LATIN AMERICA: A STUDY OF FINANCIAL MARKET FREEDOM ACROSS THE REGION

By

Ben Sensenich

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ACROSS THE REGION

Project Approved:

Supervising Professor: William Sawyer, Ph.D.

Department of Economics

Grant Farnsworth, Ph.D.

Department of Finance

ABSTRACT

The purpose of this thesis is to consolidate all current information on the relative levels of banking and financial freedom in Latin America. By bringing together and analyzing this data, this study seeks to provide insight into how Latin America as a region is performing in terms of financial freedom relative to the rest of the world. This paper will also reveal what Latin American countries are performing above or below the regional average in this category. Overall, Latin America seems to be a middling region with respect to financial freedom when compared to the rest of the world. While some countries such as Chile or Panama are performing very well in this category, these strong performers are cancelled out by poor performers such as Venezuela and Argentina. Overall, while Latin America has slowly been improving the freedom of its financial system, it is doing so much slower than the rest of the world.

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INTRODUCTION

The purpose of this study is to provide a single source of information regarding the relative levels of financial market freedom in the many nations of Latin America. More specifically, the study brings together a large array of already existing data from various sources that, by themselves, do not provide a full picture of Latin American financial markets. This study intends to create a basic, high-level assessment of the current financial environment in Latin America, helping to gain an understanding of what key areas each Latin American nation may need to focus on in terms of improvement. Banking freedom is very important to the overall financial health of any nation. One study tracking the effects of banking regulations found that banking system performance overall was hindered when there were restrictions on the entry of new banks (Barth et. al, 2008). This study also found that government ownership of banks, something prevalent in a fair amount of Latin American nations, also was a barrier to banking system performance. This study intends to discover how much government ownership of banks, among other regulatory restrictions, truly affects financial market freedom as a whole. While many studies have analyzed the progress of specific financial metrics or provided general assessments of major financial market categories, this study seeks to tie those assessments together in order to provide a more general, bird's eye view of financial development progress in Latin America.

Financial market freedom is vastly important to a wide variety of people from individuals to virtually all types of businesses. For individuals, it encompasses the availability of and ease with which a person can secure a loan. Having some access to financing options can also be incredibly important for lower-income households and farmers. The availability and affordability of financial services also affects how individuals can engage with the market and make investing decisions. Access to loans or venture capital money is vastly important to small and medium enterprises (SME's) as they are extremely reliant on funding in order to get their operations started. The performance of SME's is critically important in terms of job creation as well as rectifying income inequality, something that Latin America has, historically, struggled with greatly (Berry 2002). Having a healthy environment in which SME's can flourish is essential in achieving greater economic growth. In the context of Latin America, lack of access to credit for expansion can trap smaller firms in the informal sector. Finally, big businesses have a clear interest in securing better interest rates and promoting a financial environment where they are not overburdened by complex rules and regulations. In Argentina, for instance, the total tax rate for businesses is well over 100% of corporate profits (Bird 2015). This leaves businesses in the tough position of either going out of business, getting special favors from the government, or breaking the law. Overall, financial market freedom allows for more financial tools and options, giving increased flexibility to everyone.

Latin America has not historically been considered, as a whole, to have particularly free financial markets. Following World War II, Latin America attempted to develop through the economic policy of import substitute industrialization (ISI). This policy was extremely protectionist in nature, seeking to keep domestic industry safe from foreign competition that would prevent it from fully developing (IMF 2017). Many banks and foreign owned companies were nationalized or had their ownership given to domestic residents. This policy ultimately failed as local industry did not grow at an acceptable rate and many Latin American countries found themselves in a debt crisis, unable to pay back all the loans taken out to keep ISI going. Fortunately, there has been clear improvement in Latin America since that failed policy choice. Since 1980, many Latin American nations have made their central banks independent and brought fiscal spending under control (IMF 2017). Latin America's current relative financial stability can be seen in its resilience to the 2008-2009 Financial Crisis. Even still, Latin American banks tend to lend less and at greater interest rates, while the equity market seems to greatly lack liquidity (Torre, Ize, Schmukler 2012). In addition, some Latin American nations have found themselves regressing in recent years. Venezuela, for instance, is currently attempting to figure out how to restructure billions of dollars of debt that it has built up with creditors. In fact, the situation in Venezuela has become so bad that many have chosen to migrate elsewhere. Argentina, in the past decade, has also faced a fairly steady decline in economic freedom, dropping to 169th place out of the 178 countries measured in the 2016 *Index of Economic Freedom* (Roberts and Margulies 2016). Once considered one of the richest countries in the world, Argentina has fallen victim to an array of problems that have resulted in decreased economic and financial freedom. Regardless, Latin America currently finds itself in a relatively improved situation but with many challenges remaining ahead. As such, it is important to have a clear sense of where each Latin American nation stands in terms of its financial development in order to understand how much reform is still necessary with respect to banking and other financial services.

There are two primary ways in which financial market freedom has been assessed in the past – either through some structured grading system or through surveys of major banking correspondents or investors. The surveys aid in revealing how individuals interacting with a given financial system actually view it in terms of efficiency and ease of use. The structured grading systems, on the other hand, are more objective, using financial ratios such as private credit to GDP in order to build an opinion on the financial environment. While both are helpful individually, they are even more important when combined. Bringing the two together would provide an idea of the gap between "actual" and "perceived" financial market freedom. Many Latin American nations, in the past, have had a wide array of issues including major debt crises, nationalization of industries, or political instability. Understanding this history, "perceived" financial market freedom may actually be somewhat lower than "actual" freedom as survey respondents naturally add the emotional component of uncertainty about the future into their assessment of the present. In a sense, a structured grading system and a survey are two sides of the same coin, both giving important but different information. A more objective rating gives a clear picture of where exactly a nation stands in terms of its financial development, while a more subjective rating builds an understanding of how people are interacting with this market. This study will bring together reports rating Latin American financial market freedom through the use of key financial ratios as well as reports detailing information gathered from surveys. Together, “actual” and “perceived” freedoms provide the fullest picture of how Latin America’s financial markets are performing.

