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Santos owes re-election to Colombia's Left

Colombia's President Juan Manuel Santos won re-election on 15 June, overturning a deficit of some 450,000 votes to his rival Óscar Iván Zuluaga in the first round to win by more than 900,000 in the run-off (51%-45%). There were a number of factors behind Santos's reversal of fortune but the most decisive, as he himself acknowledged, was the resolve of Colombia's left-wing parties to rally behind his re-election in the interests of ending the country's decades-long armed conflict. Just four years earlier he came to power backed by the Right. Santos has not traversed the political spectrum in the meantime but his determined pursuit of peace won over sceptics on the Left just as it alienated the Right which coalesced around Zuluaga.

Santos was rewarded for sticking with peace as the central focus of his campaign, even when it was not top of the list of public priorities, because it convinced the Left and some vacillating voters that he was sincere in his intentions. Zuluaga flip-flopped on the peace talks with the Fuerzas Armadas Revolucionarias de Colombia (Farc) in Cuba, losing credibility. Pinned down on this issue during the run-off campaign, Zuluaga became more aggressive and erratic contrasting with Santos's serene and statesman-like behaviour.

Santos also benefited from coming up with big moves in the closing days of the campaign – significant progress with the Farc over victims and the revelation of exploratory talks with the country's second guerrilla group, Ejército de Liberación Nacional (ELN) – to impart the idea that the promised land of a country without an armed conflict could be reached [WR-14-23]. He juxtaposed this with a vision of a return to a dark past of unremitting conflict should Zuluaga triumph. After his victory, Santos said the message for the Farc and the ELN was clear: "this is the end of more than fifty years of violence in our country".

The support of so many significant left-wing politicians showed that voting for peace took precedence over personal enmities. The support of Clara López, the presidential candidate of the left-wing Polo Democrático Alternativo (PDA) who won nearly 2m votes in the first round, and Gustavo Petro, the mayor of Bogotá, was crucial in tripling Santos' support in the capital. Santos had targeted Bogotá, where López had outperformed him in the first round, as the key battleground and the swing to him was one of the decisive factors in his triumph. Santos had trailed Zuluaga by four percentage points in Bogotá in the first round but defeated him by 10 points (52%-42%) in the second, thanks to the support of the Left. Zuluaga picked up half a million votes in Bogotá to finish with 1.075m, nearly twice his first round tally, but Santos leapt from 444,051 to end with 1.337m.

Santos also won six of the largest seven cities (and departmental capitals) in Colombia, his sole defeat coming in Medellín, no great surprise given that it is capital of Antioquia, the native department of former president Álvaro

'Third Way'

"We will correct what we have to correct, adjust what we have to adjust and reform what we have to reform," President Santos said in the wake of his electoral victory. He is likely to rejig his cabinet to shore up alliances. The Partido Liberal (PL) will be at the heart of his new government with former president César Gaviria (1990-1994) playing a key role in the turnaround of his fortunes as his campaign chief in the second round. Santos announced the re-launch of his 'Third Way' development strategy, which fuses Liberal and Conservative political ideals, with a summit in Cartagena de Indias on 1 July. Former US President Bill Clinton and ex-British Prime Minister Tony Blair, as well as former heads of state, Felipe González from Spain, Ricardo Lagos from Chile, and Fernando Henrique Cardoso from Brazil, have all been invited to attend.

Uribe (2002-2010), Zuluaga's mentor (*see table*). Santos won a resounding victory in Cartagena, the capital of Bolívar, where Zuluaga had outperformed him in the first round, and in Cúcuta, the capital of Norte de Santander, where he had edged Zuluaga by a whisker in the first round.

Santos won in 19 departments; Zuluaga in 15. Three departments where Zuluaga had won more votes than Santos in the first round switched hands in the second. It is noteworthy that two of these were Norte de Santander (50%-46%) and Arauca (50%-47%), both ELN strongholds. Zuluaga had won 45% of the vote in Arauca in the first round compared to just 26% for Santos, who also won in Nariño (66%-31%) and Chocó (63%-34%), the other ELN strongholds. This could be attributed to the heightened prospects for peace with the ELN, although the majority of Farc strongholds were won by Zuluaga, some by large margins: Caquetá, 63%-32%; Casanare, 78%-18%; Guaviare, 50%-47%; Huila, 71%-26%; Meta, 64%-33%; and Tolima, 59%-37%. It is a moot point whether this amounted to a rejection of the peace which Santos is negotiating, or reflected the fact that many of those living in conflict-torn areas felt more secure under Uribe. That said Santos did take Putumayo by 66%-30%, as well as Cauca, by 72%-25%; and Valle del Cauca, 61%-34%.

Santos also managed to win all of the coastal departments of La Guajira, Cesar, Magdalena, Sucre, Bolívar, Córdoba and Atlántico, bringing him 1.1m more votes than in the first round. Abstention had been widespread in this part of the country in the first round but nearly twice as many people voted in the run-off. Nationwide abstention fell from 60% to 53%, some 2.4m more voters turning out in the second round. But this still means around 17m Colombians did not vote. Added to the 6.91m who voted for Zuluaga, Santos was elected by just under 25% of those eligible to vote.

In his victory speech, Santos recognised the crucial role of the Left, to which he made overtures, promising that "peace is a great opportunity to create more jobs, to combat crime, to improve education and to ensure economic growth reaches all Colombians." He even added the following day, "If tomorrow they want to enter the government, the doors are open," although he acknowledged that most left-wing parties were keen to stay in opposition, finding common cause on peace but not sharing his government's views on economic policy, free trade deals, privatisation, or education and health policies.

Tougher second term ahead

Santos also struck a conciliatory note toward his rival. "This is what peace is about: to understand that we are on different sides of the political spectrum but we respect our differences." Zuluaga recognised Santos's victory, and congratulated him, but this was a stark contrast to Uribe's response. Uribe launched a tirade in Medellín, accusing the government of "the biggest corruption in history characterised by abuse of power, buying votes, and offering bribes to mayors and governors to force them to intervene illegally in the campaign". Uribe also accused Santos of allowing "threats of massacres and intimidations by terrorist groups like the Farc against the voters of Zuluaga", and called for a new electoral system to end "abuses like those committed by the Santos administration".

Santos responded by saying the public was "bored" of Uribe's unsubstantiated allegations. He pointed to the conclusions of the observer mission sent by the Organization of American States (OAS), which reported that the elections had been conducted with "total transparency". Former Costa Rican president José María Figueres Olsen (1994-1998), who led the OAS mission, dismissed Uribe's comments as "totally disproportionate", prompting Uribe to vent his spleen again.

Santos faces a more problematic second term in congress where Uribe, a senator-elect, will try to marshal opposition forces behind his Centro Democrático (CD), which has a decent presence. In congressional elections last March the CD won 19 seats in the 102-seat senate denying Santos' ruling Unidad Nacional (UN) coalition, which won 47 seats, a clear majority.

