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Chile's Bachelet and ruling coalition dealt electoral blow

Chile's President Michelle Bachelet and her Nueva Mayoría coalition government suffered a major setback in municipal elections on 23 October. In what was the first electoral test for Bachelet since she took office for a second term in March 2014, the opposition coalition Chile Vamos recovered emblematic communes like Santiago which it had lost in the 2012 contest. Nueva Mayoría parties were punished for the government's corruption scandals, perceived foot-dragging on delivering on electoral pledges, and the continued economic slowdown. Democracia Cristiana (DC), the coalition's largest party, responded to the electoral disappointment by freezing relations with the government, which it accused of a "lack of self-criticism". Together with some victories for independents, public disaffection with the political class was also reflected in historic levels of abstention.

The Pacto Chile Vamos, comprising the Unión Demócrata Independiente (UDI), Renovación Nacional (RN) and the Partido Regionalista Independiente, took 144 of Chile's 345 mayoralties, up from 121 in 2012 won by the Coalición por el Cambio (the former incarnation of Chile Vamos). The Pacto Nueva Mayoría (comprising the leftist party Movimiento Amplio Social plus the quadripartite Concertación and Partido Comunista de Chile [PCCh]) took 141 mayoralties, down from 168 in 2012. In a breakdown by party, the UDI took the most mayoralties (52) while the RN took 47. The DC; Partido por la Democracia (PPD); Bachelet's Partido Socialista (PS); and Partido Radical (PR), took 43; 26; 25 and nine mayoralties respectively, while the PCCh took three.

In Santiago commune, the main municipality in the national capital, Felipe Alessandri (RN) defeated incumbent mayor Carolina Tohá (PPD) by a convincing 46.76%-36.08%. Tohá's defeat could be attributed to her implication in an electoral campaign financing scandal involving local mining firm Sociedad Química y Minera (SQM) dating back to 2010-2012, when she was PPD president, as well as frustration with the Bachelet administration. Alessandri is closely identified with former president Sebastián Piñera (2010-2014) who, while yet to make any official announcements, is shown by the latest polls to be the most popular choice for president ahead of the November 2017 general elections (*see sidebar*). With the Santiago mayoral contest widely considered a good indicator of how the presidential election will go, the result for Alessandri, who was seen on the campaign trail with Piñera, has further fuelled speculation that the former president will once again throw his hat into the ring.

As well as Santiago, other municipalities recovered by the opposition included Providencia and Maipú, both in Santiago province. In Providencia, the UDI's Evelyn Matthei, the Coalición por el Cambio 2013 presidential candidate, defeated independent Josefa Errázuriz by 53.22% to 42.16%. In

2017 presidential contest

A survey released on 17 October by pollster Cadem on voting intentions ahead of the 2017 presidential elections showed that former president Sebastián Piñera (2010-2014) remained the most popular choice with 20% backing. Piñera was followed by Senator Alejandro Guillier (independent) who received 8% support; former president Ricardo Lagos (Concertación, 2000-2006) who was on 6%; and Senator Manuel Ossandón (independent, previously RN) on 3%. The poll, which interviewed 720 people, also showed that Bachelet's approval rating stands at just 23%, while her disapproval rating is at 68%.

Maipú commune, Catherine Barriga Guerra, an independent also running for Chile Vamos, won with 36.15% of the vote.

Public disaffection

While Chile Vamos has been claiming victory, local commentators have pointed to other indicators as a sign of more general disaffection with the established political class. One is the low level of voter turnout. Just 4.9m of 14.1m registered voters cast their ballots – a participation rate of just 35%, the lowest since the return to democracy in 1990. This prompted calls from figures like former president Ricardo Lagos (2000-2006) and Chile's representative before the International Court of Justice (ICJ) in the territorial case against Bolivia, José Miguel Insulza, a former secretary general for the Organization of American States (2005-2015), for electoral rules to be revised again.

Symbolic victories for independents and candidates running for smaller parties have also been taken as a sign of this frustration. Examples include the surprise victory of Jorge Sharp, a former student leader, who convincingly won the mayoral contest for Valparaíso, Chile's second biggest city and seat of the national congress, with 53.75% of the vote. Sharp defeated both the incumbent mayor, Jorge Castro (Chile Vamos), who took 22.56%, and Leonardo 'DJ' Méndez (Nueva Mayoría), who took 22.41%.

Doubts over DC's future in Nueva Mayoría

The DC reacted to the results by announcing that it was "freezing" relations with the Bachelet administration. DC president Carolina Goic said that the party was abandoning the government's political committee. The DC is upset with the Bachelet government's failure to reflect properly on the result or engage in an internal Nueva Mayoría dialogue. Another source of discontent was reportedly Bachelet's refusal to sack key members of the government's political committee, including the government spokesperson, Marcelo Díaz (PS), and secretary general to the presidency, Nicolás Eyzaguirre (PPD). Calls for their resignation have intensified following the debacle surrounding the errors in the electoral registry which forced the departure of Justice Minister Javiera Blanco on 19 October (*see box*). At the time, the DC dismissed the change as insufficient. Meanwhile the government's refusal on 24 October to renew the contract of the director of the civil registry, Luis Acevedo, a DC member, was also ill-received by the party, prompting complaints that he was being made a scapegoat.

Last minute embarrassment for Bachelet

With just days to go until the election, the government's cause was not helped by controversy surrounding the electoral register after it emerged that the addresses of some 467,273 people (some 3% of the electoral register) had been wrongly changed, meaning that they were unable to vote.

After introducing a bill on 17 October aimed at rectifying the situation, Bachelet was forced to withdraw it the following day after failing to secure the necessary votes in congress. As well as Blanco, who had come under pressure to quit since July 2016 in the wake of the scandals at the national gendarmerie and the national children's service (Sename), two other ministers threw in the towel on 19 October – Energy Minister Máximo Pacheco, and the minister of national assets, Víctor Osorio – although their departures were linked to electoral manoeuvring ahead of 2017. Pacheco (PS) quit to work on Lagos's 2017 presidential campaign while Osorio (Izquierda Ciudadana, IC) is reportedly mooting a legislative candidacy.

Blanco has been replaced by lawyer Jaime Alfonso Campos (PR) who served as a national deputy in 1990-1994 and as agriculture minister under Lagos. Pacheco has been replaced by the head of Chile's international economic relations directorate at the foreign ministry (Direcon), Andrés Ignacio Rebolledo (PS). Osorio has been replaced by lawyer Nivia Palma, formerly of the IC but now a PS member and director at the national council of culture and arts.

Cunha: down, but not out**Cunha to star in Netflix series**

Eduardo Cunha has long been compared by international media to 'Frank Underwood', the Machiavellian protagonist of American TV show *House of Cards*. Not to be outdone by the Americans, Brazilian director José Padilha (whose previous credits include film *Tropa de Elite* and series *Narcos*) has announced he will be launching a new series based on 'Operation Car Wash' featuring key players in Brazilian politics such as Cunha and federal prosecutor Sérgio Moro. The series is due to be released in 2017.

