IDEA
Ideas for Development in the Americas

Public Banks Revisited

Inter-American Development Bank
Research Department

Volume 7
May – Aug., 2005

Public banks are staging a comeback in Latin America. After their heyday in the 1970s, state-owned banks fell out of favor in the 1980s and 1990s as privatization became a keystone of the neoliberal economic policy package codified in the Washington Consensus. But after a decade of reforms, results in terms of financial development and access to credit by certain social groups have been disappointing. In response, the idea of state intervention in banking has been resurrected and tweaked to support the current wave of public banking.

The rationale for state intervention is essentially four-pronged. First, the aim is to maintain the safety and soundness of the banking system. Banks are inherently fragile institutions, and bank failures affect more than just the depositors in one bank. Besides intermediating credit, they also provide two services that have a public-good nature: they are the backup source of liquidity for all other institutions and the transmission belt for monetary policy. Another source of instability stems from the large leverage ratios that characterize financial institutions and the incentives bank managers have to pursue investments that are riskier than depositors would like. This would not be a problem if depositors could effectively monitor bank managers; unfortunately, they can't.

The second reason for state intervention is to mitigate market failures due to costly and asymmetric information. Financial markets in general and banks in particular are information-intensive activities. The information gathered by banks plays a role in increasing the pool of domestic savings available for investment. However, because information has some public-good characteristics and usually entails fixed costs, competitive markets undersupply information and the fixed costs lead to imperfect competition. Moreover, information can be easily destroyed, increasing the cost of bank failures as customers of the failed bank lose access to credit. The reverse may also be true: lack of bank-specific information can dissuade savers from depositing in banks.

The idea of state intervention in banking has been resurrected and tweaked to support the current wave of public banking.

Perhaps the most politically popular argument for state intervention is to finance socially valuable (but financially unprofitable) projects. Presumably, there are many socially profitable projects that would be left unfunded were it not for the state. A related argument is that effective prudential regulations tend to make private banks too risk averse to finance all potentially profitable investments. Thus, in the absence of developed capital markets that allow for alternative sources of financing, which is the case in most developing countries, the state may have to weigh in. From a macroeconomic viewpoint, state intervention could help make expansionary monetary policy more effective at lifting an economy out of a recession. Private banks have limited incentives to lend during times of economic downturns and low interest rates, even though their lending could give the economy a boost.

Finally, many argue that the state is needed to promote financial development and provide access to competitive banking services for residents of isolated areas. Simply put, pri-

Continued on page 2

IN THIS ISSUE

The Many Faces of Public Banks 3
The Balance on Public Banks 5
Lessons Learned 7
New Publications 8
Look Who's Talking 12
Network News 16

IDB Award for Excellence in Research on Economic and Social Development

Call for Nominations

The IDB seeks nominations for the first Award for Excellence in Research on Economic and Social Development in Latin America and the Caribbean. The award will consist of a monetary payment of $50,000. It will be announced in January, 2006 and presented at the IDB Annual Meetings in March, 2006.

Nominees must be researchers under the age of 50 and citizens of an IDB member country.

The nomination process will run from September 1, 2005 to 5:30 pm EST on October 31, 2005.

Nominating forms are available at: http://www.iadb.org/res/idbprize.cfm

Public Banks Revisited

▶ from page 1

vate banks may not find it profitable to open branches in rural and inaccessible areas. In turn, limiting access to banking services may hinder the financial development required to stimulate growth and reduce poverty. On a loftier level, proponents argue that access to financial services is a right that the state should guarantee.

In the mid-1990s, about one-quarter of the assets of the largest banks in developed countries and half of the assets of the largest banks in developing countries were still under state control. The justification for this massive public presence in the banking sector is that market failures and development goals warrant state intervention. But not everyone agrees. Others argue that politicians create and maintain state-owned banks not to channel funds to socially efficient uses but rather to maximize the personal objectives of politicians. A less cynical but equally indicting view emphasizes that although market imperfections may exist, agency costs within government bureaucracies may more than offset the social gains of public participation.

Who is right? This issue of *IDEA* looks at both sides of the story. It examines the record of public banks and research on the theoretical frameworks for and against state-owned banks. The newsletter draws on the 2005 Economic and Social Progress Report titled *Unlocking Credit: The Quest for Deep and Stable Bank Lending* and on papers presented at a February, 2005 IDB conference on *Public Banks in Latin America: Myths and Realities*. Swimming against the prevailing economic tide, public banks are still a major force in the financial sector. This edition of *IDEA* presents lessons learned from the past as well as issues for the future.

This issue of *IDEA* was coordinated by Arturo Galindo and Ugo Panizza and is in part based on work presented at the conference Public Banks in Latin America: Myths and Realities, sponsored by the Research Department and Region 3 of the IDB and held at IDB Headquarters on February 25, 2005.

Eduardo Lora
General Coordinator

Rita Funaro
Managing Editor

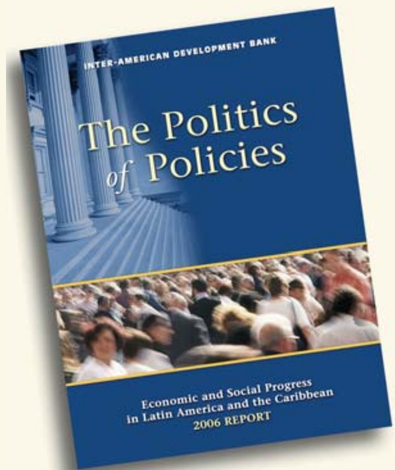
IDEA (Ideas for Development in the Americas) is an economic and social policy newsletter published three times a year by the Research Department, Inter-American Development Bank. Comments are welcome and should be directed to *IDEA's* managing editor, Rita Funaro at Ritaf@iadb.org.

The views expressed herein are those of the authors and do not necessarily represent the views and policy of the IDB. Articles may be freely reproduced provided credit is given to *IDEA* and the IDB. To receive the newsletter electronically, please send your e-mail address to: RES-pubs@iadb.org. Past issues of this newsletter are available on the Internet at: http://www.iadb.org/res/news.

Inter-American Development Bank
1300 New York Ave., NW
Washington, DC 20577

Coming Soon

2006 Economic and Social Progress Report (IPES) The Politics of Policies



In a departure from past reports, this edition of the IPES focuses not on the policies at work in Latin America but on the critical process behind these policies. The premise is that the process of negotiating, approving and implementing policies is at least as important as the policy itself.

How do political actors interact in Latin American democracies? How do their various goals, incentives, ideologies and strategies influence the outcomes of the policymaking process and, therefore, the quality of public policies? These are some of the questions this book explores.

