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FEATURED Q&A

Will Brazil Be Prepared to Host the Olympics Next Year?

Q With a year to go before hosting the 2016 Summer Olympics, Brazil is in markedly different circumstances than when it won the bid in a period of rapid expansion under popular President Luiz Inácio Lula da Silva. Economic growth this year and next is expected to be flat, and the administration of President Dilma Rousseff has been mired in corruption scandals that have led to protests calling for her impeachment. Is Brazil prepared to put on the 2016 Olympics in Rio de Janeiro? Will Rio have the infrastructure and financial resources required for the event? Is there a chance social protests in Brazil could grow and affect the Olympics? What economic lessons can be drawn from Brazil's experience hosting the 2014 World Cup that should be applied to preparation for the Olympics?

A Ben Supple, associate vice president at The Cohen Group: "President Rousseff and her compatriots are in need of a good news story, and next summer's Olympic Games, if executed well over the home stretch, could provide the positive spark to turn things around. On the other hand, if the organizers cut corners due to budgetary pressures or World Cup-induced complacency, the games could round out the perfect storm that's brewing. Currently, there is reason to be optimistic: the Rio 2016 Olympic Committee has a strong leader in CEO Sidney Levy, the infrastructure legacy of the 2007 PanAm Games and the 2014 World Cup have given Rio a valuable head start, and President Rousseff has publicly re-affirmed her commitment to a successful event. However, as with all Olympic Games, the final year is the most critical and the most challenging—the Organizing Committee needs to expand from just over 1,000 employees to nearly 7,000 by next summer, a 70,000-person volunteer workforce must be erected, and a large number of temporary venues and critical security systems have to be built to

Continued on page 2

Peru's Attorney General Ordered Dismissed After Graft Probe

A Peruvian judiciary commission on Wednesday ordered the dismissal of Attorney General Carlos Ramos Heredia, who had been suspended since December. The commission probed allegations of corruption, which Ramos Heredia denies. See story on page 2.

File Photo: TV Perú.

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NEWS BRIEFS

Colombia's FARC Wants ELN to Join Peace Talks With Gov't

The leader of the FARC, Colombia's largest rebel group, is calling for the smaller ELN guerrilla group to join the ongoing peace talks between it and the Colombian government aimed at ending decades of armed conflict, BBC News reported Wednesday. FARC leader Timochenko said the matter is urgent, and Colombian President Juan Manuel Santos said Monday he had arranged a meeting between FARC and ELN leaders. The ELN has been negotiating secretly with the government for a year.

Guyana's Governing Party Seeks Recount After Election

The party of Guyanese President Donald Ramotar on Wednesday asked for a recount of ballots from the country's presidential and parliamentary elections Monday, the Associated Press reported. The People's Progressive Party said it is concerned by an "extremely" high number of rejected ballots. The party also said some of its members were forced to flee polling places by opposition supporters. The main opposition coalition said it has a commanding lead.

Chile's CorpBanca Says Deal With Itaú Unibanco Undervalues It

Chilean bank **CorpBanca** said Wednesday that a deal made in January 2014 with Brazil's **Itaú Unibanco** significantly undervalues it, with its strong results over the last year and a weak performance by Itaú's local unit leaving a shortfall of $1 billion between the agreed upon price and its current value, CorpBanca said in a statement to the local regulator. The deal would be the largest combination of banks in Latin America since 2008.

Political News

Commission Orders Dismissal of Peru's Attorney General

A commission that oversees Peru's judiciary on Wednesday ordered the dismissal of Attorney General Carlos Ramos Heredia after a corruption investigation, the Associated Press reported. The National Judiciary Council said it voted 5-1 to dismiss Ramos Heredia, who had been suspended from his position since December as the commission investigated allegations of corruption that predate his becoming attorney general in May 2014. The accusations surrounded Ramos Heredia's alleged connections to César Álvarez, the jailed former governor of Ancash province, BBC News reported. Álvarez is on trial for alleged corruption in the rich mining province, and Ramos Heredia is accused of covering up for him during his time heading an auditing department. Álvarez is accused of accepting bribes in exchange for public works contracts, and investigators have accused Ramos Heredia of orchestrating the firing of prosecutors probing Álvarez. Ramos Heredia said the accusations against him amount to "a plot and conspiracy against me." He can appeal the decision within five days. Pablo Sánchez, who has been standing in as attorney general on an interim basis since Ramos Heredia's suspension in December, is expected to formally assume the post. Ramos Heredia's dismissal came six weeks after Prime Minister Ana Jara was sacked after being criticized for failing to control the government's intelligence service, which was accused of spying on politicians, businesspeople and journalists. The scandals have taken a toll on President Ollanta Humala's approval rating, which last month fell to 24 percent, according to a poll. [Editor's note: See related Q&A in the April 17 issue of the *Advisor*.]

