





Arne-Christian Haukeland
arne.haukeland@dnbnor.no
+ 47 55 21 19 53



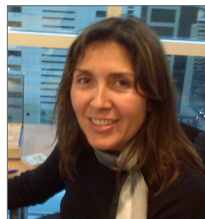
Lars Kvamme
lars.kvamme@dnbnor.no
+ 47 55 21 18 11



Tom Mario Ringseth
tom.ringseth@dnbnor.com.br
+ 55 21 22 85 17 95



Karen Kosberg
karen.kosberg@dnbnor.no
+ 47 22 94 46 59



Marcela Hernández M.
Chile branch
marcela.hernandez@dnbnor.no
+ 562 9230100

Latin American Desk

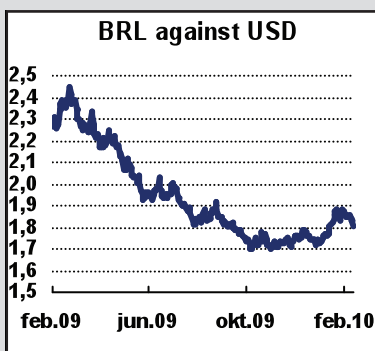
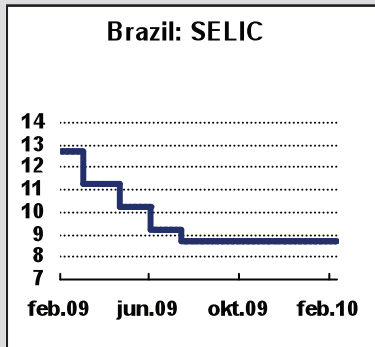
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Brazil: Strong Economic Growth Perspectives and Election Year



The year of 2010 is an important year in Brazilian politics as the successor of President Lula will be elected in the October elections and will take office in January 2011. There are also Congressional elections to the Senate and House of Deputies, State and Municipal elections. Brazilian economy expects in 2010 to reach a growth of 5% in GDP. Domestic economy is showing strength and is the driving force for economic growth in Brazil. Brazilian exports have been suffering during the last months due to the strong Real.

Politics

President's Lula national and international standing continues strong. High blood pressure prompted him to attend at the end January the World Economic Forum meeting in Davos, Switzerland, where he was expected to receive the WEF's first-ever "Global Statesmanship" award.

President Lula has managed well the Brazilian economy during the financial crisis boosting public spending and investments via PAC – the public growth acceleration program and implementing tax reductions in order to support consumption of goods and services in the Brazilian economy. Despite the financial crisis he has maintained his record high approval ratings. He is actively supporting his Presidential candidate, Minister and Chief of Staff Ms. Dilma Rouseff for this year's election. The Presidential elections will most likely be a run off between Ms. Dilma Rouseff and current Governor of Sao Paulo and possible PSDB candidate Mr. Jose Serra. Other possible candidates are former Governor of Ceara and Minister in the first term of President Lula, Mr. Ciro Gomes and former Environment Minister and Senator

Ms. Marina Silva. Important and decisive as to chances in this year's election as President will be the choices of the candidates as Vice President. The most recent speculations are that President of Banco Central Mr. Henrique Meirelles might be the Vice President candidate of Ms. Dilma Rouseff, thus seeking to calm financial markets. As to the choice of Mr. Serra as Vice President candidate, there still are rumours as to the possibility of the popular Governor of Minas Gerais Mr. Aécio Neves from the same party teaming up. Another possibility mentioned is Ms. Marina Silva. The official Presidential candidacies have to be confirmed by the end of March.

Many in Brazil question today where the political opposition is. They have not been seen or heard during the last years. It is quite challenging to be in opposition to President Lula who continues posting record high approval ratings above 80%. The inspiration of the opposition seems to be the similar situation in Chile where despite approval ratings higher than 80%, President Ms. Bachelet did not manage to elect her candidate as President, with the elections there in January being won by Sebastian Pinera of the opposition.

Again, where PMDB, Brazil's largest political party, will drift in the upcoming elections will be decisive not only for the Presidential elections, but also for the composition of the Congress and the governability of the new administration in the period 2011-2014. As always the party is split and definition as to election support is only expected in June upon the party's convention. Support from PMDB is important as they command much TV and radio time during the election campaign. The fact remains that despite whoever wins the 2010 elections the PMDB party will be in the next administration and the new President will need the PMDB party's support in the Congress to ensure a minimum of support for the future government.

Election polls from CNT/Sensus held during the last week of January indicate voting intentions for Serra at 33.2%, for Dilma at 27.8%, for Gomes at 11.9% and for Silva at 6.8%.

