

BOARD OF ADVISORS

Ernesto Armenteros

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

Pablo Barahona

President & COO,
Global Retail Markets West,
Liberty Mutual Group

Felipe Carvalho

Vice President - Analyst
Latin America Banking
Moody's Investors Service

Richard Child

CEO,
Matrix Group

Michael Diaz Jr.

Partner,
Diaz, Reus & Targ

Ernesto Fernández Holmann

Chairman of the Board,
Ayucus

Rich Fogarty

Managing Director,
Alvarez and Marsal

Desiree Green

Vice President,
International Government Affairs,
Prudential Financial

Earl Jarrett

Chief Executive Officer,
The Jamaica National Group

Thomas Morante

Chair, Insurance Regulatory &
Transactional Practice Group
Kaufman, Dolowich & Voluck

Manuel Orozco

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

Adalberto Palma-Gomez

Senior Partner,
Proxy, Gobernanza Corporativa

Rodolfo Pittaluga

Adjunct Professor,
Florida International University
College of Law

Fabian Saide

Founder, CEO and President,
Paykii

Jan Smith

Partner,
KoreFusion

Roberto Teixeira da Costa

Founder & Board Member Emeritus
CEBRI

Mario Trujillo

CEO,
DolEx Dollar Express

FEATURED Q&A

How Are Argentina's Economic Troubles Affecting Banks?



Argentines filled the streets in protest on May 29, the fifth general strike since President Mauricio Macri took office. // Photo: CGT.

Q Argentine unions on May 29 held their fifth nationwide general strike since President Mauricio Macri took office, shuttering banks and other businesses in protest of Macri's management of the economy, which is facing high inflation coupled with recession. How is continued economic turmoil affecting Argentina's banking sector? Is Argentina's economic weakness hurting loan performance and other key indicators for the country's banking system? What is at stake for Argentina's financial services sector in the October presidential election?

A Cynthia Cohen Freue, director and sector lead for financial institutions ratings at S&P Global in Buenos Aires: "We see a deterioration in asset quality indicators in the Argentine banking system as a result of the difficult operating environment, both in the corporate and consumer segments, moving to 4.5 percent and 3.8 percent (nonperforming loans to total loans), respectively. However, we note a single exposure on the corporate segment explains about 1 percent of the total deterioration; and metrics remain relatively manageable on international standards. The adjustment plan to reduce the fiscal deficit and achieve the IMF's program goals has taken a hit on the country's economic performance, which is further exacerbated by the 'wait and see' effect on investors and business decisions due to the presidential election. In this context, banks are taking a conservative approach toward lending, and as a result the loan portfolio in real terms is decreasing. We consider that the low banking penetration (credit-to-GDP is below 15 percent), low exposure to cyclical segments such as SME or

Continued on page 3

TOP NEWS

FINANCIAL SERVICES

Citi, Deutsche Bank Take Control of Venezuelan Gold

The banks have taken control of approximately \$1.4 billion worth of gold that Venezuela had used to guarantee loans.

Page 2

INSURANCE

Austral Re, Terra Brasis to Merge Operations

The Brazilian reinsurance providers have signed a deal to merge operations, creating the country's second-largest reinsurer in terms of insurance premiums underwritten.

Page 3

FINANCIAL SERVICES

Inclusion in Colombia's Financial System Reaches 81%

At the end of last year, 28 million Colombians, or 81.4 percent, were using some type of financial product. President Iván Duque wants to boost that figure to 85 percent by 2022.

Page 2



Duque // File Photo: Colombian Government.

