LATIN AMERICA ADVISOR

# FINANCIAL SERVICES ADVISOR

A PUBLICATION OF THE DIALOGUE

www.thedialogue.org

January 18-31, 2024



**FEATURED Q&A**

# Can López Obrador Push Through Pension Reforms?

Mexican President Andrés Manuel López Obrador announced earlier this month that he would seek an overhaul of the country's pension system. // File Photo: Mexican Government.

**Q** **Mexican President Andrés Manuel López Obrador in early January announced a new constitutional reform proposal that would entitle pensioners to continue to earn in retirement what they made during their working years, a plan that piggybacks on his party's previous pension system reform that passed in 2020. What are the most important details of this new proposal? How likely is the president's Morena party to secure the required votes in Congress to pass the overhaul before López Obrador leaves office in September? What would it look like if pensions switched over from the control of private administrators to the state? Who would benefit?**

**A** **Ernesto Revilla, managing director and head of Latin America economics at Citigroup:** "AMLO's proposal to reform the pension system to guarantee a 100 percent replacement rate (a pension equal to the workers' last salary) should be understood in the terrain of political strategy rather than on the realm of reality. AMLO will present constitutional reforms to Congress on Feb. 5 to guarantee a pension with a 100 percent replacement rate and also guarantee an annual increase in the minimum wage, higher than inflation. The starting point is that AMLO does not have the votes in Congress for this reform. Second, the mathematical impossibility of achieving such a promise is equivalent to promising an end of poverty by decree. No country in the world can achieve such replacement rates, much less an emerging market with limited fiscal space and a concerning fiscal outlook given constrained revenues and increasing expenditures (the 2024 budget shows the limits of Mexico's fiscal space). This proposal should be un-

Continued on page 3

**TOP NEWS**

FINANCIAL TECHNOLOGY

## Argentina-Based Pomelo Gets $40 Mn in Funds

Argentina-based start-up Pomelo, which develops tech infrastructure for the issuance of payment cards, announced that it had received $40 million in Series B funding.

Page 2

FINANCIAL TECHNOLOGY

## Santander's Unit in Mexico to Launch Digital Bank

A top executive at Spain's Santander said Jan. 23 that the bank will launch a digital bank in the coming months.

Page 3

BANKING

## Mexico's Banorte Reports 13% Rise in Profit for Q4

Mexico's Grupo Financiero Banorte, led by CEO José Marcos Ramírez, on Jan. 17 reported a 13 percent rise in net profit for the fourth quarter. The financial group said its profit was driven by loan growth and lower costs.

Page 2

Ramírez // File Photo: Banorte.

**BANKING NEWS**

## Mexico's Banorte Reports 13% Increase in Profit for Q4

Mexico's Grupo Financiero Banorte on Jan. 17 reported a 13 percent rise in net profit for last year's fourth quarter, Reuters reported. The financial group said its profit was driven by loan growth and lower costs, and it forecast that it would see a 10 percent rise in revenue this year. Banorte's net profit for the quarter amounted to 13.04 billion pesos ($768.8 million). Its revenues rose to 34.89 billion pesos in the fourth quarter, a 10 percent rise as compared to the same period a year earlier. Banorte's chief executive officer, José Marcos Ramírez said additions to the bank's portfolio services will help drive growth this year. Banorte's quarterly loan portfolio grew more than 12 percent year-on-year, saying the growth was aided by its method of selecting customers, Reuters reported. The bank's return on equity was 20.9 percent in the fourth quarter, and net interest income rose 9 percent, year-on-year. For all of 2023, Banorte reported net profit of 52.42 billion pesos, a 15 percent increase from 2022. In related news, Banorte on Jan. 29 launched Bineo, a digital bank that offers personal loans and savings accounts, Reuters reported. Banorte is seeking to attract 2.8 million new users to Bineo over the next five years, the wire service reported.

