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Brazil

Politics

The upcoming Municipal elections are the political focus currently in Brazil.

Municipal elections will take place in October and mayors and councilors will be elected in all municipalities including the main cities of Brazil. President Lula is actively supporting his political coalition partners in the mayor elections of the large cities of Brazil. His national popularity can be of great influence in the outcome of these elections. President Lula is also bringing forth Dilma Rouseff, Chief of Staff in his government and from the PT party as a presidential candidate in 2009 presidential elections.

As consequence of these municipal elections, all major work with relation to constitutional reforms and legislation in both houses of the Congress are almost at a standstill.

According to Datafolha survey, President Lula's approval rating rose to record 64% in September compared to last March at 55%. This popularity applies to all social, geographic and economic segment and sectors in Brazil.

Political opposition in Brazil, headed by the two political parties PSDB (center) and DEM (right) are currently weak and with no favorable perspectives due to the performance of President Lula's government and his vast popularity.

Economics

Prior to the financial crisis of September, there was consensus that Brazil was still undergoing its best historic period as to the performance of the economy. The domestic economy posted a 6.1% GDP growth during second quarter. Falling commodity prices do cause concern for Brazil, which account for one third of Brazil's exports.

Inflation indexes have posted lower figures mainly due to lower agricultural and commodity prices. The IPCA index (broad consumer price index) used by Banco Central in its inflation targeting policy, came out in August at 0.28% while in July it was at 0.53% down from 0.9% in June. Annual inflation for the 12 months running through August reached at 6.17%, down from one month earlier at 6.37%, a three year high. Inflation, so far this year, is at 4.48%. The annual inflation rate is still below the government target of 4.5% plus margin of 2%, an upper limit of 6.5%. There is concern amongst the monetary authorities of Brazil as to the rising demand and the high growth in the Brazilian economy and possible consequences for future inflation. It is expected that inflation will continue falling during the next months.

The Banco Central monetary policy committee COPOM meeting on September 10th increased the SELIC benchmark overnight interest rate by 0.75% to 13.75%. Strong domestic growth and uncertainty from global financial markets triggered this increase.

GDP growth during second quarter 2008 was 6.1% compared to same period last year and 1.6% higher than first quarter this year. Monetary authorities are concerned

that the economy is growing too fast. In this year's two last COPOM meetings, it is expected that the monetary authorities will increase SELIC up to 15%. This will most likely bring Brazil on the top of the world's ranking for real interest rates surpassing Turkey.

The Real ended August quoted at BRL 1.63 per USD almost 4% weaker than at the end of July, reversing a valuation trend of several months of the Real. The divestments from the Brazilian stock markets have contributed to the weaker Real. By mid September, due to the financial crisis, the Real depreciated strongly reaching a peak level of BRL 1,97 per USD due to lack of liquidity, interbank lines and no international trade finance lines available. The Real has since appreciated, but future volatility of the currency markets are expected.

Unemployment figures according to IBGE are currently the lowest level in 20 years at approximately 8%.

Trade surplus for August came out at USD 2.27 billion, down 36% from same month last year. In August exports reached USD 19.7 billion and imports amounted to USD 17.5 billion. The trade surplus by end August 2008 has accumulated USD 16.9 billion and is down from same time period last year at USD 27.5 billion due to the strong increase in imports. Exports on a year to year basis are also increasing, but at a slower rate than imports. Exports on a year to year basis are reaching the government goal for 2008 at USD 190 billion.

The current account came out negative in July by USD 2.1 billion and so far this year, there is deficit of USD 19.4 billion. Higher imports, capital outflows such as profit remittances and foreign investor's stocks divestments affected this figure negatively. Foreign direct investment in July 2008 reached USD 3.2 billion and so far this year at USD 20 billion compensating the current account deficit.

The current account deficit in relation to GDP is at 2% considered to be acceptable. Currency reserves were by the end of August 2008 at USD 205.3 billion. On the external side Brazil has performed remarkably well during the last years paying back debt and increasing international reserves. One year ago these figures were USD 161.1 billion and two years ago at USD 71.5 billion. The total external debt of both public and private sectors was at end of July estimated at USD 209 billion.

