



A view of the Rio de Janeiro skyline, October 25, 2011. REUTERS/RICARDO MORAES

Struggling economies at home and doubts abroad  
hinder growth in the region

# Global Threats Challenge Latin America Boom

**L**atin America managed to stay afloat during the global financial crisis and it has since absorbed huge amounts of money as investors look for high yields. But as the region begins to cool down, governments are doing what they can to protect themselves from a wave of cheap goods. Some policymakers call it a global “currency war” to gain competitiveness. Europe’s debt crisis and China’s economic slowdown pose new threats to

Latin American economies and markets. On the corporate front, major local groups are still looking to expand their regional businesses, especially where foreign companies are scaling back. This year’s annual Reuters Latin America Investment Summit interviewed high profile guests across Latin America and the United States, producing dozens of exclusive interviews on the region’s investment opportunities and the risks ahead.



Mexico's stock exchange employees work at their desks in Mexico City April 5, 2010. REUTERS/HENRY ROMERO

## Analysis: Slow and steady Mexico draws equity bets over Brazil

BY PABLO GARIBIAN AND KRISTA HUGHES  
MEXICO CITY, MAY 25, 2012

**M**exican stocks are drawing investors away from Brazil as Latin America's biggest economy loses steam and Mexico's close ties to the United States render it a safer bet in unsettled times.

Although the market capitalization of Brazil's bourse is three times that of Mexico's, the Mexican stock market's standing with fund investors has been on a slow and

steady rise since the end of last year, according to data from EPFR Global, which tracks funds with \$16 trillion in global assets.

Slow and steady economic growth, at an annual rate of 3 to 4 percent, is also earning Mexico a second look from those with money to invest in the region despite renewed fears about the future of the euro zone and the chance of a Lehman-style global crisis.

Mexico, which has resisted the temptation to change interest rates, intervene in

currency markets or battle capital inflows in recent years, is in part benefiting from Brazil's unsettling changeability in key policy areas as well as its own ties to the perceived 'safe haven' of the United States.

As risk aversion has flared again this year, Brazil's exchange suffered a bigger hit than Mexico's, suggesting investors may be more willing to hold on to Mexican stocks in crunch times. First-quarter foreign inflows into Mexican stocks were the largest since the third quarter of 2009.

“Recently I find that we have been putting more money to work in Mexico at the expense of Brazil,” said Ed Kuczma, investment analyst for two Van Eck emerging market equity funds which had \$275 million assets under management as of April 30.

“I think investors are starting to see a kind of top-down, favorable macro environment for Mexico and a more challenging environment for Brazil.”

After an impressive 7.5 percent expansion in 2010, Brazil’s economy, which is twice the size of Mexico’s, slowed last year to a modest 2.7 percent, less than half the growth recorded by Peru, Colombia, Chile or even Ecuador.

Brazil’s economic well-being is closely tied to commodity prices and demand from China, where growth is easing and which would be particularly vulnerable to a collapse in demand from Europe, its biggest export market. Italy and Spain have slid back into recession while France is stagnating.

Experts are concerned about the hit to Latin America’s economy from a fresh euro zone crisis, a topic to be discussed at next week’s Latin America Reuters Summit, which will be attended by the finance ministers of Brazil, Peru, Colombia, Chile and Mexico.

While economists have been cutting back growth projections in Brazil, many have upgraded their outlooks for Mexico, where policymakers are optimistic 2012 growth will near 4 percent on the back of stronger U.S. demand for manufactured goods and a view that the United States might hold up in the face of a fresh European crisis.

“There’s a general sense of Mexico might be more slow and steady, if you like, but more stable at the same time, whereas Brazil has been on this roller coaster ride,” said Neil Shearing, economist at Capital Economics in London.

“Real strains are starting to emerge in its growth model.”

Still, EPFR data show fixed income funds are sticking with Brazil, where benchmark interest rates are among the

dearest in the world at 9 percent. In real terms, Brazilian rates are about 4 percent, compared to Mexico’s 1 percent.

Mexico’s stock market is shallow and illiquid compared to many of its emerging market peers, with many big companies controlled by family interests, such as Carlos Slim’s America Movil and baker Grupo Bimbo.

But in an emerging market rout, fund managers said Mexico, which has so far escaped an economic hit from its war against drug cartels, would gain from being the least-worst option.

“There’s so much money around, where are you going to put it?” said a strategist with a major fund, who declined to be named. “It’s the tallest midget competition, everyone is tiny ... but you have to choose one, so who are you going to choose? You choose the tallest one.”

Mexican officials also point to the ease of entry in the country’s markets, with no need for foreign investors to register with authorities, unlike Brazil; no withholding tax; no minimum investment period and a freely convertible currency.

“We have a flexible and modern legal framework compared to other emerging markets. This makes it much easier for the foreign investor to take a position in Mexican assets,” said Jorge Alegria, head of Mexico’s MexDer derivatives exchange.

Foreign investment represents 32 percent of the Mexican market’s cap. Comparative figures are not available for Brazil, but foreign investors accounted for about 40 percent of share transactions so far in May.

Brazil’s benchmark Bovespa stock index .BVSP is down more than 11 percent so far this month, on track for its worst monthly loss since the depths of the global crisis in October 2008.

Brazilian stock market data shows that

between May 1 and 18 there was a net 2.543 billion reais (\$1.21 billion) outflow in foreign investment in equities, although year-to-date data are still positive at \$1.29 billion.

