Latin American Spotlight

June 2005

Dresdner Bank Lateinamerika AG
formerly Deutsch-Südamerikanische Bank AG

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		
	2004	2005f	2006f	2004	2005f	2006f	2004	2005f	2006f
Argentina	9.0	6.0	3.5	6.1	11.5	8.7	121	108	102
Bolivia	3.5	3.0	3.5	4.6	5.5	6.0	77	75	77
Brazil	4.9	3.4	3.5	7.6	6.9	5.0	52	50	49
Chile	6.1	5.3	5.0	2.4	3.1	3.2	12	10	10
Colombia	4.0	4.0	3.8	5.5	5.4	5.5	52	51	56
Costa Rica	4.2	3.0	3.0	13.1	12.8	9.8	60	62	63
Dominican Republic	2.0	2.8	3.0	28.7	5.8	9.4	52	49	46
Ecuador	7.0	3.5	3.0	1.9	2.7	1.5	48	47	46
El Salvador	1.5	1.9	2.4	5.8	4.5	3.7	36	35	36
Guatemala	2.7	3.0	3.0	9.2	6.5	6.0	25	25	24
Honduras	4.6	3.9	4.3	9.2	8.5	7.5	63	60	58
Jamaica	2.5	2.4	3.0	13.7	9.0	10.0	138	132	140
Mexico	4.4	3.3	4.0	5.2	3.7	3.8	27	26	26
Nicaragua	5.1	3.7	3.2	9.3	9.0	8.0	164	137	124
Panama	5.2	3.5	4.2	3.0	2.2	2.8	70	70	69
Paraguay	3.0	2.5	3.0	5.4	4.5	5.3	43	43	44
Peru	5.1	5.0	4.8	3.5	2.0	2.5	46	40	50
Trinidad & Tobago	6.0	7.0	7.0	4.5	4.8	4.0	28	24	22
Uruguay	12.3	6.5	4.0	7.4	6.5	6.0	89	80	75
Venezuela	17.9	6.0	4.0	19.2	18.0	23.7	39	37	34
Latin America (20 countries)	5.6	3.9	3.8	6.5	6.1	5.7			

EXTERNAL SECTOR FOREIGN DEBT	Current account balance in % of GDP			Import cover in months*			Gross foreign debt in % of exports*		
	2004	2005f	2006f	2004	2005f	2006f	2004	2005f	2006f
Argentina	2.0	0.8	-0.6	5.8	5.7	5.7	404	370	368
Bolivia	3.2	-1.0	-1.1	7.2	6.3	5.9	216	244	220
Brazil	2.0	1.7	1.1	6.2	6.4	7.1	203	172	164
Chile	1.5	-0.3	-1.2	5.6	5.1	5.1	128	116	114
Colombia	-1.3	-2.0	-2.5	6.8	6.5	6.0	205	200	192
Costa Rica	-4.6	-3.7	-3.5	1.8	1.7	1.7	71	70	72
Dominican Republic	7.0	3.9	2.8	1.0	0.9	0.9	83	84	88
Ecuador	1.1	2.2	1.5	1.3	0.9	0.9	196	182	176
El Salvador	-4.0	-2.8	-1.7	2.9	2.8	2.6	164	160	158
Guatemala	-4.1	-4.0	-3.7	4.7	4.0	3.7	141	137	140
Honduras	-5.2	-6.3	-4.5	5.0	5.1	5.2	201	168	162
Jamaica	-10.7	-10.8	-10.2	3.9	3.5	3.0	107	103	102
Mexico	-1.2	-1.7	-1.9	3.2	3.2	3.0	79	76	73
Nicaragua	-18.0	-19.1	-17.2	2.7	2.4	2.3	373	318	291
Panama	-3.1	-5.7	-4.6	1.4	1.5	1.4	96	95	94
Paraguay	0.5	-1.4	-2.5	3.8	3.8	4.3	99	101	88
Peru	-0.2	0.0	-0.9	9.3	9.2	8.7	195	177	176
Trinidad & Tobago	18.1	18.6	20.8	5.9	6.3	7.1	69	64	51
Uruguay	-0.3	-2.0	-3.1	7.3	7.3	7.5	284	277	264
Venezuela	12.7	11.3	6.9	9.0	9.9	10.1	111	123	132
Latin America (20 countries)	1.0	0.5	-0.1	5.1	5.1	5.3	154	144	141

* goods and services

f=forecast

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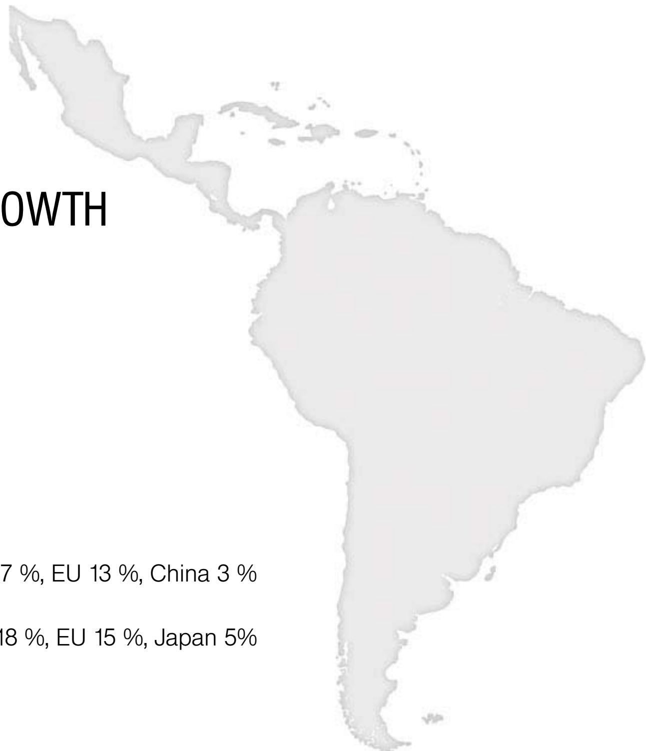

LATIN AMERICA: SLOWDOWN IN GROWTH

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

ANNUAL FIGURES AND FORECASTS

LATIN AMERICA (20 countries)		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	-0.2	1.6	5.6	3.9	3.8
GDP	US$ bn	1658	1710	1944	2282	2388
Inflation (year-end)	%	11.8	6.8	6.5	6.1	5.7
EXTERNAL SECTOR						
Merchandise exports	US$ bn	351	382	471	512	534
Merchandise imports	US$ bn	329	340	411	458	494
Trade balance	US$ bn	22.4	42.6	59.2	54.1	40.8
Current account balance	US$ bn	-14.0	7.6	19.5	12.0	-2.7
Current account balance	% GDP	-0.8	0.4	1.0	0.5	-0.1
Net direct investment ***	US$ bn	44	32	54	40	46
Foreign exchange reserves, year-end	US$ bn	162	195	221	237	255
Import cover **	months	5.7	5.4	5.1	5.1	5.2
FOREIGN DEBT						
Gross foreign debt	US$ bn	770	805	805	807	819
Foreign debt	% exports**	224	184	154	144	141
Short-term foreign debt	US$ bn	117	135	159	147	154
Foreign debt amortization	US$ bn	97	125	128	97	87
Foreign debt service	US$ bn	141	167	172	146	140
Foreign debt service	% exports**	41	38	33	26	24
FINANCIAL MARKETS (year-end)						
IFCI stock index (US$ based, 2005: 06/03)		397	676	915	983	
Bond market yield spread (2005: 06/03)*	bps	843	472	399	424	

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

Following last year's record growth, the economy has now entered a distinct slowdown. In some countries, this was quite obviously caused by the subdued global economic environment as well as lower oil prices, while internal factors dominated in other countries.

In Brazil, for instance, exports keep rising unabated. The hike in domestic interest rates, the political standstill in combination with new corruption scandals as well as a substantial decline in consumption caused companies to decrease their capital spending, however. Accordingly, GDP in the first quarter was only 0.3% up on the previous quarter (seasonally adjusted); for the year as a whole we forecast +3.4% (previous year: +4.9%). In Argentina, too, private consumption in particular is slowing down. Employment growth has decelerated over the last several months. We consider it unlikely that the recent debt rescheduling of non-performing bonds will generate any major stimulus. Nevertheless, GDP is still set to grow by an estimated 6% this year (previous year: 9%).

Economic growth in Venezuela is likewise going to drop to 6% following 17% in the previous year after two years of deep recession. The still relatively high growth is boosted by very expansionary fiscal policy, which is unlikely to be sustained in the long term. This policy is particularly susceptible to a slump in crude oil prices. In Ecuador, also an oil-exporting country, consumption and investment are adversely affected above all by the delicate political situation. Following the change in government, the new president Alfredo Palacio has primarily given anti-investment signals, such as severing relations with the IMF and abolishing the oil stabilization fund (Feirep) intended to reduce foreign debt. GDP is set to grow by 3.5% this year.

In Mexico, the economic slowdown in the first quarter was primarily caused by a decline in foreign demand. However, consumer demand has also declined on account of the rise in interest rates. The latter looks set to fall again in the course of the year, which could spur domestic demand. We project 3.3% growth for the year as a whole. In contrast, economic growth in Chile (+5.3%) and Colombia (+4%) should remain robust. Chile is benefiting from continuing high copper prices and consumer demand boosted by the improved situation in the labor market. Colombia is enjoying a steadily improving investment and consumer climate thanks to the reform projects and the successful negotiations with paramilitary groups. In the Dominican Republic we expect growth to accelerate from 2% to around 3%, after the country restructured its foreign debt and the balance of payments crisis appears to have been largely overcome. Economic growth in Latin America as a whole will amount to 3.9% this year.

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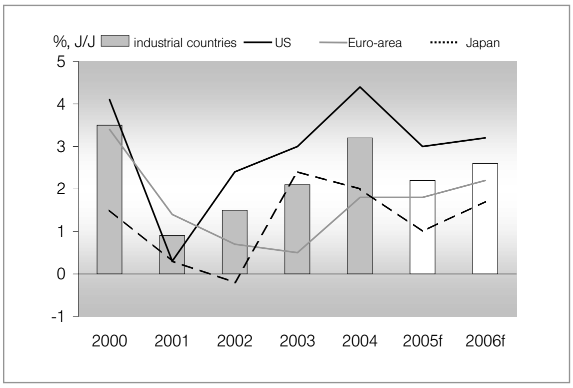
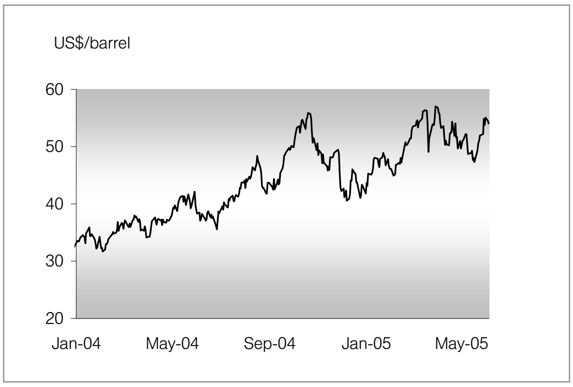
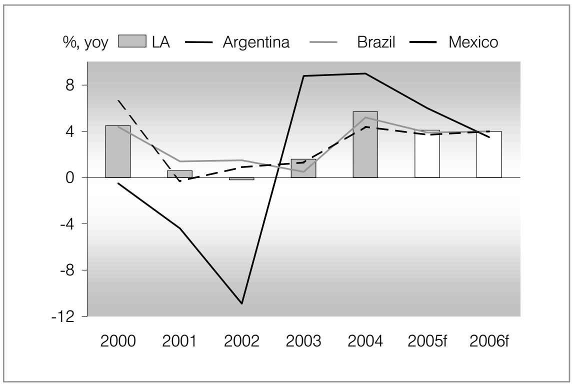
GDP CHANGE (REAL)



OIL PRICE (WTI)



GDP CHANGE (REAL)



ARGENTINA: PARTIAL DEBT RESTRUCTURING COMPLETED

Area	2 736 700 sq. km
Population	38.4 million (+ 1.1 % p.a.)
State president	Néstor Kirchner
Economy minister	Roberto Lavagna
Central bank president	Martín Redrado
Next elections	Congress: October 2005 President: October 2007
GDP per capita	US$ 3 921 (2004)
Investment	16.5 % of GDP (2004)
Savings	19.4 % of GDP (2004)
Exchange rate system	Flexible exchange rate
Monetary policy	Money supply targeting
Exports of goods (2004)	23 % of GDP
Purchasing countries	EU %, Mercosur 19 %, Asean 15 %, NAFTA 15 %
Products	Primary goods and crude oil 38 %, Manufactured agricultural goods 34 %, Industrial goods 28 %
Imports of goods (2004)	9 % of GDP
Supplier countries	Mercosur 38 %, EU 19 %, NAFTA 19 %
Products	Capital goods 40 %, Intermediate Goods 39 %, Consumer goods 17 %; Crude oil 4 %
Rating	Moody's: Caa1 S&P: B-

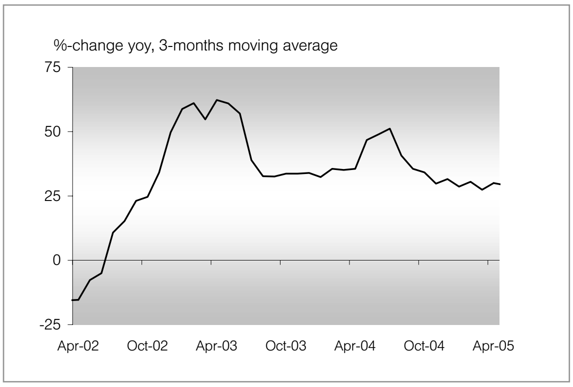
SUMMARY AND OUTLOOK

76% of the bonds on which the country has defaulted since December 2001 were swapped for new bonds at the beginning of June this year. By accepting the swap offer, the creditors had to contend with exceptionally high net present value losses of around 70%. The swap could only be implemented after a two-month delay since bond creditors who rejected the swap offer had instituted legal proceedings in New York courts, which were decided in favor of Argentina, however. Since this debt rescheduling still leaves bonds worth US$ 19.5 billion in default, further legal actions may be anticipated. The IMF has urged Argentina to come up with a strategy on how to deal with those bonds that are still not being serviced. The Argentinean government does not seem to plan any discernible efforts in this regard. As the substantial IMF loans put Argentina in a favorable negotiating position, the IMF should agree on a compromise shortly. Argentina's economic growth remains high (2005: 6%), although there are currently signs of a slight slowdown compared to last year. The substantial increase in consumer prices observed since the beginning of the year is set to continue, albeit at a slower pace, and will cause the inflation rate to rise to 10% by the end of the year.

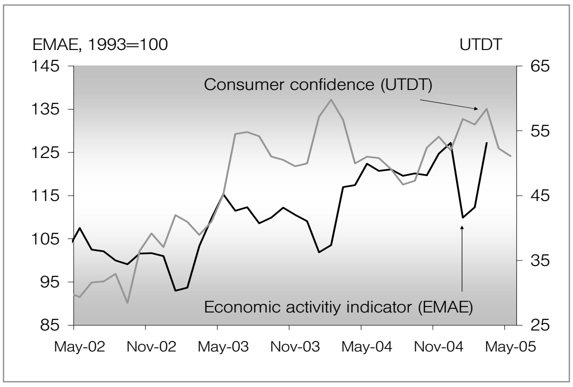
ARGENTINA		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	-10.9	8.8	9.0	6.0	3.5
GDP	US$ bn	99	127	152	179	195
Inflation (year-end)	%	41.0	3.7	6.1	10.2	8.7
Inflation (average)	%	25.9	13.4	4.4	8.9	8.8
PUBLIC SECTOR						
Budget balance, central government	% GDP	-1.4	0.6	2.4	2.1	1.0
Budget balance, public sector	% GDP	-1.8	1.3	4.2	2.9	1.9
Public debt*	% GDP	139	140	121	106	100
Amortization*	US$ bn	17.9	19.8	19.8	14.2	11.8
Gross financing needs	US$ bn	19.2	19.1	16.1	10.6	9.8
EXTERNAL SECTOR						
Merchandise exports	US$ bn	25.7	29.6	34.6	38.6	40.4
Merchandise imports	US$ bn	8.5	13.0	21.2	27.8	31.1
Trade balance	US$ bn	17.2	16.5	13.3	10.8	9.2
Current account balance****	US$ bn	9.6	7.9	3.0	1.5	-1.2
Current account balance****	% GDP	9.7	6.2	2.0	0.8	-0.6
Net direct investment	US$ bn	1.7	-0.3	3.9	0.0	1.0
Foreign exchange reserves, year-end	US$ bn	10.5	14.1	19.6	21.5	23.0
Import cover **	months	5.6	5.8	5.8	5.6	5.6
US$ exchange rate, year-end	Pesos	3.37	2.93	2.97	2.90	3.00
US$ exchange rate, average	Pesos	3.15	2.95	2.94	2.88	2.96
FOREIGN DEBT *						
Gross foreign debt	US$ bn	157	165	169	173	178
Foreign debt	% exports**	494	450	403	369	367
Short-term foreign debt	US$ bn	23.8	39.7	60.0	47.5	55.0
Foreign debt amortization	US$ bn	19.7	30.5	22.5	19.4	14.5
Foreign debt service	US$ bn	29.6	40.1	32.3	28.4	25.0
Foreign debt service	% exports**	93	109	77	61	51
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	7.5	2.0	3.0	5.0	5.0
Merval stock index (peso based, 2005: 06/03)		525	922	1375	1506	
IFCI stock index (US$ based, 2005: 06/03)		265	502	763	915	
Bond market yield spread (2005: 06/03)***	bps	6229	6463	4707	6640	

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

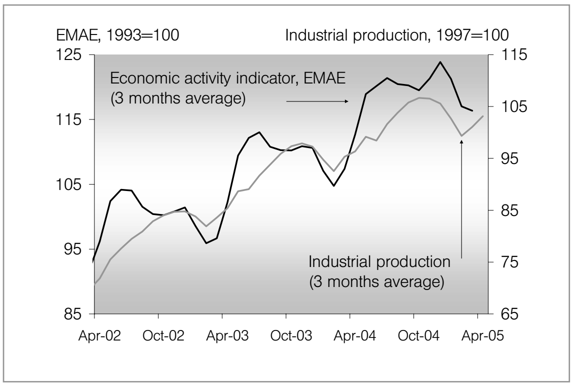
TAX REVENUES



CONSUMER CONFIDENCE AND EMAE



INDUSTRIAL PRODUCTION AND EMAE



Public finances: IMF satisfied with partial debt restructuring?

Following the New York Appeal Court's dismissal of actions instituted by bond creditors who rejected the swap offer (”holdouts”) and were seeking an attachment order for the bonds due to be swapped, the swap offer originally planned for April of this year took place at the beginning of June. February of this year saw 24% of bond creditors reject the swap offer, which expects them to contend with net present value losses in the region of 70%. This means that bonds with a nominal value of US$ 19.5 billion are still not being serviced (incl. interest arrears: roughly US$ 25 billion). Notwithstanding this fact, the Argentine government considers the debt rescheduling as finalized. Some months ago, it already passed a law prohibiting a new debt rescheduling offer, even if the terms and conditions were the same. However, the situation is actually not that simple. On the one hand, ”holdouts” will continue their attempts to enforce their claims by legal action, although any attempt to attach Argentinean government assets is unlikely to succeed. On the other, the IMF will only disburse new loans on condition that Argentina develops a strategy aimed at finding a solution for the ”holdouts”.

A solution to the conflict with the IMF is not in sight as yet. However, we expect the Fund – as previously seen during the debt rescheduling program – to be more inclined to a compromise than Argentina, since the country otherwise might suspend its payments to the Fund. Argentina has not received any disbursements from the IMF since March 2004, but has repaid principal (US$ 3523 million) and made interest payments (US$ 540 million) to the IMF. The amount owed to the IMF was reduced to US$ 11.9 billion at the end of April of this year. Argentina most probably refrained from breaching its debt service to the IMF because negotiations with this institution might have revealed that the country certainly was capable of improving its debt rescheduling proposal.

Despite the continued favorable budget situation (tax revenues January – April: +29.5%, year-on-year; forecast for primary surplus 2005: 3.5% of GDP), we do not expect Argentina to continue servicing its debt to the IMF without receiving any disbursements from the latter in return. The fiscal surplus (incl. interest payments), domestic borrowing and the prospective loans from Venezuela's government to the tune of US$ 500 million will not be sufficiently high to meet all redemption commitments in 2005. In compliance with Argentina's request, the IMF already deferred US$ 2.5 billion in repayments due in the period from May 2005 to April 2006 for one year. No details on the current progress of the negotiations with the IMF have been released as yet. The topics of the negotiations will most likely deal with the problems of the ”holdouts”, along with the problem areas of privatized utility companies and revenue sharing with the provinces that have already been under discussion for some time. Particularly high repayments to the IMF are due in June and September, which Argentina will most probably only effect once an agreement with the IMF has been reached. A decision of the IMF's Board of Governors on the second revision of the suspended agreement overdue since March 2004 has been scheduled for the second half of June.

Economic activity: growth slowdown at a high level

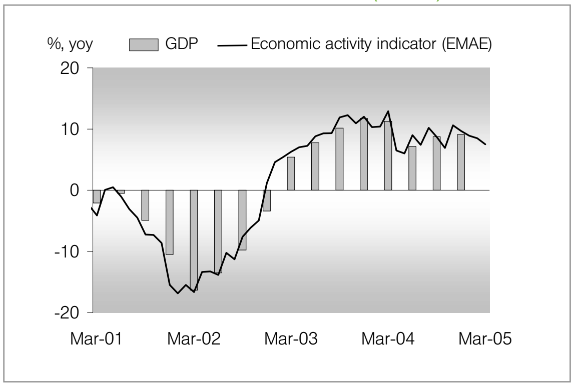
Following strong economic growth once again in the last year (9%), the economy is currently cooling down, as expected. In the first quarter of this year, the GDP proxy EMAE only reflected modest growth of 1.1% (quarter-on-quarter, seasonally adjusted) following 2.9% in the fourth quarter of the previous year. Compared to last year, this still amounts to a gain of 8.3%, however. Growth continues to be underpinned by consumption, investments and exports. Although the labor-intensive sectors of housing construction and public-sector construction projects account for the bulk of investments, improvements in the labor market have weakened again. Employment numbers in the first quarter only increased 0.5% year-on-year, after 1.3% in the fourth quarter of 2004 and an average increase of 2.1% in the past five quarters. The unemployment rate dropped from 14.4% to 13% year-on-year, however.

All in all, we expect a further slowdown in economic growth in the course of the year. In particular, consumption should not rise as much as in the previous year. This is suggested, among other factors, by the noticeable decline in consumer confidence, which is bound to be reflected in a further drop in retail sales. GDP growth as a whole should still reach 6% in the course of the year, however. For next year, we expect economic growth to slow down to 3.5%, because (among other factors) production should reach its capacity limits.

