Latin American Spotlight

December 2004

Dresdner Bank Lateinamerika AG
formerly Deutsch-Südamerikanische Bank AG

A company of the **Allianz Group**

LATIN AMERICA AT A GLANCE

DOMESTIC ECONOMY	GDP change in % (real)			Inflation in % (year-end)			Public sector debt in % of GDP		
	2003	2004f	2005f	2003	2004f	2005f	2003	2004f	2005f
Argentina	8.8	7.5	4.0	3.7	5.6	7.5	140	128	122
Bolivia	2.5	4.0	4.0	3.9	3.9	4.5	68	75	78
Brazil	0.5	4.9	3.9	9.3	6.9	5.8	58	53	51
Chile	3.3	5.7	5.3	1.1	2.8	3.1	13	12	11
Colombia	3.7	3.6	3.8	6.5	5.8	5.4	62	58	55
Costa Rica	6.5	3.7	2.5	9.9	10.2	11.3	58	60	62
Dominican Republic	-0.4	1.5	2.0	42.8	35.5	12.7	58	51	48
Ecuador	2.5	5.8	2.8	6.1	2.0	0.9	53	49	47
El Salvador	1.8	2.0	1.3	2.5	5.8	4.5	36	36	35
Guatemala	2.1	2.5	2.5	5.6	8.3	6.5	24	25	25
Honduras	3.2	3.7	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	3.9	3.0	4.0	5.1	3.6	28	28	28
Nicaragua	2.3	4.0	3.0	6.5	10.3	8.0	203	115	110
Panama	4.1	4.8	3.5	1.0	3.0	2.2	71	70	70
Paraguay	2.6	3.0	2.5	14.3	5.4	4.5	47	43	43
Peru	4.0	4.5	4.0	1.8	3.8	3.9	48	46	42
Trinidad & Tobago	4.4	6.0	7.0	3.5	4.5	4.8	31	28	25
Uruguay	2.5	10.0	4.0	10.4	11.0	7.0	114	108	91
Venezuela	-7.6	17.0	4.5	27.1	18.7	16.4	45	34	32
Latin America (20 countries)	1.5	5.2	3.6	6.7	6.3	5.4			

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	3.3	1.5	5.8	6.3	6.0	412	364	361
Bolivia	0.2	3.1	0.6	3.7	3.5	2.9	259	198	226
Brazil	0.8	1.8	1.6	7.1	5.9	6.3	271	205	183
Chile	-0.8	2.4	-0.2	6.8	5.3	4.9	161	117	117
Colombia	-1.8	-1.3	-1.4	6.4	6.5	6.5	249	242	240
Costa Rica	-5.8	-7.3	-6.5	2.3	1.8	1.6	69	71	70
Dominican Republic	5.3	5.1	3.3	0.3	1.0	0.9	89	83	84
Ecuador	-1.7	-0.1	-2.4	1.0	1.3	0.9	233	204	211
El Salvador	-5.0	-5.1	-4.3	3.4	2.9	2.6	156	164	163
Guatemala	-4.5	-4.9	-4.9	4.7	4.7	4.0	135	141	137
Honduras	-3.7	-6.0	-5.6	4.2	4.1	4.0	202	205	168
Jamaica	-12.0	-10.7	-10.8	2.4	3.9	3.5	104	107	103
Mexico	-1.4	-1.3	-1.9	3.5	3.4	3.1	90	79	76
Nicaragua	-18.8	-19.7	-18.3	2.3	2.6	3.0	501	226	213
Panama	-3.2	-2.4	-2.3	1.3	1.4	1.5	97	96	97
Paraguay	2.6	0.5	-1.4	3.8	3.8	3.8	107	99	101
Peru	-1.8	-1.2	-0.8	9.3	9.3	9.5	279	218	213
Trinidad & Tobago	9.0	18.1	18.6	6.0	5.9	6.3	92	69	64
Uruguay	0.5	1.5	1.5	7.6	7.1	7.5	365	331	335
Venezuela	12.8	14.6	8.0	10.9	8.9	9.0	125	83	92
Latin America (20 countries)	0.4	1.0	0.1	5.1	5.0	4.9	183	153	147

* goods and services

f=forecast

TABLE OF CONTENTS

LATIN AMERICA: CONTINUING GOOD PROSPECTS FOR 2005

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

ANNUAL FIGURES AND FORECASTS

LATIN AMERICA (20 countries)		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	0.6	-0.2	1.5	5.2	3.6
GDP	US$ bn	1894	1665	1711	1923	2070
Inflation (year-end)	%	5.5	11.4	6.7	6.3	5.4
EXTERNAL SECTOR						
Merchandise exports	US$ bn	349	351	381	463	481
Merchandise imports	US$ bn	352	329	339	403	436
Trade balance	US$ bn	-3.6	22.3	42.1	60.9	44.9
Current account balance	US$ bn	-52.4	-14.4	7.1	19.2	1.1
Current account balance	% GDP	-2.8	-0.9	0.4	1.0	0.1
Net direct investment ***	US$ bn	71	44	31	43	38
Foreign exchange reserves, year-end	US$ bn	163	162	196	215	227
Import cover **	months	4.0	4.3	5.1	5.0	4.9
FOREIGN DEBT						
Gross foreign debt	US$ bn	744	752	788	780	781
Foreign debt	% exports**	180	184	183	153	147
Short-term foreign debt	US$ bn	118	120	141	168	180
Foreign debt amortization	US$ bn	98	97	125	124	84
Foreign debt service	US$ bn	150	142	168	168	134
Foreign debt service	% exports**	36	35	39	33	25
FINANCIAL MARKETS (year-end)						
IFCI stock index (US$ based, 2004: 12/01)		520	516	676	857	
Bond market yield spread (2004: 12/01)*	bps	692	823	431	408	

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

The global economic climate in 2005 was particularly favorable for Latin America: high global growth, historically low interest rates, booming primary goods prices and a relatively low level of risk aversion. This led to an unprecedented export boom and substantial direct investments, which contributed to a reduction in foreign debt and higher macroeconomic stability for the region. GDP growth of approx. 5% (Latin America's highest growth rate since 1997) went hand in hand with this development. Is this going to continue next year?

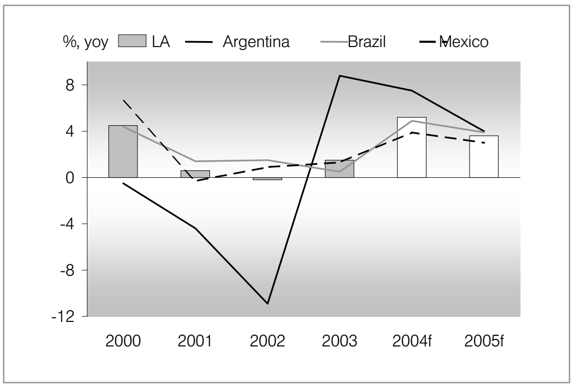
Global conditions should deteriorate slightly without this being associated with any dramatic effects, however. According to our forecast, economic growth of the industrialized countries will slow down to 2.4% (2004: 3.5%), interest rates will remain at a relatively low level in spite of the anticipated increase and average prices for primary goods will be roughly 15% down on this year but will still remain relatively high. This should push down Latin American export growth, which has amounted to 20% in the current year, to as little as 3% in 2005. The current account should balance after having recorded a surplus in the last two years. GDP growth will increasingly be underpinned by domestic consumption. Since economic growth - in particular in Venezuela - is bound to see a spectacular fall from 17% to 4.5%, average growth in the region is likely to drop to 3.5% next year.

The weaker growth in Venezuela is primarily due to the fact that an unchanged or declining oil price will prevent the government from maintaining last year's substantial spending increases. In Brazil, we expect growth to reach 3.9% (2004: 4.9%), a normal slowdown in expansion in the course of a consolidation process. Mexico's economic growth rate is likely to reach 3% (3.9% this year) since it is unlikely that domestic demand can counteract the weaknesses of the export sector on account of the decline in U.S. demand.

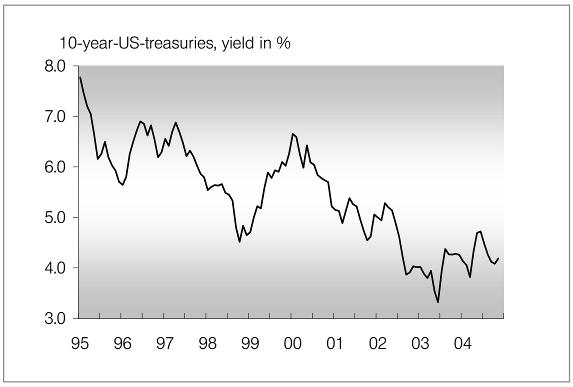
Our forecast is subject to certain risks. Aside from the persistent possibility of China making a hard landing with a corresponding negative impact on primary goods prices, the scenario of a dollar crisis currently is the subject of vehement discussion. While a pronounced weakness in the U.S. dollar would only have a limited direct impact itself (Mexican exports are likely to suffer most), such a trend might be accompanied by a sharp rise in interest rates and global risk aversion. As a result, global economic growth would also be lower than previously expected. This would impact on Latin America in the sense of significantly lower capital inflows and a substantially weaker pace of expansion. Following the adjustments of the last several years, however, on balance the region is better prepared for such shocks than it used to be in the past.

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

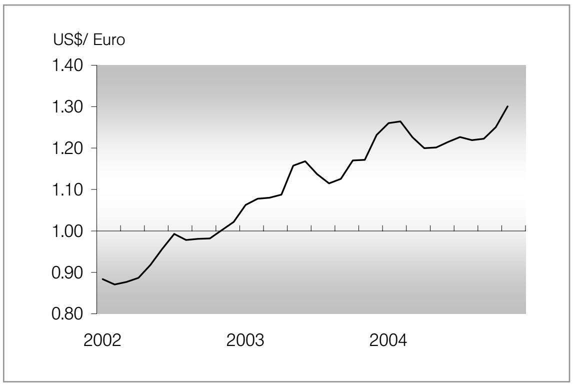
GDP CHANGE (REAL)



US LONG-TERM INTEREST RATES

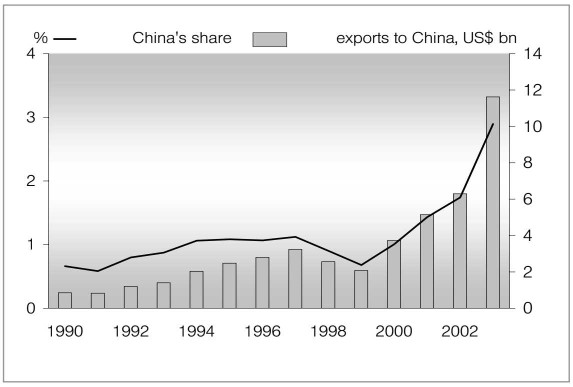


US$/EURO EXCHANGE RATE

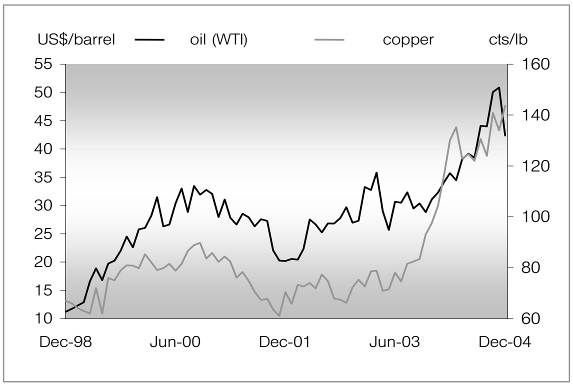


FOCUS: PERSPECTIVES LATIN AMERICA - CHINA

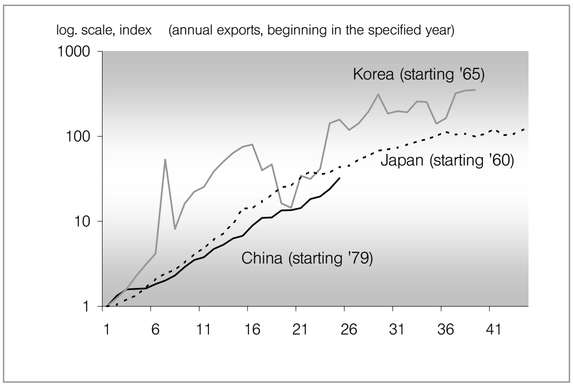
LATIN AMERICAN EXPORTS



COMMODITY PRICES



EVOLUTION OF EXPORTS



The macro-economic significance of the People's Republic of China has grown dramatically in recent years. Weighted for purchasing power, China today is the world's second-biggest economy and, at current exchange rates it still ranks in respectable seventh position. In addition, China is integrated into the global economy to an exceptionally strong degree: the country's foreign trade accounts for more than 75% of its aggregate economic output, making it far higher than in other emerging markets such as Brazil (2003: 24%) and India (22%). Next year, China is likely to become the world's third biggest exporter behind the U.S. and Germany. Until the mid-1990s, economic relations between Latin America and Chile were relatively insignificant. In recent years, however, China appears to have undergone a strategy change, accompanied by the realization that China and Latin America complement each other ideally. Latin America has the commodity reserves that China needs for further growth, and Latin America is dependent on the foreign capital that Chinese enterprises are willing to invest in the region. Accordingly, in recent years the trade between Latin America and China has witnessed highly dynamic development, with Latin America's total exports to China rising by an average of more than 50% p.a. between 1999 and 2003, while Latin American imports from China grew by some 20% per annum.

Latin American governments and entrepreneurs hope for a further intensification of economic relations between the two regions. On the occasion of the visit by Chinese president Hu Jintao, key policy issues were resolved to pave the way for future trade, with some concrete investment projects already being signed off. In addition, at the APEC summit meeting held in Santiago de Chile at the end of November, talks were announced concerning a free trade agreement between China and Chile.

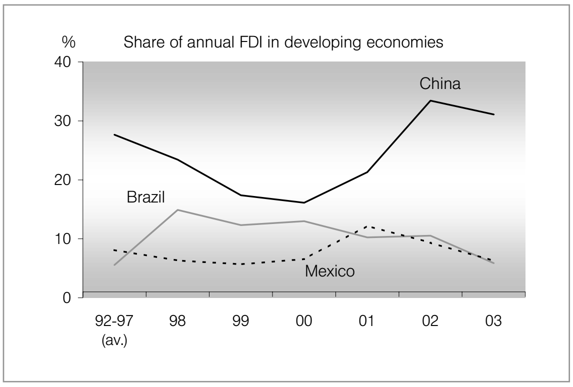
In order to be able to assess the consequences for Latin America of a closer integration of China into the global economy, the following effects need to be delineated: For one thing, China is displaying increased demand for commodities. China already is the world's most important consumer of coal, steel and copper, and the second-biggest buyer of oil. The increase in Chinese demand explains almost 2/5 of the rise in global consumption over the last four years and is the driving force behind the current boom on primary goods markets. For another, China is a very competitive producer and a key exporter of manufactured products. Chinese exports have risen by an average of 20% p.a. since 1999. A historic comparison of China's export trends with those of other emerging markets (e.g. Japan after 1960, Korea after 1965) indicates that there may be a further increase in exports. In addition, China is competing on the global market for direct investments. Foreign direct investments in China between 2001 and 2003 averaged about one and a half of the annual inflows in the period from 1992 to 1997, and about 1/3 of global direct investments in non-industrialized countries went to China last year. In the wake of this development, direct investments in Latin America saw a substantial decline. Finally, the effect of China's activities on the international capital market also needs to be taken into account. Demand for U.S. government bonds is highest from Asian central banks (with China's enjoying a front-line ranking). In recent years, this has made a considerable contribution toward maintaining the historically low long-term interest rates, boosting financial capital inflows to Latin America in particular. A decline in Chinese demand for U.S. treasuries could lead to a significant increase in long-term interest rates, with corresponding negative consequences for Latin America (see overview of Latin America in this context, p. 5).

Commodity exporters above all are likely to benefit from an intensified integration of China in the world economy. In terms of agricultural produce, in particular Brazil and Argentina are the main contenders. At present, 9% of Argentina's and 6% of Brazil's exports go to China, and between 1996 and 2003 exports to China from these countries have more than quadrupled. As regards the merchandise structure of exports to China, commodities (particularly soya and steel) make up the lion's share (more than 90%). In addition, Chile and Peru (two countries rich in mineral resources) are benefiting above average from the China boom in shipping especially copper to that country. In the first 10 months of this year, the two countries supplied about 10% of their exports to China, and between 1995 and 2003 their exports to that country increased five-fold. Among the losers – at least in the short run – are countries which, in terms of their economic structure, tend to represent competitors to China on the global market. In Latin America, the countries in question above all are those of Central America, whose exports are currently being dominated by in-bond processing for the U.S. market. Mexico in particular is already feeling the impacts (China has already overtaken Mexico in terms of exports to the U.S.), even if the country's abundant oil supply helps to offset part of the adverse effects.

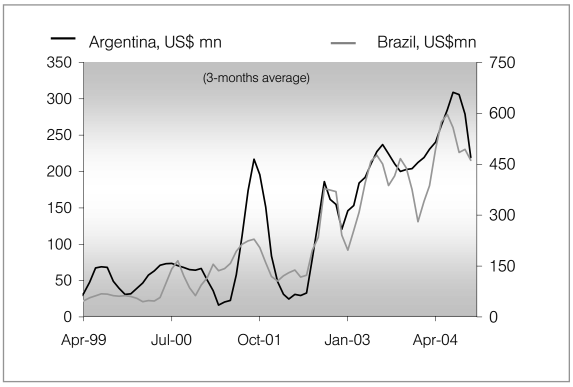
What may be said in summary is that a stronger integration of China is certainly having ambivalent consequences as far as Latin America is concerned, and will continue to do so in the future. On the whole, however, we anticipate a positive effect for the region on balance, not least because a robust China is likely to generate a positive, long-term impetus for the global economy as a whole. From a European perspective, the impact of closer cooperation between China and Latin America is not insignificant, either. The shifts taking place in global trade and the massive investments anticipated from Chinese enterprises in Latin America in forthcoming years will cause Europe's influence in that region to see a further decline. Accordingly, the failure of negotiations on a free trade agreement between the EU and Mercosur is all the more deplorable.

Thomas Pohl, +49 40 3595 3481

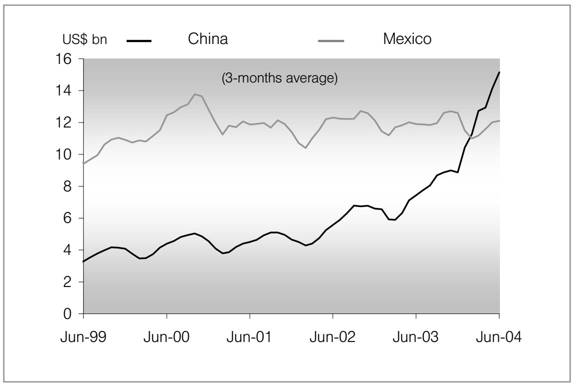
FOREIGN DIRECT INVESTMENT



EXPORTS TO CHINA



EXPORTS TO THE USA



ARGENTINA: BOND RESTRUCTURING DELAYED

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

SUMMARY AND OUTLOOK

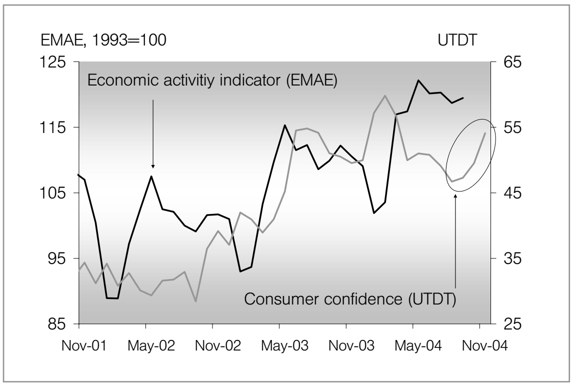
The Argentinean government will only submit a debt rescheduling proposal to its creditors in mid-January of next year after the exchange agent in the U.S. advised that it was unable to meet the scheduled commencement date (end-November of this year). Creditor organizations interpreted this as a 'sign of weakness' on the part of the Argentinean government and announced their intention to press for further improvement of the offer. We believe it is unlikely that they will succeed, however. Largely unaffected by the debt rescheduling problems, Argentina's economy has picked up strongly once again following a weak second quarter. For the year as a whole, we expect GDP to grow by 7.5%; however, this figure should drop to 4% in 2005 since production capacities will be fully utilized and investments are unlikely to see a corresponding increase.

ANNUAL FIGURES AND FORECASTS

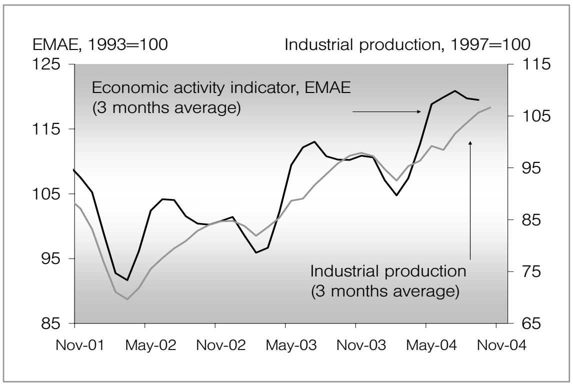
ARGENTINA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	-4.4	-10.9	8.8	7.5	4.0
GDP	US$ bn	268.9	99.1	127.3	145.1	156.8
Inflation (year-end)	%	-1.5	41.0	3.7	5.6	7.5
Inflation (average)	%	-1.1	25.9	13.4	4.4	6.3
PUBLIC SECTOR						
Budget balance, central government	% GDP	-3.2	-1.4	0.6	3.0	2.4
Budget balance, public sector	% GDP	-5.4	-1.8	1.3	4.1	2.9
Public debt*	% GDP	53.7	138.6	140.5	127.5	121.9
Amortization*	US$ bn	11.9	17.9	19.8	19.8	14.2
Gross financing needs	US$ bn	20.4	19.2	19.1	15.5	10.5
EXTERNAL SECTOR						
Merchandise exports	US$ bn	26.7	25.7	29.6	33.9	35.0
Merchandise imports	US$ bn	19.1	8.5	13.0	20.7	25.8
Trade balance	US$ bn	7.6	17.2	16.5	13.3	9.1
Current account balance****	US$ bn	-4.0	9.6	7.9	4.7	0.6
Current account balance****	% GDP	-1.5	9.7	6.2	3.3	1.5
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	19.5	21.5
Import cover **	months	4.3	5.6	5.8	6.3	6.0
US$ exchange rate, year-end	Pesos	1.00	3.37	2.93	2.95	3.10
US$ exchange rate, average	Pesos	1.00	3.15	2.95	2.94	3.01
FOREIGN DEBT *						
Gross foreign debt	US$ bn	140	136	147	152	155
Foreign debt	% exports**	385	426	412	364	361
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	77.2	61.3
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	340.0	7.5	2.0	3.0	5.0
Merval stock index (peso based, 2004: 12/01)		209	525	922	1221	
IFCI stock index (US$ based, 2004: 12/01)		379	265	502	727	
Bond market yield spread (2004: 12/01)***	bps	4404	6229	6463	5133	

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

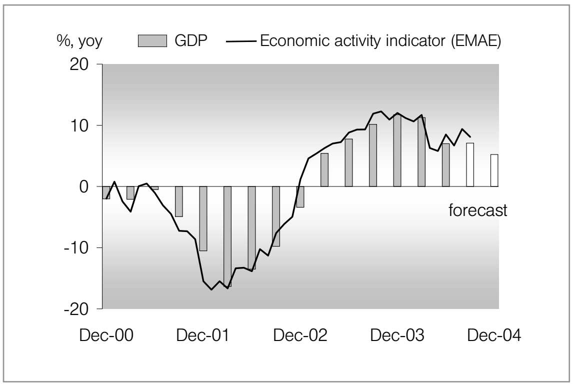
CONSUMER CONFIDENCE AND GDP



INDUSTRIAL PRODUCTION AND GDP



GDP CHANGE (REAL)



Public finances: debt rescheduling to begin in January

Two weeks before the planned restructuring of Argentinean government bonds was supposed to begin (end-November of this year), the U.S. exchange agent advised that due to the numerous changes in the swap terms it was unable to meet the planned deadline for launching the exchange. The Argentinean government now plans to begin the debt rescheduling in mid-January 2005. Further delays cannot be ruled out, however. SEC approval of the bond swap terms (expected since September) has failed to materialize to date. As regards the approval procedure in Luxembourg, Germany and Italy, the Argentine Ministry of Economy stated that it would only take a few more "minor efforts" to finalize such procedures. The swap offer has still not been published in writing so far. Based on the details that have largely been released, the fact remains that the bond swap - at an exit yield of 12% - is equivalent to a net present value loss of 75%. A cash value calculation based on an exit yield of 10% (implying a lower country risk assessment) would reduce the net present value loss to 70%.

