LATIN AMERICA ADVISOR

# FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

November 7-20, 2019



**FEATURED Q&A**

# What Will the Next Argentine Gov't Mean for Banks?

Peronist Alberto Fernández takes office as Argentina's president on Dec. 10. The country's banks are watching for policies that could affect the sector. // File Photo: Fernández Campaign.

**Q** **The rise of Peronist Alberto Fernández, who won Argentina's presidential election on Oct. 27, led to a plunge in investor confidence in the South American country, with stocks, bonds and the peso falling since he won the primary election in August. Bank deposits in Argentina fell to $31.55 billion in late August, as compared to $35.24 billion before the election, as Argentines withdrew money following new capital controls restricting the purchase of dollars. Will Fernández's presidency make things harder for Argentina's financial services sector, and what kinds of policy changes can banks and other financial services providers expect during his term? Will customers continue withdrawing large amounts of cash from Argentine banks? What can the country's banks do to prepare for the period ahead?**

**A** **Alejandro Garcia, managing director and regional group head for Latin American financial institutions at Fitch Ratings:** "It is too early to tell how more negative the environment could become for Argentine banks under the upcoming administration, but clearly downside risk is ample. In addition to the existing challenges of economic recession and very high inflation, banks could suffer in the scenario of a potential sovereign credit event, given the impact that this would have on market confidence and stability in the local payment system. Unlike the 2001 crisis, Argentine banks now have fairly limited direct exposure to sovereign debt, but they have sizable assets in the form of deposits and securities with the central bank, which in turn is a large creditor of the federal government. Therefore, any major negative shift on economic and monetary policy could materially affect local banks. The

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**TOP NEWS**

BANKING

## Venezuela Doubles Amount of Euros it Provides Banks

Venezuela's central bank has doubled the amount of euros that it provides to local banks. The country's hyperinflation, along with U.S. sanctions, have led to a surge in the use of the European currency.

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INSURANCE

## Mutua Madrileña Buys 45 Percent of Seguros del Estado

Spain-based insurance company Mutua Madrileña has bought a stake in Colombia's Seguros del Estado. The transaction is expected to close, pending regulatory approvals, early next year.

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BANKING

## Citi Taps Romo to Head Citibanamex

Citigroup has named Manuel Romo to head its Citibanamex unit in Mexico. Romo was executive director for credit cards at Citibanamex before moving to Banorte. He returned to Citibanamex earlier this year.

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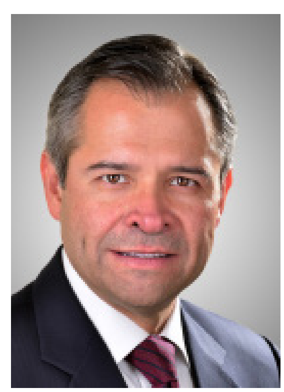

Romo // File Photo: Banorte.

BANKING NEWS

# Venezuela Doubles Amount of Euros it Distributes to Banks

Venezuela's central bank has doubled the amount of euros in cash that it provides to local banks as hyperinflation and U.S. sanctions have resulted in a surge in the use of the European currency, Reuters reported Nov. 15, citing four sources familiar with central bank activities. Euros are increasingly being used since the bank started distributing them to financial institutions in February, following the Trump administration's tough sanctions, which were also imposed that month. Local companies use euros in cash to pay for imports or employee bonuses, easing pressure on the depreciated local bolivar currency. According to the sources, Venezuela's central bank began giving around 1 million euros ($1.10 million) per week to the country's main private banks, as well as nearly 500,000 euros to smaller banks, double the previous amounts. If that rate continues, euros could surpass within months the value of bolivars in circulation, which currently totals about $59 million, according to Venezuelan authorities, Reuters reported. Venezuela's economy has also become increasingly dollarized, a recent study by Caracas-based research firm Ecoanalítica shows, Bloomberg News reported. According to its survey, more than half of retail transactions in the South American country in October were in dollars. In Maracaibo, Venezuela's second-largest city, some 86 percent of all transactions were in dollars, the study said. [Editor's note: See related **Q&A** in the Feb. 28-March 13 issue of the Financial Services Advisor.]