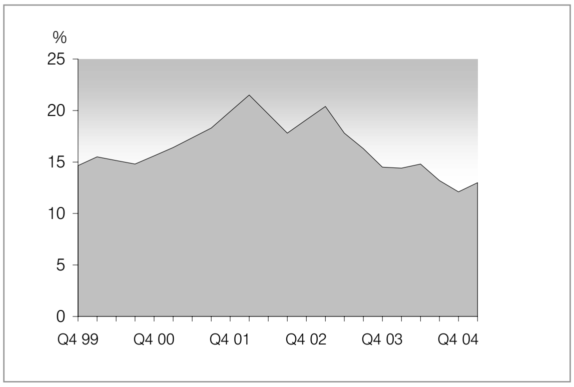
Monetary sector: inflation rate hike

In the first five months of this year, monthly consumer price inflation, at an average of 1%, was considerably up on the average of the second half of 2004 (0.4%). Compared to the same month of the previous year, the inflation rate stood at 8.6% in May 2005, compared to 4.3% in May 2004. The central bank is making an effort to prevent inflation from rising any further by engaging in more restrictive monetary policy. Overall, we believe that the central bank which, de facto, is not independent of the government, will most probably lack the standing needed to tighten the monetary reins consistently. Moreover, the government seems to be taking the problem of the rising inflation rate less seriously than the

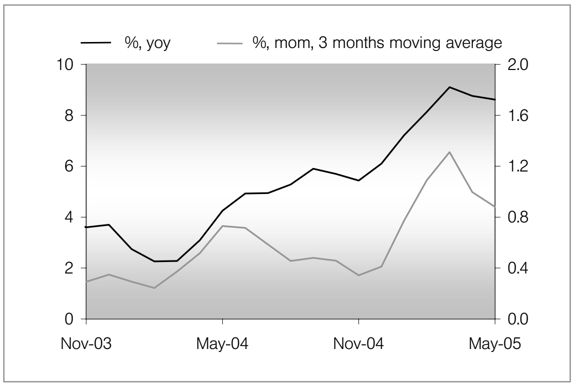
GDP CHANGE (REAL) AND EMAE



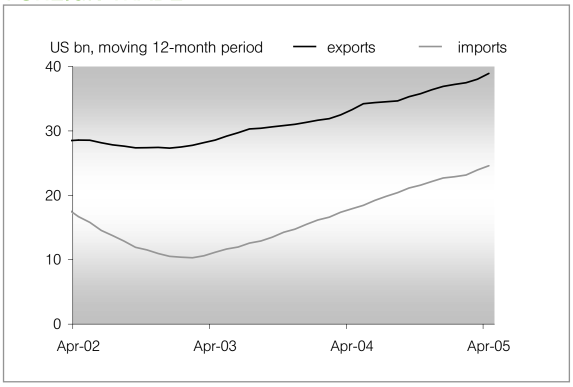
UNEMPLOYMENT



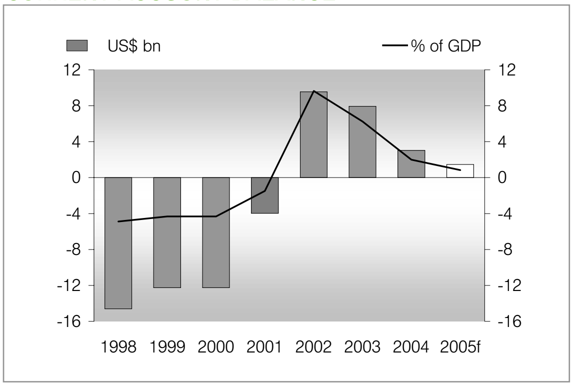
INFLATION



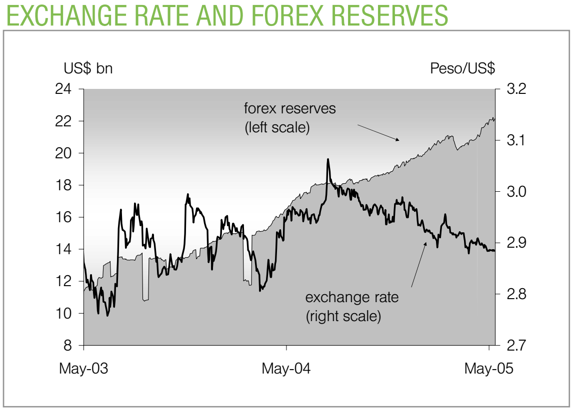
FOREIGN TRADE



CURRENT ACCOUNT BALANCE



EXCHANGE RATE AND FOREX RESERVES



risk of economic growth flattening out. This is at least suggested by the government's planned monthly minimum wage increase from currently 450 pesos to 630 pesos in September. Since the wage trend in several sectors is tied to the minimum wage, wages can likewise be expected to exert further pressure on prices. The expansion of disposable income (through tax relief, increase in pensions and transfer payments, among other things) anticipated in the run-up to the partial elections of Congress in October of this year is bound to have the same effect. After private consumption increased by one quarter in real terms over the last two years, production capacities meanwhile should largely be fully utilized. With significant growth in money supply and rising wages, the current acceleration in inflation does not come as a surprise. Only the nominal appreciation of the peso is likely to have a decelerating effect on inflation. All in all, we expect that the central bank will not be able to maintain the inflation rate within the bandwidth of 5% to 8% targeted for year-end and that inflation will increase to 10%.

External sector: sustained high growth

Following growth of 17% in 2004, exports were 15% up on the pre-year level between January and April of this year. This year's growth is attributable to substantial growth in export volumes (+19%), which more than offset the decline in export prices (4%). Imports, after having risen by 62% in 2004, still saw a 32% increase in the first four months of this year. At US$ 4.0 billion, the trade surplus (imports, fob) fell short of the pre-year figure of US$ 4.5 billion between January and April of this year. The central bank continued to intervene in the foreign exchange market, thus enabling it to keep the peso's trade-weighted real exchange rate at a stable level despite the appreciation pressure since the beginning of the year, and to increase its foreign currency reserves to US$ 22.1 billion by the end of May (May 2004: US$ 16.7 billion). The second semester of the year should see a decline in trade surpluses (and, therefore, decreasing appreciation pressure on the peso) due to seasonally weaker exports and sustained high imports, among other factors. For the year as a whole, we forecast a decline in the trade surplus to US$ 10.8 billion (2004: US$ 13.3 billion). The resultant reduction in the current account surplus is being cushioned by the fact that contractual interest payments going abroad, recorded in the official current account statistics, are set to decline by roughly US$ 700 million. At US$ 1.5 billion, the current account surplus should reach about half of the pre-year figure in the current year.

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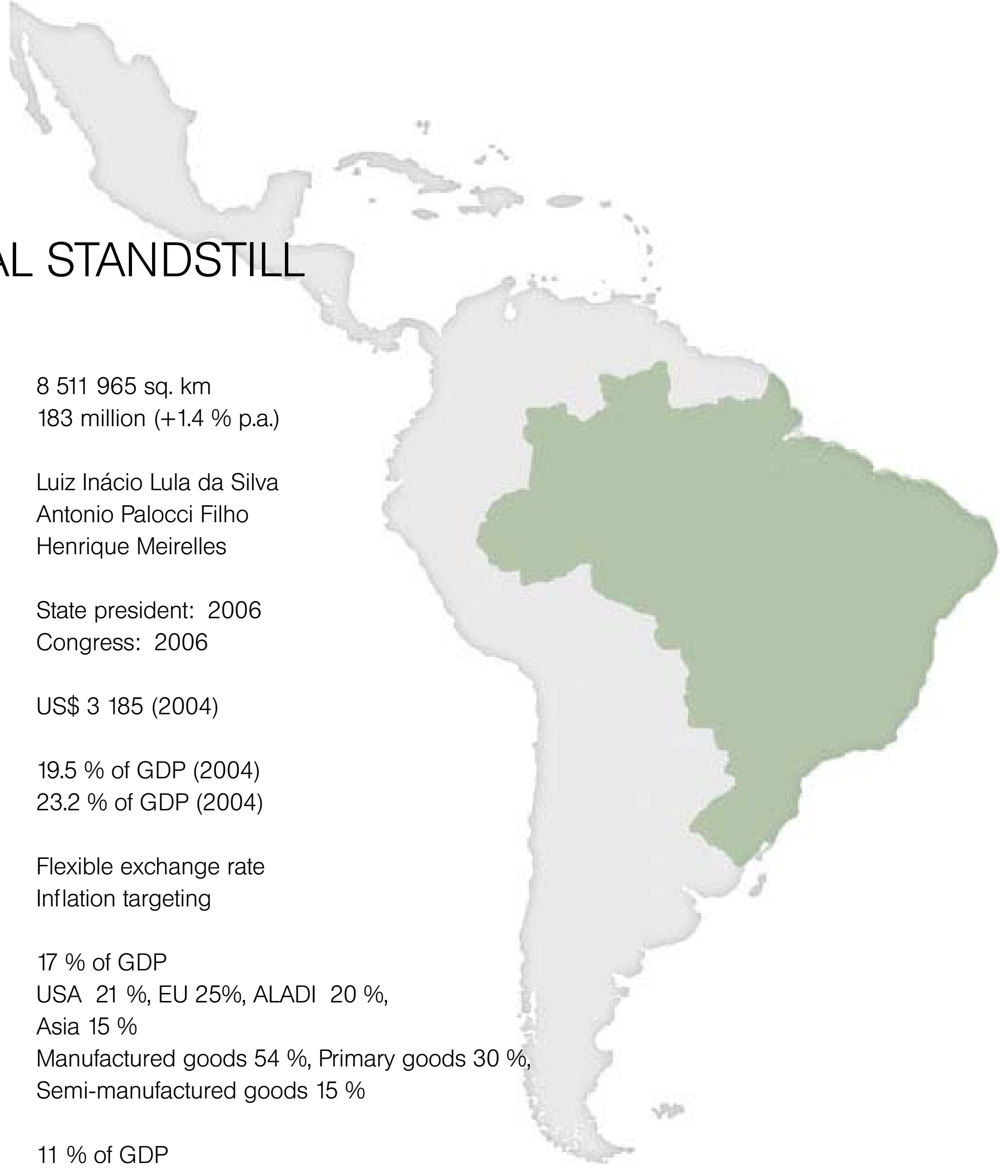
ARGENTINA: MONTHLY INDICATORS		Feb-05	Mar-05	Apr-05	May-05	next/latest
DOMESTIC ECONOMY						
Economic activity indicator, EMA	% yoy	**8.5**	**7.5**			23-Jun
Economic activity indicator, EMA (season. adjust.)	% mom	**0.2**	**0.3**			23-Jun
Industrial production	% yoy	5.4	**5.8**	**10.1**		16-Jun
Industrial production (seasonally adjusted)	% mom	-0.4	**2.0**	**-0.4**		16-Jun
Construction	% yoy	6.3	-2.2	**16.4**		27-Jun
Construction (seasonally adjusted)	% mom	-1.3	-2.0	**5.2**		27-Jun
Consumer confidence (UTDT)	% mom	-1.5	4.4	-10.5	**-1.6**	9-Jun
Supermarket sales (real, seasonally adjusted)	% yoy	6.2	**5.6**	**3.4**		28-Jun
Supermarket sales (real, seasonally adjusted)	% mom	-0.5	**0.2**	**-0.9**		28-Jun
Tax revenues	% yoy	32.5	**26.7**	**30.9**	**-2.6**	4-Jul
Budget balance	Pesos mn	184	**891**	**1900**		30-Jun
Primary balance	Pesos mn	1370	**1232**	**2240**		30-Jun
Consumer prices	% yoy	8.1	9.1	**8.8**	**8.6**	1-Jul
Consumer prices	% mom	1.0	1.5	**0.5**	**0.6**	1-Jul
Overnight peso rate (month-end; latest: 06/03)	%	2.3	2.4	**2.7**	**3.3**	**3.4**
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2578	**2936**	**3559**		30-Jun
Merchandise exports	% yoy	8	**11**	**17**		30-Jun
Merchandise imports, cif	US$ mn	1862	**2200**	**2379**		30-Jun
Merchandise imports	% yoy	37	**31**	**45**		30-Jun
Trade balance	US$ mn	716	**736**	**1180**		30-Jun
Foreign exchange reserves (latest: 06/03)	US$ bn	20.8	20.3	**20.9**	**22.1**	**22.2**
US$ exchange rate (latest: 06/03)	Pesos	2.94	2.92	**2.91**	**2.88**	**2.89**

ARGENTINA: QUARTERLY INDICATORS		Q1 04	Q2 04	Q3 04	Q4 04	next /latest
DOMESTIC ECONOMY						
GDP (seasonally adjusted)	% qoq	1.5	0.5	1.5	1.0	16-Jun
GDP	% yoy	11.3	7.1	8.7	9.1	16-Jun
Private consumption	% yoy	11.7	8.3	8.9	9.1	16-Jun
Public consumption	% yoy	0.8	-0.8	4.1	6.5	16-Jun
Private and public investment	% yoy	50.3	36.8	33.6	23.9	16-Jun
Domestic demand	% yoy	15.3	11.0	11.3	9.8	16-Jun
Export (goods and services)	% yoy	7.7	-0.2	9.2	16.8	16-Jun
Import (goods and services)	% yoy	55.8	42.5	38.2	27.8	16-Jun
Unemployment rate (EPH)	%	14.4	14.8	13.8	12.1	**13.0**
Budget balance, central government	Pesos mn	3982	6667	3371	-762	**2530**
Public debt***	US$ bn	180.0	181.2	182.5		30-Jun
EXTERNAL SECTOR						
Current account balance	US$ bn	0.4	1.7	0.5	0.5	22-Jun
Net foreign direct investment	US$ bn	1.6	1.1	0.8	0.5	22-Jun
Net portfolio investment	US$ bn	-3.8	-1.1	-2.0	-2.0	22-Jun
Capital account**	US$ bn	0.5	0.9	0.2	0.7	22-Jun
Change in foreign reserves #	US$ bn	-0.9	-2.6	-0.7	-1.1	22-Jun
Gross foreign debt*	US$ bn	164.3	165.4	167.2		22-Jun
Short-term foreign debt	US$ bn	45.5	n.a.	47.5		22-Jun

* revised data; ** incl. residual items ***without overdue interest and amortization payments # - = increase

BRAZIL: POLITICAL STANDSTILL



Area	8 511 965 sq. km
Population	183 million (+1.4 % p.a.)
State president	Luiz Inácio Lula da Silva
Finance minister	Antonio Palocci Filho
Central bank president	Henrique Meirelles
Next elections	State president: 2006 Congress: 2006
GDP per capita	US$ 3 185 (2004)
Investment	19.5 % of GDP (2004)
Savings	23.2 % of GDP (2004)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2004)	17 % of GDP
Purchasing countries	USA 21 %, EU 25%, ALADI 20 %, Asia 15 %
Products	Manufactured goods 54 %, Primary goods 30 %, Semi-manufactured goods 15 %
Imports of goods (2004)	11 % of GDP
Supplier countries	EU 26 %, USA 20 %, ALADI 17 %, Asia 19 %
Products	Primary goods and inputs 53 %, Capital goods 19 %, Consumer goods 11 %
Rating	Moody's: B2 S&P: B+

SUMMARY AND OUTLOOK

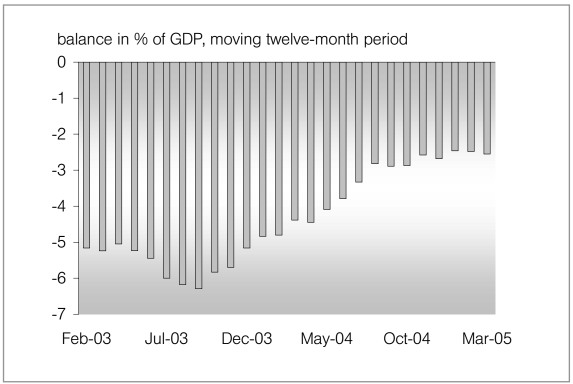
One-and-a-half years before the presidential elections, it seems certain that virtually no further major reform projects will be forthcoming from the Lula da Silva government. Corruption scandals, lack of skill in appointments to key positions (e.g. the government failed to nominate the president of the house of deputies) and a crumbling coalition, which meanwhile lacks a reliable majority in congress, are the reasons for this. Recent economic figures also indicate a sharper-than-expected deceleration in growth and that companies are cutting back on their investments. Against this backdrop, the central bank's restrictive monetary policy, which is clearly necessary in the light of an inflation rate of 8%, has met with little enthusiasm. Highlights are the continuing export boom, strong growth in foreign direct investments and the continued drop in foreign debt. In view of the strong real (24% year-on-year appreciation against the US$), exports are likely to lose momentum in the near future.

ANNUAL FIGURES AND FORECASTS

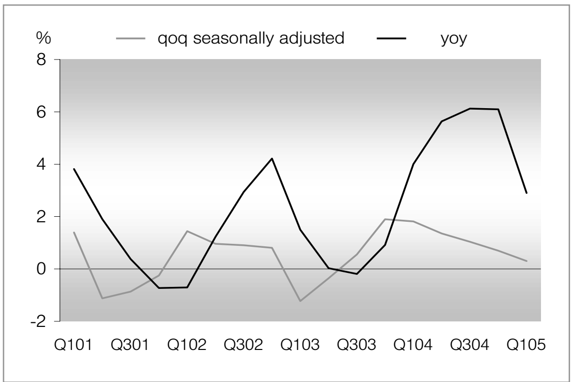
BRAZIL		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	1.5	0.5	4.9	3.4	3.5
GDP	US$ bn	452	495	583	758	808
Inflation (year-end)	%	12.5	9.3	7.6	6.9	5.0
Inflation (average)	%	8.5	14.7	6.6	7.6	5.5
PUBLIC SECTOR						
Budget balance, central government	% GDP	-0.8	-4.0	-2.0	-2.1	-1.8
Budget balance, public sector	% GDP	-4.7	-5.2	-2.7	-3.0	-2.6
Public debt (net)	% GDP	56.5	56.4	52.0	50.0	48.9
Amortization external debt	US$ bn	8.6	22.1	14.1	16.1	16.1
Amortization domestic federal debt*	US$ bn	53.4	72.1	68.4	143.6	84.3
EXTERNAL SECTOR						
Merchandise exports	US$ bn	60.4	73.1	96.5	110.3	115.3
Merchandise imports	US$ bn	47.2	48.3	62.7	73.8	81.2
Trade balance	US$ bn	13.2	24.8	33.7	36.5	34.1
Current account balance	US$ bn	-7.7	4.1	11.7	13.0	9.1
Current account balance	% GDP	-1.7	0.8	2.0	1.7	1.1
Net foreign direct investment	US$ bn	16.6	10.1	18.2	13.0	16.0
Foreign exchange reserves, year-end	US$ bn	37.8	49.0	52.9	62.0	74.6
Import cover **	months	5.4	6.9	6.2	6.4	7.1
US$ exchange rate, year-end	Reais	3.53	2.89	2.66	2.49	2.54
US$ exchange rate, average	Reais	2.90	3.08	2.92	2.50	2.56
FOREIGN DEBT						
Gross foreign debt	US$ bn	228	235	225	216	216
Foreign debt	% exports**	311	271	203	172	164
Short-term foreign debt	US$ bn	22.8	25.0	27.0	26.0	25.0
Foreign debt amortization	US$ bn	39.0	44.0	50.3	34.5	30.0
Foreign debt service	US$ bn	54.3	59.7	65.6	49.3	45.0
Foreign debt service	% exports**	74	69	59	39	34
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	24.9	16.3	17.8	18.8	16.5
Bovespa stock index (real based, 2005: 06/03)		11268	22236	26196	26365	
IFCI stock index (US$ based, 2005: 06/03)		214	439	587	869	
Bond market yield spread (2005: 06/03)***	bp	1439	463	383	416	

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

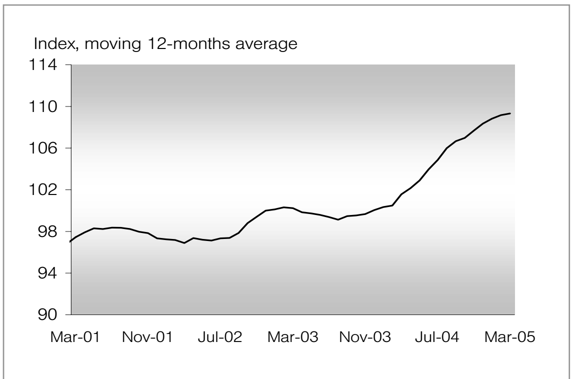
BUDGET BALANCE



GDP CHANGE (REAL)



INDUSTRIAL PRODUCTION



Domestic policy: what to expect from the government?

In the first one and a half years of its rule , the Lula government scored remarkable successes, e.g. the conclusion of the pension reform, the new bankruptcy legislation and some changes in tax legislation. Since mid-2004, we have seen a standstill, however. Neither a comprehensive tax reform nor the project that would grant the central bank operational autonomy, nor the labor market reforms were realized and we consider it highly unlikely that these projects will still be implemented in the current legislative period, which after all will last until end-2006.

There are several reasons for this: for instance, the government failed to maintain a stable majority in Congress. The PMDB, which has almost as many members of parliament as President Lula's party (PT), yet was awarded only two ministries (out of more than 20), has left the coalition. Moreover, the PT itself is split into a pragmatic and an extremist left wing. This constellation prevented the government from pushing through its own candidate for the position as president of the house of deputies, who has a significant influence on the legislative agenda. The elected candidate, Severino Cavalcanti, is clearly opposed to the government and shows a distinct tendency toward nepotism. The government is currently being rocked by a corruption scandal. An executive of Brazil's federal post office, who was appointed by the PT's coalition partner PTB, was evidently engaged in a large-scale corruption scam as suggested by video footage that has been released. What is quite irritating is the reaction from the government, which is making every effort to hamper the work of the special commission set up to investigate the allegations. President Lula's image and that of the government has been tainted by these incidents according to the May CNT/Sensus poll. This environment is also nurturing political uncertainty and is adversely affecting the investment and consumer climate (see also economic activity).

Fiscal policy: progress in debt reduction

For the first time since the year 2000, public net debt (as of the end of April) dropped once again to 50% of GDP. At the end of 2003, it was almost 10 percentage points higher. In addition to the amount, the debt structure is also noteworthy. While dollar-indexed debt instruments account for only 5% of domestic debt and 20% bear fixed interest rates, 58% of the instruments are indexed to the central bank's short-term "Selic" interest rate. Such a high share of variable-rate instruments is unhealthy since (among other reasons) the central bank exerts a direct influence on the level of public debt service on account of its interest-rate decisions, and its discretion therefore is limited.

The Brazilian government has taken advantage of the favorable external conditions by placing further issues on the international capital market. Since December 2004, US$ 4.5 billion has already been raised on the international capital market, meaning that 90% of the finance plan for this year has already been met.

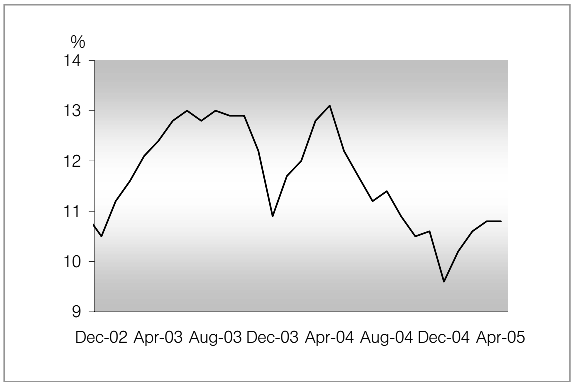
Economic activity: significant slowdown in growth

The first quarter of this year saw growth decelerate further to only 0.3% quarter-on-quarter (seasonally adjusted; 2.9% year-on-year). While exports continued their robust growth, private consumption and investments dropped substantially quarter-on-quarter (seasonally adjusted). However, according to recent economic indicators, growth has by no means come to an end. For instance, industrial production grew substantially in April in the São Paulo region. Following a period of weakness, retail sales have recently been pointing upwards again as well. At the same time, demand for credit has been rising further (see section "monetary policy") thus underpinning the demand for durable goods. So far, this sector has not been impacted by interest rate hikes. Finally, with year-on-year employment growth of 6.4%, the labor market is in a relatively stable condition. All in all, we expect Brazil's economy – in the wake of a "soft landing" - to grow by 3.4% this year.

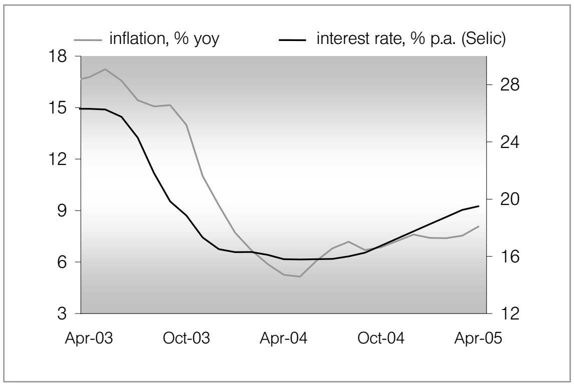
Monetary policy: why is inflation rising?