It is important to note that no evidence has been found that financial development leads to an increase in economic growth within Latin America, even though the inverse may be true (that economic growth can lead to an increase in financial development) (Blanco 2009). While this may be the case, this is likely due to the sheer number of confounding variables present within Latin America. The Economic Freedom of the World Index indicates that many Latin American countries, such as Brazil, Venezuela, and Bolivia, have some of the least free economies in the world (Gwartney et. al, 2017). This suggests that financial market freedom is one of a laundry list of items that need to be resolved in order for there to be more sustained economic growth in Latin America. That said, it would not be expected for a clear link to be found between financial market freedom and economic growth in Latin America as there are a wide range of other factors that greatly impact overall economic growth. Latin America would most benefit from understanding where they are in terms of promoting economic freedom, with financial market freedom being one item on that checklist. Economic freedom and long-term development have an established positive link world-wide (Miller and Kim 2017). Increased freedom and economics options for families and individuals are generally correlated with higher incomes, better health, and better education. This study will aid in finding exactly how free the financial markets of Latin America are, a specific but important piece of overall economic freedom.

LITERATURE REVIEW

Origins of tracking economic freedom

Before 1980, it was incredibly difficult to keep effective track of the relative economic freedom of various nations around the world. A lot of the information needed, particularly from smaller, lesser-developed countries, was extremely difficult to gather. Much of the currently available literature, such as from the CATO Institute's *Economic Freedom of the World Index,* has relatively fragmented data for many countries in 1980 and 1990 with more complete data from 2000 onward. Over time, especially due to the development of the Internet, it became increasingly easy to reliably track a large number of different metrics regarding a country's economic freedom. The increased ability to quickly gather information also allowed for a wide range of surveys to surface seeking to gain an understanding of how people perceive the levels of economic freedom in a given country. The World Economic Forum's *Global Competitiveness Report* as well as the World Bank's *Banking Supervision and Regulation Survey* now reliably give additional information about how people perceive the freedom of nations in addition to answering more detailed questions about the regulatory environment individuals must navigate in order to operate in a given country. Today, a wide range of metrics and rankings are available giving grades of economic freedom for nearly every country in the world.

Financial Market Freedom, Growth, and Recession

Generally, financial market freedom and development is associated with economic growth. Demirgüç-Kunt and Levine (2001), in their book *Financial Structure and Economic Growth*, stated, "firm-level, industry-level, and cross-country studies all suggest the level of financial development exerts a large, positive impact on economic growth". Healthy and free financial markets allow for the easier flow and availability of capital and are better able to meet the diverse wants and needs of both borrowers and lenders. While financial market freedom promotes economic growth, it also leaves nations more susceptible to recession. A study by the IMF found that policies favoring liberalization of credit markets negatively affected a country's resilience to the 2008-2009 recession (Giannone, Lenza, and Reichlin 2010). Ultimately, this creates a potential tradeoff in terms of policies favoring financial market freedom. While such policies may promote greater economic growth, they may decrease the ability of a country to resist the onset of a recession. Basically, the positive benefit of economic growth is partially offset by greater short-run macroeconomic volatility. Regardless of this tradeoff, there are certain aspects of financial market freedom that, without a doubt, generate more positive outcomes for the nations promoting them. For instance, foreign and domestic private banks in Latin America were found to outperform state-owned banks for the period of 1995-2000 (Goldberg, Crystal, and Dages 2002). This same 2002 study also found that foreign banks were much more willing to accept lower returns in order to build long-term financial strength. In essence, the ability of foreign banks to enter the Latin American markets has a positive effect on the overall soundness of the economic system. In addition, the presence of state-owned banks represents a barrier to economic growth and also economic stability. State-owned banks can promote economic development only if their lending is in critical sectors of the economy, such as rural infrastructure or small-scale agriculture. Lending by private banks may be socially inadequate due to the inability of the market to capture the social returns these investments might generate. Lending by state-owned banks in sectors without such positive externalities runs the risk of misallocating scarce capital. Thus, Latin American countries that have made strides towards privatizing their banks will ultimately develop a stronger, more stable, and more efficient banking system. Overall, while financial market freedom can increase a nation's susceptibility to recession, it ultimately creates better financial health and promotes more economic growth.

Latin American Financial Markets: The Good

It is important to first note that Latin American nations are all, individually, in different places in terms of financial development. From Chile to Venezuela, there exists a wide range of policy choices shaping the financial environment. Regardless, it is helpful to understand what categories Latin American nations, as a whole, generally perform well. In terms of bank ownership, Latin America has made great strides. The share of banks publicly owned has decreased in Latin America, and the presence of foreign banks has greatly increased (Stalling and Studart 2006). While some banks were renationalized during major financial crises, the general trend of bank ownership is towards privatization, a move in the right direction. As government-owned banks move out of the way, a healthier and more robust financial system has begun to develop. The *Economic Freedom of the World Index* indicates that, in general, Latin American countries have reduced their control over interest rate (Gwartney et. al 2017). This means that markets are taking a greater role in determining interest rates, monetary policy has become more stable, and deposit and lending-rate spreads are better. Interest rates influenced by the forces of supply and demand rather than by governmental decree lead to a more efficient allocation of credit that maximizes welfare. Stable monetary policy means central banks are doing an effective job of balancing the economy, making Latin American economies more attractive to investors both domestically and internationally. Although Latin America does not experience market growth comparable to that of some of the more rapidly growing Asian markets, there is still adequate growth and development of its financial and economic markets and systems. Institutions and markets are becoming more interconnected, and nonbank institutional investors are playing a much larger role in the economy than in the past (Torre, Ize, Schmukler 2012). Although Latin America isn't necessarily meeting its benchmarks in terms of development or growth, any positive growth is still undoubtedly a good thing. Overall, while every Latin American market may not be meeting expectations, there is generally a gradual positive move in a positive direction.

