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Venezuela faces major diplomatic setback

The prize for which Venezuela's late former president Hugo Chávez (1999-2013) strove so hard could soon be taken away from the country. Chávez made it a personal mission to see Venezuela accepted as a full member of the Southern Common Market (Mercosur), which he described as "Bolívar's machinery". When Venezuela finally achieved this objective in 2012, the first full member to be admitted to the bloc since its formation in 1991, Chávez declared emphatically that it constituted "a major defeat for US foreign policy in South America", arguing that Washington had "always wanted to isolate Venezuela". But now the prospect of that isolation looms large: Venezuela faces being suspended from Mercosur this December, barely four years after joining.

Chávez never passed up an opportunity to depict himself as the true heir to the Liberator Simón Bolívar, especially in relation to ostensibly deepening regional integration. Membership of Mercosur had been a foreign policy objective for the majority of his long mandate, and when the moment came Chávez made the most of it. He argued that membership of Mercosur would help Venezuela to pursue inclusive socially and environmentally responsible growth: "This is the biggest historical opportunity Venezuela has had in 200 years to escape development models that brought underdevelopment, backwardness and misery".

Four years later, with Venezuela suffering a deep recession, ever-more acute shortages of food and other basic necessities and inflation no longer measurable it is so far off the charts, this grand vision of the country's future within Mercosur, "Bolívar's dream", looks as chimeric as it sounded then. Instead a prediction at the time by the opposition figurehead Henrique Capriles Radonski was far more prescient: Capriles said that only the other countries in Mercosur would benefit as "we are a country that imports practically everything". This was one of the two main reasons why Venezuela was granted full membership; the other was the ideological affinity shared by Chávez and the heads of state of Argentina, Brazil and Uruguay at the time, even if at a practical level Venezuela's inclusion was only rendered possible by the suspension of Paraguay in June 2012 (two months earlier) in the wake of the impeachment of Fernando Lugo (2008-2012) as Paraguay's conservative senate had refused to ratify the Bolivarian government's adhesion to the bloc.

Ideological allies in Argentina and Brazil have now been replaced by antagonists in the form of centre-right heads of state, Presidents Mauricio Macri and Michel Temer, respectively. Where Argentina's former president Cristina Fernández (2007-2015) and Brazil's former president Dilma Rousseff (2011-2016) were prepared to turn a blind eye to some of the less salubrious democratic developments in Venezuela, the tectonic shift in Argentine and Brazilian politics means this is no longer the case. And Venezuela's deep

Temer on regional integration

“For Brazil, Latin-American integration is...a permanent foreign policy priority,” Brazil’s President Michel Temer stressed during the opening speech at the United Nations General Assembly this week. In a thinly veiled reference to Venezuela, Temer went on: “Governments of different political inclinations coexist in our region. This is natural and sound. What is essential is that there continues to be mutual respect and that we work towards basic common objectives, such as economic growth, social progress, security and freedom for all citizens.”

economic and financial crisis means that it is no longer anything like such an important trade partner or rather importer of food and manufactured products from Mercosur’s other members. Indeed, its non-payment of debts, for instance to dairy producers in Uruguay, has caused serious difficulties.

All of this constrains Venezuela’s ability to take any retaliatory action beyond rhetorical bellicosity in the face of the decisive resolution, spearheaded by Macri and Temer, to threaten Venezuela with suspension from Mercosur. Venezuela was due to assume the six-month pro-tempore presidency of Mercosur from Uruguay on 12 July but there has been strong internal resistance to this [WR-16-26]. The Uruguayan government’s insistence that it was obliged to transfer the rotating presidency to Venezuela caused internal ructions, while the bloc’s two powerhouses groped for alternatives along with Paraguay.

After weeks of uncertainty, on 13 September, Mercosur’s founding members announced that they would be assuming the pro-tempore presidency of the bloc between them. A joint declaration delivered an ultimatum to the government led by President Nicolás Maduro to meet all of Venezuela’s membership requirements by a deadline of 1 December or be suspended from the bloc. This is tantamount to expulsion. Even if the Maduro administration were so inclined it would struggle to incorporate in time all of the relevant regulations, trade commitments and economic accords into national legislation, as well as to adopt the human-rights guarantees required under Mercosur’s democratic charter. Uruguay abstained from signing the declaration on principle but did not block it out of pragmatism, prioritising the preservation of a united front at a time when Mercosur members are keen to focus on economic and trade concerns, notably advancing a free trade agreement with the European Union (EU).

Venezuela’s foreign minister Delcy Rodríguez rejected the declaration, stressing that Mercosur can only take decisions by consensus. Rodríguez fired off a series of tweets accusing “the Triple Alliance of the governments of Argentina, Paraguay and de facto Brazil [of] damaging the organisation’s legality”. She insisted that Venezuela would continue to defend its “legitimate exercise of the pro tempore presidency” in the face of “illegal manoeuvres” which she said were “a reflection of the political intolerance and desperation of bureaucrats”.

Rodríguez also maintained that Venezuela was being marginalised “not for political or juridical reasons but ideological ones”. She might have a point. This may well be one of the main ulterior motives for seeking to eject Venezuela, but then it was also instrumental in 2012 in getting Venezuela admitted as a full member. Given the sharp ideological differences with other members of Mercosur at this juncture, the Venezuelan government’s tenacious defence of its right to lead the bloc looks more like a case of wounded amour propre, and an understandable fear that its suspension would confirm the country’s waning geopolitical influence in the region since Maduro assumed the presidency in 2013.

Venezuela’s allies in the region are dwindling. As the Mercosur declaration was delivered, they gathered for a summit of the Non-Aligned Movement on Venezuela’s Isla Margarita, closing ranks around Maduro. Ecuador’s President Rafael Correa was the most outspoken. He condemned the actions of the governments of Argentina, Brazil and Paraguay by saying “we’re confronting a new Plan Condor in the region”, seconding Maduro’s remarks last month that his government was being pursued by “South America’s torturers”. Comparing the legitimate governments of Argentina, Brazil and Paraguay to the military dictatorships of 1970, and specifically their covert intelligence plan of political repression and state terror, is not conducive to a diplomatic resolution of the current crisis. It will also have put paid to Ecuador’s pretensions to join Mercosur, at least while Correa remains in power.

CNE refuses to bend

As we went to press, the national electoral council (CNE) announced procedural details for the second stage of the presidential recall referendum petitioned by the opposition Mesa de la Unidad Democrática (MUD). As expected, the CNE put up fresh hurdles to the process. The CNE, once again, has reinterpreted its own regulations, making the process more complex and difficult, even as it denies the MUD resources.

The CNE confirmed that the second signature collection phase will take place over three days, between 26 and 28 October. As per the CNE's own regulations, the MUD is supposed to collect the signatures of 20% of 'the registered electorate' (about 3.9m) at this stage, which then triggers an actual referendum. In the last recall referendum, held in August 2004, this requirement applied to 20% of the total *national* electorate. However, the CNE has now said that the MUD must get the signatures of 20% of the registered electorate in *each* of Venezuela's 23 states.