News of the arrest of the former speaker of the federal lower chamber of congress, Eduardo Cunha, on 19 October has shaken Brazil's political elite to the core. Far from removing Cunha from the political arena, his imprisonment could propel 'Operation Car Wash', the corruption investigation involving the state oil company Petrobras, into a whole new phase if Cunha chooses to act on repeated threats to bring other politicians and congressmen down with him by implicating them as part of a plea bargaining agreement.

Once thought to be untouchable, Cunha is a highly influential ex-congressman best-known for masterminding the impeachment of former president Dilma Rousseff (2011-2016) of the left-wing Partido dos Trabalhadores (PT). However, his imprisonment sends a strong signal to the political elite that even those in positions of power are not exempt from obeying the rule of law.

Temer on tenterhooks

The day after Cunha's arrest, President Michel Temer scheduled an emergency meeting with the head of the federal senate, Renan Calheiros, to discuss how to limit political fallout.

In the past, Cunha's political manoeuvres have tended to work in Temer's favour, given that Temer only became president after Cunha helped to engineer Rousseff's impeachment. But now the tables seem to have been turned and the former speaker has the potential to undermine the Temer administration using his intimate knowledge of back-hand deals within Brazil's legal and political circles. Given that Cunha is highly influential in the federal congress, where he served for over a decade, losing him could also impede the progress of the government's upcoming legal reforms if the former speaker's allies fail to side with Temer.

In the face of this political uncertainty, Temer is expected to move swiftly to push his bill to cap public spending through congress as he moves to pull Brazil out of a deep recession. In a last-ditch attempt to win over Cunha's former colleagues in the federal chamber of deputies, Temer has been wining-and-dining over 400 congressmen at the Palácio da Alvorada official residence. This approach appears to have paid off and the bill received the two rounds of approval it needed to pass through the chamber of deputies. It now goes to the senate for another two votes on 13 December.

To speak or not to speak: that is the question

While Temer appears to be ahead of Cunha on the legislative front, the former speaker of Brazil's lower chamber could still inflict serious political damage on the ruling Partido do Movimento Democrático Brasileiro (PMDB) government. If Cunha chooses to negotiate a more lenient prison sentence for himself in the form of a plea bargaining agreement, he may be able to provide corroborating evidence against both Temer and several of his cabinet ministers.

PT federal senator and leader of the opposition Lindbergh Farias said that if Cunha did choose to speak out, his allegations could have the power to bring down the current government before the end of its mandate in 2018. "If [Cunha] goes ahead with the plea bargain, Michel Temer's government won't last a day," said Farias in an interview with the Brazilian news site *Estadão* published on 19 October.

Swiss cooperation

On 17 October, a court in Switzerland authorised the release of over 2000 pages of bank documents which are to be used as evidence in anti-corruption investigations such as 'Operation Car Wash.' The documents will expose hidden transactions made by officials from construction company Odebrecht and state-owned oil company Petrobras. Many executives from both companies have already been jailed for their involvement in a kickback scheme in which the companies overcharged on contracts then funnelled the excess money into illicit political campaigns.

Cunha's lawyer Marlus Arns remained non-committal about whether or not his client would be willing or able to negotiate with the authorities in this way. "[A plea bargain] is always an option to be considered but it has not been formally discussed yet. Obviously, it is still an option, which we will have to consider carefully," said Arns in an interview with *Rádio Estação* broadcast on 25 October.

Nevertheless, Cunha is believed to possess valuable information which could further the progress of the 'Operation Car Wash' probe. The disgraced former speaker has hinted on many occasions that he may have evidence to incriminate some of Temer's ministers and close advisers. Cunha has already accused the secretary for investment and privatisation, Wellington Moreira Franco, of budget "irregularities" for infrastructure projects he carried out in 2014, and has claimed to have information regarding Temer's former minister Romero Jucá who resigned due to corruption allegations in May.

Prosecutors will also want to find out whether Cunha can add anything to the ongoing investigation into the corruption allegations concerning Temer himself. According to an article published on local news site *Época* on 21 September, Cunha is thought to possess inside information about the illegal donations worth R\$40m (US\$12.8m) Temer allegedly received in the run-up to the 2014 general elections to secure a coalition between the PT and the PMDB. Temer vehemently denies these allegations.

Moreover, Cunha has promised to make the most of his time in jail by penning a novel entitled 'Impeachment'. In it, he promises to reveal the inner workings of Brazilian politics and flesh out allegations about some of the corruption scandals he witnessed in office. Part-autobiography, part-exposé, 'Impeachment' has already received three different offers from Brazilian publishers.

Before Cunha's arrest, one of the most important figures in 'Operation Car Wash' has been Marcelo Odebrecht, the head of construction company Odebrecht. Over the past eight months, Odebrecht denounced a total of at least 130 deputies and senators, along with 20 current and former government officials during his testimony, which came to an end on 25 October. Prosecutors are still negotiating the ultimate outcome of his plea bargaining agreement. However, now Odebrecht's confession seems to have run its course, prosecutors may be looking for a new source of information as they take the country's largest-ever corruption investigation to the next level.

Cunha: a high flight risk?

Federal judge Sérgio Moro justified his decision to put Cunha under preventative arrest due to the risk he might flee the country or use his influence to pervert the course of justice. In an official statement released on 17 October, Moro wrote "considering his past behaviour and modus operandi, there is the risk that if Eduardo Cunha walks free, he could directly or by means of third parties find new ways to obstruct the course of justice, which could affect the course of the investigation."

However, some lawyers have questioned the legal validity of this argument. To Moro's detractors, putting someone under preventative arrest violates the principal that all defendants should be considered innocent until proven guilty. Cunha was named in multiple corruption investigations over a year ago. But prosecutors were unable to act on the allegations until Cunha was impeached last month; stripping him of the legal privileges he had previously enjoyed as speaker of the lower chamber. He will soon stand trial for allegedly taking up to R\$116.5m (US\$37m) in bribes for himself and others from Petrobras. Cunha also faces money-laundering charges relating to hidden bank accounts in Switzerland where he has reportedly stowed away US\$2.3m. Moro has given Cunha until 27 October to present his defence before the court. Cunha denies all charges.

Church opens the archives

The Vatican and the Argentine Catholic Church have announced that they will be granting limited access to an archive of documents relating to their role during the so-called 'dirty war' in Argentina during the 1976-1983 military dictatorship. The decision has been welcomed by the government led by President Mauricio Macri, by the political opposition, and by human-rights groups.

There is still no certainty over how many people were killed or 'disappeared' during the dirty war. Official estimates put the number at around 17,000 while human-rights groups have claimed it was higher at 30,000. The role of the Catholic Church in this period was deeply controversial. Some clergy were accused of keeping silent about what was happening, or of being directly complicit with the activities of the death squads; others were among the victims.

