

# INTER-AMERICAN DIALOGUE'S LATIN AMERICA ADVISOR

## BOARD OF ADVISORS

- |  |   |
|--|---|
| <b>Diego Arria</b><br>Director,<br>Columbus Group  | <b>Donna Hrinak</b><br>Senior Director of Latin<br>America Government<br>Affairs, PepsiCo   |
| <b>Genaro Arriagada</b><br>Board Member, Banco<br>del Estado de Chile  | <b>Jon Huenemann</b><br>Principal,<br>International<br>Department,<br>Miller & Chevalier    |
| <b>Joyce Chang</b><br>Global Head of<br>Emerging Markets<br>Research, JPMorgan<br>Chase & Co.                      | <b>James R. Jones</b><br>Co-chair,<br>Manatt Jones<br>Global Strategies LLC                 |
| <b>W. Bowman Cutter</b><br>Partner,<br>E.M. Warburg<br>Pincus  | <b>John Maisto</b><br>Director,<br>US Education Finance<br>Group                            |
| <b>Rui da Costa</b><br>Managing Director,<br>Latin America & the<br>Caribbean,<br>Hewlett-Packard Co.              | <b>Nicolás Mariscal</b><br>Chairman,<br>Grupo Marhnos                                       |
| <b>Alejandro Delgado</b><br>Economist for Latin<br>America, Africa, the<br>Middle East & Mexico,<br>General Motors | <b>Thomas F.<br/>McLarty III</b><br>President,<br>McLarty Associates                        |
| <b>Dirk Donath</b><br>Managing Director,<br>Eton Park Capital<br>Management  | <b>Carlos Paz-Soldan</b><br>Partner,<br>DTB Associates, LLP                                 |
| <b>Jane Eddy</b><br>Managing Director,<br>Corporate & Govt.<br>Ratings Group,<br>Standard & Poor's                 | <b>Beatrice Rangel</b><br>Director,<br>AMLA Consulting LLC                                  |
| <b>Marlene Fernández</b><br>Former Bolivian<br>Congresswoman<br>and Ambassador                                     | <b>José Antonio Ríos</b><br>Chairman,<br>Global Crossing<br>Latin America                   |
| <b>Jason Hafemeister</b><br>Vice President,<br>Allen F. Johnson &<br>Associates                                    | <b>Andrés Rozental</b><br>President,<br>Rozental & Asociados                                |
| <b>Peter Hakim</b><br>President,<br>Inter-American<br>Dialogue   | <b>Everett Santos</b><br>President,<br>DALEC LLC  |
|  | <b>Shelly Shetty</b><br>Senior Director, Latin<br>American Sovereign<br>Ratings, Fitch Inc. |

## Annual Predictions Survey 2009

*Editor's note: we are pleased to publish the first in this year's series of the Latin America Advisor's "Annual Predictions Survey" results. This annual feature captures the latest forecasts, data, and analysis from regional experts. Survey results will run in the Advisor through early January.*

### Latin America Faces 'Remarkable Deceleration' in Growth

By **Alfredo Coutino**

Latin America has shown a strong resilience to the international crisis. During 2008 the region's performance did not show major signs of deceleration. In fact, in the first half of the year, the region performed at a speed similar to that of one year before. It wasn't until the third quarter that countries started to show signs of moderation. In Argentina, Colombia, Mexico and Venezuela, activity showed more deceleration as a result of both weaker external demand and domestic restrictions. However, in Brazil, Chile and Peru growth either reaccelerated or remained strong, as a result of solid domestic markets.

**GDP Growth Forecasts for 2009**  
Percent change (over a year ago)

|           | Credit Suisse | Deutsche Bank | JPMorgan | Moody's<br>economy.com | MorganStanley | UBS Pactual | AVERAGE |
|-----------|---------------|---------------|----------|------------------------|---------------|-------------|---------|
| Argentina | 1.5           | -0.9          | -1.0     | 3.0                    | -2.2          | 0.3         | 0.1     |
| Brazil    | 1.3           | 2.2           | 2.0      | 3.5                    | 0.0           | 2.8         | 2.0     |
| Chile     | 2.5           | 2.2           | 2.5      | 3.0                    | 1.5           | 3.2         | 2.5     |
| Colombia  | 2.6           | 2.0           | 2.5      | 2.1                    | 1.5           | 2.7         | 2.2     |
| Ecuador   | 2.0           | 0.6           | 2.0      | -                      | -             | -4.0        | 0.2     |
| Mexico    | 0.6           | 0.1           | -0.6     | 1.4                    | -1.5          | 0.2         | 0.0     |
| Peru      | 4.5           | 5.8           | 5.3      | 5.2                    | 4.0           | 4.3         | 4.9     |
| Uruguay   | -             | 2.5           | -        | 2.1                    | -             | -           | 2.3     |
| Venezuela | 1.9           | 1.4           | 1.5      | 2.8                    | -1.0          | 1.5         | 1.4     |

Source: Latin America Advisor

Consumer prices continued to rise, although at a decelerated pace. High international prices of food and energy were responsible for an important proportion of the region's inflation rebound in 2008. However, there were countries in which demand pressures played an important role as in the cases of Argentina, Chile, Colombia, Peru and Venezuela. Even though central banks recognized the influence of imported inflation on domestic prices, they started an aggressive wave of monetary restrictions. However, the significant adjustment of international prices has improved the region's inflation prospects.

