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## FEATURED Q&A

# Is the Outlook for Ecuador's Banks Improving?



Since taking office last year, Ecuadorean President Lenín Moreno has broken from the policies of his predecessor, Rafael Correa (L-R), who pushed for reforms in the country's financial sector. // File Photo: Ecuadorean Government.

**Q An improved performance by Ecuador's financial services sector helped drive the country's economic growth last year, the central bank said in March. Since taking office nearly a year ago, President Lenín Moreno has broken from his mentor and predecessor, Rafael Correa, who pushed financial sector reforms, such as the creation of a new Board of Monetary and Financial Regulation to monitor lending, among other controls. What is different about Moreno's approach to the financial services sector, as compared to Correa's? How well has Ecuador's banking sector been performing since Moreno took office? What are the most important factors that are driving financial services sector's growth, and what is the sector's outlook?**

**A César Coronel Jones, partner at Coronel & Pérez in Quito:** "President Moreno has a very different attitude than his predecessor, Rafael Correa, regarding private investors. Instead of confrontation, he promotes dialogue and has made private investment, both local and foreign, one of the pillars of his economic program. Among the policies promoted in his economic plan, he has included tax exemptions for new investments as well as a gradual reduction of the ISD, a tax on funds that are taken out of the country. The banking sector has been delighted with the openness for dialogue with the public sector. Despite the lack of major positive results, the boost in confidence is crucial and, in that regard, we can sense a tremendous difference. The banking and the business community in general celebrates this 'change of course' regarding the economic policies of Moreno's government. Because of their great potential, the sectors where the banking industry

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## TODAY'S NEWS

### ECONOMIC

## Brazil Contradicts U.S. on Tariff Deal

Brazil's government contradicted a statement from the White House that the countries had reached an agreement on a permanent exemption from steel and aluminum tariffs. Brazil said the United States issued an ultimatum.

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### ECONOMIC

## IMF Censures Venezuela for Not Sharing Data

Venezuela, which is facing a severe economic crisis including hyperinflation, stopped sharing data with the International Monetary Fund last November. The IMF could expel Venezuela from its group of member countries.

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### POLITICAL

## Mexico's PRI Replaces Leader Ahead of Election

Just two months ahead of Mexico's July 1 presidential election, the ruling PRI party replaced its president, tapping former Guerrero Gov. René Juárez Cisneros. He replaces Enrique Ochoa.

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Juárez Cisneros // File Photo: Mexican Government.

## ECONOMIC NEWS

## Brazil Contradicts U.S. Announcement on Tariff Deal

Brazil's government on Wednesday contradicted a U.S. announcement earlier this week that the two countries had reached a deal on a permanent exemption from steel and aluminum import tariffs, The New York Times reported. In a joint statement, Brazil's foreign and trade ministers said they were informed of a unilateral decision by the United States to break off



Lopes // File Photo: Brazil Steel Institute.

negotiations last Thursday. They were then told that the temporarily suspended tariffs would be applied "immediately" or, as an alternative, they could opt for "restrictive unilateral quotas." The president of the Brazil Steel Institute, Marco Polo de Mello Lopes, said the ultimatum came as a complete surprise, although some of the terms offered were "not that bad" for Brazil's steel industry. The White House said on Monday that it had reached agreements for permanent exemptions on steel and aluminum for Brazil, Argentina and Australia, and that the details of the deals would be finalized shortly. In a statement Wednesday, the White House said those details had in fact not been finalized and President Donald Trump would consider re-imposing the tariffs if they were not settled shortly, Reuters reported. "The United States and Brazil reached an agreement in principle on satisfactory alternative means to address the threatened impairment to our national security from steel and aluminum imports," White House spokeswoman Lindsay Walters said in the statement.