In Mexico, where the IPC index .MXX has fallen more than 5 percent this month, central bank data show foreign investment inflows in company equity of close to \$2 billion between January and the end of April.

Equity investors have been put off Brazil by a tax on financial transactions by foreigners, one of the measures put in place by President Dilma Rousseff’s government last year to tame the then-appreciating real.

And many feel the country has been overbought after years of frenzied interest, which drove more than 100 companies to go public between 2006 and 2007 and sent share prices above levels easily justified by economic fundamentals.

Brazil’s market is seen as a play on China and top oil producers and miners are vulnerable to a downturn in commodity prices while its homebuilders, credit card firms and banks may suffer if credit expansion proves to have been too excessive.

“It’s very hard to find investment ideas that are not very, very expensive,” said Fred Searby, Latin America equity strategist at Deutsche Bank, adding that many Brazilian companies are trading at inflated price to earnings ratios.

Brazilian retailer Lojas Americanas is more expensive than Mexico’s Wal-Mart de Mexico on a price to earnings ratio, and Brazilian brewer Ambev outprices Corona-maker Grupo Modelo.

Still, Mexican companies are more expensive than their Brazilian peers in the banking and telecommunications sectors, with Banorte and America Movil ahead of Itau Unibanco and Telefônica Brasil.

\$1 = 2.0940 Brazilian reais



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*Additional reporting by Michael O’Boyle in Mexico City, Asher Levine in Sao Paulo, Editing by W Simon*

# Mantega: Brazil accelerating despite global slump

BY SILVIO CASCIONE AND TODD BENSON  
SAO PAULO, MAY 28, 2012

**B**razil's economy is gaining steam after a disappointing first quarter and will grow this year at a faster pace than in 2011, even if Greece rattles the global economy further by exiting the euro zone, Finance Minister Guido Mantega said.

Speaking at the Reuters Latin America Investment Summit, Mantega said official data to be released on Friday will likely show that gross domestic product grew between 0.3 to 0.5 percent in the first quarter - a "weak" result for an economy that surpassed Britain last year to become the world's sixth largest.

The numbers will be the latest evidence of a sharp slowdown in once high-flying Brazil, which has been flirting with recession since late last year. After lackluster growth of just 2.7 percent in 2011, President Dilma Rousseff has sought to revive the economy with a string of interest rate cuts and stimulus measures that include tax breaks and credit incentives.

Mantega said many of those measures are just starting to be felt, and that the economy will pick up the pace in the second half of the year.

"We have to have a little patience, because the economy is not like a car in which you turn the steering wheel and it moves left or right. It's more like a big trans-Atlantic ship: you accelerate but it takes longer to reach cruising speed," Mantega said in the interview in São Paulo.

"The government is considering additional measures, but the steps already taken haven't had time to take their effect."

Mantega confidently predicted that Brazil's economic growth this year will surpass that of 2011, even if there is additional "stress" in the global economy.

"That stress would be Greece leaving the euro zone, for example," he said, adding that Brazil's economy will expand between 3 and 4 percent this year, down from a previous estimate of 4.5 percent.

Mantega also dismissed concerns that a near 15 percent drop in Brazil's currency in the past three months could stoke inflation. Instead, he said the weaker real will benefit the economy by helping reduce costs for struggling manufacturers.

"The inflation outlook is benign," Mantega said, citing the impact of weaker commodity prices. Brazil's main inflation index ended 2011 at a 7-year high of 6.5 percent

“This is a matter of time. They will change their strategy and will accept the suggestions made by the BRICS countries to combine fiscal consolidation with economic stimulus.”

**Guido Mantega**

Finance Minister

but has slowed to 5.05 percent in the 12 months through mid-May.

Not long ago, the real was one of the world's most overvalued currencies by several measures, propped up by a flood of foreign capital into Brazil. Mantega won worldwide notoriety in 2010 for decrying a "currency war," a term he coined to complain about ultra-loose monetary policy in developed nations.

With the real now trading near a three-year low, Mantega suggested that a temporary truce was under way. Still, he said the "currency war" will only end when all countries adopt free-floating exchange rates.

"I don't think we're preaching in the desert. At some point, there will be a new global exchange rate regime," he said.

Asked about a sudden shift in foreign capital flows away from Brazilian markets,

Mantega said the trend is natural given a steady decline in Brazilian interest rates and a financial transactions tax on foreign purchases of domestic bonds - which he said will remain in place for now.

"Brazil is no longer a paradise for arbitrage," he said, referring to the practice by which foreign investors borrow at low interest rates abroad to invest in higher-yielding Brazilian assets.

Mantega added that Brazil's banking system remains robust and is unlikely to suffer any major spill-over effects from the Spanish banking crisis. He said state-owned Banco do Brasil has no interest in Santander's Brazilian subsidiary, which he said was "solid and well-capitalized."

On the euro zone crisis, Italian-born Mantega criticized Europe's austerity policies and said the region's governments will "inevitably" shift to pro-growth strategies, "including Germany."

"This is a matter of time. They will change their strategy and will accept the suggestions made by the BRICS countries to combine fiscal consolidation with economic stimulus," Mantega said, referring to the group of big emerging economies comprised by Brazil, Russia, India, China and South Africa.

