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THEDIALOGUE

FEATURED Q&A

Is Puerto Rico Headed for a Massive Default?

Only two U.S. states have a debt burden greater than that of Puerto Rico. // File Photo: stockmonkeys.com.

Q Puerto Rico's governor, Alejandro García Padilla, submitted a $9.8 billion budget for approval May 20 that calls for cutting $674 million in the face of a looming payment deadline on $72 billion in public debt, a level of burden matched only among states by New York and California, a Bloomberg News article pointed out. García proposes to close 95 schools and 20 public agencies to cut costs. How will the legislature respond to the proposed budget? How can Puerto Rico best address its most immediate fiscal problems? What can the United States be doing to assist? Should the U.S. Congress pass pending legislation that would provide bankruptcy protection to Puerto Rico?

A Emilio Pantojas García, senior researcher and professor of sociology at the Center for Social Research at the University of Puerto Rico: "The Puerto Rican fiscal crisis is rooted in bad governance: corruption, cronyism and misadministration are its root causes. According to the World Economic Forum's Competitiveness Index, the island ranks 32 out of 144 countries included. Yet it ranks 57 in public trust in politicians, 66 in transparency, 83 in favoritism in decisions of government officials and 112 in wastefulness of government spending. The proposed budget includes some cuts, but it only scratches the surface. There are no plans for government reform, and cutting 20 out of 140-plus agencies and only 95 schools will not make a dent in the problem. Both the federal government and the credit rating agencies are aware of these realities, which partially explain why rating agencies continue to downgrade Puerto Rico after watching the kakistocracy maneuver to get

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TODAY'S NEWS

ECONOMIC

Brazil's Rousseff Unveils $64 Billion Plan to Improve Infrastructure

President Dilma Rousseff said the move is an effort to boost economic development in the South American country.

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POLITICAL

Argentina's Massa Expected to Announce Bid for Presidency

Sergio Massa is facing a midnight deadline to declare his candidacy for the presidential election.

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POLITICAL

Venezuela Denies González From Visiting Jailed Politicians

Venezuela's government on Tuesday did not respond to requests by Spanish Prime Minister Felipe González permission to visit three jailed opposition leaders whose cases he is assisting as an attorney.

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González // File Photo: Spanish Government.

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POLITICAL NEWS

Venezuela Denies González Permission to Visit Jailed Opposition Leaders

Venezuela's government on Tuesday denied former Spanish Prime Minister Felipe González permission to visit two jailed opposition leaders with whose cases he is assisting as an attorney, El Universal reported. Neither the government of President Nicolás Maduro nor judges officially replied to González's request to visit Leopoldo López or attend a court hearing scheduled for today in his case. The government and judges also did not respond to González's request to visit jailed former San Cristóbal Mayor Daniel Ceballos. González also had requested but failed to receive permission to visit jailed Caracas Mayor Antonio Ledezma, who on Tuesday had a hearing scheduled that was later adjourned. López attorney Juan Carlos Gutiérrez told EFE that González was not allowed to have any contact with his client. "All the necessary documents have been presented for the authorities to allow him to attend the trial and to enter the prisons, but no official response has been received in writing," After being denied permission to visit the jailed opposition leaders, González departed Caracas for Bogotá at 11:30 a.m. Tuesday. Gutiérrez said the former Spanish prime minister is not ruling out a return to Venezuela "at a time when the Venezuelan authorities allow him to attend the trials or visit the prisoners," EFE reported. Gutiérrez added, "He does not want a confrontation with the government, he doesn't want to break the law." After arriving Sunday in the Venezuelan capital, González met with family members of the jailed opposition leaders in addition to members of the opposition Democratic Unity Roundtable, or MUD. López and Ceballos were imprisoned on charges related to last year's deadly anti-government protests in Venezuela. Ledezma, who was arrested earlier this year, was jailed on conspiracy charges. The opposition leaders deny wrongdoing.

