Latin American Spotlight

June 2004

Dresdner Bank Lateinamerika AG
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A company of the **Allianz Group**

LATIN AMERICA AT A GLANCE

DOMESTIC ECONOMY	GDP change in % (real)			Inflation in % (year-end)			Public sector debt in % of GDP		
	2003	2004f	2005f	2003	2004f	2005f	2003	2004f	2005f
Argentina	8.7	6.5	3.8	3.7	8.0	8.0	140.4	151.6	167.7
Bolivia	2.5	3.0	3.0	3.9	4.0	4.5	68.0	73.0	75.0
Brazil	-0.2	3.5	3.5	9.3	6.2	5.2	58.2	56.6	55.2
Chile	3.3	4.8	4.5	1.1	2.2	3.0	15.4	14.0	13.3
Colombia	3.7	4.0	3.7	6.5	6.0	6.5	60.0	60.0	61.0
Costa Rica	5.6	5.0	4.2	9.9	9.5	8.5	57.5	60.2	61.5
Dominican Republic	-0.4	0.2	4.0	42.8	18.0	10.0	57.9	65.1	63.7
Ecuador	2.7	4.8	2.9	6.1	5.0	0.9	53.4	49.8	47.4
El Salvador	1.8	2.9	2.4	2.5	2.2	2.4	36.2	36.2	36.0
Guatemala	2.1	2.8	2.5	5.9	7.2	5.0	23.5	24.5	24.7
Honduras	3.2	3.5	3.5	6.8	7.4	6.5	66.0	65.0	57.0
Jamaica	2.0	1.5	1.5	13.0	11.0	15.0	146.0	146.0	147.0
Mexico	1.3	3.2	2.6	4.0	4.0	3.5	27.5	28.4	28.1
Nicaragua	2.3	3.5	3.4	6.5	8.5	6.0	289.0	166.0	150.0
Panama	4.1	3.5	2.3	1.4	1.7	1.0	69.9	70.3	71.1
Paraguay	2.6	2.5	2.5	15.0	5.0	4.5	49.1	44.6	42.9
Peru	4.0	3.8	3.7	1.8	2.3	2.2	47.5	48.0	48.0
Trinidad & Tobago	4.0	5.2	5.5	3.5	4.5	4.0	31.4	29.1	27.0
Uruguay	2.5	6.5	3.5	10.4	6.5	7.0	114.3	117.8	103.4
Venezuela	-9.2	10.5	4.3	27.1	26.0	28.0	45.1	40.0	44.0
Latin America (20 countries)	1.2	4.0	3.3	6.6	6.1	5.7			

EXTERNAL SECTOR FOREIGN DEBT	Current account balance in % of GDP			Import cover in months*			Gross foreign debt in % of exports*		
	2003	2004f	2005f	2003	2004f	2005f	2003	2004f	2005f
Argentina	6.2	1.8	0.2	5.8	5.5	5.3	410	372	361
Bolivia	0.3	0.1	-1.8	3.7	3.5	3.2	253	242	240
Brazil	0.8	0.7	0.0	7.3	6.8	7.1	273	226	220
Chile	-0.8	1.1	-1.9	6.9	6.1	5.9	164	134	141
Colombia	-1.8	-1.3	-1.7	6.4	6.3	6.2	257	243	229
Costa Rica	-5.5	-5.7	-4.9	2.2	2.0	2.1	65	58	58
Dominican Republic	5.9	10.2	6.0	0.3	0.6	0.6	71	74	73
Ecuador	-1.7	-1.3	0.5	1.0	1.2	0.9	233	222	196
El Salvador	-5.2	-4.9	-4.0	3.4	3.0	2.8	159	153	150
Guatemala	-4.1	-4.7	-4.5	4.7	4.6	4.6	109	109	109
Honduras	-3.7	-6.1	-5.1	4.2	3.9	3.9	202	208	172
Jamaica	-12.6	-12.2	-10.4	2.4	2.4	2.1	142	138	135
Mexico	-1.5	-1.6	-2.3	3.5	3.5	3.3	90	83	80
Nicaragua	-34.3	-31.7	-29.7	2.7	2.9	3.5	710	382	341
Panama	-0.9	-1.5	-1.4	1.3	1.2	1.1	97	96	97
Paraguay	8.8	6.2	2.9	2.8	2.8	3.2	87	85	85
Peru	-1.5	1.2	0.3	9.7	9.9	9.4	256	238	204
Trinidad & Tobago	9.0	11.0	7.5	6.1	6.7	6.6	46	43	44
Uruguay	1.2	1.0	1.1	7.7	7.6	8.6	364	347	350
Venezuela	11.6	10.0	4.5	10.9	10.4	9.8	125	105	118
Latin America (20 countries)	0.4	0.2	-0.8	5.0	4.9	4.8	178	155	150

* goods and services

f=forecast

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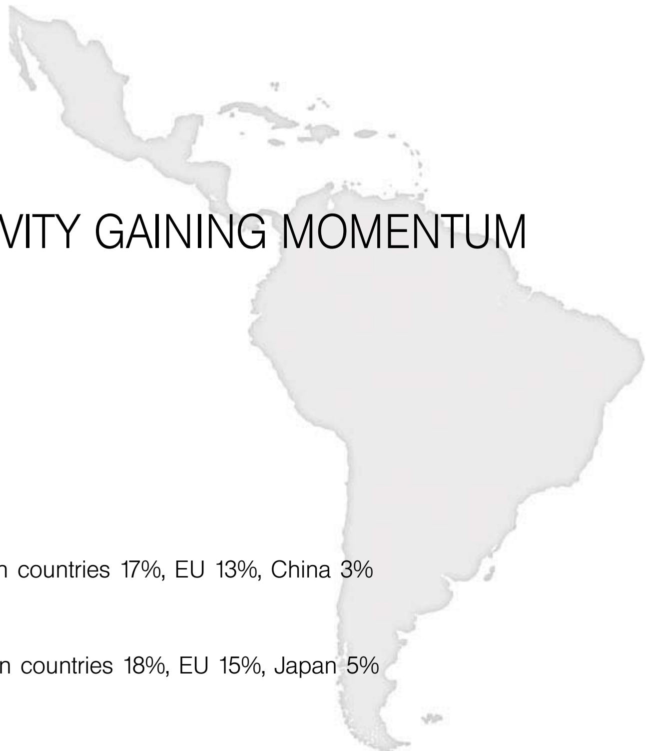
LATIN AMERICA: ECONOMIC ACTIVITY GAINING MOMENTUM



Area	20.5 million sq. km
Population (2003)	527 million (+1.3% p.a.)
Share of global exports	5.3% (2003)
Share of global GDP	5.5% (2002)
GDP per capita	US$ 3 350 (2003)
Exports (2003)	
Purchasing countries	USA 51%, Latin American countries 17%, EU 13%, China 3%
Imports (2003)	
Supplier countries	USA 42%, Latin American countries 18%, EU 15%, Japan 5%

SUMMARY AND OUTLOOK

LATIN AMERICA (20 countries)		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	0.5	-0.2	1.2	4.0	3.3
GDP	US$ bn	1892	1664	1702	1847	1885
Inflation (year-end)	%	5.5	11.4	6.6	6.1	5.7
EXTERNAL SECTOR						
Merchandise exports	US$ bn	348	351	380	425	438
Merchandise imports	US$ bn	352	330	341	383	412
Trade balance	US$ bn	-4.2	20.9	39.5	41.9	26.1
Current account balance	US$ bn	-53.3	-14.9	6.5	3.5	-16.0
Current account balance	% GDP	-2.8	-0.9	0.4	0.2	-0.8
Net direct investment ***	US$ bn	69	42	31	37	39
Foreign exchange reserves, year-end	US$ bn	162	161	195	216	225
Import cover **	months	3.9	4.2	5.0	4.9	4.8
FOREIGN DEBT						
Gross foreign debt	US$ bn	744	753	780	770	767
Foreign debt	% exports**	177	181	178	155	150
Short-term foreign debt	US$ bn	117	120	142	151	156
Foreign debt amortization	US$ bn	97	96	121	123	91
Foreign debt service	US$ bn	150	141	166	167	140
Foreign debt service	% exports**	36	34	38	34	27
FINANCIAL MARKETS (year-end)						
IFCI stock index (US$ based, 2004: 05/26)		520	516	676	625	
Bond market yield spread (2004: 05/26)*	bps	692	823	431	562	

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

Notwithstanding the interest rate hikes imminent in the U.S., we have raised our growth forecast for some Latin American countries compared with our March issue. This is mainly attributable to the fact that GDP growth was surprisingly strong in the first quarter. In Mexico, for instance, it amounted to 3.7% year-on-year since, after protracted delays, higher U.S. demand now is also being reflected in an appreciable expansion of Mexico's industrial sector. We have raised our GDP-growth forecast for the current year from 2.8% to 3.2%. GDP in Venezuela was 30% up in the first quarter on the pre-year period, a time when the economic crisis caused by a general strike had reached its peak. We are now forecasting growth of 10.5% (previously: 6.0%) for the year as a whole, in particular since public spending has also increased considerably. Argentina's economic figures likewise convey a better-than-expected picture. We have raised our growth forecast from 5.5% to 6.5%. Compared to the market consensus, our forecast is still conservative and takes into account that the energy crisis has already had an initial impact on the industrial sector in the last few weeks.

Colombia is likely to record economic growth of 4% (previous forecast: 3.8%), which is also attributable to the fact that the government's security policy is bearing fruit and has improved the investment climate substantially.

Chile and Peru will show robust growth of 4.8% and 4%, respectively. Our forecast remains unchanged, especially since in Chile there is the risk of Argentina's energy crisis having an adverse impact on Chile as well. In Peru, the poor political sentiment is the source for a certain downside potential in spite of the very solid growth in the mining sector.

There have also been improvements in the smaller countries of the region. Despite a severe balance-of-payments crisis, the Dominican Republic only passed through a mild recession last year (-0.4%) and is likely to pick up slightly again this year. Paraguay should grow by 2.5% (previous forecast: 2.0%) since prices of agricultural produce remain at a surprisingly high level.

Our growth forecast for Latin America in the current year is 4.0% (previous forecast: 3.5 %).

While we perceive the growth process in Chile, Brazil and also Colombia to be sustained, we are skeptical about the long-term trend in Argentina and Venezuela. Growth in these two countries is bound to slow down considerably as early as next year since, on account of what we consider an economic climate hostile to investment, production capacity is not being adequately extended. In this light, GDP growth in Latin America should slow down to 3.3% in 2005.

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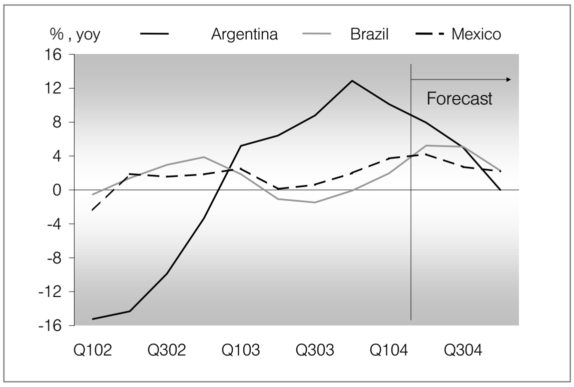
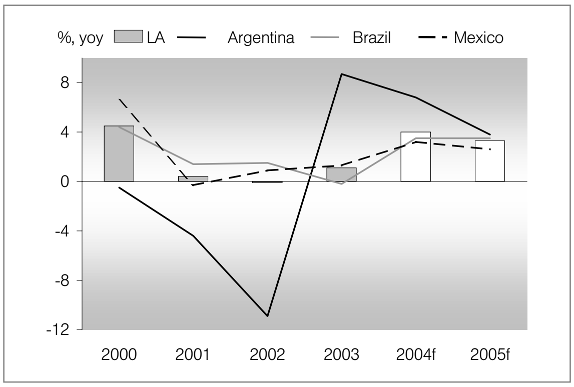
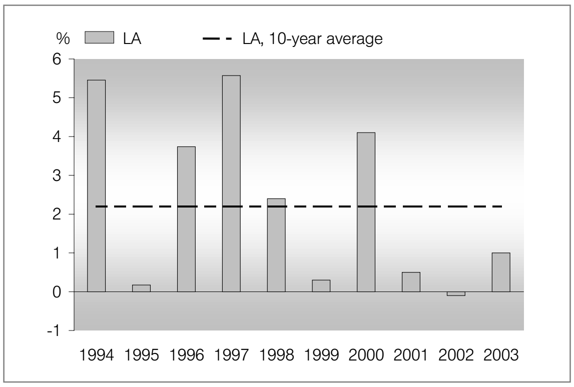
GDP CHANGE (REAL, QUARTERLY)



GDP CHANGE (REAL, YEAR ON YEAR)

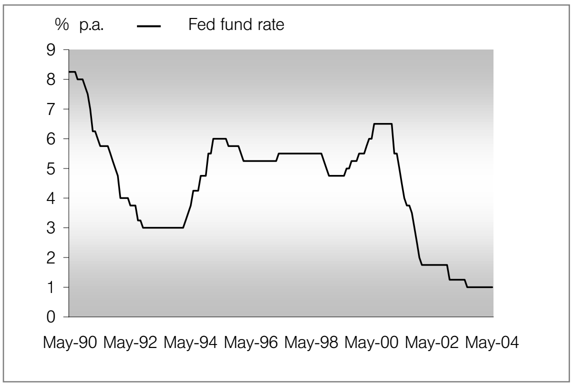


GDP CHANGE (REAL, LONGTERM)

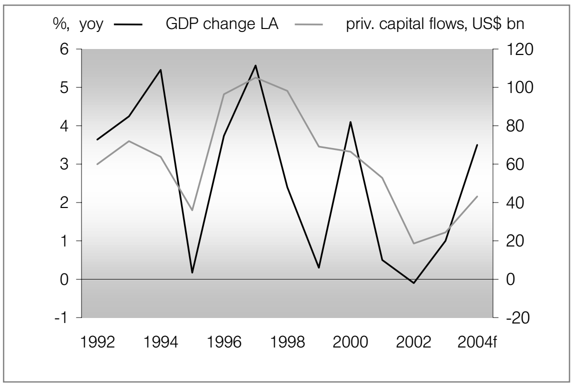


FOCUS: DON'T BE AFRAID OF HIGH INTEREST RATES!

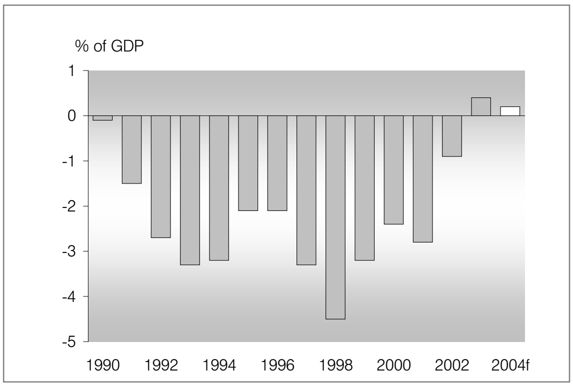
US KEY INTEREST RATE



GDP GROWTH & CAPITAL INFLOWS (LATAM)



CURRENT ACCOUNT BALANCE (LATAM)



In the past, rising interest rates in the U.S. have repeatedly caused high tension on emerging market asset markets. Both the Mexican „Tequila Crisis“ in 1994/95 and the depreciation of the Brazilian real in the year 1999 were also preceded by interest rate hikes in the U.S. It is therefore hardly surprising that the expected rise in key interest rates by the Fed (probably already in June) is also causing jitters at this point. Will this once again trigger a balance-of-payments crisis in some Latin American countries, accompanied by a sharp economic downturn?

The answer is that this will only be the case in the event of a dramatic deterioration of external conditions (e.g. an interest rate hike far in excess of expectations, continuing substantial risk aversion, oil price hikes to US$ 50/b with negative consequences for global growth) and investors pulling out of risk assets on a 12 to 24-month horizon. In view of the continued high level of foreign debt, this would lead to numerous corporate defaults and the solvency of some highly indebted countries would be questioned once again. However, we consider such a scenario highly unlikely; besides, Mexico and Chile would not even belong to the countries at risk in such a scenario. And: overall, Latin America has meanwhile become much better prepared for a temporary decline in capital inflows than it was in the 1980s and 1990s.

The following factors have increased Latin America's resistance to external shocks:

1) Most economies in the region (with the exception of Ecuador and Venezuela) have flexible exchange rate systems today, enabling them to absorb shocks without any major disruptions. Whereas fixed exchange rate systems require interest rate hikes (with a corresponding negative effect on the economy) to ensure that foreign capital remains in the country, flexible exchange rates allow the adjustment to be carried out via depreciation-induced higher exports and lower imports. The expansion of the trade surplus in Brazil by more than US$ 20 billion in the years 2002/2003 is an example of this.

2) For the first time in 50 years, Latin America generated a current account surplus last year and managed to further reduce its foreign debt as a percentage of exports at the same time. Although the dependency on foreign capital remains high, it is, however, lower

than at the end of the 1990s and, according to our projections, will decline further.

3) Currency reserves are in the region of US$ 210 billion at present, thus exceeding the amount of medium and long-term foreign debt falling due this year (US$ 123 billion). This means that capital outflows can also be absorbed by the temporary reduction of foreign currency reserves. Should, for instance, foreign capital investors in Brazil renew only 60% of debts falling due over the next few months, the Brazilian currency reserves would still stand at approx. US$ 43 billion at year-end, which would be equivalent to 5 months' import cover.

4) The banking systems, which have frequently intensified external crises due to their instability, are in a significantly better state than they were in the 1980s or 1990s. While there is no doubt about the stability of the banking systems in Chile and Mexico (the latter practically being in foreign hands), Brazilian banks have built up their equity base and are relatively resilient to crises due to significantly improved supervision.

5) Finally, trends taking shape on local capital markets, in which pension funds are increasingly taking a stake, are also worthy of note. In most cases they invest in long-term government bonds usually held to maturity. This at least helps to curb a potential selling spree.

However, higher interest rates are unlikely to leave Latin America unscathed. In Brazil, the central bank left its key interest rate unchanged during its May session and is unlikely to reduce it before July. Mexico saw a sharp interest rate hike. This could fundamentally impair investment activity. However, it should be noted that by no means is a phase of high interest rates being ushered in – we project long-term interest rates of 5.8% in the U.S. until the end of 2005, which still remains low in historical terms. Moreover, interest rate hikes are being cushioned by a fundamental cause, namely expectations that the U.S. and the global economy will remain on a sustained growth path. This, in turn, means that Latin America will continue to receive external growth impetus and will be able to increase its exports and attract direct investments. All in all, we maintain our positive outlook for Latin America and forecast a GDP growth rate of 4% for this year.

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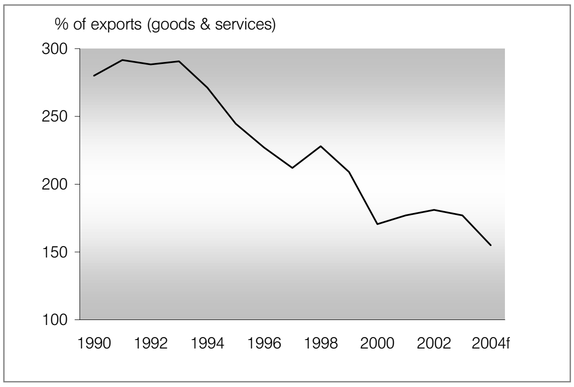
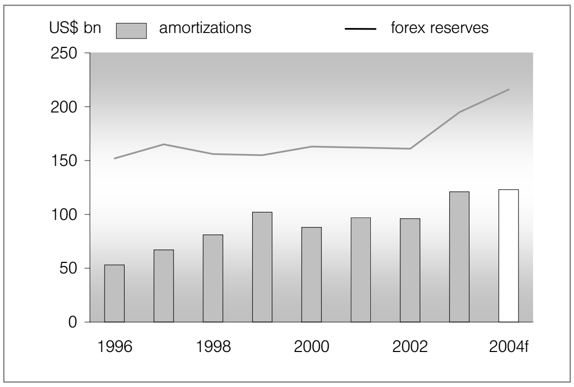
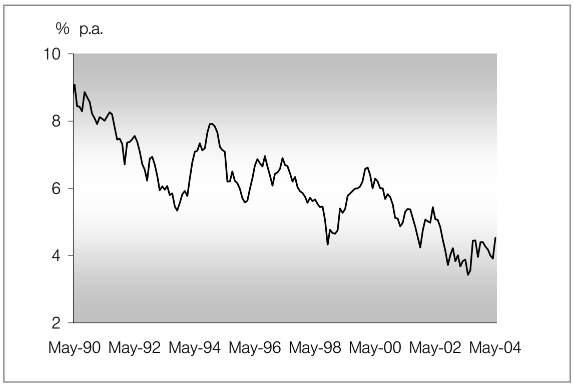
FOREIGN DEBT



FOREX RESERVES & AMORTIZATIONS



US TREASURY YIELDS (10 YEARS)



ARGENTINA: DEBT RESCHEDULING AND FLUSH WITH CASH

Area	2 736 700 sq. km	
Population (2003)	38.4 million (+1.1% p.a.)	
State president	Néstor Kirchner	
Economy minister	Roberto Lavagna	
Central bank president	Alfonso de Prat-Gay	
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 (2002)	25% of GDP	
Purchasing countries	Mercosur 22%, EU 20%, NAFTA 15%	
Products	Primary goods and crude oil 38%, processed agricultural produce 32%, industrial goods 30%	
Imports of goods (2002)	8% of GDP	
Supplier countries	Mercosur 34%, EU 24%, NAFTA 24%	
Products	Capital goods 31%, intermediate goods 49%, consumer goods 13%	
Rating:	Moody's: Caa1	S&P: SD

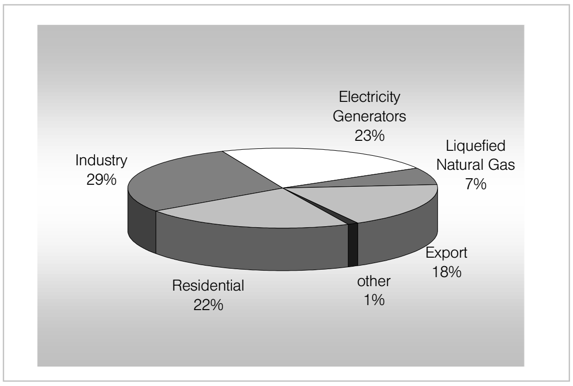
SUMMARY AND OUTLOOK

Argentina's rapid economic growth continues, albeit at a weaker rate, amounting to 10.7% (year-on-year) in the first quarter of 2004. It will most likely see a decline as the year progresses due to the energy crisis and other occasional production shortfalls. Although the energy crisis was clearly caused by state interventions in the market, the government continues to bank on such interventions to solve the problem, which is giving rise to concern for the future economic policy. As far as fiscal policy is concerned, this year's public-sector revenues will top projections by almost US$ 3 billion due to the strong level of economic growth. However, bond creditors who have not received any payments for over two years are unlikely to benefit from this. The revised debt rescheduling proposal, the key features of which are likely to be officially announced in June, is being awaited with great interest. Compared to originally demanded cash value losses in excess of 90%, the new proposal will undoubtedly show some improvements. However, the question remains whether market expectations reflected in the prevailing secondary market prices are not perhaps too optimistic.