Latin American Financial Markets: The Bad

While Latin America has made great strides in improving economic and financial market freedom, it remains behind peer emerging markets. When compared to other emerging markets, Latin America performs poorly in terms of the depth and efficiency of its financial institutions and its financial market development (Heng et. al 2016). Clearly, Latin America has much work to do across the board in improving its financial institutions as well as its financial markets, making them more accessible and finding ways to increase public trust and ultimately public use. A 2006 IMF working paper studying Latin American banking spreads found that Latin America tends to have higher interest rates, greater reserve requirements, and less efficient banks than other comparable regions (Gelos 2006). This again highlights the significant amount of reform Latin America still has ahead to simply catch up to its peers in key financial metrics. The *Economic Freedom of the World Index*, in its most recent iteration, found that many countries such as Argentina and Brazil regressed in terms of their private-sector credit ratings (Gwartney et. al 2017). This decrease in rating is associated with greater government borrowing relative to private borrowing, implying that more central planning is occurring within Latin America. This increase in the level of central planning makes Latin American economies less free, and will, in theory, lead to a wide number of inefficiencies that will lower economic growth and ultimately damage total welfare. Latin America also, with the exception of Mexico and Brazil, has lagged significantly behind benchmarks in terms of bond market growth. Total bond capitalization remains the lowest in 2000-2009 among its peers of Eastern Europe and Asia (Torre, Ize, Schmukler 2012). Lack of liquidity also continues to be a major issue in Latin America, with bond turnover also being the lowest among its peers (Torre, Ize, Schmukler 2012). This once again signals that while Latin American financial markets have made some amount of progress, this progress is disappointing in the face of benchmarks the region was expected to meet. A wide array of political, economic, and financial problems seem to be holding Latin America back from achieving the growth rates seen in Eastern Europe or in Asia. One problem in particular that may be a primary factor in the slower growth of Latin American markets is the sheer size of the informal economy. A 2008 IMF paper estimated that, in the early 2000's, the size of nearly every informal economy was at least 30 percent of total GDP (Vuletin 2008). Unfortunately, the exceptions include some of Latin America's smaller economies, such as The Bahamas, Trinidad and Tobago, and Barbados. On the other hand, in countries like Nicaragua and Paraguay, the informal market was estimated to be greater than 60 percent of total GDP (Vuletin 2008). With so much of the economy residing in the informal sector, it is no wonder that the official financial and economic markets have experienced a relatively small amount of growth. In addition, a 2015 report by the International Labour Organization (ILO) found that "six out of every 10 new jobs available to youth in the Region are informal (Dema and Chacaltana 2015). Thus, Latin American youth often find themselves in these informal jobs, subjecting themselves to poor working conditions, lower pay, and no legal protection. Finding a way to integrate the informal sector into the true economy again is a key challenge for many Latin American nations in the future. Thankfully, resolving problems with financial and economic freedom in the marketplace will likely have the spillover effect of bringing people from the informal marketplace back to the formal markets. So long as the current financial system is burdensome and expensive to market participants, the informal sector will remain a serious problem. Ultimately, there will need to be specific policies enacted targeting the integration of the informal sector back into the legal arena. Overall, despite some amount of progress, the region still finds itself very far behind its peers around the world. It is important to note, however, that there are differing levels of progress among the nations of Latin America. Countries such as Mexico, Panama, and Chile have made much more progress towards market liberalization and growth than Argentina or Venezuela, who have regressed. This means that while the region as a whole may be struggling, there are many success stories in different aspects of financial development. All of these success stories can be used as models for countries performing poorly in these categories, helping the region to catch up with its peers.

METHODOLOGY

Aim of the Study

This study has the goal of finding answers to the following questions about financial development in Latin America:

1. Are the financial markets of the region generally free or unfree?
2. What countries in particular are driving this result?
3. What countries serve as exceptions to the general trend?
4. What specific categories of financial freedom is Latin American over/underperforming in?

5. Do these results generally agree or disagree with past literature?

Research Approach

This approach is qualitative in nature, combining data gathered from a wide variety of sources to make a final statement on the relative levels of financial market freedom in each country of Latin America. Data was combined from three sources in particular. First, the World Economic Forum's *Global Competitiveness Report* (2016-2017) is used, which rates nations each year on economic freedom based on the results of an executive opinion survey. In particular, a certain subset of the data is used, the "8th pillar," which rates nations specifically on financial market development. Second, the CATO Institute's *Economic Freedom of the World* (2017) annual report is employed, providing a more equation and ratio based method of rating the economic freedom of Latin American countries. In this report, the section rating for credit market regulations is utilized, providing a clear view on how privatized the banking system of each country is, how much private borrowing exists relative to governmental borrowing, and how well each country performs in terms of interest rate controls. Third, the World Bank's *Banking Regulation and Supervision Survey* (2012) was employed. This survey questions governmental officials of different countries on the process surrounding bank entry, bank ownership, capital requirements, liquidity and diversity requirements, and other key topics pertaining to each country's management of their own financial system. This data fills in information regarding financial development that is missed in the more broad rating systems of the CATO Institute and World Economic Forum's reports. Finally, domestic credit provided by the financial sector as a percent of GDP will be added to the data as a strong indicator of financial market development. All of this data will together be pooled in order to create a final opinion on the relative level of financial market freedom of each of the subject countries. Because of the substantial differences in the styles of data gathering that these three reports employ, there will not be any final scoring of the financial freedom of each nation. Such a scoring would require the weighting and forced combination of data that is, in every way, entirely unique and different. Instead, the health of each country will be discussed in a more qualitative manner, providing a more general analysis of what is being done correctly and incorrectly. This study does not seek to be another rating system – instead, it seeks to present a convenient compilation of all credible sources of information on banking regulation in Latin America. As will be seen below, relying on only one source of information could be misleading. Being able to see all the information in one source allows one to get as complete a picture as is available from all credible sources. In this case the diversity of styles utilized becomes an advantage. No one rating system is comprehensive and the ability to see all of them at once becomes a distinct advantage.