To order this book visit: *http://shop.iadb.org/iadbstore*
Or *www.amazon.com*

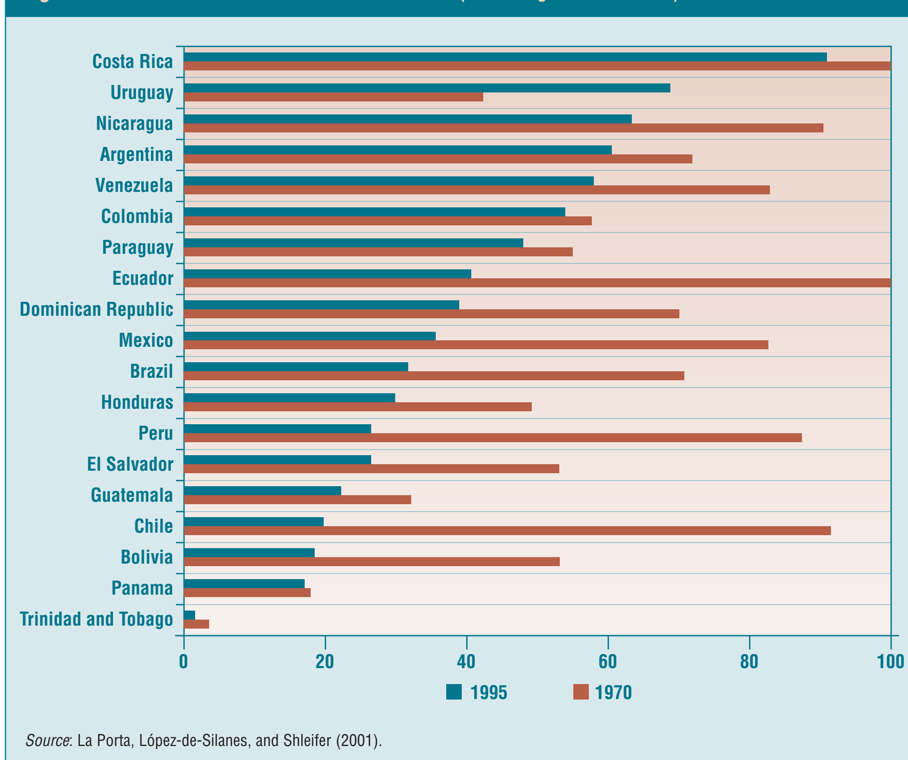
The Many Faces of Public Banks

State-owned banks in Latin America vary greatly. Some public banks look very much like run-of-the-mill retail commercial banks, while others are not even in the business of lending money. Figure 1 shows that in some countries, state ownership of banks is dominant (90% of all banks in Costa Rica in 1995) while in others it is minute (1.5% in Trinidad and Tobago.) And just as their operations and numbers vary, so too does their performance.

There are essentially four types of state-owned financial institutions.

- *Retail commercial banks* may have a social or development objective, but their operations are virtually the same as those of private commercial banks. They collect deposits from the public and use them to give direct credit to firms and individuals. A hybrid group of institutions that falls within this category plays the roles of both development bank and commercial bank and acts as a government agent administering subsidies and other government programs. These hybrids differ from standard retail banks in that they are funded with government transfers and deposits rather than private deposits.
- *Development banks* do not take deposits from the public. Instead, they are funded by multilateral development agencies, bond issues or government transfers. They lend either through other banks or directly to firms that operate in specific sectors such as exports or agriculture.
- *Quasi-narrow* banks collect deposits but invest all their assets in short-term government paper and make no loans. Their purpose is to mobilize savings.
- *Development agencies* neither lend nor borrow. Instead, they make use of a wide variety of instruments, including providing technical assistance, matching grants and subsidies. Currently, there are no institutions of this type in Latin America.

Figure 1. State-Owned Banks in Latin America (Percentage of total banks)



Source: La Porta, López-de-Silanes, and Shleifer (2001).

Latin America has been no exception to the worldwide trend toward privatization, but the process has varied from country to country. Most countries in the region privatized aggressively in the 1970s and 1990s. In 1970–85, average state ownership of banks dropped from 64% to 55%; in 1985–95 it dropped from 55% to 40%. Ecuador, Chile and Peru privatized the most as state ownership shrank from 90% to less than 40%. Uruguay is the only country where state ownership increased, moving from 42% in 1970 to 69% in 1995. Other countries rode a virtual roller coaster through the bank privatization and nationalization process. Mexico, for instance, began at 82% state ownership in 1970, jumped to 100% in 1985 and then plunged to 35% in 1995. Nicaragua, Colombia, El Salvador and Bolivia did much the same. And the privatization trend goes on. In 1995–2001, large bank privatizations raised $5.5 billion in Brazil, $800 million in Mexico, and more than $500 million in Colombia and Venezuela.

Has privatization been good for public banks? Despite much talk of private banks outperforming public banks in terms of profitability and operating efficiency, the record shows that these benefits have been limited, and in some

▶ Continued on page 4

The Many Faces of Public Banks

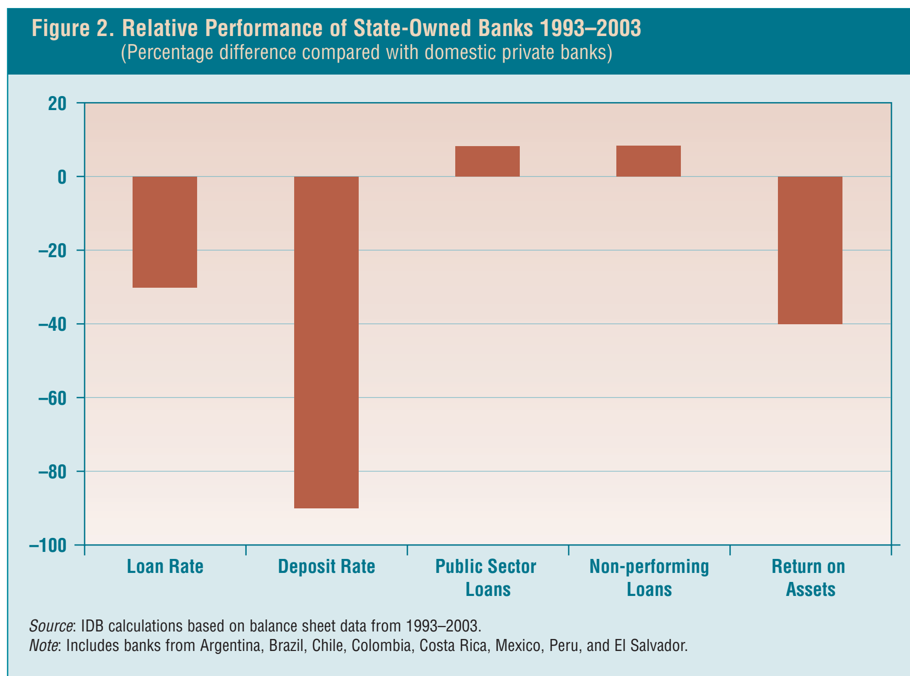
▶ from page 3

cases the results have been just the opposite. Mexico's disastrous privatization in the early 1990s is a case in point, as is the rapid privatization process in Chile in the early 1980s, which led to a major financial crisis. On the other hand, Argentina's bank privatization was judged to be a success and produced large fiscal savings.

Research suggests that in developed countries, bank privatization improves profitability and stock performance but less than it does in nonfinancial companies. In developing countries, the results are even less inspiring; privatization has a positive effect on bank competition but no significant effect on profitability or operating efficiency. Moreover, if the privatization is poorly executed, the costs can be enormous. Overall, there is some evidence that privatization's chances for success in developing countries are improved if the state completely relinquishes ownership, if it allows for the entry of foreign banks, and if the bank's assets are sold directly to a set of strategic investors rather than selling equity shares in capital markets.

