INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Managing Director,
Eton Park Capital Management

Jane Eddy
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Jason Hafemeister
Vice President,
Allen F. Johnson & Associates

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Brazil

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

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

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
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President,
Rozental & Asociados and Senior Fellow,
Brookings Institution

Everett Santos
President,
DALEC LLC

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.

FEATURED Q&A

What Would Get Jamaica's Economy Back on Track?

Q The International Monetary Fund announced on May 1 that it had approved an urgently needed four-year $932 million extended loan facility for Jamaica. In announcing the IMF loan to lawmakers, Jamaican Finance Minister Peter Phillips said the lender's action "required a paradigm shift in how we conduct the nation's business." What will that paradigm shift consist of, and how successful will Jamaica be in carrying it out? Will the IMF loan and potential additional support from the World Bank and Inter-American Development Bank be enough to help Jamaica fix its fiscal problems? What must the country do now to get back on its feet?

A Stephen Vasciannie, Jamaica's ambassador to the United States: "The IMF loan to Jamaica will give the opportunity to address some of the country's immediate fiscal challenges. The loan, accompanied by substantial loans from the World Bank and the Inter-American Development Bank, should help to provide the foundation for the financial turnaround Jamaica needs at a challenging time. Jamaica has acted energetically and in good faith to meet all the upfront conditions of the IFIs, including a debt exchange program, tax adjustments and restrictions on the public-sector wage bill. The government remains mindful of the need to move forward with a growth strategy that builds on Jamaica's stability, locational advantage, democratic traditions and openness to foreign direct investment. We hope that the IFIs will continue to be sensitive to the vulnerabilities of small states especially susceptible to natural disasters. Jamaica's ranking as a middle-income country within the international system does not properly reflect the degree of hardship faced by the vast majority of people in the country. In this context, we hope that the austerity debate will continue to remember the plight of the poor."

Continued on page 3

Argentina to Boost Cash-Transfer Programs by $3.2 Bn

Argentine President Cristina Fernández de Kirchner announced Wednesday that her government would increase the country's cash handouts for the poor. The move comes just months before legislative elections in October. See story on page 2.

File Photo: Argentine Government.

Inside This Issue

FEATURED Q&A: What Would Get Jamaica's Economy Back on Track? 1

Argentina Boosting Cash Transfer Programs by $3.2 Billion 2

Boxes Filled With Cash Seized in Mexico Corruption Probe 2

Canada Announces Peru Aid Package Tied to Mining 2

Uruguay's Mujica Begins Four-Day Visit to China 2

CaixaBank Considering Sale of Stake in Mexico's Inbursa. 3

Copyright © 2013, Inter-American Dialogue

NEWS BRIEFS

Canada Announces Peru Aid Package Tied to Mining

Canadian Prime Minister Stephen Harper on Wednesday announced a $53 million development aid package for Peru that includes money for improving the effectiveness of environmental impact assessments of mining and energy projects, the Associated Press reported. The aid, which will also be spent on education and agriculture and which represents a doubling of last year's figure, is viewed with skepticism by environmentalists because Canadian mining companies have major investments in the country, many of which have drawn protests.

Uruguay's Mujica Begins Four-Day Visit to China

Uruguayan President José Mujica on Wednesday began a four-day trip to China to promote business ties between the two countries and seek investment for Uruguay's railroad and deep-water port infrastructure, as well as for its alternative energy projects, according to MercoPress. From China, Mujica will head to Spain also to seek investment and to meet with the head of **Santander** bank and then to Italy for a visit with the pope.

Acciona, Voltalia Sign Wind Turbine Contracts for Brazil

Spain's **Acciona** and France's **Voltalia** on Wednesday announced they had signed contracts to supply wind turbines with a total capacity of 210 megawatts in Brazil. The order is for 70 turbines of three megawatts of capacity each, Acciona said. The units will be installed in Voltalia's wind farm clusters in the state of Rio Grande do Norte, where Voltalia won 20-year power purchase agreements in 2011 through public tender offerings.

