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FEATURED Q&A

Who Are the Big Winners & Losers in Mexico's Elections?



Among the winners in Sunday's gubernatorial elections in Mexico was Miguel Ángel Yunes, who was elected governor of Veracruz. // File Photo: Yunes Campaign.

Q On Sunday, 12 Mexican states held gubernatorial elections. The Institutional Revolutionary Party, or PRI, suffered major losses, losing the governor's offices of four states where it had governed continuously since 1929—Veracruz, Tamaulipas, Durango and Quintana Roo. The National Action Party (PAN) or a PAN-led alliance won seven states altogether, with the PRI winning the other five. Who are the biggest winners in the election and to what can they attribute their victories? What issues resonated most with voters on Sunday? How will the vote affect Mexico's political landscape ahead of the presidential election in 2018? How is President Enrique Peña Nieto's low approval rating affecting his party, the PRI? What did the performance of Morena, the two-year-old party of Andrés Manuel López Obrador, say about the party's—and AMLO's—future?

A Andrés Rozental, member of the Advisor board, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House: "Sunday's midterm Mexican elections were undoubtedly some of the most disputed in the country's recent democratic history. The campaigns, however, repeated many of the dirty tricks and underhanded interventions by the PRI and its sitting governors that had characterized Mexican elections before 2000. As a referendum on what might happen in 2018 when the country holds its next presidential vote, the stakes for the governing PRI and the opposition PAN, PRD and Morena parties were very high. Twelve governorships and two local elections in Baja California and Mexico City were on the agenda,

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TODAY'S NEWS

POLITICAL

Venezuela Electoral Board Accepts Recall Petition

The electoral board accepted a petition with 1.3 million signatures gathered by the opposition in an effort to call a referendum for the recall of President Nicolás Maduro. Next, the board would have to verify signatures through the use of fingerprint scans.

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BUSINESS

Aon Benfield Taps Soto Quintus as Chile Unit CEO

The London-based reinsurer named Martin Soto Quintus as the chief executive of its Chile unit.

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POLITICAL

Brazil Prosecutor Seeks Powerful Politicians' Arrests

Brazil's top prosecutor, Rodrigo Janot, has requested the arrests of four powerful ruling party politicians, accusing them of trying to hinder the probe into corruption at state-run oil company Petrobras.

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Janot // File Photo: Brazilian Government.

POLITICAL NEWS

Brazil Top Prosecutor Seeks Arrests of Powerful Politicians

Brazil's top prosecutor has requested that the country's supreme court authorize the arrests of several top politicians from the party of interim President Michel Temer in connection with the massive corruption scandal at state-run oil company Petrobras, daily newspaper O Globo reported Tuesday. The prosecutor, Rodrigo Janot, is targeting Senate President Renan Calheiros, suspended lower house Speaker Eduardo Cunha, Sen. Romero Jucá and former Brazilian President José Sarney, all of whom are members of the Brazilian Democratic Movement Party. Janot is accusing the officials of attempting to hinder the investigation into the kickback scandal at the state oil company, O Globo reported. All four have denied wrongdoing. In a statement, Sarney said he was "stunned, outraged and upset," the Associated Press reported. If Supreme Federal Tribunal Justice Teori Zavascki decides Janot's request for the arrests is valid, Sarney, 86, because of his age would be placed on house

arrest with electronic monitoring, and the other three would be jailed, the AP reported. The request for the politicians' arrests is based on audio recordings in which the men are heard allegedly discussing legislation that would limit the Petrobras investigation. Cunha has already been suspended from his duties as Chamber of Deputies speaker for alleged obstruction of



Jucá // File Photo: Brazilian Government.

justice in the case, and Jucá was forced last month to take a leave of absence because audio recordings surfaced in which he was allegedly discussing how the drive to impeach now-suspended President Dilma Rousseff could help to block the Petrobras investigation. Rousseff was suspended from office on May 12 and is facing trial in Brazil's Senate for allegedly manipulating the federal budget in order to hide a growing deficit, charges she denies.