How do public banks perform relative to private banks? Figure 2 shows that public banks charge lower interest rates than their private counterparts, pay lower interest rates on deposits, tend to lend more to the public sector, have a higher share of nonperforming loans and are less profitable. The relative profitability of public banks is particularly low in Colombia and Honduras, and Costa Rica is the only case in which public banks are more profitable than private ones. But while public banks tend to be less efficient than private banks, they are also perceived to be safer and hence able to pay lower rates on deposits and charge lower rates for loans.

Figure 2. Relative Performance of State-Owned Banks 1993–2003
(Percentage difference compared with domestic private banks)



Source: IDB calculations based on balance sheet data from 1993–2003.
Note: Includes banks from Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, and El Salvador.

The case of development banks is somewhat different. Rather than working directly with the public, they operate largely through other banks and offer long-term finance for projects that may be shunned by private creditors. Of 550 development banks worldwide, 152 are located in Latin America and the Caribbean. Argentina, Brazil and the Dominican Republic have the largest number of development institutions (more than 10). Development banks are particularly important in Brazil, Costa Rica, the Dominican Republic, Panama and Uruguay, where loans totaled more than 15% of GDP in 2001. They are relatively less important in Ecuador, El Salvador, Honduras, Peru and Venezuela.

Development banks tend to have low profitability, with a lower return on assets than private banks. This is particularly true for Chile, Colombia, Guatemala and Mexico. But there is diversity in this sector too. In Brazil and Peru there is little difference between the profitability of development and private commercial banks and in El Salvador and Bolivia, profitability is actually higher in development banks. But Latin American development banks do appear to adhere to their mandate of focusing on disadvantaged sectors. A recent survey by the Latin American Association of Financial Institutions for Development (ALIDE) found that more than 20% of total credit allocated by its member institutions is directed toward agriculture and rural development, 80% of credit allocated by second-tier ALIDE members is either medium or long-term, and 50% of surveyed institutions allocated more than 80% of their credit to small and medium enterprises.

When judging the efficiency of state-owned banks, whether retail commercial or development banks, it may make more sense to measure in terms of social benefits rather than profits.

The Balance on Public Banks

Should the government be in the banking business? Basically, there are two ways of looking at this question. The *development* or *social* view suggests that state-owned banks are useful to address market failures, increase access to finance and promote economic development. The *political* view suggests that politicians use public banks to maximize their own goals, which leads to corruption and misallocation of credit. A look at both the theory and evidence on public banks provides good input for this discussion.

Theoretical Arguments

Most economists agree that market failures in the banking system warrant some degree of government intervention. The question is, what kind of intervention? The dilemma is whether the state should regulate and contract private agents or directly own banks. On this point there is little consensus.

Under what conditions would state ownership be justified? The recent literature finds that in the presence of non-contractible qualities, private providers may be less costly but may yield lower quality. Public ownership is preferable when the adverse effect of cost reduction on quality is likely to be substantial.

The claim that state-owned banks may be more efficient than private sector institutions in achieving objectives that are not clearly contractible or easily monitored may seem paradoxical. After all, if the state cannot clearly write a contract with a private sector provider, how can it provide incentives to bureaucrats? Holmstrom and Milgram (1991), however, substantiate this claim by showing that increasing incentives along a measurable performance dimension (costs or profitability) reduces incentives along non-measurable dimensions. By assigning a smaller weight to performance, state-owned banks may be more responsive to the development mandate. This argument also helps explain why state-owned banks may be less profitable than their private counterparts.

To provide a concrete example, consider a government that wants to establish a development bank whose ultimate objective is to promote economic development. The government could either establish a public development bank or contract a private provider. The private provider would have an incentive to reduce costs; however, since economic development is difficult to monitor (at least in the short term), the bank could take cost-saving actions that would reduce its long-term development impact. This seems to suggest a theoretical rationale for direct ownership of development banks.

> The dilemma is whether the state should regulate and contract private agents or directly own banks.

Think, by contrast, about the objective of providing banking services to isolated areas. As this is a fully contractible and easily monitored activity, contracting a private bank to open branches in specific locations might be preferable to direct ownership.

The underprovision of certain goods and services is not the only market failure in the banking sector. The inherent fragility of the banking system is another concern. In this regard, the traditional view is that regulation and supervision, together with deposit insurance, can reasonably reduce banking fragility without eliminating the incentives to reduce costs and innovate that arise from private ownership. This is indeed the avenue followed by most industrial countries. However, the truth is that deposit insurance and regulation do not work satisfactorily in poor developing countries plagued by high levels of corruption and poor institutional quality. In this context, direct state ownership could increase the trust of the public in the banking system and lead to deeper financial markets.

What Do the Data Say?

Critics of government intervention argue that state ownership of banks eventually leads to the allocation of credit according to political rather than economic criteria. Research on Italian and Pakistani banks supports this political view and finds that political allegiance plays a significant role in credit allocation. Moreover, the empirical evidence does not support the idea that state-owned banks direct credit to certain underserved sectors (like small and medium enterprises, SMEs) or economic sectors with relatively few assets to pledge as collateral. Studies that test explicitly if financial conditions are better for SMEs or for economic sectors lacking collateral in countries with greater public ownership of banks suggest that the direct presence of the government in financial intermediation does not favor either. Government-owned banks do not contribute to

▶ Continued on page 6

The Balance on Public Banks

▶ from page 5

improving the performance of SMEs and industries that demand more credit, nor do they help promote the growth of industries that lack collateral.

On the bright side, there is evidence that public banks may play a useful credit stabilizing role and reduce the procyclicality of lending. Compared to private bank lending, public bank lending reacts less to macroeconomic fluctuations.

While several studies have identified a negative relationship between the ownership of banks and financial development and GDP growth (see figure 3), these findings cannot infer causality from state ownership of banks to poor economic performance. This is important because both the development and political view posit that state ownership of banks goes hand in hand with negative economic outcomes. However, there is an important difference between these two interpretations. According to the development view, state ownership helps promote financial development at initial stages and mitigates the negative effect of poor institutional quality, which would be even more damaging without public intervention; hence, the causality goes from poor economic performance to the presence of public banks. On the other hand, the political view is that state ownership of banks depresses financial development and possibly promotes corruption; hence, the causality goes from the presence of public banks to poor economic performance. A definitive answer on the development role of state-owned banks must address this causality problem, one of the thorniest issues in economics.

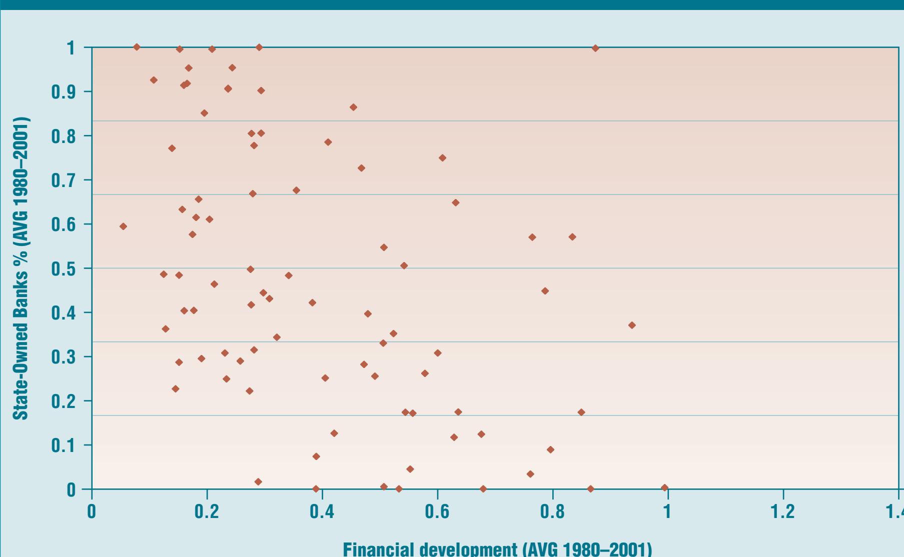
So ?

