



# Latin American Spotlight - Update

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**Dresdner Bank Lateinamerika AG**  
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## LATIN AMERICA: APPRECIATION STRENGTHENS MACRO-STABILITY

### ANNUAL FIGURES AND FORECASTS

LATIN AMERICA (20 countries)		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	-0.2	1.5	5.4	3.7	3.9
GDP	US\$ bn	1665	1711	1932	2131	2248
Inflation (year-end)	%	11.8	6.8	6.5	5.5	5.2
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	351	381	469	489	506
Merchandise imports	US\$ bn	329	339	407	445	478
Trade balance	US\$ bn	22.3	42.1	61.9	44.0	27.6
Current account balance	US\$ bn	-14.4	7.1	19.0	1.4	-13.6
Current account balance	% GDP	-0.9	0.4	1.0	0.1	-0.6
Net direct investment ***	US\$ bn	43.6	30.8	43.7	41.1	48.7
Foreign exchange reserves, year-end	US\$ bn	162	194	218	230	241
Import cover **	months	4.6	5.3	4.9	5.0	5.0
FOREIGN DEBT						
Gross foreign debt	US\$ bn	750	783	776	775	780
Foreign debt	% exports**	180	178	146	140	136
Short-term foreign debt	US\$ bn	114	130	153	163	174
Foreign debt amortization	US\$ bn	97	125	129	92	86
Foreign debt service	US\$ bn	141	167	172	142	139
Foreign debt service	% exports**	34	38	32	26	24
FINANCIAL MARKETS (year-end)						
IFCI stock index (US\$ based, 2005: 01/19)		397	676	915	874	
Bond market yield spread (2005: 01/19)*	bps	843	472	399	431	

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

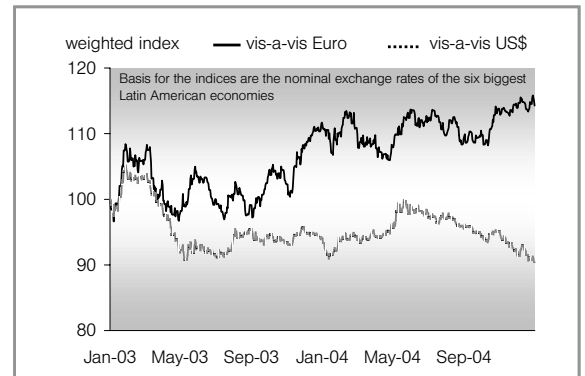
One of the major topics last year was the strong appreciation of most Latin American currencies against the US\$. For instance, on an annual average the Colombian peso was up by 9.2% on the greenback, and the Brazilian *real* also gained a respectable 5.5%. Most exporters are complaining about this trend, urging their governments to take steps to weaken their own currencies. Of course, industrial merchandise exports are losing competitiveness on the U.S. market. This is hurting such countries as Colombia and Mexico, which are competing in some sectors with the Asian economies (which are not allowing their currencies to appreciate). On the other hand, the following is also noteworthy: first of all, the real exchange rate that reflects inflationary differences and the strength of the euro (among other things), has risen to a significantly lower extent than the respective nominal exchange rate in relation to the US\$. The Mexican peso which, nominally, has seen very little movement, has even depreciated slightly in real terms. Secondly, the appreciation is dampening inflation (in Chile, for instance, prices have hardly risen even though monetary policy has been expansionary), which is leading to an increase in purchasing power and therefore underpinning the level of economic activity. Finally, the exchange rate trends in many countries have helped make public debt increasingly sustainable; this has been the case in Colombia, for instance, where net public debt has fallen significantly below 50%. Moreover, most central banks have taken advantage of favorable conditions to reinforce their foreign currency reserves, which tends to make these countries less susceptible to sudden capital outflows. In this category, Argentina and Brazil are worthy of note, having bolstered their reserves by US\$ 6 billion and US\$ 4 billion, respectively.

The unusual stability of the Latin American currencies therefore certainly is laudable. We do not consider any of the currencies overvalued – not even the Colombian peso, which still remains at a rather low level in historical terms. And we do not expect the trend toward appreciation to continue this year, since exports are becoming less dynamic, commodity prices are trending lower and net direct investments will remain roughly the same as in 2004.

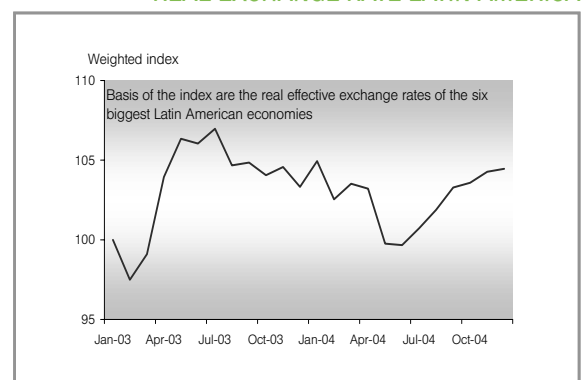
In this relatively friendly environment, Chile's GDP growth is likely to be the most robust at 5.3%, followed by Brazil (3.9%) and Colombia (3.8%). The slowdown in growth in the U.S. will hit Mexico hardest (with GDP growth expected to decline to 3%), while Argentina will follow on with highly dynamic growth in the new year, likely to reach 4.5%. In Latin America as a whole, economic growth should reach 3.7% this year (2004: 5.4%).

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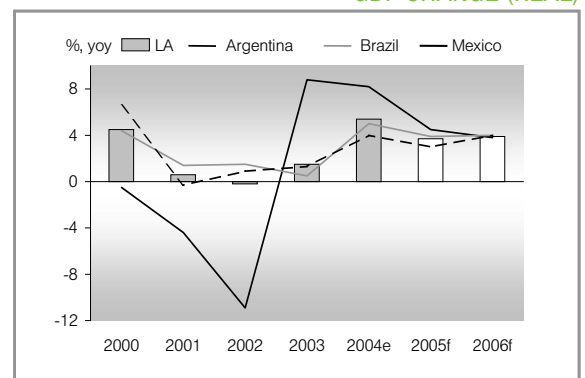
## WEIGHTED EXCHANGE RATES LATIN AMERICA



## REAL EXCHANGE RATE LATIN AMERICA



## GDP CHANGE (REAL)

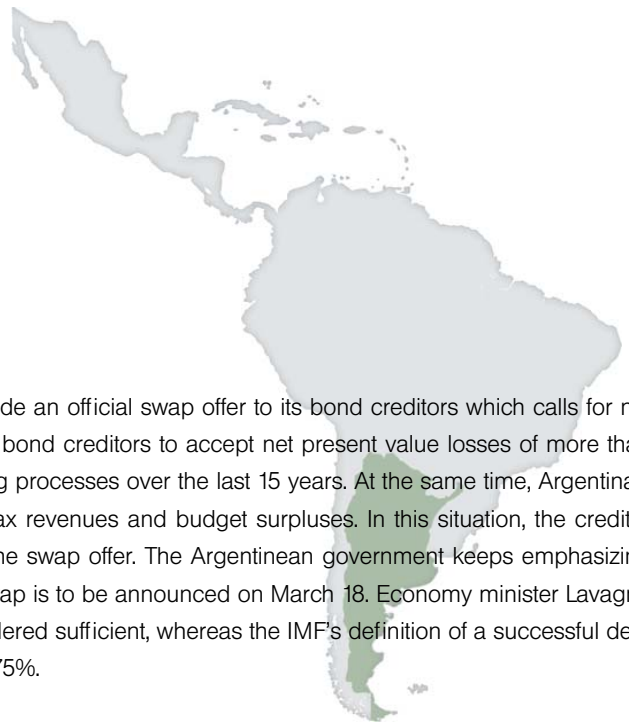


# LATIN AMERICA AT A GLANCE

DOMESTIC ECONOMY	GDP change in % (real)			Inflation in % (year-end)			Public sector debt in % of GDP		
	2004e	2005f	2006f	2004e	2005f	2006f	2004e	2005f	2006f
Argentina	8.2	4.5	3.8	6.1	8.5	8.7	123	117	111
Bolivia	4.0	5.0	4.0	4.6	5.0	5.5	77	75	77
Brazil	5.0	3.9	4.0	7.6	6.0	4.8	52	51	50
Chile	5.7	5.3	4.5	2.4	3.0	3.2	12	11	10
Colombia	3.6	3.8	3.9	5.5	5.4	5.2	58	55	56
Costa Rica	3.7	2.5	3.5	10.2	11.3	10.5	60	62	63
Dominican Republic	1.5	2.0	2.5	35.5	12.7	10.0	51	48	46
Ecuador	7.0	3.5	3.0	1.9	1.5	1.5	48	46	45
El Salvador	2.0	1.3	1.9	5.8	4.5	3.7	36	35	36
Guatemala	2.5	2.5	2.7	8.3	6.5	6.0	25	25	24
Honduras	4.3	3.5	3.7	9.2	8.0	7.0	64	60	58
Jamaica	2.5	2.4	3.0	12.6	9.0	10.0	138	132	140
Mexico	4.0	3.0	4.0	5.2	3.6	3.8	27	26	26
Nicaragua	4.0	3.4	3.5	9.3	8.2	7.0	110	107	103
Panama	4.8	3.5	4.2	3.0	2.2	2.8	70	70	69
Paraguay	3.0	2.5	3.0	5.4	4.5	5.3	43	43	44
Peru	4.6	4.1	4.0	3.5	3.9	4.0	46	41	52
Trinidad & Tobago	6.0	7.0	7.0	4.5	4.8	4.0	5	5	5
Uruguay	12.0	6.0	4.0	7.4	6.5	6.0	103	101	100
Venezuela	17.0	6.0	4.0	19.2	16.4	15.7	34	32	30
Latin America (20 countries)	5.4	3.7	3.9	6.5	5.5	5.2			
EXTERNAL SECTOR	Current account balance in % of GDP			Import cover in months*			Gross foreign debt in % of exports*		
FOREIGN DEBT	2004e	2005f	2006f	2004e	2005f	2006f	2004e	2005f	2006f
Argentina	2.6	0.3	-0.8	6.3	5.9	5.9	365	357	349
Bolivia	3.1	0.7	-0.6	3.5	3.6	3.4	198	210	208
Brazil	2.0	1.3	0.6	6.2	6.1	6.4	203	180	173
Chile	2.8	1.0	-1.8	5.2	5.0	4.7	113	104	104
Colombia	-1.1	-1.6	-2.0	6.5	6.5	6.3	233	226	224
Costa Rica	-7.3	-6.5	-5.5	1.8	1.6	1.5	71	70	72
Dominican Republic	5.1	2.8	2.6	1.0	0.9	0.8	83	84	85
Ecuador	0.5	-2.3	-2.5	1.3	0.9	0.8	199	211	215
El Salvador	-5.1	-4.3	-3.9	2.9	2.6	2.4	164	163	162
Guatemala	-4.9	-4.9	-4.6	4.7	4.0	3.7	141	137	140
Honduras	-5.4	-5.4	-4.6	4.3	4.3	4.4	202	165	158
Jamaica	-10.7	-10.8	-10.2	3.9	3.5	3.0	107	103	102
Mexico	-1.4	-1.8	2.1	3.3	3.2	3.0	79	77	74
Nicaragua	-18.8	-17.3	-15.4	2.7	2.9	3.3	220	208	209
Panama	-2.4	-2.3	-2.0	1.4	1.5	1.4	96	97	96
Paraguay	0.5	-1.4	-2.5	3.8	3.8	4.3	99	101	88
Peru	-1.2	-0.7	-0.4	9.3	9.0	9.3	201	194	184
Trinidad & Tobago	18.1	18.6	20.8	5.9	6.3	5.1	69	64	51
Uruguay	-0.3	-2.0	-3.1	7.3	7.3	7.5	284	277	264
Venezuela	14.5	8.9	4.4	9.0	9.1	8.5	83	92	96
Latin America (20 countries)	1.0	0.1	-0.6	4.9	5.0	5.0	146	140	136

\* goods and services

e=estimate; f=forecast



# ARGENTINA

More than three years after the default, in mid-January Argentina made an official swap offer to its bond creditors which calls for net present value losses of around 70%. In doing so, Argentina expects bond creditors to accept net present value losses of more than twice the amount agreed upon on average in other debt rescheduling processes over the last 15 years. At the same time, Argentina's economy continues to grow strongly, resulting in strong growth of tax revenues and budget surpluses. In this situation, the creditor association GCAB, among others, continues to categorically reject the swap offer. The Argentinean government keeps emphasizing that this offer will not be improved in any way. The outcome of the swap is to be announced on March 18. Economy minister Lavagna intimated that a participation of approx. 50% would already be considered sufficient, whereas the IMF's definition of a successful debt rescheduling presumably would call for a minimum participation of 75%.

