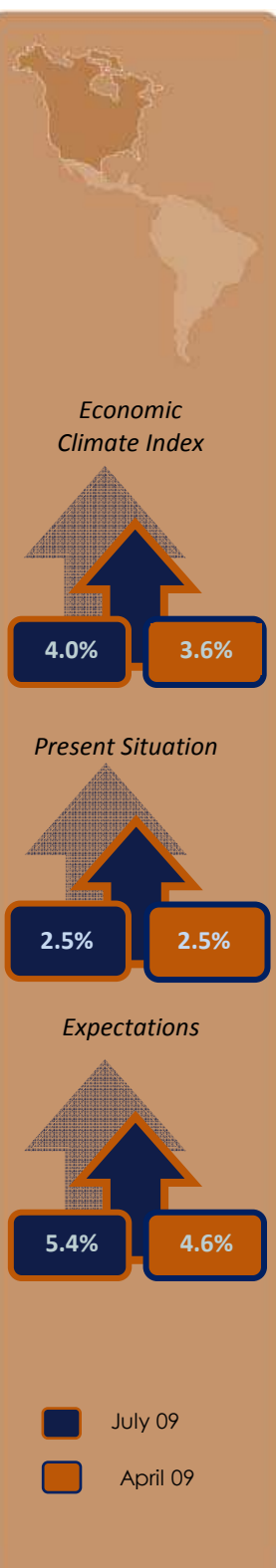


Latin American Economic Survey

English Version

August 19th 2009



LATIN AMERICA ENTERS THE RECOVERY PHASE OF THE BUSINESS CYCLE. BRAZIL RECORDS THE SECOND HIGHEST ECONOMIC CLIMATE INDEX IN THE REGION.

The Economic Climate Index (ECI) in Latin America - developed in partnership between the German Ifo Institute and FGV - reached the lowest level of the historical series started in 1990, in January 2009: 2.9 points. In April, the index rose to 3.6 points, and in July, continued the trend of increase, recording 4.0 points.

The Present Situation Index (PSI), which had deteriorated between January and April, remained stable, when passing to 2.6 from 2.5 points between April and July. The low level of the index shows that the present situation is still considered very unfavourable by the experts.

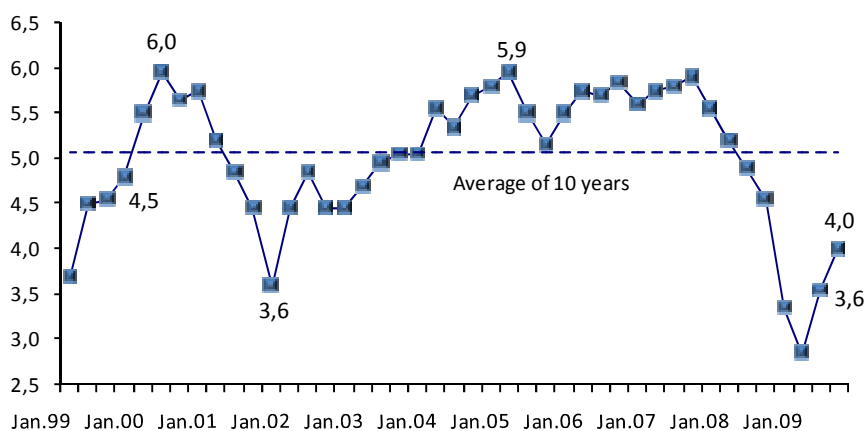
If the present situation is bad, the outlook for the next six months may now be regarded as good. The Expectations Index (EI) increased to 5.4 from 4.6 points between April and July.

The combination of a PSI in the bad assessment zone with the EI in the favourable one leads the region to shift from the recessive phase to the recovery phase in the business cycle clock. With these results, the Latin America cycle turns to coincide with the global cycle, which has already been in the recovery phase since April 2009. As in Latin America, the PSI in the world remains unfavourable — 2.3 points — while the EI is favourable — 6.5 points, in July.