Financial markets have not escaped the wave of global contractions. Markets have been

*Continued on page 4*

## Inside This Issue

- |   |  |
|---|--|
| <b>Annual Predictions Survey:</b> Latin America Faces 'Remarkable Deceleration in Growth'.....1 | <b>Accion International Investing \$4.2 Million in Microinsurance Initiatives</b> .....2       |
| <b>Salvadoran President Says He Will Withdraw Troops From Iraq</b> .....2                       | <b>Eye on the Americas:</b> Haiti's Unraveling Will Pose Test for President-elect Obama .....3 |
| <b>Brazil and France Sign \$12 Billion Arms Agreement</b> .....2                                | <b>Gas-Producing Countries Agree on New Forum for Collaboration</b> .....3                     |

## NEWS BRIEFS

**Accused Arms Dealer to FARC Fights Extradition to US**

A Russian businessman, who stands accused of attempting to sell weapons to undercover US agents posing as Colombian FARC guerrillas, is fighting extradition to the United States, the Associated Press reported Tuesday. Viktor Bout, a former officer of the Soviet air force, on Monday told a court in Bangkok that he was not involved in the alleged scheme. "I never met anyone from FARC," Bout said. "I've never talked to anyone from FARC."

**Ecuador Will Sell \$3.9 Billion in Domestic Bonds**

Ecuador, which earlier this month defaulted on \$3.9 billion worth of global bonds, said Tuesday it will issue up to \$1.5 billion in bonds on the local market, reported Bloomberg News. The government of President Rafael Correa plans to use the proceeds from the domestic bond sale to fund investments through the end of 2009, said the leader of Ecuador's securities regulator, Pedro Solines. The terms of the bond sale were not announced.

**Cemex Shares Grow on the Heels of Debt Financing Deal**

Mexico's **Cemex**, the world's third largest cement maker, saw the strongest growth in its stock in a week on Tuesday, buoyed by a \$3.7 billion debt refinancing deal, reported Reuters. Cemex shares rose 8.8 percent to close at 12.45 pesos in Mexican trading, and its American depository shares rose 7.8 percent to \$9.30. Cemex said Monday that it confirmed a deal with creditors to extend maturities on \$2.2 billion of debt through 2011, and to refinance nearly \$1.5 billion of a \$3 billion syndicated loan scheduled to mature in December 2009.

**Political News****Salvadoran President Says He Will Withdraw Troops From Iraq**

Salvadoran President Tony Saca said Tuesday that he will withdraw all of El Salvador's troops from Iraq after



Saca announces the withdrawal Tuesday.

*Photo: Salvadoran Government*

December 31, the Associated Press reported. The withdrawal would remove Latin America's last soldiers from the country. "We have fulfilled our mission with Iraq," Saca said in San Salvador. Saca's conservative party is in a tough fight to keep the presidency in next year's elections. He denied that he is pulling the troops out because US President George W. Bush is leaving office in less than a month. He added that although Iraqi President Jalal Talibani wrote to him asking that the Salvadoran troops remain, Saca said Iraqi officials never followed up on the request. "We haven't received, in recent days, any request from the Iraqi parliament or Iraqi authorities," he said. "If we had received something recently, my decision would have been to keep the troops in Iraq." El Salvador's Congress had authorized Saca to keep the troops in Iraq until next June. However, Saca has faced public pressure to pull them out. "As president of this country and as the commanding officer of its armed forces, we should be happy with our participation in Iraq," Saca said. "We have helped rebuild a large part of the Iraqi area." In the past five years, Salvadoran soldiers have helped 7 million Iraqis by finishing 350 education, health and infrastructure projects. Since the beginning of the Iraq war in 2003, five

Salvadoran soldiers have been killed in Iraq and more than 20 have been injured. Currently, 200 Salvadoran soldiers are based near the Shiite city of Kut in the southeastern part of the country. Great Britain has said it would withdraw its 4,000 service members from Iraq by late May. Estonia, Romania and Australia also have troops in Iraq.

