 2014, is for a mining royalty of 7.5%, charged as a percentage of profits. Gold and silver miners will have to pay an additional 0.5%, taking their total royalty up to 8.0%. Companies will also face other unfavourable changes, such as the loss of the tax-deductible status of exploration expenses, together with a new green fuel tax and a tax on dividends applied across the Mexican corporate sector.

The Mexican mining industry has until now been one of the few that has been free of royalties and some argue that this, along with very attractive copper, gold, silver, zinc and iron deposits, is precisely what has attracted investors. Mining accounts for around 4% of Mexican GDP. Investment in 2005-2012 was around US$28bn, putting the country at the top of the Latin American ranking for mining investment inflows. Mexico is the world's largest silver producer.

> "He described the change as taking Mexico "from one of the most attractive jurisdictions worldwide to one of the worst."

The mining sector responded to the new taxes with a loud 'ouch!', but there were interesting nuances in what different companies had to say. Camimex, the Mexican Chamber of Mining, issued a statement saying that the changes would make Mexico one of the most expensive countries in the world for mining operations. It said its members had been planning to invest US$30bn in 2013-18, a figure which as a result of the new bill would be reduced by 60% to US$12bn; it also claimed that up to 60,000 new jobs would not now materialise in the sector.

Grupo México, the world's third largest copper producer, said it would maintain its current US$5bn Mexico investment programme for 2013 and 2014, but would reconsider after that. "We will be obliged to redirect our future investment programme of US$3.5bn for the coming years, which is primarily allocated to Mexico, and analyse opportunities in countries where investment conditions are more favourable, such as the US, Canada, Peru or Chile," the company said in a statement.

The US-based Hecla Mining said it would re-evaluate its San Sebastián silver-gold mine in Durango state following news of the tax changes. It had been thinking of building a series of small pits to start revenue flows before incurring big capital expenditure on a ramping system. Although this might be the best way to improve net asset value, the company's chief executive officer (CEO) Phil Baker stressed that "we are going to have to weight that against the new taxes."

Brad Cooke, chief executive of Canada's Endeavour Silver, said that as a result of the new royalty taxes, investors might question whether Mexico is "still an attractive jurisdiction for new operations". He described the change as taking Mexico "from one of the most attractive jurisdictions worldwide to one of the worst". He calculated that his company would need to find over US$6m a

year in additional tax payments. Yet he also seemed quite resigned to the hit. "The government wants the money, it has got the right to it, and we are going to pay it. I guess the way to adjust for that is to tighten up our costs" he said, adding that "if we saw a US$1.00 per ounce [upwards] movement in the silver price, it would be enough to offset the additional taxes."

Jason Reid, CEO of the US mining company Gold Resource Corp., said the royalty would "hurt' his company's Mexico operations but he also noted that a provision that 50% of the revenue generated from the royalty be paid to local municipalities or states might have positive effects. People living close to potential new mines might "want a piece" of the associated revenues and therefore become supportive of local development. Reid says this redistributive aspect might allow Gold Resources to make "greater headway" at its El Rey project in Oaxaca, which to date has encountered determined local opposition.

Some analysts suggest that mining companies might reasonably demand a quid-pro-quo in return for paying the new tax. Jean-Baptiste Bruny of BBVA Bancomer noted: "In all countries you have to pay a royalty. The issue in Mexico is if you pay a royalty of 7.5%, you will want the same services as in other countries." He noted that despite paying the royalty, some companies in Mexico might still need to finance the building of access roads or spend on security.

The security issue is a serious and expensive one, as there is evidence that some of Mexico's drug-smuggling syndicates are moving in on mining. In October a government official (the land and urban development minister Jorge Carlos Ramírez Marín) said that criminal groups had started displacing landowners in Guerrero, parts of Michoacán and Jalisco, with the objective of establishing illegal mining centres.

"The security issue is a serious and expensive one, as there is evidence that some of Mexico's drug-smuggling syndicates are moving in on mining."

A new emerald war in Colombia?

A grenade attack killing four people in the town of Pauna, in the western Boyacá department, has sparked concerns about a revival of the so-called 'green war' between rival emerald tycoons in the department in the 1980s.

Colonel Carlos Antonio Gutiérrez, the departmental police chief for Boyacá, (where the country's largest emerald mines are located), told reporters on 10 November that the grenade lobbed the previous day into a crowd in the town centre was an assassination attempt on Pedro 'Orejas' Nel Rincón. A leading player in the local emerald mining business, Nel Rincón had been attending a local festival and, along with one of his sons, was injured in the attack.

Colombia is the world's largest emerald producer and Boyacá and surrounding areas were at the centre of the 'green war' in the 1980s, as competition for control of the increasingly profitable emerald mines grew. The violent attacks took place between the Nel Rincón clan and that of Víctor Carranza (known as Colombia's emerald tzar), both of which developed ties to the powerful local drug trafficking organisations of the time. This violence only appeared to subside after a truce agreed between the emerald tycoons in 1990 and the death of the drug lord Pablo Escobar two years later.

Concerns about a revival of the 'green war' have been building in recent months, following Carranza's death from cancer in April 2013. Nel Rincón may have seen in this an opportunity to expand his control of local mines. According to the Colombian weekly *Semana*, 25 people were killed in the first ten months of the year in this new 'war'. These included some of Carranza's close collaborators. His right hand man, Pedro Ortegón, was shot dead in July and one of his lawyers, Óscar Casas, was killed the previous month. The government has since deployed 250 soldiers and police deployed to the municipalities Pauna, Quípama, Muzo and Maripí, as well as Boyacá.

But the prospect of renewed violence has provoked concerns from various sectors, including the Catholic Church. Monseñor Luis Felipe Sánchez, bishop of Chiquinquirá, described the situation in Boyacá as "worrying" and called on the Bogotá government to closely monitor the situation. He also called on the emerald tycoons to sit down at a "dialogue table" and talk "sincerely" about their commitment to peace, as agreed 23 years ago.

BRAZIL'S BANKS

Banco do Brasil and Caixa Econômica Federal: reloading the credit cannon

Very strong growth in lending by the state-owned Banco do Brasil (BB) and Caixa Econômica Federal (CEF) underpinned overall economic activity in the 12 months to the end of June this year. Since then, the growth in lending by both of the main public sector banks has slowed. However, much of the newsflow in recent weeks suggests that the government is taking steps so that BB can reinforce its balance sheet: this should allow the bank to accelerate lending growth over the medium term. In essence, the 'credit cannon' is being reloaded.

Even in an emerging market, situations where a major bank increases the size of its loan book by over one-fifth in a year are not particularly common. Such situations are even less common when the institution in question has a loan book of slightly more than US$260bn. Yet this is exactly what happened over the year to the end of September with Banco do Brasil (BB), the predominantly (58.3%) federal government-owned, but listed, universal bank. (N.B. BB currently has a free float of around 30%, which does not include the holdings of its staff pension fund Previ (10.4%), or of the investment arm of the national development bank Banco Nacional de Desenvolvimento Econômico e Social [BNDES] - 0.2%).

"Over a period where economic growth in Brazil was sluggish or slowing, and where the central bank had to begin increasing interest rates in order to counter inflationary pressures, total lending within Brazil rose by 21.7%."

