Latin American Spotlight

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Dresdner Bank Lateinamerika AG
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LATIN AMERICA AT A GLANCE

DOMESTIC ECONOMY	GDP change in % (real)			Inflation in % (year-end)			Public sector debt in % of GDP		
	2003	2004f	2005f	2003	2004f	2005f	2003	2004f	2005f
Argentina	8.8	6.5	3.5	3.7	7.0	8.0	140	154	174
Bolivia	2.5	3.0	3.0	3.9	4.0	4.5	68	73	75
Brazil	-0.2	4.5	3.9	9.3	6.9	5.8	58	57	55
Chile	3.3	4.8	4.5	1.1	2.9	3.1	13	13	13
Colombia	3.7	4.0	3.7	6.5	6.0	6.0	56	52	50
Costa Rica	5.6	5.0	3.5	9.9	10.2	9.5	58	60	62
Dominican Republic	-0.4	-0.3	2.0	42.8	50.0	20.0	58	56	61
Ecuador	2.7	4.8	2.9	6.1	2.3	0.9	53	49	48
El Salvador	1.8	2.0	1.3	2.5	5.8	4.5	36	36	35
Guatemala	2.1	2.8	2.5	5.9	7.2	5.0	24	25	25
Honduras	3.2	3.6	3.2	6.8	8.5	8.0	66	64	56
Jamaica	2.0	2.5	2.4	14.2	12.6	9.0	145	138	132
Mexico	1.3	3.5	3.0	4.0	4.2	3.5	28	28	28
Nicaragua	2.3	3.5	3.4	6.5	8.5	6.0	289	166	150
Panama	4.1	4.8	3.5	1.0	3.0	2.2	71	70	70
Paraguay	2.6	2.5	2.5	15.0	5.0	4.5	49	45	43
Peru	4.0	4.2	4.0	1.8	4.0	3.9	48	46	45
Trinidad & Tobago	4.1	5.2	5.5	3.5	4.5	4.5	31	28	25
Uruguay	2.5	10.0	4.0	10.4	11.0	7.0	114	108	91
Venezuela	-7.6	12.8	4.5	27.1	21.0	24.0	45	35	35
Latin America (20 countries)	1.3	4.6	3.5	6.7	6.2	5.8			

EXTERNAL SECTOR FOREIGN DEBT	Current account balance in % of GDP			Import cover in months*			Gross foreign debt in % of exports*		
	2003	2004f	2005f	2003	2004f	2005f	2003	2004f	2005f
Argentina	6.2	1.2	-0.7	5.8	5.8	5.9	412	378	372
Bolivia	0.3	0.1	-1.8	3.7	3.5	3.2	253	242	240
Brazil	0.8	1.3	0.8	7.1	5.9	7.0	271	210	205
Chile	-0.8	1.9	-1.9	6.9	5.8	5.4	164	127	131
Colombia	-1.8	-1.8	-1.9	6.4	6.3	6.0	249	242	240
Costa Rica	-5.8	-3.8	-4.9	2.2	2.1	2.0	69	63	63
Dominican Republic	5.9	5.5	3.9	0.3	0.4	0.7	89	83	84
Ecuador	-1.7	-1.1	2.0	1.0	1.3	1.0	233	208	196
El Salvador	-5.0	-5.1	-4.3	3.4	2.9	2.6	156	164	163
Guatemala	-4.1	-4.7	-4.5	4.7	4.6	4.6	109	109	109
Honduras	-3.7	-6.0	-6.1	4.2	3.9	3.9	202	205	168
Jamaica	-12.0	-10.7	-10.8	2.4	3.9	3.5	104	107	103
Mexico	-1.5	-1.4	-2.0	3.5	3.5	3.2	90	80	77
Nicaragua	-34.3	-31.7	-29.7	2.7	2.9	3.5	710	382	341
Panama	-3.2	-2.4	-2.3	1.3	1.4	1.5	97	96	97
Paraguay	8.8	6.2	2.9	2.8	2.8	3.2	87	85	85
Peru	-1.8	-1.5	-1.1	9.3	8.6	8.4	279	225	220
Trinidad & Tobago	13.5	16.2	13.6	6.4	6.5	7.1	90	75	75
Uruguay	0.5	1.5	1.5	7.6	7.1	7.5	365	331	335
Venezuela	11.2	12.3	5.8	10.9	9.2	9.4	125	87	100
Latin America (20 countries)	0.4	0.5	-0.5	5.0	4.9	5.0	180	156	153

* goods and services

f=forecast

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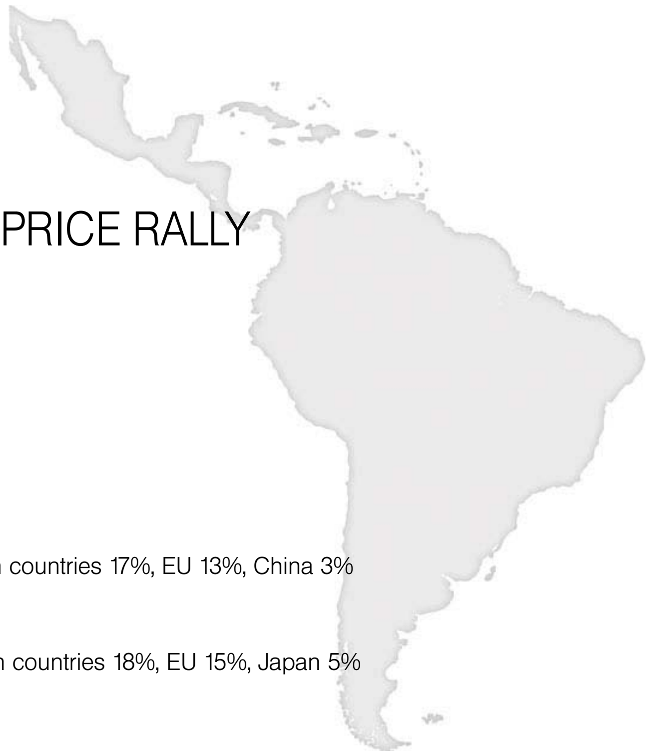
LATIN AMERICA: IMPACTS OF OIL PRICE RALLY



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

SUMMARY AND OUTLOOK

LATIN AMERICA (20 countries)		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	0.6	-0.2	1.3	4.6	3.5
GDP	US$ bn	1892	1664	1707	1871	1932
Inflation (year-end)	%	5.5	11.4	6.7	6.2	5.8
EXTERNAL SECTOR						
Merchandise exports	US$ bn	348	351	380	447	461
Merchandise imports	US$ bn	352	330	340	392	422
Trade balance	US$ bn	-3.7	21.0	40.0	54.6	39.4
Current account balance	US$ bn	-52.5	-14.9	6.3	11.0	-7.8
Current account balance	% GDP	-2.8	-0.9	0.4	0.6	-0.4
Net direct investment ***	US$ bn	71	44	30	37	38
Foreign exchange reserves, year-end	US$ bn	162	161	195	211	229
Import cover **	months	3.9	4.2	5.0	4.9	5.0
FOREIGN DEBT						
Gross foreign debt	US$ bn	744	751	786	776	794
Foreign debt	% exports**	177	181	180	156	154
Short-term foreign debt	US$ bn	118	121	143	168	179
Foreign debt amortization	US$ bn	98	97	121	126	90
Foreign debt service	US$ bn	150	142	165	170	139
Foreign debt service	% exports**	36	34	38	34	27
FINANCIAL MARKETS (year-end)						
IFCI stock index (US$ based, 2004: 09/02)		520	516	676	713	
Bond market yield spread (2004: 09/02)*	bps	692	823	431	485	

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

To many market observers, the oil price hikes in recent months evoked memories of the oil price shocks of the 1970s and 1980s, when almost all industrialized countries fell into recession and also had to contend with high inflation rates on account of oil prices. For Latin America, the price rise was a double-edged sword. While placing a burden on current accounts on the one hand, on the other it initially (in the 1970s) led to indirect benefits in the form of capital inflows (petrodollars). The combination of the two trends was an increase in the level of foreign debt, which proved to be no longer sustainable at the time of the second oil price shock in the early 1980s, which was accompanied by interest rate hikes.

It is difficult to draw historic parallels between then and today. Obviously, a substantial oil price hike will also leave footprints in the growth path of the industrialized countries even today. According to a rule of thumb, in the first year a protracted oil price hike of US$ 10 costs the industrialized countries 0.5 percentage points' growth. For the Latin American region, however, the decisive difference lies in the fact that it has doubled its oil production capacity since the mid-1970s to approx. 10 million barrels per day, making most Latin American countries net oil exporters today; in addition, their vulnerability via the external sector no longer applies. In addition, the expansion of production capacities means that the public-sector budgets are benefiting from the oil price boom. In Mexico, a third of the public-sector budget is being financed by revenues generated by the oil sector, and in Venezuela it is half. Revenues are used - at least partly – to lower the level of foreign debt.

However, if the oil price hike continues and growth in the industrialized countries should undergo an appreciable decline, most Latin American countries will not be able to escape the effects. Mexico in particular, which exports 90% of its goods to the U.S., will be directly impacted. However, Brazil and Argentina will also have to deal with shortfalls in growth, especially since a global economic slowdown is also likely to be accompanied by a decline in prices of agricultural produce. The winners of such a scenario would be Venezuela and Ecuador, whose dependence on oil still is very strong today.

The scenario described above does not represent our base scenario. While we assume that oil prices will remain at their current high level, we do not anticipate an oil crisis. Accordingly, the positive factors of the oil price boom predominate, and the region will record 4.6% growth this year. Venezuela will probably see the strongest growth at 10.x%, Brazil will be somewhere in the middle at 4.5%, and Mexico – with 3.5% growth – will tend to be closer to the bottom end of the scale.

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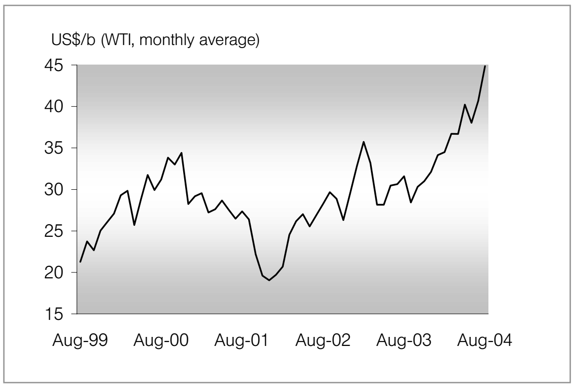
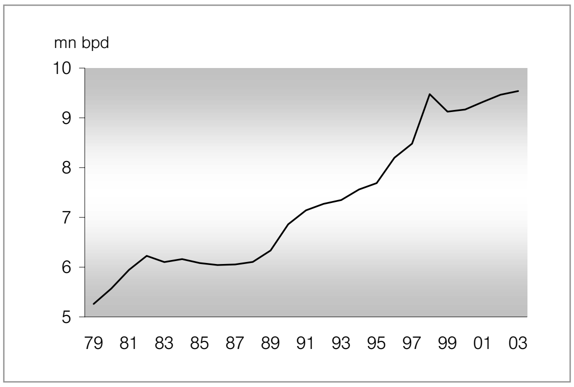
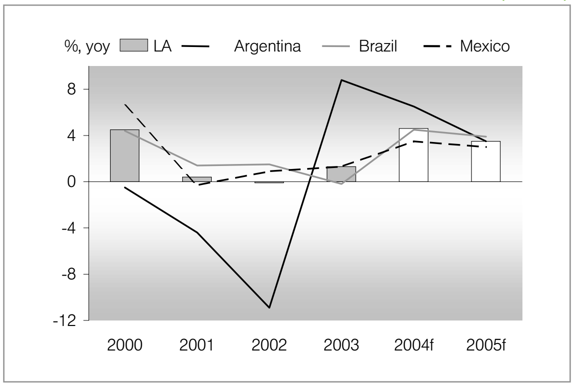
OIL PRICES



OIL PRODUCTION, LATIN AMERICA



GDP CHANGE (REAL)



ARGENTINA: IMF TALKS SUSPENDED

Area	2 736 700 sq. km
Population (2003)	38.4 million (+1.1% p.a.)
State president	Néstor Kirchner
Economy minister	Roberto Lavagna
Central bank president	Alfonso de Prat-Gay
Next elections	Congress October 2005 President: October 2007
GDP per capita	US$ 3 300 (2003)
Investment	15,4% of GDP (2003)
Savings	13,8% of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	23% of GDP
Purchasing countries	EU 20%, Mercosur 19%, Asean 17%, NAFTA 14%
Products	Primary goods and crude oil 40%, Processed agricultural produce 34%, Industrial goods 26%
Imports of goods (2003)	12% of GDP
Supplier countries	Mercosur 37%, EU 20%, NAFTA 19%
Products	Capital goods 34%, intermediate goods 46%, Consumer goods 20%
Rating:	Moody's: Caa1 S&P: SD

SUMMARY AND OUTLOOK

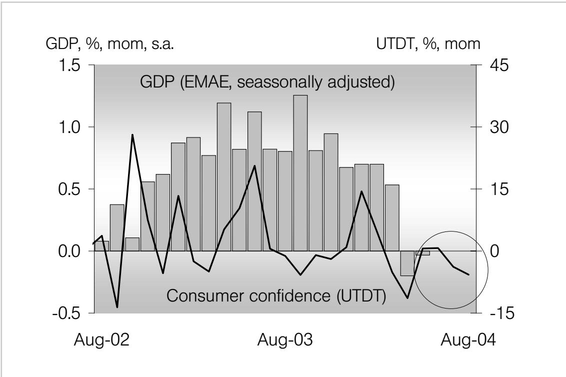
Almost three years after defaulting on its debt, Argentina will soon be making its bond creditors an offer to restructure the country's bonds. Whereas the original offer saw an appreciable improvement, the net present value loss of approx. 75% still being claimed at present is disproportionately high. As a result, the level of participation in the restructuring program is expected to turn out low, raising the danger that it will not result in a sustained relief as far as the country's debt situation is concerned. The IMF has adopted a wait-and-see stance, accepting the suspension of talks on the overdue third revision of the current IMF agreement until the debt rescheduling has been finalized. In doing so, the Fund saved the country the need for negotiations concerning a fixing of new fiscal targets. In view of the country's high primary surpluses, such negotiations would probably have revealed that Argentina certainly is in a position at present to submit a debt rescheduling proposal less burdensome to its creditors. The eased budget situation is attributable to the (still) high level of economic growth. We continue to expect GDP growth of 6.5% for the current year.

ANNUAL FIGURES AND FORECASTS

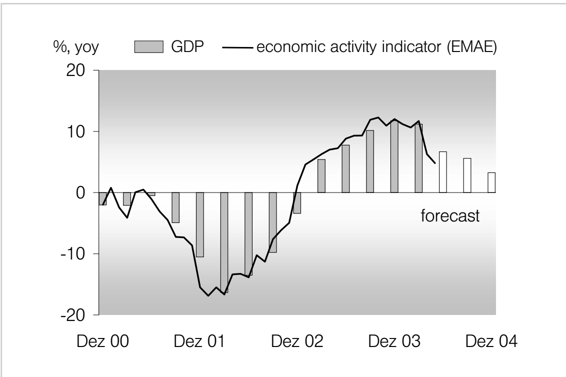
ARGENTINA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	-4.4	-10.9	8.8	6.5	3.5
GDP	US$ bn	268.9	99.1	127.3	143.1	150.2
Inflation (year-end)	%	-1.5	41.0	3.7	7.0	8.0
Inflation (average)	%	-1.1	25.9	13.4	4.6	7.9
PUBLIC SECTOR						
Budget balance, central government	% GDP	-3.2	-1.4	0.6	2.4	1.4
Budget balance, public sector	% GDP	-5.4	-1.8	1.3	3.1	2.0
Public debt*	% GDP	53.7	138.6	140.5	154.0	174.3
Amortization*	US$ bn	11.9	17.9	19.8	19.8	14.2
Gross financing needs	US$ bn	20.4	19.2	19.1	16.3	12.1
EXTERNAL SECTOR						
Merchandise exports	US$ bn	26.7	25.7	29.6	32.3	33.6
Merchandise imports	US$ bn	19.1	9.5	14.7	22.4	26.4
Trade balance	US$ bn	7.6	16.2	14.9	10.0	7.2
Current account balance****	US$ bn	-4.0	9.6	7.9	1.7	-1.0
Current account balance****	% GDP	-1.5	9.7	6.2	1.2	-0.7
Net direct investment	US$ bn	4.1	1.7	-0.3	0.0	1.5
Foreign exchange reserves, year-end	US$ bn	14.6	10.5	14.1	18.5	21.0
Import cover **	months	4.3	5.6	5.8	5.8	5.9
US$ exchange rate, year-end	Pesos	1.00	3.37	2.93	3.09	3.24
US$ exchange rate, average	Pesos	1.00	3.15	2.95	2.96	3.15
FOREIGN DEBT *						
Gross foreign debt	US$ bn	140	136	147	152	155
Foreign debt	% exports**	385	426	412	378	372
Short-term foreign debt	US$ bn	16.8	23.8	39.7	60.0	69.0
Foreign debt amortization	US$ bn	22.3	19.7	30.5	22.5	16.3
Foreign debt service	US$ bn	36.5	29.6	40.1	32.3	26.3
Foreign debt service	% exports**	100.4	93.0	112.3	80.3	63.2
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	340.0	7.5	2.0	3.0	5.0
Merval stock index (peso based, 2004: 09/02)		209	525	922	976	
IFCI stock index (US$ based, 2004: 09/02)		379	265	502	598	
Bond market yield spread (2004: 09/02)***	bps	4404	6229	6463	5158	

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

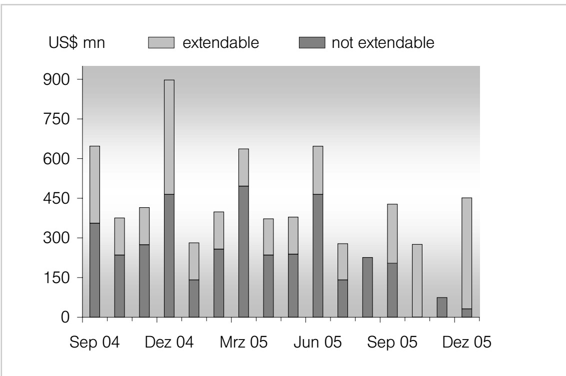
CONSUMER CONFIDENCE & GDP



GDP & ECONOMIC ACTIVITY INDICATOR



MATURITIES OF IMF LOANS



Public finances: moment of truth approaching

Following the approval of debt rescheduling provisions by foreign supervisory authorities anticipated by the end of September this year, Argentina will finally make its bond creditors a debt rescheduling proposal. Even though the offer has been substantially improved, with net present value losses no longer amounting to 90% but presumably around 75%, the offer nevertheless remains quite unattractive compared with other debt rescheduling programs (Uruguay: 15%, Russia: 30%). Participation in the bond restructuring therefore is not expected to be high. Historical comparisons indicate that in the interests of a sustained rescheduling solution, participation by approx. 90% of all creditors would be necessary. Seven months ago, official Argentinean agencies expressed their intention of achieving a participation of at least 50%.

Creditors have been calling for an improvement to Argentina's rescheduling offer perhaps especially because the country's budget situation remains quite comfortable. In the period from January to August, tax receipts were up by 42% year-on-year. Primary spending (excluding interest payments) rose 20% year-on-year in the same periode. The primary surplus reached 13.5 billion pesos in the first seven months, already exceeding the target agreed with the IMF for the year as a whole by 3.5 billion pesos. We assume that the government will step up expenditure significantly in the remaining months of this year. In addition to the impetus to economic activity from higher government spending, the primary surplus reduced in the process should also be welcome since it is likely to improve Argentina's negotiating position in discussions with the IMF and bondholder associations concerning the country's ability to service its debt. Nevertheless, the central government's primary surplus will presumably reach approx. 4% of GDP this year. In conjunction with the probable primary surpluses generated by the provinces, this would result in a figure of 4.8% – far more than the hitherto agreed target of approx. 3% of GDP.

In view of the trend regarding the primary surplus, it is hardly surprising to note that Argentina only intends to resume talks with the IMF once the attempt at rescheduling government bonds has been concluded. Otherwise, a discussion of higher primary surplus targets and a higher level of debt service would have been inevitable. The IMF has agreed to a suspension of the talks and is also likely to shortly approve the reduction of Argentina's payments to the IMF from US$ 2.5 billion to US$ 1.5 billion until the end of this year. Contrary to its past strategy, Argentina is prepared for the time being to make payments to the IMF even though the latter will make no disbursements since the third revision of the current agreement has still not been approved.

Economic activity: poor second quarter

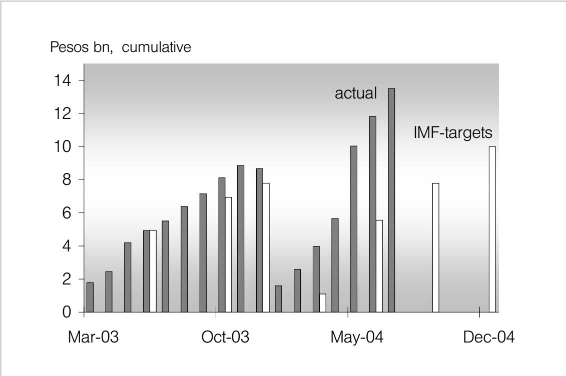
The monthly EMAE economic activity indicator shows that the high level of economic growth recorded in the first quarter (11.2% year-on-year) almost halved in the second quarter, to just over 6%. Following the decline in GDP growth in the second quarter probably largely attributable to declining inventories, we expect slightly higher quarter-on-quarter growth rates (s.a.) in the course of the second semester again. For the year as a whole, our growth forecast remains at 6.5%.

Net exports (exports less imports, in real terms) remain positive but have been declining continually since the beginning of 2003 since imports have been rising more sharply than exports in absolute terms. The principal cause of the slowdown in GDP growth in the current year is the weaker growth of consumption. From February to August of this year, consumer confidence saw a 23% decline, which is also likely to reflect a slight weakening of the Kirchner government's popularity, which nevertheless remains high. Above all, the population is dissatisfied with the increasing crime rate and what is perceived as slack reaction to road blocks being set up by a protest movement known as "Piqueteros". Another sobering fact is that the recovery on the labor market has slowed down. The unemployment ratio, which declined steadily from 20.4% to 14.5% in the course of last year, only underwent a minimal reduction in the first quarter of this year. In view of the increasing degree of capacity utilization (which was in the region of 71.7% in July 2004, up from 65.6% at the beginning of the year), an appreciable increase in the level of employment now calls for investments to be made. However, despite high growth rates, the level of investment activity is too low. Due to limited financing alternatives both at home and abroad and to the country's uncertain medium-term economic outlook, this is likely to remain the case for some time. To boost private consumption, the government has already raised the level of pensions (+10% in August of this year) along with public-sector wages (second quarter: +2.7%). Now the minimum wage in the private sector is to be raised, which is likely to result in an increased shift toward the informal sector, however, where wages have already declined 3.1% in the second quarter of this year according to official polls taken.