Since September 2004, the central bank has increased the overnight interest rate by 375 basis points, to 19,75%, on account of rising inflationary expectations. At the same time, the real appreciated against the US$ by 24% year-on-year and there have been clear signs of an economic slowdown since the beginning of the year. Nevertheless, inflation has accelerated. Interestingly enough, the demand for credit, which actually should be adversely affected by the tighter monetary policy, expanded substantially over the past several months (April: +20.5 %, year-on-year, in nominal terms). Particularly strong growth rates were recorded by the newly introduced salary-secured loans, interest rates of which have been declining steadily since December 2004. Higher inflationary expectations from market participants also suggest a lack of confidence in the central bank's capability to resolutely pursue its inflationary target of 5.1% (the current inflation rate stands at 8%). The political pressure exerted on the central bank is only too obvious. For instance, the president of the house of deputies, supported by the vice state president, set up a committee in May to find out whether parliament should influence the interest-rate decisions of the central bank. Finally, higher oil prices and non-recurring

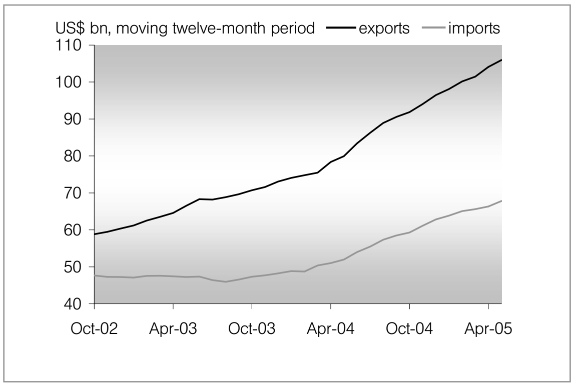
UNEMPLOYMENT RATE



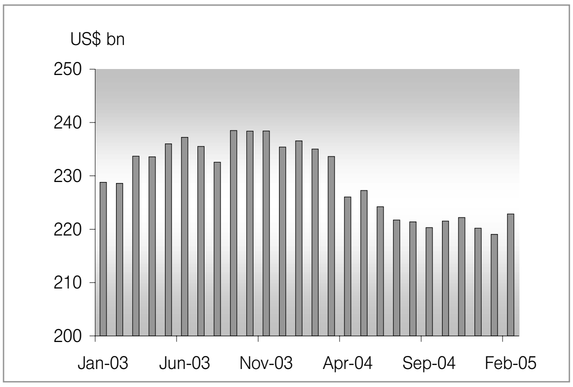
INTEREST RATES & INFLATION



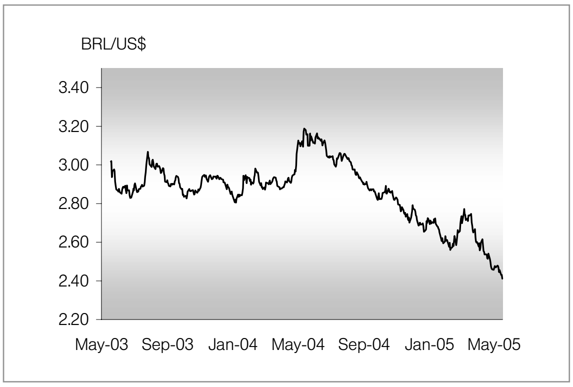
FOREIGN TRADE



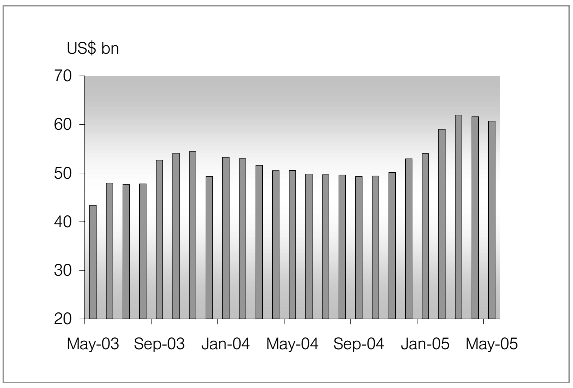
EXTERNAL DEBT



EXCHANGE RATE



FOREIGN EXCHANGE RESERVES



price adjustments of administered goods naturally play a key role as well. We assume that the economic slowdown will ultimately exert a dampening effect on price trends in the forthcoming months and that inflation will be just below the upper limit of the inflation range of 7% at the end of the year. The central bank should maintain the key lending rate at the current level for a couple of months. For the fourth quarter, we forecast interest rate cuts and an interest rate of 18.75% for the end of the year.

External sector: improved risk profile

Even though some exporters are complaining about the appreciation of the real, exports in the first five months of 2005 were up 28% year-on-year. Imports grew by 22% during the same period. Accordingly, the trade surplus expanded substantially and already stands at US$ 15.6 billion, US$ 5 billion higher than in the corresponding pre-year period. We assume that the appreciation of the real will slow down the growth in exports, and we project a 14% year-on-year increase for the year as a whole (2004: +32 %).

The export boom helped to improve Brazil's risk profile considerably. For the first time in 30 years, gross foreign debt is below 200% of visible and invisible exports. The current account will reflect a surplus of more than 1% of GDP this year as well. At the same time, net direct investments – after climbing to more than US$ 4 billion in the first four months of the year – are expected to have overcome last year's low. By increasing its foreign currency reserves, the central bank also improved the country's liquidity position. However, the central bank evidently discontinued its dollar purchases on the foreign exchange market in May. This contributed to a strong appreciation of the real to just under 2.40 reais/US$. Hopes of getting the high inflation rate better under control were most probably the reason why the appreciation was taken into account. Also, the sterilizing costs of foreign exchange market interventions are quite substantial. In the context of interest hikes in the U.S. and growing political uncertainty in Brazil in the run-up to the 2006 elections, we consider a further significant appreciation unlikely.

Against the backdrop of robust balance of payments figures, the Brazilian government decided not to prolong the IMF agreement, which expired in March. This step was taken for domestic policy reasons, since agreements with the IMF have always raised concerns in Brazil that the country was relinquishing part of its sovereignty.

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BRAZIL: MONTHLY INDICATORS		Feb-05	Mar-05	Apr-05	May-05	next/latest
DOMESTIC ECONOMY						
Public sector primary balance (ytd)	% of GDP	5.2	6.2	**7.3**		27-Jun
Public sector balance (ytd)	% of GDP	-2.9	-2.3	**-1.2**		27-Jun
Central government tax revenues	% yoy	3.0	6.4	**8.4**		14-Jun
Capacity utilization (CNI)	%	82.6	**82.6**			27-Jun
Industrial production (IBGE)	% yoy	4.3	**1.7**			7-Jun
Retail sales (IBGE)	% yoy	1.3	**8.6**			14-Jun
Unemployment rate (IBGE)	%	10.6	10.8	**10.8**		23-Jun
Consumer prices IPCA	% yoy	7.4	7.5	**8.1**		10-Jun
Consumer prices IPCA	% mom	0.59	0.61	**0.87**		10-Jun
Interbank interest rate (latest: 06/03)*	%	18.75	19.25	**19.50**	**19.75**	**19.75**
EXTERNAL SECTOR						
Merchandise exports	US$ mn	7756	9251	**9202**	**9819**	1-Jul
Merchandise exports	% yoy	35.5	16.7	**39.6**	**23.6**	1-Jul
Merchandise imports	US$ mn	4970	5902	**5326**	**6367**	1-Jul
Merchandise imports	% yoy	32.8	10.7	**15.1**	**32.0**	1-Jul
Trade balance	US$ mn	2786	3349	**3876**	**3452**	1-Jul
Current account balance	US$ mn	117	1758	**757**		21-Jun
Net foreign direct investment	US$ mn	869	1402	**3038**		21-Jun
Foreign exchange reserves (latest: 06/03)*	US$ bn	59.0	62.0	**61.7**	**60.7**	**61.3**
US$ exchange rate (latest: 06/03)*	Reais	2.59	2.68	**2.52**	**2.39**	**2..39**

BRAZIL: QUARTERLY INDICATORS		Q2 04	Q3 04	Q4 04	Q1 05	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	5.7	6.1	4.9	**2.9**	31-Aug
GDP (s.a.)	% qoq	1.4	1.1	0.4	**0.3**	31-Aug
Private consumption	% yoy	4.5	5.8	5.4	**3.1**	31-Aug
Public consumption	% yoy	0.8	0.3	0.8	**0.7**	31-Aug
Private and public investment	% yoy	13.4	19.2	9.3	**2.3**	31-Aug
Exports of goods and services	% yoy	17.6	18.2	16.2	**13.6**	31-Aug
Imports of goods and services	% yoy	14.2	17.7	12.8	**12.2**	31-Aug
Agriculture	% yoy	6.0	5.9	2.9	**4.2**	31-Aug
Industry	% yoy	6.3	7.0	6.0	**3.1**	31-Aug
Services	% yoy	4.2	4.4	3.8	**2.0**	31-Aug
Public debt (net)	% of GDP	56.0	53.7	52.0	**50.8**	29-Jul
EXTERNAL SECTOR						
Current account balance	US$ bn	2.8	5.3	2.0	**2.7**	25-Jul
Net foreign direct investment	US$ bn	1.3	8.3	5.8	**3.5**	25-Jul
Portfolio investment	US$ bn	-6.1	-0.5	-0.5	**5.8**	25-Jul
Capital account **	US$ bn	-4.1	-6.1	-0.3	**7.7**	25-Jul
Change in foreign exchange reserves #	US$ bn	1.3	0.8	-1.7	**-10.4**	25-Jul
Gross foreign debt	US$ bn	224	220	**220**		21-Jun
Short-term foreign debt	US$ bn	21.2	18.6	**18.7**		21-Jun

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

CHILE: HEADING IN THE RIGHT DIRECTION

Area	756 629 sq. km
Population	15.3 million (+ 1.4 % p.a.)
State president	Ricardo Lagos Escobar
Finance minister	Nicolás Eyzaguirre Guzmán
Central bank president	Vittorio Corbo Lioi
Next elections	State president: December 2005
	Congress: December 2005
GDP per capita	US$ 6 057 (2004)
Investment	22 % of GDP (2004)
Savings	22 % of GDP (2004)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2004)	34 % of GDP
Purchasing countries	EU 25 %, USA 15%, Japan 12 %
Products	Mining products 54 %, Industrial goods 39 %, Fishing, agriculture, forestry 7 %
Imports of goods (2004)	24 % of GDP
Supplier countries	Argentina 17 %, EU 15 %, USA 14 %
Products	Capital goods 20 %, Fuel and lubricants 19 % Consumer goods 17 %,
Rating	Moody's: Baa1 S&P: A

SUMMARY AND OUTLOOK

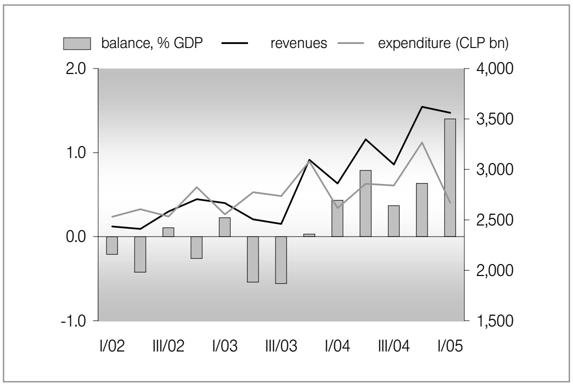
The prospective candidate of the coalition government, former defense minister Bachelet, might have to face two conservative contenders in the presidential elections due in December: the former mayor of Santiago, Lavin, and the entrepreneur Piñera. Ms. Bachelet is not only benefiting from this development but also from the fact that the departing government is leaving a fast-growing economy with increasing improvements in the job market behind. The new government will most probably continue the stability-oriented economic policy course of the Lagos government, regardless of the outcome of the elections. This policy has contributed to the fact that a surplus of almost 3% of GDP in public finances and economic growth of more than 5% can be expected in the current year. With regard to Chile's external sector it is particularly noteworthy that relative debt in the current year is expected to return to the same low level of the mid-nineties.

ANNUAL FIGURES AND FORECASTS

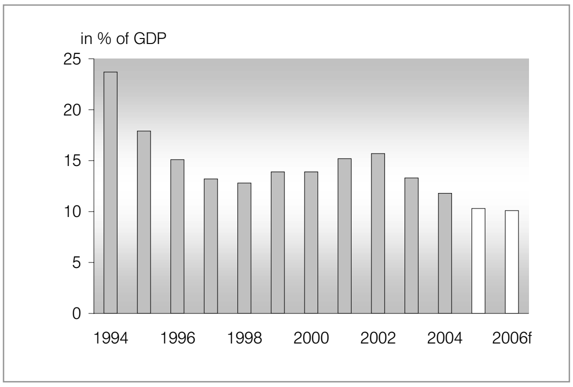
CHILE		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	2.2	3.7	6.1	5.3	5.0
GDP	US$ bn	67.2	73.5	94.1	107.3	107.3
Inflation (year-end)	%	2.8	1.1	2.4	3.1	3.2
Inflation (average)	%	2.5	2.8	1.1	2.6	3.4
PUBLIC SECTOR						
Budget balance, central government	% GDP	-0.8	-0.4	2.2	2.8	1.3
Budget balance, public sector	% GDP	-1.6	-0.4	2.8	3.0	1.4
Public debt	% GDP	15.7	13.3	11.8	10.3	10.1
Amortization	US$ bn	0.9	0.8	0.8	0.6	0.7
Gross financing needs, central government	US$ bn	1.4	1.1	-1.2	-2.4	-0.7
EXTERNAL SECTOR						
Merchandise exports	US$ bn	18.2	21.0	31.9	35.1	35.9
Merchandise imports	US$ bn	15.8	18.0	23.0	28.1	29.4
Trade balance	US$ bn	2.4	3.0	9.0	7.0	6.6
Current account balance	US$ bn	-0.7	-1.1	1.4	-0.3	-1.3
Current account balance	% GDP	-1.1	-1.5	1.5	-0.3	-1.2
Net foreign direct investment	US$ bn	2.2	2.5	6.7	4.4	4.8
Foreign exchange reserves, year-end	US$ bn	15.4	15.9	16.0	16.7	17.5
Import cover **	months	7.7	6.8	5.6	5.1	5.1
US$ exchange rate, year-end	Pesos	720	593	556	580	640
US$ exchange rate, average	Pesos	689	691	609	580	630
FOREIGN DEBT						
Gross foreign debt	US$ bn	40.7	43.4	43.8	44.0	44.5
Foreign debt	% exports**	179	166	128	116	114
Short-term foreign debt	US$ bn	5.8	7.5	7.7	8.0	8.2
Foreign debt amortization	US$ bn	4.7	3.8	5.9	6.2	4.5
Foreign debt service	US$ bn	6.0	5.2	7.2	7.7	5.9
Foreign debt service	% exports**	26	20	21	20	15
FINANCIAL MARKETS (year-end)						
Base rate, 90 days (PDBC)	%	2.9	2.3	2.3	4.3	5.0
IPSA stock index (peso based, 2005: 06/03)		1000	1405	1797	2013	
IFCI stock index (US$ based, 2005: 06/03)		406	654	861	869	
Bond market yield spread (2005: 06/03)*	bp	176	90	64	66	

* EMBIG **goods and services f=forecast

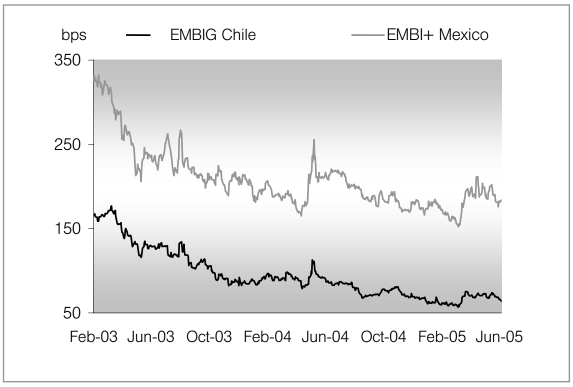
CENTRAL GOVERNMENT BUDGET



CENTRAL GOVERNMENT DEBT



BOND SPREAD CHILE & MEXICO



Domestic policy: reform progress

The departing Lagos government managed to get two key bills passed in the last few weeks. Firstly, the so-called "Ley corta II" provides for a more investment-friendly regulation of the energy sector, which is a positive step also in view of the country's strong dependency on natural gas supplies from Argentina. Secondly, in mid-May a resolution was passed in Congress in favor of a royalty being imposed on the extraction of non-renewable mining resources. The income from this levy, which should amount to roughly US$ 150 million p.a., is to be utilized for the funding of research and development.

The presidential elections scheduled for December will increasingly dominate the agenda in the forthcoming months. The field of candidates is now being whittled down. The candidate from the ranks of the center-left coalition "Concertacion" will most probably be the former defense minister Bachelet, who is clearly the front runner in current opinion polls. The former Mayor of Santiago, Joaquin Lavin, was the candidate of the conservative Alianza in the previous presidential elections and will run again this time. However, the entrepreneur Piñera will be competing against him for the votes of conservative constituents, which will increase Bachelet's chances of success even further. We expect the current stability-oriented economic policy approach to prevail regardless of the outcome of the elections. This means that Chile's mainstays of success, in particular the solid financial policy, increasing scope for entrepreneurial activities and a liberal trade regime, can also be sustained in the medium term.

Fiscal policy: full coffers

With 900 billion pesos (1.4% of GDP for the year as a whole), the central government budget recorded a surplus in the first quarter of 2005 that was more than four times as high as in the same quarter a year earlier. This is attributable to 25% real growth in earnings, underpinned by higher tax revenues in the order of 19% and a doubling of copper revenues. Since spending policy is regulated by the structural budget surplus rule, spending only rose by just under 6%. We expect the current trend to continue in the forthcoming months. At roughly 3% of GDP, the budget surplus in the year as a whole is likely to be well above the budget bill, which provides for a budget surplus of 1.2% of GDP. Public debt should therefore fall more sharply than expected. For the end of the year we project a debt level of around 10% of GDP.

Against this backdrop, the risk spreads on Chilean foreign currency bonds that are currently close to their historical low (see graph), are unlikely to grow much wider as well in the forthcoming months.

Economic activity: growth remains robust

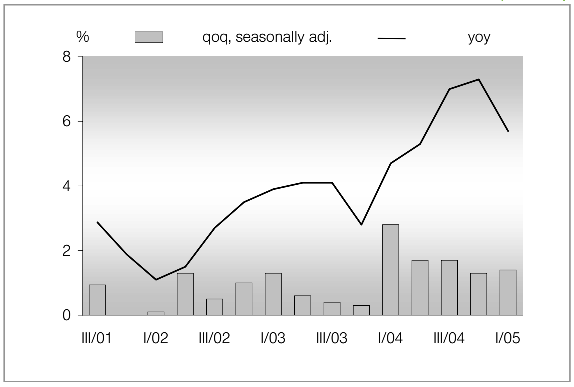
Last year's dynamic economic expansion is set to continue in the current year as well. Seasonally adjusted, GDP rose by 1.4% in the first quarter of 2005. This translates into a 5.7% rise against the pre-year quarter. In the first three months, particularly dynamic growth was reported by the sectors that are benefiting most from robust growth in domestic demand (+10.8% year-on-year), such as the construction sector (+11.5%) and retail trade, restaurants and hotels (+7.9%). Following dynamic growth in the last year, the export sector lost some momentum (+6.7%), however.
This trend is set to continue in the second quarter as well. Industrial production in April rose by 10.1% and retail sales by 7.2% (year-on-year). In view of the continued good news from the labor market – at 8.2%, the unemployment rate was half a percentage point down on the pre-year figure – and continued strong growth in lending volumes, we expect consolidation of Chile's growth at a high level in the course of the year despite a slight cooling of the global economy. GDP as a whole should expand by 5.3% year-on-year.

Monetary sector: gradual tightening of monetary policy continues

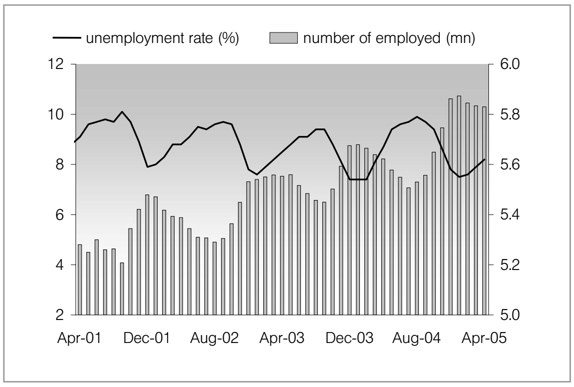
Due to the high oil prices – in addition to the direct effect on fuel prices, prices e.g. for transport services are also coupled to the oil price – consumer prices rose by 0.9% month-on-month in April. In May, however, inflationary pressure eased considerably (0.3 %), and at 2.7%, the annualized inflation rate is close to the center of the central bank's target corridor (2-4 %). The core inflation index, which excludes volatile categories such as fresh fruit/vegetables and fuels (at an average of 0.4% month-on-month in recent months) nevertheless reveals some demand-driven underlying inflationary pressure. We expect moderate inflation rates in the forthcoming months and a year-end inflation rate of 3.1%.

Against this backdrop, the central bank is likely to continue its policy of gradually tightening its monetary reins over the next few months as well, so that the key lending rate, currently at 3.25%, should rise to 4.25% by year-end.

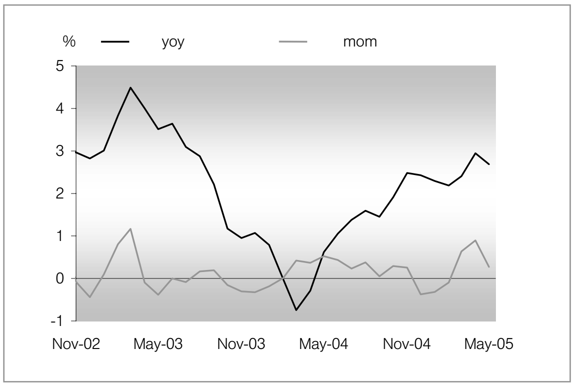
GDP CHANGE (REAL)



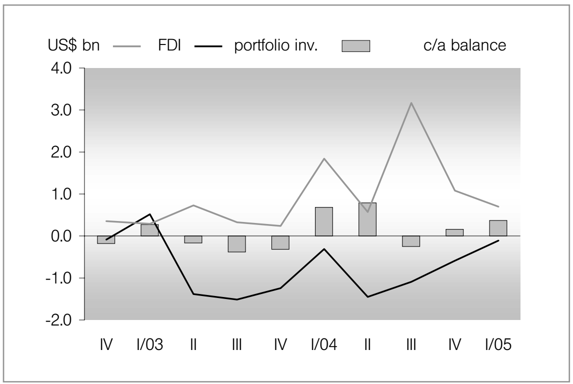
LABOR MARKET



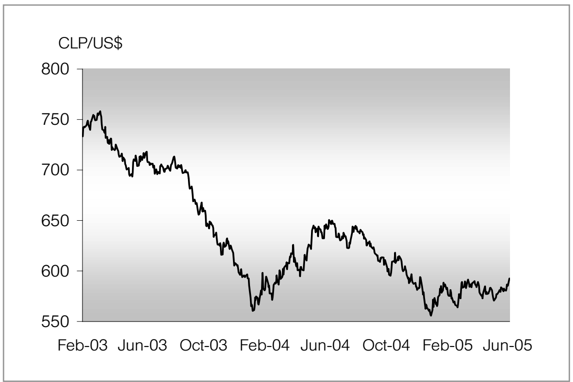
INFLATION



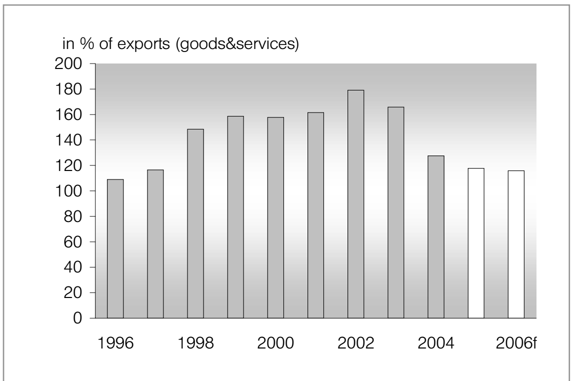
BALANCE OF PAYMENTS



EXCHANGE RATE



EXTERNAL DEBT



External sector: current account surplus is halved

Although the continued high copper price and robust growth in other export goods caused total exports to grow by 20% year-on-year in the first five months of the year, the trade surplus in this period was some US$ 500 million below the pre-year figure on the back of dynamic growth in imports due to cyclical factors (January – May 2005: +36%). Along with the substantial increase in profit transfers abroad, this trend also contributed to the fact that the current account surplus, at US$ 370 million in the first quarter, only came to approx. half the amount in the first quarter of 2004. We expect this trend to continue over the next few months, so that the current account, following the high surplus in the previous year, should just about balance in the current year.

The capital account is likely to show a slight deficit again (2004: approx. US$ 2 billion). Despite growing interest in investments in Chile, the record level of foreign direct investments in 2004 will not be repeated and robust inflows from international portfolio investments continue to be offset by foreign investments of Chilean pension funds. Accordingly, we do not anticipate any major changes in the external value of the peso and forecast a year-end rate of 580 CLP/US$.

Foreign debt: substantial decline

The debt indicators for Chile's economy have improved dramatically over the last few years. For instance, relative foreign debt dropped from around 180% of visible and invisible exports in the year 2002 to as little as 128% at the end of last year. In light of steady growth in exports and only moderate new borrowing, we expect a further decline in relative foreign debt to less than 120% of visible and invisible exports in the current year. This would put relative debt back to its old mid-nineties level.

