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Not so united: the electoral hangover in Colombia's ruling coalition

The political fallout from Colombia's regional elections on 25 October could create some serious difficulties for President Juan Manuel Santos in the remaining three years of his mandate. The Unidad Nacional coalition undergirding his government has looked anything but united during the election post mortem. Rather the results of the elections have exposed a clear rift between the Partido de la U (PU) and the Partido Liberal (PL) on the one hand, and Cambio Radical (CR), led by Vice-President Germán Vargas Lleras, on the other hand. Vargas Lleras downplayed internal coalition divisions but the leaders of the PU and PL have been forthright in their criticism, alleging that he misused his position to gain an early advantage in the race to succeed Santos in 2018.

On paper the regional elections were a resounding success for President Santos. His coalition won the majority of the 32 gubernatorial contests, 1,102 mayoralties, as well as departmental deputies and councillors. The right-wing opposition Centro Democrático (CD) of his principal political rival, Senator and former president Alvaro Uribe (2002-2010), failed to make a big splash on its regional electoral debut, and the left-wing Polo Democrático Alternativo (PDA) fared even worse, its poor performance compounded by the loss of its stronghold in Bogotá. But no sooner had the dust settled on the elections than tensions broke out among the three parties making up the ruling coalition. The concern for Santos is that, unless they are reconciled, the three parties could hold up the approval of key legislative initiatives in the coming months and years.

All three of the parties publicly claimed to have won the elections, be it because they obtained more governors, more mayors, more councillors or departmental deputies, but behind the scenes it is clear that the perception is that the CR performed best and that Vargas Lleras strengthened his hand, building a solid foundation for his presidential bid in 2018. The indignant reaction of the PL and the PU party presidents, Horacio Serpa and Roy Barreras respectively, indicates as much. In a meeting to discuss the election results, which they attended along with Santos, Vargas Lleras and the minister of the presidency, María Lorena Gutiérrez, the Vice-President expressed his annoyance that his participation in politics had been criticised. Serpa and Barreras then aired their concerns that Vargas Lleras had abused public resources to benefit CR candidates; to bolster his party's national presence; and to build up his own fiefdoms to support a future presidential bid.

Santos apparently smoothed things over during the meeting but the PL's Luis Fernando Velasco, the president of the senate, acknowledged that tension remained. "Our ministers don't have the budget that they [the CR] are handling and this is a clear imbalance," Velasco said. After Santos was re-

Humala visit

President Juan Manuel Santos signed six cooperation accords with his Peruvian peer Ollanta Humala on 30 October during a joint cabinet meeting in Colombia's second city, Medellín. Santos said the two governments would place a "special emphasis on working on the [1,626km] shared border" through the creation of a development fund for border integration. He said that together with Brazil the two countries were preparing a fund of some US\$600m for a regional programme for the Amazon. Santos also said that Peru provided Colombia with "a great example of how to carry out an agro-industrial revolution after clearing guerrillas out of rural areas".

elected last year, Vargas Lleras took over the coordination of an ambitious nationwide infrastructure plan, including road construction and housing. The CR also controls the housing and transport ministries under Luis Felipe Henao and Natalia Abello respectively. The PL and PU suspect that Vargas Lleras has manipulated the infrastructure budget not only to support CR candidates but also to solidify alliances with local political powerbrokers who agreed to run for the party in exchange for various guarantees and benefits.

Given the myriad electoral alliances in the gubernatorial and mayoral elections the most reliable gauge of party political performance was the councillor elections. In absolute terms, the PL won the most councillors followed by the PU, although the latter lost ground with around 170,000 fewer councillors nationwide than in 2011 despite the larger turnout. The biggest gains were made by the CR. Not only did the party gain over 330,000 councillors nationwide over 2011 but it also displaced the Partido Conservador (PC) as the third largest party overall. The fact that the CR was the big winner on the Caribbean coast and backed the victorious mayoral candidate in Bogotá, Enrique Peñalosa, will have rubbed salt into the wounds of the PU and the PL. These two areas were decisive in Santos's re-election last year.

Councillors elected nationwide by party (million)			
	2011	2015	% change
Partido Liberal	2.38	2.57	8
Partido de la U	2.59	2.42	-7
Cambio Radical	1.93	2.27	18
Partido Conservador	2.18	2.19	0.5
Alianza Verde	1.13	1.32	17
Centro Democrático	-	1.15	
Opción Ciudadana	0.85	1.02	20

The CR has not taken the criticism lying down. The party criticised the intervention of the interior minister, Juan Fernando Cristo, in support of PL candidates. It is clear that the coalition will not last beyond the 2018 presidential elections as individual parties will put forward their own candidates: there is no way the PU and the PL will back Vargas Lleras. Managing the coalition will thus become more complicated for Santos as the parties increasingly seek to differentiate themselves. This makes it more important than ever that Santos can push through all of the legislation associated with the peace process with the Fuerzas Armadas Revolucionarias de Colombia (Farc) by the end of the first half of 2016 before cooperation breaks down.

Post-conflict governance

The CR did not fare so well in the four departments where most post-conflict resources will be concentrated: Cauca, Antioquia, Nariño and Chocó. In Cauca the governorship was won by the PL's Óscar Rodrigo Campo with 80% of the vote, while the departmental capital, Popayán, went to the Alianza Social Independiente (ASI). The PL and the PU also won most mayoralties in the department overall. In Chocó the same two parties backed the winning gubernatorial candidate, Jhoany Carlos Alberto Palacios Mosquera, and won the majority of the mayoralties. In Antioquia the PL's Luis Pérez won the gubernatorial elections.

The only one of these four departments where the PL and PU failed to back the winning governor was Nariño. Here the Alianza Verde (AV) candidate Camilo Romero won, and the AV and PC won many of the key mayoralties, including Magüí Payán and Tumaco, the latter with more hectares given over to coca cultivation (5,065) than any other mayoralty in Colombia, according to the United Nations Office on Drugs and Crime (UNODC).

State of emergency lifted

On 29 October the interior minister, José Luis Pérez Guadalupe, lifted a state of emergency declared in four provinces in the region of Apurímac and two provinces in Cuzco decreed after violent protests against the 'Las Bambas' mining project claimed three lives in September. Pérez Guadalupe said that the measure had been taken because of accords struck with leaders and authorities in the Apurímac provinces of Grau and Cotabambas who agreed to suspend protests and hold a dialogue protest over their complaints led by the energy ministry on 16 November.

Humala challenged over army promotions

President Ollanta Humala has approved the latest round of army promotions, attracting a wave of criticism from many of his political opponents. Their suspicions have been raised by the fact that four out of six officers due to be promoted from brigadier to division-level General at the beginning of 2016 are his former contemporaries.