> **"[González] does not want a confrontation with the government; he doesn't want to break the law."**
>
> **— Juan Carlos Gutiérrez**

ECONOMIC NEWS

Brazil's Rousseff Unveils $64 Billion Infrastructure Plan

Brazilian President Dilma Rousseff announced a $64 billion infrastructure spending package on Tuesday, targeting investment in highways, railroads, ports and airports, Agence France-Presse reported. "Today is an important day in my second term. We're here not just to announce big numbers and ambitious projects. We're here especially to renew our commitment to the development of our country," said Rousseff. The government has slated more than one-third of the new expenditures, $22 billion, for spending by the end of 2018, with the remaining $42 billion to be spent starting in 2019. While South America's largest economy allocated billions of reais for soccer stadiums and other sports infrastructure leading up to the World Cup in 2014 and the Rio Olympics in 2016, business leaders have long complained that a lack of modern transportation channels to get products efficiently in and out of the country has been a drag on economic development. A recession this year and meager outlook for growth in 2016 have pushed the government to offer better terms for private sector investors. "Our model of concessions will guarantee that consumers get quality services at fair prices and companies get an adequate return on their investments," Rousseff said during the presentation at the presidential palace, Reuters reported. A previous effort by Rousseff to lure private investment in 2012

NEWS BRIEFS

Argentina's Massa Scheduled to Announce Candidacy Tonight

Facing a midnight deadline to decide whether to run as a presidential candidate in Argentina's election in October, Sergio Massa is poised to confirm his candidacy at a press conference scheduled for tonight, Clarín reported, citing several sources with his campaign. The 43-year-old dissident Peronist, who was cabinet chief under President Cristina Fernández de Kirchner, would take first-round votes away from Buenos Aires Governor Daniel Scioli, the likely candidate for the ruling Victory Front, pollsters told Bloomberg News this week.

Argentine Sports Exec Surrenders in FIFA Case

Alejandro Burzaco, an Argentine sports marketing executive who had been named in the U.S. indictment of individuals in the massive FIFA corruption case, on Tuesday surrendered to authorities in Italy, Agence France-Presse reported. Burzaco was arrested after he "turning up spontaneously" at a police station in Bolzano, near the Swiss border.

Mexico's Annual Inflation Rate Hits Lowest Level Since 1968

Mexico's central bank said Tuesday that the inflation rate fell in May to the lowest since 1968, Bloomberg News reported. Annual inflation eased to 2.88 percent from 3.06 percent, dipping below the central bank target for only the second time ever. Prices slid 0.5 percent from the prior month, as electricity prices tumbled and fresh food costs fell. Core prices, which exclude energy and farm costs, increased 0.12 percent in May from a month earlier. Meanwhile, Mexico's peso last week declined to the weakest level since 1993, according to the report.

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managed to attract only about 20 percent of the targeted funds, with no bidders at all for the 14 railways and 160 port terminals on offer, according to the report. State development bank BNDES will have a "relevant" role in financing infrastructure building, providing low-cost financing of up to 70 percent of project costs for railways if private financing is raised, she said.

Volume of Mobile Devices Shipped in Region Grows 25%

The number of mobile devices shipped in Latin America increased 25 percent in the first quarter of 2015 as compared the same period a year ago, Hong Kong-based Counterpoint Research said in a report released Tuesday. Sequential quarterly growth of 4 percent is "particularly impressive" considering the first quarter is "traditionally the weakest quarter of the year across the region" for shipments, the report's authors stated. Seventy-seven percent of total mobile devices shipped in Central and South America were smartphones. Sales varied by country, however. Peru posted smaller demand for smartphones, while in Argentina, due to government protectionist measures and import restrictions, vendors are manufacturing and selling only the more profitable smartphones. Latin America ranks third, behind North America and Europe, in global smartphone shipment penetration. Apple became the region's third-largest mobile market player for the first time, seeing its share of smartphones surge from 5.4 percent to 10.1 percent year-over-year. South Korea's Samsung remained the top smartphone seller in Latin America for a 15th consecutive quarter. LG ranked second, with stronger performance in Brazil and Mexico, although its market share slipped to 11 percent. Among the regional brands, Lanix of Mexico and Multilaser of Brazil ranked among the top five handset suppliers in their respective countries. Other brands to watch out for in the coming quarters are Blu, Bmobile, Avvio and Azumi which are growing fast in key Latin American markets such as Peru or Colombia.

