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FEATURED Q&A

Does Puerto Rico's Debt Deal Secure the Island's Future?



The top finance advisor for Puerto Rico Governor Ricardo Rosselló says the commonwealth's government does not support a recent debt deal because it cuts pension benefits. // File Photo: Commonwealth of Puerto Rico.

Q Puerto Rico's federal oversight board on June 16 announced a \$35 billion deal with the U.S. territory's creditors that could allow it to emerge from bankruptcy in early 2020. The deal will more than halve Puerto Rico's debt servicing over the next 30 years, according to the oversight board's estimates. Who are the biggest winners and losers from the deal? To what extent does the agreement set Puerto Rico onto a more stable economic path? What roadblocks could the plan encounter ahead?

A Rafael Cox Alomar, adjunct professor of law at the Georgetown Law Center: "The deal currently on the table is supported by a group of GO (general obligation) and PBA (Public Buildings Authority) secured bondholders—calling themselves the 'Legitimate Constitutional Debt Coalition' (LCDC). The LCDC entered into a Plan Support Agreement (PSA) with the Federal Oversight Board (FOB) for the restructuring of Puerto Rico's \$17 billion GO-PBA outstanding debt. The PSA, which has yet to get court approval, entails the swap of the existing GO-PBA bonds, at 27 percent and 36 percent discounts (respectively), for new and fully secured bonds plus a \$2 billion cash payout and \$300 million in commissions for the original creditors. While the Puerto Rico government has announced that it will not implement the PSA so long as the underlying pan of debt adjustment includes pension cuts, the FOB appears uncertain as to whether under the Promesa statute it has authority to issue the new PSA bonds without local legislation. Because they will receive an attractive payout that could go as high as 87 percent

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TODAY'S NEWS

POLITICAL

Uruguay Pulls Out of OAS Meeting With Guaidó Envoys

Uruguay's delegation withdrew from this week's meeting of the OAS General Assembly in Medellín because of the presence of representatives of Venezuelan opposition leader Juan Guaidó.

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ECONOMIC

Relations Between El Salvador, China 'Complete': Bukele

New Salvadoran President Nayib Bukele said El Salvador will continue to recognize China. The Central American nation broke relations with Taiwan last August.

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ECONOMIC

Cuba to Hike State Salaries: President

Cuba will boost state salaries as part of broader economic reforms, said President Miguel Díaz-Canel. The minimum salary would rise to nearly \$17 per month, while the average salary would rise from \$32 to \$44 monthly, the government said.

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Díaz-Canel // File Photo: Cuban Government.

POLITICAL NEWS

Uruguay Withdraws From OAS Meeting With Guaidó Envoys

Uruguay on Thursday withdrew from this week's meeting of the Organization of American States' General Assembly in protest of the presence of Venezuelan opposition leader Juan Guaidó's delegation at the gathering, the Financial Times reported. "The president of Venezuela is Nicolás Maduro, even though we're not supporters of his government," Ariel Bergamino, the head of Uruguay's delegation to the OAS, said after walking out of the meeting, adding that the move was designed to halt further "deterioration of institutionality" at the OAS. Mexico, Bolivia and Nicaragua also voiced their objections to the participation of Guaidó's representatives at the meeting but did not follow Uruguay in walking out of the meeting. The four countries say that because Maduro withdrew Venezuela from the OAS, no one can represent the Andean nation before the organization. More than 50 countries, including many in Latin America, recognize Guaidó as Venezuela's legitimate acting president. Some countries, such as Colombia, have expelled Maduro's diplomats and have recognized Guaidó's envoys, while others, including Bolivia, Nicaragua and Uruguay, continue to recognize Maduro. Mexico, which has remained neutral, said the credentials that the opposition

delegation presented to the OAS did not meet the needed standards for admittance, Reuters reported. Julio Borges, the head of Guaidó's delegation to the OAS, said the countries that continue to support Maduro do so because Venezuela sells them oil at reduced prices. "Those countries know very well what we have to achieve in Venezuela, very soon—give voice to the Venezuelan people and get Maduro out of power," said Borges, Reuters reported. Also on Thursday, the United States sanctioned two former Venezuelan officials, accusing them of being part of a bribery scheme. The U.S. Treasury's Office of Foreign Assets Control (OFAC) said it imposed sanctions on Luis Motta, whom Maduro fired as electricity minister in April following several blackouts, and Eustiquio José Lugo Gómez, a former deputy finance minister at the electricity ministry. The sanctions block any property they may hold in the United States and also bar Americans from having any financial business with them.

