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Renewed concerns over nationalisation of Mexico's lithium reserves

Mexico's President Andrés Manuel López Obrador published two decrees in the official gazette (DOF) on 18 February. Both decrees were related to Mexico's fledgling lithium industry and appeared designed to advance López Obrador's goal of achieving nationalised lithium production. However, uncertainties remain around the exact implications of the decrees and the feasibility of producing lithium from Mexico's hard-to-extract reserves.

The first decree established a new lithium mining reserve of some 235,000 hectares (ha), known as Li-MX 1, in seven municipalities in Sonora state (Arivechi, Divisadero, Granados, Huásabas, Nácori Chico, Sahuaripa, and Bacadéhuachi). The second decree made the energy ministry (Sener) responsible for ensuring Li-MX 1 is properly established. It also instructed Sener to carry out actions to comply with the provisions of two previous lithium decrees, passed in April and August 2022. These decrees amended the federal mining law to bring the lithium industry under state control and created a state-run lithium company called Litio para México, or LitioMx, respectively, thus effectively nationalising the exploration, exploitation, and production of the mineral.

The two decrees issued in 2022 first introduced restrictions for the exploitation of lithium and suspended new concessions, with the aim of taking advantage of growing demand for electric vehicle (EV) batteries, for which lithium is a key component. The decree issued in August 2022 also established that the new company would be open to partnerships with private and public entities, something that was reiterated by Sonora's governor Alfonso Durazo, who accompanied López Obrador during the announcement made in Sonora.

Pablo Taddei, director general of LitioMx, has said that any joint ventures established between the company and third parties would need to provide the state company with a majority stake. However, it remains unclear what type of entities would be permitted to enter into such a partnership with LitioMx, as the decrees do not specify whether they are businesses or other organisations. The decrees also fail to mention how exactly private players could participate in the sector. While López Obrador has said that existing lithium mining and exploration concessions held by foreign companies will remain safe, he has also said that lithium belongs to the nation, suggesting that only LitioMx will have access to the mineral. Indeed, the February decree said that "no mining activity can be carried out related to lithium" within the new reserve. Crucially, however, Mexico's government and, by extension, LitioMx lack the know-how, technology, and experience to profit from the country's lithium potential.

Specialists have said that the implications of the decree are unclear. Local lawyer Fernando Quesada, an expert on extractive industries in Mexico, told national daily *Reforma* in February that it was contradictory to declare that the new lithium reserve was public while also stating that existing, privately

Lithium reserves

Mexico's lithium reserves are considered significant - they are estimated to be the world's 10th largest. However, at an estimated 1.7m tonnes (t), they are but a fraction of Bolivia's 21m t, according to figures from the World Bank. Importantly, although there are eight regions in the country where it is thought there could be lithium, it is only in this area of Sonora where it is certain.

held concessions would be respected. In Quesada's view, the government could seek - or force - a negotiation with the Chinese lithium miner and battery manufacturer Ganfeng, which owns the most developed lithium project in the country through its holdings in lithium companies Bacanora Lithium and Sonora Lithium.

Another lawyer, Daniel Sánchez from international law firm Baker McKenzie, told Mexican newspaper *Expansión* that it was not clear if the decree actually represented an expropriation, meaning it takes away the ownership or the extraction rights from private entities settled in the area, or rather whether it means that the State will exploit the reserves itself. Indeed, some observers consider that the ambiguity is deliberate while the government continues to work on defining how lithium extraction and related activities will be carried out in practice.

The government's interest in controlling lithium reserves is driven by the increasing demand for electric mobility. Indeed, López Obrador highlighted the role Mexico can play within broader North American plans in this area, aiming to produce lithium batteries for vehicle manufactures in southern US states. In 2021, the US government of President Joe Biden established as a target that, by 2030, 50% of new vehicles sold in the US should be electric. As a result, demand for lithium, graphite and copper – all minerals found in Sonora, according to Durazo – is likely to increase. However, Viviana Patino, a researcher at local think tank México Evalúa, points out that without a mobility strategy and a long-term plan, there will be little to gain from the nationalisation of lithium. Crucially, in order to take advantage of electric mobility, Mexico needs much more than just lithium resources. It requires the capacity to locate, extract, transform, and commercialise lithium. In Mexico, lithium reserves are found in clay deposits, from where it is harder - and much more expensive - to extract than in other countries where it is found in rocks or brine deposits.

Nevertheless, the government remains adamant about the appeal of the country's lithium potential to attract investment. Indeed, on 28 February, López Obrador confirmed that after a telephone conversation with Elon Musk, the owner of US EV manufacturer Tesla, it was decided that the company would invest in Mexico, establishing a manufacturing plant in Monterrey (Nuevo León state). López Obrador had previously stated that Tesla would not be allowed to settle in the state due to limited water resources. However, the government stated that Tesla has agreed to use recycled water rather than resources for human consumption. Nuevo León governor Samuel García, of the opposition Movimiento Ciudadano (MC) party, had previously said that while the state can provide 3,000 litres of treated water per second, Tesla would need less than 100 litres per second.

Labour costs and distance are likely to have been key factors for the company's decision to invest in the country, more than its lithium resources. Not only does Nuevo León have a well-trained labour force, but it is a good location for the plant given that Tesla opened a new factory in Austin, Texas in April 2022, across the border from Nuevo León, some 600km from Monterrey. Moreover, Nuevo León was undoubtedly more attractive than other parts of the country - the government has tried to encourage foreign investors to settle in less developed southern regions - as it already has well established export infrastructure for vehicles and auto-parts. Indeed, in April 2022, García offered to provide a preferential lane for Tesla at the Puente Colombia border crossing (the modernisation plans for the crossing include increasing it from three to five lanes and providing more security personnel). The plans were formally presented to US authorities on 2 February.

Production of EVs in Mexico is likely to remain mostly for export in the short- to medium-term. According to a report by the United Nation (UN)'s environment programme released in 2021, despite significant progress made in recent years regarding the use of hybrid and electric vehicles in Latin America, there is still insufficient infrastructure to charge vehicles and few incentives to increase the acquisition of EVs by both individuals and institutional and commercial fleets.

COLOMBIA | POLITICS & ECONOMY

Petro unveils sweeping national development plan

At first sight the Plan Nacional de Desarrollo (PND), the national development plan unveiled by President Gustavo Petro on 6 February, could be labelled as a naïve pipe dream designed to rally Colombia's people behind a common cause and its president. Dubbed the plan to make Colombia "a global leader of life", it espouses lofty ideals to eliminate violence, injustice, and poverty. But the 166-page plan, with twice as many pages annexed, sets out concrete targets and establishes specific policies that put flesh on Petro's ambitious plans for sweeping social and economic change, from credits for micro-entrepreneurs and farmers to fibre-optic cables for high-speed internet, cash transfers for the poor, and the production of green hydrogen.

"How does Colombia become rich again? Undoubtedly we have to accept the current circumstances that have inundated us with economic problems," Petro said during the public presentation of the proposal in February. "If we combine, like in a good stew, capital, land, and knowledge, it makes for a rich society. That's how we can reactivate the economy, and in a lasting way too."

The PND also proposes giving Petro far-reaching powers to overhaul Colombia's state apparatus in a year in which he hopes to implement sweeping changes to the social security system, the health system, as well as the power sector.

Overall, it reflects the campaign promises made by Petro and his Pacto Histórico by promoting, for example, increased environmental protection, agrarian reform, and more inclusion of minorities, among other objectives. While it aims to attract more private, and particularly foreign, capital, it marks a decided shift to a more statist economic model with increased government intervention and more regulation.

Legitimacy

At the same time the PND also reflects the reality check the Petro administration went through during its first six months in office. It downsizes ambitious targets he initially had to quit hydrocarbon production entirely. The plan doesn't mention the question of whether or not to continue oil exploration, completely skirting a hot button topic that has divided Petro's ministerial team into two camps. It does announce plans to ban open pit mining of coal deposits but grandfathers those operations that are already under way.

In its favour, the plan enjoys ample legitimacy. In a process similar to a constituent assembly or the drafting of a participatory budget, communities since mid-September had been meeting in regional assemblies called 'diálogos regionales vinculantes' that drafted proposals to be included in the PND.

The PND's emphasis on fomenting the "popular economy" is a chapter out of Brazilian President Luiz Inácio Lula da Silva's cookbook and is essentially a strategy to tap into dormant productive capacity and stimulate consumer demand among the lower income sectors through cheap loans, welfare programmes, and other incentives.

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In his speech at the unveiling of the PND, Petro noted that "half the Colombian population is forced to resort to incidental jobs. That's where we think we can build an economic potential for Colombia, if we empower it."

Article 51 of the PND creates a cash transfer system that is reminiscent of Brazil's Bolsa Família, which deposits a monthly amount onto a type of credit card in exchange for minimum requirements such as ensuring that children attend school and medical check-ups. Exactly what such a programme might look like in Colombia isn't yet clear.

