



# Latin American Spotlight - Update

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# LATIN AMERICA: SUSTAINABLE GROWTH?



## ANNUAL FIGURES AND FORECASTS

LATIN AMERICA (20 countries)		2001	2002	2003	2004f	2005f
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	0.6	-0.2	1.3	4.7	3.6
GDP	US\$ bn	1894	1665	1708	1887	1984
Inflation (year-end)	%	5.5	11.4	6.7	6.3	5.4
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	349	351	381	455	469
Merchandise imports	US\$ bn	352	329	339	399	429
Trade balance	US\$ bn	-3.6	22.1	41.8	56.2	40.4
Current account balance	US\$ bn	-52.5	-14.8	6.3	13.6	-5.4
Current account balance	% GDP	-2.8	-0.9	0.4	0.7	-0.3
Net direct investment ***	US\$ bn	70.5	43.6	30.5	41.5	36.8
Foreign exchange reserves, year-end	US\$ bn	162	161	195	212	223
Import cover **	months	3.9	4.2	4.9	4.9	4.8
<b>FOREIGN DEBT</b>						
Gross foreign debt	US\$ bn	744	752	787	779	781
Foreign debt	% exports**	176	181	180	152	148
Short-term foreign debt	US\$ bn	118	120	141	168	180
Foreign debt amortization	US\$ bn	98	97	125	124	85
Foreign debt service	US\$ bn	150	142	168	168	134
Foreign debt service	% exports**	36	34	38	33	25
<b>FINANCIAL MARKETS (year-end)</b>						
IFCI stock index (US\$ based, 2004: 10/21)		520	516	676	766	
Bond market yield spread (2004: 10/21)*	bps	692	823	431	471	

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

Latin America is set to close this year with an economic growth rate of 4.7%, the highest since 1997. Is this the dawn of a new era following the lost decade and the crises in recent years, or is the relatively high growth rate by Latin American standards merely an episode in the region's volatile economic history? There is no uniform, all-embracing answer for the region as a whole. Venezuela's real GDP, for instance, is no higher than in 1995, and in Argentina it had reached its current level already in 1997. In Bolivia and Paraguay, per capita income has been stagnating for years. The common denominator these countries share is that it has hardly been possible for the institutions necessary for a sound economic process to be entrenched in the population. This is substantiated by the numerous rankings published annually by private-sector institutions that regularly place these countries at the bottom end of the scale, lagging far behind most Asian countries. The currently high growth rates in Argentina and Venezuela are due to the deep recession in recent years as well as high prices of crude oil and agricultural produce. Sustained growth is not being generated in these countries.

A much better performance can be seen in Chile, and although its high growth rate is to a large extent attributable to the price hike for primary goods (especially copper), its solid institutions have nevertheless contributed to a steady GDP expansion since the late 1980s (GDP 2004: +5.3%). Due to its integration into the NAFTA region, Mexico made substantial structural advances in the 1990s, reflected in a marked rise in GDP (40% from 1990 to 2000) and high macro-economic stability. Since the year 2000, however, no further substantial structural reforms have been carried out. For next year, we project a slowdown in growth (depending primarily on the developments in the U.S.), to 3.0%. Brazil still fails to fully exploit its growth potential. A higher savings rate for the purpose of financing investments would be needed to generate a sustained growth rate of over 4%. However, remarkable progress has been made over the last 20 years, particularly in terms of the credibility of institutions and macro-economic stability. An average GDP growth rate of 3 to 4% should be achievable in the next few years.

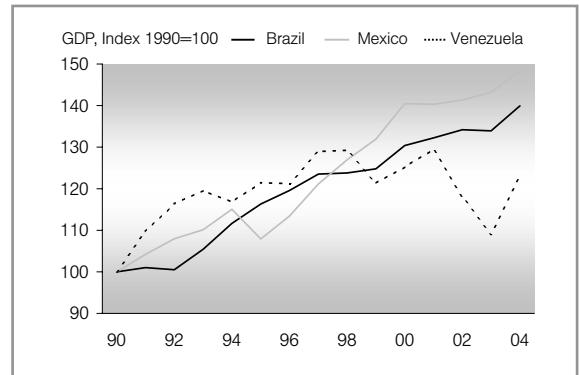
Colombia is walking a tightrope between civil war and stability. While the armed conflict between the military, guerrilla groups and paramilitary organizations has not come to an end, initial cease-fire agreements and the subjective feeling of improved security confirmed by opinion polls are nevertheless fueling hopes that the vicious circle of violence and poverty could be broken. We expect the robust level of growth to continue over the next several years (2005: 3.7%).