The ECI in the main developed countries and in the BRICs rose up between April and July. Despite this, while in developed countries the index shows a negative assessment (below 5.0) in the BRICs, except Russia, all the ECIs were up 5 points. The highest index among the emerging countries was registered in India — 6.7 points — an increase of 1.9 percentage point (pp) compared to April. The second highest index was obtained in China, which rose to 5.7 from 4.3 points between April and June. Brazil, in third position, increased by 0.9 pp, to 5.5 from 4.6 points. Russia is the last-placed among BRICs with an ECI of 3.9 and an increase of only 0.3 pp in relation to April.

In the major economies of developed countries, the ECI below 5.0 points is explained by the combination of negative assessments in relation to present and favourable expectations for the coming months. In the United States, European Union and Japan, the PSI was, respectively: 1.4 point, 1.6 point and 1.4 point. The EI for those countries increased between April and July and reached levels above 5.0 points: United States (8.0 points), EU (5.8 points) and Japan (6.4 points). Therefore, all these countries/regions are in process of economic recovery.

Latin American Economic Climate Index

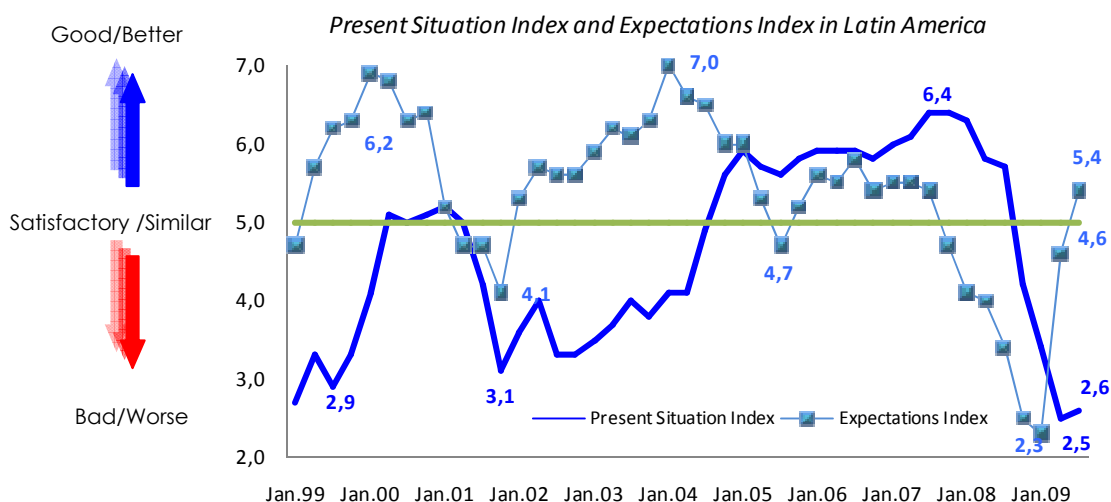


LATIN AMERICAN RESULTS

Five Latin American countries analyzed in this report are in the quadrant of economic recovery (Brazil, Chile, Colombia, Mexico and Peru) in the July 2009 survey. It should be stressed that Brazil, Chile and Mexico were already in that position in April 2009. In addition, except in Mexico, all of them present an improvement in expectations. Peru registered the highest EI, to 7.0 from 3.8 points between April and July. In Brazil, the index rose to 6.6 from 5.4 point.

The assessment on the present situation is unfavourable in these five countries, as expected. However, in all countries except Mexico and Peru, the PSI increased between April and July. In Mexico, the index decreased to 1.3 from 1.7 point. In Peru, which had a large improvement in EI, the PSI has left the favourable zone (PSI of 6.2) onto the indifference zone (5.0 points). Therefore, Peru is on the border of the cycle clock between the recovery and the expansion phase. After Peru, Brazil recorded the highest PSI (4.3 points).