Key objectives of the 2022-2026 national development plan

- Reduce extreme poverty from 12.2% in 2021 to 9.6% in 2026
- Deliver titles for 2.9m hectares of land.
- Build college campuses throughout the country.
- Reduce housing deficit from 31% to 26%.
- Require all adult Colombians to file an income tax statement regardless of their earnings; the database is to help shape public policies and boost revenue.
- Cut deforestation by 20%; increase recovery of degraded areas by 750,000 hectares.
- Diversify exports to reduce reliance on energy and mining.
- Install solar panels on roofs in "most sunny parts" of the country
- Ban new large-scale open pit coal mining projects.
- Increase household internet connections from 38.3m to 71.4m.
- Use a windfall tax on oil and coal to finance sustainable energy; install 2000 MW of renewable energy for commercial use.
- Invite foreign capital to build national railway, solar farms, wind parks, green hydrogen plants.
- Adopt a nationwide 'zero waste' programme that would pay informal garbage collectors, reduce the use of landfills, and promote recycling and reusable packaging.

The question is Petro's ability to implement the plan. By the time it's voted upon by congress sometime in May, nearly a quarter of his mandate will be over. Also, his popularity ratings are falling, according to a Datexo opinion poll from February that showed approval for the way he is managing the country falling to 39%, down 9 percentage points from October.

On the other hand, Petro went further than perhaps any previous president in requesting special powers from congress to carry out his agenda. Tacked on to the very end of the PND in its third-to-last article (No. 298) are a series of proposals that would give Petro a series of executive powers to overhaul the central government (*see box*). They include powers that would allow him to single-handedly annul and create state institutions or agencies and change the statutes that govern them. He could also create and fund new state companies at will.

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Among the dozen-plus requests for "extraordinary powers" are those that would allow him to change all necessary rules to implement his re-industrialisation plan. Similarly, Petro would gain authority to wield over government investment funds, budgetary agencies, and other public resources.

One of his intentions is reportedly to merge two welfare programmes – Familias en Acción and Jóvenes en Acción – to create a single citizens' benefit scheme, but the move might potentially also help him to carry out his social security reform.

Rule by decree?

Critics said the proposals go too far and would almost certainly be cut back by legislators when the bill makes its way through both houses of congress.

"This proposes broad restructuring by decree. It is a gigantic attribution," said José Manuel Restrepo, finance minister for the final year of the Iván

Duque government (2018-2022). "They could change or create all kinds of entities. These are issues that should be dealt with by law, not by decree."

Article 298

Article 298 of the PND would give Petro the authority to:

- Create or annul various entities of the executive branch of government.
- Fund newly created state enterprises, and change the budget to implement administrative reforms.
- Acquire the buildings that make up the San Juan de Dios hospital in Bogotá and restore it. Since Petro's tenure as mayor of Bogotá (2012-2015) he's wanted to modernise the hospital and prevent its demolition.
- Modify the Familias en Acción and Jóvenes en Acción benefit programmes.
- Regulate alternative uses of the coca plant, cannabis, and other psychoactive substances.

It seems unlikely that legislators would grant Petro a carte blanche to fund state companies without any limitations or regulate controversial public health issues, such as the use of marijuana or coca leaves. Such contentious topics are usually dealt with in a specific legislative proposal following extensive public debate, rather than tucked into a four-year national development plan.

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The request for special powers comes amid a broader attempt by Petro to broaden his control over public utilities and cap the rates they charge. In February he signed a decree that gave him authority for three months to take on the tasks of energy and gas regulator CREG and water regulator CRA [EB-23-02]. Days later, Medellin mayor Daniel Quintero asked Petro via a public letter to freeze rates charged by public utility EDM, which provides services to more than a third of Colombian households.

Petro's meddling in public utilities has prompted political risk perception to rise, meaning investors charge more to lend the Colombian state and private companies money. Over a dozen former energy ministers have warned Petro that reduced income for utilities due to lower rates could put at risk future investments in the sector.

The government's plans in this area were put on hold on 2 March, when Colombia's supreme administrative court, the Consejo de Estado, provisionally suspended the decree as a "precautionary measure" while it assesses the legality of Petro's move to take control over utility regulators.

Other proposals

Another controversial proposal is to restructure the national police and move its oversight from the defence ministry to a civilian authority. The move is part of the president's broader effort to 'democratise' the security forces. Similarly, he requested a six-month period to take charge of imprisoned indigenous peoples, hoping to improve their conditions and draft new rules. The PND would also create a national system of missing persons as well as a government agency that helps implement decisions by the transitional justice tribunal (JEP), which was established in the 2016 peace accords with the Fuerzas Armadas Revolucionarias de Colombia (Farc) guerrilla group.

Criticism also came for what the PND failed to mention – the Bogotá metro project, construction of which began in 2020, and which is supposed to revive the congested city centre. "Extraordinary!! It is the first time that the national government does not include the Bogotá metro as a strategic project in its development plan," Bogotá mayor Claudia López tweeted. The government responded that it didn't mention the metro because it wasn't a new project per se. There had been previous standoffs over the project, with the mayor saying that last-minute changes requested by the Petro administration were unnecessary and would delay the metro's completion.

Protests dampen economic outlook

Peru has been in varying degrees of turmoil since the impeachment and arrest of former president Pedro Castillo (2021-2022) on 7 December. Castillo's ousting, which came after he illegally attempted to dissolve congress, triggered a storm of popular unrest that his successor, President Dina Boluarte, has inflamed with a violent crackdown on demonstrators. The protests have unleashed major economic damage by severing transport links, forcing shutdowns in the mining sector, and deterring tourists.

The protests are best interpreted as a swell of anger at Peru's ruling class as a whole, rather than a yearning for Castillo to return to office. Whilst the former president still has a bedrock of support among poor and rural Peruvians, the general mood in the protests has been one of fury at congress, which is widely seen as corrupt and has blocked efforts to move general elections forwards to this year, and at the security forces, who have waged a violent crackdown on demonstrators resulting in over 50 deaths.

"The demonstrators have a wide range of demands and are not led by any one organisation, meaning that there has been no real possibility of resolving the unrest through dialogue. The protesters' main demand is for President Boluarte to resign and convene immediate general elections, although the violence of the security forces' response means that the protests have morphed into more generalised expressions of anger. Economic factors are also at play, with some of the fiercest protests taking place in deprived towns in the southern highlands."

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At the height of the unrest in late January, the highways authority (Sutran) registered over 127 roadblocks in 18 of Peru's 26 regions. These blockades caused shortages of food and fuel in a number of regions, with the energy regulator (Osinergmin) warning in January of severe fuel shortages in the regions of Madre de Dios, Ica, Arequipa, and Puno. Roadblocks are now largely contained to the southern region of Puno, where the unrest continues to be fierce; on 5 March, six soldiers drowned after being chased into a river by protesters while on their way to reinforce Puno city, where a police station was torched that same day.

Mining

The mining sector has suffered severe disruption from the protests, with a *Bloomberg* report estimating in late January that the unrest has imperiled as much as 30% of Peru's copper output. According to Magaly Bardales Rojas, the head of the mining committee at Peru's main hydrocarbons lobby, the Sociedad Nacional de Minería, Petróleo y Energía (SNMPE), protests in the first 23 days of 2023 alone cost an estimated US$160m of mineral production. Lost copper production has been particularly frustrating for the government, coming at a time of low supply and high prices on the global market.

The impact on mining has been exacerbated by the concentration of protests and road blockades in the south of the country, which is also the area with the largest concentration of mines. The perennially troubled Las Bambas copper mine, owned by China's MMG, was again forced to close from 1 February to 10 February due to shortages of supplies caused by road blockades in the Apurímac region. Protesters also forced a temporary halt to operations at the Antapaccay copper mine, owned by the Switzerland-headquartered Glencore, on 20 January; this came after protesters stormed the mine, torched buildings, and looted workers' belongings. Whilst Antapaccay swiftly resumed partial operations, production has been hampered by shortages of key inputs.

Blockades on the 'mining corridor' highway, a key transport route for Las Bambas and Antapaccay, were lifted on 22 February, raising hopes of a return to normal. At the time of writing on 9 March, however, protests looked set

to pitch the mining sector into turmoil once again. Community leaders from the villages of Chumbivilcas and Espinar, which lie on the mining corridor in Cusco region, announced on 4 March that they would once again blockade the crucial access road.

Tourism

The Peruvian tourism and travel sectors have experienced major disruption due to roadblocks and airport closures. Critical infrastructure was repeatedly targeted by protesters, forcing repeated closures of airports in the cities of Cusco, Arequipa, and Juliaca. Airports in Puno and Huancabamba were also forced to temporary close their doors in December. At the same time, roadblocks made much domestic travel impossible for long periods, particularly in southern Peru.

Several governments in Europe and North America warned their citizens against non-essential travel to Peru on account of the unrest. For those tourists that did arrive in the country, a number of the country's star attractions were closed. Machu Picchu and the Inca trail network reopened to tourists on 12 February after being closed on 20 January following damage to the train tracks that left over 400 people stranded in Aguas Calientes, the town at the foot of Machu Picchu. Although the decision to reopen the site suggests some confidence that the protests may be starting to peter out, tourists are likely to remain cautious about booking trips for the coming months, especially as Cusco, the starting point for most visits to Machu Picchu, has been affected by violent protests. The archeological complex is the main draw for most tourists to Peru, and tourism is a significant component of the nation's economy, contributing over 2% of GDP and generating over 1m jobs.

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Amidst the ongoing disruption, the Peruvian government announced on 28 February that more than 30 public-private investment projects worth almost US$9 billion would begin in 2023 and 2024. Most of these projects are centred around improving road infrastructure, energy, and sanitation, according to José Salardi, head of the state agency for investment promotion (Proinversión), who acknowledged the importance of regaining investor confidence despite the political unrest.