Each generation of Peruvian soldiers leaving military college are identified by their year of graduation and a collective title. President Humala is a member of the class of 1984, also known as *Héroes de Pucará y Marcavalle*. What has drawn the attention of Humala's detractors is that four out of six now being promoted to division-level generals are also his contemporaries and members of the class of 1984. They are Generals Manuel Jesús Martín Gómez, Manuel Roberto Rodríguez, Próspero Otoniel Díaz, and Augusto Javier Villaroel. The two others being promoted are from the class of 1983, known as *Héroes de la Breña*.

Critics say two things are unusual. Firstly, they claim that in normal times only about two officers in any given set of promotions to division-level general are contemporaries and members of the same graduation class. Secondly, they say that the law states that officers have to serve a minimum of five years as brigadier generals before they can be considered for promotion to division-level generals. Of this year's batch of promotions, only one officer, Manuel Gómez de la Torre, has served the necessary minimum period. The government has denied any irregularity. It says that the five-year rule was relaxed for the class of 1984 under the terms of separate regulation.

Former prime minister Jorge del Castillo (2006-2008), of the opposition Partido Aprista Peruano (PAP), demanded to know whether the promotions were proposed by army commander General Carlos Vergara Ciapciak, which in his view would be the correct constitutional process, or whether the names were suggested by others "in which case the process would be wrong".

Other political opponents have seen various dark intentions behind the latest promotions. Carlos Bruce, a congressional deputy from the opposition Concertación Democrática, accused Humala of using tactics typical of Vladimiro Montesinos, the infamous former intelligence chief who served former president Alberto Fujimori (1990-2000), so as "to gain impunity for his wrongdoing". Bruce suggested that this was no more than a "clumsy manoeuvre" and that the next elected government would review and alter the promotions.

Deputy Juan Carlos Eguren, of the conservative Partido Popular Cristiano (PPC), said the promotions had delivered "a blow to the institutionality of the armed forces and, regrettably, in the case of the Peruvian army, the President has once again set aside meritocracy and shown his preference for cronyism." Eguren said that this raised suspicions so close to the elections.

These suspicions were articulated by Deputy Carlos Tubino of the *Fujimorista* Fuerza Popular (FP), whose candidate Keiko Fujimori is the frontrunner in early opinion polls for next April's presidential elections, who suggested that the four generals from the class of 1984 would be used to support the presidential candidate favoured by the government in the elections. This stretches credibility, not least because Humala's approval rating is

García reaches out to rivals

Given his propensity for firing broadsides at the government and other political adversaries, Alan García's inaugural campaign speech was surprisingly benevolent towards his political rivals, saying that the public was "tired of accusations and hatred". García also said that the Partido Aprista Peruano would not be able to govern alone and in his next breath mentioned Pedro Pablo Kuczynski, currently second in the polls, Verónica Mendoza, who won the presidential candidacy for the left-wing Frente Amplio in internal elections last month, and Lourdes Flores Nano, of the conservative Partido Popular Cristiano.

so low and his coalition, Gana Perú, lacks an obvious presidential candidate to try and succeed him.

A retired general, Leonardo Longa López, argued that the army promotions had been "politicised" by the government. Its aim was ultimately to get an officer from the class of 1984 in control of the army by 2016, he claimed, and to gain more political influence during the likely national emergency caused by the El Niño weather pattern.

Responding to the claims, the government insisted the process had been absolutely legal. Prime Minister Pedro Cateriano said the regulation relaxing the five-year requirement for promotions to division-level general had been introduced three years ago, so could not now be suddenly described as "illegal or technically incorrect".

Cateriano also responded directly to Deputy Tubino, who he said could not make such a serious allegation – accusing the army of involvement in electoral fraud – without presenting a shred of evidence. Cateriano maintained that the reliance on the class of 1984 came about in part because active service generals from other years, occupied in counter-insurgency deployments in the Apurímac, Ene and Mantaro rivers valley (Vraem) region, had been dismissed because congress had questioned their performance.

Meanwhile, the defence minister, Jakke Valakivi, insisted that the promotions were "absolutely technical with no manipulation or any sort". He added: "How could it be used to favour a government-backed candidate? Too much imagination." The opposition says it plans to summon Valakivi to congress to provide an explanation for the promotions.

García launches campaign

Former president Alan García (1985-1990; 2006-2011) formally launched his presidential candidacy for the Partido Aprista Peruano (PAP) on 30 October. García, who confirmed his intention to seek a third term in power during a speech in the Lima's seaside district of Magdalena, lies a distant third in advance polls for April's general elections but he is confident that he will jump now that he has presented some campaign proposals. García's victory in 2011 owed much to the support of Limeños, who viewed him as the lesser of two evils against an unreconstructed Ollanta Humala, and he made several gestures to the capital's electorate.

On the topic of public security, the main voter concern, García promised to end the so-called '24x24' regime in the national police, under which officers can spend one day working for the force and the next for a private security company. He also said that he would put the military on the streets for the first 12 months of his term if he were to win. A recent opinion survey showed that 79% of respondents favoured the use of the military in street patrols to improve public security [WR-15-39].

García, whose first term in power was characterised by heterodox policies and hyperinflation and second term by fiscal orthodoxy and consistently high growth, is promising to deliver average annual GDP growth of 6% and to reduce poverty to less than 10% "the same level as developed countries" by the end of the next presidential term in 2021. This is essentially the economic growth with social inclusion promised by Humala which he is widely perceived to have failed to deliver.

García also made a number of populist gestures, one of them to do something to regulate "usurious" credit card interest rates, and another to create a "community canon". At present the 'canon', a share of income obtained from natural resource exploitation, goes to local governments. García said that under his proposal local communities would benefit directly from nearby mining activity. "We have seen regional governors converted into kings. We need to cut this link and create a community canon," García said.

Latest polls look ominous for ruling party

Within the space of four days President Nicolás Maduro went from declaring that he would “never hand over the Revolution” to proposing a “new national dialogue” to include his political rivals. Maduro’s shifting tone comes as several opinion polls suggest that the opposition could be on course to win a two-thirds ‘supermajority’ in the highly anticipated mid-term legislative elections on 6 December.

Maduro caused ripples not only in Venezuela but in Washington and elsewhere when he said on 30 October that if the opposition won the midterms, a scenario he said was a “hopeless hypothesis”, he would refuse to “hand over” (‘entregar’) the Revolution, and would govern instead with “the people” in a “civic-military union”. While these comments sparked fevered talk of some kind of military-led democratic rupture, one less dramatic interpretation is that the outgoing assembly could give Maduro extensive decree powers for an extended period, allowing him to effectively govern without consulting the legislature. (The next presidential elections fall due in late 2018.)

