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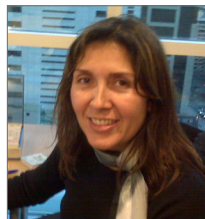
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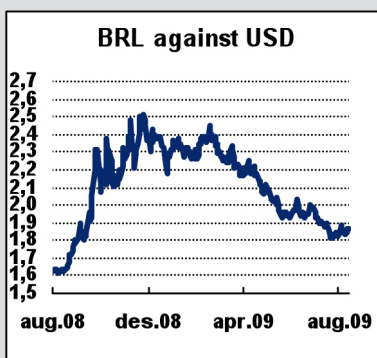
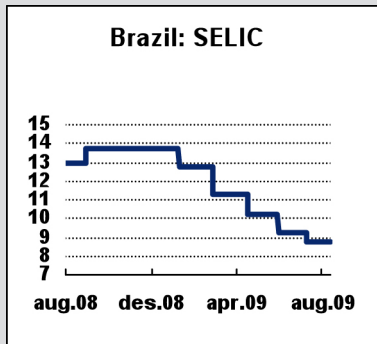
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Brazil: Moody's considering upgrade and Economy re-emerge after crisis



Politics

During the last weeks, political attention has been given to a series of scandals involving the President of the Senate and former President Jose Sarney. The main issues have been employment of family members and a secret acts / payments schemes in the Senate. In total, there were 11 allegations of wrongdoings and the Senate Ethics Commission decided not to act upon these allegations. Sarney is under much pressure, but has not stepped down from his position. Sarney has much clout within the largest political party of Brazil PMDB, being one of the party's leaders. Consequently, President Lula by supporting Sarney, seeks support from the PMDB for his Presidential candidate, Chief of Staff Dilma Rouseff, in the 2010 Presidential elections.

Sarney has also been involved in a dispute with former IRS head as to allegations that the Chief of Staff Rouseff asked the head of IRS to terminate an investigation on a son of Sarney. In the aftermath of this and after the exit of the IRS head, in solidarity, 60 IRS senior officers have resigned from their positions.

Historical adversaries of President Lula such as former President Collor has given Sarney and Lula strong support in recent weeks, something unthinkable years back.

At the end of August two Senators from the PT party of President Lula resigned due to the recent political developments. The PT party has changed a lot since entering into power and is becoming a similar party to the others. The party has split,

having lost many of its leaders in 2005 corruption scandals and recently some leading figures. Former Environment Minister Marina Silva was one of these and is expected to join PV (Green Party) and may run as Presidential candidate in the 2010 elections.

The Sarney issues during recent weeks have delayed the Parliamentary inquiry committee of the Congress as to its investigation of Petrobras ref. purchase of equipment and services, corporate tax practice and NGO payments/ sponsorships. The PMDB party will certainly play an important role in the inquiry.

President Lula will announce at the end of August a new bill to the Congress as to regulations for the exploration of the pre-salt oil blocks. President Lula will need PMDB support to pass this legislation through both houses in the Congress prior to next year's elections. Some question why the change in the legal framework for the oil sector is not part of next year's election themes.

Economics

The Brazilian economy is emerging from recession with inflation under control. Consumer confidence and optimism is back as to the performance of the economy. This year's GDP growth figure will most likely end slightly negative or near to zero after recession during first semester and positive perspectives for the economy during the second semester.

Finance Minister Guido Mantega announced at the end of August that there are signals that Moody's will upgrade Brazil to investment grade. Brazil will thus be rated as investment grade by the three major rating agencies and the country and companies operating in Brazil benefit from this investment grade rating of Brazil. Mantega is quoted: "It's good that this happens right after this international crisis because they had a chance to see Brazil being tested by the crisis", further "Brazil passed the test and therefore will receive a higher grade." This upgrade would be a clear signal of the strength of the Brazilian economy and perspective for existing recession during second semester this year.

Banco Central President Meirelles said at the end of August that credit has normalized in Brazil and is back at levels before the crisis helping Brazil emerge from the crisis faster than other countries. Meirelles said that Brazil at the outset of the crisis "had conditions to act forcefully, decisively and quickly".

Inflation indexes have during the last months posted lower figures. The IPCA index (broad consumer price index published by the IBGE) used by Banco Central in its inflation targeting policy, came out by mid-August at 0.23% bringing this annual inflation for the 12 months running through mid-August to 4.34%. It is expected that inflation will remain low during the next months. Year end 2008 expectations for IPCA are at 4.32%, slightly below the central target of 4.5%.