The delay in debt rescheduling is not exactly easing relations with the IMF. It was mutually agreed to freeze the stand-by agreement expiring in October 2006 until the debt rescheduling has been finalized, with Argentina continuing to repay principal and make interest payments to the IMF but the latter not making any disbursements. Non-extendable payments in the order of US$ 800 million will become due to the IMF in the first quarter of 2005 (for the year as a whole: US$ 2.5 billion). Even though repayment of these amounts should pose no problem at this stage, given the public sector's positive financial situation, we do not believe that Argentina's government will maintain the current status over a prolonged period of time. The resumption of the stand-by agreement might also give rise to the question as to how the IMF would rate a debt rescheduling in which a large number of creditors might not participate. Should the IMF reach the conclusion that Argentina's debt rescheduling has not been successful and that the country therefore remains in default, the current IMF agreement inevitably would also be at risk.

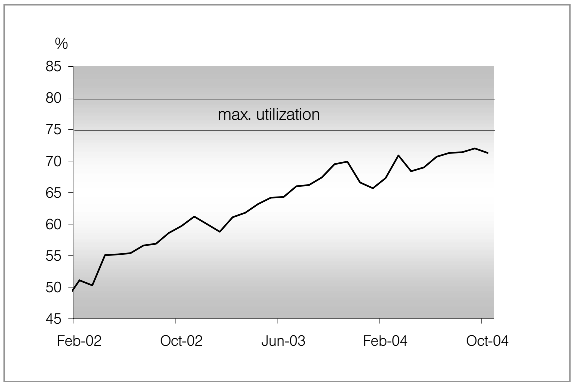
Economic activity: weak patch overcome

The latest economic indicators confirm that the poor level of economic growth in the second quarter of this year was merely a temporary phenomenon. The monthly growth rate of the economic indicator EMAE suggests that GDP growth in the third quarter was up by almost 8% (year-on-year). Adjusted for seasonal factors, the quarter-on-quarter growth rate most probably stood at just under 1.5% once again (second quarter: 0.5%). Although we expect the growth momentum to decrease slightly in the fourth quarter (to 1% quarter-on-quarter, seasonally adjusted), the year as a whole is likely to see a substantial 7.5% GDP increase, however. Growth continues to be underpinned chiefly by consumption. Consumer confidence has recently made a significant recovery again. Improved incomes decreed by the government (wages, pensions, social welfare programs) should only bear fruit in the short term, however. Exports are likewise contributing to growth after having steadily climbed in volume as well since August of this year, although net exports are set to decrease due to a sharp rise in imports. The surge in investments remains strong (forecast 2004: 33%), although the level reached will still fall 20% short of the 1998 figures in real terms. In addition, about two thirds of investments are currently accounted for by the construction sector. While investments in private housing and road construction will have a very positive impact on current economic growth due to their employment intensity, they will nevertheless only lead to a marginal expansion in production capacities which, due to their already high utilization in historical terms (October: 71%) are likely to be the key obstacle to growth next year. Investments in fixed assets are likely to see only an unsatisfactory increase next year, since the domestic banking sector (which has stabilized since the 2002 crisis) is still unable to provide sufficient long-term financing. The uncertain outlook for the country in the medium term is an additional impediment to capital investment as economic policy-makers maintain their anti-market stance and the level of legal certainty has decreased. Government subsidies will fail to maintain the current year's sharp rise in consumption on a sustained basis. We expect economic growth to drop to 4% in 2005.

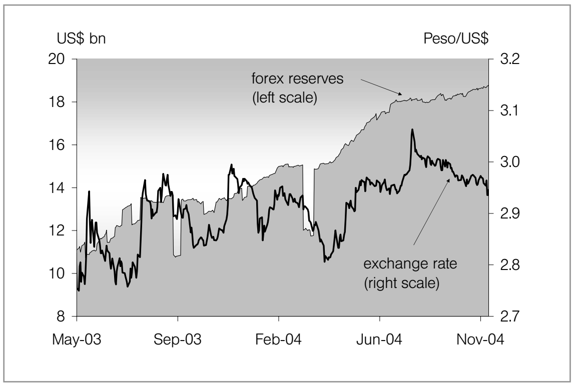
Monetary sector: everything under control

Due to the trade surpluses generated, the peso remains under appreciation pressure. In order to reinforce the competitiveness of exports, the central bank continues to respond with US dollar purchases (recently just under US$ 50 million on a daily basis). According to its own calculations, this enabled the central bank to effect a real trade-weighted devaluation of the peso of just under 6% between October and April. In spite of the associated peso sales on the market, the planned expansion of the monetary base has not been exceeded so far, meaning that a sterilization of forex interventions by means of open market transactions has not become necessary as yet. Among other things, this is due to the fact that the banks, by repaying the

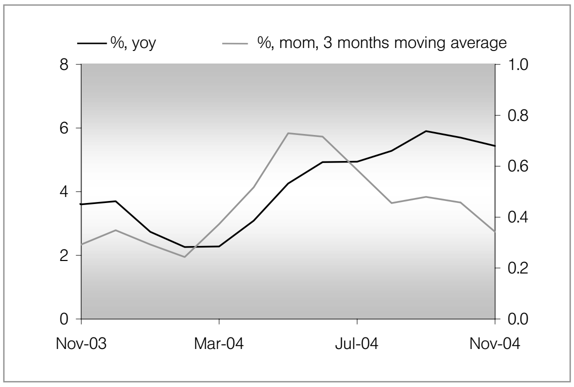
INDUSTRIAL CAPACITY UTILIZATION



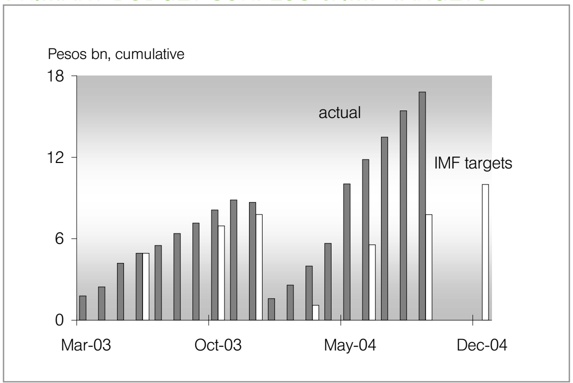
EXCHANGE RATE AND FOREIGN RESERVES



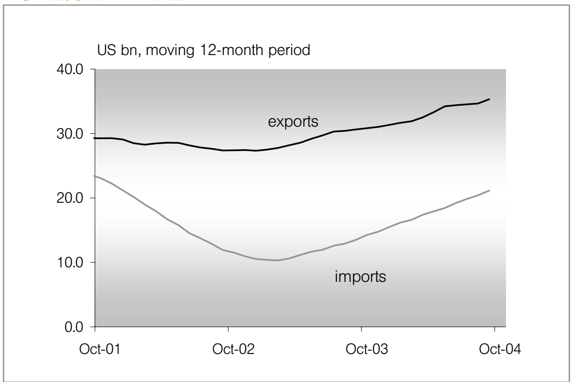
INFLATION



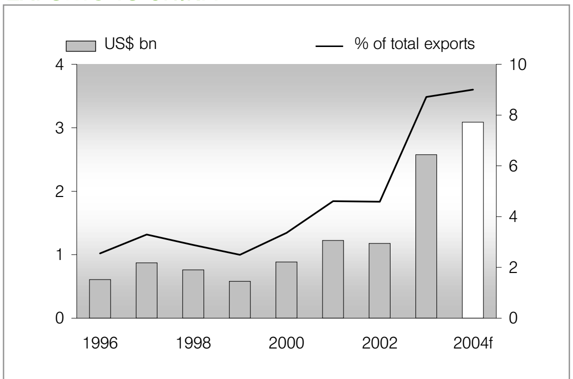
PRIMARY BUDGET SURPLUS & IMF TARGETS



FOREIGN TRADE



EXPORTS TO CHINA



financial aid they received from the central bank in the wake of the 2002 crisis, are contributing to a restriction of money supply growth. The same applies to the central government, which draws US dollars from the central bank in order to service those payment obligations which it continued to meet throughout the default. Compliance with money supply targets is contributing to the fact that although this year's inflation rate - probably at just under 6% (December, year-on-year) - will remain below the bandwidth of 7% - 11% targeted by the central bank, it will nevertheless be well up on last year's figure of 3.7%. We expect trade surpluses to decrease in 2005, resulting in less appreciation pressure and, therefore, fewer interventions by the central bank. Nevertheless, the inflation rate is likely to rise slightly due to wage increases decreed by the government and high capacity utilization (our forecast: 8%, central bank forecast: 5% - 8%).

External sector: China gaining in importance

Argentina's foreign trade proved to be highly dynamic. Exports grew by 15% (year-on-year) between January and September of this year, with growth in the first semester chiefly attributable to high commodity prices but also to appreciably increased volumes in the last several months. Imports in the first three quarters of 2004 were up 68% on last year's low level for the same period, reflecting the macro-economic recovery. Since the average price of key commodity exports is likely to drop next year (e.g. soya, which together with processed soya products accounts for 25% of exports), we now expect exports to rise by as little as 3% in 2005. The increase in imports is set to decline in 2005 but is still likely to turn out relatively high (25%). The trade surplus for next year, at US$ 7.5 billion, should therefore be down by a good third on the 2004 figure.

China is increasingly gaining importance as a key market, in particular for soya. Its share of Argentina's total exports has doubled to 9% over the past two years. During a visit by China's president Hu to Buenos Aires, letters of intent were signed in November of this year, in terms of which China plans to invest US$ 19.7 billion in Argentina over the next 10 years, with particular emphasis on infrastructure and crude oil production. However, these projects are still in the very early planning stage at this point; it remains to be seen which of the investments will actually be implemented.

Günter Köhne +49 40 3595 3484

ARGENTINA: MONTHLY INDICATORS		Aug-04	Sep-04	Oct-04	Nov-04	next/latest
DOMESTIC ECONOMY						
Economic activity indicator, EMA	% yoy	9.4	**8.1**			22-Dec
Economic activity indicator, EMA (season. adjust.)	% mom	1.1	**0.8**			22-Dec
Industrial production	% yoy	10.4	10.4	**7.9**		16-Dec
Industrial production (seasonally adjusted)	% mom	1.2	0.7	**-0.1**		16-Dec
Construction	% yoy	16.6	**14.8**	**8.0**		29-Dec
Construction (seasonally adjusted)	% mom	-4.2	**5.0**	**0.6**		29-Dec
Consumer confidence (UTDT)	% mom	-5.7	1.4	**4.5**	**9.5**	9-Dec
Supermarket sales (real, seasonally adjusted)	% yoy	8.0	**4.8**	**6.1**		28-Dec
Supermarket sales (real, seasonally adjusted)	% mom	1.6	**-1.8**	**2.5**		28-Dec
Tax revenues	% yoy	39.9	30.8	**31.8**	**26.8**	3-Jan
Budget balance	Pesos mn	865	**1054**	**1263**		31-Dec
Primary balance	Pesos mn	1937	**1385**	**1508**		31-Dec
Consumer prices	% yoy	5.3	5.9	**5.7**	**5.4**	5-Jan
Consumer prices	% mom	0.3	0.6	**0.4**	**0.0**	5-Jan
Wholesale prices	% yoy	2.4	0.3	**0.5**	**-1.3**	5-Jan
Overnight peso rate (month-end; latest: 12/01)	%	2.6	2.6	**2.5**	**2.4**	**2.4**
Peso deposits (month-end, latest: 11/26)*	Peso bn	97.8	99.0	**100.6**	**103.0**	
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2934	**2969**	**2837**		29-Dec
Merchandise exports	% yoy	25	**25**	**16**		29-Dec
Merchandise imports, cif	US$ mn	2020	**2013**	**1956**		29-Dec
Merchandise imports	% yoy	78	**53**	**36**		29-Dec
Trade balance	US$ mn	914	**956**	**881**		29-Dec
Foreign exchange reserves (latest: 11/29)	US$ bn	18.1	18.2	**18.6**	**18.9**	
US$ exchange rate (latest: 12/02)	Pesos	3.00	2.98	**2.97**	**2.94**	**2.95**

ARGENTINA: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next /latest
DOMESTIC ECONOMY						
GDP (seasonally adjusted)	% qoq	3.4	3.0	1.5	0.5	16-Dec
GDP	% yoy	10.2	11.7	11.3	7.0	16-Dec
Private consumption	% yoy	10.4	11.9	11.7	8.1	16-Dec
Public consumption	% yoy	1.8	0.3	0.8	-0.8	16-Dec
Private and public investment	% yoy	44.9	48.9	50.3	38.3	16-Dec
Domestic demand	% yoy	13.4	15.4	15.3	10.7	16-Dec
Export (goods and services)	% yoy	5.4	5.5	7.7	0.4	16-Dec
Import (goods and services)	% yoy	46.2	51.7	55.8	42.4	16-Dec
Unemployment rate (EPH)	%	16.3	14.5	14.4	14.8	16-Dec
Budget balance, central gov. (latest: Q3 04)	Pesos mn	382	-1	3982	6667	**3371**
Public debt***	US$ bn	169.6	178.8	**180.0**	**181.2**	
EXTERNAL SECTOR						
Current account balance	US$ bn	1.7	1.0	0.3	1.7	21-Dec
Net foreign direct investment	US$ bn	-0.1	0.5	0.5	-0.9	21-Dec
Net portfolio investment	US$ bn	-0.7	-2.6	-3.3	-0.9	21-Dec
Capital account**	US$ bn	-0.5	-0.4	0.6	0.9	21-Dec
Change in foreign reserves #	US$ bn	-1.2	-0.6	-0.9	-2.6	21-Dec
Gross foreign debt	US$ bn	142.3	147.0	147.3		21-Dec
Short-term foreign debt	US$ bn	35.7	39.7	45.5		21-Dec

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

BOLIVIA: IDLE POTENTIAL

Area	1 098 581 sq. km
Population	8.9 million (+ 2,4 % p.a.)
State president	Carlos Diego Mesa Gisbert
Finance minister	Javier Gonzalo Cuevas Argote
Central bank president	Juan Antonio Morales Anaya
Next elections	State president: Juni 2007 Congress: Juni 2007
GDP per capita	US$ 910 (2003)
Rating	Moody's: B3 S&P: B-

ANNUAL FIGURES AND FORECASTS

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

*goods and services

e=estimate f=forecast

Domestic policy: government without power

Due to his independence from established parties, president Carlos Mesa enjoys significant popularity among the population, even though he lacks both a political power base and a sound economic concept. Projections regarding the mayoral elections at the beginning of December suggest a further splintering of the already heavily fragmented party spectrum. Although a referendum on the country's future use of gas reserves held in July contributed to easing the domestic situation, it does not provide the government with any legitimacy concerning sustained, productive utilization of the mineral reserves. The government faces the challenges of imposing higher charges on natural gas production and expanding the role of the state-owned oil company, while simultaneously giving international investors already operating in Bolivia legal certainty. Any attempt at enhancing Bolivia's appeal as an investment location will most probably result in counter-reactions by radical opposition groups. In these circumstances, there is little to suggest that the government will succeed in consolidating public finances as requested by the IMF. Price trends, at least, have recently shown some signs of improvement; inflation dropped noticeably below the 4% mark year-on-year in October.

External sector: no relief without gas exports

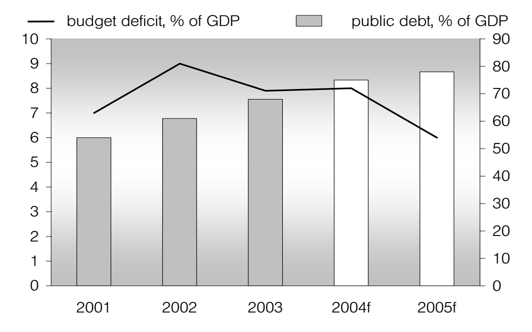
This year, Bolivia's exporters profited from high soya prices and the energy crisis in Argentina. The resulting current account surplus is, however, offset by outflows of short-term capital, without any noteworthy direct investment inflows to speak of. Thanks to the high trade surplus, the foreign exchange liquidity position has never been as comfortable as this in the past three years (including gold reserves, the central bank's reserves even amount to a good US$ 1 billion, which translates into more than four months' import cover). However, without any expansion in export capacities, the foreign-exchange liquidity position will again deteriorate soon due to increasing foreign debt and the country's high degree of dollarization (which necessitates an increase in reserve holdings). The construction of a gas pipeline leading to the Pacific Ocean is being hampered by never ending disputes about the course of the line, and a compromise is not in sight.

Kai Stefani +49 40 3595 3486

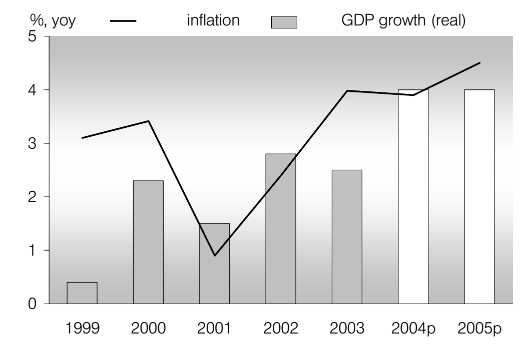
SUMMARY AND OUTLOOK

Bolivia's export sector is currently benefiting from high commodity prices. The resulting capitalization of the current account is, however, offset by higher capital account outflows, and public foreign debt (2004: 53% of GDP) has already reached the same level as before the debt remission in 2001. Due to political conflicts and the beleaguered banking sector, the domestic economic situation remains unstable. The country's GDP is only growing by 3%, which - given a population growth rate of more than 2% - practically translates into a stagnation in per-capita income.

PUBLIC FINANCE



GDP CHANGE (REAL) & INFLATION



BRAZIL: HIGHEST GROWTH IN TEN YEARS

Area	8 511 965 sq. km
Population	178 million (+1.4 % p.a.)
State president	Luiz Inácio Lula da Silva
Finance minister	Antonio Palocci Filho
Central bank president	Henrique Meirelles
Next elections	State president: 2006 Congress: 2006
GDP per capita	US$ 2 764 (2003)
Investment	20.1 % of GDP (2003)
Savings	20.7 % of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	15% of GDP
Purchasing countries	USA 23 %, EU 25 %, ALADI 18 %, Asia 16 %
Products	Manufactured goods 54 %, Primary goods 30 %, Semi-manufactured goods 15 %
Imports of goods (2003)	10 % of GDP
Supplier countries	EU 26 %, USA 20 %, ALADI 17 %, Asia 19 %
Products	Primary goods and inputs 53 %, Capital goods 21 %, Consumer goods 12 %, Crude oil 14 %
Rating	Moody's: B2 S&P: B+

SUMMARY AND OUTLOOK

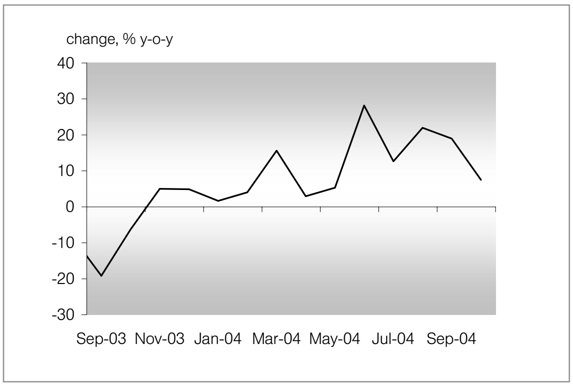
The economic upturn remains intact, and this year Brazil's GDP will record the highest increase (almost 5%) since 1994. However, there have been increasing signs of a slight slowdown in growth momentum, suggesting that next year's level of economic growth will be below 4%. The high degree of capacity utilization is already evident in the industrial sector. Due to the pickup in inflation, the central bank has raised its interest rates and announced a further tightening of its monetary reins. This has already had an adverse impact on the retail sector. Finally, for next year we project lower prices for primary goods and a slowdown in global economic growth. Accordingly, exports (which have risen by 30% this year) are only likely to expand by as little as 6%. In any event, Brazil has become considerably less susceptible to looming crises. Foreign debt has been reduced, the current account has recorded a surplus in two consecutive years and a 50% cut in the budget deficit has contributed to reducing the relative volume of public-sector debt.