**Brazil and France Sign \$12 Billion Arms Agreement**

French President Nicolas Sarkozy on Tuesday signed an arms deal with Brazil worth approximately 8.6 billion euros (\$US 12 billion), wire services reported. The agreement covers contracts for both French and Brazilian companies, and includes the building of 50 helicopters and five submarines, one of which will become Brazil's first nuclear-powered sub. The 50 EC725 Cougar helicopters will be built by **Helibras**, the Brazilian subsidiary of **Eurocopter**, which is part of European aerospace group **EADS**. Under the terms of the deal, France will also transfer technology to Brazil to help it build four con-

“The partnerships with France will allow Brazil to make the necessary technological leap to restructure its armed forces.”

— Luiz Inacio Lula da Silva

ventional submarines. France will also assist Brazil on the non-nuclear parts of the nuclear submarine. "The partnerships with France will allow Brazil to make the necessary technological leap to restructure its armed forces and put in place our new defense strategy," said Brazilian President

**To Our Subscribers**

*Please note that in observance of the Christmas and New Year's holidays, the next issue of the Latin America Advisor will be published on January 5, 2009. We wish our readers a happy holiday season and a prosperous new year.*

Luiz Inacio Lula da Silva after the signing ceremony, according to Bloomberg News. Sarkozy said a powerful Brazil would be "an element of stability in the world."

## Economic News

### Accion International Investing \$4.2 Million in Microinsurance Initiatives

Accion International is investing \$4.2 million in two companies that offer microfinancing, Accion said Tuesday in a press release. The private non-profit group, which issued its first microloan in Brazil in the 1970s, is investing \$1.2 million in **ParaLife**, a Swiss microinsurance holding company that started its operations in Mexico last year. Accion will support its expansion into Colombia. Accion says it will draw on "its microinsurance experience, institutional relationships and strong market presence in Latin America" to contribute to ParaLife's new offering of "low-cost insurance products tailored to the needs of those at the base of the pyramid." Accion is also making a \$3 million investment in Leapfrog Investments, a \$100 million microinsurance investment fund based in Mauritius.

### Gas-Producing Countries Agree on New Forum for Collaboration

Twelve of the world's largest gas exporting nations met Tuesday in Moscow, where they finalized a charter for the Gas Exporting Countries Forum (GECF), which aims to supervise the gas market and allow for collaboration between gas-producing countries, reported wire services. The forum, which will be permanently headquartered in Qatar, includes the world's biggest hydrocarbon producers, including Iran and Russia, and from the Western Hemisphere, Bolivia, Venezuela and Trinidad and Tobago. The deputy chief of Russia's **Gazprom**, Alexander Medvedev, dismissed fears that the organization would become a "Gas OPEC" by seeking to control prices. "Analogies don't fit, because the mechanisms of OPEC, based on establishing extraction quotas can't be applied to the gas sector, which operates with long-term supply con-

## Eye on the Americas

### A Monthly Look at Key Hemispheric Issues by the Dialogue's Dan Erikson Haiti's Unraveling Will Pose Test for President-elect Obama



WASHINGTON—Haiti's slow but steady climb out of its political and economic abyss was severely jeopardized in 2008 by a series of internal and external shocks. In the spring, escalating food prices prompted widespread riots as the population pushed back against a 40 percent rise in the costs of basic food commodities, which cut deeply into the standard of living for a population where most people subsist on less than two dollars per day. The Haitian food crisis contributed to the ousting of Prime Minister Jacques-Edouard Alexis and led to months of political instability. After rejecting a string of prime ministerial nominees set forth by President Rene Preval, Haiti's parliament eventually reached consensus on the nomination of Michele Pierre-Louise, a respected figure in the development field.

In the fall, Haiti was hit by a series of powerful storms in rapid succession that killed 700 people, virtually destroyed the major coastal city of Gonaives, and caused hundreds of millions of dollars in damage. Then a series of heart-rending school collapses laid bare the depth of the country's withering infrastructure. Now that the terms of most members of Haiti's parliament are set to expire in early 2009, with no new election scheduled, the country's stability appears increasingly fragile.

Haiti's faltering progress cuts deeply into the US government's efforts to portray Haiti as a modest "success story," following a decade of tumult and setbacks. President Preval, who was elected in February 2006, is today kept in power principally by the Brazil-led United Nations stabilization force that entered Haiti in the summer of 2004 and now numbers about 9,000 personnel. But Haiti remains a source of regional instability and a continuing political problem that will require the attention of the next US administration.

The United States has long been in a quandary about where exactly to place Haiti in the context of its overall foreign policy in the Americas, but there is little question that the country will soon emerge as the uninvited guest on Barack Obama's foreign policy agenda. Today, Haiti presents itself as an enduring concern for US policymakers due to the country's deep levels of poverty and ongoing humanitarian crisis (and the resulting flow of migrants to the US), its role as the transit point for the flow of Colombian cocaine through the Caribbean, and the desire to establish a functional democracy in Haiti, which has long been touted as a principal goal of US policy. Moreover, Rene Preval is already more than halfway through his presidential term, and once the Haitian parliament expires he will be left to rule by decree in a country virtually devoid of institutions. There is no obvious successor to Preval. Controversial former president Jean-Bertrand Aristide retains significant support in Haiti despite his exile in South Africa, and may seek to return.