## IMF Censures Venezuela for Failing to Share Data

The International Monetary Fund censured Venezuela on Wednesday for not sharing data on key economic indicators, the Associated Press reported. Venezuela, which is facing a severe economic crisis and hyperinflation, stopped sharing data with the IMF last November. The country's central bank, meanwhile, has not published official statistics since 2004. "The Executive Board called on Venezuela to adopt specific remedial measures and will meet again within six months to consider Venezuela's progress in implementation," the IMF said in a statement. Though the censure did not include immediate penalties for the South American country, the IMF could expel Venezuela from its group of member countries if it fails to cooperate. The Fund requires all member countries to share data and submit to an official review, which it says is "an essential first step to understanding Venezuela's economic crisis and identifying possible solutions." In related news, the Miami Herald reported on Wednesday that Venezuela's inflation rate for March and April was approximately 18,000 percent, much higher than the 13,000 percent annual rate that the IMF projected for all of 2018, according to economists' projections. Venezuelan President Nicolás Maduro, who is up for re-election later this month, on Monday doubled the minimum salary in the country amid hyperinflationary pressure.

## POLITICAL NEWS

## Mexico's PRI Replaces Leader Ahead of Election

Mexico's ruling Institutional Revolutionary Party, or PRI, on Wednesday replaced its leader in a move that came less than two months before the country's presidential election, El

## NEWS BRIEFS

## Bunge Exploring Public Offering of Brazil Sugar Cane Milling Operation

U.S.-based agribusiness company Bunge is planning a filing in Brazil as soon as this month to explore a public offering of its sugar cane milling operations in the South American country, Reuters reported. "We are prepared to take it to the next step in the form of an IPO if the markets are, let's say, open and put the right price on it," CEO Soren Schroeder said Wednesday after the company reported a quarterly loss.

## Argentine Peso Continues Slide Despite Central Bank Intervention

The Argentine peso fell 3.1 percent against the U.S. dollar on Wednesday, reaching an all-time low value of 21.2 pesos per dollar, La Nación reported. The peso's slide continued despite significant action from the country's central bank, which last Friday raised its median interest rate from 27.25 to 30.25 percent and spent \$1.5 billion of its reserves in an effort to support the peso. The country has one of the region's highest inflation rates at 25.4 percent, and its currency is depreciating due to a strong U.S. dollar, according to a Reuters report.

## Peru's Government Will Not 'Significantly' Raise Taxes: Prime Minister

Peruvian Prime Minister César Villanueva told members of his country's Congress on Wednesday that the government will eliminate several tax exemptions and will not "significantly" increase taxes, El Comercio reported. In an address to Congress before requesting a vote of confidence on President Martín Vizcarra's cabinet, Villanueva said exemptions cost the government \$4.89 billion every year. He added that the government aims to reduce the fiscal deficit and broaden the country's tax base.

Universal reported. René Juárez Cisneros, who formerly served as governor of Guerrero State and also was a senator and federal deputy, was tapped as the party's president, replacing Enrique Ochoa. "The party needed a leader who knows the grassroots well and knows how to win elections," an official with PRI presidential candidate José Antonio Meade's campaign told the Financial Times. "It's crunch time."

“The party needed a leader who knows the grassroots well and knows how to win elections.”

— Meade campaign official

Meade had urged the change, the official told the newspaper. The ruling party had reluctantly accepted Meade, who is not a party member, as its candidate in the July 1 election as the party has been so damaged by corruption scandals that no other candidate offered a better chance at keeping the presidency in the PRI's hands. In the latest polls, Meade is trailing in third place behind leftist Andrés Manuel López Obrador of the Morena party and Ricardo Anaya of the left-right For Mexico to the Front coalition. In a poll released Wednesday by newspaper Reforma, López Obrador had 48 percent support, with Anaya in second place with 30 percent. Anaya had gained four percentage points since a previous Reforma survey earlier in April. Meade's support slipped one percentage point to 17 percent, according to the poll, which was conducted April 26-30. López Obrador has vowed to reduce inequality in Mexico without hiking taxes or raising debt, Reuters reported. He is likely to slow current President Enrique Peña Nieto's moves toward economic liberalization. He is also expected to be more antagonistic with U.S. President Donald Trump. [Editor's note: See Q&A on what a López Obrador presidency would mean for Mexico in the Feb. 22 issue of the Advisor.]

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can reasonably expect a better performance in the current year as well as in the medium term are the mining, telecommunications, shrimp and banana industries. Additionally, great performance is expected for public-private partnerships for the construction of public works."

