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Peru's Humala loses final cabinet stalwart

Peru's economy & finance minister, Luis Miguel Castilla, resigned on 14 September. Castilla was the last remaining minister from the first cabinet sworn in by President Ollanta Humala in July 2011. The opposition has been gunning for Castilla for some time, especially since economic growth began grinding to a halt this year, but he had appeared untouchable, forming part of a triumvirate along with Humala and First Lady Nadine Heredia (notably excluding the oft-altered prime minister) calling all of the shots.

The presence of Castilla, a technocrat, in the cabinet, helped assuage the concerns of foreign investors that President Humala's administration was a throwback to the government of General Juan Velasco Alvarado (1968-1975), who nationalised foreign firms, and would entertain the sort of nationalist adventures which other left-wing presidents in the region pursued upon taking office.

It is not entirely clear why Castilla tendered his resignation now, or whether Humala gave him a push. It has become almost axiomatic that cabinet ministers do not leave for the "personal reasons" so often cited. While it has been an open secret for some time that Castilla, a widower of three years with young children, has been keen to spend more time with his family, and there had been some speculation that once he had presented the 2015 budget to congress (which he did on 10 September) he would step aside, it is difficult to imagine that there were not other motives at play.

Salomón Lerner Ghitis, Humala's first prime minister, uncharitably suggested that Castilla was getting out "just as things are hotting up", an allusion to the economic slowdown over which he has presided this year, and his failure to reverse this despite two stimulus packages since July, rather than assuming his responsibilities.

Castilla had come under more sustained fire in recent months as GDP growth reached just 1.8% year-on-year in May and 0.3% in June, the lowest monthly figures since 2009, although it rebounded slightly in July to 1.16%, the national statistics institute (Inei) reported on 15 September, the day after his resignation. He was accused of being too cautious (an ironic criticism given the fears of the private sector at the outset of the Humala administration in July 2011), and too reactive.

Then there was the decision by congress in late August to undo one of Castilla's reforms, a law requiring self-employed workers to pay into a pension fund. Definitively annulling this law was one of the demands made by the opposition in exchange for its tepid vote of confidence for Ana Jara to take over as Humala's sixth prime minister in the last three years on 26 August [WR-14-34]. It was noteworthy that Jara confirmed on 17 September that Humala had annulled this law.

Castilla was careful to stress that his departure in no way implied any distancing from the government, thanking Humala for placing his trust in him and promising to continue supporting him (taken by some to suggest Castilla might just keep one hand on the economic tiller).

The appointment of Castilla's replacement, Alonso Segura Vasi, was well-received by the powerful private sector business association (Confiep), whose president Alfonso García Miró said he guaranteed economic policy continuity. It should also reassure foreign investors that there will be no sudden change in economic direction or deviation from the watchword of macroeconomic stability. Segura Vasi has been head of Castilla's team of advisers since March 2013 and was in charge of a commission to 'unlock' investment in Peru. He has a doctorate in economics from the University of Pennsylvania and has also previously worked at the International Monetary Fund (IMF) and at Peru's largest bank, Banco de Crédito del Perú.

Popularity falling

President Humala's approval rating fell four percentage points in September on August to 25%, according to a survey by the pollster Ipsos-Perú. It has now fallen eight points since June. First Lady Nadine Heredia's approval rating fell two points to 30%. The poll gave Luis Miguel Castilla just 20% support, down five points on August, poor even by the standards of the Peruvian cabinet.

Getting the economy firing again

Segura's immediate and most pressing challenge will be to reactivate the economy and restore GDP growth in the region of 6% in 2015. The fact that he was also an adviser between 2001 and 2005 to Javier Silva Ruete, the economy minister under former president Alejandro Toledo (2001-2006), should help ensure Toledo's Perú Posible (PP) continues to support the government's economic policymaking in congress as it seeks to reverse the economic slowdown.

On 16 September, two days after Castilla's departure, Humala announced that his government would send a third economic stimulus package to congress, focusing on tax changes. "There needs to be reforms," Segura said for his part, "but this requires reaching a consensus in congress".

Segura expressed his confidence that the economic slowdown was now "over" and that the Peruvian economy would "gradually" show a return of the dynamism that has characterised it over the course of the last decade when stellar annual growth rates have been the rule rather than the exception. There have been a few false dawns under Castilla, however, who not so long ago was predicting that GDP growth would pick up to its previous level in the second half of 2014. Segura said the economy would likely expand by less than 4% this year - lower than the government's last official forecast of 4.2%, already a downgrade from the earlier projection of 5.7% growth.

Notwithstanding the continuity of macroeconomic policy, Segura's tenure will be strikingly different to that of Castilla. Castilla was much more than just the economy & finance minister. He was an economic czar who held considerable sway over the energy & mines, agriculture, commerce and production ministries.

Segura will not have the same political clout. Castilla's departure might, as such, strengthen the position of Prime Minister Jara, whose predecessors felt remote from real power despite theoretically holding the most important position in politics after the President. Daniel Urresti, the controversial interior minister, could also grow in influence, as the only minister whose support in the polls is actually increasing (*see sidebar*).

VENEZUELA | POLITCS & ECONOMY

Adding another spectre - default

The ratings agency Standard & Poor's (S&P) on 16 September cut Venezuela's long-term rating by one level from B- to CCC+, seven levels below investment grade, and placed it on negative watch. S&P, which forecasts a 3.5% contraction in real GDP this year, said its revised rating indicated "a one-in-two likelihood of default over the next two years".

Although Venezuela's external debt/GDP ratio is low at about 51%, it has a lumpy US$28.2bn schedule in 2015-2018. In the immediate term, US$4.5bn falls due in October, with US$1.5bn in government bonds maturing on 8 October and a further US$3.0bn in bonds issued by the state oil company Petróleos de Venezuela (Pdvsa) due on 28 October. Total debt obligations due by year-end come to about US$7.0bn in total, amounting to a third of total (official) foreign reserves (US$20.2bn) held at the central bank (BCV), prompting mounting concern about the government's ability to service it.

Speculation intensified after a former planning minister and now senior Harvard academic, Ricardo Haussman, suggested that the government led by President Nicolás Maduro should default for 'moral' reasons, given the shortages of essential consumer goods – including food and medicines - in Venezuela. He argued that the government was already 'in default' on the domestic sector.

After a flurry of international media stories, Venezuela's low profile finance minister and vice president of the economic area, Brigadier General Rodolfo Marco Torres, stuck his head above the parapet on 10 September to insist that Venezuela had "full capacity" to make its external debt payments, denying speculation that the country might be facing an imminent balance of payments crisis. "Venezuela has full capacity to meet its international obligations" Torres stated, noting that "Venezuela has maintained a tradition of solvency". President Maduro himself echoed the statement days later, but markets remain sceptical, and the latest S&P move has not helped sentiment.

