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FEATURED Q&A

Will Remittance Levels to Mexico Continue Falling?

Q In August, remittances to Mexico fell to \$1.9 billion, a drop of nearly 12 percent from the same month last year, according to the country's central bank. Meanwhile, unemployment among Latinos in the United States stood at 10.2 percent in July, higher than the country's 8.1 percent overall unemployment. Will remittances to Mexico continue sliding? What happened to the robust level of transfers in the first half of the year? How much does Mexico currently depend upon remittances for its overall economic health?

send money to Mexico, Mexican migrants who live in the United States who do not send much money to Mexico and Latinos who are not from Mexico at all. One third of all persons of Latin American origin are not Mexican. Thus, the Latino unemployment rate does not necessarily translate into lower remittances to Mexico. For remittances, the most important element is the group of Mexican workers who need to send money. Remittances by Mexican workers account for less than 2 percent of Mexico's GDP. It is not negligible, but it is

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A Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School: "Mexican migrants in the United States who send money back to Mexico principally work in four industries: construction, agriculture, retail and manufacturing—in that order. The last year saw the worst drought in the United States for many decades. Not surprisingly, the agricultural sector suffered. As a result, fewer Mexican migrant workers were employed. Construction and manufacturing have suffered since the 2008 crisis. Thus, the real surprise is not a slowdown in remittances now, but why there was not a huge drop in remittances during 2008-2011. We should not lose sight of three separate (but inter-related) themes: Migrant workers who



Executive: Mexican Unit Still a Good Investment for Santander

The Mexican unit of Banco Santander remains a good investment for the Spanish bank, giving Santander good reason to retain control of 75 percent of the operation, said the unit's CEO, Marcos Martínez. See story on page 2.

File Photo: Mexican Government.

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FINANCIAL SERVICES BRIEFS

Moody's Cuts Outlook for 30 Argentine Banks to Negative

Moody's Investors Service on Sept. 27 lowered its outlook for 30 Argentine financial institutions to negative, in line with the rating agency's outlook for the country, Dow Jones reported. Moody's has a B3 junk rating for the country, reflecting what it says are haphazard economic policies and unreliable official statistics. The downgrade of the banks' outlook from stable takes into account risks related to government interventions.

Banco do Brasil Cutting Fees by as Much as 34 Percent

Government-run lender **Banco do Brasil** announced Oct. 8 that it will cut its fees by as much as 34 percent beginning Oct. 15, Dow Jones reported. The bank's move will put additional pressure on private lenders to follow suit. Over the past 12 months, Brazil's central bank has slashed the benchmark Selic rate to a record low of 7.5 percent. However, Brazilian banks still charge their customers among the world's highest interest rates.

Chile's Corpbanca to Acquire Helm Bank for \$1.28 Billion

Chile's **Corpbanca**, which is controlled by billionaire Álvaro Saieh, has struck a deal to acquire Colombia's **Helm Bank** for \$1.28 billion, Bloomberg News reported Oct. 9. The Chilean lender agreed to the deal with the owners of 91 percent of Helm Bank's shares and will make an offer for the remainder of the shares. In addition, Corpbanca agreed to acquire 80 percent of Helm Bank's insurance operation for \$17 million. Since agreeing to buy the Colombian unit of **Banco Santander** last December, Corpbanca has led \$2.53 billion in acquisitions in the country.

Financial Services News**Mexican Unit a Good Investment for Santander: Executive**

The Mexican unit of **Banco Santander** remains a good investment for its parent company, which has good reason to retain control of 75 percent of the unit, the chief executive of the Mexican operation told CNBC Sept. 26. "Mexico is a very good investment for the group, and it's one of the main sources of profit," Marcos Martínez told the network, Dow

“Mexico is a very good investment for the group, and it's one of the main sources of profit.”

