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FEATURED Q&A

Is Peru's Congress About to Break the Pension System?

Peru's Congress, pictured above, may allow pension account holders to withdraw 100 percent of their contributions. Supporters say the measure is needed to alleviate economic pressure amid the coronavirus pandemic. // File Photo: Peruvian Congress.

Q **The economy commission of Peru's Congress in September began discussion on a proposal to allow Peruvians to withdraw 100 percent of their contributions into the private pension system with the aim of alleviating the economic stress wrought by the Covid-19 pandemic. What is the likelihood of such a proposal being approved by Peru's Congress and enacted by President Martín Vizcarra? What would be the most significant consequences for pensioners and the country's economy? Which other countries in the region are likely to follow suit with similar pension withdrawal measures, and what would be the long-term effects of such actions?**

A **Luis Miguel Castilla, former Peruvian finance minister:** "In the context of its ongoing populist stance, the Peruvian Congress is likely to approve a modified version of the proposed bill to, supposedly, alleviate the economic crisis that many citizens are currently experiencing. However, this will happen while the economy is starting to recover and without adequately targeting the withdrawal to benefit the most affected households. The government is likely to veto this bill (or not formally enact it) in line with the Finance Ministry's, central bank's and regulator's unfavorable opinion regarding this proposal. Allowing for pension fund withdrawals is a harmful policy because those affiliates who decide not to tap into their funds will experience a fall in the value of their portfolios due to the massive liquidation of assets that will need to be undertaken in a relatively very brief timespan. On the other hand, those affiliates who decide to withdraw their outstanding balances will not have the possibility to claim a pension in the future

Continued on page 6

TOP NEWS

BANKING

Mexico's Financial System Is Stable, Liquid: Council

Mexico's banking system has enough capital and liquidity to face the economic crisis stemming from the coronavirus pandemic, said the country's Financial System Stability Council.

Page 2

MONEY LAUNDERING

U.S. Company Fined for Bribes in South America

U.S. asphalt company Sargeant Marine has agreed to pay $16.6 million in fines after pleading guilty to bribery charges involving officials in several Latin American countries.

Page 3

REMITTANCES

U.S. Adds Cuban Remittances Firm to Sanctions List

The U.S. State Department has added debit card service provider American International Services to its list of sanctioned companies. Secretary of State Mike Pompeo said the company is controlled by Cuba's military.

Page 2

Pompeo // File Photo: U.S. State Department.

BANKING NEWS

Mexico's Financial System Has Adequate Liquidity: Council

Mexico's banking system is stable, with high levels of capital and enough liquidity to face the crisis brought by the coronavirus pandemic, the country's Financial System Stability Council, or CESF, said Sept. 29 in a statement. "The Mexican financial system remains in a solid position. In particular, the analysis on the risks for the Mexican banking system," the CESF said. The council is headed by Finance

Herrera // File Photo: Mexican Government.

Minister Arturo Herrera, and its members include representatives from the central bank, banking regulators and insurance companies, Reuters reported. The council also said in the statement that the sector is facing substantial challenges, especially regarding the operation of the market, credit flow, containment of liquidity problems and adequate risk management. "Some institutions must continue efforts toward diversifying their sources of financing," the CESF said, adding that, while there are "elements of strength" in intermediaries such as brokerage houses, entities in the insurance and surety sectors, retirement savings and investment funds, other financial companies and credit unions show "a profile of higher credit risk." The statement came days after Mexico's finance ministry and banking regulator announced the extension of tools to allow banks and financial intermediaries to restructure loans and other credits to clients, Reuters reported Sept. 23. As part of the measures, the government will extend until next year several temporary rules that are aimed at avoiding defaults and losses of collateral. Herrera said the extension recognizes that the Mexican economy will remain fragile for some time. "It's no longer a horizon of a few weeks," Herrera said, "but a few months." Among the measures are relaxing liquidity requirements until next March, furthering a capital buffer through the end of 2021 as well as a 19-month relief for farming credits.

