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## FEATURED Q&amp;A

# How Will Colombian Banks Perform the Rest of This Year?



Colombia's Grupo Aval, which owns banks including Banco de Bogotá, reported a 75.4 percent decline in net profit for this year's second quarter. // File Photo: Banco de Bogotá.

**Q** Colombia's Grupo Aval on Aug. 16 reported a 75.4 percent fall in net profit for the second quarter as compared to the same period a year ago. The financial conglomerate, which owns banks including Banco de Bogotá and Banco de Occidente, said a 10 percent appreciation of the Colombian peso and lower margin weighed on results. What does Grupo Aval's drop in profit say about the state of Colombia's banking sector more broadly? How well are Colombian banks expected to perform the rest of this year, and what are the main factors that will affect their performance? How is the Colombian central bank's interest rate policy affecting the country's banks?

**A** Daniel Mora A., equity research senior analyst for Andean banks at Credicorp Capital in Bogotá: "In the second quarter, Grupo Aval reported a negative impact of 102.5 billion Colombian pesos related to the resolution agreements of Corficolombiana with the U.S. Department of Justice and the Securities and Exchange Commission. Beyond the legal process, Aval's results were pressured by two trends that are affecting most Colombian banks: pressures in margins and higher provision expenses. Regarding margins, banks have suffered pressures in the cost of funds driven by the increase of interest rates to levels not seen since the 1990s, the shift of demand deposits to term deposits, which are more expensive, and the compliance of the net stable funding ratio under Basel III standards. As a result, most banks have faced compressions of margins this year as the liabilities are capturing the increase in rates faster than assets. This impact is amplified by the more retail oriented banks as retail loans have fixed

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## TOP NEWS

## BANKING

## Brazil's Itaú Unibanco Selling Argentine Unit

Brazil's Itaú Unibanco Holding said Aug. 23 that it is selling its Argentine unit to Banco Macro for 250 million reais (\$51.47 million).

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## DIGITAL CURRENCIES

## Mastercard to End Partnership With Binance on Crypto Cards

Cryptocurrency exchange Binance and Mastercard will end their crypto card programs in Argentina, Brazil and Colombia as well as in Bahrain. The partnership has allowed users to make purchases in local currencies that are funded by their cryptocurrency holdings.

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## FINANCIAL TECHNOLOGY

## Mexico Preparing to Modernize Fintech Rules

Mexico is preparing to modernize its regulatory framework for financial technology companies, said Deputy Finance Secretary Gabriel Yorio.

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Yorio // File Photo: Mexican Government.

## BANKING NEWS

## Brazil's Itaú Selling Argentine Unit to Banco Macro

Brazil's Itaú Unibanco Holding announced Aug. 23 that it is selling its unit in Argentina to Banco Macro for 250 million reais (\$51.47 million). "After the completion of this transaction, Itaú Unibanco will continue serving corporate clients, both local and regional, and individuals in the wealth and private banking segments through its foreign units," Itaú Unibanco said in a statement. "It will also submit a request, to be approved by regulators in Argentina and in Brazil, to open a representative office in Argentina to carry out the activities permitted by its license and other conditions of the stock purchase agreement," the bank added. Itaú Unibanco added that the nonrecurring impact of the transaction is estimated to be a negative 1.2 billion reais, which it said will be realized when the deal is completed. Through the transaction, Banco Macro will acquire Itaú Unibanco's more than 60 branches in Argentina, as well as 145 automated-teller machines, Dow Jones reported. The unit was Argentina's 16th-largest bank as of the end of 2022, with a market share of 2.1 percent. Itaú Unibanco said in June that it was in preliminary talks with Banco Macro about a sale, Reuters reported. Itaú Unibanco has a relatively small loan portfolio in Argentina as compared to its operations in other countries, such as Colombia and Chile, Reuters reported.

## DIGITAL CURRENCIES NEWS

## Binance, Mastercard Ending Crypto Card Programs in Region

Cryptocurrency exchange Binance and Mastercard will end their crypto card programs in Argentina, Brazil and Colombia, as well as in