— Marcos Martínez

Jones reported. The Spanish bank raised at least 2.77 billion euros (\$3.57 billion) through its initial public offering of about 25 percent of **Grupo Financiero Santander Mexico**. If all "green-shoe" options are exercised, the bank could raise as much as 3.18 billion euros. Santander is planning to use the cash raised in the IPO to strengthen its balance sheet in Spain. Underwriters of the offering had almost five times as many offers for shares as were available, said a person familiar with the matter. Last month was the "right time" for the bank to list the shares, given the fact that Mexico is "well-perceived" by investors, Martínez told CNBC. The shares were listed in New York and Mexico City. Santander is the fourth-largest bank in Mexico by deposits.

Banco do Brasil Unlikely to Issue Additional Debt After \$1.75 Bn Sale

Banco do Brasil is not likely to sell additional debt this year after it generated \$1.75 billion on Oct. 2 through the sale of 10-year debt, a top executive at Brazil's largest lender said Tuesday, Reuters reported.

Banco do Brasil has "attained the goal of perfecting its yield curve thanks to very frequent issuances," José Mauricio Pereira Coelho, the bank's managing director for finance, told the wire service. The bank's debt sale last week was its largest-ever such offering, said Coelho. The senior dollar-denominated bonds, rated by **Moody's** as baa1, were sold at 98.98 cents on the dollar for a yield of 4 percent. The last time the bank sold similar securities was in 2010. The sale helped to boost confidence in Brazilian bank bonds after the recent liquidation of **Banco Cruzeiro do Sul**, which may result in bondholders losing their some of their investments.

Peru's Central Bank May Loosen Pension Investment Restrictions

In an effort to control Peru's strengthening currency, the country's central bank may raise the limit on the extent to which private pension funds can invest abroad, Reuters reported Wednesday, citing the bank's chief. Julio Velarde said he is discussing the change with Peru's banking regulator. Peru's sol has strengthened 3.63 percent this year against the dollar and officials are considering ways to slow the inflow of foreign capital. Under the



Velarde

File Photo: Peruvian Government.

possible change, the limit on foreign investment for the country's private pension funds would be increased "gradually," said Velarde. In an effort to hold down the sol, the central bank has purchased a record amount of dollars. It has also boosted banks' reserve requirements three times this year. "Obviously, ideally the pension funds would stay in Peru, but as long as there are no new financial

instruments, it is necessary to have an escape valve to avoid an asset price bubble locally," said Velarde. Stimulus measures in the United States and Europe have led to increased demand for Peruvian bonds. The South American country's pension system is operated by four funds that have about \$30 billion under management. The central bank limits the pension funds to investing no more than 30 percent of their assets abroad. The country's economy is expected to grow about 6 percent this year.

Goldman Sachs Plans to Expand Workforce in Brazil

Goldman Sachs is planning to expand its Brazil-based workforce next year, the investment bank's president for Brazil told Dow Jones Oct. 3 in an interview. The new hiring is part of Goldman's plan to expand its operations in the South American country, said Alejandro Vollbrechthausen. The New York-based bank has had a good year in its debt operations in Brazil, though the equity side in the South American country has slowed, Vollbrechthausen said, adding that "the bulk of the hiring will happen at the beginning of next year." He did not specify how many people Goldman is looking to hire. Currently, the investment bank has about 300 employees in Brazil.

Scotiabank Names Wright as CEO of Mexican Unit

Toronto-based **Bank of Nova Scotia**, or Scotiabank, has named Troy Wright as the president and chief executive officer of its



Wright

File Photo:
Scotiabank.

Mexican unit, The Canadian Press reported Oct. 2. He most recently was the bank's executive vice president of retail distribution for Canada. Wright previously worked in several capacities for Scotiabank in Latin America, including as its chief executive of operations in Puerto Rico.

Featured Q&A

Continued from page 1

not very important. For example, remittances account for 10 percent of the GDP in Nicaragua, nearly 20 percent in El Salvador and a third of the GDP in Haiti."

A **Mario Trujillo, member of the Financial Services Advisor board and president and CEO of DolEx Dollar Express, Inc. in Lawrenceville, Ga.:** "First, the easier observation, Mexico's economic health is highly dependent on family remittances, especially during these difficult economic times and with tourism and oil also under pressure. Second, the better indicator of family remittances should be the number of electronic transactions (down about 1.2 percent in August versus the same month last year), as well as elec-

at first glance. Without an improvement in the employment situation in the United States and in particular in real estate construction, we expect flat to single-digit declines to continue for the near future."

