



Latin American Spotlight

March 2005



Dresdner Bank Lateinamerika AG
formerly Deutsch-Südamerikanische Bank AG



LATIN AMERICA AT A GLANCE

DOMESTIC ECONOMY	GDP change in % (real)			Inflation in % (year-end)			Public sector debt in % of GDP		
	2004e	2005f	2006f	2004e	2005f	2006f	2004e	2005f	2006f
	Argentina	8.8	6.0	3.5	6.1	9.0	8.7	123	112
Bolivia	4.0	5.0	4.0	4.6	5.0	5.5	77	75	77
Brazil	5.0	3.9	4.0	7.6	6.3	4.8	52	51	50
Chile	5.9	5.3	4.5	2.4	2.9	3.1	12	11	10
Colombia	3.6	3.8	3.7	5.5	5.7	5.5	58	55	56
Costa Rica	3.7	2.5	3.5	10.2	11.3	10.5	60	62	63
Dominican Republic	2.0	2.4	3.0	28.7	11.8	9.4	52	49	46
Ecuador	7.0	3.5	3.0	1.9	1.5	1.5	48	46	45
El Salvador	1.5	1.9	2.4	5.8	4.5	3.7	36	35	36
Guatemala	2.5	2.5	2.7	8.3	6.5	6.0	25	25	24
Honduras	4.3	3.6	3.9	9.2	8.0	7.0	63	60	58
Jamaica	2.5	2.4	3.0	12.6	9.0	10.0	138	132	140
Mexico	4.4	3.3	4.0	5.2	3.7	3.8	27	26	26
Nicaragua	4.0	3.4	3.5	9.3	8.2	7.0	110	107	103
Panama	5.2	3.5	4.2	3.0	2.2	2.8	70	70	69
Paraguay	3.0	2.5	3.0	5.4	4.5	5.3	43	43	44
Peru	5.0	4.7	4.8	3.5	3.0	2.5	46	41	50
Trinidad & Tobago	6.0	7.0	7.0	4.5	4.8	4.0	28	24	22
Uruguay	12.0	6.0	4.0	7.4	6.5	6.0	103	101	100
Venezuela	17.3	6.0	4.0	19.2	17.2	15.7	34	32	30
Latin America (20 countries)	5.6	4.0	3.9	6.5	5.7	5.2			
EXTERNAL SECTOR	Current account balance in % of GDP			Import cover in months*			Gross foreign debt in % of exports*		
FOREIGN DEBT	2004e	2005f	2006f	2004e	2005f	2006f	2004e	2005f	2006f
Argentina	2.7	0.9	-0.1	6.3	5.9	5.9	365	345	338
Bolivia	3.1	0.7	-0.6	3.5	3.6	3.4	198	210	208
Brazil	2.0	1.2	0.5	6.2	6.5	6.7	203	181	173
Chile	1.5	-0.9	-2.7	5.6	5.4	4.7	128	123	113
Colombia	-1.3	-1.7	-2.2	7.0	7.0	6.6	233	226	224
Costa Rica	-7.3	-6.5	-5.5	1.8	1.6	1.5	71	70	72
Dominican Republic	7.0	4.5	3.3	1.0	0.9	0.9	83	84	88
Ecuador	0.5	-2.3	-2.5	1.3	0.9	0.9	199	211	215
El Salvador	-4.0	-2.8	-1.7	2.9	2.8	2.6	164	160	158
Guatemala	-4.9	-4.9	-4.6	4.7	4.0	3.7	141	137	140
Honduras	-5.4	-5.2	-4.2	4.3	4.3	4.4	202	168	162
Jamaica	-10.7	-10.8	-10.2	3.9	3.5	3.0	107	103	102
Mexico	-1.6	-1.7	-1.6	3.2	3.2	3.0	79	76	73
Nicaragua	-18.8	-17.3	-15.4	2.7	2.9	3.3	220	208	209
Panama	-3.1	-5.7	-4.6	1.4	1.5	1.4	96	95	94
Paraguay	0.5	-1.4	-2.5	3.8	3.8	4.3	99	101	88
Peru	0.1	-0.1	0.0	9.8	9.1	9.3	199	190	182
Trinidad & Tobago	18.1	18.6	20.8	5.9	6.3	7.1	69	64	51
Uruguay	-0.3	-2.0	-3.1	7.3	7.3	7.5	284	277	264
Venezuela	14.0	10.1	4.7	9.0	9.1	8.5	83	92	96
Latin America (20 countries)	0.9	0.2	-0.5	4.9	5.1	5.1	146	140	135

* goods and services

e=estimate; f=forecast

TABLE OF CONTENTS

Latin America at a glance

LATIN AMERICA: Investors return	4
---------------------------------	---

Country analyses

ARGENTINA: Moment of truth	6
----------------------------	---

BRAZIL: Consolidation of growth	12
---------------------------------	----

CHILE: Election year	18
----------------------	----

COLOMBIA: Currency appreciation halted?	24
---	----

DOMINICAN REPUBLIC: New IMF agreement	30
---------------------------------------	----

ECUADOR: Eligible for the capital markets again	32
---	----

EL SALVADOR: No growth without reforms	34
--	----

HONDURAS: Debt relief probable	36
--------------------------------	----

MEXICO: Immune to external shocks	38
-----------------------------------	----

PANAMA: Torrijos targets reform course	44
--	----

PERU: Export boom	46
-------------------	----

TRINIDAD AND TOBAGO: Highly dynamic growth	48
--	----

VENEZUELA: Government tightening the reigns	50
---	----

Financial market indicators Latin America

STOCK MARKET INDICES	56
----------------------	----

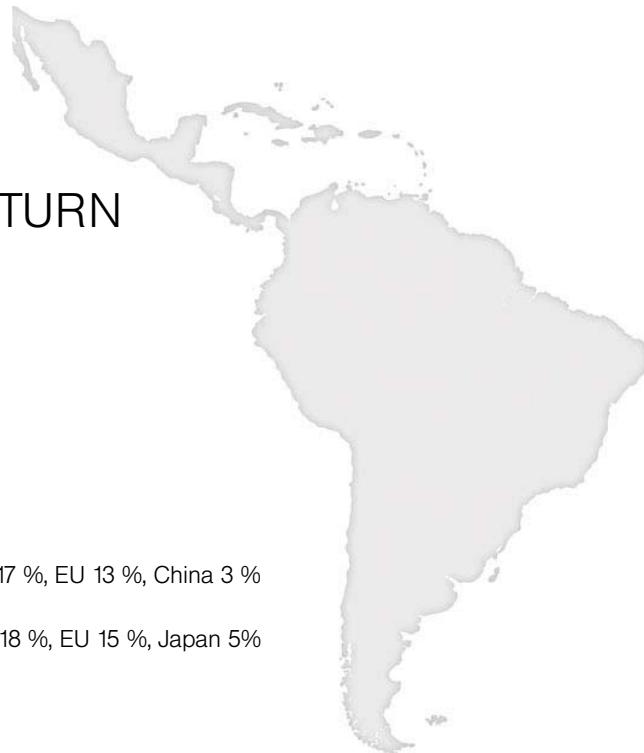
BOND YIELD SPREADS	57
--------------------	----

Global economy

FIGURES AND FORECASTS	63
-----------------------	----

LATIN AMERICA: INVESTORS RETURN

Area	20.5 million sq. km
Population	543 million (1.3 % p.a.)
Share of global exports	5.3 % (2003)
Share of global GDP	5.0 % (2003)
GDP per capita	US\$ 3,400 (2003)
Exports of goods (2003)	
Purchasing countries	USA 51 %, LA countries 17 %, EU 13 %, China 3 %
Imports of goods (2003)	
Supplier countries	USA 42 %, LA countries 18 %, EU 15 %, Japan 5%



ANNUAL FIGURES AND FORECASTS

LATIN AMERICA (20 countries)		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	-0.2	1.5	5.6	4.0	3.9
GDP	US\$ bn	1661	1712	1933	2151	2259
Inflation (year-end)	%	11.8	6.8	6.5	5.7	5.2
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	351	382	471	493	513
Merchandise imports	US\$ bn	329	339	410	446	482
Trade balance	US\$ bn	22.7	42.4	60.6	46.9	31.7
Current account balance	US\$ bn	-14.0	6.9	18.1	3.4	-11.4
Current account balance	% GDP	-0.8	0.4	0.9	0.2	-0.5
Net direct investment ***	US\$ bn	44	31	49	44	50
Foreign exchange reserves, year-end	US\$ bn	162	194	219	234	245
Import cover **	months	4.6	5.3	4.9	5.1	5.1
FOREIGN DEBT						
Gross foreign debt	US\$ bn	750	783	776	776	784
Foreign debt	% exports**	180	178	146	140	135
Short-term foreign debt	US\$ bn	114	130	153	163	174
Foreign debt amortization	US\$ bn	97	125	129	92	86
Foreign debt service	US\$ bn	141	167	172	142	139
Foreign debt service	% exports**	34	38	32	26	24
FINANCIAL MARKETS (year-end)						
IFCI stock index (US\$ based, 2005: 02/17)		397	676	915	970	
Bond market yield spread (2005: 02/17)*	bps	843	472	399	398	

*JPM Latin America Eurobond-Portfolio **goods & services ***Mexico & Brazil: only foreign direct investment; e=estimate; f=forecast

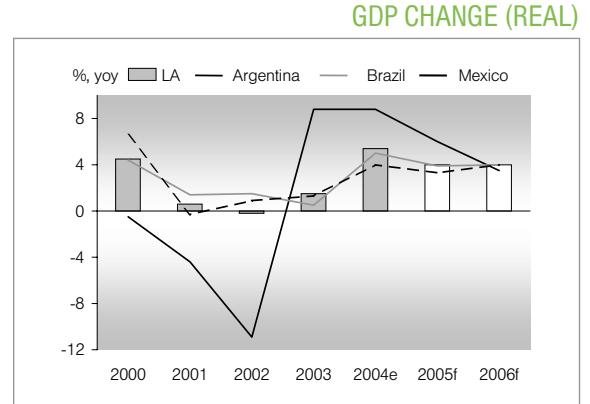
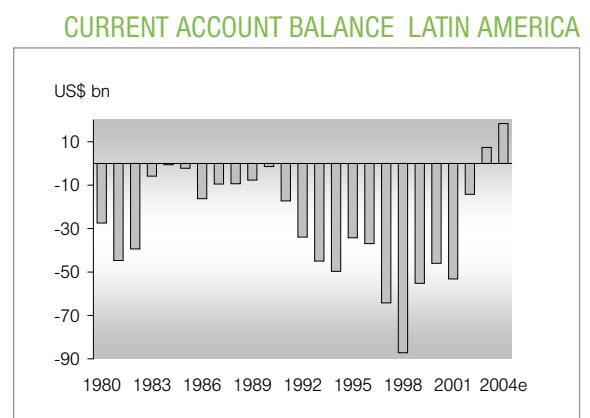
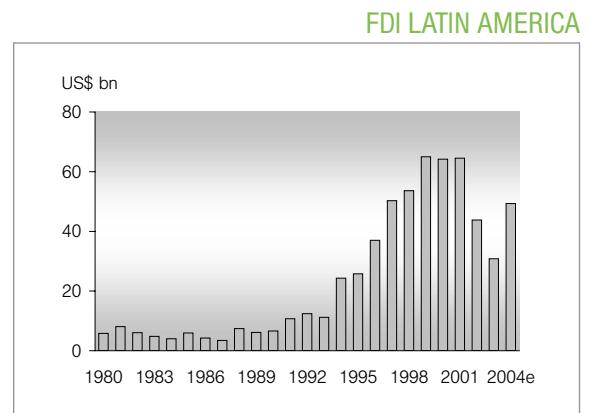
The trend of net direct investments in Latin America has always been a good indicator of the level of confidence international investors have in the region's economic future. Accordingly, the 1990s – having largely been accompanied by relatively high economic growth – were characterized by an increase in net direct investments that reached an all-time high of US\$ 65 billion in 1999. The devaluation in Brazil in 1999, the protracted recession in Argentina, resulting in insolvency and, finally, the crisis of confidence in Brazil in the year 2002 triggered a steady decline in foreign investments which, by 2003, were down by more than half on their previous high.

This makes the 60% growth of net direct investments to US\$ 49.3 billion in the year 2004 all the more impressive. In Mexico alone, they increased by 40% (US\$ 15 billion); in Chile they were up more than three-fold (US\$ 5 billion) and they at least doubled in Colombia (US\$ 2 billion). Brazil is also showing signs of a substantial upturn, although the high figure of US\$ 18 billion is exaggerated due to statistical effects.

International investors have obviously regained their confidence in Latin America. This is attributable to external factors, such as the low interest rate level and high commodity prices, but also the generally higher macroeconomic stability in the region. In this context, it is remarkable that, despite high direct investment inflows, Latin America has managed to generate a current account surplus (1% of GDP). In view of the region's high foreign debt, current account surpluses combined with high direct investments are the fastest way of reducing the debt burden and increasing macroeconomic stability in the process.

We believe that all this will pave the way for another year of solid growth which, due to weaker global growth and low commodity prices as well as higher interest rates, is likely to be curbed this year, from 5.6% to 4%. Argentina, Uruguay and Venezuela will most probably record the highest growth (each 6%), followed by Chile (5.3%) and Peru (4.8%). At 3.9%, Brazil will be slightly below average, with Colombia (3.8%) in second position and Mexico third (at 3.3%).

Dr. Cyrus de la Rubia, +49 40 3595 3889



ARGENTINA: MOMENT OF TRUTH

Area	2 736 700 sq. km
Population	38.4 million (+ 1.1 % p.a.)
State president	Néstor Kirchner
Economy minister	Roberto Lavagna
Central bank president	Martín Redrado
Next elections	Congress: October 2005 President: October 2007
GDP per capita	US\$ 3 300 (2003)
Investment	15.4 % of GDP (2003)
Savings	13.8 % of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	23 % of GDP
Purchasing countries	EU 20 %, Mercosur 19 %, Asean 17 %, NAFTA 14 %
Products	Primary goods and crude oil 40 %, Manufactured agricultural goods 34 %, Industrial goods 26 %
Imports of goods (2003)	12 % of GDP
Supplier countries	Mercosur 37 %, EU 20 %, NAFTA 19 %
Products	Capital goods 34 %, Intermediate Goods 46 %, Consumer goods 20 %
Rating	Moody's: Caa1
	S&P: SD

SUMMARY AND OUTLOOK

The moment of truth is drawing closer. The almost six-week long subscription period during which creditors can swap non-performing government bonds for new securities is scheduled to end on February 25. Creditors are expected to contend with net present value losses of approx. 70%, but other alternatives seem to be similarly unattractive. By mid-February, only 40% of defaulted bonds had been tendered to enter the swap. However, we anticipate that institutional investors in particular will make their decision only just before the tender period expires and that the final participation might exceed 70%. Meanwhile, Argentina's economy keeps delivering surprisingly positive economic figures. Economic growth in 2004 is likely to have been just under 9% once again, and our growth forecast for this year is now at 6%. There is a copious flow of tax revenues, enabling the central government and the provinces to achieve a surplus of 4.2% of GDP last year. Surpluses are also being reported in the external sector, even though the current account surplus is likely to shrink to 0.9% of GDP (2004: 2.7%) this year due to continued strong import growth.

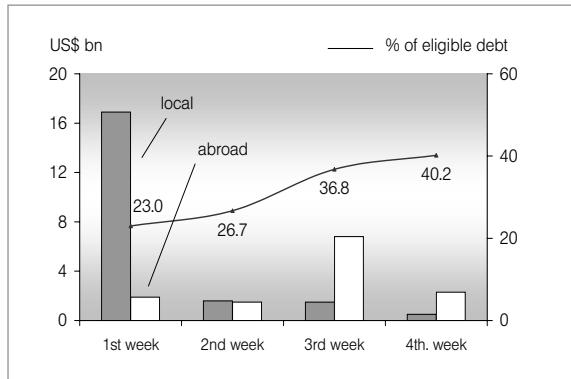
ANNUAL FIGURES AND FORECASTS

ARGENTINA		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	-10.9	8.8	8.8	6.0	3.5
GDP	US\$ bn	99.1	127.3	150.8	170.5	184.9
Inflation (year-end)	%	41.0	3.7	6.1	9.0	8.7
Inflation (average)	%	25.9	13.4	4.4	8.0	8.6
PUBLIC SECTOR						
Budget balance, central government	% GDP	-1.4	0.6	2.4	2.0	1.0
Budget balance, public sector	% GDP	-1.8	1.3	4.2	2.9	1.9
Public debt*	% GDP	138.6	140.5	122.7	112.1	106.8
Amortization*	US\$ bn	17.9	19.8	19.8	14.2	11.8
Gross financing needs	US\$ bn	19.2	19.1	16.1	10.8	9.9
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	25.7	29.6	34.5	36.9	38.5
Merchandise imports	US\$ bn	8.5	13.0	21.1	26.4	29.6
Trade balance	US\$ bn	17.2	16.5	13.3	10.5	9.0
Current account balance****	US\$ bn	9.6	7.9	4.0	1.6	-0.2
Current account balance****	% GDP	9.7	6.2	2.7	0.9	-0.1
Net direct investment	US\$ bn	1.7	-0.3	0.7	1.5	2.0
Foreign exchange reserves, year-end	US\$ bn	10.5	14.1	19.6	21.5	23.0
Import cover **	months	5.6	5.8	6.3	5.9	5.9
US\$ exchange rate, year-end	Pesos	3.37	2.93	2.97	3.05	3.10
US\$ exchange rate, average	Pesos	3.15	2.95	2.94	2.99	3.08
FOREIGN DEBT *						
Gross foreign debt	US\$ bn	135.7	147.0	152.0	155.0	158.0
Foreign debt	% exports**	427	400	365	345	338
Short-term foreign debt	US\$ bn	23.8	39.7	60.0	69.0	79.6
Foreign debt amortization	US\$ bn	19.7	30.5	22.5	16.3	13.5
Foreign debt service	US\$ bn	29.6	40.1	32.3	26.3	23.5
Foreign debt service	% exports**	93	109	78	59	50
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	7.5	2.0	3.0	5.0	5.0
Merval stock index (peso based, 2005: 02/17)		525	922	1375	1532	
IFCI stock index (US\$ based, 2005: 02/17)		265	502	763	869	
Bond market yield spread (2005: 02/17)***	bps	6229	6463	4707	4972	

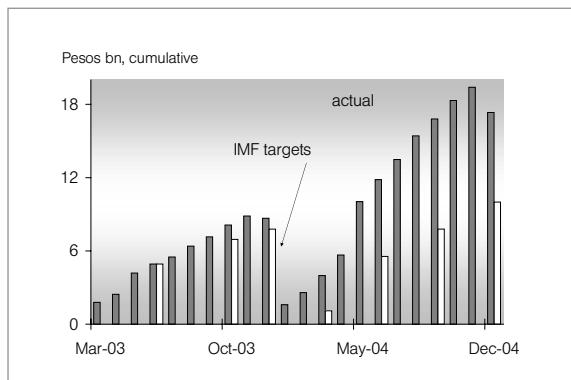
*without rescheduling **goods and services *** EMBI+ **** incl. interest payments due

e=estimate; f=forecast

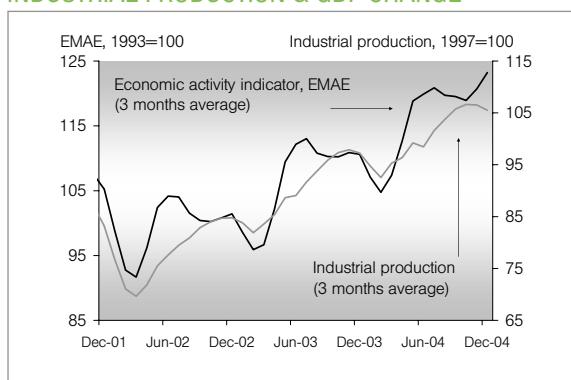
PARTICIPATION IN DEBT RESTRUCTURING



PRIMARY BUDGET SURPLUS & IMF TARGETS



INDUSTRIAL PRODUCTION & GDP CHANGE



Public finances: attempted debt restructuring

The outcome of the bond swap scheduled to be announced on March 18 is being eagerly awaited. The tender period ends on February 25 and, as emphasized by the Argentinean government, might only be extended in the event of technical problems, which are not discernible at this point in time, however. With a good week to go until the tender period expires, the level of participation (40%) remains low – as expected. So far, in particular local pension funds and banks have decided in favor of the swap while foreign institutional investors are likely to make their decision only shortly before the tender period has expired.

Overall, the likelihood of participation exceeding 70% has increased over the last few weeks. The IMF is still taking great care not to reveal what minimum level of participation it would consider sufficient for a successful debt rescheduling, but an acceptance rate of more than 70% would probably also allow the Fund to approve the rescheduling of its third-largest debtor. We expect negotiations with the IMF to be resumed, after the agreement signed last year was shelved for the time being. However, even if the debt rescheduling should reach a participation level of 75%, approximately US\$ 20 billion of Argentine government bonds would remain in default. Further rounds of disputes between Argentina and its bond creditors, which have lasted for more than three years now, are therefore looming on the horizon.

Meanwhile, Argentina's government introduced legislation to affirm its announcement that the debt rescheduling proposal will not be improved in any way. The legislation prohibits any debt rescheduling offers or court decisions that would place creditors in a better position. Even though legal certainty has suffered in the last few years, the strategy indicates that this government is unlikely to openly improve its proposal.

Yet, even if debt rescheduling should be successfully implemented, the absolute level of public debt would still remain at roughly 80% of GDP (previously: 120%), although it will probably continue to drop in the following years. In the wake of debt rescheduling the level of debt service should be sustainable in the foreseeable future despite the initially still high debt burden. As Argentina is currently recording high budget surpluses, the country would certainly be capable of improving its debt rescheduling proposal. To illustrate, the central government last year generated a primary surplus (before interest payments) of 3.9% of GDP amid a 36% increase in revenues. After interest payments on performing debt, the central government's fiscal surplus still came to as much as 2.6% of GDP. Together with the surplus of the provinces, the public sector generated a fiscal surplus of 4.2% of GDP in 2004.

Although this figure is likely to decline in the current year, it should nevertheless still reach almost 3% of GDP.

Economic activity: growth remains strong

The economic indicators in recent months once again exceeded our already high expectations. The positive industrial production figures (Jan: +7.3%, year-on-year) and those of the monthly economic indicator EMAE (Dec: +9.2%, year-on-year) deserve special mention. Accordingly, GDP is likely to have grown by 8.8% last year, following 8.8% in 2003. We expect this dynamic growth to initially continue in the forthcoming months. In particular, consumer demand (2004: +9.3%) will continue to expand since high investments in labor-intensive sectors such as housing construction and public infrastructure projects will boost employment. Surprisingly, there have been virtually no signs of any growth-impeding capacity bottlenecks at this stage. We expect an economic growth rate of 6% for the current year (previous forecast: 4.5%).

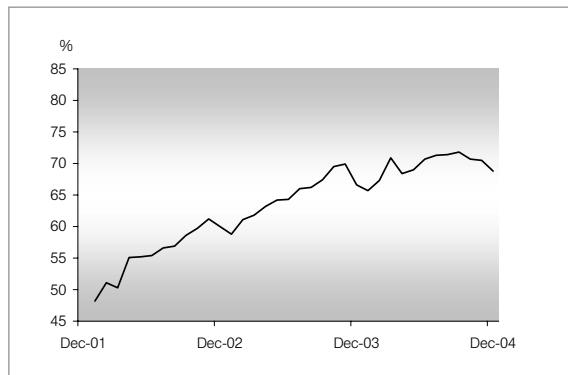
Against this backdrop, the unemployment rate, which two years ago still stood at roughly 20% and was reported at 13.2% last September, should also see a further slight drop. However, it should be noted that approx. 700,000 employees are still engaged in public job creation programs. Were this employment category to be added to the unemployment rate, then the current figure would come to just under 18%.

Our medium and long-term growth forecasts for Argentina remain rather skeptical as economic policy-makers maintain their anti-market stance and tend to assign the government a key role in the country's economy. Structural reforms are not being pushed forward or reversed, and the level of legal certainty, in particular among foreign investors, has tended to decline.

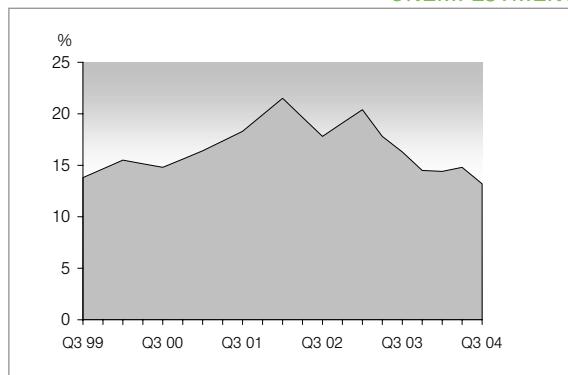
Monetary sector: end of expansionary monetary policy?

Last year was characterized by pronounced expansionary monetary policy (M3 money supply: +22%) which, on account of the prevailing pent-up money demand following the preceding economic crisis (among other factors) only resulted in a moderate increase in inflation, to 6.1% (December 2004, year-on-year). Since November of last year, however, the inflation rate has been accelerating again. In particular, the increase in January (1.5%, month-on-month) represents a warning signal. In its 2005 program, the central bank had already sent signals in the direction of less expansionary monetary policy and announced, among other things, its intention to limit money supply growth (M3) to 15%.

