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CONTENTS

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Receding pink tide in Latin America would leave radicals exposed

Venezuela's President Nicolás Maduro, Ecuador's President Rafael Correa, Bolivia's President Evo Morales and Nicaragua's President Daniel Ortega will be glued to events unfolding in Brazil and Uruguay on 26 October. Electoral defeats for the ruling left-wing parties in both countries would, at a stroke, leave Chile's President Michelle Bachelet as the sole representative of the moderate Left in the region and remove the buffer for the region's more radical leftist governments, above all Venezuela, at a difficult time when oil prices are falling.

The latest opinion polls suggest that the electoral contests in both Brazil and Uruguay are on a knife-edge. Brazil's President Dilma Rousseff, seeking re-election and a fourth straight term in power for the ruling left-wing Partido dos Trabalhadores (PT), is locked in a technical tie with Aécio Neves, of the right-of-centre opposition Partido da Social Democracia Brasileira (PSDB) heading into Sunday's second round contest (*see page 3*). Meanwhile, Uruguay's left-wing coalition Frente Amplio (FA), bidding to secure a third consecutive term under former president Tabaré Vázquez (2005-2010), faces a stiff challenge from the right-of-centre Partido Nacional (PN; Blancos), whose presidential candidate Luis Alberto Lacalle Pou is set to take Vázquez to a run-off on 30 November when polls show he would have an even-money chance (*see pages 5-6*).

Neves has been fiercely critical of foreign policy under PT administrations, which he claims subordinated pragmatism to ideology in Brazilian diplomacy, damaging the credibility of the Itamaraty foreign office. He argues that Brazil has been far too indulgent to Bolivia, especially over the expropriations of refineries owned by Brazil's state oil company Petrobras, and to Venezuela, which he maintains should never have been invited to join the Southern Common Market (Mercosur). Rousseff has actually been far less indulgent than her predecessor Lula da Silva (2003-2010) and less overtly supportive of the Bolivarian Revolution but despite a more strained relationship, she is still an ally.

Rubens Barbosa, Neves's top foreign policy adviser, says that Neves would ditch this ideology-driven foreign policy and the focus on South-South cooperation, giving equal importance to enhancing ties with the developed world, including getting relations with the US onto a better footing. Whether Neves would be more likely than Rousseff to condemn President Maduro explicitly over his handling of future social unrest is a moot point: Brazil's economy is faltering, and the country has a lot of economic interests at stake with Venezuela. But Neves would adopt a more critical tone in general and there would be no chance of Brazil buttressing regional declarations of support for

Regional isolation

When Venezuela's former president Hugo Chávez (1999-2013) was at the zenith of his power and influence, Colombia under then-president Alvaro Uribe (2002-2010) was isolated as the only right-wing government in the region. President Maduro would not be as isolated on the Left even if the PT and FA were bundled out of power but there would be no prospect of any special favours from Brasília or rhetorical support emanating from Montevideo. The importance of this is difficult to quantify but the Bolivarian Revolution is steeped in the discourse of regional solidarity and brotherhood – and this would begin to ring more than a little hollow.

Maduro, who is likely to become ever more desperate to secure these, with falling oil prices only set to compound Venezuela's economic difficulties, food shortages, high inflation and political uncertainty (*see page 9*).

A defeat for Rousseff would obviously be more keenly felt by Maduro given Brazil's size and influence but Uruguay, for all that it has a population smaller than the majority of Brazil's 26 states, is no geopolitical pipsqueak. President José Mujica is a veteran leftist guerrilla of considerable standing; his marijuana and abortion laws have brought Uruguay worldwide attention and no shortage of acclaim. While Mujica has on occasion been critical of the Bolivarian Revolution, for the most part his solidarity has helped to confer at least a degree of credibility on the process on the Left.

Mercosur upheaval

A defeat for the PT and the FA would completely change the complexion of Mercosur. Barbosa has said that Neves would have far less time for Mercosur, and could be open to pursuing a trade deal with the European Union (EU) unilaterally as well as closer ties with the Pacific Alliance trade bloc (comprising Mexico, Chile, Colombia and Peru), which President Morales has condemned as "a major conspiracy from the north to divide us". Lacalle Pou would follow suit. Indeed, if Lacalle Pou won but Rousseff retained power it might strengthen her resolve to relax Mercosur's internal rules on negotiating trade deals as a bloc despite Argentine opposition.

Argentina itself, under the heterodox left-wing model of *Kirchnerismo* since 2003, will shortly be under new leadership, however, with presidential elections this time next year spelling the end of an era and likely to usher in a more right-leaning government. Ecuador's President Correa recently warned about what he has dubbed "the conservative restoration" across the region [WR-14-39]. Correa argued that the Right had recovered from having been "stunned in the wake of the tremendous failure of neoliberalism and the surge of patriotic governments". He urged "progressive" movements region-wide to set aside their differences to confront a resurgent Right to ensure that none of the gains achieved by the Left are reversed.

Polarising politics is in Correa's interests but in fact one of the greatest successes of his government, and those of the 'pink tide', is to have shifted the political centre leftwards, changing the agenda and priorities of whatever government succeeds them, with more attention given to issues of social justice: Neves, for instance, had no choice but to promise to maintain the PT's Bolsa Família social welfare programme.

Pigeonholing governments is, of course, a vexed exercise. The Right had feared that Peru's President Ollanta Humala would lurch to the Left but he has pursued some of the most orthodox macroeconomic policies in the region, and faces criticism for failing to deliver on either part of his campaign promise of "growth with social inclusion".

In the same way it is all too easy to lump together the 'red tide' of radical left-wing governments - Venezuela, Bolivia, Ecuador and Nicaragua. While they are united in their anti-imperialist rhetoric; have resorted to differing degrees to nationalisations; and share some authoritarian tendencies and personalist (caudillista) political models; they are far from homogeneous. Morales was re-elected on another landslide on 12 October and has succeeded in winning plaudits from previously unimaginable quarters, such as the International Monetary Fund (IMF), for his government's sound economic management. Correa faces some difficulties in Ecuador as a result of falling oil prices (*see page 16*) but his pragmatic stewardship of the economy will help to weather these. In Venezuela, on the other hand, the result of the government's economic mismanagement is in evidence every time workers receive their wage cheques and enter a supermarket.

BRAZIL | POLITICS

Rousseff's momentum builds ahead of finale

Though still tied in the latest opinion polls, President Dilma Rousseff may be feeling marginally more confident of victory than her opposition challenger, Aécio Neves, ahead of the presidential run-off on 26 October. Not only have two consecutive Datafolha polls put her numerically ahead, but the surveys' results also show Brazilians feeling much more optimistic about the economy. A renewed confidence in Brazil's future prosperity undermines Neves's key argument that Rousseff is failing to fulfil Brazil's potential.

