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FEATURED Q&A

Will Corporate Defaults Worsen in Latin America?



Brazil-based retailer Americanas revealed an accounting scandal and declared bankruptcy this year. // File Photo: Eduardo P via Creative Commons.

Q Brazilian retailer Americanas has been embroiled in a fight with creditors following its bankruptcy declaration earlier this year after it revealed an accounting scandal. In another credit failure this year, Mexican financial institution Mexarrend missed local debt payments. How much are high-profile corporate meltdowns and higher interest rates leading to increased default risk among corporate borrowers in Latin America? To what extent are lenders in the region becoming more selective in extending credit? Which countries in the region face the most risk of corporate defaults, and how are those countries' banking systems adapting to the risk?

A Diego Ocampo, senior director and sector lead for corporate ratings, and Alfredo Calvo, senior director and sector lead for financial institutions ratings, both at S&P Global: "In our view, the challenging economic conditions represent a major risk for Latin American banks. Slower economic growth, persistent inflation and high interest rates are eroding households' disposable income, and corporations are dealing with increasing costs and diminishing capacity to pass through prices. Under these complex conditions, banks in the region are tightening their already conservative lending policies to protect their balance sheets. In this sense, we expect credit growth will moderate through this year amid sluggish economic growth in the region and cooling credit demand. Access to debt markets remains very challenging for Latin American corporations. The amount of cross-border debt issued by Latin American corporations through May was below 2022 standards, (a year that had the record of lowest issuances since 2015)

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TOP NEWS

BANKING

Itaú Eyes Sale of Argentine Unit to Banco Macro

Itaú Unibanco said it is in talks to sell its unit in Argentina to Banco Macro. The bank said it has not yet signed any deals for the unit.

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FINANCIAL TECHNOLOGY

Argentina's Ualá Launches High-Yield Savings Account in Mexico

Argentina-based Ualá said it has launched a high-yield savings account in Mexico after receiving regulatory approval.

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BANKING

Banamex IPO Is Best for Shareholders: Citigroup CEO

Citigroup's decision to end its plan to sell Banamex, its retail unit in Mexico, and instead pursue an initial public offering for the unit, is in the best interests of shareholders, said Citi's chief executive officer, Jane Fraser.

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Fraser // File Photo: Citigroup.

BANKING NEWS

Pursuing IPO for Banamex Is Best for Shareholders: CEO

Citigroup ending its plan to sell Banamex, its retail unit in Mexico and instead pursue an initial public offering for the unit is in the best interest of shareholders, Citi's chief executive officer, Jane Fraser, said June 2, Reuters reported. "We acted decisively, we acted very swiftly," Fraser said at an investor conference in New York, the wire service reported. Citi announced last month that it was scrapping the sale process, which it launched more than a year ago. An IPO for Banamex is scheduled for 2025. The decision also allowed the bank to resume stock buybacks this quarter, Bloomberg News reported. Fraser said those buybacks had restarted in a "modest" fashion. "It doesn't change our medium-term guidance, it doesn't change our decision to fully exit the franchise at all," Fraser said. "As usual, we're just getting on with it," she added. Citi's move to shed Banamex is part of Fraser's plan to increase its focus on core markets. Other divestitures are going well, Fraser said June 2. The bank has signed sales deals in nine markets, and it has closed seven agreements in markets including Australia, India and Vietnam, Fraser said, Reuters reported. "Banamex is important, but the overwhelming volume of the simplification we are doing at Citi and the strategy is already executed," she said. Citi also plans to reduce expenses next year, with "people" accounting for some of the cost reductions, said Fraser. She stopped short of giving guidance about Citi's trading revenue, Reuters reported.

Itaú in Talks to Sell Argentine Unit to Banco Macro

Brazil's Itaú Unibanco said June 6 that it is in discussions to sell its unit in Argentina to Banco Macro, Dow Jones reported. The Brazil-

ian lender said that it has not yet signed any binding deals with Banco Macro but added that it will disclose such an agreement if it does. Following a report in Argentine newspaper La Nación that Itaú was eyeing a sale of the unit, the lender said it was in "preliminary negotiations" with Banco Macro "with the objective of selling its operations in the country," Citywire Americas reported. In its own statement, Banco Macro said it was in discussions with Itaú, adding that it is always seeking "different business opportunities." Itaú is Brazil's largest bank by assets. Banco Macro is the fifth-largest bank in Argentina following Banco Nación, Banco Provincia, Banco Galicia and Banco Santander, the Buenos Aires Times reported, citing data from Argentina's central bank. It has nearly 500 branches across Argentina.

