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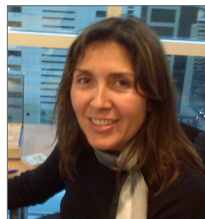
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Brazil: Presidential campaign officially started



Politics

The Presidential elections campaign officially started in the beginning of April with the resignation at end of March by Ms Dilma Rousseff as Chief of Staff in the administration of President Lula and the resignation of Mr. Jose Serra as Governor of the state of Sao Paulo. Other presidential contenders are Ms Marina Silva, former Environment Minister from the PV party (green) and Mr. Ciro Gomes former Minister and Governor of Ceara from a small leftist party.

The elections have yet not attracted great interest by the average Brazilian citizen, but will now start to be followed by the population. World Cup Soccer during June in South Africa will take away attention from the Presidential contention.

Rousseff is strongly supported by President Lula and from a multi party left coalition headed by the PT party. Rousseff has never been elected into any political office, but commands staunch support from President Lula for more than a year as his official candidate. In her campaign, Rousseff will lean on the popularity of Lula in her campaign and seek to compare the accomplishments of President Lula and former President Fernando Cardoso

Serra has vast political experience, as Governor of Sao Paulo, Mayor of the city of Sao Paulo, Planning and Health Minister in the administration of President Fernando Cardoso, Senator, Deputy, etc. and will represent a centre right coalition headed by the PSDB party. In his campaign, Serra will compare his biography and experience with Rousseff, his electoral and political track record compared to Rousseff which never has won any election.

In the Data Folha poll from the end of March, Serra widened his lead over Rousseff. He reached support by 36% of the voters and Rousseff claimed 27%. In the same poll Gomes claimed 11% and Silva 8%. One month earlier, the Data Folha poll posted a 32% support for Serra and 28% for Rousseff. Other polls indicate a lead of Serra vs. a vs. Rousseff, but with variable and lower margins.

The Presidential elections will be held in October and in two rounds if none of the candidates obtain 50% voting in the first round.

Henrique Meirelles decided to continue as President of Banco Central thus aborting his political ambitions to run for Governor of Goias. Financial markets perceived this positively as inflation has increased during the last months and it is expected that Meirelles will support a stronger reaction by Banco Central to curb inflationary pressures on the economy.

President Lula continues to obtain record approval ratings for his administration at 76% in the last week of March, among the highest in the country's history and has declared that he will actively support and participate in the Presidential campaign of Rousseff .

President Lula announced at the end of March the PAC-2 Investment Plan for his successor. The plan is a public and private investment plan in infra structure amounting to USD 886 billion of which USD 534 billion between 2011 and 2014 and the rest after 2014. The plan has to be approved by Congress, so the next President may or may not follow it according to the outcome of the elections. The investment plan includes infra structure investments in preparation for the World Cup Soccer to be held in Brazil in 2014, the Summer Olympics in 2016, the vast investments planned to develop the oil and gas sectors of Brazil. Further investments are targeted for urban development including 2 million new houses for low income people, transportation such as roads, ports, high speed trains, etc. Rousseff present at the ceremony declared that "the plan seeks to boost economic and social development".

On April 10th in Brasilia, Jose Serra claimed that "Brazil can do better" also saying the government should overhaul spending programs to allow for more investment. He also said "to have sustainable growth in coming years, we cannot have a perverse mix of a lack of infrastructure, inadequacies in economic policy, a huge tax burden, an increase of fiscal rigidity and an excessive increase of the gap in the balance of payments."

With reference to the new legislation for the pre-salt oil fields being discussed, no significant progress has been made during the month of March in the Senate.

Economics

Business and consumer confidence are strong in Brazil. The domestic economy is the current driving force in the growth of Brazilian economy and unemployment figure at all time low. Public and private banks are increasing their lending. Vehicle sales in March reached all time high with 353.738 units, 60% higher than sales in February 2010 and 30% higher than March 2009.

