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FEATURED Q&A

Is Inflation Causing Major Problems for Banks in Argentina?



Inflation is among the factors weighing on Argentina's banking sector, according to the Economist Intelligence Unit. A branch of the country's largest private-sector bank, Banco Galicia, is pictured. // File Photo: Banco Galicia.

Q **Macroeconomic and policy factors including high inflation and "interventionist interest-rate regulations" are weighing on Argentina's banking sector, the Economist Intelligence Unit said earlier this year in a report. The country's banking sector is facing negative real deposit rates and weak profitability, the report said. How will Argentine banks fare during the rest of this year, and what factors will determine their success? How big are the problems that Argentina's inflation rate, which analysts say could exceed 70 percent by the end of the year, is causing for the country's banks? How well are Argentine banks adjusting to the macroeconomic and policy factors that are affecting them?**

A **Ricardo Esteves, columnist at La Nación in Argentina:** "Due to this reality of negative real interest rates, the Argentine financial system is well below its potential and has a very small size relative to the GDP of the country. The loan stock must be 10 percent of GDP versus Brazil, which should be around 80 percent. However, this very complex context makes banks very cautious and causes them to lower their risk by reducing their credit portfolio and maintaining high reserves. Negative rates make deposits very short-term, forcing banks to give short-term loans usually to finance the public sector, the working capital of companies and short-term consumer loans (credit cards), and very little credit for long-term productive investments. With this in mind, I think Argentine banks will not do badly because they are they are very well capitalized. Banks are already foreseeing this adverse context and adapting very well to it."

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TOP NEWS

BANKING

Slim, Larrea Among Bidders for Banamex

Mexican billionaire Carlos Slim and Grupo México owner Germán Larrea are reportedly among the bidders for Citigroup's Banamex unit in Mexico.

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DIGITAL CURRENCIES

Jamaica's Central Bank to Issue Digital Currency

Jamaica's central bank is planning to roll out its first digital currency following legislative approval for the issuance. Jamaica's government said the move will help people who lack bank accounts.

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PAYMENTS

Payments Firm Yapstone to Expand in South America

Global payments processor Yapstone, which is headquartered in Walnut Creek, Calif., and led by Chief Executive Officer Frank Mastrangelo, announced that it is expanding to Argentina and Brazil.

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Mastrangelo // File Photo: LinkedIn.

BANKING NEWS

Slim, Larrea Among Bidders for Citi's Mexico Unit: Report

Mexican billionaire Carlos Slim, who heads Grupo Financiero Inbursa, and Germán Larrea, the owner of mining company Grupo México, as well as Spain-based Banco Santander and Mexican bank Grupo Financiero Banorte have made offers for Citigroup's Banamex unit in Mexico, according to unnamed sources familiar with the talks, Bloomberg News reported June 8. Banca Mifel, a small Mexican bank, also made an offer for the Citi unit. Mexican President Andrés Manuel López Obrador has expressed a preference for the unit to be sold to a Mexican owner in order to "Mexicanize" the bank, though he said he is not closing the door to foreign investors, Reuters reported in January. Banco Santander is the only foreign bank thus far to have made a bid on the Citi asset, Bloomberg News reported. Santander's chair, Ana Botín, said the bank would attempt to buy Banamex if it could pay cash, in order to maintain its capital and dividends. López Obrador had requested that both Slim and Larrea participate in the sale, according to Bloomberg's sources. Citigroup's decision to sell Banamex, its largest branch network in the world, aligns with Citi CEO Jane Fraser's efforts to focus the bank's operations on U.S. credit-card offerings and wealth management.

REMITTANCES NEWS

Mexico Sees 17% Rise in Remittances for Year Through April

Mexico received \$17.2 billion in remittances from citizens abroad in the first four-month period of 2022, a 17.57 percent increase as compared to the same period in 2021, the Mexican central bank, or Banxico, announced

on June 1, EFE reported. The central bank also said the average individual remittance transfer was \$383, which was \$22 higher than the average in the January-to-April period in 2021. The steady increase in remittances for Mexico is in line with a trend that began in March 2020, at the beginning of the Covid-19 pandemic, EFE reported. The upward trend of remittances is attributable to the employment and work of Mexican migrants, most of whom work in the United States and send money back to their families, El País reported. Mexican President Andrés Manuel López Obrador has referred to these Mexicans in the exterior as "heroes" for their contributions to the country's economy, EFE reported. Iván Arias, the director of economic research at Citibanamex, told the Financial Services Advisor in a [Q&A](#) published last August that remittances "will continue to be an important and rising complement to Mexican households' income." He added that "it would be desirable for Mexico to rely more on sustainable domestic sources of wealth."

