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FEATURED Q&A

Will Bank Failures Lead to Contagion in Latin America?



The collapse of U.S.-based Silicon Valley Bank, whose headquarters in California is pictured, was among the banks at the center of a crisis among some financial institutions that erupted in March. // File Photo: Minh Nguyen via Creative Commons.

Q Bank of Mexico Governor Victoria Rodríguez said on March 17 that she saw no contagion in the country following the collapse of U.S. lenders Silicon Valley Bank and Signature Bank and from market turmoil that dealt a powerful blow to Credit Suisse. What effects could the banking industry tumult have for lenders in Latin America and the Caribbean? To what extent do banks in the region face conditions similar to those that imperiled the U.S. and Swiss lenders? What should banks and governments in Latin America do to guard against similar crises?

A Alexandre Albuquerque, vice president and senior analyst, and Ceres Lisboa, associate managing director, both at Moody's Investors Service: "Latin America's financial institutions have limited direct exposure to the three U.S. banks that had their operations closed in March 2023, as well as to fintechs and crypto-asset companies, both through deposits or loans. They also maintain adequate administration over the key risk considerations that culminated in deteriorating investor confidence in the U.S. banks. Overall, most banking systems in Latin America show high concentration of market participation amid a few large, diversified banks. In addition, Latin American banks have long been disciplined about asset-liability mismatches. They are used to maintaining high volumes of liquid assets that are mostly comprised of investments in domestic government securities—a large portion are comprised of trading or available-for-sale securities. For securities under held-to-maturity, Latin American banks are less exposed to potential losses from mark-to-market (MTM) adjustments

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TOP NEWS

REMITTANCES

Western Union Expanding Service Across Peru

Western Union said it is expanding its service in Peru by partnering with three supermarket chains at which customers will be able to send and receive money transfers.

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PENSIONS

Colombia's Petro Sends Congress Pension Reform

Colombian President Gustavo Petro sent lawmakers pension reform legislation that he said would expand benefits to more people.

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FINANCIAL SERVICES

Banorte Planning to Hire 800 Amid Trend for Nearshoring: CEO

Grupo Financiero Banorte is planning to hire 800 additional employees in order to handle demand for companies seeking to move manufacturing operations to Mexico, said CEO Carlos Hank González.

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Hank González // File Photo: carloshankgonzalez.com.

FINANCIAL SERVICES NEWS

Banorte Planning to Hire 800 Amid Nearshoring Demand

Grupo Financiero Banorte is planning to hire 800 employees in order to handle increased demand for companies seeking to move manufacturing operations to Mexico, amid the trend known as nearshoring, Chairman Carlos Hank González said March 29, Reuters reported. “We’re adding about 800 people to our workforce to be able to capitalize on the opportunities ... 800 people that we’re going to integrate just to be able to capitalize on the opportunities for nearshoring,” he said, the wire service reported. Supply-chain problems during the Covid-19 pandemic have led companies to move production closer to buyers in North America and away from Asia. “We have the capacity—because we’re a local bank—to support these investments,” Hank González told Bloomberg News in an interview.

U.S. Court Finds Argentina Liable in Suits: Burford Capital

A court in the United States has found Argentina liable in claims that Petersen Energia Inversora and Eton Park brought against the South American country’s government and state oil company YPF, Dow Jones reported April 3, citing finance and asset-management company Burford Capital. The court found Argentina liable because it failed to make a tender offer for Petersen’s and Eton Park’s shares in YPF in 2012, said Burford Capital, which provides funds for commercial legal cases and then receives a share of the payout for successful claims. The court found YPF not liable for failure to enforce bylaws against Argentina’s government and will not be required to make any payments, said Burford, Dow Jones reported. The claim dates to YPF’s nationalization in 2012. At that time, the government expropriated

a controlling stake in the oil company, and the following decline in the company’s share value left Petersen, which owned approximately a quarter of the company, was left insolvent. “The ruling is a major milestone for Burford, and we continue to see momentum in our overall portfolio and continued demand for our capital and services,” Burford Capital’s chief

The claim dates to YPF’s nationalization in 2012.

executive officer, Christopher Bogart, said in a statement, Dow Jones reported. Burford said it expects to be entitled to approximately 35 percent of any proceeds that the Petersen case generates and about 73 percent of any proceeds from the Eton Park case. Investment bank Jefferies Group estimated that the cases could generate as much as \$11 billion, though it added that the range of possible payouts for Burford was wide. Additionally, Burford expressed caution that some risks, including ones related to appeals and enforcement actions, remained.

