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FEATURED Q&A

Will a Debt Plan Set Puerto Rico on the Right Course?



Puerto Rico's financial oversight board last month released its plan to restructure the U.S. territory's debt. The commonwealth's Capitol is pictured above. // File Photo: Brad Clinesmith via Creative Commons.

Q The federal control board that oversees Puerto Rico's finances on Sept. 27 filed a long-anticipated plan for the U.S. territory's debt restructuring. The proposal, which is subject to federal court approval, would reduce the island's debt by approximately 65 percent, cutting it from \$35 billion to \$12 billion. Will the plan win court approval, and does it set the commonwealth on the right path? What would be its long-term effects on Puerto Rico's economy? How would the plan affect Puerto Rico's ability to borrow in the future?

A José J. Villamil, chairman of the board of Estudios Técnicos in San Juan: "The Financial Oversight and Management Board's (FOMB) recently announced debt adjustment plan represents a major step in Puerto Rico's bankruptcy process that started with the Promesa legislation in June 2016. The plan is a work in progress, and no one should assume that it will be implemented in a short time frame and without adjustments. It would be overly optimistic to assume that there will not be litigation related to various aspects of the plan and, in fact, a major creditor group has already indicated its displeasure with it. The possible elimination of Law 154 presents a major risk for the plan since it represents around 20 percent of fiscal revenues. Locally, the biggest sticking point is the 8.5 percent cut in pension benefits of government retirees. These were, however, negotiated with an entity representing the pensioners. Although the previous governor had indicated that the administration would not abide by such cuts, the

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Guatemalan Justices Suspend Legislative Panel Probing CICIG

Guatemala's highest court suspended a recently created commission that was investigating the work of U.N.-backed anti-corruption agency CICIG.

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Adobe Closing Venezuelans' Accounts

The California-based software company is closing down the accounts of users who registered their products in Venezuela, saying the move is necessary to comply with U.S. sanctions.

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Ecuador's Moreno Moves Gov't From Quito Amid Riots

Ecuadorean President Lenín Moreno announced that he was moving government operations out of the capital and to Guayaquil due to riots over his scrapping of a popular fuel subsidy.

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Moreno // File Photo: Ecuadorean Government.

POLITICAL NEWS

Ecuador's President Moves Gov't From Quito Amid Riots

Ecuadorian President Lenín Moreno announced late Monday that he was temporarily moving his government's administrative operations out of the nation's capital and to the port city of Guayaquil as riots and protests continued against his move to end a fuel subsidy, *The Wall Street Journal* reported. In a brief televised address, Moreno said he would not change his mind about scrapping the fuel subsidy, which has been in place for four decades and costs the government approximately \$1.4 billion annually. "I'm not going to take any step back," said Moreno, alongside the country's top military leaders. He added that the "looting and vandalism" of the protests show that it is not one of "social dissatisfaction," but rather one with "an organized political motive to destabilize the government," *The Guardian* reported. Moreno accused his political opponents of attempting to orchestrate a coup and also accused, without presenting evidence, associates of his predecessor, Rafael Correa, of infiltrating the protests in an effort to topple his government. In a tweet, Correa called for elections, saying Moreno was "finished." Indigenous groups and others took to the streets Monday for a fifth consecutive day, blocking main roads and highways with burning tires and other debris. Rioters pushed their way into the comptroller general's office in Quito and also vandalized the National Congress building. Ecuador's Congress said later that the vandalism was an "attempt to take over the seat of parliament," *The Guardian* reported. Demonstrators also attacked an oil production facility, a large dairy and dozens of rose plantations, *Bloomberg News* reported. Security forces were outnumbered and unable to prevent much of the damage. Rioters also burned military and police vehicles. Moreno's government lifted the fuel subsidies a week ago as part of its loan agreement with the International Monetary Fund. Fuel prices rose overnight by about 25

percent for gasoline, and diesel prices doubled, *The Guardian* reported. The government is also reducing the size of the state work force and plans some privatizations. Moreno imposed a state of emergency last Thursday after the protests erupted. As of Monday, authorities had made 477 arrests. Also, two dozen police officers have been wounded, and one man was killed when he was hit by a car but was unable to get help in time because an ambulance was blocked from reaching him due to the demonstrations. [Editor's note: See related [Q&A](#) in Friday's Advisor.]