According to Datafolha's 22 October poll, 47% of the electorate intends to vote for President Rousseff, from the ruling Partido dos Trabalhadores (PT); while 43% plans on voting for Neves, of the Partido da Social Democracia Brasileira (PSDB). A further 6% plan on casting a blank vote; 4% are unsure. Neves's share of the vote has fallen three percentage points since 9 October while Rousseff's has risen three points. Over the past few weeks, Rousseff has steadily increased her support among women (from 42% to 47%); among those who earn between two and five times the minimum wage (39% to 45%); and in the south-east of Brazil (up from 34% to 40%)

Crucially, Brazilians are feeling more positive about the economy. In April this year, 64% of the electorate thought inflation would rise; in September that figure was 50%. Now, only 34% of Brazilians think that, despite the fact that in September inflation finally rose above the top of the government's target range, to 6.75%. On unemployment, 33% think it will stay the same (a record low of 5%), while 31% think it will go down further. Only 26% think it will go up. Overall, 44% think that the economy will get better; 33% think it will stay as it is. Only 15% think it will get worse. Brazil entered recession in the first six months of this year, and although the third quarter appears to have brought a modest recovery, growth for 2014 as a whole is predicted to be just 0.3%.

Neves's campaign will be hoping that a significant chunk of this optimism over the economy comes from PSDB supporters who are confident that their candidate will win and invigorate Brazil's sluggish economy. Though even on this metric, Rousseff has the edge: 82% of her supporters believe she will win, whereas 78% of Neves's voters are confident of his eventual triumph. As the second round has progressed, Neves's rejection rating has steadily risen under the brutal but highly effective PT advertising campaign, while Rousseff's has remained constant.

In his blog on *O Estado de São Paulo* on 22 October, columnist José Roberto de Toledo contemplated three imponderables: how will the undecideds vote; what will be the rate of abstention; and how much will voter error influence the result. In the first round of voting, 27% of the electorate either abstained or voted blank in the presidential contest. Given each voter was faced with five choices in the first round, and now has at most two (for president and governor), blank votes tend to be far fewer in number in the second. However, that limited choice also means the rate of abstention tends to go up, despite the fact voting is technically obligatory. Toledo also speculates that Rousseff may suffer more than Neves from voter error. The PT attracts a high level of support from the poorest and least well-educated, some of whom have difficulty with Brazil's electronic voting system.

Few opportunities remain for the candidates to affect the outcome. On 23 October, Ibope, another respected Brazilian polling firm, will release its latest survey. The last televised debate will be hosted by TV Globo on the following evening.

Transparência Brasil

Statistics released by the NGO Transparência Brasil show that 19 of the 28 candidates running in the second round for state governor are currently facing lawsuits for charges ranging from corruption to financial irregularities to illicit enrichment. In five states, both of the gubernatorial candidates are under investigation.

São Paulo's water crisis worsens

A survey published by the pollster Datafolha on 20 October showed that 60% of the residents of São Paulo state have now suffered some water shortage over the proceeding 30 days. In three-quarters of the cases, the cut lasted for at least six hours. Almost nine out of ten *paulistas* think São Paulo city is running a serious risk of long periods without water. São Paulo state's water company, Sabesp, has taken to offering further financial incentives to clients who save water.

Reservoirs low

In the Cantareira reservoir, the largest in the state, water levels had fallen to just 3.2% of capacity by 22 October. The levels continue to fall despite an increase in rainfall over the past week. What is left in sediment-filled pools at the bottom of the water system is known as the "dead reserves". Sabesp has now built an extra 3km of piping in order to drain this supply. Vicente Andreu, the president of the national water agency (ANA), described this development as a "pre-tragedy".

Meanwhile the second-largest reservoir in the state, the Alto Tietê, has fallen to 8.5% of its capacity. However, Sabesp fears that without further rainfall, it could empty in just two months, faster even than the Cantareira. Rainfall for the year has been below average in every month, bar September. So far this month, accumulated rainfall is less than 19% of that expected. October is usually the start of the rainy season in São Paulo. It is the worst drought in eight decades in the state.

Playing politics

With over 40m people, São Paulo has more voters than any other state. The drought has therefore become a key topic in the presidential campaign, in which President Dilma Rousseff from the Partido dos Trabalhadores (PT) is neck and neck with Aécio Neves, from the Partido da Social Democracia Brasileira (PSDB). Curiously, Geraldo Alckmin, the PSDB governor of the state, was re-elected in the first round of voting on 5 October, despite the looming crisis. Now Rousseff has claimed that Alckmin refused the offer of federal assistance. Neves, in turn, has accused the ANA of failing to help because it is a tool of the PT.

Andreu, who served as secretary of water resources under Rousseff's predecessor, Lula da Silva (2003-2010), criticised the state government's handling of the water crisis, saying officials have failed to communicate with water regulators on key issues. "Sabesp's responses have been small, they should already have taken huge steps," Andreu said, adding that he told the state's water secretary in August that "we can't keep this up; we're not alerting the population to the seriousness of this situation."

In a radio interview on 21 October, Alckmin said that Sabesp's capacity to tap the dead reserves, plus the possible use of a "third technical reservoir" (he declined to offer further details) would keep the situation under control. "People can rest easy," he said, "all possible measures are being taken."

Meanwhile, Sabesp is attempting to stanch the outflow of its supply by incentivising customers to reduce water usage. In September, the company paid a bonus to 49% of its clients who managed to reduce their consumption by 20% or more. Now it is offering a 10% discount to customers who managed to reduce their usage by 10%; a 20% discount for a reduction in the range of 15% to 20% and 30% off for those who save over 20%. So far this year, stocks in Sabesp, Latin America's largest publicly traded water company, have fallen by 27%.

Drinking water price rises

The price of mineral water and soft drinks in São Paulo state has risen over 10% between January and September, according to the official inflation index (IPCA), much more than the nationwide average of over 6.2%. Representatives of the Brazilian mineral water association say the price increase is not related to the water shortage, but to increased production costs.

Ruling FA looks rattled heading into elections

Of all President José Mujica's eye-catching interventions in the campaign leading up to general elections on 26 October the most surprising, and potentially the most damaging, came just days before the contest. On 21 October Mujica publicly took issue with the presidential candidate for his ruling left-wing Frente Amplio (FA) coalition, former president Tabaré Vázquez (2005-2010), over the marijuana law and his economic management. It is not the first time Mujica has aired his differences with Vázquez but to do so at such a pivotal point in the campaign in public exposed the divisions within the FA, which have become more marked as the elections have approached and Luis Alberto Lacalle Pou, the presidential candidate of the main opposition Partido Nacional (PN; Blancos), has grown into an increasingly formidable rival.