Chart 1 provides some of the details. Over a period where economic growth in Brazil was sluggish or slowing, and where the central bank had to begin increasing interest rates in order to counter inflationary pressures, total lending within Brazil rose by 21.7%. BB's sizeable book of agribusiness loans increased by even more. BB's lending to some client groups rose by single-

CHART 1: Key metrics - loan portfolio of Banco do Brasil as at 30 September 2013

	Outstanding Amount BRLmn	Year-on-Year Change %	September Qtr. Change %
TOTAL, of which:	585,046	21.7	1.7
Abroad	47,641	14.9	0.5
Brazil, of which:	**537,404**	**22.3**	**1.8**
Individuals-	**163,718**	**14.0**	**1.5**
Payroll loans	61,641	8.0	0.2
Salary loans	18,334	6.0	0.0
Consumer finance	5,965	0.4	-3.6
Auto loans	35,336	6.9	-2.9
Mortgage	15,641	83.7	13.8
Credit card	17,958	31.6	9.9
Overdrafts	2,910	3.8	6.4
Other	5,933	12.7	-1.2
Companies-	**244,318**	**23.4**	**1.6**
SME	94,439	18.0	0.4
Government	15,706	94.3	23.2
Middle and large	13,174	17.8	0.3
Agribusiness-	**129,368**	**32.5**	**2.4**
Individuals	86,885	32.0	1.4
Companies	42,483	33.5	4.7

Source: BB

digit amounts: however, loans for individual mortgages and to government-linked companies nearly doubled.

Since the end of June this year, lending growth has been much more measured. Over the three months to the end of September, BB's loan portfolio within Brazil grew by 1.8%, equivalent to an annual rate of 7.4%. Lending to government-linked companies and for mortgages has continued to surge. Credit card lending is also a rare area of strength. However, BB's lending to other customers has stagnated.

A similar deceleration in lending may also have taken place at CEF, the government-owned savings bank. At the end of June, CEF's loan portfolio amounted to BRL431bn (US$194bn), a substantial amount by any standard. Lending had risen by 42.5% over the preceding year. The vast bulk of CEF's lending is to individuals. Lending to private sector companies surged by 58.4%. The details are shown in **Chart 2**.

CHART 2: Loan portfolio of Caixa Econômica Federal (CEF) as at 30 June 2013

	Outstanding Amount BRLmn		
	30-Jun-12	30-Jun-13	Change %
Public sector, of which:	**23,938**	**33,830**	**41.3**
Direct administration	12,555	17,727	41.2
Petrochemicals	8,164	11,212	37.3
Private sector companies, of which:	**58,151**	**92,119**	**58.4**
Retail trade	11,142	20,244	81.7
Civil construction	7,398	10,323	39.5
Steelmaking & metallurgy	8,411	9,234	9.8
Agribusiness/ natural resources	4,240	4,317	1.8
Individuals	**220,570**	**305,350**	**38.4**
Total	**302,658**	**431,298**	**42.5**

Source: CEF

CHART 3: Banco do Brasil - key balance sheet metrics (BRLmn)

	30-Sep-12	30-Sep-13	Change
Total assets	**1,104,281**	**1,259,260**	**154,979**
Loan portfolio and guarantees	**532,280**	**652,294**	**120,014**
Securities	180,069	192,029	11,960
Short-term interbank claims	214,511	233,320	18,809
Total deposits	**476,073**	**470,906**	**-5,167**
Agribusiness L/Cs and mortgage bonds	22,882	70,112	47,230
Repo. Agreements	8,444	25,646	17,202
Money market borrowing	214,430	243,911	29,481
Subordinated Debt	32,443	40,853	8,410
Foreign Borrowings	49,306	67,066	17,760
Shareholders funds	**62,614**	**65,924**	**3,310**

Other highlights:

*Record net income in 9M13 of BRL12.7bn

*Excluding one-off items, net income of BRL7.9bn, or ROE of 15.8%

*BIS ratio of 15.2%, higher than 11% required by Banco Central do Brasil

Source: BB

At first glance, many of the key metrics of BB's balance sheet at the end of September, and its result for the first nine months of 2013, look very positive. Net income for the period was a record BRL12.7bn, although this included the profits booked on the sale, by way of Initial Public Offering, of a stake in BB Seguridade Participações SA, the holding company for the bank's diverse and substantial insurance interests. Even allowing for one-off items, BB's return on equity (ROE) for the period was well into double-digits.

Chart 3 shows the details. In its Management Discussion and Analysis (MD&A) for the first nine months of 2013, BB stressed that it had benefited from a diverse source of funding, which had reduced the bank's overall financing costs. In particular, from mid-2013 BB started to offer repurchase agreement operations with private securities to its customers. Agribusiness letters of credit and mortgage bonds were also widely used.

In complete contrast to BB, CEF substantially funded the growth in its loan book over the year to the end of June through attracting additional deposits, as indicated in **Chart 4**.

CHART 4: Caixa Econômica Federal (CEF) - key balance sheet metrics as at 30 June 2013		
	BRLbn	**Year-on-year**
Total Assets	**814.3**	**37%**
Loan Portfolio	401.3	43%
Securities	155.8	22%
Interbank Lending	193.8	38%
BNDES/Other official bodies	0.8	-43%
Total Deposits	**342.1**	**20%**
Foreign Borrowing	1.2	100%
PIS/BNDES/FGTS etc	139.0	0%
Other Liabilities	306.4	
Shareholders' Funds	25.6	14%
Other highlights:		
*Profit for 1H13 of BRL3.1bn, vs BRL2.9bn in 1H12		
Source: CEF		

Chart 5 summarises some of the latest newsflow pertaining to BB and CEF. Both banks have partnered with a group of private sector institutions to form a consortium that should participate in the funding of the government-led highway and rail concession program. Along with other major banks, BB has been downgraded by Moody's. Several of the leading investment banks have highlighted negative aspects of BB's latest result. UBS, for instance, has focused on the apparent improvement of the overall quality of BB's loan portfolio through Q313, which was principally the result of a reclassification of particular exposures. CEF's plans to establish an investment banking subsidiary are on hold, as are BB's to lift its stake in Votorantim, another bank, from just under 50% to 75%.

Significantly, the government has introduced new rules which mean that foreigners can own up to 30% of BB - or more or less all of the current free float. This means that the bank has greater access to global capital markets than would otherwise have been the case. Press reports have alluded to the possibility of a sale of at least part of BB's credit card business. Although BB's non-performing loans (NPLs) appear to be under control, we would be surprised if they did not increase over the coming six months, given the fairly lacklustre performance of Brazil's economy. Further part sales of non-banking businesses (including, perhaps, an additional stake in BB Seguridade Participações) would crystallise the inherent value of BB's various franchises and reinforce the balance sheet.

CHART 5	
22-Aug-13	Votorantim's controlling shareholders 'postpone indefinitely' a review of BB's proposal to increase its stake from just under 50% to 75%.
06-Sep-13	Press reports indicate that CEF has shelved plans to open an investment bank.
09-Sep-13	BB and CEF, together with Bradesco, Itaú Unibanco, Santander Brasil, Votorantim, Citi, HSBC and others form consortium to provide funds for the official BRL133bn (US$58.4bn) highway and rail concession program.
04-Oct-13	Moody's lowers ratings of banks Bradesco, Itaú Unibanco, Itaú BBA, Santander Brasil, Banco do Nordeste and Banco do Brasil.
25-Oct-13	Government increases maximum stake that foreigners can hold in BB from 20% to 30%
30-Oct-13	BCB data highlights how state owned banks' loan growth slowed to 26.5% in September. Private sector banks' loan growth accelerates to 6.5%.
12-Nov-13	BB announces recurring profits for 3Q13 of BRL2.6bn, down marginally relative to 3Q12.
13-Nov-13	JP Morgan downgrades rating of BB shares to neutral. The investment bank highights the deterioration in asset quality and the rise in the share price by 31% from early July.
15-Nov-13	UBS highlights negative aspects of BB's 9M13 results: slippage in ROE, low NII growth and rising NPLs. BB has reclassified loans so that the AA portion of the portfolio has risen from 33% to 54% through 3Q123
Source: Business News Americas	

"By allowing credit to become (far) more readily available through BB, CEF and BNDES, the government and the central bank of Brazil ensured that the slowing of the economy did not become something far worse. The 'credit cannon' was fired - and to good effect."

