

Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q Recent headlines have drawn attention to the US subprime lending market. With efforts to extend many types of credit to lower-income segments of society in Latin America, has sub-prime lending become a problem in the region? What can policymakers and lenders do to ensure responsible lending to lower-income segments of society in Latin America?

A **Guest Comment: Aquiles Almansi:** "Historically, Latin American sub-prime borrowers have had substantially less access to credit than their US counterparts. Hence, Latin American policymakers have inevitably been torn between fostering access to credit to promote economic growth and smoothing credit cycles, which are typically much more volatile there than in the US. To deal with that trade-off, Latin American policymakers currently tend to promote the adoption of modern credit-risk management techniques by local banks and other financial institutions, and the increasing competition from international players is pushing local lenders in the same direction. However, adopting imported credit-risk management techniques is not easy, and its productivity is by no means assured, because of its heavy data requirements. The databases required to estimate the parameters of modern credit-risk models simply do not yet exist in most Latin American countries, and using foreign parameters is unlikely to add much valu-

able information. Beyond strengthening prudential banking regulations, there is very little Latin American policymakers can effectively do. In particular, domestic monetary policy is substantially less powerful to affect the local credit cycle than in the US economy, even in the less dollarized economies."

A **Guest Comment: Victoria Miles:** "For most consumers in Latin America, the challenge is trying to get any access to credit. Although improving, notably in Brazil, Mexico, and Argentina, where all three markets are experiencing strong growth in

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PHOTO OF THE DAY



Guido Rossi, the chairman of Telecom Italia, resigned Friday after clashing with the company's largest shareholder over a proposed deal with Mexico's America Movil and AT&T.

Photo: AGI.it

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NEWS BRIEFS

Media Group Demands Probe Into Mexican Journalist's Murder

A media rights group on Saturday demanded an investigation into the death of a Mexican journalist gunned down the day before, the Associated Press reported. Paris-based Reporters Without Borders called on the federal government to investigate the death of Amado Ramirez, a reporter for Mexican broadcaster **Televisa**, who was killed Friday night by two gunmen after leaving his radio show in Acapulco. The motive of the killing was not immediately clear, according to the AP.

CANTV's ADSs May Not Be Delisted—Venezuelan Gov't.

American Depository Shares of CANTV, Venezuela's biggest telecom company, will not necessarily be delisted when the Venezuelan government takes over the firm, the government said Sunday, according to Reuters. Telecom Minister Jesse Chacon had previously said the shares would be delisted as part of a takeover that begins today. In January, Venezuelan President Hugo Chavez announced plans to nationalize CANTV and power company EDC in keeping with his vision of "21st century socialism."

Ecuadorean National Extradited to US on Drug-related Charges

An Ecuadorean national charged with the attempted murder of a US drug enforcement agent has been extradited from Colombia to the United States, the Department of Justice announced Sunday. Jairo Motta-Vargas arrived in Miami from Colombia last week and was transported to Washington, DC yesterday. Attorney General Alberto Gonzales, in a statement, thanked Colombia for its assistance in the case.

Economic News

Leaders to Meet in Mexico to Discuss Regional Integration Plan

Mexican President Felipe Calderon will meet today with counterparts from Central America and Colombia to discuss plans to integrate the region's economy through infrastructure and energy projects, Mexican daily *El Universal* reported. Calderon will meet in Campeche with Costa Rica's Oscar Arias, El Salvador's Tony Saca, Guatemala's Oscar Berger, Honduras' Manuel Zelaya, Panama's Martin Torrijos, and Colombia's Alvaro Uribe to discuss projects under the six year-old Plan Puebla Panama (PPP). Also participating will be Nicaraguan Vice President Jaime Moreno and Belize Prime Minister Said Musa. The regional leaders plan to discuss the construction of a refin-

the Dialogue's weekly *Energy Advisor*.]

Company News

Prime Minister Opposed to Break-Up of Telecom Italia's Brazil Assets

Italian Prime Minister Romano Prodi said Saturday he would oppose breaking up **Telecom Italia** for its Brazilian assets if the US' AT&T, Mexico-based mobile operator **America Movil**, and America Movil's fixed-line affiliate, **Telefonos de Mexico** (Telmex), acquire control of the company, Reuters reported. "I like things chopped up. But only on the dinner table," Prodi was quoted as saying in comments to an Italian newspaper. Prodi's industry minister, Pierluigi Bersani, also chimed in, calling on Italian banks and companies to act to keep Telecom Italia's fixed-line net-

The chairman of Telecom Italia, Guido Rossi, resigned Friday after clashing with the company's largest shareholder over the proposed deal with AT&T and America Movil.

ery in Central America that is expected to process 360,000 barrels of heavy crude oil per day, of which Mexican state-owned oil monopoly **Pemex** would provide 230,000 barrels per day, according to *El Universal*. Leaders will also discuss a request by the Dominican Republic to participate in future PPP projects.