ANNUAL FIGURES AND FORECASTS

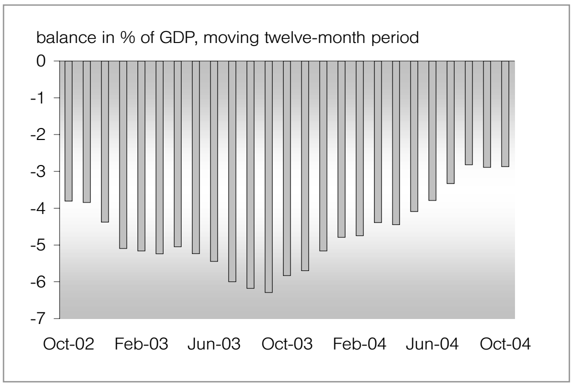
BRAZIL		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.4	1.5	0.5	4.9	3.9
GDP	US$ bn	505	452	495	582	645
Inflation (year-end)	%	7.7	12.5	9.3	6.9	5.8
Inflation (average)	%	6.8	8.5	14.7	6.5	5.9
PUBLIC SECTOR						
Budget balance, central government	% GDP	-2.1	-0.8	-3.4	-2.0	-1.9
Budget balance, public sector	% GDP	-3.6	-4.7	-5.2	-2.9	-2.5
Public debt (net)	% GDP	53.3	56.5	58.2	52.6	50.7
Amortization external debt	US$ bn	n.a.	8.6	22.1	14.1	16.1
Amortization domestic federal debt*	US$ bn	84	53	72	68	62
EXTERNAL SECTOR						
Merchandise exports	US$ bn	58.2	60.4	73.1	95.3	102.9
Merchandise imports	US$ bn	55.6	47.2	48.3	62.9	68.5
Trade balance	US$ bn	2.6	13.2	24.8	32.4	34.4
Current account balance	US$ bn	-23.2	-7.7	4.1	10.3	10.3
Current account balance	% GDP	-4.6	-1.7	0.8	1.8	1.6
Net foreign direct investment	US$ bn	22.6	16.6	10.1	14.5	12.0
Foreign exchange reserves, year-end	US$ bn	35.7	37.8	50.9	50.1	58.2
Import cover **	months	4.5	5.4	7.1	5.9	6.3
US$ exchange rate, year-end	Reais	2.32	3.53	2.89	2.80	2.90
US$ exchange rate, average	Reais	2.33	2.90	3.08	2.92	2.91
FOREIGN DEBT						
Gross foreign debt	US$ bn	226	228	235	225	216
Foreign debt	% exports**	319	311	271	205	183
Short-term foreign debt	US$ bn	27.6	22.8	25.0	27.0	26.0
Foreign debt amortization	US$ bn	35.2	39.0	44.0	50.3	34.5
Foreign debt service	US$ bn	52.8	54.3	59.7	65.6	49.3
Foreign debt service	% exports**	75	74	69	60	42
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	19.0	24.9	16.3	17.8	16.0
Bovespa stock index (real based, 2004: 12/01)		13577	11268	22236	25234	
IFCI stock index (US$ based, 2004: 12/01)		288	214	439	543	
Bond market yield spread (2004: 12/01)***	bp	870	1439	463	404	

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

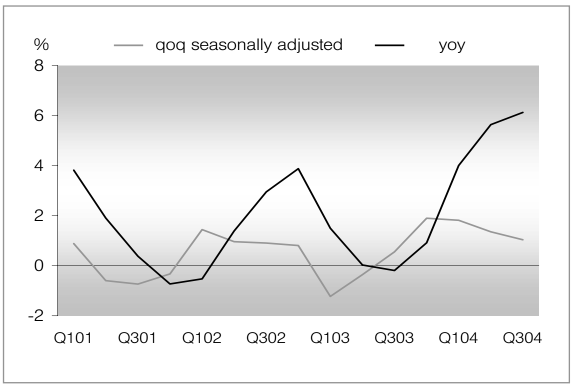
TAX REVENUES CENTRAL GOVERNMENT



PUBLIC BUDGET BALANCE



GDP CHANGE (REAL)



Domestic policy: mixed outcome of municipal elections

In the municipal elections, the PT, President Lula's party, managed to capture about 400 mayoral seats, more than double compared to the elections four years ago. It succeeded in winning roughly 17% of all votes cast, more than any other party. In spite of this, the PT did not emerge as the clear winner of the elections. Key cities such as São Paulo and Porto Alegre were lost, and the PT had also had higher expectations for the elections. In contrast, the social democratic party PSDB - São Paulo's mayor, José Serra, will come from its ranks - was able to gain a substantial number of votes and should be the PT's biggest rival in the 2006 elections. The government now has the chance to place the still outstanding reforms and legislative projects on the agenda for congress and have them passed before embarking on the campaign for the 2006 presidential elections at the end of next year. While the bankruptcy act is waiting for final passage and the debate on the legislation aimed at facilitating state investments with the participation of private investors is currently under way, further steps towards the tax reform are likely to be tackled in the first quarter of 2005. There might also be some progress regarding the judicial reform, and finally, the project "operational independence of the central bank" is also on the agenda.

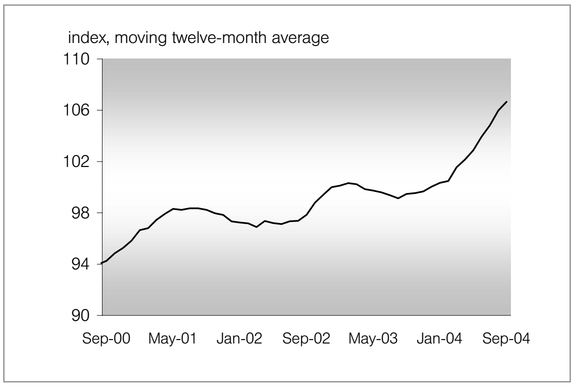
Public Finance: budget deficit almost halved

The current year saw tax revenues rise by roughly 15% (real, year-on-year). As the burden on the public-sector budget in terms of interest payments has undergone a marked declined at the same time, this year's budget deficit should be in the region of only 3% of GDP, which almost amounts to a 50% reduction compared to the previous year, when the public-sector budget closed with a deficit of 5.4% of GDP. In the wake of this trend, public-sector debt likewise declined from 56.6% of GDP (end 2003) to 53.7% of GDP (September 2004). Simultaneously, the share of total public domestic debt accounted for by dollar-indexed instruments was further reduced to 11%, making public finances less susceptible to exchange-rate fluctuations. However, it should be noted in this context that the share of instruments subject to variable rates has risen to 55%. The recent interest rate hikes are therefore accompanied by a higher direct burden on the public-sector budget. For next year, we forecast a budget deficit of 2.8% and expect the debt ratio to decline to 52% of GDP. At this level and in view of continued high real interest rates, public-sector finances are set to remain Brazil's Achilles heel. However, since restrictive fiscal policy has been consistently pursued for some years now, the stage has been set for the country to outgrow this problem.

Economic activity: slowdown in growth

GDP expanded in the third quarter for the fifth time in succession. Growth amounted to 6.1% year-on-year and 1% quarter-on-quarter (seasonally adjusted). Growth is being boosted by investments (6.7%, quarter-on-quarter) and exports, which have risen once again from their already high level. Private consumption is likewise picking up, particularly since unemployment has been trending downward since April and real wages keep rising. However, growth decelerated considerably compared to the second quarter. This does not come as a surprise, considering that capacity utilization in the industrial sector has reached its highest level since the 1970s. In these circumstances, we expect investments to rise further. Given the robust economic upturn, nothing should change that - not even the recent interest rate hikes. Real export growth is set to decline significantly to roughly 5% next year (2004: 16%), the level of demand for capital goods will rise by about 9% (similar to this year) and the demand for private consumption is likely to expand by 3.5%. All in all, this results in a projected economic growth rate of 3.9% (2004: 4.9%). While this figure is above the consensus projection of 3.5%, it is nevertheless well below the long-term potential that Brazil would have if the domestic savings rate and the investment ratio were higher and bottlenecks in the country's infrastructure were to be removed faster.

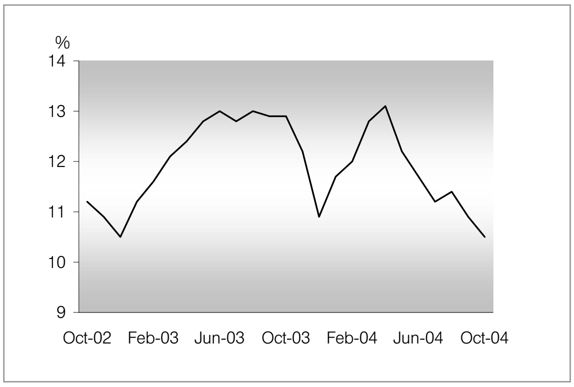
INDUSTRIAL PRODUCTION



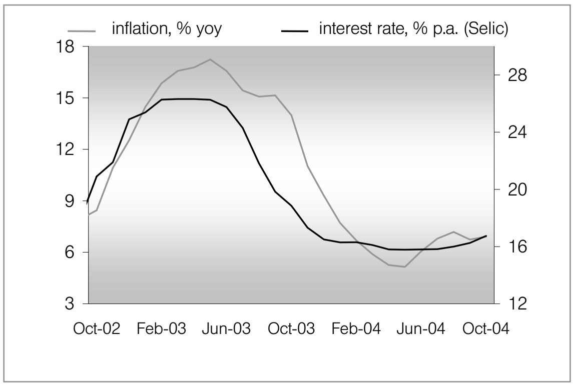
Monetary sector: central bank tightens monetary reins

The acceleration of the inflation rate turns out to be more persistent than originally anticipated. In particular, inflationary expectations have risen steadily over the past few months. The central bank responded in two ways: for one thing, it has adjusted the 2005 inflation target from 4.5% to 5.1%, simultaneously leaving the target corridor unchanged at 2 to 7%; for another, it raised the overnight interest rate by a total of 1.25 percentage points in three successive steps and indicated that further interest rate hikes are to follow. We expect two more rate hikes totaling 75 basis points, followed by a wait-and-see policy being adopted by the central bank. Interest rates should only come down once inflationary expectations have declined on a sustained basis. This assumption is based on the fact that the growth rate is currently weakening slightly (see 'economic activity'); in addition, a further oil price hike has become highly unlikely and the marked appreciation of the real should ease the pressure on prices.

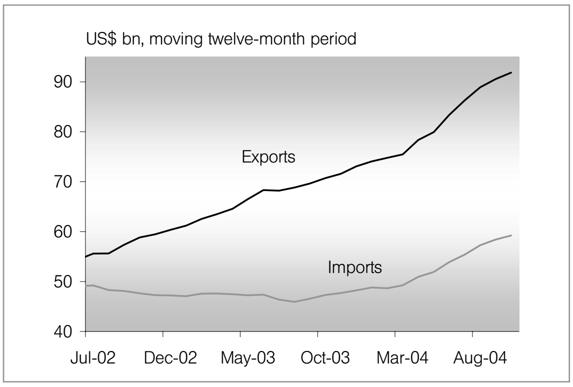
UNEMPLOYMENT RATE



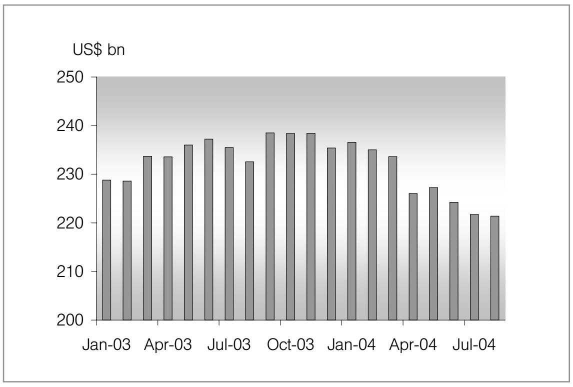
INFLATION AND INTEREST RATES



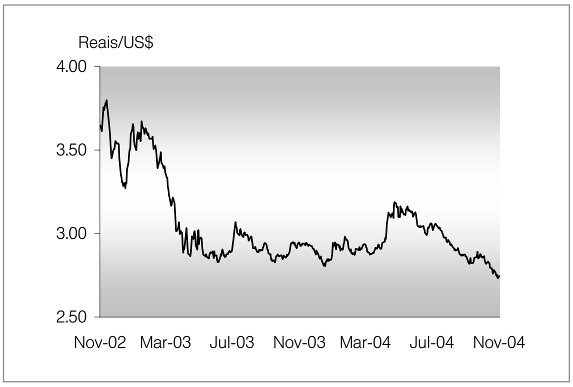
FOREIGN TRADE



GROSS FOREIGN DEBT



EXCHANGE RATE



External sector: exports approaching US$ 100 billion

Brazil is undergoing a significant structural change. Traditionally, the economy tended to be closed and recorded a merchandise export ratio amounting to as little as 10% of GDP. This has changed considerably over the past few years. The export ratio has now risen to 17%. Although Brazil still lags far behind China (35%) and Mexico (25%), it must be borne in mind, however, that the share of the in-bond processing industry, which does not produce much value added, is marginal in Brazil (below 5%) compared to the two countries mentioned above (30% and 40%, respectively). In addition, it can be safely assumed that exports will pick up faster than GDP over the next few years and hence the economy will become more outward-looking once again. In tandem with the rise in exports, which this year are likely to reach US$ 95 billion (30% up on 2003), the sustainability of foreign debt has increased as well. For the first time since the early 1970s, gross foreign debt (broad definition, including intra-company loans) declined to approx. 200% of visible and invisible exports. This was also underpinned by a decrease in foreign debt in absolute terms in the first eight months of this year, by US$ 14 billion, to US$ 221 billion. We expect this positive trend (which began in 1999) to continue in the forthcoming years, further decreasing Brazil's susceptibility to swings in international capital market sentiment in the process.

The financial markets responded to these strong fundamentals in the sense that the risk spreads on Brazilian bonds have seen a marked decline, also underpinned by the favorable international liquidity position. At the same time, Brazil's currency has become stronger. We had actually anticipated that the central bank would counteract the revaluation pressure with massive interventions, especially since this would have meant the benefit of a further buildup of foreign currency reserves. (The currency purchases on the forex market over the next few months (announced in November) will not have the effect of boosting foreign currency reserves as they will be used for the purpose of servicing bonds falling due). The rise in inflation has most probably induced the central bank to change its strategy in this regard. An additional factor playing a key role in the appreciation of the real is the dollar's weakness against the euro. We have therefore adjusted our exchange rate forecast accordingly. The real should reach 2,80 reais/US$ (previous forecast: 2.90 reais/US$) by year-end and 2.95 (previous forecast: 3.15) reais/US$ at the end of next year.

Dr. Cyrus de la Rubia +49 40 3595 3889

BRAZIL: MONTHLY INDICATORS		Aug-04	Sep-04	Oct-04	Nov-04	next/latest
DOMESTIC ECONOMY						
Public sector primary balance (ytd)	% of GDP	5.8	5.6	**5.6**		22-Dec
Public sector balance (ytd)	% of GDP	-1.8	-2.1	**-2.0**		22-Dec
Central government tax revenues	% yoy	22.4	19.0	**7.0**		14-Dec
Capacity utilization (CNI)	%	83.2	83.0			27-Dec
Industrial production (IBGE)	% yoy	13.4	7.6			9-Dec
Retail sales (IBGE)	% yoy	7.5	9.0			15-Dec
Unemployment rate (IBGE)	%	11.4	10.9	**10.5**		22-Dec
Consumer prices IPCA	% yoy	7.2	6.7	**6.9**		8-Dec
Consumer prices IPCA	% mom	0.70	0.33	**0.44**		8-Dec
Interbank interest rate (latest: 12/01)*	%	16.0	16.25	**16.75**	**17.21**	**17.2**
EXTERNAL SECTOR						
Merchandise exports	US$ mn	9056	8923	**8843**	**8159**	3-Jan
Merchandise exports	% yoy	41.4	22.6	**16.9**	**36.4**	3-Jan
Merchandise imports	US$ mn	5623	5751	**5836**	**6082**	3-Jan
Merchandise imports	% yoy	50.7	24.6	**16.0**	**42.8**	3-Jan
Trade balance	US$ mn	3433	3172	**3007**	**2077**	3-Jan
Current account balance	US$ mn	1761	1741	**1007**		20-Dec
Net foreign direct investment	US$ mn	6089	646	**1316**		20-Dec
Foreign exchange reserves (latest:12/01)*	US$ bn	49.6	49.3	**49.4**	**50.1**	50.1
US$ exchange rate (latest: 12/01)*	Reais	2.92	2.86	**2.80**	**2.73**	2.71

BRAZIL: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	-0.1	2.7	5.7	**6.1**	28-Feb
GDP (s.a.)	% qoq	1.4	1.7	1.5	**1.0**	28-Feb
Private consumption	% yoy	-0.6	1.0	5.0	**5.7**	28-Feb
Public consumption	% yoy	0.7	1.3	1.3	**0.3**	28-Feb
Private and public investment	% yoy	-5.0	2.0	11.6	**20.1**	28-Feb
Exports of goods and services	% yoy	10.1	19.5	16.5	**18.2**	28-Feb
Imports of goods and services	% yoy	10.0	11.2	14.1	**17.7**	28-Feb
Agriculture	% yoy	4.8	6.4	5.0	**4.9**	28-Feb
Industry	% yoy	-1.7	2.9	6.6	**7.0**	28-Feb
Services	% yoy	0.3	1.2	4.4	**4.7**	28-Feb
Public debt (net)	% of GDP	58.2	57.4	56.0	**53.7**	28-Jan
EXTERNAL SECTOR						
Current account balance	US$ bn	0.3	1.7	2.8	**5.3**	20-Jan
Net foreign direct investment	US$ bn	3.7	2.7	1.3	**8.3**	20-Jan
Portfolio investment	US$ bn	1.7	2.4	-6.1	**-0.5**	20-Jan
Capital account **	US$ bn	-2.1	0.9	-4.1	**-6.1**	20-Jan
Change in foreign exchange reserves #	US$ bn	1.8	-2.6	1.3	**0.8**	20-Jan
Gross foreign debt	US$ bn	235	234	224		20-Dec
Short-term foreign debt	US$ bn	20.2	20.2	21		20-Dec

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

CHILE: BACK TO BOOM?

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

SUMMARY AND OUTLOOK

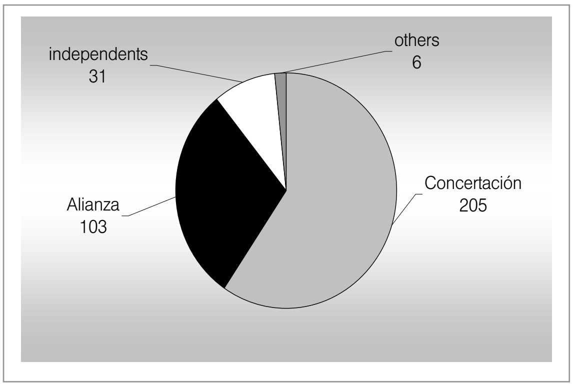
After the coalition government's strong showing in the municipal elections, President Lagos will start the last year of his tenure with increased vigor. Should the economy progress in line with our current expectations, a solid economic upturn would make life easy for the government: high investment growth in the current year will help lay the foundations for sustained economic growth, and continued low interest rates along with a recovery in the labor market should underpin domestic demand. Prospects for foreign demand likewise look favorable. Despite a slowdown in global economic growth and a decline in average copper prices, Chile is likely to increase its exports since the free trade agreements concluded last year have consistently opened up new markets. Thanks to the positive economic outlook, the receding level of global risk aversion and very solid public finances, it was possible for the risk spreads on Chilean foreign bonds to remain well below 100 basis points. Accordingly, the risk spread remains at less than half the rate of Mexican bonds (Mexico is the second large Latin American country with an investment grade rating).

ANNUAL FIGURES AND FORECASTS

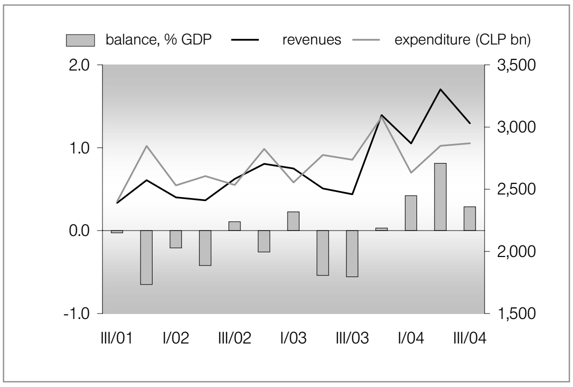
CHILE		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3.4	2.2	3.3	5.7	5.3
GDP	US$ bn	68.3	67.3	72.2	91.4	99.6
Inflation (year-end)	%	2.6	2.8	1.1	2.8	3.1
Inflation (average)	%	3.6	2.5	2.8	1.1	3.1
PUBLIC SECTOR						
Budget balance, central government	% GDP	-0.3	-0.8	-0.8	1.8	1.5
Budget balance, public sector	% GDP	-0.6	-1.6	-0.4	2.4	2.0
Public debt	% GDP	15.2	15.7	13.3	12.4	11.0
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	-0.8	-0.3
EXTERNAL SECTOR						
Merchandise exports	US$ bn	18.3	18.2	21.0	30.7	32.0
Merchandise imports	US$ bn	16.4	15.9	18.0	22.0	24.9
Trade balance	US$ bn	1.8	2.2	3.0	8.6	7.0
Current account balance	US$ bn	-1.1	-0.9	-0.6	2.2	-0.2
Current account balance	% GDP	-1.6	-1.3	-0.8	2.4	-0.2
Net foreign direct investment	US$ bn	3.0	1.6	1.6	3.4	2.5
Foreign exchange reserves, year-end	US$ bn	14.4	15.4	15.9	16.0	16.5
Import cover **	months	6.8	7.4	6.8	5.3	4.9
US$ exchange rate, year-end	Pesos	661	720	593	605	620
US$ exchange rate, average	Pesos	635	689	691	611	609
FOREIGN DEBT						
Gross foreign debt	US$ bn	38.5	40.7	43.4	44.0	46.0
Foreign debt	% exports**	161	173	161	117	117
Short-term foreign debt	US$ bn	5.3	5.8	7.5	8.2	8.5
Foreign debt amortization	US$ bn	4.1	4.7	3.8	5.9	4.9
Foreign debt service	US$ bn	5.3	6.0	5.2	7.2	6.4
Foreign debt service	% exports**	22	25	19	19	16
FINANCIAL MARKETS (year-end)						
Base rate, 90 days (PDBC)	%	6.2	2.9	2.3	2.5	3.5
IPSA stock index (peso based, 2004: 12/01)		1183	1000	1405	1809	
IFCI stock index (US$ based, 2004: 12/01)		479	406	654	830	
Bond market yield spread (2004: 12/01)*	bp	175	176	90	70	

* EMBIG **goods and services f=forecast

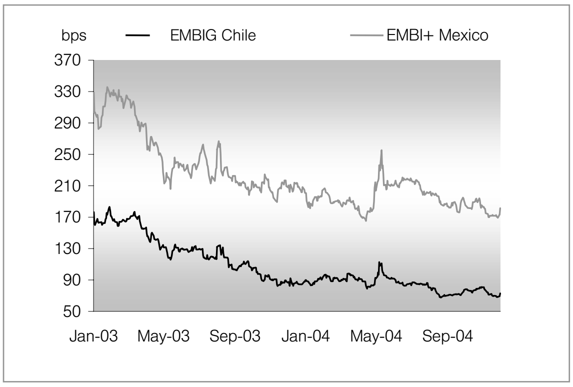
GOVERNING MAYORS



CENTRAL GOVERNMENT BUDGET



BOND SPREAD CHILE & MEXICO



Domestic policy: elections reinforcing Concertación

In the municipal elections at the end of October, the government coalition 'Concertación' managed to further consolidate its position. It succeeded in capturing roughly 45% of the total number of votes in the mayoral elections and was thus able to expand the number of cities and municipalities governed by its party members from 169 to 205. In addition, it gained 48% of the votes in the municipal council elections, a slight decline compared with the year 2000; nevertheless, this still places the Concertación ahead of the conservative 'Alianza' coalition by more than 10 percentage points. This election victory is likely to ensure additional support for the Concertación's two most promising candidates for the presidential elections - ex-defense minister Bachelet and ex-foreign minister Alvear, even though the Alianza candidate (replacement for Joaquín Lavin, Alianza's candidate for presidency) won the mayoral election in Santiago. As a short-term consequence of the regional elections, it should become clear that president Lagos is not going to become a 'lame duck' in the last months of his tenure; instead, he is likely to enthusiastically push forward legislative projects such as the introduction of a mining royalty.

Fiscal policy: risk assessment continues to improve

As a result of the solid increase in tax revenues (+12% year-on-year in real terms) and the quadrupling of copper revenues, the central government budget recorded a surplus of 160 billion pesos in the third quarter (third quarter of 2003: -277 billion pesos). In the first nine months of this year, the budget surplus thus amounted to 1.5% of GDP, while the corresponding pre-year period still saw a sizeable deficit. For the year as a whole, we project a surplus equivalent to 1.8% of GDP. The central government's budget bill provides for a surplus of 1.2% of GDP for 2005. We assess the underlying assumptions (e.g. GDP growth: 5.2% year-on-year, copper price 110 cts/lb) as realistic.

