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FEATURED Q&A

What Would a New Digital Currency Mean for Brazil?

Brazil's central bank, pictured above, is planning to launch a new digital currency. // File Photo: Brazilian Central Bank.

Q **Brazil's central bank announced on March 6 that it would launch a digital currency pilot project and that the public's use of it could begin in late 2024. The move could reduce the cost of credit and bolster new service providers and financial technology companies, said Fabio Araujo, who is coordinating the project at the central bank. How likely is a new digital currency in Brazil to be rolled out, and what would be its main appeal? What are the key ways consumers could be affected? How will the move affect Brazilian banks and other financial service providers?**

A **Tim Jacklich, senior crypto research analyst at Tribal Credit:** "Brazil's CBDC initiative could bring efficiencies to the country's payments infrastructure, but the digital real will remain largely invisible to consumers for now. According to the central bank, the digital real has been designed as a 'wholesale CBDC,' meaning that only financial institutions will interact with the CBDC ledger directly. This contrasts with China's e-CNY and the Bahamian Sand Dollar, both of which enable direct retail interactions with the digital currency. At least in its first iteration, Brazil's CBDC would be used mainly for interbank settlement. As a result, the digital real is not likely to compete with existing payment methods such as Pix, instead serving to improve the plumbing of the Brazilian banking system. Interestingly, the central bank reportedly plans for the CBDC ledger to enable the tokenization of other types of financial assets, including government bonds. This suggests applications for the wider financial system, rather than just for digital payments. In the near term, the benefits of Brazil's CBDC for consum-

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Mexican Unicorn Clara Gets $90 Mn in Debt Financing

Mexican unicorn Clara, which offers corporate credit cards and expense management solutions, secured $90 million in debt financing.

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Region to Present Growth Possibility for Reinsurance Providers: Report

Reinsurance companies are likely to see several opportunities for growth and diversification in Latin America, according to a report by Aon's Reinsurance Solutions.

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BANKING

No Contagion Seen in Mexico After U.S. Bank Failures: Banxico Chief

Mexico is seeing no contagion after the failures of U.S. lenders Silicon Valley Bank and Signature Bank, said Bank of Mexico Governor Victoria Rodríguez.

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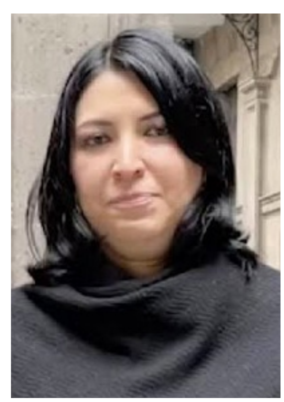

Rodríguez // File Photo: Mexican Government.

BANKING NEWS

No Contagion Seen After Failures of U.S. Banks: Banxico Chief

Mexico is seeing no contagion after the failures of U.S. lenders Silicon Valley Bank and Signature Bank, the head of the Bank of Mexico, or Banxico, said March 17, Reuters reported. "The relationship between them and the Mexican system is practically non-existent ... We do not see a contagion or banks that are in a similar situation in our country," the central bank's governor, Victoria Rodríguez, told Reuters in an interview in Mérida on the sidelines of Mexico's annual banking convention. She added that Mexcio's banks have sufficient liquidity and are robust. A day earlier, Mexican Finance Minister Rogelio Ramírez de la O told Bloomberg TV in an interview, also in Mérida, "We don't have to worry about systematic contagion." He added, "I don't doubt that some Mexican bank has links to that bank or another that has problems in the U.S. or Europe, but the whole Mexican system does not have an issue." The bank failures happened as top financial officials from Latin America and the Caribbean were gathering in Panama City in an annual meeting of the Inter-American Development Bank, Agence France-Presse reported. IDB leader Ilan Goldfajn said officials would discuss such "cyclical" issues behind closed doors. In Mexico, Ramírez de la O said that higher interest rates in the country had put greater pressure on the government's budget, but he added that officials have been able to handle the additional expense, Bloomberg News reported. "It does affect us, but until now it's been a cost that we have absorbed within the budget without having to look for additional financing beyond the budget approved by the Congress," he said. The rise in core consumer prices in Mexico slowed more than analysts had expected in February, to 8.29 percent, according to data from state statistics agency INEGI, Reuters reported. That inflation data is good news for Mexico, but the central bank will have to also examine upcoming data before it makes its next decision on interest rates, Rodríguez told Reuters. "There is still relevant information that is going to emerge and we will be analyzing it," she said.