**Hyperinflation and U.S. sanctions have led to a surge in the use of the euro in Venezuela.**

# CIBC to Sell Majority Stake in FirstCaribbean Unit

The Canadian Imperial Bank of Commerce, or CIBC, has reached a deal to sell a majority stake in its Caribbean unit to a Colombian billionaire and his financial firm for $797 million, the Canadian bank said Nov. 8, the Calgary Herald reported. GNB Financial Group, owned by Colombian billionaire Jaime Gilinski, will acquire 66.7 percent of CIBC FirstCaribbean shares, leaving CIBC with a nearly 25 percent stake in the Barbados-based bank. The sale values FirstCaribbean at approximately $1.2 billion, lower than the $2.9 billion when CIBC took over most of the business in 2006, Bloomberg News reported. "The Caribbean is a low-growth market that presents idiosyncratic risks to the banks, (e.g., hurricanes)," Gabriel Dechaine, an analyst at National Bank Financial, said in a note to clients, Bloomberg News reported. He said the transaction was a "positive" one from a risk standpoint. "At the risk of being flippant, the only time we hear about the Caribbean is when there's a problem," he added. The deal is expected to close next year, pending certain approvals, the Calgary Herald reported. The sale is expected to boost CIBC's common equity tier 1 capital ratio by more than 40 points, the bank said in the statement.

# BBVA Argentina Reports 63.8% Rise in Net Income for Q3

BBVA Argentina on Nov. 7 reported $11.1 billion in net income for the third quarter, a 63.8 percent rise as compared to the second quarter and an increase of 264.6 percent as compared to the third quarter of last year. For this year's third quarter, BBVA Argentina posted an average return on assets of 11 percent and an average return on equity of 81.3 percent. The bank said its consolidated financing to the private sector amounted to $211.8 billion, an increase of $27.1 billion, or 14.7 percent,

NEWS BRIEFS

## Citi Taps Romo as Head of Citibanamex Unit

Citigroup has named Manuel Romo as the head of its Citibanamex unit in Mexico, the unit said Nov. 15 in a statement, Reuters reported. Romo, who worked for the bank from 1991 to 2008, returned to Citibanamex last April after working for rival Grupo Financiero Banorte. As CEO of Citibanamex, Romo will replace Ernesto Torres Cantú, who was named last month as the head of Citi's Latin America operations.

## Brazil's Caixa Reports 66.7% Increase in Net Income for Q3

Brazilian state run bank Caixa Econômica Federal on Nov. 12 reported a 66.7 percent rise in net income for the third quarter, as compared to the same period last year. In a statement, the bank said it had 8 billion reais in profit ($1.92 billion) for the quarter. Recurring net income for the three-month period amounted to 4.2 billion reais.

## Mutua Madrileña Buys 45% of Colombia's Seguros del Estado

Spanish insurance company Mutua Madrileña has purchased 45 percent of private Colombian insurance provider Seguros del Estado, Finance Colombia reported Nov. 18. In the deal, the Spanish company also acquired an option to take control of Seguros del Estado in four years. Mutua Madrileña previously purchased Chile-based BCI Seguros. Seguros del Estado is Colombia's second-largest property and casualty insurer, Finance Colombia reported. The boards of both companies have approved the deal, and the transaction is expected to close early in 2020, following regulatory approvals. Seguros del Estado president Jorge Mora will maintain his position, and Mutua Madrileña will have the company's vice presidency and will also appoint two of its five directors.

as compared to the second quarter and an increase of $38.9 billion, or 22.5 percent, as compared to the third quarter of 2018.

# UBS, Banco do Brasil to Form Investment Banking Venture

UBS Group and Banco do Brasil have agreed to form a joint venture to provide investment-banking and institutional brokerage services in South America, Bloomberg News reported Nov. 7. Zurich-based UBS will control the venture with a 50.01 percent stake, while state-owned Banco do Brasil will control the rest. UBS' control of the venture will allow it to avoid some requirements that Brazil places on