Finance

Financial markets were volatile and nervous during August. The IBOVESPA index has by the beginning of September fallen by 26% from the May 20th record level and wiped out gains for the last 12 months. Financial markets have in September entered into turmoil and extreme volatility affected largely by global trends and not domestic issues. The IBOVESPA stock market index in August was affected by fall in commodity prices and the appreciation of the USD vs a vs the Real. The index in USD terms fell by 10%. Foreign investors posted in August a USD 1.4 billion net outflow from stocks trading during the month. The outflow of foreign investors so far this year surpassed USD 10 billion.

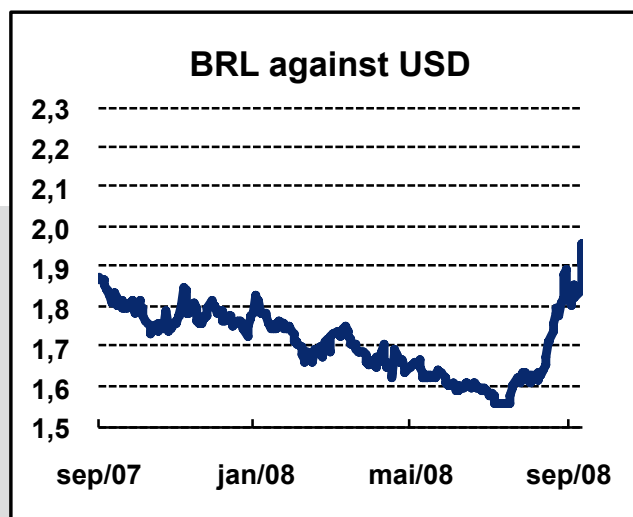
Forecasts

Economists have come with year end forecasts at the beginning of September pointing towards the following economic projections for year end 2008; IPCA inflation index at 6.1% in relation to government central target of 4.5%, GDP growth at 5.1%, and the trade surplus at USD 23 billion. Foreign direct investment is expected to reach USD 30 billion. The Selic benchmark interest rate is expected to end 2008 at 15% p.a. The net debt to GDP ratio is estimated to reach by end 2008 level of 40%. An important figure and estimate is the year-end exchange rate projection for the Real, which is at BRL 1.80 per USD.

Story of the month: What to do with pre-salt?

The pre-salt oil discoveries in Brazil during the last year, is the main issue being currently discussed in Brazil. As consequence of the estimated magnitude of these finds, there is currently an ongoing political debate as to how these discoveries should be explored and the wealth resulting from these be utilized. President Lula wants to use these revenues to develop the country, end poverty and better education. Lula has also said that Brazil should develop domestic industry for building of equipment to produce this oil including vessels, rigs etc. Other politicians have come up with other ideas such as building nuclear plants and other ideas.

The main issue is discussions as to possible changes in the regulatory framework for the exploration and production of oil in Brazil. Many, including government officials want to alter these and specially pertaining to blocks from the pre-salt discoveries. The main issue currently in discussion is to come up with proposals as to how to increase the state's share in the oil revenues and if the state should take a more active role in the development of these oil resources. The simplest alternative would be to increase taxes and the take of the Brazilian state utilizing the current legislation. There are discussions as to creating a specific 100% state owned oil company in detriment to Petrobras which is 38% owned by the Brazilian state, but under negative control by the Brazilian state.



Mexico

Politics

Mexico's government seeks to persuade lawmakers to support its proposed energy reform. The leftist Partido de la Revolución Democrática (PRD) tried to sabotage the reforms by holding an unofficial referendum on July 27th, while the other main opposition party, the Partido Revolucionario Institucional (PRI) - has announced its own reform proposals. The main difference between the PRI and PAN proposals is that the PRI wants the state to retain exclusive control over refining, transportation and storage. PAN however, seeks to allow private-sector involvement in these activities. Broad similarities between the PRI and PAN packages suggest that the two parties will be able to ensure the approval of joint legislation once Congress reconvenes in September.

According to a recent poll, PRI is on course to become the country's most powerful political party. According to the poll the PRI now command 37 per cent of the vote compared with 36 per cent for President Felipe Calderón's centre-right PAN.