The House of Deputies has still not concluded the voting on the new "Pre-salt" regulatory framework for the pre-salt areas. The main pending issue is the division of the proceeds between the states, the split of revenues between producing states and non producing states. Voting on these issues is expected by second half February.

Economics

Perspectives for GDP growth in 2009 remains at 0% or slightly negative. For 2010, according to Focus report in late January, compiled by Banco Central, average GDP growth estimate is now at 5.35%.

Domestic economy has reacted well to the government's proactive pre-emptive anti-cyclical measures implemented as result of the financial crisis. Liquidity has been increased into the economy and the government has cut taxes and reduced the SELIC rate in five straight meetings and maintained this reference rate at record low level during the last 4 meetings at 8.75% p.a. The consequence of this is a strong domestic economy with solid growth perspectives in 2010 and strong market confidence.

The Real ended January at BRL 1.89 per USD, almost 9% weaker than year end December at BRL 1.74. This was the ninth consecutive day of weakening of the Real versus the USD. The recent devaluation of the Real vs. the USD is a consequence of global pessimism; reduced liquidity in China, expectations on limitations in the US banking market and concerns of increasing fiscal deficit in Portugal, Spain and Greece. Strong US 4th quarter GDP growth at 5.7% was perceived positive for the US Dollar. Domestic issues influencing the Real development have been poorer foreign international trade performance and the exit of foreign investors from Bovespa due to higher risk aversion of global markets. It is worth while to point out that there are a lot of domestic concerns as to that the Real has been too strong versus the USD and Euro and thus Brazilian manufacturing industries losing international competitiveness. The consequences of a strong Real have been concerns that Brazil will only be able to sell internationally agricultural and mineral commodities and not being competitive as regards to exports of industrialized products. It is a fact that domestic costs calculated in USD are considered today to be high in Brazil in relation to costs in other countries.

The performance of monthly inflation figures in Brazil has been closely followed by the government and the financial markets as to its influence on monetary policy and future interest rate adjustments. Prior to the financial crisis, the only instrument utilized by the government to control inflation and inflationary expectations was the SELIC basis interest rate. As consequence of the financial crisis there has been a shift in economic policy priorities granting more importance in sustaining economic activity than following the inflation target and performance. At the end of January Banco Central maintained the SELIC rate at 8,75% for the fourth consecutive SELIC meeting. There is however concerns that inflation is picking up due to the strong domestic economy and that the SELIC rate might be increased by 50 basis points in either the next meeting in March or the meeting thereafter in April. Year end SELIC rate might reach 11.25% if inflation picks up.

The IPCA index for January is expected to come at above 0.60% in relation to 0.4% in December. This figure for January is slightly higher than expected even taking into account seasonal price increases. Inflation performance during next weeks will be decisive in relation to future interest rate adjustments.

Foreign trade performance is deteriorating due to the strong Real, higher imports and lower exports. Brazilian exporters are crying for a weaker Real. The trade balance for January posted a deficit of USD 166 million, resulting from exports of USD 11.305 billion and imports of USD 11.471 billion. This was the first deficit in a year. In December 2009 the monthly figure showed a surplus of USD 2.18 billion. In 2009 the trade surplus was USD 24.7 billion. It is expected that the trade surplus in 2010 will fall to USD 10 billion and fall further in 2011 to USD 4.5 billion according to the Focus report compiled by Banco Central. It seems as if Brazil's external accounts are now more dependent on capital inflows to remain balanced and with a trend for a significant increase in the current account deficit expected in 2010 and 2011. The Current account figure ended 2009 at a deficit of USD 24.3 billion better than in 2008 a deficit of USD 28.2. Profit

and dividend remittances by multinationals declined in 2009 to USD 25.2 billion down from 2008 at USD 33.9 billion. Foreign direct investments in 2009 compensated the current account deficit, posting a figure of USD 25.9 billion.

Currency reserves were by the end of January at USD 241.1 billion. The total external debt of both public and private sectors was at end of December estimated at USD 202.5 billion.

Due to the financial crisis, and stimulus package to the domestic economy, the Lula administration reduced the 2009 primary public sector surplus target from 3.3% to 2.5% of GDP and further allowing for deduction of up to 0.6% in infrastructure spending. With the help of some adjustments, the primary surplus target was met at 2.1%. There is however much concern on the surge in public spending in 2009, more than 15% and much of this increase as public employment.

Unemployment figures are falling and according to IBGE and it ended 2009 at 6.8% equaling a previous record low level. Brazilian economy created almost 1 million jobs last year in order to meet higher domestic demand as consequence of economic expansion fueled by ten straight months of credit expansion, tax cuts and record low borrowing costs.

