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FEATURED Q&A

How Will Sanctions on Russian Banks Hit Latin America?

Following Russia's invasion last month of Ukraine, the United States was among those that imposed sanctions on Russian banks including VTB Bank, whose headquarters in Moscow are pictured. // File Photo: Emaus via Creative Commons.

Q **Sanctions imposed by the United States and the European Union on banks in Russia in the wake of its invasion of Ukraine could wind up punishing Latin American countries that are allied with Russia, the Miami Herald reported. Sanctions that bar more than a dozen Russian banks from using the Society for Worldwide Interbank Financial Telecommunication, or SWIFT, network, which financial institutions use to execute overseas transactions, could cause problems for countries such as Venezuela, Cuba and Nicaragua, which often rely on Russian banks. How important are Russian banks to Latin American countries and commercial ties, and why? Which Russian allies in Latin America are most affected by the banking sanctions, and what effect will the sanctions have on them? Which sectors in Latin America will experience the biggest effects from the sanctions on Russia, and how will trade flows be affected by the banking sanctions?**

A **John Smith, partner at Morrison & Foerster and former director of the U.S. Treasury Department's Office of Foreign Assets Control (OFAC):** "The global tidal wave of sanctions imposed on Russia appears destined to upend trading relationships in Europe, Asia and North America, but Latin America will face significant and potentially long-lasting disruptions as well. In recent decades, Russia has been more active in the region than perhaps ever before. Some of these trade difficulties may be resolved relatively easily. If your trading partner's bank in Russia has been sanctioned or removed from the SWIFT network, you can simply find another bank operating

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Brazil's StoneCo Misses Estimates, Names Executives

Brazilian payment technology firm StoneCo missed estimates in reporting fourth-quarter earnings, but its shares rallied after the company named new officials including Diego Salgado, the company's new head of treasury.

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Colombia Pension Fund Group Blasts Petro's Plan

The head of Colombia's private pension fund association blasted a plan of leftist presidential candidate Gustavo Petro as "expropriation."

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BANKING

Mexico Eying Bill to Push Banks to Make Loans to Small Businesses

Mexico's Senate majority leader, Ricardo Monreal, said he is preparing legislation that would push banks to make loans to small- and medium-sized businesses.

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Monreal // File Photo: Mexican Government.

BANKING NEWS

Mexico Legislation Would Push for Loans to Small Businesses

Mexico's Senate majority leader, Ricardo Monreal, is preparing legislation that would push banks to make low-cost loans to small- and medium-sized businesses in an effort to help fuel economic recovery, Bloomberg News reported March 11. The bill would seek to help the "great many" businesses that have suffered during the pandemic, Monreal told the news service in an interview. "It's important that banking is opened up to make low-interest loans to people who lost their businesses or people who closed their businesses during the pandemic," said Monreal. [Editor's note: See related **Q&A** in the March 8 issue of the daily Latin America Advisor.]

PAYMENTS NEWS

Brazil's StoneCo Misses Estimates, Names New Officials

Brazilian payment technology firm StoneCo on March 17 missed estimates in reporting fourth-quarter earnings, but it also named new executives, leading its shares to rally, Bloomberg News reported. The São Paulo-based company reported an adjusted net income of 34 million reais ($6.8 million) for the fourth quarter, falling short of analysts' average estimate of 65.2 million reais, the news service reported. The earnings period was the fourth straight quarter in which the company missed estimates in reporting earnings. "2021 was an unsatisfying year for Stone," CEO Thiago Piau said in a statement. "We executed well in some areas but faced challenges in others. We believe our market opportunity is huge and merits an aggressive approach, but we tried to do too much last year and did not execute as well as we would have liked," he added. Among the new executives that StoneCo named are Diego Salgado, a former director for Latin America debt capital markets at JPMorgan Chase & Co., who will be StoneCo's new head of treasury, Bloomberg News reported. StoneCo also said that it expects its adjusted income before taxes to exceed 140 million reais for this year's first quarter. The company's shares soared as much as 30 percent in extended trading in New York. It closed trading on March 17 at $9.61, a 90 percent decline from its peak last year.

