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FEATURED Q&A

Does Puerto Rico's Bond Restructuring Offer a Fresh Start?

Without any restructuring, Puerto Rico's payments on the Cofina bonds would have increased from $700 million a year to an untenable $1.8 billion annually, Brad Setser writes below. // File Photo: CC BY-NC-SA 2.0.

Q **Puerto Rico's government has won court approval for a restructuring deal that wipes out one-third of its $18 billion in sales-tax bond debt. The plan, which covers revenue bonds known as Cofinas, marks the largest renegotiation yet of the U.S. territory's bond and pension obligations, The Wall Street Journal reported. Who are the biggest winners and losers from the court's decision? Will the Cofinas restructuring play a big role in turning around Puerto Rico's struggling economy? What else needs to happen in order to set Puerto Rico on the path toward stable growth?**

A **Brad Setser, Steven A. Tananbaum senior fellow for international economics at the Council on Foreign Relations:** "The biggest winners from the restructuring deal are the holders of Cofina (sales-tax-backed) bonds. The senior Cofina bonds only took a tiny haircut, and the junior Cofina bonds also did relatively well given the uncertainty about Puerto Rico's future ability to honor its debt. The Cofina structure was an enormously bad structure for Puerto Rico. The headline number—$18 billion in bonds outstanding—understates the real burden of these bonds, as only about $12 billion of those were paying interest now while the capital appreciation bonds were growing in value in the background. Without any restructuring, Puerto Rico's payments on the Cofina bonds would have increased from $700 million a year to an untenable $1.8 billion annually. The agreed restructuring lowers current payments to around $500 million a year—but those payments step up over time and will reach $1 billion a year in roughly 20 years and then stay there for another 20 years. That's less than the full contractual payment

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Brazil Scandals Cast Shadow Over Pension Reforms

On his first day back at work after a two-week hospital stay, Brazilian President Jair Bolsonaro on Thursday found himself confronting growing scandals and controversy within his own cabinet. He had hoped to unveil new details on pension reform plans.

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Bolsonaro // File Photo: Brazilian Government.

POLITICAL NEWS

Haitian President Breaks Silence, Remains Defiant

Haitian President Jovenel Moïse on Thursday broke his silence after a week of violent protests demanding his resignation left at least seven people dead, Agence France-Presse reported. "I will not leave the country in the hands of armed gangs and drug traffickers," Moïse said in a pre-recorded address broadcast on state television. Daily life has been paralyzed by the looting, burned-out cars and

Moïse // File Photo: Haitian Government.

barricades in the country's largest towns, with businesses shuttered and people running out of food and basic necessities. The protests have become an expression of Haitians' frustration with corruption, high inflation for consumer goods and a fast devaluing currency, analysts say. Meanwhile, the United States announced it was removing "non-emergency personnel" from the country on Thursday, the same day that Canada said it was temporarily shuttering its embassy. About 100 tourists from Quebec are stranded at a resort 80 kilometers north of Port-au-Prince, CBC News reported Thursday. Flights are operating in and out of the country, but transit locally has become difficult and dangerous, according to the report. Earlier this week Moïse recalled his ambassador to the United States, Paul Altidor, who had served seven years in Washington but had expressed his interest in leaving the post a year ago, the Miami Herald reported.

SUBSCRIBER NOTICE

The Advisor will not be published on Monday in observance of the Presidents' Day holiday in the United States.

Venezuela's Maduro Offers to Meet With U.S. Envoy, Trump

Facing the biggest threat to his grip on power in years, Venezuelan President Nicolás Maduro is inviting the United States' special envoy, Elliott Abrams, to come to Venezuela for dialogue, the Associated Press reported Thursday. Maduro also revealed in an interview with the news service that his foreign minister recently held secret meetings with Abrams in New York. The second of two meetings took place four days after Abrams said the time for dialogue with Maduro's government had passed, according to the report. Maduro, who has not allowed humanitarian aid to enter the country despite a high-profile international campaign to stockpile supplies, said he holds out hope of meeting with U.S. President Donald Trump to resolve an impasse over the recognition of opposition leader Juan Guaidó as Venezuela's rightful leader. "If he wants to meet, just tell me when, where and how and I'll be there," Maduro said. Meanwhile, British billionaire businessman Richard Branson said Thursday he is organizing a concert in the Colombian border city of Cúcuta next week to raise funds for the humanitarian relief effort, CNBC reported. "We must break this impasse or soon, many Venezuelans will be on the verge of starvation or death," Branson said in a video posted on social media, adding that the effort aims to raise $100 million in 60 days. The concert is scheduled for Feb. 22, a day before a deadline Guaidó has set for Maduro and the country's military to allow aid across the border from Cúcuta. The U.S. Agency for International Development is stockpiling supplies at the Colombian border and is also looking into ways to fly supplies into the country, the agency's Latin America and the Caribbean bureau head, Steve Olive, told U.S. lawmakers in a hearing Wednesday, Devex reported.

