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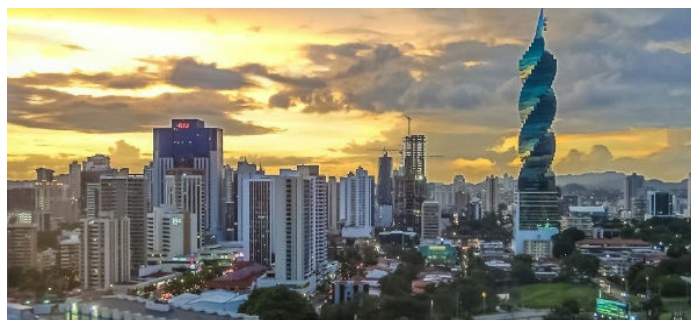
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FEATURED Q&A

What Are the Risks and Opportunities for Panama's Banks?



Panama's banking sector is showing growth this year despite a difficult backdrop, the country's banking superintendent said last month. Panama City is pictured. // File Photo: Panamanian Government.

Q Panama's banking sector is showing growth this year despite tough external conditions and lingering effects of the Covid-19 pandemic, the country's banking superintendent, Amauri Castillo, said last month. Banks in the Central American country are showing better financial results and improved profitability as compared to banks in other parts of Latin America, he said. What factors are fueling Panama's banking sector? How much growth is Panama's banking sector expected to see the rest of this year and next year? How stringently are Panamanian officials and banks working to fight financial crimes such as money laundering, problems that have put the nation on watch lists in the past?

A Dulcideo de la Guardia, director and chief financial officer of Morgan & Morgan in Panama City and former Panamanian finance minister: "This year, Panama's economy is expected to surpass the pre-pandemic nominal GNP of 2019. In 2021, GNP grew 15 percent after falling 18 percent in 2020. ECLAC expects Panama to grow 6.3 percent in 2022, leading Latin America's economic growth. The country's banking sector is recovering from the effects of the Covid lockdowns of 2020 and 2021. In July, profitability of the national banking system improved 44 percent as compared to 2021. The increase in profitability is the result of a 20 percent increase in net interest and commission income, and a 27 percent reduction in loan-loss provisions. Liquidity and capital adequacy of Panama's banks remain strong and twice regulatory requirements. Credit growth (4.5 percent in July 2022 as compared to July 2021) has been sluggish, trailing the economic

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TOP NEWS

BANKING

Brazilian Banks See Record Withdrawals

Brazilian banks in August saw their highest levels of withdrawals since record-keeping began in 1995, according to data from the central bank.

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MONEY LAUNDERING

Colombia to Pursue Traffickers Through Anti-Laundering Efforts

Colombia's new government will seek to fight drug traffickers through undermining their financial power, said the country's new National Police head.

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REMITTANCES

Argentine Fintech Ualá Launching App for Mexico Remittances

Argentine fintech company Ualá, founded by Pierpaolo Barbieri, announced it has partnered with ABC Capital in order to launch an app to provide remittance transfers to Mexico.

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Barbieri // File Photo: LinkedIn Page of Pierpaolo Barbieri.

BANKING NEWS

Brazilian Banks Record Highest-Ever Savings Withdrawals

Brazilian banks in August recorded the largest net monthly outflow from savings accounts since record keeping began in 1995, The Brazilian Report reported Sept. 7 citing data from the central bank. Brazilians withdrew 22 billion reais (\$4.19 billion) more than they deposited in savings accounts in August, overtaking the previous monthly record set in January of this year when net outflows reached 19.66 billion reais. Through August, net withdrawals from savings accounts were 85.16 billion reais, the highest figure since 2015, Reuters reported. This continues a trend seen last year when the savings balance turned negative for the first time since 2016 and net outflows reached 35.5 billion reais. Last year marked a turning point after record savings growth in 2020, which analysts have attributed to initiatives, such as cash transfer programs, that were aimed at fighting the impacts of the Covid-19 pandemic. However, such programs were reduced last year. Now, rising wages and consumer prices have led more Brazilians to draw on their savings, The Brazilian Report reported, adding that savings are a key indicator of families' financial health.

