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FEATURED Q&A

What Is the Outlook for Argentina's Banking Sector?



Forces including lower interest rates have led Argentine banks to change their strategies. A branch of Argentine bank Bancor is pictured. // File Photo: Argentine Government.

Q Argentine banks' returns on public securities, such as notes linked to inflation, helped to drive banks' profits earlier this year, but factors including lower interest rates have forced banks to pivot more toward lending amid a deep recession, Bloomberg News reported July 2. What's the state of Argentina's banking industry, and how have President Javier Milei's policies affected the sector? What do Argentine banks need in order to boost profits? To what extent have banks shifted their focus in order to provide more loans, and how are their actions affecting the country's economy?

A Juan Cruz Diaz, managing director at Cefeidas Group in Buenos Aires: "In recent years, due to the excess Argentine pesos circulating in the economy and high interest rates, the banking sector focused its activities on central bank financing, which was widely considered a profitable and safe business. This led the banking system to pay less attention to its traditional role as a lender to businesses and families. However, with the arrival of Javier Milei, restructuring the central bank's balance sheet became a top priority to tackle skyrocketing inflation and lay the groundwork for the future elimination of foreign exchange controls. The interest rates paid by the government to the sector through interest-bearing liabilities were, therefore, significantly reduced. In this context, the challenge for banks is to rethink their operations strategy and resume lending to the private sector. There have been some signs in recent months with the return of mortgage lending, which had been virtually non-existent over the past years. There are still uncertainties regarding the long-term sustainability of Milei's economic

Continued on page 3

TOP NEWS

DIGITAL CURRENCIES

Hive to Build Crypto Mining Operation in Paraguay

Hive Digital Technologies announced that it will build a 100-megawatt digital mining operation in Paraguay.

Page 2

CREDIT CARDS

DR Sees Rapid Adoption of Credit Cards

Between June 2019 and June 2024, the number of credit cards issued in the Dominican Republic grew by 47.3 percent, according to a recently released report.

Page 2

BANKING

BBVA Plans Cybersecurity Center in Mexico

Spain-based financial services company BBVA is planning to build a new cybersecurity center in Mexico. Sergio Fidalgo, BBVA's global chief information security officer, said the bank seeks to be prepared to respond to any kind of attack.

Page 2



Fidalgo // File Photo: LinkedIn Profile of Sergio Fidalgo.

BANKING NEWS

Spain's BBVA Plans Cybersecurity Center in Mexico

Spanish multinational financial services company Banco Bilbao Vizcaya Argentaria, or BBVA, plans to create a new global cybersecurity center in Mexico, Finextra reported July 22. BBVA plans to partner with Spain-based global information technology services firm Telefónica Tech on the project, which will work to shield BBVA from cybersecurity threats. BBVA already has a cybersecurity hub in Spain, but the newly planned Mexico center will incorporate artificial intelligence and process automation to help catch cybersecurity threats. Between the two cybersecurity centers, roughly 200 Telefónica Tech cybersecurity professionals will be employed to help safeguard the firm with proactive anticipation of threats, strategies to strengthen resilience, and a holistic security response for all of BBVA's operational and businesses elements, Finextra reported. "These two hubs specializing in cybersecurity are unique in the financial industry and represent a new step towards protecting our infrastructures with the latest technological advances," said Sergio Fidalgo, BBVA's global chief information security officer, Finextra reported. "Our goal is to be a bank that is increasingly secure and prepared to respond to all types of attacks and to offer the best service to our customers with the best security guarantees in the market," he added.

U.S. Issues Warning About Timeshare Fraud in Mexico

The U.S. Treasury and the Federal Bureau of Investigation on July 16 issued a warning to financial institutions "urging them to be vigilant in detecting, identifying and reporting" cases of fraud involving timeshares perpetrated by organized crime groups in Mexico. Since at

least 2012, the Jalisco New Generation Cartel and other Mexico-based transnational criminal organizations have increasingly targeted timeshares in Mexico owned by Americans, the Treasury and the FBI said in a joint statement. "Older adults, including retirees, are frequent victims in these schemes," the statement said. The transnational criminal organizations "use proceeds from timeshare fraud to diversify their revenue streams and finance other criminal activities, including the manufacturing and trafficking of illicit fentanyl and other deadly synthetic drugs into the United States," it added. Also on July 16, the U.S. Treasury's Office of Foreign Assets Control said it sanctioned three Mexican accountants and four Mexican companies linked to timeshare fraud led by the Jalisco New Generation Cartel.