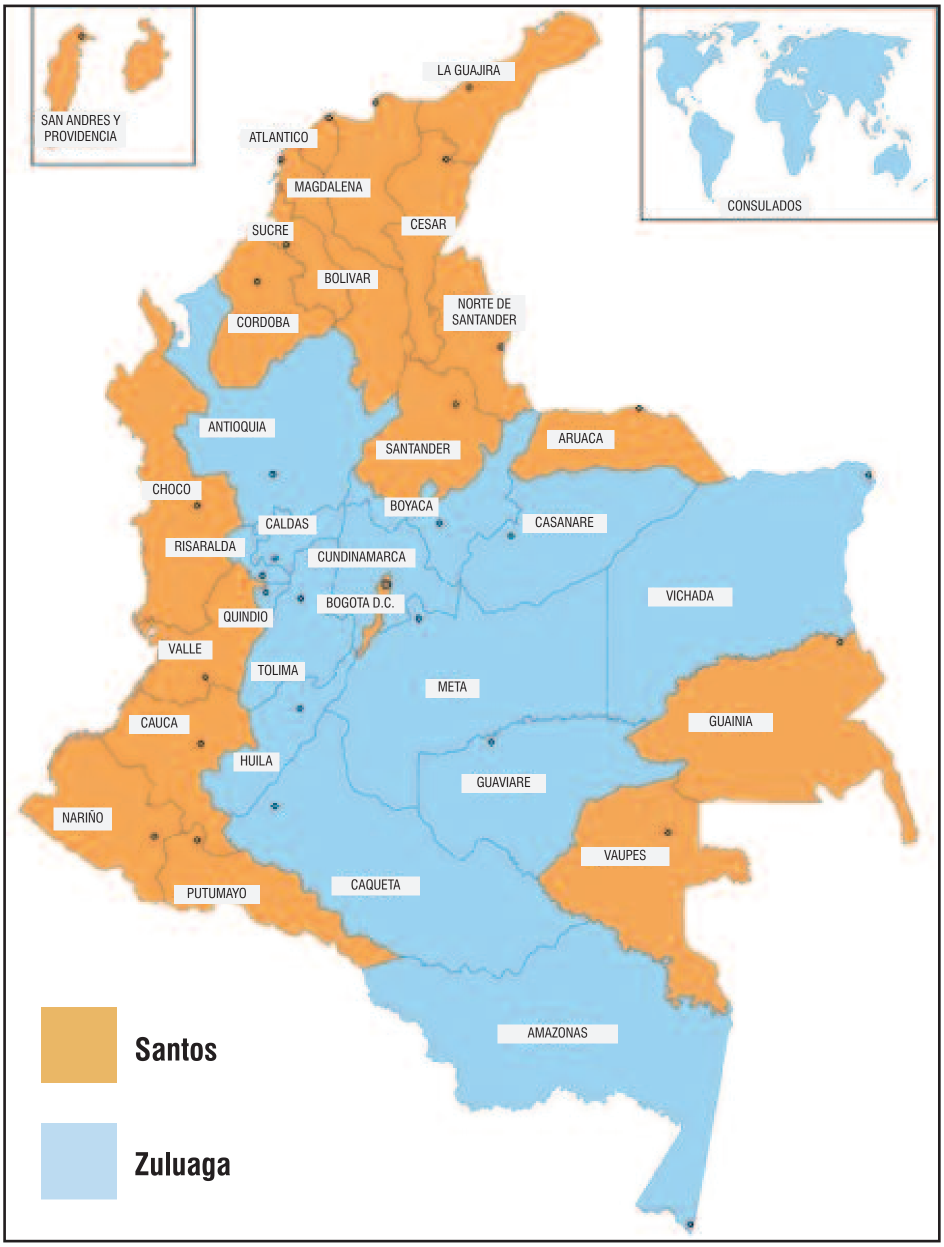
Football factor

President Santos might have gained a few extra votes from the national feel-good factor generated by Colombia's resounding 3-0 victory in its opening match of the Fifa World Cup in Brazil against Greece played the day before the elections. Santos is travelling to Brazil on 19 June where he will discuss the peace process, and other issues, with his Brazilian peer Dilma Rousseff before watching Colombia's second match of the tournament against Ivory Coast.

But Santos's confidence that he will be able to muster majorities to advance his legislative agenda does not look misplaced. The majority of senators for the Partido Conservador (PC), which won 19 seats, backed Santos's re-election despite the party's presidential candidate, Marta Lucía Ramírez, throwing her weight behind Zuluaga. And, just as the Left rallied to his side to secure his re-election, it will also provide crucial support for Santos when it comes to voting on peace-related legislation, such as the Farc's future political participation. Santos will be able to rely on 10 senate seats from the left-wing PDA and the Alianza Verde (AV), giving him a majority. His coalition also has a comfortable majority in the lower chamber.

The result in Colombia's largest eight cities and departmental capitals

City	Department	Result
Bogotá	Distrito capital	Santos 52%-42%
Medellín	Antioquia	Zuluaga 63%-29%
Cali	Valle del Cauca	Santos 62%-33%
Barranquilla	Atlántico	Santos 74%-24%
Cartagena	Bolívar	Santos 55%-41%
Cúcuta	Norte de Santander	Santos 53%-43%
Bucaramanga	Santander	Santos 56%-40%
Ibagué	Tolima	Zuluaga 59%-36%



PERU | POLITICS

Regional presidents in the eye of the storm

Corruption charges and investigations are mushrooming in almost all of Peru's 25 regional governments at a frenetic speed. Why, when suspicion of irregularities and malfeasance at a regional level has abounded for years, is this coming to a head now? Some regional presidents are accusing President Ollanta Humala of conspiring to discredit them ahead of regional elections this October. They also claim that he is intent on reversing the process of decentralisation: the current system of greater autonomy was established through regional elections in 2002. It could be argued, however, that Humala had turned a blind eye to regional corruption until the egregious recent events in the north-western region of Áncash forced his hand.

The bank accounts of the regional government of Pasco, and four local municipalities (San Marcos and Chavín de Huántar in Áncash, and Vilcabamba and San Román in the southern regions of Cusco and Puno respectively) were frozen last week for 30 days after the comptroller general's office detected misuse of public funds.

The regional president of Pasco, Klever Meléndez Gamarra, was arrested in Lima on 3 June for alleged corruption [WR-14-22]. Javier Medina, the mayor of San Marcos, which receives the country's highest mining royalty (*canon minero*), is accused of awarding relatives million-dollar contracts, while Manuel Páucar Ramírez, the mayor of Chavín de Huántar, is on the run. Meanwhile, the Ecuadorean authorities arrested Gerardo Viñas, the regional president of Tumbes, which borders Ecuador, in the beach resort of Salinas in the province of Santa Elena. Viñas was supposed to appear in court in Peru on 5 June on corruption charges and two arrest warrants were issued in his name. As many as 19 of Peru's 25 regional presidents are embroiled in corruption scandals, some more serious than others.

Gregorio Santos, the regional president of Cajamarca, who shot to national prominence early in Humala's mandate in 2011 with his opposition to the Conga gold mine proposal of the mining giant Yanacocha (run by the US-based Newmont Mining Corp), lashed back by accusing President Humala of trying to prevent his re-election in October. The new attorney general, Carlos Ramos Heredia, announced last week that Santos could be arrested for collusion, illicit association and bribery. This elicited a fierce response from Santos who said that the central government was seeking to deflect attention from its own corrupt practices by highlighting irregularities in the regions.

The timing of the sudden proliferation of corruption charges and investigations does seem somewhat dubious. But rather than having an ulterior motive, the central government appears to have been primarily motivated by events in Áncash, which went beyond just rampant corruption when Ezequiel Nolasco, a candidate for regional president, was murdered in mid March after foretelling his own death. Nolasco was seeking to expose the corrupt regime run by the incumbent regional president of Áncash, César Álvarez. It was this that finally seemed to snap the central government out of its past apathy and concentrate its mind.