DIGITAL CURRENCIES NEWS

Jamaica's Central Bank to Issue Digital Currency

Jamaica's central bank is planning to issue its first digital currency following legislators' approval of the currency, the Associated Press reported June 7. In 2021, Jamaica launched an eight-month pilot program for the digital currency on a smaller scale, and the results partially led to lawmakers' approval. The Jamaican government has said that the new tender will help those in the country without bank accounts. The Central Bank Digital Currency (CBDC), which will go under the name Jam-Dex, joins other Caribbean nations with digital currencies, Caribbean National Weekly reported. Kamina Johnson Smith, Jamaica's minister of foreign affairs and leader of government business in the Senate, said that the new currency will address several challenges for unbanked Jamaicans, as a bank account will

NEWS BRIEFS

Banco Popular Paying Fine for Allegedly Violating U.S. Sanctions on Venezuela

Banco Popular de Puerto Rico, or BPPR, is set to pay more than \$255,000 in a settlement with the U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, following its alleged transactions with Venezuelan government employees, according to a May 27 OFAC enforcement release, Compliance Week reported. BPPR processed 337 transactions from bank accounts tied to Nicolás Maduro's government, totaling to \$853,126, in violation of an executive order under former President Donald Trump blocking property of the Venezuelan government, OFAC said.

Itaú Reportedly Sells Part of Stake in Broker XP

Brazilian bank Itaú Unibanco Holding has sold a portion of its stake in broker XP for approximately \$154 million, Reuters reported, citing Brazil Journal. Itaú reportedly sold 6.78 million shares of XP at \$22.65 apiece, 4.4 percent below the closing price on June 7, the business website reported. It did not report the buyer or specify the size of Itaú's remaining stake in XP.

Mexico's Klar Announces \$90 Million in Funding

Mexican digital financial services platform Klar on June 9 announced that it had raised \$90 million in funding in a round led by General Atlantic. Prosus Ventures, Quona, Mouro, IFC, Acrew, WTI and Endeavor Catalyst also participated in the round, Klar said. The start-up bank, which provides customers with deposit and credit services, said it has added 1.4 million customers over the past 12 months. It has raised more than \$150 million in funding since its inception in 2019. Klar CEO Stefan Möller, said in a statement that the company aims to serve customers "who are not adequately served by anachronistic institutions."

not be required for the digital currency. “What you now will have is a wallet. So, you will get a CBDC wallet issued by banks or authorized payment service providers ... It is also anticipated that the CBDC will lower the cost associated



Johnson Smith // File Photo: Jamaica Information Service.

with providing a national means of payment and provide an alternative to the issuance of bank notes,” she said, Caribbean National Weekly reported.

PAYMENTS NEWS

Payments Processor Yapstone Expanding to Argentina, Brazil

Global payments processor Yapstone announced on June 7 that it will expand into Argentina and Brazil in an effort to provide merchants with the tools to accelerate growth in Latin America. The expansion uses local and alternative payment methods to allow for more local and cross-border e-commerce transactions, the company said in a statement. “We’re proud to continue our expansion efforts in Brazil and Argentina, with more countries to be announced later in the year,” said Yapstone’s CEO, Frank Mastrangelo. He added that Yapstone is confident that its “solution will deliver the highest level of functionality, reliability and transparency to merchants looking to expand into Latin America.” Carlos Medeiros, a partner at SoftBank Group International, told the Financial Services Advisor in a [Q&A](#) published Feb. 9 that innovation in the financial services sector is welcomed “as long as it does not add systemic risk.” Lourdes Casanova, the director

FEATURED Q&A / Continued from page 1

A Ivana Recalde, director for Latin America financial institutions ratings at S&P Global Ratings: “Macroeconomic and policy factors in Argentina have exacerbated distortions in the domestic financial system. Very high inflation, which ramped up further over the last few months, anemic credit demand and investments, and the cautious approach to lending among financial entities amid ‘interventionist interest rate regulations’ have resulted in a consistent decline in credit intermediation. In this sense, credit to GDP will plunge to unprecedented levels