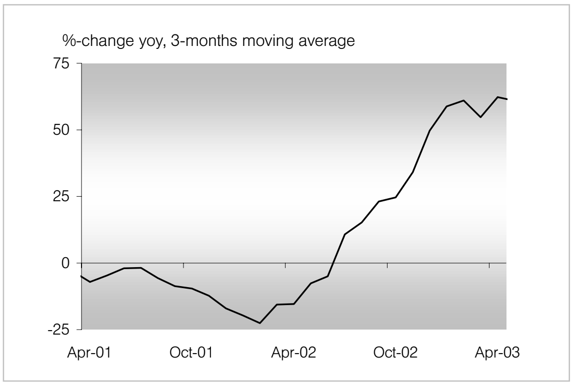
ARGENTINA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	-4.4	-10.9	8.7	6.5	3.8
GDP	US$ bn	268.9	99.1	127.4	145.4	156.1
Inflation (year-end)	%	-1.5	41.0	3.7	8.0	8.0
Inflation (average)	%	-1.1	25.9	13.4	5.0	8.4
PUBLIC SECTOR						
Budget balance, central government	% GDP	-3.2	-1.4	0.6	1.0	0.9
Budget balance, public sector	% GDP	-5.4	-1.8	1.2	1.6	1.5
Public debt*	% GDP	53.7	138.6	140.4	151.6	167.7
Amortization*	US$ bn	11.9	17.9	19.8	19.8	14.2
Gross financing needs	US$ bn	20.4	19.2	19.1	18.3	12.8
EXTERNAL SECTOR						
Merchandise exports	US$ bn	26.7	25.7	29.4	31.9	33.5
Merchandise imports	US$ bn	19.1	9.5	14.6	21.1	24.9
Trade balance	US$ bn	7.6	16.2	14.7	10.8	8.6
Current account balance****	US$ bn	-4.0	9.6	7.9	2.6	0.3
Current account balance****	% GDP	-1.5	9.7	6.2	1.8	0.2
Net direct investment	US$ bn	4.1	1.7	-0.3	0.0	1.5
Foreign exchange reserves, year-end	US$ bn	14.6	10.5	14.1	17.0	18.5
Import cover **	months	4.3	5.6	5.8	5.5	5.3
US$ exchange rate, year-end	Pesos	1.00	3.37	2.93	2.98	3.11
US$ exchange rate, average	Pesos	1.00	3.15	2.95	2.90	3.03
FOREIGN DEBT *						
Gross foreign debt	US$ bn	140	134	146	148	150
Foreign debt	% exports**	385	421	410	372	361
Short-term foreign debt	US$ bn	16.8	23.8	39.7	45.0	48.0
Foreign debt amortization	US$ bn	22.3	19.7	30.5	22.5	16.5
Foreign debt service	US$ bn	36.5	29.6	40.1	32.3	26.5
Foreign debt service	% exports**	100.4	93.0	112.9	81.1	63.7
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	340.0	7.5	2.0	4.0	5.0
Merval stock index (peso based, 2004: 05/26)		209	525	922	942	
IFCI stock index (US$ based, 2004: 05/26)		379	265	502	550	
Bond market yield spread (2004: 05/26)***	bps	4404	6229	6463	4891	

*without rescheduling **goods and services *** EMBI+ **** incl. interest payments due e=estimate f=forecast

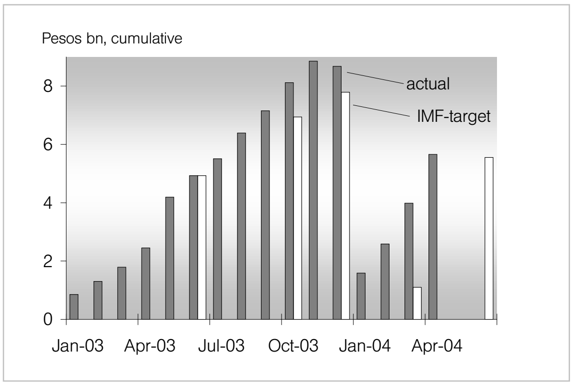
NATURAL GAS DEMAND (2003)



TAX REVENUES



PRIMARY SURPLUS AND IMF TARGETS



Economic policy: interventionism in the energy sector

Argentina is currently in the throes of an energy crisis likely to worsen over the next few months. The level of demand for natural gas exceeds the supply by far. Above all, this will have fatal consequences for electricity production. The rationing of electrical power will lead to growth shortfalls and diminish the Kirchner government's popularity, which remains high at present. In our view, attempts at laying the blame for the energy crisis on privatized utility companies for having failed to make sufficient investments appear to be missing the core of the problem. We believe that the real reason can be found in prices having been frozen for more than two years (while inflation reached a good 40% in the same period of time), causing demand to surge. Against this backdrop, the largely international investment community only considered investments sensible to a limited extent. The price hikes now made possible are inadequate. In the medium term, the government seems to be increasingly banking on state interventions rather than market forces, which explains the planned establishment of a state-controlled utility company. A total of approx. US$ 3.7 billion is to be made available for public investments in the energy sector over the next five years. In order to finance this expenditure at least in part, the government has substantially increased taxes on crude oil and natural gas exports. In the short term, a further rationing of the electricity supply will be inevitable. In addition, Argentina violated existing agreements by limiting its gas exports to Chile, antagonizing its neighboring country in the process.

Fiscal policy: what will the new debt rescheduling proposal bring?

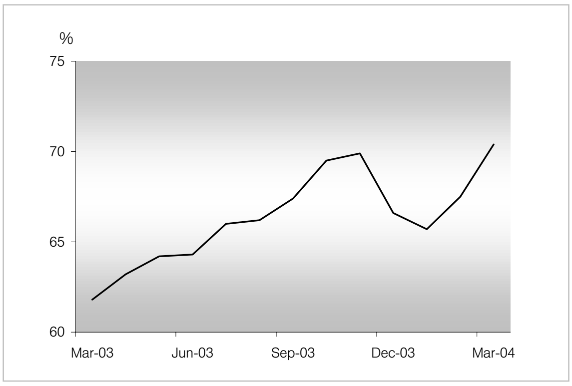
The budget situation remains quite comfortable. The high level of economic growth triggered an abundant flow of tax revenues, causing the primary surplus, at 5.7 billion pesos, to already exceed the half-year target agreed with the IMF (5.6 billion pesos) in the first four months of the year. The finance ministry estimates that revenues in the year as a whole will surpass projections by US$ 2.7 billion. Regarding the utilization of these funds, economy minister Lavagna made it quite clear that they will not be made available for the rescheduling of Argentine government bonds. He ruled out cash components, which had been common in the rescheduling programs of sovereign bonds of other countries. The possible establishment of a stabilization fund has no longer been under discussion either lately. Instead, the additional funds are to be spent on higher wages and pensions, on overcoming the energy crisis and on transfers to the provinces.

Seemingly unimpressed by its comfortable financial situation, Argentina has prepared its second debt rescheduling proposal. It is to be presented to external and local stock market regulatory authorities in June of this year and will only be published in writing once approval has been obtained, which may take several weeks. It is anticipated, however, that the government will announce the details beforehand. There is certainly no lack of speculations about what the proposal might entail. While the proposal presented in Dubai last year still projected cash value losses of well over 90%, the figures are now moving around the 75% to 80% mark according to local newspaper reports. After having complied with Argentina's request for a postponement of the second revision of the current agreement until mid-June, the IMF will have to answer the question whether Argentina, as stipulated in the IMF program, is showing "good faith" to reach a rescheduling agreement with bond creditors. In the present circumstances, the response from the key association of Argentine bond creditors, the GCAB (Global Committee of Argentine Bondholders) would most probably be negative. GCAB representatives expressed their disappointment that the talks with their government counterparts promised for mid-April of this year have not materialized as yet.

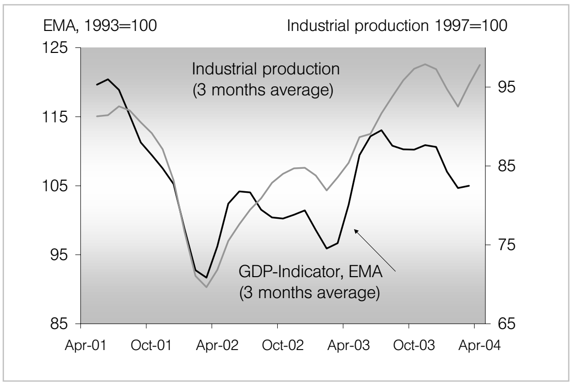
Economic activity: strong growth – initial signs of blemishes

The strong level of economic growth, primarily due to statistical base effects, continued in the first quarter of the year. According to preliminary figures, GDP rose by 10.7% year-on-year following 11.3% in the fourth quarter of 2003. However, there are signs of growth decelerating as a result of the energy crisis and occasional bottlenecks in production. Industrial output fell by 3.9% (month-on-month, seasonally adjusted) in April. This sharp decline is attributable to the fact that, in the wake of strong demand and the looming energy crisis, maintenance and repair work usually carried out between December and February was postponed until April. Simultaneously, the first instances of electrical power rationing came into effect in April. Overall, the effects of the energy crisis are bound to slow down economic growth. Since we have already anticipated occasional production shortfalls, our expectations for GDP growth remain at 6.5% for the year 2004 as a whole.

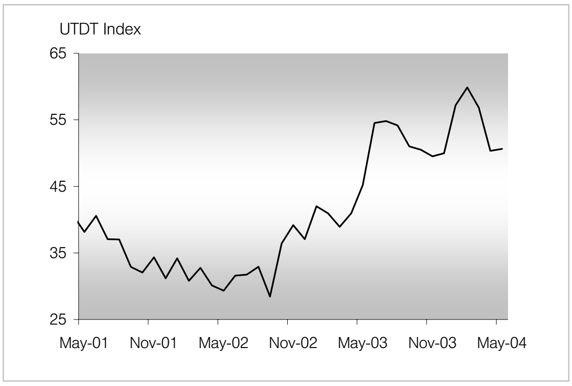
INDUSTRIAL CAPACITY UTILIZATION



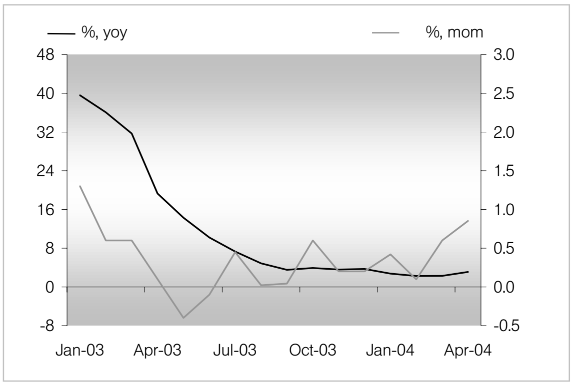
GDP CHANGE (REAL) AND EMA



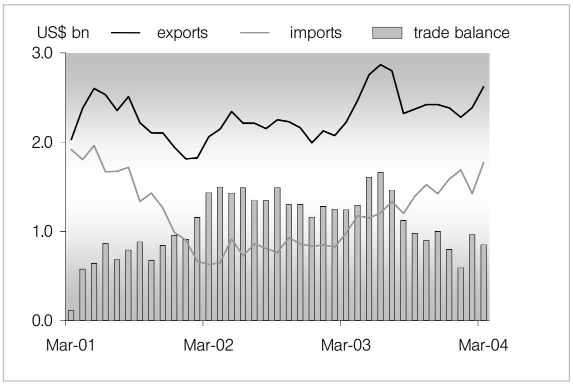
CONSUMER CONFIDENCE



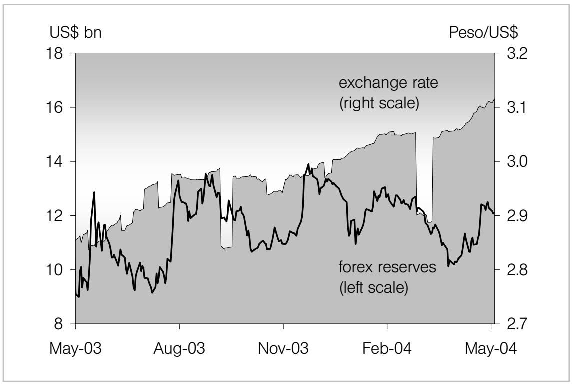
INFLATION



TRADE BALANCE



EXCHANGE RATE AND FOREX RESERVES



Monetary sector: higher inflation anticipated

Due to further price increases in those sub-sectors in which capacity utilization is already high, consumer prices recently rose substantially once again, as expected. They saw an average increase of 0.7% in March and April, following an average monthly price increase of 0.2% in the previous ten months. The price hikes planned by the utility companies and likely price increases which will be imposedby companies which have reached the limit of their capacities (at the same time being unable or loath to invest) will cause inflation to rise in the months ahead as well. We do assume, however, that the current inflation rate of 3.1% (April, year-on-year) will rise to 8% by year-end, thus remaining within the central bank's target range (7% to 11%).

External sector: imports continue to rise

In the first quarter of the year, imports topped the previous year's figure by 84%. Among other factors, this is attributable to the high demand in input products in the wake of the burgeoning economic growth. However, the last several months' highest growth rates were recorded in those sectors where domestic production has regained a high level of capacity utilization (e.g. in the paper and metalworking industry). Imports will continue to rise in the course of the year, with year-on-year growth rates declining, however. We anticipate that imports will grow by around 45% for the year as a whole. The 11% rise in exports (year-on-year) in the first quarter of the year is chiefly attributable to higher world market prices for commodity exports. We expect exports to increase by just under 9% for 2004 as a whole. The trade surplus (imports, fob) should decrease accordingly to US$ 10.8 billion (2003: US$ 14.7 billion).

The higher volatility on the financial markets of the emerging markets and particularly in Brazil, the key trading partner, was also noticeable in Argentina. Like the real, the peso also depreciated significantly. On the one hand, the anticipated interest rate hike in the U.S. led to increased demand for U.S. dollars. On the other, Argentina's central bank also continued to buy U.S. dollars in order to counteract the peso appreciating against the real in real terms and to provide the market with peso liquidity at the same time. Due to the lack of other instruments, the central bank buys U.S. dollars in exchange for national currency in order to satisfy the growing domestic monetary demand. In order to extend its scope for monetary policy actions, the central bank plans to generate liquidity and to influence the interest rate level by means of open-market transactions (repos).

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MONTHLY AND QUARTERLY FIGURES

ARGENTINA: MONTHLY INDICATORS		Jan-04	Feb-04	Mar-04	Apr-04	next/latest
DOMESTIC ECONOMY						
Economic activity indicator, EMA	% yoy	9.1	10.4	11.9		23-Jun
Economic activity indicator, EMA (season. adjust.)	% mom	1.4	0.0	1.0		23-Jun
Industrial production	% yoy	12.2	14.2	15.7	9.3	16-Jun
Industrial production (seasonally adjusted)	% mom	3.2	0.9	1.3	-3.9	16-Jun
Construction	% yoy	28.3	32.5	41.2	16.3	25-Jun
Construction (seasonally adjusted)	% mom	4.7	3.0	1.1	-4.9	25-Jun
Supermarket sales (real, seasonally adjusted)	% yoy	5.7	10.3	10.3	14.4	28-Jun
Supermarket sales (real, seasonally adjusted)	% mom	-0.1	2.9	0.3	1.3	28-Jun
Tax revenues	% yoy	27.8	38.0	39.5	29.2	03-Jun
Budget balance	Pesos mn	1364	-26	1038	1330	30-Jun
Primary balance	Pesos mn	1588	996	1398	1677	30-Jun
Consumer prices	% yoy	2.7	2.3	2.3	3.1	03-Jun
Consumer prices	% mom	0.4	0.1	0.6	0.9	03-Jun
Wholesale prices	% yoy	-0.3	1.4	0.4	0.6	03-Jun
Overnight peso rate (month-end; latest: 05/26)	%	1.4	1.4	1.3	1.3	3.9
Peso deposits (month-end; latest: 05/12)*	Peso bn	90.1	90.4	90.3	93.5	91.8
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2279	2386	2620		31-May
Merchandise exports	% yoy	5	12	17		31-May
Merchandise imports, cif	US$ mn	1599	1349	1678		31-May
Merchandise imports	% yoy	100	74	81		31-May
Trade balance	US$ mn	680	1037	942		31-May
Foreign exchange reserves (latest: 05/24)	US$ bn	14.9	15.0	15.0	15.8	16.5
US$ exchange rate (latest: 05/26)	Pesos	2.93	2.92	2.87	2.85	2.95

ARGENTINA: QUARTERLY INDICATORS		Q2 03	Q3 03	Q4 03	Q1 04	next /latest
DOMESTIC ECONOMY						
GDP (seasonally adjusted)	% qoq	2.0	2.8	5.0		17-Jun
GDP	% yoy	7.7	10.2	11.3		17-Jun
Private consumption	% yoy	7.0	10.4	11.8		17-Jun
Public consumption	% yoy	3.7	1.8	0.3		17-Jun
Private and public investment	% yoy	33.1	44.9	48.8		17-Jun
Domestic demand	% yoy	9.5	13.4	14.7		17-Jun
Export (goods and services)	% yoy	7.9	5.4	7.4		17-Jun
Import (goods and services)	% yoy	36.2	46.2	52.0		17-Jun
Budget balance, central government	Pesos mn	1622	382	-1	3982	30-Jul
Public debt***	US$ bn	152.6	169.6	178.8		30-Jun
EXTERNAL SECTOR						
Current account balance	US$ bn	3.0	1.7	1.0		23-Jun
Net foreign direct investment	US$ bn	-0.7	-0.1	0.5		23-Jun
Net portfolio investment	US$ bn	-2.2	-0.7	-2.6		23-Jun
Capital account**	US$ bn	-1.4	-0.5	-0.3		23-Jun
Change in foreign reserves	US$ bn	1.7	1.2	0.6		23-Jun
Gross foreign debt	US$ bn	140.4	140.6	145.6		30-Jun
Short-term foreign debt	US$ bn	31.6	35.7	39.7		30-Jun

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

BOLIVIA: UNREST CONTINUING

Area	1 098 581 sq. km
Population	8.9 million (+ 2.4% pro Jahr)
State president	Carlos Diego Mesa Gisbert
Finance minister	Javier Gonzalo Cuevas Argote
Central bank president	Juan Antonio Morales Anaya
Next elections	State president: June 2007 Parliament: June 2007
GDP per capita	US$ 859 (2003)
Rating	Moody's: B3 S&P: B-

ANNUAL FIGURES AND FORECASTS

BOLIVIA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.5	2.8	2.5	3.0	3.0
GDP	US$ bn	8.4	7.7	7.7	7.6	7.8
Inflation (year-end)	%	0.9	2.4	3.9	4.0	4.5
Inflation (year-average)	%	1.6	0.9	3.3	3.9	3.8
Budget balance, public sector	% GDP	-7.0	-9.0	-7.9	-8.0	-6.0
Public sector debt	% GDP	54	61	68	73	75
EXTERNAL SECTOR						
Merchandise exports	US$ mn	1285	1310	1573	1730	1820
Merchandise imports	US$ mn	1477	1532	1613	1660	1740
Trade balance	US$ mn	-192	-222	-40	70	80
Current account balance	US$ mn	-274	-336	23	10	-140
Current account balance	% GDP	-3.3	-4.4	0.3	0.1	-1.8
Net foreign direct investment	US$ mn	703	674	245	200	200
Foreign exchange reserves, year-end	US$ mn	886	581	717	700	700
Import cover *	months	5.1	3.0	3.7	3.5	3.2
US$ exchange rate, year-end	Bolivianos	6.8	7.5	7.8	8.2	8.5
US$ exchange rate, average	Bolivianos	6.6	7.2	7.7	8.0	8.4
FOREIGN DEBT						
Gross foreign debt	US$ mn	4750	4950	4900	5100	5200
Foreign debt	% exports*	295	300	253	242	240
Short-term foreign debt	US$ mn	700	495	450	400	400
Foreign debt amortization	US$ mn	255	250	200	220	210
Foreign debt service	US$ mn	455	450	400	420	410
Foreign debt service	% exports*	32	27	21	20	19

*goods and services

e=estimate f=forecast

Domestic policy: deep split

President Carlos Mesa, who took office in October 2003 after Gonzalo Sanchez de Lozada had been ousted from power, is facing the same problems his predecessors failed to solve: desolate public finances, high foreign debt, lack of social consensus on the utilization of mineral resources and widespread poverty. Although he initially succeeded in developing a certain degree of popularity among the population by announcements and a domestic instrumentalization of the conflict with the neighboring country, Chile, over access to the Pacific, widespread disillusionment seems to have set in by now and initial social protests have been rekindled. In this regard, a line of conflict has not only been drawn between the population and the political elite; there is also potential for conflict in geographical aspects due to the regional differences in natural gas supplies. The government has announced that a referendum will be held in mid-July on the commercial use of natural gas in which, among other issues, a decision must be reached on the conditions under which natural gas is to be exported in future. However, we do not expect the referendum to contribute a great deal to a permanent settlement of the conflicts. The government will remain unstable.

Domestic economy: agricultural sector benefits from soya boom

The government's scope for gaining support from the population by means of a more expansionary fiscal policy is very limited: for the current year we project a budget deficit of 8% of GDP. Accordingly, public-sector debt is likely to rise to 73% of GDP, a level which is unsustainable in the medium term. We see little chance of the Bolivian economy growing out of this situation: although the agricultural sector, which benefited from high soya prices (among other factors), will show robust growth, the mining sector in particular is nevertheless likely to stagnate due to the unresolved legal situation. For the year as a whole we project a growth rate of 3%, which in view of the slow growth rates since 1999 and a population growth of 2.4% p.a. is just not strong enough. In view of the unstable political situation, the recently extended (until year-end) stand-by agreement with the IMF intended to stabilize public-sector finances but also to improve the investment climate is hardly likely to spur any significant investment activity.

External sector: current account heading into surplus

Underpinned by exports of agricultural products (soya, for instance), exports rose by more than 30% in the first three months. With imports rising on a moderate scale, the current account balance should remain in positive territory in the current year as well. This takes some pressure off the country's foreign currency reserves which, with only three months' import cover, remain low.

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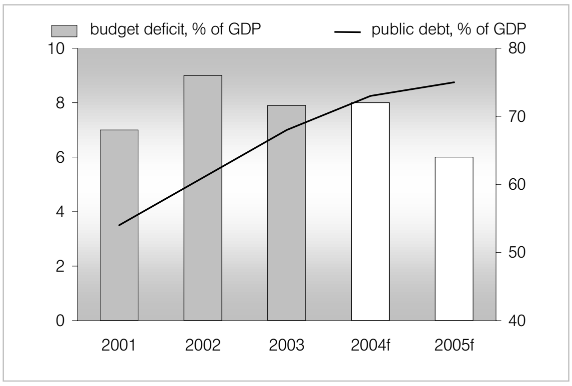
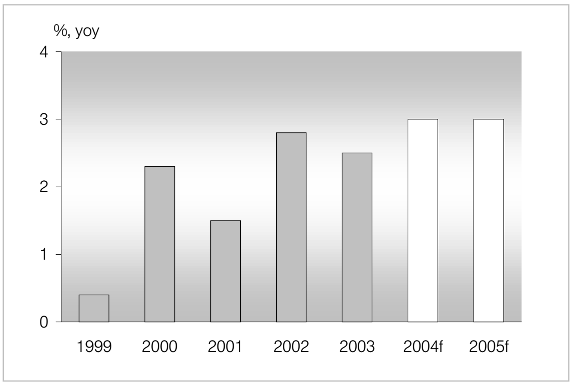
SUMMARY AND OUTLOOK

President Mesa is facing difficulties already anticipated when he took office: without a supporting lobby in congress, he lacks much needed political assertiveness and even the popularity the president initially enjoyed seems to be waning perceptibly. A renewed political destabilization can therefore not be ruled out. Thus, economic growth, which is primarily based on the agricultural sector, is unlikely to accelerate in 2004 (forecast for 2004 and 2005: +3% each).

PUBLIC FINANCES



GDP CHANGE (REAL)



BRAZIL: GOOD FUNDAMENTALS

Area	8 511 965 sq. km
Population	178 million (+1.4% p.a.)
State president	Luíz Inácio Lula da Silva
Finance minister	Antonio Palocci Filho
Central bank president	Henrique Meirelles
Next elections	State president: 2006 Parliament: 2006
GDP per capita	US$ 2 764 (2003)
Investment	19% of GDP (2002)
Savings	17% of GDP (2002)
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 products 30%, semi-manufactured products 15%
Imports of goods (2003)	10% of GDP
Supplier countries	EU 26%, USA 20%, ALADI 17%, Asia 19%
Products	Primary products and inputs 53%, capital goods 21%, consumer goods 12%, crude oil 14%,
Rating:	Moody's: B2 S&P: B+

SUMMARY AND OUTLOOK

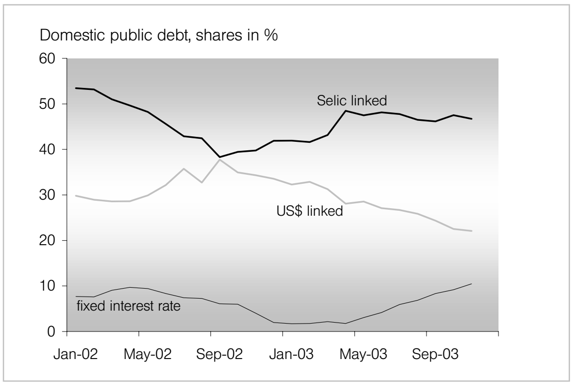
The last several weeks saw bonds and stocks as well as the exchange rate come under immense pressure, without fundamentals undergoing any dramatic change. The current account situation remains stable even though follow-up financing for private foreign debt falling due has been reduced over the past two months. There is an abundant flow of tax revenues to ensure that the government will not run a risk of failing to meet the fiscal targets agreed with the IMF. And finally, there are other positive economic signals, above all from the industrial sector, which grew by 2.7% year-on-year in the first quarter. What then could be the reason for anxiety? It is mainly attributable to a deterioration of external conditions (interest rate speculations, decline in commodity prices, increase in the general level of risk aversion), possibly exacerbated by the somewhat fragile domestic political situation. We assume that even if external conditions deteriorate further and international investors switch their focus accordingly to investments entailing lower risk, Brazil has sufficient foreign currency liquidity to avert a new balance of payments crisis. In our basic scenario, the central bank will even be in a position to build up more foreign currency reserves, and economic growth will amount to 3.5% in 2004.

