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THEDIALOGUE

FEATURED Q&A

Is Ecuador's Digital Currency System Working?

Ecuador's digital money system kicked off in December 2014 under then-President Rafael Correa. // File Photo: Ecuadorean Government.

Q Ecuador is reforming its digital currency system, launched three years ago, in part by removing the country's central bank from the process. Since its rollout, has the digital currency achieved its expected outcomes, such as helping the poor and creating efficiencies? What has been the impact of Ecuador's digital currency on the economy and on the country's banking system? How are banks in Ecuador and elsewhere adapting to the presence of digital currencies? How does Ecuador's digital currency compare to Bitcoin, which is used in Ecuador despite a ban signed by former President Rafael Correa?

A Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorean minister of finance, member of Congress, and central bank president: "Digital currency is not money; it is not a measure of wealth or a savings instrument. It is a numeraire for transactions or, in common parlance these days, 'an electronic wallet.' Former President Rafael Correa, however, had an ulterior motive for its adoption as a central bank-only issue: he wanted to do away with dollarization. In a likely scenario, digital bookings would have been swapped for bank deposits and obligations to institute exchange controls, impounding dollars from exports and doling them out for imports, thus effectively terminating dollarization. The experiment failed miserably. Ecuadoreans have a very strong preference for the greenback. The government platform never took off, and digital transactions represented an inframarginal portion of all payments. Although there is substantial penetration of mobile phones, the network is not redundant

Continued on page 3

TODAY'S NEWS

ECONOMIC

Venezuela Makes Crucial Bond Payment

The chaos surrounding the $842 million payment on a PDVSA bond raised concerns that the country had finally run out of money.

Page 2

BUSINESS

Codelco Expected to Produce Lithium Within Seven Years

Miners around the world are racing to keep up with surging demand for lithium from the electric vehicle industry.

Page 3

POLITICAL

FARC Leader 'Timochenko' to Seek Colombia's Presidency

Rodrigo Londoño, also known as "Timochenko" will run for Colombia's presidency in next year's election. The former rebel group this year transitioned to a political party following its peace accord with Colombia's government.

Page 2

Londoño // File Photo: Colombian Government.

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ECONOMIC NEWS

Venezuela Makes Crucial Bond Payment

Venezuela made a crucial debt payment on Wednesday, just a day before the due date for a bond repayment that does not have a grace period, the Financial Times reported. The apparent chaos leading up to the payment, however, stirred concerns that the country had finally run out of money and would default on a big debt obligation. The South American country and its state oil firm, PDVSA, had failed to make several debt payment deadlines in recent weeks, but the ones they missed have 30-day grace periods during which Venezuela or PDVSA can still make the payments without triggering a default. The most important debt payment made was on Oct. 27, for a PDVSA bond maturing in 2020, which had no grace period. The country's protracted economic crisis; its almost sole dependency on oil and energy exports for revenue, which have been hampered by low global oil prices; and economic sanctions imposed by the United States over the summer have raised concerns that a default would be almost inevitable. However, the country has thus far been able to keep its head above water with its debt repayments. On Oct. 27, the government said it had "begun" transferring the $842 million payment, which has been slowly distributing to bondholders. "PDVSA confirms its full solvency and capacity to meet its commitments, despite the economic war, unjustified imposition of sanctions by Donald Trump, and the sabotage, persecution and financial blockade to which the Republic and its institutions have been subjected by a significant portion of the international financial system as commanded by imperialism," the state oil company said.

> **"PDVSA confirms its full solvency and capacity to meet its commitments, despite the economic war..."**
>
> **— PDVSA**

