

## BOARD OF ADVISORS

**Ernesto Armenteros**

Vice Chairman of the Board,  
Banco de Ahorro y Crédito Unión

**Pablo Barahona**

COO, Latin America & Continental  
Europe, Liberty International

**Richard Child**

CEO,  
Matrix Group

**Jeanne Del Casino**

Vice President & Group Credit Officer,  
Latin America,  
Moody's Investors Service

**Michael Díaz Jr.**

Partner,  
Diaz, Reus & Targ, LLP

**Ernesto Fernández Holmann**

Chairman of the Board,  
Ayucus

**Rich Fogarty**

Managing Director,  
Berkeley Research Group

**Desiree Green**

Vice President,  
International Government Affairs,  
Prudential Financial

**Earl Jarrett**

General Manager,  
Jamaica National Building Society

**Thomas J. Mackell, Jr.**

Former Chairman of the Board,  
Federal Reserve Bank of Richmond

**Thomas Morante**

Partner,  
Holland & Knight

**Manuel Orozco**

Director,  
Migration, Remittances & Development,  
Inter-American Dialogue

**Adalberto Palma-Gomez**

Senior Partner,  
Proxy, Gobernanza Corporativa

**Rodolfo Pittaluga**

Retired Principal,  
Deloitte Advisory, LLP

**Jan Smith**

Partner,  
KoreFusion

**Roberto Teixeira da Costa**

Board Member,  
SulAmérica

**Mario Trujillo**

CEO,  
DolEx Dollar Express

## FEATURED Q&amp;A

# Will Global Uncertainty Crimp Remittance Flows?



In December alone, El Salvador received \$423 million in remittances, a 4.8 percent gain from the same month a year earlier. // File Photo: Steven Depolo via Creative Commons.

**Q** El Salvador received \$4.28 billion in remittances from workers abroad in 2015, a 3 percent increase from the previous year, the country's central bank said Jan. 19. Other countries in the region, such as Guatemala and Honduras, saw even larger percentage gains in remittances last year. What is the outlook for remittance flows to Central America for 2016? Will global economic uncertainty put a crimp on money transfers to the region this year? How is U.S. policy, such as increased immigration raids on Central American migrants and plans to inject \$750 million in aid under the Alliance for Prosperity in the Northern Triangle, likely to affect money transfers and local economies? Which industries in the region are most dependent on remittance flows in the year ahead, and how will they fare?

**A** Federico Álvarez, former president of the Central American Bank for Economic Integration: "Remittances will probably continue to grow in 2016. Despite the efforts to secure the borders and the increased efforts to expel illegal immigrants, the number of undocumented Central Americans entering the United States will continue to rise as long as they can find jobs there and as long as the social and economic situation in their place of origin continues to deteriorate, with their remittances continuing to be the only hope for a better life for their families. If sending money transfers through the formal channels becomes difficult because of growing controls, remittances will be sent through 'coyotes,' as thousands of dollars are sent today. The Alliance for Prosperity in the Northern Triangle program will only be successful if corruption in Central America is drastically reduced. Corruption

Continued on page 3

## TOP NEWS

## BANKING

## Regulators Scrutinizing HSBC- Bradesco Deal

Brazil's antitrust authority said it is extending its inquiry into Bradesco's \$5.2 billion purchase of HSBC's local unit.

Page 2

## REMITTANCES

## Remittances Become Mexico's Top Foreign Income Source

For the first time, remittances surpassed oil as Mexico's top source of foreign income.

Page 2

## INSURANCE

## Austral Re Expanding Into Colombia, Ecuador

Austral Resseguradora announced that it has received approval to expand into Colombia and Ecuador. CEO Bruno Freire said the company is taking steps including investing in new technologies in order to grow its business.

Page 3



Freire // File Photo: Austral Resseguradora.