REMITTANCES NEWS

Western Union Expands Service Across Peru

Western Union announced March 27 that it is expanding its service in Peru by partnering with the PlazaVea, Vivanda and Metro supermarkets, the money-transfer company said in a statement. “Many of our customers depend on Metro, PlazaVea and Vivanda for groceries and other basic needs,” Claudia Reyes, Western Union’s country director for Peru, said in a statement. “By working with these establishments, we are providing our customers with even more convenience, offering the ability to send and receive money at their locations, pay for services and exchange currency,” she

NEWS BRIEFS

Mexico’s Banorte to Launch Digital Bank by Early Next Year: Chairman

Mexican lender Grupo Financiero Banorte is set to launch a digital bank by early 2024, which it hopes will attract an additional three million customers, its chairman said on March 28, Reuters reported. The bank could generate 5 percent to 7 percent of the company’s revenue in less than five years, chairman Carlos Hank González said. It will compete with Brazilian digital bank Nubank, which has significantly expanded into the Mexican market, securing 3.2 million customers.

Default Risk Rising in Region Amid Higher Borrowing Costs: S&P

Rapidly increasing borrowing costs are raising threats to Latin America-based companies more than any other emerging market, leading to increased concerns about defaults, S&P Global Ratings said March 24, Bloomberg News reported. Credit conditions in Latin America are tightening more quickly now than they were at the worst points of the 2008 financial crisis, according to the report. Chilean and Colombian companies are facing the most serious immediate risks, the report added.

Foreign Remittances to Mexico Increase by 11.2%

Foreign remittances to Mexico increased by 11.2 percent in February relative to the same month in 2022, though they dropped to \$4.3 billion from \$4.4 billion in January, the Mexican central bank said on April 3, Reuters reported. The number of remittance transactions went up by 10.9 percent in February year-on-year. Between January and February, remittances to Mexico reached \$8.9 million, an 11.8 percent jump from the first two months of 2022, Reuters reported.

added. Western Union will offer service in 10 of the companies' supermarkets across the country, including eight in Lima, the company said. Western Union also said it is launching a new e-wallet service for customers in Peru, which they can use to receive remittances from abroad. "We continue to see growth in remittances despite the various political and social contexts in the world," said Reyes. "This shows how important remittances are to local and regional economies, while providing much needed support to our customers' loved ones," she added. Western Union is offering the digital wallet through a partnership with Pagos Digitales Peruanos, which offers the BIM digital wallet. "The partnership with Western Union is key because, in a country like Peru with high annual remittances, it positions us closer to our users and their needs, being the first wallet to provide this type of service," Fernando Barrios, general manager of Pagos Digitales Peruanos, said in a statement.

PENSIONS NEWS

Colombia's Petro Sends Lawmakers Pension Reform Bill

Colombian President Gustavo Petro on March 22 sent lawmakers legislation to reform the country's pension system, Reuters reported. Petro said the changes would expand benefits to more people, but some banking analysts say the measure could threaten public finances and pose risks to capital markets. "It is time for a reform if we want to make [the pension system] sustainable," Petro told the Senate, saying the current system struggles to make its monthly payments, Reuters reported. "This isn't about annulling markets ... it's about again building the thesis that without the state it is not possible to guarantee rights," Petro added. Only a quarter of Colombians have enough working weeks in formal jobs to secure a pension, the government has said. Under the legislation, workers earning up to three times the minimum wage, or approximately \$724 per month, would

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if they need to sell the portfolio because a portion of their exposure is hedged against interest rate moves. It is also important to note that monetary authorities in Latin America started tightening cycles well before the United States or E.U. countries. As a result, banks in the region were able to record losses from MTM adjustments to their securities portfolio in their income statements in 2022, when we saw a rebound in economic growth in most countries in the region. This allowed banks to absorb those losses amid higher income origination from increases in lending volumes and fee-based operations. Latin American banks also have steady access to granular domestic customer deposits. Funding from institutional investors is largely provided by local capital markets. The high granularity of Latin American banks' funding structure, along with the fact that banks have already transitioned losses from MTM adjustments to securities through their balance sheets, supports the view of low risk of deposit run in Latin American countries."