**Ermotti** // File Photo: World Economic Forum.

government-owned entities, including restrictions on hiring and bonuses, Bloomberg News reported. The venture is subject to regulatory approval and is planned to operate in Brazil, Argentina, Chile, Paraguay, Peru and Uruguay. Clients of Banco do Brasil will have access to the global trading, research and investment-banking services of UBS, while UBS will have access to corporate customers of Banco do Brasil and the bank's transaction flows. "If I am a corporate client of Banco do Brasil, I will now have access to what UBS has in terms of its local and global capabilities," Tom Naratil, the president for UBS Americas and co-president for global wealth management, told Bloomberg News in an interview. "If you look at our partnership, there is very little overlap of capabilities." UBS and Banco do Brasil will each name three board members for the new entity, while Banco do Brasil will select the chairman. "This transaction captures a unique

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country will face ample U.S. dollar needs in 2020, so foreign exchange rate volatility will likely continue. Banks have limited foreign debt denominated in hard currencies, but stability of U.S. dollar-denominated deposits will remain under pressure, given the country's weak external profile. Many banks have been increasing their holdings of liquid assets and dollars to the extent possible, but it is hard to anticipate if that will be enough in the very challenging conditions that the country will face in the following years. Another event risk for banks is the scenario of further government intervention in the financial sector. In the past, Argentine banks suffered from compulsory lending and interest rate caps and floors in certain products and sectors, among other measures."

> **"Any major negative shift on economic and monetary policy could materially affect local banks."**
> **— Alejandro Garcia**

**A** **Estanislao Malic, specialist in finance and banking at the Center for Economic and Social Studies (CESO) in Buenos Aires:** "Argentina's post-election banking crisis is due to the imbalances of Cambiemos' management. In addition to the dollarization of accounts via excessive external indebtedness, which resulted in a situation of structural instability in 2018, and with Cambiemos strengthened following the midterm elections, there were bad financial policy decisions after the elections. After the primary elections, the government ran from the exchange market, creating a devaluation, and the president imposed foreign-exchange controls. That decision caused a significant bank run. With the new administration, we can expect financial stability (with interest and exchange rates), which will strengthen the banking system. The banking system should be oriented toward the granting of credit, dismantling its current role as a passive taker of deposits at the central bank. A banking sector that is more regulated, and therefore more stable and predictable, can be expected."

**A** **Ivana Recalde, director for Latin America financial institutions ratings at S&P Global Ratings:** "The incoming administration will continue facing challenges to reduce economic imbalance—mainly inflation—and to gradually resume growth and normalize economic variables. Under a scenario of still-high inflation and contraction of economic growth in 2020, we expect credit growth in real terms to be limited or negative, depending on the trajectory in the decline of interest rates. In addition, the possibility of the implementation of directed credit as happened in the past is not discarded, given the need for working capital financing. With regard to credit quality, we see delinquency to continue to be higher than historical levels at about 4.5 percent and 5.5 percent until purchasing power recovers and the resolution of large corporate cases. Profitability would be affected by lower rates of central bank securities and by the implementation of inflation adjustment and IFRS 9. We will continue monitoring the evolution of deposits with withdrawals that have been decelerating."

**A** **Valeria Azconegui, vice president and senior analyst at Moody's Investors Service:** "The outcome of the presidential election has increased market uncertainty because the president-elect is perceived as less market friendly than the Macri administration. A day after the election, Argentina's central bank imposed additional foreign-exchange restrictions by narrowing until Dec. 10 the total purchases of U.S. dollars per

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opportunity to combine two strong partners with complementary strengths," said Sergio P. Ermotti, UBS' chief executive officer, International Investment reported. UBS has been making changes to its investment banking unit in order to increase earnings and also keep down costs amid struggles with lower levels of activity in global equity, debt and mergers and acquisitions. Thirteen years ago, UBS bought Brazilian investment bank BTG Pactual for $3.1 billion but later sold it back to the bank's managing partners in 2009 in order to lower its risk and bolster its balance sheet amid the global financial crisis, Reuters reported.

