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DnB NOR

Latin American Desk

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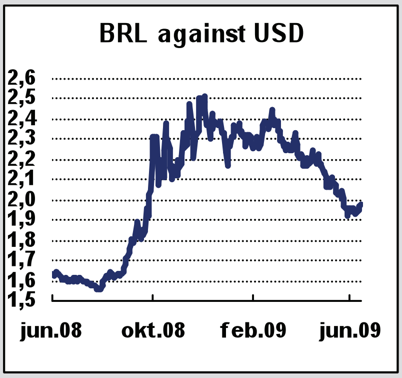
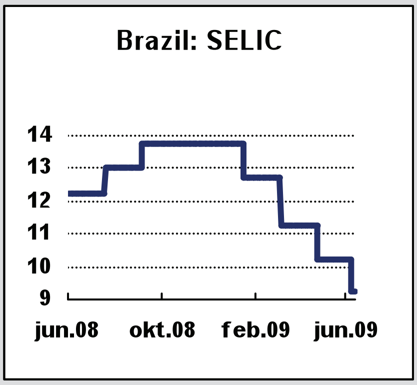
Content

Brazil: Emerging from the crisis?





Politics:
President Lula was quoted mid June "The worst is over and Brazil's economy is showing signs of recovering. I hope business leaders realize that our workers and consumers can sustain our economy."

With signals that the Brazilian economy is slowly rebounding from economic downturn, President Lula has according to Data Folha survey, regained to a great extent his approval ratings, now at 69%. President Lula is placing much effort on the October 2010 elections, in support of his candidate, his Chief of Staff, Dilma Rouseff. Ms. Rouseff is currently behind Governor of Sao Paulo Jose Serra in the polls. Although no candidate has of yet confirmed or accepted to become the Presidential candidate of their political party, these two seem to be the main candidates for the next years Presidential elections.

There is currently much attention on wrongdoings by Senators such as employment of family members and secret payments. President of the Senate, Jose Sarney is under much pressure as well as the administrative top management of the Senate.

By the end of June an inquiry committee of the Congress will initiate an investigation of Petrobras as to purchase of equipment and services, corporate tax practice and NGO payments/sponsorships. Petrobras CEO Gabrielli denied at the end of May any company wrongdoing. This congressional probe will gain much attention and exposure and will certainly delay other legislative activity. Further, in July the Congress will go into recess for winter holidays.

The outspoken Environment minister Carlos Minc is under a lot of pressure from the agricultural and energy sectors as to approval and practices of the Ministry of Environment with regards to environmental permits and issues. There have also been public rows of Minc with other fellow Ministers.

President Lula met mid June with other heads of states of the BRIC countries and seeks stronger cooperation amongst these countries and an alternative to the US Dollar on the currency side. Together, the BRIC countries have USD 2.8 trillion in reserves and of this 70% are in US Dollars.

Economics:
Brazil has been in a recession for the first time since 2003, due to negative GDP growth figures for the last two quarters. However, the country seems to be emerging from the downturn in economic activity quicker than expected. Growing external demand for Brazil's commodity exports and rising domestic demand both from the government and private sectors will soon allow Brazil to emerge from recession. However, investments seem to be lagging.

Brazil is showing signs of recovery with positive capital inflows, interest from foreign investors as result of the government's pro-active role as to several anti-cyclical measures. It is estimated that the Brazilian government has injected some USD 100 billion in the money and currency markets, on tax cuts on autos, white goods and in the construction sector in order to support the economy and revive growth. Brazilian car production has almost tripled since its nadir in December 2008. The Brazilian financial system and banks were not affected by the crisis. Brazil is prepared for a new growth cycle despite unclear external global situation.

The economy shrank during first quarter this year by 1.8% in relation to same quarter 2008 and by 0.8% in relation to the previous quarter. Last quarter 2008 posted a sharp drop of 3.6% in relation to third quarter 2008. While the government maintains that Brazil in 2009 will post a positive 1% GDP growth figure, the market expects a GDP contraction of 0.55% in 2009.

Inflation is under control with a slight downward trend during the last months. During the first half of June, even deflation in prices of certain products has been noted. The IPCA index used by Banco Central in its inflation targeting policy came out in May at 0.47%. On a year to year rate, inflation is currently at 5.2%. The official government inflation target is the IPCA index at 4.5% with plus or minus leeway of 2%. The IPCA inflation rate is expected to end in 2009 near the target of 4.5%.