By allowing credit to become (far) more readily available through BB, CEF and BNDES, the government and the central bank of Brazil ensured that the slowing of the economy did not become something far worse. The 'credit cannon' was fired - and to good effect. The latest data from BB, and other reports, suggest that the bank is in consolidation mode. Lending is no longer rising. Further asset sales are at least being contemplated. The balance sheet is being window-dressed. Access to global capital markets is being improved. We suspect that much of this is also true of CEF. However, all the various initiatives undertaken through the second half of 2013 should leave both institutions better placed to increase lending from mid-2014, should the economy slow once more. The 'credit cannon' is being reloaded.

ECONOMIC REVIEW

ARGENTINA

Grupo Clarín forced into break-up

Caught on the wrong side of a long-running confrontation with the Argentine government, Grupo Clarín, arguably Latin America's single largest media group, under duress announced a plan in November to break itself up into six smaller companies. It is not yet clear how the politics and the economics of the plan will play out.

Grupo Clarín and the Argentine government led by President Cristina Fernández have been squaring up for a fight for years. Now the shadow-boxing is over and some real punches are being landed. After initially friendly relations with the administration of Fernández's predecessor and late husband, Néstor Kirchner (2003-2007), Clarín began to take a more clearly opposition line. When Fernández succeeded Kirchner, coolness gave way to open hostility. The Fernández administration believes that Clarín

(along with its rival newspaper and media company *La Nación*) defends the old, traditional Argentine establishment.

Clarín counters that it is being attacked by a government with authoritarian tendencies that simply cannot tolerate freedom of expression, or allow the existence of any media outlet with a strong opposition voice.

Battle lines were drawn in 2009, when the government used its congressional majorities to pass a new media law. The government has always insisted that the aim of the law is to protect freedom of expression and prevent monopoly control of the media sector. Clarín on the other hand says the law has been 'tailor made' to dismember it. As a result of legal action Clarín secured a stay on implementation of the four most controversial clauses in the law. After some four years of legal argument, on 29 October this year the Argentine supreme court ruled that the media law was constitutional, and that all four of the contested clauses should come into immediate effect.

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Between them, the key clauses state that any media group cannot own more than 10 free-to-air TV channels and 24 licences to operate pay-TV services, nor hold a market share of over 35%. A further requirement is that no single media group can operate a free-to-air TV channel and a cable TV licence alongside each other in the same city. The Clarín group, which has grown consistently over the last four decades, is clearly too big to fit within the requirements of these regulations. Nationwide it has 237 pay-TV licences. It operates free-to-air and cable TV channels alongside each other in a number of key cities. The official regulatory body, Autoridad Federal de Servicios de Comunicación Audiovisual (AFSCA), estimates that Clarín has 41% of the national radio market, 38% of broadcast television, and 59% of cable television. (While not directly contesting these statistics, Clarín draws attention to government control of other media outlets, claiming that "more than 80% of the broadcast media respond directly or indirectly to the authorities.")

In the first skirmishes after the supreme court ruling, the head of the AFSCA, Martín Sabbatella (himself one of the government's political appointees) suggested that it would be within his agency's remit to carve up the media group. "After four years of court delays, the gluttonous giant Clarín… will have to comply with the law", he stated, suggesting that the government would be estimating the value of the assets and holding an auction based on competitive bidding prior to passing them on to new owners. Luis D'Elia, a pro-government activist, reflected the mood music when he spoke of taking "the butchers' knife" to Clarín. However, the 400-page supreme court ruling upholding the media law also contains some detailed requirements on the protection of Clarín's property rights.

With this in mind, Clarín appears to have opted for a twin-track strategy. On the one hand, it says it will continue to protect its interests through any legal avenue open to it. While the supreme court ruling on the media law is final, there are still a variety of technical points that Clarín can challenge. The group says it believes it has a case to demand that the changes be overseen "by an authority that is independent, impartial and technically competent, and that can insure transparent and equal treatment under the law, which is contrary to what is happening today".

It has also spoken of taking its case to the international courts. On the other hand, the company has decided to simultaneously follow a policy of 'voluntary compliance'. This has meant presenting its own plan to meet the requirements of the law by breaking itself up into six separate units. The advantage of this proposal is that it buys time and keeps the AFSCA at arm's length for the moment. The AFSCA is required to study Clarín's proposals over a 120 day-period. If it accepts them, there then are a further 180 days allowed for implementation.

As it presented its break-up plan, the company said it was "a decision forced upon us by circumstances. We are convinced that in no civilised country can the state retroactively refuse to recognise the licences it granted, that still have years to run. They didn't even do this in countries like Venezuela or Ecuador".

Marcelo García, writing in the small English language daily, *Buenos Aires Herald* described Grupo Clarín's presentation to the supreme court as a claim that "only a mammoth, diversified, pseudo monopolistic size can guarantee sustainability (they used less loaded words)". The court was not persuaded. The search for a business model and a regulatory framework which allows both fair competition and media freedom in Argentina is certainly not over.

Grupo Clarín's Divestment Proposal	
Company 1	• Arte Radiotelevisivo Argentino (ARTEAR), owner of Channel 13 Buenos Aires, Channel 12 Córdoba, Channel 6 Bariloche, and news channel Todo Noticias (TN). • Radio Mitre AM790 and FM100 in Buenos Aires • AM 810 and FM 102.9 in Córdoba • FM 100.3 in Mendoza • 24 Cablevisión pay-TV licences "in cities where there is no free-to-air TV presence"
Company 2	• This company will have most of the existing assets of Clarín subsidiaries Cablevisión and Fibertel. • Investment fund Fintech will retain a 40% stake in this subsidiary • 24 pay-TV licences, including Metro, currently Cablevisión's local cable channel for Buenos Aires
Company 3	• 20 pay-TV licences currently operated by Cablevisión
Company 4	• The remaining TV channels (Clarín says that these are 'audiovisual signals which do not use scarce spectrum' the media law requires that they too should be divested, which Clarín criticises as a 'serious anomaly' • These channels are Canal 13 Satelital, Magazine, Volver, Quiero Música en mi Idioma, Canal Rural, TyC Sports and TyC Max
Company 5	• Remaining radio stations – FM licences in Tucumán. Bariloche, Bahía Blanca, and Santa Fé
Company 6	• Free-to-air TV Channel 7 in Bahía Blanca • Shareholding in Channel 9 Mendoza
Source: Grupo Clarín	

Analysts have highlighted various points about the plan. The first is that ultimate ownership of the six "baby-Clarins" has not been explained (apart from the stipulation that the Fintech fund, a current Cablevisón shareholder, will keep a 40% stake in Company 2). Clarín simply has said that although they will be independent of each other, the proposed ownership structure of the six companies has not been worked out. Clearly, this point could be critical. The government is likely to try and prevent any sense in which the six companies might directly or indirectly remain linked together, or act as one group.

A second interesting point is that Clarín has not said where the printed newspaper of the same name will sit – simply because under the requirements of the law it does not have to (the same applies to Clarín's share in newsprint company Papel Prensa). That too is presumably a decision it is going to take at a future point.

Another important angle to consider is the relative value of the different assets in the group as currently constituted. Company accounts for the first nine months of 2013 show that net sales were up by 24.6% in nominal terms to ARS10.14bn (US$1.69bn at the official exchange rate). The increase was attributed mainly to growth in average revenue per user (ARPU) and subscriber growth in the cable TV and internet access segments of the business. Net income was ARS479.5m, down by 13.8% on the same period in 2012, a fall attributed by the management to the withdrawal of government advertising in the group.

The accounts suggest that the cable TV subsidiary – Cablevisión – is the best performing asset, bringing in ARS7.02bn in sales from 3.48m pay-TV subscribers and 1.68m broadband users. By contrast *Clarín* the newspaper brought in ARS1.9bn worth of sales, and other radio and TV operations brought in ARS1.21bn. Under Clarín's break-up plan, most of the Cablevisión assets will be spread across three of the six companies.