The 2009 GDP growth in Brazil ended officially in a contraction of 0.19% despite a strong rebound in economic activity during fourth quarter last year. GDP growth perspectives for 2010 according to the Focus report from the beginning of April present now a perspective of growth in 2010 at 5.5%. It is mainly the strong domestic economy which will be the driver for economic growth in 2010. Unemployment is at lowest level ever at 7.4%. Record high agricultural crops and better commodity prices will also influence positively.

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. Basically, the only instrument utilized by the government to control inflation and inflationary expectations is the SELIC basis interest rate. In the past, inflation has been the main priority for economic policies of the government of President Lula. With the reduction in economic activity taking place globally and in Brazil during the last 20 months, there has been a shift in priority, granting more importance in sustaining economic activity than following inflation target and performance. Despite higher inflation during the last months, in Banco Central has maintained the SELIC rate unaltered since July 2009. In the next Banco Central interest rate meeting, at the end of April, market expectations are that an increase of 0.5% will take place in order to suppress inflationary pressures. In February Banco Central increased bank reserve requirements on deposits for Brazilian banks, thus tightening monetary policies. Further tax cuts on consumer goods such as cars, white goods, etc are gradually being removed.

The IPCA index for March came out at 0.52% down from 0.78% in February and 0.75% in January. Annualized IPCA inflation figure as per March was at 5.2% above the central inflation target at 4.5%. With strong domestic economy, record level employment figures and relatively high inflation figures it is expected at the end of April that Banco Central will increase the SELIC reference interest rate by 0.5%. The Focus Report posted by Banco Central at the first week of April, expects IPCA inflation index for 2010 raising to 5.18% and for 2011 4.74%.

The Real closed in the end of March at BRL 1.78 per USD, slightly stronger than the previous month at BRL 1.81 per USD. The strengthening of the Real is causing concerns as to the competitiveness of the non commodity sectors (minerals and agricultural products) of the economy such as semi manufactured products on the international markets.

External accounts are deteriorating and causing concern. Due to the strong Real, Brazil is internationally becoming less competitive due to higher domestic cost in USD and for industrialized products targeted to global markets. The country is coming into a situation that it is only competitive for exports of minerals and agricultural products. Exports in March reached USD 15.7 billion and imports USD 15.1 billion. The trade balance for March reached a surplus of USD 668 million, bringing first quarter figure for this year to USD 896 million in relation to surplus of USD 3.1 billion for the same time period last year. Current account figures this year have been in the red with USD 3.8 billion in January and USD 3.3 billion in February. Foreign direct investments in

January were USD 0.8 billion and USD 2.8 billion in February. The deteriorating trade balance and the current account deficit expansion are worrisome, but are to a large extent compensated by strong influx of foreign direct investments, but not covered by this.

Currency reserves were by the end of March at USD 244 billion. The total external debt of both public and private sectors was at end of February estimated at USD 203 billion. Brazil has steadily increased its currency reserves during the last 12 months.

Public sector accounts have deteriorated during the first months of this year. Not only has fiscal income been lower, but public spending has increased through employment and anti cyclical measures. The primary surplus target of the consolidated public sector set by the government at 3.3% will most likely only reach 2.5% this year. The net debt to GDP increased in February to 42.07 % of GDP compared to 41.59% in January.

Finance

Financial markets strengthened during March despite nervous markets on account of southern Europe economies.

The IBOVESPA stock market index in USD closed at the end March at 70.372 points posting an increase compared to February of 5.8%. The IBOVESPA index in USD terms increased during March by 9.2%.

Bond prices have fallen during the last month. The BR 40 bond posted at the end of March a spread of 121 basis points over US Treasury bills and almost 25 basis points less than at end of February. Brazil's 5 year CDS spread over Libor shrank to 130 basis points down from 144 basis points at the end of January and is expected to reach 100 basis points in the coming months.

The JP Morgan index of Brazil is quoted at the beginning of April at 175 basis points above US Treasury Bills.

Business

The Belo Monte hydro power project of 11.000 MW, projected to become the third largest hydro power plant in the world, located in the Amazon area is expected to go on auction during the second half of April. Environmental licensing for this project took almost 20 years. Investments into this project, is expected to surpass USD 11 billion. During the recent days some of the largest contractors of Brazil have announced that they do not intend to participate in the auction due to unfavourable bidding conditions.