The Church's decision means that it will grant access to around 3,000 documents in the Vatican and in Argentina that have been specially catalogued and digitised. Many are letters written to members of the Church by relatives of the disappeared seeking information on their loved ones, and the responses they received, together with related documents or evidence of enquiries undertaken. The documents will not be open to the public, but victims or relatives of victims and their lawyers will be able to gain access to them. Mario Poli, the archbishop of Buenos Aires, told reporters "We are not afraid of the archives. They contain historical truth."

It is clear that Pope Francis, who granted President Macri an audience at the Vatican on 15 October, was a driving force behind the decision. The pope's personal role during the dirty war, when he was Father Jorge Mario Bergoglio, the leader of the Argentine Jesuits, has also been the subject of controversy. Critics have accused him of remaining silent and of failing to protect two radical priests, Orlando Yorio and Francisco Jalics, who were kidnapped and tortured at the navy mechanical school (Esma). Yorio, who is now dead, said that by failing to endorse their work in the shanty towns Bergoglio had effectively handed them over to the death squads. Jalics, who is still alive, says he is reconciled with Francis and considers the matter closed.

Called as a witness in a human-rights trial in 2010 Bergoglio said he had tried to intercede on behalf of both priests. His supporters also say Bergoglio's silence on other cases allowed him to use back channels to save more lives. It is possible, although by no means certain, that opening up the archives may shed some further light on Francis' role.

The decision also has a number of interesting implications. The pope's concerns for social justice and poverty reduction have led some to describe him as a closet Peronist, more sympathetic to the populism of former President Cristina Fernández (2007-2015) than to the centre-right position of President Macri. There was talk of a certain degree of frostiness in Macri's relationship with Francis, particularly after they held a very brief and formal meeting at the Vatican in February.

Things appear to have changed, however. Contrary to claims by the opposition Frente para la Victoria (FPV, Kirchneristas) of the main opposition Partido Justicialista (PJ, Peronists) that a Macri administration would shut down any remaining investigations into the dirty war, the government has continued to support due process. It has also supported a US decision last August to declassify more documents from US military and intelligence

Rights groups react

A range of human-rights groups welcomed the decision to open up the archives. Estela de Carlotto of the Las Abuelas de Plaza de Mayo said that with a few exceptions the leaders of the Argentine Catholic Church had "helped the dictatorship find its victims"; but she added that the decision to open the archives would bring "light and truth" and help "recover the dignity of the Church". Activist and Nobel Peace Prize winner Adolfo Pérez Esquivel said Pope Francis had made "a major contribution" by taking the decision.

Precedent?

It will be interesting to see whether the Vatican's move to grant limited access to an archive of documents relating to their role during the so-called dirty war in Argentina will set a precedent for similar demands in other Latin American countries, where there have also been claims that the Catholic Church fell short in the protection of human rights.

agencies relating to the dictatorship. This appears to be one of the few policies on which Kirchneristas and Macristas are in agreement.

This month's meeting between Macri and Pope Francis was also a much more relaxed affair. The pope may have recognised that Macri does not fully fit the Kirchnerista stereotype of him as a heartless right-winger. One of Macri's electoral promises is to seek "zero poverty"; he told the pope that achieving this objective would be "an enormous challenge".

ARGENTINA-URUGUAY | DIPLOMACY

Better chemistry

Presidents Mauricio Macri and Tabaré Vázquez of Argentina and Uruguay met in Buenos Aires on 24 October for the second of their bi-annual meetings. After a 10-year hiatus bilateral relations are improving significantly: Venezuela, the Southern Common Market (Mercosur), China, and the 2030 football World Cup were on the agenda.

For a 10-year period from 2005 to 2015 relations between otherwise close neighbours Argentina and Uruguay were very strained. The construction of a major pulp mill on the Uruguayan side of the Rio Uruguay was bitterly resisted by the Argentine authorities who claimed it would create excessive pollution. Uruguay denied it was harmful to the environment. The pulp mill was built, but only at the cost of years of arguments, international arbitration, border bridge blockades, damage to tourism, and port and tariff disputes. All this President Macri this week sought to sweep away in an instant, welcoming his Uruguayan opposite number and saying "we will ratify that we want a great relationship, like we had until 10 years ago, when we entered into a series of absurd conflicts."

Both heads of state agreed to set up a "joint laboratory" to monitor environmental quality in the river. The two countries are also set to work on a bi-national port development strategy, putting aside disagreements there too. They are to work with Brazil to improve border security and coordinate strategies against drug trafficking. And there will be a joint investigation of the economic feasibility of a fourth binational bridge across the Rio Uruguay.

In a further sign of the better chemistry now in play across the River Plate estuary, Macri and Vázquez confirmed that they would mount a joint bid to host the football World Cup in 2030, the centenary year of the competition (the first championship was hosted, and won, by Uruguay in 1930). This allowed the two Presidents to make jokes about the relative talents of strikers Lionel Messi (Argentina) and Felipe Suárez (Uruguay).

Two much more serious issues were also on the agenda. While supporting a call for mediation in Venezuela's political crisis issued by Pope Francis, the two men hardened their position on the subject of excluding Venezuela from the Mercosur trade bloc on the grounds that it is failing to meet minimum standards of democratic rule. Macri, along with Brazilian President Michel Temer, has taken the hardest line on this, with Vázquez being more cautious. Macri said human rights were not being respected in Venezuela "and on these terms Venezuela cannot be part of Mercosur". Vázquez underlined his "great concern" over developments in Venezuela and called for dialogue between government and opposition to achieve a peaceful solution to the crisis.

There was also an interesting hint of how Mercosur may seek to reposition its trade policies and negotiating processes. Vázquez recently conducted a 12-day visit to China and agreed to start negotiations on a China-Uruguay free trade agreement (FTA), to be completed by 2018. Macri suggested that such

Macri on China FTA

President Macri said he understood Uruguay's determination to pursue a free trade agreement (FTA) with China. "We understand Uruguay's vision, its need to open markets for its production," Macri said. "It produces nearly 10 times more food than it needs and China is a great possibility". Macri expressed an "open attitude", but he stressed that it would be "ideal" if Mercosur were to seek a trade deal as a bloc in line with internal regulations.

an agreement could, and should, be widened into a much bigger China-Mercosur FTA (see sidebar). Vázquez welcomed the idea, although he commented rather drily "If we bear in mind that China proposed an FTA with Mercosur six years ago, and Mercosur still hasn't officially responded...I think it would be very good for us to analyse this in depth in the next Mercosur meeting and see if we can progress with it jointly".

TRACKING TRENDS

ARGENTINA | Major investment announced. Argentina has received confirmation of a total of US\$48bn of investment until 2019, President Mauricio Macri confirmed during his participation in the 52nd Annual Colloquium organised by the Instituto para el Desarrollo Empresarial de la Argentina in Mar del Plata in Buenos Aires province on 12 October.