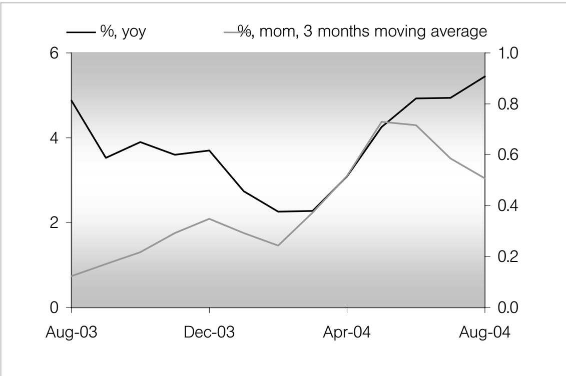
Monetary sector: inflation rising steadily

The wave of substantial price hikes in evidence for about half a year now is likely to continue in the forthcoming months. Due to increasing production bottlenecks and wage increases, the monthly inflation rate should remain at a level of just over 0.5% for the rest of the year. Year-on-year, this will mean an increase in the inflation rate from 5.2% in

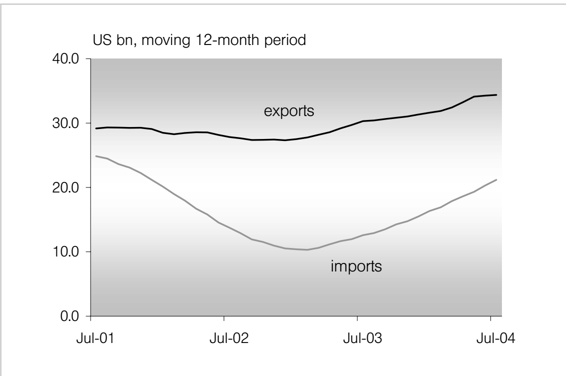
PRIMARY SURPLUS & IMF TARGETS



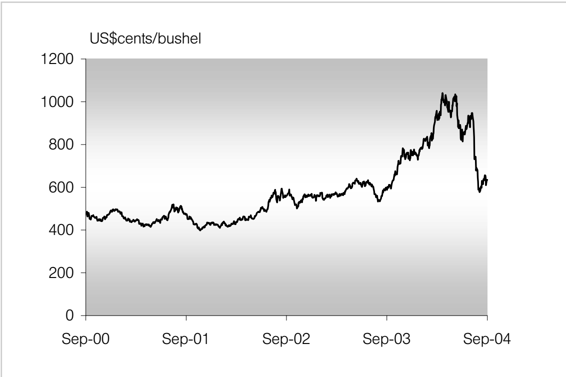
INFLATION



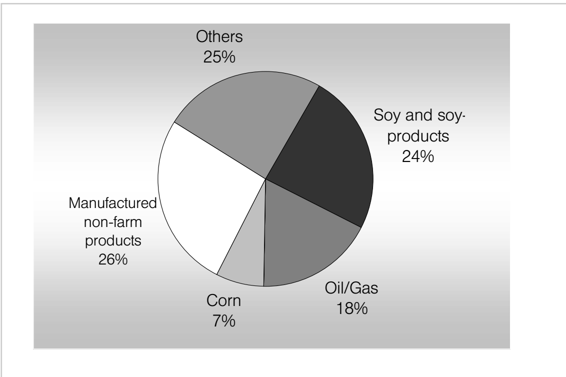
EXTERNAL TRADE



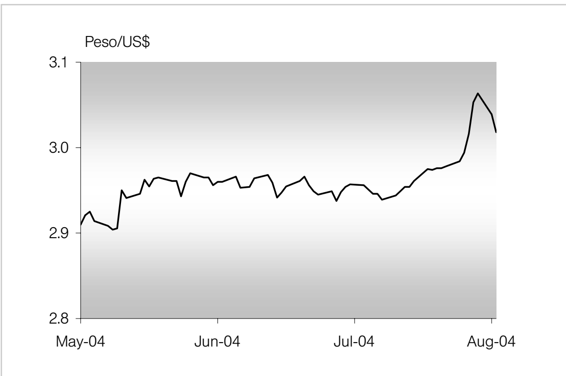
SOY PRICES



EXPORT STRUCTURE



EXCHANGE RATE



August to 7% at the end of the year. The central bank's monetary policy remains expansionary in nature. Interest rates on the central bank's short-term debt instruments most recently were even negative in real terms. The central bank currently perceives interventions on the foreign exchange market as its primary instrument to control money supply growth. The central bank has been buying dollars on the forex market even in the most recent phase of the peso's depreciation, thus giving the market peso liquidity. We believe a reduction of the relatively high inflation rate in the forthcoming year is unlikely as the central bank will probably find it difficult to initiate a more restrictive monetary policy in light of the anticipated slowdown in growth.

The banking sector, whose functions as a financial intermediary had all but evaporated since the economic crisis of 2002, is back with fresh initial signs of life. After deposits had risen substantially last year and have meanwhile reached just under 100 billion pesos, in the current year lending to private individuals picked up again, especially in the second quarter. However, while the volume of lending in August, at just over 31 billion pesos, was 16% up on the level of the beginning of this year, this is equivalent to only 7% of GDP (compared with 22% of GDP in 2002).

External sector: windfall profits

Argentina's export sector continues to benefit from high commodity prices for its predominantly agricultural products. This applies in particular to soya, which – including processed products – accounts for roughly one quarter of Argentina's total exports. Despite a significant decline in soya prices since mid-2004, the average price for 2004 as a whole should be just about 30% higher year-on-year. The country has witnessed a similarly positive impact of the high oil price (share of total exports accounted for by crude oil in 2003: 18%). Although a short-term expansion in production is unlikely to be possible in many instances, it is disappointing that the increase in exports in the period from January through July (+12%, year-on-year) is solely attributable to higher prices (+13%) and that the volume of exports actually declined, by 1%. However, high commodity prices on their own will not be sufficient to compensate for fast-growing import demand (January-July: +69%). Accordingly, the trade surplus in the current year, at approx. US$ 10 billion, will turn out a third lower than in the previous year. Accordingly, the current account surplus will decline from 6.2% of GDP last year to 1.2% of GDP for 2004 as a whole.

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ARGENTINA: MONTHLY INDICATORS		May-04	Jun-04	Jul-04	Aug-04	next/latest
DOMESTIC ECONOMY						
Economic activity indicator, EMA	% yoy	4.8	7.4			22-Sep
Economic activity indicator, EMA (season. adjust.)	% mom	0.9	0.4			22-Sep
Industrial production	% yoy	11.3	11.5	9.8		16-Sep
Industrial production (seasonally adjusted)	% mom	2.3	0.8	-0.2		16-Sep
Construction	% yoy	22.9	29.0	17.6		27-Sep
Construction (seasonally adjusted)	% mom	5.4	-1.1	0.2		27-Sep
Consumer confidence (UTDT)	% mom	0.6	0.7	-3.8	-5.7	9-Sep
Supermarket sales (real, seasonally adjusted)	% yoy	11.4	6.8	7.3		29-Sep
Supermarket sales (real, seasonally adjusted)	% mom	0.0	-2.1	0.9		29-Sep
Tax revenues	% yoy	71.4	46.1	36.0	39.9	1-Oct
Budget balance	Pesos mn	3824	1513	1453		29-Sep
Primary balance	Pesos mn	4375	1799	1653		29-Sep
Consumer prices	% yoy	4.3	4.9	4.9	5.2	5-Oct
Consumer prices	% mom	0.7	0.6	0.5	0.3	5-Oct
Wholesale prices	% yoy	1.3	0.2	1.0	2.5	5-Oct
Overnight peso rate (month-end; latest: 09/03)	%	3.7	2.6	2.5	2.6	2.5
Peso deposits (month-end)*	Peso bn	92.1	95.3	96.5	97.8	
EXTERNAL SECTOR						
Merchandise exports	US$ mn	3350	2907	2992		28-Oct
Merchandise exports	% yoy	20	1	6		28-Oct
Merchandise imports, cif	US$ mn	1779	2025	1957		28-Oct
Merchandise imports	% yoy	64	77	55		28-Oct
Trade balance	US$ mn	1571	882	1035		28-Oct
Foreign exchange reserves (latest: 09/01)	US$ bn	16.7	17.4	18.1	18.1	18.1
US$ exchange rate (latest: 09/06)	Pesos	2.97	2.96	2.98	3.00	3.00

ARGENTINA: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next /latest
DOMESTIC ECONOMY						
GDP (seasonally adjusted)	% qoq	3.4	3.0	1.7		17-Sep
GDP	% yoy	10.2	11.7	11.2		17-Sep
Private consumption	% yoy	10.4	11.9	11.7		17-Sep
Public consumption	% yoy	1.8	0.3	1.4		17-Sep
Private and public investment	% yoy	44.9	48.9	51.0		17-Sep
Domestic demand	% yoy	13.4	15.4	15.3		17-Sep
Export (goods and services)	% yoy	5.4	5.5	7.7		17-Sep
Import (goods and services)	% yoy	46.2	51.7	57.0		17-Sep
Budget balance, central government	Pesos mn	382	-1	3982	6667	29-Oct
Public debt***	US$ bn	169.6	178.8			
EXTERNAL SECTOR						
Current account balance	US$ bn	1.7	1.0	0.4		20-Sep
Net foreign direct investment	US$ bn	-0.1	0.5	0.7		20-Sep
Net portfolio investment	US$ bn	-0.7	-2.6	-3.5		20-Sep
Capital account**	US$ bn	-0.5	-0.4	0.5		20-Sep
Change in foreign reserves #	US$ bn	-1.2	-0.6	-0.9		20-Sep
Gross foreign debt	US$ bn	142.3	147.0	147.3		20-Sep
Short-term foreign debt	US$ bn	35.7	39.7	45.5		20-Sep

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

BRAZIL: UPGRADE!

Area	8 511 965 sq. km	
Population	178 million (+1.4% p.a.)	
State president	Luíz Inácio Lula da Silva	
Finance minister	Antonio Palocci Filho	
Central bank president	Henrique Meirelles	
Next elections	State president: 2006 Parliament: 2006	
GDP per capita	US$ 2 764 (2003)	
Investment	19% of GDP (2002)	
Savings	17% of GDP (2002)	
Exchange rate system	Flexible exchange rate	
Monetary policy	Inflation targeting	
Exports of goods (2003)	15% of GDP	
Purchasing countries	USA 23%, EU 25%, ALADI 18%, Asia 16%	
Products	Manufactured goods 54%, Primary products 30%, Semi-manufactured products 15%	
Imports of goods (2003)	10% of GDP	
Supplier countries	EU 26%, USA 20%, ALADI 17%, Asia 19%	
Products	Primary products and inputs 53%, Capital goods 21%, consumer goods 12%, Crude oil 14%,	
Rating:	Moody's: B1	S&P: B+

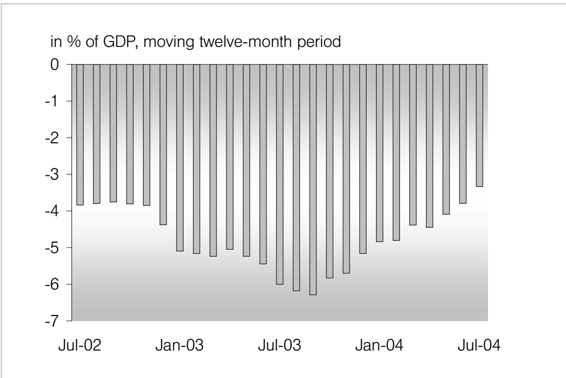
SUMMARY AND OUTLOOK

Brazil's economic upturn is on firm ground. In the first semester, economic growth amounted to 4.2% year-on-year. We now project +4.5% for the year as a whole (previously: +3.5%). The robust economy is exerting a positive impact on the public finance situation. The budget deficit will be at 3% of GDP in 2004 and thus substantially lower than in the previous year. At the same time, public-sector debt in relation to GDP will "only" amount to 55% of GDP at year-end (December 2003: 58% of GDP). The strong economic growth is being accompanied by a sustained export boom which will result in a current account surplus of 1.6% of GDP this year. Foreign debt in relation to exports is also declining as a result, which – combined with other positive trends – recently induced the rating agency Moody's to upgrade Brazilian bonds. The favorable macro-economic situation will greatly benefit the government in light of the forthcoming nationwide municipal elections on October 3. It is assumed that overall, the government will gain some territory even though the PT might lose some major cities.

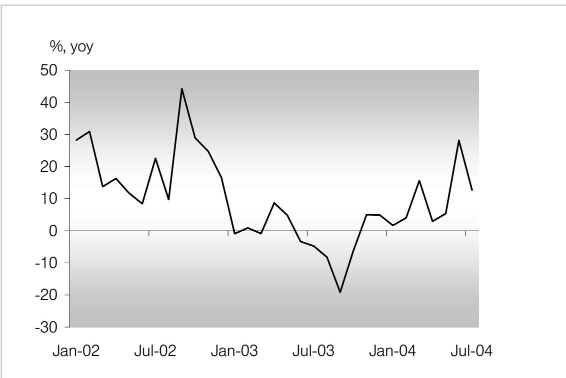
BRAZIL		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.4	1.5	-0.2	4.5	3.9
GDP	US$ bn	505	452	492	558	573
Inflation (year-end)	%	7.7	12.5	9.3	6.9	5.8
Inflation (average)	%	6.8	8.5	14.7	6.5	6.0
PUBLIC SECTOR						
Budget balance, central government	% GDP	-2.1	-0.8	-3.4	-2.0	-1.9
Budget balance, public sector	% GDP	-3.6	-4.7	-5.2	-3.1	-2.5
Public debt (net)	% GDP	53.3	56.5	58.2	56.6	55.2
Amortization external debt	US$ bn	n.a.	8.6	22.1	14.1	16.1
Amortization domestic federal debt*	US$ bn	84	53	72	66	56
EXTERNAL SECTOR						
Merchandise exports	US$ bn	58.2	60.4	73.1	91.4	95.8
Merchandise imports	US$ bn	55.6	47.2	48.3	59.3	64.6
Trade balance	US$ bn	2.6	13.2	24.8	32.1	31.2
Current account balance	US$ bn	-23.2	-7.7	4.1	7.5	4.5
Current account balance	% GDP	-4.6	-1.7	0.8	1.3	0.8
Net foreign direct investment	US$ bn	22.6	16.6	10.1	9.5	14.0
Foreign exchange reserves, year-end	US$ bn	35.7	37.8	50.9	50.1	63.8
Import cover **	months	4.5	5.4	7.1	5.9	7.0
US$ exchange rate, year-end	Reais	2.32	3.53	2.89	3.10	3.35
US$ exchange rate, average	Reais	2.33	2.90	3.08	3.02	3.24
FOREIGN DEBT						
Gross foreign debt	US$ bn	226	228	235	222	226
Foreign debt	% exports**	319	311	271	210	205
Short-term foreign debt	US$ bn	27.6	22.8	25.0	27.0	26.0
Foreign debt amortization	US$ bn	35.2	38.9	44.3	52.1	39.5
Foreign debt service	US$ bn	52.8	54.2	60.0	67.4	54.3
Foreign debt service	% exports**	75	74	69	64	49
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	19.0	24.9	16.3	16.5	13.8
Bovespa stock index (real based, 2004: 09/02)		13577	11268	22236	22688	
IFCI stock index (US$ based, 2004: 09/02)		288	214	439	445	
Bond market yield spread (2004: 09/02)***	bp	870	1439	463	519	

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

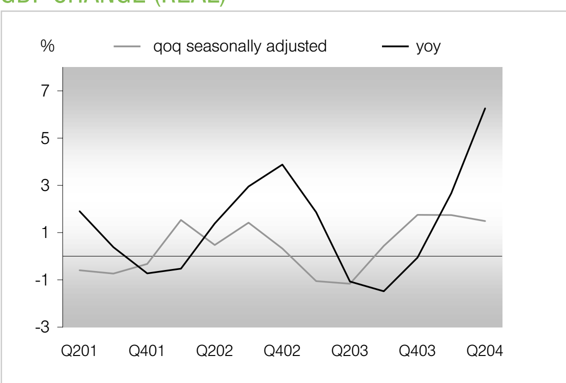
BUDGET BALANCE



TAX REVENUES



GDP CHANGE (REAL)



Domestic policy: municipal elections taking center stage

Nationwide municipal elections are scheduled to be held on October 3. Voters in roughly 5600 municipalities will be choosing mayors and local parliaments. The Lula government will attempt to extend its influence. The main focus of the ruling party PT will be on Brazil's 90 major cities, also to give itself a good head start in the 2006 presidential elections.

One of the issues is whether and how its stronghold in cities like Porto Alegre and São Paulo, for instance, can be maintained. São Paulo is currently governed by Marta Suplicy (PT), who will be challenged by José Serra, the former presidential candidate of the PSDB. The improved economic situation which, according to recent opinion polls, impacted very positively on the president's popularity rating, provides the government with a good starting position although in many cases the election campaign will be dominated by local issues. Regardless of this, it is almost certain that the major reform packages such as the tax reform, the reform of the judicial system as well as the central bank's independence will only be pursued in earnest after the run-off elections in November.

Public Finance: abundant flow of revenues

The strong economy is clearly making an impact on the public-sector budget. In the period from January through July of 2004, the central government's tax revenues rose 9% year-on-year in real terms. Against this backdrop, it comes as no surprise that the public sector generated a primary surplus (budget balance before interest payments) of 53 billion reais (5.6% of GDP) during the same period, which means that the target agreed with the IMF for end-September has now almost been reached. In addition, the lower level of domestic interest rates will have a positive influence on the budget. In the first seven months, interest payments were 20% lower than in the same period of the previous year. Accordingly, the budget deficit also fell from 5.1% to 2.1% of GDP during this period. Against this backdrop, it was possible to reduce public-sector net debt, which still stood at 58% of GDP at the end of 2003, to 55.3% of GDP in July.

Since the economy will, in our view, remain on a sustained growth path we anticipate that government revenues will continue to register solid growth and that the next few years will see a steady decline in public-sector debt. A beneficial factor in this regard is that the sensitivity of public-sector debt to exchange rate shocks has declined significantly because the share of public domestic debt accounted for by dollarindexed instruments has been reduced by more than half since 2002, to 14%. In the medium term, we project that the declining trend in public-sector debt will continue; it ould drop below 50% of GDP in 2008 at the latest.

Economic activity: upturn across the board

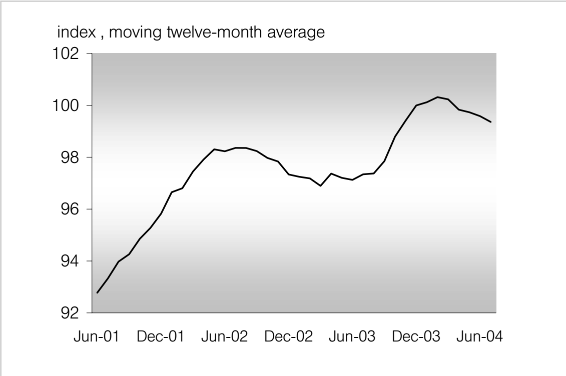
In the second quarter, the Brazilian economy expanded for the fourth time in succession. Seasonally adjusted, this resulted in a quarter-on-quarter growth rate of 1.5% (5.7% year-on-year). The upturn is spreading across the board. Private consumption, which had dropped by 3.3% last year, expanded by 1.5% quarter-on-quarter. This positive trend is reflected in the substantial growth rate of the services sector (2.5% quarter-on-quarter). Investments have also picked up significantly. Exports of goods and services grew by 2.25% (quarter-on-quarter). However, both investments and exports are showing signs of a slowdown in the pace of expansion. While this was to be expected from exports following their protracted boom (it being more remarkable that the increase is still that high), the slump in investment growth does come as a surprise. This is because industry is operating near full production capacity and the inadequate extension of infrastructure (roads and ports) is impeding exports. Financing terms on both the national and international capital market improved at the same time. Accordingly, the way has been paved for a further expansion of investment activities. This will also be the prerequisite for further growth in industrial production (manufacturing industry: +3.3% quarter-on-quarter). While the agricultural sector continues to produce at a high level, it was unable to keep expanding in the second quarter (-0.3% quarter-on-quarter), but this by no means suggests that the booming development of this sector has reached a trend reversal; it merely reflects the high volatility in this sector.

Private consumption and investments will be the mainstays of the economic upturn in the quarters ahead. We believe this upturn to be self-sustaining since employment and real wages are on their way to recovery. We project a considerable decline in export growth (2004: +16%; 2005: +6%) while the demand for imports will even accelerate initially compared to the second quarter (+1.6% quarter-on-quarter). For the year as a whole, we expect the economy to grow by 4.5% (previously: 3.5%), and this rate is likely to weaken to 3.9% in 2005.

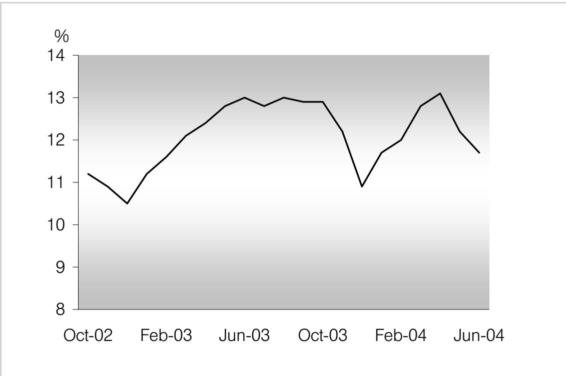
Monetary sector: interest rate hike imminent

Whereas the markets had until recently been speculating on a further interest rate cut, the situation has now changed. Steadily rising

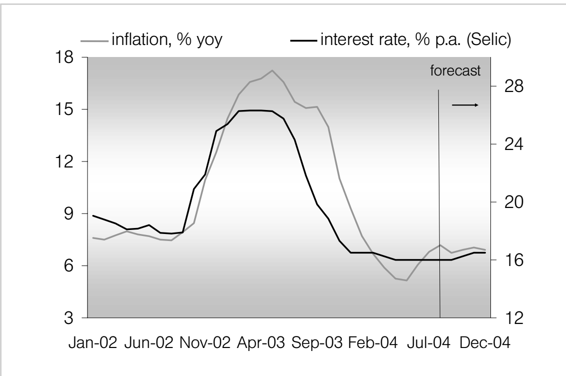
INDUSTRIAL PRODUCTION



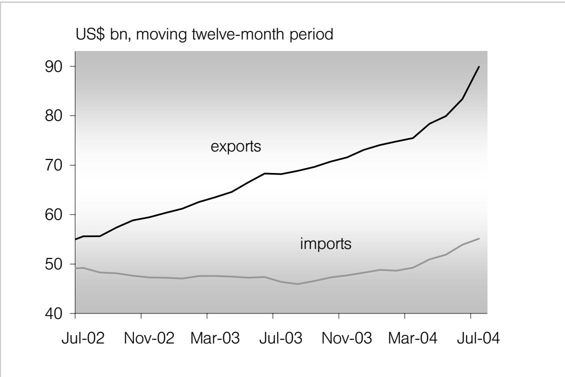
UNEMPLOYMENT RATE



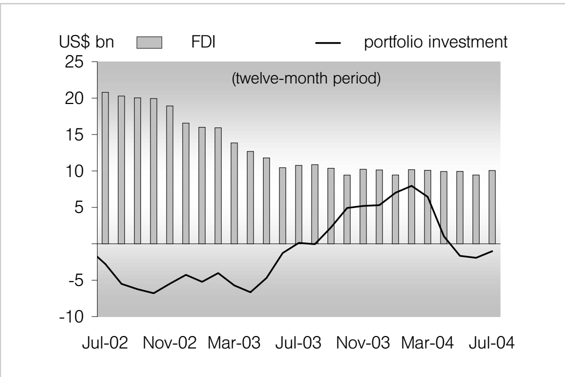
INFLATION AND INTEREST RATES



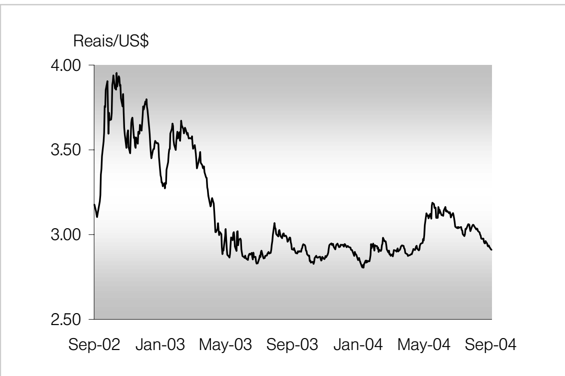
FOREIGN TRADE



CAPITAL BALANCE



EXCHANGE RATE



inflationary expectations and the likely failure to meet this year's inflation target (the inflation rate should be in the region of 6.9% in December, up from its original target of 5.5%) along with the industry's high capacity utilization should induce the central bank to tighten its monetary policy again as early as this month. Meanwhile, the political resistance to an interest rate hike should be much lower than it was at the beginning of the year since the economy is now so robust that a moderate increase in interest rates will hardly have a significant impact (forecast for the overnight interest rate at year-end: 16.5%).

External sector: why are foreign currency reserves shrinking?

For two years now, exports have been booming. Although imports are beginning to follow suit, trade surpluses have repeatedly peaked at new record levels lately. The trade surplus is likely to reach US$ 33 billion for 2004, almost US$ 10 billion up on the previous year. This will have a positive effect on the current account, which is likely to show a surplus of approx. US$ 9 billion (1.6% of GDP). Nevertheless, foreign currency reserves dropped from their high of US$ 53.2 billion in January to US$ 49 billion in August. For one thing, this was due to massive portfolio investments being made abroad (in the period from January through July, net portfolio investments amounted to -US$ 4 billion). At the same time, companies are reluctant to refinance their debts falling due and prefer to reduce them instead. Until July, only 68% of maturing loans were renewed (in July, only 30%). We assume that the portfolio capital outflow will be reversed over the next few months, that direct investments will recover (the July figures are already a clear indication) and that this will also enable the central bank to intervene more intensely and rebuild its foreign currency reserves. We expect the level of reserves to be in the region of US$ 50 billion by year-end.