In contrast, there has been no decline in the relative debt service burden in the past few years. This is attributable to the fact that the increase in amortization payments has not been offset by lower interest rates and growing exports. However, we expect a substantial decline in the debt service burden from roughly 20% of exports averaged between 2003 and 2005 to as little as 15% in the year 2006.

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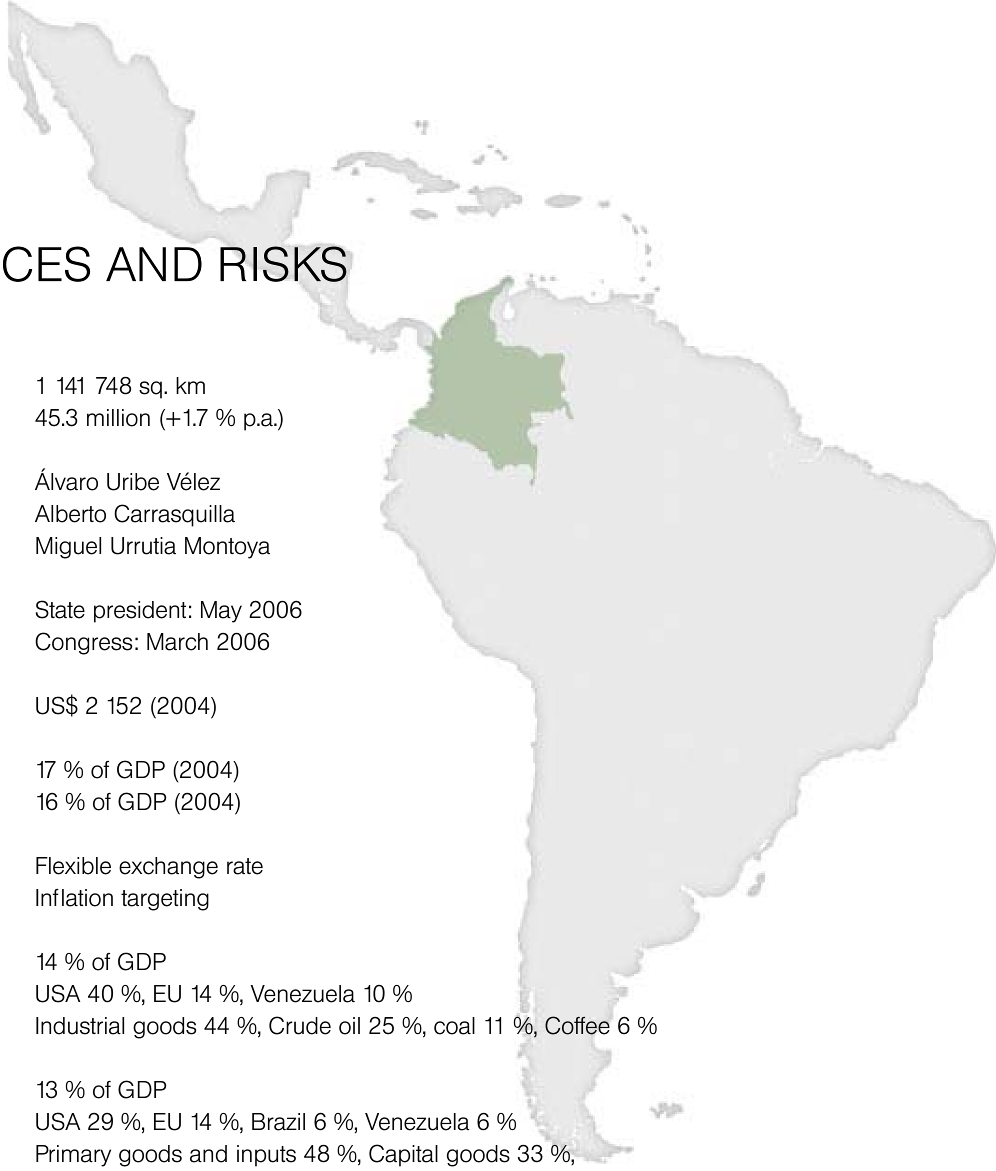
CHILE: MONTHLY INDICATORS		Feb-05	Mar-05	Apr-05	May-05	next/latest
DOMESTIC ECONOMY						
IMACEC	% yoy	5.8	**5.1**	**6.3**		5-Jul
Industrial production (INE)	% yoy	3.5	**2.3**	**10.1**		29-Jun
Mining production	% yoy	-3.2	**4.1**	**-4.4**		29-Jun
Retail sales	% yoy	3.1	**5.6**	**7.2**		23-Jun
Unemployment rate	%	7.6	**7.9**	**8.2**		29-Jun
Employment	mn	5.85	**5.83**	**5.83**		29-Jun
Labor cost index	% yoy	4.0	**4.4**	**4.6**		5-Jul
Consumer prices	% yoy	2.2	2.4	**2.9**	**2.7**	5-Jul
Consumer prices	% mom	-0.1	0.6	**0.9**	**0.9**	5-Jul
Wholesale prices	% yoy	8.7	8.5	**8.0**	**4.5**	5-Jul
Wholesale prices	% mom	0.8	2.0	**1.7**	**-0.1**	5-Jul
Money supply M1	% yoy	20.2	12.1	**16.8**	**14.2**	7-Jul
Base rate, 90d PDBC (month-avrg.)	%	3.0	2.8	**2.9**	**3.2**	7-Jul
Loan rate (average)	%	18.0	**16.0**	**16.9**		7-Jul
Deposit rate (average)	%	4.3	**4.4**	**4.9**		7-Jul
Lending to private sector	% yoy	15.4	**15.3**	**9.1**		23-Jun
Total financial savings (M7, seasonally adjusted)	% mom	0.2	**0.4**	**1.5**	**1.7**	7-Jul
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2590	3651	**3440**	**3065**	7-Jul
Merchandise exports	% yoy	16.6	21.0	**24.7**	**6.9**	7-Jul
Merchandise imports	US$ mn	2005	2598	**2373**	**2522**	7-Jul
Merchandise imports	% yoy	39.6	38.9	**35.8**	**36.4**	7-Jul
Trade balance	US$ mn	585	1053	**1067**	**543**	7-Jul
Net foreign direct investment	US$ mn	587.4	**-387.7**	**811.3**		7-Jul
Portfolio investment (net)	US$ mn	-144.0	**252.1**	**-275.1**		7-Jul
Copper price (monthly average, latest: 06/03)	US$ c/lb	147.6	153.3	**154.0**	**147.7**	**147.7**
Foreign exchange reserves*	US$ bn	15.5	15.4	**17.0**	**17.4**	7-Jul
US$ exchange rate (latest: 06/03)	CLP	577.5	586.5	**582.4**	**583.5**	**590.0**

CHILE: QUARTERLY INDICATORS		Q2 04	Q3 04	Q4 04	Q1 05	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	5.3	7.0	7.3	**5.7**	23-Aug
GDP seasonally adjusted	% qoq	1.7	1.7	1.3	**1.4**	23-Aug
Private and public consumption	% yoy	4.9	7.6	7.1	**6.0**	23-Aug
Private and public investment	% yoy	7.9	15.6	20.6	**26.1**	23-Aug
Domestic demand	% yoy	5.6	9.5	10.4	**10.8**	23-Aug
Exports (goods and services)	% yoy	11.4	15.7	15.5	**6.7**	23-Aug
Imports (goods and services)	% yoy	12.5	23.0	24.8	**21.6**	23-Aug
Budget balance, central government	Pesos bn	442	207	355	**892**	29-Jul
EXTERNAL SECTOR						
Current account balance	US$ bn	0.79	-0.25	0.16	**0.37**	23-Aug
Net foreign direct investment	US$ bn	0.57	3.17	1.08	**0.70**	23-Aug
Portfolio investment	US$ bn	-1.45	-1.09	-0.59	**-0.11**	23-Aug
Capital account**	US$ bn	-0.77	-0.39	-0.33	**-0.74**	23-Aug
Change in foreign exchange reserves	US$ bn	-0.02	0.14	0.17	**0.38**	23-Aug
Gross foreign debt	US$ bn	43.6	43.9	43.8	**44.5**	23-Aug
Short-term foreign debt	US$ bn	8.21	8.54	7.71	**8.19**	23-Aug

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

COLOMBIA: CHANCES AND RISKS



Area	1 141 748 sq. km
Population	45.3 million (+1.7 % p.a.)
State president	Álvaro Uribe Vélez
Finance minister	Alberto Carrasquilla
Central bank president	Miguel Urrutia Montoya
Next elections	State president: May 2006 Congress: March 2006
GDP per capita	US$ 2 152 (2004)
Investment	17 % of GDP (2004)
Savings	16 % of GDP (2004)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2004)	14 % of GDP
Purchasing countries	USA 40 %, EU 14 %, Venezuela 10 %
Products	Industrial goods 44 %, Crude oil 25 %, coal 11 %, Coffee 6 %
Imports of goods (2004)	13 % of GDP
Supplier countries	USA 29 %, EU 14 %, Brazil 6 %, Venezuela 6 %
Products	Primary goods and inputs 48 %, Capital goods 33 %, Consumer goods 19 %
Rating	Moody's: Ba2 S&P: BB

SUMMARY AND OUTLOOK

High tax revenues, growth across the board, underpinned by the private sector, and a moderate inflation rate characterized the first quarter of the year, and it seems likely that this trend might continue. Yet there are also a few dark clouds on the horizon: the central bank's interventions on the foreign exchange market and the resulting money supply expansion could increase the inflationary pressure in the second semester and, compounded by high fuel prices, may cause the inflation rate to climb after all, to the upper limit of the central bank's inflationary target of 4.5 – 5.5%. High tax revenues, which were taken into account in the budget immediately, are mainly due to windfall profits of export companies having benefited from high commodity prices. However, long-term funding of the budget can only be guaranteed by structural reforms of the tax and pension systems. These reforms keep being impeded in congress, however, and even if a pension reform should eventually be approved soon, it would still not be far-reaching enough to secure long-term funding of the budget.

ANNUAL FIGURES AND FORECASTS

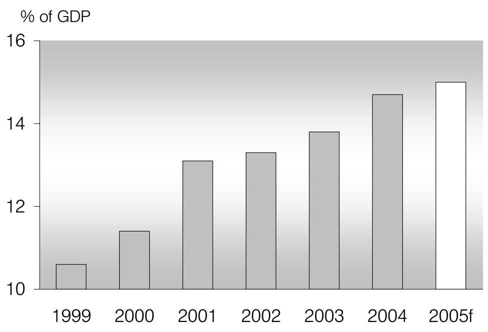
COLOMBIA		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	1.9	4.0	4.0	4.0	3.8
GDP	US$ bn	76.9	78.7	97.5	119.4	127.6
Inflation (year-end)	%	7.0	6.5	5.5	5.4	5.5
Inflation (average)	%	6.3	7.1	5.9	5.2	5.3
PUBLIC SECTOR						
Budget balance, central government	% GDP	-6.1	-5.4	-5.6	-6.1	-6.0
Budget balance, public sector	% GDP	-3.7	-2.7	-1.2	-2.8	-2.7
Public debt	% GDP	58.5	56.4	52.5	50.8	55.8
Amortization	US$ bn	12.5	10.6	10.0	11.2	10.0
Gross financing needs	US$ bn	15.3	12.7	11.2	14.5	13.4
EXTERNAL SECTOR						
Merchandise exports	US$ bn	12.3	13.7	16.8	17.9	18.2
Merchandise imports	US$ bn	12.1	13.3	15.8	17.8	18.8
Trade balance	US$ bn	0.2	0.4	1.0	0.0	-0.6
Current account balance	US$ bn	-1.5	-1.3	-1.2	-2.4	-3.2
Current account balance	% GDP	-1.8	-1.6	-1.3	-2.0	-2.5
Net direct investment	US$ bn	1.2	0.8	2.6	2.0	1.5
Foreign exchange reserves, year-end	US$ bn	10.7	10.9	13.4	14.0	13.5
Import cover	months*	6.8	6.4	6.8	6.5	6.0
US$ exchange rate, year-end	Pesos	2867	2780	2353	2389	2449
US$ exchange rate, average	Pesos	2507	2877	2628	2362	2420
FOREIGN DEBT						
Gross foreign debt	US$ bn	37.4	38.5	38.6	39.4	39.9
Foreign debt	% exports*	252	242	205	200	192
Short-term foreign debt	US$ bn	3.6	4.0	4.3	4.7	5.0
Foreign debt amortization	US$ bn	6.5	6.7	4.6	4.3	4.1
Foreign debt service	US$ bn	8.9	9.2	7.3	7.1	7.0
Foreign debt service	% exports*	60	57	39	36	34
FINANCIAL MARKETS (year-end)						
Deposit rate (DTF, 90 days)	%	8.0	7.9	7.7	7.1	8.0
IBB stock index (peso based, 2005: 06/02)		1474	2334	4346	4908	
IFCG stock index (US$ based, 2005: 06/02)		615	783	1686	2003	
Bond market yield spread (2005: 06/02)	bp**	736	431	333	347	

*goods and services ** EMBI+ f=forecast

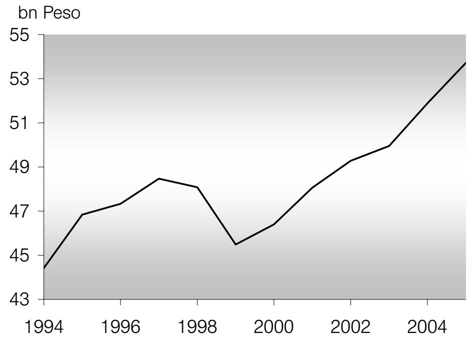
REFORM OVERVIEW

Reform	Content	Target
Justice and Peace Bill	Legal framework for the fight against the guerrilla and for the demobilization of the paramilitary groups	Domestic stability
Electoral Guarantees	Establishes rules for schedule, duration and available resources of election campaigns	Equality of all candidates
Pension reform	Elimination of the 14th monthly instalment, cap on top pensions etc.	Reduce fiscal spending

TAX REVENUES



PRIVATE CONSUMPTION



Domestic policy: final dash

Reform bills of key political and fiscal significance are to be passed before parliament ends its legislative season on June 20. The controversial ”Peace and Justice Bill” providing for demobilization and re-socialization of the paramilitary groups has already been enacted. After the demobilization process threatened to fail, parliament made major concessions to the paramilitary groups and ruled out their extradition to any foreign authority, meaning that now they will only have to face relatively lenient sentences in Colombia once they have surrendered their weapons. The new electoral law intended to ensure equal status of all candidates is likewise of key political significance since it also aims to influence the pending constitutional court ruling on the presidential re-election bill in favor of president Uribe. The constitutional court ruling is still pending and is not expected to be handed down until the third quarter at the earliest. According to opinion polls, the population still endorses a possible re-election of president Uribe.

In contrast, the pension reform likely to be passed by parliament by June 20 is of major significance in fiscal terms. In order to achieve a parliamentary consensus, the original version was diluted considerably, with projected savings turning out a quarter lower than planned. In order to stabilize the social security system and to secure long-term funding of the budget, further reforms must be urgently implemented in this area.

Public finances: high tax revenues

Economic growth, high commodity prices and increased efficiency of the tax collection system caused tax revenues to soar last year. This trend appears to be continuing in 2005 as well, since tax revenues up to and including April already outstripped the corresponding pre-year level by 12%. The finance ministry has already announced that it does not intend to use the additional revenues in order to reduce the budget deficit but will apply to congress for a supplementary budget providing for a higher level of spending instead.

The high tax revenues are largely due to currently high commodity prices and therefore are hardly considered to be sustainable. The finance ministry’s long-term budget is based on increased oil production as of 2008, which is expected to offset lower commodity prices. Yet this would entail the realization of oil reserves that have only been assumed thus far and which could only be utilized for production at enormous expenses. Without any substantial investments in the crude oil sector, which cannot be guaranteed, given the country’s currently still unstable security situation, Colombia can be expected to turn into a net oil importer as of 2011. Hence, a structural tax reform is absolutely essential to ensure medium and long-term funding of the budget.

This tax reform is also a target of the new IMF agreement, scheduled to run from early May of this year until November 2006, with a volume of US$ 600 million. However, Colombia will only utilize these resources if it should have any problems in raising finance on the international capital market, which is not anticipated at this stage.

Economic activity: private sector bouncing back

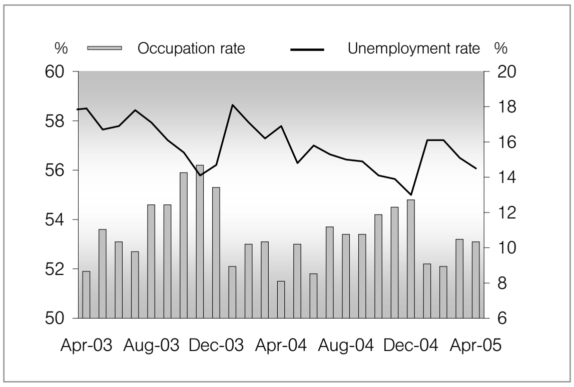
One of the key driving forces to fuel economic activity is the private sector, which saw strong growth both in investments (+18.1%) and private consumption (+3.9%). The hitherto moderate inflation rate, low and stable interest rates and the country's improved security position have contributed to this positive trend. Strong domestic demand has also resulted in broadly based growth spreading beyond just a few sectors. Apart from expanded production in the crude oil and mining sectors amid high commodity prices (+2.8%), virtually all other economic sectors likewise witnessed robust growth last year. The construction sector in particular expanded by 10.7% in 2004, and we expect this positive trend to continue this year.

Although economic growth is not yet being reflected in the creation of new jobs, the tide also gradually appears to be turning in this respect. While the unemployment rate steadily had declined until March (which was only attributable to a declining number of job seekers), the level of employment initially did not increase. In April, however, the upbeat economy resulted in an increase in employment figures for the first time as well.

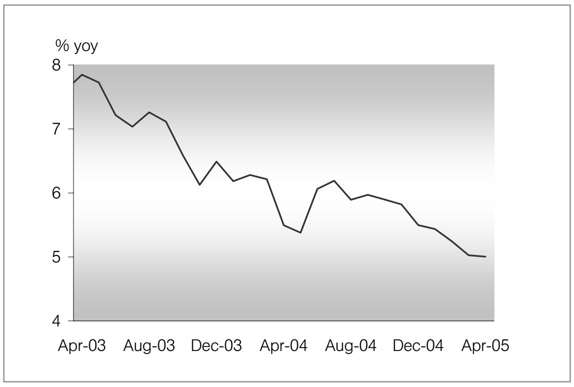
Monetary sector: surprisingly stable prices

Thanks to the strong peso, the inflation rate is lower than previously assumed. The central bank's persistent intervention policy on the foreign exchange market has not caused prices to escalate as yet. We therefore expect this policy to continue as long as the upward pressure on the peso persists and the inflation rate remains within the central bank's inflationary target of 4.5 – 5.5% for the end of the year. Even though strong year-on-year demand did not result in higher capacity utilization (at 70% in both February 2005 and February 2004), we believe that there will be a threat of increasing inflationary pressure in the second half of the year due to persistently strong monetary expansion in tandem with high fuel prices.

LABOR MARKET

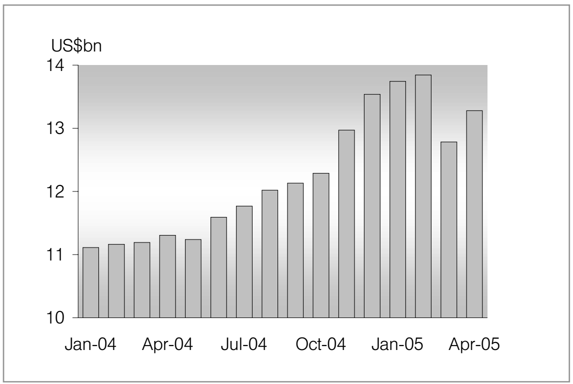


INFLATION

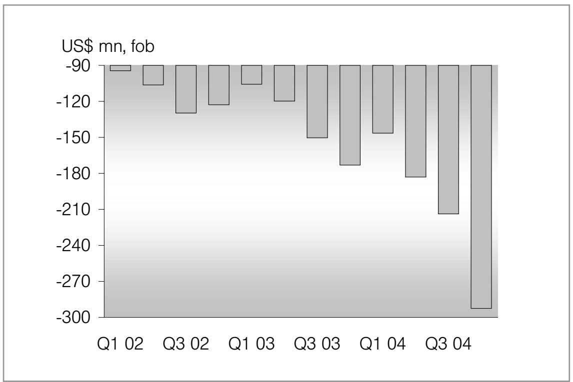


EXCHANGE RATE

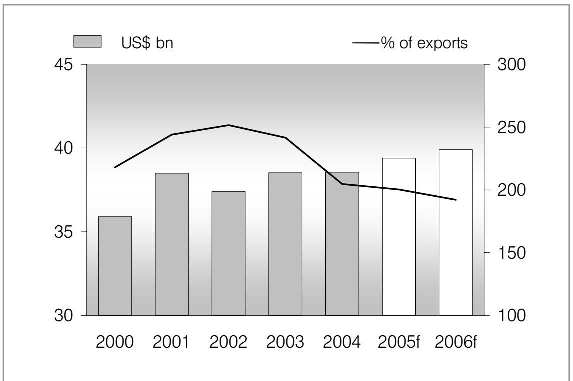
FOREIGN RESERVES



TRADE BALANCE WITH CHINA



FOREIGN DEBT



External sector: China – an opportunity?

The trade deficit with China has continued to grow over the last several years. Cheap Chinese products are entering Colombia's market, while exports to China still remain somewhat sluggish. Yet, China's fast-growing market also provides a great opportunity for Colombian products and enormous export potential, which is gradually being recognized in Colombia. In addition, China should not be underestimated as a source for foreign investment – in particular, in the crude oil sector.

Although Colombia must now increasingly compete with cheap Chinese products on the international market, the losses of Colombian exporters are being confined within acceptable limits. They managed to change over to higher-quality products in time and are now focused particularly on the fast-growing markets of the Andean region, with trade agreements and cultural affinity and geographical proximity giving them a comparative advantage. Thanks to a bilateral trade agreement, Colombian products enjoy preferential import conditions in the U.S. However, since this agreement is set to expire next year, Colombia is endeavoring to push through the free trade agreement between the Andean states (Colombia, Peru and Ecuador). Political unrest in the region and disagreements in the agricultural sector are increasingly jeopardizing negotiations, however.

Foreign debt: positive trend

Relative foreign debt as a percentage of exports of goods and services is in the region of 200% and thus still remains very high. Nevertheless, it is evident that Colombia's foreign debt situation has improved significantly over the last several years. Relative foreign debt has decreased by 52 percentage points since 2002, which was primarily attributable to the sharp increase in exports.

In addition, the government has improved its debt management. By increasingly issuing national currency denominated bonds, the government succeeded in reducing the share of total debt accounted for by foreign debt from 45.4% in 2002 to 40.3% last year. For the current year and in light of ongoing, steady growth in exports, we therefore forecast a further decline in relative foreign debt.