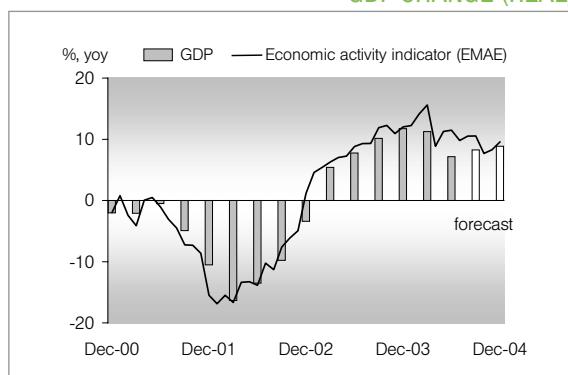
INDUSTRIAL CAPACITY UTILIZATION



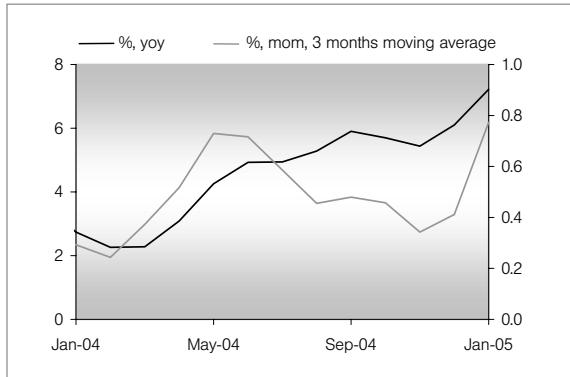
UNEMPLOYMENT



GDP CHANGE (REAL)



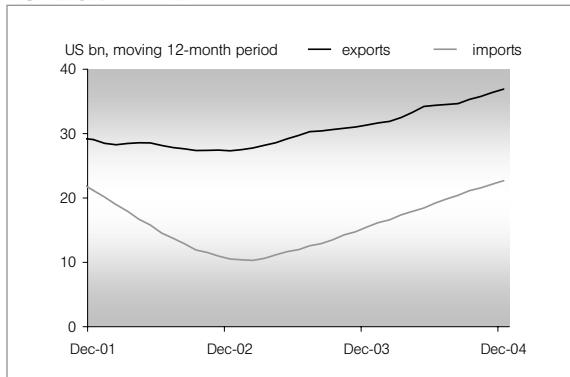
INFLATION



To this end, the monetary base was limited to quarterly maximum amounts, providing for a figure of 49.9 billion pesos at the end of the first quarter of 2005. After the aggregate money supply figure still exceeded 52 billion pesos in January, the central bank imposed two contradictory measures (lowering the minimum reserve, raising the repo rate). Although this reduced the monetary base to 48.9 billion pesos, ensuring that the quarterly targets are likely to be met, it will hardly have a stabilizing effect on inflationary trends ahead.

Overall, we gained the impression that the central bank which, de facto, is not independent from the government, is adopting a wait-and-see stance and will continue its attempt to simultaneously control both the peso's exchange rate and the money supply. We assume that the inflation rate, after having surged to 7.2% (yoy) in January, will continue to rise in the course of the year. By year-end, it is likely to reach at least 9%, exceeding the central bank's target corridor of 5% to 8%.

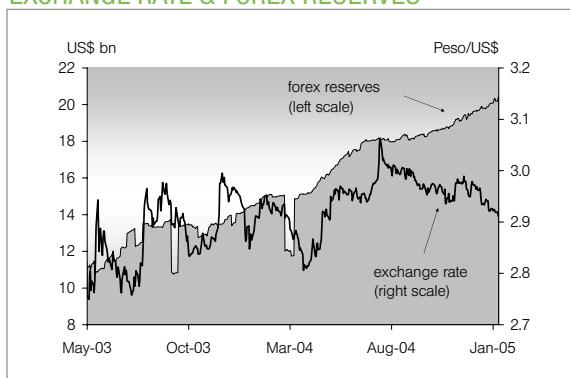
FOREIGN TRADE



External sector: high surpluses

Since May of last year, the central bank, by intervening on the forex market, succeeded in lowering the peso's exchange rate by 9.9% in real terms by the end of 2004 despite a high volume of foreign currency being available at times. In January this year, it permitted a real appreciation of 2.4% again for the first time. Daily foreign currency purchases by the central bank and state-owned Banco Nación averaged as little as US\$ 25 million in January, after US\$ 62 million recorded in December 2004. On the one hand, this decline was likely due to endeavors to restrict money supply expansion; on the other, there is no longer a need to intervene to the same extent as in the past, since the trade surplus (and, therefore, upward pressure on the peso) has declined. This is attributable to the increase in imports (2004: 62%), which will continue to grow this year (+25%) on account of growing domestic demand. The trend for exports remains positive. Special mention should be made of the continued growth in export volumes; we can therefore expect exports to rise by 7% (2004: +16.5%) despite the drop in export prices anticipated for 2005 (2004: +16.5%). The trade surplus will probably decline by just under US\$ 3 billion, to US\$ 10.5 billion (imports cif) this year.

EXCHANGE RATE & FOREX RESERVES



Guenter Koehne +49 40 3595 3484

MONTHLY AND QUARTERLY FIGURES

ARGENTINA: MONTHLY INDICATORS		Oct-04	Nov-04	Dec-04	Jan-05	next/latest
DOMESTIC ECONOMY						
Economic activity indicator, EMA	% yoy	6.6	9.7	9.2		22-Mar
Economic activity indicator, EMA (season. adjust.)	% mom	0.7	0.6	0.6		22-Mar
Industrial production	% yoy	7.7	8.3	9.6	7.3	16-Mar
Industrial production (seasonally adjusted)	% mom	-0.1	-2.0	1.9	0.4	16-Mar
Construction	% yoy	8.2	11.6	13.7		25-Feb
Construction (seasonally adjusted)	% mom	0.5	-0.8	2.4		25-Feb
Consumer confidence (UTDT)	% mom	4.5	9.5	9.2	-1.5	10-Mar
Supermarket sales (real, seasonally adjusted)	% yoy	5.7	6.0	9.7		24-Feb
Supermarket sales (real, seasonally adjusted)	% mom	2.0	-0.4	4.2		24-Feb
Tax revenues	% yoy	31.8	26.8	36.0	23.0	2-Mar
Budget balance	Pesos mn	1263	358	-2377		28-Feb
Primary balance	Pesos mn	1508	1085	-2067		28-Feb
Consumer prices	% yoy	5.7	5.4	6.1	7.2	3-Mar
Consumer prices	% mom	0.4	0.0	0.8	1.5	3-Mar
Wholesale prices	% yoy	0.6	-1.2	0.9	-1.1	3-Mar
Overnight peso rate (month-end; latest: 02/17)	%	2.5	2.4	2.3	2.3	2.3
Peso deposits (month-end, latest: 02/14)*	Peso bn	100.6	104.2	103.0	106.3	105.7
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	2837	3043	2962		28-Feb
Merchandise exports	% yoy	16	24	21		28-Feb
Merchandise imports, cif	US\$ mn	1959	2198	2095		28-Feb
Merchandise imports	% yoy	36	39	65		28-Feb
Trade balance	US\$ mn	878	845	867		28-Feb
Foreign exchange reserves (latest: 02/16)	US\$ bn	18.6	18.9	19.6	20.1	20.6
US\$ exchange rate (latest: 02/17)	Pesos	2.97	2.94	2.97	2.92	2.89
ARGENTINA: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next /latest
DOMESTIC ECONOMY						
GDP (seasonally adjusted)	% qoq	3.0	1.5	0.5	1.5	17-Mar
GDP	% yoy	11.7	11.3	7.1	8.3	17-Mar
Private consumption	% yoy	11.9	11.7	8.3	8.8	17-Mar
Public consumption	% yoy	0.3	0.8	-0.8	4.8	17-Mar
Private and public investment	% yoy	48.9	50.3	36.8	33.1	17-Mar
Domestic demand	% yoy	15.4	15.3	11.0	10.7	17-Mar
Export (goods and services)	% yoy	5.5	7.7	-0.2	9.2	17-Mar
Import (goods and services)	% yoy	51.7	55.8	42.5	38.1	17-Mar
Unemployment rate (EPH)	%	14.5	14.4	14.8	13.8	17-Mar
Budget balance, central government	Pesos mn	-1	3982	6667	3371	-776
Public debt***	US\$ bn	178.8	180.0	181.2		
EXTERNAL SECTOR						
Current account balance	US\$ bn	1.0	0.3	1.7	0.5	22-Mar
Net foreign direct investment	US\$ bn	0.5	0.5	-0.9	0.5	22-Mar
Net portfolio investment	US\$ bn	-2.6	-3.3	-0.9	-1.9	22-Mar
Capital account**	US\$ bn	-0.4	0.6	0.9	0.2	22-Mar
Change in foreign reserves #	US\$ bn	-0.6	-0.9	-2.6	-0.7	22-Mar
Gross foreign debt	US\$ bn	147.0	147.3			22-Mar
Short-term foreign debt	US\$ bn	39.7	45.5			22-Mar

* bank deposits of private sector; ** incl. residual items ***without overdue interest and amortization payments # - = increase

BRAZIL: CONSOLIDATION OF GROWTH

Area	8 511 965 sq. km
Population	178 million (+1.4 % p.a.)
State president	Luiz Inácio Lula da Silva
Finance minister	Antonio Palocci Filho
Central bank president	Henrique Meirelles
Next elections	State president: 2006 Congress: 2006
GDP per capita	US\$ 2 764 (2003)
Investment	20.1 % of GDP (2003)
Savings	20.7 % of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	15% of GDP
Purchasing countries	USA 23 %, EU 25 %, ALADI 18 %, Asia 16 %
Products	Manufactured goods 54 %, Primary goods 30 %, Semi-manufactured goods 15 %
Imports of goods (2003)	10 % of GDP
Supplier countries	EU 26 %, USA 20 %, ALADI 17 %, Asia 19 %
Products	Primary goods and inputs 53 %, Capital goods 21 %, Consumer goods 12 %, Crude oil 14 %
Rating	Moody's: B1 S&P: BB-



SUMMARY AND OUTLOOK

Economic growth is set to turn out solid again in 2005, if somewhat lower year-on-year. In particular, we expect the momentum of export growth (which increased by 16% in 2004 in real terms) to weaken considerably due to the anticipated slowdown in the global economy, a real appreciation of the real and bottlenecks in the country's infrastructure. At the same time, higher real interest rates will slightly slow down the expansion in consumption which, combined with a drop in the unemployment rate and higher real wages, should continue to grow overall. Our economic growth forecast for this year is 3.9%. Although inflation is likely to drop slightly in these circumstances, the year-end rate of 6.3% will nevertheless be higher than the rate targeted by the central bank, which is increasingly being criticized for its restrictive monetary policy. However, in view of the strong appreciation of the real against the US\$ and an abundant flow of foreign currency, the central bank has been extremely successful in reinforcing its foreign currency reserves over the past few months and will continue this policy as long as the real remains under appreciation pressure from the US dollar.

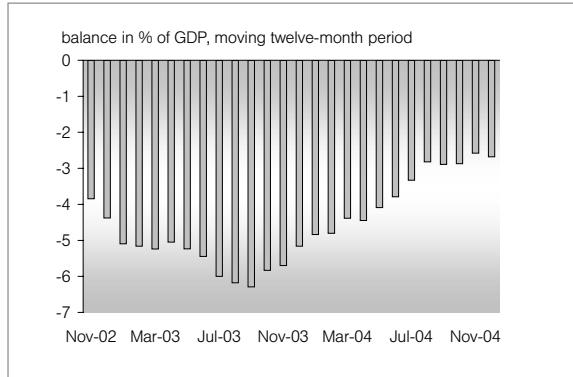
ANNUAL FIGURES AND FORECASTS

BRAZIL		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	1.5	0.5	5.0	3.9	4.0
GDP	US\$ bn	452.5	494.9	583.2	687.4	735.9
Inflation (year-end)	%	12.5	9.3	7.6	6.3	4.8
Inflation (average)	%	8.5	14.7	6.6	6.8	5.4
PUBLIC SECTOR						
Budget balance, central government	% GDP	-0.8	-4.0	-2.0	-2.1	-1.8
Budget balance, public sector	% GDP	-4.7	-5.2	-2.7	-3.0	-2.6
Public debt (net)	% GDP	56.5	56.4	52.0	50.8	49.7
Amortization external debt	US\$ bn	8.6	22.1	14.1	16.1	16.1
Amortization domestic federal debt*	US\$ bn	53.4	72.1	68.4	130.4	76.6
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	60.4	73.1	96.5	104.1	108.8
Merchandise imports	US\$ bn	47.2	48.3	62.7	72.6	79.8
Trade balance	US\$ bn	13.2	24.8	33.7	31.6	29.0
Current account balance	US\$ bn	-7.7	4.1	11.7	8.1	4.0
Current account balance	% GDP	-1.7	0.8	2.0	1.2	0.5
Net foreign direct investment	US\$ bn	16.6	10.1	18.2	13.0	16.0
Foreign exchange reserves, year-end	US\$ bn	37.8	49.0	52.9	62.0	69.5
Import cover **	months	5.4	6.9	6.2	6.5	6.7
US\$ exchange rate, year-end	Reais	3.53	2.89	2.66	2.85	2.91
US\$ exchange rate, average	Reais	2.90	3.08	2.92	2.75	2.82
FOREIGN DEBT						
Gross foreign debt	US\$ bn	227.8	235.4	224.8	215.8	216.0
Foreign debt	% exports**	311	271	203	181	173
Short-term foreign debt	US\$ bn	22.8	25.0	27.0	26.0	25.0
Foreign debt amortization	US\$ bn	39.0	44.0	50.3	34.5	30.0
Foreign debt service	US\$ bn	54.3	59.7	65.6	49.3	45.0
Foreign debt service	% exports**	74	69	59	41	36
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	24.9	16.3	17.8	17.8	15.0
Bovespa stock index (real based, 2005: 02/17)		11268	22236	26196	27090	
IFCI stock index (US\$ based, 2005: 02/17)		214	439	587	634	
Bond market yield spread (2005: 02/17)***	bp	1439	463	383	391	

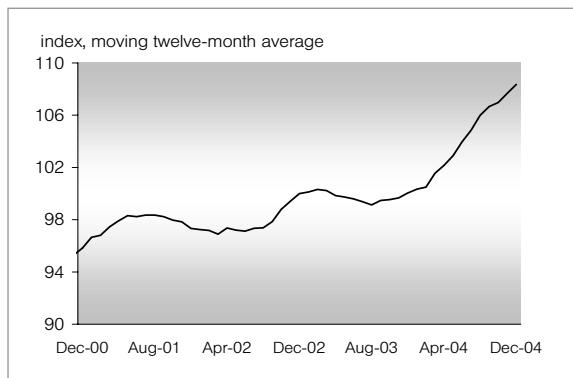
* incl. short term debt ** goods and services *** EMBI+

e= estimate f=forecast

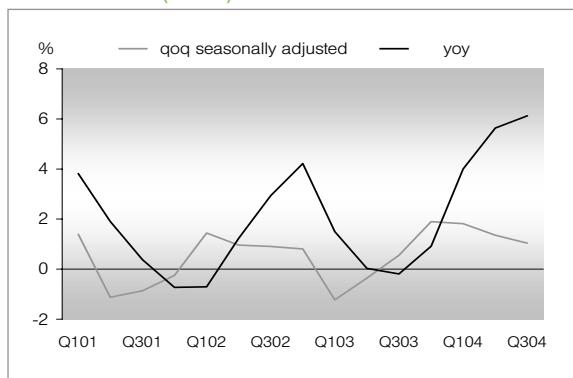
BUDGET BALANCE PUBLIC SECTOR



INDUSTRIAL PRODUCTION



GDP CHANGE (REAL)



Domestic policy: governing becomes more difficult

The Lula government no longer enjoys the same support from congress it received in its first year in office in 2003. For instance, the PMDB, the PT's key coalition partner until then, left the coalition last year. In addition, the government failed in pushing through its own candidate, Greenhalgh, for the position as president of the house of deputies now being held by the PP's candidate, Cavalcanti. This defeat means that the government can no longer influence the agenda of congress to the same extent as in the past. This development also shows that the opposition is increasingly exerting pressure as the 2006 presidential elections will start to dominate political events by year-end at the latest. Against this backdrop, we also see relatively little chance of fresh reform approaches being realized. This concerns both the tax reform – following a protracted period of silence, the finance ministry has announced its intention of entering into negotiations with the governors of the individual federal states on a comprehensive tax reform – and the project "operational autonomy of the central bank" which, according to the finance minister, will soon be on the congressional agenda once again.

Public finance: both positive and negative aspects

The finance ministry managed to record good figures last year. The budget deficit was down by half over the pre-year period, to 2.7%, net public debt dropped by 4 percentage points, to 52%, and the high primary surplus target of 4.5% was exceeded (each as a percentage of GDP). These good results are attributable to the approx. 12% increase in tax revenues (in real terms) as well as the low average level of interest rates. Another positive aspect is that dollar-indexed domestic debt instruments only account for just about 9% of total public domestic debt. However, there are still some factors that are slightly dampening this year's fiscal policy outlook. For instance, the share of variable interest rate instruments in public domestic debt remains high at 55%, resulting in a higher burden on the public-sector budget in view of the central bank's current cycle of belt-tightening. A further problem is the minimum wage increase by 15.4% already enacted and expected to come into force in May, which will constitute a burden on the public-sector budget. Together with the rising deficit in the state pension fund likely to reach 1.8% of GDP this year, this trend will limit the government's scope for action. The quota of total expenditure accounted by funds freely available for spending (in particular, on infrastructure investments), which is down to a single-digit figure, therefore continues to decline. It should also be mentioned that taxation rates (taxes and social se-

curity contributions) have risen to about 37% of GDP, representing a considerable burden on the private sector. These structural problems are likely to be one of the reasons why the rating agency Standard and Poor's considers an improvement in ratings highly unlikely before the presidential elections.

Economic activity: weaker growth in fourth quarter

The pace of economic growth, which has expanded for five straight quarters, is likely to have decelerated in the fourth quarter of 2004. This is suggested by figures of the industrial sector, which posted a 0.9% (quarter-on-quarter) increase in production in the fourth quarter (following 2.5% in the previous quarter, each seasonally adjusted). GDP as a whole is expected to have risen by 5% last year.

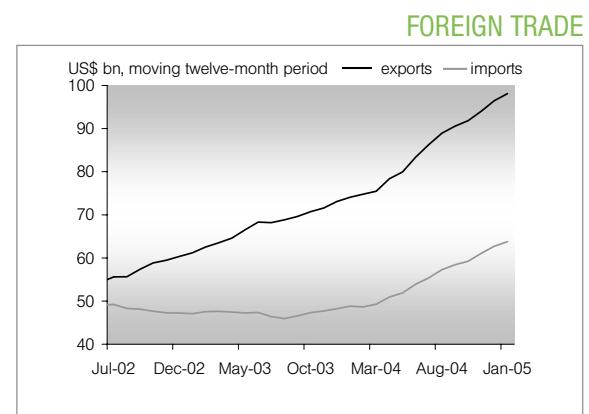
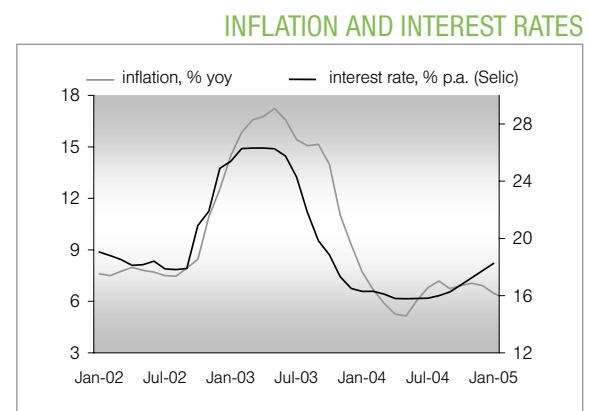
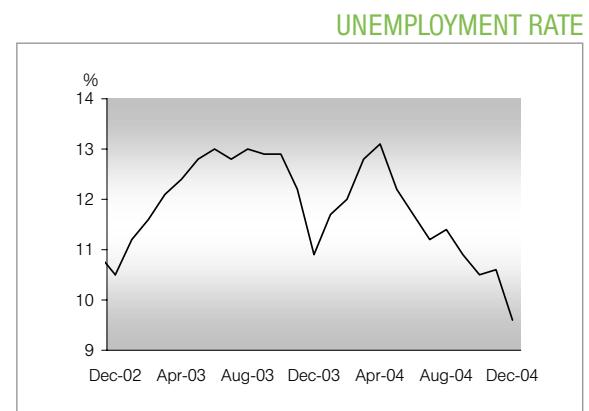
For the current year, we project a slight deceleration in growth to 3.9% since, due to a slowdown in global growth and increasing infrastructure bottlenecks, real exports are bound to lose momentum. At the same time, private consumption is likely to pick up again slightly in line with improvements in the job market and higher real wages and should rise by 4%. Not even the most recent tightening of monetary policy will do anything to change that.

Monetary sector: central bank under political pressure

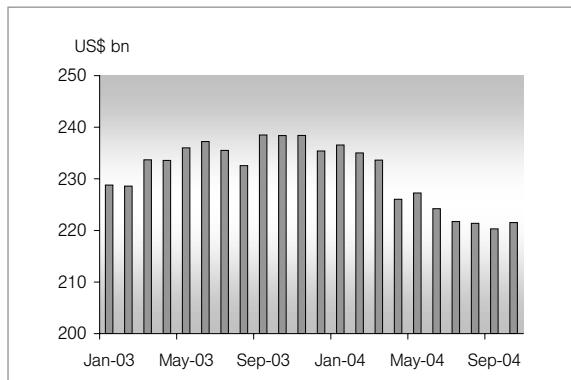
The central bank has had problems in getting inflationary expectations under control over the last few months. Despite lower oil prices and the substantial appreciation of the real effective exchange rate (on average, 5.4% in 2004), inflationary expectations continued to rise over the last several months and are now in the region of 5.8% at year-end, i.e. well in excess of the target of 5.1%. The cause of this trend is not only attributable to high capacity utilization in the industrial sector; the political pressure exerted on the central bank, leading to uncertainty among market participants, is also expected to have fueled increasing inflationary expectations. We expect the central bank to raise the overnight interest rate one more time in March and adopt a wait-and-see stance afterwards. We believe that this strategy will not be enough to reach the inflation target of 5.1% by the end of 2005. While we forecast an inflation rate of 6.3%, this still remains within the target range of 2% to 7%.

External sector: foreign currency reserves rising

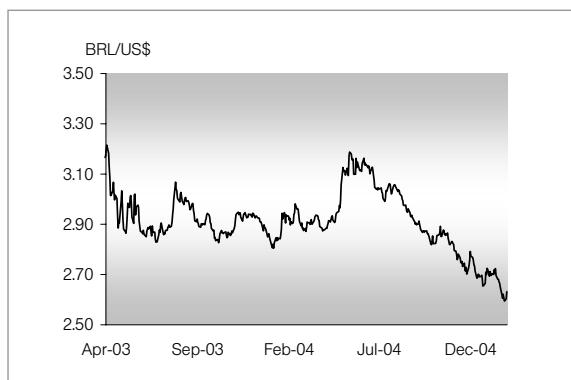
Last year's export boom, with a 32% increase in exports and a trade surplus of US\$ 34 billion, is bound to level off this year. Although exports saw an appreciable rise once again in January (+26%, year-on-year), this momentum nevertheless cannot be sustained in view of lower pri-



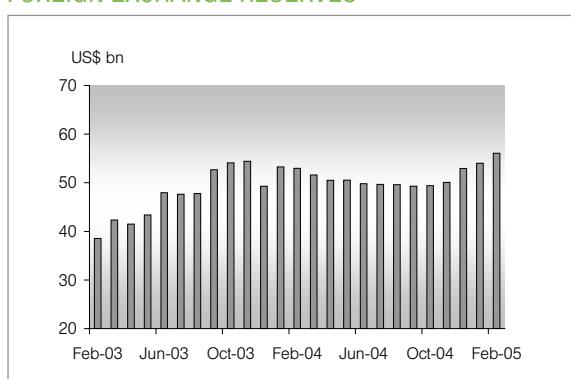
EXTERNAL DEBT



EXCHANGE RATE



FOREIGN EXCHANGE RESERVES



mary goods prices, infrastructure bottlenecks as well as slower growth in global trade. Our growth forecast is 8%. The trade surplus is unlikely to drop any further and should reach US\$ 32 billion, even though imports will presumably rise by 16%. This means that the current account surplus will also remain at a relatively high level (1.2% of GDP).

Overall, foreign currency inflows should increase even further this year. For instance, direct investments have picked up over the last few months, with 60% of direct investments of US\$ 8.7 billion registered in 2004 as a whole flowing into the country in the last quarter. For this year, we project an inflow of US\$ 11.5 billion (in each case, taking account of Brazilian investments abroad). Portfolio investments, which returned to slightly positive territory in January, are likely to recover further following last year's withdrawal of approx. US\$ 5 billion by investors. Due to the favorable interest rate setting, we also expect private enterprises to increase their issuing activity on the international capital market. In contrast, companies took advantage of conditions last year to reduce their debt portfolios.

Overall, the conditions for a further reinforcement of Brazil's foreign currency reserves are quite favorable. After showing restraint in this regard for some time, the central bank began rebuilding its reserves in November. In only four months, foreign currency reserves increased by US\$ 8 billion, to US\$ 58 billion, corresponding to approx. 7 months' import cover.

We expect foreign currency reserves to increase further by the end of this year, to US\$ 62 billion. By intervening in the forex market in favor of a weaker real, which last year appreciated by 8% against the US dollar in nominal terms, an attempt is being made to sustain the competitiveness of exports. The expansion of foreign currency reserves also means that Brazil will be less susceptible to sudden capital outflows. In this context, Brazil's obvious intention to dispense with a new IMF agreement is understandable (even though in all likelihood the decision is primarily motivated by domestic policy). The last revision of the current IMF agreement is scheduled for March. For the time beyond, Brazil appears to be aiming at an IMF credit line that could be utilized in the event of contingencies.