This argumentation suggests that the exchange rate will remain relatively stable over the next few months. The central bank will counter any upward pressure with interventions, with two key objectives in mind: namely to maintain the competitiveness of exporters and to reduce the country risk (for the assessment of which foreign currency reserves are of vital importance); (forecast for the exchange rate at year-end: 3.10 reais/US$).

In this context, the declining trend in foreign debt is also noteworthy as it is likely to decline to roughly 200% of visible and invisible exports (2003: 212%) as early as next year. The rating agency Moody's reacted already to this positive trend and upgraded Brazilian bonds accordingly, making it easier for Brazilian enterprises to raise financing on the international capital market.

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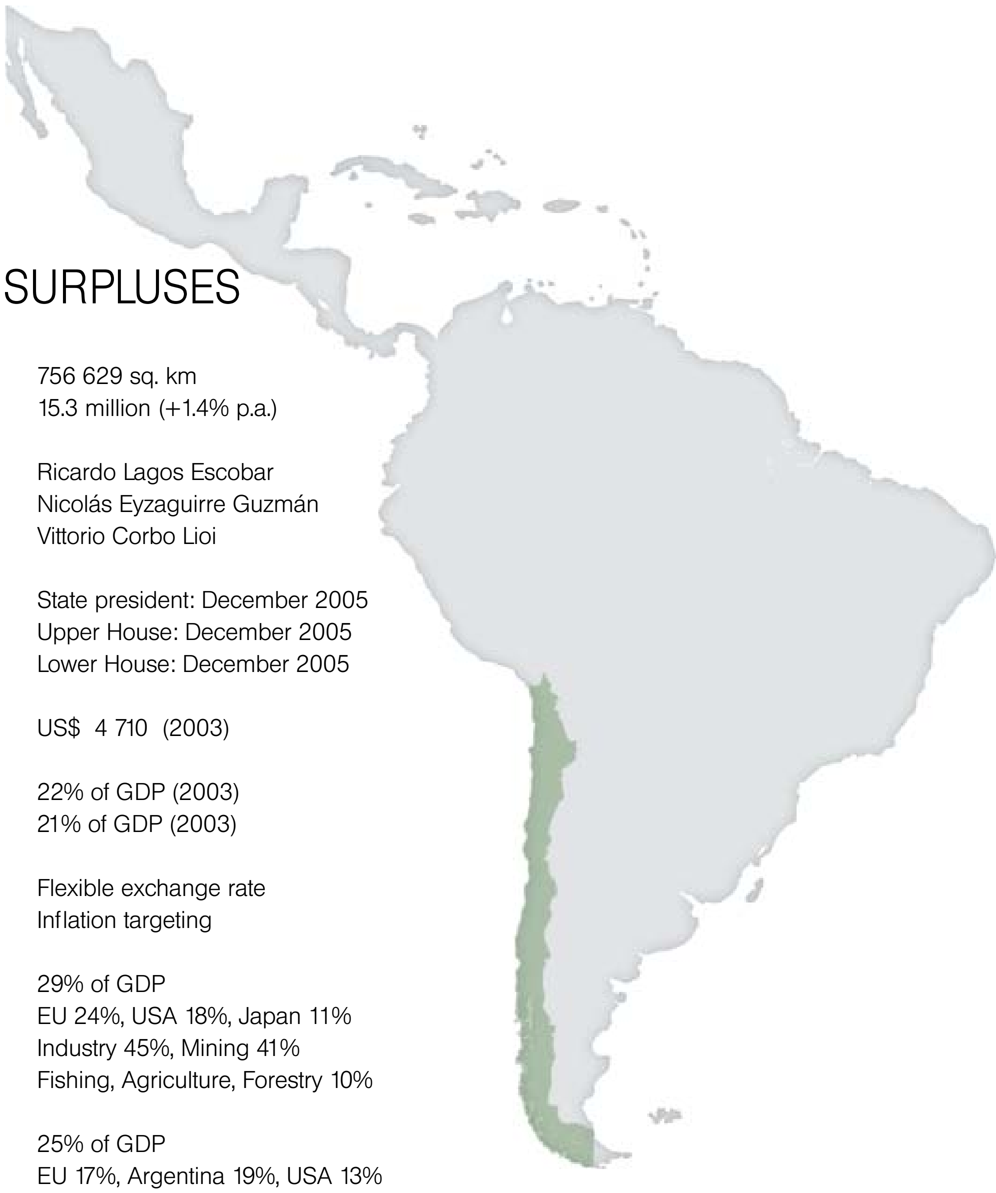
BRAZIL: MONTHLY INDICATORS		May-04	Jun-04	Jul-04	Aug-04	next/latest
DOMESTIC ECONOMY						
Public sector primary balance (ytd)	% of GDP	5.9	5.8	**5.6**		22-Sep
Public sector balance (ytd)	% of GDP	-2.1	-2.0	**-2.1**		22-Sep
Central government tax revenues	% yoy	5.3	28.2	**12.7**		14-Sep
Capacity utilization (CNI)	%	81.6	83.3			27-Sep
Industrial production (IBGE)	% yoy	7.8	13.0			9-Sep
Retail sales (IBGE)	% yoy	10.8	12.8			17-Sep
Unemployment rate (IBGE)	%	12.2	11.7	**11.2**		23-Sep
Consumer prices IPCA	% yoy	5.2	6.1	**6.8**		10-Sep
Consumer prices IPCA	% mom	0.5	0.7	**0.9**		10-Sep
Interbank interest rate (latest: 09/02)*	%	15.8	15.8	**15.8**	**15.9**	**15.9**
EXTERNAL SECTOR						
Merchandise exports	US$ mn	7941	9327	**8992**	**9056**	1-Oct
Merchandise exports	% yoy	24.6	58.8	**47.3**	**41.4**	1-Oct
Merchandise imports	US$ mn	4823	5517	**5512**	**5623**	1-Oct
Merchandise imports	% yoy	25.1	56.7	**36.1**	**50.7**	1-Oct
Trade balance	US$ mn	3118	3810	**3480**	**3433**	1-Oct
Current account balance	US$ mn	1478	2058	**1814**		22-Sep
Net foreign direct investment	US$ mn	207	737	**1600**		22-Sep
Foreign exchange reserves (latest:09/02)*	US$ bn	50.5	49.8	**49.7**	**49.7**	**49.5**
US$ exchange rate (latest: 09/02)*	Reais	3.13	3.11	**3.04**	**2.93**	**2.94**

BRAZIL: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	-1.5	-0.1	2.7	**5.7**	30-Nov
GDP (s.a.)	% qoq	0.5	1.4	1.7	**1.5**	30-Nov
Private consumption	% yoy	-3.7	-0.6	1.0	**5.0**	30-Nov
Public consumption	% yoy	0.9	0.7	1.3	**1.3**	30-Nov
Private and public investment	% yoy	-9.1	-5.0	2.0	**11.6**	30-Nov
Exports of goods and services	% yoy	3.7	10.1	19.5	**16.5**	30-Nov
Imports of goods and services	% yoy	-5.5	10.0	11.2	**14.1**	30-Nov
Agriculture	% yoy	-2.8	4.8	6.4	**5.0**	30-Nov
Industry	% yoy	-1.6	-1.7	2.9	**6.6**	30-Nov
Services	% yoy	-0.8	0.3	1.2	**4.4**	30-Nov
Public debt (net)	% of GDP	57.8	58.2	57.4	**56.0**	29-Oct
EXTERNAL SECTOR						
Current account balance	US$ bn	3.3	0.3	1.7	**2.8**	21-Oct
Net foreign direct investment	US$ bn	3.0	3.7	2.7	**1.3**	21-Oct
Portfolio investment	US$ bn	-0.3	1.7	2.4	**-6.1**	21-Oct
Capital account **	US$ bn	0.9	-5.0	0.0	**0.8**	21-Oct
Change in foreign exchange reserves #	US$ bn	-4.2	4.7	-1.7	**-1.4**	21-Oct
Gross foreign debt	US$ bn	237	238	235		22-Sep
Short-term foreign debt	US$ bn	18.9	20.2	20.2		22-Sep

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



CHILE: RECORD SURPLUSES

Area	756 629 sq. km
Population	15.3 million (+1.4% p.a.)
State president	Ricardo Lagos Escobar
Finance minister	Nicolás Eyzaguirre Guzmán
Central bank president	Vittorio Corbo Lioi
Next elections	State president: December 2005
	Upper House: December 2005
	Lower House: December 2005
GDP per capita	US$ 4 710 (2003)
Investment	22% of GDP (2003)
Savings	21% of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	29% of GDP
Purchasing countries	EU 24%, USA 18%, Japan 11%
Products	Industry 45%, Mining 41%
	Fishing, Agriculture, Forestry 10%
Imports of goods (2003)	25% of GDP
Supplier countries	EU 17%, Argentina 19%, USA 13%
Products	Capital goods 19%, consumer goods 17%, fuel and lubricants 16%
Rating:	Moody's: Baa1 S&P: A

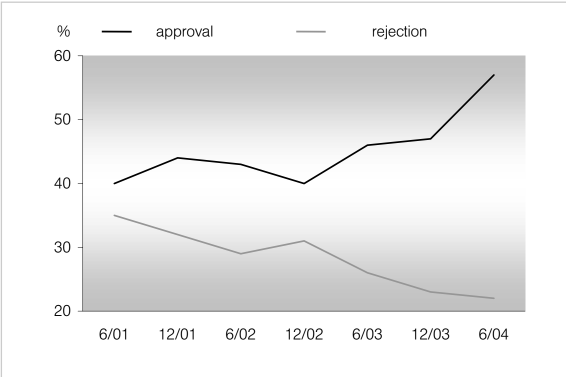
SUMMARY AND OUTLOOK

The forthcoming municipal elections scheduled for October might already be decisive in determining who will win the race for the presidency at the end of 2005. The chances for the ruling coalition are not bad, particularly since some sectors of the Chilean economy are currently undergoing an extraordinarily positive trend. Public finances, for instances, are likely to show a budget surplus in the current year – the first since the mid-1990s – and the state-owned copper company CODELCO is posting record earnings. In addition, the high copper prices are contributing to the fact that the trade surplus will reach nearly 9% of GDP in 2004, and we forecast the first current account surplus for more than 25 years. Even though the current level of economic growth is not quite as spectacular as the high growth rates recorded in the 1990s, all indicators suggest a sustained upturn hardly likely bound to lose momentum next year.

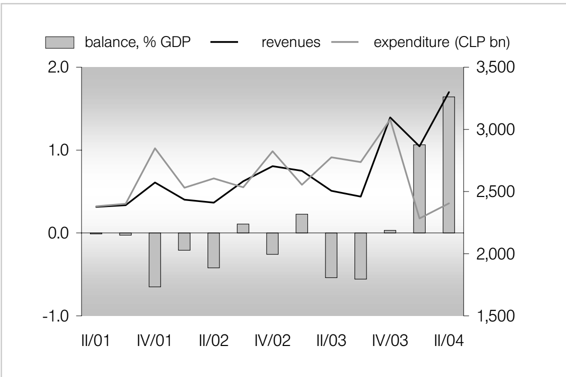
CHILE		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3.4	2.2	3.3	4.8	4.5
GDP	US$ bn	68.3	67.3	72.2	88.1	93.1
Inflation (year-end)	%	2.6	2.8	1.1	2.9	3.1
Inflation (average)	%	3.6	2.5	2.8	1.1	3.2
PUBLIC SECTOR						
Budget balance, central government	% GDP	-0.3	-0.8	-0.8	1.8	1.4
Budget balance, public sector	% GDP	-0.5	-1.2	-0.4	2.5	2.0
Public debt	% GDP	15.2	15.7	13.3	13.4	12.6
Amortization	US$ bn	0.8	0.9	0.8	0.8	1.2
Gross financing needs, central government	US$ bn	1.0	1.4	1.4	-0.7	-0.1
EXTERNAL SECTOR						
Merchandise exports	US$ bn	18.3	18.2	21.0	28.9	28.7
Merchandise imports	US$ bn	16.4	15.9	18.0	21.2	23.8
Trade balance	US$ bn	1.8	2.2	3.0	7.8	4.9
Current account balance	US$ bn	-1.1	-0.9	-0.6	1.7	-1.7
Current account balance	% GDP	-1.6	-1.3	-0.8	1.9	-1.9
Net foreign direct investment	US$ bn	3.0	1.6	1.6	2.7	1.0
Foreign exchange reserves, year-end	US$ bn	14.4	15.4	15.9	16.4	16.8
Import cover **	months	6.8	7.5	6.9	5.8	5.4
US$ exchange rate, year-end	Pesos	661	720	593	620	640
US$ exchange rate, average	Pesos	635	689	691	619	632
FOREIGN DEBT						
Gross foreign debt	US$ bn	38.5	41.0	43.4	44.5	46.0
Foreign debt	% exports**	161	176	164	127	131
Short-term foreign debt	US$ bn	5.3	5.8	7.6	8.0	8.5
Foreign debt amortization	US$ bn	4.1	4.7	3.9	6.4	5.2
Foreign debt service	US$ bn	5.3	6.0	5.3	7.7	6.4
Foreign debt service	% exports**	22	26	20	22	18
FINANCIAL MARKETS (year-end)						
Base rate, 90 days (PDBC)	%	6.2	2.9	2.3	2.3	3.8
IPSA stock index (peso based, 2004: 09/02)		1183	1000	1405	1635	
IFCI stock index (US$ based, 2004: 09/02)		479	406	654	737	
Bond market yield spread (2004: 09/02)*	bp	175	176	90	71	

* EMBIG **goods and services f=forecast

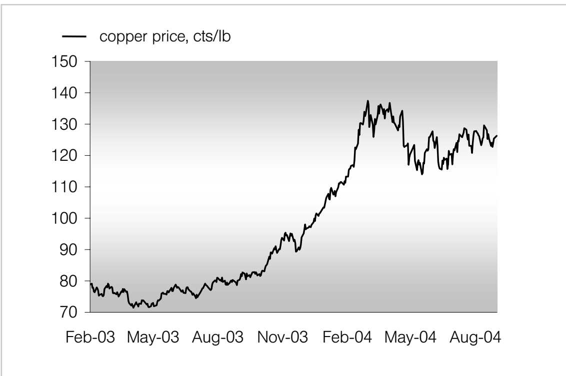
PRESIDENT LAGOS' POPULARITY



CENTRAL GOVERNMENT BUDGET



COPPER PRICES



Domestic policy: municipal elections setting the trend

The municipal elections scheduled for end-October are now imminent. These elections are of importance particularly because they will represent an indication of the outcome of the presidential elections at the end of 2005. Should the ruling Concertación coalition succeed in deciding the municipal elections in its favor, there is a good chance that it will likewise emerge the winner of the fourth presidential elections since the return to democracy in 1989. If, however, the opposition party "Alianza por Chile" should win the municipal elections, then the present mayor of Santiago, Joaquin Lavin, is likely to become the next president. The ruling coalition's chances are not bad, however, since the opposition's high popularity at the beginning of the year has declined in recent months.

In view of Chile's solid institutional structure, we do not expect any departures from the stability-oriented economic policy course, irrespective of the outcome of the elections. The elections will therefore not cause any unrest on the national or international capital market.

Fiscal policy: substantial surplus

There is an abundant flow of public-sector revenues, which is attributable to both the acceleration in economic activity and high copper prices. The central government's revenues were up 21.8% on last year's figure in the first six months, with both tax revenues (+14% yoy) and income generated from copper production (accounting for 11% of total revenues) reflecting extraordinarily strong growth (+316%).

In the year as a whole, we expect a budget surplus amounting to 1.8% of GDP, the highest value since 1997. Copper revenues exceeding the long-term average are channeled into a copper stabilization fund, accumulating reserves for periods when copper prices are low.

Looking at the public sector as a whole, which also includes earnings of state-owned enterprises – CODELCO deserving special mention here – the surplus should rise to 2.5% of GDP this year.

As regards the medium-term orientation of fiscal policy, last weeks' public debate was dominated by the government's plan to impose a royalty on the depletion of non-renewable resources. The government draft bill for this levy, the funds of which are to be directed into a financing fund for education, research and development (as is customary in other countries rich in commodities) was rejected by the opposition in congress. If the funds in question are used for their intended purpose, we consider the introduction of a levy sensible and do not believe that it will impede investment projects to any significant extent. The government obviously intends to wait until after the municipal elections before returning to the debate and its merits.

Economic activity: solid growth

The strong economic upturn continues: in the second quarter, GDP grew by 1.3% quarter-on-quarter (seasonally adjusted) and thus was only slightly weaker than in the first quarter (+1.6% quarter-on-quarter, seasonally adjusted). We expect the growth momentum to stabilize at its current level in the next several quarters, which means that GDP should exceed the pre-year level by approx. 4.8% for the year 2004 as a whole (first semester of 2004: +4.9%). Doubts still prevailing at the beginning of the year concerning the sustainability of the economic upturn have abated a little by now, especially since investments grew by more than 5% year-on-year since the fourth quarter of 2003 and by as much as 8% year-on-year in the second quarter of 2004.

The first indicators for the third quarter underpin our favorable forecast. Growth rates in July came to 5.8% for industrial production, 9.5% in the mining sector and 6.9% for retail sales (year-on-year).

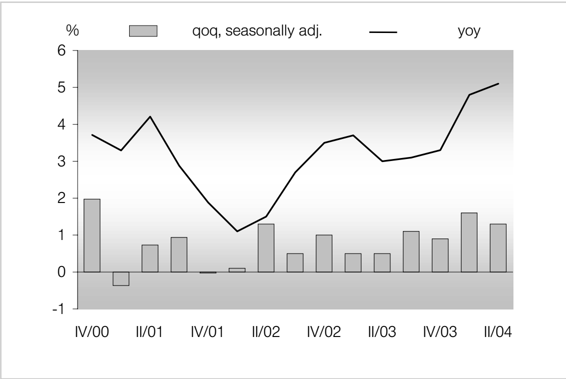
Despite headlines indicating the contrary in the local press, we do not believe that the rise in unemployment in recent months and the relatively low increase in employment will endanger the economic upturn. A closer look reveals that the number of wage and salary earners is growing substantially year-on-year, while the number of self-employed people shows a marked decline (see chart). This is due to the fact that the upturn enables self-employed people to change over to salaried employment, which quite often offers more security. Furthermore, last year's sharp rise in the number of self-employed people seems to be exaggerated, and there is talk of evidence of incorrect data acquisition. Accordingly, we still forecast a strong growth rate of 4.5% year-on-year for 2005.

Monetary sector: tighter monetary policy by year-end

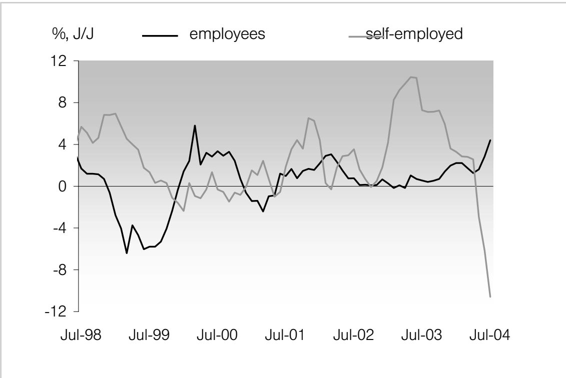
The sharp rise in oil prices, to which such items as prices of public transport are tied in Chile, has impacted quite heavily on monthly inflation rates over the last few months. The year-on-year inflation rate reached 1.4% in July after still being negative as recently as April. However, the monthly core inflation rates which, in particular, exclude volatile products such as fresh fruit, vegetables and fuel, has also witnessed an increase in the last several months, and the annualized rate in July was in the region of 1%.

While we have revised our year-end forecast for the consumer price trend

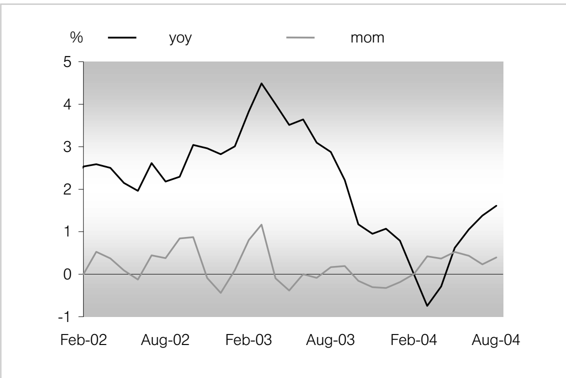
GDP CHANGE (REAL)



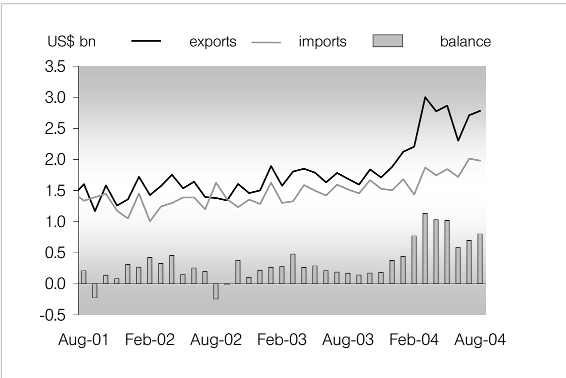
JOB MARKET



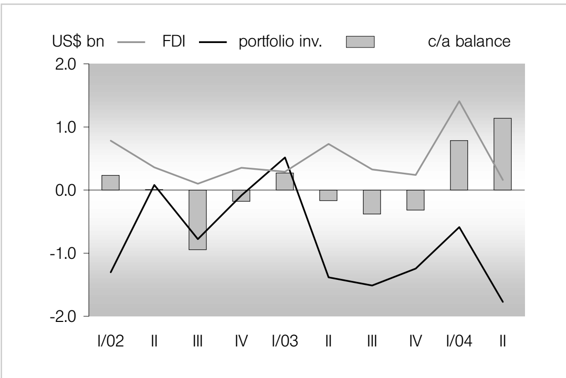
INFLATION



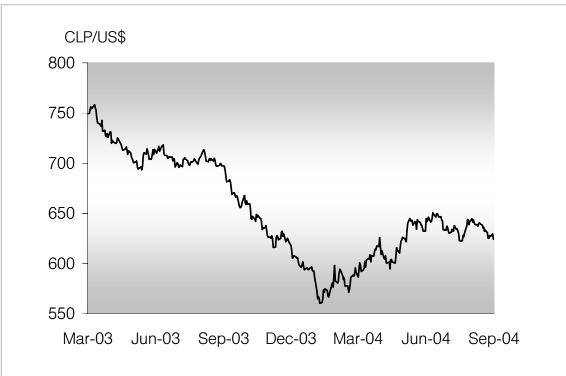
EXTERNAL TRADE



BALANCE OF PAYMENTS



EXCHANGE RATE



upward slightly (2.8% year-on-year), we expect the effect of the oil price hike to be only temporary and have therefore left our year-end forecast for 2005 unchanged at 3.1% year-on-year, in the middle of the central bank's target corridor. Given that inflationary expectations for the next 24 months will also be moving within the central bank's target corridor, we only expect the very expansionary monetary policy at present, with a key lending rate of 2%, to return to a neutral orientation in small steps. The key lending rate should be in the region of 2.5% at year-end.

External sector: current account in positive territory

After overshooting in March, the copper price – underpinned by robust U.S. demand and fast-growing consumption in Asia – seems to be stabilizing at its current level. We forecast an average price of US$ 1.20/lb (+48% year-on-year) in 2004 and a rise in exports by 36% (January-July 2004: +46%, year-on-year). Since industrial exports are growing vigorously, exports as a whole should record healthy growth next year in spite of declining copper prices. In line with growing imports, the trade surplus is likely to reach US$ 7.6 billion in the current year (January-July: US$ 5.7 billion).

The high trade surplus will be offset by profit transfers abroad recorded in the current account, which have more than doubled in comparison with the same period of the previous year. This is due to the strong presence of foreign companies in the mining sector. However, the current account surplus multiplied from approx. US$ 100 million in the last–year period to US$ 1.9 billion in the first half of 2004. For the year as a whole, we anticipate a current account surplus amounting to 1.7% of GDP – the first in more than 25 years.

Currency inflows associated with the current account surplus are being offset by a high capital account deficit (first half of 2004: US$ 1.8 billion). While foreign direct investments have improved, reaching US$ 1.6 billion (first half of 2003: US$ 1 billion), Chilean portfolio investments abroad (US$ 3 billion) outpace foreign portfolio investments in Chile (US$ 651 million) by far.

Accordingly, in recent months the exchange rate of the peso against the U.S. dollar has been moving within a narrow range from 620 to 650 CLP/US$. Assuming that international and regional economic conditions remain more or less favorable, the peso should remain in this range in the weeks ahead. We forecast an exchange rate of 620 CLP/US$ by the end of the year.

