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FEATURED Q&A

Will New Stimulus Measures Boost the Dominican Economy?

Q The Dominican Republic recently announced a $487 million stimulus plan intended to revive slowing economic growth, Bloomberg News reported. The central bank plans to lower reserve requirements in order to expand access to loans, both for businesses and consumers. What is the current state of the Dominican economy? Will the stimulus have the intended effect on the country's economy? What other policies or actions should the country's policymakers be pursuing to encourage growth?

A Aníbal de Castro, the Dominican Republic's ambassador to the United States: "In the past decades, the Dominican Republic outpaced the economic performance of most countries in Latin America and the Caribbean. The Dominican economy has grown at an average of nearly 4 percent a year since 2000, almost double the growth rate of Latin America and the Caribbean and four times the OECD average. However, in recent years economic growth has slowed from 7.8 percent in 2010 to a projected 3 percent in 2013. The persistent frailty of the global economy, which affects our exports, service sector and consequently, fiscal revenues, has negatively impacted the local aggregate demand. Despite the recent slowdown, the $1 billion global bond issuance this past month, maturing in 2024 at a 5.88 percent rate, indicates the market's confidence in the Dominican economy and its outlook. The fiscal stimulus, 9 billion pesos ($219 million) made available to various public institutions focused on the construction sector, will activate a strong multiplier effect on the Dominican economy. Meanwhile, monetary easing through the liberalization of 20 billion pesos ($487 million) in reserve requirements for banks will encourage further credit for the private sector, particularly small businesses, which are a main driver of employment. Both macroeconomic policies are intended to boost economic growth and address the current fiscal

Continued on page 3

Mexican Official Sacked After Daughter's Abuse of Power

Mexico's president has fired Humberto Benítez Treviño, the country's attorney general for consumer protection, after his daughter tried to use his position to close down a restaurant. The incident sparked a debate over abuse of power in Mexico. See story on page 2.

File Photo: Mexican Government.

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NEWS BRIEFS

Mexican Official Fired After Daughter's Abuse of Power

Mexican President Enrique Peña Nieto has fired a senior government official after the official's daughter tried to use his position to close down a restaurant after it refused to give her a table she wanted, BBC News reported Wednesday. Humberto Benítez Treviño, attorney-general for consumer protection, was not involved in the incident. He and his daughter, Andrea Benítez, both apologized. However, the incident had already sparked a heated debate, much of it over Twitter, about abuse of power in Mexico.

Venezuela's Maduro, Polar Chief Discuss Food Shortages

After accusing Lorenzo Mendoza, the president of Venezuela's largest private company, **Empresas Polar**, of cutting food production and contributing to food shortages earlier this week, Venezuelan President Nicolás Maduro and Mendoza have made peace, Reuters reported. The two met Tuesday and pledged that they will work together to overcome food shortages. The meeting is seen as a positive sign that Maduro may be more willing to work with the business community than his predecessor, Hugo Chávez.

Cutting Colombia's Interest Rates May Overheat Economy: Official

Colombian central bank co-director, Adolfo Meisel, said Wednesday that cutting the country's interest rate further may overheat a fairly healthy economy, reported *The Wall Street Journal*. The comment comes two weeks before a May 31 meeting where central bank officials will discuss possible adjustments to the interest rate. The benchmark interest rate is currently 3.25 percent.

Political News

Peru Appoints Eda Rivas as New Foreign Minister

The government of Peruvian President Ollanta Humala on Wednesday said it would name Eda Rivas as the Andean nation's new Foreign Minister, state news agency Andina reported. Rivas will replace Rafael Roncagliolo, who resigned for health reasons this week. Rivas previously served as minister of justice. A lawyer, Rivas is the first woman to hold the top diplomatic post in Peru, Dow Jones reported. She has been justice minister since last July and will be replaced in that position by Daniel Figallo, who was deputy justice minister. Peru's foreign ministry has been in the headlines recently over a spat with neighboring Ecuador that resulted from an altercation at a Lima area supermarket between Ecuador's ambassador to Peru and customers at the store, which led the two countries to withdraw their envoys in each other's countries and assign new officials to the posts.

Rivas

File Photo: Peruvian Government.