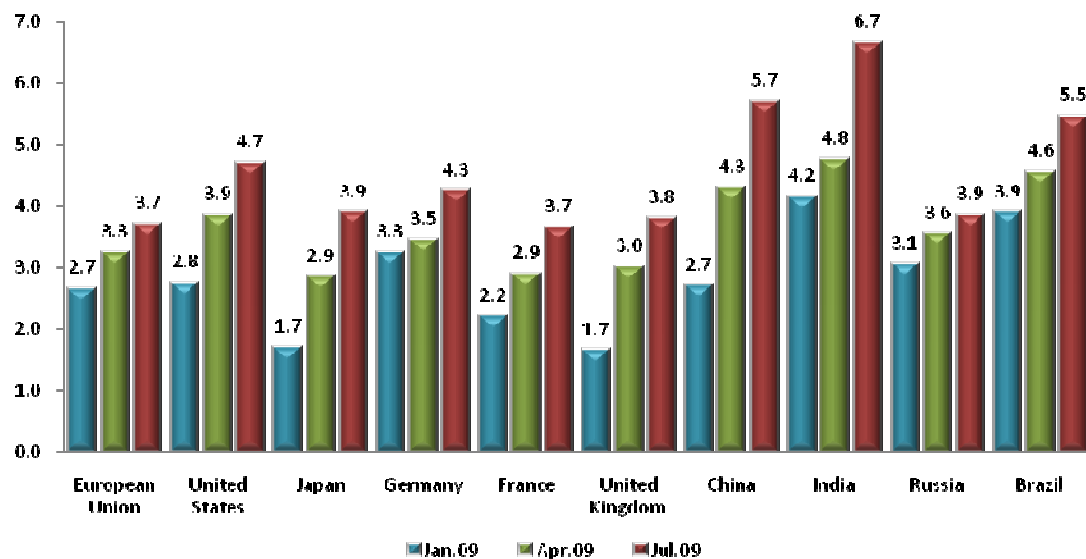
Six countries are in the recession phase (Argentina, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela). The PSI improved in four of those countries and worsened in Paraguay (to 1.6 from 3.2 points) and Uruguay (to 4.6 from 5.6 points). The EI improved in all countries except Paraguay. In Uruguay, despite the deterioration of the present situation, expectations indicate an improvement trend. EI is still below 5.0, but increased to 4.6 from 1.0 point.



The economic climate index shows improvement in Latin America, but the situation varies among the countries. A group of countries stands out for being in the recovery phase (Brazil, Chile and Colombia), and recorded an increase in both the PSI and the EI. If confirmed the expectations, it is possible that in the next survey Brazil will enter the expansion phase. Among the three it is the one that shows the PSI closest to 5.0. Uruguay and Peru show large variations in their indices, which suggests a higher degree of uncertainty. In very unfavourable situation, since April 2008, are Argentina, Ecuador and Venezuela.

Is there a relationship between the perception about the effectiveness (suitability / sufficiency) of the economic policies adopted by governments to face the crisis and the phase of business cycle in those countries? The survey asked the experts if they believe the policies are fully sufficient, more or less sufficient or not sufficient. Comparing the responses on the policies and the cycle phases there is coincidence of recession phase and the perception of insufficient policies in Argentina, Bolivia, Ecuador, Paraguay and Venezuela. The coincidence of recovery phase and sufficient policies is recorded for Brazil and Chile. In recession phase and with sufficient policy there is only Uruguay. In the recovery phase and with insufficient policies are: Colombia, Mexico and Peru. In seven of 11 countries the results of the perception of policies and phases coincide.

Economic Climate Index: Developed and Emerging Countries



THE SOUTH AMERICA INDEX

Besides the Latin countries selected in this report, the Latin American survey includes Costa Rica, El Salvador, Guatemala, Panama and Trinidad and Tobago. The Latin America indices include these countries. If considering only the South American countries the ECI was 4.4 points, the PSI was 3.4 and the EI was of 5.4 points. Therefore, except the EI which does not change, all others are higher than the indices for Latin America. However, in the business cycle clock, South America is on the same phase as the Latin America - recovery.

