FEATURED Q&A

How Will Chilean Banks Fare Under Piñera?

Spain’s Banco Bilbao Vizcaya Argentaria, or BBVA, has agreed to sell its stake in its Chilean operation to Bank of Nova Scotia for approximately $2.2 billion, the Canadian lender said Dec. 5. Scotiabank said the acquisition is in line with its efforts to increase its scale within Chile’s banking sector and other Pacific Alliance countries. What headwinds and tailwinds are Chilean banks likely to face in the year ahead? How strong are Chilean banks as compared to their peers in other Latin American countries? What policies is Chile’s next president likely to pursue concerning banks, and how will the financial services sector be affected?

Felipe Carvallo, member of the Financial Services Advisor board and vice president - analyst for Latin America banking at Moody’s Investors Service: “Bank of Nova Scotia’s announcement follows two announcements of planned acquisitions by Banco de Crédito e Inversiones (BCI), on Dec. 1 for a Florida-based community bank and on Dec. 19 for Walmart’s financial operations in Chile. These moves follow Itaú CorpBanca’s own merger in April 2016 and are a response to increasing domestic competition among Chile’s mid-sized banks in an environment of still relatively low growth prospects, notwithstanding a modest expected recovery this year. President-elect Piñera’s pro-growth policies could prompt an improvement in business confidence sufficient to spur new investment and lead to a faster-than-expected recovery, but his agenda will be tested by the need to negotiate with a more splintered Congress. While Moody’s projects GDP growth will reach 2.7 percent in 2018, up from 1.6 percent in 2017,

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Mexicans living abroad sent a record amount of remittances home in 2017, with the majority of the cash coming from Mexicans living in the United States, according to Mexico's central bank, CNN reported Jan. 3. The two driving forces behind the increase were reportedly Mexico's weak peso relative to the dollar, and U.S. President Donald Trump's threats to impose a tax on remittances sent from the United States to Mexico in order to help fund a border wall between the two countries. From January to November, Mexicans sent a total of $26.1 billion in cash shipments home, up from the $24.1 billion during the same period a year earlier and the highest-ever recorded figure for that period of time. Remittances are Mexico's largest source of foreign income, beating out oil exports, which reached only $18.5 billion during the period from January to October of 2017. The low value of the peso also meant that a dollar went further in Mexico. Currently, one dollar is worth 19.5 pesos, up from an all-time low value in January of last year. The value of the Mexican currency fell after Trump won the presidential election in November 2016, due to concerns that he would make good on campaign promises to withdraw from the North American Free Trade Agreement and to impose tariffs on Mexican exports to the United States. Neither of those campaign vows has materialized, leading the peso's value to increase slightly from a year ago.

The Brazilian unit of Banco Santander increased its farm loans by 44 percent last year amid its growing presence in the South American nation's agribusiness sector, Reuters reported Jan. 4. Banco Santander Brasil is now the country's fifth-largest provider of farm loans, according to Carlos Aguiar, the bank's head of agribusiness lending. Santander Brasil made 13 billion reais (4 billion) worth of loans to farmers and agribusiness companies in 2017, an increase from about 9 billion reais the previous year. The bank's Brazilian unit could see a 10 to 15 percent increase in its farm lending this year, as lower interest rates provide new opportunities for banks in the private sector to grow in agribusiness lending, where state-run banks still largely dominate, Reuters reported. “The fall of the Selic base rate is accelerating our strategy,” Aguiar told the wire service. Last month, Brazil's central bank reduced its benchmark Selic interest rate to 7 percent, a record low. The cut was the latest in a cycle of loosening that began in October 2016 amid the government's efforts to spur Latin America's largest economy. Santander last year announced plans to launch 16 “agro-stores,” which will focus on selling financial products to Brazilian farmers. Approximately a third of those operations will be in Matto Grosso State, where grain growers have increasingly relied on bartering to finance their grain crops. Under such bartering, commodities trading

Andorra’s Andbank Eyes Expansion in Region

Andorran private bank Andbank is looking to grow its Latin America operations by entering Argentina, as well as by growing its operations in Mexico and Brazil, said Carlos Moreno, Andbank’s managing director and its head for the Americas, Bloomberg News reported Jan. 9. Andbank is Andorra’s largest bank, with 25 billion euros, or $30 billion, under management. The bank is seeking to obtain a license to operate as a global investment advisor in Argentina under new rules the country’s regulator approved last year, Moreno said. Recent tax-amnesty programs enacted in Brazil, Colombia, Mexico and Chile, as well as Argentina, have spurred Andbank and other banks’ interest in growing its operations in the region.