POLITICAL NEWS

FARC's 'Timochenko' to Seek Colombia's Presidency

Rodrigo Londoño, the leader of Colombia's demobilized FARC rebel group, will seek the country's presidency in next year's election, Colombian daily newspaper El Tiempo reported, citing the FARC's new political party. The FARC signed a peace agreement with President Juan Manuel Santos' government nearly a year ago, formally ending a five-decade armed conflict, and completed a disarmament process this year. The group formed a political party, the Revolutionary Alternative Common Force, preserving its FARC acronym. Londoño, also known as "Timochenko," suffered a stroke this year and was treated in Cuba, Reuters reported. Londoño and other former rebel commanders are likely to face human rights trials, and it is unclear how they would be able to serve in office if convicted. The tribunals that are to put former rebels on trial can hand out sentences of eight years, though those convicted will be able to avoid jail time and instead complete reparations, such as clearing land mines. Under the terms of the peace agreement, the FARC's new political party is guaranteed 10 seats in Congress through 2026. Among its candidates for Senate are ex-guerrilla commanders Iván Márquez, Pablo Catatumbo, Carlos Antonio Lozada and Victoria Sandino, the FARC said Wednesday in a statement. The FARC's political party also will run candidates in five districts for the lower house of Congress. The party added that it was willing to form a coalition with other leftist parties, which was seen as an acknowledgment of its lack of popularity among Colombians, the wire service reported.

NEWS BRIEFS

Temer Returns to Work Following Prostate Surgery

Brazilian President Michel Temer returned to the Planalto Palace in Brasília on Wednesday and will resume a light schedule as he continues to recover from prostate surgery on Oct. 27, the Latin American Herald Tribune reported. He is scheduled to be working on only "internal matters" according to his official agenda, and will meet with key ministers and allied lawmakers at the palace. At his private home where he had been recovering, he met with other members of his government, including Finance Minister Henrique Meirelles.

Hundreds March in Mexico City to Protest Violence Against Women

Some 200 women, dressed in black and wearing skeletal face paint, marched on downtown Mexico City on Wednesday to protest the growing number of women who have been murdered in Mexico and to pressure the government to crack down on what they say is the rampant impunity that permits the violence, Reuters reported. Protesters held photos of murdered sisters, daughters and friends during protests throughout the city on the Day of the Dead. Femicide has risen by nearly a quarter on average under President Enrique Peña Nieto as compared to the previous administration.

Peru's Kuczynski to Visit Argentina

Peruvian President Pedro Pablo Kuczynski this week is visiting Argentina, where he plans to focus on democracy in the region, bilateral economic cooperation and other issues, Peruvian state-run news agency Andina reported Wednesday. The trip, which lasts from today until Saturday, will include Kuczynski's attendance at the Iberoamerican Forum, Andina reported.

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FEATURED Q&A / Continued from page 1

enough or safe enough to clear this type of transaction. Finally, the central bank does not have sufficient liquid assets to back any type of currency, whether material or digital. The wallet works in the same manner as a debit card. Now that the Moreno administration has given the task of setting up digital payment mechanisms to the banks and cooperatives, the financial system should be able to respond and begin the use of the mechanism. The key to the eventual spread of digital currency lies in the fact that debits are charged against existing assets in account holder checkbooks. This new option has nothing to do with Bitcoin, which people do use to speculate on the, hitherto, volatile value of the cryptocurrency."

Pablo Arosemena, president of the Chamber of Commerce of Guayaquil: "Ecuador's government-backed digital currency, in principle, was meant to include people historically excluded from the financial sector. However, the project had aspects that made it unreliable. Most notably, the fact that the central bank would manage it opened the door to inorganic monetary emissions—especially since the central bank lost independence from the government through the 'Monetary and Financial' law the same year. It immediately started acquiring government bonds, and the newly created monetary authority 'compelled' private banks to purchase them too. A direct contagion mechanism between the fiscal and financial sector was established. With oil prices at rock-bottom, the deficit widened, thwarting trust in the digital currency. At the end of 2014, almost 57 percent of the population had bank accounts, whereas in September 2017, only 55 percent did. Similarly, the population increased its preference for cash as a consequence of the use of international reserves by the government. With those numbers in mind, the Moreno administration realized that the digital currency project could only achieve its objectives under a private-sector administration, so the transference was informally agreed upon last June. However, there is still uncertainty surrounding the details, as it would imply alterations to the 'Monetary and Financial' law of 2014 that have not been enacted. Additionally, there is still no legislation in Ecuador to permit the usage of other digital currencies, so it is not a priority for the financial system. In fact, the case of e-money in Ecuador is effectively an e-wallet used to make virtual payments and reduce the use of cash. On a more general note, the broader financial sector is showing healthy signs of growth. Deposits and credits are above the pre-2014 to 2016 crisis level, and the delinquency rate shows a downward trend. The last GDP figures show a strong 3.3 percent year-over-year growth up to last June, and we expect that a more dynamic and efficient financial sector will be able to support the expansion cycle of the economy."

