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## LATIN AMERICA ADVISOR ► FINANCIAL SERVICES

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### FEATURED Q&A

#### Will Remittances to Mexico Keep Growing Despite Economic Woes?

**Q** Remittances sent to Mexico grew in September at their quickest pace in five years as Mexicans living abroad took advantage of the decline in the value of the peso, the central bank said Nov. 1. The total of remittances sent to Mexico grew 21 percent year-on-year to \$2.08 billion. Will Mexico's level of remittances keep growing despite the economic slowdown in the United States and Europe? How will those slowdowns affect Mexican migration trends? What sectors of Mexico's economy would be more affected by the upturn in remittances?

**A** Mario Trujillo, member of the Financial Services Advisor board and president, CEO and board member of DoIEx Dollar Express: "The year-over-year growth rates in U.S.-to-Mexico remittances during the last weeks in September and the first weeks of October, while significant in nature, were primarily driven by a short term, strong dollar spike (weak peso) and the corresponding surge in more immigrants taking this opportunity to send more money to family members back home. In our opinion, we have seen these spikes before and they are generally not sustainable longer term. In order to regain sustainable, year-over-year double-digit growth rates in family remittances from the United States to Mexico, a recovering and growing U.S. economy, which would

need to include a recovery in real estate construction, would be required. Mexican migration has slowed already as a result of the recent slowdown in the U.S. economy and other anti-immigrant legislation, mostly at the state level in the United States. Migration is not expected to accelerate until the U.S. economy recovers. As the U.S. employment situation improves, there will be a positive correlation to Mexican employment in the United States and that will drive sustainable growth in remittances back to Mexico."

*Continued on page 3*



#### Mexico's Level of Bank Credit Expected to Increase in 2012

The amount of credit extended by Mexican banks is expected to steadily increase next year, Guillermo Babatz, the president of the country's National Bank and Securities Commission, said Dec. 6. See story on page 2.

*File Photo: Mexican Government.*

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## FINANCIAL SERVICES BRIEFS

**Torres Taking Over as Banamex Banking Unit CEO**

Ernesto Torres will become chief executive officer of Citigroup's Banamex banking unit Jan. 1, the bank said in a statement, Bloomberg News reported Jan. 1. Torres will succeed Enrique Zorrilla, who will become vice president of the bank's executive committee. Javier Arrigunaga will remain in his position as CEO of Grupo Financiero Banamex, the Mexico City-based bank added.

**Brazil Cuts Taxes in Move to Spur Domestic Demand**

Brazil on Dec. 1 suspended a tax on foreign stock purchases, a key element in some \$1.5 billion in tax cuts aimed at shielding its economy from the worsening global economic outlook, Bloomberg News reported. The government's measures also include a reduction in levies on consumer loans, home appliances, homebuilding and foreign purchases of corporate bonds that are tied to infrastructure projects, according to the report. Brazilian stocks rallied and the real strengthened Thursday on the move.

**Banco de Crédito del Perú Buying 51 Percent of Correval**

Banco del Crédito del Perú has agreed to buy 51 percent of Colombia-based Correval in a move to expand its corporate finance and brokerage businesses, Bloomberg News reported Dec. 1. The acquisition comes as Peru and Colombia integrate their trading of securities. Among the other potential acquirers that the Peruvian bank beat out was Brazil's Banco BTG Pactual. Pactual had been involved earlier this year in "very preliminary" talks, Pactual's founder, Brazilian billionaire André Esteves, said previously.

**Financial Services News****Bank Credit in Mexico Expected to Grow at Steady Pace Next Year**

Mexico's level of bank credit is likely to steadily increase in 2012, the head of the country's financial regulatory agency said Dec. 6, Dow Jones reported. Banks are expected to experience loan growth of about 12 percent next year, Guillermo Babatz, president of the National Bank and Securities Commission told reporters in Mexico City. "The phenomenon has to do with the necessity of very-well capitalized banks to raise their ratios of profitability, in a context where the money is cheap," he said. Mexico has high levels of

*For this year through August, Mexican banks had provided 454.57 billion pesos (\$33.67 billion) in credit to consumers.*

informal employment, leading its population to be under-banked in comparison to other Latin American countries, said Babatz. For this year through August, Mexican banks had provided 454.57 billion pesos (\$33.67 billion) in credit to consumers. That amounts to an increase of 18 percent as compared to the same period last year. Bank loans to private-sector companies totaled 1.06 trillion pesos for the year through August, a 12 percent year-on-year increase. The new Basel III capital requirements will not require Mexico's banking sector to make changes as the country has stricter standards for calculating capital than what the new measures require. The country's banks have an average capitalization level of approximately 15 percent. That is higher than many of the world's developed economies.

