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FEATURED Q&A

What Are the Effects of Venezuela's Currency Devaluation?

Q The Venezuelan government earlier this month announced the devaluation of its currency from the previous official rate of 2.15 bolivars per dollar to 4.3 per dollar for nonessential goods and 2.6 per dollar for imports of food and other essentials. Some multinational companies, ranging from consumer products makers to heavy industries, are bracing for multimillion-dollar hits related to the move. Who are the winners and losers in the devaluation? Did it give a sufficient boost to public finances? What is the outlook for inflation post-devaluation?

However, the government will mitigate inflation's impact on popularity by increasing direct subsidies to the population, which will further the population's direct dependence on Chavez's giveaways. The private sector will continue to face an adverse regulatory and legal climate, as property rights and operations continue to be the target of arbitrary actions. Imports will be reduced due to a negative economic performance while exports will not benefit from devaluation due to a lack of installed capacity and competitive advan-

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A Gustavo Roosen, chairman of Envases Venezolanos in Caracas and former president of Venezuelan telecom CANTV:

"The central government is the only winner in the devaluation. On the one hand, fiscal revenues will increase by 40 billion bolivars, boosting the 2010 budget from 159 billion bolivars to 200 billion bolivars. Such an increase will result in additional public spending in a year when National Assembly elections will be held on Sept. 26. On the other hand, the fiscal deficit will be reduced by 3 percent of GDP. This reduction will result in a better perception by the financial markets of Venezuela's sovereign debt. Additionally, the central government will have to issue less debt this year. The losers are the common citizens of Venezuela, who are already suffering the second-highest inflation in the world.



Former Guatemalan President Accused of Money Laundering

Former Guatemalan President Alfonso Portillo, pictured at the time of his 2008 extradition from Mexico to Guatemala, was charged Monday in the United States with money laundering. See story on page 3.

File Photo: Guatemalan Government.

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NEWS BRIEFS

Venezuelan Vice President Carrizalez Resigns

Venezuelan Vice President and Defense Minister Ramon Carrizalez resigned Monday, citing personal reasons, Agence France-Presse reported. "My resignation is not the result of any discrepancy with government decisions, and any other version about my reasons for resigning is false and malicious," said Carrizalez in a statement. Carrizalez's wife, Environment Minister Yubiri Ortega, also stepped down Monday.

Activists Open Five-Day World Social Forum in Brazil

Thousands of activists marched Monday in Porto Alegre, Brazil to mark the beginning of the five-day World Social Forum, the Associated Press reported. The gathering is the left's answer to the World Economic Forum, which gets underway on Wednesday in Davos, Switzerland. Brazilian President Luiz Inacio Lula da Silva is slated to address social leaders in Porto Alegre before traveling to Davos to receive the World Economic Forum's Global Statesman Award, the first person to be awarded the honor.

SABMiller Lowers Medium-Term Growth Target for Latin America

U.K.-based brewer SABMiller on Monday revised downward its medium-term growth target for Latin America due to the economic downturn and higher government taxes on alcoholic beverages, Dow Jones reported. During a presentation in London, SABMiller's regional president for Latin America, Barry Smith, said the company now expects volumes to grow by between 4 percent and 6 percent in the medium term, down one percentage point from the previous forecast.

Political News**Prime Minister: Haiti May Need a Decade of Help After Quake**

Haiti may need 10 years of international help to recover from the massive Jan. 12 earthquake that decimated much of the country's capital and killed as many as 200,000 people, the impoverished country's prime minister, Jean-Max Bellerive, said Monday, Reuters reported. During a meeting in Montreal on Haiti, which included U.S. Secretary of State Hillary Clinton and officials from several other countries, Bellerive said Haitians had been "bloodied, martyred and ruined" by the earthquake. "What we're looking for is a long-term [development] commitment," said Bellerive, Reuters reported. "At least five to 10 years." Haitian officials also said they want to move at least 400,000 survivors from the squalid camps where they have been living since the earthquake to temporary tents on the outskirts of Port-au-Prince. "We have to evacuate the streets and relocate the people," said Communications Minister

