

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs
Cargill

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

W. Bowman Cutter

Former Partner,
E.M. Warburg Pincus

Dirk Donath

Senior Partner,
Catterton Aimara

Barry Featherman

Senior Director,
International Government Affairs,
Gilead Sciences

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon Huenemann

Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones

Chairman, ManattJones
Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Shelly Shetty

Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

Will Brazil Force Another President From Office?



Brazilian President Michel Temer has faced single-digit approval ratings and calls for his resignation. // File Photo: Brazilian Government.

Q Doubts increased this month that embattled Brazilian President Michel Temer would be able to finish out his term after the release of secretly recorded audio in which Temer purportedly was heard endorsing the payment of hush money to Eduardo Cunha, the jailed former speaker of the lower house of Congress. The development led to massive violent protests in Brazil and calls for Temer's ouster. Will Temer be able to finish his term, or is it a matter of time before he is forced from office? If Temer does have to step down, who is likely to serve out the rest of his term? What does the possibility of two presidents being forced from office, Dilma Rousseff last year and Temer this year, mean for the country's politics and democracy? What does the current political uncertainty mean for investors at home and abroad who have been watching Temer's efforts at economic reforms?

A Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue: "President Temer is not likely to survive much longer in office. His public approval is in the single digits. A late-night meeting with a billionaire businessman guilty of bribing government officials has confirmed his deep involvement in Brazil's sprawling corruption scandal. Still, Temer is a talented politician who has had some success at promoting vital, but wildly unpopular, reforms needed to lift the economy from recession. Moreover, Temer has no obvious substitute—someone with the unblemished integrity and credibility that Brazilians now demand, coupled with a commitment to keep economic reform on track. Temer has refused

Continued on page 3

TODAY'S NEWS

ECONOMIC

Ecuadorian Gov't Raises \$2 Billion in Bond Sale

The sale indicates optimism from investors about the ability of new President Lenín Moreno's government to curb spending. Investors have been cheered by the placement of officials seen as market-friendly in the central bank.

Page 2

ECONOMIC

Mexico Sees Slower Drop in Oil, Gas Reserves

Reserves declined again in 2016, but at a slower pace, according to Mexico's oil commission.

Page 2

POLITICAL

Trump Eyeing Changes on Policy Toward Cuba

As early as June, U.S. President Donald Trump may roll back parts of the Obama administration's policy toward Cuba. Among them, he may ban U.S. companies from making deals with Cuba's military, which controls much of the tourism industry.

Page 2



Trump // File Photo: White House.

POLITICAL NEWS

Trump Eyeing Changes to U.S. Policy on Cuba

U.S. President Donald Trump may roll back parts of the Obama administration's thaw with Cuba as early as June, CNN reported today, citing a U.S. government official involved in the review of Washington's policy toward the island nation. By next month, Trump could announce that the United States will make no further unilateral concessions to Cuba, which the Obama administration was accused of

“I'm 1,000 percent sure the president is going to deliver on his commitment.”

—Rep. Mario Diaz-Balart

doing, according to the official, as well as other current and former administration officials and Cuba experts. Trump is also expected to demand the extradition from Cuba of fugitives such as Assata Shakur, who escaped from a U.S. prison and received political asylum in Cuba after being convicted of killing a New Jersey state trooper. Trump also is expected to prohibit U.S. companies from making deals with Cuba's military, which controls much of the country's tourism industry. While Trump is not expected to roll back all of former President Barack Obama's thaw with Cuba, he is expected to make symbolic gestures to the U.S. lawmakers who are staunch opponents of the Cuban government as well as conservative Cuban-American voters. “I'm 1,000 percent sure the president is going to deliver on his commitment,” Rep. Mario Diaz-Balart (R-Fla.), recently told the National Journal. “I have no doubt that you're going to see in short order a different policy.” Cuban officials have not publicly commented about the possible changes in

U.S. policy toward the communist-run island. The developments come as Raúl Castro is expected to step down as Cuba's president. Castro has said that he will leave the post next February. While the United States still officially bans tourism to Cuba, the U.S. Treasury allows Americans to “self-license” under 12 categories of travel, including educational tours and participation in sporting events, a practice that allows virtually anyone to travel to the island. Trump could end that loophole, sources told CNN.

