THE DISTRIBUTION OF DIVIDENDS OF MULTINATIONAL BANKSOPERATING IN LATIN AMERICA[1]

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Since the 1990s foreign bank participation has increased significantly in Latin America. The presence of foreign banks in host countries, particularly in emerging markets, has been well documented in the literature, suggesting that foreign banks are more efficient in developing countries (Demirguc-Kunt and Huizinga 1998; Claessens, Demirguc-Kunt and Huizinga 1998). Indeed, foreign banks can increase competition which could lead to lower interest rates for borrowers (Levine 1996) and promote economic growth. Foreign banks could indeed be in a better position to provide credit, and hence boost domestic investment in host economies, at a lower rate than domestic banks mainly due to the support they receive from their parent bank.

On the other hand, foreign banks can be in a better position to cherry-pick their customers hence leaving other banks bearing the risk of the rest of the customers. Therefore, a higher share of foreign banks in the market reduces the profitability of domestic banks (Claessens, Demirguc-Kunt and Huizinga 1998). Indeed, profitability plays a decisive role for banks setting up overseas operations and, overall, foreign banks tend to outperform domestic banks in host countries This could suggest that the earnings of multinational banks could leave the host country in the form of dividend repatriation and hence leave little for re-investment (Gonzalez 2013). However, the repatriation of profits, in the form of dividends, of foreign banks is not well documented in the literature.

This chapter adds to the literature on international banking by analysing some of the activities of multinational banks that operate in countries in Latin America through foreign subsidiaries. Using bank-level data on all multinational banks that operate in Argentina, Brazil, Chile, Colombia, Mexico and Peru, this chapter presents evidence on dividends paid to the shareholders of the parent company. The findings suggest that dividend payments in most countries in Latin America have been rather volatile over the last few years. When looking at the dividend payout ratio, the analysis suggests that, on average, foreign banks that operate in

[1] I thank Ali Hassan for his research assistance. I am also grateful for comments and suggestions received from Eric Owusu Boahen and other participants during the STAMP session on Globalisation in Questions at the UEL Summer Research conference.

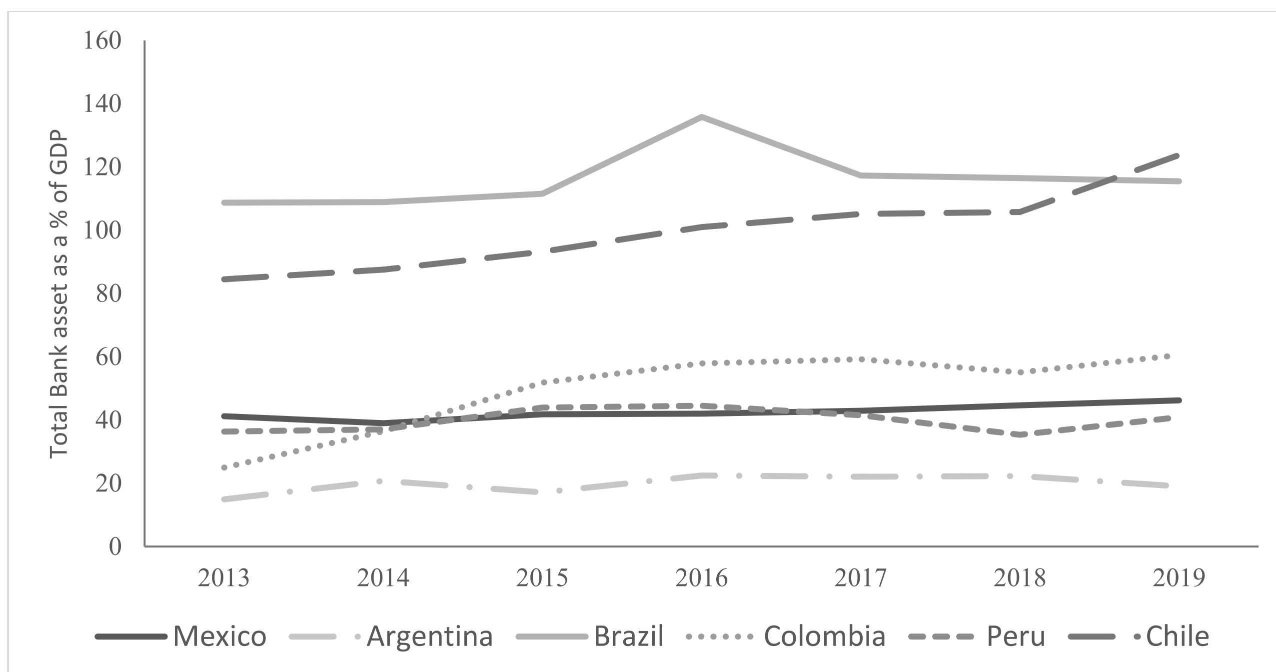
Mexico, Brazil and Chile pay a higher proportion of their earnings in dividend to the shareholders of their parent banks. Furthermore, this chapter argues that macroeconomic conditions in host countries could help explain the dividend repatriation of foreign banks.

The analysis begins with a brief overview of the foreign banks that operate in the six Latin American countries. Given the crucial role banks play in the economy by means of providing the necessary credit to companies to finance their investment opportunities we examine the lending portfolio of these banks that reside in the selected countries. The last section of the chapter discusses the dividend repatriation activities of the multinational banks discussing the implication of this on the economies of host countries.