ANNUAL FIGURES AND FORECASTS

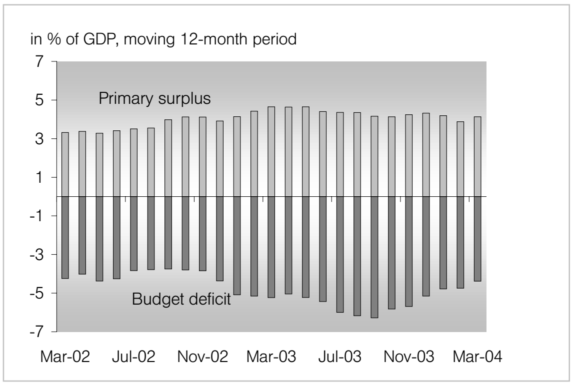
BRAZIL		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.4	1.5	-0.2	3.5	3.5
GDP	US$ bn	505	452	492	558	559
Inflation (year-end)	%	7.7	12.5	9.3	6.2	5.2
Inflation (average)	%	6.8	8.5	14.7	5.9	5.5
PUBLIC SECTOR						
Budget balance, central government	% GDP	-2.1	-0.8	-3.4	-2.0	-1.9
Budget balance, public sector	% GDP	-3.6	-4.7	-5.2	-2.6	-2.3
Public debt (net)	% GDP	53.3	56.5	58.2	56.6	55.2
Amortization external debt	US$ bn	n.a.	8.6	22.1	14.1	16.1
Amortization domestic federal debt*	US$ bn	84	53	72	67	56
EXTERNAL SECTOR						
Merchandise exports	US$ bn	58.2	60.4	73.1	84.9	89.0
Merchandise imports	US$ bn	55.6	47.2	48.2	58.0	63.8
Trade balance	US$ bn	2.6	13.2	24.8	27.0	25.2
Current account balance	US$ bn	-23.2	-7.7	4.1	3.9	0.2
Current account balance	% GDP	-4.6	-1.7	0.8	0.7	0.0
Net foreign direct investment	US$ bn	22.6	16.6	10.1	11.5	15.0
Foreign exchange reserves, year-end	US$ bn	35.7	37.8	50.9	55.2	62.3
Import cover **	months	4.5	5.4	7.3	6.8	7.1
US$ exchange rate, year-end	Reais	2.32	3.53	2.88	3.10	3.35
US$ exchange rate, average	Reais	2.33	2.90	3.08	2.97	3.24
FOREIGN DEBT						
Gross foreign debt	US$ bn	226	228	235	222	216
Foreign debt	% exports**	319	311	273	226	220
Short-term foreign debt	US$ bn	27.6	22.8	25.0	27.0	26.0
Foreign debt amortization	US$ bn	35.2	38.9	44.3	52.1	39.5
Foreign debt service	US$ bn	52.8	54.2	60.0	67.4	54.3
Foreign debt service	% exports**	75	74	70	68	53
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	19.0	24.9	16.5	14.8	13.0
Bovespa stock index (real based, 2004: 05/26)		13577	11268	22236	19069	
IFCI stock index (US$ based, 2004: 05/26)		288	214	439	352	
Bond market yield spread (2004: 05/26)***	bp	870	1439	463	719	

* incl. short term debt ** goods and services *** EMBI+ e=estimate f=forecast

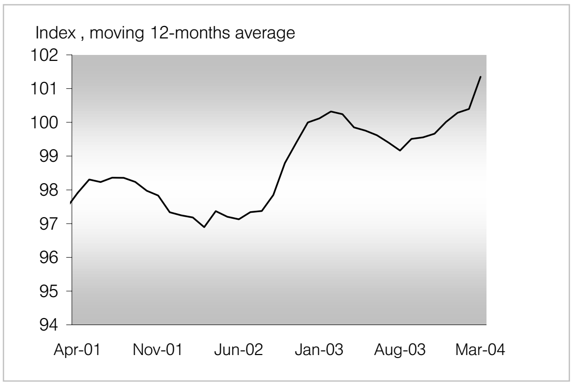
STRUCTURE OF LOCAL DEBT



BUDGET PERFORMANCE INDICATORS



INDUSTRIAL PRODUCTION



Domestic policy: government weakened but not incapacitated

The government's situation over the last few months has not exactly been a happy one. It suffered a heavy defeat when the senate rejected a government ban on popular gambling pursuits (decreed by the government in the wake of a donation scandal apparently involving a close aid of the cabinet's chief of staff, José Dirceu). Likewise, the government's planned minimum wage increase by BRL 20 to BRL 260 has been questioned by the opposition and members of the ruling parties, which are demanding an increase of up to BRL 320. Even though the pace of reform has slowed down significantly, the government has by no means lost its ability to act. Further legislative hurdles have been overcome in the course of the judicial reform as well as the reform of the country's bankruptcy laws; we expect them to be passed after the mayoral elections scheduled for October.

Fiscal policy: improvement in debt profile suffers setback

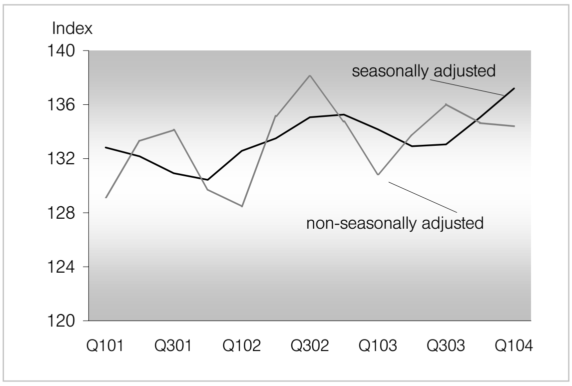
The government is pursuing a strategy of increasing the share of total public domestic debt accounted for by fixed-income securities and reducing the share of dollar-indexed and interest-indexed instruments (see chart). Simultaneously, it is endeavoring to increase the average term of indebtedness with the objective of rendering the debt structure less vulnerable to shocks. However, there have been some setbacks in this respect in the last few weeks. Due to the excessive demands of investors concerning the level of yields (reason given by the central bank), no further fixed-income instruments were sold in two consecutive weeks in May. In addition, very short-dated papers (up to 90 days) were increasingly issued once again. Similar setbacks in strengthening the debt profile have been repeatedly observed in the past. We assume that the government will soon be able to resume issuing fixed-income securities since the public sector's financial situation does not indicate any need for concern at this stage. The primary surplus for the consolidated public sector agreed with the IMF (BRL 14.5 billion) was exceeded by BRL 6 billion in the first quarter. We expect the primary surplus target for the year as a whole (4.25% of GDP) to be met and net public-sector debt to fall slightly, to 56.6% of GDP.

Economic activity: industrial production trending upward again

The economic upturn continued unabated in the first quarter (1.6% quarter-on-quarter, seasonally adjusted). GDP rose by 2.7% year-on-year. Industrial production (roughly 30% of GDP) increased by 2.9%, with the agricultural sector (which accounts for approx. 10% of GDP) expanding by

6.4%. After failing to record any growth rates since the beginning of 2003, the services sector expanded by 1.2% in the first quarter. Evidently, the upturn is increasingly gaining in breadth. The industrial sector in particular is benefiting to a growing extent from the upturn in consumer demand and the demand for capital goods. We still project a growth rate of 3.5% for the year as a whole. Our forecast would only be in jeopardy if an unexpectedly sharp rise in international interest rates and/or risk aversion should trigger such strong capital outflows which, in turn, would precipitate higher financing costs abroad and in Brazil as well as a depreciation-induced rise in import costs. See also section ”external sector” in this regard.

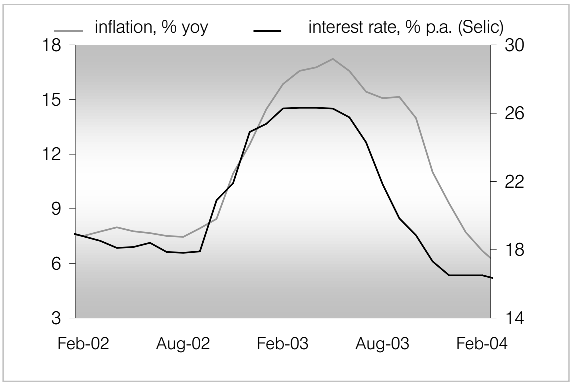
GDP CHANGE (REAL)



Monetary sector: process of interest rate cuts slowing down

The central bank maintained its key lending rate at 16% in May. Aside from the rise in yields on international Brazilian bonds, the higher oil prices, which might soon be reflected in the country’s inflation figures, most likely played a role as well. There is also the possibility that the current weakness of the real – if it should remain at its current level of 3.10 to 3.20 reais/US$ - will exert pressure on prices. In consequence of the risks above (all of which we consider relatively small) the central bank is likely to cut its key lending rate by only 125 basis points, to 14.75% by year-end (previous forecast: 14.0%). The annualized inflation rate, which amounted to 5.3% in April, should rise to 6.2% at the end of the year, thus remaining within the central bank’s target corridor (5.5% +/- 2.5 percentage points).

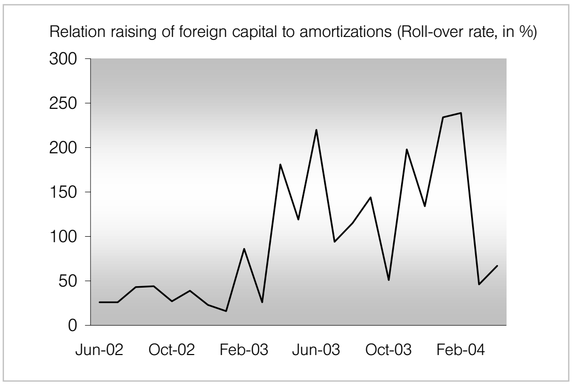
INFLATION AND KEY INTEREST RATE



External sector: balance of payments crisis can virtually be ruled out.

Given current market conditions, private enterprises are not prepared (and in some cases most probably not in a position) to fully replace foreign debt falling due with new loans on the capital market. In March and April, only 46% and 67%, respectively, of foreign loans falling due were renewed. This trend reminds some market observers of the year 2002 when, due to global economic and political uncertainty, foreign lenders were no longer prepared to renew loans falling due, causing a severe balance of payments crisis. A balance of payments analysis reveals that the probability of the same happening this year is quite remote. The table below (page 20) illustrates that Brazil still has foreign currency requirements of US$ 37.5 billion this year (incl. inter-company loans). Assuming (basic scenario: 75% probability) that on average 80% of private loans will be renewed in the rest of the year (in the year to date, the ratio of new borrowings to debt falling due amounted to roughly 100%), the central bank will be able to raise foreign currency reserves by a further

DEBT RENEWALS

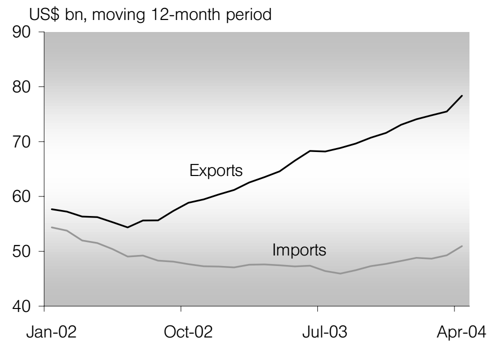


BALANCE OF PAYMENTS ANALYSIS

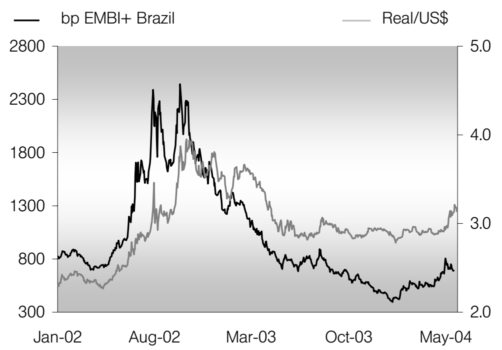
FX LIQUIDITY (US$ bn)	2004 Basis	May-Dec 04 Basis	May-Dec 04 Stress
Foreign middle/longterm debt amortisation*	52.0	37.9	37.9
Capital outflow through CC5 accounts	2.5	1.5	3
Liquidity need	**54.5**	**39.4**	**40.9**
Current account surplus	3.9	3	6
Net FDI and portfolioinvestments	13	11.3	9.8
Issuance of middle and long term debt	38.9	27.9	17.4
Capital inflow	**55.8**	**42.2**	**33.2**
FX reserves end of period	53.2	53.2	42.7

*incl. Intercompanyloans

FOREIGN TRADE



EXCHANGE RATE & RISK PREMIUM



US$ 2.7 billion. If only 60% of private debts were renewed and new government borrowings only amounted to US$ 5 billion instead of US$ 7.3 billion (stress scenario), then the central bank could intervene in the forex market with roughly US$ 8 billion and reduce its reserves by this amount. At the same time, however, it must also be assumed that in the wake of a depreciation of the real to 3.40 reais/US$ the current account would reflect a surplus of US$ 3 billion above that assumed in the basic scenario. All in all, the development described above would certainly be manageable, in particular since the government has the additional option of falling back on IMF funds amounting to US$ 4.4 billion.

It would only become more critical if the situation were to deteriorate to such an extent that the private sector would be unable to renew more than just 30% of its loans falling due and the government would likewise no longer be in a position to place its bonds targeted to raise US$ 2.5 billion on the international capital market (5% probability). In this event, foreign currency reserves would shrink to US$ 38 billion. Imports would see a sharp decline in the wake of an even sharper depreciation which, in turn, would cause a slowdown in GDP growth, most probably to 2%. All in all, it should be noted that although Brazil is now better prepared to cope with negative external shocks than it was in the past, it is nevertheless by no means immune to such trends.

Exchange rate: real under pressure

In mid-May, the real came under strong pressure and reflected a high volatility. For one thing, the banks bought vast amounts of dollars in previous weeks - most probably in anticipation of an interest rate hike in the U.S. and/or a further depreciation of the real. For another, the Treasury likewise made strong use of the forex market by buying roughly US$ 5 billion in April alone (for the repayment of bonds falling due in the same month, among other purposes). Furthermore, it must be borne in mind that over the last couple of months the government continued to pursue its strategy of reducing its debt in dollar-indexed instruments; since the beginning of 2003, the share of total public domestic debt accounted for by these securities has halved, to 16%. Speculations about interest rates in the U.S., problems with the renewal of domestic debt instruments (see section "fiscal policy"), the slight deterioration in external conditions as well as the disappointment about the central bank's interest rate decision in May also contributed to the depreciation of the real. However, we consider last week's depreciation an overreaction and still forecast an exchange rate of 3.10 reais/US$ at year-end.

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BRAZIL: MONTHLY INDICATORS		Dec-03	Jan-04	Feb-04	Mar-04	next/latest
DOMESTIC ECONOMY						
Public sector primary balance (ytd)	% of GDP	4.3	5.3	**4.0**		28-May
Public sector balance (ytd)	% of GDP	-5.2	-3.0	**-4.2**		28-May
Central government tax revenues	% yoy	4.9	1.7	4.0	**15.6**	14-Jun
Capacity utilization (CNI)	%	80.4	80.4	**80.3**		27-May
Industrial production (IBGE)	% yoy	4.5	3.5	**1.5**	**11.9**	9-Jun
Retail sales (IBGE)	% yoy	3.2	**6.1**	5.1	**11.4**	16-Jun
Unemployment rate (IBGE)	%	10.9	11.7	**12.0**	**12.8**	24-Jun
Consumer prices IPCA	% yoy	9.3	7.7	6.7	**5.9**	8-Jun
Consumer prices IPCA	% mom	0.5	0.8	0.6	**0.5**	8-Jun
Interbank interest rate (latest: 05/26)*	%	16.5	16.5	16.5	**16.3**	**16.0**
EXTERNAL SECTOR						
Merchandise exports	US$ mn	6748	5799	5722	**7927**	1-Jun
Merchandise exports	% yoy	28.7	20.7	14.4	**51.3**	1-Jun
Merchandise imports	US$ mn	3989	4215	3740	**5325**	1-Jun
Merchandise imports	% yoy	15.9	15.5	-3.8	**43.9**	1-Jun
Trade balance	US$ mn	2759	1584	1982	**2602**	1-Jun
Current account balance	US$ mn	349	669	**196**	817	23-Jun
Net foreign direct investment	US$ mn	1409	993	**1024**	703	23-Jun
Foreign exchange reserves (latest:05/26)*	US$ bn	49.3	53.3	53.0	**51.2**	**53.0**
US$ exchange rate (latest: 05/26)*	Reais	2.88	2.85	2.90	**2.90**	**3.16**

BRAZIL: QUARTERLY INDICATORS		Q2 03	Q3 03	Q4 03	Q1 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	-1.1	-1.5	-0.1	**2.7**	31-Aug
GDP (s.a.)	% qoq	-0.9	0.5	1.4	**1.6**	31-Aug
Private consumption	% yoy	-6.0	-3.7	-0.6	**1.0**	31-Aug
Public consumption	% yoy	1.1	0.9	0.7	**1.3**	31-Aug
Private and public investment	% yoy	-10.5	-9.1	-5.0	**2.0**	31-Aug
Exports of goods and services	% yoy	29.9	3.7	10.1	**19.5**	31-Aug
Imports of goods and services	% yoy	-6.0	-5.5	10.0	**11.2**	31-Aug
Agriculture	% yoy	7.3	-2.8	4.8	**6.4**	31-Aug
Industry	% yoy	-3.5	-1.6	-1.7	**2.9**	31-Aug
Services	% yoy	-0.3	-0.8	0.3	**1.2**	31-Aug
Public debt (net)	% of GDP	56.6	57.8	58.2	**57.4**	22-Jul
EXTERNAL SECTOR						
Current account balance	US$ bn	0.4	3.3	0.3	**1.7**	22-Jul
Net foreign direct investment	US$ bn	1.5	3.0	3.7	**2.7**	22-Jul
Portfolio investment	US$ bn	2.5	-0.3	1.7	**2.4**	22-Jul
Capital account **	US$ bn	4.0	0.9	-5.0	**0.0**	22-Jul
Change in foreign exchange reserves	US$ bn	4.4	4.2	-4.7	**1.7**	22-Jul
Gross foreign debt	US$ bn	234	237	238	**235**	23-Jun
Short-term foreign debt	US$ bn	21.2	18.9	20.2	**20.2**	23-Jun

* month-end ** incl. residual items

CHILE: WELL PREPARED

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 Upper House: December 2005 Lower House: 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 24%, USA 18%, Japan 11%
Products	Industry 45%, Mining 41% Fishing, Agriculture, Forestry 10%
Imports of goods (2003)	25% of GDP
Supplier countries	EU 17%, Argentina 19%, USA 13%
Products	Capital goods 19%, consumer goods 17%, fuel and lubricants 16%
Rating:	Moody's: Baa1 S&P: A

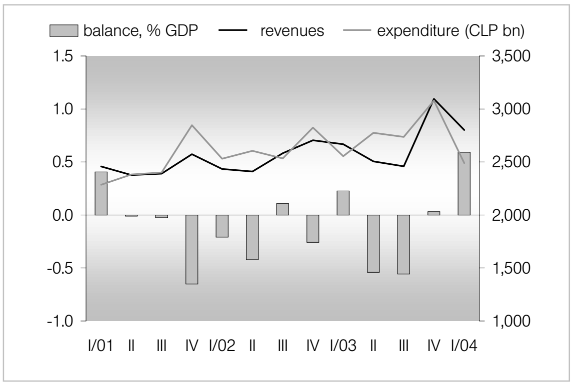
SUMMARY AND OUTLOOK

Chile is currently experiencing appreciably accelerated economic growth. Key stimuli are coming from foreign demand and (until recently) favorable global conditions characterized by low interest rates and high prices for copper. Global conditions have changed over the last few weeks and will probably be less upbeat in the forthcoming months. For one thing, the times of very low international interest rates are most probably over, with repercussions already being experienced at present in terms of international capital flows into the emerging markets. For another, initial doubts about the sustainability of demand from China have brought the boom of many commodities - including copper – to an abrupt end. Since oil prices have simultaneously climbed to new record heights, the terms of trade have deteriorated substantially (Chile imports more than 90% of its crude oil requirements). In view of the current macroeconomic stability, the low level of public-sector debt and increasing diversification of the range of exports, we expect Chile's economy to overcome the changes taking shape in the global environment virtually unscathed and still forecast GDP growth of 4.8%, a stabilization of inflation within the central bank's target corridor (2-4%) and a significant current account surplus.

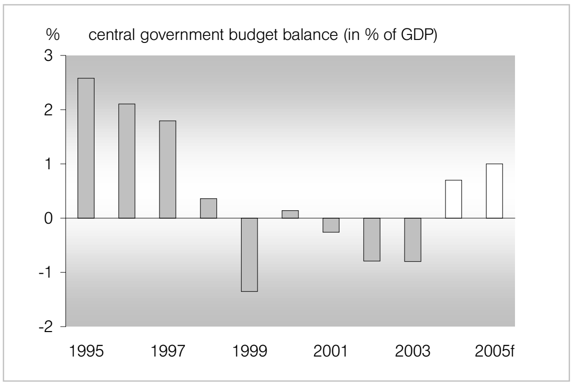
CHILE		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3.4	2.2	3.3	4.8	4.5
GDP	US$ bn	68.3	67.3	72.2	84.1	88.2
Inflation (year-end)	%	2.6	2.8	1.1	2.2	3.0
Inflation (average)	%	3.6	2.5	2.8	0.6	3.0
PUBLIC SECTOR						
Budget balance, central government	% GDP	-0.3	-0.8	-0.8	0.7	1.0
Budget balance, public sector	% GDP	-0.6	-1.6	-1.0	0.9	1.2
Public debt	% GDP	15.2	15.9	15.4	14.0	13.3
Amortization	US$ bn	0.8	0.9	0.8	0.8	1.2
Gross financing needs, central government	US$ bn	1.0	1.4	1.4	0.3	0.3
EXTERNAL SECTOR						
Merchandise exports	US$ bn	18.3	18.2	21.0	27.1	26.1
Merchandise imports	US$ bn	16.4	15.9	18.0	21.1	22.4
Trade balance	US$ bn	1.8	2.2	3.0	6.0	3.7
Current account balance	US$ bn	-1.1	-0.9	-0.6	1.0	-1.7
Current account balance	% GDP	-1.6	-1.3	-0.8	1.1	-1.9
Net foreign direct investment	US$ bn	3.0	1.6	1.6	1.5	1.0
Foreign exchange reserves, year-end	US$ bn	14.4	15.4	15.9	16.6	17.0
Import cover **	months	6.8	7.5	6.9	6.1	5.9
US$ exchange rate, year-end	Pesos	661	720	593	600	630
US$ exchange rate, average	Pesos	635	689	691	604	620
FOREIGN DEBT						
Gross foreign debt	US$ bn	38.5	41.0	43.4	44.5	46.0
Foreign debt	% exports**	161	176	164	134	141
Short-term foreign debt	US$ bn	5.3	5.8	8.5	8.0	8.5
Foreign debt amortization	US$ bn	4.1	4.7	3.9	5.5	4.8
Foreign debt service	US$ bn	5.3	6.0	5.3	6.8	6.2
Foreign debt service	% exports**	22	26	20	21	19
FINANCIAL MARKETS (year-end)						
Base rate, 90 days (PDBC)	%	6.2	2.9	2.3	2.8	4.0
IPSA stock index (peso based, 2004: 5/26)		1183	1000	1405	1418	
IFCI stock index (US$ based, 2004: 5/26)		479	406	654	650	
Bond market yield spread (2004: 5/26)*	bp	180	193	93	99	

* $6^{7/8}$ % US$-Bond (2009) **goods and services e=estimate f=forecast

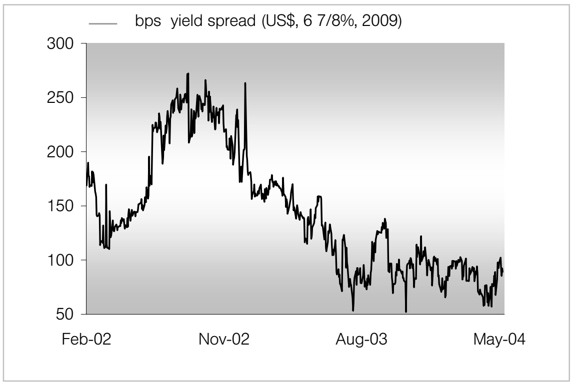
CENTRAL GOVERNMENT BUDGET



GOVERNMENT BUDGET (LONG TERM)



BOND YIELD SPREAD



Domestic policy: need of planning for the future today

In his annual state of the nation address on May 21, president Lagos highlighted the country's economic and social stabilization. In addition to an increase in minimum pensions, he called for various constitutional reforms, including an electoral law reform. It is becoming increasingly clear, though, that against the backdrop of the municipal elections scheduled for October and the debate already under way on the presidential candidate of the ruling 'Concertación' coalition for the elections to be held by end-2005, no radical initiatives in economic policy terms are anticipated. This is cause for concern in the sense that times of an economic upturn should instead be used for the implementation of more controversial reforms, which would render the country less susceptible to economic slumps. In foreign policy, the reduction of gas exports to Chile imposed by the Argentinean government is currently dominating the debate. In violation of long-term delivery agreements, Argentina has reduced gas supplies by approx. 20%; further cuts cannot be ruled out. Chile's government is making every effort to prevent the conflict from escalating.

Public finances: flush with cash

For a long time, Chile's fiscal policy has been determined by a budgeting policy geared to a structural, i.e. medium-term budget surplus. It is hardly surprising, therefore, that in the current favorable economic setting the central government budget should reflect a surplus this year. For instance, tax revenues (accounting for 80% of total revenues) rose by 10.8% in real terms in the first quarter of 2004 and, thanks to higher copper prices, copper-related revenues of the central government (5.6% of the total) grew by more than 200% in the first quarter. Overall, the budget reflected a surplus of 0.4% of GDP for the year as a whole in the first quarter, with expenditure rising moderately (6.4% year-on-year in real terms). For the year as a whole, we project a budget surplus of 0.7% of GDP (US$ 600 million). Since the government issued a global bond worth US$ 600 million in January and plans to raise an additional US$ 200 million on the domestic market, the reserve cushion after deduction of amortizations of US$ 800 million falling due in the current year amounts to US$ 600 million. Although the risk spreads on government bonds (6 7/8%, 2009) rose by 40 basis points between mid-April and mid-May, they are nevertheless still quite low at around 100 basis points. In view of the low central government debt (end-2003: 15.4% of GDP) there is no doubt that the international capital market will continue to remain open to the government even in the event of a further increase in risk aversion. Although a (currently not expected) substantial depreciation of the peso would increase the debt/GDP ratio considering the high share of public-sector debt accounted for by dollar instruments (82%), the additional fiscal burden would be low even in such a case since public interest payments only amount to 2.4% of total spending in 2003.