Bahrain, Reuters reported Aug. 24. The partnership has allowed users to make purchases in local currencies that are funded by their holdings in cryptocurrencies on the Binance exchange, the wire service reported. The card service will end in the Latin American countries on Sept. 21, Binance told CoinDesk. The card has been available in Latin America for less than a year, the website reported. Binance added that just 1 percent of its total number of users would be affected by the decision. Mastercard also has partnerships with other crypto exchanges, including Gemini, Reuters reported. The decision will not have an effect on any of Mastercard's other programs with crypt exchanges, a spokesman for Mastercard told the wire service. Binance has been facing regulatory and legal challenges in the United States. U.S. regulators have sued the exchange and its chief executive officer, Changpeng Zhao, accusing it of operating a "web of deception," Reuters reported. Binance has said it would defend itself "vigorously" in the case. Last April, Mastercard's head for crypto and blockchain, Raj Dhamodharan, told the wire service that the company was seeking to establish more partnerships with cryptocurrency firms. He did not comment specifically on Binance, but he said that any such partnership "goes through full due diligence" and is subject to constant monitoring. A spokesperson for Mastercard declined to comment to Reuters on the reason for the end of the card partnership with Binance or who made the decision to terminate it.

## FINANCIAL TECHNOLOGY NEWS

## Mexico Preparing to Modernize Fintech Regulations: Official

Mexico is preparing to modernize and reform the regulatory framework for financial technology companies, Bloomberg Línea reported Aug. 31, citing Deputy Finance Secretary Gabriel Yorio. Currently only 46 out of 650 fintechs operate in the country under Mexico's Law to

## NEWS BRIEFS

## JP Morgan Increases Stake in Brazilian Digital Bank C6

JP Morgan has increased its stake in Brazilian digital bank C6, the banks said Aug. 29 in a statement. New York-based JP Morgan will increase its stake in C6 to 46 percent from 40 percent. The banks did not disclose the terms of the deal. C6 has expanded its client base to 25 million, the banks said, adding that it had eight million clients in June 2021.

## Stablecoin Issuer Tether Adds Bahamas-Based Bank to Process Transfers

Tether, an issuer of stablecoins, has added Bahamas-based Britannia Bank & Trust to process dollar transfers, Bloomberg Law reported Aug. 29, citing unnamed sources familiar with the matter. Tether has told clients to send money to the bank in recent months, according to the sources. Tether, which is behind the USDT cryptocurrency token, did not respond to requests for comment by the news service.

## Pan-American Life Taps Friedman as CFO

Pan-American Life Insurance Group announced Sept. 5 that it has tapped Steven A. Friedman as its chief financial officer. The new Orleans-based insurer, which has operations in several countries in Latin America and the Caribbean, said Friedman will maintain his current role as the company's president of finance and investments and will succeed David Demmon as CFO. Demmon served in that role for seven years and will remain a senior consultant. Before joining Pan-American Life in 2018, Friedman was senior managing director of Guggenheim Securities' Financial Institutions Group. He has more than two decades of experience advising companies based in the United States and elsewhere across the life, property-casualty and reinsurance sectors.

Regulate Financial Technology Institutions, known as the “Fintech Law,” according to a report by Fintech Mexico. The regulation has been in place for five years, Bloomberg Línea reported. The finance secretariat recently held its first “Fintech Week” and wants to work together with industry chambers and companies to lay out the groundwork for gradual changes in fintech regulations. “Such meetings generate opportunities to identify what type of actions or reforms we need to make,” Yorio told Bloomberg Línea. “I believe it would be a mistake to continue to pretend as if the sector did not exist,” he added. The public-private partnership will decide on specific reforms to the Fintech Law, adjustments to secondary regulations, as well as alignment of local regulations to international best practices. “We need to modernize our regulation. With a sector that is growing fast, we think it has such an opportunity for even more growth that could help boost our financial market by expanding the range of options, products and services to which the population can access,” Yorio said. The government will seek to implement changes to the regulations ahead of next year’s presidential election.

## Citigroup Acquires Stake in Peruvian Start-up Rextie

Citigroup announced Aug. 24 that it has acquired a stake in Rextie, a Peru-based financial technology company that handles foreign exchange services. The deal’s terms were not disclosed, but executives of Citi and Rextie said the New York-based bank is injecting cash into the Peruvian start-up in order to finance its growth, Reuters reported. Founded in 2016, Rextie has closed \$4.5 billion in foreign exchange transactions and expects that figure to reach \$7 billion by the end of 2024, the wire service reported. “Going forward, Rextie will focus its efforts on attracting more small and medium-sized business, including customers involved in import and export activities,” Mateu Batle, Rextie’s chief executive officer and co-founder said in a statement released

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rates, while banks exposed to the commercial segment (floating-rate loans) have been more resilient. In this sense, the decrease in interest rates will be a positive catalyst going forward. Regarding provision expenses, increases in rates and the inflation pressures have affected clients’ payment behavior. The latter, along with aggressive loan growth last year, resulted in higher provisions and cost of risk ratios similar to the ones observed during the pandemic. This should affect banks in this year’s second half, while the recovery next year will depend on the evolution of the economy, unemployment and a decline in inflation. We are conservative on the performance of banks in 2024, and we believe profitability figures should remain below the long-term target of each company.”