In an interview with the weekly magazine *Búsqueda* last week, Vázquez said it was "incredible" that marijuana would be sold in pharmacies during his term in office if he wins the forthcoming elections, "but if the law authorises it, that's how it will be". In response to a leading question about there being "two economic teams" in the present government, Vázquez also said that during his five-year term there would not be two teams and there would never be any doubt over who was in charge of economic policy.

Vázquez's implicit criticism of the Mujica administration was a bit tactless, but Mujica was goaded into the sort of testy response normally reserved for the opposition. "His problem," he responded curtly to Vázquez's remarks on the sale of marijuana in pharmacies. On the issue of economic policy, Mujica said "Vázquez is wrong; I don't have two economic teams in my government; the Frente Amplio isn't a pen of corralled people but an open organisation in which everyone can express themselves".

Mujica has certainly expressed himself during the campaign and largely to the detriment of the FA. Directing friendly fire at Vázquez just days before the elections merely lent credence to the opposition's claims that the FA has grown increasingly divided, leading to incoherent policymaking and the national interest being subordinated to party wrangling. Mujica has also looked erratic in his previous interventions, especially his dramatic U-turn on Guantánamo [WR-14-41].

Mujica conceded in an interview on 17 October that he regretted not having achieved more in improving education, one of the areas where the opposition has concentrated its attacks on the FA, along with security, the principal public concern in opinion polls. Mujica argued, however, that his government had made "a colossal effort" on security, significantly boosting salaries for the police and improving prisons. He also sought to deflect some of the responsibility for an increase in insecurity over the last decade onto the opposition by arguing that Uruguay's 2002 economic crisis had resulted in social dislocation and had "twisted" many youths. "When a tree grows twisted, it is very difficult to straighten it out when it has grown," Mujica said.

Mujica went on to argue that the last two FA administrations had restored economic growth, put in place various social initiatives and provided opportunities for marginalised youths to reduce the appeal of crime but a solution would only come in "the medium term". The opposition Partido Colorado (PC; Colorados) is looking for a solution in the short-term by having successfully arranged for a plebiscite to be held in tandem with the general elections on 26 October on whether to reduce the age of sentencing from 18 to 16 for crimes such as homicide and rape.

Cause for Mujica's impeachment

One of the opposition Partido Nacional's most outspoken deputies, Pablo Abdala, claimed on 17 October that President Mujica should by rights face impeachment for violating the constitution with his constant interventions – but the opposition lacked the votes to pursue it. Mujica primly responded that he had a right to speak out, arguing that the constitution only barred him from directly participating in party political activities not from expressing his political viewpoints.

Railway investment

The Basque company Euskotren came close to reaching an agreement to revamp Uruguay's ailing rail network in 2012, and two Chinese companies also proposed development plans but this all fell through as the government focused its investment in other sectors of the economy. President Mujica singled out as his government's greatest success the reduction of Uruguay's "enormous dependence" on the region, arguing that it had now become "much more diversified", but without significant investment in the country's transport infrastructure the competitiveness of Uruguay's extra-regional exports will steadily decrease.

Opinion surveys suggest that the PC presidential candidate, Pedro Bordaberry, has won over the majority of undecided voters in Uruguay, climbing from 11% to around 17% in the polls. This is significant because all of the national opinion pollsters point to a second round on 30 November when Bordaberry's vote would migrate to Lacalle Pou, who is polling around 31%. Vázquez, who is polling around 42%, would win the majority of voters who back Pablo Mieres of the left-leaning Partido Independiente (PI), who is polling 3%, producing a very close second round contest. While Vázquez still has a decent chance of winning election, the FA looks likely to lose its slim majority in both the lower chamber of congress and the senate.

Whatever happened to the railways?

One of the 10 priorities in the Frente Amplio (FA) campaign literature is to give a massive boost to the national railway system, estimating the need for some US$1bn of investment. The trouble is the FA has been promising to overhaul the railways since it came to power in 2005 but last year the total tonnage transported on the railway network was at the same level as 2002, in the midst of the country's economic crisis. Only Albania comes below Uruguay in the World Economic Forum's Global Competitiveness Index (CGI) for quality of railroad infrastructure in which it finishes in 103rd place.

But there is real pressure on the incoming government to improve transport infrastructure in general as getting increasing volumes of products like soya, cellulose and meat to ports is providing an ever greater logistical challenge. Last month President Mujica visited Finland to discuss the construction of another pulp mill by UPM but the Finnish company responded that without an improvement in infrastructure it was not interested in making any further investments in Uruguay.

ARGENTINA | INFRASTRUCTURE

First Latin American satellite launched

Argentina has become the first Latin American country to build and launch its own geostationary satellite. The Arsat 1, built by the state-run firm Investigaciones Aplicadas (Invap), was launched from the Kourou spaceport in French Guiana on 19 October. Take-off was broadcast live on television and radio across Argentina, with President Cristina Fernández apparently supervising the launch from the Casa Rosada. The satellite cost around US$270m, but should eventually save Argentina US$25m a year in rental fees to foreign states for telecommunication services. As Fernández's stage management of the event showed, in terms of political capital, the return was immediate.

Seven years in the making, the Arsat 1 was designed and built by Invap in the southern city of Bariloche. According to Héctor Otheguy, the general manager of Invap, the launch went better than expected, and the satellite is due to begin working in a few days' time. When in operation, the satellite will strengthen Argentina's internet coverage, mobile phone and digital terrestrial television network, as well as improving audio-visual content distribution from Argentina to the rest of Latin America and the US. It should have a working life of around 15 years. Arsat 2 and Arsat 3 are already in development, with Arsat 2 "70% complete", according to Fernández.

Argentina invests around 0.57% of GDP in its telecommunications infrastructure, down from the over 1% it invested during the 1990s, but still more than Brazil, Colombia and Mexico. However, Argentina's investment in research and development, at 0.65% of GDP, is the second highest level in Latin America.

Fernández spoke of her "great pride" that Argentina should join the select club of nations with their own satellite. "It was made entirely from Argentine technology, by Argentine professionals," she said. (The president of Arsat admitted to the press afterwards that at least half of the components of the satellite were imported.) Fernández said that the investment in the satellite was a question of national sovereignty. "The UK was behind one of the two orbital positions that Argentina could retain for its satellites," she warned.

Political capital

The satellite project was initially approved by Fernández's late predecessor and husband, Néstor Kirchner (2003-2007), and she used the occasion of the launch to take a swipe at her opponents. "They said the space programme was a waste of money and that the scheduled launch for 2014 was a delusion," she said. "Now they can see it was not".

Earlier in the week, two opposition candidates who are likely to challenge her chosen successor for the presidency, Mauricio Macri and Sergio Massa, indicated they would revoke a number of Kirchner-era laws were they to win. After the launch Fernández pointedly told Argentines, "I am certain that satellites cannot be revoked."