NEWS BRIEFS

China's DiDi Plans to Enter Chilean Market

Beijing-based ride-hailing giant DiDi Chuxing plans to launch operations in Chile in the first half of this year, Diario Financiero reported Thursday. The country will be its third market in Latin America, after entering Brazil and Mexico last year. According to the report, DiDi has hired Felipe Simonsohn to handle government relations and public policy locally. He currently directs corporate and regulatory affairs at telecommunications service provider WOM.

Brazilian Police Arrest Eight Vale Employees

Eight employees of Brazilian mining giant Vale were arrested Thursday as part of a criminal investigation into an industrial tailings dam that burst last month, killing more than 150 people, Folha de S.Paulo reported. Four people from German consulting group Tüv Süd, which was hired to certify the dam, have also been detained. Vale has lost a quarter of its market value, or nearly $19 billion, since the Jan. 25 dam burst, BBC News reported. [Editor's note: See related **Q&A** in the Feb. 12 issue of the Advisor.]

Peru Posts Strong Growth in 2018

Peru's gross domestic product grew 3.99 percent last year, Andina reported Thursday, citing new data from state statistics agency Inei. The annual figure marks the 20th year of economic expansion in the Andean country. The fishing industry expanded by nearly 40 percent last year, while agriculture grew 7.54 percent, manufacturing by 6.17 percent, financial and insurance services by 5.74 percent, and telecommunications and other information services by 5.52 percent. Traditionally important natural resources industries declined last year, however, with the mining and hydrocarbons sector decreasing by 1.29 percent.

ECONOMIC NEWS

Brazil Scandals Cast Shadow Over Pension Reform Plans

On his first day back at work after a two-week hospital stay, Brazilian President Jair Bolsonaro on Thursday found himself confronting growing scandals and controversy within his own cabinet, Reuters reported. Bolsonaro had hoped to unveil final changes this week to a massive pension system overhaul seen as essential to economic stability, but scandals over party financing and the conduct of his sons has instead dominated headlines, potentially sapping his political capital at a critical point early in his administration. Gustavo Bebianno, who holds the title of secretary general to Bolsonaro and is one of his closest aides, has come under fire amid reports of the misuse of campaign funds by the political party he led, the right-wing Social Liberal Party (PSL), in last year's elections. Bolsonaro is reportedly considering his dismissal. Meanwhile, the president's eldest son, Sen. Flávio Bolsonaro, 37, faces accusations of money laundering from prosecutors. In an interview with Reuters, Brazilian Vice President Hamilton Mourão said on Thursday that the president will have to "rein in his sons" after one of them called a minister a liar on social media. Younger brother Eduardo Bolsonaro, who has become a sort of foreign envoy for his father, last week told reporters that Mourão was unhelpful and unimportant for Bolsonaro's foreign policy. Despite the cabinet discord, Mourão remained optimistic about the pension reforms. "Congress now understands Brazil needs pension reform," Mourão told The Wall Street Journal in an interview Thursday. "It can be approved in five or six months."

> **"It can be approved in five or six months."**
> — Hamilton Mourão

HEALTH BRIEFS

Telemedicine Adoption Rates Found Lacking Across Latin America: Study

A new study has found a wide disparity among Latin American countries adopting telemedicine practices, MobiHealth News reported last week. The study, published in Health Affairs and undertaken by researchers at Florida International University, covered nine countries of the region. They found that 65 percent of hospitals in Chile reported using the telemedicine technologies; however, only 25 percent of hospitals in Colombia had adopted the practice. Argentina, Costa Rica, Mexico and Peru each had less than a 30 percent adoption rate. Uruguay and Guatemala both saw adoption rates in the mid-40 percents, and 35 percent of hospitals in Panama were using the technology. "Our study confirms that telemedicine adoption is widespread in Latin America but has not yet achieved its full potential in terms of broad program scale," the authors said.

Seven Times More Latin Americans Dying From NCDs Than Infectious Diseases: PAHO

Noncommunicable diseases such as heart disease, cancer and strokes are the main causes of death in the Americas, causing seven times more deaths than infectious diseases, according to a report from the Pan American Health Organization, or PAHO, released Wednesday. The report presents the Washington-based organization's most recent data from 49 countries and territories. The death rate for noncommunicable diseases is 427.6 people per 100,000 population, while the death rate for infectious, or communicable, diseases is 59.9 people per 100,000 population, according to the study. Among infectious diseases, Latin America and the Caribbean in 2017 registered approximately 580,000 cases of dengue, with 44 percent of the total reported in Brazil, more than 31,000 cases of leprosy and more than 13,800 cholera cases, of which 99 percent were reported in Haiti. [Editor's note: See related Q&A in the Dec. 15, 2017 issue of the Advisor.]

