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## FEATURED Q&A

# Will Venezuela Transition to All-Digital Payments?



Amid hyperinflation and a scarcity of cash, Venezuelan President Nicolás Maduro is reportedly seeking to implement digital payment systems, including on public transit. A bus stop in Caracas is pictured. // File Photo: Venezolana de Televisión.

**Q Facing hyperinflation and a scarcity of local banknotes in denominations large enough for even small purchases, Venezuelan President Nicolás Maduro is reportedly pressuring the country's banks to implement digital payment systems.**

**Will Venezuela's severe economic problems push the country to implement wide-scale digital payments? Does Venezuela have the necessary electronic infrastructure for such a move? How accessible are electronic payment options to the country's poor populations, and what needs to be done for digital services to reach all Venezuelans?**

**A Gustavo Roosen, president of IESA in Caracas:** "Part of the digitization of payments in dollars has already happened in Venezuela, thanks to the numerous accounts in dollars in the hands of Venezuelan individuals and companies. In the short term, it is necessary to integrate the large volumes of dollars that the population has as savings and as payment instruments. Commercial banks have created accounts to capture this cash, but the Superintendency of Banks has not authorized the ability to transfer this money from one institution to another, in order for it to be mobilized through debit cards or to create credit instruments supported by these resources. In Venezuela, there is no way to replace damaged banknotes or to introduce new banknotes to satisfy the growing transactional demand. Banks could try to cover the investments needed to deepen the digitization of payments if the government liberalizes the movements of funds between clients of different banks and authorizes financial intermediation in foreign currency with resources deposited by the public. An obstacle to the acceptance

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## TODAY'S NEWS

### POLITICAL

## Naming of New Brazilian Army Chief Seen as Bid to Heal Rift

Brazilian President Jair Bolsonaro's naming of well-respected Gen. Paulo Sérgio Nogueira was seen as an attempt to heal a rift with the military.

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### ECONOMIC

## Eastern Caribbean Launches New Digital Currency

The Eastern Caribbean Central Bank launched a new digital currency, the first blockchain-based currency issued by a currency union.

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### POLITICAL

## Chile Closes Borders Amid Rise in Covid Cases

Chile's government closed its borders for 30 days amid a rise in Covid-19 cases. The country's deputy secretary for crime prevention, Katherine Martorell, said now is "a moment to take difficult measures."

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Martorell // File Photo: Chilean Government.

## POLITICAL NEWS

## Chile Closes Borders for 30 Days Amid Rise in Covid Cases

Chile's government closed its borders to most activity amid a rise in Covid-19 cases in the South American nation, *El Mercurio* reported Thursday. Among the restrictions, the country's international airport in Santiago will suspend the entry of nonresidents, and officials are narrowing the list of activities that are considered essential for cross-border activity, the newspaper reported. Chile has been among the world's leaders in vaccinating its people against Covid-19, but a new wave of infections has still overburdened hospitals, bringing some to near-collapse, Reuters reported. Even Chilean citizens would be restricted from leaving and re-entering the country through April, and truck drivers transporting essential goods into the country would have to show negative Covid-19 test results, the Associated Press reported. Others will be allowed to enter Chile only for extraordinary reasons. "It is a moment to take difficult measures and we need the efforts of all," said Katherine Martorell, the country's deputy secretary for crime prevention, the AP reported. "So the country's borders are closed and trips abroad are restricted for the whole month of April for Chilean citizens as well as foreigners resident in the country." Additionally, the government announced that Chileans would be limited to one trip outside their home per weekend in order to purchase necessities. In less than two months, the country has vaccinated more than a third of its population and has focused on inoculating the elderly. However, the number of other adults being hospitalized has climbed, and officials say 96 percent of the country's beds with ventilators are now occupied. Chile has just over 1 million reported cases of Covid-19 and more than 23,000 deaths, according to a count by Johns Hopkins University. Meantime, the government of neighboring Bolivia said it would tightly restrict its border with Brazil, which has been suffering an explosion in Covid-19 cases and

deaths, the AP reported. As of today, Bolivia will allow crossings of its 3,400-kilometer border with Brazil for just three hours per day. Bolivia's government also said its plans for a major vaccination campaign have been delayed as doses have been slow to arrive in the country. Bolivia has more than 273,000 reported cases of Covid-19 and more than 12,000 deaths, according to Johns Hopkins University. Argentina also tightened its restrictions on border crossings last week, prohibiting flights from Brazil, Mexico and Chile.