REMITTANCES NEWS

U.S. Gov't Adds Cuba Remittances Firm to Restricted List

The U.S. State Department on Sept. 28 said it is adding a debit card service provider, American International Services (AIS), to its sanctioned Cuba Restricted List. "AIS is a financial institution controlled by the Cuban military that processes remittances sent to the Cuban people," Secretary of State Mike Pompeo said in a statement. The U.S. government alleges that AIS, under its parent company FINCIMEX, manipulates the remittance and foreign currency market. "The profits earned from these operations disproportionately benefit the Cuban military, furthering repression of the Cuban people and funding Cuba's meddling in Venezuela," Pompeo said. "We urge anyone who sends remittances to family in Cuba to use means other than Cuban government-controlled remittance entities," he added. FINCIMEX is a Cuban state company that processes remittances and issues the American International Services card. The government began accepting it in

> **"The profits earned from these operations disproportionately benefit the Cuban military..."**
>
> **— Mike Pompeo**

NEWS BRIEFS

Salvadoran Court Reduces Ex-President Saca's Sentence by Two Years

A Salvadoran court on Sept. 28 reduced former Salvadoran President Elías Antonio "Tony" Saca's 12-year prison sentence by two years, judicial authorities announced, Reuters reported. Saca, 55, in 2018 admitted to embezzling and laundering as much as $300 million from the treasury, for which he was sentenced to 10 years in prison. In 2019, two years were added to his sentence for bribery. Upon review of his case, the prison surveillance court ruled that the former president, who led El Salvador from 2004 to 2009, had already served the two years of the sentence related to the second case during preventive detention.

Moody's Lowers Outlook for Peru's Banking System

Moody's on Sept. 28 lowered its outlook for Peru's banking system to negative from positive, citing lower profitability in a higher risk of credit deterioration due to the coronavirus pandemic. The ratings agency said the Andean nation's banking system was working in a "challenging" environment, which has had an impact on the sector's gains during the first half of the year and creates volatility for the rest of the year and even 2021, Reuters reported.

Brazil's FitBank Plans to Expand to More Latin American Nations, U.S.

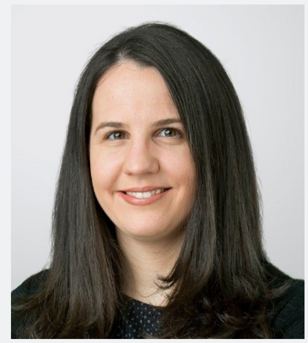
Brazilian fintech FitBank Pagamentos Eletrônicos plans to open an office in the United States in the first half of 2021, as well as start operations in Colombia, Mexico and Peru next year, Bloomberg News reported Sept. 22. In an interview with the news outlet, FitBank chief executive Otavio Farah said he expects headcount to reach 200 employees next year. In July, JPMorgan acquired a minority stake in the company.

July amid the Covid-19 pandemic, which has worsened food shortages on the island and sparked long lines for goods, the Associated Press reported. FINCIMEX temporarily stopped accepting applications in mid-August due to its popularity, but it resumed them this month. In Cuba, the volume of remittances has been decreasing this year, and it is expected to continue to drop, despite gains in other countries of Latin America, in part due to U.S. sanctions, Denisse Delgado, a scholar at the University of Massachusetts in Boston, wrote recently in a **blog** posted by the Inter-American Dialogue. [Editor's note: See also the Advisor's **video** interview with Marta Colomar-Garcia, an attorney at Diaz Reus in Miami, on the outlook for U.S. sanctions related to Cuba.]

SUBSCRIBER NOTICE

Laura Güemes Cambras Joins the Financial Services Advisor Board

We are pleased to announce that Laura Güemes Cambras has joined the Financial Services Advisor's board of advisors.


Güemes

She is a transactions attorney at Holland & Knight's office in New York and a member of the firm's financial services team.

Güemes focuses her finance practice on cross-border financing transactions, regularly advising corporate borrowers, a wide range of lenders, project sponsors and developers on syndicated lending as well as project finance in the United States and Latin America. She also has substantial M&A experience covering a wide range of industries.

Prior to joining Holland & Knight, Güemes practiced at another international law firm in New York and before that worked with a firm in Spain.

She holds an LL.M degree from Fordham University's School of Law, with a focus on corporate, banking and finance law, as well as J.D. and B.S. degrees from Universidad Carlos III de Madrid.

