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FEATURED Q&A

What's Behind the Sharp Rise in Bank Lending in Brazil?



Policies of Brazil's central bank, pictured above, have helped to fuel lending by the country's commercial banks, commentators say below. // File Photo: Brazilian central bank.

Q Brazil's level of bank lending grew more than 15 percent for the 12-month period through November, banking industry association Febraban said in December. The figure marks the sharpest increase in bank lending since September 2013, the organization said. What factors are driving bank lending in Brazil? Will the trend continue this year? How are President Jair Bolsonaro's policies affecting Brazil's banking sector?

A Candido Botelho Bracher, president and chief executive officer of Itaú Unibanco Holding: "Bank lending in Brazil was boosted in 2020 by low interest rates and pandemic-related liquidity needs. Total outstanding loans in November were around 16 percent higher (in nominal terms) from one year before. This increase was mainly driven by lending to corporates, which grew 22 percent after four years of negative or sluggish performance, while credit to households grew 11 percent, a similar pace to that of 2018-19. According to the Brazilian central bank's forecasts, total credit in 2021 is set to grow about 8 percent, a smaller, but still robust, result. However, the composition tends to change, with loans to corporations increasing 4 percent as companies digest the excess leverage of 2020 (partially caused by foreign-exchange depreciation) and capital markets resume, while credit to households expands around 11 percent again, led by lines that are more sensitive to low interest rates, such as vehicle loans and mortgages. As a matter of fact, in an environment of sustainably low rates, mortgages have a long way to go, as this kind of lending is still relatively small in Brazil (about 10 percent of GDP in 2019, as compared to 75 percent in

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TOP NEWS

REMITTANCES

Western Union Hopes to Resume Cuba Transfers

Western Union is hoping to restart money transfer services to Cuba now that Joe Biden has taken office as U.S. president, said the bank's chief financial officer.

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BANKING

BBVA Completes Sale of Paraguay Subsidiary

Spain's Banco Bilbao Vizcaya Argentaria announced that it had closed the sale of its Paraguay unit, which it is selling for approximately \$250 million. The buyer is Banco GNB Paraguay, a unit of Grupo Gilinski.

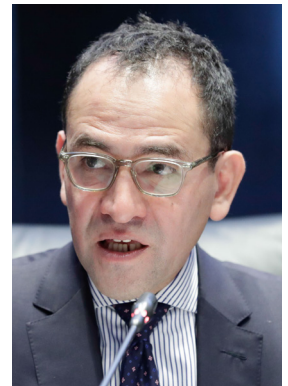
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BANKING

Mexico Preparing Alternative to Central Bank Bill

Mexico's government is preparing a banking product that would be an alternative to controversial legislation that would require the central bank to take excess foreign cash from citizens, said Finance Minister Arturo Herrera.

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Herrera // File Photo: Mexican Congress.

BANKING NEWS

Mexican Gov't Preparing Alternative to Central Bank Bill

Mexico's government is working on a banking product intended to help people change dollars and other foreign currencies into pesos as an alternative to controversial legislation that would require the central bank to take the excess cash, The Wall Street Journal reported Jan. 22. In December, Mexico's Senate passed legislation that would compel the central bank to accept dollars and other currencies that commercial banks are unable to return to the financial system. However, the proposal sparked criticism that it would violate the autonomy of the central bank. Amid the criticism, the lower house of Congress postponed a vote on the legislation. Under efforts to fight money laundering, Mexico limits the amount of foreign cash that businesses and individuals can deposit. Supporters of the bill that the Senate passed say the bill would help people who receive remittances or cash from tourists in Mexico and are unable to convert them to pesos, or must do so at poor rates. However, critics of the legislation, including the central bank, have said the measure could put the Bank of Mexico's \$195 billion in foreign reserves at risk because it could lead it to unwittingly buy dollars from sources that are illicit. The measure could make Mexico a magnet for illicit money "from all the oligarchs of the world," Sergio Luna, a former chief economist at Citibanamex, told Bloomberg News last month. A new banking product could help migrants to exchange cash while also protecting the autonomy of the central bank, Finance Minister Arturo Herrera told The Wall Street Journal. "The bill is in the lower house but it is still pending, and we think that it isn't necessary if we can come up with the right solution," he said. The alternative would allow migrants in the United States to convert dollars to pesos at Banco del Bienestar, a state development bank that serves lower-income sectors of the population, Herrera told The Wall Street Journal.

