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THEDIALOGUE

FEATURED Q&A

What Is Driving Ortega's Popularity in Nicaragua?

President Daniel Ortega is polling far ahead of his rivals ahead of the country's Nov. 6 presidential election. // File Photo: Nicaraguan Government.

Q Nicaraguan President Daniel Ortega is the clear favorite to win a third consecutive term in November, according to a poll released April 20 by M&R Consultores. The survey showed Ortega's Sandinista National Liberation Front more than 40 percentage points ahead of its nearest rival. To what can Ortega attribute his popularity? What conditions in the country and which of Ortega's policies have helped drive Nicaragua's economic growth and reduce its poverty rate over the past several years? What headwinds does the country's economy face, and how would its business and investment climate fare under another Ortega term?

A Katherine Hoyt, co-director of the Nicaragua Network/Alliance for Global Justice: "Working in Daniel Ortega's favor are the calm and stability of the country and visible economic and social progress. Ortega summarized his economic strategy in his May Day speech: 'Investments are essential in the fight against poverty and so Nicaragua is implementing a Tripartite Alliance Model between government, employers and labor, which provides security for investors and good paying jobs for workers.' He has been using the profits from capitalism to fund his version of socialism. IDB President Luis Alberto Moreno said recently that Nicaragua's growth rate of almost 5 percent every year since 2010 was highest in the hemisphere, government finances were kept under control and the public debt had declined to 45 percent of GDP compared to 87 percent 10 years ago. And World Bank Vice President Jorge Familiar said on April 26 that Nicaragua's rate of successful completion of projects was the best in the hemisphere. The

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Authorities Target Alleged Panama Laundering Ring

In a coordinated action involving three countries, authorities arrested a prominent Panamanian businessman and U.S. officials sanctioned dozens of companies, alleging they are part of an international money laundering network.

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Brazilian High Court Confirms Cunha's Suspension

The speaker of the lower house of Brazil's Congress is accused of trying to obstruct a corruption investigation against him.

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Mexico Keeps Key Rate Unchanged

Mexico's central bank, led by Agustín Carstens, kept its overnight interest rate unchanged at 3.75 percent, a move that all 26 economists in a Bloomberg News survey had expected.

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Carstens // File Photo: Mexican Government.

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BUSINESS NEWS

Authorities Target Alleged Panama Laundering Ring

In a coordinated effort between the United States, Panama and Colombia, authorities have arrested a prominent Panamanian businessman and dismantled a network of companies that U.S. officials allege were part of a major money laundering ring for drug traffickers.
In a statement Thursday, the U.S. Treasury's Department of Foreign Assets Control, or OFAC, announced sanctions against Nidal Waked and his father Abdul Waked as well as six other associates of the men and 68 companies tied to what OFAC called a "drug money laundering network." The network "uses trade-based money laundering schemes, such as false commercial invoicing; bulk cash smuggling; and other money laundering methods, to launder drug proceeds on behalf of multiple international drug traffickers and their organizations," OFAC said. As part of the sanctions, the Treasury froze the U.S. assets of the 68 companies. Nidal Waked was arrested on Wednesday at an airport in Bogotá, the Associated Press reported. He and his father are accused of being the ringleaders of the organization, which is alleged to have used a bank—Balboa Bank & Trust—as well as a luxury mall and the duty-free zone at Panama City's international airport to launder drug profits. The family also owns the Estrella de Panama, the Central American country's largest newspaper. The family's holding company, Grupo Wisa, issued a statement Thursday calling the allegations "false and unfounded," the AP reported. The company added that it had instructed its lawyers to cooperate fully in an investigation that was announced by Panamanian Attorney General Kenia Porcell Díaz. "We are cooperating fully with U.S authorities in this matter, and we will ensure justice is served by the people of Panama. This investigation further strengthens our efforts and resolve to vigorously attack criminal activity in Panama so that the rule of law prevails," Porcell Díaz said in a statement.

Panamanian officials also said they had seized Balboa Bank & Trust and brokerage Balboa Securities as part of the action. An unnamed law enforcement official told the AP that the Waked family is accused of laundering money on behalf of Mexican and Colombian drug cartels as well as independent drug traffickers. Nidal Waked was arrested just after clearing customs in Bogotá following his arrival on a Copa Airlines flight. They remained in custody in the Colombian capital pending an extradition request from the United States, Colombian migration officials told the AP. He faces charges of money laundering and bank fraud in Florida, according to the Drug Enforcement Administration. The arrest and the investigation was announced just weeks after the release of the "Panama Papers" in which the leak of some 11.5 million documents showed how Panamanian law firm Mossack Fonseca helped clients conceal wealth. The leak has led to pressure on Panama to improve the transparency of its financial system. Soon after the leak, Panamanian President Juan Carlos Varela announced he was forming a commission of international experts in an effort to make the country's offshore financial industry more transparent. [Editor's note See related **Q&A** in the April 27 issue of the Advisor.]

