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FEATURED Q&A

What Does New Leadership Mean at Argentina's Central Bank?

Q Argentine President Cristina Fernández de Kirchner last month accepted the resignation of central bank governor Juan Carlos Fábrega, naming the head of the securities and exchange regulator, Alejandro Vanoli, to replace him. In a speech the day before Fábrega's resignation, Fernández had accused central bank employees of helping currency speculators. What was behind Fábrega's resignation? What sort of central bank will Vanoli run? How will Argentina's long-brewing currency woes play out?

A José Octavio Bordón, former ambassador of Argentina to the United States under President Néstor Kirchner: "The alleged corruption cited by the Argentine government surrounding Fábrega's departure did not seem to be the real motivation. The government has systematically kept its officials in office, despite denunciations and even prosecutions against them. Moreover, the government has not taken any action to initiate legal action against the removed official. The real reasons were differences on fiscal and monetary policy that the central bank leader had with Economy Minister Axel Kicillof. Fábrega's views were closer to those of regulatory authorities that favored less government intervention in the market. Fábrega discussed these differences not only with Kicillof and President Cristina Fernández, but also privately with the productive and financial sectors, among which Fábrega received sympathy and support. The new central bank president has more in common with Kicillof's measures and a political style that is closer to that of the Fernández administration with regard to official strategy. Vanoli has argued that central bank reserves are not intangible and can be reasonably used in order to support the government's social and productive objectives. This government has put in place strong controls and has reduced the gap in the foreign exchange market by lowering the

Continued on page 3

Following Midterm Elections, Rubio Eyes Venezuela Sanctions

A day after Republicans won control of the U.S. Senate in the country's midterm elections, Senator Marco Rubio (R-Fla.) expressed hopes for tougher sanctions against Venezuelan officials accused of human rights violations. See story on page 2.

File Photo: Office of Sen. Marco Rubio.

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NEWS BRIEFS

Argentina's Fernández Will Need 10 Days of Rest After Discharge

Argentine President Cristina Fernández de Kirchner will need to rest for 10 days at home after being discharged from a hospital where she is being treated for a swollen intestine, her physicians said late Wednesday, *The Wall Street Journal* reported. Her doctors did not say when she would be released. Fernández, 61, was admitted to a hospital in Buenos Aires with what her office called an "infectious fever."

Peruvian President Blasts Central Bank Chief's Pay Raise

Peruvian President Ollanta Humala criticized a pay raise of 6 percent given to the president of the central bank, saying in a letter dated Nov. 4 that it tarnishes the bank's image and should be rescinded, Reuters reported. The board of the central bank recently raised President Julio Velarde's annual salary to 617,344 soles ($210,913), a figure that is nearly triple the president's pay. Peru's central bank is constitutionally autonomous, and the board said it is deciding if it will respond to Humala.

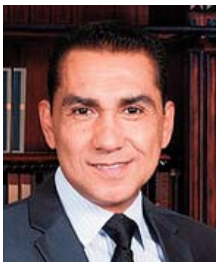
Fibra Hipotecaria Launches Initial Public Offering

Mexico City-based **Fibra Hipotecaria**, known as FHipo, raised 8.625 million pesos ($634.2 million) Wednesday in a public offering, the first ever for a mortgage trust in Mexico, *El Economista* reported. FHipo,which is administered by **Concentradora Hipotecaria**, sold about 345 million shares at 25 pesos each. FHipo plans to invest the proceeds in a growing number of homebuyers in Mexico, Bloomberg News reported.