## BANKING NEWS

## Brazilian Regulators Scrutinizing HSBC-Bradesco Deal

Brazilian regulators are taking a closer look at the sale of HSBC's local unit to Banco Bradesco, Bloomberg News reported Feb. 1. CADE, the antitrust authority, said it is extending



Trabuco Cappi // File Photo: Banco Bradesco.

its inquiry into the \$5.2 billion transaction to consider its effects on competition in the banking industry. The banks have been asked to detail efficiency gains and submit studies related to concerns over less competition in the sector. A decision from CADE on the deal is expected by the end of June, but CADE has said it may extend that deadline further. Last week, Bradesco, led by CEO Luiz Carlos Trabuco Cappi, reported its quarterly earnings results. Adjusted net income for the year stood at 17.87 billion reais (\$4.49 billion), a 16.4 percent increase from net income in 2014. About 70 percent of Bradesco's income last year came from financial activities, with the other 30 percent coming from insurance, pension plans and capitalization bonds operations.

## Brazilians Withdraw Record Amount From Savings Accounts

In January, Brazilians withdrew a record amount from their savings accounts, the Rio Times reported Feb. 5, citing central bank

data. During the month, account holders pulled 161.59 billion reais (\$41.4 billion) from their accounts while they deposited 149.56 billion reais in January. The amount of withdrawals is the highest monthly total since the central bank began recording the data in 1995. Over the past year, Brazil's inflation rate was higher than the interest rates on savings accounts. The country's inflation index hit 10.67 percent last year, and government figures showed that 9.1 million Brazilians were searching for work. As savings accounts in Brazil offer low interest rates, Brazilians tend to prefer investments that offer higher returns, such as fixed-income funds, the newspaper reported.

## MORTGAGE LENDING NEWS

## JNBS Lowers Mortgage Rates

Jamaica National Building Society has lowered its mortgage rates to 8.5 percent in response to market conditions, The Gleaner reported Feb. 7. The rate reduction will apply to all new mortgage applications, JNBS said. The new mortgage rate, which was lowered from 9.29 percent, will cover all five of the building society's product lines, and the maximum loan

“We had some competition that went down and we decided to match them.”

— Tiffany Gordon

amount for those products is 20 million Jamaican dollars (\$165,140). “The rate applies to home purchases, construction loans, both having 40-year repayment terms, as well as equity loans, refinance loans, and home-improvement loans,” JNBS' mortgage sales executive, Tiffany Gordon, told The Gleaner. “We had some competition that went down and we decided to

## NEWS BRIEFS

## Remittances Overtake Oil as Mexico's Top Source of Foreign Income

Mexicans living abroad sent home nearly \$24.8 billion in remittances last year, a 4.75 percent increase from the previous year, and marking the first time that remittances overtook oil as the country's top source of foreign income, according to the central bank, the Associated Press reported Feb. 3. Mexico received \$23.4 billion from oil exports last year. “There is an advance in the recovery of the U.S. economy that has a very high correlation to jobs available for immigrants, and that has a very important impact on the amount of money they send to Mexico,” Alfredo Coutiño of Moody's Analytics told the AP.

## Brazil Pledges \$20.4 Bn in Emergency Credit From State-Run Banks

Brazilian Finance Minister Nelson Barbosa on Jan. 28 announced \$20.4 billion in emergency credit from the country's state-run banks to help various economic sectors survive the nation's worst recession in more than a century, the Financial Times reported. Barbosa announced seven separate measures that would free up credit from different areas of the economy without any extra cost to Brazil's Treasury. The majority of the measures can come into effect immediately and will be used to encourage more investments in sectors including infrastructure and housing.

## Bradesco Reports 27% Increase in Bad Loan Provisions

Brazil's Banco Bradesco on Jan. 28 said its provisions for bad loans leapt 27 percent year-on-year in the fourth quarter, Bloomberg News reported. The bank said it set aside 4.19 billion reais (\$1 billion) in the quarter as compared to 3.31 billion reais a year earlier.

match them." Other lenders, such as Sagicor Bank Jamaica and Victoria Mutual Building Society also have been offering mortgages with single-digit rates. Rates for mortgages in Jamaica have in general been trending downward. Last September, the Bank of Jamaica published data showing that the country's residential mortgage market was worth approximately 108 billion Jamaican dollars. That figure, however, only takes into account lending at building societies. At the time, JNBS had a mortgage portfolio worth 54.8 billion Jamaican dollars, while VMBS' portfolio was worth 31.6 billion dollars and Scotia Jamaica Building Society had a 22.3 billion dollar mortgage loan portfolio. So far this year, JNBS has written 7.4 billion dollars worth of mortgage loans. Last October, JNBS received approval to become a bank.

