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FEATURED Q&A

How Will Latin American Banks Fare in 2020?



Many parts of Latin America, including Chile, were convulsed by protests this year. However, analysts below see relative stability in the coming year for financial services sectors in the region. // File Photo: Natalia Reyes Escobar via Creative Commons.

Q The past year has been marked by events including economic stagnation in Mexico, signs of economic recovery in Brazil, a return to Peronism in Argentina and massive anti-government protests in several countries, including Chile and Colombia. Against this backdrop, how will the region's banks and other financial services providers fare in the coming year? What forces will affect their performance? In which countries will the financial services industry fare the best, and where do they face the strongest headwinds?

A Mário Mesquita, chief economist and head of research at Itaú Unibanco: "Despite the political turmoil in the region, the banking sector has shown healthy fundamentals, mainly in Brazil where the economy is strengthening, but also in Colombia and Peru. Loan-book expansion in these countries is hovering in the high single digits, with consumer loans leading the way. From an asset quality standpoint, delinquency rates in the retail segment are likely to remain under control, given that there is room for families to increase leverage. In the corporate segment, we see lower risk than in previous years due to the reduction of credit risk concentration by banks. We also believe that Latin American banks could unlock value through cost-cutting initiatives as they reap the benefits from the ongoing digital transformation. The banking system is also expected to continue to be challenged by fintechs and retail companies, which are being fueled by cheaper sources of funding and a lower regulatory burden. On a relative basis, Brazilian banks are our preferred names, given the early stage of a positive credit cycle and limited delinquency risk. Argentine banks are our main concern

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TOP NEWS

FINANCIAL SERVICES

Brazil's XP Raises \$1.96 Bn in Initial Public Offering

XP, Brazil's largest brokerage by equity-trading volume, priced the shares above the market range and saw demand equivalent to 14 times the offering.

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FINANCIAL TECHNOLOGY

Albo Closes on \$19 Million in New Funding

Mexican fintech start-up Albo has secured a \$19 million extension to its Series A financing. U.S.-based Valar Ventures led the round.

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FINANCIAL SERVICES

RBC Selling Bank Operations in Eastern Caribbean

Royal Bank of Canada is selling its banking operations in the Eastern Caribbean. Among the banks in the consortium buying the RBC units is 1st National Bank of St. Lucia, whose managing director, Johnathan Johannes, said the deal will allow the banks to play a more active development role.

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Johannes // File Photo: 1st National Bank of St. Lucia.

FINANCIAL SERVICES NEWS

RBC Selling Banking Operations in Eastern Caribbean

Royal Bank of Canada announced Dec. 12 that it has agreed to sell all of its banking operations in the Eastern Caribbean to a group of local banks. Rob Johnston, the head of RBC's Caribbean banking unit, said in a statement that a consortium of local banks approached the Toronto-based lender with interest in buying all of its units in the Eastern Caribbean. "After a review of our operations and strategy, we determined this opportunity was a good decision for

“This transaction gives us the size and scale to play a more active role in the development of our respective countries.”

— Johnathan Johannes

the long-term future success of RBC Caribbean, and also, that it aligned with our vision to help our clients thrive and communities prosper," Johnston said. The sale includes RBC branches in Antigua, Dominica, Montserrat, St. Lucia, St. Kitts and Nevis, as well as regional businesses that operate under RBC Royal Bank Holdings Ltd. in Nevis, Grenada and St. Vincent and the Grenadines, the statement added. The consortium of five local banks that bought RBC's Eastern Caribbean operations consists of 1st National Bank of St. Lucia, Antigua Commercial Bank Ltd., National Bank of Dominica Ltd., the Bank of Montserrat and Bank of Nevis Ltd. Johnathan Johannes, the managing director of 1st National Bank of St. Lucia, said the buy works well with the strategy of the banks in the consortium. "This transaction gives us the size and scale to play a more active role in the development of our respective countries," he said. "We see this transaction as the first step in achieving even greater synergies, efficien-

cies and cross-territory marketing opportunities." PwC Jamaica advised the consortium in the transaction. The financial terms of the deal were not announced. RBC is scheduled to release its results for the first quarter of 2020 on Feb. 21. [Editor's note: See related [Q&A](#) in the Nov. 21-Dec. 4 issue of the Financial Services Advisor.]