5.1 An overview of banking sectors and data description

We obtain information on foreign subsidiaries of multinational banks that operate in Latin America, namely Argentina, Chile, Mexico, Brazil, Peru and Colombia, from the BankFocus database. Our sample includes all foreign subsidiaries[1] that are at least 50 percent owned by the parent bank and hence the parent has a controlling stake. We consider only banks with at least one foreign subsidiary in each Latin America country. For those banking groups that have more than one subsidiary in each country, the consolidated banking group is considered.

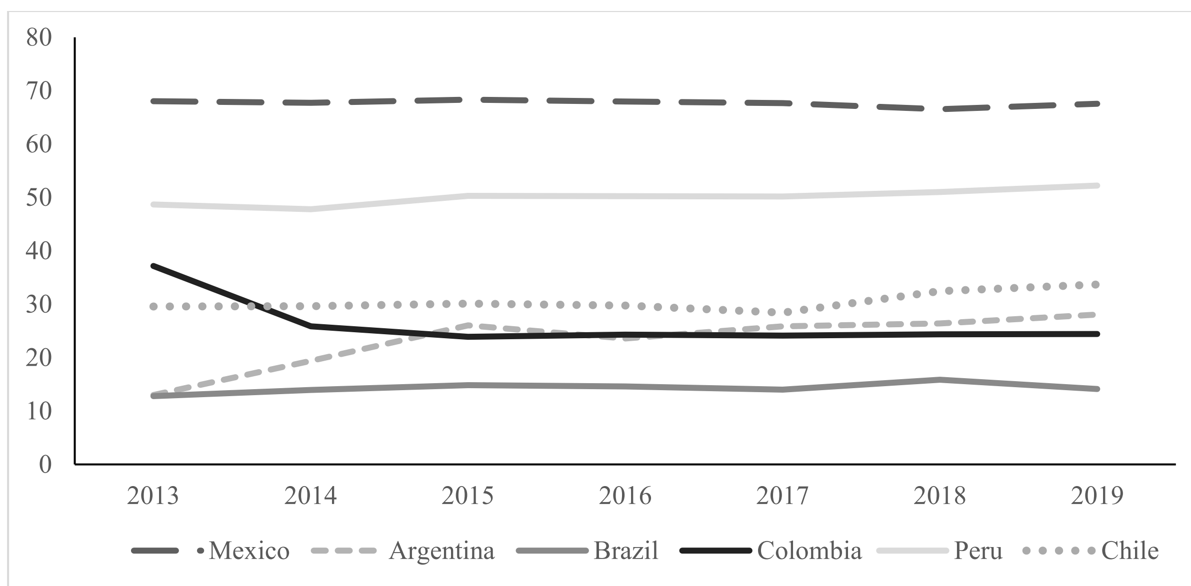
We also obtain information on all available domestic banks in each Latin American country. We further distinguish between privately owned and state-owned domestic banks. We consider a bank to be state-owned if the government owns at least 50 percent of the shares.
In total we have 103 foreign-owned banks and 129 domestic banks. Figure 5.1 shows the size of the banking sector for each country as a share of GDP. Brazil has the largest banking sector, by asset, relative to the GDP over the period 2013–2019.[2] Chile, on the other hand, seems to have exceeded Brazil's level with the country's banking assets accounting for 123 percent of GDP, as of 2019. That is a significant increase from the 2013 levels of nearly 84 percent. Similarly, Colombia is associated with higher banking sector size over the period, increasing from 26 percent to 60 percent of GDP in 2019. However, the reverse can be observed for Peru's banking sector showing a slightly lower share of its banking assets relative to GDP. The size of the Mexican banking sector, however, seems to have remained almost constant, accounting for, on average, 43 percent of GDP.



Notes: Total assets are obtained from the financial statements available from BankFocus. GDP is obtained from World Bank and is in current prices.
Source: BankFocus and World Bank, authors' calculation

Figure 5.1 Total banking assets as a share of GDP

Foreign bank participation has also been stable over the last few years in Mexico, as evident in Figure 5.2 The share of foreign bank assets to total banking sector assets in Mexico accounts for around 70 percent. Peru is another Latin American country for which the share of total bank assets held by foreign banks is high, accounting for more than 50 percent of total banking sector assets. Conversely, Brazil has the lowest foreign bank participation with banking assets held by foreign-owned banks being 15 percent of the total bank assets. Foreign bank participation increased significantly during the 1990s in Brazil, however by mid-2000 they retreated, the reason being, amongst other things, the low profitability of the sector (Fachada 2008).



Source: BankFocus, authors' own calculations

Figure 5.2 Share of banking assets held by foreign-owned institutions

Whilst financial development is argued to promote economic growth (King and Levine 1993)[3],[4] the overall size of the financial system, in particular the banking sector, received much attention during the financial crisis of 2007–2009. However, the evidence is mixed in the sense that the crisis highlighted that countries with large banking sectors relative to the size of the economy, such as Iceland, faced similar banking distress in the aftermath of the crisis, as those countries with relatively smaller banking sectors such as Italy and Greece. Hence whilst the overall size of the banking sector as a share of the economy might not be a source (or indicator in increasing the vulnerability) of bringing about a financial crisis, Kakes and Nijskens (2018) suggest that some indicators of banking sector size could be a source of financial fragility. They find a positive correlation between various variables such as credit volume, bank leverage, non-deposit funding and the market share of the largest banks operating in the sector, and financial distress. They add to the literature considering the possible negative relationship between finance and growth. A large banking sector that exceeds beyond a certain level could indeed turn this relationship negative or insignificant (Easterly et al. 2000; Cecchetti and Kharroubi 2012; Bijlsma et al. 2018). On the other hand, the financial fragility could arise given the nature of the financial sector being inherently unstable (Kindleberger 1978; Minsky 1992).