Economics

Mexico's economic growth is continuing to moderate as private consumption growth weakens, mainly caused by deceleration in job creation. The seasonally- adjusted unemployment rate rose to 3.84% in June. Also, a contraction in remittances from overseas workers and higher inflation, reduce the value of real disposable incomes. Mexico's inflation exceeded economists' forecasts in the first half of August on higher costs for electricity, eggs, university tuition and gasoline. Consumer prices rose 0.31 percent in the month's first 15 days. With the consumer price increases, the annual inflation rate accelerated to 5.53 percent. July's annual rate of 5.39 percent was the highest level since November 2004.

In addition to the expected cooling in domestic demand, there are also rising concerns about the impact of the US slowdown on the Mexican economy.

Finance

Reflecting a more pessimistic outlook for the Mexican economy, the Mexican stock market continued to fall in July and early August. However, the sell-off has been significantly less marked than the fall in the US Standard & Poor's 500 index. There has been speculation that investors are choosing to remain on the sidelines, given expectations of further interest rate increases, raising the possibility of a revival later in the year.

According to Bloomberg, Mexico's peso declined to a three- month low as oil, the country's biggest export, sank to near its lowest in five months. The peso has declined 6.3 percent in the past month, paring its advance this year to 3.6 percent.

Business

Petróleos Mexicanos (Pemex) has cut its oil output forecast for 2008 by around 8%. Pemex revised down estimated production for 2008 to 2.8m barrels per day (b/d) from of 3.1m b/d previously as a result of a sharper-than-expected decline in output from its major Cantarell oil field.



Peru

Politics

After two years in office, president Alan García is facing rising discontent as a result of inflationary pressures and increased social conflicts. Social unrest is picking up as the work to improve the unequal distribution of wealth arising from Peru's economic boom is progressing slowly. The number of strikes and protests has doubled during the last 6 months. The president continues to be popular in Lima, but his approval ratings in the interior of the country fluctuate widely. The strong growth in fiscal revenue should provide the opportunity for the president to implement his social policies, but his government struggles to close the gap between expectations and delivery. Mr García is expected to attempt to reduce social inequality by boosting public spending on infrastructure, such as water connections, sanitation and road construction. However, with high expectations and rising inflation, discontent will continue, which represents a challenge to governability.

Economics

Peru is experiencing its seventh consecutive year of strong economic expansion, and the economy expanded by 10.9% year on year in the second quarter. Domestic demand jumped by 13.8%, despite rising inflation. Gross domestic investment increased 31%, up from a 21.1% increase in the first quarter, reflecting several large-scale investments such as the second phase of the Camisea natural gas project. Investment has been the main growth factor in domestic demand. Private consumption rose by 9% in the second quarter after expanding by 8.4% in the first quarter. By contrast, net trade deteriorated in the second quarter:

export volume growth slowed to 11.5% (from 13% in the first quarter) while import volume growth accelerated to 26.8% from 20% in the previous quarter. As demand for Peruvian exports drops in the U.S. and Europe, the central bank forecasts slower economic growth next year at 7 percent. Peru is the world's third largest copper producer, No. 1 in fishmeal and the fifth largest in gold.

Bloomberg expects Peru's central bank to raise the overnight lending rate for the fifth time this year in order to decelerate the fastest inflation in a decade. Borrowing costs are expected to increase to 6.5 percent, the highest level in more than 7 years.

Peruvian consumer prices increased by 0.6% in August, and year-on-year inflation was 6.3%. This is the highest level since September 1998. Price inflation on food and beverages climbed to 10.3% while transport and communication costs picked up by 2.7%. Since mid-2006, prices for oil, wheat, corn and soybeans have doubled, driving up inflation.

Peru's government has sent a proposal to Congress for an annual 2009 budget of 72.355 billion soles (\$24.53 billion), up 1.8 percent from last year, according to Reuters. The budget proposal will emphasize putting away savings as a shield against global financial turbulence. The text of the government budget projects economic growth in 2009 of 7.0 percent, and inflation of 3.5 percent, the latter being slightly above the central bank range of 1 percent to 3 percent.

Finance

Petroleos del Peru SA is expected to sell shares in Lima by the end of the year as state and private companies offer equity to tap the rising Peruvian wealth. Petroperu and other state companies such as Electricidad del Peru are planning initial public offerings after a government decree this year that requires public companies to sell at least 20 percent on the market.