Guatemalan High Court Suspends Panel Probing CICIG

Guatemala's highest court on Monday ordered the suspension of a recently created commission to investigate a U.N.-backed anti-graft agency, the International Commission Against Impunity in Guatemala, or CICIG, *El Periódico* reported. In late September, Guatemala's Congress voted to approve a commission of five lawmakers to look into the now-defunct CICIG's work over the past 12 years in the Central American country, which included working with prosecutors to bring high-level politicians and businessmen to trial and ultimately jailing then-President Otto Pérez Molina. Two of the five commissioners had faced formal efforts to strip their immunity from prosecution for alleged graft and other crimes, *Al Jazeera* reported. The commission, which started work last week, aimed to probe the existence of "illegal or arbitrary acts" and potentially recommend legal action, according to the report. The Constitutional Court on Monday struck it down, after the country's attorney general, a private lawyer and a civil society group had filed injunctions against the commission. The court ruled the panel unconstitutional, saying it violated the Public Ministry's autonomy, *Deutsche Welle* reported. CICIG left Guatemala last month after President Jimmy Morales, who has accused the anti-corruption body of overstepping, declined to renew its mandate a year earlier.

NEWS BRIEFS

Dominican Republic's Fernández Contests Apparent Primary Loss

Former Dominican President Leonel Fernández on Monday contested his apparent loss in a primary vote by the country's ruling party to pick its candidate for February's presidential election, the Associated Press reported. Fernández, who was the Dominican Republic's president from 1996 to 2000 and from 2004 to 2012, received 47.3 percent of the vote in Sunday's primary, coming in second to businessman Gonzalo Castillo Terrero, with 48.7 percent, according to the Dominican Liberation Party. Fernández slammed the vote as a fraud. Results are not yet official and are to be certified five days after the vote.

Banco Bradesco Proposes Extraordinary Dividend Payment of \$1.95 Billion

Brazil's Banco Bradesco is proposing an extraordinary dividend payment of 8 billion reais (\$1.95 billion), the bank said in a securities filing Monday, *Reuters* reported. Pending approval by the private lender's board of directors on Oct. 17, the dividend would be paid on Oct. 23. The proposal comes as Brazil's second-largest private bank registered a tier 1 capital ratio of 15 percent in June, according to the report.

Argentina Grants Permits for Offshore Exploration to Five Companies

The Argentine government has granted permits for offshore hydrocarbon exploration activities to five oil companies with the aim of incorporating new reserves and recovering production, according to the country's official bulletin, *Reuters* reported Monday. The companies are Total Austral, BP Exploration, Tullow Argentina, Pluspetrol and Wintershall DEA, the Energy Secretariat announced.

ECONOMIC NEWS

Mexico's Gross Fixed Investment Drops Sharply in July

Mexico's gross fixed investment registered its sharpest decline in nearly a decade in July, official data from national statistics agency Inegi showed Monday, Reuters reported. When adjusted for seasonal swings, spending on machinery, equipment and new construction in Mexico dropped 9.1 percent in July, as compared to the same month a year earlier. The annual fall was the biggest since November 2009. Gross fixed investment has declined in seven out of the eight months since President Andrés Manuel López Obrador took office last December, according to the report. Gross fixed investment also fell 0.7 percent from the previous month, its third consecutive monthly decline, *Excélsior* reported, citing Inegi data. Some of the current government's decisions have hit investor confidence, most notably the cancellation of a \$13 billion airport in Mexico City that was already under construction, a project López Obrador has said was rife with corruption and geologically unsound, Reuters reported. When taking office, López Obrador vowed to spur economic growth to an annual average of 4 percent during his six-year term. However, Mexico's GDP dropped 0.2 percent in the first three months of the year, as compared to the previous quarter. [Editor's note: See related [Q&A](#) in the Sept. 10 issue of the Advisor.]

BUSINESS NEWS

Adobe Shuttering Venezuela Accounts Amid U.S. Sanctions

U.S.-based software company Adobe announced Monday that it is closing all of its accounts in Venezuela in order to comply with U.S. sanctions, the *Financial Times* reported. The move will leave thousands of users without

TECHNOLOGY BRIEFS

Amazon Eyeing \$800 Mn Data Center in Argentina

Amazon's cloud division is planning to build an \$800 million regional data center in a free-trade zone in Argentina, Bloomberg News reported Oct. 3, citing sources familiar with the matter. The Seattle-based firm's investment would come in over 10 years. The data center would be located in the Bahía Blanca-Coronel Rosales districts in Buenos Aires, which would allow the company to reap tax benefits related to energy consumption, the sources said. Additionally, Amazon would likely benefit from the new Knowledge Economy Law, which includes export tax breaks, an income tax reduction from 35 percent to 15 percent and lowers labor costs, Bloomberg News reported. However, the project is not yet final and could still be changed, one of the people said.