On June 10th the Banco Central COPOM Meeting decreased the SELIC rate by 100 basis points to 9.25%. This is the lowest rate since the early 1960's. This was the fourth consecutive interest rate reduction this year initiating at 13.75%. With inflationary expectations tending lower, it is expected that in the next meeting in July 21-22th that the SELIC rate will decrease further by 25-50 basis points. By year end, it is expected that the SELIC rate will be at 9%, consequently not much room for further reductions. There are also some yield and taxation concerns as to further SELIC interest rate reductions in relation to the yield 8-9% being paid by the popular “caderneta de poupanca” savings account investment product.

The Real ended May quoted at BRL 1.97 per USD, a depreciation of 9.4% from the end of April. During June the Real has fluctuated between BRL 1.92 and 2.00 per USD. The Real reached its strongest level since September last year due to foreign capital inflows and higher commodity prices. The Real has risen so far this year by over 20% against the USD, amongst the best performers on the currency side. We do however in the short term expect a volatile currency market driven by external news and foreign capital inflows to Brazil. Banco Central has actively participated in the domestic currency markets buying US Dollars due to concerns as to the competitiveness of the Brazilian export sectors.

The NOK / Real currency quote is currently at NOK 3.22 per Real. At the end of March this year this quotation was NOK 2.80 per Real. Since January 2006 this currency relationship has been on the range of NOK 3.00 per Real plus / minus 10%.

The performance of external accounts continues positive, but lower foreign trade figures show a reduction in economic activity. The trade balance in May posted a surplus of USD 2.651 billion down from USD 3.7 billion in April. The May surplus came from USD 11.985 billion in exports and USD 9.334 billion in imports. So far this year, the trade balance shows a surplus USD 9.4 billion.

The current account posted a surplus in April of USD 146 million in relation to a deficit in March of USD 1.5 billion. This April surplus, the first surplus in 19 months, was a result of higher commodity prices and sales, larger inflows to capital markets and finally lower capital remittances of profits and dividends. Foreign direct investments in April were USD 3.4 billion. Accumulated this year by end of April, a current account deficit USD 3.8 billion which has been compensated so far this year by foreign direct investments of USD 8.7 billion. The Focus Report of Banco Central has come out with year end 2009 forecasts for a current account deficit at USD 17 billion and foreign direct investments of USD 24.5 billion, thus Brazilian external accounts should be under control.

International reserves were at the end of May at USD 195 billion. By the end of April, total external debt compiled by Banco Central including short, medium and long-term external debt of public and private sectors was USD 193.1 down from USD 200.2 billion one year ago.

Public sector accounts have deteriorated consistently during the first months of this year. Not only has fiscal income been lower due to the contraction in the economy, the reduction and suspension of taxes, but public spending has increased strongly through employment and anti cyclical measures and tax income has fallen. The net debt to GDP increased during April to 38.4 % of GDP mostly due to strengthening of the Real.

Finance:
The IBOVESPA Sao Paulo stock market index ended May at 53.198 points. One year ago this index was at 72.592 points. In May, the index in Reais increased by 12.3%. In USD terms, in May the index increased by 27.6%. The stock market in Brazil has rallied positively during this year’s first months, increasing by 44%.

As to the bond markets, the BR 40 ended May at 197.1 basis points over US Treasury Bills down from 302.5 basis points from one month before. Brazil risk premiums as measured by the JP Morgan EMBI+ (an index of risk premiums on Brazilian government bonds traded abroad) was quoted at the beginning of June at 260 basis points.

Forecasts:
The Focus report, an economic survey carried out by Banco Central amongst 100 financial institutions, came out at the second week of June with the following projections for year end 2009: IPCA inflation index at 4.39%, the GDP growth for 2009 is estimated at -0.55%. GDP estimate for 2010 indicates an interesting growth perspective of 3.5% Year end projections for external accounts show, the trade surplus at USD 20 billion, foreign direct investment at USD 24.5 billion and current account deficit of USD 17 billion. The Selic benchmark interest rate is expected to end 2009 at 9% p.a. and the foreign exchange rate is expected at the end of the year at BRL 2.00 per USD. The net public sector debt is expected to end 2009 at 39.1% of GDP.