Economic News

Argentina's Government Challenges E.U. on Biofuel Import Rules

Argentina has launched a new challenge to the European Union over the trade body's rules on the import of biofuels, Agence France-Press reported Wednesday. "Argentina has notified the WTO secretariat, on May 15, of a request for consultations with the European Union on measures imposed by the E.U. and/or its member states that affect the importation and marketing of biodiesel and implementing measures as well as measures supporting the biodiesel industry," the Geneva-based World Trade Organization said in a statement. The move constitutes a "first step" in a dispute settlement process that can last for years. The dispute dates to a conflict last year when Argentina unilaterally nationalized oil company **YPF** from Spain's **Repsol.** Spain, in turn, slapped restrictions on imports in a tit-for-tat move. Last year, Repsol demanded $10.5 billion for the seized assets and has threatened legal action against companies that seek to invest in any of YPF's assets.

Company News

Pemex Files Suit to Recover $160 Million in Bribery Case

Mexican state oil company **Pemex** has filed a lawsuit in New York seeking to recover nearly $160 million from Germany's **Siemens** and South Korea's **SK Engineering & Construction Co. Ltd.** in a global bribery case, a law firm representing Pemex said Wednesday. Attorneys at Miami-based **Diaz Reus** filed an amended lawsuit in U.S. District Court last week claiming Siemens and SKEC submitted an "unrealistically low bid" in 1996 to win a public contract for modernizing a Pemex refinery in Cadereyta, Mexico. Michael Diaz, Jr., the firm's global managing partner, alleged Siemens and SKEC then paid bribes to several officials at Pemex in exchange for processing fraudulent "cost overrun" invoices. Those invoices were apparently intended to fill the shortfall from the original underbid, according to Diaz. In 2008, Siemens pleaded guilty to conspiring to commit violations of the U.S. Foreign Corrupt Practices Act and agreed to pay a $1.6 billion penalty to U.S. and European authorities to settle charges that it routinely used bribes and slush funds to secure massive public works contracts around the world, including refinery modernization projects in Mexico.

The lawsuit alleges Siemens and SKEC submitted an "unrealistically low bid" to win a public contract for modernizing a Pemex refinery.

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César Nava, the former chairman of Mexico's conservative National Action Party and Pemex's legal director at the time of the alleged fraud, is named in the suit, EFE reported this week, citing a report in Mexico's *Reforma* newspaper. Nava reportedly intervened to stop the company from collecting $102.8 million from Siemens and SKEC to compensate for contract violations in the overhaul of the Cadereyta refinery, the report states.

Starwood Hotels Plans to Increase Footprint by 50 Percent in Region

Connecticut-based **Starwood Hotels & Resorts** plans to increase its hotel footprint in Latin America by 50 percent during the next five years, the Associated Press reported Wednesday. The plan would open an average of seven new hotels per year in the region. "Latin America is emblematic of the growth we are seeing in regions around the world and key to our development plans," Simon Turner, president of global development and acquisition for Starwood, said in a statement. Starwood currently has 72 hotels in 13 countries of the region. It has opened 13 hotels in the last two years in Latin America and plans to open six more this year. In March, Starwood said it aimed to have 100 hotels under operation and development in Latin America by the end of 2013. The company operates eight brands in the region, including W Hotels, St. Regis and The Luxury Collection.

Turner

File Photo: Cornell University.

Brazil Attracts Record Bids in First Oil, Gas Rights Auction in Five Years

Brazil's oil sector regulator, the Agência Nacional do Petróleo, on Tuesday held its first auction for oil and gas rights in five years, which attracted record bids, according to Reuters. The auction, scheduled to last two days, wrapped up a day early after ANP sold 142 of the 289 of the blocks on auction to 39 companies from 12 different countries. The winners agreed to pay 2.82 billion reais ($1.4 billion) for rights to the tracts, plus promised another 7 billion reais of investments in the fields. Blocks in the offshore Foz do Amazonas and Barreirinhas basins, along with onshore concessions in the northeastern Parnaiba basin, all areas with little or no current oil output, attracted the most attention from investors. **Petrobras** paid for stakes in 35 blocks, more than any other bidder, Reuters reported. Other big winners in the auction included Brazilian company **OGX Petróleo e Gás**, which won 10 blocks alone and three in partnership with other companies and Britain's **BP Group** and France's **Total**, with stakes in 10 blocks each. This was the first auction to take place in Brazil since 2008 when sales of rights were halted and regulatory rules were revised, which lowered investor enthusiasm. After the auction, participants and observers noted that investors want to be doing business in Brazil and expressed optimism about the future of the oil and gas industry in the country. "Companies would really like to expand their role in the country, including ourselves," Thore Kristiansen, president of the Brazilian division of Norway's **Statoil**, told Reuters. Meanwhile, ANP announced Monday that they are drafting the boundaries for concessions to be auctioned at the first bidding round for pre-salt oil and gas blocks to be held in November, according to Agência Brasil.