## Mexico Helps Fuel Fourth-Quarter Profit at Spain's BBVA

Spain's BBVA on Jan. 30 reported a 32 percent rise in net profit, year-on-year, for the fourth quarter of last year, with the bank's Mexico unit helping to fuel profits, Reuters reported. The bank's net profit of 2.06 billion euros ($2.23 billion) surpassed analysts' expectations of 1.88 billion euros in net profit, the wire service reported. BBVA's Mexico unit saw an 11.5 percent increase in net profit amid higher loan volumes and that supported net interest income. In Spain, the bank reported a 78 percent increase in net profit. The strong performances in Mexico and Spain offset weaker results in South America, where BBVA's units were hit by Argentina's peso devaluation and triple-digit inflation. In its Argentina operations, BBVA booked a loss of 5 million euros ($5.41 million) for the final quarter of 2023. Also on Jan. 30, BBVA announced a share buyback of 781 million euros ($846.1 million), The Wall Street Journal reported.

**FINANCIAL TECHNOLOGY NEWS**

## Argentine Start-up Pomelo Announces $40 Mn in Funding

Argentina-based start-up Pomelo, which develops the technological infrastructure for payment card issuance, management and processing, on Jan. 17 announced $40 million in funding from its Series B round, Bloomberg Línea reported. Venture capital fund Kaszek led the round, the news service reported. "It's quite unprecedented for Argentina and Latin America," said Gastón Irigoyen, Pomelo's chief executive officer and one of the start-up's founders. "It's very good news," he added. Irigoyen said the amount the company was able to raise in the funding round was significant, particularly given a less robust market for venture capital as compared to previous years. Pomelo, which was started in Buenos Aires, saw strong growth in payment volumes last year, and it recently made the decision to start operations in Chile, Bloomberg Línea reported. For this year, the start-up's leaders want to work toward profitability and also consolidate the company's expansion into new markets, the news service reported. "It's a year of consolidating our leadership in the markets of Brazil, Mexico, Argentina, Colombia, Peru and now the new launch in Chile," Irigoyen told Bloomberg Línea. "We are working on technology that allows us to help our clients serve other countries in the

**NEWS BRIEFS**

## Chilean Lawmakers Advance Reform of Pension System

The lower chamber of Chile's Congress has advanced legislation to reform the country's pension system, the Financial Times reported Jan. 24. Lower house members voted 84-64 to advance President Gabriel Boric's overhaul of the pension system. It now faces debate in the Senate. The reform makes changes that include raising the minimum guaranteed pension paid to lower-income workers and replacing private pension administrators with a public entity.

## Nubank May Re-enter Argentina if Economy Stabilizes: Executive

Brazilian digital bank Nubank would consider re-establishing operations in Argentina if the country's economy stabilizes, a top executive said, Bloomberg Línea reported Jan. 23. Cristina Junqueira, Nubank's co-founder and chief growth officer, said Argentina is a "very large market with a lot of people, people who I also think would like to have more options, better services." However, she added that Argentina is "a complex country to navigate." Nubank entered Argentina in June 2019 but exited soon after, saying it wanted to focus on Brazil, Mexico and Colombia.

## Brazilian Bank Afinz Buys Fintech PagoLivre

Brazilian bank Afinz has bought PagoLivre, a financial technology company that focuses on recurring payments, the chief executive officer of Afinz said Jan. 24 in a posting on LinkedIn. "We are very happy with this acquisition," said the CEO, Claudio Yamaguti. "PagoLivre brings unique expertise to add to the vision at Afinz," he added. The financial details of the transaction were not disclosed.

region," he added. Pomelo currently has 120 clients in the Latin American countries where it operates, and Irigoyen said the company is working toward becoming a unicorn, or a start-up with a valuation of more than $1 billion. Pomelo's country manager for Argentina, Santiago Witis, told Bloomberg Línea that the start-up has high hopes for Argentina, where new President Javier Milei has launched broad deregulation efforts. In the past year, Pomelo multiplied its processed payment volume by seven, Witis told the news service. To date, Pomelo has raised $103 million, including a Series A round that Tiger Global Management led in October 2021, Fintech Futures reported. In addition to extending its market presence, the start-up is planning to use its latest round of funding to invest in its technology. The company's payment technology allows embedded finance companies and financial technology providers to launch their own payment card programs and virtual accounts in multiple jurisdictions, Fintech Futures reported.