Of particular importance is what might be described as the 'business paradigm' of Argentine news and media groups. Some have described Clarín's strategy over the years as building up a powerful, diversified and integrated media business, strong enough to resist political pressures. But the point at which this 'defensive strength' crosses over and becomes aggressive monopoly control appears rather fuzzy.

Has Brazil lost the X factor?

Brazil looks to be facing into another year of stagnant economic activity, but with relatively high and persistent inflation, and deterioration in both the fiscal and external accounts. Critics say the 'Lula model', based around a decade-long domestic consumer boom, is exhausted. For now, most Brazilians are still enjoying full employment; this is critical to President Dilma Rousseff's bid for re-election next October.

On 14 November the central bank (BCB) reported that its IBC-Br economic activity index, a GDP proxy that measures activity in the farming, industry and services sectors, contracted 0.01% month-on-month in September and fell 0.12% in the third quarter, compared to an increase of 0.84% in the second. In the 12 months to September, the IBC-Br rose 2.68% year-on-year. The latest (22 November) consensus forecast of private sector economists compiled by BCB pointed to real GDP growth of 2.5% this year and just 2.1% in 2014, a general election year.

The IBC-Br is a lagging indicator, and though the government is due to withdraw temporary tax incentives for the industrial sector at the end of the year in an effort to bolster its fiscal position, manufacturing sector confidence finally ticked up a bit in November after five consecutive monthly declines, on the ICI index compiled by the Getulio Vargas Foundation. Industrial output contracted 1.4% in the third quarter. Retail sales were up 4.1% year-on-year in September, the seventh straight month of growth, but down on the August result of 6.2%. The trade account posted a deficit of US$1.8bn in the first 10 months, with a current account deficit of 3.67% of GDP (US$67.5bn) in the first 10 months.

Selic

As we went to press on 27 November the central bank was expected to lift the benchmark Selic interest rate to 10% (from 9.5%). The Real was trading at R$2.29/US$ ahead of the monetary policy meeting.

The latest budget figures are creating most concern, however. There is mounting pressure on the Rousseff administration over the twists and turns of its fiscal policy, with international investors openly speculating that Brazil will be the first of the Brics group of developing economies (Brazil, Russia, India, China and South Africa) to lose its investment grade rating. The ratings agency Standard and Poor's (S&P) has warned that it could reduce Brazil's BBB credit rating if the fiscal accounts continue to deteriorate next year. S&P and Moody's Investors Service have both already lowered their outlooks on Brazil's rating this year, which both put at just two levels above junk (BBB and Baa2 respectively). On 21 November President Rousseff said there would be no 'gastança' ahead of the general election and pledged that fiscal targets would be met next year. Rousseff inked a pact s with allied party leaders on 19 November in which they agreed not to support any legislation in congress that would lead to higher public spending or reduced revenues under the 2014 budget.

However, this came against a backdrop of the congressional approval of a bill removing the federal government requirement to cover any state and municipal shortfalls in their primary budget surplus target. That followed on the heels of an earlier one (approved on 23 October) that effectively allows a re-negotiation of state and municipal debts. Critics suggested that the government had switched tactics – moving from 'creative accounting' to 'creative legislation' to reach its primary surplus target. And no matter what she says, Rousseff will be hostage to the political cycle from early next year.

The deterioration on the fiscal side – both in legislation and in the actual headline numbers - has worsened external sentiment on Brazil at a time when the macroeconomic picture is far from rosy. The primary budget deficit was R$9.0bn (US$4.15bn) in September, the highest for five years. The August primary deficit of R$432m (US$195m) was the first for the month in a decade. The primary deficit figure, which represents the public sector's excess revenue over expenditures before debt payments, is a closely watched measure of the country's ability to service debt. The treasury has forecast a strong fiscal surplus in the final three months of year (partly cushioned by a cash windfall from the latest Libra oil field auction) and insists that the government is on course to meet the 2.3% of GDP surplus target. The markets are sceptical – the primary surplus in the rolling 12 months to September was just 1.6% of GDP.

MEXICO

Is the Pemex workhorse stumbling?

As Mexico debates major reforms to its energy sector, a spotlight has been turned on the state oil company Petróleos Mexicanos (Pemex), traditionally the workhorse of the economy; responsible for much of its foreign exchange earnings and generating as much as 40% of central government revenues. And there is cause for concern – after decades on the job, the workhorse is showing signs of exhaustion.

Pemex's third quarter accounts were a bit of a shocker. In the three months to early September, it reported a loss of US$3.0bn, compared to a US$1.87bn profit in the same period of 2012. The company said that lower export volumes, weaker prices and adverse exchange rate movements had affected its performance. Total sales in Q313 were US$31.5bn, barely up 0.1% year-on-year. One of the underlying problems is that crude oil production is continuing on its slow and persistent downward curve. Having averaged 3.4m barrels per day (bpd) a decade ago in 2004, production in third quarter was just 2.4m bpd.

To get crude oil output and revenues back up on a rising trend, Pemex needs to invest. The problem is that the company long has been the government's cash cow. On average, around 55% of its gross revenues have been paid over into the federal coffers. According to Pemex director Emilio Lozoya Austin, after paying its dues to the government, the company has managed to invest roughly US$24bn each year in a range of development projects. Lozoya estimates that if Pemex continues investing at that rate, production will begin to improve only very slowly, perhaps reaching 2.8m bpd during the course of the next decade. If, on the other hand, it could afford to spend US$62bn a year on exploration and new project development, then he thinks output could reach 4.0m bpd within the next ten years.

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Raymundo Tenorio from the Universidad Tecnológica de Monterey says that Pemex has been "nosediving". On current trends, he expects full-year 2013 losses to be around US$3.0bn. He also doubts whether the energy reform proposed by the government led by President Enrique Peña Nieto will change the way the company is used as "the safe deposit box for public finances".

This scepticism is based on the way recently-approved fiscal reform proposals, which were initially designed to relieve the burden on Pemex, have been watered down. Although under the terms of the fiscal reform the finance ministry's share of Pemex revenue is supposed to fall from 2015 onwards, it also gains new powers to be paid a dividend that can be adjusted to avoid any "imbalance in the public finances". From Tenorio's point of view, that means Pemex must find a way to open its doors to foreign investment, otherwise "the losses will continue to increase".

The debate on both the energy reform and Pemex remains highly politically polarised. The ruling Partido Revolucionario Institucional (PRI) and the right-wing opposition Partido Acción Nacional (PAN) insist that some form of opening up to foreign oil companies and external investment is unavoidable as the price to be paid for boosting production and revenue.

The main left-wing opposition party, Partido de la Revolución Democrática (PRD), questions this. Andrés Manuel López Obrador, perhaps the most vocal critic of the government (and a former PRD presidential candidate who has now set up his own movement outside the party) rejects it absolutely.

He argues that Pemex, with annual sales of US$125bn, which is the 13th largest corporation in Latin America and the 34th largest in the world, must be able afford to fund an adequate programme of capital expenditure from its own resources. He admits that, as the government argues, there is a need to employ new production and exploration technology, but says Pemex can afford to buy in the technology it needs, rather than having to get it by offering a stake in the business in exchange. López Obrador insists that the energy reform proposals are "the biggest theft of all time".

ECUADOR

Good performance, but trouble ahead?

The Ecuadorean economy posted real GDP growth of 3.5% year-on-year in the second quarter of 2013, maintaining the 3.5% rate achieved in the first, the central bank reported in early November. On a quarter-on-quarter basis, output was up 1.2%. Growth in the March-June period was supported by the construction, communications and oil sectors. While these numbers were taken as encouraging, the overall trend remains for growth to slow, both for Ecuador and the wider region.

Ecuador's registered real annual GDP growth of 5.0% last year, creating a feel-good factor that helped President Rafael Correa's re-election in early 2013. This year, the president (an economist himself) is predicting that growth will moderate to a range of 3.7%-4.0%, as oil production and export prices have eased (the closure of the Esmeraldas refinery for maintenance has also reduced revenues). Factoring in some extra liquidity through a hoped-for return to international debt markets in 2014 (or further borrowing from China) Correa thinks GDP will begin to recover next year with expansion within the 4.5% to 5.1% range.