Story of the month: Changes in the regulatory framework for the oil sector.
The pre-salt oil field discoveries in the Santos basin have changed the expectations for the Brazilian oil and gas sector and for the country itself. The magnitudes of the pre-salt oil fields reserves are still to be defined, but there have been speculations as to a potential in excess of 100 billion barrels of oil.

Petrobras announced in January its ambitious Investment Plan for 2009-2013. The figure announced for the coming 5 years investments was USD 174 billion. In this amount the development of pre-salt fields are envisaged and targets of production for 3.7 million of barrels per day of oil equivalent are set for 2013 and a corresponding target of 5.7 million for 2020. There are not only financial, but also technical, logistical, etc challenges to be met. However, the sentiment from the oil and gas sector remains very positive to E&P in Brazil from both domestic and foreign oil companies, oil equipment + services and shipping companies.

Currently, the main issue and challenge for the Brazilian oil sector are the expected changes in legislation and regulatory framework for the sector.

The government of President Lula has during the last year been preparing for legislation to be sent Congress with changes in the regulatory framework for the oil sector particularly pertaining to exploration and production of the new pre-salt areas. These changes are expected to pass Congress this year and be implemented by 2010.

President Lula has said that the new rules will not alter existing exploration and production contracts already sold to Brazilian and foreign oil companies.

In the current regime, oil companies buy concessions to seek for oil in geographical blocks and in return for the exploration risk the oil companies are given control over the oil discovered, but paying royalties to the Brazilian state. In the new regulatory framework for the pre-salt blocks the concession regime is expected to be altered to a shared production system in order to give the government more control and revenue.

Apparently in the proposals, inclusion of a new 100% state owned oil company to take ownership of the fields and award concessions, production sharing agreements in the fields in which the oil companies will give part of the oil produced to the government. This proposed system is based on the Norwegian system of Petoro.

Also in this new set up in the new oil company revenues would be set a side to a special fund called by President Lula as the "Cofrinho do pre-sal" in order to channel funds to social projects.

Much dispute is taking place between the different Ministries in setting up this new regulatory framework resulting in further delays.

In the proposals to be sent to Congress there is concern that the new system will be open to political interference and that Petrobras will be granted advantages in detriment to other oil companies. There are also fears that concessions can be granted without an auction system and favouring Petrobras.

Chile: Worst period may be over

Politics:
Socialist party Deputy Marco Enríquez-Ominami is now edging past Concertación standard-bearer Eduardo Frei, according to the latest polls. Polls suggest that Enríquez-Ominami, who two months ago barely registered in national surveys, might well have a legitimate shot at the presidency. At the very last, his surging numbers are shaking up what until recently looked to be a two-man race between veteran political leaders Piñera, a wealthy businessman and former senator, and Frei, a senator and former president. Mr. Enríquez-Ominami is a member of the Socialist party (Concertación), but because his party has already endorsed Frei, Enriquez Ominami will have to participate in the December election as an independent candidate.

Economics
The world faces a severe recession. In 2009, the level of global production will fall for first time over sixty years and world trade will have a reduction out of the record. The impact on the Chilean economy has been greater than estimated earlier this year, causing a significant drop in activity and domestic demand, and a reduction of both inflation and actual inflationary prospects.

However the increase of the copper price and the Chilean stock exchange with positive returns (in average) indicate that the worst period of the economic situation could have gone. The economic indicators confirm that there is no risk of depression, but we do expect an economic recession in 2009 and gradual recovery in 2010. Now the priority must be to recover the growth rate and keep under control fiscal expenditures as well as the inflation level.

Industrial slowdown remains through April and May. The Central Bank's monthly index of economic activity - IMACEC - showed a strong fall in the economic activity since October 2008 (the economy shrank 4.6% in April from a year earlier). Industry reflects a fall in economic activity, while mining recovers; consumption and trade index show a strong slowdown. During May, imports had a historic tumble of 42% from a year earlier. Analysts expect a slowdown for the 2nd quarter up to 3%. The expansion of the fiscal policy and the low interest rate will lead to an increase of the Chilean economy in the 4th quarter. For the full year, analysts are expecting a fall between 1.0%-1.5%, and gradual recovery in 2010.

In the last couple of years, international commodity price movements have affected domestic inflation. Currently inflation continues to fall. As of May 2009 inflation was 3% (annual basis) and –0.25% monthly basis (the fourth monthly decline this year) and has been very volatile. The fast downward trend in Chilean inflation reflects the high level of transfer in external prices changes to the domestic market.