Marie Laurence Jocelyn Lassegue. "We hope we will be able to start at the end of the week." Approximately 1 million Haitians had been forced to move from their homes after the quake in and around the capital, said Health Minister Alex Larsen. The government already has tents for 400,000 people, but will likely need more, he added. The United States has offered to host an international donors' conference at the United Nations in March, said Canadian Foreign Minister



Bellerive

Lawrence Cannon, Reuters reported. Also, aftershocks have happened almost every day since the 7.0 quake two weeks ago today, leading officials to discuss the possibility of rebuilding the city on safer ground. "In 30 seconds, Haiti lost 60 percent of its GDP," said Bellerive. "So we must decentralize." Meantime, the international relief effort, which includes U.S. and U.N. troops, intensified efforts to deliver food and other supplies to survivors.

File Photo: Haitian Gov't.

Featured Q&A

Continued from page 1

tages outside the oil sector. While the devaluation does reduce the fiscal deficit, much-needed infrastructure investments will continue to suffer due to delays

“The losers are the common citizens of Venezuela.”

— *Gustavo Roosen*

resulting from a lack of long-term dollar financing and poor management execution capabilities. The inflation outlook for 2010 was 28 percent before the devaluation. Now, new estimates of the inflation could be around 40 percent.”

A **Mark Weisbrot, co-director of the Center for Economic and Policy Research in Washington:** "The Venezuelan devaluation was long overdue. In real terms, the currency has appreciated by more than 280 percent since it was first fixed in February 2003, as a result of Venezuela's inflation being much higher than that of its trading partners. But the nominal rate had only been adjusted from 1.6 to 2.15, or about one-third. An overvalued exchange rate makes a country's exports too expensive on international markets and makes imports artificially cheap. This was hurting Venezuela's tradable goods sectors and impeding the diversification of the economy away from oil. The devaluation will help to correct this fundamental, long-term problem. The Venezuelan opposition and much of the media, both

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Former Guatemalan President Charged With Money Laundering

Former Guatemalan President Alfonso Portillo was charged Monday in federal court in New York with laundering millions of dollars he allegedly embezzled during his presidency. Portillo, who was in office from 2000 to 2004, embezzled tens of millions of dollars in public funds "a portion of which he then laundered through bank accounts located, among other places, in the United States and Europe," the grand jury's indictment alleges, Agence France-Presse reported. Portillo fled from Guatemala to Mexico in 2005 after he lost his immunity from prosecution. In 2008, he was extradited back to Guatemala where he is awaiting trial after being charged with embezzlement. The United States is seeking to extradite Portillo, but police in Guatemala said Sunday that they were unable to find him. Portillo stands accused of embezzling nearly \$4 million from the defense ministry and also allegedly stole donations from Taiwan, which were intended to purchase books.

Company News

Colombia's Ecopetrol Announces 35.5% Increase in Reserves

Colombia's state-run oil company, **Ecopetrol**, said Monday that it has experienced an "historic" 35.5 percent increase in its proved gross reserves for 2009, EFE reported. The company's reserves in December totaled 1.88 billion barrels of oil equivalent (boe), said Ecopetrol, which added the annual jump was the largest such gain since the 1990s. Ecopetrol also said it achieved a reserve-replacement ratio of 359 percent last year, meaning that it added approximately 3.6 boe for each boe it produced. In 2008, Ecopetrol's reserve-replacement ratio was 37.3 percent. Last year, the South American country's average daily oil output was 670,000 barrels per day, the highest in a decade, reported daily newspaper *La Republica*, citing the director of the National Hydrocarbons Agency.

The Dialogue Continues

Is U.S. President Barack Obama's Cuban Honeymoon Over?

Q Despite rising hopes for renewed U.S.-Cuban relations after the Obama administration relaxed remittance and family travel restrictions for Cuban-Americans last year, rhetoric between Havana and Washington has intensified in recent weeks after Cuba detained a U.S. contractor and accused him of spying, which the State Department denies, and after the United States classified Cuba as one of 14 countries whose citizens must undergo additional screening in order to fly to the United States. Where are relations headed now? Is Obama's Cuban honeymoon over?

