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FEATURED Q&A

Can the Northern Triangle Cope With Fewer Remittances?

Many migrants in developed countries who send money back home have lost their jobs. The Guatemala City office of money transfer service Xoom is pictured above. // File Photo: Xoom.

Q **In an effort to fight the coronavirus pandemic, most restaurants, stores and other businesses around the world have closed, with a large amount of commerce in several countries grinding to a halt. Millions of workers, including immigrants from Latin American countries who send money back to their home countries, have been laid off and furloughed. How hard will the current economic shock hit remittances to Guatemala, El Salvador and Honduras, the so-called Northern Triangle countries of Central America, which rely heavily on money transfers from abroad? What can these countries do to brace themselves for a drop in remittances? How soon might money transfers pick up again after the pandemic has passed?**

A **Manuel Orozco, member of the Financial Services Advisor board and director of the Migration, Remittances and Development Program at the Inter-American Dialogue:** "The economic impact on remittance transfers to the region will be around -17 percent, affecting 700,000 remittance recipient households (out of four million that receive money). It will dramatically depress economic growth, with a loss of $4 billion. The region's economies will experience a GDP contraction of about 5 percent in 2020, but half of that decline will result from the decrease in remittance transfers. In order to mitigate this economic tsunami, countries need to seriously consider tying together short- and long-term economic recovery, stabilization and transformation strategies. Economic recovery depends on three critical issues: control of the pandemic, resumption of consumption and economic stimulus plans. The first is urgently the most important, and the

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BANKING

Bradesco to Raise up to $2.26 Bn in Brazilian Central Bank Program

Brazil's Banco Bradesco is planning to raise between 8 billion and 12 billion reais ($2.26 billion) through a central bank program related to the Covid-19 pandemic.

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Lloyd's Announces New Country Managers for Mexico, Colombia

Lloyd's has named Yelhis Hernández to lead its office in Mexico City and Sebastián Gómez to head its operation in Bogotá. Lloyd's has been seeking to strengthen its presence in Latin America.

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INSURANCE

Sagicor Says it Can Weather Three-Month Shutdown

Jamaica's Sagicor has conducted stress tests to simulate varying durations of shutdown, said the insurance group's CEO, Christopher Zacca.

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Zacca // File Photo: Sagicor.

BANKING NEWS

Bradesco to Raise Up to $2.26 Bn in Central Bank Program

A top executive at Brazil's Banco Bradesco said April 15 that the bank is planning to raise between 8 billion reais and 12 billion reais ($2.26 billion) through a central bank program related to the coronavirus pandemic, Reuters reported. Cassiano Scarpelli, a vice president of Brazil's second-largest private-sector bank, said Bradesco does not need the funding, but it will raise it with the backing of its credit portfolio in order to test the central bank plan for use in the future, the wire service reported. "Banks' liquidity is doing well so far, but it is tough to know how it will evolve from now on," said Scarpelli. The liquidity plan, which the central bank's Monetary Council created earlier in April, may allow banks to issue as much as 650 billion reais in loans in order to mitigate economic downturn caused by the pandemic. Through the subordinated debt program, lenders will be able to raise an amount that equals their shareholders' equity. Bradesco's shareholder equity amounted to 134 billion reais as of December, but Scarpelli said the bank is not likely to borrow that much. The facility's annual rate will be equivalent to the benchmark interest rate in Brazil plus 0.6 percent annually, the central bank said.