Santander's Mexico Unit to Launch Digital Lender in '24

Banco Santander's Mexico operation is planning to launch digital lender Openbank in the country by March 2024, the head of the Spanish bank's Mexico unit said March 16, Reuters reported. "We need to 'tropicalize' it and make it fit for the Mexican market and regulation," the executive, Felipe García, told the wire service in an interview. Openbank will offer checking accounts, credit cards and other services, said García. He added that the new digital unit will not be starting from scratch as it already operates in Argentina and in some European countries. Mexico has a low level of banking penetration as compared to other countries in Latin America as well as a young population, making it an attractive location for Openbank's expansion, said García. He did not specify how much Santander would invest in bringing Openbank to Mexico. "Mexico is one of the most attractive markets for retail banking and payments growth in Latin America," Barbara Kotschwar, executive director of the Visa Economic Empowerment Institute, told the Financial Services Advisor in a **Q&A** published March 8. "It has a large population and a still-untapped market for financial services. Cash dominates the payments landscape, accounting for more than half of the overall payment transaction volume in 2022," she added. Last month, Santander valued its Mexican unit at approximately 8.1 billion euros ($8.6 billion) as part of a voluntary tender offer to acquire shares of the operation that it does not already own, Reuters reported. That move is a step toward delisting the unit. The Santander division is Mexico's third-largest bank by credit-portfolio size and managed approximately 810 billion pesos ($43.23 billion) at the end of 2022, according to data from Mexico's national banking regulator, the wire service reported.

NEWS BRIEFS

IDB Invest Announces Sustainability Bond Issue With Banco de Bogotá

IDB Invest, the private investment unit of the Inter-American Development Bank, on March 17 announced a $230 million sustainability bond issue alongside Colombia's Banco de Bogotá, Reuters reported. IDB Invest said the Colombian bank would issue the bonds on the international market with terms of as long as 10 years, the wire service reported. "The issuance of this type of bond will serve as a basis and example for the development of the capital market for this type of instrument in Latin America and the Caribbean," said IDB Invest's chief sustainability officer, Gema Sacristan.

Santander Brasil to Sell Stake in WebMotors

Brazil's third largest private bank, Santander Brasil, said earlier this month that it will sell 40 percent of car-selling platform WebMotors to Australia's Carsales.com for 1.24 billion reais ($238.87 million), Reuters reported March 7. Carsales will have 70 percent of WebMotors by the end of the transaction, while Santander will own the remaining 30 percent. The deal will enable Santander to "further expand the volume of car financing carried out by the platform," the bank's chief financial officer, Angel Santodomingo, said in a statement.

Scotia Group Jamaica to Offer Loans for Energy Products

Scotia Group Jamaica is planning to offer several types of energy-related loans that customers will be able to use to buy sustainable energy products such as hybrid and electric vehicles, Loop News reported March 16. The offerings include home equity and secured loans, the news site reported. The bank, a unit of Canada's Scotiabank, did not disclose the maximum loan amounts or interest rates.

CREDIT CARD NEWS

Mexican Unicorn Clara Gets $90 Mn in Debt Financing

Mexican unicorn Clara secured $90 million in debt financing from U.S. debt provider Accial Capital, Reuters reported March 12. Clara, a company that offers corporate credit cards and expense management solutions, is seeking to expand its operations in Brazil and boost its customer base in the South American country from a current 2,000 to up to 5,000. The company expects to quadruple the 600 million reais ($114.98 million) it earned in 2022. “We’ve been in the Brazilian market for over a year and we see the operation continues to grow even faster than the operation in Mexico did initially,” Clara’s chief executive, Gerry Giacoman, told Reuters. The company, which also has a branch in Colombia, is valued at $1 billion. Brazil is expected to become its largest operation by the end of 2024. The new funding represents the second debt facility it has secured in less than a year, after having received a $150 million debt line from Goldman Sachs in August, Reuters reported. “It is important to have the right combination, the right mix of capital,” Giacoman said in response to the company’s reliance on debt financing.

Mexico City-based Clara is valued at $1 billion.

