LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Thursday, August 18, 2016

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Devry Boughner Vorwerk
Senior Policy Advisor
Akin Gump Strauss Hauer & Feld, LLP

Joyce Chang
Global Head of Research,
JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Senior Partner,
Catterton Aimara

Marlene Fernández
Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President, Boeing Latin America

Jon Huenemann
Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones
Chairman, ManattJones
Global Strategies

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
Chairman,
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
Policy Advisor, Chatham House

Shelly Shetty
Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo
Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

THEDIALOGUE

FEATURED Q&A

Will Lawmakers Back Kuczynski's Economic Plans ?

Peruvian Prime Minister Fernando Zavala said he is optimistic that Congress will back the government's plan to reduce the value-added tax rate. // File Photo: Peruvian Government.

Q In early August, Peruvian Prime Minister Fernando Zavala expressed optimism that lawmakers would back President Pedro Pablo Kuczynski's plans to improve national infrastructure and access to clean water, adding that tackling informality in the labor force would be a top priority for the administration. Is PPK's government taking the right approach to "modernizing" Peru's economy, and will he find support in the opposition-controlled Congress to advance his plans? What else stands in the way of his success in implementing the new measures? What are the biggest shortcomings and potential pitfalls in PPK's economic reform agenda?

A Juan Ruiz, chief economist for South America at BBVA Research: "PPK's government inherits an economy with both strengths and weaknesses. On the positive side, public debt is low, and there are ample international reserves. In addition, big infrastructure projects are underway, equivalent to around 10 percent of GDP, an important boost to short- and long-term growth. Furthermore, new programs to improve education and civil service are being implemented. But there are also important challenges. Growth has decelerated markedly, admittedly due to more challenging external conditions, but also due to the lack of substantial reforms that would significantly boost productivity during the boom years. Stronger growth is crucial to absorb close to 250,000 new entrants into the labor market each year. And lower informality is also needed to ensure that those new jobs are associated with higher productivity. One way to tackle both objectives is to flexibilize an excessively rigid labor market and to reduce red tape and insecurity—

Continued on page 3

TODAY'S NEWS

POLITICAL

More Than 500 Rescued From Cruise Ship off Puerto Rico

The Caribbean Fantasy, a combination cruise and ferry ship, had caught fire off Puerto Rico 's north coast.

Page 2

ECONOMIC

Chile Awards Contracts in Power Auction

European renewable-energy companies won several of the contracts in the South American country's largest-ever power auction.

Page 2

POLITICAL

Top European Olympic Official Arrested in Rio de Janeiro

Patrick Hickey, the head of the European Olympic Committees and president of Ireland's Olympic Council, was arrested in connection with an alleged scheme to sell Olympic tickets illegally.

Page 2

Hickey // File Photo: Irish Olympic Committee.

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

POLITICAL NEWS

Top European Olympic Official Arrested in Rio

Patrick Hickey, the head of the European Olympic Committees and president of Ireland's Olympic Council was arrested Wednesday in Rio de Janeiro in connection with alleged illegal ticket sales, BBC News reported. Hickey is accused of involvement in a scheme to sell tickets to Olympic events for prices higher than their face value. Authorities had discovered more than 700 tickets marked for sale in a safe with another Irishman, Kevin James Mallon, whom authorities arrested on the opening day of the Rio Olympics earlier this month. Police estimate that the alleged scheme produced some $3.1 million in profit. Hickey stepped down from his Olympic positions following his arrest, according to the Olympic Council of Ireland. Hickey potentially faces three charges: facilitating the touting of tickets to the Games, establishing a cartel, and illicit marketing, Irish broadcaster RTE reported. Hickey denied wrongdoing last week in an interview with RTE. Authorities in Rio de Janeiro said they issued arrest warrants for three other Irishmen, Michael Glynn, Eamonn Collins and Ken Murray, the Financial Times reported. The men are directors of Dublin-based PRO 10 Sports Management, which is Ireland's authorized reseller of tickets for the Olympics. PRO 10 did not comment Wednesday about the arrest warrants, but it did say that any allegation that it had violated International Olympic Committee guidelines was "utterly untrue and completely without any foundation," the Financial Times reported. Meantime, Brazilian police on Wednesday blocked two U.S. Olympic swimmers from boarding a flight home in order to question them about their report of being robbed at gunpoint in Rio de Janeiro, Reuters reported. Television images showed the two swimmers, Gunnar Bentz and Jack Conger, walking into an airport police office to provide testimony. Bentz, Conger and two other U.S. Olympic swimmers, gold medalist Ryan Lochte and James Feigen, reported that they were robbed at gunpoint in Rio early Sunday while returning in a taxi to the Athletes' Village. The incident fanned fears about security at the Games. A judge had raised doubts about the swimmers' accounts of the incident, and investigators have not found any evidence to back up the

Lochte // File Photo: Ubcwwong via Creative Commons.

men's accounts, Reuters reported, citing police sources. None of the men have been charged with any crime, but a judge earlier on Wednesday ordered authorities to seize Lochte's and Feigen's passports. Lochte had already flown back to the United States, however.

