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Brazil's Rousseff one big step closer to impeachment

During the vote to impeach Brazil's President Dilma Rousseff on 17 April, Joaquim Barbosa, the lead supreme court justice in the prosecution of the *mensalão* cash-for-votes scandal and one of the few elder statesmen to enjoy support from across the country's political divide, voiced the thoughts of many when he wrote on Twitter: "It's enough to make one weep for shame." Regardless of the eventual outcome of the impeachment process, the spectacle of Brazil's 513 federal congressional deputies casting their votes aloud in an atmosphere akin to a stand full of drunken football supporters will linger long in the collective memory and alienate yet further many Brazilians sceptical of the efficacy of their democracy.

Of the 367 deputies who voted against President Rousseff, only 12 mentioned the actual charges against her: the 'pedaladas fiscais' or accounting manoeuvres which saw her use loans from state-backed banks to mask a budget deficit in the run-up to the 2014 election. Instead, most mentioned their families or God as the motive for their decision. Other, more obscure reasons, included "peace in Jerusalem"; "all insurance brokers"; and to "stop the promotion of sex-changes in schools".

Undoubtedly, the deputies were using their 10 seconds of national fame to record a clip that will allow them to connect with their particular electorate. Nevertheless, the combined impact of their performances at the podium on Sunday was to highlight how much Brazilian politicians act only in their own self-interest, rather than that of the nation.

The lowest point on a low night came when Jair Bolsonaro, an extreme-right-wing congressman from the Partido Social Cristão (PSC), dedicated his vote to Colonel Carlos Brilhante Ustra, the most famous torturer from Brazil's period of military rule. Watching the proceedings in the presidential palace along with a few dozen close advisers and allies, Rousseff, who was imprisoned and tortured during that period, gripped hard the arms of her chair before leaving the room in silence. Bolsonaro is currently running in fourth place in voter intentions for the 2018 presidential elections.

The scale of the opposition victory was a significant blow to the government. Many of its supporters, watching on giant screens outside the congressional building, drifted away early in the night as the result became clear. The steel barrier that had been erected along the ministerial esplanade to separate the pro- and anti-impeachment camps was largely redundant. Around 50,000 people turned up from both groups; security officials had predicted around

300,000. Ahead of the vote, government supporters had promised a campaign of resistance if Rousseff lost. But for the most part at least the Partido dos Trabalhadores (PT) and its allies on the Left are in retreat.

In the days after the vote, Rousseff vowed once again to fight the impeachment by all the means at her disposal. In theory, the supreme court could yet invalidate Sunday's vote; the president could also win the one third of votes necessary to prevent the federal senate from finalising the impeachment process. What seems almost certain, however, is that Rousseff will have to stand down, at least temporarily, in favour of her vice-president, Michel Temer, of the Partido do Movimento Democrático Brasileiro (PMDB) at some point in May.

The impeachment case has now been read in the senate. After initial resistance, Renan Calheiros, the senate president and an ally of Rousseff's, has agreed to allow the upper chamber to meet on Mondays and Fridays, thereby accelerating the process.

No government

On 20 April Eduardo Braga, the minister of mines and energy, resigned, along with Helder Barbalho, the minister of ports. In total nine ministries are vacant including that of cabinet chief (the supreme court has delayed again a decision on whether former president Lula da Silva can take up the position), tourism, sports and civil aviation.

An impeachment commission is likely to be voted in by Monday 25 April; a vote on whether to continue the process is expected to take place on 11 May. This vote focuses specifically on the question of whether there is a case to answer, and not whether the president should be impeached. It requires only a simple majority to pass; already 47 of the senate's 82 members have said they would vote in favour of initiating an impeachment trial.

Temer has said that he will await the senate's decision "silently and respectfully", but in the meantime he is actively seeking out potential cabinet ministers. In particular he wants to have an economics team fully formed and ready to go by early May.

As an experienced politician, Temer knows he will have highly questionable legitimacy, and he will need to make an impact swiftly in order to survive. In fact, he faces an almost impossible task: to keep the markets on side, he will have to make some form of fiscal adjustment and pension reform has been touted as a possibility.

On the other hand, in order to keep the population on side, Temer will need to maintain the government's social programmes. In order to improve Brazil's deteriorating fiscal situation in the short-term, Temer will also have to raise taxes, which will alienate both business and his potential middle class support base.

All the time, support for the impeachment process has been falling. A recent opinion survey by the national pollster Datafolha showed that only 61% of the population backed the process, down from 68% a few months' ago. Meanwhile, 58% of Brazilians want to see Temer impeached, and 77% want Eduardo Cunha, the president of the federal lower chamber of congress, to be stripped of his mandate. There is also a growing public perception that if the impeachment process succeeds, 'Operation Car Wash', the corruption investigation involving the state-run oil company Petrobras, may begin to unwind, allowing some of the 50 or so serving politicians currently implicated, including Cunha, to escape justice.

As such, many in the main opposition Partido da Social Democracia Brasileira (PSDB) have already expressed wariness about joining a Temer government. Armínio Fraga, a former central bank governor, has turned down the offer to be Temer's finance minister. José Serra, the PSDB candidate who lost to Lula in 2002, has indicated he would be willing to take the job, if his party joins Temer's government formally.

Henrique Meirelles, also a former central bank governor, is another touted for the job. As Meirelles was appointed to the central bank by former president Lula da Silva (2003-2011), if he accepts it would provide Temer with the veneer of a degree of cross-party cooperation.

Rousseff to appear before UN

The current government, however, is seeking to complicate Temer's task. Rousseff travelled to New York on 21 April and will address the United Nations on the following day in a speech which will set out why the impeachment process against her merits her description of it as a "coup". Over the past few weeks and months, the Rousseff administration has been slowly developing this narrative, and the proof of its efficacy is that it is beginning to worry the opposition.

Senator José Agripino, from the opposition Democratas party, described Rousseff's tactic as "desperate". Another senator from the party, Ronaldo Caiado, said it was "unacceptable for the president to use an international trip to denigrate the image of Brazil abroad". Three judges on the supreme court have criticised the language of the president and insist that the process up until now has followed Brazil's constitution.

