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FEATURED Q&A

How Are Mexico's Housing Sector Woes Affecting the Economy?

Q The number of home repossessions in Mexico more than doubled year-on-year in 2012 to a record level of 43,853, according to state-backed mortgage lender Infonavit. Mexico has a "serious problem with unoccupied homes," BBVA economist Eduardo Torres told Bloomberg News earlier this month, explaining that homes were built under the false impression that the country's housing deficit was so large that everything built would be bought. How will troubles in Mexico's housing sector affect the broader economy? How are mortgage lenders and other financial companies being affected? Is the government of President Enrique Peña Nieto taking the right actions to address the housing-sector problems?

A Rogelio Ramírez de la O, president of Ecanal in Mexico City: "The problem of house repossessions has been brewing for years and in fact it took too long to materialize, as it is firmly rooted in continued vices and bad behavior of many developers and the complacency of Mexican regulators. The Sociedad Hipotecaria Federal (SHF) granted bridge loans, which developers wrongly used for land purchases. Their balance sheets showed artificially inflated values for this land. Their 'sales' were recorded when they had received very small payments for 'set-aside' houses from buyers that had not even committed to contracts. Their mortgage applications were supported by inflating borrowers' income, which was the only way they could qualify for loans. Worse, developers built houses without first ensuring the continued supply of basic services in far-away locations not reachable by decent transportation. The result, unsurprisingly, is that borrowers abandoned houses. The increasing participation of Infonavit in financing house purchases and of the SHF in supporting developers turned into a contingency for public finance. Developers' debt is not so high as

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Thousands Protest Government of Argentina's Fernández

Thousands of Argentines flooded the streets of Buenos Aires and other cities across the country to protest the government of President Cristina Fernández de Kirchner. The marches came as lawmakers debated judicial reforms that the government has sought. See story on page 2.

Photo: Clarín.

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NEWS BRIEFS

Sunday's Vote May Return Colorados to Power in Paraguay

Paraguayans will cast votes in Sunday's presidential election, which could return the former long-ruling Colorado Party to power, Reuters reported. The party's Horacio Cartes is leading most opinion polls ahead of the vote. He faces Efraín Alegre of the ruling Liberal Party. The Colorados ruled the South American nation for 60 years before Fernando Lugo was elected in 2008.

Guatemalan Judge Suspends Trial of Former Dictator

Guatemalan Judge Carol Patricia Flores has suspended the trial of former military ruler Efraín Rios Montt citing a directive from the country's Constitutional Court and Supreme Court, BBC News reported Thursday. Rios Montt, 86, is being tried for a counter-insurgency plan that killed more than 1,700 members of the Ixil indigenous group in 1982, when he was the military ruler of the country. Flores ordered the legal process to be set back to November 2011, before the retired general was charged with war crimes.

Arca Continental Planning to Invest $342 Million This Year

Mexican food and beverage company **Arca Continental** said Thursday it plans to invest $342 million this year in its business, Dow Jones reported Thursday. The company, which also operates in Argentina, Ecuador and the United States, is hoping to reach $400 million in annual snack sales this year on the back of recent acquisitions. The Monterrey-based company said its earnings before interest, taxes, depreciation and amortization in 2012 rose nearly 24 percent on sales of $4.5 billion.

Political News

Venezuela to Conduct Audit of Presidential Vote

Venezuelan electoral authorities announced Thursday night that they will conduct an audit of the 46 percent of voting machines that were not audited the night of Sunday's election, the Associated Press reported. Nicolás Maduro, the handpicked successor of late Venezuelan President Hugo Chávez, was named the winner of the election and is to be sworn in today for a six-year term. However, the opposition's Henrique Capriles, who was defeated by a margin of less than two percentage points, has demanded a full recount. The electoral council's announcement Thursday that it would conduct an audit fell short of the vote-by-vote recount that Capriles has sought, but the candidate said after the announcement that the audit will prove that he won the election. "We are where we want to be," Capriles told reporters late Thursday. "I think I will have the universe of voters needed to get where I want to be." On Thursday, Maduro, who has been acting president since Chávez's March 5 death, was in Lima for an emergency meeting of regional leaders that had been called to discuss the situation in Venezuela. At least eight people were killed in violence related to Sunday's narrow election, the state-run AVN news agency said. At the meeting in Lima, held under the umbrella of the South American Unasur bloc, it was unclear whether any of the other heads of state in attendance had pressured Maduro to allow the audit, the AP reported. Maduro called the meeting a "great success" in a posting on Twitter. "Complete support for the people and democracy of Venezuela" Maduro tweeted. "Thank you South America! I await you in Caracas." Capriles, who had called Maduro an illegitimate president, said the country should go ahead with Maduro's inauguration. "This government will continue to govern until this thing gets resolved," said Capriles. "It's a history of chapters." The electoral council's president, Tibisay Lucena, said that the audit would begin this week and take a month to conduct.