The Banco Central monetary policy committee COPOM meeting in July decreased the SELIC benchmark overnight interest rate by 50 basis points to 8.75%. This was the fifth consecutive interest rate cut and lower than previous cuts of 100 to 150 basis points. With current low inflation

perspectives, it is expected that the monetary authorities will maintain the SELIC rate unaltered during the rest of this year.

The Real ended July quoted at BRL 1.87 per USD 4% weaker than at the end of June. During August the Real in relation to USD has varied between BRL 1.88 to 1.81 per USD. It seems as if the Real will continue to fluctuate at this level.

Trade surplus for July came out at USD 2.93 billion, down 31% from same month last year. In July exports reached USD 14.14 billion and imports amounted to USD 11.22 billion. The trade surplus by end July 2009 has accumulated USD 16.9 billion. External trade, both imports and exports, reached USD 151 billion by end of July. The financial crisis has reduced the trade operations between Brazil and abroad by 27% this year in relation to same time period last year.

The current account in July posted a deficit of USD 1.67 billion, higher than the June deficit at USD 535 million. Foreign direct investments in July 2009 reached USD 1.29 billion and lower than in June at USD 1.45 billion. Currency reserves were by the end of July record high at USD 206.5 billion compared to USD 203.6 in July 2008. The total external debt of both public and private sectors was at end of June estimated at USD 195.3 billion.

July unemployment figure according to IBGE was 8% slightly lower than the past month. Brazil's Congress is considering a constitutional amendment to reduce the working week by four hours from 44 hours to 40 hours in a bid to generate more jobs. The bill would need to be approved in both Chambers of Congress and signed by the President to become law. According to labour union CUT President Artur Henrique, shorter working hours would generate 2.1 million jobs while increasing production costs by only 2 percent.

Fiscal accounts have worsened this year due to the government's economic stimulus measures and reduced revenues due to tax breaks. The public sector deficit reached BRL 13 billion in July and accumulates a deficit so far this year of BRL 56.7 billion. The net public sector debt reached 44.1% of GDP in July.

Finance

The IBOVESPA Sao Paulo stock market index was at the end of August at 56.907 points. The stock market index has gained this year 52%. Since the end of May, the IBOVESPA has increased by almost 7%. Brazil's stock market had a net foreign inflow of BRL 2.2 billion (USD 1.2 billion) in the month through Aug. 24. Foreigners bought BRL 29.9 billion of shares and sold BRL 27.7 billion during this period.

As to the bond markets, the BR 40 ended July at 194.7 basis points over US Treasury Bills down from 212 basis points from one month before. Brazil risk premiums as measured by the JP Morgan EMBI+ (an index of risk premiums on Brazilian government bonds traded abroad) was quoted at the end of August at 194 basis points. The market expects risk premiums to fall.

Forecasts

Economists have come at the end of August pointing towards the following economic projections for year end 2009; IPCA inflation index at 4.32% in relation to government central target of 4.5%, GDP growth at -0.3% and the trade surplus

at USD 23.7 billion. Foreign direct investment is expected to reach USD 25 billion and current account at a deficit of – USD 14.55 billion. The Selic benchmark interest rate is expected to end 2009 unaltered at 8.75% p.a. The net debt to GDP ratio is estimated to reach by end 2008 level of 42.25%. An important figure and estimate is the year end exchange rate projection for the Real, which is at BRL 1.85 per USD.

Story of the month

Brazil, with Petrobras acting as the driving force, will become one of the main global markets for investments in the shipping sector during the next decade. Petrobras will purchase both domestically and internationally rigs, drill ships, FPSO's, tankers and offshore vessels, but preference will be given to local yards and projects. The bidding process for the oil blocks has been such that local content requirements have to be fulfilled in exploratory and production phases. This will result in a huge business opportunity not only for ship owners, yards, but also for equipment suppliers who seek to service this market either from abroad or domestically. Those who set up operations in Brazil will access this market easier and position themselves stronger than those from abroad.

Petrobras has announced that 28 drill ships, 26 tankers (+22 more), 8 FPSO's and 146 offshore vessels are to be built in Brazil. These figures will certainly increase with the pre-salt discoveries.

Brazil seeks to develop its shipbuilding industry through local content requirements and flag preferences. In order to fulfill these ambitious plans Brazil will need to invest in several shipyards. Global shipbuilders and shipping companies are all looking at the great potential of Brazil. There are several yard projects which have been announced by Brazilian, Koreans, Chinese, Singapore, Dutch, Norwegian, French companies, in total 17 yards, but certainly not all will materialize. Potential states for the implementation of these projects have been mentioned to be: Rio Grande do Sul, Santa Catarina, Rio de Janeiro, Espirito Santo, Bahia, Pernambuco, Ceara and Maranhao.