Cracking down on the 'blue dollar'

On 21 October police raided 12 money exchange offices to verify their compliance with current regulations on currency swaps. The raid had an immediate effect on the 'blue dollar' rate (the black market price for US dollars), which fell by 25 cents. The official exchange rate is Arg$8.5/US$1, while the black market rate is Arg$14.70/US$1.

Tough on crime

The government has announced a number of last-minute changes to its proposed penal code bill. Speaking on 21 October, President Cristina Fernández excoriated judges for releasing prisoners. "We do not want criminals who are arrested and then are released. We want them to be remanded in custody and we want the judiciary to take into account the shock to society their crimes caused," she said.

Courts will now be allowed to keep them in preventive custody if there is a risk of "social commotion". Another headline-grabbing move is the fast-tracking of the deportation of foreigners convicted of a criminal offence.

With the government's latest alterations, it appears the more liberal overhaul of the criminal code conducted earlier this year by the recently deceased supreme court judge Enrique Petracchi has now been swept aside in favour of a more populist, tough-on-crime approach.

The opposition claims that one of the new proposals, which places time limits on corruption investigations, is designed to protect officials accused of misdemeanours.

CHILE | POLITICS

Politicians embroiled in campaign finance scandal

President Michelle Bachelet has emphatically rejected any illegal financing of her re-election campaign in 2013. Bachelet's public comments last week followed several days of finger-pointing by politicians, primarily on the Right, embarrassed by the scandalous allegations of illegal campaign contributions made by the investment bank Penta. The Bachelet administration is promising a new law to make campaign financing more transparent. While both congress and the judiciary have launched parallel and overlapping investigations, the episode has merely reinforced the public perception of politicians as untrustworthy, deceitful and self-interested.

'Pentagate', as it has rapidly become known, materialised in late September when the newly created Fiscalía de Alta Complejidad (prosecutor's office for high complexity) [WR-14-39] began investigating Penta for tax evasion. A former executive at Penta, Hugo Bravo, who is fighting a legal case for wrongful dismissal, subsequently revealed that the banking group had financed electoral campaigns, especially of politicians from the conservative Unión Demócrata Independiente (UDI) but also Bachelet's former finance minister, Andrés Velasco (2006-2010), who ran as an independent in the last elections. It allegedly did so with money from phantom business transactions for which they filed fake invoices in order to reduce taxable income and evade the electoral law on campaign finance.

Chile’s tax agency (SII) presented a legal request to investigate alleged irregular campaign financing by Penta on 8 October. The lower chamber of congress agreed to form one investigative committee for the Penta case and another to study the entire system of political campaign financing. Then, on 13 October the Partido Socialista (PS), part of the ruling coalition Nueva Mayoría, presented charges of aggravated bribery and lack of administrative probity before a court in Santiago against public officials implicated in ‘Pentagate’ (*see sidebar*).

The UDI immediately accused the government, through Bachelet’s PS, of seeking to unduly influence the legal proceedings; politicians from other parties in the Nueva Mayoría also expressed unease, arguing that the judicial investigation should run its course without any political involvement. The UDI, under intense pressure after Bravo’s remarks, demanded that several cabinet ministers who participated in Bachelet’s campaign appear before the congressional investigative committee to face questions about sources of financing, including the cabinet chief, Rodrigo Peñailillo; the labour minister, Javiera Blanco; the government spokesman, Alvaro Elizalde; and the finance minister, Alberto Arenas.

Bachelet parried the UDI’s thrusts by claiming that her government “is not intervening in any way [in the judicial investigation] for any political objective”, and that the prosecutor’s office would have total autonomy. She also insisted that “All the contributions to my campaign were approved by Servel [the electoral authorities],” adding that “I cannot tell you who gave me anonymous contributions because I don’t know but in my campaign there was not one single illegal peso.”

The very fact that private companies can make anonymous contributions in Chile, however, raises transparency concerns and is likely to be redressed. Elizalde has promised to send to congress in the coming days a law “regulating more strictly not just campaigns but also all political activity”. The secretary general to the presidency, Ximena Rincón, said on 18 October in an interview with the national daily *El Mercurio* that outlawing anonymous contributions would be one of the main aspects of the bill sent to congress. Rincón, somewhat disingenuously, also denied that the planned bill had any relation to the Penta case.

Divided opinion

The president of the Partido Socialista (PS), Deputy Osvaldo Andrade, justified filing the lawsuit in the Penta case on the grounds that “serious institutions” (read congress) should get involved in the legal process rather than “looking on from afar”. But the head of the senate bloc of the more centrist Democracia Cristiana (DC), Jorge Pizarro, questioned the sense of the lawsuit, arguing that keeping the judicial and political investigations entirely separate conferred greater credibility on the whole process. The fact that the Nueva Mayoría has not united to exploit the UDI’s discomfiture suggests that there may be some unease about campaign financing within the ruling coalition, especially as Andrés Velasco, President Bachelet’s former finance minister (admittedly running as an independent) has also been ensnared in the scandal.

TRACKING TRENDS

PARAGUAY | **Oil discovery.** Seventy years after the first well was drilled in Paraguay, the country’s first major oil discovery was announced in the Pirity basin in the western Chaco region by the British company President Energy on 20 October. The company said its Lapacho well may hold about 200m barrels of conventional light oil, and that it should be able to confirm through testing whether it is commercially viable by the end of November and begin first phase production as soon as next year.

“Whilst we are most satisfied with this discovery, President is now focused on drilling down to the original target [the underlying Devonian Santa Rosa Formation] which still lies in front of us,” the executive chairman of the London-listed company, Peter Levine, said. On the grounds that this discovery supports the presence of liquid hydrocarbons in the deeper sandstone reservoirs in the area, President Energy will also now re-enter its nearby Jacaranda well, which it suspended last August having drilled to a depth of 4,500m. Last January the company revealed that an independent audit of three of its concessions in Pirity had confirmed the existence of potential oil reserves of 1bn barrels.

The government of President Horacio Cartes has made clear that it would construct a refinery to process extracted crude to satisfy local demand of around 27,000 barrels of oil per day. This would help to reduce Paraguay’s US$1.7bn import bill for oil derivatives.

VENEZUELA | ECONOMY

Keep calm and carry on

In just six weeks, the price of Venezuelan oil has dropped by 16% - from US$92.6 per barrel on 5 September to US$77.7/b in the week of 13-17 October. Things are moving quickly in the wrong direction for the country, but the government is sticking to its line that everything is fine.