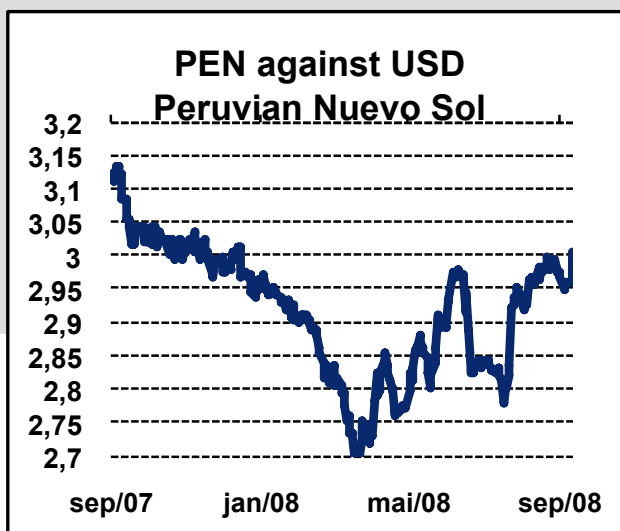
Business

Scotiabank of Canada has invested US\$33m to acquire a 47.5% stake in Peruvian private pension fund administrator Profuturo.

News of the month: Not an energy crisis?

In the beginning of August, Peru experienced two electricity blackouts due a sharp increase in demand, a shortage of rains and poor infrastructure. García has however stated that Peru is not facing an energy crisis, in an effort to calm concerns. Hydroelectric plants supply approx. 70 percent of Peru's power and a drier climate than normal this year has forced the country to rely more on power generated by natural gas and diesel.

Peru has huge natural gas reserves, but the infrastructure is poor as there is just one pipeline that brings the gas from the Camisea field in southern Peru to Lima. Shortages have already hit some of Peru's largest companies.



Finance

The Chilean banking system is composed of 25 entities. At YE07, the four largest banks in terms of equity accounted for 64% of the system's total assets, 66% of deposits and 51% of equity. Even though asset quality indicators are strong, there are signs of deterioration, centered in consumer lending due to the natural maturity of the portfolio, as well as the incorporation of riskier debtors related to low-income segments, following the aggressive commercial approach banks are developing in order to improve their penetration into the population. Provisions for risky loans (+66% in 2007) increased significantly, although for the past years expenses related to provisions were abnormally low as a consequence of the benign economic environment. New players are entering the market and several mergers and acquisitions between local and international banks added tough competition and pushed for strategic changes in the banking scope. Foreign banks see an adequate risk-return ratio in Chile and domestic banks foresee market opportunities in segments that have not been well attended by current players.

Business

As we were expecting, the energy and infrastructure sectors have showed an important dynamism, whereas other sectors, mainly agribusiness, are looking for the consolidation.

Viña San Pedro (Luksic Group) and Viña Tarapacá (Compañía Chilena de Fósforos, which is listed at Santiago stock exchange) announced in July their intention of doing a merge; the new company will export 11.4% of total Chilean wine production, and will be the second player after Viña Concha y Toro. Also, the consortium formed by Ontario Teachers' Pension Plan and Morgan Stanley Infrastructure Fund acquired in almost US\$ 900 MM the 100% of Saesa (energy distribution and generation company located in the south of Chile, owned by PSEG). Finally, Abertis (Spanish company) acquired in US\$ 1,140 MM the 100% of Autopista Central and Rutas del Pacifico, both are toll roads in Chile owned by ACS (Spanish constructor). Regarding the stock markets, in last 90 days several companies that participate in energy sector had successfully completed capital increases, Colbún (US\$351 MM), AES Gener (US\$258 MM), Pacific Hydro (US\$107MM) and HydroChile (US\$ 20 MM).

In terms of deals, most important syndicated loans were: GNL Quintero, US\$ 1,110 MM. Participants: Banesto, BBVA, Calyon, Fortis, ING, Intesa San Paolo, Mizuho, Santander, West LB. Endesa, US\$ 400 MM. Participants: BBVA, Caja Madrid, Bank of Tokyo, Santander y Banesto. Inversiones CMPC, US\$ 250. Participants: BBVA, Santander y Bank of Tokyo-Mitsubishi UFJ Finally, in the last 90 days the capital markets had bonds placement for app. US\$1,140 MM, mainly related with retail and mining industries.