The Central Bank sets the monetary policy interest rate (MPR) in order to achieve an explicit inflation target over a certain time horizon. In Chile, an inflation-targeting regime has been fully in place since 2001. Monetary policy has reacted strongly to change in the macroeconomic scenario, reducing the MPR at 750 basis points in just five months. Thus, the interest rate is now at its lowest level ever and the lowest among the emerging economies. The current interest rate is 0.75%, at December 2008 the interest rate was 8.25%. We don't expect further interest rate cuts. The transfer of the downward of the MPR to the market interest rate has been evident, however the credit volume still doesn't show a recovery.

Finally, labor market shows serious detriment; the unemployment rate reached 9.8% (12.8% according to Universidad de Chile's methodology), which is higher than was expected by most analysts.

Finance

The Central Bank announced a new government plan to sell USD 4 billion in USD 40 million daily allotments, to repatriate some of its international assets. The stabilization fund contained USD 18 billion at the end of April. The sales come in addition to the USD 3 billion the government has been offering in USD 50 million daily clips since March (which is close to the end), as part of an effort to use foreign funds to boost spending and shore up growth in the local economy. The Central bank also announced that the government would sell USD 1.7 billion worth of bonds in the local market. The bank said it would offset the effect the sale may have on rising long-term yields by buying back USD 1 billion of its debt. Additionally, the central bank scrapped plans to sell USD 750 million in long-term bonds during the second half of the year. Chile's plan to sell more dollars is a material amount of regular dollar selling in this relatively small foreign exchange market.

The bond sales will help fund a 14.5% increase in government spending this year as the global economic slump erodes earnings on cooper. Net cooper revenue will fall 69% this year to USD 1 billion from USD 3.2 billion in 2008. The 2009 budget forecast published in October 2008 called for copper income of USD 2.7 billion. Chile will probably run a budget deficit of 4.1% of GDP this year on revenue that's 24% below initial projections.

Chilean peso climbed to an eight-month high after the announcement from the central bank. The peso is up 14.9% this year, the third best performer among 26 emerging-market currencies tracked by Bloomberg. Some economists are forecasting the peso will climb to 535 per dollar in coming weeks.

Total cost for Chile from the economic crisis is estimated in USD 8.1 billion, which is a result of USD 6.1 billion from public deficit and capital injection to the State copper mining company Codelco (USD 1 billion), Banco Estado (USD 500 million) and the development organisation Corfo (USD 500 million).

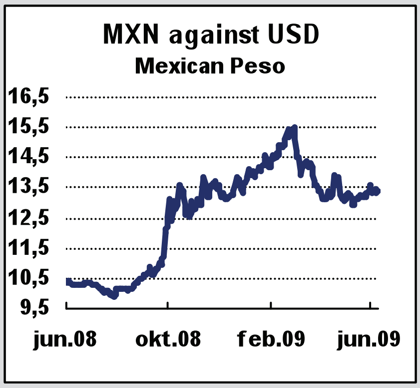
Forecasts

Chilean economists lowered their 2009 inflation forecast for a ninth straight month. According to the Central Bank survey, the economists forecast year-end inflation for Chile at 0.3%. Economists also forecast that gross domestic product will shrink by 1% this year, after declining 3% in the second quarter from the same quarter a year earlier. The survey results suggest that the Central Bank may keep interest rate low for longer than the market is expecting.