Payments 'Monopoly' Hinders Mexican Start-ups: Report

Mexican regulators must stop an effective monopoly in the credit card payments network from benefiting big banks and stunting start-ups in the country, a report sponsored by Fintech Mexico concluded, Bloomberg News reported March 16. The consultancy that compiled the report is led by Luis de la Calle, a former Mexican trade chief and negotiator of the North American Free Trade Agreement (NAFTA). The report says the country is allowing its biggest and most influential banks to set the rules for financial start-ups. E-Global and Prosa, Mexico's clearing houses for transactions, are controlled by Mexico's top banks, and the study said the arrangement results in a single network run like a monopoly, Bloomberg News reported. "Mexico has the historic opportunity to have competition between various payment networks and not continue with a monopoly," the study said, Bloomberg News reported. Alfredo Coutiño, director for Latin America at Moody's Analytics, told the Advisor in a **Q&A** published Feb. 7 that the Mexican government has been limiting competition, which has contributed to the economy's "significant structural weakness." He added that the government should promote investment "to create a favorable climate for business by removing the uncertainty created against competition, combined with sound macroeconomic policymaking." In a statement to Bloomberg News, clearing house Prosa said

NEWS BRIEFS

Brazilian Banks May See Slower Loan Portfolio Growth: Fitch

Continuing economic challenges, such as limited growth, high rates of unemployment, interest rate increases and increasing household indebtedness are likely to slow Brazilian banks' loan portfolio growth this year, Fitch Ratings said in a report released Wednesday. Unsecured loans, particularly related to the "low-income unbanked population in the unsecured, credit card segment" have been on the rise, Fitch said. Over the past year, low interest rates and continuing government aid programs have helped to fuel loan portfolio growth in Brazil, the ratings agency added.

Colombia's Grupo Aval Reports Decline in Quarterly Net Income

Colombian holding company Grupo Aval on March 16 reported a drop in quarterly net profit to 1.29 trillion Colombian pesos ($336.73 million), a 7.9 percent decline, Reuters reported. The company's interest income between October and December was up 7.4 percent to 5.17 trillion pesos. The group includes pension fund Porvenir and Colombian banks Banco de Bogotá, Banco AV Villas, Banco Popular, Corporación Financiera Colombiana and Banco de Occidente, Reuters reported.

Brazil to Phase Out Taxes on Foreign Exchange Transactions

The Brazilian government on March 15 published a decree to phase out taxes on financial operations using foreign exchange as part of the country's effort to become a member of the Organization for Economic Cooperation and Development, or OECD, Reuters reported. The so-called IOF taxes will be phased out by 2029, according to a note by the Brazilian Economy Ministry.

it was committed to continuing "to innovate and strengthen competitiveness in Mexico." Prosa added that it has advocated for competition over its 50-year existence by enabling at least 200 types of financial businesses, including financial technology firms. Mexico's central bank, E-Global, Banorte, HSBC and Santander declined requests for comment by Bloomberg News, and Banamex and BBVA did not immediately respond to the news service's requests for comment.

Apple Pay Becomes Available in Peru, Argentina

Apple has launched its mobile payment and digital wallet service ApplePay in Peru and Argentina, website Pisapapeles reported March 15. Several banks in both countries are supporting the service, including Banco de Crédito del Perú, Banco BBVA Perú and Banco Internacional del Perú—Interbank, as well as Argentine banks Banco de Galicia, Banco Macro and Banco Patagonia, the website reported. Apple also has said that ApplePay will also soon be launched in Chile. The payment service is also offered in Brazil and Colombia, website 9-to-5 Mac reported. [Editor's note: See **Q&A** on fintech in Chile in the March 24, 2021 issue of the Financial Services Advisor.]

PENSIONS NEWS

Colombian Pension Fund Group Blasts Petro's Plan

A proposal by leftist Colombian presidential candidate Gustavo Petro to move pensions from private accounts to public ones amounts to "expropriation," said the head of the country's private pension fund association, Bloomberg News reported March 16. During a presidential debate the night before, Petro said the $4.7 billion housed in private funds should