Attention has also been given to the size of individual banks operating in a given economy (Davies and Tracey 2014, Laeven et al. 2014) as a possible source of financial instability. Large banks tend to be highly leveraged and rely more on wholesale funding which

could make them more vulnerable to financial risk. For instance, focusing on foreign-owned institutions that operate in Mexico, BBVA Bancomer accounts for nearly 22 percent of the market share, by asset size. This is followed by Citibanamex and Santander, both having a near-13 percent market share. HSBC and Scotiabank are at the top of foreign bank participation in Mexico, albeit with a much smaller market share, ranging between 5 percent and 7 percent of the total banking sector assets. Argentina's banking sector share of the economy is smaller than the other selected Latin American countries, accounting for nearly 20 percent, with Santander dominating the market. Its asset size accounts for just over 12 percent of total bank assets. This is followed by BBVA with nearly 9 percent of the market and HSBC having nearly 65 percent of total banking sector assets. Looking at Table 5.1, it can be seen that loan-to-deposit of foreign bank operating in Mexico has increased slightly over the period between 2013 and 2019, suggesting that the reliance of non-deposit funding has increased. However, the wholesale funding ratio of these banks seem to have declined since 2013. Domestic banks, on the other hand, seem to be more reliant on wholesale funding, which is significantly higher than foreign banks. A possible explanation for this could be that parent banks provide funds to their subsidiaries via the internal capital markets (De Haas and Van Lelyveld, 2014). Mexican domestic banks also seem to have a higher leverage ratio than foreign banks but are less profitable.

Santander also dominates the Brazilian banking sector as a foreign bank having 10 percent of the total banking sector assets. JP Morgan and BNP Paribas on the other hand have a 1 percent combined market share of total banking assets. As discussed above, foreign bank participation in Brazil is relatively small with domestic state-owned banks dominating the sector. In particular, Itau Unibanco, Banco Bradesco, Banco do Brazil, Caixa and BNDES have more than 75 percent of the total banking sector assets. Out of the top five domestic banks in Brazil, three, namely Caixa, Banco do Brazil and BNDES are state-owned banking institutions. Similar to the case of Mexico, foreign banks operating in Brazil rely less on wholesale funding but are much less profitable than domestic banks. Perhaps lower growth opportunities and volatile economic conditions[5] could be an explanation for the relatively low foreign bank participation in the Brazilian banking sector. Santander is also a significant bank in Chile and Peru, accounting for nearly 20 percent of the total banking assets in the former but with a much smaller share in Peru, having only a 1.4 percent share in total banking assets. In Peru, nearly 16 percent of banking assets are held by Scotiabank, a Canadian bank. Scotiabank also operates in Peru with a significant market share by asset size, accounting for more than 13 percent of total assets.

Foreign banks that operate in Peru seem to be more profitable than domestic banks, despite having similar wholesale funding ratios in 2019, as Table 5.1 depicts. In the period between 2015 and 2017, their reliance on wholesale funding was lower than domestic Peruvian banks. However, foreign banks in Peru seem to be more leveraged than domestic banks. Foreign banks in Peru play an important role in providing credit in the economy, supplying more than 65 percent of the total credit. However, the credit volume seems to be funded by loans issued in the domestic market, as reflected in the higher loan-to-deposit ratio associated with foreign banks, which is higher than that of the domestic banks.

Table 5.1: Banking indicators of domestic and foreign-owned banks

	2013	2015	2017	2019		2013	2015	2017	2019
	Brazil					***Colombia***			
Domestic banks					**Domestic banks**				
Loan-to-deposit	1.84	2.06	1.70	1.46	Loan-to-deposit	1.05	1.16	1.20	1.20
Deposit-to-asset	0.26	0.24	0.26	0.29	Deposit-to-asset	0.59	0.56	0.58	0.57
Leverage	14.68	14.87	12.30	11.36	Leverage	7.77	9.21	8.25	7.98
Wholesale funding	0.45	0.48	0.45	0.43	Wholesale funding	0.23	0.25	0.23	0.24
ROE	17.85	18.97	14.59	18.76	ROE	12.50	16.24	11.77	14.54
Foreing banks					**Foreing banks**				
Loan-to-deposit	1.57	1.73	1.36	1.29	Loan-to-deposit	0.91	1.04	1.03	1.04
Deposit-to-asset	0.13	0.21	0.23	0.24	Deposit-to-asset	0.77	0.66	0.67	0.65
Leverage	23.72	11.95	11.10	12.76	Leverage	11.68	10.76	10.93	10.45
Wholesale funding	0.17	0.43	0.37	0.32	Wholesale funding	0.12	0.19	0.20	0.20
ROE	0.25	0.78	0.98	1.49	ROE	14.62	13.26	9.37	11.55
	Mexico					***Peru***			
Domestic banks					**Domestic banks**				
Loan-to-deposit	1.15	1.18	1.01	1.14	Loan-to-deposit	0.69	0.89	0.95	0.65
Deposit-to-asset	0.40	0.41	0.44	0.41	Deposit-to-asset	0.64	0.53	0.55	0.62
Leverage	11.45	10.90	11.80	10.47	Leverage	5.97	6.66	6.91	6.76
Wholesale funding	0.52	0.49	0.44	0.49	Wholesale funding	0.16	0.28	0.27	0.18
ROE	11.42	10.37	13.73	13.52	ROE	10.52	11.16	7.23	12.28
Foreing banks					**Foreing banks**				
Loan-to-deposit	1.01	1.03	1.03	1.06	Loan-to-deposit	0.91	1.05	1.09	1.15
Deposit-to-asset	0.43	0.44	0.47	0.47	Deposit-to-asset	0.69	0.61	0.63	0.59
Leverage	9.41	9.97	9.89	9.46	Leverage	8.80	9.02	7.13	7.40
Wholesale funding	0.27	0.25	0.21	0.21	Wholesale funding	0.17	0.19	0.15	0.18
ROE	15.72	13.64	17.19	18.45	ROE	14.87	16.70	13.30	14.22
	Argentina					***Chile***			
Domestic banks					**Domestic banks**				
Loan-to-deposit	1.10	0.85	0.80	0.72	Loan-to-deposit	1.10	1.12	1.10	1.20
Deposit-to-asset	0.45	0.54	0.59	0.61	Deposit-to-asset	0.63	0.61	0.62	0.55
Leverage	9.96	9.36	9.36	9.13	Leverage	13.55	13.91	13.10	14.12
Wholesale funding	0.42	0.31	0.24	0.20	Wholesale funding	0.22	0.24	0.24	0.27
ROE	26.25	30.03	18.91	25.02	ROE	17.02	15.75	14.31	13.56
Foreing banks					**Foreing banks**				
Loan-to-deposit	2.10	0.79	0.85	0.68	Loan-to-deposit	1.37	1.33	4.98	1.45
Deposit-to-asset	0.63	0.68	0.69	0.68	Deposit-to-asset	0.54	0.53	0.15	0.46
Leverage	7.79	8.61	9.29	8.41	Leverage	10.58	12.02	37.80	14.83
Wholesale funding	0.15	0.09	0.14	0.12	Wholesale funding	0.29	0.26	0.09	0.28
ROE	26.89	24.70	16.85	41.96	ROE	15.58	13.74	10.17	14.59