**A** **Alfredo Calvo, senior director and sector lead for financial institutions ratings at S&P Global Ratings:**

“Colombian banks are facing headwinds that will undermine their profits this year. The economy is cooling down amid high inflation and interest rates. We expect these conditions to continue for the remainder of 2023, slowing credit growth. We estimate total credit to contract this year in real terms and funding costs to increase, lowering net interest margins and commission fees. Moreover, as banks need to comply with the 100 percent regulatory net stable funding ratio, the strong competition for retail and time deposits increases pressure on interest expenses. In addition, higher household debt and weakening purchasing power, deteriorating labor market dynamics, and companies’ narrower margins are denting banks’ asset quality, prompting provisioning needs to rise. We expect banks to try and contain the erosion of their loan portfolios by implementing more stringent lending policies. In our view, banks maintain credit-loss reserves in excess of nonperforming assets, which will cushion the impact of asset-quality deterioration on profitability. Additional factors that

could squeeze banks’ profitability are the digitalization strategies that require large investments in technology and the effect of high inflation on non-interest expenses. For large Colombian banks with presence in Central American countries, the appreciation of the Colombian peso presents an additional obstacle. This is because revenues from these countries, which are denominated in U.S. dollars, become smaller once converted into Colombian pesos. For 2024, we expect credit expansion to recover amid improving economic conditions. Likewise, banks’ profitability will rise, as we expect return on assets to be about 1.5 percent and return on equity of 12 percent-13 percent.”

**A** **Alexandre Albuquerque and Marcelo de Gruttola, both vice presidents and senior analysts, at Moody’s Investors Service:**

“In the second quarter of 2023, Bancolombia, Banco Davivienda, Banco de Bogotá and BBVA Colombia, the four major banks in Colombia, reported a combined net income of 1.86 trillion Colombian pesos (\$453 million). This represented a decline of 28.3 percent compared to the previous quarter and a drop of 48 percent from the same period in 2022. The main factor contributing to this trend was the increase in loan-loss provisions as the banks sought to mitigate the growing risk from rising loan delinquencies, particularly in their consumer loan portfolios. However, on an individual basis, other factors led to weaker earnings in this year’s second quarter, and they varied among the four banks. Despite the challenging environment, most banks continued to benefit from Colombia’s high policy interest rates, which supported their net interest margins. The reference rate stood at 13.25 percent in June. However, funding costs remained a source of pressure, preventing a significant improvement in margins. The tightening monetary policy cycle and the high level of loan delinquencies are expected to continue constraining loan growth this year, as eco-

Continued on page 6

by Citigroup. “We will accelerate our growth supported by our experience, the knowledge and specialized technologies that will be empowered by Citi,” Batle added. Citi’s made the investment through its Institutional Strategic Investments unit.

## POLITICAL NEWS

## Guatemala Electoral Authority Blocks Semilla’s Suspension

Guatemala’s lead electoral authority announced Sept. 3 that it had blocked a lower agency’s suspension of President-elect Bernardo Arévalo’s party, the Associated Press reported. The country’s electoral registry in late August suspended the Semilla party amid an investigation of alleged irregularities in its registration. Guatemala’s attorney general’s office has been probing whether signatures were gathered improperly when the party was formed years ago, the AP reported. In the Sept. 3 order, the Supreme Electoral Tribunal said the electoral registry’s suspension of the party could not remain in force because it did not come from an electoral body. The tribunal’s decision remains in effect until Oct. 31, the official end of the country’s electoral period, so the party could be suspended again on Nov. 1. Guatemala’s Congress in late August used the electoral registry’s suspension to classify its seven lawmakers, including Arévalo, a current lawmaker, as independents. That move prevents them from heading legislative committees. [Editor’s note: See related [Q&A](#) in the Aug. 23 issue of the daily Latin America Advisor.]