One argument often invoked against state ownership of banks is that private banks tend to be more profitable than public banks. However, profitability may be an unfair yardstick because having public banks maximize profitability would generate an inherent contradiction and a vicious circle. Public banks would begin with a social policy mandate and concentrate on high risk and low private return activities. This would lead to recurrent losses and the need for recapitalization, which would soon be followed by a reorientation towards profitable activities in competition with private banks. In turn, this would leave the social policy mandate unattended and increase political pressure to restart the cycle. In this context, public banks should be judged on the basis of their development and stabilizing effect. Clearly, the research agenda is still open, and there is a need to develop better ways to evaluate public banks.

From the policy point of view, the objective function of the various public banks and the subsidy they receive must be clearly defined and measured. This information is key to conducting true cost-benefit analyses and evaluating the role of public banks.

Government-owned banks do not contribute to improving the performance of SMEs and industries that demand more credit, nor do they help promote the growth of industries that lack collateral.

Figure 3. Share of State-Owned Banks and Financial Development



Source: Bankscope (2004); International Monetary Fund (2004).

Lessons Learned

The state-owned financial sector boasts some important success stories around the world. Several of these experiences are in Latin American countries: BancoEstado in Chile, and NAFIN and FIRA in Mexico, to mention a few, have been recognized as successful cases of government intervention in financial intermediation. Lessons learned from these cases provide valuable input for public banks in the future.

Common features of these successful cases include the following:

- The social objective of the public bank and its activities need to be clearly established.
- Public banks need to achieve that social objective in the context of sound and competitive policies intended to maximize social return.
- The management of the public bank must be professional and hiring policies transparent.
- Politicians should set the ultimate objectives of the bank but the bank should be operationally independent. The management of the public bank must be fully autonomous from the government, or any other form of political influence, in the definition of its loan pricing and granting policies.
- The public bank must comply with all prudential requirements that private banks follow.

The checklist above is usually not easily achieved. In fact, only in countries with strong institutional backgrounds have these stronger charters been applied successfully to public banks.

The traditional approach to government intervention is not the only way. Throughout Latin America other successful forms of government intervention have arisen. This new wave of "smart" interventions includes risk sharing through partial guarantees and risk pooling of otherwise atomized borrowers. The design of these specific interventions is tailored to specific needs and institutional conditions.

The experiences of NAFIN (Nacional Financiera) and FIRA (Fideicomisos Instituidos con Relación a la Agricultura) in Mexico, recently reviewed by Augusto de la Torre and Sergio Schmukler in a conference at the IDB, are interesting examples of how these interventions work. In the case of NAFIN the objective was to design an intervention to support small and medium-sized enterprises (SMEs) with limited or no access to working capital, but that in their daily activity needed to grant short-term credit to their clients. The receivables on their future transactions were not viewed as good collateral in Mexico due to a lack of a reliable system to track them and uncertainty about them being forged. NAFIN's crucial contribution was to create an Internet-based market for the discounting of accounts receivable, creating a market where SMEs could access working capital. The system ensures integrity and transparency since the authenticity of the receivables is guaranteed, as well as their standardization, custody, settlement, etc.

The intervention of governments in financial activities need not be solely through the direct channel of ownership of financial intermediaries.

FIRA, a second-tier trust fund created by the Mexican government in the mid-1950's, has developed several innovative products to support financial intermediation in Mexico. One highlight is their success in developing a financing structure for the shrimp producing sector. FIRA designed a securitization of account receivables to provide working capital to shrimp producers that was privately placed by FIRA in the financial system. FIRA provided a guarantee that enhanced the risk quality of each of the individual shrimp producers.

While these experiences are very specific, they clearly show the range of available options; the intervention of governments in financial activities need not be solely through the direct channel of ownership of financial intermediaries. It may still be too early to derive more general policy guidelines from these specific cases, but it is important to note that there is much room for these types of financial innovations to reduce market segmentation.

In order to design clearer guidelines, several questions must still be addressed. In particular, more research is needed to understand if the instruments can be separated from the organization, and how to ensure professionalism, transparency and accountability in these forms of intervention. A crucial question for both these "new" forms of interventions as well as for the revamped scheme of direct ownership, is how to design an exit strategy. The rationale for government intervention has traditionally been, and still is, to deal with market imperfections. If the intervention is successful, and the markets are able to take off, when and how should governments exit?

New Publications

BOOKS

Un Diagnóstico del Desempleo en Chile.

Cowan, Kevin, Alejandro Micco, Alejandra Mizala, Carmen Pagés and Pilar Romaguera. Departamento de Economía, Universidad de Chile. 2005.
(*In Spanish only*)

Since 1999, the Chilean economy has experienced unemployment rates that far surpass those of the mid-1990s. From 6.1% in 1997, joblessness rose to 9.8% in 1999 and remained at 8.8% in 2004. Since 1999, the unemployment situation has been the subject of much debate in Chile, but empirical studies to feed the discussion have been few and far between. Therefore, the Chilean Finance Ministry charged the Inter-American Development Bank with coming up with a diagnosis of unemployment in Chile. This study was the basis for this book.

Para bien o para mal?

Gustavo Márquez, editor, 2005.

(In Spanish only)

Assuring that the benefits of economic liberalization and integration into the world economy are shared by all social actors is a fundamental challenge of societies today. This book is an example of the open, informed dialogue that is necessary to adopt the policies and realize the reforms required to achieve this goal. It explores key questions about improving productivity while improving working conditions, wages and job security as they were discussed by academics and labor officials at a conference in Brasilia organized jointly by the Brazilian Labor Ministry, the International Regional Labor Organization (ORIT) and the Inter-American Development Bank.

RESEARCH DEPARTMENT WORKING PAPERS

Fear of Sudden Stops: Lessons from Australia and Chile (WP-507)

By Jonathan Kearns, Kevin Cowan and Ricardo Caballero

This paper explores ways of overcoming external vulnerability, drawing lessons from Chile and Australia. It is argued that, in order to understand sudden stops and the mechanisms to smooth them, it is useful to distinguish between two dimensions of investor confidence: country-trust and currency-trust. While these two dimensions are interrelated, there are important distinctions. Lack of country-trust is a more fundamental and serious problem behind sudden stops. But lack of currency-trust may be a source of country-trust problems and may weaken a country's ability to deal with sudden stops. The paper discusses steps to improve investor confidence in the medium run as well as policies to reduce the impact of country-trust and currency-trust weaknesses in the short run.