A **David Landsman, executive director of the National Money Transmitters Association in Great Neck, N.Y.:** "Mexican per capita purchasing power continues to grow at a faster rate than ours, so yearly increases in remittance volumes would naturally be expected to level off over time, especially compared to what those growth rates used to be. Nevertheless, I see no reason to believe that remittances per se will be any less important to Mexico in the foreseeable future. Mexico

“Remittance levels may not always follow broad economic trends.”

— David Landsman

tronic transactions' dollar volume (down about 12 percent year-on-year in August). While employment in the United States is a primary driver of remittances, the unemployment rate has been fairly consistent from a year ago, so we don't see this driver as the primary cause for the dollar volume decline, at this time. The peso/dollar exchange rate, on the other hand, is about 10 percent higher this summer than in the summer of 2011, meaning that sending a 10 percent lower dollar amount will deliver the same amount of pesos in Mexico to sustain similar spending or consumption levels. We think this is a primary driver of the dollar volume declines. However, we are also seeing an overall slowdown during the last three months in these metrics in Mexico using constant peso/dollar rates, of about 3 percentage points year-over-year, but not the 12 percent decline

is still a relatively poor country when compared to the United States. Remittance levels, however, are a separate matter. Back in April, the Bank of Mexico said remittances were on track to increase 6 percent in 2012. However, because of the drought in the United States, there were quite simply fewer crops to pick and process. Was the 12 percent decline in remittances completely attributable to the drought dragging down the numbers? Not all Mexican immigrants work in agriculture, so perhaps things have been slow elsewhere, as well. Housing starts, for example (and the U.S. economy, in general), have been pretty sluggish. Had there been no drought, a 6 percent increase might have been considered a pretty good performance. This is a healthy reminder that remittance levels may not always follow broad economic trends."

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Political News

Chávez Defeats Capriles to Win Fourth Term as Venezuela's President

After a bitterly fought campaign, Hugo Chávez on Oct. 7 defeated his challenger, former Gov. Henrique Capriles, to win a fourth term as Venezuela's president. Chávez garnered 55 percent of the vote to Capriles' 44 percent, *The New York*



Chávez

Photo: Agencia Venezolana de Noticias

Times reported. It was Chávez's most narrow election victory. He won his last election in 2006 by a margin of 26 percentage points. "The revolution has triumphed!" Chávez told a crowd of supporters Sunday night as he stood on the balcony of the presidential palace in Caracas, holding a sword that belonged to independence hero Simón Bolívar, the Associated Press reported. The Venezuelans who cast their ballots for him "voted for socialism," said Chávez, who also acknowledged the opposition in his victory speech. "I extend from here my recognition of all who voted against us, recognition of their democratic weight," he said. In his concession speech Sunday night, Capriles said his work was not done. "I will continue working to build the country," he told supporters. Capriles added that he rejects the notion that Venezuela is divided by class and ideology. During the campaign, the former governor of Miranda state vowed to fight the South American country's soaring crime rate, as well as battle corruption and streamline bureaucracy. However, Capriles' efforts turned out to be insufficient to unseat the charismatic Chávez and his political machine. In Washington, State Department

Advisor Q&A

Are Policies Abroad Pulling Down Latin American Economies?

Q In her Sept. 25 speech to the U.N. General Assembly, Brazilian President Dilma Rousseff blamed the economic policies of industrialized nations for harming emerging market countries through their use of budget cuts and expansionary monetary policy. Rousseff also defended Brazil's decision to hike tariffs, saying the move was necessary to protect Brazilian industries. How serious of an impact are industrialized nations' policies having on Brazil and other Latin American countries? Is Brazil's economy disproportionately affected by austerity measures and loose monetary policies abroad? Should Brazil be most concerned about economic woes in the United States, Europe or China?