ANTI-MONEY LAUNDERING NEWS

Colombia to Target Trafficking Through Money Launderers

Colombia's new government will focus its anti-narcotics efforts on fighting money laundering with the aim of undermining the financial power of drug traffickers, Major General Henry Armando Sanabria, the country's new National Police head, said in an interview on Sept. 7, Reuters reported. Sanabria, who was appointed last month by President Gustavo Petro, said

the government's anti-drug policy will target "those who benefit from money laundering" rather than growers, many of whom are driven by poverty or coerced by armed groups into growing. He added that "money laundering as a way to attack drug trafficking is one of the government's priorities." Sanabria said the government will focus on addressing smuggling and other ways that traffickers seek to move



Sanabria // File Photo: Colombian Government.

illicit funds into the legal financial system. It will also emphasize seizing cocaine exports destined to the United States and Europe, he said. Additionally, Colombia's government will maintain a ban on the aerial fumigation of coca with glyphosate, which has been stopped since 2015, but will manually eradicate plants if growers refuse to substitute them, Sanabria said. Petro, Colombia's first leftist president, said in his inaugural speech the U.S.-led war on drugs had failed and called for a change in policies to put more emphasis on consumption in developed countries, the Associated Press reported.

FINANCIAL TECHNOLOGY NEWS

Colombian Fintech Plurall Gets \$20 Mn in Financing Round

Colombian fintech start-up Plurall has raised \$20 million from Britain-based Fasanara Capital in a debt financing round, FinTech Futures reported on Wednesday. Plurall, which was founded in 2021 and is based in Bogotá, describes itself as a "financing fintech with a solution created for entrepreneurs by entre-

NEWS BRIEFS

Western Union Acquires Brazil-Based Digital Wallet Te Enviei

Financial services company Western Union on Sept. 12 announced that it acquired Brazil-based digital wallet Te Enviei. In a statement, Western Union said that the acquisition is part of its efforts to accelerate the launch of a broader range of digital financial services in Latin America following the successful launch of its digital banking offering in Europe in February. It added that the digital wallet will allow customers to store funds, transfer money and pay their bills from their phones.

Brazilian Fintech Ebanx Announces Expansion Into Africa

Brazilian payment fintech Ebanx on Sept. 13 announced that it is expanding into Africa, Reuters reported. The start-up company, which is valued at more than \$1 billion and processes payments in 15 Latin American countries, said it began operating in Kenya, South Africa and Nigeria in late August with an initial focus on providing digital wallet services to consumers. The company said Africa's digital economy provides large opportunities and that it will seek to reach agreements with major e-commerce stores in the region.

Colombia-Based Fintech Finaktiva Raises \$25 Mn in Funding Round

Colombian fintech Finaktiva, which provides financial services to small- and medium-sized enterprises, raised \$25 million in a mix of debt and equity in its latest funding round, FinTech Global reported on Sept. 14. Finaktiva raised \$20 million in debt from Bancolombia and other local banks and an additional \$5 million in equity from Swiss impact investment fund responsABILITY, which focuses on emerging markets.

preneurs.” The company said the funding will help it increase the financial inclusion of small businesses in Colombia that are underserved by the current financial ecosystem. Plurall co-founder and CEO Federico Gómez said less than 10 percent of microbusiness currently have efficient access to formal credit, adding that Plurall seeks to offer an entirely digital solution that allows these companies to access credit, a digital account and a debit card in minutes. Plurall began its initial beta testing three months ago and claims to have helped more than 140 entrepreneurs so far with 5,000 signed up on its wait list. It said it will use the debt to partner with Latin American distributors that serve entrepreneurs and is also seeking to raise funding through a seed equity round. Plurall is the first company in South America to receive funding from Fasanara Capital.

Argentine Fintech Ualá Enters Mexico’s Remittances Market

Argentine fintech company Ualá announced Sept. 9 that it has partnered with Mexican bank ABC Capital to launch the Ualá ABC app, which will allow users in Mexico to receive remittances, *El Economista* reported. The Ualá ABC app will allow Mexican users to receive as much as \$900 per month sent from abroad through an entirely digital process and without paying commissions, the company said. Last November, Ualá announced a planned

The Ualá ABC app will allow Mexican users to receive as much as \$900 per month sent from abroad.

acquisition of ABC Capital, but the deal is still awaiting regulatory approval, and the Argentine company has meanwhile decided to partner with the bank to enter Mexico’s remittances market, *Reuters* reported. The launch marks Ualá’s entrance into Mexico’s remittances