Innovation and Technology Adoption in Central America (WP-525)

By Andrés Rodríguez-Clare

In spite of deep structural reforms, Central American countries have failed to experience rapid and stable growth in recent years. This paper explores whether and to what extent lack of innovation and technology adoption can be considered a main reason for this disappointing experience. The paper starts by documenting that technology adoption and innovation are indeed very low, and then turns to a more qualitative and eclectic analysis drawing on interviews and case studies to try to understand the reasons for this. Four hypotheses are explored: weak intellectual property rights, low competition, lack of finance and low levels of education. The conclusion is that the last two of these four hypotheses may be especially relevant for the region. Several policy recommendations are provided.

Living with Dollarization and the Route to Dedollarization (WP-526)

By Arturo Galindo and Leonardo Leiderman

Financial dollarization in Latin America has been growing over time in spite of a major reduction in inflation and a shift toward central bank independence. After discussing the key stylized facts of dollarization and dedollarization in the region, this paper discusses the risks this process poses to the region. In particular, it explores the validity of concerns about the effectiveness of monetary policy in a dollarized economy and about a loss of seigniorage rev-

▶ Continued on page 9

New Publications

▶ from page 8

enue in such an economy. After concluding that these concerns lack empirical support, the paper focuses on the main reason for concern: increased vulnerability due to the dollarization of public and private debt. It emphasizes policies directly aimed at deepening domestic financial markets in local currency assets and gradually lengthening the maturity of these assets. Important lessons from the experience of dedollarization in Israel are of particular interest for Latin America.

The Electoral Consequences of the Washington Consensus (WP-530)

By Eduardo Lora and Mauricio Olivera

This paper assesses how electoral outcomes in both presidential and legislative elections in Latin America have been affected by economic policies that seek to improve macroeconomic stability and facilitate the functioning of markets. The database includes 17 Latin American countries for the period 1985–2002, and a total of 66 presidential and 81 legislative elections. It is found that (i) the incumbent's party is rewarded for reducing the inflation rate and, to a lesser extent, for increasing the growth rate; (ii) the more fragmented or ideologically polarized the party system, the higher the electoral rewards of cutting inflation or boosting growth; (iii) while the electorate seems blind to macroeconomic policies such as fiscal or exchange-rate policies, it is averse to pro-market policies, irrespective of their effects on growth or inflation; and (iv) the electorate is more tolerant of pro-market reforms when the incumbent's party has a more market-oriented ideology. These results suggest that reforming parties have paid a hefty price for adopting pro-market reforms, except when they are accompanied by stabilization policies in high-inflation economies.

Corporate Dollar Debt and Depreciations: Much Ado About Nothing? (WP-532)

By Kevin Cowan and Hoyt Bleakley

This paper constructs a database with accounting information (including the currency composition of liabilities) for over 450 non-financial firms in five Latin American countries. The authors estimate, at the firm level, the reduced-form effect on investment of holding foreign-currency-denominated debt during an exchange-rate realignment. Contrary to the predicted sign of the net-worth effect, firms holding more dollar debt do not invest less than their counterparts in the aftermath of a depreciation. This result is due to firms matching the currency denomination of their liabilities with the exchange-rate sensitivity of their profits. Because of this matching, the negative balance-sheet effects of a depreciation on firms holding dollar debt are offset by the larger competitiveness gains of these firms.

On Compulsory Voting and Income Inequality in a Cross-Section of Countries (WP-533)

By Mauricio Olivera and Alberto Chong

This paper explores the link between compulsory voting and income distribution using a cross-section of countries around the world. An empirical cross-country analysis for 91 countries during the period 1960–2000 shows that compulsory voting, when enforced strictly, improves income distribution, as measured by the Gini coefficient and the bottom income quintiles of the population. Since poorer countries suffer from relatively greater income inequality, it might make sense to promote such voting schemes in developing regions such as Latin America.

Do Democracies Breed Rent-Seeking Behavior? (WP-534)

By Alberto Chong and César Calderón

This paper uses objective institutional historical data to test the link between extent, duration, and transparency in democracies and rent-seeking behavior using time-series and panel data approaches. The focus is on Uruguay, an ethnically homogeneous country. The paper finds three main results. First, democratic regimes are negatively linked with rent-seeking actions. Second, the longer the duration of democracy, the less rent-seeking in a society. Third, legislation enacted more transparently is negatively correlated with rent-seeking behavior.

Flexible Exchange Rate with Inflation Targeting in Chile: Experience and Issues (WP-540)

By José De Gregorio, Andrea Tokman and Rodrigo Valdés

The first five years of the flexible exchange rate and inflation targeting regime in Chile have shown positive results. Inflation is under control, the exchange rate has moved with external conditions, and monetary policy

▶ Continued on page 10

New Publications

from page 9

has been countercyclical. Even though exchange rate volatility has increased, this increased volatility has lower extreme real exchange rate valuations than in the past, as is also seen in other countries with alternative exchange rate regimes. Important progress in derivatives market deepening, as well as in a lower pass-through from the exchange rate to inflation, have contributed to increasing the credibility and feasibility of the current policy framework, while minimizing potential costs.

Maturity Mismatch and Financial Crises: Evidence from Emerging Market Corporations (WP-545)

By Kevin Cowan and Hoyt Bleakley

Substantial attention has been paid in recent years to the risk of maturity mismatch in emerging markets. Although this risk is microeconomic in nature, the evidence advanced thus far has taken the form of macro correlations. This paper empirically evaluates this mechanism at the micro level by using a database of over 3,000 publicly traded firms from 15 emerging markets. It measures the risk of short-term exposure by estimating, at the firm level, the effect on investment of the interaction of short-term exposure and aggregate capital flows. This effect is (statistically) zero, contrary to the prediction of the maturity-mismatch hypothesis. The paper finds evidence that short-term exposed firms pay higher financing costs and liquidate assets at “fire sale” prices, but the paper does not find that this reduction in net worth translates into a drop in investment.

LATIN AMERICAN RESEARCH NETWORK WORKING PAPERS

Child Health and Infant Mortality in Brazil (R-493)

By Denisard Alves and Walter Belluzzo

In Brazil, policies geared to improving child health have led to a significant decline in infant mortality rates over the last 30 years. Despite this improvement, however, mortality rates are still high by international standards and there is substantial variation across Brazilian municipalities, which suggests that differentiated policies should be devised. The aim of this paper is to investigate the determinants of infant mortality at the municipal level, and to provide a more detailed analysis by considering the factors that affect child health at the individual level. The results indicate that sanitation, education and per capita income contributed to the decline in infant mortality in Brazil, the effects being stronger in the long run than in the short run.

Undernutrition in Bolivia: Geography and Culture Matter (R-492)

By Ana María Aguilar, Alvaro Calzadilla and Rolando Morales

The prevalence of health problems and malnutrition in Bolivia is shockingly high, even relative to other developing countries. This study analyzes the association between a bidimensional measure of child health—composed of height and weight z-scores—and a set of child nutrition determinants related to physical and cultural contexts, the mother’s characteristics, household assets and access to public services. The paper seeks to identify the main determinants of child health and to measure the impact of each factor related to the bidimensional indicator. A major finding is that geographical and cultural variables are significant determinants of nutritional status, and that the role of the mother’s anthropometrical characteristics is substantial.

