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## FEATURED Q&A

### What is the Outlook for Bank Lending in Peru This Year?

**Q** Banco Internacional del Peru, or Interbank, said last month that it would increase its loan portfolio by 20 percent this year as companies boost spending on projects including construction, infrastructure and mining. What is the outlook for bank lending in Peru this year? Is the financial services sector lending prudently? Does Peru's financial services sector have appropriate regulation in place as the country's fast-charging economy gains steam?

**A** Jeanne Del Casino, vice president and regional credit officer for Latin American banks at Moody's Investors Service:

"Banks in Peru were dramatically affected last year by the sharp domestic downturn and the global financial crisis particularly as loan growth contracted, dollar funding was constrained and asset quality deteriorated. The banks essentially took a breather in 2009 from the extremely high credit expansion of previous years, pulling back or being highly selective in terms of lending, and focusing on liquidity and balance sheet management for most of the year. The banking system managed to display a resilient performance for the full year against these odds, because of solid balance sheets going into the crisis and because of prompt action by the government and the central bank to ensure that the system remained liquid and functioned without interruption. Prudential regulations certainly played their part, in the form of con-

servative problem loan identification and provisioning rules, both bolstered due to the highly uncertain credit environment as well as to accommodate new Basle 2 requirements that became effective in July. Peruvian GDP is expected to rebound strongly in 2010 by 5 percent or more, and if that occurs, we believe that bank credit could easily grow between 15 percent and 20 percent, or around three times the pace of GDP growth, not out of line, considering the needs of a growth economy and all-time low financing rates. Asset quality risks

*Continued on page 4*



### Former U.S. Presidents Bush, Clinton Visiting Haiti Today

Former U.S. Presidents George W. Bush and Bill Clinton (L-R), who are overseeing a fund for Haiti recovery efforts, make their first joint visit today to the earthquake-ravaged Caribbean nation. See story on page 2.

*File Photo: Clinton Bush Haiti Fund.*

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## NEWS BRIEFS

**IDB Approves \$70 Billion Capital Increase, Forgives Haitian Debt**

The governors of the Inter-American Development Bank early Monday approved a \$70 billion capital increase for the multilateral lender and also agreed to forgive \$479 million of Haitian debt, Reuters reported. Colombian Finance Minister Óscar Zuluaga announced the move at the close of an IDB governors meeting in Cancún. Last week, **Moody's Investor Services** affirmed the bank's long-standing Aaa credit rating, the IDB said.

**Venezuelan Prosecutors Charge Chávez Opponent With Conspiracy**

Prosecutors in Venezuela on Friday charged a former state governor and critic of President Hugo Chávez with conspiracy and spreading false information after he said the country was becoming a haven for drug traffickers, the Associated Press reported. Former Zulia state Gov. Oswaldo Álvarez Paz made the remark last month on the opposition television station Globovisión. Paz has denied breaking any laws.

**Wells Fargo Advisors Closing Its Latin American Offices**

The retail brokerage operation of **Wells Fargo & Co.** is planning to close all of its offices in Latin America and relocate employees to U.S. offices, Dow Jones reported Friday. **Wells Fargo Advisors** will shutter five offices—in Uruguay, where the company has operated two branches, as well as in Argentina, Paraguay and Chile, a spokesman said. Wells Fargo expects regulatory changes that could require brokers in the Latin American countries to have local licensing even if they are not selling local securities.

## Political News

**Chilean Government Announces Earthquake Recovery Plan**

Chile's government on Friday announced a package of reconstruction measures designed to help the country rebuild after its massive Feb. 27 earthquake, EFE reported. The recovery plan, which was announced by Chile's ministers of education, planning and economy, prioritizes repairing damaged schools and helping families who lost their homes. The measures, which are estimated to cost approximately \$110 million, also include revitalizing the fishing industry in towns battered by the tsunami that followed the 8.8-magnitude earthquake. The earthquake, which left hundreds dead and also caused an estimated \$30 billion in damage, a figure equal about 17 percent of the country's gross domestic product. Among the top priorities is restarting the school year, said Education Minister Joaquín Lavín. Classes began last week in much of the country, but schools were devastated in some areas, delaying the start of classes. Last week, President Sebastián Piñera said 2,750 schools were not usable, affecting almost 1 million students. The government is creating a \$19 million fund for repairing schools, said Lavín. "The purpose of these resources is to permit minor reparations that will allow classes to be started before April 26 and which can also be used to adapt social infrastructure for use as temporary schools," he said. The government also announced a monthly payment of \$57 for as many as 20,000 college students in quake-hit areas to help them continue with their classes. Chile's government also will finance the building of 20,000 wooden cabins, which will join 20,000 others that will be constructed with money raised during a telethon earlier this month. Chile's government signed an agreement with charitable group Un Techo Para Chile, which has