Banco do Brasil: No Word From Gov't on Change in CEO

Brazilian state-controlled Banco do Brasil said Jan. 14 that it had received no word from the country's government on the potential dismissal of chief executive officer André Brandão, Reuters reported. The previous day, local media in Brazil reported that President Jair Bolsonaro had decided to dismiss Brandão, who was announced as the bank's CEO last August. The report that Brandão was being fired came



Brandão // File Photo: Brazilian Government.

after he launched an employee buyout program and a plan to close 361 branches of the bank. The plan, which includes voluntary severance packages, is expected to lower the number of employees at Banco do Brasil by 5,000, The Rio Times reported. Also on Jan. 14, Bolsonaro supporters asked the president about the report, but Bolsonaro did not respond, Reuters reported. The press office of Brazil's Economy Ministry also declined to comment on the report. Firing Brandão would send a negative message to investors about the Bolsonaro government's agenda for economic reforms and privatizations, as well as about political interference in government-run companies, the wire service reported. "If confirmed, this event could undermine markets' perception about the evolution/amplitude of the privatization agenda in Bolsonaro's government, reinforcing our skeptical view on this issue," Citi analysts wrote on Jan. 14. Shares of Banco do Brasil fell on the report of Brandão's potential dismissal, but they rallied after local newspaper Valor Econômico reported that central bank chief Roberto Campos Neto wanted Brandão to

NEWS BRIEFS

Remittances to El Salvador Rebound to Record High of \$5.92 Billion

Remittances to El Salvador have bounced back following a 40-percent plunge at the start of the Covid-19 pandemic, the country's central bank said Jan. 18, the Associated Press reported. The level of money transfers that Salvadorans abroad sent home recovered by the end of the year, registering a record high of \$5.92 billion. Remittances in 2020 were up 4.8 percent as compared to the previous year, the central bank said. Remittances account for 23 percent of El Salvador's gross domestic product and benefit around 360,000 households.

Mexico's Antitrust Body Reportedly Planning to Fine Global Banks

Mexico's antitrust commission is planning to slap several global banks and individual traders with fines after finding that they conspired to manipulate peso bond prices early last decade, Bloomberg News reported Jan. 22, citing unnamed people familiar with the matter. The commission reportedly made the decision on Jan. 14 and plans to announce it soon. It was not clear which companies would be fined. A representative from the commission, known as Cofece, declined to comment to Bloomberg News.

Spain's BBVA Completes Sale of Paraguay Unit

Spain-based Banco Bilbao Vizcaya Argentaria, or BBVA, announced Jan. 22 that it had closed the sale of its Paraguay unit. The sale price for the unit was approximately \$250 million, and it was sold to Banco GNB Paraguay, a unit of Grupo Gilinski, BBVA said. The deal is expected to generate a capital loss of approximately 9 million euros (\$10.91 million) because of profit BBVA has registered from the unit. The deal was announced in August 2019.

remain in his position at Banco do Brasil, Reuters reported. On Jan. 13, the bank's shares fell 5 percent, their sharpest decline since late October. The next day, they traded up as much as 1.3 percent.

REMITTANCES NEWS

Western Union Hopes to Restart Money Transfers to Cuba

Western Union hopes it will be able to restart money transfer services to Cuba under the administration of new U.S. President Joe Biden, the bank's chief financial officer said Jan. 19, Reuters reported. "We're hopeful that, putting aside any concerns that there may be from the administration standpoint, that they allow us to move the money for people

Western Union suspended its operations across Cuba in November.

who want to move money to their loved ones," Raj Agrawal told the wire service. Western Union suspended operations across Cuba in November following the entry into force of new U.S. sanctions. Over the past four years, the administration of former U.S. President Donald Trump escalated sanctions against Cuba, rolling back a normalization of U.S.-Cuba relations that his predecessor, Barack Obama, had overseen. Just before Trump left office this month, the State Department returned Cuba to the U.S. list of state sponsors of terrorism. Analysts expect the Biden administration to seek to normalize ties with Cuba again. Biden advisors "have already indicated that Trump administration policies limiting Cuban-American family travel and remittances to the island will be reversed," Anya Landau French, a consultant at law firm Akin Gump, told the Dialogue's daily

FEATURED Q&A / Continued from page 1

the United States). Regarding government policies for the sector, we highlight the agenda of innovation and competition that the central bank has pursued in recent years, which fosters more efficiency—the new 'Pix' payment system is a good example of that. Looking specifically at pandemic-related measures, lower taxes on credit operations, the reduction of reserve requirements and the government's emergency credit lines for companies have successfully supported the banking system in acting as a buffer during this crisis."

