

23 September 2009 | 72 pages

Latin America Macro and Strategy Outlook

Rising BOP Inflows Will Test Central Banks Once Again



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See Appendix A-1 for Analyst Certification and important disclosures.

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The Month Ahead

Rising BOP Inflows Will Test Central Banks Once Again

Activity growth forecasts have begun to turn in Latin America. We have raised our 2009 and 2010 real GDP growth estimates to -2.2% and 3.5%, from -3.0% and 2.8%, respectively. We have also developed detailed quarterly forecasts for next year, and have extended our annual forecasts through 2011, when we expect the region to expand again by 3.5%. Compared to the forecasts we published in July, the most significant changes were in Brazil and Colombia. The recovery of economic activity should gradually close the existing output gaps, though the speed will vary among countries. We believe regional central banks are likely to respond sooner and faster than those in the G3. Therefore, rising carry and higher commodity prices should place appreciation pressures on Latin American currencies, pushing central banks to accumulate reserves at a faster clip, and possibly increasing capital account restrictions.

Summary View

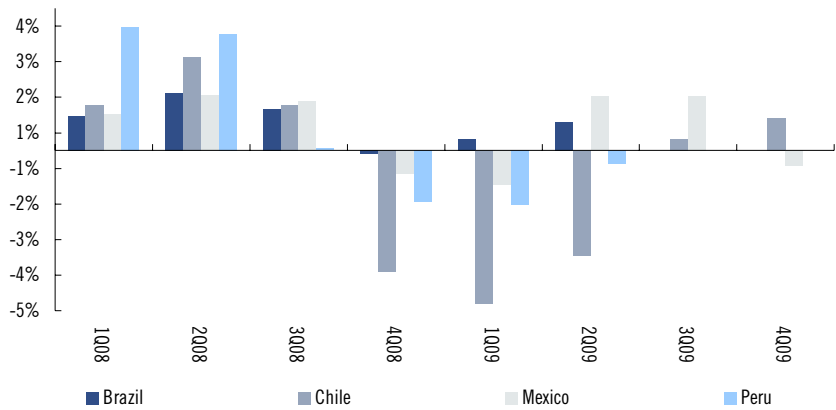
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As in the major economies, activity growth forecasts have begun to turn in Latin America. For example, the September Consensus Economics survey shows regional GDP growth at -2.2% and 3.2% in 2009 and 2010, from -2.2% and 2.9% in August. This more positive sentiment is consistent with recent data to support our view that, on an aggregate basis, regional economic activity probably reached a trough in 2Q and will exhibit positive growth in 3Q. Such a recovery will likely be supported by the gradual normalization of trade and financial flows, the growing impact of the monetary and fiscal easing in place, and cyclical factors associated with the inventory cycle, as we explain below.

The reduction of inventories in Latin America played a big role in the contraction of activity during the Great Recession, but the behavior was far from uniform. On average (including Brazil, Chile, Mexico, and Peru), the change of inventories was -1.4% and -1.6% of GDP during the fourth quarter of last year and the first quarter of 2009 (see Figure 1). The second quarter fared better, as inventories fell only 0.3% on average, with the two biggest economies posting gains. But the behavior was not uniform in the region: the sharpest contraction was in Chile, where inventories fell on average 3.6% in 4Q'08–2Q'09, followed by Peru (-1.1%). By contrast, the change in inventories was muted on average in Mexico, and slightly positive in Brazil.

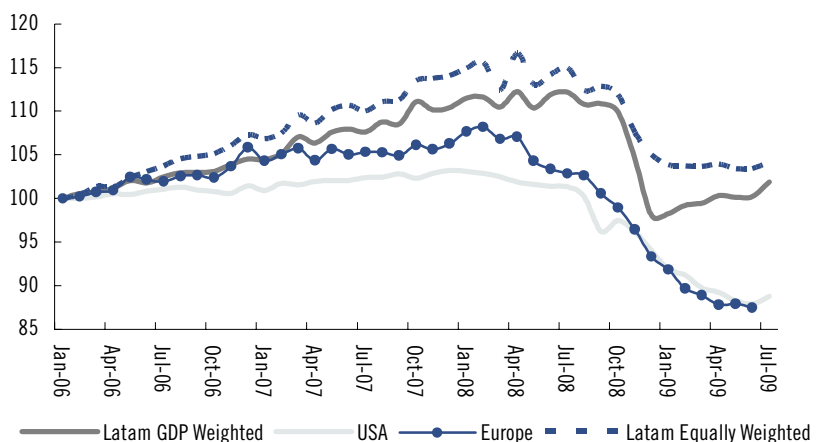
Figure 1. Change in Inventories as a Percentage of GDP



Source: Citi Investment Research and Analysis

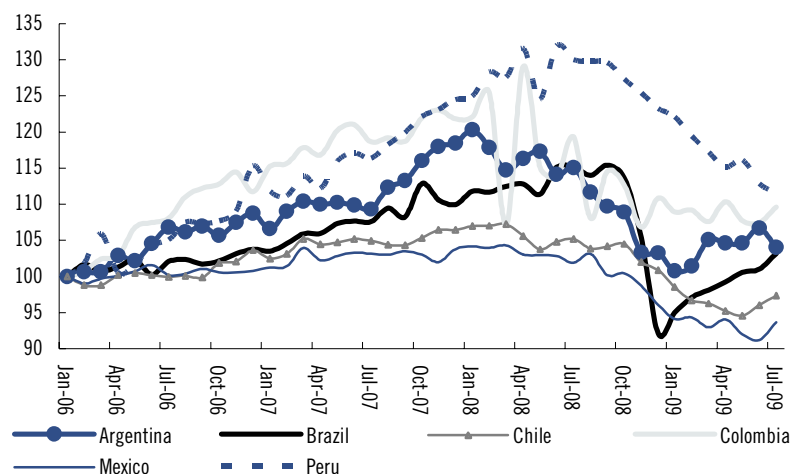
Industrial production contracted *later* in Latin America than in developed economies, and leveled off *before*. Industrial production (IP) only dropped sharply in the last quarter of 2008 in the region, but is roughly flat since January this year, and was starting to pick up marginally in July, in line with trends in the industrial countries (see Figure 2). Not surprisingly, given the inventories data, it was in Brazil where industrial production declined the most from the peak to the trough of the cycle. In Brazil, IP dropped 20% in the three months from September 2008, and started to recover well ahead of the rest of the region (see Figure 3).

Figure 2. Latam Industrial Production Levelled Off by January 2009



Source: Citi Investment Research and Analysis

Figure 3. Brazil Is Leading the Recovery of Industrial Production



Source: Citi Investment Research and Analysis

We expect inventories and IP to contribute to the recovery in most countries in the region in the second half of 2009. On average, we expect the buildup of inventories to be +0.6% during the second half in Chile and Mexico. In Chile, given the magnitude of the previous adjustment, risks are biased toward a bigger buildup, particularly in the last quarter. In Mexico, we are expecting the recovery of IP to be led by exports to the United States (see *Emerging Markets Daily – Latin America Edition*, September 18).¹ In fact, we expect IP to increase in the second half in all countries in the region, including Peru, where it was falling until July.

Consistent with these developments, we have upgraded in this Monthly several of our real GDP growth forecasts. For the region as a whole, we have raised 2009 and 2010 real GDP growth to -2.2% and 3.5%, from 3.0% and 2.8%, respectively. Compared to the forecasts we published in July, the most significant changes were in Brazil and Colombia, as shown in the table on page 18, but we have also revised up our growth forecasts in Argentina, Venezuela, and Costa Rica.

The recovery of economic activity should gradually close the existing output gaps, though the speed will vary among countries. Figure 4 below shows our most recent estimates for the output gap as of 3Q in the five key inflation-targeting economies. Our projections show that the output gap will close first in Brazil – in April 2010 – followed by Chile in the second quarter and Peru in the last quarter, while we expect Colombia to close the gap in early 2011 and Mexico in 2Q 2011.

¹ <https://www.citigroupgeo.com/pdf/SLA40006.pdf>

Figure 4. Output Gap Likely to Close First in Brazil

	Output Gap		Central Bank Rate		Amount
	Q3	Closing Date	First Hike		
Brazil	-1.0%	April 2010	January 2011		50bp
Chile	-3.7%	2Q10	February 2010		25bp
Colombia	-2.0%	2011	March 2010		25bp
Mexico	-4.5%	2Q11	August 2010		25bp
Peru	-4.0%	4Q10	April 2010		25bp

Source: Citi Investment Research and Analysis

Our views suggest that Latin American central banks will face increased inflation pressures and/or risks before that happens in the G3. This is because food and energy comprise a larger share of their CPIs and hence headline inflation is prone to rise faster and higher in the region compared to developed countries. In addition to that, it is quite likely that central banks in the major industrialized economies will remain constrained in their ability to tighten monetary conditions rapidly. Not only will output gaps likely remain negative for longer, but the international experience shows that central banks tend to proceed cautiously when doubts persist about household indebtedness and financial sector vulnerabilities.

Latin American currencies will therefore experience rising carry, and appreciation pressures may also build on the back of rising commodity prices.

Resource-intensive economies like China and India will likely continue to lead global growth, and combined with continued weakness of the US dollar, should keep commodity prices well supported. Overall, this suggests an environment in which central banks will need to cope with rising currency pressures while uncertainties about the strength of the global recovery linger.

Central banks will probably respond with a combination of rate hikes, reserve accumulation, and possibly increased capital account restrictions. At any rate, the problem of what to do with “too much inflows” again is welcome in comparison with the problems central banks faced in the last 12 months. Higher international reserves and stronger activity should provide some room for a compression of CDS spreads even in countries with less market-friendly policies like Argentina. We believe these trends, including possibly a compression of the CDS differential between Argentina and Venezuela, will continue as long as policies remain expansionary in developed countries.

Things to Watch

October is likely to be a fairly quiet month for monetary policy decisions, as central banks review the strength of the activity rebound and start looking at their 2010 policy strategy.

1. In Chile, the market is likely to start discussing whether the central bank will announce initial steps to unwind its quantitative easing (QE) strategy at the October 13 meeting. This is likely to make the peso approach the USD/CLP530 level going into the meeting.
2. Banxico is likely to wait for congressional approval of the Income Law around the end of October, to assess its policy strategy for the coming months. If higher taxation loads are included in the approved reform, and hikes in public tariffs are less and essentially aimed at complementing public revenues, we think Banxico may bring forward the hiking cycle. In

addition, watch for Banxico's 2Q'09 Inflation Report, which is scheduled to be released on October 28.

3. In Colombia, the central bank is likely to discuss next year's inflation target in the next two meetings. We believe the central bank will set the inflation target at 4.0–5.5% from a range between 4.5–5.5% in 2009. The central bank's objective through the end of this year is likely to be focused on anchoring inflation expectations and controlling inflationary pressures in 1H'10, stemming from likely higher food prices.

Potential IMF-related news are likely to make headlines in Argentina, El Salvador, and the Dominican Republic in the coming weeks.

1. In Argentina, we believe that the government will probably proceed with an Article IV consultation, which it could announce at the time of the October IMF annual meetings in Istanbul.
2. President Funes' administration in El Salvador is likely to renegotiate the fiscal targets agreed in the US\$800 million precautionary Stand-By Agreement with the IMF as a part of a series of economic measures aimed at improving the government's fiscal position. We believe that any type of negotiation is likely to require the government to undertake some kind of fiscal reform. However, an agreement with the multilateral agency may not prevent a credit downgrade, especially after Moody's Investors Service recently placed the country on review for a downgrade, which may imply losing its investment-grade rating.
3. In order to have access to multilateral lending, the Dominican Republic is likely to negotiate a new Stand-By agreement with the IMF. Such an agreement would necessitate fiscal adjustments and increased transparency. The Dominican Republic already has a post-program monitoring agreement, but it does not appear to be reassuring enough for the investor community.

October's market calendar is likely to be dominated by possible issues regarding Colombia and Venezuela, together with news about a potential agreement between Argentina and the holdout investors.

1. News about a potential agreement between Argentina and the holdout investors has made headlines in the past few weeks. According to a news report by *Reuters* on September 21, the government is considering various proposals, but has not confirmed a deal to reopen its 2005 debt restructuring. We believe that the government will move forward with this issue if it can get cash from the agreement.
2. In Colombia, we expect the government to tap international debt markets to pre-finance a slice of the 2010 budget in the upcoming months. The government will try to take advantage of the low interest rates and a favorable risk appetite scenario, under which Colombia's previous debt issuances have attracted a fair amount of investor interest. According to a July 8 *Reuters* report, finance ministry officials have stated their interest in issuing a 30-yr bond.
3. October is also likely to provide details about the conditions of a VEF10 billion (or about US\$5 billion) bond announced by President Hugo Chávez on September 17. The uncertainty rests on whether the bond would be

dollar- or bolivar-denominated. In addition, watch for news about the possibility that the government launches a debt buyback, as has been mentioned in the press.²

With a heavy congressional calendar before the year ends, October is likely to determine the fate of the fiscal reform in Mexico.

1. Mexico's Lower House has until October 20 to approve the Income Law, while the Senate's deadline is October 31. Our economists are moderately optimistic on the potential outcome of Mexico's budget 2010 negotiations, despite the high possibility that the bill experiences substantial changes during the discussion with Congress.
2. In Colombia, now that Congress has approved the referendum bill that could allow President Uribe to run for president in the 2010 presidential elections, the House of Representatives and the Senate will return to "business as usual." For the remainder of the year, focus will be on the approval of the 2010 budget. Finance Minister Oscar Ivan Zuluaga has already announced the government will not approve the budget if Congress makes substantial modifications to the project. Also, reforms to the judicial power structure and political reform aimed to make political parties accountable for their actions are also scheduled for debate.
3. In Argentina, focus will be on whether the opposition will be able to recover some strength either in the discussion of the media law or the 2010 budget. So far, the government has proceeded almost unchecked with its agenda, and hence, attention will be on whether the opposition, led by Vice-President Julio Cobos, is able to stop the approval of the media law. The main risk to follow in the budget debate is whether the revenues from the financial transactions tax will be shared with the provinces.
4. The tax reform and hydrocarbon bill are at the core of Ecuador's congressional calendar for the coming weeks. The Hydrocarbon bill suggests that oil exploration and expropriation projects will have active participation from the public sector, while private participation will only be considered for exceptional cases. Meanwhile, the tax reform includes measures such as doubling the capital outflow tax to 2% and establishing a minimum income tax on companies' total sales. Between these two taxes the finance ministry expects to collect about US\$300 million. The government also plans to create some exemptions to the reinvestment of profits in science and technology. We believe that additional changes to the tax code may depress local activity further and increase the uncertainty among the private sector.

October's electoral calendar includes the presidential elections in Uruguay as well as further developments regarding the elections that are expected to take place in Chile in December 2009 and in Colombia in May 2010. Likewise, the president of Brazil's central bank is likely to clarify his political aspirations in the coming weeks.

1. Presidential elections will take place in Uruguay on October 25. The last poll conducted by the local consulting firm *Cifra* at the end of August suggests that a second round between José Mujica from *Frente Amplio* and Luis Lacalle from *Partido Nacional* will take place on November 29.

² See the September 3 report in *Reuters*.

Mr. Mujica is the candidate of the ruling party and Mr. Lacalle represents the main opposition party at Congress.

2. Chile's presidential elections are scheduled to take place on December 13, with a run-off scheduled for January 17, 2010 if no candidate gains more than 50% of the valid vote. Focus is on whether the independent candidate Marco Enriquez-Ominami (MEO) will overtake former president Eduardo Frei as the leftist candidate to make it to the second round.
3. In Colombia, the electoral calendar continues to be dominated by President Uribe's re-election bid. However, there are still significant time constraints. The constitutional court has stated that it will take approximately five months to reach a final decision on the bill. However, President Uribe needs to announce his candidacy by November 30, 2009 to comply with the "*Ley de Garantías*" (the aim of the *Ley de Garantías* is to ensure that the current government will not use the public machinery to get re-elected). Moreover, candidates to the 2010 election must register before March 12, 2010, which leaves a reduced time frame for the public to vote on the referendum, where Mr. Uribe will need close to 7.3–7.8 million votes in order to present his candidacy. The next congressional elections are set for March 14, 2010. However, if cleared to run for the 2010 election, we believe President Uribe could get re-elected.
4. Potential candidates for Brazil's 2010 elections have until October 3 to join a political party. In that regard, the President of the Central Bank Henrique Meirelles said he will decide whether to join a political party by October 2 and that his decision will consider President Lula's request that he stay in his current position.

Strategy

US dollar inflows, positive growth surprises, and a likely rising carry support our constructive view on Latin American currencies. We believe that the bullish run on the BRL, the COP, the MXN and, to a lesser extent, the CLP and the PEN against the US dollar, is likely to extend in the near future. Other crosses we continue to like under the current improving global scenario are short CAD/MXN and short PEN/BRL. On the former, we believe a record misalignment opens room for a 20% appreciation of the MXN against the CAD, particularly as manufacturing activity and consumer sentiment in the US economy continues to improve.

In the rates space, we continue to see value in receiving Pre-DI on Jan 11, in spite of the fact that the trade has lost ground on an improved economic sentiment. The premium embedded in the front end of the Pre-DI swap curve relative to our base-case scenario is currently close to 130bp. Our Brazilian economists continue to believe that the Copom will remain on hold until January 2011, even after raising their 2009 and 2010 GDP growth forecasts to 0% and 5%, from -0.9% and 4%, respectively. The current slack in capacity utilization should reverse slowly as the economy regains traction, which should limit any potential inflationary pressures. We also highlight that the steepness of the swap curve offers significant carry to favor our trade, supporting our position even if yields take longer than expected to drop toward levels consistent with our views.

We continue to see upside in receiving rates on TES 2020s locally funded or NDF hedged, despite the latest fiscal announcements. We found only small differences between the finance ministry's new fiscal scenarios and the one we depicted a month ago in the *Latin America Local Market Views* publication.³ We continue to believe that fiscal indicators are unlikely to worsen further, while the government is likely to inject US\$450 million of additional liquidity through the end of the year, given the difference between interest payments and remaining TES sales. Therefore, we believe that fair value of the TES 2020 should stand closer to 9.0%.

³ <https://www.citigroupgeo.com/pdf/SLA39050.pdf>

Consolidated Economic Indicators – Latam

	2007	2008	2009					2010					2011
	Act.	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	3416	3915	766	892	943	993	3649	911	960	991	1036	4115	4396
GDP per capita (US\$)	7239	8206	6473	7527	7926	8311	7558	7619	8024	8279	8633	8497	8985
Unemployment Rate (%)	7.9	7.3	8.4	8.4	8.5	8.1	8.4	8.8	8.6	8.4	8.1	8.5	8.1
Population (millions)	471.9	477.1	473.6	474.2	475.7	478.0	482.8	478.1	478.6	479.0	480.2	484.3	489.2
ECONOMIC ACTIVITY													
Real GDP growth (yoy)	5.3	3.8	-3.2	-3.9	-3.0	0.9	-2.2	3.6	4.2	3.4	2.7	3.5	3.5
Real GDP growth (qoq, sa, annualized)	...	...	-8.8	2.3	5.9	4.4	...	2.5	3.4	3.5	2.8	...	...
Domestic Demand Growth (ex-inventory, yoy)	7.5	5.4	-2.2	-3.5	-3.6	-0.1	-2.3	3.7	4.6	4.3	3.8	4.2	4.5
Real Investment Growth (yoy)	12.1	11.9	-7.7	-15.1	-15.0	-7.8	-11.2	3.9	8.7	7.9	7.0	7.0	7.4
Real Consumption Growth (yoy)	6.3	4.4	-0.7	-0.6	-0.4	1.9	0.2	3.4	3.8	3.4	3.3	3.5	3.9
Real Private Consumption Growth (yoy)	6.8	4.4	-1.4	-1.4	-0.8	1.8	-0.4	3.8	4.1	3.5	3.2	3.7	4.0
Real Government Consumption (yoy)	4.6	4.5	2.9	2.8	1.7	2.9	2.6	1.9	2.5	3.1	3.7	2.8	3.8
Real Export Growth (yoy)	4.9	1.1	-14.8	-14.6	-10.5	-4.8	-11.5	7.2	6.1	5.2	5.4	5.9	5.8
Real Import Growth (yoy)	12.9	9.7	-16.9	-19.6	-15.0	-7.5	-14.9	8.8	10.6	9.9	9.8	9.8	10.6
PRICES													
Consumer Price Inflation (yoy, eop)	6.9	9.2	9.1	8.0	7.6	8.0	7.9	7.3	7.6	7.9	8.2	8.1	7.5
Core Inflation (yoy, eop)	5.7	8.4	8.8	8.7	...	...	...	...	...	...	...	...	...
Consumer Price Inflation (qoq, eop)	...	...	1.6	1.4	1.6	2.2	...	2.0	1.4	1.9	2.2	...	...
Wages (% change yoy, nominal)	8.3	12.0	11.7	11.0	11.2	11.0	10.7	9.9	9.9	9.4	9.8	...	...
Bilateral Real Exchange Rate (% change yoy, + dep.)	-10.0	14.0	15.2	8.1	-5.0	-16.4	-17.0	-12.9	-5.6	-2.1	1.2	1.3	-2.6
MONETARY SECTOR													
Monetary Base growth (yoy)	18.8	16.1	12.8	12.4	12.1	12.4	10.2	17.1	16.0	17.2	17.5	16.9	17.8
Broad Money growth (yoy)	16.2	17.0	15.4	14.1	13.2	13.2	13.4	14.2	15.3	16.3	16.9	15.6	17.1
EXTERNAL SECTOR													
Current Account Balance (% of GDP)	0.7	-0.4	-1.7	0.5	-0.5	-1.2	-0.7	-0.6	-0.2	-1.1	-1.3	-0.8	-1.2
Current Account Balance (in US\$ bn)	22.7	-14.8	-13.0	4.6	-4.7	-12.4	-27.2	-5.9	-1.9	-10.6	-13.4	-34.7	-56.9
Trade Balance (in US\$ bn)	94.9	75.8	5.1	26.9	10.2	2.8	45.8	15.8	21.2	7.1	4.1	48.3	61.5
Exports, f.o.b. (in US\$ bn)	596.7	674.6	121.0	132.9	135.7	136.8	502.9	122.0	138.1	150.2	154.5	565.4	648.0
Imports, c.i.f. (US\$ Bn)	492.2	601.7	109.4	114.3	125.0	128.6	453.9	107.0	121.5	142.4	151.0	522.3	603.2
Services (net)	-32.0	-31.3	-6.2	-9.6	-9.2	-8.4	-33.0	-7.6	-9.0	-9.5	-10.7	-36.8	-43.8
Current Transfers (net)	44.4	43.5	9.0	9.4	9.4	9.5	37.4	8.9	9.5	9.9	10.2	38.5	43.2
Foreign Direct Investment (in US\$ bn)	94.2	107.8	19.7	14.9	14.1	14.1	60.6	16.9	17.4	18.8	17.7	71.0	88.2
Terms of Trade (% change yoy, + improvement)	1.9	2.5	-16.5	-13.0	-13.4	4.9	-10.5	11.1	1.9	2.1	3.0	4.4	3.4
International Reserves (in US\$ bn)	407.0	463.8	435.3	436.7	448.5	468.5	463.1	467.5	470.1	473.6	477.5	477.5	519.6
Import Cover (in months, imports of goods & services)	9.9	9.2	11.9	11.5	10.8	10.9	12.2	13.1	11.6	10.0	9.5	11.0	10.3
International Reserves (% of external debt)	57.7	62.7	61.8	62.2	63.8	65.4	64.7	65.1	65.1	64.9	64.6	64.5	69.7
PUBLIC SECTOR													
Central Gov. Primary Budget Balance (% of GDP)	2.9	2.4	0.4	...	...	...	-0.1	...	...	...	...	...	...
Consolidated Primary Balance (% of GDP)	3.4	3.1	0.9	...	...	...	0.1	...	...	...	...	1.1	1.2
Consolidated Public Sector Balance (% of GDP)	-0.6	-0.6	-1.6	...	...	...	-3.0	...	...	...	...	-1.9	-1.4
Central Gov. Revenues (% of GDP)	21.7	22.2	19.9	...	...	...	20.7	...	...	...	...	...	...
DEBT INDICATORS													
Gross External Debt (% of GDP)	21.1	19.3	19.4	19.8	19.8	19.7	20.0	19.0	18.9	18.7	18.8	18.1	17.6
Public (% of GDP)	11.6	10.4	10.0	10.2	10.1	9.9	10.4	9.7	9.5	9.5	9.7	9.7	9.5
Private (% of GDP)	9.5	8.8	9.3	9.6	9.7	9.8	9.5	9.3	9.4	9.2	9.1	8.4	8.0
Gross Government Debt (% of GDP)	44.7	45.6	...	...	...	...	47.8	...	...	...	...	46.4	45.4
Domestic (% of GDP)	34.1	35.2	...	...	...	...	37.3	...	...	...	...	36.8	35.8
External (% of GDP)	10.6	10.4	9.5	9.7	9.6	9.3	10.4	10.5	10.2	10.0	10.0	9.5	9.6
Total External Debt Amortization (US \$bn)	129.9	122.0	59.9	31.3	32.5	27.4	153.5	20.2	21.0	19.5	17.7	81.7	83.2
Total External Debt Interest Payments (US \$bn)	23.9	23.1	4.6	5.5	6.1	6.0	23.6	5.4	5.8	5.9	5.9	35.4	35.1
Total External Debt Service (% exports of goods & svcs)	25.8	21.5	53.2	27.6	28.4	24.4	35.2	21.0	19.4	17.0	15.3	20.7	18.3
SAVINGS - INVESTMENT BALANCE													
Savings (% of GDP)	22.6	22.7	19.1	21.9	20.9	20.1	19.1	19.8	21.0	20.3	20.0	19.5	19.8
Investment (% of GDP)	21.9	23.0	20.8	21.4	21.4	21.3	19.8	20.6	21.4	21.6	21.5	20.3	21.6

Source: Citi Investment Research and Analysis

High Frequency Indicators – Latin America

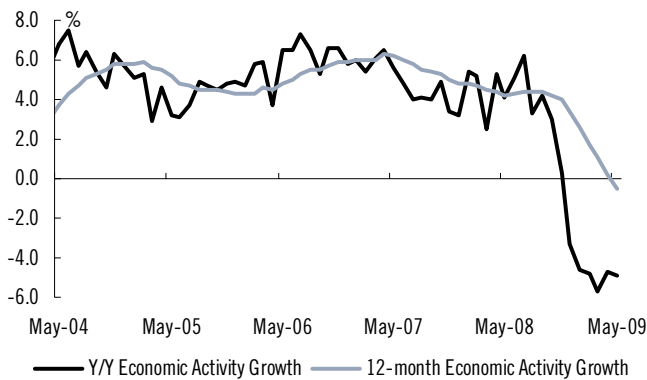
		Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Venezuela
Headline CPI Inflation (y/y)	Last	12.0 (2)	4.4 (2)	-1.0 (2)	3.1 (2)	3.3 (2)	5.1 (2)	1.9 (2)	28.8 (2)
	Last - 1	12.5	4.5	0.3	3.3	3.8	5.4	2.7	28.3
	3-month MA	12.4	4.6	0.4	3.4	3.9	5.4	2.5	28.2
	12-month MA	15.3	5.6	5.0	6.0	7.1	5.9	5.0	30.5
Core CPI Inflation (y/y)	Last	...	5.3 (2)	0.4 (2)	3.8 (2)	...	5.1 (2)	3.9 (2)	36.2 (2)
	Last - 1	...	5.5	1.1	4.1	...	5.3	4.4	35.3
	3-month MA	...	5.5	1.3	4.1	...	5.3	4.3	35.4
	12-month MA	...	6.0	4.3	4.8	...	5.5	5.2	34.6
Monetary Policy Interest Rate (%)	Last	...	8.75 (1)	0.50 (1)	4.50 (2)	...	4.50 (1)	1.25 (1)	...
	Last - 1	...	8.75	0.50	4.50	...	4.50	1.25	...
	3-month MA	...	8.75	0.50	4.50	...	4.50	1.50	...
	12-month MA	...	11.17	3.69	7.33	...	6.35	4.56	...
Industrial Production (y/y)	Last	-9.6 (3)	-10.4 (3)	-14.2 (4)	-7.0 (3)	...	-7.0 (3)	-12.3 (3)	-12.1 (4)
	Last - 1	-6.5	-12.2	-15.2	-6.9	...	-10.8	-12.3	-12.2
	3-month MA	-9.0	-10.8	-14.4	-7.0	...	-9.5	-10.7	-14.4
	12-month MA	-9.2	-7.9	-7.6	-8.4	...	-6.9	-2.9	-5.2
Retail Sales (y/y)	Last	13.6 (3)	5.6 (3)	9.3 (3)	-7.2 (3)	...	-6.4 (4)	-0.6 (5)	-12.6 (4)
	Last - 1	12.0	5.0	0.8	-3.8	...	-7.0	-1.8	-7.3
	3-month MA	12.2	4.8	5.0	-5.5	...	-5.6	-1.2	-11.1
	12-month MA	18.3	6.2	-1.5	-7.3	...	-3.0	7.5	-0.9
Construction Activity Indicators (y/y)	Last	-6.6 (4)	-4.3 (4)	12.0 (4)	-31.8 (5)	...	-6.9 (4)	-1.9 (5)	-20.6 (9)
	Last - 1	-6.5	1.4	-0.6	-15.9	...	-8.4	0.2	-14.5
	3-month MA	-6.3	-1.6	1.2	-19.3	...	-7.4	0.4	-13.5
	12-month MA	-1.1	6.7	-2.8	-19.8	...	-5.2	8.8	1.3
Unemployment Rate	Last	...	8.0 (3)	10.8 (3)	12.8 (3)	7.5 (9)	6.1 (3)	8.8 (2)	8.5 (3)
	Last - 1	...	8.1	10.7	13.0	7.9	5.2	7.9	7.8
	3-month MA	...	8.3	10.6	12.7	8.0	5.5	8.3	8.0
	12-month MA	...	8.1	9.0	12.3	7.3	4.9	8.4	7.4
Exports (y/y)	Last	-40.4 (2)	-29.9 (2)	-24.7 (2)	-23.5 (3)	-43.8 (5)	-34.8 (3)	-25.6 (3)	-41.7 (6)
	Last - 1	-30.2	-30.8	-28.5	-25.3	-37.5	-26.6	-25.7	-42.2
	3-month MA	-25.0	-27.6	-27.6	-22.6	-37.8	-31.4	-26.0	-41.1
	12-month MA	-13.6	-10.9	-30.3	-7.9	-9.7	-20.4	-18.4	7.4
Imports of Capital Goods (y/y)	Last	-35.8 (2)	-31.5 (3)	-36.3 (2)	-12.7 (5)	-24.2 (3)	-31.3 (3)	-31.5 (5)	...
	Last - 1	-37.9	-27.7	-18.1	-4.1	-10.6	-24.7	-21.9	...
	3-month MA	-23.7	-27.9	-29.7	-7.3	-14.4	-29.8	-24.1	...
	12-month MA	-23.3	5.6	-8.7	10.1	17.6	-7.0	32.7	...
Central Bank Reserves (US\$ billion)	Last	46.0 (3)	219.1 (2)	25.1 (2)	23.7 (3)	2.7 (4)	76.4 (2)	30.8 (4)	31.1 (3)
	Last - 1	46.0	211.9	23.5	23.4	2.6	73.3	31.2	30.2
	3-month MA	46.2	213.1	24.0	23.4	2.8	74.6	31.1	30.2
	12-month MA	46.4	206.0	23.5	23.3	4.6	79.0	31.9	33.6
Tax Revenues* (real rate, y/y)	Last	-5.7 (4)	-0.3 (5)	-19.4 (3)	-19.2 (3)	-6.0 (2)	3.1 (5)	-23.3 (3)	-26.2 (5)
	Last - 1	-6.1	-2.3	-47.8	1.2	3.6	-6.8	-21.6	-26.8
	3-month MA	-6.3	-0.1	-47.1	-8.6	9.8	11.9	-21.8	-25.5
	12-month MA	0.0	2.1	-26.3	0.3	8.7	-1.7	-8.4	-13.2
Tax Revenues* (nominal rate, y/y)	Last	6.3 (4)	4.9 (5)	-19.2 (3)	-16.5 (3)	-2.8 (2)	9.3 (5)	-21.2 (3)	-5.8 (5)
	Last - 1	6.4	3.1	-46.8	5.0	7.5	-1.0	-19.2	-5.3
	3-month MA	6.1	5.4	-46.5	-4.9	15.9	18.7	-19.2	-4.3
	12-month MA	17.3	8.2	-21.7	6.7	17.6	4.1	-3.4	14.8
5yr CDS	Last	1091 (10)	119 (10)	73 (10)	146 (10)	...	148 (10)	127 (10)	918 (10)
	Last - 1	1572	125	79	158	...	164	137	1178
	3-month MA	1741	145	93	177	...	179	154	1288
	12-month MA	2867	270	174	299	...	287	282	1872
Stock Exchange	Last	2042 (10)	61065 (10)	3323 (10)	10947 (10)	...	29327 (10)	15490 (10)	52721 (10)
	Last - 1	1797	57729	3266	10616	...	28309	14362	47993
	3-month MA	1727	54995	3209	10290	...	27004	13831	47710
	12-month MA	1335	45289	2756	8610	...	22656	10086	40921

Note: (1) September, (2) August, (3) July, (4) June, (5) May, (6) April, (7) March, (8) February, (9) January, (10) as of September 23/09. *Brazil, Chile, Colombia and Venezuela refer to current revenues.

Sources: National Authorities, Haver Analytics and Citi Investment Research and Analysis

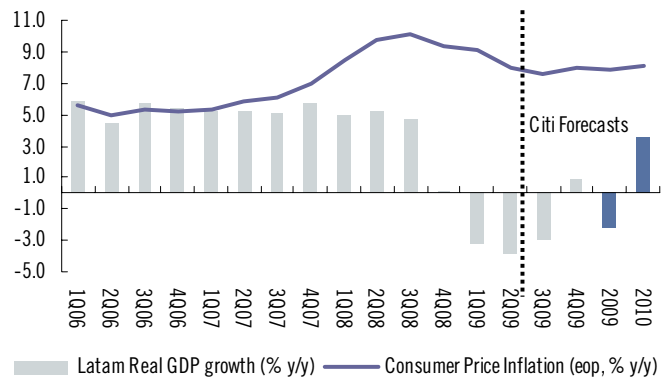
Selected Charts – Latin America

Figure 5. Regional GDP likely to reverse downward trend



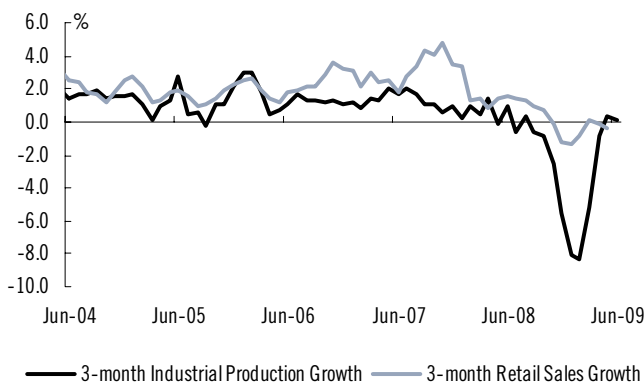
Source: Citi Investment Research and Analysis

Figure 6. Regional rebound expected in 2010



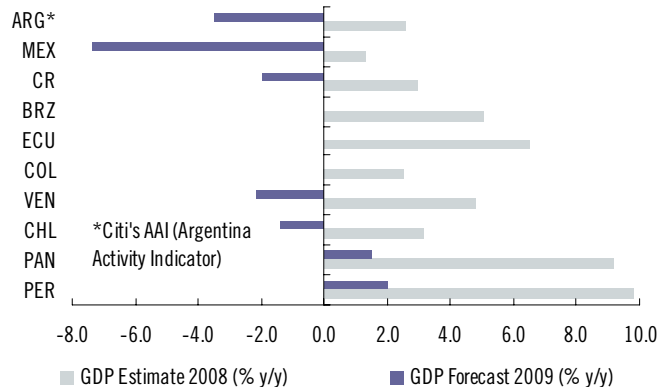
Source: Citi Investment Research and Analysis

Figure 7. Industrial production bottoms as recession is left behind



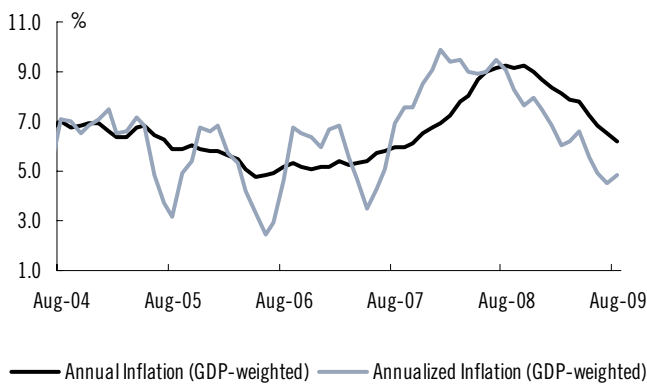
Source: Citi Investment Research and Analysis

Figure 8. 2009 GDP contracts but recession is ending



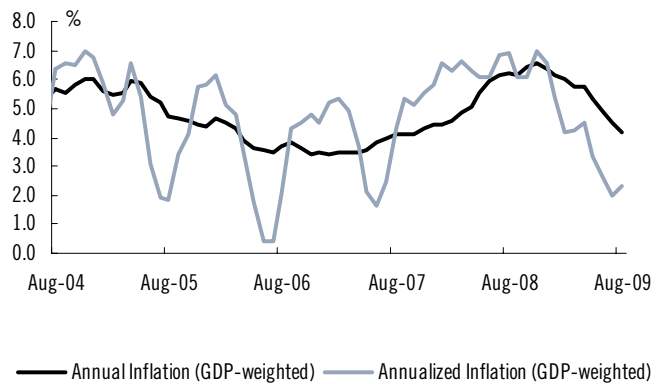
Sources: Haver, National Sources, and Citi Investment Research and Analysis

Figure 9. Regional inflation deceleration continues...