The Elasticity of Substitution in Demand for Non-Tradable Goods in Uruguay (R-480)

By Fernando Lorenzo, Patricio Valenzuela and Rosa Osimani

This paper’s main goal is to estimate the elasticity of substitution of non-tradable goods, paying special attention to empirical problems related to time-varying parameters, missing regressors and model misspecification. To that end, the paper creates a database and estimates, via three alternative methods, quarterly series of consumption and prices of tradable and non-tradable goods for Uruguay for the period 1983–2002. These estimates give a long-run elasticity of substitution of –0.46 in the principal model and –0.71 and –0.75 in the two alternative models. It is concluded that, not only is the parameter of interest stable over time, but the model also has good predictive properties, even when tested in a very demanding environment: the period following Uruguay’s change of exchange rate regime in mid-2002.

The Impact of Public and Private Job Training in Colombia (R-484)

By Carlos Medina and Jairo Núñez

Continued on page 11

New Publications

▶ from page 10

The authors estimate the impact of public and private job training programs in Colombia on workers' earnings. The effect of training is: (i) for youths, no institution has a significant impact in the short or long run except private institutions for males; (ii) for adult males, neither SENA nor the other public institutions have a significant impact in the short or long run; (iii) for SENA-trained adult females there are positive but not significant impacts in the short run and greater and close to significant effects in the long run; all other public institutions have a higher impact that is significant in the long run; (iv) for adults trained at private institutions there are large and significant effects in both the short and long run, but for adult males in the short run the effects are barely significant. In general, females benefit more from both short and long courses than males. Finally, a cost-benefit analysis shows that private institutions are more profitable than public institutions, which are in turn more profitable than SENA.

The Elasticity of Substitution for Non-Tradable Goods in Bolivia (R-488)

Gover Daza,
Javier Monterrey Arce and
Sergio Villarroel Bohrt

This paper uses a CES function to estimate the constant elasticity of substitution in consumption for non-tradables relative to tradables in a dependent economy framework. The data identify Bolivia as a country highly open to trade, with an average ratio of 55 percent in the value of exports and imports relative to GDP, non-tradable production accounting for 52 percent of GDP, and differences in the behavior of the internal and external real exchange rates. A cointegration relationship was found between real absorption, the non-tradable to tradable consumption ratio and the non-tradable to tradable price ratio, suggesting inelasticity of substitution.

OTHER PUBLICATIONS

Relative Price Volatility under Sudden Stops: The Relevance of Balance Sheet Effects.

Calvo, Guillermo,
Alejandro Izquierdo and
Rudy Loo-Kung. NBER Working Paper 11492.

Sudden Stops are associated with increased volatility in relative prices. This paper introduces a model based on information acquisition to rationalize this increased volatility. An empirical analysis of the conditional variance of the wholesale price to consumer price ratio using panel ARCH techniques confirms the relevance of Sudden Stops and potential balance-sheet effects as key determinants of relative-price volatility; balance-sheet effects are captured by the interaction of a proxy for potential changes in the real exchange rate (linked to the degree of external leverage of the absorption of tradable goods) and a measure of domestic liability dollarization.

¿Debe América Latina temerle a China?

Lora, Eduardo. El Trimestre Económico. Vol. LXXII(3) No. 287. Fondo de Cultura Económica. Mexico.
July-September, 2005.

(Also published by RES in Spanish as WP-536 and in English as WP-531)

This paper compares growth conditions in China and Latin America to assess fears that China will displace Latin America in the coming decades. China's strengths include the size of its economy, macroeconomic stability, abundant low-cost labor, the rapid expansion of physical infrastructure, and the ability to innovate. China's weaknesses, stemming from insufficient separation between market and state, include poor corporate governance, a fragile financial system and misallocation of savings. Both regions share important weaknesses: the rule of law is weak, corruption endemic, and education is poor and very poorly distributed.

Why are Latin Americans so Unhappy about Reforms?

Panizza, Ugo and
Monica Yañez.
Journal of Applied Economics.
Vol. 8 (1). May, 2005.

This paper uses opinion surveys to document discontent with the pro-market reforms implemented by most Latin American countries during the 1990s. The paper also explores four possible sets of explanations for this discontent: a general drift of the population's political views to the left; an increase in political activism by those who oppose reforms; a decline in the people's trust of political actors; and the economic crisis. The paper's principal finding is that the macroeconomic situation plays an important role in explaining dissatisfaction with the reform process.

Look Who's Talking

This section of the newsletter spotlights presentations or events sponsored by RES in recent months.

The Welfare Effects of Privatization and Utilities

Massimo Florio presented a policy seminar on April 25, 2005.

Because privatization has represented a major pillar of structural reform initiatives in recent decades—and because utilities have figured prominently among privatized sectors—it is necessary to assess the welfare impact of privatizations to date in order to offer sound policy recommendations. Moreover, it is useful to disentangle the effects of privatization from those of other changes in order to compare different policy mixes across countries and over time.

To date there has been a substantial academic literature on privatization, but until recently it has focused primarily on narrowly defined criteria such as financial efficiency; little work has addressed allocative efficiency or welfare effects. Other work has found that privatization increases productivity, but these results have not placed privatization in context; in short, productivity and efficiency have often been found to increase after almost any major change in administration.

More recent work has used cost-benefit analysis to consider the distributive impacts of privatization in the United Kingdom and in Latin America, with similar results for both. Of particular interest is the utilities sector. In Argentina, for instance, privatization in four utilities sectors (telecoms, electricity, gas, and water and sewerage) has brought about an overall increase in consumer surpluses. These gains, however, are unevenly distributed. The upper two quintiles of the population have realized welfare gains from privatization, and the middle quintile of the population has experienced no net impact, while the poorest two quintiles have experienced a negative impact.

Such results help to explain opinion poll findings of high and increasing levels of discontent with privatization in Latin America. Discontent is highest among the poor and among the highly educated. In addition, discontent increases with the size and speed of the privatization process, the proportion of utilities in the total privatization mix, the degree of income inequality in a country, and the presence of negative macroeconomic shocks. These findings reflect similar patterns in public opinion following extensive divestiture of state-owned enterprises in the United Kingdom.

A further analysis of the effects of privatization in the United Kingdom considers the respective changes in social welfare of consumers, shareholders, taxpayers and employees, with the goal of determining the overall welfare impact. From the standpoint of consumers, privatization per se appears to have little impact on welfare; appropriate regulation and liberalization of competitive conditions, on the other hand, appear much more important. Moreover, privatization does not appear to change long-term price trends.

The effects of privatization on shareholders are more complex. While the number of individual shareholders has increased, the proportion of total shares held by individual residents has declined from approximately two-thirds in 1957 to only 16.5% in 1997. The foreign sector owns the largest percentage of shares, at 24%, followed by institutional investors. All of these shareholders, however, have enjoyed abnormally high rates of return in the long run from privatized firms, which suggests the persistence of these enterprises' market power; privatized firms apparently behave differently than firms that were private from the beginning.

Taxpayers have also experienced mixed results. Privatization of state-owned enterprises has reduced net public debt, but this has occurred while the public sector's share of national net worth has declined. Liabilities have been transferred from the public to the private sector, but assets have been transferred as well. Under these circumstances, the net effect on taxpayers is unclear, though a net loss in welfare is possible.

