

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 Emeritus,
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
and Senior Fellow,
Brookings Institution

Everett Santos

President,
DALEC LLC

Shelly Shetty

Senior Director, Latin
American Sovereign
Ratings, Fitch Inc.

FEATURED Q&A

How Will Brazil's PAC II Impact the Country's Energy Sector?

Q Brazilian President Luiz Inácio Lula da Silva recently announced an \$886 billion second phase of the country's Growth Acceleration Plan, called PAC II, which will include \$612 billion in energy-sector investments. How much of that \$612 billion covers projects already in the pipeline, and how much is new spending? Does the plan, which focuses largely on oil and gas projects, devote enough attention to Brazil's power sector? How did Brazil's presidential race, which officially launched this month, affect the timing of the announcement? Will the Growth Acceleration Plan continue even if Lula's party does not win in October?

A Mark Langevin, director of BrazilWorks and associate researcher at the Centro Universitário de Brasília: "The second phase of the Brazilian government's Growth Acceleration Plan, or PAC II, features two strategic pillars. First, PAC II plans for nearly \$890 billion in spending between 2011 and 2014 of which 70 percent will be invested in the energy sector, including pre-salt hydrocarbon exploration, production and logistics, innovative hydroelectric projects aimed at developing low-impact electrical generation in the Amazon region, renewable fuels production and logistics and energy efficiency. More than \$100 billion is allocated for oil and gas production while only \$36.2 billion will be invested in electrical generation.

However, PAC II aims at developing innovative hydroelectric 'platforms' for sustainable electrical generation in the Amazon region. This investment in power plant capacity may not satisfy rising demand, but it could lead to significant innovations in the way Brazil harnesses the water resources of the Amazon for power. The second pillar of PAC II features a well-defined political project that budgets the remaining 30 percent of overall spending for a range of locally administered projects, from housing construction to sanitation.

Continued on page 2



Paraguay Temporarily Suspends Due Process to Fight Guerrillas

Paraguayan President Fernando Lugo on Saturday signed legislation temporarily suspending due process in five northern states in order to fight a guerrilla group that has carried out kidnappings. See brief on page 2.

File Photo: Paraguayan Government.

Inside This Issue

FEATURED Q&A: How Will Brazil's PAC II Impact the Country's Energy Sector?.....1	Paraguay's Lugo Suspends Some Rights to Fight Guerrilla Group.....2
Brazil Needs 'Vigorous Action' to Fight Inflation: Central Bank Chief.....2	HSBC Expects Higher Profits This Year From Latin America3
Peru's Mortgage Lending Rose 47 Percent in Past 12 Months2	In Focus: Bolivia Seeks Investment as Companies Vie to Develop Lithium.....3

NEWS BRIEFS

Paraguay's Lugo Suspends Some Rights to Fight Guerrilla Group

Paraguayan President Fernando Lugo on Saturday signed a law declaring a state of emergency in the north of the country in an effort to crack down on a guerrilla group known as the Paraguayan People's Army, the Associated Press reported. The law suspends certain rights such as due process for 30 days. The EPP, as the guerrilla group is known, has carried out kidnappings and attacks on police and civilians since 2008.

Brazilian, Caribbean Leaders Meeting Today in Brasília

Leaders from countries of the Caribbean community, or Caricom, will meet today with Brazilian officials in Brasília for the first-ever Brazil-Caricom summit. Eleven heads of state will discuss regional integration, cooperation in areas such as health and education and a joint strategy for helping Haiti rebuild from its catastrophic earthquake, Brazil's foreign ministry said. Trade between Brazil and Caricom countries totaled \$5.2 billion in 2008, with Brazilian exports making up the majority of commerce.

Spain's Santander Sells Stake in Cielo to Brazilian Banks

Banco Santander said Sunday in a regulatory filing that it had sold a 7.2 percent stake in card-processing company **Cielo** to **Banco do Brasil** and **Banco Bradesco**, Bloomberg News reported. The Spanish bank said the deal was worth 1.46 billion reais (\$U.S. 830 million). Santander also sold the Brazilian banks a 15.3 percent stake in **Companhia Brasileira de Soluções e Serviços** for 200 million reais. The sales of both stakes generated a \$312 million capital gain for Santander, the bank said.