A Kevin P. Gallagher, associate professor of international relations at Boston University: "Factors external to Latin America are driving much of the downturn that is happening in parts of the region. However, the slowdown would not be so severe if Latin American governments had done more to manage the boom they experienced over the past decade. The post-2000 boom in Latin America was in part spawned by China's growing appetite for natural resources found in the region and the impact of Chinese demand on the overall price level for these resources. This boom also made nations in the region highly attractive to foreign investment in general and speculative investors in particular. All this trade and investment

led to currency appreciation and asset bubbles that were not properly handled and have come to roost. Latin Americans, like their friends in the United States and Europe, love to be Keynesian during a downturn but not during a boom. Yet it was Keynes who said, 'The boom, not the slump, is the right time for austerity.' During the boom, countries should have increased taxes on natural resource-based sectors and socked funds into development banks and sovereign wealth funds for times like this. And to tame speculative investment, they should have put in place regulations to limit speculative cross-border financial flows. Some countries did some of this. Chile's stabilization and sovereign wealth funds take windfall profits from the copper sector and recycle them for public investment during downturns. Brazil, though too timidly, attempted to regulate cross-border financial flows as its currency appreciated by more than 30 percent between 2009 and 2011. Brazil has also revitalized its development bank but not to the point that it can counter the broader trend. Now many countries suffer the same situation as the United States. Having squandered much of the benefits of a boom there is little ability to finance expansion during the downturn. Let us hope that the Latin Americans can teach us all a lesson and not turn to austerity themselves."

Editor's note: More commentary on this topic appears in the Oct. 4 issue of the Dialogue's daily Advisor.

spokesman William Ostick did not directly congratulate Chávez, but he did acknowledge the result. "We congratulate the Venezuelan people for the high turnout and generally peaceful manner in which this election was carried out," said Ostick. "We believe that the views of

the more than 6 million people who voted for the opposition should be taken into account going forward." On Monday, Chávez called Capriles to discuss national unity, *The New York Times* reported. Both men mentioned the phone call in posts on Twitter and said

there was mutual respect. That would be a change from the campaign in which Chávez often referred to his opponent as "little Yankee" and said he was "good for nothing." On Monday, Capriles' campaign manager, Armando Briquet said the phone call was the first time Chávez called Capriles by his proper name. Chávez is set to start his fourth term in January. If he finishes the six-year term, he will have spent 20 years in power. He is expected to deepen his government's socialist policies, which could include expanding state control of the economy. Chávez's health, however, remains a wild card. Chávez announced in June 2011 that he was suffering from an undisclosed form of cancer and has had two surgeries as well as chemotherapy and radiation treatment. His health forced him to scale back his campaigning. If he were forced to leave the presidency during the first four years of his new term, the country would hold a new election.

Lula's Former Chief of Staff Convicted in Corruption Scandal

Brazil's Supreme Court on Oct. 9 convicted José Dirceu, who served as chief of staff to then-President Luiz Inácio Lula da Silva, of corruption charges in the so-called "mensalão" scandal, the Associated Press reported. Of the eight justices who voted Tuesday, six found Dirceu guilty of masterminding the scheme to pay legislators sums of as much as \$10,000 in exchange for their votes in support of Lula's policies. Two more justices are expected to vote today, but only a simple majority was needed to convict Dirceu. Dirceu has consistently denied participating in the scheme, but his lawyers said he acknowledged and took responsibility for off-the-books accounting that occurred. Prosecutors argued that Dirceu orchestrated the flow of bribes and negotiated with lawmakers for their votes. Lula has not been accused of wrongdoing and continues to enjoy high public approval. He left office in 2011 with an 87 percent approval rating and a recent poll by **Datafolha** showed that 57 percent of respondents would like to see him return to the presidency in 2014. Dirceu faces two to 12 years in

prison. He will be sentenced at the end of the Supreme Court's proceedings against defendants in the case. In all, 37 people including Dirceu are standing trial in connection with the scheme. Twenty-two of them, including legislators and their associates, have already been found guilty and four have been cleared of charges. Collectively, the defendants have been accused on 1,089 counts, including corruption, money laundering, conspiracy, embezzlement and misuse of public funds.

