INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

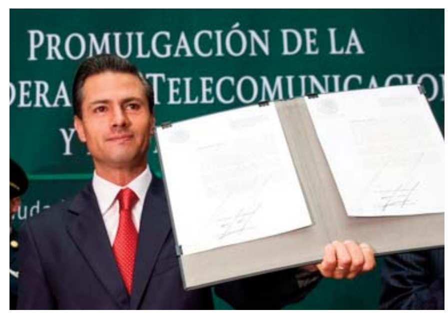
FEATURED Q&A

What Are the Broader Implications of the Argentina Debt Case?

Q International Monetary Fund Managing Director Christine Lagarde expressed concern last month that Argentina's setback in U.S. courts with holdout investors has "possible broader systemic implications" for the international financial system. What are the implications of the Argentine case for the way international bond markets function? Is there a risk the ruling will encourage investors to hold out in other restructurings of sovereign debt? Will cases involving drawn-out litigation increase? What reforms or changes should the IMF undertake in order to bring more stability to the international financial system?

A David Ross, independent global market analyst: "Once again, the words 'Argentina' and 'self-created economic crisis' seem preordained to be forever connected. Argentina's refusal over the years to engage in productive negotiations with the holdout creditors has left it in a precarious position in attempting to find a solution as the default deadline approaches. While the holdout creditors view their mission as protecting the rule of law (and creating profits), the IMF seeks to establish a viable sovereign bankruptcy regime. It is concerned that Judge Griesa's ruling will encouraging future holdouts and prevent necessary restructurings. The reality, however, may be more nuanced than this. First, when it comes to sovereign defaults and addiction to unorthodox economics, Argentina is the standard-bearer. Other sovereigns have a limited capacity to match Argentina in its ability to destroy credibility with investors. Second, the world has changed regarding restructurings, having experienced the Eurozone restructurings with non-participating creditors causing little disruption. In addition to accepting sovereign restructurings, the investment community has been receptive to new bond issuances by former problem borrowers such as Kenya, Ghana

Continued on page 2



Mexico's Peña Nieto Approves Overhaul of Telecom Sector

Mexican President Enrique Peña Nieto on Monday signed into law a sweeping overhaul of the country's telecommunications sector rules. Lawmakers last week gave final approval to the changes, which are aimed at boosting competition in the sector. See brief on page 2.

Photo: Mexican Government.

Inside This Issue

NEWS BRIEFS

Peña Nieto Approves Mexico's Overhaul of Telecom Rules

President Enrique Peña Nieto on Monday signed into law Mexico's overhaul of the rules governing its telecommunications sector, the Associated Press reported. Lawmakers last week approved the enabling legislation that was needed to put the reforms passed last year into effect. The changes impose requirements for infrastructure sharing as well as fee limits on companies deemed to be dominant in areas including telephones, television and Internet.

Cárdenas to Stay on as Colombian Finance Minister

Colombian Finance Minister Mauricio Cárdenas will remain in his position when President Juan Manuel Santos begins his second term next month, Santos said in Miami, Bloomberg News reported Monday. Cárdenas, who took office in 2012, has overseen a fiscal and monetary stimulus program that helped reverse a late 2012 slowdown in the economy, but has been unable to fight the rise of the peso.

Bradesco to Provide Immediate Credit for Cash Deposits at ATMs

Brazil's **Bradesco** said in a statement Monday that it will begin testing new technology from U.S.-based transaction technology company **NCR Corporation** that will allow customers to have immediate account credit for cash deposits made at the ATM and gets rid of the use of envelopes for deposits. Bradesco said the pilot, which began last month at a branch in São Paulo, makes it one of the first banks in Brazil to incorporate intelligent deposit into its ATMs and that it is also working to make real-time deposits available for checks.