FINANCIAL SERVICES NEWS

Citi, Deutsche Bank Take Control of Venezuelan Gold

Citibank and Deutsche Bank have taken control of approximately \$1.4 billion worth of Venezuelan government gold, Reuters reported June 6, citing unnamed sources. The banks, which received the gold as guarantees for loans made in 2014 and 2015, reportedly took the action in order to comply with U.S. sanctions on Venezuela's central bank. Venezuela's government planned to buy back the gold in 2020 and 2021, but the banks determined that an "event of default" had occurred due to the sanctions. Citibank holds around \$400 million worth of the gold, and Deutsche Bank has \$1 billion, the sources told the wire service. The gold seizure is not the first time that global banks have clashed with Venezuela's government under embattled President Nicolás Maduro. The central bank missed a March deadline to buy back gold from Citigroup for nearly \$1.1 billion, Bloomberg News reported, and before that, the Bank of England refused to give back \$1.2 billion worth of Venezuelan gold. The government sold more than 40 percent of Venezuela's gold reserves last year, selling to firms in the United Arab Emirates and Turkey to fund programs and pay creditors, Bloomberg News reported.

Inclusion in Colombia's Financial System Reaches 81%

Inclusion in Colombia's financial system has reached 81.4 percent of the country's adult population, Dinero magazine reported June 11, citing a government report. At the end of last year, 28 million Colombians were using some type of formal financial product, according to the report by the country's financial superintendency and Banca de las Oportunidades, a government program that seeks to promote financial inclusion. According to the report, some

6.3 million adults remain outside the formal financial system. Technological innovations have helped to drive financial inclusion in the South American country, the report said, adding that transactions carried out via the Internet for the first time last year exceeded those carried out in offices, in terms of quantity and amount of transactions. Colombian President Iván Duque was on hand for the presentation of the report and said his government is seeking to

In the last decade, 12 million Colombian adults became part of the formal financial system.

boost the number of adults with at least one formal financial product to 85 percent by 2022. "That means we must have three million more adults in the Colombian population with a savings or credit product and about 600,000 new users in the rural population," he said. "It is an ambitious goal, and we must reach 70 percent financial inclusion in rural areas." In the last decade, more than 12 million Colombian adults became part of the formal financial system, bringing the percentage of participation up from 55.5 percent in 2008, the report said. As of last year, 26.8 million adults in Colombia had at least one deposit account, while 13.9 million had a current loan. Savings accounts and consumer credit, including credit cards, were the financial products with the highest penetration rates in the country.

Legg Mason Forms Partnership With Mexico's Actinver

Legg Mason has partnered with a Mexican money manager for advisory services, the U.S. investment management firm announced on June 11, The Baltimore Sun reported. Legg Mason will provide investment advice to Mexico City-based Corporación Actinver, the country's largest private lender in terms of number of clients, which offers a variety of wealth and

NEWS BRIEFS

São Paulo State Court Rules Against Santander in Bitcoin Case Appeal

São Paulo State's Court of Justice has rejected an appeal by Spanish bank Santander, upholding an earlier decision that the bank free more than 1 million reais (approximately \$350,000) that it had locked when it closed accounts of Mercado Bitcoin, a Brazil-based exchange, Cointelegraph reported June 17. The court also ruled that Santander must pay more than 200,000 reais in fines related to the closure of the accounts.

Remittances to El Salvador Grow 3.8 Percent for Year Through May

Family remittances to El Salvador grew 3.8 percent to \$2.3 billion during the January-May period, as compared to the same period last year, according to El Salvador's central bank, Forbes México reported June 17. Just in May, El Salvador received \$504 million in remittances, most of which came from the United States. Other origin countries include Canada, Italy, Spain and Panama. In the first five months of the year, the amount of money sent to El Salvador from the United States amounted to \$2 billion.

Credicorp's Investor Relations Officer Resigns

Peru-based Credicorp announced June 17 that its investor relations officer, Giuliana Cuzquén, was stepping down, effective July 1. Cuzquén joined Credicorp in 1996, starting in its wholesale banking and risk division. She left the bank in 2003 to pursue a master's of business administration at the London Business School. After graduating, she worked in Britain for HSBC Bank and Standard Bank International before returning to Credicorp in 2009 as a member of its investor relations team.

asset management services. Actinver will manage three funds using investment models provided by three Legg Mason affiliates, Clear Bridge Investments, Martin Currie and Western Asset Management, and it will pay the Baltimore-based company based on management fees for the funds, the Baltimore Business Journal reported. "With the population of Mexico as well as the number of people accessing banking services expected to increase over the next 20 years, we see substantial growth potential in the country," said Lars Jensen, who heads Legg Mason's Americas International, The Baltimore Sun reported. The investment management firm has been looking to expand internationally, including in Latin America, where it has an office in Chile and in Brazil, as well as a representative office in Colombia. Actinver has \$469 billion in assets under management and serves approximately 200,000 clients, operating in 23 of Mexico's 31 states.

