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## Bolivia reaches turning point

After nearly a decade in power, an end date to the mandate of President Evo Morales, Bolivia's longest-serving president, is finally in sight. The 21 February referendum on whether to reform the 2009 constitution to allow him to run for a third consecutive term in 2019 (under this constitution), delivered a defeat for Morales and his Movimiento al Socialismo (MAS). Morales' campaign was damaged by corruption allegations – both those surrounding the government's indigenous development fund (Fondioc) and a recent influence-trafficking scandal which, for the first time, personally implicated the president himself [WR-16-07]. Yet his defeat could also be seen as part of a region-wide trend against *continuismo* – leaders perpetuating themselves in power – as evidenced in the defeat of Venezuela's Partido Socialista Unido de Venezuela (PSUV) in the December 2015 legislative elections, the biggest electoral setback to Chavismo in 17 years, and the victory in Argentina the previous month of Mauricio Macri after 12 years of Kirchnerismo.

On 23 February, two days after the referendum, which saw participation of 84.45% of the 6.5m electorate (including 258,990 Bolivian nationals living abroad), the supreme electoral tribunal (TSE) confirmed the defeat for President Morales. With 99.72% of the vote counted, the 'no' vote won by 51.30%-48.70%. This is the first direct electoral defeat for Morales since he first won election in 2005 with 54% of the vote. He easily won a recall referendum three years later, taking 67% while the following year, the MAS won a referendum approving a new constitution with 61%. In 2009 and 2014 general elections, Morales again won convincingly, taking 64% and 61% of the vote respectively.

Waning support for the MAS had emerged in two other electoral defeats for the ruling party in less than a year – in September 2015 referendums on autonomy statutes held in five of Bolivia's nine departments – La Paz, Cochabamba, Chuquisaca, Potosí, and Oruro [WR-15-39] – and in 29 March 2015 municipal and regional elections [WR-15-13]. The March election notably exposed public frustration with corruption implicating the MAS – as illustrated in the defeat of MAS candidates like Felipa Huanca who, implicated in the Fondioc scandal, ran for the La Paz governorship but was defeated by MAS dissident Félix Patzi of the left-wing Soberanía y Libertad (Sol.bo).

Although in the most recent 2014 general election, the MAS took eight departments (losing only in Beni), the 'yes' vote on 21 February won in just three – La Paz (55.78%-44.22%); Cochabamba (54.89%-45.11%); and Oruro (52.03%-47.97%). Indicative of frustration with Morales on the part of his traditional supporters for his government's failure to meet regional demands, the 'yes' vote notably lost in the MAS's traditional stronghold of Potosí, the country's poorest department, by 46.74%-53.26%. Potosí was the

## Poverty pledges

President Morales' 'yes' campaign had rested in part on pledges to continue poverty reduction efforts, made possible through revenue from the nationalised hydrocarbons sector which returned to state control after he took office in 2006. His economic and social development plan for 2016-2020, in which he plans to invest US\$48.5bn, was mainly aimed at reducing inequality, with the aim of bringing down extreme poverty from 17.3% of the population (total 11.2m) in 2014 to 9.5% in 2020 and general poverty from 39.3% to 24% over the same timeframe. Whether he is able to fulfil these pledges remains to be seen given the continued fall in international commodity prices: last month the government announced that a special summit would be held following the referendum in order to address the continued fall in oil prices.

site of unrest last year amid frustration with the MAS government over its lack of investment in the region [WR-15-30].

As well as losing in Potosí, the 'yes' vote also lost in Chuquisaca (44.77%-55.23%), while more generally the results point to the re-emergence of old divisions between the western highlands and the 'Media Luna' eastern lowlands (Tarija, Santa Cruz, Beni, and Pando departments). The Media Luna had previously served as the bastion of opposition to the MAS, particularly in 2008, amid Morales's efforts to introduce a new constitution. As regards the breakdown for the 'Media Luna': the 'yes' vote lost in Santa Cruz (39.66%-60.34%); Tarija (39.84%-60.16%); Beni (39.10%-60.90%); and Pando (46.02%-53.98%). It also lost in all of the country's nine departmental capitals. In one minor fillip for the MAS, the 'yes' vote won in its symbolic bastion of El Alto which it had lost in the March 2015 mayoral elections to Soledad Chapetón of the opposition centre-right Unidad Nacional (UN) amid protests over alleged corruption involving her MAS predecessor, Edgar Patana (2010-2014).

## Challenges

In addition to the impact of the Fondioc case and influence-trafficking scandal involving the Chinese company CAMC, there were more general concerns about whether Morales would be able to see out his campaign pledges to continue with the poverty reduction plans which have underpinned government policy, amid the slump in international commodity prices (*see sidebar*). Morales could also have been damaged in the final stages of his campaign by the fire which broke out in the municipal office of the mayorality of El Alto [WR-16-07] which again focused attention on corruption in the MAS (*see box*).

With Morales having said that he will respect the TSE's results and step aside in 2020, the challenges facing the MAS in identifying a potential successor remain considerable: his personal popularity and unique ability as an indigenous Aymara and union leader to appeal to different sectors had hitherto played a key role in the electoral victories of the MAS since its formation in 1995. There is a dearth of leaders given the party's traditional intolerance towards challengers from within its ranks, demonstrated in high-profile expulsions such as that of Rebeca Delgado, a former president of the national lower chamber (2012-2013), who fell out with the MAS in 2013. However, Morales' close ally, Foreign Minister David Choquehuanca, in the post since 2006, and the president of the chamber of deputies, Gabriela Montañó, have been floated as possibilities.

Interestingly, one of the most visible leaders of the opposition, La Paz mayor Luis Revilla (Sol.bo), has also conceded that this task of identifying new leaders is not just faced by the MAS but also by the fragmented political opposition. This remains divided between national figures like Samuel Doria Medina of the centre-right Unidad Demócrata, which has 32 deputies in the 120-member lower chamber and nine senators in the 36-seat senate (compared with 89 and 25 for the MAS); former president Jorge Quiroga (2001-2002), of the Partido Demócrata Cristiano (PDC, 10 deputies and two senate seats); and regional rivals like the governor of Santa Cruz department, Rubén Costas. In an interview with Santa Cruz-based daily *El Deber*, published on 22 February, when asked about figures like Doria Medina and Quiroga, Revilla said, "their time has passed".

### El Alto fire

While the media reported that the El Alto fire broke out amid protests staged by a local parents' group calling for better schools and more teachers, Chapetón blamed MAS supporters who she claimed infiltrated the crowds and set fire to the municipal office as part of efforts to destroy evidence of corruption involving Patana. Those charged in relation to the deaths include two *MASistas* – Braulio Rocha, the executive secretary of a local union, Federación de Gremiales de El Alto, and Wilmer Sarzuri Apaza, a former MAS councillor candidate.