## INSURANCE NEWS

### Austral Re Expanding Into Colombia, Ecuador

Rio de Janeiro-based Austral Resseguradora has received approval to expand into Colombia and Ecuador, Finance Colombia reported Feb. 3. In addition to its home market of Brazil, the five-year old reinsurance company already has operations in Peru and Panama. It is also awaiting approval to enter Mexico, Argentina and Paraguay. In Latin America, reinsurance premiums reached \$21 billion in 2014, and 84 percent of that total came from outside Brazil, according to Finance Colombia. Austral Re's chief executive officer, Bruno Freire, said Brazil is not prone to natural disasters and has well-capitalized insurance companies, which translates to a low penetration of reinsurance in the South American country. "In many Latin American countries, the ability to retain risk by insurers is not as large as in Brazil, generating demand for reinsurance, particularly facultative contracts," said Freire. The reinsurer is hoping that its investments in new technology in order to develop new products, particularly in the

## FEATURED Q&A / Continued from page 1

in the Northern Triangle countries has been the tombstone of similar efforts to better the life of their populations since the Alliance for Progress in 1961. All three countries of the Northern Triangle of Central America—Guatemala, Honduras and El Salvador—are heavily dependent on the remittances of their nationals in the United States. In Honduras, for example, remittances are the country's main source of foreign income. There is no real reason to think that the amount of remittances will diminish in the near future. Even if the Alliance for Prosperity in the Northern Triangle were successful, it would still take at least 10 more years to make a difference in the prevailing social and political conditions of these countries. Despite the efforts to channel this money into the productive sector or into housing, remittances continue to be spent on basic consumption needs."

**A** **Manuel Orozco, member of the Financial Services Advisor board, director of the Migration, Remittances and Development Program at the Inter-American Dialogue and fellow at the Center for International Development at Harvard University:** "Remittances to Latin America and the Caribbean increased 6 percent in 2015, and some Central American countries experienced the highest growth rate. El Salvador's 3 percent growth though continues a steady trend since 2009, however, it was lower than the growth rate in Guatemala and Honduras. But the continuity of this trend for El Salvador is related to continued migration, poor economic performance in El Salvador and U.S. economic growth. This year, El Salvador's growth may continue the same pattern because migration will not recede. There are more than 30,000 Salvadorans entering the United States every year, and that number has not changed since 2009. Similarly, remittances have grown steadily since 2010 at more than 3 percent annually, proving a countercyclical performance to the weak or fragile Salvador-

an economy. Within this context and before a potentially adverse economic trend, remittances may only slow if migration slows and deportations increase. However, because Salvadorans are wary of the economic and social situation in the country, they will still attempt to migrate; more than 20 percent of Salvadorans say they plan to migrate in the near future. A reduction, if any, would be of 1 percent and would affect consumption patterns, food and imported goods."

**A** **Mario Trujillo, member of the Financial Services Advisor board and chairman, president and CEO of DolEx Dollar**

**Express:** "Over the last several years, as the U.S. economy has slowly recovered and unemployment figures improved (now at about 4.9 percent), family remittances from the United States to Latin America and in particular Central American countries have also turned around from the declines during the Great Recession in the United States.

“**Assuming there is not a U.S. recession, we expect 2016 to deliver slightly lower, but positive growth rates for most Central American countries.**”

— Mario Trujillo

During this period, growth rates increased from negative levels during the height of the recession to single digit (6 percent and 8 percent) and in some countries double digits (12 percent and more than 15 percent for some periods in Guatemala and Honduras, for example). In the early recovery years, growth rates were generally higher as they were lapping weaker numbers, and in the last few years they have generally stabilized into mid to high single-digit growth rates. Family remittances are mostly driven by

Continued on page 6

areas of agricultural risk, surety, health and life will lead to competitive advantages, Freire said. Currently, Austral Resseguradora receives 8 percent of its premiums from outside Brazil, but it is aiming to increase that portion to 20 percent, he added.