## ANNUAL FIGURES AND FORECASTS

ARGENTINA		2002	2003	2004e	2005f	2006p
DOMESTIC ECONOMY						
GDP change (real)	%	-10.9	8.8	8.2	4.5	3.8
GDP	US\$ bn	99.1	127.3	150.8	163.2	177.3
Inflation (year-end)	%	41.0	3.7	6.1	8.5	8.7
Inflation (average)	%	25.9	13.4	4.4	7.5	8.6
PUBLIC SECTOR						
Budget balance, central government	% GDP	-1.4	0.6	2.5	2.0	1.0
Budget balance, public sector	% GDP	-1.8	1.3	3.5	2.5	3.6
Public debt*	% GDP	139	140	123	117	111
Amortization*	US\$ bn	17.9	19.8	19.8	14.2	11.8
Gross financing needs	US\$ bn	19.2	19.1	16.0	11.0	10.1
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	25.7	29.6	34.4	35.5	37.1
Merchandise imports	US\$ bn	8.5	13.0	21.1	26.4	29.6
Trade balance	US\$ bn	17.2	16.5	13.3	9.1	7.5
Current account balance****	US\$ bn	9.6	7.9	4.0	0.4	-1.4
Current account balance****	% GDP	9.7	6.2	2.6	0.3	-0.8
Net direct investment	US\$ bn	1.7	-0.3	0.7	1.5	2.0
Foreign exchange reserves, year-end	US\$ bn	10.5	14.1	19.6	21.5	23.0
Import cover **	months	5.6	5.8	6.3	5.9	5.9
US\$ exchange rate, year-end	Pesos	3.37	2.93	2.97	3.11	3.20
US\$ exchange rate, average	Pesos	3.15	2.95	2.94	3.04	3.14
FOREIGN DEBT *						
Gross foreign debt	US\$ bn	135.7	147.0	152.0	155.0	158.0
Foreign debt	% exports**	427	400	365	357	349
Short-term foreign debt	US\$ bn	23.8	39.7	60.0	69.0	79.6
Foreign debt amortization	US\$ bn	19.7	30.5	22.5	16.3	13.5
Foreign debt service	US\$ bn	29.6	40.1	32.3	26.3	23.5
Foreign debt service	% exports**	93	109	78	61	52
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	7.5	2.0	3.0	5.0	5.0
Merval stock index (peso based, 2005: 01/19)		525	922	1375	1337	
IFCI stock index (US\$ based, 2005: 01/19)		265	502	763	739	
Bond market yield spread (2005: 01/19)***	bps	6229	6463	4707	5332	

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

e=estimate; f=forecast

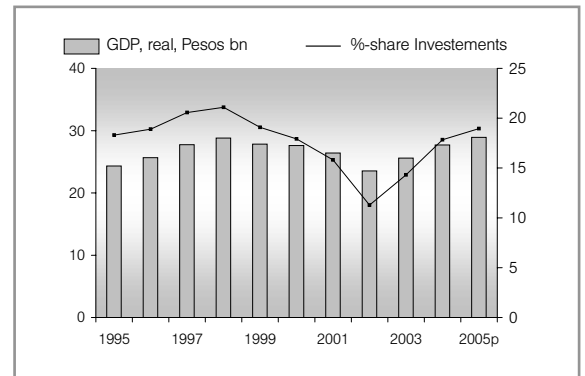
**Public finances:** As expected, the first presentations of the road show for the bond swap had nothing new to offer other than the details already known for weeks. According to current plans, the tender offer period is set to run from January 14 until February 25. The early tender offer period, during which investors are guaranteed a swap of the equivalent of max. US\$ 50,000 into par bonds runs until February 4. The creditor association GCAB which, according to its own figures, accounts for 45% of total eligible debt (US\$ 81.8 billion), is likewise holding a road show aimed at clearly demonstrating that Argentina can afford to make a better offer. Following agreements reached with the government, local pension funds and commercial banks, which together hold 25% of the bonds concerned, had already given their assurance that they would participate in the swap some weeks ago.

**Economic activity:** At 8.3% (year-on-year), economic growth in the third quarter turned out higher than expected (DBLA forecast: 7.5%). The seasonally adjusted growth rate accelerated to 2.9% (quarter-on-quarter) following a drop of 0.8% in the second quarter. Consumption and investments showed further substantial year-on-year increases in the third quarter (+8.8% and +33.1%, respectively). Recent monthly GDP figures (November: +9.7% year-on-year) point to continued strong growth. In addition, bonus payments to wage earners brought forward to December and the announcement of additional wage hikes are likely to underpin consumption. Against the backdrop of this overall positive scenario, we now project growth rates of 8.2% for 2004 and 4.5% in the current year (previously 7.5% and 4%, respectively).

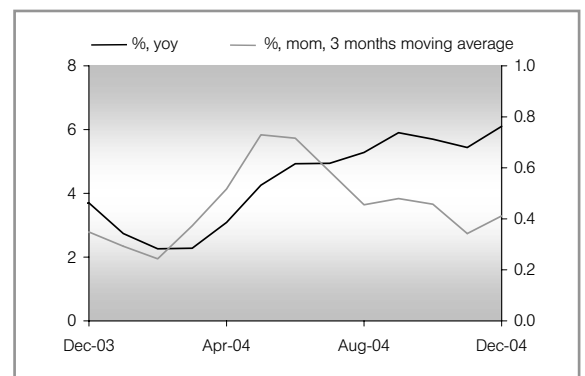
**Monetary sector:** December saw a relatively high inflation rate at 0.8% (month-on-month). However, the 12-month rate (6.1%) continued to stay below the target corridor of 7% to 11% originally envisaged by the central bank. Due to wage increases decreed by the government and the sustained expansionary monetary policy, we expect a further increase in inflation to 8.5% in the current year.

**External sector:** The current account surplus (including interest payments due) dropped substantially in the third quarter, to US\$ 533 million (Q3 2003: US\$ 1.5 billion). This was mainly due to a drop in the trade surplus (higher imports) and higher profits being transferred abroad by companies. For the year 2004 as a whole, the current account surplus should be down by half on the previous year, to a good US\$ 4 billion (2.6% of GDP). Excluding a possible debt rescheduling of Argentinean government bonds, we expect this year to see a drop in the current account surplus to US\$ 400 million amid a further increase in imports. Foreign currency reserves should rise further to US\$ 21.5 billion. The Argentinean government estimates the relief to the current account resulting from a successful debt rescheduling (based on a participation quota of 100%) in the form of lower contractual interest payments to be in the region of 2% of GDP per annum.

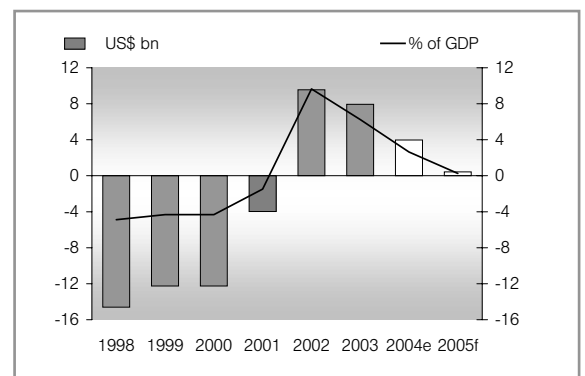
## GDP AND INVESTMENTS



## INFLATION



## CURRENT ACCOUNT BALANCE



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## MONTHLY AND QUARTERLY FIGURES

ARGENTINA: MONTHLY INDICATORS		Sep-04	Oct-04	Nov-04	Dec-04	next/latest
DOMESTIC ECONOMY						
Economic activity indicator, EMA	% yoy	8.2	<b>6.6</b>	<b>9.7</b>		16-Feb
Economic activity indicator, EMA (season. adjust.)	% mom	0.6	<b>0.7</b>	<b>0.6</b>		16-Feb
Industrial production	% yoy	10.5	7.7	<b>8.3</b>	<b>9.6</b>	17-Feb
Industrial production (seasonally adjusted)	% mom	0.7	-0.1	<b>0.0</b>	<b>1.9</b>	17-Feb
Construction	% yoy	14.8	8.2	<b>11.6</b>		28-Jan
Construction (seasonally adjusted)	% mom	5.0	0.5	<b>-0.9</b>		28-Jan
Consumer confidence (UTDT)	% mom	1.4	4.5	9.5		10-Feb
Supermarket sales (real, seasonally adjusted)	% yoy	4.8	5.7	<b>5.7</b>		27-Jan
Supermarket sales (real, seasonally adjusted)	% mom	-1.8	2.0	<b>-0.6</b>		27-Jan
Tax revenues	% yoy	30.8	31.8	26.8	<b>36.0</b>	2-Feb
Budget balance	Pesos mn	1054	1263	<b>358</b>		31-Jan
Primary balance	Pesos mn	1385	1508	<b>1085</b>		31-Jan
Consumer prices	% yoy	5.9	5.7	5.4	<b>6.1</b>	3-Feb
Consumer prices	% mom	0.6	0.4	0.0	<b>0.8</b>	3-Feb
Wholesale prices	% yoy	0.2	0.6	-1.2	<b>0.9</b>	3-Feb
Overnight peso rate (month-end; latest: 01/19)	%	2.6	2.5	2.4	<b>2.3</b>	<b>2.3</b>
Peso deposits (month-end, latest: 01/18)*	Peso bn	99.0	100.6	103.0	<b>104.9</b>	<b>106.4</b>
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	2969	2837	<b>3043</b>		31-Jan
Merchandise exports	% yoy	25	16	<b>24</b>		31-Jan
Merchandise imports, cif	US\$ mn	2013	1959	<b>2198</b>		31-Jan
Merchandise imports	% yoy	53	36	<b>65</b>		31-Jan
Trade balance	US\$ mn	956	878	<b>845</b>		31-Jan
Foreign exchange reserves (latest: 01/19)	US\$ bn	18.2	18.6	18.9	<b>19.6</b>	<b>19.8</b>
US\$ exchange rate (latest: 01/19)	Pesos	2.98	2.97	2.94	<b>2.97</b>	<b>2.94</b>
ARGENTINA: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next /latest
DOMESTIC ECONOMY						
GDP (seasonally adjusted)	% qoq	3.0	1.5	0.5	<b>1.5</b>	17-Mar
GDP	% yoy	11.7	11.3	7.1	<b>8.3</b>	17-Mar
Private consumption	% yoy	11.9	11.7	8.3	<b>8.8</b>	17-Mar
Public consumption	% yoy	0.3	0.8	-0.8	<b>4.8</b>	17-Mar
Private and public investment	% yoy	48.9	50.3	36.8	<b>33.1</b>	17-Mar
Domestic demand	% yoy	15.4	15.3	11.0	<b>10.7</b>	17-Mar
Export (goods and services)	% yoy	5.5	7.7	-0.2	<b>9.2</b>	17-Mar
Import (goods and services)	% yoy	51.7	55.8	42.5	<b>38.1</b>	17-Mar
Unemployment rate (EPH)	%	14.5	14.4	14.8	<b>13.8</b>	17-Mar
Budget balance, central government	Pesos mn	-1	3982	6667	3371	31-Jan
Public debt***	US\$ bn	178.8	180.0	181.2		
EXTERNAL SECTOR						
Current account balance	US\$ bn	1.0	0.3	1.7	<b>0.5</b>	22-Mar
Net foreign direct investment	US\$ bn	0.5	0.5	-0.9	<b>0.5</b>	22-Mar
Net portfolio investment	US\$ bn	-2.6	-3.3	-0.9	<b>-1.9</b>	22-Mar
Capital account**	US\$ bn	-0.4	0.6	0.9	<b>0.2</b>	22-Mar
Change in foreign reserves #	US\$ bn	-0.6	-0.9	-2.6	<b>-0.7</b>	22-Mar
Gross foreign debt	US\$ bn	147.0	147.3			22-Mar
Short-term foreign debt	US\$ bn	39.7	45.5			22-Mar
* bank deposits of private sector; ** incl. residual items ***without overdue interest and amortization payments # - = increase						