Contractor Andrade Gutierrez (AG) has agreed to a lease / purchase agreement of the traditional Maua Shipyard in Niteroi, thus entering the attractive oil/shipping sector of Brazil.

Forecasts

The Focus Report posted by Banco Central at the first week of April, based on survey among economists from 100 Brazilian banks, came out with the following forecasts: IPCA inflation index for 2010 raising from previous surveys, now at 5.18% and for 2011 4.74%. Exchange rate at end of 2010 estimated

at BRL 1.80 per USD and at end of 2011 at BRL 1.90 per USD. GDP performance for 2010 set at an expansion of 5.52% 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 50 billion and in 2011 a deficit of USD 60 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 41.4% and at end 2011 at 39.7%.

Story of the month: Capital markets in Brazil

Brazilian debt and share issuance almost tripled in the first quarter of 2010 as local companies returned to raise money from the capital markets, according to Anbima, the Brazilian Association of Financial and Capital Market Institutions. Total capital-market activity in the January through March period, including both share and debt offers, reached BRL 24.2 billion (USD13.6 billion), up from BRL 8.88 billion in the same period of 2009. The volume of debt issues totaled BRL14.6 billion in the first quarter, while equity issues amounted to BRL9.6 billion in the period. In 2009, Brazilian debt and share issuance was BRL110.3 billion, up from BRL102.3 billion in 2008.

Brazilian capital markets are becoming an attractive source for capital for both Brazilian and foreign companies operating in Brazil, by raising funds through equity and bonds. The markets have been liquid and companies have secured good valuation for their papers. Several large companies operating in Brazil have during the last years secured large amounts of capital such as OGX, Santander, however during recent weeks, due to global volatile financial markets, several companies have postponed market operations or raised lesser amounts in the market. It is further expected this year that Petrobras and Banco do Brasil will go to the market and raise huge amounts of capital through issuance of shares.

BP purchased most of Devon's oil assets outside the US for USD 7 billion including oil blocks in Brazil.

Several M&A's have occurred during the last months, notably the merger of Pao de Acucar and Casas Bahia. The merger Shell and the largest ethanol producer in Brazil Cosan earlier this year is another example. There are also pension funds with capital available for equity participation in the establishment or expansion of companies in Brazil.

Rains in Rio, during the first week of April have killed over 230 persons in Rio, mainly as consequence of mud slides in the hilly neighbourhoods / shantytowns / favelas. Rains amounting to 288 mm during 16 hours on April 6th a volume more than double expected for the month triggered the disaster. On the other side the fact remains that indiscriminate building of homes in areas without building permits, control and follow up of public authorities place the responsibility on municipal and state authorities. As consequence, the poorest people suffer most in such disaster conditions, losing lives and the little they own.

Chile: In the aftermath of the quake



Politics

On February 27th Chile was hit by a massive earthquake measured 8.8 on the Richter scale (900 times more powerful than the one that struck Haiti), among the largest on record anywhere in the world, 12 days after Mr. Sebastián Piñera took office as Chile's president. Minutes before he was reminded of the scale of the task he faces in rebuilding a large swathe of the country. Mr. Piñera faces unparalleled and unanticipated challenges following the devastating earthquake; he had based his campaign on a pledge to increase Chile's economic dynamism by lifting productivity levels, creating 200,000 new jobs per year and attaining average annual GDP growth of 6% in 2010-2013. These are still Mr. Piñera's goals, but most of his effort over the next few years will have to shift to reconstruction. The rebuilding of Chile's infrastructure is likely to be one of the biggest drivers of new economic activity and job creation in the period ahead. A largely technocratic cabinet will help the Chilean president, Mr. Felipe Larraín, an independent and renowned macroeconomist, was named minister of finance, while Mr. Juan Andrés Fontaine, another respected economist, was appointed minister of the economy.

Economics

On the economic front, it is too early to assess the full repercussions of the disaster. The widespread destruction from the earthquake and a subsequent tsunami will certainly hurt economic activity in the large swaths of affected areas. Damage to ports and highways further south will hamper and delay shipments of Chile's other major export products, such as wood, pulp and fruit. Transport and communications were disrupted, and power was unavailable in most areas, but it was quickly restored in most places.

