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FEATURED Q&A

Is the Outlook for Ecuador's Banks Improving?

Janeth Maldonado, the deputy manager of Ecuador's Central Bank, has been handling communications over the transfer of the government's electronic money project to the private sector. // File Photo: Ecuadorean Government.

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

A Ramiro Crespo, CEO of Analytica Investments and President of Analytica Securities in Quito: "Banks had a strong 2017 in credit, deposits, and profitability. Bankers, however, acknowledge that 2016 was a bad base year, so annual comparisons should be taken with a grain of salt. Improvements in overall economic activity expanded bank deposits 11.9 percent in 2017. The improved liquidity, together with strong demand for credit following a 2016 when banks were extremely cautious about lending, resulted in a solid 2017 for bank credit growth. Both the corporate sector and consumers benefited from credit availability, as business and consumer sentiment improved and, with it, their demands for funds. By year's end, bank lending had expanded by 17 percent. Statistics are not yet showing bankers' concerns about the future of credit growth given the recent slowdown in deposits,

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Led by Sergio Palazzo, the Asociación Bancaria has been at odds with bank managers over wages and back pay, as well as working hours. The latest strike is the third national walkout this year.

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Palazzo // File Photo: @SergioOPalazzo via Twitter.

BANKING NEWS

Chilean Banks Close Accounts of Crypto-Currency Firms

Some of Chile's largest banks have closed the corporate accounts of crypto-currency platforms in recent weeks, forcing companies such as Buda, Orionx and CryptoMarket to find alternate ways to operate in the South American country, Bloomberg News reported April 13. Private banks Itaú CorpBbanca and Scotiabank, as well as state-controlled Banco del Estado de Chile, closed the accounts last month apparently with no explanation, according to the report. Itaú CorpBanca executives have said publicly that the cryptocurrency industry needs more regulation, and that the bank is following internal norms to decide on closing individual accounts. Chile's banking association declined to weigh in on the matter, saying the dispute rests between the banks and their customers. On April 5, Chile's Financial Stability Board, or CEF, which is comprised of the heads of the central bank, finance ministry and other government agencies, issued a statement calling cryptocurrency transactions a "high-risk activity," CityWire reported. Buda executives have taken their case to court. "They're killing an entire industry," Guillermo Torrealba, Buda's co-founder and chief executive officer, told Bloomberg News. "It won't be possible to buy and sell crypto in a safe business in Chile. We'll have to go back five years and trade in person. It seems very arbitrary."

IFC Lends $150 Mn to BBVA Colombia for Mortgages

The World Bank's International Finance Corporation, or IFC, on April 11 approved $150 million loan to BBVA Colombia to provide housing loans. "The loan will allow BBVA Colombia to strengthen the dynamics of growth in mortgage loans, which will play a fundamental role in boosting the development of the housing sector in Colombia and through it, that of the economy," the IFC said in a statement. Housing ownership levels in Colombia are among the lowest in Latin America, and the country has an estimated housing deficit of about 3.5 million units, according to the IFC. The mortgage financing portfolio in Colombia represents only 7 percent of the gross domestic product, lower than that of other countries in the region. BBVA Colombia, led by chief executive Óscar Cabrera, currently holds 17 percent market share of Colombia's mortgage financing portfolio. Last month, Colombia's Banco Davivienda said it had secured a $200 million senior loan to finance mortgages from IDB Invest, the private sector investment arm of the Washington-based Inter-American Development Bank.

Cabrera // File Photo: BBVA.

Argentine Bank Workers Begin 48-Hour Strike

The largest union representing bank workers in Argentina has called for a 48-hour national bank strike starting April 17, Clarín reported. The strike is the latest in a series of labor actions taken by bank workers in recent months. Led by Sergio Palazzo, the Asociación Bancaria has been at odds with management over wages and back pay, as well as working hours. The union rejected salary increases offered in February, when workers last walked out for two days, Business Insider reported. While consumer price inflation in Argentina has been at around 20 percent annually, union leaders complained that banks then proposed only a 9 percent wage increase. On April 6, the

NEWS BRIEFS

Citigroup Q1 Profit Increases on Higher Latin America Revenue

New York-based Citigroup on April 13 reported net income for the first quarter of $4.6 billion on revenues of $18.9 billion. The results surpassed market analysts' expectations. In the company's Latin America consumer banking segment, net income increased 15 percent as compared to the year before, to $1.3 billion. In constant dollars, revenues increased 8 percent and retail banking revenues grew 7 percent in the region year-over-year. Card revenues in Latin America increased 13 percent, driven by continued growth in purchase sales and full rate revolving loans, the bank said.