In reference to foreign exchange earnings, Torres noted that the country "receives enough that, properly administered, the needs of Venezuelans are covered". Venezuela's private import sector might beg to differ – it claims foreign currency arrears of up to US$13bn with the government – which is over half central bank reserves. When President Maduro recently announced that the various off-budget funds like the national development fund (Fonden) would be brought into the BCV to create a new 'strategic reserve fund', there was amazement that he was only offering up US$750m – when the Fonden alone got US$28bn from Pdvsa in 2011-2013 – according to Pdvsa's latest accounts.

Unsurprisingly given the dollar shortages, total imports fell 20% year-on-year to US$15bn in the five months to May, according to new data from the national statistics institute (INE), albeit food imports were up 54% year-on-year to US$4.35bn, accounting for 29% of total imports in the period. Even so, food price inflation was 91% year-on-year in August. The INE reported non-oil exports at US$1.3bn in the same period, claiming an annualised increase of 39%. It is impossible not to notice, however, that oil export figures – and more general balance of payment figures – have not been reported by the BCV since Q3 2013. Oil export revenues totalled US$182bn in 2011-2012.

Clearly, oil prices these days are not moving in the government's favour. The Venezuelan barrel has averaged US$96.2 to date this year, from US$99.5 in calendar 2013, and it recently hit a two year low of US$90. Meanwhile, the black market exchange rate is trading back out at BF94/US$, prompting some suspicion that the government is hoarding precious dollars so as to meet its upcoming debt schedule.

Bond rout

S&P said in a statement: "The downgrade is based on continued economic deterioration, including rising inflation and falling external liquidity, and the declining likelihood that the government will implement timely corrective steps to staunch it...The government could come under greater strain to service its rising level of external debt". S&P's rating is now in line with the Caa1 ranking assigned to Venezuelan bonds by Moody's Investors Service, which cut its rating back in December 2013. The Venezuelan bond rout has intensified on the S&P move, with the benchmark 2027 bond falling to 68.85 cents on the dollar on 17 September, and yields extending out to 14.7%, according to financial wires.

Last-minute demands ahead of October showdown

With less than a month until the 12 October general elections, various sectors are seeking to extract last-minute deals from President Evo Morales' ruling Movimiento al Socialismo (MAS) government, none of which are likely to succeed given Morales' continued lead in the polls. The knee-jerk responses by the various opposition parties illustrate their continued struggle to present a viable alternative.

Transport workers from Santa Cruz, Bolivia's second most populated region, comprise one of the three sectors clamouring for changes. On 15 September they erected blockades at 35 different points in the region calling for the government to address 11 demands. These include complaints regarding a recent hike in highway tolls on one of the main roads in the region – from B$8 (US$1.2) to B$15 (US$2).

Another threat of social unrest is coming from owners of undocumented vehicles (*'chutos'*) who, grouped in the Asociación de Propietarios de Vehículos Indocumentados (APVI), announced road blockades on 10 September on all the main highways in the country demanding that the government legalise more than 50,000 *chutos*. The APVI is calling for a second amnesty after that signed by President Morales in June 2011, which set aside a six-month period for owners of *chutos* to pay a moderate fee in order to obtain legal documents [WR-12-48]. That one-off amnesty, however, proved controversial, with officials in neighbouring Chile, Brazil and Argentina complaining that it caused an increase in car theft. While the Morales government is ruling out granting a second amnesty, the opposition has quickly sought to take advantage, with Morales' main rival, Samuel Doria Medina, of the centre-right Unidad Demócrata (UD), pledging to nationalise the sector.

The other source of unrest is coming from pensioners: on 15 September the Confederación de Jubilados y Rentistas de Bolivia (CJR) began a 112km march from the town of Konani in the western region of Oruro to La Paz in demand of an annual bonus (aguinaldo) of B$3,000 (US$434). CJR's executive secretary Irineo Rivera said that at least 4,000 of its 133,000 members were expected to join the march. The demands come despite the promulgation of a law last month authorising a December aguinaldo for those over the age of 60 of B$200 (US$29) for pension-holders and B$250 (US$36) for non-pension holders [WR-14-35]. While other presidential candidates like Juan del Granado, of the left-wing Movimiento Sin Miedo (MSM), and former president Jorge Quiroga (2001-2002), of the Partido Demócrata Cristiano (PDC), are now promising to authorise a further bonus if successful (albeit without stipulating an amount), the economy minister, Luis Arce, maintains that the government will only enter talks on the issue after the 12 October election.

Campaign spending

On 14 September Samuel Doria Medina revealed that the UD campaign budget amounts to B$6m (US$868,300) of which he will provide an "important part". Meanwhile the MAS political secretary, Víctor Morales, said the party's budget was B$4.7m (US$680,170) which is coming from membership fees (it costs B$5/US$0.7 to join the MAS) as well as contributions from candidates and other "sympathetic" institutions.

The head of the MSM campaign team, Fabián Siñani, said the party was expecting to spend between B$3m (US$437,300) and B$3.5m (US$510,200) on its campaign, while Quiroga's team failed to provide details.

Media campaigning officially began on 12 September and will last until 72 hours before election day.

Still ahead

The most recent poll by Equipos Mori published in Santa Cruz-based *El Deber* on 16 September gave President Evo Morales 54% of voting intentions, two points less than the August poll. He is still well ahead of Samuel Doria Medina (Unidad Demócrata) who is on 14%, down from 17%, while former president Jorge Quiroga (Partido Demócrata Cristiano) is on 7%, up from 6%. Juan del Granado (Movimiento Sin Miedo) remains unchanging with 3%, while Fernando Vargas (Partido Verde) is trailing with 1%, up from 0.4%. The poll surveyed 2,410 people across the country between 1 and 13 September and had a 2.2% margin of error. An absolute majority is necessary to win the election in the first round, or at least 40% of the valid vote with a margin of 10% or more over the second-placed candidate.

Venezuela-Colombia contraband halved

On 11 September authorities in Colombia and Venezuela suggested that the Venezuelan government's 9 August decision to temporarily close down the shared border every night (from 10:00pm to 5:00am) has led to a 50% drop in cross border contraband. Data from Colombia's tax and customs police (Polfa) points to a 40%-50% fall in illegal trade in the Norte de Santander border department following the implementation of the measure. Across the border in Venezuela, the economic studies unit of Arauca state's chamber of commerce estimates that contraband activity has fallen by 20%-30%. The findings have been hailed as "positive" by the president of the Colombo-Venezuelan chamber of commerce (CCV), Magdalena Pardo. But Pardo was clear that "more needs to be done to eliminate it".