Story of the month

A major epidemic and infectious salmon disease («ISA») dramatically has hit the Chilean salmon farming Industry. The first site was detected in July 2007 in Marine Harvest. With few exceptions, all of the salmon farming companies are affected. As there are still not developed effective vaccines or other treatments, the only and common way to deal with the disease is to kill and remove infected fish to avoid further disease spreading. As most of the infected fish have not reached market sizes, these measures are very costly and imply a dramatic fall in planned revenues and profit. Most of the Chilean salmon farming companies are therefore realizing huge losses; they are breaching financial covenants in their loan agreements and are negotiating with banks for refinancing solutions. All the companies are restructuring financial debt with bank lenders (total estimated financial debt USD 2.0 billion -total debt of this sector is approx. USD 3.0 billion-, where Banco de Chile has the main stake 20.9%, followed by BCI with 16.8%), but negotiations are being tightened. It's expected that some companies could claim for a kind of Chapter 11 (in Chile is called preventive court agreement, which is an arrangement with creditors to avoid bankruptcy). The ISA situation in Chile has been the most damaging in the aquaculture history and has lead to a dramatic downscaling of the production of salmon. With a harvested volume of 400.000 MT of Atlantic salmon in 2008, the harvest volume in 2009 is expected to be well below 200.000 MT. The salmon industry is concentrated in the south of Chile. In this zone the unemployment rate has reached 50%, as almost 20,000 jobs have been lost. The sanitary measures that have been implemented and the new regulation for the sector, could help the industry recovery, but this is not expected before 2012. Salmon became the third largest export product for Chile, in just two decades and in 2006 the industry exported more than 600 thousand MT (USD 2,300 MM).

Mexico: Worst economic downturn since the Tequila crisis



Politics

The mid-term congressional election in Mexico is set for 5th July. Although the government has been widely acclaimed for its management of the swine-flu health crisis, the governing centre-right Partido Acción Nacional (PAN) of president Calderón still lags behind the opposition Partido Revolucionario Institucional (PRI) in the polls.

During the weeks after the outbreak of swine- flu, health emergency temporarily replaced the economic recession and the security crisis as the main concern to voters. Although President Calderón's decisive handling of the crisis was well perceived both in Mexico and abroad, it was not reflected in the polls.

In a recent survey PRI was ahead with 37% while the PAN obtained 31% and the centre-left Partido de la Revolución Democrática (PRD) 16%.

A low participation is expected in the mid-term elections as dissatisfaction with politicians and apathy is widespread.

Economics
Mexico is experiencing the worst economic downturn since 1995 with additional damage to the domestic economy and tourism industry caused by the swine-flu outbreak in April.

The Mexican economy contracted 8.2% year on year in the first quarter of 2009. Value-added output from secondary industry fell by 9.9%, driven by a 13.8% drop in manufacturing output. Production of transport equipment fell by 38.3%

The rate of decline has been far sharper than most analysts had expected. The Economist Intelligence Unit (EIU) has downgraded their projections for Mexico's growth and now expect the economy to contract by 7.1% (previously 4.4%) this year, with a rebound of 2.8% in 2010.

Rising unemployment and falling remittances from overseas workers is causing a fall in private consumption of 18.7% year on year in April. However, the government's fiscal stimulus measures are helping to limit the contraction in fixed investment. Even so, overall fixed investment is expected to fall sharply this year, as exporters are cutting capacity. There has been a 56% year on year decline in foreign direct investment.

Exports of goods and services are now forecasted to contract by 15.6% mainly caused by a sharp fall in US import demand.

The EIU expects that the economy will continue to suffer due to a rise in unemployment, plummeting US demand and less availability of credit.

Twelve- month inflation in Mexico fell to 5.98% in May, which is the lowest in 7 months. Consumer prices fell 0.29 percent in May. In an effort to stimulate demand the central bank has been lowering interest rates and economists expect the bank to further cut rates at its next policy meeting on 19 June. According to Reuters, economists at both Barclays Capital and Morgan Stanley forecast a 50 basis point reduction to 4.75 percent.

Business
It is unlikely that Mexican lawmakers will try to make further reforms in the oil sector after midterm Congressional election as the suffering economy, the fight with drug cartels and the need for major changes in the tax system are all higher on the agenda.

Despite last year's reform package, analysts expect Mexican oil production to end the year below the country's 2.7 million barrels per day target. They have also questioned the feasibility of the country's medium-term goal of lifting output back to 3 million barrels per day by 2012.

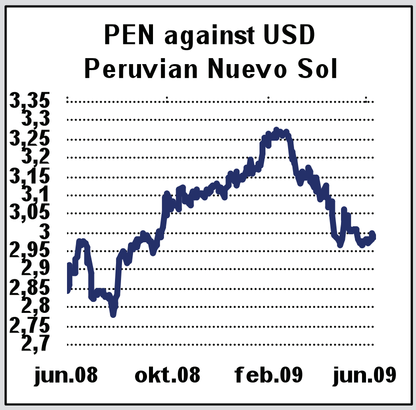
Mexican vehicle production levels for the first four months of 2009 declined by 42% from the previous year, and the government is making a rescue plan. The hope is that carmakers survive the next several months with a recovery thereafter. The vehicle and automotive component manufacturing sector accounts for over one-sixth of Mexico's overall manufacturing output. Politicians are working on a support plan funded by Nafinsa, the Mexican development bank. If approved, this plan will make loans available to all carmakers that have manufacturing plants in Mexico.