The European crisis will be high on the agenda at the next G20 summit in Mexico. But Mantega said it is hard to predict what shape the discussions will take because it will all depend on the outcome of the Greek election, which takes place one day before the summit starts on June 18.

"You have to give Greece something to hope for," Mantega said. "The people can endure sacrifices, but only when there is a light at the end of the tunnel. When you impose sacrifices and don't offer a solution, then you have a political crisis."

*Additional reporting by Patricia Duarte, Alexandre Caverni and Saul Hudson; Editing by Kenneth Barry*

# Mexico's Carstens: economy can better weather crisis

BY KRISTA HUGHES AND MICHAEL O'BOYLE  
MEXICO CITY, MAY 28, 2012

**M**exico is in a better position now to deal with a global crisis than in 2008 given record international reserves and a more solid private sector, central bank governor Agustin Carstens said on Monday.

Even as investors pushed risk premiums on Spanish debt to their highest levels since the launch of the euro, Carstens said he had faith in the efforts euro zone countries were making to prevent contagion from Greece's woes.

Fallout for Latin America's No. 2 economy, one of the worst affected during the last global financial crisis, should therefore be moderate, he said, downplaying the risks from the Spanish banks which dominate Mexico's financial sector.

"Mexico is quite resistant," Carstens said at the Reuters Latin America Investment Summit. "I really think we are in a position of strength."

Mexico, with its close ties to the United States, suffered one of the biggest hits among emerging market economies after the collapse of investment bank Lehman Brothers in late 2008, contracting by more than 6 percent in 2009.

Although U.S. growth has been resilient so far, experts worry that a fresh global crisis would inevitably drag down the world's biggest economy, and Mexico along with it.

Mexico is one of several Latin American countries with a higher budget deficit and more net debt compared to five years ago and

the United Nations regional economic body, ECLAC, warned there was limited fiscal room to maneuver in the event of a fresh crisis.

"A disorderly exit (of Greece) could have more negative consequences than what happened with Lehman Brothers, and that scenario cannot be ruled out," said ECLAC head Alicia Barcena.

Carstens said the chances that Europe's debt woes could spark another global financial crisis were growing "at the margin" but that it was still a "relatively low possibility."

Carstens, who was finance minister at the time of the financial crisis, said Mexico now enjoyed deeper pockets, with international reserves worth \$155 billion, and the protection of a flexible credit line with the International Monetary Fund.

Unlike in 2009, Mexico is not struggling with either a swine flu epidemic or risky derivatives bets by private companies, such as the soured currency wagers that nearly drove cement maker Cemex into bankruptcy, he said.

But as in 2009, a high share of credit originates with Spanish banks, such as BBVA and Santander, whose weakness could force Spain to seek an international bailout. Lending by euro-area banks in Mexico fell 14 percent in 2008 and Bank for International Settlements data show they account for more than 35 percent of Mexican credit.

"At the moment I would say that foreign-owned Mexican institutions are strong, they are well-capitalized, they don't have a problem with bad loans," Carstens said.

"There are no imbalances which would be a cause for concern on the part of Mexican authorities."

Carstens said the slump in the peso, which has lost about 10 percent against the dollar since mid-March, was out of line with the solid fundamentals of the Mexican economy.



Mexico's Central Bank Governor Agustin Carstens speaks during an interview in Mexico City May 28, 2012. **REUTERS/HENRY ROMERO**

Growth in early 2012 beat expectations on the back of strong U.S. demand for manufacturing exports, fanning optimism that the economy will grow close to 4 percent this year.

Mexican inflation accelerated in early May to 3.71 percent and analysts think that the threat that a sharply weaker peso could push consumer prices higher will likely keep the central bank from cutting interest rates from the current 4.5 percent this year.

Carstens said the peso's weakness should be temporary and will not have a "big inflationary impact" since the currency will likely bounce back from current levels before companies pass on higher import costs to consumers.

"At the moment the peso is at these levels precisely because there is this fear that something undesirable could happen in Europe, but the truth is that to the degree that these fears dissipate and the Mexican economy demonstrates that it can successfully navigate these periods of volatility, I would expect that this will lead to a peso correction," he said.

Unlike in 2008, when the peso fell to its lowest level in 16 years, Mexico has so far refrained from ad-hoc currency intervention but last week auctioned dollars using a process triggered automatically by sharp peso drops.

Carstens said he was satisfied with the auction system and thought it was adequate to guarantee liquidity in the peso market, one of the most liquid in emerging markets.

*Additional reporting by Ana Isabel Martinez and Luis Rojas in Mexico City; editing by Matthew Lewis and Todd Eastham*



For more stories from the summit:  
<http://link.reuters.com/cat48s>

## Colombia's GrupoSura sees opportunities in global crisis

BY HELEN MURPHY AND LUIS JAIME ACOSTA  
BOGOTA, MAY 28, 2012

Colombian investment fund GrupoSura SIS.CN sees ample opportunity for corporate acquisitions from the global financial crisis and would consider snapping up the Latin American assets of Spain's second-largest bank, BBVA, if regulations allowed, its chief executive said.

Medellin-based Sura paid more than \$3.5 billion last year for the regional assets of ING Groep NV and was on the lookout for strong pension and insurance investments, but as the biggest player in Latin America's pension fund market it may be bound by anti-monopoly laws, David Bojanini said.

"You have to know that a crisis also brings opportunities and you have to know how to take advantage," he said in an interview for the Reuters Latin America Summit.