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recovery by a wide margin. However, most sectors of the economy show positive credit growth, except for construction and mining. The construction sector in 2018 accounted for 18 percent of Panama’s GNP and is still recovering from a cycle of over-construction that led to excess inventory. Delinquent and overdue loans stood at 4.5 percent of loan portfolios, a 100 percent increase as compared to pre-pandemic levels. On a positive note, the modified loan portfolio that in July 2021 reached \$14.1 billion decreased to \$3.8 billion in 2022, at 72 percent reduction. Panama’s authorities continue to work on the action plan agreed in 2019 with the Financial Action Task Force to extricate the country from the increased monitoring status. Most of the action plan is focused on improving the regulatory framework and transparency of legal persons and demonstrating Panama’s ability to investigate and prosecute money laundering. Nevertheless, the banking sector complies with international anti-money laundering and combating the financing of terrorism standards and remains well regulated and supervised.”

A Carlos Alfredo Berguido, executive president of the Panama Banking Association: “Panama’s banks continue to exhibit remarkable resiliency in spite of the significant challenges. This is due in part to a traditionally very disciplined approach to risk and lending by bankers, with access to a large pool of liquidity and an economy that is bouncing back. Business and consumer borrowers have also been more cautious in their approach to taking on new debt. On the anti-money laundering front, banks continue

to cooperate with the government in its efforts to show effectiveness in its capacity to prevent, identify and prosecute money laundering.”

A Joaquín Jácome Díez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama: “As a consequence of the economic hardships caused by the Covid-19 pandemic, the government, in tandem with financial institutions, has enacted measures to alleviate banking obligations of Panamanians working in sectors directly affected by the pandemic. These measures, while highly controversial at the time for their strict and prolonged effects, helped a significant part of the population in dire moments. However, they imposed a heavy financial burden on the banks. Gladly, all but 5 percent of these credits are performing well. The Panamanian economy started to recover with a growth forecast of 7.5 percent for 2022. The credit portfolio as of July is \$80.6 billion, an increase of 13 percent as compared to 2021, reflecting a sustained recovery of the sector, even though it has failed to reach pre-pandemic levels. Growth projections for 2022 and 2023 are roughly 5 percent. Last November, Panama enacted Law No. 254, which modified four laws that combat money laundering through compliance. The new law applies not only to financial institutions but to all sectors of the economy and implements a flurry of regulations that have been designed by various public institutions to prevent all sorts of suspicious transactions and establish disclosure mechanisms for the relevant authorities. Last July, Panamanian officials

Continued on page 6

market, estimated to be worth \$58 billion this year, where it will compete with Western Union, Vivo, Moneygram, Wells Fargo, Moneygram, Xoom and Bitso, among others, which are already active in Mexico’s remittances market. Ualá was founded in Argentina in 2017 and has been active in Mexico since 2020. It has recently been exploring expansion opportuni-

ties. In September, it acquired Argentine fintech company Ceibo Créditos that provides credit and financial services using a buy now, pay later scheme, according to *Bloomberg News*. Earlier this year, it also announced the acquisition of local competitor Wilobank and the start of operations in Colombia with an \$80 million investment.

ECONOMIC NEWS

Ecuador, China Reach Deal to Restructure Debt

Ecuador has reached an agreement to restructure \$4.4 billion of outstanding debt with China, President Guillermo Lasso told *The Wall Street Journal* on Sept. 19. The deal, which the two sides reached a week earlier, will save the South American country an estimated \$1 billion between 2022 and 2025, said Lasso. The debt rollover gives Ecuador fiscal space as it confronts lower international prices for oil, the country's main export, as well as increased domestic demands for public spending, including for fuel subsidies. Ecuador faced a funding gap of \$3 billion, or 43 percent of the country's reserves, due to those factors and a series of large payments due to China over the coming months, according to a recent report from the Institute of International Finance. As a result, Ecuador had been in talks for a restructuring with China since February. Lasso touted the deal as "a great development for Ecuador," and added that he hopes to announce a finalized free trade deal with China in December. Ecuador took on approximately \$18 billion in loans, including ones backed by oil, from China during the administration of former President Rafael Correa, who was in office from 2007 to 2017. Several days ago, state oil company Petroecuador announced that it had reached an agreement to adjust the price and extend the delivery timeline of 27 oil shipments it had committed to sending to China's state-run Petrochina between 2022 and 2023, EFE reported.

Argentina, IMF Reach Staff-Level Deal for \$3.9 Billion Outlay

The International Monetary Fund and Argentina have reached a staff-level agreement under their \$44 billion extended fund facility agreement that could lead to a new \$3.9 billion

ADVISOR Q&A

Can Brazil's Economy Continue Growing More Than Expected?

