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FEATURED Q&A

Will Venezuela's Economy Continue Deteriorating?

Q Venezuela was beset by a rash of bad economic news in September as annual inflation climbed past 63 percent and S&P downgraded the country's bonds. Also, Clorox announced it would shutter operations in the Andean country and Harvard economist Ricardo Hausmann, a former Venezuelan planning minister, floated the idea that the country should default on its foreign bonds. Will Venezuela's economy continue deteriorating, or could it turn a corner and improve? Should the country default? Does Venezuela's deteriorating economy threaten President Nicolás Maduro's hold on power?

A Charles Shapiro, president of the World Affairs Council of Atlanta and former U.S. ambassador to Venezuela: "Venezuela's economy will continue to go from bad to worse. And worse. And worse. While ministers and priorities may change, continued bad economic policy will continue to bring bad results. Does anyone really doubt that the economic situation will have deteriorated further by May 2015? The amazing thing is that so many international companies like Clorox have remained in Venezuela for so long without being able to repatriate their earnings. A Venezuela expert told me last week that President Nicolás Maduro is 'more pragmatic.' Pragmatic is a relative term. Foreign analysts tend to ignore that Maduro sincerely believes he is doing the right thing for Venezuela and that the

increasing levels of poverty, runaway inflation, shortages and blackouts are the result of sabotage and hoarding, not wrongheaded economic policy. Don't count on him to look at a spreadsheet of data from the minister of economy and finance and initiate the changes that seem so obvious to outsiders. Maduro will remain secure in Miraflores as long as the military and the popular base of Chavismo continue to support him. [Toys for the boys](#) should keep the military in line, for now. The question is at what point the deteriorating economy will

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Colombia Eyes Making Wealth, Bank Taxes Permanent

Colombian Finance Minister Mauricio Cárdenas is expected to propose making higher taxes on the wealthy and also a bank transaction tax permanent. The measures have been criticized as bad for investment and falling too heavily on the middle class. See story on page 3.

File Photo: Colombian Government.

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NEWS BRIEFS

Silva, Neves in Dead Heat for Runoff Spot in Brazil

President Dilma Rousseff is leading in the latest poll ahead of the first round of Brazil's presidential election on Sunday, while challengers Marina Silva and Aécio Neves are in a dead heat for the chance to be on the runoff ballot. In the **Datafolha** poll published Thursday in *Folha de S. Paulo*, Rousseff had 40 percent support, while Silva stood at 24 percent and Neves at 21 percent. The poll has a margin of error of plus or minus two percentage points. The two top finishers would face off in the second round on Oct. 26 if no candidate receives more than 50 percent of the vote.

'Ultra-Right' Groups to Blame for Lawmaker's Murder: Maduro

Venezuelan President Nicolás Maduro said Thursday that "ultra-right" opposition groups in Venezuela and Colombia were responsible for the murder of Robert Serra, a ruling party member of the National Assembly, and his partner, Maria Herrera, who were found shot in their home Wednesday, BBC News reported. Maduro said authorities had detained numerous suspects who had been planning attacks.

Falabella to Continue Investment Plan Despite Slowdown

Chilean holding company **Grupo Falabella** said Thursday that it intends to stick to its plan and invest \$4.1 billion between 2014 and 2017 despite a slowdown in the consumer market, *Gestión* reported. The company said its priorities for international expansion are in Colombia, due to its large market and economic growth, as well as in Peru, where Falabella recently acquired a home improvement chain.

Political News

Relatives Join Search for Dozens of Missing Students in Mexico

Relatives of as many as 44 students who went missing a week ago during protests in Mexico's Guerrero state have joined the search for their loved ones, BBC News reported Thursday. The students, who were studying to be teachers, were last seen being placed into police vans during the demonstrations against job discrimination faced by teachers in rural areas. During the protests in the town of Iguala, police officers opened fire on the students' buses and also on the demonstrators themselves, killing three people and wounding more than a dozen others. Authorities are holding 22 officers in connection with the incident. The students, from a teacher training college near the city of Chilpancingo, came under fire from the municipal police officers after they hijacked local buses in order to return home, Agence France-Presse reported. Some of the police officers who were detained are also suspected of involvement in another attack that killed three people on Iguala's outskirts, AFP

reported. The second shooting was also believed to have involved gang members, and the officers are suspected of having ties to local criminals. "We are fed up with crime and corruption in this state,"

“We are fed up with crime and corruption in this state.”