Economic News

Argentina Boosting Cash Transfer Programs by $3.2 Billion

Argentine President Cristina Fernández de Kirchner announced Wednesday that her government will increase the country's cash transfer programs for the poor by $3.2 billion, the Associated Press reported. The programs will be extended to an additional 700,000 children and pay families 35 percent more, said Fernández, who added that the total cost of the programs will increase to 41 billion pesos annually ($7.8 billion, using the official exchange rate). The government's aim to boost consumer spending through increasing the cash handouts comes just months before Argentines go to the polls in October for the country's legislative elections. "We're going to augment the economic activity," Fernández said Wednesday. "It's essential to maintain the level of employment so that people keep buying things." Fernández also called on businesses to take part in the government's "national project," saying they should think "not just about making profits, but generating jobs as well." The government will also be monitoring businesses to ensure they do not hike prices, Fernández said. The government's widely distrusted inflation statistics say prices are increasing 10 percent a year, but private economists estimate inflation is two to three times that level. The government will also enlist youths nationwide into a program called "Mirar Para Cuidar" to ensure supermarkets do not increase prices. "We're not going to leave the price accord to good faith," said Fernández. "We are going to use the force of the political and youth movements to fan out in the entire territory." Earlier on Wednesday, Fernández's government said that its price freeze on 500 consumer products would remain in place until October, when the legislative elections happen. The political makeup of Argentina's Congress will determine whether Fernández will have enough backing to eliminate a constitutional term limit that would force her from office in 2015.

> "It's essential to maintain the level of employment so that people keep buying things."
>
> *— Cristina Fernández de Kirchner*

Political News

Boxes Filled With Cash Seized in Mexico Corruption Probe

Authorities in Mexico seized five cash-filled boxes on Wednesday as part of an embezzlement investigation of a former governor of Tabasco state, the Associated Press reported. Bundles of 500- and 1,000-peso notes were discovered in the office of José Saiz, who served as finance secretary during the administration of former Gov. Andrés Granier, a member of President Enrique Peña Nieto's Institutional Revolutionary Party, or PRI. The boxes reportedly contain between 90 million and 100 million pesos ($7 million - $8 million). Tabasco state's current governor, Arturo Nuñez of the opposition Democratic Revolution Party, has accused his predecessor of corruption and leaving the state in debt. Granier recently was heard in an audio recording boasting about owning hundreds of suits and shoes and shopping at high-end stores in Beverly Hills. Granier later retracted the claims he made in the recording, which local media released, saying he was drunk and making up stories. He has not been charged with a crime. Mexican Interior Secretary Miguel Ángel Osorio Chong told Radio Fórmula in an interview Wednesday that the country's attorney general's office is investigating Granier's

Granier

File Photo: Mexican Government.

Copyright © 2013, Inter-American Dialogue

handling of public money. "We will investigate and get to the bottom of this," said Osorio Chong, denying that investigators are dragging their feet because Granier belongs to the same party as the president. "The investigation is going at the speed it needs to go … There are things being made public by the media, but that doesn't mean they are evidence." Peña Nieto, who returned the former long-ruling PRI to power last December, has repeatedly said that he will not tolerate corruption.

Company News

CaixaBank Considering Sale of Stake in Mexico's Inbursa

Spain's **CaixaBank** is considering the sale of a 10 percent stake in Mexico's **Grupo Financiero Inbursa**, the financial-services provider that is controlled by billionaire Carlos Slim, Bloomberg News reported today. The bank, which is Spain's third-largest, currently has a 20-percent stake in Inbursa. Half of that holding would be worth nearly $1.6 billion, based on Inbursa's 196 billion peso ($15.7 billion) market capitalization. Other Spanish banks, including **Banco Santander** and **Banco Bilbao Vizcaya Argentaria** have sold assets to boost capital in the wake of the global financial crisis. CaixaBank has said that it is aiming for a core-capital ratio of more than 8 percent by the end of this year. "Inbursa is one of the few of their investments where they can realize clear gains, so from that point of view it was an obvious candidate for CaixaBank when it came to selling assets," Antonio Ramírez, an analyst at **Keefe, Bruyette & Woods Ltd.** in London told Bloomberg News. "Mexican bank valuations have done very well in recent years." CaixaBank paid 1.5 billion euros ($1.93 billion) for 20 percent of Inbursa in 2008. Over the past five years, the Mexican company's shares have risen 66 percent. Spanish lenders have encountered some criticism that they are forgoing future earnings growth by selling assets in countries such as Mexico where loan growth is expected to rise in coming years.