Thomas Pohl +49 40 3595 3481

CHILE: MONTHLY INDICATORS		May-04	Jun-04	Jul-04	Aug-04	next/latest
DOMESTIC ECONOMY						
IMACEC	% yoy	4.9	**4.9**	**4.5**		5-Oct
Industrial production (INE)	% yoy	4.5	**5.1**	**5.8**		28-Sep
Mining production	% yoy	9.3	**4.7**	**9.5**		28-Sep
Retail sales	% yoy	3.0	**0.8**	**6.9**		16-Sep
Unemployment rate	%	9.4	**9.6**	**9.7**		28-Sep
Employment	mn	5.58	**5.55**	**5.50**		28-Sep
Labor cost index	% yoy	-0.1	**0.4**	**0.2**		5-Oct
Consumer prices	% yoy	0.5	0.4	**0.2**	**0.4**	5-Oct
Consumer prices	% mom	0.6	1.1	**1.4**	**1.6**	5-Oct
Wholesale prices	% yoy	4.2	5.2	**4.8**	**5.0**	5-Oct
Wholesale prices	% mom	3.3	1.8	**0.3**	**1.4**	5-Oct
Money supply M1	% yoy	16.0	19.6	**23.6**	**25.3**	7-Oct
Base rate, 90d PDBC (month-avrg., latest: 09/02)	%	1.3	1.5	**1.7**	**1.7**	**2.04**
Loan rate (average)	%	10.9	10.9	**11.0**	**11.4**	7-Oct
Deposit rate (average)	%	2.2	2.3	**2.3**	**2.2**	7-Oct
Lending to private sector	% yoy	6.7	2.3	**2.9**		23-Sep
Total financial savings (M7, seasonally adjusted)	% mom	0.9	-0.2	**0.6**	**0.9**	7-Oct
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2866	2303	**2713**	**2783**	7-Oct
Merchandise exports	% yoy	60.4	41.1	**52.1**	**64.9**	7-Oct
Merchandise imports	US$ mn	1845	1720	**2014**	**1981**	7-Oct
Merchandise imports	% yoy	23.2	21.0	**26.3**	**30.6**	7-Oct
Trade balance	US$ mn	1021	583	**699**	**802**	7-Oct
Net foreign direct investment	US$ mn	229.2	**-263.5**	**1856.0**		7-Oct
Portfolio investment (net)	US$ mn	-407.3	**-688.7**	**-500.4**		7-Oct
Copper price (monthly average, latest: 09/02)	US$ c/lb	124.0	121.9	**127.4**	**127.6**	**124.8**
Foreign exchange reserves*	US$ bn	16.1	15.9	**15.9**	**15.8**	7-Oct
US$ exchange rate (latest: 09/02)	CLP	632.3	636.3	**642.1**	**626.8**	**624.9**

CHILE: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	3.1	3.3	4.8	**5.1**	23-Nov
GDP seasonally adjusted	% qoq	1.1	0.9	1.6		23-Nov
Total consumption + change in stocks	% yoy	0.1	5.6	5.1	**4.9**	23-Nov
Private and public investment	% yoy	2.2	5.5	5.7	**8.0**	23-Nov
Domestic demand	% yoy	0.6	5.5	5.3	**5.7**	23-Nov
Exports (goods and services)	% yoy	13.9	6.3	9.9	**9.0**	23-Nov
Imports (goods and services)	% yoy	5.0	13.9	12.0	**11.0**	23-Nov
Budget balance, central government	Pesos bn	-277.0	15.9	236.6	**454.3**	15-Nov
EXTERNAL SECTOR						
Current account balance	US$ bn	-0.38	-0.32	-0.78	**1.14**	23-Nov
Net foreign direct investment	US$ bn	0.33	0.24	1.41	**0.16**	23-Nov
Portfolio investment	US$ bn	-1.51	-1.24	-0.59	**-1.77**	23-Nov
Capital account**	US$ bn	0.43	0.20	-0.70	**-1.11**	23-Nov
Change in foreign exchange reserves	US$ bn	-0.06	0.11	-0.09	**-0.02**	23-Nov
Gross foreign debt	US$ bn	42.4	43.4	43.5	**43.6**	23-Nov
Short-term foreign debt	US$ bn	6.60	7.59	7.33	**8.21**	23-Nov

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

COLOMBIA: FISCAL REFORMS REMAIN NECESSARY

Area	1 141 748 sq. km
Population	43.9 million (+1.9% p.a.)
State president	Álvaro Uribe Vélez
Finance minister	Alberto Carrasquilla
Central bank president	Miguel Urrutia Montoya
Next elections	State president: 2006 Parliament: 2006
GDP per capita	US$ 1 758 (2003)
Investment	17% of GDP (2003)
Savings	14% of GDP (2003)
Exchange rate system	Flexible exchange rate (floating)
Monetary policy	Inflation targeting
Exports (2003)	17% of GDP
Purchasing countries	USA 44%, EU 14%, Venezuela 15%
Products	Manufactured goods 44%, Crude oil and derivatives 26%, coal 11%, coffee 6%
Imports (2003)	16% of GDP
Supplier countries	USA 29%, EU 15%, Venezuela 5%
Products	Primary and intermediate products 46%, Capital goods 34%, consumer goods 19%
Rating:	Moody's: Ba2 S&P: BB

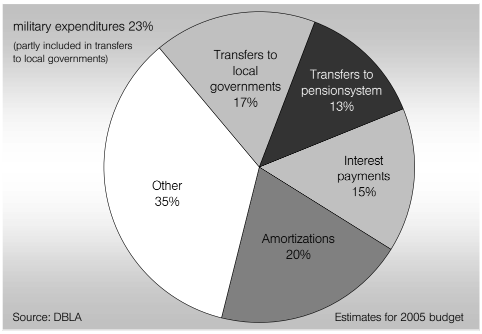
SUMMARY AND OUTLOOK

President Uribe is enjoying persistently high popularity ratings and increasing support from members of parliament. A planned amendment to the constitution intended to facilitate Uribe's re-election thus seems to be a viable proposition. It should be borne in mind, however, that prior to last year's referendum the imponderables in connection with Colombia's political reality were also frequently underestimated. Even if congress should approve the constitutional amendment (which we still doubt), the constitutional court could still torpedo that decision later. Regardless of political in-fighting anticipated, the economic upturn that was also possible to sustain in the second quarter is likely to continue. An unexpectedly strong and protracted appreciation of the peso against the US dollar has prompted us to make a substantial upward revision of our import forecast. In spite of this, the current account deficit will only be affected slightly year-on-year since high oil prices are providing substantial relief.

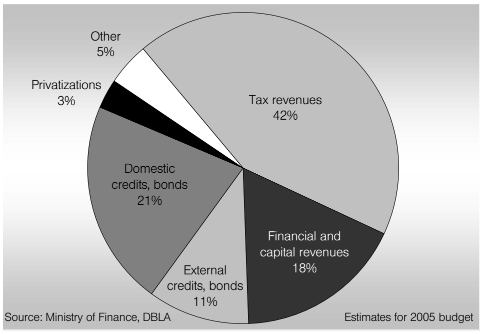
COLOMBIA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.4	1.6	3.7	4.0	3.7
GDP	US$ bn	81.7	81.1	78.7	94.1	100.1
Inflation (year-end)	%	7.7	7.0	6.5	6.0	6.0
Inflation (average)	%	8.0	6.3	7.1	6.0	6.3
PUBLIC SECTOR						
Budget balance, central government	% GDP	-4.6	-6.1	-5.4	-4.8	-4.5
Budget balance, public sector	% GDP	-3.4	-3.6	-2.8	-2.8	-2.8
Public debt	% GDP	50	59	56	52	50
Amortization	US$ bn	6.1	6.7	6.2	5.3	8.2
Gross financing needs	US$ bn	8.9	9.6	8.4	7.9	11.0
EXTERNAL SECTOR						
Merchandise exports	US$ bn	12.8	12.3	13.5	15.8	17.4
Merchandise imports	US$ bn	12.3	12.1	13.3	15.4	16.9
Trade balance	US$ bn	0.6	0.2	0.3	0.4	0.5
Current account balance	US$ bn	-1.2	-1.5	-1.4	-1.7	-1.9
Current account balance	% GDP	-1.5	-1.8	-1.8	-1.8	-1.9
Net direct investment	US$ bn	2.5	1.2	0.8	2.0	1.5
Foreign exchange reserves, year-end	US$ bn	10.2	10.7	10.9	12.0	12.2
Import cover	months*	6.3	6.8	6.4	6.3	6.0
US$ exchange rate, year-end	Pesos	2291	2867	2780	2640	2900
US$ exchange rate, average	Pesos	2300	2507	2878	2646	2770
FOREIGN DEBT						
Gross foreign debt	US$ bn	39.1	37.9	39.6	40.6	42.2
Foreign debt	% exports*	246	255	249	242	240
Short-term foreign debt	US$ bn	3.3	3.7	4.3	5.0	5.7
Foreign debt amortization	US$ bn	5.3	6.4	6.6	4.3	4.2
Foreign debt service	US$ bn	7.8	8.9	9.3	6.9	6.9
Foreign debt service	% exports*	49	60	58	41	39
FINANCIAL MARKETS (year-end)						
Deposit rate (DTF, 90 days)	%	11.4	8.0	7.9	8.5	9.5
IBB stock index (peso based, 2004: 09/02)		1071*	1474	2334	3155	
IFCG stock index (US$ based, 2004: 09/02)		561	615	783	1157	
Bond market yield spread (2004: 09/02)	bp**	516	736	431	406	

*goods and services ** EMBI+ f=forecast

CENTRAL GOVERNMENT EXPENDITURES



NF PUBLIC SECTOR - INCOME STRUCTURE



MOST IMPORTANT REFORM PROJECTS

Reform	Status	Probable adoption
VAT reform	Stopped by constitutional court (2003)	Expected by end-2004
Non-recurring capital levy	Adopted by end-2002	Expired in 2004
Pension reform	Adopted by end-2002; partly stopped by the constitutional court	Discussions continue; partly adopted by end-2004; resubmission likely in 2005
Referendum	Inadequate voter turnout (2003)	Not planned
Reelection bill	Rejected in 2003	Final debate expected in December 2004

Domestic policy: can Uribe rely on a majority in congress?

President Uribe does not have a formal coalition in congress, and even his own liberal party is split. (During his election in 2002, Uribe ran for the presidency as an independent candidate against the official Liberal party candidate Serpa). In particular, this constellation makes it almost impossible to predict the likelihood of the government succeeding in its most important legislative plan, namely a constitutional amendment to enable the current president to stand for election again. The local press recently estimated that roughly 75% of senators and 65% of deputies belong to the government camp. This quite positive assessment is primarily based on the voting behavior in the first half of the year and public expressions of intent. It must be noted, however, that a constitutional amendment will only be possible if the majority of ministers of parliament approves such a measure in the forthcoming votes – four each in the senate and the house of deputies. Should the vote be unsuccessful, then the entire process will be terminated. Conversely, this means that the ministers of parliament have an interest in continuing this process since prior to each vote they can make an attempt to assert their own interests in the negotiation process.

So far, six of a total of eight votes have been in favor of the government. It remains to be seen whether the majority of ministers of parliament will back up the government in the final session on the proposed constitutional amendment, which we only expect to take place in December. Even if congress should grant approval, it is not unlikely that a subsequent decision handed down by the constitutional court might foil the government's efforts. The constitutional court has repealed a substantial number of new laws and regulations on grounds of procedural errors in the last few months.

There is still no sign of a major turnaround in negotiations with the paramilitary groups and the guerrillas. A speech before congress by paramilitary leaders – the members of the largest paramilitary organization AUC (some of them convicted of multiple murders) had been promised safe conduct to the capital – impaired relations with the U.S. government, and the negotiations failed to produce anything new worthy of mention. A surprise proposal from the government to exchange prisoners with the guerrilla group FARC was rejected by the illegal forces. Even though the president enjoys high popularity among Colombians, mainly because of his stance towards security issues – 70% are backing Uribe's security policy while 50% are economic policy supporters – a speedy pacification of the country is unlikely.

Public finances: hopes for the future

In view of urgent security and social security issues, the IMF granted the Colombian government a number of special concessions regarding this and next year's fiscal targets. Depending on privatization proceeds and special loans for military campaigns, the 2004 deficit may exceed the originally agreed ceiling of 2.5% of GDP by 0.7 percentage points. A special arrangement for 2005 is still being negotiated. According to unofficial information, the IMF is bound to agree that the previously projected deficit limit (2.4% of GDP) will be exceeded by max. 0.5 percentage points. As the privatization negotiations have been extremely sluggish – e.g. the sale of the state-owned bank Granahorrar fell through in February because of a lack of interested buyers – we do not expect the special arrangement agreed with the IMF to be fully utilized this year. The ratio of the deficit to GDP should also remain more or less the same in 2005.

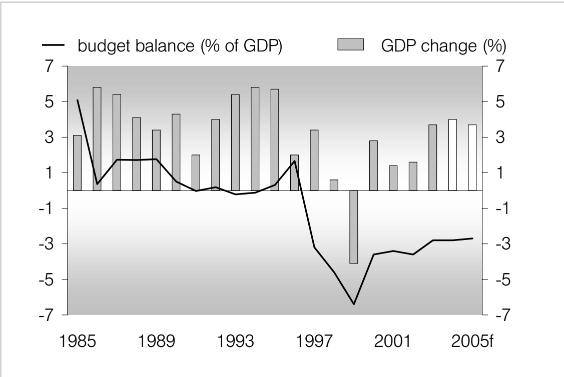
The International Monetary Fund recently praised the structural reforms planned by the Uribe government in particular. At present, three of the fiscal reforms proposed by the government are being debated in Congress. The government's revenue situation is to be boosted by imposing a uniform rate of value added tax, while changes to the pension system are aimed at relieving the budget. In addition, plans are under way to loosen the hitherto rigid regulation of transfers to subordinate central, regional and local authorities. Although such structural adjustments are steps in the right direction, the impact thereof will nevertheless be limited. Medium-term risks to the financial equilibrium of public-sector budgets continue to exist, even in the unlikely event that all plans should be passed by Congress without any changes being made.

The government's debt situation has eased somewhat recently thanks to strong growth rates and the appreciation of the peso against the US$. We believe, however, that the scenario envisaged by the government and the IMF, according to which the government's relative debt of currently slightly over 50% might be reduced to just under 40% of GDP by 2015 (based on average growth of 4% and moderate changes in inflation and the US$ exchange rate) is too optimistic. We consider a trend growth of more than 3.5% only possible if advances in bringing peace to the country are speedier than expected. Accordingly, the public sector is likely to remain sensitive to external shocks in the years ahead as well.

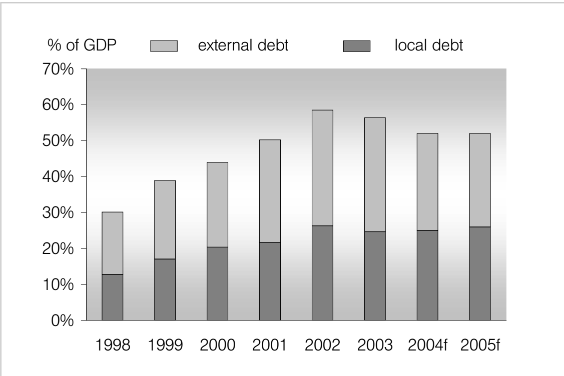
Economic activity: upturn continues

GDP growth in the second quarter, at 4.25% year-on-year, slightly outperformed our forecast. Continued strong growth in industrial production (+6.3% year-on-year), high retail sales (+5.4% year-on-year) as well as the low unemployment rate in historical terms (July: 15.3%)

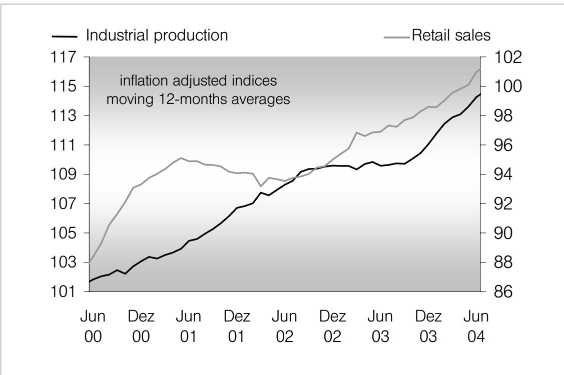
GDP CHANGE & BUDGET BALANCE



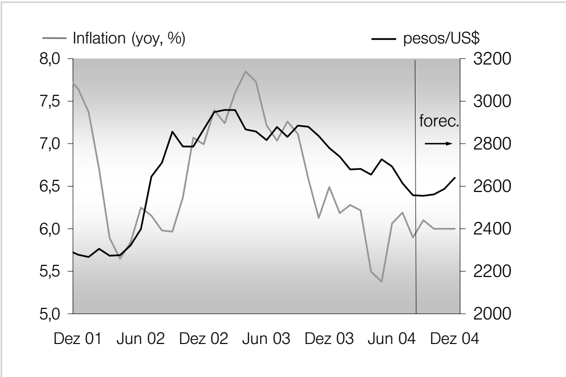
PUBLIC SECTOR DEBT



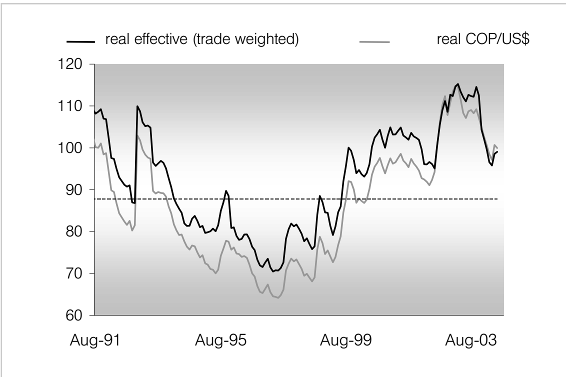
INDUSTRIAL PRODUCTION AND COMMERCE



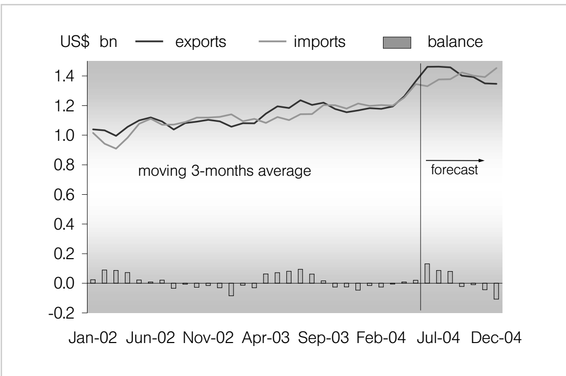
EXCHANGE RATE & INFLATION



REAL EXCHANGE RATE



TRADE BALANCE



confirm our assumption that private consumption and investment in plant and equipment will continue to dominate the demand side in the course of the year. We do not expect any major stimulus for growth to be generated from net exports of goods and services since rising coal and industrial goods exports continue to be offset by declining crude oil exports (in real terms) as well as a year-on-year increase in imports. As in the past, we still forecast a GDP growth rate of 4% for the year as a whole.

Monetary sector: everything under control

For more than a year now, the Colombian peso – just like other Latin American currencies – remained under upward pressure against the U.S. dollar. The US$ has depreciated by a total of 12% over the last 12 months. The central bank obviously yielded to demands from export associations and, together with the finance ministry, bought around US$ 2 billion on the forex market last year. Fears of such massive interventions in the forex market possibly causing growth in the domestic money supply to accelerate too sharply have not been confirmed as yet. The increased sale of government bonds from its holdings enabled the central bank to successfully counter an excessive expansion of money supply. In spite of the continued historically low level of the key lending rate (around 1% in real terms), consumer prices remained constant in the last two months and the inflation rate returned within its corridor planned for the end of the year (5% year-on-year +/- 1 percentage point). We anticipate further interest hikes in the U.S. before the end of the year and that Colombia's central bank will focus more strongly on controlling the internal value of the peso in future. In spite of the expected rise in the repo rate by 50 basis points in November, the upward trend of the peso will most probably come to a standstill over the next few months. The U.S. dollar should rise slightly above the current level by year-end, reaching a level of approx. 2640 pesos.

External sector: imports benefiting from revaluation

We assume that the ongoing robust domestic demand, coupled with the unexpectedly persistent strength of the peso against the U.S. dollar, is likely to result in a sharp rise in imports in the course of the year. Between March and May, imports were up by approx. 20% year-on-year. The impact of the real revaluation on exports as a whole should be insignificant, however, due to the sustained high oil price. We have revised our forecast for the trade surplus downward by roughly US$

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COLOMBIA: MONTHLY INDICATORS		May 04	Jun-04	Jul-04	Aug-04	next/lates
DOMESTIC ECONOMY						
Industrial production (not incl. coffee)	% yoy	**3.3**	**11.7**			20-Sep
Retail sales (excl. fuel)	% yoy	**6.0**	**7.5**			20-Sep
Unemployment rate (urban)	%	**14.8**	**15.8**	**15.3**		27-Sep
Consumer prices	% yoy	**5.4**	**6.1**	**6.2**	**5.9**	5-Oct
Consumer prices	% mom	0.4	**0.6**	**0.0**	**0.0**	5-Oct
Producer prices	% yoy	5.3	5.9	**5.2**	**5.2**	5-Oct
Producer prices	% mom	1.2	0.4	**-0.4**	**0.1**	5-Oct
Monetary base (month-end, latest 08/25)	% yoy	17.2	13.3	**12.2**	**14.7**	7-Sep
Money supply M1 (month-end, latest 08/25)	% yoy	17.0	12.7	**12.1**	**12.6**	7-Sep
Money supply M3 (month-end)	% yoy	11.3	**13.9**	**12.4**		7-Sep
Lending rate (month-end)	%	15.3	**14.4**	**15.1**		7-Sep
Deposit rate (DTF, 90 days, month-end)	%	7.89	7.81	**7.79**	**7.78**	7-Sep
Treasury bills (local index, month-end, latest 09/02)***	%	102.8	102.6	**102.0**	**104.1**	**103.9**
Treasury bills (TES 08/08, month-end, latest 09/02)***		13.0	13.1	**13.2**	**12.2**	**13.3**
Interbank interest rate (month-end, latest 08/25))	%	6.92	6.87	**6.82**	**6.82**	7-Sep
Credit volume (month-end)	% yoy	8.1	**10.4**	**10.6**		7-Sep
EXTERNAL SECTOR						
Merchandise exports	US$ mn	**13067.2**	**14071.8**			20-Sep
Merchandise exports	% yoy	**11.5**	**42.8**			20-Sep
Merchandise imports	US$ mn	**1365.2**	**1268.5**			20-Sep
Merchandise imports	% yoy	**19.8**	**22.0**			20-Sep
Trade balance	US$ mn	**660.1**	**638.9**			20-Sep
Foreign exchange reserves (month-end, latest 08/25)	US$ mn	11367	11590	**11768**	**12020**	7-Sep
US$ exchange rate (month-end, latest 09/02)	pesos	2725	2700	**2619.6**	**2595.8**	**2551**

COLOMBIA: QUARTERLY INDICATORS		Q2 03	Q3 03	Q4 03	Q1 04	next/latest
DOMESTIC ECONOMY						
GDP (latest Q1 04)	% yoy	2.2	4.1	4.5	**4.0**	**4.3**
GDP, seasonally adjusted	% qoq	0.6	1.9	1.0	**0.5**	15-Sep
Private consumption	% yoy	1.4	2.4	3.4	**4.6**	15-Sep
Public consumption	% yoy	0.8	-0.2	4.1	**2.2**	15-Sep
Domestic consumption	% yoy	1.3	1.7	3.6	**4.0**	15-Sep
Domestic investment	% yoy	5.2	16.4	14.3	**9.0**	15-Sep
Domestic demand	% yoy	1.9	4.1	5.4	**4.8**	15-Sep
Exports (goods and services)	% yoy	4.6	11.7	6.2	**1.1**	15-Sep
Imports (goods and services)	% yoy	1.2	10.8	9.0	**5.3**	15-Sep
EXTERNAL SECTOR						
Merchandise exports	US$ bn	3.53	3.49	3.42	3.36	21-Sep
Merchandise imports	US$ bn	3.15	3.43	3.47	3.42	21-Sep
Trade balance	US$ bn	0.38	0.06	-0.05	-0.06	21-Sep
Current account balance	US$ bn	-0.02	-0.33	-0.48	-0.72	21-Sep
Net foreign direct investment	US$ bn	0.62	0.55	-0.51	0.52	21-Sep
Portfolio investment*	US$ bn	-0.35	0.01	0.27	0.83	21-Sep
Capital account**	US$ bn	-0.09	0.70	0.15	0.95	21-Sep
Change in foreign exchange reserves #	US$ bn	-0.20	0.33	-0.04	-0.41	21-Sep