Notes: Loan to deposit is equal to the share of gross loans and advances to customers to customer deposits, Leverage is calculated as the ratio of assets to equity, Wholesale funding represents the share of wholesale funding to total assets, ROE is computed as a share of net income to shareholders' equity.

5.2 Lending portfolio and dividend repatriation

The banking system plays a key role in providing credit for investment opportunities and thus contributing to economic growth. The argument in favour of emerging economies opening to foreign bank ownership is indeed that these banks increase the funding available to domestic investment projects as well as contribute to the overall supply of credit in the economy (Dages et al. 2000). However, the literature on credit supply to small businesses suggests otherwise. Indeed, Berger et al. (2001), using a rich dataset containing income and balance sheet statements of 61,295 Argentinean firms for 1998, find that foreign bank lending to small businesses tends to be significantly lower than larger ones. Similarly, Clarke et al. (2005), using bank level data over the mid-1990s for Argentina, Chile, Colombia and Peru find that foreign banks lend less to small businesses than domestic banks.

Due to data limitations, this study cannot distinguish loans to businesses by business size, but it can observe the contribution of foreign banks in lending to different sectors in the economy. Table 5.1 exhibits that foreign banks in Mexico do indeed provide more credit than domestic banks. Around 69 percent of the total loans in the economy were provided by foreign banks in 2019. Foreign banks also outperform domestic banks in all loan categories such as mortgages, consumer and corporate loans. Therefore, foreign-owned banks play a vital role in the Mexican economy in supplying credit to both households and corporations. The Peruvian economy also benefits from foreign banks that reside in the country with around 65 percent of the loans being made by them in 2019. Foreign banks also dominate the mortgage market, providing more than 90 percent of total mortgages, increasing significantly from 66 percent in 2013. Foreign banks also provide the vast majority of corporate loans, accounting for more than 90 percent.

In the other four countries, namely Argentina, Brazil, Colombia and Chile, it can be observed that the supply of credit is mainly provided by domestic banks rather than foreign banks. In the case of Chile, nearly 40 percent of mortgages, consumer loans and credit to corporations are provided by foreign banks. These contributions are smaller in the case of Argentina, for which it ranges between 30 percent and 36 percent. Foreign banks located in Brazil provide only nearly 11 percent of total credit in the economy. However, the contribution in each loan category tends to be rather volatile over the period 2013–2019. Credit to corporations increased from nearly 22 percent in 2013 to nearly 35 percent in 2015–2017 and then decreased again in 2019.

Table 5.2: Share of foreign bank lending (%)

Country	Year	Total loans	Mortgage loans	Consumer loans	Corporate loans
Mexico	2013	66.91	86.9	92.8	75.6
	2015	66.60	86.6	90.7	74.1
	2017	69.37	88.4	89.0	82.7
	2019	69.18	89.4	85.5	84.3
Argentina	2013	28.41	4.8	26.8	28.7
	2015	29.18	9.1	27.7	33.0
	2017	30.40	11.4	31.8	37.5
	2019	29.15	24.2	31.5	36.3
Brazil	2013	5.7	1.6	11.9	21.8
	2015	11.4	30.0	6.9	35.8
	2017	10.2	24.8	5.9	34.4
	2019	10.7	30.6	26.5	22.7
Colombia	2013	26.9	41.2	17.3	29.8
	2015	24.1	33.3	15.1	37.9
	2017	23.9	32.7	16.5	33.2
	2019	24.2	25.0	25.7	26.9
Peru	2013	57.8	66.1	32.6	88.0
	2015	58.5	68.0	36.6	90.0
	2017	57.9	69.3	37.0	86.4
	2019	65.3	92.2	41.1	96.0
Chile	2013	30.88	45.9	38.6	31.3
	2015	30.73	45.4	39.8	31.8
	2017	30.31	34.5	40.3	38.2
	2019	34.06	39.4	39.8	39.1

Notes: Total loans represent the share of gross loans and advances of foreign owned banks to total gross loans and advances. Mortgage, consumer and corporate loans represent the share of each loan category of foreign institutions to the total.