Q Brazil's economy picked up more than expected in the second quarter, when gross domestic product expanded 1.2 percent, state statistics agency IBGE said recently. On Sept. 1, Goldman Sachs upgraded its forecast for Brazil's real GDP growth in 2022 to 2.9 percent from 2.2 percent. Why is Brazil's economy performing better than forecast? Will South America's largest economy be able to sustain its trajectory into next year? What are the main risks facing Brazil's recovery?

A Gabrielle Trebat, managing director for Brazil and the Southern Cone at McLarty Associates: "According to the Brazilian central bank, inflation has dropped earlier and faster in Brazil than in many other Latin American countries, falling to 6.4 percent from peaks of high single digits earlier this year. The central bank's aggressive response to inflation earlier this year allows it to keep rates stable now and potentially decrease them as inflation continues into the fall of next year. A reduction in fuel taxes and other tax cuts have also helped to ease inflation downward, and an uptick in commodity prices have supported the improving GDP forecast. President Bolsonaro has also increased social spending during this electoral year, including an expansion of the Auxilio Brasil cash transfer program, which has sup-

disbursement for the South American country, the international financial institution said Sept. 19. The IMF executive board would need to ratify the deal for it to take effect. It is expected to meet in the coming weeks. The staff-level agreement followed the second quarterly review of the agreement that Argentina's government and the IMF signed in March. In its statement, the IMF said most of the program's

ported an increase in consumer spending and has benefited GDP growth. Brazil will struggle to sustain this trajectory, however, as the impact of increases in the benchmark interest rate—currently 13.25 percent and up dramatically from 2 percent in March 2021 when the central bank began its tightening cycle—has still not fully affected the economy and may cause a slowdown in coming months. The uncertainty surrounding this year's election could also pose a risk to GDP growth, depending on the market's reaction if President Bolsonaro does not concede if he loses. Lula has also not elaborated his economic platform, which has generated some uncertainty about his early priorities, particularly with regard to increased social spending and potentially amending Brazil's constitutionally mandated spending cap limit. Lastly, the outlook for global growth is weak in 2023, owing to a sharp slowdown in the United States and the European Union. While Brazil's low overall levels of public external debt and large foreign reserves should help keep any external shocks in check, the weak global outlook could be a drag on Brazil's recovery."

EDITOR'S NOTE: More commentary on this topic appears in the Sept. 15 issue of the daily *Latin America Advisor*.

quantitative targets had been met through June 2022, "with the exception of the floor of net international reserves," which it attributed to higher-than-expected imports and delays in external official support. As part of its deal with the lender, Argentina committed to increasing international reserves and gradually reducing its fiscal deficit, the Buenos Aires Times reported. This was the first review of the agreement

NEWS BRIEFS

Colombia's Peace Commissioner Meets With FARC Dissidents

Colombian peace commissioner Danilo Rueda has met with leaders of a major dissident faction of the Revolutionary Armed Forces of Colombia (FARC) in a move to advance talks, Agence France-Presse reported Sept. 18, citing a joint statement published in a local newspaper. United Nations representative Raul Rosende and Norwegian diplomat Dag Nagoda also appear to have taken part in the meetings, according to the report. The two sides have agreed on "a confidential protocol to guarantee a meeting" of the guerrilla commanders, according to the report.

El Salvador's Bukele to Seek Re-election Despite Constitutional Prohibition

Despite El Salvador's constitution prohibiting presidents from having consecutive terms, President Nayib Bukele said Sept. 15 he would run for re-election after his current term ends in 2024, Reuters reported. In 2021, the Central American country's Supreme Court, composed of judges appointed by lawmakers from Bukele's party, ruled that a second consecutive term was permissible in spite of the language in the constitution. Bukele, 41, enjoys very high popularity ratings, although human rights advocates criticize his tough-on-crime tactics.

Two Former Panamanian Presidents Charged With Money Laundering

Prosecutors in Panama have charged two of the country's former presidents with money laundering in connection with the massive bribery scandal at construction giant Odebrecht, Agence France-Presse reported Sept. 17. The former presidents, Ricardo Martinelli and Juan Carlos Varela, were not present at a court hearing on Sept. 16 and have denied wrongdoing.

since Sergio Massa became economy minister in August. The IMF said "recent decisive policy actions aimed at correcting earlier setbacks are helping to restore confidence and strengthen macroeconomic stability." On Monday, Argentine President Alberto Fernández met with IMF head Kristalina Georgieva to discuss the importance of the IMF deal for fighting inflation and promoting growth, Reuters reported.