Against this backdrop, central government debt (which accounted for 13.3% of GDP in 2003) should now amount to only 12.4% of GDP. For next year, we project a further decrease to roughly 11% of GDP. Aside from the improved economic fundamentals and the declining level of global risk aversion, this will contribute to a steadily improving risk assessment of Chilean foreign debt instruments on international capital markets. Chile's risk spread has declined in line with that of Mexico, the only other major debtor in Latin America with an investment-grade rating. The risk spread on Chilean bonds vis-à-vis U.S. government bonds amounts currently to less than 80 basis points.

Economic activity: dynamic growth

Following already high growth rates of 1.6% quarter-on-quarter (seasonally adjusted) in the first two quarters, the economy gained momentum in the third, reaching 2% quarter-on-quarter. GDP rose by 6.8 % year-on-year. Underpinned by high investment growth (+14% year-on-year), domestic demand rose by almost 9%. What is remarkable and positive in the interests of sustained growth is the fact that the increased investment activity is primarily attributable to an increase in machinery and equipment (+25% year-on-year) while building investments rose by 6%. The external sector's net contribution to growth was negative as imports (+20.5% year-on-year) rose more sharply than exports (+15.3%).

The upturn is taking place across the board: apart from the fishing industry (+14.8% year-on-year), in particular the mining sector (+9.1%) and the manufacturing industry (+8.8%) recorded high growth rates.

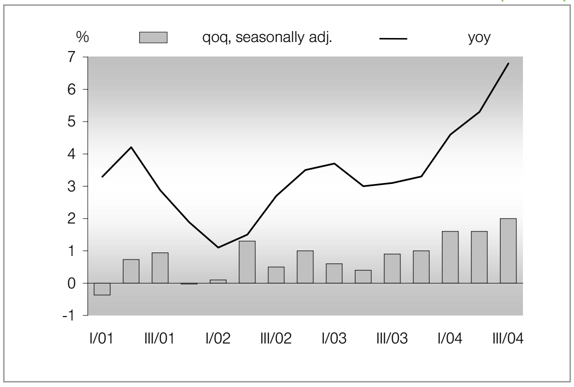
The first indicators for the month of October point to continued strong growth: the IMACEC economic indicator rose by 5.3% year-on-year, as retail sales, the industrial sector and the mining industry recorded robust growth rates. The labor market witnessed a slightly upbeat trend in October, repeating the pattern seen over the last few months, when the number of persons in (generally more lucrative) employment situations rose quite substantially, whereas the group of self-employed people lagged behind. The number of self-employed people (approx. 25% of people employed) had grown substantially last year and the correction of this trend had propelled unemployment figures to new highs over the past few months.

For the year as a whole, GDP growth, at 5.7% is likely to turn out slightly higher than we had previously assumed. All the signs point to continued strong growth in the forthcoming year: domestic demand should benefit from the rebounding labor market and the ongoing, fairly expansionary monetary policy, while the increase in production capacity is likely to be reflected in an increase of the investment ratio from 22% to about 25% in the course of this year. In spite of a downturn in global growth, the country's exports should expand further since various free trade agreements serve to consistently secure trade concessions in key foreign markets.

Monetary sector: inflation continuing to normalize

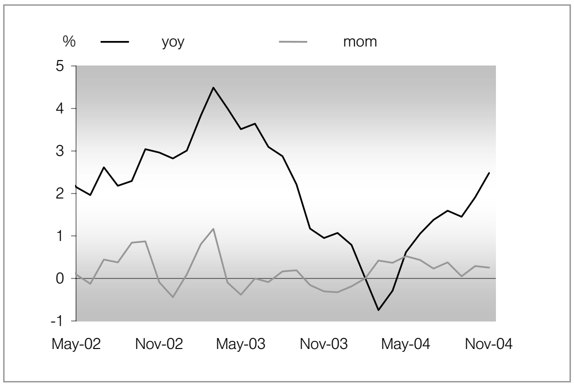
At 0.3% month-on-month in November, consumer prices increased at the previous months' pace. At an annual rate of 2.5%, the inflation rate continues to normalize after being in negative territory between February and April 2004. Next year's robust domestic demand should

GDP CHANGE (REAL)

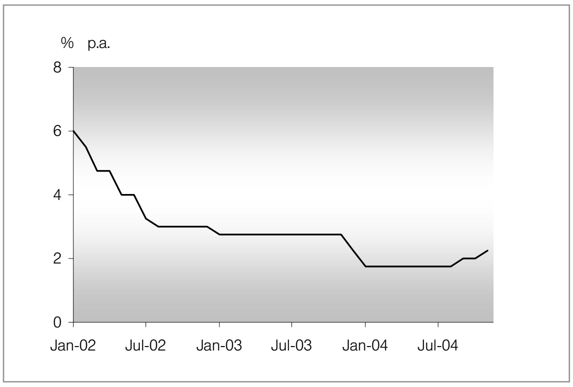


LABOR MARKET

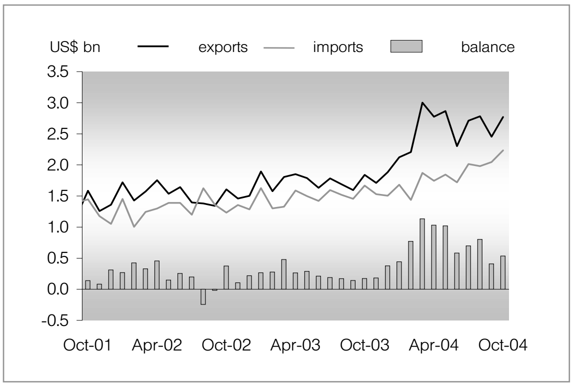
INFLATION



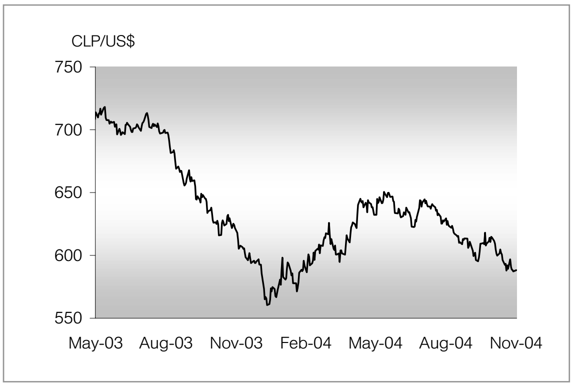
MONETARY POLICY INTEREST RATE



TRADE BALANCE



EXCHANGE RATE



permit a moderate expansion of profit margins, which will tend to push up consumer prices. At the same time, the considerable unemployment rate is likely to act as a cap on an increase in wages while strong investment activity should ease supply-side price pressure in spite of strong economic growth. We therefore project an average inflation rate of about 3%. We assume in this regard that the central bank, which already raised its key lending rates by 25 basis points in November, to 2.25%, will continue its policy of gradually reducing the monetary policy impetus next year (given inflationary expectations of roughly 3%, real interest rates remain negative), which should raise the key lending rate to 3.5% by year-end.

External sector: sharp increase in copper exports

The trade surplus amounted to roughly US$ 7.5 billion in the first 10 months of the year, which translates into a three-fold year-on-year increase. This positive picture is based on an almost 50% year-on-year increase in exports (the latter chiefly attributable to a year-on-year increase in copper prices by more than 80%) while imports rose by roughly 25%.

For the forthcoming year, we project subdued growth of exports since copper prices are likely to decline by around 12% on average. Export prices for other Chilean export goods should remain upbeat, however, and due to trade concessions in the wake of free trade agreements with the U.S., EU and South Korea, we expect export volumes to rise substantially. However, the demand for imports should remain quite strong, so that the trade surplus for 2005 as a whole should be reduced to US$ 7 billion (7% of GDP, forecast 2004: 9.4%). As regards the medium-term outlook, it is important to note that according to an announcement made at the APEC summit in Santiago in November, Chile is set to enter into free trade negotiations with China.

In view of the continued high trade surplus, the current account should be balanced next year (forecast 2004: +2.4% of GDP). As in the current year, the capital account should reflect a high deficit in spite of a fairly robust level of net direct investments (forecast 2005: 2.5% of GDP), since Chilean pension funds continue to increase their investments abroad and international capital inflows are likely to remain moderate due to the relatively low level of domestic interest rates. We therefore expect the Chilean peso to depreciate slightly on average against the current exchange-rate level next year.

Thomas Pohl, +49 40 3595 3481

CHILE: MONTHLY INDICATORS		Aug-04	Sep-04	Oct-04	Nov-04	next/latest
DOMESTIC ECONOMY						
IMACEC	% yoy	7.5	**7.7**	**5.3**		5-Jan
Industrial production (INE)	% yoy	9.0	**12.0**	**5.2**		29-Dec
Mining production	% yoy	16.6	**11.8**	**12.7**		29-Dec
Retail sales	% yoy	0.7	4.4	**6.8**		23-Dec
Unemployment rate	%	9.9	**9.7**	**9.4**		29-Dec
Employment	mn	5.53	**5.56**	**5.65**		29-Dec
Labor cost index	% yoy	0.2	**0.4**	**0.0**		5-Jan
Consumer prices	% yoy	1.6	1.5	**1.9**	**2.5**	5-Jan
Consumer prices	% mom	0.4	0.1	**0.3**	**0.3**	5-Jan
Wholesale prices	% yoy	5.0	4.8	**8.9**	**9.7**	5-Jan
Wholesale prices	% mom	1.4	-1.2	**1.7**	**0.8**	5-Jan
Money supply M1	% yoy	24.5	24.7	**28.0**		7-Dec
Base rate, 90d PDBC (month-avrg., latest: 12/2)	%	1.7	2.3	**2.4**	**2.3**	**2.41**
Loan rate (average)	%	11.4	11.0	**10.4**		7-Dec
Deposit rate (average)	%	2.2	2.4	**2.6**		7-Dec
Lending to private sector	% yoy	10.0	**10.9**	**6.2**		23-Dec
Total financial savings (M7, seasonally adjusted)	% mom	0.6	**2.4**	**-0.1**		7-Dec
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2783	2454	**2770**		7-Dec
Merchandise exports	% yoy	64.9	53.8	**50.6**		7-Dec
Merchandise imports	US$ mn	1996	2095	**2234**		7-Dec
Merchandise imports	% yoy	30.6	44.0	**34.0**		7-Dec
Trade balance	US$ mn	788	359	**536**		7-Dec
Net foreign direct investment	US$ mn	280.7	**620.8**			7-Dec
Portfolio investment (net)	US$ mn	-501.1	**-222.0**			7-Dec
Copper price (monthly average, latest: 12/2)	US$ c/lb	129.1	131.3	**136.6**	**136.2**	**135.6**
Foreign exchange reserves*	US$ bn	15.8	15.8	**15.7**		7-Dec
US$ exchange rate (latest: 12/2)	CLP	624.4	610.9	**613.8**	**589.0**	**586.1**

CHILE: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	3.3	4.6	5.3	**6.8**	23-Feb
GDP seasonally adjusted	% qoq	0.9	1.6	1.6	**2.0**	23-Feb
Total consumption + change in stocks	% yoy	5.6	4.8	4.7	**6.9**	23-Feb
Private and public investment	% yoy	5.5	4.7	7.7	**14.0**	23-Feb
Domestic demand	% yoy	5.5	4.8	5.4	**8.6**	23-Feb
Exports (goods and services)	% yoy	6.3	10.0	9.8	**15.3**	23-Feb
Imports (goods and services)	% yoy	13.9	11.1	10.3	**20.5**	23-Feb
Budget balance, central government	Pesos bn	15.9	236.6	454.3	**160.9**	14-Feb
EXTERNAL SECTOR						
Current account balance	US$ bn	-0.32	0.91	1.15	**0.21**	23-Feb
Net foreign direct investment	US$ bn	0.24	1.48	0.09	**2.80**	23-Feb
Portfolio investment	US$ bn	-1.24	-0.38	-1.43	**-1.23**	23-Feb
Capital account**	US$ bn	0.20	1.00	-1.18	**-0.07**	23-Feb
Change in foreign exchange reserves	US$ bn	0.11	-0.09	-0.02	**-0.14**	23-Feb
Gross foreign debt	US$ bn	43.4	43.5	43.6	**43.9**	23-Feb
Short-term foreign debt	US$ bn	7.59	7.33	8.21	**8.54**	23-Feb

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

COLOMBIA: DENT IN ECONOMIC UPTURN

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 Congress: 2006
GDP per capita	US$ 1 758 (2003)
Investment	17 % of GDP (2003)
Savings	14 % of GDP (2003)
Exchange rate system	Flexible exchange rate
Monetary policy	Inflation targeting
Exports of goods (2003)	17 % of GDP
Purchasing countries	USA 44 %, EU 14 %, Venezuela 15 %
Products	Industrial goods 44 %, Crude oil 26 %, coal 11 %, Coffee 6 %
Imports of goods (2003)	16 % of GDP
Supplier countries	USA 29 %, EU 15 %, Brazil 6 %, Venezuela 5 %
Products	Primary goods and inputs 46 %, Capital goods 34 %, Consumer goods 19 %
Rating	Moody's: Ba2 S&P: BB

SUMMARY AND OUTLOOK

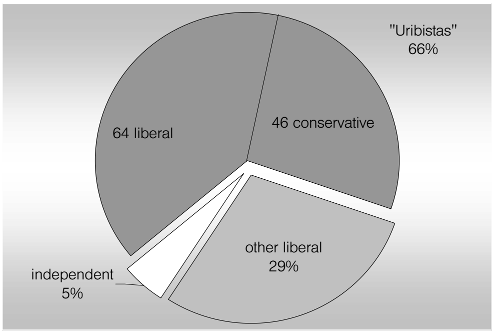
Although the government's comprehensive tax reform failed due to resistance in congress and recent growth figures were disappointing, we believe the outlook for the country remains positive. In passing a constitutional amendment, congress has paved the way for president Uribe's re-election, which will tend to reduce the level of political uncertainty. The budget situation appears to be less strained than expected, which means that next year's original budget targets will probably only be marginally exceeded in spite of the failed tax reform. Owing to a presumably sustained strong level of domestic economic activity, a cooling of the global economy in 2005 should hardly have any impact on growth. A relatively low current account deficit should be more than offset by inflows of direct investments. We therefore expect the relative strength of the peso against the US dollar to continue well into the next year in spite of yield the sinking interest rate differential spreads between the U.S. and Colombia . A sudden drop in oil prices or an unexpected deterioration of the domestic political situation would be key risks for this positive scenario.

ANNUAL FIGURES AND FORECASTS

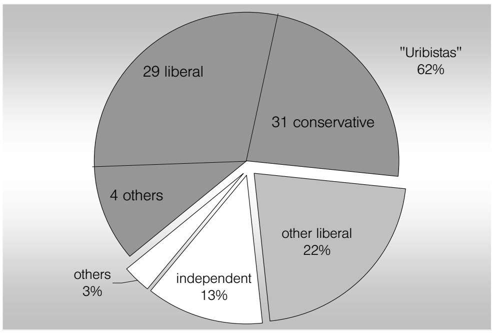
COLOMBIA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.4	1.6	3.7	3.6	3.8
GDP	US$ bn	81.7	81.1	78.7	98.0	110.0
Inflation (year-end)	%	7.7	7.0	6.5	5.8	5.4
Inflation (average)	%	8.0	6.3	7.1	5.9	5.7
PUBLIC SECTOR						
Budget balance, central government	% GDP	-4.6	-6.1	-5.4	-4.5	-4.4
Budget balance, public sector	% GDP	-3.4	-3.6	-2.8	-2.5	-2.5
Public debt	% GDP	56	64	62	58	55
Amortization	US$ bn	11.7	12.5	10.6	10.0	5.5
Gross financing needs	US$ bn	8.9	9.6	8.4	7.5	8.3
EXTERNAL SECTOR						
Merchandise exports	US$ bn	12.8	12.3	13.5	16.4	17.0
Merchandise imports	US$ bn	12.3	12.1	13.3	15.5	16.8
Trade balance	US$ bn	0.6	0.2	0.3	0.9	0.2
Current account balance	US$ bn	-1.2	-1.5	-1.4	-1.3	-1.5
Current account balance	% GDP	-1.5	-1.8	-1.8	-1.3	-1.4
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	12.5	13.3
Import cover	months*	6.3	6.8	6.4	6.5	6.5
US$ exchange rate, year-end	Pesos	2291	2867	2780	2550	2650
US$ exchange rate, average	Pesos	2300	2507	2878	2643	2580
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	7.5	7.5
IBB stock index (peso based, 2004: 12/01)		1071*	1474	2334	2475	
IFCG stock index (US$ based, 2004: 12/01)		561	615	783	1616	
Bond market yield spread (2004: 12/01)	bp**	516	736	431	339	

*goods and services ** EMBI+ f=forecast

CHAMBER OF DEPUTIES



SENATE



REFORMAGENDA

Reform	Status	Probable approval
Tax reform	Failed, due to resistance in congress	Government plans renewed submission in 2005.
Pension reform	Approved by end-2002; partly stopped by the constitutional court	Discussions continue; approval at the earliest in June 2005
Reelection bill	Confirmed by congress	Constitutional Court ruling expected for March 05 (earliest late January, latest September)

Domestic policy: confined to what appears feasible

While president Uribe is a liberal party cardholder, he was elected as an independent candidate; he can rely on the support of the majority both in the senate and the house of deputies (a faction known as the Uribistas; see charts). This loose coalition between some of the liberal, conservative and independent members of parliament is not underpinned by a coalition agreement that might otherwise have defined certain rules of cooperation. For this reason, and because each member of parliament will generally put the interests of their own constituency first, it is difficult to predict which way votes will go, and prior to each vote there are always some deviationists the government needs to "convince" of its concept by making concrete concessions.

Shortly before this publication went to press, the government surprisingly conceded defeat in congress regarding the planned tax reform, which had top priority for the government. The associated shortfall in revenue, equivalent to approx. 0.7% of GDP, is to be made up primarily by imposing expenditure cuts. Since the formation of a congressional majority will be more difficult in the run-up to the 2006 elections, we consider another attempt at reforming the tax system unlikely during this legislative term. With regard to the pension reform, we are still confident that the government will be able to pass a diluted version of the original draft through congress by June 2005. President Uribe will most probably hold out the prospect of his reform and security policies continuing after the elections.

The planned constitutional amendment aimed at facilitating the re-election of the president took the final hurdle in congress at the end of November. The constitutional court must now determine whether the resolution passed by congress is valid or not. Regardless of the high political pressure exerted on the court, it can still not be ruled out that the constitutional court will declare the re-election law null and void. In the past, the court frequently caused key reforms to fail on grounds of formal defects in the passing of resolutions, and even in the event of a favorable court decision, implementation into existing law would still require further formalities that might thwart Uribe's re-election. We expect a court ruling in February at the very earliest. Should Uribe run again for the presidency in 2006, he will stand a very good chance of winning the election in view of the high popularity he enjoys among the population.

Public finances: relaxed budget situation

The public finance situation has recently appeared less tense than anticipated. Following a balanced budget in the first semester, a strong inflow of tax revenues (July – August: +27% in nominal terms, year-on-year) prevented the expected year-on-year expansion of the deficit. We have lowered our forecast for this year's budget deficit by 0.3 percentage points, to 2.5% of GDP. The good revenue situation is likely to continue next year as well, which means that the government should be able to contain the expansion of the budget deficit within close limits despite the failed tax reform. We project a deficit of roughly 2.8% of GDP in 2005.

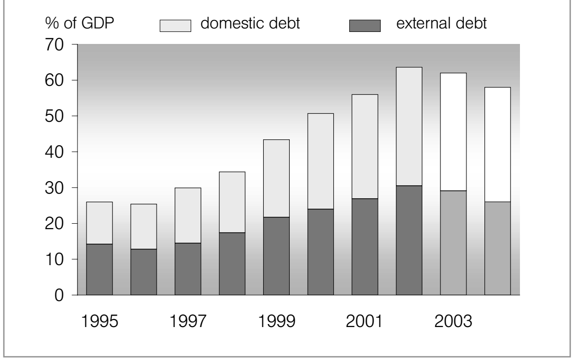
As in previous years, in the second semester the government tried to cover next year's financing requirements at an early stage. To this end, the central government has already issued international bonds totaling well over US$ 750 million in value. This is a good half of the international bond issues planned for 2005. Even in the event of temporary strains in the international capital markets, the Colombian government should therefore have no major problems covering the financing requirements for 2005 (totaling a good US$ 8 billion): the government plans to place bonds equivalent to US$ 5.5 billion on the domestic bond market alone next year, and the possibilities for raising capital from multilateral lenders – borrowings of US$ 2 billion are planned – will only be utilized to a small extent. Strong growth and the persistent upward pressure on the peso have also had a positive impact on the government's debt situation; for the first time in four years, the debt ratio should fall below the mark of 55% of GDP in 2005.

It remains to be seen whether or not the government will now rest on its laurels. The dilution of the pension reform and the still rigid regulation of transfers to subordinate central, regional and local authorities have impaired the government's ability to respond flexibly to a possible deterioration of the revenue situation, which means that the public sector remains prone to negative external shocks in the years ahead.