“**In general, banks have high liquidity and regulatory solvency (with reduced dividend distributions) to cope with volatilities.**”

— Ivana Recalde

of less than 10 percent in 2022-2023. The share of credit portfolios as a share of the financial system’s asset base dropped to 37 percent at the end of March 2022 from 45 percent to 47 percent in previous months. This further raised liquidity among banks. The current environment led banks to increase their exposure to the public sector mainly in central bank securities and government bonds, especially ones adjusted to inflation, to mitigate losses in balance sheets related to the application of inflation adjustment. Overall, holdings of central bank instruments and government bonds accounted for 38 percent of total assets at the end of March 2022, as compared to 26 percent for the same date a year earlier. For the rest of the year, Argentina’s economic woes will further compress banks’ profitability, especially those of smaller ones that have higher exposure to monetary assets. In general, banks have high liquidity and regulatory solvency (with reduced dividend

distributions) to cope with volatilities. Additionally, the system is exhibiting manageable credit losses after borrower-relied measures have been withdrawn and given charge-offs of legacy corporate loans.”

A Marcelo De Gruttola, vice president and senior analyst in the Financial Institutions Group at Moody’s Investors Service:

“Argentine banks have fared relatively well so far despite continuously challenging operating conditions, and our expectation for this year is that their fundamentals will remain broadly stable. However, currently unstable macroeconomic conditions continue to pose downside risks to our view. With high inflation and regulations on interest rates expected to continue, banks’ inflation-adjusted profits will likely face a toll as their ability to adjust to these conditions is limited, as was already evidenced in the first quarter of this year. Recent increases in policy rates amid the central bank’s more restrictive monetary policy stance will partially offset the pressure, although rates continue to be below expected inflation. Current macroeconomic imbalances are also leading bank credit penetration to remain low and even fall further, with credit to GDP now close to 11 percent of GDP, as a result of both banks and borrowers adjusting the supply and demand for credit to current market conditions. However, the latter coupled with the low exposure to foreign currency lending (less than 10 percent of total loans), has limited and we expect will continue to limit asset quality pressures arising from inflation and potential local currency volatility. Still, loans represent only a third of banks’ total assets, and therefore asset risks continue to stem mostly from banks’ exposure to Argentine sovereign and central bank securities. Those exposures have increased in recent years and now represent more than 40 percent of banks’ total assets, which expose them to policy shifts that could affect their asset quality, liquidity and overall funding profiles.”

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of the Emerging Markets Institute at Cornell University, said in the same issue of the Financial Services Advisor that “new digital players are shaking the status quo and satisfying the financial needs of local citizens hungry for growth and development.”

POLITICAL NEWS

Cuba Sanctions Nearly 400 Over Last Year’s Protests

Cuba’s government said June 13 that authorities had sanctioned 381 people, including 16 youths between the ages of 16 and 18, in connection to widespread anti-government protests in July of last year, Reuters reported. Of the people sanctioned, 297 were sentenced to between five and 25 years in prison after being convicted of crimes including sedition, sabotage, robbery with force and public disorder, the Cuban attorney general’s office said in a statement to state-run media. “The Attorney General’s Office continues to inform the public about the legal response to the events of July 11, 2021, which attacked the constitutional order and the stability of our socialist state,” the office said in the statement. Eighty-four people, including 15 youths, were not sentenced to prison time, though those people did face harsher sentences if they committed new offenses or violated sanctions imposed upon them, authorities said, Reuters reported. In January, Cuba’s government said authorities had charged 790 people, including 55 people younger than 18, in connection with the protests. Some of them are still awaiting sentencing or have appealed sanctions, the wire service reported. The U.S. government, the European Union and human rights groups have repeatedly called for the release of sentenced protesters and have said their trials are not transparent. “When thousands of Cubans took to the streets in July, the Cuban government responded with a brutal strategy of repression designed to instill fear and suppress dissent,” Juan Pappier, the senior Americas researcher

ADVISOR Q&A

Will the Summit of the Americas Lead to Lasting Change?

