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PANORAMA LATIN AMERICA

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Latin America is a major producer of commodities and recent drop in oil prices is impacting countries of the region in different ways. Some of them may benefit from lower international quotation, others are negatively impacted already in the short term and finally a third group could be affected in the medium term only.

Who should win and who should lose in this scenario will be explored in the first part of this Latin America Panorama. In addition we will focus on the current economic environment as well as the forecast for Argentina, Chile and Colombia, representative economies in the region that have faced different scenarios. Argentina is currently in recession, with high inflation, low international reserves, increasing imports barriers and the holdout issue is still going on. On the opposite side, Chile that is often considered as the region benchmark, has reported slowdown in activity mainly associated with lower copper international prices. And the Colombian economy which has been the frontrunner in the region recently, will not be immune from the oil shock neither.

In this country by country analysis, a focus of specific key sectors in each country will be made. Hence, in Argentina we wonder how the automotive market is performing against the backdrop of the current economic turmoil. Chile is major mining producer, but activity has slowed down due to the lower international prices of mineral commodities (especially copper due to its leading position as producer). In Colombia construction has been boosting activity, but some late payments have been reported.

IMPACT OF LOWER INTERNATIONAL OIL PRICES ON LATIN AMERICA

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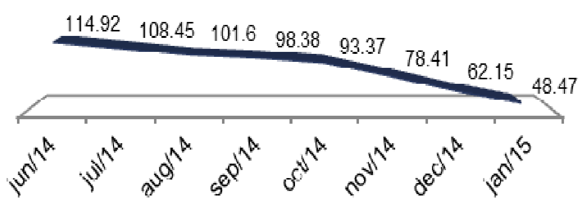
« Who should win and who should lose in this scenario will be explored in the first part of this Latin America Panorama.»

1 STEEP DECLINE IN OIL PRICES AND ITS MIXED EFFECT ON THE LATIM AMERICA REGION

Oil prices have reported freefall in recent months, from the peak of 114.81 USD on June 20 2014 to 48.47 USD on January 28 2015 (see chart 1). The 57.8% contraction is associated with an increase in output together with a lower demand. On the supply side, the recent shale revolution in the US has raised production in the country to the highest level in three decades. In counterpart China, which is the main consumer (12% of total oil consumption), has demanded lower volumes due to the slowdown in GDP growth. The OPEC decision on November 27 to keep production in the same level contributed to the downward pressures over oil prices. The goal behind OPEC´s decision is to discourage investments in new shale fields, as it reduces their relative profitability.

Chart 1 : Oil prices (brent, USD)



Source: Bloomberg

How far can this go? Coface forecast Brent oil prices to average 55USD in 2015. How does this scenario impact on Latin America? It depends on the country and on how long this lower price will last. Clearly **Venezuela** is the main loser, as it holds the world´s biggest proven reserves, oil accounts for around 95% of the country exports and half of its budget's revenues. The country is already facing serious crises, inflation stood above 60% in 2014, lacks international reserves and the shortage of major goods. Coface estimates GDP to have fallen by 3% in 2014 and to contract by further 1% in 2015.This recent movement brings an even bleaker outlook for the country, reducing its capacity to make payments on its foreign debt and affecting its current exchange rate schema.

Ecuador is probably the second most affected country. It counts on more sound financial and economic fundamentals, but it also relies significantly on oil revenues (roughly 50% of total exports). The country has benefited from comparatively fast GDP growth, improved poor infrastructure and higher social spending (i.e. free healthcare and education) having lowered poverty. To finance his projects budget deficit has increased from 1.1% to 4.7% in 2013 and may have achieved 5.3% in 2014. The decline in oil prices may further deteriorate government´s account or jeopardize his plans, all the more since the dollarization of the economy makes it difficult a devaluation in order to adjust accounts. The government has recently announced cuts to the 2015 budget (1.4 billion USD or 1.4% of GDP) as well as five loans signed with China in early January 2015 amounting 7.5 billion USD.

The negative effect will also be felt in **Colombia**, but to a lesser extent. The country is a net oil exporter and the declining production together with the recent drop in prices will erode external accounts. Current account deficit should deteriorate from the 3.3% reported in 2013 and exchange rate may depreciate. Notwithstanding it accounts on strong macroeconomic responsibility and on the robustness of private consumption. The biggest risk stands at the long term, if prices continue to drop. Country´s oil reserves are declining and may run out in 6 years, according to Colombia´s Energy Minister. Investments in new oil fields are mandatory and can be discouraged if the scenario of lower prices persists.