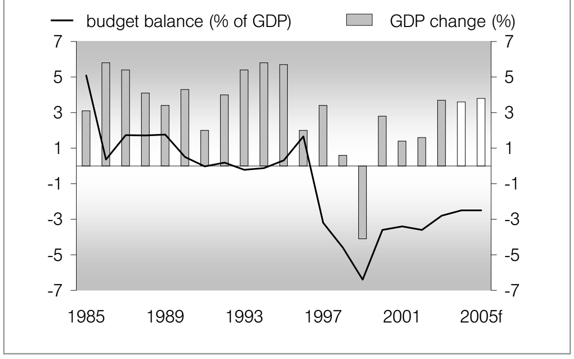
Economic activity: temporary phase of weakness

The third quarter saw a surprisingly sharp slowdown in GDP growth, and the bureau of statistics reported a slight, seasonally adjusted quarter-on-quarter decline in aggregate economic performance (-0.14%), the first since the beginning of 2002. Production shortfalls in the agricultural and mining sector were the reason for the weak growth impetus. In contrast, the construction sector, distributive trade and the financial sector recorded relatively strong growth rates. The growth rate (2.43% year-on-year) is additionally reduced by last year's high statistical base. The high sales increases in the retail sector (+5.5% year-on-year) suggest that consumer demand continued to strengthen, and we consider continued robust growth in industrial production (+5% year-on-year) as indicators of sustained, high demand for capital goods along with growth in industrial goods exports (particularly in Venezuela and the U.S.). The unemployment rate, which continues to decline (October: 14.1%) as well as a stabilization of both consumer and producer confidence in September

PUBLIC DEBT



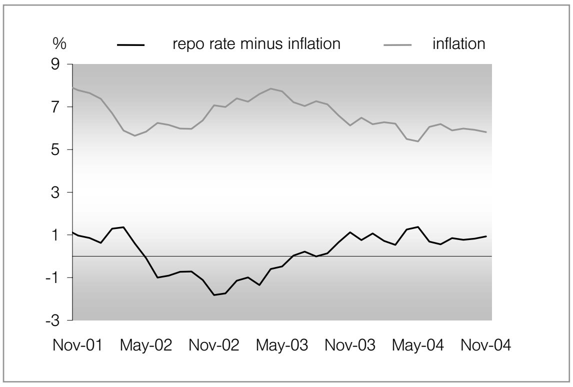
BUDGET BALANCE & ECONOMIC GROWTH



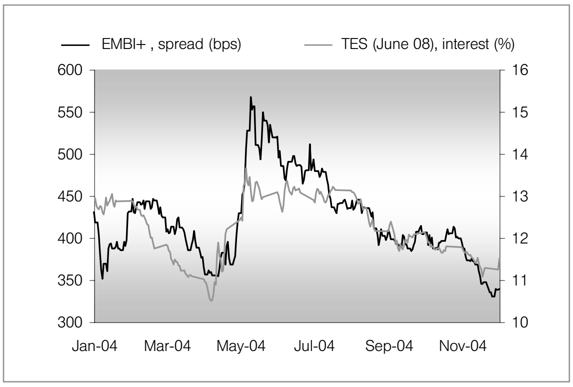
PUBLIC FINANCES

	2005 COP bn	US$ bn	% of GDP
Total Financing Needs	**21713**	**7.2**	**8.5**
Financial sources	**27197**	**9.6**	**10.9**
External	**9420**	**3.3**	**3.8**
Bonds	4250	1.5	1.7
Multilaterals	5170	1.8	2.1
Worldbank	2337	0.8	0.9
IADB	1417	0.5	0.6
CAF	1417	0.5	0.6
Domestic	**17777**	**6.3**	**7.1**
Bonds	16998	6.0	6.8
Central Bank profits	779	0.3	0.3

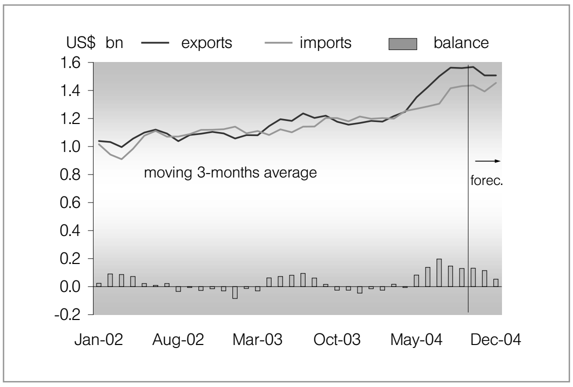
INFLATION AND MONETARY POLICY



DOMESTIC/INTERNATIONAL BOND MARKET



TRADE BALANCE



reflect an ongoing, positive economic outlook for the country. Although we have revised our growth forecast for this year downward from 4.0 to 3.6%, GDP growth, underpinned by robust domestic demand, should accelerate again to 3.8% even though global economic activity is expected to cool down.

Monetary sector: interest rates remain low

The persistent appreciation of the peso in relation to the US dollar, which has cushioned the impact of high oil prices on consumer prices and reduced inflationary expectations among the population, has thus far enabled the central bank to dispense with the need for increasing its repo rates. Following hardly any increase in consumer prices in October and November, it seems to be certain that the inflation rate will stay below the upper edge of the target corridor (5% +/- 1 percentage point) by year-end. Aside from the presumably persistent strength of the peso, strong investment activity as well as the still abundant supply of labor are helping to contain inflationary pressure. Nevertheless, the central bank is likely to start raising its key lending rates in the first quarter of 2005 in order to slow down inflation further (the target corridor for the end of next year is 4.5% +/- 1 percentage point).

External sector: foreign currency reserves rising

Although the volume of crude oil exports continues to fall (third quarter: -2.6% year-on-year), total exports recently rose at an annualized rate of just under 40%. In addition to a favorable price trend for primary goods, industrial goods exports benefited from growing demand from Venezuela (January – August: +140% year-on-year) as well as from the U.S. Apart from a high trade surplus, continued high transfer payments from Colombians living abroad (2004: approx. US$ 4 billion) should counteract an increase in the current account deficit next year as well. In view of substantial inflows of direct investments, we assume that the central bank will also boost the volume of foreign currency reserves further in 2005. The relative strength of the peso against the US dollar is likely to continue well into next year despite a diminishing interest rate differential between the U.S. and Colombia. Only in the event of a sharp decline in oil prices or a deterioration in the domestic political situation (e.g. failure of Uribe's re-election due to an adverse ruling of the constitutional court) could a devaluation of the peso in real terms be expected.

Kai Stefani, +49 40 3595 3486

COLOMBIA: MONTHLY INDICATORS		Aug-04	Sep-04	Oct 04	Nov-04	next/latest
DOMESTIC ECONOMY						
Industrial production (not incl. coffee)	% yoy	8.9	**2.4**			24-Dec
Retail sales (excl. fuel)	% yoy	4.1	**6.5**			24-Dec
Unemployment rate (urban)	%	15.0	**14.9**	**14.1**		24-Dec
Consumer prices	% yoy	5.9	6.0	**5.9**	**5.8**	5-Jan
Consumer prices	% mom	0.0	0.3	**0.0**	**0.3**	5-Jan
Producer prices	% yoy	5.2	5.5	**5.8**	**5.2**	7-Jan
Producer prices	% mom	0.1	0.3	**0.4**	**0.2**	7-Jan
Monetary base (month-end)	% yoy	7.5	10.4	**14.5**	**10.6**	5-Jan
Money supply M1 (month-end)	% yoy	9.7	10.4	**12.6**	**8.1**	5-Jan
Money supply M3 (month-end)	% yoy	14.7	14.3	**15.8**		10-Dec
Lending rate (month-end)	%	14.9	15.7	**15.5**		10-Dec
Deposit rate (DTF, 90 days, month-end)	%	7.80	7.72	**7.72**	**7.68**	3-Jan
Treasury bills (local index, month-end)***	%	104.1	104.5	**105.0**	**106.2**	5-Jan
Treasury bills (yield, TES Aug. 08, month-end)***		12.2	12.1	**11.8**	**11.3**	5-Jan
Interbank interest rate (month-end)	%	6.82	6.85	**7.10**	**6.87**	3-Jan
Credit volume (month-end)	% yoy	10.8	10.9	**10.8**		10-Dec
EXTERNAL SECTOR						
Merchandise exports	US$ mn	**1494**	**1393**			23-Dec
Merchandise exports	% yoy	**38.7**	**35.0**			23-Dec
Merchandise imports	US$ mn	**1471**	**1406**			23-Dec
Merchandise imports	% yoy	**28.8**	**15.0**			23-Dec
Trade balance	US$ mn	**51.9**	**92.9**			23-Dec
Foreign exchange reserves (month-end)	US$ mn	12020	12131	**12288**	**12971**	5-Jan
US$ exchange rate (month-end)	pesos	2596	2595	**2586**	**2479**	3-Jan

COLOMBIA: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next/latest
DOMESTIC ECONOMY						
GDP (latest Q3 04)	% yoy	4.1	4.5	4.0	4.3	**2.4**
GDP, seasonally adjusted	% qoq	2.0	1.0	0.5	0.8	**-0.1**
Private consumption	% yoy	2.4	3.4	4.5	3.6	27-Dec
Public consumption	% yoy	-0.2	4.1	2.3	2.6	27-Dec
Domestic consumption	% yoy	1.7	3.6	4.0	3.3	27-Dec
Domestic investment	% yoy	19.2	14.8	5.4	18.1	27-Dec
Domestic demand	% yoy	4.5	5.5	4.2	5.7	27-Dec
Exports (goods and services)	% yoy	9.7	5.5	5.6	9.0	27-Dec
Imports (goods and services)	% yoy	11.2	9.1	6.7	17.1	27-Dec
EXTERNAL SECTOR						
Merchandise exports	US$ bn	3.36	3.24	3.28	3.87	5-Jan
Merchandise imports	US$ bn	3.31	3.36	3.30	3.72	5-Jan
Trade balance	US$ bn	0.04	-0.12	-0.02	0.16	5-Jan
Current account balance	US$ bn	-0.01	-0.47	-0.70	-0.37	5-Jan
Net foreign direct investment	US$ bn	0.57	-0.51	0.55	0.84	5-Jan
Portfolio investment*	US$ bn	0.10	0.38	0.07	-0.05	5-Jan
Capital account**	US$ bn	0.34	0.42	1.12	0.76	5-Jan
Change in foreign exchange reserves #	US$ bn	0.33	-0.04	0.42	0.38	5-Jan

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

COSTA RICA: RATING AT STAKE

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

ANNUAL FIGURES AND FORECASTS

COSTA RICA		2001	2002	2003e	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	1.0	2.9	6.5	3.7	2.5
GDP	US$ bn	16.4	16.8	17.4	18.3	19.1
Inflation (year-end)	%	11.0	9.7	9.9	10.2	11.3
Inflation (year-average)	%	11.2	9.2	9.5	10.0	10.8
Budget balance, public sector	% GDP	-2.9	-5.4	-4.5	-4.5	-5.0
Public sector debt	% of GDP	48.7	51.9	57.5	60.2	61.5
EXTERNAL SECTOR						
Merchandise exports	US$ mn	4923	5259	6125	6200	6400
Merchandise imports	US$ mn	5745	6523	7294	8000	8200
Trade balance	US$ mn	-822	-1264	-1169	-1800	-1800
Current account balance	US$ mn	-736	-946	-1009	-1335	-1250
Current account balance	% GDP	-4.5	-5.6	-5.8	-7.3	-6.5
Net foreign direct investment	US$ mn	445	628	437	600	600
Foreign exchange reserves, year-end	US$ mn	1330	1497	1836	1550	1450
Import cover *	months	2.0	2.1	2.3	1.8	1.6
US$ exchange rate, year-end	Colones	342	379	419	465	500
US$ exchange rate, average	Colones	329	360	399	440	480
FOREIGN DEBT						
Gross foreign debt	US$ bn	4.6	5.0	5.7	6.0	6.4
Foreign debt	% exports*	65	68	69	71	70
Short-term foreign debt	US$ bn	1.2	1.5	1.7	1.8	1.9
FINANCIAL MARKETS (year-end)						
BCT stock index (colon based, 2004:12/01)		12028	11485	10903	9832	

*goods and services e=estimate f=forecast

Domestic policy: scandal impeding tax reform

A corruption scandal involving two former state presidents from the ranks of the current ruling party PUSC, among others, is detracting the government's attention from pressing fiscal policy tasks, causing fresh delays to the planned tax reform. We continue to assume that a possible reform compromise will achieve nothing but unsatisfactory results, particularly since the spotlight will soon be turned on the presidential elections scheduled for February 2006, and none of the parties would like to be held responsible for painful social cutbacks. As a result, the public deficit will most probably widen in 2005, to 5% of GDP, whereas it is likely to reach around 4.5% of GDP in 2004. This means that public debt in relation to GDP will also rise slightly next year, to roughly 61% of GDP. Therefore, ensuring the sustainability of public debt will be the task of the next government. Accordingly, there is quite a substantial risk of the leading international rating agencies downgrading their risk assessment of Costa Rica's public foreign debt by one grade in the course of next year, accompanied by a corresponding negative impact on the government's financing costs. This is particularly important in the event that the economy should deteriorate further in 2005 in line with our expectations. Following the "exceptional year" 2003, which saw the economy expand by 6.5%, growth is set to decline to 3.7% this year and will most probably reach only 2.5% in 2005. The current economic downturn is attributable to the weak demand for technology from the U.S. (Intel) and the high oil prices; a future burden may result from rising domestic interest rates and the political uncertainty in the run-up to the presidential elections.

External sector: Intel and oil price exerting pressure

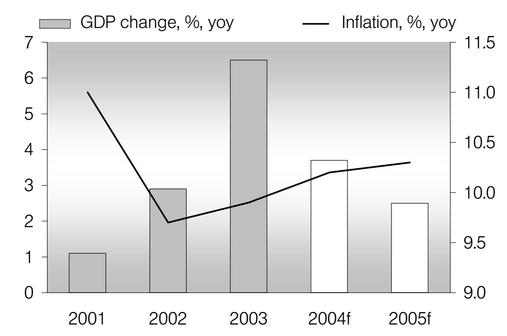
In spite of the strong expansion of global trade, Costa Rica's exports are stagnating due to the poor trend in technology exports. Since imports - particularly due to higher oil prices - show strong growth at the same time, the 2004 current account deficit will rise to more than 7% of GDP. Private investors will only tolerate a deficit of this size because Costa Rica's foreign debt, at approx. 70% of exports, is moderate. Despite high capital inflows, including approx. US$ 600 million accounted for by direct investments, the country's foreign currency reserves are nevertheless set to melt down by almost US$ 300 million, to US$ 1.5 billion.

Thorsten Ruelle, Miami +1 305 810 3855

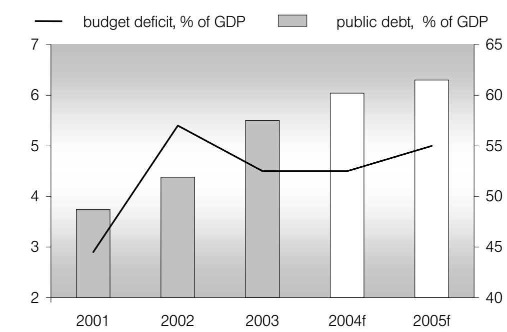
SUMMARY AND OUTLOOK

There are some indications that the rating agencies will downgrade the risk assessment of Costa Rica's foreign currency debt next year. The planned fiscal reforms intended to secure the sustainability of public debt are not making much progress and the public deficit should rise again slightly next year, to 5% of GDP. Simultaneously, GDP growth will decline further, amid mounting political uncertainty in the run-up to the presidential elections.

GDP CHANGE (REAL) & INFLATION



PUBLIC SECTOR FINANCES



DOMINICAN REPUBLIC: WAITING FOR THE DEBT RESTRUCTURING

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

ANNUAL FIGURES AND FORECASTS

DOMESTIC ECONOMY						
GDP change (real)	%	3.2	4.1	-0.4	1.5	2.0
GDP	US$ bn	21.4	21.2	16.2	19.4	22.5
Inflation (year-end)	%	4.4	10.5	42.8	35.5	12.7
Inflation (year-average)	%	8.9	5.2	32.0	55.0	35.0
Budget balance, public sector	% GDP	-2.0	-2.0	-3.5	-7.0	-5.0
Public sector debt	% GDP	39.0	40.0	57.9	51.0	48.0
EXTERNAL SECTOR						
Merchandise exports	US$ mn	5333	5183	5439	5600	5700
Merchandise imports	US$ mn	8784	8883	7883	8200	8600
Trade balance	US$ mn	-3451	-3700	-2444	-2600	-2900
Current account balance	US$ mn	-839	-877	867	1000	750
Current account balance	% GDP	-3.9	-4.1	5.3	5.1	3.3
Net foreign direct investment	US$ mn	1198	961	450	450	600
Foreign exchange reserves, year-end	US$ mn	1340	828	489	870	800
Import cover*	months	1.1	0.5	0.3	1.0	0.9
US$ exchange rate, year-end	Pesos	17.1	21.2	42.0	28.0	35.0
US$ exchange rate, average	Pesos	16.9	18.7	32.0	39.7	34.3
FOREIGN DEBT						
Gross foreign debt	US$ mn	5100	5350	8400	7900	8000
Foreign debt	% exports*	60	63	89	83	84
Short-term foreign debt	US$ mn	1295	1300	1150	900	1000
Foreign debt amortization	US$ mn	376	609	480	1100	700
Foreign debt service	US$ mn	605	884	1116	1325	925
Foreign debt service	% exports*	7.1	10.4	9.2	9.4	9.9

*goods and services e=estimate f=forecast

Domestic policy: moderate outlook for 2005

GDP rose by 1.4% year-on-year in the first nine months of 2004. The expansion was particularly strong in the agricultural sector (5.1%; GDP share: 11%). Industrial production (16% of GDP) rose by 3.3%, while the tourism industry (7% of GDP) stagnated year-on-year. For the year as a whole, we project a growth rate of 1.5%, which should rise only slightly (+2%) next year. The public sector's heavy new debt burden is crowding out private borrowers and keeping real interest rates at a very high level. The massive peso appreciation will have a negative impact on growth in exports and the tourism industry. Due to the persistent uncertainty in connection with the unsolved rescheduling of foreign debt, the investment climate remains gloomy. Weak domestic demand accompanied by the appreciation of the peso, in combination with recently restrictive monetary policy, resulted in a marked drop in inflation once again (end-2004: 35%). The fly in the ointment, however, is the sharp increase in the quasi-fiscal deficit rung up by the central bank, which sells interest-bearing central bank instruments in order to siphon off liquidity, to approx. 4% of GDP. The total public deficit is likely to amount to 7% of GDP. This is impeding the ongoing negotiations with the IMF regarding a new agreement and the planned rescheduling of public foreign debt. Following an agreement reached with the Paris Club, a solution for foreign debt owed to private creditors is still outstanding. According to a condition laid down by the Paris Club, these creditors are to be treated on a comparable footing. We expect a market-friendly debt rescheduling to emerge, which might take place in the first half of 2005. It cannot be ruled out, however, that the debt rescheduling will not proceed in an orderly fashion, particularly since the new government is receiving hardly any support from congress. One of the results of this is that the planned tax reform could only be implemented in severely diluted form.

External sector: overvaluation of the peso

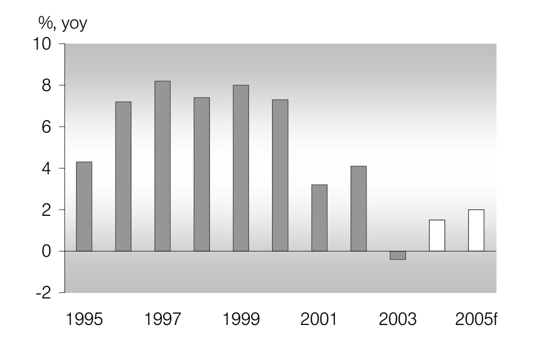
Due to capital flight and the associated devaluation of the peso, the balance of payments underwent a substantial adjustment, particularly last year. A rise in exports and the proceeds generated by the tourism industry, combined with a decline in imports, resulted in a positive current account, which had traditionally recorded high deficits. Meanwhile, there has also been a marked slowdown in capital flight. Reserves (1 month's import cover) have recovered from their lows. The extent of the peso's appreciation cannot be justified by fundamental improvements, however. We assume that the peso will start depreciating again and will reach an average of 40 pesos/US$ next year.

Dr. Cyrus de la Rubia +49 40 3595 3889

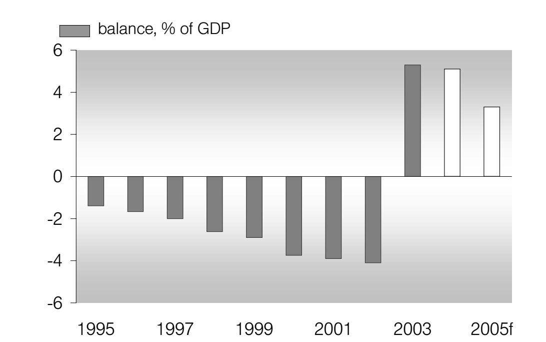
SUMMARY AND OUTLOOK

The new government under president Fernandez, who took office in August of this year, appears determined to stabilize the country. Even though GDP will grow by 1.5% in 2004, the past track record is anything but reassuring, however. For instance, the fiscal reform that has been passed is far from comprehensive, the central bank has accumulated a high quasi-fiscal deficit and, finally, the rescheduling of foreign debt is still pending. For next year, we project only a slight economic upturn.

GDP CHANGE (REAL)



CURRENT ACCOUNT



GUATEMALA: HIGH-FLYING QUETZAL

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

ANNUAL FIGURES AND FORECASTS

GUATEMALA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	2.1	2.2	2.1	2.5	2.5
GDP	US$ bn	21.0	23.3	24.5	26.3	27.9
Inflation (year-end)	%	8.9	6.3	5.6	8.3	6.5
Inflation (year-average)	%	7.6	8.0	5.4	7.5	7.4
Budget balance, public sector	% GDP	-1.9	-0.7	-2.4	-2.5	-2.0
Public sector debt	% of GDP	22.5	22.8	23.5	24.5	24.7
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2860	2628	2763	2900	3100
Merchandise imports	US$ mn	5142	5578	5750	6000	6300
Trade balance	US$ mn	-2282	-2950	-2986	-3100	-3300
Current account balance	US$ mn	-1253	-1193	-1097	-1300	-1380
Current account balance	% GDP	-6.0	-5.1	-4.5	-4.9	-4.9
Net foreign direct investment	US$ mn	456	110	104	150	150
Foreign exchange reserves, year-end	US$ mn	2301	2299	2833	3000	2700
Import cover *	months	4.3	3.9	4.7	4.7	4.0
US$ exchange rate, year-end	Quetzales	8.00	7.81	8.04	7.90	8.70
US$ exchange rate, average	Quetzales	7.86	7.82	8.00	8.00	8.50
FOREIGN DEBT						
Gross foreign debt	US$ bn	4.53	4.70	5.50	6.00	6.20
Foreign debt	% exports*	107	119	135	141	137
Short-term foreign debt	US$ bn	1.60	1.06	1.10	1.20	1.20

*goods and services e=estimate f=forecast

Domestic policy: country falling back

Even under president Oskar Berger's rule, there are no signs of economic momentum picking up speed or any radical change. This year will see economic growth pick up by a paltry 2.5% and the outlook for next year is not promising either. As a result, Guatemala's economy fared significantly worse than Latin America as a whole; the region is set to reach a growth rate of about 5%, the highest since 1997. The objectives of the Berger government have been clearly formulated: in addition to orthodox economic policy, the agenda includes an improvement of the investment climate and the creation of a more stable legal and regulatory environment. However, this will not be an easy task for the president. Following the collapse of the coalition government in May of this year, he has had to rely on cooperation with the former ruling party FRG, which is very much focused on containing the negative consequences of an investigation of alleged corruption. Politics remain fraught with a great deal of tension and are characterized by a deteriorating security situation and military unrest provoked by substantial cuts in funding. And yet the government at least managed to gain some respect when it succeeded in pushing through a tax reform package. The budget deficit, at 2.1% of GDP, will be slightly down on the pre-year figure. In spite of fiscal policy efforts made, the central bank has to pursue a restrictive monetary policy in light of escalating inflation which, at roughly 8%, has shifted outside the target range of 4% to 6%. All in all, the country will find it difficult to free itself from economic stagnation in the foreseeable future. This applies all the more so as external conditions (international interest rate levels, demand from the U.S.) might deteriorate once again in the medium term.

External sector: firm quetzal

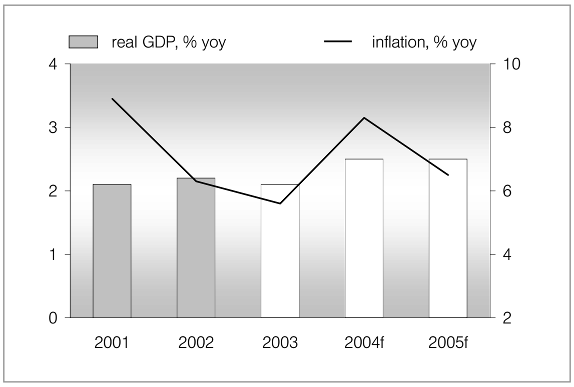
Like other Latin American currencies, the quetzal has remained very stable this year despite a current account deficit of almost 5% of GDP. It is currently trading at 7.80 quetzales per US dollar and has therefore gained about 3% in value since the beginning of the year. This trend is attributable to significant short-term capital inflows due to high quetzal interest rates. The current exchange rate trend does not appear to be sustainable in the medium term since it will push the structural current account deficit even higher. We anticipate a relatively strong devaluation as early as in the course of next year and forecast a year-end exchange rate of 8.7 quetzales per US dollar.