Limitations

There are a few different limitations to this study. First, no clear ranking of Latin American nations will be performed with regard to financial market freedom. While it will be clear what countries are performing well, average, or poorly, giving a country a clear ranking will be, to an extent, indeterminable. Had the available data been structured and gathered in ways that allowed it to be reliably combined for analysis according to some weighting system or mathematical equation, then such a ranking would have been possible. Second, while this study may reveal where certain countries are performing poorly with regard to their financial development, it makes no effort to insert any policy recommendations to rectify the identified issues. Additional, more specific studies of the problem areas would likely be necessary to generate clear, defensible policy recommendations for the afflicted countries. Third, there is potential bias in the survey responses used in this study. While the survey responses are helpful in building an idea of the perception of Latin America's financial markets, they leave the study subject to a few potential biases. The executive opinion survey developed by the World Economic Forum is subject to potential selection bias, whether through under coverage or nonresponse bias. Such bias in this study is limited through the use of the World Bank's report and that of the CATO Institute, but some amount of bias may remain. Finally, the study is limited by the age of the World Bank data. While the CATO Institute and World Economic Forum provide data from 2016 and 2017 in addition to past years, the World Bank's *Banking Regulation and Supervision Survey* was last updated in 2012. This means that the study is somewhat limited in this respect due to lack of availability of up to date data on these countries. A study picking up where the World Bank left off in 2012, asking governmental employees key questions about how the financial system is operated and run, would fill an important existing weakness in the data.

RESULTS

Overall, the results of the study seem to be in line with previous literature. As is expected, Latin America has many positive individual successes in certain financial developmental categories, but these are often offset by the regression of other countries in those same categories. As is illustrated in Figure 1, Latin America has, for the past several decades, been an average performer in terms of overall economic freedom. In fact, from 1995 to 2015, the average ranking for Latin American countries has fallen from 49 to 80. This signals that while Latin America is slowly improving in terms of general economic freedom, it is doing so at a slower rate than some of its peers around the world. On a more positive note, Latin America has proven to have sound credit market regulations (Figure 2). The major driver of this strong performance seems to be coming from a steady improvement in interest rate controls (Figure 3). This means that, as a whole, interest rates in Latin America are being increasingly determined by market forces rather than governmental controls. One potentially problematic area for Latin America overall is its performance in private sector credit (Figure 4). From 2008 2015, it seems that the level of government borrowing relative to borrowing by the private sector has increased by a notable amount and is reflected in Latin America's private sector credit rating. This indicates that in the last several years, the level of central planning in Latin America has increased which is not conducive to better financial growth. Considering Latin America had, on average, a near perfect score in private sector credit in 2008, a drop to an average rating of 7/10 is certainly alarming. Finally, an area in which Latin America has performed adequately is bank ownership (Figure 5). Staying just under a rating of eight for nearly 20 years, this means that the majority of bank deposits across the region are privately held, which is good news.

While Latin America as a whole has operated close to the world average, the region contains some very strong individual performers. As is demonstrated in Figure 6, countries such as Panama, Chile, and Guatemala rank among the best in the world at financial market development. These countries consistently rank in the top 25 for specific categories such as the soundness of banks, ease of access to loans, and the affordability and availability of financial services. It is also important to note that Mexico, one of the largest economies in Latin America, ranked 36th out of its 137 peer countries in terms of financial market development. This is very important because the performance of the largest economies of the region (Mexico, Brazil, etc.) is incredibly important to the growth and development of the entire region. Strong growth in a country such as Mexico or Brazil would have a very positive spillover to the rest of the region. Unfortunately, Brazil performs much more poorly in terms of financial development, getting an overall ranking of 92 out of 137 countries. Another concern is that Argentina, Venezuela, and Haiti are among the worst countries in the entire world in the category of financial market development. About 40 years ago, both Argentina and Venezuela were considered some of the freest economies in the world (ranking 34th and 10th in the world respectively in 1970 according to the Economic Freedom of the World Index). This steep decline in financial market freedom for both countries has undoubtedly harmed the region and greatly slowed its overall progress towards freer economies.