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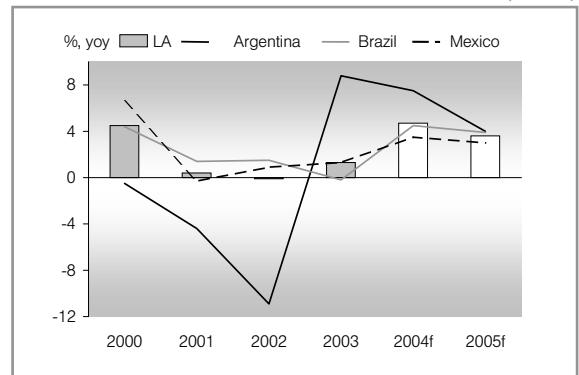
#### WEF COMPETITIVENESS INDEX

Ranking according to CGI-Index of World Economic Forum	2004	2003
Chile	22	28
Brazil	57	54
Colombia	64	63
Peru	67	57
Argentina	74	78
Venezuela	85	82
Ecuador	90	86

#### GDP INDEX



#### GDP CHANGE (REAL)



# 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	6.8	8.0	140	152	167
Bolivia	2.5	3.6	4.0	3.9	4.0	4.5	68	73	75
Brazil	-0.2	4.5	3.9	9.3	6.9	5.8	58	53	51
Chile	3.3	5.3	4.8	1.1	2.7	3.1	13	13	12
Colombia	3.7	4.0	3.7	6.5	6.0	6.0	56	52	50
Costa Rica	5.6	5.0	3.5	9.9	10.2	9.5	58	60	62
Dominican Republic	-0.4	-0.3	2.0	42.8	50.0	20.0	58	56	61
Ecuador	2.5	5.8	2.8	6.1	2.3	0.9	53	49	47
El Salvador	1.8	2.0	1.3	2.5	5.8	4.5	36	36	35
Guatemala	2.0	3.0	2.5	5.6	7.8	6.0	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	3.5	3.0	4.0	4.8	3.6	28	28	28
Nicaragua	2.3	3.5	3.0	6.5	9.0	6.5	204	115	104
Panama	4.1	4.8	3.5	1.0	3.0	2.2	71	70	70
Paraguay	2.6	2.5	2.5	15.0	5.0	4.5	49	45	43
Peru	4.0	4.2	4.0	1.8	4.0	3.9	48	46	45
Trinidad & Tobago	4.1	5.2	5.5	3.5	4.5	4.5	31	28	25
Uruguay	2.5	10.0	4.0	10.4	11.0	7.0	114	108	91
Venezuela	-7.6	12.8	4.5	27.1	19.0	16.4	45	35	34
Latin America (20 countries)	1.3	4.7	3.6	6.7	6.3	5.4			
EXTERNAL SECTOR	Current account balance in % of GDP			Import cover in months*			Gross foreign debt in % of exports*		
FOREIGN DEBT	2003	2004f	2005f	2003	2004f	2005f	2003	2004f	2005f
Argentina	6.2	2.2	0.8	5.8	6.0	6.0	412	366	361
Bolivia	0.2	0.5	0.2	3.7	3.1	2.9	259	242	244
Brazil	0.8	1.6	0.8	7.1	5.9	6.4	271	208	193
Chile	-0.8	2.0	-0.4	6.9	5.6	5.3	164	123	126
Colombia	-1.8	-2.1	-2.0	6.4	6.2	5.9	249	242	240
Costa Rica	-5.8	-3.8	-4.9	2.2	2.1	2.0	69	63	63
Dominican Republic	5.9	5.5	3.9	0.3	0.4	0.7	89	83	84
Ecuador	-1.7	0.7	0.4	1.0	1.3	0.9	233	198	191
El Salvador	-5.0	-5.1	-4.3	3.4	2.9	2.6	156	164	163
Guatemala	-4.1	-4.7	-4.5	4.7	4.6	4.6	135	141	141
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	-1.5	-1.4	-2.0	3.5	3.4	3.1	90	79	76
Nicaragua	-18.9	-19.6	-19.3	2.3	2.6	3.0	497	230	213
Panama	-3.2	-2.4	-2.3	1.3	1.4	1.5	97	96	97
Paraguay	8.8	6.2	2.9	2.8	2.8	3.2	87	85	85
Peru	-1.8	-1.5	-1.1	9.3	8.6	8.4	279	225	220
Trinidad & Tobago	13.5	16.2	13.6	6.4	6.5	7.1	90	75	75
Uruguay	0.5	1.5	1.5	7.6	7.1	7.5	365	331	335
Venezuela	11.2	13.2	7.2	10.9	8.8	8.6	125	83	92
Latin America (20 countries)	0.4	0.7	-0.3	4.9	4.9	4.8	180	152	148

\* goods and services

f=forecast



## ARGENTINA

Roughly three years after the country defaulted on its debt, the Argentine government plans to submit a binding swap offer to bond creditors in November. In light of the high net present value losses of approx. 75% that the creditors would have to contend with, it remains very doubtful whether a sufficiently large number will accept the proposal in its present form. Partly on account of the currently relaxed budget situation, creditors are calling for improvements, e.g. in the form of a cash component. Due to continued strong economic growth, there is an abundant flow of tax revenues, indicating that the budget surplus (before interest) is likely to reach 4.5% of GDP in the current year. Against the backdrop of the recent surprisingly positive economic indicators, we have raised our forecast for GDP growth in 2004 from 6.5% to 7.5%.