Spain's BBVA said last week that it may sell its pension business in Colombia, Peru, Mexico and Chile.

Banks worldwide have been shedding noncore assets and pulling out of international markets to reduce risks, cut costs and meet tougher capital rules to prevent a repeat of the 2008 financial crisis that shuttered dozens of financial institutions and left thousands without jobs.

"We are just starting to explore. We can't say we will buy in this country or whatever because we have to look very carefully at what BBVA wants to do with its assets and what opportunities could arise for us there," said Bojanini, an industrial engineer who holds an MBA from the University of Michigan.

"The news is very new, so we are just analyzing."

Much would depend on whether BBVA sold as an asset block or if individual funds would be available in different countries, he said. Santander, another Spanish bank with

Latin American assets, sold its Colombian unit last year in a move widely seen as plugging a capital shortfall.

"BBVA would be very attractive to investors. It has some good pension fund assets," Bojanini said.

Still, analysts say it will be tough for Sura to buy the assets given its leadership in the pension business and the price paid last year for ING.

"BBVA will likely want to sell the whole thing to one buyer, and that would count Sura out," said Juan Camilo Martinez, an analyst at Bolsa y Renta brokerage. "It's a possibility if it gets broken up."

He hopes Sura's regional assets will benefit from a growing middle class across Latin America and economies that are driving faster than in developing nations. Latin America and Caribbean economies are expected to grow 4.1 percent in 2013, on top of 3.7 percent this year, the International Monetary Fund says.

Sura is the investment arm of Grupo Empresarial Antioqueno, Colombia's biggest conglomerate which is built around 100 or so businesses ranging from financial services to cement and processed foods. Each unit is a partner of the other.

Sura's shares have fallen 16.2 percent in the last 12 months, the fifth-worst performance on the IGBC Index, which has risen 3.66 percent.

Sura, which reported net income of 332.7 billion pesos (\$180.7 million) in 2011, could tap capital markets if it found assets worth buying, Bojanini said at his Medellin headquarters, although nothing is imminent.

Last year Sura, which has assets worth 21.6 trillion pesos, used a combination of cash, loans and the proceeds from the sale of its shares to buy the ING assets. It was the biggest outbound deal ever for a Colombian company.

"We look for companies with market leadership, with good corporate governance and good reputation. We like to buy the control of a company, not minority stakes,"

Bojanini said. "The moment there is a good investment to make, we would like to go to the capital markets."

Bojanini reckons Colombia is in better shape now than during the 2008 world financial crisis to face fallout from Europe's economic troubles, though he is worried about how a sovereign default and the breakdown of the European Union would have an impact on the global financial system.

"No one wants the European Union to disintegrate. No one wants that, but if that happens, we will see a very complicated situation," Bojanini said. "It was a good concept that got out of hand."

European policymakers are struggling to keep Greece in the euro zone and stem huge losses that could be inflicted should it default on its debt. Greece accounts for little more than 2 percent of the euro zone economy but could pose a profound contagion threat if it quits the currency area, throwing the spotlight on Portugal, Spain and even Italy.

"No country in the world or any region is immune to the consequences of a situation like this," Bojanini said.

Countries with higher trade exposure to Europe, such as Brazil, Chile and Mexico, will be more concerned by the possible impact of crisis, he said. Colombia, which agreed to a free trade accord with Brussels earlier this year, sent \$8.9 billion in goods to Europe last year and imported \$7.5 billion.

A collapse in European demand could lead Latin American economies into difficulty and even recession, pushing down the value of their currencies amid a flight to quality.

"The effects on Colombia could be more indirect; the problem is that Europe could affect the United States, and the United States has much bigger trade with the entire region," he said.

*Editing by Daniel Wallis, Maureen Bavdek and Matthew Lewis*

## Chile's CorpGroup eyes BBVA pension fund assets

BY ANTHONY ESPOSITO  
AND FELIPE INTURRIETA  
SANTIAGO, MAY 31, 2012

Chile's CorpGroup conglomerate could jump into any eventual auction for Spanish bank BBVA's Latin American pension fund businesses and could access the necessary resources to buy them, the CEO of its banking arm, CorpBanca COB.SN, said.

CorpGroup headed a group of financial institutions that tried to acquire the regional assets of ING Groep NV last year but was beaten out by Colombia's GrupoSura, which has said it would also consider snapping up BBVA's Latin American assets if regulations allow.

"I believe it's in the group's DNA to be able to at some point acquire or participate in" bidding for the BBVA businesses, CorpBanca CEO Fernando Massu told the Reuters Latin American Investment Summit at his office in Santiago.

"CorpGroup could analyze, as part of its core business, these type of opportunities which present themselves," he said. "If (CorpGroup) had funds for the sale of ING's assets, I don't see why it wouldn't have it now to acquire BBVA's."

BBVA Spain's No. 2 bank, said last week that it may sell its pension business in Colombia, Peru, Mexico and Chile, joining the ranks of banks looking to shed operations outside their main markets to reduce risks and meet tougher capital rules.

CorpBanca struck an agreement late last year to buy Banco Santander Colombia BCA.CN for \$1.225 billion as Spain's Santander moved to sell assets in Latin America to help shore up its finances at home.

"We've just paid \$600 million for 51 percent, for the controlling stake in Banco Santander Colombia, and we expect to



The offices of Spanish bank Banco Bilbao Vizcaya Argentaria (BBVA) are illuminated by the late afternoon sun in central Bilbao May 4, 2012. **REUTERS/VINCENT WEST**

complete the rest of the purchase during the first few weeks of June," Massu said.