> **"The project had aspects that made it unreliable."**
>
> **— Pablo Arosemena**

Oscar Bazoberry, CEO of World Network of Cooperatives, a World Data Affiliate: "Ecuador's digital currency experiment has gone through three phases so far: great idea, poor implementation and a new beginning. It is a great idea for a country to have a well-implemented digital currency, and I think it is the way of the future. Ecuador's initial digital currency platform was launched in December 2014 by its central bank. Initially the central bank was the only authorized entity to create and operate the digital

Continued on page 4

"We manifest our willingness to hold talks with all social political groups and movements to make united lists," the FARC said. More than 11,000 FARC rebels handed their weapons over to the United Nations during the demobilization process this year, but another 1,000 refused to disarm and are still engaged in drug trafficking and illegal mining activities. The government has authorized air raids against the dissidents, and the FARC has sought to distance itself from them. [Editor's note: See **Q&A** on the FARC's political future in the Aug. 11 issue of the Advisor.]

BUSINESS NEWS

Codelco Expected to Produce Lithium Within Seven Years

Chile expects state-owned miner Codelco to produce its first lithium in the next six or seven years, as miners around the world are racing to keep up with growing demand from the electric vehicle industry, Mining Minister Aurora Williams said Wednesday, Reuters reported. Most of the country's 7.5 million metric tons of lithium deposits, which are key to making rechargeable batteries for electric vehicles, are found in brine deposits, which take at least seven years to develop. Though there are private developers that are mining lithium in Chile, this will be the first time the world's largest copper producer will be expanding into lithium production. The government is hoping that Codelco will decide on a strategic partner to help develop the resource before a new government is elected and takes office on March 11. "This is Codelco's decision; the company has its own board. But we hope that this final phase will realistically be over while we are still in government," Williams said. Codelco will most likely already see a benefit from the boom in the electric vehicles sector—an electric car needs approximately 75 kilograms of copper, whereas a conventional fossil fuel-powered car requires only 25 kilograms. Demand for lithium is expected to surge over the next few years.

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FEATURED Q&A / Continued from page 3

accounts, as well as to control the value of its digital currency (in theory pegged 100 percent to the dollar). The platform supports a USSD mobile end-user interface. This implementation has not prospered, due to the private financial sector's lack of confidence in the government and the great limitations of its platform and model. The newly elected Ecuadorean government has decentralized the use of digital currency, where now private banks and credit unions may have their own platforms to operate alongside the central bank one. This is an exciting move by the government, but there are a few key recommendations to ensure long-term success: 1) mandate interoperability among financial institutions and financial networks; 2) ensure the participation of existing networks in a fair manner; 3) empower existing networks serving community-based organizations to grow and to innovate; and 4) move expediently to have an efficient and dynamic regulatory framework with clear rules. In summary, for the Ecuadorean government to succeed, it needs to commit to fostering the use of digital currency as a strategy for growth across all industries. The Ecuadorean digital currency strategy needs to evolve over time from solving the 'scarcity of dollars problem' to one that will consider an 'all-encompassing development' from the ground up, based on the new revolution of digital ledger technology and associated smart contracts technology."

> **"It is a great idea for a country to have a well-implemented digital currency..."**
>
> **— Oscar Bazoberry**

Vicente Albornoz, dean of business and economics at the at the Universidad de Las Américas in Quito: "The electronic currency created by Ecuador's central bank was not a real currency. It was just an electronic platform that made it possible to transfer small amounts of money via text-messages (that is, with no need for smartphones). The danger with this 'electronic money' was that it allowed for the inorganic creation of money in a dollarized economy, precisely because it was managed by the central bank. Now the whole system is being transferred from the central bank to the private banks, which lessens the danger of monetary creation, almost to being nonexistent. This Ecuadorean version of 'digital money' was not, in any way, related to a 'digital currency,' precisely because it was managed by a central bank and because it lacks a decentralized ledger like the blockchain used by bitcoin. The disappearance of electronic money managed by the central bank and its transfer to private banks is good news for the monetary system, because it averts any monetary creation in a dollarized economy."

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