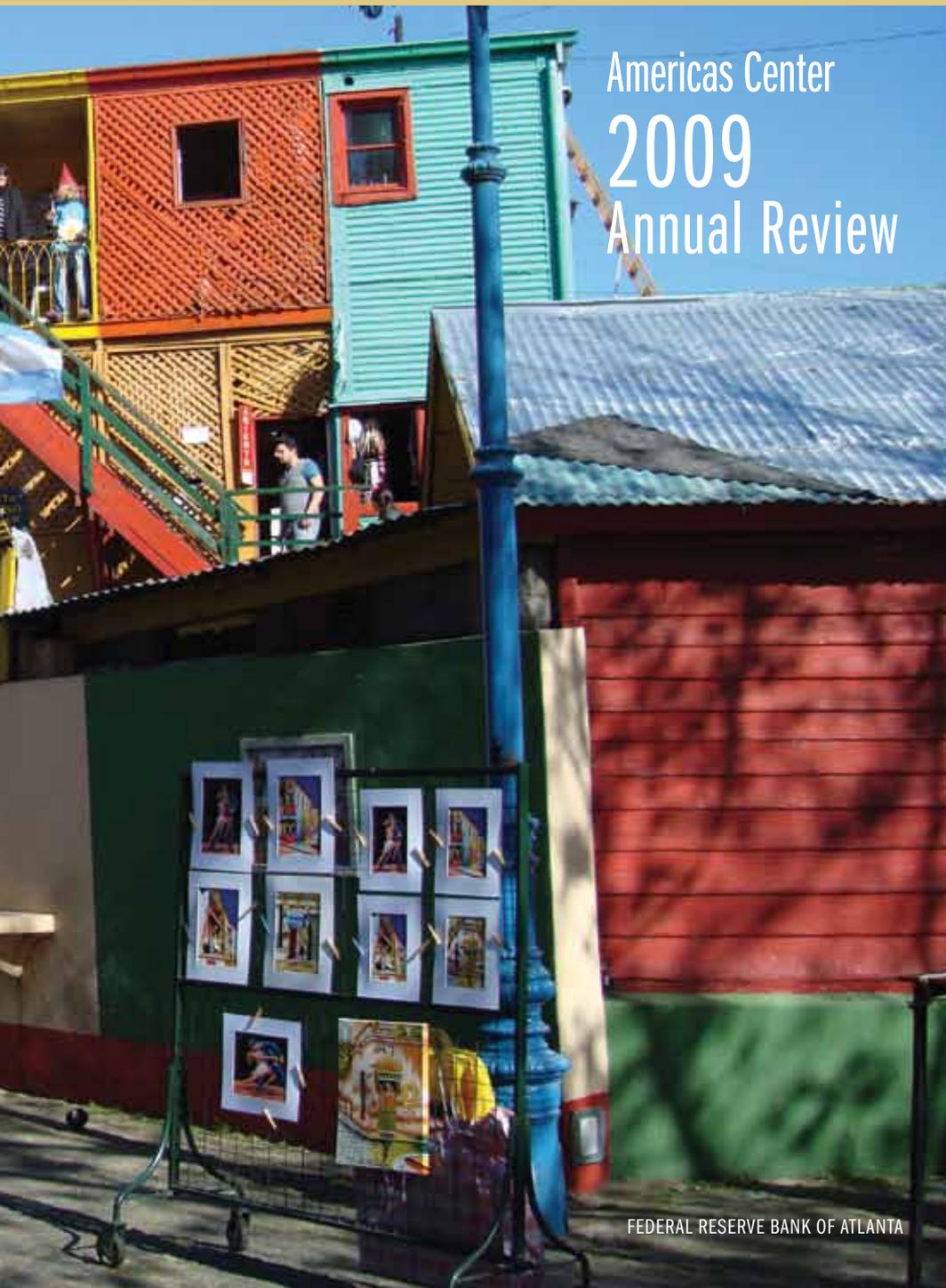




Americas Center
2009
Annual Review



A Note from the Director of Research



Since becoming the Atlanta Fed's Research Director in 2007, I've had the opportunity to work closely with the Atlanta Fed's Americas Center. The linkages between the economies of the six southeastern states in the Sixth Federal Reserve District and the economies of the Americas have only deepened in recent years, a fact that highlights the growing significance of the center's work.