TransRe Makes New Business Development Push in Latin America

New York-based insurer TransRe said April 2 it had hired Hugo Cardona to serve as vice president of marketing and business development for Latin America and the Caribbean. The newly created role aims to expand the company's reinsurance business in the region. TransRe had $3.8 billion in net premiums written in 2017, but Latin America represented the smallest region of the world for the company, in terms of premiums written.

Generali Sells Businesses in Panama, Colombia

Italian insurer Assicurazioni Generali announced on April 16 it had sold its businesses in Panama and Colombia for about $210 million. The operations in Panama were sold to ASSA Compañía de Seguros, while the business in Colombia was sold to Talanx Group. In South America, Generali remains active in Brazil, Argentina and Ecuador. The company is Italy's largest insurance company and the third largest in the world.

workers carried out a 24-hour national strike. Subsequent proposals have also fallen short, Palazzo said.

INSURANCE NEWS

Ecuador Revises Plan for Tax on Private Insurance Premiums

Ecuador's finance ministry said this month that a proposal to levy a 12 percent sales tax on private insurance policies in Ecuador would not apply to plans with monthly premiums below $150, Business News Americas reported April 9. Currently no taxes are levied on insurance premiums. The initial proposal would have affected nearly one million people, El Universo reported earlier this month. Roberto Aspiazu, director of the Ecuadorean Business Committee, or CEE, told the newspaper that the measure would tax premiums on health, prepaid health, accident and life insurance policies that by law have been exempted from taxes. The increase in value added tax was expected to generate about $80 million for treasury coffers through 2021, with $11 million in taxes expected to be raised this year.

POLITICAL NEWS

Tensions Over Venezuela Flare at Lima Summit

The eighth Summit of the Americas wrapped April 15 in Lima with strong statements critical of Venezuela's President, Nicolás Maduro, from the United States and its allies that were met with rebukes from Cuba and Bolivia, the Miami Herald reported. U.S. Vice President Mike Pence, who was filling in for President Donald Trump, said the United States would not stand by as Venezuela devolved into a dictatorship, calling on the region to ramp up sanctions against the Maduro regime. "The United States believes now is the time to do more, much more," he said. The Venezuelan leader had been disinvited by Peru from attending the summit amid concerns over unfair elections and an economic crisis. Pence's speech drew an angry response from Cuban Foreign Minister Bruno Rodríguez, who argued that it was "completely undemocratic" to attack Maduro when he'd been excluded from the meeting and couldn't defend himself. The United States' "moral vacuum cannot be, is not, a reference for Latin America and the Caribbean," Rodríguez said as the U.S. delegation walked out. Pence highlighted an additional $16 million in U.S. funding to help Venezuelans who have fled to neighboring countries but did not offer specific plans for further action against Maduro's government, the Washington Post reported. The summit's official theme was corruption and democratic governance. Attendees signed "The Lima Commitment," a 56-point document that outlines anti-corruption efforts such as more cross-border cooperation and tightening of anti-graft laws. But that too generated some pushback. Bolivia's President, Evo Morales, suggested that a "war on corruption," like the war on drugs and war on terror, could be used by the United States and others as an excuse to "topple legitimate governments." Some Caribbean leaders worried about the costs and bureaucracy that would be involved in complying

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but credit conditions are likely to tighten in the coming months. In the meantime, banks are back in the business of lending money, with profits for the system almost doubling in 2017. Liquidity in the system is extremely sensitive to government external financing. As soon as the government receives loans or places foreign debt, funds are injected into the economy through the financial channel. Currently, the government holds part of the proceeds from the $3 billion bond issuance that took place in January 2018, but it will run out of money in the coming months when seasonally high tax revenue collection dissipates. Lower government liquidity could complicate the overall liquidity, thus affecting banks' capacity to keep lending at the same pace. They could be forced to put the brakes on again."

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

A **Francisco Swett, dean of the School of Economics and Business at Universidad Espíritu Santo in Samborondón, Ecuador:** "There is more myth than fact in the perception that Moreno's government is handling matters in the financial sector any differently than Correa. How could it be? The people are the same, the attitudes are the same, and the laws are the same.

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with the accord. Economic ties also garnered headlines. On trade, the delegation from the United States insisted it had not turned its back on Latin America, the Financial Times reported. Commerce Secretary Wilbur Ross said the U.S. might be willing to re-engage with the Trans-Pacific Partnership, which Trump abandoned his first month in office.