Source: Citi Investment Research and Analysis

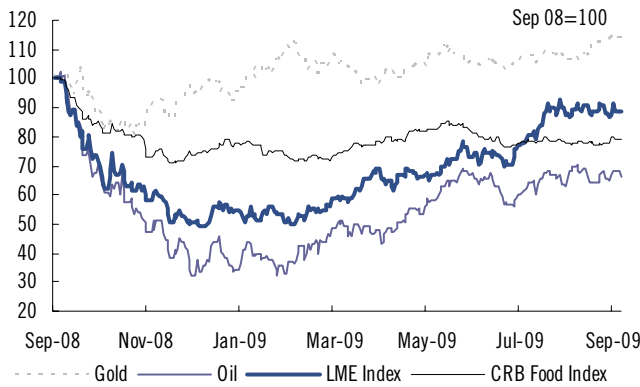
Figure 10. ... especially in countries with inflation targeting regimes



Sources: National Sources, and Citi Investment Research and Analysis

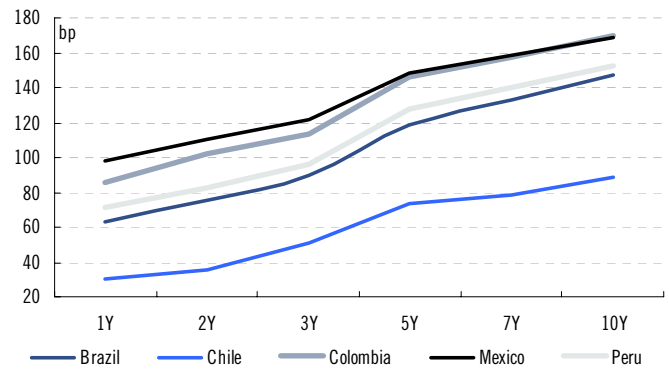
Selected Charts – Latin America

Figure 11. Commodity prices exhibit a moderate upward trend



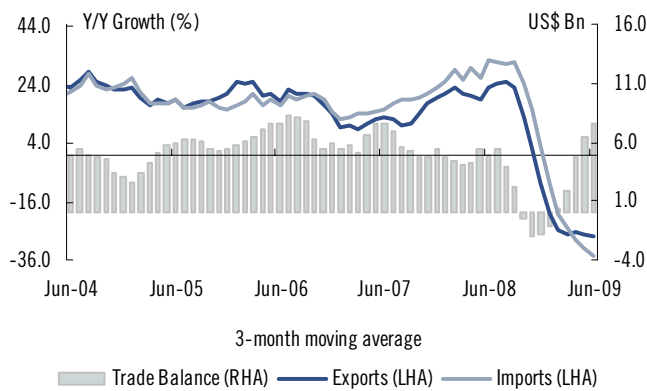
Source: Bloomberg

Figure 12. Brazil's 5-Yr CDS tightens further after rating upgrade



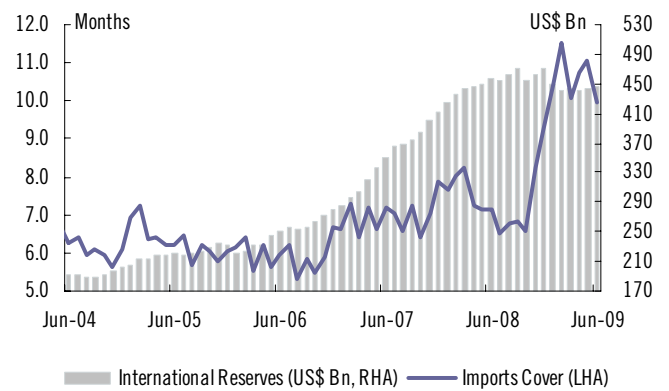
Source: Citi Investment Research and Analysis

Figure 13. Export decline eases, while import plunge remains significant...



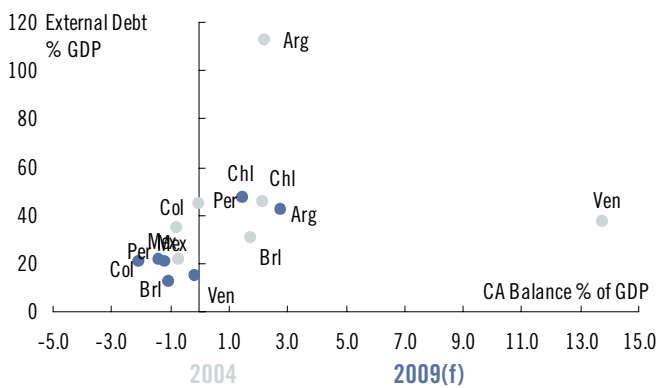
Source: Citi Investment Research and Analysis

Figure 14. ...favoring reserves and import cover



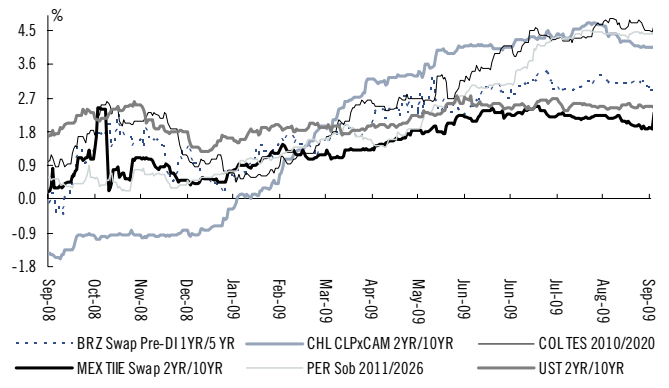
Source: Citi Investment Research and Analysis

Figure 15. Weaker imports in Argentina and Chile favor their CA surplus



Source: Citi Investment Research and Analysis

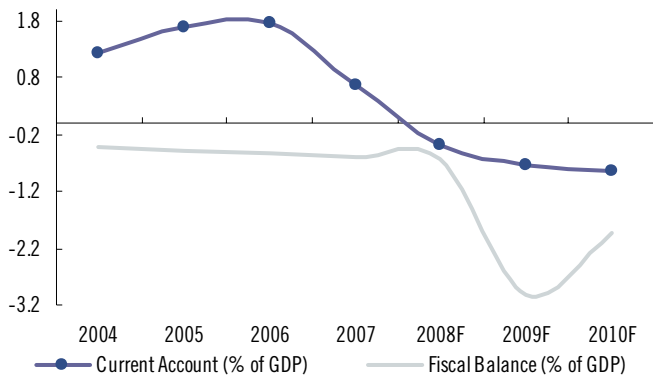
Figure 16. Local yield curves flatten after CBs stop cutting rates



Sources: Bloomberg, Citi Investment Research and Analysis

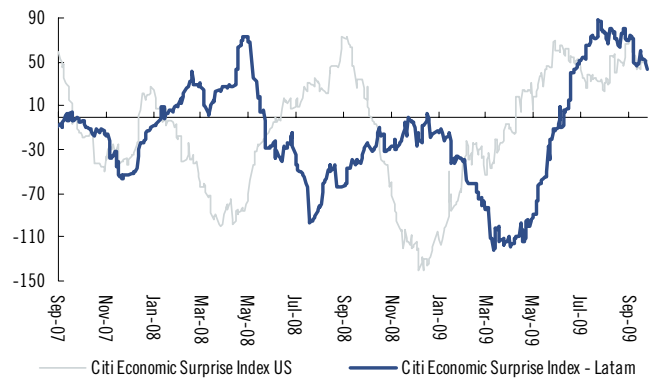
Selected Charts – Latin America

Figure 17. Improvement in fiscal balance will shrink CA deficit in 2010



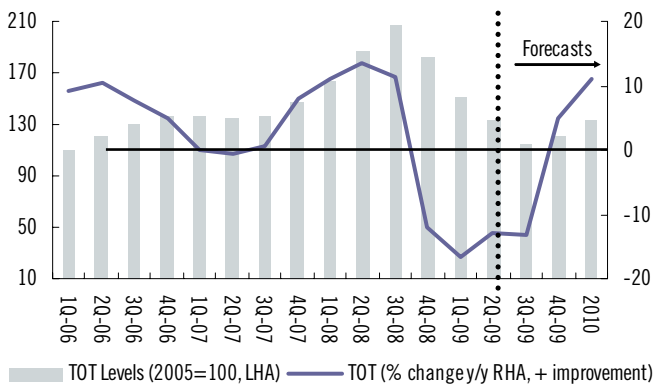
Source: Citi Investment Research and Analysis

Figure 18. Decelerating LATAM economic surprise index on better outlook



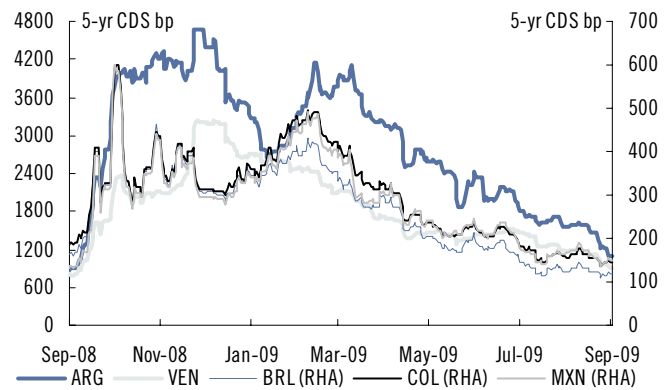
Source: CitiFX Value Added Services & Products

Figure 19. Regional terms of trade expected to recover sharply



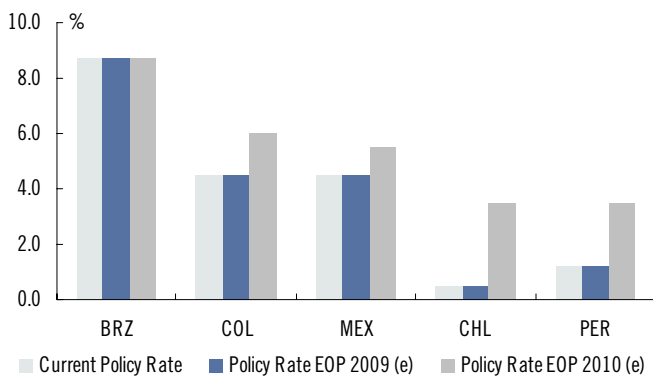
Source: Citi Investment Research and Analysis

Figure 20. Credit risk drifts back to pre-Lehman levels



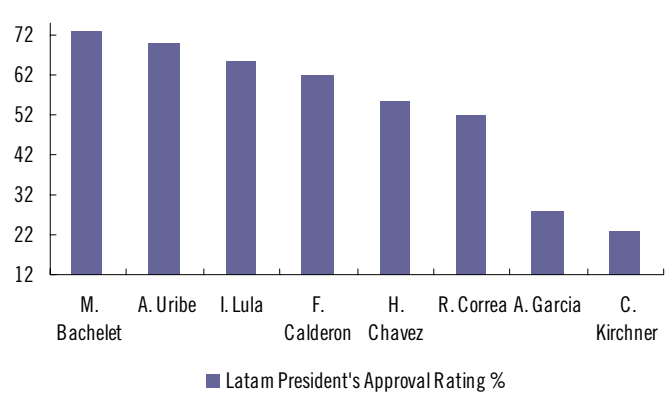
Source: Bloomberg

Figure 21. The tightening cycle should start in 2010, except for Brazil



Source: Citi Investment Research and Analysis

Figure 22. LATAM presidential approval ratings vary by country



Sources: Adimark, Apoyo, CNI/IBOPE, Consulta Mitofsky, Datanálisis, Gallup, Gallup-CEDATOS, GEA, Poliarquía Consultores, Reforma

Macro Forecasts

	Citigroup Forecasts*					Consensus Forecasts (as of September 23th)						
	2008		2009		2010		2009			2010		
	Est.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High	
GDP Growth (year over year)												
Argentina	2.6	-3.5	1.3	0.5	2.5	-5.4	-2.9	1.5	-2.0	1.8	3.9	
Brazil	5.1	0.0	1.5	5.0	1.0	-1.2	-0.1	0.7	3.0	4.2	5.2	
Chile	3.2	-1.4	(0.1)	4.0	0.5	-2.0	-1.6	-1.1	3.5	4.2	5.2	
Colombia	2.5	0.0	0.5	2.5	-	-1.0	-0.2	1.5	1.5	2.7	4.5	
Costa Rica	2.9	-2.0	2.0	1.5	-	-	-2.8	-	-	2.4	-	
Dominican Republic	4.7	1.5	2.0	3.5	-	-	-0.4	-	-	2.5	-	
Ecuador	6.5	0.0	-	3.0	(0.5)	-	-3.0	-	-	1.7	-	
El Salvador	2.5	-3.5	-	1.5	-	-	-2.4	-	-	1.2	-	
Mexico	1.3	-7.4	-	3.6	-	-8.2	-7.1	-4.5	1.0	2.8	4.5	
Panama	9.2	1.5	-	4.0	-	-	1.0	-	-	3.6	-	
Peru	9.8	2.0	-	5.0	-	-0.5	1.4	2.3	2.5	4.3	6.0	
Uruguay	8.9	0.7	(0.1)	4.0	-	-	0.3	-	-	2.1	-	
Venezuela	4.8	-2.2	0.1	-1.7	1.1	-4.9	-1.4	1.5	-3.4	0.5	2.7	
CPI Inflation (year over year, eop)												
	2008	2009		2010		2009			2010			
	Act.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High	
Argentina	16.3	16.8	0.3	17.3	(2.1)	5.0	6.3	7.6	5.0	7.6	10.0	
Brazil	5.9	4.3	-	4.2	-	4.0	4.3	4.7	3.7	4.3	4.8	
Chile	7.1	-0.5	(1.2)	2.8	(0.2)	-1.5	-0.9	-0.5	2.0	2.7	3.2	
Colombia	7.7	3.5	(0.5)	4.4	0.6	2.8	3.5	4.2	3.8	4.3	5.0	
Costa Rica	13.9	6.5	-	7.0	-	-	6.6	-	-	7.6	-	
Dominican Republic	4.5	6.0	-	7.0	-	-	4.8	-	-	5.5	-	
Ecuador	8.8	2.5	(1.5)	3.0	1.0	-	4.0	-	-	5.1	-	
El Salvador	5.5	1.0	(5.5)	3.0	(1.8)	-	2.3	-	-	3.0	-	
Mexico	6.5	4.1	0.1	4.0	0.6	3.6	4.2	4.9	3.2	4.1	6.1	
Panama	6.8	3.0	(1.0)	4.0	(0.5)	-	2.9	-	-	3.7	-	
Peru	6.7	0.5	(1.0)	2.2	(0.3)	-0.2	1.2	2.7	1.8	2.4	3.8	
Uruguay	9.2	6.7	0.1	6.7	1.8	-	5.5	-	-	5.6	-	
Venezuela	31.9	32.0	-	39.0	0.1	25.0	29.7	40.0	26.0	33.2	41.6	
Policy Rate (% eop)												
	2008	In 3 Months		In 12 Months		In 3 Months			In 12 Months			
	Est.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High	
Argentina	-	-	-	-	-	-	-	-	-	-	-	
Brazil	13.75	8.75	-	8.75	-	8.50	8.74	8.75	8.25	8.86	9.75	
Chile	8.25	0.50	-	2.00	0.50	0.50	0.50	0.50	0.75	1.89	3.00	
Colombia	9.50	4.50	0.25	5.75	(0.25)	-	-	-	-	-	-	
Costa Rica	5.25	7.25	0.50	8.00	-	-	-	-	-	-	-	
Dominican Republic	9.50	4.00	(1.00)	7.00	(1.00)	-	-	-	-	-	-	
Ecuador	-	-	-	-	-	-	-	-	-	-	-	
El Salvador	-	-	-	-	-	-	-	-	-	-	-	
Mexico	8.25	4.50	-	4.50	-	4.00	4.51	5.13	4.00	5.18	7.53	
Panama	-	-	-	-	-	-	-	-	-	-	-	
Peru	6.50	1.25	(0.25)	2.25	-	-	-	-	-	-	-	
Uruguay	8.00	7.75	1.00	-	-	-	-	-	-	-	-	
Venezuela	-	-	-	-	-	-	-	-	-	-	-	
Exchange Rate (with respect to USD, eop)												
	2008	In 3 Months		In 12 Months		In 3 Months			In 12 Months			
	Est.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High	
Argentina	3.45	3.85	(0.22)	4.13	(0.53)	-	3.98	-	-	4.37	-	
Brazil	2.34	1.83	(0.17)	1.80	(0.10)	-	1.84	-	-	1.85	-	
Chile	636	540	20	570	(20)	-	548	-	-	553	-	
Colombia	2234	1950	(100)	2000	(140)	-	2101	-	-	2147	-	
Costa Rica	550	590	10	615	(10)	-	605	-	-	638	-	
Dominican Republic	35.5	36.2	(0.5)	36.8	(0.4)	-	36.3	-	-	37.3	-	
Ecuador	1.0	1.0	-	1.0	-	-	1.0	-	-	1.1	-	
El Salvador	1.0	1.0	-	1.0	-	-	1.0	-	-	1.0	-	
Mexico	13.67	13.20	(0.2)	13.25	-	-	13.30	-	-	13.43	-	
Panama	1.0	1.0	-	1.0	-	-	1.0	-	-	1.0	-	
Peru	3.13	2.85	(0.07)	2.85	(0.10)	-	2.96	-	-	3.00	-	
Uruguay	24.3	23.4	(1.7)	24.4	(3.4)	-	23.7	-	-	24.5	-	
Venezuela**	2.15	2.15	-	3.35	-	-	2.21	-	-	3.15	-	

Note: *Bold indicates change from the previous Economic Outlook and Strategy - Latin America publication. **Central Government only.

Sources: Latin American Consensus Forecasts and Citi Investment Research and Analysis

Macro Forecasts (continued)

Fiscal Balance (percent of GDP)	Citigroup Forecasts*					Consensus Forecasts (as of September 23th)					
	2008	2009		2010		2009			2010		
	Est.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	1.9	-2.3	(0.4)	-1.5	(0.5)	-1.8	-1.0	0.1	-1.8	-0.4	0.6
Brazil	-3.0	-2.9	(0.8)	-1.4	(0.1)	-4.2	-2.7	-0.9	-3.0	-1.9	-0.6
Chile	7.9	-3.5	0.6	0.0	1.2	-5.1	-3.9	-3.0	-4.1	-1.5	0.1
Colombia	0.7	-2.8	-	-3.7	-	-	-	-	-	-	-
Costa Rica	-0.4	-3.0	-	-2.5	(0.5)	-	-	-	-	-	-
Dominican Republic	-1.2	-3.5	-	-3.0	(0.5)	-	-	-	-	-	-
Ecuador	1.1	-5.0	1.7	-2.7	5.9	-	-	-	-	-	-
El Salvador	-1.1	-5.8	-	-3.1	-	-	-	-	-	-	-
Mexico	0.1	-2.1	-	-2.5	0.3	-4.0	-2.3	-1.8	-6.0	-2.7	-1.4
Panama	0.5	-2.5	(0.5)	-2.0	(1.0)	-	-	-	-	-	-
Peru	2.5	-2.2	(0.8)	-0.3	(2.5)	-	-	-	-	-	-
Uruguay	-0.6	-1.4	-	-1.0	-	-	-	-	-	-	-
Venezuela**	-1.2	-5.2	-	-6.0	(2.8)	-10.5	-4.9	-2.8	-6.3	-3.6	0.0
Trade Balance (US\$ Billion)	2008	2009		2010		2009			2010		
	Act.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	12.8	13.7	(0.6)	13.4	(1.8)	10.9	15.6	17.9	9.6	14.6	17.6
Brazil	24.8	28.0	2.9	22.0	1.5	20.0	25.2	30.0	9.1	18.8	27.4
Chile	4.6	6.1	3.2	5.4	(0.3)	5.7	9.3	12.4	1.6	9.3	14.6
Colombia	1.0	1.1	2.0	0.9	2.4	-4.0	-1.1	1.0	-3.0	-0.8	0.2
Costa Rica	-4.8	-3.6	-	-4.2	-	-	-	-	-	-	-
Dominican Republic	-8.5	-6.8	-	-7.9	-	-	-	-	-	-	-
Ecuador	1.4	-0.7	0.9	0.5	1.1	-	-	-	-	-	-
El Salvador	-4.7	-3.8	-	-4.3	-	-	-	-	-	-	-
Mexico	-17.3	-13.8	2.3	-17.2	2.9	-24.7	-12.4	-6.9	-23.6	-15.8	-8.9
Panama	-4.6	-3.8	-	-4.5	-	-	-	-	-	-	-
Peru	3.1	2.7	0.1	0.4	(3.0)	-0.6	2.1	4.8	-0.7	1.5	4.7
Uruguay	-0.5	-0.4	-	-	-	-	-	-	-	-	-
Venezuela	45.4	8.8	7.5	22.9	7.5	-10.8	8.3	22.3	-2.6	17.0	38.1
Current Account Balance (US\$ Billion)	2008	2009		2010		2009			2010		
	Est.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	7.1	8.4	(1.6)	7.1	(4.4)	3.0	8.1	11.6	2.0	7.3	11.4
Brazil	-28.2	-15.2	(0.3)	-29.0	8.0	-24.4	-15.9	-10.0	-44.0	-26.1	-11.7
Chile	-3.4	2.3	2.4	1.1	(4.0)	-2.0	1.0	3.9	-4.0	0.5	6.1
Colombia	-6.7	-4.8	0.7	-6.1	2.9	-9.0	-6.6	-2.8	-9.0	-6.1	-4.5
Costa Rica	-2.7	-1.3	-	-2.5	-	-	-1.1	-	-	-1.5	-
Dominican Republic	-4.8	-2.1	-	-3.2	-	-	-3.0	-	-	-3.0	-
Ecuador	1.2	-2.1	0.9	-1.3	0.8	-	-1.3	-	-	-0.5	-
El Salvador	-1.6	-1.0	-	-1.3	-	-	-0.7	-	-	-0.8	-
Mexico	-15.7	-10.3	1.8	-15.2	1.8	-21.0	-12.9	-7.3	-21.7	-16.7	-10.7
Panama	-2.8	-1.6	-	-2.2	-	-	-2.6	-	-	-2.6	-
Peru	-4.2	-1.8	-	-2.4	(3.9)	-4.4	-2.2	0.3	-4.7	-2.9	-0.9
Uruguay	-1.2	-1.6	-	-0.6	-	-	-0.4	-	-	-0.6	-
Venezuela	39.2	-0.6	4.6	14.0	4.7	-15.4	2.1	16.4	-8.6	11.2	33.1
International Reserves (US\$ Billion)	2008	2009		2010		2009			2010		
	Est.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	46.4	44.4	5.3	45.7	2.9	39.1	43.9	49.0	39.0	44.4	53.0
Brazil	206.8	220.0	-	220.0	-	-235.8	-218.8	-201.0	-270.6	-229.4	-203.5
Chile	23.2	23.4	-	23.7	-	19.0	23.2	26.0	17.0	23.5	28.2
Colombia	24.0	25.5	0.5	24.0	1.5	-	-	-	-	-	-
Costa Rica	3.6	3.3	-	3.5	-	-	-	-	-	-	-
Dominican Republic	2.2	1.7	-	1.7	-	-	-	-	-	-	-
Ecuador	4.5	3.4	1.3	3.9	2.4	-	-	-	-	-	-
El Salvador	2.1	2.0	-	1.9	-	-	-	-	-	-	-
Mexico	85.4	82.9	2.6	87.6	1.9	70.0	82.0	95.8	72.0	84.6	97.2
Panama	1.7	1.4	-	1.1	-	-	-	-	-	-	-
Peru	31.2	34.0	-	39.1	1.7	-	-	-	-	-	-
Uruguay	3.8	4.0	-	-	-	-	-	-	-	-	-
Venezuela**	42.3	29.5	3.5	33.5	6.5	19.9	27.0	38.0	19.3	26.7	42.0

Note: *Bold indicates change from the previous Economic Outlook and Strategy - Latin America publication. **Central Government only.

Sources: Latin American Consensus Forecasts and Citi Investment Research and Analysis

FX and Interest Rate Forecasts

Foreign currency forecasts and forwards

Country	Local Currency	Spot 23 Sep 09	3 Months		6 Months		12 Months		Oct-09	Dec-09	Mar-10	Jun-10	Sep-10
			Forecast	Forward	Forecast	Forward	Forecast	Forward					
Argentina	Peso	3.84	3.95	3.95	4.05	4.11	4.40	4.42	3.85	3.95	4.05	4.08	4.30
Brazil	Reais	1.78	1.75	1.81	1.80	1.84	1.80	1.91	1.83	1.75	1.80	1.80	1.80
Chile	Peso	540	550	536	555	534	570	532	540	550	555	565	570
Colombia	Peso	1917	1900	1940	2000	1966	2000	2020	1950	1900	2000	2000	2000
Mexico	Peso	13.29	13.10	13.46	13.15	13.62	13.30	14.00	13.20	13.10	13.15	13.25	13.30
Peru	Nuevo Sol	2.87	2.85	2.88	2.85	2.88	2.85	2.88	2.85	2.85	2.85	2.85	2.85
Uruguay	Peso	21.6	23.5	...	23.9	...	24.7	...	23.4	23.5	23.9	24.2	24.6
Venezuela	Bolivar Fuerte (official)*	2.15	2.15	...	3.35	...	3.35	...	2.15	2.15	3.35	3.35	3.35

*Starting January 2008, the new currency is Bolivar Fuerte (VEF), with VEF=VEB/1000. Sources: Bloomberg and Citi Investment Research and Analysis

Exchange Rate Trading Ranges (Latin America versus US Dollar)

Exchange Rate Trading Ranges (Latin America Versus US Dollar)										
Country	Local Currency	Spot 23 Sep 09	1 Month		3 Months		6 Months		12 Months	
			Low	High	Low	High	Low	High	Low	High
Argentina	Peso	3.837								
	Citi		3.80	4.00	3.90	4.10	4.00	4.50	4.10	5.00
	Implied Market		3.79	3.95	3.73	4.17	3.68	4.54	3.48	5.36
Brazil	Reais	1.783								
	Citi		1.76	1.94	1.67	1.94	1.66	1.98	1.66	1.98
	Implied Market		1.75	1.84	1.67	1.96	1.53	2.16	1.20	2.62
Chile	Peso	540								
	Citi		530	565	530	570	540	590	540	620
	Implied Market		526	549	501	570	463	604	385	678
Colombia	Peso	1917								
	Citi		1820	2090	1850	2250	1940	2340	1840	2320
	Implied Market		1874	1977	1779	2101	1630	2301	1288	2752
Mexico	Peso	13.29								
	Citi		11.00	15.00	11.20	15.20	11.55	15.55	11.35	15.35
	Implied Market		13.04	13.66	12.50	14.42	11.63	15.61	9.71	18.29
Peru	Nuevo Sol	2.87								
	Citi		2.85	2.95	2.80	3.00	2.80	3.10	2.75	3.20
	Implied Market		2.86	2.89	2.81	2.94	2.72	3.03	2.50	3.26

Note: Ranges delimit a 95% confidence interval, using the CAPM implied volatility on FX options at different tenors. The model assumes a log normal distribution for the underlying FX. Sources: Bloomberg and Citi Investment Research and Analysis

Interest Rate Forecasts

Country	Interest Rate	23 Sep 09	3 Months	6 Months	12 Months	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Argentina	BADLAR Private Banks	12.19	12.50	11.30	11.50	11.50	12.00	12.50	11.30	9.30	11.50
	Bonar V June 2012	24.61	42.70	37.90	6.90	42.15	42.40	42.70	37.90	22.90	7.90
Brazil	SELIC	8.65	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
	Swap Pre-DI 900 Days	11.50	11.00	11.00	10.90	11.11	11.10	11.00	11.00	10.90	10.90
Chile	CAMARA (Overnight)	0.39	0.50	1.00	3.00	0.50	0.50	0.50	1.00	1.75	2.75
	Chile BCP Jan 2012	3.56	4.80	4.95	5.55	4.60	4.70	4.80	4.95	5.15	5.45
Colombia	Central Bank Repo Rate	4.50	4.50	4.75	6.00	4.50	4.50	4.50	4.75	5.50	6.00
	TES July 2020	9.21	8.50	8.60	8.70	8.34	8.20	8.50	8.60	8.60	8.70
Mexico	Official Overnight Rate	4.50	4.50	4.50	5.25	4.50	4.50	4.50	4.50	4.50	5.00
	10-year TIE	7.87	8.50	8.65	8.90	8.30	8.40	8.50	8.65	8.75	8.85
Peru	Reference Rate	1.25	1.25	1.25	3.00	1.25	1.25	1.25	1.25	2.00	2.75
	Soberano Aug 26	6.19	6.50	6.70	6.70	6.50	6.50	6.50	6.70	6.70	6.70
Venezuela	Average Deposit Rate	14.50	14.50	14.80	15.85	14.50	14.50	14.50	14.80	15.25	15.70
	TIF Mar 11	...	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00

Sources: Bloomberg and Citi Investment Research and Analysis

Open Trades Table

	Initiation	Initiation Levels	Current Levels	Comments	Contact
Brazil					
Receive DI Jan 2011	7-Jul-09	Receive DI Future Jan 2011 at 9.82%	Receive DI Future Jan 2011 at 10.09%	The central bank should keep the Selic rate stable until 2010 year end, while market is pricing in a more conservative scenario. Therefore, according to our base case scenario, we continue to see a premium in receiving Pre-DI Jan11.	Marcelo Kfoury, Stephan Kautz, Leonardo Porto
Colombia					
Long TES Jul 2020 Funded at the Repo Rate or NDF hedged	27-Aug-09	Long TES May 2020 at 9.44%, funded at the repo rate or NDF hedged	Long TES May 2020 at 9.21%, funded at the repo rate or NDF hedged	Technical, monetary, and fiscal fundamentals suggest the fair yield on a TES 2020 should stand closer to 9.0%.	Munir Jalil, Jose Wynne
Guatemala					
Short 3-month USD/GTQ NDFs	11-Aug-09	Short 3-month USD/GTQ NDFs at 8.34	Short 3-month USD/GTQ NDFs at 8.36	Depreciation pressures are likely to ebb during the rest of the year, while moderate appreciating pressures could arise. External accounts should work in favor of the local currency. The level of international reserves and the precautionary agreement with the IMF also support our recommendation. We expect the quetzal to strengthen to USD/GTQ8 by year-end.	Jorge Pastrana
Relative Value					
Pay 5yr PEN XCCY, receive 5yr BRL XCCY.	6-May-09	Pay 5yr XCCY swap in Peru at 4.40%; Receive 5yr XCCY swap in Brazil at 9.74%	Pay 5yr XCCY swap in Peru at 5.50%; Receive 5yr XCCY swap in Brazil at 11.15%	We continue to believe that the compression of longer-dated PEN rates is overdone. The absence of a repo market for Soberanos makes it expensive to pay long rates in Peru, which makes XCCY a good market substitute for expressing this view. Meanwhile, in Brazil, we like the upside on the currency and we still find long rates attractive.	Jose Wynne
Short 3-month CAD/MXN Forward Contract	5-Aug-09	Long USD/CAD through a 3-month contract at 1.07, and sell USD/MXN through a 3-month contract at 13.198	Long USD/CAD through a 3-month contract at 1.07 and sell USD/MXN through a 3-month contract at 13.51	An improving outlook for the US economy opens an opportunity for shorting the CAD against the MXN. In particular, if the manufacturing sector in the US surprises on the upside, we expect the high beta Mexican manufacturing sector to benefit more than the stable Canadian economy. Leading indicators suggest this process has already begun.	Jose Wynne, Jorge Pastrana, Joel Virgen

Sources: Citi Investment Research and Analysis, Bloomberg, and Reuters.

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Country Monitor

Argentina

Alberto Ades

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- **Summary view** — External conditions have become very favorable for the country once again, and this will likely support a mild pickup of activity. Low investment will probably cap the upside, and fiscal problems will most likely resurface once developed countries start hiking rates in the second half of next year, as we expect.
- **Things to watch** — Focus will be on the discussions of the government with the IMF, as the October Istanbul meetings would be a good setting to agree upon an Article IV consultation. Also, watch if there are news on a potential agreement with holdout investors, as the press is reporting some progress, but discussions are centered on whether there will be cash for the government in the deal or not. Finally, watch whether the opposition will be able to recover some strength either in the discussion of the media law or the 2010 budget.
- **Strategy** — We believe that the current rally will continue as long as monetary conditions remain accommodative in the developed world. We believe that CER-adjusted paper will continue to recover from previously dislocated prices. Implicit NDF-yields should continue to drop in the coming weeks, but at these levels, we would not be short USD/ARS. We would wait some more to enter long-term long USD/ARS positions if rates remain this low.

Enjoying the “benefits” of being a high-beta country

The recent spike in Argentine asset prices, ranging from stocks to bonds, is mostly a consequence of the high liquidity in global markets, in our view. It has been a feature of past high global liquidity episodes that capital flows to emerging countries with good as well as with bad policies. Hence, the recent rally in local assets is not surprising. The biggest evidence that external factors are the main drivers of the rally is that the Buenos Aires stock market has been among the ones that appreciated the most in the past month, in the midst of severe regulatory problems for several of the key listed companies.

There is some positive news on the financial side also, foremost, the talks with the IMF. We believe that the government will probably proceed with an Article IV consultation (whose results may not be public), in order to later refinance debt with the Paris Club. But, we expect the relationship to stop short of involving any IMF financing in the near future (and most likely also not in 2010). We believe that a Flexible Credit Line (FCL) is out of the question for Argentina, and a standard Stand-By Agreement would imply unpalatable requirements for this administration.

Most policies, and the political process, by contrast, remain highly adverse for the private sector. The lack of emergence of alternative leadership in the Peronist party left this administration room to move forward its political and economic agenda almost unchecked. This involves not only keeping most extraordinary powers we thought were at stake after the June 28 election, but also increasing them, as would be the case if the new bill to regulate the media is approved.

Activity should pick up in 2010, but at a slow pace

The external sector should lead the recovery, while investment will likely remain subdued. An improvement in the weather outlook should allow the soybean harvest to exceed 50 million tons next year, much higher than the 32 million harvested this year. Although partially compensated for dismal wheat and corn harvests, we expect a net positive windfall of nearly US\$7.0 billion. We therefore expect exports to rebound to about US\$59 billion in 2010, from US\$52 billion this year, and the trade surplus to stay close to US\$13.7 billion. We expect smaller portfolio outflows compared to 2009, at least during the first half (more on this below), and the central bank to be a net buyer of reserves, but to a small degree. This would allow Badlar rates to remain below current levels during the first half, and credit to resume some modest growth.