BRAZIL & SOUTHERN CONE

ARGENTINA | POLITICS & ECONOMY

Buy a bond, lose a job

President Mauricio Macri's government has become a study in contrasts. This week Argentina became the darling of the international financial markets, floating the country's largest ever bond-issue, which was four-times oversubscribed. Yet at the same time domestic opposition is beginning to harden with rising concern over the impact of both job losses and inflation.

Bond breakthrough

The bond issue was this week's undisputed good news story. Argentina sold US$16.5bn worth of bonds: it received US$68.6bn worth of buy offers, making the issue 4.1 times oversubscribed. Bond yields were fixed at the low end of government expectations, with three-year bonds yielding 6.25% and 10-year bonds at 7.5%. The average yield was 7.1%.

Finance minister Alfonso Prat-Gay said that by the end of the week Argentina would use some US$9.3bn of the money raised to pay off debts at the heart of the country's long-running dispute with its holdout creditors. "The fact that a government with only four months in power has solved this issue, which had been pending for more than a decade, is a major success for Macri," said Ignacio Labaqui, an analyst at Medley Global Advisors.

Investors are clearly optimistic about Argentina's growth potential under the new government (*see sidebar*). Prat-Gay stressed that settling the dispute with the holdouts would bring Argentina out of its technical default, which would mean "credit lines for the private sector and a return to capital markets by Argentine provinces". Critically, Prat-Gay added that the money would help lay the foundations for growth and employment, and for Argentina to begin the journey towards achieving zero-poverty "as President Macri keeps reminding us is our objective."

Turnaround story

"There aren't many compelling turnaround stories available in emerging markets. Argentina has been bucking the trend," Zsolt Papp, of JP Morgan Asset Management, said in response to the imminent end of the country's longstanding dispute with holdout creditors.

Domestic difficulties

But things do not look as good from a domestic point of view, where all the talk is of a harsh economic adjustment programme marked by job losses, rocketing inflation, falling purchasing power, and rising poverty. According to Elypsis, a private sector consultancy, public utility tariff and transport increases could take the inflation rate in April up to 6.5%. Elypsis director Luciano Cohan forecasts that by the end of this year the annual inflation rate will be about 35%, not the 25% rate that the government is promising.

There is controversy over exactly what is happening in the labour market. A study by the Catholic University says that 1.4m Argentines have dropped below the poverty line so far this year, taking the total to 34.5% of the population (up from 29% in December). According to another consultancy, Tendencias Económicas, a total of 107,000 workers lost their jobs in the first two months of this year, many in the construction industry. But the government says that, according to the Encuesta de Indicadores Laborales (EIL), employment in February was actually 0.5% higher than in February 2015.

Labour Minister Jorge Triaca recognises that there is a "difficult transition" under way, but puts the total number of job losses lower, at around 55,000 (according to his calculations, 30,000 jobs have gone in the private sector; 10,000 have gone in the public sector; and a further 15,000 have been lost in the 'informal' sector). Triaca insists that the situation will begin to improve in the second half of the year as investment in both public and private sectors begins to pick up. The official unemployment rate stands at 6.9%.

The big problem for Macri is the domestic political fallout. One indicator is that more government officials are suffering 'escraches' – Argentine slang for public acts of repudiation against celebrities or political leaders (see sidebar).

Escraches

A recent victim of the so-called 'escraches', public acts of repudiation, in Argentina was none other than Vice-President Gabriela Michetti, who while visiting a university on 15 April was confronted by a woman shouting, "you govern for the rich."

At an unusual meeting this week the country's main Catholic bishops sat down with the leaders of Argentina's five main trade union factions (efforts continue to bring together the three rival factions of the Confederacíon General del Trabajo [CGT] and the two factions of the Central de Trabajadores de la Argentina, [CTA]).

The bishops shared their concern over the social situation with the union leaders. The unions, meanwhile, are focusing on a joint call for an anti-government protest demonstration on 29 April in Plaza de Mayo in front of government house in Buenos Aires, at which they hope to gather over 100,000 of their members.

The government clearly has a problem on the domestic front. Macri invited Argentina's most powerful 100 businessmen to the presidential residence of Los Olivos this week. In a candid speech, Macri made it clear that while the government was undertaking some crucial structural reforms, the private sector needed to do more. He called on the business leaders to invest, not to lay off workers, and above all to stop marking up prices. "I ask you to be responsible over prices," Macri said.

Government strategists maintain that the principal challenge is to make it through the (Southern hemisphere) winter. Officials have announced measures designed to protect lower income groups from the impact of the economic adjustment, such as extending the scope of child benefit (Asignación Universal por Hijo or AUH).

The government is also looking at increasing the minimum wage and possibly increasing unemployment benefits. But it faces a bigger challenge to its market-friendly policies. Opposition deputies in the federal congress are proposing new legislation that would either freeze all lay-offs, or as an emergency measure, double severance pay.

Time Warp deaths highlight drug problem

Five people died and a further five were hospitalised in serious condition on 16 April after reportedly taking drugs at the Time Warp electronic music festival in the Costa Salguero venue in Buenos Aires. The deaths have raised the temperature in the political debate over crime and narcotics.

The victims, aged between 20 and 25, were reported to have taken so-called 'Superman' pills laced with a drug known as PMMA. Witnesses said large quantities of drugs were freely available at the concert: a bus on its way there had been stopped by La Plata police who found various types of pills, cocaine, LSD and marijuana on board. There were also reports of overcrowding and insufficient access to water.

Federal prosecutor Federico Delgado ordered the arrest of Adrián Conci, president of the concert organiser Dell Producciones, on suspicion of "organised sale of drugs". Conci was reportedly on the run. Police raids were also made at various premises, including the offices of the Naval Coast Guard, which had been responsible for security at the concert alongside private contractors. According to some accounts up to three members of the Coast Guard had tolerated or even "collaborated" with the sale of drugs. Delgado was said to be investigating why the discovery of a bag full of pills was not reported or acted on until after the first deaths had taken place.

Heated debate

The incident has intensified Argentina's debate on crime and narcotics. Some have insisted responsibility must lie with the drug takers themselves. Others have highlighted lax safety controls and corruption at public events of this type, drawing parallels with the 2004 fire at the República Cromañón night club which left 194 young people dead.