ECONOMIC NEWS

Renewable Energy, European Suppliers Win Big at Chilean Energy Auction

Several European suppliers beat out traditionally dominant energy firms in Chile's largest-ever energy auction, driving down electricity prices, Reuters reported Wednesday. The winning bids unexpectedly slashed electricity costs to $47.60 per megawatt hour, significantly lower than the original market expectations of around $80 per megawatt hour. The auction's biggest winners were Endesa, a Spanish subsidiary of the Italian utility giant Enel, and European energy conglomerate Mainstream Renewable Power Ltd., Bloomberg News reported. Wind power will comprise 40 percent of the energy produced by the winning bidders, and a further 12 percent will come from solar, Reuters reported. Bart Doyle, who manages Mainstream's

NEWS BRIEFS

More Than 500 Rescued From Burning Cruise Ship off Puerto Rico's Coastline

More than 500 passengers and crew were rescued from a burning ship a mile off Puerto Rico's north coast on Wednesday, ABC News reported. Though many of the people evacuated required medical care, there were no reported fatalities or life-threatening injuries. U.S. Coast Guard boats carried passengers from the burning Caribbean Fantasy, a combination cruise and ferry ship, to San Juan's harbor. The fire had originally broken out in the engine room and reportedly had been burning for some time before an alarm was sounded.

Two-Thirds of Colombians Would Back Peace Deal: Poll

Approximately two-thirds of Colombian voters will back a peace deal between the government and the FARC rebel group in a plebiscite, according to an opinion poll conducted by polling firm Invamer on behalf of local media Caracol Television, Blu Radio and El Espectador newspaper, Reuters reported Wednesday. The poll showed that 67.5 percent of those voting would approve the deal, in sharp contrast to the results of a poll published by Ipsos Napoleon Franco more than a week ago that indicated that half of Colombian voters would reject a peace deal between the government and the FARC.

DR's Medina Promises Technological Revolution

Danilo Medina was sworn in Tuesday to begin his second term as the Dominican Republic's president, with a vow to boost access to technology in the Caribbean country, The Republic reported. Medina, who won re-election three months ago, said he wants to provide every teacher and student in the Dominican Republic with a computer.

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

operation in Chile, says the auction results could shake up energy markets, as renewables beat out more traditional power sources. "The auction puts a lot of pressure on conventional power and utilities now," Doyle told Bloomberg in a phone interview. The surprisingly competitive bids from new firms shut out Chile's Colbún, as well as subsidiaries of the Arlington-based AES corporation and the French energy conglomerate Engie. All three saw their stocks slide as they failed to secure any new contracts in Chile. The winning bidders in the 12,430-gigawatt hour auction will provide energy for 20 years, starting in 2021 and 2022, divided into five blocks. The energy provided by the auction amounts to approximately one third of Chile's energy needs.

BUSINESS NEWS

JNBS, Citi Facilitating Transfers for Clients Following De-Risking

The Jamaica National Building Society, or JNBS, has partnered with Citibank to facilitate the transfer of funds and pension payments for customers who have been affected by the end of correspondent banking relations with the United Kingdom, The Jamaica Gleaner reported Wednesday. Both JNBS and Jamaica's Victoria Mutual Building Society (VBMS) have operations in the United Kingdom, but their U.K. partner decided a few months ago to terminate its relationship with Caribbean and Latin American financial institutions, amid pushes by many international banks to end relationships with regional banks as part of a de-risking strategy in order to mitigate money-laundering concerns. "This new relationship will enable us to ensure that our members continue to enjoy the convenience of receiving their pension payments directly to their JNBS account and in the currency of their choice," said Paulette Simpson of JNBS' corporate affairs and public policy office in the United Kingdom. Citibank will facilitate the transfer of funds to JNBS customers who receive pensions from the United Kingdom, using the Society's Pension Expediter Service, JNBS said in a statement. JNBS clients will need to provide new instructions to their U.K. pension providers regarding the new partnership with Citibank, Simpson said. [Editor's note: See **Q&A** about the effects of de-risking on Caribbean banks in the May 5-18 issue of the Financial Services Advisor.]