While by most standards the Ecuadorean economy is performing well, opinion about the sustainability of Correa's economic policies seems sharply divided. The president, who recently described himself as "an economist, but a good person", clearly thinks he is doing very well, and some, but not all, independent analysts broadly agree with him.

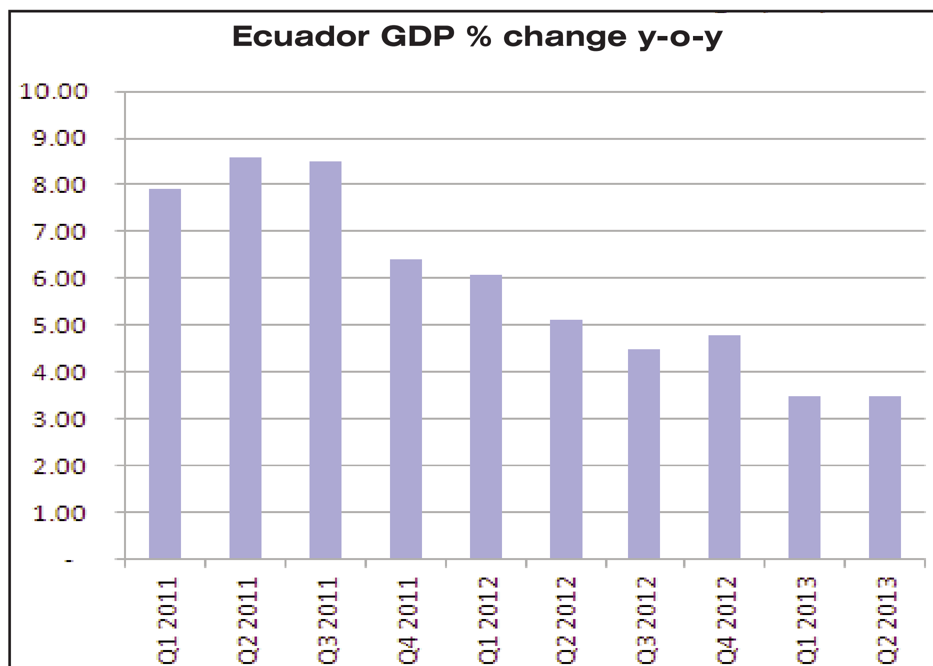
Correa was on form addressing an investment forum during a visit to Moscow at the end of October. He described Ecuador as a "marvellous country", where very interesting things were happening. He stressed that in the ten years before he came to office in 2007, the country had gone through seven presidents and plenty of political instability.

Since then, he had recovered stability and achieved average real annual GDP growth of 4.3%, even though the country lacks its own currency (Ecuador dollarised its financial system in 2000). Correa listed as a major achievement the increase in public sector investment, made possible, according to him, through three initiatives: rescheduling foreign debt; renegotiating oil contracts that had been "prejudicial for the country"; and boosting tax revenues "without increasing tax rates". Public sector investment had been pushed up to 14% of GDP, while foreign debt had been reduced to 20% of GDP. In the process, unemployment had been cut to 4.2%. Correa claimed that around 1.0m Ecuadoreans (the country has a population of 15m) have been taken out of poverty between 2006 and 2012.

Qualified support for an upbeat reading of the country's economy had come a few weeks earlier from the ratings agency Fitch, which raised the country's credit rating from B- to B, a move which it said reflected "the country's continued healthy growth performance, monetary and financial stability underpinned by dollarization and a steady easing of external and fiscal financing risks as a result of still favourable oil prices, improved prospects in the oil sector and continued availability of bilateral financing from China and multilaterals".

But another group of analysts isn't entirely convinced that the existing economic 'model' can go forward without significant risks. First of all, they note that after Ecuador's debt default on US$3.2bn worth of bonds in 2007 and 2008 the international financial system remains wary about the country. Despite the encouraging words and the upgrade, Fitch still places Ecuador in junk bond territory (five notches below investment grade). Foreign direct investment last year was US$587m, the lowest-but-one of all Latin American countries.

The national court of justice, Ecuador's top court, upheld a verdict on 12 November that US oil giant Chevron was responsible for polluting the Amazon. However, it halved the fine imposed by the provincial court of Sucumbíos in January 2012 to US$9.5bn, arguing that there was no legal basis for the additional US$9.5bn fine slapped on Chevron for refusing to apologise publicly for the pollution. Chevron spokesman James Craig said the ruling was "illegitimate and inapplicable". Chevron is engaged in a legal battle in New York, where it is suing the US lawyer representing the plaintiffs, Steven Donziger, for having committed corruption to obtain the original ruling.



The nub of the question concerns the sustainability of a dollarized financial system in a period of future oil price weakness. In a dollarized system, the central bank cannot print money: the government must cover any fiscal or current account deficits by securing a net inflow of dollars.

Vladimir Putin called Ecuador "one of our strategic partners in Latin America", and added that the two countries had a lot to offer each other through "interesting and promising projects".

In a recent paper on Ecuador, UK based analysts Capital Economics noted: "We are concerned about the potential for balance of payments problems ahead, particularly if oil prices fall". The paper pointed out that public oil revenues have struggled to keep pace with Ecuadorean government spending. "The budget deficit widened to US$3bn (or 3.5% of GDP) in the second quarter, on a 12-month rolling basis. That's nearly as wide as in 2009, when global oil prices tumbled to a low of US$36 per barrel! By contrast, the price of ICE Brent (the global benchmark) has averaged around US$110 per barrel this year", it went on.

The reason for alarm then, is that the government is running a large fiscal deficit *despite* still-high oil prices. It has to be borne in mind that the boom in domestic US shale oil and gas production may, according to some analysts, lead to a medium term weakening in international crude oil prices. In this scenario, Latin American countries heavily dependent on oil exports (principally Venezuela and Ecuador) could find themselves no longer able to 'export their way out of trouble' as they have been so often been able to do in the past.

Capital Economics' conclusion is that "fiscal profligacy has left Ecuador a hostage to external events. In the absence of a concerted tightening of policy, we think there is a realistic chance of a currency crisis in the coming years." It is over-dramatic to draw any comparisons, but nevertheless worth mentioning, that experiments with dollarisation in Latin America (Argentina being the best known) have not always ended well.

Putin and Correa

Details of a package of proposed Russian investments in Ecuador worth US$1.5bn were released on 30 October as Ecuador's President Rafael Correa wound up a visit to Moscow hosted by his Russian counterpart, Vladimir Putin. "Very important things have been settled" Correa said on his second visit to Russia in four years. Significant Russian investment is the main prize for the Ecuadorean visitor.

Russian banks signed a US$230m loan to finance a gas turbo-generator at the Termogas Machala facility in Ecuador, along with other work. A memorandum of understanding was signed under which RZD, Russia's state rail company, will build a rail network linking Quito to Ecuador's four main ports, potentially 1,800km long. The details and cost of this ambitious project will be determined through a feasibility study. Meanwhile Russia's Gazprom is still assessing whether to exploit Ecuador's

natural gas deposits in the Gulf of Guayaquil. Oil company Rosneft and energy group Inter RAO were also reported to be in discussion on various projects with the Ecuadorean authorities.

In terms of defence equipment, Russia has offered military trucks, Mi-171 helicopters and Yak-130 planes, along with a US$200m loan to facilitate their purchase. Correa has not yet officially responded, in part because the Ecuadorean constitution forbids arms purchases that could increase the trade deficit.

Bilateral trade between the two countries was worth US$1.3bn last year, with a large surplus in Ecuador's favour. Ecuador exported US$1.2bn worth of bananas, seafood and flowers, and imported US$116m of medical equipment, mineral fertilisers, and paper. "We have a growing trade with Russia, which now occupies third place among the list of destinations for our non-petroleum exports," Correa said.