A Sarah Stephens, executive director of the Center for Democracy in the Americas in Washington: "After tossing a few bouquets toward Havana and the region—restoring the travel rights of Cuban families, and calling for a partnership between the United States and governments in the region—the Obama administration has returned to patterns and policies that look disturbingly familiar to the Cubans, and they are reacting accordingly. In its failure to stand with the region and stand down the coup regime in Honduras; its decision to broaden military cooperation in Colombia; its support for the kind of regime-change policies that recently landed a U.S. contractor in a Cuban jail; and in our ongoing demand that Cuba dismantle its system in exchange for loosening the U.S. embargo—rightly or wrongly, the Cuban leadership sees a continuation of policies that look like the Cold War past rather than the promising future heralded by Obama's election. Reconciliation is still possible, because Obama's instincts are not to be the eleventh president to fail with Cuba.

But the honeymoon in Havana that started with his election is now a distant memory."

A Chad S. Purdie, associate attorney at Diaz, Reus & Targ LLP in Miami: "I was in Havana in January 2009 when President Obama took the oath of office. Once Cubans found out I was from 'La Yuma,' as they call the United States, everyone asked me the same question: 'What will happen between our countries now that Obama is president?' They inquired with the expectation that something monumentally positive would happen; that perhaps finally—after five decades of icy relations—things would begin to thaw. Mr. Obama's decision to allow unrestricted travel and remittances for Cuban-Americans was a good first step. Unfortunately, in the Cuban government's eyes, that was the equivalent of a prize fighter pulling his punches to his opponent's body while still hitting hard at the head. For them, as long as the embargo and travel ban remain in place, there is no incentive for détente. So, in that case, why are the Cubans ratcheting up the rhetoric now? One wonders if it is all done to influence the impending Congressional vote to end the travel ban—a bill that, for the first time, has a president apparently willing to go along. As an attorney in Havana said to me recently, it's a battle of the deaf. The tit-for-tat will continue until both sides see and hear the other's actions for what they are—calculated political moves to keep the status quo. Maybe then we will finally see some change."

Editor's note: the above is a continuation of a Q&A published in the Jan. 21 issue of the Advisor.

Featured Q&A*Continued from page 2*

Venezuelan and international, have been predicting economic disaster since the government gained control of the national oil company in 2003. Instead, the economy was one of the fastest growing in the hemisphere from 2003 to 2008. Like most of the hemisphere, Venezuela was in recession in 2009; however, growth will

could narrow to around 1 to 2 percent of GDP compared to an estimated 5 to 6 percent in 2009. However, barring a deeper fiscal and monetary adjustment—which is highly unlikely ahead of September legislative elections—the devaluation will be inflationary. Although the economy has already

“The Venezuelan devaluation was long overdue.”

— Mark Weisbrot

likely resume this year. The devaluation will have an expansionary effect both through the current account and because it will provide more revenue for the government to pursue expansionary fiscal policy. Inflation, down to 25 percent in 2009 from 31 percent the prior year, will rise some from the devaluation. But inflation in this range, while too high, is just at the margin of what much of the macroeconomic research shows can begin to hurt growth. The more important concern will be for the government to make the necessary investments in infrastructure to increase the productivity of the economy and return to a high-growth path. The doomsayers are likely to once again be disappointed in the near future."

A Ben Ramsey, vice president of Latin America research at JPMorgan in New York: "We see the recent devaluation as unambiguously positive for Venezuela's fiscal accounts, as it will double the local currency value of the U.S. dollar-denominated oil revenues flowing into the government's budget. To be sure, many of these bolivars will be channeled to higher spending, but we can project still a scenario where Venezuela's budget deficit

absorbed the de facto devaluation that occurred in 2009 after a sharp slowdown in official-rate dollars from foreign exchange controls agency Cadivi forced more foreign exchange transactions into a much higher parallel market, we still estimate close to two-thirds of imports will now be subject to a price adjustment between 21 percent and 100 percent in light of the formal devaluation. With this supply side impact meeting higher election-year government spending, we expect inflation to breach 40 percent in 2010. President Chavez is attempting to combat this risk by warning businesses not to raise prices under the very real threat of expropriation. But this only serves as evidence that the ever-challenging business climate (now compounded by the electricity crisis) will continue to hamper growth—even if more dollars ultimately flow to Venezuelan businesses under the new exchange rate regime (which would in fact address one of the key bottlenecks of 2009)."

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

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