Presenting the 2015 budget on 21 October, Finance Minister Rodolfo Marco Torres said the treasury was prepared for "whatever scenario that presents itself with the price of oil". That scenario, to even the most casual observer, is one of a big oil shock that Venezuela - despite the government's protestations - is ill-equipped to absorb. This is a new era for Venezuela, which after a decade and a half of 21st Century Socialism still relies on the 'devil's excrement' for 97% of the country's export earnings and 40%-45% of fiscal income. President Nicolás Maduro might insist blithely that the country can live with oil at US$40/b, but right now much of the evidence suggests otherwise. Some private economists recently put the breakeven price for Venezuela at US$121/b.

The latest budget assumptions suggest that treasury officials are heads-in-the-sand or perhaps guns-to-their-heads (metaphorically speaking, of course). The US$117.7bn plan, up 35% in annual terms, uses the main official exchange rate of BF6.3/US$1 and is based on an oil price forecast of US$60/b in 2015, unchanged on the 2014 budget. The left-wing government for years has used an artificially low oil price assumption so that it then can spend the 'windfall' generated by above-budget oil income at its discretion (and without accountability to the legislature).

However, the Venezuelan oil basket is trading perilously close to the 2015 budget figure. Bank of America analyst Francisco Rodríguez has calculated that a drop in international crude prices to US$80/b (or roughly US$75/b for the Venezuelan basket), would reduce Venezuela's oil export revenues by about US$10bn in 2015, from an estimated US$75bn in 2014, a fall of 14%. And with global supplies set to outstrip demand in the near (and medium) term, the future price direction is pointing firmly down. Tellingly, Maduro has called for an emergency meeting of the Organization of Petroleum Exporting Countries (OPEC) - a request yet to be accepted.

Torres forecast real annual GDP growth of 3% next year, which might technically be possible, depending on the depth of this year's recession (some estimates go as low as -4.5%), but will not mean a 'recovery' in any sense for the vast majority of Venezuelans. Likewise, he pencilled in inflation of 25%-30% (the IMF projects average inflation of 63% next year), even as he admitted that the budget deficit this year is 17% of GDP. The only way around that is to devalue and/or monetise it by printing reams of local currency Bolívares. Either option means inflation. There was no mention of devaluation, but it seems almost inevitable. Neither was there any mention of a reduction in the country's lavish fuel price subsidies (amounting to US$12bn-US$15bn a year, on official estimates) – but again, some sort of recalibration seems unavoidable.

The markets remain sceptical

Yields on Venezuelan bonds have hit a five-year high of 17.87%, as investors demand ever more of a risk return to hold the sovereign debt. And the country's five-year credit-default swaps, already the highest in the world, hit a five-year high of 19.89 percentage points the day of the budget presentation, according to *Bloomberg*, implying a 75% chance of default within five years. Venezuela has US$17.6bn in debt service due on bonds in the next three years: US$5.9bn in 2015; US$4.7bn in 2016; and US$7bn in 2017.

External debt

Finance Minister Rodolfo Marco Torres repeated that Venezuela has full capacity to service its external debt. The state oil company Petróleos de Venezuela (Pdvsa) has US$3.0bn in bond payments due on 26 October (and has the liquid reserves to pay). Unusually, Venezuela paid US$1.6bn on 8 October to service its Global 2014 bond, from its (already-scarce) central bank (BCV) foreign reserves. Normally, the treasury makes these payments by drawing down US dollars from its external accounts, rather than purchasing foreign currency at the time of payment. The amortisation left the BCV's liquid reserves at an estimated US$300m - two days of import cover.

Latest results

On 18 October, with 99.8% of the vote counted, the president of the supreme electoral court (TSE), Wilma Velasco, officially declared President Evo Morales the winner of the 12 October presidential contest. According to the TSE's latest results, Morales, of the Movimiento al Socialismo, took 61.04% of the vote followed by Samuel Doria Medina (Unidad Demócrata) on 24.49%. Third, with 9.07% was former president Jorge 'Tuto' Quiroga (2001-2002), of the Partido Demócrata Cristiano (PDC), with 9.07%. In fourth place, with 2.72%, was the former La Paz mayor, Juan del Granado (Movimiento Sin Miedo), while Fernando Vargas, of the Partido Verde de Bolivia (PVB), came last with 2.69%.

Electoral authorities under fire

While few would dispute President Evo Morales's thumping electoral victory on 12 October [WR-14-41], the performance of the national electoral court (TSE) is coming under fire – not just from the political opposition but also Morales's own party, the Movimiento al Socialismo (MAS). These concerns are likely to intensify given regional and municipal elections scheduled for next year.

On 18 October the TSE president, Wilma Velasco, felt compelled to offer a public apology for the various delays in presenting the final electoral results, which have still yet to be released. Velasco's apology was in response to criticism from various sectors. The 62-member observer delegation from the Organization of American States (OAS) found "the tabulation, transmission, and dissemination of results were extremely slow, stemming from a series of technical and procedural difficulties". On 15 October a national legislator for the MAS, Galo Bonifaz, announced the congressional justice committee would ask the TSE to provide a report explaining the delay in the release of the election results.

Having initially said that the results would be made available on 22 October, 10 days after the vote, Velasco has since been forced to push back the date due to the fact that fresh elections are to be held on 26 October in two communities in the eastern department of Santa Cruz. This, after irregularities were reported on election day.

Meanwhile the TSE is likely to come under further pressure after the MAS called for the two legislative seats won (in total) by the opposition parties, Movimiento Sin Miedo (MSM) and Partido Verde de Bolivia (PVB), to be reassigned. The MAS is basing its demand on the fact that the MSM (which won 2.72% of the vote on the TSE's latest results – *see sidebar*) and the PVB (which looks to have received 2.69%), both fell short of the 3% plus one of the vote necessary for parties to retain their legal status.

This has set off a major row due to conflicting provisions in two pieces of electoral-related legislation, both of which are in effect. The 1999 'Law on Political Parties' (approved under the administration led by President Hugo Banzer Suárez [1997-2001] states (art. 47) that cancelling a party's legal status does not mean that successful candidates elected on that party's ticket should lose their seat. However the 2010 electoral code (approved under the Morales administration) states that only parties who receive more than 3% of the vote can be assigned seats.

Moving on judiciary-related concerns

The doubts which have emerged over the TSE's ability to stage the 2015 municipal and regional elections takes place amid more general concerns regarding the state of the judiciary. This emerged as a key campaigning point for all the political parties ahead of the elections on 12 October.

While the MAS government has yet to indicate any sign of moving on its manifesto pledge to hold a referendum in order to ask the public what to do about the judiciary, in the immediate term there have been signs of progress vis-à-vis efforts to address key complaints like inefficiency which have resulted in a backlog of cases.