**POLITICAL NEWS**

## More Protests Erupt in Chile After Piñera Admits Excess Force

Protesters again took to the streets Nov. 18 in Chile following President Sebastián Piñera's acknowledgment the night before that authorities had used excessive force against demonstrators in recent weeks, the Associated Press reported. Thousands of protesters gathered in a Santiago plaza, carrying signs calling for "justice," improved pensions and Piñera's resignation. The gathering was peaceful until some 300 masked protesters started throwing rocks at police officers who responded by using water cannons and tear gas on the crowd. In a televised address Nov. 17, Piñera said authorities had used excessive force against demonstrators with legitimate demands, and he added that there would be "no impunity" for anyone who commits violent acts. The protests were sparked last month by an increase in

> **"We have all changed—because the social pact cracked and made its wounds visible."**
>
> **— Sebastián Piñera**

# CAPITOL HILL WATCH

A Look at U.S. Congressional Activity on Latin America

## Democrats, Republicans Voice Concerns Over Bolivia's Political Crisis

**Rubio // File Photo: U.S. Senate.**

U.S. lawmakers from both the Democratic and the Republican parties have voiced concern about Bolivia's political crisis following the resignation of longtime President Evo Morales on Nov. 10. The same day, House Rep. Eliot L. Engel (D-N.Y.), who chairs the House Committee on Foreign Affairs issued a statement calling for a "peaceful and democratic transition led by civilian institutions," while also commending the Organization of American States for its "thorough audit of the country's flawed presidential election and its call for new elections." The OAS, which the Bolivian government had invited to observe last month's election, said its audit had shown "clear manipulation" of the voting system, The Wall Street Journal reported.

Meanwhile, Sens. Marco Rubio (R-Fla.) and Rick Scott (R-Fla.) said Morales' resignation was not a coup, as the former president has claimed, the Voice of America reported. Rubio said the United States was following Bolivia closely, expressing his "support" for re-establishing democracy in the South American country as soon as possible. Both Rubio and Scott said the trend in Bolivia was a result of social and international pressure, and that it should extend to other countries in Latin America, including Cuba and Venezuela, according to the report.

## Torres Slams Trump's Choice for DHS Secretary Over Migration Policy

U.S. Representative Norma Torres (D-Calif.) on Nov. 12 blasted President Donald Trump's pick for Homeland Security secretary, Chad Wolf. "[Trump's] choice for [DHS Secretary] is the architect of a policy that needlessly & callously orphaned children," Torres wrote on Twitter, in reference to the family separation policy that the Trump administration implemented last year, which separated migrant children from their parents at the U.S.-Mexico border. "His orchestration of #FamilySeparation is disqualifying for this role, and any position serving in the public's trust," she added.

Wolf was sworn in Nov. 13 as the new acting Homeland Security secretary, becoming the fifth person to hold that position since Trump took office less than three years ago. Wolf replaces Kevin McAleenan, who became acting Homeland Security secretary in April and submitted his resignation Oct. 11. At Homeland Security, Wolf will be joined by Ken Cuccinelli, the acting U.S. Citizenship and Immigration Services director, who will become the department's acting deputy secretary, unnamed administration officials told The Washington Post.

NEWS BRIEFS

## Colombia to Allow Riot-Control Measures Ahead of Planned Protests

Colombia's government on Nov. 18 said it would authorize local authorities to adopt exceptional riot-control measures to contain protests that are planned nationwide for Nov. 21, Reuters reported. Student groups and unions have called for the demonstrations, saying President Iván Duque's government is seeking to impose labor and pension reforms, which Duque has denied. Interior Minister Nancy Gutiérrez said the government has no plans to increase the retirement age or lower the minimum wage.

## Mexico, Uruguay, Caricom Members Reject Use of Force in Venezuela

Mexico, Uruguay and representatives of the Caribbean Community on Nov. 18 issued a statement rejecting the use of force and human rights violations in Venezuela and calling for a peaceful and democratic solution, Reuters reported. The statement followed nationwide protests by the Venezuelan opposition against President Nicolás Maduro's government and a call for more demonstrations in a bid to force Maduro out of power.

## U.S. Imposes Travel Sanctions on Cuba's Interior Minister

The United States on Nov. 16 imposed travel sanctions on Cuban Interior Minister Julio César Gandarilla, Washington's second travel ban of a high-level Cuban official as it moves to increase pressure on the Cuban government and its ongoing support of Venezuelan President Nicolás Maduro, Reuters reported. U.S. Secretary of State Mike Pompeo said the sanction against Gandarilla is in response to the minister's involvement in "gross violations of human rights in Venezuela."