TRACKING TRENDS

PERU| **Optimistic 2015 budget.** On 10 September in his last act as Peru's economy & finance minister, Luis Miguel Castilla, presented the draft 2015 budget to the national congress. Based on the expectation that the economy will make a full recovery from its current economic slowdown, the budget forecasts GDP growth of 6% next year. The Peruvian economy has undergone a marked slowdown since mid-2013, sparking concerns that after more than a decade of posting 6.5% average growth, it is now running out of steam. However, in presenting the PEN130.62bn (US$46.48bn) budget, Castilla said that while the slowdown was more pronounced than expected, with official growth forecasts for this year revised down to 4.2% from 5.7%, this would be fully reverted next year, with the economy to resume its medium term growth trend. Castilla also pointed to encouraging signs that global economic activity is picking up, which should help boost falling demand for Peruvian exports. He added that in support of the recovery the government led by President Ollanta Humala would continue to adopt "appropriate measures" to ensure that Peru's economy does not stagnate. Castilla said that the 2015 budget, nominally 12% higher than this year's, was part of government efforts to inject more public funds into the economy to "close gaps" and further stimulate growth. Besides a weaker demand for Peru's exports, the low level of domestic economic activity this year has been attributed to a fall in private investment, estimated to have decreased by as much as 5% since the start of the year. According to Castilla, US$2.68bn of the 2015 budget has been earmarked for government investment programmes with an additional US$769m assigned for the economic and social sectors. In keeping with the government's key objective of promoting 'growth with social inclusion', Castilla also noted that 40% of the budget would go on promoting social development with a focus on education, health and national security. The problem for the Humala government is that, while positive, the latest domestic economic figures are far from encouraging. The day after Castilla quit and was replaced by Alonso Segura Vasi, on 15 September the national statistics institute (Inei) released the latest official growth figures for July. While the 1.16% July growth figure was four times higher than the 0.3% registered in June (the lowest monthly rate since 2011), prompting the new minister to declare that the slowdown had bottomed out, it was still below the 1.95% consensus market forecast. While most sectors showed an increase in activity, key areas like manufacturing (-5.72%), mining (-1.61%) and construction (-6.02%) were all down. The latest Inei figures led local analysts to again cut their growth projections for 2014 to 3.9% and for 2015 to 5.5%, both lower than the revised official budget projections.

COLOMBIA| **Moderate second quarter growth.** On 16 September Colombia's national statistics agency (Dane) released its latest economic figures which showed that growth in the first half of the year was a solid 5.4% year-on-year. The half year results came on the back of moderate 4.3% growth in the second quarter after the economy posted strong growth of 6.5% in the first quarter. A Dane report stated that growth in the first six months of 2014 was driven by the construction and financial sectors, which grew 14.2% and 6.1% respectively. However, the figures showed that economic activity began to slow in general in the second quarter even more than that expected. Prior to the release of Dane's figures, local analysts forecast that economic activity would drop to 4.6%- considered the economy's long-term quarterly growth potential- on the back of a seasonal fall in domestic demand. But the Dane report showed that while there was still above average activity in five of the nine economic sectors monitored by the agency, some key sectors including manufacturing (-1.4%) and mining (-2.2%) all posted negative growth. While this led the likes of the national entrepreneurs association (Andi) to express mild concerns, local analysts have said that the deeper-than-expected drop in activity may actually be positive as it could ensure that the economy does not overheat.

CHILE | POLITICS & ECONOMY

Highs and lows for Bachelet

Chile's President Michelle Bachelet has just endured a week of very mixed emotions. In the space of a few days she had to contend with the explosion of a bomb in a fast-food restaurant outside a metro station in Santiago, just before the 41st anniversary of the military coup led by General Augusto Pinochet which resulted in the death of President Salvador Allende on 11 September 1973. The explosion injured 14 people. This act of terrorism somewhat dampened celebrations of the passage through congress of one of the Bachelet administration's flagship policy proposals – a radical tax reform which seeks to redress social inequality in Chile and fund an overhaul of the education system.

The bomb exploded at lunchtime on 8 September in a restaurant in an underground shopping mall adjacent to the Escuela Militar metro station in the wealthy Las Condes neighbourhood. This is far from an isolated incident—there have been as many as nine bombs planted in Santiago in the last two months and 30 so far this year—but it is the first time that people have been injured, which naturally increases pressure on the Bachelet administration to find out exactly who the perpetrators were and to bring them to justice.

Invoking the controversial Pinochet-era anti-terrorism law, Bachelet held an emergency security council of top police officials and the national intelligence agency (ANI). The interior minister, Rodrigo Peñailillo, held a similar meeting on 23 July to discuss the response to a spate of bomb attacks in Santiago attributed to local anarchist groups. In the 10 days prior to Peñailillo's meeting five bombs went off, including three car bombs, an explosion in an empty metro carriage at the Los Dominicos station and another outside a church. The day after the bomb exploded outside Escuela Militar, two explosive devices were detonated in the coastal city of Viña del Mar, causing two minor injuries.

The motive for the attacks is not clear although leaflets found at some of the bombing sites in July pointed to the indictment in Spain on 4 July of two members of an anarchist group known as Comando Insurreccional Mateo Morral, on terrorism-related charges. The Escuela Militar and Viña del Mar bombings came just days before the coup anniversary on 11 September when the military police, Carabineros, are on heightened alert given the history of violence marking the day, which this year saw at least 10 Carabineros injured in Santiago during protests and 1,350 arrests made nationwide.

The spokesman for the Carabineros, Colonel Mario Rozas said that after interviewing more than 60 eyewitnesses they had identified two men believed to be around 30 years of age as suspects for the Escuela Militar bomb attack. One line of investigation the Carabineros are following is that the perpetrators had links to members of Mapu Lautaro, a radical left-wing splinter group which formed in 1982 to fight the Pinochet dictatorship. This is because the explosion took place one hour after the supreme court convicted Juan Aliste Vega, a former *lautarista*, to 42 years in jail for the murder of a police sergeant, Luis Moyano, during a bank robbery in Santiago in 2007 and other crimes.

There is a suggestion, fanned by the opposition, that the government feels national intelligence might be slightly out of its depth and requires external expertise to get to the bottom of the Escuela Militar bombing. The foreign minister, Heraldo Muñoz, confirmed last week that the US Federal Bureau of Investigations (FBI) would assist the Chilean authorities in investigating the bombing.

Bachelet support down

An opinion poll by Adimark on 4 September showed President Bachelet's approval rating slipping below 50% for the first time since she took office last March. The Adimark survey showed Bachelet's approval rating decline by four percentage points in August to 49%, while her disapproval rating climbed by five points to 41%. Support among respondents for the tax reform stood at 39% compared with 50% opposition, while 46% backed the proposed education reform and 47% disapproved of it.

Repeal of amnesty law

Bachelet commemorated the 11 September coup herself by unveiling a plan to annul the 1978 amnesty law shielding those responsible for human rights abuses between 11 September 1973 and 10 March 1978. This issue always raises the political temperature and the ultra-conservative Unión Demócrata Independiente (UDI) was quick to accuse the government of seeking to distract attention from the bomb attacks in the preceding days.

The repeal of the amnesty law would be chiefly symbolic as the justice minister, José Antonio Gómez, acknowledged. "It will not make a deep change to what Chilean tribunals have been doing to date, which is not applying the amnesty law," Gómez said. Bachelet also announced the creation of a new human rights deputy ministry and the elimination of some benefits enjoyed by imprisoned former military officers.