Mexico's Remittances Hit Second-Highest Level on Record

The amount of remittances sent to Mexico hit $3.57 billion in August, their second-highest level on record, the country's central bank said Oct. 1. The money transfers to Mexico rose 5.3 percent that month as compared to August 2019, the central bank said. The amount for August was higher than any other month on record, going back to 1995, except for March of this year, when Mexico's remittances totaled $4.04 billion. In August, Mexico recorded 10.4 million remittance transactions, the third-highest number of transactions on record. The average transfer was $343, the central bank said. That average amount was the same as the average reported in August 2019. For the first eight months of the year, the total amount of money sent to Mexico in remittances was $26.4 billion, a 9.4 percent increase as compared to the first eight months of 2019. Factoring in the 11.9 percent depreciation of the Mexican peso as compared to the U.S. dollar between August 2019 and August 2020, remittances grew 19.6 percent year-on-year in August of this year, or 14.9 percent year-on-year in real local currency terms, according to a note by Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs. "The sharp contraction of activity and employment in the U.S. have not impacted in a visible way the flow of remittances to Mexico," Ramos said in the note. [Editor's note: See related **Q&A** in the Aug. 13-26 issue of the Financial Services Advisor.]

ANTI-MONEY LAUNDERING NEWS

U.S. Asphalt Firm Fined for Bribes in South America

A U.S.-based asphalt company has agreed to pay $16.6 million in fines after pleading guilty to bribery charges stemming from its business in three South American countries, the U.S. Justice Department said Sept. 22 in a statement. Between 2010 and 2018, Sargeant Marine paid millions of dollars in bribes to officials in Brazil, Venezuela and Ecuador in order to obtain contracts or sell asphalt to state-owned or state-controlled companies in those countries, the company has admitted, according to the Justice Department. Sargeant Marine, which is based in Florida, acknowledged that it bribed officials at Brazil's Petrobras, Venezuela's PDVSA and Ecuador's Petroecuador, the Justice Department said.

Sargeant Marine has admitted to paying millions of dollars in bribes to officials in several countries.

ECONOMIC NEWS

British Court Rules in Maduro's Favor in Dispute Over Gold

A British appeals court on Oct. 5 sided with Venezuelan President Nicolás Maduro's government in a dispute over the control of $1.8 billion worth of Venezuelan gold stored at the Bank of England, The Guardian reported. In July, a British court found that Britain's recognition of opposition leader Juan Guaidó as Venezuela's legitimate president meant that the gold could not be released to Maduro's government. Venezuela's central bank had sued the Bank of England in May, seeking to gain

Maduro // File Photo: @NicolasMaduro via Twitter.

control of the gold, which the central bank has said it will sell solely in order to pay for Venezuela's response to the coronavirus pandemic. The decision by the appeals court overturns the July court decision and sends the issue to be examined by a British commercial court, The Guardian reported. The appeals court also suggested that Britain's Foreign Office clarify the issues including whether the British government recognizes Guaidó "for all purposes and therefore does not recognize Mr. Maduro as president for any purpose." If the Foreign Office does not clarify the issue, then the commercial court must decide on the gold dispute on its own. Though Britain recognizes Guaidó as Venezuela's president, it also still has diplomatic ties with Maduro's government, The Associated Press reported. Britain's government recognizes Maduro's ambassador, who has control of the Venezuelan Embassy in London. And the British ambassador to Venezuela is still posted in Caracas. In the Oct. 5 ruling, Judge Stephen Males said Britain's support of Guaidó and its continued diplomatic relations with Maduro's government are "to my mind ambiguous, or at any rate less than unequivocal," Bloomberg News reported. Vanessa Neumann, whom Guaidó named as his ambassador to Britain, played down the appeals court ruling, saying the court was asking for clarification from a judge that has already ruled in Guaidó's favor, the AP reported. "What remains clear is that the British court is not yet going to hand over

ADVISOR Q&A

What's Driving New U.S. Restrictions on Cuba Activity?

Q U.S. President Donald Trump recently announced new restrictions that will prohibit U.S. travelers from staying at properties owned by the Cuban government, as well as block the import of Cuban cigars and liquor. What motivated the Trump administration to draw up the new rules, and how significant are they? In what ways will they affect Cuba's economy, its citizens and the Communist government's hold on power? Will Trump's clampdown on Cuba, the latest in a string of reversals over the past four years of the Obama-era loosening of restrictions related to the island, help achieve U.S. goals with the country and in the region more broadly?

