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FEATURED Q&A

Will Caribbean De-Risking Trends Continue This Year?

International banks have severed correspondent banking relationships in Caribbean nations considered to be "high-risk" for compliance violations. // Image: Creative Commons.

Q The trend of bank de-risking, or international banks' practice of terminating correspondent banking relationships in locations deemed to be "high-risk," for compliance violations, has been a top concern of bankers in the Caribbean in the past year. Strict rules on capital and liquidity following the global financial crisis have shifted large banks away from doing business with clients who provide comparatively little profit. What de-risking and compliance trends will banks in the Caribbean, where many correspondent relationships have been severed, see in 2018? To what extent will improving the oversight of Caribbean financial services providers translate to the re-establishment of correspondent relationships or to a decrease in terminations? How have consumers been affected by the de-risking trend, and what does the future hold for them?

A Vangie Bhagoo-Ramrattan, head of research at First Citizens Investment Services in Port-of-Spain, Trinidad and Tobago: "From a broad perspective, the loss of CBRs can have significant implications for the Caribbean region, specifically because of the region's dependence on external trade (including tourism), remittances and offshore banking, as well as foreign investment flows. Therefore, disruptions in the ability to transact externally will have serious consequences for economic activity. The effects of de-risking have been relatively limited up to this point, though certain sectors have already been severely affected. Financial institutions have been able to compensate for the loss of CBRs through alternative arrangements. Despite

Continued on page 2

TODAY'S NEWS

POLITICAL

Ecuadorean Lawmakers Tap Vicuña as New VP

Ecuadorean lawmakers selected María Alejandra Vicuña as the country's new vice president, replacing Jorge Glas, who was sentenced to six years in prison for his role in a Bribery scheme involving Brazilian construction conglomerate Odebrecht.

Page 2

BUSINESS

Santander Brasil Boosts Farm Lending by 44%

The Spanish bank's Brazilian unit increased its farm loans by 44 percent last year.

Page 3

POLITICAL

U.S. Sanctions Four Venezuelan Officials

The U.S. government imposed sanctions on four Venezuelan officials. Among them is Rodolfo Marco, the current governor of Aragua State and a former food minister, who is accused of mismanaging the country's food supply.

Page 2

Marco // File Photo: Venezuelan Government.

POLITICAL NEWS

U.S. Sanctions Four Venezuelan Officials

The U.S. government on Friday imposed sanctions on four current or former Venezuelan officials, freezing any assets they may have in the United States and prohibiting U.S. citizens from dealing with them, Reuters reported. Among the sanctioned officials is Rodolfo Marco, the current governor of Aragua State and a former food minister, who is accused of corruption and mismanagement of the country's food supply. Also on the list of sanctioned officials are Francisco Rangel, a former Bolívar State governor; Fabio Zavarse Pabon, a national armed forces commander; and Gerardo Izquierdo Torres, a state minister. "President [Nicolás] Maduro and his inner circle continue to put their own interests above those of the Venezuelan people," U.S. Treasury Secretary Steven Mnuchin said in a statement. "This action underscores the United States' resolve to hold Maduro and others engaged in corruption in Venezuela accountable." In the announcement sanctioning the officials, the U.S. Treasury also criticized Venezuela's pro-government Constituent Assembly, which the United States considers "illegitimate," The New York Times reported. The assembly, after its creation last year by President Nicolás Maduro's government, declared itself superior to all other government institutions, including the country's elected legislature and the courts. The Constituent Assembly recently stripped some opposition parties of their ability to participate in this year's planned presidential election, saying they lost that ability after failing to participate in last month's local elections.

U.S. to End TPS for Salvadorans by September 2019

The U.S. Department of Homeland Security will not renew Temporary Immigration Status for nearly 200,000 Salvadorans who have been allowed to stay in the United States since at least 2001, The Washington Post reported today, citing multiple people with knowledge of the matter. Salvadorans who have been living in the country under TPS will have until September 2019 to arrange legal status under another category or leave the United States, the newspaper reported. The Trump administration has been phasing out TPS programs that have given groups of people refuge from insecure conditions in their homeland, arguing that situations in some of the people's home countries have improved since they were first granted TPS, USA Today reported. In November, Homeland Security said it was ending the program for the nearly 59,000 Haitians who

FEATURED Q&A / Continued from page 1

this, the cost of banking with correspondent banks has climbed. An IMF study revealed that jurisdictions where there was an explicit increase in CBR fees generally saw increases in fees charged to bank customers for wire transfers and foreign currency drafts. A survey conducted by the Caribbean Association of Banks shows banks in 12 Caribbean countries have experienced a loss of correspondent banking, including the Bahamas, Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago and countries in the Eastern Caribbean Currency Union. The loss of these relationships will have damaging effects for the region, in terms of reduced remittances, FDI flows and international trade flows, and the loss will increase the cost of doing business. Since the potential loss associated with de-risking is so high, the Caribbean financial sector must hasten to comply with international financial regulation, including international AML/CFT and tax transparency standards. Better use of financial technology to aid in information sharing and cross-border dialogue should also be high on the agenda when addressing the issue of de-risking."