Trinidad and Tobago to Announce New Exploration Contract Offer

Trinidad & Tobago will announce new oil and gas exploration contracts for seven onshore blocks by the end of April, Energy Minister Lenny Saith said Sunday. Trinidad and Tobago has also issued tenders for eight deepwater blocks, Saith added, according to Bloomberg News. Saith spoke with reporters at the natural gas producer meeting in Doha in Qatar, a conference which has drawn criticism from some gas-consuming nations over fears that a "gas cartel" could be formed. [Editor's note: see related "Capitol Hill Watch" in the [April 2-6, 2007 edition](#) of

work in domestic hands. Early last week, the press reported that America Movil and AT&T were in talks to buy stakes in Telecom Italia in a potential deal worth 4.8 billion euros (\$US 6.4 billion). America Movil and Telmex jointly plan to buy one third of **Olimpia**, a holding company and Telecom Italia's controlling shareholder with around 18 percent of the Italian firm. AT&T, which said its investment is contingent on that of America Movil, also plans to buy one third of Olimpia. Olimpia and Italian company **Pirelli**, which holds 80 percent of Olimpia, said there would be exclusive negotiations until April 30. The chairman of Telecom Italia, Guido Rossi, resigned Friday after clashing with the company's largest shareholder over the deal. America Movil would see its position boosted significantly in Brazil, Argentina, and Paraguay, where Telecom Italia has mobile operations. Its mobile unit in Brazil, **TIM Brasil**, is the country's second-largest mobile operator after **Vivo**, a joint venture between Spain's **Telefonica** and **Portugal Telecom**. Last year, America

Movil, whose unit **Claro** is Brazil's third-largest mobile operator, made an offer to acquire TIM Brasil, but it was rejected. Telmex would stand to gain from the deal announced through Telecom Italia's fixed-line assets in Argentina. [Editor's note: look for Q&A on this topic in this week's issue of the *Latin America Telecom Advisor*.]

Political News

US Judge Orders Posada Carriles to be Freed on Bail

A United States judge said Friday that Cuban exile and alleged terrorist Luis Posada Carriles should be freed on bail until his trial on immigration fraud charges, but agreed to a request by prosecutors to keep Posada Carriles behind bars while they consider an appeal, Reuters reported. Judge Kathleen Cardone set bail at \$350,000, saying in a written order the 79-year-old Posada Carriles was not a flight risk because he is "old, infirm and has strong ties to the community." Cardone said Posada Carriles must wear an electronic monitoring device and live under house arrest with his wife in Miami. The Cuban exile was seized by US authorities in May 2005 on immigration charges, and if found guilty faces up to 40 years in prison. Posada Carriles is accused of masterminding the 1976 bombing of a Cuban airliner, in which 73 people died, and other terrorist acts. Cuba and close ally Venezuela have accused the Bush administration of hypocrisy in the war on terror for not handing him over to face charges for the alleged terrorist acts. The US says Posada Carriles would not receive a fair trial in either of these two countries.

Bush Visiting US-Mexico Border to Inspect Fence Construction Today

President Bush will step up his immigration reform efforts today with a visit to the US-Mexico border where he will inspect the construction of border fencing, the Associated Press reported. Bush's visit to a major border crossing in Yuma, Arizona follows a leak last week of details about a White House plan that appears aimed at

The Dialogue Continues

What is the Outlook for Colombia's Economy in 2007?

Q Colombia's economy grew 6.8 percent last year, the Andean nation's biggest economic expansion in 29 years, the government reported last month. What is the outlook for Colombia's economy in 2007 and beyond? What do you expect to be the main drivers of continued economic growth in Colombia? What are the main impediments?