The Americas Center provides a framework for collaboration among Atlanta Fed staff whose responsibilities relate to the Americas, enabling the bank to more efficiently integrate its resources to serve internal and external constituencies through a wide variety of initiatives. Since its beginning five years ago, the center's contributions to the bank's work have grown to the point that the center is recognized as an area of "distinguished historical strength" in the Sixth District's strategic plan.

The accomplishments outlined in this annual review demonstrate that the Americas Center had another strong year in 2009 as its staff and partners collaborated on a range of key projects. Three examples demonstrate the center's wide range of activities. In March, the bank's community affairs and international supervision staff and Florida International University's business school held a major policy conference on access to banking and unveiled a new Web page devoted to promote banking among the unbanked and underbanked. In Miami, in an event cosponsored with the Florida International Bankers Association, the center hosted international private banking practitioners who provided insights into risk management and strategic challenges of the current economic crisis. Finally, the Atlanta Fed's research staff continued their leading-edge work on immigration and remittances; they will host a major research conference on this topic in 2010.

In 2009 the Americas Center remained true to its mission: to foster effective cross-functional collaboration and communication among the Atlanta Fed, the Federal Reserve System, and public and private sector stakeholders and to provide leadership in key supervisory, financial, and economic matters related to the Americas. In 2010 we will continue to build upon this foundation as we address vital policy issues in an increasingly interconnected hemisphere.

A handwritten signature in dark ink, appearing to read "D. Altig". The signature is stylized and fluid.

David Altig
April 2010

The Center's Purpose

The Americas Center, launched in 2005, is a cooperative initiative among the Federal Reserve System's Retail Payments Office, based in Atlanta, and the Atlanta Fed's Supervision and Regulation, Research, and Financial Services Divisions. The center provides a framework for collaboration among bank staff whose responsibilities relate to the Americas. This collaboration enables the bank to more efficiently leverage its strengths and integrate its resources to serve internal and external constituencies through a wide variety of initiatives. These include sponsorship of policy conferences, analysis of key regional banking and economic trends in the area, exchange programs, technical assistance, and public outreach and educational activities.

Our mission: to provide leadership to fulfill the bank's responsibilities in key supervisory, financial, and economic matters related to the Americas by fostering effective cross-functional collaboration and communication among bank, System, and public- and private-sector stakeholders.

—Americas Center Strategic Plan

Highlights

This annual review highlights the Americas Center's most significant projects, products, programs, and initiatives in 2009. These achievements demonstrate the cooperation by committed people from throughout our organization, often partnering with colleagues from a number of other institutions.

Access to Banking initiative

In 2009 the Americas Center launched its Access to Banking initiative with an international conference. The initiative supports thought leadership, research, education, and collaboration in expanding access to and use of mainstream banking services, with the goal of improving personal financial stability and regional economic growth throughout the Americas. Financial education that creates informed consumers, safe and sound financial product innovation, and commitment to consumer protection promote banking access for the unbanked and underbanked.

The 2009 conference, held at the Florida International University School of Business on March 18, was kicked off by Atlanta Fed First Vice President Pat Barron, who emphasized the critical importance of improving access to the financial system. Panel discussions explored topics that included how access to mainstream banking services stabilizes communities and how growth in consumer banking markets can occur safely and soundly



through financial education, regulation, and product innovation. Speakers also discussed how successful partnerships support the continued progress in banking the unbanked.

A follow-up effort was the creation of an Access to Banking Web page (available at frbatlanta.org/americascenter/ under "Resources"). Designed to encourage continued communication about best practices among professionals from the academic, nonprofit, banking, and regulatory and government communities, the Web page provides access to information and resources related to the expansion of mainstream banking to underserved communities and market segments.

Remittances and immigration initiatives

One of the Americas Center's strategic objectives is to provide leadership in economic and monetary research on key hemispheric policy challenges. Atlanta Fed economists are conducting leading-edge research on the economic impact of immigration and remittances.

Atlanta Fed economists Myriam Quispe-Agnoli and Julie Hotchkiss have been conducting research on the economic impact of immigration on wages and employment. Their recent papers focus on wage differentials between documented and undocumented workers; the extent to which undocumented workers displace documented workers; patterns in firms' hiring of undocumented workers; and the link between the hiring of undocumented workers and business cycles.