FINANCIAL TECHNOLOGY NEWS

Argentina's Ualá Launches High-Yield Account in Mexico

Argentine financial technology company Ualá announced June 7 that it had launched a high-yield savings account in Mexico after it received regulatory approval to expand its operations in the country and acquire Mexico-based ABC Capital Bank, Reuters reported. The high-yield savings account will have a fixed annual interest rate and pay a 9 percent annual percentage yield, the wire service reported. A survey by the Mexican government showed that 54 percent of people in Mexico save money informally and that 40 percent of Mexicans receive no interest on their savings, Ualá said. "We are excited to offer options that bridge those gaps by promoting savings in a simple, secure way for everyone, with higher yields than what has historically been seen in the Mexican market," said Andrés Rodríguez Ledermann, Ualá's vice president of wealth management. The fintech received authorization at the end of May from Mexico's CNVB bank regulator to buy ABC Capital, which allowed Ualá to obtain a banking license in Mexico. The approv-

NEWS BRIEFS

Nubank Reaches One Million Accounts in Mexico in a Month

Brazilian digital lender Nubank said June 7 that it has opened one million savings accounts for customers just a month after launching the product in the country. Deposits in those accounts total approximately one billion pesos (\$58 million), Nubank said. Approximately 90 percent of those deposits are held in the fintech's so-called "little boxes," which generate a 9 percent annual return, Nubank said.

Visa Reportedly in Talks to Acquire Brazilian Fintech Firm Pismo

Visa is in advanced discussions to acquire Brazil-based financial technology company Pismo, Bloomberg News reported June 8, citing unnamed people familiar with the matter. Visa may announce an agreement as early as this month, the sources said, though they added no deal has yet been reached, and talks could still break down. Pismo provides cloud-based banking and payment platforms and could be valued at approximately \$1 billion, Bloomberg News reported. Mastercard has also sought to acquire the Brazilian company, the news service reported.

Agencies Boost Credit Ratings of Panama's Banco Ficohsa

Ratings agencies Moody's Investors Service and Pacific Credit Rating raised their credit ratings for Panama's Banco Ficohsa, Estrategia y Negocios reported June 12. Moody's raised its rating for the bank to BBB- from BB+ with a stable outlook, citing an improvement in the bank's asset generation. The bank has been able to "improve margins and profitability indicators," Moody's said. At the same time, Pacific Credit Rating noted the bank's "financial strength" in increasing its rating to PABBB.

al was a “milestone” that differentiates the Argentine fintech from others that operate in Mexico, said Chief Executive Officer Pierpaolo Barbieri. Ualá has also agreed to deals to allow remittances sent through Western Union, Vigo and Orlandi Valuta to be received via its mobile phone app, Finextra reported. Brazilian digital lender Nubank has also been investing in Mexico and recently started offering a savings account there.

Brazil’s Nubank to Invest Additional \$159 Mn in Colombia

Nubank, Latin America’s largest financial technology company, will invest an additional 700 billion Colombian pesos (\$159 million) in its operations in the South American country, its financial director for Colombia said May 31, Reuters reported. “We’re going through the investment curve that any company has, where first there is a cash flow, then there are large investments ... with their own capital, then there are shareholders,” the executive, Felipe Castellanos, told reporters in Bogotá. The fintech will pay for the expansion from its own resources, and the move raises its investment in Colombia to a total of 2 trillion pesos, the wire service reported. Brazil-based Nubank has 635,000 credit card customers in Colombia, which is equivalent to a 3.6 percent market share. [Editor’s note: See related [Q&A](#) in the May 18-31 Financial Services Advisor.]

Group to Contribute \$1 Bn Toward Bitcoin Farm in El Salvador

Volcano Energy, an El Salvador-based public-private partnership said June 5 that it will contribute \$1 billion toward the creation of a leading Bitcoin mining farm in El Salvador. The group said in a statement posted on Twitter that the project, which involves both government aid as well as involvement of “key Bitcoin industry leaders” in collaboration with renew-

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and it doesn’t seem likely to improve in the next few months. In addition to that, domestic markets used to be decent backups for mid-sized entities in times of lack of market appetite, but domestic investors have also turned more selective after a rocky start of the year, especially in Brazil, after a peak up in defaults and amid record-high interest rates. We expect market issuance to gradually get some traction in the second half of the year as domestic rates dwindle. In general, Latin American banks have a long track record operating under tough macroeconomic conditions. In addition, the low-income levels in the region and the significant presence of informal employment are obstacles that banks face, and they have led banks to implement conservative lending policies for several years. Moreover, Latin American banks operate with wide margins—among the highest in emerging markets—that allow them to withstand economic downturns and weakening credit cycles. Banks’ conservative lending practices, healthy margins and sound provisions, will help them to maneuver the challenging operating conditions we expect for the next 12 months. While there was a peak in defaults in Latin America in 2023 default rates remain largely contained at around 1 percent—very much aligned with other emerging-market regions. Still, we view the persistence of high interest rates as a big driver of distressed exchanges.”