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and the results were a huge surprise and a clear negative judgment on the PRI, its leadership and President Enrique Peña Nieto. The big winner of the day was the PAN, with seven governorships won either on its own or in alliance with the PRD or other smaller parties. This represents a doubling of that party's national support and is an unprecedented result, even when taking into account the two presidential terms that the PAN held from 2000 to 2012. The big loser on Sunday was the governing PRI, which won only five governorships, resulting in a net loss of four from the nine it currently holds. The PAN won two states (Veracruz and Tamaulipas) after more than 80 years of uninterrupted PRI rule, and although Andrés Manuel López Obrador's Morena party didn't win either of

the two governorships where polls showed it might prevail (Veracruz and Zacatecas), in Mexico City election for a constituent assembly to draft a new constitution for the nation's capital was overwhelmingly won by Morena, displacing the PRD as the city's leading party. Only 27 percent of registered voters participated, indicating a lack of interest. Mexico still has a way to go in reaching true electoral democracy, especially in the campaigns and financing. Results on Sunday came in too slowly, making many suspicious of manipulation. Candidates claimed victories even before exit polls were published. Hopefully there will be further reforms to the system before 2018, so as to guarantee a better process for selecting Mexico's next president."

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NEWS BRIEFS

Peru Election Remains too Close to Call as Counting Continues

Counting continued this morning in Peru's close presidential election, with the two candidates, Pedro Pablo Kuczynski and Keiko Fujimori, separated by just a quarter of a percentage point. With 98 percent of the ballots counted, Kuczynski maintains a narrow lead with 50.13 percent of the vote, according to the electoral agency.

Goldfajn Approved as Brazil Central Bank Chief

The Brazilian Senate on Tuesday approved economist Ilan Goldfajn's appointment as central bank president, The Wall Street Journal reported. Goldfajn will succeed Alexandre Tombini and has been tasked with lowering inflation amid the country's worst recession in a century. Goldfajn is a former central bank director and was the chief economist at Brazil's largest private bank, Itaú Unibanco. His appointment was approved in a 56-13 vote, and the change in command may happen in the next few days, though a spokeswoman from the government would not confirm when the leadership change will take place.

Aon Benfield Taps Soto Quintus as Chile Unit CEO

London-based reinsurer and risk intermediary Aon Benfield has appointed Martin Soto Quintus as the CEO of Aon Benfield Chile, Insurance Journal reported Tuesday. Soto Quintus will report to Alejandro Galizia, the CEO of Aon Benfield Latin America. Soto Quintus will be responsible for implementing the firm's growth strategy in Chile. He has 30 years of experience in the Latin America reinsurance and retail broking sectors and joined Aon Benfield in 2013 as facultative director. At the same time, Roberto Molina was named treaty director for Aon Benfield Chile.

Venezuela Electoral Board Accepts Recall Petition

Venezuela's National Electoral Board, or CNE, on Tuesday announced that it had accepted as valid 1.3 million signatures on a petition calling for a recall referendum against President Nicolás Maduro, Agence France-Presse reported. The ruling is seen as a victory for the country's opposition leaders who had organized the petition and who blame Maduro for leading the country to the brink of collapse. The next step in the process of removing Maduro from office will be for the CNE to verify the identities of 200,000 signatories through fingerprint scans. According to the Constitution, the opposition would then have to gather at least four million more signatures, or 20 percent of the electorate, in order to trigger a recall vote. If the referendum takes place before Jan. 10, which is four years into Maduro's six-year term, a successful recall vote would trigger new elections, rather than the transfer of power to the vice president. Leading up to the announcement, protesters had tried to march on the CNE's headquarters, but heavily armored riot police broke up the protest, firing tear gas into the crowd. Maduro's administration has accused the opposition of committing fraud in its collection of the signatures. "There won't be a referendum this year," Vice President Aristóbulo Istúriz said Monday.

BUSINESS NEWS

Shanghai Pengxin in Talks to Buy Banco Indusval

Shanghai Pengxin Group is in negotiations to buy São Paulo-based lender Banco Indusval & Partners, Reuters reported Tuesday, citing unnamed sources. The talks between the Chinese conglomerate and the mid-sized Brazilian bank are preliminary, the sources said.

THE DIALOGUE CONTINUES

Will Brazil's Middle Class Be Able to Bounce Back?