Featured Q&A

Continued from page 1

Ivelaw Lloyd Griffith, professor of political science, provost and senior vice president of York College of The City University of New York: "Jamaica's current travails evoke Jimmy Cliff's song, 'Hard Road to Travel': 'I've got a hard road to travel and a rough, rough way to go.' And, partly because of the rough, rough way to go, Minister Peter Phillips is correct in suggesting the need for 'a paradigm shift in how we conduct the nation's business.' This requires more than platitudes, though; it requires power brokers to take the kind of action that might risk their losing power while they set the stage to save the nation. What might some of that paradigm-shifting action entail? One is to resist the temptation to impose new taxes, but reduce the size and cost of government. For instance, does Jamaica need 28 ministers, ministers of state, and ministers without portfolio? One paradigm-shifting action would be to reduce the platoon by 20 percent. Indeed, the current government has more ministers than the previous one. Second, worker efficiency and productivity can be increased by clamping down on absenteeism, late arrivals and early departures. Indeed, for some employees this is almost a badge of honor. Third, high crime—notably murders, praedial larceny and sexual assaults—has a chilling effect on foreign investment and on retirement and visits by Jamaicans abroad. Unchecked, it might precipitate an exodus from the island. Hopefully, the recent inglorious departure of Jamaica's Senate president for Canada is not is a harbinger of things to come. Progress has been made on the crime front. The challenge is both to sustain those gains and secure others. Yet, the paradigm-shifting cannot be just in how government does its business; the corporate sector and individuals also have critical roles. To paraphrase the poet Martin Carter in his poem 'You are Involved,' unless all are involved, all might be consumed."

> "Does Jamaica need 28 ministers, ministers of state and ministers without portfolio?"
>
> *— Ivelaw Lloyd Griffith*

Joydeep Mukherji, senior director of Latin American Sovereign Ratings at Standard & Poor's in New York: "On a per capita basis, Jamaica's economy has grown close to zero during the 21st century. The problem of economic stagnation emerged before the global recession of 2008 and is now exacerbated by the weaker external environment. Hence, a change in paradigm is essential for returning to economic growth and reducing the high burden of government debt, now around 140 percent of GDP. In 2010, Jamaica entered into an ambitious adjustment program with the IMF, along with a domestic debt exchange. The exchange bought time for the government by reducing its fiscal strain, but it did not result in the structural changes that are needed to boost GDP growth. Similar to the new IMF program, the previous one involved fiscal austerity, spending cuts and tax hikes. Not surprisingly, this harsh fiscal approach was difficult to sustain, given poor economic growth. The government's inability to meet commitments under the IMF program led to its derailment January 2011. The new IMF program follows several new austerity measures and other reforms that parliament has already approved. It also follows a second debt exchange to reduce debt service spending. Such steps, along with new loans from the IMF and other creditors will give the government more liquidity. Jamaica has another chance to address long-standing obstacles to GDP growth and acquire economic dynamism. The government's challenge is to create a

Continued on page 4

Copyright © 2013, Inter-American Dialogue

Featured Q&A

Continued from page 3

common national vision on growth and development, and successfully implement it. The country has greater potential than many Caribbean islands, but has failed to agree on how to realize it."

Mark Konold, Caribbean program manager at the WorldWatch Institute: "Multilateral assistance alone will not fix Jamaica's fiscal challenges. To get back on its feet, true reform of Jamaica's energy sector must happen. In 2011, Jamaica spent $2.2 billion, 15 percent of GDP, importing the fossil fuels that provide around 95 percent of its energy. Jamaica can start to address this costly dependence by aggressively pursuing the development of renewable energy projects and energy efficiency standards. The country boasts abundant wind, solar, biomass and hydropower resources yet renewables comprise only 5 percent of the country's energy matrix. Jamaica can couple renewable energy investment with aggressive pursuit of energy efficiency standards in transportation, hotels and tourism, appliances and the mining sector to help reduce energy demand. The situation can be further improved by addressing the high levels of electricity theft and technical losses (currently around 20 percent) associated with its severely antiquated electricity system. These efforts will lead to a significant reduction in fossil fuel expenditure that can help correct Jamaica's fiscal disarray. They will also contribute to lowering Jamaican electricity prices. Current rates, around 38 cents per kilowatt-hour, are some of the highest in the Caribbean. This is a major blow to economic competitiveness especially for its electricity-intense bauxite mining industry. Pursuing an economy less dependent on fossil fuels and with higher levels of energy efficiency will begin shifting Jamaica's economic landscape and revive its economic competitiveness. As with most big changes, however, this will take a level of political will that to date has been lacking."

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

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.

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2013

Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President

Peter Hakim, President Emeritus

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Maria Darie, Director, Finance & Administration

Mary Ellen Flather, Senior Director of Strategy and Development

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, China and Latin America Program

Manuel Orozco, Director, Remittances and Development Program

Tamara Ortega Goodspeed, Senior Associate, Education

Jeffrey Puryear, Vice President, Social Policy

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
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.

Copyright © 2013, Inter-American Dialogue