INSURANCE NEWS

Brazil's Austral Re, Terra Brasis Re to Merge Operations

Brazil-based reinsurance providers Austral Re and Terra Brasis Re announced June 17 that they have signed an agreement to merge their operations, Finance Colombia reported. The merger will create Brazil's second-largest reinsurer in terms of reinsurance premiums underwritten and the fourth-largest reinsurer in Brazil in terms of shareholder equity. It is expected to have annual premiums of some \$180 million, Reinsurance News reported. Vinci Partners will hold the controlling interest in the merged entity, along with the Brasil Plural Group and the World Bank's International Finance Corporation, which already have stakes in both Austral Re and Terra Brasis Re. The companies' business portfolios are reportedly complementary. The companies have offices in Rio de Janeiro, São Paulo, Colombia and Guernsey, and the combined company will have authorization to operate in other Latin Amer-

FEATURED Q&A / Continued from page 1

microcredit, healthy margins and the fact that foreign currency loans are only directed to dollar generators will help banks overcome the difficult scenario. Funding stability is an area we continue monitoring, but we take some comfort in the high liquidity levels banks hold (which has been increasing) and high reserve requirements from the central bank. Foreign currency volatility continues to be a source of risk as a result of the presidential election and political concerns, which could put pressure on inflation, further pressuring the already-difficult scenario. However, as political concerns dissipate, we expect banks to benefit from a more benign economic context in 2020."

A Valeria Azconegui, vice president and senior analyst at Moody's Investors Service:

"Adverse market conditions in Argentina are reducing banks' lending prospects, raising their funding costs and increasing their asset risk. However, capital buffers of most rated banks will be sufficient to withstand projected loan losses until year-end 2019, though some consumer lenders will need additional capital to continue growing their businesses and bolster weak profitability. Banks' lending prospects narrow as interest rates and inflation stay high and market conditions remain adverse. New lending will mostly be limited to lower-risk borrowers and refinancings. However, large banks with well-established businesses

ican countries. "It is a unique opportunity to speed up the expansion strategies with a new strength and dimension. We are excited about the opportunity to gain scale, the product portfolio and the commitment of our teams," said Terra Brasis Re's president, Rodrigo Botti, who will be the merged company's CFO, Reinsurance News reported. Bruno Freire, Austral Re's chief executive officer, will be the CEO of the merged company, Finance Colombia reported. "The merger provides an extraordinary opportunity for long-term value creation. We expect

have the advantages of more creditworthy customers and large retail core deposit balances that will help keep their funding comparatively affordable. These banks also have ample liquid resources to invest in Leliqs (central bank notes), returns on which will

“Adverse market conditions in Argentina are reducing banks' lending prospects, raising their funding costs and increasing their asset risk.”

– Valeria Azconegui

likely make up more than 50 percent of total earnings, as seen in 2018. Nonetheless, few banks are recording inflation-adjusted profits under present operating conditions. Delinquencies will spike in all segments from modest levels, but banks have good reserve coverage and capital to absorb losses. We foresee credit cost rising to 3.1 percent and nonperforming loans reaching 4.5 percent in 2019, with loan performance deteriorating in all segments as recession deepens and interest rates stay at a peak. Lending activity may pick up gradually in the third quarter, as the government will likely take measures to boost the economy and improve population sentiment as the October presidential election approaches, potentially easing inflation and interest-rate pressure."