POLITICAL NEWS

Two Reportedly Killed as Powerful Quake Strikes Mexico

At least two people were killed when a powerful 7.6-magnitude earthquake struck southwestern Mexico on Sept. 19, the anniversary of two other devastating earthquakes that happened in 1985 and 2017, Reuters reported. The two fatalities occurred in the Pacific port and resort town of Manzanillo, the wire service reported, citing authorities. One person was

The earthquake was centered in Mexico's Michoacán state.

killed when the facade of a department store collapsed, and another was found dead at a shopping mall. Videos posted to social media showed that the roof of the mall collapsed onto a gym on the top floor as people yelled for help, the wire service reported. The earthquake also knocked out power, and sent residents of Mexico City running out of buildings for safety. The earthquake, which struck at 1:05 p.m. local time, was centered in Michoacán state, according to the U.S. Geological Survey. Mexican authorities also reported damage to hospitals and some other buildings in coastal areas, The Wall Street Journal reported. Mexico City Mayor Claudia Sheinbaum said there were

no reported casualties or significant damage in the capital. The quake struck about 45 minutes after an earthquake drill in several Mexican states. The drills occur every year on Sept. 19, the date that thousands of people were killed in a devastating earthquake in 1985, and on the same date, about 370 people were killed in an earthquake that struck in 2017.

U.S. Sees Surge of Migrants Fleeing 'Regimes' in Region

A larger number of individuals fleeing poor economic conditions and the "failing communist regimes" in Venezuela, Nicaragua and Cuba is contributing to an increased number of migrants attempting to cross the U.S. border, U.S. Customs and Border Protection (CBP) said Sept. 19 in its monthly operational update for August. Of the total migrant encounters, 55,333 were from Venezuela, Cuba, or Nicaragua, which represents 35 percent of unique encounters for August, a 175 percent increase over a year ago, according to the agency. "Failing communist regimes in Venezuela, Nicaragua and Cuba are driving a new wave of migration across the Western Hemisphere, including the recent increase in encounters at the southwest U.S. border," said CBP Commissioner Chris Magnus. At the same time, the number of migrants entering from Mexico and northern Central America has decreased for the third consecutive month. The agency credited the Biden administration's efforts to address the root causes of migration, facilitate repatriation and crack down on human traffickers for the decrease in migration from Northern Triangle nations. The CBP's description of the administration's successes in Central America contrasts with a recent story in The New York Times, which cited diplomats and civil society leaders as saying Central America has emerged as one of the Biden administration's "biggest foreign policy setbacks," with numerous nations sliding deeper into authoritarianism and poverty, and leaving "the region's fragile democracies in the worst state since the Cold War."

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participated in the plenary sessions of the Latin American Financial Action Group, or GAFILAT. Panama demonstrated that it has implemented all the actions required by GAFILAT to be removed from the discriminatory lists. These measures have hindered Panama's competitiveness in comparison to other countries where such measures are not required."

A **Rolando Martínez, senior director and head of Central American banks at Fitch Ratings:** "Panamanian banks' financial performance has been recovering this year, driven primarily by credit growth and lower loan impairment charges given prior-year loan reserves accumulation. Credit growth accelerated to 4.5 percent year-over-year as of July, from 1.5 percent during 2021. However, the revenue recovery pace is slower than credit growth and the economic recovery, as the loan deferrals of the past two years still represent a significant burden. As of July, loans with relief measures represented around 6.7 percent of local loans, and banks continue to focus on

normalizing customers' repayment trends. Looking forward, there are also downside risks for banks' performance due to external factors such as high inflation as well as domestic social unrest that could slow down the recovery pace. However, if they do not materialize, banks could reach pre-pandemic profitability levels in 2023, favored by a credit growth in the high single-digit range, and benefiting from a potential moderate rise in interest rates, which would have a positive effect on their currently narrow net interest margins. The Panamanian banking system has been working for several years on strengthening its anti-money laundering framework, which is one of the nation's strategic objectives, and these achievements are reflected in the maintenance of stable relationships with correspondent banks in the last years. However, further developments are still pending in several sectors to get off of the watch lists, which would favor banks' overall business environment."

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 ISSN 2163-7962

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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

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