Uncertainty and low profits in the corporate sector will likely keep the rebound checked. We expect investment to remain low, as the corporate sector faces a high tax burden, real wage hikes, and significant regulatory uncertainty. Nevertheless, we now expect the economy, as measured by our Argentina Activity Indicator, to expand 0.5% next year. Local negative risks abound regarding this mildly constructive view, including the possibility of a new farmers' strike and fiscal problems in the provinces, but are difficult to price.

The ride will probably end in 2H 2010

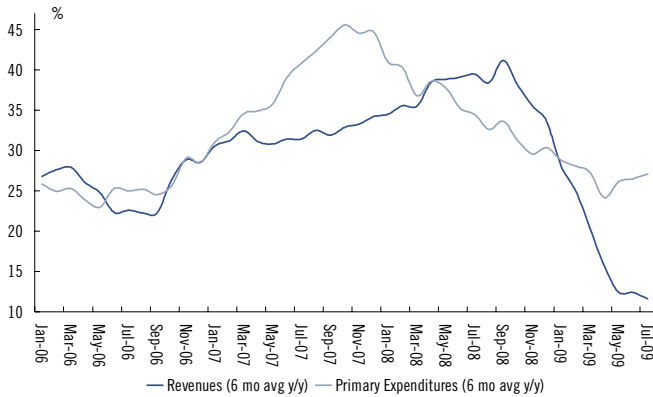
Once developed countries start to increase rates again next year, as we expect, the weaknesses of the Argentine economy should become evident again. We believe that a key weakness, accentuated by this administration, is the shallowness of savings in the domestic financial system. Therefore, even if financing needs are manageable for a country the size of Argentina, the only demand for government and corporate issuance should come from foreigners who will likely shun from increasing risk at the tail of the risk-taking curve once capital becomes scarcer (we estimate financing needs in excess of US\$6 billion next year, excluding an estimate of the financing from the central bank and government agencies). We believe that at that point depreciation pressures on the peso will resume, interest rates will likely increase, and activity will stall once again.

Investment implications

We believe that the current rally will continue as long as monetary conditions remain accommodative in the developed world. Our view is that CER-adjusted paper will continue to recover from previously dislocated prices. We expect CER inflation to increase to about 10% next year, but to stop short of recognizing the full rise in inflation we foresee. Implicit NDF-yields will probably continue to drop in the coming weeks, but at these levels, we would not be short USD/ARS. We would wait some more to enter long-term long USD/ARS positions, if rates remain this low.

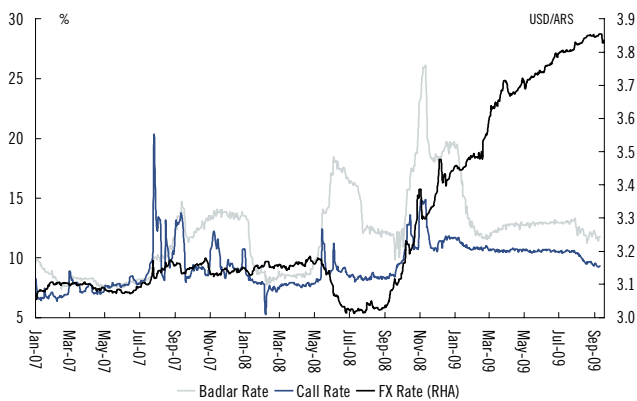
Country Charts – Argentina

Figure 23. Weak revenues, strong expenditure growth



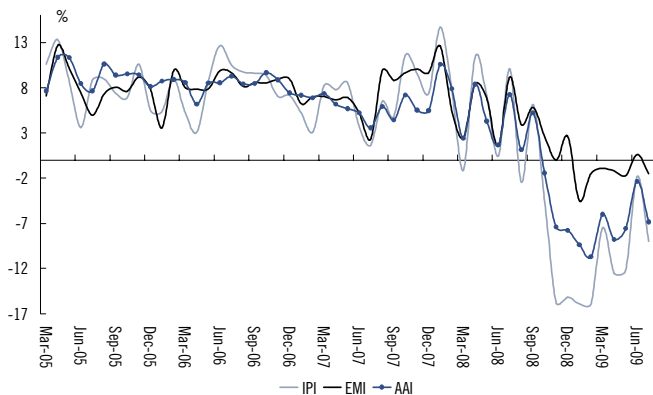
Source: Ministry of Finance

Figure 25. Rates are trending down



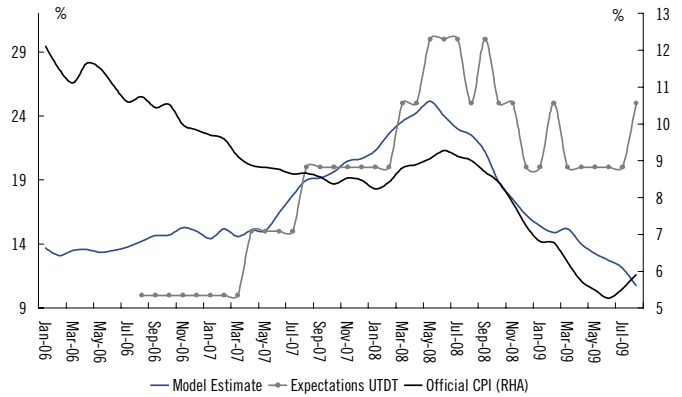
Sources: Central Bank of Argentina and Reuters

Figure 27. June–July activity biased by the AH1N1 outbreak



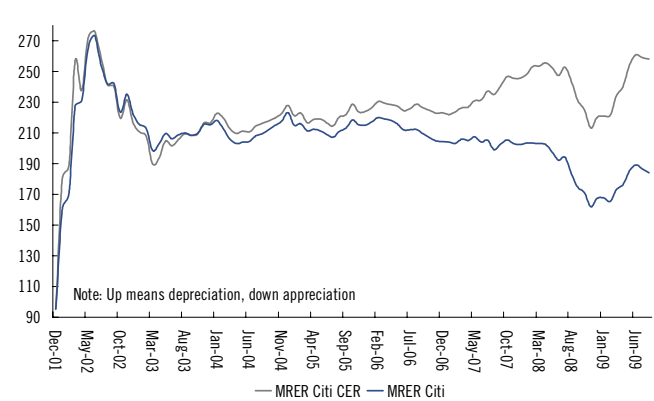
Sources: INDEC, FIEL and Citi Investment Research and Analysis

Figure 24. Long way for official inflation to catch up with real inflation



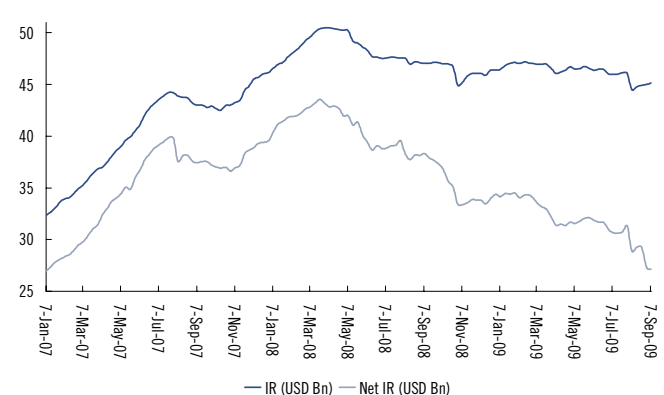
Sources: INDEC, M&S, UTDT and Citi Investment Research and Analysis

Figure 26. Multilateral real exchange rate strengthens again



Sources: Central Bank of Argentina, INDEC, BLS and Citi Investment Research and Analysis

Figure 28. International reserves flat, but net reserves continued to diminish



Sources: Central Bank of Argentina Citi Investment Research and Analysis

Macroeconomic Indicators— Argentina

	2007	2008	2009					2010					2011
	Act.	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	259.4	324.6	69.3	83.6	79.8	84.6	306.2	69.1	79.1	74.7	80.4	318.9	310.0
Nominal GDP (Pesos Bn)	808.6	1032.8	248.2	313.6	306.6	329.4	1153.6	279.9	322.7	321.2	369.6	1340	1496
GDP per capita (US\$)	6590	8168	8033	7899	7764	7629	7629	7689	7749	7809	7869	7869	7574
Unemployment Rate (%)	8.5	7.9	9.4	10.1	10.5	10.3	10.1	11.8	12.2	12.5	12.1	12.1	9.9
Population (millions)	39.4	39.7	39.6	39.6	39.5	40.1	40.1	40.0	39.9	39.8	40.5	40.5	40.9
ECONOMIC ACTIVITY													
Real GDP growth (yoy)	8.7	6.8	2.0	1.1	0.8	1.9	1.4	2.3	2.6	2.0	2.0	2.3	2.0
Citi's Argentina Activity Indicator (AAI, y/y)	6.1	2.6	-5.5	-4.8	-5.2	2.0	-3.5	0.1	1.9	0.8	-0.8	0.5	2.0
Real GDP growth (qoq, sa, annualized)	...	...	0.2	0.8	4.4	2.0	...	2.0	2.0	2.0	2.0	...	...
Domestic Demand Growth (ex-inventory, yoy)	9.8	7.2	-1.4	-1.9	-1.8	-0.3	-1.0	2.9	2.8	2.9	3.2	2.9	4.4
Real Investment Growth (yoy)	14.8	15.4	-7.6	-19.1	-17.5	-15.2	-15.6	1.7	2.0	2.1	2.1	1.9	11.3
Real Consumption Growth (yoy)	8.8	6.6	2.2	3.9	3.0	4.3	3.4	3.1	3.0	3.1	3.3	3.1	5.6
Real Private Consumption Growth (yoy)	9.0	6.5	1.5	3.5	3.1	4.8	3.3	3.5	3.4	3.5	3.7	3.5	4.9
Real Government Consumption (yoy)	7.6	6.9	6.8	5.8	2.8	1.8	4.0	0.9	0.9	1.0	1.2	1.0	4.8
Real Export Growth (yoy)	9.1	1.2	-11.8	-8.0	-6.0	-4.0	-9.0	7.9	7.7	7.1	9.3	8.0	8.4
Real Import Growth (yoy)	20.5	14.1	-24.2	-28.0	-24.0	-20.0	-26.0	15.1	13.9	13.9	17.1	15.0	16.2
PRICES													
Official Consumer Price Inflation, CER (yoy, eop)	8.5	7.2	6.3	5.3	5.9	6.7	6.7	8.9	9.7	10.2	10.5	10.5	9.5
CPI - Citi Estimate (yoy, eop)	20.7	16.3	15.2	12.7	13.6	16.8	16.8	17.8	17.9	16.6	17.3	17.3	10.0
Official Consumer Price Inflation, CER (qoq, eop)	...	...	1.6	1.1	1.9	1.9	...	3.7	1.8	2.4	2.3	...	...
Wages (% change yoy, nominal)	20.6	25.3	25.9	24.4	20.5	18.0	19.9	15.6	16.0	18.5	18.4	17.1	15.4
Exchange Rate (local currency to USD, eop)	3.15	3.45	3.71	3.80	3.85	3.95	3.95	4.05	4.08	4.30	4.60	4.60	5.06
Exchange Rate (% change yoy, + dep.)	2.7	9.6	17.1	25.6	22.8	14.4	14.4	4.0	4.1	4.2	4.5	16.5	10.0
Bilateral Real Exchange Rate (% change yoy, + dep.)	-12.5	-1.8	3.6	-0.4	-1.8	-1.2	-1.2	9.1	7.5	11.7	16.5	1.7	2.5
MONETARY SECTOR													
Monetary Base growth (yoy)	28.3	19.5	4.7	1.8	3.4	5.0	5.0	8.7	8.2	8.6	6.5	10.0	13.0
Broad Money growth (yoy)	24.4	19.7	3.7	2.7	0.0	2.0	1.7	4.0	3.0	2.0	3.0	2.2	12.1
Credit Growth (yoy)	13.0	16.4	8.7	15.1	6.1	10.0	9.3	8.7	3.0	4.9	3.7	3.7	8.2
Central Bank Rate (eop)	...	...	...	...	...	...	...	...	...	...	...	...	...
BADLAR Private Banks Rate (eop)	13.50	19.75	12.38	12.94	12.00	12.50	12.50	11.30	9.30	11.50	11.50	11.50	14.00
Long-term Rate (eop)	17.00	50.00	40.70	41.30	41.90	42.70	42.70	37.90	22.90	7.90	6.90	6.90	15.75
EXTERNAL SECTOR													
Current Account Balance (% of GDP)	2.7	2.2	2.1	5.5	2.1	0.6	2.7	1.7	4.4	1.7	0.5	2.2	0.5
Current Account Balance (in US\$ bn)	7.1	7.1	1.5	4.6	1.7	0.5	8.4	1.0	2.4	0.7	3.0	7.1	1.5
Trade Balance (in US\$ bn)	11.1	12.8	3.6	6.3	2.7	1.1	13.7	2.5	4.0	2.3	4.7	13.4	10.9
Exports, f.o.b. (in US\$ bn)	55.8	70.1	11.9	15.4	13.1	12.3	52.7	11.8	14.5	15.2	17.6	59.2	68.0
Soybean and its by-products	13.6	19.4	2.0	2.9	3.6	2.0	10.5	2.1	3.7	4.2	5.0	15.0	18.0
Other	42.2	50.7	9.9	12.5	9.5	10.3	42.2	9.8	10.8	10.9	12.6	44.2	50.0
Imports, c.i.f. (US\$ bn)	44.7	57.3	8.3	9.1	10.4	11.2	39.0	9.4	10.5	13.0	12.9	45.7	57.2
Services (net)	-0.5	1.8	0.3	0.2	0.2	0.6	1.4	-0.1	0.6	1.0	-0.2	1.4	1.4
Current Transfers (net)	0.3	0.1	0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.3	0.4
Foreign Direct Investment (in US\$ bn)	6.5	8.9	0.4	0.3	0.3	0.1	1.0	0.1	0.3	0.3	0.5	1.3	3.3
Terms of Trade (% change yoy, + improvement)	3.8	13.3	-11.1	-6.3	-5.9	-4.4	-10.9	0.7	0.4	-0.4	1.4	2.0	1.9
International Reserves (in US\$ bn)	46.2	46.4	46.5	46.0	44.2	44.4	44.4	44.7	45.1	45.4	45.7	45.7	46.7
Import Cover (in months, imports of goods & services)	10.0	12.6	9.1	9.2	9.6	9.5	9.5	9.2	9.3	9.4	9.5	10.6	8.5
PUBLIC SECTOR													
Central Gov. Primary Budget Balance (% of GDP)	2.2	3.0	1.7	1.1	0.6	0.7	0.7	0.7	0.5	0.2	0.6	0.7	0.7
Central Gov. Budget Balance (% of GDP)	0.2	1.3	0.4	-1.1	-1.2	-3.3	-1.4	0.3	-1.0	-1.0	-2.9	-0.7	-1.1
Consolidated Primary Balance (% of GDP)	2.6	3.0	0.3	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.3	0.3
Consolidated Public Sector Balance (% of GDP)	0.2	0.9	0.6	-1.9	-2.1	-5.7	-2.3	0.5	-1.6	-1.7	-5.0	-1.5	-1.0
Central Gov. Revenues (% of GDP)	26.0	27.6	21.9	19.8	27.1	25.4	25.9	25.6	24.2	25.3	24.5	24.9	25.1
DEBT INDICATORS													
Gross External Debt (% of GDP)	45.9	39.9	41.7	41.7	41.8	42.2	41.8	40.7	40.9	41.1	41.3	41.3	43.8
Public (% of GDP)	26.0	20.0	21.2	21.0	20.0	19.3	20.0	20.0	20.0	20.0	20.0	20.0	21.0
Private (% of GDP)	19.9	20.0	20.4	20.7	21.8	22.9	21.8	20.7	20.9	21.1	21.3	21.3	22.8
Gross Government Debt (% of GDP)	66.9	53.9	62.0	60.6	59.1	52.2	58.5	58.9	58.9	58.8	58.8	57.4	57.0
Domestic (% of GDP)	40.9	33.9	40.8	39.5	39.1	32.9	38.5	38.9	38.9	38.8	38.8	37.4	36.0
External (% of GDP)	26.0	20.0	21.2	21.0	20.0	19.3	20.0	20.0	20.0	20.0	20.0	20.0	21.0
Total External Debt Amortization (US \$bn)	31.6	34.0	8.8	9.6	11.3	0.6	30.4	1.7	1.9	2.6	1.1	7.3	8.5
Total External Debt Interest Payments (US \$bn)	5.7	5.7	1.6	1.5	1.6	1.5	6.2	1.5	1.5	1.6	1.6	6.2	6.2
Total External Debt Service (% exports of goods & svcs)	56.4	46.7	15.7	17.0	19.6	3.3	55.6	4.4	4.7	5.7	3.7	18.6	18.9
Public-external Debt Service (% exports of goods & svcs)	...	...	...	...	...	...	...	...	...	...	...	...	...
Public-external Debt Service (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	...
SAVINGS - INVESTMENT BALANCE													
Savings (% of GDP)	25.3	25.3	21.2	23.4	21.9	19.3	21.6	18.7	21.4	21.1	24.2	21.3	20.9
Investment (% of GDP)	22.5	23.1	19.1	18.0	19.8	18.6	18.9	17.3	18.4	20.1	20.4	19.1	20.4

Source: Citi Investment Research and Analysis

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- **Summary view** — We maintain our expectation of a pause in policy rates until year-end 2010, but accept that the risk of a faster normalization in monetary policy has increased. Our base-case scenario relies on a gradual recovery of activity, slowly closing the output gap toward the end of 2010. Faster growth would imply sooner-than-expected tightening, probably in 2Q 2010. Key macro variables should remain supportive of our view, with inflation decelerating and the strong balance of payments keeping the BRL strong. We have revised our year-end USD/BRL target to 1.75 from 1.80.
- **Things to watch** — We think the strength of activity will be the key determinant of the next steps of monetary policy. Data regarding industrial production, retail sales, and the labor market should be watched closely for confirmation of a sustained pickup in consumption. Regarding inflation, although a hump in September is likely mostly due to food prices, we expect the trend will be a benign one as core prices continue to recede and service inflation abates.
- **Strategy** — We still like the PreDIJan11 yield receiver, as the curve is pricing in too many hikes in 2010, in our view. On the FX front, on August 10, we closed our trade recommendation to stay short USD/BRL 12-month NDF, for a 23% profit.

Surprises in activity increase the risk of earlier hikes

Our forecasts show that activity will continue to grow in the coming quarters, but at a more moderate pace. 2Q GDP surpassed expectations with 1.9% quarter-over-quarter growth (7.8% annualized). Our Brazilian Leading Indicator (BLI) forecasts 1.5% quarter-over-quarter growth in 3Q, a deceleration from the 2Q result. The end of the inventories adjustment should lend some support to the industrial production recovery. However, consumption (retail sales) has increased at a more gradual pace than the latest industrial growth in July, suggesting some accommodation at the margin.

Likely price hikes in September should be temporary and do not alter our benign scenario on inflation. The 12-month IGP-M has decelerated from 15% in July 2008 to 0.7% deflation as of August 2009. We believe this turnaround has not been yet fully reflected in consumer prices, and thus it will likely exert additional downward pressure over the coming months. Also, the likely September inflation hump should be fuelled by food prices, and over the coming months, we should see such prices receding. Finally, services and nontradable inflation in general are not likely to go up, and we expect the first half of the year's inertia to subside, opening room for lower inflation prints.

We expect the Selic rate to remain stable at 8.75% through year-end 2010. According to Copom's base-case scenario, the current slack in capacity utilization should not be reversed quickly as the economy regains traction. This, together with an expected deceleration of inflation in the coming quarters, supports our view. Yet, we think there is a 30% probability that activity could surprise on the upside in the coming quarters, thus bringing forward the tightening cycle into 2Q 2010.

Fiscal and external accounts still in opposite directions

Despite the BRL's strength, we have increased our 2009 trade surplus forecast to US\$28 billion from US\$25 billion before. Our forecast remains above the US\$23 billion surplus expected by the consensus of the central bank's September 21 survey. We increased our 2009 exports forecast to US\$152 billion (from US\$149 billion), and kept our 2009 imports forecast at US\$124 billion. Despite the higher trade surplus, we have kept our current account forecast at -US\$15 billion (1.1% of GDP) for 2009. We expect a slightly sharper deficit in the profits-and-dividends account, as well as in international travels. These items offset the improvements in the trade balance, thus leaving our current account forecast for 2009 unchanged.

We now expect the 2009 primary surplus to be 1.5% of GDP and the net debt/GDP ratio to go up to 43.3% based on an outlook of lower revenues and continued spending. Our forecasts assume that state-owned companies will maintain their current contribution of close to zero after Petrobras' contribution was excluded from the primary surplus. Furthermore, we assume that regional governments will not be able to maintain their current primary surplus at close to 1% of GDP, and will more likely post a more modest 0.7% surplus. Therefore, we expect a higher net debt/GDP ratio of 43.3% of GDP from 42.8%, previously. Our forecast is also higher than the current market consensus of 42.75%.

E&P regulatory framework to garner attention in Congress

Congress is likely to focus on the new E&P regulatory framework. The government submitted to Congress the new legislation for the pre-salt oil basin. The main issues are the following: (1) introduction of production-sharing system for pre-salt; (2) creation of a non-operating state-owned company; (3) creation of a social fund; and (4) Petrobras' capital increase. Now, Congress will discuss the proposal, and we assign a 45% probability of approval until year-end 2010. We expect that disagreements about the new royalties sharing could delay the final approval. Thus, there is high risk that this vote will be concluded only by the next administration, which could then try and make some amendments.

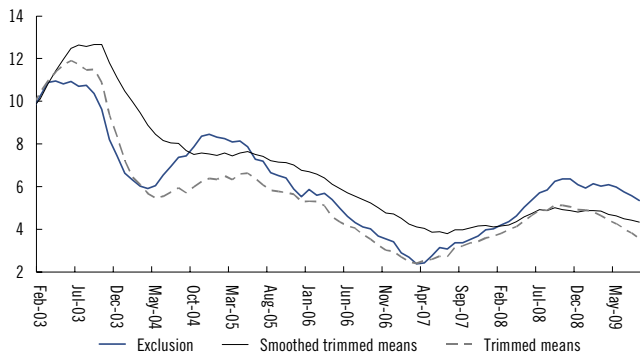
The government intends to tax savings accounts in 2010. The intention to tax plain-vanilla savings accounts ("poupança") was announced four months ago, but the actual proposal should be sent to Congress in the coming weeks. The end of exemption in these accounts is aimed at avoiding large transfers of investments from fixed income funds into "poupança," given that the Selic rate is now at 8.75%.

We see further room for yield receivers

We continue recommend receiving PreDIJan11. Given our base-case scenario of stable interest rates up to year-end 2010, we maintain a strategy of receiving PreDIJan11, which still has a premium of about 130bp. Also, we took profits on our short USD/BRL 12-month NDF recommendation opened on April 9, 2009, for a total profit of 23.04%.

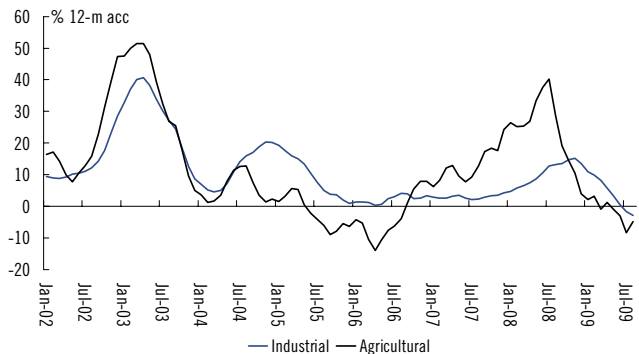
Selected Charts – Brazil

Figure 29. Core inflation shows convergence to a lower path



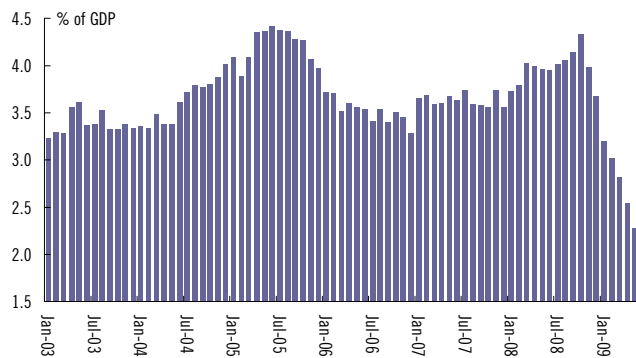
Sources: Citi Investment Research and Analysis; IBGE

Figure 30. Wholesale prices post significant deflation



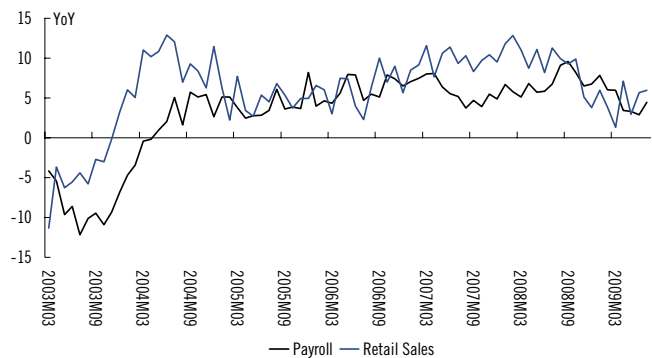
Sources: Citi Investment Research and Analysis; IBGE

Figure 31. Primary surplus remains on a downward trend



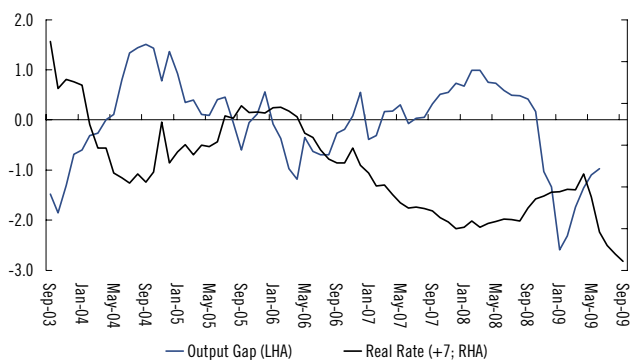
Sources: Citi Investment Research and Analysis; Central Bank of Brazil

Figure 32. Labor market shows signs of improvement



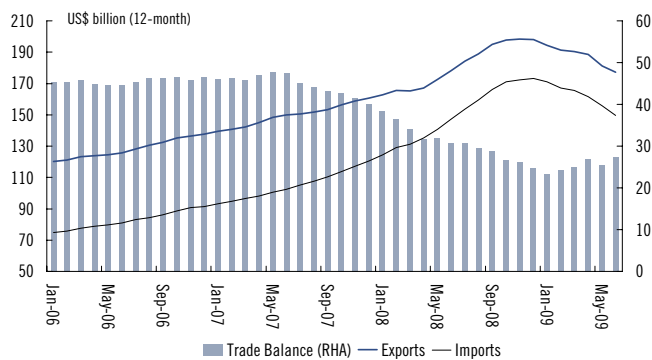
Sources: Citi Investment Research and Analysis; IBGE

Figure 33. Lower real interest rates contribute to smoother activity downturn



Sources: Citi Investment Research and Analysis; IBGE

Figure 34. Imports declined more than exports



Sources: Citi Investment Research and Analysis; MDIC

Macroeconomic Indicators – Brazil

	2007	2008	2009					2010					2011
	Act.	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	1376.8	1584.7	293.7	361.2	388.4	404.0	1508.7	374.8	409.1	428.6	441.7	1855.1	2005.4
Nominal GDP (Real Bn)	2597.6	2890.6	704.9	758.6	776.8	808.0	3045.8	749.6	797.7	814.3	839.2	3339.2	3659.9
GDP per capita (US\$)	7269	8251	1511	1858	1988	2057	7747	1908	2083	2182	2249	9413	10055
Unemployment Rate (%)	9.3	7.9	8.6	8.6	8.1	7.5	8.2	8.3	8.2	7.9	7.4	8.0	7.9
Population (millions)	189.4	192.1	194.4	194.4	195.4	196.4	194.7	196.4	196.4	196.4	196.4	197.1	199.4
ECONOMIC ACTIVITY													
Real GDP growth (yoy)	5.7	5.1	-1.8	-1.2	-1.0	3.9	0.0	6.3	5.2	4.8	3.9	5.0	4.0
Real GDP growth (qoq, sa, annualized)	...	...	-3.8	7.8	6.3	6.1	...	4.2	4.0	5.0	2.2	...	...
Domestic Demand Growth (ex-inventory, yoy)	7.2	7.0	-1.2	-0.9	-2.0	3.4	0.0	6.1	5.8	5.7	4.9	5.6	5.0
Real Investment Growth (yoy)	14.1	17.5	-17.2	-19.9	-20.5	-7.5	-16.3	9.0	12.0	12.0	10.0	10.8	9.8
Real Consumption Growth (yoy)	5.9	5.4	1.7	3.0	2.3	5.6	3.1	5.4	4.6	4.5	3.9	4.6	4.0
Real Private Consumption Growth (yoy)	6.3	5.4	1.3	3.2	2.6	6.5	3.4	6.5	5.0	4.7	3.9	5.0	4.0
Real Government Consumption (yoy)	4.7	5.6	2.7	2.2	1.2	3.0	2.3	2.0	3.3	4.0	3.9	3.3	3.9
Real Export Growth (yoy)	6.7	-0.6	-15.2	-11.4	-7.2	-1.0	-8.6	17.0	6.0	4.8	4.0	7.4	4.4
Real Import Growth (yoy)	20.8	18.5	-16.0	-16.5	-13.5	-6.0	-12.9	15.0	12.0	13.0	13.0	13.2	13.0
PRICES													
Consumer Price Inflation (yoy, eop)	4.5	5.9	5.6	4.8	4.5	4.3	4.3	4.2	3.6	4.0	4.2	4.2	4.0
Core Inflation (yoy, eop)	3.9	6.1	6.0	5.8	4.9	4.7	4.7	4.4	3.6	4.0	4.2	4.2	4.0
Consumer Price Inflation (qoq, eop)	...	...	1.2	1.3	0.7	1.0	...	1.2	0.7	1.1	1.2	...	...
Wages (% change yoy, nominal)	7.0	11.5	12.0	11.8	11.3	10.9	10.9	10.8	10.6	10.4	10.2	10.2	9.5
Exchange Rate (local currency to USD, eop)	1.77	2.34	2.32	1.96	1.85	1.75	1.75	1.80	1.80	1.80	1.80	1.80	1.84
Exchange Rate (% change yoy, + dep.)	-10.5	-5.8	35.0	24.4	9.7	-20.5	9.5	1.8	1.8	1.8	1.8	-10.5	1.5
Bilateral Real Exchange Rate (% change yoy, + dep.)	-17.5	24.7	24.8	15.6	-9.2	-26.6	-26.6	-5.5	-12.9	-15.4	-10.5	0.0	-1.7
MONETARY SECTOR													
Monetary Base growth (yoy)	21.0	15.2	15.0	13.0	14.0	15.0	10.0	16.0	17.0	18.0	19.0	17.5	18.0
Broad Money growth (yoy)	18.0	18.0	18.0	17.0	16.0	15.0	16.5	16.0	17.0	18.0	19.0	17.5	18.0
Credit Growth (yoy)	32.6	31.9	26.9	21.9	17.0	12.0	12.0	14.0	16.0	18.0	20.0	17.0	18.0
Central Bank Rate (SELIC, eop)	11.25	13.75	11.25	9.25	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	10.50
Short-term Rate (eop)	11.12	13.48	11.69	9.40	8.75	8.75	8.75	8.35	9.19	9.19	8.35	8.35	10.50
Long-term Rate (eop)	12.95	12.27	10.65	11.04	11.16	11.00	11.00	10.96	10.93	10.89	10.85	10.85	11.18
EXTERNAL SECTOR													
Current Account Balance (% of GDP)	0.1	-1.8	-1.7	-0.6	-0.5	-1.5	-1.0	-2.2	-1.3	-1.6	-1.9	-1.6	-1.9
Current Account Balance (in US\$ bn)	1.6	-28.2	-5.0	-2.1	-2.0	-6.1	-15.2	-8.3	-5.4	-6.8	-8.5	-29.0	-37.7
Trade Balance (in US\$ bn)	40.1	24.8	3.0	11.0	8.8	5.2	28.0	3.2	7.4	6.5	5.0	22.0	28.6
Exports, f.o.b. (in US\$ bn)	160.6	197.9	31.2	38.8	42.3	39.8	152.1	36.2	43.8	49.7	46.9	176.7	229.7
Manufactured (in US\$ bn)	83.9	102.8	16.6	20.4	21.8	20.3	79.0	19.3	23.0	25.6	23.9	91.8	119.3
Other	76.8	95.2	14.6	18.4	20.5	19.5	73.0	16.9	20.8	24.1	23.0	84.9	110.3
Imports, c.i.f. (US\$ bn)	120.6	173.1	28.2	27.8	33.5	34.6	124.1	33.1	36.5	43.2	41.9	154.7	201.0
Services (net)	-13.2	-16.7	-2.9	-5.2	-4.7	-4.7	-17.5	-4.2	-5.3	-5.5	-5.3	-20.3	-26.4
Current Transfers (net)	4.0	4.2	0.8	0.7	0.9	0.8	3.3	0.9	0.9	1.0	1.0	3.7	4.9
Foreign Direct Investment (in US\$ bn)	34.6	45.1	5.3	7.3	6.2	6.2	25.2	7.5	7.5	7.5	7.5	30.0	39.0
Terms of Trade (% change yoy, + improvement)	2.2	3.4	-4.4	-2.2	-6.9	-7.5	-5.2	-0.8	-3.6	-3.9	-1.5	-2.5	0.0
International Reserves (in US\$ bn)	180.3	206.8	200.0	205.0	212.0	220.0	220.0	220.0	220.0	220.0	220.0	220.0	250.0
Import Cover (in months, imports of goods & services)	13.7	11.3	11.3	12.6	14.5	15.8	15.8	15.2	14.4	13.5	12.9	12.9	16.8
PUBLIC SECTOR													
Central Gov. Primary Budget Balance (% of GDP)	2.3	2.8	1.7	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	2.0
Central Gov. Budget Balance (% of GDP)	-2.3	-1.5	-3.6	-3.4	-3.7	-3.4	-2.6	-3.0	-2.8	-2.6	-2.6	-2.6	-2.0
Consolidated Primary Balance (% of GDP)	4.0	4.1	3.3	2.0	1.6	1.5	1.5	1.4	1.4	1.6	2.3	2.3	2.3
Consolidated Public Sector Balance (% of GDP)	-2.3	-1.8	-2.1	-2.4	-3.1	-2.9	-2.9	-2.7	-2.5	-2.1	-1.4	-1.4	-1.4
Central Gov. Revenues (% of GDP)	19.7	20.2	20.0	19.7	19.5	19.4	19.4	19.4	19.4	19.4	19.4	19.4	20.0
DEBT INDICATORS													
Gross External Debt (% of GDP)	14.1	12.5	12.9	13.7	13.7	13.0	12.5	12.1	11.6	11.3	11.0	9.8	9.5
Public (% of GDP)	6.2	5.3	5.6	5.9	5.8	5.5	5.3	5.1	4.8	4.6	4.5	4.0	3.8
Private (% of GDP)	7.8	7.2	7.3	7.8	7.8	7.5	7.2	7.1	6.9	6.7	6.5	5.8	5.6
Gross Government Debt (% of GDP)	62.6	64.3	65.1	64.3	67.0	67.0	67.0	67.0	67.0	67.0	67.0	60.5	58.4
Domestic (% of GDP)	52.1	59.0	57.2	58.4	61.2	61.5	61.7	61.9	62.2	62.4	62.5	56.5	54.6
External (% of GDP)	4.3	5.3	5.0	5.9	5.8	5.5	5.3	5.1	4.8	4.6	4.5	4.0	3.8
Total External Debt Amortization (US \$bn)	39.7	22.4	4.9	7.3	5.1	7.4	24.7	5.3	6.8	5.3	5.3	25.0	24.2
Total External Debt Interest Payments (US \$bn)	-7.3	-7.2	-2.6	-1.5	-1.5	-1.5	-7.2	-1.9	-1.8	-1.9	-1.9	4.5	4.3
Total External Debt Service (% exports of goods & svcs)	17.6	6.6	6.1	12.8	7.4	12.6	9.8	7.8	10.0	5.9	6.2	14.3	13.8
Public-external Debt Service (% exports of goods & svcs)	10.9	5.3	7.8	5.3	4.9	5.4	5.8	7.7	5.9	5.8	5.0	5.0	4.8
Public-external Debt Service (% of GDP)	1.5	0.8	1.0	0.7	0.6	0.6	0.7	0.9	0.7	0.8	0.6	0.5	0.5
SAVINGS - INVESTMENT BALANCE													
Savings (% of GDP)	18.3	18.5	15.0	16.8	16.9	15.9	16.1	15.2	16.1	15.8	15.5	16.5	17.1
Investment (% of GDP)	18.1	20.3	16.7	17.4	17.4	17.4	17.1	17.4	17.4	17.4	17.4	18.1	20.3
<i>Memorandum Items</i>													
Net Public Debt (% of GDP)	42.7	36.0	37.7	43.2	44.0	44.1	44.1	37.7	43.2	44.0	44.1	41.5	41.5

Source: Citi Investment Research and Analysis

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- **Summary view** — Potential IMF Stand-By Agreements in El Salvador and the Dominican Republic are more than welcome, as they should open the door to market financing. Positive surprises in growth in Panama and the Dominican Republic show that these countries are avoiding a recession. In Costa Rica, we see some “green shoots” of recovery in exports going to the United States, while El Salvador’s stance is more worrisome.
- **Things to watch** — The market will be eagerly waiting for the announcement of fiscal targets agreed upon with the IMF by El Salvador and the Dominican Republic. We expect Moody’s to downgrade El Salvador’s credit rating soon — despite the potential agreement with the IMF — because of significant fiscal deterioration. The Funes administration may try to seek an IMF-endorsed fiscal reform.
- **Strategy** — Costa Rica and Panama are our preferred credits in the region. We are bearish on El Salvador, but acknowledge that the scope of a potential reform could work in favor of asset prices. We see little value in Dominican *Letras*, as we expect inflation to rebound.