Finance

Financial markets were nervous with a falling trend during the second half of January. Global risk aversion hurt Brazil and foreign investors exited the Brazilian market. The IBOVESPA stock market index closed in the end of January at 65.402 points posting a loss during the month of 4.65%. In USD terms, with the strong depreciation of the Real in January, the Brazilian stock market fell by 10% last month.

Bond prices experienced a negative run last month. The BR 40 bond posted at the end of January a spread of 171 basis points over US Treasury bills compared with 134 basis points at the end December. The JP Morgan risk index EMBI+ Brazil was at the beginning of February at 230 basis points.

The market expects volatility in the Brazilian financial markets, due to increased global risk aversion trend, uncertain perception as to the global financial crisis and the fact that 2010 is an election year in Brazil.

Business stories of the month

Capital markets remain strong in Brazil with several transactions expected for this year. Eike Batista will raise equity for his new company OSX, a shipyard and offshore company. Banco do Brasil will raise capital of about BRL 13 billion both from the National Treasury which holds 65.4% of the bank and private shareholders. Upon approval of the new pre-salt regulatory framework, Petrobras is expected to raise as much as USD 30 billion from minority shareholders in the expected share sale where the Brazilian government will increase its controlling ownership in the company. This is in relation to the proposed swap for 5 billion barrels of oil for new shares in the company.

Shell and Cosan are entering into a partnership for shared control of the world's largest sugar cane producer. Shell will enter into the transaction with 2740 service stations and

USD 1.93 billion in cash and Cosan will contribute to the partnership USD 4.93 billion of assets including plants to crush 60 million tons of cane per year. The joint venture will also assume all of Cosan's debt estimated at USD 2.5 billion. It seems as if Shell is giving biofuels – ethanol priority over other alternative energy sources. Access to Shell's facilities in the US and Europe are also attractive market opportunities for Cosan's ethanol.

Braskem owned by Odebrecht and Petrobras is becoming a global player in the petrochemical market through the acquisition of Quattor in Brazil and the polypropylene (PP) assets of Sunoco Chemicals, Inc. USA.

Vale entered into the fertilizer sector following other global mining players by spending USD 3.8 billion for Bunge's mineral assets including Fosfertil. Vale also paid USD 785 million for Yara's 15.5% stake in Fosfertil and 50% stake in phosphate project Anitapolis.

BNDES the Brazilian National Development Bank, the main source for medium and long term investments in Brazil disbursed in 2009 BRL 137.4 billion in loans, a 48% increase in relation to 2008 when it disbursed BRL 93 billion in loans. The current investment rate in Brazil is estimated by BNDES President Luciano Coutinho at 16.9% and the government of President Lula envisages that this rate is to be increased to 23% of GDP by 2015 in order to be able to sustain a growth in GDP of 5% without inflationary threats.

Forecasts

The Focus Report posted by Banco Central at the end of January, based on survey among economists from 100 Brazilian banks, came out with the following forecasts: IPCA inflation index for 2010 at 4,62% and for 2011 at 4.5%. Exchange rate at end of 2010 estimated at BRL 1.76 per USD and at end of 2011 at BRL 1.85 per USD. GDP growth set for 2010 at 5.35% and for 2011 at 4.5%. The trade surplus for 2010 is estimated at USD 10 billion and in 2011 at USD 4.5 billion. Foreign direct investment is expected to reach in 2010 USD 38 billion and in 2011 USD 40 billion. The current account is expected to post a deficit in 2010 at USD 49.3 billion and in 2011 a deficit of USD 59.74 billion. The SELIC benchmark interest rate is expected to end 2010 at 11.25% p.a. and at end 2011 at 11%. The net public debt to GDP ratio is estimated to reach by end 2010 level of 42% and at end 2011 at 40.5%.

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Chile: New president – same policies



Politics

Sebastián Piñera (Coalición por el Cambio), the centre-right coalition, won the January 17th presidential run-off. However, Chile's economic model is likely to remain largely stable, as there is strong consensus across the political spectrum over the economic policy. We expect stimulus policies to be maintained through the middle of the year, permitting economic growth of 4.2% in 2010 and 4.6% in 2011. A Piñera-led government will seek to introduce reforms to increase investment, structural employment and productivity levels –which have fallen in recent years owing partly to increased labour market rigidity- via labour market reforms, public-sector modernisation and tax incentives on reinvested profits. Mr. Piñera will take office on March 11th.

Economics

The Chilean economy is experiencing a recovery. The month of November, Chile recorded the strongest rise (of 1.2% mom, and 3.1% yoy) in the economic activity since June 2008, indicating that Chile had emerged from recession (sustained growth over the past six months). The composition of this growth shows a strong recovery, led by mining, retail and utilities. The increase was higher than market expectations (approx. 2.5% yoy) as a result of higher growth in manufacture. In general, the rebound is happening across different economic sectors, which is very good, however there is still uncertainty about the time the recovery will take place. Despite these good indicators, we expect a contraction for the full year 2009 around 2%. For the year 2010, we expect the end of excess of productive capacity and therefore the Chilean economy to start the process of economic recovery and strengthening.

