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FEATURED Q&A

Are the Right Changes Being Made in Honduras' Power Sector?

Q The IMF announced in December that it had reached a deal with the Honduran government to provide loans to help the country with its increasing deficit after negotiations that reportedly hinged on how to reduce the deficit of Honduras' financially-strapped National Electric Energy Company. ENEE loses about $1 million per day and is the main contributor to Honduras' budget shortfall. Last year saw a number of reforms including a law passed to break the company into three smaller companies, layoffs of around 2,000 workers and the elimination of subsidies. What is behind the financial challenges facing ENEE? Will the measures help to set the company on sounder financial footing, and should more be done? How is the Honduran public responding to the changes?

A Carolina Castillo A., energy and environment legal consultant at Castillo Argueta Asociados in Tegucigalpa: "It has been six months since the Ley General de la Industria Eléctrica, which modifies the structure of the Honduran electric market, took effect, leaving behind the vertical scheme in which the Empresa Nacional de Energía Eléctrica was both judge and jury in the electric sector, and the entities that will regulate this new scheme are not formed. The selection process of the commissioners that will lead the Regulatory Energy Commission was finalized last October. One of the main problems that the country's electricity sector had was the lack of regulation, given that the entity that was responsible under the law for the gradual implementation of the Ley Marco del Subsector Eléctrico de 1994 was not aggressive enough, and that law was never implemented in its totality, which created a gap between the reality of regional electricity markets and the domestic one. The Honduran government faces a great challenge in 2015 given that the Ley de la

Continued on page 2

Brazil's Petrobras Confirms CEO's Ouster in Shake-up

Brazil's Petrobras on Wednesday confirmed the resignations of Chief Executive Officer Maria das Graças Silva Foster and five other top officials. The changes come amid a corruption scandal at the state-run oil company. See story on page 3.

File Photo: Brazilian Government.

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NEWS BRIEFS

Panama's Martinelli Believed to Be in U.S. Amid Investigation

Former Panamanian President Ricardo Martinelli, whose term ended in July and now faces allegations that he inflated contracts for social programs by $45 million, flew last week in his private jet from Panama to Guatemala and on to Miami, Bloomberg News reported. Martinelli's plane continued to Italy, but the former president's lawyer said he believes Martinelli is in the United States. The trip came after a unanimous ruling last week by Panama's Supreme Court that paved the way for a special prosecutor to investigate claims that Martinelli ordered contracts to be inflated.

Argentine President Mocks Chinese Accent in Tweet

In a posting on Twitter, Argentine President Cristina Fernández de Kirchner mocked Chinese accents during a trip to China to seek investments for infrastructure projects, *The Wall Street Journal* reported. In the tweet, Fernández swapped out R's and inserted L's in the words "arroz" and "petróleo," rice and oil, to caricature a Chinese accent. She followed the joke with another tweet stating, "Sorry, But you know what, the only way you can digest so much excess ridiculousness and absurdity is with humor," appearing to refer to Argentina's political climate.

Brazil's Itaú Unibanco Holding Eyes CEO Succession Plan

Itaú Unibanco Holding, Brazil's largest bank by market value, will begin implementing a plan to succeed CEO Roberto Setúbal in April, when new heads of the retail and wholesale banking units will be announced, he said Wednesday, Reuters reported.

Political News

Venezuela's Maduro Asks Unasur Chief for Mediation With U.S.

Venezuelan President Nicolás Maduro has asked Ernesto Samper, the secretary general of the Union of South American nations, or Unasur, to mediate between his country and the United States, BBC News reported. Samper said he would bring Maduro's concerns to member states of Unasur, adding they would decide whether to take any action. The United States and Venezuela last had ambassadors in each other's capitals in 2010, and Washington on Monday expanded sanctions against Maduro's government by imposing new visa restrictions on officials accused of human rights abuses in the South American country. In a speech to supporters Wednesday in Caracas, Maduro said he wanted a new relationship with the United States and an end to what he said was a U.S. plan to destabilize his government. "President Obama, I say this with goodwill: We hope that you set a new and different tone with Venezuela," said Maduro, who said he wanted the U.S. president to "rectify and stop in time the coup plan [that would see] the destruction of Venezuela," BBC News reported. Maduro's call for mediation came just days after he accused U.S. Vice President Joe Biden of trying to plan a coup against Maduro's government, an accusation the vice president's office said was "baseless and patently false."