### ANNUAL FIGURES AND FORECASTS

ARGENTINA		2001	2002	2003	2004f	2005f
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	-4.4	-10.9	8.8	7.5	4.0
GDP	US\$ bn	269	99	127	145	157
Inflation (year-end)	%	-1.5	41.0	3.7	6.8	8.0
Inflation (average)	%	-1.1	25.9	13.4	4.5	7.7
<b>PUBLIC SECTOR</b>						
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	3.7	3.0
Public debt*	% GDP	54	139	140	152	167
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	10.4
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	26.7	25.7	29.6	33.6	35.0
Merchandise imports	US\$ bn	19.1	8.5	13.0	21.9	25.2
Trade balance	US\$ bn	7.6	17.2	16.5	11.7	9.8
Current account balance****	US\$ bn	-4.0	9.6	7.9	3.3	1.3
Current account balance****	% GDP	-1.5	9.7	6.2	2.2	0.8
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	19.0	21.0
Import cover **	months	4.3	5.6	5.8	6.0	6.0
US\$ exchange rate, year-end	Pesos	1.00	3.37	2.93	3.00	3.15
US\$ exchange rate, average	Pesos	1.00	3.15	2.95	2.95	3.06
<b>FOREIGN DEBT *</b>						
Gross foreign debt	US\$ bn	140	136	147	152	155
Foreign debt	% exports**	385	426	412	366	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	93	112	78	61
<b>FINANCIAL MARKETS (year-end)</b>						
Interbank interest rate, overnight	%	340.0	7.5	2.0	3.0	5.0
Merval stock index (peso based, 2004: 10/21)		209	525	922	1235	
IFCI stock index (US\$ based, 2004: 10/21)		379	265	502	704	
Bond market yield spread (2004: 10/21)***	bps	4404	6229	6463	5535	

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

f=forecast

**Public finances:** Approval of the U.S. supervisory agency SEC for the restructuring of defaulted bonds is expected shortly. Since the debt rescheduling proposal envisages high losses for bond creditors, it remains highly doubtful whether it will be accepted. On the domestic front, however, the Argentine government managed to record an (expected) success: the pension funds, holding approx. 18% of debt instruments to be rescheduled, approved the swap of non-performing bonds. In return, they received preferential treatment not directly linked to the bond swap.

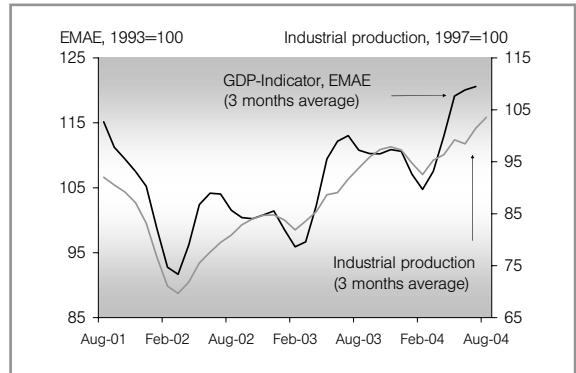
**Economic activity:** Following the weak economic growth in the second quarter (GDP: 0.5%, quarter-on-quarter, seasonally adjusted), the anticipated recovery in industrial production and GDP (according to the monthly economic indicator EMAE) turned out stronger than we expected. We have therefore raised our economic growth forecast for 2004 from 6.5 % to 7.5% and for 2005 from 3.5% to 4%.

**Monetary sector:** After central bank president Alfonso Prat-Gay was (surprisingly) not named for a second term, Martín Redrado succeeded him in mid-October. This change should increase the government's influence on the central bank even further. However, we do not expect a substantial acceleration of the current rise in inflation. We continue to assume that the inflation rate of currently 5.8% (year-on-year, August) will rise to 7% by end-2004 and remain largely unchanged next year.

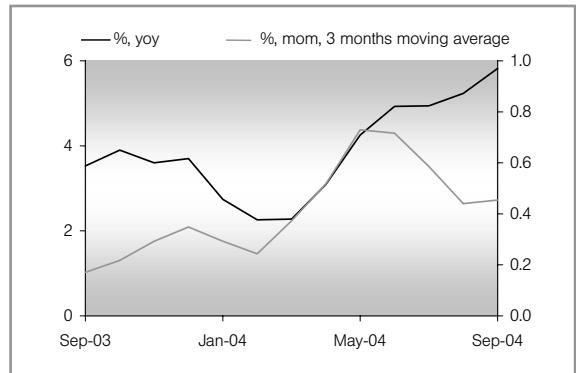
**Exchange rate:** The central bank seems to have been trying to maintain the exchange rate of the peso against the Brazilian real at a ratio of 1:1 by means of US\$ purchases for some time now in order to prevent competitive disadvantages vis-à-vis the country's key trading partner. As the real is making gains on the US dollar, since the beginning of August Argentina's central bank has again allowed the peso to appreciate slightly against the US dollar. We expect the peso (like the real) to stabilize at its current level for the time being and to weaken slightly by the end of the year.