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COLOMBIA: MONTHLY INDICATORS		Feb-05	Mar-05	Apr-05	May-05	next/latest
DOMESTIC ECONOMY						
Industrial production (not incl. coffee)	% yoy	**0.0**				30-Jun
Retail sales (excl. fuel)	% yoy	**3.5**				30-Jun
Unemployment rate (urban)	%	16.1	**15.1**	**14.5**		30-Jun
Consumer prices	% yoy	5.3	5.0	**5.0**	**5.0**	7-Jul
Consumer prices	% mom	1.0	0.8	**0.4**	**0.4**	7-Jul
Producer prices	% yoy	4.3	4.9	**4.2**	**3.0**	7-Jul
Producer prices	% mom	0.8	1.1	**-0.1**	**0.1**	7-Jul
Monetary base (month-end)	% yoy	12.8	14.4	**20.2**	**15.1**	7-Jun
Money supply M1 (month-end + 06/03)	% yoy	11.3	10.6	**19.7**	**13.7**	**17.2**
Money supply M3 (month-end + 06/03)	% yoy	16.9	18.4	**17.9**		7-Jun
Lending rate (month-end)	%	15.8	15.8	**15.3**		7-Jun
Deposit rate (DTF, 90 days, month-end + 06/03)	%	7.4	7.4	**7.3**	**7.1**	**7.2**
Treasury bills (local index, month-end + 06/03)	%	107.9	106.0	**107.5**	**108.5**	**108.7**
Treasury bills (yield, TES Aug. 08, month-end)		10.0	10.5	**9.7**	**8.9**	7-Jun
Interbank interest rate (month-end +06/03)	%	6.4	6.3	**6.4**	**6.4**	**6.4**
Credit volume (month-end)	% yoy	12.0	14.6	**13.4**		7-Jun
EXTERNAL SECTOR						
Merchandise exports	US$ mn					13-Jun
Merchandise exports	% yoy					13-Jun
Merchandise imports	US$ mn	**1464**	**1631**			13-Jun
Merchandise imports	% yoy	**34**	**24**			13-Jun
Trade balance	US$ mn					13-Jun
Foreign exchange reserves (month-end)	US$ mn	13843	12784	**13279**	**13413**	7-Jun
US$ exchange rate (month-end +06/03)	pesos	2324	2376	**2348**	**2336**	**2328**

COLOMBIA: QUARTERLY INDICATORS		Q1 04	Q2 04	Q3 04	Q4 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	4.0	4.3	2.9	4.3	30-Jun
GDP, seasonally adjusted	% qoq	0.6	1.5	0.3	1.9	30-Jun
Private consumption	% yoy	4.4	4.1	3.2	3.8	30-Jun
Public consumption	% yoy	2.3	4.3	3.1	3.3	30-Jun
Domestic consumption	% yoy	3.9	4.1	3.2	3.6	30-Jun
Domestic investment	% yoy	5.4	18.1	11.0	19.4	30-Jun
Domestic demand	% yoy	4.4	6.4	4.3	6.5	30-Jun
Exports (goods and services)	% yoy	4.9	9.5	10.1	12.3	30-Jun
Imports (goods and services)	% yoy	8.0	18.3	16.7	23.2	30-Jun
EXTERNAL SECTOR						
Merchandise exports	US$ bn	3.29	3.92	4.48	4.53	6-Jul
Merchandise imports	US$ bn	3.30	3.72	3.90	4.41	6-Jul
Trade balance	US$ bn	-0.01	0.19	0.59	0.12	6-Jul
Current account balance	US$ bn	-0.63	-0.24	0.06	-0.31	6-Jul
Net foreign direct investment	US$ bn	0.54	0.71	0.70	0.64	6-Jul
Portfolio investment*	US$ bn	0.07	-0.05	0.48	0.26	6-Jul
Capital account**	US$ bn	1.05	0.62	0.44	1.55	6-Jul
Change in foreign exchange reserves #	US$ bn	0.42	0.38	0.50	1.24	6-Jul

*incl. foreign credit **incl. residual items # - = increase

COSTA RICA: REFORM PROGRESS

Area	51 100 sq. km
Population	4.2 million (+2.0 % p.a.)
State president	Abel Pacheco de la Espriella
Finance minister	Federico Carrillo
Central bank president	Francisco de Paula Gutiérrez
Next elections	State president: February 2006 Congress: February 2006
GDP per capita	US$ 4 380 (2004)
Rating	Moody's: Ba1 S&P: BB

ANNUAL FIGURES AND FORECASTS

COSTA RICA		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	2.9	6.5	4.2	3.0	3.0
GDP	US$ bn	16.8	17.5	18.4	19.6	20.3
Inflation (year-end)	%	9.7	9.9	13.1	12.8	9.8
Inflation (year-average)	%	9.2	9.5	12.3	13.4	10.7
Budget balance, public sector	% GDP	-5.4	-4.5	-4.5	-5.0	-4.2
Public sector debt	% of GDP	51.9	57.5	60.2	61.5	62.3
EXTERNAL SECTOR						
Merchandise exports	US$ mn	5270	6163	6311	6700	6900
Merchandise imports	US$ mn	6537	7294	7832	8200	8300
Trade balance	US$ mn	-1267	-1131	-1522	-1500	-1400
Current account balance	US$ mn	-931	-928	-892	-720	-680
Current account balance	% GDP	-5.5	-5.3	-4.9	-3.7	-3.3
Net foreign direct investment	US$ mn	628	550	535	650	650
Foreign exchange reserves, year-end	US$ mn	1497	1836	1918	2000	2000
Import cover *	months	2.1	2.3	2.3	2.3	2.2
US$ exchange rate, year-end	Colones	379	419	458	503	550
US$ exchange rate, average	Colones	360	399	439	481	528
FOREIGN DEBT						
Gross foreign debt	US$ bn	5.0	5.6	6.0	6.3	6.5
Foreign debt	% exports*	68	69	70	66	67
Short-term foreign debt	US$ bn	1.5	1.7	1.8	1.9	1.9
FINANCIAL MARKETS (year-end)						
BCT stock index (colon based, 2005:06/03)		11485	10903	9803	10255	

*goods and services f=forecast

Domestic economy: slowdown in economic activity

The rapprochement observed over the past several weeks between the ruling party PUSC and the opposition party PLN, which facilitated Gerardo Gonzalez' (PUSC) re-election as president of the house of deputies in early May, has also raised the likelihood of key legislative bills being passed. For instance, the repeatedly postponed fiscal reform – even if severely diluted by the opposition – might still be passed before the parliamentary and presidential elections in February 2006. This would most probably pave the way for ratification of the Central American Free Trade Agreement with the U.S. (CAFTA), or at least facilitate the latter.

In view of the upcoming elections it must be assumed, however, that the improved domestic situation will not last very long. Various corruption scandals caused uncertainty and skepticism among the population with regard to the traditional political parties, which can rely increasingly less on gaining the votes from their own constituents. As a result, hopes of a strong and capable government emerging from the elections have been dashed.

The budget deficit should be in the region of 5% of GDP this year. Should the tax reform be passed, it will only provide additional revenues in 2006 at the earliest, and public finance relief is projected at maximum 1.5% of GDP. Inflation has been trending upward for some time, which the central bank has been attempting to counter with tighter monetary policy since the beginning of this year. We expect economic growth to decline to 3.0% this year and to remain at this level in 2006.

External sector: foreign currency reserves rising

Despite export growth of 5.7%, the trade deficit rose to nearly US$ 600 million between January and April 2005 (January – April 2004: US$ 500 million), since imports simultaneously increased by 9.3%, chiefly due to high oil prices. Nevertheless, foreign currency reserves grew to US$ 2.3 billion by the end of April (December 2004: US$ 1.9 billion) on account of the positive trend in tourism, other services and private capital inflows.

For 2005 as a whole, we expect the year-on-year slowdown in economic growth to lead to stagnation in imports across the board. The current account deficit, after having reached US$ 850 million last year, should decline substantially, to US$ 720 million in 2005.

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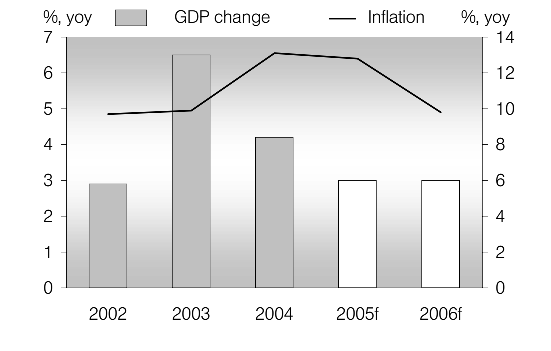
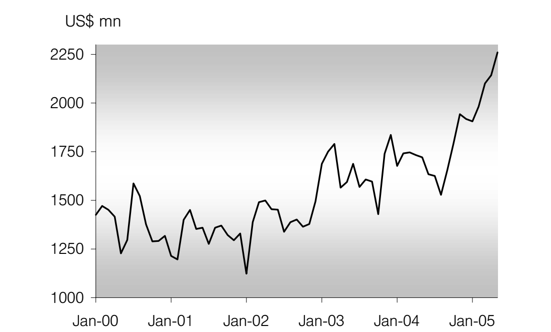
SUMMARY AND OUTLOOK

Congress' "fast track" approval has raised the prospects of the long-awaited tax reform – albeit severely diluted – being passed soon. Additional revenues provided for in the tax reform are urgently needed to counter the high budget deficit (approx. 5% of GDP) and to ensure the sustainability of public debt (60% of GDP). On account of the tighter monetary policy and low exports in the technology sector, economic growth is likely to slow down to 3.0% this year.

GDP CHANGE (REAL) & INFLATION



FOREIGN EXCHANGE RESERVES



DOMINICAN REPUBLIC: DEBT FINALLY RESTRUCTURED

Area	48 442 sq. km
Population	8.7 million (+ 1.6 % p.a.)
State president	Leonel Fernández
Finance minister	Vicente Bengoa
Central bank president	Hector Valdez Albizu
Next elections	State president: 2008 Congress: May 2006
GDP per capita	US$ 2 241 (2004)
Rating	Moody's: B3 S&P: SD

ANNUAL FIGURES AND FORECASTS

DOMINICAN REPUBLIC		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	4.1	-0.4	2.0	2.8	3.0
GDP	US$ bn	21.2	16.2	19.5	30.5	28.6
Inflation (year-end)	%	10.5	42.8	28.7	5.8	9.4
Inflation (year-average)	%	5.2	32.0	55.0	3.5	8.7
Budget balance, public sector	% GDP	-2.0	-3.5	-7.0	-3.8	-3.0
Public sector debt	% GDP	26.8	54.3	52.1	49.1	46.0
EXTERNAL SECTOR						
Merchandise exports	US$ mn	5183	5439	5710	5750	5800
Merchandise imports	US$ mn	8883	7883	7954	8200	8700
Trade balance	US$ mn	-3700	-2444	-2244	-2450	-2900
Current account balance	US$ mn	-877	867	1356	1200	790
Current account balance	% GDP	-4.1	5.3	7.0	3.9	2.8
Net foreign direct investment	US$ mn	961	450	654	700	800
Foreign exchange reserves, year-end	US$ mn	828	489	870	800	802
Import cover*	months	0.5	0.3	1.0	0.9	0.9
US$ exchange rate, year-end	Pesos	21.2	42.0	28.5	32.0	39.0
US$ exchange rate, average	Pesos	18.7	32.0	39.7	30.0	35.9
FOREIGN DEBT						
Gross foreign debt	US$ mn	5350	8400	7900	8000	8600
Foreign debt	% exports*	63	89	83	84	88
Short-term foreign debt	US$ mn	1300	1150	900	900	950
Foreign debt amortization	US$ mn	609	480	1100	1200	1600
Foreign debt service	US$ mn	884	1116	1325	1400	1600
Foreign debt service	% exports*	10.4	9.2	9.4	14.6	16.3

*goods and services

f=forecast

Domestic policy: positive track record of the government

The Fernandez government, which took office in August 2004, can look back on a positive track record so far: although the opposition holds the majority of seats in both houses, it was possible to implement initial fiscal policy adjustment measures aimed at providing budget relief amounting to approx. 2% of GDP. This was also the precondition for entering into an agreement with the IMF in January for a term of 28 months and providing for credit tranches of approx. US$ 700 million. In addition, the agreement facilitates access to World Bank and IADB loans. Finally, the long awaited debt rescheduling of bonds worth US$ 1.1 billion was successfully completed. The fact that inflation was brought under control again can also be regarded as a success. First-quarter growth, amounting to 4.3%, clearly indicates that a stabilization of the economy as a whole could be achieved. Some of the above-mentioned successes cannot be ensured on a sustained basis, however.

Monetary policy: heavy price for price stabilization

The losses incurred during the 2002 banking crisis have been "recouped" through massive liquidity supplied by the central bank to the banks concerned; as a result, the inflation rate surged above 60%. Last year, the central bank siphoned off liquidity by issuing certificates, and inflation returned to single-digit territory once again. The price for this policy is a heavy one: a drastic rise in central bank debt to US$ 4.5 billion (24% of GDP) by the end of April this year. The need to trim this debt entails fresh inflationary risks.

Public finance: IMF agreement makes restructuring possible

The previous government failed to meet the terms and conditions of the last IMF agreement. President Fernandez does not have a majority in congress, so that meeting the reform targets agreed with the IMF (particularly the tax reform) is by no means a given fact. We assume, however, that the new government will have the skills and experience needed (Fernandez has already been president once before - from 1996 to 2000) to implement the required reforms. The new agreement cleared the way to carry out the debt restructuring process. 93% of all bond creditors approved the debt rescheduling of US$ 1.1 billion in bonds, which did not entail a reduction in the nominal value or in the coupons. The respective terms were prolonged by five years, making it possible to postpone maturities of US$ 500 million from 2006 to 2011. The new bonds have been assigned a B minus rating by the rating agency Fitch, six notches below investment grade. The restructuring of a further US$ 180 million debt is still being negotiated with the Paris Club and private lenders.

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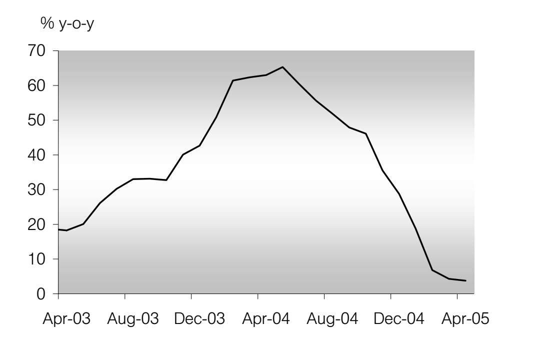
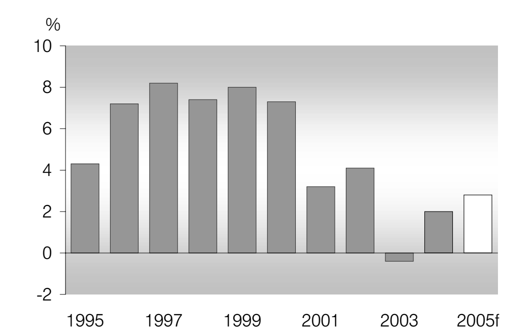
SUMMARY AND OUTLOOK

Following the severe financial and economic disaster in 2003/2004 triggered by a banking crisis, the situation has stabilized again. The economy is recovering, a comprehensive agreement was concluded with the IMF and US$ 1.1 billion in bonds were successfully rescheduled. The central bank's high quasi-fiscal deficit, the possible failure of the tax reform and the low level of currency reserves suggest, however, that the overall picture is not entirely unclouded.

INFLATION



GDP CHANGE (REAL)



ECUADOR: ON COLLISION COURSE

Area	270 190 sq. km	
Population	12.2 million (+ 2.1 % p.a.)	
State president	Alfredo Palacio Gonzalez	
Finance minister	Rafael Correa	
Central bank president	Polibio Cordova	
Next elections	State president: October 2006 Congress: October 2006	
GDP per capita	US$ 2 275 (2004)	
Rating	Moody's: Caa1	S&P: B-

ANNUAL FIGURES AND FORECASTS

ECUADOR		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	3.4	2.5	7.0	3.5	3.0
GDP	US$ bn	24.4	26.9	29.6	31.1	32.6
Inflation (year-end)	%	9.3	6.1	1.9	2.7	1.5
Budget balance, public sector	% GDP	0.6	1.1	1.4	0.0	0.0
Public sector debt	% GDP	58.1	53.4	48.1	46.9	46.0
EXTERNAL SECTOR						
Merchandise exports	US$ bn	5.0	6.0	7.6	8.4	9.0
Merchandise imports	US$ bn	6.0	6.1	6.8	7.0	7.2
Trade balance	US$ bn	-0.9	0.0	0.9	1.4	1.8
Current account balance	US$ bn	-1.4	-0.5	0.3	0.7	0.5
Current account balance	% GDP	-5.6	-1.7	1.1	2.2	1.5
Net direct investment	US$ bn	1.3	1.6	0.9	0.8	0.7
Foreign exchange reserves, year-end	US$ bn	0.7	0.8	1.1	0.8	0.9
Import cover *	months	0.9	1.0	1.3	0.9	0.9
FOREIGN DEBT						
Gross foreign debt	US$ bn	16.3	16.6	16.9	17.1	16.9
Foreign debt	% exports**	265	233	196	182	176
Short-term foreign debt	US$ bn	1.3	1.3	1.6	1.8	1.8
Foreign debt amortization	US$ bn	1.1	1.2	1.4	1.4	1.4
Foreign debt service	US$ bn	2.1	2.3	2.6	2.8	2.9
Foreign debt service	% exports**	34	32	30	30	37
FINANCIAL MARKETS (year-end)						
Interbank rate (average rate)	%	1.2	0.9	2.5	4.0	5.0
IFCF stock index (US$ based, 2005: 06/03)		315	333	502	542	
Bond market yield spread (2005: 06/03)**	%	1794	729	691	871	

*goods and services **EMBI+

f=forecast

Domestic policy: weak new government

Following protracted political and social tension, the government was overthrown. In mid-April this year, president Gutiérrez was ousted from office following violent protests. Former Vice President Alfredo Palacio was appointed his successor. Initial expectations that he might call for new elections were not confirmed. It remains questionable, though, whether Palacio will actually manage to stay in office until the elections in October of next year. A coalition government has not been established yet. In Congress, the independent Palacio has to fight for majorities vote by vote. Moreover, he lacks the backing of an election victory. According to opinion polls, his approval rating among the population dropped from 53% to 39% in the first six weeks after taking office. There is reason to fear that the new government will make an attempt to boost its popularity by way of higher transfer payments to the population.

Economic activity: stability policy comes to an end

Ecuador's dollarization since early 2000 calls for strict budgetary discipline from the country, since budget deficits may only be covered by borrowing in US$ to a limited extent. Notwithstanding public spending rose on account of higher social security spending and public-sector wages, among other factors. Due to the tense social situation (41% of the population live in poverty, the unemployment rate is just under 12%) and the delicate domestic policy situation, restrictions on expenditure growth were and are highly unlikely. In order to increase current public-sector spending, efforts have been under way for some time now to utilize the windfall profits resulting from the high crude oil prices, which outstrip the budget estimate. Until now, these funds have been collected in a fund that makes 70% available for the reduction of public debt. The new government has now introduced a draft bill according to which such windfall profits are to be utilized for current expenditure. Only in exceptional cases may the funds (max. 40%) be used for the reduction of debt. The fact that a higher-than-budgeted oil price is being made a prerequisite for the financing of current expenditure is quite worrisome. In addition, a softening of the stability policy would be casting doubt on the relations with the IMF, which are already severely strained in any event. Although no IMF agreement providing for disbursements is currently in place, the regular monitoring activities of the Fund within the scope of "Intensified Surveillance" are a precondition for disbursements from the World Bank and the IADB, however, which should reach US$ 250 million this year. The budgeted disbursements from the Corporación Andina de Fomento (CAF) in the amount of US$ 100 million are not subject to a positive IMF assessment.

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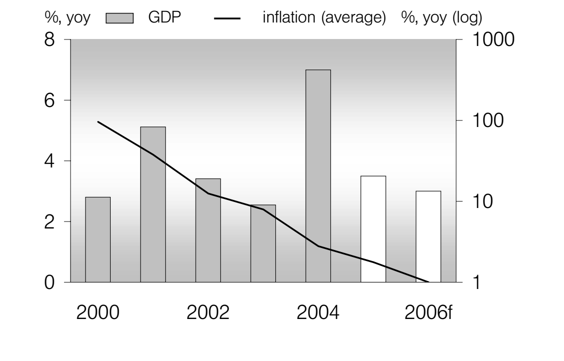
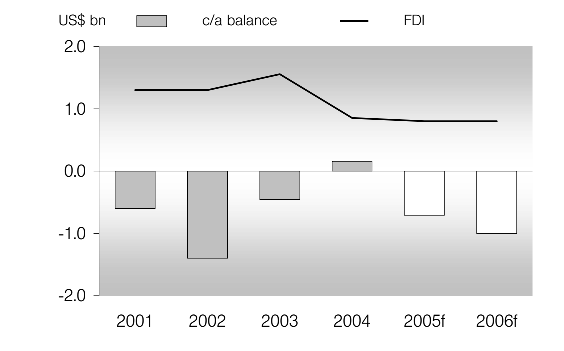
SUMMARY AND OUTLOOK

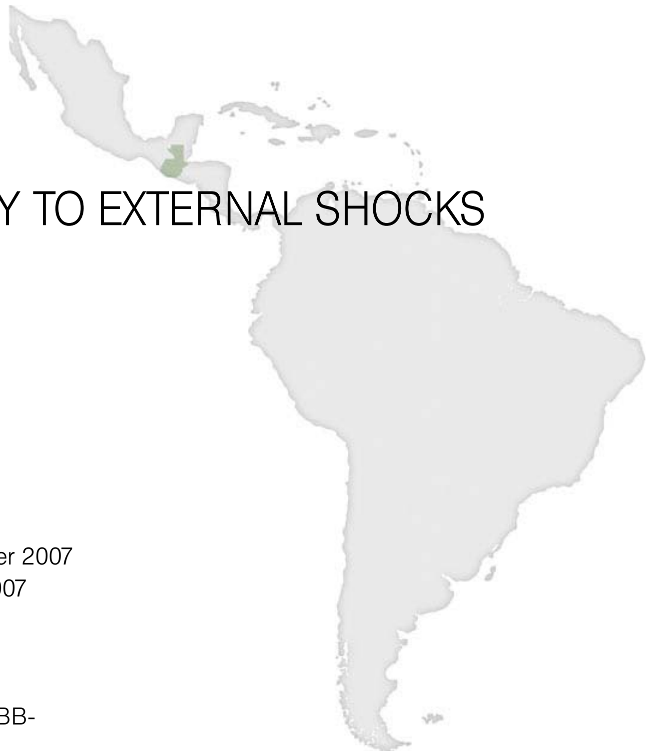
The outlook for Ecuador is uncertain. Ousting president Gutiérrez did not put matters straight; quite the contrary: the new president Palacio has no power base – whether in congress or among the population. There are numerous signs to suggest that his endeavors to gain majorities and popularity will soften the stability policy. This would hurt relations with the IMF and jeopardize important disbursements from the World Bank and the IADB in the process. In particular, the situation would escalate if the crude oil prices were to start a downward slide.

GDP CHANGE (REAL) & INFLATION



BALANCE OF PAYMENTS





GUATEMALA: LOW VULNERABILITY TO EXTERNAL SHOCKS

Area	109 000 sq. km
Population	12.4 million (+ 2.6 % p.a.)
State president	Oscar Berger Perdomo
Economy minister	Marcio Cuevas
Central bank president	Lizardo Sosa López
Next elections	State president: November 2007 Congress: November 2007
GDP per capita	US$ 2 169 (2004)
Rating	Moody's: Ba2 S&P: BB-

ANNUAL FIGURES AND FORECASTS

GUATEMALA		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	2.2	2.1	2.7	3.0	3.0
GDP	US$ bn	23.3	24.5	26.9	28.9	29.2
Inflation (year-end)	%	6.3	5.6	9.2	6.5	6.0
Inflation (year-average)	%	8.0	5.4	8.3	7.4	5.6
Budget balance, public sector	% GDP	-0.7	-2.4	-2.5	-2.0	-1.8
Public sector debt	% of GDP	22.8	23.5	24.5	24.7	24.3
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2819	3048	3443	3850	4200
Merchandise imports	US$ mn	5791	6175	6899	7500	7700
Trade balance	US$ mn	-2972	-3127	-3456	-3650	-3500
Current account balance	US$ mn	-1235	-1051	-1102	-1150	-1000
Current account balance	% GDP	-5.1	-4.5	-4.1	-4.0	-3.7
Net foreign direct investment	US$ mn	110	104	125	150	150
Foreign exchange reserves, year-end	US$ mn	2299	2833	3436	3300	3200
Import cover *	months	3.9	4.7	4.7	4.0	3.7
US$ exchange rate, year-end	Quetzales	7.81	8.04	7.95	8.20	8.70
US$ exchange rate, average	Quetzales	7.82	8.00	7.75	8.50	9.00
FOREIGN DEBT						
Gross foreign debt	US$ bn	4.70	4.40	4.70	4.90	4.90
Foreign debt	% exports*	119	135	141	137	140
Short-term foreign debt	US$ bn	1.06	1.10	1.20	1.20	1.20

*goods and services

f=forecast

Domestic sector: low economic growth

Guatemala again recorded low economic growth (2.7%) in 2004 despite the fact that international conditions could hardly have been any better. At least, Oskar Berger's minority government has made some fairly successful attempts at improving the underlying conditions for growth by making an effort to fight corruption and facilitate investments.