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there—particularly subsidiaries of non-Russian banks that are very unlikely to ever be sanctioned. But countries such as Venezuela that have depended on their lifeline to Russia may find it particularly challenging to move forward without the same level of Russian support. Other countries across the region also may feel the pain as agricultural and other key imports from Russia and Ukraine are disrupted. With the increase in trade disruptions comes legal and compliance risks as well. Latin American companies need to ensure that any transactions involving Russia that transit the United States, European Union or United Kingdom comply with the new and rapidly evolving sanctions. Other countries—such as Australia, Canada, Japan, South Korea and Switzerland, for example—also have imposed new Russia restrictions, so any global trade with Russia should be assessed carefully. Latin American companies also must ensure they are sanctions-screening their direct customers and any others involved in the transaction chain, particularly since Russia's financial sector has now been so heavily sanctioned. And with the rise of sanctions on super-wealthy Russian oligarchs, companies need to ensure they do their diligence to discover the beneficial owners of their counter-parties or they may face losses because they dealt with the wrong bad apple's shell company. Even more challenging, Latin American companies should strictly scrutinize their legal and reputational risks in continuing to deal with Russia as much of the rest of the world pulls back."

A **Javier Coronado, partner, and Prince-Alex Iwu, associate attorney, both at Diaz, Reus & Targ:** "Latin America's exposure to loans and investment with Russia has been minimal, so banking across the region could emerge relatively unscathed from the new sanctions related to Russia, with two caveats. First, because the legal consequences for not complying with the new sanctions are significant—including substantial penalties and the risk of secondary sanctions—financial institutions may experience an increase in the costs associated with sanction compliance. Second, the new sanctions clearly prejudice Russia's allies in Latin America, including the governments of Venezuela, Cuba and Nicaragua, as these sanctions heavily limit transactions involving the Russian financial system, which for years has provided Russian allies with an alternative to the U.S. market for banking. In the case of Venezuela, however, the new sanctions on Russia could turn into a blessing in disguise. The U.S. ban on the import of Russian oil may cause the U.S. government to ease its licensing policy with respect to the trade of oil with Venezuela to help domestic crude supply and temper soaring oil prices. The new sanctions may also affect trade flows in Latin America. The U.S. ban on Russian oil products could cause energy exporters such as Colombia and Ecuador to experience growth, while importers such as Peru, Chile and several countries in Central America see higher oil prices. Argentina's deals for the trading of products such as citrus and peanuts are now on hold. Also, trade disruptions might help Brazil expand its meat distribution globally, but gains from such expansion could be offset by costly fertilizer imports."

A **Francisco Sanchez, partner, and Mackenzie Zales, associate attorney, both at Holland & Knight:** "Sanctions targeting Russian banks' ability to rely on SWIFT will have repercussions for Russia's allies, including allies in Latin America. With Russian banks banned from SWIFT, Russia and its allies will be severely impeded in transacting business, including in providing and receiving natural resources. An interesting policy decision by the United States involves Venezuela, which has historically used Russian banks to avoid sanctions. U.S. officials recently traveled to Venezuela to determine whether the governments can work together during this crisis

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be transferred to the parallel public system Colpensiones because private funds charge pensioners excessive fees. The comment provoked criticism from private pension administrators. "The money from contributions is the property of workers," Santiago Montenegro, the head of Colombia's private pension fund association, Asofondos, told Blu Radio, Bloomberg News reported. "A government that intends to take that money would be expropriating," he added. Petro—who is the frontrunner for Colombia's presidency according to polls—wants to expand the public pensions to millions who do not have pension savings by "freeing up" money in private pension funds. The leftist candidate said workers should pay into the public system, and those who earn more than four times the minimum wage could choose to make additional contributions to a private system, Bloomberg News reported. Some 18 million Colombian workers pay into private pension funds. "Asofondos categorically rejects the statements made by the candidate Gustavo Petro," the association said in a statement. "On such a complex and important issue, it is urgent that presidential candidates inform themselves and make responsible proposals grounded in the reality of Colombian workers," it added.

POLITICAL NEWS

Nicaragua's Cristiana Chamorro Sentenced to Eight Years

Nicaraguan opposition leader Cristiana Chamorro was sentenced March 21 to eight years in prison after being convicted of money laundering charges that she says are politically motivated, Agence France-Presse reported. Chamorro is expected to remain under house arrest. Chamorro, the daughter of former President Violeta Chamorro, has been under home confinement since last June when she was arrested at the beginning of a months-long crackdown on the opposition by the government of President Daniel Ortega. Chamorro was among seven potential presidential candidates who were arrested in the months leading up to the country's November presidential election in which Ortega was re-elected to a fourth consecutive term after government agents arrested nearly every candidate who could mount a serious challenge to him. Chamorro's brother Pedro Joaquín Chamorro, who worked alongside her at the foundation named for their mother, was sentenced March 21 to nine years in prison. Two former employees of the foundation, as well as Cristiana Chamorro's driver, were also sentenced to prison terms,

ADVISOR Q&A

Who Were the Big Winners in This Month's Vote in Colombia?