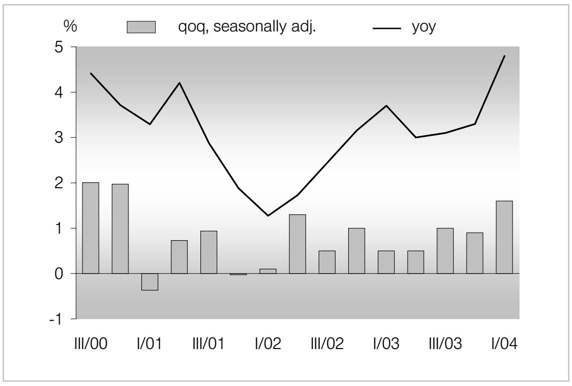
Economic activity: living in the fast lane

After exports turned out to be the fastest growing demand component in 2003 as a whole with a growth rate of 7.8% year-on-year, this trend continued in the first quarter as well (+10.1% year-on-year). Simultaneously, domestic demand at 5.2% year-on-year also reflects strong growth (2003 as a whole: 3.5%). In quarter-on-quarter terms, it becomes clear that the growth momentum is picking up substantially (+1.6%, seasonally adjusted). In light of continued robust foreign demand and low domestic interest rates, the prospects for growth are favorable. We also expect the acceleration in growth to have a positive influence on labor market trends, which have been somewhat disappointing lately. This should also boost consumer confidence (which dropped sharply in April) especially since the trend of retail sales in April (+7% year-on-year) suggests a different picture. We project 4.8% growth for the year as a whole. Doubts about the sustainability of investment growth (Q1-04: +6.3% year-on-year) militate against a higher growth forecast. Imports of capital goods, for instance, declined once again in April (-7.8% year-on-year) and only grew by 2.2% in the first four months. We do not consider the cuts in natural gas exports imposed by Argentina a major threat to growth at this point in time.

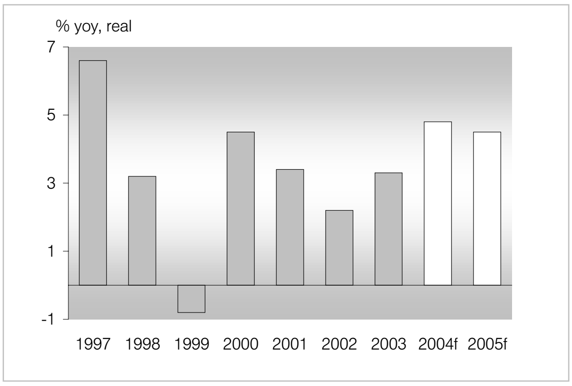
Monetary sector: specter of deflation banished

Following a month-on-month decline in some months up until January, consumer prices picked up again in April for the third consecutive month. Thus the threat of a protracted deflation is likely to have been banished. Nevertheless, while the annual inflation rate was still in negative territory in April (-0.3%), we expect it to return to the lower end of the central bank's target corridor (2-4%) by year-end. On the one hand, the pricing scope of producers is growing thanks to the economic upturn, while higher oil prices and rising electricity prices (shortage of natural gas imports) are bound to fuel inflation on the other. Should oil prices remain at their current high level longer than expected or if they continue to rise, the annual rate might climb up to 3% by December. This in turn might induce the central bank to raise interest rates sooner than we are currently projecting (at the beginning of Q4). The key lending rates have been standing at 1.75% since January 2004.

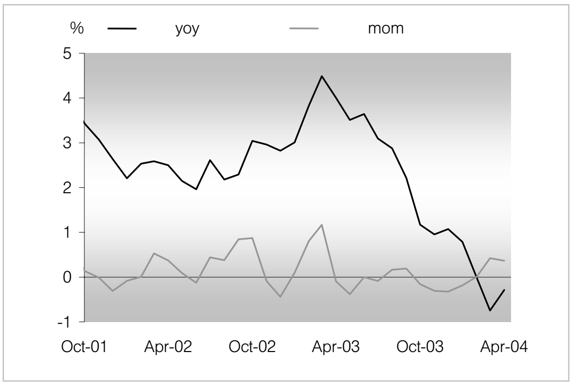
GDP CHANGE (REAL)



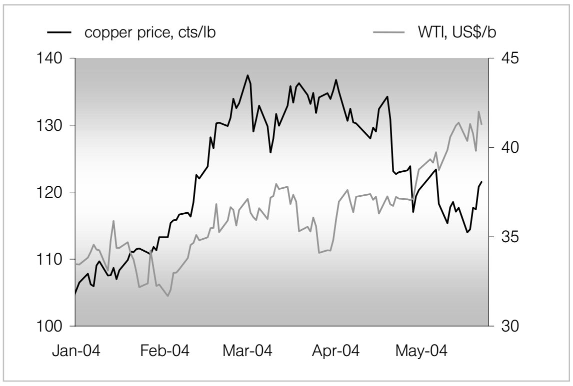
GDP CHANGE (REAL, LONG TERM)



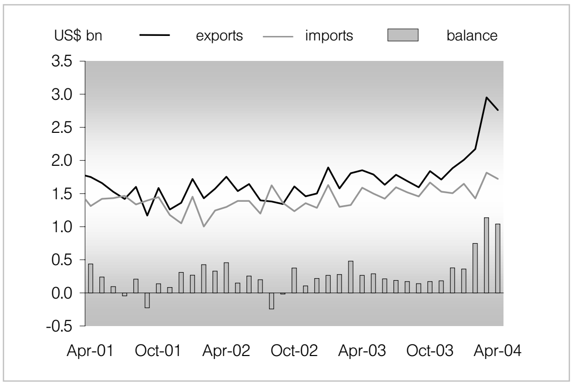
INFLATION



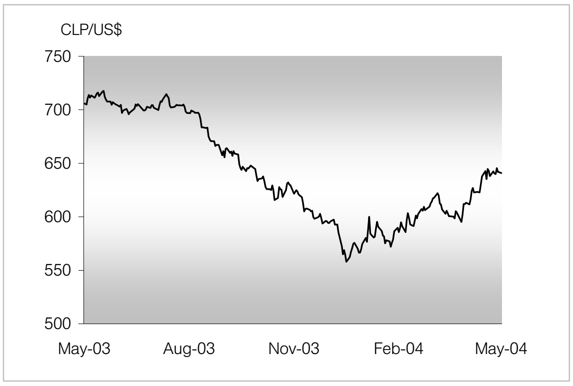
COPPER & OIL PRICES



TRADE BALANCE



EXCHANGE RATE



Foreign trade: is the copper boom over?

In the first four months of the year, copper prices were 65% higher on average than in the corresponding pre-year period. Since copper is the country's key export product, accounting for approx. 36% of total exports (2003), the value of Chilean exports has risen by roughly 40% in the period under review. This resulted in a trade surplus of US$ 3.3 billion (pre-year period: US$ 1.3 billion) even though imports saw solid growth. However, Chile's terms of trade deteriorated rapidly in April. For one thing, copper prices fell from their highest level of almost US$ 1.40/lb to US$ 1.20/lb at the end of May (triggered by doubts concerning demand trends from China); for another, quotations of crude oil prices rose from US$ 34/b to more than US$ 40/b at the end of May. This should, however, not jeopardize the record trade surplus, which we project at US$ 6 billion for the year as a whole (6.8% of GDP).

We expect copper prices to remain steady at their current level on an annual average, since global growth acceleration should result in fundamentally stronger demand for copper. Simultaneously it can be observed that exports of other product groups, underpinned by the various free trade agreements of the country, among other factors, are rising strongly, making the trend in exports less susceptible to copper price fluctuations.

Exchange rate: peso weakened by high outflows of foreign currency

The current account reflected a surplus of US$ 745 million in the first quarter. At the same time there was a deficit of US$ 1.4 billion in the capital account which showed robust inflows of foreign direct investments (US$ 1.5 billion) and high foreign exchange outflows in terms of portfolio investments and due to the reduction of net foreign loans. The high outflow of foreign exchange is likely to have continued in April. This caused the peso to depreciate against the U.S. dollar by around 5% between mid-April and the end of May, also influenced by the decline in copper prices. If, for instance, the copper price should drop dramatically or risk aversion on the international financial markets should see a rapid rise, the exchange rate may remain highly volatile in the short term. In a medium-term perspective, however, the positive fundamentals should become noticeable in the exchange rate.

Given the high dollar supply from foreign trade and presumably decreasing net capital outflows, another appreciation is likely. We forecast an exchange rate of 600 CLP/US$ at year-end with upside pressure being curbed by high growth rates of merchandise imports.

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CHILE: MONTHLY INDICATORS		Jan-04	Feb-04	Mar-04	Apr-04	next/latest
DOMESTIC ECONOMY						
IMACEC	% yoy	3.0	4.2	6.3		08-Jun
Industrial production (INE)	% yoy	1.8	8.0	7.8	4.9	30-Jun
Mining production	% yoy	-2.2	0.2	2.2	10.4	30-Jun
Retail sales	% yoy	4.6	7.4	0.8	7.0	17-Jun
Unemployment rate	%	7.4	7.4	8.1	8.7	30-Jun
Employment	mn	5.68	5.66	5.64	5.62	30-Jun
Labor cost index	% yoy	0.2	0.2	0.3		03-Jun
Consumer prices	% yoy	0.8	0.0	-0.7	-0.3	03-Jun
Consumer prices	% mom	-0.2	0.0	0.4	0.4	03-Jun
Wholesale prices	% yoy	-4.9	-6.7	-6.7	-0.8	03-Jun
Wholesale prices	% mom	-1.1	0.9	2.2	2.2	03-Jun
Money supply M1	% yoy	14.8	15.0	7.9	13.0	08-Jun
Base rate, 90d PDBC (month-avrg., latest: 05/25)	%	1.80	1.58	1.57	1.5	1.27
Loan rate (average)	%	12.0	10.8	10.3	10.1	08-Jun
Deposit rate (average)	%	2.5	2.2	2.0	2.0	08-Jun
Lending to private sector	% yoy	4.3	3.5	5.0	-0.1	23-Jun
Total financial savings (M7, seasonally adjusted)	% mom	-0.7	0.3	1.6	1.2	08-Jun
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2125	2207	3004	2761	08-Jun
Merchandise exports	% yoy	12.2	40.0	66.3	49.1	08-Jun
Merchandise imports	US$ mn	1688	1443	1877	1721	08-Jun
Merchandise imports	% yoy	3.7	11.0	41.4	8.4	08-Jun
Trade balance	US$ mn	436	764	1127	1040	08-Jun
Net foreign direct investment	US$ mn	340.4	724.8	434.2		08-Jun
Portfolio investment (net)	US$ mn	177.3	-316.5	-349.8		08-Jun
Copper price (monthly average, latest: 5/26)	US$ c/lb	109.9	125.2	136.5	133.8	121.9
Foreign exchange reserves*	US$ bn	16.0	16.1	16.0	16.0	08-Jun
US$ exchange rate (latest: 5/26)	CLP	582.7	591.2	612.4	626.3	638.4

CHILE: QUARTERLY INDICATORS		Q2 03	Q3 03	Q4 03	Q1 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	3.0	3.1	3.3	4.8	23-Aug
GDP seasonally adjusted	% qoq	0.4	1.0	0.9	1.6	23-Aug
Total consumption + change in stocks	% yoy	4.1	0.1	5.6	4.9	23-Aug
Private and public investment	% yoy	8.7	2.2	5.5	6.3	23-Aug
Domestic demand	% yoy	5.2	0.6	5.5	5.2	23-Aug
Exports (goods and services)	% yoy	2.2	13.9	6.3	10.1	23-Aug
Imports (goods and services)	% yoy	9.1	5.0	13.9	12.4	23-Aug
Budget balance, central government	Pesos bn	-269.0	-277.0	15.9	236.4	16-Aug
EXTERNAL SECTOR						
Current account balance	US$ bn	-0.17	-0.38	-0.32	0.75	23-Aug
Net foreign direct investment	US$ bn	0.73	0.33	0.24	1.50	23-Aug
Portfolio investment	US$ bn	-1.38	-1.51	-1.24	-0.49	23-Aug
Capital account**	US$ bn	-1.11	0.43	0.20	-0.66	23-Aug
Change in foreign exchange reserves	US$ bn	-1.28	0.06	-0.11	-0.09	23-Aug
Gross foreign debt	US$ bn	41.6	42.4	43.4	43.5	23-Aug
Short-term foreign debt	US$ bn	6.39	6.60	7.59	7.33	23-Aug

* month-end ** incl. residual items

COLOMBIA: SECURITY AS A BASE FOR AN UPSWING

Area	1 141 748 sq. km
Population	43.9 million (+1.9% p.a.)
State president	Álvaro Uribe Vélez
Finance minister	Alberto Carrasquilla
Central bank president	Miguel Urrutia Montoya
Next elections	State president: 2006 Parliament: 2006
GDP per capita	US$ 1 776 (2002)
Investment	17% of GDP (2003)
Savings	14% of GDP (2003)
Exchange rate system	Flexible exchange rate (floating)
Monetary policy	Inflation targeting
Exports (2003)	17% of GDP
Purchasing countries	USA 44%, EU 14%, Venezuela 15%
Products	Manufactured goods 44%, Crude oil and derivatives 26%, coal 11%, coffee 6%
Imports (2003)	16% of GDP
Supplier countries	USA 34%, EU 17%, Venezuela 6%
Products	Primary and intermediate products 46%, capital goods 34%, consumer goods 19%
Rating:	Moody's: Ba2 S&P: BB

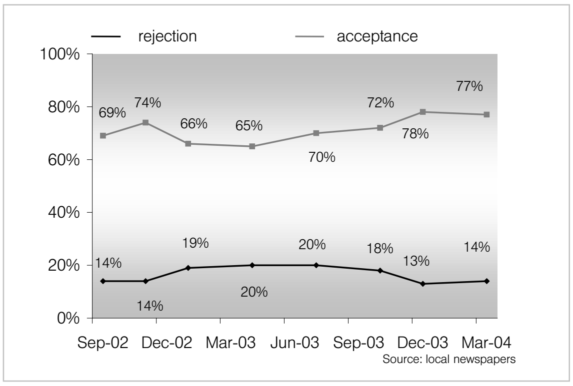
SUMMARY AND OUTLOOK

Following years of stagnation, Colombia now is in the middle of a sustained economic upturn which recently gained increasing momentum. Unlike its neighbors, the strongest economic impetus does not come from exports but from private investments and consumption. The government is contributing its share to the upturn by providing an improved economic climate in consistently following up domestic security issues. The government seems to be less consistent when it comes to the consolidation of public finances, which it could live to regret if negative external effects (a sharp hike in key U.S. interest rates or a downturn in the global economy) should bring the upturn to a sooner-than-expected standstill. Even though we do not expect to see this happening, a more rapid consolidation of public finances along with a lower level of public-sector debt would be desirable since this would reduce the country's vulnerability to external shocks.

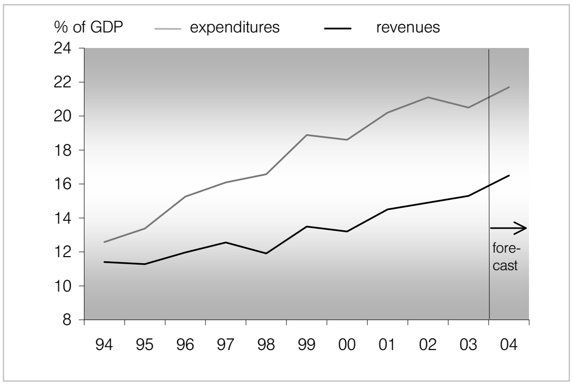
COLOMBIA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.4	1.6	3.7	4.0	3.7
GDP	US$ bn	81.7	81.5	78.1	91.7	95.9
Inflation (year-end)	%	7.7	7.0	6.5	6.0	6.5
Inflation (average)	%	8.0	6.3	7.1	6.2	6.3
PUBLIC SECTOR						
Budget balance, central government	% GDP	-4.6	-6.1	-5.4	-4.8	-4.5
Budget balance, public sector	% GDP	-3.4	-3.6	-2.8	-2.8	-2.8
Public debt	% GDP	50	57	60	60	61
Amortization	US$ bn	6.1	6.7	6.2	5.3	6.5
Gross financing needs	US$ bn	8.9	9.6	8.4	7.9	9.2
EXTERNAL SECTOR						
Merchandise exports	US$ bn	12.8	12.3	13.5	15.4	16.8
Merchandise imports	US$ bn	12.3	12.1	13.3	14.4	16.2
Trade balance	US$ bn	0.6	0.2	0.3	0.9	0.7
Current account balance	US$ bn	-1.2	-1.5	-1.4	-1.2	-1.7
Current account balance	% GDP	-1.5	-1.8	-1.8	-1.3	-1.7
Net direct investment	US$ bn	2.5	1.2	0.8	2.0	1.5
Foreign exchange reserves, year-end	US$ bn	10.2	10.7	10.9	11.5	11.3
Import cover ***	months	6.3	6.8	6.4	6.3	6.2
US$ exchange rate, year-end	Pesos	2291	2867	2780	2800	2900
US$ exchange rate, average	Pesos	2300	2507	2878	2680	2850
FOREIGN DEBT						
Gross foreign debt	US$ bn	39.1	42.0	39.5	39.4	39.2
Foreign debt	% exports***	246	282	257	243	229
Short-term foreign debt	US$ bn	3.3	3.8	4.3	4.7	5.1
Foreign debt amortization	US$ bn	5.3	5.8	7.3	5.2	5.4
Foreign debt service	US$ bn	7.8	8.6	10.0	7.9	8.1
Foreign debt service	% exports***	49	56	65	49	47
FINANCIAL MARKETS (year-end)						
Deposit rate (DTF, 90 days)	%	11.4	8.0	7.9	8.8	8.5
IBB stock index (peso based, 2004: 05/26)*		1071*	1474	2334	2909	
IFCG stock index (US$ based, 2004: 05/26)		561	615	783	997	
Bond market yield spread (2004: 05/26)**	bp	516	736	431	535	

* as of July 2001: IGBC ** EMBI+ ***goods and services e=estimate f=forecast

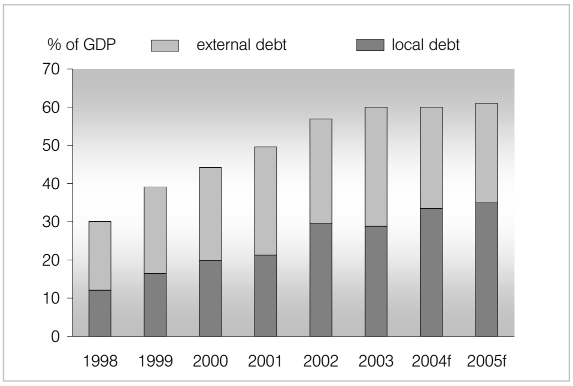
PRESIDENT URIBE´S POPULARITY



CENTRAL GOVERNMENT BUDGET



PUBLIC DEBT



Domestic policy: wrong priorities applied to legislation

Although president Uribe has enjoyed the backing of more than 70% of Colombians since the beginning of his term in office, we assume that the government is going to suffer yet another defeat. After a national referendum and a veto of the constitutional court had caused key reforms to fail last year, an application for a constitutional amendment to pave the way for re-election of the president has been submitted to congress – since 1991, heads of government have been barred from serving a second term of office. The government is giving this bill top priority. The protracted parliamentary procedure should take several months, which means that the passing of key reforms (above all, the restructuring of the pension system, the reform of the value added tax and new provisions for transfer payments to the provinces) will most probably be delayed until the end of 2004. We think it highly unlikely that president Uribe will be able to stand for re-election. The fight for alliances in the senate and house of deputies is tying down forces that would actually be needed to implement the structural reforms in question. The controversy surrounding a re-election even threatens to split the congress, which in turn would render the chances of making any progress on other legislative initiatives extremely slim.

In the armed conflict, an agreement was surprisingly reached with the leader of the largest paramilitary group (AUC) on the creation of a special zone to facilitate further negotiations. Both the government and the AUC will adhere to the planned disarmament by the end of 2005. The fact that the talks (which had shown signs of breaking down on several occasions) are continuing is a positive sign, even though the impact this might have on future negotiations is not yet clear. We do not expect the armed conflict to be resolved within the next few years and also remain skeptical about the planned disarmament – it is likely that the majority of paramilitary leaders will stipulate as a precondition to the planned disarmament that substantial progress is made in combating the left-wing guerrillas. Nevertheless, according to opinion polls the Colombians feel much safer now than they did a year ago due to a stronger presence of the armed forces as well as a declining number of kidnapping incidents. This will buoy an economic upturn which, underpinned by lower unemployment rates, should also help to alleviate the social conflicts.

Public finances: debt still rising

In the period 1998-2003, public-sector debt doubled, to roughly 60% of GDP. In addition to high budget deficits averaging 4.1% of GDP, the weak growth rate and strong depreciation of the peso against the U.S.

dollar are the reasons for the rapid deterioration of the country's financial situation. Although the government succeeded in making progress on some issues, it would take the still outstanding reforms (pension regulations, transfer payments, increased flexibility of public-sector spending) to push forward a sustained streamlining of public-sector finances. The reduced budget deficit observed last year is chiefly attributable to non-recurring special effects, greater efficiency in collecting tax revenues as well as the strong economic recovery. At this stage, we do not see any signs to suggest that the government will be able to further reduce the consolidated public-sector deficit. Our forecast that the relative public-sector debt will stagnate this year is based mainly on the anticipated annual average appreciation of the peso against the US$. We project a slight expansion of the government's debt level as early as next year, making structural fiscal reforms all the more urgent.

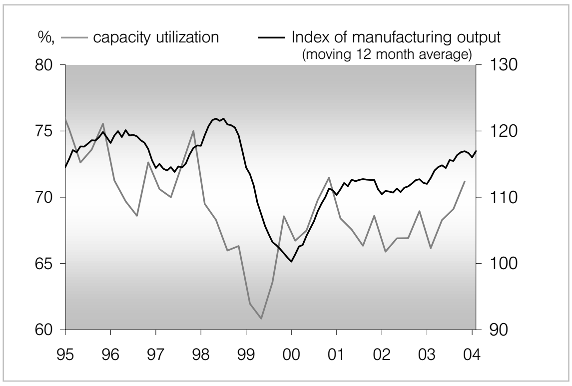
Economic activity: upturn continues

Colombia is in the midst of a strong economic upswing. The building industry has been booming for months now due to the strong pent-up demand after years of stagnation – last year's real economic performance was only 5% up on the level of 1998, which is equivalent to negative per-capita growth. In addition, growing confidence in the government's security policy as well as increased external capital inflows are bolstering the economic revitalization. Last year's official GDP growth figure (a good 3.7%) also takes drug cultivation estimates into account. This sector of the informal economy showed a strong decline last year (-40%); leaving it out of the equation, GDP growth 2003 stood at a good 4%. We expect to see the economic revitalization continue unabated. Mining, construction and finance are likely to remain the most dynamic sectors this year as well. The increase in industrial production should accelerate at the same time. This should also revitalize the electricity and gas sectors, as well as transport & communications. On the demand side, private investments and consumption should contribute to the increase in economic performance to more or less the same extent. Even though consumer confidence declined between January and March, consumers continue to be more confident than they were a year ago. Exports are bound to benefit from the increased demand from the U.S. and Venezuela and will likewise grow more strongly year-on-year.