There were a number of factors behind this apathy: one was the fact that regional political movements rather than national political parties overwhelmingly rule the roost at a regional level, leading to the central government's lack of interest and understanding, as well as its fear of antagonising the regions and being accused of concentrating power through excessive centralisation. Not only Humala was guilty of this but also his immediate predecessors Alejandro Toledo (2001-2006) and Alan García (2006-2011).

Villarán to stand again

The mayor of Lima, Susana Villarán, has announced her intention to seek re-election in October at the head of "a great citizen and political coalition". The left-wing mayor did not specify who would be within this coalition. Villarán narrowly survived a recall referendum in March 2013 and it was widely assumed that she would not seek to run again as she only enjoys about 20% support. Her predecessor, Luis Castañeda, who was behind the recall referendum against her, has also announced that he will stand for the centre-right Partido Solidaridad Nacional. Castañeda is the early favourite in the polls.

Once stirred into action, however, the Humala administration has moved rapidly to send congress a package of reforms to regional government. The proposal to prohibit the consecutive re-election of regional presidents has attracted most headlines but this looks like a knee-jerk reaction rather than an attempt to get to the root of the problem: only about 20% of regional presidents are actually re-elected. A more effective proposal might be to introduce a second round of elections at the regional level. This would add more expense but it would compel candidates to forge alliances in order to win 50% plus one of the vote (many regional presidents at present are elected with little more than 30%) and could, as a result, help constrain corruption after they take office.

The package of reforms also contains measures to ensure that investment and spending is not affected when the accounts of regional governments are frozen by the economy ministry due to corruption charges. The economy minister, Luis Castilla, has also backed the creation of a superintendence to oversee regional resources. The lack of strong national institutions to provide oversight and control of resources is more responsible for regional corruption than re-election.

A nationwide poll conducted by Ipsos Perú this week shows that 72% of the Peruvian public approves of the proposal to ban the immediate re-election of regional presidents, while 85% support the proposal to freeze the bank accounts of regional governments suspected of corruption and that presidents should go to congress whenever summoned. The majority of the Peruvian public (61%) thinks that the creation of regional governments has been "negative", and 67% disapprove of their regional government.

These figures need to be put into context, however. The Peruvian public is savagely critical of politicians. Ipsos Perú also showed that just 21% of respondents approved of the governance of President Humala, down one percentage point on May, with insecurity and government corruption top of the list of complaints. As Humala approaches the end of the third of his five years in power, his approval rating has fallen in line with that of his two immediate predecessors. Toledo 'enjoyed' an approval rating of just 6% and García 30% at this point in their mandates.

VENEZUELA | POLITICS

With friends like these...

Barely four hours after his removal, the now-former planning minister, Jorge Giordani, launched an excoriating attack on President Nicolás Maduro, accusing him of lacking in leadership and of allowing the country to be steered back towards capitalism by boli-bourgeois elements that have long since lost their Revolutionary zeal. The Monk, as Giordani was nicknamed for his religious devotion to Marxism and his austere lifestyle, was sacrificed on the altar of greed, was the suggestion, and the whole lot was going to hell in a handbasket. Just weeks ahead of the ruling Partido Socialista Unido de Venezuela (PSUV) congress, at which Maduro is supposed to be formally crowned party leader, the timing was impeccable.

There was not a shred of self-doubt in Giordani's article. At no point did the architect of the current price and exchange rate controls acknowledge any responsibility for the distorted economic mess Venezuela finds itself in, with stagflation and shortages of everything from toilet paper to cancer medicine in a country with the biggest untapped oil reserves on the planet. In Giordani's not-so-humble opinion, his grand plans failed because of incompetence and a lack of control. This, he argued, allowed corrupt elements to grab control of the official currency system in particular, siphoning off billions. Giordani last year publicly warned Maduro about abuse of the old currency system, Cadivi, subsequently disbanded, but he was not put in control of the new one, to his obvious chagrin.

Menéndez rehabilitated

President Maduro replaced Jorge Giordani with the university education minister, Ricardo Menéndez. Menéndez will also serve as vice-president of the newly fused planning and territorial management areas. As basic industries minister until late last year, Menéndez was a keen advocate of "productive socialism", with a strong central state facilitating market-dominant state companies. Also removed was the food minister, Félix Osorio, replaced by Hebert García Plaza from the ministry for terrestrial & fluvial transport. Osorio will return to military duties, Maduro said. Another military man, Luis Graterol Caraballo, the head of the state airline Conviasa and director of Simón Bolívar international airport (Maiquetía), moves into the cabinet to fill García Plaza's spot.

But what Giordani did do was confirm the widely rumoured splits between a host of factions, vying for survival in the wake of the death of former president Hugo Chávez (1999-2013). And it is not a simple case of 'pragmatists' vs. radicals'; it is a veritable 'nest of scorpions' to borrow a phrase oft-used by Chávez himself in reference to his fissiparous Bolivarian movement. But Maduro, the anointed one, is simply not up to the job of controlling them, suggests Giordani.

Lifting the lid

"It is painful and alarming to see a Presidency that does not convey leadership, that wants to affirm it by simply repeating, without any coherence, the proposals of Commander Chávez, and by giving massive resources to anyone who asks for them without a fiscal programme embedded within a socialist framework that gives those requests some consistency. At the same time, policies when dealing with the private sector are at best confusing, and the pressure of these agents seems to pave the way for the re-instalment of capitalist financial mechanisms that satisfy the need to capture the nation's oil rents via the financial system. In light of this, there is a clear sensation of a power void in the office of the presidency, and a concentration of power in other places, destroying the work of institutions such as the ministry of finance and the central bank, and establishing a de facto independence of Pdvsa [the state oil company] from the central government." *- Translation by Francisco Toro, as published on 18 June by the opposition blog, Caracas Chronicles.*

That last line was telling, as it is the president of Pdvsa, energy minister and vice president of the economic area, Rafael Ramírez, who has been consolidating himself as the new economic czar in the government. And Ramírez, who for years had to suffer in silence Pdvsa being stripped of its funds and practically run into the ground to fund the seemingly endless array of social welfare missions set up under Chávez, now seems to have a freer hand to right the situation at Pdvsa (and by extension much of the rest of the economy), even if that means allowing the private sector space to operate normally in the country by returning to something approaching a more orthodox economic model, albeit still with a strongly populist, nationalist and reddish hue.

AA clips its wings in Venezuela

From 2 July, American Airlines, the biggest foreign carrier serving Venezuela, will operate only 10 flights a week in and out of the country, from 48 currently. "Since we are owed a substantial outstanding amount ($750m to March 2014) and have been unable to reach resolution on the debt, we will significantly reduce our flights to the country after 1 July," the airline said in a statement. American will only fly to Venezuela from Miami, suspending flights from New York, Dallas and Puerto Rico.

PR tour

Speaking at a conference organised by Lazard Asset Management in London on 14 June, Ramírez said that Venezuela's three official currency exchange (FX) rates should be converged soon. He admitted that the main official rate of BF6.3/US$1 was too low and hinted that a converged unit should fall somewhere between the secondary Sicad 1 and Sicad 2 rates (of BF10/US$1 and BF49/US$1). The illegal black market rate was trading at BF72.7/US$1 on 19 June, according to websites that publish it, underlining the continuing dollar shortages in Venezuela. Underpinned by a soaring money supply (the broad M2 measure hit BF1.4bn as of end May, a series record), there is no immediate end in sight to the country's hyperinflation (61% year-on-year in May); but the idea is that currency convergence at a weaker rate would - over time - help close the massive mismatch between supply and demand, allowing prices to recalibrate.

