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

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

How Will the U.S. Stimulus Rollback Affect Latin America?

Q Amid recent speculation that the Federal Reserve will soon start winding down its stimulus plan and its monthly purchases of $85 billion of assets, Alejandro Werner, director of the Western Hemisphere department at the International Monetary Fund, said that the economies of Latin America are "well positioned" to handle capital outflows. Banks in the region are better capitalized and asset prices have not ballooned, Werner told Bloomberg, though he said there will likely be some volatility in capital markets. How would a rolling back of the U.S. stimulus plan affect Latin American countries' economies? Are they in fact "well positioned" to deal with capital outflows and why? Are there countries in which a wind down would have a stronger effect?

A Alfredo Coutiño, director for Latin America at Moody's Analytics: "There has been a lot of speculation about the negative effects of a potential withdrawal of the U.S. monetary stimulus that may take place before the end of this year. As usually happens with rumors, there are some exaggerations, such as the ones that are now predicting a 'perfect storm.' In the same way that markets pre-announced a disaster with the excess of global liquidity, now they are complaining about the potential withdrawal. Certainly, Latin America became one of the favorite destinations of the excess liquidity, but it did not produce the disaster that many people anticipated. Since the withdrawal of the monetary stimulus is expected to happen gradually, mainly in the form of a reduction of the Fed's purchases of assets, then the effects on Latin America should also be gradual. Therefore, there are reasons to believe that capital outflows will not leave the region suddenly as soon as the Fed starts the monetary reversal. Even when the Fed starts to normalize interest rates, capital flows will only gradually move back to the United States, because the rate differentials are not

Continued on page 3

Hundreds of Thousands Gather for Massive Protests in Brazil

A total of 230,000 protesters were estimated to have gathered Monday in São Paulo (pictured) and other cities across Brazil to protest a lack of security, rising public transportation fares and other issues. The demonstrations were mainly peaceful. See story on page 2.

Photo: Associated Press.

Inside This Issue

FEATURED Q&A: How Will the U.S. Stimulus Rollback Affect Latin America?.....1

Crowds Gather in Massive Protests Across Brazil.....2

U.S. Cuba to Resume Talks on Direct Mail Service 2

Venezuela's Maduro Meets With Pope Francis 2

Ecuador to Continue Providing Asylum to WikiLeaks Founder.....2

Itaú Buying 51 Percent of Cencosud's Card Operations in Chile, Argentina 3

Copyright © 2013, Inter-American Dialogue

NEWS BRIEFS

Venezuela's Maduro Meets With Pope Francis

Venezuelan President Nicolás Maduro met with Pope Francis on Monday in the Vatican, his first stop in a trip to Europe, Reuters reported. The two men discussed poverty, the fight against drug trafficking and organized crime and a dispute between Venezuela and Colombia. Pope Francis, an Argentine and the first pope from Latin America, has urged Maduro and Henrique Capriles, the opposition candidate who has contested Maduro's win since elections in April, to have a dialogue to deal with post-election tension in Venezuela.

Ecuador to Continue Providing Asylum to WikiLeaks Founder

Ecuador's foreign minister said Monday that it will continue to provide asylum to WikiLeaks founder Julian Assange in the country's London embassy. The announcement came after a meeting between the foreign ministers of Ecuador and Britain at which they discussed their legal positions and possible resolutions to Assange's situation. Assange has been living in the Ecuadorean embassy since June 2012 in order to avoid extradition to Sweden by British officials for sexual assault allegations.

Standard & Poor's Cuts Venezuela's Credit Rating

Standard & Poor's has cut its credit rating for Venezuela, saying that division within the government of President Nicolás Maduro could hamper the country's ability to get its flagging economy back on track, Bloomberg News reported. The ratings agency lowered its rating for Venezuela to B, five notches below investment grade, with a negative outlook.