Overall, Chile's economic growth could be slowed in the very short term, but activity will be boosted again soon as the rebuilding of homes and infrastructure gets under way. Chile's big copper mines, which produce around half its total exports, lie north of the quake zone and were unaffected. But many labor-intensive export industries (forestry, fishing, wine and fruit) were hurt. A strong economic recovery, after last year's recession has been abruptly cut short by widespread destruction, though investment in reconstruction will boost growth by the end of the year. Despite the earthquake's likely impact on growth in the first and, possible, the second

quarter, it may actually provide a boost for the economy in the medium term as the government spends heavily to repair the damage.

The damage was even more widespread, affecting six central regions and areas that are home to 60% of Chile's 17 million population and account for 70% of its economic output. Estimates of the damage range from US\$20 bln to US\$ 30 bln, or 13%-19% of GDP. The state will finance US\$ 9 bln., while US\$ 7 bln. will be private financed and US\$ 5 bln. should come from insurance companies.

Mr. Piñera expects Chilean companies to play an important role in the reconstruction through a "Lift Chile" plan. This may include a revival of a public-works concession scheme. Additionally, other planned government investment in the pipeline but unrelated to disaster relief might have to be re-evaluated or postponed.

Most analysts expect a GDP for this year between 3.5% and 4.0% (4.5% -5.0% before the disaster) an inflation rate between 2.5% and 4.0%. Construction sector will have the most important growth, and also the mining sector, for agribusiness such as vineyards, forestry and fishing we expect extremely poor results.

Unemployment rates in Chile reached 8.5 percent in the December to February quarter, this quarter does not reflect the impact of the February 27 earthquake but the coming months will likely to do so and be difficult. Figures for March, April and May, and the rest of the first half of the year are probably not good. Unemployment problems would continue in coming months as many companies suffered infrastructure damage, aren't able to produce as they had planned, and so don't need as many employees. The government is creating employment programs and recruiting for construction and repair work to address these difficult months. We expect the labour market likely to bounce back in the second half of this year as reconstruction goes forward.

Finance

Chile enjoys robust public finances and a primary fiscal surplus. It also holds US\$ 11.2 billion in accumulated earnings from copper exports in a sovereign wealth fund. These resources could also be put to use to finance the recovery. The government has almost no debt and an investment-grade credit rating, then, funds should not be a problem, although exporters worry that an inflow of foreign funds could push up the exchange rate and hurt their competitiveness. According to the Finance minister, the government plans to sell debt in CLP and foreign currency and may raise taxes to help pay for the recovery.

Chilean President said his government would maintain a responsible macroeconomic policy as it repairs the US\$ 30 bln. in damage from the earthquake. Piñera insists in a strong commitment to a responsible macroeconomic policy, to maintaining the competitiveness of the economy, to recovering structural fiscal balance and to avoid effects on interest rates. Despite the inflow of new funds to finance the rebuilding process, the earthquake impoverished the country, the supply is reduced, and then we should expect a weakening of the local currency (equilibrium on top of \$530).

The challenge for the Government is borrowing in dollars or tapping the fund would mean the government needs to buy pesos for spending in Chile, that could push up the value of the currency, slowing inflation by lowering the price of imports such as oil and gas.

The Central Bank kept its benchmark interest rate at 0.5%. Keeping the rate at its current level until at least the second quarter would be "coherent" with the Central Bank's target of 3% inflation in two years time. The bank will probably keep the rate at 0.5% until at least September.

Expectations for future inflation surged after the earthquake. The six-month breakeven inflation rate jumped 51 bps to 3.46% on March 1 and continued rising to a peak of 4.53% on March 10.

Business

Chilean President Sebastian Pinera has finally sold his shares of LAN Chile. The Chilean holding group Bethia, connected to Liliana Solari Falabella, came to an agreement to buy 99.9% of the company Axxion, which manages the President Sebastián Piñera's investments.