BBVA Launches New 'Open Space' in Colombian Capital

Spanish multinational bank BBVA announced Dec. 12 that it has launched a new "open space" in Bogotá. The concept aims to allow greater collaboration with entrepreneurs, the bank said in a statement. "The spaces provides a source of inspiration and knowledge for both the start-ups based there and employees of the bank, with lectures, courses and workshops available to attend throughout the year," BBVA said. "It also allows for entrepreneurs to be in close contact with each other, enabling the sharing of ideas, tactics, learnings, etc." The space in the Colombian capital is the bank's third such effort. It previously launched such initiatives in Madrid and Mexico City. Jaime Espinosa, the director of BBVA Open Innovation in Colombia, said the new office will welcome several start-ups and will offer them "several initiatives and events to support collaboration." BBVA's new open space office in Bogotá recently hosted its first event on digital transformation in Latin America with discussions on areas including how companies can better deploy technology within their organizations, BBVA said in its statement.

Brazilian Brokerage XP Raises \$1.96 Bn in Initial Public Offering

XP, Brazil's largest brokerage by equity-trading volume, raised \$1.96 billion in its U.S. initial public offering, pricing its shares above the marketed range, Bloomberg News reported

NEWS BRIEFS

Santander Brasil Hires New Executives

The Brazilian unit of Banco Santander has made new hires as it works to gain market share by reworking its investment banking business, Reuters reported Dec. 6. Banco Santander's new head of investment banking, Gustavo Miranda, hired Renato Boranga, formerly of Moelis & Co. to head the Brazilian unit's mergers and acquisitions department. Miranda also tapped Pedro Leite da Costa, who formerly worked at Goldman Sachs and the One Partners advisory firm, to lead Santander Brasil's equity capital markets division. Brazil's level of capital markets activity recently hit its highest levels in a decade, the wire service reported.

Fintech Albo Closes on \$19 Mn of New Funding

Mexico-based financial technology start-up Albo has secured a new source of funding, TechCrunch reported Dec. 11. The challenger bank has secured a \$19 million extension to its Series A financing, the news site reported, adding that U.S.-based Valar Ventures led the round. Albo previously raised \$7.4 million early this year, bringing its total amount of Series A funding to \$26.4 million.

Banco do Brasil Unlikely to Be Privatized: CEO

Brazil is not likely to privatize state-controlled lender Banco do Brasil, the bank's chief executive officer, Rubem Novaes, said Dec. 10. Novaes added that he would support privatizing Banco do Brasil, even though it is not likely to happen. Novaes made the comments to legislators in the lower house of Brazil's Congress, explaining previous comments that he made on the topic. He said any such move would be up to Brazilian politicians, adding that President Jair Bolsonaro, who marks one year in office on Jan. 1, has already ruled it out.

Dec. 10. The company and its shareholders sold 72.5 million shares on Dec. 10 for \$27 each, according to a statement, up from its initial \$22 to \$25 price range, with demand equivalent to 14 times the offering, Reuters reported. The sale gave XP a market value of nearly \$14.9 billion, according to the outstand-

Demand for shares was equivalent to nearly 14 times the offering, with the sale giving XP a value of nearly \$14.9 billion.

ing shares listed in its filings with the U.S. Securities and Exchange Commission. XP has also given its underwriters the option of selling an additional 10.88 million so-called green-shoe shares, which unnamed sources said the company is expected to fully exercise, bringing the amount raised in the IPO to approximately \$2.25 billion, Bloomberg News reported. The IPO is set to be the fourth largest in the United States this year, and other Brazilian financial technology companies considering U.S. listings next year see XP's public offering as a bell-wether. Among XP's shareholders are private equity firm General Atlantic and Brazil's largest private lender, Itaú Unibanco, Reuters reported. The offering was led by Goldman Sachs Group, JPMorgan Chase, Morgan Stanley, XP Investments and Itaú BBA. The shares began trading Dec. 11 on the Nasdaq Global Select Market under the symbol XP.

HSBC's Swiss Unit to Forfeit \$192.4 Mn in Tax Evasion Case

The Swiss unit of British bank HSBC has agreed to pay \$192.4 million after confessing to helping Americans evade federal taxes, Agence France-Presse reported Dec. 12, citing the U.S. Department of Justice. For a decade, beginning in 2000, HSBC Private Bank, which is based in Geneva, used shell corporations

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due to the uncertainties surrounding both the macro outlook and the regulatory environment in the sector. We expect the loan book quality to deteriorate and the return on equity to feel the pressure of a high inflation environment. The Chilean banking system could also face some pressure in the short term, on a combination of a challenging GDP backdrop and potential cost- and credit-demand-related headwinds."