A **Theresa Paiz-Fredel, senior director and head of credit research for Latin American banks at Fitch Ratings:** "Fitch Ratings expects direct fallout, contagion risks and second-order effects from the global banking industry tumult to be limited for banks domiciled in Latin America and the Caribbean. This reflects limited, if any, direct exposure to troubled banks, structural factors, including meaningful levels of stable retail deposits, and the shorter duration of securities portfolios. Given the region's history of inflation, central banks began tightening monetary policy well before developed markets, led by Brazil, with the region's largest central banks raising policy rates by October 2021. This should limit the fallout for Latin American banks in 2023 as the end of the tightening cycle approaches. For banks domiciled in markets that are required to report their securities portfolios at fair value, most of the associated losses were

already fully reflected in income and equity accounts in 2022. Despite a more challenging environment, our funding and liquidity assessment suggests that most banks are well positioned to face moderate deposit outflows in the unexpected event of a deposit run that forces banks to sell assets due to current balance sheet liquidity and the potential for lower unrecognized losses on securities portfolios. Securities held at book value are generally less than a third of total securities. Latin American banks continue to be predominately deposit-funded, with a good level of stable retail deposits, an important credit strength given the current environment of tighter global liquidity. Latin American governments should continue to strengthen regulatory frameworks and accounting standards to align with international standards, particularly in the smaller markets that have lagged considerably on this front."

A **Alfredo Calvo, senior director and sector lead for financial institutions ratings at S&P Global Ratings:** "Latin American banks are well positioned to maneuver the volatile financial market conditions that emanated from regional bank failures in the United States and the demise of Credit Suisse. We believe a potential contagion from U.S. bank failures remains limited across Latin American banking systems. Banks in the region are unlikely to have any meaningful direct exposure to recently failed financial institutions. However, foreseeable indirect effects could include increasing risk aversion among institutional investors, which could ultimately result in higher funding costs and scarce funding for regional financial institutions. Such trends were already present across Latin America's banking sectors, but recent U.S. banking troubles will amplify them. We do not see any Latin American-rated bank exhibiting all the specific vulnerabilities that led to the demise of Silicon Valley Bank. Large banks in the region operate with

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have to pay contributions to state pension fund Colpensiones. Workers earning more than that amount would be able to pay excess amounts to a private fund, and those earning more than four times the minimum wage would be required to contribute payments to a so-called “solidarity fund.”

POLITICAL NEWS

Opposition Envoy Urges U.S. to Ease Venezuela Sanctions

The new representative of the Venezuelan opposition in the United States is urging U.S. President Joe Biden to ease sanctions on Nicolás Maduro’s government, the Associated Press reported April 4. Fernando Blasi told the wire service that the South American country risked becoming another Cuba amid increasing authoritarianism and economic turmoil. “If we continue down this path, Venezuela is destined to be another Cuba,” Blasi said in the interview March 31 in Miami. Blasi’s position represents a move away from the last four years of a “maximum pressure campaign” seeking to draw on the United States to muscle out Maduro out of office. “The Venezuelan opposition seems to be slowly awakening to a new reality in which an emboldened chavismo, with support from the military, remains in power despite harsh international sanctions and broad diplomatic isolation,” Michael Penfold, professor at IESA in Caracas and global fellow at the Wilson Center in Washington, told the daily Latin America Advisor in a [Q&A](#) published Jan. 11.

Mexico’s López Obrador Visits Detention Center

Mexican President Andrés Manuel López Obrador visited border city Ciudad Juárez on March 31 following the deadly detention center fire that killed at least 40 migrants, the Associated

ADVISOR Q&A

How Much Is Triple-Digit Inflation Harming Argentina?

Q Argentina’s annual inflation rate in February exceeded 100 percent, the country’s National Institute of Statistics and Census, or INDEC, announced on March 14. It marked the first time the consumer price index (CPI) hit triple digits since 1991. February’s 102.5 percent inflation rate was a result of a higher-than-expected 6.6 percent monthly increase in the CPI, as well as a 13.1 percent year-to-date rise. How is Argentina’s inflation rate affecting the country’s \$44 billion program with the International Monetary Fund? How is the Argentine government responding to rising prices, and how is it affecting the people? What implications might the country’s economic struggles have on the October presidential election?