The timing is not the best for Brazil, as it is at the same moment that the state owned oil company Petrobras begins to increase consistently production after four years of decline. Brent international prices start to get dangerously close to break-even of some of the Pre-Salt[1] fields. Company recently informed that price up to $ 50 is enough to pay the cost of capital. Furthermore the oil giant is currently under investigation due to a corruption scandal that prevented it to publish the third quarter 2014 audited financial statement. While this is not resolved it cannot borrow in foreign markets. If the fall of prices persists, revenues will be affected just as it is in the midst of heavy investment and needs loans to fund its billionaire Pre-Salt investment program. The effects over Mexico in the short term should not be representative. Crude oil exports will be hit by lower prices, but they are not as significant and energy surplus has been reducing in recent years (shrinking production). In addition Mexico´s strong manufacturing segment will be benefited by lower energy costs. It is true that oil revenues represent around one third of government revenue, but sensitiveness to current environment is low as the domestic prices does not freely float. In the long term lower oil prices, if sustained may compromise private sector interest in Mexico´s landmark energy reform.

The recent movement brings some fresh air to Argentina´s trade balance. The country has faced lack of international reserves and the increasing energy deficit has further deteriorated country´s sensitive environment. Taking into account a longer term, the scenario shifts. Argentina holds the world's second-biggest shale-gas reserves, most of them in Vaca Muerta[2] and sustained lower prices may impact on exploitation´s plans. In November 28 2014 Argentine Cabinet Chief Jorge Capitanich said that the drop in international oil prices won't cut investment in the development of large shale resources in Vaca Muerta due to a decline in drilling costs at the play (to an average of $7.5 million per well from an initial $11 million and thanks to a partnership with Chevron).

Lastly the impact of the oil price shock tends to benefit **Chile**. The country which has begun to lose momentum in 2014 is a net oil importer. It holds the most expensive energy cost in the region and the recent movement may positively contribute to its economy. Peru and Uruguay are also net importers, but in these countries oil prices are controlled. In Peru fuels prices reported a high of 0.32% from July to December 2014, while oil prices in local currency contracted by 46%.

Colombia

It has been growing at robust rates, outperforming countries in the region. On the demand side, a strong domestic market has led activity in counterpart with a weak external result. Investments rose by 13.1% in the three first quarters of 2014 YoY, followed by a solid consumption (+5.3%). The latter one is based on improving labor market and increasing access to credit. Trade balance has been impacted by lower oil exports. This scenario may further deteriorate, due to oil prices recent declining tendency and its representativeness in Colombian export basket (67.2% in 2013).

In counterpart tax hikes recently enacted should help to balance the 2015 budget. It aim to raise 12.5 billion pesos (USD) in the year and 53 billion pesos in four years through increased wealth together with surcharge taxes. If it will be enough to offset the losses with lower oil prices is not yet clear, but it will probably impact on investments and on consumption in the short term.

On the supply side construction has been driving activity (+13.7% in the three first quarters of 2014 compared with the same period of the previous year), due to government´s low-income housing subsidies and investments on infrastructure. The manufacturing segment remain as the last vigorous one, it rose by 0.5% in the same comparison basis. The weak performance is mainly associated with lack of competitiveness, smuggling, informality and national strikes.

Inflation closed 2014 in 3.66%, surpassing the target´s midpoint of 3. It is expected to improve, despite the weaker peso (based on lower growth rhythm). The recent drop in oil prices deteriorates terms of trade, impacting its currency and, finally, pressuring up prices. Despite the movement, interest rates were maintained unanimously in 4.5%. Tightening rates are expected only in mid-2015, as a response to probably increase of interest rates in the USA.