Chile

Politics

Chile is preparing for its next municipal elections, which will be done in October 26, 2008. The Chilean presidential election of 2009 is scheduled by law to take place on Friday December 11, 2009. The election will determine the successor to Michelle Bachelet. According to recent polls (Encuesta Mori/ September 9, 2008) 48% of the population believe that Sebastián Piñera will be elected as President; Mr. Piñera probably will be the candidate of the center-right coalition.

Economics

Increase in the world inflation also has affected Chile, which has tripled during the past year and is getting worse in last months. It's expected annual inflation would converge towards the target at the end of 2009. Chilean inflation target is 3%; between 2002 and 2006, inflation averaged 2.5%. As of June 2008, the inflation rate reached 9.5%, its highest level since 1994; at the end of this year it's expected an inflation rate close to 8.9%. Definitely, inflation is the major current problem at the Chilean economy.

Employment shows important dynamism, however the unemployment is kept stable due the significant increase in the labor force. The unemployment rate is moving to 7,8%.

Chilean Central Bank increased again the benchmark interest rate, as a main tool to get back under control de inflation rate; as of August 2008 the internal interest rate reached 8.25%.

In June 2008, the economy grew 5% (annually), which is in line with the one forecasted by the Chilean Central Bank. In the second half of this year it's expected that the economy will have major dynamism due to better hydrological conditions, new mining projects and more activity at services industry. GDP grew by an average of almost 6% per annum in real terms between 1985 and 2003, and by over 5% per annum between 2004 and 2007. The country has showed strong growth on the back of a powerful export sector, driven by its copper, pulp, salmon and wine industries.

Forecasts

The energy sector is one of the most relevant in terms of investments, currently its account almost US\$ 40 billion in projects that are in different stages, some of them under construction and others asking for environmental permissions. The total investment projected is US\$81 billion.

Most relevant investors are AES Gener (US\$ 5 billion), HidroAysen (Endesa Chile-Colbún, US\$ 3.2 billion), Codelco (2.4 billion); Cerro Casale (Barrick Gold Kinross Gold, US\$ 2.3 billion) y LAN Airlines (US\$ 2.1 billion). Energy accounts 48.9% of total amount of investments projected, followed by Mining, services, retail and infrastructure. 81.2% of the investment projected will be developed by private sector, 5.5% by public sector and 13.3% will be developed jointly public and private sectors.

Story of the month: Transantiago a national catastrophe

Chile's Constitutional Court declared unconstitutional a US\$ 400 million loan from IDB used to fund Santiago's chronically indebted Transantiago public transportation system. The decision puts serious political pressure on the country's governing center-left Concertación coalition, which will now have to find another way to keep the foundering transportation system afloat.

Without the IDB loan, the government will have to look elsewhere for funds for the controversial Transantiago, which as of August incurred an average monthly debt of US\$ 50 million.

To solve the funding problem, the government may resort to a constitutional provision allowing it to appropriate two percent of the country's annual budget to confront a "public calamity" or other situation of extreme necessity, such as the possible paralization of an indispensable public service. Although General Secretary to the President José Antonio Viera-Gallo said using the funds would in no way imply that Transantiago is a "catastrophe," others speculated that using "the two percent" mechanism could have serious political repercussions for the Concertación – on the eve of October's municipal elections and a little over a year away from the 2009 presidential elections.



Argentina

Politics

Argentina's support for Cristina Fernández de Kirchner, Argentines struggling president, fell to a record low this summer. Only 19.2 percent of the population said they supported her less than a year after she was inaugurated in December last year.

The four-month dispute with farmers over export taxes that has led to widespread strikes and might have damaged the economy is the main reason for the decline in popularity. The conflict reached a climax in July when the congress rejected the president's bill to ratify the new sliding-scale system of export taxes. Thus the strikes that started in March finally came to an end, but at the same time it meant a real defeat for Mrs. Fernández de Kirchner.

Economics

The Argentine trade surplus widened to USD 1 bn in July, more than double than the year-earlier period. Export revenues increased by 53 percent year on year from the previous month, not surprisingly remembering that the four-month exporter strike was lifted in July. However, much of the growth in exports continues to be boosted by high commodity prices. In the first six months of the year, export revenues increased 37 percent year-on-year, but 33 percent of this is owing to the expansion in prices for exports – volumes only increased 3 percent.