Thorsten Ruelle, Miami +1 305 810 3855

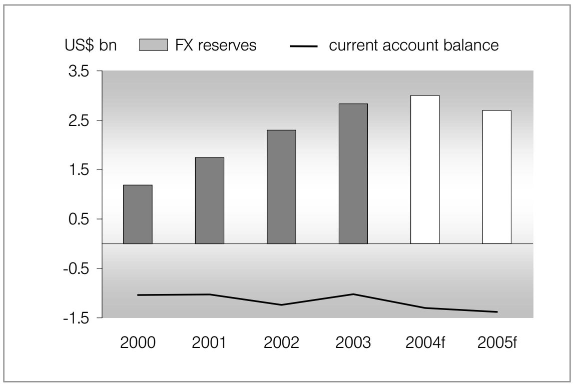
SUMMARY AND OUTLOOK

Guatemala's economy is not making any progress at present. Growth is meager in spite of favorable external conditions. Structural reforms are not making much headway under president Berger's government either. Nevertheless, the inflow of primarily short-term foreign capital is continuing, which has made the high structural current account deficit effortless to finance. This prompted a further appreciation of the quetzal, a trend unlikely to be sustained in the medium term.

GDP CHANGE (REAL) & INFLATION



CURRENT ACCOUNT & EXCHANGE RESERVES



MEXICO: HIGH INTEREST RATES - FIRM PESO

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

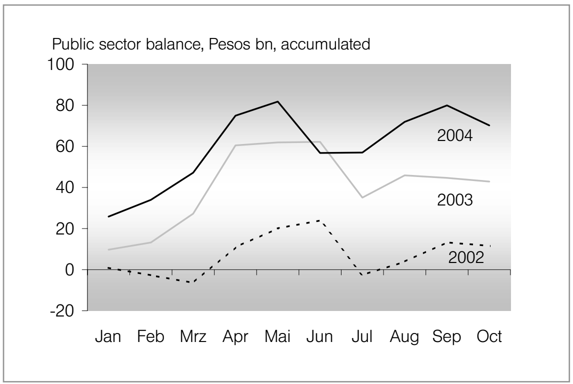
SUMMARY AND OUTLOOK

Following the recent confrontation between the government and congress regarding the public-sector budget 2005 it now is certain that the government and opposition refuse to cooperate, no matter how negligible their political differences may be. There can be no question of extensive tax, energy or labor market reforms being pushed through before the elections in June 2006. Any upgrading of the risk rating of public foreign currency bonds by leading rating agencies - a current discussion topic on the financial markets - is therefore highly unlikely in the foreseeable future. Another reason would be the gloomy economic prospects, as anticipated. In addition to the weak growth in demand from the U.S., in particular higher interest rates will exert a negative impact in the next several quarters. In contrast, the peso is currently benefiting from the higher interest rate differential compared with the U.S. For the second quarter of 2005, however, we forecast a slight depreciation against the US dollar.

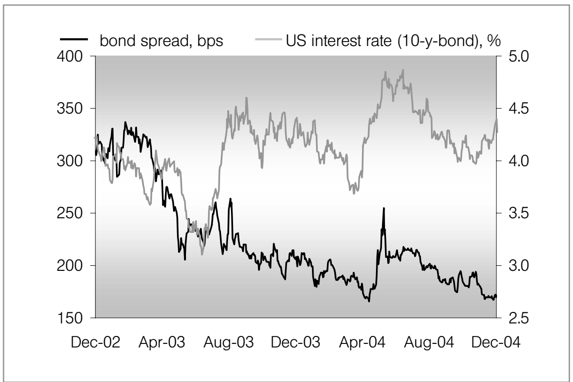
MEXICO		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	-0.1	0.7	1.3	3.9	3.0
GDP	US$ bn	623	648	626	654	680
Inflation (year-end)	%	4.4	5.7	4.0	5.1	3.6
Inflation (average)	%	6.4	5.0	4.5	4.7	4.5
PUBLIC SECTOR						
Budget balance, central government	% GDP	-1.0	-1.0	-0.8	-0.6	-0.6
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	187	195
Merchandise imports	US$ bn	168	169	171	193	206
Trade balance	US$ bn	-10.0	-7.9	-5.7	-6.1	-10.4
Current account balance	US$ bn	-18.2	-13.8	-9.0	-8.5	-12.8
Current account balance	% GDP	-2.9	-2.1	-1.4	-1.3	-1.9
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	3.4	3.1
US$ exchange rate, year-end	Pesos	9.17	10.46	11.24	11.50	12.00
US$ exchange rate, average	Pesos	9.34	9.66	10.79	11.32	11.73
FOREIGN DEBT						
Gross foreign debt	US$ bn	159.2	161.0	163.5	161.0	162.0
Foreign debt	% exports**	90	91	90	79	76
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	16	12
FINANCIAL MARKETS (year-end)						
Interest rates (Cetes, 28 days)	%	7.4	7.6	6.0	8.5	8.2
IPC stock index (peso based, 2004: 12/01)		6372	6127	8795	12234	
IFCI stock index (US$ based, 2004: 12/01)		761	637	830	1154	
Bond market yield spread (2004: 12/01)*	bp	308	324	199	172	

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

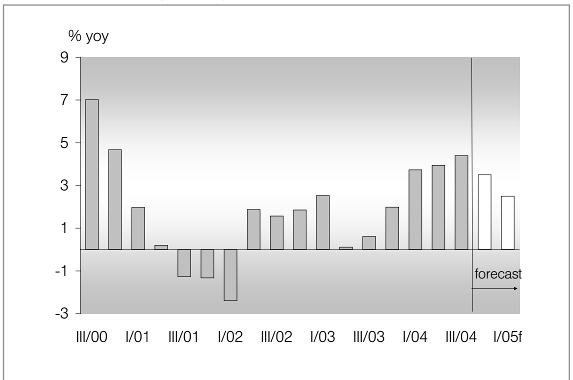
PUBLIC FINANCES



BOND SPREADS AND US INTEREST RATES



GDP CHANGE (REAL)



Public finance: party disputes affect budget debate

Despite all the wrangling between the political parties, the debate concerning the public-sector budget in president Fox's term of office was relatively unspectacular in the past. Congress generally used to pass and sign the government's budget proposals into binding budget law, though in most cases only immediately before expiration of the statutory period.

This year, everything is completely different, however. Escalating party clashes (and the fact that the presidential elections scheduled for June 2006 are increasingly becoming the primary focus of party tactics) have sparked a sharp confrontation between president Fox and the opposition majority in congress. The matters in dispute are differences of opinion on the limit of the deficit ceiling (government: 0.14% of GDP; congress: 0.22% of GDP), the macroeconomic assumptions on which the budget is based, particularly the oil price (government: US$ 23/b; Congress: US$ 27/b) and the breakdown of expenditure. From a macroeconomic point of view, the differences are relatively insignificant. If, for instance, the oil price should plunge unexpectedly and oil revenues should fall below projections, then expenditure cuts would take effect more or less automatically, ensuring compliance with the budget deficit ceiling in the process.

The fact is that Mexico's budget policy remains solid, which is also being reflected by the trend in risk spreads for Mexican foreign-currency bonds in the international capital market. The average risk spread is still relatively low at around 170 basis points. What is problematic, however, is the additional uncertainty caused by president Fox's intention to challenge the budget legislation passed by congress in court or veto it. Since this procedure will most probably take several months to complete, it is not clear what budget base the government is going to apply to public spending in January 2005.

This budget dispute is once again making one thing very clear: this particular government and opposition seem to be unable to work out their differences, no matter how insignificant they may be. The government is hardly likely to achieve a major breakthrough - namely a comprehensive tax reform, an energy or labor market reform - during president Fox's remaining tenure. The government will therefore need to follow a policy of damage limitation in order to give the potential presidential candidate of the ruling party (PAN), Santiago Creel (minister for internal affairs) a good head start; in recent opinion polls, he received the highest approval rating from potential voters for the first time. An improved risk rating of public foreign-currency bonds by the leading rating agencies (which has certainly been a topic of discussion in the financial markets) is likely to have become quite remote for the time being.

Economic activity: slight downturn in the third quarter

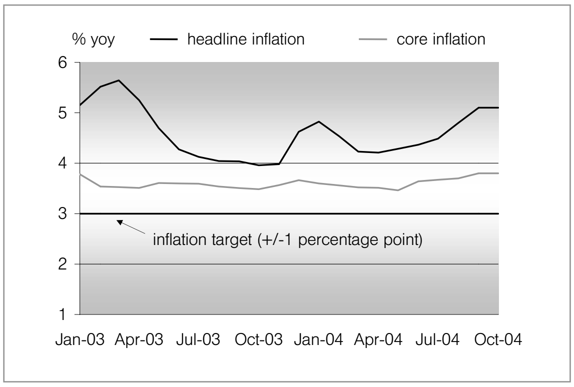
The third quarter saw an economic slowdown, in line with our forecast. GDP rose by 0.6% (quarter-on-quarter, seasonally adjusted) after still having recorded an increase of 1.2% in the second quarter. GDP grew by 4.4% year-on-year. Thus the dip in U.S. growth (or "soft spot" as Fed Chairman Alan Greenspan calls it) has hit Mexico with a time lag of one quarter. Due to the economic slowdown in the U.S., growth in foreign demand presumably saw the same drop as that of private consumption, which was impacted by higher inflation and rising interest rates. Growth in private investments should likewise have decreased slightly. Due to a copious flow of oil revenues, only the public sector could draw on unlimited resources, and this is likely to be reflected in higher consumption and investment growth. We expect GDP growth to stabilize at a lower level in the current quarter; as a result, the economy will expand by 3.9% in 2004 as a whole.

For the year 2005, we project a further economic slowdown and assume that the economy will grow by 3%. Accordingly, the impeding effects of restrictive monetary policy and the associated domestic interest rate hike will only be fully unleashed in the next several quarters. Demand from the U.S. should likewise grow less sharply than in the current year. Declining oil prices and escalating domestic policy disputes in the run-up to the presidential elections scheduled for June 2006 are additional negative factors that may impose strains on the economy.

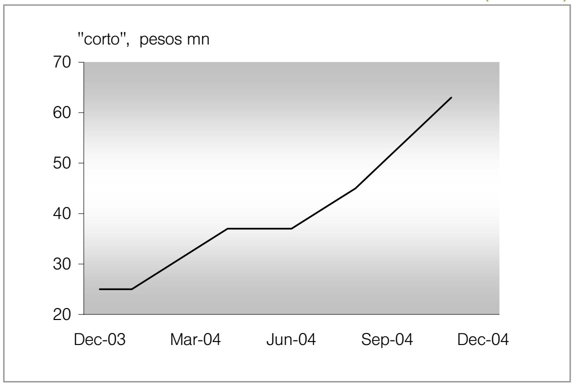
Monetary sector: time of the "hawks"

There simply is no end to the bad news regarding inflation. In October, the increase in consumer prices by 0.7% once again exceeded consensus expectations. The annualized inflation rate rose to 5.4% and thus exceeded the central bank's inflationary target by 2.4 percentage points. The direct consequence is that inflationary expectations of the private sector for end-2005 have meanwhile risen to 4.2%. We believe that the Mexican central bank will respond accordingly; otherwise it would risk losing its hard-earned credibility. Economic entities still appear to regard this merely as a temporary

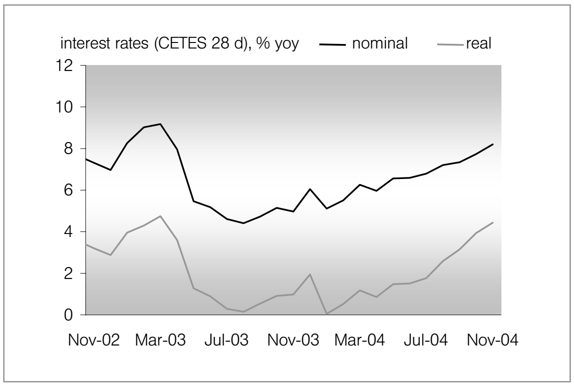
INFLATION



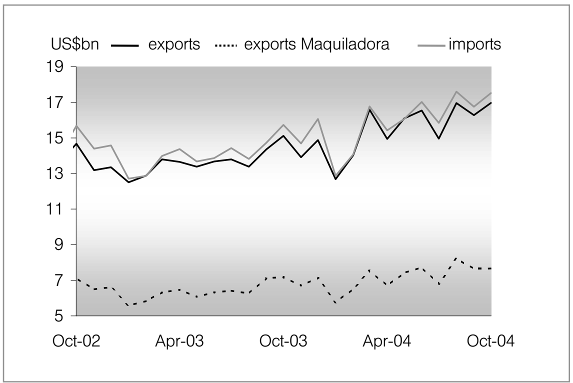
MONETARY POLICY (CORTO)



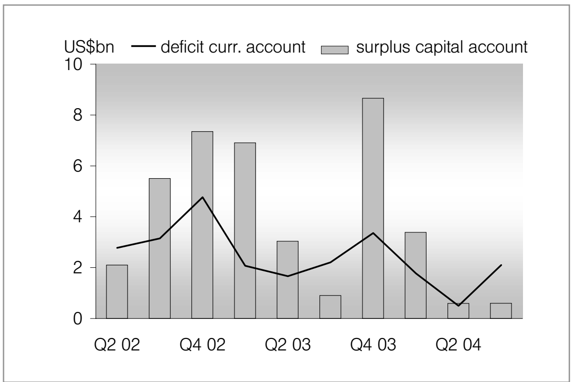
INTEREST RATES



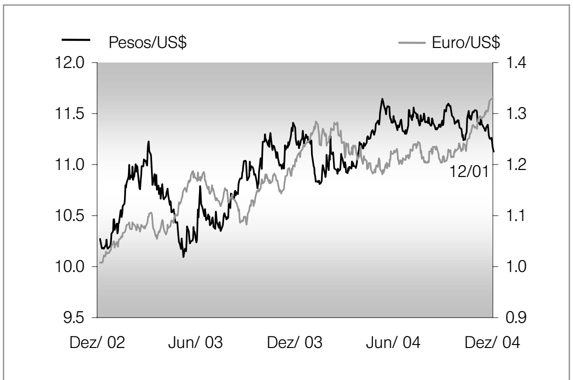
FOREIGN TRADE



BALANCE OF PAYMENTS



EXCHANGE RATES



surge in inflation, as measured by nominal wage increases, which still only range between 4% and 5%.
At the end of November, the central bank increased the "corto" (a kind of minimum reserve) for the ninth time this year, namely from 57 million pesos to 63 million pesos. We expect Banxico to tighten its monetary reins once again; consequently, money market interest rates (cetes, 28 days) will reach a cyclical high at 8.6% in the first quarter of 2005. With regard to inflation trends in the year 2005, we consider current market expectations to be exaggerated and forecast that the annualized inflation rate will drop to 3.7% by end-2005. For one thing, this will be attributable to the economic slowdown, which is lowering the pricing potential available to enterprises. Secondly, the partly sharp surges in food prices due to unfavorable climatic conditions will not recur.

Exchange rate: peso remains stable for now

The peso was under pressure on the foreign exchange market for a long time. Since May of this year, however, the peso has stabilized (at least against the US dollar) and is hovering around 11.40 pesos per US dollar. We consider the recent exchange rate trend fundamentally realistic. Although Mexico's economic policy is not exactly stimulating speculative appeal among private investors on the one hand - which is why capital inflows are subdued - on the other, an almost balanced budget is also helping to keep the current account deficit (and, therefore, the demand for external savings) low on a sustained basis at 1.4% of GDP. We previously expected the peso to decline slightly, to 11.90 pesos per US dollar by the end of 2004. However, since money market interest rates will continue to rise and the interest rate differential in relation to the US money market has increased more sharply than expected, we now expect the peso to remain stable (forecast 2004: 11.50 pesos per US dollar). The peso should only come under pressure again at the end of the first quarter of 2005, when the interest rate differential between Mexico and the U.S. will decrease and the economy will probably see another slowdown once again. We therefore still forecast an exchange rate of 12 pesos per US dollar for end-2005.

Thorsten Ruelle, Miami +1 305 810 3855

MEXICO: MONTHLY INDICATORS		Aug-04	Sep-04	Oct-04	Nov-04	next/latest
DOMESTIC ECONOMY						
Economic activity index (IGAE)	% yoy	5.4	**4.4**			
IGAE index (seasonally adjusted)	% mom	0.6	**-0.1**			
Industrial production	% yoy	5.2	**5.5**			13-Dec
Manufacturing, in-bond industry	% yoy	9.5	**10.5**			13-Dec
Manufacturing (excluding in-bond industry)	% yoy	5.4	**4.6**			13-Dec
Construction	% yoy	5.5	**8.6**			13-Dec
Gross fixed capital formation	% yoy	**9.2**				7-Dec
Consumer confidence (January 2003=100)	Index	95.6	96.8	95.4	**95.3**	4-Jan
Retail sales	% yoy	4.2	**8.1**			22-Dec
Wholesale sales	% yoy	12.6	**11.2**			22-Dec
Unemployment rate	%	4.3	4.0	**3.6**		21-Dec
Employees (social insurance)	% yoy	3.1	**3.1**			
Real wages per employee, manufacturing	% yoy	-0.7	**1.0**			27-Dec
Budget balance, public sector	Pesos bn	15.0	8.0	**-9.7**		5-Jan
Public domestic debt	Pesos bn	1096	1085	**1078**		5-Jan
Public external debt	US$ bn	80.3	79.9	**78.5**		5-Jan
Consumer prices	% yoy	4.8	5.1	**5.4**		9-Dec
Consumer prices	% mom	0.6	0.8	**0.7**		9-Dec
Treasury bills, Cetes 28d (latest: 11/30)	%	7.3	7.6	8.0	**8.4**	**8.4**
EXTERNAL SECTOR						
Merchandise exports	US$ mn	16961	16280	**16971**		23-Dec
Merchandise exports	% yoy	27.3	13.4	**12.2**		23-Dec
Merchandise imports	US$ mn	17601	16755	**17524**		23-Dec
Merchandise imports	% yoy	27.4	13.7	**11.4**		23-Dec
Trade balance	US$ mn	-640	-475	**-553**		23-Dec
Foreign exchange reserves (latest: 11/26)	US$ bn	61.0	62.3	**60.9**		**63.5**
US$ exchange rate (latest: 12/01)	Pesos	11.39	11.40	11.53	**11.22**	**11.18**

MEXICO: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	2.0	3.7	3.9	**4.4**	16-Feb
Private consumption	% yoy	3.2	3.7	5.4		15-Dec
Public consumption	% yoy	2.8	-0.3	-5.0		15-Dec
Private and public investment	% yoy	-6.9	2.9	-1.5		15-Dec
Domestic demand	% yoy	1.1	3.2	3.1		15-Dec
Exports (goods and services)	% yoy	4.6	10.4	14.4		15-Dec
Imports (goods and services)	% yoy	2.0	8.5	11.1		15-Dec
EXTERNAL SECTOR						
Current account balance	US$ bn	-3.3	-1.9	-0.5	**-2.1**	25-Feb
Net foreign direct investment	US$ bn	2.2	7.4	2.5	**2.6**	25-Feb
Net foreign portfolio investment (incl. bonds)	US$ bn	0.0	0.0	-2.6	**5.7**	25-Feb
Capital account **	US$ bn	8.6	0.0	0.6	**0.6**	25-Feb
Change in foreign exchange reserves*	US$ bn	-5.3	-1.6	-0.1	**1.5**	25-Feb

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

NICARAGUA: FURTHER DEBT REDUCTION

Area	139 000 sq. km
Population	5.5 million (+ 2.7 % p.a.)
State president	Enrique Bolaños
Finance minister	Eduardo Montiel
Central bank president	Mario Alonso
Next elections	State president: November 2006 Congress: November 2006
GDP per capita	US$ 760 (2003)
Rating	Moody's: Caa1 S&P: NR

ANNUAL FIGURES AND FORECASTS

NICARAGUA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3,2	1,0	2,3	4,0	3,0
GDP	US$ bn	4,0	4,0	4,1	4,4	4,8
Inflation (year-end)	%	4,7	3,9	6,5	10,3	8,0
Inflation (year-average)	%	7,4	4,0	5,2	8,5	9,1
Budget balance, public sector	% GDP	-13,4	-10,5	-9,7	-8,5	-7,0
Public sector debt	% GDP	200	202	203	115	110
EXTERNAL SECTOR						
Merchandise exports	US$ mn	911	917	1049	1180	1250
Merchandise imports	US$ mn	1808	1853	2021	2350	2450
Trade balance	US$ mn	-897	-936	-972	-1170	-1200
Current account balance	US$ mn	-785	-784	-780	-870	-875
Current account balance	% GDP	-19,4	-19,6	-18,8	-19,7	-18,3
Net foreign direct investment	US$ mn	150	204	201	220	240
Foreign exchange reserves, year-end	US$ mn	380	448	502	640	750
Import cover *	months	1,9	2,2	2,3	2,6	3,0
US$ exchange rate, year-end	Córdobas	13,90	14,74	15,55	16,30	16,90
US$ exchange rate, average	Córdobas	13,37	14,25	15,10	15,92	16,60
FOREIGN DEBT						
Gross foreign debt	US$ bn	6,4	6,5	6,5	3,3	3,3
Foreign debt	% exports*	558	563	501	226	213
Short-term foreign debt	US$ bn	0,14	0,13	0,14	0,15	0,16

* goods and services f=forecast

Economic policy: thorny path of structural adjustment

The most difficult obstacle Nicaragua has yet to take in the course of the current structural adjustment program supervised by the IMF is the consolidation of public finances. It is questionable whether the government will be able to reduce the budget deficit (before foreign aid), which in 2003 was still equivalent to almost 10% of GDP, to 7% this year and 5% of GDP in 2005. Although public revenues are showing double-digit growth rates due to tax reforms and the economic recovery, the sharp rise in oil prices as well as the increase in transfer payments to local governments – as required in the wake of decentralization – are impacting heavily on the spending side, however. As a result of higher fuel prices and associated price-boosting effects, inflation is likely to rise once again to 10% by the end of the year. We believe that the IMF will be lenient since it understands the special problems Nicaragua (which is dependent on oil imports) has to contend with due to booming oil prices and will continue to endorse the country's poverty reduction program. After all, Nicaragua's government can even cite some partial successes: an economic recovery process set in across the board this year, which is likely to continue - albeit somewhat weaker - despite the anticipated decline in U.S. demand and declining coffee harvests. Nicaragua can expect to receive strong impetus for exports and investments from the free trade agreement between the U.S. and Central America but also from multilateral loans; accordingly, growth is likely to have accelerated to around 4% in 2004 and should still reach a rate of 3% in 2005. In spite of a continued high current account deficit (18% of GDP), international reserves should stabilize at just under US$ 1 billion.

