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## FEATURED Q&A

# Will Mexico's Banks Keep Growing If NAFTA Collapses?



BBVA Bancomer has invested heavily in a sprawling new data processing center at Lago Esmeralda in Atizapán de Zaragoza. // File Photo: BBVA Bancomer.

**Q** Citigroup last month reported a slight gain in profit for the third quarter, due in part to strong performance in its Mexico business. The New York-based bank has been investing heavily in the unit. What is driving profits in Mexico's banking sector, and can banks with operations in the country expect continued gains in the quarters ahead? How is uncertainty surrounding the future of the NAFTA negotiations affecting Mexico's banking sector, and how important is the accord to the country's banks? What emerging trends in Mexico's financial services sector will most likely shape the future of the country's banks over the next decade?

**A** Jan Smith, partner at KoreFusion in Mexico City: "Mexico's banking sector is expanding by nearly 10 percent per annum, nearly twice the rate registered 10 years ago. This is spurred in large part by nearly half of the population not being banked, but also by heavy investments in both branch and digital services. These investments cater to the demographics that will propel growth: the oft-maligned millennials and the unbanked. BBVA has invested \$3.5 billion in branch updates since 2013 and has committed another \$1.5 billion. Citibanamex pledged \$2.5 billion and will add nearly 3,000 ATMs this year. Retail banking growth will come from expansion of digital services that replace cash payments and reduce servicing costs. Products such as Citibanamex's prepaid/cash-in Saldazo card aim to capitalize on the rapid growth of e-commerce by becoming a bridge for the unbanked into the digital world. Santander and Genera reflect a trend by banks of investing

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The governor of Mexico's central bank, Agustín Carstens, chaired his last meeting of the monetary policy committee Thursday, leaving rates unchanged at 7.00 percent.

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The price of lithium has skyrocketed in recent years in pace with increasing demand for the mineral amid projected wider use of electric vehicles.

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## Peru, Australia Move Closer to Free Trade Deal

Australian Prime Minister Malcolm Turnbull said the agreement will eliminate 99 percent of stiff tariffs that Australian exporters currently face, with sugar, beef, rice, dairy, almond and wine producers expected to benefit.

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Turnbull // File Photo: Australian Government.

## ECONOMIC NEWS

## Timing of Mexico Central Bank Choice Clouded by Politics

The governor of Mexico's central bank, Agustín Carstens, chaired his last meeting of the monetary policy committee Thursday, leaving rates unchanged at 7.00 percent, in line with market expectations. Mexico's peso firmed nearly 0.3 percent after the central bank said that the inflation outlook had worsened and that it would maintain a prudent monetary policy. Carstens is scheduled to leave the Bank of Mexico, or Banxico, at the end of the month to become head of the Basel-based Bank of International Settlements, an appointment he has already put off amid turbulence earlier this year in Mexico's economy. Choosing his replacement, expected to be announced before the end of his current term on Nov. 30, has become more complicated as a result of Mexico's wide-open presidential race, Reuters reported. The new governor must be nominated by President Enrique Peña Nieto, but one leading candidate, Finance Minister Jose Antonio Meade, is also



Díaz de León Carrillo // File Photo: Banxico.

on the shortlist to be the 2018 presidential contender for the ruling Institutional Revolutionary Party, or PRI. His potential candidacy creates a risk of delaying the selection of Carstens' replacement, according to analysts. There have been only three Banxico governors since the institution was made independent in 1994. "Markets are starting to wonder how long the president is going to wait to make the nomination, and that could cause nervousness," said Alfredo Coutiño, director for Latin America

at Moody's Analytics. A spokesman for Peña Nieto's office told Reuters he could not say when the new governor would be nominated, but new board members must be confirmed by the Mexican Senate, which goes into a recess on Dec. 15. Although some fear pressure from the United States over the renegotiation of the North American Free Trade Agreement could strain less independent-minded economic policymakers in Mexico, others see level heads prevailing. "In our view, the two top contenders for Banxico's governorship, Meade and [Alejandro] Díaz de León-Carrillo, would warrant policy continuity," JP Morgan economist Steven Palacio told clients in research note Thursday.

## Peru, Australia Move Closer to Finishing Free Trade Deal

A free trade agreement between Peru and Australia took another step toward completion today as Peruvian President Pedro Pablo Kuczynski and Australian Prime Minister Malcolm Turnbull signed commitments to complete negotiations and advance the measure for approval, state news agency Andina reported. Meeting in Vietnam during the APEC summit, Kuczynski said he was "proud" of the terms of the agreement and that it would create jobs and investment. A number of key agricultural commodities for Australia would gain duty-free entry to Peru, including sugar, beef, rice, dairy, almonds, sheep meat and wine, ABC reported. In a statement, Turnbull said the agreement will eliminate 99 percent of stiff tariffs that Australian exporters currently face. "The export deal will generate economic growth and Australian jobs for decades to come," Turnbull said. "Our businesses, farmers and families are the big winners." Australia only exported \$5.3 million dollars worth of food goods to Peru last year because of tariff barriers and preferential access for competitors like the United States, according to the report. While at the summit, Kuczynski is also meeting today with Japanese Prime Minister Shinzo Abe, with plans for meetings with officials from China and Vietnam, according to Andina.

## NEWS BRIEFS

## Former CEO of SBM Offshore Pleads Guilty in Petrobras Scandal

A former chief executive of Netherlands-based oil-services company SBM Offshore on Thursday pleaded guilty to charges related to the Petrobras corruption scandal in Brazil, Bloomberg News reported. Anthony Mace appeared in federal court in Houston, where he admitted to conspiring to violate the U.S. Foreign Corrupt Practices Act. A citizen of the United Kingdom, Mace approved payments to various Brazilians in an effort to secure lucrative contracts with Petrobras. BM said this week that it had set aside \$238 million in anticipation of a fine by the Justice Department.

