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FEATURED Q&A

Have Gov't Policies Aided Argentine Mortgage Lenders?



Earlier this year, the government of Argentine President Mauricio Macri launched a program to provide subsidized mortgages to 90,000 middle-class Argentines. // File Photo: Argentine Government.

Q Argentines took out mortgage loans totaling 3.7 billion pesos (\$219.32 million) in June, an increase from 558 million pesos in the same month last year, according to central bank data. The increase came after President Mauricio Macri's government launched subsidized mortgage programs targeting the middle class, as well as low-interest loans that are indexed to inflation. How significant is mortgage lending, and the government's programs, to lenders in Argentina? To what extent should the country's government encourage higher levels of mortgage lending? Have Macri's policies aided Argentina's housing lenders, and is the recent spike in mortgages likely to continue for long?

A Marta Colomar-Garcia, administrative managing partner at Diaz, Reus & Targ, LLP: "Half of the Argentine population makes less than the equivalent to \$1,000 a month, making it almost impossible for the vast majority of the population to obtain a mortgage. In fact, mortgages were less common in Argentina than in other parts of Latin America. However, President Macri has undertaken some measures that are allowing Argentina's property market to rapidly emerge from a long crisis. Internationally, Macri has also ended the country's 'default' status by repaying the bondholders that sued Argentina for more than \$9 billion in defaulted bonds, and he has opened the economy to foreign markets. Internally, he has devalued the currency and lifted tight exchange controls largely blamed for Argentina's property market debacle. Notably, Macri has recently launched a subsidized mortgage plan that has helped thousands of Argentines with low monthly

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The financial services and food conglomerate said its profit for the second quarter fell, primarily due to a non-recurring gain in last year's second quarter.

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The Italian insurance company has been shedding assets in Latin America to focus more on its core business.

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FINANCIAL SERVICES

Brazil Unit Helps Fuel Profits of Spain's Santander

Spain's Banco Santander, led by CEO José Antonio Álvarez Álvarez, said its profit for the second quarter jumped 37 percent as compared to the same period last year. The bank's Brazil's unit fueled profits.

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Álvarez // File Photo: Banco Santander.

FINANCIAL SERVICES NEWS

Brazil Unit Helps Fuel Profits of Spain's Banco Santander

Spain's Banco Santander announced July 28 that its profit jumped in the second quarter largely due to a strengthening of the Brazilian real, Agence France-Presse reported. A recovery in the Brazilian currency boosted Santander's profits in Latin America's largest economy, the bank said. Overall, Santander's net profit

Santander's Brazil unit contributed the largest share of the bank's earnings for the second quarter.

rose 37 percent year-on-year in the second quarter, to 1.75 billion euros (\$2.06 billion). The bank's profit was in line with analysts' forecasts. Santander's Brazil business recorded a 58 percent increase in profit, and Brazil was the bank's leading contributor to earnings for the second quarter, at 26 percent of Santander's total earnings. Britain was the second-largest contributor, at 17 percent. Banco Santander said its net receipts from banking activities grew 1.1 percent, to 8.5 billion euros. The results also marked a significant improvement from last year, as the second quarter of 2016 included a booked cost of a restructuring effort in Spain that involved the shuttering of 450 branches and the voluntary exit of 1,400 employees. In this year's second quarter, Santander also purchased its failing Spain-based rival, Banco Popular, for the symbolic amount of one euro after European regulators intervened. The rescue also hindered Santander's main capital adequacy ration, which measures the bank's ability to weather a crisis. That ratio declined to 9.58 percent from 10.66 percent in late March. However, Santander carried out a capital increase, amounting to seven billion euros, in July. That move allowed Santander

to compensate for its acquisition of Banco Popular. On Aug. 8, European Union competition authorities formally approved Santander's purchase of Banco Popular, AFP reported. "The commission concluded that the transaction would not raise competition concerns in the European Economic Area," the commission said in a statement. The European Central Bank had said on June 7 that Popular was failing and should be sold to Santander.