Televisa Probes Allegations Raised in Anonymous Letter

An anonymous letter attached to an email sent in late April to board members of Mexican broadcaster Grupo Televisa and U.S. Hispanic network Univisión alleges that senior executives of Televisa engaged in fraud and corruption, sparking an investigation by the network into the allegations, The Wall Street Journal reported Thursday. The letter's main target is Televisa's Executive Vice President Alfonso de Angoitia, one of Chairman Emilio Azcárraga's key advisors and a longtime collaborator. De Angoitia denies wrongdoing. The anonymous letter alleges that de Angoitia and the company's chief financial officer, Salvi Folch, diverted about $1 billion in cash from

NEWS BRIEFS

Brazilian Supreme Court Confirms Cunha's Suspension

The Brazilian Supreme Court has confirmed the suspension of Chamber of Deputies Speaker Eduardo Cunha, BBC News reported Thursday. The confirmation followed a request by the country's chief prosecutor for Cunha's suspension. Cunha has been accused of trying to obstruct a corruption investigation against him and intimidating lawmakers. Cunha, who has denied wrongdoing, is also among the leading politicians in the effort to impeach President Dilma Rousseff. Under Brazil's constitution, Cunha would be the next in line for the presidency after Vice President Michel Temer.

Mexico's Central Bank Keeps Key Rate Unchanged

Mexico's central bank, led by Agustín Carstens, on Thursday kept the country's overnight interest rate unchanged at 3.75 percent, a move that was forecast by all 26 economists surveyed by Bloomberg News. Policymakers said that although the risks to global growth have increased, they added that inflation risks are unchanged since their last rate decision in March.

Chile's Inflation Rate Slows for Third Consecutive Month

Chile's inflation rate slowed in April for the third consecutive month amid a rally in the country's currency against the U.S. dollar, the country's statistics institute said, Bloomberg News reported today. Prices rose 4.2 percent year-on-year last month, as compared to 4.5 percent year-on-year in March, according to the statistics institute. The Chilean peso has risen 5.8 percent against the dollar over the last three months, leading to lower import costs. The unemployment rate rose, however, in Santiago to 9.4 percent in March.

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funds from Petrocaribe's favorable petroleum payment plan have been invested in development projects that employ workers, add to the nation's GDP and provide profits to pay Venezuela back for the oil. While the number of formal sector workers is steadily increasing, the country still needs many more jobs, as Ortega often points out. Zero Hunger, Zero Usury, Plan Roof, rural technical education and expanded water, sewer and electricity coverage have helped reduce the poverty rate substantially. But many believe that the inter-oceanic shipping canal is the only way to lift the country out of poverty. The government appears not to be counting on that as a certainty, however, and is continuing to invest in farm-to-market roads, tourism infrastructure and reforestation to preserve water for agriculture."

Robert Callahan, former U.S. ambassador to Nicaragua: "Daniel Ortega's enduring popularity in his second stretch as Nicaragua's president can be attributed to the country's economic growth and the disarray that characterizes the political opposition. Ortega has maintained prudent macroeconomic policies that have resulted in modest inflation, greater social spending and increased foreign investment. And labor unions, most controlled by the Sandinistas, have been docile and accommodating. The country has also benefited from hundreds of millions in aid from Venezuela and even greater amounts from remittances of Nicaraguans working in the United States and Costa Rica. In addition, Nicaragua's principal exports, mostly commodities, have commanded high prices for most of the past decade. The business and entrepreneurial classes, at least many of them, have supported Ortega, apparently more interested in profits than democracy. They have also withheld financial support from the disorganized, fragmented and endlessly squabbling political opposition. Of course, things change. It seems unlikely that Venezuela, which is on the edge of socio-economic collapse, will continue to contribute so generously to Nicaragua or the Sandinistas. In fact, the terms of Venezuela's aid, as far as I know, have never been clarified. Is it a donation or loan, directed to the government or to the Sandinistas? So too the case of

> **"If bills for Venezuelan economic aid and Russian armaments come due, it could be ruinous to the economy."**
>
> **— Robert Callahan**

Russian military materiel, including tanks, ships and rocket launchers. Who will pay, how much, and when? If bills for Venezuelan economic aid and Russian armaments come due, it could be ruinous to the economy. If commodity prices plummet, so too will Nicaragua's balance of payments. And, of course, it is possible that the opposition will come together and contest the elections. But, at least for the moment, Ortega must be considered the prohibitive favorite to win another unconstitutional term as president."

Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City: "Nicaragua has maintained higher growth levels (5 percent on average between 2011 and 2014) than Latin America and the Caribbean as a whole. This has been possible thanks to macroeconomic discipline, export growth and an increase in foreign direct investment. At the same time, poverty decreased from 43 percent in 2009 to 30 percent in 2014. However, there is still much to do for the two million who remain poor. The reduction in poverty has been achieved due to a focus on development at all levels and a reduction in inequality.

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the company. Folch also denies wrongdoing. The letter alleged that the money was paid by a half-dozen Mexican state governments, the federal government and political parties for infomercials. The letter alleged that the "bulk cash" was held in a vault at the Televisa corporate offices in Mexico City. Televisa said the claims are false. Company executives have said that the allegations have become a significant distraction from usual business activities. In a letter to the board on April 25, Azcárraga expressed his "unwavering support" for de Angoitia, adding that the letter was an "orchestrated attempt to inflict reputational harm on the company and its employees." New York-based law firm Wachtell, Lipton, Rosen & Katz is conducting the probe into the allegations. Azcárraga said the firm is "considering if any action is required." Televisa also said that the email appeared to have been sent to the U.S. Department of Justice. Televisa lawyers said they contacted the Justice Department. The Justice Department declined to comment.

ECONOMIC NEWS

Moody's Sees Slow Growth for Brazilian Auto Insurers

Brazil's auto insurers can expect to see slower growth in 2016 as the country's recession hinders new auto sales for the year, Moody's Investor Service said Thursday. The auto insurance sector is Brazil's largest general insurance segment. As of December, the sector's gross premium written amounted to $10 billion, equal to over half of all property and casualty, or P&C, premiums. However, market penetration for auto insurance remains low; only about 25 percent of the country's automobiles are insured. Despite slowing GDP growth, Brazil's auto insurers have grown in nominal terms, rising 3 percent in 2015 from the previous year. In other news, Fitch Ratings on Thursday downgraded Brazil's credit rating to BB, in line with Moody's and Standard & Poor's rating of the South American country.

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There has been as much investment in rural infrastructure as in logistics infrastructure, which has been a key factor. Nevertheless, there is still much room for growth in the energy sector as well as in tourism, construction, housing and commodities. Added to this is the Nicaragua Canal project, which would shift the economy's focus from raw materials to services. Nicaragua also has a free-trade accord with the United States, which strengthens commercial activity. Additionally, it is worth mentioning that Nicaragua has the lowest levels of violence among Central American countries. If Daniel Ortega wins re-election this year, I believe the climate will continue to be conducive to business development and investment. The main areas for improvement are greater institutionalization of the country and lessening interdependence with Venezuela."

Mario Arana, director of the Nicaraguan Foundation for Social and Economic Development, former Nicaraguan minister of finance and central bank president: "The country has enjoyed an extraordinary set of favorable conditions. In particular, Nicaragua had high commodity prices and extra resources from Venezuelan oil, where 50 percent of total revenues from selling the oil domestically stayed in the country—of that, 40 percent was allocated for social programs and 60 percent for new investments. This has amounted to more than $3.5 billion in extra quasi fiscal resources representing 5 percent of GDP as a yearly average through Ortega´s presidency. But Ortega has also preserved a commitment to macroeconomic stability, and has upheld the country's commitment to free-trade agreements and negotiated new ones. This has meant that foreign direct investment rates have multiplied to four times their previous levels. Also, a strategic working alliance with labor and the business sector was established in the aftermath of the international financial crisis to build consensus over policies. This has compensated for shortcomings, especially in the institutional front and the respect for sound democratic practices. The country also has in its favor a much lower crime rate than its troubled neighbors, and private property rights—although not perfect—are respected. In this context, multilaterals and the government are predicting sustained growth rates of over four percent for the coming years. However, multilaterals and independent think tanks are also acknowledging domestic and international risks to sustained growth, precisely because of the reversing of trends which had been very favorable until recently. While the commitment to a positive business and investment climate will persist, the relationship with the business sector could strain from the new pressures that could develop in different fronts, under fiscal, financial, and other potential constraints that are likely to develop in the future."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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