# BRAZIL



Economic growth stood at about 5% last year. Even though the economic momentum slowed down in the last quarter of 2004, the economy is nevertheless set to expand substantially this year as well, underpinned by a sharp rise in investments and solid consumption growth. Given this positive setting, the country's risk indicators (foreign currency reserves, foreign debt, public debt) will likewise continue to improve. This should prompt the international rating agencies to upgrade Brazilian bonds before the end of this year. We are expecting this, although the speed of reform will probably remain only moderate, further reform progress becoming unlikely by the end of the year on account of the presidential elections scheduled for October 2006.

## ANNUAL FIGURES AND FORECASTS

BRAZIL		2002	2003	2004e	2005f	2006f
DOMESTIC ECONOMY						
GDP change (real)	%	1.5	0.5	5.0	3.9	4.0
GDP	US\$ bn	452	495	583	686	734
Inflation (year-end)	%	12.5	9.3	7.6	6.0	4.8
Inflation (average)	%	8.5	14.7	6.6	6.6	5.4
PUBLIC SECTOR						
Budget balance, central government	% GDP	-0.8	-3.4	-2.0	-1.1	-1.3
Budget balance, public sector	% GDP	-4.7	-5.2	-2.9	-2.3	-2.0
Public debt (net)	% GDP	57	58	52	51	50
Amortization external debt	US\$ bn	8.6	22.1	14.1	16.1	16.1
Amortization domestic federal debt*	US\$ bn	53.4	72.1	68.4	130.4	76.6
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	60.4	73.1	96.5	104.2	108.9
Merchandise imports	US\$ bn	47.2	48.3	62.7	72.2	79.4
Trade balance	US\$ bn	13.2	24.8	33.7	32.1	29.5
Current account balance	US\$ bn	-7.7	4.1	11.7	8.6	4.6
Current account balance	% GDP	-1.7	0.8	2.0	1.3	0.6
Net foreign direct investment	US\$ bn	16.6	10.1	14.5	12.0	16.0
Foreign exchange reserves, year-end	US\$ bn	37.8	49.0	52.9	58.2	66.3
Import cover **	months	5.4	6.9	6.2	6.1	6.4
US\$ exchange rate, year-end	Reais	3.53	2.89	2.66	2.85	2.91
US\$ exchange rate, average	Reais	2.90	3.08	2.92	2.75	2.82
FOREIGN DEBT						
Gross foreign debt	US\$ bn	228	235	225	216	216
Foreign debt	% exports**	311	271	203	180	173
Short-term foreign debt	US\$ bn	22.8	25.0	27.0	26.0	25.0
Foreign debt amortization	US\$ bn	39.0	44.0	50.3	34.5	30.0
Foreign debt service	US\$ bn	54.3	59.7	65.6	49.3	45.0
Foreign debt service	% exports**	74.2	68.7	59.1	41.2	36.0
FINANCIAL MARKETS (year-end)						
Interbank interest rate, overnight	%	24.9	16.3	17.8	17.8	15.0
Bovespa stock index (real based, 2005: 01/19)		11268	22236	26196	24271	
IFCI stock index (US\$ based, 2005: 01/19)		214	439	587	549	
Bond market yield spread ( 2005: 01/19)***	bp	1439	463	383	439	
* incl. short term debt ** goods and services *** EMBI+ <span style="float: right;">e= estimate f=forecast</span>						

**Domestic policy:** The decision by the labor party's key coalition partner, the PMDB, to leave the government coalition has not made it easier for president Lula to rule the country. This is exemplified in the struggle for the position as president of the house of deputies. The Lula government is unlikely to succeed in pushing through its own candidate Greenhalgh, which means that it can no longer influence the agenda of the lower house to the same extent as in the past. In addition, we believe it will only be possible to implement reforms until the end of this year before the campaign for the presidential elections scheduled for October 2006 will begin.

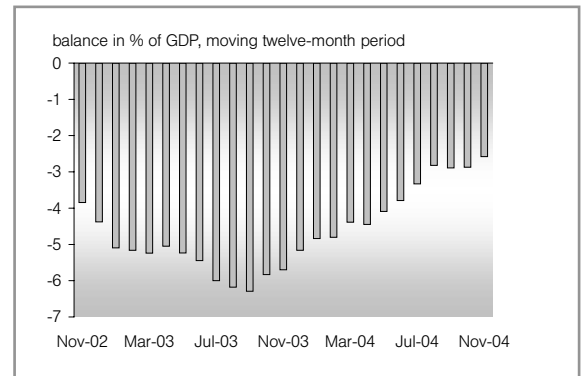
**Public Finance:** Public finances underwent a highly positive development last year. In the 12-month period up until November, the public-sector budget deficit was down to only 2.6% of GDP, a 50% reduction year-on-year. Public net debt dropped simultaneously, from 56.4% of GDP at the end of 2003 to 51.3% of GDP in November 2004. Due to a higher average interest rate (55% of domestic debt is subject to variable interest rates), we project a slightly higher deficit of 3.0% of GDP for this year. Public net debt should amount to 50.8% of GDP by year-end.

**Economic activity:** The pace of economic growth, which has expanded for five straight quarters, is likely to have decelerated in the fourth quarter of 2004. This is reflected in the figures for the industrial sector, production of which stagnated in October and even saw a slight decline in November (month-on-month, seasonally adjusted). The retail sector is also showing signs of an economic slowdown. Overall, GDP is expected to have grown by only 0.5% quarter-on-quarter (seasonally adjusted) in Q4, which translates into an economic growth rate of 5% for last year as a whole (forecast 2005: 4%).

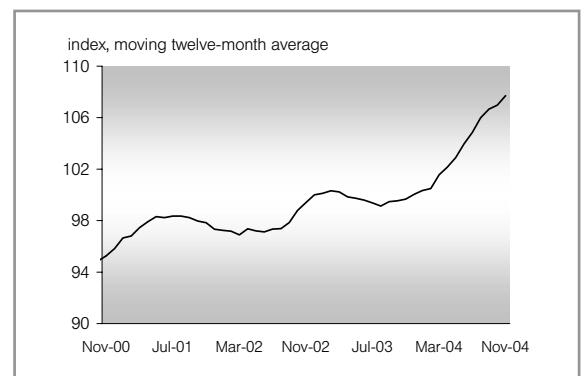
**Monetary policy:** Due to the historically very high capacity utilization of 83% and higher energy prices, the central bank continued to tighten its monetary policy in January. If it wants to achieve the official inflationary target of 5.1% (with a tolerance margin of up to 7%), then more action will need to be taken since inflationary expectations for the end of the year are in the region of 5.7% and the current inflation rate amounts to 7.6% (December, year-on-year). We therefore expect the overnight interest rate to be raised by a further 50 basis points in February, to a rate of 18.75% at that point, and to remain unchanged in subsequent months.

**External sector:** Exports managed to surge by a record growth rate of 32% last year. The current account surplus hovered around 2% of GDP, a figure that has not been seen in the last 30 years. It was not until December that the central bank began to utilize foreign currency inflows in order to build up foreign currency reserves. We expect the bank to continue this policy as long as the *real* remains under revaluation pressure against the US\$. In the current fiscal year, the reserve cushion should increase by US\$ 5 billion, to roughly US\$ 58 billion.

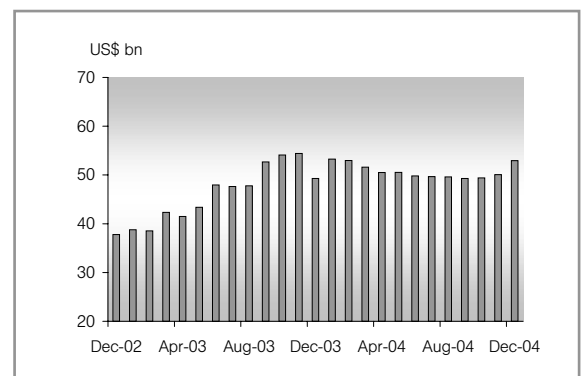
## PUBLIC SECTOR BUDGET BALANCE



## INDUSTRIAL PRODUCTION



## FOREIGN EXCHANGE RESERVES



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## MONTHLY AND QUARTERLY FIGURES

BRAZIL: MONTHLY INDICATORS		Sep-04	Oct-04	Nov-04	Dec-04	next/latest
DOMESTIC ECONOMY						
Public sector primary balance (ytd)	% of GDP	5.6	5.6	<b>5.3</b>		28-Jan
Public sector balance (ytd)	% of GDP	-2.1	-2.0	<b>-2.0</b>		28-Jan
Central government tax revenues	% yoy	19.0	7.0	<b>-2.1</b>		14-Feb
Capacity utilization (CNI)	%	83.0	83.1	<b>82.7</b>		27-Jan
Industrial production (IBGE)	% yoy	7.5	3.2	<b>8.1</b>		10-Feb
Retail sales (IBGE)	% yoy	9.0	8.5	<b>6.4</b>		17-Feb
Unemployment rate (IBGE)	%	10.9	10.5	<b>10.6</b>		25-Jan
Consumer prices IPCA	% yoy	6.7	6.9	<b>7.2</b>	<b>7.6</b>	17-Feb
Consumer prices IPCA	% mom	0.33	0.44	<b>0.7</b>	<b>0.9</b>	17-Feb
Interbank interest rate (latest: 01/19)*	%	16.25	16.75	<b>17.25</b>	<b>17.75</b>	<b>18.25</b>
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	8923	8843	8159	<b>9194</b>	1-Feb
Merchandise exports	% yoy	22.6	16.9	36.4	<b>36.2</b>	1-Feb
Merchandise imports	US\$ mn	5751	5836	6082	<b>5684</b>	1-Feb
Merchandise imports	% yoy	24.6	16.0	42.8	<b>42.3</b>	1-Feb
Trade balance	US\$ mn	3172	3007	2077	<b>3510</b>	1-Feb
Current account balance	US\$ mn	1741	1007	-242	<b>1211</b>	21-Feb
Net foreign direct investment	US\$ mn	646	1316	1319	<b>3150</b>	21-Feb
Foreign exchange reserves (latest: 01/19)*	US\$ bn	49.3	49.4	50.1	<b>52.9</b>	<b>53.1</b>
US\$ exchange rate (latest: 01/19)*	Reais	2.86	2.80	2.80	<b>2.66</b>	<b>2.71</b>
BRAZIL: QUARTERLY INDICATORS		Q1 04	Q2 04	Q3 04	Q4 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	4.0	5.7	<b>6.1</b>		28-Feb
GDP (s.a.)	% qoq	1.8	1.4	<b>1.0</b>		28-Feb
Private consumption	% yoy	1.0	4.5	<b>5.7</b>		28-Feb
Public consumption	% yoy	1.3	0.8	<b>0.3</b>		28-Feb
Private and public investment	% yoy	2.0	13.4	<b>20.1</b>		28-Feb
Exports of goods and services	% yoy	19.5	17.6	<b>18.2</b>		28-Feb
Imports of goods and services	% yoy	11.2	14.2	<b>17.7</b>		28-Feb
Agriculture	% yoy	6.4	6.0	<b>4.9</b>		28-Feb
Industry	% yoy	2.9	6.3	<b>7.0</b>		28-Feb
Services	% yoy	1.2	4.2	<b>4.7</b>		28-Feb
Public debt (net)	% of GDP	57.4	56.0	<b>53.7</b>		28-Jan
EXTERNAL SECTOR						
Current account balance	US\$ bn	1.7	2.8	<b>5.3</b>	<b>2.0</b>	25-Apr
Net foreign direct investment	US\$ bn	2.7	1.3	<b>8.3</b>	<b>5.8</b>	25-Apr
Portfolio investment	US\$ bn	2.4	-6.1	<b>-0.5</b>	<b>-0.5</b>	25-Apr
Capital account **	US\$ bn	0.9	-4.1	<b>-6.1</b>	<b>-0.3</b>	25-Apr
Change in foreign exchange reserves #	US\$ bn	-2.6	1.3	<b>0.8</b>	<b>-1.7</b>	25-Apr
Gross foreign debt	US\$ bn	234	224	<b>220</b>		21-Mar
Short-term foreign debt	US\$ bn	20.2	21	<b>19</b>		21-Mar