Political News

Crowds Gather in Massive Protests Across Brazil

Huge crowds gathered in cities across Brazil on Monday to protest a raft of frustrations, ranging from poor security to a lack of transportation, health services and quality education, the Associated Press reported. The demonstrations were estimated to have drawn a total of 230,000 people in various cities, according to *O Estado de S. Paulo*. The protests were largely spurred by images last week of São Paulo police beating protesters and firing rubber bullets into a demonstration of about 5,000 people, the AP reported. Though Monday's protests were mainly peaceful, there were some outbreaks of violence. Demonstrators and police clashed in Rio de Janeiro, Porto Alegre and Belo Horizonte. At least 20 police officers and 10 protesters were injured in Rio, according to *O Globo*. Rio police officers shot tear gas and rubber bullets when protesters marched on the state legislative assembly and threw flares and rocks at officers. In São Paulo, at least 65,000 people gathered in a plaza and then split in three directions as the protesters shouted chants against corruption and drummers beat samba rhythms, the AP reported. Demonstrators also protested about a 10-cent increase in bus and subway fares, the issue that originally sparked last week's protests. In Brasíla, thousands of demonstrators marched toward Congress and broke windows of the structure, designed by famed architect Oscar Niemeyer. However, police in Brasília did not use force against the protesters, the AP reported. "This is a communal cry saying: 'We're not satisfied,' " protester Maria Claudia Cardoso told the wire service. "We're massacred by the government's taxes, yet when we leave home in the morning to go to work, we don't know if we'll make it home alive because of the violence … We don't have good schools for our kids. Our hospitals are in awful shape. Corruption is rife. These protests will make history and wake our politicians up to the fact that we're not taking it anymore!" Monday's protests happened after the opening games of the Confederations Cup took place in Brazil over the weekend, three years ahead of the 2016 Summer Olympics, which Brazil will host and a month before a scheduled visit by the pope.

> "This is a communal cry saying: 'We're not satisfied'."
>
> — *Maria Claudia Cardoso*

U.S. Cuba to Resume Talks on Direct Mail Service

U.S. and Cuban diplomats are to meet today and tomorrow in Washington to discuss resuming direct mail service between the two countries, the Associated Press reported, citing an unnamed U.S. official. The United States and Cuba have not had direct mail service since 1963, but mail is sent back and forth through third countries. Though the mail talks do not have large significance in themselves, the fact that the Cold War foes are discussing it at all is significant, according to experts. The talks between the diplomats does not signify a change in the Cuba policies of the Obama administration, said the official, who discussed the matter with the AP on condition of anonymity because Congress had not yet been officially notified of the talks. The discussions are consistent with Washington's interest "in promoting the free flow of information to, from and within Cuba," said the official. Lea Emerson the U.S. Postal Service's director of international postal affairs and José Cabanas Rodríguez, Cuba's top diplomat in Washington, will lead the U.S. and Cuban delegations. In the past, the United States and Cuba have used talks on direct mail service as a pretext to discuss larger issues. In 2009, a top official at the State Department was in Havana for talks on mail service, but stayed an additional six days and even had a meet-

Copyright © 2013, Inter-American Dialogue

ing with Cuba's foreign minister. That marked the highest-level meeting between U.S. and Cuban officials in decades. Encounters between diplomats of the two countries have been happening in the shadow of the imprisonment of Alan Gross, a subcontractor of the U.S. Agency for International Development. Gross was arrested in Cuba in 2009 while on a USAID-funded program and was sentenced to 15 years behind bars. The United States has said the two sides will not make any major progress while Gross is jailed. At the same time, Havana wants the release of four Cuban agents who are imprisoned in the United States after being convicted of espionage. A fifth Cuban agent was released from prison in the United States and returned to Cuba earlier this year after completing his sentence.

Gross

File Photo: Associated Press.

Company News

Itaú Buying 51 Percent of Cencosud's Card Operations in Chile, Argentina

Brazil's **Itaú Unibanco Holding** is buying 51 percent of the Chilean and Argentine credit card divisions of retailer **Cencosud** for $307 million, the companies announced Monday, Bloomberg News reported. Itaú also will fund 100 percent of the credit card loans in the two countries, the companies said. The deal will make Itaú, Latin America's largest lender, the largest credit card operator in Chile. "This is a strategic growth opportunity," Daniel Rodríguez, the chief executive officer of Santiago-based Cencosud, told reporters Monday. "This partnership will help us build up and strengthen the credit-card business. When the deal is completed, Itaú will have approximately 2.3 million credit cards in Chile, along with a loan portfolio of $1.3 billion, the companies said in their statement. The Brazilian bank is paying $280 million for the Chilean card operations and $27 million for the unit in Argentina. Cencosud will use the proceeds to pay for expansion plans and pay down debt, said Rodríguez. Cencosud, which is Latin America's third-largest retailer by sales, signed an agreement with Brazil's **Banco Bradesco** in August 2011 to operate branded cards for the retailer's supermarkets in Brazil. Last month, Cencosud said that it was setting aside 20 billion pesos ($40 million) in provisions after the Chilean Supreme Court ordered it to pay clients who had been harmed by "abusive" credit card contracts. Rodríguez said the fine had "nothing to do" with its deal with Itaú.