The investment announcement suggests that the government still believes it can ride out the storm. But the political situation remains far from resolved; according to a poll by the Instituto de Estudios Peruanos (IEP), published 26 February, President Boluarte's approval rating was just 15%, while her rejection rating was 77%. Congress fared even worse in the poll, with an approval rating of 4% and a rejection rating of 90%. Those figures, and the ongoing failure to bring elections forwards, indicate that the unrest may be far from over.

IMF warnings

The International Monetary Fund (IMF) concluded an Article IV mission to Peru on 9 February, highlighting a number of challenges in its closing statement including slowing growth, high inflation, political uncertainty, and the risk of spillover effects from Russia's war in Ukraine. The IMF predicted a slow improvement in economic activity, which it said remains constrained by weak external demand and fertiliser shortages.

The IMF also emphasised that President Boluarte will need to reach across the political divide to restore economic stability. It stated that "recent political developments suggest that the government needs to work across the political spectrum to restore confidence, preserve stability, accelerate structural reforms to boost economic activity, and tackle inequality, poverty, and weaknesses in the education and health systems."

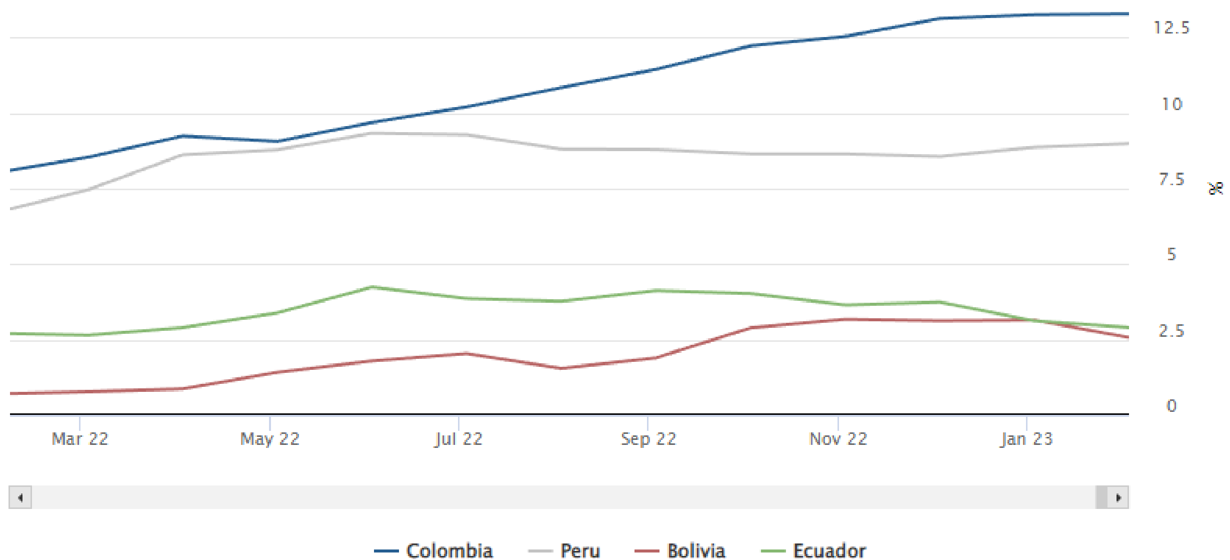
ECONOMIC HIGHLIGHTS

ECUADOR | **Oil production slashed amid spill fears.** Ecuador's energy and mining ministry declared a force majeure in the oil sector on 23 February in response to a landslide in Quijos canton, in the northern province of Napo, which endangered two oil pipelines. State oil company Petroecuador halted oil flows through the state-owned trans-Ecuadorean pipeline system (SOTE) and the Shushufindi-Quito pipeline, which is operated by the private company Oleoductos de Crudos Pesados (OCP). The threatened stretches of pipeline were drained amid fears of an imminent rupture, and Petroecuador installed containment barriers and absorbent materials in preparation for a spill. Pumping was resumed on 1 March, but during the week-long suspension Petroecuador's oil production fell by over 50%, from 484,000 barrels per day (bpd) to 239,000 bpd.

ECUADOR | **Trade agreement with Costa Rica.** Ecuador's President Guillermo Ecuador and Costa Rica's President Rodrigo Chaves signed a trade association agreement on 1 March. The new agreement will lift tariffs on exports from both countries and seeks to permit the two sides to create a stable legal framework to continue developing investment and strategic alliances. According to a tweet by Ecuador's communications secretary for the presidency, tariff benefits will apply to 96% of products. A Costa Rican presidential press release noted that the new agreement will, for the first time, include dispositions related to gender equity, good regulatory practice, and the strengthening of small and medium-sized businesses.

VENEZUELA | **Oil production ticks up.** The Organization of the Petroleum Exporting Countries (OPEC) released its monthly oil market report on 14 February, in which Venezuela claimed to have produced 732,000 barrels of oil per day (bpd) in January, up from 669,000 bpd in December. OPEC's own estimate, based on secondary sources, put Venezuela's oil production significantly lower at 686,000 bpd in January, although this was still up on OPEC's estimate of 666,000 bpd for December.

Andean countries: inflation rate



Andean countries: GDP growth (%)

Quarterly figures are year-on-year growth

GDP	2022	2023 Forecast*	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Bolivia	Not yet available	3.20	4.05	4.48	4.29	
Colombia	7.50	2.18	7.78	12.13	7.66	2.88
Ecuador	Not yet available	2.67	3.99	1.89	3.19	
Peru	2.68	2.60	3.91	3.37	1.96	1.66
Venezuela	0.00	Not yet available				

*Forecasts based on IMF WEO.
Annual and Quarterly growth based on figures from the local central banks.

BRAZIL | ECONOMY

Economic policies cause a stir

Brazil's President Luiz Inácio Lula da Silva is beginning to advance on economic policy initiatives that had taken the back seat following the political upheaval of the 8 January storming of democratic institutions.

"Within the space of a fortnight, Lula relaunched the low-income housing programme Minha Casa, Minha Vida and announced the long-awaited income tax bracket adjustment, as well as a second minimum salary increase this year. In addition, the government reintroduced fuel taxes to help bolster public finances and seemingly put to rest a spat over interest rates with the central bank (BCB). That is good news, as is the fact that Lula and his economic team still appear to be adhering to some type of inflation control and fiscal discipline, after massive spending increases that ballooned public debt. But getting there was an arduous process, riddled by disagreement and miscommunication within the government."

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That may simply be the growing pains of a young government – but it may also reflect deeper divisions within the administration. Either way, it makes it harder to tackle the broader economic challenges that lie ahead, including the drafting and passage through parliament of new fiscal responsibility rules.

At the same time, there does not seem to be an overriding economic strategy to put the sleeping giant, as Brazil is sometimes called for its huge untapped potential, back on track. The main legislative initiatives so far seem to be approving a tax reform that has been lingering in congress for years and rewriting the spending cap Lula himself did away with.

While that is important, there is little talk of reforms that would make Brazil more competitive and help drive growth in coming years. Indeed, there is still a great deal of uncertainty as to whether Lula will undo part of the 2017 labour reform implemented under Michel Temer (2016-2019), which deregulated the market but left some professions unprotected.

To be fair, it's still early days, the political challenges have been immense, and there is a lot of repair work to be done, whether rebuilding the environmental protection agency or social welfare programs.

Also, Lula's plan to kick-start economic growth by fueling consumer demand with low-cost credit and generous salary increases, particularly among poorer households, worked well during the early years of his first government (2003-2011), even though the model later ran out of steam and proved a serious drain on public coffers.

Minimum wage

A major step back to that old model came on 16 February, when Lula announced another increase of the minimum salary this year. The monthly minimum wage will be R$1,320 (US$254.9) as of 1 May, from currently R$1,302 and R$1,212 at the end of last year.

That is in line with Lula's campaign pledge to return to wage increases above inflation, which he hopes will again fuel consumer goods demand like during his first two terms in office. Back then wage increases and subsidized credit fuelled consumer demand but also undermined monetary policy and ballooned the budget deficit, in part because the minimum wage is used

to calculate pension benefits. There was also criticism at the time that the government was fuelling household debt by pushing families to buy ever more stoves, TVs, and other consumer goods.

Tax brackets

Another measure to fuel consumer demand that Lula had promised on the campaign trail and implemented in February was to adjust the income tax bracket. While in most countries these are a percentage of income, in Brazil they are a nominal rate that periodically needs to be adjusted in line with inflation. In practice that doesn't always happen, meaning more people pay taxes on wages that do rise with inflation.

According to the latest adjustment, the amount of tax-free income will rise from R$1,904 to R$2,640 per month. In practice that means that an estimated 13.7m people won't pay taxes, leaving more money they can spend elsewhere. However, it also means less tax revenue for the government. As a result, Finance Minister Fernando Haddad is trying to make up the shortfall with a proposal to tax online sports betting.

In a further attempt to restart consumer demand, Lula pledged to work with banks to find a way to pardon debts and clear the names of people who have been blacklisted by credit rating agencies. "We need to find a way out, free these Brazilians from the credit crunch so they can go back to being citizens and buy things," Lula said during an event in Brasília on 28 February.

Housing

After a break of more than 12 years, Lula on 14 February was again handing house keys to the needy as part of his flagship Minha Casa, Minha Vida social welfare programme. A hug, a key, a picture and then again.