The CNE further said that 365 electoral centres would open for seven hours daily on each of the three days. Centres will be made available in 335 municipalities and 776 (out of 1,136) parishes. It assigned the MUD only 5,392 fingerprint scanning machines, which are used to verify identity documents; the MUD had requested 19,500 machines. The CNE said it would issue a report on its audit and verification of the submitted signatures by late November (within a self-imposed 29-day deadline). Assuming that sufficient signatures are approved, a referendum could then be formally called in early December, for staging within 90 days. On this basis, the CNE suggested that it could be held midway through the first quarter of 2017. Critically, that is well beyond the cut-off date (7 January) before which a vote to recall a president triggers elections; instead the vice president takes over and sees out the final two years of the six-year term to the next scheduled general election in late 2018 and a handover to a new administration in early January 2019.

The MUD was scathing of what it said was a deliberate and deeply cynical attempt by the CNE to stymie its efforts. Its secretary general, Jesús 'Chuo' Torrealba, rejected the latest conditions as "unconstitutional" and said the coalition was considering its next step.

In reality, there appears to be little the MUD can do in the face of the government's ironclad institutional and legal grip. The MUD has staged several public demonstrations in recent weeks to demand that a referendum be held this year – including an estimated 1m-strong march in Caracas on 1 September that sent a clear message to the government. The government response was to go on the offensive, ratcheting up its aggressive rhetoric and cracking down on members of the opposition, journalists and others in dissent. The utility of more public demonstrations at this stage is questionable; with frustrations high, violence would be a risk, for which the MUD would be assigned blame.

While Torrealba would not be drawn on the MUD response, twice-former presidential candidate Henrique Capriles Radonski, the main proponent of a recall referendum, has suggested that it should go ahead anyway with the next signature collection – declaring that 80% of Venezuelans wanted to see the back of President Nicolás Maduro. In effect, he reasoned, a large turnout would act as a proxy referendum on Maduro anyway, sending yet another loud signal to the left-wing government. As such, encouraging a massive turnout for the signature collection may be the next campaign for the MUD.

“What is happening is not a sign of government strength, by contrast, they are in a situation of bankruptcy, they cannot measure themselves either at the ballot box or in the street.”

– MUD secretary general Jesús 'Chuo' Torrealba responds to the latest CNE pronouncement.

Food emergency

Henrique Capriles Radonski, currently the governor of Miranda, the state surrounding Caracas and the second-most populous in the country, has declared a 'food supply emergency' in the state. According to Capriles, recent poll research indicated that 17% of residents in urban areas rummage through garbage to find food, while just 41.2% of Venezuelans have three standard meals a day. "The most vulnerable are our children, 50% go to bed hungry...and for nearly a third, the only food they eat all day is at school," Capriles said. The state of emergency allows for increased funds to be spent on school kitchens and school meal subsidies. It also permits state authorities to take measures to promote food production.

What then?

If a referendum *is* held in 2017 (and there is still no guarantee of that), there is little doubt that Maduro would be ousted. All local pollsters point to a massive popular vote to remove him. As such, the focus would be on Maduro's vice president, currently Aristóbulo Istúriz, a veteran politician with ties across the political scene who began his political career in the traditional party, Acción Democrática (AD), now an influential player in the MUD (the national assembly president, Henry Ramos Allup, is also an AD veteran). Upon his appointment last January, there was some expectation that Istúriz might act as a bridge between the Maduro administration and the opposition, but this has not happened; Istúriz appears to have been sidelined by Maduro for the more hardline members of his inner circle.

Istúriz may well be replaced in the traditional New Year's cabinet re-shuffle in early January. There is no telling who Maduro might appoint next, but the main fear in the MUD is that he could choose a military member, who would then take over upon a recall referendum, putting the military, effectively, in charge of the government. The onus may now be on the three external mediators appointed by the Union of South American Nations (Unasur) to avoid that situation, working instead to get Maduro to appoint a civilian acceptable to all sides to oversee a pacted transition period to January 2019. Whether Maduro at this point even has the authority to choose his own successor is a moot point.

S&P puts the boot into Pdvsa's bond

The international rating agency Standard & Poor's (S&P) has downgraded Venezuela's state-owned oil company Pdvsa. S&P also warned that it considered a new Pdvsa bond swap offer a "distressed exchange" that would be "tantamount to default".

S&P made its announcement on 19 September, just three days after Pdvsa had offered a new voluntary US\$7.1bn bond swap offer to existing holders of bonds maturing next year. The company offered a new 2020 bond in exchange for a 2017 bond maturing in April and a '2017N' bond maturing in November, with payments on the new instruments staggered over the four years to 2020. Shares of Pdvsa's US refining unit, Citgo, would be put up as collateral, with investors offered a 'first-priority lien' on a 50.1% stake in Citgo. The offer expires on 14 October. Pdvsa's president, Eulogio del Pino, stressed that bondholders who do not want to participate in the new tender will still be paid in full and on time.

S&P suggested that even though the swap is voluntary, it is a "coercive" offer towards investors, because "either they enter into it, or the company [Pdvsa] is not going to pay them". S&P analysts wrote, "We consider this a distressed offer, and not liability management". S&P thus downgraded Pdvsa's debt rating to 'CC' from 'CCC' with a negative outlook, "reflecting a [further] downgrade potential if the company completes the exchange offer, which we classify as tantamount to default", it continued. S&P added that bonds due in 2017 not swapped in the exchange will remain CCC-rated. Venezuelan government debt is also rated 'CCC' by S&P.

Meanwhile, putting another spanner in the works, Venezuela's opposition MUD, which controls the national legislature, warned that it would oppose the use of Citgo as collateral, arguing that it amounts to its de facto privatisation.

Pdvsa and the left-wing Caracas government continue to insist upon their willingness to remain current on debt obligations. But their ability to do so is under considerable scrutiny. Given that the swap offer is clearly an effort to defer next year's debt payments, investors will have legitimate doubts as to whether Pdvsa would still be able to service the existing 2017 bonds should the swap not succeed. Meanwhile, some US\$5bn in debt servicing obligations fall due to year-end for Pdvsa and the Venezuelan government. The central bank reported reserves of US\$11.9bn on 20 September. Credit-default swaps put the probability of a short-term default by Pdvsa and/or the sovereign at 91%.

Fujimorismo takes firm action after defection

Left-wing dispute
 Fuerza Popular is not the only party to be encountering internal differences. The fledgling left-wing Frente Amplio (FA) party is riven by a power struggle between its presidential candidate, Verónica Mendoza, and Marco Arana, the leader of Tierra y Libertad, which owns the party registration. Arana is opposed to incorporating more left-wing parties to the FA movement. Alan Fairlie, Mendoza's second vice-presidential candidate, resigned from the FA's permanent committee over the dispute on 31 August.