The effects on employees provide perhaps the most surprising results. Although privatization is often seen as a cause of large workforce reductions, employment levels following privatization have largely followed long-term declining trends. Sharp reductions in force are not associated with privatization per se, but rather with changes in other areas such as regulatory burdens and overhead costs. Once other factors are held constant, the wages of workers in privatized firms and industries appear to follow long-term trends; blue-collar workers suffered welfare losses, while white-collar workers enjoyed gains.

The overall welfare impacts of privatization in the United Kingdom appear to have been positive but essentially negligible. Per capita gains are estimated at no more than £35 annually for the privatization years of 1979–1997, for a total of £700 per

▶ *Continued on page 13*

▶ from page 12

capita. These gains, however, were unevenly distributed, and alternative methodologies estimate even smaller gains.

Although the United Kingdom's experience illustrates a variety of issues surrounding privatization, it does not necessarily provide a set of easily transferable policy prescriptions. In general terms, it is desirable to consider potential distributive impacts and subsequently find ways of avoiding unfavorable public opinion. More particularly, the U.K. experience suggests that total divestiture may be neither necessary nor desirable, as the efficiency and welfare gains of privatization occurred after the first tranche of privatization, with little or no improvement after the sale of subsequent tranches.

Argentina After Debt Restructuring

Ernesto Talvi presented a policy seminar on May 5, 2005.

Following a typical pattern following financial crises, Argentina's economy has displayed a vigorous recovery, exceeding the level of economic activity at the time of the 2000-2001 Argentine financial crisis and approaching the level preceding the 1998 Russian crisis. Within this larger development, the use of installed capacity has returned to approximately the same level as in early 2001, and unemployment is rapidly declining toward the pre-crisis rate of approximately 15 percent, down from a peak of 26.6 percent in 2003.

While Argentina's ability to maintain its current strong growth is uncertain, several signs of stability and continuing growth exist. First, the country's economic cycle has returned to a close correlation with those of industrialized countries, particularly the United States. International financial conditions have additionally favored Argentina's recovery, as emerging market spreads have declined at the same time as GDP growth rates have increased. Finally, Argentina has benefited from improving terms of trade. All of these developments have occurred within the context of relative macroeconomic discipline.

Argentina's monetary and fiscal policy presents a more complicated scenario. From mid-2002 to 2004 Argentina's exchange rate and rate of inflation remained stable, in part because of Central Bank intervention. Since late 2004, however, there has been a steep increase in the monetary base in an effort to sustain the ongoing nominal exchange rate, with a corresponding increase in inflation. Although current rates of inflation remain almost negligible compared to the hyperinflation of the late 1980s, the fear of inflation looms large in the Argentine political psyche. The Central Bank and the Ministry of Finance may find themselves working at cross-purposes. Maintaining low rates of inflation (the Central Bank's job) would lead to an appreciation of the nominal exchange rate as it converges to equilibrium following the overshooting of the 2002 crisis. But this reduces the competitiveness of Argentine exports. Conversely, maintaining a competitive exchange rate, the general preference of the Ministry of Finance, is highly conducive to inflation. The political desirability of controlling inflation, though, has made the government focus somewhat less on a competitive exchange rate. Recently announced measures include reducing interventions in the exchange rate, raising interest rates, controlling the growth of public spending, and avoiding the indexation of salaries. Public spending is of particular concern at this time, as government expenditures as a share of GDP are currently higher than before the 2000–2001 crisis, and the nation's primary surplus has resulted entirely from recently introduced taxes on exports and the financial sector that both domestic and international critics have called distortionary.

This largely favorable macroeconomic environment has contributed to the controversy surrounding the recent restructuring of Argentina's debt. Ambivalence on the restructuring has been reflected in significant differences in rates of acceptance of the terms offered by the Argentine government. Domestic and institutional investors have accepted the terms at much higher rates than international and smaller investors, particularly those in Europe. The net result of these differences is that Argentina's default, while the largest in history at $102.6 billion, and with a record write-down of 70% of principal, has been restructured with the participation of 76% of creditors, a record low rate, but much higher than was anticipated by several experts. The reaction of financial markets has been mixed, as Argentine discounted debt has since been characterized by high but not prohibitive spreads.

This restructuring suffered a setback when a New York court ruled in favor of two institutional holdout investors who questioned Argentina's right to undertake the restructuring under its present terms. But this issue was resolved and the restructuring went through. At the IMF there is concern that restructurings undertaken at

▶ Continued on page 14

Look Who's Talking

from page 13

such low levels of participation may undermine the functioning of the international financial system. The final disposition of holdout investors' claims, moreover, will have a significant impact on Argentina's fiscal conditions. Complete recognition of holdouts' claims would result in debt stocks equal to 100% of GDP. Although this is far below the pre-restructuring level of 127%, less generous treatment of holdouts could reduce these totals even further. Offering holdouts a debt exchange equal to that of original participants would reduce the stock to 85% of GDP, while a complete rejection of holdouts' claims would reduce the stock to 79%. The stock of debt to be managed is thus likely to influence fiscal policy, particularly primary surplus goals.

Global Imbalances and External Adjustment

Maurice Obstfeld offered a policy seminar on May 25, 2005.

A long-term review of trends in financial integration reveals that in the late nineteenth century, as the British empire tightened its grip, there was a marked rise in such integration. That period came to an end with the First World War and, following a brief recovery, levels of financial integration declined further after the 1929 crash. Integration remained low until the late 1960s. With the onset of floating exchange rates in the early 1970s, financial liberalization once more began to rise.

However, capital flows "now" are very different from capital flows "then." In the nineteenth century there were very few two-way flows in assets. Most were "development" flows rather than "diversification" flows (British finance, for example, built Argentina's railways). Currently, there is two-way diversification in flows. In the past, moreover, there was a relatively greater flow from rich to poor countries. Now, most capital flows are from rich countries to other rich countries. Low-income countries used to have a much higher share of foreign assets, in large part because the means of enforcement were much more efficient.

What explains the limited level of rich-poor capital flows? Modern theories of per capita GDP have focused on the role of institutions. Some scholars have distinguished between colonization based on settlement and that with "extractive" goals. In the extractive model, it was not profitable for the metropolitan power to settle its own citizens in colonies, but it was profitable to establish repressive regimes. A version of this latter approach was advanced as early as 1954 by Nurske, who drew a distinction between capital flows based on the movement of people and what he termed "extractive" investments. In the "extractive" colonies, the repressive institutions were not geared to the development of private enterprise or property rights. Subsequently, when the colonies achieved independence, native elites took control of the institutions and managed them as they had been managed in the past.

In the current environment, developing countries diversify their asset trade less than developed countries. Some countries in Latin America, such as Argentina and Chile, are moving towards industrialized-country levels of diversification. The simple average for developing countries, however, is much lower than that for developed countries.

At present, "global imbalances" are associated with the fact that the world's richest country is running a huge current account deficit. The IMF forecasts a 2005 US current account deficit of –5.8% of GDP, or about –$724.5 billion. How is this financed? About a quarter comes from the Eurozone and other advanced economies (other than Japan). More than half, however, comes from the newly industrializing economies of Asia and other developing countries. If it is assumed that the United States must eventually adjust externally, the consequences of that adjustment are important. They stem mainly from the need to rebalance markets against the background of a significant shift in world spending patterns.