Table 1

Colombia	2013	2014	2015 (f)
GDP	4.7%	4.8%	4.5%
Inflation	2%	3.66%	2.6%
Private Consumption	4.2%	5%	4.3%
Budget balance (1)	-0.9%	-1.5%	-1.3%
Public debt (1)	35.8%	34%	33.1%
Manufacturing	1%	1.7%	2.2%
Unemployment Rate (2)	9.6%	8.7%	8.5%
Current account balance (1)	-3.3%	-3.9%	-3.8%

Pct of change in real terms, except (1) % of GDP and (2) % of labor force
Source: Dane, Coface, IMF and Oxford Economics
Values in green are forecast

[1] Pre-salt: Discovered in 2007, the pre-salt layer is a large deposit of oil located beneath the seabed, with a volume of approximately 50 billion barrels, and comprises a range of 800 km between thes tates of Espírito Santo and Santa Catarina, away from 100-300 km from the coast.

[2] Vaca Muerta: is a geologic formation located at Neuquén Basin in Argentina. It is best known as the host rock for major deposits of shale oil and shale gas. The large oil discovery was made in 2010 by the former Repsol-YPF, which announced the discovery in May 2011

Chile

Activity has slowed down since the last quarter of 2013 and achieved in the third quarter of 2014 the slowest growth pace since 2009 (+0.8% over one year earlier). The movement is mainly associated with lower copper prices, impacting on trade balance and on investments plan. Exports in Chile account for 27% of GDP and half of the basket is composed by the mineral commodity. Total exports closed 2014 almost stable, reported a decline of 0.05% YoY.

In September 26 2014 President Michelle Bachelet signed into law a widespread tax reform in order to fund her electoral promise of free education from primary school to university. The reform will add the equivalent to 3 p.p. of GDP by 2018 through measure such as rising corporate tax from 20% to 25% and eliminating tax incentives for investments. Right-wing politicians as well as business leaders were against the reform arguing that this would impact investments at a time when activity is waning. Gross fixed investment is currently economy´s weakest point; it fell by 9.9% in 3Q2014 from one year before. This sensitive scenario is not only a copper issue, but it is also a result of lower business confidence associated with corporate dissatisfaction with tax reform (confidence[3] stood at 40.22 points in December 2014).

In order to stimulate economy, Central Bank promoted an easing cycle since late 2013. Interest rate stands currently at 3%, after eight rate cuts totaling a 2 p.p. cut. Notwithstanding activity has failed to get momentum and prices are under pressure. Inflation closed 2014 in 4.6%. Downward signals may start to be seen, with the oil prices tumbling (improving country´s terms of trade).

In response to recent increase in unemployment rate and to high inflation, household consumption decelerated in recent period (+2% in 3Q2014 YoY). Notwithstanding consumer confidence increased by 4.2 points and stood at 45.3 points in December 2014. This may be a rebound signal.

The outlook for 2015 is of improvement in activity, but growth pace should remain below the 4.7% average reported in the last decade (2004-2013). On the one hand solid fiscal position, financial resilience and shrinking oil prices that improves competitiveness should positively impact over GDP. On the other hand copper prices should not increase in the medium term and the recent approved tax reform if not well implemented may maintain business confidence in low levels.

Table 2

Chile	2013	2014	2015 (f)
GDP	4.2%	2%	3%
Inflation	1.9%	4.6%	3%
Private Consumption	5.6%	2.2%	3%
Budget balance (1)	-0.6%	-1.1%	-1%
Public debt (1)	33.5%	34%	33%
Industrial Production	3.5%	0.4%	3.3%
Unemployment Rate (2)	5.9%	6.5%	7%
Current account balance (1)	-3.4%	-1.9%	-2.3%

Pct of change in real terms, except (1) % of GDP and (2) % of labor force Source: NE, Coface, IMF and Oxford Economics
Values in green are forecast

Argentina

Country is still passing through a turmoil scenario. Activity probably contracted in 2014, inflation stand close to 40% (according to non-official sources), lack of international reserves and the debt default situation that has not been solved yet. Negotiations were expected to retake in January 2015, as the RUFO[1] clause expired in December 2014. Notwithstanding government continues to sign that it is not ready to offer a better deal to the holdouts than the one it gave to the bondholders who participated in the previous debt exchanges.

Coface forecasts GDP to contract by 1.5% in 2014 and by -1% in 2015%, thanks to a declining household consumption associated with high inflation, deteriorated job market and low confidence concerning the future scenario. 2014's trade surplus reached lowest level since 2001, totaled almost US$ 6.8 billion (-24%YoY). The weak performance can be explained by soya´s decreasing international prices, Chinese slowdown in growth and Brazil´s lower demand. Country relies on trade surplus to meet its debt obligations, as it lacks international reserves and as it does not hold access global capital markets since the default in 2001.