A Angela Mariana Freyre, principal at Squire Patton Boggs and former special advisor for Cuba policy at the U.S. National Security Council: "The new measures are the continuation of an electoral strategy to win Florida, which the president won by a very narrow 1.2 percent margin in the last election and where he is currently trailing Vice President Biden in the polls. Given that there is no travel to Cuba during this pandemic, the significance of the hotel/rum/cigar/travel prohibitions is primarily symbolic and calculated for domestic political effect. In a post-pandemic Cuba, the prohibitions will have some negative impact on Cuba's economy, people and government as a result of the lack of revenue. That said, to be removed from the restricted list, a hotel could be sold to foreign investors thus transferring title away from the Cuban government and becoming available to U.S. travelers. Also, rentals of private rooms and residences would see an increase in activity and have a beneficial effect on the growing class of self-employed in Cuba. Coupled with further restrictions on remittances, it is clear that the president has no concern for the Cuban people or Cuban-Americans who aid their families in Cuba. The pandemic, coupled with U.S. sanctions, has been particularly hard on the Cuban people, creating food shortages and other challenges, the effects of which have been partially mitigated by Cuban-Americans and U.S. humanitarian organizations engaged in Cuba. Limiting this assistance only hurts the Cuban people. These new policies are a continuation of the failed strategy pursued by U.S. administrations for decades and condemned by the global community. President Obama changed the course of that policy when he normalized relations with Cuba and allowed Americans and Cuban-Americans to engage with the Cuban people and create a new future of U.S.-Cuba relations based on mutual respect and benefit. We need to return to those principles swiftly."

EDITOR'S NOTE: More commentary on this topic appears in the Oct. 1 issue of the Latin America Advisor.

NEWS BRIEFS

Hurricane Delta Takes Aim at Mexico's Yucatán Peninsula

Hurricane Delta strengthened to a Category 2 hurricane early Oct. 6 as it pushed toward Mexico's Yucatán peninsula, where it is expected to make landfall by Oct. 7, CNN reported. The storm could intensify further, strengthening to a Category 4 hurricane before it hits land, said CNN meteorologist Michael Guy. From there, Delta could turn toward the U.S. Golf Coast. As of 8 a.m. Eastern Time on Oct. 6, the storm was located about 370 miles east-southeast of the Mexican island of Cozumel, heading west-northwest at 15 miles an hour, with maximum sustained winds of 110 miles an hour, according to the U.S. National Hurricane Center.

Chilean Authorities Detain Officer Suspected of Pushing Teen Off Bridge

Chilean authorities have detained a police officer suspected of attempted murder after he allegedly pushed a teenage demonstrator off a bridge during recent protests, the country's Prosecutor's Office said, CNN reported Oct. 5. Videos of the incident in Santiago on Oct. 2 have gone viral in Chile, sparking anger and more demonstrations in the following days. The video appears to show a brawl between the police officer and the boy, who then falls headfirst over the side of the bridge.

Chilean President Aims to Increase Public Spending by 9.5 Percent Next Year

Chilean President Sebastián Piñera on Sept. 29 introduced a budget that includes a 9.5 percent year-on-year increase in public spending, Reuters reported. In a televised speech, the conservative called the spending "very austere" in light of the coronavirus pandemic and demands for economic recovery.

the gold that belongs to Venezuelans to the Maduro regime," Neumann told reporters in a call.

Colombia's Mining Future Is Metals, Oil Still Crucial: Mesa

Colombia's mining future lies in metals and not coal, though developing oil and gas projects, including nonconventional deposits, will continue to be key, said Mines and Energy Minister Diego Mesa, Reuters reported Oct. 2. Mesa said the coronavirus pandemic has intensified problems with the coal sector, forcing Colombia, the world's fifth-largest coal exporter, to evaluate ways in which it can quickly boost its mining industry. "Metals are the big opportunity for Colombia because they're the mineral with the greatest demand," Mesa said, adding that the Andean nation is "practically unexplored" in terms of gold, copper and nickel mining.