**External sector:** The rise in exports turned out surprisingly high in August at 24% (year-on-year). For the first time in the current year, the increase was not only attributable to higher prices (August: +7%, year-on-year) but also to rising export volumes (+16%, year-on-year). Since it remains to be seen whether this positive trend is set to continue over the next few months, we have only raised our forecast for export growth in 2004 to 14% for the time being. As in the previous months, imports showed a substantial 78% increase (as expected). We forecast a trade surplus decline (imports fob) in the current year to US\$ 11.7 billion (2003: US\$ 16.5 billion).

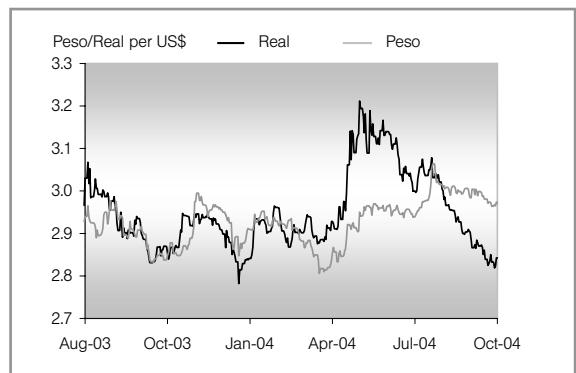
### INDUSTRIAL PRODUCTION AND EMAE



### INFLATION



### EXCHANGE RATE



## MONTHLY AND QUARTERLY FIGURES

ARGENTINA: MONTHLY INDICATORS		Jun-04	Jul-04	Aug-04	Sep-04	next/latest
<b>DOMESTIC ECONOMY</b>						
Economic activity indicator, EMA	% yoy	8.5	6.0	<b>8.8</b>		18-Nov
Economic activity indicator, EMA (season. adjust.)	% mom	0.9	0.5	<b>0.9</b>		18-Nov
Industrial production	% yoy	11.5	9.8	<b>10.6</b>	<b>10.4</b>	17-Nov
Industrial production (seasonally adjusted)	% mom	0.8	-0.2	<b>1.1</b>	<b>0.7</b>	17-Nov
Construction	% yoy	29.0	17.6	<b>16.4</b>		27-Oct
Construction (seasonally adjusted)	% mom	-1.1	0.2	<b>-3.9</b>		27-Oct
Consumer confidence (UTDT)	% mom	0.7	-3.8	-5.7	<b>1.4</b>	<b>4.5</b>
Supermarket sales (real, seasonally adjusted)	% yoy	6.8	7.3	<b>8.3</b>		28-Oct
Supermarket sales (real, seasonally adjusted)	% mom	-2.1	0.9	<b>1.7</b>		28-Oct
Tax revenues	% yoy	46.1	36.0	39.9	<b>30.8</b>	1-Nov
Budget balance	Pesos mn	1513	1453	<b>865</b>		29-Oct
Primary balance	Pesos mn	1799	1653	<b>1937</b>		29-Oct
Consumer prices	% yoy	4.9	4.9	5.2	<b>5.8</b>	3-Nov
Consumer prices	% mom	0.6	0.5	0.3	<b>0.6</b>	3-Nov
Wholesale prices	% yoy	0.2	1.0	2.5	<b>0.3</b>	3-Nov
Overnight peso rate (month-end; latest: 10/20)	%	2.6	2.5	2.6	<b>2.6</b>	<b>2.5</b>
Peso deposits (month-end, latest: 10/19)*	Peso bn	95.3	96.5	97.8	<b>99.3</b>	<b>99.5</b>
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ mn	2907	2992	2909		28-Oct
Merchandise exports	% yoy	1	6	24		28-Oct
Merchandise imports, cif	US\$ mn	2025	1957	2020		28-Oct
Merchandise imports	% yoy	77	55	78		28-Oct
Trade balance	US\$ mn	882	1035	889		28-Oct
Foreign exchange reserves (latest: 10/20)	US\$ bn	17.4	18.1	18.1	<b>18.2</b>	<b>18.4</b>
US\$ exchange rate (latest: 10/25)	Pesos	2.96	2.98	3.00	<b>2.98</b>	<b>2.97</b>
ARGENTINA: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next /latest
<b>DOMESTIC ECONOMY</b>						
GDP (seasonally adjusted)	% qoq	3.4	3.0	1.5	<b>0.5</b>	16-Dec
GDP	% yoy	10.2	11.7	11.2	<b>6.9</b>	16-Dec
Private consumption	% yoy	10.4	11.9	11.7	<b>8.1</b>	16-Dec
Public consumption	% yoy	1.8	0.3	1.4	<b>-0.8</b>	16-Dec
Private and public investment	% yoy	44.9	48.9	51.0	<b>38.3</b>	16-Dec
Domestic demand	% yoy	13.4	15.4	15.3	<b>10.7</b>	16-Dec
Export (goods and services)	% yoy	5.4	5.5	7.7	<b>0.4</b>	16-Dec
Import (goods and services)	% yoy	46.2	51.7	57.0	<b>42.4</b>	16-Dec
Budget balance, central government	Pesos mn	382	-1	3982	6667	29-Oct
Public debt***	US\$ bn	169.6	178.8			
<b>EXTERNAL SECTOR</b>						
Current account balance	US\$ bn	1.7	1.0	0.3	<b>1.7</b>	21-Dec
Net foreign direct investment	US\$ bn	-0.1	0.5	0.5	<b>-0.9</b>	21-Dec
Net portfolio investment	US\$ bn	-0.7	-2.6	-3.3	<b>-0.9</b>	21-Dec
Capital account**	US\$ bn	-0.5	-0.4	0.6	<b>0.9</b>	21-Dec
Change in foreign reserves #	US\$ bn	-1.2	-0.6	-0.9	<b>-2.6</b>	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