RANKING OF COUNTRIES

Brazil, Chile and Mexico have improved their position (table attached) in the ranking of economic climate, built from the average ECI of the last four quarters. Brazil surged to the second position in the list of the highest ECI. Uruguay, Paraguay and Bolivia dropped in ranking. Peru kept the leadership and Ecuador, Argentina and Venezuela remained in the last positions.

ADDITIONAL TOPICS

A special survey was conducted to evaluate how the experts perceived the legal and administrative restrictions on foreign firms in their respective countries. Peru, Uruguay and Chile have been classified as countries without restrictions. Low restrictions have been attributed to Colombia, Brazil, Paraguay, Bolivia and Mexico. High restrictions were associated with Argentina, Venezuela and Ecuador. In comparison with other BRICS, Brazil is the best positioned. China and Russia are on the list of countries with high restrictions. India, although classified in the group of low restrictions, had a lower score (4.4) than that of Brazil (5.1). The lower the score, the more restrictions the country shows.

Methodological Note

The Latin America Economic Survey aims for monitoring and forecasting of economic trends, based on quarterly information supplied by economy experts in their respective countries. The survey is applied with the same methodology - simultaneously - in all countries of the region, a method that allows the construction of an agile and comprehensive picture of the economic situation in countries and economic blocs. In July 2009, were consulted 149 experts in 16 countries.

The survey generates information of both qualitative and quantitative nature. The Economic Climate Index (ECI), is the indicator synthesis, comprised of two items of qualitative nature, the Present Situation Index and the Expectations Index, which deal, respectively, with the general economic situation in the country at the moment and for the upcoming six months.

The individual responses are combined for each country without any consideration. To reach the average value of each index, 9 points are assigned to positive responses (+), 5 to indifferent responses (=) and 1 to negative responses (-). The ECI is an arithmetic mean of the two comprised indices.

The process of aggregating data for a particular group of countries or continent is done according to the relative share of foreign trade (exports + imports) in each country regarding the total in the region.

IFO/FGV RANKING OF ECONOMIC CLIMATE IN LATIN AMERICA

Previous Position	Present Position	Country	Average ECI of the last 4 quarters (points)	
			Until April 09	Until July 09
1	1	PERU	5.7	5.3
3	2	BRAZIL	4.7	4.7
2	3	URUGUAY	5.4	4.6
5	4	CHILE	4.2	4.3
4	5	PARAGUAY	4.3	3.5
6	6	COLOMBIA	3.6	3.4
8	7	MEXICO	3.1	3.0
7	8	BOLIVIA	3.2	2.9
9	9	ECUADOR	2.9	2.9
10	10	ARGENTINA	2.6	2.7
11	11	VENEZUELA	2.4	2.0

ECONOMIC CLIMATE INDEX (POINTS)

Index	Jul/07	Oct/07	Jan/08	Apr/08	Jul/08	Oct/08	Jan/09	Apr/09	Jul/09	Average 10 years
LATIN AMERICA	5.9	5.6	5.2	4.9	4.6	3.4	2.9	3.6	4.0	5.1
ARGENTINA	4.4	4.3	5.0	3.4	2.7	3.2	2.5	2.0	3.3	4.3
BOLIVIA	5.0	5.5	5.0	3.8	4.5	3.0	3.0	2.4	3.4	3.7
BRAZIL	7.2	6.5	6.4	6.5	5.5	5.0	3.9	4.6	5.5	6.0
CHILE	7.2	6.6	5.3	4.9	4.4	4.1	3.8	4.3	5.0	6.3
COLOMBIA	6.5	6.2	5.5	5.9	4.9	3.7	2.9	3.2	3.8	5.0
ECUADOR	3.3	4.3	3.2	2.8	3.7	3.3	2.3	2.6	3.6	3.9
MEXICO	5.5	5.0	4.5	4.3	4.0	2.3	2.3	3.7	3.5	4.9
PARAGUAY	5.0	5.0	6.4	6.2	5.8	4.1	3.2	3.9	2.8	4.1
PERU	7.6	7.3	7.4	7.3	7.8	5.7	4.4	5.0	6.0	5.7
URUGUAY	6.5	8.4	7.7	8.0	8.0	6.0	4.4	3.3	4.6	5.7
VENEZUELA	5.3	5.3	4.1	4.7	3.9	2.3	1.9	1.6	2.2	3.9