On 16 October, four days after the election, the senate ratified a bill which had already been approved by the lower chamber in August, that seeks to improve the efficiency of the judiciary by getting rid of things like collective holidays for judges and the use of so-called 'citizen judges' in sentencing courts. Eight days earlier, Justice Minister Sandra Gutiérrez had said that the ministry was drafting a short law which would punish judges and prosecutors who deliberately fail to comply with the deadlines for processing cases. Meanwhile at the start of the month, the supreme court of justice (CSJ) launched a "justice decongestion plan" which assigns extra judges to the three biggest departments - La Paz, Santa Cruz and Cochabamba - in order to tackle pending cases.

TRACKING TRENDS

BOLIVIA | **Drilling new gas wells.** President Evo Morales inaugurated the perforation of a new natural gas well by the state-owned oil firm, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), in the Chapare area of the central department of Cochabamba on 14 October. The drilling of the 'Bulo Bulo 16' well is being carried out by one of the three new Chinese-made drills recently purchased by YPFB (for a total of US$60m) as part of its efforts to boost exploration and production activity.

Also present at the event was YPFB president, Carlos Villegas, who explained that YPFB-Chaco, a YPFB subsidiary, will be in charge of the operation as well as the drilling of three other wells: San Miguel 1, San Miguel 2 and Bulo Profundo that will help YPFB's efforts to explore new hydrocarbon deposits.

Recently YPFB put Bolivia's proven natural gas reserves at 10.45bn cubic feet, which the firm estimates would allow it to supply its domestic and export markets for the next 12 years. But YPFB is keen to expand both its production and reserve horizons. As for Bulo Bulo 16, Villegas said that the 2,000 metre deep well will allow YPFB to exploit the proven natural gas reserves at the Arenisca Cajones formation and the probable reserves at the adjacent Arenisca Yantata formation.

It is estimated that natural gas production could increase by up to 80m cubic feet per day once Bulo Bulo 16 comes on stream. President Morales celebrated the fact that the new well was being drilled by YPFB's own equipment as opposed to leased equipment, pointing out that these should allow YPFB's exploration plans to move along more rapidly.

Indeed, Morales urged the firm to speed up its exploration efforts, lamenting the fact that these are often delayed by the "legal concerns" expressed by officials. "The legal aspect is important...but sometimes it seems that our hands are tied by legalities. In fact, I push ahead with small and medium sized projects even if they are illegal, and afterwards lawyers can legalise it," Morales said, exhibiting, not for the first time, his somewhat cavalier attitude to the rule of law when it comes to promoting investment.

PERU | **Peru's growth forecast slashed.** Peru's central bank cut its forecasts on 17 October for economic growth in 2014 and 2015, citing weak output from some of the country's biggest copper mines and a continued lull in domestic private sector activity. In a quarterly report, the central bank slashed its prediction for GDP growth this year from 4.4% to 3.1%. It also forecast that GDP growth would be 5.5% in 2015, down from a previous estimate of 6%. The International Monetary Fund (IMF) only cut its Peru forecast to 3.6% but expects a rebound to a slightly lower 5.1% next year. GDP growth was 5.8% in 2013.

Peru - growing trade deficit

In its quarterly report Peru's central bank estimated that the country would post a trade deficit of US$3bn this year, compared with just US$40m last year, with exports expected to total US$37.9bn (down from US$42.2bn in 2013) and imports predicted to amount to US$40.9bn, down from US$42.2bn in 2013.

The central bank's downward revisions suggest that record public investment will not be enough to rescue growth this year. Days earlier the economy & finance ministry (MEF) reported that executed public investment (mainly in infrastructure) had reached a record PEN19.1bn (US$6.5bn) in the first nine months of the year, up 5.8% on the equivalent period in 2013 (PEN18bn, US$6.2bn). Local governments led the way, with executed investment of US$2.87bn, followed by the national government (US$2.1bn) and regional governments (US$1.4bn). Local and regional authorities had electoral reasons to ensure investments were completed this year.

While the MEF noted "constant and dynamic growth" in public investment, this stimulus comes too late to rescue fully the faltering economy. In its latest report Scotiabank put third quarter economic growth at just 1.7%, albeit it noted that a rebound looked visible in September, notably led by an 8% spike in public investment (after three months of decline).

MEXICO | POLITICS & SECURITY

Iguala crisis drags on, spreads

Despite the mounting domestic and international pressure, Mexico's federal authorities do not appear to be any closer to finding the 43 trainee teachers that disappeared from the town of Iguala in the state of Guerrero on 26 September. But what the major federal investigation launched into the case has managed to do is expose the extent of the political and public security deficiencies that allowed such a crime to be committed and for the perpetrators to remain at large. Problematically, the findings suggest that these issues are not just confined to Iguala and surrounding areas in Guerrero but also municipalities in other states.

The federal authorities became involved in the Iguala investigation as soon as the town's mayor, José Luis Abarca, was accused of being behind the disappearances, working in collusion with the local criminal organisation, Guerreros Unidos. A number of municipal police officers have been implicated in the abduction of the students and of delivering them to Guerreros Unidos. The federal security forces were immediately deployed to Iguala to disarm the municipal police force and take control of the town.

The federal attorney general's office (PGR) then stepped in, arresting some of the municipal police officers, and issuing arrest warrants for Abarca, his wife, María de los Angeles Pineda, and his security minister, Felipe Flores, all of whom have gone on the run. Although numerous bodies have been found in at least a dozen mass graves discovered in and around Iguala, until now the PGR has been unable to identify any of them as belonging to the disappeared, leading to public demands for the authorities, state and federal, to do more to find them as quickly as possible.

Faced with such pressure, both the state and federal authorities have been trying to show that they are not dragging their feet. On 16 October the left-wing Partido de la Revolución Democrática (PRD) governor of Guerrero, Angel Aguirre Rivero, who is facing calls to resign, announced that he had sacked his health minister, Lázaro Mazón Alonso, so that his links to Abarca could be investigated. The announcement came after the local media identified Mazón as Abarca's political patron. According to local press reports Mazón, a former PRD federal senator (2006-2011) and Iguala native, played a significant role in propelling Abarca to the mayoralty (one of Mazón's brothers happens to be Abarca's deputy). Mazón has not been directly implicated in the Iguala disappearances but there was intense speculation that he could be using his position in the state government to protect Abarca.

Aguirre is keen to put paid to any such speculation. The governor said that he asked Mazón to step down to dispel any doubts over his government's efforts to solve the Iguala case. He added that state law enforcement agencies have clear instructions to arrest Abarca, Pineda and Flores; and that he has ordered the launch of an impeachment process against Abarca in the state congress. Aguirre then called on the protestors to ensure that the demos remain peaceful and to work with his government to resolve the crisis. Mazón's dismissal was clearly intended to show that the Aguirre government is not hindering the Iguala investigations in any way, but it raised concerns that the state government may have been infiltrated by organised crime itself.