Q Colombians went to the polls on Sunday to elect a new Senate and Chamber of Representatives, as well as pick from a wide field of presidential primary candidates. There were 103 seats up for grabs in the Senate, and 166 in the Chamber, with five seats reserved in the Senate and 22 in the lower house for special groups. How did the composition of Congress change in the election, and what were the biggest surprises? Which parties had the strongest showing, and which fell short of expectations? Has the balance of power in Congress shifted, or did the status quo endure? Were there any surprises in the level of voter turnout, and what does this say about the mood of voters heading toward the presidential election in May?

A Sergio Guzmán, co-founder and director of Colombia Risk Analysis: "It is noteworthy that Sunday's turnout of 18 million voters was a little over 46 percent of the total eligible electorate. Turnout was in line with previous elections and does not suggest a significant invigoration of the voting public. The composition of Congress will make for a very frustrating four years for the next government. It will be very unlikely that bureaucratic arrangements alone, without genuine programmatic compromise, will provide the next president with any way to effectively govern. Voters cast close to six million ballots more for Congress than they did for the intra-party primaries, suggesting there is plenty of space for presidential candidates to expand their voter base ahead of the first round on May 29, and improve their chances of making it to the second round. While many say this was an election against the political class, establishment political actors are very much alive, and they matter going forward. Any candidate going into the second round who ignores these parties and their interests runs the risk of losing votes. This will have a moderating effect on Federico Gutiérrez, may make Sergio Fajardo more pragmatic and may lead Gustavo Petro to negotiate. Each of these things carries its own risk for the candidates who won their primaries. The presidential election remains competitive on several fronts. This is very much still an anti-incumbent moment, but it is unlikely that the election will be won in the first round, considering there will be a consolidation of candidates after Óscar Iván Zuluaga dropped out of the race, and centrists will find new ways to rally around the front-runner instead of attacking him. Gustavo Petro is leading, but the future of the race depends on who he faces in a runoff. If he stands against Gutiérrez, polls suggest he will win handily, but a runoff vote against Fajardo will be more competitive."

EDITOR'S NOTE: More commentary on this topic appears in the March 17 issue of the Latin America Advisor.

NEWS BRIEFS

Lula Leads Bolsonaro by 14 Percentage Points Ahead of Brazil Election

Former Brazilian President Luiz Inácio Lula da Silva is leading current President Jair Bolsonaro by 14 percentage points, according to a poll released March 21, Reuters reported. In the poll, by FSB Pesquisa, Lula had the support of 43 percent of respondents, as compared to 29 percent for Bolsonaro, in the first round alongside other candidates. In a two-candidate runoff, Lula's support widened to 19 percentage points ahead of Bolsonaro, according to the survey.

Honduran Court Convicts Former First Lady Bonilla on Corruption Charges

A Honduran court convicted on March 17 convicted former first lady Rosa Elena Bonilla of corruption for the second time, the Associated Press reported. Bonilla was sentenced to 58 years in prison in 2019 for embezzling more than $1 million in public funds, but the country's Supreme Court of Justice overturned the conviction six months later, the AP reported. She was put on trial for the same crime and on Thursday was found guilty again. Bonilla was convicted of embezzling government money between 2010 and 2014, when her husband, Porfirio Lobo, was president, the wire service reported.

Brazil's Central Bank Hikes Key Rate One Percentage Point to 11.75%

The Brazilian central bank on March 16 raised its benchmark Selic interest rate by one percentage point to 11.75 percent, the highest the lending rate has been since 2017, Dow Jones reported. The increase is the latest in a trend by the bank, which has raised the Selic nine consecutive times since early last year, when it was at a record low.

BBC News reported. Cristiana Chamorro told the judge, "You're accusing five honorable people." Several others have been convicted after Nicaragua in early February began the trials of political figures who were arrested last year. "The political trials undertaken by the regime of Daniel Ortega and Rosario Murillo are simply a strategy of political revenge against the leaders involved in the citizen insurrection of April 2018, mainly those who dared to step forward and challenge the caudillo during general elections," Moisés Martínez Mayorga, an investigative journalist at newspaper Confidencial in Nicaragua, told the Dialogue's daily Latin America Advisor in a **Q&A** published Feb. 22. The Advisor has repeatedly sought comment on the trials and arrests from Nicaragua's ambassador to the United States, Francisco Campbell, but has received no response. Forty opponents of Ortega's government were arrested last year on charges of attacking "national integrity," AFP reported.