Piñera

File Photo: Chilean Government.

agreed to deliver the cabins by June 11, said Planning Minister Felipe Kast. Also, officials will provide 25,000 tents to vulnerable families as the rainy season approaches, said Kast. "These measures are complement, not a substitute, for the definitive solutions the Housing Ministry is working on," said Kast, who added the housing measures will cost about \$75 million. The government also hopes to aid fisheries and other sectors of the economy hard-hit by the quake. A program called "Volvamos a la Mar" ("Let's Get Back to the Sea") will include funds for creating jobs for fishermen and jump-starting small-scale fishing enterprises that were hurt by the quake and tsunami.

**Former U.S. Presidents Clinton, Bush Visiting Haiti Today**

Former U.S. Presidents Bill Clinton and George W. Bush will make their first joint visit today to Haiti as part of their efforts to help the country recover from its catastrophic Jan. 12 earthquake. "Presidents Clinton and Bush will meet with Haitians, the government of Haiti and others providing assistance to earthquake survivors, with the goal of further establishing long-term recovery and rebuilding efforts," the Clinton Foundation said last week in a statement. After the 7.0-magnitude quake hit the impoverished nation, killing some 230,000 people and destroying much of the country's capital, the former presidents established the Clinton Bush Haiti Fund at the request of President Barack Obama. So far, more than 200,000 people have contributed more than \$36 million to the fund for relief efforts, Reuters

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*So far, more than 200,000 people have contributed approximately \$36 million to the Clinton Bush Haiti Fund.*

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reported. The fund will "respond to unmet needs in the country, foster economic opportunity, improve the quality

of life over the long term for those affected, and assist the people of Haiti as they rebuild their lives and "build back better," said the Clinton Foundation. Clinton has visited the country in his capacity as the United Nations' special envoy for Haiti. Today's visit is Bush's first to Haiti.

## Economic News

### Argentina's Economy Expanded 0.9 Percent Last Year: Government

Argentina's economy expanded last year at its slowest pace since 2003, according to the government's National Statistics Institute, Bloomberg News reported Friday. The country's gross domestic product expanded 0.9 percent as the global economic crisis cut demand for exports and a severe drought took a toll on agricultural producers. GDP increased 2.6 percent in last year's fourth quarter as compared to the same period a year earlier, said the institute. From 2003 to 2008, the economy expanded an average of 8.5



Cobos

File Photo: Mendoza Province.

percent annually, according to the institute. The official government figures have been questioned by economists and officials including Vice President Julio Cobos. Outside economists have said Argentina's economy contracted last year. Buenos Aires-based **Ecolatina** has said GDP contracted 3.8 percent last year, which would be Latin America's second-largest economic contraction after Mexico.

## Company News

### Scotiabank's Mexican Unit May Open 50 Additional Branches

**Bank of Nova Scotia's** Mexican unit could open as many as 50 additional branches this year as the country recovers from its severe recession, the unit's president and chief executive officer told Dow

## The Dialogue Continues

### Why Is Venezuela's Economy Slipping Deeper into Recession?

**Q** As Latin America as a whole begins recovering from the global economic crisis, Venezuela appears to be slipping deeper into recession. The country's central bank said March 2 that GDP unexpectedly contracted 5.8 percent in last year's fourth quarter. The economy is expected to grow 0.3 percent this year, compared to 4 percent for the rest of the region, according to Morgan Stanley. Why is Venezuela lagging the rest of Latin America? What does its economy need to recover? How are economic factors affecting the standing of President Hugo Chávez?

