

Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q Defaults on credit card loans in Mexico are growing faster than performing loans, while nonpayment of consumer loans has increased for five straight quarters, the Banking and Securities Commission said last week. What accounts for the growth in non-performing loans (NPLs) in Mexico? Are policy measures needed to promote stricter lending practices?

A Guest Comment: Christian Stracke: "For now the rise in consumer lending NPLs seems to be part of the growing pains most banking systems have when they are ramping up consumer lending for the first time. The infrastructure of consumer credit score reporting and in-house risk controls is not as developed as it could be, leaving banks less prepared to deal with the boom in consumer lending that low real interest rates have helped ignite. But part of the reason why problem consumer loans are growing as a share of problem loans is that consumer lending is growing as a share of total lending, so the problem is not exactly acute at this point. To be sure that this problem does not mount, however, policy steps should be taken to do as much as possible to strengthen Mexico's consumer credit score reporting system. The lack of credit history for many new borrowers makes such a system impossible to perfect in the short term, but over the medium term a solid consumer credit scoring sys-

tem should help avoid excessive growth in problem consumer loans."

A Guest Comment: Armando Huitron: "There has been a recent increase in the growth of non-performing credit card loans in Mexico. As per information published by Mexico's central bank (Banxico), total credit card delinquencies grew 26.6 percent between April and August 2005, while total credit card outstandings grew 0.3 percent in the same period. However, as the same information shows, this has occurred in other occasions in the past but has not been sustained. All in all, Mexico's long-run

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PHOTO OF THE DAY



Bolivian opposition leader and presidential frontrunner Evo Morales warned he would lead mass protests if a new date for elections was not confirmed this week. See related story on page 2.

Photo: MAS.

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NEWS BRIEFS

Officials Deny Cuba Gave Money to Lula Campaign

Brazilian and Cuban officials on Sunday denied allegations, published over the weekend by Brazilian weekly magazine *Veja*, that the Cuban government illegally contributed up to \$3 million to the 2002 campaign of Brazilian President Luiz Inacio "Lula" da Silva. Cuba called the report "imperialist" propaganda.

Source: The Miami Herald.

Hurricane Beta Whips Nicaraguan Coast

Small villages along Nicaragua's Caribbean coast were battered by strong winds and torrential rains on Sunday after Hurricane Beta made landfall. There were no reports of deaths, although scores of homes were said to be destroyed while 10 people were reported missing. The Central American nation was spared a direct hit after the storm veered south at the last minute and quickly lost power over land.

Source: Reuters.

Chilean Holding Firm Invertec to Hold IPO Next Month

Chilean holding company **Invertec** said Friday it expects to raise \$29 million in an initial public offering next month to expand its salmon farming business and increase spending on research and development. Invertec, which will be known as **Invermar** on the **Santiago Stock Exchange**, will sell a 23 percent stake in the planned November 9 IPO, company President Carlos Montanari said after a meeting with investors. Invertec expects Chile, which exported \$1.3 billion worth of salmon last year, to overtake Norway this year to become the world's biggest salmon producer.

Source: Reuters.

Political News

Bolivian Elections Pushed Back at Least a Week

Bolivia's National Electoral Court on Friday postponed for at least a week presidential and legislative elections planned for December 4 after political groups in Congress failed to reach a compromise on redistribution of seats in the legislature. The Court said it was no longer technically possible to hold the elections on December 4, and said that the earliest the

Opposition leader and presidential frontrunner Evo Morales warned over the weekend that he would lead mass protests if a new date for elections was not confirmed this week.

vote could now be held would be December 11—if lawmakers strike a deal this week, local daily *La Razon* reported. Representatives from the wealthy eastern province of Santa Cruz are refusing to back away from their demand that the government comply with a ruling last month by Bolivia's Constitutional Tribunal, which ordered a redistribution of seats in Congress in accordance with the most recent national census. The new allocation of seats would alter the balance of power in the country's legislature by giving the provinces of Santa Cruz and Cochabamba a combined six extra seats in the lower house, and stripping the provinces of La Paz, Oruro, and Potosi of the same number. Control of Congress is key in Bolivia, since it is the legislative body that decides the presidential election if no candidate wins a majority of the votes, as is expected to happen in the upcoming election. Radical coca farmer Evo Morales of the opposition Movement Toward Socialism leads in polls ahead of the election, and his supporters see the redistribution of seats in Congress as a

ploy to keep him from power. Over the weekend, Morales warned that he would lead mass protests if a new date for elections was not confirmed this week. As a compromise, President Eduardo Rodriguez, who scheduled the December 4 elections shortly after he took office in June following the resignation of President Carlos Mesa amid widespread protests, has proposed giving just two extra seats to Santa Cruz. He has threatened to bypass Congress by issuing a decree if the country's political groups fail to resolve the stand-off. [Editor's note: see related Q&A in the September 28, 2005 issue of the *Latin America Advisor*.]