“Precautionary” Stand-By Agreements turn into “necessary”

We expect the IMF to sign Stand-By Agreements with El Salvador and the Dominican Republic. The IMF approved a precautionary Stand-By Agreement with El Salvador on January 16, 2009. However, the severity of both the global and local crisis has made the fiscal targets agreed upon on that date unrealistic. Consequently, the El Salvadoran government is renegotiating the fiscal targets to maintain the agreement. The case of the Dominican Republic is slightly different, as it did not renew the agreement that expired in January 2008. That country has a post-program monitoring agreement, but it is not reassuring enough for the investor community, in our view.

We think that both countries need an IMF Stand-By Agreement to gain access to international capital markets. El Salvadoran statistics are not detailed enough to compute a reasonable estimate of the country’s needs to meet amortization and interest payments in 2009 and 2010. However, the government seems to be in a rush to sign this agreement. We think that a new agreement will likely require El Salvador to reduce its fiscal deficit to 3–3.5% of GDP by 2011 from an expected 5.8% of GDP level in 2009. In the Dominican Republic, the agreement with the IMF would open the door for multilateral financing of about US\$1.1 billion in the remainder of 2009 and 2010. We estimate that this is not enough to cover all the financing needs and that the government would seek US\$1 billion in financing from international capital markets sometime in 2010.

There are two idiosyncratic issues in these countries’ agreements with the IMF. It is worth remembering that El Salvador decided to reallocate multilateral funds — that were originally intended to meet the 2011 Eurobond amortizations — to finance current expenditures. We would expect the agreement to acknowledge the 2011 issue and to announce targets that would allow the country to meet these amortizations. In that vein, it is likely that the

IMF would require the country to undertake a fiscal reform. In the Dominican Republic, the key issue is how strict the IMF is going to be with the country's electricity problem. During the first half of 2009, the country's subsidy to electricity amounted to US\$187 million. Our longstanding view has been that subsidies to electricity are an impediment to the improvement of public finances.

Panama does not have an agreement with the IMF, but we think it is not entirely necessary to have one. The country seems to have pre-financed next year's borrowing requirements. The government has suggested that it might seek some kind of agreement with the IMF.⁴ However, in light of our PSBR estimates (see *Emerging Markets Daily — Latin America Edition*, September 16, 2009),⁵ an agreement with the IMF is not entirely necessary. It would certainly be reassuring to the investor community, but it is not something that markets are eagerly waiting for. If the government were to miss its 2010 fiscal deficit target (2% of GDP), we think that additional financing requirements could easily be covered with local debt (*Letras* and *Notas*) and with loans from state-owned banks.

Panama and the Dominican Republic dodged a recession

Second-quarter GDP growth figures in the Dominican Republic and Panama suggest that these countries dodged a recession. Real GDP data usually comes out with a significant lag in the CAC region. The encouraging outcomes support our view that growth will stay within positive territory in these two countries during the remainder of 2009. In Panama, we find sources of growth both in the domestic and external sectors, while in the Dominican Republic, the growth story relies almost entirely on domestic demand.

We are less bearish on growth in Costa Rica and are worried about El Salvador. We now think that the recession would put 2009 real GDP growth at -2% rather than at -4% in Costa Rica. We see some "green shoots" in exports going to the United States. In El Salvador, we think that the very weak fiscal stance could prevent the country from benefiting from the potential recovery in US growth.

Key issues for CAC asset prices

In El Salvador, we think that an agreement with the IMF would not prevent Moody's from downgrading the country's credit rating. A downgrade by Moody's would eliminate the country's investment-grade status. Other rating agencies never granted the country an investment-grade rating, and we cannot discard further downgrades by either S&P or Fitch. The government could try to seek some kind of fiscal reform with the sponsorship of the IMF. At this time, the scope of a potential fiscal reform is uncertain. The depth of the fiscal reform could become a driver of asset prices.

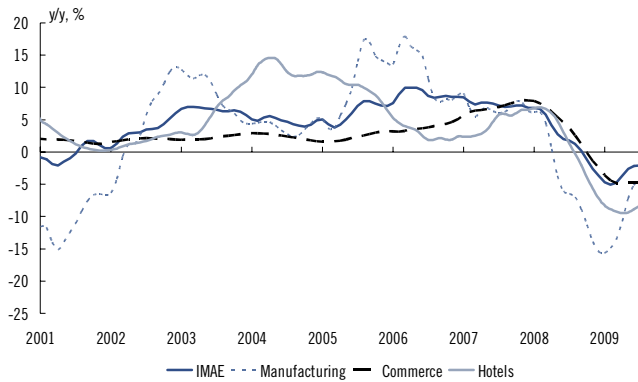
In the Dominican Republic, we think that the potential IMF agreement has been almost fully priced in, and in the local markets, we see little value in *Letras*. The impressive rally in external debt acknowledged the importance of having the IMF around. Attention could shift to when the central bank will resume issuing *Notas* (long-term bonds), as we do not expect external debt issuance until 2010. In the short end of the curve, we find current yields (4.8–5.3%) unappealing, as we expect inflation to rebound to 6% by year-end and to move to 7% by year-end 2010. Year-over-year inflation is currently in negative territory.

⁴ See the August 11, 2009 report in *La Prensa* newspaper.

⁵ <https://www.citigroupgeo.com/pdf/SLA39876.pdf>

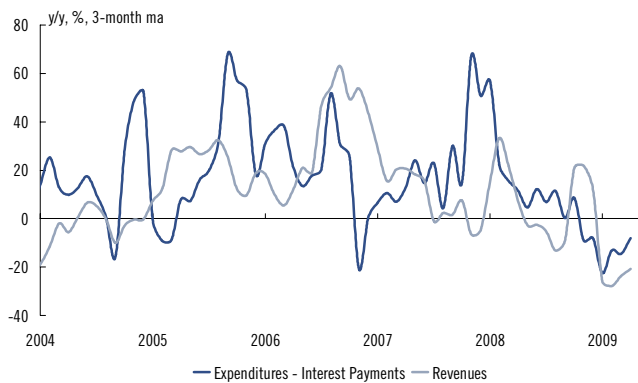
Country Charts – CAC

Figure 35. Costa Rica still deep in a recession



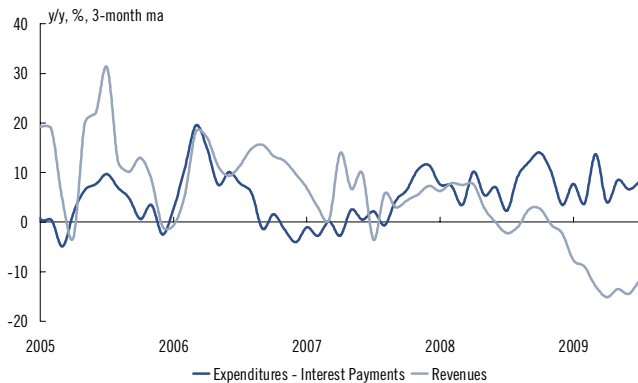
Sources: BCCR and Citi Investment Research and Analysis

Figure 37. Cuts in expenditures are insufficient in the Dominican Republic



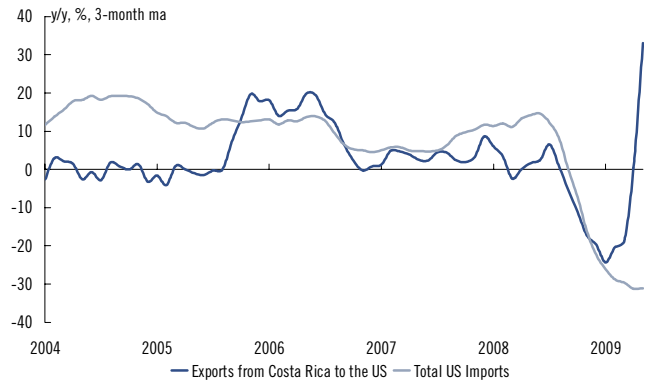
Sources: BCRD and Citi Investment Research and Analysis

Figure 39. Mounting fiscal pressures in El Salvador



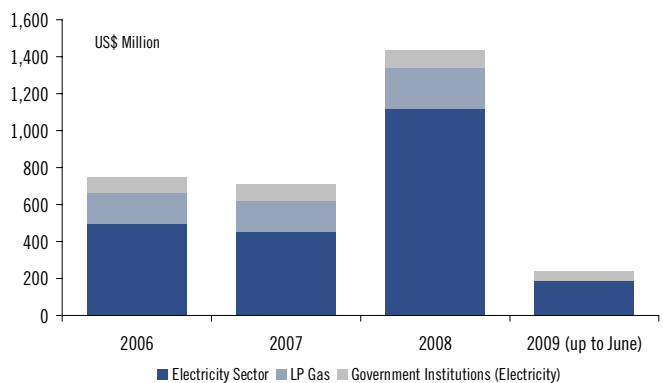
Sources: Reserve Bank of El Salvador and Citi Investment Research and Analysis

Figure 36. “Green shoots” in Costa Rican exports going to the United States



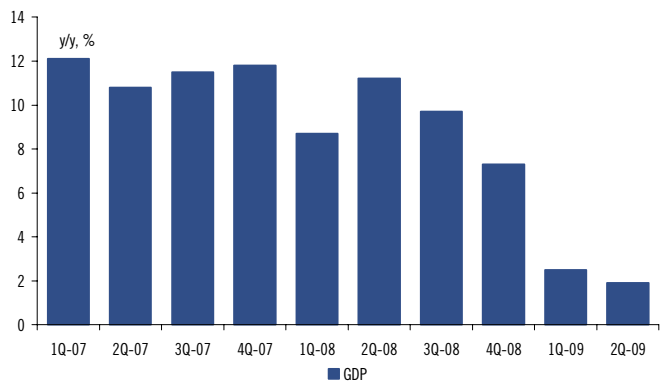
Sources: US Census Bureau and Citi Investment Research and Analysis

Figure 38. Subsidies to electricity are a burden in the Dominican Republic



Sources: Ministry of Finance and Citi Investment Research and Analysis

Figure 40. Growth remains in positive territory in Panama



Sources: Contraloría and Citi Investment Research and Analysis

Macroeconomic Indicators – CAC

	Costa Rica			Dominican Republic			El Salvador			Panama		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Nominal GDP (US\$ bn)	28.8	29.7	31.8	53.0	55.0	57.2	21.7	22.5	24.1	24.1	26.0	28.3
Nominal GDP (local currency Bn)	16670	18308	20221	1839	2064	2282	21.7	27.6	29.8	24.1	26.0	28.3
GDP per capita (US\$)	7681	7160	7800	5120	5400	5750	3560	3860	4110	6962	7385	7646
Unemployment Rate (%)	5.8	6.0	5.5	17.0	16.4	16.0	7.3	7.0	6.5	6.7	6.5	6.0
Population (millions)	4.7	4.7	4.8	9.6	9.8	9.9	7.1	7.1	7.2	3.5	3.5	3.7
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	-2.0	1.5	4.0	1.5	3.5	4.0	-3.5	1.5	2.5	1.5	4.0	4.5
Real GDP growth (qoq, sa, annualized)	...	...	...	...	...	...	...	...	...	...	...	...
Domestic Demand Growth (ex-inventory, yoy)	-2.0	1.7	3.2	-0.4	4.5	4.8	-2.5	2.1	3.7	2.5	4.5	5.0
Real Investment Growth (yoy)	-2.0	5.0	3.9	-0.2	5.5	5.5	-3.0	2.0	8.2	3.0	8.0	8.5
Real Consumption Growth (yoy)	-1.0	3.2	2.9	-0.5	4.4	4.6	-2.0	3.8	2.9	-1.5	3.3	4.0
Real Private Consumption Growth (yoy)	-1.5	2.5	3.1	-1.0	4.1	4.7	-4.0	2.5	3.0	-2.0	3.0	3.5
Real Government Consumption (yoy)	2.0	3.0	2.2	4.0	8.0	4.0	1.0	3.0	2.0	2.0	4.0	4.8
Real Export Growth (yoy)	-3.0	6.0	6.2	-4.0	2.0	3.0	-2.0	3.6	5.4	-3.0	5.1	5.0
Real Import Growth (yoy)	-1.0	3.4	4.9	-5.0	2.9	3.8	-1.0	0.6	4.8	-4.0	5.5	5.5
PRICES												
Consumer Price Inflation (yoy, eop)	6.5	7.0	6.0	6.0	7.0	6.0	1.0	3.0	4.0	4.0	4.0	4.0
Core Inflation (yoy, eop)	5.5	5.7	5.9	...	...	...	...	...	...	...	...	...
Consumer Price Inflation (qoq, eop)	...	...	...	...	...	...	...	...	...	...	...	...
Wages (% change yoy, nominal)	14.0	10.0	...	...	...	...	...	...	...	...	...	...
Exchange Rate (local currency to USD, eop)	600	625	635	36.5	37.0	38.5	1.0	1.0	1.0	1.0	1.0	1.0
Exchange Rate (% change yoy, + dep.)	11.8	13.4	14.2	2.8	2.8	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral Real Exchange Rate (% change yoy, + dep.)	4.8	-1.7	-4.1	-0.8	-4.3	-1.8	1.2	-1.9	-3.8	-0.7	-2.9	-3.8
MONETARY SECTOR												
Monetary Base growth (yoy)	11.0	17.3	13.2	12.9	14.6	16.9	7.0	8.1	7.9	23.1	25.0	25.0
Broad Money growth (yoy)	9.1	12.6	11.0	15.5	16.6	16.2	4.7	5.7	6.4	20.9	22.8	23.0
Credit Growth (yoy)	...	...	...	...	...	...	...	...	...	8.0	10.0	10.0
Central Bank Rate (SELIC, eop)	7.3	8.0	7.0	4.0	7.5	7.3	...	...	...	...	...	...
Short-term Rate (eop)	...	...	0.0	...	...	...	...	...	0.0	3.5	3.3	3.5
Long-term Rate (eop)	...	...	...	16.0	10.0	9.3	8.5	9.0	7.8	6.0	5.8	6.0
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	-4.4	-5.0	-4.5	-4.0	-5.7	-4.3	-4.6	-5.7	-7.2	-6.5	-8.6	-7.1
Current Account Balance (in US\$ bn)	-1.3	-2.5	-2.2	-2.1	-3.2	-2.4	-1.0	-1.3	-1.7	-1.6	-2.2	-2.0
Trade Balance (in US\$ bn)	-3.6	-4.2	-3.9	-6.8	-7.9	-7.5	-3.8	-4.3	-4.8	-3.8	-4.5	-4.4
Exports, f.o.b. (in US\$ bn)	8.1	11.6	12.7	5.3	9.2	9.0	3.7	4.9	6.0	9.4	9.6	10.0
Main Exports (in US\$ bn)	...	...	...	...	...	...	...	...	...	0.1	0.1	0.1
Other	...	...	...	...	...	...	...	...	...	9.3	9.6	9.9
Imports, c.i.f. (US\$ Bn)	11.7	15.8	16.6	12.0	17.0	16.5	7.5	9.2	10.8	13.2	14.1	14.4
Services (net)	2.1	2.1	2.3	3.2	3.4	3.6	-0.4	-0.3	-0.3	3.4	3.5	3.7
Current Transfers (net)	0.8	0.5	0.4	3.7	3.7	4.0	3.9	3.9	4.1	0.2	0.3	0.3
Foreign Direct Investment (in US\$ bn)	1.3	1.5	1.5	2.2	1.6	2.1	0.7	0.5	0.6	1.4	2.2	2.5
Terms of Trade (% change yoy, + improvement)	1.5	5.0	4.1	10.7	0.0	-3.0	7.5	0.5	3.9	3.6	-4.9	-2.0
International Reserves (in US\$ bn)	3.3	3.5	3.7	1.7	1.7	1.8	2.0	1.9	2.0	1.4	1.1	1.2
Import Cover (in months, imports of goods & services)	3.0	2.5	2.5	1.2	1.2	1.1	2.5	2.4	2.3	1.4	1.0	1.0
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	0.5	1.0	1.5	-1.5	-0.5	0.0	-3.0	-0.5	0.0	0.7	0.5	1.0
Central Gov. Budget Balance (% of GDP)	-3.0	-2.0	-1.5	-3.0	-3.0	-2.5	-5.8	-3.1	-2.5	-2.5	-2.0	-1.5
Consolidated Primary Balance (% of GDP)	...	...	...	...	...	...	-0.5	0.5	1.2	-1.5	0.5	1.0
Consolidated Public Sector Balance (% of GDP)	-3.0	-2.5	-2.0	-3.5	-3.0	-2.5	-5.8	-3.1	-2.5	-2.5	-2.0	-1.5
Central Gov. Revenues (% of GDP)	13.5	14.5	15.2	15.2	16.0	17.8	14.5	15.5	15.9	23.0	24.0	24.5
DEBT INDICATORS												
Gross External Debt (% of GDP)	24.6	22.1	20.6	24.9	26.0	27.0	42.2	39.3	41.6	45.0	44.5	45.2
Public (% of GDP)	10.9	9.4	8.3	20.0	19.4	20.2	29.0	29.0	23.0	35.7	36.0	36.5
Private (% of GDP)	4.8	4.5	4.3	1.8	1.7	1.5	13.2	10.3	10.0	9.3	8.5	8.7
Gross Government Debt (% of GDP)	41.7	38.9	37.6	41.0	40.4	40.8	50.0	50.5	50.8	44.0	43.0	43.8
Domestic (% of GDP)	30.8	29.5	29.3	21.0	21.0	20.6	21.0	21.5	27.8	8.3	7.0	7.3
External (% of GDP)	10.9	9.4	8.3	20.0	19.4	20.2	29.0	29.0	23.0	35.7	36.0	36.5
Total External Debt Amortization (US \$bn)	0.4	0.4	0.4	1.5	1.6	1.7	0.4	0.5	1.1	0.2	0.2	0.5
Total External Debt Interest Payments (US \$bn)	0.4	0.4	0.4	0.5	0.5	0.6	0.5	0.5	0.6	0.7	0.7	0.7
Total External Debt Service (% exports of goods & svcs)	5.4	5.0	4.8	12.5	13.0	12.7	8.5	9.2	14.8	6.2	6.4	6.5
Public-external Debt Service (% exports of goods & svcs)	5.4	5.0	4.8	12.5	13.0	12.7	8.5	9.2	14.8	6.2	6.4	6.5
Public-external Debt Service (% of GDP)	0.6	0.6	0.5	0.7	0.7	0.9	0.9	0.8	0.7	0.5	0.4	0.4
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	23.6	21.3	21.1	15.9	14.3	15.9	11.2	10.1	8.9	21.5	21.1	23.8
Investment (% of GDP)	28.0	26.3	25.6	19.9	20.0	20.2	15.8	15.8	16.1	28.0	29.7	30.9
Memorandum Items												
Workers' Remittances (US\$bn)	0.6	0.6	0.6	3.0	3.2	3.2	3.4	3.4	3.4	0.2	0.2	0.2

Note: All data for 2008 is estimated, and for 2009 and 2010 is projected.

Source: Citi Investment Research and Analysis

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- **Summary view** — The economy has been on a steady recovery path since July, but we do not expect the output gap to close until the second half of 2010. This should limit demand-side pressures on inflation for a while. However, food and energy price hikes are likely to push prices upwards earlier. Hence, we expect the central bank to start hiking rates at the end of the first quarter of 2010. This contrasts with the central bank's working assumption that the tightening would start in the second quarter.
- **Things to watch** — The possible abandoning of quantitative easing (QE) sooner than elsewhere should support the CLP, but depreciation pressures from the carry-trades will likely continue. We therefore expect the CLP to trade between USD/CLP530 and 550 in the coming weeks. Regarding politics, focus is on whether Marco Enriquez-Ominami (MEO) will overtake former president Eduardo Frei as the leftist candidate to make it to the second round.
- **Strategy** — We expect the market to start discussing whether the central bank will start unwinding QE in the October 13 meeting, which may make the peso approach the USD/CLP530 level going into the meeting. We also believe that the 2y/3y nominal FRAs are too high at 6.95%.

Activity already bottomed, inflation pressures remain low

Activity will likely increase at least 6% annualized per quarter during the second half. By July, activity had already grown three months in a row. This trend is likely to continue into 2010, when we expect activity to increase at least 4%. We expect the accumulation of inventories to be 0.6% of GDP during the second half this year, compared to -1.2% on average from the fourth quarter last year to the second quarter of 2009. Demand will likely post a gain about 6–7% in 2010, roughly the same rate that it dropped this year.

Inflation pressures remain low as there is slack in the economy. Despite the pickup of activity, the output gap remains at -2%, and we expect it to close only by the second quarter of 2010. With limited demand-side pressures, the only inflation pressures in the short term stem from higher food and energy prices. Our models point to a possible pickup in inflation by the second quarter next year, and it could approach the upper limit of the target band if the central bank does not start to unwind the extraordinary easing of early 2009.

The September MPR assumes first hike will be in 2Q 2010

The September Monetary Policy Report (MPR) was bullish compared to our expectations. The central bank (CB) laid out an optimistic outlook on activity, expecting growth to be between 4.5% and 5.5% next year (3.6% in the CB survey of expectations). It also put forth an inflation forecast (2.8%), higher than the market consensus (2.5%). Most importantly, the MPR used as a working assumption that the policy rate would behave as priced in the market: with the first hike in the second quarter (and more than 300bp worth of hikes next year). We expect the CB to exit from QE before that, and we still price the first hike late in the first quarter, given our outlook on inflation.

The imports recovery should drag down the trade surplus

Import growth is likely to gain strength despite the temporary weakening in August. Since May, imports have decelerated the pace of annual contraction, in line with our expectation. Despite that, they will likely remain in negative territory on an annual basis in October. We expect them to speed up in the last quarter of the year and continue that trend in 2010, as firms will continue to restock after the plunge in inventories since 4Q'08. Global conditions should support exports next year and we expect them to increase from US\$50 billion in 2009 to US\$55.6 billion in 2010. The strengthening of imports (we expect them to rise by 14% on a yearly basis to US\$50.2 in 2010) will likely outpace that of exports, thus driving down the trade surplus to US\$5.4 billion in 2010, 11% lower than the figure we forecast for this year. The weakening of the trade surplus will drag the current account surplus to US\$1.1 billion next year from our forecast of US\$2.3 billion in 2009.

The exchange rate is likely to stay range-bound

The possible abandoning of QE sooner than elsewhere in the region should support the CLP, but the depreciation pressures from the carry-trades will likely continue. We therefore continue to expect the CLP to trade between USD/CLP530 and 550 in the coming weeks. Next year, we expect the current account surplus to fall only to US\$1.1 billion, from US\$2.3 billion in 2009. Although the risks seem biased toward larger imports and, hence, toward a current account deficit, the small expected change in FX flows calls for a range-bound exchange rate, also.

Focus on politics will increase, in an unusual election

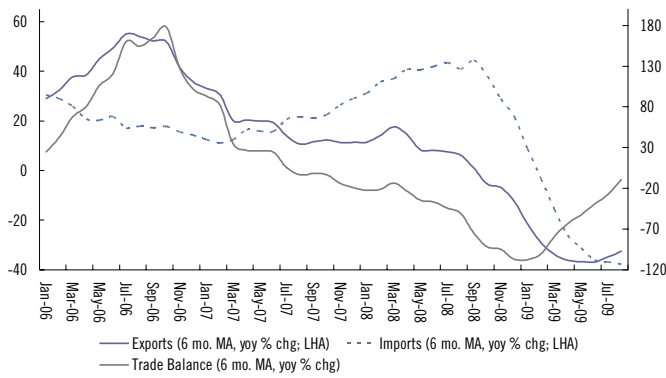
The campaign for the December presidential elections will heat up. Focus is on whether Marco Enriquez-Ominami (MEO) will overtake former president Eduardo Frei as the leftist candidate to make it to the second round. The recent increase in MEO's support to 17% of voting intentions is likely a testimony to the seismic shifts that the Chilean society is expecting after the recent emergence of a (more) solid middle class, among other factors. Beyond the reasons of his emergence, MEO stands at the left of the other candidates. Although macro stability does not seem to be in danger in the short run, the discussion at stake is one that can lead to different potential GDP growth alternatives, in our view.

Investment implications

We believe that the market will soon start discussing whether the central bank will begin to unwind QE in the October 13 meeting, which may make the peso approach the USD/CLP530 level. We also believe that the 2y/3y nominal FRAs are too high at 6.9532%. The curve is also pricing in somewhat more aggressive hikes compared to our forecasts in the first two years.

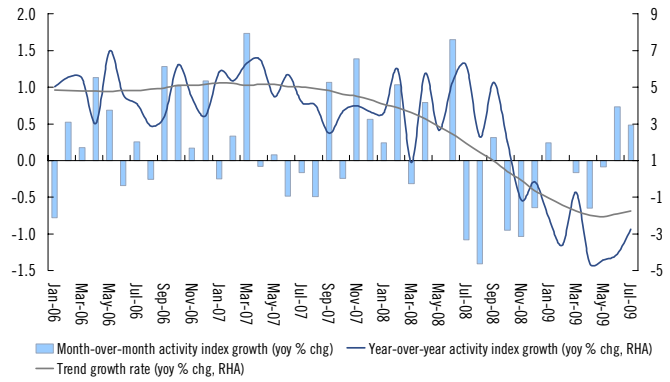
Country Charts – Chile

Figure 41. Imports still soft but will likely gain in coming months



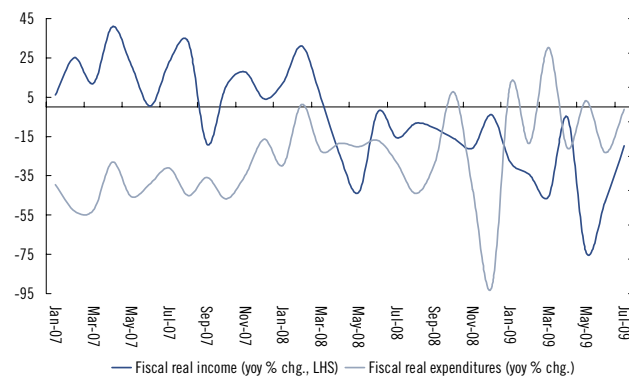
Source: Central Bank of Chile

Figure 42. Activity on a recovery path



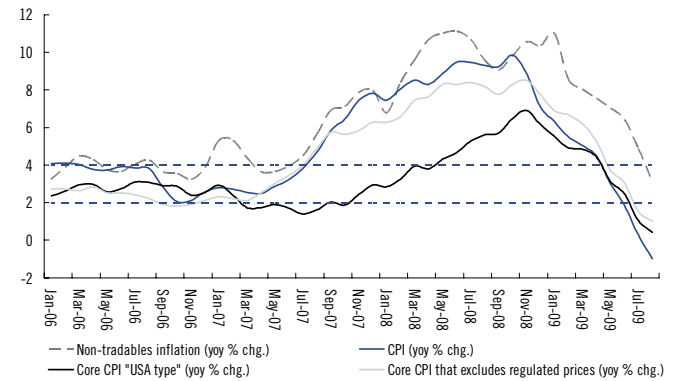
Source: Central Bank of Chile

Figure 43. Fiscal expenditures high, while revenues remain weak



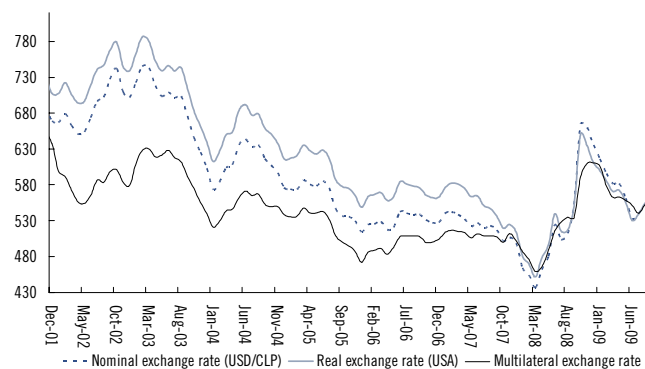
Source: National Budget Office (DIPRES)

Figure 44. Negative annual inflation for some more months



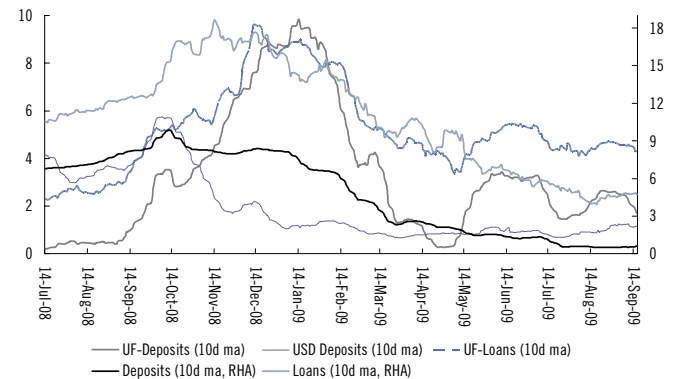
Sources: INE and Citi Investment Research and Analysis

Figure 45. The peso has been range-bound in the USD/CLP540–550 level



Sources: Central Bank of Chile, Reuters and Citi Investment Research and Analysis

Figure 46. Rates have stopped dropping



Source: Central Bank of Chile

Macroeconomic Indicators – Chile

	2007	2008	2009					2010					2011
	Act.	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	163.9	167.3	35.0	39.9	39.3	40.4	158.7	38.5075	43.8868	43.1689	44.4448	170.0	177.5
Nominal GDP (Pesos Bn)	85621	88535	20951	22297	21768	21776	89039	21372	24577	24606	25334	95842	102666
GDP per capita (US\$)	9873	9978	9827	9676	9525	9374	9374	9506	9639	9771	9904	9904	10195
Unemployment Rate (%)	7.1	7.8	9.2	10.7	10.1	9.0	9.7	8.9	9.2	9.3	9	9.3	7.5
Population (millions)	16.6	16.8	16.8	16.8	16.9	16.9	16.9	17.0	17.0	17.1	17.2	17.2	17.4
ECONOMIC ACTIVITY													
Real GDP growth (yoy)	4.9	3.2	-2.3	-4.5	-1.4	2.9	-1.4	3.5	4.2	3.1	3.0	4.0	4.0
Real GDP growth (qoq, sa, annualized)	...	...	-3.0	-1.4	8.0	8.0	...	6.0	6.0	4.0	4.0	...	...
Domestic Demand Growth (ex-inventory, yoy)	8.5	7.9	-2.5	-5.9	-6.0	-4.6	-4.7	4.3	4.8	3.9	4.9	4.5	5.7
Real Investment Growth (yoy)	9.9	17.0	-24.3	-35.2	-31.5	-16.6	-21.2	6.3	9.9	17.8	36.2	17.5	15.0
Real Consumption Growth (yoy)	7.4	4.2	0.1	-1.0	-2.2	-1.0	-0.9	3.3	3.3	2.9	2.7	3.0	6.0
Real Private Consumption Growth (yoy)	6.9	4.3	-1.1	-2.6	-4.0	-2.4	-2.3	3.0	3.1	2.7	2.5	2.8	6.5
Real Government Consumption (yoy)	8.0	4.0	7.2	7.8	6.8	6.5	7.0	4.4	4.1	3.9	3.6	4.0	4.0
Real Export Growth (yoy)	7.6	3.1	-3.2	-5.4	-3.2	-0.5	-3.0	5.2	6.3	2.4	4.2	4.5	5.0
Real Import Growth (yoy)	14.9	12.9	-14.9	-18.8	-13.8	-7.8	-13.5	7.0	10.3	9.7	12.9	10.0	12.0
PRICES													
Consumer Price Inflation (yoy, eop)	7.8	7.1	5.0	1.9	-1.6	-0.5	-0.5	0.9	1.8	2.6	2.8	2.8	3.0
Core Inflation (yoy, eop)	2.9	6.2	4.8	2.5	...	...	...	...	...	...	...	...	...
Consumer Price Inflation (qoq, eop)	...	...	-0.7	-0.1	-0.3	0.6	...	0.7	0.8	0.4	0.9	...	...
Wages (% change yoy, nominal)	7.3	8.5	7.3	6.7	5.8	5.3	6.5	5.1	4.8	4.5	4.1	4.8	5.4
Exchange Rate (local currency to USD, eop)	499	636	582	533	540	550	550	555	565	570	570	570	587
Exchange Rate (% change yoy, + dep.)	-5.4	27.3	33.2	1.6	-2.3	-13.5	-13.5	-4.7	6.0	5.6	3.6	3.6	3.0
Bilateral Real Exchange Rate (% change yoy, + dep.)	-9.7	23.6	-10.6	-7.9	5.5	4.9	-11.6	2.5	2.5	0.8	-0.3	3.3	2.5
MONETARY SECTOR													
Monetary Base growth (yoy)	20.5	10.3	11.2	11.8	1.9	4.0	5.0	6.0	9.5	11.6	4.9	8.0	13.1
Broad Money growth (yoy)	19.8	17.1	14.4	10.1	5.9	8.8	8.0	14.4	15.2	14.7	15.7	15.0	14.0
Credit Growth (yoy)	21.0	16.4	12.1	7.7	4.5	4.5	4.5	5.2	6.0	6.7	7.6	10.0	13.9
Central Bank Rate (CAMARA Overnight, eop)	6.00	8.25	2.25	0.75	0.50	0.50	0.50	1.00	1.75	2.75	3.50	3.50	5.50
Short-term Rate (eop)	...	...	...	...	...	...	...	...	...	...	...	...	...
Long-term Rate (eop)	6.20	5.95	4.50	4.90	4.50	4.80	4.80	4.95	5.15	5.45	5.75	5.75	5.75
EXTERNAL SECTOR													
Current Account Balance (% of GDP)	4.4	-2.1	0.8	2.8	1.7	-2.6	1.5	1.3	0.7	0.2	0.4	0.6	0.1
Current Account Balance (in US\$ bn)	7.2	-3.4	0.3	1.1	0.7	-1.1	2.3	0.5	0.3	0.1	0.2	1.1	0.2
Trade Balance (in US\$ bn)	20.5	4.6	1.8	2.6	1.2	-0.5	6.1	2.9	3.1	0.2	-0.8	5.4	5.9
Exports, f.o.b. (in US\$ bn)	67.7	66.5	11.4	12.4	13.0	12.2	50.0	13.6	15.0	13.4	13.6	55.6	61.2
Copper Exports	37.6	32.8	4.6	5.9	5.8	6.0	24.1	6.3	7.5	6.8	6.2	26.8	32.2
Other	30.1	33.6	6.8	6.4	7.2	6.2	25.9	7.4	7.5	6.4	7.5	28.8	29.0
Imports, c.i.f. (US\$ Bn)	47.2	61.9	9.6	9.8	11.7	12.7	44.0	10.7	12.0	13.1	14.4	50.2	55.3
Services (net)	-1.0	3.6	0.6	0.6	0.6	0.5	2.5	0.6	1.0	0.7	0.5	2.8	3.0
Current Transfers (net)	3.1	2.9	0.3	0.8	0.5	0.4	2.0	0.3	0.7	0.6	0.6	2.2	2.7
Foreign Direct Investment (in US\$ bn)	12.6	16.8	3.9	2.3	0.9	1.1	6.0	2.7	2.5	2.5	0.3	8.0	10.0
Terms of Trade (% change yoy, + improvement)	2.8	-13.7	-24.8	-10.7	-5.0	7.7	-8.5	1.6	0.4	0.2	-0.3	1.9	6.6
International Reserves (in US\$ bn)	16.9	23.2	23.4	23.4	23.4	23.4	23.4	23.5	23.5	23.6	23.7	23.7	24.7
Import Cover (in months, imports of goods & services)	3.6	3.8	5.2	5.2	5.2	5.2	5.2	4.6	4.6	4.6	4.7	4.7	4.4
PUBLIC SECTOR													
Central Gov. Primary Budget Balance (% of GDP)	8.8	5.2	-2.4	-7.1	-2.0	-2.0	-3.0	0.7	0.5	0.5	0.7	0.6	1.0
Central Gov. Budget Balance (% of GDP)	8.6	5.0	-2.9	-7.6	-3.0	-3.0	-3.5	0.0	0.0	0.0	0.0	0.0	0.0
Consolidated Primary Balance (% of GDP)	8.8	5.2	-2.4	-7.1	-2.0	-2.0	-3.0	0.7	0.5	0.5	0.7	0.6	1.0
Consolidated Public Sector Balance (% of GDP)	8.6	5.0	-2.9	-7.6	-3.0	-3.0	-3.5	0.0	0.0	0.0	0.0	0.0	0.0
Central Gov. Revenues (% of GDP)	26.6	25.7	20.9	16.3	20.1	20.6	20.6	21.1	22.6	22.6	22.1	22.1	23.5
DEBT INDICATORS													
Gross External Debt (% of GDP)	34.0	38.7	40.9	40.2	41.8	46.9	46.9	44.3	44.7	45.1	45.6	45.6	44.8
Public (% of GDP)	2.2	1.8	1.7	1.5	1.6	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.9
Private (% of GDP)	31.7	37.0	39.2	38.8	40.2	44.8	44.8	42.1	42.5	42.9	43.3	43.3	41.9
Gross Government Debt (% of GDP)	4.3	4.4	4.5	4.7	4.8	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Domestic (% of GDP)	2.1	2.6	2.8	3.2	3.2	2.8	2.8	2.7	2.7	2.6	2.6	2.6	2.0
External (% of GDP)	2.2	1.8	1.7	1.5	1.6	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.9
Total External Debt Amortization (US \$bn)	6.5	4.2	2.6	2.3	3.2	3.2	12.8	1.1	1.1	1.1	1.1	4.3	5.3
Total External Debt Interest Payments (US \$bn)	1.5	1.2	0.4	0.4	0.4	0.4	1.6	0.3	0.3	0.3	0.3	1.3	1.3
Total External Debt Service (% exports of goods & svcs)	11.8	8.1	7.2	7.2	7.2	7.2	28.9	2.5	2.5	2.5	2.5	10.1	10.7
Public-external Debt Service (% exports of goods & svcs)	1.3	1.7	0.3	0.3	0.3	0.3	1.2	0.3	0.3	0.3	0.3	1.1	1.0
Public-external Debt Service (% of GDP)	0.5	0.7	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.4
SAVINGS - INVESTMENT BALANCE													
Savings (% of GDP)	24.3	21.9	22.6	24.0	23.6	20.9	22.1	21.9	21.3	21.9	24.3	22.3	20.9
Investment (% of GDP)	19.9	24.0	21.9	21.1	21.9	23.5	20.7	20.6	20.6	21.6	23.9	21.7	20.8
Memorandum Items													
Copper Prices (US\$/lb)	322.9	315.5	155.4	211.5	264.1	268.5	224.9	155.4	211.5	264.1	268.5	245.3	245.3