While it's hard to imagine that the 2,745 houses that were handed over that day were built since Lula took office on 1 January, the more important message was that the programme will be expanded. By the end of 2026, 2 million houses are to be built, roughly half of them for households of less than two minimum salaries. These beneficiaries will practically receive a house for free, paying only 5% of its value with monthly installments of less than R$50. Half of the R$30bn-R$40bn cost over four years will be paid for with taxpayer money from the treasury. The other half will come from the workers' severance pay fund (FGTS).

The government wants to first resume construction of some 187,000 unfinished homes that had stalled. "We're going to push ahead with all of them, so that this country starts growing again," Lula said during the ceremony. In 2022, Lula's predecessor Jair Bolsonaro (2019-2023) spent only R$1.2bn on Casa Verde e Amarela, a downsized housing plan with lower subsidies.

Central bank

Lula is not the only leader in the world who is unhappy with monetary policy, but since early February he has probably been one of the most vocal critics of high interest rates anywhere. In fact, he and the chief of his Partido dos Trabalhadores (PT), Gleisi Hoffmann, bombarded the head of the central bank, Roberto Campos Neto, incessantly, calling the rate policy "disgraceful" and even threatening to try to cut short his mandate that ends in late 2024.

The PT does not like Campos Neto, nor the independence of the central bank that was adopted under former President Bolsonaro. But the party's push for lower interest rates somehow ignores that this would fuel inflation, even though Lula has repeatedly boasted of having controlled inflation in the past and how this benefited the poor. So it seems that the heckling of

Low growth, high rates

Brazil saw 2.9% GDP growth in 2022, official figures show – but a quarterly contraction in the last three months of the year has fanned concerns that the economy will see a significant slowdown, or even a contraction, in 2023. The World Bank, for example, projects 0.8% growth in Brazil this year. Meanwhile, the benchmark interest rate remains at a high 13.75% and the central bank's monetary policy committee has so far given no indications that it intends to cut it.

Campos Neto was addressed mostly at the PT's own rank-and-file, in an attempt to find a scapegoat for lackluster economic growth this year (*see previous sidebar*).

The problem is that the mere talk about ending central bank autonomy raises borrowing costs and depreciates the real, which slows growth and fuels inflation. And combating inflation with a monetary authority reporting to the finance minister didn't make the job any easier.

While Lula has since backed off and is unlikely to try and end central bank autonomy, the administration may continue to push for less aggressive inflation targets, which it argues would give it room to cut rates earlier. Currently the market expects an easing cycle to begin only in November. Critics say the idea may become a self-fulfilling prophecy because the higher the target is, the higher inflation expectations will go.

Fuel tax and Petrobras pricing

For months Lula and his advisors had skirted the issue of whether to reintroduce fuel taxes, which had been suspended by Bolsonaro as an attempt to win support ahead of last year's election. The Lula administration needed the revenue and didn't want to favour fossil fuel consumption, but at the same time was wary of negative political fallout from rising costs, particularly among pro-Bolsonaro, middle-class motorists and lorry drivers.

Given that dilemma, in January it postponed a decision by two months. Now, it has decided in favour of a partial return of the levy. Gasoline will be taxed with R$0.47 per litre (previously it was R$0.792), and ethanol with $R0.02 per litre (previously R$0.242). Diesel, which has the largest potential political and inflationary impact, won't be taxed at all.

To help offset the increase, the state oil company Petrobras then cut gasoline prices by R$0.13 per litre and diesel by R$0.09 per litre. According to the Centro Brasileiro de Infraestrutura (CBIE), gasoline prices were 4.73% above global market prices on the eve of the announcement. To make up for the shortfall and still raise the R$28.9bn in expected revenue, the government will raise a 9.2% crude oil exports tax for four months – a move oil companies are not too happy about (*see sidebar*).

Unhappy oil giants

Fossil fuel companies have not taken kindly to the government's new export tax on oil. Five oil giants including Shell, which together accounted for around a fifth of Brazil's oil production in January, are suing the government to be exempt from the temporary export tax. But their petition was rejected by a Rio de Janeiro court on 9 March.

All this indicates that Finance Minister Haddad seems to have got his way, at least partially. But just like the inflation targeting issue involving the central bank, there was a lot of noise in the runup to the decision on fuel taxes, and Haddad took plenty of friendly fire from PT president Hoffmann and the president of the national development bank (Bndes), Aloízio Mercadante.

The fuel price issue may have been solved temporarily but it will resurface. First because the presidential decree expires after four months if it is not validated by congress, and second, because Hoffmann, Lula, and many others want to change the pricing policy of Petrobras. They consider the oil company to mostly benefit wealthy investors rather than the people, even though most of the dividends go to the biggest shareholder, the state.

In his first press conference as Lula-appointed head of Petrobras, Jean Paul Prates left no doubt that the company would abandon its current pricing policy, which is based on the global market price and the exchange rate. But he couldn't really say what it would be replaced with, other than that it would be more in tune with the broader needs of the country and not only the company.

"The Brazilian market is different," Prates said. "Petrobras will charge competitive prices for the national market, for its market, as it sees fit, to guarantee its market share in every place it is present." The press conference took place a day after Petrobras announced a record profit of R$188bn in 2022. It had a higher profit margin than any of the big oil majors.

Paraguay wants better Itaipú terms from Lula, again

Half a century after Brazil and Paraguay signed the treaty that gave way to the construction of the Itaipú dam across the Paraná River, the company that runs the world's second-largest hydroelectric plant on 28 February paid off the massive debt it incurred to build it.

That has far-reaching implications for both countries, but particularly for Paraguay. For one, Itaipú Binacional, the corporation both countries founded, no longer has debt servicing costs and therefore will be much more profitable, generating four times as much income as it has so far. Royalties could jump by US$2bn (a fourfold increase), or the same as the cost of debt amortization until now. That would amount to a 10% increase, or 2.2% of GDP, in Paraguay's fiscal revenue, according to an International Monetary Fund (IMF) paper.

In addition, the part of the treaty called Annex C, which deals with the revenue distribution and the operation of the hydroelectric plant, is up for review. That is significant because Paraguay could change the currents terms, for example increase the price of electricity it sells to Brazil, sell it to somebody else, or use it at home to fuel energy-intensive industries, be they steel or green hydrogen production.

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The prospect of being able to dispose of nearly twice the amount of energy it currently consumes, as well as a massive additional revenue to boost public coffers, was celebrated like a second independence day in Paraguay. Many Paraguayans think Brazil used its diplomatic and economic muscle to impose a deal that favoured its bigger neighbour disproportionately.

Paraguay's President Mario Abdo Benítez is committed to begin talks with Brazil on Itaipú before his term ends in August so as to leave a roadmap for the negotiations, Foreign Minister Julio Arriola told his Brazilian counterpart during a visit on 9 March in Asunción. Previously Arriola had said that negotiations would encompass the entire accord and take a "long" time. President Luiz Inácio Lula da Silva's appointed representative to Itaipú Binacional takes office in late March, a month before Paraguay's presidential elections on 30 April. Abdo Benítez's successor is to take office on August 15.

The points of the Itaipú accord likely to be re-negotiated are the following: the amount of royalties Paraguay and Brazil receive from Itaipú; the price of electricity sold to Paraguay's Ande or Brazil's Eletrobas power companies; and the price at which Paraguay sells its share to Brazil and whether it can sell to other countries.

Under the current accord, each country has the right to half of the power generated by the dam. Whatever part is not contracted by one country can be bought by the other at near-cost prices. In practice that means that Brazil has consumed the lion's share of the electricity generated by Itaipú, around 80% in 2019, at rates far below market prices. Most Paraguayans consider that highly unfair because they paid for the dam together but only used a fraction of its output. According to Paraguay the dam cost US$63.5bn. Brazil, which guaranteed much of the funding, says it was US$17.6bn.

The hydroelectric plant at Itaipú, which means 'the rock that sounds in the water' in the Tupi-Guaraní language, first started producing energy in 1984, and in 2020 was surpassed in output only by China's Three Gorges plant. This is the second time Lula will have to negotiate with Paraguay over the Itaipú dam. Towards the end of his second term, in 2009, Lula had already agreed for Brazil to pay better rates and for Paraguay to be able to sell power to private Brazilian customers.

Tax breaks amid drought-induced economic slowdown

Look around in Latin America and you will be hard pushed to find another government that is cutting taxes at a time of slowing economic growth and rising pressure for social spending. And yet that is exactly what Uruguay's President Luis Alberto Lacalle Pou is doing.

A bill Lacalle Pou presented to congress on 2 March would grant US$150m of deductions and exemptions on income and social security taxes, and on levies for micro, small and medium-sized enterprises. Of course, Lacalle Pou leads one of the few centre-right governments remaining in the region and part of the intent of the tax breaks was to lay credence to his liberal economic views – not to mention that tax breaks are a fail-safe popular measure for any politician.

There is likely to be some economic growth impact from the measure, as consumers put to use their increased purchasing power, or companies invest to expand or modernise with their savings. It may also generate a bit of a feel-good effect aimed at showcasing that Uruguay, despite a considerable economic slowdown, isn't doing all too badly. Public finances are better than they were just a few years ago and the country's export-driven agro-industry performed well in 2022.