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

# CHILE

Will the year 2005 turn out just as successful for Chile as 2004? The yardstick is high: thanks to favorable global economic conditions, GDP growth was highly dynamic last year and public finances witnessed a record surplus. Since exports grew by more than 50% year-on-year, the trade surplus stands at almost 10% of GDP. This pace is unlikely to continue: slightly declining copper prices are limiting export growth, and the central bank is likely to continue its gradual tightening of monetary policy resumed in January in order to preemptively nip potential inflationary risks in the bud. We expect the slight economic cooling down (forecast 2005: +5.3%) to help avoid imbalances and facilitate solid growth in the medium term.

## ANNUAL FIGURES AND FORECASTS

CHILE		2002	2003	2004e	2005f	2006p
DOMESTIC ECONOMY						
GDP change (real)	%	2.2	3.3	5.7	5.3	4.5
GDP	US\$ bn	67.3	72.2	91.7	101.4	103.4
Inflation (year-end)	%	2.8	1.1	2.4	3.0	3.2
Inflation (average)	%	2.5	2.8	1.1	2.8	3.2
PUBLIC SECTOR						
Budget balance, central government	% GDP	-0.8	-0.8	2.8	1.5	1.0
Budget balance, public sector	% GDP	-1.6	-0.4	2.4	2.0	1.4
Public debt	% GDP	16	13	12	11	10
Amortization	US\$ bn	0.9	0.8	0.8	1.1	0.6
Gross financing needs, central government	US\$ bn	1.4	1.4	-1.7	-0.4	-0.4
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	18.2	21.0	32.0	34.1	32.9
Merchandise imports	US\$ bn	15.9	18.0	23.0	25.9	27.8
Trade balance	US\$ bn	2.2	3.0	9.0	8.2	5.1
Current account balance	US\$ bn	-0.9	-0.6	2.6	1.0	-1.9
Current account balance	% GDP	-1.3	-0.8	2.8	1.0	-1.8
Net foreign direct investment	US\$ bn	1.6	1.6	3.4	3.1	3.2
Foreign exchange reserves, year-end	US\$ bn	15.4	15.9	16.0	17.3	16.8
Import cover **	months	7.4	6.8	5.2	5.0	4.7
US\$ exchange rate, year-end	Pesos	720	593	556	600	640
US\$ exchange rate, average	Pesos	689	691	609	596	631
FOREIGN DEBT						
Gross foreign debt	US\$ bn	40.7	43.4	44.0	43.0	42.0
Foreign debt	% exports**	173	161	113	104	104
Short-term foreign debt	US\$ bn	5.8	7.5	8.2	8.5	9.0
Foreign debt amortization	US\$ bn	4.7	3.8	5.9	4.9	5.0
Foreign debt service	US\$ bn	6.0	5.2	7.2	6.4	6.4
Foreign debt service	% exports**	25	19	19	15	16
FINANCIAL MARKETS (year-end)						
Base rate, 90 days (PDBC)	%	2.9	2.3	2.3	3.8	4.8
IPSA stock index (peso based, 2005: 01/19)		1000	1405	1797	1744	
IFCI stock index (US\$ based, 2005: 01/19)		406	654	861	790	
Bond market yield spread (2005: 01/19)*	bp	176	90	64	63	
* EMBIG      **goods and services      e=estimate, f=forecast						

**Public finances:** Thanks to vigorous economic growth and high copper prices, central government revenues rose by 23.6% (in real terms) year-on-year in the first eleven months of last year. Since spending policy is based on strict long-term target parameters, public spending only rose by roughly 4% year-on-year. The central government's surplus should therefore exceed all expectations for the year as a whole and be in the region of 2.8% of GDP. Although we expect the surplus to drop slightly this year, at 1.5% of GDP it will nevertheless contribute to a further decline in the level of public debt, which stood at 12.2% of GDP in September 2004 and is likely to drop below 11% of GDP by the end of this year.

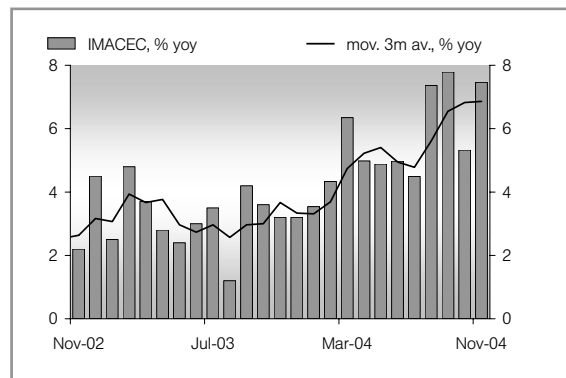
**Economic activity:** The IMACEC economic indicator recorded strong year-on-year growth of 7.5% in November; for the year 2004 as a whole, we continue to forecast an economic growth rate of 5.7%. Considering that the upturn is taking place across the board – the industrial, mining and retail sectors recorded high growth rates in recent months – and that the signs of a recovery in the labor market also became clearer in November, we are optimistic for the current year as well. For 2005 as a whole, we project GDP growth of 5.3%.

**Monetary sector:** December saw consumer prices sustain a surprisingly sharp drop (-0.4% month-on-month). This puts the annual inflation rate (2.4%) close to the bottom end of the central bank's target corridor. In spite of this, during its January session the central bank raised the key lending rates by 25 basis points, to 2.5%. This is based on the assumption that the highly dynamic economic performance makes a further monetary policy stimulus unnecessary. Furthermore, the core inflation rate (excluding fuels and fresh produce) accelerated in December. We expect the central bank to continue its policy of gradually tightening its monetary reins in the course of the year, with the key lending rate likely to stand at 3.75% at the end of 2005.

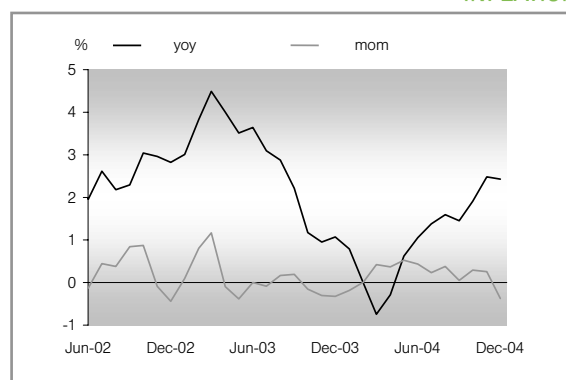
**External sector:** The high level of copper prices contributed to the fact that Chile's merchandise exports reached US\$ 32 billion last year, a year-on-year increase of more than 50%. Despite rapidly expanding imports (+28%, year-on-year), the trade surplus hit a record level of US\$ 9 billion, or almost 10% of GDP. This year should see slightly lower copper prices; we nevertheless project a slight rise in exports for the year as a whole thanks to a dynamic growth in non-copper exports. - The exchange rate of the peso against the US dollar displayed considerable volatility in recent weeks (see graph). In our view, this is attributable not so much to fundamental trends in Chile but rather to the valuation of the dollar on the international financial markets. This situation is likely to continue over the forthcoming months. We forecast an exchange rate of 600 CLP/US\$ by year-end.

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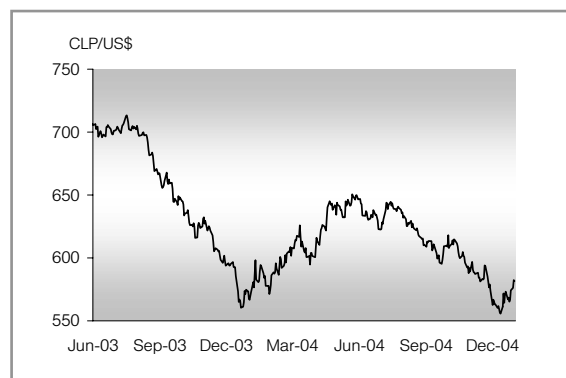
## ECONOMIC ACTIVITY



## INFLATION



## EXCHANGE RATE



## MONTHLY AND QUARTERLY FIGURES

CHILE: MONTHLY INDICATORS		Sep-04	Oct-04	Nov-04	Dec-04	next/latest
DOMESTIC ECONOMY						
IMACEC	% yoy	7.7	5.3	<b>7.5</b>		7-Feb
Industrial production (INE)	% yoy	12.0	5.2	<b>9.9</b>		31-Jan
Mining production	% yoy	12.3	12.7	<b>12.2</b>		31-Jan
Retail sales	% yoy	4.4	7.2	<b>4.3</b>	<b>6.2</b>	17-Feb
Unemployment rate	%	9.7	9.4	<b>8.6</b>		31-Jan
Employment	mn	5.56	5.65	<b>5.75</b>		31-Jan
Labor cost index	% yoy	0.4	0.0	<b>0.2</b>		4-Feb
Consumer prices	% yoy	1.5	1.9	2.5	<b>2.4</b>	4-Feb
Consumer prices	% mom	0.1	0.3	0.3	<b>-0.4</b>	4-Feb
Wholesale prices	% yoy	4.8	8.9	9.7	<b>7.8</b>	4-Feb
Wholesale prices	% mom	-1.2	1.7	-0.8	<b>-3.0</b>	4-Feb
Money supply M1	% yoy	24.6	28.1	<b>25.5</b>	<b>21.1</b>	7-Feb
Base rate, 90d PDBC (month-avrg., latest: 01/18)	%	2.3	2.4	2.3	<b>2.3</b>	<b>2.48</b>
Loan rate (average)	%	11.0	10.4	<b>12.0</b>	<b>10.8</b>	7-Feb
Deposit rate (average)	%	2.4	2.6	<b>2.8</b>	<b>3.4</b>	7-Feb
Lending to private sector	% yoy	10.9	12.4	<b>12.7</b>		24-Jan
Total financial savings (M7, seasonally adjusted)	% mom	1.6	0.6	<b>0.7</b>	<b>0.6</b>	7-Feb
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	2454	2770	<b>2611</b>	<b>3316</b>	7-Feb
Merchandise exports	% yoy	53.8	50.6	<b>52.6</b>	<b>76.1</b>	7-Feb
Merchandise imports	US\$ mn	2095	2234	<b>2127</b>	<b>2209</b>	7-Feb
Merchandise imports	% yoy	44.0	34.0	<b>39.2</b>	<b>46.7</b>	7-Feb
Trade balance	US\$ mn	359	536	<b>484</b>	<b>1107</b>	7-Feb
Net foreign direct investment	US\$ mn	620.8	<b>186.3</b>	<b>220.3</b>		7-Feb
Portfolio investment (net)	US\$ mn	-222.0	<b>-131.1</b>	<b>-88.0</b>		7-Feb
Copper price (monthly average, latest: 01/20)	US\$ c/lb	131.3	136.6	136.2	<b>137.5</b>	<b>137.6</b>
Foreign exchange reserves*	US\$ bn	15.8	15.7	<b>16.0</b>	<b>16.0</b>	7-Feb
US\$ exchange rate (latest: 01/19)	CLP	610.9	613.8	589.0	<b>555.8</b>	<b>581.7</b>
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

