

INTER-AMERICAN DIALOGUE'S LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria

Director,
Columbus Group

Genaro Arriagada

Board Member, Banco
del Estado de Chile

Joyce Chang

Global Head of
Emerging Markets
Research, JPMorgan
Chase & Co.

W. Bowman Cutter

Former Partner,
E.M. Warburg
Pincus

Alejandro Delgado

Economist for Latin
America, Africa, the
Middle East & Mexico,
General Motors

Dirk Donath

Managing Director,
Eton Park Capital
Management

Jane Eddy

Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's

Marlene Fernández

Former Bolivian
Congresswoman
and Ambassador

Jason Hafemeister

Vice President,
Allen F. Johnson &
Associates

Peter Hakim

President,
Inter-American
Dialogue

Donna Hrinak

Senior Director of Latin
America Government
Affairs, PepsiCo

Jon Huenemann

Principal,
International
Department,
Miller & Chevalier

James R. Jones

Co-chair,
Manatt Jones
Global Strategies LLC

John Maisto

Director,
US Education Finance
Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

President,
McLarty Associates

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

José Antonio Ríos

Chief Executive Officer,
Vadium Technology Inc.

Andrés Rozental

President,
Rozental & Asociados

Everett Santos

President,
DALEC LLC

Shelly Shetty

Senior Director, Latin
American Sovereign
Ratings, Fitch Inc.

FEATURED Q&A

Should Venezuela's Government Devalue its Currency?

Q Venezuelan Finance Minister Ali Rodriguez said last month that officials are "cautiously" considering a plan to devalue the country's currency. Should the government take this action? What are the benefits and drawbacks to a devaluation of the bolivar? What would be the effects on inflation and the political impact of such a move?

A Alberto Ramos, vice president and senior economist at Goldman, Sachs & Co. in New York: "Should the government take this action? Absolutely, it is actually already too late. The economic and financial case for a significant adjustment of the bolivar fixed peg is well established and such action is long overdue, but we suspect that the precise timing and magnitude of the peg adjustment will be determined mostly by political factors. The persistently high inflation readings are exerting pressure on the government not to devalue the bolivar as that would drive inflation even higher. However, since the last step devaluation of the bolivar in March 2005, inflation has increased a whopping 157 percent. This has generated a large appreciation of the real effective exchange rate, which has in turn helped to deepen other macro imbalances: (1) atrophy of the non-oil sector (growing signs of Dutch disease); (2) a large increase in imports; and (3) a significant depreciation of the bolivar in the black market. The bolivar is trading at a

significant 154 percent premium over the official parity in the non-official market. A devaluation would help to correct a number of macro imbalances but would in the short term generate more inflation (although a large share of imports are already referenced to the much weaker parallel market rate). This would be politically costly as inflation is a highly regressive social tax. However, the government could mitigate the impact of higher inflation on the disposable income of low income households by increasing and targeting

Continued on page 2



Zelaya Calls on Leaders to Reject Honduras Election

Deposed Honduran President Manuel Zelaya on Tuesday sent a letter to Latin American leaders, calling on them to reject the results of the country's presidential election. See story on page 2.

File Photo: U.S. State Department.

Inside This Issue

FEATURED Q&A: Should Venezuela's Government Devalue its Currency?	1	Mexican Home Builder Homex May Expand Project in Brazil	2
Zelaya Calls on Latin American Leaders to Reject Honduras Election	2	IDB Approves \$300 Million Loan for Argentina Power Line	3
Spain's Repsol-YPF Discovers Oil in Argentina's Neuquen Province	2	Research Alert: Poll: U.S. Leadership, Obama Winning Favor in Latin America.....	3

NEWS BRIEFS

Spain's Repsol-YPF Discovers Oil in Argentina's Neuquen Province

Spain's **Repsol-YPF** has discovered oil in Argentina's Neuquen province, Merco Press reported Tuesday. Company technicians have not yet determined the full potential of the well, which has been producing oil for six months, a spokesman told the news agency. The La Caverna x-1 well has initially been producing 1,258 barrels per day, the spokesman said.