Tax reform gets go-ahead

Sandwiched between last week's bomb attacks and the anniversary of the coup was a very positive news item for the government: on 10 September the lower chamber of congress approved a fiscal reform which aims to boost the tax take by US$8.29bn annually, once all the measures take effect, to fund the provision of a promised universal free education system and other measures to reduce inequality in Chile. The reform was approved in the senate last month.

This is the biggest change to the tax system since the return to democracy in 1990. Companies will be able to pay a corporate tax rate of 27% (up from 20% now) in exchange for tax breaks for reinvesting profits, or they will have to pay a lower tax rate of 25% with no tax breaks. The reform scraps the taxable profit fund (FUT), which allows companies to channel earnings into reinvestment. The changes also aim to cut down on tax evasion, boost savings rates and benefit small- and medium-size companies (SMEs).

The opposition eventually backed the reform after months of wrangling, earning the thanks of the finance minister, Alberto Arenas, who commented that with the present economic uncertainty it was "more important than ever that we are all rowing in the same direction". The UDI shared the deep reservations of the private sector about the tax reform, arguing that it would contribute to slowing down the economy further when predictions are for GDP growth of just 2% this year. They also contend that doing away with the FUT will curb investment, damaging growth.

The tax reform might have been approved but the steady slowdown of the economy has prompted a serious internal debate about the ambitious reform agenda of the Bachelet administration. The opposition is not mincing its words, suggesting that it would be irresponsible in the current climate to embark on the kind of reforms Bachelet envisaged in her plan of governance and which the tax reform was designed to bankroll. One such reform is to labour laws which have been in place for decades.

On 4 September 5,000 Chilean workers from the umbrella trade union, Central Unitaria de Trabajadores (CUT), marched through the streets of Santiago to demand that the government deliver on its promise last June to expand collective salary negotiations; strengthen trade unions; and end the current law enabling employers to replace employees participating in strikes.

"We know that with the complex scenario of low growth Chile is going through many expect the reforms to be suspended", the CUT president, Bárbara Figueroa, said. The labour minister, Javiera Blanco, sought to reassure her by promising that action would be taken in the final quarter of the year, but this could face strong opposition (*see sidebar*).

Labour reform

The private sector and the right-wing opposition Unión Demócrata Independiente (UDI) argue that it is not the right time to contemplate the labour reforms. Deputy Ernesto Silva, president of the opposition UDI, said he would like to have seen the CUT marching for jobs and to defend the 140,000 families that he said had lost them since President Bachelet came to power last March rather than add "another factor of uncertainty".

Social issues dominate election campaign

While the first part of the election campaign has been dominated by the arguments over the state of the Brazilian economy, in the third presidential debate, hosted by the Confederação Nacional do Bispos Brasileiros (CNBB), social issues came to the fore. In a deeply religious country, where over 50% of the population describes itself as Roman Catholic and a further 25% evangelical Christian, gay marriage and abortion are issues with real electoral significance.

Marina Silva, the presidential candidate of the Partido Socialista Brasileira (PSB), finds herself increasingly alienating the progressive element among her supporters. With her back story, as an illiterate housemaid in a remote Amazonian province who could potentially become Brazil's first black president, Silva naturally appeals to young voters who demand a change from the old duopoly of the Partido dos Trabalhadores (PT) and Partido da Social Democracia Brasileira (PSDB). In a passionate speech in Rio de Janeiro last week, in which she criticised the government following the publication of statistics showing deforestation on the rise after years of decline, Silva reminded her audience of her record of environmental activism.

However, Silva's recent decision to backtrack on the PSB's proposals to support the criminalisation of homophobia, led her principal LGBT adviser to quit and prompted accusations she was kowtowing to reactionary evangelical leaders. Conversely, her pledge to hold a referendum on abortion prompted criticism from the Roman Catholic Church, despite the fact that opinion polls consistently show a massive majority (around 80%) of Brazilians, support the current law, which criminalises abortions, except in cases of rape or where the woman's life is in danger.

The gruesome murder of a 27-year old nurse in Rio, apparently killed after a botched abortion at an illegal clinic, brought the issue into the spotlight on the eve of the CNBB-hosted presidential debate. In 2010, the CNBB released a statement urging its congregants not to vote for any candidate who was not firmly opposed to abortion. President Dilma Rousseff's apparent lack of conviction on the issue was, in the analysis of some commentators, key to the election going to a second round.

This year, the CNBB was slightly less dogmatic, but it still criticised the government for appointing a pro-legalisation secretary of women's rights and permitting a study on abortion to take place at the Fundação Osvaldo Cruz. In fact the bizarre structure of the debate meant that both Rousseff and Silva were able to avoid making their personal positions on the issue clear. Instead, the question on abortion fell to one of the minor presidential candidates, the Partido Verde's Eduardo Jorge, who argued in favour of legalisation. Nevertheless, the question is likely to return in the following weeks.

Latest polls

On 16 September, Ibope published its latest poll. In the first round scenario, Rousseff was down three percentage points, but still in the lead on 36% of voter intentions. Silva was down one point to 30%, while the biggest winner was Aécio Neves (PSDB) who rose four points to 19%. It still seems that, Neves will struggle to get through to the second round. The Ibope poll showed Silva and Rousseff in a technical tie in the second round; 41% to 40%. In a second round between Neves and Rousseff, the PT candidate would win by 44% to 37%.

Rousseff leads among the poorest in the electorate. Among those on the minimum wage, she is backed by 46%; she also receives strong support from those living in small towns, defined as having less than 500,000 inhabitants. However, she also scores the highest when pollsters asked which of the candidates the respondent would never vote for: 32% said Rousseff

Ficha Limpa

Over the weekend, gubernatorial candidates in three states withdrew their names from the ballots. Fearing their legal appeals against their ban from running for office, a result of the Ficha Limpa, or 'Clean Slate' law passed in 2010, Brasília's José Roberto Arruda of the Partido de la República (PR); Mato Grosso's José Riva of the Partido Social Democrático (PSD) and Roraima's Neudo Campos of the Partido Progressista (PP) stepped down so that their parties could still compete in the elections. The Ficha Limpa law, passed in 2010, makes it ineligible for those who have been convicted of corruption, mismanagement of public funds or electoral violations (such as vote tampering and vote buying) to run for public office for at least eight years.

compared with 19% for Neves and 14% for Silva. The Ibope poll, which interviewed over 3,000 people, also asked those it surveyed if they "desired change": 70% said 'yes'; 28% said they wanted things to stay the same.

BRAZIL | POLITICS & SECURITY

No change at top, despite police corruption scandal

José Mariano Beltrame, the secretary of public security in Rio de Janeiro state, told reporters on 17 September that he was "comfortable" with the state's police chiefs, despite the revelation of a major extortion racket among officers in the western suburb of Bangu. Twenty-four officers have been arrested, among them the third-in-command of the city's military police, Colonel Alexandre Fontenelle Ribeiro, for demanding payment from shopkeepers, motorbike taxis and private van and bus companies in order to turn a blind eye to legal infractions.