Latin America does seem to have a few categories where it generally performs more strongly or poorly than average. Figure 7 displays that the soundness of Latin American banks is a relative point of strength. This is a fantastic sign for Latin America, indicating that the banks in the region are relatively stable and healthy. Two relatively poor performing areas for Latin America are venture capital availability and financing through the local equity market. It is particularly concerning that both of these are problem areas for Latin America as they both pertain to the ability of entrepreneurs and businesses to raise money for new projects. Poor funding for new projects in the region will hamper the potential for innovation and the ability to finance riskier projects, likely depressing financial growth. The *Banking Regulation and Supervision Survey* was also helpful in identifying a few additional areas of strength or weakness for Latin America. For instance, nearly every country in Latin America, with the exception of Bolivia and Panama, have some form of deposit insurance. This fact, while not explicitly covered in other studies on this topic, is important because deposit insurance greatly affects public confidence and financial stability. Deposit insurance also reduces the potential for bank runs which can be absolutely catastrophic to an economy. All banks in Latin America have compulsory audits by some certified external entity, and these audits are compliant with international auditing standards. Bank supervisors receive reports of these audits (which are also publicly disclosed) and can meet privately with the external auditors with any questions they may have. These external auditors can have legal action taken against them in any case of negligence perceived by the supervisors. Basically, bank supervision and auditing requirements seem to take many of the right steps to ensuring bank stability and transparency, assuming no corrupt practices take place between all of these entities.

Finally, Figure 8a shows the amount of domestic credit provided by the financial sector (% of GDP) of Latin America compared to the rest of the world. While the data is fairly fragmented, it is clear that Latin America is far behind the rest of the world in this key growth indicator. While Latin America seems to have always been behind in this measure, it is important to note that the gap seems to be increasing even more over time. While Latin America is seeing some improvement, it does not seem to be improving quite as quickly as the rest of the world. Figure 8b shows the performance of some of the largest economies in Latin America by this measure. Even the strongest performers by this metric such as Brazil and Chile still find themselves significantly behind the world average. While it seems very negative that Latin America seems to be so far behind the world in domestic credit use, it is still slowly improving which is unquestionably a positive.

CONCLUSION

The purpose of this study was to demonstrate the relative levels of financial freedom in Latin America. This study took into account both quantitative measures of Latin American financial market development as well as surveys of major banking correspondents and investors, providing a full picture of how Latin America is performing. The five primary questions asked by this study seek to create a better understanding of where Latin America is relative to the rest of the world and to reveal what key performance areas Latin America is over performing or underperforming in.

First, it is difficult to say whether Latin American markets should, as a whole, be considered generally free or unfree. Some countries in Latin America, such as Panama and Chile, have some of the greatest banking and financial freedom in the world. However, others such as Venezuela or Argentina are the exact opposite, ranking as some of the least free economies in the world. Because of these strong outliers, it may not be very helpful or even truthful to take an average of Latin America when looking at financial market freedom. While Latin America as a whole performs roughly on par with the rest of the world, such a statement does not properly acknowledge some of the vast differences between some individual countries in Latin America.

Second, it seems that the greatest positive revealed in this study is the strong performance of all of Latin America in terms of interest rate controls. For Latin America, a region with many different economic problems needing resolution, it is extremely helpful to be able to remove one major issue off of the checklist. The greatest negative found in this study is the worrisome drop in private sector credit performance. While much of this decrease may be in reaction to the 2008 financial crisis, this problem will need addressing at some point in the future.

Overall, this study seems to be nearly perfectly in line with previous literature. The general consensus that Latin America has made great strides in some categories while still lagging behind much of the world in others is supported by this study. Latin America seems to be neither overwhelmingly good nor bad in terms of financial market freedom.

From this study, I have a few suggestions for future research in this area. First, what is causing the continued and steady decline in private sector credit performance? Is Latin America generally trending back towards central planning? Second, are there countries in Latin America that seem poised to make a large leap forward or backward in terms of financial development? This study is not forward looking so a study seeking to find what countries may be in the best situation to experience fast growth could be very interesting. Finally, a survey seeking to pick up where the *Banking Regulation and Supervision* survey left off would be valuable, providing more up to date information about specific banking regulations or requirements within Latin America.