A **Joy Gallup, partner at Baker McKenzie:** “One reason that bank lenders across Latin America have been tight-fisted with their credit in recent months is their own costs of funding have gone up, as central banks keep raising interest rates in an effort to keep inflation in check. Another is that the spate of defaults among nonbank financial institutions (NBFIs) has also hurt the banking industry overall. Mexarend is but one example among a string of NBFIs that have defaulted or filed for bankruptcy, including Crédito Real and Alpha Credit in

Mexico and Colombia, respectively. Accounting irregularities were at the root of several of these NBFI defaults, creating a lack of confidence among investors and lenders. Since the NBFIs rely on credit from traditional banks, the defaults have created a domino effect, leading to a general tightening of credit across the industry. Some have called for greater regulation, including from central banks, but in the meantime the defaults continue to play out. For Americanas, where accounting irregularities created an abrupt crisis of confidence that precipitated its bankruptcy filing, a similar dynamic was at play. The retail business of Americanas also relied on readily available credit. When questions were raised about how the borrowings were accounted for, bank lenders became reluctant to extend new credit, and that can be the death knell for such a credit-intensive business. However, the Brazilian central bank took the position that Americanas’ default was not a sign of a systemic risk, so no steps were suggested to counter future risks of similar defaults.”

A **Jorge Schmidt, of counsel at Diaz, Reus & Targ:** “Multiple analysts have pointed out that the threat that rising borrowing costs pose to companies in emerging markets is especially keen in Latin America. Indeed, according to S&P, all emerging-market defaults through the end of March 2023 have been in Latin America. Since the start of the current tightening cycle in early/mid-2021, the Bank of Mexico has raised rates 15 times, adding 725 basis points to reach 11.25 percent, the central bank of Brazil raised rates 12 times, adding 1,175 basis points to reach 13.75 percent, and Colombia has seen 14 increases totaling 1,150 basis points to reach 13.25 percent. Higher rates are especially risky for Brazilian companies, which have historically relied on variable-rate debt, and whose interest coverage ratios have deteriorated by comparison to their regional peers. Meanwhile, rates have recently

Continued on page 6

able energy developers, will start with an initial investment of \$250 million. The statement also said the government will have a preferred participation equivalent to 23 percent of the revenues in the project, with private investors holding 27 percent. The other 50 percent will be reinvested back into infrastructure, although no

The project will start with an initial \$250 million in investment.

details about the overall ownership structure were provided. Volcano Energy said the money will be used for a 241-megawatt generation park that uses both solar and wind energy. The park will be in Metapán, a municipality located in El Salvador's northwestern corner. The park will eventually power the Bitcoin mining farm. The news was retweeted by El Salvador's state "Bitcoin Office." President Nayib Bukele did not immediately respond to a request for comment by Reuters. Two years ago, at the Bitcoin 2021 conference in Miami, Bukele announced his intention to make Bitcoin legal tender in El Salvador, the wire service reported. "This will improve lives and the future of millions," he said of the currency.

POLITICAL NEWS

Iran's President Visits Venezuela, Discusses 'Common Enemy' U.S.

In his first visit to Latin America, Iranian President Ebrahim Raisi met June 12 with Venezuelan President Nicolás Maduro in Caracas and said both countries had "a common enemy," referring to the United States, the Associated Press reported. Raisi said the connection between Iran and Venezuela, both of which are under U.S. sanctions, "is not normal, but rather a strategic relationship," the wire service reported. "They do not want the two countries,

ADVISOR Q&A

What Accounts for Morena's Win in the State of Mexico?

Q The Morena party of Mexican President Andrés Manuel López Obrador won the governorship of Mexico state, the country's most populous, in the June 4 election. The victory of the party's candidate, Delfina Gómez, will put an end to 94 years of uninterrupted rule of the state by the Institutional Revolutionary Party, or PRI. The once-dominant PRI is now left with just two governor's offices—Coahuila, where the PRI candidate won on Sunday, and Durango. What were the biggest surprises to come out of the vote, and significant of a win was it for Morena? What factors explain the results?