**A Francisco Swett, dean of the School of Economics and Business at Universidad Espíritu Santo in Samborondón, Ecuador and former Ecuadorean minister of finance, member of Congress, and central bank president:** "There is more myth than fact in the perception that President Lenín Moreno's government is handling matters in the financial sector any differently than Rafael Correa. How could it be? The people are the same, the attitudes are the same and the laws are the same. Ecuador's banking system is locked in a tug-of-war. It operates in a dollarized economy and there is no Central bank support in case matters go awry; bank provisions are four times as much as they would be otherwise. Secondary money expansion is thereby restricted and reflects the general conditions of an economy beset by strong recessionary trends and seven consecutive months of deflation. The government, on the other hand, continues to keep pace with its targeted current spending priorities; public monies are recycled to the banking system, fueling credit expansion and putting pressure on the balance of trade. So long as the government is able to contract new debt, those inputs will be reflected in the banking system indicators, but the situation is hardly sustainable: fundamentals are weak, and public debt is rearing its ugly head once again. In short, the outlook for financial services is not rosy, and the issues brewing within the cooperative sector (which holds about one third of assets, as much as the banks) signal problems ahead as the Moreno government continues to behave in no-see, no-hear, no-talk mode regarding economic management."

**A Ramiro Crespo, CEO of Analytica Investments and President of Analytica Securities in Quito:** "Banks had a strong 2017 in credit, deposits and profitability. Bankers, however, acknowledge that 2016 was a bad base year, so annual comparisons should be taken with a grain of salt. Improvements in overall economic activity expanded bank deposits 11.9 percent in 2017. The improved liquidity, together with strong demand for credit following a 2016 when banks were extremely cautious about lending, resulted in a solid 2017 for bank credit growth. Both the

“Banks are back in the business of lending money, with profits for the system almost doubling in 2017.”

— Ramiro Crespo

corporate sector and consumers benefited from credit availability, as business and consumer sentiment improved and, with it, their demands for funds. By year's end, bank lending had expanded by 17 percent. Statistics are not yet showing bankers' concerns about the future of credit growth given the recent slowdown in deposits, but credit conditions are likely to tighten in the coming months. In the meantime, banks are back in the business of lending money, with profits for the system almost doubling in 2017. Liquidity in the system is extremely sensitive to government external financing. As soon as the government receives loans or places foreign debt, funds are injected into the economy through the financial channel. Currently, the government holds part of the proceeds from the \$3 billion bond issuance that took place in January 2018, but it will run out of money in the coming months when seasonally high tax revenue collection

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dissipates. Lower government liquidity could complicate the overall liquidity, thus affecting banks' capacity to keep lending at the same pace. They could be forced to put on the brakes again."

**A** **Pablo Arosemena Marriott, president of the Chamber of Commerce of Guayaquil:** "The economic environment in Ecuador is very different from what we saw during the past decade. The oil bust of 2014-2017 forced the government to replace its oil revenue with aggressive debt and opaque oil pre sales to China. The government debt grew from \$30 billion at the end of 2014 to at least \$50 billion in January this year. Regarding oil pre sales, some estimates indicate that Ecuador will hardly receive any oil revenue this year. This combination has rendered the current administration's public finances very fragile and thus has shaped the approach that the government has had toward the commercial, manufacturing and banking sectors. At the outset, the government mentioned restoring the private sector as the engine for economic growth and development. One of the early signs of 'walking the talk' was the transference of the

central bank's electronic wallet program to the private financial sector and the annulment of a confiscatory property surplus tax. No other additional tangible measures have been taken. While the government has been fast in increasing the corporate tax rate and imposing a new customs 'tax,' most business-friendly announcements have remained only announcements. The 'new economic plan' unveiled a few weeks ago didn't include important details on the mechanism to achieve a balanced budget. It resembles more a short-term fiscal adjustment program than a fully fledged economic program. Despite these facts, business sentiment remains positive and sales are recovering at a healthy 9 percent in the manufacturing and commercial sectors, which account for more than 60 percent of national sales. The environment on the private-sector side seems more prone to growth: the banking sector remains healthy and the external trade sector is bullish. We count on the public sector to pull its weight without negatively affecting the business climate."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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