With the transaction, Bethia acquires 8% of the Chilean airline LAN stock that Piñera had promised to sell. Axxion said the sale of this 8% will be for a total of \$425 million, selling the shares at \$9,221 each. Bethia will become the third largest shareholder in LAN, occupying a position on the board of directors. The remaining 3% of the LAN shares that the President still owned were auctioned off at the Santiago stock market. This portion is valued at \$196 million. During his electoral campaign, Piñera promised to sell his shares of LAN, which totalled 26% of the company. Before taking office, he sold 15% of LAN, and the 8% sold to Bethia and 3% auctioned off ended his involvement in the company. The total sales are estimated to have brought him about US\$1,485 million.

Forecasts

The earthquake has put uncertainty about the economic performance in the short term. Central bank economists said that economic activity this month may shrink compared to last year and that inflation could surge. The 8.8 magnitude earthquake smashed factories, ruined homes, shut off power and destroyed the roads and ports that carry Chile's exports. In the medium term, the macroeconomic scenario will be determined by changes in production capacity and the magnitude, timing and financing format of the reconstruction effort. However, it's possible to estimate that in the immediate future the earthquake will have negative effects on activity and positive on inflation, in special we expect March and April to be the worst period. We also expect a transitory increase in the unemployment rate.

Mexico: Slowly picking up after disastrous 2009



Politics

2009 was a very bad year for Mexico, with a sharp decline in economic activity, the outbreak of the swine flu and increasing drug-related violence. In an effort to improve these trends the president, Felipe Calderón, has named 2010—the “year of economic recovery”—and is trying to regain political support. However, the strength and sustainability of the economic upturn are uncertain, and with opposition parties increasingly focused on elections, it is not uncertain that the current administration will be able to deliver on the necessary structural reforms.

President Calderón has stated that his government's three main priorities in 2010 are to create jobs, combat extreme poverty and improve security. Some of the difficulties facing the Calderón administration are the result of global conditions and others the government's lack of a legislative majority. However, the fact remains that the support of the population to the ruling government is at a low level. The president's approval rating is at around 55%, a significant decline from levels of around 66% at the beginning of 2009.

The minister of the interior, Fernando Gómez Mont, resigned from the ruling centre-right party: Partido Acción Nacional (PAN) in February. Mr Gómez Mont's resignation sent shockwaves through the Calderón administration and underscored the deep divisions within the PAN. This division is based on increasing chances for the opposition Partido Revolucionario Institucional (PRI) to regain the presidency in 2012. The PAN lost its position as the largest party in the Chamber of Deputies (the lower congressional house) to the PRI in the mid-term elections last year. President Calderón's administration is discussing whether to continue to secure PRI backing for further reform initiatives or shift the strategy to concentrate on preventing the PRI from returning to power.

Despite recent government successes, increasing drug-related violence still poses a serious security problem. Between 6,500 and 8,000 drug-related killings occurred in 2009, making it the most violent of Mr Calderón's three years in office. According to estimates, there was a 38% rise in drug killings in 2009, after doubling in 2008.

Economics

The outlook continues to improve, as economic activity is slowly coming out of the worst slump in decades. However, economic growth is likely to remain modest this year amid low consumer confidence levels as well as a sharp decline in remittances from Mexicans working abroad. Meanwhile, although inflation remains moderate, price pressures are likely to pick up in the coming months as the tax hikes recently implemented start to take effect.

In January the global economic indicator measured that the economy grew 2.4 percent from a year earlier, the biggest gain since July 2008. Industries including manufacturing, construction, mining and electricity grew 3.6 percent from a year earlier. Services increased 1.8 percent, while agricultural activity fell 4.7 percent.

Mexico's Finance Ministry raised its forecast for economic growth this year to 4.1 percent, which would be the fastest pace in a decade, as consumption is increasing in the U.S. According to the Ministry's report sales abroad will rise 10 percent this year. Mexican consumer demand is also expected to pick up and spending on infrastructure will further stimulate the economy. The Mexican peso is expected to average 12.8 pesos per dollar in 2010, stronger than the 13.8 pesos per dollar forecast in this year's federal budget. Investment is estimated to increase 5.3 percent while consumption will rise 4.2 percent. Mexico is expected to generate 9.2 billion pesos (USD745 million) of oil revenue above the budgeted amount due to an expected increase in the oil price.