In the other hand, the inflation rate remains negative, for the year 2009 the index fell –1.4%, the most important fall since 1935. Negative inflation in 2009 is mainly explained by the slowdown in product demand from the financial crisis. Inflation will continue to stay under control, below 3%, however inflation may rise due to the increase in commodities prices and excess liquidity.

Since July, the Central Bank has held its reference interest rate at 0.5%. According to specialists Central Bank will increase slowly the monetary policy rate from 0.5% to 3%, starting in 2Q 2010. However, it's expected higher costs of credits due to the increase in the stamp tax (0.6% from

January 2010 and 1.2% from June 2010) and as a result of new provisioning bank regulations, which mandate banks to set aside US\$ 500 MM to safeguard their portfolios of unsecured credit.

Labor market deterioration has been stopped and the labor market is recovering. The unemployment rate reached 9.1% in November 2009, however this rate is higher than the same month of the previous year. The peak of job losses was done during the quarter between May-July.

Finance

During November Chilean peso had the highest depreciation against US dollar at global level (7%), during December the Chilean currency continued to depreciate but at lower level (1%), as a result of the increase in copper price mainly. We don't expect high level of local currency depreciation as it was in November, however we expect for 2010 to maintain the Chilean peso depreciated (close to \$500 CLP/USD), due to increased global demand for commodities as copper, wood and pulp.

Stocks markets are buoyant. Chile's main stock index raised the most in a month, extending the best equities rally in Latin America this year, after Mr. Piñera won the nation's presidential election.

Business

Chile Congress delays bailout legislation for salmon industry. The vote on new initiative deciding the future of Chile's salmon industry was postponed until March. The legislation came in the wake of the salmon industry's dramatic disintegration due to the outbreak of Infectious Salmon Anemia (ISA) virus in 2007. The initiative would introduce strict standards to the Chile's salmon farming sector and improve workers rights. It would also give salmon industry owners property rights (rather than concessionary rights) to the areas where they now farm their salmon. Salmon companies were very disappointed with this decision, in special because the industry needs US\$ 1,000 million for the recovery and both investors and banks need a clear legal framework.

HidroAysen, the mega energy project slated for southern Chile's Region XI (Patagonia), delays Response To Environmental Questions Until June. The US\$3.2 billion energy project, owned by Italian Energy Company Endesa and its Chilean associate Colbun, plans to build five hydroelectric dams in Chile's pristine Patagonia area on the Baker and Pascua Rivers. The aim is to generate 2,750 megawatts of energy yearly and then transport the energy 2,000 kilometers north to Chile's Central Valley. The project would consolidate more than 80 percent of the central grid's energy production in the hands of the two energy companies. The estimated US\$3.2 billion construction cost does not include the cost of installing the transmission line from Aisen to Santiago at an additional cost of US\$1.6 billion.

Forecasts

The Central Bank is forecasting a contraction of 2.0% for year 2009. Growth is, however, expected to rebound sharply next year. According to the Central Bank, GDP will expand by between 4.5% and 5.5% in 2010 while private forecasts currently average 4.3%.

Story of the month: Chile signs up as first OECD member in South America

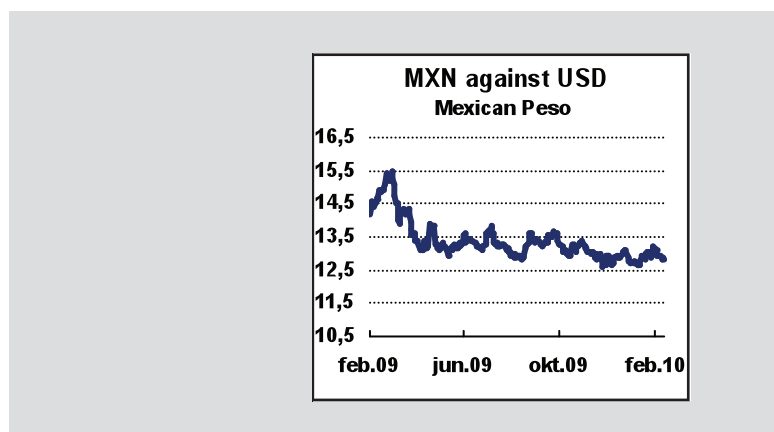
Chile's acceptance for OECD membership marks international recognition of nearly two decades of democratic reform and sound economic policies. With both Chile and Mexico as members, and thanks to increasingly close co-operation with Brazil, the OECD will have substantially strengthened its links with Latin America.