Economic News

Brazil Needs 'Vigorous Action' to Fight Inflation: Central Bank Chief

Keeping inflation in check in Brazil, Latin America's largest economy, will require policymakers to take "vigorous action," the country's central bank chief, Henrique Meirelles said Sunday, Bloomberg News reported. Meirelles, in Washington for a meeting of the International Monetary Fund, told the news service that Brazil's economy "is heated and there's a risk of overheating, but we certainly won't allow that to happen given the central bank is ready to take the necessary measures." Last week, Brazil's finance minister, Guido Mantega, told reporters in Washington that the country's economy is "not overheated," but added policymakers would not hesitate to take action to control inflation. Inflation accelerated to 5.22 percent in mid-April, an 11-month high. The central bank's target is 4.5 percent. Brazil's benchmark Selic rate has stood at 8.75 percent, a record low, since September

2008. Central bank policymakers are expected to raise the interest rate during a meeting Wednesday. "In situations like this one, we need a program of vigorous action," Meirelles told Bloomberg News.

“In situations like this one, we need a program of vigorous action.”

— Henrique Meirelles

Brazil's economy could grow this year at its quickest pace in more than 20 years. Cristiano Oliveira, an economist at **Banco Safra de Investimento**, has forecast 6.7 percent GDP growth for Brazil this year, while **Goldman Sachs** has estimated the economy will grow 6.4 percent.

Peru's Mortgage Lending Rose 47 Percent in Past 12 Months

Mortgage lending in Peru increased 47 percent for the 12 month period through

Featured Q&A

Continued from page 1

PAC II seeks to reproduce President Lula's winning electoral coalition on behalf of the government's presidential candidate Dilma Rousseff, who was Lula's chief of staff and chair of Petrobras' board of directors. The announcement of the PAC II in late March allowed Minister Rousseff to take public credit for its development and planning, cementing her electoral strategy of continuing Lula's legacy for the duration of this massive government investment program. Moreover, as she hits the campaign trail, the government will be negotiating the terms of PAC II spending with local political officials who could give Dilma a boost in the pre-election polls, a strategic advantage over her rival, José Serra. In this sense, the PAC II may prove to be the deciding factor in the presidential election in October of this year."

A **Claudio Frischtak, president of Inter.B Consultoria Internacional de Negócios in Rio de Janeiro:** "The new edition of the PAC and its timing has caught most observers by surprise insofar as the original or first plan is still in the implementation phase, and by and large it is an open question how effective it has been as an investment planning and programming device. Arguably, it has become a positive focal point for government efforts—in policy, regulation and finance—around some major projects. In the energy sector, the two Madeira hydroelectric dams under construction epitomize its successful face, while Petrobras investments are more questionable, as they would likely have been undertaken with or without PAC. Unquestionably, the new PAC has an important political dimension, being the

Continued on page 4

March, the Association of Peruvian Banks (Asbanc) said Friday, state-run Agencia Andina reported. The country's total mortgage lending amounted to 13 billion soles (\$U.S. 4.57 billion). Total mortgage lending increased 3.73 percent last month from February. Strong demand for housing across socioeconomic groups has spurred demand for mortgages in Peru as financial institutions have expanded credit.

Company News

HSBC Expects Higher Profits This Year From Latin America

Britain's **HSBC** is expecting its operations in Latin America to report higher profits this year due to lower loan loss provisions and credit write-offs, the president of the bank's operations in the region told Dow Jones Newswires Friday. "I expect much better profitability," Emilson Alonso, the president of **HSBC Latin America**, told the news service on the sidelines of the Association of Mexican Banks' annual convention in Acapulco. Last year, HSBC's operations in Latin America contributed 15.9 percent of the bank's total pretax profits in 2009. HSBC's pretax profits from Latin America have declined steadily in the past three years, largely because of growing loan-impairment charges. Pretax profits from the region totaled \$2.18 billion in 2007, \$2.04 billion in 2008 and \$1.12 billion last year. Though Alonso expects the bank to earn higher profits in Latin America than it did last year, the total is not likely to reach the 2008 level. "I think we are going to be in the middle of the road," he said. However, revenue growth could be modest as competing banks and debt markets exert pressure on loan margins, said Alonso. "I think what we may have is narrowing spreads that would translate into not so robust growth in terms of revenue, but profitability is going to be much better," he said. HSBC's bet that Latin America's economic recovery will spur demand for loans and other financial services led the bank in December to carry out a capital increase of \$600 million in Brazil and \$700 million for Mexico.

In Focus

Bolivia Seeks Investment as Companies Vie to Develop Lithium

By Matthew Schewel

WASHINGTON—Bolivia's government is in negotiations with a number of firms to develop the country's vast lithium reserves and plans to award the concession to the company that offers it the best deal for "comprehensive industrialization," Finance Minister Luis Arce said Friday.

"There are various companies that have shown interest, and we will assign the resource to the one that gives us a better comprehensive industrialization, not just in the lithium industry or lithium batteries," Arce said in an interview with the *Advisor*. He declined to identify any of the companies or say how many were involved in the negotiations. According to the U.S. Geological Survey, Bolivia could hold as much as 5.4 million metric tons of lithium, which has become increasingly sought-after for use in high-performance batteries.