> **Citibank will facilitate the transfer of funds to JNBS customers who receive pensions from Britain.**

FEATURED Q&A / Continued from page 1

apart from continuing to invest in human and physical capital. To implement these necessary reforms to boost productivity and growth, however, PPK's government needs both resources and political capital. And therein lays the greatest difficulty. Fiscal space has greatly diminished in the last years—although the current deficit is manageable—so reducing taxes, as the government proposed, may compromise Peru's sovereign rating without a clear impact on informality rates. Regarding the backing of Congress, it will be relatively easy to find common ground with the opposition on reducing red tape and fighting crime, but it might be much more difficult for more unpopular structural reforms like those aimed at addressing a rigid labor market. It will all depend on the government's ability to negotiate with Congress."

Carlos E. Paredes, director of Intelfin Estudios and Consultoría: "PPK's plans to improve national infrastructure and boost public health and education services will demand significant fiscal resources. Although allocating additional financial resources to foster the new government's programs in these prioritized areas is not a sufficient condition for success, it clearly constitutes a necessary condition in order to secure progress. Therefore, it is puzzling that Mr. Kuczynski is simultaneously proposing to reduce taxes, in particular to progressively lower the VAT and to continue with the income tax reduction schedule decreed under former President Ollanta Humala. Supply-side economics has found its way to the center stage of the economic policy debate in Peru. The minister of finance believes that lowering taxes will reduce the incentives that foster the growth of the informal sector. He and other government officials expect that after an initial drop in tax revenues, the boost in formal economic activity will lead to larger fiscal resources. For many economists, this seems to be a high-risk bet, especially in a context of a rapidly growing budget deficit, which is currently at 3 percent of GDP. However, the Peruvian economy may not be doomed to suffer the effects of a full blown supply-side experiment. This Andean country suffered from major hyperinflation in the late 1980s, and only after a far-reaching stabilization program launched under former President Alberto Fujimori in the early 1990s, was it able to enjoy the benefits sustained economic growth. Nowadays, the political opposition led by Fujimori's daughter will most probably help prevent an unnecessary further weakening of the country's fiscal accounts. Looking at the bright side of PPK's supply-side strategy, we should welcome its emphasis on reducing pervasive governmen-

> **"Supply-side economics has found its way to the center stage of the economic policy debate in Peru."**
>
> **— Carlos E. Paredes**

Continued on page 4

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 3

tal red tape and jump-starting a series of delayed investment projects. If successful, this could prove to be a major turning point in securing higher growth rates for the country."

Francisco Durand, professor of political science at the Catholic University of Peru: "PPK begins with strong approval ratings and a positive economic outlook, yet this situation may deteriorate rapidly. The main problem is congressional opposition from Fujimoristas (73 congressional seats out of 130), and Frente Amplio, the second-largest congressional force (20 seats). Dealing with an independent Congress becomes more complicated because the executive branch is led by business recruits and technocrats with limited political experience. They will shine when presenting policy initiatives, but they do not possess negotiating capacities. Although there is a current prevalence of diplomatic gestures between the presidency and congressional leaders, it is no more than a temporary truce, since neither side wants an early collision. Thus, Congress will provide support to some government initiatives, but sooner rather than later the Fujimoristas will try to pass legislation on their own to assert the party as the main opposition force. The economy, despite Peru's acceptable performance in terms of GDP growth rates and inflation, is the second problem. Growth is sustained on increased mineral exports, thanks to new investment projects entering the production phase. Yet in the urban economy, where the majority lives, employment is up, and consumption levels are down. The fiscal scenario is under control, but PPK's tax-reduction policies, at a time when government spending is likely to increase, do not seem appropriate. Furthermore, reliance on private investment is also risky, since supply-side economics does not necessarily translate into higher investment. PPK's plan to 'unblock' large investment projects in infrastructure and mining will take time and effort, and most do not generate employment where it is most needed."

> **"Sooner rather than later the Fujimoristas will try to pass legislation on their own to assert the party as the main opposition force."**
>
> **— Francisco Durand**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

LATIN AMERICA ADVISOR

Energy Advisor

The answers to questions that informed executives are asking ... every week.

Upgrade your subscription with the Inter-American Dialogue's weekly Energy Advisor. Send an email to **freetrial@thedialogue.org** today.

SUBSCRIBE

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2016

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

Michael Spak
Editorial Intern

THEDIALOGUE

Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Kevin Casas-Zamora, Director, Peter D. Bell Rule of Law Program
Ramón Espinasa, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Alejandro Ganimian, Nonresident Fellow
Peter Hakim, President Emeritus
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Director, Migration, Remittances & Development
Jeffrey Puryear, Senior Fellow
Tamar Solnik, Director, Finance & Administration
Lisa Viscidi, Director, Energy Program

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

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.