As the controversial export bill was defeated in congress in July, and thus effectively put an end to the farmers strike, it is expected that export volumes should still grow in the months to come.

Although the trade surplus is increasing, Argentina is still one of the countries in the region with the highest probability for default according to the rating agencies. Argentina's foreign debt rating was cut by S&P on concerns of slowing economic growth. The increasing investor mistrust in inflation data, due to the government's manipulation of inflation statistics, also erodes the confidence in the government.

S&P now rates Argentina B, five levels from investment grade, and in line with countries like Jamaica and Paraguay.

Although the government would be able to avoid a default, the status quo is not sustainable. Public debt is currently equivalent to 50% of GDP and around 62% of GDP when debt held by holdout creditors (the ones that did not accept the debt restructuring in 2005) is included. This is uncomfortably high for a middle-income emerging market with a heavy dependence on commodities and facing a hefty risk premium.

During September, the country has however repaid its total debt with The Paris Club of USD 6,7 bn from central bank reserves, and offered creditors a chance to restructure \$20 billion of defaulted bonds that they held out of the 2005 settlement, Cabinet Chief Sergio Massa said in the presidential palace.

Argentina's payment in 2005 of 30 cents on the dollar saddled creditors with the biggest losses in a sovereign restructuring since World War II. About a quarter of bondholders rejected the offer. The South American country halted payments on \$95 billion of debt in 2001, the biggest sovereign default ever.

Finance

Argentina's five-year credit-default swap (CDS) rose above 1000 bps during the turmoil around AIG. The cost of protecting the country's debt against default surged 0.87 percentage points, to 10.29 percentage points, according to Bloomberg.

According to the Economist Intelligence Unit (EIU), the Argentinean government's lack of financing options was made evident by the sale in August of US\$1bn of bonds to the Venezuelan government at a 15% yield, some two percentage points higher than in a similar US\$ 1bn bond sale to Venezuela in May. Since 2005 Venezuela has bought US\$ 7.8bn of Argentinian government bonds, roughly half of its total market debt issuance (net of debt purchased by Argentinian public-sector entities). The Venezuelan government does not hold the bonds but sells them to Venezuelan banks, which, in turn, sell them on as a way of circumventing capital controls. This is creating pressures in the secondary market and depressing the price of Argentinian bonds generally.

Business

Argentina's Senate has voted in favour of rescuing the country's largest domestic air carrier, Aerolíneas Argentinas and its subsidiary Austral, and returning the struggling national flag-carrier to state hands. The airline's current owner, Grupo Marsans (Spain), has been plagued by strikes over late payment of wages and by protests over routinely oversold flights. A price for the airline has yet to be agreed, but the government may have to take on huge debts, unofficially estimated at some US\$900m.

The government's ability to salvage the loss-making airline is also in doubt. With oil prices over US\$100 per barrel it faces the choice of sharply raising fares or footing a major subsidy bill. Another major challenge will be convincing the airline's 9,000 employees and six different labour unions to accept rationalisation of the airline's operating practices and fleet of aircraft. The purchase must still be approved by Congress once a price is set, and Marsans could still reject the offer and seek international arbitration instead. Such a move could deter aircraft leasing companies from contracting with Aerolíneas and compound the airline's woes.

Forecasts

As conditions in the world economy become less favorable, the Argentinean government will face mounting financing pressures. Access to funding from the public sector and local financial institutions means that default is not imminent. But these financing sources do not provide a sustainable solution to the sovereign's financing needs. An agreement with holdout creditors is needed for the government to regain access to global capital markets. A deal on similar terms to the original restructuring might

now be acceptable to both sides. Failure to make a breakthrough would leave Argentina's financing position increasingly perilous.