Howden Enters Mexican Insurance Market Through Deal With Ordás

Insurance broker Howden is entering Mexico’s insurance market through an agreement with Grupo Ordás, a local auto insurance broker, Insurance Business America reported Dec. 15. Under the deal, Grupo Ordás is becoming part of the Iberoamerican region of Howden, a division of Hyperion Insurance Group. The deal is subject to regulatory approval.

Banco de Bogotá Opens ‘Premium’ Service Office in Bucaramanga

Banco de Bogotá is opening a “premium” service location in the city of Bucaramanga, Finance Colombia reported Dec. 30. The office, for high-income clients, offers financial portfolio management, investment services and more personalized attention, the bank said. With the opening of the new office, Banco de Bogotá has 16 premium locations in Colombia. It has been offering the service for seven years.
firms have supplied raw materials to farmers in exchange for delivery of some of their future crops.

**ANTI-MONEY LAUNDERING NEWS**

**Mexico’s Acting Attorney General Defends AML Efforts**

Mexico’s acting attorney general, Alberto Elías Beltrán, on Jan. 4 defended the government’s efforts to crack down on money laundering, a day after a report released by the Financial Action Task Force said Mexico’s investigations and prosecutions of such crimes had been inadequate, Reuters reported. Elías said prosecutors were already planning to work more closely with U.S. and Colombian officials to better target money laundering networks for multinational drug cartels. The report by the Financial Action Task Force said Mexico has failed to clamp down on money laundering because of its reactive method of investigating cases and because law enforcement agencies suffer from corruption themselves, Reuters reported. The inter-governmental organization said money laundering “is not investigated and prosecuted in a proactive and systematic fashion,” which translates to fewer prosecutions and convictions for the crime. The report added that “the level of corruption affecting law enforcement agencies, in particular at the state level, undermines their capacity to investigate and prosecute serious offenses.”

Following the report’s release, Mexico’s finance ministry and the attorney general’s office said a day after a U.S. investigation in the mid-2000s root out money laundering in the banking sector. The task force added, however, that tax authorities had not done enough to monitor other businesses not done enough to monitor other businesses.

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U.S. Sanctions Four Venezuelan Officials

The U.S. government on Jan. 5 imposed sanctions on four current or former Venezuelan officials, freezing any assets they may have in the United States and prohibiting U.S. citizens from dealing with them, Reuters reported. Among the sanctioned officials is Rodolfo Marco, the current governor of Aragua State and a former food minister, who is accused of corruption and mismanagement of the country’s food supply. Also on the list of sanctioned officials are Francisco Rangel, a former Bolivar State governor; Fabio Zavarse Pabon, a national armed forces commander; and Gerardo Izquierdo Torres, a state minister. “President [Nicolás] Maduro and his inner circle continue to put their own interests above those of the Venezuelan people,” U.S. Treasury Secretary Steven Mnuchin said in a statement. “This action underscores the United States’ resolve to hold Maduro and others engaged in corruption in Venezuela accountable.” In the announcement sanctioning the officials, the U.S. Treasury also criticized Venezuela’s pro-government Constituent Assembly, which the United States considers “illegitimate,” The New York Times reported. The assembly, after its creation last year by President Nicolás Maduro’s government, declared itself superior to all other government institutions, including the country’s elected legislature and the courts. The Constituent Assembly recently stripped some opposition parties of their ability to participate in this year’s planned presidential election, saying they lost that ability after failing to participate in last month’s local elections.

U.S. to End TPS for Salvadorans by September 2019

The U.S. Department of Homeland Security on Jan. 8 announced that it would not renew Temporary Immigration Status for nearly 200,000 Salvadorans who have been allowed to stay in the United States since at least 2001, The Washington Post reported. Salvadorans who have been living in the country under TPS will have until September 2019 to arrange legal status under another category or leave the United States, the newspaper reported. The Trump administration has been phasing out TPS programs that have given groups of people refuge from insecure conditions in their homeland, arguing that situations in some of the people’s home countries have improved since they were

ADVISOR Q&A

Will Kuczynski Be Able to Complete His Term as Peru’s President?