Dr. Cyrus de la Rubia +49 40 3595 3889

MONTHLY AND QUARTERLY FIGURES

BRAZIL: MONTHLY INDICATORS		Oct-04	Nov-04	Dec-04	Jan-05	next/latest
DOMESTIC ECONOMY						
Public sector primary balance (ytd)	% of GDP	5.6	5.3	4.6		25-Feb
Public sector balance (ytd)	% of GDP	-2.0	-2.0	-2.7		25-Feb
Central government tax revenues	% yoy	7.0	-2.1	17.4		15-Mar
Capacity utilization (CNI)	%	83.1	82.9	83.1		25-Feb
Industrial production (IBGE)	% yoy	3.2	7.7	8.3		9-Mar
Retail sales (IBGE)	% yoy	8.5	6.4	11.4		15-Mar
Unemployment rate (IBGE)	%	10.5	10.6	9.6		25-Feb
Consumer prices IPCA	% yoy	6.9	7.2	7.6	7.4	11-Mar
Consumer prices IPCA	% mom	0.44	0.7	0.9	0.6	11-Mar
Interbank interest rate (latest: 02/17)*	%	16.75	17.25	17.75	18.25	18.75
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	8843	8159	9194	7444.0	1-Mar
Merchandise exports	% yoy	16.9	36.4	36.2	28.4	1-Mar
Merchandise imports	US\$ mn	5836	6082	5684	5261.0	1-Mar
Merchandise imports	% yoy	16.0	42.8	42.3	24.8	1-Mar
Trade balance	US\$ mn	3007	2077	3510	2183	1-Mar
Current account balance	US\$ mn	1007	-242	1211		21-Feb
Net foreign direct investment	US\$ mn	1316	1319	3150		21-Feb
Foreign exchange reserves (latest: 02/17)*	US\$ bn	49.4	50.1	52.9	54.0	57.9
US\$ exchange rate (latest: 02/17)*	Reais	2.80	2.80	2.66	2.67	2.56
BRAZIL: QUARTERLY INDICATORS		Q1 04	Q2 04	Q3 04	Q4 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	4.0	5.7	6.1		28-Feb
GDP (s.a.)	% qoq	1.8	1.4	1.0		28-Feb
Private consumption	% yoy	1.0	4.5	5.7		28-Feb
Public consumption	% yoy	1.3	0.8	0.3		28-Feb
Private and public investment	% yoy	2.0	13.4	20.1		28-Feb
Exports of goods and services	% yoy	19.5	17.6	18.2		28-Feb
Imports of goods and services	% yoy	11.2	14.2	17.7		28-Feb
Agriculture	% yoy	6.4	6.0	4.9		28-Feb
Industry	% yoy	2.9	6.3	7.0		28-Feb
Services	% yoy	1.2	4.2	4.7		28-Feb
Public debt (net)	% of GDP	57.4	56.0	53.7	52.0	29-Apr
EXTERNAL SECTOR						
Current account balance	US\$ bn	1.7	2.8	5.3	2.0	25-Apr
Net foreign direct investment	US\$ bn	2.7	1.3	8.3	5.8	25-Apr
Portfolio investment	US\$ bn	2.4	-6.1	-0.5	-0.5	25-Apr
Capital account **	US\$ bn	0.9	-4.1	-6.1	-0.3	25-Apr
Change in foreign exchange reserves #	US\$ bn	-2.6	1.3	0.8	-1.7	25-Apr
Gross foreign debt	US\$ bn	234	224	220		21-Mar
Short-term foreign debt	US\$ bn	20.2	21	19		21-Mar

* month-end ** incl. Residual items # - = increase

CHILE: ELECTION YEAR

Area	756 629 sq. km
Population	15.3 million (+ 1.4 % p.a.)
State president	Ricardo Lagos Escobar
Finance minister	Nicolás Eyzaguirre Guzmán
Central bank president	Vittorio Corbo Lioi
Next elections	State president: December 2005 Congress: December 2005
GDP per capita	US\$ 4 710 (2003)
Investment	22 % of GDP (2003)
Savings	21 % of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	29 % of GDP
Purchasing countries	EU 23 %, USA 17 %, Japan 11 %
Products	Industrial goods 45 %, Mining products 41 %, Fishing, agriculture, forestry 10 %
Imports of goods (2003)	25 % of GDP
Supplier countries	Argentina 19 %, EU 17 %, USA 13 %
Products	Capital goods 19 %, Consumer goods 17 %, Fuel and lubricants 16 %
Rating	Moody's: Baa1 S&P: A



SUMMARY AND OUTLOOK

The excellent economic climate provides the current coalition government with a good chance of providing the successor to the still very popular President Lagos in the presidential elections scheduled for the end of this year. Economic growth came to 5.9% last year, and recent trends in the labor market suggest that the basis for an economic upturn underpinned by domestic demand is becoming increasingly stronger. In these conditions, the central bank has already raised interest rates four times in six months, as real interest rates remain negative. We assume that despite recent deflationary trends resulting primarily from the peso's substantial appreciation against the US dollar, the central bank will continue this course for the time being. Fiscal policy, having been committed to structural budget rules, should not be watered down despite the elections, which means that a high budget surplus is likely to be achieved this year as well.

ANNUAL FIGURES AND FORECASTS

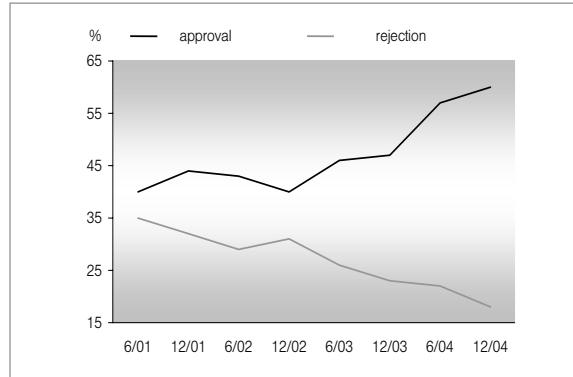
CHILE		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	2.2	3.3	5.9	5.3	4.5
GDP	US\$ bn	67.3	72.2	91.8	104.7	103.6
Inflation (year-end)	%	2.8	1.1	2.4	2.9	3.1
Inflation (average)	%	2.5	2.8	1.1	2.5	3.3
PUBLIC SECTOR						
Budget balance, central government	% GDP	-0.8	-0.8	2.2	1.5	1.0
Budget balance, public sector	% GDP	-1.6	-0.4	2.4	2.0	1.4
Public debt	% GDP	15.7	13.3	12.1	10.5	10.4
Amortization	US\$ bn	0.9	0.8	0.8	1.1	0.6
Gross financing needs, central government	US\$ bn	1.4	1.4	-1.2	-0.5	-0.4
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	18.2	21.0	32.0	32.5	34.2
Merchandise imports	US\$ bn	15.9	18.0	23.0	24.9	28.9
Trade balance	US\$ bn	2.2	3.0	9.0	7.5	5.4
Current account balance	US\$ bn	-0.9	-0.6	2.6	0.3	-1.6
Current account balance	% GDP	-1.3	-0.8	2.8	0.3	-1.5
Net foreign direct investment	US\$ bn	1.6	1.6	5.0	4.8	4.4
Foreign exchange reserves, year-end	US\$ bn	15.4	15.9	16.0	16.5	16.0
Import cover **	months	7.4	6.8	5.2	4.9	4.3
US\$ exchange rate, year-end	Pesos	720	593	556	580	640
US\$ exchange rate, average	Pesos	689	691	609	577	630
FOREIGN DEBT						
Gross foreign debt	US\$ bn	40.7	43.4	44.0	43.0	42.0
Foreign debt	% exports**	173	161	113	108	100
Short-term foreign debt	US\$ bn	5.8	7.5	7.9	8.5	9.0
Foreign debt amortization	US\$ bn	4.7	3.8	5.9	4.9	5.0
Foreign debt service	US\$ bn	6.0	5.2	7.2	6.4	6.4
Foreign debt service	% exports**	25	19	19	16	15
FINANCIAL MARKETS (year-end)						
Base rate, 90 days (PDBC)	%	2.9	2.3	2.3	3.8	4.8
IPSA stock index (peso based, 2005: 02/17)		1000	1405	1797	1832	
IFCI stock index (US\$ based, 2005: 02/17)		406	654	861	844	
Bond market yield spread (2005: 02/17)*	bp	176	90	64	60	

* EMBIG

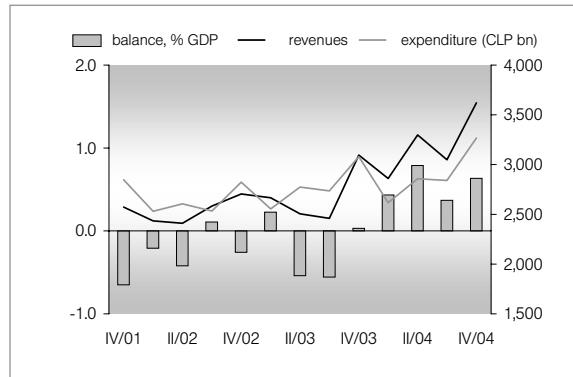
**goods and services

e=estimate, f=forecast

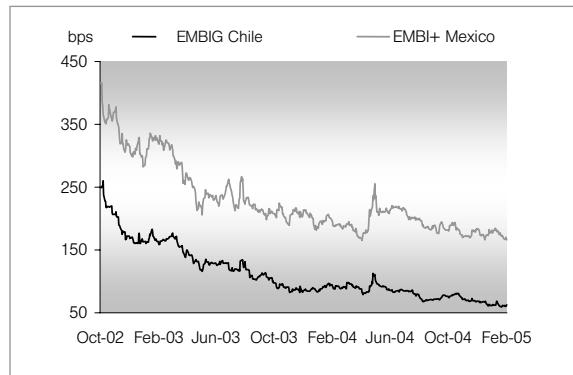
POPULARITY PRESIDENT LAGOS



CENTRAL GOVERNMENT BUDGET



BOND SPREAD CHILE & MEXICO



Domestic policy: elections dominating agenda

In December of this year, Chile will elect a new president. While the current office holder, Ricardo Lagos, cannot stand for re-election, his continued high popularity should reflect favorably on the candidate of the coalition government "Concertación". The Concertación's most promising candidates are former defense minister Bachelet and former foreign minister Alvear. At this stage, the procedure according to which the Concertación will agree on a joint candidate is not clear yet, but we expect a decision to be made by mid-year. The victorious candidate will in all likelihood stand against Joaquin Lavin, the candidate from the ranks of the center-right coalition "Alianza". Since Lavin's approval ratings have fallen sharply over the last few months, the outcome of the elections is uncertain. In view of the elections, we do not expect any major economic reforms to be implemented this year, with the exception of a new tax in the mining sector likely to be introduced in consultation with the mining industry. The urgent flexibilization of the labor market and the equally important intensification of competition in the old-age pension provision sector should only be tackled after the elections.

Fiscal policy: substantial surplus

Strong economic growth and high copper prices caused the central government's budget surplus to rise to 2.2% of GDP last year, the highest level since the mid-1990s. Accordingly, central government debt, which was still in the region of 13.3% at the end of 2003, is likely to have dropped to less than 12%. The solid budget policy is underpinned by strict rules according to which public spending is to be controlled in such a way as to achieve an average surplus of 1% of GDP in the long term. In the last three years, this rule allowed for an anti-cyclical fiscal policy with deficits ranging between 0.3% and 0.8% of GDP.

Therefore, the fiscal policy rule will actually put to the test this year when continued high copper revenues and dynamic growth in tax revenues in tandem with economic expansion will attract the attentions of politicians engaged in the election campaign. We are confident, however, that finance minister Eyzaguirre – with the president's support – will succeed in defending this rule drafted by him. In this setting, we forecast a budget surplus of 1.5% of GDP, which should bring the central government's debt below 11% of GDP.

The country's responsible fiscal policy has been well received by the international financial markets, and this is also being reflected in

Moody's recently improved ratings forecast. Risk spreads on Chilean foreign currency bonds are still close to their historical lows (see chart).

Economic activity: 2004 growth exceeding expectations

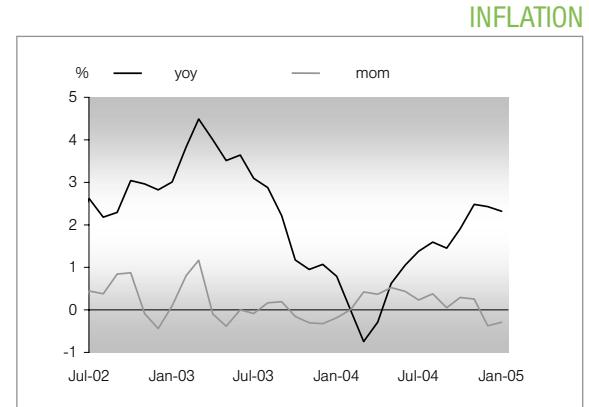
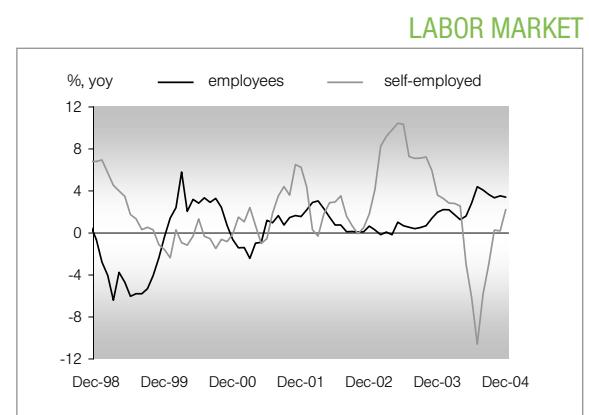
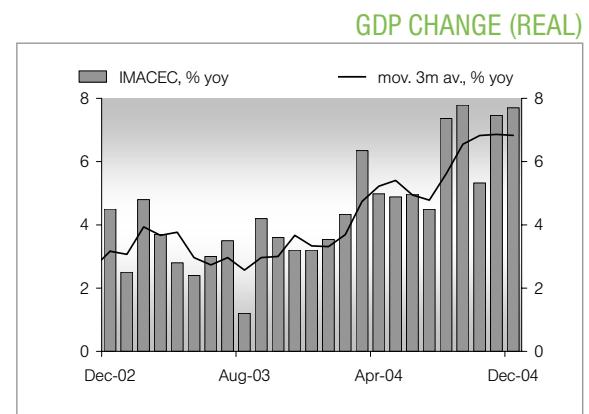
At 7.7% year-on-year, the December growth rate of the IMACEC economic indicator was well above expectations; economic growth in the fourth quarter amounted to 6.8% and to 5.9% in the year 2004 as a whole. Based on preliminary central bank figures, consumption is likely to have witnessed robust growth of about 5% for the full year, and the sharp rise in investments (+11%) suggests a sustained economic upturn. In 2004, the macroeconomic investment ratio is likely to have exceeded 24% of GDP, the highest level since 1998. The external sector's net contribution to growth was probably down on the pre-year figure despite a sharp rise in exports, since imports rose even more strongly in real terms.

Although growth is poised to lose some momentum in the course of the year because international conditions underlying the market are no longer quite as bright as previously (interest rate hikes, low global growth, declining copper prices), we nevertheless forecast continued robust growth of 5.3% for the year as a whole.

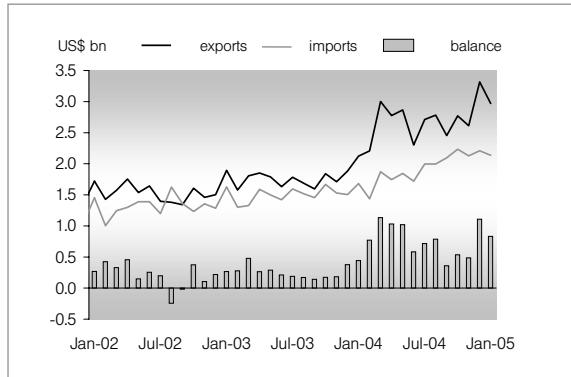
This forecast is primarily based on the expected renewed vigor in domestic demand. In particular, this is suggested by the fact that the labor market is increasingly recovering: in the period from October to December 2004, new job numbers were almost 1/3 up on the pre-year figures, and this increase took place across the board. Particularly the high increase in the number of wage and salary earners – as a rule, this kind of employment offers higher earnings and more security than self-employment – suggests a sustained recovery of the labor market. The fact that December's unemployment rate, at 7.8%, was nevertheless 4 percentage points up on the previous month is attributable to the ongoing recovery of the labor market, encouraging many people not yet integrated in the formal labor market to seek employment.

Monetary sector: central bank tightens monetary reins

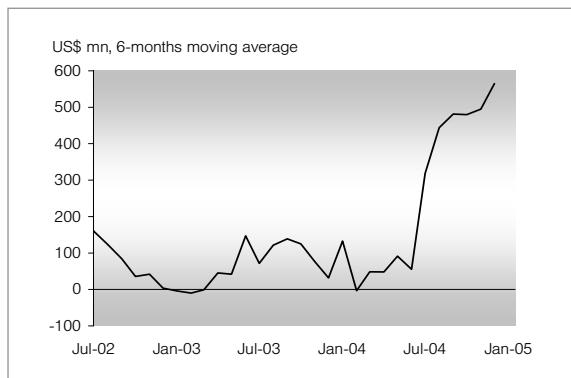
Following a 0.4% drop in prices in December and 0.3% in January, the annualized inflation rate came to only 2.3% and thus reached the bottom end of the central bank's target corridor. The core inflation rate (excluding fresh fruit/vegetables and fuel), which still accelerated slightly in December, was also down in January (-0.1% month-on-month, 1.8% year-on-year). In spite of this, the central bank raised its key lending rate in two consecutive sessions in January and February



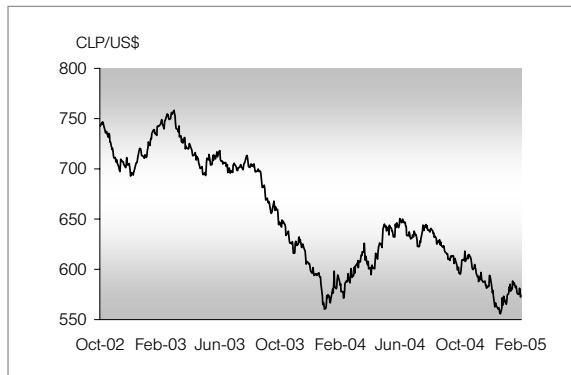
FOREIGN TRADE



FOREIGN DIRECT INVESTMENT



EXCHANGE RATE



by 25 basis points at a time, to a current 2.75%. This is based on the assumption that a relatively favorable international setting with low long-term interest rates and high copper prices, in combination with rising capacity utilization and robust domestic demand, will suggest that weaker monetary stimulus is advisable. However, there are currently no signs of any inflationary risks since, due to a slight decline in oil prices and the peso tending to appreciate slightly against the US dollar on an annual average, the pressure is likely to remain low, particularly on prices of tradable goods. The central bank should therefore continue its course of moderate tightening of monetary policy in the course of the year, and we forecast an inflation rate of 2.9% year-on-year for end-2005.

External sector: direct investments booming

The highly positive upward trend in foreign trade is set to continue this year. Exports saw a 37% year-on-year increase in January, and with imports showing robust growth (+27%), the trade surplus amounted to US\$ 832 million (January 2004: US\$ 489 million). Even though export growth should drop sharply due to a very high statistical basis for comparison, we still forecast a very high trade surplus for the year as a whole.

This should also tend to strengthen the peso, even though the appreciation pressure will be limited owing to continued high foreign investments of Chilean pension funds. On balance, we expect only a slight capital account deficit since the inflow of foreign direct investments, which was already surprisingly strong last year (see chart), should only slow down insignificantly this year. In the short term, the peso/US dollar exchange rate is determined not so much by fundamental trends in Chile but rather by the dollar's valuation on the international financial markets. Should the dollar weaken substantially, the resulting strength of the peso will fuel complaints in Chile about the loss of competitiveness for Chilean products. Nevertheless, we do not expect the central bank to intervene on the forex market in favor of a weaker peso, particularly since – compared with a weighted currency basket of key trading partners – there have been no clear signs of the peso tending to appreciate over the last several months.

Thomas Pohl +49 40 3595 3481

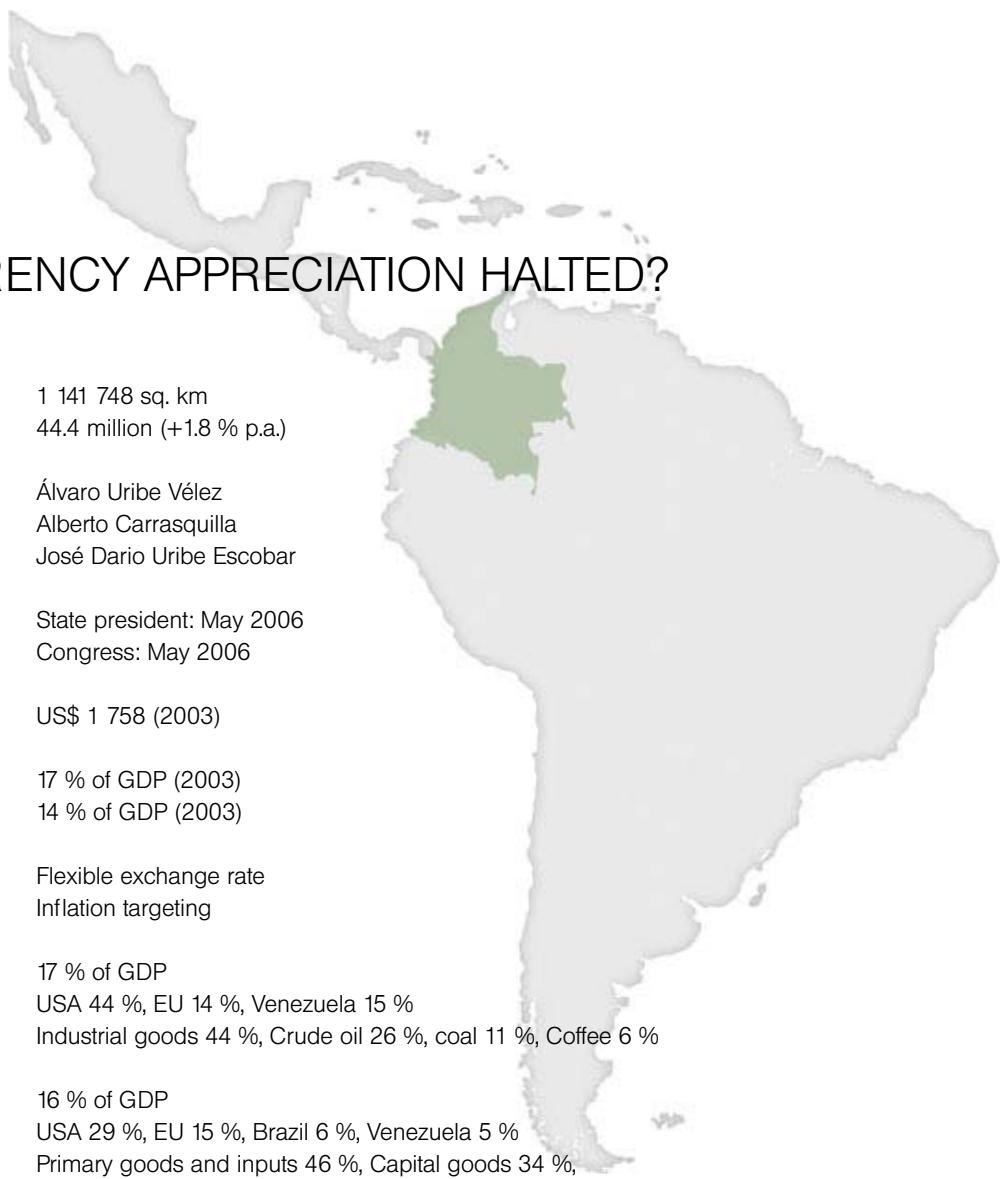
MONTHLY AND QUARTERLY FIGURES

CHILE: MONTHLY INDICATORS		Oct-04	Nov-04	Dec-04	Jan-05	next/latest
DOMESTIC ECONOMY						
IMACEC	% yoy	5.3	7.5	7.7		7-Mar
Industrial production (INE)	% yoy	5.2	9.9	10.2		28-Feb
Mining production	% yoy	12.7	12.1	12.0		28-Feb
Retail sales	% yoy	7.1	4.9	6.2		17-Mar
Unemployment rate	%	9.4	8.6	7.8		28-Feb
Employment	mn	5.65	5.75	5.86		28-Feb
Labor cost index	% yoy	0.0	0.2	0.9		4-Mar
Consumer prices	% yoy	1.9	2.5	2.4	2.3	4-Mar
Consumer prices	% mom	0.3	0.3	-0.4	-0.3	4-Mar
Wholesale prices	% yoy	8.9	9.7	7.8	8.8	4-Mar
Wholesale prices	% mom	1.7	-0.8	-3.0	-0.1	4-Mar
Money supply M1	% yoy	28.1	25.6	21.1	20.7	7-Mar
Base rate, 90d PDBC (month-avrg., latest: 02/17)	%	2.4	2.3	2.3	2.5	3.08
Loan rate (average)	%	10.4	12.0	10.8	11.5	7-Mar
Deposit rate (average)	%	2.6	2.8	3.4	3.5	7-Mar
Lending to private sector	% yoy	12.5	12.5	7.2		23-Feb
Total financial savings (M7, seasonally adjusted)	% mom	0.6	0.3	1.2	-1.0	7-Mar
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	2770	2611	3316	2969	7-Mar
Merchandise exports	% yoy	50.6	52.6	76.1	36.8	7-Mar
Merchandise imports	US\$ mn	2234	2127	2209	2137	7-Mar
Merchandise imports	% yoy	34.0	39.2	46.7	27.1	7-Mar
Trade balance	US\$ mn	536	484	1107	832	7-Mar
Net foreign direct investment	US\$ mn	186.3	220.3	186.3		7-Mar
Portfolio investment (net)	US\$ mn	-131.1	-88.0	50.1		7-Mar
Copper price (monthly average, latest: 02/17)	US\$ c/lb	136.6	141.6	142.7	143.8	143.2
Foreign exchange reserves*	US\$ bn	15.7	16.0	16.0	15.6	7-Mar
US\$ exchange rate (latest: 02/17)	CLP	613.8	589.0	555.8	581.5	567.0
CHILE: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	3.3	4.6	5.3	6.8	23-Mar
GDP seasonally adjusted	% qoq	0.9	1.6	1.6	2.0	23-Mar
Total consumption + change in stocks	% yoy	5.6	4.8	4.7	6.9	23-Mar
Private and public investment	% yoy	5.5	4.7	7.7	14.0	23-Mar
Domestic demand	% yoy	5.5	4.8	5.4	8.6	23-Mar
Exports (goods and services)	% yoy	6.3	10.0	9.8	15.3	23-Mar
Imports (goods and services)	% yoy	13.9	11.1	10.3	20.5	23-Mar
Budget balance, central government	Pesos bn	15.9	242.9	441.5	206.6	386.4
EXTERNAL SECTOR						
Current account balance	US\$ bn	-0.32	0.91	1.15	0.21	23-Feb
Net foreign direct investment	US\$ bn	0.24	1.48	0.09	2.80	23-Feb
Portfolio investment	US\$ bn	-1.24	-0.38	-1.43	-1.23	23-Feb
Capital account**	US\$ bn	0.20	1.00	-1.18	-0.07	23-Feb
Change in foreign exchange reserves	US\$ bn	0.11	-0.09	-0.02	-0.14	23-Feb
Gross foreign debt	US\$ bn	43.4	43.5	43.6	43.9	23-Feb
Short-term foreign debt	US\$ bn	7.59	7.33	8.21	8.54	23-Feb

* month-end ** incl. Residual items # - = increase

COLOMBIA: CURRENCY APPRECIATION HALTED?