Maduro

File Photo: Venezuelan Government.

Economic News

Chile's Economy Grows at Fastest Pace in Nine Months

Chile's economy in December grew at its fastest pace in nine months, surprising analysts, amid a rebound in manufacturing, the central bank announced today, Bloomberg News reported. The country's Imacec index, a proxy for gross domestic product, increased 2.9 percent in December as compared to the same month a year earlier, the central bank said. In a recent Bloomberg survey, 19 analysts had been expecting 2 percent growth on average. Chile's economic activity expanded 1 percent in December

Featured Q&A

Continued from page 1

Industria Eléctrica establishes July 1 as the deadline for ENEE to be fully formed into subsidiary companies (generation, transmission and system operator and at least one distributor). Time is passing, and there are no concrete and comprehensive results. Instead, they only continue to give palliatives to ENEE's problem. For example, personnel cuts and elimination of cross-subsidies are small issues that will take many years to significantly affect ENEE's financial situation. Simultaneous with the reform of the electricity sector's legal framework, trusts were established with national banking institutions, which to date have not started the bidding process for the operation of systems of transmission, distribution and system operation. That has generated suspicion since private investment perceives that there are not clear rules, and the energy contracting that occurred in 2014 will have to cover the growth of power demand in the next three or four years. The population has not been informed about what is really happening in the electricity sector, and that has caused much speculation and uncertainty about this radical change that the Honduran power sector has experienced. It requires a joint effort from stakeholders in the sector to overcome the energy crisis the country currently faces."

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as compared to November. In last year's third quarter, Chile's economy experienced its slowest expansion since 2009. But Joaquín Vial, the central bank's director, said Jan. 26 that the country's economic data supports forecasts for better growth ahead. Chile's manufacturing production rose 3.1 percent year-on-year in December, and retail sales increased 1.9 percent. The country's unemployment rate declined in the fourth quarter to 6 percent, as compared to 6.6 percent in the third quarter.

Company News

Brazil's Petrobras Confirms Ouster of Top Officials Including CEO

Brazilian state-run oil company **Petrobras** on Wednesday confirmed the resignations of Chief Executive Officer Maria das Graças Silva Foster and five other top officials. The other resignations include Chief Financial Officer and Chief Investor Relations Officer Almir Guilherme Barbassa, Petrobras said in a statement. The company's board is scheduled to meet Friday to appoint new top officials. The ouster of the company's top management comes amid a corruption scandal at the state-run oil company involving kickbacks to the ruling Workers' Party and its allies. Foster, whom President Dilma Rousseff had handpicked for the CEO position in 2012, had been seen as unable to handle the scandal, *The New York Times* reported. Reports in recent days that Rousseff had decided to replace Foster and other top executives led to a surge in the company's shares. "In my opinion this move should have been taken some time ago," Paulo Pimenta, a Workers' Party congressman, told reporters Wednesday in Brasília.

> "In my opinion this move should have been taken some time ago."
>
> — ***Paulo Pimenta***

Argentina's YPF Raises $500 Million in International Bond Market

Argentine state oil company **YPF** on Wednesday issued $500 million in dollar-denominated bonds due in 2018 and 2024, its first issuance since going into selective default earlier this year, the *Financial Times* reported. The bonds were two times oversubscribed, but the company chose to issue less than the $750 million it was authorized to issue in order to stay in line with their financing strategy, CFO Daniel González said. "This is a new show of confidence in YPF, despite the strong volatility in the energy sector," CEO Miguel Galuccio said, adding that the company has issued $2.2 billion total over the last year and a half.

The Dialogue Continues

Editor's note: Steve H. Hanke, professor of applied economics at The Johns Hopkins University, who also serves as director of the Troubled Currencies Project at the Cato Institute in Washington, sent this comment in response to the Advisor*'s Feb. 4 Q&A on the outlook for currencies in the region.*

Steve H. Hanke: "Latin America needs to dollarize. Every country aims to lower inflation, unemployment and lending rates, while increasing gross domestic product per capita. Through a simple sum of the former three rates, minus year-on-year per capita GDP growth, I constructed a misery index that comprehensively ranks 18 Latin American countries. The two most miserable countries in Latin America—Venezuela and Argentina—saw the purchasing power of their currencies evaporate in 2014. While three of the four least miserable countries—Ecuador, El Salvador and Panama—are dollarized. Need I say more?"