Just days later, on 3 November, in slightly more conciliatory fashion, Maduro declared that he would respect the results “whoever wins”. He also reiterated that he would call upon all newly-elected deputies, including representatives of the main opposition coalition, Mesa de la Unidad Democrática (MUD), to take part in a brand new national dialogue as of January.

Several polls suggest that the MUD could be on course to win a two-thirds majority of the assembly, which as of January will be one seat bigger at 168 (165 plus three indigenous representatives). At the start of this year, the MUD’s ambition was to achieve a simple majority of 85 seats; now, emboldened, it seems to be thinking bigger, with the leadership telling voters that change is nigh. This is part of the effort to urge a high turnout, not only of opposition supporters but also of the growing mass of disillusioned voters, which may hold the key to tipping the balance in favour of the opposition (*see sidebar*).

On 1 November, the head of the main moderate centrist opposition party Primero Justicia, Julio Borges, presented five polls giving the MUD a huge advantage of between 20 and 30 points over the PSUV. The polls were from Venebarómetro, Datanálisis, Hinterlaces, More Consulting and Consultores 21. Of these, the first two are considered two of the more reputable in the country and they put the MUD-Partido Socialista Unido de Venezuela (PSUV) margin at 50%-30% and 50%-20% respectively. If this data is anywhere close to correct (polls tend to suffer from an urban bias, which may exaggerate the opposition numbers), Venezuela is set for a game-changing election. “Let Maduro respect the decision for change that the country has already taken, and understand with humility that he has lost the base of popular support with which he began to govern in April 2013 thanks to a narrow margin of 225,000 votes,” Borges stated. Maduro won office on a margin of just 1.6 points (50.6%-49.1%). “Maduro now simply has to accept defeat in December,” Borges added.

What does the opposition need to win?

Maduro was fulsome in his praise for Venezuela’s electoral system, which the government likes to boast is one of the most modern in the world. While outright fraud of the electronic ballot system is deemed all but impossible, the national electoral council (CNE) is controlled by the government and the CNE’s rolling regulatory changes more often than not seem to tilt the playing field in favour of the PSUV.

The ‘ni-nis’

Growing numbers of Venezuelan voters seem to want a third option outside of the PSUV and the MUD, which suggests that they are not convinced by the MUD offer. In a September Datanálisis poll, 35% of respondents plumped for ‘others/independent’, even though there are hardly any independent candidates running. Likewise, in a same-month Venebarómetro poll, 28% opted for this option. With a further 16.7% ‘undecided’ in the Venebarómetro survey, that amounts to a very sizeable 44.7% sitting on the fence. These voters, if they turn out at all, will decide the election on the day.

Still no international observers

To ongoing controversy, the CNE has yet to approve any international electoral observer missions for 6 December. A mission to be sent by the Union of South American Nations (Unasur) is up in the air after the Maduro government refused to accept the agreed mission leader, Brazil's Nelson Jobim, a former supreme court jurist. Colombia's President Juan Manuel Santos this week added his voice to the expressions of concern, urging the Maduro government to accept the Unasur mission. To date, his pleas appear to have fallen on deaf ears.

Following the 2010 legislative elections, the opposition ended up with 64 of the 167 seats, on 47.2% of the overall vote. By contrast, the PSUV took 99 seats, on 48.2% of the vote. To some degree, this was thanks to district gerrymandering that year that enhanced a rural district bias in the system. That played in favour the PSUV, which is strongest in rural areas.

In a recent client note, Bank of America Merrill Lynch estimated that the opposition would need to win the popular vote "by a margin of at least 18.1% to capture a two-thirds supermajority" – on the polls presented by Borges, it is well on course to achieve that.

The note made the point that while a three-fifths majority (99-100 seats) "can revoke presidential decree powers and remove government ministers", a two-thirds 'supermajority' (110-111 seats) "can call elections for a constituent assembly, which has the power to dissolve other branches of government – including the executive – and replace them with temporary appointees". With just weeks left, the stakes have never been so high.

The Eastern Corporation of Economic Cooperation

On a visit to St. Vincent & The Grenadines on 2 November, Maduro unveiled plans for a new 'Eastern Corporation of Economic Cooperation' (Corporación de Comercio Exterior del Oriente), which he described as a "special plan" to activate investment, trade and tourism in the Eastern Caribbean region, including Venezuela's Eastern coastal states. In recent weeks Maduro has been to Antigua, Suriname, St. Lucia and Grenada to discuss the plan, which he describes as a buffer against the US "monopoly" in the region.

"There are three key ports and we should convert them into three working economic centres with our brothers from the Eastern Caribbean", he said. As a starting point, he proposed "a commercial fair" in Venezuela's Puerto La Cruz (in the state of Anzoátegui), to examine the options for trade and commerce in the region. Maduro also announced increased resources for St. Vincent & the Grenadines under the auspices of Petrocaribe, Venezuela's regional concessionary oil agreement, which also provides for extensive cooperation deals between Venezuela and the 18 members of the alliance. For instance, Petrocaribe financed a new US\$32m fuel storage and distribution plant that tripled St Vincent's storage capacity upon completion earlier this year and now provides over 90% of its energy, according to official data. The brand new US\$250m Argyle International Airport, due to be opened late this year to replace the existing E.T. Joshua airport, also received substantial Petrocaribe support. "There should be no doubt in our minds that Petrocaribe today is the backbone of the energy, social and economic development of our region," Maduro declared, announcing that Venezuela would provide 7,500 laptops for the local government.

Meanwhile, the country's Prime Minister, Ralph Gonsalves, told journalists at the Organisation of American States (OAS) in Washington that no matter what its opinion of the Caracas government, the US could not prevent Caribbean nations from doing business with Venezuela under Petrocaribe. "I don't need permission to talk to any government, in any part of the world," he stated, alluding perhaps to the comments made by the US vice president Joe Biden in January, when he said to Caribbean heads of state gathered in Washington as part of the US government's Caribbean Energy Security Initiative, which is aimed at helping small island governments move away from fossil fuels, that "no country should be able to use natural resources as a tool of coercion".

Given the oil price shock, there are big questions over Venezuela's ability to sustain Petrocaribe, and the opposition has made it a feature of the 2015 election campaign, accusing the Maduro government of 'gifting' oil for geo-political reasons when essential goods are scarce on supermarket shelves at home. Maduro, however, has long been clear that Petrocaribe, for so long so successful in extending Venezuela's regional reach, is a non-negotiable.

Russia

According to a press release by Russia's State Atomic Energy Corporation (Rosatom), the Memorandum of Understanding (MOU) with Bolivia includes (among other things): "use of radioisotopes and radiation technologies and their application in industry, medicine, agriculture and other fields; providing training and education personnel in various fields of peaceful uses of nuclear energy; assistance in creation and development of infrastructure for the management and regulation of Bolivian nuclear program; the potential construction of nuclear science and technology center with the necessary infrastructure for the use in science, medicine, industry and agriculture on the basis of the research reactor, cyclotron, the installation of gamma radiation, a complex of laboratories; nuclear, radiation and physical security; holding consultations about the possibility of the construction of nuclear power plants of Russian design in Bolivia".