Dividend repatriation

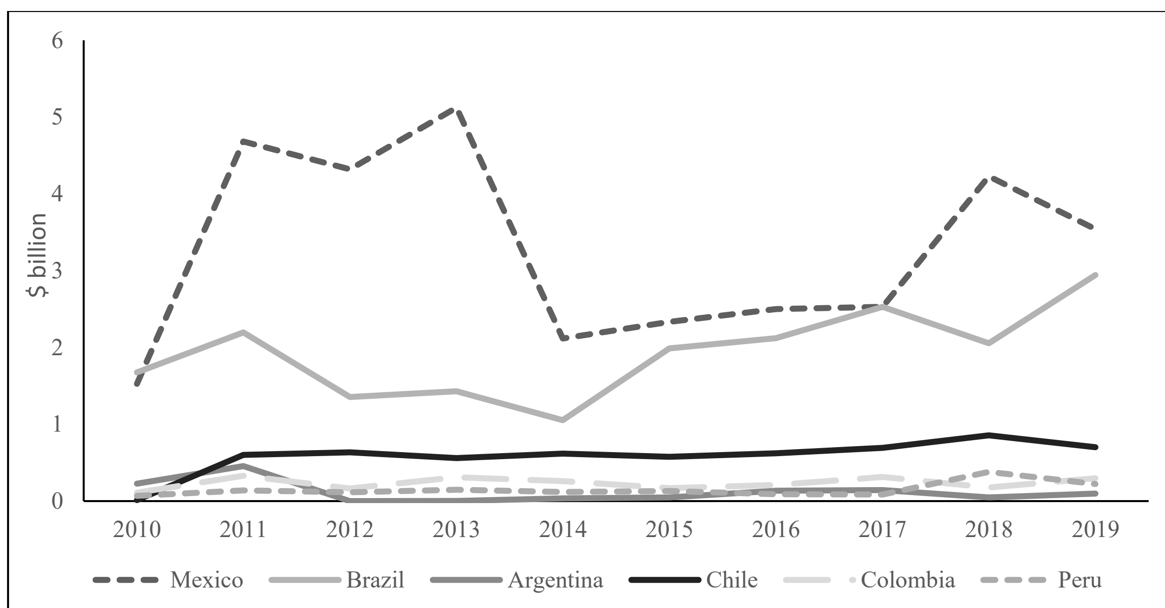
Whilst the foreign operations of banks in Latin America have been well documented in the literature, little is known about the dividend payments of those banks to the main stakeholders, in our case the parent bank. Banks expand internationally by setting up branches or subsidiaries. Subsidiaries are in effect a separate legal entity in which the parent bank can have a large stake, or wholly own it. Therefore, and especially in the case in which it is wholly owned by the parent bank, any profit that is generated in host countries where foreign subsidiaries operate is distributed to the parent company partly in a form of dividend repatriation. We have mainly included those subsidiaries that are wholly owned by a bank headquartered outside the legal jurisdiction in which the subsidiary operates. Dividend

payments made to the shareholders of the parent bank[6] are reported in the financial reports available from BankFocus.

Overall, we find that bank dividend payments in the countries selected are rather volatile.[7] This is consistent with the dividend payments in Emerging Markets reported by the Henderson Group.[8] According to this study, the region reported an increase by more than 10 percent in dividend payments as of the end of 2019, with Brazil being the main contributor of our selected six Latin America countries, with a total of over $2.3 billion dividend payments paid in the first quarter of 2019. This was followed by Chile, Mexico and Colombia. The Henderson Group also reports that the financial sector, with banks being the most significant group, is the largest contributor to the overall world dividend payouts.

Looking at the dividend repatriation of foreign-owned banks operating in Latin America, we can observe that banks located in Brazil and Mexico have made the largest dividend payments during the last decade, as seen in Figure 5.3. Indeed in Mexico, as of 2019 foreign banks distributed a total of $3.5 billion in dividends to the shareholders of the parent bank. BBVA Bancomer, which is a Spanish-owned bank, paid a total of $1.9 billion, followed by Citibanamex with nearly $850 million. Banco Santander paid nearly $550 million and HSBC Mexico around $107 million. Over time however, the dividend distribution has been rather volatile, increasing in 2012 and then falling sharply in 2014, with both Banco Santander and Citibanamex reducing their dividend payments significantly, reflecting the decline in economic activity, as measured by GDP, in the period between 2014 and 2016.

Banco Santander was the main contributor of dividend payments of foreign subsidiaries operating in Brazil, in 2019. Out of the nearly $3 billion dividend payments made by foreign owned banks, Banco Santander paid nearly $2.7 billion in dividends. Santander is also the main contributor of total dividend payments in Peru, accounting for nearly 70 percent of all payments with nearly $500 million. Other banks that operate in Peru paying dividends to their parent stakeholders are HSBC and Scotiabank. Overall Peru has seen a steady increase in total dividend payments since 2010. Scotiabank and Santander also operate in Peru and Colombia and are the main foreign banks that make and distribute dividends to their parent stakeholders.



