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## FEATURED Q&amp;A

## How Will Basel III Rules Affect Brazilian Banks?



New capital requirements for banks will lead companies to shift their focus for financing away from traditional bank loans, according to a recent report. A branch of Brazil's Itaú Unibanco is pictured above. // File Photo: Itaú Unibanco.

**Q** Brazilian companies will need to shift their focus away from traditional bank loans and toward capital markets by early next year amid stricter Basel III capital requirements for banks, according to a research paper released earlier this year by Itaú Unibanco's asset management unit. How will the shift affect Brazilian banks' business? How much more difficult will the change make it for companies to raise needed financing? Will Brazil's local capital market become stronger as a result? What role will Brazil's financial and capital market play in the country's economic recovery from recession, and what reforms or changes would make Brazil's capital market more successful?

**A** Roberto Teixeira da Costa, member of the Financial Services Advisor board and founder and board member emeritus of the Brazilian Center for International Relations (CEBRI): "Beyond a doubt, the capital markets must play the most important role in the Brazilian economy's process of recovery. At different times during the country's economic history, the state was an important engine of economic development, for example, as a direct investor in companies that it considered strategic, such as in the petrochemicals sector where the state in association with domestic or foreign private capital made various projects feasible. Another mechanism, most frequently in the recent past, was using state-owned banks for medium- to long-term financing at favorable rates. I believe these two possibilities are now exhausted. The state exhausted its investor capacity due to fiscal deficits, which are approaching 70 percent of GDP, while the main financier of long-term proj-

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## TOP NEWS

## FINANCIAL SERVICES

### Latin America Helps Fuel Citi's Earnings in Q3

Citigroup reported profit that was better than expected for the third quarter, boosted by strong revenue growth in Latin America.

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## CREDIT CARDS

### Visa's Brazil Head Vows to Boost Market Share

Visa ended last year with a 36 percent market share in Latin America's largest economy, down from approximately half of all card transactions in 2010. Fernando Teles, who heads the company's operations in Brazil, is vowing to reverse that trend.

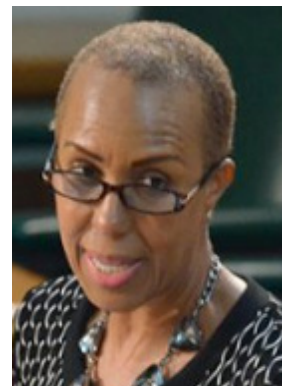
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## FINANCIAL SERVICES

### Jamaica Seeking Greater Voice on Financial Matters

Jamaica is taking steps to become a leading voice on financial matters in the Caribbean, with Minister Fayval Williams heading a delegation to the Caribbean Financial Task Force.

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Williams // File Photo: Jamaica Information Service.

## FINANCIAL SERVICES NEWS

## Latin America Revenues Help Fuel Citi's Earnings in Q3

Citigroup reported a better-than-expected profit for the third quarter on Oct. 12, boosted by a strong growth of its consumer banking revenue in Latin America. The U.S.-based banking company in a statement said its quarterly net income was \$4.6 billion on revenues of \$18.4 billion in the July-to-September period, as compared to a net income of \$4.1 billion on unchanged revenues a year earlier. Consumer banking revenue in Latin America rose 20 percent to \$1.7 billion, driven by a gain on the sale of a Citibanamex asset management business in Mexico for \$250 million, which closed last month, Citywire reported. Excluding that sale, Citi's revenue in the region grew by 8 percent, bolstering total global consumer banking revenue by 3 percent on a constant currency basis, according to the bank. In the group's earnings call, Citi Chief Executive Mike Corbat said he expects the Mexican business to keep growing, adding the bank would be watching President-elect Andrés Manuel López Obrador's fiscal discipline, Citywire reported. Citi had expected total fixed income and trading revenue to remain steady and investment banking revenue to slightly drop. Earnings per share increased from \$1.42 in the same quarter last year to \$1.73, higher than what analysts had forecast. According to data from Refinitiv, experts had estimated earnings per share would jump to just \$1.69, Reuters reported.