The economy will be expected to expand 4 percent next year according to the report. A 4.1 percent increase would be the fastest annual growth rate since a 6 percent expansion in 2000.

According to the Central Bank reserves has reached a record USD 95.7 billion.

Business

After the serious crisis Mexico's domestic vehicle market is expected to remain tough, with most producers and distributors facing stronger price competition. Monthly data from December 2009 and January 2010 confirm that vehicle production is now recovering (posting the first year-on-year growth since 2008), but a weak forecast recovery in private consumption will restrain the pace of acceleration in domestic vehicle sales.

Finance

9th April Mexico's peso rose for a third week after European Central Bank President Jean-Claude Trichet said he doesn't expect Greece to default on its debt, spurring demand for higher-yielding, emerging-market assets. The peso rose 1 percent to 12.187 per U.S. dollar, from 12.303 on April 2.

Peru: A presidential race in the makings



Politics

A year in advance of Peru's next presidential election, potential candidates are beginning to emerge. The current president, Alan García, is constitutionally prevented from running. Luis Castañeda, the mayor of the capital, Lima, currently leads in all surveys, but at this early stage, it is still difficult to predict the winner.

In a January poll Mr Castañeda got 23% support, followed by the daughter of former president Alberto Fujimori – Ms Keiko Fujimori (18%). Mr Fujimori is currently serving a 25-year sentence for human rights' violations and corruption, but maintains a substantial base of support among low-income and rural voters. Mr. Ollanta Humala of the Partido Nacionalista Peruano (PNP) obtained 15% in the poll. Mr Humala is a radical nationalist- who gets support from voters in rural areas.

Other potential candidates are Pedro Pablo Kuczynski, a right-of-centre former prime minister and minister of finance and on the left, a Catholic priest, Marco Arana.

Economics

Following on last year's economic downturn, the economy is expected to experience one of the highest growth rates in Latin America this year. Exports are expected to rebound strongly, as the external sector starts benefiting from the recently signed free-trade agreement with China, while the domestic sector should benefit from strong investment growth as the government's stimulus measures continue. Meanwhile, inflation remains well below the Central Bank's target, but is expected to rise somewhat throughout the year.

The economy grew by only 0.9% in 2009, which was the lowest rate in ten years. However, Peru was one of the few Latin American countries to actually experience growth last year. A contraction in 2009 was averted by a 16% year-on-year real growth in public consumption. According to the central bank economic activity has recovered at a faster pace: in December 2009 real growth rates reached 5.6% year on year—the highest rate since October 2008. Economic recovery has been spurred by fiscal stimuli.

Peru's consumer prices rose only 0.28 percent in March, which slowed the annual inflation rate to 0.76 percent. The central bank target is between 1 and 3 percent.

The central bank has kept its benchmark-lending rate unchanged at 1.25% for eight months as the low inflation allows for stimulation of economic growth. 80 percent of the planned stimulus was spent last year, and the remaining 20percent will be spent this year.

Peru's fiscal revenue is improving. The government's income rose 11 percent in February as higher economic activity and higher metals exports generated more tax revenue.

Stronger demand and higher prices for gold, copper and zinc fuelled a 39 percent rise in Peruvian exports in February.

Business

Peruvian companies sold USD182 million of debt in the first quarter, taking advantage of attractive financing terms, according to Bloomberg. Companies also registered to sell USD 1 billion of debt, a rise of almost 58 percent from the year-ago period.

The free-trade agreement with China came into operation 1st March. The biggest benefits for Peru will be stimulus for its non-traditional exports, as well as potential new investment from China. The mining sector, the forestry industry, agriculture and fisheries are expected to make the biggest gains.

Finance

The Peruvian sol gained 1.6 percent in the first quarter, the third- best performance among seven Latin American currencies tracked by Bloomberg.

Argentina: Fund transfer approved



Politics

The hot potato in Argentine politics in the first three months of 2010 has been the discussion regarding the transfer of almost USD 6,6 bn from the country's foreign reserves into a special fund created to serving debt.