A Steven Sandretto, partner at Holland & Knight: "The significant expansion of bank lending in Brazil in 2020 was largely a result of the coronavirus pandemic as many companies were forced to seek financing in order to preserve liquidity. This increase was made possible as a result of regulatory changes put into effect in Brazil in early 2020 due to Covid-19. The Brazilian central bank approved a package of measures aimed at expanding banks' lending capacity in order to restore liquidity, allowing banks to offer increased loans and more flexible terms. These measures added more than 1.4 trillion reais of liquidity to the national financial system. The pandemic also sped up digital banking in Brazil, which further expedited bank lending. Brazil also experienced historically low interest rates in 2020, further increasing borrowing by both large and small businesses seeking to maintain liquidity. Brazil has historically been plagued by sky-high lending rates, but in 2020, the domestic (Selic) interest rate reached a record low, prompting a shift to bank borrowings by many companies. However, the expiration of the central bank's loan forbearance programs will likely lead to an increase in impaired loans and credit losses and, therefore, less lending going forward into 2021. In addition, many large companies have returned to other sources of funding, such as equity offerings. Furthermore, the

central bank may be unable to keep interest rates at historically low levels in light of rising inflation expectations. As a result, traditional bank lending may return to more normal levels in 2021."

A Cynthia Cohen Freue, senior director and sector lead for financial institutions ratings at S&P Global Ratings: "Lending growth in Brazil was quite strong in 2020, mainly driven by the higher credit demand from corporates, which boosted their liquidity to prepare for the difficult times, and the incentives that the central bank provided to boost lending through liquidity support, guarantees on loans as well as capital and provisioning relief. In addition,

“ We expect lending growth to be lower during 2021 (about half of last year's growth rate)...”

— Cynthia Cohen Freue

the devaluation of the currency also played a role through the exposures abroad of the largest private bank. However, we expect lending growth to be lower during 2021 (about half of last year's growth rate) given the absence of the extraordinary measures from the government and due to banks' lower appetite to take on additional risk given the uncertain scenario driven by the second wave of infection. With regard to government policies, we believe the central bank has taken a timely and comprehensive set of measures to mitigate the impact of Covid-19 on banks' asset quality. In addition, the government has introduced extraordinary support to mitigate the economic and social impacts of the pandemic. The full fiscal support package is 12 percent of GDP, one of the largest among emerging markets. We expect major Brazilian banks' credit losses

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Latin America Advisor in a [Q&A](#) published Nov. 19. “We could expect an executive order that reverses most or all of the Trump administration’s Cuba policy and associated regulations,” she added.

POLITICAL NEWS

Colombian Defense Minister Dies From Covid Complications

Colombian Defense Minister Carlos Holmes Trujillo, 69, died Jan. 26 from complications of Covid-19, President Iván Duque announced. “With deep pain and sadness, I have received the news of the death of our defense minister, Carlos Holmes Trujillo,” said Duque. “I cannot express the pain I feel.” Duque also said he wanted to offer his support to Holmes Trujillo’s



Holmes Trujillo // File Photo: Colombian Government

wife, children and other family members. Holmes Trujillo died in a Bogotá military hospital where he had been in intensive care, Reuters reported. Holmes Trujillo tested positive for the novel coronavirus on Jan. 12. “Carlos Holmes was my friend, my companion in fighting, my teammate and my minister in two departments,” said Duque. “His life was a reflection of a vocation for public service.” Holmes Trujillo had served as Duque’s defense minister since November 2019. Before that, he was his foreign affairs minister, and he also served as interior minister and education minister in previous governments, as well as the mayor of Cali in the late 1980s. Holmes Trujillo was also a member of the National Assembly that reformed Colombia’s constitution in 1991, Re-

ADVISOR Q&A

Can Biden Rebuild U.S. Credibility in Latin America?