Morales on investment drive

President Evo Morales last week headed up a high level delegation to the US as part of efforts to attract foreign investment. While the latest forecasts suggest Bolivia is on course to achieve one of the highest growth rates in the region, the government's investment drive comes amid renewed evidence of the impact of the fall in international commodities prices on the Bolivian economy (which is highly dependent on hydrocarbons and mining); exports were down over 30% in the first nine months of 2015 compared with the same period the previous year.

Together with his ministers of economy (Luis Arce) and development planning (René Orellana) President Morales spoke at an event organised by the *Financial Times* on 26 October which was attended by 130 top business representatives. All three were quick to trumpet positive growth forecasts for Bolivia; the United Nations Economic Commission for Latin America & the Caribbean (Eclac) for example expects Bolivia's GDP to grow by 4.4% this year – well above the 0.3% contraction projected for Latin America as a whole. The Movimiento al Socialismo (MAS) government was also able to point to the latest (15 October) assessment by international credit ratings agency Moody's, which affirmed Bolivia's government bond rating at Ba3, reflecting "strong economic growth that is driven by high public sector investment, prudent economic policies, and a significant external reserves buffer". The credit ratings agency notes that "fiscal and external buffers should allow Bolivia to handle a slump in energy prices from a position of relative strength. The level of public debt is low in relation to its peers and debt affordability is high."

Yet these positive forecasts come despite the latest figures from the national statistics institute (INE) which show that Bolivia's exports in the first nine months of 2015 reached US\$6.9bn, down from US\$10.1bn over the same period the previous year. Hydrocarbons (which accounts for 45.8% of Bolivia's exports) reached US\$3.1bn, down from US\$5.2bn registered the same period in 2014 while minerals (which account for 19.1% of Bolivia's exports) reached US\$1.3bn, down from US\$1.5bn the previous year.

Nuclear power

On 29 October President Morales announced plans to build a US\$300m nuclear complex, including a research reactor, with Russian technology and help from Argentina. He told reporters that the project, which is expected to take four years to construct and will be located in El Alto, comprises three components – a cyclotron for radiopharmaceuticals; a multipurpose gamma irradiation plant and a research reactor.

The announcement regarding the project, which is part of the Movimiento al Socialismo (MAS) government's efforts to diversify energy production, as per the long-term 2025 national plan, followed the inking of a Memorandum of Understanding (MOU) between Bolivia's hydrocarbons and energy minister Luis Alberto Sánchez and Sergei Kirienko, the director general of Russia's State Atomic Energy Corporation (Rosatom) (*see sidebar*).

In October 2013 President Morales had suggested that Bolivia had plans to develop nuclear energy with cooperation from both Argentina and France although he failed to provide specifics. The previous year, local think-tanks like the Programa de Investigación Estratégica en Bolivia (Pieb) cited local experts as confirming the existence of uranium reserves in two of Bolivia's regions – in the Cordillera Los Frailes mountainous area (between the departments of Oruro and Potosí) and in Santa Cruz. The Pieb report cited Bolivian expert Marco Montoya as claiming that there is at least 140,000 tonnes (t) of uranium in Cordillera Los Frailes, but he failed to specify a figure for Santa Cruz.

Peru bonds

Peru's economy & finance ministry (MEF) said the funds from the European bond issue would be used to pre-finance the country's public sector debt next year. Back in March, Peru placed US\$2bn in international markets, while in August it placed a further US\$1.25bn. In both instances the MEF said that the funds would be used to finance next year's national budget.

COLOMBIA-PERU | Moving on interest rates. On 30 October Colombia's central bank (Banrep) announced that it was increasing its benchmark interest rate by 50 basis points to 5.25%. This was the second consecutive increase in the benchmark interest rate in as many months following the 25 basis point increase announced in October. The move surprised local analysts, given that the consensus view was that the Banrep would seek to keep the interest rate stable or opt for another 25 basis point increase. However, in a split decision Banrep's seven-member board voted in favour of the higher-than-expected increase in a bid to rein in inflation.

Banrep's move is seen as the start of wider regional trend to counteract the impact that external factors including the appreciation of the US dollar and the expectation that the US Federal Reserve will increase its own benchmark interest rates soon. The dollar's appreciation is stoking inflation in Latin America as foreign goods and services become relatively more expensive. Meanwhile, there is concern that the imminent increase in US interest rates could lead to a generalised outflow of capital from the region back to the US, undermining the economic growth prospects of Latin American economies. This prompted various economists to suggest that Latin American central banks should preempt this by increasing their interest rates. In fact, central banks in some countries, notably Peru, have moved to increase their rates in response to these factors.

On 10 September Peru's central bank (BCRP) decided to increase its benchmark interest rate by 25 basis points to 3.5% – the first interest rate increase since May 2011 – citing that at 3.4%, the accumulated inflation had already crept up over its target range of 1%-3%. But it is now expected that Peru and a host of other countries (such as Chile and Mexico) will follow Banrep's lead and further increase rates in the final three months of the year.

The value of the Colombian peso has fallen by 42.9% in the last 12 months, fuelling inflation which is currently running at around 5%, the highest rate since 2009 and above Banrep's target range of 2%-4%. With local analysts now forecasting that year-end inflation is due to come it at 5.75%, Banrep decided to take action following a 12-hour board meeting – the longest such meeting in a decade. Afterwards, Banrep president José Dario Uribe explained that “in summary, inflation expectations have increased and the risk of a slowdown in domestic demand, over that of the registered fall in national income, has become more moderate”.

In fact, Uribe announced that domestic economic activity had remained dynamic in recent months (growth in the second quarter was 3%, virtually unchanged from the 2.9% registered in the first quarter) leading Banrep to revise its year-end economic growth forecast from 1.8%-3.4% to 2.4%-3.4%, with 3% seen as the most likely result.

Uribe also announced that Banrep was launching a new US dollar call auction programme by which the bank will offer up to US\$500m in the local currency market whenever the peso/dollar exchange rate rises seven percentage points above its 20-day moving average.

PERU | European bond issue. On 27 October Peru's economy & finance ministry (MEF) announced that it had successfully placed €1.1bn (US\$1.21bn) in bonds in European markets. An MEF statement said that the issue marked Peru's return to European markets for the first time in 11 years and that the bonds, which were four times oversubscribed, offered a yield of 2.75%, the lowest in the country's history.