## What is Camimpeg?

There is much speculation as to the purpose of a new state company that appears to increase the Venezuelan military's involvement in the oil and mining sectors. The 10 February daily gazette announced details of a new military company, Cia Anónima Militar de Industrias Mineras, Petrolíferas y de Gas (Camimpeg), authorised to take part in a variety of oil services and mining activities.

Camimpeg will report to the defence ministry, which will appoint the company's board and president. Eulogio Del Pino, who doubles as Venezuela's energy minister and president of the state oil company Petróleos de Venezuela (Pdvsa), said that Camimpeg would provide Pdvsa with various oil services, including the maintenance of wells and drilling rigs, transport and the commercialisation of chemicals and, apparently, provide support for security. "It will help Pdvsa in all the necessary areas. For instance in border areas, we're going to increase our security, in operational issues where our soldiers are perfectly prepared," he was quoted as saying by newswire *Reuters*.

However, local and international commentators put forward various other theories. Aside from the complaints about the creeping militarisation of the Venezuelan government under President Nicolás Maduro, these include a suggestion that the new company could be used as a vehicle to shield Pdvsa assets from being seized in the event of a debt default. Russ Dallen, of a Miami-based consultancy, Latinvest, noted to *Bloomberg* that "the state can take away the rights to the oil, gas and resources of Pdvsa at any time, leaving it largely worthless to creditors and protecting Venezuela's ongoing cash generation from oil sales from Pdvsa creditors." He added that the new company "could also help the government maintain operations if unpaid bills to joint-venture partners and oil service providers start to impact output". And, in another scenario, "it could also be used as a bargaining chip in any deal with China".

Others suggested that the new company simply reflects government efforts to resurrect a mining sector in the country, which, if successful, could be another important source of foreign currency earnings. Del Pino said in late January that Venezuela was moving to certify its precious metal resources and was interested in producing diamonds. A subsequent Pdvsa note said that Del Pino and the central bank president, Nelson Merentes, had met with Ahmed Bin Sulayem, chairman of the Kimberley Process, an organisation that monitors the sale of conflict diamonds, as part of its certification efforts. The Chavista government, it is worth noting, has previously tried and failed to revive gold mining in the country.

### Pdvsa debt talks

Meanwhile, Del Pino has acknowledged that Pdvsa is in talks with international banks to refinance/restructure the company's debt. Rumours to this effect began last November, when government and Pdvsa officials were spotted in New York. "We're in the middle of this," Del Pino commented to reporters, without giving details. The assumption is that the company aims to roll over its 2016-2017 bond obligations to 2018/2019, when it has a lighter scheduled load. A tranche of some US\$2bn in interest and principal payments falls due on Pdvsa bonds on 26 February, with another US\$5bn due in the final quarter.

As our sister publication [Latin American Economy & Business points out in its February edition](#), "the government really cannot afford to allow Pdvsa to default. The company is not just (by far) the largest source of export earnings

### MUD reaction

The opposition Mesa de la Unidad Democrática (MUD) has reacted angrily to President Maduro's latest devaluation-led economic adjustment package. Noting that the measures (including devaluation and the first rise in local gasoline prices in almost two decades) would do nothing to resolve the structural economic problems on the ground, the moderate MUD politician Henrique Capriles Radonski, the governor of Miranda state, accused Maduro of "putting his hand in people's pockets".



## Maduro resignation

Opposition radicals are re-floating the notion that Nicolás Maduro should resign as a straightforward way out of the country's political crisis. Tamara Adrián of Voluntad Popular, who made her name as Latin America's first transgender parliamentary deputy, has been tweeting about it. "The least painful way out of the crisis is resignation. But for that one has to be brave," she declared. Voluntad Popular is led by the radical Leopoldo López, who is serving a 14-year prison sentence for inciting violence in anti-government protests (in 2014) that López hoped would force Maduro's resignation ('La Salida'). Adrián added: "Two years ago @leopoldolopez said that the model needed to be changed and for that the regime needed to be changed. Today the whole world understands him".

and government revenues, it is the vehicle through which the Venezuelan government has access to global financial markets. Further, it has substantial assets outside the country – such as its US Citgo refinery operation – which can be seized by aggrieved creditors. Finally, it is not clear that Pdvsa's bonds include collective-action clauses (CACs). It would probably not be possible to force a restructuring deal on all bondholders. As such, negotiations with 'holdout' creditors could take years".

Venezuela started including CACs in its international bonds issued under New York law in 2003. As such, the bulk of its sovereign debt contains CACs, allowing a majority – typically 75%, but sometimes higher – to agree to a restructuring that is binding on all holders of a particular debt series. However, it appears that bonds issued by Pdvsa require unanimity to modify the terms of interest and principal payments. Some private fund managers suggest that this distinction might not matter much in the event of a disorderly default, with a default by the sovereign most likely prompting a collapse of Pdvsa bonds in any case as well.

### Opec price freeze

Following intense lobbying efforts by Del Pino and others, the Organization of the Petroleum Exporting Countries (Opec) may agree to an expanded meeting in March of Opec and non-Opec producers to discuss a proposal to freeze oil output at current levels, in a bid to put a floor under global oil prices. In the Qatari capital of Doha this week, officials from Venezuela, Russia, Qatar and the Opec leader Saudi Arabia held talks on the oil market and tentatively agreed to the output freeze, pending the support of other producers. Ecuador, Algeria, Nigeria and Oman later expressed support for the proposal. Saudi Arabia, however, will be waiting first to see if Iran would agree; Iran has little incentive to do so, suggesting that the proposal may not get far. Opec's next internal meeting is in June.

## PERU | POLITICS

### Guzmán gets all clear – or does he?

Julio Guzmán should be able to run in the presidential elections on 10 April. The candidacy of Guzmán, who has surged up the polls to cement second place, was given the go-ahead by the Jurado Electoral Especial de Lima (JEE) on 24 February after more than a week of uncertainty. Guzmán is the only candidate in the top five with the priceless commodity of momentum. He might not overhaul the long-time frontrunner, Keiko Fujimori, before the elections, but now that he has distanced himself from the pack he will pick up more and more of the anti-Fujimori vote, propelling him into a run-off on 5 June. He could be the favourite by then, but as he will now face greater scrutiny he will need to present a clear and coherent plan of governance.

The JEE decided that the documents submitted by Guzmán's party, Todos por el Perú, in defence of his candidacy confirmed the validity of the party statutes approved by a general assembly last October and that his candidacy was admissible (*see sidebar on page 4*). Guzmán celebrated the ruling while campaigning in the region of Cusco, saying he had "truth and justice" on his side. Former jurists and other experts do not unanimously share this view, some taking issue with the JEE ruling, but others argue that it would have been wrong to exclude Guzmán on a minor technicality.