Area	1 141 748 sq. km
Population	44.4 million (+1.8 % p.a.)
State president	Álvaro Uribe Vélez
Finance minister	Alberto Carrasquilla
Central bank president	José Dario Uribe Escobar
Next elections	State president: May 2006 Congress: May 2006
GDP per capita	US\$ 1 758 (2003)
Investment	17 % of GDP (2003)
Savings	14 % of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	17 % of GDP
Purchasing countries	USA 44 %, EU 14 %, Venezuela 15 %
Products	Industrial goods 44 %, Crude oil 26 %, coal 11 %, Coffee 6 %
Imports of goods (2003)	16 % of GDP
Supplier countries	USA 29 %, EU 15 %, Brazil 6 %, Venezuela 5 %
Products	Primary goods and inputs 46 %, Capital goods 34 %, Consumer goods 19 %
Rating	Moody's: Ba2 S&P: BB



SUMMARY AND OUTLOOK

President Uribe's security policy, which has been very successful since he took office three years ago, sustained first setbacks. Guerrilla attacks on military bases have escalated over the last two months, and Colombia evidently still has a long way to go before peace can be brought to the country. In terms of economic policy, the government is still trying to counter the appreciation of the peso in order to support the export sector in particular. After controls on capital movements were introduced as early as December, president Uribe has widened the government's influence on the traditionally independent central bank by a clever reshuffle of central bank directors. It must therefore be assumed that the institution, in line with government requirements, will continue its attempts to counter an appreciation of the peso by means of interventions in the forex market. Given the overall favorable economic climate, economic growth will remain solid at 3.8%.

ANNUAL FIGURES AND FORECASTS

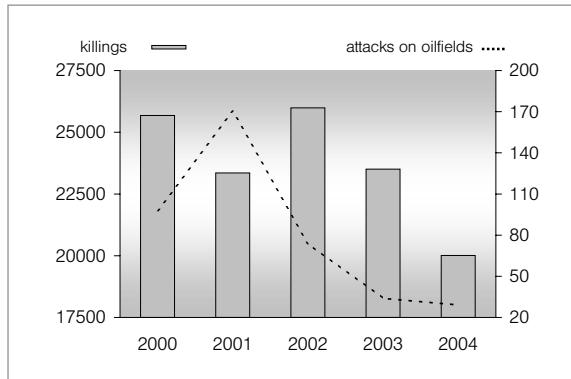
COLOMBIA		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	1.9	3.8	3.6	3.8	3.7
GDP	US\$ bn	76.9	79.8	98.0	115.7	121.1
Inflation (year-end)	%	7.0	6.5	5.5	5.7	5.5
Inflation (average)	%	6.3	7.1	5.9	5.8	5.6
PUBLIC SECTOR						
Budget balance, central government	% GDP	-6.1	-5.4	-4.5	-4.4	-4.3
Budget balance, public sector	% GDP	-3.6	-2.8	-2.3	-2.8	-2.7
Public debt	% GDP	63.6	62.0	58.0	54.5	55.8
Amortization	US\$ bn	12.5	10.6	10.0	5.5	6.0
Gross financing needs	US\$ bn	15.3	12.8	12.3	8.7	9.3
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	12.3	13.5	16.5	17.4	17.8
Merchandise imports	US\$ bn	12.1	13.3	15.5	17.0	18.0
Trade balance	US\$ bn	0.2	0.3	1.1	0.4	-0.2
Current account balance	US\$ bn	-1.5	-1.4	-1.1	-2.0	-2.8
Current account balance	% GDP	-1.8	-1.8	-1.3	-1.7	-2.2
Net direct investment	US\$ bn	1.2	0.8	2.0	1.5	2.0
Foreign exchange reserves, year-end	US\$ bn	10.7	10.9	13.5	14.5	14.3
Import cover	months*	6.8	6.4	7.0	7.0	6.6
US\$ exchange rate, year-end	Pesos	2867	2780	2353	2398	2458
US\$ exchange rate, average	Pesos	2507	2877	2628	2369	2429
FOREIGN DEBT						
Gross foreign debt	US\$ bn	37.4	38.5	38.6	39.4	39.9
Foreign debt	% exports*	304	285	233	226	224
Short-term foreign debt	US\$ bn	3.6	4.0	4.3	4.7	5.0
Foreign debt amortization	US\$ bn	6.5	6.7	4.6	4.3	4.1
Foreign debt service	US\$ bn	8.9	9.2	7.3	7.1	7.0
Foreign debt service	% exports*	73	68	44	40	39
FINANCIAL MARKETS (year-end)						
Deposit rate (DTF, 90 days)	%	8.0	7.9	7.7	7.5	8.0
IBB stock index (peso based, 2005: 02/17)		1474	2334	4346	4813	
IFCG stock index (US\$ based, 2005: 02/17)		615	783	1686	1877	
Bond market yield spread (2005: 02/17)	bp**	736	431	333	349	

*goods and services

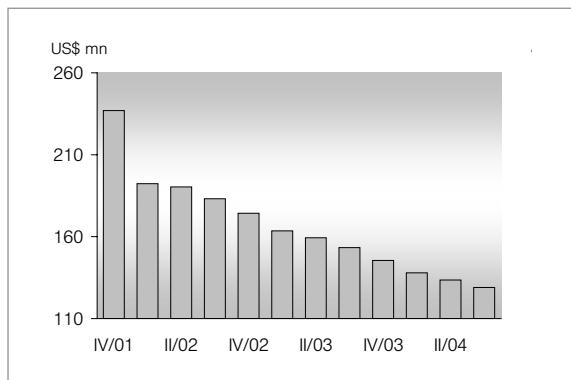
** EMBI+

f=forecast, e=estimate

FARC ATTACKS



VALUE ADDED OF THE ILLEGAL SECTOR



REFORM AGENDA

Reform	Status	Probable approval
Tax reform	Failed, due to resistance in congress	No reopening planned.
Pension reform	Approved by end-2002; partly stopped by the constitutional court	Discussions continue; approval at the earliest in June 2005
Reelection bill	Confirmed by congress	Constitutional Court ruling expected for March 05 (latest September)

Domestic policy: no sign of peace in Colombia

President Uribe is seizing every opportunity to point out the successes of his security policy, citing current crime statistics in support. The numbers of abductions, murders and robberies have dropped sharply, while the government is making progress in demobilizing the paramilitary groups and driving back the guerrillas. Yet peace talks are not taking place, and after six years of unsuccessful negotiation attempts, the UN did not extend the mandate of its special adviser Le Moigne, which expires in March. The hardened front between the government and the largest guerrilla group, FARC, was insurmountable at this stage, so that the UN saw no potential for negotiations. The military advances into the demilitarized zone of the guerrillas since 2002, the destruction of almost half of their land under drug cultivation and the resultant decline in illegal sector growth may have forced the guerrillas into the defensive but failed to defeat them. In particular, the heavy attacks in recent months during which the guerrillas clearly demonstrated their military strength in defying the further advancing military forces bear clear testimony to this. Any further such actions from the guerrillas could damage the reputation of the president, who – especially thanks to the improved security situation – is more popular than any other president has ever been in the third year of office.

In order to get Colombia's security situation under control, it would seem that the problem of the paramilitary groups must be resolved first, because only then are the guerrillas likely to be prepared to enter into talks with the government. This is why the U.S. is also exerting pressure on the government to establish a legal framework that provides for disarmament of the paramilitary groups. As a result, the government has now introduced a draft bill in congress that provides for equal treatment of paramilitary forces and members of guerrilla groups under criminal law, thus attempting to find a "compromise between peace and justice". Aside from the degree of punishment and the re-socialization of the perpetrators, this bill will also regulate compensation for the victims. However, it remains uncertain whether an agreement will be reached in congress.

We assume that the U.S. will continue to support Colombia's fight against drug traffickers and terrorists and that President Bush will extend "Plan Colombia" until the end of 2006. So far, Plan Colombia has a volume of US\$ 2.2 billion, chiefly utilized for military and logistics projects. Plans for a US\$ 700 million increase are under way. We expect that the U.S. congress will agree to the plan.

Public finances: budget target will be difficult to meet

In 2004, the government succeeded in limiting the budget deficit to 2.3% of GDP. This year, it aims to meet a ceiling amounting to 2.2% of GDP, with privatization proceeds firmly included in the 2005 budget. However, an additional 0.3% of GDP is to be spent on "productive infrastructure investments" not yet defined, which appear in the updated January budget for the first time. However, since there is no corresponding counter-financing, we do expect the envisaged budget target to be met. In 2006, we also perceive a risk that the budget deficit will tend to widen in an election year, and in this context we expect the government to forego another attempt at bringing about a comprehensive tax reform. At the same time, non-recurring proceeds from privatizations are likely already be used up in 2005.

In order to reduce the susceptibility of public finances to exchange rate fluctuations, more and more peso-denominated bonds are being issued and partly offered on the international capital market. However, Colombia is hardly in a position as yet to place a sufficient number of bonds on the international capital market; and yet, it is a first step to provide relief for the national capital market.

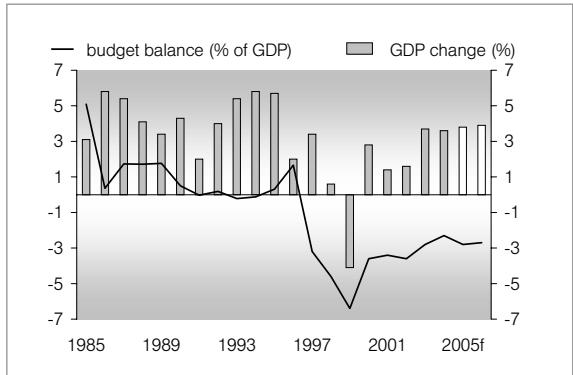
Economic activity: employment figures declining

Within a year, the unemployment rate dropped from 14.7% (December 2003) to 13% (December 2004) despite the fact that no new jobs were created. Among other factors, the government explains the decline with improved tertiary education conditions, which caused previously registered unemployed persons to commence studying; as a result, they no longer appear in the labor market statistics. A further reason for the decline in job seekers is the government's security policy, which substantially increased the size of the military and police force. Both groups are not included in the labor market statistics either. This explains why, according to official sources, the employment rate declined despite the expansion in some labor-intensive sectors (such as the construction industry). The solid economic growth suggests that labor productivity has evidently risen sharply, which is may be attributable to the improved security situation.

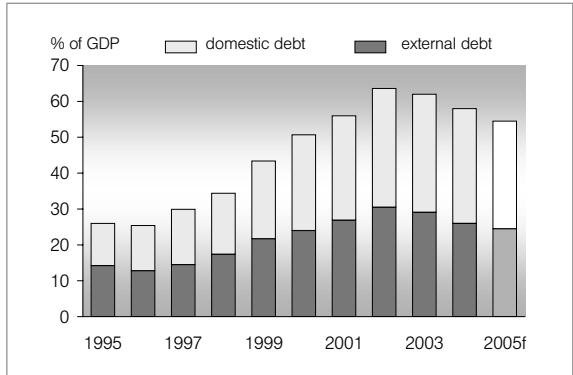
Monetary sector: central bank losing independence?

It became evident in recent months, that the central bank is increasingly meeting the government's requirements and, through its intervention policy, is aiming to weaken the peso, which is under appreciation pressure. The government's 2005 budget provides for an average

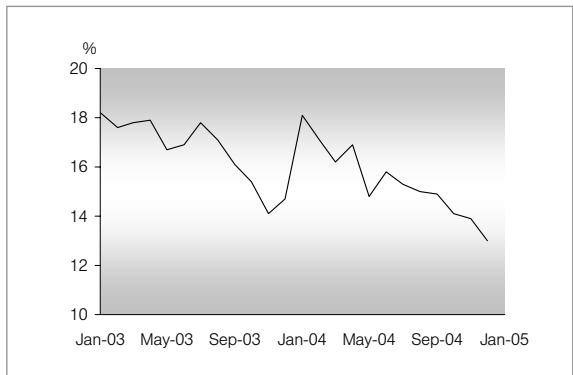
BUDGET BALANCE & GDP CHANGE (REAL)



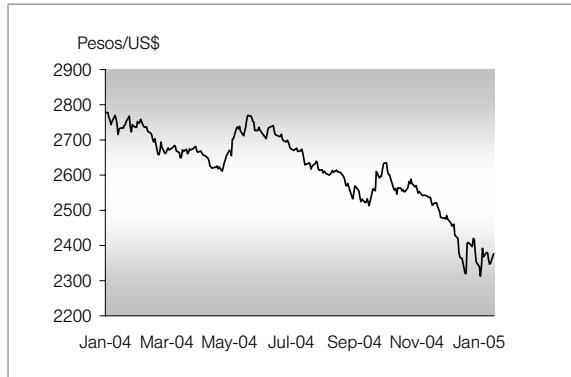
PUBLIC DEBT



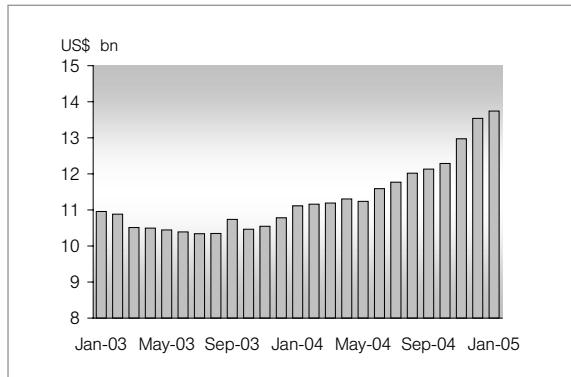
UNEMPLOYMENT



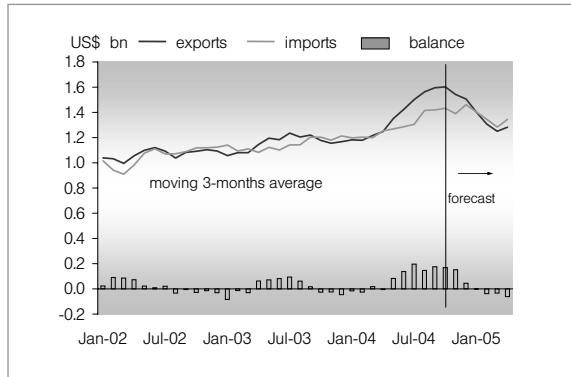
EXCHANGE RATE



FOREIGN EXCHANGE RESERVES



TRADE BALANCE



nominal exchange rate of 2800 COL/US\$, which corresponds to a depreciation of roughly 15% on the current rate. The export industry is also complaining about the strong peso. By appointing two directors, who had already advocated a depreciation of the peso in advance, the government has now strengthened its position in the central bank – in particular, after the fiercest opponent of the depreciation policy, Sergio Clavijo, will resign from the central bank in March. This enabled the government to increasingly bring the traditionally independent central bank under its influence. This became also apparent when, at the beginning of February, the central bank president, Jose Dario Uribe, announced that interest rates would remain at a low level and that further interventions in the capital market were planned.

The weak US dollar, which is beyond Colombia's influence, is one of the key reasons for the appreciation of the peso. The question therefore is to what extent the central bank will be able to contribute to the peso's appreciation. Even though it has been possible for the inflation target to be comfortably met thus far, we perceive a risk of the central bank's exchange rate policy jeopardizing price stability in the medium term.

External sector: trade balance will turn into deficit

Total exports rose sharply in 2004; among other factors, this was attributable to the recovery of Venezuela's market – Venezuela is Colombia's second largest trade partner – resulting in a trade surplus of US\$ 1.1 billion despite rising imports.

Due to the level of economic growth in Venezuela, we anticipate that industrial goods exports will continue to rise in 2005. Growth of total exports, at roughly 5%, will only turn out moderate (2004: +22%), since crude oil revenues are bound to drop on account of lower prices and production cuts. We also expect a decline in global economic demand, along with a continued strong peso and a rise in domestic demand, which means that a trade deficit will be on the cards as of the year 2006.

Transfer remittances from Colombians living abroad and the trade surplus resulted in a reduction in the current account deficit last year (forecast 2004: 1.3% of GDP). For 2005, we forecast a deficit of 1.6%, which is set to widen further in 2006.

Gabi Steck +49 40 3595 3486

MONTHLY AND QUARTERLY FIGURES

COLOMBIA: MONTHLY INDICATORS		Oct-04	Nov-04	Dec-04	Jan-05	next/latest
DOMESTIC ECONOMY						
Industrial production (not incl. coffee)	% yoy	1.4	5.3			5-Mar
Retail sales (excl. fuel)	% yoy	7.8	4.7			5-Mar
Unemployment rate (urban)	%	14.1	13.9	13.0		5-Mar
Consumer prices	% yoy	5.9	5.8	5.5	67.0	7-Mar
Consumer prices	% mom	0.0	0.3	0.3	0.8	7-Mar
Producer prices	% yoy	5.8	5.2	4.6	4.4	9-Mar
Producer prices	% mom	0.4	0.2	-0.5	0.5	9-Mar
Monetary base (month-end)	% yoy	14.5	10.6	17.1	13.9	10-Mar
Money supply M1 (month-end)	% yoy	12.6	8.1	16.8	13.0	10-Mar
Money supply M3 (month-end)	% yoy	15.8	16.7	16.3	18.1	10-Mar
Lending rate (month-end)	%	15.5	15.6	14.9	14.9	10-Mar
Deposit rate (DTF, 90 days, month-end)	%	7.72	7.68	7.7	7.6	10-Mar
Treasury bills (local index, month-end)	%	105.0	106.2	107.2	107.8	10-Mar
Treasury bills (yield, TES Aug. 08, month-end)		11.8	11.3	10.8	10.2	10-Mar
Interbank interest rate (month-end)	%	7.10	6.87	6.6	6.4	10-Mar
Credit volume (month-end)	% yoy	10.8	12.1	11.2	11.5	7-Mar
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	1513	1543			28-Mar
Merchandise exports	% yoy	34.8	43.9			28-Mar
Merchandise imports	US\$ mn	1453				11-Mar
Merchandise imports	% yoy	16.8				11-Mar
Trade balance	US\$ mn	90.3				11-Mar
Foreign exchange reserves (month-end)	US\$ mn	12288	12971	13539	13743	5-Mar
US\$ exchange rate (month-end + 02/17)	pesos	2586	2479	2354	2366	2327
COLOMBIA: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	4.5	4.0	4.3	2.4	31-Mar
GDP, seasonally adjusted	% qoq	1.0	0.5	0.8	-0.1	31-Mar
Private consumption	% yoy	3.4	4.5	3.6	2.8	31-Mar
Public consumption	% yoy	4.1	2.3	2.6	3.1	31-Mar
Domestic consumption	% yoy	3.6	4.0	3.3	2.8	31-Mar
Domestic investment	% yoy	14.8	5.4	18.1	11.0	31-Mar
Domestic demand	% yoy	5.5	4.2	5.7	3.7	31-Mar
Exports (goods and services)	% yoy	5.5	5.6	9.0	9.3	31-Mar
Imports (goods and services)	% yoy	9.1	6.7	17.1	15.8	31-Mar
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	3.24	3.28	3.87	4.36	6-Apr
Merchandise imports	US\$ bn	3.36	3.30	3.72	3.90	6-Apr
Trade balance	US\$ bn	-0.12	-0.02	0.16	0.46	6-Apr
Current account balance	US\$ bn	-0.42	-0.62	-0.30	-0.10	6-Apr
Net foreign direct investment	US\$ bn	-0.51	0.55	0.84	0.79	6-Apr
Portfolio investment*	US\$ bn	0.38	0.07	-0.05	0.48	6-Apr
Capital account**	US\$ bn	0.42	1.12	0.76	0.60	6-Apr
Change in foreign exchange reserves #	US\$ bn	-0.04	0.42	0.38	0.50	6-Apr

*incl. foreign credit

**incl. residual items

- = increase

DOMINICAN REPUBLIC: NEW IMF AGREEMENT

Area	48 442 sq. km
Population	8.6 million (+ 1.6 % p.a.)
State president	Leonel Fernández
Finance minister	Vicente Bengoa
Central bank president	Hector Valdez Albizu
Next elections	State president: 2008 Congress: May 2006
GDP per capita	US\$ 1 883 (2003)
Rating	Moody's: B3 S&P: SD



ANNUAL FIGURES AND FORECASTS

DOMINICAN REPUBLIC		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	4.1	-0.4	2.0	2.4	3.0
GDP	US\$ bn	21.2	16.2	19.5	26.6	24.2
Inflation (year-end)	%	10.5	42.8	28.7	11.8	9.4
Inflation (year-average)	%	5.2	32.0	55.0	7.5	10.6
Budget balance, public sector	% GDP	-2.0	-3.5	-7.0	-3.8	-3.0
Public sector debt	% GDP	26.8	54.3	52.1	49.1	46.0
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	5183	5439	5710	5750	5800
Merchandise imports	US\$ mn	8883	7883	7954	8200	8700
Trade balance	US\$ mn	-3700	-2444	-2244	-2450	-2900
Current account balance	US\$ mn	-877	867	1356	1200	790
Current account balance	% GDP	-4.1	5.3	7.0	4.5	3.3
Net foreign direct investment	US\$ mn	961	450	654	700	800
Foreign exchange reserves, year-end	US\$ mn	828	489	870	800	802
Import cover*	months	0.5	0.3	1.0	0.9	0.9
US\$ exchange rate, year-end	Pesos	21.2	42.0	28.5	35.0	45.0
US\$ exchange rate, average	Pesos	18.7	32.0	39.7	34.3	42.9
FOREIGN DEBT						
Gross foreign debt	US\$ mn	5350	8400	7900	8000	8600
Foreign debt	% exports*	63	89	83	84	88
Short-term foreign debt	US\$ mn	1300	1150	900	900	950
Foreign debt amortization	US\$ mn	609	480	1100	1200	1600
Foreign debt service	US\$ mn	884	1116	1325	1400	1600
Foreign debt service	% exports*	10.4	9.2	9.4	14.6	16.3

*goods and services

e=estimate f=forecast

Domestic policy: Higher than expected growth

Economic growth, at 3.7%, was surprisingly strong in the fourth quarter of 2004, resulting in a growth rate of 2% for the year as a whole. The tourism industry reported an above-average growth rate of 4.6%. The same applied to sugar production, the mining industry, agricultural and stock farming and the fishing sector. Special mention should be made of the boom in the communications sector, which recorded a growth rate of 18.3%. In contrast, the industrial sector (excluding sugar production) contracted by 0.7%. Last year's economic environment represented a mixed bag. On the one hand, high oil prices and adverse climatic factors (such as hurricane Jeanne) caused substantial strains. On the other, the new government under president Fernandez obviously succeeded in raising greater confidence, helping to improve the investment and consumption climate. The recently concluded new IMF agreement, which should also clear the way for sound restructuring of public foreign debt, is likely to boost macroeconomic stability further and cause economic growth to accelerate slightly, to 2.4%. In this connection, it should be noted that the strong appreciation of the peso will have an adverse impact both on foreign trade and tourism.

Economic policy: highly promising IMF agreement

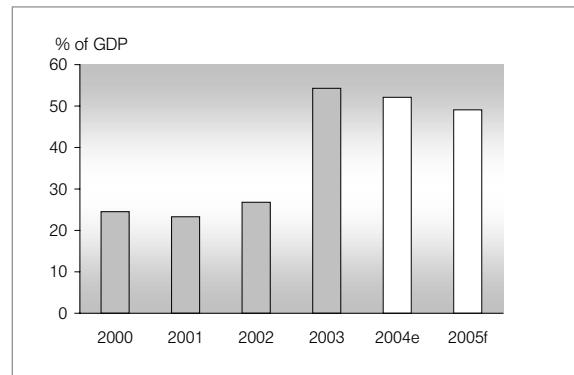
After the Dominican Republic had clearly fallen short last year of the targets agreed with the IMF, with the agreement at the time being shelved, it was possible to conclude a new accord in February of this year. It expires in May 2007 and has a volume of approx. US 670 million. Restrictive fiscal policy and institutional reforms constitute the core of the agreement. Both should help to scale back the budget deficit (6.7% of GDP) and public debt (currently at 52.1% of GDP) to a sustainable level. In addition, banking supervision is to be reinforced, and the supervisory authorities are to be given increased independence. As expected, one of the IMF's requirements is a market-friendly debt rescheduling program. Applied to bonds, this would probably mean that the nominal value and the extent of the coupons would be maintained and "only" the maturities of the bonds extended. In this regard, the Paris Club plays a key role, however. An agreement has already been reached with this creditor forum in the sense that the member countries have made concessions, particularly with respect to the extension of maturities, yet also subject to the condition that the government of the Dominican Republic would treat private creditors on a comparable footing. All in all, we are confident that debt restructuring will be carried out as planned. Consequently, the rating agency S&P is likely to lift its default (SD) rating recently applied to bonds of the Dominican Republic on grounds of accrued payment arrears.