Several public officials in Peru have resigned in the wake of President Pedro Pablo Kuczynski’s near-impeachment and his subsequent pardoning of former President Alberto Fujimori, who was serving a 25-year prison sentence for abuse of power and human rights violations. The pardon led to street protests, leaving Kuczynski’s presidency on shaky ground despite surviving the impeachment vote in December. Will Kuczynski be able to complete his five-year term? How can he regain public confidence and political influence? Will Peru’s fractured politics throttle back investment and economic growth this year?

Cynthia McClintock, professor of political science and international affairs at The George Washington University:

“The odds are against President Pedro Pablo Kuczynski (PPK)’s completion of his term. PPK is dangerously isolated. Not only did he incorrectly deny dealings with Odebrecht, provoking the impeachment vote, but most Peruvians believe that he traded his survival of the impeachment vote for the pardon of former President Alberto Fujimori. Many Peruvians voted for PPK in the 2016 runoff because he was not in bed with fujimorismo, and they now feel betrayed. PPK has lost three of his best ministers and three of his party’s 18 legislators. Although PPK has promised a cabinet of ‘reconciliation,’ recruitment among members of small parties, grassroots politicians and progressive intellectuals—to whom PPK should have turned more at the start—will be difficult. The largest sector of fujimorismo, led by Alberto’s daughter Keiko, has consistently interpreted PPK’s efforts at accommodation as weakness and intensified its belligerence. Only the sector of fujimorismo led by Alberto’s son Kenji, who spearheaded the pardon effort, appears open to collaboration with PPK. Perhaps most problematic for PPK is that the investigation of his dealings with Odebrecht is proceeding (as it does for Keiko and former President Alan García). Investment delays due to the Odebrecht scandal and political instability are estimated to have cost Peru approximately 1 percent of GDP growth in 2017 and, although mineral prices are up, the cost could be higher in 2018. Ironically, PPK’s resignation might be the best way for him to restore Peruvians’ trust. If PPK and his two vice presidents were to resign, new elections would be called—the outcome preferred by most Peruvians. Peru’s current plight is in part the legacy of the 2016 election, in which a surging centrist presidential candidate was unfairly disqualified and the fujimorista party, with less than 40 percent of the legislative vote, won 55 percent of the seats.”

EDITOR’S NOTE: More commentary on this topic appears in the Jan. 9 issue of the Latin America Advisor.
NEWS BRIEFS

Ecuadorean Lawmakers Tap Vicuña as New VP

Ecuadorean lawmakers in a vote Jan. 6 selected María Alejandra Vicuña to replace Jorge Glas as the vice president of the South American nation, the Associated Press reported. In December, Glas was sentenced to six years in prison for his role in a bribery scheme with Brazilian construction conglomerate Odebrecht. Vicuña is a psychologist who previously served as interim vice president and as the minister of urban development and planning.

Chile’s Bachelet Meets With Castro in Havana

Outgoing Chilean President Michelle Bachelet met Jan. 8 in Havana with Cuban President Raúl Castro and vowed to strengthen economic and commercial ties between the two countries, China’s state-owned news agency Xinhua reported. During the visit, Bachelet highlighted joint projects with Cuba in the health sector as well as an iron exploration partnership between Chile’s RM Asesorias and Cuba’s Commercial Caribbean Nickel. Bachelet’s term is set to end March 11, when Sebastián Piñera returns to Chile’s presidency.

Honduras. El Salvador Announce Decline in Homicide Rates

The governments of Honduras and El Salvador said in the first week of January that their countries’ homicide rates declined in 2017. Honduras’ murder rate fell by more than a quarter last year, to 42.8 killings per 100,000 people, the security ministry said, Reuters reported. The ministry attributed the decline to government efforts to fight gangs and drug traffickers. In El Salvador, National Civil Police Director Howard Cotto said the country’s homicide rate declined for a second year, to 60.8 murders per 100,000 residents, the Associated Press reported.