Source: Citi Investment Research and Analysis

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- **Summary view** — Inflation and activity will likely bottom out in the upcoming months, but the risks to activity remain on the downside as uncertainty over trade with Venezuela looms. We have lowered our year-end 2009 inflation forecast to 3.5%, while raising our 2009 GDP growth forecast to flat. The central bank has officially announced the end of monetary policy easing and is already looking to anchor down inflation expectations to counter possible inflationary pressures in 1H'10. The government's changes to its 2009 fiscal deficit forecasts were already included in our expectations; we still believe the central government's deficit will stand at 4.1% of GDP in 2009 and 4.8% in 2010.
- **Things to watch** — Congress approved a bill that could allow President Uribe to run for president for a third consecutive time. The proposal will now have to wait for clearance from the Constitutional Court, before President Uribe can officially announce his candidacy. Afterward, it will face popular vote in early 2010, but Mr. Uribe's re-election bid still faces a tight schedule.
- **Strategy** — We maintain our support for our long TES 2020 trade, as technical, fiscal, and inflationary arguments suggest they should trade closer to 9.00%.

Activity and inflation have bottomed out

The downtrend in inflation will likely suffer a slight reversal. August's consumer price index rose 0.04% month over month after two consecutive months of negative monthly results, which helped bring down the annual headline figure to 3.1%, the lowest print since 1962. As usual, the decline in consumer prices was led by lower food and regulated prices. Moreover, producer prices have been falling consistently in recent months. Year-over-year wholesale inflation dropped to 1% from 1.4% a month earlier and down from 9.00% at the end of 2008. However, the strong negative trend in food prices will likely reverse going forward, as the "El Niño" phenomenon and a low statistical base pressure the food prices index upward. We nevertheless believe inflation will remain largely under control and will end 2009 at 3.5% year over year, considering that the economy is still in a weakened state and is unlikely to rebound strongly in 4Q'09 and 2010. Hence, our forecasts suggest that headline inflation will end 2010 at 4.4%, as stable core inflation will offset the rise in agricultural prices, on top of low pressure stemming from producer prices.

Activity could surprise on the upside, despite leading indicators data. Economic activity measured by GDP, will likely surprise on the upside in the second quarter thanks to the boost from higher government spending, even though leading indicators through July, such as industrial production, retail sales, construction licenses, and energy demand continue trending down. Investment in public works, which accounts for approximately 30% of total investment and 5% of GDP, grew 42.0% year over year, as spending on roads, dock infrastructure, train tracks, and landing strips grew sharply. In fact, our new Colombia Leading Indicator⁶ suggests that the Colombian economy bottomed in 1H'09 and economic growth will return to positive territory in 2H'09. Therefore, we have revised up our 2009 GDP growth forecast to flat from -0.5% year over year before, in order to reflect our more optimistic view on the economy.

⁶ See *Colombia Macro View: New Leading Indicator Signals Economy Has Bottomed*, Citi, September 18, 2009.

However, downward risks to economic growth remain latent in 2H'09. Contrary to government spending data, rising tensions with the Venezuelan and Ecuadorian governments (Colombia's second- and third-largest trading partners) point to a bleaker growth outlook in 2H'09. Up to July, exports to Venezuela have declined 5.5% compared to the same period of 2008, while sales to Ecuador dropped 17.8% during the period. Furthermore, the decline in exports to Venezuela (which amounted to 2.6% of GDP in 2008) does not yet reflect the effect from tougher trade restrictions imposed by President Chavez's government in response to a security agreement between the United States and the Colombian military.

We believe monetary policy easing has come to an end

Banrep has indicated the end of the front-loaded monetary policy easing cycle.

The central bank has kept the policy rate unchanged at 4.50% for two consecutive months on the back of a more optimistic economic outlook, because of which we have revised our year-end policy rate forecast to 4.50%. The central bank's recent decisions have been focused on next year's inflation dynamics. Central bank board members believe that additional monetary stimulus will have little impact on activity, but could have potential harmful consequences for inflation expectations. Hence, the CB is taking advantage of the sharper-than-expected drop in consumer prices in order to anchor down inflation expectations, and is still waiting for the full effects of the 550bp reduction in the repo rate to kick in. Meanwhile, we expect the central bank to start hiking interest rates as early as March 2010, taking the repo rate to 6.00% by August, in order to counter inflationary pressures stemming from likely higher food prices in 1H'10.

Fiscal indicators are unlikely to worsen further

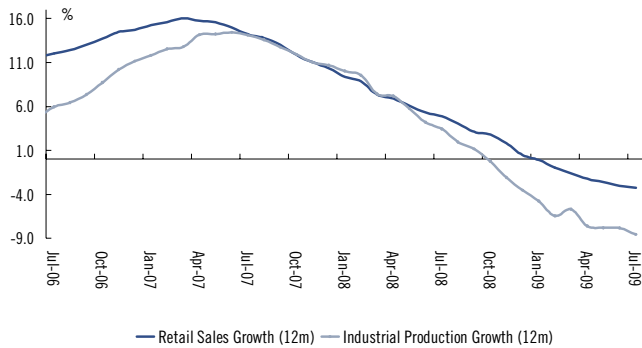
The government raised its 2009 fiscal deficit forecast to 4.0% of GDP. As a consequence of sharper-than-expected weakness in tax collection and a delay in the date of ISAGEN's sale, the government has US\$3.2 billion in remaining financing needs for 2009. These needs will be covered with the US\$2.0 billion from the 2010 budget's pre-financing operation announced back in June and US\$1 billion of additional TES issuance that was already scheduled. However, new TES issuance should have little effect on the public debt market as the bulk of new debt issuance has already been arranged with public firms and non-central government institutions, according to the finance ministry. The changes in the government's fiscal forecasts were already included in our expectations; we continue to recommend our long TES 2020 trade. We still expect the central government to post a deficit equivalent to 4.1% of GDP in 2009 and 4.8% in 2010.

Short-term peso strength against the USD to continue

Commodity-sensitive currencies, such as the COP, are likely to stay strong against the USD in the short term. Higher commodity price and a return of risk appetite have supported the COP's performance in recent months. On the other hand, there are several factors that should keep a lid on COP appreciation against the USD. Although the economy will likely begin its path to recovery in 2H'09 and 2010, uncertainty over President Uribe's re-election bid (considering the project's tight schedule), fiscal concerns as the government's deficits widen, and a continuing decline in exports to Venezuela should lead to some pressure on the COP.

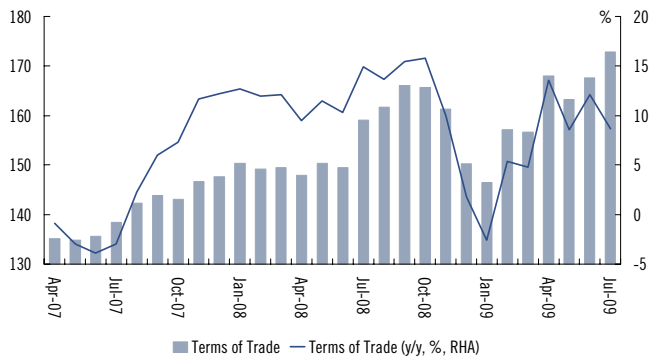
Country Charts – Colombia

Figure 47. The pace of decline in economic activity has decelerated



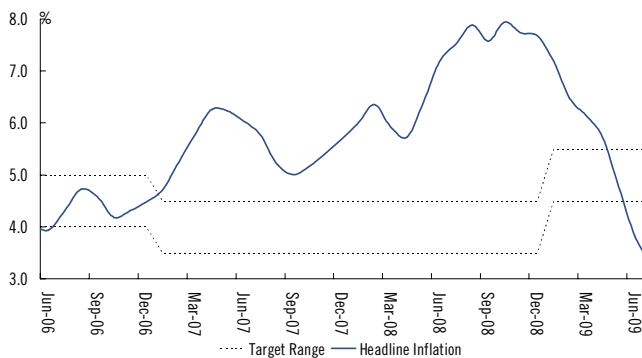
Source: DANE

Figure 49. Terms of trade have recovered significantly



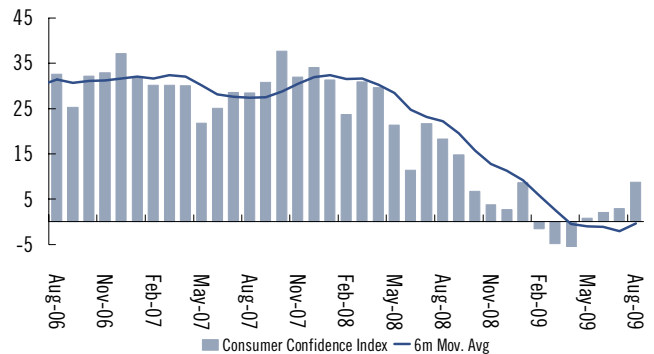
Source: Banco de la República

Figure 51. Inflation is still at very low levels



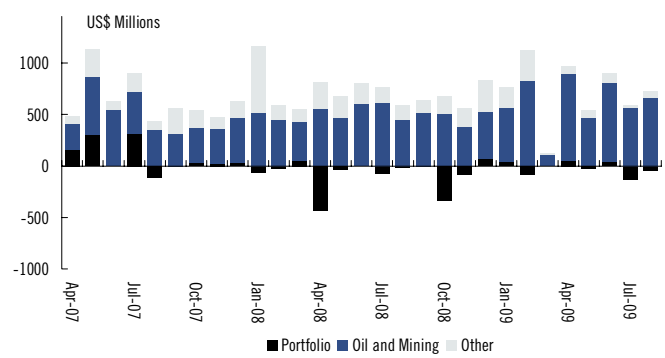
Source: DANE

Figure 48. While consumer confidence is starting to rebound



Source: Fedesarrollo

Figure 50. Amid stable investment flows in the oil and mining sectors



Source: Banco de la República

Figure 52. While TES 2020 still look cheap



Sources: Banco de la República and Citi Investment Research and Analysis

Macroeconomic Indicators— Colombia

	2007	2008	2009					2010					2011
	Act.	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	208.5	243.9	48.9	53.8	61.7	65.5	229.9	64.4	61.9	64.8	66.9	258.0	263.1
Nominal GDP (Pesos Tn)	431.8	479.6	122.3	119.0	124.4	126.1	491.8	126.1	123.8	129.6	133.8	513.2	552.5
GDP per capita (US\$)	4719	5520	4417	4842	5540	5872	5154	5815	5574	5822	5994	5780	5885
Unemployment Rate (%)	11.4	11.6	14.0	12.8	12.9	13.0	13.2	12.8	12.5	12.2	11.9	12.4	12.0
Population (millions)	44.2	44.2	44.3	44.4	44.5	44.6	44.6	44.3	44.4	44.5	44.6	44.6	44.7
ECONOMIC ACTIVITY													
Real GDP growth (yoy)	7.5	2.5	-0.6	-0.2	0.0	0.7	0.0	1.3	2.2	2.3	4.1	2.5	3.5
Real GDP growth (qoq, sa, annualized)	...	...	0.9	2.3	3.1	-3.2	...	3.0	6.3	3.4	3.9	...	...
Domestic Demand Growth (ex-inventory, yoy)	8.5	3.6	-0.5	0.3	-0.5	1.3	0.1	2.8	3.2	3.1	3.9	3.2	3.2
Real Investment Growth (yoy)	13.7	8.8	-1.3	-1.4	-4.0	-0.3	-1.8	3.0	2.1	1.6	4.2	2.7	4.5
Real Consumption Growth (yoy)	6.9	2.1	-0.3	0.8	0.7	1.8	0.7	2.7	3.6	3.6	3.8	3.4	4.0
Real Private Consumption Growth (yoy)	7.6	2.3	-0.5	0.2	0.2	1.4	0.3	2.8	4.9	5.3	5.3	4.6	5.4
Real Government Consumption (yoy)	4.5	1.3	0.2	2.9	2.5	3.4	2.3	2.4	-1.1	-2.3	-1.6	-0.7	0.5
Real Export Growth (yoy)	11.4	7.0	-0.5	2.7	3.4	-4.2	0.3	1.1	3.9	6.2	9.3	5.1	6.0
Real Import Growth (yoy)	13.9	9.8	-0.5	3.5	0.0	-0.4	0.6	7.0	7.0	7.6	6.3	7.0	6.5
PRICES													
Consumer Price Inflation (yoy, eop)	5.7	7.7	6.1	3.8	3.4	3.5	3.5	4.2	4.9	4.9	4.4	4.4	4.0
Core Inflation (yoy, eop)	3.9	5.1	4.9	4.3	3.7	3.5	3.5	3.5	3.8	4.0	4.0	4.0	4.0
Consumer Price Inflation (qoq, eop)	...	...	1.9	0.3	0.1	1.1	...	2.6	1.0	0.1	0.6	...	...
Wages (% change yoy, nominal)	5.4	19.5	4.1	3.5	3.5	3.5	3.5	3.8	4.1	4.3	4.6	4.6	4.6
Exchange Rate (local currency to USD, eop)	2015	2234	2561	2159	1975	1900	1900	2000	2000	2000	2000	2000	2100
Exchange Rate (% change yoy, + dep.)	-10.0	10.9	40.6	17.8	-9.6	-15.0	-15.0	-21.9	-7.4	1.3	5.3	5.3	5.0
Bilateral Real Exchange Rate (% change yoy, + dep.)	-11.4	3.1	31.9	11.8	-14.2	-16.0	-16.0	-24.0	-11.6	-2.6	1.8	1.8	2.0
MONETARY SECTOR													
Monetary Base growth (yoy)	19.9	14.3	15.6	12.6	9.3	15.9	15.9	20.1	24.4	20.3	21.2	21.2	16.0
Broad Money growth (yoy)	17.8	19.1	19.6	18.7	15.9	12.6	12.6	17.2	17.6	19.8	18.1	18.1	18.1
Credit Growth (yoy)	24.9	18.2	14.8	11.5	8.7	7.8	7.8	11.2	12.6	13.1	13.5	13.5	20.0
Central Bank Rate (REPO, eop)	9.50	9.50	7.00	4.50	4.50	4.50	4.50	4.75	5.50	6.00	6.00	6.00	6.50
Short-term Rate (eop)	9.01	10.33	8.13	5.54	4.99	5.00	5.00	5.25	6.00	6.60	6.60	6.60	7.00
Long-term Rate (eop)	10.28	10.59	9.38	8.60	8.47	8.50	8.50	8.55	8.63	8.70	8.78	8.78	9.50
EXTERNAL SECTOR													
Current Account Balance (% of GDP)	-2.8	-2.8	-2.0	-2.6	-2.1	-1.8	-2.1	-1.9	-2.7	-1.9	-3.0	-2.4	-2.5
Current Account Balance (in US\$ bn)	-5.8	-6.7	-1.0	-1.4	-1.3	-1.2	-4.8	-1.2	-1.7	-1.2	-2.0	-6.1	-6.5
Trade Balance (in US\$ bn)	-0.6	1.0	0.1	0.3	0.1	0.5	1.1	0.0	0.0	0.6	0.3	0.9	1.2
Exports, f.o.b. (in US\$ bn)	30.6	38.5	7.8	8.6	8.8	10.0	35.2	9.6	11.0	11.0	10.5	42.1	43.0
Main exports (oil, coffee, coal)	14.2	20.0	3.6	4.1	4.1	4.7	16.6	4.5	5.2	5.2	5.0	19.9	20.0
Other	16.4	18.5	4.1	4.5	4.6	5.3	18.6	5.1	5.8	5.8	5.6	22.2	23.0
Imports, c.i.f. (US\$ bn)	31.2	37.6	7.6	8.3	8.6	9.6	34.1	9.6	11.0	10.4	10.3	41.3	41.8
Services (net)	-2.6	-3.1	-0.5	-0.7	-0.9	-0.9	-3.0	-0.5	-0.8	-1.0	-1.0	-3.3	-3.5
Current Transfers (net)	5.2	5.5	1.2	1.2	1.4	1.5	5.2	1.3	1.3	1.4	1.4	5.5	5.8
Foreign Direct Investment (in US\$ bn)	9.0	10.6	2.5	2.2	2.2	2.2	9.1	2.5	2.6	2.7	2.7	10.5	11.5
Terms of Trade (% change yoy, + improvement)	12.2	4.3	5.2	10.0	6.2	8.0	8.0	8.5	9.0	9.5	10.0	10.0	10.0
International Reserves (in US\$ bn)	20.9	24.0	23.8	24.4	24.9	25.5	25.5	25.1	24.8	24.4	24.0	24.0	25.5
Import Cover (in months, imports of goods & services)	8.1	7.7	12.5	11.8	11.6	10.7	9.0	10.4	9.0	9.4	9.4	7.0	8.0
PUBLIC SECTOR													
Central Gov. Primary Budget Balance (% of GDP)	1.0	0.9	-0.1	-0.4	-0.6	-0.9	-0.9	-1.1	-1.2	-1.4	-1.5	-1.5	-0.6
Central Gov. Budget Balance (% of GDP)	-2.7	-2.3	-2.7	-3.1	-3.4	-4.1	-4.1	-4.3	-4.5	-4.6	-4.8	-4.8	-2.0
Consolidated Primary Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Consolidated Public Sector Balance (% of GDP)	-0.6	-0.1	-1.0	-1.6	-1.9	-2.8	-2.8	-3.0	-3.3	-3.5	-3.7	-3.7	-2.5
Central Gov. Revenues (% of GDP)	15.0	15.7	14.2	14.6	14.4	15.6	15.6	15.2	14.8	14.4	14.0	14.0	15.5
DEBT INDICATORS													
Gross External Debt (% of GDP)	21.2	18.7	19.7	21.0	21.6	20.8	20.8	20.3	20.4	20.7	21.0	21.0	20.1
Public (% of GDP)	13.7	11.9	12.8	13.5	13.8	13.1	13.1	13.0	13.1	13.4	13.6	13.6	13.0
Private (% of GDP)	7.5	6.8	6.9	7.5	7.8	7.6	7.6	7.4	7.3	7.4	7.4	7.4	7.2
Gross Government Debt (% of GDP)	32.9	34.0	37.2	36.8	36.2	35.6	35.6	36.1	36.5	36.9	37.1	37.1	35.0
Domestic (% of GDP)	21.8	22.7	23.9	23.4	23.0	22.4	22.4	22.7	23.0	23.3	23.4	23.4	21.4
External (% of GDP)	11.0	11.4	13.3	13.3	13.3	13.2	13.2	13.4	13.5	13.6	13.7	13.7	13.6
Total External Debt Amortization (US \$bn)	5.7	5.1	1.0	1.0	1.0	1.0	3.9	1.0	1.0	1.0	1.1	4.1	4.0
Total External Debt Interest Payments (US \$bn)	2.8	2.9	0.7	0.7	0.7	0.7	2.9	0.8	0.8	0.8	0.8	3.1	3.0
Total External Debt Service (% exports of goods & svcs)	24.7	19.0	4.8	4.4	4.3	3.8	17.2	4.3	3.7	3.7	3.9	15.5	15.0
Public-external Debt Service (% exports of goods & svcs)	2.5	1.7	2.1	1.9	1.8	1.6	2.8	1.8	1.6	1.6	1.7	3.0	2.8
Public-external Debt Service (% of GDP)	2.3	1.9	1.6	2.4	1.9	1.7	1.9	1.6	2.6	2.3	2.1	2.1	2.2
SAVINGS - INVESTMENT BALANCE													
Savings (% of GDP)	23.2	24.9	24.7	24.7	25.3	25.3	25.0	25.3	24.5	25.4	24.1	24.8	24.9
Investment (% of GDP)	26.0	27.6	26.7	27.2	27.4	27.1	27.1	27.2	27.2	27.2	27.1	27.2	27.4
Memorandum Items													
Workers' Remittances (US\$bn)	4.5	4.8	1.1	1.0	0.9	0.9	3.9	1.1	1.0	0.9	0.9	4.8	4.8

Source: Citi Investment Research and Analysis

Ecuador

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- **Summary view** — We continue to expect no growth in 2009, while we have revised our 2010 GDP growth forecast down to 3.0% from 3.5%. Delays in national account second-quarter data releases likely mask poor economic performance in 2H. The attempt to stimulate the economy through higher fiscal spending, which is likely to drive the deficit up to 5.0% of GDP in 2010 from our former estimate of 3.1%, will find challenging financing constraints.
- **Things to watch** — The executive presented the new Hydrocarbon Law, whereby oil exploration and expropriation will mostly be done by public or public-private firms. Service contracts will be the model for all private firm participation, currently responsible for 41% of the country's total production. We believe the new model is likely to deter investment.
- **Strategy** — Liquidity in the credit is limited and we see no compelling trades in the external debt space at this point. Debt-to-GDP is low and the government has made its statement about "illegitimacy of the debt" by defaulting on Global 2012s and 2030s.

Activity likely to remain anemic in 2009

We maintain our growth forecasts for 2009 at 0.0% and revised our 2010 GDP growth forecast down to 3.0% from 3.5%. The global crisis, continued tensions with neighboring Colombia, rising import tariffs and taxes, a rigid monetary regime, and a hostile business environment are unlikely to be offset by higher public spending. Furthermore, we expect repressed private investment levels and continued tensions between this administration and the local business leaders to take a toll on next year's real economic activity, even though fiscal accounts are likely to remain relatively well supported by oil revenues in 2010.

An unpromising environment for private investment adds to our concerns on the country's growth outlook. The government announced a new set of measures to address the crisis, including a capital outflow tax hike of 2% from 1%, a 1% increase in the corporate income tax, and a 10% dividend tax that would add to the 25% corporate income tax, "sin" tax hikes on cigarettes and alcohol, and higher marginal income taxes for the upper income brackets. All these measures together should severely distort the incentives for investment and capital accumulation in the years ahead, inevitably taking a toll on growth and job creation.

This environment adds pressures on the government to increase public spending to sustain activity, compromising this year's fiscal balance. The price of the Ecuadorian oil mix has increased from marginally above US\$20 per barrel back in March to about US\$60 per barrel in the last month. Oil production stands at around 488,000 barrels per day, with the private sector producing roughly 200,000 barrels per day, still displaying a downward secular trend. Even though the expansion of public oil output outweighs the sustained retrenchment of private production, we have revised our fiscal balance estimate down to -5.0% of GDP from -3.1% on the back of growing fiscal spending.

International reserves have recovered almost US\$1.5 billion since March 2009, although mostly due to multilateral financing. FLAR loans for US\$480 million and oil collateralized loans for another US\$1 billion from China account for the bulk of this improvement. All these funds have been allocated already. In addition, we believe that remaining public sector borrowing requirements stand at US\$740 million for 2009. The government has several alternatives to meet this gap, including reducing infrastructure spending, adding arrears, reducing public sector deposits in the local financing system, or using international reserves held and owned by the central bank.

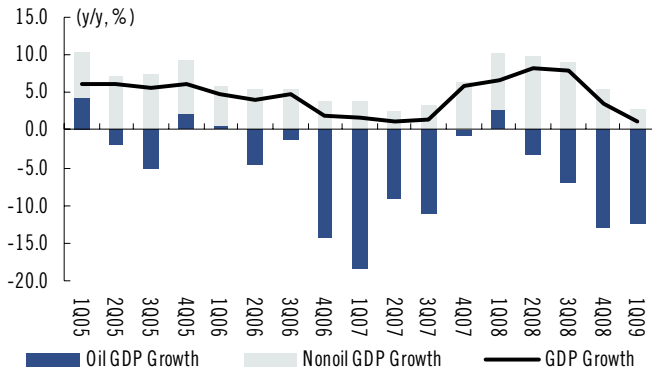
Growth outlook: no crisis, but no “heaven” either

Going forward, higher oil prices, which we assume will be broadly in line with current futures, should compensate for the loss in oil output in 2010 derived from the lack of investment in the sector. In line with the new constitution approved this year, the executive has sent the new Hydrocarbon Law for approval to Congress. The initiative limits private sector participation to exceptional cases, leaving public oil companies with the responsibility to plan exploration and execute production. Because public companies currently lack the know-how to explore and produce in the more challenging oil fields currently operated by private firms, we expect a great deal of public-private ventures to mitigate the otherwise worrisome government intentions to limit private production. Despite this, the current tensions between the private oil firms and the government, together with the abolished CIADI arbitration procedure for oil contracts under the new proposal, keep our hopes down for seeing significant exploration and new investments in the country's mining sector in the near future.

We have revised our 2010 current account deficit estimate up to -2.0% from -3.2% of GDP amid weak domestic demand and better terms of trade. We expect terms of trade to improve 6.0% in 2010 on average relative to 2009. The oil price improvement and higher taxes should contribute to a better-than-expected fiscal balance of -2.7%, versus our earlier forecast of -7.1% of GDP. Higher oil and non-oil revenues, together with lower interest payments on external debt, explain the significant improvement in our 2010 fiscal outlook.

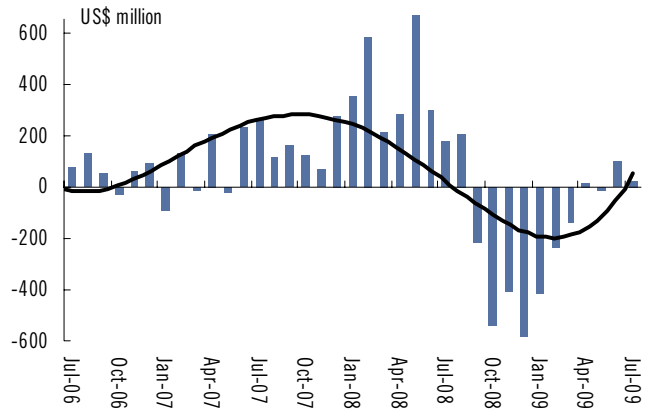
Selected Charts – Ecuador

Figure 53. GDP growth weakens on the back of a lower private oil output



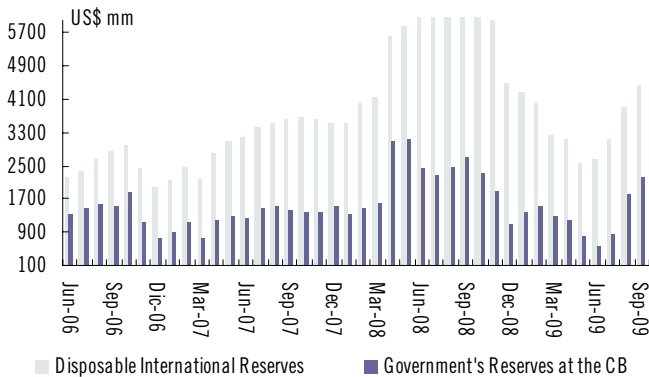
Sources: Central Bank of Ecuador and Citi Investment Research and Analysis

Figure 54. Back to trade surplus amid restrictions on imports



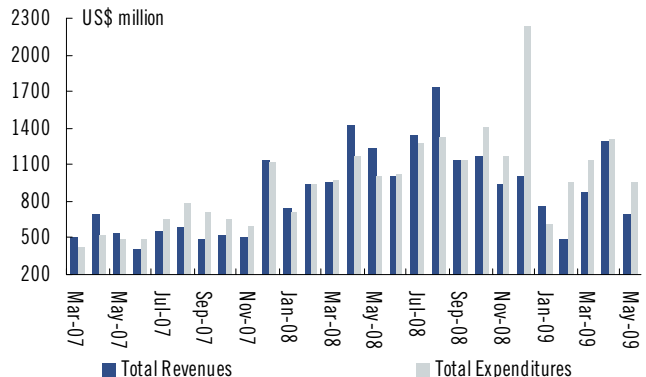
Sources: Central Bank of Ecuador and Citi Investment Research and Analysis

Figure 55. Higher international reserves to reduce the de-dollarization risk



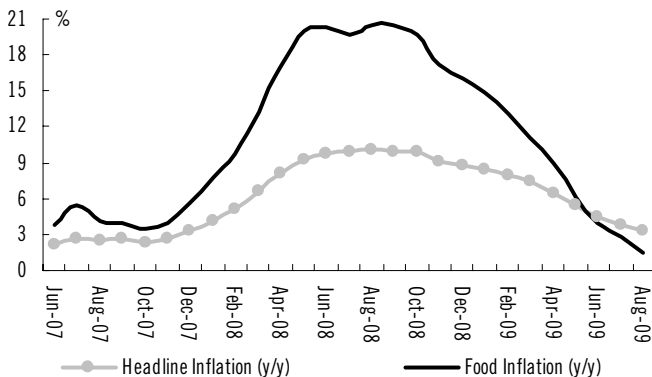
Sources: Central Bank of Ecuador and Citi Investment Research and Analysis

Figure 56. Central government revenues fall, while expenditures remain high



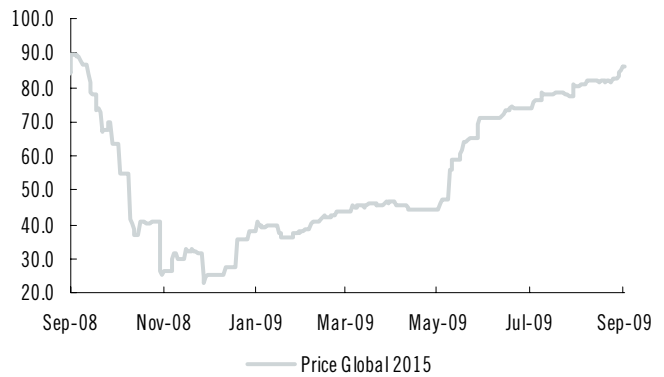
Sources: INEC and Citi Investment Research and Analysis