INSURANCE NEWS

Brazilian Gov't Pushing Central Bank on Rural Insurance

Brazil's government is pushing the country's central bank to cover the costs of a rural insurance program, Reuters reported July 16, citing two unnamed sources with knowledge of the matter. The move could save Brazil's treasury \$2.21 billion, according to a central bank estimate for the cost of the program, known as Proagro. While the central bank operates the program, its funding comes from the central government, Reuters reported.

CREDIT CARD NEWS

Dominican Republic Sees Rapid Adoption of Payment Cards

The use of credit cards and other electronic financial services is rapidly increasing in the Dominican Republic, according to a report

NEWS BRIEFS

Credit Saison Allocates \$200 Million for Start-ups in Brazil, Mexico

Japan-based financial services group Credit Saison has allocated \$200 million to finance start-ups in Brazil and Mexico, Global Venturing reported July 29. Credit Saison set aside \$100 million for investments in each country. "The choice of Mexico and Brazil within the countries of the region was due to the potential of both markets and the maturity of the fintech system in each country," said Kosuke Mori, Credit Saison's chief executive officer.

LemFi Expanding Into Latin America, to Offer Service in Brazil, Mexico

Payments app LemFi will enter the Latin American market by offering service in Brazil and Mexico, the company said July 29. "Out expansion to serve the Latin American diaspora underscores our global growth ambitions and desire to be the choice remittance platform for everyone, everywhere," Rebeca Wignall, LemFi's general counsel, said in a statement. LemFi allows users to send money to more than 20 countries, including India, China, Pakistan, Nigeria, Ghana and Kenya. The company launched in 2020.

Brazil's Central Bank Delays Service for Recurring Bill Payments

Brazil's central bank announced July 22 that a new feature for its Pix electronic payment system that assists consumers with the payment of recurring bills will be delayed until June of next year, Reuters reported. The service had been scheduled to launch this October. The delay follows calls by central bank chief Roberto Campos Neto for a constitutional amendment that would grant the institution financial autonomy, the wire service reported.

published by the Dominican central bank, local news service El Dinero reported July 25. According to the report, over the last five years there has been significant growth in the use of Internet banking, electronic transactions and credit and debit card use. The report outlines that from June 2019 to June 2024, the number of credit cards issued in the Dominican Republic grew by 47.3 percent, alongside debit cards, which grew 41.4 percent. Overall, combining debit and credit cards, banks issued a combined average of 55,782 cards every month over the last five years, totaling 11,059,200 cards currently being used in the Dominican Republic by roughly 3.8 million people, El Dinero reported. The multi-currency instant payment service of the central bank is shown in the report to be the most popular means of transferring funds, and in the last five years transfers of pesos through the system have grown 853.1 percent, while transfers of U.S. dollars have risen 490.4 percent. "In Latin America, as in the rest of the world, consumers, merchants and other stakeholders are seeing the enormous advantages of replacing cash," Eduardo Santos, former head of public policy for Latin America and the Caribbean at Mastercard, told the Financial Services Advisor in a [Q&A](#) published July 17. "The conversion away from cash benefits informal workers enormously, both in the potential growth of the available market, and in the significant personal safety issues obviated," he added.

DIGITAL CURRENCIES NEWS

Hive Digital to Build Bitcoin Mining Facility in Paraguay

Canadian digital asset miner Hive Digital Technologies announced July 22 that it will construct a 100-megawatt digital mining operation in Paraguay. Executives of the company, which is based in Vancouver, announced the plan after meeting in Paraguay with President Santiago Peña and his senior cabinet ministers, Hive said in a statement. "We are thrilled to

FEATURED Q&A / Continued from page 1

plan and whether he will be able to lift foreign exchange controls. The administration's policies, while relatively curbing inflation, have also led to significant social and economic hardships. Despite being a pro-market political figure, President Milei's relationship with the banking sector remains challenging. His recent public accusation against one of the country's most important banks, alleging its involvement in a currency run to create financial instability, is a clear example. This move came after the bank executed its puts, an instrument that allows investors to sell Treasury debt to the central bank in the event of a decline in its value. Milei seeks to deactivate this instrument as part of his efforts to restructure the monetary authority's balance sheet, further complicating the sector's relationship with the government. These tensions add more uncertainty to a sector that is reconfiguring in the face of Milei's drastic economic policies."