Thanks to expansionary fiscal policy and strong growth in lending, the year 2005 should see a slight increase in GDP growth to 3%, notwithstanding the country's increasingly restrictive monetary policy. Guatemala's central bank is keeping up its endeavors of pushing the inflation rate, which rose to 9.2% at the end of 2004, back to the target range of 4% to 6%, which should only be possible in the year 2006 at the earliest, however. The fact that the government has entered into an agreement with the IMF will strengthen investor confidence; a program providing for credit lines was not required on account of the good foreign liquidity position (see below).

External sector: good foreign liquidity position

Guatemala's foreign liquidity position has improved dramatically over the past few years. In a worst case scenario, the volume of foreign currency reserves and the inflows from direct investments from abroad are therefore more than sufficient to make foreign debt repayments falling due within one year, repay all short-term foreign debts and in addition finance a current account deficit of approx. 5% of GDP. Guatemala currently has a liquidity surplus of US$ 1.1 billion, or almost 5% of GDP, while the liquidity deficit in the year 1999 still came to US$ 1.25 billion or about 7% of GDP.

What are the driving forces behind this remarkable development? The high structural current account deficit has hardly changed and direct investments remained at a very low level. The re-integration of foreign deposits (from offshore branches of Guatemalan banks) into the national banking system is the principal factor that helped triple foreign currency reserves to US$ 3.4 billion since 1999. Permission to keep US dollar accounts in the national banking system provided the incentive for the reversal of "capital flight". As a result, the susceptibility of Guatemala's economy to temporary external shocks declined dramatically.

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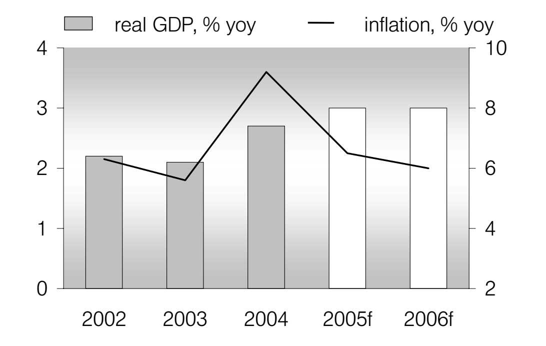
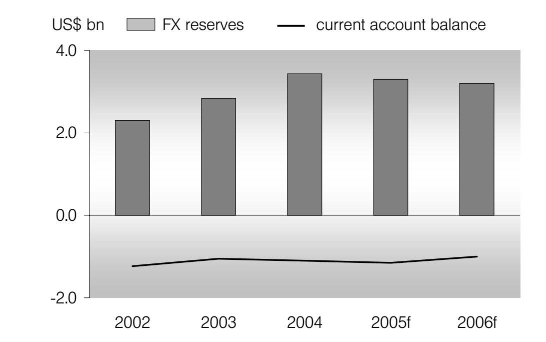
SUMMARY AND OUTLOOK

Despite favorable underlying conditions, GDP growth again remained at a low level in 2004, at 2.7%. Although the efforts of Oskar Berger's minority government to improve the investment climate have been relatively successful, the growth rate in 2005 should reach no more than 3%. A positive factor is the excellent foreign currency liquidity position, which is primarily attributable to the repatriation of foreign deposits. Guatemala therefore is very well prepared for external shocks at present.

GDP CHANGE (REAL) & INFLATION



CURRENT ACCOUNT & FOREX RESERVES



JAMAICA: PUBLIC FINANCE CONSOLIDATION

Area	10 991 sq. km
Population	2.6 million (+ 0.8 % p.a.)
Prime minister	P. J. Patterson
Finance minister	Omar Davies
Central bank president	Derick Latibeaudiere
Next elections	October 2007
GDP per capita	US$ 3 350 (2004)
Rating	Moody's: B1 S&P: B

ANNUAL FIGURES AND FORECASTS

JAMAICA		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	1.0	2.3	1.2	2.4	3.0
GDP	US$ bn	8.4	8.1	8.8	9.6	9.8
Inflation (year-end)	%	7.3	14.1	13.7	12.0	10.0
Inflation (year-average)	%	7.1	10.3	13.6	13.5	11.0
Budget balance*	% GDP	-7.6	-6.9	-5.0	-2.5	-1.5
Public sector debt	% GDP	140.5	143.2	142.8	132.0	130.0
EXTERNAL SECTOR						
Merchandise exports	US$ mn	1309	1386	1586	1800	1850
Merchandise imports	US$ mn	3180	3329	3526	3800	3900
Trade balance	US$ mn	-1871	-1943	-1940	-2000	-2050
Current account balance	US$ mn	-1074	-764	-700	-963	-900
Current account balance	% GDP	-12.7	-9.4	-7.9	-10.0	-9.1
Net foreign direct investment	US$ mn	407	604	570	600	650
Foreign exchange reserves, year-end	US$ mn	1645	1195	1847	1800	1800
Import cover **	months	4.1	2.9	4.3	3.9	3.9
US$ exchange rate, year-end	J$	50.76	60.52	61.45	68.00	75.00
US$ exchange rate, average	J$	48.42	57.74	61.20	65.50	73.00
FOREIGN DEBT						
Gross foreign debt	US$ mn	5479	5584	6700	6900	7050
Foreign debt	% exports**	170	158	176	168	165
Short-term foreign debt	US$ mn	775	982	867	902	700

*central government ** goods and services f=forecast

Domestic sector: consistent budget discipline

The consolidation of the budget and the reduction of public debt remain the principal economic policy challenges the government will be facing. Meeting the targets set out in the medium-term budget in August 2004 is hampered by the after-effects of hurricane Ivan, which caused estimated damages of US$ 580 million last September. Despite fiscal discipline, a hike in the general consumption tax and public-sector wage cuts, a balanced budget still appears to be out of reach in the current fiscal year. A reduction of the public debt ratio from 137% of GDP at the end of 2004 to below 100% of GDP by 2010 is to be achieved through high primary surpluses (the target for the current fiscal year is 14% of GDP).

The resolute pursuit of this program is reinforcing the government's credibility on the international capital markets: April saw the placement of yet another bond issue worth US$ 200 million. However, it is also evident that Jamaica's public finances remain highly susceptible to external shocks, even if public debt should drop to 100% of GDP.

In this scenario, economic growth will remain weak. Last year, it amounted to 1.2%, also due to the impact of hurricane Ivan. Due to the current drought, the agricultural sector will also have a dampening effect on growth while investment activity is picking up, particularly in the key export sectors of mining (bauxite) and tourism. Since production as a whole seems to be recovering very quickly from the effects of the hurricane, we forecast a growth rate of 2.4% for this year. Prime Minister Patterson announced that he would retire from politics before the end of this year. However, it is unlikely that any of his potential successors will depart from his current fiscal discipline policy.

External sector: current account deficit expanding

Following last year's sharp drop in the current account deficit on account of high export growth, the rising demand for capital goods imports and interest payment obligations in terms of foreign debt as well as profit transfers will cause the deficit to rise again this year. Net direct investments continue to rise though on account of tax incentives in the aluminum production sector and a favorable demand situation, so the decline in foreign currency reserves should be limited.

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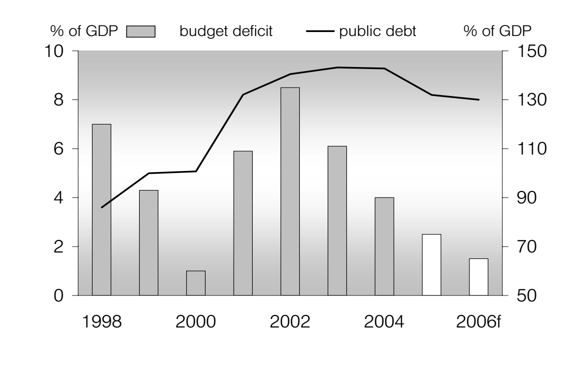
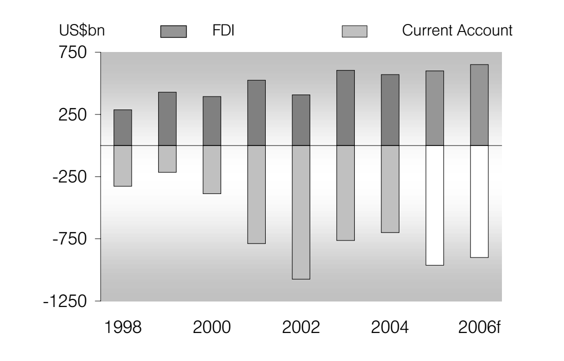
SUMMARY AND OUTLOOK

Interest payments on the public debt burden account for approx. 50% of current public spending and are stifling the economy. Economic policy will therefore focus on reducing public debt to below the 100% mark of GDP by 2010, a plan resolutely pursued by the government despite the damage caused by hurricane Ivan. Given this scenario, we only expect moderate growth of 2.4%, boosted above all by the mining and tourism sectors.

BUDGET DEFICIT & PUBLIC DEBT



FDI & CURRENT ACCOUNT BALANCE



MEXICO: REVERSAL IN INTEREST RATE TREND

Area	1 967 183 sq. km
Population	101 million (+ 1.6 % p.a.)
State president	Vicente Fox Quesada
Finance minister	Francisco Gil Diaz
Central bank governor	Guillermo Ortiz Martínez
Next elections	State president: July 2006 Congress: July 2006
GDP per capita:	6 500 US$ (2004)
Investment	20 % of GDP (2003)
Savings	18 % of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	27 % of GDP
Purchasing countries	USA 87 %, EU 3 %, Canada 2%
Products	Maquiladora 47 %, other industrial goods 39 %, Crude oil and derivatives 11 %
Imports of goods (2003)	28 % of GDP
Supplier countries	USA 62 %, EU 12 %, China 6 %, Japan 4 %
Products	Maquiladora inputs 35 %, other intermediate goods 41 %, Capital goods 12 %, Consumer goods 13%
Rating	Moody's: Baa1 S&P: BBB

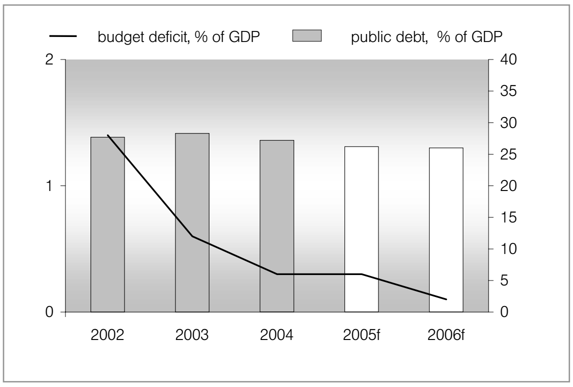
SUMMARY AND OUTLOOK

The "Lopez–Obrador affair" has been shelved. In the process, the accused, the PRD's presidential candidate, emerged the clear winner from the confrontation with the government and the second opposition party PRI. This has further increased the probability that the PRD will be nominating the president after the elections in June 2006 for the first time. Now attention is again focusing on macroeconomic trends, where Mexico seems to be following the general global trend: the economy is weakening, accompanied by simultaneous decline in inflation. This will prompt the central bank to end the cycle of tightening monetary reins. Accordingly, money market interest rates, at almost 10%, should already have passed their zenith. The bond market is already discounting the first cuts in Banxico's interest rates, and there should be room for a further downside move. The Mexican peso continues to benefit from the high differential between peso and US$ interest rates. A slight reduction of this differential in the course of the year and mounting "political noise" in the wake of the presidential elections will probably only result in a slight depreciation, to 11.40 pesos per US dollar.

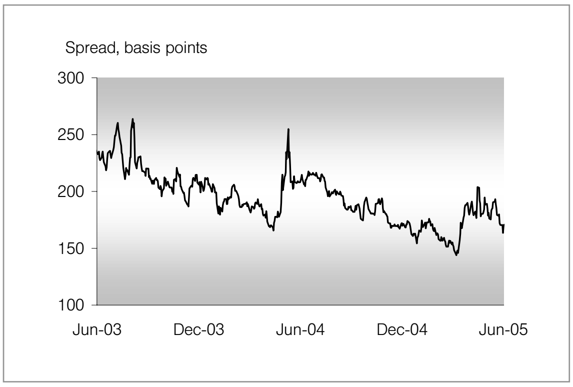
MEXICO		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	0.7	1.3	4.4	3.3	4.0
GDP	US$ bn	648	626	657	717	749
Inflation (year-end)	%	5.7	4.0	5.2	3.7	3.8
Inflation (average)	%	5.0	4.5	4.7	4.5	3.7
PUBLIC SECTOR						
Budget balance, central government	% GDP	-1.0	-0.8	-0.6	-0.6	-0.3
Budget balance, public sector	% GDP	-1.4	-0.6	-0.3	-0.3	-0.1
Public debt	% GDP	27.7	28.3	27.2	26.2	26.0
Amortization (Cetes excl.)	Pesos bn	222	250	336	324	371
Gross financing needs (Cetes excl.)	Pesos bn	298	283	359	348	394
EXTERNAL SECTOR						
Merchandise exports	US$ bn	161	165	189	202	219
Merchandise imports	US$ bn	169	171	197	214	233
Trade balance	US$ bn	-7.9	-5.7	-8.6	-11.2	-14.5
Current account balance	US$ bn	-13.8	-8.5	-7.9	-12.1	-14.1
Current account balance	% GDP	-2.1	-1.4	-1.2	-1.7	-1.9
Net foreign direct investment	US$ bn	14.8	10.8	15.0	14.0	16.0
Foreign exchange reserves, year-end	US$ bn	51	59	64	65	67
Import cover **	months	3.0	3.5	3.2	3.2	3.0
US$ exchange rate, year-end	Pesos	10.46	11.24	11.15	11.40	11.80
US$ exchange rate, average	Pesos	9.66	10.79	11.32	11.20	11.60
FOREIGN DEBT						
Gross foreign debt	US$ bn	159	160	163	166	169
Foreign debt	% exports**	90	88	79	76	73
Short-term foreign debt	US$ bn	36	35	34	34	34
Foreign debt amortization	US$ bn	13	21	25	18	21
Foreign debt service	US$ bn	25	33	37	32	36
Foreign debt service	% exports**	14	18	18	15	16
FINANCIAL MARKETS (year-end)						
Interest rates (Cetes, 28 days)	%	7.6	6.0	8.6	9.5	8.5
IPC stock index (peso based, 2005: 06/03)		6127	8795	12918	13204	
IFCI stock index (US$ based, 2005: 06/03)		637	830	1227	1290	
Bond market yield spread (2005:06/03)*	bp	324	199	167	168	

* EMBI+ ** goods and services f=forecast

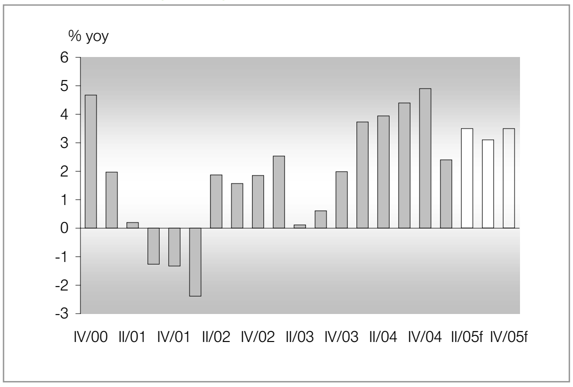
PUBLIC FINANCES



BOND SPREADS



GDP CHANGE (REAL)



Domestic policy: shift to the left after the elections?

The ”Lopez-Obrador” affair now is a thing of the past. The house of deputies had stripped Mexico City’s left-wing mayor Manuel Lopez-Obrador of his political immunity from prosecution because of contempt of court. This paved the way for criminal proceedings, which might have dashed Lopez-Obrador’s presidential ambitions. The problem confronting president Fox and the conservative forces in the country, however, was the fact that Lopez-Obrador’s popularity did by no means suffer from the affair but kept soaring instead. The resignation of the attorney-general and conciliatory gestures between president Fox and Lopez-Obrador virtually drew a final line under the affair.

What remains is an even stronger probability that, for the first time since the party was formed, the left-wing PRD (Partido Revolucionario Democrático) will nominate Mexico’s president after the election in June 2006. The financial markets appear to be unimpressed by this prospect since the results of Mexico’s experience with stability-oriented economic and liberal trade policy are far too convincing for us to expect that the Mexican left-wing party has any intentions of changing the situation. Should Lopez-Obrador win the election, it is taken for granted that he would rather follow the examples set by Brazil’s ”orthodox” Lula than those of Venezuela’s Hugo Chavez.

However, it is also true that far-reaching structural reforms, such as the reform of the energy sector, are not necessarily more likely to be implemented. Privatization of the state-owned oil company Pemex would be out of the question in any event. Moreover, Lopez-Obrador, if elected, would most probably meet with the same resistance from a parliamentary majority as is the current president Vicente Fox, since the PRD will be able to win a maximum of one third of the seats in the house of deputies. All in all, Mexico’s economic prospects under a Lopez-Obrador presidency are partly positive and partly negative: a continuation of the monetary convergence process with the U.S. thanks to solid monetary and fiscal policies, but at the same time continued paralysis in terms of structural reforms. In view of the relatively stable three-party system, changes to the electoral system as such (election of the head of state through parliament) or substantial strengthening of presidential powers may be the only way to dissolve the backlog of reforms.

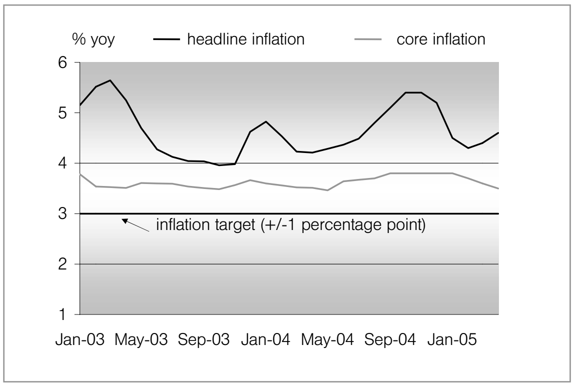
Economic activity: poor start to the new year

In the first quarter of 2005, the economy was weaker than expected. For instance, GDP was only 0.4% up on the pre-quarter (seasonally adjusted) following 1.3% in the fourth quarter of 2004. Thus, aggregate economic output increased by only 2.4% year-on-year. The low growth rate is partly attributable to a working day effect (since Easter occurred as early as March this year, the first quarter had fewer working days than in the previous year). The reasons for the economic slowdown are to be found in lower growth rates of exports ("soft spot" in the U.S.) and increased strain on domestic demand due to the higher level of interest rates. In particular, the continued poor performance of industrial production in the U.S., by far the country's most important market, suggests that the economic slowdown is bound to continue in the current second quarter. A slight recovery, underpinned by stabilizing domestic demand, is not likely until the second half of the year: In an environment of structural growth in credit supply and a low debt ratio of enterprises and private households, both private consumption and demand for investment should respond relatively quickly to a downward shift of the yield curve. GDP is likely to grow at an average annualized rate of 3.3% in 2005.

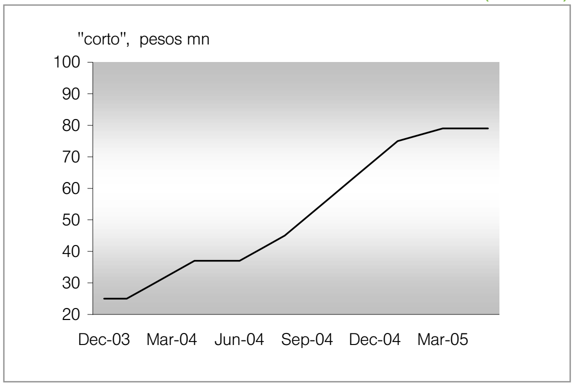
Monetary sector: turnaround in yields

After Mexico's central bank has steadily tightened monetary policy over the past 16 months, a turnaround is now imminent. We assume that the "corto", which is the central bank's main monetary policy instrument used to regulate the liquidity of the commercial bank accounts with the central bank, will not be raised over the next few months. The monetary watchdogs may also use the monetary policy respite to introduce a directly controlled key lending rate. Although the annualized inflation rate, at 4.6%, is currently still outside the target band of 2% to 4% for 2005, the trend in consumer prices is clearly pointing downward. Since the economy is likely to remain relatively weak and supply shocks in the agricultural sector – unlike the previous year – failed to materialize, everything suggests that the annualized inflation rate will be within the target range by year-end (DBLA forecast: 3.7%). Accordingly, money market interest rates (cetes, 28 days), at almost 10%, have already reached their cyclical high and are likely to drop to 9% by the end of the year. The bond market is also adjusting to lower growth rates and interest rate cuts. For instance, since the beginning of April yields on 10-year

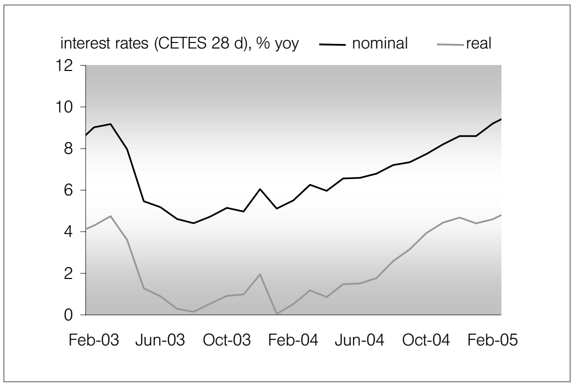
INFLATION



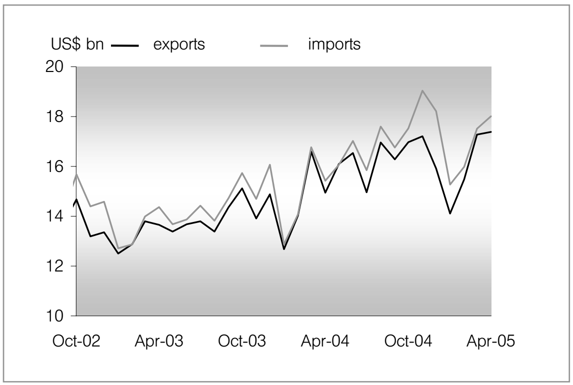
MONETARY POLICY (CORTO)



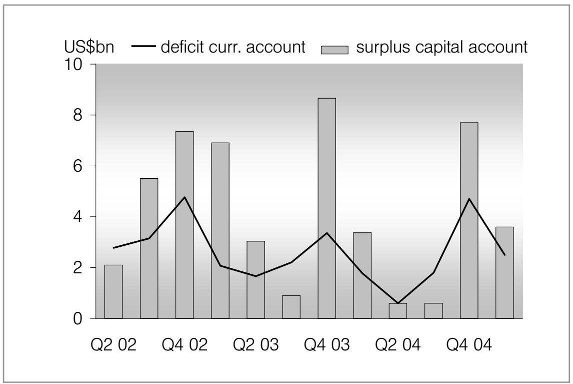
INTEREST RATES



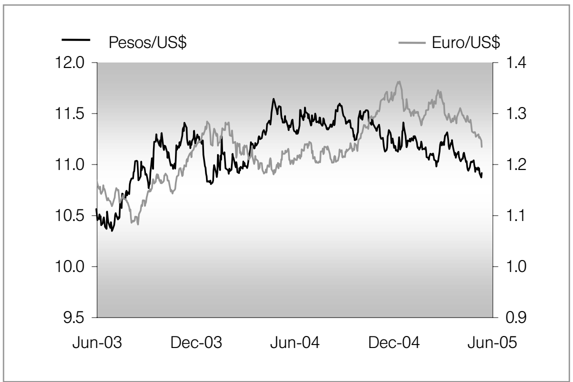
FOREIGN TRADE



BALANCE OF PAYMENTS



EXCHANGE RATES



government bonds have dropped by one percentage point, to 9.8%. In our view, the longer-term yields should still have substantial room for a downward move. The Mexican central bank's gain in credibility with respect to fighting inflation will ultimately be reflected in a drop in risk spreads on longer-term exposures on the bond market. The ongoing economic convergence process between Mexico and the U.S. also includes a further convergence of the long-term peso interest rate towards the U.S. rate. At present, the interest rate differential still amounts to almost 6 percentage points.

External sector: foreign currency liquidity improved

Mexico's foreign currency liquidity position has steadily improved over the past several years. In a stress case, the volume of foreign currency reserves and the inflows from direct investments from abroad are therefore more than sufficient to make foreign debt repayments falling due within one year, repay all short-term foreign debts and, in addition, to finance a current account deficit of approx. 2 % of GDP. Mexico currently has a liquidity surplus of US$ 13.3 billion, while the liquidity deficit in the year 2000 still came to US$ 35 billion, or 6.4% of GDP. For the fifth consecutive year, foreign direct investments will exceed the current account deficit, contributing to a further increase in foreign currency reserves and a further decline in relative foreign debt. It will therefore take more than temporary external shocks (recession in the U.S., slump in the oil price, increase in risk aversion on the international capital market) to put Mexico's macroeconomic stability in jeopardy today.