BTG Pactual Reports 30% Drop in Second-Quarter Profit

São Paulo-based investment bank BTG Pactual saw its profit sink to its lowest level in 16 years during the second quarter, as Brazil faces growing political turmoil, leading to low sales and trading income, Reuters reported Aug. 1. BTG's net income was 503 million reais, or approximately \$161 million, last quarter, down by 30 percent from the first quarter, according to a securities filing on Tuesday. The bank's profit and revenue sank to its lowest level since the third quarter of 2011, and return on equity fell by 13.3 percent. BTG's trading desk



Temer // File Photo: Brazilian Government.

saw revenue drop by 49 percent due in part to an increase in political turmoil in May that led to higher interest-rate market volatility and caused trading volumes to sag. Brazilian bonds, stocks and currency also fell in May, following the accusation from Brazilian billionaire Joesley Batista that President Michel Temer had worked to obstruct a corruption probe by encouraging Batista to bribe another politician. Second-quarter revenue totaled 851 million reais, and income from investment dropped

NEWS BRIEFS

GraceKennedy Reports 20% Drop in Net Profit

Jamaica-based financial services and food conglomerate GraceKennedy said its net profit fell nearly 20 percent during the second quarter of the year to 2.2 billion Jamaican dollars (\$1.7 million), the Jamaica Gleaner reported July 30. The anticipated dip resulted primarily from a non-recurring gain of 423 million Jamaican dollars last year. Without that, net profit for the current period would have been lower by 5.5 percent. The company's financial sector businesses generally showed increases in revenue, with only insurance showing decreased profits.

Brazil's Government Expects Pension Reform Approval by October

Brazil's government is expecting the country's Congress to approve a pension reform plan by October and a tax reform plan by the end of the year, Finance Minister Henrique Meirelles told reporters Aug. 3 in São Paulo, Reuters reported. Since May, congressional talks on a possible pension reform have been paralyzed as lawmakers weighed whether to put Temer on trial amid graft allegations. The lower house voted Wednesday to spare him from a trial.

Cuba Orders Closure of Accounting Cooperative

Cuban authorities have ordered that one of the country's fastest-growing cooperatives, Scenius, which offers accounting and business consulting services, be closed down, days after the government announced it would cease issuing new permits for some private businesses, the Associated Press reported Aug. 5. Company founder and director Luis Dueñas said the Ministry of Finances and Prices told him the decision to close down the cooperative was "based on an analysis of our social purpose, or of the activities that we have approved."

by 88 percent during the period, while income from sales dipped 74 percent to 154 million reais.

Colombian Bourse Seeking New Listings to Spur Trading

Colombia's stock market hopes to attract billions of additional dollars by listing new assets in order to spur trading, which is currently limited to a few dozen companies, Colombian Securities Exchange President Juan Pablo Córdoba said, Reuters reported Aug. 7. Córdoba said there are currently 69 companies trading on the exchange, but that the number should



Córdoba // File Photo: Colombian Government.

be doubled in order to attract the level of trading the government is seeking. In an interview on Aug. 3, he also called for modifying tax regulations in order to make the bourse more competitive. Colombia's local stock market trades an average of \$50 million a day in sales, a relatively low number when compared to the \$1.2 billion daily volume in domestic public fixed income instruments and the \$1 billion in the foreign exchange market. Colombia's plan to list new assets like real estate investment funds aims to raise money in the market for the construction of shopping centers, office buildings and other structures, Córdoba said. "We're working toward being able to list those assets in the market, so there will be a new class of equity assets, not company shares, but a fund that's registered in the equity market and traded as a stock," Córdoba said. "In terms of market issuance, we could be talking about up to 5 trillion pesos, about \$2 billion, in the next two or three years."