Approval at stake

With Lacalle Pou's approval ratings hanging in the balance – 44% in favour and 42% against – the president's management of the drought and its economic impact could be decisive for his party's performance in next year's general elections. Presidential candidates are expected to be chosen in coming months.

The measure will go into effect as soon as it is approved by congress, according to Senator Jorge Gandini of the governing Partido Nacional (PN, Blancos). "The conditions are there to proceed," Lacalle Pou said when he presented the plan to congress, where his five-party coalition holds majorities in both houses.

Indeed, the proposed tax cuts amount to only 0.2% of GDP, which is not a big number on the back of spending cuts that reduced the budget deficit to 3.2% last year from 5.8% in 2020. Other indications of a comfortable fiscal situation came when Uruguay's exports promotion agency, Uruguay XXI, announced that the country is investing close to US$7.2bn in infrastructure projects nationwide between 2022 and 2024.

Economic slowdown

The bigger concern is by how much the economy will slow in 2023 and erode revenues. Economy and Finance Minister Azucena Arbeleche expects growth of about 2% this year, down from around 5% last year. But a prolonged drought makes growth projections extremely uncertain for an economy heavily dependent on agriculture.

The drought has been plaguing farmers and cattle ranchers since 2020, costing some US$1.18bn, or 1.9% of GDP, according to government figures. Precipitation in parts of Argentina, Uruguay and Chile during the last four months of 2022 was less than half of the historic average and the lowest in 35 years. That and high temperatures have diminished or entirely decimated crops with lingering effects for 2023. For example, the shortage of fodder and water has had a ripple effect and pushed down milk production by 12% in the month of February. The sector has been importing grains from Argentina and is considering doing the same from Brazil.

The government in January extended by 90 days an agricultural emergency it had declared in October. Livestock, dairy, horticulture, fruit growing, and agriculture have been affected in the entire country, according to the decree. The Lacalle Pou administration is also stepping up farm aid, including subsidised loans and electricity rates, extended debt servicing deadlines, as well as emergency supplies of drinking water in rural areas.

ECONOMIC HIGHLIGHTS

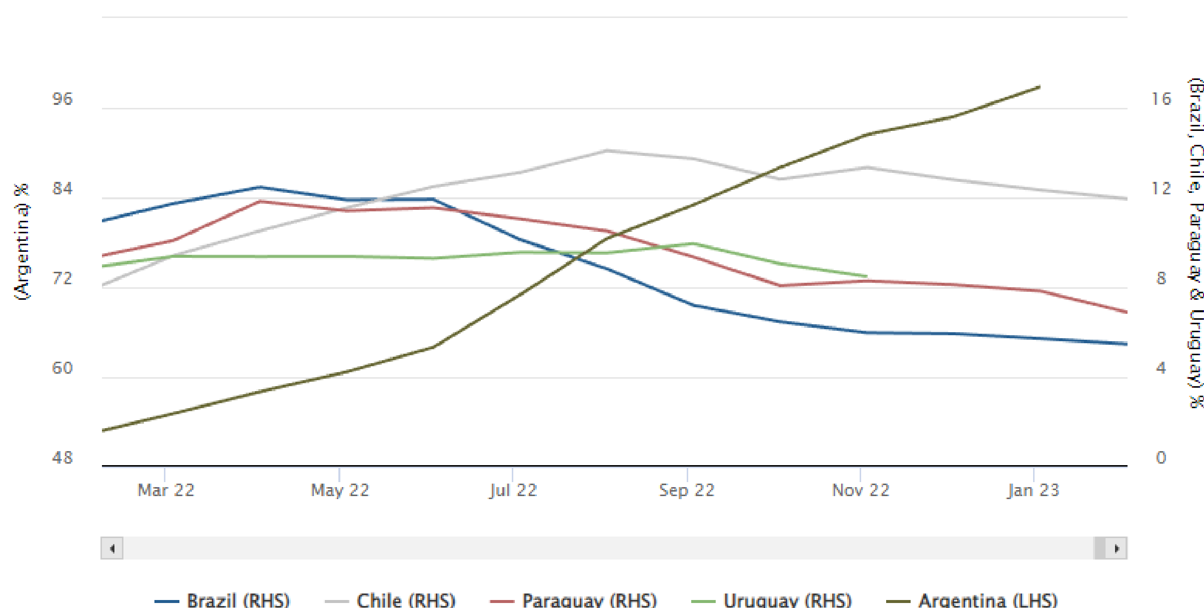
CHILE | **Trans-Pacific Partnership membership officialised.** Chile's foreign ministry on 21 February announced that the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) had finally come into force in the country, with Chile taking part in its first virtual meeting as an official member of the trade agreement a day earlier. The senate ratified Chile's membership of the CPTPP in October of last year, three years after it was first approved in the lower house. Chile is the 11th signatory to the trade deal, alongside Australia, Brunei Darussalam, Canada, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore, and Vietnam.

ARGENTINA | **Drought impacts fiscal deficit.** Argentina posted a primary fiscal deficit of Ar$203.9bn (US$1.02bn), or 0.12% of GDP, in January 2023, the economy ministry reported on 22 February. This is a marked increase on the Ar$16.7bn fiscal deficit recorded in January 2022, but is however an improvement on the Ar$502.1bn deficit registered the previous month, in December. Argentina closed 2022 with a primary fiscal deficit of Ar$1.9trn, the equivalent of 2.4% of GDP. The government's 2023 budget expects a primary deficit of 1.9% of GDP this year. The economy ministry noted that the January primary deficit was impacted by lower revenues from export taxes as a "severe drought had a major impact on the yield of the main exportable products".

ARGENTINA | **Government conducts local debt swap.** Argentina's economy ministry announced on 9 March that it swapped Ar$4.34trn (US$21.66bn) in domestic debt in loans due to mature in March, April, May and June. The swap exchanges old debt for new bonds maturing in 2024 and 2025, according to an economy ministry statement. On Twitter, finance secretary Eduardo Setti stated the aim of the debt swap was to "extend the short maturity profile to the middle and long end of the curve", which he said would "reduce market uncertainty and volatility, and improve the conditions of confidence and predictability of the Treasury's financing".

Brazil & Southern Cone: inflation rate

Percentage variation (year-on-year)



Brazil & Southern Cone: GDP growth (%)

Quarterly figures are year-on-year growth

GDP	2022	2023 Forecast*	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Argentina	Not yet available	2.02	5.99	7.15	5.94	
Brazil	3.00	1.03	2.42	3.65	3.62	2.31
Chile	Not yet available	-0.95	7.08	5.80	-0.06	
Paraguay	Not yet available	4.30	-1.06	-3.41	2.76	
Uruguay	Not yet available	3.55	8.46	7.93	3.74	

*Forecasts based on IMF WEO.
Annual and Quarterly growth based on figures from the local central banks.

EL SALVADOR | ECONOMY

Ratings agencies sound note of cautious optimism, but poverty rate rises

International financial institutions have praised El Salvador's recent efforts to repay creditors, but the resulting hit to social spending has pushed tens of thousands into extreme poverty.

On 3 February, international credit ratings agency Moody's changed the outlook on El Salvador's long-term foreign-currency issuer rating and long-term foreign currency senior unsecured debt rating to stable from negative. While the overall rating remains poor (Caa3), the change "reflects Moody's view of a decreased risk of a credit event in the near term, following… the recent repayment of the 2023 international bond," reads a statement from the agency. Moody's is referring to the successful repayment of a bond which matured on 24 January, funded by disbursements from multilateral banks, particularly the Central American development bank (BCIE) and the Latin American development bank (CAF).

In addition, the agency cites two buyback operations in September and November last year, which reduced the outstanding sum on a bond maturing 30 January 2025 from US$800m to US$348m. This repayment remains "manageable" as long as multilateral banks continue to lend to El Salvador as forecast, added Moody's. The agency believes that narrower fiscal deficits have helped to reduce the amount of borrowing, with the non-financial public sector deficit falling from 5.6% of GDP in 2021 to 4% in 2022. This was helped by growth in government revenues, which were 11.7% higher for January-November 2022 compared to the same period the previous year, while government spending only increased by 1.6% year-on-year.

On 10 February, the International Monetary Fund (IMF) published a concluding statement following an IMF mission which visited the country from 30 January - 8 February for an Article IV consultation. It underlined efforts to boost growth by improving security, promoting tourism, and increasing human capital, as well as the fact that the "economy grew at a robust pace last year," with an estimated 2.8% growth. The IMF also highlighted how "strong remittances and tourism revenues have contributed to the robust activity and investment dynamics."

Wall Street investors have also hailed the Bukele government's efforts to repay creditors, and Salvadorean bonds have been the second strongest performer among emerging markets this year after Lebanon, according to the Bloomberg sovereign bond index. "We went from scepticism, from looking at the numbers and hearing his announcement of paying down the bond, to basically being surprised in a good way by his very strong willingness to pay," Federico Kaune, head of emerging-markets fixed income at Switzerland-headquartered UBS Asset Management, told *Bloomberg* in an article published 16 February (*see sidebar*).

Bukele hails developments

President Nayib Bukele trumpeted the developments on Twitter. "Those that bet against our country lost hundreds of millions of dollars, while those that invested in our bonds had the second highest profitability in the world," he tweeted on 17 February.