Mexican Home Builder Homex May Expand Project in Brazil

Culiacan, Mexico-based **Homex** may expand a 1,300 unit project in Brazil next year, Carlos Moctezuma, the company's chief financial officer, told Reuters Monday. "Brazil alone is an opportunity that could become more important in the future," Moctezuma told the wire service. "We are analyzing the different opportunities to expand that pilot in the Sao Paulo region." The home builder could use as much as \$100 million in cash generated from the issuance of new stock in order to expand its Brazil operations, Moctezuma added. The company recently registered the stock issuance plan with U.S. officials.

Colombia's Ecopetrol Will List Shares on Lima Stock Exchange

Colombian state oil company **Ecopetrol** will list its American depositary receipts on the Lima Stock Exchange, the company said Tuesday. The ADRs are the same instruments that the company listed in September 2008 on the New York Stock Exchange. The new listing does not constitute an issuance of new shares and will not generate additional cash for Ecopetrol, the company said.

Political News**Zelaya Calls on Latin American Leaders to Reject Honduras Election**

Deposed Honduran President Manuel Zelaya on Tuesday sent a letter to Latin American leaders calling on them to reject the results of Sunday's presidential election in the Central American country, the Associated Press reported. "I ask you not to recognize the electoral fraud and for your cooperation so that this coup d'etat does not remain unpunished," Zelaya said in the letter, which was released from the Brazilian Embassy in Tegucigalpa. Zelaya has been holed up at the embassy since sneaking back into Honduras Sept. 21, nearly three months after his June 28 ouster. Porfirio "Pepe" Lobo of the opposition National Party won Sunday's election, defeating Elvin Santos of Liberal Party, of which both Zelaya and de facto President Roberto Micheletti are members. The international community has divided over whether to accept the election results. The United States, Colombia, Costa Rica, Panama and

Peru have voiced support for recognizing the elections. After the balloting, Arturo Valenzuela, the assistant U.S. secretary of state for Western Hemisphere affairs recognized Lobo's victory. "The United States takes note of the election," he said at a press briefing Monday. "We see that Lobo was the front-runner, that he won the election. We commend him for that." However, countries including Brazil, Venezuela and



Argentina said recognizing Sunday's vote is tantamount to legitimizing the coup, the AP reported. Lobo and Micheletti said Sunday's turnout, which Honduran election officials put at more than 60 percent, showed that most Hondurans back the election and want an end to the crisis. However, Zelaya disputed the official turnout numbers, saying more than 60 percent abstained from voting. Independent monitoring organization Hagamos Democracia, a partner of the U.S. National Democratic Institute,

File Photo: Lobo Campaign.

Featured Q&A

Continued from page 1

government transfers. This would be possible as devaluation would increase the flow of (local currency) fiscal rev-

few years lauded the currency as the 'strong bolivar' which should therefore not be weakened. However, the dysfunctional macro policy mix leaves the authorities with no other alternative than devaluing."

“A devaluation would help to correct a number of macro imbalances but would in the short term generate more inflation.”

— *Alberto Ramos*

enue as about half of the government income is derived from dollar-based oil export proceeds. Another political issue is that the government has over the last

A **Juan Pablo Fuentes, economist at Moody's Economy.com:** "Venezuela's official exchange rate has been fixed at 2.15 bolivars per U.S. dollar since March 2005. From then through October of this year, Venezuelan prices rose 160 percent, compared with 12 percent in the United States. Thus the bolivar has clearly become overvalued, since a currency's exchange rate should reflect inflation differentials to remain competitive and in equilibrium. The bolivar's overvaluation has had severe negative effects on Venezuela's economy, eroding the com-

Continued on page 4

estimated turnout at 48 percent with a margin of error of 1.8 percentage points. Today, Honduras' Congress is scheduled to take up debate on whether to restore Zelaya to office before his term ends Jan. 27. Although lawmakers could vote today on his reinstatement, Zelaya told *The Miami Herald* Monday that he will not accept his reinstatement even if Congress makes that decision. "I will not accept any decision by the Congress until there is a political agreement beforehand," he said.