It was possible to arrest the upward trend of the peso with interventions by the central bank and by introducing controls on capital movements. The fact that at the end of 2004 government debt was lower than expected, the inflation rate only amounted to 5.5% and the budget deficit was below the 2.5% target agreed with the IMF were positive side effects of the appreciation in real terms. However, in the wake of the failed tax reforms and the likelihood of higher public-sector spending in the second semester in the run-up to the election, we expect the budget deficit to rise again this year (DBLA forecast: 2.8%). At an economic growth rate of 3.8% in 2005, the inflation rate should remain below 6%, as was the case last year, in spite of the expansionary fiscal policy anticipated.

### ANNUAL FIGURES AND FORECASTS

COLOMBIA		2002	2003	2004e	2005f	2006f
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	1.6	3.7	3.6	3.8	3.9
GDP	US\$ bn	81.1	78.7	98.0	115.7	121.1
Inflation (year-end)	%	7.0	6.5	5.5	5.4	5.2
Inflation (average)	%	6.3	7.1	5.9	5.7	5.3
<b>PUBLIC SECTOR</b>						
Budget balance, central government	% GDP	-6.1	-5.4	-4.5	-4.4	-4.3
Budget balance, public sector	% GDP	-3.6	-2.8	-2.5	-2.8	-2.7
Public debt	% GDP	64	62	58	55	56
Amortization	US\$ bn	12.5	10.6	10.0	5.5	6.0
Gross financing needs	US\$ bn	15.4	12.8	12.5	8.7	9.3
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	12.3	13.5	16.5	17.4	17.8
Merchandise imports	US\$ bn	12.1	13.3	15.4	16.8	17.7
Trade balance	US\$ bn	0.2	0.3	1.1	0.6	0.1
Current account balance	US\$ bn	-1.5	-1.4	-1.5	-1.8	-1.5
Current account balance	% GDP	-1.8	-1.8	-1.1	-1.6	-2.0
Net direct investment	US\$ bn	1.2	0.8	2.0	1.5	2.0
Foreign exchange reserves, year-end	US\$ bn	10.7	10.9	12.5	13.3	13.5
Import cover	months*	6.8	6.4	6.5	6.5	6.3
US\$ exchange rate, year-end	Pesos	2867	2780	2353	2398	2458
US\$ exchange rate, average	Pesos	2507	2877	2628	2369	2429
<b>FOREIGN DEBT</b>						
Gross foreign debt	US\$ bn	37.4	38.5	38.6	39.4	39.9
Foreign debt	% exports*	304	285	233	226	224
Short-term foreign debt	US\$ bn	3.6	4.0	4.3	4.7	5.0
Foreign debt amortization	US\$ bn	6.5	6.7	4.6	4.3	4.1
Foreign debt service	US\$ bn	8.9	9.2	7.3	7.1	7.0
Foreign debt service	% exports*	73	68	44	40	39
<b>FINANCIAL MARKETS (year-end)</b>						
Deposit rate (DTF, 90 days)	%	8.0	7.9	7.7	7.5	8.0
IBB stock index (peso based, 2005: 19/01)		1474	2334	4346	4301	
IFCG stock index (US\$ based, 2005: 19/01)		615	783	1686	1648	
Bond market yield spread (2005: 19/01)	bp**	736	431	333	374	

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



**Domestic policy:** President Uribe's security policy is meanwhile bearing fruit. Kidnapping incidents dropped 36% last year and the number of robberies – in particular those on trucks – likewise declined significantly. The improved security situation is having a positive impact on consumer confidence, investments and growth and, consequently, also on the country's unemployment rate. A further key step towards improving application of the rule of law is the introduction of a faster, more efficient and cheaper system of legal procedures based on the U.S. model. The system is envisaged to be implemented nationwide by 2008 and public hearings are intended in particular to curb corruption and ensure fair trials.

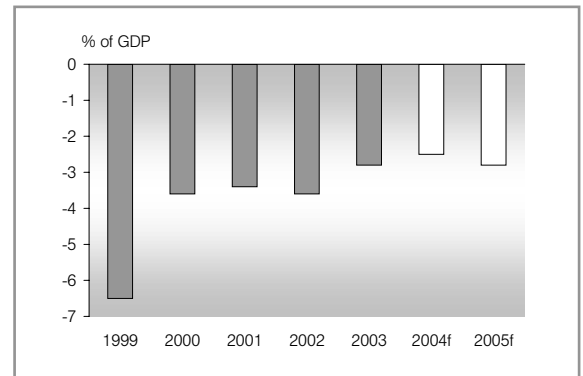
**Fiscal policy:** The budget deficit target limit of 2.5% of GDP agreed with the IMF was probably slightly undercut in 2004. Aside from higher tax and oil revenues and positive results arising from the decentralized administration, this performance was also largely due to the appreciation of the peso in real terms. This appreciation is also the main reason for the net debt ratio dropping from 52.5% of GDP at the end of 2003 to roughly 46% of GDP in 2004. However, the failure of the tax reform and the forthcoming parliamentary and presidential elections in 2006 will result in major additional costs for 2005 (see graph). The residual funding of the 2005 budget is to be provided primarily by placements of peso-denominated bonds worth US\$ 0.5 billion on international capital markets and by raising additional multilateral loans amounting to US\$ 2 billion. The remaining financing requirements will be covered by tapping the domestic capital market.

**Economic activity:** Due to production losses in the mining, crude oil and agricultural sectors, the third quarter of 2004 recorded a disappointing economic growth rate of only 2.46% year-on-year (see graph). Nevertheless, thanks to positive export conditions and the improved security situation, the investment climate is good which also contributed to the drop in the unemployment rate (13.9% in November). Against this backdrop, we forecast an economic growth rate of 3.8% for this year (2004 estimate: 3.6%).

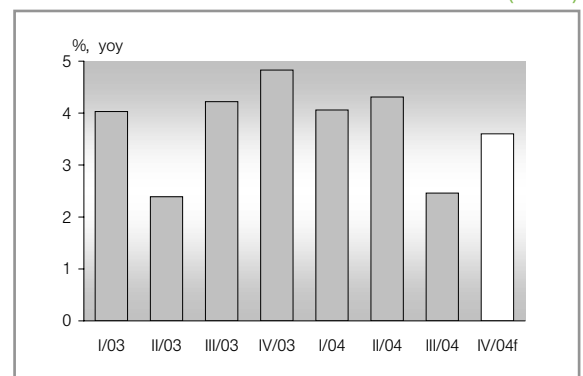
**Monetary sector:** The recovery of the US dollar observed in recent weeks, the central bank's support buying, the 25-basis-point cut in key interest rates and the government's decision to restrict capital inflows to those with an investment period of no less than 12 months have caused the upward trend of the peso to weaken gradually (see graph). The sustained strength of the peso had also contributed to the lower-than-expected 2004 inflation rate of 5.5% (2005 forecast: 5.4%).

**External sector:** Following the arrest of a Colombian guerilla leader in Caracas, Venezuela's government has shelved the bilateral agreements. For example, the project of a cross-border pipeline has temporarily been put on hold. Both parties are currently making efforts toward achieving a diplomatic approach.

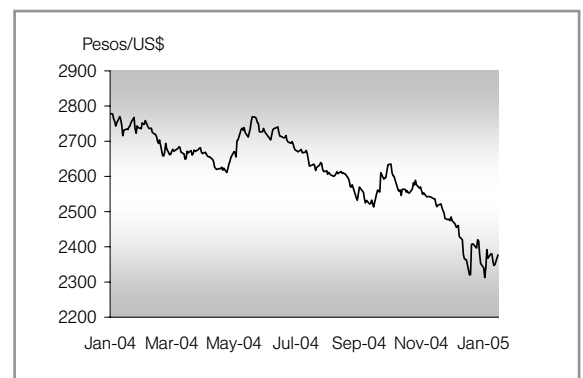
## PUBLIC SECTOR BUDGET BALANCE



## GDP-CHANGE (REAL)



## EXCHANGE RATE



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## MONTHLY AND QUARTERLY FIGURES

COLOMBIA: MONTHLY INDICATORS		Sep-04	Oct-04	Nov-04	Dec-04	next/latest
DOMESTIC ECONOMY						
Industrial production (not incl. coffee)	% yoy	2.6	<b>1.4</b>			1-Feb
Retail sales (excl. fuel)	% yoy	6.5	<b>7.8</b>			1-Feb
Unemployment rate (urban)	%	14.9	14.1	<b>13.9</b>		1-Feb
Consumer prices	% yoy	6.0	5.9	5.8	<b>5.5</b>	7-Feb
Consumer prices	% mom	0.3	0.0	0.3	<b>0.3</b>	7-Feb
Producer prices	% yoy	5.5	5.8	5.2	<b>4.6</b>	9-Feb
Producer prices	% mom	0.3	0.4	0.2	<b>-0.5</b>	9-Feb
Monetary base (month-end)	% yoy	10.4	14.5	10.6	<b>17.1</b>	7-Feb
Money supply M1 (month-end)	% yoy	10.4	12.6	8.1	<b>16.8</b>	7-Feb
Money supply M3 (month-end)	% yoy	14.3	15.8	<b>16.7</b>	<b>16.3</b>	7-Feb
Lending rate (month-end)	%	15.7	15.5	<b>15.6</b>	<b>14.9</b>	7-Feb
Deposit rate (DTF, 90 days, month-end)	%	7.72	7.72	7.68	<b>7.7</b>	7-Feb
Treasury bills (local index, month-end)	%	104.5	105.0	106.2	<b>107.2</b>	7-Feb
Treasury bills (yield, TES Aug. 08, month-end)		12.1	11.8	11.3	<b>10.8</b>	7-Feb
Interbank interest rate (month-end)	%	6.85	7.10	6.87	<b>6.6</b>	7-Feb
Credit volume (month-end)	% yoy	10.9	10.8	<b>12.1</b>	<b>11.2</b>	10-Feb
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	1498	<b>1513</b>			25-Feb
Merchandise exports	% yoy	45.2	<b>34.8</b>			25-Feb
Merchandise imports	US\$ mn	1374	<b>1352</b>			25-Feb
Merchandise imports	% yoy	12.4	<b>8.6</b>			25-Feb
Trade balance	US\$ mn	120.7	<b>175.0</b>			25-Feb
Foreign exchange reserves (month-end)	US\$ mn	12131	12288	12971	<b>13539</b>	7-Feb
US\$ exchange rate (month-end + 01/19)	pesos	2595	2586	2479	<b>2354</b>	<b>2371</b>
COLOMBIA: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next/latest
DOMESTIC ECONOMY						
GDP	% yoy	4.5	4.0	4.3	2.4	19-Feb
GDP, seasonally adjusted	% qoq	1.0	0.5	0.8	-0.1	19-Feb
Private consumption	% yoy	3.4	4.5	3.6	<b>2.8</b>	19-Feb
Public consumption	% yoy	4.1	2.3	2.6	<b>3.1</b>	19-Feb
Domestic consumption	% yoy	3.6	4.0	3.3	<b>2.8</b>	19-Feb
Domestic investment	% yoy	14.8	5.4	18.1	<b>11.0</b>	19-Feb
Domestic demand	% yoy	5.5	4.2	5.7	<b>3.7</b>	19-Feb
Exports (goods and services)	% yoy	5.5	5.6	9.0	<b>9.3</b>	19-Feb
Imports (goods and services)	% yoy	9.1	6.7	17.1	<b>15.8</b>	19-Feb
EXTERNAL SECTOR						
Merchandise exports	US\$ bn	3.24	3.28	3.87	<b>4.36</b>	25-Feb
Merchandise imports	US\$ bn	3.36	3.30	3.72	<b>3.90</b>	25-Feb
Trade balance	US\$ bn	-0.12	-0.02	0.16	<b>0.46</b>	25-Feb
Current account balance	US\$ bn	-0.47	-0.70	-0.37	<b>-0.98</b>	25-Feb
Net foreign direct investment	US\$ bn	-0.51	0.55	0.84	<b>0.79</b>	25-Feb
Portfolio investment*	US\$ bn	0.38	0.07	-0.05	<b>0.48</b>	25-Feb
Capital account**	US\$ bn	0.42	1.12	0.76	<b>0.60</b>	25-Feb
Change in foreign exchange reserves #	US\$ bn	-0.04	0.42	0.38	<b>0.50</b>	25-Feb
*incl. foreign credit      **incl. residual items      # - = increase						