Putin and Correa signed a further memorandum of understanding on a partnership between the Ecuadorean 'City of Knowledge' of Yachay and the Russian Skolkovo Innovation Centre, both of which are under construction. Yachay is part of Ecuador's drive to pursue a transition away from dependency on oil extraction and exports and towards an economy based on knowledge, innovation, and sustainability, with the planned site set to be home to numerous universities and research centres. Correa has said in the past that Yachay is "the most important project" of his so-called Citizens' Revolution, and he hopes it will become the hub of knowledge and innovation in Latin America. Skolkovo, meanwhile, will be a high technology business centre situated outside Moscow, and like Yachay will have the privilege of being a special tax zone.

PERU

What could go wrong?

Policy-makers in Peru have - rightly - received plaudits in recent weeks from Fitch Ratings and the International Monetary Fund (IMF) for their stewardship of the economy.

On 20 November, the International Monetary Fund (IMF) published a concluding statement following its 2013 Article IV consultation with the government of Peru. The IMF's assessment is very positive: the overall state of the economy remains strong despite lower metal prices and recent market turbulence. In the short term, activity should be boosted by the softness of the Sol through much of 2013 (in response to the general weakness in the price of copper and other metals that are produced in Peru), and by the decision of Banco Central de la República del Perú (BCRP - the central bank) to lower its key policy rate from 4.25% to 4.00% in early November. Over the medium term, the IMF envisages that the economy will rebound in 2014, as exports and business confidence (strengthen) and large infrastructure and mining projects come on stream.

The IMF expects that, after running at around 5% for much of 2013, real GDP growth will accelerate to 5.5% in 2014. Inflation is expected to moderate from the current rate of around 3% to 2% (the mid-point of the BCRP's target band). The IMF's assessment follows Fitch Ratings' upgrading of its already investment-grade sovereign rating for Peru from BBB to BBB+ on October 23. The agency noted the government's strong fiscal position (with a debt/GDP ratio that is 18.9% and falling) and balanced budget. "Growth prospects appear favourable in coming years due to strong mining investment flows and the expected doubling of copper production by 2016", it noted. The biggest risk moving forward, therefore, might be current account and potentially even inflation pressures, on the back of a simultaneous surge in both consumption and investment.

The main downside risk - alluded to explicitly by the IMF and implicitly by Fitch - appears to be an unexpectedly large slowdown (or worse) in China. As we noted in our sister *Andean Group Report* for November, exports from Peru to China have risen from around US$3.5bn in 2007 to US$7.9bn in 2012, with the result that China has displaced the US as Peru's main trade partner. Currently, around 17% of Peru's exports go to China.

PetroChina

The state-controlled PetroChina has purchased the three Peruvian oil and gas blocks held by the local subsidiary of Brazil's Petrobras for US$2.6bn. China National Petroleum Corporation (CNPC), PetroChina's parent, has been in Peru since 1993 and already has assets including three oil and gas fields. This latest purchase, which needs the approval of the authorities in Bejing and Lima, would be the second largest acquisition in Peru since Royal Dutch Shell bought Repsol's liquefied natural gas assets in February for US$4.4bn.

Peru-Brazil

On 11 November President Humala hosted his Brazilian peer, Dilma Rousseff, in Lima to further the 10-year old strategic alliance on physical and economic integration, trade and investment. Brazil is Peru's third largest trading partner. Two-way trade was US$650m in 2002, US$3.5bn in 2012 and is on course to break US$4.0bn this year. Peru's exports to Brazil in 2012 rose 58% on 2011, and should increase a similar amount this year. They reached US$1.2bn in the first eight months of 2013, leaving Peru with a bilateral deficit of some US$300m. President Rousseff said there were over 70 Brazilian companies in Peru with investments totalling US$6bn. Humala and Rousseff signed three accords on the environment, labour and telecommunications. Humala urged Brazilian investment in Peru's energy, IT infrastructure (fibre optics), petrochemical, ports and public transport sectors.

However, Peru is favourably placed to cope with even a sharp downturn in commodity prices, whether the result of developments in China or some other factor. The currency regime has become more flexible. Inwards Foreign Direct Investment (FDI) is sufficient to fund the current account deficit of around 5% of GDP. Crucially, foreign reserves amounted to US$66.5bn at the end of October, which is equivalent to around 33% of GDP.

For its part, the IMF also considered domestic upside risks. "The pace of the recovery could be stronger than envisaged due to a variety of factors including: (i) the greater speed of operating at full capacity large mining projects coming on stream; (ii) the ability to implement rapidly large infrastructure projects in the pipeline; (iii) the effectiveness of the investor facilitator office in handling a larger volume of cases and (iv) the faster adoption of the authorities' reform agenda".

Reform has focused on boosting labour productivity and improving the flexibility of the labour market, social programs for promoting inclusive growth (such as Juntos, Cuna Mas and Qali Warma), improved fiscal discipline through the Fiscal Responsibility Law and streamlining bureaucracy. Progress in any of these areas is likely to boost investment further. The World Economic Forum (WEF)'s Global Competitiveness Report for 2013-14 ranked Peru very favourably relative to similar economies in terms of its overall macroeconomic environment. However, the WEF found that the most problematic factors for doing business in Peru were inefficient government bureaucracy, corruption and restrictive labour regulations. These problems were considered as being far more serious than deficient infrastructure, tax regulations or crime/theft.

As the **Chart** indicates, Peru's economy is well balanced between exports and domestic demand. Most metrics - and, in particular, the 18% year-on-year growth in credit to the private sector - suggest that the momentum of consumption, in particular, is strong. It is easy to envisage a situation whereby stronger-than-anticipated consumption coincides with the impact of the recent easing in fiscal and monetary policies and with a surge in investment boosted by success with the various reform programs. In the event that an improvement in Peru's terms of trade caused the Sol to appreciate strongly in 2014-15, the current account deficit could surge. Inflation could also then become a challenge for the BCRP. For now though, the central bank retains strong control of the economy.'

Peru's economy: selected metrics	
Composition of GDP, 3Q13	
Domestic Demand	101.3%
Private Consumption	62.6%
Public Consumption	10.2%
Private Investment	21.9%
Public Investment	5.7%
Inventories	0.9%
Exports	25.4%
Imports	26.7%
GDP	100.0%
Robust demand for labour	
Urban employment index*, August 2013	109.5
Year-on-year change	2.40%
Employment index for Metro. Lima	113.4
Year-on-year change	4.30%
**October 2010 = 100*	
Other	
Broad money (PENmn) - end Sep. 2013	210,228
Year-on-Year growth	19.20%
Credit to private sector (PENmn)	164,793
Year-on-Year growth	17.60%
Source: BCRP	

NICARAGUA

On the right track, but in the slow lane

In its latest Article IV consultation with the government of Nicaragua, the International Monetary Fund (IMF) confirmed that most of the country's macroeconomic metrics are moving in the right direction. Relative to other countries in Central America, crime and violence is much less of a challenge for businesses. However, change and development is not occurring rapidly enough to have an impact on poverty, which remains endemic, affecting up to 43% of the population on some estimates.

The IMF last published a full country report in relation to a regular Article IV consultation with the Managua government in June 2012. Although the Fund's review of the economy and economic management was generally favourable, it highlighted a number of structural problems. Most crucial is poverty. By many metrics, Nicaragua remains one of the poorest countries in the Western Hemisphere. Real per capita incomes are still only about two-thirds of the peak in 1977. Poverty rates have fallen in recent years, but are still considerably in excess of regional averages. Over a quarter of the rural population lives in extreme poverty. Only one quarter of workers are enrolled in the country's social security system, which on current trends is headed for large financial problems.

"By many metrics, Nicaragua remains one of the poorest countries in the Western Hemisphere. Real per capita incomes are still only about two-thirds of the peak in 1977. Poverty rates have fallen in recent years, but are still considerably in excess of regional averages."