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APPENDIX

Figure 1: **Economic Freedom of the World Index Overall Ranking**

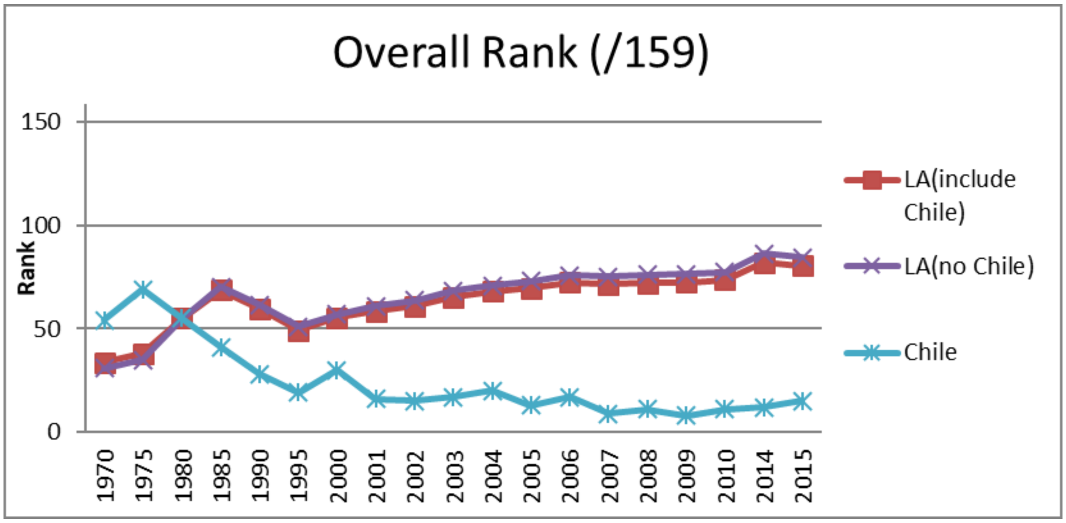

Figure 2: Economic Freedom of the World Index Credit Market Regulation Rating

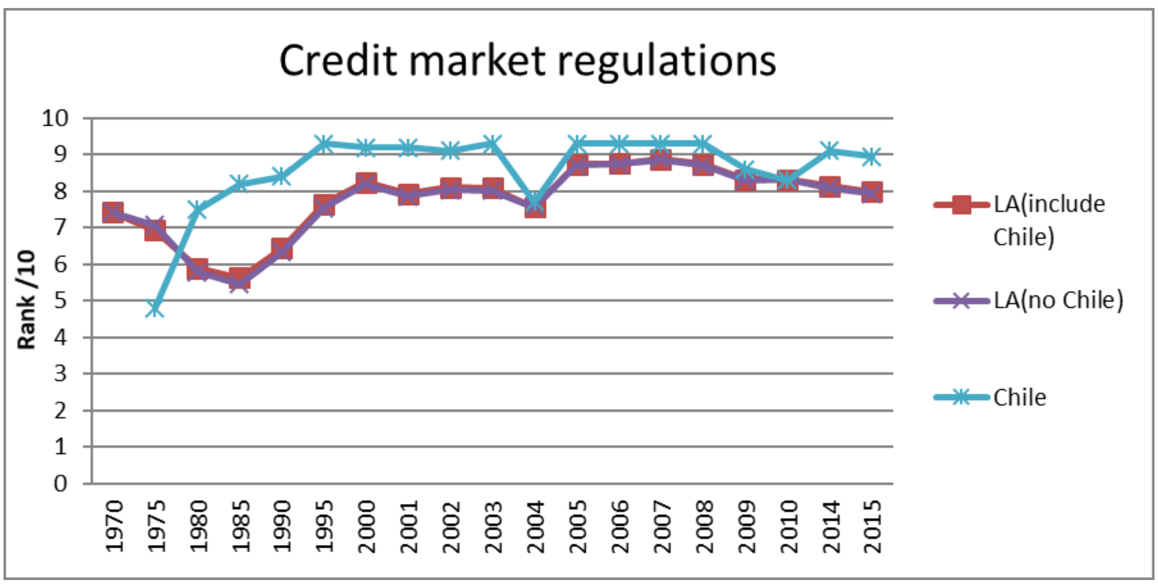

Figure 3: Economic Freedom of the World Index Interest Rate Control Ranking