Figure 57. Lower inflation likely reflects weaker economy



Source: Bloomberg

Figure 58. External debt supported by successful buyback



Sources: INEC and Citi Investment Research and Analysis

Macroeconomic Indicators – Ecuador

	2007	2008	2009					2010					2011
	Act.	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	45.8	54.7	15.0	15.0	15.0	15.0	60.1	15.9	15.9	15.9	15.9	63.8	68.0
Nominal GDP (Sucres Tn)	45.8	54.7	15.0	15.0	15.0	15.0	60.1	15.9	15.9	15.9	15.9	63.8	68.0
GDP per capita (US\$)	3362	3958	4339	4325	4310	4296	4296	4554	4554	4554	4554	4554	4855
Unemployment Rate (%)	7.1	8.5	8.6	8.4	8.8	9.5	9.5	11.2	11.0	11.0	11.0	11.0	11.0
Population (millions)	13.6	13.8	13.9	13.9	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
ECONOMIC ACTIVITY													
Real GDP growth (yoy)	2.5	6.5	1.2	-2.0	-1.6	2.4	0.0	2.4	4.3	4.2	1.1	3.0	3.5
Real GDP growth (qoq, sa, annualized)	...	...	1.2	-2.0	-1.6	2.4	...	2.4	4.3	4.2	1.1	...	...
Domestic Demand Growth (ex-inventory, yoy)	5.0	7.5	2.9	3.9	4.0	6.5	-0.8	6.8	5.4	3.9	2.4	8.3	8.9
Real Investment Growth (yoy)	2.5	16.1	5.0	4.0	3.4	7.5	5.0	11.7	8.0	4.3	0.8	6.0	6.0
Real Consumption Growth (yoy)	3.8	7.6	2.2	3.9	4.3	6.0	4.1	7.4	6.2	5.1	3.9	5.6	6.5
Real Private Consumption Growth (yoy)	3.5	7.0	1.3	3.6	4.3	6.6	4.0	7.6	5.9	4.2	2.6	5.0	6.0
Real Government Consumption (yoy)	6.1	11.6	8.5	6.2	3.7	1.9	5.0	5.7	8.5	11.4	14.3	10.0	10.0
Real Export Growth (yoy)	2.2	3.3	-5.3	-7.6	-3.3	-3.6	-5.0	2.0	4.0	6.0	8.0	5.0	4.0
Real Import Growth (yoy)	7.3	10.2	-1.8	3.5	1.9	1.5	1.3	15.9	9.4	6.9	10.6	10.5	12.2
PRICES													
Consumer Price Inflation (yoy, eop)	3.3	8.8	7.4	4.5	2.0	2.5	2.5	1.0	1.1	2.9	3.0	3.0	3.1
Core Inflation (yoy, eop)	...	...	6.1	4.7	...	...	...	...	...	...	...	...	...
Consumer Price Inflation (qoq, eop)	...	...	2.3	0.6	-1.0	0.4	...	0.8	0.7	0.7	0.7	...	...
Wages (% change yoy, nominal)	5.0	3.0	5.0	5.0	5.0	5.0	4.0	5.0	5.0	5.0	5.0	4.0	2.0
Exchange Rate (local currency to USD, eop)	...	...	...	...	...	...	...	...	...	...	...	...	...
Exchange Rate (% change yoy, + dep.)	...	...	...	...	...	...	...	...	...	...	...	...	...
Bilateral Real Exchange Rate (% change yoy, + dep.)	0.7	-8.0	-25.5	-25.6	-25.0	0.5	-0.2	21.7	2.2	0.5	0.5	-1.9	0.5
MONETARY SECTOR													
Monetary Base growth (yoy)	30.5	72.4	-15.8	-6.3	38.1	12.0	12.0	129.1	78.3	38.8	8.0	8.0	8.0
Broad Money growth (yoy)	14.3	25.5	18.3	9.7	1.5	-5.0	-5.0	-1.7	0.5	2.7	5.0	5.0	5.0
Credit Growth (yoy)	18.8	29.8	3.7	-3.6	-11.2	-15.0	-15.0	-2.0	0.3	2.6	5.0	5.0	5.0
Central Bank Rate (eop)	5.64	5.10	5.31	5.37	5.24	5.28	5.28	5.21	5.14	5.07	5.00	5.00	5.00
Short-term Rate (eop)	...	...	...	...	...	...	...	...	...	...	...	...	...
Long-term Rate (eop)	...	...	...	...	...	...	...	...	...	...	...	...	...
EXTERNAL SECTOR													
Current Account Balance (% of GDP)	3.6	2.2	-5.4	-1.3	-3.2	-4.0	-3.5	-2.0	-2.7	-1.9	-1.4	-2.0	-1.0
Current Account Balance (in US\$ bn)	1.6	1.2	-0.8	-0.2	-0.5	-0.6	-2.1	-0.3	-0.4	-0.3	-0.2	-1.3	-0.9
Trade Balance (in US\$ bn)	1.8	1.4	-0.7	0.2	-0.1	-0.1	-0.7	0.1	0.1	0.2	0.2	0.5	0.5
Exports, f.o.b. (in US\$ bn)	14.9	19.1	2.7	3.8	3.7	3.6	13.9	3.8	4.0	4.1	4.3	16.2	17.2
Traditional	7.9	11.7	1.0	2.5	2.4	1.6	7.6	1.4	2.6	2.7	2.0	8.6	8.8
Non-traditional	7.0	7.5	1.7	1.3	1.3	2.0	6.3	2.4	1.3	1.5	2.3	7.5	8.1
Imports, c.i.f. (US\$ Bn)	13.0	17.8	3.5	3.6	3.8	3.7	14.6	3.7	3.9	4.0	4.1	15.7	16.7
Services (net)	-1.4	-1.6	-0.3	-0.4	-0.4	-0.4	-1.6	-0.3	-0.4	-0.4	-0.4	-1.6	-1.7
Current Transfers (net)	3.2	3.0	0.6	0.5	0.4	0.4	1.9	0.4	0.4	0.4	0.4	1.6	1.7
Foreign Direct Investment (in US\$ bn)	0.2	1.0	0.1	0.1	0.1	0.2	0.5	0.1	0.1	0.1	0.1	0.5	0.5
Terms of Trade (% change yoy, + improvement)	32.2	-24.9	-38.7	-34.8	-33.2	-3.5	-3.5	15.1	0.8	3.4	6.0	6.0	6.0
International Reserves (in US\$ bn)	3.5	4.5	3.2	2.7	3.0	3.4	3.4	3.5	3.6	3.7	3.9	3.9	4.2
Import Cover (in months, imports of goods & services)	3.2	3.0	2.8	2.2	2.4	2.7	2.8	2.8	2.8	2.8	2.9	3.0	3.1
PUBLIC SECTOR													
Central Gov. Primary Budget Balance (% of GDP)	2.2	1.0	-0.8	0.2	0.2	0.2	-0.1	0.4	0.5	0.7	0.5	0.5	0.5
Central Gov. Budget Balance (% of GDP)	0.3	-0.4	-1.1	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.7
Consolidated Primary Balance (% of GDP)	2.1	-1.5	-8.5	-6.3	-3.0	1.6	-4.0	-1.5	-1.5	-1.5	-1.5	-1.5	-3.1
Consolidated Public Sector Balance (% of GDP)	0.1	-2.9	-9.7	-7.2	-3.9	0.7	-5.0	-2.7	-2.7	-2.7	-2.7	-2.7	-4.3
Central Gov. Revenues (% of GDP)	31.3	37.5	20.2	25.3	31.6	39.4	29.1	33.0	33.0	33.0	33.0	33.0	33.0
DEBT INDICATORS													
Gross External Debt (% of GDP)	39.9	30.0	28.1	28.2	22.2	23.1	23.1	21.3	23.0	23.6	26.5	26.5	26.3
Public (% of GDP)	23.2	18.5	16.7	16.8	12.3	12.6	12.6	10.6	12.3	14.3	16.6	16.6	15.6
Private (% of GDP)	15.2	11.5	11.4	11.4	9.9	10.5	10.5	10.7	10.7	9.3	9.9	9.9	10.7
Gross Government Debt (% of GDP)	32.3	26.0	23.6	21.8	18.8	20.9	20.9	18.4	19.9	21.6	23.7	23.7	22.2
Domestic (% of GDP)	7.1	6.7	6.9	5.0	6.5	8.3	8.3	7.8	7.6	7.3	7.1	7.1	6.6
External (% of GDP)	23.2	18.5	16.7	16.8	12.3	12.6	12.6	10.6	12.3	14.3	16.6	16.6	15.6
Total External Debt Amortization (US \$bn)	...	...	...	...	...	...	...	...	...	...	...	...	...
Total External Debt Interest Payments (US \$bn)	2.1	1.7	0.3	0.5	0.5	0.6	1.9	0.3	0.6	0.6	0.8	1.6	1.6
Total External Debt Service (% exports of goods & svcs)	...	...	...	...	...	...	...	...	...	...	...	...	...
Public-external Debt Service (% exports of goods & svcs)	12.2	19.0	7.2	9.1	28.4	34.8	20.6	16.4	28.4	9.3	9.2	15.6	14.6
Public-external Debt Service (% of GDP)	4.0	6.7	1.3	2.3	7.1	8.3	4.8	3.9	7.0	2.4	2.5	4.0	3.7
SAVINGS - INVESTMENT BALANCE													
Savings (% of GDP)	23.4	22.7	22.4	19.1	17.8	18.7	19.5	18.6	17.6	17.2	16.4	17.5	17.0
Investment (% of GDP)	19.8	20.5	27.8	20.4	21.0	22.7	23.0	31.3	31.5	31.6	31.9	19.4	18.4

Source: Citi Investment Research and Analysis

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- **Summary view** —The 2010 outlook depends mainly on the continuing recovery of exports and the results of the fiscal negotiations currently being discussed in Congress. The progress regarding fiscal discussions will be gauged over the next month and a half; therefore, we expect some market volatility during the next month.
- **Things to watch** — Progress regarding the congressional negotiations on the 2010 fiscal package should be followed closely. If the actual package resembles the one proposed by the Calderon administration, then concerns about Mexico's credit risk could subside. Inflation fears for next year would likely increase, however.
- **Strategy** — Our core strategy remains to stay short CAD/MXN. We still see a fundamental misalignment among NAFTA currencies. In local markets, the original 2010 fiscal proposal calls for flatteners, but potential meaningful modifications could alter that strategy.

An export-driven recovery begins

Activity indicators confirm that the worst stage of the recession is now behind us. The actual 2Q GDP contraction of 10.3% at annual rate was slightly better than the 10.8% we predicted as activity started to rev up in June. Early indications point to this trend continuing in July, suggesting to us that the revival of demand in the United States is already stimulating Mexico's export-oriented economy.

Our expectation of an export-led recovery is reinforced by recent industrial performance. Mexican manufacturers have increased their market share in the US – to 10.9% of total US manufacturing imports in January–July 2009 from 10.3% in the same period of 2008 – suggesting that the pickup in US demand should have a more than proportional “spillover” effect on Mexican production. In our view, this will provide a valuable initial boost to export-related activities, but it will take several months before it translates into a more meaningful recovery in domestic demand, as the exports recovery has to first permeate through better labor market conditions. While it is still true that the fall in employment has been proportionately less than the drop in output, we think consumers are likely to remain wary in the short term. We reiterate our GDP forecast of -7.4% this year and 3.6% next year, while revising our estimates for private consumption growth to -7.6% and 3.7% for 2009 and 2010, respectively.

Calderon gov't opens up a key fiscal discussion in Congress

The Calderon administration submitted to Congress its economic package for 2010: we think it bodes well for Mexico's credit rating. As we had anticipated, the proposal involves a combination of expenditure cuts, increases in tax-related revenues, and higher indebtedness (a larger fiscal deficit) to address a fiscal gap worth about MXN405 billion in 2010. The proposal features a formal distinction between temporary and permanent sources of fiscal deterioration, with the former explaining MXN155 billion of the fiscal gap. Given that the proposed MXN60 billion increase in the fiscal deficit is only 39% of the temporary deterioration (the remaining 61% would be met via non-recurrent revenues), we think the proposal relies quite conservatively on increased indebtedness. Meanwhile, the fact that 78% of the permanent sources of

deterioration (mostly foregone oil-related revenues) would be covered by higher taxation is positive, in our view, as it reduces fiscal dependence on oil revenues. We therefore believe that, from the standpoint of sovereign ratings, Calderon's proposal is constructive.

Nevertheless, the proposal is likely to undergo significant changes during discussions in Congress. The key question is not whether the proposal from the Calderon administration is sound, but rather whether it can be passed through a Congress whose Lower House is now clearly dominated by the PRI opposition. While initial reactions were marked by strong criticism, we see this as natural in a democracy emerging from a major recession. Our standing call is that a solution will be found to the fiscal dilemma, but that it will involve a period of very intense – often confrontational – political negotiations that could alter – even in a substantial fashion – the standing proposal.

Quo Vadis, Banxico?

Closing the fiscal gap will probably involve a temporary hike in inflation. We have calculated that the tax changes in the government's fiscal proposal would have a 200bp impact over annual inflation in 2010. We reiterate that the proposal could undergo substantial changes, but smaller or fewer tax hikes would probably require the government to step up increases in public prices – gasoline, for example – in order to make up for foregone revenues. All in all, after gradually converging to Banxico's expected path, inflation is likely to experience a rebound in 2010. Even if this were a temporary phenomenon, it would imply a new delay to Banxico's plan of achieving its inflation target (3%) by end-year 2010.

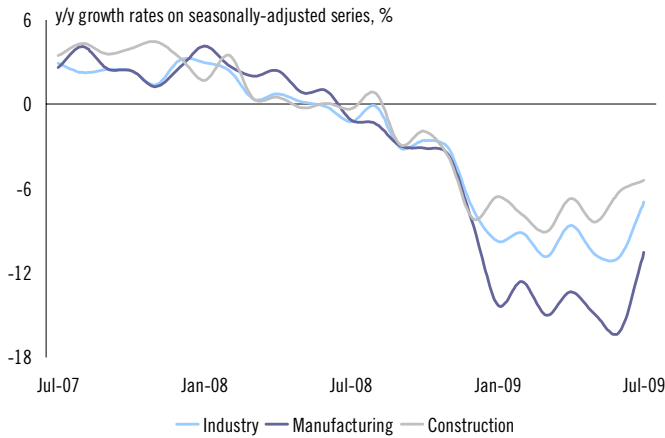
Banxico could therefore need to implement a "preventive" hike. Our current scenario assumes Banxico will start hiking rates in August 2010. We believe this is still wholly consistent with fundamentals such as a significantly negative output gap. The dilemma for policymakers is that failing to acknowledge the inflationary consequences of the fiscal measures could come at the cost of reduced credibility. We believe Banxico could react as it has done in the past by implementing a "preventive" hike. Of course, policymakers are unlikely to formally consider this option while fiscal negotiations continue, but preliminary planning could be underway.

Strategy: investment implications of the fiscal negotiations

The 2010 fiscal package as it is calls for a flattening of the yield curve, but our base case assumes modifications to the package. Higher consumption taxes and public tariffs increase the probability that Banxico brings forward its tightening cycle. This, coupled with a reduction in long-term risk would flatten the curve. We prefer to stay with our sell CAD/MXN trade, as it is based on our view of a fundamental misalignment among NAFTA currencies.

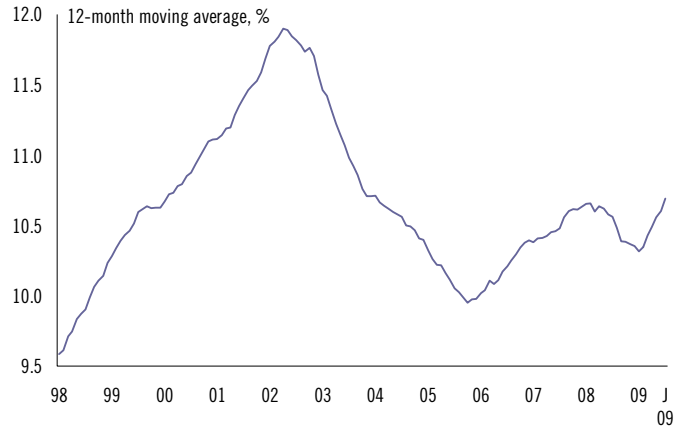
Country Charts – Mexico

Figure 59. Industrial output suggests the worst is over



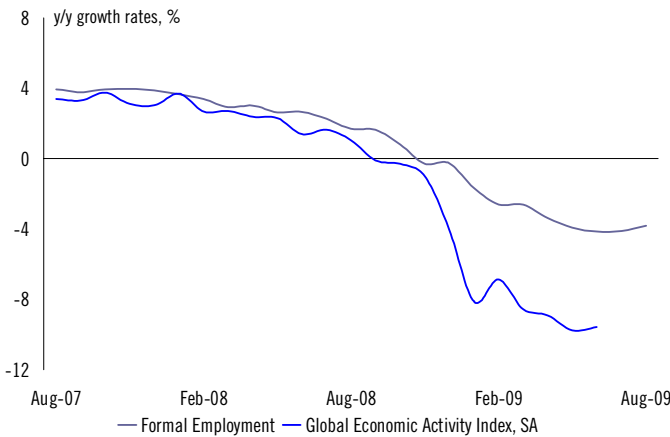
Source: INEGI

Figure 60. Mexican share in US manufacturing imports is on the rise



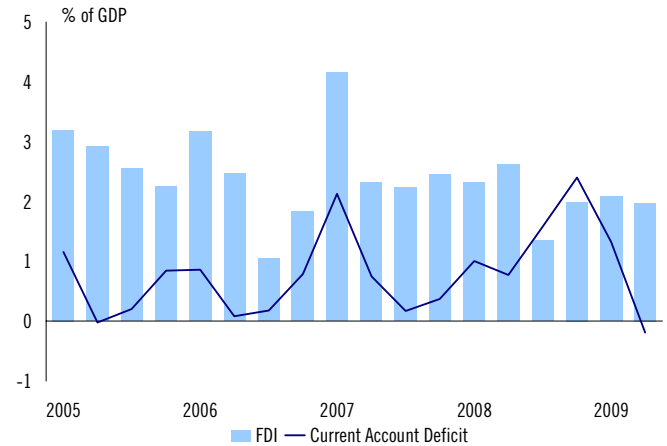
Sources: US Department of Commerce and Banamex

Figure 61. Formal job losses have lagged activity contraction



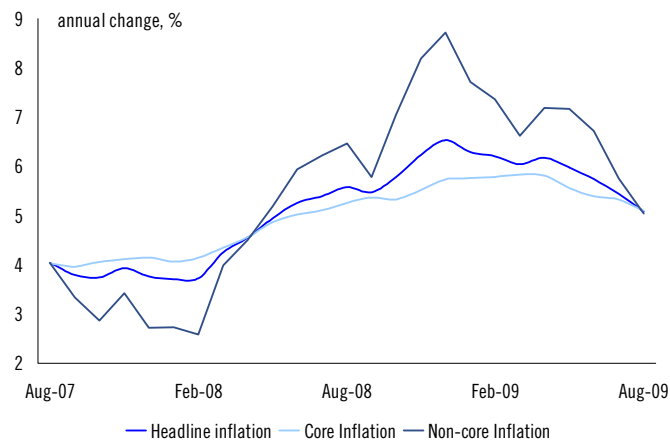
Sources: INEGI and IMSS

Figure 62. External deficit does not pose a problem



Sources: Banxico and Banamex

Figure 63. Inflation has been converging to Banxico's expected path... so far



Source: Banxico

Figure 64. Original fiscal package calls for flattening of the yield curve



Source: Bloomberg

Macroeconomic Indicators— Mexico

	2007	2008	2009					2010					2011
	Act.	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	1025.8	1098.2	194.3	213.5	224.0	229.2	860.9	224.4	234.7	241.1	244.3	944.5	1009.5
Nominal GDP (Pesos Bn)	11206	12111	2791	2850	2969	3029	11639	2969	3114	3202	3261	12547	13554
GDP per capita (US\$)	9696	10294	7247	7948	8320	8496	8004	8302	8669	8886	8987	8712	9243
Unemployment Rate (%)	3.7	4.0	5.0	5.2	6.5	6.2	5.7	6.7	6.0	5.5	5.9	6.0	5.5
Population (millions)	105.8	106.7	107.2	107.5	107.7	107.9	107.6	108.1	108.3	108.5	108.7	108.4	109.2
ECONOMIC ACTIVITY													
Real GDP growth (yoy)	3.3	1.3	-8.0	-10.3	-7.4	-3.7	-7.4	2.6	5.1	3.6	3.1	3.6	3.9
Real GDP growth (qoq, sa, annualized)	...	...	-21.2	-4.4	7.3	5.3	...	5.1	1.9	2.0	2.7	...	...
Domestic Demand Growth (ex-inventory, yoy)	4.4	2.2	-7.5	-10.7	-8.0	-4.1	-7.6	2.7	5.1	3.9	3.5	3.8	4.7
Real Investment Growth (yoy)	4.4	5.3	-15.4	-14.5	-13.0	-8.1	-12.8	4.2	9.8	8.4	7.7	7.6	7.8
Real Consumption Growth (yoy)	3.6	1.4	-7.5	-9.3	-6.3	-2.9	-6.5	2.5	4.6	3.1	2.6	3.2	3.7
Real Private Consumption Growth (yoy)	3.9	1.5	-9.0	-10.9	-7.2	-3.3	-7.6	3.0	5.4	3.6	3.0	3.7	4.2
Real Government Consumption (yoy)	2.1	0.6	2.2	1.0	-0.3	-0.5	0.6	-0.3	-0.5	-0.2	0.0	-0.2	0.5
Real Export Growth (yoy)	5.7	1.4	-20.2	-25.8	-18.0	-7.6	-18.1	6.1	8.5	5.9	5.4	6.4	7.5
Real Import Growth (yoy)	7.0	4.3	-22.5	-25.2	-17.8	-8.2	-18.5	6.9	10.3	7.8	7.0	8.0	9.5
PRICES													
Consumer Price Inflation (yoy, eop)	3.8	6.5	6.0	5.7	4.9	4.1	4.1	4.2	4.3	4.4	4.0	4.0	3.9
Core Inflation (yoy, eop)	4.1	5.7	5.8	5.4	4.9	4.1	4.1	4.0	3.8	3.6	3.6	3.6	3.8
Consumer Price Inflation (qoq, eop)	...	...	1.0	0.2	1.0	1.8	...	1.2	0.3	1.1	1.4	...	...
Wages (% change yoy, nominal)	5.4	5.4	5.8	5.6	4.9	4.2	5.1	3.7	4.0	3.9	3.8	3.8	4.0
Exchange Rate (local currency to USD, eop)	10.90	13.67	14.17	13.19	13.25	13.10	13.10	13.15	13.25	13.30	13.40	13.40	13.50
Exchange Rate (% change yoy, + dep.)	0.9	25.5	33.2	27.9	21.1	-4.2	-4.2	-7.2	0.5	0.4	2.3	2.3	0.7
Bilateral Real Exchange Rate (% change yoy, + dep.)	1.2	17.9	25.1	19.2	13.4	-5.9	-5.9	-9.8	-3.5	-3.0	-0.6	-0.6	0.0
MONETARY SECTOR													
Monetary Base growth (yoy)	6.0	9.6	12.4	12.3	8.1	4.6	4.6	4.7	5.0	6.9	7.9	7.9	8.8
Broad Money growth (yoy)	7.5	10.1	7.7	7.7	5.8	3.2	3.2	4.2	7.6	8.8	8.0	8.0	8.6
Credit Growth (yoy)	13.2	4.3	2.4	-0.9	0.3	1.5	1.5	2.6	3.5	4.7	7.1	7.1	9.5
Central Bank Rate (Official Overnight, eop)	7.50	8.25	6.75	4.75	4.50	4.50	4.50	4.50	4.50	5.00	5.50	5.50	6.50
Short-term Rate (eop)	7.44	8.25	6.75	4.75	4.50	4.50	4.50	4.50	4.50	5.00	5.50	5.50	6.50
Long-term Rate (eop)	8.03	8.35	8.27	8.14	8.25	8.50	8.50	8.65	8.75	8.85	9.00	9.00	8.20
EXTERNAL SECTOR													
Current Account Balance (% of GDP)	-0.8	-1.4	-1.7	0.2	-2.1	-1.2	-1.2	-0.5	-0.6	-2.7	-2.5	-1.6	-2.2
Current Account Balance (in US\$ bn)	-8.3	-15.7	-3.4	0.5	-4.6	-2.7	-10.3	-1.0	-1.4	-6.6	-6.2	-15.2	-22.5
Trade Balance (in US\$ bn)	-10.1	-17.3	-1.9	0.7	-7.1	-5.4	-13.8	1.1	-0.6	-8.9	-8.7	-17.2	-24.2
Exports, t.o.b. (in US\$ bn)	271.9	291.3	50.1	54.2	62.6	62.4	229.3	54.1	57.4	68.6	72.3	252.3	279.9
Main export (oil)	68.5	43.3	4.5	6.0	7.0	6.8	24.3	6.5	6.4	6.6	6.6	26.1	31.0
Other	203.4	248.0	45.6	48.2	55.6	55.6	205.0	47.5	51.0	62.0	65.7	226.2	249.0
Imports, c.i.f. (US\$ Bn)	281.9	308.6	52.0	53.6	69.7	67.9	243.1	53.0	58.0	77.5	81.0	269.5	304.2
Services (net)	-6.3	-7.1	-1.1	-1.8	-1.5	-1.1	-5.5	-0.7	-1.6	-1.7	-1.6	-5.6	-6.6
Current Transfers (net)	26.4	25.5	5.5	5.7	5.7	5.8	22.8	5.4	5.6	6.1	6.4	23.5	26.0
Foreign Direct Investment (in US\$ bn)	27.5	22.5	5.3	4.6	3.7	3.4	17.0	3.7	4.3	4.7	5.3	18.0	20.0
Terms of Trade (% change yoy, + improvement)	-0.4	1.2	-21.3	-17.6	-15.8	3.8	-13.5	11.2	2.3	2.3	2.7	4.5	2.8
International Reserves (in US\$ bn)	78.0	85.4	78.9	74.2	77.5	82.9	82.9	83.7	84.7	85.9	87.6	87.6	91.4
Import Cover (in months, imports of goods & services)	3.1	3.1	3.0	3.1	3.5	3.8	3.8	3.8	3.9	3.8	3.7	3.7	3.5
PUBLIC SECTOR													
Central Gov. Primary Budget Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	...
Central Gov. Budget Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	...
Consolidated Primary Balance (% of GDP)	3.0	2.7	0.2	0.6	0.9	0.9	0.7	0.3	1.0	1.0	0.9	0.8	0.9
Consolidated Public Sector Balance (% of GDP)	0.0	-0.1	-0.1	-2.0	-1.4	-5.1	-2.1	0.1	-2.5	-1.5	-6.2	-2.5	-1.8
Central Gov. Revenues (% of GDP)	22.2	23.6	23.1	23.8	22.5	22.2	22.4	22.2	21.8	21.5	22.3	22.1	22.5
DEBT INDICATORS													
Gross External Debt (% of GDP)	18.8	18.2	16.5	18.1	19.9	20.4	20.4	20.0	19.8	19.7	19.7	19.7	19.3
Public (% of GDP)	12.2	12.2	10.4	11.5	12.5	13.0	13.0	12.8	12.8	12.7	13.0	13.0	13.3
Private (% of GDP)	6.7	6.1	6.1	6.6	7.3	7.3	7.3	7.2	7.0	7.0	6.7	6.7	6.0
Gross Government Debt (% of GDP)	29.9	35.7	37.0	37.4	41.6	42.9	39.8	...	...	...	...	41.1	40.0
Domestic (% of GDP)	17.7	23.6	27.8	28.0	30.9	32.8	26.8	...	...	...	...	28.1	26.7
External (% of GDP)	12.2	12.2	9.2	9.4	10.7	10.1	13.0	16.1	15.4	14.5	14.3	13.0	13.3
Total External Debt Amortization (US \$bn)	37.3	46.0	41.5	9.9	10.4	13.8	75.6	9.6	8.2	8.5	7.9	34.2	34.9
Total External Debt Interest Payments (US \$bn)	15.1	14.6	3.4	3.0	3.5	3.4	13.3	3.5	3.4	3.5	3.6	14.0	14.0
Total External Debt Service (% exports of goods & svcs)	18.1	19.6	81.7	22.5	22.5	26.3	37.1	22.7	19.4	17.6	15.2	18.4	16.9
Public-external Debt Service (% exports of goods & svcs)	9.5	9.4	57.3	7.9	8.5	7.1	19.1	10.0	7.9	6.3	5.8	7.4	5.7
Public-external Debt Service (% of GDP)	2.7	2.7	16.2	2.1	2.3	2.0	5.3	2.6	2.0	1.8	1.8	2.0	1.6
SAVINGS - INVESTMENT BALANCE													
Savings (% of GDP)	25.0	24.9	19.7	24.2	21.6	20.8	21.6	21.7	24.4	22.1	20.6	22.2	22.5
Investment (% of GDP)	25.8	26.4	21.5	24.0	23.6	22.0	22.8	22.2	25.0	24.8	23.1	23.8	24.7
Memorandum Items													
Workers' Remittances (US\$bn)	26.1	25.1	5.5	5.6	5.6	5.8	22.4	5.5	5.6	5.6	5.8	23.0	23.0

Source: Citi Investment Research and Analysis

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- **Summary view** — We continue to have a constructive view on the economy, despite the challenging first half of the year. A wide array of indicators suggests activity reached its trough in 2Q'09 and that growth should resume in 4Q'09. Our more supportive economic scenario should reduce the risk of a re-emergence of populism over the 2010–11 election period.
- **Things to watch** — After the central bank pushed the policy rate down to a below-neutral 1.25%, and signaled the end of the monetary easing cycle, attention now moves to how fast the fiscal stimulus plan is executed. The finance ministry expects to execute 84% of the fiscal plan, up from a 31% execution rate in July.
- **Strategy** — In line with our more bullish view, we have revised our USD/PEN forecasts for year-end 2009 and 2010 down to 2.85 and 2.70 from 2.95 and 2.95. However, we are bearish on the long end of the local curve, as we believe that a very low CPI base in 2009 and higher economic growth in the months ahead suggest rate hikes may not be delayed beyond the second quarter of 2010.

In line with expectations, recovery is near

The fiscal stimulus seems to be gaining traction, according to the latest leading indicators; we therefore maintain our 2009 and 2010 GDP growth forecasts at 2.0% and 5.0%. Central government consumption and investment spending increased 15.6% and 85.5% year over year in July, while estimates published by the central bank and the finance ministry suggest that the spending momentum has increased lately. These numbers only correspond to central government disbursements and not actual executed spending, but leading indicators show that the execution of the fiscal package is moving forward, after several delays. The last available prints of seasonally adjusted measures of local cement sales and intermediate and capital good imports grew 4.8%, 13.9%, and 6.9% month over month, respectively. In annualized terms, these growth rates stand at 76.7%, 377.6%, and 124.8%, respectively.

Manufacturing indicators suggest private investment may be rebounding (see Figure). Seasonally adjusted non-primary manufacturing, manufacturing linked to construction, consumer staples, and textile manufacturing in July came at 3.2%, 5.2%, 7.2%, and 4.5% month over month, respectively, according to the central bank. Seasonally adjusted electricity consumption was 1.9% month over month in August, and September is likely to post a similar print. Business sentiment surveys for final demand, orders, and sales are also on the rise (see Figure). The strongest cut in inventories of the last 15 years seems to be ending, while we expect the surge in public spending to end the negative contribution of inventories to growth by September. This view provides support to our GDP growth forecasts of 1.4% and 5.9% year over year in the third and fourth quarters of 2009, respectively.

External accounts remain in solid shape, supporting USD/PEN. The retrenchment of imports has offset the loss in terms of trade and the decline in exports, which bodes well for the external accounts. We have maintained our expectation for a 2009 current account deficit at 1.4% of GDP and we expect a negative balance of 1.7% of GDP in 2010. The expected recovery in global demand for non-traditional exports, together with higher international commodity prices, supports a moderate deficit. In line with these views, we have also revised our USD/PEN forecasts for year-end 2009 and 2010 down to 2.85 and 2.70 from 2.95 and 2.95, respectively.

Higher growth and lower inflation reduce political tensions

Broad inflation measures have slowed substantially, thus we have revised down our year-end 2009 inflation forecast to 0.5% from 1.5%. Lower food prices, together with a lower USD/PEN, a weaker domestic demand, and an improvement in inflation expectations, have reduced inflationary pressures significantly. Our benign inflation outlook should continue at least through the end of the year as the resource slack suggests further downside. However, we believe that the central bank will hike interest rates once the economy shows signs that it is on a sustainable growth path in order to limit the possibility of deterioration of inflation expectations. Therefore, we expect the central bank to start the tightening cycle around the beginning of the second quarter of 2010, likely increasing the policy rate to 3.5% from 1.25% this year. A stronger tightening monetary cycle cannot be ruled out, especially if the recovery of economic activity closes the existing output gap before the end of next year.

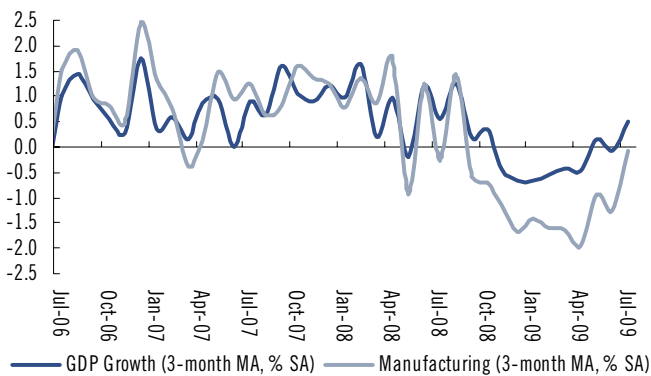
The positive growth momentum and lower inflationary pressures are likely to dissipate political concerns; therefore, we maintain our 2010 growth forecast at 5.0%. We used to have concerns that a late implementation of the fiscal stimulus could delay growth and postpone investment decisions for after the presidential elections of 2011. But these concerns are quickly fading for two reasons. First, the latest poll conducted by the *Universidad Católica* show that a radical leftist candidate is unlikely to make it to the second round of the next presidential elections. Second, the recovery in 2009 is likely to dissipate political activism against the current administration to a great extent, although popular discontent is likely to remain if social indicators do not improve in the near future.

Investment implications

We believe the long end of the local curve is expensive; investors should reduce duration. Some may interpret recent central bank announcements that it will begin to grant 12-month liquidity at low rates as a commitment to keeping interest rates low for a long time, giving support to the local curve. In contrast, we believe 2009 will end with a very low CPI base, as we have revised our year-end inflation forecast down to 0.50% from 1.50%. Together with our higher growth forecast for 2010, we believe the central bank will find it hard to delay hikes beyond the second quarter next year, entering a path that should place rates at 3.50% by December 2010.