Contested poverty figures

According to the latest annual survey on poverty by a local Nicaraguan think tank, Fundación Internacional para el Desafío Económico Global (Fideg), released on 25 June this year, general poverty affected 42.7% of the population in 2012, down from 44.1% in 2011, while extreme poverty dropped to 7.6% in 2012 from 8.2% in 2011. (The Fideg defines general poverty an individual income of less than US$2/day and extreme poverty as less than US$1/day). The survey was carried out in 1,730 homes across the country, 874 in urban areas and 856 in rural areas, with a 2.4% error margin. The organisation's director, Alejandro Martínez Cuenca, noted that the improvement in general poverty lay within the margin of error. Commentators also noted that extreme poverty in rural areas actually rose, to 12.9% in 2012 from 11.6% in 2011, although it dropped to 3.2% in urban areas from 5.4%.

Cuenca noted that the improvement owed largely to remittances, which reached US$1.0bn in 2012, up 11.3% on 2001 and accounting for 10% of GDP. He said that without the remittances contribution, the poverty rate could well have increased by as much as "4.1% in the case of general poverty and 3.7% in the case of extreme poverty."

The UN Development Programme's latest Human Development Report, '*The Rise of the South: Human Progress in a Diverse World*', presented in Mexico on 14 March, showed continued improvements in Nicaragua's human development index (HDI) - a composite of health, education, and living standards. According to the UNDP report, Nicaragua's HDI in 2012 was 0.599 (on a rising scale of 0-1), up from 0.583 in 2007, the year President Daniel Ortega took office. Yet in the Inequality-Adjusted Human Development Index (IHDI), which measures inequality within each of these three dimensions, Nicaragua's score fell to 0.434.

According to the UN's Food and Agriculture Organisation's January 2013 '*Panorama of Food and Nutritional Security in Latin America and the Caribbean 2012*', the proportion of the population in Nicaragua suffering from hunger dropped to 20% in 2010-2012, down from 23.9% in 2007-2009 and 55% in 1990-1992. While below Guatemala (30.4%), the latest figure for Nicaragua was still above El Salvador (12.3%); Panama (10.2%); Honduras (9.6%) and Costa Rica (6.5%).

The banking system is sound and resilient - but is vulnerable to a sudden reduction in deposits linked to assistance to Nicaragua received from the government of Venezuela. Power outages are, by regional standards, common. In spite of Venezuelan aid, dependence on oil imports (of around 17% of GDP in 2011) is an obvious and important source of vulnerability. Details are shown in **Chart 1**.

The IMF's latest assessment was summarised in a press release in late September 2013 - following the most recent Article IV consultation, but before publication of the full report. The key message is that macroeconomic

CHART 1: Structural problems as identified by IMF, mid-2012
Per capita income of around US$950 (1994 dollars) is well below 1977 peak of about US$1,500.
Poverty rates has declined from 48.3% of the population in 2005 to 42.5% in 2009, but is still well above the regional average of 27%.
In spite of falling poverty, 63% of the rural population lived below the poverty line in 2009.
In 2009, 15% of the population, and 27% of the rural population lived in extreme poverty.
Financing the current account deficit still depends on aid and FDI.
Oil imports rose from 11% of GDP in 2010 to nearly 17% in 2011.
Power outages (of six in a typical month) are far more common than in other countries in Central America.
At 70%, the number of urban workers who are employed informally is one of the highest in Latin America.
Only 25% of the workforce is enrolled in the social security system.
The pension system is set to record deficits from 2015 and to deplete its trust fund by 2021.
The banking system is resilient: 'however, deposits linked to Venezuela's assistance programs are increasingly large and potentially volatile.
Source: IMF, Staff Report for Article IV Consultation, 12 June, 2012

management remains sound. The authorities in Managua are addressing the main challenges. The current account deficit is falling only slowly, but foreign reserves, at around 3.5 months of imports are, and should remain, sufficient for the country's needs. The budget is broadly in balance, with the result that public sector debt (which is overwhelmingly held by foreign creditors) is falling relative to GDP. Inflation is sticky and, relative to what it is in major economies, quite high. However, it is falling and in any event, the gradual (and predicable) depreciation of the Córdoba against the US dollar, in accordance with the central bank's long-established sliding peg regime, ensures that Nicaraguan exporters remain internationally competitive. Details are shown in **Chart 2**.

"Martínez Cuenca told local media like *El Nuevo Diario* that without the contribution of remittances, the poverty rate could well have increased, by as much as "4.1% in the case of general poverty and 3.7% in the case of extreme poverty."

CHART 2: MF's view of macro-economic metrics, late 2013
Average real GDP growth over two years of 5.3% annually *GDP growth of 4.2% in 2013 and 4% per annum thereafter*
Inflation over two years of 7.3% per annum *Inflation of 7% per annum in 2013 and subsequent years*
Public sector deficit of 0.3% of GDP in 2012 *Public sector deficit of 1.4% of GDP*
Public debt declining from 45.7% of GDP in 2011 to 42.3% in 2012 *Government committed to further reductions over the medium term.*
Current account deficit falling from 13.2% of GDP in 2011 to 12.9% in 2012 *Current account deficit of around 13% of GDP*
Gross international reserves equivalent to 3.5 months of imports.
Reserve coverage should remain stable
Source: IMF Press Release 13/364 of 26 September, 2013

The real problem, though, is that economic growth appears set to slow slightly, with the result that the incidence of poverty is unlikely to fall at the same rate as in recent years. In particular, it appears unlikely that the left-wing government led by President Daniel Ortega will have the resources to do much to improve the country's education system. This matters, because the inadequate education of the workforce was seen in the latest (2013-14) Global Competitiveness Report of the World Economic Forum as being one of the top five obstacles to doing business in Nicaragua, as **Chart 3** indicates. Other problems, in increasing order of severity, are government instability, corruption, policy instability and inefficient government bureaucracy.

CHART 3: The five most problematic factors for doing business in Nicaragua

Source: WEF Global Competitiveness Report 2013-14. Respondents were asked to select the five biggest challenges for doing business and to rank them from 1 to 5. The responses are weighted according to rankings.

However, no one of these problems appears to be seen as overwhelmingly more serious than the others. Further, crime and violence, which are seen as a very serious challenge to doing business in some other countries in Central America, is not seen as a major problem in Nicaragua. This is in the context of a country whose overall Global Competitiveness Index improved from 115/142 in 2011-12 to 108/144 in 2012-13 to 99/148 in 2013-14. Relative to other low income countries, the Global Competitiveness Report shows Nicaragua in a favourable light in terms of healthcare services and certain aspects of its financial sector (such as the availability of venture capital and access to loans).

In short, progress is slow, but in the right direction. It is easy to identify challenges and sources of vulnerability. There will be widespread poverty for years. Nevertheless, the state clearly has the ability to effect positive changes at grassroots level. The most likely outcome is that a stable economic environment results in a gradual improvement in living standards (and greater social stability) over the medium-term.

> "The inadequate education of the workforce was seen in the latest (2013-14) Global Competitiveness Report of the World Economic Forum as being one of the top five obstacles to doing business in Nicaragua."

MARKETS REVIEW

The bears maul MILA markets – but will not do so forever

This year has been challenging for investors in the three regional stock markets comprising the Mercado Integral Latinoamericano (MILA). Over the long-term, though, it is reasonable to expect that investors will derive significant benefits from the positive fundamentals of Chile, Colombia and Peru. A new exchange-traded fund (ETF) shortly to be listed on the Bolsa de Valores de Colombia (BVC) will provide a useful indicator of investor interest in the Andean markets.

In theory, emerging markets should provide superior returns to investors. The benefits are usually assumed to include relatively high rates of economic growth, which boost corporate profitability (and growth in earnings per share). Often, there are clear and positive secular trends that should be rewarding. One example of such a trend is the prevalence of high real prices for commodity exports thanks to the growth in China's economy. Another example is the development of retail financial services for the first time. A third, which is related to the second, is a rise in consumerism as improved access to credit gives households the opportunity to increase spending more rapidly then their incomes.