Since it began talks with the OECD in May 2007, Chile has taken significant steps by introducing new laws to end the banking secrecy that provides a shield for possible tax evasion and enabling prosecutors to pursue companies suspected of bribery and corruption.

New legislation has established a clear separation between the State and the board of copper mining company Codelco, Chile's largest state-owned enterprise.

In the private sector, a new law will boost transparency by requiring increased information for financial markets while combating misuse of insider information and reinforcing requirements for external auditors.

Mexico: The central bank losing its independence?



Politics

President Calderón has submitted a reform package to Congress, including the introduction of re-election for legislators and a second presidential election round. The reforms will not affect the prohibition on re-election of the president and state governors. The objective with the reform is that the ability to be re-elected will make officials more responsive to the public, which would constitute a major change from current political practice. However, it is expected that the President's minority congressional position will complicate the passage of the reform.

Agustín Carstens has been appointed the new central bank governor for a six-year term. A political ally of President Calderón, Ernesto Cordero, has taken Mr Carstens's position as minister of finance and Heriberto Félix Guerra is filling the vacancy left by Mr Cordero's departure. Opponents of these changes argue that Mr Carstens's move from the finance ministry to Banco de Mexico would jeopardise the independence of the central bank and that Mr Cordero's appointment was prompted primarily by political considerations.

After some gains in Mexico's drug war in 2009, recent developments have turned worse. In Tijuana more than a dozen people, four of them students, were reported killed in the first week of January.

Economics

Last year's economic contraction is estimated to 6.8% year on year. Miguel Messmacher, chief economist at Mexico's Finance Ministry, has said there is a "very high" probability the country's economy will grow more than 3 percent this year. He says that Mexico's unemployment rate, is at the lowest in nine months, and that the economy is showing a strong recovery. Domestic and external demand is improving, leading to a recovery in exports and sales. As the US – which buys 80% of Mexico's exports- is slowly recovering, Mexico's economy is also improving. The jobless rate was 4.8 % in December, the lowest since March, after reaching a high of 6.41% in September.

However, according to the U.N.'s annual economic forecast Mexico's close trade ties with the U.S. and falling oil production will make it more difficult for the country to rebound from recession in 2010. The U.N.'s Department of Economic and Social Affairs has landed on the same estimate at the Mexican government has provided: i.e. 3%.

Inflation is reported at a downward trend and the Central Bank estimates it is likely to come in below the 4% target at the end of 2009. The Central Bank has revised its inflation forecast up to 4.75-5.25% for the second half of 2010, although it still expects inflation to edge down in 2011, ending that year at around 3%, consistent with the Central Bank's medium-term target.

Finance Minister Ernesto Cordero has said the government expects the central bank will keep the benchmark interest rate stable as tax increases are having a moderate impact on inflation.

Business

Mexico's telecom regulator – Cofetel is planning to hold an auction of new wireless spectrum to raise competition. It plans to conduct two spectrum auctions by the end of June and believes there is no shortage of prospective bidders.

Banking sector data point to a continue fall in credit growth from commercial banks. However, this is being partly compensated by an increase in lending from development banks.

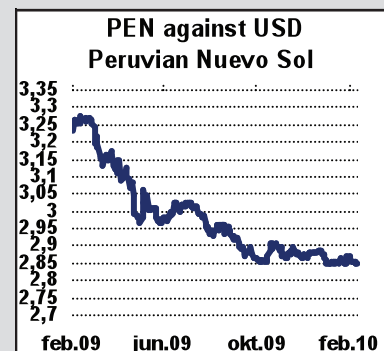
Finance

The peso is up 0.9 percent this year, the third-best performance against the dollar among 16 major currencies

The government is considering whether to renew a flexible credit line with the IMF and will make a final decision on the matter in March. The IMF in October 2009 reaffirmed Mexico's access to USD 47 billion credit line granted in April to protect the country's economy from the global financial crisis. The line, which Mexican officials are treating as "precautionary," expires in April.

In December Standard & Poor's became the latest international credit rating agency to cut its rating on Mexico's long-term foreign currency debt to BBB from BBB-plus. The rating is now in line with other agencies' and stands only one notch into the investment grade category. Even so, the Mexico City stock exchange has shown a positive increase in line with other stockmarkets around the world.