Continued on page 4

NEWS BRIEFS

Trump Wants $18 Bn From Congress for Border Wall, But Vows Mexico Will Pay

U.S. President Donald Trump on Saturday reiterated his campaign promise that Mexico would pay for a wall on the U.S.-Mexico border, one day after it had been reported that he plans to ask Congress for $18 billion to fund the wall's construction, The Hill reported. "I believe Mexico will pay for the wall. I have a very good relationship with Mexico. But yes, in some form, Mexico will pay for the wall," Trump said. Mexican officials have repeatedly said the country will not pay for the wall. Trump has said he will not sign a bill that extends protections for recipients of the Deferred Action for Childhood Arrivals (DACA) program unless funding for the border wall is included in the legislation.

Ecuadorean Lawmakers Tap Vicuña as New VP

Ecuadorean lawmakers in a vote Saturday selected María Alejandra Vicuña to replace Jorge Glas as the vice president of the South American nation, the Associated Press reported. In December, Glas was sentenced to six years in prison for his role in a bribery scheme with Brazilian construction conglomerate Odebrecht. Vicuña is a psychologist who previously served as interim vice president and as the minister of urban development and planning.

ExxonMobil Announces Sixth Significant Oil Find in Guyana Waters

Multinational oil company ExxonMobil announced Friday it had made a significant oil discovery offshore of Guyana, the Associated Press reported. The company said its Ranger-1 well hit a major oil reserve in the Stabroek Block, marking the sixth significant oil find in the block since 2015. The area is estimated to contain some 3.2 billion barrels of oil.

have been living in the United States since 2010, when a powerful earthquake flattened the country. They must return home by July of next year, or else remain in the United States illegally. Homeland Security has also rescinded the status for 5,300 Nicaraguans who had been granted TPS in 1999 following Hurricane Mitch. They must return home by January of next year. The department extended the program by six months for the 86,000 Hondurans affected by Mitch, but said it may ultimately phase out the program for that group, as well. The Salvadoran Embassy in Washington says that an estimated 97 percent of Salvadorans living in the United States under TPS who are over the age of 24 are employed and paying taxes. Salvadorans in the TPS program have given birth to 192,000 children, all of whom are U.S. citizens. Still, some believe the time has come to roll back the program. "The 'T' in TPS stands for temporary," said Ira Mehlman, a spokesman for the Federation for American Immigration Reform. "Salvadorans have been allowed to remain for almost 17 years, which stretches the boundaries of any reasonable definition of temporary."

BUSINESS NEWS

Banco Santander's Brazilian Unit Boosts Farm Loans

The Brazilian unit of Banco Santander increased its farm loans by 44 percent last year amid its growing presence in the South American nation's agribusiness sector, Reuters reported Thursday. Banco Santander Brasil is now the country's fifth-largest provider of farm loans, according to Carlos Aguiar, the bank's head of agribusiness lending. Santander Brasil made 13 billion reais ($4 billion) worth of loans to farmers and agribusiness companies in 2017, an increase from about 9 billion reais the previous year. The bank's Brazilian unit could see a 10 to 15 percent increase in its farm lending this year, as lower interest rates provide new opportunities for banks in the private sector to grow in agribusiness lending, where state-run banks still largely dominate, Reuters reported. "The fall of the Selic base rate is accelerating our strategy," Aguiar told the wire service. Last month, Brazil's central bank reduced its benchmark Selic interest rate to 7 percent, a record low. The cut was the latest in a cycle of loosening that began in October 2016 amid the government's efforts to spur Latin America's largest economy. Santander last year announced plans to launch 16 "agro-stores," which will focus on selling financial products to Brazilian farmers. Approximately a third of those operations will be in Matto Grosso State, where grain growers have increasingly relied on bartering to finance their grain crops. Under such bartering, commodities trading firms have supplied raw materials to farmers in exchange for delivery of some of their future crops.

THE DIALOGUE CONTINUES

Is Colombia's Government Taking Enough Action to Fight Drugs?