A **Cynthia Cohen Freue, senior director and sector lead for financial institutions ratings at S&P Global Ratings:** "S&P Global

Ratings believes low credit penetration and banks' lack of capacity to intermediate between depositors and borrowers limit Argentina's economic growth and development. Argentine banks have shifted their asset mix in recent years toward sovereign and central bank notes because of macroeconomic volatility, high inflation and high interest rates. This has resulted in low credit penetration of about 10 percent of GDP, well below regional peers including Brazil (about 54 percent) and Chile (about 85 percent). Given the high interest paid on government bonds and central bank notes, banks have remained profitable despite high inflation and weak efficiency. But, as part of the government's efforts to reduce imbalances, the central bank is cutting the interest rate from extremely high levels, pressuring banks' profitability. Meanwhile, banks' appetite for lending remains constrained by the very difficult economic

environment and still-high imbalances in the system, while weak internal demand and investment are reducing corporate demand for credit. Finally, banks have a low appetite for mortgage lending given the difficult and volatile operating environment, which may cause borrowers to be unable to repay their loans, and banks' lack of long-term funding. We don't expect a significant rebound in lending until the country can resolve these imbalances, most notably: weak economic growth and investor confidence, still high inflation, low investment, exchange rate constraints and low per-capita GDP."

A **Abraham Martinez, director and country head for bank ratings in Chile and Argentina at Fitch Ratings:** "Fitch maintains a deteriorating sector outlook for Argentine banks

in 2024. The operating environment remains very challenging, in part due to the long economic crisis and the uncertainty related to the economic measures taken by the Milei administration aimed at abating inflation and the country's dual deficits. We project the economy will contract 3.6 percent in 2024 and grow by 3.9 percent in 2025. Fitch expects the banking system performance to be hampered by low loan growth. Earnings remain pressured in real terms, while an exit strategy from foreign-exchange controls and negative real interest rates is not yet clear. Fitch recently affirmed Argentina's sovereign rating at a low level that represents significant challenges for the banking sector. High government intervention, structural inflation, local currency depreciation and slow credit growth will continue to pressure banks' operations and performance. Fitch expects a gradual recovery of credit to the private sector as interest rate floors on deposits are released and banks seek more profitable alternatives to government bonds on the asset side. However, the ongoing economic shock and still cautious risk appetite will constrain credit growth in real terms. Monetary policy has been heterodox, involving deeply nega-

Continued on page 6

announce our plan for a 100-megawatt project in Paraguay, utilizing green and clean energy sourced from the Itaipu hydroelectric dam," Frank Holmes, Hive's executive chairman, said in a statement. "This represents a significant milestone in our diversified growth strategy and supports our commitment to expanding our global footprint with data center operations in Canada, Sweden, Iceland and now Paraguay," he added. Stability in government fiscal policies, such as taxation and energy pricing, are a "key factor" in the company's considerations for future expansion, Hive said in the

“This represents a significant milestone in our diversified growth strategy.”

— Frank Holmes

statement. "Infrastructure projects such as data centers require significant foreign direct investment and a large scale project, such as a 100-megawatt data center, is expected to generate over \$100 million of stable U.S. dollar revenue for the [Paraguayan] government's utility company over the next three years," Hive said. "With global demand for Bitcoin on the rise, and the successful launch of U.S.-based ETFs, Bitcoin has become adopted and emerges as an attractive alternative asset for investors," the company added. Hive said it is committed to transparency and engagement with the community, adding that the project will create jobs locally and will provide "a stable income stream that benefits the national economy." Hive said it will pay its energy bills in Paraguay in U.S. dollars, which it said will provide the country's government with a new source of stable income in the currency. Paraguay's low taxes, predictable politics and the ability to import equipment inexpensively have made the country a popular destination for Bitcoin mining operations, Fernando Arriola of the Paraguayan Fintech Chamber, a lobbying group, told *The Economist* in an article published last week. Paraguayan lawmakers have also introduced legislation to restrict Bitcoin

ADVISOR Q&A

What Does Maduro's Declared Victory Mean for Venezuela?