*incl. foreign credit **incl. residual items ***source: Corfinsura # - = increase

ECUADOR: HIGH OIL PRICES CONCEALING PROBLEMS

Area	270 190 sq. km
Population	12.2 million (+ 2.1% p.a.)
State president	Lucio Gutiérrez
Economic and Finance minister	Mauricio Yépez
Central bank president	Sixto Domingo Cuesta Compán
Next elections	State president: October 2006 Parliament: October 2006
GDP per capita	US$ 2 204 (2003)
Rating	Moody's: Caa1 S&P: CCC+

ANNUAL FIGURES AND FORECASTS

ECUADOR		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	5.1	3.4	2.7	4.8	2.9
GDP	US$ bn	21.0	24.4	26.9	29.0	30.0
Inflation (year-end)	%	22.4	9.4	6.1	2.3	0.9
Budget balance, public sector	% GDP	-0.5	0.6	1.1	1.4	-0.7
Public sector debt	% GDP	67.4	58.1	53.4	49.0	47.6
EXTERNAL SECTOR						
Merchandise exports	US$ bn	4.7	5.0	6.0	7.1	7.6
Merchandise imports	US$ bn	4.9	6.0	6.1	6.8	6.3
Trade balance	US$ bn	-0.3	-0.9	0.0	0.3	1.4
Current account balance	US$ bn	-0.6	-1.4	-0.4	-0.3	0.6
Current account balance	% GDP	-3.1	-5.6	-1.7	-1.1	2.0
Net direct investment	US$ bn	1.3	1.3	1.6	0.9	0.8
Foreign exchange reserves, year-end	US$ bn	0.8	0.7	0.8	1.1	0.8
Import cover *	months	1.3	0.9	1.0	1.3	1.0
FOREIGN DEBT						
Gross foreign debt	US$ bn	14.4	16.3	16.6	16.7	16.8
Foreign debt	% exports**	251	265	233	208	196
Short-term foreign debt	US$ bn	1.3	2.0	2.3	2.4	2.0
Foreign debt amortization	US$ bn	0.9	1.1	1.2	1.4	1.4
Foreign debt service	US$ bn	2.3	2.1	2.3	2.6	2.8
Foreign debt service	% exports**	40	34	32	32	33
FINANCIAL MARKETS (year-end)						
Interbank rate (average rate)	%	2.5	1.2	0.9	2.5	4.0
IFCF stock index (US$ based, 2004: 09/02)		27	37	39	47	
Bond market yield spread (2004: 09/02)**	%	1254	1794	729	809	

*goods and services **EMBI+

e=estimate f=forecast

Domestic policy: oil acting as a tranquilizer

Global economic conditions are currently very favorable for Ecuador. In particular, the country is benefiting from the high oil price since about a quarter of public revenues is generated by the oil sector, 43% of exports comprise crude oil and oil derivatives (2003) and the oil industry accounts for a quarter of GDP. Earnings derived from an oil price in excess of the budget plan – this year the amount should be in the order of US$ 600 million – will partially flow into a crude oil stabilization fund essentially intended for the repurchase of public-sector debt instruments; de facto, however, it is being used by the government as a pool for financing current expenses instead. The reason behind this is that despite a substantial rise in taxes paid by private oil companies, the central government's revenues dropped by 4% year-on-year in the first seven months due to the production slump of the state-owned oil company Petroecuador and the poor level of business activity in the non-oil sector. We forecast further substantial liquidity shortfalls for the public sector in the months that lie ahead. In light of public financing requirements of more than US$ 2 billion and still no access to the international capital market, there is nothing that could change the situation in the coming year. We do not believe that the government will succeed in concluding an agreement with the IMF next year, which means that only very limited funding is likely to be available from the IADB and the World Bank. Thanks to the high oil prices, however, the government should succeed in averting insolvency.

However, public finances are not the only sector that is heavily dependent on oil. In the first quarter of 2004, the oil sector was the only one that posted appreciable growth, and this trend is likely to continue in the course of the year. Whereas the strong expansion of the oil sector (also due to the completion of the OCP pipeline) will raise GDP growth to 4.8% for the year as a whole, the non-oil sector remains lackluster. Consumer price inflation recently dropped to annual rates below 3%.

External sector: increasing dependency on oil

The external sector's dependency on crude oil is also rising dramatically; even though merchandise exports increased by approx. 20% year-on-year in the first seven months of this year, every single export goods category except for crude oil suffered substantial shortfalls in sales revenues. Due to continued high oil prices, the trade balance should nevertheless show a slight surplus for the year as a whole. This will also help contain the current account deficit. Against this backdrop, foreign currency reserves should amount to US$ 1.1 billion at year-end, up by US$ 300 million year-on-year, which still only corresponds to about one month's import cover, however.

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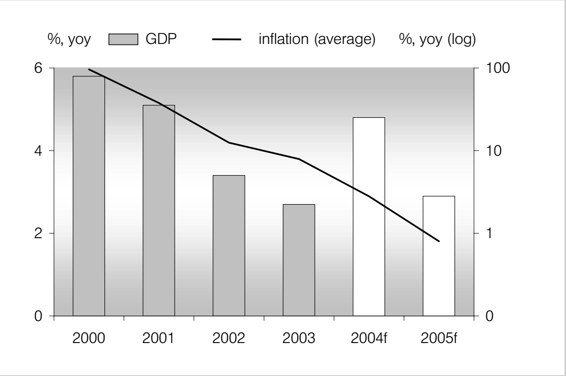
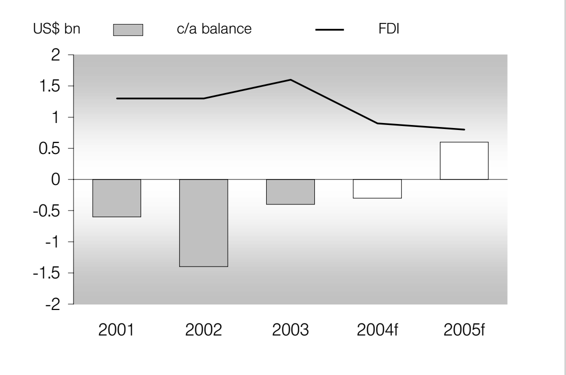
SUMMARY AND OUTLOOK

Ecuador is still caught in political turmoil. The high oil price is a (temporary) life-saver, however. Higher-than-expected oil revenues are providing an urgently needed cushion for public finances and are taking considerable pressure off the current account. The oil sector is the only one that has managed to post an appreciable growth rate in the current year. Although we continue to expect high crude oil prices in the months ahead, the high dependency on this commodity indicates future risks that the country will need to resolve.

GDP CHANGE (REAL) & INFLATION



BALANCE OF PAYMENTS



EL SALVADOR: TRAPPED BY DOLLARIZATION?

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

ANNUAL FIGURES AND FORECASTS

EL SALVADOR		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.8	2.1	1.8	2.0	1.3
GDP	US$ bn	13.8	14.3	14.8	15.8	16.9
Inflation (year-end)	%	1.4	2.8	2.5	5.8	4.5
Inflation (year-average)	%	3.8	1.9	2.1	4.5	5.3
Budget balance, public sector	% GDP	-3.7	-3.3	-1.3	-2.0	-2.0
Public sector debt*	% GDP	31.0	36.3	35.9	35.6	35.4
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2891	3017	3136	3200	3400
Merchandise imports	US$ mn	4796	4922	5410	5780	6000
Trade balance	US$ mn	-1905	-1905	-2274	-2580	-2600
Current account balance	US$ mn	-190	-384	-737	-810	-730
Current account balance	% GDP	-1.4	-2.7	-5.0	-5.1	-4.3
Net foreign direct investment	US$ mn	260	234	150	250	250
Foreign exchange reserves, year-end	US$ mn	1741	1623	1943	1800	1700
Import cover **	months	3.4	3.1	3.4	2.9	2.6
US$ exchange rate, year-end	Colones	8.75	8.75	8.75	8.75	8.75
US$ exchange rate, average	Colones	8.75	8.75	8.75	8.75	8.75
FOREIGN DEBT						
Gross foreign debt	US$ bn	4.7	5.8	6.4	6.9	7.3
Foreign debt	% exports*	124	148	156	164	163
Short-term foreign debt	US$ bn	1.3	1.0	1.1	1.2	1.3
Schuldendienst	Mrd. US$	0.4	0.5	0.6	0.6	0.7
Schuldendienst**	% Exporte**	10.2	11.5	14.2	14.5	15.2

*central government ** goods and services e=estimate f=forecast

Domestic policy: economic headwind

His clear victory in the first round of the presidential elections gave Antonio Saca (who took office on June 1) a clear mandate from the ARENA party to continue a liberal and stability-oriented economic policy. However, the new government is already facing strong economic headwind which could soon diminish its popularity. This would significantly impair its ability to implement legislative initiatives as it does not have a majority in the legislature. Following the impact of the elections and the uncertainty regarding the budget in the first half of the year, economic growth will be adversely affected for some time by higher oil prices, a weaker U.S. economy and an interest rate hike in the U.S. We have therefore lowered our growth forecast substantially from 2.9% to 2% in 2004 and from 2.5% to 1.3% in 2005. Economic policy virtually has no options left to respond to negative external developments. With the dollarization of the economy in the year 2001, the country has relinquished its monetary and exchange rate autonomy. And considering the high budget deficits in the past years and the sharp rise in public debt, the main focus of fiscal policy should be on consolidating public finances rather than stimulating the economy. This is of vital importance in order to maintain confidence in the sustainability of the dollarization in times of surging inflation rates. The inflation rate already rose to almost 5% in the summer months. In view of the positive inflation difference to the U.S. of approx. 2 percentage points, there is a risk of a further decline in the country's ability to compete on global markets.

External sector: stabilization by private money transfers

In spite of the strong growth in imports in the U.S., the country's key trading partner, exports are not likely to gain momentum (forecast for real exports 2004: +2.6%). The trade balance is being burdened by rising oil accounts. For this reason, the increase in private transfers (remittances by "immigrant workers" in the U.S.) are of key importance in order to keep the current account deficit within sustainable limits; despite the weak level of domestic demand, the deficit is set to rise slightly once again, to 5.1% of GDP in 2004. In the year 2004, private money transfers from abroad should rise by almost 15%, to US$ 2.5 billion (16% of GDP).

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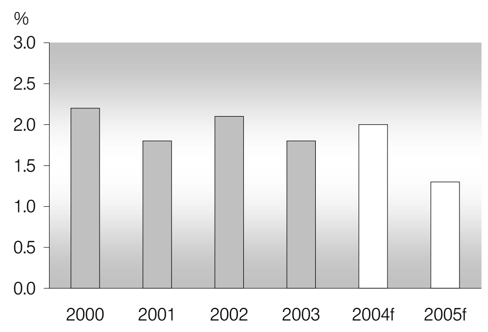
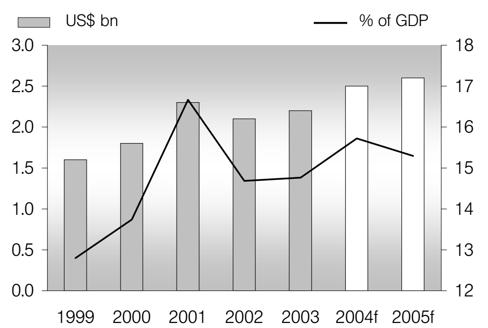
SUMMARY AND OUTLOOK

El Salvador caught in dollarization trap? External conditions deteriorated further – at least in the short term (rising oil prices, interest rate hikes in the U.S., ailing U.S. economy) and economic policymakers' hands are tied. Following high deficits in previous years, the government must now economize. However, help is coming from Salvadorian "immigrant workers" in the U.S. who are likely to expand their money transfers by 15%, to US$ 2.5 billion, or 16% of GDP.

GDP CHANGE (REAL)



PRIVATE FOREIGN REMITTANCES



HONDURAS: TIME FOR REFORMS

Aera	112 000 sq. km
Population	6.9 million (+ 2.2% p.a.)
State president	Ricardo Maduro Joest
Finance minister	Wilian Chon Wong
Central bank president	Maria Elena Mondragón
Next elections	State president: November 2005
	Parliament: November 2005
GDP per capita	US$ 1000 (2003)
Rating	Moody's: B2

ANNUAL FIGURES AND FORECASTS

HONDURAS		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	2.6	2.5	3.2	3.6	3.2
GDP	US$ bn	6.4	6.6	6.9	7.3	7.7
Inflation (year-end)	%	8.8	8.1	6.8	8.5	8.0
Inflation (year-average)	%	9.7	7.7	7.7	8.0	8.2
Budget balance, public sector*	% GDP	-3.5	-3.3	-4.7	-3.6	-3.0
Public sector debt	% GDP	69.0	68.0	66.0	64.0	56.0
EXTERNAL SECTOR						
Merchandise exports	US$ mn	1375	1361	1374	1600	1700
Merchandise imports	US$ mn	2768	2809	3065	3600	3800
Trade balance	US$ mn	-1393	-1448	-1691	-2000	-2100
Current account balance	US$ mn	-302	-219	-258	-440	-435
Current account balance	% GDP	-4.7	-3.3	-3.7	-6.0	-6.1
Net foreign direct investment	US$ mn	193	176	198	220	240
Foreign exchange reserves, year-end	US$ mn	1416	1524	1430	1500	1600
Import cover **	months	4.6	4.9	4.2	3.9	3.9
US$ exchange rate, year-end	Lempiras	15.92	16.92	17.75	18.70	19.60
US$ exchange rate, average	Lempiras	15.47	16.43	17.54	18.22	19.15
FOREIGN DEBT						
Gross foreign debt	US$ bn	5.05	5.40	5.45	5.59	5.29
Foreign debt	% exports**	201	210	202	205	168
Short-term foreign debt	US$ bn	0.32	0.48	0.52	0.60	0.65

*after grants **goods and services f=forecast

Economic policy: structural adjustment under IMF monitoring

So far, the IMF (which in February of this year granted Honduras a three-year structural adjustment loan) has viewed the government's concept in a positive light. The fiscal policy adjustment made some slight progress since the government hardly ever departs from the austerity principle and revenues are now picking up as a result of tax reforms and the currently stronger economic revitalization. In the second semester, the Honduran economy will be impacted considerably by substantially higher oil prices. It is therefore unlikely that the government will be able to meet all of the program targets agreed, although we believe that the International Monetary Fund will continue to support and monitor the country. Thus the target of reducing the deficit of the 2004 budget as a whole to 3% of GDP will not be met in full (our forecast: 3.6 % of GDP). In addition, the annualized inflation rate will rise from just under 7% in the year 2003 to 8 - 9% this year due to higher fuel prices and resulting price-boosting effects (a reduction to 6% was targeted), which in turn slowed down domestic demand and should therefore hamper the recovery process slightly again. Growth currently amounts to almost 4% due to fresh momentum of visible and invisible exports. IMF approval of debt relief measures in the context of the HIPC initiative for approx. US$ 1 billion of Honduras' foreign debt, entitling the poor country to debt service relief and enabling it to utilize public-sector funds to boost social security spending may only materialize starting in 2005. However, in April of this year the Paris Club decided on a small-scale debt restructuring of Honduran debts falling due. 60% of past due loans to the tune of US$ 361 million are to be restructured in the long term, while 40% will be forgiven.

External sector: export momentum and import pull

As a result of the upturn in U.S. demand and higher commodity prices, Honduran export revenues from coffee, bananas, shrimps and gold have meanwhile reached double-digit figures. Foreign currency earnings generated by the in-bond processing industry and tourism are also improving, and private money transfers from Hondurans in the U.S. should increase to more than US$ 1 billion by year-end. In spite of this, the current account deficit is likely to rise to 6% of GDP in 2004 because the pressure from imports is rising sharply due to the cyclical increase in demand and surging oil prices. The deficit will be financed by means of multilateral loans and investments from abroad, which means that the country's international reserves should stabilize at US$ 1.5 billion. Although a decline in U.S. demand is anticipated in 2005, Honduras can nevertheless expect some stimuli for exports and investments from the free trade agreement between the U.S. and Central America.

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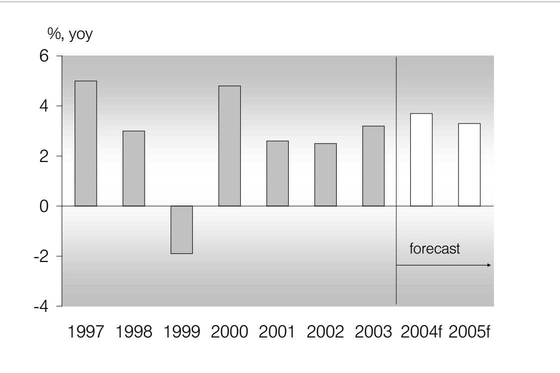
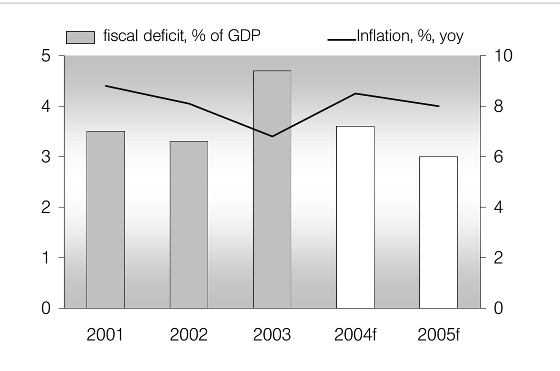
SUMMARY AND OUTLOOK

Honduras' economic revitalization is on solid ground even though last months' surging oil prices are likely to hamper the recovery process slightly. The government is likely to receive IMF support by year-end although it will most probably be unable to meet the targets of the current structural adjustment program in full – the fiscal deficit should shrink only slightly, to 3.6% of GDP. We therefore anticipate that the HIPC debt relief measures for Honduras may not materialize before the year 2005. Meanwhile, the Paris Club has decided to already restructure a small portion of the country's debt for the time being.

GDP CHANGE (REAL)



FISCAL DEFICIT & INFLATION



JAMAICA: FRAGILE STABILIZATION

Aera	11 425 sq.km	
Population	2.7 million (+ 0.9% p.a.)	
State president	P.J. Patterson	
Finance minister	Omar Davies	
Central bank president	Derick Latibeaudiere	
Next elections	Beginning of 2007	
GDP per capita	US$ 3 000 (2003)	
Rating	Moody's: B1	S&P: B

ANNUAL FIGURES AND FORECASTS

JAMAICA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.7	1.0	2.0	2.5	2.4
GDP	US$ bn	8.1	8.4	7.9	8.5	8.9
Inflation (year-end)	%	8.8	7.3	14.2	12.6	9.0
Inflation (year-average)	%	6.9	7.1	10.3	9.2	8.5
Budget balance*	% GDP	-5.6	-7.6	-7.0	-4.0	-2.5
Public sector debt	% GDP	132.1	146.4	144.8	138.0	132.0
EXTERNAL SECTOR						
Merchandise exports	US$ mn	1454	1309	1368	1613	1672
Merchandise imports	US$ mn	3073	3180	3293	3636	3816
Trade balance	US$ mn	-1619	-1871	-1925	-2023	-2144
Current account balance	US$ mn	-759	-1119	-955	-911	-963
Current account balance	% GDP	-9.4	-13.3	-12.0	-10.7	-10.8
Net foreign direct investment	US$ mn	525	400	350	570	600
Foreign exchange reserves, year-end	US$ mn	1901	1643	1110	1750	1500
Import cover **	months	4.3	3.8	2.4	3.9	3.5
US$ exchange rate, year-end	J$	47.30	50.80	62.00	63.00	68.00
US$ exchange rate, average	J$	46.00	48.40	58.00	61.50	65.50
FOREIGN DEBT						
Gross foreign debt	US$ mn	5348	5463	5288	5964	5992
Foreign debt	% exports**	116	117	104	107	103
Short-term foreign debt	US$ mn	925	775	805	867	902

*central government ** goods and services e=estimate f=forecast

Domestic policy: ambitious targets

The current budget provides for a 50% reduction of the budget deficit to 3.5% of GDP and a balanced budget is officially forecast for as early as next year. So far, the government (which is elected until 2007) has been able to rely on support from the public services workers' union. The measures required to reach these targets should meet with growing resistance from the population, however. We do not believe that the government will succeed in reducing its debt below the 100% mark of GDP by 2010, even in the wake of a positive scenario of accelerated growth over the next few years.

Due to the continued growing demand for tourism services, a rebounding agricultural sector, higher stability in the finance sector as well as a number of major mining projects, economic growth is likely to accelerate this year and the pace should be maintained in 2005 as well. The continued weak demand for products of the manufacturing industry as well as stagnating state expenditure in real terms are impeding a faster recovery. The much more dynamic development anticipated by the government can only materialize under highly favorable external conditions (robust global economic growth without major global interest rate hikes, amid a simultaneous drop in crude oil prices). We remain skeptical with regard to the country's medium-term prospects.

External sector: recovery at a low level

In mid-2003, the country was almost heading for a balance of payments crisis triggered by strained external economic conditions (in particular, low earnings from the tourism sector) and refinancing difficulties of the public sector. The resultant real depreciation of the Jamaican dollar during this period – on average, the real exchange rate should be 10% down on the level of 2002 this year – is currently having a positive impact on exports (in particular, aluminum, bauxite and sugar) as well as tourism. However, high oil prices, rising capital goods imports for investments in the mining and hotel industry as well as a considerable interest burden (a good 40% of public-sector debt is due to foreign creditors) will prevent the current account deficit from dropping below the 10% mark of GDP in the next several years as well. Almost half of the deficit should be covered by direct investment inflows in the current year. Furthermore, since the government made an international bond issue amounting to US$ 200 million set to mature in 2012, we expect that by year-end the central bank's foreign exchange reserves will be substantially higher than at the end of 2003, equivalent to approx. four months' import cover. It must be assumed, however, that the foreign currency liquidity situation will deteriorate once again over the next few years.

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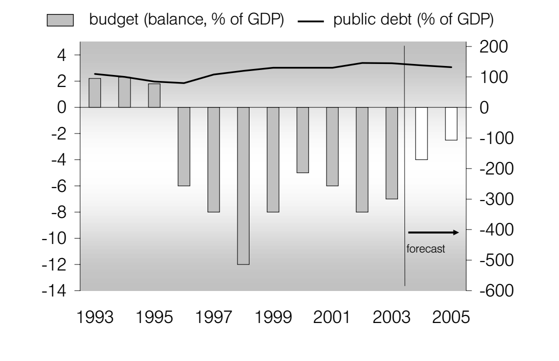
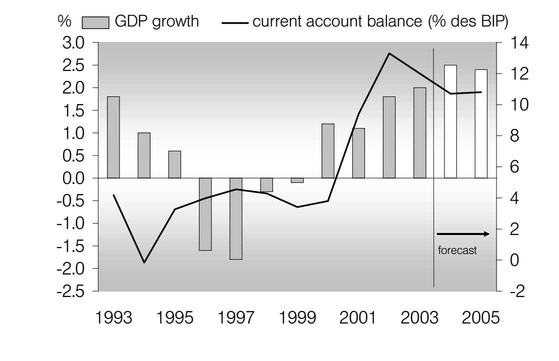
SUMMARY AND OUTLOOK

The public sector's debt recently rose to almost 150% of GDP, a burden that can hardly be shouldered any longer. In spite of this, the government seems to be succeeding in changing course this year. We assume that the relative debt burden will decline for the first time since 1996 – at that stage, the level of debt amounted to 80% of GDP. We remain skeptical with regard to Jamaica's medium-term prospects, in particular since an economic boom (indispensable for a sustained recovery of public finances) is not in sight.