After taking office last December the government led by President Mauricio Macri said the elimination of drug trafficking would be one of its three top priorities. Interestingly, government officials seemed to have somewhat different ideas over how to respond.

Security Minister Patricia Bullrich said "My view is that we have to be more strict, and work with parents who also must be more strict. We are prepared to be so, but many times we come up against a culture that says we cross a line if we are too strict."

In contrast the health minister for the province of Buenos Aires, Ana María Bou Pérez, called for a society-wide discussion on whether certain drugs should be decriminalised. She suggested that might allow better safety and control of drug quality at concerts.

The president's father, businessman Franco Macri (*see sidebar*), waded straight into the controversy in a series of tweets, laying responsibility for the spread of drugs at the door of the previous governments led by the late Néstor Kirchner (2003-2007) and his widow Cristina Fernández (2007-2015).

"The Costa Salguero tragedy is one of the masterpieces of *kirchnerista* government," Franco Macri tweeted, accusing it of protecting drug-traffickers and suggesting that after renationalising the postal service it had allowed it to be used for the purpose of drug trafficking. Critics accused him of seeking to divert attention away from his name's appearance in the notorious Panama Papers [WR-16-14].

Franco Macri

Franco Macri's criticism came despite the fact that he was known to have good relations with the Kirchners during the first years of their rule, a position that at the time caused tension with his son, then serving as mayor of Buenos Aires for the centre-right opposition Propuesta Republicana (PRO) party.

Concern over 'gag law'

A key issue in Latin America right now is how to deal with entrenched corruption within the political establishment. Although Chile is widely considered one of the least corrupt countries in the region, recent cases, such as the Caval and Soquimich scandals, are potentially as serious as Brazil's more headline-grabbing and government-threatening Lava Jato ('Car Wash') affair. In Chile's case, new laws are being introduced to clean things up, but they are a mixed bunch and some legislative initiatives, including a 'ley mordaza', or 'gag law', seem primarily aimed at silencing press coverage of wrongdoing.

The last two years have been prolific in terms of Chilean establishment scandals. Financial holding Penta Group was found to be evading taxes and illegally funding the right-wing opposition, Unión Demócrata Independiente (UDI). Mining company Soquimich was also found to have made illegal campaign contributions across the political spectrum, including contributions to parties of the currently ruling centre-left Nueva Mayoría coalition.

In the Caval case, President Michelle Bachelet's daughter-in-law, Natalia Compagnon, stands accused of issuing false invoices as part of a speculative land deal. At present over 190 business people, politicians, and intermediaries are under investigation on a range of charges including tax evasion, fraud, money laundering and bribery.

Law professor Carlos Huneeus at the Universidad de Chile told *The New York Times* "The depth of corruption is enormous. Public interest has been left subordinate to private interests, and when there is no clear distinction between the two, it opens the door to endless opportunities for corruption".

The response has come at various levels. Last week President Bachelet signed into law two new pieces of legislation which limit campaign spending; prevent companies from funding political parties; and establish a 40% 'gender quota' for the top decision-making bodies in the political parties.

Election campaigns

President Bachelet said that as a result of two new pieces of legislation limiting campaign spending and establishing a 40% 'gender quota' for the top decision-making bodies in Chile's political parties, future election campaigns would be "more austere and shorter, less dirty".

Whether this is the case will become evident in the run up to the municipal elections due in October. The electorate certainly seems to have lost trust in the political establishment. According to a March opinion survey by Gfk Adimark, support for Nueva Mayoría and the centre-right opposition coalition, Chile Vamos, is running at only 17% and 16% respectively.

Rather than mending its ways, some accuse the political establishment of just trying to make sure it does not get caught next time. Congress has been discussing a number of related bills known as the short anti-crime agenda ('agenda corta antidelincuencia') that include proposals to limit media coverage of leaks and investigations. The senate approved a bill that would punish anyone who reveals information about current investigations with up to 541 days in prison.

A wide range of civil-society groups protested, describing the initiative as a 'gag law'. This caused the government to backtrack partially, with the senate amending the law to exclude journalists from its scope. Interior Minister Jorge Burgos said the amendment "eliminates any doubts people might have and makes clear that journalists will not be punished". Despite this, other proposals under discussion in the chamber of deputies have also been described as seeking to gag the press.

A proposal by a group of UDI and Renovación Nacional (RN) deputies would make anyone revealing information about a secret investigation liable for up to three years' imprisonment, and the editor of any media organisation reporting it liable for large fines. Very controversially this bill also grants immunity from prosecution for police agents or informants who may commit crimes as part of a secret operation.

Critics have said that such a law would create a dangerous level of impunity. They cite the case of Raúl Castro Antipán, an undercover agent for the militarised police, Carabineros, who in February 2014 admitted four cases of arson and other "terrorist" attacks as part of an infiltration operation among Mapuche indigenous groups in the south of the country.

Javiera Olivares, president of the Colegio de Periodistas de Chile, said, "I think this is incredible, unprecedented. We are not going to resolve a problem, like the situation of the Mapuche people, by intensifying punishments for people who leak information". Leonardo Soto, a deputy for Bachelet's own party, Partido Socialista (PS), said these proposals were "an attempt to kill investigative journalism, which has a duty to investigate precisely those areas where there is tension between institutions and the rule of law".

TRACKING TRENDS

Argentine fishing dispute

In mid March Argentina's coast guard sank a Chinese fishing boat that it claimed was fishing illegally within Argentina's exclusive economic zone near Puerto Madryn on the coast of northern Patagonia.

ARGENTINA-CHILE | **Historic fishing fine.** On 12 April Argentina's agriculture, fisheries and agro-industry ministry issued a statement denouncing the fishing by Chilean firm Empresa de Desarollo Pesquero de Chile S.A (Emdepes) in waters near the Falkland Islands (Malvinas), which Argentina claims as its territory, without permission.

The ministry said that it was alerted to the infraction by Juan Banegas, a former head of operations at the Argentina-based Empresa Pesquera de La Patagonia y Antártida S.A. (Pesantar), which is owned by Japanese holding firm Nissui, which also owns Emdepes and has been operating in Argentina and Chile for over 20 years.