According to the public ministry, the gang, known as 'Friends Inc.', charged between R$30 (US$12) to R$2,600 (US$1,100). When police investigators raided the homes of one of the officers accused, they found R$287,000 (US$121,000) in cash. Rio has a long history of police extortion rackets; an investigation in 2006 resulted in the arrest of 75 serving police officers. In 2008, the former head of the city's civil police was jailed over the scheme.

Beltrame, however, insisted he still had confidence in the police. "If you look at the incidents of criminality, you will see that the numbers are good, we are on the right path. The investigations against the police officers are ongoing; if we receive new information, we will do what is necessary," he said. The overall commander of the military police in Rio, Colonel Luís Claudio Castro insisted that he did not feel "betrayed" by Fontenelle and that given his unblemished track record, he should continue to be considered innocent until proven otherwise.

Operation Lava Jato
Alberto Yousseff, the financier who helped to launder around R$10bn (US$4.24bn) in bribes paid to the state oil company Petrobras and then distributed them to the government's political allies, was jailed for 4 years and 4 months on 17 September. Meanwhile, Paulo Roberto Costa, the senior Petrobras executive who has been telling the police the names of some of the politicians involved in the scheme, chose to stick to his right to silence on 17 September when called to testify at the congressional inquiry into corruption at the state oil firm.

URUGUAY | POLITICS

Election campaign takes new twist

Just as opinion polls are suggesting that Luis Alberto Lacalle Pou, the presidential candidate of the centre-right opposition Partido Nacional (PN, Blancos), could deny the ruling left-wing Frente Amplio (FA) coalition a third straight term in power, a strange incident is threatening to damage his chances. At the tail end of last week Lacalle Pou was at the centre of an unedifying spat with Pedro Bordaberry, the leader of the second main opposition party Partido Colorado (PC), whose endorsement he would require to triumph in an inevitable second round run-off in November.

Uruguay's current affairs weekly *Búsqueda* reported a confusing incident on 11 September which prompted Bordaberry to accuse Lacalle Pou of trying to "bribe" his running mate Germán Coutinho, the intendant (governor) of the northern department of Salto. Coutinho apparently informed Bordaberry that he had received a phone call from Lacalle Pou appealing to him to tone down the PC's attacks on the PN in exchange for the PN voting for a trust to be set up for Salto which the intendancy is proposing for funds owed by the State. Bordaberry tweeted extensively about the episode. Lacalle Pou claimed he had been misrepresented and that while he expected some rhetorical fencing during the campaign the allegation of bribery was "very serious".

In the days leading up to this episode Bordaberry had shown that he was not simply resigned to finishing third, and decided to concentrate some of his firepower on Lacalle Pou. Bordaberry criticised the PN for abandoning its support for the plebiscite his party is organising to coincide with election day on 26 October on whether to lower the age of sentencing to 16 from 18 for crimes such as rape and homicide. He also criticised Lacalle Pou's proposal of a new 'prison law' to guarantee the separation of inmates according to the severity of the crimes they perpetrate.

This 'friendly fire' did not go down well with the PN, not least because it has been better targeted than some of the scattergun criticism of the PN by the FA.Lacalle Pou's inner circle made his displeasure known, pointing out that he and Bordaberry would need to sit down and talk after the first round of elections on 26 October to forge some form of deal ahead of November's run-off. It was at this point that the *Búsqueda* piece emerged, which a fuming Bordaberry corroborated.

Lacalle Pou insists the whole episode was a misunderstanding and that he had called Coutinho merely to find out more details about the proposed Salto trust before committing PN votes. Conscious that a sordid tale of political bribery would be detrimental to his candidacy, and that he would have to court the PC vote in a run-off against Vázquez, Lacalle Pou sought to nip it in the bud by visiting Bordaberry's house. How far this visit has defused tension is unclear. Bordaberry confirmed that the two men had looked into each other's eyes – but he did not say what he saw there. What is clear is that the murky incident will play into the hands of the FA, which has been wrestling with a number of corruption cases.

National guard

The national guard proposed by Luis Alberto Lacalle Pou would be dependent on the interior ministry, with jurisdiction across the whole country; a "highly trained and well-equipped force" to tackle crime hotspots. The mooted creation of this force is a clear response to public disillusionment with the government's failure to get a grip on rising insecurity in Uruguay. The national guard's size and the timescale for its creation are not yet clear.

Lacalle Pou finally tables campaign proposals

Meanwhile Lacalle Pou has sought to regain the initiative by presenting the PN's plan of governance this week. He is the last candidate to present his party's campaign proposals, a delay which the FA had used to depict him as a political lightweight with no clear policies or ideals and, as such, a dangerous liability to be at the tiller of State.

Lacalle Pou elaborated on the somewhat vague 'strategic guidelines' presented by the PN after its party convention on 26 July. He outlined 10 main proposals contained within a 187-page programme:

create a national guard;

eliminate the income tax for social security assistance (IASS) which, he said, would reduce the tax take by some 2%;

devote US$200m a year over 10 years to eliminate squatter settlements; increase family support for the poor through 'Plan Estamos Contigo'; enhance teacher training;

create autonomous budget oversight institutions;

provide incentives and bonuses for the most productive public sector workers;

de-politicise the diplomatic service;

and cut wasteful public sector spending, which the PN calculates could save as much as US$500m a year.

Lacalle Pou concentrated on public security (see sidebar) and education. He said he was prepared to give credit where credit was due and Vázquez's FA administration in 2005 had helped address a "social emergency" after the banking crisis of 2002, but he insisted that there was now an "education emergency" and a "public security emergency". He received loud applause when he said that the interior minister should be "the first policeman".

Peso sinking fast

First it was known as the 'Messi' dollar. The Argentine footballer's number 10 shirt became the slang term for the black-market rate for the dollar, as it rose above ten pesos. When it broke the threshold of 14 pesos to the dollar, Argentines joked the currency was now the 'Dolár Mascherano'. On 17 September, the peso traded at over 15 to the dollar. Now it's the 'Dolár Demichelis'.

On the streets of Buenos Aires, gendarmes have been out in force this week, in an attempt to suppress the illegal trade. While trading volumes in the city's 'caves', the traditional money-changing venues, appear rather thin, deals are now mostly being agreed over the telephone. The currency's fall follows a statement by the central bank, in which it admitted that its stockpile of foreign reserves had declined by US$184m on 15 September. The government now has just US$28.2bn in the bank. The fear is that the government could run out of dollars to pay its creditors and its import bill.

Axel Kicillof, the economy minister, said that there is no economic reason why the peso should be trading at such a rate. Instead, he hinted that other forces were behind its drop in value. "Nothing is coincidental," he said. "The rise in the 'blue' dollar [as the black market rate is also known], the vulture funds, the words of the United States embassy." Argentina's foreign ministry is currently engaged in a furious dispute with the US interim ambassador, Kevin Sullivan, after he questioned the value of Argentina raising its debt stand-off at the United Nations General Assembly.