Political News

Tens of Thousands March in Mexico to Protest Students' Disappearance

Tens of thousands of demonstrators marched through Mexico City on Wednesday to protest the disappearance of 43 students in late September from the city of Iguala, in Guerrero state, the Associated Press reported. "They took them away alive, and we want them back," the protesters chanted as they carried Mexican flags that had black stripes replacing the red and green. Also on Wednesday, protesters in Chilpancingo, Guerrero's state capital, used hijacked trucks to block all three roads leading into the city for hours. The missing students vanished on Sept. 26 and were last seen being hustled into police vehicles. The students, from a rural teachers' college with a history of radical protests, had gone to Iguala to participate in a demonstration. Mexican prosecutors say the students were handed over to the local Guerreros Unidos drug gang, some of whose members have said they killed the students. Authorities have discovered mass graves in the area, but have not been able to positively identify any of the bodies as being those of the students. "The disappearance of the students has detonated all the accumulated pain of the thousands of disappeared people in this country," Camila Bernal, 19, a Chilean who is studying at Mexico's National Autonomous University and was part of the protest Wednesday, told the AP. Mexico's government has estimated that 22,322 people have disappeared since then-President Felipe Calderón launched Mexico's war on drug cartels in late 2006. Earlier this week, authorities arrested José Luis Abarca, who was mayor of Iguala at the time of the students' disappearance, and his wife, Maria de los Ángeles Pineda. Mexican Attorney General Jesús Murillo Karam has accused the couple of ordering corrupt local police to abduct the students. At least 56 others have been detained in connection with the case, and Iguala's police chief is also wanted by authorities. Before fleeing to Mexico City where they were detained, Abarca and Pineda ran Iguala in cooperation with the Guerreros Unidos and received as much as $220,000 in bribes every few weeks from the gang, including payoffs to local police, officials have alleged. Murillo Karam has said that the students had planned to disrupt a speech by Pineda, who had wanted to succeed her husband as mayor. Murillo Karam has alleged that Abarca ordered police to round up the students, who were then purportedly taken to the outskirts of the city where some of the mass graves have been discovered. Soon after the students' disappearance, Abarca said that he was dining at a restaurant at the time and had ordered police officers to leave the students alone.



Abarca

File Photo: Mexican Government.

U.S. Senator Rubio Eyes Sanctions Against Venezuelan Officials

U.S. Senator Marco Rubio (R-Fla.) on Wednesday expressed hopes that Republican gains in this week's midterm elections will lead to sanctions on Venezuelan officials who are accused of human rights abuses, the Associated Press reported. Rubio made the comments in Colombia a day after Republicans, who already control the House of Representatives, also won control of the Senate. Rubio is a sponsor of legislation that would impose the sanctions. The measure won approval in the Senate Foreign Relations Committee but has been stalled since then. A similar bill, which calls on the Obama administration

> "I hope we can achieve something much stronger than what the White House has done so far."
>
> — *Marco Rubio*

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to freeze assets of human rights abusers and allocate more funding to pro-democracy groups, has been approved in the House. On Wednesday, Rubio lauded the White House's move in July to revoke the U.S. visas of more than 20 high-level Venezuelan officials involved in crackdowns on protesters earlier this year. Still, Rubio said tougher actions against Venezuelan President Nicolás Maduro's government are needed. "I hope we can achieve something much stronger than what the White House has done so far," Rubio told reporters in Spanish. The Obama administration has said that tougher actions against Venezuela could backfire by providing Maduro a scapegoat to distract attention from Venezuela's economic problems and also by hurting U.S. relations with the rest of the region.

Company News

Argentina's Grupo Financiero Galicia Beats Estimates on Earnings

Argentina's **Grupo Financiero Galicia** on Wednesday reported net earnings of 931.2 million pesos ($110.5 million) for the third quarter, an increase from 536 million pesos in the same quarter last year, Reuters reported. The banking conglomerate beat the median estimate of 815 million pesos in a survey of analysts by the wire service. Grupo Financiero Galicia controls **Banco Galicia**, the South American country's largest private bank. Consumers in Argentina have increased spending levels in order to avoid future price hikes in the country, where inflation is nearing 40 percent, private analysts have said, adding that banks have benefitted by the interest they charge on credit cards.