**Colombia to Force Banks to Lower Transaction Fees: Finance Minister**

Colombia's government will soon require banks to lower their transaction fees

because the high cost of financial transactions is preventing many Colombians from opening bank accounts, Finance Minister Juan Carlos Echeverry said Dec. 6, Dow Jones reported. The country's banks charge fees of about \$7 on many routine transactions. The government is still studying what actions to take, said Echeverry, adding banks' fees are excessively high. "I don't want this year to



Echeverry

*File Photo: Colombian Government.*

end without taking measures on financial transaction costs ... These fees should be at prices that all Colombians can afford." One possibility is that the government will use decree powers to force banks to reduce fees. The government aims to bring more Colombians into the banking system and also lower the use of cash while boosting the number of electronic transactions, said Echeverry. Reducing banking fees would be a step toward achieving those goals. Earlier this year, Echeverry called on banks to reduce their fees voluntarily. However, most have not done so, he said. Fees on ATM transactions are among the charges the government may compel to be reduced, Echeverry added.

**Banco Santander Sells Stake in Chile Unit Worth \$950 Million**

Spain's Banco Santander has sold a 7.8 percent stake in its Chilean unit, Dow Jones reported Dec. 8. The move, which was announced late Wednesday, raises \$950 million for the bank. Santander said it sold 14.74 million shares of Banco Santander Chile, the nation's largest bank by assets, which means it retains a 67 percent stake in the unit. Santander is shoring up its capital position under pressure from regulators struggling with the European economic crisis. On Dec. 6, Santander said it was selling nearly all of its Colombian business, transferring a 95 percent stake in Banco Santander

**Colombia to CorpBanca** for about \$1.16 billion, Bloomberg News reported. Chile-based CorpBanca will finance the purchase with its own resources and a \$450 million capital increase. Santander will make a capital gain of about \$827 million from the deal. Santander has also unveiled plans to sell 8 percent of its Brazilian unit in a deal could raise a total of about \$3.5 billion. A Santander executive speaking to Dow Jones Dec. 8 said the bank won't rule out other divestments in Latin America, but added "there's no need to make those sales."

### Mexico's Stock Exchange to Join Mercado Integrado

Mexico's stock exchange, the Bolsa Mexicana de Valores, has agreed to join the stock exchanges of Chile, Peru and Colombia in the combined Mercado Integrado Latino Americano, the *Financial Times* reported Dec. 6. The development gives the integrated stock market a boost in trading and also in initial public offerings. Mexico's exchange is

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*With Mexico's joining, the combined market capitalization of the Mercado Integrado will surpass \$1 trillion.*

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the region's second largest after Brazil's and has a market capitalization of more than \$450 billion. With Mexico's joining, the combined market capitalization of the Mercado Integrado will surpass \$1 trillion. When the integrated market was launched in May 2010, it had a total market capitalization of \$691 billion. Mexico's joining the exchange, known as MILA, could considerably deepen trading in the region. In a statement, the Bolsa said its joining would "integrate BMV Group to MILA with the goal of increasing listings and bringing further technological and operational benefits to participants in the region," the *Financial Times* reported.

### Featured Q&A

*Continued from page 1*

**A** Manuel Orozco, member of the *Financial Services Advisor* board and director of the *Remittances and Development Program at the Inter-American Dialogue:*

"Current flows to Mexico continue to depend on U.S. immigration policy, changes in U.S. economic growth and international exchange rates. Remittances increase as a function of the number of transfers and the amount remitted. The former results from structural trends such as changes in immigration patterns, whereas the latter from cyclical dynamics, such as unemployment, exchange rates, natural disasters or type of skilled foreign labor needed, for example. Over the past four years, remittance patterns to Mexico have been mostly associated with changes in immigration policy in the United States—reducing migration of Mexicans (at 250,000 each year since 2007). This situation became more pronounced with

the increase of unemployment (between 9 percent and 12 percent during that same period), further limiting the capac-

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“Over the past four years, remittance patterns to Mexico have been mostly associated with changes in immigration policy in the United States.”