Santander Brasil May Be Hard Hit Amid Pandemic: Analysts

The Brazilian unit of Banco Santander is likely to be among the banks in the South American country that are hardest hit from the Covid-19 pandemic, Reuters reported, citing analysts. Santander Brasil has grown its loan portfolio aggressively over the past five years, sometimes lending to borrowers that other banks rejected. However, that effort to spur growth in its retail division may now lead Santander Brasil to see higher delinquency rates than its peers, according to analysts. As of the end of December, consumer loans made up 61 percent of the bank's loan book, a 17 percentage point increase from 2015, according to calculations by Goldman Sachs. "Its loan growth and higher exposure to consumers put it in a relatively riskier position," Goldman told clients in a note. The pandemic is likely to stunt Santander Brasil's growth as its dependence on credit is among the highest in Brazil's banking sector, according to analysts at BTG Pactual. At other banks, fees and businesses such as insurance make up larger portions of their income. The current situation may also lead Santander Brasil to increase its lending to large corporations, which may pay higher yields amid their search for credit, BTG Pactual analysts said. Santander Brasil's performance this year may depend on the extent to which shutdowns continue in Brazil amid social-distancing measures, said analysts at JPMorgan Chase. "If shutdowns persist for long and unemployment increases, Santander Brasil may struggle the most," they said. In addition, the small-companies loan book at Santander Brasil has a relatively high risk of delinquencies, according to analysts at Credit Suisse. Delinquencies among small companies could lower Santander Brasil's profit by between 6 percent and 13 percent over the next year and a half, Credit Suisse said. However, in talks with analysts, Santander Brasil executives say they have a solid strategy. "Management is not foreseeing a material deterioration in the bank's results in the same magnitude that we are," said analysts at UBS. Santander Brasil declined to comment to Reuters on whether it is facing a greater degree of portfolio risk than its peers. Spain-based Santander has received the largest portion of its profit from its Brazilian operation, which accounted for 28 percent of Santander's net income in 2019. Santander Brasil's capital base also is solid, with 12.9 percent in core 1 capital. Earlier this month, Santander Brasil said it was keeping its three-year guidance intact. Chief Executive Officer Sergio Rial told Brazilian newspaper Valor Econômico in an interview published April 6 that the bank was not changing its long-term targets. Last October, Rial said Santander Brasil was expecting 10 percent annual growth

NEWS BRIEFS

Fitch Says Ecuador Sovereign Downgrade Won't Affect Banks

Fitch Ratings' recent downgrade of Ecuador's long-term issuer default rating to C will not affect some of the country's largest banks, the ratings agency said April 17. The downgrade has no immediate impact on Banco Pichincha, Banco Guayaquil and Producción S.A. y Subsidiarias, or Produbanco. The three banks have long-term issuer default ratings of CC from Fitch. Ecuadorean banks could see more downside amid a worsening operating environment due to the coronavirus pandemic, Fitch said.

Itaú Unibanco to Make $195 Million Donation to Fight Covid-19 Pandemic

Itaú Unibanco, Brazil's largest lender, said on April 13 that it would make a 1 billion real ($195.05 million) donation to combat the coronavirus pandemic, according to a securities filing, Reuters reported. A group of health experts will manage the funds, the bank said, adding that the money would go toward testing, providing medical equipment and educating the population on hygienic conditions.

Lloyd's Announces New Country Managers for Mexico, Colombia

Lloyd's of London has announced new country managers for Mexico and Colombia, as it seeks to bolster its market in Latin America, Reinsurance News reported April 15. Yelhis Hernández will be based in Mexico City, and Sebastián Gómez will work in Bogotá with a focus on Spanish-speaking South America. In addition to Lloyd's offices in Mexico, Brazil and Colombia, the insurance market recently established a regional hub in Miami, led by Lloyd's regional head of Latin America and the Caribbean, Daniel Revilla.

in its loan book through 2022 and that it would keep its current 21 percent profitability ratio. Last month, Santander said it would not fire or furlough workers in Spain amid the pandemic, Agence France-Presse reported. Santander did not say what its plans are for employees in other countries.

INSURANCE NEWS

Sagicor Says it Can Weather Three-Month Shutdown

Sagicor Group, Jamaica's largest insurance conglomerate, has said it can weather a three-month shutdown during the coronavirus pandemic without too large of a financial impact, the Jamaica Gleaner reported April 17. Sagicor has conducted stress tests to simulate various periods of shutdown, ranging from three months to one year, the insurance group's president and chief executive officer, Christopher Zacca, told investors during a briefing. However, Zacca said that the longer a shutdown lasts, the more the insurer's profit will erode. "Our short-term and long-term stress tests show that our capital adequacy remains intact and that our liquidity position is manageable. So we feel very confident that we are going to ride out the worst-case scenario with Covid-19, the economic downturn and its effect on all the businesses in Jamaica," Zacca said on April 15. "We have applied some very strong scenarios in terms of negatives to ensure that we are prepared for every eventuality." One part of the stress tests involves lowering the valuation of asset classes and gauging the effects on Sagicor's assets. The insurance group would have to see a decline of 25 percent in the total amount of its assets, without a change in its liabilities, to wipe out its capital, said Zacca. Sagicor's level of capital

"We have applied some very strong scenarios in terms of negatives to ensure that we are prepared for every eventuality."
— Christopher Zacca