The state's role in Argentina's economy has been increasing. In order to preserve reserves as well as control inflation, in September 2014 Congress approved the Supply Law (still to be regulated), will allow government to intervene in the pricing and output levels of large companies and should penalize those who accumulate raw materials or products. It is not clear yet if government will do intensive usage of the new Law, but it may use it to oblige soya producers to export their inventories (in some cases they prefer to retain production waiting for an improve in soya´s international prices or a new strong devaluation of local currency).

The six main business associations of Argentina are resorting to court against the new law, as they consider it very interventionist. Two pre-candidates for next year presidential elections, the head of government of the autonomous City of Buenos Aires Maurio Macri, from the Republican Proposal Party (PRO) and the Congressmen Sergio Massa, leader of the Justicialist Party promised that if elected would withdraw immediately The Supply Law.

Government also increased control over exchange rate´s black market wide spreading police presence on informal exchange houses. The difference between the official rate and blue one (as they call the unofficial) fell from a peak of 90% to 50% in December 2014. Notwithstanding government should not be able to maintain official rate around 8.6 pesos/USD for a much longer and new strong devaluation should occur in 2015.

Presidential elections will take place in October 2015. As President Cristina Kirchner failed to get approval in Congress to run for a third mandate, changes in economic policies should happen in 2016. For 2015 we do not expect government to promote big improvements.

Argentina	2013	2014	2015 (f)
GDP	2.9%	-1.5%	-1%
Inflation	28.4%	38.5%	36%
Private Consumption	4.4%	-2.3%	0.1%
Budget balance (1)	-2.8%	-4.5%	-5.5%
Public debt (1)	40.9%	48.9%	54.2%
Industrial Production	-0.1%	-2.6%	0
Unemployment Rate (2)	7.1%	8%	9%
Current account balance (1)	-0.8%	-0.8%	-1.1%

Table 3

Pct of change in real terms, except (1) % of GDP and (2) % of labor force
Source: Coface, IMF, Oxford Economics , Itaú and Focus Economics
Values in green are forecast

[3] Business Confidence: IMCE is measured on a scale of 0 to 100, where levels above 50 indicate optimism, 50 neutrality and below 50 pessimism.

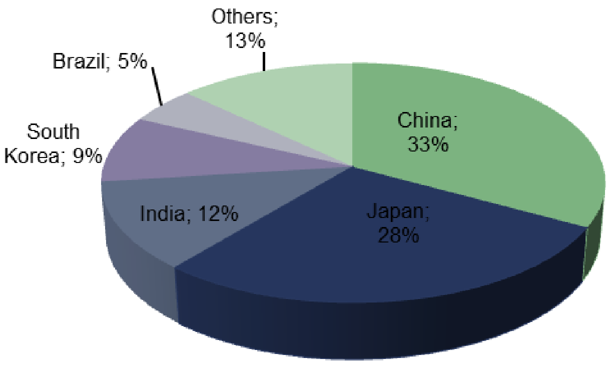
2 Sectors

This section will focus on three segments of the Colombian, Chilean and Argentinean economies. In this edition the industries are construction for Colombia, mining for Chile and automotive for Argentina. The first has been leading growth in the country. The second one is major sector of the Chilean economy and has been reflecting the effect of lower copper international prices and the third one has been suffering the effects of lower household consumption.

Mining in Chile: copper leading position will be maintained, but challenging scenario

Mining is a major pillar of Chilean economy. The country is the largest producer of copper (roughly one third of world´s supply) and also produces gold, silver, molybdenum, iron and coal. Copper is responsible for 50% of Chile´s exports and 15% of gross domestic product. Chilean economy grew by 4.7% on average between 2004 and 2013 and partly can be explained by China´s strong demand for the mineral commodity. The Asian giant buys 40% of the world´s copper and it is Chile´s main client (see chart 2). Notwithstanding the recent slowdown in China´s activity has been pressuring down the international prices, impacting on the Chilean copper business.