Q Joe Biden took office Jan. 20 as president of the United States. His inauguration followed tense weeks in Washington surrounding a Jan. 6 riot in which supporters of outgoing President Donald Trump violently burst into the U.S. Capitol in a deadly insurrection that Trump is accused of inciting. How has the riot at the U.S. Capitol been seen in Latin America and the Caribbean, and to what extent does the civil unrest shake confidence in U.S. leadership and credibility? What effects will Trump’s actions as president have on elections and democratic institutions in the region? What must Biden do in order to effectively engage with Latin America on issues such as democratic norms and the rule of law following Trump’s presidency?

A Isabel Saint Malo, former vice president of Panama: “Latin Americans watched recent events at the Capitol with familiarity and surprise. The scenes were familiar to us in a region where civil unrest is increasingly present, though we never expected to see them in the United States. As Latin American citizens increasingly express dissatisfaction with the status quo and an existing broken social contract that does not meet expectations, the region needs partners that support our efforts to overcome inequalities and other challenges.

uters reported. Holmes Trujillo tested positive for the novel coronavirus one day after the Foreign Affairs Ministry announced that Foreign Minister Claudia Blum had been infected. Other high-profile Colombians who have contracted Covid-19 include Vice President Marta Lucía Ramírez, who tested positive in November, and First Lady Juliana Ruiz, who tested positive

President Biden was a champion of engagement with the region during the Obama administration. I personally participated in efforts convened by the then-vice president; his interest and understanding of the region was clear. That record and proposals included in his campaign lead us to believe that the incoming administration will pay more attention to neighboring Latin America than did Biden’s predecessor. Historically, the United States’ relationship with the region has been marked by security issues, including organized crime, drug trafficking and migration. The incoming administration will need to design a more comprehensive agenda. Security threats are directly linked to the broken social contract, inequality, poverty, unemployment and other social realities. As long as Latin Americans see limited opportunities in their own countries, they will continue migrating north or engaging in criminal activities. A new agenda that intends to strengthen democratic norms and the rule of law must be linked to the security and development agendas. The approach must be integral, and engagement with Latin American leaders to design it collaboratively would be a strong first step.”

EDITOR’S NOTE: More commentary on this topic appears in the Jan. 20 issue of the Latin America Advisor.

in October. Duque has not tested positive, though he is tested regularly because of his busy schedule and high potential for exposure, Reuters reported. Colombia has more than two million reported infections and more than 51,000 related deaths, according to Johns Hopkins University. Covid-19 cases have increased sharply in Colombia since Christmas. More

NEWS BRIEFS

Suriname's President Tests Positive for Covid-19

Surinamese President Chan Santokhi has tested positive for Covid-19, he announced Jan. 24, saying he was feeling strong and had no symptoms, Caribbean National Weekly reported. Santokhi said he would remain at home and work from his private residence for the next several days. The government's information service said contact-tracing is ongoing, and several members of Santokhi's cabinet who were with him in recent days are undergoing testing.

Chilean President Names Cerda Finance Minister

Chilean President Sebastián Piñera on Jan. 26 appointed Rodrigo Cerda as the country's new finance minister following the resignation of Ignacio Briones, who stepped down ahead of an expected presidential bid later this year, Reuters reported. Cerda, who will be tasked with advancing a controversial pension reform in Congress, previously served as macroeconomic advisor and chief advisor at the Finance Ministry during Piñera's first presidential term, La Tercera reported.

Bermuda Charges Former Premier Brown With Graft

Bermuda has charged former Premier Ewart Brown with 13 counts of corruption in connection with an alleged multimillion-dollar scheme involving a U.S.-based hospital, the Associated Press reported Jan. 21. Brown, who led the British territory from 2006 to 2010, will plead not guilty, according to his attorney. Local prosecutors have accused Brown of illegally receiving millions of dollars via Massachusetts-based hospital Lahey Clinic, in addition to more than \$350,000 in donations for the Progressive Labor Party and the Bermuda Health Foundation. Brown has denied wrongdoing and called the case a "witch hunt."

than 15,000 new infections were reported per day in the second week of January, as compared to approximately 7,000 in the beginning of December, the Associated Press reported.