Gendarmes get involved

On 19 October the head of Mexico's newly created national gendarmerie, Manelich Castilla Craviotto, revealed that the force had launched a major search operation in three areas around the towns of Iguala and Cocula to look for the missing trainee teachers. According to Castilla, the gendarme contingent has set up a permanent control centre in Iguala from where the search operation, which involves mounted officers, canine patrols and divers, are being coordinated.

Crisis spreads

The PGR wasted no time in summoning Mazón to provide any information he may have about the Iguala incident and Abarca's whereabouts. The federal authorities did not stop there. After the PGR announced that it had been tipped off about the existence of even more mass graves and received accusations that police officers from the adjacent municipality of Cocula may have taken part in the abductions, on 14 October federal security forces moved into Cocula and disarmed the municipal police force there. Hours later, the PGR announced the arrest of the mayor of Cocula, César Miguel Peñaloza Santana, on suspicion of having links to organised crime.

By 19 October the national security commission (CNS) revealed that the federal security forces had taken control of 13 other municipalities in a 200km radius around Iguala all believed to be under the influence of organised crime. Twelve of these are located in Guerrero but one, Ixtapan de la Sal, is in the Estado de México. The federal interventions have so far led to the arrest of some 53 individuals (36 municipal officers), including Sidronio Casarrubias Salgado, the presumed leader of Guerreros Unidos. Yet the PGR still appears to be none the wiser as to the whereabouts or the fate of the disappeared. This has only exacerbated the public's frustration, which is fuelling unrest in Guerrero as well as other areas of the country.

Indeed the revelation that the municipality of Ixtapan de la Sal had undergone a federal intervention—the municipal head of public security and his deputy have been arrested—has sparked some disorderly demonstrations across the Estado de México. The most violent of these took place in Ecatepec, when on 16 October a group of demonstrators torched two municipal police patrol cars. The demonstrators said that they have little faith in the municipal police force and complained that public insecurity has been on the rise. If the federal investigations into the Iguala case continue to fail to make much head way, then the discontent will also continue to spread affecting the credibility of the government led by President Enrique Peña Nieto.

International pressure

On 20 October José Miguel Vivanco, the Americas director of the Washington-based NGO Human Rights Watch (HRW), said that in the wake of the Iguala disappearances Mexico is currently experiencing "the worst human rights crisis" since the October 1968 massacre of university students by federal security forces at Tlatelolco, Mexico City. Vivanco added that "there have been lots of disappearances in Mexico's history, but one of such magnitude I cannot recall". On the same day, and after meeting with federal legislators, the representative of the United Nations Human Rights Commission in Mexico, Jesús Peña Palacios, said that the Iguala case had all the elements of a "forced disappearance, with all the international implications that this entails". Peña Palacios then criticised the federal authorities for reacting too slowly and failing to apply the proper protocols.

TRACKING TRENDS

MEXICO | **Draft budget passes to senate.** On 16 October Mexico's federal chamber of deputies approved the revenue side (Ley de Ingresos 2015) of the draft 2015 budget submitted by the government led by President Enrique Peña Nieto.

The bill, which forecast national income at a record M$4.7trn (US$346bn), was approved virtually without any modifications by the congressional lower chamber's plenary after 10 hours of debate with 293 votes in favour and 135 votes in the 500-seat body. This despite the fact that the opposition, principally the right-wing Partido Acción Nacional (PAN), presented some 116 objections to the bill, including to the projected price of oil, the permitted fiscal deficit level, the exchange rate projections and the level of forecast tax revenues. But the ruling Partido Revolucionario Institucional (PRI), which holds a simple majority in the chamber, secured sufficient votes from its political allies to defeat all of these objections and ensure the safe passage of the bill.

Among the few significant modifications to the bill were the adjustment of the projected price of oil, which was reduced from the original forecast of US$82 per barrel (/b) to US$81/b; and the adjustment of the projected exchange rate from the proposed M$13/US$1 to M$13.4/US$1. However, the setting of a maximum fiscal deficit of 1% of GDP; the economic growth projections of 3.7% and inflation of 3%, were all left unchanged.

As for the issuing of debt, the bill establishes that the federal government is authorised to contract up to M$595bn in domestic debt and up to US$6bn in foreign debt. In addition the bill also authorises the state-run oil firm, Petróleos Mexicanos (Pemex), and its subsidiaries to contract up to M$110.5bn in domestic debt and up to US$6.5bn in foreign debt. The bill has now been passed to the federal senate for evaluation.

PANAMA | DIPLOMACY

Taxing times for Panama-Colombia relations

Colombia's recent decision to include Panama in its list of tax havens threatened a major bilateral spat this week. While an agreement has since been hurriedly reached, the two sides have yet to resolve another source of strain on bilateral ties - a trade-related dispute.

On 7 October the Colombian government led by President Juan Manuel Santos announced its decision to include Panama on its list of tax havens after the latter failed to meet a deadline for signing a tax information sharing agreement. The announcement would have meant that a tax on money transfers to Panama would have been increased from 10% to 33%, while Colombians would no longer have been able to deduct purchases made in Panama from their income tax statements.

The announcement elicited an immediate response from the Panamanian government led by President Juan Carlos Varela. A foreign ministry statement complained that Colombia's decision "reflects a lack of understanding of the functioning of Panama's tax system, which has been endorsed by duly accredited international organisations," adding that Panama cannot be forced to negotiate bilateral accords under the threat of discriminatory treatment. On 14 October Panama went a step further and issued Colombia with a seven-day deadline to withdraw it from the list or else face "retaliatory measures".

This led to a flurry of diplomatic efforts on both sides. The two heads of state discussed the issue by phone; Colombia's finance minister, Mauricio Cárdenas, met Panama's economy & finance minister, Dulcidio De La Guardia, in the US on the sidelines of the annual meeting of the board of governors of the International Monetary Fund (IMF) and the World Bank, while Colombia's foreign minister María Ángela Holguín met her Panamanian counterpart, Vice-President Isabel Saint Malo de Alvarado on two separate occasions – in Panama City and Bogotá.

While the issue fast became a national rallying point in Panama where nine former Presidents all pledged backing for the Varela administration in the dispute, the prospect of "retaliatory measures" caused serious concern in Colombia, regarding the impact on business given the high levels of investment at stake (*see sidebar*). On 21 October - the day of the deadline set by Panama - the second meeting between Saint Malo and Holguín produced a result: an agreement which gives both sides until 15 September 2015 to negotiate a double taxation treaty that will include a clause on the sharing of financial information in line with the standards of the Organisation for Economic Co-operation and Development (OECD).