Economic News

IDB Approves \$300 Million Loan for Argentina Power Line

The Inter-American Development Bank has approved \$300 million in additional financing for the completion of a power line in Argentina, the bank said Tuesday. The loan complements a \$580 million loan the IDB approved in 2006 for the 1,220 kilometer, 500 kilovolt interconnection line. The line, which will connect northwestern and northeastern parts of Argentina, "will optimize the country's power generation system, paving the way for lower fuel consumption and a reduction in greenhouse gas emissions," the bank said in a statement. The new supplemental loan is needed because of higher

The supplemental financing complements a \$580 million IDB loan approved in 2006.

prices of labor and materials including steel, aluminum and cement. In addition, local funds for the project's completion will be increased by \$212.5 million from the original amount of \$145 million designated in 2006. Argentina's Norte Grande development Integration Program is part of the government's efforts to "normalize" the country's electricity sector and alleviate poverty in the Norte Grande region, the bank said.

Research Alert

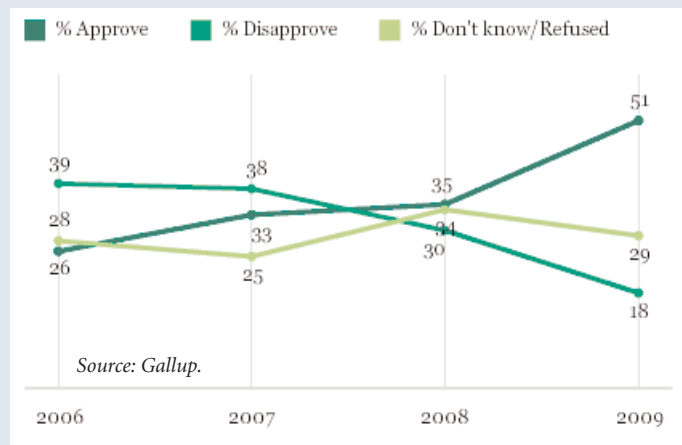
Poll: U.S. Leadership, Obama Winning Favor in Latin America

Less than one year into his administration, President Barack Obama is enjoying improved perceptions of U.S. leadership in Latin America, according to data released by the Washington-based **Gallup Organization** Tuesday.

The surveys, conducted across the region between July and September, found the regional median approval of U.S. leadership stood at 51 percent, "up significantly" from the previous three years the poll was conducted, Gallup said.

Median Approval Ratings of U.S. Leadership in Latin America

Do you approve or disapprove of the job performance of the leadership of the United States?



Median disapproval of U.S. leadership, which remained relatively steady between 2006 and 2008, decreased over the past year from a median of 30 percent in 2008 to 18 percent in 2009.

Looking at specific country results, Gallup's latest surveys show that Venezuelans, even under the rule of vocal U.S.-critic Hugo Chavez, may be giving Obama the benefit of the doubt: 48 percent of Venezuelans approved of Obama's job performance in 2009, while 23 percent disapproved and 29 percent did not state an opinion. Further, 50 percent of Venezuelans approved when asked more generally about the job performance of U.S. leadership in 2009, up from 35 percent in 2008 and 27 percent in 2007.

"One explanation for the boost in attitudes could be that without the famously antagonistic relationship between Chavez and Bush, anti-American sentiment and 'Chavismo' in general is losing traction in Venezuela and across the region," the Gallup report authors suggest.

Overall, approval ratings of U.S. leadership in each country in Latin America vary from a high of 68 percent in El Salvador to 40 percent in Bolivia. Rounding out the top five are Panama, Costa Rica, Colombia and Chile, while rounding out the bottom five are Ecuador, Nicaragua, Argentina and Guatemala.