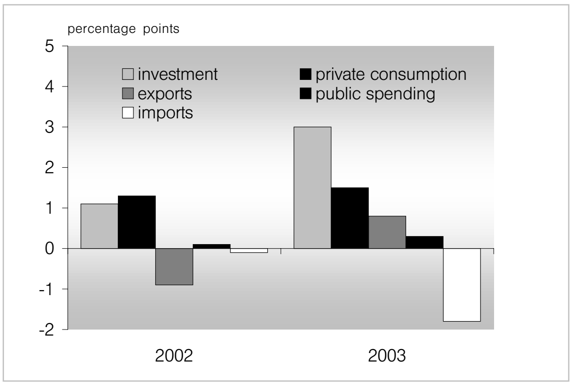
Monetary sector: Fed sets the pace

Inflation surprisingly reached the level of the central bank's year-end target as early as April, at 5.5% on an annualized basis. We do not

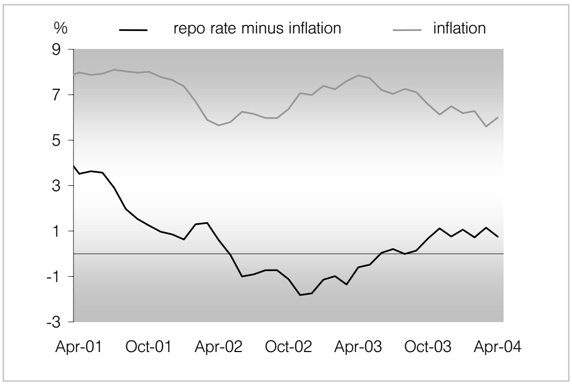
CAPACITY UTILIZATION & OUTPUT



GROWTH CONTRIBUTION

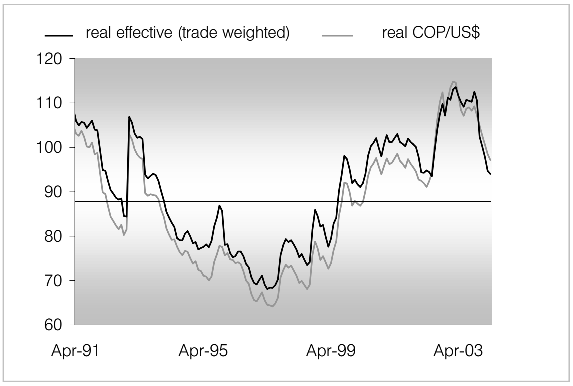


INFLATION AND KEY INTEREST RATE

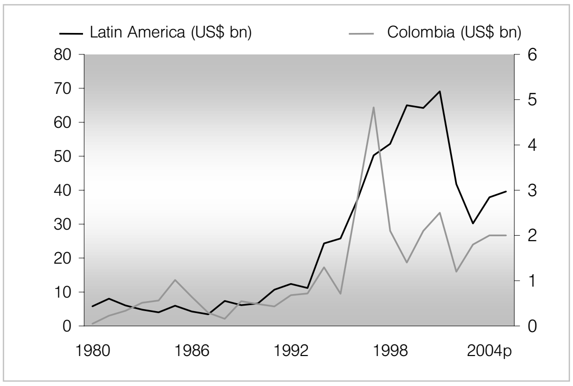


project a further decline, however. The looming hike in key U.S. interest rates in our assessment should cause a further depreciation of the peso against the U.S. dollar over the next few weeks and the resulting greater costs of imports as well as the recent oil price hike should increase pressure on prices slightly. Even though in historical terms capacity utilization is unlikely to be very high at the end of the year (see chart), we assume that the central bank will slightly tighten its monetary reins in the next several months (increase in the repo rate from currently 6.75% to 7%). We therefore expect the inflation rate not to exceed 6% at the end of the year. The moderate increase in domestic interest rates and the favorable economic outlook should also ensure that the external value of the peso will amount to approx. 2800 pesos/US$ at the end of the year.

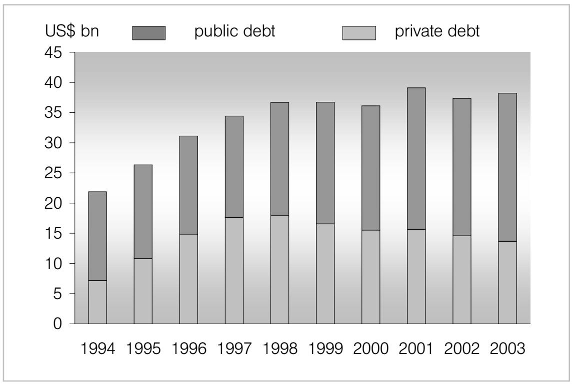
EXCHANGE RATE



FOREIGN DIRECT INVESTMENT



FOREIGN DEBT STRUCTURE



External sector: attractive target for direct investments

The decline in oil exports observed for years now (volume 2003: -16% year-on-year) will be more than offset by the sustained high crude oil price (crude oil exports 2003 in US$: +3%). In addition, increased coal-mining activities as well as the expansion of industrial merchandise exports to the U.S. and Venezuela in particular should also boost the country's total exports by a good 14%. We project an appreciably lower increase in imports (+ 8.5%), which is likely to cause the trade surplus to widen this year. Due to favorable foreign trade conditions, we expect the current account deficit to drop to approx. US$ 1.6 billion.

The high level of foreign debt (264% of exports), 2/3 of which are accounted for by public debt, makes it necessary for Colombia (despite a reduced current account deficit) to attract international capital of more than US$ 9 billion (amortizations + current account deficit) in both this year and next in order to prevent a decline in foreign currency reserves. We expect this to be accomplished without any major problems. Capital inflows from multilateral creditors should amount to approx. 1.7 billion, and the government plans to launch US$ 1 billion in bond issues on the international market. Private loans (banks and enterprises) granted and prolonged, respectively, should amount to a good US$ 4.5 billion, which means that the capital inflows together with higher direct investments projected by us (forecast 2004: US$ 2 billion) should be more than sufficient to cover the country's financing requirements. In terms of direct investments, industry in particular should benefit from the likely lower U.S. trade barriers as from 2006 as well as the pickup in demand from Venezuela.

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COLOMBIA: MONTHLY INDICATORS		Jan-04	Feb-04	Mar-04	Apr-04	next/lates
DOMESTIC ECONOMY						
Industrial production (not incl. coffee)	% yoy	-0.3	6.1	7.1		22-Jun
Retail sales (excl. fuel)	% yoy	8.6	7.1	5.0		22-Jun
Unemployment rate (urban)	%	18.1	17.1	16.2	14.7	05-Jul
Consumer prices	% yoy	6.2	6.3	6.2	5.5	04-Jun
Consumer prices	% mom	0.9	1.1	1.0	0.5	04-Jun
Producer prices	% yoy	5.3	5.0	4.6	4.1	08-Jun
Producer prices	% mom	0.7	1.0	0.5	0.7	08-Jun
Monetary base (month-end, latest 05/19)	% yoy	16.4	17.3	20.6	11.7	19.5
Money supply M1 (month-end, latest 05/19)	% yoy	16.9	17.3	14.6	12.3	16.9
Money supply M3 (month-end)	% yoy	12.3	11.6	12.6	12.3	05-Jun
Lending rate (month-end)	%	15.4	15.5	15.1	16.1	05-Jun
Deposit rate (DTF, 90 days, month-end, latest 05/21)	%	7.36	7.08	6.92	7.75	7.76
Treasury bills (local index, month-end, latest 05/27)***	%	103.6	106.0	107.5	104.7	102.6
Treasury bills (TES 08/08, month-end, latest 05/27)***		12.9	11.8	11.1	12.2	13.0
Interbank interest rate (month-end, latest 05/20)	%	7.36	7.08	6.92	6.92	6.90
Credit volume (month-end)	% yoy	7.2	7.1	5.6	5.3	05-Jun
EXTERNAL SECTOR						
Merchandise exports	US$ mn	1166.4	998.3	1118.0		22-Jun
Merchandise exports	% yoy	26.8	-3.1	8.8		22-Jun
Merchandise imports	US$ mn	1118.7	1021.3			29-Jun
Merchandise imports	% yoy	-2.5	6.8			29-Jun
Trade balance	US$ mn	48	-23			29-Jun
Foreign exchange reserves (month-end, latest 05/19)	US$ mn	11245	11291	11332	11434	11434
US$ exchange rate (month-end, latest 05/26)	pesos	2741	2669	2678	2647	2753

COLOMBIA: QUARTERLY INDICATORS		Q1 03	Q2 03	Q3 03	Q4 03	next/latest
DOMESTIC ECONOMY						
GDP (latest Q1 04)	% yoy	4.1	2.2	4.1	4.5	3.8
GDP, seasonally adjusted	% qoq	1.1	0.6	1.9	0.8	15-Jun
Private consumption	% yoy	1.9	1.5	2.6	3.5	15-Jun
Public consumption	% yoy	0.5	0.8	0.0	4.1	15-Jun
Domestic consumption	% yoy	1.6	1.3	1.9	3.6	15-Jun
Domestic investment	% yoy	47.2	5.2	16.0	13.7	15-Jun
Domestic demand	% yoy	7.4	1.9	4.3	5.4	15-Jun
Exports (goods and services)	% yoy	0.3	2.6	10.2	3.9	15-Jun
Imports (goods and services)	% yoy	18.9	1.0	10.6	8.6	15-Jun
EXTERNAL SECTOR						
Merchandise exports	US$ bn	3.10	3.45	3.42	3.36	08-Jun
Merchandise imports	US$ bn	3.21	3.15	3.43	3.47	08-Jun
Trade balance	US$ bn	-0.11	0.30	-0.02	-0.12	08-Jun
Current account balance	US$ bn	-0.67	-0.14	-0.37	-492	08-Jun
Net foreign direct investment	US$ bn	0.25	0.62	0.55	-0.51	08-Jun
Portfolio investment*	US$ bn	0.03	-0.40	0.97	0.38	08-Jun
Capital account**	US$ bn	0.37	-0.09	0.70	0.15	08-Jun
Change in foreign exchange reserves	US$ bn	-0.27	-0.20	0.33	-0.04	08-Jun

*incl. foreign credit **incl. residual items ***source: Corfinsura

COSTA RICA: BOND SELL-OFF

Area	51 100 sq. km
Population	4.2 million (+2.0% p.a.)
State president	Abel Pacheco de la Espriella
Finance minister	Alberto Dent
Central bank president	Francisco de Paula Gutiérrez
Next elections	State president: February 2006 Parliament: February 2006
GDP per capita	US$ 4 190 (2003)
Rating	Moody's: Ba1 S&P: BB

ANNUAL FIGURES AND FORECASTS

COSTA RICA		2001	2002	2003e	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.0	2.9	5.6	5.0	4.2
GDP	US$ bn	16.4	16.8	17.5	18.4	19.3
Inflation (year-end)	%	11.0	9.7	9.9	9.5	8.5
Inflation (year-average)	%	11.2	9.2	9.4	10.4	9.0
Budget balance, public sector	% GDP	-2.9	-5.4	-4.5	-3.8	-3.5
Public sector debt	% of GDP	48.7	51.9	57.5	60.2	61.5
EXTERNAL SECTOR						
Merchandise exports	US$ mn	4923	5259	6132	6950	7000
Merchandise imports	US$ mn	5745	6523	7246	7950	8100
Trade balance	US$ mn	-822	-1264	-1114	-1000	-1100
Current account balance	US$ mn	-736	-946	-970	-1050	-950
Current account balance	% GDP	-4.5	-5.6	-5.5	-5.7	-4.9
Net foreign direct investment	US$ mn	445	628	540	560	580
Foreign exchange reserves, year-end	US$ mn	1330	1497	1836	1880	1920
Import cover *	months	2.0	2.1	2.2	2.0	2.1
US$ exchange rate, year-end	Colones	342	379	419	465	495
US$ exchange rate, average	Colones	329	360	399	440	475
FOREIGN DEBT						
Gross foreign debt	US$ bn	4.6	4.9	5.3	5.6	5.8
Foreign debt	% exports*	65	67	65	58	58
Short-term foreign debt	US$ bn	1.2	1.3	1.5	1.6	1.7
FINANCIAL MARKETS (year-end)						
BCT stock index (colon based, 2004:05/26)		12028	11485	10903	8799	

*goods and services e=estimate f=forecast

Domestic policy: robust economic growth

In the year 2003, the growth rate of Costa Rica's economy surged to its highest level since 1999. Thanks to strong foreign demand (+11.1%) and high investments (+11.3%), GDP rose 5.6%. The growth momentum has recently weakened, however, and we expect this trend to continue. Firstly, the interest rate turnaround in the U.S. has been accomplished and the level of U.S. interest rates will continue to rise – albeit moderately – in the course of the year. There is no doubt, however, that this also means that Costa Rica's central bank will have to tighten its monetary policy and that loans will become more expensive. Secondly, the economic upturn in the U.S. is bound to lose momentum in the second half of the year, which should cause growth in foreign demand in Costa Rica to decline. Investment demand should also be dampened as a result. What is more: the public sector must continue with spending cuts in order to reduce its deficit further. Thus new borrowing requirements will still amount to roughly 3.8% of GDP in 2004.

External sector: jitters

Costa Rica's economy is particularly vulnerable to an interest rate hike in the U.S. For one thing, due to the close trade links the economy of the country will be directly hit should the rise in interest rates cause a slowdown in US import demand. For another, the public sector makes strong use of the international bond market as a source of funding. This entails the risk that an interest rate hike in the U.S. will lead to a sharp decline in demand for bonds from the emerging market economies. In the last couple of months, this two-pronged specter resulted in an above-average price decline of government bonds Costa Rica had issued on international markets. This was attributable to a spate of selling by domestic institutional investors (investment funds) which, because fund units were returned, were forced to place public-sector debt instruments on the market. The securities regulatory authority subsequently intervened and loosened the debt financing regulations for investment funds. We are convinced that the panic-like reaction of investors was exaggerated and that the risk spread of the country will soon return to move in line with the market as a whole. Thus, the level of interest rates in the U.S. will rise, yet only moderately, and the U.S. economy will slow down, but there will still be sufficient momentum left to boost Costa Rica's exports to the U.S. Although public-sector debt remains unsatisfactorily high at 60% of GDP, the sustainability is not in jeopardy, however, in view of the positive outlook for the country in the medium term.

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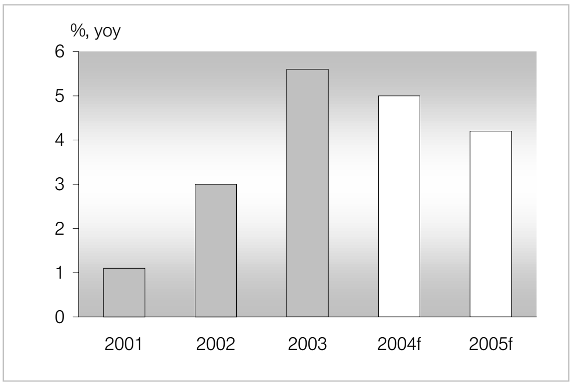
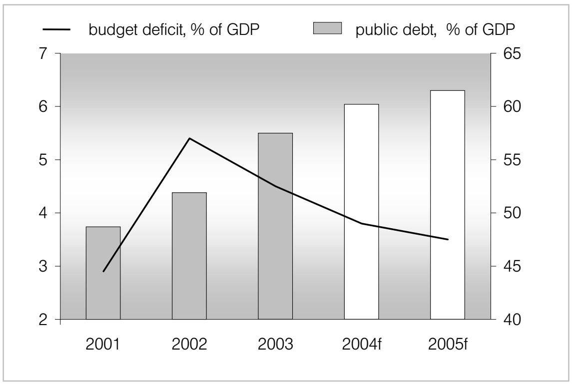
SUMMARY AND OUTLOOK

The fear of sharp interest rate hikes in the U.S. caused a panic-like wave of selling of Costa Rica's foreign-currency bonds by domestic investors. We consider such panic exaggerated. Firstly, the rise in the level of U.S. interest rates should only be moderate and the international bond market will remain open to Costa Rica in the future. Secondly, although the economic momentum will slow down in the U.S., Costa Rica's exports to the U.S. will continue to grow regardless. The sustainability of public debt is not at risk in the medium term in the given scenario.

GDP CHANGE (REAL)



PUBLIC FINANCES



GUATEMALA: END OF GRACE PERIOD

Area	109 000 sq. km
Population	12.4 million (+ 2.6% p.a.)
State president	Oscar Berger Perdomo
Finance minister	Mario Cuevas
Central bank president	Lizardo Sosa López
Next elections	State president: November 2007 Parliament: November 2007
GDP per capita	US$ 1 927 (2003)
Rating	Moody's: Ba2 S&P: BB-

ANNUAL FIGURES AND FORECASTS

GUATEMALA		2001	2002	2003e	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	2.1	2.2	2.1	2.8	2.5
GDP	US$ bn	21.0	23.3	24.7	26.4	27.7
Inflation (year-end)	%	8.9	6.3	5.9	7.2	5.0
Inflation (year-average)	%	7.6	8.0	5.5	6.8	5.8
Budget balance, public sector	% GDP	-1.9	-1.0	-2.2	-2.0	-1.5
Public sector debt	% of GDP	22.5	22.8	23.5	24.5	24.7
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2860	2628	2750	2900	3000
Merchandise imports	US$ mn	5142	5578	5750	6100	6300
Trade balance	US$ mn	-2282	-2950	-3000	-3200	-3300
Current account balance	US$ mn	-1253	-1193	-1020	-1250	-1250
Current account balance	% GDP	-6.0	-5.1	-4.1	-4.7	-4.5
Net foreign direct investment	US$ mn	456	110	100	150	150
Foreign exchange reserves, year-end	US$ mn	2301	2299	2833	2950	3050
Import cover *	months	4.3	3.9	4.7	4.6	4.6
US$ exchange rate, year-end	Quetzales	8.00	7.81	8.04	8.25	8.60
US$ exchange rate, average	Quetzales	7.86	7.82	7.94	8.15	8.43
FOREIGN DEBT						
Gross foreign debt	US$ bn	4.53	4.08	4.40	4.60	4.80
Foreign debt	% exports*	107	104	109	109	109
Short-term foreign debt	US$ bn	1.60	1.06	1.10	1.20	1.20

*goods and services e=estimate f=forecast

Domestic policy: abrupt end to brief collaboration

The grace period for Oscar Berger, who became president only a couple of months ago, came to an abrupt end. For one thing, the Partido Patriota has left the ruling GANA coalition. For another, the „pact" with two leading opposition parties, which was supposed to ensure the government's freedom of action, fell apart. The government, which does not hold a majority in congress, needs the approval from parts of the opposition in order to pass legislative amendments. These include urgently required structural reforms that might strengthen Guatemala as a production location and attract more foreign investors into the country. A comprehensive tax reform is an additional item on the agenda. This reform aims to bring the public-sector deficit down again to under 2% of GDP after having exceeded this mark at 2.5% of GDP in 2003 for the first time since 1999. The second target is the gradual increase of the tax rate from 10% of GDP in 2003 to 12% of GDP. The IMF will also make this a prerequisite of negotiations regarding the renewal of the stand-by agreement having expired in March, which will probably be entered into within the next months. Oscar Berger's new government has tabled a convincing program. Whether or not it will succeed will depend on its negotiation skills and is difficult to assess at present. Failure or delays in this regard would not put the macroeconomic stability of the country at risk, at least not in the short term. Public-sector debt has been brought under control and the banking system has likewise become significantly more stable in the last several years. Another positive factor is the country's comfortable foreign-currency situation.

Domestic policy: no sign of an upturn

The economy seems to be unable to pick up momentum despite the fact that the climate of political uncertainty has improved significantly in the year following the elections and that external conditions (low level of interest rates, global economic upturn) remain positive. The growth rate of the monthly economic indicator IMAE fell to around 1.5% year-on-year in January 2004 following its cyclical high of 4.8% year-on-year in February 2003 and, according to unofficial statements, has remained flat at this level ever since. The government's austerity measures are putting a brake on the economy. In addition, it became necessary to introduce a more restrictive monetary policy because the high level of liquidity caused prices to surge appreciably. The annual inflation rate rose to 6.7% in April, i.e. well in excess of the central bank's inflation target of 4% to 6%. Assuming that the political debate on a tax reform will take some time, we therefore expect monetary policy to be tightened further over the next few months. Foreign demand also seems to have declined in the first months of the year. Exports dropped by 8.3% between January and April. All in all, we project moderate GDP growth of 2.8% for the year 2004 as a whole.

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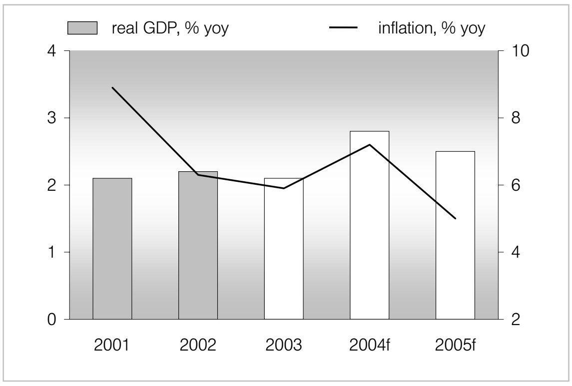
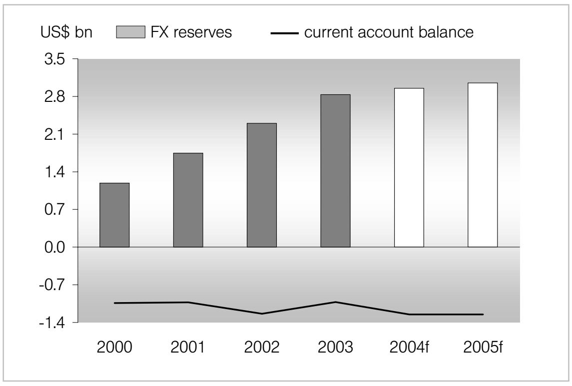
SUMMARY AND OUTLOOK

The grace period certainly did not last long for Oskar Berger (GANA party), who was elected president only in December last year. With his minority government, he will find it difficult to push key structural reforms and a comprehensive tax reform through congress. Although this could well cost the country economic growth, it would not jeopardize macroeconomic stability, however. Public-sector debt is low and the banking sector has made significant progress with its consolidation. Another positive factor is Guatemala's comfortable foreign-currency situation.

GDP CHANGE (REAL) & INFLATION



EXTERNAL SECTOR



MEXICO: THE PERILS OF HIGH OIL PRICES

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 president	Guillermo Ortiz Martínez
Next elections	State president: July 2006 Parliament: July 2006
GDP per capita	US$ 6 300 (2002)
Investment	21% of GDP (2002)
Savings	18% of GDP (2002)
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%, rest of industry 39% crude oil and derivatives 11%
Imports of goods (2003)	28% of GDP
Supplier countries	USA 62%, EU 12%, China 6%, Japan 4%
Products	Intermediate goods for the maquiladora 35 %, intermediate goods for the rest of the economy 41%, capital goods 12%, consumer goods 13%
Rating:	Moody's: Baa2 S&P: BBB-

SUMMARY AND OUTLOOK

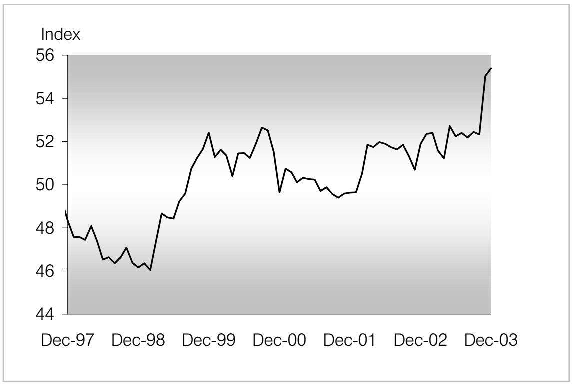
With the anticipated continued rise in international interest rates comes an increase in risk spreads on portfolio investments in emerging market economies. This will adversely affect future economic trends in Mexico – primarily resulting from rising domestic interest rates. However, due to the low dependency on private capital inflows, the negative consequences will probably be less severe than in other emerging market economies. The anticipated economic slowdown in the U.S. in the second semester will put a damper on the level of economic activity. In contrast, by generating higher government revenues the rising oil prices will widen the scope of fiscal policy and limit the rise in domestic interest rates as a result of an improved current account balance. All in all and including the surprisingly high GDP growth rate in the first quarter, we now forecast that the Mexican economy will grow slightly more than 3% (previous forecast: 2.8%) this year. An economic slowdown in the second half of the year will also exert pressure on the peso which - curtailed only by more restrictive monetary policy – should depreciate further, to MXN/US$ 11.90 by year-end.

MEXICO		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	-0.1	0.7	1.3	3.2	2.6
GDP	US$ bn	623	648	626	638	645
Inflation (year-end)	%	4.4	5.7	4.0	4.0	3.5
Inflation (average)	%	6.4	5.0	4.5	4.2	3.7
PUBLIC SECTOR						
Budget balance, central government	% GDP	-1.0	-1.0	-0.8	-0.6	-0.6
Budget balance, public sector	% GDP	-0.7	-1.4	-0.6	-0.3	-0.3
Public debt	% GDP	26	28	28	28	28
Amortization (Cetes excl.)	Pesos bn	194	222	250	338	325
Gross financing needs (Cetes excl.)	Pesos bn	236	298	283	359	348
EXTERNAL SECTOR						
Merchandise exports	US$ bn	158	161	165	176	184
Merchandise imports	US$ bn	168	169	171	184	196
Trade balance	US$ bn	-10.0	-7.9	-5.7	-7.8	-11.9
Current account balance	US$ bn	-18.2	-14.1	-9.2	-10.4	-14.7
Current account balance	% GDP	-2.9	-2.2	-1.5	-1.6	-2.3
Net foreign direct investment	US$ bn	25.3	13.6	10.7	15.0	12.0
Foreign exchange reserves, year-end	US$ bn	44.7	50.6	59.0	65.0	63.5
Import cover **	months	2.6	3.0	3.5	3.5	3.3
US$ exchange rate, year-end	Pesos	9.17	10.46	11.24	11.90	12.00
US$ exchange rate, average	Pesos	9.34	9.66	10.79	11.47	11.93
FOREIGN DEBT						
Gross foreign debt	US$ bn	159.2	161.0	163.5	161.0	162.0
Foreign debt	% exports**	90	91	90	83	80
Short-term foreign debt	US$ bn	40.2	41.5	43.1	45.0	46.5
Foreign debt amortization	US$ bn	17.7	13.0	20.8	21.7	12.5
Foreign debt service	US$ bn	30.3	25.0	32.3	33.3	24.5
Foreign debt service	% exports**	17	14	18	17	12
FINANCIAL MARKETS (year-end)						
Interest rates (Cetes, 28 days)	%	7.4	7.6	6.0	7.5	8.2
IPC stock index (peso based, 2004: 05/26)		6372	6127	8795	10063	
IFCI stock index (US$ based, 2004: 05/26)		761	637	830	934	
Bond market yield spread (2004: 05/26)*	bp	308	324	199	207	

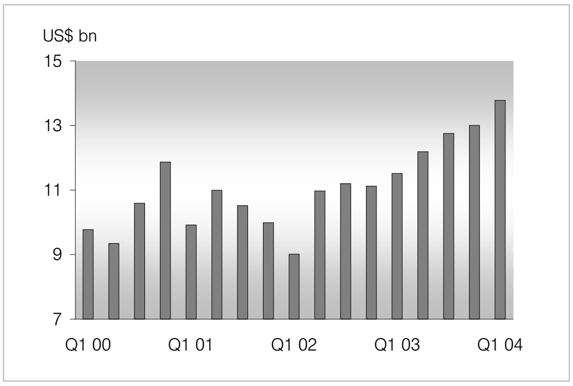
* EMBI+ ** goods and services

e=estimate f=forecast

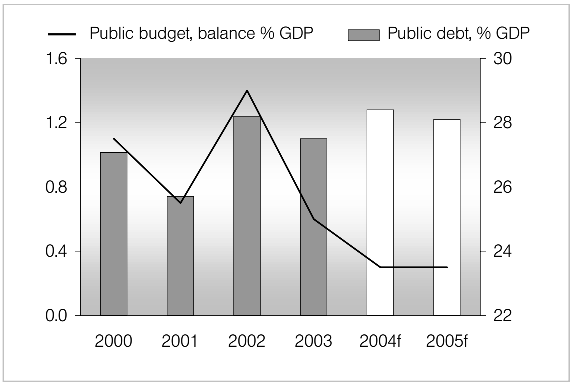
TERMS OF TRADE



OIL RELATED INCOME (PUBLIC SECTOR)



PUBLIC FINANCES



Public finances: windfall profits

Rising oil prices are a double-edged sword for Mexico's economy. On the one hand they improve the terms of trade in a crude oil exporting country such as Mexico. This means that resources from crude oil importing countries are transferred and are now available in Mexico for investment and consumer spending. Mexico's crude oil production is largely state-owned. This means that a major part of these additional resources will flow to the public sector. On the other hand, in Mexico's case it must be borne in mind that the world's biggest crude oil importer, the U.S., is also Mexico's key trading partner. The higher the rise in oil prices is and the longer the period of rising oil prices persists, the greater the risk of the U.S. economy being impaired for a protracted period, compounded by an increased level of U.S. interest rates due to the inflationary effects of the oil price hike, with corresponding negative impacts on Mexico's industrial goods exports to the U.S. and on the amount of foreign capital inflows.