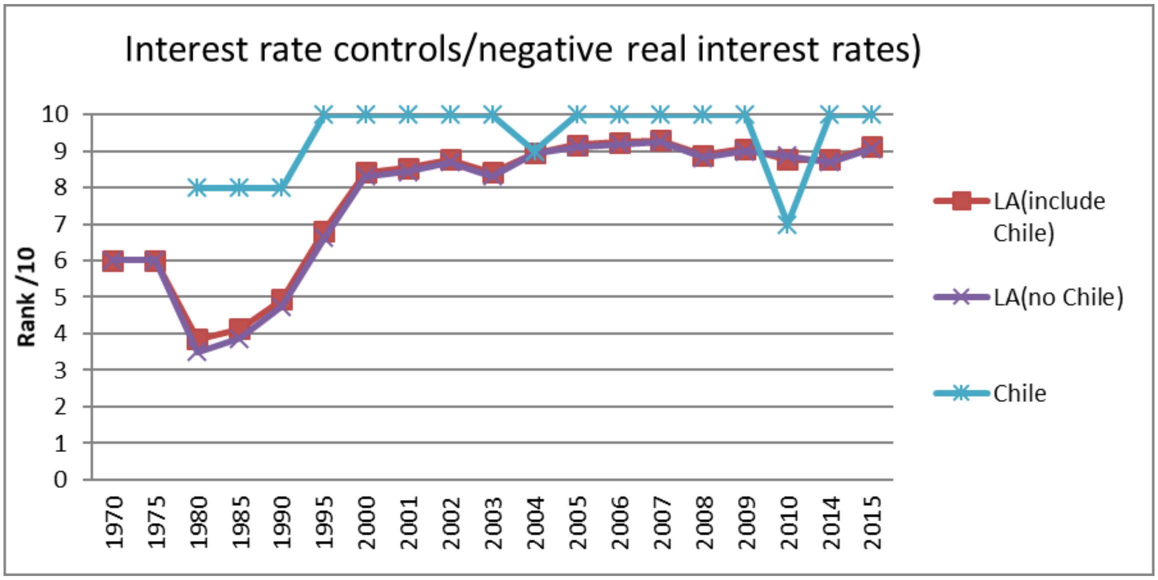

Figure 4: Economic Freedom of the World Index Private Sector Credit Ranking

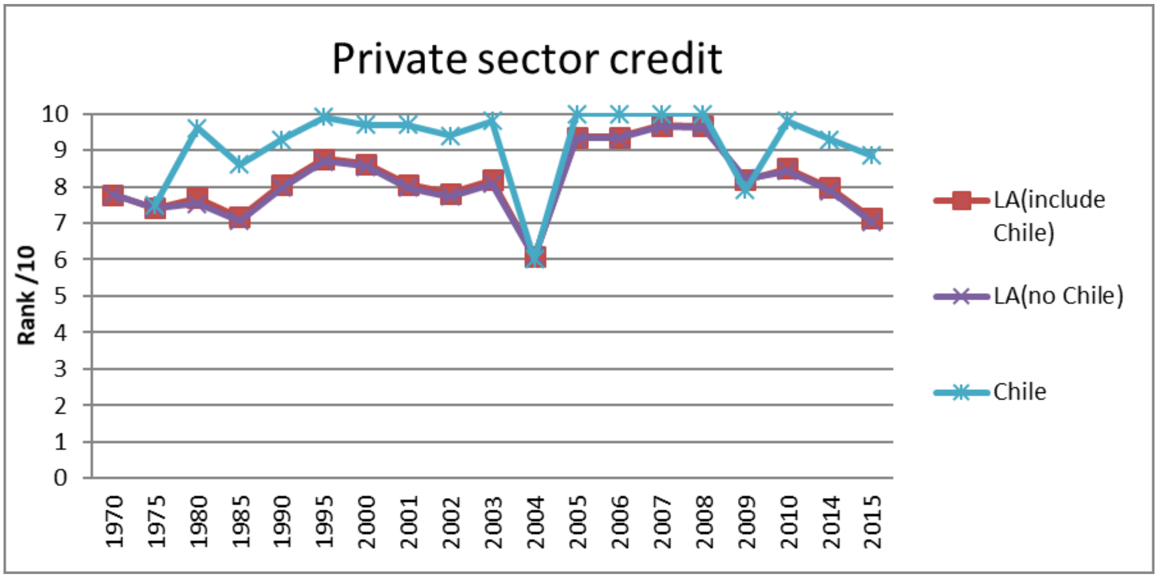

Figure 5: Economic Freedom of the World Ownership of Banks Rating

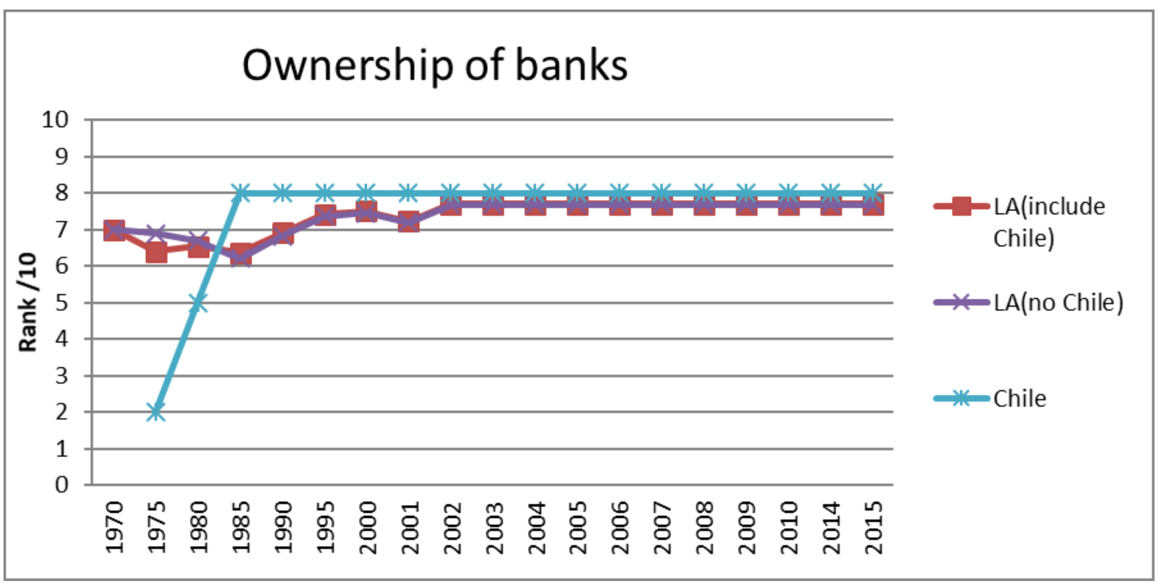

Figure 6: Global Competitiveness Report Financial Market Development Ranking

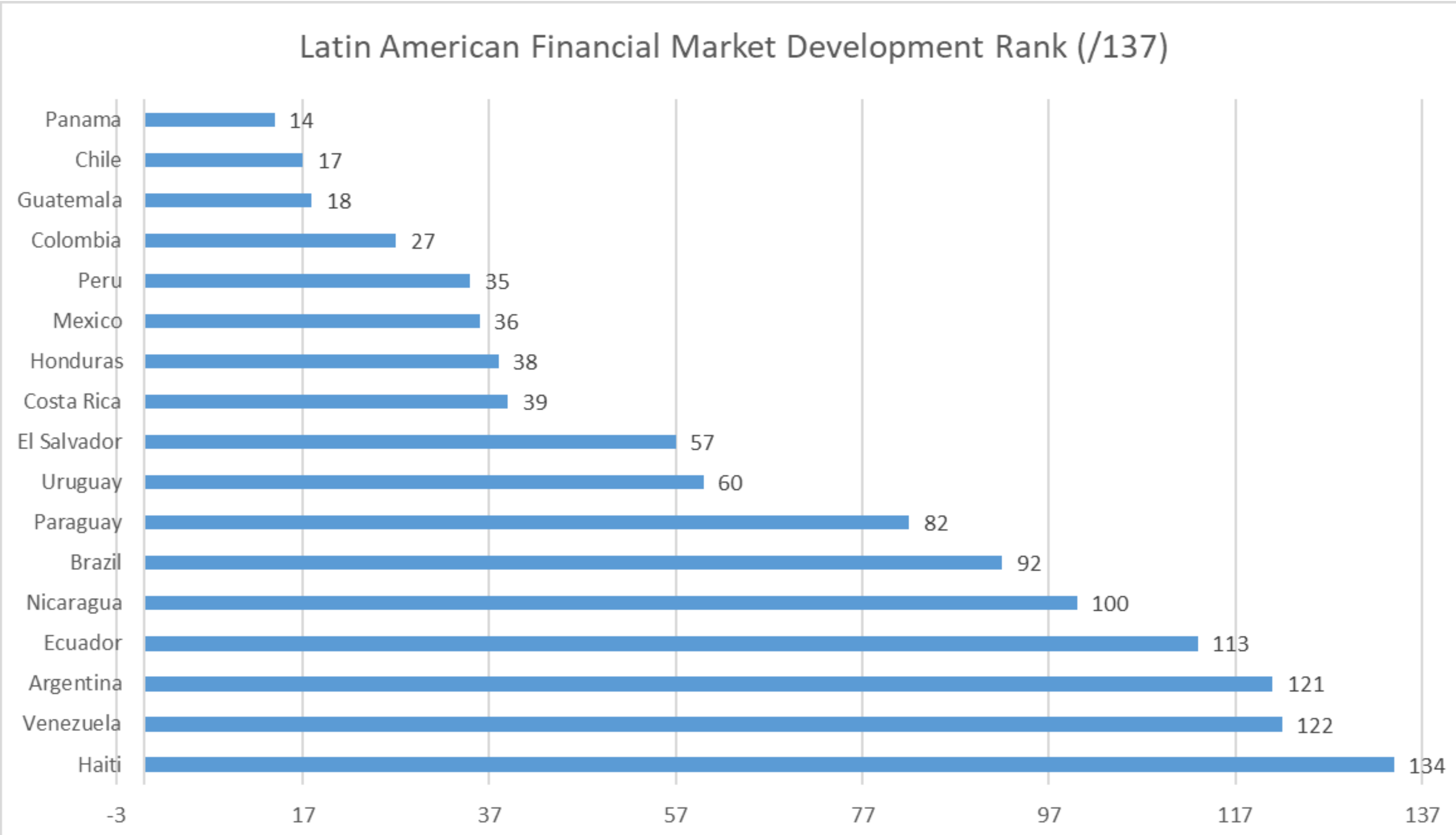