A Lila Abed, deputy director of the Mexico Institute at the Wilson Center: "President Andrés Manuel López Obrador's (AMLO) political party, Morena, won the elections in the State of Mexico, snatching control of the most populous entity from the PRI, which had ruled the state since 1929. Morena's candidate, Delfina Gómez, will be the first woman to govern the state. Her win extends the governing party's control to 23 states, leaving the opposition with only nine governorships. Morena's triumph not only demonstrates its continuous expansion of power throughout the country as it only controlled

seven states when AMLO began his term, but also boosted its momentum ahead of the 2024 presidential election. Traditionally, the winner of the State of Mexico has served as an indicator of which political party is most likely to win the presidency. The slow demise of the PRI culminated with the loss of the State of Mexico this past weekend, despite having won Coahuila. The State of Mexico represents more than 12.5 million registered voters and is an economic and electoral powerhouse, while Coahuila and its roughly 2.5 million voters is less politically relevant. Mexican citizens have called for real change, which has largely translated into a rejection of the corrupt practices used by traditional political parties in the past. The underlying question is whether Morena's strong grip of power will negatively impact the future of Mexico's democracy. While it is evident that many voters desire a change, ironically, Morena's near hegemonic control over the country resembles, in many ways, the former single-party rule of the PRI."

EDITOR'S NOTE: More commentary on this topic appears in the June 7 issue of the Latin America Advisor.

Iran and Venezuela, to be independent," Raisi said in reference to the U.S. government. During his trip to Latin America, Raisi is also visiting Cuba and Nicaragua. The Iranian leader said his country and Venezuela want to increase their bilateral trade to \$20 billion, up from its current level of \$3 billion, Reuters reported. During the visit, the two countries signed an agreement to broaden cooperation in petrochemicals in an effort that will expand their already strong cooperation on oil. "We

have decided to increase the cooperation between the two countries," Raisi said after the signing of the petrochemical agreement and a dozen other deals, Reuters reported. "The goal we have for commercial and economic cooperation, the first step is to take the level of cooperation to \$10 billion," said Raisi. "The next step, we want to take it to \$20 billion," he added. The petrochemical deal between Venezuelan state firm Pequiven and its counterpart in Iran will facilitate the countries' partnership

NEWS BRIEFS

Sixteen Mexican Soldiers to Be Tried in Killing of Five Men in Nuevo Laredo

Mexico's Defense Department said June 10 that 16 soldiers will be tried in a case involving the killing of five men in the Mexican border city of Nuevo Laredo last month, the Associated Press reported. The soldiers were arrested on June 8 and charged with violating "military discipline." They will be held in a prison in Mexico City as they await trial before a military tribunal. Mexican President Andrés Manuel López Obrador described the murder as an apparent "execution," after seeing security camera footage.

Guatemalan Court Disregards IACHR Ruling in Freeing Ex-Officers

An appeals court in Guatemala on June 9 disregarded a ruling by the Inter-American Court of Human Rights by releasing from prison three former military officers who had been convicted of crimes against humanity in a case dating from 1981, the Associated Press reported. Francisco Luis Gordillo Martínez, Manuel Antonio Callejas y Callejas and Manuel Benedicto Lucas García have not yet been freed because they await rulings in two other cases involving genocide and forced disappearance.

Panel Begins Second Attempt at Drafting New Constitution for Chile

Chile's new Constitutional Council, dominated by conservative parties, began drafting the country's new constitution on June 7, Reuters reported. It is the second attempt at a new draft to replace the Augusto Pinochet dictatorship-era constitution. The council was elected on May 7 and represents a shift from the previous predominantly independent and left-wing council. [Editor's note: see related [Q&A](#) in the May 23 issue of the daily Advisor.]

in oil development and exploration and also examine the possibility of joint projects. The two countries also signed an agreement to cooperate on mining but provided no details about it.

Honduras Opens Embassy in China After Forming Ties

Honduras on June 11 opened an embassy in Beijing, a move that came months after it severed relations with Taiwan in order to establish ties with China, the Associated Press reported. Chinese Foreign Minister Qin Gang and Honduran Foreign Minister Enrique Reina were present for the ceremony, NPR reported. In a statement, Qin promised to outline a new model of "friendly cooperation," the Associated Press reported. The event took place during Honduran President Xiomara Castro's six-day visit to China, the Associated Press reported. Arriving in Shanghai on June 9, Castro visited the New Development Bank, a bank established by the BRICS nations, NPR reported. Honduras has requested admission to the bank, Castro's office said the following day in a tweet.