But while things might be looking more positive for bond traders, the Salvadorean population is suffering, according to Ricardo Castaneda, senior economist at the Guatemala-based think tank, Instituto Centroamericano de Estudios Fiscales (Icefi). Castaneda told Salvadorean media outlet *El Faro* that 165,000 people in El Salvador have fallen into extreme poverty in the past two years as the government has prioritised paying creditors over social spending. "In fact, the largest budget allocation in the 2023 budget is for debt repayments," Castaneda told *El Faro* in an article published 1 February.

The Bukele government has cut spending on hospitals and has failed to introduce measures to help families deal with a cost-of-living crisis brought on in part by high inflation caused by Russia's invasion of Ukraine, said Castaneda. The economist believes that Bukele is so desperate to secure financing that he is prioritising debt repayments over helping the most vulnerable in society.

In addition, Castaneda highlights the fact that El Salvador has struggled to attract foreign direct investment in recent years, which he blames on an increased risk profile due to deteriorating institutionality and a lack of clear economic policy. One important source of uncertainty is Bukele's adoption of the cryptocurrency bitcoin as legal tender in September 2021. The move was criticised by international financial institutions at the time, and it remains a cause for concern.

While the IMF admits that bitcoin risks have not materialised so far, due to lack of adoption of the cryptocurrency, it sees "underlying risks to financial integrity and stability" due to the fact that bitcoin remains legal tender, as well as recent Digital Assets Law, approved in November last year, which is designed to boost adoption of crypto assets. Negotiations over IMF lending to El Salvador ended over the country's adoption of bitcoin, and ratings agency Fitch Ratings cites the move as a key factor in limiting the country's sources of funding. Coupled with a high debt burden, this means that borrowing costs will remain high, added Fitch in a statement published 2 February.

Economy – the main public concern

At the end of last year, a poll of 1,273 people by El Salvador's Universidad Centroamericana (UCA), a Jesuit university, showed that Salvadoreans believe that the economy is the biggest challenge facing the country, with inflation was the biggest economic concern for Salvadorean families.

Moody's also warns that "still-high financing needs, a lack of access to international capital markets, low debt affordability, and the lack of a credible medium-term fiscal and financing framework will continue to weigh on creditworthiness." The agency cites a deterioration in the quality of policymaking in recent years, as well as weak governance, in affirming its Caa3 rating, which means the country's debt obligations are subject to high credit risk. While the risk of a default has decreased in the short-term, thanks to the recent bond repayment, there remains an "elevated probability" of a credit event, according to Moody's.

While Bukele may have succeeded in keeping the wolf from the door for now, there remain structural issues with the Salvadorean economy. Some of the problems are self-inflicted, such as the adoption of bitcoin, but external pressures such as the war in Ukraine are also making life harder. Bukele has managed to boost economic activity by cracking down hard on criminal gangs, but his sky-high approval ratings may suffer as the human rights implications of his policies become more apparent. Coupled with increasing poverty rates, Bukele may have to choose between pleasing investors or placating Salvadorean voters ahead of the 2024 election.

Pension reform

In December, lawmakers approved pension reforms, fulfilling one of Bukele's campaign pledges. The move will increase the minimum monthly payment to US$400, with a cap of US$3,000, as well as establishing a national pensions institute (ISP) to oversee contributors' rights and regulate pension funds. According to Fitch Ratings, the reforms "will likely lead to an increase in long-term pension liabilities despite higher employer contributions."

Others, including Icefi and El Salvador's chamber of commerce and industry (Camarasal), have also raised concerns over the impact on public finances.

For its part, the IMF, in its 10 February statement, illuminates one possible motivation for the reform, predicting that the proposed debt exchange between old and new bonds "could provide some temporary Treasury cashflow relief," a welcome development for a government that is struggling to keep the lights on. However the IMF also predicts larger medium term liabilities due to the increase in entitlements, as well as potentially "large contingent liabilities as the new law grants a blanket public guarantee for all pension-related claims."

US announces US$950m in private sector investment

The US government has announced a further US$950m in private sector investment for El Salvador, Guatemala and Honduras under its Partnership for Central America programme, which aims to address the root causes of migration to the US.

The programme, launched in May 2021, is led by US Vice President Kamala Harris, who announced the latest commitments in a statement on 6 February. US-based online learning platform Chegg has committed to certifying 100,000 adult learners in Honduras by 2030, while Spanish microloans firm Microwd will issue US$20m in debt to help 10,000 female entrepreneurs by 2024. Portugal-headquartered textile firm Nextil will invest US$40m in two new production facilities in Guatemala, and US general merchandise retailer Target will increase spending by US$300m in El Salvador, Honduras and Guatemala by 2033. In addition, Luxembourg-based telecoms and media group Millicom will invest US$350m in mobile and broadband networks in the three nations by 2025, building on a previous US$700m commitment.

“The new commitments mean that over US$4.2bn has been earmarked for investment in the Northern Triangle countries under the scheme. One significant success story is the opening of a new production plant owned by Japanese automotive component manufacturer Yazaki in San Marcos, northern Guatemala.”

“These investments are creating jobs, connecting people to the digital economy, expanding access to financing for small businesses, providing training and education for youth and workers, and improving economic livelihoods for people in the region,” reads the White House statement. And Harris herself commented on the new commitments on Twitter. “As we work to address the root causes of migration from northern Central America, we know that governments can’t do it alone,” she wrote. “That is why I’ve brought together leaders of the private sector so that we can take on this challenge together.”

US officials then travelled to the region to discuss the next stage of the programme. On 7 February, Guatemala’s economy minister, Janio Rosales, met with Emily Mendrala, Deputy Assistant Secretary in the Bureau of Western Hemisphere Affairs at the US State Department. The pair reportedly discussed how greater legal certainty in Guatemala would encourage US firms to invest in the country, as well as the need to improve transparency and combat corruption. Then on 16 February Lindsey Zuluaga, special advisor to Harris, travelled to San Pedro Sula, Honduras, to discuss the developments with representatives of the private sector. Honduras’ prominent private sector lobby, Consejo Hondureño de la Empresa Privada (Cohep) said it met with Zuluaga and would work to try and attract US investment to Honduras.

The new commitments mean that over US$4.2bn has been earmarked for investment in the Northern Triangle countries under the scheme. One significant success story is the opening of a new production plant owned by Japanese automotive component manufacturer Yazaki in San Marcos, northern Guatemala. Located just 500 metres from the Mexican border, the factory started production in January and employs 1,000 people. This is part of a trend towards shortening supply chains to the US market, known as nearshoring.

Unfortunately the Yazaki programme is a rare example of a concrete development under the programme, which has so far disappointed those in the region that were hoping for more wide-ranging assistance from the US government itself. As things stand the piecemeal approach seems unlikely to have much effect on migration levels, and it provides further evidence to those who accuse the US of overlooking Central America. With a lack of real support from the US it is unsurprising that offers of investment from China are increasingly attractive, and Washington will have to rethink its strategy if it truly wants to hold onto its status as the dominant economic power in the region.

CUBA | ECONOMY

What chances of debt renegotiation?

The High Court in London has heard a case involving a foreign debt dispute between CRF 1, a Cayman Island registered investment fund, and the government of Cuba. The outcome is not yet clear, but the signs suggest Havana is considering some kind of wider agreement with its creditors.

CRF 1 (formerly known as the Cuba Recovery Fund) says it has accumulated US$78m of historic Cuban commercial debt originally issued by Cuba's Banco Nacional de Cuba (BNC) and has for several years been trying to reach an agreement with the government to secure phased repayment. The Cuban authorities counter that CRF 1 is a "vulture fund" which is not a legitimate creditor of either BNC or the Cuban state. They also argue that corruption was a factor in securing the original loan. Although the trial ended on 2 February, a verdict is expected to take weeks, and is itself likely to be appealed. The eventual outcome may not be publicly announced.

The implications of the case could nevertheless be far-reaching. Cuba defaulted on its foreign debt in 1986 and since then has had very restricted access to western capital markets, already affected by long standing US economic sanctions. There is some very limited secondary market trading in defaulted Cuban bonds, with prices often down to around 10% of face value.

The Havana government does not regularly publish foreign debt data. In 2019 the authorities said total debt was just under US$20bn, but more recent independent estimates put it at more than US$30bn. Private sector investors are believed to hold some US$7bn worth of Cuban bonds, by face value. According to Spanish news agency *EFE*, CRF 1 "is the largest holder of Cuba's sovereign bonds" totalling US$1.3bn. Whether or not CRF 1 wins the High Court case, Cuba remains under pressure to reschedule its debts. A CRF 1 victory would however sharply increase the cost of doing so.

A sign that some sort of creditor agreement is being considered to ease the crippling shortage of foreign currency came from justice minister Oscar Manuel Silvera, who told the *Financial Times* in early February that "The position of our country is that we recognise our legitimate debts and our legitimate creditors. Our position is firstly to recognise them, be transparent, to always talk with our creditors and to seek terms which are mutually favourable to honour these obligations".

What is clear is that Cuba's dilapidated economy continues to struggle with an acute shortage of foreign currency. Power cuts are again causing disruption. In a two-week, period in late February the country experienced four outages, attributed to a lack of maintenance and fires at transmission lines. Analysts note than in the recent past (July and September 2022) power cuts have been a factor triggering anti-government protests. Despite short term fixes, Cuban economists say at least US$250m a year in hard currency will be needed to keep the power grid working. Some suggest the entire power grid needs to be rebuilt at a cost of US$10bn – well beyond the island's current financial capacity.