Álvarez

File Photo: Peruvian Government.

Economic News

Venezuela's Unofficial Exchange Rate Rises Above 300 Bolívars Per Dollar

Venezuela's unofficial exchange rate weakened on Wednesday to more than 300 bolívars per dollar as the government's changes to the nation's rigid currency control system fail to meet demand for dollars in the country, Reuters reported. The bolí-

Featured Q&A

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high standards and on a tight timeline and budget. While the recent World Cup offered valuable lessons at large-event management, it would be foolhardy to conflate the two events–the Olympics are wholly unique, with simultaneous events across dozens of venues for 16 consecutive days, not to mention the Paralympics. Finally, Brazil should not be ashamed to utilize the experience of past Olympic hosts–after all, the Olympics are meant to promote global camaraderie, and the international community is rooting for Brazil to deliver the Olympic spirit to South America for many decades to come."

A Milena Matone Strasser, São Paulo-based managing director, and John Price, Miami-based managing director, both at Americas Market Intelligence, LLC: "When the wheels are no longer greased, will they grind to a halt? Brazil's World Cup infrastructure was built just in time, with only a few days to spare. The rush to the finish line drove costs way over budget, in part, due to massive graft. Now that Brazil is beset with the largest and most public corruption scandal in history, at Petrobras, no one is willing to grease the machinery of suppliers, public sector unions and local bureaucrats to

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var has fallen about 43 percent since the beginning of the year and hit 300.72 per dollar on Wednesday, according to wide-used Web site DolarToday, which tracks the unofficial exchange rate. In February, Venezuela's government introduced a third tier in the currency system known as

In February, the government introduced a third tier in its currency exchange system.

Simadi to allow importers to buy dollars at a higher cost in local currency than the other official exchange rates. The change was intended to boost imports and ease consumer shortages of basic goods, but a limited supply of dollars allocated to the system has driven up the black-market rate. "As long as the government doesn't make corrections [to the exchange system], the black market rate will keep going up," economist Asdrúbal Oliveros of **Ecoanalítica** in Caracas told the news service. He added that the biggest consequence will be higher inflation. President Nicolás Maduro has blamed Venezuela's economic troubles and shortages on an "economic war" waged by elite businessmen and opposition forces, while critics blame the policies of Maduro and his predecessor, the late Hugo Chávez.

Company News

HSBC Reportedly May Select Bidder for Brazil Unit by Late June

Britain's **HSBC Holdings** could select a winning bidder for its Brazil unit by the end of next month, three sources with knowledge of the matter told Reuters on Wednesday. HSBC's chief executive officer, Stuart Gulliver, has targeted Brazil, Mexico, Turkey and the United States as potential locations for shedding assets. Bids for the Brazil unit may not surpass its book value of 10 billion reais ($3.3 billion), the wire service reported. **Banco Bradesco**, **Banco Santander Brasil** and **Grupo BTG Pactual** have had access to the preliminary documents for the sale, the sources told Reuters.

Legal Briefs

Citigroup Facing Lawsuit in Argentina

Argentina has sued **Citigroup** and some of its employees in the South American nation could face criminal charges as the bank has been caught up in the battle between Argentina and U.S. hedge funds, the bank said Monday in a regulatory filing to the U.S. Securities and Exchange Commission, according to Agence France-Presse. Since late March, Argentine officials "have taken certain adverse actions against Citi Argentina, including filing a lawsuit against Citi Argentina and instituting a suspension of certain activities," the U.S. bank said. It faces "the loss of licenses to operate in Argentina and criminal charges against bank employees." The announcement comes amid an ongoing battle between Argentina and holdout bondholders who refused to accept debt restricting and are instead seeking full repayment on defaulted bonds. In early March, U.S. District Court Judge Thomas Griesa said Citigroup could not handle payments of Argentine bonds, prompting Citi to announce that it would exit the Argentine custody business. Griesa allowed Citi to handle two more interest payments as it finalizes its exit. Argentina has ignored the rulings and in March suspended the head of Citi's Argentine operations.