The role of remittances in the macroeconomy is a key research topic for Atlanta Fed economist Federico Mandelman, who is exploring how the funds that workers from abroad send to their home countries (which now total \$65 billion per year in the Western hemisphere) affect the overall economy. In Central America and the Caribbean, remittances are equal to 25–35 percent of gross domestic product in some countries. In many cases, poorer households are the main recipients of these flows. Several studies show that, thanks to these remittances, children spend more time in school and child labor is significantly lower. However, massive inflows of currency can lead to real exchange rate appreciation and loss of competitiveness in these economies. Remittances are closely associated with U.S. housing starts. Latin American immigrants are heavily employed by the U.S. construction industry,

Quantitative Approaches to Monetary Policy in Open Economies

In May the Atlanta Fed's Center for Quantitative Economic Research (CQER) and the Americas Center cosponsored the "Quantitative Approaches to Monetary Policy in Open Economies" conference. The event brought together leading economists from universities and central banks to discuss new research on quantitative models in the formation of monetary policy. Topics included an estimation of useful models in open economies and whether and how recent advances in the modeling of financial frictions and labor markets are helpful in contributing to model fit and forecasting. Recent advances in quantitative models of flexible inflation targeting were presented. In many emerging economies, data are not stationary as they are in developed countries, and participants discussed how to proceed under those circumstances.

Guillermo Calvo was the keynote speaker, and panelists included CQER Advisory Council member Martin Eichenbaum as well as economists from the central banks of Argentina, Chile, Colombia, New Zealand, Norway, Peru, Sweden, and Uruguay. The conference concluded with a roundtable discussion led by Banco Central del Uruguay Research Director Gerardo Licandro, Reserve Bank of New Zealand Assistant Governor John McDermott, and Sveriges Riksbank-Sweden Deputy Governor Lars Svensson.

but unfortunately many of those workers are undocumented immigrants, and it is extremely difficult to keep track of them. The level of remittances is a good predictor of employment conditions in the housing industry, which is closely monitored by the Atlanta Fed.

Sixth District cash operations

Because citizens in Latin American and Caribbean countries frequently use U.S. currency as a store of value, political events and economic shocks in these countries often affect the cash volumes handled at the Atlanta Fed's Miami Branch. For example, political elections



often prompt increased demand for U.S. currency in the region. Additionally, at the peak of the global credit crisis in late 2008, significant demand for U.S. dollars drove a 76 percent increase in the Miami Branch's currency payments to foreign financial institutions. These banknotes continue to be held by individuals abroad, as evidenced by 2009 volume patterns. Continued economic malaise and decreased remittances resulting from migrant worker job losses in 2009 reduced deposits of U.S. currency to the Miami Branch from foreign institutions, particularly those in Mexico.

Consequently, an awareness of geopolitical events and economic market intelligence is crucial for strategic planning in the Sixth District's cash operation. Throughout 2009, the Miami Branch's cash department and the district Cash Function Office at the New Orleans Branch hosted meetings and conference calls with representatives from international correspondent banks and hosted central banks' cash operation staff at the Miami office.

The Retail Payments Office

The focus of the Federal Reserve System's Retail Payments Office (RPO) in 2009 centered on greater integration with global payments standards by helping advance major industry initiatives to create opportunities to connect with additional countries and to offer more payment options. For example, the Federal Reserve cross-border automated clearinghouse (ACH) was rebranded as FedGlobal™ ACH Payments and launched a series of program enhancements by offering bidirectional payments with Panama.

The RPO implemented a new cross-border format in the U.S. ACH network and contributed to planning the International Payments Framework (IP), a global initiative to create rules, standards, operating procedures, and guidelines for the exchange of cross-border payments. Working toward a 2010 launch of the IPF project with Europe also meant implementing ISO (International Organization for Standardization) 20022 payment processing and connecting to the SWIFT (Society for Worldwide Interbank Financial Telecommunication) network.

The RPO also laid the groundwork in 2009 for a major expansion of FedGlobal's reach in Latin America. In the first half of 2010, FedGlobal will begin offering U.S. financial institutions the option to send account-to-receiver payments to thirteen countries throughout the Americas. This option will allow beneficiaries without bank accounts to pick up funds at distribution points.



Anti-money laundering and private sector dialogue

Combating money laundering, terrorist financing, and fraud continues to be a high priority of the Atlanta Fed's international supervision and regulation group. The group's anti-money laundering (AML) supervisory activities are complemented by outreach programs to bank supervisors, supervised entities, vendors, and local law enforcement, particularly in Latin America, for the purpose of preventing and detecting financial crime. The overall aim is to provide greater consistency in supervisory activities across business lines, deliver comprehensive training and education to relevant stakeholders, and contribute to the development of supervisory policy and practice.