Regaining access to international financial markets will remain a major challenge. In 2015 the country struck an agreement with the Paris Club of official creditors, writing off two third of existing debt. In theory, Cuba could seek to raise commercial funds by issuing new bonds, but in practice that will require as a precondition, a restructuring agreement with the existing private sector bondholders.

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Change at the Central Bank

As the court hearing in London drew to a close the government announced it was dismissing the head of the central bank (Banco Central de Cuba – BCC, which took over many of the functions of BNC), Martha Sabina Wilson González, who would be replaced by Joaquín Alonso Vásquez. No reason was given for the change. Wilson González had been in her post for four years. An official statement thanked her for her service and said she would take up "other duties". The new BCC president (a post that has ministerial status) has held several positions in the Cuban banking system.

JAMAICA | ECONOMY

Is this a Caribbean success story?

Jamaica has reaped praise for its macro-economic management in the latest Article IV consultation report written by the International Monetary Fund (IMF) and published on 8 February.

Article IV reports are written by teams of IMF economists after visiting a country and meeting the top economic officials; they are considered a bill of health on economic management. The latest of these reports referring to Jamaica is full of measured praise. The IMF says the country has been "nimble" in its response to major challenges: the coronavirus (Covid-19) pandemic, the war in Ukraine, and tighter global financial conditions. Despite these setbacks it said the government had got Jamaica back on a strong recovery path. Tourist flight arrivals had rebounded to pre-pandemic levels and 2022 economic growth was expected at 4% (subsequent government data put this higher at 5.9%).

Inflation had ticked upwards in 2022 but was expected to ease back this year. High commodity prices had widened the current account deficit, but foreign currency reserves remained "healthy", and the financial system was deemed to be "well capitalised and liquid". The response to the upward surge in international food and fuel prices had been to allow for full "pass though" to the domestic economy while providing support for the poor within the existing fiscal position. Overall, the mix of fiscal and monetary policies had "struck the right balance in responding to shocks, protecting the vulnerable, countering inflationary pressures, and further securing debt sustainability".

Budget

Jamaica's finance minister, Nigel Clarke, in February announced plans for the 2023-2024 budget, which is to total J$1.021trn (US$6.65bn), or 2.3% more in nominal terms than in the preceding year. However, with inflation expected to come down to 4% in 2023 (the most optimistic scenario) there will still be a real-term fall in overall budget spending.

The IMF Executive Board assessment praised the policy of post-pandemic gradual fiscal tightening, coupled with "data-dependent monetary tightening". However, it did argue that within existing financial parameters Jamaica should be identifying resources for extra investment in climate-resilient infrastructure, health, security and education. There was also a call for strengthened tax and customs administration, as well as for an improved AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) framework.

Commenting on the report, the *Financial Times Alphaville* column said, "this is as close as the IMF comes to standing ovation". The government is likely to be particularly pleased by the reduction in the debt-to-GDP ratio which a decade ago was at a highly dangerous 147%. According to the latest data from the finance ministry the ratio will have fallen to 79.7% by the end of this fiscal year (end-March 2023) and to 74.2% by the 2023-24 fiscal year. The Bank of Jamaica (BOJ) has said it expects growth to continue propelled by tourism, agriculture, and the resumption of production at the Jamalco alumina plant. BOJ governor Richard Byles said on 21 February that the pace of growth would nevertheless ease as activity levels among Jamaica's main trading partners "normalised" after the pandemic. Annual inflation fell from 9.4% in December to 8.1% in January and was now being estimated to fall to a 4.0%-6.0% target range by the end of this year.

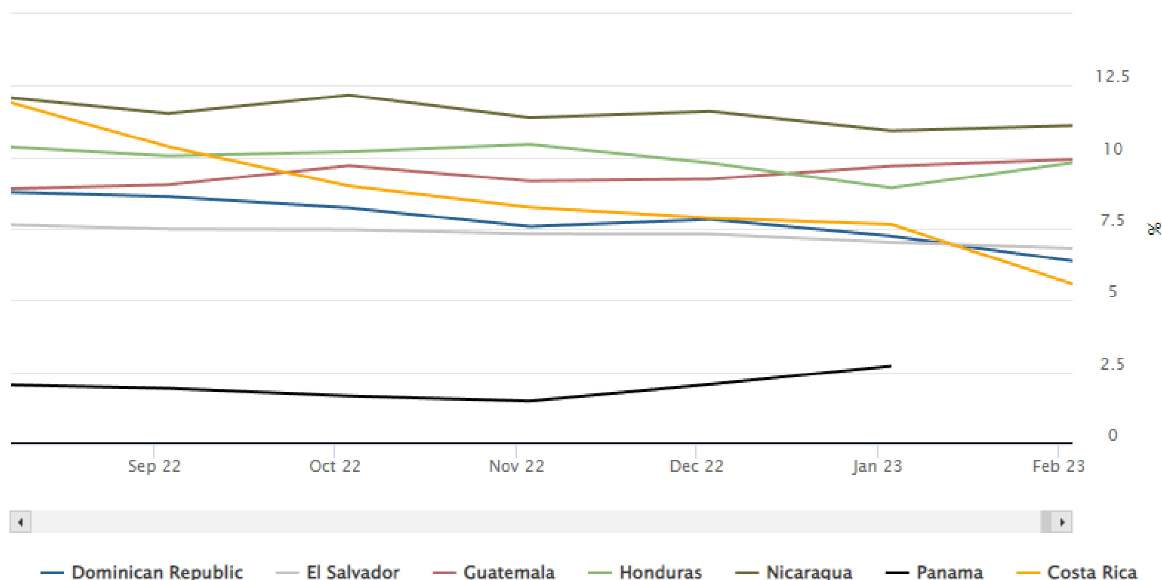
ECONOMIC HIGHLIGHTS

PANAMA | **New free zones.** On 7 February Panama's government led by President Laurentino Cortizo announced it had authorised the installation of new two free zones with an initial investment of US$78.5m, aimed at creating new jobs, boosting production, and increasing exports. These zones provide special tax and other incentives for manufacturers who locate within them. The two new zones are the Tech Valley Free Zone, which seeks to include 120 companies and will generate 1,140 direct jobs and 3,570 indirect jobs and the Panamá Digital Gateway which will include 620 companies aimed at maintaining the country's strategy of being the region's digital hub. According to the Cortizo government, Panama has doubled the number of free zones that had been installed under the previous two administrations while export sales via these free zones has doubled since 2018 from US$78m to US$143m. The latest (2022) US State Department investment climate statement on Panama notes that the country is home to the Colón Free Trade Zone (CFZ), the largest free-trade zone in the Western Hemisphere, the Panamá Pacífico Special Economic Zone, and 18 other free zones (12 active and six in development). The CFZ has more than 2,500 businesses, while the Panamá Pacífico Special Economic Zone has more than 345 businesses, and the remaining free zones host 126 companies in total.

NICARAGUA | **Remittances up year-on-year.** On 24 February Nicaragua's central bank (BCN) released new figures which show that remittances to the country totalled US$317m in January 2023. This is down from US$337m in December 2022 but up 62.8% on January 2022. According to the same figures, 80.1% of total remittances sent to Nicaragua in January 2023 came from the US (US$254m) while 8.1% of the total were from Costa Rica (US$25.7m) and 7% from Spain (US$22.2m).

Central America & Caribbean: inflation rate

Percentage variation (year-on-year)



Central America & Caribbean: GDP growth (%)

Quarterly figures are year-on-year growth

GDP	2022	2023 Forecast*	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Costa Rica	4.33	2.89	6.80	5.46	2.91	2.33
Dominican Republic	Not yet available	4.49	6.15	5.12	5.02	
El Salvador	Not yet available	1.75	3.67	2.45	2.14	
Guatemala	Not yet available	3.20	4.50	4.08	3.76	
Honduras	Not yet available	3.54	6.23	4.40	2.59	
Nicaragua	Not yet available	3.00	5.38	4.45	2.65	
Panama	Not yet available	4.01	13.59	9.81	9.48	

*Forecasts based on IMF WEO.
Annual and Quarterly growth based on figures from the local central banks.

MEXICO & USMCA

MEXICO | AVIATION

Local airlines face tough times

On 15 February, Mexican airline Aeromar, which served 21 domestic and three international destinations, announced that it would cease operating definitively after 35 years of services in Mexico, the US and Cuba.

Aeromar's collapse came after years of financial problems. Since 2019, employees had said that the airline was essentially broke, with a debt of more than M$522m (US$28.9m) with Mexico City's International Airport (AICM). According to local press reports, Aeromar had been seeking investments for the last five years, including from Colombian airline Avianca and the Mexican government. Most recently, a Brazilian company, Nella Airlines Group, had shown interest in acquiring Aeromar, holding negotiations over the course of some months. However, no agreement was reached over its debt. The collapse of the airline will affect some 700 employees, with labour unions claiming that the airline's financial hole amounts to M$7bn.

"According to Fernando Gómez Suárez, a local industry analyst, while factors such as fuel inflation, higher fees for airport services and the coronavirus (Covid-19) pandemic put pressure on the whole sector, mismanagement within individual companies has been significant in all cases of airline collapse."