A congressional deputy for the main opposition Fujimorista Fuerza Popular (FP), Yeni Vilcatoma, has defected. While defections and floor crossing are common in Peruvian politics, it is unusual to see the FP succumb to internal conflict as the party has tended to show considerable unity. The FP will retain a simple majority in the 130-seat congress with 72 seats, but it moved swiftly to deter any other deputies that might be considering following suit. Using its dominance in congress the FP rushed through a bill at committee level barring any deputies who defect from joining another party or forming their own party.

President Pedro Pablo Kuczynski was forced to retract comments he made shortly after taking office on 28 July about courting around “30 [FP deputies] that jumped on the bandwagon thinking that they would get a gift if it won”, or else it would be “difficult to work with congress”. Kuczynski's comments incensed the FP, who accused him of trying to promote floor crossing in congress. For all Kuczynski's remarks might have been inappropriate, it would be simpler for him to govern if the FP were to fracture; Vilcatoma's defection convinced the FP hierarchy that the loyalty of party deputies could not be relied upon and would need to be enforced.

Kuczynski's ruling Peruanos por el Cambio (PPK) was careful not to antagonise the FP by ruling out any approach for Vilcatoma. Deputy Mercedes Aráoz, the second vice-president, pointedly remarked that PPK would not interfere in the internal affairs of other parties and had “no desire to gather people to bolster its bench”. This was no surprise. The government needs the FP's cooperation and picking up one stray deputy is not going to alter the dynamic in congress.

Vilcatoma abandoned the FP on 16 September. A former anti-corruption prosecutor, Vilcatoma shot to prominence when she was fired in December 2014 after writing to former president Ollanta Humala (2011-2016) to demand the resignation of his justice minister Daniel Figallo. She accused Figallo of having interfered with her investigations into the links between a fugitive businessman, Martín Belaúnde Lossio, who acted as an adviser to Humala in his 2006 electoral campaign, and the corruption ring in the northern region of Áncash (whose president, César Alvarez, was jailed on suspicion of murder) involving government officials, members of the police and the judiciary.

With these credentials, the FP courted Vilcatoma to join the party's congressional list and, once elected, she became president of the legislative oversight commission. But Vilcatoma had serious disagreements with colleagues over a bill to strengthen public prosecutors by creating an independent attorney general's office. Other legislative initiatives have sought to dilute this idea, one such presented by a fellow FP deputy, Ursula Letona. Vilcatoma accused Letona and another FP colleague, Héctor Becerril, of undermining her position. After announcing her intention to leave the FP, Vilcatoma said she was subjected to “a lynching” during a party disciplinary process. Questioned about the matter by the media, the FP spokesman, Luis Galarreta, said simply “the episode is closed”.

On 20 September, just two working days after Vilcatoma left the FP, Becerril was appointed as head of the oversight commission, and the congressional constitutional commission approved a bill seeking “to discourage the fragmentation of parliamentary groups”. The FP president of the commission, Miguel Ángel Torres, said that the purpose of the bill was “not to punish floor-crossing but to establish new rules in the formation of parliamentary groups and to create institutional stability in parties”. Not only does the bill

'Yes' vote builds lead

Predicting the outcome of referendums is notoriously difficult for pollsters, and surveys have shown serious fluctuations in support for the peace accord in recent months. The consensus among polls conducted over the course of the last two weeks, however, is that the 'yes' vote should emerge triumphant. The most recent poll of all, by Invamer, for Canal Caracol, published on 20 September, gave the 'yes' vote 67.6% and the 'no' vote 32.4%. A separate poll by Ipsos Napoleón Franco published 11 days earlier put support for 'yes' at 72% and 'no' at 28%, while Datexco put 'yes' on 64.8% and 'no' on 28.1%.

prohibit deputies from defecting to other parties or setting up their own party but it also prevents any defecting deputy from becoming president of a congressional committee or assuming any leadership position on it.

Vilcatoma, who attended the session, insisted the bill required a constitutional reform, but her former colleagues dismissed this; Torres said Vilcatoma could join another party, most likely Acción Popular (AP), before the promulgation of the bill, which should sail through the full congress. Letona insisted that the bill was a response to a public demand for sanctions to be imposed for floor crossing, but AP deputy Yonhy Lescano denounced it as "unconstitutional", and a clear attempt by the FP to prevent other deputies from leaving the party.

Popular Kuczynski poses challenge for FP

The new bill amounts to an indirect acknowledgement by the FP hierarchy that keeping such a large party united when it is in opposition could prove to be difficult, particularly as distinct factions can be discerned, for instance, between Lima and the provinces; veteran Fujimoristas and new blood. It will be still more difficult if Kuczynski can retain public popularity.

Kuczynski's approval rating was 63% in September, up two percentage points on the previous month, according to a poll by Ipsos published this week in the national daily *El Comercio*, and well above the 50.1% of the vote he won in June's presidential run-off. While it is very early days, it is unusual for the approval rating of a Peruvian head of state to go up; customarily they begin on a downward trajectory and pick up speed.

The Ipsos poll showed that the FP's defeated presidential candidate Keiko Fujimori enjoys an approval rating of 41%, down nine percentage points on June's electoral performance. But another key finding of the survey was the resounding support for the government's request that congress award it powers to legislate in specific areas, ranging from corruption (87%) to public security (97%). The FP is loath to cede the government these powers but with such emphatic public support it will be difficult to deny them.

COLOMBIA | POLITICS & SECURITY

Santos snubs Uribe amid positive polls

Former president Alvaro Uribe (2002-2010) invited President Juan Manuel Santos this week to debate the peace accord struck between his government and the Fuerzas Armadas Revolucionarias de Colombia (Farc). Uribe argued that a debate was necessary ahead of the referendum on the accord on 2 October in order to allow Colombians to appreciate the consequences of their vote. Santos declined, perhaps buoyed by a number of recent surveys pointing to a comfortable victory for the 'yes' vote (*see sidebar*).

Uribe suggested that the debate should not be mano a mano to avoid it becoming a personal confrontation between him and President Santos. Uribe said he should be represented instead by a spokesman for his right-wing Centro Democrático (CD) party. Santos responded by saying he had a packed itinerary, including the official signing ceremony of the peace accord with the Farc's maximum leader, 'Timochenko' (Rodrigo Londoño Echeverri), in Cartagena de Indias on 26 September, and did not have time for such a debate.

Santos pointed out that he had "spent the last four years wanting to discuss the peace process with my opponents" but to no avail. He urged Uribe and the CD "to read the accords and see that what they are saying is not correct". The CD's 2014 presidential candidate, Oscar Iván Zuluaga, has maintained during the 'no' campaign that the accord provided "a paved highway to 21st century socialism".

Peru launches ‘SAT-1’

On 15 September Peru’s defence minister confirmed the successful launch into orbit of the ‘SAT-1’ sub-metre observation satellite. The US\$168.6m satellite, which launched from the Kourou space centre in French Guiana, is capable of taking pictures of an area less than a metre in size and also identifying objects less than a metre in size, and will allow Peru’s defence ministry to monitor the entire national territory closely for the first time. Defence Minister Mariano González said that the satellite, “the most powerful in the region”, would be used for national security, disaster prevention, urban planning, and monitoring agricultural crops, both legal and illegal, among other things.

