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FEATURED Q&A

Will Ecuador's New Bond Offering Be a Success?

Q Ecuadorean President Rafael Correa announced in April that as early as the end of this year the country will make its first international bond offering, of around $700 million, since the government defaulted on its debt in 2008. After the default, the country has relied heavily on Chinese funding and loans. What is behind Ecuador's decision to return to the market now? Will the bond offering be considered a success for the Andean nation? Will this have any effect on the role of Chinese lending in the country going forward?

A Nathalie Cely, Ecuador's ambassador to the United States: "Since entering office in 2007, the current administration in Ecuador has focused on restoring economic and political stability to our country. Today, seven years later, we have exceeded this goal. Ecuador's economy is one of the most dynamic in the region. We have the third fastest-growing GDP in the region, we are among the top three in the region in reducing poverty, and we are leading in reducing inequality. Additionally, we have the largest ratio of public investment to GDP, at around 12 percent, in comparison to a regional average of 4 percent. We have achieved all this while keeping our debt-to-GDP ratio at a low 23 percent, compared to the regional average of 29 percent. And we are managing sustainable fiscal accounts. Oil revenue only accounts for 7 percent of our GDP, while tax revenue has tripled through well-enforced tax collection—not tax increases. Last but not least, we have bought back nearly all of the outstanding debt from 2008. As a result of this progress, it is clear that Ecuador is well-positioned to take the first steps to return to the international bond markets. While there are a number of steps that still need to be taken before this can happen, this return will help our country continue along our successful path of diversifying our economy,

Continued on page 2

Argentine Government Considering Protest Legislation

The government of Argentine President Cristina Fernández de Kirchner has proposed legislation that would impose new restrictions on protesters, including a ban on them blocking traffic. The move comes as the country has seen a surge in demonstrations. See story on page 2.

File Photo: Argentine Government.

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NEWS BRIEFS

Nobel Laureate Gabriel García Márquez Dies at 87

Gabriel García Márquez, the Colombian novelist who was among the literary giants of the 20th century, died Thursday at the age of 87 at his home in Mexico City. García Márquez, who had been in fragile health, returned home last week after being hospitalized for pneumonia, the Associated Press reported. Known affectionately as "Gabo," García Márquez in 1967 saw the publication of his master work "One Hundred Years of Solitude," which introduced millions of readers to magical realism. The novel helped him win the Nobel Prize for Literature in 1982.

Police in Brazil's Bahia State End Strike

The military police in Brazil's state of Bahia on Thursday approved a deal to end a strike that started April 15 over wages, Agência Brasil reported. Police union officials said the government met nearly all their demands, which included "special working condition" bonuses that ranged from 17 to 60 percent of salary. Federal troops had been dispatched to Bahia in order to maintain order during the strike, but looting broke out at many supermarkets and electronics stores, BBC News reported.

Peru's Domestic Tourism Expected to Generate $300 Mn This Week

Domestic tourism in Peru during the Holy Week holidays is expected to generate $300 million in revenue, state news agency Andina reported Thursday. Carlos Canales, the head of Peru's national tourism chamber, Canatur, said the Lima region, in Peru's central coast, will receive about half of the tourism business during the four-day holiday.

Political News

Argentina's Government Considering Crackdown on Protests

The government of Argentine President Cristina Fernández de Kirchner is proposing a crackdown on street protests, which have been on the rise amid the country's worsening economy, the Associated Press reported Thursday. Ruling party lawmaker Carlos Kunkel wrote the proposed legislation at the president's request, the wire service reported. The measure would require the leader of every demonstration in the country to notify police of the protest 48 hours in advance and disclose its location, duration and objective. The measure would also make it illegal for protesters to block the flow of traffic. Anyone violating the rules could be removed by force. The law would bar police officers removing protesters from being armed, and demonstrators would not be removed until an official of the government was given two hours to attempt to negotiate a solution. "It seems reasonable to seek some way of establishing how you can demonstrate, and to see what we'll do with the criminal law that nobody applies, which says you have to put people who block traffic in jail," said Kunkel. However, some legislators expressed alarm at a measure they saw as allowing the government to decide which protests are legal. "It's incredible that the progressives of the government now want to tell us which movement is legitimate and which isn't," said legislator Nicolás del Caño of the Socialist Workers' Party. Gaston Chillier, a human rights activist, said the legislation was a step

del Caño

File Photo: Socialist Workers' Party.