Macri highlighted that the investment commitments came from local and foreign firms and responded to "the new phase that Argentina is going through [since his government reorientated economic policymaking]. He also stressed that there were many opportunities to develop sustainable mining, energy sources, and tourism, among other sectors.

A few days after this announcement, the Chinese electronics company TCL Corporation expressed its intention to invest US\$100m in Argentina. On 18 October, President Macri received the owner of the company, Dong Sheng Li, when the latter announced that this investment would be made over the next 12 months. TCL Corporation, dedicated to the production of cell phones, televisions and other appliances, mainly under the Alcatel brand, is looking to set up a joint venture with an Argentine company.

CHILE | Nectarine exports to China. On 25 October Chile's agriculture minister, Carlos Furche, announced that Chile will start exporting nectarines to China following the signing of a new bilateral export protocol agreement. Speaking at the 'Chile Week' cultural event held in Miami, US, Furche said that the signing of the agreement with China, on 20 October, after three years of negotiations had been "greatly sought after by both the public and private sector". Furche underlined that Chile exports approximately US\$55m worth of nectarines worldwide, but that China is Chile's main trading partner and that it is also the fastest growing market for the country's food exports.

The agreement was signed after Chile's fruit exporters' association (Asoex) reached a memorandum of understanding with China's Eastern Airlines in order to facilitate the direct air transport of fruit produce from Chile to China, including nectarines, blueberries, and cherries. This agreement will last for a year, after which both parties will evaluate its development and possible renewal.

PARAGUAY | GDP growth higher than anticipated. On 24 October Paraguay's central bank (BCP) revised up its growth projection forecast for the year from 3.5% to 4% in the wake of the latest economic output figures, which showed an accumulated GDP increase of 4.3% from January to September. However, speaking at an event organised by Spain's chamber of commerce in Asunción the following day, the president of the BCP, Carlos Fernández Valdovinos, did not rule out adjusting it upwards again as the expectation is that economic activity will remain "resilient" from now until the end of the year.

Fernández highlighted the dynamic activity in the domestic construction sector thanks to the development of new infrastructure projects. In a bid to attract more investment to this sector, Fernández noted that although Paraguay is ranked 122nd out of 138 countries by the World Bank in terms of infrastructure investment, the country offers high returns on such investments. He added that Paraguay also has a sustainable level of national debt and that, along with Peru and Chile, it is one of the few Latin American countries with a stable credit outlook, while other countries in the region are experiencing downward revisions amid falling growth rates. "Paraguay is on the right track," Fernández concluded.

Macri leads criticism

The most outspoken criticism of the Venezuelan government's actions within the region is coming from Argentina's President Mauricio Macri. In a press conference on 24 October alongside his visiting Uruguayan peer Tabaré Vázquez in Buenos Aires, Macri stressed that the democratic charter of the Organization of American States (OAS) should now be invoked against the government led by President Maduro. Vázquez also expressed deep concern about developments in Venezuela but, with the radical wing of his ruling left-wing Frente Amplio (FA) coalition sympathetic to Maduro, he was far more circumspect, confining himself to calling for the Southern Common Market (Mercosur) to meet again to discuss the matter.

ANDEAN COUNTRIES

VENEZUELA | POLITICS

Time to save democracy

Events in Venezuela are lurching at such speed that some fear the unraveling situation could yet trigger a military intervention in the name of restoring order. Talks appear to be ongoing behind the scenes, but mutual distrust is running high and the government led by President Nicolás Maduro appears unwilling to compromise. Much now hinges on fresh efforts by the Vatican to mediate.

The developments of the past week are such that they merit a chronology. As we go to press, the main opposition coalition Mesa de la Unidad Democrática (MUD) appeared to be operating on two fronts – escalating protests on the streets in a bid to secure meaningful concessions from the government.

Anatomy of a crisis

19 October: The supreme court (TSJ)'s constitutional chamber rules that the MUD is obliged to collect the signatures of 20% of the registered electorate in each of the country's states in order that the second signature collection round for a presidential recall referendum, due 26-28 October inclusive, be valid.

19 October: The national electoral council (CNE) announces that regional elections (for state governors and mayors), due in December, will be held next year instead. The head of the CNE, Tibisay Lucena, gives no firm date but suggests it will be mid-year, around June.

19 October: Opposition leader Henrique Capriles Radonski confirms that while the MUD rejects the TSJ ruling, it will go ahead with the planned signature collection, declaring, "Does anyone doubt we don't have 20% [electoral support] in every state?"

20 October: The CNE issues a statement suspending the second signature collection round, after courts in five states rule that there was fraud in the first signature round. First instance criminal courts in Apure, Aragua, Bolívar, Carabobo and Monagas states, all controlled by the ruling Partido Socialista Unido de Venezuela (PSUV), issued cautionary measures, almost simultaneously, following complaints lodged by the PSUV earlier that day.

20 October: Capriles alerts the diplomatic corps in the country that "the government is pushing toward a very dangerous scenario". He and seven other opposition figures report that they have been ordered by authorities not to leave the country. Diosdado Cabello, PSUV second-in-command, calls for the arrest and imprisonment of opposition members for the alleged referendum fraud.

20 October: President Maduro departs for a tour of Middle East oil producers.

21-22 October: Public demonstrations in Caracas and elsewhere in protest at the suspension of the recall process. The Catholic Church hierarchy and others express concern. The leading local human-rights lobby group, Provea, suggests "a coordinated plan by the executive power to block citizens from evaluating the performance of the president through the recall referendum mechanism".

23 October: In a four-hour extraordinary session held on a Sunday, the MUD-controlled national assembly approves an 'accord for the restitution of constitutional order and democracy'. Declaring the executive, the TSJ, and the CNE in breach of the 1999 constitution, the accord outlines 10 actions, including a debate for 25 October on the constitutionality of Maduro's presidency; moves to replace TSJ and CNE magistrates deemed 'irregular'; submission of a complaint before the International Court of Justice (ICJ) against the TSJ and CNE; and a request to the military not to follow government orders.

23 October: Government officials declare the MUD to be promoting a coup d'état, and PSUV supporters violently interrupt the assembly session.

23-24 October: The secretary general of the Organization of American States (OAS),

Inspecting supplies

In his capacity as head of national supplies, General-in-Chief Vladimir Padrino López has ordered an ‘inspection’ (‘fiscalización’), of all food and medicine producers and distributors, in order to “guarantee supplies”. This will start on 28 October.

Luis Almagro, says he is convinced that a rupture of democracy has occurred in Venezuela and calls for “concrete actions”. Argentina, Brazil, Canada, Chile, Colombia, Costa Rica, Honduras, Guatemala, Mexico, Peru, Uruguay, and the US issue a joint document, released by Argentina’s foreign ministry, lamenting the “blocking of the [referendum] process”, and calling on all parties to strengthen national dialogue, “directly or through a facilitator”. US State Department spokesman John Kirby says the US government is “deeply worried”.