ECONOMIC NEWS

Cuba to Hike State Salaries: Díaz-Canel

Cuba is raising state salaries as part of broader economic reforms, the government of President Miguel Díaz-Canel said Thursday, without providing further details of its larger plan, the Associated Press reported. "A meeting of the Council of Ministers approved economic

NEWS BRIEFS

Bolsonaro Crew Member Arrested in Spain With 86 Pounds of Cocaine

Brazilian President Jair Bolsonaro demanded an investigation and severe punishment for a crewman arrested on charges of carrying cocaine while making a stop in Spain on the way to Japan for the G20 summit, NPR reported Thursday. Manoel Silva Rodrigues was part of Bolsonaro's entourage on the trip, though they traveled on different planes, when he was found with 86 pounds of cocaine divided into 37 blocks. Rodrigues serves as a flight steward who has worked internationally dozens of times.

Duque, FARC Announce Measures Following Killings of Former Rebels

Colombian President Iván Duque and the demobilized FARC rebel group on Thursday separately announced measures to address a recent hike in assassinations of disarmed guerrillas, according to Colombia Reports. Among the announced measures, the government will intensify the monitoring of individual FARC members' security situation, boost police intelligence capacity in cases of violence against FARC members and create an elite police force to investigate death threats. The FARC said it would reach out to social organizations to "mobilize society" to reject "the far-right, their assassins and their paramilitaries."

Bunge's Brazil Sugar Unit Reports Record Numbers for Cane Crushing

The Brazilian sugar unit of commodities trader Bunge on Thursday posted record numbers for cane-crushing volumes, Reuters reported. Bunge Açúcar & Bioenergia said its eight mills in Brazil crushed 2.65 million metric tons of sugar cane in May, its largest amount since it began operating in Brazil in 2007.

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(in case the holdouts do not prevail in court) plus \$2 billion in cash—a payout secured by a definite lien along with collateral, the biggest winners from this transaction (if it goes through) will be the LCDC bondholders. This is, however, a bad deal for Puerto Rico. The haircuts fail to go far enough. Because it is premised on a gross overestimation of Puerto Rico's prospective economic growth, the arithmetic simply does not add up and sets the stage for future defaults."

A **Cate Long, founder of the Puerto Rico Clearinghouse:** "On June 16, the Puerto Rico oversight board announced a deal with 10 hedge funds representing approximately 8 percent of the central government's debts.

The board also announced several deals with representatives of various public employee groups. Immediately, the Puerto Rico government denounced the deals and refused to allow pensions to be reduced since the Puer-

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measures to overcome the current situation, and an increase in the state sector," Díaz-Canel wrote on Twitter, Cuban state-run newspaper Granma reported. An announcement on state television later that evening said the minimum salary would be nearly \$17 a month, while the average salary would rise from \$32 to \$44, the AP reported. The announcement said more information would be provided in the coming days. A salary increase has long been seen as one of the first steps toward a wider reform of Cuba's dual-currency system, according to the report. For the last decades, Cubans have used one peso worth about four cents, and another worth nearly \$1. The stronger peso was introduced to replace dollars traded on the black market during Cuba's post-Soviet economic crisis in the 1990s. The government has used both currencies to set extremely low prices for goods and services considered basic rights while setting extremely high prices for those considered luxuries. [Editor's note: See related [Q&A](#) in the May 23 issue of the Advisor.]

El Salvador–China Ties ‘Complete’ and ‘Established’: Bukele

El Salvador's relations with China are "complete" and "established," new Salvadoran President Nayib Bukele said Thursday, Reuters reported. "At the moment, we have diplomatic relations with China that are complete, that are established," Bukele said at a business conference in San Salvador. "We have to recognize China's status in the world." The Central American nation broke diplomatic ties with Taiwan in favor of recognizing China last August under the administration of former President Salvador Sánchez Cerén. Bukele's government, which took office on June 1, was reportedly assessing whether that decision should remain in place, according to a member of his team, Reuters reported. Bukele said Thursday that his government would also seek aid outside of China, saying, "We're going to look to develop El Salvador wherever we have to look, the United States, Mexico, China, Germany, the European Union."

COMINGS & GOINGS

Panamanian President-elect Announces Executive Secretaries, Agency Directors

Panamanian President-elect Laurentino "Nito" Cortizo in June released a list of 27 appointments, including executive secretaries and directors for several state institutions and agencies, La Prensa reported. Among the most important roles announced, Ricardo Abood will serve as executive secretary of the National Security Council, and Tayra Barsallo will be the new director of the National Customs Authority. Earlier this month, Cortizo announced his cabinet members, which include Héctor Alexander as economy minister and Samuel Lewis, a former vice president and foreign minister, as the minister for the Panama Canal. Alexander, who studied economics at the University of Chicago, has served as deputy economy minister twice before, La Estrella de Panamá reported. Cortizo and his cabinet take office on Monday.