BUDGET BALANCE & PUBLIC DEBT



GDP CHANGE AND BALANCE OF PAYMENTS



MEXICO: ECONOMIC UPTURN WEAKENING

Area	1 967 183 sq. km
Population	101 million (+1.6% p.a.)
State president	Vicente Fox Quesada
Finance minister	Francisco Gil Diaz
Central bank president	Guillermo Ortiz Martínez
Next elections	State president: July 2006 Parliament: July 2006
GDP per capita	US$ 6 200 (2003)
Investment	20% of GDP (2003)
Savings	18% of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	27% of GDP
Purchasing countries	USA 87%, EU 3%, Canada 2%
Products	Maquiladora 47%, rest of industry 39% Crude oil and derivatives 11%
Imports of goods (2003)	28% of GDP
Supplier countries	USA 62%, EU 12%, China 6%, Japan 4%
Products	Intermediate goods for the maquiladora 35 %, Intermediate goods for the rest of the economy 41%, Capital goods 12%, consumer goods 13%
Rating:	Moody's: Baa2 S&P: BBB-

SUMMARY AND OUTLOOK

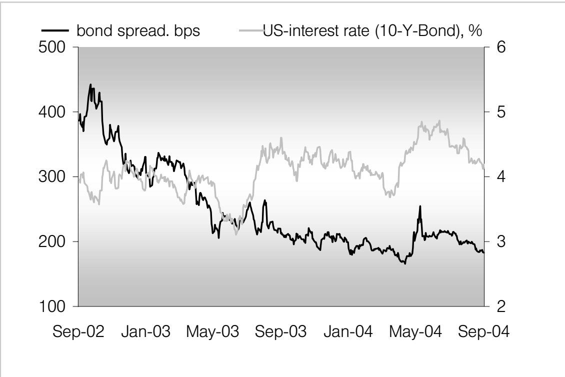
There are increasing signs that the economic upturn might already come to a standstill in the current quarter. This is suggested by the decline in U.S. consumer demand, rising interest rates and the fact that investment activity remains too low. The protracted standstill in reforms and the increasingly polemic political clashes between the parties are not exactly contributing to a mood of confidence among Mexican entrepreneurs. The problem is that with an investment ratio of 19% of GDP, only a 3 to 3.5% growth rate is likely to be achieved in the medium term. The central bank is unable to support the economy at any rate; quite the contrary, it will have to tighten its monetary reins several times in order to reduce inflationary expectations for 2005. The trend of rising money market interest rates is set to continue well into the year 2005. Deteriorating economic data will exert downward pressure on the peso once again. We continue to forecast a depreciation by year-end to 11.90 pesos per U.S. dollar.

MEXICO		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	-0.1	0.7	1.3	3.5	3.0
GDP	US$ bn	623	648	626	644	653
Inflation (year-end)	%	4.4	5.7	4.0	4.2	3.5
Inflation (average)	%	6.4	5.0	4.5	4.3	3.9
PUBLIC SECTOR						
Budget balance, central government	% GDP	-1.0	-1.0	-0.8	-0.6	-0.6
Budget balance, public sector	% GDP	-0.7	-1.4	-0.6	-0.3	-0.3
Public debt	% GDP	26	28	28	28	28
Amortization (Cetes excl.)	Pesos bn	194	222	250	338	325
Gross financing needs (Cetes excl.)	Pesos bn	236	298	283	359	348
EXTERNAL SECTOR						
Merchandise exports	US$ bn	158	161	165	183	192
Merchandise imports	US$ bn	168	169	171	189	202
Trade balance	US$ bn	-10.0	-7.9	-5.7	-6.0	-10.2
Current account balance	US$ bn	-18.2	-14.1	-9.3	-8.7	-13.0
Current account balance	% GDP	-2.9	-2.2	-1.5	-1.4	-2.0
Net foreign direct investment	US$ bn	26.8	14.8	10.8	15.0	12.0
Foreign exchange reserves, year-end	US$ bn	44.7	50.6	59.0	65.0	63.5
Import cover **	months	2.6	3.0	3.5	3.5	3.2
US$ exchange rate, year-end	Pesos	9.17	10.46	11.24	11.90	12.00
US$ exchange rate, average	Pesos	9.34	9.66	10.79	11.47	11.93
FOREIGN DEBT						
Gross foreign debt	US$ bn	159.2	161.0	163.5	161.0	162.0
Foreign debt	% exports**	90	91	90	80	77
Short-term foreign debt	US$ bn	40.2	41.5	43.1	45.0	46.5
Foreign debt amortization	US$ bn	17.7	13.0	20.8	21.7	12.5
Foreign debt service	US$ bn	30.3	25.0	32.3	33.3	24.5
Foreign debt service	% exports**	17	14	18	17	12
FINANCIAL MARKETS (year-end)						
Interest rates (Cetes, 28 days)	%	7.4	7.6	6.0	7.5	8.2
IPC stock index (peso based, 2004: 09/02)		6372	6127	8795	10423	
IFCI stock index (US$ based, 2004: 09/02)		761	637	830	953	
Bond market yield spread (2004: 09/02)*	bp	308	324	199	150	

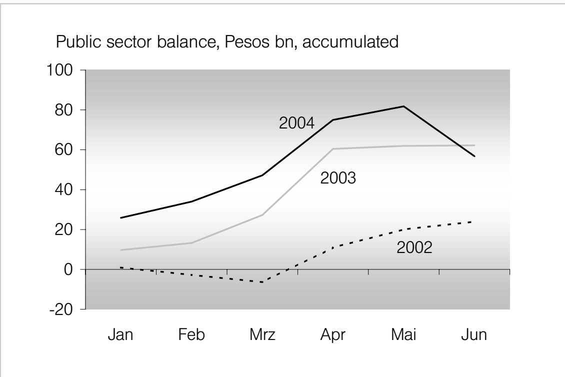
* EMBI+ ** goods and services

e=estimate f=forecast

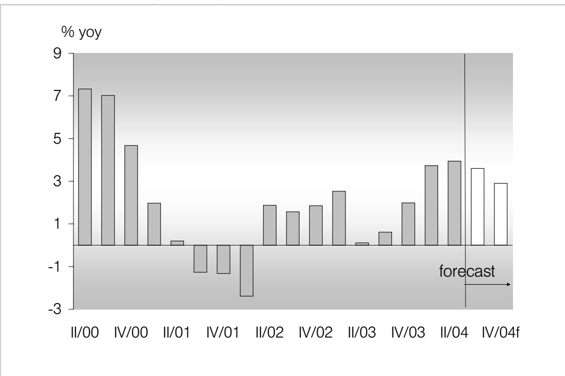
BOND SPREADS AND US INTEREST RATES



PUBLIC FINANCES



GDP CHANGE (REAL)



Domestic policy: resurrection of the dinosaurs

For both the majority of Mexicans and president Fox of the PAN, the first term of office after seven decades of uninterrupted PRI rule certainly was not what either of them had imagined. Fox had promised high economic growth and a modernization of society, and all that has emerged so far is economic stagnation and a standstill in reforms. Obviously, this development is not solely the government's fault. For instance, the economy was heavily impacted by external factors, including a protracted weakness of growth in the U.S., by far the most important export market for Mexican goods and, since China's entry into the WTO, the overwhelming competition from that country in labor-intensive industries. In addition, the government lacks the power – in the truest sense of the word – to govern: extensive reforms that require constitutional changes are only feasible if subscribed to in full by the PRI; even minor legislative amendments need at least the support from the smaller opposition party PRD. So far, the blocking tactics employed by the opposition for almost four years now have not done any harm to the party itself but to the government instead. One example of this is the PAN debacle at the parliamentary by-elections in the year 2003, where the party lost 55 of its 208 seats in the house of deputies. In recent municipal and regional elections, the PAN once again suffered a crushing defeat. Accordingly, so far the opposition has had no reason to change its evidently successful strategy. The likelihood of a comprehensive tax reform or far-reaching reforms in the energy sector being passed before the elections in June 2006 therefore is extremely remote. What is also noteworthy is that the traditionalists (also called "Dinosaurs") have increasingly regained the upper hand in the ranks of the PRI over the last few years with a successful performance in gubernatorial and mayoral elections. As a result, we cannot rule out the possibility that Mexico's next president might very well emerge from the traditionalist wing of the PRI (the party leader Roberto Madrazo) or from the left-wing PRD (the mayor of Mexico City, Andrés Manuel López-Obrador). But even in this case, investors would hardly need to worry about the "investment grade" status of the country's foreign-currency bonds. When the public-sector budget bill was passed in recent years, the PRI has proved that it fully supports the government's austerity policy. And the PRD with López-Obrador would rather follow the examples set by the "orthodox" Lula than those of Kirchner or Chávez when it comes to economic policy issues. In addition, the chances of a comprehensive tax reform being passed by congress under a future PRI or PRD minority government are greater than they are at this stage.

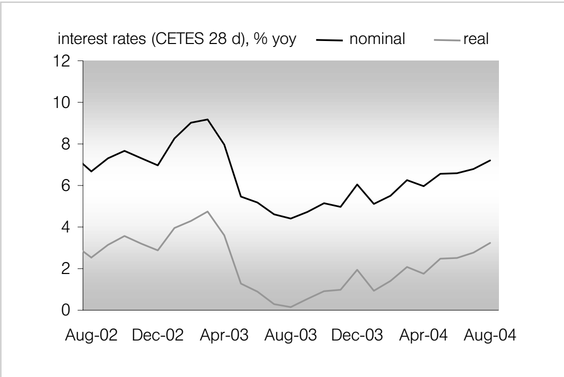
Public finances: solid mid-year accounts

Notwithstanding the frustration about the fruitless attempts to reform the tax system, sentiment in the Mexican finance ministry is likely to be relatively positive in view of the solid budget figures. In the first half of 2004, the public-sector budget surplus saw a 24% increase in real terms (adjusted for advance wage payments compared with the previous year). The comfortable budget situation essentially is the result of the 16% (year-on-year) rise in the oil price, which made a key contribution to the 4.5% real increase in total public revenues. This unexpectedly positive trend provided enough scope to bolster the economy by means of higher state investments (+9.3% in real terms) and transfers to the federal states (+7.8% in real terms). Oil prices remain high and the solid economic growth will also result in higher tax revenues in the second half of the year. We therefore anticipate that the target of confining the public-sector deficit to 0.3% of GDP in 2004 will be met or even exceeded. According to preliminary figures, the 2005 draft budget which must be submitted to congress by September 8 provides for the country's austerity policy to remain in place, as expected. The public deficit is to be further reduced, to 0.1% of GDP.

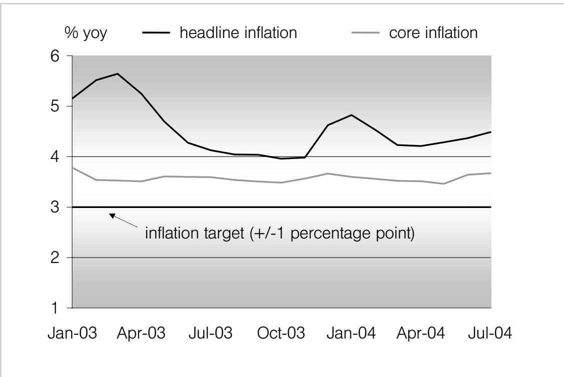
Economic activity: downhill from now on?

In Q2, the Mexican economy recorded strong growth (1.2% quarter-on-quarter) for the third time in succession. The growth rate was up 3.9% on the pre-year quarter, economic activity being underpinned by sustained, strong demand for exports, which also contributed to a slight improvement in the labor market. This and the still growing opportunities for private households to obtain credit facilities have boosted private consumption. The current upturn is anything but stable, however. Too many uncertainty factors are hampering demand for private investments, growth of which could lay the foundations for a self-sustaining economic upturn. For one thing, the standstill in reforms and the increasingly heavy and polemic political clashes are dimming the investment climate; for another, the oil price hike and disappointing economic growth in the U.S. in the second quarter have given rise to greater concerns again regarding the sustainability

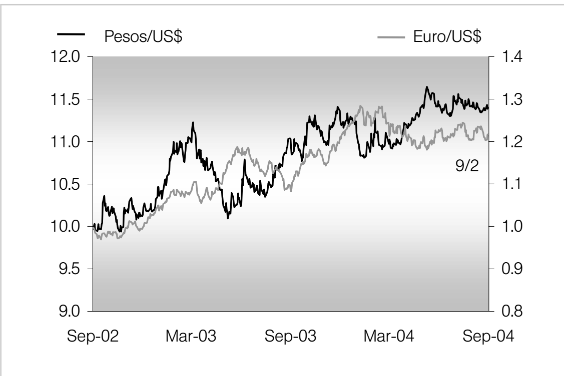
INTEREST RATES



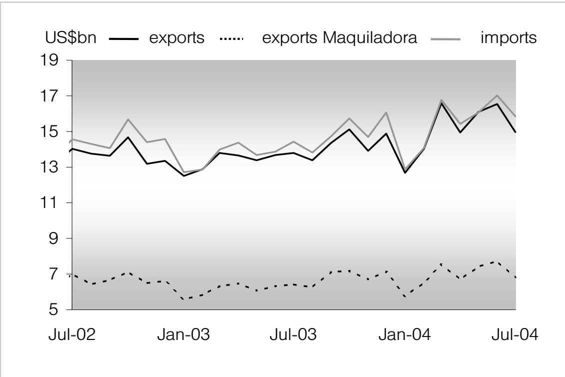
INFLATION



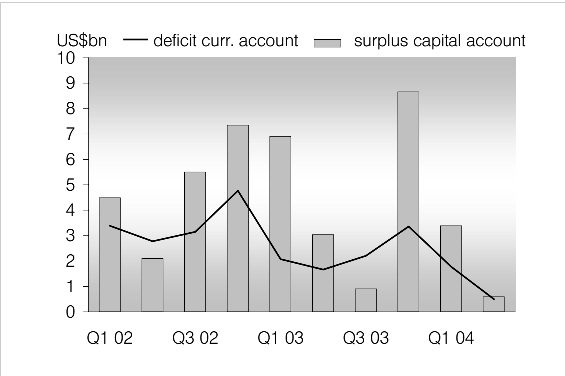
EXCHANGE RATE



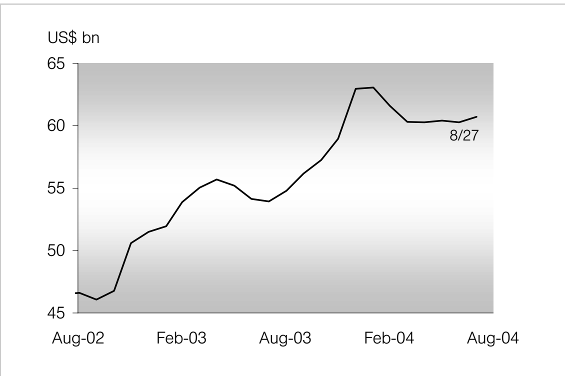
FOREIGN TRADE



BALANCE OF PAYMENTS



FOREIGN EXCHANGE RESERVES



of the economic upturn in Mexico's neighboring country. The current investment ratio of 19% of GDP is not sufficient to achieve growth rates higher than 3% in the medium term. We still expect the economic upturn to lose momentum in the second semester and project only moderate growth rates of 3.5% this year and 3% in 2005.

Monetary sector: clear trend in money market rates

Unlike the Fed in the U.S., the Mexican central bank still has a long way to go before it will likewise have achieved its objective of attaining price stability. Following a surprisingly strong increase in consumer prices in the first half of August, Banxico responded promptly and tightened its monetary reins once again for the fifth time in succession this year. We do not believe that the annualized inflation rate will return within the central bank's target corridor by the end of this year (inflation target: 3% +/-1 percentage points). The inflationary pressure being exerted by energy and food prices simply is too high for that. However, the central bank's resolute monetary policy response should contribute toward bringing inflationary expectations for end-2005 (currently 3.8%) closer to the inflation target. The money market interest rates (cetes, 28 days) have been in a clear upward trend since their historical low of approx. 4% in August and are slowly but surely approaching our year-end forecast of 7.5%.

Exchange rate: peso facing new downward trend?

Since June, the peso has been trading within a narrow range of 11.30 to 11.50 pesos/US$. There are some indications, however, that this unusual phase of stability is coming to an end. For instance, an increasing slowdown in economic activity combined with persistently negative political headlines might have an adverse impact on capital flows in the months ahead. A decline in the demand for exports is likely to rekindle speculations surrounding the competitiveness of the industrial sector and might induce Mexican banks to speculate on a weaker peso once again. Such speculations might intensify if the U.S. dollar should appreciate against the euro, as we had forecast. Accordingly, market participants with a short-term orientation are likely to rely on the continued close correlation between the exchange rate of the euro in relation to the U.S. dollar and the peso against the dollar (see graph). We therefore expect the peso to depreciate further, to 11.90 pesos per U.S. dollar by the end of the year.

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MEXICO: MONTHLY INDICATORS		May-04	Jun-04	Jul-04	Aug-04	next/latest
DOMESTIC ECONOMY						
Economic activity index (IGAE)	% yoy	3.2	5.1			24-Sep
IGAE index (seasonally adjusted)	% mom	0.0	0.4			24-Sep
Industrial production	% yoy	2.3	5.3			13-Sep
Manufacturing, in-bond industry	% yoy	8.9	10.1			13-Sep
Manufacturing (excluding in-bond industry)	% yoy	1.9	5.8			13-Sep
Construction	% yoy	3.2	3.8			13-Sep
Gross fixed capital formation	% yoy	2.9				7-Sep
Consumer confidence (January 2003=100)	Index	99.9	99.6			3-Sep
Retail sales	% yoy	3.7	2.5			21-Sep
Wholesale sales	% yoy	7.4	11.3			21-Sep
Unemployment rate	%	3.5	3.8	3.8		22-Sep
Employees (social insurance)	% yoy	1.3	1.7	1.4		
Real wages per employee, manufacturing	% yoy	-0.7	0.5			28-Sep
Budget balance, public sector	Pesos bn	6.8	-25.0	0.2		30-Sep
Public domestic debt	Pesos bn	1072	1079	1094		30-Sep
Public external debt	US$ bn	79.9	80.8	80.1		30-Sep
Consumer prices	% yoy	4.3	4.4	4.5		9-Sep
Consumer prices	% mom	-0.3	0.2	0.3		9-Sep
Treasury bills, Cetes 28d (latest: 09/02)	%	6.4	6.8	7.2	7.3	7.3
EXTERNAL SECTOR						
Merchandise exports	US$ mn	16095	16538	14962		23-Sep
Merchandise exports	% yoy	21.2	21.5	8.9		23-Sep
Merchandise imports	US$ mn	16062	17021	15848		23-Sep
Merchandise imports	% yoy	17.5	22.9	9.9		23-Sep
Trade balance	US$ mn	33	-483	-886		23-Sep
Foreign exchange reserves (latest: 08/27)	US$ bn	60.3	60.4	60.3		60.7
US$ exchange rate (latest: 09/02)	Pesos	11.45	11.49	11.40	11.39	11.47

MEXICO: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	0.6	2.0	3.7	3.9	16-Nov
Private consumption	% yoy	4.3	3.2	3.7		15-Sep
Public consumption	% yoy	2.6	2.8	-0.3		15-Sep
Private and public investment	% yoy	-13.3	-6.9	4.5		15-Sep
Domestic demand	% yoy	0.3	1.1	1.9		15-Sep
Exports (goods and services)	% yoy	-0.7	4.6	10.4		15-Sep
Imports (goods and services)	% yoy	-1.4	2.0	8.5		15-Sep
EXTERNAL SECTOR						
Current account balance	US$ bn	-2.2	-3.3	-1.9	-0.5	25-Nov
Net foreign direct investment	US$ bn	2.3	2.2	7.4	2.5	25-Nov
Net foreign portfolio investment (incl. bonds)	US$ bn	-1.8	3.2	2.4	-4.3	25-Nov
Capital account **	US$ bn	0.9	8.6	3.5	0.6	25-Nov
Change in foreign exchange reserves*	US$ bn	1.3	-5.3	-1.6	-0.1	25-Nov

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

PANAMA: A MOOD CHANGE FOR THE BETTER

Area	77 082 sq. km	
Population	2.9 million (+ 1.7% p.a.)	
State president	Martin Torrijos	
Finance minister	Ricaurte Vásquez	
President of Banco Nacional de Panamá	Bolivar Pariente C.	
Next elections	State president: May 2009 Parliament: May 2009	
GDP per capita	US$ 4 350 (2003)	
Rating	Moody's: Ba1	S&P: BB

ANNUAL FIGURES AND FORECASTS

PANAMA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	0.3	0.8	4.1	4.8	3.5
GDP	US$ bn	11.8	12.2	12.6	13.58	14.38
Inflation (year-end)	%	0.0	2.0	1.0	3.0	2.2
Inflation (year-average)	%	0.3	1.0	1.6	2.5	2.3
Budget balance, public sector	% GDP	-2.4	-2.7	-2.8	-2.7	-2.5
Public sector debt	% GDP	71.1	69.7	71.2	70.0	69.5
EXTERNAL SECTOR						
Merchandise exports	US$ mn	5996	5315	5051	5150	5350
Merchandise imports	US$ mn	6710	6352	6143	6350	6600
Trade balance	US$ mn	-714	-1037	-1092	-1200	-1600
Current account balance	US$ mn	-205	-92	-408	-320	-330
Current account balance	% GDP	-1.7	-0.8	-3.2	-2.4	-2.3
Net foreign direct investment	US$ mn	512	78	792	600	500
Foreign exchange reserves, year-end	US$ mn	1092	1183	1011	1100	1200
Import cover *	months	1.3	1.6	1.3	1.4	1.5
US$ exchange rate, year-end	balboa	1.0	1.0	1.0	1.0	1.0
US$ exchange rate, average	balboa	1.0	1.0	1.0	1.0	1.0
FOREIGN DEBT						
Gross foreign debt	US$ mn	8245	8300	8650	8750	8900
Foreign debt	% exports*	85	94	97	96	97
Short-term foreign debt	US$ mn	986	1012	1050	1080	1100
FINANCIAL MARKETS (year-end)						
Bond market yield spread (2004: 09/02)*	bp	409	444	335	352	

* EMBI+   *goods and services   e=estimate f=forecast

Domestic sector: a new broom sweeps clean

There are signs of politics starting to move in Panama. On September 1, the new president, Martín Torrijos of the PRD, took office. Conditions overall are favorable, indicating that his government will be able to make greater advances in resolving the country's structural problems than his predecessor, Mireya Moscoso. Firstly, by winning 47% of all votes in the first round, he has received a clear electoral mandate, and secondly, his party, with 40 of 78 seats, has an absolute majority in the legislature. As early as in the transitional phase, numerous constitutional amendments were passed in an extraordinary session of the constituent assembly with the support of the retiring government; these changes are intended to make the country easier to rule, to dismantle bureaucracy and reduce corruption. Which are the key reform projects that Martín Torrijos will need to tackle? First of all, there is the growing deficit of the social insurance fund CSS, which will need to be resolved. In addition, decisions will need to be taken as to how the extension of the Panama Canal, which will call for an estimated US$ 4-6 billion in investments, is to be promoted. And finally, the increase in the already high public-sector debt, amounting to about 70% of GDP, will need to be stopped. The time for painful adjustment reforms is favorable as the current level of economic activity is outstanding. At present, the economy is benefiting from the sharp expansion in global trade and the ongoing low level of international interest rates. In 2004, the level of economic growth, at 4.8%, will reach the highest rate since 1992. As early as this quarter, however, economic activity should become less dynamic, which is attributable to the effects of the oil price hike on the global economy, among other factors. Despite fiscal policy adjustments, for next year we still anticipate solid growth of 3.5%.

External sector: trade deficit funded by service transactions

Panama's economy reflects an enormous structural trade deficit expected to reach about 9% of GDP this year. In addition, there is a deficit in the balance of income amounting to approx. 6% of GDP. The country can only afford this if a substantial volume of these deficits are offset by the immense surplus (12% of GDP) in the services account, which includes income generated by the Panama Canal. Part of the reason why Panama has continually been utilizing foreign savings for many years now (current account deficit in 2003: 3.2%) is that the bulk of the country's public-sector deficits are financed abroad. Accordingly, a change of direction will be necessary in fiscal policy, otherwise the risk spreads could see a substantial rise in the medium term.

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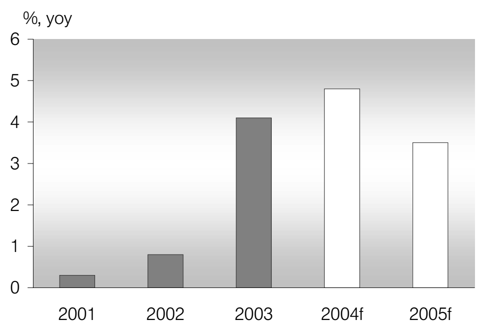
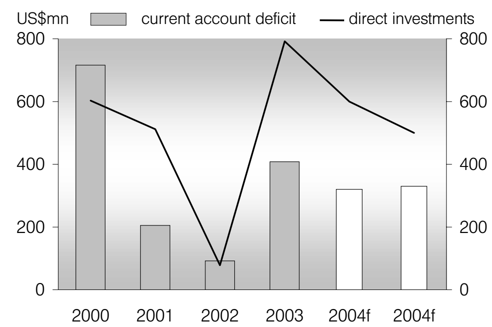
SUMMARY AND OUTLOOK

Panama has a new president. Martín Torrijos will find it considerably easier than his predecessor to tackle the urgently needed structural reforms (social insurance deficit, extension of the Panama Canal). Firstly, he received a resounding electoral mandate, and secondly, his party (the PRD) has an absolute majority in the legislature. In addition, the positive economic situation is making it easier to implement unpopular measures – such as more restrictive fiscal policy.