Brazilian Supreme Court Orders Temer to Testify in Writing

The Brazilian Supreme Court justice in charge of the massive “Car Wash” graft case on Tuesday ruled that President Michael Temer would have to testify in writing “on the grounds of the exceptionality of the investigation,” the Financial Times reported. Temer would be required to respond within 24 hours once the questionnaire is delivered, the Supreme Court said. The order came nearly two weeks after the release of a recording in which Temer is allegedly heard endorsing the payment of bribes to jailed former Chamber of Deputies Speaker Eduardo Cunha by Joesley Batista, the former chairman of meatpacking company JBS. Temer has denied the allegations.

ECONOMIC NEWS

Ecuadorean Gov't Raises \$2 Billion in Bond Offering

The Ecuadorean government raised \$2 billion from its most recent bond offering on Tuesday, indicating that investors were optimistic about the ability of new President Lenin Moreno to curb spending, Reuters reported. Moreno's narrow victory initially caused concern that he might not make the necessary policy moves to

NEWS BRIEFS

Venezuelan Lawmakers Ask U.S. Congress to Probe Goldman Sachs Bond Deal

Venezuela's opposition-led National Assembly is asking the U.S. Congress to investigate what it is calling an “immoral” deal in which New York-based Goldman Sachs purchased \$2.8 billion of Venezuelan bonds for pennies on the dollar, Reuters reported. The bank has faced criticism for going through with the deal, which infuses the government with desperately needed cash. Goldman in a statement said it bought the securities from a broker and did not communicate with the government, The Wall Street Journal reported. “We recognize that ... Venezuela is in crisis,” the bank said. “We agree that life there has to get better, and we made the investment in part because we believe it will.”

Mexico Sees Slower Drop in Oil, Gas Reserves

The Mexican oil commission said that the country's proven and possible oil and natural gas reserves dropped again in 2016, but that the rate at which they dropped seemed to have moderated, the Associated Press reported Tuesday. Unproven but possible reserves that are known as “2P” increased by 5.7 percent to 16.8 billion barrels of crude equivalent, while unproven but possible reserves that are known as “3P” decreased by 1.1 percent to 25.9 billion barrels.

Brazilian Government to Sell Shares in IRB Brasil

Brazil's government is among the entities selling all or a portion of their shares in IRB Brasil Resseguros through an initial public offering, Reuters reported Tuesday, citing documents filed with the country's securities regulator, CVM. The FGEDUC state-owned fund will sell an undisclosed amount of common shares in IRB.

lower public spending, but investors say they have seen positive signs from his government. "Some market friendly people have been put into key posts of the central bank," said Sean Newman, a portfolio manager at Invesco. Citigroup priced the offering, with a \$1 billion six-



Moreno // File Photo: Ecuadorean Government.

year tranche carrying a yield of 8.75 percent, and a \$1 billion 10-year tranche with a 9.63 percent yield. Ahead of the sale, Ecuador met with buy-side participants in the United States and Britain, and in the past had indicated to investors that the country would need to raise \$12.5 billion this year. It was expected that nearly half of the funds raised would come from external sources like bilateral loans and the international bond market, Newman said. Following Tuesday's sale, Ecuador has now raised a total of \$5.75 billion since last July.

Scotiabank Beats Estimates With 30% Rise in Net Income

Bank of Nova Scotia posted a stronger profit for the second quarter of the fiscal year and beat expectations of more modest earnings following a strong first quarter, The Globe and Mail reported Tuesday. Scotiabank's earnings in the quarter ending April 30 were especially boosted especially by strong returns in its Latin American markets, the Toronto-based lender said. "We continue to see great short- and long-term potential across our Pacific Alliance countries," said Scotiabank CEO Brian Porter. The Pacific Alliance countries include the bank's operations in Mexico, Peru, Chile and Colombia. The bank exceeded expectations amid uncertainties over economic growth projec-

FEATURED Q&A / Continued from page 1

to step down, but the Supreme Electoral Tribunal could depose him with a finding that his election as vice president (with his predecessor Dilma Rousseff) was illegally financed. Or, Temer could, like Rousseff, be impeached. Polls report that, should Temer leave office, most Brazilians want a direct, popular election, which would require a constitutional amendment. Democracy, however, would be best served by sticking to the letter of Constitution, not by altering the rules in the midst of a crisis, but by letting the flawed Congress choose the next president. Congress should be able to find someone who has the credentials and credibility to command a decent measure of public support. The new president's main task will be to assure that next year's election is fair, without illegal campaign contributions or other fraud. Ideally, the president would also be able to advance some economic reform, even if less than ideal, that bolsters the confidence of an increasingly skeptical investment community. Hopefully, Brazilians and their leaders have learned some things that will allow the country to emerge from the crisis stronger. By now, they should know corruption cannot be allowed to finance politics, that minor corruption transforms easily into major corruption, and that it should not be tolerated. Maybe they are ready to better manage good economic times so they are prepared for the bad. The actions of the judiciary may be teaching lessons of transparency. These are not easy lessons."