Speaking to the financial news website *Cronista.com*, Francisco Mendonça, the director of the Grupo Hecke, said, "With the dollar over Arg$15, confidence in the economy has been completely lost, and as always happens, everyone tries to go back to the dollar." With the official rate at Arg$8.3 to the dollar, the spread between the two exchange rates is over 80%, but Mendonça argued all the market cared about was converting to the US currency, "the flight to quality". All the while, he said, "the government has been left without the monetary policy tools to tackle this."

Almost all forex analysts expect a second devaluation imminently, but the question is whether it can be handled as smoothly as the first, in January this year. In the wildly optimistic projections for the 2015 budget, which Kicillof presented to congress last week, he predicted a rate of Arg$9.45 to the dollar. Siobhan Morden, the head of Latin America fixed income at Jefferies Group LLC in New York, predicts a devaluation will happen after Christmas to avoid making imports more expensive before the holiday shopping period.

Contrary to most national and international observers, Kicillof's budget expects growth of 0.5% this year, with retail inflation of 21.3%. Next year the official growth forecast is 2.8% with inflation falling to 14.5%. "Argentina is heading towards a very solid medium and long-term scenario," Jorge Capitanich, the cabinet chief, declared following the presentation of the budget. As a result, the budget includes "no major tax rises or budget cuts" in 2015.

The government has a long track record of spectacular optimism over its forecasts, and it seems these latest statistics are no exception. The inflation statistics compiled by opposition-sympathising economists claim the rate for the last 12 months is just over 40%. Congress is due to vote on the budget in early October, but already several opposition politicians have attacked the credibility of Kicillof's figures. Fausto Spotorno, an economist at Orlando Ferreres y Asociados, described Kicillof's numbers as "improbable", noting that "soya prices are falling, employment is down, inflation is rising and eating into real wages… and then we have the default, which increases the cost of borrowing". A *Bloomberg* survey of 22 economists gave a consensus forecast of a 1% contraction in real annual GDP this year.

Trouble in December

Luis Barrionuevo, one of the leaders of the anti-government Confederación General del Trabajo (CGT), has predicted social upheaval in December, traditionally a month of political unrest in Argentina. As one of the organisers of the past two general strikes, it is not clear whether his prediction is clear-sighted analysis or a threat. Quizzed over his comments, Barrionuevo said President Fernández herself had forecast that if inflation were "really running at 25%, the country would explode".

MEXICO | POLITICS

'Grito' takes place amid federal-state power clash

President Enrique Peña Nieto delivered his second 'Grito' from the presidential palace on 15 September to mark Mexico's independence in a ceremony which was reproduced by mayors in the 2,457 municipalities across the country. The occasion is supposed to symbolise national cohesion. As such it was slightly ironic that it came just days after a public spat between the federal government and the governor of the northwestern state of Sonora, Guillermo Padrés Elías, over the serious toxic spill from the Buenavista del Cobre copper mine in the state last month.

On 9 September Padrés accused the federal delegates of the environment ministry (Sernamat), the federal environment attorney general's office (Profepa) and the national water commission (Conagua) of not having acted in time to avoid the damage from 40,000 cubic metres of copper sulphate acid spilt into the Bacanuchi and Sonora rivers from the mine, owned by Grupo México, on 6 August, which has affected 22,000 people, and thousands of hectares of crops and livestock [WR-14-34]. Padrés expelled the federal delegates from the emergency operations committee (COE), saying it was "time to call them to account". He went on to demand their replacement as they were *persona non grata*.

The presidential spokesman, Eduardo Sánchez, said Padrés's accusations were groundless and insisted that the naming and presence of the federal delegates in Sonora was the exclusive gift of the President, Enrique Peña Nieto, and not the state governor. The interior minister, Miguel Ángel Osorio Chong, also accused Padrés, a member of the right-wing opposition Partido Acción Nacional (PAN), of "totally unsubstantiated allegations" against the federal delegates. He also cancelled a meeting with Padrés scheduled for 12 September, saying that "the necessary conditions for a respectful and constructive dialogue" were lacking. Osorio Chong added that the federal government was doing what it should be doing and that it would behove the state government to do the same.

'Grito'
The 'Grito' dates back to 15 September 1810 when Father Miguel Hidalgo y Costilla, a priest in Dolores, Guanajuato rang a bell to call for rebellion against Spain. The same bell now hangs above the balcony of the national palace where the incumbent president re-enacts this symbolic event every year; governors in their states and mayors in their municipalities do the same.

A chastened Padrés hastily convened a press conference during which he recognised and thanked President Peña Nieto for his intervention and for the establishment of a trust fund of some M$2bn (US$150m) which the federal government won from Grupo México to cover the cost of the riverine clean-up operation. The fund is far bigger than a US$23m reserve that Grupo México had previously set aside for the clean-up. The giant mining company said the clean-up operation would be completed by 6 October.

Padrés had accused the federal delegates of seeking to undermine his administration by drawing attention to the fact that he has an unlicensed dam on one of the contaminated local rivers located inside his farm. The press ascribed his subsequent contrition to public disenchantment with his breach of the law and his apparent unwillingness to cooperate with the federal government, especially as the health ministry has now reported 16 cases of poisoning in Sonora from the contaminated rivers.

Padrés heaped more praise on Peña Nieto on 15 September during a joint press conference with the labour & social security minister, Alfonso Navarrete Prida, who arrived at the head of a special working commission sent by the federal government to analyse the extent of the damage. The commission will work with municipal presidents, representatives of the affected population and farmers and academics to discuss solutions to the disaster.

Mexico's love for tequila. The market for tequila, Mexico's emblematic alcoholic drink, has grown over the past five years with sales rising 7.9% from US$3.23bn in 2008 to US$3.49bn in 2013. This is the main finding of a Euromonitor International study which was released on 15 September. According to the study, over 94m litres of tequila were consumed in Mexico alone in 2013. Mexico's tequila exports are also booming, with total exports up 16% to US$568m in the first half of 2014 compared with the same period in 2013. China, Russia and the US have all taken a particular liking to the fiery beverage. Euromonitor also found that 'Cabrito' is the most popular brand of tequila in Mexico, followed by '100 Años' and 'Cazadores'.