Q **Venezuela's National Electoral Council has declared that President Nicolás Maduro won re-election on Sunday, winning 51 percent of the vote and defeating opposition candidate Edmundo González, despite exit polling that showed González won the election in a landslide. Numerous governments, including those of the United States, Chile, Guatemala and Argentina, have derided or questioned the officially announced results, and both Maduro and González have claimed victory. The vote was marred by numerous irregularities, including voter intimidation. What chance does the opposition have at reversing the announced result, and what can it do to challenge it? What pressure will other countries seek to exert against Maduro's government, including through sanctions?**

A **Michael Shifter, senior fellow and former president of the Inter-American Dialogue:** "The most likely scenario for Venezuela's crucial presidential elections is playing out as expected. According to all reliable accounts, the opposition led by Edmundo González defeated Nicolás Maduro by a substantial margin. Yet, not surprisingly, Maduro, through the government-controlled National Electoral Council, claimed victory after a long delay on Sunday. The official results were presented without any evidence and defy credibility. For the opposition, the chief task now is to remain united and amass ballot records to convincingly demonstrate that the election was indeed fraudulent. This is essential to support key governments like the United States, Brazil

and Chile, which have responded firmly yet prudently to the election results, raising serious questions about the transparency of the vote. The efforts of these and other regional governments will be further strengthened by the mobilization and peaceful street protests by the opposition and the wider population,

“The official results were presented without any evidence and defy credibility.”

— Michael Shifter

reflecting the anger of most Venezuelans. There is, however, a real risk of a severe crackdown by the regime that demands vigilance by the international community. The evidence of such blatant and massive fraud is likely to be sufficiently overwhelming to trigger a political crisis, with growing fractures in the governing coalition, leading to complex and difficult negotiations toward a gradual democratic transition. Although Venezuela is now living through a very uncertain and tense moment, the impressive courage and civic spirit of the vast majority of its citizens clamoring for fundamental change after a quarter century of Chavismo is likely to mark the beginning of the end of authoritarian, sclerotic rule."

EDITOR'S NOTE: More commentary on this topic appears in the July 30 issue of the Latin America Advisor.

mining, saying that illegal operations disrupt the power supply. [Editor's note: See related

Q&A in the April 24 issue of the Financial Services Advisor.]

NEWS BRIEFS

Russian Warships in Cuba for Second Such Visit Since June

Three Russian warships docked July 27 in Cuba in the second such visit of Russian military vessels in just over a month, the Associated Press reported. The training ship, patrol frigate and refueling tanker are expected to remain in Havana until July 30. The ships arrived just weeks after the visit of another group of Russian military ships, including a nuclear-powered submarine. Experts have described the visits as a show of force by Russia.

Mexico Not Informed About U.S. Operation to Arrest Alleged Drug Lords

Mexico's government was not informed about the recent operation to arrest two prominent leaders of the Sinaloa drug cartel until after the men were behind bars, The Washington Post reported July 26, citing an unnamed top security official. Ismael "El Mayo" Zambada and Joaquín Guzmán López, a son of imprisoned drug lord Joaquín "El Chapo" Guzmán, were arrested last week by U.S. agents in El Paso, Tex.

Argentina's Milei Tells Farmers He'll End Export Taxes

Argentine President Javier Milei vowed on July 28 to get rid of export taxes and revitalize the nation's agricultural sector, the Associated Press reported. "We said we were going to lift the restrictions and every day we do," Milei told a crowd of farmers at the annual La Rural agricultural convention in Buenos Aires. Milei, who has pursued libertarian economic policies, said he would end what he described as "this disastrous model where the state, through withholdings and restrictions, expropriates 70 percent of what the countryside produces."

POLITICAL NEWS

Protests Break Out in Venezuela Amid Disputed Election

Protests erupted July 29 in several cities in Venezuela following the election authority's announcement that President Nicolás Maduro had won a third term in the country's July 28 election, which was marred by irregularities, despite exit polling that showed opposition candidate Edmundo González had won in a landslide. In Caracas, security forces used tear gas to disperse protesters, and crowds of people marched down a main street, banging pots and pans, CNN reported. Venezuelan human rights group Provea said armed groups aligned with Maduro shot at peaceful protesters on the capital's Avenue Urdaneta. Though Maduro supporters celebrated in parts of Caracas, protests broke out in other cities, including Maracay, where opposition activist Esthefania Natera said people were taking to the streets to demand that authorities "tell the truth because we know the real results," CNN reported. In Falcón state, demonstrators tore down a statue of Maduro's predecessor, the late Hugo Chávez. Late on July 29, Maduro said his government "knows how to confront this situation and defeat those who are violent," CNN reported. Earlier on July 29, Venezuela's National Electoral Council, or CNE, formally declared Maduro the winner of the election. The agency is stacked with allies of Maduro and has not yet issued a final vote tally. "Venezuela has the best electoral system in the world!" said the CNE's president, Elvis Amoroso, before formally declaring Maduro the winner. Six hours after polls closed, the CNE announced that Maduro won the election with 51.2 percent of the vote, as compared to González's 44.2 percent, with 80 percent of the votes counted, the Financial Times reported. On July 29, opposition leader María Corina Machado said the opposition has possession of 73.2 percent of the vote tallies, which she said showed a total of 6.27 million votes for González and 2.75 million for Maduro, Reuters reported. An