Chart 2 : Chilean Copper Main Consumers (year 2013)



Source: Cochilco

Mined copper production achieved 5,776 thousand tonnes in 2013 (+6.3% YoY), reported a small decreased in 2014 (5,746 tonnes) and is expected to increase by 2.75% in 2015. According to Chilean Copper Commission (Cochilco), country's production should exceed 6 million tonnes by 2015 and 8 million tonnes by 2025. Cochilco forecasts $81 billion will be invested in copper projects (new mines and expansion) between 2014 and 2023. From this total, $28 billion would be allocated for Codelco, the state-owned copper mining company.

Despite the promising investment outlook forecasted by the Chilean Commission in November 2014, current environment is not that positive. Economy has begun to lose momentum in 2014, fixed investments decreased by 9.9% YoY in the third quarter of 2014. The recently approved tax reform and the effects of the lower copper international price (- 6.9% in November 2014 YoY) have impacted entrepreneurs´ plans. The tax reform should raise corporate tax from 20% to 25% as well as eliminate tax incentives for investments.

The lower prices may be a threat in a moment of rising costs. The richest country in Latin America holds elevated water and electricity costs (the latter represents roughly 14% of the total production cost). Chile holds limited sources of hydrocarbons, its electricity depends significantly on hydropower and its dams are far from the mining's regions in the North. According to Cochilco mining electricity consumption will nearly double between 2014 and 2025, as the billionaire investment plan gets mature. It would be necessary to climb installed power capacity by 18,000 gigawatts to attend the future demand.

The recent drop in oil prices should reduce short term energy cost pressures, but a long lasting solution, such as increasing energy capacity, would need to meet new environmental and social standards. Earlier this year plans for a new hydroelectric plant in Patagonia, which could supply energy to the North, was shelved thanks to environmentalists. Considering this scenario, other countries have become more inviting. Threat comes from neighboring Peru, which counts with ample gas and with big mines in development. It is true that environmentalists' reluctance also represents an issue in Peru, but energy cost is half of the Chilean one. Furthermore the high wages paid for Chilean miners also reduce country´s competitiveness. Last but not least, ore grades in Chile´s aging mines are falling, making it more difficult to maintain output and pressuring costs. Cochilco estimates that by 2020 43% of the global copper producers will be generating higher ore grades.

Construction in Colombia: contrasting with the negative perspective of the oil industry, this industry holds opportunities in an environment of strong growth and of poor infrastructure

Colombia has been performing well in recent years and so has its construction sector. Actually it has been one of the highlights of the economy. In the third quarter of 2014 the segment GDP grew by 13.7% against 5% of the total GDP, considering the year cumulative rate. Civil works rose by 14.1% and housing increased by 11.1%YoY in the 3Q2014.

The Global Competitiveness Index 2014-2015 of the World Economic Forum ranks Colombia on 108 of 144 countries in overall infrastructure. Breaking down the index (see table 1), country is still worst positioned in subcategories such as quality of roads (126°) and of railroads (102°). Improving infrastructure is the key to achieve a strong and long lasting growth. In this manner, government created in 2011 the National Infrastructure Agency to overcome obstacles faced in public projects (such as attracting private funding). Law 1508 of January 2012 regulated Public Private Partnership (PPP) opening the national infrastructure market to international funds and calling attention of foreigner players.

Table 4

INFRASTRUCTURE	Position in the ranking (144 countries)
Quality of overall infrastructure	108
Quality of roads	126
Quality of railroad infrastructure	102
Quality of port infrastructure	90
Quality of airport infrastructure	78
Available airline seat	39
Quality of electricity supply	60
Mobile telephone subscriptions	87
Fixed telephone lines	77

Source: World Economic Forum

In 2013 policymakers announced the Fourth Generation (4G) Program, which should raise $25 billion (roughly 6.6% of 2013 GDP) in investments on road infrastructure by 2020. The ambitious program is leaded by ANI and it is expected to build roughly 8 thousand km of road, compromising 40 projects. It would cut travel time by 30 % and the transport cost by 20%. For instance, it is cheaper to ship from Shanghai to Colombia´s main port Buenaventura than to ship from the coastal city to the capital Bogota. Industries as well as the field has been losing competitiveness with the country´s climbing trade opening process, increasing urgency of this works.

After delays, the 4G Program started to get momentum in late May 2014 with the bids of the Autopista Conexion Pacifico 1, 2 and of the Girardot-Puerto Salgar. The key challenges to be overcome are the complex geography, security concerns associated with guerillas, corruption and the high capital needs involved on these projects. Toll revenues and governments contributions only start as the roads are ready to use.