Aeromar's collapse adds to that of several other airlines that have failed in the last two decades. These include Aero California, which ceased operations in 2006 after the federal transport ministry (SCT) said it did not comply with safety standards; Líneas Aéreas Azteca, which stopped operations in 2007 due to financial problems and after the SCT deemed that its security processes were not up to scratch; Aviacsa, which was the third largest airline just two years before irregularities regarding maintenance and debts led to its collapse in 2009; and Mexicana de Aviación, known simply as Mexicana, which was the country's oldest flag carrier, having been founded in 1921, and stopped operating in 2010 due to financial problems and debt. Most recently, Interjet ceased operations in 2020, after it went into administration following a strike by its employees to demand payment of overdue salaries and benefits. Although in November 2021 the airline said it would re-start operations in 2022, this did not happen.

According to Fernando Gómez Suárez, a local industry analyst, while factors such as fuel inflation, higher fees for airport services and the coronavirus (Covid-19) pandemic put pressure on the whole sector, mismanagement within individual companies has been significant in all of these cases. He argues that Aeromar's inability to secure capital was the main reason behind its collapse. However, a lack of oversight from the authorities was also key to the collapse not only of Aeromar, but also of other airlines. Similarly, Rogelio Rodríguez, an academic at Mexico's national university (Unam), points out that the government has the obligation to ensure that companies that have a concession to provide public transport services, such as airlines, are financially viable, something which has not been done.

Indeed, this issue is at the heart of concerns regarding the current administration's proposed purchase of Mexicana, which was announced in January. The government said it wanted to buy the brand and several fixed assets owned by the airline, valued at M$817m, and have the armed forces-owned company Olmeca Maya Mexica operate it with the same name by the end of the current year. The company was created to run the Tren Maya tourist railway, as well as three airports that are being built in Tulum and Chetumal (both in Quintana Roo state) and in Palenque (Chiapas). It would be based at the Felipe Ángeles international airport (AIFA), which was inaugurated in March 2022 and which the company also manages [EB-22-04].

According to Mexico's federal competition commission (Cofece), such a move – which would require amending the airports law that currently bans state-owned companies from simultaneously operating airports and airlines – could undermine competition and a level-playing field for other operators.

In any case, the process is facing obstacles after a group of 228 Mexicana pension holders opposed the sale and had it suspended with a legal appeal ('amparo'). They represent about half of the total number of pension holders that have been seeking compensation from the airline, in addition to some other 8,000 former employees. The group wants the sale of the embargoed properties to be allocated to compensate the 450 pension holders, rather than to be divided evenly among all former employees. The courts will decide whether the pensioned workers' appeal is valid or whether the embargo may end in order for the sale to proceed.

Despite the sector's problems, there have been encouraging developments over the last month regarding local airline Volaris, which has become one of the largest passenger airlines in the country. Although it finished 2022 with losses, it recorded an increase in passenger numbers equivalent to 27% between 2021 and 2022, and its prospects for 2023 are positive. The company recorded net losses of US$30m as a result of an increase of 55% in its operating costs, mostly due to fuel price increases. However, in its financial report Volaris forecast revenue of US$3.4bn for 2023, an increase from US$2.8bn recorded in 2022. In addition, the company expects to carry out capital investments for US$300m during the year.

MEXICO | FINANCE

Much to be done to improve public spending accountability

"The results show that 2021 has been the worst year for the current government of President Andrés Manuel López Obrador in terms of accounting for its spending as the ASF made more than 3,000 observations, requests and recommendations."

Mexico's federal audit office, the Auditoría Superior de la Federación (ASF), which played a key role in uncovering major corruption scandals in the previous administration of former president Enrique Peña Nieto (2012-2018), presented the third and final part of its report on federal government expenditure for 2021 on 20 February. The results show that 2021 has been the worst year for the current government of President Andrés Manuel López Obrador in terms of accounting for its spending as the ASF made more than 3,000 observations, requests and recommendations.

The document identified problems with a lack of transparency and irregularities that amounted to M$53bn (US$2.9bn) for 2021 expenditure, out of which only M$2.4bn were clarified and recovered. Most of the remaining money that has to be accounted for are federal resources that went to states and municipalities (some M$46bn). Regarding the federal government, the report found irregularities amounting to M$6.9bn. Among the worst offenders were the ministries of agriculture, health, defence, education and environment.

Added to the two previous reports for 2021, the whole amount of irregularities detected in public spending adds up to M$64.8bn, of which the ASF has recovered only M$2.99bn. David Colmenares, the head of the ASF, which is attached to the lower chamber of deputies, highlighted that the current administration's record regarding the number of recovery operations – which refers to public resources that are recovered by the audited entities as a result of the observations made by and actions taken by the ASF - has fallen significantly vis-à-vis previous administrations. While so far in the administration, resource recovery has totalled M$6.7bn, during the previous administration of President Peña Nieto M$51.5bn was recovered.

Colmenares also said that during the last six months, since September 2022, the ASF has reported 34 cases of missing resources that total more than M$7bn

to the federal attorney general's office (FGR). While these cases go back to 2016, 12 of them involve the to the food security body (Segalmex)'s accounts in 2019 and 2020. Segalmex was created by the current government in 2019 to boost agri-food productivity in order to benefit the poorest sectors of the population. Together with the state-run bodies Diconsa, which is responsible for the distribution of basic foodstuffs at subsidised prices, and Liconsa, which distributes subsidised milk, the three entities have irregularities in their accounts that add up to M$15.3bn since 2019.

The armed forces, which have been tasked with an increasing number of operations beyond security under López Obrador, were also found to have almost M$100m to clarify, split between the defence ministry for M$37m and the navy ministry (Semar) for M$59m.

The ASF also found significant irregularities in some of the government's priority projects, such as the Tren Maya tourist railway, which is being built by both private contractors and Sedena. The ASF found that there were irregularities for just under M$1.4bn that need to be clarified regarding the construction of the train.

The report found that the government achieved savings of M$5.98bn during 2021, which was equivalent to only 0.08% of public spending relative to the previous year.

MEXICO | LABOUR

Women's labour participation remains poor

"Labour poverty continues to affect a much higher proportion of women than men. The report highlights that 40.4% of women are considered labour poor, while in the case of men the share is 36.4% that are in the same situation."

A report on labour poverty by local think-tank México, ¿Cómo Vamos? published on 21 February, found that despite improvements recorded in the labour market by the end of 2022, the working situation for women in Mexico had worsened.

Based on figures from the national statistics institute (Inegi), the report points out that among positive developments are an increase in the labour participation rate to above levels seen prior to the coronavirus (Covid-19) pandemic. In the final quarter of 2022, 60.4% of the population was working, above the 59.9% recorded in the first quarter of 2020. Similarly, unemployment shrank during the last quarter of 2022, standing at 3% of the economically active population, down from 3.4% recorded in the previous quarter and from 3.7% recorded during the same period of 2021.

Importantly, the proportion of the population considered labour poor (people that cannot afford a set of basic foodstuffs despite having an income derived from employment) reached around 49.6m, equivalent to 38.5% of the population and a reduction of 1.6 percentage points from the previous quarter (albeit it remains above the pre-Covid-19 pandemic level of 36.6%).

However, labour poverty continues to affect a much higher proportion of women than men. The report highlights that 40.4% of women are considered labour poor, while 36.4% of men are in the same situation. In addition, women continue to be employed in the informal sector much more than men, which underscores the more precarious nature of their employment. Overall, 51% of workers in Mexico were employed informally in the last quarter of 2022, but for women this rate was 54.8%, while for men it was 48%. While this represented an increase of 0.5 percentage points for women relative to the previous quarter, the proportion of men informally employed fell by 0.8 percentage points in the same period.

ECONOMIC HIGHLIGHTS

Mexico: GDP growth
Percentage variation (year-on-year)

Mexico: unemployment rate
Economically active population

Mexico: inflation rate
Percentage variation (year-on-year)

Source (all graphs): *National Statistics Institute (Inegi)*

MEXICO | **Inflation slows.** On 9 March, Mexico's national statistics institute (Inegi) released the latest figures for the consumer price index (INPC), which shows that prices rose 0.56% in February as compared to January. This brings annual inflation to 7.62%. This compares to monthly inflation of 0.68% in January, when annual inflation stood at 7.91%.

MEXICO | **US escalates dispute over GM ban.** On 6 March, the Office of the US Trade Representative (USTR) requested "technical consultations" with Mexico under the US-Mexico-Canada Agreement (USMCA) regarding "Mexican measures concerning products of agricultural biotechnology". The announcement comes amid a dispute over Mexican plans to halt imports of GM corn for human consumption. US Agriculture Secretary Tom Vilsack stated the US believed "Mexico's current biotechnology trajectory is not grounded in science, which is the foundation of USMCA".

MEXICO | **Tourism ministry optimistic for 2023.** On 5 March, Mexico's tourism ministry (Sectur) announced that it expects income from international visitors to total US$31.17bn in 2023. Tourism Minister Miguel Torruco Marqués said that this would be an 11.3% increase on 2022 and a 26.8% increase on 2019. Torruco stated that it was estimated that the tourism sector would account for 8.6% of Mexico's GDP in 2023 – up from 7.5% in 2021 and 6.8% in 2020.

MEXICO | **Banxico cuts growth forecast.** On 1 March, Mexico's central bank (Banxico) released its latest quarterly report (October-December 2022) in which it cut its growth forecast for Mexico to 1.6% in 2023, down from 1.8% forecast in its November report. Banxico noted that economic activity continued to grow in Q4 2022 (0.46%) compared with Q3, but it slowed down compared with the previous three quarters.

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