TRACKING TRENDS

MEXICO | **2015 budget presented.** On 7 September Mexico's finance ministry (SHCP) presented its 2015 draft budget to the federal congress. In particular Finance Minister Luis Videgaray underlined the M$840bn (US$64.3bn) allocated to public investment. He said that the significant allocation of funds to public investment programmes was a "countercyclical stimulus" measure aimed at boosting economic activity in the wake of poor growth posted in the last couple of years. Despite this claim total public investment, which accounted for 23% of the M$3.63trn (US$276bn) of total planned expenditure, represents a real decrease of 4% on the M$874bn (US$66bn) allocated to this area in the current budget. The planned public investment for 2015 is heavily skewed towards the energy sector, which will receive M$410bn (US$31bn), almost half the funds allocated. Furthermore the four largest infrastructure projects planned by the government are all energy-based (and will all be managed by the state-owned oil firm, Petróleos Mexicanos [Pemex]) with M$53bn (US$4bn) earmarked for the development of the Ku-Maloob-Zaap oil fields, the largest investment project. Outside energy, social development received the next largest chunk of resources - M$204bn (US$15.5bn) - followed by transport & communications which received M$102bn (US$7.7bn), of which M$16bn will be used to build the international airport to be located near Mexico City [WR-14-35]. The government is also planning to invest a substantial amount in Mexico's rail network, expanding train lines in the metropolitan areas of Toluca, Guadalajara and Querétaro City. The energy, social development and transport sectors will receive 85% of the total expenditure in investment. Of the remaining funds, investment in the environmental sector accounts for 5.1% and remarkably only 2.2% will go to security. The planned increase in overall government spending comes despite a projected 7.1% fall in government income from the hydrocarbons sector this year due to both shrinking crude oil production (forecast to come in at 2.35m barrels per day by the end of 2014) and falling oil prices (down to US$82/barrel). Videgaray said the money spent on public investment, together with increased exports, will "consolidate and accelerate economic growth in an environment of stability and social inclusion". Despite such optimism, the official economic growth forecast for 2015 has recently been slashed to 3.7%, down from the 4.7% predicted in April. Yet this is still an improvement on the official growth rate of 1.4% reported for 2013 and the 2.7% projected for 2014. Annual inflation projections of 3% and a fiscal deficit of 1% were also included in the 2015 draft budget.

MEXICO | **Pemex looks to expand.** In a 15 September interview with the *Financial Times*, Emilio Lozoya Austin, the CEO of Mexico's state-owned oil firm Petróleos Mexicanos (Pemex), said that following the full approval of the energy reform promoted by the government led by President Enrique Peña Nieto, Pemex will now look to increase its oil exports to Asia. Since Mexico's federal congress approved the energy reform that ended Pemex's 76-year monopoly on oil production in Mexico and opened the door for greater private sector participation in hydrocarbons production last year, Pemex has been preparing to face private competition for the first time. Lozoya said that as part of this strategy Pemex, which already ships 5%-7% of its exports to Asian markets, will now look to capitalise on the growing demand for oil in Asia by seeking to boost exports to countries like India, China and Japan. Lozoya said that Pemex is well-positioned to do this thanks to Mexico's strategic geographical location on what he called the Pacific "trans-oceanic belt". According to Lozoya to achieve this, Pemex has already upgraded infrastructure used for transporting products to ports on Mexico's pacific coast. Pemex is also planning to invest a further US$4bn-US$5bn to increase the capacity of its oil pipelines. Lozoya's remarks followed the release of a new report by the Association of Southeast Asian Nations (Asean), which noted a 6.65% increase in trade between Asean member countries and Latin America in 2013. According to the report, Mexico was the Asean group's third largest trade partner with bilateral trade worth US$10.3m.

NICARAGUA | MINING

Ortega's mining push proves controversial

The mining policy of the Frente Sandinista de Liberación Nacional (FSLN) government led by President Daniel Ortega is proving contentious, serving to illustrate differences between Ortega's anti-capitalist rhetoric and his government's actions. Organised by the national mining chamber (Caminic) with the support of the energy & mining ministry and the national investment promotion agency (ProNicaragua), the first-ever international mining congress took place in Managua last month. While the congress was met with protests by environmentalists, anxious about the government's mining drive, the collapse two weeks later of a gold and silver mine, El Comal, which killed at least seven miners, is putting pressure on the government and fuelling calls to regulate the mining industry.

The growing importance of the mining sector is illustrated by the fact that gold overtook coffee to become Nicaragua's leading export in 2013, reaching a value of US$436m, or 17% of total exports (of US$2.6bn) on central bank figures. The value of gold exports rose 3% in 2013 thanks to a 38% jump in production to 309,960 troy ounces. This more than offset the decline in international prices last year.

That the expansion of the sector is set to continue was indicated in an April 2014 ProNicaragua press release which noted the opening "over the next three years", of La India, Nicaragua's fourth industrial gold mine. Owned by the UK's Condor Gold, the mine will be located close to the town of Santa Rosa del Peñón, in León. Gold mining activity is currently concentrated in three areas– the El Limón and La Libertad mines in the department of León (both owned by Canada's B2Gold) and the El Comal mine in the North Atlantic Autonomous Region (Raan), which is operated by Hemco, a Nicaraguan subsidiary of Colombia-based Minero SA. In February 2014, Caminic's vice-president, Denis Lanzas, told reporters that the mining chamber was forecasting a 10% increase in production in 2014.

While the 12-14 August mining congress was met with protests from hundreds of environmentalists in Managua, the collapse of El Comal, which took place on 28 August as a result of a mud-slide, has generated further concerns regarding the mining industry. According to government reports a total of 29 small-scale miners (known locally as *güriseros*) were trapped in the mine, 22 of whom were successfully rescued. Described by Caminic as "a disaster waiting to happen", the tragedy, one of the worst in the country in recent years, ups the pressure on the Ortega government to regulate the small-scale mining sector which provides some 15,000 jobs nationally.

Canal census

Mining is not the only issue causing concern among local communities. On 28 August, the Hong Kong-based HKND Group, which in June 2013 received the build-operate concession for the 'Gran Canal' inter-oceanic project, announced the start of the census aimed at surveying properties along the route. Local community leaders like Octavio Ortega, head of the NGO, Asociación de Municipios de Rivas, however, have told reporters that local property owners have complained of incidents of "intimidation" in relation to the process. Meanwhile an HKND statement circulated to the local press on 11 September raises the cost of the project to US$50bn, US$10bn more than the amount initially mentioned by the government. The HKND says that the project will begin in December and last five years.

Two days later, a member of the state-run Comisión del Gran Canal, Telémaco Talavera, announced that all technical, scientific and social feasibility studies as well as investments will be confirmed by 15 October. Talavera added that technical evaluations are being carried out currently by 28 teams led by experts from HKND, Nicaragua's Institute of Territorial Studies (Ineter), the tax authorities (DGI) and attorney general's office (PGR).

Jobs

On 8 September HKND held a meeting with Nicaragua's leading unions, including the Central Sandinista de Trabajadores (CST) and Central Nicaragüense de Trabajadores (CNT), after which the CST general secretary Roberto González said the process of constructing the canal itself would provide 50,000 jobs. He added that canal-related projects including the construction of a tourist complex, a free trade zone, steel and concrete factories, highways and an airport would create another 200,000 jobs.