Holdouts Target Argentina's Latest Bond Issuance

A small group of hedge funds that are seeking full repayment on Argentina's defaulted sovereign bonds on Monday asked a U.S. court to expand the scope of its injunction and make more of the country's debt, including recently-issued bonds, subject to the court's order blocking Argentina from making payments on its debt without also paying the holdouts, Reuters reported. One of the lead holdouts, **Aurelius Capital Management**, is seeking to extend U.S. District Court Judge Thomas Griesa's ruling that Argentina's current bonds are subject to equal treatment, or pari passu, with defaulted ones. Last month, Argentina issued $1.4 billion of BONAR 2024 bonds, which are denominated in dollars but governed by local Argentine law. Aurelius and the other holdouts say that Argentina issued the debt to get around the judge's order, but there is no reason why Argentina "should be allowed to issue more of these bonds and make payments on these bonds without making a ratable payment under Plaintiffs' bonds." In a statement on Monday, Argentina's Economy Ministry rejected the hedge funds claims, saying "This is internal debt in foreign currency, which has nothing to do with Judge Griesa's jurisdiction," according to MercoPress.

Petrobras Planning Lawsuits to Recoup Some Corruption Loses

Brazilian state oil company **Petrobras** said May 8 that it is planning to sue five construction and engineering firms and their executives in an effort to recoup 1.3 billion reais ($440 million) that was lost in the company's massive corruption scandal, Reuters reported. Petrobras said in a securities filing that in conjunction with the federal prosecutors' office it has already filed lawsuits seeking 452 million reais from engineering firms **Engevix** and **Mendes Júnior** and some top level management, and it plans to file lawsuits seeking 826 million reais from **Galvão Engenharia**, **OAS Engenharia** and **Camargo Corrêa** and some of their senior executives in the coming weeks.

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Featured Q&A

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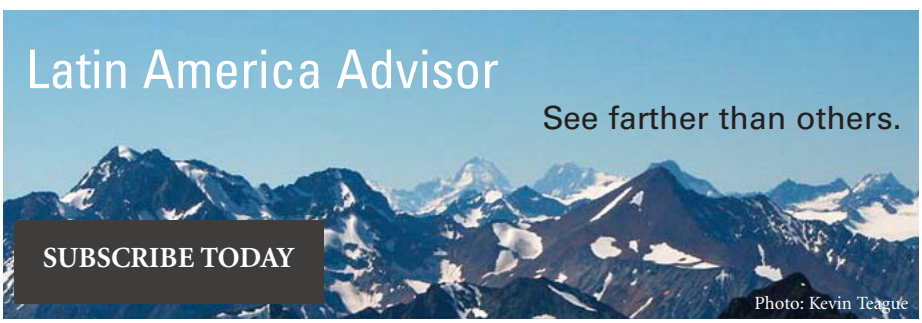
finish preparations for the 2016 Rio de Janeiro Olympics. Dilma has spent all of her political capital skirting blame for the Petrobras scandal and combatting stagflation such that she has neither the stomach nor leverage to brow-beat all the needed players into coordinating completion of Rio's multiple infrastructure projects. She is damned if she does (spend her way to the finish line, raising the ire of voters who are sick of government waste) and damned if she doesn't (and embarrasses the whole country when the world's spotlight shines upon an unprepared Rio de Janeiro). After hosting a successful World Cup, many are optimistic about the Rio Olympics. However, the political, fiscal and social reality today in Brazil is a sharp contrast from two years ago. The pessimists may turn out to be right this time."

> "The pessimists may turn out to be right this time."
>
> *— Milena Matone Strasser & John Price*

A Christopher Gaffney, senior research fellow it the Department of Geography at the University of Zurich: "The questions of preparedness for the Olympics are always slightly misplaced. What should concern Brazilians are questions regarding the condition of the country after the floodlights have turned off. 'Will Rio de Janeiro be better for having hosted the Olympics?' is a very different question than the IOC's repetitive intonations of 'preparedness.' Every independent economic evaluation of the Olympics and World Cup indicate that they are not good investments. Every analysis of human rights indicates that these events weaken democracy, concentrate wealth and militarize urban space. Tourism does not increase, the poor are marginalized even further, public space is privatized and parallel governments are installed to carry off projects designed and implemented by vested interests. The lessons from Brazil's hosting of the World Cup were that while the ball is rolling, the police are on the streets to quell protests. Brazilians are wonderful hosts that won't want to 'air dirty laundry' during the Olympics—and it will be a fantastic party with a crushing hangover. However, it is undeniable that social protests will grow as the event approaches, calling into question yet again the wisdom of dipping deep into public coffers to extract billions for the production of a global spectacle staged for the benefit of the national and transnational elite."

> "What should concern Brazilians are questions regarding the condition of the country after the floodlights have turned off."
>
> *— Christopher Gaffney*

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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