The positive effects of higher oil prices are clearly reflected in the trend of public finances in the first quarter of 2004, the budget having closed with a record surplus of 47.2 billion pesos, or 2.6% of GDP. This result is mainly attributable to the fact that revenues exceeded the budget by 22.5 billion pesos; of this sum, unexpected oil revenues accounted for 18.1 billion pesos. The average price for Mexican crude oil projected in the 2004 budget is US$ 20/b; the actual price realized in the first quarter of 2004 amounted to more than US$ 26/b, however. In view of recent oil market trends we now forecast that the oil price will rise to an average of US$ 34/b for WTI and US$ 27/b for Mexican crude oil in 2004. Conservatively calculated, this would amount to US$ 6.5 billion in windfall profits. Budget legislation stipulates that 50% of additional revenues from the crude oil business are to be transferred to the federal states while 25% will be utilized for the reduction of public debt, with the remaining 25% flowing into the revenue stabilization fund. One part of the windfall profits should thus be directly reflected in unplanned additional expenditure in the federal states, boosting the economy. The remaining part will help the government to easily achieve its target of reducing the public deficit (narrow definition) to 0.3% of GDP (following 0.6% of GDP in the year 2003).

Economic activity: how sustainable is the upturn?

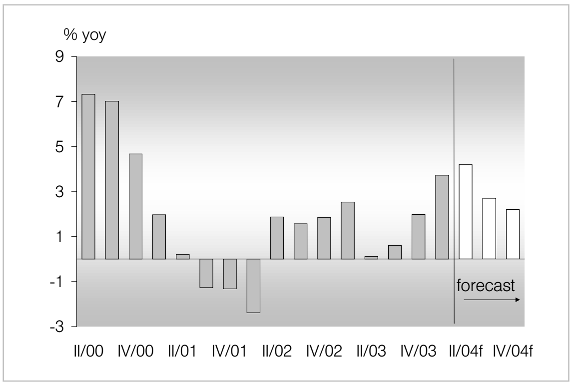
The economy continued its upward trend in the first quarter of 2004, with GDP rising by 1.3% quarter-on-quarter, seasonally adjusted. Year-on-year growth amounted to 3.7%. Thus the Mexican economy has now seen robust growth in two consecutive quarters. Towards the end of the first quarter, the Mexican industry finally managed to benefit appreciably from the continuing strong growth in US import demand. In March, industrial production rose 1.2% month-on-month (seasonally adjusted) and industrial goods exports surged to a new all-time high with an increase of 20.8% year-on-year. In tandem with the economic upturn stimulated by external factors, the labor market has also been revitalized. The number of employed persons recorded by the social insurance system rose by 283,000 in the first quarter, giving fresh impetus to private consumption and, therefore, to the services sector in particular.

But how sustainable is the present upturn that has lasted for two quarters now? There are hardly any doubts that it will also continue in the second quarter of 2004 since the U.S. economy has scarcely lost momentum as yet. For the second half of the year, however, we forecast quite a substantial economic slowdown in Mexico's neighboring country due to a slowdown in private consumption, which is of key importance to Mexico's export industry. In addition there is the fact that the interest rate level in the U.S. will continue to rise in the course of the year, causing interest rate hikes in Mexico as well. These two negative factors are likely to turn the upbeat mood that has increasingly been spreading among Mexico's investors and consumers in the opposite direction. Mexico's economic susceptibility to impaired external conditions can be attributed to the fact that structural reforms that might trigger growth forces have failed to materialize as yet. These urgently required reforms include a wider accessibility of the energy sector to foreign investors, a reform of labor market legislation and a comprehensive tax reform.

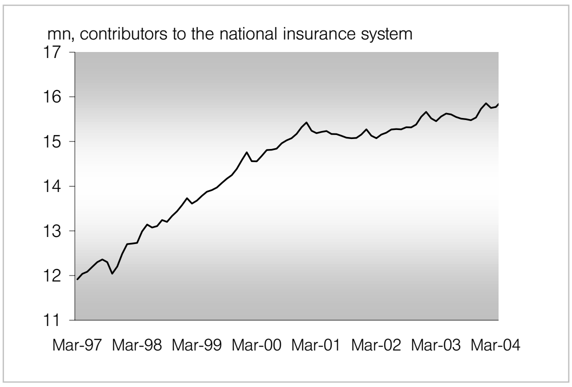
Monetary sector: central bank under pressure

The Mexican central bank does not have an easy task at present. While in the U.S. economy (with which monetary convergence is to be achieved in the long term) the disinflation process has developed so quickly that the Fed's monetary policy has been characterized by deflation risks for some time, the decline in inflation in Mexico has faltered despite the weak level of economic activity. This occurred at an inflation level significantly higher than the level of 3% at which Banco de Mexico considers price stability achieved and which it aims at on a permanent basis. Which factors contributed to the inflation inertia in Mexico? Firstly, it indicates that competitive intensity is relatively low. One example of this is the production and distribution of electricity, both of which are reserved to state-owned enterprises. Secondly, due to what is at best hesitant progress on economic reforms, growth in productivity is relatively low, causing higher

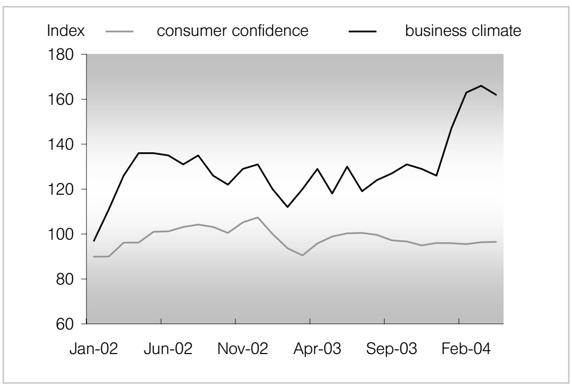
GDP CHANGE (REAL)



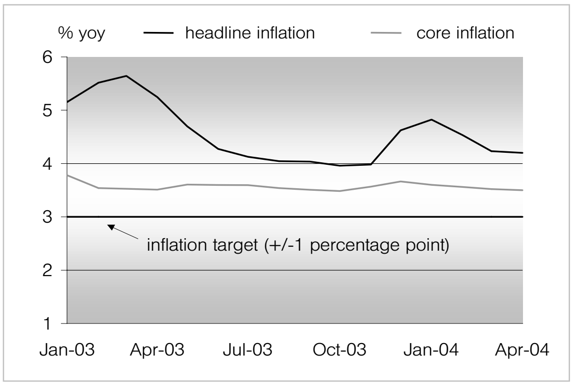
OFFICIAL EMPLOYMENT



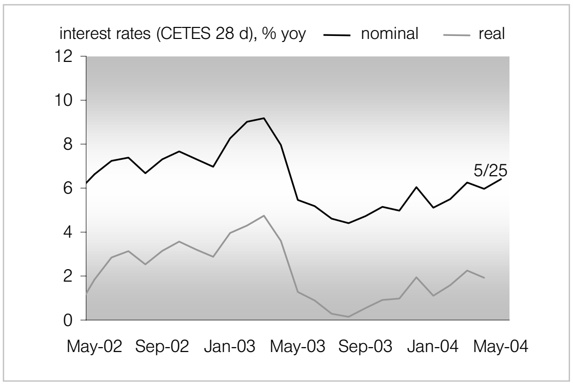
BUSINESS & CONSUMER CLIMATE



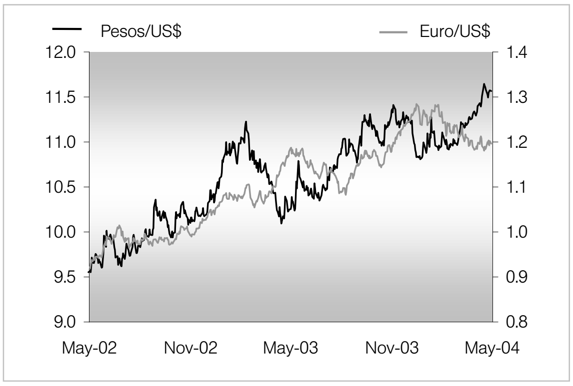
INFLATION



INTEREST RATES



EXCHANGE RATE



costs (e.g. through nominal wage increases) to be largely passed on to the consumer. And finally, the failure of a comprehensive tax reform has exerted a certain upward pressure on prices of government services. This has had enormous consequences in terms of monetary policy. While the U.S. central bank (Fed) has so far managed to maintain its key interest rates at a record low level of 1% in spite of price-boosting factors (higher commodity prices, depreciation of the U.S. dollar, economic recovery), the Mexican central bank has already been compelled to tighten its monetary policy on several occasions - despite the fact that the Mexican economy underperformed substantially compared to the US economy. Money market interest rates (Cetes, 28 days), at 6.5%, have therefore already moved away from their January low of 4.7%. And in light of a 12-month inflation rate of 4.2% in April and impending key interest rate hikes in the U.S., there is no doubt that interest rates will continue to rise. We therefore raise our interest rate forecast (Cetes, 28 days) for end-2004 from 6.8% to 7.5%.

External sector: peso remaining under pressure

The oil price keeps rising and the peso continues to depreciate; how does that fit together? There is no doubt that the persistently rising oil price is taking pressure off the current account, which in the first quarter of 2004 registered a deficit of only US$ 1.9 billion, or 1.1% of GDP. In raising our forecast for the average oil price in 2004, we have simultaneously lowered our forecast for the current account deficit from US$ 11 billion to US$ 10 billion. The negative effect on the capital balance that results from the rising oil price clearly predominates, however. Fears that the Fed will raise its key interest rates more substantially than initially expected are impacting adversely on capital inflows into the emerging market economies – including Mexico. This is best reflected in the trend of the Mexican stock market index, which has shed about 8% in value since its April high. What probably lies behind this are chiefly sales of stocks by foreigners. But Mexican banks may have likewise speculated on a depreciation of the peso. As a result, the value of the peso against the U.S. dollar dropped to a new low in mid-May, to almost 11.70. We consider the recent forex market trend exaggerated and expect the peso to stabilize in the forthcoming months. The Mexican central bank's more restrictive monetary policy will also contribute to this development. However, the peso might come under pressure again in the fourth quarter when the economic upturn loses momentum and the oil price should likewise decline again. We therefore maintain our exchange rate forecast of 11.90 pesos/US$ at the end of the year.

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MEXICO: MONTHLY INDICATORS		Jan-04	Feb-04	Mar-04	Apr-04	next/latest
DOMESTIC ECONOMY						
Economic activity index (IGAE)	% yoy	2.2	3.4	**5.4**		25-Jun
IGAE index (seasonally adjusted)	% mom	-0.5	-1.6	**2.5**		25-Jun
Industrial production	% yoy	0.6	2.5	**6.3**		11-Jun
Manufacturing, in-bond industry	% yoy	2.7	2.7	**3.1**		11-Jun
Manufacturing (excluding in-bond industry)	% yoy	-0.6	1.4	**7.3**		11-Jun
Construction	% yoy	3.1	5.4	**6.1**		11-Jun
Gross fixed capital formation	% yoy	1.8	4.3			7-Jun
Consumer confidence (January 2003=100)	Index	95.9	95.5	96.4	**96.5**	2-Jun
Retail sales	% yoy	3.0	4.2	**3.7**		21-Jun
Wholesale sales	% yoy	0.6	1.5	**11.5**		21-Jun
Unemployment rate	%	3.8	3.9	3.9	**3.6**	22-Jun
Employees (social insurance)	% yoy	2.1	2.2	**2.6**		
Real wages per employee, manufacturing	% yoy	1.0	1.3	**1.3**		28-Jun
Budget balance, public sector	Pesos bn	25.9	8.1	**13.2**		1-Jun
Public domestic debt	Pesos bn	999	1011	**1034**		1-Jun
Public external debt	US$ bn	82.2	82.2	**80.9**		1-Jun
Consumer prices	% yoy	4.2	4.5	4.2	**4.2**	9-Jun
Consumer prices	% mom	0.6	0.6	0.3	**0.2**	9-Jun
Treasury bills, Cetes 28d (latest: 05/25)	%	4.7	6.2	6.1	**6.0**	**6.4**
Comercial bank lending (excl. restructuring)	% yoy	6.5	7.4	**9.8**		31-May
EXTERNAL SECTOR						
Merchandise exports	US$ mn	12680	14024	16592	**14940**	9-Jun
Merchandise exports	% yoy	1.6	9.0	20.5	**10.2**	9-Jun
Merchandise imports	US$ mn	12873	14076	16769	**15423**	9-Jun
Merchandise imports	% yoy	2.0	11.9	19.9	**7.3**	9-Jun
Trade balance	US$ mn	-193	-52	-178	**-483**	9-Jun
Foreign exchange reserves (latest: 05/14)	US$ bn	63.0	0.1	0.1	**0.1**	**59.7**
US$ exchange rate (latest: 05/26)	Pesos	11.06	11.07	11.13	**11.42**	**11.45**

MEXICO: QUARTERLY INDICATORS		Q2 03	Q3 03	Q4 03	Q1 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	0.1	0.6	2.0	**3.7**	17-Aug
Private consumption	% yoy	0.8	4.3	3.2		15-Jun
Public consumption	% yoy	3.1	2.6	2.8		15-Jun
Private and public investment	% yoy	-7.6	-13.3	-6.9		15-Jun
Domestic demand	% yoy	-0.7	0.3	1.1		15-Jun
Exports (goods and services)	% yoy	-3.1	-0.7	4.6		15-Jun
Imports (goods and services)	% yoy	-5.2	-1.4	2.0		15-Jun
EXTERNAL SECTOR						
Current account balance	US$ bn	-1.6	-2.2	-3.3	**-1.9**	26-Aug
Net foreign direct investment	US$ bn	3.6	2.3	2.2	**7.4**	26-Aug
Net foreign portfolio investment (incl. bonds)	US$ bn	-0.7	-1.8	3.2	**2.4**	26-Aug
Capital account **	US$ bn	3.0	0.9	8.6	**3.5**	26-Aug
Change in foreign exchange reserves*	US$ bn	1.4	-1.3	5.3	**1.6**	26-Aug

* balance of payments ** incl. residual items

NICARAGUA: DEBT RELIEF WORTH BILLIONS

Area	139 000 sq. km
Population	5.5 million (+ 2.7% p.a.)
State president	Enrique Bolaños
Finance minister	Eduardo Montiel
Central bank president	Mario Alonso
Next elections	State president: November 2007 Parliament: November 2007
GDP per capita	US$ 470 (2003)
Rating	Moody's: Caa1 S&P: NR

ANNUAL FIGURES AND FORECASTS

NICARAGUA		2001	2002	2003e	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3.2	1.0	2.3	3.5	3.4
GDP	US$ bn	2.6	2.5	2.6	2.7	2.9
Inflation (year-end)	%	4.7	3.9	6.5	8.5	6.0
Inflation (year-average)	%	7.4	4.0	5.2	8.2	7.3
Budget balance, public sector	% GDP	-13.4	-10.5	-9.0	-7.0	-6.0
Public sector debt	% GDP	291	291	289	166	150
EXTERNAL SECTOR						
Merchandise exports	US$ mn	605	561	605	650	700
Merchandise imports	US$ mn	1620	1618	1720	1800	1850
Trade balance	US$ mn	-1015	-1057	-1115	-1150	-1150
Current account balance	US$ mn	-853	-888	-876	-861	-850
Current account balance	% GDP	-33.3	-35.2	-34.3	-31.7	-29.7
Net foreign direct investment	US$ mn	150	171	241	260	280
Foreign exchange reserves, year-end	US$ mn	380	448	502	570	700
Import cover *	months	2.0	2.5	2.7	2.9	3.5
US$ exchange rate, year-end	Córdobas	13.90	14.74	15.55	16.35	17.20
US$ exchange rate, average	Córdobas	13.37	14.25	15.10	15.95	16.78
FOREIGN DEBT						
Gross foreign debt	US$ bn	6.4	6.5	6.6	3.8	3.6
Foreign debt	% exports*	683	733	710	382	341
Short-term foreign debt	US$ bn	0.14	0.13	0.14	0.15	0.16

* goods and services f=forecast

Economic policy: debt relief granted

At the beginning of the year, the IMF gave the go-ahead to grant Nicaragua comprehensive debt remission in the context of the HIPC (Heavily Indebted Poor Countries) initiative since the country had made progress in terms of structural adjustment, making it possible to restore macroeconomic stability. As a result, the Paris Club as well as the World Bank, the Inter-American Development Bank and the Central American Bank for Economic Integration have discharged around US$ 2 billion in Nicaraguan debts to the present day. In addition, the Paris Club, which waived US$ 0.9 billion alone, recommended that other foreign governments follow the HIPC decision. We estimate that with the assistance of the HIPC initiative, the country will be able to reduce its high foreign debt (US$ 6.6 billion), which corresponds to more than 700% of visible and invisible exports, by 50% - 60%. Thus one of the poorest countries in Latin America managed to receive debt service relief, which enables it to utilize public-sector funds to increase social security spending and improve living conditions, and which – in a long-term external perspective – should take pressure off the current account (2004: deficit of 32% of GDP) as well as contribute to the stabilization of the reserves position.

In order to push along the fiscal policy adjustment still required, the government must adhere to the austerity principle, especially since additional expenses loom with the introduction of private pension schemes. We believe that the parliament – even though there are strong conflicts of interest – will adhere to this guiding principle and dispense with budget supplements so as not to jeopardize the implementation of the debt relief initiative. In addition, since substantial increases in revenues are likely due to tax reforms and the emerging economic upturn, the public sector should be able to continue reducing its high budget deficit slightly. In the year 2003 it was still at 9% of GDP (before foreign aid).

Domestic policy: upturn phase

In conjunction with the debt relief, Nicaragua will receive multilateral assistance to support the economy. In addition, we expect stimuli for exports and investments to come from continued growing demand of the key trading partner, the U.S., as well as from corporate investments in the country's privatized infrastructure. Moreover, since the coffee sector is benefiting from higher world market prices, economic growth should accelerate to more than 3% this year, even though the high oil price is being accompanied by price-boosting effects likely to hamper the recovery process slightly. As of 2005, we expect the free trade agreement between the U.S. and Central America (CAFTA) to generate positive effects.

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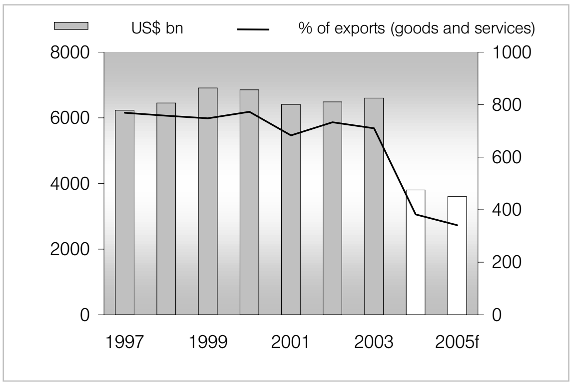
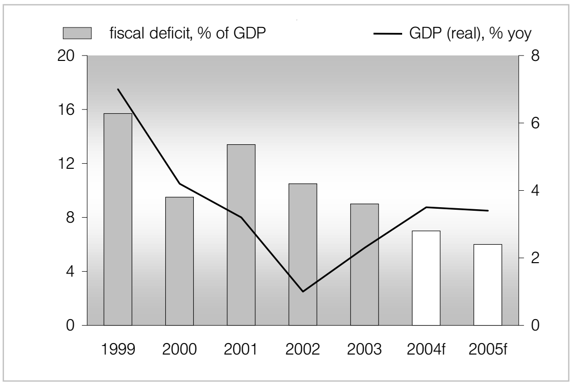
SUMMARY AND OUTLOOK

The IMF, the Paris Club and multilateral financial organizations have initiated debt relief worth billions of US dollars for Nicaragua. Debt service remission will take the pressure off the public-sector budget and the country's external balance in the long term. In spite of higher social security spending, the government will nevertheless be able to continue the austerity policy required to reduce the high budget deficit (2003: 9% of GDP) without endangering the economic upturn.

FOREIGN DEBT



GDP CHANGE (REAL) AND BUDGET DEFICIT



PARAGUAY: DRAWBACKS OF A CURRENT ACCOUNT SURPLUS

Area	406 752 sq. km
Population	5.6 million (+2.6% p.a.)
State president	Nicanor Duarte Frutos
Finance minister	Dionisio Borda
Central bank president	Angel Gabriel González
Next elections	State president: April 2008 Parliament: April 2008
GDP per capita	US$ 1 257 (2001)
Rating	Moody's: CAA1 S&P: SD

ANNUAL FIGURES AND FORECASTS

PARAGUAY		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	2.7	-2.2	2.6	2.5	**2.5**
GDP	US$ bn	6.8	5.3	5.5	6.5	**7.0**
Inflation (year-end)	%	8.4	14.6	15.0	5.0	**4.5**
Inflation (year-average)	%	7.3	10.2	14.3	7.0	5.5
Budget balance, public sector	% GDP	-1.4	-2.8	-2.9	-1.8	**-2.0**
Public sector debt	% GDP			49.1	44.6	42.9
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2409	2319	2576	2600	**2700**
Merchandise imports	US$ mn	2954	2390	2360	2400	**2450**
Trade balance	US$ mn	-532	-336	-195	200	**250**
Current account balance	US$ mn	-192	297	486	400	**200**
Current account balance	% GDP	-3.2	5.6	8.8	6.2	**2.9**
Net foreign direct investment	US$ mn	152	144	90	120	**150**
Foreign exchange reserves, year-end	US$ mn	723	641	670	700	**800**
Import cover *	months	2.4	2.6	2.8	2.8	**3.2**
US$ exchange rate, year-end	Guaranies	4670	6580	6100	5900	**6250**
US$ exchange rate, average	Guaranies	4100	5711	6462	6000	6075
FOREIGN DEBT						
Gross foreign debt	US$ mn	2800	2800	2700	2650	**2700**
Foreign debt	% exports*	109	101	87	85	**85**
Short-term foreign debt	US$ mn	700	542	501	450	**430**
Foreign debt service	US$ mn	440	490	486	477	486
Foreign debt service	% of Exports*	17	18	16	15	15

* goods and services e=estimate f=forecast

Fiscal policy: Stand-by agreement with the IMF

We expect the new government in office since August 2003 to be considerably more reform-oriented than its predecessor. This is underscored by the stand-by agreement signed with the IMF in December 2003 to the tune of more than US$ 73 million with a term of 15 months. This agreement now largely determines Paraguay's economic policy. Key reforms in the banking and pension system as well as a clampdown on expenses, which along with higher public-sector revenues are to secure a budget surplus of 0.2% of GDP in order to settle payment arrears, have been implemented. However, the government is also meeting resistance from its own ranks; it suffered already setbacks with the tax reform, for instance, and we have our doubts about whether the overdue reform of the customs code as well as measures to fight corruption can be passed and implemented speedily.

A good harvest (above all soya and cotton) and continued stable world market prices for these agricultural products can be expected this year as well so that we project GDP growth of 2.5% (2003: 2.1%). In addition, stimuli from Brazil's recovering economy and the high economic growth in Argentina should have a direct positive effect on Paraguay's economy and cause foreign demand to rise. Moreover, low interest rates and the relative stability of the Guarani should improve the private investment climate.