— Manuel Orozco

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ity of remaining migrants to remit. Mexican transfers have thus shown slight growth after the economic recession and the very slow recovery of the past two years, with marginal remittance increases of less than 2 percent annually. The recently observed increases above the annual percentage are rather a byproduct

*Continued on page 6*

### Banco do Brasil Doesn't Need Capital Increase: Chairman

Government-controlled **Banco do Brasil**, the region's largest bank by assets, does not need a capital increase in order to proceed with its business plan for 2012, the bank's chairman told Bloomberg News in an interview Dec. 9. "We see no need to use state banks as we did in 2008," said Nelson Barbosa, who is also Brazil's deputy finance minister. The administration of Brazilian President Dilma Rousseff is working to cut interest rates and taxes and also loosen banks' capital requirements in an effort to bolster the country's economy, the largest in Latin America. Brazil's economy contracted in the third quarter. So far this year, Brazil's treasury has loaned 30 billion reais (\$16.6 billion) to BNDES, the state development bank. BNDES has approval to loan an additional 25 billion reais. Brazilian daily newspaper *O Globo* reported Dec. 5 without citing its sources that the government was considering a capital increase for Banco do Brasil to aid it in continuing to extend credit. The next day, Banco do Brasil said

in a regulatory filing that it had not received any requests from the government to look into a potential capital increase.

### Peru's Bank Deposits Rise Nearly 75 Percent in Five Years

Peru's private bank deposits rose to more than 14.8 billion soles (\$5.5 billion) in October of this year from about 8.5 billion soles in December 2006, an increase of 74.91 percent, the Association of Peruvian Banks, known as Asbanc, said Dec. 2, reported Peru's state-run news agency, Andina. Regions of Peru that experienced substantial decreases in poverty due to strong economic growth saw significant increases in deposits, said Asbanc. For example, the inland Ucayali region experienced a 33.7 percent drop in poverty between 2006 and 2010 along with a 33.91 percent surge in bank deposits. In Pasco, poverty declined 27.6 percent and bank deposits soared 93.51 percent. Bank deposits increased over the past five years even in the country's poorest provinces, said Asbanc.

## Political News

### Humala Swears in 10 New Ministers in Peru Cabinet Shakeup

Peruvian President Ollanta Humala on Dec. 10 swore in 10 government ministers in a cabinet shakeup that included the replacement of his cabinet chief with a former army officer. Humala on Dec. 9 named Oscar Valdés Dancuart, who had



Valdés

File Photo: Agencia Andina.

been serving as interior minister, as his new cabinet chief, replacing Salomón Lerner. [Editor's note: See profile of Valdés in the Dec. 12 [issue](#) of the Dialogue's daily *Advisor*.] Lerner unexpectedly resigned less than a week after Humala's administration

declared a state of emergency amid protests over the \$4.8 billion Minas Conga gold-and-copper mine expansion of Denver-based **Newmont Mining**, Bloomberg News reported. Lerner had unsuccessfully led the administration's attempts to bring an end to the month-long demonstration that had sometimes included violent marches. Some Peruvians, including former President Alejandro Toledo, have raised concerns that Humala's appointing of Valdés, a fellow former army lieutenant colonel, could indicate a move toward an anti-democratic approach to social protests. Among the other cabinet changes was Humala's appointment of Jorge Merino as mines and energy minister. Merino previously served as the mining chief at the government's promotion agency for private investment. Humala retained some independents in their positions, including Finance Minister Miguel Castilla and Foreign Trade Minister José Silva.

### U.S. Supreme Court to Rule on Arizona Immigration Laws

The U.S. Supreme Court announced Dec. 12 that it would rule on whether Arizona's crackdown on illegal immigrants interferes with federal law. The

## Research Alert

### Number of Mobile Banking Users in Region May Exceed 140 Mn by 2015

Approximately 18 million people use their mobile devices to access financial services and that number may soar to more than 140 million by 2015, **Pyramid Research** said in a report released Dec. 5.

The region has the right conditions in place for increasing the penetration of mobile banking in the region, said José Magana, senior analyst at Pyramid Research, based in Cambridge, Mass. "Mobile data services are soaring now with some countries with penetration of mobile Internet close to 16 percent of the population," said Magana. "There is a very large percentage of the population that is younger than 30 years old: the type of demographic that is more likely to try new services."