INSURANCE NEWS

Generali Agrees to Sell Panama Business to ASSA

Italian insurer Generali has agreed to sell its Panama business to ASSA Compañía de Seguros for \$172 million, Insurance Journal reported Aug. 8. The deal, which is subject to regulatory approval, includes the sale of Generali's assets, liabilities and insurance portfolio to the Panama City-based company. Generali's sale of the unit is seen as part of its efforts to focus on its core businesses. ASSA sells life insurance as well as general insurance products. Generali, headquartered in the Italian city of Trieste, said the sale will help in its efforts to

optimize its geographical presence as well as boost operational efficiency and improve its capital allocation, Insurance Journal reported. "This transaction is another step forward in the rebalancing of Generali Group's geographical presence across the world," said Generali's CEO for global business lines and international. "We are making good progress in the optimization of our geographical footprint." He added that the insurer's strategy is aimed at making "Generali a simpler and smarter company." In July, Generali announced progress in shedding two other units. The company announced that Germany-based Talanx would acquire Generali Colombia Seguros Generales and its life insurance subsidiary, Generali Colombia Vida Compañía de Seguros, for approximately \$34.6 million. Additionally, Generali said it had completed the sale of its property and casualty unit in Guatemala, Aseguradora General, to its long-

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incomes. He has also launched another plan that provides low-interest mortgage loans adjusted for inflation. The demand for mortgages is certainly a motor for economic activity and jobs. These mortgage lending plans are an additional measure of the tax amnesty plan implemented in 2016. The tax amnesty plan has allowed dollars to enter the Argentine economy. Those monies are being invested mainly in real estate. These measures combined are resulting in a considerable growth of construction jobs, which mainly benefit the middle class. In preparing for the upcoming midterm elections in October, Macri will continue appealing to that middle-class. The new economic climate is gradually bringing back confidence in the Argentine markets. In that sense, it is likely that this spike in mortgages will continue."

A Alfredo Félix Blanco, economist at the Universidad Nacional de Córdoba in Argentina: "Many years ago, the mortgage loan market in Argentina nearly disappeared. Price instability was the main reason. Inflation has been a major problem for Argenti-

na's economy for decades. The government programs to promote mortgage loans are just first steps, but the idea is very important. The indexed loans are very important

“Argentina needs to improve its financial market, and mortgage loans can be very useful in helping to do so.”

— Alfredo Félix Blanco

for banks because, despite inflation, they may help them in offering long-term loans. Mortgage loans that are indexed to inflation imply that more people can have access to the possibility of buying a house. Also, if the inflation-targeting program of the central bank is successful, and inflation continues falling, and if the economy begins to improve (as seemed to be the case last month), mortgage loans will be extremely important. They will benefit the real estate market and help support the growth of the financial market.

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time partner, the Neutze family. The amount of that deal was not disclosed. Generali said that it will remain active in Panama and other countries in Latin America through its international business lines, Generali Employee Benefits, Generali Global Corporate & Commercial and Europ Assistance.

POLITICAL NEWS

U.N. Office Decries Rights Situation in Venezuela

The United Nations' human rights office said it has found "widespread and systematic use" of rights violations, including the use of excessive force and arbitrary detention against protesters and others who have been detained in Venezuela, the Associated Press reported Aug. 8. Preliminary findings show that there are "no signs" that the situation is improving in the country, said U.N. spokeswoman Ravina Shamdasani. An analysis by a team of U.N. investigators found that at least 46 deaths were allegedly caused by security forces, while armed pro-government groups allegedly caused 27 of 124 deaths that are under investigation in relation to anti-government demonstrations. It was unclear who caused the other deaths, the U.N. team said. The human rights office, which is expected to release a full report on its findings, said violations included "house raids, torture and ill-treatment of those detained in connection with the protests," the Associated Press reported. The statements from the U.N. human rights office came as foreign ministers from 14 countries were preparing to meet Aug. 8 in Peru to address the deepening crisis in Venezuela. Peruvian President Pedro Pablo Kuczynski has been among the foreign leaders who have rejected Venezuela's new constituent assembly, a supremely powerful new body that was selected from a list handpicked by President Nicolás Maduro's government. The constituent assembly is expected to meet Aug. 8 in the legislative palace in Caracas for the first time since Aug. 5, when it gathered to

ADVISOR Q&A

Is Venezuela Becoming a Dictatorship?