The deal will make Itaú the largest credit card operator in Chile.

Featured Q&A

Continued from page 1

expected to decline dramatically nor in a very short time. Undoubtedly, capital outflows will have an effect on the region, but nothing like the largely anticipated perfect storm. Countries that will be more sensitive to capital reversals will be those that were the main destinations of the excess liquidity, unless they try to synchronize their monetary conditions with U.S. policy in order to maintain the rate differentials. However, regardless the strength of the region's banking system, the most affected countries will be the ones that did not take prudential measures with the excess liquidity by accumulating enough international reserves to face the natural capital reversal."

> "The effects on Latin America should also be gradual."
>
> — *Alfredo Coutiño*

Arturo Porzecanski, director of the International Economic Relations Program at American University: "The bearishness in world financial markets in recent weeks has already begun to destabilize many countries in Latin America, with no better example than the case of Brazil where the authorities have been scrambling to take measures to support their currency and entice foreign capital to stay in the country—ironically, after years of complaining that too much money was pouring in. Evidently, even reputable Brazil is not as 'well positioned' to handle capital outflows as Mr. Werner might have thought. And contrary to the assertion made, the fact is that asset prices, especially in the commodity-exporting countries of Latin America, did balloon until recently: property prices, stocks, bonds and currencies were mostly all inflated to historic levels. They soared largely because all the money from the commodity windfall and from sizeable capital inflows bid domestic asset prices up higher and higher and also because much of Latin America experienced its first large-scale expansion in domestic credit—a boom in everything from credit-card debt to long-term mortgage lending, neither of which was available a decade or two ago. As to what the future holds, generalizations are singularly unhelpful. The region includes a few nations which have not experienced any boom, like most in the Caribbean, several of which have already been defaulting on their domestic or foreign debt obligations (for example, Grenada and Jamaica). It also includes some countries which have saved a portion of their bonanza (Chile and Peru); many that have spent their bonanza (Brazil and

Continued on page 4

Copyright © 2013, Inter-American Dialogue

Featured Q&A

Continued from page 3

Colombia); and yet others which have outspent their bonanza (Argentina and Venezuela). This last subgroup is especially prone to a major financial crisis."

Marjorie Hernandez, Latin America foreign exchange analyst, and Andre Loes, chief economist for Latin America, at HSBC Bank: "Latin America seems well prepared to deal with a reduction of the U.S. monetary stimulus from the perspective of the financial stability of companies and banking systems. Leverage is not high and corporate balance sheets are better matched from a currency perspective than in 2008. Having said that, current account deficits across the region have increased and a reduction of external financing could increase depreciation pressures. The short-term effect of depreciation could be negative for growth in some countries as inflation increases and reduces purchasing power. In some cases, this could lead to increases in monetary policy rates. In the medium-term, if currencies are allowed to adjust freely, growth should revert to trend. Because any monetary stimulus exit by the Fed is likely to take place gradually, we do not expect a sudden reversal of flows out of Latin America. Investors are still likely to get paid much higher rates in Latin America than in the United States for quite some time and this likely means the adjustment in flows will be more moderate in pace. Near-term uncertainty, however, will keep currency volatility high. We note that it is not just the U.S. outlook that is shifting. Growth in China will be just as important for Latin American currencies given the region's link to commodity prices and exports. Against a backdrop of lower Chinese growth and a gradual normalization of U.S. rates, we expect modest currency depreciation across the region going forward, with the exception of Mexico, where we see structural reforms supporting a stronger Mexican peso."

> "Investors are still likely to get paid much higher rates in Latin America than in the United States for quite some time ..."
>
> *— Marjorie Hernandez & Andre Loes*

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

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