

# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q** Several mid-sized Brazilian banks have recently announced plans to go public on the Sao Paulo Stock Exchange, where only one mid-sized bank is currently listed. How do you expect the market to react to the offerings? What is your outlook for Brazil's banking sector?

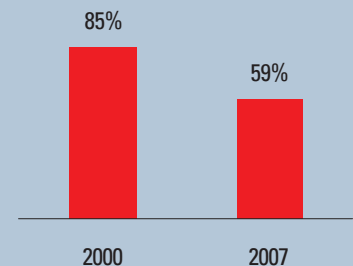
**A** **Guest Comment: Roberto Teixeira da Costa:** "Mid-sized Brazilian banks are considering taking advantage of the very favorable stock market conditions in the last four years, particularly in the last 24 months. IPOs reached 52.9 billion reais since 2004 when Natura went public. Only last year the total of new issues and secondary offerings reached 30.2 billion reais, represented by 42 public share offerings. That represented a 117 percent increase relative to the numbers of 2005 (13.9 billion reais), and in 2004 the volume reached 8.8 billion reais. It is worth mentioning that most of the issues were conducted through the Novo Mercado, which offers shareholders more transparency, better protection for minority interests, and higher liquidity. In the first months of 2007, that favorable scenario continues to prevail and several new issues have come to the market. The CVM (our securities commission) is working very hard to cope with the demand for registrations. Different sectors of the economy have come to the market, represented by corporations that are anticipating growth possibilities by issuing stock and going

public. Thus, it is quite normal in such a positive scenario that mid-sized banks will also look for the opportunity to raise capital through the stock market. With interest rates coming down, certainly that factor will affect profitability, but banks in general are substantially increasing their credit operations, particularly for individuals. Nevertheless, because there is big demand for new issues, the offerings will succeed. Large Brazilian banks are very well capitalized, and I don't think they will take advantage of favorable stock market conditions to issue more shares. In general, investors are not very bullish on banking profitability in view of lower interest rates. That remains to be confirmed! As a final com-

*Continued on page 4*

### CHART OF THE DAY

Latin American GDP as % of Emerging Asia GDP  
2000 vs. 2007



See related story on page 2.

Source: Reuters.

### Inside This Issue

<b>FEATURED Q&amp;A:</b> How Will the Market React to New Brazilian Bank IPOs?.....	1
Latin America Falling Behind Rest of World Despite Strong Growth .....	2
Ecuador Requests Loan Renegotiation with IDB .....	2
Calderon Says He, Family Have Received Threats Over Drug War .....	2
America Movil to Focus on Profits in Wake of Acquisition Spree.....	3
Capitol Hill Watch: A Weekly Look at US Congressional Activity on Latin America .....	3

## NEWS BRIEFS

**PDVSA to Sell as Much \$5 Billion in Debt to Finance Output Growth**

Venezuelan state-owned oil and gas company PDVSA will sell as much as \$5 billion of bonds to finance an expansion in output, Bloomberg News reported on Thursday, citing PDVSA President Rafael Ramirez. Ramirez said the bonds will have maturities of 10, 20, and 30 years. The issue is part of a government plan to help the central bank absorb excess cash that's fueling rapid inflation in the South American nation, according to Bloomberg News.

**Catholic Bishops Warn Against Effect of Ethanol Output Increase**

Roman Catholic bishops in Brazil warned Thursday that a rapid increase in ethanol production from sugar cane could have a devastating social and environmental impact in the countryside, Reuters reported. The Brazilian National Bishops' Council said at a news conference that greater cane cultivation would worsen rural income inequality, trigger an exodus of farm laborers, and increase deforestation rates.

**Colombia Files WTO Complaint Against EU Banana Tariff**

The Colombian government on Thursday filed a new complaint with the World Trade Organization (WTO) against a European Union tariff on banana imports from Latin America, Bloomberg News reported. Colombia, the world's third-biggest exporter of bananas, said the 176-euro (\$234) per metric ton tariff was discriminatory, since the EU charges zero tariffs on imports of the fruit from its former colonies in Africa and the Caribbean. The WTO agreed this week to decide whether the EU has ignored previous rulings against its banana tariff regime.

## Economic News

**Latin America Falling Behind Rest of World Despite Strong Growth**

Despite experiencing the the longest period of sustained growth in 25 years, Latin America is falling behind other regions of the world, the top official for Latin America and the Caribbean at the International Finance Corporation said Thursday, according to Reuters. "Unfortunately the benchmarks globally have been raised. Compared to the other regions of the world, Latin America is not looking nearly as good," Atul Mehta was quoted as saying. He noted as an example that in 2000 Latin America's GDP was 85 percent of GDP in emerging Asia, but it is now only equal to 59 percent. "That is the sort of gap that is developing between Latin America and the rest of the world, or at least other emerging markets," he said.