CorpBanca is also looking to complete a nearly \$550 million capital increase in June to help pay for its purchase of nearly 95 percent of Banco Santander Colombia.

"We want to be a bank with certain relevance within the Colombian market, so we're looking to double our market participation through organic growth," to between 6 and 7 percent by 2015 from a current 3 percent, Massu said.

In Chile, CorpBanca is also looking to boost its market participation through organic growth, to 12 percent by 2015 from nearly 8 percent at present.

Massu said CorpBanca was on the lookout for further expansion opportunities in Colombia, Peru, Mexico and Brazil.

"We want to be a regional bank ... If another (acquisition) opportunity presents itself, we're open to analyzing those opportunities," he said.

The Chilean bank is also mulling issuing debt in Peru or Mexico later this year.

"We believe we could issue the debt this year but haven't done so yet because the price hasn't been right," he said.

Regarding possible fallout from the euro zone's deepening debt woes and Spain's banking crisis, Massu said it was unlikely that the likes of Santander and BBVA would sell their local banking units.

"I think it's extremely unlikely to happen. In the case of Banco Santander or BBVA, either of the two, the strongest defense that they have had has been their operations in Latin America, in Mexico, Brazil and Chile," Massu said.

"In any case, I don't see local banks buying those units if they were sold because the antitrust authorities probably wouldn't allow it."

The CorpGroup conglomerate, led by businessman Alvaro Saieh, has units in banking, retail and communications.

*Editing by Simon Gardner; editing by John Wallace*

# Petrobras speeds asset sales to fund expansion: CFO

BY JEB BLOUNT  
RIO DE JANEIRO, MAY 31, 2012

**B**razil's state-led oil company Petrobras expects to complete the bulk of a \$13.6 billion asset-sale plan by the end of the year, helping finance \$225 billion of investments under its five-year corporate spending program, the world's largest.

Assets up for sale include stakes in the company's exploration blocks in Brazil and in the Gulf of Mexico and refineries in Texas and Japan, Chief Financial Officer Almir Barbassa told the Reuters Latin America Investment Summit.

Investment banks hired to manage the sales have received strong interest from companies worldwide, he said, though he did not name the potential buyers.

"In the second half, by the end of the year, we will see the majority of transactions by value, if not by number," Barbassa said in an interview at Petrobras' headquarters on Friday evening in Rio de Janeiro. "The Gulf of Mexico sale is important, probably the most important."

Petrobras has about 190 exploration blocks under lease from the U.S. government in the Gulf of Mexico. In the middle of the last decade it was the largest single buyer of deepwater blocks in the area.

It began pumping oil in March from its Cascade and Chinook fields in the region.

While Petrobras is considering offers to sell individual blocks, it may opt to sell a stake in all its Gulf of Mexico assets to a "strategic partner," Barbassa said.

The company's retreat from the United States and other overseas investments comes as the Rio de Janeiro-based company struggles to contain costs and delays in the development of technologically difficult offshore fields at home.

The main "subsalt" areas in the Santos Basin south of Rio de Janeiro could contain 30

billion barrels of oil or more, according to the government, and include some of the world's largest discoveries in the last three decades.

The estimated recoverable oil volumes in the Santos Basin are enough to meet more than four years of U.S. needs, according to British oil company BP, and Reuters.

A wider area that includes the Campos Basin, where Brazil gets 80 percent of its oil and where Petrobras has been given some exclusive rights to future exploration and development, may contain 100 billion barrels, the Brazilian Oil Institute of the State University of Rio de Janeiro said.

Despite abundant resources, Petrobras is finding efforts to more than double output to about 6.4 million barrels a day of oil and gas by 2020 an uphill battle, Barbassa said.

Of the approximately \$45 billion it is spending a year on expansion, Petrobras has to spend \$20 billion, or nearly half, just to replace output from old and declining fields and keep output at about 2.6 million barrels a day, he said.

Under the asset sale plan, which was scheduled to take place over three years, Petrobras has already sold stakes in oil exploration blocks in Brazil and Africa, he said.

It may also sell natural gas, petrochemical or distribution assets, he said.

Petrobras, though, does not plan to sell its stakes in mature on-shore oil fields in Brazil, nor is it interested in buying stakes in fields that Vale SA, the Brazilian mining company, is selling, he said. Petrobras is Vale's partner in several blocks.

Petrobras faces other challenges as it tries to pay for a plan which calls for spending an average of \$125 million a day.

Brazilian domestic oil demand is rising, meaning more output must be directed to domestic consumption and less to exports. After declaring Brazil a net exporter of oil in 2006 to much fanfare, Petrobras now imports more oil and refined fuel than it exports. It will be "several years" before it re-

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gains its net-exporter status, Barbassa said.

Meanwhile, the European debt crisis and a Chinese economic slowdown threaten to slow world growth and cause oil prices to fall.

In a report May 23, Bank of America/Merrill Lynch said a Greek departure from the Euro zone could result in oil falling as low as \$60 a barrel.

As the crisis in Europe has widened, Brent crude has already fallen about 16 percent to \$107.37 a barrel from a four-year high of \$128.40 on March 1.

Petrobras has budgeted its plans on Brent prices in the \$80-to-\$95-dollar-a-barrel range and can produce subsalt oil for \$45 a barrel, Barbassa said.