Ramírez also said money would be moved from the shadow off-budget funds (the national development fund [Fonden] and the China fund) into central bank reserves, currently at a 10-year low of US$22.5bn. These funds still hold up to US$25bn, private economists estimate. Notably, he acknowledged that there would have to be an increase in domestic gasoline prices, noting that, "the discussion has already begun and that is very good".

Finally, Pdvsa will not issue any more debt in 2014 but will seek to refinance existing bonds nearing maturity. To date this year, Pdvsa has issued US$5bn in bonds, most of which went to the central bank in support of dollar liquidity. Pdvsa has almost US$15bn in debt falling due through to 2017, including US$3bn in bonds maturing this year.

TRACKING TRENDS

COLOMBIA | **Issuing more debt.** On 16 June Colombia's finance ministry (Minhacienda) announced that it would increase the issuance of treasury bonds (TES) in the domestic market throughout 2014 and 2015. Despite this it expects that the country's consolidated fiscal deficit will continue to shrink thanks to forecasts of improved economic growth and a greater tax intake.

A Minhacienda report said that the ministry had decided to raise its TES issue limit this year to Col$33.19trn from Col$30.31trn (US$15.93bn). Minhacienda's director of public credit, Michel Janna, said in a press conference that the additional TES funds raised this year would be used to pre-finance public expenditures planned for the first quarter of 2015. However, Janna said that the debt-GDP ratio would remain at around 35.7%, due to the fact that the domestic economic cycle is sounder than initially expected and on the back of expectations of higher-than-expected tax revenue this year.

According to a Minhacienda mid-term fiscal plan obtained by the news agency, Reuters, the projected fiscal deficit-GDP ratio for the public sector is 1.6% in 2014 and 1.2% in 2015. The predicted fiscal deficit-GDP ratio for the central government, both in 2014 and 2015, is 2.4%.

The Colombian government is planning to issue TES bonds for a total of Col$34.4trn (US$17.9bn) in 2015; of which US$14.3bn will be auctioned. According to the fiscal plan, Colombia will look to raise US$5.1bn through external debt in 2015; US$3bn through the issue of foreign debt bonds and the rest via credit from international banking institutions. The expected tax take is Col$112.9trn (US$59.45bn) for 2014 and Col$125.1trn (US$65.9bn) for 2015.

COLOMBIA | **Inflation surpasses 2013 levels.** Cumulative inflation in the 12 months to May 2014 reached 2.48%, higher than the 2% registered in the same period last year, Colombia's national statistics agency (Dane) has reported. A Dane report showed that the monthly increase in May 2014 was 0.48%, up 0.2 of a percentage point rise over the same period in 2013 and much higher than the 0.30% expected by local analysts. At this rate Colombia's inflation rate is set to surpass the 1.94% registered in 2013.

The unexpected increase in consumer prices has been attributed to a surge in the cost of foodstuffs, which increased by 1.18% year-on-year in May as a result of expectations that the El Niño weather phenomenon will negatively affect crop yields this year (*see sidebar*).

Following the release of the report, Munir Jalil, the director of economic research at Citibank Colombia, said that he now expected full year 2014 inflation to come in at 3.5%, up from the 3.2% previously forecast. According to Jalil, this could lead Colombia's central bank to increase its benchmark interest rates gradually to a higher amount than the projected 4.25%, in an effort to contain inflation. At its monetary policy meeting last month, the central bank increased the benchmark interest rate from 3.5% to 3.75%, the second increase in as many months.

El Niño

Commenting on the unexpected increase in inflation, Banco de Bogotá analyst, Héctor Suescún said this could have been produced by the negative expectations that this year's El Niño, which tends to bring extremely wet weather spells to South America from April to October, will be significant. According to Suescún, the prices of some Colombian diet staples, such as potatoes and tomatoes, have been steadily increasing for the past three months on the back of such expectations. The prices of these two products saw sharp increases last month, with potatoes going up by 27.3% and tomatoes going up by 16.34%. However, the effects of El Niño are normally more strongly felt towards the end of the year in September and October.

ECUADOR | **Correa defends import regulations.** The government is preparing a response to a ruling by the general secretariat of the Andean community of nations (CAN), which deemed a recent Ecuadorean import regulation to be too restrictive.

Ecuador's President Rafael Correa told journalists that his country would retain the right to apply "technical regulations" to defend the economic welfare of its citizens. 'Resolution 116' came into effect on 3 December 2013, requiring that some 293 products from the agro-industrial and hygiene sectors, (cosmetics, toys, plastic materials) obtain a "certificate of recognition" to be imported into Ecuador.

The CAN, which currently comprises Bolivia, Colombia, Peru and Ecuador, declared in 6 June that the Ecuadorean resolution goes against its principles as it "restricts trade", and gave the country 15 working days to provide a report on the reasons behind the adoption of these measures.

Ecuador's committee for enterprise (CEE) had expressed misgivings about resolution 116, with CEE Director Roberto Aspiazu declaring in February that the certification requirements could lead to stagnation and delays in imports.

President Correa responded to the CAN ruling by supporting resolution 116 as a measure that protects Ecuadorean producers from competition from producers in other Andean countries that have recently seen their currencies devalued. Correa stated that "Colombia and Peru have devaluated [their currencies], but [in the CAN] nothing happens as the commercial and integration agreements do not take this into account".

Ecuador dollarised its economy in 2000, surrendering control over monetary policy and the exchange rate.

ARGENTINA | ECONOMY & POLITICS

The politics of default – again

Argentina's long drawn-out legal battle over its foreign debt in the US courts has come to an end. Its opponents – a group of US hedge funds (President Cristina Fernández prefers to call them 'vulture funds') – have won an almost complete victory. What happens now – including the possibility of a new default – essentially depends on political decisions.

Time and options are rapidly running out for the Argentine government. On 16 June the US Supreme Court published its decision not to review an earlier ruling by New York federal Judge Thomas Griesa that Argentina must pay a group of hold out creditors, led by the hedge fund, NML Capital, a total of US$1.33bn. The stay on that earlier ruling is likely to be lifted in a matter of weeks.

The government has to decide what to do. It fears that if it pays the US$1.33bn – which it has so far refused to do – it will also face up to US$15bn in additional demands from other 'hold out' creditors that did not join the 2005 and 2010 bond swap deals, which followed on the country's default in early 2002. That is about half of its reserves so by paying, the government would be risking a new financial crisis before next year's elections.

If it opts not to pay, the government faces the virtual certainty that its next debt service payments, due on 30 June, to restructured bond holders, which are made through US banks and under New York legal jurisdiction, will be sequestered under Griesa's order, triggering a default. That too would bring forth the spectre of another financial crisis. Perhaps the only viable option is to try and negotiate payment terms with the holdouts and Griesa himself, which might produce a viable way forward, but which would entail a big political climb-down. There seem to be no good options for the government.

In the first days after the Supreme Court ruling, the government blew hot and cold. President Fernández, in a speech to the nation, rejected the holdouts' demands as "extortion" and pledged to keep paying the restructured bondholders, without explaining how this could be done. Economy Minister Axel Kicillof followed, to say Argentina would talk to Judge Griesa but at the same time announced plans – dismissed by many as unpractical – to circumvent his ruling through a new bond swap, designed to replace New York jurisdiction bonds with Buenos Aires jurisdiction ones.