Source: BankFocus, authors' own calculations

Figure 5.3 Total dividend payments

Looking at the dividend paid relative to the net income generated by foreign banks in Table 5.3 Brazilian banks have a high payout ratio, with nearly 74 percent as of 2019. However, this is lower than in the previous years for which that ratio reached 85 percent in 2013. Even though foreign-owned banks located in Mexico have made the highest dividend payments, as discussed above, in proportion to income earned they fall behind those banks located in Brazil. A possible explanation of this could be that given the economic recession Brazil experienced in the period between 2014 and 2016, see Table 5.4a, foreign banks seem to repatriate a large proportion of their income in the form of dividends to their parent bank rather than reinvest in the affiliate. Foreign banks in Chile and Colombia, whilst having similar payout ratios in 2019, paying 60 percent of their earnings in dividends to their shareholders, over the years have been seemingly dominated by foreign Colombian banks. Indeed, those banks operating in Colombia have paid dividend that have exceeded 80 percent of their earnings, reaching 84 percent in 2017. Argentina and Peru have also rather volatile dividend payout ratios, as depicted in Table 5.3. Argentinian operating banks have decreased their dividend payments significantly from 2017, with the ratio falling from nearly 22 percent to 8.5 percent in 2019. The reverse can be observed in the case of Peru, for which banks have more than doubled their dividend payout ratio, increasing from 18 percent in 2017 to around 39 percent in 2019. Whereas in 2018 more than 80 percent of earnings of Peruvian foreign-owned banks were distributed in the form of dividends to the shareholders, leaving less than 20 percent to re-investment.

Table 5.3 Dividend Payout ratio

	2013	2014	2015	2016	2017	2018	2019
Mexico	91.0	47.3	52.5	62.9	47.4	65.7	48.7
Brazil	85.0	67.8	81.0	91.3	77.5	53.6	73.9
Argentina -		4.1	6.9	20.2	22.3	7.3	8.5
Chile	56.2	55.4	74.5	67.5	59.8	79.9	60.5
Colombia	59.5	49.4	38.0	42.4	84.2	41.0	60.5
Peru	41.6	33.0	30.7	20.2	18.3	80.8	39.2

Source: BankFocus, authors' own calculations
Notes: There is no data available for Argentina in 2013. Dividend payout ratio is computed by the share of dividends paid to net income.

Overall, these findings suggest that whilst Mexico's foreign-owned banks have distributed a higher amount of dividend payments to their parent bank shareholders, when taking into account the total amount relative to the total earnings, Brazilian banks seem to pay more and keep less for re-investment. Indeed, on average over the 2013–2019 period Brazilian foreign-owned banks have repatriated more than 75 percent of their earnings in dividends to their parent bank. This is followed by those foreign banks located in Chile which pay more than 65 percent of their earnings. Argentinian banks on the other hand seem to pay less dividends as a share of their earnings to the shareholders, paying only 11 percent, suggesting that a large proportion of their earnings is kept for future investment.

The income of foreign-bank institutions generated in host countries can either be reinvested in the company or, as discussed above, repatriated[9] to the home country and hence to the parent company. The above discussion has focused on a micro-insight analysis of foreign banks dividend repatriation. The amount that banks decide to reinvest, from a micro-perspective, depends on the profitability opportunities that host countries offer. However a macro-perspective analysis would also help to understand the determinants of dividend repatriation and reinvestment of earnings in the affiliate in the host country.

Table 5.4a Macroeconomic conditions

	2013	2014	2015	2016	2017	2018	2019
			Argentina				
Real GDP growth	2.41	-2.51	2.73	-2.08	2.67	-2.48	-2.16
Exchange rate	90.38	74.45	86.22	71.24	75.54	61.84	54.79
FDI inflows	9 821.7	5 065.3	11 759.0	3 260.2	11 516.9	11 872.9	6 244.4
FDI outflows	890.0	1 920.5	875.2	1 786.5	1 155.6	1 802.2	1 573.8
Greenfield investment	5 054	3 248	2 551	11 761	4 187	6 615	4 115
Lending interest rate	17.15	24.01	24.92	31.23	26.58	48.52	67.26
			Brazil				
Real GDP growth	3.00	0.50	-3.55	-3.28	1.32	1.32	1.14
Exchange rate	90.22	89.31	74.62	79.27	86.36	77.24	75.83
FDI inflows	59 089.3	63 845.9	49 961.4	53 700.4	66 584.9	59 802.4	71 989.3
FDI outflows	- 478.2	- 3 261.2	- 11 642.8	- 5 900.8	19 040.4	- 16 335.6	15 515.3
Greenfield investment	21 448	15 592	16 740	10 212	9 643	15 412	30 814
Lending interest rate	27.39	32.01	43.96	52.10	46.92	39.08	37.48
			Chile				
Real GDP growth	4.05	1.77	2.30	1.71	1.19	3.95	1.05
Exchange rate	101.74	92.29	90.44	92.17	95.73	97.13	92.17
FDI inflows	21 683.5	22 848.6	20 490.6	12 103.9	6 519.0	7 020.7	11 437.4
FDI outflows	9 361.4	12 090.9	15 542.5	6 769.8	5 525.5	278.2	7 937.5
Greenfield investment	10 889	4 762	9 288	5 352	4 556	7 498	8 703
Lending interest rate	9.26	8.10	5.51	5.59	4.55	4.18 -	

Source: Real GDP Growth and Lending interest rate obtained from World Development Indicators database; Exchange rate is obtained from Federal Reserve Bank of St Louis; FDI inflows, outflows and Greenfield investment obtained from UNCTAD.
Notes: Exchange rate is the Real Broad Effective Exchange Rate, Index 2010=100.