In last edition of LA Update, we noted that Mercedes Marco del Pont, a close ally of the Kirchner administration, was appointed new head of the central bank after the former head, Martín Redrado was sacked for not allowing the transfer. However, the appointment needs to be ratified in congress, and the vote seems deadlocked. Neither the Peronists loyal to the president, nor the opposition has managed to have a vote in their favour. So until further developments, Ms. Marco del Pont stays on as interim head of the Central Bank.

A court ruling has however approved the transfer of the USD 6.6 bn, which was the starting point of this monetary-political drama. The transfer and the subsequent restructuring of the still outstanding debt from the 2002-default, could pave the way for Argentina to re-enter international capital markets.

Economics

The national statistics office (INDEC) reported that year-on-year growth in GDP was 4,9% in January. Also the seasonal adjusted month-on-month growth was up 0,4% in January from December – less than the 1,5% growth from November to December, but still growth for the fourth consecutive month.

In addition to this it seems like the government will run an expansionary fiscal policy, although the inflation looms in the horizon as a constant challenge. Official annual inflation numbers (that are generally viewed as being below real inflation) reached a 19-month high of 9,1% in February.

The recovery in important export markets like USA, Brazil and China will help growth, and add to this the presidential election in October 2011, and there are many signs pointing towards GDP growth in the next year. And a still rising inflation.

The Economist Intelligence Unit (EIU) emphasize that in the other end, the lack of foreign investments, and the general uncertainty leading up to next year's election, could dampen the growth.

Finance

The Argentine finance minister, Mr. Amado Boudo, has started to use part of the newly established special fund to serve international debtors. In addition to this Mr. Bodou is on a road show trying to restructure the outstanding debt from the 2002-default. According to EIU, the hold-outs who refused to accept a debt swap from 2005 holds claims totalling apx. USD 29 bn, including interests. The total default in 2002 was apx. USD 100 bn.

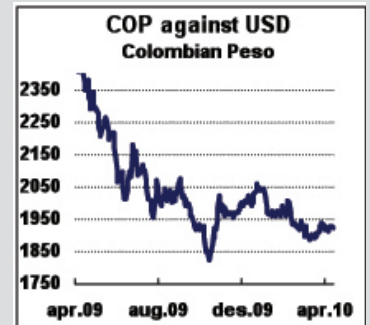
The Argentina hope is that they will re-enter the international capital market by mid-year 2010.

Business

The state-owned China National Offshore Oil Corp (CNOOC) has bought 50% of the Argentine oil company Bidas. The Chinese has revealed few details regarding the transaction, but have stated that is a part of an international expansion. CNOOC has so far few foreign assets, according to EIU.

Argentina is still the regions third largest oil producer after Brazil and Venezuela, but is losing grounds to Colombia, who will soon overtake their position, even if Argentine proven reserves are larger. Their oil production has fallen since the late 90s, and today Argentina produces apx. 700.000 barrels of crude oil per day.

Colombia – No third term for Uribe



Politics

The Uribe-period in Colombian politics is closing, at least with the current president, Alvaro Uribe as head of state. A constitutional court ruled in the beginning of March that a referendum on a potential third term for Mr Uribe was unconstitutional. As we mentioned in our last Update, this means that the main candidate will be the former minister of defence, Juan Manuel Santos.

Mr Uribe has yet not made a public endorsement for any candidate, but most analysts believe that he will endorse his former minister whom is closely linked to the democratic security policy championed by Mr Uribe.

The hope for Mr Santos was that the two parties currently governing Colombia in a coalition, Partido Social de la Union Social (Partido de la U), Mr Santos party, and Partido

Conservador (PC), would unite behind one candidate. PC has however launched their own candidate, Noemí Sanín. This splits Mr Uribe's base, and means that the likelihood is high for a second round of the presidential election. Unless one candidate receives 50% plus one votes, the election goes on to a run-off between the two leading candidates.