Q The 545 delegates of Venezuela's powerful "constituent assembly," which will have the ability not only to rewrite the country's Constitution, but also to overrule other government institutions, began receiving their credentials on Aug. 2. The opposition and several foreign governments widely denounced the July 30 vote to elect the body, which President Nicolás Maduro says is needed to solve the country's political and economic crises, but opponents see as an effort by Maduro to increase his power. Has Venezuela become a dictatorship that is sliding into civil war, as some analysts have asserted? What will result from U.S. sanctions against Maduro? What should be the response from international actors such as the OAS and the United Nations? What will the constituent assembly use its power to do? What can be done to stabilize the country and its economy?

A Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue: "The constituent assembly election is often cited as the decisive moment, the crossing of the Rubicon, in Venezuela's march toward a repressive, authoritarian regime. This is an exaggeration. More accurately, the election was one more regrettable step toward the dismantling of democracy—a process started with the inauguration of Hugo Chávez in 1999, accelerated after the aborted coup against him in 2002, and proceeding steadily ever since. During this period, Chávez and his successor Nicolás Maduro either took over or undermined the nation's institutions, one

dismiss Attorney General Luisa Ortega Díaz, who had become a critic of Maduro's actions. The assembly replaced her with a government loyalist, the AP reported. The new assembly

after another, including its courts, electoral machinery, parliament, armed forces, state oil company (PDVSA), political parties and provincial and local governments. Nearly all independent media came under Chavista control. So did many private enterprises, labor unions and universities. Sunday's election underscored once again that the Maduro government is determined to hold on to power indefinitely, and certainly unwilling to yield it through democratic procedures. The re-arrest of two of the opposition's most important leaders was further warning that Maduro is not about to compromise with the opposition and is not intimidated either by the U.S. sanctions or by the condemnation of other Latin American countries. But it may also mean that the government is uneasy about the low turnout for the assembly election and the prospect of renewed, and potentially larger and more aggressive, protests. Democracy in Venezuela has long been in a desperate condition, and it continues to deteriorate. Too bad the United States and Latin American nations paid so little attention and responded so tepidly to the steady decay of Venezuela's democratic institutions and rule of law over so many years. There is not much they can do now to reverse course. In the weeks and months ahead, ordinary Venezuelans are likely to face an even deeper hardship, greater uncertainty and increasing violence."

EDITOR'S NOTE: More commentary on this topic appears in the Aug. 3 issue of the Latin America Advisor.

has signaled that it will continue to support Maduro. "It should be clear: We arrived there to help President Nicolás Maduro, but also to create strong bases for the construction of

NEWS BRIEFS

More Charges Could Be Filed Against Brazil's Temer: Chief Prosecutor

Brazil's chief prosecutor criticized the lower house of Congress on Aug. 7 for voting against trying President Michel Temer for bribery, and added that plea bargains that are currently being negotiated could lead to charges of racketeering and obstruction of justice against the president, the Associated Press reported. The chief prosecutor, Ricardo Janot, said the lower house's decision to not put Temer on trial does not help the country solve its political crisis. "A political solution can't be treating a thug as a politician," Janot said. Temer denies wrongdoing.

Three Fatally Shot at Baja California Beach Resort

Three people were fatally shot and two others were wounded Aug. 6 at a popular beach resort at the southern tip of Mexico's Baja California peninsula, the Associated Press reported. Gunmen opened fire at the Playa Pamilla resort in the Los Cabos tourist region. The motive for the shooting was unclear, but analysts have blamed Mexico's rise in violence this year on clashes between rival drug cartels.

Panama Sends Delegation to China

The Panamanian government sent a delegation of security and trade officials to China for talks set to begin on Aug. 8, marking the first such diplomatic mission between the two countries since they established relations in June, Reuters reported. Panama's envoys are to meet with China's public security minister as well as other top officials, the Panamanian government said in a statement. The talks are aimed at boosting bilateral trade and "promoting Panama as a regional headquarters for Chinese banks [and] companies," the Panamanian government said.

Bolivarian and Chavista socialism," said Diosdado Cabello, a member of the new assembly and of Maduro's ruling socialist party, told a gathering of supporters on Aug. 7. Meantime, members of Venezuela's elected legislature, the opposition-controlled National Assembly, vowed to remain in place. The National Assembly's president, Julio Borges, told legislators that they should maintain an active presence in the legislative palace despite threats from the new constituent assembly to strip them of authority and imprison top lawmakers. "We are a testament to the fight for democracy," he said. The National Assembly on Aug. 7 also voted unanimously not to recognize any actions of the new constituent assembly.