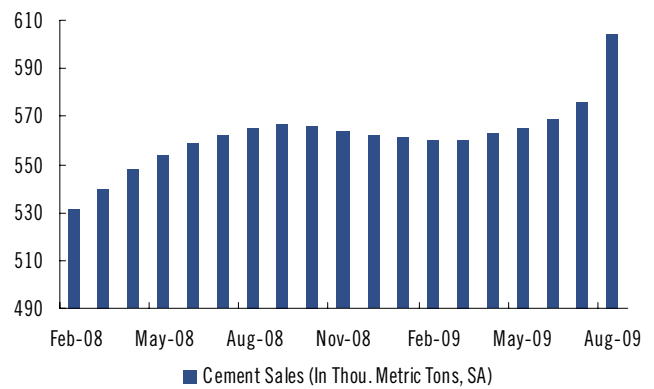
Selected Charts – Peru

Figure 65. A wide array of data indicate that the economy is growing again



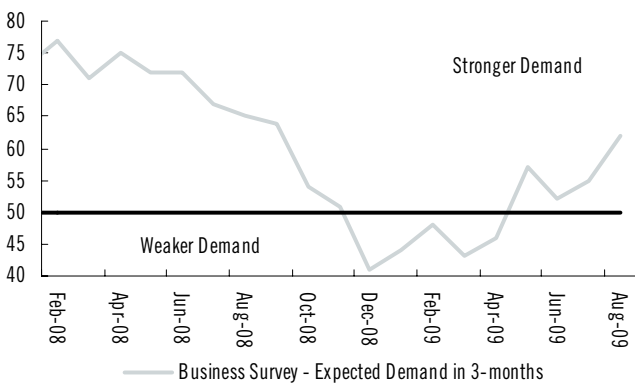
Sources: INEI and Citi Investment Research and Analysis

Figure 66. Higher cement sales suggest fiscal stimulus is gaining traction



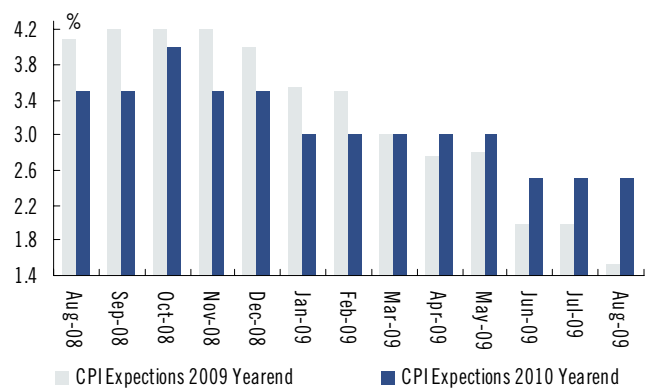
Source: Asocem

Figure 67. Business surveys bode well for a recovery in private investment



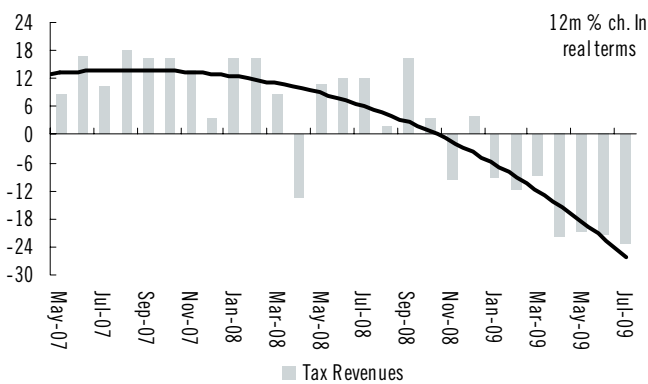
Source: BCRP

Figure 68. Inflation expectations anticipate interest rates should remain low



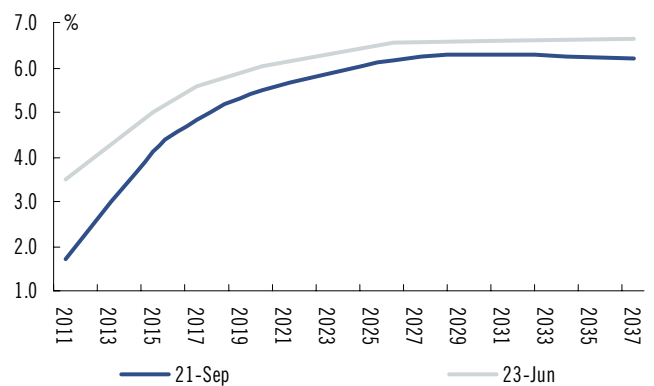
Source: BCRP

Figure 69. Lower tax revenues do not pose a fiscal risk, for now



Sources: BCRP and Citi Investment Research and Analysis

Figure 70. The long end of the curve seems expensive at current levels



Sources: Bloomberg and Citi Investment Research and Analysis

Macroeconomic Indicators – Peru

	2007	2008	2009					2010					2011
	Act.	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	107.5	127.7	28.0	32.1	32.1	34.8	127.0	32.9	36.6	34.9	36.9	141.2	150.4
Nominal GDP (New Soles Bn)	322.3	400.3	88.1	96.5	91.8	99.2	361.9	93.7	104.3	99.4	105.1	395.4	406.0
GDP per capita (US\$)	3733	4371	3812	4361	4349	4697	4282	4416	4900	4668	4935	4691	4922
Unemployment Rate (%)	7.4	7.8	9.3	8.5	8.7	8.9	8.9	8.7	8.5	8.1	7.9	7.9	7.0
Population (millions)	28.8	29.2	29.3	29.4	29.5	29.7	29.7	29.8	29.9	29.9	29.9	30.1	30.6
ECONOMIC ACTIVITY													
Real GDP growth (yoy)	8.5	9.8	1.8	-1.1	1.4	5.9	2.0	6.6	8.7	4.5	0.5	5.0	5.0
Real GDP growth (qoq, sa, annualized)	...	...	-4.1	-0.9	15.5	4.4	...	0.8	7.8	-1.4	-1.0	...	...
Domestic Demand Growth (ex-inventory, yoy)	11.0	13.0	4.1	-2.1	-1.0	4.9	2.0	5.7	12.0	7.9	4.9	7.6	7.2
Real Investment Growth (yoy)	22.6	28.4	3.9	-16.2	-14.6	12.2	-1.3	15.4	43.5	20.6	-2.5	16.7	12.9
Real Consumption Growth (yoy)	7.9	7.9	4.2	2.6	4.2	1.9	3.3	2.8	3.5	3.9	8.1	4.6	5.1
Real Private Consumption Growth (yoy)	8.3	8.7	3.8	1.9	4.1	0.4	2.5	3.9	3.1	2.7	6.3	4.0	5.0
Real Government Consumption (yoy)	4.5	1.8	8.2	8.9	5.6	12.6	9.0	-7.3	7.1	12.9	18.9	9.0	6.0
Real Export Growth (yoy)	6.2	8.2	-2.1	-3.1	-5.7	-4.0	-3.8	1.6	8.2	9.9	11.7	8.0	8.0
Real Import Growth (yoy)	21.3	19.9	-13.3	-24.0	-14.9	-0.5	-13.1	5.7	30.4	26.0	30.1	23.4	10.0
PRICES													
Consumer Price Inflation (yoy, eop)	3.9	6.7	4.8	3.1	1.3	0.5	0.5	0.7	1.6	2.1	2.2	2.2	3.0
Core Inflation (yoy, eop)	3.9	5.6	5.7	4.7	3.1	2.0	2.0	1.2	1.2	2.0	2.0	2.0	2.0
Consumer Price Inflation (qoq, eop)	...	...	0.4	-0.4	0.0	0.5	...	0.6	0.5	0.5	0.5	...	...
Wages (% change yoy, nominal)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Exchange Rate (local currency to USD, eop)	3.00	3.13	3.15	3.01	2.86	2.85	2.85	2.85	2.85	2.85	2.85	2.80	2.70
Exchange Rate (% change yoy, + dep.)	-7.4	4.6	14.8	1.5	-4.1	-9.1	-9.1	-9.6	-5.2	-0.3	0.0	-1.8	-3.7
Bilateral Real Exchange Rate (% change yoy, + dep.)	-7.3	-1.9	9.1	-2.9	-7.1	-7.5	-7.5	-9.0	-6.5	-1.5	-1.2	-1.2	-1.0
MONETARY SECTOR													
Monetary Base growth (yoy)	28.2	25.5	7.1	-7.0	2.6	-3.0	-3.0	15.3	15.9	12.9	10.0	10.0	12.0
Broad Money growth (yoy)	22.7	25.1	16.7	6.3	3.2	0.0	0.0	8.5	15.1	15.1	15.0	8.0	10.0
Credit Growth (yoy)	30.9	32.5	33.3	17.2	13.0	5.0	5.0	0.8	4.8	6.4	8.0	15.0	15.0
Central Bank Rate (Reference, eop)	5.00	6.50	6.00	3.00	1.25	1.25	1.25	1.25	2.00	2.75	3.50	3.50	6.00
Short-term Rate (eop)	5.00	6.50	6.00	3.00	1.25	1.25	1.25	1.25	2.00	2.75	3.50	3.50	6.00
Long-term Rate (eop)	6.65	7.64	7.14	6.52	6.50	6.50	6.50	6.70	6.70	6.70	6.70	6.70	6.70
EXTERNAL SECTOR													
Current Account Balance (% of GDP)	1.1	-3.3	-1.5	0.1	-0.8	-3.3	-1.4	1.2	-0.4	-2.0	-5.3	-1.7	-1.1
Current Account Balance (in US\$ bn)	1.2	-4.2	-0.4	0.0	-0.3	-1.1	-1.8	0.4	-0.1	-0.7	-2.0	-2.4	-1.7
Trade Balance (in US\$ bn)	8.3	3.1	0.5	1.2	0.9	0.1	2.7	0.8	0.6	0.0	-1.0	0.4	0.7
Exports, f.o.b. (in US\$ bn)	27.9	31.5	5.4	6.1	6.7	6.6	24.8	6.4	6.8	7.7	7.9	28.8	32.6
Commodities	21.5	23.8	3.9	4.6	5.1	4.7	18.3	4.7	5.2	5.8	5.6	21.3	24.1
Non-commodities	6.4	7.7	1.5	1.4	1.6	2.0	6.4	1.7	1.6	1.8	2.3	7.5	8.5
Imports, c.i.f. (US\$ Bn)	19.6	28.4	4.9	4.8	5.8	6.5	22.0	5.6	6.2	7.6	8.9	28.4	31.8
Services (net)	-1.2	-1.9	-0.3	-0.3	-0.3	-0.3	-1.0	-0.3	-0.4	-0.4	-0.6	-1.8	-1.4
Current Transfers (net)	2.5	2.8	0.6	0.7	0.6	0.6	2.5	0.6	0.6	0.5	0.5	2.1	2.1
Foreign Direct Investment (in US\$ bn)	5.4	4.1	1.3	1.5	1.2	1.3	5.3	1.2	1.4	1.7	2.1	6.4	7.6
Terms of Trade (% change yoy, + improvement)	-4.4	-24.9	-23.0	-15.4	-9.8	5.6	5.6	5.3	-1.7	-0.4	1.0	1.0	-2.0
International Reserves (in US\$ bn)	27.7	31.2	30.9	30.8	32.4	34.0	34.0	35.7	36.8	37.9	39.1	39.1	43.0
Import Cover (in months, imports of goods & services)	17.0	13.2	19.0	19.1	16.8	15.6	18.5	19.1	17.7	14.9	13.2	16.5	16.2
PUBLIC SECTOR													
Central Gov. Primary Budget Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	...
Central Gov. Budget Balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	...
Consolidated Primary Balance (% of GDP)	4.9	3.7	2.6	1.8	-1.6	-7.6	-1.3	4.6	3.2	0.8	-4.3	1.0	1.4
Consolidated Public Sector Balance (% of GDP)	3.6	2.8	1.7	1.0	-2.5	-8.3	-2.2	3.6	2.4	-1.2	-6.1	-0.3	0.0
Central Gov. Revenues (% of GDP)	18.2	18.0	16.4	16.3	16.3	16.4	16.4	16.4	17.0	17.0	17.0	16.9	16.9
DEBT INDICATORS													
Gross External Debt (% of GDP)	24.5	20.0	23.7	18.9	19.9	19.4	21.3	20.1	17.2	19.5	19.9	20.8	18.8
Public (% of GDP)	20.1	19.2	17.8	15.5	15.8	14.9	20.7	15.1	14.3	15.7	15.6	23.0	21.0
Private (% of GDP)	6.3	6.3	5.9	3.4	4.1	4.5	6.3	5.0	2.9	3.8	4.3	6.3	7.3
Gross Government Debt (% of GDP)	29.6	24.0	27.7	24.8	23.9	21.3	23.3	21.4	20.2	22.4	22.4	23.3	21.3
Domestic (% of GDP)	11.8	11.4	9.9	9.3	8.0	6.4	8.9	6.3	6.0	6.7	6.7	9.9	11.0
External (% of GDP)	20.1	19.2	17.8	15.5	15.8	14.9	20.7	15.1	14.3	15.7	15.6	23.0	21.0
Total External Debt Amortization (US \$bn)	5.7	2.6	...	...	...	...	1.0	...	...	...	...	1.0	1.0
Total External Debt Interest Payments (US \$bn)	1.4	1.2	...	...	...	...	1.2	...	...	...	...	1.2	1.2
Total External Debt Service (% exports of goods & svcs)	22.8	10.8	...	...	...	...	7.7	...	...	...	...	6.7	6.0
Public-external Debt Service (% exports of goods & svcs)	22.5	10.8	9.1	7.2	6.3	6.3	7.1	8.7	6.8	10.5	9.9	9.1	8.1
Public-external Debt Service (% of GDP)	6.5	3.0	2.0	1.5	1.5	1.4	1.6	1.9	1.4	2.6	2.4	2.1	1.9
SAVINGS - INVESTMENT BALANCE													
Savings (% of GDP)	24.1	23.6	21.4	19.8	17.4	18.6	18.1	20.0	19.5	16.5	12.7	17.1	17.7
Investment (% of GDP)	22.9	26.9	22.9	19.7	18.2	21.8	19.5	18.7	19.8	18.5	17.9	18.8	18.8

Source: Citi Investment Research and Analysis

Venezuela

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- **Summary view** — Economic activity has continued to decelerate, while inflation receded somewhat but it is still high. The government is scheduled to announce measures aiming at reducing the gap between the parallel exchange rate and the official exchange rate, delaying any devaluation of the official exchange rate. The still-large stock of public assets sustains the sovereign's ability to service its near-term obligations. Over the medium term, we continue to predict a disorderly macroeconomic adjustment.
- **Things to watch** — The scope and timing of the additional adjustment measures in response to a weakening of economic activity will likely gravitate around FX measures coupled with fiscal spending. The government will need to explain the characteristics of recently announced VEF10 billion bond issuance.
- **Strategy** — Scarcity, high uncertainty, and political noise will likely persist for some time given a deteriorating domestic outlook, legal reforms, and government measures. We remain bearish on the credit over the medium term in light of unsustainable macro policies.

Economic activity is deteriorating fast

While we maintain our 2009 economic growth forecast at -2.2%, we have reduced our forecast for expected contraction in 2010 to 1.7% from 2.8% previously. The price of the Venezuelan oil basket has increased throughout 2009, and will likely continue to do so in 2010, given the prospects of a modest global recovery. This upward trend should help the government boost the economy further over the coming quarters. However, higher oil prices and public spending are not enough to lead to a recovery at some point in 2010. The base-case scenario we expect is one in which the economy bottoms out in the first half of 2010. We still do not foresee an overall recovery next year because of a missing key issue: the role of the private sector.

Growth figures for the second quarter show the economy starting to fall sharply. Real GDP contracted 2.4% year over year in the second quarter, after growing 0.5% year over year in the first quarter (7.2% a year before), bringing down economic growth to -1.0% in the first half of 2009. The Central Bank of Venezuela confirmed that the drop in the oil industry was (-4.2% yoy) due to the effect of both lower prices and production. The non-oil sector's retreat (-1.6% yoy) was led by the sharp fall in industrial production (-8.5%), retail sales (-6.5%), and transportation (-4.8%).

Inflation risks still on the upside

Annual inflation acceleration in August suggests persistence of high inflation drivers despite changes in the relative importance of the main contributors. Year-over-year inflation in Caracas reached 28.8% in August, up from 28.3% in the previous month. Similarly, the new nationwide CPI (INPC) accelerated to 26.7%, up from 26.2% a month before. While factors associated with food inflation and weaker economic activity were behind the inflation deceleration in the first half of the year, only the latter will likely continue to exert downward pressure during the second half. As expected, food inflation has now become part of the group of factors creating upward price pressures. This is explained by restrictions on getting foreign currency at the official USD/VEF2.15 rate, driving importers to increasingly use the parallel exchange market, where a dollar is worth up to three times the official rate, as well as by the fact that the

government has increased controlled prices. We believe these factors will offset downward pressures stemming from weakening economic activity during the second half of this year.

Improving outlook on the current account

We have revised down our 2009 current account deficit forecast to US\$567 million (-0.1% of GDP) from a US\$5.2 billion deficit (-1.3% of GDP) before.

The combination of improved oil prices through 2010, with a better-than-expected trade balance result in the second quarter of 2009 were the main factors behind the revision of our external sector accounts' forecast. The year-to-date price of the Venezuelan oil basket stands at US\$50.85, according to the energy and oil ministry. Although it is 49.6% below the level for the same period a year ago, it is 12.0% higher than the average observed in the last quarter of 2008 and 26.7% above that in the first quarter of 2009. As mentioned in our latest global report,⁷ oil prices should continue rising gradually over the next six quarters at least. This revision also affects our current account forecast for 2010; we now expect a current account surplus of US\$14.0 billion (3.8% of GDP), versus US\$9.2 billion (2.7% of GDP) before.

Economic measures aimed at FX and employment creation

President Chávez has said that an important number of measures will be announced in the coming weeks regarding FX and unemployment reduction.

Information and certainty about the actual scope of the package is very limited thus far. Although the package should include economic recovery measures, the core decisions seem to be focused on alleviating pressures over the currency in the parallel exchange rate market to reduce the gap with the official exchange rate (USD/VEF2.15). Bond issuance of VEF10 billion announced by President Chávez is aimed in that direction.⁸ Although the details and timing of this issuance are not known, if dollar denominated, they could be offered in the parallel exchange rate market for those interested in obtaining foreign currency. The media has also mentioned the possibility that the bonds could be auctioned at the local stock exchange. This would be a new mechanism to obtain bonds and then swap them in the FX market that provides transparency about the implied exchange rate used. Also, we expect that the government will speed up CADIVI's FX disbursements.

We think these measures would reduce the gap between the parallel and official exchange rate, but the effect will likely not last.

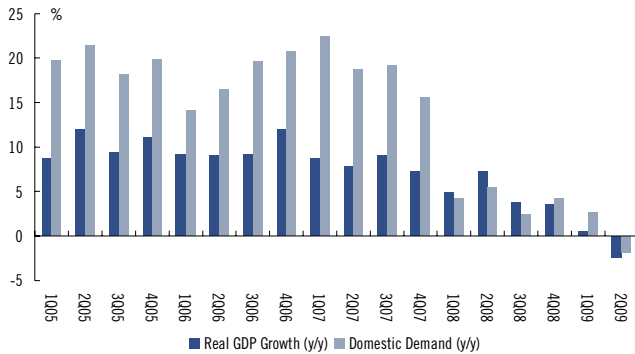
In order for the closing of the gap to be long-lasting, a permanent supply of dollars to both the official and parallel markets is required. To this end, increases in bond issuance help but they have a limit. We consider the authorities will discover that, despite their efforts, at the end of the day, scarcity and inflation are likely to persist. This is why we think this new package will create the conditions for further adjustment measures to be implemented in the first quarter of 2010, which could include an important devaluation of the official currency against the US dollar. The government is likely to try to avoid any additional inflationary pressures stemming from a weaker VEF, especially its political consequences. Nevertheless, before weakening the currency, the government could increase taxes or introduce a new tax on financial transactions. A devaluation of the currency is likely to be the "last resort" fiscal measure.

⁷ Please see August Global Economic Outlook and Strategy, <https://www.citigroupgeo.com/pdf/SGL38681.pdf>.

⁸ See September 17 report in *Dow Jones Newswire*.

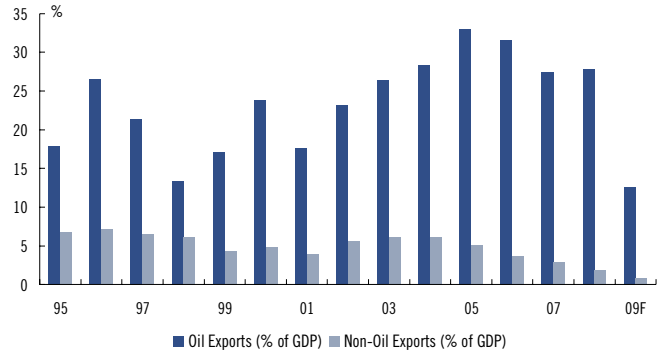
Selected Charts — Venezuela

Figure 71. Economic activity decelerates sharply



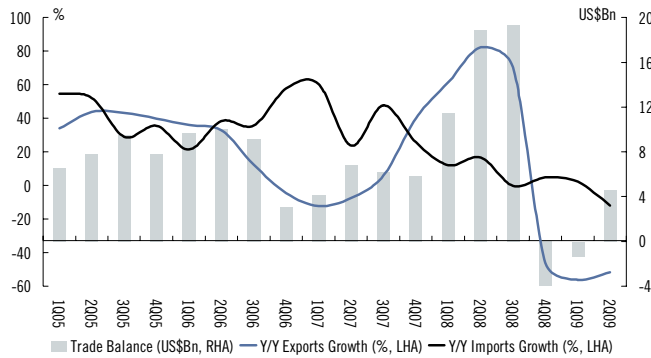
Source: Central Bank and Citi Investment Research and Analysis

Figure 72. Falling oil prices weaken exports...



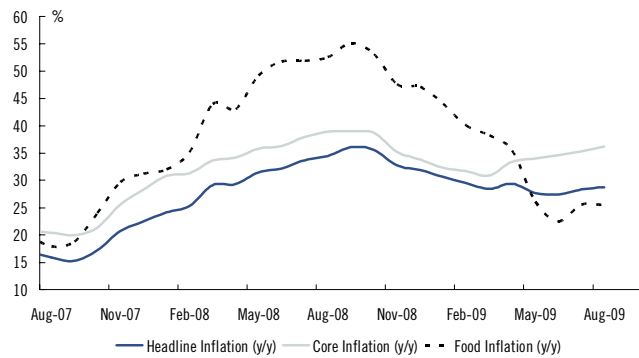
Source: Central Bank and Citi Investment Research and Analysis

Figure 73. ...and trade balance despite lower import growth



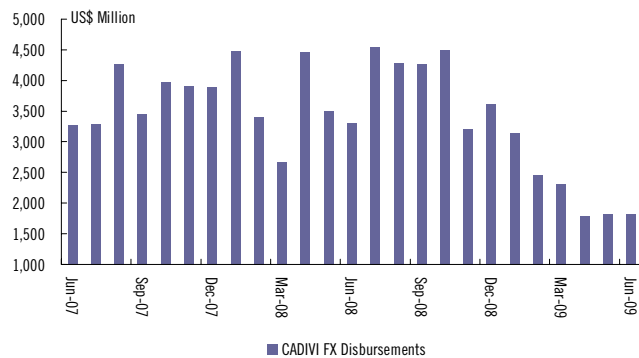
Source: Central Bank and Citi Investment Research and Analysis

Figure 74. Inflation to remain high despite deceleration



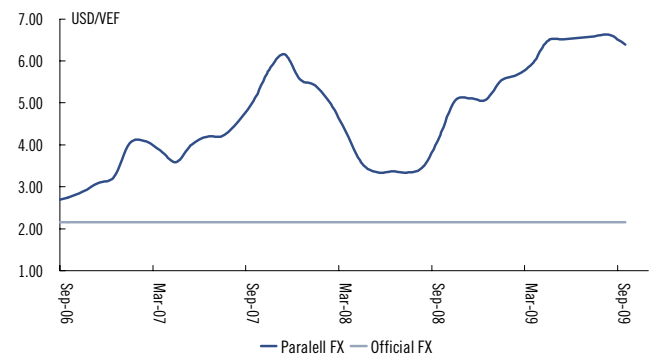
Source: Central Bank and Haver Analytics

Figure 75. Rising restrictions to FX disbursements...



Source: CADIVI and Citi Investment Research and Analysis

Figure 76. ...channeled to the parallel FX market



Source: Central Bank and Citi Investment Research and Analysis

Macroeconomic Indicators — Venezuela

	2007	2008	2009					2010					2011
	Act.	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US\$ bn)	228.3	314.1	82.3	93.2	102.3	119.6	397.4	90.6	78.8	88.2	105.8	363.4	412.2
Nominal GDP (Bolívares Fuertes Bn)*	489.7	673.7	176.7	200.1	219.8	256.9	853.4	230.7	263.7	295.2	354.1	1143.6	1615.8
GDP per capita (US\$)	8306	11244	11736	13234	14480	16859	14002	12716	11018	12286	14681	12605	14079
Unemployment Rate (%)	8.5	7.4	8.1	7.7	8.3	7.3	7.8	9.1	8.7	9.3	8.3	10.0	11.5
Population (millions)	27.5	27.9	28.0	28.2	28.3	28.4	28.4	28.5	28.6	28.7	28.8	28.8	29.3
ECONOMIC ACTIVITY													
Real GDP growth (yoy)	8.2	4.8	0.5	-2.4	-2.9	-3.5	-2.2	-2.0	-2.3	-1.8	-0.8	-1.7	0.5
Real GDP growth (qoq, sa, annualized)	...	...	-16.6	1.1	0.9	2.0	...	-11.5	0.0	2.8	6.1	...	0.0
Domestic Demand Growth (ex-inventory, yoy)	18.7	4.1	2.6	-1.9	-4.4	-5.3	-2.6	-4.4	-3.3	-1.2	-0.3	-2.2	0.0
Real Investment Growth (yoy)	23.0	2.5	12.7	-6.7	-9.2	-11.8	-4.7	-8.4	-7.0	-2.5	-2.3	-5.0	-2.3
Real Consumption Growth (yoy)	16.2	7.0	1.5	-1.7	-1.8	-1.6	-1.0	-1.7	-1.4	-0.5	0.6	-0.7	1.5
Real Private Consumption Growth (yoy)	18.7	7.1	1.5	-2.7	-2.9	-3.1	-1.9	-3.2	-2.9	-1.9	-1.3	-2.3	0.0
Real Government Consumption (yoy)	6.1	6.7	1.6	2.9	3.5	4.5	3.3	5.5	5.1	5.7	7.5	6.1	7.5
Real Export Growth (yoy)	-7.0	-2.8	-18.3	-8.8	-8.7	-8.0	-11.0	-1.6	-2.6	1.4	1.6	-0.3	0.0
Real Import Growth (yoy)	29.9	3.8	4.5	-7.7	-8.6	-8.7	-5.5	-7.1	-5.0	1.4	1.4	-2.1	0.3
PRICES													
Caracas Consumer Price Inflation (yoy, eop)	22.5	31.9	28.5	27.4	29.6	32.0	32.0	33.3	34.9	36.8	39.0	39.0	38.0
Caracas Core Inflation (yoy, eop)	28.2	33.8	30.9	34.6	38.2	39.6	39.6	37.8	34.9	36.2	38.4	38.4	38.5
Caracas Consumer Price Inflation (qoq, eop)	...	...	5.4	6.6	7.8	9.0	...	6.4	7.9	9.3	10.8	...	0.0
Wages (% change yoy, nominal)	20.7	25.0	22.6	17.0	26.9	27.9	23.7	26.5	27.8	20.7	23.5	24.5	27.0
Exchange Rate (local currency to USD, eop)*	2.15	2.15	2.15	2.15	2.15	2.15	2.15	3.35	3.35	3.35	3.35	3.35	4.50
Exchange Rate (% change yoy, + dep.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	55.8	55.8	55.8	55.8	55.8	0.0
Bilateral Real Exchange Rate (% change yoy, + dep.)	-15.0	-24.1	-22.5	-25.3	-27.0	-25.3	-25.3	14.0	15.0	14.1	12.3	12.3	-23.0
MONETARY SECTOR													
Monetary Base growth (yoy)	43.3	30.6	19.1	30.1	25.1	29.6	29.6	42.5	35.7	47.0	48.6	48.6	49.0
Broad Money growth (yoy)	27.8	26.9	30.9	30.3	35.5	42.2	42.2	42.1	43.6	42.3	41.1	41.1	43.0
Credit Growth (yoy)	68.8	25.9	23.8	16.8	19.1	24.3	24.3	24.2	25.4	24.3	23.4	23.4	22.0
Central Bank Rate (eop)	18.00	28.10	10.20	11.90	12.10	14.00	14.00	12.10	12.30	12.40	12.50	12.50	14.00
Short-term Rate (90-day Deposit Rate, eop)	11.15	17.63	17.10	14.71	14.50	14.50	14.50	14.80	15.25	15.70	20.00	20.00	20.00
Long-term Rate (eop)	12.0	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	14.00
EXTERNAL SECTOR													
Current Account Balance (% of GDP)	8.8	12.5	-5.1	2.3	1.5	-0.1	-0.1	4.1	5.2	4.4	2.3	3.8	4.0
Current Account Balance (in US\$ bn)	20.0	39.2	-4.2	2.2	1.6	-0.1	-0.6	3.0	4.5	4.1	2.3	14.0	12.7
Trade Balance (in US\$ bn)	23.7	45.4	-1.4	4.6	3.6	2.0	8.8	5.4	6.7	6.3	4.5	22.9	38.0
Exports, f.o.b. (in US\$ bn)	69.2	93.5	9.8	14.6	14.3	14.8	53.5	15.3	15.6	15.9	16.1	63.0	70.0
Oil	62.6	87.4	9.1	13.8	13.3	13.9	50.0	14.4	14.7	15.0	15.2	59.3	67.0
Other	6.6	6.1	0.7	0.9	1.1	0.9	3.5	0.9	0.9	0.9	0.9	3.6	3.0
Imports, c.i.f. (US\$ Bn)	45.5	48.1	11.2	10.1	10.7	12.8	44.7	9.9	8.9	9.6	11.6	40.1	45.0
Services (net)	-5.9	-6.4	-2.0	-2.1	-2.1	-2.1	-8.3	-2.1	-2.1	-2.1	-2.1	-8.4	-8.5
Current Transfers (net)	-0.4	-0.6	-0.1	-0.1	-0.1	-0.1	-0.5	-0.1	-0.1	-0.1	-0.1	-0.5	-0.4
Foreign Direct Investment (in US\$ bn)	-1.6	-1.0	0.8	-3.4	-0.5	-0.4	-3.5	-0.9	-1.3	-0.8	-0.8	-3.7	-3.8
Terms of Trade (% change yoy, + improvement)	2.9	27.4	-45.2	-44.6	-47.6	57.2	-32.8	66.2	17.3	23.7	19.7	29.2	18.0
International Reserves (in US\$ bn)	33.5	42.3	28.6	30.2	31.1	34.9	29.5	31.3	31.6	32.7	33.5	33.5	34.0
Import Cover (in months, imports of goods & services)	7.4	8.9	6.2	7.1	7.0	6.8	6.4	7.4	8.1	7.9	7.0	7.9	7.5
PUBLIC SECTOR													
Central Gov. Primary Budget Balance (% of GDP)	4.5	0.1	-3.9	...	...	...	-3.8	...	...	...	...	-5.0	-4.0
Central Gov. Budget Balance (% of GDP)	3.0	-1.2	-5.1	...	...	...	-5.2	...	...	...	...	-6.0	-5.0
Consolidated Primary Balance (% of GDP)	-1.0	-1.2	-3.1	...	...	...	-4.4	...	...	...	...	-3.0	-2.0
Consolidated Public Sector Balance (% of GDP)	-2.6	-2.6	-4.4	...	...	...	-5.8	...	...	...	...	-3.5	-1.0
Central Gov. Revenues (% of GDP)	28.9	24.7	15.0	...	...	...	21.4	...	...	...	...	25.6	27.0
DEBT INDICATORS													
Gross External Debt (% of GDP)	24.4	18.5	18.0	16.9	16.1	15.3	15.3	15.2	16.0	16.9	17.8	17.6	16.1
Public (% of GDP)	17.5	14.0	13.5	12.9	12.3	11.6	11.6	11.6	12.3	13.1	13.8	14.5	13.2
Private (% of GDP)	6.9	4.5	4.5	4.0	3.8	3.6	3.6	3.6	3.7	3.8	3.9	3.1	2.9
Gross Government Debt (% of GDP)	24.8	18.5	19.2	19.2	19.0	19.2	19.2	17.3	17.9	18.8	22.6	21.3	23.0
Domestic (% of GDP)	7.4	4.5	5.7	6.3	6.7	7.6	7.6	5.7	5.6	5.7	8.8	8.8	8.8
External (% of GDP)	17.5	14.0	13.5	12.9	12.3	11.6	11.6	11.6	12.3	13.1	13.8	12.5	13.2
Total External Debt Amortization (US \$bn)	3.4	7.7	1.1	1.2	1.4	1.4	5.1	1.6	2.0	1.1	1.3	5.8	5.4
Total External Debt Interest Payments (US \$bn)	2.6	2.9	0.8	0.8	0.9	0.8	3.6	0.9	0.8	1.0	0.8	3.5	3.5
Total External Debt Service (% exports of goods & svcs)	8.4	11.1	18.4	13.4	15.5	14.2	15.5	15.9	16.9	12.6	12.1	14.1	14.0
Public-external Debt Service (% exports of goods & svcs)	6.9	10.7	17.4	12.7	14.9	13.2	8.7	64.3	0.0	0.0	47.6	9.3	9.1
Public-external Debt Service (% of GDP)	2.2	3.3	2.2	2.1	2.2	1.7	1.2	11.3	0.0	0.0	7.6	1.7	1.5
SAVINGS - INVESTMENT BALANCE													
Savings (% of GDP)	32.4	32.3	24.2	33.6	31.8	30.9	19.1	30.3	34.5	34.3	32.6	22.5	23.0
Investment (% of GDP)	23.7	19.8	29.3	31.3	30.3	30.9	19.2	26.2	29.3	29.9	30.3	18.6	19.0
Memorandum Items													
Oil Prices (US\$/barrel)	64.6	86.4	40.1	53.4	60.7	57.6	52.9	40.1	53.4	60.7	57.6	61.4	61.4

Note: *All figures in Bolívares Fuertes (VEF), which started circulating in January 2008 (VEF=VEB/1000).