The benefits from emerging markets are often assumed to include a re-rating of financial assets as governments and other actors take steps to reduce risk. In the Andean sub-region, a good example of a non-government initiative that is investor friendly is the establishment of the Mercado Integral Latinoamericano (MILA), which began operating at the end of May 2011. MILA is a trading platform set up with the cooperation of the Bolsa de Comercio de Santiago (BCS), the Bolsa de Valores de Colombia (BVC) and the Bolsa de Valores de Lima, as well as the three associated central securities depositories (DCV, Deceval and Cavali). In essence, brokers at any one of the three national stock exchanges can trade in stocks that are listed on the other two.

MILA required that the three exchanges standardise their rules for trading and custody of securities. The advantage for local investors is that "transactions are performed in the respective local currency without the need to leave the country, and with book-entry through the local broker, thereby providing easier international transactions with this tool", according to MILA.

If MILA were a formally constituted multi-national stockmarket, it would be one of the largest in Latin America by most metrics. At the end of October 2013, the combined capitalisation of the MILA markets was US$660bn (including US$286bn for Chile, US$252bn for Colombia and US$122bn for Peru). There were 554 listed stocks (247 in Peru, 81 in Colombia and 226 in Chile). In the first 10 months of 2013, aggregate turnover on the three MILA markets amounted to US$64bn.

It appears that market participants have moved slowly to take advantages of the cross-border opportunities offered by MILA. Some 34 brokers (or about half of the total in each market) used the MILA infrastructure in October 2013. Over the nearly two-and-a-half years that MILA has been in operation, total turnover through the MILA infrastructure has amounted to around US$137m. Some US$88m of this has resulted from Peruvian investment in Chilean stocks. Another US$21m has resulted from Chilean investment in Colombian stocks. Chilean investment in Peruvian stocks and Peruvian investment in Colombian stocks amounted to US$12m and US$11m respectively. Total outbound investment from Colombia has been less than US$6m - and overwhelmingly into Chilean stocks.

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In practice, as opposed to theory, the three MILA markets have performed poorly since its introduction, as **Chart 1** shows. In spite of a solid economic performance and good (or improving) governance, the three markets have fallen sharply - and particularly since the beginning of 2013. (NB The returns in the chart have been influenced by the slippage of the Peruvian Sol and the Chilean and Colombian Pesos against the US dollar). The challenges are well documented, and include widespread concerns over the impact of an economic slowdown in China on the prices of the major export commodities upon which Peru, Chile and Colombia are reliant. Latterly, emerging markets generally have suffered as a result of investor fears about the impact of the inevitable 'tapering' of asset purchases by the US Federal Reserve. The performance of Peruvian stocks this year easily matches the standard definition of a bear market: Colombian and Chilean stocks have not fared much better.

CHART 1: Performance of selected indices*, US$ terms, 25 November 2013

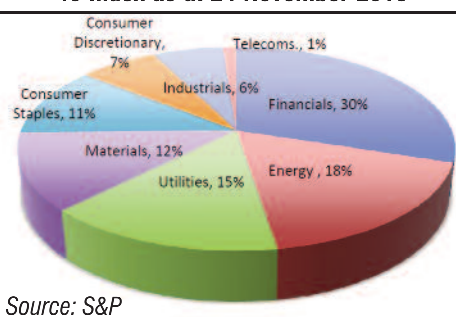
	MTD	QTD	YTD	One Year	Annualised Three Year
MSCI Emerging Markets Index	-2.30%	8.72%	-4.22%	1.47%	-2.76%
MSCI EM Latin America	-4.99%	7.68%	-13.61%	-8.94%	-9.65%
MSCI Brazil	-5.92%	11.55%	-13.72%	-8.78%	-13.27%
MSCI Chile	-6.67%	-0.44%	-21.89%	-19.10%	-13.39%
MSCI Colombia	-8.76%	-5.92%	-21.28%	-14.64%	-1.27%
MSCI Mexico	-1.02%	6.19%	-5.73%	-1.53%	2.58%
MSCI Peru	-9.92%	-1.23%	-34.94%	-31.35%	-17.14%
MSCI Andean	-7.84%	-2.54%	-23.86%	-19.65%	-10.64%
S&P MILA 40	-7.42%	-6.00%	-21.53%	-17.11%	-9.28%

***Price indices**

Sources: MSCI, S&P

One of the benefits of MILA is that it has made it easier to define the three main Andean markets as a single bloc. In late August 2011, S&P Dow Jones Indices launched the S&P MILA 40 index, which tracks the performance of the 40 largest and liquid stocks traded through the platform. **Charts 2 and 3** identify the sectoral weightings of the index, and details concerning the largest stocks. Two aspects are important. The first is that the S&P MILA 40 index recognises the free float of each of the component stocks, rather than its total capitalisation: the index can be replicated. The second is that the spread of sectors and industries is broad.

CHART 2: Sectoral Weighting of S&P MILA 40 Index as at 24 November 2013



Source: S&P

The broad sectoral spread means that the component stocks of the index provide access to all the major themes in the sub-region, which should produce long-term benefits for investors. If China's economy is surprisingly strong, with the result that the prices of energy and materials rise, there will be a positive impact on companies that account for a sizeable portion of the index. Similarly, the index includes the companies that are best placed to exploit the rise of consumerism and the development of retail financial services.

In short, the bears will not prevail forever in the MILA markets. At some stage, investors will focus once more on the economic and financial strengths of the sub-region. When that happens, it is reasonable to expect that some of the money will be channelled through the Fondo Bursátil Horizons MILA 40 de S&P. This is an exchange-traded fund (ETF) that will be listed on the BVC, following a new licensing agreement between S&P Dow Jones Indices and the Horizons ETFs Group announced on 23 October. Horizons ETF describes itself as "a global ETF leader with one of the largest collective families of ETFs in the world". Horizons ETFs is a part of South Korea's Mirae Asset Global Investments.

The bears will not prevail forever in the MILA markets. At some stage, investors will focus once more on the economic and financial strengths of the sub-region.

The new ETF is remarkable for several reasons. It is the first ETF to be based on the S&P MILA 40 index. It is the first Andean-focused ETF to be listed on the BVC. It should significantly facilitate investment in the three markets. As of October 2013, the three MILA exchanges recognised only six open-ended mutual funds which focused on the Andean sub-region: these funds collectively had assets under management (AUM) of just US$20mn. A rapid expansion in the number of shares outstanding in the new Fondo Bursátil Horizons MILA 40 de S&P will provide a useful indication that emerging markets investors' appetite for the MILA markets is picking up once more.

S&P MILA 40 Index - Top companies as at 30 September 2013		
	Float Adj.	
	Mkt. Cap. (US$mn)	
Ecopetrol (Colombia/ Energy)	11,337	7.96%
SACI Falabella (Chile/ Cons. Disc.)	9,264	6.54%
Credicorp (Peru/ Financials)	8,438	5.96%
Empresas COPEC SA (Chile/ Energy)	7,219	5.10%
Pacific Rubales Energy Corp. (Colombia/ Energy)	6,344	4.48%
Enersis SA (Chile/ Utilities)	6,116	4.32%
BanColombia SA Prf (Colombia/ Financials)	4,921	3.47%
Grupo de Inversiones Suramericana SA (Colombia/ Financials)	4,877	3.44%
Cencosud (Chile/ Cons. Staples)	4,873	3.44%
ENDESA (Chile/ Utilities)	4,593	3.24%
Sub-Total	67,982	47.95%
Details as at 24 November 2013		
40 stocks:	**US$mn**	
Mean total market capitalisation	9,948	
Largest total market capitalisation	94,472	
Smallest total market capitalisation	1,681	
Median total market capitalisation	6,342	
Source: S&P		

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