INSURANCE NEWS

Region Likely to Present Growth for Reinsurers: Report

Reinsurance companies are likely to see several opportunities for growth and diversification in Latin America, according to a report released by Aon’s Reinsurance Solutions, Reinsurance News reported March 16. Reinsurance rates increased for several areas exposed to hurricanes, particularly in the Caribbean, said the report. Overall, percentage price increases in property catastrophe rates were in the low double digits, but there was considerable variation from one country to another as of the beginning of this year, according to the report. Additionally, agri-reinsurance in Brazil saw some of the largest increases in rates, the report added. Reinsurance companies also attempted to narrow coverage for events such as war, terrorism and cyber attacks while restricting coverage for natural catastrophes, the report said. “Outside agriculture, property catastrophe results in Latin America have been largely positive, while a number of domestic markets continue to demonstrate underlying growth,” the report said. “Capacity, however, is not keeping pace with increased demand

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ers will be minimal. Indeed, Brazil’s CBDC initiative could facilitate faster settlement of wholesale, high-value transactions. However, Brazilian consumers already have access to free, instant transfers via Pix, so these CBDC-enabled efficiencies would make little difference for them. Likewise, the Brazilian CBDC is not likely to independently advance financial inclusion, given that access to the CBDC ledger will be mediated by financial institutions. These limitations notwithstanding, Brazil’s CBDC represents an exciting achievement in financial innovation, and central bankers around the world will be watching closely.”

A Markus Veith, national leader for digital assets and blockchain industry and partner in charge of the Northeast Financial Institutions Practice and Michael Malarkey, managing director, both at Grant Thornton: “The speed to launch a central bank digital currency (CBDC) depends on the state of a country’s existing mobile payment infrastructure. As most Brazilians own cell phones and use mobile payment functions, a speedy rollout is possible, although a 2024 timetable seems ambitious. The main appeal of CBDCs in developing countries is the potential to broaden financial inclusion. People with no bank accounts that own personal digital assistants can set-up digital wallets to receive wages or benefit payments. CBDCs will foster innovation and provide a new payment rail to spend money on e-commerce platforms or at points-of-sale and also to receive and send money, for example via text message. Other benefits are a reduction in fraud and counterparty risk. CBDCs enable instantaneous peer-to-peer payments and also support in-person transactions. The introduction of a CBDC will speed up retail, wholesale and cross-border payments and help lower the cost of payments and credit intermediation. In the existing two-tiered banking system, the central bank issues bank notes for the general public and reserves for the banking system. If CBDCs are introduced within this system, commercial banks (and other regulated intermediaries) would exchange reserves for digital dollars to be distributed to end users much in the way they currently do. As more people will hold funds in digital wallets, this opens up new possibilities for financial service providers. On the cautionary side, as digital cash moves faster than physical cash, in times of distress in the bank sector, CBDCs could accelerate bank runs.”

“The introduction of a CBDC will speed up retail, wholesale and cross-border payments and help lower the cost of payments...”
— Markus Veith & Michael Malarkey

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for reinsurance, although the devaluation of the local currency against the U.S. dollar has worked in the market's favor at this renewal," the report added.

POLITICAL NEWS

Colombian President Suspends Cease-Fire With Clan del Golfo

Colombian President Gustavo Petro announced March 19 that he was suspending his government's cease-fire with the Clan del Golfo, saying the drug cartel had attacked police officers, Reuters reported. "I have ordered the armed forces to reactivate all military operations against the Clan del Golfo," Petro said in a posting on Twitter. "We will not allow them to continue sowing anxiety and terror in the communities," he added. The cease-fire had been announced last New Year's Eve and was scheduled to be in effect for six months. Earlier this month, Petro accused the criminal group of destroying a municipal aqueduct in Antioquia province during roadblocks related to protests staged by illegal gold miners, the wire service reported. At the time, Petro said the Clan del Golfo had "broken the cease-fire," adding that the government would not negotiate with it if attacks continued. On Sunday before Petro's announcement, authorities said six vehicles had been set on fire in Colombia's Bajo Cauca area in Antioquia province in an attack purportedly linked to the protests over mining. The government was sure that the Clan del Golfo was to blame for the burning of the vehicles as well as for a rifle attack against law enforcement officials, said Defense Minister Iván Velásquez. Colombian military forces and the country's national police had been ordered to carry out "offensive operations against the Clan del Golfo," said Velásquez, adding that there were some 10,000 law enforcement officials in the area. Miners have been protesting since March 2, but authorities say the Clan del Golfo is behind the strikes as it benefits from mineral exploitation in the area, EFE reported.