# BRAZIL

The economy is in full swing, employment is rising, exports remain at record levels and foreign debt is declining. All in all, we believe this positive picture is quite likely to persist, by and large, over the next several months. A few dark clouds on the horizon should not be overlooked, however. The high oil price might have an adverse impact on global trade and thus on Brazilian exports; in addition, it is fueling inflationary pressure in Brazil, already inducing the central bank to raise interest rates. Simultaneously, prices of other primary goods such as soya seem to have passed their peak, which might soon be reflected in export figures. And finally, foreign currency reserves have declined – on account of the substantial volume of net repayments of foreign debt.



## ANNUAL FIGURES AND FORECASTS

BRAZIL		2001	2002	2003	2004f	2005f
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	1.4	1.5	-0.2	4.5	3.9
GDP	US\$ bn	505	452	492	568	611
Inflation (year-end)	%	7.7	12.5	9.3	6.9	5.8
Inflation (average)	%	6.8	8.5	14.7	6.5	6.0
<b>PUBLIC SECTOR</b>						
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	-2.7	-2.5
Public debt (net)	% GDP	53.3	56.5	58.2	53.4	51.2
Amortization external debt	US\$ bn	n.a.	8.6	22.1	14.1	16.1
Amortization domestic federal debt*	US\$ bn	84	53	72	67	59
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	58.2	60.4	73.1	92.8	96.0
Merchandise imports	US\$ bn	55.6	47.2	48.3	60.8	66.3
Trade balance	US\$ bn	2.6	13.2	24.8	32.0	29.8
Current account balance	US\$ bn	-23.2	-7.7	4.1	8.9	4.7
Current account balance	% GDP	-4.6	-1.7	0.8	1.6	0.8
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	6.4
US\$ exchange rate, year-end	Reais	2.32	3.53	2.89	2.90	3.15
US\$ exchange rate, average	Reais	2.33	2.90	3.08	2.97	3.04
<b>FOREIGN DEBT</b>						
Gross foreign debt	US\$ bn	226	228	235	225	216
Foreign debt	% exports**	319	311	271	208	193
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	61	44
<b>FINANCIAL MARKETS (year-end)</b>						
Interbank interest rate, overnight	%	19.0	24.9	16.3	16.8	15.3
Bovespa stock index (real based, 2004: 10/21)		13577	11268	22236	23058	
IFCI stock index (US\$ based, 2004: 10/21)		288	214	439	481	
Bond market yield spread (2004: 10/21)***	bp	870	1439	463	485	

\* incl. short term debt \*\* goods and services \*\*\* EMBI+

f=forecast

**Domestic policy:** The first round of nation-wide municipal elections seems to have made it clear that São Paulo will be governed by the PSDB in future and no longer by the PT. On the other hand, the PT succeeded in boosting its share of the votes from 14% to 17% (more than any other party) and mayors in about 330 cities and municipalities will come from its ranks, about twice as many as before. Following the run-off election on October 31, we expect the government to resume its reform course and focus on tax legislation in particular.