Q **Brazilian Finance Minister Henrique Meirelles announced on May 20 that the government's primary budget deficit could reach 171 billion reais (\$48 billion) this year, or 2.75 percent of GDP, nearly double forecasts made in March. The dire projection added fuel to speculation that authorities will soon announce fiscal measures that could cut deep into social spending for years to come. How much has Brazil's expanding middle class come to count on government programs to stay out of poverty? Will middle-class consumers bounce back from Brazil's current deep recession with the same characteristics and spending habits with which they went into it? How long will it take for consumer confidence, now near record lows, to climb back?**

A **Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York:**

"Brazil is going through the early stages of a complex political transition. Given the dismal economic performance of recent years, there is a significant amount of hope invested in this transition, sustained by the expectation that it could lead to a stronger macro policy mix and a more stable and cooperative political equilibrium. Markets reacted positively to the expectation that the new administration could: (1) be more inclined to embrace the short-term measures and long-term structural reforms needed to rebalance the economy and address the rapidly deteriorating fiscal picture, and (2) prove capable of building the necessary political consensus to move forward with the critically needed fiscal and structural reform agenda. The fiscal reality check provided by the new economic team was likely in part

intended to persuade Congress of the urgent need to adopt deep-cutting fiscal adjustment measures and society, more broadly, that difficult choices and trade-offs lie ahead. If the fiscal sustainability concerns are not addressed, the economy will continue to

“ If the fiscal sustainability concerns are not addressed, the economy will continue to underperform.”

— Alberto Ramos

underperform. Growth, employment and economic opportunity will be denied, and the social gains and economic enfranchisement that led to an expanding middle class could easily be reversed. Hence, embracing fiscal discipline is the best way to engineer a cyclical economic and labor market recovery, and through it, lift living standards, particularly at the bottom of the social/economic pyramid. The brutal recession Brazil is experiencing is likely to change the savings and spending patterns of important cohorts, particularly the new middle class. The sharp economic contraction is a reminder that growth and development are not a given, nor a linear path. Hence, this is likely to lead middle income households going forward to rely less on credit, federal entitlement programs and savings to boost current consumption. Ultimately, boosting savings and relying less on leverage to finance current consumption would be a healthy micro and macroeconomic development."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the June 3 issue of the Advisor.

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A James R. Jones, member of the Advisor board, chairman of ManattJones Global Strategies and former U.S. ambassador to Mexico: "What Mexico's 12 state elections Sunday showed me was that widespread disenchantment with the establishment currently displayed in the United States and some European countries has now taken hold in Mexico. Voters' sentiment seemed more about what they were against than whom or what they were for. Voters decided less on policy and more on performance."

“ Voters decided less on policy and more on performance.”

— James R. Jones

This was also demonstrated by low voter turnout in most places and by the high level of 'null votes' in Mexico City. Politically, there were no clear winners, although the PAN clearly established itself as the number-two party, closely behind the PRI. There were many 'setbacks' recorded Sunday. Independent candidates for governor in 10 states performed poorly and left a high hurdle to clear for independents considering the presidency in 2018. The left-of-center PRD did not do well in its stronghold of Mexico City and required a coalition with PAN to win three states. Morena, the two-year-old party established by Andrés Manuel López Obrador, scored modestly well. AMLO's plan to run for president on the single issue of corruption in 2018 tested well in all 12 states, but he has extensive organizational building to do throughout Mexico if he has a chance to win. The PRI has major image problems to correct in the next two years. It needs to convince voters that it can pass

strong legislation combating corruption, crime and insecurity and more importantly that it can implement such measures. I don't detect any clear prognosis for the 2018 elections as a result of Sunday's elections. While the electorate has no confidence in all politicians and parties, the rewards of 2018 will go to the politician or party who can convince them that there will be no more 'business as usual.' "

A Rubén Olmos, managing partner of Global Nexus in Washington: "Sunday's election reflected a more vibrant but still young Mexican democracy. While many of its candidates were former members of the PRI, the right-wing PAN and, especially, its national party leader, Ricardo Anaya Cortés, were the big winners in the election. The PAN, in alliance with the PRD, was able to capitalize on the anger and distrust toward the ruling PRI at the state and national levels. Corruption scandals, violence and the lack of credibility affected the party in key strongholds like Tamaulipas, Veracruz, Chihuahua and Quintana Roo, where the party historically had never lost. A second winner in this election was Andrés Manuel López Obrador and his party, Morena, which once again showed its dominance in Mexico City and now in states like Veracruz and Zacatecas where it competed for governor, coming in second. His party's performance in the election together with the anti-corruption/anti-establishment narrative he is using across the country will be his biggest assets ahead of the 2018 presidential race. Next year will bring three additional statewide elections in Coahuila, Nayarit and the State of Mexico, the latter of which is President Peña Nieto's home state and a PRI stronghold. While we are two years away from the presidential election, the race officially started this week, and we are likely to see changes and new alliances across the political spectrum between now and the end of the year when we will have solid names of people running for the highest office."

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org



Michael Shifter, President
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Subscription Inquiries are welcomed at
fretrial@thedialogue.org

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