Dr. Cyrus de la Rubia +49 40 3595 3889

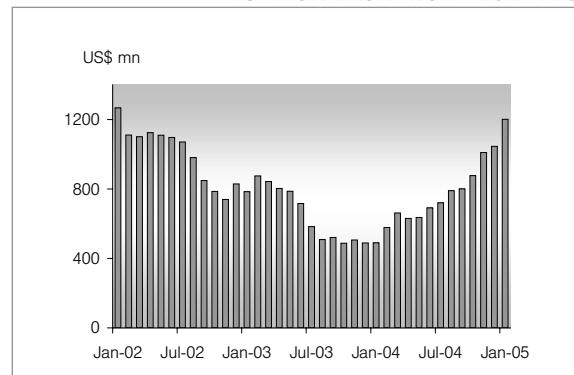
SUMMARY AND OUTLOOK

There are good chances of the Dominican Republic recovering from the 2003/2004 balance of payments crisis this year. Since the change in government last year, a more restrictive monetary and fiscal policy has been introduced, raising greater confidence and facilitating the conclusion of a new IMF agreement. This should also pave the way for a market-friendly restructuring of public-sector foreign debt. Even though the sharp appreciation of the peso is inhibiting the economic upturn, economic growth should nevertheless accelerate slightly this year from 2% to 2.4%.

PUBLIC DEBT



FOREIGN EXCHANGE RESERVES



ECUADOR: ELIGIBE FOR CAPITAL MARKETS AGAIN

Area	270 190 sq. km
Population	12.2 million (+ 2.1 % p.a.)
State president	Lucio Gutiérrez
Finance minister	Mauricio Yépez
Central bank president	Polibio Cordova
Next elections	State president: October 2006 Congress: October 2006
GDP per capita	US\$ 2 204 (2003)
Rating	Moody's: Caa1 S&P: B-



ANNUAL FIGURES AND FORECASTS

ECUADOR		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	3.4	2.5	7.0	3.5	3.0
GDP	US\$ bn	24.4	26.9	29.5	30.8	32.0
Inflation (year-end)	%	9.4	6.1	1.9	1.5	1.5
Budget balance, public sector	% GDP	0.6	1.1	1.4	0.6	0.5
Public sector debt	% GDP	58.1	53.4	48.1	46.4	45.0
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	5.0	6.0	7.5	7.0	6.8
Merchandise imports	US\$ bn	6.0	6.1	6.8	7.0	7.2
Trade balance	US\$ bn	-0.9	0.0	0.7	0.0	-0.4
Current account balance	US\$ bn	-1.4	-0.5	0.2	-0.7	-1.0
Current account balance	% GDP	-5.6	-1.7	0.5	-2.3	-2.5
Net direct investment	US\$ bn	1.3	1.6	0.9	0.8	0.8
Foreign exchange reserves, year-end	US\$ bn	0.7	0.8	1.1	0.8	1.0
Import cover *	months	0.9	1.0	1.3	0.9	0.9
FOREIGN DEBT						
Gross foreign debt	US\$ bn	16.3	16.6	16.9	16.8	16.7
Foreign debt	% exports**	265	233	199	211	215
Short-term foreign debt	US\$ bn	1.3	1.3	1.6	1.8	1.8
Foreign debt amortization	US\$ bn	1.1	1.2	1.4	1.4	1.4
Foreign debt service	US\$ bn	2.1	2.3	2.6	2.8	2.9
Foreign debt service	% exports**	34	32	31	35	37
FINANCIAL MARKETS (year-end)						
Interbank rate (average rate)	%	1.2	0.9	2.5	4.0	5.0
IFCF stock index (US\$ based, 2005: 02/17)		37	39	57	59	
Bond market yield spread (2005: 02/17)**	%	1794	729	691	637	

*goods and services **EMBI+

e=estimate f=forecast

Domestic economy: opposition is losing power

Following the unsuccessful impeachment proceedings against president Gutierrez in November last year, the opposition has lost a great deal of influence in congress. This enabled president Gutierrez to form a new alliance party, which – although not very stable – will nevertheless secure a majority in congress for the time being. The votes of this coalition enabled the government's favorite, Omar Quintana, to be elected as president of the congress. This has improved the prospects of success of some of the legislative bills planned for this year. However, it still appears doubtful whether key reforms, such as revamping legislation in the crude oil sector, can de facto be implemented. Ongoing protests accusing the government of having extended its influence to include the judiciary clearly indicate that the domestic situation remains tense overall. Another contributing factor is that the unemployment rate increased in 2004 despite a high level of economic growth (7%). In November, the unemployment rate, at 11%, was 1.7 percentage points up on the pre-year level. This is due to the fact that economic growth was predominantly generated in the less labor-intensive oil sector. For the current year, we forecast a slight decline of oil prices, which remain at a high level. In addition, an increase in Ecuador's oil production is hardly likely due to a lack of investments. We therefore expect economic growth to decelerate to 3.5% this year.

External sector: abundant funding available

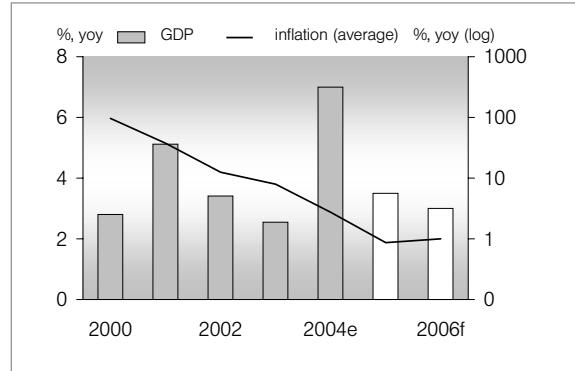
Until recently, Ecuador was barely able to cover its public financing requirements and, as a last resort, even had to dip into the FEIREP Fund, which was intended to compensate for fluctuations in the crude oil price. This scenario has changed – until further notice. After the IMF had announced its intention to support Ecuador's economy and also agreed on assessments without an IMF program having been concluded, the IADB and the World Bank were able to approve loans amounting to US\$ 400 million for this year. Together with US\$ 80 million promised by the CAF, the central government's budget deficit of just under US\$ 500 million will thus be almost covered this year. In addition, the international capital market seems to be ready for the launch of Ecuador's first bond issue following the moratorium on payments in 1999. The government considers US\$ 750 million as the upper limit for the issue of government bonds abroad. The fact that Standard & Poor's upgraded its rating of Ecuador's long-term foreign currency government bonds from CCC+ to B- in view of the country's improved financing situation and the reduced burden of foreign debt, also helped to facilitate fund-raising activity.

Guenter Koehne +49 40 3595 3484

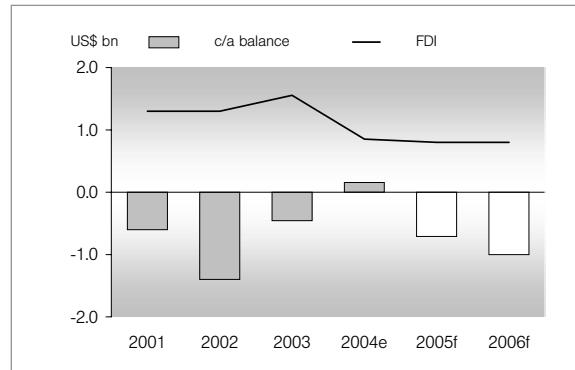
SUMMARY AND OUTLOOK

High oil prices contributed to an acceleration in economic growth and made it possible to stabilize public finances. The government simultaneously succeeded in consolidating its position in congress. Against this backdrop, the country is planning to launch its first foreign bond issue on the international capital market after the 1999 moratorium on payments. The IMF reacted positively to Ecuador, clearing the way for disbursements by the IADB and the World Bank. Despite these successes, it should be noted that popular protests against the government are continuing and that the implementation of key reform remains doubtful.

GDP CHANGE (REAL) AND INFLATION



BALANCE OF PAYMENTS



EL SALVADOR: NO GROWTH WITHOUT REFORMS

Area	21 041 sq. km
Population	6.4 million (+ 2.2 % p.a.)
State president	Antonio Elías Saca
Finance minister	Guillermo López Suárez
Central bank presidentin	Luz María Serpas de Portillo
Next elections	State president: March 2009 Congress: March 2006
GDP per capita	US\$ 2 340 (2003)
Rating	Moody's: Baa3 S&P: BB+



ANNUAL FIGURES AND FORECASTS

EL SALVADOR		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	2.1	1.8	1.5	1.9	2.4
GDP	US\$ bn	14.3	14.8	15.8	16.2	16.4
Inflation (year-end)	%	2.8	2.5	5.8	4.5	3.7
Inflation (year-average)	%	1.9	2.1	4.5	5.3	3.9
Budget balance, public sector	% GDP	-3.3	-1.3	-1.9	-2.0	-2.0
Public sector debt*	% GDP	36.3	35.9	35.6	35.4	36.0
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	3017	3136	3200	3400	3600
Merchandise imports	US\$ mn	4922	5410	5780	6000	6100
Trade balance	US\$ mn	-1905	-2274	-2580	-2600	-2500
Current account balance	US\$ mn	-384	-737	-615	-450	-295
Current account balance	% GDP	-2.7	-5.0	-4.0	-2.8	-1.7
Net foreign direct investment	US\$ mn	450	85	250	315	350
Foreign exchange reserves, year-end	US\$ mn	1623	1943	1800	1700	1700
Import cover **	months	3.1	3.4	2.9	2.8	2.6
US\$ exchange rate, year-end	Colones	8.75	8.75	8.75	8.75	8.75
US\$ exchange rate, average	Colones	8.75	8.75	8.75	8.75	8.75
FOREIGN DEBT						
Gross foreign debt	US\$ bn	5.8	6.4	6.9	7.3	7.6
Foreign debt	% exports*	148	156	164	160	158
Short-term foreign debt	US\$ bn	1.0	1.1	1.2	1.3	1.3
Foreign debt service	US\$ bn	0.5	0.6	0.6	0.7	0.7
Foreign debt service	% exports*	11.5	14.2	14.5	15.2	15.0

*central government ** goods and services

e=estimate f=forecast

Domestic policy: reform pressure in run-up to elections

President Antonio Saca, who was given a clear mandate by the electorate, has so far displayed superb skills in finding the majorities lacking in parliament, e.g. when the budget bill was passed in January. However, he does not have much time left to tackle the reforms of healthcare, education and the taxation system promised in the election year as well as changes to the election system in the run-up to the parliamentary elections scheduled for March 2006. Should these reform projects not be realized over the forthcoming months, it must be assumed that the ruling party Arena (Alianza Republicana Nacionalista) will postpone them until mid-2006 in order to avoid forfeiting a good chance (according to opinion polls) of winning the elections President Saca currently enjoys such high popularity that he could even afford to send additional troops to Iraq against the will of the population.

Domestic economy: recovery at a low level

GDP growth is likely to have reached as little as 1.5% in 2004 (previous forecast: 2%). This is due to stagnating consumption and the decline in investment demand as well as the fact that foreign direct investments are only just trickling into the country. The general political uncertainty in the election year and high oil prices had a negative impact on the economic climate. Furthermore, monetary and fiscal policy have hardly provided significant impetus for the economy, since the previous government's course of consolidation was continued. The budget deficit dropped to 1.9% (2002: 3.3%) of GDP. The consolidation efforts were rewarded with an improved rating outlook from the rating agency Fitch from "negative" to "stable". We expect that the recovery in domestic consumer and investment demand will lead to economic growth of 1.9% this year. The high oil price remains the highest uncertainty factor, however.

External sector: trade agreement provides opportunities

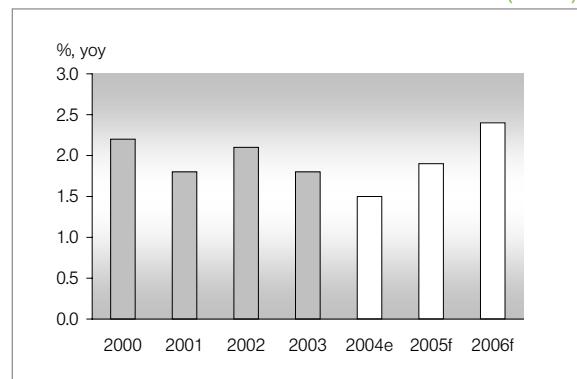
The current account deficit dropped from 5% to 4% of GDP in 2004. In particular, it was possible to offset the effect of a slightly higher trade deficit by a 21% increase in foreign transfers, to US\$ 2.55 billion, which, at 16.5% of GDP, are a key source of external financing for El Salvador. For the second semester, once the free trade agreement DR – CAFTA comes into force between El Salvador, the Dominican Republic, Costa Rica, Guatemala, Honduras and Nicaragua on the one hand and the U.S. on the other, we forecast a rise in exports as well as in foreign direct investments. Accordingly, the current account deficit is likely to drop to 2.8% of GDP this year.

Nils Kompe, Thorsten Ruelle (Miami) +1 305 810 3855

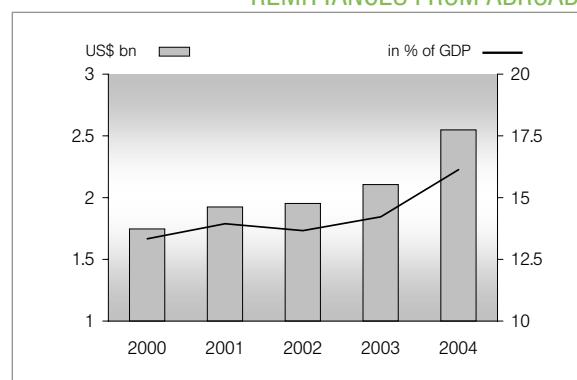
SUMMARY AND OUTLOOK

In the run-up to the parliamentary elections scheduled for early 2006, president Saca does not have much time left to tackle the announced reform projects. Reforms would be urgently needed to boost economic growth, which has been at a low level for years. A first impetus will, no doubt, come from the free trade agreement DR – CAFTA scheduled to enter into force this year, which is likely to facilitate a reduction in the structural current account deficit.

GDP CHANGE (REAL)



REMITTANCES FROM ABROAD



HONDURAS: DEBT RELIEF PROBABLE

Area	112 000 sq. km
Population	7.1 million (+ 2.2 % p.a.)
State president	Ricardo Maduro Joest
Finance minister	Wilian Chon Wong
Central bank president	Maria Elena Mondragón
Next elections	State president: November 27, 2005 Congress: November 27, 2005
GDP per capita	US\$ 1 000 (2003)
Rating	Moody's: B2



ANNUAL FIGURES AND FORECASTS

HONDURAS		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	2.5	3.2	4.3	3.6	3.9
GDP	US\$ bn	6.6	6.9	7.5	8.0	8.5
Inflation (year-end)	%	8.1	6.8	9.2	8.0	7.0
Inflation (year-average)	%	7.7	7.7	8.2	8.5	7.5
Budget balance, public sector*	% GDP	-3.3	-4.7	-3.0	-2.8	-2.0
Public sector debt	% GDP	68	66	63	60	58
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	1361	1374	1600	1660	1720
Merchandise imports	US\$ mn	2809	3065	3640	3850	4000
Trade balance	US\$ mn	-1448	-1691	-2040	-2190	-2280
Current account balance	US\$ mn	-219	-258	-400	-420	-359
Current account balance	% GDP	-3.3	-3.7	-5.4	-5.2	-4.2
Net foreign direct investment	US\$ mn	176	198	195	200	210
Foreign exchange reserves, year-end	US\$ mn	1524	1430	1680	1780	1880
Import cover **	months	4.9	4.2	4.3	4.3	4.4
US\$ exchange rate, year-end	Lempiras	16.92	17.75	18.62	19.53	20.50
US\$ exchange rate, average	Lempiras	16.43	17.35	18.19	19.08	20.02
FOREIGN DEBT						
Gross foreign debt	US\$ bn	5.40	5.45	5.61	5.33	5.41
Foreign debt	% exports**	210	202	202	168	162
Short-term foreign debt	US\$ bn	0.48	0.52	0.60	0.65	0.75
*after grants		**goods and services			e=estimate	f=forecast

Economic policy: on the threshold of debt remission

In the run-up to the presidential elections scheduled for the end of the year, the Honduran government is likely to be granted debt relief worth almost US\$ 1 billion (approx. 20% of the country's foreign debt) from foreign governments and multilateral financial organizations (the Paris Club already initiated first restructuring measures last year). The IMF, which is monitoring Honduras' current structural adjustment, is likely to give the go-ahead for this debt remission in the context of the HIPC (Heavily Indebted Poor Countries) initiative, since progress has been made in structural reforms (strengthening of the financial sector, consolidation of public finances). Provided that the government continues to adhere to the austerity principle in terms of current spending – and, in particular, also dispenses with the need for public-sector payroll increases, the total public-sector budget deficit should decline to below 3% of GDP by the end of this year. The government's budget deficit will probably still reach 3% of GDP, however, public-sector enterprises will be generating surpluses. Fiscal policy adjustment and the implementation of debt remission will probably also remain the new government's (as from 2006) main concerns of economic policy, since the country's traditional parties (Partido Nacional and liberals) will provide the future president and determine the government's policy course. They endorse development programs to bring about poverty reduction in coordination with the IMF.

Economic activity: economic slowdown

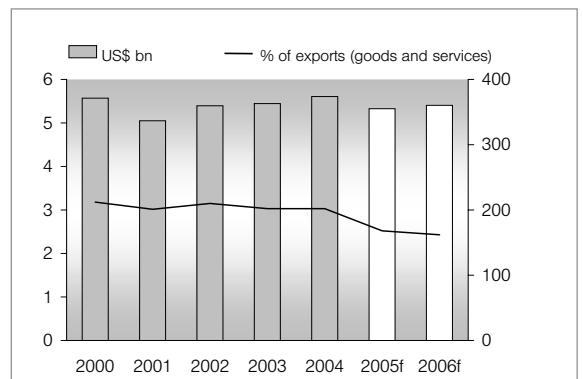
Since the demand from the key trading partner, the U.S., is declining again, Honduras' economic upturn that set in across the board in 2004 will continue, albeit at a slightly slower pace. The economy should grow by 3.6% after having recorded an increase of over 4% in 2004. One of the main sources of growth will be the coffee sector, which is set to benefit from higher prices. We expect only a first impetus for exports and investments to come from the free trade agreement CAFTA, which the parliaments of the U.S. and the Central American countries intend to ratify this year. In contrast, loans from multilateral financial organizations and private transfer payments from the U.S. (2004: roughly US\$ 1 billion) should underpin the economy significantly. The latter remittances will continue to curb the current account deficit, which – due to continued high oil prices – is set to reach a good 5% of GDP once again. Honduras should have no problem in financing a deficit of this size with multilateral support and investments from abroad. The country's international reserves will thus stabilize further and, at almost US\$ 2 billion, are meanwhile already sufficient to cover a good four months' imports.

Ingrid Gruenewald +49 40 3595 3494

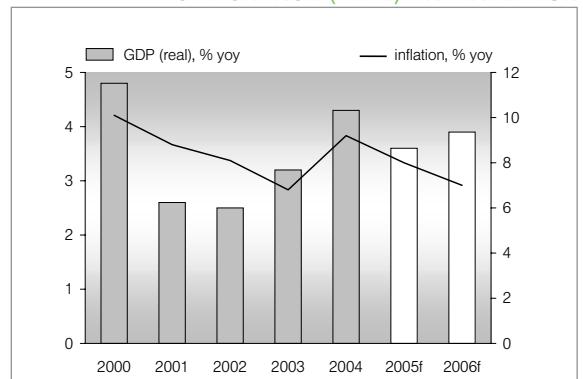
SUMMARY AND OUTLOOK

Since Honduras is making good progress in terms of fiscal policy adjustment, the IMF is likely to request the country's bilateral and multilateral creditors to grant debt relief in the context of the HIPC initiative for Honduran maturities amounting to US\$ 1 billion. The government will most probably be able to reduce the budget deficit to below 3% of GDP. Due to weaker demand from the U.S. once again, economic growth should slow down to 3.6%.

EXTERNAL DEBT

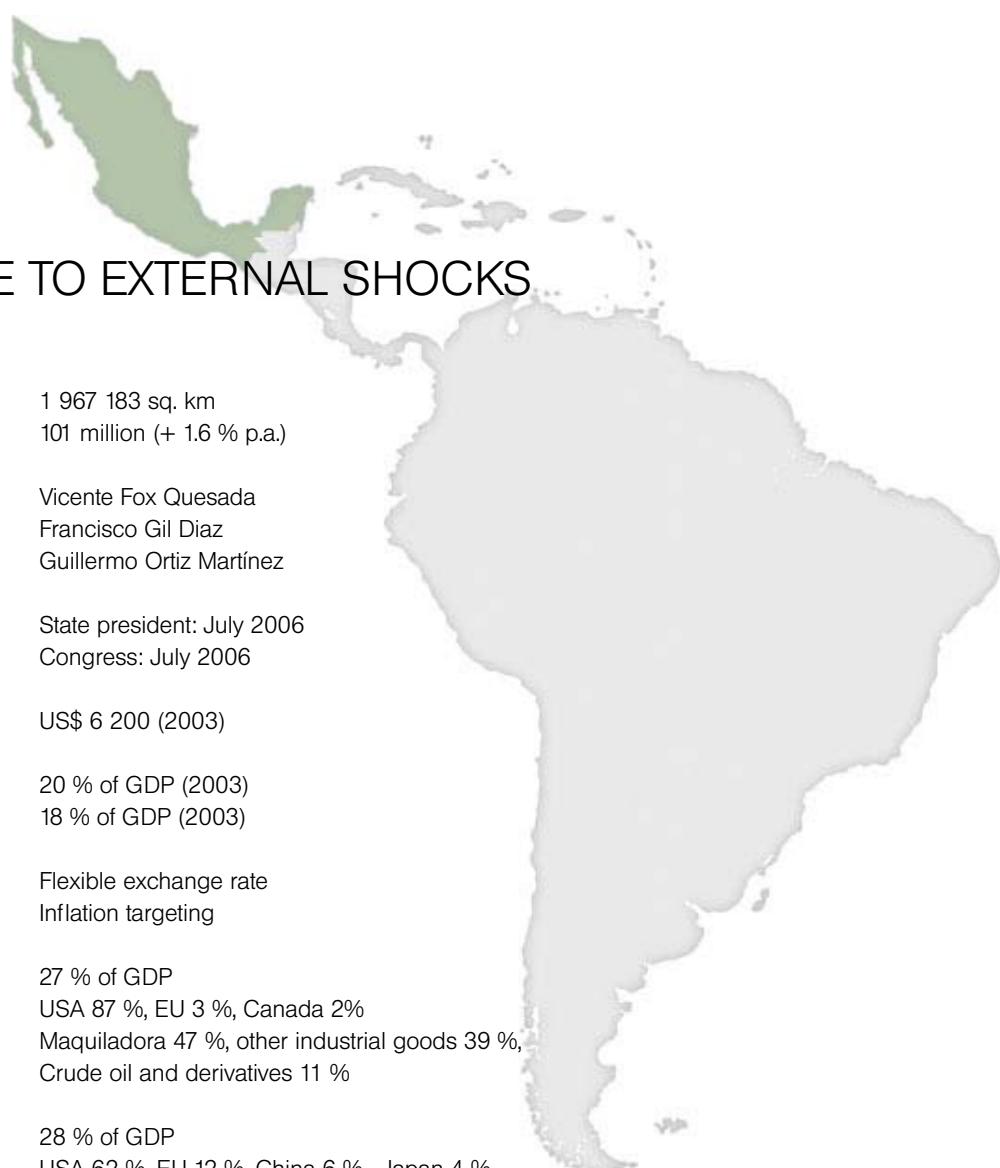


GDP CHANGE (REAL) AND INFLATION



MEXICO: IMMUNE TO EXTERNAL SHOCKS

Area	1 967 183 sq. km
Population	101 million (+ 1.6 % p.a.)
State president	Vicente Fox Quesada
Finance minister	Francisco Gil Diaz
Central bank governor	Guillermo Ortiz Martínez
Next elections	State president: July 2006 Congress: July 2006
GDP per capita:	US\$ 6 200 (2003)
Investment	20 % of GDP (2003)
Savings	18 % of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	27 % of GDP
Purchasing countries	USA 87 %, EU 3 %, Canada 2%
Products	Maquiladora 47 %, other industrial goods 39 %, Crude oil and derivatives 11 %
Imports of goods (2003)	28 % of GDP
Supplier countries	USA 62 %, EU 12 %, China 6 %, Japan 4 %
Products	Maquiladora inputs 35 %, other intermediate goods 41 %, Capital goods 12 %, Consumer goods 13%
Rating	Moody's: Baa1 S&P: BBB



SUMMARY AND OUTLOOK

Mexico's credit rating is improving gradually, yet steadily. Following the new most recent upgrade of the risk rating of public foreign currency bonds by the leading rating agencies, Mexico now is well into investment grade status. External shocks alone could hardly jeopardize the country's macroeconomic stability; this would already require a chain of inadequate economic policy decisions in response to such potential shocks, a hardly realistic scenario in view of the "maturity" of some institutions, particularly the central bank. And yet, this must not be allowed to disguise the fact that, due to structural reforms not yet implemented, the country has been well behind its potential over the last several years. In spite of "ideal" external conditions (strong demand from the U.S., low international interest rate levels and high oil prices), the economy grew only by 4.4% last year. And a slight deterioration of these conditions in combination with the impeding effect of higher interest rates will cause GDP growth to decline to 3.3% in 2005.