24 October: Following a publicly-unscheduled visit by Maduro, the Vatican announces a new round of dialogue in Venezuela, again backed by the Union of South American Nations (Unasur) and its designated three mediators, former prime minister of Spain José Luis Rodríguez Zapatero (2004-2011), former president Leonel Fernández of the Dominican Republic (1996-2000; 2004-2012), and former president Martín Torrijos of Panama (2004-2009).

24 October: Monsignor Emil Paul Tscherrig, Apostolic Nuncio in Argentina, appears at a press conference in Caracas, accompanied by the MUD’s secretary general, Jesús ‘Chúo’ Torrealba, along with the PSUV mayor of the Caracas municipality of Libertador, Jorge Rodríguez, PSUV Deputy Elías Jaua, and the veteran diplomat Roy Chaderton, formerly ambassador to the OAS.

24 October: Capriles and the MUD react with confusion and fury, declaring that they only found out on television. Capriles rejects the move as a cynical ploy by Maduro. There is heavy MUD criticism of Torrealba.

25 October: The national assembly discusses the constitutional situation of Maduro and votes to summon him to appear on 1 November to take questions. Capriles declares that the MUD has nothing to negotiate with the government under current conditions, and reiterates the MUD terms for dialogue as: the incorporation of additional mediators to a Vatican-mediated process, such as Spain’s former president Felipe González (1982-1996); an agenda including the restitution of constitutional order; the release of political prisoners; humanitarian aid for the country; and the staging of a presidential recall referendum. Any dialogue would be open, with clear rules, a pre-agreed agenda and the presence of observers. Capriles also touts the idea of an accord on a constitutional amendment to allow for early general elections, to be validated by public referendum.

25 October: The head of Venezuela’s armed forces, General-in-Chief Vladimir Padrino López, gives a public address in which he accuses the national assembly of promoting instability and pledges that the military will fulfil its constitutional duty to uphold the rule of law. The military leadership declares fealty to the “lawfully established government of Nicolás Maduro Moros.... the constitutional president and commander in chief of the Bolivarian Armed Forces, with supreme authority, and to whom we reiterate our unconditional loyalty and unwavering commitment.”

26 October: Fresh nationwide demonstrations led by the MUD under the banner of ‘La Toma de Venezuela’ (‘the takeover of Venezuela’) erupt into violence, with one police office shot dead. The MUD announces a 12-hour general strike for 28 October. In response, Maduro accuses the MUD of “following the 2002 playbook”, and of taking “orders from the north”. The national defence council goes into permanent session – national assembly president Henry Ramos Allup (MUD) refuses to attend. Diosdado Cabello threatens intervention in companies taking part in the general strike.

26 October: The MUD promises a march on the Miraflores presidential palace on 3 November to inform Maduro of the expected national assembly vote to censure him.

26 October: Twelve Latin American countries issue another statement, giving “the most emphatic welcome” to the Vatican’s renewed mediation and urging “constructive dialogue in favour of constitutional guarantees”. Capriles reiterates that the MUD will not take part in the talks proposed to begin on 30 October on Margarita Island.

27 October: Torrealba says MUD representatives *will* attend the Margarita Island talks, but stresses that the government must reconvene the recall referendum or call early general elections. Torrealba also tweets that the police and national guard have closed streets leading to the national assembly building.

Rating agencies cut Pdvsa

As promised, the main international rating agencies have sanctioned the state oil company Pdvsa for its “distressed” bond debt exchange. On 24 October, Pdvsa issued a statement saying that 39.4% of bondholders, holding US\$2.8bn of Pdvsa bonds due in 2016-2017, had agreed to swap them for new bond debt worth US\$3.4bn, expiring in 2020. The swap is considerably below Pdvsa’s intended US\$5.3bn, but nevertheless it throws the company a critical lifeline. Scheduled debt repayments were US\$4bn in October-November alone.

The bond swap, for which Pdvsa’s US unit Citgo was put up as collateral, will reduce Pdvsa’s immediate October-November bond outlays by over US\$900m, according to calculations by *Bloomberg*. Pdvsa still faces US\$6.1bn of principal payments by end-2017, however, and Siobhan Morden, head of Latin America Fixed Income Strategy at Nomura and one of the leading authorities on Venezuela’s payments position, has calculated that the swap will take US\$1bn off the company’s 2016-2017 debt service, but will add about the same amount to its obligations over *each* of the subsequent three years (to 2020), resulting in a net expense of US\$978m, according to a 25 October *Financial Times* report.

The swap is a classic case of kicking the can down the road – with the government banking on a rebound in oil prices from next year to cover the cost of this latest ‘debt management’ operation. While take-up for the swap was well below what Pdvsa had wanted (39% vs. the company’s declared 50% ‘minimum participation’ rate), the truth is that there will always be investor interest of some kind in Pdvsa. Pdvsa – at least in theory – should never go insolvent. After all, the company is sitting on the largest land-based oil reserves in the world, bigger even than those of Saudi Arabia. As Pdvsa’s president and oil minister Eulogio del Pino regularly points out, the company’s current problem is one of liquidity, not solvency. And of the global oil giants, Pdvsa is not alone in its current dilemma.

The ‘big three’ rating agencies, however, which Del Pino blasts as “speculators” (and he is not alone in that criticism), take a more severe view of the immediate situation. According to Fitch, “despite the partial success of the exchange offer, Pdvsa’s liquidity position is weak and the company could still face difficulties making scheduled payments...As of December 2015, Pdvsa reported cash of US\$5.8bn, which compared unfavourably with estimated principal payments of approximately US\$6.1bn over the next twelve months. The company’s current liquidity position is uncertain given expenditures, transfers to government, and interest and principal debt payments that might have driven down liquidity from the last reported amount as of year-end 2015.”

It is worth pointing out that prices for Venezuelan heavy crude have averaged just US\$33.8 per barrel (/b) to date in 2016, on oil ministry data, well below Fitch’s assumption of US\$42/b. Prices have improved this month, averaging US\$42.7/b to 21 October.

In similar vein, Standard & Poor’s (S&P) said it viewed the swap “as a distressed exchange because, in our view, the timing of payments will be delayed with the extension of the maturity date of the new notes. Also, we view the offer as distressed rather than purely opportunistic, given the currently difficult operating conditions and the significant upcoming debt maturities that Pdvsa faces, which would very likely lead to a conventional default when the existing notes come due.”

Pdvsa rated

selective default

As part of its revision, Fitch downgraded Pdvsa’s long-term foreign and local currency issuer default ratings (IDRs) to ‘CC’ from ‘CCC’, while local currency long-term IDRs were downgraded to ‘CC’ from ‘CCC’. S&P cut its corporate credit rating on Pdvsa to ‘SD’ (selective default) from ‘CC’. It also lowered its issue-level ratings on the company’s US\$7.1bn in 2017 maturities to ‘D’ from ‘CC’.