A **Guest Comment: Cristina Fernández:** "The Colombian economy has maintained a very favorable pace of growth in recent years, thanks to good conditions in international markets and to the improvement of some bottlenecks that had held up the country's growth, such as violence. In addition, the authorities have known how to take advantage of this situation to maintain low inflation, an improvement in fiscal indicators, a more solid and dynamic financial sector, and better results in social terms. The nature of this growth, which is spread among sectors and has investment as its main engine, makes us expect that it is possible to maintain growth close to 5

percent in the next few years, with dynamic internal demand that is able to reduce imbalances in the external sector. In any event, it is possible that the pace of growth will moderate a little with respect to 2006, due to forecasts of a drop in traditional exports, the trend of growth in imports of consumer goods, and the successive rise in interest rates by the central bank. In addition, it is expected that the country will be sensitive to changes in the international situation due to the prospects for a deficit in the current account, the degree of inflexibility in public spending, and the increase in inflationary pressures seen for the first half of the year."

Cristina Fernández is an Economist at the Andean Development Corporation.

Editor's note: the above is a continuation of a Q&A published in the [April 4, 2007 issue](#) of the Advisor.

making immigration reform more palatable to conservatives. Immigrant groups on Saturday protested the plan for a new "Z" visa, which would grant three-year work permits to immigrants at a cost of



President Bush on his border tour in Arizona last May.

File Photo: White House.

\$3,500 each time they are renewed. Several thousand people protested in Los Angeles on Saturday, saying they felt betrayed by Bush. The plan would require immigrants who seek legal permanent resident status and a green card to return to their country to apply in a US embassy or consulate and pay a \$10,000 fine. White House officials have said the leaked document is not a formal plan, but just a starting point for discussion between the Bush administration and Republicans on Capitol Hill. The plan would make for much stricter legislation than that passed last year in the Senate and may appease some Republicans who voted against last year's bill. But it may also alienate Democrats, who are already locked in disagreement with Bush over funding for the Iraq war.

Featured Q&A*Continued from page 1*

consumer lending, household credit penetration in Latin America, measured as a percentage of GDP, remains extremely low, especially when compared to levels in Western markets. The relative shortage of credit often means that consumers can only obtain loans at extremely high interest rates, which could be difficult to service, especially in the event of an economic downturn. The challenge for governments is to strengthen local legal frameworks that give banks more confidence that they can collect on loans; stronger creditor rights would likely lead to lower spreads over time. Greater availability of long-term fund-

“... The problems occurring in the US sub-prime market ... are unlikely to be repeated in Latin America.”

— *Victoria Miles*

ing, notably through securitization, should also encourage the development of the mortgage market, which is typically a lower-cost product for consumers than unsecured lending. Despite high interest rates on many consumer credit products (especially in Brazil), given the relatively limited availability of credit for retail customers, there are currently few, if any, signs that Latin consumers have overextended themselves financially. Default levels are typically in the high single-digit levels on unsecured consumer credit, but this is consistent with the risk profile of this product in normalized markets. We believe that the overall outlook for defaults, currently at close to record low levels for retail loan portfolios, remains relatively stable. As a result, we believe the problems currently occurring in the US sub-prime market, where high loan to value mortgages were given to customers that would inevitably be stretched by debt service costs once interest payments stepped up, are unlikely to be repeated in Latin America. That said, we continue to monitor closely the growth of lending to individuals across

Latin America, and recognize that the rapid accumulation of leverage in retail markets could be a precursor to future problems.”

A Guest Comment: Tapen Sinha:

“On March 14, HSBC Holdings PLC announced plans to increase lending to high-risk borrowers in Latin America after bad sub-prime loans cut its second-half profit in North America by 87 percent. The company will offer credit cards and other loans to even more individuals with no borrowing history as part of a plan to produce a greater share of its revenue in the region. Mexico is home to the bank's biggest operation in Latin America. Given what has happened with the subprime market in the US, this announcement seems almost suicidal. It is not. Compared with developed countries and developing countries in Asia, Latin America has had a record of very cautious lending practices by banks at least since the Tequila Crisis of 1995. For example, the main source of revenue for banks in Mexico is not from lending money but from fees and charges. As a proportion of GDP, most Latin American countries have very low borrowing rates. Unless a systemic crisis takes place in the future, lending money to those who have no credit at present is not bad business in Latin America, as many low-income earners can generate business income through entrepreneurial activities. Interest rates today are at a historic low in both developed and developing worlds.”

Aquiles Almansi is World Bank Sector Manager for Finance for Latin America and the Caribbean.

Victoria Miles is the Senior Research Analyst and Strategist for Financial Institutions in Emerging Markets at JP Morgan Chase & Co.

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