Economic News

Caribbean Dismayed by WTO Ruling on Bananas

Officials from Caribbean banana-growing nations reacted with dismay and disappointment on Friday in response to a World Trade Organization ruling issued the day before that struck down a proposed European Union tariff on bananas. "There is a feeling of outrage in the region," said Ambassador Richard Bernal, director general of the Caribbean Regional Negotiating Machinery, in a press release. Charles Savarin, minister of trade, foreign affairs, and labor for



Richard Bernal

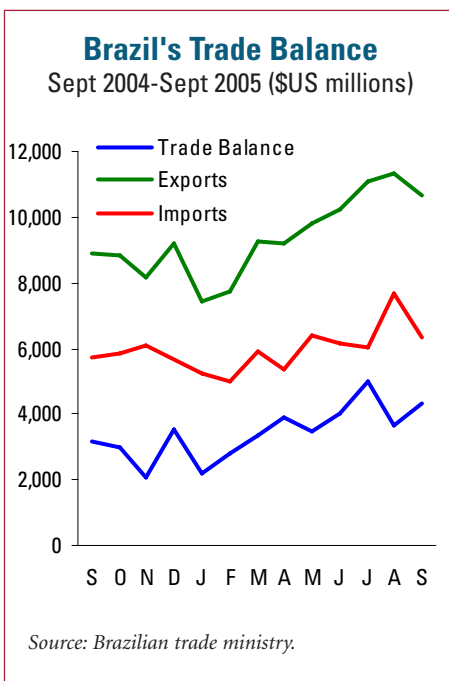
Photo: CRNM.

Dominica, questioned the value of WTO membership for small economies in light of Thursday's ruling. "It seems we have no place in the multilateral trading system, which is confining and consigning small, vulnerable developing countries to the dustbin, forcing them to be dependent on alms and handouts, rather than embracing them and enabling them to forge their own path to development," Savarin was quoted as saying in the same press release. In its ruling, a WTO panel upheld a claim by eight Latin American countries which said that a reduced European Union tariff of 187 euros (\$US 227) per ton failed to comply with global trade rules. The WTO ruled in August against an earlier EU proposal of

230 euros per ton. Latin American countries have challenged the EU's import regime for bananas amid fears they will lose market share when the EU transitions from a quota system to a tariff-based system. [Editor's note: see a related Q&A in the August 11, 2005 issue of the *Latin America Advisor*].

Poll: Brazil's Five-Year Economic Outlook Best in Latin America

Brazil's economic outlook over the next five years is the best in Latin America, 82 percent of European fund managers said in a survey released Friday by US investment research firm **Morningstar**, according to Reuters. The survey of 43 fund groups managing assets totaling 2.15 trillion euros (\$US 2.59 trillion) and conducted October 17-24, found that Brazil accounted for the biggest share of Latin American holdings by asset managers, at 64 percent. Survey respondents said that upcoming elections in the region would likely influence stock market direction, with 78 percent of respondents saying the elections would be important and 14 percent saying they would be "very important." Elections are planned in Bolivia, Chile, and Venezuela in December, while Peru will hold presidential elections in April. Fifty-three percent of fund managers said Latin American economies



The Dialogue Continues

A continuation of the October 28, 2005 Q&A

Q Colombian President Alvaro Uribe moved a giant step closer in his bid for re-election last week when the country's Constitutional Court approved a law allowing presidents to seek a second consecutive four-year term. Do you think Uribe will be able to run again next year? How serious should be viewed concerns about the potential for abuse by campaigning government officials?

A Guest Comment: Fernando Cepeda Ulloa: "On November 28, Alvaro Uribe should declare publicly and in writing, with a copy for the National Registry, his intention to participate in the electoral debate. As we all know, there exists a Law of Guarantees for the Opposition that was included in the Constitutional Reform that eliminated the prohibition against re-election. And the Congress approved a Statute Law that establishes these guarantees in 42 articles. The Law addresses several issues, *inter alia*: it defines the start of the presidential campaign (January 28, 2006); it looks to guarantee 'equality of conditions for the candidates;' and it establishes a special regime for state financing of campaigns that was agreed to with the Independent Democratic Pole, which is the Left. By virtue of that regime, the parties will receive an advance of 4.080 billion pesos that can be increased by an additional billion if