Guzmán climbed 13 percentage points to 18% in just one month, according to a survey released by the national pollster Ipsos on 21 February. Keiko fell three points to 30% and Ipsos put them in a technical tie in a second round scenario. Ipsos showed other leading candidates are falling by the wayside: Pedro Pablo Kuczynski of Peruanos por el Cambio (PPK) has fallen from 16% to 13% to 9% over the last two months, while César Acuña, of Alianza Para el Progreso (APP), dogged by allegations that he plagiarised his thesis and

## Doubts remain

The JEE's acceptance of Julio Guzmán's candidacy can still be challenged as the national electoral council (JNE) confused matters by rejecting the changes to the TPP's party statutes on the same day. If a legal challenge is mounted, the JEE would resolve it but its ruling could be appealed before the JNE. If Guzmán is excluded from the elections, it is likely to catapult one or other of Alfredo Barnechea, of the centrist Acción Popular (AP), or Verónica Mendoza, of the left-wing Frente Amplio (FA), into contention. Both of them are steadily climbing in the polls, and reached 4% in the Ipsos survey. Mendoza doubled her support. Barnechea came from a group of "others" with less than 1%.

dispersed cash handouts during the present campaign, slumped from 13% in January's poll to just 6%. Former president Alan García (1985-1990; 2006-2011) fell from 8% to 6% and lies in fifth.

Having moved within striking distance, Guzmán has now launched his attack on Keiko in earnest. "Our responsibility is not just to win power. Our responsibility is that the dictatorship never returns," he said during a campaign rally in the Cusco province of Urubamba. "The country has two options: return to murders and dictatorship or move forward." Guzmán, who also visited the Cusco provinces of Calca and Anta, the birthplace of his grandmother, is the strongest candidate in southern Peru, where his 25% support eclipsed Keiko's 22% in the Ipsos poll. In central Peru he only trails Keiko by five points (26%-21%). He is weakest in the east (15%) and the north (17%) where, by contrast, Keiko is strong (29% and 28% respectively). Guzmán might struggle to make significant inroads into Keiko's support here but in Lima, where one third of voters live, he has real potential. He trails Keiko by 31% to 16% in Lima but in a run-off he would pick up, for instance, the bulk of the support currently enjoyed in the capital district by PPK (11%).

Keiko, meanwhile, will attack Guzmán, a former deputy industry minister at the start of the present government, as the candidate of the (unpopular) administration of President Ollanta Humala. She has been given a helping hand by First Lady Nadine Heredia, the president of the ruling Partido Nacionalista Peruano (PNP), who tweeted on 20 February that Peru's electoral authorities had demonstrated that they had "favourites". PPK and García pounced on her comments; PPK arguing that they constituted gross interference in the electoral process and showed that she had her "favourite"; García that Heredia was Guzmán's "chief". Guzmán rejected being the government candidate and insisted that he would investigate the Humala administration if he came to power.

## COLOMBIA | POLITICS & SECURITY

### Armed Farc rally puts paid to peace deadline

President Juan Manuel Santos warned the Fuerzas Armadas Revolucionarias de Colombia (Farc) in no uncertain terms this week that "time is running out" to conclude the peace talks by 23 March. Santos was forced to toughen up his rhetoric after the head of the Farc negotiating team in Cuba, 'Iván Márquez' (Luciano Marín Arango), led a rally in northern Colombia protected by heavily armed guerrillas. Santos accused the Farc of "[failing to] break the link between weapons and politics". After several days of frantic mediation by the guarantor nations of the peace talks, the two sides agreed to "overcome recent differences", but it has all taken up precious time and too many thorny issues remain for the deadline to conclude the talks to be met.

President Santos had shown some flexibility on the 23 March deadline during his recent visit to the US [WR-16-06]. Privately he will be more aware than anyone that too much remains to be done to meet this but publicly he had to give a tough response after the outcry caused by an armed rally in the village of Conejo in the municipality of Fonseca in the northern department of La Guajira on 18 February led by Márquez and five other senior guerrilla leaders, including 'Joaquín Gómez' (Milton de Jesús Toncel Redondo) and 'Jesús Santrich' (Seusis Pausivas Hernández), protected by some 500 guerrillas.

Speaking during a swearing-in ceremony for the new commander of the national police, General Jorge Hernando Nieto Rojas, after the resignation of General Rodolfo Palomino [WR-16-07], Santos said the fault lay squarely with the Farc not the armed forces. He said the rally was "unheard of" and "unacceptable" and that while he had authorised the trip, Farc leaders were only permitted to return to Colombia to explain details of the accords to rank-and-file guerrillas "not to have contact with the civil population still less make political demonstrations" guarded by the guerrillas they were meant to be meeting in camp.

## Referendum

President Santos said this week that he would give “the last word” to the Colombian public on the peace accords with the Farc. “The accords will be put to some type of referendum. If the ‘no’ wins, the peace process will end,” Santos said. Santos said he was “absolutely certain” that if the government did “a good job at selling the peace accords, the majority of the Colombian people will approve them.” Santos is backing away from comments he made last August when he said that a referendum on the matter would not be “suitable” and mooted the creation of a ‘congresito’ to harmonise any accord with the constitution. The Farc would prefer the establishment of a constituent assembly to a referendum and this is one of several thorny issues still to be resolved in Cuba.

The Farc secretariat issued a statement saying the incident had caused “unjustified controversy”. “Non-existent commitments in the protocols should not be used...to ignore the right to free information for all citizens,” it argued, while inviting the government to “overcome this impasse”. Appearing before 70 members of the national peace council on 23 February, the peace commissioner, Sergio Jaramillo, said that “we cannot see this as only an impasse...because it breaks a fundamental principle which is that we don’t want to mix politics with weapons”.

Bruno Rodríguez and Børge Brende, the foreign ministers of the guarantor nations, Cuba and Norway respectively, led efforts to resolve the dispute and get the talks back on track. Representatives of the guarantor nations read a statement on 24 February announcing success in this regard but not giving a date for talks recommencing. It later emerged that Márquez et al will be authorised to return to Cuba on 25 February. The government negotiating team will return the following day and hold a crisis meeting with their Farc counterparts (to redesign the protocols for future visits by Farc leaders to Colombia to keep guerrillas informed) before returning to Colombia to report back to Santos on 27 February.

The talks could get underway again by 2 March, but that will leave just three weeks until the deadline. The government has given out mixed messages over the deadline. While Santos underscored its importance again this week the interior minister, Juan Fernando Cristo, said it should not become “a sword of Damocles hanging over the peace process”. The most likely scenario is that significant progress of some sort will be announced on the day but not a final accord.

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## TRACKING TRENDS

**COLOMBIA | Another budget cut.** On 22 February Colombia’s President Juan Manuel Santos announced that his government had agreed to cut the 2016 national budget by Col\$6trn (US\$1.81m) in response to the persistently low level of international oil prices. “We have taken the decision at the council of ministers to cut spending in 2016 by Col\$6trn, almost 3% of the budget,” Santos announced after chairing a ministerial cabinet meeting.