"Of course, if oil fell to \$40 a barrel this plan is not viable," he said.

Even if the European crisis is as serious as the 2008-2009, U.S. banking crisis, Petrobras should be able to weather the storm, Barbassa said.

Oil fell 75 percent to 36.20 a barrel in December 2008 from an record \$147.50 a barrel in July that year.

"What did we do?" Barbassa asked. "We raised our investment plan 50 percent to \$174 billion."

Once an European crisis is over, he expects oil to rebound to more than \$100 a barrel.

As for Brazil's currency, which has weakened about 6 percent against the dollar this year, the impact is close to neutral he said.

While the company's dollar debts and oil and fuels imports became more expensive in local currency terms, its exports are worth more and royalty payments will decline.

*Reporting by Jeb Blount, Leila Coimbra, Rodrigo Viga Gaier, Sabrina Lorenzi and Roberto Samora Editing by W Simon*

# Brazil to boost defense to protect borders, resources

BY JEFERSON RIBEIRO AND PAULO PRADA  
BRASILIA | WED MAY 30, 2012 8:21PM EDT

**B**razilian Defense Minister Celso Amorim said on Wednesday the country's growing need to protect its borders, the Amazon rainforest, and massive offshore oil discoveries would lead it to gradually increase defense spending by a quarter to reach roughly 2 percent of Brazil's economy.

During an interview at the Reuters Latin America Investment Summit, Amorim said the country's valuable food, water, and energy supplies could eventually make it the target of a "scramble for natural resources." Given the country's recent economic growth, he added, Brazil must spend more on preparedness and its ability to "react or dissuade any effort to invade our territory."

Brazil has good relations with all 10 of its South American neighbors, and hasn't been to war with any of them since the 19th century, so defense spending has historically been seen as a second-tier priority.

But President Dilma Rousseff's government has come under public pressure to better defend its borders from drugs and other contraband because of a crack epidemic in Brazilian cities.

At present, Brazil spends about 1.6 percent of its gross domestic product on defense; other countries, including Russia and the United States, spend more than 4 percent, according to the Stockholm International Peace Research Institute. Last year, the figure reached more than 61 billion reais (\$30.3 billion), Brazil's defense ministry said.

In the coming years, Amorim said, Brazil should spend closer to 2 percent of GDP, a percentage more in line with that of other big developing nations, such as India and China. The minister gave no time-line for when that

target might be reached, but said hypothetically it could take as long as ten years.

Increased spending, Amorim said, would also help nourish a nascent but growing defense industry in Brazil that could supply the weapons and equipment necessary to fulfill the government's defense goals.

Because of strict rules that require Brazilian companies to have a share in defense purchases, either alone or through partnerships with foreign contractors, local industries should benefit from the need for equipment including satellites, helicopters, armored vehicles, and ships. To improve much-needed border patrols, for example, Amorim expects Brazilian companies within four years to have sufficient know-how on their own to supply the country with unmanned drones.

A career diplomat and foreign minister during the eight-year administration of former President Luiz Inacio Lula da Silva, Amorim helped raise Brazil's profile in global forums like the United Nations, World Trade Organization, and Group of 20 major economies. His success in leveraging Brazil's growing economic might into a role as a voice for developing nations prompted President Dilma Rousseff last year to charge Amorim with seeking similar lefthand for the armed forces.

Amorim has been working to secure long-sought upgrades to the old and rickety weapons and surveillance systems now used by the military. Chief among planned procurements is a contract for new fighter jets, expected to be worth more than \$5 billion when finally awarded.

But procurement in Brazil, even by the slow-moving standards of the defense industry, historically has been stop and go.

The long-pending decision to purchase a new generation of fighter jets, for instance, has been in the works for more than a decade. Though Brazil earlier this year looked

set to pick France's Dassault to supply the new aircraft, the government held back on a decision and is still considering jets manufactured by Boeing of the U.S., and Sweden's Saab.

Amorim said he hopes a decision will come "soon," but declined to predict whether that meant a matter of months or even years.

A stagnating Brazilian economy, which has come perilously close to recession in recent quarters, isn't expected to impede key defense decisions further, he added. The perceived vulnerability along the borders, around offshore oil fields, and across its farm belt, forests and wetlands will ensure military spending remains a growing priority.

"Even if you bring in less money at home, you can't not pay for a lock on the door," he said.

Amorim said the government must work to convince Brazilian society that the ramp-up in spending is worth it, especially because many Brazilians remain wary of the country's armed forces. Brazil's military ruled the country in a dictatorship that lasted two decades, ending in 1985.

Brazil will also work with its neighbors, he added, to ensure that regional cooperation can grow along with military ventures and contracting.

This month, Brazil signed an agreement with Colombia, valued at \$10 million, for the purchase of patrol vessels that will be used to monitor the Amazon and its tributaries. Brazilian planemaker Embraer, for its part, works with Argentine partners in the development of a planned cargo aircraft that is expected to compete with other would-be successors to Lockheed Martin's ageing C-130 Hercules.

\$1 = 2.01 Brazilian reais

*Additional reporting by Ana Flor, Esteban Israel, and Saul Hudson; Writing by Paulo Prada; Editing by Phil Berlowitz*

## 'This is not Lehman' - Peru central banker says of European woes

BY TERESA CESPEDES AND TERRY WADE  
LIMA, MAY 31, 2012

**F**allout from debt woes in Europe will pale in comparison to the meltdown of Lehman Brothers in 2008 and intense market volatility could force policymakers to agree on fixes faster, Peru's central bank chief said on Thursday.