GDP CHANGE (REAL)



CURRENT ACCOUNT DEFICIT & FDI



PERU: UPTURN WIDENING ACROSS THE BOARD

Area	1 285 215 sq. km
Population	26.7 Mio (+ 1.5 % p.a.)
State president	Alejandro Toledo Maurique
Finance minister	Pedro Pablo Kuczynski
Central bank president	Javier Silva Ruete
Next elections	State president: 2006 Parliament: 2006
GDP per capita	US$ 2 280 (2003)
Rating	Moody's: Ba3 S&P: BB

ANNUAL FIGURES AND FORECASTS

PERU		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	0.2	4.9	4.0	4.2	4.0
GDP	US$ bn	54.0	56.9	60.9	65.9	71.1
Inflation (year-end)	%	-0.1	1.5	1.8	4.0	3.9
Inflation (average)	%	2.0	0.2	2.2	3.7	3.9
Budget balance, public sector	% GDP	-2.4	-2.3	-1.9	-1.5	-1.2
Public debt	% GDP	46	47	48	46	45
EXTERNAL SECTOR						
Merchandise exports	US$ bn	7.1	7.7	9.0	11.6	12.1
Merchandise imports	US$ bn	7.2	7.4	8.3	9.2	9.6
Trade balance	US$ bn	-0.1	0.3	0.7	2.4	2.5
Current account balance	US$ bn	-1.0	-1.2	-1.1	-1.0	-0.8
Current account balance	% GDP	-1.9	-2.1	-1.8	-1.5	-1.1
Net foreign direct investment	US$ bn	1.1	2.4	1.3	1.1	1.0
Foreign exchange reserves, year-end	US$ bn	8.6	9.6	10.2	11.4	11.3
Import cover	months**	9.1	9.8	9.3	8.6	8.4
US$ exchange rate, year-end	Soles	3.44	3.51	3.46	3.40	3.40
US$ exchange rate, average	Soles	3.48	3.48	3.48	3.43	3.39
FOREIGN DEBT						
Gross foreign debt	US$ bn	27.6	28.7	30.2	30.7	31.0
Foreign debt	% exports**	298	301	279	225	220
Short-term foreign debt	US$ bn	6.1	6.0	5.1	5.0	5.4
Foreign debt amortization	US$ bn	2.2	2.2	2.1	1.9	2.0
Foreign debt service	US$ bn	3.7	3.8	3.8	3.6	3.8
Foreign debt service	% exports**	40.6	39.6	34.6	25.8	26.9

**goods and services e=estimate f=forecast

Domestic sector: light on the horizon

The ruling party has lost its dominance in congress, and numerous fresh scandals are endangering the government's reputation. Nevertheless, some calm was restored in the political environment in the second quarter. The key opposition leader, ex-president Alán García, lost some popularity after joining protests against orthodox economic policy measures adopted by the government. At the same time, the completion of the Camisea gas pipeline gave rise to celebrations. While the government's approval ratings are still extremely low (just over 10%), this could change if the domestic economy picks up momentum. We perceive the recent surge in private capital goods investments (second quarter: +12% year-on-year) as a first sign of growing confidence in the country's future economic development. Even though the growth rate of private consumption was disappointing in the second quarter, in view of the low level of unemployment (July: 8.1%) we anticipate that private consumer spending will recover in the course of the year. In conjunction with further dynamic growth in foreign demand, in our opinion the current economic activity indicators justify revising our growth forecast upward from 3.8% previously to 4.2% at present.

The recent increase in the inflation rate (August: 4.6%) poses a challenge to the central bank in the sense that it will need to depart from its past expansionary monetary policy course without risking an exaggerated appreciation of the sol in relation to the US$. In view of the country's high degree of dollarization (the dollar share of money supply M3 is 50% and 70% in the case of lending) and existing currency risks in the financial statements of banks and other corporations, a dramatic appreciation of the sol might entail the danger of distortions being caused in some economic sectors.

External sector: profit transfers impairing current account

Even though the ratio of export to import prices (terms of trade) has deteriorated significantly since March due to increased oil and stagnating metal prices and an improvement in the prices structure is hardly likely in the forthcoming months, rising export volumes guarantee trade surpluses at a high level (see chart). As a result, the trade surplus is likely to rise this year in spite of accelerated import growth. On the other hand, contrary to previous assumptions this trend will not be reflected in a corresponding improvement in the current account as it will be offset by a drastic increase in profit transfers (first semester: +70% year-on-year). The latest figures indicate that these payments are set to undergo a further rise. Nevertheless, the central bank should find it easy to continue widening its holdings of foreign currency reserves since high inflows of direct investments have been recorded e.g. to facilitate gas exports and develop a further copper mine.

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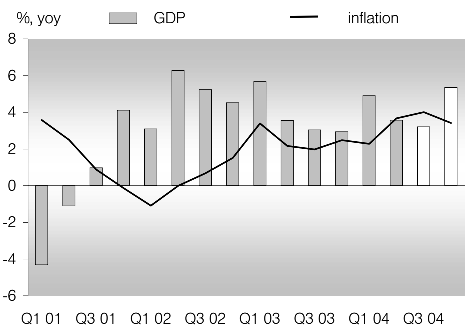
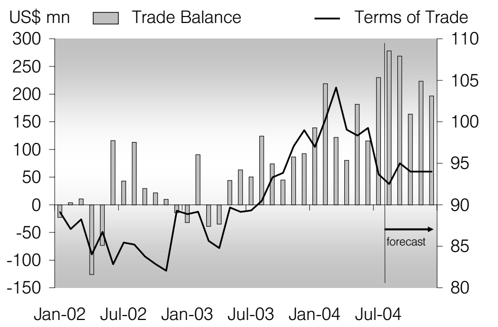
SUMMARY AND OUTLOOK

Despite a massive increase in trade surpluses, the current account deficit will not see a significant decline this year, the main reason being an increase in earnings from direct investments to be transferred to foreign investors this year. In our assessment, this increase in private profit remittances represents a sustained shift. By 2006 at the latest, however, the current account deficit should be reduced on account of exports of natural gas (the production of which recently commenced in the country) as well as further increases in metal exports.

GDP CHANGE (REAL) & INFLATION



TRADE BALANCE & TERMS OF TRADE



URUGUAY: RUN-UP TO THE PRESIDENTIAL ELECTIONS

Aera	174 800 sq.km
Population	3.4 million (+ 0.7% p.a.)
State president	Jorge Batlle
Finance minister	Isaac Alfie
Central bank president	Julio De Brun
Next elections	State president and Parliament:: 31. October 2004
GDP per capita	US$ 3 260 (2003)
Rating	Moody's: B3 S&P: B-

ANNUAL FIGURES AND FORECASTS

URUGUAY		2001	2002	2003e	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	-3.5	-10.8	2.5	10.0	4.0
GDP	US$ bn	18.7	11.9	10.9	12.6	13.4
Inflation (year-end)	%	3.6	25.9	10.4	11.0	7.0
Inflation (year-average)	%	4.4	14.0	19.4	9.8	8.6
Budget balance, public sector	% GDP	-4.3	-4.2	-3.3	-2.8	-2.6
Public sector debt	% GDP	54.0	95.8	114.3	107.6	91.0
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2139	1861	2194	2843	3042
Merchandise imports	US$ mn	2915	1873	2087	2747	3021
Trade balance	US$ mn	-775	-12	107	97	21
Current account balance	US$ mn	-488	251	52	187	201
Current account balance	% GDP	-2.6	2.1	0.5	1.5	1.5
Net foreign direct investment	US$ mn	319	50	100	150	200
Foreign exchange reserves, year-end	US$ mn	3097	777	2087	2300	2600
Import cover *	months	8.1	3.1	7.6	7.1	7.5
US$ exchange rate, year-end	Pesos	14.1	27.4	29.3	30.0	32.8
US$ exchange rate, average	Pesos	13.3	21.3	28.4	33.6	31.4
FOREIGN DEBT						
Gross foreign debt**	US$ bn	8.9	10.5	12.0	13.3	14.4
Foreign debt**	% exports*	218	334	365	331	335
Short-term foreign debt**	US$ bn	2.7	1.3	1.0	1.5	2.0
Foreign debt service	US$ bn	0.9	1.4	1.4	1.4	1.9
Foreign debt service	% exports*	22	46	42	35	44

* goods and services   ** excl. deposits of foreigners   e=estimate f=forecast

Domestic policy : election victory by opposition possible

In opinion polls for the presidential and parliamentary elections scheduled for October 31 this year, the presidential candidate of the leftist opposition (Encuentro Progresista - Frente Amplio, EP-FA), Tabaré Vázquez, clearly is in the lead with an average of approx. 47%, before Jorge Larrangaña (Partido Nacional, just under 30%) and the candidate of the ruling Partido Colorado (Guillermo Sterling, approx. 10%). Unless one candidate gains the absolute majority in the first ballot, a run-off ballot will be held on November 28. A repetition of events in 1999, when Tabaré Vázquez won the first round and lost in the second ballot cannot be ruled out, if rather remote from today's perspective. After 170 years' rule by Colorados and Blancos, respectively, (only interrupted by the military dictatorship from 1973 through 1984), a different alliance of parties could rule the country for the first time. We do not anticipate a problematic change, however. Since 1991, the EP-FA has been in power in Montevideo, home to roughly half the country's population. As mayor of the capital, Tabaré Vázquez acquired a reputation as a pragmatic politician. The country's stability-oriented economic policy is likely to remain in place even in the event of a change of government.

Domestic economy: solid upturn

The recovery of the Uruguayan economy, which began in the first half of 2003, is continuing unabated. A positive factor is that since the end of 2003 the upturn has led to an appreciable increase in employment figures, with private consumption also rising significantly. Initially fueled primarily by exports, the upturn is therefore also being underpinned by consumption, and investments are increasing. In the first quarter of this year, seasonally adjusted GDP was up by 1.7% on the previous quarter (14.3% year-on-year), with private consumption, investments and exports substantially higher than the previous year (by +13.1%, +57.5% and +18.8%, respectively). For the year as a whole, we anticipate an economic growth rate of 10%, which should weaken to 4% next year. Higher prices of crude oil and electricity made a decisive contribution to the increase in the inflation rate to 10.2% in July (year-on-year). However, as monetary policy will probably remain restrictive, this will ensure that the target inflation rate band (7% to 9%, year-on-year) will only be exceeded slightly (approx. 11%) in December. The foreign trade boom continues: both exports and imports in the first half of the year were up on the respective year-on-year figures by approx. 40%. In terms of exports, in addition to high world market prices of meat, an increased level of demand from Argentina and Brazil is making a positive impact. In imports, it is encouraging to see that investment goods in particular are showing high growth rates. As in the previous year, the trade surplus for the year as a whole should be in the region of US$ 100 million. With revenues in the tourism sector continuing to grow, the current account surplus will probably rise to approx. US$ 200 million (1.5% of GDP).

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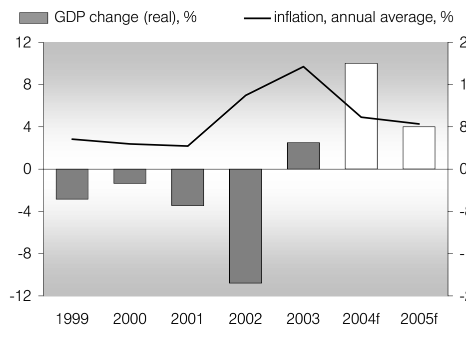
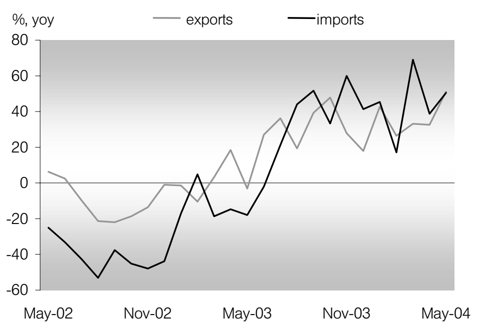
SUMMARY AND OUTLOOK

Uruguay will go to the polls to elect a new president on October 31. The most promising candidate is Tabaré Vázquez of the leftist opposition alliance EP-FA appears to have good chances to win the election. We do not anticipate an abandonment of the country's stability-oriented economic policy even in the event of a change of government. – The basis of the country's economic recovery has broadened. In the current year, GDP growth will probably amount to 10%, which we expect to weaken to 4% next year.

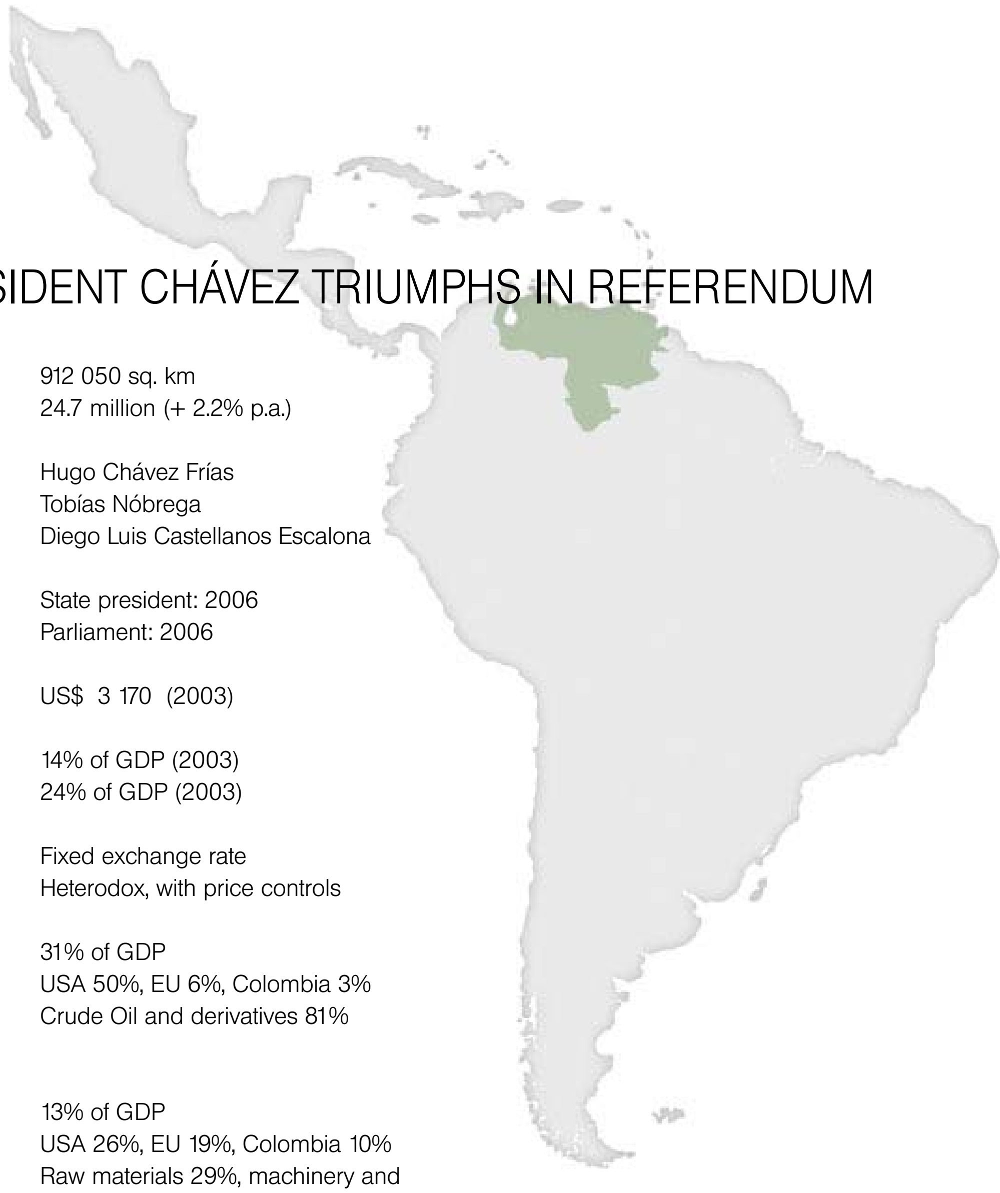
GDP CHANGE (REAL) & INFLATION



EXTERNAL TRADE



VENEZUELA: PRESIDENT CHÁVEZ TRIUMPHS IN REFERENDUM



Area	912 050 sq. km	
Population	24.7 million (+ 2.2% p.a.)	
State president	Hugo Chávez Frías	
Finance minister	Tobías Nóbrega	
Central bank president	Diego Luis Castellanos Escalona	
Next elections	State president: 2006 Parliament: 2006	
GDP per capita	US$ 3 170 (2003)	
Investment	14% of GDP (2003)	
Savings	24% of GDP (2003)	
Exchange rate system	Fixed exchange rate	
Monetary policy	Heterodox, with price controls	
Exports of goods (2003)	31% of GDP	
Purchasing countries	USA 50%, EU 6%, Colombia 3%	
Products	Crude Oil and derivatives 81%	
Imports of goods (2003)	13% of GDP	
Supplier countries	USA 26%, EU 19%, Colombia 10%	
Products (1999)	Raw materials 29%, machinery and Equipment 22%	
Rating:	Moody's: B2	S&P: B

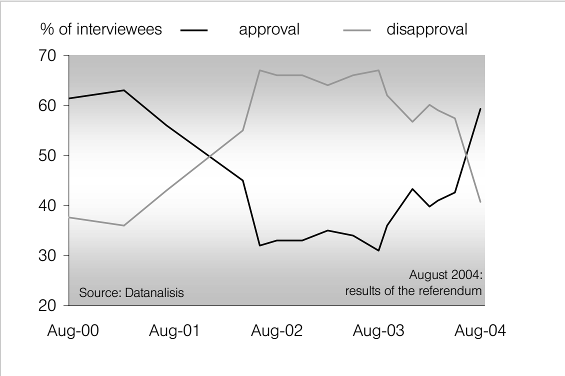
SUMMARY AND OUTLOOK

The attempt to oust president Chávez by a referendum has failed. The president, who gained some 59% of all valid votes in the referendum, now is more firmly entrenched than ever before, and he now stands better chances of being re-elected at the end of 2006. However, the opposition has raised allegations of electoral fraud even though international observers failed to detect any evidence to support its claim. The president considers himself strengthened, not only thanks to having won the referendum, but also by the country's economic development. Stimulated by ongoing high oil prices and a substantial expansion in public spending meanwhile spilling over to boost private consumption and investment demand, GDP grew by 13.6% in the second quarter (year-on-year). Accordingly, we now anticipate a growth rate of 12.8% for 2004 (previously 10.5%). The external sector situation remains favorable. While foreign currency reserves have not risen in recent weeks, this is primarily attributable to special operations of the state-owned oil company PDVSA.

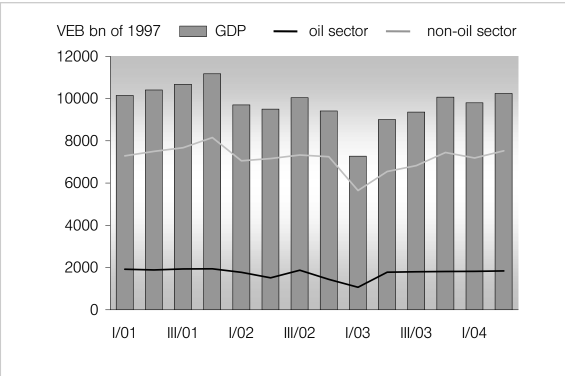
VENEZUELA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3.4	-8.9	-7.6	12.8	4.5
GDP	US$ bn	126.1	95.2	85.5	100.6	108.0
Inflation (year-end)	%	12.3	31.2	27.1	21.0	24.0
Inflation (average)	%	12.5	22.4	31.1	22.3	22.1
PUBLIC SECTOR						
Budget balance, central government	% GDP	-4.2	-3.5	-4.3	-3.0	-3.5
Budget balance, public sector	% GDP	-4.5	-1.0	0.2	0.5	-1.0
Public debt	% GDP	30	42	45	35	35
Amortization	US$ bn	5.0	7.3	10.8	4.6	3.6
Gross financing needs	US$ bn	10.6	8.2	10.7	4.1	4.7
EXTERNAL SECTOR						
Merchandise exports	US$ bn	26.7	26.7	25.8	35.9	32.0
Merchandise imports	US$ bn	18.7	13.6	10.7	16.2	17.8
Trade balance	US$ bn	8.0	13.0	15.0	19.7	14.2
Current account balance	US$ bn	2.5	7.6	9.5	12.4	6.2
Current account balance	% GDP	2.0	8.0	11.2	12.3	5.8
Net direct investment	US$ bn	3.5	-0.3	1.4	1.5	2.0
Foreign exchange reserves, year-end **	US$ bn	15.5	11.4	16.7	18.4	20.4
Import cover **) ***)	months	6.6	6.4	10.9	9.2	9.4
US$ exchange rate, year-end	Bolívar	758	1387	1598	1918	2400
US$ exchange rate, average	Bolívar	724	1160	1611	1884	2240
FOREIGN DEBT						
Gross foreign debt	US$ bn	34.2	34.1	35.1	32.0	32.5
Foreign debt	% exports ***	112	116	125	87	100
Short-term foreign debt	US$ bn	3.9	3.5	3.5	2.6	2.2
Foreign debt amortization	US$ bn	2.5	2.9	1.7	5.3	3.0
Foreign debt service	US$ bn	5.1	4.9	4.2	8.1	5.5
Foreign debt service	% exports ***	17	17	15	22	17
FINANCIAL MARKETS (year-end)						
Deposit rate, 90 days	%	19.5	26.1	14.2	14.0	18.0
ICB stock index (Bolívar based, 2004: 09/02)		6570	8015	22204	27247	
IFCG stock index (US$ based, 2004: 09/02)		246	159	182	243	
Bond market yield spread (2004: 09/02)*	bp	1130	1127	534	545	

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

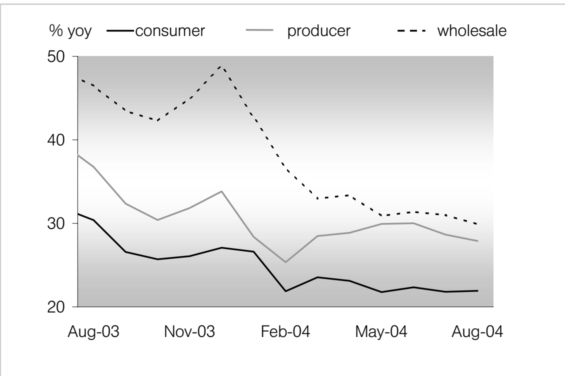
PRESIDENT CHÁVEZ' POPULARITY



GROSS DOMESTIC PRODUCT (REAL)



INFLATION



Domestic policy: referendum reinforcing Chávez

President Chávez' unexpectedly clear victory in the referendum of August 15 has revealed the opposition's weakness. Without an unequivocal leadership and a firm definition of political and economic perspectives, any attempts at ousting the president are bound to fail in future, too. At least, this will be the case as long as the president's policies, which are evidently meeting with support from a substantial share of the population, can be financed by high oil export revenues. The opposition's adherence to allegations of electoral fraud appears to be backfiring on it as this is delaying its urgently required reorientation. Even if it does field candidates for the gubernatorial and mayoral elections scheduled for October 31 – an issue still to be decided internally – in our view its chances are slim. A further weakening is imminent because several opposition members of parliament are likely to lose their seats on account of referendums held to oust them on the same day. This will further reduce the faction of Chávez opponents already in the minority in parliament. And Chávez' victory in the referendum will reinforce his resolve to adhere to his past approach to politics and economic policy. He has already announced plans to intensify the government's social projects and to apply the law of 2001 providing for confiscation of unused land. In addition, his followers will make every effort to extend their influence in the country's political institutions, bringing about a further consolidation of the president's position.