According to the ministry, back in 2014 Banegas accidentally received an email from Empedes, which included details of the Chilean fishing boat Unión Sur's license to operate in Falkland waters granted by the British government. Argentine legislation does not recognise licenses issued by the British government to fish in these waters and it also bans the simultaneous use of Argentine and British fishing licenses to operate in South Atlantic waters. The ministerial statement noting that this carried a fine pursuant to Argentine federal law of up to Ar$10m (US$690,000).

After corroborating the information provided by Banegas with the naval prefecture, the ministry decided to apply the maximum fine on Emdepes, which has agreed to pay. This is the first fine of its kind issued by Argentina, setting an ominous precedent for all other fishing firms operating in the area.

This threat has been further accentuated after, on 11 March, the United Nations Commission on the Limits of the Continental Shelf (CLCS) granted Argentina 'coastal state' status, meaning that it can claim extended maritime sovereignty beyond the 200-mile coastal limit. The decision expands Argentina's territorial waters in the South Atlantic by 1.7km^2, or 35%.

URUGUAY | **Stagnant growth.** Fresh from the publication of the most disappointing economic growth figures in the last 13 years, Uruguay's embattled President Tabaré Vázquez is now wrestling with natural disasters.

The economy grew by a mere 1% in 2015 on the previous year, and contracted by 0.1% year-on-year in the final quarter, according to Uruguay's central bank (BCU). To compound the government's problems, flooding in the River Plate basin has affected the sowing of soya, and a poor harvest is expected this year, which would shave a few more percentage points from GDP growth.

On top of this a tornado struck the city of Dolores in the western department of Soriano on 17 April killing four people. Vázquez visited the area, and the government later announced the creation of a national disaster-response body.

ANDEAN COUNTRIES

ECUADOR | POLITICS

Ecuador's troubles intensify

The death toll from the 7.8 magnitude earthquake that struck Ecuador's Pacific northern coast at 7pm local time on 17 April has now hit 570, with 15,705 people still missing, according to the latest report from the country's risk management office. Most of the deaths from the quake were concentrated in three coastal towns, Manta, Portoviejo and Pedernales. Over 7,000 people are being treated for injuries, with 25,000 being housed in temporary shelters. It is the worst disaster to affect the country in four decades, and it could scarcely have come at a worse time for the government led by President Rafael Correa, which for the past year has been struggling to keep the oil-dependent economy afloat.

President Correa, who immediately flew back from a conference in Rome, Italy, to attend the scene, initially put estimated reconstruction costs at US$2bn-US$3bn and admitted that the disaster could knock two to three percentage points off GDP this year, just days after the International Monetary Fund (IMF) revised down its annual GDP forecast for Ecuador to -4.5% in 2016 (*see sidebar*).

Having declared a state of emergency that allowed for the immediate mobilisation of 4,600 national police officers and 10,400 members of the armed forces, Correa announced that the government would draw down US$600m in contingency credit lines, including US$300m from the Inter-American Development Bank (IDB) and US$150m from the World Bank (WB), with US$160m expected to be made available immediately for the emergency response efforts, reported Finance Minister Fausto Herrera. However, as the immense scale of the disaster has come to light, some experts have suggested that total costs could be in the region of US$15-US$20bn, based on the reconstruction efforts after recent earthquakes in Chile and Haiti.

It is clear that the country has nowhere near that level of cash available. Unlike Venezuela, for instance, Ecuador's central bank cannot simply ramp up money printing in times of crisis. With oil export revenues down by 50% in the past year, the government has already been forced to cut essential spending and capital expenditure and increase taxes, a pro-cyclical fiscal adjustment that has only exacerbated the domestic economic slowdown. And like Venezuela, the Correa government has been determined to remain current on its external debt obligations, even at the cost of putting other payments on hold. Ensuring the country's liquidity position to date has been no easy task with such a precipitous drop in oil export revenues, with central bank reserves currently at their lowest level in seven years, at US$2.38bn as of 15 April.

Dollarisation at risk?

As such, there are some fears that this latest calamity could tip the country into a serious financial trouble, with dollarisation at risk of collapsing if the government is unable to keep it sufficiently provisioned.

Reflecting this pressure, Correa has now, unexpectedly, suggested that the cash-strapped country could issue fresh sovereign bonds to help pay for the reconstruction efforts. Ecuador returned to capital markets in 2014 and 2015 for the first time since Correa declared a default in 2008, but in spite of deepening budget difficulties, any further recourse to international capital had been discounted this year, because of its expense.

Going back to the market now will cost Ecuador dearly, given that it, along with Venezuela, has one of the highest debt risk ratings in the world, with

Rising debt levels one of Correa's legacies

Having posted no GDP growth at all last year, the IMF now expects Ecuador's economy to contract by a sharp 4.5% this year and by a further 4.3% in 2017. The country's total external debt is heading towards US$33bn, roughly 32% of GDP. That may not be high but the pace of the increase in recent years has been eye-catching, underlining the Correa government's expansionary policies and its failure to provision for a rainy day. In 2012, the debt/GDP ratio was 19%.

yields on its US$3.5bn of existing bonds now trading at about 11 points over comparable US treasuries. By contrast, Argentina's triumphant return to international markets this week came with an average yield of about 7%.

And while Ecuador continues to depend heavily on its strategic ally China for financing (to the tune of over US$15bn since 2009), this financing is largely tied to infrastructure and other schemes, and increasingly moreover, it has been arriving in drip-drip fashion, as China too suffers its own financing constraints (*see sidebar*).

SOS IMF

Even prior to the earthquake, there had been growing speculation locally that the Correa government might have no choice but to bite the bullet and negotiate some kind of lending agreement with the IMF to see it through for a couple of years until oil prices rebound and new reserves – including the almost 1bn barrels now under development under the Yasuní national park and indigenous reserve – come on-stream from 2017 onwards.

With the government still not having met its estimated US$6bn in financing needs for this year, local private-sector economists had calculated that unless oil prices returned to about US$35 a barrel this year, the finance ministry might have no choice but to approach the IMF. In its Spring World Economic Outlook, released just last week, the IMF itself had already commented that Ecuador's near-term prospects were "highly uncertain" and "dependent on the availability of external financing".

To go cap in hand to the Washington-headquartered Fund now would really pain Correa – who has prided himself on Ecuador's independence from the institution – and cast a political shadow over his (already gloomy) final year in office.