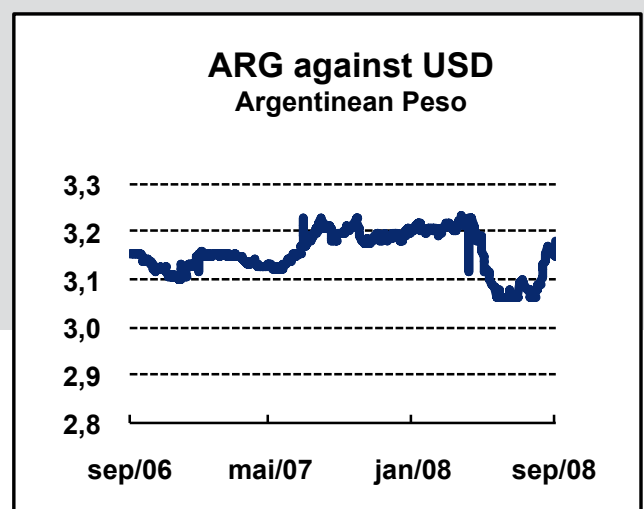
Story of the month: The Cost of Electricity

Electricity rates in Argentina will rise for residential and commercial consumers alike for the first time since the country's economic crisis of 2001-02. The price hikes are remarkable not only for what they mean for the tapped-out, cash-strapped energy sector but also for what this abrupt policy change signifies for the increasingly unpopular presidency of Cristina Fernández de Kirchner.

The price rise will mostly benefit Edenor, Edesur and Edelap, the major distributors in Buenos Aires City and surrounding areas. It has been reported that Edenor and Edesur will increase earnings by US\$49.2m thanks to the measure. These companies are expected to use the extra funds to improve salaries, cover increasingly expensive operating costs and make some minimum investments. The government claims that companies have already presented investment plans for these new funds.

At present, 53% of Argentina's electricity needs are met through thermal energy, 33% through hydroelectric energy and 7% through nuclear power. The remaining 7% is imported. There are government efforts under way to construct new thermal plants and hydroelectric dams in order to increase capacity. The government just signed an agreement, for example, to finance the final leg of construction of a hydroelectric dam in the northern San Juan province. The dam will be inaugurated in 2009 with an expected generation of 120 kilowatts in its first few months of operation.

Source: www.eiu.com



Colombia

Politics

The popular president, Álvaro Uribe, and his allies are considering amending the constitution to allow running for a third term after his current period is up in 2010. His popularity has spurred due to his successful fight of the FARC, The Fuerzas Armadas Revolucionarias de Colombia. This guerrilla-group has been seriously weakened during his presidency. An outright defeat is unlikely in the short term, but the military offensive could well eventually set the scene for a settlement.

Critics of Uribe's administration say that the re-election could undermine the country's democratic checks and balances. To investors in New York, Uribe said according to Bloomberg, There is «the necessity to reelect policies not people.» «I like when people ask me about the possibility of one third term in the year 2010 because this question gives me the possibility to impact the people to reelect our policies.» «When everyone in Colombia will look for his or her presidential candidate, I am working for this individual to have in his or in her mind these policies before choosing the presidential candidate.»

Economics

Colombia's economy grew by just 3.7% year on year in the second quarter, the slowest pace of expansion in five years. This compared with GDP growth of 4.5% in the first quarter. Economic policymaking will remain prudent, but underlying spending pressures will widen the public-sector deficit in 2008-09, according to EIU.com. Inflation will overshoot the 4.5% ceiling in 2008 by over 2 percentage points.

GDP growth will slow from above-potential rates in 2006-07 to 4.5% in 2008, owing to monetary tightening and rising inflation, and to 3.8% in 2009, when the impact of slower global growth will also be more fully felt. The current-account deficit is forecast, by the EIU, to narrow below 3% of GDP in 2008, supported by commodity prices, before rising towards 4% of GDP in 2009. Barring a seizure in capital markets, Colombia will meet its external financing needs adequately, owing to foreign direct investment (FDI) inflows.

The Central Bank hiked its intervention interest rate to 10% in late July after inflation rose to 7.2% in June, but kept the rate on hold at its mid-August meeting. Household consumption has kept on weakening in recent months, as purchasing power is being sapped by a resurgence in inflation.

Colombian President Alvaro Uribe said that his government expects to have signed 45 free trade agreements by the end of his administration, including one with the United States. Talking to investors in New York, Uribe said Colombia is working hard to sign several trade agreements, though the one most coveted is with the United States.

«At the beginning of our administration we had signed free trade agreements with four countries. By the time we finish our administration we plan to have agreements with 45 countries; of course we need the agreement with the United States,» he said.