Peru: FDI on the rise



Politics

Corruption scandals affecting both Congress and the government have further damaged the popularity of President Alan García's. Approximately 80% of members of Congress are facing ethics investigations or have already been forced out, usually for cases involving allegations of petty corruption or bad behaviour. In recent weeks, scandals involving a congresswoman Elsa Malpartida and former cabinet member Francis Allison have further damaged the public image of Peruvian politicians. There is a demand for stricter control procedures for elected representatives following the revelation that Ms Malpartida was a conscripted member of the Maoist guerrilla group, Sendero Luminoso (Shining Path). Ms Malpartida has said she was forced to join against her will in the early 1980s in the central jungle region of Peru, and later took an oath of repentance.

This scandal was followed by the revelation that the former minister for housing, Francis Allison, had been arrested in November by customs officials at Miami airport for not declaring that he was carrying almost USD 30,000 in cash out of the country on his way to Panama. Mr Allison had been forced to resign in September, after less than four months as minister, owing to an ongoing phone-tapping scandal that had also led to the resignation of the then prime minister, Jorge del Castillo, and the entire cabinet in October 2008.

On December 22nd President Alan García announced the resignation of Luis Carranza as minister of finance and the economy, and named the minister of production, Mercedes Aráoz, as his replacement.

Economics

The government expects exports to rise to USD 30 billion this year (from approx. USD 25 bn in 2009), as the global

economy recovers and a free-trade agreement with China is taking effect. China is the second-largest market for Peruvian exports after the United States. A trade pact with China is estimated to increase Peru's rate of economic growth by 1 percentage point a year. Peru exports copper, iron ore and zinc to China, while imports are cell phones, machinery and other high-tech items. Peru is working at achieving similar deals with South Korea, Japan, Thailand, Australia and New Zealand, as the government pushes for open trade.

Peru's Central Reserve Bank president, Julio Velarde, recently forecasted that the gross domestic product growth figure could register slightly over 5%, bringing the total 2009 GDP figure to «about 1%.»

Annual inflation may quicken gradually in the coming months, reaching the Central Bank's 1 percent to 3 percent target range during the second half of 2010, according to a Central Bank report. The bank does not expect to make any changes to its reference rate from its current 1.25 percent unless there is a significant change in the outlook for inflation. Pushing borrowing costs to a record low has allowed interest rates in the financial system to fall, boosting credit to companies and homebuyers, the report said. According to the report long-term interest rates on government bonds have also fallen.

A report by the International Labour Organization (ILO) indicates that of 14 countries surveyed in Latin America and the Caribbean, Peru and Uruguay were the only ones able to reduce their unemployment during 2009. In Peru, it was reported that urban unemployment fell from 8.6% in 2008 to 8.5% in the third quarter of 2009.

Business

Peru was the only major Latin American economy to boost investments from foreign companies last year, according to a new report from the United Nations Conference on Trade and Development. FDI to Peru jumped 28.1% to USD 6.2 billion last year.

Peru's Maple Energy has signed a US\$65m financing deal with the regional development bank Corporación Andina de Fomento (CAF) to develop a US\$222m agro-industrial complex in northern Peru's Piura province. The plant will have the capacity to produce 132m litres of ethanol annually for export to markets in Europe. The project also involves developing close to 11,000 hectares of agricultural land to plant sugar cane.

Story of the month

The Ministry of Transportation and Communications has received a USD 150 million loan from the World Bank for a project aimed at improving Peru's highways. The Safe and Sustainable Transportation project, announced on Thursday, includes the restoration of more than 1,300 miles of highway through medium term, results-based maintenance contracts aimed at reducing travel time and traffic accidents. The project will also include institutional and regulation support, road safety infrastructure, and employment for Peru's rural poor by providing work opportunities on national road corridors.

Argentina: Another central bank loosing its independence?



Politics

Argentina's credibility has once again been thrown into the center of attention after the government sacked the head of the Central Bank, Martín Redrado, after he opposed to transfer USD 6,6 bn of the country's foreign reserves (in total apx. USD 48 bn) to a special fund aimed at serving debt.

In the beginning of February, Mercedes Marco del Pont, a close ally of the Kirchner administration, was appointed new head of the central bank. Mr Redrado opposed the transfer, claiming that the Central bank is independent and saying he was worried the funds could be seized abroad as a part of lawsuits by the holders of Argentine debt that did not participate in the debt swap in 2005.

He also worried the government would spend some of the funds on their unorthodox policy mix domestically. Argentinean creditors still hold USD 29 bn in unstructured debt.

The transfer to the fund still needs an approval in the congress, where president Cristina Fernández de Kirchner lost her majority in last year's election. The Economist Intelligence Unit (EIU) believe that with the independent minded former head of the Central Bank out of the way, she might be able to push enough opposition politicians so that she gets the transfer approved.

The biggest worry in all of this is however that the Central Bank that up until now has retained a seemingly real independence will loose this, and become closer tied to the government. During the presidency of Néstor Kirchner, the current president's husband, the head of the official statistical bureau of Argentina, INDEC, was sacked. After the management was replaced with allies of Mr Kirchner, the official inflation numbers suddenly dropped.