# MEXICO

The outlook for Mexico's economy remains slightly gloomy. Due to higher domestic interest rates and slightly weaker growth in demand from the U.S., economic growth will most probably fall from 4% last year to 3% in 2005. This is also one of the reasons why the increase in prices is likely to slow down slightly in the months ahead. Banxico will most probably refrain from tightening its monetary policy any further. The high differential between the domestic and U.S. interest rates, which currently makes the peso relatively attractive as an investment currency, will therefore become narrower in the course of the year. Hence, the peso will presumably depreciate to 12 pesos per US dollar by the end of the year.

## ANNUAL FIGURES AND FORECASTS

MEXICO		2002	2003	2004e	2005f	2006p
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	0.7	1.3	4.0	3.0	4.0
GDP	US\$ bn	648	626	654	680	725
Inflation (year-end)	%	5.7	4.0	5.2	3.6	3.8
Inflation (average)	%	5.0	4.5	4.7	4.5	3.6
<b>PUBLIC SECTOR</b>						
Budget balance, central government	% GDP	-1.0	-0.8	-0.6	-0.6	-0.3
Budget balance, public sector	% GDP	-1.4	-0.6	-0.3	-0.3	-0.1
Public debt	% GDP	28	28	27	26	26
Amortization (Cetes excl.)	Pesos bn	222	250	336	324	371
Gross financing needs (Cetes excl.)	Pesos bn	298	283	359	348	394
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	161	165	189	198	209
Merchandise imports	US\$ bn	169	171	196	209	225
Trade balance	US\$ bn	-7.9	-5.7	-7.1	-11.4	-15.4
Current account balance	US\$ bn	-13.8	-9.0	-9.4	-12.3	-15.0
Current account balance	% GDP	-2.1	-1.4	-1.4	-1.8	2.1
Net foreign direct investment	US\$ bn	14.8	10.8	15.0	14.0	16.0
Foreign exchange reserves, year-end	US\$ bn	51	59	64	65	67
Import cover **	months	3.0	3.5	3.3	3.2	3.0
US\$ exchange rate, year-end	Pesos	10.46	11.24	11.15	12.00	11.80
US\$ exchange rate, average	Pesos	9.66	10.79	11.32	11.73	11.90
<b>FOREIGN DEBT</b>						
Gross foreign debt	US\$ bn	159	160	163	166	169
Foreign debt	% exports**	90	88	79	77	74
Short-term foreign debt	US\$ bn	36	35	34	34	34
Foreign debt amortization	US\$ bn	13	21	25	18	21
Foreign debt service	US\$ bn	25	33	37	32	36
Foreign debt service	% exports**	14	18	18	15	16
<b>FINANCIAL MARKETS (year-end)</b>						
Interest rates (Cetes, 28 days)	%	7.6	6.0	8.6	8.0	7.5
IPC stock index (peso based, 2005: 01/19)		6127	8795	12918	13036	
IFCI stock index (US\$ based, 2005: 01/19)		637	830	1227	1224	
Bond market yield spread (2005: 01/19)*	bp	324	199	167	174	

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

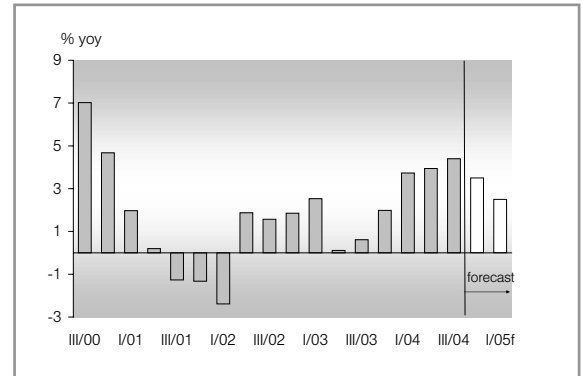
**Public finances:** In November, the public sector came very close to balancing its budget. The last several months of the year usually see high deficits on account of seasonal factors. This makes it likely that the public deficit was below the upper limit of 0.3% of GDP targeted for 2004. The country's solid fiscal policy was a major reason why the rating agency Moody's upgraded the risk rating for Mexican public foreign currency bonds to Baa1. Accordingly, the Mexico rating of Moody's is now two notches higher than the S&P rating. The impact on the risk spreads of Mexican government bonds was, however, fairly limited following S&P's signal that an improvement of the country's risk rating was not on the agenda.

**Economic activity:** In the fourth quarter, the economy probably stabilized at the lower pre-quarter level (third quarter: 0.6% quarter-on-quarter, seasonally adjusted) for the time being. The slight economic slowing, which is likely to last well into the second half of 2005, is attributable both to domestic factors (interest rate hike, backlog of reforms) and external ones (slightly weaker growth in demand from the U.S.). Following GDP growth by a projected 4% in 2004, the growth rate is likely to drop to 3% in the current year.

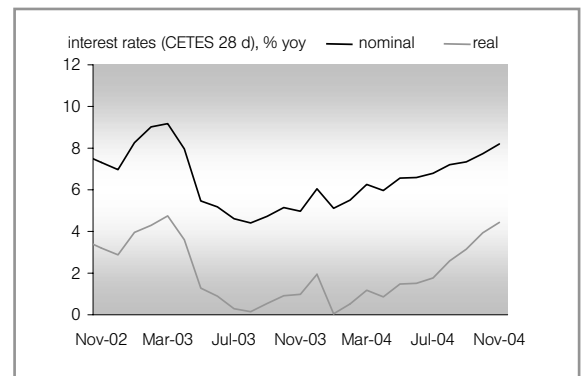
**Monetary sector:** December's surprisingly low inflation rate of 0.2% is likely to have triggered relief for the Mexican central bank. Should the months of January and February confirm that inflationary pressure is subsiding, Banxico will probably refrain from tightening its monetary policy any further, provided that inflationary expectations of the private sector – as measured by the central bank's monthly survey – will diminish quickly. At 4.3% in December, expectations for end-2005 were still substantially higher than the inflationary target of 3% (+/-1 percentage point). Money-market interest rates (cetes, 28 days) have remained at their cyclical high of 8.6% since mid-December. Against the backdrop of an anticipated further interest rate hike in the U.S. early in February, an increase to 8.8% in the short term cannot be ruled out. However, interest rates, at 8%, should be substantially below their current level by the end of this year.

**External sector:** The Mexican peso continues to benefit from the high differential between domestic and U.S. interest rates; it makes investments in the Mexican money market interesting both for Mexican and international investors. However, it is likely to have already passed its zenith and should become noticeably narrower in the course of the year. In addition, the slightly weaker economy and mounting "political noise" in the wake of the approaching presidential elections in July 2006 are likely to exert downward pressure on the peso. We expect the Mexican peso to depreciate to 12 pesos per US dollar by the end of 2005.

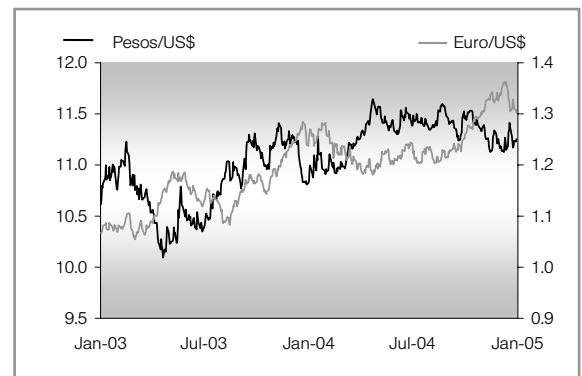
## GDP CHANGE (REAL)



## INTEREST RATES



## EXCHANGE RATES



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## MONTHLY AND QUARTERLY FIGURES

MEXICO: MONTHLY INDICATORS		Sep-04	Oct-04	Nov-04	Dec-04	next/latest
DOMESTIC ECONOMY						
Economic activity index (IGAE)	% yoy	4.5	<b>3.9</b>			25-Jan
IGAE index (seasonally adjusted)	% mom	0.0	<b>0.7</b>			25-Jan
Industrial production	% yoy	5.6	<b>2.0</b>	<b>5.4</b>		11-Feb
Manufacturing, in-bond industry	% yoy	10.5	<b>5.3</b>	<b>6.8</b>		11-Feb
Manufacturing (excluding in-bond industry)	% yoy	4.6	<b>0.8</b>	<b>5.7</b>		11-Feb
Construction	% yoy	8.6	<b>5.3</b>	<b>6.5</b>		11-Feb
Gross fixed capital formation	% yoy	9.1	<b>6.5</b>			8-Feb
Consumer confidence (January 2003=100)	Index	96.8	95.4	<b>95.3</b>	<b>102.8</b>	3-Feb
Retail sales	% yoy	8.1	<b>6.6</b>			26-Jan
Wholesale sales	% yoy	11.1	<b>5.1</b>			26-Jan
Unemployment rate	%	4.0	<b>3.6</b>	<b>3.0</b>		24-Feb
Employees (social insurance)	% yoy	3.1	<b>3.6</b>			
Real wages per employee, manufacturing	% yoy	1.0	<b>-2.0</b>			28-Jan
Budget balance, public sector	Pesos bn	8.0	<b>-9.7</b>	<b>-0.1</b>		4-Feb
Public domestic debt	Pesos bn	1085	1078	<b>1099</b>		4-Feb
Public external debt	US\$ bn	79.9	78.5	<b>79.0</b>		4-Feb
Consumer prices	% yoy	5.1	5.4	<b>5.4</b>	<b>5.2</b>	9-Feb
Consumer prices	% mom	0.8	0.7	<b>0.9</b>	<b>0.2</b>	9-Feb
Treasury bills, Cetes 28d (latest: 01/20)	%	7.6	8.0	8.4	<b>8.6</b>	<b>8.6</b>
EXTERNAL SECTOR						
Merchandise exports	US\$ mn	16280	16960	<b>17210</b>		24-Jan
Merchandise exports	% yoy	13.4	12.2	<b>23.9</b>		24-Jan
Merchandise imports	US\$ mn	16755	17524	<b>19037</b>		24-Jan
Merchandise imports	% yoy	13.7	11.4	<b>29.6</b>		24-Jan
Trade balance	US\$ mn	-475	-564	<b>-1827</b>		24-Jan
Foreign exchange reserves	US\$ bn	62.3	60.9	<b>63.7</b>	<b>64.2</b>	
US\$ exchange rate (latest: 01/19)	Pesos	11.40	11.53	11.22	<b>11.15</b>	<b>11.23</b>
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	<b>5.7</b>	16-Mar
Public consumption	% yoy	2.8	-0.3	-5.0	<b>-4.9</b>	16-Mar
Private and public investment	% yoy	-6.9	2.9	-1.5	<b>8.5</b>	16-Mar
Exports (goods and services)	% yoy	4.6	10.4	14.4	<b>12.1</b>	16-Mar
Imports (goods and services)	% yoy	2.0	8.5	11.1	<b>10.9</b>	16-Mar
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