Brazil's Bolsonaro Charged With Hate Speech

Brazil's attorney general on April 13 charged Jair Bolsonaro, the controversial right-wing presidential candidate who has been running near the front in polls ahead of this October's election, with inciting hatred and discrimination against blacks, indigenous communities, women and gays, the New York Times reported. Attorney General Raquel Dodge cited incendiary remarks by Bolsonaro, a congressman, alleging they constituted hate speech. If convicted, he could face up to three years in prison and a $117,000 fine. The charges, which Bolsonaro's campaign called "groundless," came as debate continues in Brazil over the judiciary's role in deciding who can run in elections. Earlier this month, the front-runner in the race, former President Luiz Inácio Lula da Silva, lost a court appeal and began serving a 12-year sentence for corruption. The status of Lula's candidacy remains uncertain, however, despite his being imprisoned. The first major poll taken since Lula was jailed, released by Folha de S.Paulo on Saturday, showed environmentalist Marina Silva technically tied with Bolsonaro in the race, Bloomberg News reported. The Datafolha poll showed Bolsonaro with 17 percent of vote intentions and Silva with 15 to 16 percent. The polling scenario did not include Lula. Ciro Gomes, the leftist former governor of Ceará State who was expected to draw Lula voters, slipped to 9 percent from 12 percent in the poll taken in January, Reuters reported. Support for São Paulo Governor Geraldo Alckmin, who some analysts say has the strongest party apparatus behind him, is polling stagnantly at between 7 and 8 percent support. The

NEWS BRIEFS

Brazil Arrests 10 Over Public Pension Fraud

Federal Police in Brazil on April 12 arrested 10 officials on charges of public pension fraud in connection with the Lava Jato corruption investigation, Folha de S.Paulo reported. Those arrested include Marcelo Sereno, a former national secretary of the Workers' Party. Others include union leader Carlos Alberto Valadares, former postal service secretary Adeilson Telles, and lobbyist Milton Lyra, who is connected to the ruling MDB Party. They stand accused of trading bribes in exchange for funneling pension investments to the business empire of Arthur Machado, CEO of ATG Group.

Cloud Services to Reach $7.4 Bn in Latin America

Cloud services in Latin America will generate $7.4 billion in the year 2022, up from $1.8 billion in 2017, a 32 percent compound annual growth rate, according to new research by Frost & Sullivan. The growth will be fueled partly by companies that are increasing investments in "hybrid infrastructures" that combine multiple configurations, such as on-premise private cloud, public cloud, hosted private cloud, and bare-metal cloud, the firm said.

Guatemalans Vote to Send Belize Border Dispute to International Court

On Sunday, Guatemalans overwhelmingly voted to send their long-running border dispute with Belize to the International Court of Justice, the Associated Press reported. More than 95 percent of the votes were cast in favor of the Hague court settling the dispute over the land area, which makes up just under half of the territory administered by Belize, though less than 25 percent of voters participated, Deutsche Welle reported. Belize has yet to hold its own referendum, which is required under a 2008 agreement between the two countries. ruling Brazilian Democratic Movement party's hopefuls fared poorly in the poll, with President Michel Temer garnering between 1 percent and 2 percent, while former Finance Minister Henrique Meirelles has not cleared 1 percent.

Canada Recalls Families From Embassy in Cuba

Canada's government has recalled the families of its diplomatic staff in Havana amid continued health concerns, BBC News reported April 17. At least 10 Canadians, including some minors, are suffering from unexplained brain symptoms such as dizziness, nausea and difficulty concentrating, government officials said. Doctors have suggested a new type of brain injury may be the cause of the mysterious illness. Canada says it has dismissed theories about covert sonic attacks being the cause of the illnesses. The United States pulled out its diplomatic staff in Havana in September and warned its citizens not to visit Cuba, asserting that 21 embassy employees had been injured with concussion-like symptoms. The following month, the U.S. State Department expelled 15 Cuban diplomats from Washington in protest of what it said was Cuba's failure to protect American envoys in Havana. The United States also reduced the size of its embassy in Havana by 60 percent. Cuba has denied involvement in the cases. Foreign Minister Bruno Rodríguez said U.S. claims were a "political manipulation" aimed at damaging bilateral relations. The fact that staff have been affected from Canada, which has better relations with Cuba than the United States, has puzzled analysts. [Editor's note: See related **Q&A** in the Oct. 11 issue of the daily Latin America Advisor.]