Economic News

Chile Announces $4.2 Billion in Infrastructure Spending

The government of Chilean President Michelle Bachelet on Wednesday announced a $4.2 billion spending plan for infrastructure upgrades in the South American country, Reuters reported. The projects would include an expansion of the subway system in Santiago as well as a cable car in Antofagasta. Private companies would be able to bid on some $1.9 billion in projects, while the remainder would be done through direct public investments, said Bachelet. The subway system improvements in the capital could include a new line, she said, adding that the port cities of Valparaíso and Iquique also could get cable cars. Cable car systems have increased in popularity in hilly and congested cities in the Andes. Such systems have already been put in place in locations including Medellín, Colombia and Bolivia's capital, La Paz. Chile has been in an economic slowdown and has sought to spur growth through increased public spending and speeding the approval of projects in the mining industry.

Featured Q&A

Continued from page 1

value of the parallel dollar. We will have to wait until the first quarter of 2015 to see if there are any changes in government policy and how the negotiations progress with the holdouts after the expiration of the RUFO clause. It is unclear whether there will soon be a reversal in the outflow of currency. The idea also exists that the change of government in December 2015 will generate favorable expectations and will lower economic trauma. What is certain is that under its new leadership, the central bank's decisions will be strongly influenced by the government's political needs and its economic team. The central bank's independence is written on paper, but it is not the reality."

A Claudio Loser, visiting senior fellow at the Inter-American Dialogue and president of Centennial Group Latin America: "The Argentine economic saga will continue to play out for a while. No matter when it ends, the results cannot be good, and Argentina will further delay its process of sustained growth. Mrs. Fernández and her minister of the economy, Mr. Kicillof, have put together a team of close Kirchnerista loyalists—characterized by their vertical discipline and theoretical leftist ideology. Rather than following common-sense principles of economic management, they seem to be set in a rhetorical and confrontational world and want to have full control of the economy to cover-up the consequences of their mistakes. Under these circumstances, the president forced the central bank president, Mr. Fábrega, to resign. Mr. Fábrega had sought to follow a reasonable monetary policy and also tried to find a solution to the conflict with the debt holdouts, better known as the 'vulture' funds. The new central bank president is aligned with Kicillof, and indicated (in different words) that he will continue printing money and will introduce new restrictions to avoid devaluing, while depleting the country's scarce foreign reserves. In the parallel market, meanwhile, the U.S. dollar is quoted about 75-80 percent higher than in the official market. The government's economic policies have created conditions that cannot be solved in a smooth way. Probably by early 2015, if not earlier, the pressures will result in a major crisis, well beyond of what we are seeing today—unless we believe the official numbers, of course."

> "The government's economic policies have created conditions that cannot be solved in a smooth way."
>
> — *Claudio Loser*

A Nicolas Parrondo, director at Cohen S.A. Sociedad de Bolsa in Buenos Aires: "Juan Carlos Fábrega had no option left but to present his resignation after Cristina

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Featured Q&A

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Fernández de Kirchner's public declarations. We find no other reasons than different political views regarding monetary policy behind his resignation. Alejandro Vanoli, former president of the National Securities Commission, is aligned with the economy minister. It is reasonable to expect no sudden or drastic changes in foreign exchange policy, as well as a continuation of the expansion of the monetary base."

Daniel Artana, chief economist at FIEL in Buenos Aires: "Beyond the names of the economic team in Argentina, the country's problems are simple to understand. There is an excess supply of pesos due to the money printing that is used to finance a growing fiscal deficit, and there is a shortage of foreign exchange due to the restrictions for the sovereign, the provinces and most of the private sector to get external financing at reasonable rates. The decline in the world price of soybeans and the economic problems in Brazil have only made an existing dilemma more challenging. If there is no flexibility in the external constraint, the government will be forced to opt between accepting a weaker peso (and therefore higher inflation, given the absence of a fiscal tightening), or a deeper recession that will reduce imports even more, or the use of additional central bank reserves (running a higher risk of financial turmoil early next year). The former, and so far the new president, of the central bank seemed to have chosen a deeper recession."

Editors note: The Argentine Embassy in Washington declined the Advisor*'s request for a commentary on this topic.*

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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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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