Ahead of the scheduled February 2017 general election, in which ruling the left-wing Alianza País (AP) is heading to the polls for the first time ever without Correa atop the ballot sheet, there was thus a question as to how the government might sell an IMF deal to its constituents. The earthquake may provide Correa with an opportunity, as he can now – most truthfully – argue that the funds are vitally needed for reconstruction and economic redevelopment purposes.

And moreover, in a choice between an IMF bailout and the disorderly collapse of the dollarised economy – which almost inevitably would create a domestic banking crisis and probable default – Correa, an economist himself, will know all too well that the IMF recipe is the less-bitter pill to swallow.

More taxes, asset sales

Along with the potential bond issue, President Correa also announced a raft of other emergency fund raising measures in a nationally televised address on 20 April. Among these, the value added tax (VAT) rate will be increased by two percentage points for a period of one year, from 12% currently; as well as a one-off 3% "additional contribution on profits", the details of which were unclear.

Meanwhile, those with an income of over US$1m will also be subject to a one-off levy of 0.9%, while all Ecuadoreans will be asked to contribute a day's salary to the reconstruction fund (based on a sliding income scale). Needless to say increasing taxes will do nothing to boost stagnant domestic economic activity.

Finally, Correa also mooted the sale or divestment of state assets, a move previously anathema to the AP. "The country has many assets, thanks to investment over all these years, and we will seek to sell some of them to overcome these difficult moments," *Reuters* reported the president as declaring. And with the fiscal deficit already slated to be at least US$3.4bn in the 2016 budget, needs must.

China funding

Rather coincidentally, the Quito government announced on 18 April that it had signed a new US$2bn funding deal with the China Development Bank, but this money was already slated to go towards the government's annual investment programme, and as such was not related to the earthquake.

Repsol sells LPG business in Peru and Ecuador

On 20 April Spanish oil firm Repsol announced that it completed the sale of its liquefied petroleum gas (LPG) production businesses in Peru and Ecuador to the Chilean firm Abastible for US$335m. With the sale Repsol has now completely sold off its LPG operations in Latin America as part of its 2016-2020 strategic plan which calls for the sale of €3.1bn in assets in order to raise funds to be invested in the firm's core businesses. A Repsol statement said that in this way the firm planned to follow through with its US$740m investment plan for its La Pampilla oil refinery in Peru and its ongoing oil production activities in Ecuador.

TRACKING TRENDS

COLOMBIA | **Exports to the EU.** On 17 April the new ambassador to Colombia for the European Union (EU), Ana Paula Zacarias, said that the Andean country's non-oil exports to the EU increased by 7.52% year-on-year in 2015 to reach €5.18bn (US$5.85bn). This positive result will be welcomed by the government led by President Juan Manuel Santos as the domestic economy continues to be negatively impacted by the fall in the international oil price, which has severely reduced Colombia's oil export revenues. They also suggest that Colombia is starting to reap the benefits of a trade agreement it signed with the EU in 2013.

Pointedly, Zacarias, who was appointed as the new ambassador to Bogotá in February, said that "Colombian agriculture is one of the sectors that has benefitted the most from the preferential access to the EU market thanks to the association agreement that came into effect over two and a half years ago". Citing figures from the EU statistics agency (Eurostat), Zacarias said that the main non-oil products exported by Colombia to the EU last year were coffee, fresh fruits, palm oil, flowers and sugar. The ambassador highlighted the case of sugar, noting that Colombia was able to export 61 tonnes (t) of sugar to the EU tariff-free under the association agreement and that sugar and sugar derivative exports totalled €43m (US$48m).

Meanwhile, some of the main non-agricultural products exported over the period were plastic, ceramics, textiles, toys and leather goods. Zacarias said that the increase in agricultural exports should be encouraging for the prospects of peace in Colombia as "the countryside will play a fundamental role in a future post-conflict Colombia and the figures show that trade can be a tool to achieve sustainable rural economic development".

PERU | **Gold reserves.** Peru's gold reserves currently equal some 2,800 tonnes, equivalent to 5% of the world's total, the national mining, oil and energy society (SNMPE) said last week. This makes Peru the country with the sixth largest gold reserves in the world. An SNMPE statement said that its data was based on the US Geological Survey, which calculates that there are approximately some 56,000 tonnes of gold in the world.

The SNMPE also noted that of the 3,000 tonnes of gold extracted in 2015, Peru accounted for 4.8%, or 145 tonnes. This made Peru the world's sixth largest gold producer last year behind China, Australia, Russia and the US.

According to the SNMPE, Peru's growing gold production has allowed the commodity to become one of the country's leading exports in recent years. On SNMPE figures Peru exported US$41bn worth of gold between 2011 and 2015, equal to 36% of the country's total mining exports. Although the value of the exports was much higher at the height of the commodities 'super-cycle' in 2011 and 2012 and has since been steadily falling, the SNMPE noted that the value of gold exports last year was a still considerable US$6.59bn.

The release of the SNMPE data comes as Peru prepares to host the 12th International Gold & Silver Symposium on 17 and 18 May.

VENEZUELA | **Extending electricity rationing.** On 20 April President Nicolás Maduro announced that in the next few days his government would extend the 'special electricity administration plan' that aims to reduce domestic electricity consumption significantly in a bid to help tackle Venezuela's current electricity shortage crisis [WR-16-12]. The crisis has come about not just because of the structural deficiencies and lack of investment in Venezuela's electricity production and distribution sector but also because of a severe drought and high temperatures in many parts of the country.

"Venezuela is currently experiencing extreme climatic phenomena…with two years of severe drought and the worst heat in 200 years due to El Niño", Maduro said during a televised address in which he pointed out that the despite the introduction of measures such as reducing the working week to four days and ordering all public buildings to turn off the lights in the evenings, the situation has not improved as electricity consumption continues to be dangerously close to outstripping falling production.

Maduro said that the government would introduce "tougher" measures in the 10 states that consume the most electricity, including an increase in electricity tariffs to discourage consumption. "There are two ways of preventing the collapse of the electricity sector…one is rationing and the other is a tough increase in tariffs," Maduro said noting that the government would announce further details of the measures "in the coming days".