Financing has been available through the Merchant Marine Fund and with BNDES and Banco do Brasil as agents. Certainly the funds available will have to be supplemented by the National Treasury as construction in amounts and value increase. Further, equipment supplied from abroad, will have to be financed through international banks and ECA's. According to "Jornal do Comercio" projects to be built in Brazil during 2009 and 2010 are estimated at USD 17 billion and could reach USD 40 billion by 2012.

In addition to above other Brazilian and international oil companies are also expanding in this market and will have to follow local content requirements and build in Brazil.

Chile: Economy touches bottom and might become OECD member



Politics

The president Ms. Bachelet enjoys strong levels of public support, but this has yet to be transferred to the governing coalition's candidates ahead of December elections. Sebastián Piñera of the newly created Coalición por el Cambio is still favorite to win the December presidential election. He will maintain broad policy continuity if elected.

Economics

Chile's economy shrank by 4.5% in the second quarter of this year. The downturn marked the second straight quarter of negative growth for Chile, whose economy has contracted by 3.4% in the first half of this year. According to Chilean Finance Minister the country's economy has touched bottom and will show improvement in the third quarter as it emerges from its deepest recession in over a decade.

The sectors most affected by the global financial crisis during the second quarter were fishing, down 27.3%, industrial production, down 13.1% and commerce, which fell by 7.1%. Chilean utilities however, grew in the second quarter. The electricity, gas and water sectors rose 21.6%. Chilean exports have continued to feel the impact of the fall in global demand in their prices; however, recently copper price has reached US\$ 2.5/lb. as result of increase in China's demand.

Inflation keeps downward trend. Inflation has descended at a faster rate than expected in the last months. We expect this continue and to register negative inflation rates between the months of September and November, closing the year with a 0.4% annual rate.

The central bank last week voted to pause for the first time this year after cutting interest rates for seven straight months, saying that economic activity and industrial output suggest GDP may have already stopped shrinking. Central bank policy makers led by President Jose De Gregorio, over cut their overnight rate from 8.25 % to 0.5% during last months. Thus, the interest rate is at its historic minimum level and the lowest among emerging economies.

The labor market is still showing the macroeconomic conditions, with a significant rise in layoff. The unemployment rate reached 12%, analysts expect unemployment remains high during the winter months until October, when spring begins and business should begin to pick up.

Finance

The peso strengthened 25% this year, the third-best performance against the dollar among 26 emerging market currencies tracked by Bloomberg. The US dollar has fallen sharply. The main determinant of the exchange rate has been the Finance Minister's announcement to liquidate US\$ 4,000 million in the local market, in order to finance the higher fiscal deficit. To be worth expects the US dollar to be worth 540 Chilean pesos by the end of the year. However, the Chilean real exchange rate is at level comparable with the averages of the last 15-20 years.

In terms of financial markets, liquidity conditions have normalized for financing in CLP and US dollars. Big companies are substituting external financing for home financing (loans and bonds). Bonds placement and commercial papers have increased significantly during last six months.

Business

Peruvian group Brescia bought the main cement manufacturer in Chile belonging to French group Lafarge (US\$ 555 million). This is the most important Peruvian investment in the country.

Multinational General Electric and UST Global will build in Chile its first plant export of technological services (software), which will require at least 1,000 new employees. This investment will be ready to start operations at the end of this year

Energía Austral, a local affiliate of the Swiss-based Xstrata, announced its Cuervo River hydroelectric dam project, which will cost US\$ 733 million and employ 1,650 people during construction stage. This project is in the process of obtaining environmental permissions.

Forecasts

This year GDP will contract 1.5%. The major fall will occur the 2nd quarter of 2009, afterwards activity will start a process of gradual recovery. The recovery towards the end of the year supposes favorable international scenery, an important normalization of credit conditions, and confidence returns.

Story of the month: Chile, road to OECD

In 2004, Chile formally applies for membership of the OECD group. In 2007 this group invites Chile to join them, along with Israel, Russia, Estonia and Slovenia. As of July 2009, the road is almost completed. There are only few requirements to be met. Pending issues to be accepted are i) Bank Secrecy Modification, ii) Anti Corruption Commission (especially in international trading); iii) Corporative Government (avoid public ministers from participating in public companies boards); and iv) Labor market (to make it more flexible). If everything goes as planned, Chile will be accepted as a member of the OECD, in December 2009.