Source: Citi Investment Research and Analysis

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Appendix

Latin America: Medium and Long Term Trends

	Historical Data						Trend			Forecasts				MT Forecast		
	2002	2003	2004	2005	2006	2007	2008E	5Y Avg.	10Y Avg.	2009	2010	2011	2012	2013	5Y Avg.	10Y Avg.
Latin America																
Real GDP Growth	0.4	1.8	6.0	4.5	5.4	5.3	3.8	5.0	3.1	-2.2	3.5	3.5	3.7	3.7	2.4	3.4
CPI Inflation (eop)	11.2	7.3	6.8	5.8	5.1	6.9	9.2	6.8	7.3	7.9	8.1	7.3	6.8	6.3	7.3	5.9
Nominal Fiscal Balance (% of GDP)	-2.3	-1.9	-0.5	-0.5	-0.5	-0.6	-0.6	-0.5	-1.4	-3.0	-1.9	-1.4	-1.1	-0.8	-1.7	-0.2
Current Account Balance (% of GDP)	-0.5	0.8	1.2	1.7	1.7	0.7	-0.4	1.0	-0.3	-0.7	-0.8	-1.2	-1.4	-1.4	-1.1	-0.9
Gross Government Debt (% of GDP)	...	...	53.3	49.8	46.5	44.7	45.6	48.0	...	47.8	46.4	...	...	...	...	...
Gross External Debt (% of GDP)	...	...	36.2	26.2	22.1	21.1	19.3	25.0	...	20.0	18.1	...	...	...	...	...
Unemployment Rate (%)	10.9	11.0	10.2	8.8	8.6	7.9	7.3	8.6	...	8.4	8.5	...	...	...	...	...
Argentina																
Real GDP Growth	-10.9	8.8	9.0	9.2	8.5	6.1	2.6	7.1	2.5	-3.5	0.5	2.0	2.0	2.0	0.6	2.9
CPI Inflation (eop)	33.4	9.1	8.5	15.4	14.4	20.7	16.3	15.1	16.8	16.8	10.5	9.5	9.0	8.5	10.9	8.4
Nominal Fiscal Balance (% of GDP)	-1.5	0.5	3.7	2.1	1.9	0.2	0.9	1.8	0.0	-2.3	-1.5	-1.0	-1.0	-1.0	-1.4	-0.6
Current Account Balance (% of GDP)	9.0	6.0	2.3	3.1	3.8	2.7	2.2	2.8	2.0	2.7	2.2	0.5	0.5	0.5	1.3	0.8
Exchange Rate (eop)	3.36	2.93	2.98	3.03	3.07	3.15	3.45	3.14	2.50	3.95	4.60	5.06	5.82	6.11	5.11	6.42
Gross Government Debt (% of GDP)	...	...	...	84.2	76.6	66.9	53.9	70.4	81.5	58.5	57.4	...	...	...	...	...
Gross External Debt (% of GDP)	...	...	...	62.5	50.3	45.9	39.9	49.7	62.3	41.8	41.3	...	...	...	...	...
Unemployment Rate (%)	19.7	17.3	13.6	11.6	10.2	8.5	7.9	10.3	12.7	10.1	12.1	...	...	...	...	...
Brazil																
Real GDP Growth	2.7	1.1	5.7	3.2	4.0	5.7	5.1	4.7	3.3	0.0	5.0	4.0	4.0	4.0	3.4	3.7
CPI Inflation (eop)	12.5	9.3	7.6	5.7	3.1	4.5	5.9	5.4	7.1	4.3	4.2	4.0	4.0	4.0	4.1	4.0
Nominal Fiscal Balance (% of GDP)	-4.2	-4.6	-2.4	-3.0	-3.0	-2.3	-1.8	-2.5	-3.3	-2.9	-1.4	-1.4	-1.0	-0.5	-1.5	-0.5
Current Account Balance (% of GDP)	-1.5	0.8	1.8	1.6	1.2	0.1	-1.8	0.6	-1.1	-1.0	-1.6	-1.9	-2.0	-2.0	-1.7	-1.8
Exchange Rate (eop)	3.53	2.89	2.65	2.34	2.14	1.77	2.34	2.25	2.37	1.75	1.80	1.84	1.88	1.91	1.84	1.93
Gross Government Debt (% of GDP)	64.3	64.3	65.4	67.4	64.2	62.6	64.3	64.8	...	67.0	60.5	...	...	...	...	...
Gross External Debt (% of GDP)	41.7	38.9	30.3	19.2	15.7	14.1	12.5	18.4	...	12.5	9.8	...	...	...	...	...
Unemployment Rate (%)	11.7	12.4	11.5	9.9	10.0	9.3	7.9	9.7	...	8.2	8.0	...	...	...	...	...
Monetary Policy Interest Rate (%)	25.00	16.50	17.75	18.00	13.25	11.25	13.75	14.80	...	8.75	8.75	10.50	10.50	9.50	9.60	8.95
Chile																
Real GDP Growth	2.2	3.9	6.0	5.7	4.0	4.9	3.2	4.8	3.7	-1.4	4.0	4.0	4.0	4.0	2.9	3.5
CPI Inflation (eop)	2.8	1.1	2.4	3.7	2.6	7.8	7.1	4.7	3.7	-0.5	2.8	3.0	3.0	3.0	2.3	3.3
Nominal Fiscal Balance (% of GDP)	-1.2	-0.4	2.1	4.9	7.9	8.6	5.0	5.7	2.4	-3.5	0.0	0.0	1.0	2.0	-0.1	0.8
Current Account Balance (% of GDP)	-0.9	-1.3	2.2	1.1	3.6	4.4	-2.1	1.8	0.4	1.5	0.6	0.1	1.0	1.0	0.8	-0.6
Exchange Rate (eop)	702	603	576	514	528	499	636	551	584	550	570	587	637	656	600	668
Gross Government Debt (% of GDP)	...	...	11.6	7.9	5.3	4.3	4.4	6.7	...	4.9	4.9	...	...	...	...	...
Gross External Debt (% of GDP)	60.0	58.2	45.4	38.8	33.8	34.0	38.7	38.1	...	46.9	45.6	...	...	...	...	...
Unemployment Rate (%)	9.8	9.5	10.0	9.2	7.8	7.1	7.8	8.4	...	9.7	9.3	...	...	...	...	...
Monetary Policy Interest Rate (%)	3.00	2.25	2.25	4.50	5.25	6.00	8.25	5.25	...	0.50	3.50	5.50	5.50	5.50	4.10	5.15
Colombia																
Real GDP Growth	2.5	4.6	4.7	5.7	6.9	7.5	2.5	5.5	3.5	0.0	2.5	3.5	3.5	4.0	2.7	4.1
CPI Inflation (eop)	7.0	6.5	5.5	4.9	4.5	5.7	7.7	5.6	6.7	3.5	4.4	4.0	3.0	3.0	3.6	4.6
Nominal Fiscal Balance (% of GDP)	-3.6	-2.6	0.0	0.0	0.7	-0.6	-0.1	0.0	-1.9	-2.8	-3.7	-2.5	-3.0	-2.5	-2.9	-1.5
Current Account Balance (% of GDP)	-1.8	-1.1	-0.8	-1.3	-1.8	-2.8	-2.8	-1.9	-1.2	-2.1	-2.4	-2.5	-3.5	-3.0	-2.7	-2.3
Exchange Rate (eop)	2865	2778	2390	2284	2239	2015	2234	2232	2321	1900	2000	2100	2200	2100	2060	2146
Gross Government Debt (% of GDP)	22.7	34.9	45.0	38.7	37.6	32.9	34.0	37.6	...	35.6	37.1	...	...	...	...	...
Gross External Debt (% of GDP)	51.2	17.0	34.7	22.2	24.7	21.2	18.7	24.3	...	20.8	21.0	...	...	...	...	...
Unemployment Rate (%)	15.7	14.2	13.6	11.8	13.0	11.4	11.6	12.3	...	13.2	12.4	...	...	...	...	...
Monetary Policy Interest Rate (%)	5.25	7.25	6.50	6.00	7.50	9.50	9.50	7.80	...	4.50	6.00	6.50	6.25	6.25	5.90	6.85
Costa Rica																
Real GDP Growth	2.9	6.4	4.3	5.9	8.8	7.8	2.9	6.0	5.0	-2.0	1.5	4.0	3.5	3.0	2.0	2.5
CPI Inflation (eop)	9.7	9.9	13.1	14.1	9.4	10.8	13.9	12.3	11.2	6.5	7.0	6.0	6.0	6.0	6.3	5.7
Nominal Fiscal Balance (% of GDP)	-5.4	-4.5	-3.6	-2.3	-0.4	0.5	0.2	-1.1	-2.5	-3.0	-2.5	-2.0	-1.5	-1.0	-2.0	-1.1
Current Account Balance (% of GDP)	-5.1	-5.0	-4.3	-4.9	-4.9	-6.3	-8.9	-5.9	-5.2	-4.4	-5.0	-4.5	-4.5	-3.5	-4.4	-3.7
Exchange Rate (eop)	377	417	457	495	517	496	550	503	417	600	625	635	640	650	630	615
Gross Government Debt (% of GDP)	59.5	61.0	59.9	54.7	51.0	46.6	42.5	50.9	57.6	41.7	38.9	37.6	36.1	33.6	37.6	...
Gross External Debt (% of GDP)	28.7	30.9	30.9	31.3	30.3	28.3	24.9	29.1	29.8	24.6	22.1	20.6	19.1	17.1	20.7	...
Unemployment Rate (%)	6.4	6.7	6.5	6.6	6.0	5.8	5.6	6.1	6.2	5.8	6.0	5.5	4.9	4.3	5.3	...
Monetary Policy Interest Rate (%)	...	...	...	...	9.75	6.00	5.25	7.00	...	7.25	8.00	7.00	6.50	6.25	7.00	6.25
Dominican Republic																
Real GDP Growth	4.4	-1.9	2.0	9.3	10.7	8.5	4.7	7.0	5.7	1.5	3.5	4.0	3.0	3.0	3.0	3.0
CPI Inflation (eop)	10.5	42.7	28.7	7.4	5.0	8.9	4.5	10.9	13.5	6.0	7.0	6.0	5.0	4.5	5.7	4.9
Nominal Fiscal Balance (% of GDP)	-1.3	-4.3	-3.1	-0.7	-1.2	0.4	-2.2	-1.4	-1.7	-3.5	-3.0	-2.5	-2.0	-1.5	-2.5	...
Current Account Balance (% of GDP)	-3.7	6.3	4.8	-1.4	-3.4	-5.4	-10.0	-3.1	-2.4	-4.0	-5.7	-4.3	-4.1	-4.3	-4.5	-3.7
Exchange Rate (eop)	21.19	37.25	31.11	33.54	33.40	33.52	35.50	33.41	28.81	36.50	37.00	38.50	38.50	39.00	37.90	39.95
Gross Government Debt (% of GDP)	26.8	55.7	54.1	46.0	43.3	41.0	39.1	44.7	36.4	41.0	40.4	40.8	41.0	40.8	40.8	...
Gross External Debt (% of GDP)	25.1	33.1	33.8	23.1	25.0	24.9	25.0	26.4	25.2	24.9	26.0	27.0	27.7	27.9	26.7	...
Unemployment Rate (%)	16.1	16.4	17.0	18.4	16.4	15.6	15.4	16.6	15.8	17.0	16.4	16.0	15.8	15.5	16.1	...
Monetary Policy Interest Rate (%)	...	...	7.00	10.00	8.00	7.00	9.50	8.30	8.30	4.00	7.50	7.25	6.00	5.50	6.05	5.53

Source: Citi Investment Research and Analysis

Latin America: Medium and Long Term Trends

	Historical Data						Trend			Forecasts				MT Forecast		
	2002	2003	2004	2005	2006	2007	2008E	5Y Avg.	10Y Avg.	2009	2010	2011	2012	2013	5Y Avg.	10Y Avg.
Ecuador																
Real GDP Growth	4.3	3.6	7.6	6.0	3.9	2.5	6.5	5.3	3.6	0.0	3.0	3.5	3.5	3.5	2.7	3.5
CPI Inflation (eop)	12.5	7.9	1.9	3.1	2.9	3.3	8.8	4.0	22.7	2.5	3.0	3.1	3.2	3.0	3.0	3.0
Nominal Fiscal Balance (% of GDP)	0.8	1.1	-1.0	-0.4	1.1	0.1	-2.9	-0.6	-0.2	-5.0	-2.7	-4.3	1.0	0.0	-2.2	0.5
Current Account Balance (% of GDP)	-5.2	-1.7	-2.3	0.9	3.9	3.6	2.2	1.7	0.5	-3.5	-2.0	-1.0	-1.0	0.0	-1.5	0.0
Gross Government Debt (% of GDP)	...	...	44.0	39.1	35.3	32.3	26.0	35.3	...	20.9	23.7	...	...	...	22.3	...
Gross External Debt (% of GDP)	...	...	54.2	46.4	44.8	39.9	30.0	43.1	...	23.1	26.5	...	...	...	24.8	...
Unemployment Rate (%)	...	...	10.9	10.7	10.3	7.1	8.5	9.5	...	9.5	11.0	...	...	...	10.2	...
El Salvador																
Real GDP Growth	2.3	2.3	1.8	2.8	4.2	4.7	2.5	3.2	2.8	-3.5	1.5	2.5	3.0	3.0	1.3	1.9
CPI Inflation (eop)	2.8	2.5	5.4	4.3	4.9	4.9	5.5	5.0	3.5	1.0	3.0	4.0	3.5	3.0	2.9	2.9
Nominal Fiscal Balance (% of GDP)	-3.3	-2.1	-0.6	-1.1	-1.1	-0.1	-1.0	-0.8	-1.9	-5.8	-3.1	-2.5	-2.0	-1.5	-3.0	-1.7
Current Account Balance (% of GDP)	-2.8	-4.7	-4.0	-3.3	-3.6	-5.7	-7.2	-4.8	-3.8	-4.6	-5.7	-7.2	-6.3	-5.0	-5.8	-4.8
Gross Government Debt (% of GDP)	47.5	47.9	46.6	44.0	43.8	42.4	42.6	43.9	41.6	50.0	50.5	50.8	48.7	46.9	49.4	...
Gross External Debt (% of GDP)	39.9	54.2	53.2	49.5	49.0	47.0	44.5	48.7	43.7	42.2	39.3	41.6	38.8	28.3	38.0	...
Unemployment Rate (%)	6.2	6.5	6.3	6.5	5.8	6.2	6.4	6.2	6.5	7.3	7.0	6.5	6.0	6.0	6.6	...
Mexico																
Real GDP Growth	0.8	1.4	4.0	3.2	5.1	3.3	1.3	3.4	3.0	-7.4	3.6	3.9	4.4	3.3	1.6	2.5
CPI Inflation (eop)	5.7	4.0	5.2	3.3	4.1	3.8	6.5	4.6	5.8	4.1	4.0	3.9	3.6	3.1	3.7	3.2
Nominal Fiscal Balance (% of GDP)	-1.2	-0.5	-0.2	-0.1	0.1	0.0	-0.1	-0.1	-0.4	-2.1	-2.5	-1.8	-1.8	-1.9	-2.0	-0.9
Current Account Balance (% of GDP)	-2.0	-1.0	-0.7	-0.5	-0.5	-0.8	-1.4	-0.8	-1.6	-1.2	-1.6	-2.2	-2.5	-2.6	-2.0	-2.5
Exchange Rate (eop)	10.20	11.26	11.15	10.63	10.80	10.90	13.67	11.43	10.66	13.10	13.40	13.50	13.60	13.40	13.40	13.30
Gross Government Debt (% of GDP)	...	...	36.9	35.6	32.6	29.9	35.7	34.1	...	39.8	41.1	...	...	...	40.5	...
Gross External Debt (% of GDP)	23.2	23.2	21.9	20.4	17.8	18.8	18.2	19.4	...	20.4	19.7	...	...	...	20.0	...
Unemployment Rate (%)	3.0	3.4	3.9	3.6	3.6	3.7	4.0	3.8	...	5.7	6.0	...	...	...	5.9	...
Monetary Policy Interest Rate (%)	6.88	6.06	8.50	8.22	7.05	7.50	8.25	7.90	...	4.50	5.50	6.50	6.50	6.50	5.90	6.50
Panama																
Real GDP Growth	2.2	4.2	7.5	7.2	8.7	11.2	9.2	8.8	5.8	1.5	4.0	4.5	4.0	3.5	3.5	3.5
CPI Inflation (eop)	1.8	1.7	1.2	3.4	2.2	6.4	6.8	4.0	2.6	4.0	4.0	4.0	3.5	3.0	3.7	3.1
Nominal Fiscal Balance (% of GDP)	-2.0	-1.9	-4.9	-3.2	0.5	3.5	0.4	-0.7	-0.9	-2.5	-2.0	-1.5	-1.0	-0.5	-1.5	-0.9
Current Account Balance (% of GDP)	-0.8	-4.5	-7.5	-5.2	-2.2	-7.3	-12.3	-6.9	-5.8	-6.5	-8.6	-7.1	-5.5	-5.0	-6.5	-5.3
Gross Government Debt (% of GDP)	69.4	67.0	70.4	66.2	61.1	53.9	45.2	59.4	63.9	44.0	43.0	43.8	...	...	43.6	...
Gross External Debt (% of GDP)	67.6	67.2	66.1	63.0	58.3	53.6	47.1	57.6	61.3	45.0	44.5	45.2	...	...	44.9	...
Unemployment Rate (%)	13.5	13.1	12.4	10.3	9.1	6.4	6.3	8.9	11.0	6.7	6.5	6.0	6.0	...	6.3	...
Peru																
Real GDP Growth	4.9	4.0	4.8	6.7	7.7	8.5	9.8	7.5	5.0	2.0	5.0	5.0	6.0	7.0	5.0	6.5
CPI Inflation (eop)	1.5	2.5	3.5	1.5	1.1	3.9	6.7	3.3	2.8	0.5	2.2	3.0	3.0	3.0	2.3	3.0
Nominal Fiscal Balance (% of GDP)	-2.3	-1.8	-1.0	-0.4	2.5	3.6	2.8	1.5	-0.6	-2.2	-0.3	0.0	0.5	0.0	-0.4	0.0
Current Account Balance (% of GDP)	-2.0	-1.7	0.0	1.4	3.1	1.1	-3.3	0.5	-0.9	-1.4	-1.7	-1.1	0.0	0.0	-0.8	0.0
Exchange Rate (eop)	3.51	3.46	3.28	3.42	3.24	3.00	3.13	3.21	3.35	2.85	2.80	2.70	2.62	2.54	2.70	2.30
Gross Government Debt (% of GDP)	...	...	44.3	37.7	33.0	29.6	24.0	33.7	...	23.3	23.3	...	...	...	23.3	...
Gross External Debt (% of GDP)	...	...	44.6	36.0	30.6	24.5	20.0	31.1	...	21.3	20.8	...	...	...	21.0	...
Unemployment Rate (%)	...	...	10.4	8.0	7.0	7.4	7.8	8.1	...	8.9	7.9	...	...	...	8.4	...
Monetary Policy Interest Rate (%)	...	...	3.00	3.34	4.50	5.00	6.50	4.47	...	1.25	3.50	6.00	5.50	5.00	4.25	5.00
Uruguay																
Real GDP Growth	-11.0	2.2	11.8	6.6	4.6	7.6	8.9	7.9	2.3	0.7	4.0	4.0	3.5	3.5	3.1	4.4
CPI Inflation (eop)	25.9	10.2	7.6	4.9	6.4	8.5	9.2	7.3	8.6	7.2	6.4	5.0	5.0	5.0	5.7	5.6
Nominal Fiscal Balance (% of GDP)	-4.1	-2.9	-2.0	-0.8	-0.6	0.0	-1.0	-0.9	-2.3	-1.4	-1.0	-0.5	-0.5	-0.5	-0.8	-0.7
Current Account Balance (% of GDP)	3.1	-0.5	0.0	0.3	-2.1	-2.0	-3.7	-1.5	-1.3	-5.5	-2.0	-2.0	-2.0	-2.0	-2.7	-2.5
Exchange Rate (eop)	27.22	29.20	26.52	23.63	24.42	21.45	24.25	24.05	22.58	23.50	25.00	29.86	31.20	32.28	28.37	30.85
Gross Government Debt (% of GDP)	...	...	...	83.7	70.9	65.7	62.0	70.6	...	60.0	...	...	...	...	...	...
Gross External Debt (% of GDP)	...	...	87.6	68.6	54.6	51.3	46.3	61.7	...	44.8	...	...	...	...	...	...
Unemployment Rate (%)	...	...	13.3	12.1	10.9	9.5	10.0	11.2	...	10.5	...	...	...	...	...	...
Monetary Policy Interest Rate (%)	...	...	...	...	...	7.25	8.00	7.63	...	6.50	6.00	6.00	6.00	...	...	...
Venezuela																
Real GDP Growth	-8.9	-7.8	18.3	10.3	9.9	8.2	4.8	10.3	3.6	-2.2	-1.7	0.5	1.5	2.5	0.1	3.5
CPI Inflation (eop)	31.2	27.1	19.2	14.4	17.0	22.5	31.9	21.0	20.9	32.0	39.0	38.0	35.0	32.0	35.2	25.0
Nominal Fiscal Balance (% of GDP)	-1.5	0.2	2.5	4.1	-1.5	-2.6	-2.6	0.0	-0.1	-5.8	-3.5	-1.0	-0.5	0.0	-2.2	0.5
Current Account Balance (% of GDP)	8.2	14.1	13.8	17.5	14.7	8.8	12.5	13.4	10.3	-0.1	3.8	4.0	3.5	3.0	2.8	8.0
Exchange Rate (eop)	1.32	1.60	1.92	2.15	2.15	2.15	2.15	2.10	1.56	2.15	3.35	4.50	5.60	6.70	4.46	7.50
Gross Government Debt (% of GDP)	44.8	52.5	39.0	32.1	23.7	24.8	18.5	27.6	...	19.2	21.3	23.0	0.0	20.5	16.8	29.0
Gross External Debt (% of GDP)	42.2	51.4	37.6	30.8	22.8	24.4	18.5	26.8	...	15.3	17.6	16.1	0.0	16.9	13.2	29.0
Unemployment Rate (%)	16.0	18.0	15.1	12.2	10.0	8.5	7.4	10.6	...	7.8	10.0	11.5	12.5	13.0	11.0	11.8

*FX figures in Bolívares Fuertes (VEF), which started circulating in January 2008 (VEF=VEB/1000). E: Estimate. Source: Citi Investment Research and Analysis

Global Assumptions

	2008				2009				2006	2007	2008	2009	2010	2011	2012	2013
	Q1	Q2	Q3	Q4	Q1(e)	Q2(f)	Q3(f)	Q4(f)	Act.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	
Global Indicators																
GDP Growth (y/y %)	2.0	1.7	0.8	-1.2	-3.3	-3.3	-2.3	-0.5	3.9	3.9	1.7	-2.4	3.0	3.4	3.9	4.0
CPI Inflation (average, y/y %)	...	...	...	...	...	...	...	...	2.9	3.1	4.4	1.1	2.0	2.5	2.7	2.7
Current Account (% of GDP)	...	...	...	...	...	...	...	...	-0.1	0.9	-0.2	0.4	0.4	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...	...	...	...	-1.1	-0.3	-2.9	-8.1	-6.7	...	...	...
Industrial Countries^a																
GDP Growth (y/y %)	1.9	1.7	0.4	-2.0	-4.5	-4.7	-3.5	-1.3	2.8	2.5	0.3	-3.8	1.9	2.4	2.7	2.7
CPI Inflation (average, y/y %)	...	...	...	...	...	...	...	...	2.3	2.1	2.9	-0.3	0.5	1.2	1.5	1.7
Current Account (% of GDP)	...	...	...	...	...	...	...	...	-1.8	-0.5	-1.3	-0.4	-0.2	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...	...	...	...	-1.6	-0.7	-3.8	-9.6	-8.0	...	...	...
United States																
GDP Growth (SAAR %)	0.9	2.8	-0.5	-6.3	-6.4	-1.0	3.2	2.0	...	...	...	...	...	...	...	...
GDP Growth (y/y %)	2.5	2.1	0.7	-0.8	-3.3	-3.9	-2.5	-0.6	2.9	2.0	0.4	-2.6	2.7	3.5	3.9	3.9
CPI Inflation (average, y/y %)	4.2	4.3	5.2	1.5	-0.2	-0.9	-1.6	0.9	2.9	2.9	3.8	-0.5	1.3	1.2	1.7	2.0
Current Account (% of GDP)	-5.0	-5.2	-5.1	-4.4	-3.0	-2.8	-3.3	-3.5	-6.2	-5.3	-4.9	-3.1	-3.6	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...	...	...	...	-1.9	-1.1	-3.2	-12.0	-9.0	...	...	...
S&P 500 EPS (y/y %)	-16.5	-18.9	-17.9	-65.3	-32.3	-22.8	-10.5	192.3	81.5	-4.1	-26.8	-2.9	13.3	...	...	...
Business Investment (y/y %)	6.2	4.2	1.6	-5.2	-17.4	-20	-19	-14.6	6.6	4.9	1.6	-17.8	0.2	...	...	...
Imports (y/y %)	-1.0	-1.9	-3.5	-7.5	-16.2	-18.6	-15.9	-11.1	1.8	2.2	-3.2	-15.5	4.7	...	...	...
Japan																
GDP Growth (SAAR %)	2.8	-4.5	-2.9	-13.5	-12.4	2.3	3.3	0.8	...	...	...	...	...	...	...	...
GDP Growth (y/y %)	1.2	0.5	-0.3	-4.4	-8.4	-7.2	-5.2	-1.8	2.2	2.1	-0.7	-5.7	1.0	1.2	1.0	1.0
Core CPI Inflation (y/y %)	1.0	1.4	2.4	1.0	0.0	-1.0	-2.4	-1.7	0.1	0.0	1.5	-1.3	-1.5	-0.5	0.1	0.7
Current Account (% of GDP)	4.3	3.8	3.2	1.7	1.5	3.2	3.5	3.5	3.9	4.8	3.2	2.9	3.4	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...	...	...	...	-3.6	-3.3	-8.1	-11.6	-8.7	...	...	...
Euro Area																
GDP Growth (SAAR %)	2.9	-1.0	-1.4	-6.8	-9.5	-0.5	2.1	2.1	...	...	...	...	...	...	...	...
GDP Growth (y/y %)	2.1	1.5	0.5	-1.7	-4.9	-4.7	-3.8	-1.6	2.9	2.7	0.5	-3.7	1.4	1.3	1.7	1.8
CPI Inflation (y/y %)	3.4	3.6	3.8	2.3	1.0	0.2	-0.3	0.2	2.2	2.1	3.3	0.3	1.4	1.4	1.7	1.7
Current Account (% of GDP)	...	...	...	...	...	...	...	...	-0.1	0.1	-1.1	-0.8	0.3	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...	...	...	...	-1.6	-0.6	-1.9	-5.9	-6.5	...	...	...
Exchange Rates^b																
US\$ vs. Euro (eop)	1.58	1.58	1.38	1.39	1.33	1.39	1.47	1.47	1.26	1.40	1.39	1.42	1.52	1.45	1.35	1.30
US\$ vs. JPY (eop)	99	106	105	92	98	96	91	92	116	117	92	95	89	90	90	90
JPY vs. Euro (eop)	157	168	145	128	130	134	134	135	146	163	128	134	136	131	122	117
Short Interest Rates (eop^b)																
United States	2.25	2.00	2.00	0.13	0.13	0.13	0.13	0.13	5.25	4.25	0.13	0.13	0.50	2.15	3.50	4.00
Japan	0.50	0.50	0.50	0.10	0.10	0.10	0.10	0.10	0.25	0.50	0.10	0.10	0.10	0.30	0.80	1.30
Euro Area	4.00	4.00	4.25	2.50	1.25	1.00	1.00	1.00	3.50	4.00	2.50	1.10	1.10	1.75	3.50	4.00
10-Year Yield Forecasts (Period Average)																
United States	3.61	3.86	3.87	3.15	2.72	3.30	3.44	3.70	4.79	4.65	3.62	3.35	4.10	4.75	5.00	5.00
Japan	1.39	1.63	1.51	1.41	1.28	1.46	1.40	1.40	1.75	1.68	1.49	1.39	1.49	1.70	1.75	2.00
Euro Area	3.93	4.26	4.27	3.45	3.08	3.41	3.38	3.50	3.78	4.25	3.98	3.35	3.75	3.90	4.10	4.20
Emerging Markets																
GDP Growth (y/y %)	2.1	2.0	1.7	0.6	-0.4	-0.1	0.3	1.2	7.0	5.8	5.1	0.7	5.7	5.7	6.2	6.3
CPI Inflation (average, y/y %)	...	...	...	...	...	...	...	...	4.5	8.8	8.3	4.5	5.2	5.2	5.0	4.5
Current Account (% of GDP)	...	...	...	...	...	...	...	...	5.4	4.2	2.5	2.2	1.8	...	...	...
Fiscal Balance (% of GDP)	...	...	...	...	...	...	...	...	0.4	0.3	-0.8	-4.6	-3.9	...	...	...
China																
GDP Growth (y/y %)	10.6	10.1	9.0	6.8	6.1	7.9	9.0	10.4	11.1	13.0	9.0	8.7	9.8	9.0	9.0	8.8
CPI Inflation (average, y/y %)	8.3	7.1	4.6	1.2	-0.6	-1.5	-1.3	1.0	1.5	4.8	5.9	-0.6	3.2	3.8	4.0	3.5
Current Account (% of GDP)	...	10.4	...	9.8	...	...	...	...	9.0	10.8	9.6	6.7	6.2	4.8	3.7	3.0
Fiscal Balance (% of GDP)	1.3	1.9	1.4	-0.4	-1.9	-2.7	-2.6	-3.1	-1.0	0.3	-0.4	-3.1	-3.2	-3.1	-2.8	-2.7
Commodities																
WTI Oil price (US\$/bbl, GEOS)	97	123	117	55	44	59	69	65	66	73	55	60	65	65	65	66
NYMEX Nat. Gas (Average, \$/mmBtu)	8.7	11.5	8.8	6.2	4.5	3.8	3.4	...	7.0	7.1	6.2	...	...	...	...	...
CBOT Soybean (Average, US\$/bu)	1323	1398	1325	880	949	1122	1082	...	593	881	880	...	...	...	...	...
CBOT Wheat (Average, US\$/bu)	1014	836	774	536	552	572	489	...	404	639	536	...	...	...	...	...
Copper (Average, US\$/lb)	351	382	341	165	158	215	263	219	310	323	165	219	250	300	200	200
Coffee (Average, US\$/lb)	144	145	151	135	154	205	183	...	118	131	135	...	...	...	...	...
Gold (Average, US\$/oz)	925	900	868	790	552	921	957	957	607	699	790	957	966	934	890	846

Note: a It includes: US, Japan, Germany, France, Italy, Spain, Netherlands, Belgium, Finland, Denmark, Norway, Sweden, Switzerland, United Kingdom, Canada, Australia, and New Zealand. b Average from 2008 on. c Ten-year Bund yield. Sources: National authorities and Citi.

Source: Citi Investment Research and Analysis

Public Sector Borrowing Requirements (US\$ billion)

	Argentina		Brazil		Chile		Colombia		Ecuador		Mexico		Peru	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Public Sector Debt (end Previous Year)	154.6	162.3	830.0	970.0	7.8	8.3	73.9	81.4	12.6	15.1	316.7	352.8	29.6	33.0
External	40.7	...	53.3	62.3	3.4	3.9	23.5	30.2	7.6	10.6	76.5	76.4	20.7	23.0
<i>Globals</i>	22.8	...	35.5	41.5	2.3	2.6	11.6	16.2	3.9	3.9	34.4	32.3	6.7	8.0
<i>Multilateral</i>	16.4	...	9.9	11.6	0.9	1.0	11.7	14.0	1.7	4.8	8.5	7.4	14.0	15.0
<i>Bilateral</i>	1.5	...	2.0	2.3	...	...	...	...	1.7	1.6	...	...	...	...
<i>Other</i>	...	...	5.9	6.9	0.3	0.3	0.2	0.2	0.4	0.3	33.5	36.6	...	...
Domestic	113.9	162.3	776.7	907.7	4.4	4.4	50.4	51.3	5.0	4.5	240.3	276.5	8.9	9.9
<i>ST or Floating</i>	49.3	...	239.0	279.3	...	...	0.8	0.8	...	...	128.6	141.4	0.6	0.6
<i>Fixed Rate</i>	64.5	...	301.4	352.3	...	...	31.6	34.9	...	...	85.4	104.3	5.6	6.6
<i>Linked</i>	81.2	...	236.2	276.1	6.6	6.6	...	...	...	...	26.3	30.8	2.7	2.7
<i>to FX</i>	32.7	...	1.9	2.2	2.8	2.8	0.1	0.1	...	...	...	...	0.2	0.2
<i>to CPI or other</i>	48.5	...	234.3	273.9	3.8	3.8	17.9	15.9	...	...	26.3	30.8	2.5	2.5
Uses of Funds (Current Year)	14.0	15.2	227.6	265.9	3.2	1.1	18.9	19.3	1.7	2.2	173.3	169.3	3.3	4.4
Interest	5.2	4.2	56.1	65.6	0.9	0.9	6.3	7.0	0.6	0.8	24.1	25.9	2.1	2.9
External	2.1	1.5	4.7	5.5	...	...	1.8	2.1	0.3	1.0	6.8	6.9	1.2	1.2
<i>Bonded</i>	1.5	0.8	4.2	4.9	...	...	...	...	0.4	0.4	...	...	...	...
<i>Other</i>	0.6	0.7	0.5	0.6	...	...	...	...	(0.1)	0.6	...	...	...	...
Domestic	3.2	2.8	51.4	60.1	...	...	4.5	4.9	0.3	(0.2)	17.3	18.9	0.9	1.7
Amortization	6.9	9.0	160.2	187.2	0.5	0.1	6.5	9.0	1.2	1.4	140.6	132.7	1.2	1.5
External	1.3	1.6	2.8	3.2	...	...	1.2	1.6	0.7	0.7	12.9	8.2	1.0	1.2
<i>Bonded</i>	...	...	2.0	2.3	...	...	...	...	...	...	4.3	5.3	...	...
<i>Other</i>	1.3	1.6	0.8	0.9	...	...	...	...	0.7	0.7	8.6	2.9	...	...
Domestic	5.6	7.4	157.5	184.0	...	...	5.4	7.4	0.5	0.7	127.7	124.5	0.3	0.3
Other	1.8	2.0	11.2	13.1	1.8	...	5.9	3.3	...	...	8.6	10.7	...	...
Sources of Funds (Current Year)	14.0	15.2	227.6	265.9	3.2	1.1	18.9	19.3	1.7	2.2	173.3	169.3	3.3	4.4
Carry Over from Previous Year	...	...	...	...	23.7	16.2	1.7	3.1	0.3	(0.7)	(0.9)	(0.7)	3.2	0.5
Primary Surplus	3.4	2.3	97.4	113.9	(4.7)	1.0	(1.7)	(2.4)	(2.4)	(0.9)	0.9	20.8	(1.7)	1.5
Central Bank	7.6	2.0	...	...	...	...	0.3	0.0	...	...	...	...	...	...
Multilaterals	3.4	1.6	0.4	0.5	...	...	2.7	2.3	1.1	1.3	2.7	...	0.8	0.8
Other	3.5	...	...	...	...	...	1.7	1.0	2.0	1.4	33.1	...	...	...
Bond Issuance year-to-date	...	...	...	...	0.5	...	12.9	...	...	...	79.2	...	1.5	...
Remaining Requirements	(3.9)	9.3	129.7	151.6	(16.2)	(16.2)	1.2	15.5	0.7	1.2	58.4	149.1	(0.5)	1.7
<i>Memorandum Items</i>														
<i>Expected Demand by Source</i>														
<i>Pension Funds</i>	...	...	20.0	23.4	...	...	...	...	...	...	...	...	0.2	0.4
<i>Mutual Funds</i>	...	...	15.0	17.5	...	...	...	...	...	...	...	...	...	0.2
<i>Banks</i>	...	...	25.0	29.2	...	...	...	...	...	...	...	...	...	...
<i>Other local investors</i>	...	...	2.0	2.3	...	...	...	...	...	...	...	...	...	...
<i>Central Bank</i>														
<i>International Reserves</i>	46.4	44.4	163.2	190.7	23.2	23.4	24.0	25.5	3.4	3.9	77.6	...	34.0	39.1
<i>Debt</i>	...	...	3.2	3.8	...	...	...	...	...	...	3.2	...	...	...
<i>Central Govt. Assets</i>	...	...	119.5	139.6	...	...	...	...	...	...	6.5	...	14.5	14.0

Sources: National authorities and Citi Investment Research and Analysis

Performance Monitor

Country		23 Sep 09					YTD
		Spot	1-Month	3-Months	6-Months	12-Months	
Argentina	US\$/ARS	3.84	-0.4	1.3	4.0	19.2	10.0
	CTERI*	0.7053	-5.1	-12.6	-22.7	-17.2	-22.2
	BADLAR	12.19	-25	-100	-19	-6	-756
	Bonar V June 2012	24.61	-684	-1847	-4384	-215	-2759
	5-year CDS	1084	-485	-1259	-2842	187	-2957
Brazil	US\$/BRL	1.79	-3.0	-10.2	-25.2	-3.1	-29.5
	CTERI*	1.2273	5.7	13.1	18.7	-4.6	22.2
	Selic	8.75	0	-50	-250	-500	-500
	Swap Pre-DI 900 Days	11.50	38	57	89	-335	-77
	5-year CDS	119	-5	-72	-211	-47	-182
Chile	US\$/CLP	540	-1.4	1.3	-6.5	0.6	-18.1
	CTERI*	0.8661	-0.3	-1.1	5.7	-2.1	8.6
	CAMARA (Overnight)	0.40	0	-38	-186	-787	-789
	Chile BCP Jan 2012	3.56	80	-24	-22	-416	-234
	5-year CDS	73	0	-59	-159	-21	-130
Colombia	US\$/COP	1917	-4.6	-13.1	-25.9	-9.9	-17.3
	CTERI*	1.0943	0.4	14.0	7.0	-6.8	6.8
	Central Bank Repo Rate	4.50	0	0	-250	-550	-500
	Colombia TES 20	9.21	-21	-28	-41	-292	-150
	5-year CDS	146	-9	-78	-256	-46	-163
Ecuador	CTERI*	0.9397	-1.8	-5.7	-5.2	5.6	-3.8
	5-year CDS	4432	...	...	...	...	...
Mexico	US\$/MXN	13.35	3.1	0.4	-6.6	19.3	-2.6
	CTERI*	0.77	-0.2	-3.9	1.7	-27.2	-1.5
	Official Overnight Rate	4.50	0	-25	-375	-375	...
	5-year TIE	7.55	11	8	17	-133	-49
	5-year CDS	148	-19	-79	-243	9	-145
Panama	5-year CDS	141	-8	-87	-270	-55	-161
Peru	US\$/PEN	2.87	-3.2	-5.2	-9.0	-2.7	-9.1
	CTERI*	1.0957	0.4	0.4	2.3	2.1	3.1
	Reference Rate	1.25	-75	-275	-500	-500	-525
	Soberano Aug 11	1.74	-18	-174	-362	-609	-524
	5-year CDS	127	-7	-68	-244	-48	-177
Uruguay	US\$/UYU	21.63	-4.5	-7.1	-11.0	4.5	-12.8
	CTERI*	1.02	2.8	1.6	-0.6	-2.8	4.2
Venezuela	US\$/VEF**	2.15	0.0	0.0	0.0	0.0	0.0
	CTERI*	0.9607	-1.1	-3.4	-3.5	3.3	-2.7
	5-year CDS	918	-246	-507	-1220	118	-2300

*Jan 2/06=1.0000. As of September 23/09, a positive change means currency appreciation. **VEF=VEB/1000.

Sources: Bloomberg and Citi Investment Research and Analysis

Sovereign Risk Ratings Summary

S&P		Moody's		Fitch	
AAA		Aaa		AAA	
AA+		Aa1		AA+	
AA		Aa2		AA	
AA-		Aa3		AA-	
A+	Chile (neutral)	A1	Chile (positive)	A+	
A		A2		A	Chile (neutral)
A-		A3		A-	
BBB+	Mexico (negative)	Baa1	Mexico (neutral)	BBB+	Mexico (negative)
BBB		Baa2		BBB	
BBB-	Brazil (neutral); Peru (neutral); Colombia (neutral)	Baa3	Brazil (positive)	BBB-	Brazil (neutral); Peru (neutral)
BB+	Panama (neutral)	Ba1	Costa Rica (neutral); Colombia (neutral); Panama (neutral); Peru (neutral)	BB+	Colombia (neutral); Panama (positive)
BB	Costa Rica (neutral); Uruguay (neutral)	Ba2		BB	Costa Rica (neutral)
BB-	Venezuela (negative);	Ba3	Uruguay (neutral)	BB-	Uruguay (positive)
B+		B1		B+	Venezuela (neutral)
B	Dom. Republic (neutral)	B2	Venezuela (neutral), Dom. Republic (neutral)	B	Dom. Republic (neutral)
B-	Argentina (neutral)	B3	Argentina (neutral)	B-	
CCC+	Ecuador (neutral)	Caa1	Ecuador (negative)	CCC+	
CCC		Caa2		CCC	Ecuador
CCC-		Caa3		CCC-	
CC		Ca		CC	
C		C		C	
SD				DDD	
				DD	
D		RD		D	Argentina

Source: Bloomberg, Standard and Poors, Moody's, Fitch.

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Appendix A-1

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