PRESENT SITUATION INDEX (POINTS)

Index	Jul/07	Oct/07	Jan/08	Apr/08	Jul/08	Oct/08	Jan/09	Apr/09	Jul/09	Average 10 years
LATIN AMERICA	6.4	6.4	6.3	5.8	5.7	4.2	3.4	2.5	2.6	4.7
ARGENTINA	6.6	6.1	7.4	4.3	3.7	4.6	3.2	1.4	1.9	3.6
BOLIVIA	6.0	6.0	5.0	3.4	4.0	3.7	5.0	3.7	4.2	2.8
BRAZIL	8.1	7.5	7.5	7.9	7.2	7.3	4.7	3.7	4.3	5.8
CHILE	8.2	7.9	5.8	5.5	4.6	5.7	4.3	3.3	3.5	6.2
COLOMBIA	8.0	7.8	8.1	7.9	6.2	4.7	4.7	2.0	2.2	4.5
ECUADOR	4.6	5.0	3.0	2.8	3.2	3.9	2.0	2.3	3.4	3.3
MEXICO	5.0	5.4	5.3	5.0	5.4	2.3	2.5	1.7	1.3	4.7
PARAGUAY	5.8	7.0	7.0	7.4	5.0	6.1	3.4	3.2	1.6	2.9
PERU	7.9	7.8	8.3	8.4	8.3	7.2	6.8	6.2	5.0	5.3
URUGUAY	9.0	9.0	9.0	7.0	9.0	7.5	7.0	5.6	4.6	4.6
VENEZUELA	6.1	6.7	5.0	5.0	4.5	2.3	1.9	1.6	2.6	3.2

EXPECTATIONS INDEX (POINTS)

Index	Jul/07	Oct/07	Jan/08	Apr/08	Jul/08	Oct/08	Jan/09	Apr/09	Jul/09	Average 10 years
LATIN AMERICA	5.4	4.7	4.1	4.0	3.4	2.5	2.3	4.6	5.4	5.4
ARGENTINA	2.2	2.5	2.6	2.5	1.7	1.7	1.7	2.6	4.7	5.0
BOLIVIA	4.0	5.0	5.0	4.2	5.0	2.3	1.0	1.0	2.6	4.7
BRAZIL	6.3	5.5	5.2	5.1	3.8	2.7	3.1	5.4	6.6	6.2
CHILE	6.1	5.3	4.7	4.2	4.2	2.5	3.3	5.3	6.5	6.4
COLOMBIA	5.0	4.6	2.8	3.8	3.5	2.7	1.0	4.3	5.3	5.4
ECUADOR	1.9	3.5	3.4	2.8	4.1	2.7	2.5	2.8	3.8	4.5
MEXICO	5.9	4.6	3.7	3.5	2.6	2.3	2.1	5.7	5.7	5.1
PARAGUAY	4.2	3.0	5.7	5.0	6.6	2.1	3.0	4.6	3.9	5.3
PERU	7.2	6.8	6.5	6.2	7.2	4.1	1.9	3.8	7.0	6.1
URUGUAY	4.0	7.7	6.3	9.0	7.0	4.5	1.7	1.0	4.6	6.8
VENEZUELA	4.4	3.9	3.2	4.4	3.3	2.3	1.9	1.6	1.8	4.6

LATIN AMERICA BUSINESS CYCLE CLOCK