ADVISOR Q&A

What Can Artificial Intelligence Bring to Latin America?

Q ChatGPT, Open AI's popular chatbot released last November, is estimated to have reached 100 million monthly active users in January, setting a record for the fastest-growing user base for a consumer application, according to a UBS study. Over the past decade, artificial intelligence (AI) has moved from the periphery of policy attention to the center of investment and political focus. In Latin America, AI is forecast to boost GDP by 5 percent by 2030, according to PwC. What benefits could AI bring to the region, and what are the main risks associated with it? To what extent should it be regulated, and which countries in the region have implemented the most significant policies related to AI?

A María Paz Hermosilla, director of GobLab UAI in the School of Government of Universidad Adolfo Ibáñez: "The challenge is always how we use technology, because it is not morally good nor bad by itself. Artificial intelligence can bring important benefits in solving major social problems through the use of data, for example, by expanding the coverage and scope of certain public policies and making them more effective in reaching those for whom they are intended. But just as the opportunities are enormous, so are the ethical risks involved: how do we ensure fairness and non-discrimination, how do we protect people's privacy and how do we guarantee transparency? That is what we are working on. Chile is leading the way in Latin America. At the Adolfo Ibáñez University we are executing the Ethical, Accountable and Transparent Algorithms project, an unprecedented multi-stakeholder partnership in Chile, funded by IDB Lab, to develop models and standards that incorporate ethical considerations for the design, procurement and use of automated decision-making algorithms in the public and private sector. Among other milestones, earlier this year the National Procurement Agency published standardized bidding terms for AI public purchases including ethical considerations, and during the second semester the Chilean Transparency Council will approve the first binding regulations on algorithmic transparency in the region.

EDITOR'S NOTE: More commentary on this topic appears in the March 15 issue of the Latin America Advisor.

Antioquia Governor Aníbal Gaviria said the action has caused shortages of food and other products for 250,000 people, EFE reported

Dominican Republic Authorities Arrest 19 in Corruption Case

Authorities in the Dominican Republic arrested 19 people in a sprawling corruption case in which a former presidential candidate is among the accused, the Associated Press reported March 20. The arrests are part of a series of investigations that authorities in the Caribbean country have launched over the past two years in graft crackdowns. The former presidential candidate, Gonzalo Castillo, is a former public works minister who garnered 37 percent of the vote when he ran for president in 2020 as the candidate of the Dominican Liberation Party. Also arrested was former Treasury Minister Donald Guerrero, former Comptroller

NEWS BRIEFS

Letter Bombs Sent to at Least Five Journalists in Ecuador

At least five journalists in Ecuador working in television and radio stations received letter bombs, one of which exploded, though no one was seriously injured, said Interior Minister Juan Zapata, Agence France-Presse reported on March 20. The country's prosecutor's office has opened an investigation into the incidents but has not stated the reasons for the news stations' targeting. The "device is indeed the same in all five places," Zapata told reporters.

Argentine Central Bank Hikes Key Interest Rate to 78% as Inflation Soars

Argentina's central bank raised its benchmark rate March 16 for the first time since September to rein in inflation, according to a monetary policy statement, Bloomberg News reported. Inflation surpassed 100 percent last month, marking the first time it reached triple digits since 1991. The central bank increased its benchmark Leliq rate by 300 basis points to 78 percent. Consumer prices rose 102.5 percent in February, adding pressure on an economy that is expected to fall into recession this year ahead of the October presidential election.

Developing Nations Set to Miss Out on Green Tech Economic Benefits: U.N.

A majority of developing nations, including ones in Latin America, are set to miss out on the economic benefits of booming green technologies, undermining their climate goals and widening the gap between rich and poor countries, a United Nations report warned on March 16, the Associated Press reported. "We are at the beginning of a technological revolution based on green technologies," said Rebeca Grynspan, the secretary-general for the U.N.'s agency for trade and development. General Daniel Omar Caamaño and former Administrative Minister to the Presidency, José Ramón Peralta. The AP was unable to reach attorneys for the accused for comment.