Arce

"Private investment is welcome, but under new rules of the game," said Arce, who was in Washington for the spring meetings of the World Bank and International Monetary Fund. "We're saying, 'We want you exploit lithium but to add value, to industrialize it.' We don't want them to come and take out our natural resources; that model is over for Bolivia."

Arce rejected the notion that relying too much on natural-resource wealth can have negative consequences for economic development, what some economists have termed the "resource curse." Instead, he blamed past failures in Bolivia—historically a major exporter of raw materials including silver, tin and natural gas—on market-based policies that handed over the country's wealth to foreign companies instead of investing at home. "That was the problem of our natural resources. It wasn't that our natural resources were a curse for us; they're actually a blessing," Arce said.

He criticized the World Bank, which is set to release a major report on the links between commodity wealth and economic development, for continuing to promote policies of market liberalization that Bolivia has rejected. "What the World Bank has tried to show is that we who have natural resources are growing, but we're not going to grow for long if we don't again adopt a strategy oriented toward neoliberalism," Arce said.

Bolivia has instead charted its own economic course, combining stable macroeconomic policies with state management of strategic natural resources, Arce said during a presentation at The George Washington University. He lauded the strong fundamentals of the Bolivian economy, including a GDP growth rate of 3.4 percent last year, a sharp decline in inflation and record-high international reserve levels. Public investment has increased from \$879 million when President Evo Morales took office in 2006 to \$1.4 billion last year, and poverty rates have declined slightly. Still, critics of the Morales government say the high level of international reserves is unsustainable and that the government's interventionist policies have discouraged private investment. [Editor's note: See related Q&A in the Nov. 18, 2009 [issue](#) of the *Advisor*.]

Arce outlined the government's five-year \$32.8 billion public investment plan, which focuses heavily on the mining, hydrocarbons, electricity and transport sectors. In order to finance the plan, Bolivia is considering its first international bond offering in 70 years, which could take place before the end of 2011, according to wire reports.

Featured Q&A*Continued from page 2*

brainchild of the anointed candidate of President Lula, former Minister Dilma Rousseff, and launched as she was ready to leave the government and prepare her

“Who will stand in the way of a new development plan of a popular and far from lame duck president?”

— *Claudio Frischtak*

candidacy. Moreover, the plan has the obvious corollary of constraining other candidates to position themselves regarding their willingness to carry it out if elected. Who will stand in the way of a new development plan of a popular and far from lame duck president? Still, its energy chapter has a number of ideas and projects which should be taken seriously. One relevant aspect is that electricity generation revolves around renewable and so-called clean sources (nuclear and gas), leaving coal and oil out. Second, the plan places a significant and welcome emphasis on energy efficiency, with a special focus on the greening of buildings and the use of solar energy for government-sponsored or subsidized housing."

A Ricardo Verdum, researcher with the Instituto de Estudos Socioeconômicos in Brasília: "I wouldn't say that electoral intentions are purely driving the PAC II, but that component is strong because it sends a clear signal of the path forward to various sectors invested in these projects—contractors, financiers (public and private banks, pension funds, etc.), insurance companies, service and equipment providers, workers from different sectors and unions. Beyond that, it should be noted that the launch of the plan now is

justified, given that it signals priorities for next year's budget (the Budget Guidelines Law and the Annual Budget Law) and positioning for the next Pluriannual Plan 2012-2015, which must be approved by the end of 2011. Since the majority of the PAC involves public works, some of which can take years to carry out, announcing a medium-term plan that takes into account the growing demand for natural resources and energy (associated with events like the World Cup and the Olympics, for example) needs to be well thought-out and planned beginning now. So even though it will clearly have an effect on the elections, there are more factors in play than just the October contest. I think a large part of these projects will be carried out regardless of the election result, since if the Workers' Party (PT) and its allies don't win, they will apply an intense amount of pressure for

“I think a large part of these projects will be carried out regardless of the election result.”

— *Ricardo Verdum*

the plan to be implemented. That is, to have the PT in the opposition after eight years of sharing a pragmatic economic agenda in the region would be problematic for the new government. That aside, there is also the question of joint venture contracts that have already been signed this year or are in negotiation."

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 © 2010

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:

Michael Shifter, President

Peter Hakim, President Emeritus

Katherine Anderson, V.P., Finance & Administration

Genaro Arriagada, Senior Fellow

Joan Caivano, Director, Special Projects

Dan Erikson, Senior Associate, U.S. 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 U.S. 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.