External sector: still heavily indebted despite remission

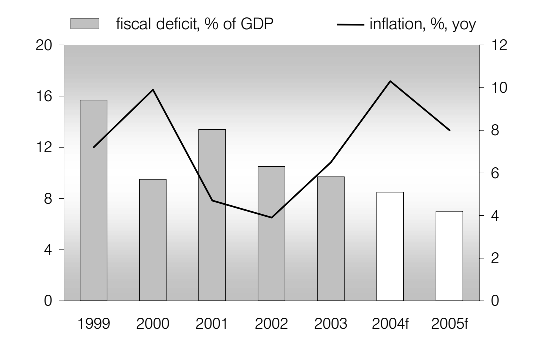
The country's foreign debt is likely to have been reduced by 50%, to US$ 3.3 billion in 2004 since foreign creditor governments and multilateral financing organizations have already forgiven US$ 3.6 billion in Nicaraguan debts in the context of the HIPC (Heavily Indebted Poor Countries) initiative. This debt relief program reduced external debt in relation to visible and invisible exports from more than 500% to 230%, which still represents an extremely heavy debt burden. The public sector's external liabilities are equivalent to more than 70% of GDP, not counting public-sector domestic debt amounting to 40% of GDP. The Nicaraguan government therefore wants to continue negotiations for debt service relief worth billions of dollars with other foreign creditors.

Ingrid Gruenewald +49 40 3595 3494

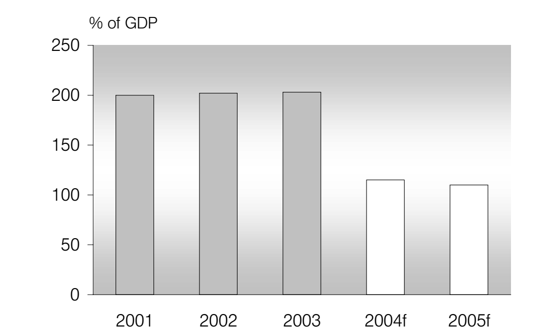
SUMMARY AND OUTLOOK

The Nicaraguan government can still be confident of IMF support even though, due to a sharp rise in oil prices, it will be unable to meet all targets of the current structural adjustment program (e.g. confining the 2005 fiscal deficit to 5% of GDP). Since the country will still be heavily indebted even after almost US$ 4 billion in debt has been forgiven within the scope of the HIPC initiative, further bilateral negotiations on extensive debt service relief are to be expected.

PUBLIC BUDGET AND INFLATION



PUBLIC DEBT



PARAGUAY: FIRST STEPS OF REFORMS

Area	406 752 sq. km
Population	5.6 million (+ 2,6 % p.a.)
State president	Nicanor Duarte Frutos
Finance minister	Dionisio Borda
Central bank president	Angel Gabriel González
Next elections	State president: April 2008 Congress: April 2008
GDP per capita	US$ 982 (2003)
Rating	Moody's : Caa1 S&P: B-

ANNUAL FIGURES AND FORECASTS

PARAGUAY		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	2.7	-3.9	2.6	3.0	2.5
GDP	US$ bn	6.8	5.6	5.7	6.7	7.0
Inflation (year-end)	%	8.4	14.6	14.3	5.4	4.5
Inflation (year-average)	%	7.3	10.2	14.3	5.7	5.5
Budget balance, public sector	% GDP	-1.4	-3.2	-0.5	-1.0	-2.0
Public sector debt	% GDP	38.4	49.7	47.4	43.3	42.9
EXTERNAL SECTOR						
Merchandise exports	US$ mn	2409	2319	2260	2600	2600
Merchandise imports	US$ mn	2954	2390	2520	3025	3150
Trade balance	US$ mn	-545	-71	-260	-425	-550
Current account balance	US$ mn	-192	297	146	34	-95
Current account balance	% GDP	-2.8	5.3	2.6	0.5	-1.4
Net foreign direct investment	US$ mn	152	144	90	100	120
Foreign exchange reserves, year-end	US$ mn	723	629	969	1180	1200
Import cover *	months	2.4	2.0	3.8	3.8	3.8
US$ exchange rate, year-end	Guaranies	4670	7100	6110	5950	6250
US$ exchange rate, average	Guaranies	4100	5711	6462	5925	6100
FOREIGN DEBT						
Gross foreign debt	US$ mn	2800	2800	2900	3100	3200
Foreign debt	% exports*	109	101	107	99	101
Short-term foreign debt	US$ mn	700	542	501	515	520
Foreign debt service	US$ mn	440	490	522	558	576
Foreign debt service	% of Exports*	17	18	19	18	18

* goods and services f=forecast

Domestic policy: initial stabilization successes

The new government, in office since August 2003, remains set on its stabilization-oriented economic policy and reform course. It was possible to reduce the fiscal deficit (forecast 2004: 1.0% of GDP) by implementing measures to combat tax evasion, and new borrowing was restricted. Payment arrears payable to foreign creditors have been settled at the same time, prompting the international rating agency S&P to lift its default (SD) rating for Paraguay; the country has now been assigned a B- rating. In October, president Duarte Frutos applied for a three-month extension of IMF agreement signed in December 2003 (its regular term of 15 months being scheduled to expire in March next year). IMF approval is likely to depend on the resumption of reforms in the banking sector, which have been delayed since mid-2004. Ongoing protests from the rural population is putting pressure on the government to achieve a consensus on issues relating to the outstanding land reform. A new tax on soya exports is intended to ease the situation and a planned progressive property tax on large estates is to benefit the "rural development fund", among others. Despite the president's efforts to improve the economic climate for foreign investors, the country's structural weakness still is a deterrent to potential investors.

The relative stability of the guarani is helping to contain inflation. For 2004, we project an inflation rate of 5.7% (year-end). Next year's inflation rate should be in the region of 5.5%. Due to the surprisingly strong economic situation of the key trading partners Brazil and Argentina, high crop yields, growth in private investments and expanding public investments in the fourth quarter, we have revised our forecast for 2004 GDP growth upward from 2.5% to 3%; since a slowing economy is expected again for the region as a whole next year, however, we also forecast that growth will decline to 2.5% in Paraguay.

External sector: current account surpluses on the decrease

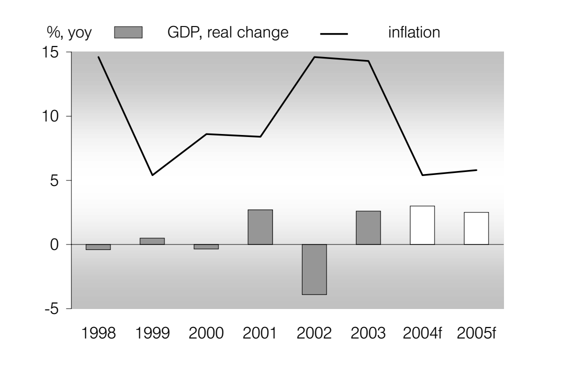
The economic recovery and the stable guarani have given consumer and capital goods a substantial boost. Merchandise imports rose by 43.1% year-on-year in the first eight months of 2004. Although export revenues were up 27.8% year-on-year between January and August this year despite falling soya prices in the last several months, on the whole the trade deficit almost doubled in this period year-on-year, to US$ 425 million or 6.3% of GDP. Thanks to the traditionally positive services account as well as transfer payments equivalent to approx. 2.5% of GDP, the current account remains in positive territory for the third year in succession, but this tendency is declining. We expect a slightly negative current account balance next year.

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

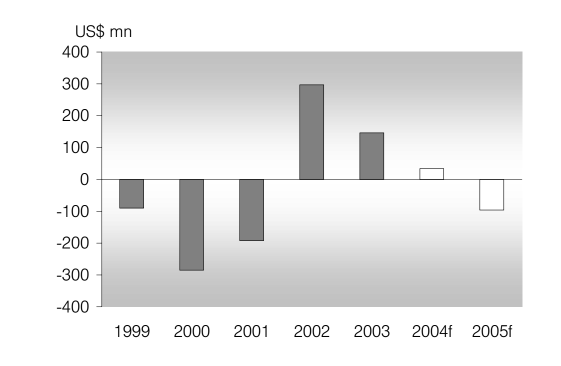
SUMMARY AND OUTLOOK

The new government seems to be on the right track toward consolidating its stability-oriented economic policy. Negotiations are under way concerning an extension of the IMF agreement signed in December 2003 in order for the reform course to continue. Confidence in the government's policy has grown and caused an increase in private consumption and imports. High economic growth in the region is also extending to include Paraguay. We have raised our GDP forecast from 2.5% to 3% but expect a slowdown once again next year - in line with the general trend in the region.

GDP CHANGE (REAL) & INFLATION



CURRENT ACCOUNT BALANCE



PERU: SOLID GROWTH

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

ANNUAL FIGURES AND FORECASTS

PERU		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	0.2	4.9	4.0	4.5	4.0
GDP	US$ bn	54.0	56.9	60.9	66.9	73.4
Inflation (year-end)	%	-0.1	1.5	1.8	3.8	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	-1.3	-1.0
Public debt	% GDP	46	47	48	46	42
EXTERNAL SECTOR						
Merchandise exports	US$ bn	7.1	7.7	9.0	12.1	12.5
Merchandise imports	US$ bn	7.2	7.4	8.3	9.5	9.9
Trade balance	US$ bn	-0.1	0.3	0.7	2.6	2.7
Current account balance	US$ bn	-1.0	-1.2	-1.1	-0.8	-0.6
Current account balance	% GDP	-1.9	-2.1	-1.8	-1.2	-0.8
Net foreign direct investment	US$ bn	1.1	2.4	1.3	2.0	1.5
Foreign exchange reserves, year-end	US$ bn	8.6	9.6	10.2	12.5	13.0
Import cover	months**	9.1	9.8	9.3	9.3	9.5
US$ exchange rate, year-end	Soles	3.44	3.51	3.46	3.31	3.33
US$ exchange rate, average	Soles	3.48	3.48	3.48	3.42	3.30
FOREIGN DEBT						
Gross foreign debt	US$ bn	27.6	28.7	30.2	30.7	31.0
Foreign debt	% exports**	298	301	279	218	213
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	25.0	26.9

**goods and services   e=estimate   f=forecast

Domestic policy: recent successes grinding to standstill

Although the present government only has a weak power base and various discussions (e.g. on appointing a new central bank president - this position has been vacant for weeks now; imposing higher taxes on mining companies; or dealing with court rulings under the autocratic Fujimori regime, 1990-2000) have caused some unrest, recently the government managed to achieve some successes. Congress approved a reform of the pension system, and a speedy replacement was found for a regulation intended to expand tax revenues (which had been prohibited by the constitutional court). These steps, along with the on-going economic boom, are likely to facilitate a further consolidation of public finances. We now assume that the upper limits agreed with the IMF for the budget deficit will not be exceeded this year and in 2005. However, we do not anticipate any further substantial impetus to arise before the presidential election scheduled for April 2006. Even if the uncertainty relating to the country's economic policy orientation after 2006 is likely to keep many investors sidelined, due to the fact that the economic fundamentals recently were more positive than expected we have raised our growth forecast for 2004 and anticipate a stable economic situation in 2005.

We do not consider the recent increase in inflation occasioned by higher energy costs and food prices with concern even though the central bank will probably not be able to keep within the target corridor announced for the end of the year (1.5-3.5% year-on-year).

External sector: from one record to the next

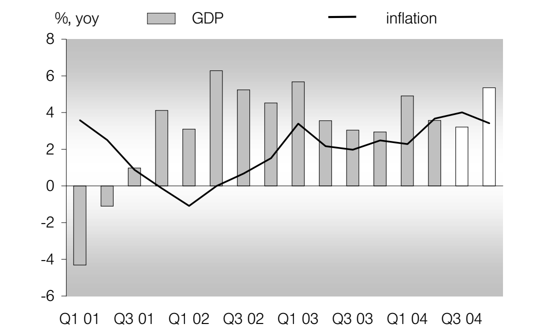
Peruvian terms of trade have remained favorable for the country despite higher oil prices (see chart). The trade balance has seen one record broken after the other. Even though profit transfers abroad have risen, we only anticipate a current account deficit of just under US$ 1 billion. Since the country is simultaneously benefiting from substantial inflows of direct investment, the foreign currency liquidity position (expressed as a percentage of visible and invisible imports) is unlikely to deteriorate despite a substantial surge in the volume of imports. In our assessment, the appreciation of the sol in relation to the US$ should continue well into the first half of next year. Even though some exporters of industrial goods are suffering from the sol's appreciation and a sudden correction of the exchange rate (triggered by sinking copper prices, for instance) might lead to substantial distortions in view of the economy's high degree of dollarization, the current level of appreciation does not give rise to concern.

Kai Stefani +49 40 3595 3486

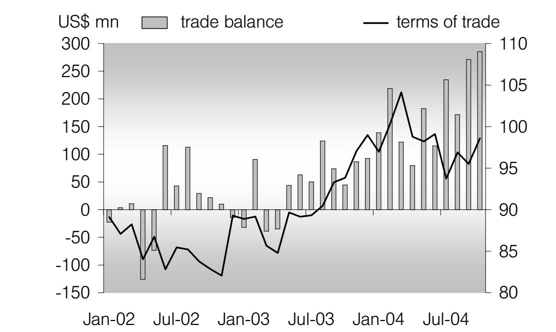
SUMMARY AND OUTLOOK

The government recently managed to push ahead with reforms despite its weak power base, but we do not expect any substantial impetus to develop before the presidential election in 2006. Even though the uncertain outcome of the election (due to the wide spectrum of potential candidates) is already leading to political uncertainty at a very early stage, the economic boom is continuing. We are more optimistic than before both in terms of economic growth and with reference to external sector trends.

GDP CHANGE (REAL) & INFLATION



TERMS OF TRADE & TRADE BALANCE



VENEZUELA: PRESIDENT CHAVEZ CONSOLIDATES HIS POSITION

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

SUMMARY AND OUTLOOK

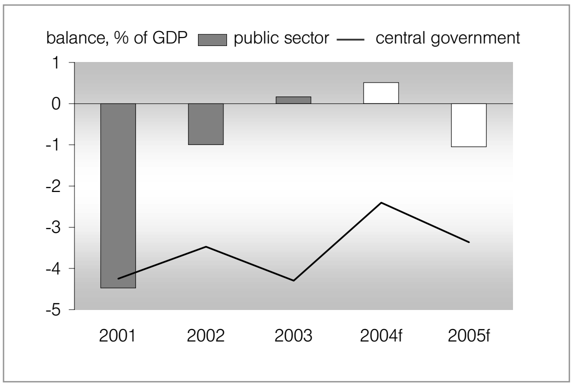
In the wake of the regional elections dominated by the government, which accounts for 20 of the 22 newly elected provincial governors, president Chávez is trying to further consolidate his position. The primary vehicle to achieve this is a very expansionary fiscal policy. The increase in government spending is not only discernible in terms of the public-sector budget; a number of ancillary budgets have also been set up. This unsound budget policy is triggering a short-term growth impetus recently reflected in a sharp expansion of GDP in the third quarter. In these circumstances, economic growth for the year as a whole is now expected to reach 17%. Next year, however, we anticipate a substantial slowdown in growth, to 4.5%, since the recovery impulse that set in following the severe crisis in 2002 is weakening and the country remains subject to dirigistic economic policy involving price controls, interventions by the government in the state-owned oil company PDVSA and restrictions on capital movements.

ANNUAL FIGURES AND FORECASTS

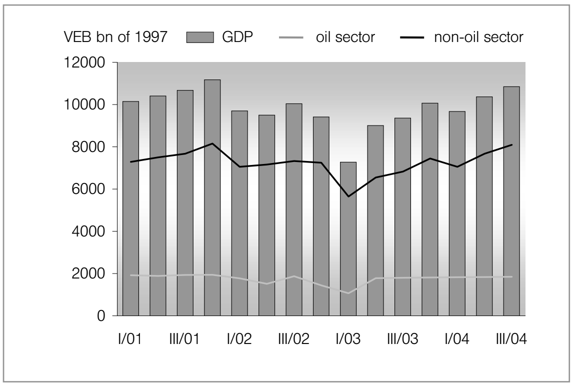
VENEZUELA		2001	2002	2003	2004f	2005f
DOMESTIC ECONOMY						
GDP change (real)	%	3.4	-8.9	-7.6	17.0	4.5
GDP	US$ bn	126.1	95.2	85.5	103.8	111.1
Inflation (year-end)	%	12.3	31.2	27.1	18.7	16.4
Inflation (average)	%	12.5	22.4	31.1	21.7	16.4
PUBLIC SECTOR						
Budget balance, central government	% GDP	-4.2	-3.5	-4.3	-2.4	-3.4
Budget balance, public sector	% GDP	-4.5	-1.0	0.2	0.5	-1.1
Public debt	% GDP	30	42	45	34	32
Amortization	US$ bn	5.0	7.3	10.8	9.0	7.2
Gross financing needs	US$ bn	10.6	8.2	10.7	8.5	8.4
EXTERNAL SECTOR						
Merchandise exports	US$ bn	26.7	26.8	26.9	38.6	35.0
Merchandise imports	US$ bn	18.7	13.6	10.7	16.0	18.3
Trade balance	US$ bn	8.0	13.2	16.2	22.6	16.7
Current account balance	US$ bn	2.5	7.8	10.9	15.2	8.9
Current account balance	% GDP	2.0	8.2	12.8	14.6	8.0
Net direct investment	US$ bn	3.5	-0.3	1.4	1.3	2.6
Foreign exchange reserves, year-end **	US$ bn	15.5	11.4	16.7	18.8	20.8
Import cover **) ***)	months	6.6	6.4	10.9	8.9	9.0
US$ exchange rate, year-end	Bolívar	758	1387	1598	1918	2150
US$ exchange rate, average	Bolívar	724	1160	1611	1884	2140
FOREIGN DEBT						
Gross foreign debt	US$ bn	34.2	34.1	35.1	32.3	32.8
Foreign debt	% exports ***	112	116	125	83	92
Short-term foreign debt	US$ bn	3.9	3.5	3.0	3.1	3.4
Foreign debt amortization	US$ bn	2.5	2.9	5.4	5.3	2.7
Foreign debt service	US$ bn	5.1	4.9	7.9	8.3	5.3
Foreign debt service	% exports ***	17	17	28	21	15
FINANCIAL MARKETS (year-end)						
Deposit rate, 90 days	%	19.5	26.1	14.2	12.0	11.0
ICB stock index (Bolívar based, 2004: 12/01)		6570	8015	22204	29613	
IFCG stock index (US$ based, 2004: 12/01)		246	159	182	291	
Bond market yield spread (2004: 12/01)*	bp	1130	1127	419	412	

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

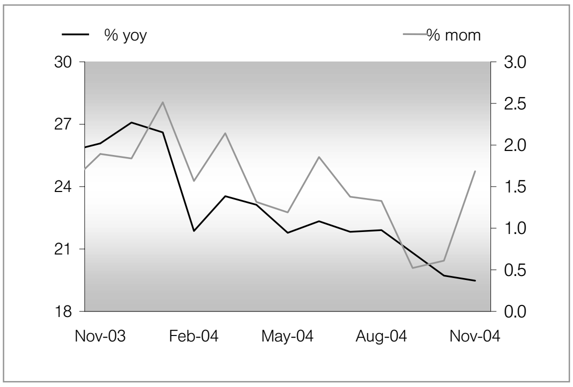
PUBLIC FINANCES



GDP CHANGE (REAL)



INFLATION



Domestic policy: elections reinforcing the government

President Chávez' government managed to consolidate its position further in recent weeks: at the regional elections, it obtained 20 of the 22 newly elected provincial governor positions and, in addition to the key office of mayor of the country's capital, Caracas, some 250 further mayors in 335 municipalities came from its ranks. In campaigning for the regional elections, the opposition was impacted by internal feuds, with further indications of a breakdown discernible in recent weeks. The government continues to do everything it can to consolidate its power position, also in light of the parliamentary elections scheduled for mid-2005. Public spending on social welfare programs is rising, and the government is trying to secure the required financing by means of ancillary budgets. We assume that the opposition, which currently holds 79 of 165 seats in the national assembly, will continue to lose influence in the forthcoming months.

Fiscal policy: oil revenues being spent generously

The government's popularity is being further underpinned by a highly expansionary fiscal policy. Central government spending rose by some 50% in real terms the first nine months of this year, outstripping revenues slightly. Despite the higher oil and tax revenues (January-September 2004: +44% and +48%, respectively, year-on-year) there is a slight budget gap, whereas a substantial surplus had been recorded in the same period a year earlier. We expect this spending policy to be maintained, which is likely to raise the budget deficit for the year as a whole to 2.4% of GDP.

The deficit may also be higher since the transparency of public finances is being restricted by numerous ancillary budgets. The most important of these ancillary budgets is the so-called development fund being financed to an extent of up to US$ 2 billion (2% of GDP) by the state-owned oil company, PDVSA. President Chávez recently endorsed the proposal that if the resources of this fund are tapped, it should be replenished again by PDVSA. While this raised protest from the central bank, which is to receive all foreign exchange revenues by law, we anticipate that the government will once again get its way in this regard; this will make it increasingly difficult for public finances to be controlled by parliament and other institutions. At the same time, PDVSA will come even more under the government's sway since the corporation will be run by energy minister Ramírez now that the current CEO Ali Rodriguez has been appointed minister for external affairs. For this reason, the overall public finance situation will not change next year, either: we expect spending to rise by approx. 10% in real terms year-on-year, while revenues are only likely to rise by some 8% in the wake of declining GDP growth. We estimate that the central government's budget deficit will rise to 3.4% of GDP.

Economic activity: substantial recovery

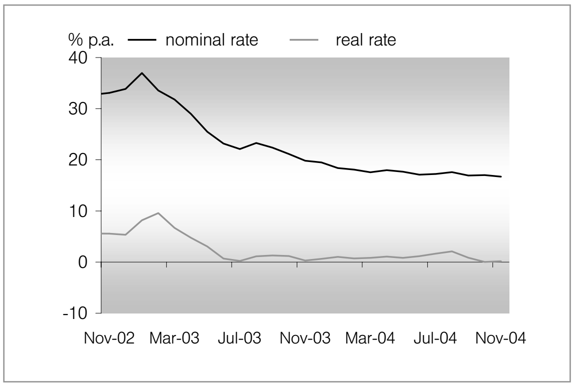
The country's highly expansionary fiscal policy and the fact that political tensions in general have eased are underpinning the economic recovery more strongly than previously anticipated. GDP rose by 15.8% in the third quarter, reflecting highly dynamic growth which is being fueled by the non-oil sector (+18.6%, year-on-year), while the oil sector only saw a weak level of expansion (2.7% year-on-year). The surprisingly high growth in the non-oil sector is attributable above all to the country's very expansionary fiscal policy, which is also impacting positively on private consumption. Since the economic revitalization is continuing, we now expect a GDP growth rate of 17% for the year as a whole. Despite this robust recovery, the level of aggregate economic output still remains below that of the pre-crisis year, 2001.

Next year, economic growth should cool down appreciably amid increasing capacity utilization; this is due to the ongoing dirigistic economic policy and declining growth rates in government spending. We only anticipate a 4.5% rise year-on-year, with the non-oil sector again expected to outperform the oil sector by far. The increasing intervention by the state in PDVSA is reducing the funding available for investment purposes, and the growth potential in the oil sector is additionally being restricted by the fact that after dismissals, the company now lacks human resources.