Capriles

File Photo: Capriles Campaign.

Thousands March in Anti-Government Protests in Argentina

Thousands of demonstrators marched Thursday in Buenos Aires and other Argentine cities to protest actions by the government of President Cristina Fernández de Kirchner, including the administration's efforts to push through judiciary reforms that her opponents say amounts to a power grab, the Associated Press reported. In the capital, protesters banging pots and pans flooded the Plaza de Mayo and the city's iconic obelisk, chanting "enough," expressing fatigue after 10 years of governing by Fernández and her late husband and predecessor, Néstor Kirchner. Opposition party leaders also joined the protests, which were largely organized through social networks. The demonstrations came ahead of congressional elections later this year, which could help determine whether Fernández will be able to push through a constitutional change to eliminate term limits. At the same time, Argentina's Senate was debating a judiciary reform package that opponents say is an effort to pack the courts with the president's supporters. Fernández has said that judicial reforms are needed to "democratize" the system and also to change the use of injunctions, which the president has said have "distorted the law, Reuters reported last month. On Thursday night, the Senate approved a limit of six months on court injunctions and also supported a measure to suspend injunctions at once if the government were to lodge an appeal. A day earlier, a federal court struck down key parts of a media reform law that Fernández had pushed through to limit the influence of local newspaper *Clarín*, which has been among her most vocal critics. The court ruled that limits on a company's holdings of broadcast and cable stations amount to an unconstitutional violation of property rights. The ruling sets up a showdown between Fernández's government and *Clarín* in the Supreme Court.

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Economic News

Draft Law in Brazil Would Revise Tax Structure for Nuclear Industry

Power from nuclear plants may face a new 10 percent tax on revenue in Brazil, *World Nuclear News* reported Thursday. As Brazil prepares to expand arrangements that target profits from oil and gas, the nuclear industry is facing a new set of tax rules, according to a draft law approved this week by the Committee on Mines and Energy. Under the proposed changes, nuclear producers would pay 10 percent revenue from gross electricity generation to local authorities, which would be split between several levels of government, according to the report. A revision this week changed the language to avoid affecting the use of nuclear technologies in "science, medicine, agriculture and industry," the report stated. The only nuclear unit that would be affected currently under the new rules would be state-owned **Eletronuclear**'s Angra plant.

Company News

France's Carrefour Posts Strong Sales Gains in Latin America

French retailer **Carrefour** reported Thursday that its same-store sales in the first quarter rose 0.4 percent thanks to good performance from its major Latin America units. While sales were down nearly a percent in France, they were up 3 percent internationally at constant exchange rates, with organic growth of 3.5 percent. "Latin America continued to perform well and sales in Asia were stable," the company said in an earnings release. Sales were up 13.9 percent at constant exchange rates in Latin America with organic growth of 14 percent. However, the negative impact of currencies accelerated in the first quarter and reached -14.1 percent due to the depreciation of the Brazilian real and Argentine peso against the euro, the company said. Sales growth in Latin America was especially strong in Brazil and Argentina across store formats, Carrefour said.

In Profile

Chilean Senate Votes to Impeach Education Minister

Name: Harald Beyer (49)

Beyer

Photo: La Tercera.

In the News: Chile's Senate on Wednesday narrowly voted to impeach Education Minister Harald Beyer for "professional misconduct" and failing to monitor profits in the education sector. The body was in session under tight security for 10 hours of frequently emotional debate over the decision.