Economic News

Economic Growth in Region Seen Slowing to 3.2% This Year: ECLAC

Economic growth in Latin America and the Caribbean will slow this year to 3.2 percent from last year's 4.3 percent, mainly due to weaker growth rates in Brazil and Argentina, the Economic Commission for Latin America and the Caribbean said Oct. 2, BBC News reported. The new figure also was lower than the 3.7 percent rate that ECLAC had predicted in June. "Weakness in the global economy, caused mainly by difficulties in Europe, the United States and China, has affected growth in Latin America and the Caribbean," ECLAC said in a statement. The report by the U.N. agency, which is led by Alicia Bárcena, said private consumption in the region is "the main driver of regional growth, thanks to the growth in labor markets, increased credit and—in some cases—remittances." Brazil and Argentina are expected to post relatively slow growth, with Brazil's economy growing 1.6 percent this year and Argentina expanding 2 percent, said ECLAC. Brazil's finance ministry most recently said it expects 2 percent growth in the region's largest economy, a reduction from its previous forecast of 3 percent. Panama is expected to post the largest economic expansion this year, at 9.5 percent, followed by Haiti's 6 percent, according to the agency. Bolivia, Chile, Costa Rica, Nicaragua and Venezuela are forecast to grow by approximately 5 percent, while Mexico will see 4 percent growth, it added.

POLITICAL & ECONOMIC BRIEFS

Body of Mexican Drug Lord Stolen from Funeral Home

The body of Heriberto Lazcano, the head of the Zetas, was stolen from a funeral home by a group of armed men early on Oct. 8, said Coahuila Attorney General Homero Ramos, the Associated Press reported. A man believed to be Lazcano and another man were killed in a firefight the day before. Fingerprints confirmed that it was indeed Lazcano, who is also known as "El Verdugo" (the Executioner) for his brutality.

Countries Should Use Police, Not Military, to Enforce Law: Panetta

As Latin American countries increasingly use their military forces to support civilian authorities in the battle against drug traffickers, it should not be seen as a "long-term solution," said U.S. Defense Secretary Leon Panetta on Oct. 8, the Associated Press reported. He made the remarks in Uruguay at the opening session of the 10th Conference of Ministers of Defense of the Americas on his second trip to the region this year. "The United States will provide a helping hand, but ultimately civilian authorities must be able to shoulder this burden on their own," he said.

Paraguay Raises 2013 Forecast to 9.5 Percent Growth

Paraguay's central bank on Oct. 8 increased its forecast for economic growth for 2013 to 9.5 percent from between 8 percent and 8.5 percent, Reuters reported. The central bank predicts that production of soy and grains will jump, leading to growth in the commodities sector by 24.9 percent in 2013. The sector is predicted to shrink by 20.6 percent in 2012, partly due to a drought, and the overall economy is expected to contract 1.5 percent this year.

Featured Q&A*Continued from page 3*

A Rogelio Ramírez de la O, president of Ecanal in Mexico City: "The 11.6 percent fall in remittances in August is explained by large drops in July and August compared to large increases in the same period last year. Although there is a weak downward trend from high growth in the third quarter of 2011, when such inflows appeared to reach a peak, more data is necessary to establish how weak the new trend is. It is clear, however, that even in the best case of continued growth at modest rates, remittances are no longer on a sharp rise. This is explained by weakness in U.S. housing and construction, even if a revival may have started this year. At the core is weaker growth in U.S. incomes and higher savings rates, combined with greater difficulties for migration. The effect of stagnant or falling remittances in Mexico is significant, insofar as remittances last year were \$22.8 billion, while the current account deficit was \$11.1 billion. If Mexico were to grow at

rates higher than 3.5 percent without significantly improving competitiveness, this deficit would expand very rapidly (as the trade deficit in July and August suggests). At that point, remittance inflows would become even more important than at present. Still, their contribution to household incomes in Mexico is much more significant than the mere foreign exchange they contribute; they represent 10 percent or more of GDP in states like Michoacán and Zacatecas and lower, but very significant, shares in Puebla, Oaxaca, Chihuahua and Durango. As many states also face very substantial government debts which augurs badly for public works and local employment. Falls in remittance inflows will aggravate the lack of jobs with negative social consequences."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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