According to Bloomberg, Mexico's biggest fixed-line telephone company Teléfonos de México (Telmex), plans to sell MXN 8 bn (USD 598 million) of floating-rate bonds to refinance debt and for general corporate purposes.

Finance
Mexico's Bolsa index rose 2.2 percent last week, the fourth straight weekly gain.

The peso declined 0.8 percent last week, its second consecutive weekly decline, to 13.4037 per U.S. dollar.

Peru: Social unrest is picking up



Politics
Riot police in Peru have fired tear gas to keep protesters away from Congress as thousands marched following the worst political violence in years. Protesters took to the streets in support of native Amazonians who oppose government plans for their ancestral lands. Confrontations between police and indigenous protesters last week led to the deaths of more than 50 people. Congress in Lima have voted to suspend two controversial land decrees. President Alan García hoped this would ease tensions and allow time for negotiations between

the government and indigenous groups. But indigenous leaders and opposition groups want the decrees overturned once and for all - and end government plans to allow foreign companies to drill for oil and gas in the Amazon. Some 20,000 students, labour union members and indigenous Peruvians were among the protesters.

Economics

The Peruvian government is optimistic about Peru's prospects for economic growth in 2009 despite the global economic crisis. In their recent macroeconomic forecast, the government estimated real GDP growth of 3.5% in 2009, supported by the government's fiscal stimulus package. Domestic demand is forecast to rise by 4.2% in real terms. However, the EIU forecast a contraction of 1.8%.

Peru's central bank is expected to cut its benchmark lending rate for a fifth consecutive month due to slowing inflation. The lending rate is currently at 3%.

The demand for Peru's exports is plummeting due to the financial crisis and domestic spending has stalled. Prices of copper, zinc, tin, silver and natural gas, which account for 70 percent of Peru's export revenue, have all dropped at least 25 % since March 2008. Peru is experiencing the weakest economic growth in almost eight years, and annual inflation is at the lowest level in 16 months.

According to Bloomberg consumer prices fell 0.04 percent in May slowing the annual rate to 4.21 percent, mainly caused by lower food and fuel prices.

The Central Bank expects inflation to slow to 2 percent this year on declining consumer demand.

Peru's official poverty rate fell sharply in 2008. The poverty rate fell by 3.1% in 2008 to 36.2%, while that of those living in extreme poverty (on less than USD 1.50 per day) more than halved, to 12.2% of the population.

Analysts predict that growth may start to rebound in the second half as the government boosts public spending and manufacturers clear backlogs in inventories.

Business

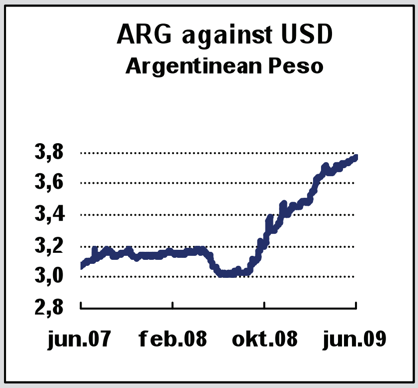
Repsol of Spain has announced that they will invest USD 500 million annually in oil and natural gas in Peru. Repsol has already spent USD 2.2 bn in Peru, mainly in the Camisea project.

Finance

Year to date the Lima stock market index has nearly doubled and was in the beginning of June at the highest level since the global financial crisis hit in September.

As commodities prices have started to rebound, the Peruvian sol is advancing against the dollar. On June 12, it climbed to 2.9705 per U.S. dollar

Argentina: The era of Kirchnerism could be over



Politics

On June 28th Argentines will be voting in a partial legislative election. The sitting president, Christina Fernádez de Kirchner with her husband, Néstor Kirchner, are looking at a possible loss of majority in Congress and the prospect of a lame duck presidency until next presidential election in 2011.

The two main opposition coalitions to the Kirchners are ahead of the pro-Kirchner coalition in Buenos Aires city. Acuerdo Cívico y Social consists of centre-left groups, and Unión-Pro is based on dissident Peronists and the centre-right Propuesta Republicana (Pro) party.