**A** Boris Segura, senior vice president and senior economist for Latin America at Royal Bank of Scotland in Stamford, Conn.:

"Venezuela is lagging the rest of the region as a result of the cumulative, policy-driven damage to its business environment. The maze of regulations, expropriations and controls by authorities are suffocating private economic activity, which severely constrains the supply response of the economy. And rising unemployment and declining real wages are acting as headwinds on private consumption. Oil exports are also struggling, in tandem with falling production. We expect a very challenging first half of 2010, as the recessionary effects of January's devaluation take their toll on economic activity. The fact that inflation in the first two months of the year has stayed 'low' reflects just how poorly economic activity is doing. The turnaround of economic activity, despite favorable oil prices, is likely to

prove challenging. The current crisis in the electricity sector and the slow pace of dollar disbursements by foreign exchange commission Cadivi are likely to keep growth for 2010 in negative territory (RBS forecasts a 3 percent contraction). The rebound that we foresee

“The maze of regulations, expropriations and controls by authorities are suffocating private economic activity.”

— Boris Segura

for the second half of the year is mostly statistical. The main driver of economic activity going forward is public expenditure; this was the main rationale of January's devaluation. But in a sign of times to come, not even explosive growth of primary spending is likely to pull Venezuela decisively out of its current predicament. Economic factors are taking a toll on President Chávez's popularity. Shortages are showing up again, despite high inflation. Unlike previous electoral cycles, private consumption is under pressure, and private investment has collapsed. And we are of the opinion that public spending is unlikely to do the trick this time around."

*Editor's note: The above is a continuation of a Q&A published in the March 16 issue of the Advisor.*

Jones Saturday. **Grupo Financiero Scotiabank** has already opened 10 branches so far this year in Mexico, Nicole Reich de Polignac told the news service in an interview on the sidelines of the Inter-American Development Bank's meeting

in Cancún. "If the conditions keep improving, we'll open 50," she said. "We have enough space and capacity to do so." The bank has enough cash on hand and will not need outside funding sources to pay for the plan, Reich de Ploignac added.

**Featured Q&A***Continued from page 2*

continue to be skewed to the downside, however, as the full effects of the domestic slowdown—including the collapse of asset prices and the fact that portfolios are not highly seasoned—may not have been captured in the financials of the banks as yet. Banks are nevertheless in a position to absorb further losses on a stressed basis. Dollarization-related credit risks have also remained contained, assisted by conservative regulations and strong exchange-rate management on the part of the central bank."

**A** **Julio Callegari, vice president of Latin America Economic Research at J.P. Morgan:**

"When the global crisis hit the Peruvian economy in the last quarter of 2008, the banking credit to the private sector was expanding at a pace of almost 30 percent, but the drop in activity and confidence caused the stock of credit to expand about 5 percent last year. It is important to highlight, however, that the bulk of this slowdown took place in the first half of 2009 and the second half was already marked by a clear recovery path, with total credit growing at a 7 percent annualized pace, in sync with the strong economic rebound. The credit recovery should continue as GDP growth approaches 6 percent in Peru this year. The Peruvian banking system was not injured by the global crisis, mainly due to its relatively low leverage compared to the banking system in United States and

Europe, and this healthy position should underpin the recovery. In fact, the delinquency rate in the system as a whole peaked at 3.7 percent in last year's third quarter and is already receding, ending last year at 3.3 percent—a relatively low

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“The Peruvian banking system was not injured by the global crisis, mainly due to its relatively low leverage compared to the banking system in United States and Europe.”

— *Julio Callegari*

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level. Also, the interest rates charged on consumers remained quite high (and stable) despite the sharp reduction in the Peruvian central bank's policy rate and the fact that delinquency is low. Therefore, we see the banking system well positioned to disclose a vigorous performance in 2010, adding force to the ongoing economic recovery."

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*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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**Latin America Advisor**

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**Latin America Advisor** is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at: 1211 Connecticut Avenue, Suite 510 Washington, DC 20036 Phone: 202-822-9002 Fax: 202-822-9553 [www.thedialogue.org](http://www.thedialogue.org)

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