Mexico City Mayor to Step Down to Pursue Presidential Bid

Mexico City Mayor Claudia Sheinbaum said June 12 that she will resign in order to launch her campaign for Mexico's presidency, Bloomberg News reported. "I have made the decision to permanently resign from my post on June 16 with the purpose of becoming the first female in the history of Mexico to be president," Sheinbaum said at a press conference. The mayor is a member of President Andrés Manuel López Obrador's Morena party, which has said it would select its nominee for president in September. Also on June 12, Foreign Minister Marcelo Ebrard resigned, in a move he announced the previous week, also to seek the nomination, the Associated Press reported.

ECONOMIC NEWS

U.S. Asks Mexico to Review Conditions at Garment Factory

The United States has asked Mexico to investigate conditions at a denim garment factory in the state of Aguascalientes and determine whether workers were being denied the right to freedom of association and collective bargaining, the U.S. Trade Representative's office said on June 12, Reuters reported. U.S. Trade Representative Katherine Tai said the request into the garment factory, owned by Industrias del In-



Tai // File Photo: U.S. State Department.

terior and founded in 1975, is a first related to labor rights in the sector. "This announcement demonstrates again the Biden-Harris administration's commitment to using the Rapid Response Labor Mechanism to safeguard the rights of workers and the promises enshrined in the USMCA," Tai said in a statement. "Today's action highlights the United States' focus in ensuring workers in all sectors have freedom of association and collective bargaining rights. As in previous matters, we look forward to working closely with the government of Mexico to address the issues present in this case," she added. The United States has ramped up complaints against facilities in Mexico following the implementation of the U.S.-Mexico-Canada trade agreement, or USMCA, in 2020. Tai's office said the Interagency Labor Committee for Monitoring and Enforcement (ILC) received a petition on May 12 from the Sindicato de Industrias del Interior, a union representing workers at the facility and Frente Auténtico del Trabajo, a labor organization.

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approached 100 percent in Argentina, where one finds the highest concentration of CCC+ and lower rated debt in all emerging markets (\$7 billion among nine issuers). Companies in Argentina are particularly exposed to sovereign interference with their ability to access, convert and transfer money and thus impede their ability to meet their financial obligations. The sectors that are most exposed in this environment are smaller banks and nonbank financial institutions. They lack cheap retail deposits to fund them, and thus face rising costs, while their asset quality is under pressure. It is expected that Brazil will cut rates by the end of 2023 given a seeming drop in inflation and economic deterioration."

A **Mauro Cazzaniga, economic analyst at BMJ Consultores Asociados:** "With increased interest rates all over, lending conditions have gotten tighter. In Brazil, the nominal credit stock has registered slower growth rates this year, with decreased credit concessions, higher rates and higher cost of credit. Corporate defaults have also been steadily increasing, rising 0.2 percentage points in April as compared to March and 0.8 percentage points as compared to April of last year. The corporate default rate is at 2.3 percent in Brazil and around 5 percent in Latin America, but JPMorgan forecasts it could go up to 6.6 percent. The Americas case was a major stress test on the Brazilian financial system, which proved resilient, according to the central bank's own evaluation. The company itself has shown some recovery and may be able to repay some of the debt, while bank loans did not seem to be so severely affected. While the private bond market took the greatest hit, it was also showing signs of returning to normal in recent months. Brazil then stands at a comparatively favorable situation with

the expectation of lower interest rates in the second half of this year. So, even though credit markets have suffered at the beginning of the year, the current scenario points to the possibility of a recovery in the near future."

A **John Price, managing director of Americas Market Intelligence in Miami:** "We estimate that higher interest rates in 2023 will cost Latin America's economies approximately \$100 billion more of debt servicing as compared to 2022, a bill divided between governments and the private sector. Additionally, the United States-led credit squeeze will decrease Latin American venture capital funding by as much as two-thirds as compared to 2022, following a decade of more than 40 percent annual growth. That is a painful blow to the digital economy, which has spearheaded much of Latin America's homegrown innovation in fields such as fintech, e-commerce and logistics. But most Latin American businesses, even the storied multinationals, carry reasonable debt levels on their balance sheets. Devaluations in the past helped to wean Latin America off dollar debt. Today, most Latin American businesses rely on domestic sources of debt to fuel their growth. High domestic interest rates in Brazil, Mexico, Chile and Peru have buoyed those currencies, helping to sustain consumption levels, which will grow a surprising 6 percent across Latin America this year, when measured in dollars. Healthy consumption helps corporations stay liquid while servicing their higher debt costs. This is starkly different from historical Latin American downturns when higher interest rates combined with crashing demand."

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

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