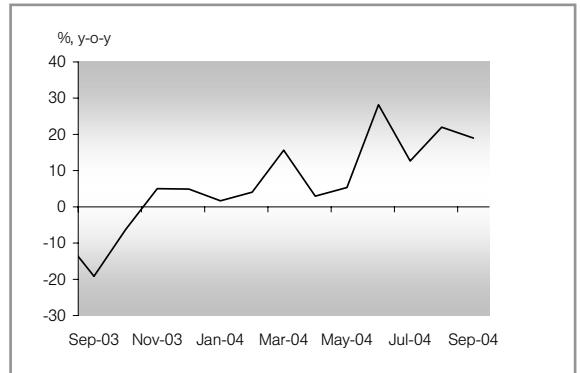
**Fiscal policy:** The solid level of economic activity is being reflected in rising tax revenues (January – September: +12%, year-on-year, in real terms). The finance ministry responded to this positive revenue trend by raising this year's primary surplus target from 4.25% to 4.5% of GDP. Another positive aspect is that public debt is declining faster than expected (from 58.2% of GDP in December 2003 to 54% of GDP in August of this year). This prompted the international rating agencies to upgrade their Brazil ratings.

**Economic activity:** The third quarter is likely to show continued economic growth. Production of the manufacturing industry has probably risen by about 2% quarter-on-quarter (seasonally adjusted) (+8% year-on-year). Retail sales figures (forecast for the third quarter: +10% year-on-year) indicate a continued recovery in the services sector. Overall, it should be noted that domestic demand is increasingly replacing exports as the key driving force.

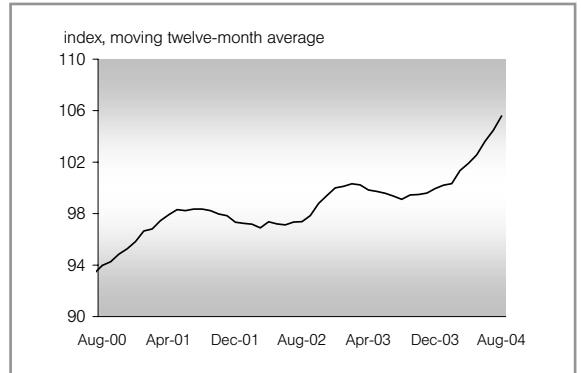
**Monetary policy:** The central bank responded to increased inflationary expectations and the unforeseen acceleration in inflation by tightening its monetary policy reins. The overnight interest rate currently stands at 16.75% and is likely to rise by at least another 25 basis points this year. For the forthcoming year, the inflationary target has been raised from 4.5% to 5.1%, with the ceiling of the target range remaining unchanged at 7%, however. The appreciation of the real should help the country to reach the inflationary target. Accordingly, we have also revised our exchange rate forecast (which had been based, among other factors, on the assumption that the central bank would intervene in favor of a weaker real) from 3.10 to 2.95 reais/US\$.

**External sector:** Foreign debt will see a marked decline this year since private enterprises – thanks to their good financial situation – will only renew half of their loans falling due. The government, in turn, is repaying IMF loans without drawing new tranches. Therefore, at the end of the year, foreign debt will fall to approx. 200% of visible and invisible exports again for the first time in more than three decades. On the other hand the decline in foreign currency reserves will tend to make the country more susceptible to external shocks. All in all, however, we consider the development outlined above a structural improvement for the country.

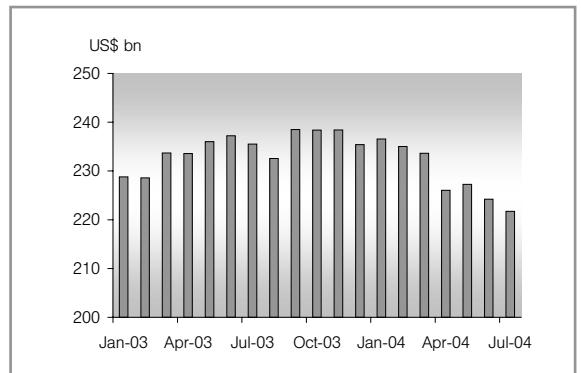
### TAX REVENUES



### INDUSTRIAL PRODUCTION



### EXTERNAL DEBT



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## MONTHLY AND QUARTERLY FIGURES