## VENEZUELA

Further setbacks for the investment climate: The expropriation of big landowners, announced by President Chavez after the referendum last year, has begun and the appointment of pro-government judges to the supreme court has given the government greater freedom of action on its "proyecto bolivariano" aimed at transforming Venezuela. On the one hand, high oil prices and the strong economic recovery are currently boosting public revenues and the official devaluation of the national currency (which we expect to see as early as the first quarter) will further underpin the public-sector budget. On the other, such extraordinarily high revenues are not being invested or set aside in the interests of sustained fiscal policy but are lavishly spent instead. Although this will boost the economy in the short run, we nevertheless forecast a noticeable deceleration in growth for the year 2005 as a whole due to the interventionist economic policy and lack of investments.

### ANNUAL FIGURES AND FORECASTS

VENEZUELA		2002	2003	2004e	2005f	2006p
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	-8.9	-7.6	17.0	6.0	4.0
GDP	US\$ bn	95.2	85.5	103.7	111.9	126.4
Inflation (year-end)	%	31.2	27.1	19.2	16.4	15.7
Inflation (average)	%	22.4	31.1	21.7	16.8	15.4
<b>PUBLIC SECTOR</b>						
Budget balance, central government	% GDP	-3.5	-4.3	-2.3	-3.3	-4.3
Budget balance, public sector	% GDP	-1.0	0.2	0.5	-1.0	-1.0
Public debt	% GDP	42	45	34	32	30
Amortization	US\$ bn	7.3	10.8	9.0	7.2	0.0
Gross financing needs	US\$ bn	8.2	10.7	8.5	8.4	22.0
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	26.8	26.9	38.5	36.0	33.2
Merchandise imports	US\$ bn	13.6	10.7	16.0	18.3	19.6
Trade balance	US\$ bn	13.2	16.2	22.5	17.7	13.6
Current account balance	US\$ bn	7.8	10.9	15.0	9.9	5.6
Current account balance	% GDP	8.2	12.8	14.5	8.9	4.4
Net direct investment	US\$ bn	-0.3	1.4	1.3	2.5	2.4
Foreign exchange reserves, year-end **	US\$ bn	11.4	16.7	19.1	21.1	20.1
Import cover **)	months	6.4	10.9	9.0	9.1	8.5
US\$ exchange rate, year-end	Bolívar	1387	1598	1918	2200	2400
US\$ exchange rate, average	Bolívar	1160	1611	1885	2165	2300
<b>FOREIGN DEBT</b>						
Gross foreign debt	US\$ bn	34.1	35.1	32.3	32.8	32.5
Foreign debt	% exports ***	116	125	83	92	96
Short-term foreign debt	US\$ bn	3.5	3.0	3.1	3.4	3.6
Foreign debt amortization	US\$ bn	2.9	5.4	5.3	2.7	3.0
Foreign debt service	US\$ bn	4.9	7.9	8.3	5.3	5.5
Foreign debt service	% exports ***	17	28	21	15	16
<b>FINANCIAL MARKETS (year-end)</b>						
Deposit rate, 90 days	%	26.1	14.2	14.5	11.0	10.0
ICB stock index (Bolívar based, 2005: 01/19)		8015	22204	29952	29383	
IFCG stock index (US\$ based, 2005: 01/19)		159	182	274	252	
Bond market yield spread (2005: 01/19)*	bp	1127	439	412	462	

\* EMBI+ \*\* Central bank and FEM, Gold excl. \*\*\* goods and services e=expected; f=forecast

**Domestic policy:** Following his victory in the referendum last year, president Chávez had announced his intentions of pushing forward the redistribution of land. To this end, investigations are currently being conducted in order to ascertain whether big land owners rightfully own their land and are utilizing it productively. This apparently arbitrary action is casting a shadow on the investment climate, which had received a further blow at the end of 2004 when the government tightened its control over the Supreme Court.

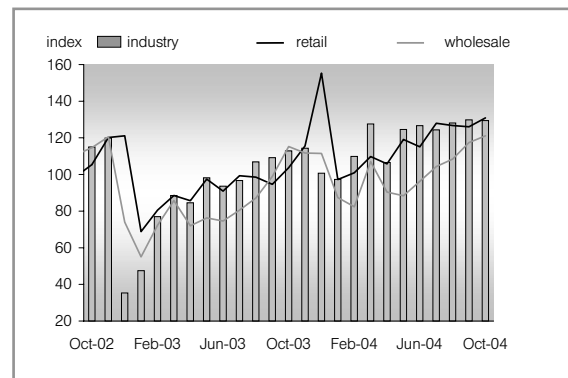
**Fiscal policy:** The government continues to pursue its highly expansionary fiscal policy course. Central government spending in November was 60% higher year-on-year in nominal terms (January-November 2004: +63%). This is being facilitated thanks to sharply rising oil revenues; however, non-oil related revenues are also well up on the pre-year figure due to the robust economic recovery. Although we expect spending to be less expansionary this year (2005 forecast: +13% in real terms), in light of slightly declining oil prices and a slowdown in economic activity the budget deficit should expand to 3.3% of GDP (2004 forecast: 2.3% of GDP).

**Economic activity:** After GDP had still grown by almost 16% year-on-year in the third quarter of 2004, the level of growth is expected to have weakened in the fourth quarter. Industrial production growth in October, up by 14.6% year-on-year, was well below the previous months' rates, and the retail sector also saw a slight decrease in momentum in October. We assume GDP to have grown by 17% in 2004. In the current year which, amid weak investments, will be characterized by higher capacity utilization, increasingly dirigistic economic policy and declining rates of growth in public-sector spending, GDP should grow by only 6% year-on-year.

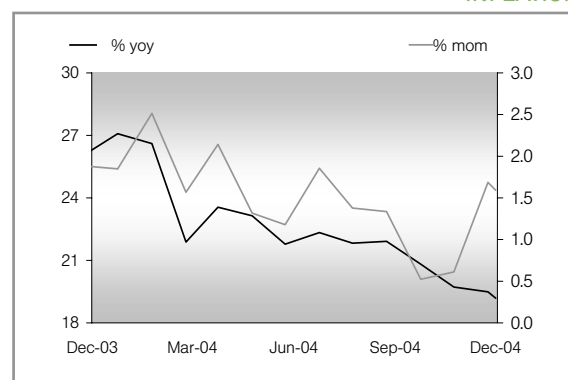
**Monetary sector:** In December, the inflation rate (at 19.2% year-on-year) reached its lowest level last recorded more than two years ago. State-controlled prices as well as the increase in foreign currency being made available by the exchange control authority CADIVI (as a result, most imports can be carried out at the official, more favorable exchange rate) are likely to have eased the pressure on prices. Supply bottlenecks in the consumer goods sector, one of the major reasons for 2004 inflation, should tend to decrease this year. We therefore expect inflation to be lower than last year (2005: average rate of 16.8%).

**Exchange rate:** For the first quarter, we forecast a devaluation of the bolívar, currently fixed at a rate of 1918 VEB/US\$. The adjustment – the budget provides for an annual average exchange rate of 2150 VEB/US\$ – will be necessary above all for fiscal policy reasons, since the devaluation will increase government revenues from crude oil exports in national currency. The move is likely to be made in the next several weeks as the government has sufficient political capital at the present stage to cope with the negative consequences of devaluation for the population.

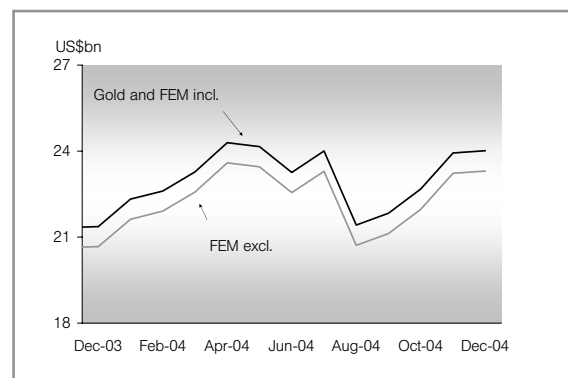
## PRODUCTION AND SALES



## INFLATION



## FOREIGN EXCHANGE RESERVES



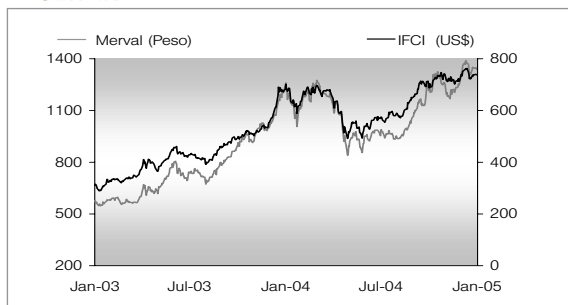
Thomas Pohl +49 40 3595 3481

## MONTHLY AND QUARTERLY FIGURES

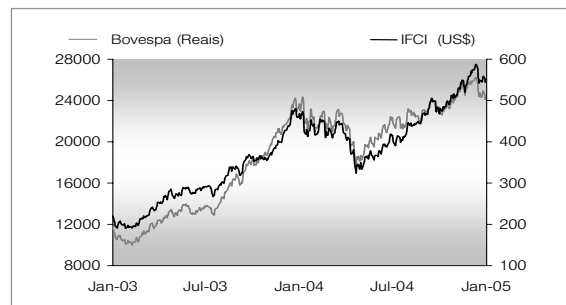
VENEZUELA: MONTHLY INDICATORS		Sep-04	Oct-04	Nov-04	Dec-04	next/latest
DOMESTIC ECONOMY						
Industrial production (private sector)	% yoy	<b>19.0</b>	<b>14.6</b>			Feb 5-10
Car sales	% yoy	145.0	120.8	<b>128.3</b>		Feb 5-10
Retail sales	% yoy	33.3	<b>26.2</b>			Feb 5-10
Wholesale sales	% yoy	18.7	<b>5.1</b>			Feb 5-10
Crude oil production	1000 bpd	2620	2580	<b>2610</b>	<b>2820</b>	16-Feb
Unemployment rate	%	14.5	13.7			27-Jan
Consumer prices	% yoy	20.8	19.7	<b>19.5</b>	<b>19.2</b>	1-Feb
Consumer prices	% mom	0.5	0.6	<b>1.7</b>	<b>1.6</b>	1-Feb
Producer prices	% yoy	27.2	27.4	<b>27.6</b>	<b>26.9</b>	1-Feb
Producer prices	% mom	1.0	1.1	<b>1.4</b>	<b>0.7</b>	1-Feb
Money supply M2 *	% yoy	49.2	48.4	<b>47.4</b>		16-Feb
Lending rate (monthly average and 01/07)*	%	16.9	17.0	<b>16.1</b>	<b>16.0</b>	<b>16.0</b>
Deposit rate (monthly average and 01/07)*	%	13.5	13.0	<b>12.9</b>	<b>14.5</b>	<b>14.1</b>
Interbank interest rate (month-average)*	%	4.0	7.5	<b>4.0</b>	<b>7.2</b>	3-Feb
Credit volume *	% yoy	103.2	123.2	<b>115.8</b>		21-Feb
Deposits *	% yoy	38.8	35.9	<b>40.9</b>		21-Feb
EXTERNAL SECTOR						
Oil price (Venezuelan exports, latest: 01/14)	US\$/barrel	34.8	43.3	<b>36.0</b>	<b>32.4</b>	<b>35.5</b>
Oil price (Venezuelan exports, latest: 01/14)	% yoy	42	74	<b>42</b>	<b>19</b>	<b>24</b>
Foreign exchange reserves (CB, latest: 01/19)****	US\$ bn	16.0	16.7	<b>18.1</b>	<b>18.4</b>	<b>18.5</b>
Forex reserves (FEM**; latest: 01/19)*	US\$ bn	0.7	0.7	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>
US\$ exchange rate (latest: 01/19)*	Bolívar	1917.6	1917.6	<b>1917.6</b>	<b>1917.6</b>	<b>1917.6</b>
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
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