COLOMBIA-BOLIVIA | Falling foreign investment. On 19 September Colombia’s central bank (Banrep) reported that net foreign investment received by the country in August was US\$1.91bn, 23.4% lower than in the same month last year. The main reason for this fall was a 24.7% decline in foreign investment portfolios, even though there was a year-on-year 22.2% increase in foreign direct investment (FDI). This means that the level of divestment (foreign investors pulling money out of the country) was higher than the level of foreign investment inflows despite the level of FDI coming into the country being higher than last year.

Banrep did not provide a specific explanation of why this was the case but its data suggests that it may be related to the fall in international oil and mineral prices. The Banrep data show that investments in the oil and mining sector fell by 27.5% year-on-year in August to US\$329.8m. In contrast, foreign investment in other sectors more than doubled to US\$543.3m in the same period.

The August result seems to confirm a wider trend. From January to August, net foreign investment in Colombia shrank by 19.7%, to US\$9.1bn from US\$11.36bn in the same period in 2015. Investment in oil and mining fell by almost half, to US\$3.16bn in the first eight months of the year, while investments in other sectors increased by 49.3% to US\$3.01bn. This was the result of falling net investment in every month except March, when inflows into public debt and shares pushed the balance into positive.

This constant fall in FDI in Colombia expands the large deficit in the current account, which is one of the country’s most important economic vulnerabilities. But Colombia is not the only Andean country that is experiencing a fall in foreign investment as a result of lower hydrocarbon and mineral prices. A report by Bolivia’s central bank (BCB), also released on 19 September, showed that net FDI fell by 73% in Bolivia in the first quarter of the year. This represented a significant reduction from US\$272.2m in the first quarter of 2015 to US\$72.8m in the same period of 2016.

As in Colombia the fall in FDI in Bolivia was also the result of divestment, to the tune of US\$155m in the quarter as investment inflows into the oil and mining sectors were comparatively lower than last year. Investment in the hydrocarbon sector, which accounts for 55% of all FDI into Bolivia, fell from US\$209.m to US\$131m. Meanwhile investment in the mining sector fell by 84% from US\$32.1m to US\$5.1m. There was also a fall in FDI in the industrial sector but there were minor increases in other sectors such as trade, transport and communications. If this trend continues, this would be the third consecutive year of decreasing FDI in Bolivia.

PERU | Searching for infrastructure project partners. On 19 September Peru’s President Pedro Pablo Kuczynski revealed that BlackRock Inc, the world’s largest asset management firm, is interested in financing infrastructure projects in Peru. Kuczynski’s announcement came after he met BlackRock’s CEO, Larry Fink, in New York City, where Kuczynski travelled to attend the United Nations General Assembly.

Kuczynski did not specify exactly what type of projects BlackRock was interested in but he recently said that Peru has a US\$69bn deficit in infrastructure, principally in the transport, energy, education and potable water sectors, so there are plenty of opportunities available.

BlackRock established an infrastructure unit in 2011 and in recent years this has focused on expanding in Latin America, where it now owns US\$752bn in assets.

Kuczynski, who has said that one of his government’s objectives is to reduce Peru’s infrastructure deficit by half by the end of his term in 2021, said that he would also seek to speak to other potential investors while in the US to present them with opportunities to invest in Peru’s infrastructure projects. Prior to his arrival in the US, Kuczynski made an official visit to China, where he met President Xi Jinping and local business leaders to promote economic and investment opportunities in Peru. He also visited the mayor of Shanghai, Yang Xiong and the Shanghai port facilities. Meanwhile, China’s largest railway company expressed an interest in financing a US\$1.5bn railway project running 450km from the coastal port of Barranca in Lima region to Ica, capital of the eponymous southern region.

Welcoming back the Fund

More than 10 years after former president Néstor Kirchner (2003-2007) gave the International Monetary Fund (IMF) the kiss off after blaming it for Argentina's woes, an IMF mission is back in the country. The IMF remains deeply unpopular in Argentina, but President Mauricio Macri is hoping that after a 12-day visit to the country, ending on 30 September, the mission will produce a positive report into the reforms undertaken by his government, marking another milestone in its efforts to attract foreign investment.

Kirchner's decision to break free of the IMF's tutelage was politically popular, even if the Fund's prescriptions were far from the sole cause of the economic and financial maelstrom of 2001 and the largest default in history. President Macri's decision to revive relations with the IMF is motivated by his determination to restore Argentina's credibility, especially trust in the reliability of the data produced by the national statistics institute (Indec) his government has overhauled.

One statistic released by the new-look Indec from which the Macri administration will have derived much pleasure was the figure of just 0.2% inflation in August compared to a monthly average of 3% this year. This long-awaited decline, the lowest monthly inflationary increase in the last decade, might have been an anomaly, however, as it was almost entirely down to the supreme court ruling blocking the government's energy price increases for residential users [[WR-16-33](#)]. The housing and basic services component, for instance, saw -5.6% deflation.

The central bank president, Federico Sturzenegger, has fastened onto the reduction of inflation as his policy priority. Speaking at a panel discussion organised by the central bank, 'Reducing inflation: theory and practice', Sturzenegger insisted that "the battle against inflation is only just beginning". He went on: "The biggest risk we have is complacency. 1% a month is not good enough for Argentina. Argentina deserves, and has a right to have, the inflation of a normal country, and countries that have achieved it have had fantastic growth" (see sidebar).

Sturzenegger set a target of 5% annual inflation by the end of Macri's term in office in 2019. That is still a distant dream. Economy Minister Alfonso Prat-Gay set an annual inflation target of 17% for 2017 in his draft budget presentation to the budgetary commission of the federal lower chamber of congress on 15 September. Prat-Gay said the Ar\$2.36trn (US\$155.8bn) budget was "different" because "for the first time in many years it is based on the truth". Nobody outside of the government accepted statistics produced by Indec, especially official inflation figures, as trustworthy after 'intervention' by the Kirchnerista governments.

In what he described as "the most realistic estimation of the macroeconomic variables of next year", Prat-Gay predicted real GDP growth of 3.5% in 2017, "the highest growth rate in the last six years"; a fiscal deficit of 4.2%; and year-on-year increases of 7.7% and 9.8% in exports and imports respectively, resulting in a trade deficit of US\$1.87bn in 2017. Prat-Gay also predicted that domestic consumption would climb by 3.5% and investment by 14.4%. His prediction for 2016 was far less rosy. He said the government expected GDP to contract by -1.5% this year.

Taming inflation

Israel's central bank governor Karnit Flug, a speaker at the Argentine central bank's panel on inflation this week, explained how her country had brought inflation down from 480% in 1984 to the point of fighting deflation in 2016.

Flug said strict independence of the central bank was the decisive factor, and the main tool in combating inflation was interest rates, but she said it was necessary "to pay a price to obtain future benefits".