Operators should maintain an open mind with regard to business models in the sector, Magana added. "Technology is the enabler, but they might also need to adopt business models and form partnerships," he said. "Also, understand that for a mobile payments service, attracting merchants is as important as attracting users; they need to be open to developers and work closely with them to enhance the value of the devices sold through their networks."

court said it would decide whether key provisions of the state's immigration law, officially known as SB 1070 or the Support Our Law Enforcement and Safe Neighborhoods Act, may stand. The law, which Gov. Jan Brewer signed in April 2010 requires police to check the immigration status of anyone who has been detained and is suspected of being in the country illegally. Other provisions of the law require immigrants to always carry their immigration papers and prohibit immigrants without proper documentation from seeking work in public areas, *The Christian Science Monitor* reported. The U.S. Justice Department has argued the Arizona statute undermines the federal government's authority to enforce immigration laws and courts have sided with that view, blocking much of the law from taking effect, *The Wall Street Journal* reported. Brewer welcomed the Supreme Court's decision to rule on the law, expressing confidence that the justices would uphold it. "Decades of federal inaction and misguided policy have created a dangerous and unacceptable situation, and states deserve clarity from the court in terms of what role they have in fighting illegal immigration," Brewer said in a statement, *The Christian Science Monitor*

reported. The administration of President Barack Obama has challenged the law, arguing the federal government has the sole authority to enforce immigration laws and that federal laws preempt laws passed by the states. In May, the Supreme Court let stand a different Arizona law that allows state officials to close down businesses that hire immigrants who are in the country illegally. A ruling could have implications for immigration laws passed by other states, including Alabama, Georgia, Indiana, South Carolina and Utah. The high court is expected to hear arguments in the case in April. A ruling would be due by July, four months before the U.S. presidential election.

### Panama's Noriega Faces More Jail, Questions Over Disappearances

Former Panamanian strongman Manuel Noriega left France Dec. 11 to face further punishment in his homeland after more than 20 years in U.S. and French jails for drug trafficking and money laundering, the Associated Press reported. Panamanian officials said Noriega, 77, was sent straight to another jail cell. In Panama, he is accused of murdering

opponents including Moises Giroldi, a military commander who led a failed rebellion in 1989, two months before the United States invaded Panama in an operation to sever drug routes that Noriega had sheltered. He is also accused in the death of Hugo Spadafora, a vocal critic whose decapitated body was found on the border with Costa Rica in 1985. Nearly 100 unsolved murders and disappearances occurred during Noriega's rule, the *Christian Science Monitor* reported Sunday, and he was convicted in absentia for three homicide cases that involve at least 11 murders. Media reports revealed that Noriega had been on the U.S. Central Intelligence Agency's payroll for years, assisting U.S. interests throughout Latin America. While Noriega's return may have little resonance among most of the country's demographically young population today, his return looms large for those who lived through the era. "I think it has historic and symbolic significance," Michael Shifter, the president of the Inter-American Dialogue, told CNN Sunday.

## Economic News

### Most Measures to Boost Brazil's Economy Have Been Taken: Barbosa

Brazil has already taken the majority of the efforts needed to boost the country's economy, said Deputy Finance Minister Nelson Barbosa, Bloomberg News reported Dec. 12. The government also does not see a need to depend on state-run banks to increase credit, Barbosa added. "A great deal of what we think is necessary for next year has already been done," Barbosa told the news service in an interview. Brazil's economy experienced its first contraction in two-and-a-half years in the third quarter amid debt crises in Europe and the United States and higher borrowing costs in Brazil. Economic growth for this year as a result is expected to slow to 3 percent from last year's growth rate of 7.5 percent, **Banco Bradesco** has forecast. In efforts to spur economic growth, the administration of President Dilma Rousseff has lowered the country's benchmark interest rate three times, cut taxes on goods ranging from refrigerators to pasta and loos-

ened restrictions on credit. Also, the government has slashed taxes imposed on small companies and has reduced taxes on exports and payrolls. In addition, the



Barbosa

File Photo: Brazilian Government.

government has approved a 14-percent boost to the minimum wage, which takes effect in January. The measures amount to a fiscal stimulus of 39 billion reais (\$21.7 billion), said Barbosa. Also, Rousseff's administration is planning to increase public investments from the current level of 1 percent of gross domestic product to approximately 1.2 percent of GDP, he added.