One explanation for the oscillation is that the government is using its favourite domestic political technique inappropriately in an international arena. The domestic technique is to talk tough and ignore inconvenient facts: for many years, for example, the government has pretended that inflation does not exist.

Another explanation is that the tough talking is no more than bluster designed to show the population that the government resisted an unpopular deal - preparing the way for eventually doing it anyway.

The striking fact is that if the government is ignored for the moment, there seems to be a near-consensus in the country over what needs to be done. Buenos Aires governor Daniel Scioli, one of the presidential hopefuls seeking the nomination of the ruling Frente Para La Victoria (FPV) said there should be negotiations to achieve a "definitive" solution to the dispute with the hedge funds: "when there is a willingness to pay we should seek options to negotiate and agree".

G77 summit

President Cristina Fernández called on participating countries at the G77 summit in Santa Cruz, Bolivia, this week to speak out against the "anarcho-capitalism led by financial capital" and urged world leaders to build "a new world order where credit-rating agencies are unable to freely rate countries". In the wake of the US Supreme Court ruling, Fernández said "That small group of vulture funds compromises not only Argentina [...] What is at stake here is the international financial system and international economic system".

Raúl Sendic

Raúl Sendic, until recently president of Uruguay's state petroleum company Administración Nacional de Combustibles, Alcoholes y Portland (Ancap), won nearly unanimous support from 158 of 160 delegates in the Frente Amplio (FA) party convention on 15 June to complete the coalition's presidential slate. Sendic underpinned his claim to the position when his faction of the FA, Compromiso Frenteamplista, won more votes than any other faction in the coalition (more than 20% of the total) in the 1 June primary elections which saw Tabaré Vázquez secure the party's presidential candidacy comfortably [WR-14-22].

Dissident Peronist Sergio Massa (FR- Frente Renovador) said "we have a government which is stepping down in 500 days, but Argentina needs to normalise its situation in the markets now". The centre-right mayor of Buenos Aires, Mauricio Macri (Propuesta Republicana [PRO]) also called for negotiations, and accused Fernández of reacting "in a traditional manner, isolating inwards and blaming others". Socialist presidential hopeful Hermes Binner said "this is the result of complete improvisation by the government's economic team".

Many analysts fear that the government's knee-jerk need to talk tough could end up tipping Argentina exactly into the kind of financial crisis that it wants to avoid in the first place, and which would be deeply destabilising in advance of next year's elections. As described by Jorge Oviedo in the national daily *La Nación*, Judge Griesa has for some time been inviting the government to come to his house for talks on how to solve the problem. Oviedo likened the government's eventual response as saying it will come in, kick the door down, and insult the owner of the house – all as its opening gambit.

Timerman threatens Uruguay with ICJ return

Diplomatic relations between Argentina and Uruguay soured again on 13 June when Argentina's foreign minister, Héctor Timerman, sent a letter to his Uruguayan peer Luis Almagro warning that his country would "immediately" go to the International Court of Justice (ICJ) at The Hague again. Timerman was responding to the "unfriendly gesture" on the part of the administration of President José Mujica to approve formally the request by the Finnish-owned UPM-Kymmene to increase production at its pulp mill on the banks of the River Uruguay separating the two countries by 100,000 tonnes a year.

Timerman said that Uruguay had ignored three letters he had sent at the tail end of last year in which he threatened to take the country back to The Hague for contravening the terms of the ICJ ruling in April 2010 by unilaterally permitting an increase in production above the 1m tonnes, he claims, was authorised.

In September last year Timerman had made it clear that Argentina adhered to the view that it would only be possible to modify the current production levels if UPM "makes the investment it is refusing to carry out" to diminish pollution of the river. Timerman also stressed then that, if not, Argentina would be "inflexible".

In his latest letter to Almagro, Timerman said that the Argentine government "demands" that Uruguay "immediately declare this new resolution without effect". Timerman concluded that Argentina would "re-evaluate" all of its policies with Uruguay, including binational commissions.

The re-emergence of the pulp mill dispute comes just as Uruguay's presidential race is getting underway. The current favourite ahead of October's general elections is former president Tabaré Vázquez (2005-2010) who first authorised the pulp mill and who in October 2011 admitted that Uruguay had actually considered war scenarios with Argentina when the dispute over the construction of the pulp mill reached fever-pitch in 2007, and had even asked then US President George W. Bush and Secretary of State Condoleezza Rice whether the US would back Uruguay in the event of hostilities breaking out with Argentina.

Vázquez's comments were, at best, maladroit, and he went into political hibernation for over a year after making them. Even before this revelation, President Mujica was critical of Vázquez's handling of the dispute and endeavoured to put relations with Argentina back onto a firmer footing, although he too encountered difficulties despite his supposed rapport with Argentina's President Cristina Fernández.

Vázquez, perhaps wisely, refrained from entering into the latest controversy, but Raúl Sendic, who on15 June was confirmed as his running mate in October's election for the ruling left-wing Frente Amplio (FA) coalition (*see sidebar*), stressed the importance of making a big effort to get relations with Argentina back "on course".

End of the road for Hidroaysén

After six years of sinuous debate and political and social controversy, the government of President Michelle Bachelet has declared that the US$3.2bn HidroAysén mega dam project will not go ahead. The decision by a ministerial cabinet committee sparked wild scenes of celebration in Coyhaique, the capital of the Aysén region in Chilean Patagonia. The private sector, however, criticised the decision, arguing that it generated uncertainty around the development of other energy projects, deterring investors already put off by the fact that Chile has the highest energy tariffs in Latin America.

The HidroAysén project would have seen five hydroelectric dams constructed on the Baker and Pascua rivers, flooding a total of 5,910 hectares of wilderness, and provided 2,750MW to the national grid to supply power to the centre and south of Chile. Chile's total installed capacity is only 17,744 MW. The project had been held in abeyance since May 2012 by the construction consortium Endesa Chile and Colbún which awaited greater political consensus behind it. This was not forthcoming. After a three-hour meeting on the 10 June the energy, environment, mining, agriculture, health and economy ministers agreed unanimously to accept the 35 complaints presented against the project.

The decision came after years of struggle by environmental groups and local communities. HidroAysén became a cause célèbre and the mantra – 'Patagonia without dams' - appeared on banners at all kinds of protests across Chile, as well as T-shirts and even car stickers.

The six cabinet ministers who took the decision based it upon three points: the non-existence of a plan to relocate 39 families; the lack of evaluation of the hydrological impact and the lack of studies on the effects on wildlife. Their decision was no great surprise as President Michelle Bachelet had stipulated in her electoral manifesto last year that the project was "unviable", although activists were not entirely convinced that this pre-electoral commitment would be borne out.

The energy minister, Máximo Pacheco, said that many aspects of the project had been "poorly or insufficiently thought out". He was keen to stress, however, that the decision "does not compromise in the least the [government's] energy policy, but specifically refers to one project". Pacheco said that over the next 10 years, 45% of infrastructure would be non-conventional renewable energy, such as wind and solar. But, with restricted energy sources, hydroelectric dams would still be constructed across the country, Pacheco said, provided the projects met the requisite environmental standards. He even refused to discount the use of the Baker and Pascua rivers in the future - but it would take a very brave minister to risk his political future on such a project.