MEXICO | SECURITY

On the defensive again

More revelations continue to put pressure on the Mexican government over human rights. In the latest development two senior government officials have had to apologise publicly after the appearance of a video showing a woman being tortured by members of the security forces. Meanwhile the government's account of the abduction and presumed murder of 43 trainee teachers in Iguala, Guerrero, in September 2014 continues to be less than transparent. The government's poor human-rights record may have been a factor in a sharp decline in the approval rating of President Enrique Peña Nieto.

A four-minute video has emerged on social media, showing two Mexican soldiers helping a federal policewoman torture a female suspect. Their victim has her hair pulled, is threatened with a rifle, and is suffocated with a plastic bag placed over her head until she almost passes out.

The authorities have admitted that the video is genuine. The defence ministry has said the events happened on 4 February 2015 in Ajuchitan, Guerrero, an area known for poppy cultivation and the activity of drug trafficking organisations (DTOs).

Under Mexican law civilian courts have jurisdiction to investigate any abuses committed by armed forces personnel against civilians, but soldiers must also answer to military courts. In this case it seems the military moved more quickly. The army said it had found out about the video in December 2015 and arrested the two soldiers involved in January this year: they face a charge of disobeying orders. Defence Minister General Salvador Cienfuegos Zepeda has described the incident as "repugnant".

The Comisión Nacional de Seguridad (CNS), which oversees the federal police (PF), says it is investigating the matter, as is the federal attorney general's office (PGR). Both Renato Sales, the head of the CNS, and Roberto Campa, the deputy interior minister with responsibility for human rights, issued formal apologies, saying the behaviour of security personnel had been "intolerable".

According to José Miguel Vivanco, Americas director for the US-based lobby group Human Rights Watch (HRW), "torture and inhuman, cruel and degrading treatment continue to be the traditional methods of 'investigation' and punishment in Mexico". What seems to have been different in this case was that the evidence was overwhelming.

"There are abuses by soldiers, but there often isn't this kind of solid proof," agreed Raúl Benítez, a security specialist at Universidad Nacional Autónoma de México (UNAM). "They are not accustomed to acknowledging such cases, unless the evidence is overwhelming," Benítez added.

In fact, in some of the most serious and complex cases, the government seems to be hopelessly bogged down and invested in an explanation of events widely seen as opaque and lacking credibility. The most notorious remains the abduction and presumed murder of student teachers in Iguala. Despite the federal government's best efforts to shake it off, this still-unresolved case seems to follow it around wherever it goes (*see sidebar*).

Iguala

On a state visit to Germany last week President Peña Nieto found that his host Chancellor Angela Merkel was offering her country's help to investigate the Iguala case, along with support and training for the security services.

Largely because of Iguala, relations between the Peña Nieto administration and international human-rights bodies are at their worst point in recent years. The committee of forensic experts appointed by the Inter-American Commission on Human Rights (IACHR) to help investigate Iguala is due to wind up its mission on 30 April amid barely-concealed frustration over a lack of collaboration from the Mexican authorities.

One of the issues is whether, as suspected by the families of the disappeared, there was any involvement in the events by a local army unit, Battalion 23. But the experts have been consistently denied access. Francisco Cox, a Chilean member of the committee of experts, said "We have repeatedly asked the attorney general's office to get the military to give us photographs, videos, and documents which have been referred to in their own testimony", but this had been denied.

The official version of events is that the students were kidnapped by municipal police and Guerreros Unidos, a local criminal group, and that they were killed and their bodies burned at a garbage dump in the locality of Cocula. Central to the government's account is that there was no involvement by either the army or the PF – meaning that it was only the municipal police that were complicit. But while human remains have been found, there have been no DNA matches for the majority of the victims, and the international experts say the scientific evidence does not support the official account. Specifically, they say that the fire could not have burned long enough or intensely enough to eradicate all DNA traces. They also add that the Mexican investigation has been deeply flawed, with crime scenes contaminated.

Negative poll results

According to the latest *Reforma* opinion poll the latest falls reflect a slowing economy, continuing concerns over corruption, and worries over security and crime. A daunting 75% of respondents said they felt the country was heading in a bad direction, with only 13% saying it was on the right track.

New evidence gathered by the Mexican Human Rights Commission (CNDH) also challenges the official version, alleging that at least two members of the PF were present during the abductions. It is possible that neither the army nor the PF were involved, but the government's persistent refusal to give the international experts access to the relevant files has boosted suspicions of some kind of a cover-up.

On top of the dispute with the IACHR over Iguala, the government is at odds with Juan Méndez, the United Nations Special Rapporteur on torture, as it has objected to his earlier claim that torture is a "generalised" practice among the security forces. The government has refused to accept that judgement, and at the end of last year was reported to have refused the rapporteur's request to carry out a follow-up visit to Mexico.

Mexico in US presidential debate

Already concerned over the anti-Mexican rhetoric of Donald Trump, the candidate for the Republican Party presidential nomination in the US, the Mexican administration found itself being singled out by Hillary Clinton, the Democratic Party presidential hopeful, who referring to the country said "I don't think violating human rights is the best way to fight against crime". Mexican foreign minister Claudia Ruiz Massieu quickly responded that her government was "focused on addressing all the challenges it faces in the field of human rights".

Many analysts believe the human rights morass in which the government has found itself stuck is a significant factor eroding Peña Nieto's public image. According to an opinion poll conducted by the national daily Reforma this week, the president's approval rating fell to 30% in April, down from 39% last December. After taking office in December 2012 Peña Nieto's approval rating peaked at 50% in April 2013, hovering around that level until the last quarter of 2014 when it began to fall following the Iguala incident and a series of corruption allegations.

MEXICO | **Pemex capitalisation.** Mexico's finance ministry (SHCP) announced last week that the federal government had decided to make a M$73.5bn (US$4.2bn) capital injection to the state-owned oil firm, Pemex, to help it improve its cash flow and pay for its pension obligations.

The capitalisation announcement had been widely awaited since January, when the finance minister, Luis Videgaray, revealed that the government was analysing giving a capital injection to the firm, which has seen some financial pressures as a result of the sharp fall in international oil prices since mid-2015, meaning the firm has encountered difficulties in paying some of its contractors. As such the SHCP's announcement was designed to provide reassurances that the federal government was ready to back Pemex financially in the short-term as the firm adjusts to the more adverse economic scenario and adapts to the government's 2013-2014 energy sector reform that liberalised Mexico's oil sector after decades of Pemex monopoly.