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region is lacking the fundamentals of control (prevention, tests, care and treatment). If not dealt with in May, the pandemic will linger past September. The stabilization approach depends on how consumption is restored, and so far, households will be hard pressed with limited savings of less than two months. They need to stretch those funds given the uncertainty that will follow with unemployment and lower-yielding informal work. But stabilization also depends on how much government policy intervenes in the form of fiscal incentives, credit and short-term subsidies, among others. The long-term transformation strategy is a must and an opportunity to shift the region from farming and low-skill inputs to nonfarming and higher-skilled activities, starting by decreasing the size of the informal economies and leveraging remittances into the financial sector. Money transfers may only resume a stable flow nine to 12 months from May, and while the recovery may not be as lengthy as in 2009, the lasting effects may be more damaging. Therefore, the recovery has to be tied to the long-term transformation approach, with governments working outside the traditional economic sectors."

A **Julia Yansura, Latin America research analyst at Global Financial Integrity:** "The pandemic will hit remittances hard, both in terms of loss of employment and in interruptions to the transfer process. The consequences on employment are likely to be profound, but the situation is fluid, and the exact dimensions are not yet known. In terms of the effects on sending mechanisms, we do have a clear sense of what the challenges are and how to mitigate them. Take the example of the Salvadoran government's emergency relief money: thousands of people recently rushed to banks and aid centers, lining up around the block to receive $300 in cash. Authorities expressed concern regarding crowding and disease transmission, yet the situation could have been anticipated: only 30 percent of Salvadorans have a bank account, and in-person, cash payments are the default. Family remittances face similar challenges. Most people send and receive remittances in person and using cash, at places such as grocery stores, pharmacies and banks. Though many such locations remain open as 'essential businesses,' users may need to limit leaving their homes. Online and mobile remittance platforms present an interesting alternative, and I believe that the experience of the coronavirus will greatly accelerate their adoption, on both the sending and receiving sides. Fintech offers a partial solution, but Central American countries need to ensure that their policy regulations allow it to work. For example, mobile money is available in Guatemala, but according to current interpretations of AML/CFT regulations, when someone receives an international remittance to their mobile wallet, they must go in person to show their ID before they are able to use the money. Policy action is needed to ensure that these promising new technologies are fully accessible, striking an appropriate balance between financial inclusion and AML/CFT concerns."

"The pandemic will hit remittances hard, both in terms of loss of employment and in interruptions to the transfer process."
— Julia Yansura

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will allow the group to withstand the shock of the pandemic, said Zacca. The group has 460 billion Jamaican dollars ($3.3 billion) in total assets and 121 billion Jamaican dollars in equity, the Jamaica Gleaner reported.

POLITICAL NEWS

U.S., Mexico, Canada Extending Border Restrictions

The United States, Mexico and Canada are extending their restrictions on nonessential travel across their borders amid the coronavirus pandemic, the Trump administration announced April 20. "In close collaboration, the U.S., Mexico and Canada have each agreed to extend restrictions on non-essential travel across their shared borders for 30 additional days," Acting U.S. Homeland Security Secretary Chad Wolf said in a statement. "As President Trump stated last week, border control, travel restrictions and other limitations remain critical to slowing the spread and allowing the phased opening of the country." Last month, the Trump administration said it was closing the United States' borders with Canada and Mexico to most travel that is unrelated to trade and commerce, The Hill reported. At the time, U.S. officials said the restrictions would be reviewed after 30 days. Canadian and Mexican officials have indicated that the decision to extend the border restrictions was mutual among the three countries.

New Figures Show Soaring Deaths in Ecuadorean Province

New government data in Ecuador shows a soaring number of deaths in Guayas province, the home to the city of Guayaquil, which has been among the areas hardest hit by the novel coronavirus, The Guardian reported April 17. Since the beginning of March, 10,939 people have died in Guayas province, according to the new data. The figures amount to nearly a quadrupling of the province's typical death rate, the newspaper reported. The data suggests that Covid-19 may have killed far more people than government figures indicate. As of April 21, the government has recorded 10,128 confirmed cases of the highly contagious disease and 507 deaths related to it. Ecuadorean Interior Minister María Paula Romo said the actual

ADVISOR Q&A

Will the Pandemic Change China's Role in the Region?

Q As the coronavirus outbreak in China seems to ease just as it is escalating in Latin America and the Caribbean, countries in the region are looking to the Asian nation for medical aid and supplies. As the pandemic worsens, how much will Latin American and Caribbean governments turn to China for help, and is that the best alternative? To what extent will China be willing and able to lend and invest in the region as it grapples with its own economic slowdown? More broadly, in what ways will the Covid-19 pandemic change China's engagement with Latin America and the Caribbean?