“Compared to the other regions of the world, Latin America is not looking nearly as good.”

—Atul Mehta

According to Mehta, the region should invest more in infrastructure, as well as in healthcare and education, according to Reuters. He noted that Latin America has some competitive advantages in natural resources, which can be seen in steel production, paper and pulp, and agribusiness. Mehta said the IFC, the private-sector arm of the World Bank, had identified infrastructure, finance, and the improvement

of business conditions as key to addressing inequality in Latin America, and touted IFC programs in Mexico and Colombia to boost mortgage markets, and a program in Peru to reduce waiting times for business licenses, as successes.

**Ecuador Requests Loan Renegotiation with IDB**

Ecuador has asked the Inter-American Development Bank (IDB) to renegotiate the country's loans, Economy Minister Ricardo Patino said Thursday, according to Reuters. The IDB will send a mission to Ecuador in the coming weeks to evaluate the government's proposal, which includes extending loan maturities and revising interest rates, Patino told reporters. He said Ecuador will not ask for total debt forgiveness from the IDB, but did not provide other details of the planned renegotiation. The government of

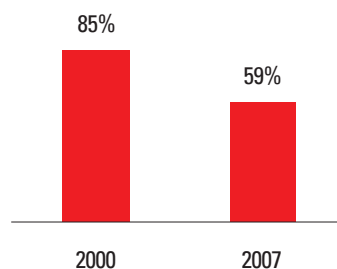
President Rafael Correa, who took office in January, has promised to restructure the Andean nation's \$11 billion in foreign debt, saying some of the debt acquired by previous governments was illegitimate. However, the government made its first scheduled debt payment last month. In related news, Deputy Economy Minister Hugo Jacome said Thursday that Correa will sign a decree today to open a \$250 million credit line from state banks for farmers and shop owners, Reuters reported. The loans will be drawn from a series of oil funds originally created to meet foreign debt obligations and invest in Ecuador's energy sector.

## Political News

**Calderon Says He, Family Have Received Threats Over Drug War**

Mexican President Felipe Calderon said Thursday he and his family have received

**Latin American GDP as % of Emerging Asia GDP**  
2000 vs. 2007



Source: Reuters.

threats since he launched a major offensive against drug cartels shortly after taking office in December, Reuters reported. "We have received a lot of threats and will no doubt receive more," Calderon was quoted as saying. "We don't know if they are real or false, but obviously they're not going to change our decision to carry out our job of fighting crime and those poisoning our children and youth." The Mexican leader said the war against the drug cartels would likely last beyond his six-year term in office, fueled by demand for drugs across the border in the United States.

## Company News

### America Movil to Focus on Profits in Wake of Acquisition Spree

Mexico-based regional mobile giant **America Movil** said Thursday it will concentrate on boosting profit margins after making a slew of acquisitions in the region in recent years, Reuters reported. "The acquisition phase is now behind us," Chief Financial Officer Carlos Garcia-Moreno was quoted as saying. He predicted the EBITDA (earnings before interest, tax, depreciation and amortization) margin—a key measure of profitability—at America Movil's **Claro** unit in Brazil, the company's biggest operation outside of Mexico, would rise sharply this year. "It could be in the high teens or even as high as 20 percent possibly this year," Garcia-Moreno said. Last year, the unit posted an EBITDA margin of just 12.7 percent, a key drag on profitability, according to Reuters. Garcia-Moreno also forecast that America Movil's total sales in 2007 would grow 20 percent, an increase that will include recent acquisitions in the Dominican Republic and Puerto Rico. Although America Movil is mostly finished making acquisitions, it is interested in entering Panama's mobile market and may bid for a mobile license there, Garcia-Moreno said. The company has no short-term plans to enter the Canadian market. America Movil currently has operations in 15 countries and more than 125 million subscribers, according to Reuters. Its revenues last year totaled 234 billion Mexican pesos (\$US 21.2 billion).

## Capitol Hill Watch

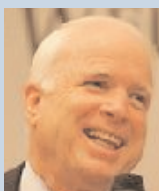
*A Weekly Look at US Congressional Activity on Latin America*

### Bipartisan Group of House Lawmakers Introduce Immigration Reform Bill

A bipartisan group of House members introduced an immigration reform bill that would boost border security and enforcement of immigration laws, while offering a path to citizenship for millions of illegal immigrants and creating an expanded guest-worker program for migrants. Rep. Luis Gutierrez (D-IL), one of the bill's co-sponsors, along with Arizona Republican Jeff Flake and eight other lawmakers from both parties, said in a press release the STRIVE Act—Security Through Regularized Immigration and a Vibrant Economy—"is all about security—homeland security, family security and economic security ... It will allow us to better protect our borders and reform an immigration system that is hampering businesses, hurting families and harming communities." Supporters of the legislation hope to pass it before a scheduled congressional recess in August.