Q The Summit of the Americas in Los Angeles featured a call from U.S. President Joe Biden for progress on issues including migration, economic development and climate change. Biden also used the gathering of Western Hemisphere leaders to announce the Americas Partnership for Economic Prosperity, an effort to drive growth, and countries launched the Los Angeles Declaration on Migration and Protection, a new framework for managing migration. How much progress did the Americas make on shared areas of concern at the summit? What will the gathering lead to in terms of policy changes and improved cooperation in the hemisphere? To what extent did the boycott of some leaders, including Mexican President Andrés Manuel López Obrador, over the U.S. decision not to invite Cuba, Venezuela and Nicaragua to the summit, hinder progress? Did the summit meet expectations and achieve its objectives?

A Dan Restrepo, senior fellow at the Center for American Progress and former special assistant to the president and senior director for Western Hemisphere affairs at the U.S. National Security Council: “The success or failure of the 9th Summit of the Americas will not be measured by the absence of any leader or group of leaders, which had no impact on the most important issue addressed in Los Angeles. Rather, it will depend largely on the implementation of the Los Angeles Declaration on Migration and Protection, which has the chance to

be the most meaningful achievement at a forum that, since its inception in 1994, has been long on personality dramas and short on substantive accomplishments. The Los Angeles Declaration opens the way to a coherent approach to addressing irregular migration that is almost certain to continue. Its successful implementation could both close 30 years of failed U.S. border-centric crisis management of migration and adequately resource efforts by countries across Latin America and the Caribbean to absorb millions forced to flee Venezuela, Haiti, Cuba and Nicaragua. It could lead to an era in which efforts to catalyze economic stabilization and reactivation; expand legal pathways, including temporary labor and protection mechanisms; more effectively target human smuggling organizations; and coordinate rapid response to emergent migration events could usher in a new era in hemispheric migration management. Beyond the declaration, a series of key U.S. government deliverables—the launching of the Central American Service Corps, the continued growth of the Partnership for Central America, significant investments in food security—also contribute to the possibility of the Los Angeles summit being a clear turning point toward a more integrated hemisphere-wide effort to mitigate, manage and order migration.”

EDITOR’S NOTE: More commentary on this topic appears in the June 14 issue of the Latin America Advisor.

at Human Rights Watch, said last October, Al Jazeera reported. “Peaceful protesters and other critics have been systematically detained, held incommunicado and abused in horren-

dous conditions, and subjected to sham trials following patterns that indicate these human rights violations are not the actions of rogue agents,” he added. Human Rights Watch also

NEWS BRIEFS

Petro, Hernández Virtually Tied Ahead of Colombia's Presidential Runoff

Anti-corruption candidate Rodolfo Hernández and leftist former guerrilla Gustavo Petro are in a statistical tie ahead of the June 19 runoff election for Colombia's presidency, Reuters reported. According to an InVamer poll released on Friday, Hernández, a former mayor and businessman with no clear political ideology, received 48.2 percent support in the poll, while Petro, a current senator, had 47.2 percent. The difference falls within the poll's margin of error of 2.69 percent. Hernández came from behind in May's first-round election, defeating center-right candidate Federico Gutiérrez.

Indigenous Groups Protest Economic Policies of Ecuador's Lasso

Indigenous groups in at least 16 provinces throughout Ecuador on June 13 blocked off highways as a start to a reportedly indefinite protest against President Guillermo Lasso's economic policies, Reuters reported. The Indigenous and civil society organizations have set a list of 10 concessions they want from the Lasso administration, including freezing gasoline prices, extending debt payoff deadlines for small farmers and putting a stop to any additional mining and oil development, the wire service reported.

Peru's Central Bank Hikes Key Interest Rate by Half Point to 5.5%

The Peruvian central bank on June 9 raised the country's benchmark interest rate for the eleventh consecutive time to 5.5 percent, Reuters reported. The half-point increase came as the central bank is trying to combat rising prices, as annual inflation reached 8.09 percent in May—the highest level in 24 years, the wire service reported.

accused the Cuban government of committing "arbitrary detention, ill treatment of detainees and abuse-ridden criminal prosecutions" in response to "overwhelmingly peaceful" protests.

U.S. State Dep't Slaps Sanctions on 93 Nicaraguan Officials

The U.S. State Department on June 13 imposed sanctions on an additional 93 Nicaraguan officials, restricting them from entering the United States, the Associated Press reported. Last year, Nicaraguan authorities imprisoned dozens of opposition leaders, allowing President Daniel Ortega to run virtually uncontested in the country's presidential election last November.