Mexico’s Vehicle Exports to U.S. Reach Record High

Mexico’s vehicle exports to the United States reached a record high in 2017, CNBC reported Jan. 8, citing data from the country’s auto industry. Mexico exported 2.33 million vehicles to its northern neighbor over the past year, a 9.4 percent increase over 2016. Also, 75 percent of the vehicles that were exported from Mexico in 2017 were then sold in the United States, far ahead of the total in Canada, which received just over 8 percent of Mexico’s vehicle exports. The increase came amid renegotiations of the North American Free Trade Agreement.

More Crews, Supplies Headed to Puerto Rico for Repair Effort

Efforts to repair Puerto Rico’s energy infrastructure and restore power to the U.S. territory in the wake of Hurricane Maria will be getting a boost in the coming weeks with more work crews and supplies due to arrive at the island, federal officials said, the Associated Press reported Jan. 8. The U.S. Army Corps of Engineers said it would be acquiring its own barge to ship needed materials that it requested months ago to rebuild infrastructure. Col. John Lloyd, who is overseeing the efforts to restore power, said officials over the weekend discovered some needed equipment in a previously overlooked warehouse owned by the island’s public utility, the Puerto Rico Electric Power Authority (PREPA). “We’re doing everything we can to increase [PREPA’s] ability to do this as fast as possible for the people of Puerto Rico,” Lloyd said. Certain materials, including transformers, splices and hundreds of necessary smaller pieces, had delayed the energizing of certain power lines. He said that his agency is still waiting for the shipment of hundreds of thousands of poles, transformers, fuses, towers, insulators, bolts and other pieces, as well.

Top E.U. Diplomat Meets With Castro to Conclude Cuba Visit

Federica Mogherini, the European Union’s top diplomat, on Jan. 4 met with President Raúl Castro as she wrapped up a two-day visit to Cuba aimed at strengthening ties with the communist nation, Reuters reported. At a press conference earlier on Thursday, Mogherini said E.U. countries are now Cuba’s most important economic partner. Her visit came as U.S. President Donald Trump has reversed some of the thaw with Cuba instituted by his predecessor, Barack Obama.
rule of law, which has set this nation apart from the rest of Latin America in terms of growth and democratic depth.”

Mark Manger, associate professor of political economy and global affairs at the Munk School of Global Affairs at the University of Toronto: “This decision assumes that BBVA saw no way to grow much more in the highly competitive Chilean banking market. But interestingly, Scotiabank Chile isn’t going to be big either after the acquisition, with a less than 15 percent retail market share. It gains more than 120 branches, but that is actually a cost factor in a fairly densely banked market when the trend goes toward reducing branches and moving more online. Scotiabank does, however, have a solid presence in Peru and Colombia, and owns pension fund companies in the region, which dovetails with its strategy to expand wealth management throughout the countries it serves. Chile is a very competitive market—Canadian Scotiabank customers would be surprised that much banking is fee-free for consumers—but unlike BBVA, which is being squeezed by ultra-low interest rates at home, Scotiabank has a home market with a handful of large players, little competition and rising interest rates. Thus, it is a better position to expand in the region through acquisitions. Overall, the prospects for Chilean banks are good, as the Pacific Alliance countries integrate their markets further. Chile’s banks are well-capitalized, and regulatory risk is negligible, even if the presidency is changing hands again. Even if the U.S. Federal Reserve’s decision to tighten its monetary stance were to affect some emerging markets negatively, we can safely assume that Chilean banks will not be hit hard.”

José Luis Ruiz, professor of finance at the University of Chile: “The deal aims to double Scotiabank’s market share in Chile to 14 percent, making it the third-largest private bank in Chile. The Canadian bank also has a presence in Colombia, Peru and Mexico. Therefore, the bank will expand its presence in Latin America. The Chilean banking system is well developed and efficient in comparison to the rest of Latin America. Capital levels and solvency ratios are adequate. Effective capital/weighting assets by credit risk is 13.75 percent and basic assets/total assets is 7.66 in the Chilean banking system as of last September. Congress approved changes in the banking law last year, with an objective of moving banking regulations from Basel I to Basel III. This change will demand more capital to finance business activities and mitigate financial risk. The project also creates the Financial Market Commission (CMF), a more powerful entity to replace the current banking regulator (the Superintendence of Banks and Financial Institutions). The new regulator will start functions in August. The commission has five members, four of whom are nominated by the president, with the approval of the Senate. The market expects that the economy will grow moderately in 2018. This will support an expectation of better performance for the banking system.”

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