Santiago subway fares, but they have since grown in scale as Chileans have demonstrated against wider issues of inequality in the country. "We have all changed—because the social pact cracked and made its wounds visible," Piñera said in the address. So far, 26 people have been killed, and thousands have been injured, the AP reported. Police have reportedly shot pellets directly at demonstrators' eyes, leading to at least 230 cases in which people have lost their sight in at least one eye. Among the protests on Nov. 18, a group of demonstrators donning eye patches gathered outside the country's Supreme Court. [Editor's note: See the Advisor's **interview** on protests in the region with Monica de Bolle of the Peterson Institute for International Economics and the Johns Hopkins University's School of Advanced International Studies.]

## Ex-Venezuelan Spy Chief Still Missing: Spanish Official

A Spanish national court official said Nov. 18 that Maj. Gen. Hugo Carvajal, a former Venezuelan spy chief accused of attempting to traffic drugs into the United States, remains missing since an order for his arrest pending extradition was issued this month, the Associated Press reported. Authorities issued an order for Carvajal's arrest in Madrid on Nov. 8, the official said. On Monday, Spain's High Court released a new ruling, also dated Nov. 8, that reversed an earlier decision that had rejected the United States' extradition request. The court said there was "sufficient evidence to justify the extradition," Reuters reported. However, Carvajal has not yet been found. He has previously denied accusations that he collaborated with the Revolutionary Armed Forces of Colombia, or FARC, rebel group to "flood" the United States with cocaine. Prosecutors in New York say Carvajal should face trial for "narcoterrorism" as part of a group of Venezuelan officials charged with trafficking drugs. Carvajal, a former military intelligence chief to the United States, was close to former Venezuelan President Hugo Chávez, Reuters reported. Carvajal's lawyer told Reuters on Monday that she had "no idea" where he was, adding that she planned to use all legal means to fight the extradition.

ECONOMIC NEWS

## Ecuador Lawmakers Reject Moreno's Economic Reforms

Ecuador's National Assembly on Nov. 17 rejected a package of tax and monetary reforms that the government of President Lenín Moreno had proposed, the latest setback in his efforts to cut down the country's onerous fiscal deficit, El Comercio reported. Within hours, Moreno announced in a televised address that he would send a new proposal to Congress. "In the next hours I will send to the National Assembly a new project of economic urgency, focused on tax issues," said Moreno, El Comercio reported.

**Moreno** // File Photo: Ecuadorean Government.

"I'm sorry that hundreds of thousands of entrepreneurs have to continue paying the advances of an income tax, which as a government we tried to eliminate," he added. The initial reform package was part of Moreno's plan to meet commitments agreed to with the International Monetary Fund in February in exchange for a nearly $4.2 billion loan, Reuters reported. The bill sought to improve tax collection by increasing some taxes and a special contribution for companies with revenues that exceeded $1 million annually, as well as give autonomy to the country's central bank. Indigenous movements and social organizations opposed some of the measures, while the business sector questioned others, the wire service reported.

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individual to $200 per month from the previous limit of up to $10,000—a move aimed at preserving the central bank's international reserves. Additionally, the central bank will no longer allow banks to invest part of their sight deposits minimum liquidity requirements on central bank notes, which will negatively affect banks' profitability and challenge their funding costs. The central bank has also allowed banks to temporarily increase their lending to the public sector in order to finance wage payments, a measure that we expect will have a larger effect on government-owned banks, but will likely leave private banks more risk averse as they continue to limit their exposure to the public sector. Argentine banks will face credit-negative pressure on funding after the market turmoil prompted by the outcome of the presidential election. Uncertainty about the future direction of economic policies has weakened consumer and corporate confidence. As the peso rapidly depreciates, we expect that depositors will continue to withdraw dollars from demand and savings accounts, which form about half of the system's total deposits. In response to an abnormally active foreign-exchange market ahead of the elections, we expect that the central bank will likely try to impose further withdrawal restrictions or adopt other measures to protect international reserves. Increasing deposit withdrawals are credit negative for banks because they depress banks' overall liquidity and raise balance sheet volatility. We expect that total deposits will decline significantly over the coming weeks."

> **"We expect that total deposits will decline significantly over the coming weeks."**
> — Valeria Azconegui

*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

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**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

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