Temer defends Rousseff impeachment before UN

Illegal campaign donations

Congress attempted to pass a bill giving amnesty to politicians who received illegal campaign donations. The bill, which was agreed between the leaders of Brazil's main parties, would have made illegal campaign donations a civil crime; they are currently only regarded as an electoral crime, which while it does not lead to prison results in the ineligibility of politicians. The bill was only stopped by protests from members of smaller left-wing parties, Rede Sustentabilidade and Partido Socialismo e Liberdade, with no other party coming forward to defend the amnesty in public in the congress floor.

Brazilian President Michel Temer opened the United Nations (UN) General Assembly on 19 September, following a 71-year-old tradition. Temer felt the need to defend his installation as president, declaring in his speech that the impeachment of his predecessor, Dilma Rousseff (2011-2016), by Brazil's federal congress last month, which was overseen by the country's supreme court, "took place in absolute respect to the constitutional order".

Initially, it was expected that President Temer would refrain from answering any questions regarding Rousseff's removal from office. But with Rousseff claiming that her impeachment amounted to a "parliamentary coup", and Temer's appointment lacking democratic legitimacy in the eyes of many of the 54m Brazilians who voted for her in 2014, he clearly felt the need to defend his government to his peers in the audience. Indeed, disaffected resident Brazilians protested in front of the Hôtel Plaza Athénée, where Temer is staying in New York City.

In his speech, Temer said he brought "a message of uncompromising commitment with democracy", arguing that in Brazil "we have an independent judiciary branch, an active public prosecution office, and executive and legislative bodies that do their jobs; the wills of individuals do not prevail over the strength of institutions". But delegations of six of Brazil's Latin American neighbours – Bolivia, Cuba, Ecuador, Guatemala, Venezuela and Costa Rica's President Luis Guillermo Solís – made a point of leaving the assembly room during Temer's speech in protest at Rousseff's impeachment.

According to Temer, Brazil demonstrated that "there is no democracy without rule of law – without rules applicable to all, including the most powerful; this is what Brazil is showing the world" in reference to Rousseff's breach of constitutional fiscal rules – the juridical reason used by her detractors in congress to impeach her. Temer also sought to reassure investors of his new government's commitment to structural reform. "Our task now," he said, "is to resume economic growth and to bring millions of lost jobs back to Brazilian workers. We are clear that the way forward is to take the path of fiscal responsibility and social responsibility. Confidence is being restored, and a more prosperous horizon begins to take shape." Temer made no mention of the fact that one of the first bills his government sent to congress asked for the relaxation of these same fiscal rules that led to Rousseff's downfall and that were not fully complied with by previous Brazilian presidents.

Temer went on to say that "we want for the world what we want for Brazil: peace, sustainable development and respect for human rights." He mentioned the war in Syria, saying that finding a political solution was "urgent", and that his government was committed to a two-state solution for the Israel-Palestine conflict. In the previous meeting of global leaders to discuss refugees, Temer said that Brazil was "committed to resettle the region's refugees, especially women and children."

Meanwhile, the Brazilian police were denounced in the UN Human Rights Council in Geneva. The case was brought by NGO Conectas, which pleaded to the UN to investigate heavy-handed tactics by the police during protests against the removal of Rousseff and the appointment of Temer. In its petition, Conectas claimed that "there has been a growing process of criminalisation of the right to protest in Brazil", citing cases of police violence, including against Deborah Fabri, a 19-year-old woman who lost an eye from tear gas fired by the police.

Industrial confidence

The index of industrial confidence (Icei) compiled by the national confederation of industry reached 53.7 points in September, its highest point since January 2014. On a scale of 1-100, a score above 50 indicates positive expectations. The Icei was up by 18 points over September 2015, when it was just 35.7. Confidence rose across all industrial sectors, including manufacturing, construction, mining and quarries. Larger industrial companies were the most upbeat, with an Icei of 55.7, while medium-sized firms registered 52.9 points and small companies 50.5. The latest result comes from a very low base, and local consensus expectations are still for an overall annual contraction of 6% in industrial output this year.

Investments

While Temer was bonding with his peers, Brazilian ministers were holding a series of meetings with US investors and businessmen to showcase infrastructure projects in Brazil. The Brazilian government is particularly keen to strike public-private partnerships and sell new concessions announced by the finance minister, Henrique Meirelles, last week. These include the privatisation of six electric wholesalers currently under state ownership through Eletrobras, as well as highways and airports under the administration of the state-run Empresa Brasileira de Infraestrutura Aeroportuária (Infraero) – plans that were first drawn up under Rousseff.

Temer team talks up Brazil

Earlier in the week, the finance minister, Henrique Meirelles, told the influential São Paulo federation of industries (Fiesp) that with 75% of public expenditure constitutionally mandated, successive Brazilian governments have had next-to-no room for manoeuvre, no matter how committed to fiscal probity. This, he stressed, simply must be tackled.

Speaking at São Paulo's BM&FBovespa, the country's main stock exchange, the minister of the presidency and close Temer ally, Eliseu Padilha, stressed that the government's constitutional amendment proposal (PEC) to impose inflation-only caps on state spending for an extended period would not be further amended or watered down (at the request of state governors, personnel costs were removed from the bill, on the grounds that these are treated under pre-existing rules). "A ceiling is a ceiling", Padilha insisted, "and there will be no skylights". The PEC has been before congress for several months now, but Padilha told his investor audience to expect its approval in both chambers by year-end (i.e. after October's municipal elections).

A major pension and social security reform proposal is also due before congress imminently. Padilha likewise suggested its rapid approval. Such a level of activity is unusual for Brazil's lumbering congress, but Padilha expressed full confidence in the so-called 'centrão bloc' of largely-conservative deputies that Temer has assembled in his support. This bloc amounts to a two-thirds majority – which no recent government has been able to muster. If Temer can keep this bloc together, it could indeed be an unprecedented opportunity for reform in Brazil. Finally, a labour reform is also being prepared for next year, with a view to more flexibility in Brazil's rigid market. Inevitably, this risks tensions with labour unions and the now-opposition left-wing Partido dos Trabalhadores (PT). As such, the Temer team suggests that this will only be tabled in the second quarter, once the other reforms have been approved.

Meanwhile, expectations – if not latest data indicators – are indeed improving. The latest consensus forecast compiled by Brazil's central bank (BCB) was the most optimistic on the GDP outlook in 12 months, projecting a rebound to 1.4% next year. The Organisation for Economic Co-operation and Development (OECD) also improved its Brazil forecasts in its new global outlook, lifting its 2017 GDP forecast to +0.3% (from -1.7% previously), and amending its forecast for this year by a full percentage point to -3.3%, from -4.3% previously.

Telling the UN that "Brazil's development programme contemplates, in particular, partnerships in investments, trade and science and technology", Temer noted that relations with countries from every continent would be critical. But in a direct message to the US and Europe, he declared, "Ending protectionism in agriculture is particularly important for development. We cannot keep backtracking on the implementation of World Trade Organisation [WTO] commitments in agriculture any longer. It is urgent to prevent sanitary and phytosanitary measures from serving protectionist purposes. It is urgent to discipline subsidies and other distortive domestic support policies in the agricultural sector".