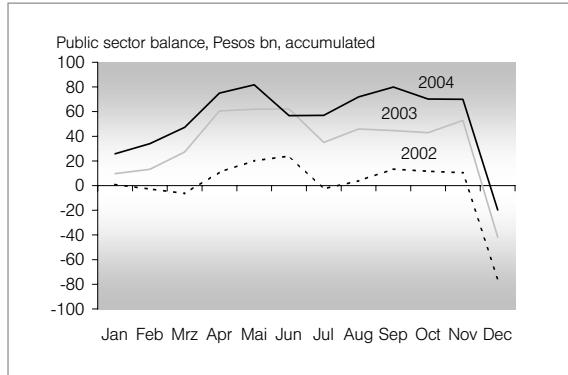
ANNUAL FIGURES AND FORECASTS

MEXICO		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	0.7	1.3	4.4	3.3	4.0
GDP	US\$ bn	648	626	656	683	728
Inflation (year-end)	%	5.7	4.0	5.2	3.7	3.8
Inflation (average)	%	5.0	4.5	4.7	4.5	3.6
PUBLIC SECTOR						
Budget balance, central government	% GDP	-1.0	-0.8	-0.6	-0.6	-0.3
Budget balance, public sector	% GDP	-1.4	-0.6	-0.3	-0.3	-0.1
Public debt	% GDP	27.7	28.3	27.2	26.4	26.0
Amortization (Cetes excl.)	Pesos bn	222	250	336	324	371
Gross financing needs (Cetes excl.)	Pesos bn	298	283	359	348	394
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	161	165	189	200	214
Merchandise imports	US\$ bn	169	171	197	210	226
Trade balance	US\$ bn	-7.9	-5.7	-8.0	-10.5	-12.3
Current account balance	US\$ bn	-13.8	-9.0	-10.4	-11.3	-11.9
Current account balance	% GDP	-2.1	-1.4	-1.6	-1.7	-1.6
Net foreign direct investment	US\$ bn	14.8	10.8	15.0	14.0	16.0
Foreign exchange reserves, year-end	US\$ bn	51	59	64	65	67
Import cover **	months	3.0	3.5	3.2	3.2	3.0
US\$ exchange rate, year-end	Pesos	10.46	11.24	11.15	12.00	11.80
US\$ exchange rate, average	Pesos	9.66	10.79	11.32	11.73	11.90
FOREIGN DEBT						
Gross foreign debt	US\$ bn	159	160	163	166	169
Foreign debt	% exports**	90	88	79	76	73
Short-term foreign debt	US\$ bn	36	35	34	34	34
Foreign debt amortization	US\$ bn	13	21	25	18	21
Foreign debt service	US\$ bn	25	33	37	32	36
Foreign debt service	% exports**	14	18	18	15	16
FINANCIAL MARKETS (year-end)						
Interest rates (Cetes, 28 days)	%	7.6	6.0	8.6	8.5	8.2
IPC stock index (peso based, 2005: 02/17)		6127	8795	12918	13592	
IFCI stock index (US\$ based, 2005: 02/17)		637	830	1227	1293	
Bond market yield spread (2005: 02/17)*	bp	324	199	167	153	

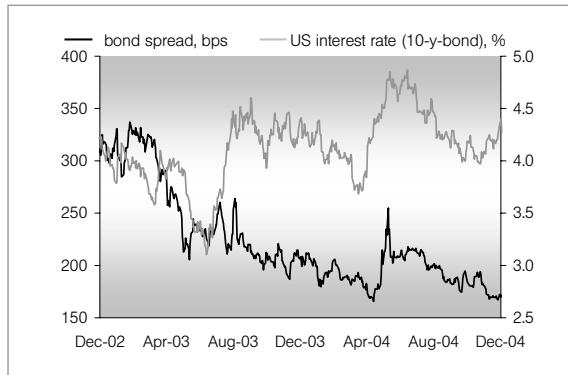
* EMBI+ ** goods and services

e=estimate f=forecast

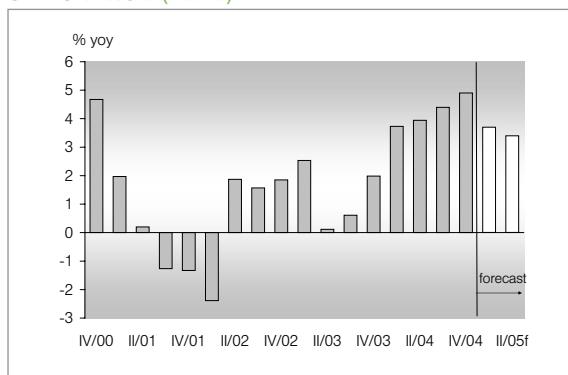
PUBLIC FINANCES



BOND SPREADS AND US INTEREST RATES



GDP CHANGE (REAL)



Fiscal policy: improved ratings

The leading international rating agencies rewarded Mexico's sustained, stability-oriented fiscal policy by upgrading their risk ratings for public foreign-currency bonds by one notch each (Moody's: Baa1; S&P: BBB). However, the risk premium on Mexican government bonds only declined to a negligible degree since the "upgrades" did not really come as a surprise. Mexico's public foreign debt dropped from around 30% of GDP in 1996 to slightly more than 10% in 2004. Accordingly, the public sector's vulnerability to external shocks has declined dramatically in a relatively short period of time. The public sector has now a liquid domestic bond market at its disposal, on which fixed-income government bonds with a maturity of up to 20 years have already been placed. A process of crowding private borrowers out of the market is not taking place for the following reasons: for one thing, the borrowing requirements of both the government and enterprises remain within acceptable limits and, for another, international investors have discovered the peso market as is being reflected in the overall comparatively low level of real interest rates. Instead, the government's sustained demand for credit and the formation of a structured yield curve have increased the market's appeal for institutional investors and boosted its development. It was this that has enabled many Mexican companies to utilize the bond market as an alternative source of borrowing to bank loans in the first place. The public sector will therefore continue to cover its financing requirements solely on the domestic market in years to come, leading to a slight reduction in net foreign debt.

Economic activity: surprisingly good end to the year

The fourth quarter of 2004 saw the Mexican economy benefiting from strong growth in U.S. demand, which accounts for approx. 90% of total Mexican exports. Real exports in this period probably increased by roughly 12% year-on-year. The impeding effect of the restrictive monetary and fiscal policy on the economy was therefore not as significant as initially expected. In the fourth quarter, the Mexican economy grew by 4.9% year-on-year. In 2004 as a whole, GDP rose by 4.1%. Due to more robust demand from the U.S. in the fourth quarter, the economic slowdown anticipated for the first half of 2005 will be delayed. All in all, the economic risks will predominate in 2005. For instance, early economic indicators suggest slightly weaker economic growth in the U.S. in the course of 2005. At 6%, import demand from the U.S. will grow at a considerably slower pace than

in 2004 (almost 10%). This means that Mexico's real exports, after increasing by 12% in 2004, will probably grow by 7%. Following a real 5% increase in consumption in 2004, private consumers are also bound to show restraint (forecast: +3% in real terms). This is suggested by the higher interest rate levels in combination with a weak level of growth in income and employment. Finally, the momentum of investment demand, likely to have shown double-digit expansion in the fourth quarter (year-on-year), is likely to lose speed. Apart from higher interest rates, this will also be attributable to the uncertain outcome of the presidential elections in July 2006. All in all, we project GDP growth of 3.3 % in 2005.

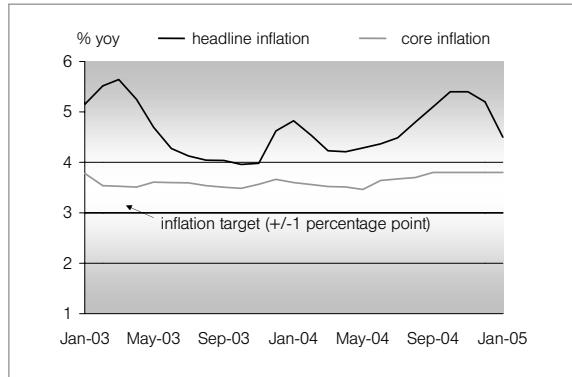
Monetary sector: inflation declining

In December 2004, the trend toward higher inflation rates came to an end. In January, prices even remained unchanged. In addition, inflationary expectations are now finally declining. According to the central bank's monthly survey, private analysts forecast an inflation rate of 4% by end-2005, well below the preceding month's expectations of 4.3%. The central bank's continuous tightening of monetary policy has contributed to this effect. However, we think it is too early for a change in the country's monetary policy course. The hike in consumer prices (4.5%) is still a long way off the inflation target of 3% (+/- 1 percentage point) to justify such a move. Accordingly, for the forthcoming months we still project one or two further increases in the "corto", which was last raised at the end of January from 69 million pesos to 75 million pesos. Money market interest rates, at approx. 9.5%, should therefore only reach their cyclical high in the second quarter, after which they should decline steadily to roughly 8.5% by year-end. The high degree of credibility the Mexican central bank managed to achieve through its sustained stability-oriented monetary policy is also reflected in the extremely flat yield curve. Yields on 10-year peso-denominated government bonds, at 9.5%, are only 30 basis points higher than money market interest rates (Cetes, 28 days).

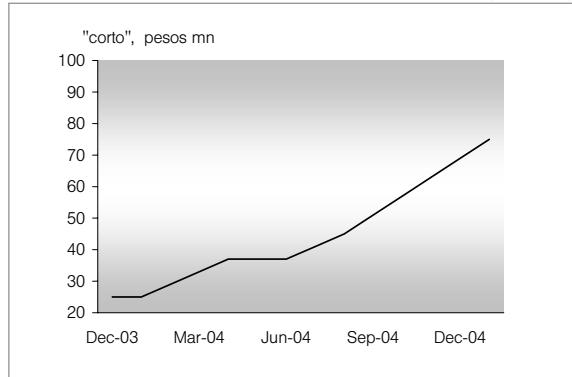
External sector: comeback of the boom years?

Mexico's growth engine, exports, is once again firing on all cylinders. Exports grew by approx. 15% in 2004. This is the best result since the year 2000, after which the U.S. economy (which accounts for 90% of all Mexican exports) slipped into recession, dampening the demand for imports. In addition, Mexico's exports were increasingly impacted by competition from China. As a result, exports stagnated

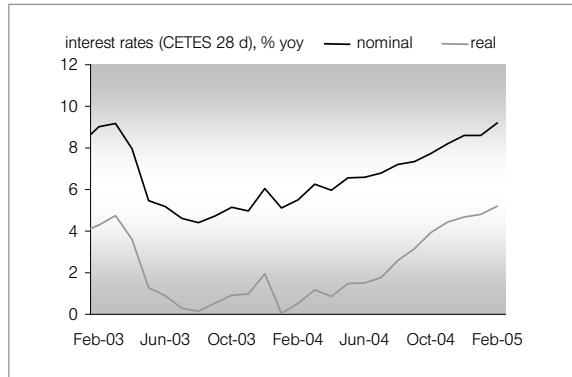
INFLATION



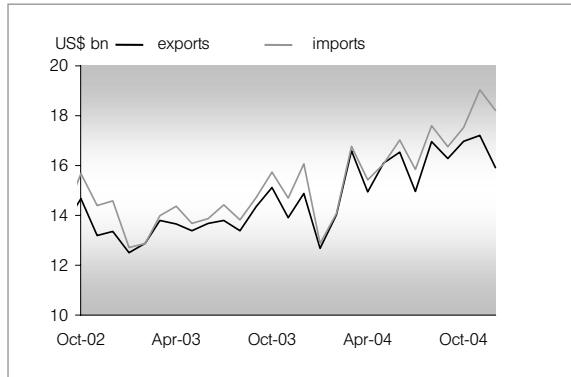
MONETARY POLICY (CORTO)



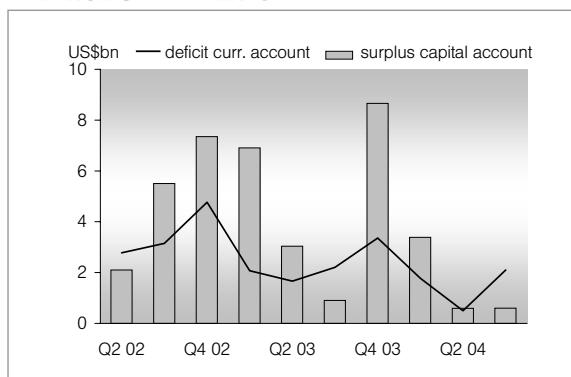
INTEREST RATES



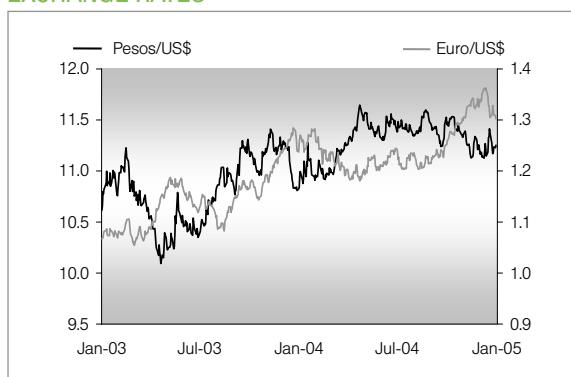
FOREIGN TRADE



BALANCE OF PAYMENTS



EXCHANGE RATES



for three years and entire sectors (e.g. clothing, textiles) were lost to structural change. At the same time, however, numerous investments flowed into the high-technology sectors such as med-tech apparatus or computer technology, in which Mexico's value-adding potential before exporting finished products is considerably higher than in the textile industry, for instance. Even though Mexico's exports are not set for a new boom, solid average growth in the lower two-digit region can be expected in the forthcoming years. The sector will, of course, still be subject to cyclical fluctuations. For instance, slower growth in import demand from the U.S. and a slightly declining average oil price will result in export growth of only just about 6% in 2005. Not only did the recovery of the export sector trigger an economic upturn across the board; it also contributed to the fact that the resulting strong growth in domestic demand did not increase the current account deficit, which will be well below 2% of GDP this year as well. For the fifth consecutive year, international direct investments will exceed the current account deficit, contributing to a further increase in foreign currency reserves and another decline in relative foreign debt. It will therefore take more than temporary external shocks alone (recession in the U.S., slump in the oil price, increase in risk aversion on the international capital market) to put Mexico's macroeconomic stability in jeopardy today.

Exchange rate: interest rates underpinning the peso

Since May 2004, the Mexican peso has steadily appreciated against the US dollar. One main reason for this is the growing differential between domestic and U.S. interest rates. The difference in interest rates, which currently amounts to more than 6% at the short end, is likely to have already passed its zenith and should become noticeably narrower in the course of the year. On the one hand, the Fed has indicated that it will continue the "normalization" process of US policy rates. Real interest rates in the US dollar sector remain negative, but this may only be a temporary phenomenon in view of the good shape of the economy and a further rise in the core inflation rate. On the other hand, the interest rate hike on the Mexican money market has already reached its final phase (see monetary policy). Furthermore, the slightly weaker economy and mounting "political noise" in the wake of the approaching presidential elections in July 2006, are likely to exert downward pressure on the peso, which will therefore most probably depreciate to 12 pesos per US dollar by year-end.

Thorsten Ruelle, Miami +1 305 810 3855

MONTHLY AND QUARTERLY FIGURES

MEXICO: MONTHLY INDICATORS		Oct-04	Nov-04	Dec-04	Jan-05	next/latest
DOMESTIC ECONOMY						
Economic activity index (IGAE)	% yoy	4.1	6.0			21-Feb
IGAE index (seasonally adjusted)	% mom	0.8	0.5			21-Feb
Industrial production	% yoy	2.0	5.4	3.9		14-Mar
Manufacturing, in-bond industry	% yoy	5.3	6.8	11.1		14-Mar
Manufacturing (excluding in-bond industry)	% yoy	0.8	5.7	3.7		14-Mar
Construction	% yoy	5.3	6.5	6.0		14-Mar
Gross fixed capital formation	% yoy	6.5	14.1			8-Mar
Consumer confidence (January 2003=100)	Index	95.4	95.3	102.8	105.2	3-Mar
Retail sales	% yoy	6.6	6.7			21-Feb
Wholesale sales	% yoy	5.1	10.1			21-Feb
Unemployment rate	%	3.6	3.8	3.0		24-Feb
Employees (social insurance)	% yoy	3.6				
Real wages per employee, manufacturing	% yoy	-2.0	-0.3			25-Feb
Budget balance, public sector	Pesos bn	-9.7	-0.1			4-Mar
Public domestic debt	Pesos bn	1078	1099			4-Mar
Public external debt	US\$ bn	78.5	79.0			4-Mar
Consumer prices	% yoy	5.4	5.4	5.2	4.5	9-Mar
Consumer prices	% mom	0.7	0.9	0.2	0.0	9-Mar
Treasury bills, Cetes 28d (latest: 02/08)	%	8.0	8.4	8.6	8.6	9.1
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	16960	17210	15957		23-Feb
Merchandise exports	% yoy	12.2	23.9	6.1		23-Feb
Merchandise imports	US\$ mn	17524	19037	18313		23-Feb
Merchandise imports	% yoy	11.4	29.6	14.0		23-Feb
Trade balance	US\$ mn	-564	-1827	-2356		23-Feb
Foreign exchange reserves	US\$ bn	60.9	63.7	64.2	61.8	
US\$ exchange rate (latest: 02/17)	Pesos	11.53	11.22	11.15	11.19	11.14
MEXICO: QUARTERLY INDICATORS		Q1 04	Q2 04	Q3 04	Q4 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	3.7	3.9	4.4	4.9	15-May
Private consumption	% yoy	3.7	5.4	5.7		16-Mar
Public consumption	% yoy	-0.3	-5.0	-4.9		16-Mar
Private and public investment	% yoy	2.9	-1.5	8.5		16-Mar
Exports (goods and services)	% yoy	10.4	14.4	12.1		16-Mar
Imports (goods and services)	% yoy	8.5	11.1	10.9		16-Mar
EXTERNAL SECTOR						
Current account balance	US\$ bn	-1.9	-0.5	-2.1		25-Feb
Net foreign direct investment	US\$ bn	7.4	2.5	2.6		25-Feb
Net foreign portfolio investment (incl. bonds)	US\$ bn	0.0	-2.6	5.7		25-Feb
Capital account **	US\$ bn	0.0	0.6	0.6		25-Feb
Change in foreign exchange reserves*	US\$ bn	-1.6	-0.1	1.5		25-Feb

* balance of payments, - = increase ** incl. residual items

PANAMA: TORRIJOS TARGETS REFORM COURSE

Area	77 082 sq. km
Population	3.1 million (+ 1.8 % p.a.)
State president	Martín Torrijos
Finance minister	Ricaurte Vásquez
President of Banco Nacional de Panamá	Juan Ricardo de Dianous
Next elections	State president: May 2009 Congress: May 2009
GDP per capita	US\$ 4 038 (2003)
Rating	Moody's: Ba1 S&P: BB



ANNUAL FIGURES AND FORECASTS

PANAMA		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	0.8	4.1	5.2	3.5	4.2
GDP	US\$ bn	12.2	12.6	13.7	14.4	15.0
Inflation (year-end)	%	2.0	1.0	3.0	2.2	2.8
Inflation (year-average)	%	1.0	1.6	2.5	2.3	2.5
Budget balance, public sector	% GDP	-2.7	-2.8	-5.0	-3.1	-2.4
Public sector debt	% GDP	69.7	71.2	70.0	69.5	69.2
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	5315	5051	6000	6300	6470
Merchandise imports	US\$ mn	6352	6143	7220	7800	8015
Trade balance	US\$ mn	-1037	-1092	-1220	-1500	-1545
Current account balance	US\$ mn	-92	-408	-426	-809	-683
Current account balance	% GDP	-0.8	-3.2	-3.1	-5.7	-4.6
Net foreign direct investment	US\$ mn	78	792	680	600	650
Foreign exchange reserves, year-end	US\$ mn	1183	1011	1090	1030	1010
Import cover *	months	1.6	1.3	1.4	1.5	1.4
US\$ exchange rate, year-end	balboa	1.0	1.0	1.0	1.0	1.0
US\$ exchange rate, average	balboa	1.0	1.0	1.0	1.0	1.0
FOREIGN DEBT						
Gross foreign debt	US\$ mn	8300	8650	9400	9800	10000
Foreign debt	% exports*	94	97	96	95	94
Short-term foreign debt	US\$ mn	1012	1050	1080	1100	1100
FINANCIAL MARKETS (year-end)						
Bond market yield spread (2005: 02/17)*	bp	444	335	275	270	
* EMBIG		*goods and services			e=estimate f=forecast	

Domestic policy: Forced consolidation

Backed by an absolute majority in parliament, president Martin Torrijos remains focused on the country's reform course. Apart from the measures already initiated last year, by means of which bureaucracy was to be dismantled and corruption reduced, the tax reform – the first major project – followed in January.

With the aid of the legislative initiatives enacted, which promise to generate US\$ 350 million in additional revenues, by the year 2007 the public sector's net new debt is to be reduced from a current level of 5% to 1% of GDP according to finance minister Ricaurte Vasquez. This measure was flanked by a massive job reduction planned for the public sector. By the year 2008, a total of 40,000 jobs are to be shed. At the moment, president Torrijos and his reform projects are benefiting from an extremely favorable economic and political situation. For instance, strong global trade culminated in the highest economic growth rate since 1992 (5.2%), and even though world trade is slowing down and despite the impacts of more restrictive fiscal policy, we still anticipate a solid 3.5% growth rate for 2005. According to the latest opinion polls, 70% of the population have assessed the president's track record as "good" to "excellent". The question as to what extent the consolidation course will be successful hinges to a decisive degree on the reform of the state social insurance fund CSS, which is meanwhile in the red to the tune of US\$ 3.5 billion. The legislative bill in this regard will probably be tabled in parliament at the end of March. This will show how firm the position of state president Torrijos has become, both in the party and among the population. Plans are under way e.g. to raise the retirement age, to cut the level of pensions and to reduce the assessment base for social benefits. Should the reform fail, however, then the chances of the Panama Canal being upgraded will decrease substantially since the project calls for massive state resources. In the event of a failure, Panama would continue to lose key market share in merchandise transportation to alternative routes. As regards the funding for the large-scale project, it will be of immense importance to demonstrate stability and reliability to international investors. For instance, Fitch holds out the promise of an upgrade of the country's long-term bonds if the reform process is successful.

External sector: current account deficit doubled

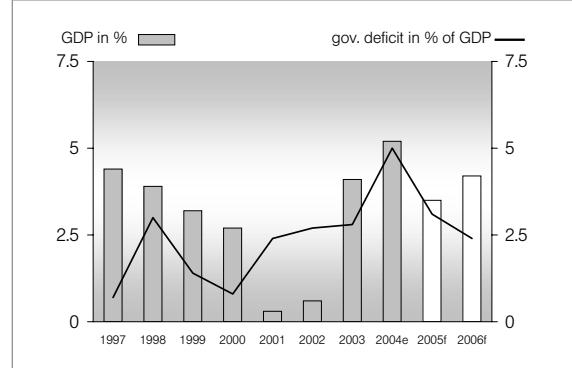
The structural current account deficit will almost double in 2005, from 3.1% of GDP to 5.7% GDP. While the trade deficit will rise from US\$ 1.2 billion to US\$ 1.5 billion, particularly due to worsening terms of trade (oil price), the surpluses in the services account will only see a moderate rise. However, this trend will be cushioned by a rising level of direct investments. In the long term, however, it will only be possible to eliminate the structural deficit if the large-scale canal upgrade project is realized, which will generate additional revenues.

Nils Kompe, Thorsten Ruelle (Miami) +1 305 810 3855

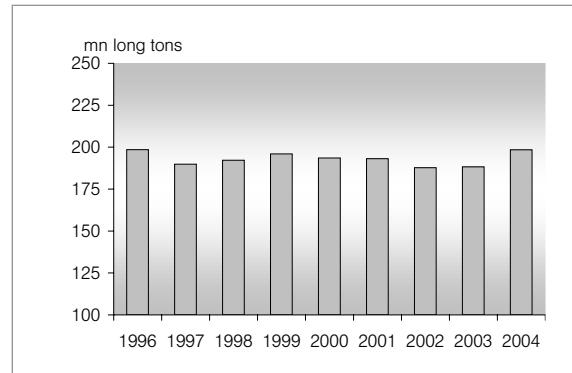
SUMMARY AND OUTLOOK

If Panama does not want to lose its central position in international trade, the country will need to tackle its large-scale canal upgrade project to the tune of US\$ 8 billion. To this end, however, a great deal more effort will be required than the past measures adopted to reduce corruption and dismantle bureaucracy. A first major step was the tax reform enacted in January. Yet Panama's future will only be decided by the restructuring of the highly indebted social insurance fund CSS scheduled for the middle of the year.

GDP CHANGE (REAL) & PUBLIC FINANCES



TURNOVER PANAMA CANAL



PERU: EXPORT BOOM

Area	1 285 215 sq. km
Population	27.1 million (+ 1.5 % p.a.)
State president	Alejandro Toledo Maurique
Finance minister	Pedro Pablo Kuczynski
Central bank president (acting)	Oscar Dancourt Masias
Next elections	State president: 2006 Congress: 2006
GDP per capita	US\$ 2 280 (2003)
Rating	Moody's: Ba3 S&P: BB



ANNUAL FIGURES AND FORECASTS

PERU		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	4.9	4.0	5.0	4.7	4.8
GDP	US\$ bn	56.9	60.9	67.8	76.1	62.0
Inflation (year-end)	%	1.5	1.8	3.5	3.0	2.5
Inflation (average)	%	0.2	2.2	3.7	2.8	2.1
Budget balance, public sector	% GDP	-2.3	-1.9	-1.3	-1.2	-1.0
Public debt	% GDP	47	48	46	41	50
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	7.7	9.0	12.2	12.9	13.5
Merchandise imports	US\$ bn	7.4	8.3	9.7	10.2	10.6
Trade balance	US\$ bn	0.3	0.7	2.6	2.7	2.9
Current account balance	US\$ bn	-1.2	-1.1	0.1	-0.1	0.0
Current account balance	% GDP	-2.1	-1.8	0.1	-0.1	0.0
Net foreign direct investment	US\$ bn	2.4	1.3	2.0	1.5	1.3
Foreign exchange reserves, year-end	US\$ bn	9.6	10.2	12.6	12.5	13.4
Import cover	months**	9.8	9.3	9.8	9.1	9.3
US\$ exchange rate, year-end	Soles	3.51	3.46	3.31	3.26	3.24
US\$ exchange rate, average	Soles	3.48	3.48	3.42	3.27	3.25
FOREIGN DEBT						
Gross foreign debt	US\$ bn	28.7	30.2	28.5	28.8	29.1
Foreign debt	% exports**	301	279	199	190	182
Short-term foreign debt	US\$ bn	6.0	2.7	2.8	3.0	3.1
Foreign debt amortization	US\$ bn	2.2	1.9	2.3	2.4	2.8
Foreign debt service	US\$ bn	3.8	3.3	3.7	3.8	4.2
Foreign debt service	% exports**	39.6	30.1	25.7	29.7	31.2

**goods and services

e=estimate f=forecast

Domestic policy: Toledo's populist side

President Toledo's government only enjoys the support of eight per cent of the population, and 59% even believe that he should resign. In view of the elections scheduled for next year, it is hardly surprising that the president is trying to regain popular support by means of a new social welfare program (ProPeru) intended to give the poorest of the population unbureaucratic assistance. The government denies that reasons are based on election tactics, arguing that the good public finance situation in 2004 had made a support program possible in the first place. The good budget situation is attributable above all to the finance minister who, in spite of unexpectedly high tax revenues, adhered to his strict austerity program, confining the budget deficit to probably 1.1% of GDP (0.3 percentage points below the limit agreed with the IMF). If the social welfare program ProPeru continues to be maintained, however, this will lead to additional government spending equivalent to 0.3% - 0.5% of GDP in 2005, and the government would fail to meet its target deficit of up to 1% of GDP (forecast: 1.2%).