Tax reform faces political obstacles

After months of speculation Colombia's finance minister, Mauricio Cárdenas, has presented the government's proposed tax reform to congress. Cárdenas maintained that the sharp fall in the international price of oil made the tax reform essential. The government led by President Juan Manuel Santos had held back the tax reform for months because it feared that it might lead to protest votes against the peace accord with the Fuerzas Armadas Revolucionarias de Colombia (Farc). But having lost the referendum on the peace accord anyway on 2 October the government has calculated that there is no sense in delaying matters further, especially with international rating agencies threatening to downgrade Colombia's credit rating.

Cárdenas said the proposed tax reform was designed to provide incentives for investment and create jobs but would require a sacrifice from all Colombians. Containing 311 articles, the proposed reform would entail an extensive overhaul of the tax system. "The time has come to rethink Colombia's tax structure," Cárdenas said. Distilled to essentials, it seeks to increase value added tax (VAT) from 16% to 19% and to lower the income tax threshold to Col\$2.7bn (US\$909) per month from Col\$3.4bn, to bring more people into the tax net. There will also be a lower corporate tax rate of 32% from 2019 (with tougher prison sentences for evaders); a 'monotax' for small businesses; a special tax for businesses operating in conflict areas; higher tax rates on dividend payments worth more than Col\$18bn annually; and a new 'sin tax' on sugary drinks and cigarettes.

Under the proposed reform, VAT would jump to 19% in 2017, although congress might seek to modify the bill to make this more gradual. In order to lessen the burden of the VAT increase on low-income earners, some products in the basic basket of goods would be exempt from this increase, including medicines and food such as beef and chicken, eggs, school goods, and mineral water. Mobile phones under Col\$650,000 would also be exempt.

Cárdenas argued that reducing the corporate tax to a flat rate of 32% from 40% would encourage investment by companies and boost growth. The government proposes that tax evasion of greater than Col\$5bn be punished by prison sentences of between four and nine years. Jail sentences were introduced in the last tax reform in December 2014 in an effort to combat corporate tax evasion, which Cárdenas had hoped would net Col\$20 trillion between 2015 and 2018, but evidently he feels that this is not sufficing as a deterrent. Cárdenas also committed back then to phase out the 'wealth tax' by 2018. This impacts anyone with liquid assets worth more than Col\$1bn (US\$419,800), and stood at 1% in 2016. This has been a major bone of contention. Business leaders have argued that it deters investment.

Cárdenas also argued that the monotax on small business would help to formalise the economy. He insisted that the monotax, which will see small businesses declare income for the first time, was designed not to increase the take tax but rather to allow small businesses access to the financial system, providing social security for employees. Cárdenas maintained that, overall, by "stimulating private investment and [providing] a source of job creation", the tax reform proposal would create 168,000 new jobs and formalise 87,000 workers.

The proposed reform would also introduce a 'sin tax' of Col\$300 per litre on sugary drinks, projected to raise Col\$1.4 trillion for the health budget. The price of a packet of cigarettes, meanwhile, will jump from Col\$3,000 to Col\$4,600.

'Cuatro por mil'

Finance Minister Mauricio Cárdenas said that the financial transaction tax, dubbed 'cuatro por mil' (because all customers pay four pesos for each 1,000-peso bank transaction) would be retained. This raises significant revenue, much of which the government says is channelled to *campesino* families in order to help bolster rural development.

Peru identified as an “exciting” economy

On 18 October the CEO of the London Stock Exchange (LSE), Nikhil Rathi, said that Peru is currently one of the most “exciting economies in the region” and is attracting growing investor interest. In an interview with Peruvian media as part of the inPerú official investment promotion roadshow, which visited London between 17 and 18 October, Rathi said that Peru has registered the fastest GDP growth rate per capita in Latin America in the last 10 years and that the country has developed trade relations with partners around the world. Rathi added that this makes investing in Peru and particularly in the Lima stock exchange (BVL), an LSE partner, an attractive proposition for global investors.

Cárdenas said that the reform would bolster the tax take by 0.8% of GDP in 2017 and 2.7% by 2022. He added that the tax reform would go hand-in-hand with an “austere” 2017 draft budget of US\$77bn, up 5% year-on-year, approved last week. Cárdenas said it would help to plug a fiscal deficit, which has widened from 3% of GDP in 2015 to a projected 3.9% of GDP this year. He even confidently asserted that it would “allow us to keep investor confidence...we could raise our rating to triple B+”. International rating agencies are prudently awaiting the result of the upcoming congressional debate over the reform before passing judgement.

Cárdenas sought to break the link which the right-wing Centro Democrático (CD) led by Senator Alvaro Uribe (president from 2002-2010) has made between tax increases and funding the Farc peace accord. Cárdenas said a tax reform would be required with or without the peace accord. None of this convinced the CD, which is bitterly opposed to the tax reform. CD senator Iván Duque described the proposed tax reform as “a very heavy blow and regressive for the economy” falling on “the least favoured classes and the middle class” by lifting VAT at a time when inflation is high and already eating into the minimum wage and purchasing power of the poor. Duque claimed it would create “incentives for informality”. He also argued that the example of Mexico, which introduced a similar ‘sin tax’ in an effort to reduce obesity, had not had the desired impact and had merely affected the profits of small businesses.

The CD lacks sufficient presence in congress to block the proposed tax reform but there is no shortage of concern about it within the ruling Unidad Nacional (UN) coalition. This means that the reform’s approval will not be plain sailing, especially given that congress only has until 16 December to vote on it.

TRACKING TRENDS

PERU | Accelerating economic recovery. Peru’s economy & finance minister, Alfredo Thorne, said last week that the country’s domestic economy was now in full recovery, with GDP growth “accelerating”. According to Thorne, the economy is currently growing at a rate of around 4.3% driven by increased activity in the mining sector and government spending.

Peru’s economy began experiencing a slowdown in mid-2014 on the back of the fall in international commodity prices, which negatively impacted on activity in the key mining sector. Since then the previous government led by former president Ollanta Humala (2001-2016) and the new administration led by President Pedro Pablo Kuczynski have been trying to boost economic growth by implementing a series of stimulus measures designed to promote public and private investment in the country. These measures, which include providing tax incentives as well as increasing public sector investment, have helped to produce a tentative recovery, with the national statistics institute (Inei) reporting on 14 October that economic output increased by 5.5% year-on-year in August, bringing the cumulative growth rate for the year to 4.23%.

The August GDP result was the strongest monthly result in six months and the first time the figure surpassed the 5% mark – considered to be Peru’s long-term economic growth potential – in as many months. According to Inei this result was driven by a solid increase in activity in the metallic mining sector (19.76%), the fisheries sector (65.60%), and the basic manufacturing sector (17.66%). Based on these figures, Thorne said during his participation at the XI international trade summit organised by the Lima chamber of commerce, that domestic mining-sector activity increased by 26.9% in the first half of the year despite the “adverse international economic scenario, marked by lower commodity prices and [economic] recession in Latin America”.