On the left side of Colombian politics, Gustavo Petro of the leftist PDA is so far the main candidate. On recent polls, he is polling second with apx 11% of the votes after Mr Santos in first position with apx 23% of the votes. In addition to these two and Ms Sanín, there are at least three more serious contenders for the job.

Mr Petro is the candidate in the serious field with the most left-leaning tendencies. Nobody expects however that this will translate into any serious divergence from the conservative fiscal policies and sound macro-economic management that have served Colombia well during Mr Uribe's presidency.

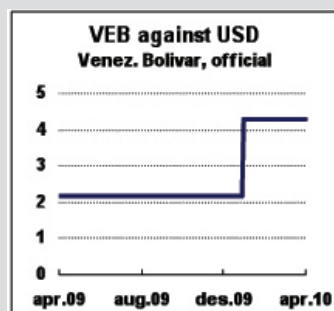
The first round of the presidential election is set for May 2010.

Economics

The GDP growth of 1,1% in the final quarter of 2009, was the first growth quarter since the end of 2008. The total GDP growth in 2009 was a modest 0,4%.

The IMF expects the GDP growth in 2010 to be 2,25%, reflecting the recovery in the world markets and the sound fiscal policy being run by the Colombians. The IMF also expects the inflation to remain within the Central Bank target zone of 2-4%. Exports are expected to fall due to the ongoing controversy with Venezuela, and foreign investments, especially the ones related to the oil sector, is expected to pick up during 2010.

Venezuela – No good



Politics

The Venezuelan president, Mr Hugo Chávez is experiencing internal disturbances in his party, Partido Socialista Unido de Venezuela (PSUV). His ever more radical approach to his surroundings has started to cause turbulence even among his loyal party members. In March, the PSUV minister of the Lara state, Henri Falcón, resigned after increased frustrations regarding internal communication in Chávez' party.

He stated when resigning that he remains loyal to the Chávez government, but that as governor he claimed it was impossible communicating with the central government. All communication was reduced to "instructions and orders" from the Caracas, according to the Economist Intelligence Unit (EIU).

After resigning, Mr Falcón joined the Patria Para Todos (PPT) party, followed by leading PSUV members calling Mr Falcón a traitor, and freezing all relations with PPT.

At the same time, Mr Chávez is turning every day more radical. On March 25 he arrested Guillermo Zuloaga, a fierce critic of the president, but also a controversial figure. Mr Zuloaga is the owner of the Venezuelan television network Globovisión, and in 2002 he supported a military coup against the democratically elected president.

Speaking publicly in Aruba the week preceding his arrest he told reporters it was a shame that Chávez was not overthrown in 2002. This led Mr Chávez to arrest the man for making "offensive and disrespectful remarks to the president". He also talked about the lack of freedom of expression in Venezuela. Ironically, Mr Zuloaga is a controversial figure, but by making him a media martyr, Chávez just fuels the bipolar climate in Venezuela.

Economics

Venezuelan economy contracted 5,8% in the fourth quarter of 2009 year-on-year. That is worse than the contraction of 4,6% in the third quarter. Oil output dropped 10,2% the same period, potentially leading to severe consequences in the extremely oil-dependent economy. On average the Venezuelan economy contracted 3,3% in 2009.

The EIU forecasts the contraction in 2010 to be 5,6% with a downside risk due to the looming energy crisis in the country. As we wrote about in the last edition of the LA Update, there are serious electricity shortages in the country, dealt with by shutting down electricity for parts of Caracas every day.

The only component of GDP growing at the moment is government spending. In the EIU forecasts, the Venezuelan economy is the only one also expected to contract in 2011.

Business

As we have been writing for a while, conditions in Venezuela are deteriorating. From the EIU Business Environment Rankings we feel we wanted to share the following:

"Venezuela is becoming an increasingly more challenging place to do business. Tough operating conditions include weak contract rights and government interventionism, shortages of foreign exchange and a growing bureaucratic burden—not least because of the introduction this year of a dual exchange-rate system. Added to this is a poor macroeconomic outlook, including high inflation and a profound recession, which the radical policies of the Chávez administration will only prolong rather than alleviate. Given these conditions, Venezuela now has the worst investment climate in Latin America".

Enough said.