Mexico's López Obrador Tests Positive for Covid-19

Mexican President Andrés Manuel López Obrador, who is rarely seen in public wearing a face mask and has been criticized for downplaying the seriousness of the Covid-19 pandemic, announced Jan. 24 that he had been infected with the novel coronavirus. "I regret to inform you that I am infected with Covid-19," López Obrador said in a tweet. "The symptoms are mild, but I am already under medical treatment. As always, I am optimistic. We will all move forward." López Obrador made the announcement days after dining with some of Mexico's leading industrialists, the Financial Times reported. Despite record levels of Covid-19 infections and deaths in recent days, López Obrador, 67, has continued holding meetings across the country. Mexico City's hospitals are almost at capacity, and many people who have been infected have struggled to obtain needed oxygen tanks. López Obrador said he would continue working from the National Palace.

Thousands Protest Bolsonaro in Cities Across Brazil

Thousands of people took to the streets in vehicle caravans in protest of President Jair Bolsonaro in cities across Brazil the weekend of Jan. 23-24, the Associated Press reported. Bolsonaro's popularity has been dropping amid Brazil's struggle with the Covid-19 pandemic and criticism over the slow rollout of the vaccines for the disease. Protesters drove through the streets of Rio de Janeiro, São Paulo and at least a dozen other cities, honking their horns, while some others joined the demonstrations on foot and chanted, "Get out,

Bolsonaro!" the AP reported. The demonstrations on Jan. 23 were called by leftist groups, while conservative groups that had previously backed Bolsonaro organized the ones on Jan. 24. Protesters also criticized the end of an emergency financial aid plan that had helped approximately 68 million Brazilians to deal with the economic consequences of the pandemic, Agence France-Presse reported. The program ended in December.

ECONOMIC NEWS

Costa Rica, IMF Reach Deal for \$1.75 Billion Program

Costa Rica and the International Monetary Fund have reached an agreement on a three-year program to anchor policy reforms necessary to address the Central American nation's fiscal woes amid the Covid-19 pandemic, the IMF announced Jan. 22 in a statement. The \$1.75 billion program, under the lender's Extended Fund Facility, is "aimed at bolstering the country's response to the pandemic and at laying the foundation for a strong and durable economic recovery," the statement said. Under the deal, Costa Rica's government will have to implement reform programs focused on ensuring fiscal sustainability as well as monetary and financial stability while protecting the poor and most vulnerable, the IMF said. Among Costa Rican officials' goals are achieving a primary surplus of 1 percent of GDP by 2023 and placing public debt on a downward path to eventually reach 50 percent of GDP by 2035, La Nación reported. Costa Rican Finance Minister Elián Villegas said the plan also includes the introduction of a global income scheme, elimination of some tax exemptions and the modification of taxes on luxury homes, in addition to a reform of the public employment regime. He added that the plan would not include any changes to the value-added or property taxes. [Editor's note: See related [Q&A](#) in the Jan. 26 issue of the Dialogue's daily Latin America Advisor.]

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to remain manageable thanks to banks' conservative growth strategies in the past two years and the regulatory measures that help cushion the impact."

A **Claudio Gallina, senior director and head for South America and the Caribbean in the financial institutions group at Fitch**

Ratings: "The main factors that, combined, contributed to boost credit in Brazil—which increased by 9.9 percent from June 2019 to June 2020 and more than 13 percent from December 2019 to November 2020—were: 1.) large companies looking for liquidity at the beginning of the pandemic, 2.) a reduction in repayments from borrowers due to debt rollovers and 3.) the government's guarantee programs, which expanded credit especially for small and medium-sized companies. Total credit in Brazil reached 4 trillion reais—around 55 percent to retail, 25 percent to large corporates and 20 percent to SMEs. In general, we believe that economic agents are expected to better gauge their needs as compared to the time of the pandemic. This may limit another round of large increases in loans in Brazil. Another important aspect is

the increase in deposits. Savings, for example, increased by almost 190 billion reais in one year, strongly influenced by a lower level of consumption. However, we saw increases in payroll and residential/mortgage loans,

“Brazilian regulators have had an important role in taking several actions to face the pandemic.”

— Claudio Gallina

credits with more robust guarantees. We expect this trend to continue, although at a slower pace. We are revising our projections in terms of credit growth, but we are definitely not expecting double-digit growth again for 2021. Brazilian regulators have had an important role in taking several actions to face the pandemic.”

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

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Advisor Video

Venezuela's Political Situation

A Latin America Advisor interview with Vanessa Neumann, former Juan Guaidó-appointed Venezuelan ambassador to the United Kingdom

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