Moody's on Pemex

Moody's was clear that as positive as the capital injection was for Pemex, it "does not change its credit risk rating...as its credit metrics could still deteriorate should crude prices and production remain low, taxes remain high and the firm has to adjust its capital investments to achieve its budgetary objectives".

When news of Pemex's financial difficulties first broke, the federal government was clear that while it was prepared to reinforce Pemex's depleted finances, it expected the firm to go through with its major M$100bn cost-cutting plans designed to make the firm more efficient and able to compete with private international oil firms in Mexico's newly liberalised oil sector. According to an SHCP statement, the federal government agreed to provide Pemex with a liquidity boost in the form of a M$26.5bn direct capital injection and a M$47bn credit line.

The SHCP said that the capitalisation had been made possible thanks to the M$132bn in budget cuts implemented by the federal government this year. Noting that the first tranche of the funds (some M$26bn) would be transferred on 15 April, the SHCP added that the bulk of the funds (M$47bn) would be destined to pay off Pemex's pension obligations to its workers this year.

The SHCP was also clear that one of the conditions of the transfer was for Pemex to reduce its liabilities by M$73.5bn this year – in other words it expects Pemex not to take advantage of the liquidity boost to fall behind on its debt. This is a tough ask for Pemex, and even the deputy finance minister, Miguel Messmacher, has said that the firm may have to tap capital markets to reinforce its financial position.

Nevertheless, the government's bailout of Pemex was viewed positively by analysts. "This is good, because it is comprehensive and deals with the main issues," commented Alexis Milo, an economist at Deutsche Bank in Mexico City, adding that "this is the beginning of the structural changes that markets were expecting". Meanwhile, Moody's Investor Service said in a note that "The capital injection is positive…as it will help the firm reduce its additional external financial needs to cover capital investments and debt payments to US$13bn".

MEXICO | **Carstens hails public debt reduction efforts.** In an 18 April interview with Mexican daily *Excelsior*, the governor of Mexico's central bank (Banxico), Agustín Carstens, praised the Mexican government's decision to use the M$239bn (US$13.7bn) Banxico surplus funds to reduce the country's public debt.

As part of its efforts to reduce the fiscal deficit, last year the government led by President Enrique Peña Nieto promoted an amendment to the federal fiscal responsibility law, which stipulated that 70% of any surplus funds transferred by Banxico to the finance ministry (SHCP) should be destined to pay off the public debt. Carstens, who was attending the International Monetary Fund (IMF) and World Bank (WB) Spring Meetings in Washington DC, said that the decision helped to "avoid further economic damage" to Mexico following the depreciation of the peso against the US dollar.

"With the exchange rate depreciation the value of the central bank's assets increased but so did the government's liabilities in foreign currency…if the surplus had been used as it was before to finance government spending, then it would not have reduced the government's liabilities. The change in legislation allows for a gain to be used to cancel losses elsewhere," Carstens explained.

GUATEMALA | POLITICS & DIPLOMACY

Shoring up ties with the US

President Jimmy Morales this week paid a visit to the US where he requested that the United Nations-backed International commission against impunity in Guatemala (Cicig) be extended for a further two years until 2019. Cicig and the attorney general's office (AG) played a crucial role in uncovering corruption scandals last year which ultimately forced Otto Pérez Molina to step down as president over allegations that he headed up a corruption ring in the tax authorities (SAT). Morales, whose small right-wing Frente de Convergencia Nacional government took office in January for a four-year term, has acknowledged that his 2015 electoral victory owed to public anger with official corruption. Extending Cicig's mandate is also crucial to securing continued US support for the 'Alliance for Prosperity Plan (PAP)' for the so-called Northern Triangle countries (El Salvador, Guatemala and Honduras). Launched in 2014 in cooperation with the Inter-American Development Bank (IDB), the PAP seeks to tackle the root causes of the child migrant crisis, which made headlines that year.

In a clear sign of cooperation between institutions, Morales was accompanied by Cicig's chief, Colombian jurist Iván Velásquez Gómez; AG Thelma Aldana; and Interior Minister Francisco Rivas when he presented his request on 18 April to UN Secretary General Ban Ki-moon. In a presidential press release issued the same day, Morales noted that since its establishment in 2007, Cicig had contributed to the investigation of over 200 cases with more than 160 officials and former officials tried for different crimes.

The prospect of a further two years for Cicig was well received by local civil-society groups like Fundación para el Desarrollo (Fundesa) and private sector lobby Asociación Guatemalteca de Exportadores (Agexport). The US embassy also tweeted its approval, congratulating Morales "for his commitment against corruption, and another step forward for Guatemala".

The US response follows other clear signs of support from Washington for local anti-impunity efforts in conjunction with Cicig. On 29 March US Secretary of State John Kerry honoured Aldana as one of 14 'Women of Courage' – women who had either fought against gender-based violence, corruption, or for human rights. Presenting the award, Kerry said that Aldana, who has been in the post since 2014, had been "fearless in investigating and prosecuting corruption cases against officials previously thought untouchable, including the same president who appointed her and his vice president".

Meanwhile in his first public appearance on 28 March since resigning in September 2015, Peréz Molina accused the US of meddling in domestic affairs. Following a court hearing, Peréz Molina, who maintains his innocence and insists that he is a victim of political persecution, accused Cicig of being a "tool for the US". He has since been implicated in a fresh scandal (*see box*).

Another scandal

On 15 April Velásquez and Aldana announced that nine people had been arrested in relation to a new corruption case uncovered by Cicig and the AG which involves some US$25m in alleged bribes received by Pérez Molina and other top officials between 2013 and 2015.

The bribes were in exchange for a 25-year contract awarded to the local branch of Spanish company Terminal de Contenedores Barcelona (TCB) to operate a container terminal in Puerto Quetzal, Guatemala.