exit poll by U.S. firm Edison Research showed González winning the election in a landslide, by more than 30 percentage points, Bloomberg News reported. Other exit polls showed about 65 percent support for González and support of between 14 percent and 31 percent for Maduro, Reuters reported. "I speak to you from a place of tranquility and truth. I want to tell you, responsibly, that we will respect the will expressed yesterday," González said July 29 at his campaign headquarters in Caracas, CNN reported. Numerous irregularities were reported during the vote. Among them, the opposition said witnesses were denied access to the CNE's headquarters as votes were being counted. The opposition also accused the CNE of halting the transmission of data from some polling places to the central body, preventing some votes from being tallied.

ECONOMIC NEWS

Peru's Boluarte Vows Railway Projects Nationwide

In a five-hour speech on July 28 marking Peru's independence day, President Dina Boluarte vowed to launch several new railway projects in order to boost the country's economy. Bloomberg News reported. Boluarte, whose approval ratings are in the single digits, said her government would oversee the construction of seven railroads across the country in order to boost the country's mining and agricultural exports and take advantage of the new deep-water port in the coastal city of Chancay. The \$1.3 billion megaport, which is majority-owned by China Ocean Shipping group, or Cosco, is to be inaugurated in November. Officials hope the port project speeds trade between South America and Asia, benefiting customers with shorter shipping times, The Wall Street Journal reported last month. While building railways to service the port could take several years, Boluarte said that she wants to expedite the process by establishing a new infrastructure ministry, Bloomberg News reported.

FEATURED Q&A / Continued from page 3

tive real interest rates to shrink peso supply and other central bank liabilities. The banks opted for prudent investment strategies, favoring short-term sovereign bonds, an approach that mitigates liquidity risks while also minimizing the impact of fair value fluctuations. Fitch believes that this would be manageable for banks, given their good levels of capitalization and liquidity, and the still relatively low direct exposures to the federal government.”

A **Miguel Kiguel, executive director of EconViews in Buenos Aires:** “Argentina’s banking system is facing new challenges as the economy is moving to lower rates of inflation. On the one hand, this is good news because the drop in inflation and in interest rates is stimulating the demand for credit, especially as consumers have access to payments in installments. Deposits are growing again, and credit to the private sector is rapidly expanding. On the other hand, in the new environment interest rate, spreads are falling and hence the banks cannot benefit from transactional deposits that typically do not earn any type of remuneration. To deal with lower spreads, banks will need to increase volumes, which is happening. Credit to the private sector is now equal to only 5 percent of GDP, and in good times it reached more than 20 percent of GDP. Banks are leaning toward lending to the private sector because interest rates are more attractive, and they can obtain fees from services that they provide to both firms and individuals. The process of unwinding banks’ exposure to the public sector and increasing lending to the private sector has already started. The consolidation of this process hinges on restoring macroeconomic stability. Recently, we have seen significant progress, especially on the fiscal front, where the government has quickly moved to a balanced budget,

as well as on the inflation front, where the monthly rate recently dropped to the four percent range.”

A **Orlando Ferreres, president of Orlando Ferreres and Asociados in Buenos Aires and former vice minister of economy of Argentina:** “The government is doing what it should do to stop inflation, especially the zero emission issue, even with a primary surplus and financial surplus, which it is achieving despite the central bank debts that will now become the Treasury’s, and also of

“**Argentina is approaching a gradual, although fairly rapid, exit from the complex exchange rate trap and the return to a liberal economy.**”
— Orlando Ferreres

the central bank’s offer for puts, which 80 percent of the banks accepted in order to avoid money expansion at an inopportune time. Argentina is approaching a gradual, although fairly rapid, exit from the complex exchange rate trap and the return to a liberal economy. The phase of selling the net purchases of reserves in the Single and Free Exchange Market (MULC) by the central bank in the market with exchange settlements closes this zero-emission policy for the country, and it gives rise to the beginning of another stage of Argentina’s economic plan, which we hope will turn out well.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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