Santos said that the cuts would, among other things, help the government achieve its target of ending the year with a fiscal deficit of 3.6% of GDP. He also said that they would maintain investor confidence in Colombia amid the current scenario of low international prices for oil, coal, and some of Colombia’s other main mineral commodity exports. The original Col\$215.9trn (US\$65.3bn) 2016 budget was based on an oil-price forecast of US\$50 per barrel (/b). However, the current price fetched by Colombian crude in international markets remains below the US\$30/b mark.

This is the second time that the Santos administration has sought to cut its original budget in as many years as a result of the oil-price shock. Like last year, Santos said that fiscal adjustment would be implemented under a policy of “intelligent austerity”, under which the aim is to reduce government spending but protect poverty alleviation programmes as well as job-generating investments. “We need to adjust to the new circumstances,” Santos said but he was adamant that pessimism should not take hold of Colombia. “We are not in an economic crisis,” Santos said, pointing out that the consensus forecast is that Colombia will post real GDP growth of 3% in 2016, one of the highest projected rates in the region.

Yet the rating agency Standard & Poor’s (S&P) recently adjusted its outlook for Colombian sovereign debt from BBB with a stable outlook to BBB with a negative one, warning that as a result of the oil-price shock “The country is counting on a level of revenue it currently does not have”, and that a rating downgrade could be on the cards if the international economic scenario does not improve or the government makes further fiscal adjustments next year. It is no surprise then that Santos is once again mooted promoting a tax reform in the second half of this year.



**First major protests against Macri presidency****Obama to visit**

On 18 February, the White House confirmed that US President Barack Obama would visit Argentina on 23 and 24 March, after his visit to Cuba. US authorities said the purpose of the visit was to increase cooperation between the two countries, particularly in the areas of trade, investment, renewable energy and climate change. The last visit of a US president to Buenos Aires was over two decades ago.

Thousands of Argentina's public sector workers took to the streets of Buenos Aires and gathered outside the presidential palace on 24 February as part of a national strike in protest against the dismissal of thousands of public sector workers. Approximately 21,000 state workers have been fired since the beginning of 2016, with even more layoffs expected in the coming months as government ministries continue to review contracts. It was the first major protest against the government led by President Mauricio Macri, and the first since the implementation of a controversial law that would allow security forces to disperse protesters almost as soon as they gather.

The national strike, which was organised by the Asociación Trabajadores del Estado (ATE), protested the thousands of job losses, and demanded better salaries and working conditions for public sector workers. "If the government doesn't respond, we will continue with forceful measures," Hugo Godoy, the president of the ATE, said.

Labour leaders Hugo Yasky and Pablo Micheli of the Central de Trabajadores de la Argentina (CTA), to which ATE belongs, marched alongside the state workers in a show of solidarity with their cause, and demanded an end to "the criminalisation of social protest."

Last week, Macri's security minister, Patricia Bullrich, announced measures that would give protesters just "five or ten minutes to disperse" before being broken up by the security forces. The new protocol also includes a ban on blocking roads. But on 24 February, traffic was paralysed across downtown areas in Buenos Aires City with protesters blocking key intersections, as the security forces appeared to hold back from implementing the new powers granted to them by the protocol. Outside of Buenos Aires, there were well-attended demonstrations in the provinces of Río Negro and Córdoba, with a number of key highways blocked by protesters.

In an event to announce the elimination of taxes on mining last week, Macri said the public sector employment generated during the previous five years, under the administration of President Cristina Fernández (2007-2015), was "unnecessary" and a product of "clientelism". In response to the unrest triggered by the wave of lay-offs, Vice-President Gabriela Michetti has accused public sector workers of being "Kirchnerista militants".

**Closing in on holdout deal**

While the protests were taking place, the government received positive news from the US in its bid to seal a deal with holdout bondholders which would enable it to return to international capital markets. On 24 February, a lawyer for the remaining holdouts said that they had reached an agreement in principle with the Argentine government.

Two of the holdout hedge funds have already reached an agreement with Argentina. Now, there are signs that the others may be close to a deal. Matthew McGill, a lawyer representing Elliott Management and Aurelius Capital Management, told a hearing at a US Federal Appeals court that Argentina had reached an agreement to pay US\$5bn to four hedge funds representing about two-thirds of the holdout creditors, and that all that had to be resolved was "the payment mechanism".

## Inflation

While it devises a new methodology to more reliably measure the national inflation rate, Indec has recommended using the inflation indexes independently compiled by the city of Buenos Aires government, or that of the government of the province of San Luis as a provisional inflation measure. On 23 February the San Luis province statistics directorate released its latest inflation report, which puts the inflation rate in January at 4.2%, almost identical to the rate of 4.1% reported by the Buenos Aires City government a few days earlier. According to the San Luis statistics directorate, the January figures bring the rolling 12-month inflation rate to 35.1%, higher than the 20%-25% that Macri government officials have set as a target for this year.

Until now Elliot and Aurelius have refused to accept the new settlement offer tabled by the Macri administration. Indeed McGill was speaking at a hearing called by his clients to express their disagreement with the 19 February statement issued by Judge Thomas Griesa, who is hearing the case brought against Argentina in the US courts.

Griesa said that he was prepared to lift the injunctions against Argentina making payments to some of its other bondholders until it reaches a settlement with the holdouts, if the country continued to show that it is willing to settle the dispute; and which gave the two sides until 29 February to reach a settlement. McGill said that his clients objected to the lifting of the injunctions as they believed that this is what had brought Argentina to the negotiating table; and that the two sides were now really close to securing a deal. McGill said his clients needed more time beyond the 29 February deadline to agree to participate in the Argentine government's offer.

The comments triggered a furious response from the court-appointed negotiator, Daniel Pollack, who said the statement violated the confidentiality of the discussions. The finance ministry denied that any deal had been reached with the holdouts. "The only person authorised to give news of an agreement is the mediator Pollack," a spokesperson said.

Even if Argentina has reached a deal with the holdouts, other obstacles remain. In particular, the government needs to persuade congress to lift the so-called "padlock law" to allow it to pay its creditors. Other than the headline amount agreed, there are still other details that need to be resolved between the government and the holdouts. Creditors who have not struck a deal with the government could also continue to fight.

## Trade deficit

Argentina's national statistics institute (Indec) reported on 18 February that the country posted a trade deficit of US\$3.03bn in 2015, compared to a US\$3.1bn surplus in 2014. The negative result, the worst since 1999, comes despite the fact that back in October 2015 Indec had reported a US\$1.8bn trade surplus. But that came before the new government led by President Mauricio Macri assumed office in December and appointed a new Indec leadership to replace the widely discredited one put in place by the previous government led by Cristina Fernández (2007-2015).