TRACKING TRENDS

EL SALVADOR | **Increase in remittances.** On 17 September El Salvador's central bank (BCR) reported that remittances were up 8.1% year-on-year in the first eight months of 2014 to US$2.82bn, up a nominal US$211.4m. Remittances have been steadily increasing; the US$3.97bn sent back in 2013 was up 1.5% over 2012. The trend looks set to continue this year, with BCR figures showing consistent monthly increases all year. In August, the inflow was US$350.5m, up US$27.5m on the previous month. The BCR has credited this "rising trajectory" to "signs of dynamism" in the US economy, particularly falling unemployment, which has benefited Salvadorean nationals living there. On official figures, almost 3m Salvadoreans live abroad, of which 2.5m live in the US. The money they send back to their home country represents 16.4% of El Salvador's GDP. Similar increases in remittance flows have been reported across Central America during the eight month period, with Guatemala, Honduras and Nicaragua posting annual increases of 9.2%, 7.6%, and 6.5% respectively.

Panama debt

On 18 September Panama's Finance Ministry (MEF) reported that total public debt was US$17.7bn as of end-August, up 12.5% year-on-year from US$15.8bn at end-August 2013. According to the MEF, 25.4% (US$4.5bn) of the debt is internal, with 74.6% (US$13.2bn) external. Panama's public debt has been rising since 2009, when it was US$11.0bn. On 15 September the government issued US$1.25bn in 10-year dollar bonds at a base interest rate of 4%, its biggest issue in four years. Deputy Economy Minister Ivan Zarak last week said the government would delay US$650m of "high-risk" projects including a convention centre.

PANAMA | **Panama Canal gets US$400m injection.** On 15 September Jorge Quijano, the Panama Canal authority (ACP)'s administrator, announced that a US$400m loan to complete the Canal's US$5.3bn expansion project had been secured by Grupo Unidos por el Canal (GUPC), the main consortium in charge of carrying out the project. "This is going to help cash flow...keep independent contractors paid, and get the construction completed, Quijano said. He added that he did not anticipate "another delay between now and completion". The project was initially scheduled for completion in time for the Canal's 100th anniversary this year, but it has faced a number of delays due to a dispute between the ACP and the GUPC over US$1.6bn in cost overruns. The expansion is now expected to be finished in 2015, with the widened Canal expected to open in early 2016.

NICARAGUA | **Oil exploration contracts.** On 4 September Nicaragua's state-owned fuel-distribution company, Distribuidora Nicaragüense de Petróleo (DNP Petronic), signed two oil-exploration agreements with the European firms Geoex International (UK) and Statoil (Norway). The contracts were signed by DNP Petronic president, Francisco López, and the vice-presidents of Geoex and Statoil, Jean-Philippe Rossi and Torgeir Loland. López stated that the deal with Statoil involves a hydrocarbons study on Nicaragua's Pacific coast. According to Loland, "Statoil is very proud to work with DNP Petronic in contributing to the development and search for hydrocarbons in Nicaragua". The deal with Geoex, a London-based company that offers geophysical and geological investigation services, is for a 32,000 square kilometre (12,355 square mile) surface survey off Nicaragua's Pacific coast. Rossi said that Geoex would bring a range of seismic investigation equipment to gain a better knowledge of the local area geology and subsoil. He also expressed his gratitude to the government led by President Daniel Ortega for trusting the company in aiding the country's development. The contracts do not specify when work is expected to begin. Nicaragua is currently not an oil producer, but experts believe that conditions in sites off both the Pacific and Caribbean coasts could point to the existence of commercially viable hydrocarbons deposits.

COSTA RICA | **Moody's cuts Costa Rica to junk.** On 17 September Moody's Investors Service downgraded Costa Rica's sovereign bond rating to Ba1 from Baa3 and changed its outlook to stable from negative. Moody's cited the failure of successive governments to address Costa Rica's rising fiscal deficit (expected to reach 5.8% of GDP this year). The downgrade (to junk level) is a blow to the new centre-left Partido Acción Ciudadana (PAC) government led by President Luis Guillermo Solís, which took office in May and is urgently seeking to attract new foreign direct investment. Moody's noted that "several attempts in recent years to address Costa Rica's growing fiscal deficits and debt have not brought these levels lower. The new Solis administration…has indicated it will only gradually introduce fiscal consolidation….As a consequence of inaction, we expect [that] the current large fiscal deficits and increasing debt burden are likely to continue for the next few years. The fiscal deficit has averaged 4.5% of GDP since 2009, largely driven by spending growth, and is expected to reach 5.8% of GDP in 2014 and 6% next year. The high deficits have materially worsened Costa Rica's debt burden, with debt to GDP expected to rise close to 40% this year, compared to 25% of GDP in 2008". While Solís has recognised the need for fiscal reform, he insists he will only address it in second half of his four-year term.

Quotes of the Week

"The worst has passed, we have to look ahead."

Peru's new economy and finance minister, Alonso Segura.

"There are neither economic nor financial reasons why the dollar should be at 15 pesos; that's why the official rate is 8.41."

Argentina's economy minister, Axel Kicillof.

"This is the future Venezuela, which in the present is constructing the future, constructing the future everyday."

Venezuela's President Nicolás Maduro.

POSTSCRIPT

More misery for Brazil's Batista

Just over R$100m (US$42m) of the Brazilian-based assets of the business magnate Eike Batista have now been frozen, following a ruling on 16 September by Rio de Janeiro's federal court. Over the weekend, public prosecutors accused the former billionaire of engaging in market manipulation and insider trading, and filed a motion requesting the court freeze R$1.5bn (US$640m). Though both criminal offences, carry a possible jail sentence of up to 13 years, no one in Brazil has ever been jailed for such a crime. White-collar crime is still treated remarkably leniently in the country.

Prosecutors have accused Batista of deceiving the market with an unfulfilled promise to invest US$1bn in OGX, his oil firm, if shares fell to a certain level. Brazil's securities regulator, (CVM), has accused him of using insider information to generate profits. The prosecution had asked the Rio court to freeze assets, including bank accounts and real estate, belonging to Batista, his wife and his sons. Sérgio Bermudes, the lawyer who is coordinating Batista's defence from Rio de Janeiro, said his team would not contest this order because "he has very little money in his bank accounts, just enough for daily expenses."

For the man once listed as the eighth richest in the world, and who bragged often of his ambition to become the richest, the court ruling marks the latest way-station in his fall from grace. Heavily indebted and massively overstretched, Batista's oil, gas, mining and logistics empire depended on fulfilling the bullish projections he made for his firm's oil fields in Brazil; when these proved wildly optimistic, the business began to unravel. Though a high degree of schadenfreude has accompanied his downfall, Batista was a rare story of capitalist success in Brazil's energy market. His downfall has provided ammunition to those who welcome more State control over the sector.

It could prove extremely hard to convict Batista of either crime. However, Francisco Satiro, who teaches securities law at two of Brazil's elite universities, Fundação Getúlio Vargas and the Universidade de São Paulo, said that despite the likely difficulties for the prosecution, there was a chance that Batista could be convicted and end up in jail. "A judge will face a lot of pressure to condemn him," Satiro said.

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