When asked if they think U.S.-Latin America relations will strengthen, remain the same, or weaken under Obama, a median of 42 percent said relations would strengthen and 28 percent said they would remain the same. A median of 6 percent said they would weaken.

[Editor's note: More data from the surveys can be found on Gallup's [Web site](#).]

Featured Q&A*Continued from page 2*

petitiveness of local producers while favoring imports. Obviously, an adjustment in the bolivar-dollar exchange rate has been long overdue. In fact, such an adjustment has already taken place. The government effectively devalued the bolivar by limiting the availability of dollars at the official exchange rate. This has forced importers into the parallel market where U.S. dollars are traded for around 5.6 bolivars—about three times the official rate. Initially, the government provided some 90 percent of the economy's hard currency needs at the official exchange rate. This year the government has provided less than 50 percent. This effective devaluation of the bolivar has been reflected in increased prices for imports in recent months. Still, the government needs to adjust its official exchange rate to stimulate domestic manufacturing and curb the country's dependence on imports. Devaluation would also give the government a short-term fiscal boost, enabling the government to realize more bolivars from its dollar-based sales of oil on the global market. On the negative side, the devaluation is sure to reignite inflation. Venezuela's inflation is highly sensitive to changes in the exchange rate; devaluations also hit consumers' purchasing power directly and thus are highly unpopular. Yet, the current policy is unsustainable. Sooner or later the government will find it impossible to hold the current exchange rate. The longer it waits, the larger the adjustment it will need to correct the current huge fiscal and economic imbalance."

A **Alexander Guerrero, a Venezuelan economist and columnist for *El Universal*:** "In real terms, the bolivar fluctuates on a daily basis. The pressure is normally upward, but downward movements can be registered when the government offers 'bolidollar' bonds, which means that people can buy dollars at lower prices than registered in the 'parallel' market. However, in order for a devaluation

to have a whole effect on prices of regulated goods (about 15 percent of all goods offered), i.e., goods purchased by the poor, the official rate of 2.15 bolivars should go up from that figure. One very important point is that the only winner from devaluation is the government, since it sells oil in international markets. So there is a huge incentive to devalue. But there is a cost-benefit of such a measure—a political cost since prices and inflation will explode and a fiscal benefit because it would increase fiscal govern-

“The only winner from devaluation is the government.”

— *Alexander Guerrero*

ment revenues. As such, devaluation is practically a political issue. We have to conclude that what we are talking about is a self-fulfilling prophesy. That is, there are some players in this game—namely, banks—which make it possible for the government's 'bolidollar' bonds to draw money from people in order to fill the budget deficit gap only to the limits of banks' balances. Banks help this magic become real; in other words, the parallel market is a government creation, which allows Chavez to meet the expectations of everyone in this country by managing two markets in order to get dollars—one at the subsidized rate from foreign exchange commission Cadivi and the other at a 'free' market rate, where the government finds financial resources to fill its budget deficit gap. They are really clever!"

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2009

Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Matthew Schewel

Reporter, Assistant Editor
mschewel@thedialogue.org

Inter-American Dialogue:

Peter Hakim, President

Michael Shifter, Vice President, Policy

Katherine Anderson, Vice President, Administration

Genaro Arriagada, Senior Fellow

Joan Caivano, Director, Special Projects

Dan Erikson, Senior Associate, US Policy

Paul Isbell, Visiting Senior Fellow

Claudio Loser, Senior Fellow

Nora Lustig, Senior Fellow

Aurea Molto, Fellow

Manuel Orozco, Director, Remittances and Development Program

Tamara Ortega Goodspeed, Senior Associate, Education

Marifeli Pérez-Stable, Senior Fellow

Jeffrey Puryear, Vice President, Social Policy

Viron Vaky, Senior Fellow

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

Subscription Inquiries are welcomed at freetrial@thedialogue.org

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.