POLITICAL NEWS

Mexico's Supreme Court Allows Vote on Former Presidents

Mexico's Supreme Court ruled Oct. 1 that President Andrés Manuel López Obrador could proceed with a referendum on prosecuting ex-presidents, the Associated Press reported. The court ruled in a 6-5 vote that the measure was constitutional, but it said the wording of the question to appear on ballots should be modified. Opponents had claimed it violated the precept that the decision to prosecute should be made by prosecutors, not voters or politicians, as well as the presumption of innocence. López Obrador's proposed referendum question asks: "Do you agree or not that the relevant authorities should, in accordance with the applicable laws and procedures, investigate and if appropriate punish, the presumed crimes committed by former presidents?" and then goes on to name five of Mexico's six living ex-presidents. López Obrador proposed the referendum for June 6, 2021, the date of midterm congressional elections that are key for maintaining the ruling party's majority in Congress. With some notable exceptions, the legacies of Mexico's former presidents, and many of their cabinet ministers, over the past

López Obrador // File Photo: Mexican Government.

several decades have been tainted by accusations of corruption and using their offices for personal enrichment. In August, Mexico's political establishment was shaken by claims that three former Mexican presidents, as well as ministers and high-profile lawmakers and aides were involved in alleged acts of corruption.

Nicaragua Eying Legislation to Clamp Down on Journalists

Nicaragua's National Assembly is considering legislation that would place new restrictions on journalists, The Washington Post reported Oct. 4. One measure would require journalists who work for foreign media companies to register with Nicaragua's government as foreign agents and refrain from "intervening in questions, activities or matters of internal politics," the newspaper reported. Another piece of legislation would set jail sentences of as long as four years for people using a computer to spread "false and/or misrepresented information which causes alarm." Opponents of the measures say the government of President Daniel Ortega, whose party holds a majority in the National Assembly, could use the measures to target anyone writing anything unfavorable to the government.

FEATURED Q&A / Continued from page 1

and will lose their disability and survival insurance coverage. If this legislative initiative is approved, 50 percent of the private pension fund will have been squandered in the last five years as a result of lawmakers' decision to channel private pension savings to meet objectives different from ensuring a pension during retirement. Similar policies are already being pursued in other countries, such as Chile, with the end result being that of stressing public finances even further in a context in which they have severely deteriorated amid the recession that the pandemic has caused."

A **Milko Matijascic, researcher at the Institute of Applied Economic Research (IPEA) in Brasília:** "The Peruvian Congress' proposal is tied to the Covid-19 crisis as the country's GDP may contract by 12.5 percent this year. This measure may ease families' budgets in the short term, stimulating economic activity via consumption, at the expense of the deterioration or even loss of social security protection in old age. In addition, such a movement of funds in such a short time may introduce strong instability in local financial markets. This scenario should generate pressure to strengthen the pay-as-you-go system, increasing public spending and also requiring an increase in the contribution fees for the insured and their employers. If this measure is not taken or replaced by compensatory social spending, there will be a strong impoverishment of the elderly population in Peru and an increased dependence on pensioners' children and/or on philanthropy. International analysts consider that the Peruvian case has been followed, in many ways, by Chile, and is being debated in all Latin American countries that have adopted paradigmatic (structural) pension reforms. It is worth recalling that Argentina and Bolivia eliminated their individual pension account systems well before the pandemic. Uruguay seems to be the only exception. The measures have a real chance of being approved despite the opposition of President Vizcarra, as the Peruvian Congress has dealt him several defeats, and the country is in a troubled political situation. This scenario related to pension funds repeats, in many ways, what happened in several western European countries in the 1930s during the Great Depression."

A **Olivia S. Mitchell, executive director of the Pension Research Council and director of the Boettner Center for Pensions and Retirement Research at the University of Pennsylvania:** "Allowing Peruvians to withdraw 100 percent of their pension savings due to the pandemic is short-sighted policy. It will result in a bankrupt funded pension system, and population aging trends in Peru will make it impossible to establish a reasonable pay-as-you-go or 'reparto' system. It will also erode peoples' trust in their political leaders and the economy. Such an act could erode growth and economic development, and Peruvians today and in the future will live to regret destroying the country's funded retirement program necessary for better financial security in old age."

> **"Such an act could erode growth and economic development..."**
> — Olivia S. Mitchell

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

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