BRAZIL: MONTHLY INDICATORS		Jun-04	Jul-04	Aug-04	Sep-04	next/latest
<b>DOMESTIC ECONOMY</b>						
Public sector primary balance (ytd)	% of GDP	5.8	5.6	<b>5.8</b>		29-Oct
Public sector balance (ytd)	% of GDP	-2.0	-2.1	<b>-1.8</b>		29-Oct
Central government tax revenues	% yoy	28.2	12.7	22.4	<b>19.0</b>	15-Nov
Capacity utilization (CNI)	%	83.3	83.1	<b>83.3</b>		27-Oct
Industrial production (IBGE)	% yoy	13.3	10.1	<b>13.1</b>		10-Nov
Retail sales (IBGE)	% yoy	12.8	12.0	<b>7.5</b>		17-Nov
Unemployment rate (IBGE)	%	11.7	11.2	11.4	<b>10.9</b>	26-Nov
Consumer prices IPCA	% yoy	6.1	6.8	7.2	<b>6.7</b>	11-Nov
Consumer prices IPCA	% mom	0.71	0.90	0.70	<b>0.33</b>	11-Nov
Interbank interest rate (latest: 10/21)*	%	15.8	15.8	16.0	<b>16.25</b>	<b>16.75</b>
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ mn	9327	8992	9056	<b>8923</b>	1-Nov
Merchandise exports	% yoy	58.8	47.3	41.4	<b>22.6</b>	1-Nov
Merchandise imports	US\$ mn	5517	5512	5623	<b>5751</b>	1-Nov
Merchandise imports	% yoy	56.7	36.1	50.7	<b>24.6</b>	1-Nov
Trade balance	US\$ mn	3810	3480	3433	<b>3172</b>	1-Nov
Current account balance	US\$ mn	2058	1814	1761	<b>1741</b>	24-Nov
Net foreign direct investment	US\$ mn	737	1600	6089	<b>646</b>	24-Nov
Foreign exchange reserves (latest:10/21)*	US\$ bn	49.8	49.7	49.6	<b>49.3</b>	<b>49.0</b>
US\$ exchange rate (latest: 10/21)*	Reais	3.11	3.03	2.92	<b>2.86</b>	<b>2.86</b>
BRAZIL: QUARTERLY INDICATORS		Q4 03	Q1 04	Q2 04	Q3 04	next/latest
<b>DOMESTIC ECONOMY</b>						
GDP	% yoy	-0.1	2.7	5.7		30-Nov
GDP (s.a.)	% qoq	1.4	1.7	1.5		30-Nov
Private consumption	% yoy	-0.6	1.0	5.0		30-Nov
Public consumption	% yoy	0.7	1.3	1.3		30-Nov
Private and public investment	% yoy	-5.0	2.0	11.6		30-Nov
Exports of goods and services	% yoy	10.1	19.5	16.5		30-Nov
Imports of goods and services	% yoy	10.0	11.2	14.1		30-Nov
Agriculture	% yoy	4.8	6.4	5.0		30-Nov
Industry	% yoy	-1.7	2.9	6.6		30-Nov
Services	% yoy	0.3	1.2	4.4		30-Nov
Public debt (net)	% of GDP	58.2	57.4	56.0		29-Oct
<b>EXTERNAL SECTOR</b>						
Current account balance	US\$ bn	0.3	1.7	2.8	<b>5.3</b>	20-Jan
Net foreign direct investment	US\$ bn	3.7	2.7	1.3	<b>8.3</b>	20-Jan
Portfolio investment	US\$ bn	1.7	2.4	-6.1	<b>-0.5</b>	20-Jan
Capital account **	US\$ bn	-2.1	0.9	-4.1	<b>-6.1</b>	20-Jan
Change in foreign exchange reserves #	US\$ bn	1.8	-2.6	1.3	<b>0.8</b>	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

The momentum of the economic upturn appears to be exceeding past expectations. One sign is the sharp rise of the economic indicator IMACEC in August. Considering that the upturn is taking place across the board, we have raised our GDP growth forecast for 2004 to 5.3%; we also expect a slightly higher level of growth next year. Coupled with higher oil prices, the economic upturn should also show up in the form of higher inflation rates in the forthcoming months. We therefore project monetary policy to tighten after the central bank council left key lending rates unchanged in October. Chile's external trade sector is also performing very well; with export growth of about 50%, the trade surplus saw a three-fold year-on-year increase in the first nine months of this year.



## ANNUAL FIGURES AND FORECASTS

CHILE		2001	2002	2003	2004f	2005f
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	3.4	2.2	3.3	5.3	4.8
GDP	US\$ bn	68.3	67.3	72.2	89.0	93.6
Inflation (year-end)	%	2.6	2.8	1.1	2.7	3.1
Inflation (average)	%	3.6	2.5	2.8	1.1	3.0
<b>PUBLIC SECTOR</b>						
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	13.3	12.5
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	-0.2
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	18.3	18.2	21.0	29.7	30.2
Merchandise imports	US\$ bn	16.4	15.9	18.0	21.7	23.9
Trade balance	US\$ bn	1.8	2.2	3.0	7.9	6.3
Current account balance	US\$ bn	-1.1	-0.9	-0.6	1.8	-0.4
Current account balance	% GDP	-1.6	-1.3	-0.8	2.0	-0.4
Net foreign direct investment	US\$ bn	3.0	1.6	1.6	2.7	1.0
Foreign exchange reserves, year-end	US\$ bn	14.4	15.4	15.9	16.0	16.5
Import cover **	months	6.8	7.5	6.9	5.6	5.3
US\$ exchange rate, year-end	Pesos	661	720	593	620	640
US\$ exchange rate, average	Pesos	635	689	691	615	632
<b>FOREIGN DEBT</b>						
Gross foreign debt	US\$ bn	38.5	40.7	43.4	44.0	46.0
Foreign debt	% exports**	161	174	164	123	126
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	3.9	6.4	5.2
Foreign debt service	US\$ bn	5.3	6.0	5.3	7.7	6.4
Foreign debt service	% exports**	22	26	20	22	18
<b>FINANCIAL MARKETS (year-end)</b>						
Base rate, 90 days (PDBC)	%	6.2	2.9	2.3	2.8	3.8
IPSA stock index (peso based, 2004: 10/21)		1183	1000	1405	1739	
IFCI stock index (US\$ based, 2004: 10/21)		479	406	654	770	
Bond market yield spread (2004: 10/21)*	bp	175	176	90	78	

