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Featured Q&A With Our Board of Advisors

Q Argentine President Nestor Kirchner last week denied his government was seeking to manipulate inflation data for political purposes, following the recent replacement of the top official in charge of overseeing consumer price data with another official considered a loyalist. Does the Kirchner government have a credibility problem? How does economic reality in Argentina compare with official data in general?

A Guest Comment: Vladimir Werning: "The fragility of the public's confidence in statistics is well reflected in ex-British PM Benjamin Disraeli's statement that 'there are three types of lies: lies, damned lies, and statistics.' Frequent and dramatic revisions of data—even in the most serious countries—contribute to this perception, but that can be tolerated as long as methodological changes are not biased. Until now, methodological disputes between Argentina's ministry of the economy and INDEC have ended with the ministry producing a competing report offering its alternative interpretation of the data. Thus, past conflict challenged INDEC's technical reputation but spoke highly of INDEC's institutional independence. In contrast, the current conflict threatens INDEC's independence as it has been resolved through an increase of the ministry's influence over INDEC's statistics by way of discretionary firing and hiring of the head of the infla-

tion department. And INDEC's subsequent (and clumsy) understatement of January's CPI inflation (1.1 percent m/m) by at least four decimal points has raised skepticism further. In many ways, the government is shooting itself in the foot. First, the government's success in managing wage inflation in 2006 was critical to stabilizing goods inflation. But now the public is bound to exaggerate the unobserved divergence between measured and actual inflation, and disregard the CPI index as a reference for wage renegotiations. Second, the distortion to the CPI negatively affects the capacity to measure the evolution of the real exchange rate despite the latter's importance as a policy objective of the adminis-

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PHOTO OF THE DAY



(L-R) Bolivian President Evo Morales and Brazilian President Luiz Inacio Lula da Silva met in Brasilia on Tuesday and are expected today to announce a broad agreement on natural gas prices. See related news on page 3.

Photo: Agencia Brasil.

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NEWS BRIEFS

US Mining Exec: Bolivia Will Not Nationalize Foreign Mining Ops

The head of US silver miner **Coeur d'Alene Mines Corp.** said Wednesday he does not believe the Bolivian government will nationalize foreign mining operations, Reuters reported. "I do not think there is any suggestion of wanting to nationalize any mining projects. To the contrary, I was given a specific affirmation" about the company's San Bartolome silver mine in Bolivia, Coeur d'Alene Chief Executive Dennis Wheeler said. Wheeler did say, however, that Bolivian President Evo Morales does want foreign mining companies to pay higher taxes.

LAN Airlines Posts 88 Percent Jump in Fourth-Quarter Profit

Chile-based **LAN Airlines** on Wednesday reported a fourth-quarter net profit of \$96.3 million, an increase of 88 percent from the same period a year earlier, Reuters reported. For the year, net profit rose 64.6 percent to \$241.3 million, while full-year revenues grew 21.1 percent to \$3.03 billion. LAN is one of the biggest airlines in Latin America with affiliates in Ecuador, Peru, and Argentina.

Expansion of Brazil Refinery Will Remain Within Alcoa's Budget

US firm **Alcoa's** investment in Brazil's **Alumar** alumina refinery expansion will remain within the company's budget, despite cost increases, Alcoa spokesman Kevin Lowery said Wednesday, according to Reuters. Alcoa and its trading arm, **Abalco**, have a 54 percent stake in Alumar. **BHP Billiton Ltd.** has 36 percent and Canada's **Alcan Inc.** has 10 percent, according to Reuters.

Political News

Correa: Constitutional Assembly Would be Able to Dissolve Congress

If its creation is approved by a popular referendum, an assembly to rewrite Ecuador's Constitution will have the power to dismiss all elected officials, including members of Congress, President Rafael Correa said Wednesday, according to the Associated Press. "It is absurd to say that the assembly cannot dissolve established institutions. I will be the first to present my resignation before that assembly, recognizing that they can send home the national Congress, the Supreme Court or president of the republic," Correa was quoted as saying. On Tuesday, Congress approved Correa's proposal for a referendum, to be held on April 15, but stipulat-

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- Rafael Correa

ed that the assembly would not have the authority to dissolve Congress. Earlier this month, Correa's government denied any plans to dissolve the legislative body, which the president has called a "sewer of corruption," according to the AP. Correa took office last month vowing to reform Ecuador's political system to curb the influence of traditional parties. Critics say the president is seeking to use the assembly to accumulate greater power in step with his ally, Venezuelan President Hugo Chavez. According to a **Cedatos-Gallup** poll published last month, three-fourths of Ecuadoreans support Correa's proposal to rewrite the Constitution.