the party requests it. The maximum spending limit for the campaigns is 10 billion pesos. The money will be reimbursed after the elections according to the number of votes obtained (1,705 pesos for each vote obtained). If a party does not get 4 percent of the valid votes, it will not have a right to reimbursement. For the second round of presidential voting, if there is one, the parties will be advanced 2.450 billion pesos. Only 20 percent of the total authorized can be financed with non-state funds. There is also a generous rule with regard to free television and radio time, and strict rules about balance. And there are strict prohibitions for the president and public officials. The Regional Councils that take place every Saturday cannot be broadcast via television, once the president starts his candidacy (30 days from January 28 is the period of entering). There are rules about right of reply, etc. The Constitutional Court has until November 11 to decide on the constitutionality of the Statute Law. The Officialist Liberal party considers these guarantees insufficient."

Fernando Cepeda Ulloa is a Professor of Political Science at Universidad de los Andes in Bogota and a former Colombian Interior Minister.

would be affected by higher US interest rates more adversely than emerging market countries as a whole, according to the survey. In other economic news, Brazil's current account surplus rose 36 percent in September to \$2.38 billion compared to the same month of 2004, the Central Bank said Friday, according to Reuters. The September figure was driven by a 36 percent year-on-year increase in the country's

trade surplus to \$4.33 billion. However, foreign direct investment plunged to just \$43 million in September, versus \$646 million a year ago and \$1.14 billion the previous month. Economists said the sharp drop in FDI might be due to a number of one-off transactions by banks in Brazil to repatriate funds abroad to take advantage of gains in the country's currency, the real, Reuters reported.

Featured Q&A*Continued from page 1*

trend in terms of the relation of total credit card delinquencies over total credit card outstandings has been decreasing. This ratio reached a maximum in 1997 (44.1 percent) and has been continuously decreasing since then. This means that in the long run total outstandings have been growing on average faster than total delinquencies. Currently, the 2005 ratio stands at 3.1 percent, which compares significantly better than other mature credit card markets such as the US (4.2

“With 'good risks' already exhausted, the banks are now scraping the bottom of the barrel ...”

- *Tapen Sinha*

percent at the end of 2004 according to Nilson Report, March 2005). During the last five quarters, the ratio increased from 2.8 percent to 3.3 percent, and has averaged 3 percent, which again reflects a better position than other markets. MasterCard in Mexico has achieved significant and strong results over the last six years. Between 1999 and 2004, total credit and debit gross dollar volume has grown 64.8 percent on average per year, which reflects our success in communicating to people the benefits of using our credit and debit products instead of cash and checks. Actually, Mexico is among those countries which have increasingly adopted electronic payment solutions. MasterCard gross dollar volume as percentage of total GDP has jumped to 6.4 percent in 2004 from less than 1 percent in 1999. It is worth noting that MasterCard financial member institutions in Mexico are in a much better shape than 10 years ago. Important lessons were learned after the 1995 financial crisis. Mexico conducted important structural changes and now has credit bureaus, stricter financial discipline, wider consumer education, and a robust supervisory and regulatory body. All

these did not exist before 1995. Mexicans are starting to benefit from bank lending and are increasingly using bank services.”

A **Guest Comment: Tapen Sinha:** “The report of the CNBV said that the total outstanding credit of Mexican commercial banks stood at \$106 billion at the end of June, up 7.9 percent from last year. Of that, \$2.4 billion was past due, down 18.1 percent from a year earlier. Total consumer loans grew 46.6 percent between June 2004 and June 2005 to \$19 billion. Credit cards accounted for 54.3 percent of past-due consumer loans. In the past several years, banks in Mexico are aggressively pushing for lending more and more. The number of telephone operators contracted by banks for selling new credit cards to consumers has increased five-fold in the past two years alone. Thus, many consumers, who could not get a loan before, are able to get it now. With 'good risks' already exhausted, the banks are now scraping the bottom of the barrel to get more customers in this segment. The interest rates in general have come down in Mexico, but credit card lending rates are still high. Thus, the margins for the banks have stayed at very high levels—despite the defaults—credit card loans are still very profitable for banks. Thus, there is no real concern of the banks for higher default rates. But, it should ring alarm bells at the CNBV. If the interest rate starts to go back up, it could turn into a big headache for the regulator.”

Christian Stracke is Senior Analyst for *Emerging Markets Strategy at CreditSights, Inc.*

Armando Huitron is the Director of *Business in Mexico for MasterCard.*

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Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2005

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Latin America Advisor is published every business day by the Inter-American Dialogue
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Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

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