— Manuel Martínez

Manuel Martínez, 32, the uncle of one of the missing students, told the wire service. In the search for the students, soldiers and relatives looked in gullies, on empty land and in areas surrounding Iguala, BBC News reported. Authorities also issued an arrest warrant for Iguala's mayor, José Luis Albarca, and his chief of security. Officials consider the men fugitives from justice, and authorities are investigating whether they had a role in the violence during the protests. Guerrero state is offering a reward of one million pesos (\$75,000) for information leading to their

Featured Q&A

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bring the Chavista base—classes D and E—onto the streets. One should not underestimate the ability of authoritarian governments to maintain power while the citizens get poorer and poorer."

A **Mark Weisbrot, co-director of the Center for Economic and Policy Research:** "Economist Francisco Rodríguez responded to Hausmann's argument that Venezuela should default, and refuted it. Rodríguez's argument was simple: Venezuela is not insolvent or approaching insolvency. He estimates that Venezuela's public sector has a net debtor position of just 3.5 percent of GDP, and that it is not increasing; so it does not make sense to default. The

problem is that most of the dollars that the government gets from oil revenue are sold at a very low price, the majority at 6.3 bolívares fuertes per dollar and some at 12. This creates a scarcity of dollars and also leads to many of the recipients of these cheap dollars not using them for their intended purposes, saving them and waiting for the next devaluation, and/or taking them out the country. But it's hard to see how Venezuela doesn't have enough oil revenue to pay for its imports. And the economy has already adjusted; as Rodríguez notes elsewhere, imports have fallen by 36 percent since 2012. This is one of the largest adjustments in the world, even more than Greece. So the government does not need to default, but rather to fix the

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arrest. Hundreds of family members and students marched Thursday in Chilpancingo, Guerrero state's capital, to call attention to the disappearances.

Economic News

Colombia Eyes Making Wealth, Transaction Taxes Permanent

The administration of Colombian President Juan Manuel Santos is seeking to make permanent a wealth tax and a bank transaction tax, both of which are scheduled to expire this year, Reuters reported Thursday, citing an unnamed senior lawmaker. Finance Minister Mauricio Cárdenas is expected to ask Congress to vote on making the taxes permanent, according to the lawmaker, who is a member of Congress' economic commission. The finance minister also plans to propose an increase in the taxes paid by businesses, to 12 percent from the current 9 percent, the lawmaker added. The government's finances have become a growing concern amid declining production of oil, the South American country's main export. The oil sector's revenue has also been crimped by leftist rebel attacks on oil and mining infrastructure. For next year, the government has a budget gap of some 12.5 trillion pesos for spending on infrastructure, education and other social needs. Cárdenas is planning to propose that taxpayers continue paying the wealth tax on assets greater than 1 billion pesos (\$493.6 million). If the "cuatro por mil" bank tax is made permanent, bank customers would be required to continue paying 4 pesos per each transaction of 1,000 pesos. A proposal to tax investment dividends received by individuals and companies would not be part of the original legislation, according to the lawmaker who spoke to Reuters, but the legislator did not rule those measures being added during debate on the matter. Industry figures and other critics of making the taxes permanent have said they would threaten employment and investment and rely too much on middle-class taxpayers. Colombia's economy is forecast to grow 4.7 percent this year.

Countdown to Brazil's Election

A Series of Views and Analysis from David Fleischer

Dilma Leads the Field as Brazilians Prepare to Vote Sunday



BRASÍLIA—This presidential election in Brazil has had ups, downs and turnarounds never before seen in previous elections. When Marina Silva (PSB) was elevated to presidential candidate following the tragic death of Eduardo Campos, she shot up to 21 percent in the Aug. 15 **Datafolha** poll. Two weeks later, she was tied with President Dilma Rousseff at 34 percent, and this tie continued in the Sept. 3 poll.

With this result, Dilma's campaign marketing staff became desperate and mounted a fear campaign to "deconstruct" Marina, and she began to decline in the polls—33 percent, 30 percent, 27 percent and 25 percent in the latest poll on Sept. 30—15 points behind Dilma, who has 40 percent.

With Marina's rapid ascent in the polls, she took points away from the PSDB candidate, Sen. Aécio Neves, who declined from 20 percent to 15 percent in the Aug. 29 poll. After that, Neves began to rise gradually in the polls, as Marina declined, and he perceived that he had a chance to overtake Marina in the first round on Oct. 5 and get into the Oct. 26 second round. Thus, he began attacking Marina so that he is now just five points behind her—25 percent to 20 percent in the Sept. 30 Datafolha poll.