BUSINESS NEWS

Embraer May Shutter China Factory Amid Slow Sales

Brazilian aircraft manufacturer Embraer may close its business-jet production facility in Harbin, China amid slow sales, Bloomberg News reported Tuesday, citing unnamed people familiar with the matter. This year, the Embraer factory delivered two Legacy business jets, according to one of the sources. The aircraft maker has forecast delivering as many as 130 business jets in 2015, which are produced in its manufacturing plants in Brazil and the United States. The Brazilian company's business has been hurt in China as President Xi Jinping has taken a tough stance against corruption, leading potential executive jet buyers to shun signs of wealth. However, Aviation Industry Corp. of China, the Asian nation's largest aerospace company, has a partnership with Embraer in the plant, so China's government may attempt to keep it open, one of the sources told Bloomberg News.

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more loans. If the federal government and Congress want to help the island, it is not by allowing public corporations to go bankrupt. A better and more productive alternative would be to provide a package guaranteeing the government's debt while imposing strict conditions and a timetable on government and fiscal reform. However, the federal government is unwilling to do this, as it could be interpreted as a precedent-setting action for other jurisdictions in trouble. Another reason could be that having argued that Puerto Rico is a self-governing territory, Washington feels that intervening would give credence to those who claim that Puerto Rico is a colony. Yet, 'conditionality' may be the best way out."

Rafael Cox Alomar, assistant professor of law at the David A. Clarke School of Law at the University of the District of Columbia: "Puerto Rico today is navigating uncharted waters. After two and a half years in office, the García Padilla administration has shown itself incapable of articulating a coherent and effective strategy for addressing the island's impending bankruptcy. Having just failed to pass comprehensive tax reform, due in no small measure to its lack of credibility both at home and abroad, it has embarked down the perilous path of enacting further pro-cyclical measures. On July 1, for instance, the local sales tax will increase from 7 percent to 11.5 percent, while a new business-to-business tax of 4 percent will enter into effect on Oct. 1,

> **"The local authorities do not seem to understand that Puerto Rico will not tax itself out of the crisis."**
>
> **— Rafael Cox Alomar**

which in turn will reach 10.5 percent by April 1, 2016. The local authorities do not seem to understand that Puerto Rico will not tax itself out of the crisis, nor will it be able to pay off its $72 billion debt by increasing the tax liability of its emasculated labor force (which only amounts to 41 percent of the total population). Addressing Puerto Rico's absence of liquidity and revenue shortfalls requires not only profound governmental re-engineering and massive budget cuts, but more importantly re-investing the island's limited resources in its depressed economy. Hence, it is time to take a look at the elephant in the room (one which the government has intentionally failed to see), and that is debt restructuring. While enabling Puerto Rican municipalities and

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public corporations to avail themselves of the institutional repertoire provided under Chapter 9 of the U.S. Bankruptcy Code is a step in the right direction, it is not enough. Only extraordinary solutions will overcome such an extraordinary crisis."

José J. Villamil, chairman of the board of Estudios Técnicos in San Juan: "An immediate need in solving Puerto Rico's economic and fiscal problems is for a fiscal system that is simple, easy to implement, easy to monitor and difficult to evade. What we have now is a system that is complex, generates high transaction costs and invites evasion. The recent increase in the sales and use tax (SUT) will generate additional—but not sufficient—revenues and should have been done months earlier. Although cuts can be made in government expenditures, there appears to be an exaggerated view of how much can actually be cut without seriously affecting services. Roughly 50 percent of the budget is devoted to items that, for different reasons, cannot be reduced without major legislative changes, and these will take time. Obviously, a combination of lower government expenditures and higher taxes, including the SUT applied to inter-company transactions, will lead to further contraction in the economy and make recovery more difficult. A default in paying off debt of some public corporations is a possibility. This introduces urgency in the discussions in Congress on whether Puerto Rico should be permitted to use Chapter 9 of the Bankruptcy Code. PDP and PNP leaders have joined—a rare event—to lobby Congress in favor of the measure. The present economic situation in Puerto Rico is the result of previous administrations kicking the can down the road (for example, $42 billion in new debt between 2001 and 2012). The economic and fiscal mess is home grown; the task of rescuing the island's economy is ours, not the federal government's."

> **"The task of rescuing the island's economy is ours, not the federal government's."**
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> **— José J. Villamil**

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