Guatemalan Anti-Graft Judge Resigns, Leaves Country

A Guatemalan judge seen as a prominent figure in the fight against corruption resigned March 21, saying she has left the Central American country, the Associated Press reported. Judge Erika Aifán, who has presided in cases against businesspeople, government officials, fellow judges and others, was recently overseeing a probe examining alleged irregularities during the campaign of current President Alejandro Giammattei, the AP reported. Aifán has faced at least 20 legal complaints on accusations of overstepping her role, which she denies, the wire service reported. "They left me no other option," Aifán told the AP in a phone interview from Washington, where she fled. "I faced accusations, threats and pressure. ... Today I have decided to resign from my post because I do not have sufficient guarantees of protection for my life and my integrity, nor the possibility of defending myself with due process," Aifán said in a video, Reuters reported. In recent months, other Guatemalan judges and prosecutors have left the country after the government launched investigations or sought to arrest authorities who oversee graft cases. Aifán has also faced attempts at stripping her of her immunity from prosecution, which could lead to her being jailed, Reuters reported.

ECONOMIC NEWS

Argentine Senate Approves IMF Debt Refinancing Deal

Argentina's Senate on March 17 gave final legislative approval to the government's agreement with the International Monetary Fund to refinance $45 billion debt, the Associated Press reported. Senators approved the plan on a vote of 56-13, with three abstentions. The Chamber of Deputies has already approved the deal, which the IMF's board now must accept. The Argentine Congress' endorsement of the plan came just days before the South American country would have fallen into arrears with the IMF. "We are looking to avoid a situation of profound currency stress," Argentine Finance Minister Martín Guzmán told senators, urging them to approve the deal, The Wall Street Journal reported. "Argentina needs the capacity to avoid a destabilizing shock," he added. While the agreement helps Argentina to avoid another default, it also may have created a deep rift between President Alberto Fernández and his powerful vice president, former President Cristina Fernández de Kirchner, who has criticized the terms of the agreement, the AP reported. The former president was absent for the vote. The refinancing negotiations have led to protests in Argentina among people angry about past agreements with the IMF, which some blame for damaging the country's economy. Protesters set fires and threw rocks in front of the Congress building during recent demonstrations. The government has said the agreement will not require any reforms to the country's pension system or labor laws. [Editor's note: See related **Q&A** in the Jan. 21 issue of the daily Latin America Advisor.]

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to alleviate sanctions on the Venezuelan government in exchange for collaboration on energy supply issues. Separately, for those countries that rely on reserves held in Russian banks, the foreign governments will face setbacks in trying to make good on their reserves held in rubles because the currency is crashing. Limiting Russian banks' use of SWIFT will also create issues for the tourism industry. Combined with Russian aircraft restrictions, wealthy Russian tourists will be hindered in their ability to travel to Latin American destinations. Russian tourists will likely stay home if they are unable to access resources while abroad, use the airspace above a growing number of countries or make use of luxury assets. For many Latin American countries, tourism is a major source of income for the private and public sectors, so we will continue to watch for the effects of sanctions on the industry."

A **Michael Malarkey, managing director at Forensic Advisory Services:** "The Biden administration designed the sanctions to punish the Kremlin for its actions while also creating an indirect impact on Russian-related business activity around the globe, such as the ability to enter into various financial transactions with entities in traditionally Russia-allied countries—including Nicaragua, Venezuela, Cuba, Brazil and Argentina. These countries comprise a significant portion of the Latin American economy. Given their significance in processing large volumes of transactions, banks located there—as well as throughout Latin America—could find it difficult (or even impossible) to continue in a banking relationship with Russia. Moreover, the energy, mining and transportation industries could find themselves severely affected if they cannot do business directly with Russia, while also suddenly being unable to complete financial transactions or gain access to the U.S. and Western banking systems and the SWIFT network. This predicament could easily cripple Latin American economies because their access to suitable banking partners could be restricted or even totally eliminated."

> **"This predicament could easily cripple Latin American economies..."**
> **— Michael Malarkey**

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

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