Featured Q&A

Continued from page 1

developing our infrastructure, transforming our energy matrix to focus on renewables, and investing in a knowledge-based economy. By taking such a step, we will be able to continue to lead the way in regional development and providing for the millions of people across our country, while strengthening our sovereignty and future growth prospects. We look forward to working with new and existing partners throughout this process."

A Ramiro Crespo, president of Analytica Securities in Quito: "Ecuador's plan to return to the global financial market is a welcome development for the administration and the private sector. It comes as global interest rates rise; hence it is correct to try to raise debt in the market before it becomes more expensive. This, along with an apparent cooling of China's willingness to expose itself to additional lending to Ecuador, likely motivated President Correa to announce his intent to sell some $700 million in sovereign bonds. After shooting himself in the foot with a politically motivated default in 2008, only China made loans, under substantially more expensive terms than for other oil exporters (6-7 percent interest for Ecuador, 2.5 percent for Nigeria). With the high price of oil and low debt even before the default, Ecuador could have obtained much less onerous financing without defaulting, and it could have bought back its debt cheaply during the 2009 global plunge in asset prices. To sell some $700 million is achievable and will help restore credibility with potential lenders, particularly if it continues to mend ties with Bretton Woods institutions. Adequate debt management could even open the door to refinancing a prepayment of the pricey Chinese loans. As a key partner, China will welcome a diversification of Ecuador's financing, which will also boost Ecuador's economic sovereignty. The government will have to do its homework well, however, including

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backward for Argentina, which he said is still recovering from a brutal dictatorship and an economic collapse. The country's justice system is investigating alleged abuses committed during the dictatorship, Chillier pointed out. The new legislation is "a reversal with respect to the standards for social protest that took years to construct," said Chillier. Even small groups of protesters have snarled traffic recently in Argentina. Just last month, the country saw 656 street demonstrations, and that number is likely to increase as union negotiations over pay are still ongoing, Patricio Giusto of the **Diagnostico Politico** consulting firm told the AP.

Economic News

Chile's Central Bank Keeps Interest Rates Unchanged

Chile's central bank on Thursday kept its benchmark interest rate unchanged as climbing inflation led policymakers to pause after four interest-rate cuts over the past six months, Bloomberg News reported. The bank, led by Rodrigo Vergara, kept the benchmark rate at 4 percent, a decision that 15 of 19 economists in a recent Bloomberg survey had predicted. "The bank is seeing an economy that's going from less to more and that dynamism will pick-up significantly by year-end and inflation expectations are perfectly well anchored at 3 percent," Alberto Naudon, chief economist at **Banco de Crédito e Inversiones**, told the news service in a telephone interview. "It isn't necessary to stimulate the economy more than is already priced in the price of assets, and that is one cut in the next couple of months." Inflation accelerated to 3.5 percent in March after climbing to 3.2 percent in February. The peso's decline to a nearly five-year low against the dollar helped fuel the uptick. The Chilean currency is down 11 percent against the greenback since Oct. 17. In their quarterly monetary policy report in March, central bank policymakers said they forecast 3 percent inflation at the end of this year and during 2015, though it may rise temporarily to between 3.5 percent and 4 percent during the course of this year. "There are still inflationary pressures that could eventually show through and put inflation expectations at risk," Guillermo Le Fort, an economist at the Universidad de Chile in Santiago, told reporters on Wednesday. In an April 9 central bank survey, investors and traders said they expected the central bank to cut its key interest rate to 3.5 percent within 12 months as the country's economic growth weakens.

Vergara

File Photo: Chilean Central Bank.