## Jamaica Seeking Greater Influence on Financial Matters

Jamaica is taking steps to become a leading voice on financial matters in the Caribbean, the country's minister without portfolio in the Ministry of Finance said Oct. 2, the government-run news agency Jamaica Information

Service reported. To that end, Minister Fayval Williams will head the Jamaican delegation to the Caribbean Financial Task Force, or CFATF, an organization of 25 states across the Caribbean, Central and South America that have agreed to implement common counter-measures to fight money laundering. "I will seek to advance certain issues that are of benefit to Jamaica, including de-risking issues, regulatory regimes for emerging technologies and financial inclusion," Williams said at an event in New Kingston. The CFATF is part of the France-based Financial Action Task Force, an organization established in 1989 to combat money laundering and terrorism financing. Jamaica is taking steps to strengthen its own anti-money laundering measures. Earlier this year, the government announced its plans to make the Financial Investigations Division, or FID, which is currently part of the Ministry of Finance, into a department with a larger budget, greater human resources capacity and more autonomy, in order to meet international best practices, the Jamaica Gleaner reported.

## CREDIT CARD NEWS

## Visa's Brazil Country Head Vows to Boost Market Share

The Brazil country head for Visa vowed in an interview published Oct. 11 to boost the company's market share in the South American country. "We were growing less than the market average, but now we've been able to stabilize that—we're back on track," Fernando Teles, who took over two years ago as the payment network's head for Brazil, told Bloomberg News. In 2010, Visa handled approximately half of all card transactions in Latin America's largest economy, but in 2017 it ended the year with a 36 percent market share, according to central bank data. A main reason for Visa's slide in Brazil is Elo, a card network that Brazilian banks launched in 2011 in an effort to cut costs, Bloomberg News reported. The new network gained market share, particularly

## NEWS BRIEFS

## Argentina Getting Dozens of Cryptocurrency ATMs

Argentina could have as many as 30 automated teller machines that buy and sell cryptocurrency by the end of the year, Reuters reported Oct. 3. U.S.-based Athena Bitcoin launched Argentina's first bitcoin ATM last month, seeking to "be the first to capture the market" amid an economic crisis that has seen the Argentine peso lose nearly half of its value against the dollar this year, said Dante Galeazzi, Athena's Argentina operations manager. U.S.-based Odyssey Group also said 80 percent of its 150 ATMs in Argentina will be bitcoin-operational next year.

## Banco Nacional de Panamá Sees 15 Percent Growth in Loan Portfolio

Government-owned Banco Nacional de Panamá's total loan portfolio reached \$4.4 billion in September, a 15 percent increase from a year ago, Panamá América reported Oct. 11. The bank's private portfolio also expanded, from \$3.4 billion last September to \$3.7 billion this year, a 10 percent increase. Rolando de León de Alba, an executive with the bank, said the figures were "worthy of celebration," the newspaper reported.

## Brazil's Haddad Eyes Tax, Banking Reform if Elected President in Runoff

Brazilian Workers' Party presidential candidate Fernando Haddad said in a radio interview Oct. 11 that he would send tax and bank reform bills to Congress if elected in the runoff against far-right candidate Jair Bolsonaro, Reuters reported. Haddad also said he plans to finance wind and solar energy projects in Brazil's northeast using 10 percent of Brazil's foreign currency reserves. The second-round vote will take place on Oct. 28.

with debit card transactions, and at the end of last year handled about 14 percent of all card transactions in the country. Mastercard has the highest market share, with 46 percent of all transactions in Brazil. Teles, who previously worked at Itaú Unibanco and was chief executive officer at Banco Original, said he has been



Teles // File Photo: Visa.

working to strengthen Visa's relationships with local banks, including by financing efforts at joint marketing. Since becoming the company's Brazil head, he also boosted the company's workforce in the country by 25 percent and has also sought to establish closer ties to financial technology companies and retailers. "The first step was recognizing we had a problem, so we started doing more business with our clients, we changed the logic of the relationship," said Teles, who said he wants Visa to again be the country's top card processor in three to five years. Some 60 percent of transactions in Brazil are made with cash, said Teles, adding that encouraging Brazilians to use cards more often is part of the company's plan for growth. Brazil's central bank has also made regulatory changes in an effort to boost the use of cards, including the placement of a cap on debit card fees.