Like most currencies in Latin America, the sol is also under appreciation pressure in relation to the US dollar. We anticipate that the central bank will continue to intervene on the forex markets to stop the sol from appreciating – as has already been the case in recent months.

Economic activity: exports as driving force

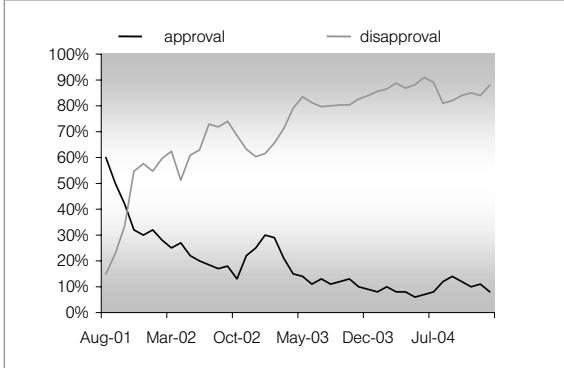
At the end of last year, a recovery in exports of agricultural and fishing products and an increase in textile and clothing exports contributed toward the fact that economic growth turned out surprisingly high at 5%. This year, slightly lower growth rates will have to be contended with, particularly in the second semester. Exports of textiles and clothing to the U.S. are likely to suffer substantial shortfalls following the end of the multi-fiber agreement (which, among other things, provided for a quota regulation for exports of Chinese textiles to the U.S. and has been abandoned since January). In addition, for the year as a whole we anticipate lower copper and metal prices on average than last year. Domestic demand, which rose by 4% last year, will only be able to partly offset these effects, which means that Peru's GDP this year will increase by 4.7%. Last year, the current account evened out thanks to the high level of exports, and we again anticipate a current account deficit for this year.

To secure trade with the U.S. on a sustained basis after rising by 84% since 2002 with the aid of bilateral agreements and meanwhile accounts for 29% of total exports, Peru is endeavoring to intensify negotiations for a free trade agreement between the Andean states (Colombia, Ecuador, Peru) and the U.S.; the agreement is to come into effect at the end of 2006.

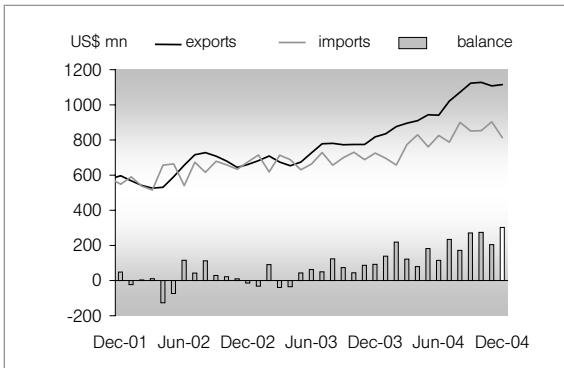
SUMMARY AND OUTLOOK

After the budget deficit in 2004 turned out lower than expected, with a sharp rise in exports leading to a high level of economic growth, the forecasts for this year are no longer quite as rosy, particularly in the second half of the year. Worsening global economic conditions will result in lower exports and more unfavorable terms of trade. The budget will also be burdened on account of additional spending by the weak and unpopular government, which will want to improve its position prior to the elections scheduled for April 2006.

POPULARITY PRESIDENT TOLEDO



TRADE BALANCE



Gabi Steck +49 40 3595 3486

TRINIDAD AND TOBAGO: HIGHLY DYNAMIC GROWTH

Area	5 124 sq. km
Population	1.3 million (+0.8 % p.a.)
State president	George Maxwell Richards
Prime and Finance minister	Patrick Manning
Central bank president	Ewart S. Williams
Next elections	State president: 2006 Congress: October 2007
GDP per capita	US\$ 7 700 (2003)
Rating	Moody's: Baa3 S&P: BBB



ANNUAL FIGURES AND FORECASTS

TRINIDAD AND TOBAGO		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	2.7	4.4	6.0	7.0	7.0
GDP	US\$ bn	9.3	10.0	11.0	12.4	13.8
Inflation (year-end)	%	4.3	3.5	4.5	4.8	4.0
Inflation (year-average)	%	4.2	3.8	4.0	4.7	4.4
Budget balance, public sector	% GDP	-0.3	1.5	0.6	0.4	0.5
Public sector debt	% GDP	35	31	28	24	22
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	3.92	5.00	7.00	7.60	7.80
Merchandise imports	US\$ bn	3.68	3.90	4.50	4.70	5.00
Trade balance	US\$ bn	0.24	1.10	2.50	2.90	2.80
Current account balance	US\$ bn	0.05	0.90	2.00	2.30	2.87
Current account balance	% GDP	0.5	9.0	18.1	18.6	20.8
Net foreign direct investment	US\$ bn	0.69	0.43	0.45	0.40	0.85
Foreign exchange reserves, year-end	US\$ bn	2.03	2.45	2.90	3.30	3.50
Import cover *	months	5.3	6.0	5.9	6.3	7.1
US\$ exchange rate, year-end	TT\$	6.30	6.29	6.29	6.29	6.29
US\$ exchange rate, average	TT\$	6.25	6.30	6.29	6.29	6.29
FOREIGN DEBT						
Gross foreign debt	US\$ bn	4.8	5.3	5.4	5.4	5.5
Foreign debt	% exports*	105	92	69	64	51
Short-term foreign debt	US\$ bn	2.0	2.4	2.6	2.7	2.7
Foreign debt amortization	US\$ bn	0.07	0.08	0.39	0.09	0.23
Foreign debt service	US\$ bn	0.27	0.23	0.54	0.27	0.50
Foreign debt service	% exports*	5.9	4.0	6.9	3.2	5.7

* goods and services

e=estimate f=forecast

Domestic policy: general conditions favorable

The government of prime minister Patrick Manning is benefiting from the highly positive international conditions for the country at present. It is also taking advantage of the favorable situation to target the prevention of serious crime, which has risen sharply, destroying a great deal of confidence among the population. Despite the associated increase in spending and the fact that part of public-sector revenues is being channeled into a stabilization fund created in the year 2000, the funds of which (currently in the region of US\$ 500 million) are being kept for times of lower energy prices, the government managed to generate a surplus amounting to 0.6% of GDP in the budget year October 2003/September 2004. In the current fiscal year, we anticipate a balanced budget even if further allocations are made to the equalization fund. The associated decline in relative public debt is likely to underscore the country's "investment grade" rating.

Due to the favorable external conditions, GDP (which has risen for a solid ten years now) is likely to rise by 6% this year. Dynamic trends in the energy and petrochemical sectors, the fact that the level of interest rates has decreased and that investment activity of domestic and foreign corporations is continuing should lay the foundations to enable the economy to experience further robust growth in years to come. Since the TT\$ will presumably remain stable in relation to the US dollar, we anticipate that the central bank will manage to keep the inflation rate (October 2004: 4.3% year-on-year) below 5% p.a.

External sector: high surpluses

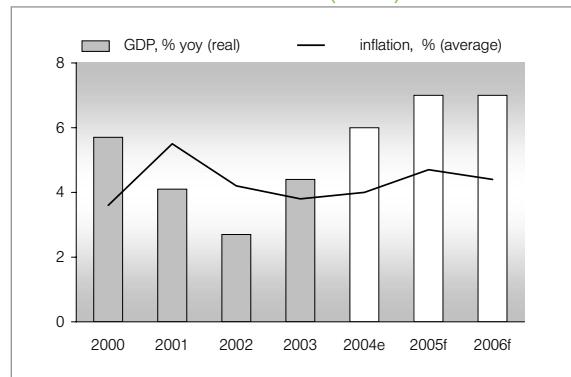
Crude oil and natural gas as well as petrochemical products account for approx 80% of exports. Since these products in particular are fetching high prices on the world market at present, export revenues in 2004 are likely to have seen a further sharp increase compared with 2003. Accordingly, a record trade surplus is anticipated, even if imports have likewise seen a fairly substantial rise as a result of major investment projects in the crude oil and petrochemicals sectors. On the other hand, the current account surplus is not assumed to have grown to the same extent because the economic sectors referred to above also repatriate higher amounts by way of profit to their foreign owners. Nevertheless, we anticipate a very high current account surplus of US\$ 2 billion for last year (18% of GDP). Since the capital account is also likely to have recorded a positive balance in the wake of high investment inflows, among other factors, we estimate that the level of foreign currency reserves has increased by approx. US\$ 0.5 billion, to about US\$ 2.9 billion (equivalent to 6 months' import cover). The trend this year is likely to be similarly favorable, with a slight decline in energy prices probably being offset by a further increase in the liquefied gas output in consequence of brisk investment activity.

Thomas Pohl +49 40 3595 3481

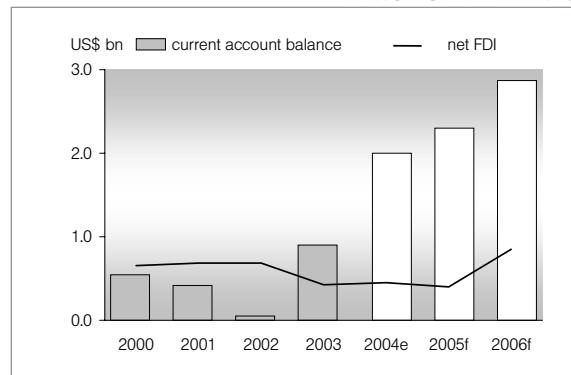
SUMMARY AND OUTLOOK

International conditions are favorable for Trinidad and Tobago: high crude oil and natural gas prices are leading to exceptionally high public-sector revenues and, together with the low level of international interest rates, are channeling extensive international investments into the national oil sector. We expect this trend to continue, which means that economic growth should remain dynamic, the level of public debt should be further reduced and the country's "investment grade" rating confirmed.

GDP CHANGE (REAL) AND INFLATION



BALANCE OF PAYMENTS



VENEZUELA: GOVERNMENT TIGHTENING THE REIGNS

Area	912 050 sq. km
Population	25.7 million (+ 1.9 % p.a.)
State president	Hugo Chávez Frías
Finance minister	Tobías Nóbrega
Central bank president	Gastón Luis Parra Luzardo
Next elections	State president: December 2006 Parliament: July 2005
GDP per capita	US\$ 3 170 (2003)
Investment	14 % of GDP (2003)
Savings	24 % of GDP (2003)
Exchange rate system	Fixed exchange rate
Monetary policy	Heterodox, with price controls
Exports of goods (2003)	31 % of GDP
Purchasing countries	USA 50 %, EU 6 %, Colombia 3 %
Products	Crude oil 81 %
Imports of goods (2003)	13 % of GDP
Supplier countries	USA 26 %, EU 19%, Colombia 10 %
Products	Primary goods 29 %, Capital goods 22 %
Rating	Moody's: B2 S&P: SD



SUMMARY AND OUTLOOK

In recent weeks, not only has the government radicalized its rhetoric; it has also increasingly been following up its words with actions. For instance, a comprehensive review was announced for all government agreements with foreign contractors, and interventions have already taken place concerning privately owned land with a view to investigating whether it was being put to "productive use", according to the official announcement. Political control of this action being taken by the government is not in sight as the opposition remains weak and institutions of state are increasingly being brought under the direct control of the government. While the oil sector (which is of vital importance for the economy and public finances) has not been affected by the government's radicalized policy course in the past, the level of economic growth will weaken significantly in the course of the year. In these circumstances, we anticipate an adjustment to the official exchange rate as early as the first quarter as this will be the only way in which the government's expansionary fiscal policy course will be capable of being financed.

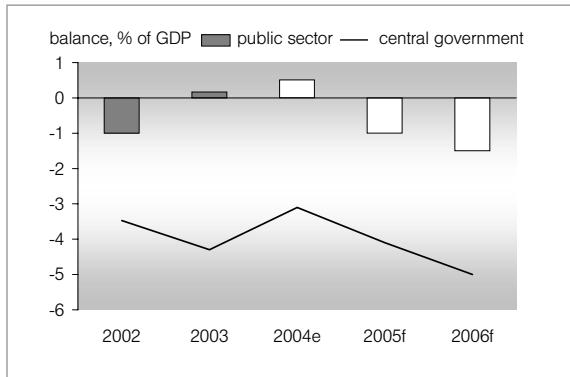
ANNUAL FIGURES AND FORECASTS

VENEZUELA		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	-8.9	-7.7	17.3	6.0	4.0
GDP	US\$ bn	95.2	85.5	104.0	115.5	122.7
Inflation (year-end)	%	31.2	27.1	19.2	17.2	15.7
Inflation (average)	%	22.4	31.1	21.7	17.6	15.4
PUBLIC SECTOR						
Budget balance, central government	% GDP	-3.5	-2.2	-2.1	-4.1	-5.0
Budget balance, public sector	% GDP	-1.0	0.2	0.5	-1.0	-1.5
Public debt	% GDP	42.4	45.0	34.0	32.1	29.8
Amortization	US\$ bn	7.3	10.8	9.0	7.3	6.4
Gross financing needs	US\$ bn	8.2	10.7	8.5	8.5	24.0
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	26.8	27.2	39.4	37.7	33.3
Merchandise imports	US\$ bn	13.4	10.7	17.3	18.3	19.6
Trade balance	US\$ bn	13.4	16.5	22.1	19.4	13.7
Current account balance	US\$ bn	8.0	11.2	14.6	11.6	5.7
Current account balance	% GDP	8.4	13.1	14.0	10.1	4.7
Net direct investment	US\$ bn	-0.3	1.4	1.3	2.5	2.4
Foreign exchange reserves, year-end **	US\$ bn	11.4	16.7	19.1	21.1	20.1
Import cover **) ***	months	6.5	10.9	9.0	9.1	8.5
US\$ exchange rate, year-end	Bolívar	1387	1598	1918	2200	2400
US\$ exchange rate, average	Bolívar	1160	1611	1885	2118	2392
FOREIGN DEBT						
Gross foreign debt	US\$ bn	34.1	35.1	32.3	32.8	32.5
Foreign debt	% exports ***	116	125	83	92	96
Short-term foreign debt	US\$ bn	3.5	3.0	3.1	3.4	3.6
Foreign debt amortization	US\$ bn	2.9	5.4	5.3	2.7	3.0
Foreign debt service	US\$ bn	4.9	7.9	8.3	5.3	5.5
Foreign debt service	% exports ***	17	28	21	15	16
FINANCIAL MARKETS (year-end)						
Deposit rate, 90 days	%	26.1	14.2	14.5	11.0	10.0
ICB stock index (Bolívar based, 2005: 02/17)		8015	22204	29952	30052	
IFCG stock index (US\$ based, 2005: 02/17)		159	182	274	266	
Bond market yield spread (2005: 02/17)*	bp	1127	469	412	449	

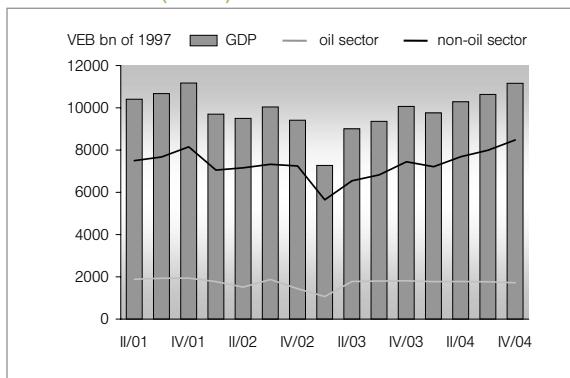
* EMBI+ ** Central bank and FEM, without Gold *** goods and services

e=expected; f=forecast

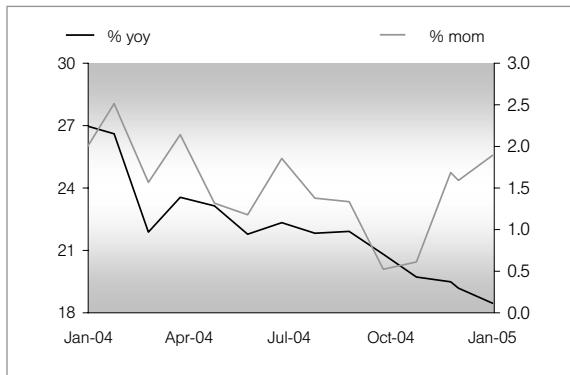
PUBLIC FINANCES



GDP CHANGE (REAL)



INFLATION



Domestic policy: Chávez pushing revolution

In recent weeks, the government has radicalized its policy course; for one thing, investigations of large estates of land were intensified - apparently in order to establish whether they are being put to "productive use" - and at the beginning of February the benchmark figures for classifying land as large-scale estates were lowered. These investigations are highly prone to bureaucratic and political arbitrariness, and the objective of boosting productivity and equality of opportunity in rural areas is likely to remain out of reach in deploying measures of this kind. In addition, the government has announced that it plans to review all contracts with foreign companies in the non-oil sector to establish whether they are "in conformity with the country's interests". This is also likely to impair the investment climate on a sustained basis. No checks and balances of note are expected to result with regard to these measures since the political opposition remains divided and the country's institutions are increasingly being brought under the direct influence of the government. This situation is expected to escalate following the congressional elections in July since the high level of public-sector revenues is likely to lead to the highly popular social programs being continued, with the opposition failing to offer a credible alternative to the government's policy.

Fiscal policy: strong growth in expenditure

According to the central bank, spending on the part of the central government increased by approx. 60% last year. This was facilitated by growing state revenues (+63%) resulting both from rising oil revenues and from a robust increase in non-oil revenues due to a higher level of economic activity. For the year as a whole, the central government's budget deficit amounted to 2% of GDP. In the current year, due to a less copious inflow of revenues – economic growth is slowing down significantly and the oil price likely to fall slightly on average – the government is likely to curb its expansionary fiscal policy slightly. On balance, however, the budget deficit will rise to 4.1% of GDP. Moreover, the government is pushing forward its practice of operating ancillary budgets for social welfare programs. In the past, the central bank has put up resistance to this policy. This is likely to change in future since the new central bank president, Parra, is closer to the government than his predecessor, Castellanos. On the whole, fiscal policy is characterized not only by substantial lack of transparency but also by a very pro-cyclical spending attitude. A sustained budget policy, in contrast, would call for part of the currently very high oil revenues to be set aside for times of lower oil prices or invested in sustained activities instead.

The confusion on the international financial markets at the beginning of the year concerning the question whether the government had to make payments on an oil-indexed bond issue caused a great deal of irritation. The rating agency S&P came to the conclusion that the government was in delay with its obligations and subsequently lowered the rating of public-sector bonds denominated in foreign currency to 'selective default'. The government declared that the assessment of the rating agency was based on a computation error and that no payment was therefore due, but nevertheless announced an audit by an international auditing company. Even though the amount in dispute is very low at approx. US\$ 35 million, and we anticipate the situation to be resolved soon, followed by an upgrade by S&P, this incident casts an unfavorable light on the quality of the country's debt management system.

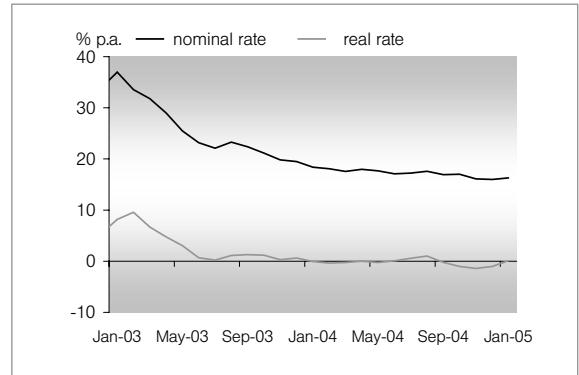
Domestic policy: recovery yes, but no growth

In the fourth quarter, GDP expanded as expected, by 11.2%, with the sharp rise in government spending funded by oil revenues representing the driving force. While the oil sector shrank quite significantly (-5.9%, year-on-year), production in the non-oil sector increased by 14%. In the year as a whole, the level of growth came to 17.3%; this was particularly due to the very low basis of comparison at the beginning of the year. In the current fiscal year, we anticipate a substantial slowdown in growth. The fiscal impetus will turn out weaker than last year, and the country's dirigistic economic policy will impede the flow of urgently needed investments in the non-oil sector. While we expect private companies to invest in the oil sector, the very much more significant state-owned oil company PDVSA will presumably be able to keep its production stable at best. The required know-how is lacking because numerous dismissals followed in the aftermath of the general strike in 2003, and due to government interventions the funding actually needed for investment purposes is being diverted to the government's ancillary budgets. On the whole, we anticipate a GDP growth rate of 6% for 2005.

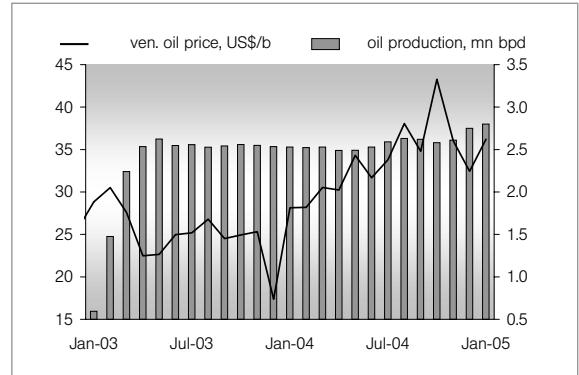
Monetary sector: decline in inflation rate weakening

The increase in consumer has accelerated substantially in recent months (January: +1.9%, month-on-month). For one thing, this is attributable to adjustments made to administered prices, resulting from an imminent scarcity of commodities; for another, the fairly significant depreciation on the bolívar on the parallel market is also responsible for this. Importers of non-“essential” products, such as high-value consumer goods, need to cover their foreign-currency needs on this market, with a weaker bolívar immediately tending to push prices higher.

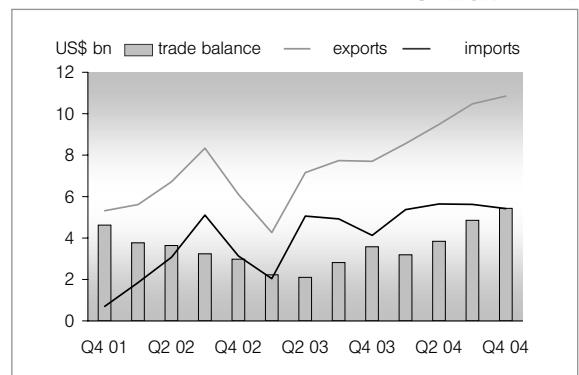
LENDING RATES



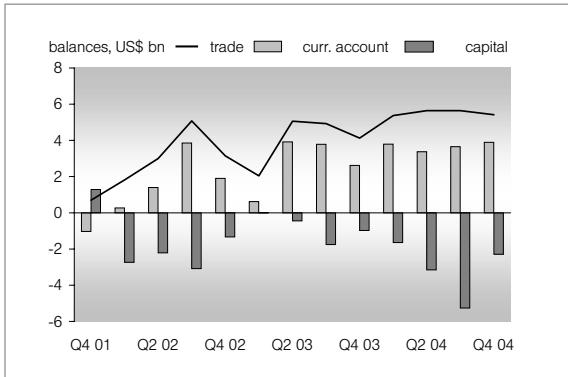
OIL PRICE AND PRODUCTION



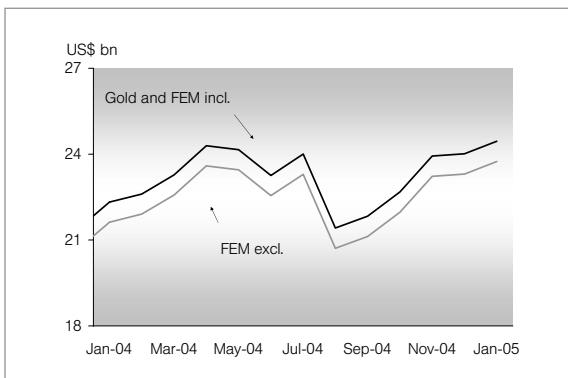
FOREIGN TRADE



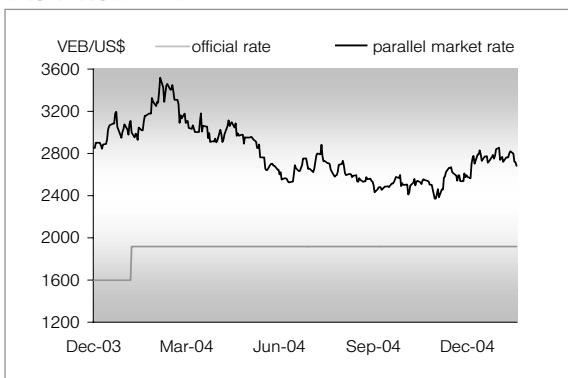
BALANCE OF PAYMENTS



FOREIGN EXCHANGE RESERVES



EXCHANGE RATE



However, the substantial volume of foreign currency still being provided by the exchange control authority Cadivi for urgently needed imports and the ongoing process of price regulation should restrict the upward pressure on prices, with the inflation rate likely to decline to roughly 18% in 2005 on average.