## Santander's Mexico Unit to Launch Digital Bank

The Mexico unit of Spain's Santander will launch a digital bank in the coming months, a top executive said Jan. 23, Reuters reported. Santander received a license from Mexico last July to roll out the digital product, known as Openbank. The product's launch "will be this year, soon," said the executive, Matías Nuñez, the head of digital and innovation at Santander Mexico, Reuters reported. "I hope in just a few months, we'll be back here to talk about the launch," he said at an event with Endeavor, a start-up advisor. The Spain-based bank has also launched several other digital services in Mexico, including a customer service bot that uses artificial intelligence application ChatGPT on its social media platforms, said Nuñez. Last year, Santander's Mexico unit also launched DiMo, an electric transfer platform powered by Mexico's central bank, he added. More than 700,000 clients have used DiMo so far, Nuñez added. Digital banks have grown rapidly in

**FEATURED Q&A / Continued from page 1**

derstood as part of the political chess game being played ahead of the 2024 election where AMLO is aiming for hegemony and a constitutional majority. By presenting such a proposal, AMLO wants to force the opposition to vote against it, and then cast it as the obstacles preventing people from receiving higher pensions and wages. AMLO has not suddenly given up his traditional concerns about increasing the public debt and depreciating the currency, turning into a budget-busting and economy-wrecking departing president; he is hoping that the opposition will bite. They, and market participants, would do well to ignore it."

A **Pablo Reynoso Brito, senior analyst at FrontierView:** "The details of AMLO's proposed pension reform will be revealed on Feb. 5. However, the reform's main objectives are ensuring that workers receive 100 percent of their salary during retirement—the OECD's average is 62.4 percent—and boosting government involvement in pension savings management. AMLO declared that retirement fund administrators (Afores) would still operate, but their new role remains unclear. AMLO's proposal has increased concerns about fiscal sustainability. In 2024, Mexico's fiscal deficit will reach 4.9 percent of the GDP, the highest since 1988, and its public debt is nearing 50 percent of GDP. AMLO expressed that the government would finance 'a considerable amount' of the proposed replacement rates, potentially by eliminating autonomous institutes—like the Federal Institute for Access to Public Information and Data Protection (INAI)—and transferring their budgets into pensions. However, 22 percent of the federal budget is currently used for pensions, while only 1.8 percent is used for autonomous institutes, so these resources would not have a significant impact. Moreover, allowing the government to administer savings could increase transparency and fund administration risks. The pension reform proposal looks more like an electoral strategy than a genuine effort. It needs 66 percent of the votes of each legislative chamber and 51 percent of state legislatures. Morena and its allies lack that majority and are unlikely to obtain it. Besides, resistance may increase due to the electoral season and the fiscal commitments that such reform would entail. If the reform is rejected, AMLO could blame the opposition, garner voter support ahead of the election, and continue his campaign against funding autonomous institutes."

A **Alma Caballero, managing director at McLarty Associates:** "President López Obrador has announced his intention to propose a series of constitutional reforms to Congress on Feb. 5, marking the anniversary of the promulgation of the constitution. These reforms span a wide range of subjects, including electoral, pension and judicial systems alongside ensuring higher minimum wage increases in the future. Despite the undisclosed details of the pension reform, the administration hinted at the prospect of allowing workers to receive 100 percent of their last working salary upon retirement. The timing of these proposals, just ahead of the June 2 elections, is no coincidence. While a two-thirds majority in both chambers of Congress is required for approval, which Morena lacks, the popularity of initiatives like doubling pensions and increasing minimum wages is expected to exert pressure on the opposition. These forthcoming reforms will likely enjoy significant public support, irrespective of their merits, potential costs and/or feasibility of implementation. AMLO, along with Morena and its allies, aims to secure a two-thirds congressional majority in the June elections, allowing them to unilaterally amend the constitution. In such a scenario, the period between the swearing-in of the newly elected legislators (Sept. 1) and the end of AMLO's term (Sept. 30) becomes a crucial timeframe for advancing these reform proposals and