El Salvador's Legislative Assembly Extends Crackdown

El Salvador's Legislative Assembly for the 12th time extended special powers for authorities to crack down on gangs, the Associated Press reported. Legislators' vote on March 15 was

Bukele // File Photo: Salvadoran Government.

expected; the lawmakers have extended the emergency rules consecutively for a month each time since they were first put into place in March of last year at the request of President Nayib Bukele. The crackdown has led to more than 65,000 arrests as well as thousands of alleged abuses of human rights, the AP reported. Opinion polls show that nine of 10 Salvadorans approve of Bukele's policies to fight crime. Lawmakers' latest extension of the emergency measures came on the same day that authorities transferred 2,000 people under arrest to a large new prison constructed specifically for gang members, the AP reported. In sending the prisoners to the new facility, the country's justice minister said "they will never return" to the streets, the wire service reported. Images in a video that the government released showed prisoners being forced to run handcuffed and barefoot, wearing only white shorts. The prisoners were also forced to sit close together in tight groups with their legs shackled, the AP reported. In a posting on Twitter, Bukele mocked comments on social media about the prisoners being shoeless. "Right now we'll take money away from the children's hospitals to buy them shoes! What brand do you think they would like?" Bukele said. Amid the crackdown, murders in El Salvador fell 56.8 percent last year, the government said in January, Reuters reported. In 2022, the country registered 496 homicides, down from 1,147 the year before.

ECONOMIC NEWS

Colombia's Petro Presents Labor Reform to Congress

Colombia's government on March 16 presented a labor reform bill to Congress that aims to reduce working hours and increase overtime pay, Reuters reported. The bill is the latest in a string of reforms being pushed by President Gustavo Petro, the country's first leftist president, who seeks to tackle poverty. "It is precisely the reduction of salaries, job instability, which have not allowed the growth of productivity in Colombia," Petro told a crowd in Bogotá before the bill was formally presented to Congress. Critics, however, are wary of the bill stifling job creation. "[The bill] forgets about the unemployed, the opportunity to access work and the possibilities for informal workers to get formal work due to the high costs," Jaime Alberto Cabal, president of merchants' association Fenalco, told journalists earlier on March 16. The measure would enforce an eight-hour work day, set the normal work week to 42 hours, down from a current 48 hours and guarantee at least one day off every seven days. It needs the approval of lawmakers as well as the Constitutional Court to be made law.

The measure would enforce an eight-hour work day and set the normal work week to 42 hours.

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Ernesto Haikewitsch, executive director of Mazaltech Consulting in São Paulo: "Pix, the central bank's instant payment system, has brought about a significant reduction in the use of paper currency, thanks to the maturation of technology and the convenience of digital payments. It has also sparked the creation of a new digital financial culture, which was previously unimaginable in a country as vast and diverse as Brazil. The Brazilian central bank's proposed model, coupled with the infrastructure underpinning it, showcases its commitment to innovation without unduly disrupting the existing financial system. The digital real will be a tokenized bank deposit, and private banks will be responsible for custody of the money, bringing the added advantage of greater interoperability within the financial system, and paving the way for endless possibilities for the development of new financial products and other tokenizable assets. Like other digital currencies, the central bank digital currency will operate as a cryptocurrency using blockchain technology. However, unlike other cryptocurrencies, the CBDC will be issued and controlled by the Brazilian central bank and holds the same value as its physical counterpart. The digital real represents a revolutionary concept that allows for the programming of autonomous payments and transactions with Internet-of-Things technology, without the need for intermediaries. This innovation, powered by smart contract crypto assets, opens possibilities for financing projects and businesses that have been previously overlooked by banks and are not viable in the traditional capital market, like peer-to-peer lending and fractional trading of real estate and securities. The CBDC is designed to serve both the retail and wholesale markets. For retail users, it can cater to the everyday payment and settlement needs of individuals and businesses. Meanwhile, the wholesale market can leverage the CBDC for high-value transactions among financial institutions as well as large corporations. Additionally, the CBDC may also facilitate currency exchange. The introduction of the digital real is expected to broaden financial inclusion by providing access to more segments of the population. This move is seen as a further deepening of the trend already set in motion by fintechs and Pix, with the potential to increase the speed and security of financial transactions and provide more functionality to users. As a result, the Brazilian economy is expected to receive a boost, improve product alignment with consumers' needs and reducing intermediation costs."

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

Dialogue Event

A Conversation with Dante Mossi, Executive President of CABEI

An Inter-American Dialogue discussion with Dante Mossi, executive director of CABEI, Ryan Berg from the CSIS and Manuel Orozco.

View the March 16 webcast of the discussion.

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