Continued on page 6

the combined businesses to capture significant operating, administrative and economic-financial synergies," he said, Reinsurance News reported. "This is a partner which has a broad knowledge of the sector and will bring about an invigorated capacity for growth and international expansion of business." The deal's conclusion depends on approval of Brazilian antitrust agency CADE and the Private Insurance Supervisory Regulator, or SUSEP. Reinsurance News reported last August that the two companies were discussing a merger.

POLITICAL NEWS

Trump Cuts Aid to Central America's 'Northern Triangle'

U.S. President Donald Trump's administration on June 17 slashed hundreds of millions of dollars in aid to Guatemala, El Salvador and Honduras, the so-called "Northern Triangle" countries of Central America, Reuters reported. Trump has criticized the three countries and had threatened in March to cut aid to them, saying they are not doing enough to stop their citizens from migrating to the United States, which hundreds of thousands of migrants have entered in recent months. "This is consistent with the president's direction and with the recognition that it is critical that there be sufficient political will in these countries to address the problem at its source," State Department spokeswoman Morgan Ortagus told reporters, Reuters reported. No aid money will be provided to the three countries until the White House is satisfied that they are reducing the number of migrants seeking to enter the United States, said Ortagus. Some lawmakers said the aid cut would be counterproductive and would exacerbate the Central American nations' problems with hunger and crime and lead more migrants to head north. "As feared, a presidential tantrum will limit our nation's ability to actually help address the challenges forcing people to flee to the U.S.," Senator Bob Menendez (D-N.J.) said in a tweet. Congressional aides said the Trump administration said it would reallocate \$370 million in Central America aid that Congress had approved for fiscal year 2018 and suspend \$180 million in aid that lawmakers had approved for fiscal year 2017, Reuters reported. U.S. Customs and Border Patrol said June 5 that more than 144,000 migrants were taken into custody at the U.S.-Mexico border in May, a 32 percent increase from April. It was the highest monthly total in 13 years, The Washington Post reported, citing officials at the agency. May was the third consecutive month that border detentions exceeded 100,000.

ADVISOR Q&A

What Factors Will Decide Guatemala's Presidential Race?

Q **Former First Lady Sandra Torres emerged as the top vote-getter in the first round of Guatemala's presidential election on June 16. However, no one garnered more than 50 percent of the vote, so Torres will face four-time presidential candidate Alejandro Giammattei in a second round of voting on Aug. 11. What is driving support for Torres and Giammattei? What factors will decide the election between now and the runoff? To what extent will questions of legitimacy complicate the next president's mandate after two front-runners, including former Attorney General Thelma Aldana, were forced out of the race before the election?**

A **Salvador Paiz, president of FUNSEPA and vice president of FUNDESA in Guatemala City:** "Just three days before the election, 48 percent of Guatemalans were still undecided. On June 16, we ended up with a chessboard of 18 candidates, down from the original 24, but with no real options. Torres' UNE party is a well-oiled machine that runs on a social-democratic ticket with a heavy dose of populist promises. Giammattei's Vamos party represents a newly created conservative platform. The second round will probably lean toward mutual disqualification rather than the merits of any real substantive

proposals. These were atypical elections due to the latest reforms to the Political Party and Electoral Law (LEPP). Both Torres and Giammattei benefit from their investment over the course of several presidential bids. It is evident that name recognition is expensive and hard to achieve in Guatemala, a factor which is further aggravated by short campaign times and reduced expenditure ceilings, measures stipulated in the new law. Most of us thought the reforms to the LEPP would end the participation of unsuitable and/or questionable candidates, or the endless abuses our democracy has had to endure throughout the years. The elections were also plagued by manipulation and arbitrary application of judicial prosecution. Clearly, the LEPP will have to be reformed to incorporate the lessons from this election. An important indicator of legitimacy was voter turnout, which was significantly lower than in the last presidential election. Participation in the second round in August will shed additional light on this issue. We can only hope that the choice Guatemalans make will be what's best for the nation."

EDITOR'S NOTE: More commentary on this topic appears in the June 18 issue of the Latin America Advisor.