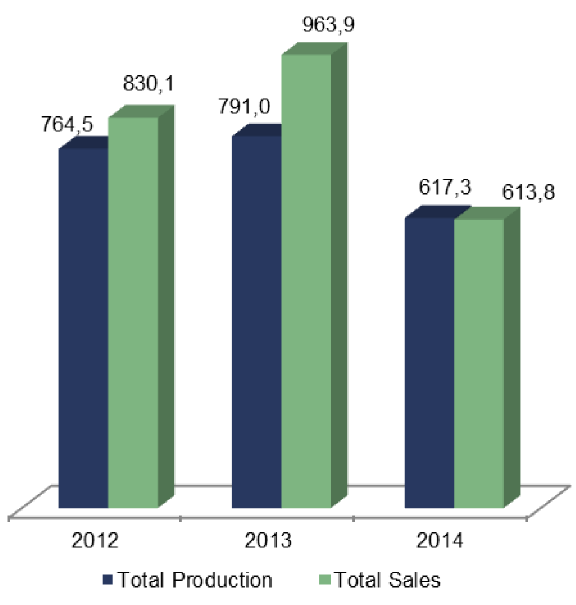
The residential sector should maintain strong growth, based on improving unemployment rates and on the credit good performance (total mortgage credit +14.2% in the 3Q2014 compared with the same period of the previous year). Activity has also been induced through social housing. Reducing the housing deficit is one of the priorities of current government. In June 2013 it was announced investments of $583million for the building of 100.000 homes for low income families, but until May 2014 only 7% had been built.

Perspectives for 2015 remain positive, as GDP will continue to expand at high pace, due to soundness of its macroeconomic fundamentals, the goal on reducing housing deficit in the country and the infrastructure bids that are taking place. In an environment of increasing trade agreements, improving infrastructure is crucial for the local industry survival. Comalco expects construction segment to grow by 9.7% in 2015, with public works expanding by 8% and a high of 4.5% for the housing segment.

Auto in Argentina: weak economic scenario impacting on the industry

Argentina holds the third largest automobile market in Latin America and it is the world´s 23° main vehicle producer. It represents roughly 5% of GDP or 20% of industrial production. Ten foreign automakers hold factories in the country. Together Ford, Fiat, Toyota, General Motors and Renault, in descending order, own 75% of the production market (according to figures of Jan-Nov 2014). In 2013 sales was marked by a high of 3.5% (see chart 1) in production, car sales reported record result (+16%) and exports expanded by 13.4%. However the auto industry deteriorated in 2014.

Chart 3: Car production vs sales (thousand units)

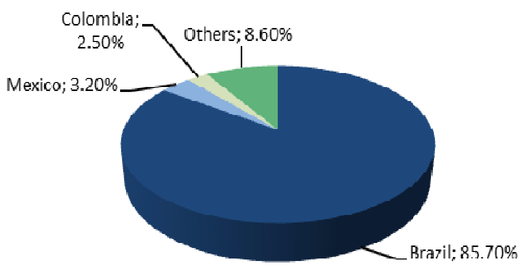


Source: ADEFA and ACARA

Since Argentina defaulted on its foreign debt in 2001, the country has been unable to access the capital market. In this manner, it became dependent on current account surplus to maintain its balance of payments in order as well as to grace its foreign financial commitments. Despite that, in recent years trade balance surplus has narrowing and government decided to increase control over imports, in order to contain internal reserves free fall. Many industries have been suffering the counter effects of these policies and with the auto market is not different. In January 2014 a tax over imports came into force. This measure has imposed a 30% extra tax on cars worth over 170,000 ARS (23,700 USD) and of 50% on cars listed over 210,000 ARS (29,300 USD). In addition on January 2014 government let the peso devaluate in 17.7% in one day, which contributed to further deteriorate the competitiveness of the imported vehicles.