In 2009, Haiti will confront a political vacuum that will hamper the international community's ability to address the country's brutal poverty and gaping inequality. The Obama Administration could make a positive contribution to democratic governance

*Continued on page 4*

tracts," he said, according to Bolivian state news agency ABI. But Venezuelan Oil Minister Rafael Ramirez highlighted similarities between the new gas organization and OPEC. "We see this forum as an opportunity to build a solid organization, which has in its foundation the same prin-

ciples that gave birth to OPEC," he said. Bolivia's representative at the forum, Saul Avalos, said his country was seeking greater dialogue with other gas-producing countries, and expressed his hopes for increased cooperation between his country and Gazprom.

**Annual Predictions Survey***Continued from page 1*

hit by the contagion effects generated by scared investors trying to find safer refuges, but not as a result of structural problems as in the past. Latin America's financial sector does not suffer from the same disease as in the US and Europe. In fact, the relative resilience shown by financial institutions is the result not only of their low exposure to risky assets but also of the higher standards of supervision and regulations maintained. Regional markets have been contracted, but losses have been lower than those reported in Asia and Europe. A few liquidity problems have been detected, but those cases are more related to wrong currency bets. In general, the region has been facing liquidity constraints but not solvency problems.

“Undoubtedly, in 2009, Latin America will report a more remarkable deceleration, but will not face a recession.”

— *Alfredo Coutino*

External accounts have started to deteriorate not only as a result of lower commodity prices but also due to the excess demand generated by a few economies running at overheating speed. However, countries have accumulated foreign resources enough to cover the incipient external imbalances and also to service their debt. In fact, the region now stands in a position of almost a net lender, instead of a net borrower as in the past. In addition, most countries maintain flexible exchange rates and governments have made extra efforts to save. All these together have significantly reduced the region's external vulnerability.

The region's prospects have been modified to the downside in light of the deterioration of global conditions. Undoubtedly, in 2009 Latin America will report a more remarkable deceleration, but will not face a recession. The favorable macroeconomic situation will allow the region to mitigate the effects from abroad and also to stay in positive territory. Countries more exposed to international trade and external financing will be the ones more affected. But countries relying more on domestic markets and with more fiscal flexibility will be the ones reporting better performance. Hence, the region will be able to advance at a rate around 2.8 percent in 2009, after an estimate of 4.6 percent in 2008. Inflation will show a continuous declining trend as a result of both moderation of domestic demand and lower international prices. Currencies have already corrected and will stay at more competitive positions, which will prevent the acceleration of external imbalances.

**Alfredo Coutino** is Senior Economist for Latin America at Moody's Economy.com.

...Upcoming editions of the Advisor include "Annual Predictions Survey" results on inflation and foreign direct investment.

**Eye on the Americas***Continued from page 3*

and the rule of law in Haiti by using its leverage, both in Haiti and with the broader international community, in order to facilitate timely elections and reinvigorating efforts to create a solid development path for the country. If Barack Obama is like most US presidents, he will have little interest in focusing on Haiti early in his administration, but waiting too long carries risks of its own. Haiti is on the verge of a political unraveling that will pose a crucial early test for Obama's foreign policy team.

**Latin America Advisor**

is published every business day by the  
Inter-American Dialogue, Copyright © 2008

**Erik Brand,**

General Manager, Publishing  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta,**

Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Matthew Schewel,**

Reporter, Assistant Editor  
[mschewel@thedialogue.org](mailto:mschewel@thedialogue.org)

**Inter-American Dialogue:****Peter Hakim,**

President

**Michael Shifter,**

Vice President, Policy

**Joan Caivano,**

Director, Special Projects

**Dan Erikson,**

Senior Associate, US Policy

**Paul Isbell**

Visiting Senior Fellow

**Claudio Loser,**

Senior Fellow

**Manuel Orozco,**

Director, Remittances and Development Program

**Tamara Ortega Goodspeed,**

Senior Associate, Education

**Marifeli Pérez-Stable,**

Vice President, Democratic Governance

**Jeffrey M. Puryear,**

Vice President, Social Policy

**Viron Vaky,**

Senior Fellow

Subscription Inquiries are welcomed at  
[freetrial@thedialogue.org](mailto:freetrial@thedialogue.org)

**Latin America Advisor** is published every business day, except for major US holidays, by the Inter-American Dialogue  
1211 Connecticut Avenue, Suite 510  
Washington, DC 20036  
Phone: 202-822-9002 Fax: 202-822-9553

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.