Brazilian Soldiers Move Into Rio Favelas to Curb Violence

More than 3,500 Brazilian soldiers are occupying favelas, or slums, in northern Rio de Janeiro as the government aims to curb a spike in violence in the communities, The Wall Street Journal reported Aug. 5. The troops are occupying the Complexo do Lins and neighboring Camarista Méier favelas. The occupation follows the recent deployment of 8,500 soldiers who were tasked with fighting organized crime gangs in the communities. On Aug. 5 at 4 a.m. local time, police raided five favelas in a crack-down on gang violence, Al Jazeera reported. Officials said the goal of the crackdown was mainly to stop the surge in robberies of commercial trucks. Defense Minister Raul Jungmann said the occupying troops would stay in the favelas for as long as necessary to clamp down on violence, The Wall Street Journal reported. Rising violence in recent weeks has led authorities to acknowledge that many parts of Rio de Janeiro are out of their control. In the first half of this year, there were more than 3,450 homicides in the city, Al Jazeera reported. In late June, authorities arrested nearly 100 police officers in Rio de Janeiro under suspicion that they allowed gangs to traffic drugs into the favelas in exchange for bribes.

ECONOMIC NEWS

Mexico Outlines Goals for NAFTA Negotiations

Mexico has outlined its goals for the upcoming renegotiation of the North American Free Trade Agreement, or NAFTA, according to a document seen by Reuters on Aug. 1, the news service reported. Among the country's goals for the talks that are due to start Aug. 16 are its retention of unimpeded access to goods and services in the NAFTA region, more integration of the labor markets of Mexico, the United States and Canada, and establishing rules of origin in order to guarantee regional benefits, the document says. Mexico also wants to strengthen regional energy security as the country works to implement the historic opening of its gas, oil and power sectors. Another one of Mexico's goals for the trade talks is to strengthen the dispute resolutions and

The Trump administration released its list of objectives for the NAFTA renegotiation in July.

mechanisms of NAFTA, which goes against U.S. President Donald Trump's administration's stated goal of eliminating the so-called Chapter 19 tool. Under Chapter 19, binational panels oversee complaints about illegal subsidies and dumping and make binding decisions on the issue. The United States frequently lost such cases. The Mexican government also hopes to unify agricultural, animal and health safety regulations, protect the intellectual property of domestic content producers and bolster and create new measures to increase transparency and fight graft. The Trump administration in July released a 17-page list of its objectives for the talks. [Editor's note: See related [Q&A](#) in the July 28 issue of the daily Latin America Advisor.]

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Mortgage loans are very important for lenders and many in the middle class who need, and want, to buy their own home (a dream that is difficult for many to reach today). I think we will have higher levels of mortgage lending in the near future. In Argentina, the relationship between mortgage loans and gross domestic product is very low, among the lowest in Latin America. Therefore, these programs are very important and will be with us for a long time. Argentina needs to improve its financial market, and mortgage loans can be very useful in helping to do so."

A **Eduardo Amadeo, member of Argentina's Chamber of Deputies and chairman of its Finance Committee:** "Argentina has a housing deficit of 3.5 million. For just the poorest households, solving the housing deficit would cost 10 percent of GDP. Mortgage credits as a percentage of GDP are among the lowest in the region: 1.2 percent (while in Chile, the figure is 20 percent); and they represent just 5 percent of banks' total loans. But in addition, Argentina has had a very low level of local savings (15.5 percent of GDP). For all these reasons, promoting the mortgage markets is one of President

Macri's top priorities. This is not only to solve the housing deficit, but to promote more savings and boost the construction industry. The program the government launched is based on a general expectation

“As long as the country's macroeconomic situation continues to improve, the program will grow.”

— Eduardo Amadeo

of a low inflation rate, which reduces the credit risk for middle-class families. Public banks are leading the program, but private ones have followed with enthusiasm. As long as the country's macroeconomic situation continues to improve, the program will grow. The next step should be an important development of the securitization market."

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