Beyer, who was said to be "visibly distraught" at the outcome, will be banned from public office for five years following the 20-18 vote. Supporters say election-year political maneuvering is behind the move. Chile's center-left opposition, the Concertación, worked with small, left-wing parties on the process. The vote "shows the worst side of politics," Beyer said Wednesday after the decision.

Background: Before becoming Chile's education minister in 2011, Beyer worked for more than 20 years at Santiago's Centro de Estudios Públicos, a private think tank founded in 1980. He has a Ph.D. in economics from the University of California, Los Angeles, and describes himself as politically independent. He had advised socialist President Michelle Bachelet on her education policy in 2006, and in 2011 he became the third education minister of Sebastián Piñera, the current, center-right president.

As minister, he cut the interest rate that students pay on their university loans from 6 percent to 2 percent and made more grant money available. He sent a bill to Congress to set up a regulator for higher education. But he also rejected calls for "free education for all" in Chile's education system. The country's volatile student movement, which took a national posture while Bachelet was in office, has gained political clout since then. A week ago, student groups demanding education system reforms turned out the largest number of protesters in 23 years. March organizers estimated the turnout in Santiago at 150,000, while police authorities said the figure was closer to 80,000. More than 100 people were arrested or detained, nearly a quarter of them minors.

Student groups complain that poor pupils do not have access to the same quality of education as middle-class students and see for-profit schools as abusing the system. Supporters of for-profit education say there is no inherent reason why education should not be for-profit, noting that much of modern medicine is carried out by for-profit institutions. In Chile and elsewhere, non-profit and public schools and universities provide poor quality education, they argue. Bachelet, who is considered a front-runner in the country's November elections, has said she would seek an end to for-profit education in Chile.

Fernando Rojas, a deputy education minister, was reportedly in charge of the ministry Thursday. Some media reports suggested that, considering the sensitivity of the education issue, another current cabinet official could switch ministries to replace Beyer.

[Disclosure: Bachelet is co-chair of the Inter-American Dialogue, which publishes the *Advisor.*]

Sources: Associated Press, *The Economist, La Tercera, Journal of International Affairs.*

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Featured Q&A

Continued from page 1

to prevent a government bailout, but the background of debt and bad quality of creditors make it difficult to justify. Reported debt by developers is 54 billion pesos ($4.4 billion), but the largest two (Urbi and Homex) have combined debt that exceed annual revenues, when the latter are due to fall further as people abandon houses after buying them. That is the reason SHF only committed 15 billion pesos to provide construction guarantees that cover as much as 30 percent of loans in order to prevent a freezing of development. If it wants to prevent the bankruptcy of such developers, it will have to increase financial support and ideally separate old loans from new ones. But a notion of support is inconsistent with new government guidelines to give preference to vertical house building, rather than horizontal, in which developers had bet. The government therefore has not yet shown the definitive solution to this troubled sector."

José Landa, CEO of Monte de México: "The Mexican housing deficit is and has been a reality. The problems have always been borrowers' ability to pay, matching place of work and that to live, and house affordability. Infonavit helps make credit available to low-income earners who are not in the informal sector and has faced the problem of homes built in remote areas. This has led to repossessions due to unaffordable transportation costs and a lack of basic services. The housing crisis was more devastating than expected. Practically all specialized lenders (Sofoles) and some small- and medium-size developers disappeared. Large developers are striving for equity to survive, and borrowers have had to surrender their homes because they are unable to repay loans. Because housing is among the sectors that contribute directly and indirectly to GDP, this has negatively affected the economy. The new government announced that the funds intermediated or originated by housing authorities (such as SHF and Infonavit) will be subject to new rules. The main guidelines have involved urban saturation and development sustainability. The concept is good, but the problem is that as of today nothing is known for certain, and the impasse continues. A palliative was the announcement of guarantees given by SHF to construction lenders for home-building. It is an aggressive program, but the questions remain: will banks, which are now the only available private-sector lenders, lend money for low-income housing? Will this contribute to the housing development in the informal sector? Will they engage in low-income mortgage lending? The housing deficit is not just affecting middle- or high income earners, or only located in big cities. We need housing solutions for low-income people and in smaller towns as well. Hopefully, the new rules of the game will alleviate these, as well as other problems."

> "The housing crisis was more devastating than expected."
>
> — *José Landa*

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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