## Cubans Coerced to Fight for Russia: Foreign Ministry

Cuba’s foreign ministry said Sept. 4 that it had discovered a human trafficking ring in which Cuban citizens were coerced to fight for Russia

## ADVISOR Q&A

### Will Brazil’s New Infrastructure Plan Boost the Economy?

**Q** **Brazilian President Luiz Inácio Lula da Silva on Aug. 11 unveiled an infrastructure plan that includes nearly 1 trillion reais (nearly \$200 billion) in spending. The plan revives an initiative that Lula first launched in 2007 after he was sworn in for his second term. The Growth Acceleration Program, or PAC, has attracted criticism, saying that similar large-scale programs in the past were never fully realized and led to massive corruption. How likely is the plan to receive legislative approval and attract partnerships with private companies? How is the initiative different from the one launched in 2007, and what are the main risks associated with it? Where are the funds expected to go toward, and which industries are set to benefit most?**

**A** **Carlos J. Alsua, professor of practice in the Eller College’s McGuire Center for Entrepreneurship at The University of Arizona:** “Brazilian President Luiz Inácio Lula da Silva recently made headlines by unveiling a massive 1 trillion real (\$200 billion) plan for infrastructure. This Growth Acceleration Program, or PAC, is not exactly new. Lula took a stab at something like this in 2007, but it fell short and got caught up in accusations of corruption. What catches the eye is how this revived PAC echoes the Biden administration’s plans for bouncing

in its war with Ukraine, Reuters reported. The ministry said it was working to break up the network and added that it was operating both in Cuba and Russia, the wire service reported. “The Ministry of the Interior ... is working on the neutralization and dismantling of a human trafficking network that operates from Russia to incorporate Cuban citizens living there, and

back after the pandemic. They’re both big on infrastructure to get the economy humming again. That’s a big deal, and it’s worth watching how it plays out. But here’s where it gets worrisome: is this Brazilian plan opening the door to corruption? They’ve been there and done that with these large-scale projects, and often, they’ve ended up in some scandal. What’s going to make this one different? Will it get the green light from lawmakers? Will actual private companies want to jump on board? These questions don’t have easy answers, and that’s a problem. We need to know where this money is going and who will benefit the most. Everything needs to be above board, or else we could be looking at another messy situation. So here’s the bottom line: Brazil’s big plan aligns with what’s happening globally to recover from the pandemic, including what’s happening here in the United States. But history has some lessons that should be addressed. There must be a real commitment to doing things correctly to ensure this considerable investment grows the economy without growing corruption. After all, nobody wants to see a recovery road turned into a path lined with scandal.”

**EDITOR’S NOTE: More commentary on this topic appears in the Aug. 30 issue of the Latin America Advisor.**

even some from Cuba, into the military forces participating in war operations in Ukraine,” the Cuban government said in a statement. The foreign ministry said it has launched criminal proceedings against people involved in the trafficking ring, the Voice of America reported. Russia’s government did not make any public comment on the allegations. Russia last year

## NEWS BRIEFS

## More Than 50 Security Personnel Taken Hostage in Ecuador Prisons Freed

Ecuadorian authorities announced Sept. 1 that 50 guards and seven police officers had been released after inmates had taken them hostage in six prisons across the country for more than a day, the Associated Press reported. Earlier that day, criminal groups detonated a bridge, the latest in series of attacks in the country. The government described the acts of violence as retaliation against its efforts to regain control of several penitentiaries in Ecuador.

## Mexico's Opposition Confirms Gálvez as Presidential Candidate

Mexico's opposition on Aug. 31 confirmed Senator Xóchitl Gálvez as its candidate for next year's presidential election, The Wall Street Journal reported. Gálvez effectively secured the nomination the previous day after national polls gave her a wide lead over Institutional Revolutionary Party candidate Beatriz Paredes, leading the party to endorse Gálvez as its candidate. Former Mexico City Mayor Claudia Sheinbaum had a 12-point lead over former Foreign Minister Marcelo Ebrard in a poll conducted by El Financiero, putting her in position to be the ruling Morena party's presidential nominee, Bloomberg News reported Sept. 5.

## Colombian Government, Industry Groups Call on Central Bank to Cut Rates

Colombia's government and industry groups on Sept. 4 called on the country's central bank to cut interest rates in order to strengthen the economy, Reuters reported. Colombia's economy grew 0.3 percent in the second quarter, less than expected. "We need to recover the economy," Finance Minister Ricardo Bonilla said after meeting with the country's main business associations.

announced plans to increase the size of its military by more than 30 percent to 1.5 million combat personnel, Reuters reported.

## State Department Says U.S. Citizens Should Leave Haiti

The U.S. State Department said Aug. 30 that Americans should leave Haiti, which has been beset by high levels of gang violence. "Given the current security situation and infrastructure challenges, U.S. citizens in Haiti should depart Haiti as soon as possible via commercial or private transport," the State Department said in an advisory. The advisory added that U.S. citizens who want to depart the capital, Port-au-Prince, "should monitor local news and only do so when considered safe." The State Department also urged "extreme caution in traveling around the country" and advised citizens to "avoid demonstrations and large gatherings of people."