All of this together with a declining consumer confidence explains the impressive 22% drop in car sales reported in 2014. Argentineans are less willingness to purchase durable goods, due to rising unemployment rates and the effects of high inflation over real wages. It worth noting that the tax hike over imported auto also impact on local producers production costs, as part of the car components comes from outside the country.
Production decreased by 22% in 2014, due to the weaker demand. The hike on imports taxes was not enough to boost local auto maker's production. The slowdown in economic activity in Brazil, which is Argentineans auto industry main client (see chart 4), has further contributed to the industry´s sensitive scenario. Total auto exports decreased by 17% in 2014. In June 2014 Argentina and Brazil agreed to extend for one more year a bilateral agreement which settles a maximum proportion between exports and imports. For every 1USD that Argentina exports to Brazil in auto goods, it will import 1.50 USD from its neighbor. This is down from 1.95 USD that was in effect previously and benefits Argentina industry as well as helps government to maintain a better trade balance.

Chart 4: Mains consumers (year 2014)



Source: ADEFA

To try to contain the weak scenario, it was implemented in end September 2014 the stimulus program Pro. Cre Auto II. It allowed customers to purchase new domestically produced cars in 60 installments at fixed rate of 17% for national bank clients and of 19% for the general public Sales figures from October to December 2014 (after implantation) do not show any rebound signal. This condition expired in January 10, 2015 and there are not signals of a new program yet.

The Panorama for the auto industry in 2015 remains sensitive. Economy should report another year of recession and high inflation, which impacts on household consumption propensity. Barriers over imports are not expected to revert, as government depends on a vigorous trade balance surplus to deal with them international reserves shortage. In addition Brazil will face in 2015 another year of slow activity (growth forecast 2015: +0.8%)

3 Conclusion

Growth should improve in Latin America in 2015, Coface expects region´s GDP to increase by 2.3%. Despite the better outlook, the rate is considered still weak and is mainly associated with the stagflation scenario in Brazil. The latter one represents a good part of Latam´s activity and economy should not pick up there at least in the short term.

Taking into account the countries that we focused on this edition, activity should remain strong in Colombia. Growth will continue to be led by domestic market, mainly explained by investments in infrastructure, social housing and household consumption. In counterpart we should report an erosion of external account, due to the lower oil prices and its representativeness in Colombia´s export basket. In addition president Santos stopped peace negotiations with FARC after one of the government's top Army generals and some soldiers were kidnapped in November 2014. Now that the guerilla already released the group, talks restarted. Nevertheless there is no guarantee that the peace process, already dragging on for two years, will achieve success. From the point it stopped, talks have so far produced a partial agreement on topics such as political participation, agricultural reforms, political and tackling the illegal drug trade, but still no agreement for topics such as disarmament and rights of victims. A peace agreement would further improve business confidence, attracting more foreign investors. Despite that, accordance is unlikely to be achieved in the short term.

In Chile economic scenario should advance in 2015. The decline in oil prices positively impacts on trade balance and on industry´s cost structure. However the low copper prices will continue to impact on entrepreneur's investment intention. Strong growth in public expenditure should also be reported. The 2015 budget approved in Congress raises in 9.8% government´s expenses in comparison with 2014. This should contribute to increase investments in education, one of Michelle Bachelet´s presidential campaign main promises.

2015 began in Argentina with the expiration of the RUFO's clause, which was expected to contribute to a new round of negotiations with the holdouts. This did not materialize. The sensitive macroeconomic fundamentals should not revert in the short term, as government will enter into its last year in office. General elections will be held on October 25 2015.Recent drop in oil prices is positive as it contributes to a lower energy trade balance, but may reduce the Vaca Muerta shale gas exploitation stimulus.

Concerning the effect of lower oil prices over Latam, it varies among countries. Venezuela is the most affected and IMF forecasts that every $10 decline in oil prices reduces trade balance by 3.5% of GDP. Chart 5 ranks countries vulnerability taking into account the trade balance. Considering the net oil exports, Colombia and Ecuador are, respectively, the second and third main sensitive countries to drop in oil prices. In counterpart Chile, Brazil, Argentina and Peru tend to be positively impacted by the trade balance. However in the medium term lower prices would negatively impact on fuel investment plans in Argentina and Brazil.

Table 5

	Fuels exports % of total exports	Fuels imports % of total imports	Net oil exports % of GDP
Venezuela	96.2%	18%	33.45%
Colombia	67.2%	14%	8.25%
Ecuador	52%	24%	6.85%
Mexico	11.5%	10.5%	0.21%
Peru	12.2%	14.4%	-0.6%
Argentina	6%	16%	-1%
Brazil	7.4%	18.2%	-1.2%
Chile	0%	18.1%	-5%

Source: WTO and IMF
Values of 2013

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