### McCain Warns Against Spread of Socialism in Latin America

US Senator John McCain (R-AZ) on Wednesday warned against a "very disturbing" spread of socialism in Latin America, according to the Associated Press. McCain said in a speech to Cuban-American community leaders in Miami that "everyone should understand the connections" between Venezuelan President Hugo Chavez, Bolivian President Evo Morales, and communist Cuban President Fidel Castro. "They inspire each other. They assist each other. They get ideas from each other," McCain said. "It's very disturbing." The speech was part of a campaign stop in Miami's Little Havana district, where the Republican presidential hopeful said his first trip if elected to the White House in 2008 would be to Mexico, Canada, and Latin America "to reaffirm my commitment to our Hemisphere and the importance of relations within our Hemisphere."



McCain.  
Photo: Office of  
Sen. McCain

### Menendez Says Bush's Engagement of Latin America is "Far Too Late"

On the heels of President George W. Bush's Latin American tour last week, Senator Robert Menendez (D-NJ) on Wednesday criticized the Bush administration's Latin American policy. In a meeting organized by the Inter-American Dialogue, Menendez said President Bush is engaging Latin America "far too late into his presidency," but that there is still an opportunity to make a sincere and lasting contribution to the development of the Western Hemisphere. "Because he ignored the Hemisphere for the first six years of his presidency, President Bush's trip was nominally characterized as an anti-Chavez trip," Menendez said. "The president, honestly, set himself up for this situation. Some have called me a long-time critic of the Bush administration policy towards the Western Hemisphere. Frankly, I believe it is more accurate to say I have been a longtime critic of the Bush administration's lack of policy. Their only policy has been trade and counternarcotics, along with a myopic tendency to only respond to crises rather than engage on a regular basis." Citing rising Latino gang violence, narcotics trafficking, and destruction of the Amazon, Menendez said failure to properly invest in the Western Hemisphere could facilitate more ominous troubles for the US. Earlier this month Menendez proposed a Social Investment and Economic Development Fund for the Americas, aimed at providing a total of \$2.5 billion dollars over the next five years for housing, healthcare, and education in Latin America.

**Featured Q&A***Continued from page 1*

ment, taking into consideration the conditions of the Brazilian stock market, Banco Patagonia, the second-largest private capital bank in Argentina, is also planning to issue shares on the Sao Paulo Stock Exchange. These are signs of a very hot moment in our market."

**A Guest Comment: Daniel Araujo:** "The outlook for the Brazilian banking industry is positive. Banks operating in Brazil benefit from the consistent improvement in fundamentals for the economy, which is translating into growth prospects for loans to the private sector. The historically low level of financial intermediation—as measured by loans to the private sector at approximately 33 percent of GDP—also reflects a big opportunity. Larger retail banks should benefit the most because of the access to cheaper funding both locally and abroad. Smaller, but well-established niche players may also take advantage of the opportunities, but with major challenges to build and maintain enough funding due to their wholesale nature. Both international and local players are searching for interesting opportunities, and gains of scale in promising and attractive markets, as evidenced by the recent acquisitions by Bradesco and Societe Generale, among others. Access to funds from abroad has been extremely favorable to Brazilian banks recently. Even small banks that haven't been able to tap the international markets in the past have been able to do so (including the issuance of subordinated debt). Banks cannot count on such a favorable environment for the longer term and need to look for other sources. As such, the IPOs come as an important alternative for banks to reinforce their capital base and add support for growth. Although the IPO can be an interesting strategy to reinforce the banks' capitalization and support their projected growth, the challenge remains to increase their credit operations with good underwriting procedures so as to remunerate the capital."

**A Guest Comment: Antônio Aires:** "These mid-sized banks are usually strong in the market of giving credit to medium-size companies and also individual credit transactions backed up by payroll and social security credits, markets which have significantly increased in recent years, especially because of the growth of credit awareness and interest in the lower income segments of the population. It has also been noted that larger commercial banks were not as efficient in accessing these market niches. It is then because of these increased market demands that mid-sized banks are now searching for alternative sources of funding (equity) to finance their continued growth. Interestingly, IPO transactions announced by these banks will have to face a new frontier in the Brazilian regulatory banking framework, which provides for specific and tight controls by the Brazilian Central Bank to authorize capital increases and issuance of new stock by banks. These regulatory constraints will be tested by these first transactions and eventually cause the Central Bank to change its own rules in the near future. Investors will certainly keep an eye on such new regulations, especially governing the participation of foreign capital in the voting capital of those banks. These mid-sized bank offerings are certainly a major new attraction in the already active and growing Brazilian banking industry."

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**Latin America Advisor**

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**Latin America Advisor** is published every business day by the Inter-American Dialogue  
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