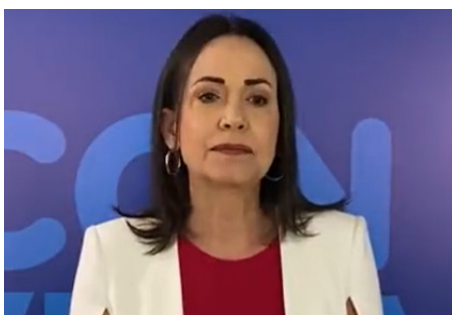
**Continued on page 6**

Mexico, leaving traditional banks struggling to catch up, the wire service reported. Digital bank Nubank had more than four million customers in Mexico at the end of September. Nubank's Mexico unit earlier this month launched enhancements to its digital application in order to allow users to receive money from users in the United States via WhatsApp through a partnership with remittance service provider Félix Pago, Bloomberg News reported.

**ECONOMIC NEWS**

## Biden Administration Reimposes Some Venezuela Sanctions

The U.S. Treasury on Jan. 29 reimposed sanctions on Venezuelan state mining company Minerven, telling U.S. entities dealing with the company that they must wind down their operations by Feb. 13, Reuters reported. The Treasury had allowed dealings with Minerven last October after Venezuelan President



**Machado** // File Photo: @MariaCorinaYA via X.

Nicolás Maduro's government and the opposition struck an agreement to hold a presidential election this year, with each side having the ability to choose its candidate. However, since then, Maduro's government and the country's government-allied supreme court have taken actions against the opposition, including a ruling on Jan. 26 by the high court upholding a 15-year ban on opposition presidential candidate María Corina Machado holding office. Earlier on Jan. 29, an official in the administration of U.S. President Joe Biden told Reuters that a temporary lifting of sanctions on Venezuela's oil industry would be allowed to expire on April 18 if the government does not allow Machado and other opposition members to run. "Unless Maduro and his representatives in Venezuela are able to get back on track, specifically with regard to allowing all presidential candidates to compete in this year's election, we will not be in a position to renew General License 44, which provides relief to Venezuela's oil and gas sector when it comes up for renewal in April," the unnamed official told Reuters. Also on Jan. 29, Machado, who overwhelmingly won the opposition's primary in October, said she would not step aside and favor a substitute to

**ADVISOR Q&A**

## How Coordinated Are Andean Nations in Fighting Crime?

**Q Peruvian President Dina Boluarte on Jan. 9 declared a state of emergency and called for the immediate deployment of a police task force to the country's border with Ecuador amid intensifying violence in the neighboring country. Ecuadorean President Daniel Noboa declared his country to be in a state of "internal armed conflict" due to a surge in violence and shows of power by the nation's gangs, most of which are tied to narcotrafficking. Peru and Colombia are the world's largest cocaine producers, and Ecuador has become a primary transshipment point for drug trafficking. What policies should Peru and Colombia adopt to aid in Ecuador's crisis and bolster domestic and regional security? How much military cooperation currently exists between Peru, Colombia and Ecuador—and is there a need for a more unified approach to security?**

**A Monica Rojas G., professor at the School of Economics at Universidad San Francisco de Quito:** "The current crisis has been building up over the past 15 years or more. Among other reasons, Ecuador is a dollarized economy that facilitates transactions without going through any currency exchange; the constitutional reform of 2008 prohibited foreign military bases in the country; specifically; that reform closed the U.S. military base in Manta. Plan Colombia, signed in 1999, also pushed some illegal activities into Ecuadorean territory. In addition, there is weak control and supervision in ports, and the port of Guayaquil is a major port in South America. The events of the past weeks with prisoners' escapes and the wave of violence reflect the weak institutions and lack of intelligence and equipment in law enforcement to maintain order. Peru, Colombia and other countries in the region have an important role in this crisis—not only in collaborating to find gang leaders who may be hiding in the region but also with internal measures in each country. More border controls and immigration checks have been implemented at both borders. Internal policies within countries include control of drug production, which is an effort that requires international aid. This is a global war against drug cartels and narcoterrorism in all its different phases, from production to transportation to consumption. It's a worldwide public health problem; as such, it should be a global decision to strengthen the fight against this war and count on global cooperation. At this moment, the center is Ecuador, and the country lacks the funds, intelligence and technology to deal with this problem independently."