An excellent example of this outreach is the AML Private Sector Dialogue (PSD), which seeks to foster greater collaboration among the U.S. government; U.S., Canadian, and regional bank supervisors; and private sector financial institutions that are the first line of defense in combating the threats of money laundering and combating terrorist financing (CFT). In October senior staff from the international supervision group participated in the fourth U.S.–Latin America PSD in Buenos Aires, Argentina, an event hosted by Argentina's central bank and the Association of Argentine Banks.

The Buenos Aires meeting focused on how banks and regulators confront today's economic realities when enforcing AML/CFT policies, particularly with respect to informal economies. Discussions also explored the problems encountered when sharing information domestically and internationally and the importance of better understanding the vulnerabilities of cross-border payments. Participants also discussed the importance of moving institutions toward a truly risk-based approach to compliance and how international and regional standards, including enforcing financial sanctions, can help to create a stronger global network to fight money laundering and terrorist financing.

Americas Center dissertation internship

Each year the Americas Center invites PhD candidates writing dissertations in the field of economics on topics that have a direct link to Latin America and the Caribbean to apply for the Americas Center summer dissertation internship. The students are expected to make significant progress on their dissertation during their eight-week tenure at the bank and are asked to make two formal presentations of their research and be available for consultation with staff from the Research Department and other areas of the bank.

The intern for 2009 was Javier Bianchi, of the University of Maryland, whose dissertation analyzes how capital market imperfections can generate an excessive level of financial fragility and investigates the role of the government in preventing financial crises.

During his internship in the Research Department, Bianchi published "Overborrowing and Systemic Externalities in the Business Cycle" (Atlanta Fed Working Paper 2009-24). In the

International Private Banking, Risk Management, and Strategic Challenges in an Era of Volatility

During this time of global economic uncertainty, international private banking activities have been affected all over the world. As financial institutions work to remain competitive, they must employ innovative risk management and strategic practices to handle the challenging and evolving landscape.

In March the foreign bank analysis group in the Atlanta Fed's international supervision and regulation group, in conjunction with the Florida International Bankers Association, hosted the Americas Center breakfast forum "International Private Banking, Risk Management, and Strategic Challenges in an Era of Volatility." A panel of Miami-based international private banking practitioners, representing foreign banking organizations from the region, provided their own insights and views on what steps they have taken to weather the storm and any predictions toward the future. The well-attended forum provided a good avenue for a lively discussion and dialogue between international bank representatives in the Miami community and supervision and regulation staff on a timely topic.

paper he notes that private agents tend to undervalue net worth during a period of financial distress because they fail to internalize the fact that additional net worth would have positive spillovers on other agents' balance sheets. As a result, private agents borrow excessively. The quantitative implications of these "credit externalities," however, remain largely unknown. Using nonlinear dynamic stochastic general equilibrium models, Bianchi asks, "To what extent does the undervaluation of net worth generate too much debt relative to the social optimum, and how large are the welfare losses due to these externalities?" The paper finds that credit externalities can produce a significant increase in financial fragility and entail nontrivial welfare costs.

Foreign technical assistance

The international supervision and regulation group continued its ongoing initiative to participate in providing foreign technical assistance (FTA) programs to foreign banking supervisors. In 2009, eight supervision and regulation staff members instructed schools held in six foreign countries and Washington, D.C. Programs focused on topics such as bank analysis and examinations, credit risk analysis, risk-focused supervision, risk assessment, internal controls, operational risk assessment, market risk, and anti-money laundering examinations.

One of the above-mentioned FTA programs, the Bank Analysis and Examination School, was held in Lima, Peru. Conducted entirely in Spanish, the school was part of a three-month summer graduate program organized by the Peruvian Banking Superintendency (SBS) and was sponsored by the Association of Supervisors of Banks of the Americas for the benefit

International Development Economics Workshop

The center hosted the Third Southeastern International/Development Economics Workshop on December 4. Cosponsored with Mercer University's Stetson School of Business, the conference brought together economists from throughout the country to discuss new research on a range of topics related to health economics, trade, finance, and growth.