Morgan Tapped As New Acting Chief of U.S. Customs and Border Protection

Mark Morgan, who until now had served as the acting director of Immigration and Customs Enforcement, or ICE, will take over as acting chief of U.S. Customs and Border Protection, or CBP, the Department of Homeland Security said Thursday, The Hill reported. John Sanders, the former acting border chief, resigned earlier this week amid a public outcry on reported unsanitary conditions at migrant detention facilities. Morgan had previously served as chief of Border Patrol at the CBP before being named acting head of ICE in May. Matthew T. Albence, deputy director of ICE, will replace Morgan as acting director of the agency. Morgan supports the ICE raids that President Donald Trump announced last week, which the president later postponed. In a call with reporters last week, Morgan said ICE would target undocumented immigrants with removal orders, including families, according to the report.



Morgan // File Photo: U.S. Immigration and Customs Enforcement.

Greenberg Traurig Names New Leadership for Latin America Practice

International law firm Greenberg Traurig on June 17 announced it had named José Raz Guzmán and Marc M. Rossell as the co-chairs of its Latin America Practice. Raz Guzmán is the Mexico City office managing shareholder, and Rossell is a capital markets shareholder in the firm's New York office. Greenberg's Latin America team consists of nearly 100 lawyers and 41 offices around the world, including in Mexico, Miami, Phoenix, Washington and Houston, according to the statement. Both Raz Guzmán and Rossell are senior members of the Latin America Practice. They replace long-time chair Yosbel A. Ibarra, who will continue representing clients as a member of the practice and work alongside Jaret Davis as co-managing shareholder at the Miami office.

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to Rico treasury holds more than \$14 billion of cash (which would cover about one and a half years of central government expenses if all revenues collapsed). Creditors generally rejected the deal because it favored hedge funds that had been buying a favored class of bonds and had coordinated with the board to litigate against certain other debt classes in an attempt to invalidate that debt. U.S. Supreme Court precedence dating from the 1860s denies the repudiation that board is seeking for certain classes of debt. The board has vowed to file a plan of adjustment with the court in an attempt to force a vote with the small sliver of supporting bondholders. The federal statute passed to deal with Puerto Rico's debt restructuring does not allow the approach the board is attempting to push through. The method of the appointment of the board members was ruled unconstitutional in February, and the circuit court gave the White House and U.S. Senate 90 days to correct the appointments process. The court then granted an additional 45 days to correct the defect, and this stay expires July 15. Most creditors believe the plan is a move of desperation by the board."

A **Francisco J. Rodríguez Castro, president and CEO of Birling Capital Advisors:** "The general-obligation (GO) restructuring includes \$18 billion out of \$35 billion in bonded debt. The GO transaction reduces this \$18 billion of debt to about \$10 billion with a repayment schedule of 30 years and with a discount of \$8 billion. The restructuring provides that Puerto Rico will save \$21 billion during the next 30 years and that it will have a significant cushion to meet future debt payments. Also, overall, it means a 64 percent recovery rate for most bondholders, and for 2014 GOs it's a 35 percent recovery rate. It also allows the government to invest in new infrastructure and other initiatives,

while providing stability for the island. In our view, the opportunistic investors such as hedge funds are the biggest winners of this restructuring as most entered the market when the prices of GOs were already heavily discounted and have now made money on the recovery. The biggest losers will always

“The most significant problem facing this transaction is that it does not have the support of the government of Puerto Rico...”
— Francisco J. Rodríguez Castro

be the retail investors and the local Puerto Rico investors who purchased their bonds often at a premium over par and have seen their life savings lose most of their value. I will always remember a 2010 conversation with a client who invested exclusively in Puerto Rico GO bonds. The client had four main reasons: interest rate; tax exemption; inheritance law exemption; and Puerto Rico constitutional protection. I asked him, 'Imagine that a governor of Puerto Rico were to face the choice of paying the bondholders versus paying government employees, police and teachers. What would the governor choose?' Before he could answer, I said, 'Hell will freeze over before we see any governor prefer to pay a bondholder over a government employee.' The most significant problem facing this transaction is that it does not have the support of the government of Puerto Rico because the restructuring calls for government pension reductions."

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