### Lorenzino Tapped as Argentina's Next Economy Minister

Hernán Lorenzino, Argentina's finance secretary, will be the country's next economy minister, Bloomberg News reported Dec. 6. Lorenzino, who helped oversee the restructuring of \$12.9 billion of the country's defaulted debt, will be key in determining whether Argentina returns to international debt markets since its default on \$95 billion worth of bonds in 2001. Lorenzino also will need to determine how to address the country's rate of inflation, which economists believe is approximately 25 percent. That would give Argentina the highest inflation rate among major global economies after Venezuela. Lorenzino will succeed Amado Boudou, who will become Argentina's vice president when President Cristina Fernández de Kirchner starts her second term in office on Saturday. Lorenzino's previous posts included Buenos Aires province's undersecretary of finance. Lorenzino is "someone who has plenty of experience dealing with the markets," Carola Sandy, an economist at **Credit Suisse** in New York, told Bloomberg News. "This is welcome news." Mercedes Marco del Pont, who has been Argentina's central bank chief since February 2010, will remain in that position, said presidential spokesman Alfredo Scoccimarro.

## POLITICAL & ECONOMIC BRIEFS

### U.S. Senate Blocks Nominee for Ambassador to El Salvador

The U.S. Senate on Dec. 12 blocked the White House's nominee for ambassador to El Salvador, Mari Carmen Aponte, the Associated Press reported. Senators blocked her nomination over unfounded rumors that her former boyfriend of years ago was a Cuban spy and also over a newspaper op-ed Aponte wrote earlier this year in support of gay rights. Amid Republican opposition to her nomination, President Barack Obama made Aponte a recess nominee in September 2010, but that temporary appointment is to expire at the end of this year.

### Cuba Plans to Allow Private Ads in State Phone Directory

Cuba will allow private advertisements in the state-run phone directory, Reuters reported Dec. 8. President Raúl Castro is pushing through a range of reforms in an attempt to strengthen Cuba's struggling economy by encouraging more private initiative and reducing the size of the state. [Editor's note: See related Q&A in the Oct. 12 [issue](#) of the Dialogue's daily *Advisor*.]

### Chinese Company Signs Lithium Exploration Contract with Bolivia

A Chinese state-owned company will begin exploration of Bolivia's Coipasa salt flats to quantify reserves of lithium and potassium, the Associated Press reported Dec. 8. Luis Alberto Echazú, the president of a Bolivian state company created last year to develop lithium and other resources, said that **CITIC Guoan Group** has signed an agreement with Bolivia to explore about 190 miles south of La Paz. Bolivia's government says the country possesses more than 70 percent of the world's lithium reserves.

**Featured Q&A***Continued from page 3*

of recession-related trends in the U.S. economy vis-à-vis its national and global position. In the first case, unemployment among Latinos has slightly declined from 12 percent to nearly 10 percent, benefiting predominantly Mexicans, who

Mexican workers send more money to Mexico if they have a job or a more permanent source of income, regardless of the value of the exchange rate. This is confirmed by figures in October, when the value of remittances only grew 10

“Mexican workers send more money to Mexico if they have a job or a more permanent source of income, regardless of the value of the exchange rate.”

— *Alfredo Coutiño*

account for half of the increases in the employment of foreign-born residents of the United States. Second, peso fluctuations as a result of the value of the dollar as compared to other major currencies, the euro and pound sterling, have motivated migrants to consider sending their amounts as needed: If the peso drops, immigrants are inclined to send a bit less. If the peso appreciates, immigrants tend to send more. As a result, increases in remittances will not be substantially large, but rather modest increases associated to shifting currency trends, or to more Mexicans immigrants gaining jobs."

**A** Alfredo Coutiño, director for Latin America at Moody's Economy.com: "The amount of money that Mexicans living in the United States sent to their families increased in September mainly because of stronger growth in the U.S. economy rather than the currency gain generated by the peso depreciation. The U.S. economy reported stronger growth in the third quarter, which implied more jobs for immigrants in sectors highly affected by the prolonged weakness such as construction, gardening and restaurants.

percent, compared with 20 percent in September, even though the decline in the value of the peso was much higher. Obviously, since most of the remittances come from the United States, the amount of money received by the country depends mostly on the U.S. recovery, rather than Europe's performance. This way, what the United States does, or not do, will have a direct impact on remittances to Mexico. Indeed, if the U.S. economy continues to advance gradually, but steadily, then Mexico will benefit from those foreign resources during 2012. However, migration trends are not expected to change significantly in the short run given the slowness of the U.S. recovery. Since most remittances are received by low-income families in Mexico, whose propensity to consume is higher, then consumption will continue to be one of the main supports of Mexico's growth next year. Certainly, Mexico is far from heaven but fortunately so close to the United States."

*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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