## POLITICAL NEWS

# Santos Vows to Put Any Peace Deal to Referendum

Colombian President Juan Manuel Santos said Feb. 8 that any peace agreement that emerges from his government's three-year talks with the Revolutionary Armed Forces of Colombia, or FARC, rebels will be put to voters in a referendum regardless of the FARC's view on the matter, Agence France-Presse reported. "Whatever gets signed in Havana, I will submit to a referendum vote, whether the FARC likes



Santos // File Photo: Colombian Government.

it or not," Santos said in a posting on Twitter. Earlier in the day, lead FARC negotiator Iván Márquez said he was opposed to a referendum. During a Feb. 4 meeting with Santos at the White House, U.S. President Barack Obama said he would ask Congress for \$450 million to help Colombia transition to peace. The funding would go toward reinforcing security, helping to integrate former guerrillas into society and strengthening Colombia's justice system. In September, the Colombian government and the FARC set a March deadline for concluding the talks. FARC negotiators at the talks have said that the National Liberation Army, or ELN, rebel group should be included in the peace

## THE DIALOGUE CONTINUES

# Will Argentina's Banks Thrive Under Macri?

**Q** Argentina's central bank is moving ahead with an initiative to increase the country's mortgage lending as part of President Mauricio Macri's pledge to offer one million mortgages during his term. The plan is among the latest moves, which include the lifting of currency controls, that the government has made since Macri took office in December aiming to reverse years of heterodox economic policy. How will boosting the level of mortgage loans affect the country's financial sector? To what extent do Argentines trust banks, and how may that level of confidence change during Macri's administration? How are Argentina's banks, and their customers, most likely to fare under the country's new president?

**A** Ricardo Seeber, senior partner at Estudio Becar Varela in Buenos Aires: "Argentina's central bank and the government's new economic team are moving ahead so as to increase the country's mortgage lending. All that we know officially is that they are analyzing how to implement such an increase, both from a legal and practical point of view, since in the past there were different repayment plans, and none of them was sustainable nor lasted more than almost 10 years. This was during the 1990s, but when convertibility was abrogated, the

talks. However, Santos said Monday that the ELN must release a soldier and a civilian that it is holding captive before the government engages in formal talks with the group, Reuters reported. For five months, ELN rebels have been holding civilian Ramón José Cabrales, and rebels last week captured government soldier Jair de Jesús Villar in Antioquia. "If they want to begin any type of negotiation they must liberate these hostages," Santos said after meeting with security officials in the munic-

government had to implement special repayment plans for mortgage lending due to the 2002 devaluation. One of the difficulties that the government faces is how to deal with inflation and the repayment of mortgage loans so that they do not turn expensive for the borrowers and do not mean a heavy loss for the banks. Another difficulty is how to surpass the prohibition to actualize debts according to inflation indexes or any other index still in force. Finally, if the government's economic team enforces a suitable regime, it will without a doubt have a positive impact not only on the economy in general, but also on the financial sector. In parallel with this new plan, banks have to regain confidence and trust from their customers. The 2002 crisis harmed confidence in Argentina's banking system. To recover that confidence, it takes time and also a close surveillance by the central bank. It seems that things are changing in Argentina since Macri took office, and one of the most important if not the most important challenge is to create a new business-oriented environment with solid institutions, including a stable financial system."

**EDITOR'S NOTE:** More commentary on this topic appears in the Jan. 14-27 issue of the Financial Services Advisor.

pality of Arauca. Santos also said Monday that the military would step up its attacks on the ELN following an assault on a military brigade, which was blamed on the ELN. "The ELN is dead wrong if it thinks that with attacks like this it can smooth the path to peace," said Santos, BBC News reported. Santos launched a preliminary effort in 2014 to launch peace talks with the ELN, though they have not become part of the formal peace talks underway with the FARC in Havana.