In fact, the MEF pointed out that while initially the bonds had a 220 basis points (bp) differential compared to Euro area benchmark bonds, this difference was reduced to 190bp as a result of the surge in demand.

The issue was celebrated by MEF head Alonso Segura, who said that it showed that the investor roadshow that he and other MEF officials recently embarked upon had been a success. Segura said that the tour, which took in the United Kingdom, France, Italy, Switzerland and Germany, had allowed the country to “capitalise on the positive image projected by Peru during the annual meetings of the International Monetary Fund and the World Bank”, which were celebrated in Lima on 9-11 October [WR-15-41].

Looking good for Macri

After his surprisingly strong performance in the first round of the presidential elections on 25 October, opposition candidate Mauricio Macri now seems to be the favourite to win the run-off. A phone survey of over 1,000 voters by Polldata, published on 1 November, found Macri had 50.3% of voter intentions, while Daniel Scioli, from the ruling Frente para la Victoria (FPV, *Kirchnerista*) faction of the Partido Justicialista (PJ, Peronist), attracted only 39.7% support. Two other polls published this week showed Macri with a lead of between four and 11 percentage points.

Predictably enough, the campaign has become more fraught in the second round. In particular, Scioli is taking a more aggressive attitude to Macri. In a series of interviews over the weekend, Scioli accused Macri of seeking to implement neoliberal economic policies if he takes office. The FPV candidate sought to draw parallels with the turbulent period of history that followed the end of the last Peronist presidency, in 1999, when Fernando de la Rúa took office, and economic chaos followed.

“Macri wants a massive devaluation and the loss in value of real salaries”, Scioli said. Warning that a vote for Macri was to “jump blindly towards the abyss”, Scioli called on voters not to “throw away all that we have gained in the last ten years” of *Kirchnerista* governments. Scioli also insisted that the FPV had “received the electorate’s message” from the first round and that he would show that it “does listen, that it can be self-critical and correct its mistakes”.

Meanwhile, other pro-government voices have been contributing to the febrile atmosphere. Luis D’Elía, trade unionist and professional provocateur, took to *Twitter* to post images of the post-default crisis of 2001-2002, with the tagline: “Imagine yourself without a home. Imagine yourself hungry...Imagine yourself, if Macri wins.” Media commentators sympathetic to the government also started speculating as to which state programmes would be cut by Macri.

On 31 October, one commentator on the main sports channel suggested that Macri would end the free-to-air football games, Fútbol Para Todos, that became a hallmark of the Cristina Fernández administration (and a significant, effective propaganda tool). Are you going to have to go back to paying?” Javier Vicente, the commentator, asked. “Think about it.”

In response, Macri has accused the ruling party and its supporters of scare-mongering. “The party is showing a dark strategy of trying to sow angst and fear with the sole goal of frightening people over the possibility of change,” Macri wrote on a Facebook post. “But it’s not going to work”. Macri has insisted that he can jumpstart investment and cut inflation without decimating the current government’s social programmes.

Splits within the FPV

Disappointment over Scioli’s performance in the first round has resulted in public squabbles between high-ranking *Kirchneristas*. Long distrusted by many of the president’s inner circle, Scioli’s failure to win outright has prompted some sharp criticism from party loyalists. Florencio Randazzo, the interior and transport minister who lost in his bid to be the FPV’s presidential candidate, did not bother to disguise his contempt. “The president decided that Scioli was to be the candidate, and you just have to look at the results,” he said.

Massa’s votes

Felipe Solá, a national deputy for the Partido Justicialista, and a close ally of Sergio Massa, the third-placed presidential candidate, said that he believes around 65% of the 5m voters who supported Massa would back Mauricio Macri in a second round, and only 35% would back Scioli.

Hydro-electric auction

Last week it was announced that the government is to hold a public auction for 29 concessions for new hydroelectric power plants on 25 November. The government hopes to raise around R\$18bn (US\$4.75bn) with their sale, which should go towards reducing the projected 2015 fiscal deficit of R\$51.8bn.

Carlos Zannini, the legal and technical secretary currently running on Scioli's slate as the vice-presidential candidate, was obliged to correct publicly Randazzo's version of events. "There was no primary competition in the FPV simply because Randazzo did not turn up," Zannini said. "In my opinion, Randazzo did not want to compete, but was expecting Cristina to anoint him, but Cristina made no anointments. The majority of the leaders [of the party] supported the candidacy of Scioli." It seems unlikely that these divisions between senior party members, and the threats of other FPV supporters, will do much to win over the undecideds.

BRAZIL | POLITICS

Ethics committee begins analysing Cunha's case

Finally, after several weeks of delay, the ethics committee of the federal lower chamber of deputies is to begin analysing a request to strip Eduardo Cunha of his political rights for lying to congress. Cunha may lose his political rights, not as a result of the strong evidence suggesting he stole over US\$24m in the corruption scandal surrounding the State oil company Petrobras but because he lied over the existence of his secret Swiss bank accounts. Still, Cunha remains a formidable political operator, who retains a large network of powerful friends by virtue of his unparalleled political fundraising skills. Already, he has succeeded in delaying the start of proceedings, now he is attempting to complicate the work of the ethics committee to ensure it is unable to reach a conclusion about his case any time soon.

As speaker of the lower chamber, Cunha has the power to set the legislative agenda. Over the past few days, he has decided to send complaints against two other deputies, stalled for over five months, to the committee. Alberto Fraga and Roberto Freire are accused of physical and verbal aggression against Jandira Feghali. But even Feghali questioned the timing of the investigation. "This is a clear attempt to confuse the committee," she said.

Other complaints against federal deputies are also being fast-tracked to the committee's in-tray. On 3 November, the committee received two requests to strip Sibá Machado, a deputy from the ruling left-wing Partido dos Trabalhadores (PT), of his political rights, on the grounds that he instigated violence by threatening to use force to expel some protesters from the libertarian pro-impeachment group Movimento Brasil Livre (MBL) from congress.

Three names have been chosen as possible rapporteurs for the committee: José Geraldo (PT), Vinícius Gurgel, from the Partido da República (PR) and Fausto Pinato, from the Partido Republicano Brasileiro (PRB). Both Pinato and Gurgel are considered friends of Cunha, as both of their parties have offered unconditional support to the speaker.

While the PT and Cunha himself are at daggers drawn, it increasingly appears to be in the ruling party's interest to keep a compromised Cunha in place. As the speaker has the sole responsibility for initiating impeachment proceedings against President Dilma Rousseff, the government would prefer someone with weakened political influence in that position. Deliberations by the committee are expected to take at least 90 working days, and that time-frame may be extended due to the other cases the committee will now be obliged to assess. That means that at best, with the Christmas and Carnival holidays, a ruling will come in March or April next year, just before the nationwide municipal elections. And even outright condemnation by the committee would not necessarily result in Cunha losing his mandate.