Economic News

Emerging Market Leaders Gather in Brazil for BRICS Summit

The leaders of the BRICS emerging markets are meeting this week in Brazil where they plan to launch an alternative to the World Bank and International Monetary Fund, the Associated Press reported Monday. At the three-day BRICS summit, which is being held in Fortaleza, the leaders of Brazil, Russia, India, China and South Africa are in search of "alternatives to the existing world order," Harold Trinkunas, director of the Latin America initiative at the Brooking Institution, told the AP. During the sixth BRICS summit, the countries will unveil an alternative to the World Bank, a lender called the New Development Bank, which will provide loans for infrastructure projects in developing countries. The five countries will invest equally in the bank, and other countries could join it later. The countries are still trying to determine which city will serve as the lender's headquarters. Shanghai, Moscow, New Delhi and Johannesburg are in the running. In addition, the BRICS leaders will launch a $100 billion fund to fight crises to act as an alternative to the IMF. Despite their differences, the BRICS countries have sought more influence in global economic affairs and have had difficult experiences with the financial dominance of Western countries, such as having to contend with economic sanctions and being forced to make hard financial decisions as a condition of qualifying for IMF loans. "They want a safety net if they fall out with the West," Thomas Wright, a fellow at the Brookings Institution's Project on International Order and Strategy, told the AP. Earlier this month, World Bank President Jim Yong Kim said he welcomed new banks. "We think that the need for new investments in infrastructure is massive, and we think that we can work very well and cooperatively with any of these new banks once they become a reality." [Editor's note: See Q&A on the summit in Monday's *Advisor*.]

Kim

File Photo: World Bank.

Political News

Ruling Party Confirms Morales' Run for Third Term

The vice president of Bolivia's ruling party confirmed Monday that President Evo Morales will run for re-election in October, Reuters reported. "Our president and vice president are confirmed as candi-

Featured Q&A

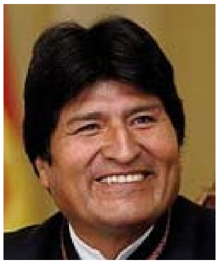
Continued from page 1

and Ecuador. This higher risk appetite and capital availability lessens the probability that Argentina becomes the norm and creates systemic risks within the capital markets. Longer term, the implication is that this ruling hastens the dollar's decline as the reserve currency and reduces the centrality of U.S. financial markets. Along with costly financial regulations, such as FATCA and BNP's penalty, issuing bonds under U.S. law also will be less attractive, creating incentive to bypass the U.S. financial system altogether."

A **Mark Weisbrot, co-director of the Center for Economic and Policy Research:** "Almost everyone across the political spectrum, with the exception of the vulture funds, agrees that the court's decision was a bad one. There will always be sovereign defaults and restructurings, just as there will always be bankruptcies for private corporations and individuals. The U.S. District Court ruling by Judge Thomas Griesa, upheld on appeal, will now make it much more difficult for creditors and the sovereign debtor to

Continued on page 4

dates for re-election," said Concepción Ortiz, the vice president of the ruling Movement Toward Socialism. "Social organizations across the country have said that he has to go for re-election." Morales, who had been widely expected to run, became Bolivia's first indigenous president after he was first elected in 2006. He was re-elected in 2009. Morales' critics accuse the president of running afoul of the country's Constitution, which allows for only two consecutive presidential terms. However, the term limit was adopted in 2009, and Bolivia's Supreme Court ruled that Morales' first term should not count toward the limit since it preceded the constitutional change. Morales is the dominant front-runner ahead of the Oct. 12 election, with polling support of about 44 percent. His closest rival, Samuel Doria Medina, trails Morales by nearly 30 percentage points. [Editor's note: See Q&A on the election in the May 28 issue of the *Advisor*.]



Morales

File Photo: Bolivian Government.

Company News

BTG Pactual Buying Generali's BSI Group

Brazilian investment bank **BTG Pactual** is buying **BSI Group**, the Swiss private-banking unit of Italy's **Assicurazioni Generali**, for 1.5 billion Swiss francs ($1.7 billion) as part of its efforts to construct a global platform for private banking, Bloomberg News reported Monday. BTG will make the purchase with 1.2 billion francs in cash and 300 million francs worth of shares, Generali said. "This acquisition reflects our confidence in the tradition and strength in Switzerland as a global financial center," said BTG CEO André Esteves. BTG has added units in Mexico and Colombia as part of its international expansion. Earlier this month, BTG agreed to an acquisition of the **Ariel Re** reinsurance unit of **Global Atlantic Financial Group**.