## NEWS BRIEFS

## Mexico Eyes Further Budget Cuts in 2017

Mexican Finance Minister Luis Videgaray said Feb. 8 that the government may have to make additional budget cuts in 2017 in light of persistently low oil prices, adding that state-run oil company Pemex would likely need to adjust its spending this year, as well, The Wall Street Journal reported. The Mexican government cut spending in 2015 and 2016 in response to the global drop in oil prices. The country had budgeted for this year with a predicted oil price of \$50 a barrel, and "revenue is protected by hedges at \$49 a barrel, so whether the price is \$25, \$22 or \$30, the federal government will receive the equivalent of \$49," he said in an interview with Mexico's Radio Fórmula.

## Argentine Government Defends Decision to Lay off Thousands

The Argentine government on Feb. 4 defended its decision to lay off approximately 6,200 public sector workers, and warned that it could dismiss more workers in the near future, the Associated Press reported. The government argued that many of the employees hired during former President Cristina Fernández de Kirchner's administration never showed up to work. In response to the move, the State Workers Association union's secretary general, Hugo Godoy, said workers will stage a nationwide strike on Feb. 24.

## Honduras' Coffee Exports Rise 1.9% in January

Honduras' national coffee institute on Feb. 1 said coffee exports rose 1.9 percent in January compared to the same month last year, Reuters reported. More than half a million 60-kilogram bags were shipped last month from Honduras, the largest coffee producer in Central America, despite reports of smuggling of large quantities of beans.

## Obama Seeking \$1.8 Bn to Fight Zika

U.S. President Barack Obama said Feb. 8 that he will seek \$1.8 billion in funding from Congress to fight Zika, the virus that has spread rapidly in Latin America and the Caribbean and is suspected of links to birth defects, The Wall Street Journal reported. "We have to take this very seriously," Obama said in a televised interview on CBS. "We're going to be putting up a legislative proposal to Congress to resource both the research on vaccines and diagnostics but also helping the public health systems." If approved by Congress, the largest portion of the funding would be allocated to the Centers for Disease Control and Prevention for initiatives that include mosquito control and efforts to track the virus. Although lawmakers' approval of the funding is uncertain, members of Congress said Monday that they were pleased at the White House's attention to the matter before there are reported cases of local transmission of the virus by mosquitoes in the continental United States. Obama's request comes as health officials in Latin America say the virus is spreading rapidly. Brazil has reported as many as 1.5 million cases of the virus, while Colombian health authorities have said there are 20,000 confirmed cases and another 80,000 suspected cases.

## Haiti's Martelly Steps Down, No Successor in Place

Haitian President Michel Martelly stepped down on Feb. 7 as his term expired, but without a successor in place following last month's cancellation of the country's runoff presidential election, the Associated Press reported. In a farewell speech to the country's Parliament, Martelly said he worked "night and day" to improve the country and added that his "biggest regret is that the presidential election was postponed." Prime Minister Evans Paul has remained in office, at least for now, waiting Parliament's selection of an interim president,

which could happen within days. On Saturday, Martelly and lawmakers agreed to the creation of an interim government that would be in power until a new president takes office on May 14. The presidential runoff, which was canceled amid violence and widespread suspicions about fraud is now rescheduled for April 24.

## ECONOMIC NEWS

## Largest 'Holdout' Bondholders Reject Argentina's Offer

The largest holders of defaulted Argentine debt have rejected a repayment offer that the government of President Mauricio Macri made public on Feb. 5, Bloomberg News reported. Billionaire Paul Singer's Elliott Management, Aurelius Capital Management, Davidson Kempner Capital Management and Bracebridge Capital turned down Argentina's offer, which it made after talks last week with the so-called "holdouts" in New York. Argentina on Friday made public its offer to pay as much as \$6.5 billion on \$9 billion of claims. Two hedge funds—Dart Management and Montreux Partners—accepted the offer. The offer implied a haircut of approximately 25 percent, but it was more generous than previous restructuring offers. Until the debt dispute, which stems from Argentina's massive default more than a decade ago, is resolved, the country will remain locked out of international credit markets. Macri, who took office in December, has said he wants to reach a fair agreement with the creditors. That is a major shift from the policies of his predecessor, Cristina Fernández de Kirchner, who had refused to negotiate with the hedge funds that her government called "vulture funds." A repayment deal also would end Argentina's second default since its 2001-2002 economic crisis. A U.S. court ruling has prevented the country from making payments on notes issued in two restructurings because of an equal-treatment clause. Last week, Argentina's government struck a deal to pay a group of Italian bondholders \$1.35 billion.