Company News

CEO Defends Petrobras Over Controversial Texas Refinery Deal

The CEO of Brazilian state oil company **Petrobras** took out an ad in major newspapers Thursday to defend the company over a controversial refinery deal in the United States, *Folha de S. Paulo* reported. Maria das Graças Silva Foster admitted to legislators during six hours of congressional testimony this week that the 2006 purchase of the Pasadena refinery in Texas "was not a good deal," but she defended the decision, noting that "there is no transaction that is 100 percent safe in any commercial activity and certainly not in the oil and gas industry." The deal has thus far cost Petrobras $500 million in write offs, according to media reports, and an internal investigation was launched last month to look into other alleged irregularities associated with it. Brazilian President Dilma Rousseff, who was CEO of Petrobras at the time of the purchase, lashed out at legislators this week over their criticism of the company, saying that Petrobras had become a political target. "No one and nothing will destroy Petrobras," she told a gathering of company employees in Pernambuco state, *Forbes* reported. "Petrobras is bigger than all of us," Rousseff told the workers. "Petrobras is as big as Brazil."

> "There is no transaction that is 100 percent safe in any commercial activity and certainly not in the oil and gas industry."
>
> ***— Maria das Graças Silva Foster***

Job Postings

Readers of the *Advisor* occasionally ask us to pass along job announcements. We are pleased to share these and other recent Latin America-related listings.

GE Capital, Director, Country Risk and Senior Analyst, Country Risk

Google, Project Manager, Latin America Logistics

Bank of America, V.P., Investment Banking, Latin America Group

Subway, International Coordinator, Latin America and Caribbean

Stratfor, Latin America Analyst

Netflix, Director, Consumer Insights, Latin America

Ford Foundation, Representative for Mexico and Central America

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Featured Q&A

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explaining why it suddenly needs to borrow a whopping $9.5 billion this year, near 10 percent of GDP, only months after budgeting that amount 25 percent lower."

Alberto Acosta-Burneo, editor of *Weekly Analysis* in Guayaquil: "Ecuador defaulted on its debt in 2008 due to ideological considerations not on economic grounds. Since then, China has turned into Ecuador's main creditor. But now there are economic reasons to look for other options. First, China will not lend to Ecuador indefinitely. A big portion of Chinese lending is only for project financing and only if Chinese companies are chosen as contractors. The second option is financing paid with oil, which is also limited. Second, although oil prices are still high, Ecuador's oil revenues are no longer growing significantly since production increases are small. But the government believes that the economy must be pushed through public spending. The fiscal budget estimates an $8 billion financing requirement for 2014. This figure includes amortization. The need for international financing reaches $5.8 billion. A similar requirement is estimated yearly until 2017. To maintain the same economic approach to development based on heavy public intervention, the Ecuadoran government has put aside ideological considerations to guarantee its cash requirements. The government is keen to return to international capital markets with a new $700 million bond offering. Simultaneously, it has welcomed a $1 billion financing facility from the World Bank for project financing. A few years ago, the Ecuadoran government expelled the World Bank envoy on grounds of extortion. Correa's bet is to keep funds flowing to finance investment until 2016, when he expects to receive an important increase in oil revenue as a result of the exploitation of new oil fields in the Yasuní National Park. Until then, any leftist impulse must be tamed."

Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorean minister of finance, member of Congress and central bank president: "Ecuador has had a tortuous history with the bond markets ever since independence; interminable, and at times bizarre, political discussions and failed attempts to live a normal life in the capital markets have been the rule rather than the exception. In 2008, a year when oil revenues went through the roof, the present government denounced the 'illegal' debt obligations of the 2010 bonds (which replaced the defaulted Brady bonds) except for a tranche of $700 million which had been reprogrammed to 2015, at a time when Mr. Correa and his immediate successor were at the helm of the Ministry of Finance. Coincidentally or not, the monies expected to be raised may be used to roll over the 2015 series. There are challenges and opportunities. Ecuador has not complied with Article IV of the IMF since 2006, and relations with multilateral agencies are still distant. The government still prefers the easy, but extremely expensive and presently tightening, choice of Chinese credits that still have some $3 billion remaining to be disbursed. On the other hand, Ecuador's economy is in better shape and stronger than other countries that have successfully come to market and raised capital on relatively favorable terms. It is also a sign of some maturity that the government has chosen to abandon its bombastic and totally counterproductive attitudes of the recent past and has proceeded to engage the services of Credit Suisse to serve as advisor in its attempt to test the waters of capital markets, and possibly, also return to the fold of multilateral institutions."

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

Michael Shifter, President

Peter Hakim, President Emeritus

Genaro Arriagada, Nonresident Senior Fellow

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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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