With the much more influential Central Bank possibly loosing its independence, the consequences could be that the government would try to influence not only the reported inflation numbers, but also the monetary policies. This has not been the way the more successful countries in Latin America have managed to create a stable development.

Economics

The economy managed to post modest growth in 2009, despite a severe slump in demand and prices for the country's export commodities in the early months of the year and a credit crunch which undermined Argentina's fragile standing in international capital markets.

The latest developments in Argentina have however made foreign observers of the Argentine economy even more worried than they already were. Many believe the loss of autonomy of the Central Bank will mean that the already high inflation will only rise and the peso will deteriorate. Ms Marco del Pont has tried to calm markets by saying that the Central Bank will stay autonomous, but on the other hand she also said that it could not be independent of all the government's policies.

Analysts think this is a clear signal that this could lead to increased fiscal spending, and a lack of rate hikes to combat inflation. Finally, all of this sums up to a deteriorating reputation among international investors and creditors, which Argentina could be needing going forward.

Growth predictions for the Argentine economy in 2010 range between 3-7%, with the government predicting 7% and most analysts below this.

Finance

The Buenos Aires Merval index has been trading fairly stable in a band between 2300 and 2400, but dropped after the news of the new head of the Central Bank broke. After dropping below 2200 it is currently trading at around the 2300 level again.

The Argentina peso has weakened since the beginning of the year, giving some help to the export industry, but affecting negatively the ongoing fight against inflation in Argentina.

After the latest attempt to seize part of the foreign reserves, it has become clear that the Argentine government is in a serious situation with regards to liquidity. Especially viewed in context with the fact that they nationalized the pension funds last year, it gives clear indications that the government is desperate and need to get back into international financial markets, which they have been excluded from since their default in 2001.

Business

In an attempt to slow the rising food prices, the Buenos Aires daily, La Nación, reports that the government plans to limit the export of Argentine beef, in order to keep the supply up domestically.

Colombia – The Uribe saga continues, uncertain



Politics

Although still very popular, the support for current president Álvaro Uribe's re-election has fallen in recent months, according to the Economist Intelligence Unit (EIU). As any reader of this update knows, there has been a process going for quite some time now on making Mr Uribe eligible for a third presidential term, in contradiction to what the constitution says.

Status is now: There was approved a bill allowing for a popular referendum on whether or not he should be allowed to run. Now, the constitutional court must give a judgment on the legality of this bill, before any such referendum can be organized, and the court will only give its ruling in March. However, with the actual presidential election coming up in May, time will hardly permit a popular referendum in between the ruling and the real election. Ergo, the likelihood of seeing Mr Uribe as the first three-term president in Colombia is falling.

The two main candidates if Mr Uribe steps down now looks to be Sergio Fajardo, a centrist independent and Juan Manuel Santos of the pro-Uribe Partido Social de la Unidad Nacional. The latter will not be a candidate unless Mr Uribe steps down.

How the running field is looking is too early to say anything meaningful about, since it will all change radically the day the current president finally steps down, or up again.

Economics

Year-end inflation in 2009 was reported at 2%, down from 7,7% in 2008. This is below the official target inflation of 4,5% to 5,5%. The Central Bank, Banrep, kept in December their interest rate at 3,5%. This was reduced from 4% in November, but kept at low levels since the inflation was falling towards the end of the year and the domestic economic activity was still weak.

The main reasons for the low inflation are the adverse economic climate in 2009 and an appreciating national currency. The EIU forecasts the inflation to stay between 2% and 4% in 2010.

The yearly growth figures for 2009 has not been published yet, but is believed to show around 0% growth.

Part of the problem for Colombia is its strong reliance on exports to Venezuela and USA – two of the continent's poorest performers during 2009. Venezuela even has a trade embargo on Colombia due to political and military differences.

Partly due to the slump in exports in 2009 Alberto Ramos, an economist at Goldman Sachs Group commented: "The authorities were able to steer the economy into a soft landing during 2009 -- which is quite notable -- but while most other regional economies that are pursuing conventional policies are already experiencing a visible recovery, in Colombia the turnaround in the business cycle has been somewhat delayed."

The Central bank and foreign analysts believe the growth in GDP for 2010 will be at around 2,5%.

Finance

In a report made by RBC Capital markets they write: "We see Colombia as one of Latin America's most attractive investment opportunities over the next 3-5 years. Any deeper near-term global risk-asset correction should be used to increase exposure to Colombian risk via currency, local equities or future corporate debt issuance."