Zerón appointment overshadows Grito**Guerrero violence**

Tomás Zerón takes over as technical secretary of the national public security council (CNSP) at a time when levels of violence in Mexico are escalating at an alarming rate, although Guerrero, where he is least popular, remains the most violent state in the country. Indeed, on 19 September, just days after Zerón's appointment, the body of the chief of the state police in Guerrero, Tomás Hernández Martínez, was found in his home in the tourist resort city of Acapulco. Hernández, and his partner, had been stabbed to death. Their bodies showed signs of torture.

President Enrique Peña Nieto came under fire this week for a highly controversial appointment. After Tomás Zerón de Lucio stepped aside as director of the criminal investigation agency (AIC) of the federal attorney general's office (PGR), it was widely hailed as a positive, if long overdue, move by Peña Nieto; relatives of the 43 trainee students who were abducted, and almost certainly murdered, in September 2014 in Iguala, Guerrero, have demanded Zerón's dismissal, arguing that, at best, he concealed the truth in the AIC investigation into the tragic incident. Joy swiftly turned to dismay, however, after the government announced that Zerón had been appointed as technical secretary of the national public security council (CNSP).

Just three hours separated the PGR announcement of Zerón's departure from the AIC and a statement released by the interior ministry (Segob) revealing that he would take over at the helm of the CNSP. The initial assumption was that President Peña Nieto, suffering from a record low approval rating, had caved in to pressure from relatives of the students who broke off talks with the PGR on 18 August until Zerón was replaced as head of the AIC. But then came the Segob statement, which described Zerón's appointment as an "acknowledgement of his actions and testament to his experience and capabilities".

A spokesman for relatives of the '43', Felipe de la Cruz, criticised the fact that Zerón had been rewarded with a promotion. De la Cruz said this constituted "an affront to the relatives and all Mexicans". There is also suspicion among the relatives that Zerón's appointment to head the CNSP is a sign that the government is determined to shield him from possible prosecution.

Zerón is presently the subject of a probe by the PGR after a report by the Interdisciplinary Group of Independent Experts (GIEI, by its initials in Spanish) appointed by the Inter-American Commission on Human Rights (IACHR) to investigate the Iguala disappearances suggested he was guilty of grave irregularities or even manipulating evidence.

The GIEI report presented video and photographs which suggest that Zerón was at Río San Juan de Iguala de la Independencia Guerrero on 28 October 2014 along with Agustín García Reyes, a member of Guerreros Unidos, the criminal organisation reportedly behind the disappearances, but neglected to report his visit. It was at this site that plastic bags containing charred remains and a bone fragment from one of the students was identified. This evidence was officially recorded as having been found by marine divers on the day after Zerón was there.

Relatives of the '43' took part in a protest march on 15 September in Mexico City, calling for Peña Nieto to resign. The hashtag '#RenunciaYa' first appeared on Twitter the day after Peña Nieto received the US presidential candidate, Donald Trump, in Mexico on 31 August. Some 10,000 people are believed to have taken part in the march, but riot police prevented them from entering the Zócalo, the capital's main square where Peña Nieto later carried out the traditional 'Grito' from the presidential palace to mark Mexico's independence. This occasion, which dates back to 16 September 1810 when a priest in Dolores, Guanajuato, rang a bell to call for rebellion against Spain, is supposed to symbolise national cohesion.

Oil discoveries

A Pemex statement said that the firm had discovered six new oil deposits believed to contain some 190m–222m barrels of oil equivalent. The statement notes that two of the deposits are located in deep waters and four in shallow waters, in the ‘Plegado Perdido’ belt off the coasts of Veracruz and Tamaulipas states. Noting that the oil discovered by the ‘Nobilis-1’ rig in deep water deposits (3,000 metres below sea level) is super light crude and that the oil discovered in shallow water deposits by the ‘Teca-1’ rig is light crude, Pemex said that the discoveries “confirm the oil potential of the Gulf of Mexico geological province” and help to increase Mexico’s levels of proven oil reserves.

MEXICO | Pemex’s cost-cutting plan comes under question. Dante Yamil San Pedro, the technical secretary of the national energy commission at the Confederación Patronal de la República Mexicana (Coparmex) local private-sector lobby, has criticised the fact that even though the state-owned oil firm, Pemex, is engaged in a major cost-cutting drive, the company is now spending more on managers than ever before. San Pedro’s criticism, made in an interview with the Spanish daily *El País* on 20 September, fuels concerns about Pemex’s future as the government led by President Enrique Peña Nieto advances its plans to turn it into a more nimble and competitive firm that can compete in Mexico’s newly liberalised oil production sector by forcing it to ‘cut out the fat’ and to shore up its finances.

The Peña Nieto government has cut Pemex’s budget three times in the last two years and asked the firm to shed some 9,000 workers in 2017 as part of its cost-cutting drive. This layoff process has reportedly been launched by Pemex’s new general director, José Antonio González Anaya, following his appointment by Peña Nieto in February. However, San Pedro, a former official at Mexico’s federal energy ministry (Sener), said that the projected layoffs would mostly affect mid- and low-level income workers (earning between US\$600 and US\$6,000 a month) but not higher earning employees at management level (directors, deputy directors and section managers). In fact, Pemex’s 2017 budget shows that next year the firm plans to hire 89 new managers, who command a higher salary, even as it tries to shed lower-paid workers. Indeed Pemex’s budget shows that the firm’s projected payroll expenditure is set to increase by 4% next year compared to this year.

San Pedro argued that this management-heavy company structure is not conducive to cutting costs and that is why other major oil firms are increasingly moving away from it. He noted that the 452 management-level employees currently employed by Pemex is seven times more than that employed by Norway’s state-owned oil firm, Statoil. With international oil prices remaining low, leading to Pemex posting losses of US\$32bn so far this year, and the government announcing that Pemex’s budget is being cut by 20%, San Pedro’s observations will provide food for thought González and the new finance minister, José Antonio Meade. However, Pemex’s 13 September announcement of the discovery of six oil deposits in deep and shallow waters in the Gulf of Mexico (*see sidebar*) should provide encouragement to the Mexican authorities that adequate strategic spending could help to improve the company’s future prospects.

MEXICO | Peso falls to historic low. On 20 September the Mexican peso closed the day trading at M\$20.13/US\$1 in the local market, marking a new historic record low exchange rate. The peso has been losing value against the dollar since last year due to the still weak level of global economic activity and economic uncertainty in markets such as China and Europe leading investors to seek refuge in the US dollar. The peso’s depreciation has also been linked to growing concerns that the US Republican Party presidential candidate, Donald Trump, could win the upcoming 2 November US presidential elections and proceed to implement his pledges to build a wall along the Mexico-US border and take the US out of the North American Free Trade Agreement (Nafta). In addition, the widespread expectation that the US Federal Reserve (Fed) will announce an increase in interest rates on 21 September as part of its efforts to stop the US’s economic recovery from stoking domestic inflation, also sparked volatility in Mexico’s exchange rate market as the market rushed to buy dollars.