In one of the highlights of the conference, Felix Rioja and Neven Valev of Georgia State University presented the paper "Stock Markets, Banks, and the Sources of Economic Growth." They found that in high-income countries there is strong evidence that banks and stock markets have independently affected capital growth whereas productivity seems to benefit from stock market financing only. Conversely, in low-income countries, bank credit is the primary driver of both sources of growth while stock markets do not appear to have encouraged capital accumulation or productivity growth. Another highlight was a paper on declining returns to university education in Venezuela by Naihobe Gonzalez and Ruth Uwaifo Oyelere of Georgia Tech. All of the papers are available on the center's Web site.

The success of this workshop and growing interest in this event will lead to an expanded program in 2010 to allow for more panels and more opportunities for participation.

of current and future bank examiners from throughout Latin America. The class included Peruvian graduate students; supervisory officials from banking superintendencies in Guatemala, Honduras, Uruguay, Paraguay, Ecuador, El Salvador, the Dominican Republic, and Bolivia; and officials from the SBS. The experience level of supervisory staff varied from entry level to senior management. In addition to presentations and a final test, the school incorporates a bank examination case study on a financial institution's financial condition and corporate governance. The case study culminates in a presentation of participants' findings to a mock board of directors. Each year this program trains individuals who go on to successful careers in the region's banking superintendencies.

Advisory Council

In 2008 the Americas Center Advisory Council was formed to provide input to bank staff on program and planning ideas and to help guide the center's development over time. Since then, bank staff have periodically consulted with advisory council members, seeking their input on programs and initiatives.

The entire advisory council met in person for the first time in November 2009. After meeting with Atlanta Fed President Dennis Lockhart and the Americas Center steering committee, the group participated in a roundtable on the future of regulatory reform in the hemisphere and a wide-ranging discussion of major financial and economic challenges in the region with the Americas Center steering committee and liaisons.



Looking Ahead to 2010

As the economy of the Sixth Federal Reserve District continues to form closer ties with Latin America and the Caribbean, the Atlanta Fed's relationships in the region are expanding as well. Major events in 2010 will include a research conference on remittances and immigration that will bring together leading specialists from throughout the world. The center will also host a conference with the American Society of Hispanic Economists prior to the Southern Economics Association meetings and will cosponsor the Southeastern International/Development Economics workshop. Check the Americas Center Web page (frbatlanta.org/americascenter/) for a full listing of 2010 activities.

Americas Center Advisory Council

Catalina Amuedo-Dorantes
Professor, Department of Economics
San Diego State University

Eduardo Cavallo
Research Economist, Research Department
Inter-American Development Bank

Kenneth Coates
Director-General
Centre for Latin American
Monetary Studies (CEMLA)

Martin Eichenbaum
Ethel and John Lindgren Professor
of Economics
Northwestern University

Jeffry Frieden
Stanfield Professor of International Peace
Department of Government
Harvard University

Susan Kaufman Purcell
Director, Center for Hemispheric Policy
University of Miami

Structure

Americas Center Coordinator
Stephen J. Kay
Coordinator of Latin America Analysis
Research Department

Steering Committee
Michael J. Chriszt
Assistant Vice President
Research Department

Thomas J. Cunningham
Vice President and
Associate Director of Research

Carolyn Healy
Assistant Vice President
International Banking Supervision

James M. McKee
Senior Vice President
Retail Payments Office

Robert Schenck
Vice President
International Banking Supervision



Some members of the Americas Center staff (left to right): Jim McKee, Myriam Quispe-Agnoli, Laurel Graefe, Rob Schenck, Steve Kay, Tom Cunningham

Liaisons

Ana Cruz-Taura
Regional Community
Development Director
Community Affairs
Miami Branch

Laurel Graefe
Senior Economic Analyst
Research Department

Paul Graham
Assistant Vice President
Miami Branch

Nancy Jaimes
Director, Foreign Bank Analysis
International Banking Supervision
Miami Branch

Sandy Juárez
Senior Financial Services Project Leader
District Cash Function Office
Financial Services

Roxana Maneiro
Senior Foreign Banking
Organization Analyst
International Banking Supervision
Miami Branch

Elizabeth McQuerry
Assistant Vice President
Retail Payments Office
Federal Reserve Financial Services

Carolyn San Martin
Senior Foreign Banking
Organization Analyst
International Banking Supervision
Miami Branch



FEDERAL
RESERVE
BANK
of ATLANTA