## FINANCIAL TECHNOLOGY NEWS

### Banco do Brasil Allows Transactions Through WhatsApp

Customers of state-run lender Banco do Brasil can now carry out financial transactions through instant messaging application

## FEATURED Q&A / Continued from page 1

ects, state development bank BNDES, had to return to the national treasury a significant portion of its available resources in order to improve the framework of fiscal debt. The private sector, through the capital market, was seeking to occupy this space, whether through initial public offerings or through attempting to launch medium- to long-term debt securities to cover, at least partially,

“Beyond a doubt, the capital markets must play the most important role in the Brazilian economy's process of recovery.”

— Roberto Teixeira da Costa

the needs of infrastructure projects. Private banks cannot go very far because the deposits of their applicants are not long-term. Another sensitive point is that there is no active secondary market for such securities after they are launched. As for public offerings of shares, several issuances are on investment banks' shelves, awaiting the outcome of the presidential election on Oct. 28. If Bolsonaro, who is seen as more market-friendly, wins, the market response will be positive, as seen after the first round. However, if Haddad, who is seen as more interventionist and whose party is expected to recognize a

strong state, wins, then a big question mark will prevail. Over the past years, it has been difficult for the stock market to compete with public or private debt securities due to the benchmark interest rates, which reflect the rate of inflation. As inflation returns to more civilized levels, the possibility of a rebirth of the market opens up.”

**A** Natan Rodeguero, regional head for Latin America at M-Brain in São Paulo: “Discussed after the subprime crisis in 2008

and bound to start in 2019, the Basel III agreement aims to strengthen the stability of global financial systems. The agreement makes minimum solvency indexes more stringent, thus reducing the exposure of banks to loans and credit delinquency, and ultimately reducing the systemic risk. Institutions adapting to the new set of rules will face infrastructure and operational costs to adjust their systems to manage their operations under the new rules and to implement tighter risk analysis, besides facing the need to increase their own capital to lower their exposure. While the agreement should prompt a wave of increased efficiency, larger non-public Brazilian banks are well prepared to comply with Basel III and will be able to avoid being more exposed to bigger risks, at the same time without suffering too much of an impact in businesses. In 2016, the Brazilian central bank reported that the five largest

Continued on page 6

WhatsApp, Brazilian government-run news agency Agência Brasil reported Oct. 11. Latin America's largest bank has been gradually rolling out up to 11 types of financial services through WhatsApp to 500,000 customers every week, and it expects all account holders will be able to make transactions through the messaging app in the coming weeks. Since June, Banco do Brasil has offered banking consultations via WhatsApp and Twitter, but customers are now also able to make money transfers, track their cards, access the balances of their

current and savings accounts and issue card invoices, among other uses. All operations are handled by an artificial intelligence system. According to the bank, customer transactions are secured with end-to-end encryption, The Rio Times reported. Financial technology in Brazil has expanded in recent years, with more than 200 fintech companies offering services in the South American country, the Financial Times reported recently. Last year, Goldman Sachs estimated the potential revenue pool for Brazilian fintech was 70 billion reais, or roughly \$18

million, over the next 10 years, the newspaper reported. [Editor's Note: See related [Q&A](#) in the June 14-27 issue of the Financial Services Advisor.]

## POLITICAL NEWS

### Nicaragua Releases 37 Detained Ahead of Planned Protest

Nicaraguan authorities on Oct. 15 released almost all the protesters who were detained a day earlier ahead of a planned anti-government demonstration in Managua, El Nuevo Diario reported. Thirty-eight people were arrested Oct. 14 for organizing and participating in what police called an illegal protest, which was canceled after the arrests, and for allegedly "disturbing the peace." The release of 37 of the

“They keep calling for marches not for peace, but for blood, that's what they want, they want blood.”

— Daniel Ortega

38 detainees followed international criticism. On Oct. 14, the Inter-American Commission on Human Rights, or IACHR, said on Twitter it was profoundly concerned with the arrests and called on the Nicaraguan government to respect individuals' right to social protest. A day earlier, Nicaraguan President Daniel Ortega criticized the planned demonstration in a speech to supporters. "They keep calling for marches not for peace, but for blood, that's what they want, they want blood," he said, Reuters reported. More than 300 people have been killed in anti-Ortega protests since they first started in April, according to local human rights groups. The government says only 198 people have died and blames the deaths on an alleged failed coup.