A **Cynthia Cohen Freue, senior director and sector lead, and Alfredo Calvo, director and sector lead, both in financial institutions ratings at S&P Global Ratings:**

"Subdued investment levels across the region in light of continued uncertainty about policies, slower global growth, and in some cases, social unrest, will result in another year of weak growth in the region. As such, we expect credit demand from the corporate sector to remain weak, and we could see pressure on Latin American banks' asset quality metrics and operating performance. In this context, Mexican banks' cautious underwriting standards implemented in the past few years will help them avoid a sharp rise in nonperforming assets and credit losses. In Chile and Colombia, persistent social protests could hamper investment and economic activity, pressuring asset quality and operating performance. Argentine banks face the biggest challenge among the largest economies in the region, as policy changes from the new government could affect their funding, asset quality and profitability. Some of the risks include potential imposed direct lending, caps on interest rates and the effect of high inflation on banks' asset quality. In contrast, the passage of an important pension reform in Brazil raises hopes for other needed reforms and could boost economic activity. Moreover, Brazilian banks continue to post sound profitability thanks to efficiency gains and lower provisioning needs. We expect private banks to take the lead on lending

growth, while government-owned banks will keep reducing their share, and will remain focused on cleaning up their balance sheets and concentrate in core activities."

A **Theresa Paiz Fredel, senior director for financial institutions at Fitch Ratings:** "Economic growth across most of Latin America has been below potential or historical levels in recent years. Fitch expects this trend to continue in 2020, even if a mild economic recovery materializes. Latin America remains vulnerable to downside external risks (slowing global growth, trade tensions and/or commodity price volatility), while local idiosyncratic risks, especially those related to political instability and/or

“ We expect the financial service industry in Brazil to fare the best, while Argentine banks will likely face the strongest headwinds.”

— Theresa Paiz Fredel

social unrest, have also been developing and weighing on domestic growth expectations. All of these factors are likely to weigh on the financial performance of the region's banks through limited loan growth and downside risks for asset quality and profitability metrics. Against this backdrop, we expect the financial service industry in Brazil to fare the best, while Argentine banks will likely face the strongest headwinds. Fitch is mildly optimistic on the near-term prospects for the credit fundamentals of Brazilian banks. While the post-crisis pace of economic growth has been disappointing, bank performance has continued to improve on the back of declining credit costs, sustained selective loan growth and the continued search for further cost efficiencies. Historically low

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in Panama, the British Virgin Islands and Liechtenstein and other methods to help U.S. customers hide offshore assets, according to U.S. federal prosecutors. "HSBC Switzerland conspired with U.S. accountholders to conceal assets abroad and evade taxes that every American must pay," said Stuart Goldberg, acting chief of the Justice Department's tax division. "Banks, asset managers and other financial firms enable such crimes—and we will hold these institutions to account, right along with the taxpayers that use them to facilitate and disguise illegal activities." Under the settlement, HSBC is paying \$60.6 million in unpaid taxes, forfeiting \$71.9 million in fees earned on the undisclosed accounts and paying a \$59.9 million penalty.

POLITICAL NEWS

Venezuela Assembly Allows Electronic Voting on Legislation

Venezuela's opposition-led National Assembly on Dec. 17 approved a measure to allow lawmakers to cast their votes on legislation electronically, without being physically present in the chamber, the Associated Press reported.



Guaidó // File Photo: Venezuelan Government.

Opposition lawmakers say the change in rules was needed because a government crackdown has left dozens of legislators in hiding or exiled from the country, Reuters reported. Of the 112 legislators who belong to opposition parties, about 30 have fled Venezuela or have sought refuge in foreign embassies in Caracas, the AP reported. The change in the rules precedes

a key vote on Jan. 5 in which legislators will decide whether Juan Guaidó will remain president of the National Assembly. His role as the body's leader led to Guaidó claiming to be the country's interim president last January, which the United States and dozens of other countries have recognized. His remaining the National Assembly's president would allow him to continue in that role. Before the change in the voting rules, the National Assembly

ADVISOR Q&A

Is China Going to Help El Salvador Develop Faster?

Q China will help El Salvador build several new infrastructure projects, including a water treatment plant and a stadium, as well as streets, parks and a water system in coastal tourist areas, the two nations announced Dec. 3, as Salvadoran President Nayib Bukele visited his counterpart in Beijing. Is El Salvador's recent decision to cut ties with Taiwan in favor of establishing them with China paying off? What benefits will the infrastructure program bring to the Central American nation, and does Chinese investment come at a price? Through such projects, can El Salvador become a realistic competitor for tourism in the Central America region?