Mexico: Ruling party defeated in mid-term elections



Politics

The ruling Partido Acción Nacional (PAN) was defeated in the mid-term elections. It obtained only 28% of the vote against 36.7% won by the opposition party - Partido Revolucionario Institucional (PRI). This was the worst defeat in PAN's history, even though the President Calderón himself remains popular, with an approval rating of approx. 57%. The PRI has thus now re-emerged as the largest party in the Chamber of Deputies, and together with the Partido Verde the PRI will now have a majority. The leftist Partido de la Revolución Democrática (or PRD) won 12.2% of the vote, while the Partido Verde, an ally of the PRI, won 6.5%. The new Congress will be seated on September 1st.

According to their agenda the PRI aim to cut government spending before raising taxes as part of measures to strengthen public finances. They are also expected to seek major changes in the tax system by eliminating overlapping taxes. The PRI may block an attempt by President Felipe Calderón's National Action Party to win approval for raising taxes. Calderón has said the 2010 budget proposal may include a plan to boost tax collection, increase debt and cut spending.

Economics

Mexico's real GDP dropped by 9.7% year on year and by 1.1% quarter on quarter in April-June. Value-added output from secondary industry dropped by 11.5% as manufacturing output plummeted by 16.4% and construction activity fell by 9.2%. After declining for ten consecutive quarters, mining output in fact crept upwards by 0.6%. Retail activity dropped by 20.9%.

According to Banco Santander Mexico's unemployment rate for July rose to 6.12% (worse than the expected 5.68%) from 5.17% in June, and was in line with the significant drop in economic activity.

According to the central bank Mexico's economy is expected to shrink 7.5 percent this year, the most since 1932.

The federal Finance Ministry will announce the budget balance for July on August 28th. The budget deficit will reach

the equivalent of 3 percent of GDP this year from 2.1 percent in 2008, the government predicts.

Cash remittances from Mexicans living abroad keep tumbling, with a second-quarter drop of 17.9% compared with the same period last year.

The annual rate fell to 5.44 percent in July from 5.74 percent in June, the lowest in a year. The central bank forecasts inflation of 5.25 percent in the third quarter, slowing to as low as 4 percent by the end of the year. The bank's inflation target is 3 percent by the end of 2010.

On August 21st Mexico's central bank kept its benchmark interest rate unchanged for the first time in eight months and said it will "extend the pause" in borrowing costs amid an economic recovery according to Bloomberg

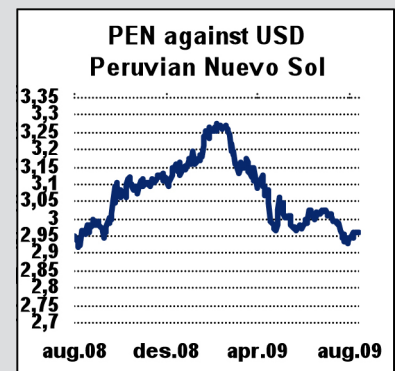
Mexico faces the threat of a lower credit rating after Standard & Poor's cut the outlook on government debt to "negative" from "stable" in May, citing a dependence on oil revenue. S&P rates Mexico BBB+, the second- highest grade among major Latin American countries after Chile.

Finance

According to Banco Santander the lower oil prices have caused a marked weakening of the Mexican peso. Also, expectations that the Central Bank may end the daily dollar auctions on 8th September has been putting additional pressure on the currency.

Banco Santander have upgraded Mexican stocks, the worst performers in Latin America this year, to "overweight" as they predict that the economy will recover faster than peers in the region.

Peru: Reshuffle of cabinet



Politics

After a wave of civil unrest, including a conflict in the Amazon region and a two-day public-sector workers strike President, Alan García, made significant changes in his cabinet on July 11th in an attempt to re-establish confidence. The change involves the replacement of the prime minister and seven cabinet members.

There has been considerable controversy over the government's violent response to months of protests by indigenous groups in Peru's rainforest region. The cabinet changes were a response to this. On June 5th clashes between protesters and police led to the deaths of 60 people. On July 8th security forces cleared roadblocks in four provinces and confronted transport workers and teachers.

The former prime minister Yehude Simon stepped down after being heavily criticised for the handling of the Amazon crisis. He has been replaced by Javier Velásquez, the head of Congress.