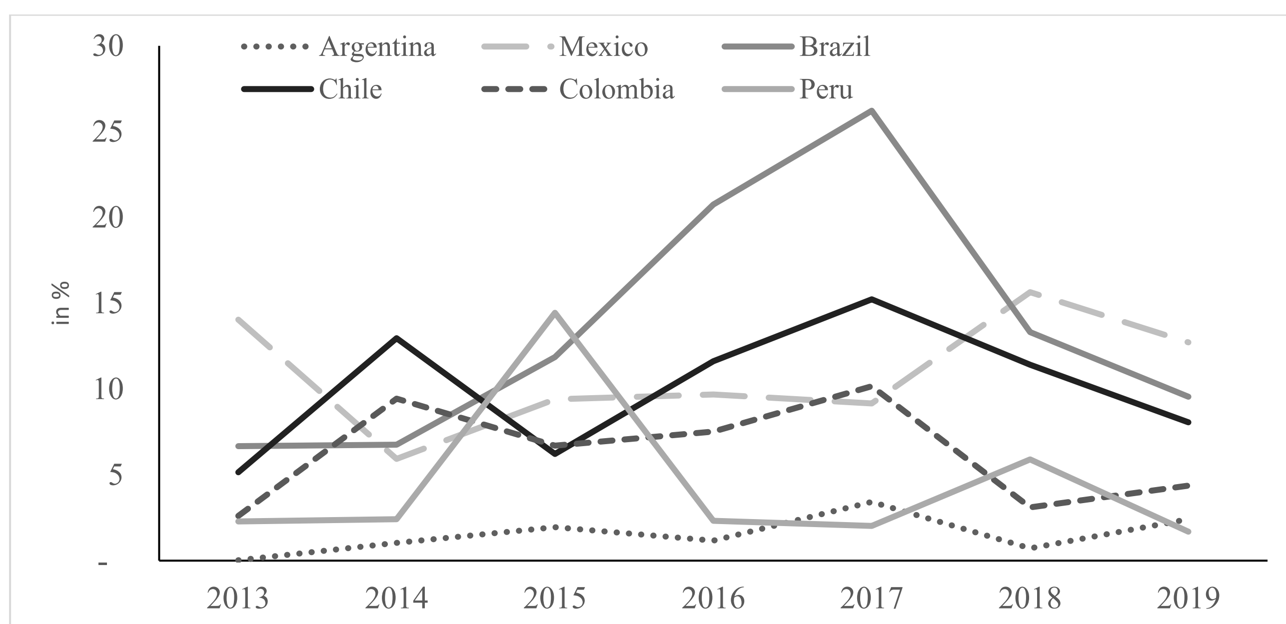
Table 5.4b Macroeconomic conditions

	2013	2014	2015	2016	2017	2018	2019
				Colombia			
Real GDP growth	5.13	4.50	2.96	2.09	1.36	2.52	3.32
Exchange rate	101.18	97.50	81.08	79.33	82.98	83.52	78.60
FDI inflows	16 210.0	16 169.0	11 724.0	13 848.0	13 836.7	11 535.1	14 493.1
FDI outflows	7 652.0	3 899.0	4 218.0	4 517.0	3 689.6	5 126.3	3 214.3
Greenfield investment	11 903	2 772	2 482	2 767	3 088	5 672	6 772
Lending interest rate	10.99	10.87	11.45	14.65	13.69	12.11	11.77
				Mexico			
Real GDP growth	1.35	2.80	3.29	2.91	2.12	2.14	-0.15
Exchange rate	102.00	101.19	90.92	79.30	81.34	81.33	84.15
FDI inflows	48 207.4	30 434.0	35 351.6	30 989.4	34 165.0	34 745.7	32 921.2
FDI outflows	15 490.1	6 910.8	10 663.0	481.7	3 919.2	7 712.0	10 227.9
Greenfield investment	36 495	35 673	24 808	25 830	27 588	27 033	27 859
Lending interest rate	4.25	3.55	3.42	4.72	7.34	8.08	8.48
				Peru			
Real GDP growth	5.85	2.38	3.25	3.95	2.52	3.98	2.15
Exchange rate	105.36	104.05	104.03	103.34	106.64	104.67	107.07
FDI inflows	9 826.0	3 929.9	8 314.0	6 739.1	6 860.5	6 487.9	8 891.9
FDI outflows	492.3	1 106.8	189.1	1 156.0	500.1	19.2	896.4
Greenfield investment	6 453	4 965	909	3 798	4 195	6 444	13 095
Lending interest rate	18.14	15.74	16.11	16.47	17.05 -	-	

Source: Real GDP Growth and Lending interest rate obtained from World Development Indicators database; Exchange rate is obtained from Federal Reserve Bank of St Louis; FDI inflows, outflows and Greenfield investment obtained from UNCTAD.
Notes: Exchange rate is the Real Broad Effective Exchange Rate, Index 2010=100. Data for Lending interest rate for 2019 is missing due to data availability.

Tables 5.4a and 5.4b include information of various macroeconomic indicators for the six selected countries. The volatility of Mexican dividend payments, as discussed above, reflects the country's rather turbulent economy. During this period, foreign direct investment (FDI) has also fluctuated, declining significantly from $48 billion to nearly $33 billion in 2019, as shown in Table 5.4b. Greenfield investment has also decreased steadily since 2013, suggesting the amount of investment projects in new companies in Mexico fell considerably, given the unfavourable economic conditions. When looking at the amount of dividend repatriation relative to greenfield investment[10] announced in 2013, it can be observed from Figure 5.4, that this ratio was 14 percent. This indicates that 14 percent of the income generated from the FDI inflows leaves Mexico in the form of dividend repatriation. However, in 2014 the share of

dividend payment to greenfield investment fell drastically to nearly 6 percent. This could imply that foreign banks reinvested more in the affiliate, rather than repatriate to their parent bank in the home country. This finding is in line with the above discussion that foreign-owned Mexican banks had a lower dividend payout ratio, declining from 91 percent in 2013 to around 47 percent in 2014, as shown above in Table 5.3. In other words, banks paid a lower share of their income to the shareholders of their parent banks in dividends. However the proportion of repatriation to the inflow of greenfield investment increased again in the last two years of the analysis.