External sector: Export of savings

The hitherto declining trend of domestic demand might be arrested and lead to a slight increase in imports because the economic recovery and the firmer Guarani could stimulate increased demand in consumer and capital goods. But since the import level continues to remain very low and exports will rise more sharply, we expect the current account surplus to grow from 3% to just under 7% of GDP. Although at first glance this trend appears to be positive in macroeconomic terms, it must be taken into account that Paraguay exports savings in spite of its underdevelopment and has been doing this since as early as the crisis-ridden year of 2002. The opposite should be the case to enable the financing of investments and the generation of sustained high growth. There is fundamental scope for higher foreign debt, which last year stood at 85% of exports of goods and services. However, the country's structural weaknesses deter potential investors as is reflected in the relatively low net inflow of foreign direct investments (2003: US$ 90 million or 1.6% of GDP).

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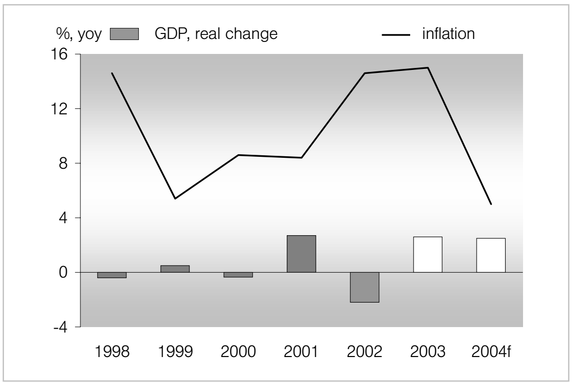
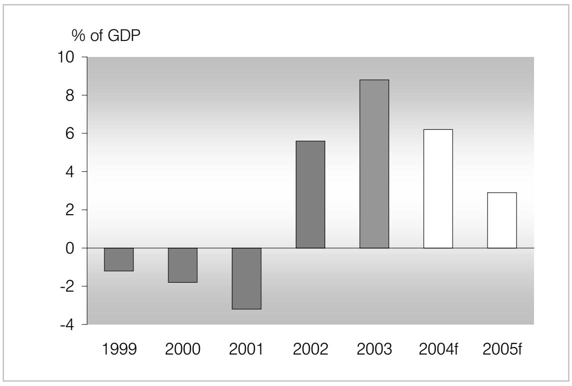
SUMMARY AND OUTLOOK

There are signs that Paraguay's new government will place greater emphasis on economic reforms than its predecessor. In addition, the IMF made new credit lines available which bind Paraguay to consistently pursue the implementation of the reforms. Due to the economic upturn in Argentina and Brazil, a good harvest and continued high prices of agricultural produce, the current account surplus should continue to rise, which has already facilitated an appreciable increase in foreign currency reserves. We forecast an economic growth rate of 2.5% for this year.

GDP CHANGE (REAL) & INFLATION



CURRENT ACCOUNT BALANCE



PERU: POLITICAL DISASTER IMMINENT

Area	1 285 215 sq. km
Population	26.7 Mio (+ 1.5 % p.a.)
State president	Alejandro Toledo Maurique
Finance minister	Pedro Pablo Kuczynski
Central bank president	Javier Silva Ruete
Next elections	State president: 2006 Parliament: 2006
GDP per capita	US$ 2 165 (2002)
Rating	Moody's: Ba3 S&P: BB-

ANNUAL FIGURES AND FORECASTS

PERU		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	0.2	4.9	4.0	3.8	3.7
GDP	US$ bn	54.0	56.9	60.9	64.1	67.8
Inflation (year-end)	%	-0.1	1.5	1.8	2.3	2.2
Inflation (average)	%	2.0	0.2	2.2	2.4	2.2
Budget balance, public sector	% GDP	-2.4	-2.3	-1.9	-1.6	-1.8
Public debt	% GDP	46	47	48	48	48
EXTERNAL SECTOR						
Merchandise exports	US$ bn	7.1	7.7	8.9	11.3	11.4
Merchandise imports	US$ bn	7.2	7.4	8.2	8.7	9.0
Trade balance	US$ bn	-0.1	0.3	0.7	2.6	2.4
Current account balance	US$ bn	-1.1	-1.2	-0.9	0.8	0.2
Current account balance	% GDP	-2.0	-2.1	-1.5	1.2	0.3
Net foreign direct investment	US$ bn	1.1	2.4	1.3	1.1	1.0
Foreign exchange reserves, year-end	US$ bn	8.6	9.6	10.2	11.4	11.3
Import cover	months**	9.2	12.4	9.7	9.9	9.4
US$ exchange rate, year-end	Soles	3.44	3.51	3.46	3.50	3.54
US$ exchange rate, average	Soles	3.48	3.48	3.48	3.51	3.53
FOREIGN DEBT						
Gross foreign debt	US$ bn	29.9	30.5	30.7	31.5	28.8
Foreign debt	% exports**	295	344	256	238	204
Short-term foreign debt	US$ bn	6.1	6.0	5.1	5.0	5.4
Foreign debt amortization	US$ bn	2.2	2.2	2.1	1.9	2.0
Foreign debt service	US$ bn	3.7	3.8	3.8	3.6	3.8
Foreign debt service	% exports**	40.6	39.6	34.8	26.5	28.0

**goods and services e=estimate f=forecast

Domestic policy: never-ending government crisis

Although Peru has been one of the region's fastest growing economies over the past several years, the unemployment rate rose by a good percentage point last year and stood at almost 11% in April. The growth rates of most labor-intensive sectors (agriculture, fishing industry and retail trade) are disappointing and the Peruvians' dissatisfaction with their country's economic situation is growing. The government is feeling the consequences in the form of declining popularity ratings (see chart) and demands from various interest groups for higher public-sector spending. Simultaneously, most Peruvians reject further privatizations (especially of utility companies), effectively rendering key reforms impossible. Despite or perhaps because of the political deadlock situation, no opposition leader has shown any interest to date in assuming responsibility for governing the country. The current government is likely to use the positive revenue trend until recently as well as the imposition of new taxes and levies (e.g. taxation of financial transactions and in the mining industry) to substantially increase expenditure to cushion resistance from the man on the street; however, the country's structural problems are not being solved in this way.

The IMF is likely to tolerate the fact that the upper ceiling for the deficit of the consolidated public sector budget (2004: 1.4% of GDP) will be exceeded this year and agree to renew the stand-by agreement which expired in February. We expect GDP growth to slow down slightly in the second semester and to amount to 3.7% for the year as a whole.

External sector: first current account surplus in 20 years

In the course of this year, prices for Peruvian exports have been 20% up on the previous year's level mainly due to higher gold and copper prices, while prices of imports only rose 4% despite higher crude oil prices. Even assuming that gold and copper prices will remain steady at their current level, which is lower than in the first quarter, we can now expect a growth in exports of more than 25% (Q1: 32%) – the volume of exports in March was up by around 20% on the pre-year level. We therefore project a current account surplus this year – the first in 20 years. The surprisingly fast move into positive territory is also attributable to the sluggish domestic demand, causing the rise in Peruvian imports to lag noticeably behind the increase in exports. Foreign currency reserves should see another increase and correspond to roughly 10 months' import cover at the end of the year.

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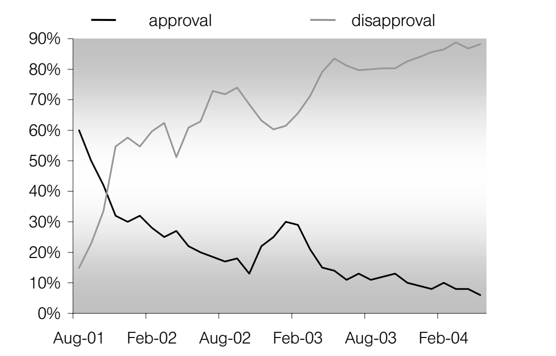
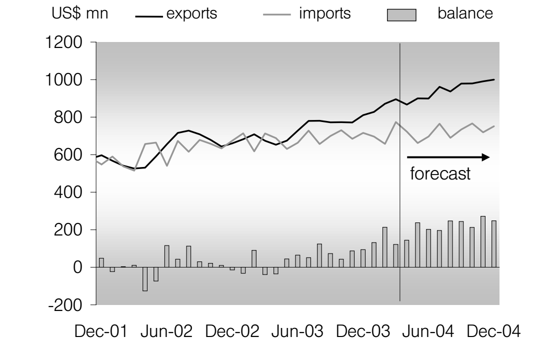
SUMMARY AND OUTLOOK

Peru runs the risk of turning into a prime example of globalization critics. Major mining projects should generate princely capital gains over the next years while the majority of the population will be unable to participate in the economic upswing. However, it is exactly the negative stance of the Peruvians towards foreign investors that prevents key structural reforms (above all the privatization of utility companies) being implemented and in view of inflamed political sentiment lenders shun away from long-term projects. We assume that it is the hopeless situation in particular that prevents anyone from contesting the presidency.

PRESIDENT TOLEDO'S APPROVAL RATING



TRADE BALANCE



TRINIDAD AND TOBAGO: GOOD FUTURE IN STORE

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

ANNUAL FIGURES AND FORECASTS

TRINIDAD AND TOBAGO		2001	2002	2003e	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3.7	3.1	4.0	5.2	5.5
GDP	US$ bn	9.1	9.3	10.0	10.9	12.0
Inflation (year-end)	%	3.2	4.3	3.5	4.5	4.0
Inflation (year-average)	%	5.5	4.2	3.9	4.0	4.3
Budget balance, public sector	% GDP	-0.3	-0.4	1.5	-0.5	-0.5
Public sector debt	% GDP	35	35	31	29	27
EXTERNAL SECTOR						
Merchandise exports	US$ bn	4.30	3.88	4.90	5.50	5.25
Merchandise imports	US$ bn	3.59	3.68	3.90	4.20	4.23
Trade balance	US$ bn	0.72	0.20	1.00	1.30	1.02
Current account balance	US$ bn	0.42	0.11	0.90	1.20	0.90
Current account balance	% GDP	4.6	1.2	9.0	11.0	7.5
Net foreign direct investment	US$ bn	0.69	0.71	0.70	0.85	0.65
Foreign exchange reserves, year-end	US$ bn	1.91	2.03	2.45	2.90	2.95
Import cover *	months	5.0	5.4	6.1	6.7	6.6
US$ exchange rate, year-end	TT$	6.29	6.30	6.29	6.29	6.29
US$ exchange rate, average	TT$	6.23	6.25	6.30	6.29	6.29
FOREIGN DEBT						
Gross foreign debt	US$ bn	2.4	2.5	2.6	2.7	2.7
Foreign debt	% exports*	49	55	46	43	44
Short-term foreign debt	US$ bn	0.9	0.9	1.0	1.0	1.0
Foreign debt amortization	US$ bn	0.08	0.08	0.08	0.23	0.08
Foreign debt service	US$ bn	0.23	0.21	0.21	0.36	0.23
Foreign debt service	% exports*	4.69	4.51	3.63	5.72	3.65

* goods and services

e=estimate f=forecast

Domestic policy: reforms on the cards

Since the poor outcome of the 2002 elections and corruption scandals have weakened the opposition on a permanent basis, the government of prime minister Manning has managed to gain political freedom of action. This will be used for structural reforms, e.g. a reform of the police force to combat soaring violent crime and for the privatization of other public enterprises that are persistent loss-makers (the airline BWIA, among others). In addition, the government plans to tackle various social development projects in order to reduce social disparities. Due to the solid budget policy (October 2003 to September 2004: budget surplus of 1.5% of GDP), funds should be available for this purpose.

Domestic policy: growth surges even further

The outlook is favorable despite the country's continued dependency on crude oil and natural gas products. The successful expansion of the liquefied gas industry (expansion stage 4 is currently under way), making Trinidad and Tobago the fifth largest liquid gas exporter in the world, has made a decisive contribution to economic growth over the past few years and should now likewise extend to encompass other economic sectors which have recorded only little growth in the past. The government not only supports this trend with an extremely liberal investment policy towards foreign enterprises but also through the targeted promotion of the diversification process. Hence, the islands' industry, which specializes in the downstream processing of natural gas, will be further extended. Moreover, the government is boosting efforts to increase the locally manufactured share of new plants required by the energy sector. Since we also expect positive stimuli to come from the surprisingly high energy prices and the upbeat economy in the country's key market, the U.S., we project GDP growth of more than 5% this year (2003: 4%). Inflation remains under control not least thanks to the stable exchange rate, which means that the central bank does not need to intervene.

External sector: high current account surplus

Due to the expansion of liquefied gas exports and other petrochemical products, even though imports in connection with major investment projects are still rising we expect a foreign trade surplus which, underpinned by the unexpectedly favorable energy prices, should even exceed the previous year's good result. We therefore also expect another high current account surplus of roughly 11% of GDP. As extensive foreign investments in connection with the planned expansion in the liquefied gas industry are anticipated again this year, foreign currency reserves (end-December 2003: US$ 2.45 billion; 6 months' import cover) should continue to grow in spite of a continuously high deficit in portfolio investments.

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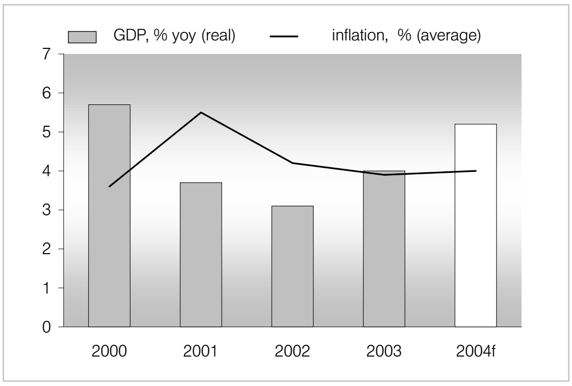
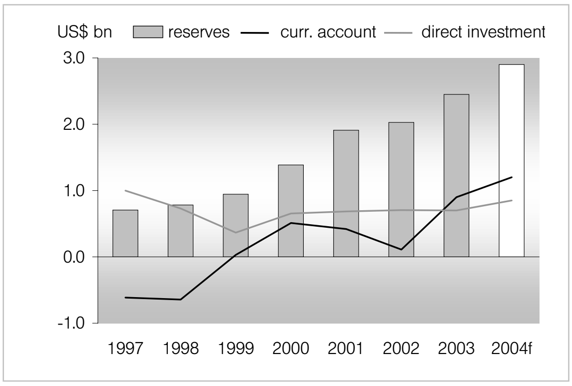
SUMMARY AND OUTLOOK

The economic growth already in evidence for 10 years now is set to continue at an increased pace in 2004. Growing revenues generated by the liquefied gas industry are bound to boost other economic sectors and enable the government to implement reform projects. Due to a high current account surplus as well as the sustained inflow of foreign direct investments, foreign currency reserves will continue to grow, allowing the national currency to remain stable.

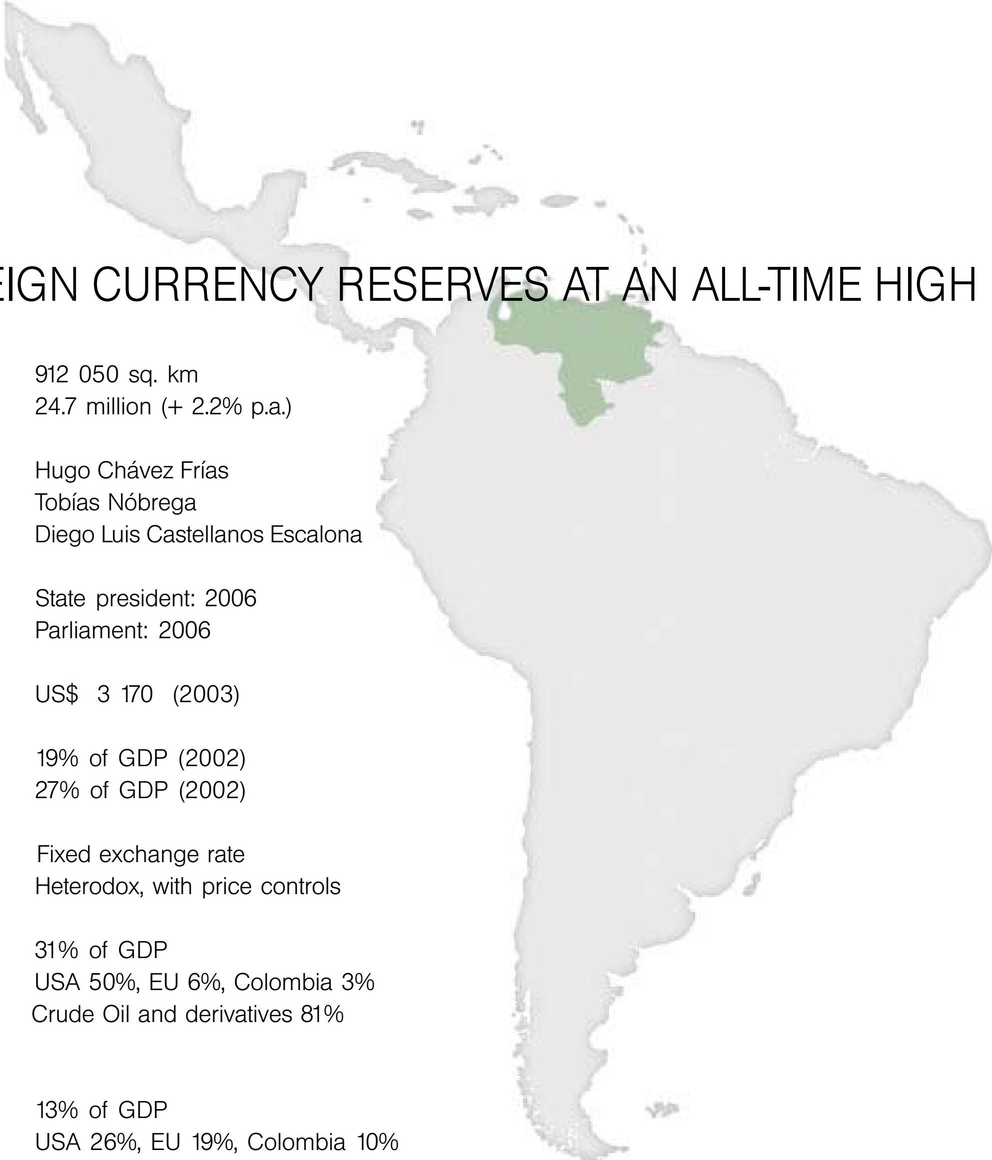
GDP CHANGE (REAL) & INFLATION



BALANCE OF PAYMENTS



VENEZUELA: FOREIGN CURRENCY RESERVES AT AN ALL-TIME HIGH



Area	912 050 sq. km	
Population	24.7 million (+ 2.2% p.a.)	
State president	Hugo Chávez Frías	
Finance minister	Tobías Nóbrega	
Central bank president	Diego Luis Castellanos Escalona	
Next elections	State president: 2006	
	Parliament: 2006	
GDP per capita	US$ 3 170 (2003)	
Investment	19% of GDP (2002)	
Savings	27% of GDP (2002)	
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 and derivatives 81%	
Imports of goods (2003)	13% of GDP	
Supplier countries	USA 26%, EU 19%, Colombia 10%	
Products (1999)	Raw materials 54%, machinery and equipment 26%	
Rating:	Moody's: Caa1	S&P: B-

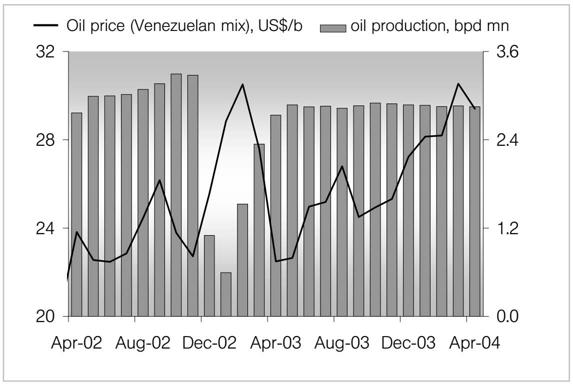
SUMMARY AND OUTLOOK

The opposition has not given up its efforts to remove president Chávez from office. However, even if a referendum to depose him is actually held, in our opinion he stands quite good chances of surviving the vote. His efforts to woo the population have obviously not been entirely unsuccessful, especially since the country's economic situation also appears to be gradually improving, buoyed by a substantial real increase in public spending made by the government in light of current oil price trends. For the year 2004 as a whole, we now anticipate a GDP growth rate of 10.5% (previously 6.5%). However, this high growth rate should be viewed in relative terms, against the backdrop of a very low base of comparison. As price regulation measures are proving to be effective and since we do not anticipate a further depreciation of the bolívar this year, the year-end inflation rate, at 26%, should turn out lower than we initially expected. Due to the high current account surpluses and the ongoing capital transfer restrictions, the country's foreign currency reserves have climbed to a new all-time high likely to even be exceeded in the forthcoming months.

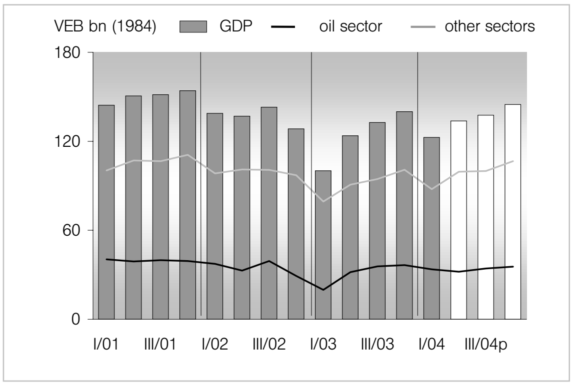
VENEZUELA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	2.8	-8.9	-9.2	10.5	4.3
GDP	US$ bn	126.1	95.2	82.0	95.7	93.9
Inflation (year-end)	%	12.3	31.2	27.1	26.0	28.0
Inflation (average)	%	12.5	22.4	31.1	23.9	27.9
PUBLIC SECTOR						
Budget balance, central government	% GDP	-4.2	-3.5	-4.5	-4.0	-4.7
Budget balance, public sector	% GDP	-4.5	-1.0	-4.0	-3.5	-4.0
Public debt	% GDP	30	42	45	40	44
Amortization	US$ bn	7.3	10.8	4.7	6.3	4.1
Gross financing needs	US$ bn	12.9	11.8	8.0	9.7	7.8
EXTERNAL SECTOR						
Merchandise exports	US$ bn	26.3	26.7	25.8	30.8	27.7
Merchandise imports	US$ bn	18.7	13.6	10.7	15.2	16.7
Trade balance	US$ bn	7.6	13.0	15.0	15.5	11.0
Current account balance	US$ bn	2.1	7.6	9.5	9.6	4.2
Current account balance	% GDP	1.6	8.0	11.6	10.0	4.5
Net direct investment	US$ bn	3.5	-0.3	1.4	1.0	1.5
Foreign exchange reserves, year-end **	US$ bn	15.5	11.4	16.7	20.5	21.1
Import cover **) ***)	months	6.6	6.4	10.9	10.4	9.8
US$ exchange rate, year-end	VEB	758	1387	1598	1918	2800
US$ exchange rate, average	VEB	724	1160	1611	1884	2565
FOREIGN DEBT						
Gross foreign debt	US$ bn	34.2	34.1	35.1	35.3	36.0
Foreign debt	% exports ***	113	116	125	105	118
Short-term foreign debt	US$ bn	3.9	3.5	3.5	2.9	2.7
Foreign debt amortization	US$ bn	2.5	2.9	1.7	2.8	3.0
Foreign debt service	US$ bn	5.1	4.9	4.2	5.3	5.5
Foreign debt service	% exports ***	17	17	15	16	18
FINANCIAL MARKETS (year-end)						
Deposit rate, 90 days	%	19.5	26.1	14.2	15.0	18.0
ICB stock index (VEB based, 2004: 5/26)		6570	8015	22204	24949	
IFCG stock index (US$ based, 2004: 5/26)		246	159	182	207	
Bond market yield spread (2004: 5/26)*	bp	1130	1127	658	663	

* EMBI+ ** Central bank and FEM, without Gold *** goods and services e=estimate f=forecast

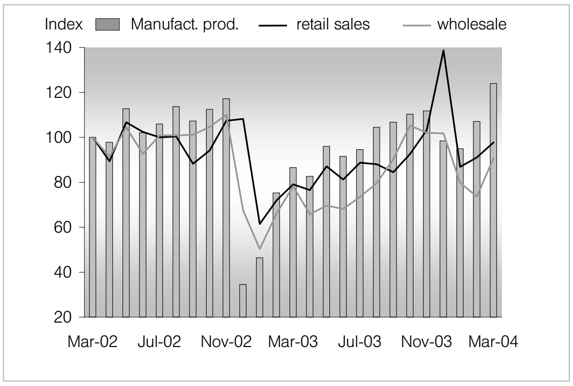
OIL PRICE AND PRODUCTION



REAL GDP



ECONOMIC ACTIVITY INDICATORS



Domestic policy: wrangling about the referendum continues

The electoral authority CNE intends to have verified by June 4 whether the opposition managed to obtain 2.5 million valid votes required to pass the referendum to oust President Chavez from office. But even if that were actually the case, it would still not be certain whether the national referendum would in fact be held on August 8 as planned. Because although President Chavez definitely stands good chances of emerging the winner (for instance, the opposition still has not reached consensus on a suitable leader) he still seems to be apprehensive. We assume that he will still make an attempt with the assistance of his followers in the various institutions to torpedo the national referendum or at least try to get it postponed after August 19. In the latter case, Vice President Rangel would automatically replace him in office. In order to minimize the risk of being voted out of office, he is seizing every opportunity to increase the number of his supporters. For instance, the government is now increasingly pushing forward programs intended to improve the situation of the poor strata of society, trying to enlist their support in doing so. The same applies to the attempted coup uncovered by the government, for which around 130 paramilitaries from Colombia were allegedly smuggled into the country and which president Chávez exploited to his benefit.