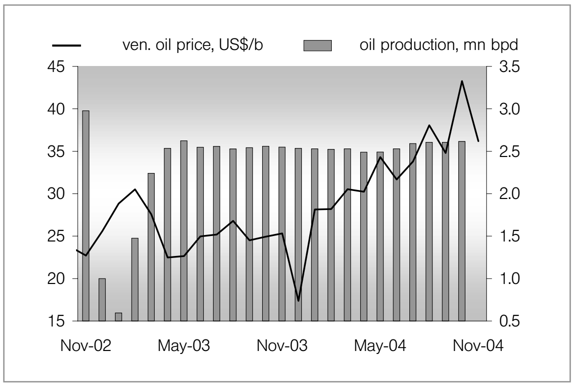
Monetary sector: only a temporary rise in inflation

The inflation rate accelerated to 1.7% month-on-month in November, bringing inflation to 19.5% year-on-year. The sharp upward pressure on prices is due particularly to increases in food prices not subject to price controls; administered prices also saw an upward adjustment, however. In doing so, the government is trying to avoid impending supply bottlenecks that already appeared to be developing in some areas. On the whole, however, we anticipate that the government will continue to follow its policy of price regulation which, compounded by a rising volume of foreign exchange made available by the control authority CADIVI and a slightly more restrictive monetary policy, should also help contain inflationary pressure in 2005. Our forecast for next year is that the average inflation rate will decline to 16% (2004: 21.7%).

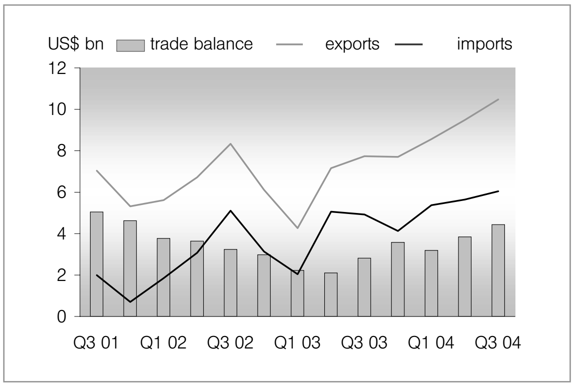
LENDING RATES



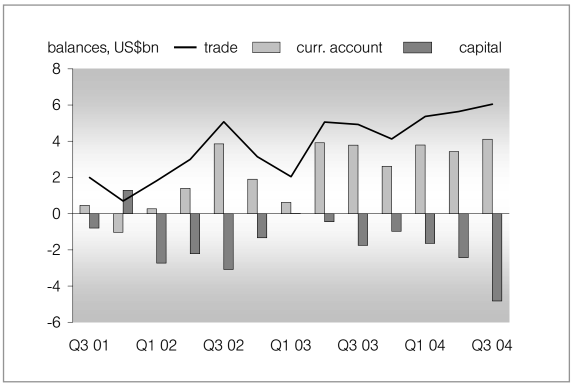
OIL PRICE AND PRODUCTION



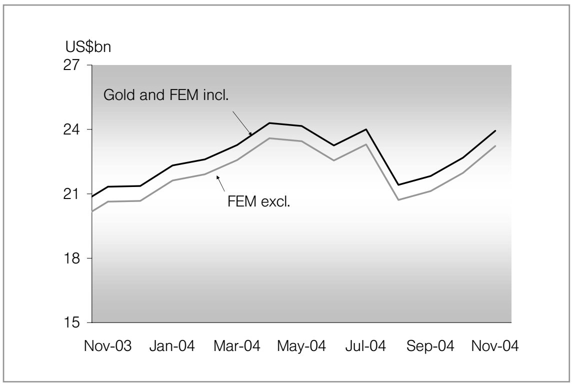
FOREIGN TRADE



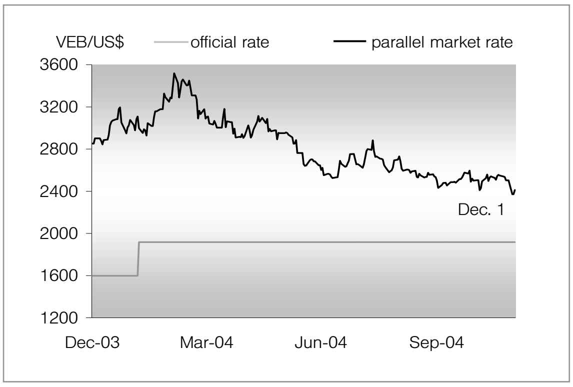
BALANCE OF PAYMENTS



FOREIGN EXCHANGE RESERVES



EXCHANGE RATE



External sector: high surpluses

High oil exports led the trade surplus to grow to US$ 17.1 billion in the first three quarters. As a result, the current account surplus rose from US$ 8.4 billion in the corresponding pre-year period to US$ 11.3 billion in the first three quarters of this year. However, foreign investors remain sidelined as evidenced by a slight net outflow of foreign direct investments in the third quarter. Next year's current account surplus should see a substantial fall owing to a slight decline in average oil prices and robust growth of imports. While the capital account is likely to reflect a significant deficit despite a moderate revitalization of foreign direct investments, on balance, however, we expect a slight increase in foreign currency reserves and, therefore, a further improvement of the already comfortable liquidity position in foreign currency. At the end of 2005, the level of import cover should remain at about nine months (as now), which is a very high value by regional standards.

The Venezuelan state is highly active on the international capital market - unlike private enterprises, which hardly have any access to it due to the controls imposed on capital movements. Due to various debt management operations, the government and PDVSA have reduced the country's foreign debt. At year-end, total foreign debt is likely to be slightly lower year-on-year, in absolute terms. In relation to the sharp rise in exports, the decline is particularly obvious (2003: 125% of exports; 2004: 83%). Next year we only anticipate a slight increase in foreign debt.

Exchange rate: parallel market approaching official rate

The exchange rate of the bolívar on the parallel market, which was significantly higher than 3,000 VEB/US$ in the first several months of the year, and also exceeded this mark for a short time before the referendum against Chávez, has come closer to the official exchange rate of 1,920 VEB/US$ in recent weeks. We believe this is due to the relative stabilization of the country and the apportionment of foreign exchange by the CADIVI authority, which is close to satisfying the level of private demand for foreign exchange. This situation is likely to prevail in the next several months. In the first quarter of 2005, we anticipate an adjustment of the official exchange rate by approx. 15%, motivated by fiscal policy considerations and to avoid an increasing real overvaluation of the bolívar in view of exports of non-oil products.

Thomas Pohl +49 40 3595 3481

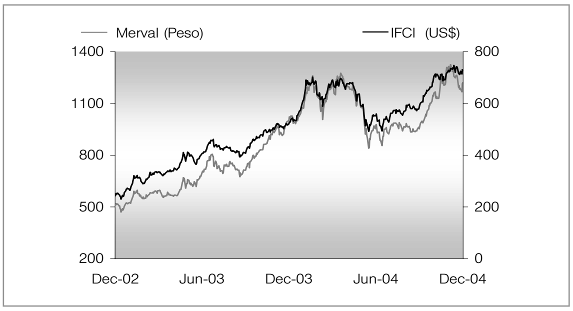
VENEZUELA: MONTHLY INDICATORS		Aug-04	Sep-04	Oct-04	Nov-04	next/latest
DOMESTIC ECONOMY						
Industrial production (private sector)	% yoy	**19.7**				Dec 5-10
Car sales	% yoy	115.2	145.1	**120.8**		Dec 5-10
Retail sales	% yoy	**28.7**				Dec 5-10
Wholesale sales	% yoy	**24.3**				Dec 5-10
Crude oil production	1000 bpd	2606	2606	**2615**		16-Dec
Unemployment rate	%	14.2	14.5	**13.7**		27-Dec
Consumer prices	% yoy	21.9	20.8	**19.7**	**19.5**	1-Jan
Consumer prices	% mom	1.3	0.5	**0.6**	**1.7**	1-Jan
Producer prices	% yoy	28.1	27.2	**27.4**	**27.5**	1-Jan
Producer prices	% mom	0.8	1.0	**1.1**	**1.4**	1-Jan
Money supply M2 *	% yoy	53.3	49.2	**48.3**		16-Dec
Lending rate (monthly average and 11/26)*	%	17.6	16.9	**17.0**		**16.4**
Deposit rate (monthly average and 11/26)*	%	12.4	13.5	**13.0**		**13.6**
Interbank interest rate (month-average)*	%	3.3	4.0	**7.5**	**4.0**	5-Jan
Credit volume *	% yoy	92.6	103.2	**107.2**		20-Dec
Deposits *	% yoy	49.4	38.8	**35.9**		20-Dec
EXTERNAL SECTOR						
Oil price (Venezuelan exports, latest: 11/26)	US$/barrel	38.1	34.8	**43.3**		**35.5**
Oil price (Venezuelan exports, latest: 11/26)	% yoy	42	42	**74**		**39**
Foreign exchange reserves (CB)****	US$ bn	16.1	16.3	**17.1**	**18.1**	
Forex reserves (FEM**)*	US$ bn	0.7	0.7	**0.7**	**0.7**	
US$ exchange rate (latest: 12/01)*	Bolívar	1917.6	1917.6	**1917.6**	**1917.6**	**1917.6**

VENEZUELA: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	7.0	33.1	15.1	**15.8**	20-Feb
GDP, private sector	% yoy	3.2	31.3	17.4	**17.4**	20-Feb
GDP, public sector	% yoy	13.4	33.8	8.4	**11.2**	20-Feb
Oil sector	% yoy	25.8	70.7	3.2	**2.7**	20-Feb
Manufacturing industry	% yoy	18.7	54.5	27.1	**20.7**	20-Feb
Financial services and real estate	% yoy	8.3	20.8	13.9	**14.0**	20-Feb
Commerce	% yoy	12.6	35.2	26.3	**24.8**	20-Feb
Budget balance, public sector	VEB bn	-3149				
EXTERNAL SECTOR						
Merchandise exports	US$ bn	7.70	8.56	9.49	**10.48**	20-Feb
Exports of oil and derivatives	US$ bn	6.39	7.11	7.95	**8.65**	20-Feb
Merchandise imports	US$ bn	3.58	3.19	3.84	**4.44**	20-Feb
Trade balance	US$ bn	4.13	5.37	5.64	**6.05**	20-Feb
Current account balance balance	US$ bn	2.85	3.79	3.43	**4.11**	20-Feb
Net foreign direct investment	US$ bn	-0.05	0.03	0.61	**-0.03**	20-Feb
Portfolio investment	US$ bn	0.15	0.29	-0.34	**-2.82**	20-Feb
Capital account***	US$ bn	-1.16	-2.11	-3.20	**-5.72**	20-Feb
Change in foreign exchange reserves (C.B.)#	US$ bn	-1.66	-1.68	-0.22	**1.61**	20-Feb
Change in foreign exchange reserves (FEM)**#	US$ bn	0.00	0.00	0.00	**0.00**	20-Feb

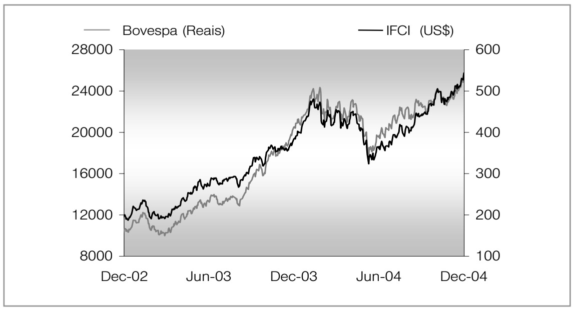
*month-end **macroeconomic stabilization fund *** incl. residual items **** Gold excluded (latest: US$ 5.1bn) # - = increase

FINANCIAL MARKETS: LATIN AMERICAN STOCK MARKET INDICES

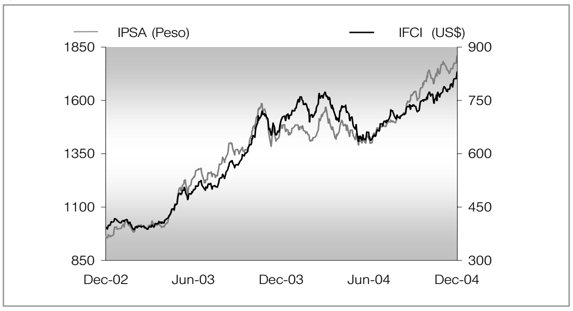
ARGENTINA



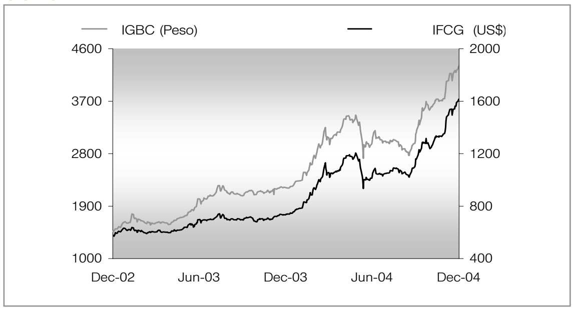
BRAZIL



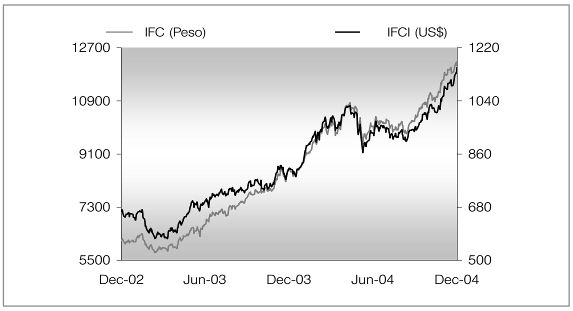
CHILE



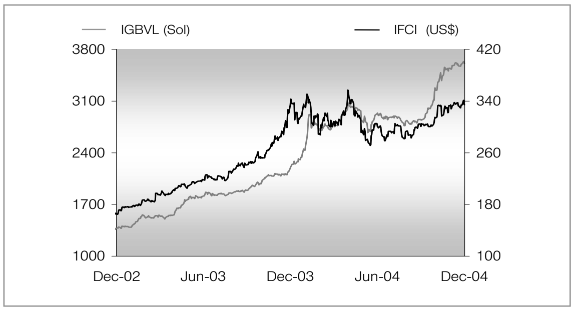
COLOMBIA



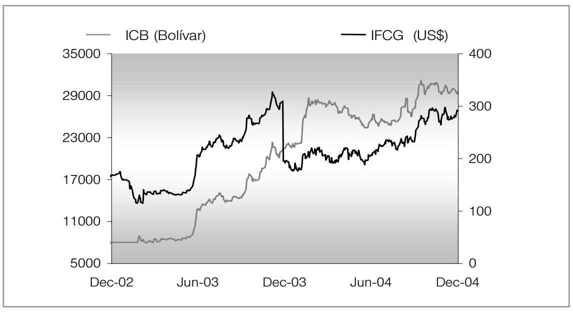
MEXICO



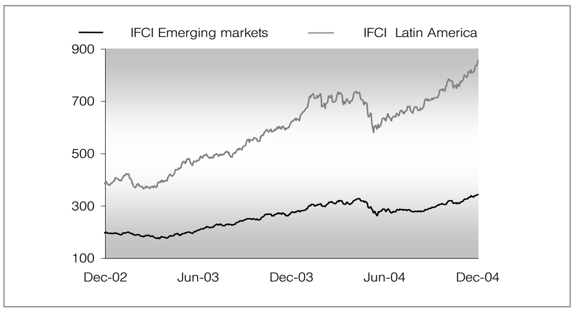
PERU



VENEZUELA

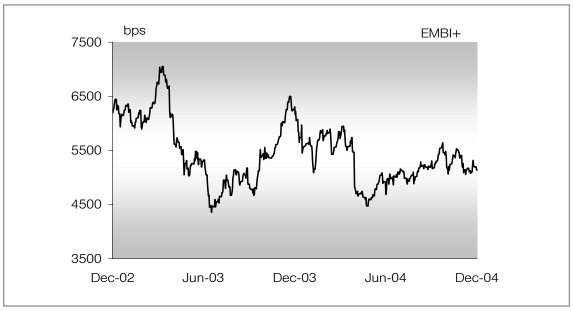


LATIN AMERICA

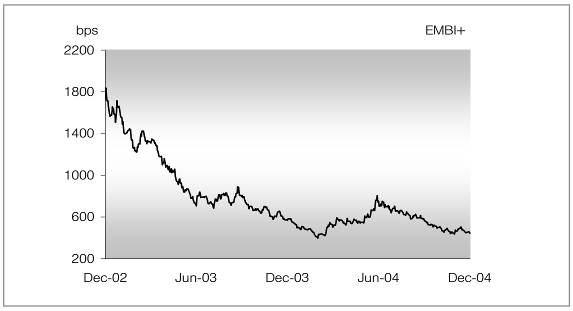


FINANCIAL MARKETS: LATIN AMERICAN BOND YIELD SPREADS

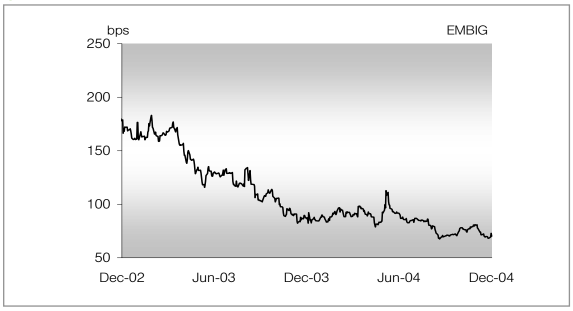
ARGENTINA



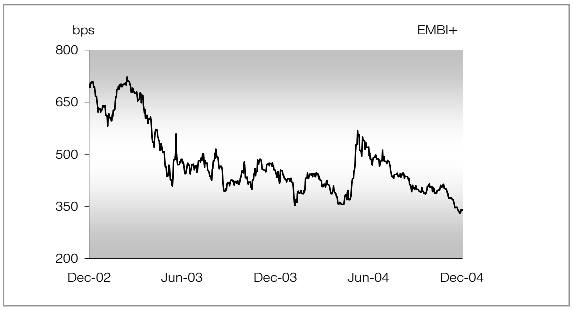
BRAZIL



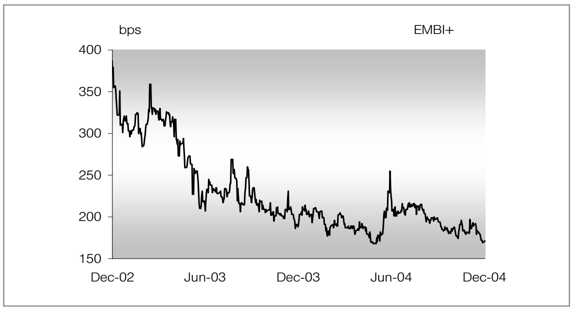
CHILE



COLOMBIA

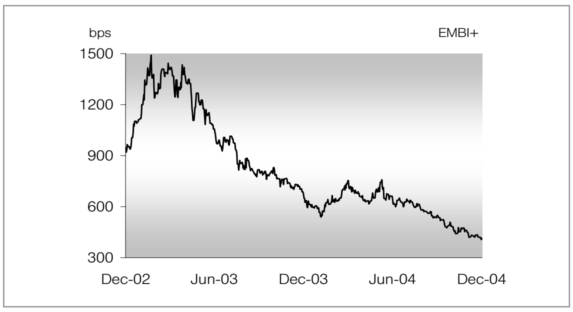


MEXICO

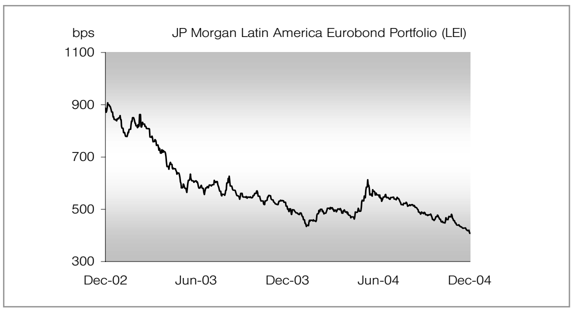


PERU

VENEZUELA



LATIN AMERICA



DBLA - OVERVIEW

Chairman of the Supervisory Board:

Jan Eric Kvarnström

Board of Managing Directors:

Wolfgang Dambmann, Chairman
H. Michael Blum
Richard Voswinckel

Head Office:

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

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

Corporate & Correspondent Banking:

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

Global Markets:

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

Private Banking International - The Americas

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

ARGENTINA:

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

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

BRAZIL:

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

São Paulo:

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

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

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

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

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

Belo Horizonte

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

Curitiba

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

CAYMAN ISLANDS:

Grand Cayman Branch

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

CHILE:
Representative Office Santiago de Chile
(for Bolivia, Chile and Peru)

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

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

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

GUATEMALA:
Representative Office Guatemala
(for Centralamerica and Caribbean)

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

MEXICO:
Representative Office México, D.F.

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

PANAMA:
Panama Branch

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

Management:	Henning Hoffmeyer
Personal Banking:	Corinna Wild

USA:
Dresdner Lateinamerika Financial Advisors LLC (DLFA)

801 Brickell Avenue, 7th floor
Miami, Florida 33131/USA
P.O. Box 310310, Miami, Florida 33231-0310/USA
Tel.: (+1 305) 379 1400
Fax: (+1 305) 810 3750
E-Mail: info@dlfa.com

Executive Management:	Jacobo Gadala-María (CEO)
	Nicolás Bergengruen
Private Banking:	Thomas Goessele
Professional Clients:	Guillermo Argumedo
Operations:	Noemí Schaefer
Investments:	Hans Abate

Should you have any further questions, please contact:

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

PUBLISHED BY:

Dresdner Bank Lateinamerika AG
Neuer Jungfernstieg 16
20354 Hamburg/Germany

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

Technical management: Thomas Pohl, Kai Stefani
Translation: bromberg & friends GbR, Hamburg
Data sources, among others: Thomson Financial Datastream and Bloomberg
Layout: Friederike Niemeyer, Hamburg
Closing date: December 2, 2004

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

GLOBAL ECONOMY - FIGURES AND FORECASTS

		2002	2003	**12/1/2004**	2004f	2005f
REAL GDP CHANGE *						
Industrialized countries	% yoy	1.5	2.1		3.5	2.4
USA	% yoy	2.4	3.0		4.3	2.8
Euro area	% yoy	0.8	0.5		1.8	1.9
Germany	% yoy	0.2	-0.1		1.8	1.4
Japan	% yoy	0.2	2.4		4.0	1.8
INTEREST RATES, YEARLY AVERAGE*						
USA, 3m money market rate	%	1.8	1.2	**2.4**	1.6	3.0
USA, 10yr government bond yield	%	4.5	3.9	**4.4**	4.3	4.9
Euro area, 3m money market rate	%	3.3	2.3	**2.2**	2.1	2.4
Euro area, 10yr gov. bond yield	%	4.8	4.1	**3.8**	4.1	4.3
Japan, 3m money market rate	%	0.1	0.1	**0.1**	0.1	0.1
Japan, 10yr government bond yield	%	1.2	1.0	**1.4**	1.5	1.8
EXCHANGE RATES, YEARLY AVERAGE *						
US$/ Euro	US$	0.95	1.13	**1.33**	1.24	1.33
Yen/ US$	YEN	125	116	**103**	109	102
Yen/ Euro	YEN	118	131	**137**	134	135
COMMODITY PRICES, YEARLY AVERAGE						
Coffee (other milds)	c/lb, NY	60.3	64.1	**100.1**	79.0	85.0
Soybeans	c/bushel	505	627	**527**	750	550
Copper	c/lb, LME	72.0	81.0	**144.3**	130.0	115.0
Crude oil (WTI)	US$/b	26.1	31.0	**45.5**	41.5	40.0
Crude oil (Brent)	US$/b	25.1	28.8	**42.2**	38.5	37.0
Gold	US$/ounce	310	364	**453**	405	400

* Source: Dresdner Bank AG

f=forecast