The market volatility prompted the finance ministry (SHCP) to issue a statement saying that the low value of the peso did not reflect the current state of the Mexican economy, reassuring markets that it remains solid despite the rapid loss of value of the national currency. The SHCP said that while the depreciation of the peso is a worry, it is a result of external factors; and that, despite the concerns of economists that it could stoke domestic inflation, this has not yet happened – inflation remained at a record low of 2.73% in August. The SHCP added that Mexico’s flexible exchange rate policy was designed to absorb external factors so that these do not directly impact the domestic economy. Indeed, the SHCP argued that the low exchange rate is benefiting Mexico’s exports, stimulating growth. In the end, the Fed decided to keep interest rates steady, which eased some of the pressure on peso, but only temporarily as markets still expect a rate increase in the US before the end of the year.

Opposition in disarray

With barely six weeks until general elections on 6 November, Pedro Reyes, the presidential candidate for the main opposition Partido Liberal Independiente (PLI), has pulled out of the race. His departure follows other signs of the deep fragmentation afflicting the political opposition, all of which leaves President Daniel Ortega poised to sail to a third consecutive presidential electoral victory at the head of the ruling Frente Sandinista de Liberación Nacional (FSLN).

The local media has attributed Reyes' decision, which he announced on 19 September, in part to financial issues. Five days earlier, it cited Luis Rivas Anduray, the general manager of a local bank, Banco de la Producción (Banpro), as saying that a PLI request for a loan had been rejected, citing concerns about how it was to be repaid. Reyes also told reporters that he would continue as PLI party president until 2019 – a post he was controversially awarded in June by the supreme court (CSJ) from longtime Ortega opponent Eduardo Montealegre, who accused Reyes of being an FSLN collaborator [WR-16-23].

Montealegre, who was coordinator of the Coalición Nacional por la Democracia (CND) coalition of opposition parties, made headlines on 2 September with the announcement that he was retiring from politics. This was linked to the possibility of renewed legal action relating to an alleged libel case brought by an economist, Néstor Avendaño, over the collapse in 2000 of a local bank, Banco del Café. Avendaño was one of its board members.

Less than a week later, on 5 September, Kitty Monterrey, a Montealegre ally, announced the launch of a political movement, Ciudadanos por la Libertad (CxL) which comprises Resistencia Nicaragüense, Cruzada Liberal por la Democracia, Partido Nueva Alianza Cristiana, and the Movimiento Socialcristiano. However, other members of the former CND have been excluded, including the dissident Sandinista Movimiento Renovador Sandinista (MRS), among others.

With the US increasingly turning up the heat on the Ortega government over its perceived blows to democracy (such as both the CSJ ruling and that by the supreme electoral court [CSE] dismissing 28 PLI legislators in July [WR-16-30]) – the latest (August 2016) survey by pollster M&R Consultores, released on 12 September, shows overwhelming support for the FSLN. The survey showed that 65.7% of the 2,000 respondents intend to vote for the FSLN, up from 62.8% in July. In second place, as previously, was the number of respondents unwilling to disclose their voting intention (25.6%, down from 26.8% in July). Far behind with 4.4% is the Partido Liberal Constitucionalista (PLC) of disgraced former president Arnoldo Alemán (1997-2002), followed by the PLI on 2.2%.

US pressure

On 15 September the US House of Representatives Foreign Affairs Committee's Subcommittee on the Western Hemisphere passed the 'Nicaragua Investment Conditionality Act' of 2016. This now goes to congress for discussion. It directs the government led by President Barack Obama to oppose loans for Nicaragua from international financial institutions until "the Secretary of State certifies the Nicaraguan government is taking effective steps to hold free and fair elections, promote democracy, strengthen the rule of law, and respect the right to freedom of association and expression". The bill also "directs the Obama administration to 'strongly advocate for an Electoral Observation Mission to be sent to Nicaragua in 2016 and 2017'".

Electoral observers

While President Daniel Ortega has outlawed foreign observers from the likes of the Organization of American States (OAS) and European Union (EU), the local press is reporting that a group of local civil society groups, known as Panorama Electoral, will observe the 6 November general election. Panorama Electoral comprises Grupo Cívico Ética y Transparencia (EyT), Instituto de Liderazgo de las Segovias, Movimiento de Mujeres Chinandega, and Asociación de Voluntarios para el Desarrollo Comunitario. María Celina Burgalin, EyT's governability director, told reporters that around 800 volunteers from all 153 of the country's municipalities will oversee the electoral process.

55 microcephalic babies to date in 2016

According to the deputy health minister, Dr. Francis Contreras, 55 Honduran infants have now been registered with microcephaly to date this year. This includes babies born outside of hospitals and subsequently diagnosed with the condition upon presenting at local health clinics for check-ups/vaccinations. While Contreras did not say how many of these cases were suspected to have links to the mosquito-borne Zika virus, he noted that authorities were monitoring over 500 pregnant women diagnosed with the virus, which has rampaged through Honduras this year. Of the 55 registered microcephaly cases, at least 16 were attended to in the Hospital Escuela Universitario (HEU), the main public health teaching hospital in the capital Tegucigalpa.

Police and mara purge

Over 620 senior police officials and agents have been separated from their posts since the government led by President Juan Orlando Hernández instigated the latest police purge in April, in response to serious corruption and criminality allegations against the force.

A new independent police restructuring and reform commission, operating with the support of the security ministry, has evaluated 1,515 officials since April, of which 628 have been removed, an eye-catching 41.4% of the total. In any other country, this would be an institutional crisis of epic proportions. In Honduras, confidence in the long-discredited police is non-existent; the bigger surprise is that anyone will or can do anything about it.

Of the 628 police officials relieved of their posts, 1% were suspended, while 2.4% opted for voluntary retirement, noted Omar Rivera, president of the reform commission. Rivera did not specify whether these early retirees left with full benefits. Meanwhile, 810 officers (or 53.4% of the total evaluated) have now been re-incorporated into the police force, which is being overhauled under a new organic structure. Rivera revealed that only three of nine police generals had been ratified in their posts: the security director, Félix Villanueva; the deputy general director, Quintín Juárez; and the director of operations, organisation and training, Héctor Iván Mejía.

According to Rivera, the reform commission has now asked the public ministry to initiate criminal investigations into over 500 police officers, among whom are three police generals. The identities of these officers and the nature of their alleged crimes have not been made public.

Isolation for most dangerous criminals

Separately, President Hernández has ordered that designated dangerous criminals be transferred to new maximum-security prisons, as he warned of a stepped up campaign to crack down on drug traffickers and violent gangs, who often continue to run their operations from jail. In mid September, a first group of 37 prisoners were moved by military helicopter to a newly-built facility in the western department of Santa Bárbara; one of three new maximum security facilities.

Reaffirming his electoral pledge to reduce the country's notorious levels of violence, Hernández said that in recent months the authorities had landed heavy blows on criminal gangs in a series of operations coordinated by the state security and judicial authorities. "We have captured 274 mara leaders, we have seized their ill-gotten goods, and they can no longer enjoy their blood-soaked money that they took from honest and hard working people," Hernández declared. He added that dangerous criminals would remain confined to cells in the new maximum-security centres, "with no type of privilege".