Apple Opens First Flagship Store in Mexico

Apple has opened its first flagship store in Mexico, Mexico News Daily reported Sept. 28. The store, located in the Antara shopping center in Mexico City's Polanco neighborhood, is the second Apple store in Mexico, but the first high-profile flagship store in Latin America, according to the reporter. The other Apple store is in Mexico City's Santa Fe district. "At Apple, we've always seen Mexico as a priority market," Deirdre O'Brien, the technology company's retail and personnel vice president, said at the store's inauguration, adding that the new unit represents an important step for Apple's global expansion. "It was a natural step for our first Latin American flagship store to open in a city and a country where our users have a great passion for our products and our innovation," she said. In addition to the United States, Apple only has flagships store in the United Kingdom, Japan and China. Besides sales, the store will offer free workshops on photography, music, painting and other subjects, according to the report.

Foreign Companies' Tech M&As Increase in Brazil

The number of mergers and acquisitions involving international technology companies in Brazil has risen in the first half of this year, according to consulting firm KPMG, ZDNet reported Sept. 28. Sixty-one M&A transactions took place in the South American country's tech sector, according to new statistics. Of these transactions, domestic firms led with 39, while foreign firms conducted 18 transactions by acquiring shares in Brazilian businesses, the consultancy said. In addition, there were 4 transactions involving Brazilian companies acquiring foreign businesses in the first six months of the year. The total number of transactions increased 10.9 percent as compared to the first half of last year, when there were 55 M&A transactions in Brazil's tech sector. Of those, domestic companies led 33, and foreign companies carried out 22 mergers and acquisitions, ZDNet reported.

access to programs including Acrobat Reader and Photoshop. "Due to the recent presidential executive order ... Adobe is no longer permitted to provide you with access to software and services or enable you to make any new purchases," Adobe said in a letter to Venezuelan customers. Adobe also said it would not

refund customers for their purchases, saying such money transfers would also violate U.S. sanctions. Venezuelan users of Adobe software now living elsewhere said their accounts were also being cut off because their software was originally registered in the South American country.

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current governor has accepted the plan. This, by the way, is also an indication that, at least until a new administration takes over in January 2021, relations between the FOMB and the commonwealth's government will be smoother than they have been over the last two and a half years. Fiscal sanity and resolving the debt issue is a prerequisite for economic growth. Puerto Rico's future economic prospects, however, will depend not so much on federal reconstruction funds or on the FOMB, but rather on how the public and private sectors can agree on a clearly delineated vision for a prosperous and just post-reconstruction economy and the strategies to achieve that vision."

A **Cate Long, founder of the Puerto Rico Clearinghouse:** "The plan of adjustment that the Puerto Rico oversight board filed is unconfirmable and appears to be an act of desperation ahead of U.S. Supreme Court oral arguments on the constitutionality of the board members' appointments on Oct. 15. The plan purports to offer creditors in certain classes a chance to settle for minimal recoveries or a chance to litigate after the bankruptcy is concluded for higher recoveries. The oversight board has contracted to pay 12 hedge funds, the only creditors who support the plan, a \$1 billion consummation fee which is basically a bribe, in contravention of federal law. Expect President Trump to replace these board members or litigation to extend for several years."

A **Francisco J. Rodríguez Castro, president and chief executive officer of Birling Capital Advisors:** "Since 2006, while the private sector was dealing with Puerto Rico's recession, we witnessed public sector salaries increase a whopping 63 percent, or 6 percent or more every year; and we saw the government's payroll increase from \$3.38 billion to \$5.5 billion. Now the time

of reckoning has arrived with the Financial Oversight and Management Board's (FOMB) adjustment plan. The proposed adjustment plan provides a framework to reduce Puerto Rico's debt by 60 percent or more and sets it on a path to exit bankruptcy. The plan restructures the General Obligation, Public Building Authority, Employees Retirement System and unsecured claims. The plan lowers \$35 billion of Puerto Rico's total liabilities, a reduction of more than 60 percent. The debt service is lowered from \$4.2 billion to less than \$1.5 billion with complete debt service falling from \$82 billion to \$44 billion,

“With the plan ends a sad period for the island.”

— Francisco J. Rodríguez Castro

ensuring long-term sustainability. Finally, more than 74 percent of current and future retirees will experience no reduction to their retirement funds, but individual retirees will face cuts of 8.5 percent. Judge Laura Taylor Swain must review the plan and determine if it's the correct path to set Puerto Rico on the road to emerge from bankruptcy. With the plan ends a sad period for the island. Moreover, the U.S. District Court now needs to confirm if the proposed adjustment plan is viable and considers the best interests of all creditors. Also, the adjustment plan must provide creditors, bondholders and retirees a balanced outcome, considering the circumstances of Puerto Rico's bankruptcy. One of the determining factors is to dictate if the plan is sustainable. The court must consider the outcome of protracted litigation that may leave little or no recovery versus this plan."

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