In a sign of just how pressing expanding and diversifying Chile's energy matrix has become, President Bachelet opted for cross-party collaboration by inviting Pablo Longueira last week to help formulate her government's energy agenda. Longueira, a veteran member of the ultra-conservative opposition Unión Demócrata Independiente (UDI), ran against Bachelet in the last presidential elections before having to withdraw from the contest suffering from depression (he was replaced by Evelyn Matthei). Longueira, who served as economy minister under Bachelet's predecessor Sebastián Piñera (2010-2014), met Pacheco to discuss 11 new energy bills the government is planning to send to congress to diversify investment in the energy sector, reduce costs and provide a more active role for the State in the planning, regulation and development of new projects. Pacheco said Longueira's experience would "contribute hugely".

Legal challenge

The construction consortium Endesa Chile and Colbún has 30 days to appeal the ministerial resolution in an environmental court in Valdivia, the capital of the southern region of Los Ríos (Region XIV). It is mooting taking legal action against the Chilean State to seek compensation for the US$320m it has already spent on studies and preliminary work before the World Bank's International Centre for Settlement of Investment Disputes (ICSID).

BRAZIL-MEXICO | DIPLOMACY

Latin America's big – and irritable - two

Latin America's two big regional powers - Brazil and Mexico - have both had disappointing growth rates and their share of domestic political difficulties so far this year. Off-the-cuff comments by former Brazilian president, Lula da Silva (2003-2010), on things "being worse in Mexico" have touched a raw nerve.

At a conference in Porto Alegre on 6 June organised by the Spanish newspaper *El País*, former president Lula was anxious to talk up his country's prospects, perhaps with an eye to boosting the re-election chances of his successor, President Dilma Rousseff, who faces a difficult run-up to polls in October. Brazil would not regress, he said.

Lula defended last year's 2.3% GDP growth rate, considered by some as under par, as a good achievement in a sluggish global economy. He claimed growth and social inclusion policies were powering Brazil on the way to becoming "the fifth largest economy in the world". The international press, particularly media from the US and UK, had unfairly decided to write Brazil off and instead to sing the praises of Mexico, according to Lula, but Brazil had a solid record of achievement while Mexico was only promising growth for the future. "I've been to Mexico to look at their fundamentals and everything there is worse than in Brazil," Lula said. What Mexico is trying to do with its energy reform programme, "we did with Petrobras [the Brazilian state oil company] 20 years ago," he added.

Mexican President Enrique Peña Nieto responded days later. Both countries, he said, were not in a competition. Each was pursuing the structural reforms it considered most appropriate for its development. "We respect the route followed by Brazil, which is a model for other countries, but Mexico has its own route to follow," Peña Nieto said.

There is in fact a history of each country believing it is unfairly compared to the other. In 2010 in one of the darker moments of Mexico's drug cartel war, then-President Felipe Calderón (2006-2012) complained that "the international perception is that Mexico is in chaos […] and Brazil is some sort of paradise".

Mexican journalist José Carreño suggests that things have turned around simply because the Fifa World Cup has now placed Brazil under the kind of spotlight Mexico has long had to endure. "Because of its neighbourhood, Mexico has been subject to more scrutiny than Brazil. Our problems, defects, inconsistencies, have been seen, analysed, exhibited, criticised, exaggerated and sometimes made out to be less than they are. Brazil hasn't had that experience," Carreño wrote recently.

There is indeed plenty to compare and contrast between the two economies. In the last decade Brazilian GDP growth has averaged 3.8% per annum, while Mexico has achieved a lower 2.6%. This year, Mexico is set to outpace Brazil, although the performance of both will be subdued.

Based on the data, Brazil has to date done more than Mexico to pull people out of poverty and into the middle classes. On the other hand, Brazil is more dependent on commodity exports, at a time when the global commodity boom has passed its peak; Mexico has a comparatively more impressive manufacturing export performance, boosted by its geographic proximity to the US, and the 'nearshoring' trend among US multinationals to relocate

PRI president resigns

Cuauhtémoc Gutiérrez de la Torre, the president of the federally ruling Partido Revolucionario Institucional (PRI) in the Distrito Federal (DF) has resigned. Gutiérrez de la Torre has been caught up in a prostitution and sexual favours scandal. He was accused by a PRI councillor last April of using party resources to pay for sexual favours, bringing the party into disrepute. He is also being investigated for leading a prostitution ring by keeping a network of prostitutes on the party payroll, as secretaries, for his personal use.

Madero keeps up pressure

The president of Mexico's right-wing opposition Partido Acción Nacional (PAN), Gustavo Madero, threatened this week to postpone approval of the crucial secondary legislation linked to the energy reform until September. While he said that it would be "in nobody's interest" if the legislation was held up, Madero said the PAN would stick to its guns and refuse to approve it unless state legislatures modified their constitutions to harmonise local legislation with the new politico-electoral reform approved by the federal congress ahead of next year's elections in 17 states.

assembly operations south of the border. Mexico may also benefit more from the US recovery, while Brazil by contrast may suffer from the gradual move to higher US interest rates.

While both countries can arguably learn from each other on the economic front there is at the root of the rivalry a contest for political leadership and influence across the region. There are many nuances here too: some argue that, unlike Brazil, Mexico has not really sought to lead in South America, which is less of a priority for it than North America.

In any case Brazil favours a degree of protectionism, a redistributive state, and autonomy from the US. It is comfortable with a centre-left consensus within the somewhat troubled Southern Common Market (Mercosur) trade bloc (along with Argentina, Uruguay, Paraguay and Venezuela).

Mexico, which has its own fiercely nationalist tradition, has nevertheless aligned itself over the last decade with more outward looking, less interventionist and less anti-US positions (the US after all is a close neighbour and economic partner). Mexico's leadership role is in part expressed through the newly formed Pacific Alliance trade bloc (set up with Colombia, Peru, and Chile). It is sometimes argued that Mexico is on the Pacific side of a Latin American divide, while Brazil sits on the Atlantic side.

It is not surprising perhaps that Mercosur – Pacific Alliance rivalry is also a factor in Mexico-Brazil diplomatic irritability. On a visit to London last week, the Mexican foreign minister, José Antonio Meade Kuribreña, was asked about Brazil's unwillingness to join the Pacific Alliance. He was at pains to insist that the Alliance is not a political initiative but a pragmatic one. "There can be no integration in Latin America without Mexico and Brazil," Meade said. "We want Brazil to see that [the Alliance] is not a space for political dialogue, but one for specific integration solutions".

Those who believe Mexico is now edging ahead of the Brazilian curve may have been encouraged by the World Cup football tournament being hosted by Brazil: on 17 June in Brazil's northern city of Fortaleza Mexico's team held Brazil's to a goalless draw.

Brazil leads Mexico on corruption front

One area where Brazil is getting the better of Mexico, at least as regards public perception, is in the sphere of corruption. A resounding 88.3% of Mexicans believe that corruption is a prevalent practice in transactions between public servants and citizens, according to a survey carried out by the national statistics institute (Inegi) and published this week. The survey of 1,000 households posed questions to respondents 18 and older in cities with a population of 100,000 or more about their experiences with corruption in public services and contacts with officials.

Inegi found that 48% of the population think corrupt practices involving public servants are "very frequent", while 40.3% deemed them to be "frequent". Corruption is the third biggest problem facing Mexico, according to 48.5% of respondents, behind insecurity and organised crime (70.4%) and unemployment (51%).

The public perception of the police was the worst of all Mexico's public institutions, with 89.7% of respondents convinced that corruption was "very frequent" or "frequent" in dealings with the country's various police forces. Political parties came next with 84.4% followed by the attorney general's office with 78.4%.