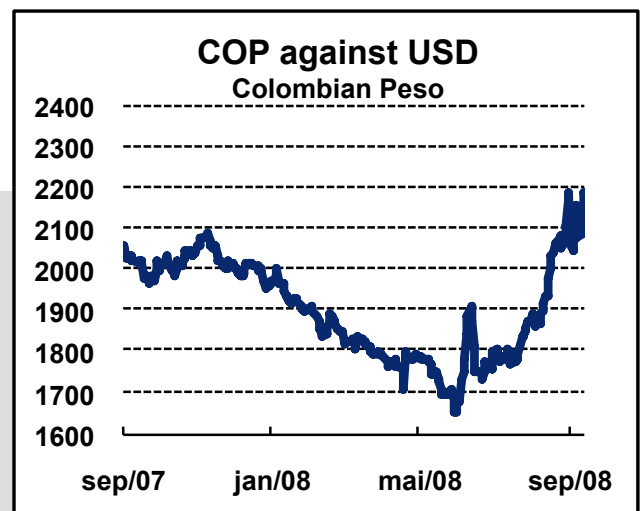
The White House has not been able to persuade the Democratic-controlled Congress to approve the pact almost since the day it was signed in November 2006. Uribe claims that the ideological arguments against the agreements, i.e. violence against labor unions etc, are reasonless, since his administration has taken strong measures against this, according to him.

Forecasts

Sound macroeconomic policies designed to improve the public finances, reduce inflation and lay the basis for sustained GDP growth, will remain the cornerstone of economic policy during 2008-09. However, the authorities will struggle to balance exchange rate policy and inflation control at a time when a period of monetary tightening and a slowing global economy is dampening GDP growth.

The public finances benefited in 2007 from a cyclical impact of above-trend GDP growth, improved tax collection and windfall oil revenue, and although first-quarter fiscal results were good, conditions will become more challenging in the remainder of 2008-09, leading to a mild deterioration in the fiscal balance. This will slow further improvements in the ratio of (net) public debt, which—at an estimated 39% of GDP in December 2007—remains above the average for emerging markets.

Source: www.eiu.com



Venezuela

Politics

Regional elections scheduled for November 23rd will indicate whether the new movements that contributed to Mr Chávez's defeat in a December 2007 referendum will be able to harness rising discontent with his government. The opposition has agreed on a single candidate for the elections in all but three states, compared with the government, who is fielding a united candidate in only 10 out of 23 states.

Although the government is unlikely to move towards full state control of the economy, decree laws passed in July signal a radical increase in state encroachment on the productive sector and weakening of property rights.

Economics

With signs of a cooling domestic economy, the president, Hugo Chávez, will seek to court increased private investment to boost productivity. However, with recent decree laws marking an increase in state encroachment on the economy, many investors will remain deterred by a spate of nationalisations and increasingly uncertain property and contractual rights.

GDP growth picked up to 7.1% in the second quarter of 2008, owing to a recovery in domestic demand, boosted by increases in transfers and subsidies. However with a falling oil price, the GDP could be affected hard in the near future.

If oil prices stay high, the authorities will not devalue the bolívar until 2010. Sales of US dollar-denominated assets will increase, but will be insufficient to close the gap between the parallel and official exchange rates.

Business

Mexican consultant Alexander Guerrero voiced a concern that "The days of private enterprise in Venezuela are numbered". This is based on the decree laws passed in July. He says that the laws demonstrate the authoritarian aspect of the Chavez administration.

Fueling to this feeling came the news that the government has seized the assets of a Mexican cement company, Cemex, following the breakdown of talks over compensation for its nationalisation.

Mr Chávez also announced that the state will acquire Banco de Venezuela, owned by Spain's Santander. Although it appears that this is a one-off acquisition, markets are getting nervous about the increasing nationalization of foreign companies.

Venezuela, the world's fifth-largest oil exporter, will boost crude shipments to China by 25 percent in 2009 to benefit from rising energy demand in the fastest-growing major economy, President Hugo Chavez said, according to Bloomberg.

The Latin American country plans to export 1 million barrels of crude to China within three to four years, he said.

China and Venezuela signed earlier this month 12 agreements on cooperation in energy, finance, education and communications.

Chavez also reached an agreement with the Chinese government to purchase "some" planes for training and combat, Spanish news agency EFE reports.