Brazil Dam Disaster Could Lead to New Health Problems: Fiocruz

Brazilian research institute Fiocruz last week warned of a potential health crisis stemming from the dam collapse in Minas Gerais State last month, which left more than 150 people dead, the Associated Press reported. The dam failure sent a wave of water and toxic mud surging through Brazilian mining giant Vale's facility and the town of Brumadinho. Researchers worry about contamination of the nearby Paraopeba River, which could in turn prompt the spread of dengue, yellow fever and diarrhea to surrounding communities. While tests to the contaminated mud and water from the river are ongoing, environmental experts expect to find toxic concentrations of iron oxide and other heavy metals, according to the report. Past research has shown a higher incidence of high blood pressure, diabetes, cardiovascular conditions, strokes and cancer in the months and years following similar incidents. Fiocruz, which is linked to the Brazilian health ministry, based its evaluation on studies carried out after another dam in Minas Gerais broke in 2015, the AP reported.

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before the restructuring, but still a substantial sum for Puerto Rico's economy. The payments on the new Cofina bonds will likely rise at a faster rate than Puerto Rico's tax revenues, so they represent a growing burden for the future. Who lost in the restructuring? Possibly Puerto Rico itself. Puerto Rico restructured the awful sales tax pledge created by the old Cofina trust, so payments on Cofina won't rise to $1.8 billion. But Puerto Rico has promised close to $1 billion in tax revenues to the sales-tax-backed bondholders over a very long period, and all the bonds now have an equal claim on the sales-tax proceeds. That pledge alone is well over 5 percent of Puerto Rico's future tax base—which means the Cofina debt alone even after the restructuring will leave Puerto Rico more indebted than an average state. Obviously, the deal is a compromise, but it is a painful one for Puerto Rico."

A **Rafael Cox Alomar, professor of law at the David A. Clarke School of Law in Washington:** "The ancient Plutarch, in his widely acclaimed 'Parallel Lives,' paid particular attention to the travails of Pyrrhus—the ambitious king of Epirus who on two occasions defeated the legions of the early Roman Republic only to return to Greece empty-handed. His victories were so bloody and costly that he ended up with no men and no kingdom. Puerto Rico's Cofina deal reminds me of poor Pyrrhus. The biggest winners are, no doubt, the vulture funds that purchased Cofina seniors prior to the deal, at extremely discounted prices, only to reap the benefit of a transaction that now guarantees them 0.93 cents on the dollar. Under the Cofina restructuring agreement, Puerto Rico will resume payment to Cofina bondholders at a tune of $420 million per year. This sum will increase yearly at a rate of 4 percent, and by 2041, the Cofina debt service will balloon to $993 million for the next 17 years. This means that for the next half-century most of our sales-tax revenue will remain pledged to bondholders. Still on the hook for roughly $32.3 million of Cofina alone (that figure does not include the remainder of the island's obligations), Puerto Rico is in no position to shoulder this level of public debt without putting in place the foundations for a thriving and self-sustaining economy. And this is nowhere near happening. Federal handouts in the guise of FEMA and CDBG grants and other modalities of federal funding might jumpstart the economy in the very short run, but in no way are they going to carry Puerto Rico to the year 2058, when the Cofina debt expires, according to the restructured amortization schedule. The biggest loser, thus, is the people of Puerto Rico."

A **Eric LeCompte, executive director of Jubilee USA Network:** "Before Puerto Rico was hit by two hurricanes in 2017, the oversight board and the governor were reviewing plans to cut total debt payments by as much as 80 percent. After the hurricanes, Puerto Rico saw temporary economic growth due to disaster aid and rebuilding efforts. Part of the problem with the Cofina deal is that it seems to be based on rosy economic estimates from temporary post-hurricane growth. They are also basing Puerto Rico's ability to repay on the assumption that Congress and the White House will approve more significant disaster aid. This is in doubt. We are worried that not enough debt is being cut and that Puerto Rico's people are carrying heavy austerity burdens. Nearly six out of 10 kids live in poverty in Puerto Rico. The math isn't adding up. If plans to restructure the remaining debt fail to cut the majority of the island's debt load, Puerto Rico won't see sustained economic recovery and growth. If future debt deals don't cut enough debt, the economy will not be able to recover and will continue to contract until another debt restructuring has to take place. I am worried that this type of plan will mean Puerto Rico will be trapped in an endless cycle of debt."

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