In the 2013 corruption perceptions index (CPI) of the Berlin-based NGO Transparency International (TI) Brazil finished in 72nd place with 42 points: a country's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean. Mexico languished in 106th place on 34 points.

TRACKING TRENDS

MEXICO | **Videgaray foresees no fiscal changes.** Mexico's finance minister, Luis Videgaray, declared in an interview on 14 June that the federal government would not make any fiscal adjustments during the next four years of President Enrique Peña Nieto's six-year term. Videgaray's comments came after he held a private meeting with Gerardo Gutiérrez Candiani, the president of the enterprise coordination council (CCE) - a private sector lobby - who has been calling for the introduction of fiscal measures to boost domestic economic activity in Mexico, which has been flagging since the start of the year.

The CCE and others have expressed concern that the slowdown is the result of the fiscal reform recently implemented by the government, which among other things increased the value added tax (VAT) rate and extended it for the first time to include certain food items, and have been calling for a review of fiscal reform. This was ruled out by Videgaray, who said that the Peña Nieto administration would honour the 'tax certainty agreement' it signed in February, in which it pledged not to introduce any more changes to the country's tax code for the remainder of its term. However, Videgaray did say that there is room for discussions with the CCE and the rest of the private sector over "public policy proposals [intended] to give more dynamism to the economy".

Videgaray was quick to add that the Mexican economy is on its way to recovery, pointing out that there had been an increase in the job creation rate in May, as well as public spending in infrastructure and investment. Consequently, he said that the finance ministry would not revise its 2.7% GDP growth estimate for 2014, after having adjusted it down in May [WR-14-21]. Recently, the World Bank cuts its 2014 economic growth forecast for Mexico's from 3% to 2.3%.

For his part, Gutiérrez said that the CEE was prepared to work closely with the government to identify measures that do not involve any fiscal adjustments but which could promote investment and job creation. Gutiérrez did not rule out the possibility of the CEE turning to the federal congress to demand changes to the current tax regime ("If it's necessary of course we will") but he added that the CEE's current priority was to work with congress to expedite the passage of the secondary legislation linked to the telecommunications and energy reforms promoted by the Peña Nieto government as these would improve Mexico's competitiveness and help attract and retain investment.

MEXICO | **Peña Nieto pledges support for tequila industry.** On 16 June President Enrique Peña Nieto promised to address a set of demands made by Mexico's tequila regulatory council (CRT) and emphasised the exceptional growth of the tequila industry in recent years. Peña Nieto's pledge was made during a visit to Jalisco state, the traditional home of the tequila industry. This after CRT president, Miguel Ángel Domínguez Morales, publicly called on the Mexican authorities to crack down on counterfeit tequila; introduce a new regional quality assurance law; and set up a fund to market certified Mexican products. Domínguez also asked the government to provide microcredit financing for agave growers.

After committing his support to the CRT, Peña Nieto said that Mexico's signature alcoholic drink has grown significantly in the last decade, with a record 150m litres being exported worldwide in 2013. He added that now Mexico is trying to "conquer new markets" for tequila, and mentioned China as an export outlet, whose importance has grown steadily in the past year. China introduced a ban on premium blue agave tequila in 2008 amid concerns over its high methanol content. But after bilateral negotiations, these were lifted in August 2013. Since then Mexico has exported over 520,000 litres of mostly premium tequila to China, which is now set to become the second largest tequila importer after the US. Ramón González Figueroa, the CRT's general director, recently said that Mexico's 16 major tequila producers have each invested up to US$3m to establish a beachhead in the Chinese market. According to Peña Nieto, on recent estimates China could import around 10m litres of tequila a year by 2019.

MEXICO | **Young Mexicans do not save money.** On 16 June Mexico's national autonomous university (UNAM) and Banamex released the results of a survey on the spending habits of 3,200 young Mexicans (aged between 15 and 29). The survey found that 54% of respondents do not hold any kind of record of their expenses. It also revealed that only 11% deposit their savings in banks; 96% have a weak knowledge of financial products; 87% are not saving money for their retirement; and 61% have not given any thought to the matter. More worryingly, 56% said that they have no money left at the end of each month, while 9% go into debt regularly.

José María Zubiría, Banamex's corporate director, explained that survey participants had been chosen because financial decisions taken between 15 and 20 years of age are decisive for future personal development and, consequently, for the future of the country (roughly a third of Mexico's population is under 30).

CNBV fines

On 16 June Mexico's national banking commission (CNBV) revealed that it issued a total of 331 fines to the tune of US$9.9m to various banks and financial institutions in the first five months of 2014. The majority of the fines (US$7.2m) were given during the month of May, with a sizeable portion of these hitting brokerage firms. The worst-hit bank was HSBC México, which was fined for faults in its client identification system. Banamex and Banorte received smaller fines, respectively for faults in the automated operative system and for failing to obtain client authorisation to release personal information to Mexico's credit bureau.

GUATEMALA | POLITICS & UNREST

A rocky road ahead for Pérez Molina

President Otto Pérez Molina recently hailed the inauguration of the Fénix mining project in El Estor in Izabal, one of the biggest nickel mining projects in Central America and one of six major mining projects to have caused unrest locally in recent years. The project's inauguration came less than a week after the United Nations High Commission for Human Rights (OHCHR) condemned violence which took place at another of these projects – the 'El Tambor' gold mine near Guatemala City where operations have been held up since March 2012 by protesters who claim it will pollute local water supplies. Efforts by the right-wing Partido Patriota (PP) government to press ahead with these and other controversial projects could well point to further social unrest in the latter stages of Pérez Molina's four-year term.

On 30 May President Pérez Molina and Energy Minister Erick Archila inaugurated the US$1.5bn Fénix project which is operated by Compañía Guatemalteca de Níquel (CGN) a subsidiary of Russia's Solway Investment Group. Pérez Molina told reporters that the project will produce 25,000 tonnes (t) of nickel annually, translating into some Q$400m (US$51m) a year in royalties and taxes and create 1,500 direct jobs and 4,000 indirect jobs.

The mine - a fully operational nickel laterite mining and smelting operation in the 1970s until it was closed for maintenance in 1980 - made headlines last year after a Canadian judge ruled that a case against the mine's previous owner, Canadian mining company, Hudbay Minerals, regarding alleged human rights abuses which took place at the mine, could be heard in Canada.

A week earlier, the El Tambor project (belonging to Exploraciones Mineras de Guatemala, S.A [Exmingua]), a subsidiary of the US company Kappes, Cassiday & Associates [KCA]) similarly made headlines following the violent eviction of anti-mining protesters which left 28 people injured (15 local residents and 13 national police [PNC] officials). The violence prompted criticism on 27 May from the OHCHR, the human rights ombudsman (PDH) Jorge de León Duque, as well as local civil society groups.

The previous government led by former president Alvaro Colom (2008-2012), of the Unidad Nacional de la Esperanza (UNE), had awarded a licence to exploit the mine in November 2011 in spite of its moratorium on new mining concessions.

The importance of mining

The violence which ensued at the El Tambor mine follows earlier unrest under the government of Pérez Molina, who took office in January 2012, over projects like the Escobal mine in San Rafael (owned by Canada's Tahoe Resources) which in May 2013 led Pérez Molina to declare a state of siege in four municipalities [WR-13-18]. In July 2013 Canada's Goldcorp, whose subsidiary Entre Mares de Guatemala owns another of the main controversial projects, the Cerro Blanco gold and silver mine, announced that it was suspending that project, due to "recent declines in…metals prices" – a move attributed in part to unrest from anti-mining activists.