Q U.S. Attorney General Jeff Sessions met with his Colombian counterpart, Néstor Martínez, and a delegation from Mexico in Cartagena on Dec. 7, where they agreed to strengthen efforts against drug trafficking in Colombia. The country is grappling with record-high levels of cocaine production, and last year, U.S. President Donald Trump threatened to decertify Colombia as a partner in the war on drugs unless it reverses coca production levels. Ahead of Colombia's upcoming presidential election in May, what is the outlook for the U.S.-Colombia counter narcotics partnership? Will Colombia's next leader take a different approach to addressing the country's drug-related problems than has President Juan Manuel Santos? How likely is the United States to decertify Colombia as a partner on the issue, and what would result from such a decision?

A Maria Velez de Berliner, president of Latin Intelligence Corporation: "U.S. Ambassador Joseph Macmanus and President Juan Manuel Santos launched the crop-substitution program 'Antioquia without Coca' in December. Coca substitution alone does not solve Colombia's coca/cocaine problem. If coca is eradicated without synchronous, marketable alternatives, any eradication program will fail. When a pound of coca sells at farm-gate for 2.5 million Colombian pesos, and a pound of coffee sells for 7,000 pesos, any peasant will plant coca, because he or she knows how to calculate basic return on investment. A farmer knows that the government's substitution programs can be here today and gone tomorrow, and that a sack of dry coca leaves has a shelf life of five to seven years, while coffee rots if it's not dried promptly after being harvested. Ultimately, the Colombian government can keep the United States at bay by implementing a substitution program that pleases the United States, although growers know it will fail to eliminate coca totally, because the economic incentives that lead peasants to turn coca into ready cash will remain. Decertification or certification of Colombia will depend on the politics of the moment in the United States. However, the U.S. decision will influence Colombia's congressional and presidential elections this year. Such action is likely to sway voters to favor or disfavor candidates, depending on the voters' response to the issue of decertification. Meanwhile, for as long as the economics of coca versus legal agriculture exist in Colombia, coca growing and cocaine production will grow, whether the United States certifies or decertifies."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Jan. 4 issue of the Advisor.

FEATURED Q&A / Continued from page 2

A **Anthony Wilson, head of the multimedia business unit at One Caribbean Media:** "There is good cause for optimism that the uncertainty and trauma experienced by commercial banks in the Caribbean over their correspondent banking relationships (CBRs) could abate in 2018 after two years in which long-standing relationships were curtailed—sometimes abruptly and unilaterally. This optimism is based on the fact that Caribbean governments have recognized the threat to their economies that would result from the escalation of the termination of CBRs and, quite unusually, have been proactive in seeking to address the issue head-on. Not only has a Caricom Task Force on De-Risking been established, but the region has pushed the issue onto the agenda of the last two high-level forums that were co-hosted by the IMF and the governments of Jamaica and Trinidad and Tobago in November 2017 and 2016. Out of those forums—as well meetings held among regional bankers, Caribbean government officials and representatives of some correspondent banks—there is greater dialogue between correspondent and respondent banks, resulting in more understanding of the challenges that both sides face. This understanding is providing a path ahead that differentiates between those banks in the region that are attempting to implement new and tougher compliance measures and other banks that are not so inclined or simply cannot afford them. This differentiation is likely to lead to significant consolidation among the region's indigenous commercial banks, especially driven by the increasingly confident and aggressive Jamaican financial institutions. The upshot is that there will likely be fewer banks in the region that are better capitalized, more tightly regulated and with stronger connections to Miami, New York and Toronto, including stock market listings and outright ownership of North American banks."

A **Georges Hatcherian, assistant vice-president in the Financial Institutions Group at Moody's Investors Service:** "Since the global financial crisis, major global banks have been terminating or limiting their correspondent banking relationships (CBRs) with banks in emerging markets around the world, including the Caribbean, Central America and Africa. The withdrawal of CBRs has been driven by a reassessment of risk appetite by global banks amid increased regulatory compliance costs, and the threat of heavy fines by U.S. and E.U. regulators. As a result, the risk-adjusted profitability for the correspondent banking business for global lenders has diminished. In 2018, Caribbean banks will continue to experience tightening CBRs as international lenders face increasing compliance and operational costs from regulators, while the region's anti-money laundering/combating the financing of terrorism regulations are still evolving. Further losses of CBRs would increase the risks that Caribbean banks would be unable to process international payments, including remittances and external obligations, as well as to refinance credit lines from global lenders. Refinancing risk is especially high for small financial institutions, where access to domestic customer deposits is weaker than for larger banks. The implications of tighter CBRs go beyond the banking sector. Corporations that rely on cross-border transactions (money transfer services, tourism-oriented businesses, exporters) could be affected by restricted, or more costly, access to financial services. Costs of cross-border transactions may rise if rising compliance costs are increasingly passed on to customers, or if there is less competition among service providers."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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