The agreement stipulates that the new treaty should also include provisions on cooperation regarding anti-money-laundering efforts through Colombia's financial information and analysis unit (UIAF) and cooperation with international organisations. It was hailed by both governments as a breakthrough, and prompted President Santos to issue a decree removing Panama from Colombia's list of tax havens the same day.

Another dispute

The agreement might have averted a major diplomatic crisis but there has been little progress on another significant source of bilateral tension. Namely, a March 2013 decree issued by Santos that slapped a temporary (12-month) ad valorem duty of 10% and a specific duty of US$5 per container on all imports of apparel and footwear from countries with which Colombia

Investment

According to Colombian central bank figures, Panama was the leading destination for Colombian foreign direct investment (FDI) in 2013, accounting for US$3.2bn of Colombia's total US$7.6bn in FDI. Meanwhile Panamanian FDI in Colombia reached US$2.0bn in 2013, the third largest source of FDI after the US (US$2.9bn) and Switzerland (US$2.1bn).

does not have a free trade agreement (FTA). While the two countries inked an FTA in September 2013, it has yet to be ratified by either legislature.

In June 2013 Panama filed a formal complaint against Colombia before the World Trade Organization (WTO) over the issue. In January Santos extended the decree for a further two years. Against the backdrop of diplomatic efforts to resolve the latest standoff, on 17 October Panama's trade & industry minister, Melitón Arrocha, travelled to Colombia to meet his Colombian peer, Cecilia Álvarez Correa, and discuss the trade dispute. No details have been released regarding the meeting. Meanwhile, delegations from both countries are due to meet at the WTO on 25 and 26 November to outline their cases before three judges.

HONDURAS | ECONOMY

Finally, a deal with the IMF

The government led by President Juan Orlando Hernández has finally inked a new Stand-By Agreement (SBA) with the International Monetary Fund (IMF) that should give it access to US$220m in new financing as of 10 November. The Hernández government's celebration of the deal was slightly marred by the IMF's deputy head of the Americas, Robert Rennhack, who in announcing the deal said it would imply a "strong fiscal adjustment". Such was the furore over that statement that the Fund's Honduran representative, Mario Dehesa Dávila, had to put some soothing balm on Rennhack's 'tough love'.

The government led by former president Porfirio Lobo (2009-2013) failed to reach a new deal with the IMF after the expiry of the last 18-month SBA in March 2012 because it said it could not swallow the Fund's usual brand of 'fiscal medicine'; which call for deep cuts to the bloated, corrupt and inefficient public sector, along with politically-difficult efforts to boost tax revenues (by squeezing regular tax payers and the local business sector). As congress president under Lobo, Hernández was well aware of the difficulties of implementing such reforms; nonetheless he steered through several unpopular tax initiatives and took on - and controversially defeated - the supreme court when it questioned these reforms. But Hernández inherited a crippled and effectively broke government. There was nothing for it but to agree to the full IMF prescription, as Hernández made clear right from the start of his term last January.

Details of the latest agreement are not yet available but Hernández has said that the funds will go towards this year's budget to help reduce an estimated fiscal deficit of 8% of GDP. According to the IMF's latest World Economic Outlook (WEO), Honduras will post real annual GDP growth of 3.0% on average between 2015 and 2019, with average inflation easing from about 6% this year to 5% by 2019. Unemployment is pencilled in at 4.5% on average through to 2019.

Ambitiously, the Fund has the fiscal deficit falling from 8.0% to 4.0% in the same period, with the current account deficit falling from 8.0% this year to 6.5% by 2019. In just four years, and without sustained US growth to kick-start Honduran exports, for instance, that is a tall order. Finally, total general government gross debt will hit 57.6% of GDP by 2019; the country should have more access to external financing with an SBA in place.

In a statement following its last visit in September, the Fund said it had begun discussions on a three-year programme, aiming to "preserve macroeconomic stability in Honduras, while improving conditions for sustainable economic growth and supporting efforts to reduce poverty in a fiscally affordable manner."

Narco mayors

Marvin Ponce, an outspoken former left-wing deputy who is currently an adviser to President Hernández, has been summoned by the Dirección de Lucha contra el Narcotráfico (DLCN) after he declared in an interview with the online daily *Proceso Digital* that there were "at least six narco mayors" ('narco alcaldes') within 100km of Tegucigalpa. Ponce suggested that at least 35 municipal workers in these areas had been linked to organised crime, and said he knew of eight mayors under investigation, along with "various deputies and seven businessmen who use their positions to launder money". The DLCN said it would ask Ponce for evidence.

Quotes of the week

"The PRI thought it could govern hell, but it did not know its dimensions."

Mexico's poet and peace activist Javier Sicilia who is acting as a mediator between the authorities and families of disappeared students in Iguala (Guerrero).

"In 2005 Chile's economy was 14 times bigger than Bolivia's; now it is eight times bigger. By 2020 it will only be four times bigger, and by 2025 we should be equal or at worst half the size."

Bolivia's Vice-President Álvaro García Linera.

"Nowhere does the constitution say that the president cannot express his opinion about politics - and that is what I am doing."

Uruguay's President José Mujica.

POSTSCRIPT

Ecuador's Correa heads to Qatar cap in hand

Ecuador's President Rafael Correa is in Qatar this week trying to drum up investment in "strategic megaprojects" to drive socio-economic development. Shortly before boarding his flight, Correa admitted that Ecuador faced more adverse economic conditions, with falling oil prices threatening to constrain public investment.

Correa, who will head to Switzerland after two days in Qatar, announced on 16 October that declining oil prices created a more challenging economic scenario for Ecuador: prices are around US$77-US$80 per barrel at present, while the budget is based on US$86.4 per barrel. Correa expressed his confidence that the fall would be "temporary" and that it was neither the first nor the last time that prices would fall. The finance minister, Fausto Herrera, also pointed out that in the first eight months of this year, oil prices had reached US$94 per barrel.

Correa sought to downplay Ecuador's dependence on oil exports, arguing that the massive increase in the tax take in recent years and the restructuring of external debt made the country much better prepared to deal with falling prices. He did say, however, that if prices continued to fall then public investment would have to be cut back accordingly, which might mean, for instance, the construction of "100 fewer schools". In this context, the Qatar trip could be seen as a pre-emptive effort to compensate for any reduction in public investment.

The more challenging economic conditions might also have influenced Correa in his recent decision to back away from a confrontation with Ecuador's largest trade union, the Frente Unitario de Trabajadores (FUT), over labour reform. His government will now undertake just a piecemeal reform of the 1938 labour code rather than the comprehensive overhaul previously proposed: he will present half a dozen reforms in the coastal city of Guayaquil on 15 November. The FUT staged one of the largest protests against the Correa administration in recent years on 17 September, with up to 20,000 people marching in Quito to denounce the lack of consultation over a project which, the FUT claimed, could outlaw the right to strike, among other things.

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