Trump Instructs Agencies to Study Rejoining TPP

U.S. President Donald Trump on April 12 expressed interest in the possibility of the United States' re-entry into the Trans-Pacific Partnership, or TPP, Bloomberg News reported. Trump instructed U.S. Trade Representative Robert Lighthizer and top economic advisor Larry Kudlow to study re-entry into the accord. In a posting on Twitter, Trump said the United States would be willing to enter if it got a "substantially better" deal, singling out Japan as a country that had "hit [the U.S.] hard on trade for years!" The move is a sudden reversal for Trump, who pulled out of the 12-nation agreement in his first month in office. Trump compared the deal to the "rape of our country" when campaigning for president in 2016. The remaining member nations, which include Japan, Australia and Vietnam as well as Latin American nations Chile, Mexico and Peru, continued to negotiate after Trump's exit and reached an agreement on March 8 of this year. However, officials from member countries were measured in their reactions to Trump's announcement. "We welcome the U.S. coming back to the table, but I don't see any wholesale appetite for any material re-negotiation of the TPP-11," said Australian Trade Minister Steven Ciobo.

Uruguay Issues $1 Billion in Bonds After 2-Year Absence

Uruguay's government on April 12 announced that it is issuing bonds in dollars for the first time in two years, El País reported. The new bonds, which will mature in 2055, will be priced approximately 235 basis points above equivalent U.S. Treasury bonds and will be worth between $1 billion and $1.5 billion in total, according to the country's finance ministry. Part of the revenue from the bond sale will go towards refinancing the nation's debt, the ministry said. In February, Uruguay's public deficit rose to 3.5 percent, Reuters reported. In addition to the issuance, the government said it would offer a buyback on bonds worth over $3 billion. The buyback applies to bonds set to mature in 2022, 2024, 2025 and 2033. Uruguay's gross domestic product grew 2.7 percent in 2017, the central bank said last month.

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Ecuador's banking system is locked in a tug-of-war. It operates in a dollarized economy and there is no Central Bank support in case matters go awry; bank provisions are four times as much as they would be otherwise. Secondary money expansion is thereby restricted and reflects the general conditions of an economy beset by strong recessionary trends and seven consecutive months of deflation. The government, on the other hand, continues to keep pace with their targeted current spending priorities; public monies are recycled to the banking system, fueling credit expansion and putting pressure on the balance of trade. So long as the government is able to contract new debt, those inputs will be reflected in the banking system indicators, but the situation is hardly sustainable: fundamentals are weak, and public debt is rearing its ugly head once again. In short, the outlook for financial services is not rosy, and the issues brewing within the cooperative sector (which holds about one third of assets, as much as the banks) signal problems ahead as the Moreno government continues to behave in no-see, no-hear, no-talk mode regarding economic management."

A Pablo Arosemena Marriott, president of the Chamber of Commerce of Guayaquil: "The economic environment in Ecuador is very different from what we saw during the past decade. The oil bust of 2014-2017 forced the government to substitute their oil revenue with aggressive debt and opaque oil pre sales to China. The government debt grew from $30 billion at the end of 2014 to at least $50 billion in January this year. Regarding oil pre sales, some estimates indicate that Ecuador will hardly receive any oil revenue during this year. This combination has rendered the current administration's public finances very fragile and thus has shaped the approach that the government has had towards the commercial, manufacturing and banking sectors. At the outset, this government mentioned restoring the private sector as the engine for economic growth and development. One of the early signs of 'walking the talk' was the transference of the Central Bank electronic wallet program to the private financial sector and the annulment of a confiscatory property surplus tax. No other additional tangible measures have been taken. While the government has been fast in increasing the corporate tax rate and imposing a new customs 'tax', most business-friendly announcements have remained only announcements. The 'new economic plan' unveiled a few weeks ago didn't include important details on the mechanism to achieve a balanced budget. It resembles more a short-term fiscal adjustment program than a fully fledged economic program. Despite these facts, business sentiment remains positive and sales are recovering at a healthy 9 percent in the manufacturing and commercial sectors, which account for more than 60 percent of national sales. The environment on the private-sector side seems more prone to growth: the banking sector remains healthy, the external trade sector is bullish, and commercial web is supporting the recovery. We count on the public sector to pull its weight without negatively affecting the business climate."

> **"One of the early signs of 'walking the talk' was the transference of the central bank electronic wallet program to the private financial sector..."**
> — Pablo Arosemena Marriott

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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