Mexico's Migration Chief Steps Down

Mexican immigration chief Tonatiuh Guillén resigned on June 14, and the country's prisons director, Francisco Garduño, was quickly tapped to replace him, the Associated Press reported. The changes came as Mexico's government responds to U.S. pressure to curb the number of

migrants traveling through its territory to enter the United States. In a brief statement released by Mexico's National Immigration Institute, Guillén thanked President Andrés Manuel López Obrador but did not provide a reason for his resignation. "I thank Tonatiuh very much," López Obrador said, "He helped in the beginning of this government." The president had reportedly asked Guillén to step down. The shakeup comes after Mexico scrambled

NEWS BRIEFS

Puerto Rico's Oversight Board Defends Agreement With Territory's Creditors

The head of Puerto Rico's federally created oversight board on June 17 defended its new agreement with creditors, saying it will allow the U.S. commonwealth to exit bankruptcy next year and will allow it to have a sustainable level of debt, Reuters reported. "We've reached a significant milestone for Puerto Rico. The end of bankruptcy's in sight," the board's executive director, Natalie Jaresko, told reporters. A day earlier, the board announced a deal that sets out terms for restructuring more than \$18 billion of the territory's debt. The deal calls for recoveries of some 64 percent of general obligation bonds and 73 percent of Public Buildings Authority debt.

Venezuela Releases Opposition Legislator Ahead of Bachelet's Visit

Venezuela on June 17 released an opposition legislator it had been holding for nearly two months, according to the National Assembly, Agence France-Presse reported. Gilber Caro had been in custody since his arrest on April 26 for unclear reasons. The move came days before U.N. High Commissioner for Human Rights Michelle Bachelet arrives in the country on June 19, where she is scheduled to meet with both President Nicolás Maduro and opposition leader Juan Guaidó.

Head of Brazilian Development Bank Resigns Amid Tensions

The head of Brazilian state development bank BNDES has resigned amid strain with President Jair Bolsonaro, Reuters reported June 16. Joaquim Levy, a former finance minister, submitted his letter of resignation, which said he is grateful for the "loyalty, dedication and determination of BNDES executives."

to reach a deal with the United States to avoid tariffs on all Mexican exports to the neighboring country. U.S. President Donald Trump had threatened to impose a 5 percent blanket tariff, which would gradually increase to 25 percent, if Mexico did not significantly reduce the number of migrants crossing its border into the United States. On June 14, Mexico released the details of a side agreement that it made with the United States that describes additional measures the Trump administration will take if Mexico does not successfully decrease the number of Central Americans migrating through its territory toward the United States. As part of the deal, Mexico will require migrants to first seek asylum there, The Wall Street Journal reported. The "safe third country" designation was also a key part of the deal, according to the document that Mexico released, The Wall Street Journal reported. Mexico had long avoided the "safe third country" designation, saying it lacks the necessary resources.

Ecuador's High Court Approves Same-Sex Marriage

Ecuador's Constitutional Court on June 12 authorized same-sex marriage following a lengthy legal battle to expand LGBT rights in the Andean country, El Comercio reported. Magistrates voted 5-4 in favor of legalizing same-sex marriage, making Ecuador the sixth Latin American country to allow such unions through judicial rulings or, less frequently, legislative action. In the ruling, magistrates ordered Congress to pass legislation guaranteeing equal treatment for all under the country's marriage law. Same-sex unions have been legal in Ecuador for 10 years, but such partnerships enjoy fewer rights than married couples in terms of inheritance and estate laws. It is "a joy for our entire community and Ecuador," plaintiff Efraín Soria, who also heads the Ecuadorean Equality Foundation, an LGBT rights group, told the Associated Press. The ruling followed a decision issued in January of last year by the Inter-American Court on Human Rights (IACHR) affirming that Latin American countries should allow same-

sex couples the right to marry. Since then, at least eight Ecuadorean couples attempted to get legally married through the civil registry. Their requests were denied, paving the way for judicial action based on the IACHR decision, El Comercio reported. Argentina, Brazil, Costa Rica, Colombia and Uruguay have also legalized same-sex marriage.