According to the Economist Intelligence Unit (EIU) the unrest reflects the pressures that have been growing for some time on the administration. The poor, who represent one third of the Peruvian population, have not been able to share the benefits from the outstanding economic growth that Peru has experienced during several years. In addition, many Peruvians are disagreeing with the administration's pro-business policies. Increasing revelations of corruption are also making Peruvians sceptic.

Economics

Peru's economic activity fell by 2.1% year on year in June, marking Peru's worst performance in eight years. GDP rose by just 1.8% in the first quarter of 2009 following average growth of 9.8% over 2008 as a whole. According to the national statistics agency manufacturing activity fell by 12.2% in June and by 8.3% over the first half of 2009. The retail sector, fell by 3.4% and the construction sector was down by 1.3%. The mining, fishing and agriculture sectors all declined compared with the average performance for the first half of the year.

On August 6th Peru's central bank cut its benchmark lending rate by 0.75 percentage point to 1.25 percent, the lowest in five years. This was more than economists expected.

Peru's foreign-currency debt rating was affirmed at BBB- by Standard & Poor's, which cited "solid" economic growth prospects and a positive investment climate. S&P maintained Peru's foreign debt rating at the lowest level of investment grade while keeping the nation's local-currency rating at BBB+.

Finance

Peru's Finance Ministry will auction up to 200 million soles (USD 68 million) in sol-denominated sovereign bonds on the local market. The ministry said the bond placement will be a reopening of its sovereign bond series maturing in August 2031. The bond issue is part of a series of placements aimed at raising funds for public-sector works programs by regional governments. The government has authorized the overall placement of up to PEN 2.6 billion in the sovereign bonds on the local market for the public-sector works program.

The Andean Development Corporation - CAF has approved USD 2.2 billion in loans to Argentina, Colombia, Ecuador, Peru, Uruguay and Venezuela to offset the effects of the global economic recession. USD 300 million is going to a train project in Lima.

Argentina: Kirchners loss could be advantageous for economy



Politics

Argentine president, Cristina Fernández's ruling party lost the congressional elections on June 28th. This means that Ms. Fernández and her husband, former president Néstor Kirchner, has lost their majority grip in the legislative bodies of the country.

As the news of their defeat was known, the stock exchange of Buenos Aires rose by 1.4% and the price of Argentine bonds rose 5%. Kirchner announced in the aftermath of the election that he would resign as leader of the Peronist party.

The new congress and senate takes its seats in December, and after this the president's party will have to give up her confrontational-style politics, since she will have to cooperate with the opposition in order to get a majority. Observers see this as a positive development, and hopes rise that this will force her to accept a new deal with the IMF as well.

Although the opposition gained majority, there is no consensus on what the opposition will do with it until the new congress assumes in December. There is no clear idea of what will happen, and this makes the next couple of months interesting to observe for outsiders.

Economics

Following the electoral loss, Ms Fernández replaced the finance minister Carlos Fernández with Amado Boudou, the former head of the social security agency. Mr Boudou will face challenging times, as the Argentine Economy is heading for a sharp economic retraction after six years of consecutive growth. The Economist Intelligence Unit (EIU) estimates the Argentine Economy to contract by 3.5 percent during 2009.

A strong fiscal adjustment is needed, as the government increased spending before the election. With no such adjustments, there is a real fear for another default on foreign debts. Another default like the one in 2001 could mean a severe crisis for the already struggling economy.

The new finance minister has taken some actions in his first weeks: He has launched a reform of the INDEC, the national statistical bureau, accused for cooking the inflation

numbers for years now. Also he has made a down payment on the interests for the “Boden”-bonds to creditors. He has reiterated the message that Argentina will honour their debts and try to make a re-entry into the international credit market – a market they have been excluded from ever since the 2001 default.

Finance

The Argentine government has been keeping the currency weak compared to the USD in order to promote exports. They want to increase the trade surplus, as this was what pulled them out of their last crisis in 2001. However, due to the weakening of the USD as well, analysts are expecting complaints over an undervalued currency to emerge.

Business

The Argentine government hopes to attract large investments in the natural gas industry, reports nasdaq.com. They hope to attract as much as MUSD 650, the planning ministry has reported. The government is trying to restart the sector by large subsidies, after the industry has been struggling ever since the crisis in 2001. The government hopes that production will rise by 1,2 million cubic meters per day in 2009 and then 4,8 million cubic meters per day next year. The ministry said under Gas Plus, 14 projects have been approved which would increase production by 9 million cubic meters per day, and require more than \$ 1.6 billion in investments in total. Six of the projects are already under development.