A Miguel A. Kiguel, executive director of EconViews in Buenos Aires: “Once again, after more than two decades, inflation reached triple digits. It certainly did not come as a surprise, but it is still disturbing. It hurts the most vulnerable sectors and complicates overall economic management in an already complex situation characterized by a dismal level of reserves that covers less than a week of imports, a large gap between the official and parallel exchange rates and lack of access to domestic and international financial markets. A severe drought has complicated the situation. It is

expected to reduce exports by more than 20 percent to around \$70 billion and affects overall economic activity and the fiscal deficit, which is now forecast to reach 3.5 percent of GDP. The outlook for inflation is worrisome. In December, Minister Sergio Massa argued that inflation would fall to 3 percent per month by April or May—a target that is now unreachable. Inflation in February stood at 6.6 percent, and for March most estimates indicate that it will be higher. Bringing down inflation will be a daunting task that requires strong fiscal accounts, access to financial markets and a central bank that has a clear objective to lower it. None of the conditions are met today, in part because the central bank is focused on finding dollars, rather than taming inflation. There is little chance that inflation will come down this year. However, a new government, with a vision to address the fiscal and external imbalances within a comprehensive program that includes structural reforms and the support of the IMF, can do it. It won’t be easy, but with political leadership and a strong economic team, it can be done. Of course, as Napoleon referred to his generals, it would help if for once, the economic team is lucky.”

EDITOR’S NOTE: More commentary on this topic appears in the March 29 issue of the Latin America Advisor.

Press reported. Of the 27 men injured in the March 27 fire, 23 remain hospitalized. López Obrador called the fire the second most painful moment of his presidency, second only to a 2019 pipeline fire that killed 135 people in Tlahuelilpan, the AP reported. “I confess it hurt me a lot, it damaged me,” he said before be-

ginning his trip to the border city. “It ripped my soul apart,” he added. López Obrador promised that there would be a thorough investigation into the deadly fire, the Los Angeles Times reported. “There is no intention to cover up what happened, no intention to protect anyone,” he told reporters. “In our government we don’t per-

NEWS BRIEFS

Venezuela Arrests Nine CVG Conglomerate Officials: Attorney General

Venezuelan authorities have arrested nine officials of state-owned metals conglomerate Corporación Venezolana de Guayana, or CVG, amid a corruption probe, Attorney General Tarek Saab said April 2, Reuters reported. An investigation into irregularities at CVG and steel-maker subsidiary Sidor began on March 31. The investigation came in addition to other probes into alleged corruption at state oil firm PDVSA and a government agency overseeing cryptocurrency transactions, both of which were led by Tarek El Aissami, who resigned as oil minister in March.

Ecuador Lowers Economic Growth Forecast for 2023

Ecuador's central bank on March 31 cut the country's economic growth forecast for the year from 3.1 percent to 2.6 percent, citing a slowdown in oil exports, Reuters reported. The Andean country's growth rate in 2022 was 2.9 percent, the bank's chief said, exceeding estimates of 2.7 percent. Ecuador has been affected by protests, an earthquake and damages to infrastructure, and the oil ministry plans to cut crude production by 8 percent by 2030.

Chilean Economic Activity Index Falls in February

The Chilean central bank's economic activity index in February dropped by half a percentage point year-on-year, a result that went against a Reuters poll of economists, who had expected an increase by a tenth of a percentage point, the wire service reported April 3. The IMACEC index, which is a representative of the country's GDP, fell by 0.3 percent from January. "These figures confirm that the economy is still in adjustment and that economic contraction still lies ahead," said Artur Claro, an Econsult economist.

mit violations of human rights or impunity," he added. In Tapachula, the largest Mexican immigration detention center was nearly emptied on March 31 to review its conditions, according to an anonymous federal official, the Associated Press reported. López Obrador's administration has rejected an offer from the United States to provide medical treatment to those injured by the fire, saying that the victims were too sick to be moved, the wire service reported.