Exchange rate: upward trend unabated

The tendency of the Mexican peso to appreciate against the US dollar in evidence since May 2004 continues unabated. Following a historical low (1 US$ = 11.60 pesos) at that time, its value has since risen by more than 5% in nominal terms. The high differential between domestic and U.S. interest rates continues to attract portfolio capital. Given the favorable forecast for medium-term price stability, both the domestic bond market and the stock market should increasingly appeal to international investors. A slight increase in the current account deficit and growing "political noise" in the wake of the presidential elections in June 2006, should only result in a slight depreciation of the national currency to 11.40 pesos per US dollar at the end of 2005.

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MEXICO: MONTHLY INDICATORS		Feb-05	Mar-05	Apr-05	May-05	next/latest
DOMESTIC ECONOMY						
Economic activity index (IGAE)	% yoy	3.1	**0.4**			27-Jun
IGAE index (seasonally adjusted)	% mom	0.0	**-0.4**			27-Jun
Industrial production	% yoy	1.8	**-4.7**			13-Jun
Manufacturing, in-bond industry	% yoy	6.4	**7.3**			13-Jun
Manufacturing (excluding in-bond industry)	% yoy	2.3	**-6.4**			13-Jun
Construction	% yoy	0.9	**-3.1**			13-Jun
Gross fixed capital formation	% yoy	**7.4**				8-Jun
Consumer confidence (January 2003=100)	Index	107.9	105.7	100.3	**99.7**	4-Jul
Retail sales	% yoy	3.8	**4.4**			21-Jun
Wholesale sales	% yoy	8.3	**-6.3**			21-Jun
Unemployment rate	%	3.8	4.0	**4.2**		24-Jun
Employees (social insurance)	% yoy	3.2	**2.4**			
Real wages per employee, manufacturing	% yoy	-0.2	**0.2**			29-Jun
Budget balance, public sector	Pesos bn	-0.7	25.9	**26.1**		30-Jun
Public domestic debt	Pesos bn	1100	1128	**1138**		30-Jun
Public external debt	US$ bn	80.2	79.3	**77.2**		30-Jun
Consumer prices	% yoy	4.3	4.4	**4.6**		9-Jun
Consumer prices	% mom	0.3	0.5	**0.4**		9-Jun
Treasury bills, Cetes 28d	%	9.2	9.6	9.6	**9.6**	
EXTERNAL SECTOR						
Merchandise exports	US$ mn	15481	17279	**17385.0**		23-Jun
Merchandise exports	% yoy	11.5	4.0	**18.1**		23-Jun
Merchandise imports	US$ mn	15985	17516	**18013.0**		23-Jun
Merchandise imports	% yoy	13.6	4.5	**16.8**		23-Jun
Trade balance	US$ mn	-503	-237	**-628.0**		23-Jun
Foreign exchange reserves	US$ bn	64	64	**62.8**		
US$ exchange rate	Pesos	11.09	11.17	11.05	**10.88**	

MEXICO: QUARTERLY INDICATORS		Q2 04	Q3 04	Q4 04	Q1 05	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	3.9	4.4	4.9	**2.4**	15-Aug
Private consumption	% yoy	5.4	5.7	7.0		16-Jun
Public consumption	% yoy	-5.0	-4.9	-0.9		16-Jun
Private and public investment	% yoy	-1.5	8.5	10.9		16-Jun
Exports (goods and services)	% yoy	14.4	12.1	10.3		16-Jun
Imports (goods and services)	% yoy	11.1	10.9	11.9		16-Jun
EXTERNAL SECTOR						
Current account balance	US$ bn	-0.6	-1.8	-4.7	**-2.5**	25-Aug
Net foreign direct investment	US$ bn	2.5	2.6	2.9	**3.8**	25-Aug
Net foreign portfolio investment (incl. bonds)	US$ bn	-2.6	5.7	7.6	**2.8**	25-Aug
Capital account **	US$ bn	0.6	0.6	7.7	**3.6**	25-Aug
Change in foreign exchange reserves*	US$ bn	-0.1	1.5	-3.8	**0.2**	25-Aug

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

NICARAGUA: NO PROGRESS WITH REFORMS

Area	139 000 sq. km	
Population	5.6 million (+ 2.7 % p.a.)	
State president	Enrique Bolaños	
Finance minister	Mario Arana Sevilla	
Central bank president	Mario Alonso	
Next elections	State president: November 2006 Congress: November 2006	
GDP per capita	US$ 800 (2004)	
Rating	Moody's: Caa1	S&P: NR

ANNUAL FIGURES AND FORECASTS

NICARAGUA		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	1.0	2.3	5.1	3.7	3.2
GDP	US$ bn	4.0	4.1	4.5	4.8	5.1
Inflation (year-end)	%	3.9	6.5	9.3	9.0	8.0
Inflation (year-average)	%	4.0	5.2	8.5	9.2	8.6
Budget balance, public sector	% GDP	-10.5	-9.7	-8.5	-8.1	-8.5
Public sector debt	% GDP	192	202	164	137	124
EXTERNAL SECTOR						
Merchandise exports	US$ mn	917	1049	1257	1372	1473
Merchandise imports	US$ mn	1853	2021	2369	2610	2700
Trade balance	US$ mn	-936	-972	-1112	-1238	-1227
Current account balance	US$ mn	-784	-780	-803	-921	-882
Current account balance	% GDP	-19.6	-18.8	-18.0	-19.1	-17.2
Net foreign direct investment	US$ mn	204	201	200	215	225
Foreign exchange reserves, year-end	US$ mn	448	502	668	640	640
Import cover *	months	2.2	2.3	2.7	2.4	2.3
US$ exchange rate, year-end	Córdobas	14.67	15.55	16.33	17.19	18.10
US$ exchange rate, average	Córdobas	14.25	15.10	15.94	16.76	17.65
FOREIGN DEBT						
Gross foreign debt	US$ bn	6.5	6.9	5.7	5.3	5.2
Foreign debt	% exports*	563	530	373	318	291
Short-term foreign debt	US$ bn	0.13	0.16	0.18	0.20	0.20

* goods and services

f=forecast

Economic policy: hiatus with IMF imminent?

President Bolaños' minority government will be unable to meet the 2005 budget target of the structural adjustment program (confining the deficit to 7% of GDP), due to unplanned public sector wage increases approved by parliament and delays in fiscal policy reforms. It will therefore need to reach an agreement with the IMF on new targets for the structural adjustment program by the end of July this year. The backlog in reforms was caused by the opposition, which holds the majority in the legislature and consists of Sandinistas and the Partido Liberal Constitucionalista. The president and the legislature are now forced to come up with a compromise proposal for fiscal policy adjustment as quickly as possible, which they can present to the IMF in order to avert a cut-off of international economic aid to the country (a few multi-lateral loans have already been suspended). Despite strong conflicts of interest, we expect a consensus solution requested by the IMF to be reached because the government and members of parliament should ultimately realize that the government would only be able to finance the high budget deficit with international assistance. The 2006 budget needs to give the austerity principle in terms of current expenses a high degree of priority in order to ensure the IMF's ongoing assistance with the country's structural adjustment (the current funding scheme will expire at the end of 2005). It remains questionable though, whether the powerless government will still be able to push through such austerity measures in parliament before the presidential and parliamentary elections in November 2006.

Domestic policy: economic upturn subsiding

Nicaragua's economic recovery will continue at a slower pace due to weaker demand from the country's key trading partner, the U.S. The economy, which still has to contend with price-boosting effects of high fuel prices, should grow by 3.7% and 3.2% this year and next, respectively, following growth above 5% in 2004. The free trade agreement CAFTA currently being ratified by the U.S. parliament and the Central American countries is unlikely to generate much stimulus for exports and investments. Instead, the economy should be boosted by earnings growth in the coffee sector, which is benefiting from higher prices, foreign aid and private transfer payments from the U.S. (2004: approx. US$ 0.6 billion). These money transfers will also put a cap on the current account deficit, which is nevertheless likely to remain at almost 20% of GDP on account of the high oil prices. Although reduced interest rates under the HIPC debt relief initiative (2004: US$ 3.8 billion) have been approved, they will impact on the current account balance only gradually, however, since the governments are taking their time implementing the debt reduction agreements.

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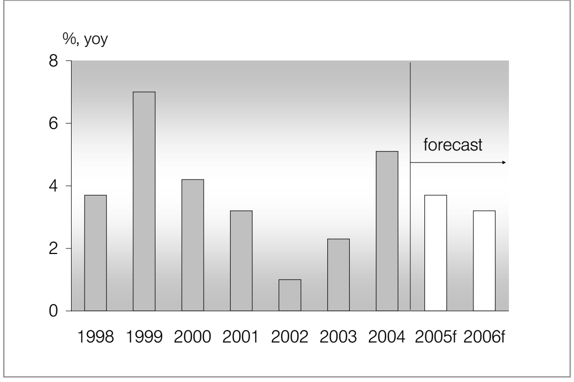
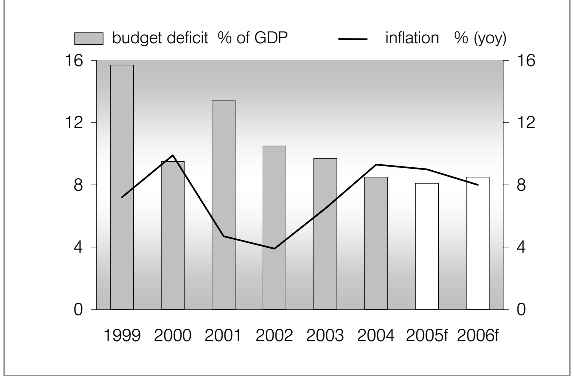
SUMMARY AND OUTLOOK

The minority government may still succeed this year in reaching an agreement with the opposition on the government's austerity policy in order to prevent the IMF and multilateral finance organizations from cutting off economic aid to Nicaragua (the budget deficit still amounts to approx. 8% of GDP). In 2006, however, when Nicaragua has to renegotiate a new adjustment program with the IMF, the opposition is likely to embark on a confrontation course. Due to weaker demand from the U.S. once again, economic growth should slow down to 4%.

GDP CHANGE (REAL)



FISCAL DEFICIT AND INFLATION



PERU: GOVERNMENT ENCOURAGES GROWTH

Area	1 285 215 sq. km
Population	27.1 million (+ 1.5 % p.a.)
State president	Alejandro Toledo Maurique
Finance minister	Pedro Pablo Kuczynski
Central bank president	Oscar Dancourt Masias (provisional)
Next elections	State president: April 2006 Congress: April 2006
GDP per capita	US$ 2 501 (2004)
Rating	Moody's: Ba3 S&P: BB

ANNUAL FIGURES AND FORECASTS

PERU		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	4.8	3.8	5.1	5.0	4.8
GDP	US$ bn	56.5	60.6	68.3	77.2	62.4
Inflation (year-end)	%	1.5	2.5	3.5	2.0	2.5
Inflation (average)	%	0.2	2.3	3.7	2.0	2.4
Budget balance, public sector	% GDP	-2.3	-1.9	-1.3	-1.2	-1.0
Public debt	% GDP	47	48	46	40	50
EXTERNAL SECTOR						
Merchandise exports	US$ bn	7.7	9.0	12.5	13.9	13.9
Merchandise imports	US$ bn	7.4	8.3	9.8	10.7	11.1
Trade balance	US$ bn	0.2	0.7	2.7	3.1	2.8
Current account balance	US$ bn	-1.2	-1.1	-0.1	0.0	-0.6
Current account balance	% GDP	-2.0	-1.8	-0.2	0.0	-0.9
Net foreign direct investment	US$ bn	2.2	1.4	1.8	1.1	0.9
Foreign exchange reserves, year-end	US$ bn	9.6	10.2	12.6	13.5	13.4
Import cover	months**	9.8	9.2	9.3	9.2	8.7
US$ exchange rate, year-end	Soles	3.52	3.46	3.28	3.25	3.23
US$ exchange rate, average	Soles	3.52	3.48	3.42	3.26	3.24
FOREIGN DEBT						
Gross foreign debt	US$ bn	27.5	28.0	28.5	28.8	29.1
Foreign debt	% exports**	287	257	195	177	176
Short-term foreign debt	US$ bn	6.0	2.7	2.8	3.0	3.1
Foreign debt amortization	US$ bn	2.2	1.9	2.3	2.4	2.8
Foreign debt service	US$ bn	3.8	3.3	3.7	3.8	4.2
Foreign debt service	% exports**	39.8	30.1	25.3	27.7	30.3

**goods and services

f=forecast

Economic activity: rosy outlook

While economic growth in 2004 was mainly fueled by the export boom, this year will see growth expand on a wider scale due to the sharp increase in domestic demand and private investments. In particular, public-sector demand was financed by higher tax revenues (+10.6% year-on-year) in the first quarter, which in turn bolstered economic growth substantially (+5.4% year-on-year). Despite additional revenues, the government is committed to its deficit target of 1% of GDP and has applied to congress for a supplementary budget providing for higher expenditure (+1.5%) on social projects and wage increases for public-sector employees. It is unlikely that this increased level of spending can be maintained in the forthcoming years without substantial external borrowing. Lower tax revenues due to decreased commodity prices and planned tax relief measures as well as reduced tariffs (once the free trade zone between the Andean states and the U.S. comes into force) will pose a formidable challenge to the next government. However, strong growth is likely to continue this year, even though we expect commodity prices to drop and global economic conditions to deteriorate in the second half of the year. Combined with growing jitters before the elections in April 2006, this is bound to result in lower growth. Even so, for the year 2005 as a whole we forecast a growth rate of 5%.

External sector: diversification of exports

Although crude oil and mining products still account for roughly 60% of export revenues, a diversification process is slowly beginning to emerge. This is chiefly attributable to increased demand for agricultural and consumer goods from the Andean region and Asia. China has meanwhile become the country's second-largest export partner after the U.S. and, Peru is hoping not only for strong demand for agricultural goods but also for increased revenues in the tourism sector. High export revenues will result in a trade surplus again this year, while the balance of services is bound to reflect a deficit mainly due to profits being repatriated by foreign subsidiaries. The current account as a whole should break even. These positive fundamentals are causing persistent upward pressure on the peso. The central bank continues to intervene on the foreign exchange market to stop the national currency from appreciating too much and has meanwhile increased its foreign currency reserves to US$ 13.6 billion. The expansionary money market policy has as yet not impacted on the inflation rate, which remains low.

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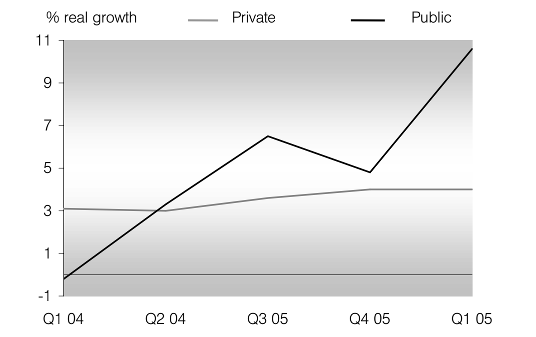
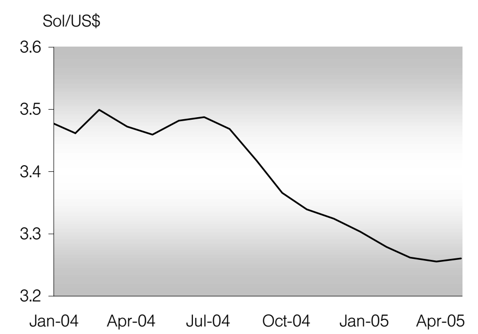
SUMMARY AND OUTLOOK

Exports no longer are the sole factor fueling Peruvian economic growth. The country's expansionary fiscal policy, which is being financed by higher tax revenues, is also having a beneficial impact on the economy. However, the government will only be able to maintain its expansionary course if the growth in tax revenues remains as strong as in previous years. Therefore, this economic policy course turns out to be hardly sustainable since the bulk of higher revenues is directly related to higher commodity prices.

DOMESTIC DEMAND



EXCHANGE RATE



VENEZUELA: HOW FAR WILL PRESIDENT CHAVEZ GO?

Area	912 050 sq. km	
Population	25.7 million (+ 1.9 % p.a.)	
State president	Hugo Chávez Frías	
Finance minister	Nelson Merentes	
Central bank president	Gastón Luis Parra	
Next elections	State president: December 2006	
	Parliament: December 2005	
GDP per capita	US$ 4 137 (2004)	
Investment	14 % of GDP (2003)	
Savings	24 % of GDP (2003)	
Exchange rate system	Fixed exchange rate	
Monetary policy	Heterodox, with price controls	
Exports of goods (2004)	35 % of GDP	
Purchasing countries	USA 50 %, EU 6 % , Colombia 3 %	
Products	Crude oil 81 %	
Imports of goods (2004)	16 % of GDP	
Supplier countries	USA 26 %, EU 19%, Colombia 10 %	
Products	Primary goods 29 %, Capital goods 22 %	
Rating	Moody's: B2	S&P: B

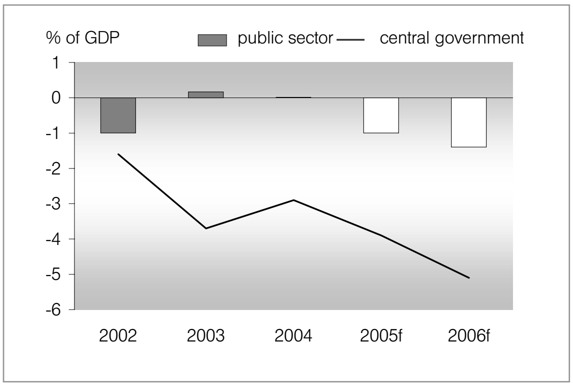
SUMMARY AND OUTLOOK

The further radicalization of the government is increasingly being perceived with concern. Large-scale arms purchases, the growing rapprochement with Cuba and intimations of a nuclear program being launched are causing growing anxiety among neighboring countries in the region and in the U.S. On the domestic front, government policy is conspicuous in particular in the sense that the private oil industry, hitherto largely spared by the "Bolivarian revolution", has also been targeted by interventionist measures. In view of the country's high dependency on the oil sector and the fact that the government is spending the windfall revenues generated by the current oil price boom with both hands and a sustained buildup of reverses for a rainy day is not discernible, the government's policy course is making the country vulnerable to external shocks. The increase in foreign currency reserves, resulting from the oil boom and controls on capital flows, is meanwhile whetting the government's appetite; a discussion is under way at present as to how much in reserves is appropriate for the country. Even if the current level of reserves represents a very comfortable cushion, the idea of the foreign currency reserves being used at the government's whims and fancy seems risky.

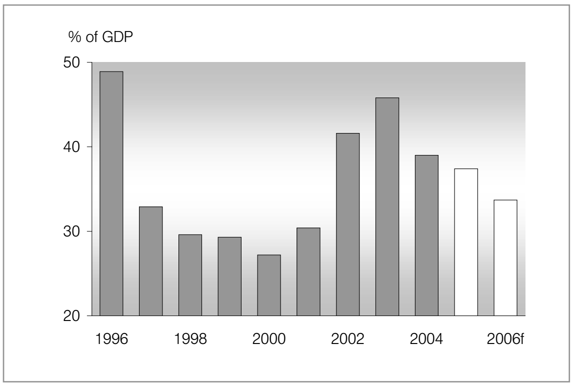
VENEZUELA		2002	2003	2004	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	-8.9	-7.7	17.9	6.0	4.0
GDP	US$ bn	92.6	83.5	109.2	123.1	136.3
Inflation (year-end)	%	31.2	27.1	19.2	18.0	23.7
Inflation (average)	%	22.4	31.1	21.7	17.4	20.0
PUBLIC SECTOR						
Budget balance, central government	% GDP	-1.6	-3.7	-2.9	-3.9	-5.1
Budget balance, public sector	% GDP	-1.0	0.2	0.0	-1.0	-1.4
Public debt	% GDP	41.6	45.8	39.0	37.4	33.7
Amortization	US$ bn	7.3	10.8	9.0	7.3	6.5
Gross financing needs	US$ bn	8.2	10.7	9.0	8.5	24.0
EXTERNAL SECTOR						
Merchandise exports	US$ bn	26.8	27.2	38.7	40.1	35.7
Merchandise imports	US$ bn	13.4	10.7	17.3	18.9	19.6
Trade balance	US$ bn	13.4	16.5	21.4	21.2	16.1
Current account balance	US$ bn	8.0	11.2	13.8	14.0	9.4
Current account balance	% GDP	8.7	13.4	12.7	11.3	6.9
Net direct investment	US$ bn	-0.3	1.4	1.3	1.0	0.8
Foreign exchange reserves, year-end **	US$ bn	11.4	16.7	19.0	23.0	24.0
Import cover **) ***)	months	6.5	10.9	9.0	9.9	10.1
US$ exchange rate, year-end	Bolívar	1387	1598	1918	2150	2400
US$ exchange rate, average	Bolívar	1160	1611	1885	2082	2348
FOREIGN DEBT						
Gross foreign debt	US$ bn	35.5	41.3	43.2	43.8	45.0
Foreign debt	% exports ***	121	147	111	123	132
Short-term foreign debt	US$ bn	6.7	7.7	9.6	9.4	9.0
Foreign debt amortization	US$ bn	2.9	5.4	5.3	2.7	3.0
Foreign debt service	US$ bn	4.9	7.9	8.3	5.3	5.5
Foreign debt service	% exports ***	17	28	21	15	16
FINANCIAL MARKETS (year-end)						
Deposit rate, 90 days	%	26.1	14.2	14.5	11.0	10.0
ICB stock index (Bolívar based, 2005: 06/03)		8015	22204	29952	22192	
IFCG stock index (US$ based, 2005: 06/03)		159	182	274	227	
Bond market yield spread (2005: 06/03)*	bp	1127	469	412	495	

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

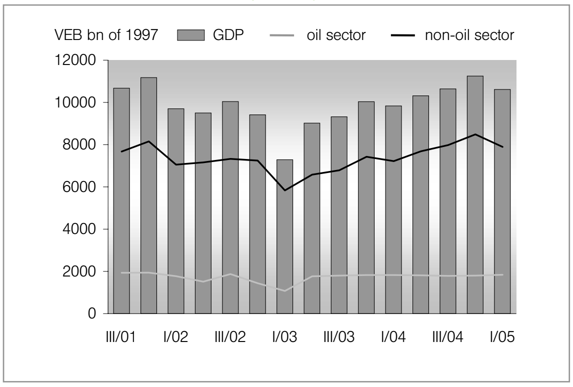
BUDGET BALANCE



PUBLIC DEBT



NATIONAL ACCOUNTS (REAL)



Domestic policy: how far will Chávez go?

Evidently, president Chávez is convinced that he is now able to push through a radicalized form of his "Bolivarian revolution" in all sectors of the Venezuelan economy and to spread the revolutionary vision beyond Venezuela's borders. Whereas the private oil sector had previously been spared from the government's interventions, the recent retroactive increase in taxes on oil production is now giving rise to substantial legal uncertainty in this sector too. At the same time, the government is publicly accusing international oil companies of being in breach of their agreements with the Venezuelan state. In addition, the government has discontinued its long-standing military cooperation with the U.S., and reports about the formation of a reserve army and the purchase of a large arms cache is giving rise to concern not only within the country but also among its neighbors. Moreover, the government is evidently making an effort to establish a national nuclear program.

The question in this context is how far the government can pursue this policy course without meeting with substantial opposition within the country and from its neighbors. At present, the country appears to be devoid of any kind of serious opposition: public institutions have been deprived of their powers, the political opposition is hobbled by in-fighting and sentiment among large parts of the population is favorable thanks to the distribution of the oil revenues. And politicians abroad evidently are unsure of how to deal with Chávez, who actually is quite legitimate in democratic terms.

Fiscal policy: oil revenues being consumed

Thanks to the ongoing high oil prices and relatively robust economy, the government is registering a copious flow of revenues. In the first three months, these were up by 67% year-on-year, with tax revenues nearly doubled. Earnings from oil operations were 37% higher in nominal terms than in the first quarter of 2004. The government is spending these funds with both hands: in the first quarter, expenditure soared by 44%. As a result, the central government has only a small budget surplus of 708 billion VEB (0.3% of GDP for the year as a whole); while this represents a slight improvement on the previous year's deficit, (0.5% of GDP), more restrained spending policy would be advisable. In addition to the substantial increases in spending registered in the central budget, numerous ancillary budgets have been created which, in our opinion, are being used for politically motivated spending in the social and infrastructural sectors. Against the backdrop of the municipal elections in August and the parliamentary elections in December, the level of spending is likely to see a further increase in the forthcoming months; accordingly, we anticipate a deficit equivalent to 4.1% of GDP for the year as a whole.