Mining accounted for just Q$7.8bn (US$1bn) in 2013 or 1.8% of GDP on the latest preliminary central bank figures. This was down from Q$8.6bn in 2012 and a record high of Q$10.5bn in 2011 – a decline no doubt explained by the slump in metals prices (the latest figures on production in volume terms was not available). Yet with the government still debating an initiative first

Xalalá

President Otto Pérez Molina's insistence on pushing ahead with the Xalalá hydroelectric project, which was first conceived in the 1970s, is also likely to generate conflict. With 180MW of installed capacity it would be Guatemala's second biggest hydroelectric complex but is unpopular due to the feared impact on the local indigenous community. In November 2013 the national electrification institute (Inde) awarded a contract to a Brazilian company, Intertech, for geological feasibility studies. Despite the fact that on 22 May a congressional probity committee found irregularities in the contract, Pérez Molina insists it will go ahead.

Sperisen convicted

On 6 June a Swiss criminal court sentenced Erwin Sperisen, a former national police chief (2004-2007) with joint Swiss-Guatemalan citizenship, to life imprisonment for his role in seven extra judicial executions under the Gran Nacional Alianza (Gana) government led by former President Oscar Berger (2004-2008) when security forces stormed the El Pavón prison outside Guatemala City in 2006 to regain control from gangs. Along with former interior minister Carlos Vielman and a former head of the prison service, Alejandro Giammattei, Sperisen had been accused of involvement in a criminal ring inside the interior ministry and police. Giammattei was tried in Guatemala and acquitted in May 2011. Vielman, who has Spanish-Guatemalan citizenship, is currently awaiting trial in Spain in relation to the same case.

unveiled last year aimed at updating the 1997 mining law in order to boost the sector and attract more foreign direct investment (FDI), the sector's importance in terms of attracting investment was evident in the latest UN Economic Commission for Latin America & the Caribbean (Eclac) report on FDI unveiled last month.

According to the Eclac report, natural resources in Guatemala received US$488m of the US$1.3bn in inflows in 2013, more than "any other sector, as has been the pattern for the past three years". The report notes that as well as the Fénix and Escobal projects, these investments have been concentrated in another controversial mining project: the Marlin gold mine, operated by Goldcorp since 2005. With a total of 345 mining licenses authorised and a further 592 being processed as of 2 April 2014, on the latest figures from the mining ministry, Pérez Molina's intent in forging ahead with controversial projects has triggered fears of growing unrest in the second half of his mandate.

Reviving the re-election debate

President Pérez Molina also courted recent controversy after calling for a debate on presidential term limits and re-election (which is banned under article 187 of the 1985 constitution). On 31 May he told reporters that he had issued an "invitation" to different sectors to discuss changing term limits from the current four years to six. The previous month, in an interview with the US channel *CNN*, Pérez Molina grumbled that politicians only had "four years" to make a difference.

Pérez Molina's calls to revive the re-election debate prompted a strong response from various sectors. On 3 June Duque, the human rights ombudsman, told reporters that it is not possible to prolong the presidential mandate "full stop", clarifying that presidential re-election is one of the so-called "untouchable" articles (*normas pétreas*) of the constitution. It also prompted a statement of rejection from the influential private sector lobby, Cacif, as well as civil society groups like Plataforma Ciudadana.

This is not the first time Pérez Molina has floated changing the constitution. In May 2012, five months into his mandate, he proposed a constitutional reform based on four planks: justice & security; control & transparency; political reform; and fiscal strengthening. At the time, he vehemently denied that the changes would include presidential re-election [WR-12-29] although the initiative was subsequently abandoned.

TRACKING TRENDS

HONDURAS | **IMF concludes Article IV consultation.** The International Monetary Fund (IMF) concluded its latest Article IV consultation - its phraseology for a macro-economic review - on 9 June. The cash-strapped government led by President Juan Orlando Hernández hopes this will pave the way for a new US$200m stand-by agreement by August (the last one expired in March 2012), as well as another US$300m from the Inter-American Development Bank and the World Bank. Given that the country's total public debt has now reached 46% of GDP (or US$8.0bn as of December 2013), there is an urgent need for fresh multilateral financing.

The IMF's assessment was far from upbeat, noting that real annual GDP growth decelerated to 2.6% in 2013 (from 4% in 2012), while the current account deficit rose to about 9% of GDP and the fiscal deficit to 7.6% of GDP (from 4.2% in 2012). Welcoming "ongoing consolidation and reforms in the fiscal and electricity sectors", the Fund "encouraged the authorities to redouble their efforts to strengthen the public finances" and considered that "there is scope for further rationalising public expenditure"; in effect a large dose of the usual nasty-tasting medicine prescribed by IMF technocrats sitting at their desks in Washington. The tricky political implementation of these measures is not something the Fund concerns itself with.

Quotes of the week

"In 2010 [Colombia's President Juan Manuel] Santos was elected by the Right. In 2014, he was re-elected by the Left. The paradox of life."

Colombian Senator Antonio Navarro Wolff, a former M-19 guerrilla and current member of the Alianza Verde.

"We knew that the reform process would not bring instant changes. To reform is not to perform magic. It is to overhaul the structure of our economy which has prevented us from growing for more than 30 years..."

Mexico's finance minister Luis Videgaray.

"I am like a Boy Scout, I am always prepared for the party."

Uruguayan opposition presidential candidate Luis Lacalle Pou.

POSTSCRIPT

ABLP returns to power in Antigua & Barbuda

The opposition Antigua & Barbuda Labour Party (ABLP), led by Gaston Browne, triumphed in general elections held in Antigua & Barbuda on 12 June. The ABLP ejected the ruling United Progressive Party (UPP) led by Baldwin Spencer after two five-year terms in office.

According to the final results, the ABLP took 56.39% of the vote and doubled its seats in the 17-member House of Representatives from the last elections in 2009 to 14. The UPP took 41.57% of the vote and the remaining three seats, down from nine in the last election. The UPP's ally, the Barbuda People's Movement (BPM), garnered just 1.13% of the vote and lost its single parliamentary seat. Turnout was a convincing 90.06% of the total electorate of 47,720.

The victory for the ABLP, which prior to its 2004 defeat had dominated Antiguan politics for three decades under the Bird family, was not a surprise given the poor state of the economy and high unemployment – the main voter concern. GDP growth was just 0.5% in 2013, down from 2.8% in 2012, according to the most recent (May 2014) report by the International Monetary Fund (IMF). This, after GDP contracted 2.1% in 2011; 8.6% in 2010; and 10.7% in 2009. The weak growth comes as the fiscal deficit is on the rise, reaching 4.3% of GDP in 2013, up from 1.4% in 2012, on April 2014 figures from the UN Economic Commission for Latin America & the Caribbean (Eclac).

Browne, who took office on 13 June, cited as priorities the need to create jobs and reduce taxes. During his election campaign, Browne cited ABLP research which suggested that unemployment and under-employment combined stood at 25%. He is promising to reintroduce a work experience programme, which will create over 1,000 jobs. He is also pledging to cut taxes. Examples mentioned included plans to eliminate the Personal Income Tax, "putting over EC$40m [US$14.8m] back into the pockets of hardworking citizens", and waive taxes on inputs, including capital equipment for investment purposes to help businesses create jobs.

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