Petrobras stake in pre-salt could be reduced

On 31 October the finance minister, Joaquim Levy, said that the current rules ensuring that Petrobras participated in at least 30% of the pre-salt oil fields off the coast of Rio de Janeiro could be revised. The pre-salt discoveries were one of the most significant oil finds anywhere in the world in recent years. However, the crisis affecting Petrobras, due to the 'Operation Car Wash' corruption investigation, has forced the company to cut back on investments.

Impeachment, again

In the latest move to strengthen the case for the impeachment of Rousseff, anti-government members of the Partido do Movimento Democrático Brasileiro (PMDB) are working on a plan to delay congress's approval of the government's alterations to its 2015 fiscal target. If the PMDB succeed in pushing back a vote until next year, the government will technically be in violation of the law of budgetary responsibility in December, which would justify another impeachment request in 2016. Once again, many of those in Brazil's political class appear more interested in discomforting the government than trying to address the country's severe economic crisis.

The congress of the PMDB's Ulysses Guimarães Foundation is scheduled to meet in Brasília on 17 November. According to the newspaper *O Folha de São Paulo* a majority of the party's leaders in the 27 states now want out of the coalition with the PT.

BRAZIL | ECONOMICS

Brazilian banks' profits up even as economy sours

While the Brazilian economy continues to deteriorate, the country's private banking sector continues to thrive. Third quarter profits at Itaú, Bradesco and Santander Brasil exceeded the expectations of most analysts, with a combined profit of R\$11.8bn (US\$3.11bn) over the period July to September this year, up 9.6% on the same period of 2014. Whatever other horrors lie in store for the Brazilian economy over the next few months and years, a banking crisis would appear extremely unlikely.

First to report was Bradesco, on 29 October, which revealed profits of R\$4.533bn (US\$1.16 bn), up 6.3% on last year. Itaú, a few days later, reported profits of R\$5.94bn (US\$1.54bn) up from R\$5.4bn from Q3 2014; an increase of 10%. Santander Brasil, the country's largest foreign bank, showed profits of R\$1.708bn (US\$438m).

With some of the world's highest interest rates – Brazil's benchmark interest rate, the Selic, currently stands at 14.25% – banks are benefiting from more profitable lending and the money earned by proprietary trading. In times of economic uncertainty, Brazilian banks' purchase of government bonds tends to rise. Over a quarter of the national debt is owned by Brazil's banking industry. Brazil's treasury sells bonds that protect against inflation as well as others which increase their pay outs when interest rates rise or the currency devalues.

The lack of competition between banks also ensures profitability. Earlier this year, Bradesco bought HSBC's Brazilian holdings, a deal that still has to be approved by the regulator. But ever since a banking crisis in the mid-1990s, Brazilian authorities have been keen to encourage mergers and acquisitions. Brazil's four biggest banks now control over 70% of the banking system's total assets. At the moment, on the free credit market, Brazilian consumers are paying, on average, 58.6%, while businesses pay 27.5%.

Looking ahead, the future may be slightly less bright. All three of the major private banks expect the rising level of unemployment, currently standing at 8.7%, to result in more defaults on loans. Most analysts at the bank expect no significant improvement in Brazil's economic situation until the second half of 2016. "While the economic scenario is still unclear, companies and individuals are likely to be more cautious and postpone decisions about investment and consumption," Marcelo Kopel, the director of investor relations at Itaú, said. A possible increase in the tax on financial transactions is also worrying banking executives.

PRI electoral triumph overturned**Colima governor**

The interim governor of Colima, Ramón Pérez Díaz, has been a professor for more than 15 years. His previous public roles include state attorney general (1979-1985) and secretary general in the state government of Carlos de la Madrid Virgen (1992-1997). During his inaugural speech Pérez Díaz said one of his priorities would be clarifying the attack on former governor Fernando Moreno Peña (1997-2003), who sustained six bullet wounds when two gunmen opened fire on him in a restaurant last month. There have been several attacks on former governors of Colima in recent years, one fatal.

Colima, one of nine states where the Partido Revolucionario Institucional (PRI) has always governed, will have to restage gubernatorial elections. The federal electoral tribunal (TEPJF) has annulled the 7 June elections after ruling that the state government contravened electoral rules and regulations by misusing public finances to support the candidacy of the victorious PRI candidate. The new young president of the right-wing Partido Acción Nacional (PAN), Ricardo Anaya, now has a chance to prove his mettle by masterminding a victory in a hitherto impregnable PRI bastion before the 12 gubernatorial elections scheduled for 5 June next year.

The PRI's gubernatorial candidate in Colima last June, José Ignacio Peralta Sánchez, defeated the PAN's Jorge Luis Preciado, a federal senator, by a wafer-thin margin of 503 votes. The PAN and Preciado sought legal redress claiming that PRI Governor Mario Anguiano Moreno had interfered in the election campaign to benefit Peralta.

The TEPJF seemed disinclined to accept the PAN arguments until the party produced an audiotape as evidence that Anguiano's social development minister, Rigoberto Salazar Velasco, had authorised the use of social programmes to support Peralta's candidacy. On 22 October it voted to annul the elections and to bar Peralta from standing in extraordinary elections to elect a new governor. An interim governor of Colima, Ramón Pérez Díaz, was sworn in on 1 November (*see sidebar*).

The PRI accused the PAN and Preciado of presenting false evidence. The party president, Manlio Fabio Beltrones, complained that Peralta, the "victorious candidate", was "faultless" and should have been permitted to stand in the restaged elections. But the PRI voted with the PAN, which holds a majority of 13 deputies in the 25-seat state congress, to designate 17 January next year as the day for the extraordinary elections to be held. The victor will take office the day after the official electoral results are published. The national electoral institute (INE) calculated that the extraordinary elections would cost around M\$35m (US\$2.1m).

Anaya said that the extraordinary elections in Colima were now the PAN's main priority. Anaya promised that the PAN watchwords would be "honesty and transparency" as it set out to bring "alternation of power" to Colima, while calling upon Pérez Díaz to act with "total impartiality". "Colima deserves a change and we have a historic opportunity to deliver it," Anaya said.

If the PAN could end the PRI's hegemony in Colima it could set the tone for some of the other gubernatorial contests next June, galvanising the party to mount a challenge in states where the PRI has been untroubled in the past. Anaya has already welcomed the possibility of an alliance with other political parties to unseat the PRI in Colima. Talks are underway to seal a deal with the left-wing Partido de la Revolución Democrática (PRD), whose leadership voted last September to permit electoral alliances for next June's gubernatorial elections against the PRI and its allies.

The PRD won a mere 1.95% of the vote in Colima in June's elections. This could be decisive, however, as it was the equivalent of 5,878 votes, more than 10 times the size of the PRI's victory over the PAN.