tions in countries like Mexico and uncertainties about potential changes in economic policy following the election of U.S. President Donald Trump. The bank's net income for the quarter rose 30 percent to 2.06 billion Canadian dollars (\$1.53 billion), or 1.62 Canadian dollars per share. Scotiabank said its growth was also due to strong performance in domestic retail and business banking and higher profits in capital markets. The bank's international arm, which drives its growth, saw international loans grow by 3 percent year-over-year and by 4 percent

A David Fleischer, emeritus professor at the University of Brasilia and editor of Brazil Focus: "Brazil is going through very difficult times. Less than one year after former President Dilma Rousseff was impeached, her successor, Michel Temer, is now facing ouster due to the insinuation he committed serious crimes during a clandestine taped conversation with JBS executive Joesley Batista. Four parties in

“ There is a good chance (perhaps 80 percent) that the court might remove Temer.”

— David Fleischer

Temer's support coalition in Congress have joined the opposition, and some other larger parties have adopted a 'wait and see' posture and are discussing possible candidates in an indirect election to succeed Temer. It is possible that Temer might be removed by the Supreme Electoral Tribunal, which will begin to deliberate the use of illicit campaign contributions by the Dilma-Temer slate in the 2014 elections. There is a good chance (perhaps 80 percent) that the court might remove Temer. In that case, Chamber of Dep-

Continued on page 4

from the previous quarter, which is a "sign of improving commercial loan growth," said Gabriel Delchaine, an analyst at National Bank Financial. Porter said that despite uncertainties surrounding housing markets and mortgages, as well as talks from the Trump administration of renegotiating the North American Free Trade Agreement, the bank's goals will not change, "whether a housing markets shifts, [NAFTA] is modernized, regulatory changes are made or short-term matters emerge in the latest headlines."

FEATURED Q&A / Continued from page 3

uties President Rodrigo Maia would become interim president for up to 30 days, while a joint session of Congress holds an indirect election to select a new president and vice president to fill out the rest of this presidential term, until Jan. 1, 2019. Possible candidates frequently mentioned are Senator Tasso Jereissati as well as former deputy, ex-Supreme Court President and former Minister of Justice and Defense Nelson Jobim. However, because the deputies hold a very large majority in this indirect election, it is possible that they might insist on selecting a current deputy. Current Finance Minister Henrique Meirelles is a potential candidate, but the government coalition would prefer to maintain him at the Finance Ministry and keep him in reserve as a possible candidate in the 2018 presidential election. This situation has produced a strong feeling of alienation and discredit in Brazil's democracy by a large part of the electorate."

A **Brian Winter, editor-in-chief of Americas Quarterly and vice president of the Americas Society/Council of the Americas:** "Regardless of whether President Temer hangs on, these latest scandals have taken a heavy toll on Brazil's economy, institutions and faith in democracy. Most of the political class, including Temer, has essentially stopped pretending it cares about anything

but its own survival. Their recent efforts to undermine the 'Car Wash' probe threaten to unravel the one silver lining of these past four years of crisis: the strengthening of an independent Brazilian judicial system. Everyday Brazilians can't find anyone interested

“**Most of the political class, including Temer, has essentially stopped pretending it cares about anything but its own survival.**”

— Brian Winter

in addressing their real-life concerns: rising unemployment and violence, and shoddy health care and education. So what does all this add up to? Potentially, the risk of a 'soft authoritarian' outsider winning the 2018 election, the substantial watering down or outright rollback of necessary pro-market reforms, and a less politically and economically stable Brazil for several more years to come."

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2017

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Nicole Wasson

Reporter, Assistant Editor
nwasson@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Michael Camilleri, Director, Peter D. Bell Rule of Law Program

Kevin Casas-Zamora, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Alejandro Ganimian, Nonresident Fellow

Peter Hakim, President Emeritus

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, China and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Jeffrey Puryear, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Denisse Yanovich, Director of Development and External Relations

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

What's Keeping You Up at Night?

The **Latin America Advisor** gets answers to the questions that informed executives are asking, every business day, so that you can rest easy.

Prospective subscribers can email freetrial@thedialogue.org for complimentary preview access.

SUBSCRIBE