### Venezuela Releases Student Activist

Venezuela's government on Oct. 12 released Lorent Saleh, a student leader and political activist who had been held without trial since 2014, Agence France-Presse reported. Saleh, now 30, was escorted to the airport and put on a flight to Madrid with Spanish government officials. Accused of planning terrorist acts and having links to Colombian paramilitaries, Saleh

had been held in the country's intelligence agency building in Caracas. Officials said he was being released due to concerns about his mental state. Last week, authorities say jailed opposition lawmaker Fernando Albán threw himself from the 10th floor of the intelligence agency building, an incident international human rights advocates called suspicious and condemned. According to Albán's friends and family, he never would have contemplated suicide, The Wall Street Journal reported. Upon arriving in Madrid, a defiant Saleh told reporters and supporters that "the fight goes on." "What

## ADVISOR Q&A

### What Did Cuban President Díaz-Canel Accomplish on His U.S. Trip?

**Q** Cuban President Miguel Díaz-Canel visited the United States for the first time in late September for the U.N. General Assembly meeting, where he denounced the U.S. economic embargo on his country. He also met with New York Mayor Bill de Blasio and executives of U.S. technology companies such as Google and Twitter. What did Díaz-Canel accomplish during his trip to the United States? How has he fared in the first months of his presidency? Are there any changes ahead for U.S.-Cuba relations?

**A** Paul Hare, professor at the Pardee School of Global Studies at Boston University and former British ambassador to Cuba:

"Like many international leaders, I think Díaz-Canel is biding his time in the expectation that the Trump administration has only two years to run. Cuba's government has long been astute followers of American politics. It is building bridges with state and city entities and showing a willingness to open talks with major American businesses. So, though the Trump administration is turning its back on engagement with Cuba, Cuban leaders are still finding American interlocu-

tors. Increasingly, the Cubans hope that the business lobby will argue that if the United States is renouncing business opportunities in Cuba for political reasons, other countries will step in and seize them. Equally, the United States is now again largely isolated on Cuba issues, as the support for the Cuban anti-embargo resolution in the U.N. General Assembly later this month will show. That is a major obstacle to the Trump administration's ability to rally international opinion to promote a peaceful resolution of the Venezuela crisis. Díaz-Canel is proving a cautious and conservative leader who is reluctant to show any significant policy departure from the tenure of the Castros. He may soon have a powerful and influential new ally in López Obrador, the Mexican president-elect, who could become a rival for leadership of the Latin American left. Cuba's weight in international affairs continues to be boosted by U.S. hostility, and that is something Díaz-Canel knows as well as the Castros."

**EDITOR'S NOTE:** More commentary on this topic appears in the Oct. 12 issue of the Latin America Advisor.

## NEWS BRIEFS

## IMF to Reopen Office in Argentina

The International Monetary Fund said Oct. 15 that it will reopen an office in Argentina, six years after closing it, Agence France-Presse reported. Economist Trevor Alleyne was appointed to represent the Fund in Buenos Aires. The announcement comes several weeks after the international lender reached a deal with the Argentine government to speed up the payment of a \$57.1 billion standby loan. [Editor's Note: See related [Q&A](#) in the Oct. 15 issue of the daily Latin America Advisor.]

## Honduran Migrants Heading to U.S. Push Into Guatemala

A group of between 1,600 and 2,000 Honduran migrants heading to the United States entered Guatemala on Oct. 15, defying a Guatemalan government order barring their entry and pushing past government police sent to stop them at the border, the Associated Press reported. The migrants then spent the night in the eastern Guatemalan city of Esquipulas. Mexico's immigration authority issued a warning to the group, saying only those who met migration requirements would be allowed to enter.

## Panama Sees Record Shipments Through Canal Despite Global Trade War

A record high of 442 million tons of cargo was shipped through the Panama Canal in the past fiscal year, a 9.5 percent increase compared to the previous year, Agence France-Press reported Oct. 12. The increase was largely driven by the transit of liquefied gas carriers. However, canal administrator Jorge Quijano recently said he was expecting a \$50 million drop in revenue next year as trade tensions between the United States and China hit shipments through the waterway.

I ask is that we all think about the fact that in Venezuela there are innocent people behind bars, people that have been kidnapped and who deserve to cross the same bridge that I have," Saleh said. Spain has taken a softer stance on Venezuela in recent weeks, reportedly pushing a plan for the European Union to halt sanctions on the socialist country amid shortages of food and medicine, El Mundo reported Oct. 14.