According to the latest Indec figures, Argentina had actually accumulated a trade deficit of US\$1.1bn by October 2015 and this figure continued to increase in the final two months of the year. Indec's new technical director, Fernando Cerro, has said that in his view the disparity in the figures can only be explained by the fact that under Indec's previous leadership, figures were based on "estimations" rather than hard data. According to Cerro, moved by this suspicion, the new Indec officials asked the customs authority to submit all the information it had available in order to come up with the latest trade balance report. This shows that total exports last year were US\$56.75bn, 17% lower than the US\$68.33bn reported in 2014. Meanwhile while imports fell by 8% they amounted to US\$59.78bn.

All of this highlights the extent of Argentina's economic problems that still need to be addressed by the Macri government, which maintains that its elimination of the import and export trade restrictions imposed by the Fernández administration, as well as the removal of all foreign currency controls, will help to boost Argentina's exports. It also exposes the extent of misreporting by the Indec under Fernández and helps explain why the new Indec leadership decided to suspend the publication of all economic data - inflation in particular (*see sidebar*) - until after it can introduce a new methodology, which is due to happen by March.



## Santana arrest brings threat closer to Rousseff

While the threat against President Dilma Rousseff in terms of the impeachment proceedings in the federal lower chamber of congress may be receding, developments this week raise the possibility that it is the challenge to her mandate in the supreme electoral court (TSE) that may prove more serious. On 22 February, João Santana, the political marketing guru who helped to engineer Rousseff's two electoral victories, as well as Lula da Silva's 2006 campaign, was accused by federal police of taking money from a company connected to the corruption scandal afflicting the state oil company Petrobras. Aécio Neves, the defeated presidential candidate from the Partido da Social Democracia Brasileira (PSDB), swiftly announced plans to add the evidence against Santana to the case against Rousseff at the TSE.

Police accuse Santana, as well as his wife and business partner, Monica Moura, of stashing up to US\$7.5m in undeclared foreign bank accounts from offshore companies controlled by Odebrecht, one of the major construction companies implicated in the Petrobras scandal. Odebrecht's CEO, Marcelo Odebrecht, has been in preventive detention since June last year. In a note released to the media, Santana expressed his lack of surprise at the development "given the climate of persecution in my country at present".

The impact of Santana's arrest will be felt most keenly at the TSE. The government appears to have the numbers to stave off impeachment proceedings in congress, especially since a Rousseff ally was elected as leader of the Partido do Movimento Democrático Brasileiro (PMDB) in the lower chamber. Faced with this new reality, the opposition appears determined to ratchet up the pressure on the TSE to declare the 2014 elections invalid over allegations that the president knowingly funded her campaign with cash from the Petrobras scandal. In a post on Facebook written on the day of Santana's arrest, Neves wrote that the development was "the most serious" event so far in the history of 'Operation Car Wash', the investigation into corruption at Petrobras. He added that the PSDB would seek to add the case against Santana to the case against Rousseff at the court.

While a decision at the court is unlikely until the second half of this year, Santana's arrest maintains the possibility of the court calling new elections. Even if the TSE rules against such a decision, its deliberations will weaken Rousseff further. Assuming she survives the impeachment process in congress, her time and energy will then become consumed with a potentially long-running court case questioning her mandate.

### Who is João Santana?

João Santana is "without doubt the most talented campaign manager in Brazil", according to Lucas de Aragão, a managing partner of Arko Advice. "He was the first person to introduce US-style election campaign tactics to Brazil, including the use of accurate data, focus groups, and research which properly understood the needs of the electorates". Santana played a role in Lula da Silva's first election victory in 2002, and went on to run all of the subsequent presidential election campaigns of the left-wing Partido dos Trabalhadores (PT), as well as various mayoral and gubernatorial elections for the party.

Commentators believe he played a particularly crucial role in the closely fought 2014 election, where he was a visible presence by the side of Rousseff throughout the presidential debates. However, his upbeat messaging during that campaign has proved impossible for the president to follow in office. Outside of Brazil, Santana also had considerable success, winning elections in El Salvador, Venezuela and Angola. At the time police announced his arrest warrant, he was in the Dominican Republic with his wife, Monica Moura, working on the re-election of President Danilo Medina.

**Samarco arrests**  
Police in the state of Minas Gerais have charged six executives from the mining firm Samarco, plus one contractor, with aggravated homicide over the Mariana dam burst last year that killed 19. Alongside the murder charges, the men are also accused of causing flooding and polluting drinking water.

## Moody's downgrades Brazil to junk

Brazil's battered economy took another blow on 24 February when Moody's became the last of the three major credit rating agencies to strip the country of its investment grade status. The agency lowered Brazil's ratings by two notches, from Baa3 to Baa2 with a negative outlook. Fitch Ratings lowered Brazil into junk territory in December, mirroring a similar move by Standard & Poor's in September. Without doubt, the first and second downgrade had much greater economic significance; this final downgrade was widely expected and had little impact on the markets. However, it is another blow to President Dilma Rousseff's handling of the economy, and another decision that will impact negatively on consumer sentiment in the country.

In a note accompanying its decision, Moody's said the downgrade was driven by worries over an increase in government debt "in a low-growth environment" and the country's "challenging political dynamics". The agency said it expects the government's debt to exceed 80% of GDP within the next three years and for the economy to contract by an average of 0.5% a year through 2018.

Brazil's finance ministry responded to the decision in a news release, stating that it would not alter its "commitment to necessary fiscal adjustment". The ministry added that current measures under discussion, including pension reform and a financial transactions tax, would soon result in the resumption of growth. "The really bad news is that this isn't really news at all," said Andre Perfeito, the chief economist of Gradual Investimentos. "The markets barely reacted. Everybody knew it was going to happen."

Last week, Brazil's central bank published statistics showing that the economy shrank by over 4% in 2015. The Organization for Economic Co-operation and Development (OECD) forecast the country's GDP would contract by a further 4% in 2016. The gloom over Brazil's economic prospects is compounded by the poisonous atmosphere in congress, where the government is struggling to win support for its austerity measures. "The problem in Brazil is not an economic one, but a political one," Perfeito said. "We need medium- to long-term fiscal adjustment, but as everyone is nervous in Brasilia they are trying to do it all in the short term." Jason Vieira, from Infinity Capital, predicted that without a change of course the Brazilian economy could return to a 1980s scenario, with both inflation and interest rates running above 20%.

### TRACKING TRENDS

**BRAZIL | Unemployment up.** On 19 February Brazil's national statistics institute (Ibge) produced its latest unemployment statistics, showing that the jobless rate rose to 9% in November 2015. Almost all sectors of Brazil's economy saw job losses. The industrial sector cut 2.9% of its posts; agriculture 2.5%; information technology, communications and financial services saw a fall of 6.7%. Only construction, up 6.1%, and domestic services (maids, cleaners etc.), up 4.7%, saw positive growth. A total of 9.1m Brazilians are now unemployed, for those in work, the average salary fell in 2015 compared with 2014. Added to this is the impact of inflation, currently running at 10.7%.