ECONOMIC NEWS

IMF Approves Argentina's Review and Disbursement

The International Monetary Fund's executive board on March 31 approved Argentina's fourth review under its \$44 billion loan program, allowing for the disbursement of \$5.4 billion to the South American nation while easing its reserves accumulation target, Reuters reported. The IMF lowered the reserves accumulation target "to partially accommodate the impact of the severe drought," which is forecast to severely hit Argentina's agriculture exports and economic growth this year, the lender said in a statement. It did not provide details on what the new target is. The modification makes it easier for Argentina to pass future IMF reviews, though the country has struggled to hold up the local peso currency, which is down 15 percent this year versus the U.S. dollar. Argentina's central bank in March sold its largest monthly amount of dollars since October 2019, Reuters reported. IMF First Deputy Managing Director Gupta Gopinath said April 1 that the South American country needs a "stronger policy package" to prepare for further inflation shocks or currency pressures, including potential changes to currency policies, Bloomberg News reported. Argentina's annual inflation rate surpassed 100 percent in February. "Additional macroeconomic policy tightening and further modifications to FX policies may be required to safeguard macroeconomic stability," Gopinath said in a statement. Also on March 31,

JPMorgan further downgraded its outlook for Argentina's economic growth this year to a 2.3 percent contraction, citing droughts. "The most recent revisions suggest more of a plunge in agricultural production than that suffered in 2018," JPMorgan said in the note. Under the IMF program, Argentina has received \$28.9 billion. The IMF's latest disbursement came days after Argentine President Alberto Fernández met with his U.S. counterpart, Joe Biden, at the White House on March 29, the Associated Press reported. Biden did not directly address the IMF program but noted that there is "an enormous opportunity" for the two countries to increase their economic integration, including on clean energy, critical minerals, technology and security.

Brazil Eying Tax Measures Including E-Commerce Curbs

Brazil's government is planning to soon introduce new tax measures that will include curbs on Asian e-commerce companies and restrictions on company tax benefits as it seeks to raise approximately 100 billion reais (\$20 billion) in revenue, Finance Minister Fernando Haddad said April 3, Reuters reported. The measures come amid complaints from some retailers in Brazil about unfair competition from Asian companies including AliExpress, Shein and Shopee, the wire service reported. Haddad told local broadcaster GloboNews that Brazilian companies are facing unjust competition from "one or two global players" that avoid paying taxes by hiding electronic commerce as person-to-person remittances. Haddad called the practice "smuggling" and said fighting it would generate seven billion to eight billion reais in new government revenue, Reuters reported. AliExpress, which is owned by Alibaba Group, Shopee, owned by Sea Ltd., and Shein did not respond to requests for comment by Reuters. The new measures are expected to be unveiled alongside legislation that sets new spending limits that would help the government to eliminate its budget deficit, the wire service reported.

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sound liquidity and capitalization metrics. Moreover, their funding structures are mainly composed by deposits with a significant participation of retail customers, which are usually more stable under stressful conditions. In our view, Latin America's major banks have sound franchises that should support their funding profiles, while the maintenance of prudent funding and liquidity management will remain integral to ratings stability. However, small and midsize banks face a more challenging situation due to their concentrated funding profiles. Any confidence shock could trigger a flight to quality, making their deposit bases potentially more volatile and costly."

A **Alberto J. Bernal, chief emerging market and global strategist at XP Investments:**

"This ongoing banking crisis is not comparable to the one that affected the world financial system some 15 years ago. The initial conditions are quite different, and the reasons behind the crisis are diametrically different. During the 2008 crisis, the banking sector collapsed because banks' balance sheets became stuck with very hard-to-value financial derivative instruments. I remember how I used to answer the typical client question about the size of the potential loss of the system at that time: 'somewhere between one and 10 trillion, my friend.' This time around, we have very reliable and available information about the size of the mark-to-market hit that the system

is taking at any given moment because of the increase in rates that we have seen, as the bulk of the banking system's aggregate portfolio is invested in highly liquid U.S. government debentures. In addition, the rally in U.S. fixed income, thanks to the adjustment in expected levels of Fed tightening, has reduced this mark-to-market loss materially in the last couple of weeks. The situation with Credit Suisse also seems to be quite particular and a function of a series of bad decisions and incapacity to restructure the bank's operation in a speedier fashion. Now, what will be the effect of all these negative headlines in Latin America? The answer seems quite straightforward: they will result in lower levels of credit availability for local banks (less availability of credit lines and syndicate loans, for example), lower levels of investment in the region by global banks and, therefore, materially slower rates of economic growth. The positive side of the story is that much tighter financial conditions and the consequent implementation of more stringent lending standards will have similar effects to additional Fed tightening. This means those conditions will allow the Federal Open Market Committee to keep from raising rates further, a development that should help reduce the pressure on the funding cost of regional governments and corporates."

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

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