Reforms explain ranking improvement

The World Bank's *Doing Business 2016* report attributed the rise in Mexico's ranking this year to some of the economic reforms pursued by the government led by President Enrique Peña Nieto since assuming office in 2012. "The country's ranking rose 1.57 points in one year, due to the [financial and tax] reforms that improved access to credit and made paying taxes easier," the *Doing Business* report notes. In particular, the report highlighted that elimination of the flat business rate tax for a progressive scheme allowed the country to climb 11 positions in the area of business friendly tax regulation from 103rd to 92nd.

MEXICO | Preliminary third quarter growth estimate. On 1 November Mexico's national statistics institute (Inegi) released its new preliminary GDP growth estimate figure for the third quarter of the year, which was 2.4% higher than the growth registered in the third quarter of 2014. Inegi's new preliminary growth figure – which the institute said from now on will be released within 30 days from the end of each quarter in a bid to make data available more quickly – suggests that Mexico's domestic economy continues to exhibit underwhelming growth this year, making the prospects of a strong economic recovery unlikely.

Last year, Mexico's GDP grew by 2.1%, which was a significant improvement from the 1.4% registered in 2013 but much lower than the 3.9% initially forecast by the government led by President Enrique Peña Nieto. The Peña Nieto government expected that the economic reforms that it successfully pushed through congress in 2012-2014 would help to boost economic growth to up to 4% per year. But this objective has largely been scuppered by the global economic slowdown and the fall in international oil prices. Indeed, the preliminary third quarter growth figure all but confirms that growth this year will not be much higher than last year.

The Inegi figure is only marginally higher than the 2.2% year-on-year GDP growth rate recorded in the second quarter. According to Inegi, the third quarter preliminary figure came on the back of a sound 2.8% increase in activity in the primary sector but on an almost negligible increase in activity in the secondary (0.7%) and tertiary (0.5%) sectors. Moreover, the seasonally adjusted quarterly figure is a much lower 0.6%. Even before the release of the figures local analysts polled by Mexico's central bank (Banxico) in late October revised down their economic growth forecasts for the year. The consensus forecast from the poll, published on 3 November, is now that 2015 growth will be 2.29%, lower than the 2.31% projected in early October. While the government has so far maintained its revised August year-end forecast of 2.0%-2.8%, it may move to cut it further after Inegi releases its definitive third quarter growth figures on 20 November.

MEXICO | International business Summit good news for Jalisco. Last week the governor of Jalisco state, Aristóteles Sandoval, announced that the state is set to receive US\$215m of investment that will create some 1,550 new local jobs. Sandoval's announcement was made on the opening day of the Cumbre de Negocios 2015 international business conference that was held on 25-27 October in Jalisco's capital, Guadalajara.

The governor said that the investment would come from four large firms that had agreed to set up shop or expand their existence presence in Jalisco. Mexican renewable energy firm Grupo Dragón is to invest US\$200m in the expansion of its existing wind energy farm located in Los Altos. Filipino firm Integrated Micro-Electronics (IMI), an electronics manufacturer for the automotive, medical and telecommunications sectors, will invest US\$13.5m in the expansion of its assembly plant located in Guadalajara. British food packaging firm Sirane Ltd. will invest US\$1m in the construction of a new plant in the Zapopan industrial park. While France's Groupe Serap, a food processing firm, has pledged to invest US\$625,000 in a new processing plant.

Pointing out that these investments would help to further boost Jalisco's economy, Sandoval said that he expected that an additional US\$300m in investment would be agreed as result of the Cumbre de Negocios. Among these is the construction of a new 500-hectare industrial park by Chinese firm China Communications Construction Company (CCC), in a joint venture with the state government.

During the summit, Jalisco state government officials revealed that the Sandoval administration and CCC have already reached a preliminary deal and agreed to conduct a feasibility study to identify a suitable location for the project that is to host various Chinese manufacturers. The successful Cumbre de Negocios shows came just as the World Bank released its annual *Doing Business 2016* report on 27 October, in which Mexico was ranked as the most attractive country to do business in Latin America. This after the country moved up four positions in the rankings since last year to 38th (out of 189 economies surveyed), overtaking Chile (48th), Peru (50th) and Colombia (51st).

Doubts over Morales' transparency pledges

Guatemala's president-elect Jimmy Morales is maintaining his insistence on cracking down on corruption, a pledge which proved key to his victory in the 25 October presidential run-off, given the public backlash against official corruption which forced Otto Pérez Molina to quit as President in September. Yet for all these pledges, question marks persist regarding Morales' inner circle and possible future government team.

In the latest sign of this declared commitment, Morales said last week that he would call for the mandate of the United Nations (UN)-backed International Commission against Impunity in Guatemala (Cicig) – which together with the attorney general's office (AG) was key in uncovering the string of public corruption scandals – to be extended until 2021. Cicig first began operations in 2007, and its mandate was extended in April for a further two years until 2017.

Local think tanks like the Central American institute for fiscal studies (Icefi) have remained sceptical regarding Morales's other anti-corruption proposals which promise to strengthen transparency and accountability. In its analysis of his manifesto for example, Icefi complained that Morales provides no objectives or indicators of means of verifying any progress with regards to anti-corruption efforts.

Morales's declared insistence on strengthening transparency has also been somewhat undermined by allegations made on 2 November by the Institute of National Problems at the University of San Carlos (Ipnusac) that the coordinator of his transition team, economist José Ramón Lam Ortiz, who had been tipped as a possible economy minister, was fired from the institute in March 2014 for plagiarism. At the time of writing, Morales maintained that he would keep Lam on as head of his transition team until the claims are proven.

Other dubious figures

Lam is not the only member of Morales's team who has aroused concerns. These have emerged in the local press over Colonel Erick Melgar Padilla, whose name has been floated as possible defence minister, and his brother (ret. Col) Armando Melgar Padilla who headed up Morales's security team and is also expected to wield influence in the incoming government. Col. Erick Melgar Padilla is a former director of the General Directorate for the Control of Arms and Ammunition (Digecam) under the current government.

According to respected local investigative journalist and economist Luis Solano, Col. Erick Melgar Padilla graduated from military school in 1984 where his classmates included: the former head of the social security institute (IGSS) Juan de Dios de la Cruz Rodríguez López, one of Pérez Molina's closest allies, forced to quit in May over one of corruption scandals [WR-15-21]; and imprisoned former army official Byron Lima Oliva, charged last year with running a multi-million dollar criminal network from prison.