Fiscal policy: strong surge in spending

The ongoing high oil price, the economic revitalization and evidently successful efforts to render the tax collection system more efficient have enabled the central government to raise the level of spending substantially compared with the previous year. According to the central bank, in the first five months spending increased by 81.5% nominally year-on-year (in real terms: +47%), and it is quite likely that the pace of growth may have accelerated even further in the run-up to the referendum. Since revenues including substantially higher allocations from central bank profits grew by as much as 119% nominally (+77% in real terms) in the same period, the budget deficit in these five months is expected to have remained below 0.5% of the anticipated annual GDP figure. It must be taken into account, though, that the government is meanwhile funding part of its propagated projects directly from the PDVSA budget. For the year as a whole, we now forecast a deficit of 3% of the central government's budget and anticipate a slight surplus in the budget for the entire public sector, which includes state-owned enterprises. To finance the budget, the finance minister announced a further bond issue worth US$ 300 to 500 million for September or

October, to be acquired by investors in national currency at the official exchange rate. Incidentally, with the aid of its majority in parliament the government took advantage of the country's good financial situation with popular appeal by lowering the rate of value added tax by one percentage point immediately before the referendum, to a current 15%, and to abolish the one per-cent tax on corporate assets entirely.

Domestic economy: revitalized economic activity

Stimulated by additional revenues generated by ongoing high oil prices and the surge in public spending, GDP in the second quarter, at 13.6%, rose more sharply than anticipated. While growth in the oil sector only reached 3.5%, confirming our assumption of oil output stagnating, production in the non-oil sector expanded by 15%. High growth rates in relation to the low previous-year levels were recorded in particular by the manufacturing industry (+25.7%), the construction sector (+28.2%), distributive trade (+27.9%) and transports (+27.1%). Because these sectors dominated particularly by private companies saw substantial growth, the private sector also registered considerably higher growth than the public sector (+16.1% vs. +5.9%), in which production had not collapsed to such an extent early in 2003, however. Since the figures for the first quarter were revised upward (from 29.8% to 34.8%) and we do not anticipate a weaker level of domestic demand for the second semester, we now assume that GDP growth for the year as a whole will amount to 12.8% (previously 10.5%). However, even in light of this increased growth, GDP in real terms will nevertheless remain below the level recorded in the year 2000. Open unemployment, which remained virtually unchanged at 16% in the first semester compared with the second half of 2003, is likely to decline slightly in the wake of mounting economic activity.

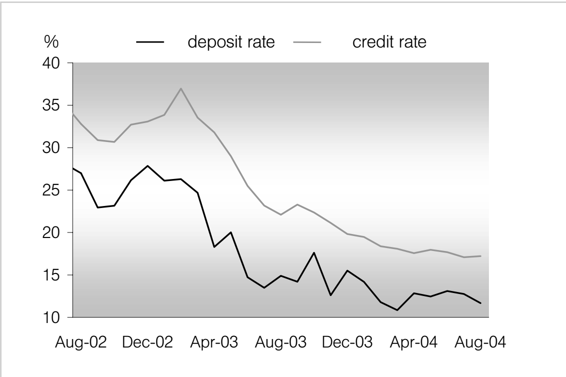
Monetary sector: price regulation remaining effective

The central bank's slightly more restrictive monetary policy since May of this year, an increasing supply of U.S. dollars made available by the exchange control authority Cadivi, a lower increase in producer prices and ongoing price regulation have contributed toward a tendency for consumer price inflation to decline in spite of revitalized demand. In August, the annual rate only amounted to 21.9% (August 2003: 30.4%) year-on-year. Since general conditions presumably will not change for the rest of this year, we anticipate that the inflation rate will be in the region of 21% at the end of December.

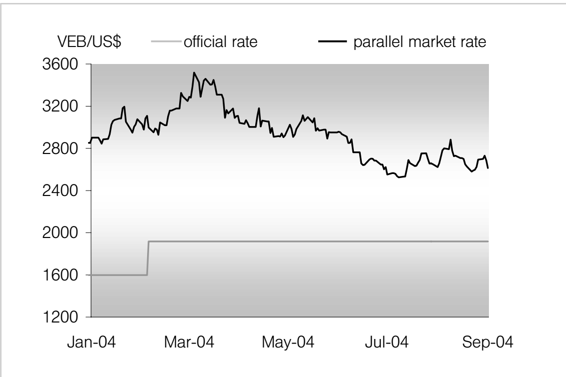
External sector: growth in forex reserves coming to a halt

The current account balance in the second quarter of this year, at just

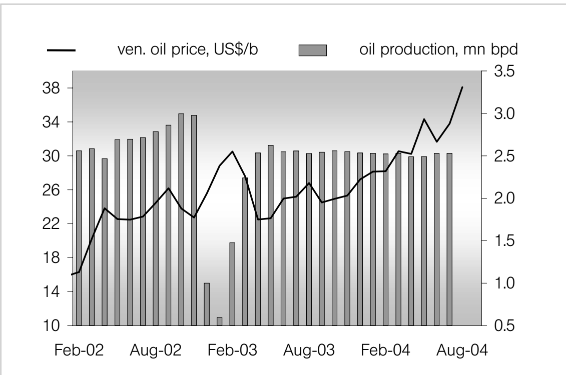
INTEREST RATES



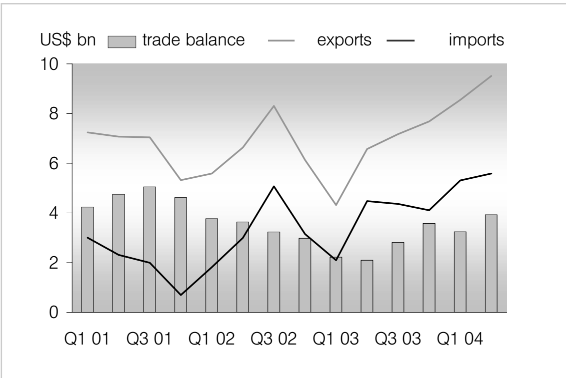
EXCHANGE RATE



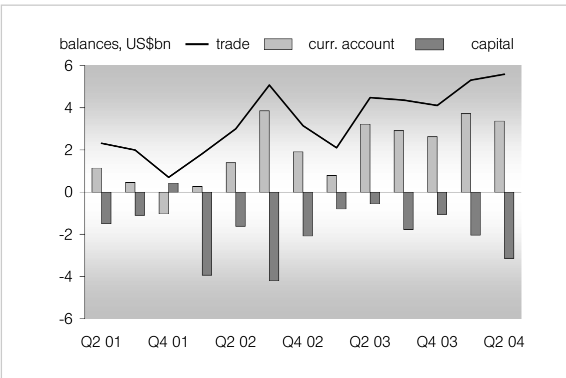
OIL PRICES & PRODUCTION



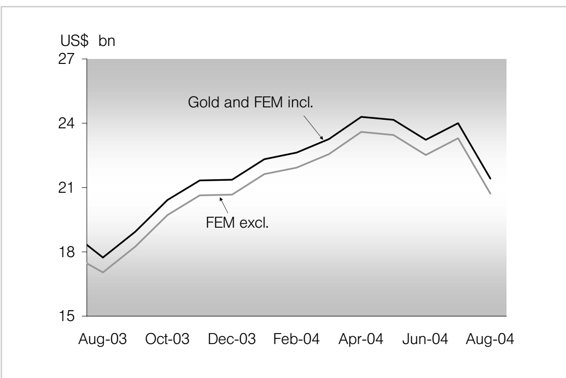
EXTERNAL TRADE



BALANCE OF PAYMENTS



FOREIGN EXCHANGE RESERVES



under US$ 3.4 billion, showed an only slightly lower surplus than in the first quarter (+US$ 3.7 billion). Growth of the trade surplus, which came about due to higher oil prices despite higher imports, was partly offset by a substantial surge in interest and profit transfers by foreign corporations. For the first half of the year, the current account surplus totaled US$ 7.1 billion and thus was significantly higher than in the same period in 2003 (US$ 4.6 billion). Since we have raised our oil price forecast again for the current year, we now anticipate a current account surplus of US$ 13.4 billion for 2004 (previously: US$ 10.5 billion). In the second quarter, the capital account (including residual items) saw a substantially higher deficit of US$ 3.1 billion than in the first quarter (-US$ 2.0 billion) in spite of ongoing exchange controls. This trend, which also explains the only slight increase in foreign currency reserves, is attributable to outflows of foreign exchange associated with a reduction of foreign debt and an increase in deposits with foreign banks. In the course of the third quarter, foreign currency reserves have fallen significantly due to the PDVSA debt buyback amounting to US$ 2.5 billion. By the end of the year they are expected to rise again, to some extent because part of the oil export revenues retained abroad (for a development fund set up for the sum of US$ 2 billion) need to be transferred back home by the PDVSA as soon as the funds are needed to finance local projects. In addition, international oil prices are likely to remain at a high level. Nevertheless, we expect the volume of foreign currency reserves at the end of the year to exceed the previous year's level by as little as US$ 1.5 billion (with the macro-economic equalization fund FEM not being replenished in spite of the high oil prices). Venezuela's foreign debt at end-2004 should be approx. US$ 3 billion below the previous year's level.

Exchange rate: dollars cheaper again on parallel market

The exchange rate of the U.S. dollar on the parallel market, which had temporarily risen to 2,800 bolívares prior to the referendum, has since been hovering around the 2,700-bolívar mark. Due to the significantly higher supply of foreign currency made available by the exchange control authority Cadivi and the prevailing high oil price, and the prospects of a new dollar bond issue available in national currency at the official exchange rate, we do not anticipate any major depreciation of the bolívar on the parallel market. We do not expect the bolívar to depreciate on the official market this year either; in contrast, for 2005 the government appears to be planning a devaluation of the local currency by up to 15 %.

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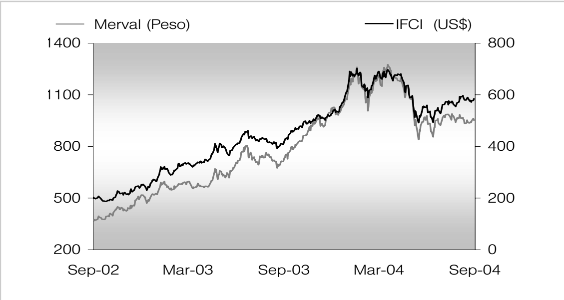
VENEZUELA: MONTHLY INDICATORS		May-04	Jun-04	Jul-04	Aug-04	next/latest
DOMESTIC ECONOMY						
Industrial production (private sector)	% yoy	**24.7**	**32.2**			Sep 5-10
Car sales	% yoy	94.0	107.8	**100.7**		Sep 5-10
Retail sales	% yoy	**22.2**	**25.7**			Sep 5-10
Wholesale sales	% yoy	**15.9**	**25.5**			Sep 5-10
Crude oil production	1000 bpd	2491	**2529**	**2530**		16-Sep
Consumer prices	% yoy	21.8	**22.3**	**21.8**	**21.9**	1-Oct
Consumer prices	% mom	1.2	**1.9**	**1.4**	**1.3**	1-Oct
Producer prices	% yoy	29.9	**30.0**	**28.6**	**27.9**	1-Oct
Producer prices	% mom	2.7	**1.8**	**0.7**	**0.6**	1-Oct
Money supply M2 *	% yoy	34.1	**33.7**	**22.8**		20-Sep
Lending rate (monthly average)*	%	17.7	**17.1**	**17.2**	**17.9**	
Deposit rate (monthly average)*	%	13.1	**12.8**	**11.7**	**11.5**	
Interbank interest rate (month-av., until: 09/02)*	%	3.1	5.6	**3.6**	**3.3**	**3.5**
Credit volume *	% yoy	72.5	**85.8**	**89.5**		20-Sep
Deposits *	% yoy	60.3	**58.9**	**41.9**		20-Sep
EXTERNAL SECTOR						
Oil price (Venezuelan exports, latest: 08/27)	US$/barrel	34.3	31.7	**33.8**	**38.1**	**37.9**
Oil price (Venezuelan exports, latest: 08/27)	% yoy	51.5	26.8	**34.2**	**42.2**	**45.5**
Foreign exchange reserves (CB, latest: 09/01)****	US$ bn	18.9	18.0	**18.8**	**16.0**	**16.1**
Forex reserves (FEM**, latest: 09/01)*	US$ bn	0.7	0.7	**0.7**	**0.7**	**0.7**
US$ exchange rate (latest: 09/02)*	Bolívar	1917.6	1917.6	**1917.6**	**1917.6**	**1917.6**

VENEZUELA: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	-6.7	7.0	34.8	**13.6**	20-Nov
GDP, private sector	% yoy	-8.4	3.2	32.0	**16.1**	20-Nov
GDP, public sector	% yoy	-1.9	13.4	38.4	**5.9**	20-Nov
Oil sector	% yoy	-3.9	25.8	70.1	**3.5**	20-Nov
Manufacturing industry	% yoy	-92.2	-90.2	53.9	**25.7**	20-Nov
Financial services and real estate	% yoy	-98.9	-98.6	38.9	**32.4**	20-Nov
Commerce	% yoy	-92.9	-91.8	42.9	**27.9**	20-Nov
Budget balance, public sector	VEB bn	**2445**	**-3149**			
EXTERNAL SECTOR						
Merchandise exports	US$ bn	7.17	7.68	8.55	**9.52**	20-Nov
Exports of oil and derivatives	US$ bn	5.72	6.39	7.11	**7.94**	20-Nov
Merchandise imports	US$ bn	2.81	3.58	3.24	**3.93**	20-Nov
Trade balance	US$ bn	4.36	4.11	5.31	**5.59**	20-Nov
Current account balance balance	US$ bn	2.91	2.71	3.72	**3.37**	20-Nov
Net foreign direct investment	US$ bn	0.34	-0.05	0.03	**0.61**	20-Nov
Portfolio investment	US$ bn	-0.86	0.15	0.27	**-0.31**	20-Nov
Capital account***	US$ bn	-1.77	-1.05	-2.04	**-3.14**	20-Nov
Change in foreign exchange reserves (C.B.)#	US$ bn	-1.46	-1.66	-1.68	**-0.22**	20-Nov
Change in foreign exchange reserves (FEM)**#	US$ bn	0.33	0.00	0.00	**0.00**	20-Nov

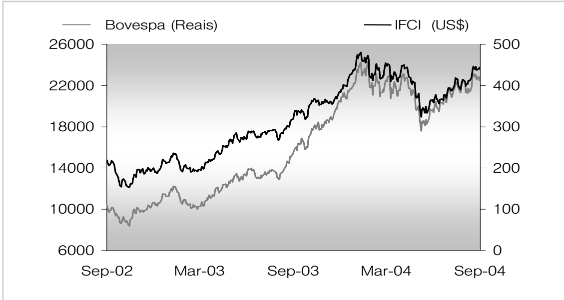
*month-end **macroeconomic stabilization fund *** incl. residual items **** Gold excluded (latest: US$ 4.4bn) # - = increase

FINANCIAL MARKETS: LATIN AMERICAN STOCK MARKET INDICES

ARGENTINA



BRAZIL



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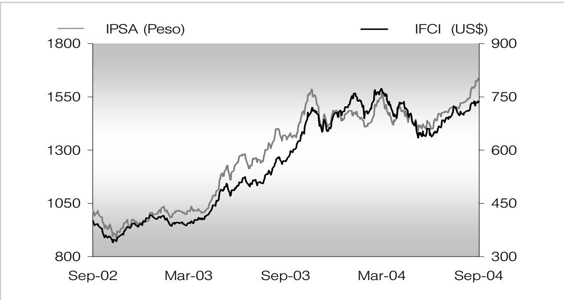

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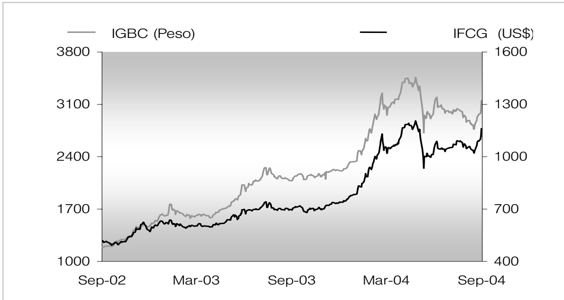
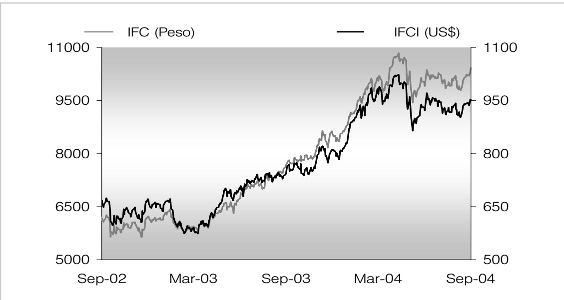


MEXICO



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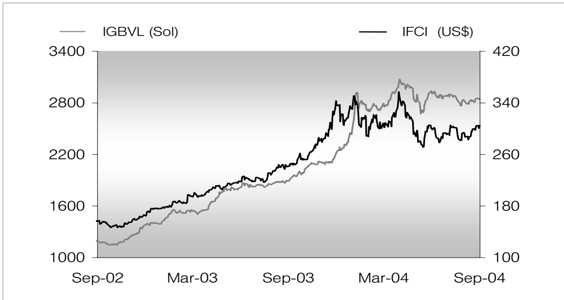

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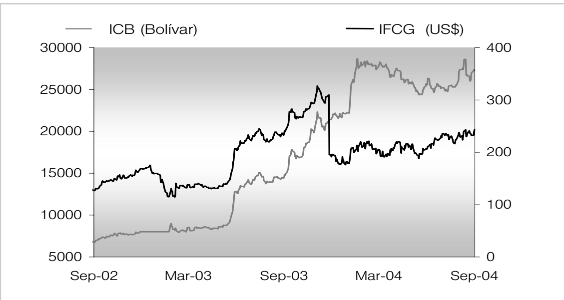
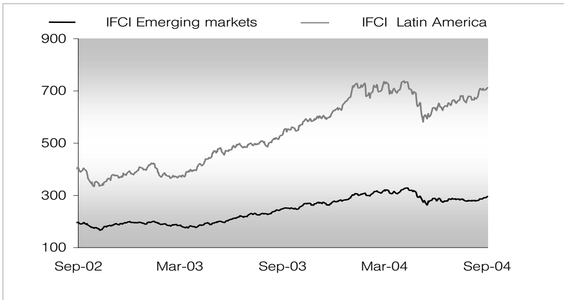


LATIN AMERICA



FINANCIAL MARKETS: LATIN AMERICAN BOND YIELD SPREADS

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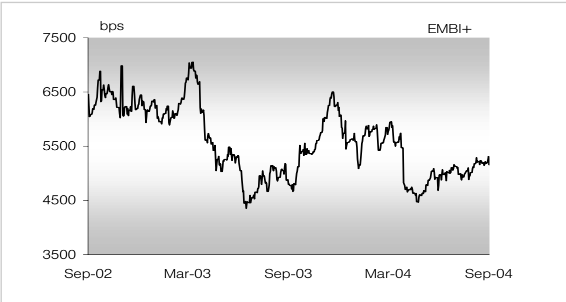

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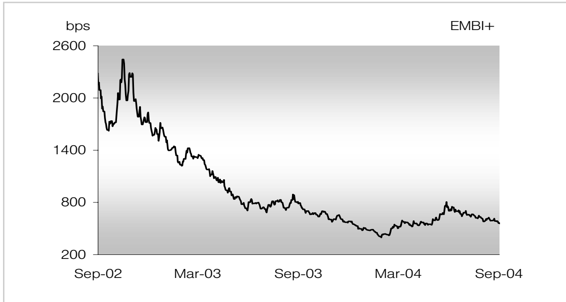

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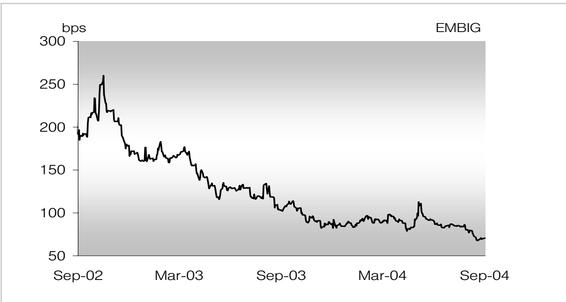

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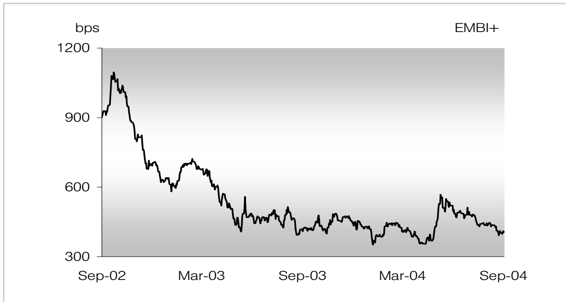
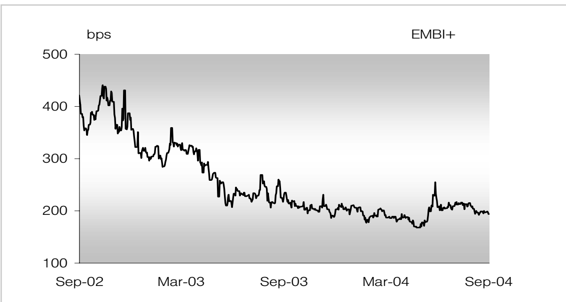


MEXICO



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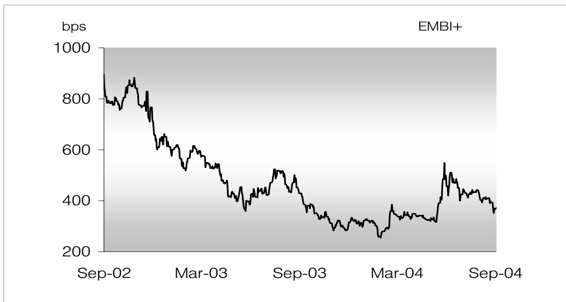

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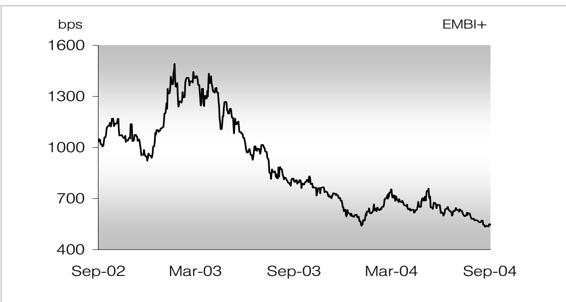
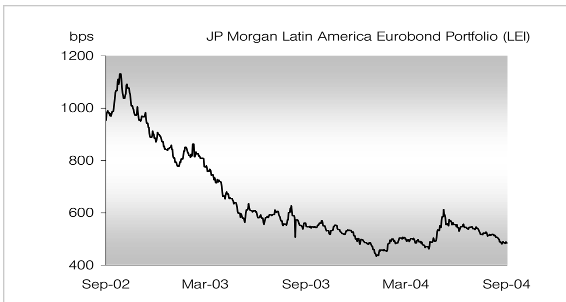


LATIN AMERICA



Dresdner Bank Lateinamerika, Spotlight 9/2004, bond yield spreads

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GLOBAL ECONOMY - FIGURES AND FORECASTS

		2002	2003	**9/2/2004**	2004f	2005f
REAL GDP CHANGE *						
Industrialized countries	% yoy	1.5	2.1		3.3	2.6
USA	% yoy	2.4	3.1		4.0	3.3
Euro area	% yoy	0.8	0.4		1.6	2.1
Germany	% yoy	0.2	-0.1		1.4	1.6
Japan	% yoy	0.2	2.7		4.1	1.9
INTEREST RATES, YEARLY AVERAGE*						
USA, 3m money market rate	%	1.8	1.2	**1.8**	1.6	3.3
USA, 10yr government bond yield	%	4.5	3.9	**4.2**	4.5	5.6
Euro area, 3m money market rate	%	3.3	2.3	**2.1**	2.1	2.7
Euro area, 10yr gov. bond yield	%	4.8	4.1	**4.0**	4.3	5.0
Japan, 3m money market rate	%	0.1	0.1	**0.1**	0.1	0.1
Japan, 10yr government bond yield	%	1.2	1.0	**1.5**	1.6	2.0
EXCHANGE RATES, YEARLY AVERAGE *						
US$/ Euro	US$	0.95	1.13	**1.22**	1.23	1.25
Yen/ US$	YEN	125	116	**109**	108	105
Yen/ Euro	YEN	118	131	**133**	133	131
COMMODITY PRICES, YEARLY AVERAGE						
Coffee (other milds)	c/lb, NY	60.3	64.1	**77.3**	75.0	75.0
Soybeans	c/bushel	505	627	**646**	800	750
Copper	c/lb, LME	72.0	81.0	**127.5**	120.0	105.0
Crude oil (WTI)	US$/b	26.1	31.0	**44.0**	39.0	36.5
Crude oil (Brent)	US$/b	25.1	28.8	**41.7**	36.5	34.5
Gold	US$/ounce	310	364	**408**	400	390

* Source: Dresdner Bank AG

f=forecast