**EDITOR'S NOTE: More commentary on this topic appears in the Jan. 26 issue of the Latin America Advisor.**

**NEWS BRIEFS**

## Bahamian Authorities Vow to Crack Down Amid Rising Murder Rate

Bahamian authorities declared they would crack down on crime following a recent spike in violence that led the U.S. Embassy to issue a warning to travelers, the Associated Press reported Jan. 29. There have been 19 homicides so far in January in the Bahamas, an increase from past years. The U.S. Embassy blamed "retaliatory gang violence" for most of the killings, none of which targeted tourists.

## Former Peruvian Intelligence Chief Pleads Guilty in Massacre Case

Former Peruvian President Alberto Fujimori's intelligence chief, Vladimiro Montesinos, pleaded guilty Jan. 29 to charges related to the 1992 killing of six farmers accused of being rebel guerrillas, the Associated Press reported. Montesinos pleaded guilty to charges of homicide, forced disappearance and murder. Fujimori—who was released from prison in December when a constitutional court upheld a 2017 presidential pardon—will also face an inquiry over the massacre.

## Colombia's Rights Ombudsman Urges Action Against Wildfires

Colombia's human rights ombudsman on Jan. 26 called on local authorities to take preventative action against wildfires, Reuters reported. President Gustavo Petro's government earlier in the week said it would declare a natural disaster in order to allocate resources to fighting wildfires that have been raging amid Colombia's dry season, where the El Niño weather phenomenon has worsened conditions for fires. The rights ombudsman, Carlos Camargo, urged the government to strengthen fire departments and monitor risk-management capabilities

run in her place. "There is no retreat. We have a mandate and we will complete it," Machado told reporters in Caracas. Venezuela's high court upheld Machado's ban from holding office on allegations that she was involved in financial irregularities during her time as a legislator. Machado has denied those allegations and called the ruling a "judicial crime," Reuters reported.

## Argentina's Milei Abandons Main Parts of Austerity Package

The government of Argentine President Javier Milei has abandoned main parts of its austerity package in order to win its passage in Congress, Bloomberg News reported Jan. 26. Economy Minister Luis Caputo announced that the government was watering down the bill by removing its fiscal chapter, which included tax increases on exports including corn, grains and soy derivatives. The government is also removing a proposed pension reform and an income tax increase. 'We will give ourselves a little more time to figure out what we can do better for Argentines on the fiscal side without ever giving up on the concept of reaching our goal of zero deficit," Caputo told reporters at a press conference, Bloomberg News reported. The reform package, which also would privatize dozens of state-owned companies and expand presidential powers on matters related to the economy, won narrow approval last week in three congressional committees. Fifty-five lawmakers backed the reforms, but 34 of them were partially critical of the reforms, meaning that they might have voted against it if key parts were not changed. The lower house of Argentina's Congress is expected to vote soon on the reforms. Caputo expressed optimism that the package would now win approval in Congress after it achieved a "clear consensus" on the portions of the legislation apart from the fiscal chapter, said Caputo. On Jan. 24, Argentina's labor unions held a 12-hour national strike in protest of the government's austerity and labor reforms. Thousands of people marched toward Congress in opposition to the reforms, CNN reported. [Editor's note: See related Q&A in the Jan. 22 issue of the daily Latin America Advisor.]