A Margaret Myers, director of the Asia & Latin America program at the Inter-American Dialogue: "Bukele's agreements with China, though described as 'gigantic,' are little more than a series of development assistance projects totaling a few hundred million dollars. They are a far cry from the original Belt and Road-type projects proposed to the FMLN when Sánchez Cerén broke ties with Taiwan in August 2018. The originally proposed renovation of the La Unión port and a related special economic zone—though exceedingly problematic, having been negotiated entirely behind closed doors—could (if

considerably re-worked or re-imagined) have been sizable and potentially transformative projects for the Salvadoran economy. Beijing might also have accepted other major infrastructure proposals from the Bukele government. However, in a seeming effort to gain something from newly established relations with China while limiting reactions from the United States, Bukele struck a series of deals with Beijing that are reminiscent of the sort of projects that China offered Central America and the Caribbean in the early 2000s, when China and Taiwan engaged in relatively unchecked dollar diplomacy in those regions. The stadium, in particular, is a throwback to that period of time—Costa Rica's 2007 soccer stadium was among the last gifted by China in Latin America and the Caribbean. Some of the newly promised projects will very likely have a positive impact in certain parts of the country. And there is probably more to come from China, although that will again be limited by pressure from the United States. At this juncture, though, it's hard to say that El Salvador is benefiting more from newly established relations with China than it did from ties to Taiwan."

EDITOR'S NOTE: More commentary on this topic appears in the Dec. 17 issue of the Latin America Advisor.

could not pass legislation without the physical presence of at least half of the lawmakers or their surrogates, Reuters reported. Opposition lawmakers have accused President Nicolás Maduro's allies of pressuring legislators not to show up for next month's vote in order to prevent Guaidó from remaining the legislature's leader. Some opposition lawmakers said during the session that they had been offered briefcases containing cash in order to skip

NEWS BRIEFS

At Least 12 Killed in Jail Shootout in Panama

At least 12 people were killed Dec. 17 in a shootout among inmates at a jail near Panama City, Reuters reported. Thirteen people were also injured in the incident at the La Joyita prison, which is 16 miles east of the city. Police officers seized several weapons following the shootout, including five handguns and three long-barreled firearms. Panamanian President Laurentino Cortizo said it appeared that guards helped inmates smuggle weapons inside.

Trump Meets With Guatemala's President at White House

U.S. President Donald Trump on Dec. 17 met with outgoing Guatemalan President Jimmy Morales at the White House, where he praised Morales on the immigration deal that allows U.S. authorities to send migrants seeking asylum there to Guatemala. "The relationship is very good, it's a very important country from the standpoint of the border and trade," Trump said in his remarks, according to a White House statement. Guatemalan President-elect Alejandro Giammattei, who has criticized the immigration agreement, takes offices Jan. 14.

Mexico Raises Minimum Wage by 20 Percent

President Andrés Manuel López Obrador on Dec. 16 raised Mexico's national minimum wage by 20 percent, the Associated Press reported. The Labor Department said the lowest legal wage will be 123.22 pesos a day starting Jan. 1, or about \$6.50 per day at current exchange rates, which is still below \$1 per hour and barely at poverty level. However, the increase is well above Mexico's 3 percent annual inflation rate, and wages will be higher in areas along the northern border with the United States due to higher living costs.

the vote. "We will not sell out, they will not break us," said legislator Carlos Valero. The Venezuelan government's information ministry did not respond to a request for comment by Reuters. Allowing lawmakers to vote from afar also qualifies a greater number of legislators to participate in the Jan. 5 vote for congressional leadership. Allies of Maduro criticized the change, saying it protects "fugitives of justice," the AP reported.

U.S. Judge Orders Mexico's García Luna Held Without Bond

A judge in Texas on Dec. 17 ordered Mexico's former top security official to remain held without bond as he awaits trial for allegedly profiting from drug-money bribes in exchange for letting the infamous Sinaloa drug cartel



García Luna // File Photo: Notimex.

operate with impunity, the Associated Press reported. Genaro García Luna, who served as Mexico's secretary of public security from 2006 to 2012 and as the head of the country's Federal Investigation Agency from 2001 to 2005, was indicted on three counts of cocaine trafficking conspiracy and a false statements charge. He waived his right to a detention hearing in Dallas nearly a week after a federal case against him was made public in New York City. Magistrate Judge David Horan ruled that García Luna be held in Texas until marshals could transfer him to New York, where notorious drug kingpin and head of the Sinaloa cartel Joaquín "El Chapo" Guzmán faced trial last year, the AP reported. The same judge who tried Guzmán, Brian Cogan, will also try García Luna, El Universal reported. During Guzmán's trial, a former cartel

member testified that he personally paid García Luna \$6 million in bribes between 2005 and 2007, and prosecutors allege that other cooperating witnesses have said the Sinaloa cartel paid García Luna tens of millions of dollars in exchange for impunity, the AP reported.