Featured Q&A

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imbalances. The new government has embarked on many sector-specific initiatives that will drive growth in the Dominican economy: attracting foreign direct investment in sectors with a regional competitive advantage, promoting small businesses through loan and insurance programs and lowering the energy costs for exporting industries."

A Bernardo Vega, president of the Fundación Cultural Dominicana and former ambassador of the Dominican Republic to the United States: "2012 was an election year and, as is now unfortunately customary, the government overspent both on salaries and on public works, incurring big deficits and increasing local and foreign debt. The Danilo Medina government, which took power last August, decided not to seek an IMF program, but to work unilaterally to reduce the deficit substantially, among other reasons, to sell foreign bonds at a low price by convincing investors of its good intentions. During the first three months of this year, the government spent less on public works than budgeted because it inherited overvalued and badly designed projects which caused a delay. The deficit in that quarter was very small and contributed, together with fiscal reform, to lower private economic activity. In April, for example, inflation was negative even though the money supply was higher than in April 2012. But starting in May, expenditures on public works will increase as projects are now ready. The central bank is contributing to expansion by lowering reserve requirements. The renegotiated contract with Barrick Gold will provide important additional tax revenues to the government starting in the second half of the year. Unfortunately, the government has decided to build two carbon power plants on its own account, reducing private sector participation in an area which causes some of the biggest deficits. Growth for the year should be between 2 and 3 percent with very low inflation and not more than a 5 percent devaluation."

A Miguel Collado Di Franco, senior economist at the Centro Regional de Estrategias Económicas Sostenibles (CREES) in the Dominican Republic: "The Dominican economy is being affected by the tax measures that were implemented at the end of 2012 with the intention of consolidating public finances and reducing an estimated fiscal deficit of more than 7 percent of GDP. Central bank officials have admitted that

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the tax increase has affected the economy so that, according to its preliminary figures, growth in the first quarter of 2013 was less than 1 percent. New and higher taxes introduced by a law enacted in November of 2012 are hurting all economic activities: saving, investment, production and consumption. Economic policies that distort the activities that economic agents undertake affect the coordination of the economic processes that they carry out. As a consequence of the resulting disruption in economic processes, growth is reduced. Therefore, any measure intended to stimulate growth through aggregate demand can only have a transitory effect. The correction of the negative effects on economic activities requires the implementation of structural reforms. This is the best policy to deal with the source of the problem. In order to have lasting economic growth and to increase Dominicans' disposable income, the country needs structural reforms that raise productivity, reduce the size of the informal sector of the economy and correct the distortions that exist in various markets. In addition to a simplified tax code with low and flat tax rates, structural changes are needed in the energy, transportation and labor markets, as well as in health, education, law enforcement and the judicial system."

Franco Uccelli, Executive Director of Emerging Markets Research at J.P. Morgan: "The central bank has announced plans to lower reserve requirements and free up $500 million to expand loans to consumers to companies and for affordable housing and to stimulate growth amid mounting evidence of a slowdown. Some local pundits have blamed the recent deceleration in economic activity on a decline in consumption resulting from the implementation of the recent tax reform, whose impact on spending has been more severe than expected. I believe the under-execution of the government budget in the first quarter of 2013, particularly as regards public works, has also played a material role in the slowdown. Authorities expect increased bank lending and elevated capital spending to boost growth starting in the second quarter. The latest official forecast, which we view as conservative, calls for real GDP growth to moderate to 3 percent in 2013 from 3.9 percent last year."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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