## ECONOMIC NEWS

## IDB, World Bank Agree to Deepen Cooperation

The Inter-American Development Bank and the World Bank agreed on Aug. 31 to deepen cooperation on Western Hemisphere development efforts, Reuters reported. The organizations' four-year agreement includes efforts to preserve the Amazon rain forest, improve disaster resilience in the Caribbean and increase digital access across Latin America. The IDB and World Bank said they seek to cooperate in "areas of common interest," which include financing for development projects and fighting climate change, adding that they aim to collaborate on research, conferences, training seminars and dissemination of information. World Bank President Ajay Banga and IDB President Ilan Goldfajn signed the agreement in

Washington, the World Bank said in a statement. The World Bank's Multilateral Investment Guarantee Agency, which seeks to mitigate political risk, along with IDB Group, the IDB's private-sector arm, will also reportedly work together to reduce political upheaval in the region. The agreement follows up on the joint trip that Goldfajn and Banga took to Peru and Jamaica in June, El País reported. The trip took place 10 days after Banga assumed his post.

## Thousands Protest Gasoline Price Hikes in Colombia

Thousands of protesters took to the streets on Aug. 28 across Colombia's main cities against recent hikes in gasoline prices, the Associated Press reported. Protesters say the increase in fuel prices is making it more difficult to operate small businesses and could push up the price of food, the wire service reported. The government of President Gustavo Petro is cutting gasoline subsidies, which cost some \$11 billion a year, to relieve national oil company Ecopetrol's debt and fund social programs. Officials in the South American country's finance ministry said they wanted the price of gasoline to reach 16,000 Colombian pesos (\$4) per gallon by the end of the year, which would match the price in the United States. Last Petro recently reached a deal with the nation's taxi driver unions that ensures no increase in gasoline prices for the country's estimated 200,000 taxis. The protests came amid frustration with Petro's administration a year after he took office. Petro has faced criticism that he has failed to deliver on promises to reduce poverty and achieve total peace in the country. "The change Petro promised has moved slower than many Colombians had anticipated," Steven Holmes, a research associate at the Council on Foreign Relations, told the daily Latin America Advisor in a Q&A published Aug. 21. "While Petro achieved several early victories, notably winning congressional approval for a tax reform, his total peace policy and the Escazú agreement, attempts in other areas have stalled as his political coalition crumbled," he added.

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conomic activity remains slower as compared to last year. The asset quality of all four banks deteriorated in the second quarter of 2023, in line with the anticipated increase in loan delinquencies. Stage 3 loans under IFRS 9, as a percentage of gross loans, reached 5.7 percent. In the second half of this year, loan delinquencies are expected to gradually rise further as the volume of past-due and renegotiated loans increases in the still-challenging macroeconomic environment. Additionally, the slowdown in new loan origination, particularly for riskier consumer loans, will put additional strain on asset quality metrics.”

**A** **Andrés Márquez, senior director for Latin America financial institutions at Fitch Ratings:**

“We expect higher funding and credit costs to weigh on Colombian banks’ net profits in 2023, though Fitch-rated banks have sufficient ratings headroom to withstand weaker profitability. The recent appreciation of the Colombian peso has also negatively affected the large Colombian banks’ consolidated results mostly due to operations abroad in dollarized countries. However, in the case of Grupo Aval, the settlement with the U.S. government with respect to the construction of a toll road in

Colombia also contributed to the holding company’s sharp drop in profitability. The implementation of the net stable funding ratio in 2022 increased funding costs, but pressures on funding costs began to subside in the second quarter. Nevertheless, funding cost pressures recently resumed due to lower-than-expected market liquidity as a result of the government’s lower budget execution, which is expected to be temporary. The repricing of assets and liabilities has a greater impact on smaller banks that are more tied to fixed interest rates and less reliant on retail funding. Fitch expects asset quality to deteriorate in 2023 as borrowers’ repayment capacity weakens following strong unsecured retail loan growth in 2022, which will result in higher credit costs. In addition, intense competition for loans against a backdrop of decelerating loan growth could also challenge bank earnings this year. Nevertheless, we expect an increase in budget execution and the central bank’s initiation of monetary easing to result in lower funding costs in late 2023, which, combined with the banks’ efficiency efforts, could partially offset profitability pressures.”

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

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**Q&A**

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