Ibge's latest data set comprises the months of September to November 2015. Compared with the previous three months, unemployment was up by 0.3%; compared with the same period of the previous year, unemployment rose from 6.5% to 9%. The fact that domestic services is one of the brightest spots in the Brazilian economy is indicative of the depth of the recession. During the recent boom years of the Brazilian economy, the shrinking pool, and increasing cost, of housemaids became a common grumble of the upper middle classes.

### Brazilian companies

With Brazil's credit rating recently downgraded further into 'junk' territory by international rating agencies, many investors are openly speculating over which major company will default first. Gol Air Lines and Samarco Minerals, the Vale-BHP Billiton joint venture responsible for the environmental catastrophe in Minas Gerais state last year, are touted as two likely suspects.

## Government stung into action

The Mexican government is battling to mitigate the impact of twin threats to the economy. With oil prices and the peso heading in the wrong direction, the finance minister, Luis Videgaray, and the president of the Banco de México (Banxico), Agustín Carstens, took two big decisions last week: cutting public spending substantially; and raising interest rates. President Enrique Peña Nieto, speaking on *Televisa*, said the measures were designed to guarantee stability in the face of international volatility. Mexico's economic fundamentals remain solid but the concomitant fall in oil prices and the peso compelled his government to act again.

Videgaray and Carstens announced the economic measures in a press conference, weighing up the relentless momentum of the peso's fall and the lack of any imminent prospect of a recovery in oil prices, which are now down by more than 60% on this time last year. "Oil prices are falling, they are through the floor, and the government cannot...remain passive. We are acting in a responsible manner to the loss in earnings," President Peña Nieto said on *Televisa*.

Videgaray announced spending cuts of M\$132.3bn (US\$7.25bn), the equivalent of 0.7% of GDP. The state energy company Pemex will bear the brunt of the burden, with its annual budgetary allocation cut by 21%, a total of M\$100bn (US\$5.5bn). Of the remaining M\$32.3bn (US\$1.77bn), 60% will be saved through reducing running costs, and the rest by cutting back planned investment, although Videgaray stressed that there would be no impact on investment projects that were already underway, government social programmes or public security.

"Pemex is a solvent company," Videgaray said. "It has some problems with cash flow and liquidity but at the same time it is in a privileged position through the opportunities presented by the energy reform." But these opportunities have been reduced substantially given the abrupt decline in oil prices. Pemex made a massive loss of US\$10bn in the third quarter of 2015 alone, its biggest ever quarterly loss, following 11 previous loss-making quarters, and has an overall debt of nearly US\$200bn.

Videgaray said that José Antonio González Anaya, the newly appointed director of Pemex [WR-16-06], would make "the necessary structural changes to improve efficiency". González bluntly translated this a day later by saying that the Pemex workforce would be culled, although he did not say how many jobs would be lost. The Pemex chief also maintained that corporate and administrative costs would be reduced in addition to streamlining the workforce to absorb the swingeing cuts.

In 2014 Pemex had as many as 153,085 employees. A first round of job cuts saw this reduced last year to 136,543 but this remains far in excess of more efficient state oil companies with comparable sales: Norway's Statoil, for instance, has just 21,300 employees; its annual sales amount to US\$119bn compared with Pemex's US\$125bn (see sidebar).

The big challenge for González is improving Pemex's levels of production. Pemex was not profitable even when oil prices were high. This is partly down to the fact that the government has milked the national cash cow but also

### Pemex dismissals

Laying off staff will not have an immediate effect on Pemex's books as it will have to pay decent redundancy packages enforced by the powerful oil workers' union.

Pemex also has substantial unfunded pension liabilities of US\$100bn, not far off its sales last year.



## **'Topo Chico'**

Interior Minister Osorio Chong said that the 'Topo Chico' riot was a "wake-up call to improve the rest [of the country's prisons]". He refrained from "casting blame" for the fatal events, and promised that "we will help to support, to solve [the problems]" with state authorities. He said that the government was working to complete the transfer of all federal prisoners from local prisons to federal social re-adaptation facilities (Ceferesos) to help resolve the overcrowding problem.

because of low production. And now Pemex will have to improve efficiency in the face of low prices while absorbing budgetary cuts. Last year the government announced spending cuts of US\$6.6bn (of which Pemex assumed half).

### **Interest rates lifted**

Carstens, meanwhile, announced that Banxico was raising interest rates by half a percentage point to 3.75%. This as the peso's relentless fall saw it approach the psychological barrier of M\$20/US\$1. Last month Carstens pushed interest rates up by quarter of a percentage point to 3.25% in response to a comparable increase by the US Federal Reserve. Inflation was just 2.61% in 2015 but the consumer price index is likely to begin to increase with the depreciation of the peso as it makes the final prices of imported products more expensive.

Carstens also announced the abandonment of costly dollar auctions, criticised by the International Monetary Fund (IMF) for depleting international reserves. Banxico made a significant number of daily US dollar auctions of US\$200m in 2015 to maintain liquidity in the market with dubious success in controlling volatility, but notably eroding international reserves which fell by US\$16.89bn last year, the sharpest annual decline since the 'Tequila crisis' in 1994.

The latest spending cuts are expected to shave 0.4 of a percentage point off projected GDP growth in 2016 of 2.7%. The economy grew by 2.5% in 2015, the national statistics institute (Inegi) announced this week, in the middle of the finance ministry's revised projections. In the final quarter GDP growth was 0.5% quarter-on-quarter. The commercial sector (4.5%) and manufacturing (2.86%) were the main motors of growth in 2015.

### **Reconciling spending cuts with massive prison investment**

The government's spending cuts coincide with the announcement by the interior minister, Miguel Ángel Osorio Chong, of a "profound transformation" of the prison system. Osorio Chong did not put a figure on the cost of this radical reform but he did promise an "enormous investment". His comments followed the fatal riots in the 'Topo Chico' jail in the state of Nuevo León [WR-16-07].

The riots, which claimed 49 lives, exposed the worst combination of severe overcrowding and understaffing afflicting Mexico's prisons, two of the myriad problems which will require a sustained effort by federal and state governments to address. This is the rub. Osorio Chong maintained that the necessary "transformation" was essential "not just at a federal level but particularly at a state level", but it is not clear which would bear the responsibility for it and, crucially, finance it.

The independent governor of Nuevo León, Jaime 'El Bronco' Rodríguez Calderón, touted as a possible presidential candidate in 2018, said this week that construction of a new prison in the state would cost M\$6bn (US\$330m), M\$1m for every inmate. Rodríguez said this "priority work" would require budgetary adjustments, delaying construction, for instance of a third metro line. He also promised a "crusade" to rescue youths from drugs and crime.

While the right-wing opposition Partido Acción Nacional (PAN) in the federal senate has called on the federal government to assume control of all the prisons in Nuevo León, including 'Topo Chico', President Enrique Peña Nieto confined himself to saying it would support Rodríguez with his proposal to reform state prisons.