A Margaret Myers, director of the Asia & Latin America program at the Inter-American Dialogue: "As the region grapples with the coronavirus pandemic, governments are bracing for unprecedented economic contractions and looking anxiously to China for signs of relief, beyond Beijing's now extensive provision of medical supplies and technologies. But as China walks a fine line between much-needed stimulus and already staggering debt, its road to recovery is still uncertain. So, for that matter, is China's role in Latin America's own revival. Despite a resumption of activity in certain critical sectors, China will face considerable economic headwinds for many months to come. With that in mind, many Chinese companies will not be in a position to considerably increase overseas investment in the near term. Even the many infrastructure and other projects promised to Latin America and other regions in recent months will, in a best-case scenario, face considerable delays, despite some indications that China Development Bank will continue to support Belt and Road-related outreach. That said, there is the possibility of eventual, enhanced investment among those Chinese companies and industries that stand to benefit from China's current stimulus measures. These include artificial intelligence, automation, 5G telecommunications, infrastructure and medical technologies, among others. AI and telecoms investment could have both economic and political effects on the region. Beijing might also engage in strategic, countercyclical FDI in Latin America, seizing opportunities for market share as Western finance retreats. On the trade front, the region is still of great importance to China as a supplier of raw materials and a market for Chinese goods. China has already resumed commodities importation to a considerable degree but is now looking to boost its exports, including by growing e-commerce and holding online trade fairs. In all likelihood, trade complementarities will buttress the relationship even as the Latin America struggles with Covid-19 fallout. The bigger question is whether financial assistance and investment will be forthcoming, and in what form."

EDITOR'S NOTE: More commentary on this topic appears in the April 16 issue of the Latin America Advisor.

NEWS BRIEFS

Bolsonaro Defends Participation in Protest Against Lockdowns

Brazilian President Jair Bolsonaro on April 20 defended his participation the day before in a protest against governors' lockdown measures that are aimed at slowing the spread of Covid-19, CNN reported. The protest was held outside the army's headquarters. Bolsonaro said he was not calling for military action.

Duque Extends Colombia's Nationwide Quarantine Until May 11

President Iván Duque announced April 20 that he was extending Colombia's nationwide quarantine until May 11, Reuters reported. However, Duque said construction and manufacturing operations will be allowed to resume. Colombia has nearly 4,000 confirmed cases of coronavirus and about 200 confirmed deaths. It is the second time the government has extended the quarantine, saying it may allow other sectors to return to work while it monitors the situation. The government expects the economy to shrink by as much as 2 percent this year.

IMF Approves $327 Million in Emergency Financing for Bolivia Amid Pandemic

The International Monetary Fund's executive board has approved $327 million in emergency support to Bolivia for it to address the coronavirus pandemic, the Fund said on April 17. Bolivia had requested the emergency financial assistance, which the IMF said would go toward medical needs and relief measures to preserve social protection spending, under a Rapid Financing Instrument. The lender said additional support from other partners will be crucial to help Bolivia address its fiscal and balance of payment needs.

number of deaths is likely much higher. "The number of deaths is totally out of the ordinary," she told The Guardian. Hospitals and mortuaries have been overwhelmed in Guayaquil, with residents falling dead in the streets and grieving families being forces to live alongside loved ones' corpses or abandon them outside, the newspaper reported. Approximately 70 percent of Ecuador's cases of Covid-19 have been in Guayas province. At the same time, Ecuadoreans who suffer from other illnesses, such as cancer and kidney failure, are struggling to get treatment as medical supplies have fallen into short supply and hospitals have suspended some services, Reuters reported, citing local officials and patients.

ECONOMIC NEWS

Bondholder Groups Reject Argentina's Restructuring Offer

Three of the largest groups of bondholders of Argentina's foreign debt on April 20 rejected the government's proposal to restructure tens of billions of dollars of debt, increasing the probability of the South American country entering default as early as next month, The Wall Street Journal reported. Statements from the three groups, which include mutual funds, insurance companies and asset managers such as BlackRock, Ashmore, Monarch and Fidelity, were nearly simultaneous, La Nación reported. One of the ad hoc groups said the offer seeks "to place a disproportionate share of Argentina's longer-term adjustment efforts on the shoulders of international bondholders," The Wall Street Journal reported. This group controls more than one-quarter of the bonds Argentina has issued since 2016 and 15 percent of bonds it has distributed to investors in a previous restructuring, according to the statement. On April 17, the Argentine government presented the offer, which involved lower interest rates, later due dates and more than $40 billion in debt relief, mainly through reduced interest payments. Another group, the Argentina Creditor Committee, said it had not received "substantiated forward-looking economic and financial information" from the government, nor seen feasible economic policies. However, the groups expressed willingness to continue discussions. Argentina has approximately $500 million in debt payments due on April 22. If it misses the payments, the country could enter into default after a 30-day grace period, The Wall Street Journal reported.