Fiscal policy: strong growth in expenditure

The unexpectedly high oil price (in the year to date roughly US$ 29.6/b for the national oil mix in comparison with a budgeted price of only US$ 18.5/b) as well as the evidently improved taxation system have enabled the government to step up public spending substantially. The Chávez government responded to the increase in revenues (Q1 year-on-year: +84% in real terms) with an equivalent increase in expenditure. Primary expenditure even rose by 150% in the process, with interest expenditure declining. We assume that in view of the critical political situation, the government will also maintain its past spending policy in the next several months. In this case a budget deficit of 4% of GDP can be expected. In view of the high market liquidity and lack of investment alternatives (for the national banking system in particular!), the financing of new debt as well as the refinancing of amortization payments should not pose a problem for the government this year. For this reason, in contrast to our previous forecast we no longer expect a second devaluation of the bolívar this year. (A devaluation has a positive effect on the public sector's financial situation since it increases its oil revenues in bolívares and results in additional gains on the central bank's foreign currency reserves).

The finance ministry is using the favorable conditions for the placement of government bonds on the financial market in order to further improve the maturity structure of public debt. The majority of new bonds equivalent to more than US$ 5 billion issued by the Venezuelan government this year were used for this purpose. Since parliament recently approved the expansion of public borrowing by an additional US$ 1.6 billion, we expect new, longer-term bonds to be issued in the third quarter once the 6-month U.S. dollar bonds issued in March mature. These will likely be foreign currency bonds and will be offered to residents at the official exchange rate. Such bonds are usually high in demand despite their low level of interest because they provide a legal means of procuring dollars for the investment of bolívar liquidity or for import payments without the intervention of the foreign currency control authority Cadivi being necessary.

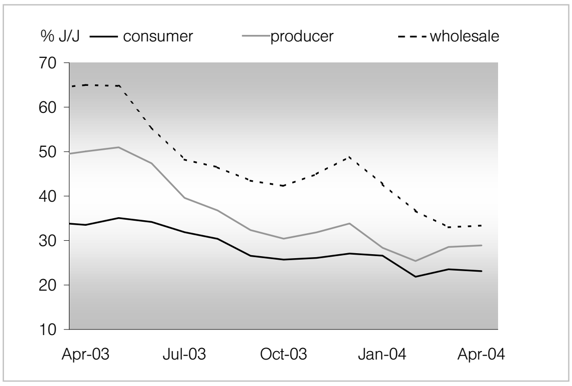
Economic activity: hopes for an economic revitalization

GDP rose by 29.8% year-on-year in the first quarter of 2004. This is hardly surprising, considering that due to a general strike it fell sharply in the first quarter of 2003 (-27.8% year-on-year). Compared with the last quarter of 2003, there is still a deficit of 7% which, however, is close to the usual seasonal trend. We expect GDP to grow steadily in real terms starting in the second quarter because the real increase in public-sector expenditure will gradually also be reflected in higher private consumer demand, which remained sluggish in the first quarter. The high oil prices as well as the low interest rates will likewise underpin this trend. We have therefore raised our growth forecast from 6.5% to 10.5%.

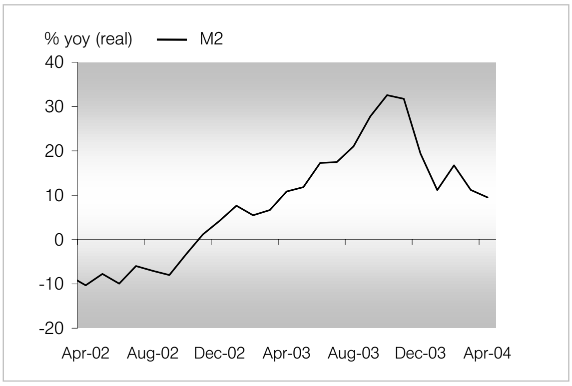
Monetary sector: price controls pushing down inflation rate

The rise in consumer prices was surprisingly low once again in April at 1.3% month-on-month. Price regulation is definitely proving effective, with the government taking into account that goods temporarily happen to be in short supply on the market from time to time. In addition, the price pressure exerted by the wholesale trade likewise eased in April (now only at 1.4% month-on-month). Since we no longer expect a second devaluation to take place this year (see above), we have lowered our inflation forecast for 2004 from 30% to 26%. For next year we

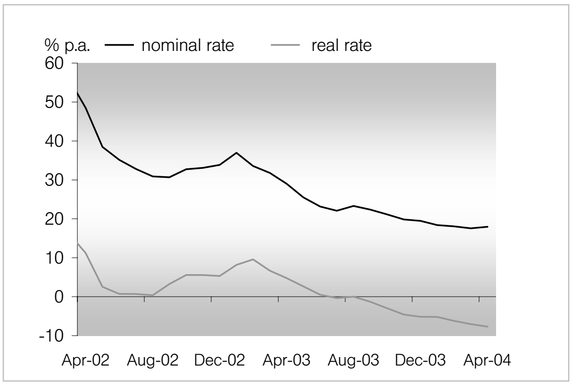
INFLATION



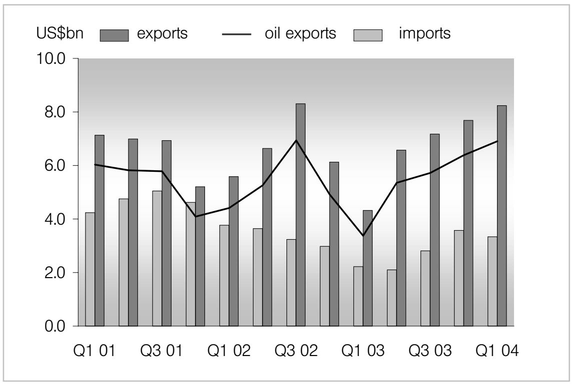
MONEY SUPPLY



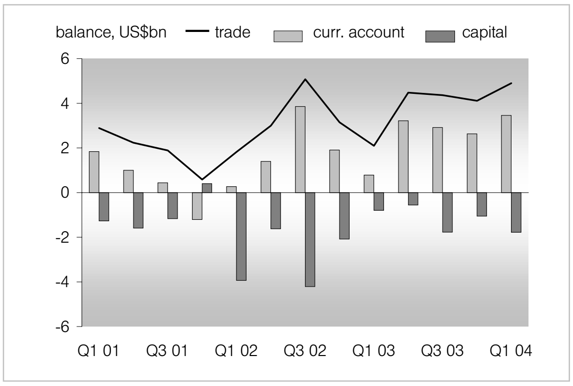
CREDIT INTEREST RATE



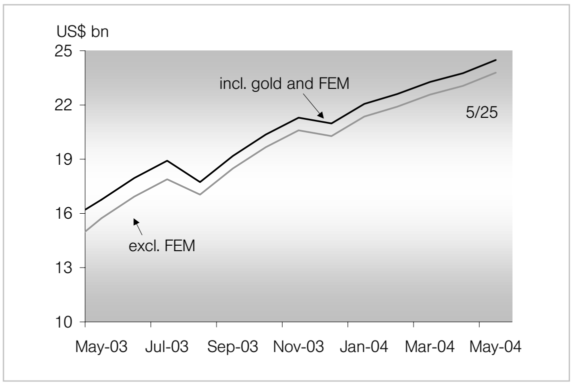
EXTERNAL TRADE



BALANCE OF PAYMENTS



FOREIGN EXCHANGE RESERVES



forecast lower oil prices again. The government will then probably make another attempt to improve the revenue situation by means of devaluations, which should also result in a higher inflation rate. Due to a prolonged period of very high liquidity growth rates in real terms (see trend money supply M2), lending interest rates were in decline until April, resulting in sharply negative real interest rates. A slight nominal increase (in real terms, the figure remained negative) could only be seen in the last few weeks due to increased dollar sales through the foreign currency control authority Cadivi.

External sector: foreign currency reserves continue to grow

The current account saw a very high surplus in the first quarter of the year at US$ 3.5 billion (Q1 2003: US$ 0.8 billion). The proceeds from oil exports which, due to the high oil prices (Q1: US$ 29.0/b), amounted to US$ 6.9 billion, made a decisive contribution to the underlying trade surplus of US$ 4.9 billion. In the last quarter of 2003 (oil price: US$ 25.8/b) they amounted to US$ 6.4 billion and in the first quarter of 2003 only to US$ 3.4 billion (as a result of the general strike at the time). Merchandise imports amounted to US$ 3.3 billion and were thus below the pre-quarter level, but in line with the common seasonal trend. Yet the figure was substantially higher – as expected – than in the first quarter of 2003 (US$ 2.2 billion). The capital account only registered a deficit of US$ 1.8 billion, to which direct investments made a contribution with a deficit of US$ 0.63 billion net. It is only thanks to the capital movement controls that the capital account deficit was not higher.

In addition, foreigners invested in newly issued dollar instruments of the Venezuelan government. This trend, which also continued after the end of the first quarter, caused foreign currency reserves to climb to a record high of US$ 24.7 billion as at May 15 (including gold reserves of US$ 4.4 billion and the macroeconomic equalization fund FEM amounting to US$ 0.7 billion; the reserves level is equivalent to 12 months' import cover). This also benefited the government as it improved the risk assessment from investors which, in turn, led to declining risk spreads on foreign currency loans. Since the oil price remains high and a relaxation of the capital movement controls is not to be expected any time soon, we expect foreign currency reserves to rise further by the end of the year in spite of increased import-related foreign currency sales.

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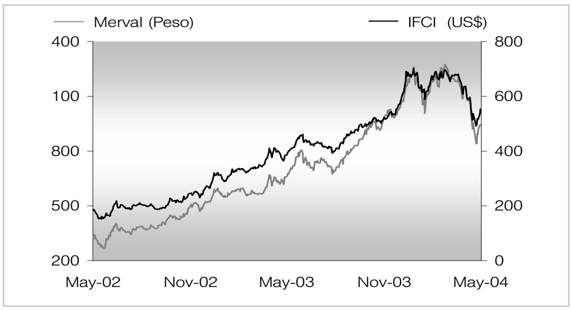
VENEZUELA: MONTHLY INDICATORS		Jan-04	Feb-04	Mar-04	Apr-04	next/latest
DOMESTIC ECONOMY						
Industrial production (private sector)	% yoy	104.4	42.3	43.2		Jun 5-10
Car sales	% yoy	85.2	46.7	113.4	110.8	Jun 5-10
Retail sales	% yoy	41.3	26.6	23.6		Jun 5-10
Wholesale sales	% yoy	58.7	11.6	15.9		Jun 5-10
Crude oil production	1000 bpd	2529	2522	2530	2530	17-Jun
Consumer prices	% yoy	26.6	21.9	23.5	23.1	01-Jun
Consumer prices	% mom	2.5	1.6	2.1	1.3	01-Jun
Producer prices	% yoy	28.4	25.4	28.6	28.9	01-Jun
Producer prices	% mom	1.7	4.9	5.7	1.8	01-Jun
Money supply M2 *	% yoy	40.7	42.3	37.4	34.8	20-Jun
Lending rate (monthly average, latest: 05/21)*	%	18.4	18.1	17.6	18.0	17.3
Deposit rate (monthly average, latest: 05/21)*	%	11.8	10.8	12.8	12.5	14.1
Interbank interest rate (month-av., until: 05/26)*	%	1.2	0.7	9.1	3.3	2.0
Credit volume *	% yoy	8.6	15.5	48.2	66.4	20-Jun
Deposits *	% yoy	67.6	69.1	73.3	47.5	20-Jun
EXTERNAL SECTOR						
Oil price (Venezuelan exports, latest: 05/21)	US$/barrel	28.1	28.2	30.5	30.2	35.2
Oil price (Venezuelan exports, latest: 05/21)	% yoy	-2.4	-7.6	10.7	34.4	48.4
Foreign exchange reserves (CB, latest: 05/26)****	US$ bn	16.8	17.2	17.8	19.1	19.4
Forex reserves (FEM**, latest: 05/21)*	US$ bn	0.7	0.7	0.7	0.7	0.7
US$ exchange rate (latest: 05/21)*	VEB	1598	1918	1918	1918	1918

VENEZUELA: QUARTERLY INDICATORS		Q2 03	Q3 03	Q4 03	Q1 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	-9.6	-7.2	9.0	29.9	20-Aug
GDP, private sector	% yoy	-11.7	-6.9	5.4	23.4	20-Aug
GDP, public sector	% yoy	-5.5	-8.5	14.8	42.0	20-Aug
Oil sector	% yoy	-3.2	-9.1	25.0	72.5	20-Aug
Manufacturing industry	% yoy	-13.8	-9.9	15.7	48.0	20-Aug
Financial services and real estate	% yoy	-6.3	-4.0	2.5	10.0	20-Aug
Commerce	% yoy	-17.4	-10.0	12.2	27.9	20-Aug
Budget balance, public sector	VEB bn	324				
EXTERNAL SECTOR						
Merchandise exports	US$ bn	6.58	7.17	7.68	8.24	20-Aug
Exports of oil and derivatives	US$ bn	5.35	5.72	6.39	6.91	20-Aug
Merchandise imports	US$ bn	2.10	2.81	3.58	3.34	20-Aug
Trade balance	US$ bn	4.48	4.36	4.11	4.90	20-Aug
Current account balance balance	US$ bn	3.22	2.91	2.71	3.46	20-Aug
Net foreign direct investment	US$ bn	0.54	0.34	-0.05	-0.63	20-Aug
Portfolio investment	US$ bn	-0.39	-0.86	0.15	0.33	20-Aug
Capital account***	US$ bn	-0.56	-1.77	-1.05	-1.78	20-Aug
Change in foreign exchange reserves (Centr.B.)	US$ bn	3.04	1.46	1.66	1.68	20-Aug
Change in foreign exchange reserves (FIEM)**	US$ bn	-0.38	-0.33	0.00	0.00	20-Aug

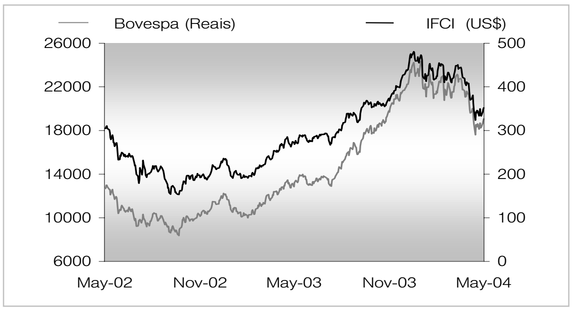
*month-end **macroeconomic stabilization fund *** incl. residual items **** Gold excluded (latest: US$ 4.4bn)

FINANCIAL MARKETS: LATIN AMERICAN STOCK MARKET INDICES

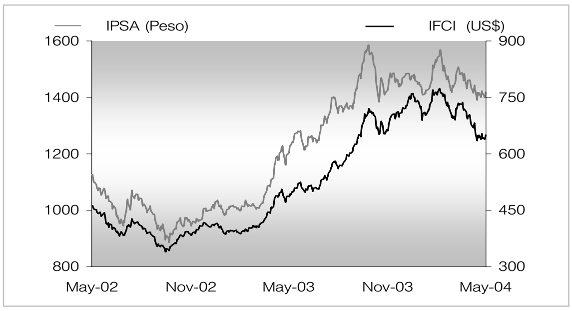
ARGENTINA



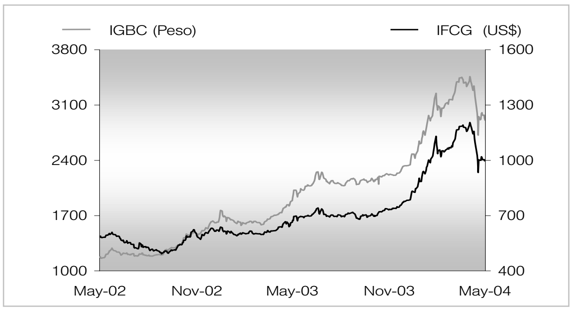
BRAZIL



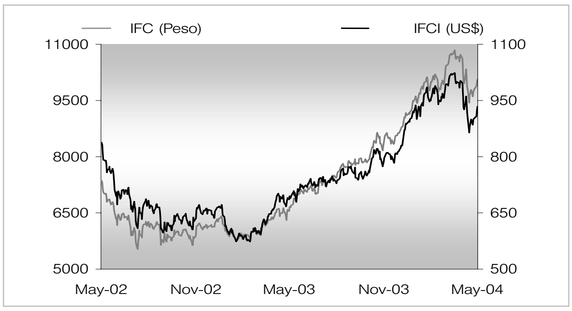
CHILE



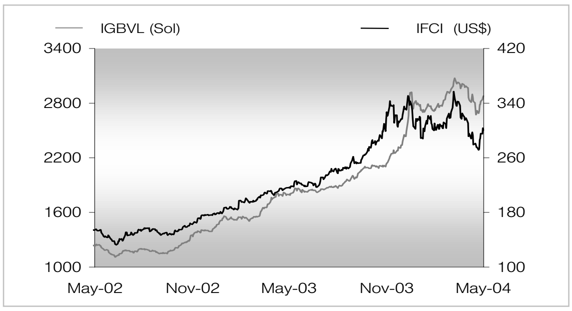
COLOMBIA



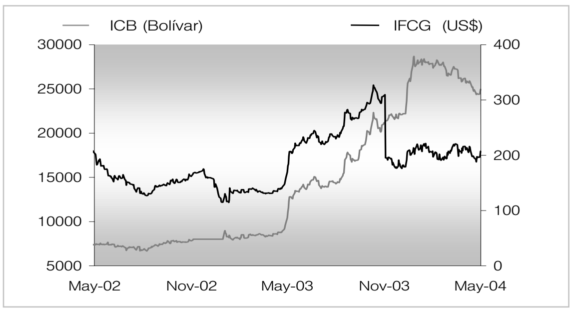
MEXICO



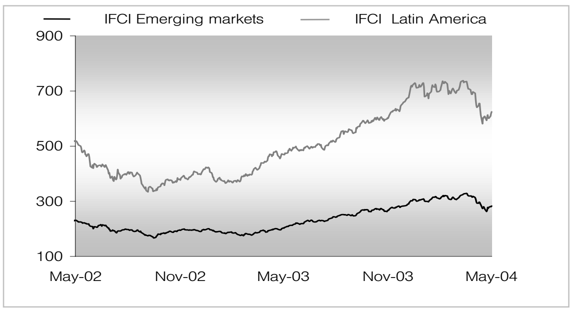
PERU



VENEZUELA

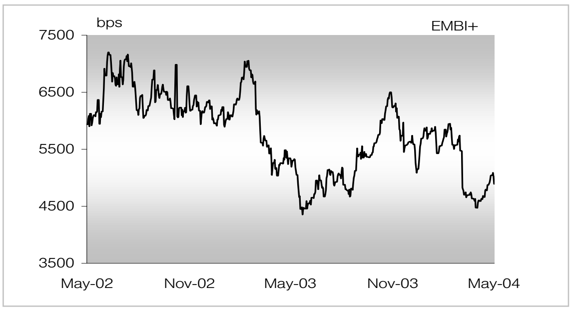


LATIN AMERICA

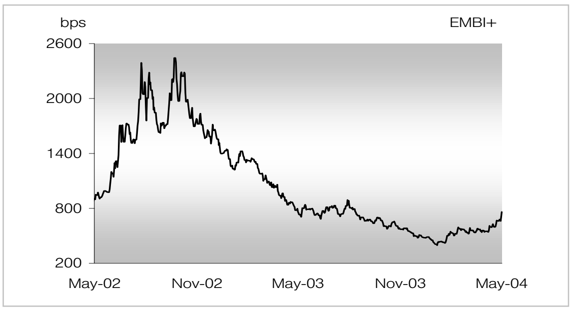


FINANCIAL MARKETS: LATIN AMERICAN BOND YIELD SPREADS

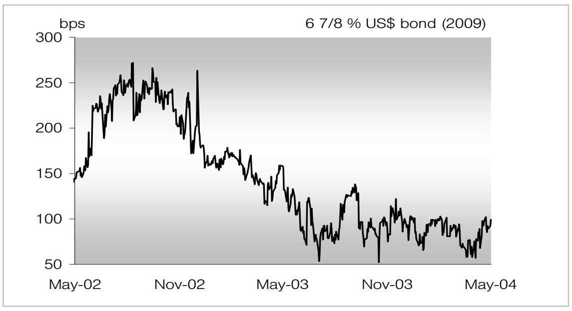
ARGENTINA



BRAZIL

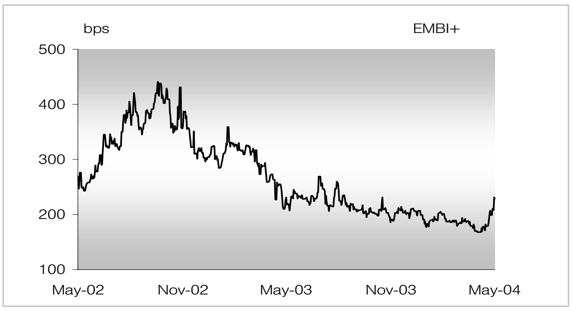


CHILE



COLOMBIA

MEXICO



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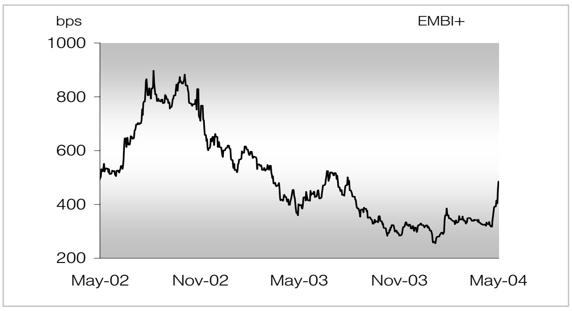

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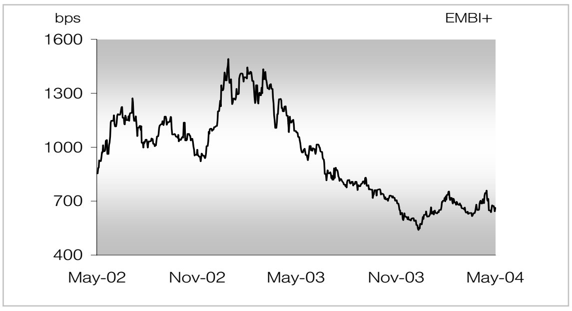
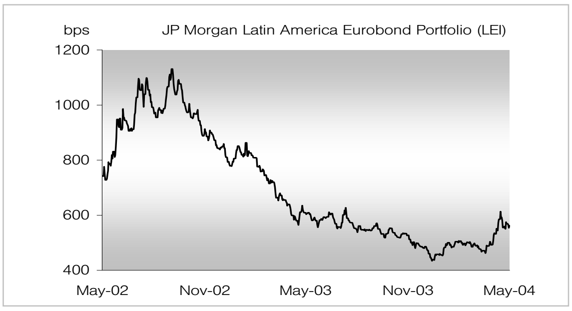


LATIN AMERICA



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GLOBAL ECONOMY - FIGURES AND FORECASTS

		2002	2003	**5/26/2004**	2004f	2005f
REAL GDP CHANGE *						
Industrialized countries	% yoy	1.5	2.1		3.2	2.6
USA	% yoy	2.4	3.1		4.0	3.3
Euro area	% yoy	0.8	0.4		1.5	2.1
Germany	% yoy	0.2	-0.1		1.4	1.6
Japan	% yoy	0.2	2.7		3.8	1.8
INTEREST RATES, YEARLY AVERAGE*						
USA, 3m money market rate	%	1.8	1.2	**1.3**	1.4	2.8
USA, 10yr government bond yield	%	4.5	3.9	**4.7**	4.6	5.6
Euro area, 3m money market rate	%	3.3	2.3	**2.1**	2.1	2.7
Euro area, 10yr gov. bond yield	%	4.8	4.1	**4.3**	4.4	5.1
Japan, 3m money market rate	%	0.1	0.1	**0.0**	0.1	0.1
Japan, 10yr government bond yield	%	1.2	1.0	**1.5**	1.6	1.8
EXCHANGE RATES, YEARLY AVERAGE *						
US$/ Euro	US$	0.95	1.13	**1.21**	1.27	1.27
Yen/ US$	YEN	125	116	**112**	105	104
Yen/ Euro	YEN	118	131	**135**	131	131
COMMODITY PRICES, YEARLY AVERAGE						
Coffee (other milds)	c/lb, NY	60.3	64.1	**80.7**	75.0	75.0
Soybeans	c/bushel	505	627	**892**	850	800
Copper	c/lb, LME	72.0	81.0	**124.0**	120.0	105.0
Crude oil (WTI)	US$/b	26.1	31.0	**40.6**	34.5	31.0
Crude oil (Brent)	US$/b	25.1	28.8	**37.8**	32.0	29.0
Gold	US$/ounce	310	364	**388**	400	390

* Source: Dresdner Bank AG

f=forecast