Peña Nieto said the national public security council had agreed to create a committee to evaluate the national prison system. He said that a national registry of prison information was "more than 90% complete". He also said his government's other objectives were to revise the model of social reinsertion of prisoners released from federal and state prisons; and to align the current protocols and processes of the national prison system with international best practice.

**Havana prepares for its biggest visit yet**

**It will be a short hop for Air Force 1. President Barack Obama, along with First Lady Michelle Obama, will visit Cuba on 21 and 22 March. Obama will become the first US president to visit the island in 88 years, since Calvin Coolidge went there on a battleship in 1928 with aggressive intentions.**

“This historic visit – the first by a sitting US president in nearly 90 years – is another demonstration of the president’s commitment to chart a new course for US-Cuban relations and connect US and Cuban citizens through expanded travel, commerce, and access to information,” the White House said in a statement. President Obama will meet both with President Raúl Castro and Cuban dissidents, and hopes to deliver a public speech addressing all Cubans, the White House stressed. In a series of tweets, Obama said his trip aimed “to advance our progress and efforts that can improve the lives of the Cuban people”. Anticipating criticism, he added, “We still have differences with the Cuban government that I will raise directly. America will always stand for human rights around the world.”

In a similar vein, Deputy National Security Adviser Ben Rhodes noted: “As the President has said, Cuba will not change overnight, nor will all of the various differences between our countries go away. But the guiding principle of our Cuba policy – our North Star – remains taking steps that will improve the lives of the Cuban people. That will be the President’s message on his trip – where he’ll have the opportunity to meet with President Castro, and with Cuban civil society and people from different walks of life. Yes, we have a complicated and difficult history. But we need not be defined by it. Indeed, the extraordinary success of the Cuban-American community demonstrates that when we engage Cuba, it is not simply foreign policy – for many Americans, it’s family.” Rhodes said that Obama was not likely to meet former president Fidel Castro, who officially stepped aside in 2008 to make way for his brother.

The Cuban reaction, as ever, was positive but cautious. Rodrigo Malmierca, Cuba’s foreign trade and investment minister, who was in Washington at the time of the announcement for talks with the US Commerce Secretary Penny Pritzker on expanding commercial relations between the two neighbours, said that the Obamas would “be welcome”.

Josefina Vidal, director of US affairs at the Cuban foreign ministry, made clear that Cuba would endure a haranguing lecture, but was willing to have a frank mutual discussion between equals. “Cuba is open to speaking to the US government about any topic, including human rights...we have different ideas [about rights], in the same way that different ideas exist about other topics like democracy, political models and international relations.” She added that the Cuban government wants Guantánamo Bay returned to Cuba and the US embargo lifted before relations can be fully normalised.

Obama’s historic trip to Havana, sure to be watched by millions of viewers all over the Americas, will consolidate one of his most important presidential legacies. US Republican presidential contenders Ted Cruz and Marco Rubio – both of Cuban heritage – reacted furiously, calling Obama “an apologist” for the Communist government, noting that Cuban dissidents complain of ongoing aggressive actions by the Cuban security forces. US public sentiment, however, including among Cuban-Americans in Miami, is now heavily in favour of re-engagement with Cuba. The Republican Party is also out of step with the US business community, which is eager for a slice of the 11m-strong market.

**Mick & Keith to rock up too?**

There are rumours that the Rolling Stones might end their current tour of Latin America with a surprise extra gig in Cuba in late March, albeit the rumour – and an actual date – have yet to be confirmed. Mick Jagger was spotted on a private trip to Havana last October, prompting speculation – including in the state daily Granma – that the ‘Stones might play on the island.

### Future of parties in question

On 15 February the electoral authorities (TSE) announced plans to cancel the legal status of three parties: Libertad Democrática Renovada (Líder); Movimiento Nueva República (MNR); and the Partido Republicano Institucional (PRI). The move against Líder, which was set up by Manuel Baldizón in 2010, following his defection from the Unidad Nacional de la Esperanza (UNE), was in response to its breach of the electoral law regarding campaign spending during the last (2015) electoral cycle. The moves against the PRI, established in January 2013 to replace Frente Republicano Guatemalteco (FRG) of ex dictator Efraín Ríos Montt (1982-3), and the MNR, founded in 2009, follow their failure to get more than 5% of the vote in the legislative elections or a single legislative seat – a legal requirement – in the last electoral cycle. (The PRI and MNR received 1.25% and 0.90% of the vote respectively).

### New congress, old problems

The new conservative Frente de Convergencia Nacional (FCN-Nación) government led by President Jimmy Morales faces serious challenges in tackling official corruption, his chief campaign pledge, not least with regard to restoring credibility to the 158-member unicameral legislature, one of the country's least trusted institutions. These problems have again come to light in reports of the continued practice of floor-crossing (*transfuguismo*) as well as a scandal involving exorbitant salaries of staff employed by the legislature. Earlier this month, deputies approved reforms to the organic law of the legislature (widely considered a key first step in efforts to address corrupt practice), introducing sanctions for *transfuguismo*, among other things. However the impact of these changes has yet to materialise.

On 15 February, 11 days after the approval of changes to the law of the legislature, representatives from the civil-society group Centro para la Defensa de la Constitución (Cedecon) filed a complaint before the constitutional court (CC) in relation to eight deputies who had switched to FCN-Nación from other parties since the new legislature began work on 14 January. Cedecon argues that the practice violates the electoral process and could be considered "electoral fraud". Meanwhile, Orlando Blanco, the bench leader for the Unidad Nacional de la Esperanza (UNE) of former president Alvaro Colom (2008-2012), the biggest bloc in congress, filed a complaint before the attorney general's office (AG) in relation to the director and deputy director of FCN-Nación, Javier Hernández and Edgar Ovalle respectively, for allegedly offering legislators bribes to switch parties.

On the most recent information from congress, the FCN-Nación began the new legislature with 10 seats but now has 27, making it the second-largest bloc, after the UNE. The Partido Patriota (PP) of disgraced former president Otto Pérez Molina (2012-2015), who was forced to step down in September 2015 amid allegations that he headed up the La Línea corruption ring in the tax authorities (SAT), now has three, down from 19. Meanwhile Libertad Democrática Renovada (Líder) which fielded populist businessman Manuel Baldizón in the 2015 presidential election (who has since quit politics after coming a narrow third) now has just six seats, down from 20 at the start of the new legislature.

#### Scandal in congress

At the end of January the president of congress, Mario Taracena (UNE), announced that he was cancelling 54 contracts awarded at the end of last year to staff employed by the legislature, which he said would save the institution some Q\$500,000 (US\$65,000) a month. Taracena's announcement came 10 days after congress published information listing the names, positions, and wages of its over 1,000 employees. The list caused outrage not just given the amounts in question but also the number of people employed – 1,887 employees – with reports of posts going to relatives or associates of legislators.