Thorne added that in order to consolidate this recovery, the Kuczynski government would continue to promote private-sector investment, economic productivity, and advance public infrastructure projects over the next five years.

Carstens expects less volatility after US election

On 13 October Banxico president Agustín Carstens said that he expected that the current volatility in the local currency markets would subside after the US general elections on 8 November. Carstens explained that much of the current market volatility could be attributed to the uncertainty produced by the comments about Mexico from the US Republican Party presidential candidate, Donald Trump, and his proposals to withdraw the US from the North American Free Trade Agreement (Nafta). “Trump has made some pointed comments about Mexico, which have affected the markets...this will all be resolved soon, and from then on we should have less volatility,” Carstens said, noting that Trump’s falling support in the polls has led to the peso gaining ground against the US dollar.

MEXICO & NAFTA

MEXICO | POLITICS

Governors on the run

In an awkward outbreak of symmetry, Mexico’s two largest political parties, the federally ruling Partido Revolucionario Institucional (PRI) and the main opposition Partido Acción Nacional (PAN), each had a prominent former governor on the run this week, both seeking to avoid a multitude of corruption charges.

Both the PRI and the PAN – along with most other mainstream political parties – frequently reiterate that they are actively committed to combating corruption. But the electorate remains unconvinced, perhaps because both parties have been deeply embarrassed once again: prominent former governors, summoned to face party disciplinary procedures, have simply failed to turn up because they have been on the run.

The PAN’s Padrés

On 24 October Guillermo Padrés, the former PAN governor of Sonora state (2009-2015), failed to show up for a party disciplinary hearing. Instead he submitted a written statement saying his physical attendance was impossible because of the risk that he might “be arrested and publicly exhibited for the benefit of spurious political interests”.

The problem for Padrés is that since November last year the state attorney general’s office has filed a range of corruption charges against him and former members of his administration, some of whom have subsequently been arrested. Since October there has been an outstanding Interpol warrant for his arrest, describing him as a fugitive from justice. The PAN authorities have already temporarily suspended his party membership, but for the moment their attempts to investigate him through the party’s anti-corruption commission are being frustrated by his non-appearance.

The PRI’s Duarte

On the following day there was another no-show, this time at the offices of the PRI’s disciplinary body (known as the Comisión Nacional de Justicia Partidaria). This time the miscreant was Javier Duarte, governor of Veracruz (2010-2016). Duarte stepped down as governor on 12 October, only 48 days before his term in office was due to end, ostensibly to clear his name. The move was widely seen, however, as an attempt to avoid prosecution.

Duarte too faces multiple accusations of corruption, including allegations of potential links to organised crime, the persecution of journalists, and the theft of state funds through payments to shell companies. A judge has issued a domestic warrant for his arrest. The PRI said that because Duarte failed to turn up for the hearing he would lose his right to defend himself. Duarte had also been provisionally suspended from the party in September but has now been permanently expelled.

The spectacle of corrupt governors trying to evade arrest is likely to damage existing political parties in two ways. Firstly, it will damage specific parties – arguably the PRI more than the PAN because the PRI is in government and Duarte’s alleged illicit activities are both more recent and appear more serious than those of Padrés. Secondly, it will erode credibility in all the existing parties as a group and increase the likelihood of independent candidates having a good showing in the 2018 presidential race.

Trade deficit

Mexico registered a trade deficit of US\$12.5bn in the first nine months of 2016, up 15.2% year-on-year, according to the national statistics institute (Inegi).

Exports over this period amounted to US\$273.6bn, down 3.8% year-on-year.

Oil exports totalled US\$13.3bn, down 28.1% over this period. Imports amounted to US\$286.1bn, down 3.1% year-on-year. In September alone the trade deficit amounted to US\$1.6bn, up 9% year-on-year. Mexico registered a trade deficit of US\$14.5bn in 2015.

Peña Nieto's mini-reshuffle

President Enrique Peña Nieto has once again replaced the head of the attorney general's office (PGR), arguably one of the most politically sensitive jobs in Mexico.

Arely Gómez, like her predecessor Jesús Murillo Karam, had the deeply problematic task of trying to resolve the kidnapping and presumed massacre of 43 trainee teachers at Iguala, Guerrero state more than two years ago in September 2014. In her 19 months in office Gómez was unable to make major progress in the case, and the PGR's failure to act effectively in the prosecution of corrupt governors may also have been a factor behind her departure. Despite that, she is being moved to take over the vacant position of minister for public service, where her main task will be to implement newly-approved legislation creating a national anti-corruption system (SNA).

The replacement for Gómez in the key PGR job, subject to approval in the federal senate, is upper house PRI senator and lawyer Raúl Cervantes. President Peña Nieto said that he was giving Cervantes the task of designing a new operating model for the PGR, to ensure it can become both "effective and modern". In an appearance before the justice commission of the federal senate before his ratification by the full senate, Cervantes promised that the PGR would "intensify investigations" to get to the bottom of the case of the missing students and other emblematic cases.

TRACKING TRENDS

MEXICO | Inflation rises sharply. On 24 October Mexico's national statistics institute (Inegi) released its latest inflation figures, which show that the partial monthly inflation rate in October had increased by 0.49% year-on-year. The inflation measure for the first two weeks of October brings the accumulated annual inflation rate to 3.09%, the highest rate recorded in Mexico since April 2015 and suggests that the inflation rate is now accelerating after remaining largely subdued so far this year.

The sudden acceleration of the inflation rate should be a cause for concern for Mexico's central bank (Banxico), as it could mean that a change in monetary policy may now be needed in order to control the increase in prices so that inflation does not surpass Banxico's official inflation rate target of 3% +/- 1 percentage point. Inegi's partial October inflation measure was higher than the consensus market forecast of 3.08%, and it took the underlying (seasonally adjusted) inflation rate for the period to 3.10%, the highest rate since December 2014.

The problem for Banxico is that the upward trend in inflation is largely attributed to factors outside of its direct control, which are expected to persist in the medium term. These factors include the depreciation of the Mexican peso against the US dollar (with the exchange rate continuing to hover at around M\$19/US\$1 after reaching the all-time high mark of M\$20/US\$1 in late September). But also the decision by the government led by President Enrique Peña Nieto to end early the summer season electricity tariff subsidies applied in some of the country's largest cities and to the start of the gradual liberalisation of petrol prices, which are currently controlled by the government, as part of the government's energy-sector reform.

In fact, the Inegi report notes that the increase in electricity tariffs and petrol prices (which jointly increased by 2.66% in the period) were largely responsible for the sharp increase in the partial October inflation measure. In total they accounted for 75% of the increase.