## Venezuelan Opposition, Government Agree to New Round of Talks

Venezuela's government and opposition leaders said Thursday they will resume efforts to hold dialogue, the Associated Press reported. Opposition leaders said that a new round of talks would be needed to help ensure free and fair presidential elections, which are currently scheduled for 2018. "We can facilitate the conditions for a presidential election," Julio Borges, president of the opposition-led National Assembly, told a news conference. Information Minister Jorge Rodriguez said via Twitter, "the dialogue continues on Nov. 15 in the Dominican Republic."

## Sons of Former President of Panama Accused in Corruption Case

Panamanian prosecutors said Thursday that two of former President Ricardo Martinelli's sons are suspected of receiving more than \$50 million in "undue payments" from Brazilian construction firm Odebrecht, the Associated Press reported. Ricardo Alberto and Luis Enrique Martinelli have denied involvement.

## BUSINESS NEWS

## FMC, Rio Tinto Focus on Latin America Lithium

Philadelphia-based chemicals manufacturer FMC Corp said Thursday that it plans to invest \$300 million in its lithium operations in Argentina in order to double production there, Reuters reported. The price of lithium has skyrocketed in recent years in pace with increased demand for the mineral amid projected wider use of electric vehicles. For FMC, the investment in Catamarca province will double its production to 40,000 metric tons per year in the next two years, pending approval by the province's legislature, Catamarca province Governor Lucia Corpacci said. In related news,



Corpacci // Photo: Catamarcan Government.

global mining company Rio Tinto is said to be eyeing a \$5 billion stake in lithium producer Sociedad Química y Minera de Chile, or SQM. Rio Tinto is reportedly close to purchasing a 32 percent stake in SQM, the Australian Financial Review reported, citing Chilean publication El Mostrador. Company officials have been "tight-lipped" on the potential deal, industry trade publications reported earlier this week. Canada's PotashCorp must sell its interest in SQM within 18 months of merging with Agrium, setting up fierce competition for the asset, Mining.com reported. Chinese chemicals and fertilizer company Sinochem has also reportedly been in talks to purchase a stake of SQM, which produced some 44 million metric tons of lithium carbonate last year and is developing more projects in Chile and Australia. In addition to Argentina and Chile, Bolivia holds among the highest lithium reserves in the world.

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## FEATURED Q&amp;A / Continued from page 1

in fintechs directly and recently struck a new financing deal with ePesos. Unfortunately, Mexico's recently passed fintech law may limit how fintechs evolve and where they can compete against banks. A discreet motor of growth that is even more compelling will be investments in commercial payments. Mexico's banking system now runs on faster-payment rails, and e-invoicing is mandated. This opens the field for innovation with ERP systems, eProcurement solutions and cross-border payment capabilities. An end to NAFTA would disrupt both consumer and commercial payments by creating rapid inflation, interrupting investment and raising interest rates."

**Alejandro Garcia Garcia, regional group head for Latin America Financial Institutions at Fitch:**

"Despite the very negative market mood on Mexico at the beginning of the year, Mexican banks have been outperforming many other emerging market peers during 2017. A confluence of factors has been boosting earnings, including the gradual upward revision of the country's expected economic growth over the near term, as well as the sustained lending growth and well-contained credit costs. More importantly, rising interest rates are boosting net interest margins at the systems level. While the rising interest rate cycle could eventually come to an end when inflation returns to the central bank's target, banks will likely continue benefiting from a relatively benign operating environment and ample room for growth, absent any disruptive scenario at the macro level. Such disruptive conditions could arise from a potential negative outcome of the NAFTA negotiations. Mexico is among the most open economies in the world, and therefore banks are exposed to corporations that are reliant on external trade. However, we do not expect that the potential negative scenario related to NAFTA talks will have major negative implications in terms of asset quality over the near term. Rather, we expect that challenges under

such a scenario will be mostly related to weaker economic growth prospects, in view of the potential shock on business and consumer confidence. Beyond the near term, we foresee further consolidation in the Mexican financial sector, since gaining economies of scale and pricing power will heavily determine which entities will benefit more from ample medium-term growth prospects."

**José Carlos Rodríguez Pueblita, senior advisor at Monarch Global Strategies:**

"Limited financial inclusion continues to plague Mexico, as the country ranks last in financial penetration compared to other OECD countries, with only 39 percent of the population having a bank account. In addition, Mexico also lags behind in the Latin America and Caribbean region, where the average is 51 percent. For the region, a major contributing factor for this low penetration is the lack of infrastructure. For instance, there are only 10.1 access points for every 10,000 citizens on average in Mexico where one can deposit or withdraw money. Thus, there is a vast potential market for traditional banks to increase their presence and revenues in the short and long terms. In addition to improving infrastructure, increasing Internet access and use of fintech may provide the solution to reducing financial exclusion, while opening a new market for traditional and nontraditional financial firms. Given the recent trend of collaboration between fintech startups and traditional financial institutions, the most active banks—such as BBVA Bancomer and Banorte—will likely address the current needs of the nonbanked population under a highly competitive but very profitable business of financing. The fintech regulation will define the speed of that expansion, and the level of competition between banks and the newcomers. NAFTA may have an effect through a potential increase of rates if the outcome from the negotiations is negative, but the main banks will continue growing their businesses, given the large market to be served."

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