In the state of Buenos Aires, Mr Kirchner is heading the Peronist list himself, and is leading based on still strong support from the poorer regions of the state. However, his fraction will loose seats also in the province. In other rural areas of the country, even though the opposition is less organized, is proving to be loosing-grounds for the Kirchners - mostly due to the long-standing conflict with farmers regarding the export taxes last year.

In total, the Kirchners are most likely to loose their majority in Congress. They are trying to prevent this in the latest weeks by painting a grim picture of the state of the economy if they loose – comparing the situation to the political and economical meltdown of 2001.

The Economist Intelligence Unit (EIU) believes the most likely outcome is that Argentine politics will end up in a gridlock after the elections, with the possibility of Mrs Kirchner stepping down before the next presidential election in 2011. In any case, it is hard to find anything positive in the political outlook for Argentina.

Economics

In a report from May, Credit Suisse reported that they expect that the Argentine Economy will retract by 2.5 percent in 2009. At the same time it says that they do not expect the official numbers reported by the government to reflect this.

For several years now there has been great controversy regarding the reporting of inflation numbers from the national statistic bureau, INDEC.

In the end of May, the government reported that the growth was 2.7 percent in March - much better than expected by most analysts. Credit Suisse says that the political consequences of reporting the true numbers are to big for the government at the moment, due to the upcoming elections.

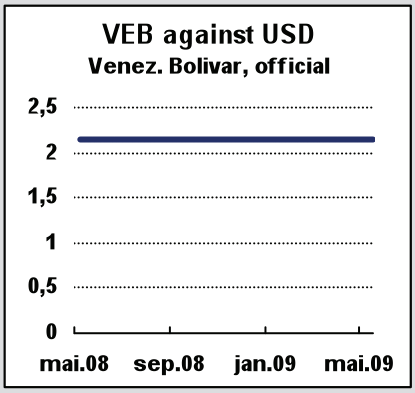
Finance
A slowdown in foreign income due to a fall in export revenues combined with political instability and a restricted access to international funding, have caused economists to wonder whether the Argentine government will still have the willingness and ability to honor its debt obligations.

Some answer to this question came in mid-June when the government decided to offer an early payment on bonds maturing in Agust. The EIU believes the mid-term elections is part of the reason why the Kirchners are still honoring its obligations – the political stigma of a default is strong.

However, there is fear that if the Kirchners loose their power in the congressional elections, their willingness to honor upcoming debt payments may be lower.

Business
The Argentine government will use USD 70 million of its nationalized pension funds to give an emergency loan to General Motors Argentine factory in Santa Fe. Among the conditions for the loan is that all the parts used in the production are locally made. This announcement is a part of a larger plan to stimulate economic growth in the country. For this, the government will use parts of its nationalized USD 24 billion pension fund.

Venezuela: Opposition erodes as Chávez radicalize



Politics
Venezuelan president Hugo Chávez continues to centralize power in an attempt to make any opposition politicians with political positions powerless. Ever since the February 15 referendum giving him the possibility to be re-elected for infinity, he has been trying to institutionalize his position by law and make his opponents politically impotent.

Opposition politicians have run many local and regional authorities since the November elections, but more centralization of power has left them without any real influence. The worst example probably being in the city of Caracas where the opposition leader Antonio Ledezma ha been stripped of most of his powers as mayor since the president decided that there should be a centralized “vice-president” for the capital. This un-elected head of the city, has most of the real power in the city.

Outlook for Venezuelan politics are hard to see as anything but negative. The Economist Intelligence Unit (EIU) expects Mr Chávez to retain power and even win re-election in December 2012 presidential election, but they emphasize that heightened social discontent could lead to an abrupt end to Mr Chávez’s rule. The growing trend towards policy radicalisation could potentially set the stage for widespread unrest, particularly in the context of a sharp economic downturn.

Economics
The EIU expects the GDP for 2009 to retract by 5.5 percent in 2009. GDP grew 0.3 percent in first quarter, down from 3.2 percent in the fourth quarter in 2008. But the reality is even worse: The sustained real growth in the first quarter is highly based on fixed investment growth of 11.6 percent. This investment is almost entirely done by the government, and with their sharp fall in income due to low oil prices, they will most likely not be able to sustain this level of investments going forward.