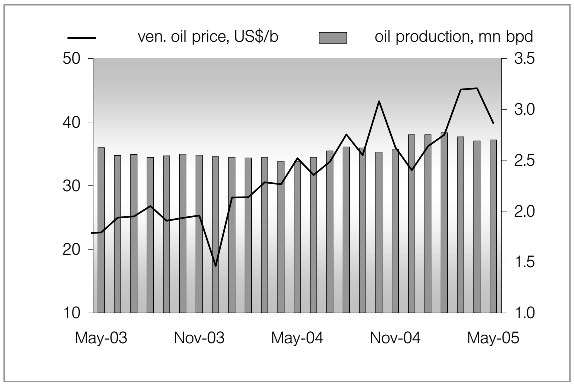
In view of the currently favorable environment of economic recovery and high oil prices, it would appear to be expedient to adopt more restrictive fiscal policy in order to provide for a rainy day. While public debt in relative terms declined from 46% of GDP to 39% of GDP last year, and due to the robust GDP growth and high inflation rate we expect a further slight decline in 2005, a longer-term view, however, shows that the level of public debt in the current year is still more than eight percentage points above the level at which president Chávez took office in 1999 (see chart). In times of high oil prices, this circumstance gives rise to considerable concern.

Domestic economy: medium-term outlook bleak

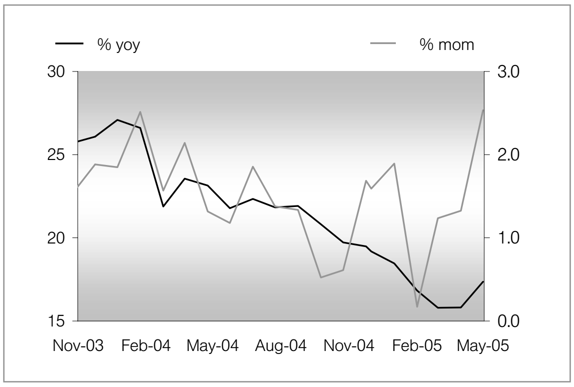
Thanks to the stabilization, in relative terms, after the sharp downturn in 2002/2003 and a high level of government spending not only on infrastructural investments but which is also supporting consumer demand in the form of direct income transfers, the economy continues to grow at comparatively high rates. In the first quarter, GDP growth amounted to 7.9% year-on-year, with major contributions being made particularly by the construction industry (+15.4 %), retail trade (+17.8 %) and financial services (+24%). In contrast, the oil sector only recorded an increase by 1 % year-on-year in the first quarter. Considering the country's high reserves and the currently very strong demand for crude oil, this is disappointing. In recent weeks there has been some speculation on the actual volume of oil production in Venezuela: while the government claims the country is producing between 3.2 and 3.4 million bpd, industry sources indicate that the level is closer to 2.7 million barrels. Reliable information cannot be obtained at present.

Nevertheless, GDP for the year as a whole is likely to grow by 6% on the back of solid domestic demand, which is benefiting from social programs, short-term (relative) political and economic stability and public construction investments. Due to the increasing radicalization of the government, the medium-term prospects remain bleak. In recent weeks, the government has tightened regulation of private banks' interest rates and lending, expropriated several private enterprises and unilaterally changed the general economic conditions applicable to some other enterprises quite abruptly, especially in the oil sector. Investments urgently required for sustained growth cannot be expected to materialize in an environment of this kind.

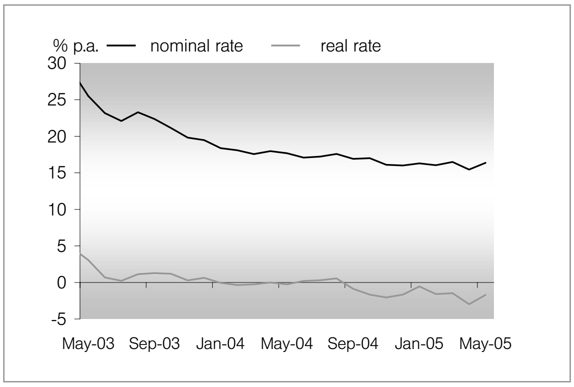
OIL PRICE AND PRODUCTION



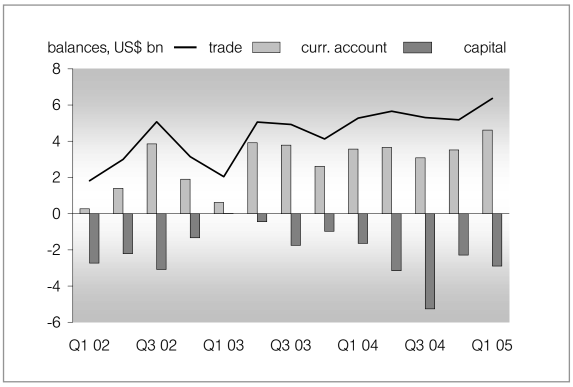
INFLATION



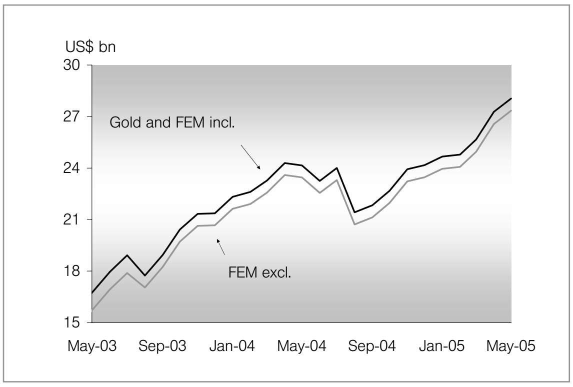
LENDING RATES



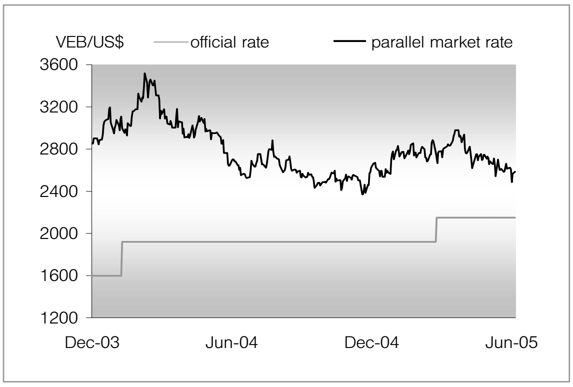
BALANCE OF PAYMENTS



FOREIGN EXCHANGE RESERVES



EXCHANGE RATE



Monetary sector: reversal on the price front

After annual inflation rates had steadily declined since mid-2003, a trend reversal now appears to be on the cards. Consumer prices rose by 2.5% in May, the highest monthly rate since February 2003. There are signs that the system of price controls, whose maintenance is being rendered more difficult due to expansionary fiscal policy, low interest rates fixed by the state for private individuals and companies and increasing capacity bottlenecks, is gradually losing its effectiveness. Since interest on bank loans is increasingly being tied to interest on monetary policy instruments of the central bank, political considerations are likely to dissuade the central bank from firmly counteracting the increasing inflationary pressure. We anticipate an end-of-year inflation rate of 18%.

External sector: what level of reserves is ”justified”?

Ongoing high oil exports caused the current account surplus in the first quarter of 2005 to rise by US$ 1 billion year-on-year, to US$ 4.6 billion. Since capital outflows are being restricted by stringent controls on capital movements, the level of foreign currency reserves constantly continues to rise. At just under US$ 23 billion (excluding gold and FEM), import cover now stands at nearly ten months, and taking account of some US$ 5 billion in gold reserves and US$ 700 million in the stabilization fund FEM, import cover is up to more than one year.

Against this backdrop, the government tabled a bill in congress providing for an upper limit for the accumulation of foreign currency reserves and making all surplus funds beyond that limit available to the government for discretionary spending. We are critical with regard to these plans for a number of reasons: for one thing, controls on capital movements impede the demand for foreign currency, making the increase in reserves artificially high and, presumably, incapable of being sustained. Moreover, Venezuela is profiting from very high windfall profits in the oil sector, which should be accumulated in a clearly regulated and respected stabilization fund for a ”rainy day” and should not be left to the current government’s unfettered discretion. We nevertheless expect the government to prevail. If so, this will lead to an increasing danger of a severe adjustment recession during times of lower oil prices.

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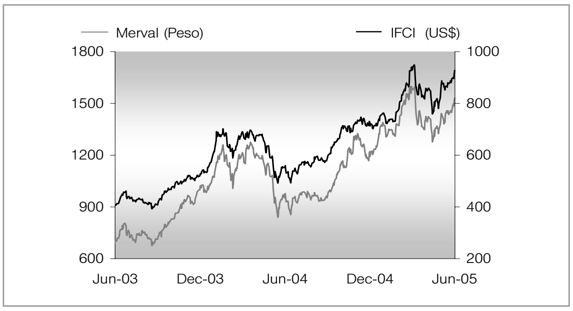
VENEZUELA: MONTHLY INDICATORS		Feb-05	Mar-05	Apr-05	May-05	next/latest
DOMESTIC ECONOMY						
Industrial production (private sector)	% yoy	9.5				July 5-10
Car sales	% yoy	127.8	**69.3**	**114.0**	**54.3**	July 5-10
Retail sales	% yoy	**28.9**				July 5-10
Wholesale sales	% yoy	**22.2**				July 5-10
Crude oil production	1000 bpd	2770	**2730**	**2690**	**2700**	15-Jul
Unemployment rate	%	14.0	**13.5**	**12.1**		28-Jun
Consumer prices	% yoy	16.8	15.8	**15.8**	**17.4**	4-Jul
Consumer prices	% mom	0.2	1.2	**1.3**	**2.5**	4-Jul
Producer prices	% yoy	21.0	18.3	**18.2**	**16.9**	4-Jul
Producer prices	% mom	0.6	3.3	**1.7**	**1.5**	4-Jul
Money supply M2 *	% yoy	46.1	**50.4**	**52.9**		16-Jun
Lending rate (monthly average)*	%	16.0	16.5	**15.5**	**16.4**	16-Jun
Deposit rate (monthly average)*	%	5.1	5.2	**12.5**	**11.7**	16-Jun
Interbank interest rate (month-average)*	%	2.2	0.6	**3.7**	**2.7**	4-Jul
Credit volume *	% yoy	125	**103**			21-Jun
Deposits *	% yoy	45	**47**			21-Jun
EXTERNAL SECTOR						
Oil price (Venezuelan exports, latest: 06/03)	US$/barrel	38.0	45.1	45.3	**39.8**	**42.4**
Oil price (Venezuelan exports, latest: 06/03)	% yoy	34.9	47.5	49.8	**16.0**	**23.0**
Foreign exchange reserves (CB, latest: 06/03)****	US$ bn	18.6	20.0	21.6	**22.6**	**21.7**
Forex reserves (FEM**; latest: 06/03)*	US$ bn	0.7	0.7	0.7	**0.7**	**0.7**
US$ exchange rate (latest: 06/03)*	Bolívar	1920	2150	2150	**2150**	**2150**

VENEZUELA: QUARTERLY INDICATORS		Q2 04	Q3 04	Q4 04	Q1 05	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	14.3	14.2	12.1	**7.9**	19-Aug
GDP, private sector	% yoy	17.4	16.4	12.4	**8.9**	19-Aug
GDP, public sector	% yoy	6.8	8.6	8.8	**5.1**	19-Aug
Oil sector	% yoy	2.5	-0.8	-1.6	**1.0**	19-Aug
Manufacturing industry	% yoy	25.5	18.9	14.7	**6.4**	19-Aug
Financial services	% yoy	30.6	25.9	19.8	**24.0**	19-Aug
Commerce	% yoy	24.7	21.7	23.3	**17.8**	19-Aug
EXTERNAL SECTOR						
Merchandise exports	US$ bn	9.47	10.50	10.85	**11.33**	19-Aug
Exports of oil and derivatives	US$ bn	7.95	8.65	8.83	**9.65**	19-Aug
Merchandise imports	US$ bn	3.84	4.86	5.43	**4.97**	19-Aug
Trade balance	US$ bn	5.63	5.64	5.42	**6.36**	19-Aug
Current account balance balance	US$ bn	3.37	3.65	3.89	**4.62**	19-Aug
Net foreign direct investment	US$ bn	0.40	0.01	0.69	**0.06**	19-Aug
Portfolio investment	US$ bn	0.28	-2.77	-0.21	**1.38**	19-Aug
Capital account***	US$ bn	-3.15	-5.26	-2.29	**-2.90**	19-Aug
Change in foreign exchange reserves (C.B.)#	US$ bn	-0.22	1.61	-1.60	**-1.72**	19-Aug
Change in foreign exchange reserves (FEM)**#	US$ bn	0.00	0.00	0.00	**0.00**	19-Aug

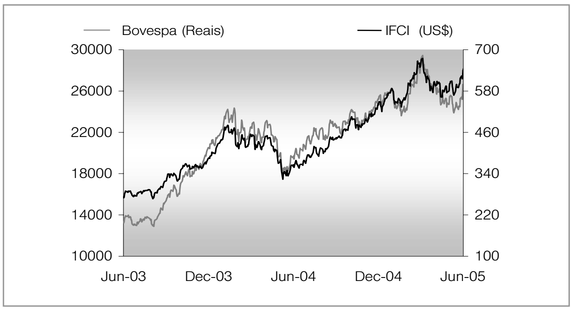
*month-end **macroeconomic stabilization fund *** incl. residual items **** Gold excluded (latest: US$ 5.1bn) # - = increase

FINANCIAL MARKETS: LATIN AMERICAN STOCK MARKET INDICES

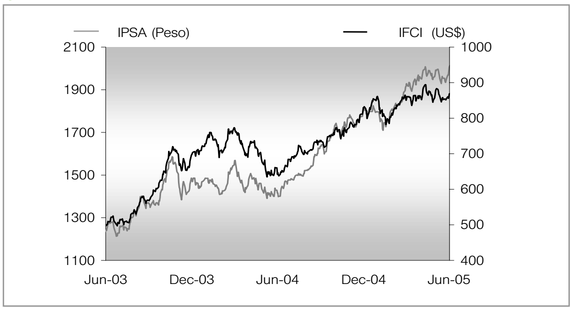
ARGENTINA



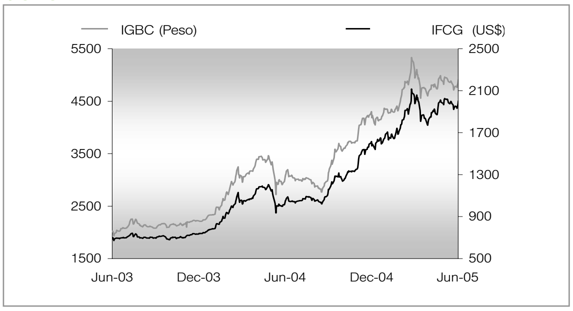
BRAZIL



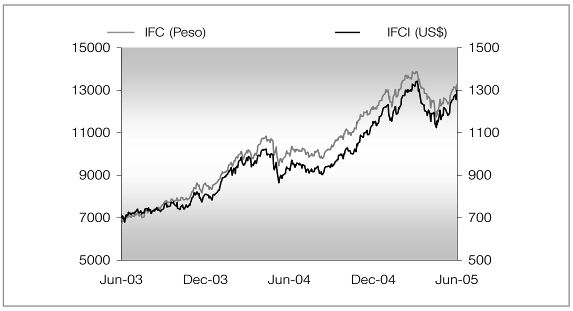
CHILE



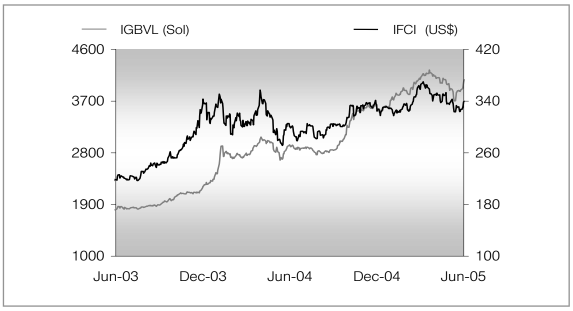
COLOMBIA



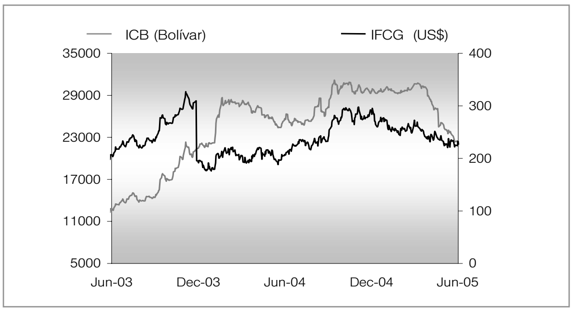
MEXICO



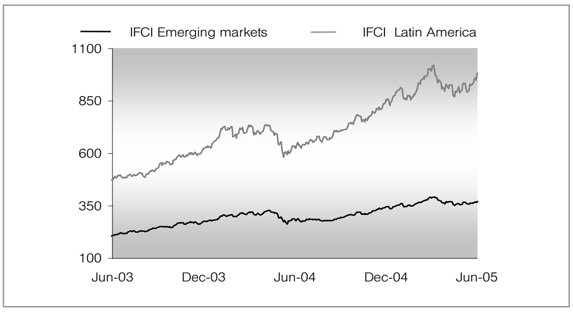
PERU



VENEZUELA



LATIN AMERICA



FINANCIAL MARKETS: LATIN AMERICAN BOND YIELD SPREADS

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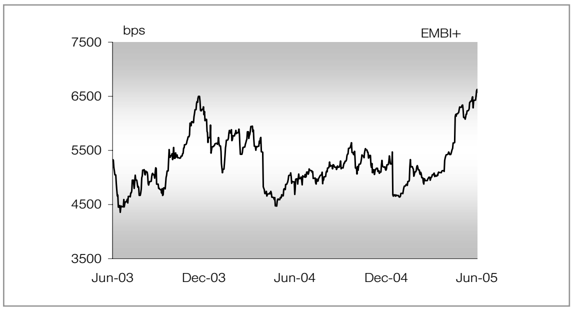

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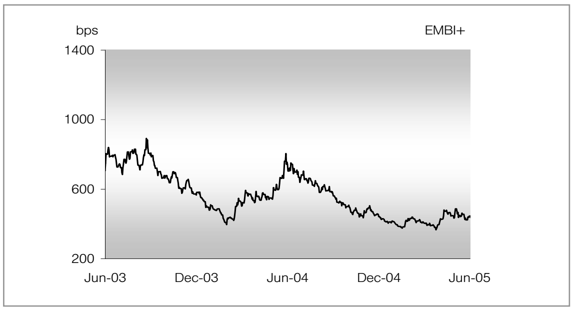

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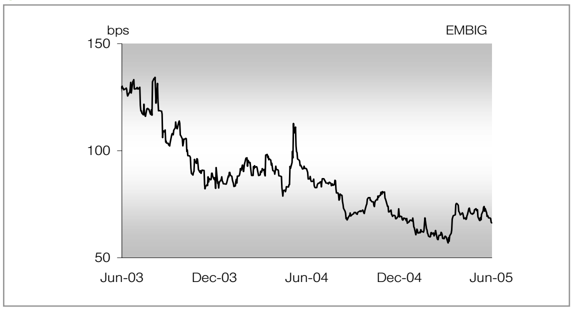

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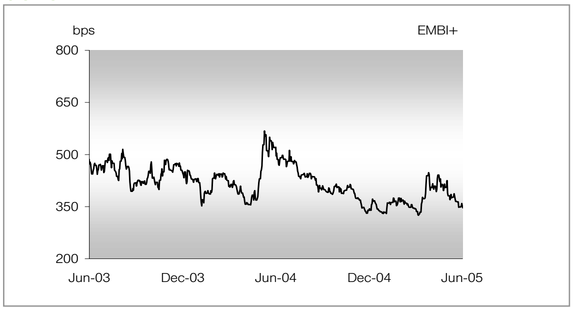

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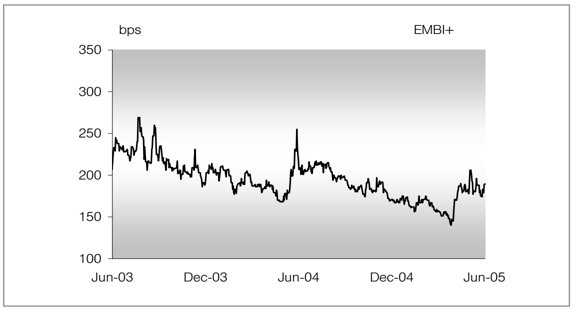
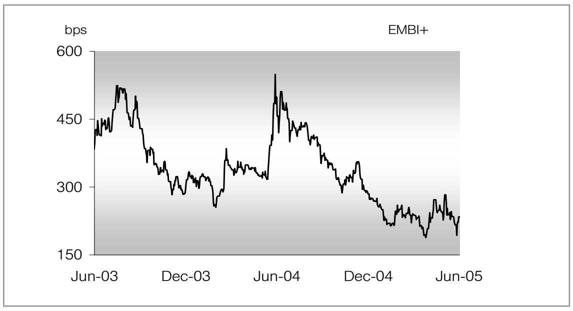


PERU



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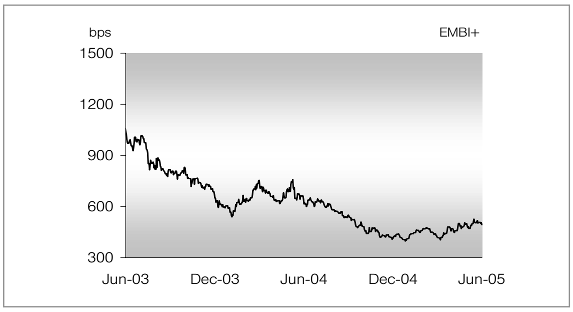

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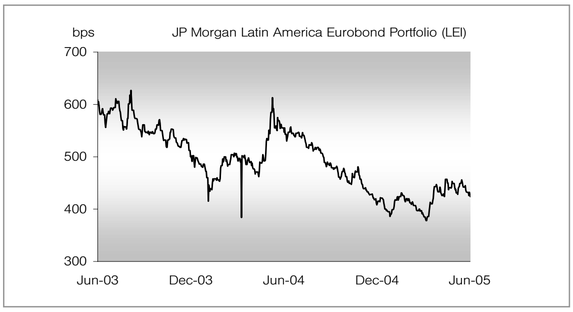

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GLOBAL ECONOMY - FIGURES AND FORECASTS

		2003	2004	**6/7/05**	2005f	2006f
REAL GDP CHANGE *						
Industrialized countries	% yoy	2.1	3.2		2.2	2.6
USA	% yoy	3.0	4.4		3.5	3.4
Euro area	% yoy	0.5	1.8		1.7	2.2
Germany	% yoy	-0.1	1.7		1.0	2.0
Japan	% yoy	2.4	2.0		1.0	1.7
INTEREST RATES, YEARLY AVERAGE*						
USA, 3m money market rate	%	1.2	1.7	**3.4**	3.4	4.3
USA, 10yr government bond yield	%	3.9	4.2	**3.9**	4.8	5.5
Euro area, 3m money market rate	%	2.3	2.1	**2.1**	2.3	2.9
Euro area, 10yr gov. bond yield	%	4.1	4.1	**3.2**	3.9	4.6
Japan, 3m money market rate	%	0.1	0.1	**0.1**	0.1	0.1
Japan, 10yr government bond yield	%	1.0	1.5	**1.2**	1.6	2.0
EXCHANGE RATES, YEARLY AVERAGE *						
US$/ Euro	US$	1.13	1.24	**1.23**	1.4	1.3
Yen/ US$	YEN	116	108	**107**	101	103
Yen/ Euro	YEN	131	134	**131**	138	135
COMMODITY PRICES, YEARLY AVERAGE						
Coffee (other milds)	c/lb, NY	64	79	**133**	120	105
Soybeans	c/bushel	627	750	**668**	610	570
Copper	c/lb, LME	81	130	**161**	140	122
Crude oil (WTI)	US$/b	31	42	**54**	51	48
Crude oil (Brent)	US$/b	29	39	**53**	48	45
Gold	US$/ounce	364	405	**425**	430	440

* Source: Dresdner Bank AG

f=forecast