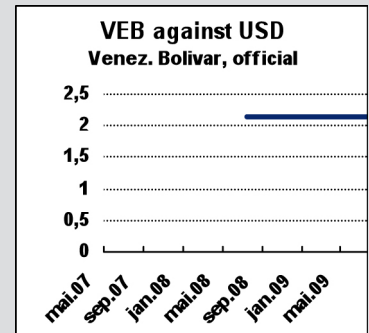
Story of the month

If political turmoil and economic recession was not enough, Argentina has been one of the countries hardest hit by the H1N1-virus, the swine flu. The country is among the most affected in the world, and more than 500 deaths are confirmed. Schools have been closed for an additional month after austral winter holidays and many restaurants, theatres and other venues where people gather has had important economic setbacks due to the outbreak.

To add to all this, national pride is under siege as the country might have to import beef within two years as farmers are affected by serious drought this year, and incentives to keep cattle have fallen as the export taxes have taken away parts of the profitability of producing beef in Argentina.

It has been a long winter in Argentina this year.

Venezuela: Chavez continues radical agenda, opposition fails to unite



Politics

The Chávez government is trying to accelerate their ambitious reform plan, and has launched two new reforms for education and media. In education, the reform is intended to adopt a “socialist” approach to education, and in media the plan is to strengthen the governments control. According to the Economist Intelligence Unit (EIU) a draft law on media «crimes» prepared by the public prosecutor, Luis Ortega Diaz, and presented to the legislature at the end of July makes it a crime to provide false information that is deemed to harm the interests of the state, or pose a threat to state security, public morale or social stability.

Needless to say, the push for more reforms are making the opposition worry, but so far there has not been successful results from the efforts to unite the opposition forces.

Economics

The Venezuelan economy retracted by 2,4% year-on-year in the second quarter of 2009, according to EIU. This has not happened in more than five years. The important petroleum sector declined its output by 4,2% in the second quarter, a small improvement from the previous quarter when the decline was 5%.

There has also been an important drop in domestic demand in the last quarter. Private consumption fell by 2,7% year-on-year in second quarter. Ironically, the fall in private consumption helped the headline GDP fall, as imports of goods and services fell by 7,7% and thus improved the trade balance. This fall also reflects the governments attempts to limit imports.

The EIU believes that the fall in GDP is less than what seems normal, given signals of strong fall in private consumption and productivity – by many contributed to the wave of nationalizations done by the government. There is suspicion that the numbers could be showing only parts of the picture.

All signals show that the economy is headed for a sharp recession. Add to this an almost disappearance of trade finance, making imports harder for Venezuelans, and trouble at the Cadivi – the official currency agency- the outlooks are grim.

Finance

The Finance minister, Ali Rodriguez, presented last week the plans for a large stimulus package for the economy, and a part of this package is, according to the minister, to cut the gap between the parallel exchange rate and the official rate. The official rate is still 2,15 Bolivars for a US dollar, while it's trading at 6,52 at the parallel market.

The minister did not however disclose any of the details regarding the package, so how this gap will be solved remains yet to be seen.

Colombia: Still president, if he can get it



Politics

The uncertainty regarding whether or not president Álvaro Uribe will be able to run for a third consecutive term as president has still not been resolved, but the only thing certain is that if he will be able to run, he will be almost guaranteed reelection in the upcoming presidential elections in May 2010.

In the beginning of August, a congressional committee approved the change in constitution needed for him to run for re-election. However, a difficult vote awaits in the full house, reports Reuters.

Uribe is a key ally in the Andean region for the USA, where neighboring governments regularly criticize U.S. policy and are strengthening ties with Russia, China and Iran.

However, even some of Uribe's staunchest supporters in Colombia and the United States say that another constitutional change could throw off the country's democratic balance of powers.

But even if he is not allowed to stand for a third term, it is believed that there will be continuity in the country's political life, as the front runner after Uribe for the presidency is Juan Manuel Santos, a former Uribe defence minister.

Economics

Due to the political differences in the Andean region, Colombias trade with primarily Ecuador and Venezuela has suffered much during the past months. Currently Colombia is looking to Central America for new markets – a region where the Colombians have a free trade agreement.

The government in Colombia expects an economic growth of 0,5% this year, compared to 2,5% in 2008.

The central bank has cut the benchmark lending rates seven times since December from 10 percent to 4.5 percent in order to help the economy. The fall in demand for Colombia's exports, has pushed the economy into a recession for the first time since 1999 in the first quarter.