## ECONOMIC NEWS

## Guatemala's Morales Seeking \$15 Billion in Loans

Guatemalan President Jimmy Morales on Oct. 11 said his government was requesting billions of dollars in development loans during the Alliance for Prosperity conference in Washington, Prensa Libre reported. In an effort to increase public spending and boost Central America's largest economy, Morales asked U.S. officials including Vice President Mike Pence



Morales // File Photo: Guatemalan Government.

and State Secretary Mike Pompeo for help in securing \$15 billion in loans over the next decade, adding the aid could come in the form of "payable credits" through the World Bank or the Inter-American Development Bank. Morales said the loans could be used for building one million homes, developing ports and building new highways. Over the past year, some 80 infrastructure projects were canceled amid graft allegations in connection to construction companies. "We can't break an economy in the name of the fight against corruption," Morales said during his trip, Bloomberg News report-

ed. Guatemala's economy contracted to 2.8 percent last year. Morales said the country's GDP could grow to 3 percent this year, adding that his government will increase budget expenditures this year to its highest amount in 25 years. During his trip, Morales also said Guatemala had not received "a penny" of the \$2.6 billion the United States had pledged under the Alliance for Prosperity program, which aims to boost development in the Northern Triangle countries of Central America to curb migration north.

## IMF Lowers Forecast for Latin America's Economic Growth

The International Monetary Fund lowered its forecast for Latin America's economic growth this year and next in its world economic outlook report released Oct. 9, as a worse-than-expected recession in Argentina and a weaker economy in Brazil tug on the region's GDP growth. The IMF projects the Latin American economy will grow 1.2 percent this year and 2.2 percent next year, both 0.4 percentage points lower than the Fund's previous estimates in July. The region's GDP grew 1.3 percent last year. Argentina's economy, hit by a drought that cut agricultural output earlier this year, a corruption scandal and "persistent uncertainty over the success of the stabilization plan" amid the country's currency crisis, will contract 2.6 percent this year and 1.6 percent next year, according to the report. That is a higher decline than the government's official forecast of 2.4 percent and 0.5 percent this year and next, respectively, Bloomberg News reported. In turn, a nationwide truckers' strike that brought the Brazilian economy to a halt in May is the main reason why the IMF negatively revised its forecast for Brazil's growth. The Fund also lowered its GDP projection for Mexico this year, down from 2.3 percent to 2.2 percent. However, Maurice Obstfeld, an economic counselor and director of the Fund's research department, said the report upgrades its forecast for other Latin American countries, including Chile, Colombia, Peru and Bolivia.

## FEATURED Q&amp;A / Continued from page 3

banks in Brazil—which operate 80 percent of the country's volume—had a non-utilized funding volume of 243 billion reais, making room for new operations without dangerously coming close to the Basel III threshold. Smaller banks, in their turn, might see a narrower operational limit, as their access to lower-cost funding are relatively limited as compared to those of larger banks. That said, larger institutions might be able to maintain (or even lower) their rates, while smaller banks, which typically already operate closer to the Basel threshold, might have to reduce their risk exposure even more, reducing their profitability and lowering their competitive advantage by a fair degree."

**A** lone Amorim, economist at the Brazilian Institute of Consumer Defense (IDEC): "The political moment is fully installable to construct scenarios, but only technical aspects. The policy change of the National Bank of Economic and Social Development (BNDES), with reduction of the National Treasury subsidies, associated to the fall of the basic interest rate allowed the correction of a great social injustice, which favored large companies. With audited balance sheets and governance programs presented by large companies, the requirements demanded by the state bank excluded small- and

medium-sized enterprises with less capacity to access credit and alternative sources in the market. With the end of the subsidies promoted by the issuance of public bonds transferred to the BNDES to finance the companies, where the interest rate charged on loan operations was lower than the remuneration of the bonds issued, matching the long-term interest rate (TLP) used in the benchmark Selic rate, which is currently at a record low of 6.5 percent, has created new opportunities for commercial banks and the capital market. Banks' major challenge will be their need to upgrade and expand capital reserves to meet the risk prevention and mitigation requirements of Basel III and provide investors with returns compatible with raising capital by issuing new private bonds and creating opportunities for the capital market with the issuance of private securities to finance companies. Despite the economic and political challenges facing Brazil, financial instruments for the diversification of corporate credit widen companies' access to credit, promote more competitive interest rates and strengthen the competitive environment, supported by the increase in prudential risk guarantees."

*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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