Strong and liquid Latin American banks have responded to the turmoil opportunistically by buying loan portfolios from European peers at deep discounts, like in a "Persian bazaar," Central Bank President Julio Velarde told the Reuters Latin America Investment Summit.

"I'm relatively optimistic about the future. I think we are passing through some weeks of sharp turbulence. It could be a blessing in disguise so that decisions (in Europe) are made faster and with more force. "Otherwise, if actions aren't taken, perceived risks will increase."

He said he thought European institutions would eventually hammer out a solution to the region's financial problems and find necessary funding to calm investors.

"This isn't Lehman. You don't need to be afraid," he said in reference to the global investment bank that melted down in 2008, causing widespread economic havoc. "It's not Lehman because that only happens once a century."

Latin America has weathered deleveraging by French and Spanish banks over the last six to nine months. The Bank for International Settlements' data shows that Spanish banks have loans in Peru worth about \$16 billion, or 9.5 percent of gross domestic product.

But exposure is actually a lot less, he said. The only Spanish bank with a sizable presence in Peru is BBVA. It isn't one of the troubled Spanish banks and it holds only a minority stake in the Peruvian unit, known as BBVA Continental.

"Less than half of it is in Spanish hands. So it's almost impossible for resources to be diverted to Spain (to cover holes) when

there is a Peruvian group that would lose if this were to happen," he said.

Though Chinese exports to Europe have slowed, raising concerns the Asian giant's economy could moderate and hurt prices for commodities Latin America exports, Velarde said: "China still has the fiscal and monetary capacity to respond ... I suppose China will keep on growing."

He said worries about a real estate bubble for middle- and upper middle-class housing in China ignore the fact that demand for working class housing is still strong and that all types of housing need copper that Peru exports.

Peru is a leading global minerals exporter and, even though domestic demand and investment -- especially in housing and infrastructure -- have led growth for the past couple of years, it still depends on taxes from minerals exports to finance the public sector.

"If China's pace of growth declines by 25 percent, Peru's would too," Velarde said. "So if China slows from 8.2 percent to 6 percent, Peru would go to a bit less than 5, like 4.7 or 4.8 from the 5.7 percent we've projected for this year."

Peru, which managed to grow 0.9 percent in 2009 even as most economies shrank, has even more capacity now to respond to a global crisis than before. Its record international reserves have doubled to nearly \$60 billion, its net public sector debt load is a tiny 6 percent of GDP, and its public sector surplus in the first quarter of the year was a whopping 7 percent of GDP. The finance ministry also has a separate rainy day fund of more than \$5 billion.

"Our reserves are much higher than before and as you saw during Lehman we are ready to use them," he said. "We could be very aggressive in monetary policy if we had to be," he said.

Peru's base rate is 4.25 percent and Velarde slashed this to 1.25 percent during the Lehman debacle. Peru's deposit rules are also relatively high, giving it room to act.

"There'd be no problem implementing a countercyclical policy. We have the resources," he said. "What the public sector has on deposit with the central bank and commercial banks is equal to 14 percent of GDP, so there is room to act with a lot of force."

Peru also enjoys pre-qualified access to an IMF contingency line that it didn't have in 2008. Central banks around the world can now also inject liquidity into troubled financial systems much faster than in 2008, he said.

Prior to an increase in deposit rules in April, the central bank had said its stance was "neutral."

The central bank raised deposit requirements on bank accounts in a bid to curb credit expansion and stem appreciation in the local currency, which is at a 15-year high against the U.S. dollar.

"It's slightly more restrictive ... we raised the deposit rules by a small, timid measure," Velarde said.

The central bank then went on to hold its base rate steady at 4.25 percent again in May for the 12th straight month.

Many private-sector economists expect the central bank to keep its benchmark rate unchanged for the rest of the year.

By late this year inflation, which has been hit by supply shocks for food and energy, is expected to cool from around 4 percent to 3 percent - which is the upper end of the central bank's 1-3 percent target range.

"We don't see inflationary pressure from internal demand, which is still growing near the potential growth rate," he said.

Peru's potential GDP rate is considered around 6.5 percent, though it has grown 9 percent in some recent years.

"Cost pressures for petroleum and grains have started to dissipate," he said. "If we see inflation being caused by demand, we will act. If it is because of supply factors monetary policy won't have an impact."

*Reporting by Teresa Cespedes and Terry Wade;  
Editing by David Gregorio*



A man talks on his mobile phone as he looks at an electronic display board at Brazil's BM&FBovespa stock exchange in Sao Paulo. REUTERS/NACHO DOCE

## Brazil: slowdown won't halt ascent on world stage

BY PAULO PRADA AND ESTEBAN ISRAEL  
BRASILIA, MAY 31, 2012

**A** stagnating domestic economy and uncertainty abroad will not hinder Brazil's long-sought ascendance on the world stage, Foreign Minister Antonio Patriota said on Thursday.

Patriota said in an interview during the Reuters Latin America Investment Summit that hard-won economic gains over the past decade have given Brazil enough clout in global commerce and diplomacy for the country to remain a player even as its once-booming economy sputters because of uncertainty in Europe, slowing growth in China, and a decline in prices of commodity exports.