With Mr. Chávez being more aggressive towards foreign investors, it is not likely that foreign direct investment will grow either. This is a challenge for the government, as the lack of capacity expansion in the oil sector will cause this very important sector to miss out of potential gains from the oil price moving back up again.

Finance
In 2008, Venezuela made USD 87 million from exporting oil (93 percent of export income). This year this is expected to be reduced to USD 50 million, causing a US dollar shortage in the economy. Since 2003 there has been strict currency controls in Venezuela to prevent currency flight. These days controls are being tightened due to the lack of foreign currency.

Banks and importers have been complaining that the state currency agency Cadivi has been delayed in delivering dollars. The finance minister Ali Rodriguez says that the government is prioritizing food and medicines due to the fall in oil revenue.

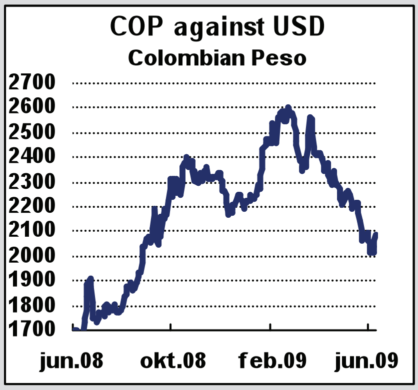
Foreign reserves were at USD 29.2 billion at the end of May, down USD 306 million from a month earlier, and down USD 12.9 billion since the end of 2008. USD 12 billion were taken from the reserves in the end of January and put into a special fund set up by Mr. Chávez to hold “excess» reserves. This fund is beyond the scrutiny of the public and the national assembly.

Business
Venezuela is considered an increasingly difficult country to do business in, according to EIU. Not only are the currency controls and the fixed currency rate making it challenging to work as an international company in the country, but also the government’s speed of nationalizing companies has picked up.

The country has nationalized oil and gas companies, electricity and telecommunications companies, oil-service companies, food producers, cement producers, banks and petrochemical companies. Finally, on June 11th, the government asked to revise all government contracts with private port operators in order to nationalize the country’s Caribbean ports.

This radicalization of policies towards the private sector is making the probability for a fast economic recovery slim. The future for private enterprises in Venezuela looks bleak.

Colombia: Still looking like Uribe will get a third term, amidst recession



Politics
The Colombian senate decided that a referendum is to be held over the possibility for the president Alvaro Uribe to run for a third term, although this is prohibited by the constitution. Mr. Uribe has yet to confirm that he actually is going to seek a third term, but most analysts believe he will. A national referendum still has to be approved by legislative committee and the constitutional court.

The presidential election is scheduled for May 2010. If he is to run, polling data so far gives him a large popular support. A May polling done by Gallup puts his popularity at 68%.

However, the problem is that Mr Uribe already has had a constitutional change in order to stay in power for a second term. With a second change, and a third term, he may well weaken his position rather than strengthening it as it could be looked upon as an authoritative move.

Economics
Colombia expects a budget deficit next year of 3.4 percent of GDP compared with a forecast shortfall this year of 2.4 percent, Finance Minister Oscar Ivan Zuluaga reported in the middle of June. In the same press conference he also reported that GDP growth is estimated at 0,5% for 2009 and 2,5% in 2010.

In the fourth quarter 2008 and first quarter of 2009, Colombia experienced a retraction of GDP – a technical recession. However, the Economist Intelligence Unit (EIU) believes Colombia will manage through comparably better than other countries in the region due to the following factors:

- a low base of comparison after the policy-induced slowdown in 2008;
- a relatively closed economy (exports of goods and services account for around 18% of GDP, compared with an average of over 40% for most emerging markets);

- the fact that Colombia's growth spurt in 2003-07 was much less dependent on portfolio capital inflows and easy international credit than in some other emerging markets;
- more aggressive than expected monetary easing cycle;
- declining inflation; and
- a relatively stable and liquid banking system.

Finance

Despite clear signs that the recession deepened in the first quarter, investor sentiment towards Colombian creditworthiness has not suffered unduly, EIU reports. Investors have confidence that the government will pursue cautious fiscal policies. This was reflected by strong demand for the reopening on April 14th of a USD1bn 10-year global bond. Appetite for Colombian paper has been helped by the IMF's approval on May 11th for a USD 10.5 billions credit line.