Mexico Says Oil Installations Are Safe from Al Qaeda Attack

The Mexican government said Wednesday its oil installations were safe after a Saudi

wing of global terrorist group al Qaeda called for attacks on US oil sources around the world, the Associated Press reported. The government said it remained alert but had no reason to believe that its oil installations were under threat from al Qaeda, while President Felipe Calderon's office said it was evaluating the threat. On Wednesday, the Saudi wing of al Qaeda said in a posting to a Web site used by Islamist militants that "it is necessary to hit oil interests in all regions which serve the United States, not just in the Middle East. The goal is to cut its supplies or reduce them through any means." The message cited production wells, export pipelines, oil terminals, and tankers as possible targets. The Saudi wing of al Qaeda was responsible for a failed attack on the Abqaiq facility in Saudi Arabia, the world's largest oil processing plant, in February 2006. Mexico, which exports

about 1.4 million barrels per day of crude to the United States, is one of the top three foreign suppliers of oil to the US. In 2005, it tightened security around its Gulf of Mexico oil rigs in accordance with international norms, the AP reported, citing a spokeswoman at state-run oil monopoly **Pemex**. After the September 11, 2001 terrorist attacks in the US, Mexico deployed ships, jets, and helicopters to patrol its offshore oil platforms, adding two armed warships to the patrols in late 2004, according to the AP. The Mexican navy said it had no immediate plan to increase security around offshore oil platforms in response to the latest al Qaeda threat. US Homeland Security Secretary Michael Chertoff will visit Mexico on Thursday and Friday for talks with Mexican officials. The interior minister of Venezuela, another top supplier of crude to the US, said Wednesday his country was working to

guarantee security at its oil installations in light of the latest al Qaeda threat, Venezuelan daily *El Universal* reported.

Economic News

Brazil Agrees to Pay More for Small Amount of Bolivian Natural Gas

The Brazilian government said Wednesday it agreed to pay more for a small amount of natural gas imported from Bolivia. The government of Brazilian President Luiz Inacio Lula da Silva agreed to a nearly three-fold increase in the price of gas used by a power plant in the western agricultural city of Cuiaba from \$1.19 per million British thermal units (BTUs) to \$4.20 per million BTUs, Brazilian state news service Agencia Brasil reported. Cuiaba accounts for less than 10 percent of Brazil's natural gas imports from Bolivia, according to Reuters. "The price of the Cuiaba gas was outdated and unfair, so that price is being adjusted," Brazil's Foreign Minister Celso Amorim was quoted as saying by Agencia Brasil. Brazil has also offered to finance infrastructure projects in Bolivia, according to Reuters. Announcement of the Cuiaba deal came as Lula met in Brasilia Wednesday with Bolivian President Evo Morales to seek a broader agreement, set to be announced today, on the price of Bolivian natural gas exports to Brazil. Bolivia has sought an increase in prices since the Morales government announced the nationalization of its hydrocarbons sector in May of last year. Brazil depends on imports of up to 30 million cubic meters of natural gas per day from Bolivia for half of its natural gas needs. Petrobras pays \$4 per million BTUs for gas pumped through its Santa Cruz de la Sierra pipeline to the Brazilian industrial hub of Sao Paulo, and Morales is pushing for a 25 percent price increase, according to Reuters. Petrobras rejected the request, saying prices are agreed by contract through 2019. Under a new 20-year agreement signed with Bolivia in October, Argentina agreed to pay \$5 per million BTUs. That deal is expected to result in \$17 billion in revenues for Bolivia, which has the second-largest natural gas reserves in South America.