## ECONOMIC NEWS

## Eastern Caribbean Launches New Digital Currency

The Eastern Caribbean Central Bank has launched a digital currency called "DCash," the world's first blockchain-based currency issued by a currency union, the Associated Press reported Thursday. The central bank has expressed hopes that the new digital currency will help speed transactions and serve people who lack bank accounts. DCash became available on Wednesday in St. Lucia, Grenada, Antigua and Barbuda, and St. Kitts and Nevis under a year-long pilot program. By September, officials hope to also launch the currency in Anguilla, Dominica, Montserrat and St. Vincent and the Grenadines. Barbados-based fintech company Bitt created the digital currency in partnership with the central bank. The currency has a value that is tied to the existing Eastern Caribbean dollar. The new digital currency "is a milestone in the history of monetary instruments," Bitt CEO Brian Popelka said during an online press conference. Users who lack bank accounts but have a smartphone can use the digital currency by downloading an app and making payments using a QR code, the AP reported. Some experts are concerned that digital currencies issued by small countries could be used for illicit activities, such as money laundering and the financing of terrorism, Eswar Prasad, a trade policy professor at Cornell University told

## NEWS BRIEFS

## Bolsonaro's Appointment of New Army Chief Seen as Attempt to Heal Rift

Brazilian President Jair Bolsonaro's naming this week of Gen. Paulo Sérgio Nogueira as the army's new chief is seen as an attempt by the president to heal a rift he created by firing Defense Minister Gen. Fernando Azevedo e Silva, analysts told the Associated Press Thursday. Azevedo e Silva's firing led to the resignations of Brazil's army, navy and air force chiefs. In the military, Nogueira has a reputation for being reliable and conscientious, the wire service reported.

## Mexico's Economy May Return to Pre-Pandemic Levels by Early 2022: Gov't

The size of Mexico's economy could return to pre-pandemic levels by the beginning of 2022, according to finance ministry projections released this week, Reuters reported Thursday. Mexico's economy contracted by 8.5 percent in 2020, but it could recover 5.3 percent this year, according to the ministry. "Mexico will benefit from the recently approved U.S. stimulus package, mainly through two main channels: stronger export growth and higher family remittances," Jonathan Heath, deputy governor of the Bank of Mexico, [said](#) in Wednesday's edition of the Advisor.

## Fitch Downgrades Suriname's Credit Ratings

Fitch Ratings on Thursday declared Suriname had defaulted on \$49.8 million in external debt payments due March 31 and downgraded the South American country's ratings on \$675 million in notes due between 2023 and 2026. Officials say they will continue to negotiate with creditors for a comprehensive restructuring of its external bonds, Fitch said in a statement. [Editor's note: See [Q&A](#) on Suriname in the Aug. 5 edition of the Advisor.]

the AP. However, he added, “that skepticism is waning as more central banks get into the act, and as central banks around the world face the inevitability of the declining use of physical cash.” Last year, the Bahamas rolled out a digital currency, and the Marshall Islands is considering a similar move. The Eastern Caribbean Central Bank first announced plans for its digital currency in March 2019, Cointelegraph reported.

## BUSINESS NEWS

### Two Banco do Brasil Board Members Resign in Protest

Two members of the board of Banco do Brasil, the country’s largest state-controlled bank, including its chairman Hélio Magalhães, resigned on Thursday in a dispute with Brazilian President Jair Bolsonaro over leadership of the bank, Reuters reported. José Guimarães Monforte, a former chairman of the board of Brazilian state electricity company Eletrobras, also resigned from Banco do Brasil’s board. Earlier in the day, half of the board members of the bank released a public statement arguing that Bolsonaro had nominated someone to run the bank who is not ready for the job. Despite the criticism, Bolsonaro on Thursday swore in Fausto Ribeiro, 53, currently the CEO of the small business unit of Banco do Brasil, to replace André Guilherme Brandão, who resigned on March 18. In the statement, Magalhães and Monforte, as well as fellow board members Luiz Spinola and Paulo Roberto Evangelista de Lima, said Ribeiro meets the legal requirements to become Banco do Brasil’s CEO, but they believe he lacks management experience to run the bank, according to the report. Brandão, who joined the bank last September after working at a private sector bank, ran afoul of Bolsonaro over a plan, popular with investors but not the public, to shutter some 200 branches and let go more than 5,000 employees to streamline operations and save millions of dollars by 2025, Bloomberg News reported.

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of the digitization of accounts is that there is a great fear that the government, in a worsening of the crisis, will decide to expropriate foreign currency held by individuals and companies. The low-income Venezuelan population is familiar with electronic payment applications through their smartphones. The informal economy uses phones as work tools, including applications to mobilize money in bolívares. In a process of privatization of telecommunications, the new operators are likely to offer plans to buy smartphones to grow the market. Subsidy programs can also be implemented to deepen the digitization of payment methods.”