It has been argued that a country's intertemporal budget constraint links an increase in net foreign debt to (i) an increase in the present value of future trade surpluses and/or (ii) an increase in the present value of future capital gains on the leveraged international portfolio. More than 31% of stabilizing US external adjustment is effected through capital gains and losses.

Exchange rates play a role in net foreign assets (NFA) changes relative to current account balances. A change in the NFA is equivalent to the current account plus net capital gains on the lagged NFA. Capital gains or losses can occur because of shifts in asset prices (such as stock exchange movements) and shifts in exchange rates. These shifts can now be very large. Note, for example, the following. The US net foreign debt is about 25% of GDP; gross foreign assets stand at about 75% of GDP; and gross foreign liabilities are 100% of US GDP. About 65% of US foreign assets are in foreign currencies; and about 95% of US liabilities are denominated in dollars. Thus a 1%

Continued on page 15

Look Who's Talking

from page 14

dollar depreciation entails a transfer of about $50 billion to the United States, or about $50 billion off the net foreign debt.

The portfolio balance model had been moribund in the literature for a long time, but has recently been revived to help explain these huge transfers. According to the model, a country with a net export deficit will have a depreciating currency. If its assets are mainly in foreign currency and its liabilities in domestic currency, the outcome can be stabilizing. As the home currency depreciates, foreigners lose and thus demand even more currency. The home country gains and thus demands less. Hence, the flow effect on net foreign assets is offset, and the home currency declines at an ever-decreasing rate.

This, however, is not the case for emerging markets. As their currencies depreciate in the face of a deficit, the negative flow effect on their NFA is reinforced, not offset. Since the blow to wealth is all in net dollar holdings, the home currency must depreciate more sharply, not less.

Trade Liberalization and the Politics of Financial Development

Matias Braun (UCLA) and Claudio Raddatz (World Bank) presented a policy seminar on May 27, 2005.

Levels of financial development vary greatly across countries, and the ranking of the countries themselves varies through time. Current theories can successfully explain cross-section variations, but they are less helpful when applied to the time-series dimension of the data.

In efforts to understand the pattern of financial development in the twentieth century, a political economy approach seems sensible. Policies matter: differences in the depth of financial systems stem not solely from differences in general levels of economic development, but also from variations in the rules applied to financial systems and the enforcement of those rules.

The political economy approach rests on the premise that a well developed financial system fosters competition in the industrial sector by making entry easier. Hence, financial development has a differential effect on incumbents relative to potential entrants, and incumbent industrialists can use financial *under*development as a barrier to entry. In each industry, incumbents weigh the benefits of easier access to external finance, which accompanies financial development, against the costs of greater competition.

In some industries—such as beverages, leather and food—greater competition spurs faster growth in the number of firms and a sharper drop in margins. In these cases, the costs of entry probably outweigh the benefits of easier access to external financing, and incumbents can be expected to oppose policies geared to financial sector development. Incumbents in other industries—such as pharmaceuticals, printing and furniture—are more likely to favor such policies, because in these cases margins are little affected or might even rise. The relative strength of Opponents and Promoters determines the equilibrium level of financial development.

In recent years, a large number of countries have engaged in commercial opening. Trade liberalization can be used as a shock to the equilibrium, as a means of exploring this determinant of financial sophistication. The basic question is whether, in countries in which trade liberalization strengthens Promoters relative to Opponents, the financial system develops more. The answer to this question is plainly in the affirmative: the change in the strength of Promoters versus Opponents is a very sound predictor of subsequent financial development.

Testing confirms this. It is found that Promoters tend to invest a higher share of flows; to be less tangible; to have greater liquidity needs; and to have a lower natural level of entry into or exit from the industry. Older Promoters have greater external financing requirements than younger Promoters.

Trade liberalization disturbs the equilibrium between Promoters and Opponents. The effect on the relative strength of the two is substantially diverse, and that diversity is crucial to explaining the variability of post-liberalization financial-market development. Within a country, the variation of the effect of liberalization on margins across industries is about seven percentage points. Within an industry, the variation of the effect across countries is also around seven points.

Overall, trade liberalization disturbs the high persistence of private credit. Where Promoters are strengthened relative to Opponents, the financial system develops significantly. Note the cases of Bolivia and Costa Rica. The two countries liberalized trade at almost the same time (1985 and 1986, respectively), and thus probably faced similar external conditions for their financial development. In Bolivia the pro-financial development group was strengthened by trade liberalization, its

Continued on page 16

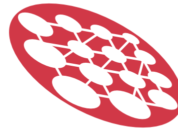
Look Who's Talking

▶ from page 15

margins increasing by 2.1 points; the opposing group was weakened, losing 2.5 points in margin. The reverse was true in Costa Rica, where the Promoters lost 0.3 points and Opponents gained 5.6. In relative terms, Bolivian promoters were strengthened by a measure of 4.6 margin points, while in Costa Rica they were weakened by 5.9 points. Despite the two countries' similar initial financial depth (0.12 and 0.18, respectively), following trade liberalization Bolivia's level was triple that of Costa Rica's (0.37 against 0.12).

In sum, the trade liberalization-induced change in the relative strength of Promoters and Opponents of financial development is a very good predictor of subsequent changes in financial-sector depth. Two policy implications are salient. First, to a significant extent, countries have the level of financial development they choose. Policy convergence to best-practice standards is unlikely to occur automatically unless the political economy conditions for such a change are present. Identifying and co-opting potential opponents might be necessary to ensure the political sustainability of reforms. Second, policies that on average have a liberalizing effect on markets are not by themselves enough to guarantee their extension to the financial system. They can even make matters worse. In this regard, an understanding of the interrelation between sectoral reforms and adjusting their timing accordingly is crucial.

www.iadb.org/res/researchnetwork



Network News

Latin American Research Network

Call for Proposals
Does Society Win or Lose as a Result of Privatization? Provision of Public Services and Welfare of the Poor

Proposals are due August 26, 2005, and six country studies will be selected to conduct the project. This project is coordinated by

- Eliana La Ferrara, Università Bocconi and IGIER
- Alberto Chong and Suzanne Duryea, IDB/RES

10th Annual Meeting: Latin American and Caribbean Economic Association (LACEA) The American University of Paris

Paris, France
Oct. 27–29, 2005

Roundtable: Privatization and Welfare
Roundtable: Center and Periphery in Financial Markets: Who is Who?
Plenary Session: State Reform, Public Policies and the Policymaking Process. Presentation of the 2006 Economic and Social Progress Report (IPES)
Invited Session: Policymaking Processes and Public Policies
Investor Protection in Latin America. Presentation of four papers from the Latin American Research Network project: Corporate Governance in Latin America and the Caribbean

For more information on speakers, times and locations see *http://www.aup.edu/lacea2005/en/keynotes.htm*

Joint Conference of the Inter-American Development Bank and Federal Reserve Bank of Atlanta's American Center Toward Better Banking in Latin America

Sept. 30, 2005
IDB Headquarters, Washington, DC

The conference aims to encourage a dynamic exchange among academics, analysts and policymakers. Experts representing a wide range of viewpoints from around the world will discuss the relationship between banking activity and macroeconomic performance in Latin America.