2014 Latin America Misery Rankings

Rank (Worst to Best)	Country	Misery	Major Contributing Factor
1	Venezuela	106.03	Inflation
2	Argentina	68	Lending Rate
3	Brazil	42.79	Lending Rate
4	Uruguay	28.37	Lending Rate
5	Honduras	28.07	Lending Rate
6	Dominican Republic	27.98	Unemployment
7	Paraguay	27.01	Lending Rate
8	Costa Rica	26.87	Lending Rate
9	Nicaragua	25.06	Lending Rate
10	Guatemala	21.21	Lending Rate
11	Peru	20.09	Lending Rate
12	Colombia	19.61	Lending Rate
13	Bolivia	18.38	Lending Rate
14	Chile	14.42	Lending Rate
15	Ecuador	13.72	Lending Rate
16	El Salvador	12.56	Lending Rate
17	Mexico	10.5	Unemployment
18	Panama	9.39	Lending Rate

Sources: The World Bank, The International Monetary Fund, The Economist Intelligence Unit, and calculations by Prof. Steve H. Hanke, The Johns Hopkins University.

Note: Cuba, French Guiana, Guadeloupe, Haiti, Martinique, Puerto Rico lacked the data necessary to calculate their 2014 misery indexes.

Methodology: Misery Index = Inflation Rate (End of Year) + Bank Lending Interest Rates + Unemployment Rate - Actual % Change in GDP per capita

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Featured Q&A

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Ángel Baide, Tegucigalpa-based independent energy consultant: "The causes of ENEE's financial troubles are: tariffs below cost, especially for residential clients, and high energy losses mainly due to theft. The government has created two trusts to which ENEE transferred its rights to use the existing assets for transmission and system operation on the one hand, and for distribution on the other. The trusts collect all payments from ENEE's clients. The trusts have to seek investor-operators to take over the activities from ENEE, including the responsibility for investment in grid expansion. A process of due diligence is being carried out after which bidding documents will be prepared for the selection of investor-operators. Interested bidders will be prequalified. Since the new investor-operators will be remunerated via the tariffs, a resetting of the same to cost-recovery levels is essential for the program's success. The current drop in oil prices offers a good opportunity to do this adjustment. Another key factor is appointing a technically competent regulatory agency. This has not yet been done. The Honduran public recognizes that ENEE's situation was unsustainable and is expecting an increase in tariffs. The government can improve targeting of the subsidies it now provides to mitigate the impact on the lowest income households. There has been some hesitation in the case of distribution on whether investor-operators can be sought immediately or whether a management contract should be given first to reduce ENEE's energy losses to normal levels. No final decision seems to have been reached on this point, causing some delay in the process for distribution."

Juan José Alcerro Milla, partner at Aguilar Castillo Love: "As the government has acknowledged, ENEE's financial situation is one of the major problems the current administration faces. The fact that ENEE is government-owned, and because of this, highly influenced in its administration by political decisions and political interests, has hindered its performance and damaged it financially: its administration has not been efficient, money has been taken away, and decisions made have not been in the company's best interest. Many believe that only through privatizing can things begin to improve. Several measures have been taken to bring the company to a better position: along with the recent reforms per the new Energy Law, which includes provisions for a competitive market and those destined to divest ENEE into three smaller companies, measures include reduction of expenses, elimination of subsidies, layoffs of workers, gradual quarterly increases in tariffs and measures to keep ENEE focused on power generation. The foreseen changes in the energy matrix in Honduras toward renewable energy sources, rather than having to depend on oil, could also help. In the end, the adopted measures may help, but certainly more should be done, mainly to make the structure and administration of the company efficient. In general, the Honduran public appears to remain skeptical about the possibility of a real and adequate change in ENEE's financial condition, particularly because these actions and changes normally take time. The positive thing is that the government has initiated the process, has had regulation enacted and taken action."

> "Many believe that only through privatizing can things begin to improve."
>
> — ***Juan José Alcerro Milla***

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
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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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