“The regime holds over 180 political prisoners, with many suffering from a lack of adequate food, proper medical care and even sunlight.”

— Antony Blinken

The election has been seen internationally as a sham. The officials that the State Department sanctioned include judges who convicted opposition leaders and legislators who have taken part in the suppression of civil society groups and nongovernmental organizations, the AP reported. "The regime holds over 180 political prisoners, with many suffering from a lack of adequate food, proper medical care and even sunlight," Secretary of State Antony Blinken said in a statement, Agence France-Presse reported. "The United States reiterates its call for the immediate and unconditional release of those unjustly detained and the restoration of democracy and the rule of law in Nicaragua," he added. At last week's Summit of the Americas, Blinken questioned Ortega's recent decision to allow Russian troops in the Central American country for anti-drug trafficking exercises and

joint humanitarian assistance, saying that Russia does not "meet the credibility test" when it comes to these matters, AFP reported. [Editor's note: See related [Q&A](#) in the Feb. 22 issue of the daily Latin America Advisor.]

ECONOMIC NEWS

Venezuela's Maduro Signs Cooperation Deal on Iran Visit

In his first visit to Tehran, Venezuelan leader Nicolás Maduro on June 11 signed a 20-year cooperation agreement with Iranian President Ebrahim Raisi to expand ties in the oil and petrochemical industries, the military and their economies, the Associated Press reported. Iran recently sent tankers carrying badly needed fuel to Venezuela, skirting U.S. sanctions on both nations. Iran's state-funded PressTV quoted Maduro saying the two men would discuss "the need to well inform the Iranian and Venezuelan nations about the war of sanctions and find ways to counter them with steadfastness." "Caracas and Tehran have shaped the strategy of [a] resistance economy and are working to expand it," he said. An Iranian delegation led by Oil Minister Javad Owji last month met with Maduro and other high-ranking Venezuelan officials in Caracas to discuss closer energy cooperation. Although the Andean nation's devastated economy has been recovering from historic contraction over the past year, Venezuela's oil exports dropped 8 percent in April as compared to March. Some experts warn that Venezuela's embrace of nontraditional partners like Iran could backfire in the long term. "What seems evident now is the deepening of [their] relationship to improve Venezuela's refining capacity, with Iran participating in a project to help revitalize the El Palito Refinery, deliver refined oil to world markets and probably design new collection mechanisms for these exports, in which Iran has years of experience," Luis Vicente León, political analyst and president of Datanalysis in Caracas, told the weekly Energy Advisor in a [Q&A](#) published May 20.

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A **Santiago Gallo, senior director for Latin American banks and nonbank financial institutions at Fitch Ratings:** “A prolonged economic crisis, very high inflation and interest rates, together with political uncertainties and the pandemic, have put significant pressure on Argentine banks’ performance in recent years. For almost four years, profitability has been affected by negative loan growth in real terms, together with some distorting regulations that the central bank has passed since 2020, such as capping interest rates offered on loans, placing floors for deposit rates and imposing restrictions on fee increases, among others. Fitch expects low real GDP growth in 2022 and 2023, of 2.98 percent and 1.90 percent respectively, which, together with persistently high inflation, will continue to undermine the banking system’s profitability. Loan growth in real terms will likely contract again in 2022 due to weak credit demand and banks’ conservative lending approach given the high credit risk perceived. Any improvement will depend greatly on the extent of economic growth and the evolution of inflation and the policy framework to be implemented by the government. Under this environment,

Argentine banks have focused on preserving capital and liquidity, while maintaining asset quality under control. Nonperforming loans (NPLs) for the entire financial system have remained relatively low, in part because high inflation makes debt installments easier to

“**Nonperforming loans (NPLs) for the entire financial system have remained relatively low.**”

— Santiago Gallo

pay. As of March 2022, total NPLs were 3.9 percent, down from 4.3 percent in December 2021. Fitch expects the pressure to continue throughout this year, but banks have good loss absorption capacity. The common equity Tier 1 ratio was a sound 25.6 percent as of March 2022, while the loan loss reserve coverage was a reasonable 112 percent of NPLs.”

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

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