All of this has led local analysts to forecast that Banxico will have to make further increases to its benchmark interest rates and possibly even adopt other measures from now until the end of the year in order to counteract the government's inflationary fiscal policies and keep inflation in check. This after Banxico already increased its benchmark interest rate by 50 basis points in September (to 4.75%) in response to the peso's depreciation against the US dollar.

Institutional clashes

In addition to calling for an urgent solution to El Salvador's fiscal crisis, OAS Secretary General Luis Almagro also urged an end to pressures and verbal attacks against the supreme court and the attorney general, which he called "a serious threat to the independence of powers in the Central American country". Almagro called for the leaders of the country's political parties to "moderate the current rhetoric which leads to confrontation, stop the pressures, moderate positions and stop promoting protests that put the independence of powers at risk, as well as the security of their communities and the stability of the country".

Party political dispute holds up key fiscal pact

Growing international pressure is being applied to El Salvador amid a rancorous dispute between the government led by President Salvador Sánchez Cerén and the main opposition Alianza Republicana Nacionalista (Arena) over approval of a bond emission required to stave off default. On 21 October the secretary general of the Organization of American States (OAS), Luis Almagro, urged all sectors, especially Arena and the government, to "open a dialogue that leads promptly to a long-term solution to the fragile economic situation of the country". A week earlier, the ratings agency Standard & Poor's downgraded El Salvador's credit rating; a delegation from the International Monetary Fund (IMF) has been in the country since last month trying to broker a deal.

Almagro urged the government and Arena to strike a fiscal deal urgently to avoid El Salvador "put[ting] its position vis-à-vis international financial organs at risk, which could bring uncertain situations for the country and the region". The US ambassador, Jean Manes, said a fiscal pact would send a very important signal to the international community. S&P downgraded El Salvador's rating from 'B+' to "B", citing "a deterioration in our assessment of El Salvador's institutional and governance effectiveness, which has contributed to a weaker external profile, and a further erosion of the government's liquidity position".

Arena is refusing to approve the government's request for a US\$1.2bn bond emission in the legislative assembly. Most of this would be used to convert local short-term debt (Letes), which stood at US\$1.04bn last September, into longer-term Eurobonds. Arena, which accuses the FMLN of wasteful spending and failing to implement sufficient belt-tightening measures, has proposed a US\$500m bond emission on condition that a fiscal responsibility law, among other things, is approved at the same time.

Three centre-right opposition parties in El Salvador tried to break the political stalemate between Arena and the ruling left-wing Frente Farabundo Martí para la Liberación Nacional (FMLN) this week by proposing a US\$600m bond emission provided that the government modifies the 2017 budget to fulfil a salary increase for healthcare workers (required by law), costing US\$16m, and an "extraordinary budget" of US\$30m for legislative and municipal elections in 2018. The Gran Alianza por la Unidad Nacional (Gana), Partido de Concertación Nacional (PCN) and Partido Demócrata Cristiano (PDC), have 18 seats between them, which is insufficient even with the FMLN's 31 seats: approval of bond emissions needs a two-thirds majority of 56 of the 84 seats in the legislative assembly, requiring the support of Arena, which has 35 deputies.

TRACKING TRENDS

DOMINICAN REPUBLIC | Economy booming. The Dominican economy grew by 6.9% in the first nine months of 2016, while inflation stood at 0.35%, the governor of the central bank (BC), Héctor Valdez Albizu, announced this week. In a speech marking the 69th anniversary of the BC's creation, Valdez said that real GDP growth was driven by mining (22.3%), construction (12.2%), agriculture (10.6%), financial intermediation (10.4%), and health (8.2%), with commerce (6.7%) and manufacturing (5.3%) also growing at a fast rate.

Valdez said the GDP growth was testament to the strength of the economy given the "changing, complex, volatile and uncertain international economic panorama". Tourism revenues grew by 10% year-on-year in the first nine months to US\$5.08bn; exports totalled US\$7.29bn, up 0.1% over the same period; and remittances were up by 4.7% to US\$3.91bn.

Valdez predicted GDP growth of 6.5% for 2016, with inflation of below 2%, and a current account deficit of 1.7% of GDP.

Quotes of the week

“It is not useful if each time that there is a political struggle or ideological confrontation convenient interpretations of the constitution are made.”

The commander of Venezuela's armed forces and defence minister, General-in-chief Vladimir Padrino López, accuses the opposition-controlled national assembly of trying to “incite insubordination” in the military.

“If the president wants her government to finish well she has to pay attention to its lack of self-criticism. Failure to do so is to renounce governing.”

The vice-president of Chile's Democracia Cristiana (DC), Sergio Espejo, on his party's decision to freeze relations with the government led by President Michelle Bachelet.

“If we don't do this reform, we are going to have serious problems. They are difficult decisions, but we have acted responsibly.”

Colombia's Finance Minister Mauricio Cárdenas on a proposed tax reform.

Varela and Santos strike security deal; skirt trade dispute

Panama's President Juan Carlos Varela hosted his Colombian peer Juan Manuel Santos in the border province of Darién on 25 October. The two heads of state agreed to improve bilateral security and immigration coordination, but they tiptoed around the subject of an acrimonious trade dispute which has dragged on since 2012.

Presidents Varela and Santos agreed to construct two new joint security bases in Panama's Darién border area to add to the two already in operation to help combat drug trafficking, and to improve security information exchange. The Panamanian government has expressed concern that a peace accord with the Fuerzas Armadas Revolucionarias de Colombia (Farc) could lead to an increase in drug trafficking as dissident guerrillas and other criminal groups seek to control the border area. Santos sought to allay Panamanian concerns stressing that an eventual accord would allow Colombian security forces tied down by the Farc to concentrate their firepower on other illegal armed groups.

The atmosphere at the meeting, which took place in the national air and naval service (Senan) base in San Vicente, Metetí, in the Darién, was congenial; Santos presented Varela with a toy ship, a scale model replica of one of two ships which Colombia is building for Panama to further enhance the country's surveillance and intervention capacity. But there was an underlying tension. The World Trade Organization (WTO) ruled in favour of Panama on 7 June after it denounced Colombia's decision to slap a 10% tariff on shoes and textiles from Panama's Colón free trade zone. Santos, who had claimed the tariff was necessary to combat contraband and money laundering, nonetheless ignored the WTO ruling, issuing a decree on 29 July extending the levy until 1 November [[WR-16-31](#)].

Panama is planning imminent retaliatory measures with tariffs of its own on Colombian goods. Panama's legislative assembly is also holding up the ratification of a bilateral free trade agreement signed in 2013 until the tariff is eliminated. During their bilateral meeting, Varela and Santos confined themselves to saying that their trade ministers would shortly discuss the matter. Varela said the trade ministers would seek “an integral solution with which both countries are satisfied” while Santos said they would “see what steps can be taken to normalise the situation”.

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