ECONOMIC NEWS

Venezuela to Issue New Banknotes Amid Hyperinflation

Venezuela's central bank announced June 12 that it is introducing new high-denomination banknotes amid the country's struggle with hyperinflation. New notes of 10,000, 20,000 and 50,000 bolívares will circulate "in order to make the payments system more efficient and facilitate commercial transactions," the bank said in a statement on its website. Hyperinflation has made Venezuela's currency virtually worthless, and Venezuelans generally pay for purchases with cards or electronic transfers despite the unreliability of banking systems in the country, Bloomberg News reported. They are also increasingly relying on U.S. dollars and other hard currencies, but public transportation and regulated goods such as gasoline still require cash payments with bolívares, the news service reported. Last August, Venezuela devalued its currency by 95 percent and introduced new banknotes that eliminated five zeros from the bills that had previously been circulating. Previously, the highest banknote in circulation was the 500 bolívar note. Many vendors have stopped accepting lower denomination notes, while banks limit cash withdrawals to the equivalent of about \$1, which is paid out using dozens of bolívar banknotes. On June 10, Venezuela's opposition-controlled National Assembly said inflation fell below one million percent in May for the first time since last year, Reuters reported. Consumer prices in the 12 months ending in May rose 815,194 percent, as compared to 1.3 million percent in April.

FEATURED Q&A / Continued from page 3

A **Santiago Gallo, director for Latin American financial institutions at Fitch Ratings:** “Argentine banks have been under pressure due to deteriorating loan quality and profitability and a protracted period of economic weakness. Those factors, coupled with political uncertainties surrounding the upcoming elections, pose increasing challenges. Loan growth collapsed in the past year as a result of the challenging environment and extremely high interest rates. Credit growth is expected to remain negative in real terms in 2019, with expectations for improvement in 2020 highly uncertain. Asset-quality deterioration will likely persist and could intensify, depending on the length and severity of the recession. Nonperforming loans rose to 4.1 percent as of March 2019, from 1.9 percent one year before. Holdings of Leliqs, the lucrative monetary policy instruments, have helped support profitability, but this is expected to continue to fall due to higher loss provisions and higher operating expenses due to inflation. Next year, banks will be required to report inflation-adjusted financial statements. While most banks showed relatively decent

nominal profits last year, most suffered a net loss when adjusted for inflation. There has been little sign of deposit flight so far, but some deposit volatility is likely until the elections. However, banks have very high levels of liquidity: liquid assets represented 58.9 percent of total deposits as of March.



Credit growth is expected to remain negative in real terms in 2019...”

— Santiago Gallo

Capitalization levels are adequate, with Tier 1 capital ratio of 14.1 percent for the financial system. The low levels of financial intermediation relative to GDP indicate significant growth potential over time for banks in Argentina if the economy stabilizes and if a market-friendly policy framework is maintained.”

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

FINANCIAL SERVICES ADVISOR

is published biweekly by the Inter-American Dialogue, Copyright © 2019

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter
achacon@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Michael Camilleri, Director, Peter D. Bell Rule of Law Program

Kevin Casas-Zamora, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Peter Hakim, President Emeritus

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, Asia and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Jeffrey Puryear, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Denisse Yanovich, Director of Development and External Relations

Financial Services Advisor is published biweekly, with the exception of major holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetriall@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.

Advisor Video

A Year of Protests and Uncertain Negotiations: Where is Nicaragua headed?

An Inter-American Dialogue discussion with
Mónica López Baltodano, Articulación de Movimientos Sociales
Felix Maradiaga, Instituto de Estudios Estratégicos y Políticas Públicas (IEPP)
Michael Healy, Unión de Productores y Agricultores de Nicaragua (UPANIC)
Violeta Granera, Frente Amplio para la Democracia

View a webcast of the May 30 discussion.

PLAY