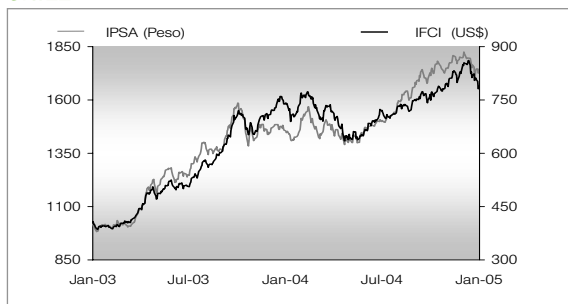
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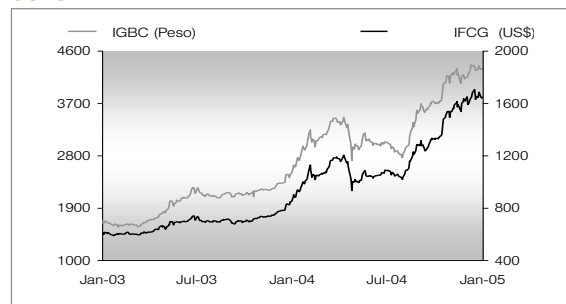
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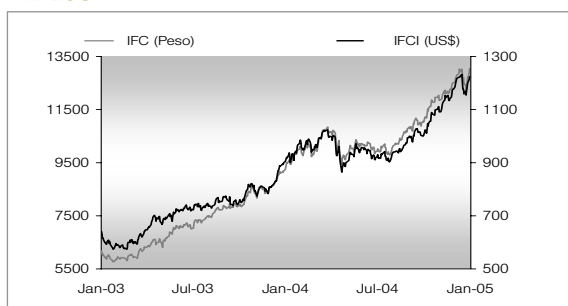
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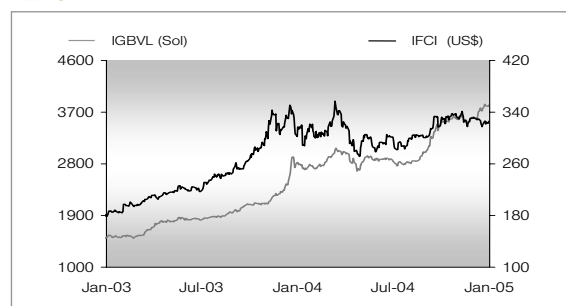
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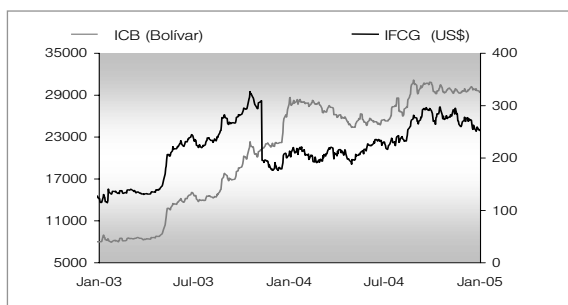
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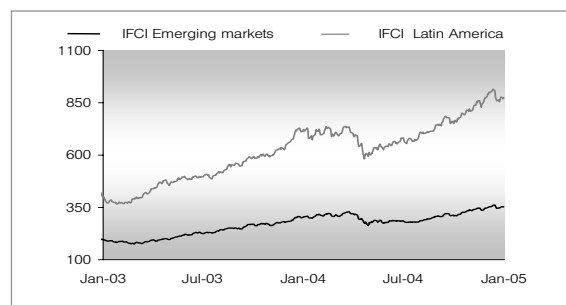
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## VENEZUELA



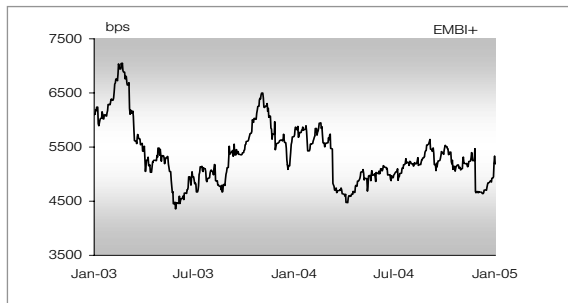
## LATIN AMERICA



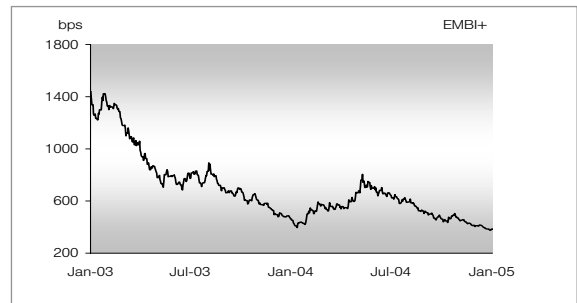


# FINANCIAL MARKETS: LATIN AMERICAN BOND YIELD SPREADS

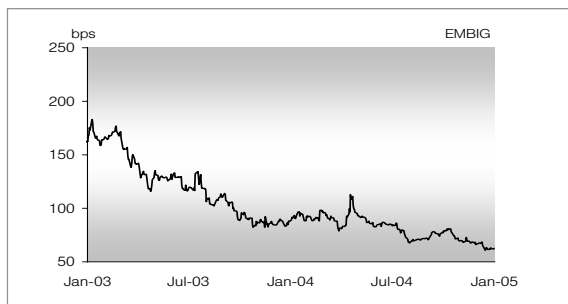
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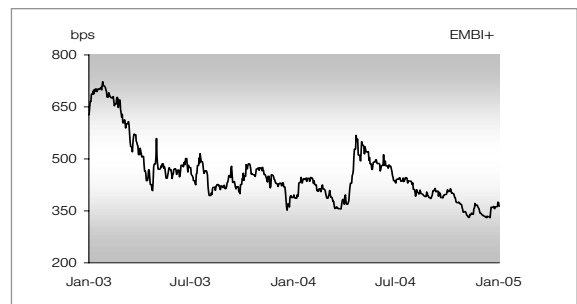
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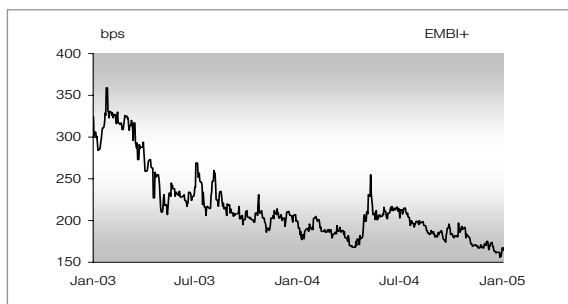
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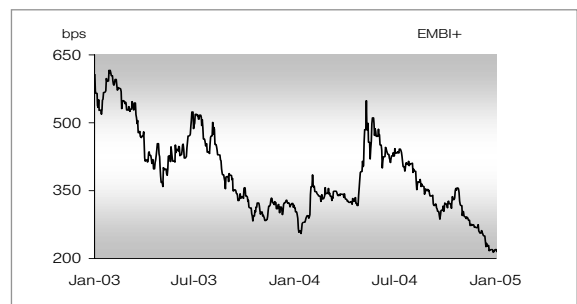
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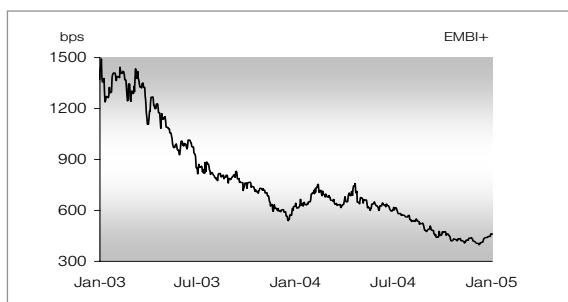
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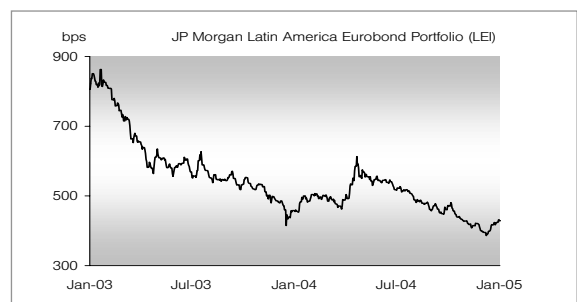
## PERU



## VENEZUELA



## LATIN AMERICA



## GLOBAL ECONOMY - FIGURES AND FORECASTS

		2003	2004e	1/19/05	2005f	2006f
REAL GDP CHANGE *						
Industrialized countries	% yoy	2.1	3.2		2.2	2.6
USA	% yoy	3.0	4.3		3.0	3.2
Euro area	% yoy	0.5	1.8		1.8	2.2
Germany	% yoy	-0.1	1.8		1.4	2.0
Japan	% yoy	2.4	2.0		1.0	1.7
INTEREST RATES, YEARLY AVERAGE*						
USA, 3m money market rate	%	1.2	1.6	<b>2.7</b>	3.0	4.0
USA, 10yr government bond yield	%	3.9	4.3	<b>4.2</b>	4.9	5.5
Euro area, 3m money market rate	%	2.3	2.1	<b>2.1</b>	2.4	2.8
Euro area, 10yr gov. bond yield	%	4.1	4.1	<b>3.5</b>	4.1	4.5
Japan, 3m money market rate	%	0.1	0.1	<b>0.1</b>	0.1	0.1
Japan, 10yr government bond yield	%	1.0	1.5	<b>1.3</b>	1.8	2.1
EXCHANGE RATES, YEARLY AVERAGE *						
US\$/ Euro	US\$	1.13	1.24	<b>1.30</b>	1.4	1.3
Yen/ US\$	YEN	116	109	<b>103</b>	102	103
Yen/ Euro	YEN	131	134	<b>134</b>	135	134
COMMODITY PRICES, YEARLY AVERAGE						
Coffee (other milds)	c/lb, NY	64	79	<b>109</b>	90	85
Soybeans	c/bushel	627	750	<b>513</b>	550	500
Copper	c/lb, LME	81	130	<b>144</b>	120	110
Crude oil (WTI)	US\$/b	31	42	<b>48</b>	40	37
Crude oil (Brent)	US\$/b	29	39	<b>45</b>	37	34
Gold	US\$/ounce	364	405	<b>423</b>	440	450

\* Source: Dresdner Bank AG

e=estimate, f=forecast

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CEO = Chief Executive Officer  
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