The Colombian peso appreciated much during 2009, although ending down a bit again. Currently trading at around 1900 to the dollar, it is expected to remain at this level during the first six months of 2010, although the elections might cause some fluctuations.

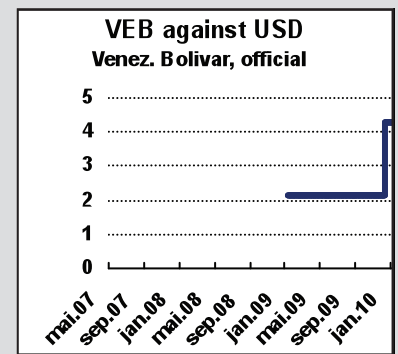
Business

The Colombian coffee exports fell 29% year on year in 2009 after the lowest output level in 30 years due to poor weather conditions in 2009. The production is expected to pick up in 2010.

The Economist Intelligence Unit (EIU) reports: The US's Export-Import Bank will extend financing of US\$1bn to Colombian state oil company Ecopetrol to be spent on imports from US companies. Ecopetrol is engaged in a major push to develop oil and gas reserves to increase petroleum production to one million barrels of oil equivalent by 2015 and to upgrade refineries.

The same Ecopetrol reported that they have had their largest annual increase in oil and gas reserves with 35,5% increase year on year reserves in 2009. Average daily oil output in 2009 reached 670.000 barrels, its highest output in a decade.

Venezuela – Exchange Rate Ruckus



Politics

After introducing a complicated new exchange rate system, including a devaluation, in the beginning of the year, followed by energy crisis, the nationalization of more companies and the shutting down of a critical television channel, the Venezuelan president Hugo Chávez is experiencing some popular discontent.

Even promising more socialist-oriented measures has not kept students from protesting against Mr Chávez and the sad reality of it is that it is believed violence might follow. The plan was to get some more fiscal room from his new currency policy allowing the administration to spend more going into the mid-term elections in September.

But not only has the rising inflation and deteriorating economy hurt the Venezuelan people, but a week after introducing the new currency measures, the current energy shortage led the government to introducing electricity rationing. These are rolling four hours power cuts for the whole country, although protests were so strong in Caracas that the capital city now is exempt the rationing.

What all of this will mean for the outcome of the mid-term election is hard to say, as polls have not been made official yet. Analysts believe however that Chavez' popularity could have fallen below 50% and even as low as 30-40%. The problem is only that the opposition can not agree on anything and have yet to produce candidates for the elections in September. If they keep up at this rate, it is hard to see how Chavez will lose his majority.

Economics

The old exchange rate system in Venezuela was hard to get. The new one is more complex. The Economist Intelligence Unit (EIU) describes the new system as a four-tier system. Let's recap:

For 58 months Venezuela had a pegged exchange rate against the USD at BsF2,15 to USD 1. In addition to this there was a widely used, floating black market exchange rate at apx. BsF 6 to USD 1.

Now, the official pegged exchange rate stands at BsF 2,6 to USD 1. Caution: This rate only applies if you are importing priority products, including food, medicine, goods for the public sector and machinery for industries deemed strategic.

If you are spending your dollars on anything else, you will be buying at the much higher rate BsF 4,3 to USD 1.

However, in addition to this, a part of the new plan is to intervene in the black market as well, in order to narrow the gap between this rate and the official ones. The way the government does this is to sell zero-coupon bond issues that are bought in Bolivars, but repaid in USD after 90 days. The price was set at 116,25% of face value, and the exchange rate applied is BsF 4,30 to USD 1. In effect this is a way to exchange money at a rate close to BsF 5 to USD 1.

And finally, since the black market still values dollars at a higher price than this, the bond issue was over subscribed the first time around in January, and the black market floating exchange rate still exists.

Needless to say that the cost of this for most importing companies in Venezuela is high, especially the ones that has used to accessing USD at the previous official rate. In effect this will lead to a spike in inflation for certain products.

Also for foreign companies, having income in Bolivares whom previously have managed to exchange into USD, will now loose money.

The government, who earns dollars from oil export will boost their income and also some Venezuelan exporters will benefit, although it is very uncertain if this change will make Venezuela an easier country to operate in.

The Venezuelan economy contracted 2,9% in 2009, and IEU expects a contraction of 4,8% in 2010.

Business

The Colombian-French supermarket chain, Éxito, was nationalized in mid-January. The reason was that they hiked prices for certain goods after the devaluation of the Bolivar. Mr Chávez wanted to make an example of it, and also used it as part of his ongoing anti-Colombian campaign. The government has warned other retailers of possible interventions. And it is looking to incorporate businesses into a state-controlled "Corporation of Socialist Markets», announced in December 2009, which is intended to provide a large range of goods and services at heavily subsidized prices.