He said Brazil was using its voice in global discussions to end violence in Syria and in the run-up to a United Nations conference on sustainable development scheduled to be held in Rio de Janeiro next month.

Buoyed by an export boom, Brazil parlayed strong domestic demand, market-friendly policies, and ambitious social programs into a period of sustained economic growth averaging more than 4 percent annually for most of the past decade. That catapulted more than 30 million people out of poverty and into a fast-growing middle

class in Latin America's biggest economy.

"Brazil has a voice because of achievements at home," Patriota said.

Growth, however, has slowed to 2.7 percent last year from 7.5 percent in 2010. Though Brazil's government has forecast a pickup for later in the year, many economists believe the economy will not do much better in 2012.

Official data due out on Friday is expected to show that Brazil's gross domestic product expanded just 0.5 percent in the first three months of the year from the previous quarter, a disappointment for an economy that surpassed Britain last year to become the world's sixth largest.

Still, Patriota said country remains "an example that effectively gives Brazil an unprecedented ability to be part of the dialogue."

In the debate over Syria, Patriota said Brazil is arguing against military intervention and measures such as the expulsion this week of Syrian ambassadors by the United States, France, and other countries because of violence against civilians that persists in Syria. Such an action, Patriota said, "does nothing to reduce violence."

He dismissed criticism that Brazil's diplomats, long praised as able negotiators, are sluggish when it comes to international ef-

orts to stem crises. Brazil, for example, was opposed to intervention in Libya last year and routinely shies away from overt criticism of human rights abuses in countries like Cuba.

"The pace of diplomacy isn't always fast enough to get ahead of crises or violence," Patriota said. By ceding to calls for force, he said, other countries "weaken the multilateral system" and flout the mechanisms established by international law to resolve conflicts.

Patriota said Brazil was also pushing hard for other countries to adopt realistic goals for the upcoming development summit, dubbed Rio+20, because of the 20th anniversary of the landmark Earth Summit in the city.

Compared with that meeting, which paved the way for the Kyoto climate treaty and established a U.N. convention on biodiversity, the upcoming summit was conceived as a forum to discuss a range of issues, not just the environment, Patriota said. Economic growth, job creation, and social inclusion are just as crucial for Brazil and other developing nations, he said.

"It is not an environmental summit," Patriota said. "It has to be about development."

*Additional reporting by Ana Flor and Jeferson Ribeiro; Writing by Paulo Prada; Editing by Todd Benson*

# Summit Speakers



**Felipe Larrain**  
Finance Minister  
Chile Government



**Javier Gutierrez**  
President  
Ecopetrol



**Jorge Sapag**  
Governor  
Neuquen Province  
Government (Argentina)



**Jorge Brito**  
CEO  
Banco Macro



**Juan Carlos Echeverry**  
Finance Minister  
Colombia Government



**Luis Miguel Castilla**  
Finance Minister  
Peru Government



**Agustin Carstens**  
President  
Mexico Central Bank



**Alicia Barcena**  
Executive Secretary  
ECLAC



**Almir Barbassa**  
CFO  
Petrobras



**David Bojanini**  
CEO  
GrupoSura



**Guido Mantega**  
Finance Minister  
Brazil Government



**Humberto Campodonico**  
CEO  
PetroPeru



**Jose da Costa Carvalho Neto**  
CEO  
Eletrobras



**Genaro Muñoz**  
General Manager  
Coffee Growers  
National Federation



**Rodrigo Vergara**  
Governor  
Chilean Central Bank



**Roberto Egydio Setubal**  
CEO  
Itau Unibanco



**Ulrich Bauer**  
President  
Paraguayan Chamber of  
Cereals and Oilseeds Exporters



**Gustavo Franco**  
Former President  
Central Bank of Brazil



**Henrique Meirelles**  
Former President  
Central Bank of Brazil



**Nelson Hubner**  
Director General  
Aneel



**Carlos Raul Yepes**  
CEO  
Bancolombia



**Shelly Sheety**  
Head of Latam Sovereign Group  
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**Cristian Amuchastegui**  
President  
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General Manager  
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Governor  
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Government (Argentina)



**Frederico Curado**  
CEO  
Embraer



**Mauricio Cardenas**  
Mining Minister  
Colombia Government



**Thomas Keller**  
Incoming CEO  
Codelco



**Celso Amorim**  
Defense Minister  
Brazil Government



**Claudio Melandri**  
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**Hugo Bethlem**  
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**Jaime Charles**  
General Manager  
CAP



**Jorge Corvalan**  
President  
Paraguayan Central Bank



**Jose Antonio Meade**  
Secretary  
Mexican Finance Ministry



**Oscar Gonzalez**  
CEO  
Southern Copper



**Wagner Bittencourt**  
Brazil Government  
Civil Aviation Ministry



**Alejandro Valenzuela**  
General Manager  
Banorte



**Antonio Patriota**  
Foreign Relations Minister  
Brazil Government



**Antonio Buchi**  
General Manager  
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**Guilherme Escalhao**  
CEO  
MMX



**Gustavo Grobocopatel**  
Chairman  
Los Grobo



**Julio Velarde**  
Central Bank Governor  
Peru Government



**Daniel Muniz**  
CFO  
Grupo Mexico



**Britaldo Soares**  
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**Eduardo Navarro**  
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**Maria Helena Santana**  
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