ECONOMIC NEWS

Argentine Peso Falls 8 Percent on New Currency Rules

The value of Argentina's black market peso fell almost 8 percent against the dollar on Dec. 16 on news that the administration of new President Alberto Fernández would bring back the so-called "tourism tax" on spending in dollars in order to help prop up the peso and generate government revenue. The tax, which will apply to all expenses incurred using credit cards abroad, is reportedly spurring Argentines to stock up on dollars. In December, the conservative government of then-President Mauricio Macri imposed limits on official purchases of dollars. The peso has lost more than 80 percent of its value over the past four years under Macri, as inflation rose at nearly the highest rates in the world. Santiago Cafiero, Fernández's cabinet chief, also recently said a bill would be sent to Congress that could hike taxes by as much as 30 percent on goods and services purchased in U.S. dollars.

Peru's Central Bank Keeps Key Interest Rate Unchanged

Peru's central bank on Dec. 12 voted to keep its benchmark lending rate unchanged at 2.25 percent, in line with analysts' forecasts, state-run Agencia Andina reported. The rate remains at a nine-year low amid delays to public works spending and sluggish global growth. The bank expects Peru's inflation rate to remain around its goal of 2 percent.

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interest rates have pressured net interest income. However, banks could largely offset this with growing business volumes and declining credit costs, barring any material setback to economic growth. By contrast, Argentine banks are already facing a very weak operating environment amid economic recession, high inflation and accelerating asset quality deterioration. The uncertainties on the economic policy that the new administration of President Alberto Fernández will adopt are likely to continue pressuring Argentine banks' financial performance."

A **Carlos M. Parra, clinical professor in the Department of Information Systems and Business Analytics at Florida International University:**

"There is a larger and more important backdrop for the financial services industry than the current political and social turmoil affecting the region. It is the alliances between tech giants and banks, for example: Amazon and Chase, Apple and Goldman Sachs, and Google and Citibank. On the one hand, these partnerships are aimed at allowing tech giants to go beyond simply facilitating payments (for example, Apple Pay and Google Pay). The only tech that actually processes transactions, and consolidates at end of day, is Amazon. But since it may not use banks for this, before approving the transaction, it has to ask users whether they have enough of a balance to pay for what they want. On the other hand, these alliances will allow banks to tap into the billions of users that tech giants have. In regions like Latin America, these alliances have the potential of finally bringing a wide range of much-needed financial services to the unbanked and underbanked. The beginning of this new era will take place independently of whether populists are in charge or people are protesting in the streets. Many Latin Americans, thanks to smart phone penetration, will finally be able to avoid neighborhood sharks and abusive microfinance spreads. Access to efficient

and competitive financial services will not only improve the lives of many but will provide new livelihoods to many more. The prevalence of cash transactions will finally start to decline, which in turn may catalyze formalization and broader taxation, as well as the long-awaited transition out of subsistence resource-based economies into more service-oriented ones."

A **Marcelo De Gruttola, assistant vice president and analyst in the financial institutions group at Moody's Investors Service:**

"Our outlook for Latin American banks is stable for 2020, reflecting high profitability, contained asset risk and quality funding. The main drivers are economic growth, which, albeit still modest, will exceed 2019 levels and will support largely stable asset risk. Latin American banks' margins and overall profitability will remain stronger than those of global peers due to strong pricing power, despite pressure from low interest rates. Additionally, ample core deposit funding, adequate liquidity and manageable foreign currency positions reduce banks' exposure to market volatility. However, downside risks for banks in the region arise from potential external shocks that could affect their operating conditions and from sociopolitical tensions and policy shifts that could limit confidence. Brazil and Colombia are positive outliers in terms of economic growth, which will support banks' operating conditions. In Mexico, even though we expect weakened economic prospects to cause an increase in loan delinquencies, margins and capital will continue to be among the strongest in the region. Additionally, sociopolitical tension in Bolivia and Chile will likely pressure growth and banks' business prospects, and political uncertainties in Argentina will continue to limit investor confidence in the economy."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gene.kuleta@thedialogue.org.

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