US-Guatemala trade

According to figures from the Central American economic integration system (Sieca), Guatemala's exports to US – its biggest export market – reached US$1.53bn in 2015 (out of Guatemala's total exports worth US$7.16bn). The 2015 figure was down from US$1.69bn in 2014. Guatemala imported US$5.9bn worth of goods from the US (its biggest source of imports) in 2015 (out of total US$15.4bn imports). This was down from US$6.7bn. The two countries are part of the Central America-Dominican Republic-US free trade agreement (Cafta-DR) which took effect in Guatemala in 2005.

International anti-impunity efforts

President Jimmy Morales' request to extend Cicig's mandate comes as a new Organization of American States (OAS)-sponsored Support Mission Against Corruption and Impunity in Honduras (Maccih), recently began operations in Honduras. In contrast to Cicig, which has prosecutorial powers, Maccih has a purely advisory role in helping combat corruption and promote a systemic judicial reform. El Salvador has so far refused calls for an international anti-impunity body.

At the end of February President Morales, along with his Salvadorean and Honduran peers, Salvador Sánchez Cerén and Juan Orlando Hernández, met US Vice-President Joe Biden in Washington. The meeting had been called to discuss the 2016 action plan for the PAP for which in December 2015 the US Congress approved US$750m in aid for FY2016. In the meeting Biden was unequivocal that future US cooperation would be dependent on the commitment of the three Northern Triangle countries to continue to crack down on domestic official corruption.

According to a January 2016 White House press release, the US$750m in aid pledged for the PAP more than doubles the US$305m US assistance to Central America disbursed in FY2014 and represents a 34% increase over the US$560m in FY2015. Backing up Biden's insistence on the need to continue anti-corruption efforts is the condition that 50% of US assistance to the Northern Triangle governments will only be released after the US Secretary of State certifies that each government is taking effective steps to meet certain criteria. These include: combating corruption and strengthening public institutions; improving civilian jurisdiction and countering activities of criminal organisations; and increasing government revenues, among other measures.

As regards steps to address illegal migration, the US Congress also required that 25% of assistance to the Northern Triangle governments be withheld until the US Secretary of State certifies and reports to Congress that each government is taking effective steps to: inform its citizens of the dangers of the journey to the southwest border of the US; combat human smuggling and trafficking; improve border security; and facilitate the safe return, repatriation, and reintegration of undocumented migrants.

Morales meets Sánchez Cerén

On 11 April President Morales paid his first official visit to neighbouring El Salvador where he met President Sánchez Cerén. Among other things, the two leaders discussed setting up a bilateral high-level security commission, similar to the Grupo de Alto Nivel de Seguridad (Ganseg) established by Mexico and Guatemala in 2013.

The two also discussed ways of boosting trade. El Salvador remains Guatemala's second-biggest export market (after the US), accounting for US$1.13bn of Guatemala's exports in 2015, out of US$7.16bn on the latest figures from the Central American economic integration system (Sieca). Salvadorean exports to Guatemala reached US$776m in 2015 (out of total US$15.4bn imports to Guatemala), on the same Sieca figures.

The two leaders also pledged to move on creating a customs union – a proposal first discussed by Sánchez Cerén and Pérez Molina in February 2015, at which point Pérez Molina said that a customs union between the three Northern Triangle countries would boost GDP by at least 1% a year in each nation. Last year, Guatemala and Honduras agreed to establish a customs union – the first in Central America. It was ratified by Guatemala's legislature in January 2016 and the Honduran legislature in December 2015.

Back in October 2015, Sieca's secretary general Carmen Gisela Vergara said that a Central American customs union could become a reality by 2021. This is one of the commitments assumed by the Central American countries as part of an economic association agreement with the European Union (EU) in 2013. In September of that year, the EU assigned €10m (US$11.3m) to help set up a customs union in order to facilitate bilateral trade.

Speaking at the Euroforo Guatemala 2015 conference held in Guatemala City, Vergara said that during a June summit of the Central American integration system (Sica), Sieca presented the Sica member states with a "road map" to establish a full customs union within six years.

POSTSCRIPT

Quotes of the week

"It is not the beginning of the end, it is the beginning of the struggle."
Brazil's President Dilma Rousseff.

"We need your creativity, that you start to invest, and are not like some businessmen who take advantage [of the situation] to mark up prices."
Argentina's President Mauricio Macri lectures top business leaders.

"My government's commitment to transparency is irreversible."
Panama's President Juan Carlos Varela in the face of the backlash over the so-called Panama Papers.

Venezuela's national assembly presses on – but to what end?

Refusing to give up in the face of the supreme court's judicial wall, Venezuela's opposition Mesa de la Unidad Democrática (MUD) approved a new referendums law this week designed to expedite its planned recall referendum against President Nicolás Maduro. Under the 1999 constitution, elected officials including the president can be recalled once they have served half their term in office. Maduro was elected for a six-year term in early April 2013, so that point is now. If a successful recall referendum is held within the next year, the president steps aside and new elections are held. However, if a referendum takes place any later than April 2017, then the incumbent vice president takes over instead and sees out the rest of the term without fresh elections.

The MUD has a narrow window in which to operate, not least because the supreme court and the national electoral council (CNE) have insisted on blocking the legislature's every move since it sat in January, with the result that the MUD has only managed to approve a mere handful of laws (no more than five in all) in its first few months – none of which do much to help the economic position of the over 7m Venezuelans that turned out in support of the MUD's promise of change in December 2015.

The MUD's approval of the referendums law comes just weeks after the CNE said that the national assembly could not put in place any such legislation, with the electoral authority pronouncing itself the sole agent empowered to enact electoral rules and regulations. The MUD dismissed this as nonsense and in breach of the constitution and so went ahead anyway. But the supreme court almost certainly will throw out the new law, begging the question as to how the MUD ever hopes to get the referendum off the ground – with the CNE still stubbornly making all kinds of previously-unheard bureaucratic demands before it will consider approving a first batch of citizens' signatures (1% of the electorate) needed to initiate a referendum process in the assembly.

Undeterred, the MUD also began to discuss a proposed constitutional amendment that would cut the presidential term to four years from six, as part of its declared 'multi-pronged' approach to removing Maduro. In the debate, however, deputies from the ruling Partido Socialista Unido de Venezuela (PSUV) insisted that the MUD cannot retroactively change the current term, and that any such measure could apply only to future terms.

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