External sector: slowing foreign currency reserve growth

In the fourth quarter of 2004, the current account surplus, at just under US\$ 4 billion, turned out slightly higher than in the preceding quarters. Compared with the previous quarter, the positive trade balance figure declined slightly in spite of higher oil prices; this was due to a sharp increase in imports which, in turn, was more than offset as profit repatriations abroad were reduced by half. In 2004 as a whole, the current account surplus grew by roughly one third, to reach US\$ 14.6 billion. In the current year, we anticipate a decline in the current account surplus, to approx. 10% of GDP, in the wake of a slightly decreasing trade surplus. We expect a high deficit in the capital account even though controls on capital movements are continuing; this is because an outflow of foreign currency is likely in connection with a reduction of foreign debt and an increase in deposits with foreign banks. In these circumstances, we anticipate only an insignificant increase in foreign currency reserves in the present fiscal year. The macro-economic stabilization fund FEM which, in terms of the existing legal framework, is actually intended to help set up reserves for times of low oil prices, is unlikely to be replenished any further in the current year. At present, the government is working on reforming the provisions in order to ratify its conduct *ex post facto*.

Exchange rate: when will we see a devaluation?

In recent weeks, speculation has increased that the government would adjust the official exchange rate – last year, it took advantage of the long carnival weekend to implement such a move. The political idea behind a possible devaluation might be that this will cause public-sector revenues from oil exports in national currency to increase. In response to expectations of a devaluation, the bolívar shed a great deal of its value on the parallel market, trading at 2800 VEB/US\$ in mid-February. We anticipate an adjustment to the official exchange rate in the forthcoming weeks, even though the new central bank president, Parra, is skeptical about a devaluation and inflationary pressure in recent months has been high.

Thomas Pohl +49 40 3595 3481

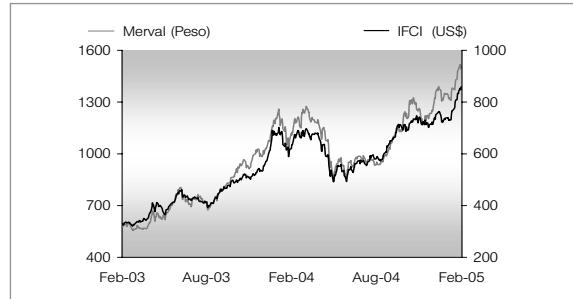
MONTHLY AND QUARTERLY FIGURES

VENEZUELA: MONTHLY INDICATORS		Oct-04	Nov-04	Dec-04	Jan-05	next/latest
DOMESTIC ECONOMY						
Industrial production (private sector)	% yoy	14.6	23.1			Mar 5-10
Car sales	% yoy	120.8	128.3	130.2	56.3	Mar 5-10
Retail sales	% yoy	26.9	26.7			Mar 5-10
Wholesale sales	% yoy	5.0	20.5			Mar 5-10
Crude oil production	1000 bpd	2580	2610	2750	2800	16-Mar
Unemployment rate	%	13.7	12.8	10.9		28-Feb
Consumer prices	% yoy	19.7	19.5	19.2	18.5	1-Mar
Consumer prices	% mom	0.6	1.7	1.6	1.9	1-Mar
Producer prices	% yoy	27.4	27.6	26.9	25.9	1-Mar
Producer prices	% mom	1.1	1.4	0.7	1.0	1-Mar
Money supply M2 *	% yoy	48.4	47.4			16-Mar
Lending rate (monthly average and 02/11)*	%	17.0	16.1	16.0	16.3	15.3
Deposit rate (monthly average and 02/11)*	%	13.0	12.9	14.5	13.6	12.9
Interbank interest rate (month-average)*	%	7.5	4.0	7.2	0.4	3-Mar
Credit volume *	% yoy	123.2	115.8	124.5		21-Mar
Deposits *	% yoy	35.9	40.9	51.7		21-Mar
EXTERNAL SECTOR						
Oil price (Venezuelan exports, latest: 02/11)	US\$/barrel	43.3	36.0	32.4	36.2	35.5
Oil price (Venezuelan exports, latest: 02/11)	% yoy	74	42	19	29	34
Foreign exchange reserves (CB, latest: 02/17)****	US\$ bn	16.7	17.7	18.4	19.1	18.9
Forex reserves (FEM**; latest: 02/17)*	US\$ bn	0.7	0.7	0.7	0.7	0.7
US\$ exchange rate (latest: 02/17)*	Bolívar	1917.6	1917.6	1917.6	1917.6	1917.6
VENEZUELA: QUARTERLY INDICATORS		Q1 04	Q2 04	Q3 04	Q4 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	34.0	14.0	14.1	11.2	19-May
GDP, private sector	% yoy	30.6	17.5	16.6	12.3	19-May
GDP, public sector	% yoy	28.8	5.7	7.8	6.3	19-May
Oil sector	% yoy	64.7	0.6	-1.9	-5.9	19-May
Manufacturing industry	% yoy	50.9	25.2	18.2	15.6	19-May
Financial services	% yoy	32.1	30.6	25.9	19.8	19-May
Commerce	% yoy	33.5	25.2	22.0	23.1	19-May
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	8.56	9.47	10.50	10.85	19-May
Exports of oil and derivatives	US\$ bn	7.11	7.95	8.65	8.83	19-May
Merchandise imports	US\$ bn	3.19	3.84	4.86	5.43	19-May
Trade balance	US\$ bn	5.37	5.63	5.64	5.42	19-May
Current account balance balance	US\$ bn	3.67	3.37	3.65	3.89	19-May
Net foreign direct investment	US\$ bn	0.20	0.40	0.01	0.69	19-May
Portfolio investment	US\$ bn	0.46	0.28	-2.77	-0.21	19-May
Capital account***	US\$ bn	-1.99	-3.15	-5.26	-2.29	19-May
Change in foreign exchange reserves (C.B.)#	US\$ bn	0.00	-0.22	1.61	-1.60	19-May
Change in foreign exchange reserves (FEM)**#	US\$ bn	0.00	0.00	0.00	0.00	19-May

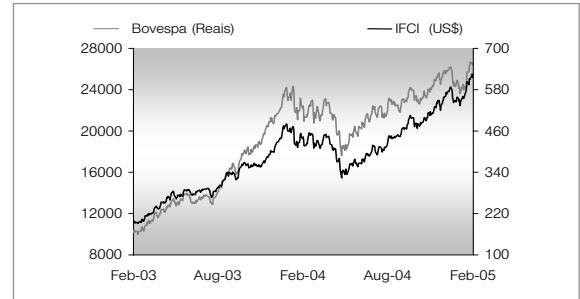
*month-end **macroeconomic stabilization fund *** incl. residual items **** Gold excluded (latest: US\$ 5.1bn) # - = increase

FINANCIAL MARKETS: LATIN AMERICAN STOCK MARKET INDICES

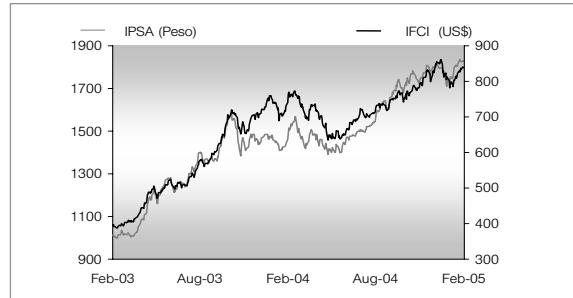
ARGENTINA



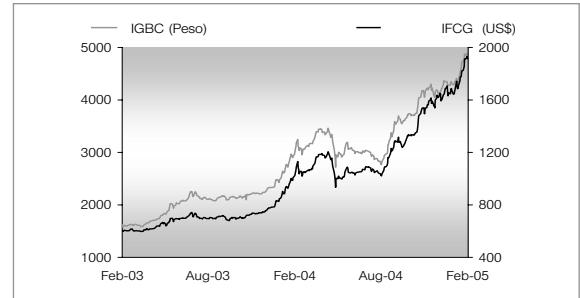
BRAZIL



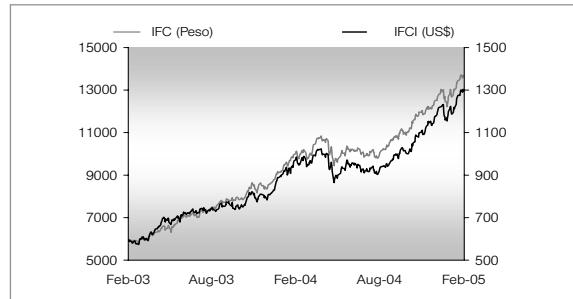
CHILE



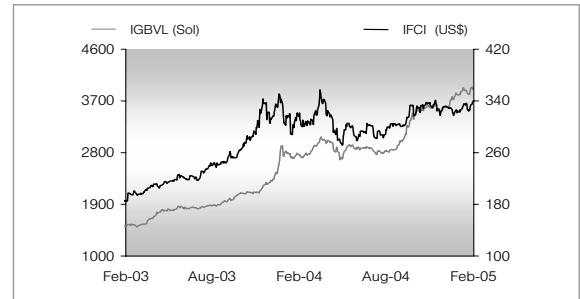
COLOMBIA



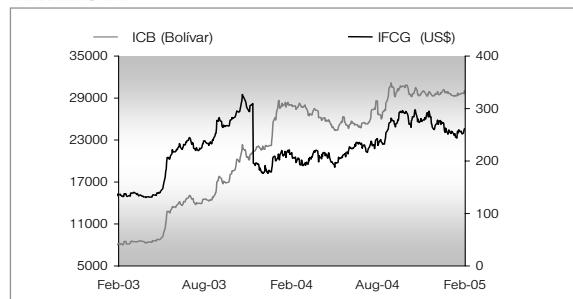
MEXICO



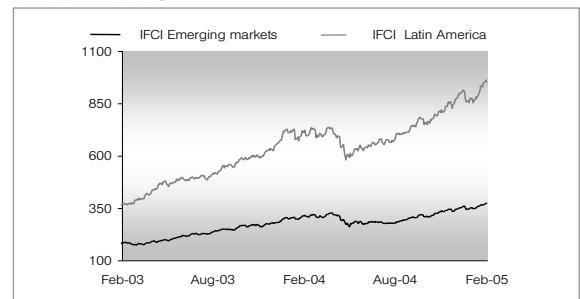
PERU



VENEZUELA

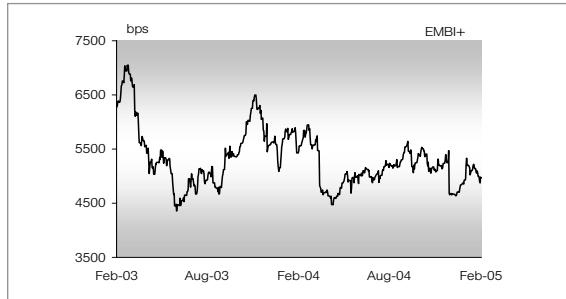


LATIN AMERICA

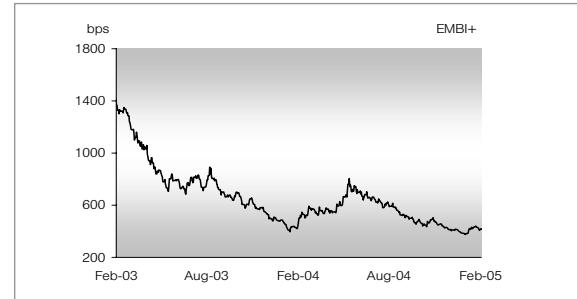


FINANCIAL MARKETS: LATIN AMERICAN BOND YIELD SPREADS

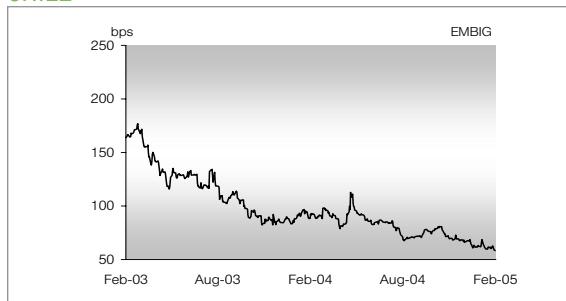
ARGENTINA



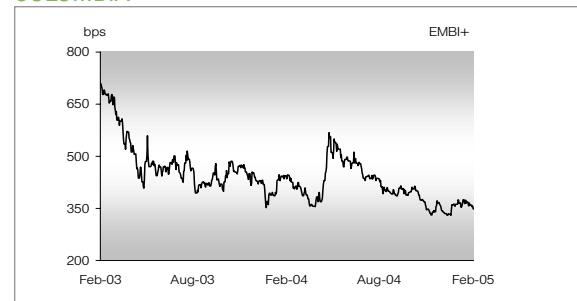
BRAZIL



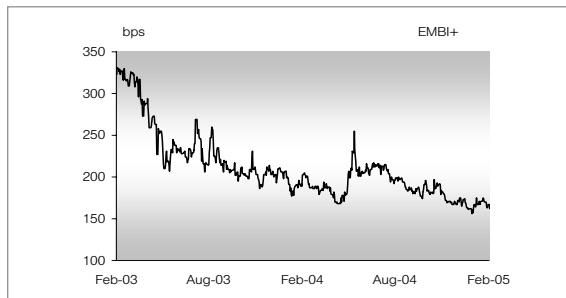
CHILE



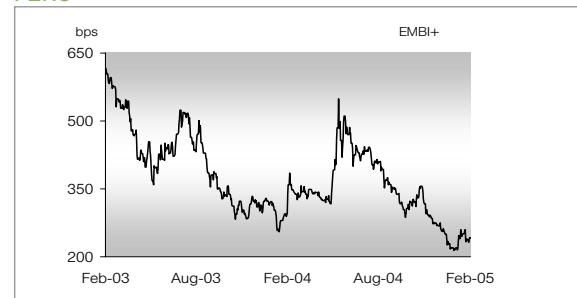
COLOMBIA



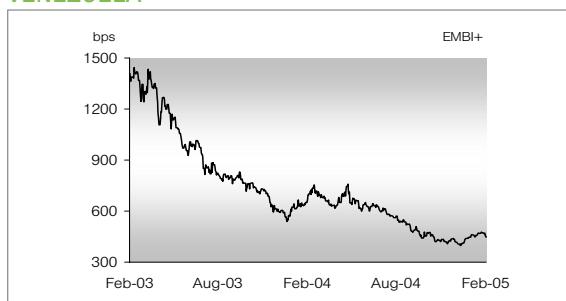
MEXICO



PERU



VENEZUELA



LATIN AMERICA



DBLA - OVERVIEW

Chairman of the Supervisory Board:

Jan Eric Kvarnström

Board of Managing Directors:

Wolfgang Dambmann, Chairman
H. Michael Blum
Richard Voswinckel

Head Office:

Neuer Jungfernstieg 16
20354 Hamburg, Germany
Postfach 30 12 46, 20305 Hamburg

Tel.: (+49 40) 3595-0
Fax: (+49 40) 3595 3314
Telex: 41524-140 dr d
S.W.I.F.T. DRES DE HL
<http://www.dbla.com>

Corporate & Correspondent Banking:

Karsten Reinhard, Hamburg
Tel.: (+49 40) 3595 3473
Fax: (+49 40) 3595 3077

Global Markets:

Wolfgang-Peter von Tronchin
Tel.: (+49 40) 3595 1550
Fax: (+49 40) 3595 3644

Private Banking International - The Americas

Bernd Bertram, Hamburg
Tel.: (+49 40) 3595 3231
Fax: (+49 40) 3595 3868

ARGENTINA:

Representative Office Buenos Aires
(for Argentina, Paraguay and Uruguay)

Torre Alem Plaza
Avenida Leandro N. Alem 855, piso 22
C1001AAD Buenos Aires
Casilla 574, C1000WAF Buenos Aires
Tel.: (+54 11) 4590 7900
Fax: (+54 11) 4590 7910
E-Mail: Buenos-Aires@dbla.com
Country Manager and Regional Representative:
Christian Grimm
Country Manager: Susana Serreck

BRAZIL:

Dresdner Bank Brasil
Dresdner Bank Lateinamerika AG, São Paulo Branch
Dresdner Bank Brasil S.A. Banco Múltiplo

São Paulo:

Centro Empresarial Transatlântico
Rua Verbo Divino, 1488 - 1º e 2º andares
Chácara Santo Antônio
04719-904 São Paulo-SP
Caixa Postal 3641, 01060-970 São Paulo-SP
Tel.: (+55 11) 5188 6700
Fax: (+55 11) 5188 6900
Telex: 11 53 207 dbla br, 11 53 208 dbla br
S.W.I.F.T. DRES BR SP, DBBM BR SP
E-Mail: Sao-Paulo@dbla.com
Management: Martin Duisberg
Luciano Fantin
André Weber

Correspondent Banking: Klaus vom Bauer
Tel.: (+55 11) 5188 6982
Fax: (+55 11) 5188 6980
E-Mail: Klaus.Bauer@dbla.com

Corporate Banking: Ricardo Cohen
Tel.: (+55 11) 5188 6711
Fax: (+55 11) 5188 6710
E-Mail: Ricardo.Cohen@dbla.com

Corporate Banking São Paulo:

Maria do Carmo C.A. Silva
Tel.: (+55 11) 5188 6717
Fax: (+55 11) 5188 6710
E-Mail: Maria.Altenfelder@dbla.com

Corporate Banking São Paulo (State):

Nelson Torres
Tel.: (+55 11) 5188 6714
Fax: (+55 11) 5188 6710
E-Mail: Nelson.Torres@dbla.com

Belo Horizonte

Rua Paraíba, 1000 - 6º andar
Edifício Asamar
30130-141 Belo Horizonte-MG
Tel.: (+55 31) 3261 7737
Fax: (+55 31) 3261 3667
E-Mail: Lucio.Vieira@dbla.com
Corporate Banking: Lúcio Antônio Vieira

Curitiba

Edifício Curitiba Trade
Av. Dr. Carlos de Carvalho, 417 - 13º andar
sala 1303, Centro
80410-180 Curitiba-PR
Tel.: (+55 41) 324 4221
Fax: (+55 41) 324 4697
E-Mail: Sao-Paulo@dbla.com

CAYMAN ISLANDS:

Grand Cayman Branch

Anderson Square Building
P.O. Box 714 GT
Grand Cayman, Cayman Is., B.W.I.
Tel.: (+1 345) 949 8888
Fax: (+1 345) 949 8899
Telex: 4 285 dl cp
S.W.I.F.T. DRES KY KX
E-Mail: Grand-Cayman@dbla.com
Management: Bor A. van der Weerden
Senior Trust Manager: Roy Towne

CHILE:

REPRESENTATIVE OFFICE Santiago de Chile (for Bolivia, Chile and Peru)

Avda. Apoquindo 3650, of. 802
Las Condes
Santiago de Chile
Tel.: (+56 2) 230 2900
Fax: (+56 2) 230 2999
E-Mail: Santiago@dbla.com
Country Manager and Regional Representative:
Bernhard Kaeser
Country Manager and Assistant Representative:
Marco Baff

COLOMBIA:

COLombIA
Representative Office Bogotá, D.C.
(for Colombia, Ecuador, Venezuela and Trinidad & Tobago)

Calle 100 No. 7-33, Oficina 1802
Edificio Capital Tower - Torre 1
Bogotá, D.C.
Apartado Aéreo 59303, Bogotá, D.C. 2
Tel.: (+57 1) 655 6990, 524 7868
Fax: (+57 1) 524 7907, 524 7881
E-Mail: Bogota@dbla.com
Country Manager and Regional Representative:
Stefan Zurawka
Country Manager and Assistant Representatives:
Jesús A. Vaca Murcia
Marc Czabanski

GUATEMALA:

Representative Office Guatemala (for Centralamerica and Caribbean)

5a Avenida 15-45, zona 10
Edificio Centro Empresarial
Torre II, 10° piso, Of. 1001
01010 Guatemala
Apartado 57-F, 01901 Guatemala
Tel.: (+502) 2333 7205, 2333 7211
Fax: (+502) 2333 7208, 2363 2556
E-Mail: Guatemala@dbla.com
Senior Country Manager and Regional Representative:
Thomas Spang
Country Manager and Assistant Representatives:
Bertram Heyd
Christian Novy
Horacio Vivas
Zenobia de Fuentes
(based in Panama)
Country Managers:
Mathias Göhe
Kai Kailuweit

MEXICO:

REPRESENTATIVE OFFICE MÉXICO, D.F.

Bosque de Alisos 47-B, 4º piso
Col. Bosques de las Lomas
05120 México, D.F.
Tel.: (52 55) 5258 3170
Fax: (52 55) 5258 3199
E-Mail: Mexico@dbla.com
Senior Country Manager and Regional Representative:
Christian Sommerhalder
Senior Country Manager and Assistant Representative:
Rainer Hensel
Country Manager and Assistant Representatives:
John Viallt
Sören Kruse
Senior Country Manager: Stephen Lloyd
Country Manager: Florian Fischer

PANAMA:

Panama Branch

Torre Dresdner Bank
Calle 50 y Calle 55 Este
Panamá 7, R.P.
Apartado 5400, Panamá 5, R.P.
Tel.: (+507) 206 8100
Fax: (+507) 206 8109
Telex: 3 106 dl pg, 2 244 dl pg, 2 420 dl pg
S.W.I.F.T. DRES PA PA
E-Mail: Panama@dbla.com
Management: Henning Hoffmeyer
Personal Banking: Corinna Wild

USA:

Dresdner Lateinamerika Financial Advisors LLC (DLFA)

801 Brickell Avenue, 7th floor
Miami, Florida 33131/USA
P.O. Box 310310, Miami, Florida 33231-0310/USA
Tel.: (+1 305) 379 1400
Fax: (+1 305) 810 3750
E-Mail: info@dlfa.com
Executive Management: Jacobo Gadala-María (CEO)
Nicolás Bergengruen
Private Banking: Thomas Goessele
Professional Clients: Guillermo Argumedo
Operations: Noemí Schaefer
Investments: Hans Abate

Should you have any further questions, please contact:

Dresdner Bank Lateinamerika AG
Public Relations
Neuer Jungfernstieg 16
20354 Hamburg
Tel.: (+49 40) 3595 3491/3496
Fax: (+49 40) 3595 3071
E-Mail: public-relations@dbla.com

PUBLISHED BY:

Dresdner Bank Lateinamerika AG
Neuer Jungfernstieg 16
20354 Hamburg/Germany

Economics/Public Relations Dept.
Chief economist: Dr. Heinz Mewes
Editor: Dr. Cyrus de la Rubia, Thorsten Rülle (Miami), Walter Schäfer
Tel.: (+49 40) 3595 3494
Fax: (+49 40) 3595 3497
E-Mail: economics@dbla.com
<http://www.dbla.de>

Technical management: Thomas Pohl
Translation: bromberg & friends GbR, Hamburg
Data sources, among others: Thomson Financial Datastream and Bloomberg
Layout: Friederike Niemeyer, Hamburg
Closing date: February 18, 2005

“Latin American Spotlight“ is published on a quarterly basis in German and English. Annual subscriptions are available for the full series of publications (195,- euros). Should you have any further questions about our publications or our distribution service, please do not hesitate to call (+49 40 3595 3496) or send us an e-mail (publications@dbla.com).

Without any liability on our part. Reprints - in part or in whole - only with permission of the publisher.

The information contained in this issue has been carefully researched and examined by Dresdner Bank Lateinamerika AG or reliable third parties. But neither Dresdner Bank Lateinamerika AG nor such third parties can assume any liability for the accuracy, completeness and up-to-datedness of this information. The authors' opinions are not necessarily those of Dresdner Bank Lateinamerika. Statements do not constitute any offer or recommendation of certain investments, even of individual issuers and securities are mentioned. Information given in this issue is no substitute for specific investment advice based on the situation of the individual investor. For personalized investment advice please contact your Dresdner Bank Lateinamerika branch.

GLOBAL ECONOMY - FIGURES AND FORECASTS

		2003	2004e	2/17/05	2005f	2006f
REAL GDP CHANGE *						
Industrialized countries	% yoy	2.1	3.2		2.2	2.6
USA	% yoy	3.0	4.4		3.0	3.2
Euro area	% yoy	0.5	1.8		1.8	2.2
Germany	% yoy	-0.1	1.7		1.4	2.0
Japan	% yoy	2.4	2.0		1.0	1.7
INTEREST RATES, YEARLY AVERAGE*						
USA, 3m money market rate	%	1.2	1.7	2.8	3.1	4.0
USA, 10yr government bond yield	%	3.9	4.2	4.2	4.9	5.5
Euro area, 3m money market rate	%	2.3	2.1	2.1	2.4	2.8
Euro area, 10yr gov. bond yield	%	4.1	4.1	3.6	4.0	4.6
Japan, 3m money market rate	%	0.1	0.1	0.1	0.1	0.1
Japan, 10yr government bond yield	%	1.0	1.5	1.4	1.6	2.0
EXCHANGE RATES, YEARLY AVERAGE *						
US\$/ Euro	US\$	1.13	1.24	1.31	1.4	1.3
Yen/ US\$	YEN	116	108	106	101	103
Yen/ Euro	YEN	131	134	138	138	135
COMMODITY PRICES, YEARLY AVERAGE						
Coffee (other milds)	c/lb, NY	64	79	126	95	90
Soybeans	c/bushel	627	750	531	550	500
Copper	c/lb, LME	81	130	148	120	110
Crude oil (WTI)	US\$/b	31	42	48	40	37
Crude oil (Brent)	US\$/b	29	39	46	37	34
Gold	US\$/ounce	364	405	427	440	450

* Source: Dresdner Bank AG

e=estimate, f=forecast