Capitol Hill Watch

A Look at U.S. Congressional Activity on Latin America

House Republicans to Meet to Discuss Ex-Im Bank Position

Republicans in the U.S. House of Representatives will meet this afternoon to discuss how they will approach the issue of the Export-Import Bank, which provides loans and insurance and also guarantees financing to promote U.S. exports, *The Wall Street Journal* reported Monday. The bank, whose charter expires at the end of September, would no longer be able to guarantee new financing without reauthorization. House Financial Services Committee Chairman Jeb Hensarling (R-Texas), a critic who says the bank says promotes "crony capitalism" and gives some companies an unfair advantage, is hosting the meeting. Other Republicans have said it helps U.S. businesses compete with companies from other countries that receive backing from their governments and have expressed support for allowing the agency to continue operating with significant reforms. Business groups including the U.S. Chamber of Commerce and the National Association of Manufacturers are lobbying for reauthorization, according to the *Dallas Morning News*.

Salmon Introduces Expedited Family Reunification Act

U.S. Rep. Matt Salmon (R-Ariz.), the chairman of the House Subcommittee on the Western Hemisphere, on July 10 introduced the Expedited Family Reunification Act, which would expedite the return of unaccompanied minors apprehended by Customs and Border Control agents back to their home countries. The bill would amend the William Wilberforce Trafficking Victims Protection Reauthorization Act of 2008, which requires that minors from countries other than Canada and Mexico who are apprehended by border patrol agents be turned over to the U.S. Department of Health and Human Services and assures them a hearing, a process which can last years, according to azcentral.com. "Our law currently does not allow for unaccompanied alien children to be returned to their parents at home in an expedited manner unless the nation from which they arrive is contiguous to the United States. This legislation would make this technical correction in our immigration policy and allow us to quickly reunite these children with their families," Salmon said. Senators John McCain (R-Ariz.) and Jeff Flake (R-Ariz.) on July 10 introduced legislation that would allow repatriation of children from non-contiguous countries, permit expedited removal of all undocumented immigrants stopped at the border and increase the number of immigration judges, among other provisions. It would also increase refugee visas by 5,000 for El Salvador, Honduras and Guatemala.

Senate Leader Voices Support for Venezuela Sanctions

Senate Majority Leader Harry Reid (D-Nev.) told members of the Latino community in Las Vegas that he supports a bill that would freeze assets and ban visas for Venezuelan officials accused of human rights violations during the country's anti-government protests earlier this year, the Associated Press reported July 8. In a recording of statements made a week earlier by the senator and provided by his staff to the AP, Reid also said he had hoped that U.S.-Venezuela relations would improve after Nicolás Maduro assumed the country's presidency following the death last year of Hugo Chávez, but said they have not.

Featured Q&A

Continued from page 2

reach an agreement, and to have that agreement be meaningful. In this case, 93 percent of the creditors agreed to the restructuring, but it could be 99.9 percent and now one vulture fund could scuttle the whole deal. This will make the international financial system less stable, and of course encourage creditors not to settle, as well as allowing for litigation to cause uncertainty for years. It will also make it more difficult for developing countries to get back on their feet after a default. The IMF tried to file an amicus brief in support of Argentina's appeal to the U.S. Supreme Court but was blocked by the U.S. Treasury Department, for reasons that Treasury never made public. It would be good if the IMF used its influence to more forcefully and publicly oppose the court's efforts to force Argentina into a technical default. And the IMF should also support a legislative remedy that would neutralize the court's decision, as well as its threat to international financial stability."

> "This will make the international financial system less stable, and of course encourage creditors not to settle."
>
> *— Mark Weisbrot*

A **Alberto J. Bernal-León, head of research and partner at Bulltick Capital Markets:** "In my view, Judge Griesa's decision on the Argentina holdouts case generates a very poor precedent for future debt restructurings. Although everything seems to be hinting that Argentina will be able to find some common ground with the holdout community, and in that manner be able to avoid having to live through yet another default, the simple truth is that the end event will not be a fair one. Ninety-three percent of the holders of Argentine debt agreed to take a haircut on their holdings (in 2005 and 2010) in order to allow Argentina to grow again. Seven percent of the holders decided against taking a haircut. The fact that such 7 percent will probably receive par claim in the near future is a 'market injustice.' Judge Griesa's decision, one further confirmed by all the appellate processes, places a high obstacle on future sovereign restructurings, especially if those countries are small, and even if those bonds carry collective action clauses. What happens if, for example, a Caribbean sovereign defaults in the future, and a single investor is able to buy 75.001 percent of the outstanding of one of the bonds in question? What would be the prospect of an orderly and country 'helpful' restructuring under such scenario, if we have the precedent of Judge Griesa's decision on the table?"

> "The simple truth is that the end event will not be a fair one."
>
> *— Alberto J. Bernal-León*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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