In line with this hard-line policy, the Honduran authorities have also extradited a dozen suspected drug traffickers to the US since Hernández took office in January 2014, with possessions including houses, cars, planes, boats, cash and commercial companies seized in anti-drug trafficking operations.

Hernández, who may yet seek a second term next year under new rules permitting re-election, declared that under his administration Honduras had become "a hostile territory" for criminals. He also warned that security agents who "cross the line" to become immersed in organised crime would likewise have "the full force of the law applied to them".

Morales' credibility suffers a knock

President Jimmy Morales' 2015 campaign pledge to address corruption is coming under unprecedented scrutiny. Last week the attorney general's office (AG) issued an order barring his son, José Manuel, and brother, Samuel Everardo, from leaving the country. The order was issued amid suspicion of their involvement in a scandal involving the national property registry office (RGP) which took place under the previous Partido Patriota (PP) government led by Otto Pérez Molina (2012-2015), forced to quit last year over corruption. The scandal is a blow to President Morales who took office in January after winning election on an anti-corruption platform.

The scandal broke on 1 September when AG Thelma Aldana and the head of the United Nations-backed International Commission against Impunity in Guatemala (Cicig), Iván Velásquez, revealed the existence of a criminal structure in the RGP, comprising at least 27 people. So far 22 arrests have been made, including a former RGP director, Anabella de León. The investigation is looking into the creation of fake employment posts (for which more than Q\$3m [US\$399,000] was paid out), and anomalous payments to the tune of Q\$150,000.

A Cicig press release notes that Morales's son and brother appeared before investigators at the specialised AG unit against impunity (Feci) on 7 and 12 September respectively in relation to false invoices allegedly presented for reimbursement worth Q\$90,000 which benefitted a restaurant, Fulanos y Menganos, for a meal which never took place. Local investigative daily *elPeriódico* reports that the owner of the restaurant is Gilmar Othmar Sánchez, a deputy for the ruling Frente de Convergencia Nacional (FCN-Nación) party at the Central American parliament (Parlacen). Sánchez reportedly has ties with Morales dating back to the time when Morales, in his previous incarnation as actor and comedian, would perform at the restaurant, with his brother.

This is not the only transparency-related headache for President Morales – who on 13 September assured reporters that he would not interfere with the investigations. Besides the scandal involving his relatives, his declared commitment to transparency has been called into question after he was forced sack the secretary of the state security service (SAAS), Jorge Ignacio López Jiménez, and his deputy, César Augusto Sagastume, earlier this month.

The dismissals follow allegations made the previous month by Orlando Blanco, the leader of the congressional bloc of the main opposition Unidad Nacional de la Esperanza (UNE), that SAAS officials had been spying on UNE members, journalists, and human-rights activists. Blanco claimed to have photographic evidence of vehicles and individuals which implicated seven SAAS officials and former officials. Further appearing to support Blanco's allegations, the human-rights ombudsman, Jorge de León Duque, told reporters that on 27 January he had received a complaint from an unnamed SAAS official claiming to have received orders to spy on public officials, journalists, and human-rights activists and when he refused to comply, he was fired.

The big problem for Morales is that the spying allegations implicate a close ally – special adviser, (Ret. Col) Herbert Armando Melgar Padilla, who Blanco had directly accused of ordering the activities. A controversial figure [WR-15-44], Melgar headed up Morales' security team during the 2015 electoral campaign, and last month he took up a seat in congress for the FCN-Nación, gaining immunity. He replaced Alsider Arias who stepped down temporarily for personal reasons. Arias had been elected to represent Chimaltenango department and, as the next candidate on the list, Melgar was in line to take up the post.

Moving against FCN-legislators

On 2 September Guatemala's supreme court (CSJ) requested legal action against eight Frente de Convergencia Nacional (FCN-Nación) legislators in relation to accusations of discrimination, abuse of authority, extortion, and influence trafficking presented by the indigenous governor of Alta Verapaz department, Estela Ventura [WR-16-22]. The ruling FCN-Nacion has 37 seats in the 158-member unicameral legislature, ahead of the Unidad Nacional de la Esperanza (UNE) which has 31.

UN General Assembly speeches

“A year ago, standing here before you, I said I expected to come back in 2016 as the President of a Colombia in peace, a reconciled Colombia...I come back today...to announce, with all the strength of my voice and of my heart: the war in Colombia has ended.”

- *Colombia's President Juan Manuel Santos.*

“...the world cannot fall into the trap of demagoguery or authoritarianism. The only viable way ahead, the only true response to a demanding citizenry, is democracy itself.”

- *Mexico's President Enrique Peña Nieto.*

“My goal is that my daughter Inés, who is 10 years old right now, will tell her descendants of a strange former era, where women did not earn as much as men for the same task, that they were not equal owners of the means of production, where the care of children was a chore largely reserved for themselves and where their sexual and reproductive rights were not safeguarded. That strange era is the one which we must leave behind.”

- *Costa Rica's President Luis Guillermo Solís.*

POSTSCRIPT

UK-Argentine diplomatic thaw provokes backlash

Argentina's President Mauricio Macri held talks with the British prime minister Theresa May on the margins of the United Nations General Assembly this week. Macri subsequently told the press that he had expressed to May his willingness to hold an open bilateral dialogue process with the United Kingdom, including over the vexed issue of sovereignty over the Falkland Islands/Malvinas. Macri's meeting followed a visit by British Foreign Office minister Alan Duncan to Buenos Aires last week. Duncan met Foreign Minister Susana Malcorra, after which her ministry released a statement stressing a commitment to deepen bilateral cooperation but neglecting to mention the sovereignty dispute. This was criticised by Argentine politicians from across the political spectrum, especially former president Cristina Fernández (2007-2015).

Malcorra explained in a statement released after Macri's meeting with May that there was still “a big jump between saying that the [sovereignty] issue is on the table and that advances have been made”. She added that Macri and May had discussed the possibility of a more specific meeting to make progress on “multiple issues”.

Malcorra came under fire last week over a statement released in the wake of her meeting with Duncan. This agreed to the establishment of direct flights from the Falklands to third countries, including “two additional stops per month in mainland Argentina, one in each direction”, as well as expediting the DNA identification process for unknown Argentine soldiers killed during the 1982 conflict. But one sentence in particular caused a hostile reaction, in which Argentina agreed “to remove all obstacles limiting the economic growth and sustainable development of the Falkland Islands, including in trade, fishing, shipping and hydrocarbons”.

Fernández wrote a stinging rebuke on Facebook saying that the statement “omits to mention the sovereignty dispute”. She warned the Macri administration not to forget that “recovering sovereignty is an objective of the Argentine people which can never be given up...it is not an Argentine cause, it is a regional cause, a global cause of all those who reject the existence of a colonial enclave in the south of our continent”. She added: “This literally signifies lifting all of the administrative, legislative and juridical measures that the Argentine Republic has taken to protect its natural resources in the face of illegal exploitation of our fishing and hydrocarbons”.

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