Solano has linked the Melgar brothers to one of the most serious security scandals to hit the country in recent years – the murder of four Salvadorean deputies in February 2007. This sparked a major crisis for the then government led by President Oscar Berger (2004-2008) after the four senior Guatemalan police officials arrested for the crime were themselves killed days later in a high security prison. According to Solano, the Salvadorean deputies were murdered and subsequently burnt on two estates owned by the Melgar Padilla family. According to Solano, the Salvadoreans were first tortured in a

Cicig more popular than ever

The popularity of the UN-backed International Commission against Impunity in Guatemala (Cicig) was most recently indicated in a survey published on 1 November in a leading national daily, *Prensa Libre*, which gave it 95% approval. On 16 October the US government announced a further US\$5m contribution to Cicig. Since 2008 the US has given more than US\$36m to the UN-backed body.

El Salvador tax criticism

While El Salvador's influential private business association (Anep) mooted taking legal action, the chamber of commerce and industry said the new taxes constituted "a heavy economic blow for families and businesses...coming on top of the value-added tax and tax on profits already being paid". Arena deputies bemoaned what they called "black Thursday" and branded the new taxes "an attack on the wallet of El Salvador's people".

chapel on the Parga estate which since 2005 had been used by the police (PNC) to torture delinquents, gang members and narco-traffickers.

Solano also flags up other doubts surrounding Armando Melgar. These include the fact that in 2005, with the backing of then PNC director Erwin Sperisen (2004-2007), a Swiss-Guatemalan national (since jailed for life in Switzerland for seven murders committed in 2006), Armando Melgar, was hired as advisor to deputy administrative minister for the interior Captain Guillermo Gramajo, both of whom were then reportedly fired in June 2006 for corruption.

TRACKING TRENDS

EL SALVADOR | **Taxes approved to fund security plan.** President Salvador Sánchez Cerén has celebrated the legislative assembly's approval on 29 October of two new taxes proposed by his government to go towards funding its national security plan 'El Salvador Seguro'. The private sector and the main right-wing opposition Alianza Republicana Nacionalista (Arena) condemned the new taxes arguing that they were a sure-fire way to keep the economy in the doldrums.

The tax reform approved by deputies from the ruling left-wing Frente Farabundo Martí para la Liberación Nacional (FMLN), and the other three parties bar Arena, imposes a 5% levy on telecommunications services (mobile phone, cable television and Internet usage) and a 5% tax on annual corporate profits in excess of US\$500,000 earned by individuals or companies.

The government previously had tried to push through a 10% tax on telecommunications, promising to mitigate the effects through a 13% reduction in the average cost of telephone calls. The two new taxes will apply for five years: the government hopes to raise US\$140m a year, which amounts to US\$700m over five years, one-third of the US\$2.1bn investment it calculates will be necessary for 'El Salvador Seguro', a security plan including crime prevention initiatives and social reinsertion programmes for mara gang members as well as repression.

El Salvador's chamber of commerce and industry issued a statement censuring the new taxes. The chamber acknowledged the need for additional taxes to improve public security but it complained that this was the fourth tax reform in six years of FMLN administrations, pushing up the cost of living and damaging job creation. In the meantime, it argued, the public security situation, far from improving, had deteriorated sharply. It said the government should have explored other possibilities first. It singled out reducing the cost of junkets and government expenditure on advertising; doing more to bring the informal sector into the tax net; and creating better conditions to attract investment.

COSTA RICA | **Chinese cooperation.** On 3 November Costa Rica's foreign ministry announced that a Chinese technical evaluation and general investigation mission, which arrived in the country on 10 October to evaluate a series of development projects that China could help to finance, was close to completing its visit. The ministerial statement said that the Chinese mission, which has been tasked with determining the feasibility of a number of proposed projects that the Costa Rican government led by President Luis Guillermo Solís believes could be developed with the US\$24m in aid offered by the Chinese government, was due to conclude its visit this week. The statement adds that the Chinese officials had been able to tour all the areas where the projects will be located and held technical meetings with national and local government representatives involved. The US\$24m aid pledge from China was made in January during Solís's first official visit to the country and is aimed to strengthen bilateral ties following the establishment of formal bilateral diplomatic relations in 2007. According to the ministry statement, among the projects proposed by the Costa Rican government are: the building of a series of secondary schools, a new metropolitan park and drinking water provision system in northern Pacific Guanacaste province; and the development of a new marine species investigation laboratory in the central Pacific Puntarenas province.

Quotes of the week

“The rift is between the PU, the Liberals and [Vice-President Germán] Vargas Lleras, it is not even with the Cambio Radical. The split is not with the trunk but with one of the branches of Cambio Radical.”

Colombia's Roy Barreras, president of the Partido de la U, seeks to downplay the post-electoral tensions in the country's ruling coalition.

“Is it scaremongering to tell the truth or is it that they want to introduce scary policies that the public needs to know about?”

Argentina's cabinet chief Anibal Fernández on the economic policy proposals of the opposition presidential candidate Mauricio Macri.

“The party that is in power in Mexico is made up of baby dinosaurs. They are the new generations of a party that dominated presidential power for more than 70 years.”
Mexican investigative journalist Daniel Lizárraga.

Chile grapples with major price-fixing scandal

A new corruption scandal has broken in Chile, albeit one which has not embroiled the political class. The so-called ‘toilet paper cartel’ case involves the country’s two largest suppliers of toilet paper, disposable tissues, napkins and other personal hygiene products. The scandal broke on 29 October when the national economic crimes prosecutor’s office (FNE) accused CMPC Tissue and SCA Chile of colluding to divide up the local market and arbitrarily set the prices of their products. Together the two firms control 90% of the local market in this sector with combined annual sales of around US\$400m.

The FNE said the scandal was one of the largest collusion cases ever uncovered in Chile. It said that following the launch of an investigation in December 2014, the two firms admitted to setting up the cartel in 2000 and that this continued to operate until December 2011, affecting the local wholesale market. The two firms could be fined up to US\$15.5m but because they agreed to collaborate with the investigations, they may be spared having to pay this maximum fine. However, since then the case has gained added prominence, with top government officials such as Finance Minister Rodrigo Valdés condemning the firms for further harming market confidence at a time when domestic economic growth remains weak and the government is trying to increase investor confidence in a bid to boost economic activity.

According to the finance ministry’s calculations, since 2007 the government has purchased from the two firms US\$41m worth of toilet paper alone (the figure rises to US\$50m if other products are also taken into consideration). Noting that this represents “a significant amount of resources”, the finance ministry said that it has already asked the State’s defence council (CDE) to determine exactly what impact this would have had on the government’s finances.

The president of Chile’s central bank (BCCH), Rodrigo Vergara, said on 3 November that the growth forecast for 2015 was a moderate 2%, adding that “the collusion case that emerged last week and that still dominates the press, is certainly negative for confidence... I emphatically and categorically reject such practices, and the sanctions must be exemplary”.

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