**POLITICAL NEWS**

## Colombian Gov't, ELN Extend Cease-Fire by a Week

Colombia's government and the National Liberation Army, or ELN, rebels on Jan. 29 agreed to extend their cease-fire by a week as representatives of both sides continue peace talks in Cuba, the Associated Press reported. The cease-fire began in August and had been set to expire on Jan. 29. Under the deal, the two sides agree not to attack each other, and one of the cease-fire's stated goals is to "improve the humanitarian situation" of communities in Colombia that are affected by the conflict. The agreement contains no provisions, however, to prevent the ELN from kidnapping civilians for ransom or recruiting minors into their ranks, both of which have continued happening in recent months, the AP reported. The ELN has also complained that Colombia's military has undertaken operations in areas that the rebels control. On Jan. 29, the two sides said they would talk about ways to "strengthen" the cease-fire. While the government has called on the ELN to halt kidnappings, the ELN has asked the government for alternate methods of financing their operations. The ELN has also said it will only halt kidnappings if there is a new cease-fire deal, the AP reported. In October, ELN rebels kidnapped the parents of soccer star Luis Díaz. Police quickly released his mother, and his father was released 12 days later. "The opponent is delaying the game while fortifying its position," Jaime Pumarejo, a former mayor of Barranquilla, told the Dialogue's daily Latin America Advisor in a Q&A published Jan. 23. "For these cease-fires and peace talks to succeed, they must do so with the verification that extortions, kidnappings, murder and territorial control do not continue," Pumarejo added.

**FEATURED Q&A** / Continued from page 3

shaping the legislative agenda for the succeeding administration."

**A** **Rodrigo Abud, founder and managing director of Panorama in Monterrey, Mexico:** "On Feb. 5, President López Obrador is set to introduce a sweeping constitutional reform package, which includes a proposal aimed at modifying Mexico's existing pension system. While much around the reform is still unknown, the government has suggested that it is designed to build upon changes implemented in 2021, striving to ensure that retired workers receive a pension equivalent to 100 percent of their final salary. Passing this reform will not be a straightforward task for the president's Morena party, as it requires securing two-thirds of the legislative vote. Given the reform's emphasis on social justice, it is plausible that opposition parties may choose to support it, considering the political implications leading up to the general elections in June. Failure to support this reform would reinforce Morena's claims that opposition parties are distant from societal needs, resulting in broader electoral legroom. Even if the reform is approved, several challenges loom ahead. Approximately 56 percent of Mexican workers operate in the informal sector, rendering them ineligible for the benefits proposed by this reform. Another challenge lies in the unclear funding mechanism, with AMLO suggesting the use of proceeds from the elimination of autonomous institutions to finance the initiative. This raises concerns about potential government control over pension funds, although it has been suggested that Afores would continue to exist. The reform's success hinges on securing legislative support and addressing key challenges such as informal sector inclusion and funding sources. This may require broader fiscal changes to ensure its sustainability without negatively affecting other essential sectors."

**A** **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** "In 1997, Mexico's pension system underwent a radical change: For those who started a formal job on or after July 1, 1997, their future pension was moved to a publicly mandated but privately run system. If a person worked in the formal sector, 6.5 percent of the base wage was transferred to a fund (called an Afore). The money was invested in different assets (government bonds have the biggest share). The problem with the scheme was that pension payments were too small at the end, especially for people not contributing for their entire work life. The government reformed the system to increase the contribution to 15 percent of the base salary—coming from the employer. With that, it is expected to boost the median pension to half the pre-retirement base salary. López Obrador's current proposal is to increase the pension income to 100 percent of pre-retirement base salary. I calculated that it would require a contribution of 24 percent of the base salary. The question is: Who will pay for this increase in contributions? If the employees are asked to increase their contribution, they will revolt. If the employer is forced to foot the bill, they will respond by simply switching to more hiring in the informal market. If the government picks up the tab, it will add to the government debt. I calculated it will add another 3.5 percent to the current budget deficit indefinitely into the future. None of these solutions would appeal to the political parties with Mexico's presidential election around the corner."

FINANCIAL SERVICES ADVISOR
is published biweekly by the
Inter-American Dialogue ISSN 2163-7962

**Gene Kuleta**
Editor

**Carl David Goette-Luciak**
Reporter

**Nili Blanck**
Reporter



**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

www.thedialogue.org