Featured Q&A

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tration. Third, although the administration has championed the de-dollarization of its debt, the distortion will undermine the potential for shifting debt from dollars into indexed pesos and the latter into nominal pesos."

A Guest Comment: Marcelo Fielder: "The Kirchner administration made a big mistake with the replacement of officials at INDEC and the political manipulation of the consumer price index (IPC). The index that measures country risk rose, and sovereign bonds fell, proof

enough that its credibility was affected ... Officials in the Kirchner administration do not realize that there is other data to 'show off,' such as the twin surpluses and the fall in the unemployment rate, among others. The tourism boom, and the agricultural and industrial production records are important indicators that reveal a glimpse of a good economic future for Argentina if it proposes correct state policies. If, on the other hand, the desire to win the elections makes the Kirchner administration fall back on greater doses of populism, they will endanger the achievements made. The

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Company News

Venezuela Creates Transition Team for Transfer of Stake in CANTV

Venezuelan Telecommunications Minister Jesse Chacon said Wednesday a transition team had been created to oversee the transfer of control of **Verizon Communications'** stake in **CANTV**, Venezuela's biggest telecom company, to the government, Venezuelan state news

service ABN reported. Chacon said he would lead the transition team, whose members will include, among others, Socorro Hernandez, a member of the board of state-owned oil company **PDVSA**. On Monday, Verizon signed a memorandum of understanding to transfer its 28.5 percent stake in CANTV, the biggest single stake in the company, to the government for \$572 million, in step with the government's plans to nationalize the company. Gustavo Roosen resigned as CANTV president the same day.

Energy

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Featured Q&A*Continued from page 3*

most sensitive areas are an increase in the government budget, especially subsidies for activities such as public services; re-nationalized companies; compensations (mistakenly called cross 'subsidies' for soy and other products); pensions for those who do not contribute; growing wage pressures; and the lack of investment in the energy sector."

A Guest Comment: Arturo Porzecanski: "The authorities in Buenos Aires have been engaged in a five-year struggle to contain the inflationary consequences of currency devaluation (from one to three pesos per US dollar) and of an expansionary monetary policy. They began in 2002 by freezing the prices of public utilities, violating legally binding contracts that would have allowed companies to pass on the devaluation to consumers. Then they imposed taxes ranging from 5 percent to 45 percent on the value of commodity exports, followed by selective caps on export volumes (of beef, mainly), in order to prevent domestic food and fuel prices from rising to international levels. Afterwards, they forced supermarkets and other businesses to enter into 'voluntary' agreements to keep prices frozen, or else to increase them quite modestly and after much delay. By the beginning of this year, I reckon, about 40 percent of all goods and services entering into the consumer price index were subject to repressed inflation, and their prices were inching up at about 3 percent per annum—while the remaining 60 percent or so of goods and services was going up at a rate close to 15 percent per year. Add to this the fact that the consumer basket has changed considerably in the past decade, and one can understand why the average Argentine did not find the government's inflation figures to be credible—and this even before Ms. Bevacqua was dismissed under suspicious circumstances."

A Guest Comment: Bertrand Delgado: "Since the end of 2005, the Kirchner administration has been interfering with

the necessity to improve institutional independence, and it has been increasing its grip on power. Furthermore, the government has obstructed private-sector independence to determine prices, and the recent intervention in INDEC could further deteriorate that relationship because the government now will have privileged information about price setters. Therefore, if the current state of affairs deteriorates further and politicization of the institutional framework continues, a loss of credibility and market anxiety about future policy decisions, especially in a pre-electoral year and in a regional context where Mr. Kirchner's close allies radicalize, will likely prove detrimental for Argentina's prospects. Previous to personnel changes at INDEC, the Kirchner administration did not have credibility problems, and economic data, for what it's worth, has been reflecting economic reality somewhat. Nevertheless, from now on the markets will scrutinize closely not only inflation but other economic data as well, thus likely increasing volatility."

Vladimir Werning is a Vice President at J.P. Morgan Chase & Co.

Marcelo Fielder is Secretary for Political Action at the Sociedad Rural Argentina.

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Editor's note: requests for comment to the Argentine economy ministry and the Argentine embassy in the United States were not answered.

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