**A Lindsay Lehr, payments practice director at Americas Market Intelligence:** “Public transportation is a logical place to start when it comes to implementing digital payments for many reasons: its massive use by the population including the poor and working class, the low-ticket value and corresponding low risk of fraud, the high use of cash and the efficiencies and savings it can generate for transportation users and providers. Experience tells us, however, that this is not easy or simple to do: Costa Rica is in the midst of launching contactless payments into its bus system, a process it began in 2015. It requires collaboration between issuers, acquirers, card networks, multiple government agencies, transportation operators and the population itself. In a country known for its institutional deficiencies, this is not likely to be a swift or ultimately successful process. What is more likely to happen is that fintech startups, which move quickly and solve practical problems, will digitize the population more quickly than banks or the government could. One such example is Valiu, a digital wallet that enables Venezuelans to store digital funds in dollars until they are ready to make a local purchase in bolívares. And with both Visa and Mastercard now supporting cryptocurrency transactions over their networks,

cryptocurrency fintechs—which are highly relevant in hyperinflation environments such as Venezuela—are gaining more credibility. Given this, the fintech world is more likely to revolutionize Venezuela faster than existing institutions.”

**A Francisco Rodríguez, founder of Oil for Venezuela and visiting fellow at the University of Notre Dame:** “In recent years, Venezuelans have migrated toward the U.S. dollar and digital means of payments as a combination of hyperinflation and lack of local currency notes have severely disincited the use of the Venezuelan bolívar. Studies suggest that around two-thirds of transactions in Venezuela are made in U.S. dollars, of which around two-fifths are made using digital payments. This process has been spontaneous and haphazard, rather than the result of an explicit policy choice. One of the sectors that continues to transact almost exclusively in local currency cash is public transportation. Providing enough local currency notes for use in these transactions has been difficult in the context of institutional collapse, battered public finances and stringent U.S. economic sanctions. Notwithstanding its stated desire to do so, there is no evidence yet that the government has begun to implement a concrete plan to migrate to electronic transactions, even in the public transportation sector. There isn’t even anecdotal evidence of public transportation vehicles being fitted with the necessary technology, and it is unclear that this will be feasible given the strong restrictions on technology imports and general dearth of funds. Perhaps most importantly, the target population for such a program is the one that is less likely to have ample access to digital means of payments. While a majority of transactions may be in dollars, that only reflects the fact that spending by the better-off groups accounts for a large share of the economy. Almost all app-based transactions are done through Zelle, a system that

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requires U.S. bank accounts, to which only a small share of Venezuelans have access. The majority of Venezuelans are unlikely to have access to the technology needed for full digitalization. Around one-fourth of Venezuelans do not even have a bank account. Use of smartphones has collapsed in recent years, with active mobile lines standing at less than 50 percent of the population. Most likely, digitalization would mean payment by the government's Card of the Fatherland system, which is sure to stoke fears about political conditioning of access."

**A** Nelson Altamirano, professor of economics at the School of Business and Management at National University: "The Venezuelan government is trapped between the effects of hyperinflation on the local currency and the transportation subsidy. Because of hyperinflation, the bolívar soberano (BS), which replaced the bolívar fuertes in 2018 at a rate of 100,000 to 1, lost so much value that one U.S. dollar equaled BS 1.9 million at the end of March. Prices escalate exponentially by the day, and if a pound of rice costs BS 2 million, people needed 40 bills of BS 50,000, the highest bill before March 8. After this date, the central bank released new bills, and now people only need two bills of 1 million, the new highest denomination. The problem is, how much would a full grocery cart cost? Maybe a cart full of BS bills. For

this reason, people stopped using BS for most transactions, and U.S. dollars are used instead. But transportation is different. A gallon of gas costs BS 50,000, and 20 trips using the new Metro card in Caracas cost BS 400,000. One trip would cost BS 20,000 or just one U.S. cent. The BS are used only

“ It would be less costly for the economy to just declare free transportation in the Caracas Metro.”

— Nelson Altamirano

for these subsidized areas and very small amounts in dollars but thousands in BS. Yes, there are problems for digital payments because most people do not have debit bank accounts, machines are expensive and the value of transportation transactions are cents. But the real problem are the inefficiencies and people's productivity loss because Venezuelans have to wait in line for hours to retrieve the equivalent of 20 U.S. cents (BS 400,000) from the bank per day to pay for transportation. It would be less costly for the economy to just declare free transportation in the Caracas Metro."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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# Advisor Video

## Peru's Presidential Election

A Latin America Advisor interview with Mercedes Aráoz, former vice president of Peru



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