Moody's Investors Service Downgrades Mexico, Pemex

Moody's Investors Service on April 17 downgraded Mexico's sovereign rating to Baa1 from A3, with a negative outlook, citing concerns about the country's economy amid the Covid-19 pandemic, El Universal reported. The credit ratings agency also lowered state oil firm Pemex's rating to Ba2 from Baa3, also with a negative outlook, given the "continued deterioration" of the company's finances and operations, Moody's said, effectively pushing Pemex to junk status. The agency is the third to lower Mexico's credit rating in recent weeks, after Fitch downgraded the country's rating by one notch to BBB- earlier in April and S&P Global Ratings lowered Mexico's rating to BBB in late March. It was also the second ratings firm to strip Pemex of its investment grade rating, a move that is expected to bring forced selling of the company's bonds by holders required to have investment-grade assets, The Wall Street Journal reported. Pemex's debt stood at $105 billion at the end of the last year, the highest debt load of any state oil company. "Moody's expects medium-term growth to remain depressed, even when removing this year's severe economic contraction due to the coronavirus shock, with the economy growing at best 2 percent on average in 2021-23," Moody's said. Mexico's finance ministry said the rating cuts were a result of a series of sovereign downgrades over the past month given the economic fallout of the coronavirus pandemic, noting that Mexico remains an investment-grade country, The Wall Street Journal reported.

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A **Karla Henriquez, senior associate at the Financial Health Network:** "Remittances in El Salvador amounted to $560 million in 2019 with the vast majority (94.4 percent) coming from the United States. Latinxs in the United States have been among the hardest-hit demographics by job losses and cuts due to the Covid-19 crisis. According to the Pew Research Center, 49 percent of Latinxs say that they or someone in their household have had to take a pay cut or have been laid off in recent months. Undocumented Central American families are finding themselves in similar territory. While some temporary protected status (TPS) holders do qualify for the stimulus, the bill does not allow mixed-status households (which have a family member filing taxes using an Individual Taxpayer Identification Number) to qualify. This leaves many joint-filing families with no reprieve. For families back home that depend on remittances to get by, this is a challenging time. The Central American governments will have to step in and provide safety nets for their citizens. In El Salvador, for example, the government, although with some challenges, is providing $300 for low-income households. While this is not enough—and not available to all families—it could provide some needed support. As for the duration of this challenge, the 2008 financial crisis offers a roadmap to predict what remittances will look like in the coming months. In El Salvador, there was a decrease in the total amount of remittances from 2008 to 2009, with remittances levels not surpassing 2008 levels until 2012. As the U.S. unemployment rate continues to outpace that of 2008, it is likely that remittances to El Salvador will be hit harder and take longer for workers to recover than in 2008."

> **"For families back home that depend on remittances to get by, this is a challenging time."**
> — Karla Henriquez

A **Zhen Pan, associate attorney at Diaz, Reus & Targ, LLP:** "The decreased need for services in various industries has caused millions of layoffs, including among migrant workers who engage in service jobs at restaurants and small businesses. The ripple effect of this would be a dramatic fall in remittances to Central America, a region heavily dependent on remittances from migrants working in the United States. In countries such as El Salvador and Honduras, remittances make up nearly a fifth of the country's GDP. While the percentage is relatively lower in Guatemala (13 percent), roughly 98 percent of its remittances come from the United States. Given these countries' heavy reliance on remittances, a drastic decrease would have an immediate, significant negative effect on their economies and family welfare, as remittances have been an effective means to alleviate poverty, enhance health care and reduce child labor. At this moment, it is too early to estimate how soon migrant workers would regain their capacity to send money to relatives in their home countries. The lesson from the 2009 recession, which had an 8 percent increase in the unemployment rate within 18 months, indicates that the frequency of remittances will likely remain low even in the aftermath of the coronavirus pandemic."

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

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