The simulations for the second round now show Neves and Marina about equal versus Dilma. The president would have 49 percent and Marina 41 percent, while Neves would also have 41 percent against 50 percent for Dilma. So, now the final stretch of this horse race is between Aécio Neves and Marina Silva.

With this possible turnaround, the question arises of possible vote transfers in the second round. Would Neves' voters support Marina in the runoff? Would the opposite be true? The polls show a stark difference. Some 70 percent of Neves voters would support Marina in the second round, but perhaps only some 30 percent of Marina voters would go for Neves in the runoff. Some analysts think that Neves' attacks on Marina in his last-minute attempt to get into the second round might reduce this transfer even more.

The latest Datafolha poll showed that Dilma is now ahead of Marina in all regions and has a one-point lead in the Southeast (30 percent to 29 percent), Marina still has a slight one-point lead (30 percent to 29 percent) in the upper-middle income bracket. However, Neves continues to lead in the highest income bracket with 39 percent versus 30 percent for Marina and 22 percent for Dilma.

As the incumbent, Dilma has a tremendous advantage with the government machine at her disposal. She has decreed several "popular" measures over the past three weeks to enhance her approval rating—expanding the lower-class housing program and increasing the payback period for low-interest payroll bank loans, for example. She also explained that she has prepared a legislative package to send to Congress with several bills that would combat inflation.

David Fleischer is emeritus professor at the University of Brasília and editor of Brazil Focus.

Featured Q&A*Continued from page 2*

exchange rate system—preferably switching to a unified exchange rate and most importantly one that is not overvalued. The other problem is that most of the central bank's reserve assets are in gold, which contributes to an artificial balance of payments problem. As for Maduro, he has more than a year before the next national elections and even longer before he might face an attempted recall election. So there is time for his government to fix these economic problems, and Venezuela has sufficient foreign exchange to do so."

A **Gustavo Roosen, member of the Advisor board and president of IESA in Caracas:** "In Venezuela, research indicates that 80 percent of the population thinks that things in general are not going well. However, President Maduro's approval rating has declined to a still acceptable level of 35 percent. The government in recent weeks has strengthened even more its control of the economy, and increased the assignment of military officers to key public management roles. Scarce dollars are being allocated to payment of the country's foreign debt, and significantly less are going to pay for imports of consumer and industrial goods required for the day-to-day operation of the private and public sectors. The results are very evident in supermarkets where many products are not available, and the arrival of basic items that have been out of stock result in long lines, as stores limit the number of items that can be purchased. The same is true for non-grocery items ranging from toner for computer printers to packaging materials and medicine. The population is adapting to this new 'normal' state of affairs. Instead of talking about the weather, people comment on where products can be obtained. Industry is trying to survive with the increasingly limited amount of hard currency that trickles down from the exchange control office to pay for imports. Where this is all heading is difficult to predict. Short term, President Maduro's position has been strengthened

since, without major political upheaval, he has increased his control of the economy, which could result in a dramatic deterioration of the quality of life."

A **Daniel Hellinger, professor of political science at Webster University in St. Louis:** "President Maduro has reason to be concerned that he will not finish his term, in part because the economy is unlikely to turn around soon. The Clorox closing cannot be attributed to economic sabotage; the owners decided to leave not under pressure from workers, who will now try to run the enterprise themselves, but because of the incompatibility of price controls with the overvalued exchange rates. To the list of economic problems one can add the failure to meet oil production goals, in combination with falling prices. The latter remain high by historic standards, but even a \$10 drop per barrel means approximately \$19 million per day less revenue to support the bolívar, subsidize the private sector, save state enterprises and maintain social programs. Hausmann's history as a J.P. Morgan consultant and Inter-American Development Bank chief economist should be enough to dispel notions that he seriously is advocating default. (This does not justify threatening him with legal prosecution, of course.) Hausmann attained notoriety by helping to concoct a 'study' alleging voter fraud after Chávez's victory in the 2004 recall election, which served to reinforce the opposition's myopic political vision at the time. By contrast, opposition sectors rejecting violent street confrontations have recently gained the upper hand over those seeking to immediately drive Maduro from office. The reason is clearly that the economy is sapping the strength of both Maduro and the governing party. Next year's National Assembly elections could be difficult for Chavismo; a recall battle may loom."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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