According to the document made public on 17 January, some congress employees were being paid up to 10 times what they would earn for the same job in a private company, with the legislature's general accountant, Hilda Roldan García, appearing as one of the highest earners, receiving Q\$76,365 (US\$9,982) a month, while some secretaries were reportedly being paid up to Q\$30,000 (US\$3,900) a month and janitors and assistants more than US\$2,600.

Taracena's move was well received by Iván Velásquez, the director of the United Nations-backed International Commission against Impunity in Guatemala (Cicig), which together with the AG played a crucial role in uncovering the various official corruption scandals last year. At the time Velásquez also told reporters that Cicig is probing 15 current and former national deputies in relation to nepotism and the hiring of individuals to fictitious congressional posts.



## Funes and Saca replace Flores in the dock

A court in San Salvador began legal proceedings against former president Mauricio Funes (2009-2014) and one of his sons Diego this week. Funes stands accused of illicit enrichment. He becomes the first head of state in El Salvador's history to go on trial. This dubious honour would have belonged to former president Francisco Flores (1999-2004) who was due to go on trial for embezzlement now but died of a brain haemorrhage before it could commence. It was Funes, ironically, who, as president, had launched the investigation into Flores. The supreme court (CSJ) also voted this week that former president Antonio Saca (2004-2009) should be investigated for illicit enrichment.

The CSJ instructed the civil chamber in San Salvador to investigate Mauricio Funes on 9 February for failing to account for US\$700,000 of personal income (US\$520,000 amassed during his term in office). No sooner had the civil chamber taken up the case this week than the CSJ ordered an investigation into his predecessor, Antonio Saca. Saca will have to account for US\$2.9m in savings that he failed to disclose to the finance ministry between 2004 and 2014. A report drawn up by the Sección de Probidad said that it suspected Saca of illicit enrichment to the tune of US\$5m. Funes has had his assets frozen, including four bank accounts. The CSJ has not yet revealed which of Saca's assets and bank accounts will be frozen.

Funes came to power on the ticket of the ruling left-wing Frente Farabundo Martí para la Liberación (FMLN), while Saca was elected to represent the right-wing opposition Alianza Republicana Nacionalista (Arena). Neither party would have any qualms about leaving them high and dry as they were both independent candidates who are now alienated from the parties with which they came to power.

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### TRACKING TRENDS

PANAMA | **Dell Global Command Center.** On 23 February representatives from US computer manufacturer, Dell Inc., and Panama's industry & trade minister, Augusto Arosemena, attended the formal opening of the firm's new Global Command Center in Panama City.

The new US\$1.2m Global Command Center, Dell's sixth worldwide, will provide support services for Dell's customers in the entire Latin American and Caribbean region, where Dell, the world's third largest computer manufacturer, has a presence in 42 countries and territories.

The new facilities were hailed by Arosemena as putting Panama at the forefront of the global information technology (IT) business, providing a boost for the domestic economy that could have a "multiplier effect" in attracting foreign investment in the country.

"This represents the level of trust that Panama inspires in investors," Arosemena said, noting that Dell's operations in Panama began 13 years ago "with 500 workers in a call centre, and today it has 2,000 employees, 98% of which are Panamanian, who offer value added services".

Meanwhile Dell's Caribbean & Central American executive director, Gustavo Ripoll, said that "Dell's operations in Panama are an example of regional leadership, as the country has bilingual and trilingual individuals, capable of guaranteeing that all operations in Latin America are efficiently managed". Ripoll added that the new Global Command Center is "the most modern in the world", noting that the US\$1.2m investment was in "technology, it does not include the new building or staff training".

### Vendetta?

Mauricio Funes claimed the legal proceedings against him constituted "a clear political vendetta by certain magistrates on the CSJ because of corruption accusations which as president I promoted against former administrations".

## POSTSCRIPT

### Quotes of the week

“President, what the vote of the Bolivian people has said is that there are no indispensable people, but there are indispensable causes.”

*Former Bolivian president Carlos Mesa (2002-2003), who at the behest of President Evo Morales is leading Bolivia's case in its maritime dispute with Chile at The Hague.*

“They [the Farc] not only violated the rules and protocols but also delivered a sharp blow to the confidence placed in the negotiation and the confidence of the Colombian people in the [peace] process.”

*Colombia's President Juan Manuel Santos.*

“Doubt surrounds the death of [Néstor Kirchner] to the extent that there should perhaps be an autopsy to establish how he died.”

*Argentina's former president Carlos Menem (1989-1999) underlines entrenched Peronist divisions by alleging that Kirchner's "ugly treatment" of his wife Cristina Fernández eventually resulted in her killing him.*

### Caburga curse for Chile's Bachelet

President Michelle Bachelet might have to give up on holidays to southern Chile as they are becoming a bad omen. This time last year Bachelet was on holiday in her house near Lake Caburga in the southern region of Araucanía when she learnt of the news that her son Sebastián Dávalos was embroiled in influence trafficking, the so-called Caval case. This time Bachelet was on holiday by Lake Caburga when she discovered that Cristián Riquelme, the administrator of the La Moneda presidential palace and a member of her inner circle, had resigned on 17 February on similar grounds. The scandal not only undermines her anti-corruption rhetoric but also exposes her lack of decisive leadership.

Riquelme's position became untenable on 12 February when the comptroller general, Jorge Bermúdez, instituted legal proceedings against him to probe his links to two companies he formed that won 39 public contracts worth some US\$595,000 between 2013 and 2015 without auctions. The press has been uncovering a series of scandals involving Riquelme, who held the same position during Bachelet's first term (2006-2010), for months on end now. It emerged, for instance, that Riquelme formatted Dávalos' computer after the latter left his position as director of the presidency's sociocultural affairs office in the wake of the Caval case, and omitted to inform investigators. Riquelme also benefitted from eight payments in 2013 totalling Ch\$30m (US\$41,000), when he was administering the Sociedad Marketing Asesorías y Eventos Limitada (Somae) campaign firm, from Giorgio Martelli, who collected campaign funds for Bachelet.

That Riquelme retained his position for so long even when deputies from within the ruling Nueva Mayoría coalition, especially the centrist Democracia Cristiana (DC), joined the opposition in calling for him to be replaced to distance the government from the Caval case is damaging for Bachelet's credibility. In a Cadem poll this week her disapproval rate jumped four points to 65%. “I think when things like this appear it is better to step to one side,” the interior minister and cabinet chief, Jorge Burgos, said when announcing Riquelme's resignation. “There are natural labours and induced labours,” he added, when pressed over whether Riquelme had been forced out. This upset the Partido por la Democracia (PPD), to which Riquelme belongs. The PPD president, Gonzalo Navarrete, accused Burgos of relishing the situation, and conveying the impression that he had played a fundamental role in pushing out Riquelme when the PPD had negotiated his departure with the government in the days after his indictment.

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