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

employment levels and work opportunities in the country from which remittances are sent. However, many other external factors influence immigrants' migration patterns, including home country labor markets, economic opportunities, governmental policies and political instability. Assuming there is not a U.S. recession, we expect 2016 to deliver slightly lower, but positive growth rates for most Central American countries. In the United States, the ongoing deportation dialogue, bigotry and anti-immigrant sentiments expressed by some of our political hopefuls does not help the confidence of current and future working immigrants seeking a better life in the United States and sending money home to support family in their home countries. As stated by the World Bank and many others, family remittances are good public policy."

**A** **Xiomara Hurtado, head of the External Sector Department at the Central Reserve Bank of El Salvador:** "Since the United States is the largest recipient of Central American migrants, we do not foresee risks to economic performance as remittances have an estimated growth rate this year that is similar to that of last year. A higher or lower growth rate in remittances will depend on net migration, which has grown in recent years. In general, remittances are also expected to grow. With current economic growth forecasts, global economic uncertainty is not expected to decisively affect remittances, because our people

mainly migrate to the United States. There could, however, be adverse effects based on changes in migration. If they continue with the same intensity throughout this year, raids in the United States could reduce the level of

“With current economic growth forecasts, global economic uncertainty is not expected to decisively affect remittances.”

— **Xiomara Hurtado**

remittances. This effect would be strongest if raids happen on the East Coast, where there is a higher proportion of Salvadoran immigrants. The Alliance for Prosperity plan has awakened hope for advancing along the route of achieving higher growth and improvements in security. It could lead to a decline in remittances in the long term. But this would be favorable in the long term as it would be based on more favorable domestic conditions. In El Salvador, the production of consumer goods, trade, restaurants and hotels, communications as well as financial, educational and health services are the activities most related to remittances."

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

## FINANCIAL SERVICES ADVISOR

is published biweekly by the Inter-American Dialogue, Copyright © 2016

**Erik Brand**

Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**

Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Nicole Wasson**

Reporter, Assistant Editor  
[nwasson@thedialogue.org](mailto:nwasson@thedialogue.org)

**Michael Shifter, President**

**Genaro Arriagada**, Nonresident Senior Fellow

**Sergio Bitar**, Nonresident Senior Fellow

**Joan Caivano**, Director, Special Projects

**Kevin Casas-Zamora**, Director,  
Peter D. Bell Rule of Law Program

**Maria Darie**, Director, Finance & Administration

**Ramón Espinasa**, Nonresident Senior Fellow

**Ariel Fiszbein**, Director, Education Program

**Alejandro Ganimian**, Nonresident Fellow

**Peter Hakim**, President Emeritus

**Claudio Loser**, Senior Fellow

**Nora Lustig**, Nonresident Senior Fellow

**Margaret Myers**, Director, China and  
Latin America Program

**Manuel Orozco**, Director, Migration,  
Remittances & Development

**Jeffrey Puryear**, Senior Fellow

**Lisa Viscidi**, Director, Energy Program

**Financial Services Advisor** is published biweekly, with the exception of major holidays, from 1211 Connecticut Avenue NW, Suite 510 Washington, DC 20036

**Phone:** 202-822-9002

**Fax:** 202-822-9553

[www.thedialogue.org](http://www.thedialogue.org)

ISSN 2163-7962

Subscription Inquiries are welcomed at  
[freetrial@thedialogue.org](mailto:freetrial@thedialogue.org)

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

**Q&A** EVERY BUSINESS DAY  
LATIN AMERICA ADVISOR  
SUBSCRIBE