Source: BankFocus and UNTAD, authors' own calculations

Figure 5.4 Dividend payment to Greenfield investment ratio

Exchange rate movements can also affect the repatriation of earnings of foreign companies. A depreciation, or the expectation of future currency depreciation, of the host country currency would dampen the amount of repatriation and hence leaving more available for reinvestment in host countries (Lundan 2006). The amount of dividend repatriation also reflects the depreciation of the Mexican currency. Indeed, the depreciation of the currency from 2013 is associated with a lower amount of dividend repatriation. However, the same cannot be observed for other countries such as Brazil and Argentina. For example, whilst the Brazilian currency has overall depreciated since 2013, as depicted in Table 5.4a, dividend repatriation has increased dividend payment. Moreover, foreign-owned banks in Brazil pay a higher proportion of their income in dividends to the shareholders of their parent bank, as discussed

above. Similarly, dividend payment do not seem to be affected by the country's currency exchange rate. As shown in Figure 5.4 the share of dividend payments to greenfield investment for Argentina increased for the period between 2014 and 2017, a period of great economic uncertainty for the country. Therefore, banks would be discouraged to reinvest in the host country's established affiliate. The Chilean economy has also been rather volatile for the period 2013–2019, with GDP growth rate falling significantly in 2014 and only slightly recovering in 2018, declining again in 2019. During this period, Chilean banks were associated with a high dividend payout ratio, and a higher proportion of dividend payments in relation to greenfield investment, as shown in Figure 5.4. This would suggest that indeed foreign banks located in Chile reinvested less in the economy, and repatriated higher dividends to finance investment in their home country.

5.3 Conclusion

This chapter has analysed some of the activities that multinational banks undertake in the six selected Latin America countries, in the recent years. Foreign bank entry in Latin America has been the focus of wide research studies in the past two decades. However, little focus has been given to the profit distribution of these subsidiaries to the parent bank. The implications of which are not only the outflow of funds out of the host country but also the disadvantages it posits for using the funds for future investment and hence continuing to contribute in the economy in which banks operate.

Using bank-level data on a total of 103 foreign-owned banks and 129 domestic banks, this chapter provides an overview and comparison of the activities in each country. The Brazilian banking sector's share of the economy is the highest out of the six countries. This is followed by Chile and Peru. However, when looking at foreign bank participation, for which the analysis is restricted to including only those subsidiaries that are 50 percent or more owned by the parent bank, Mexico has the highest proportion of foreign bank participation. It is worth noting here that even though Brazil has a large banking sector characterised with low foreign bank participation, the sector is dominated by state-owned banks. Chile, on the other hand, does not have a large proportion of state-owned banks operating, the role of the country's main bank, namely the Banco Estado, has been found to have acted as a stabilizer in the financial crisis of 2007–2009 by issuing higher levels of credit necessary in the economy (Biron et al. 2019). Meanwhile, those foreign banks that operate in Chile pay a relatively large amount of their earnings in dividends to the shareholders of their parent bank. However, Chile is second

after Brazil, with foreign banks having the highest payout ratio of the six countries under consideration.

Foreign banks in Mexico provide more credit than domestic banks and distribute more dividends than their peers operating in the other Latin America countries. However, when considering the earnings of these banks in Mexico, on average over the period 2013–2019 they tend to pay more dividends, hence hindering their investment in their host country's economy. Colombia, on the other hand, has a lower foreign bank participation but also a relatively high payout ratio, with more than half of their earnings being distributed to shareholders in the form of dividends. Argentina and Peru exhibit lower dividend repatriation.

Lastly, the evidence suggests that dividend payments reflect the economic conditions in which foreign banks operate. Indeed, the analysis suggests that when macroeconomic conditions in host countries are gloom or highly volatile, both which increase uncertainty levels, banks seem to repatriate a larger amount of their earnings to their country rather than reinvest in the host countries where they operate.

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[1]. BankFocus may not provide information on all banks that operate in each country.
[2]. The sample period reflects the data availability for each bank. For instance, the data is limited for the period pre-2013.
[3]. See also Levine (2005) for a discussion of the literature on the role of finance on economic growth.
[4]. King and Levine (1993) provide an empirical analysis on the finance-growth nexus in support of Schumpeter's (1911) views on the role banks have on economic development.

[5]. The Brazilian economy was in a deep recession from late 2014 until 2016.

[6]. The Financial Statement of banks report on the dividends paid to the shareholders of the parent company which are the main stakeholders and the non-controlling interest which are the minority stakeholders. However, such distinction is not available on BankFocus and hence we are assuming that the large amount of dividend payment is made to the shareholders of the parent company.

[7]. For more information see Henderson 2020, Edition 26, https://cdn.janushenderson.com/webdocs/JHGDI+Ed+26+Report+_Global.pdf.

[8]. Henderson Group publishes the Henderson Global Dividend Index which has been recorded since 2009. It measures the progress global banks make in paying their investors, calculated in US dollars and can be broken down by regions, industries and sectors.

[9]. Earnings repatriation can be realized through dividend payments, interest payment or royalties. Due to data limitations this study only uses dividend payments as a proxy for income repatriation of foreign-bank institutions that operate in the six selected Latin American countries.

[10]. Data on the announced greenfield project includes all industries in the country. There is no data available for greenfield investment by industry in each country.