Figure 7: Global Competitiveness Report Latin American Financial Market Development Subsets Average Rating

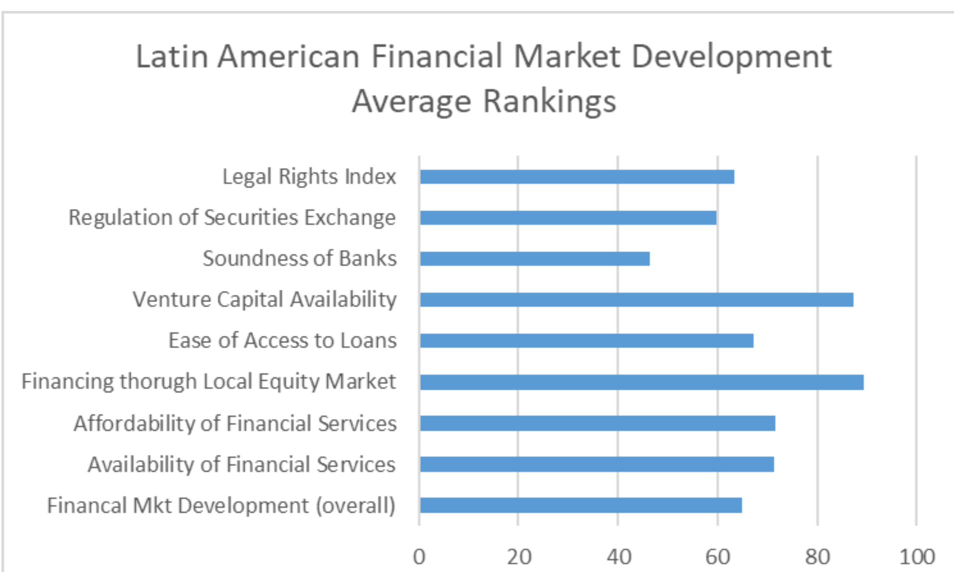

Figure 8a: Domestic Credit provided by Financial Sector (% of GDP)

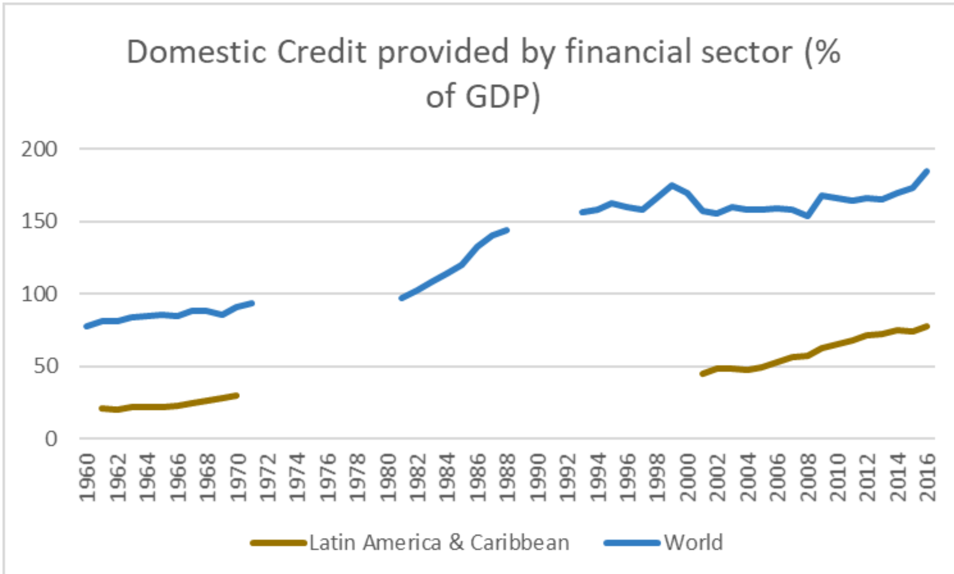

Figure 8b: Domestic Credit provided by Financial Sector – 6 Largest Economies in Latin America (% of GDP)