\* EMBIG

\*\*goods and services

f=forecast

**Public finances:** Strong growth and high copper prices caused central government revenues to rise by more than 20% year-on-year in the first eight months of 2004. With expenditure rising moderately (+4.4% year-on-year), the budget currently reflects a surplus of 880 billion pesos (1.6% of GDP for the year as a whole). We expect the budget surplus for the year 2004 to amount to 1.8% of GDP. The central government's budget bill provides for a surplus of 1.2% of GDP for the forthcoming year. Since budget assumptions have been very conservative, however, the actual result will probably be closer to 1.5% of GDP.

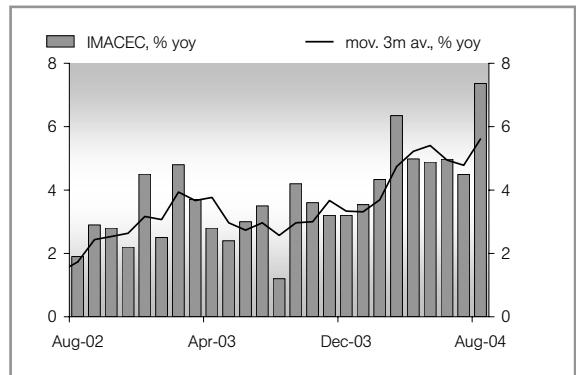
**Economic activity:** With a year-on-year increase of 7.4%, the economic indicator IMACEC exceeded all expectations in August; this translates into a rise of 5.2% year-on-year in the first eight months of the year. The economic upturn is taking place across the board as shown by high growth rates in industry and mining, the recovery of the construction sector and the solid import trend. Accordingly, we have raised our growth forecast for the current year to 5.3%, and next year's GDP, at 4.8%, is also likely to turn out slightly higher than our past projections.

**Monetary sector:** Chile imports almost its entire domestic oil requirements, which means that any changes in international oil prices will likewise impact relatively soon on domestic prices, e.g. fuels. Furthermore, the tariffs of various public services such as public transport are coupled to the oil price, meaning that the oil boom is likely to result in higher inflationary pressure. The surprisingly low inflation rate in September (0.1% month-on-month, 1.5% year-on-year), which is partly attributable to the peso's appreciation against the US dollar, is unlikely to change this general projection. In view of the high level of economic growth, the inflation rate is likely to return to normal in the next several months after still being in negative territory at the beginning of the year. We therefore expect the central bank to raise its key lending rate to 2.5% by year-end (currently: 2.0 %).

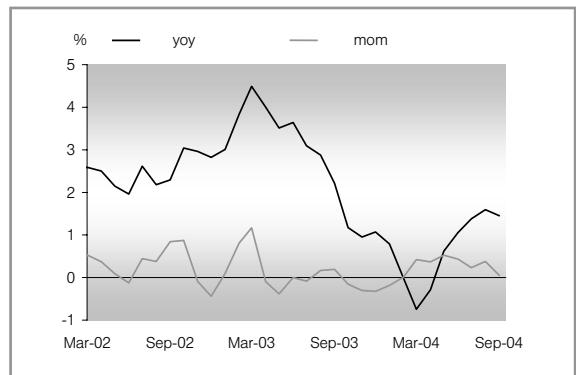
**External sector:** High prices of key export commodities – above all the copper price, which should rise 60% above last year's average for the year as a whole despite a major correction in mid-October – and robust foreign demand have caused exports to rise by 50% year-on-year in the first nine months of this year. With dynamic growth in imports (January – September: +23.6%) the trade surplus has reached US\$ 6.8 billion so far in 2004, a three-fold year-on-year increase. In August, the capital account saw a slight surplus for the second month in succession due to a sharp increase in net direct investments and a moderate decrease in the outflow of portfolio investments compared to the preceding months. We expect the capital account to more or less balance in the forthcoming months, although a current account deficit in the fourth quarter due to seasonal factors should result in a slight depreciation of the peso.

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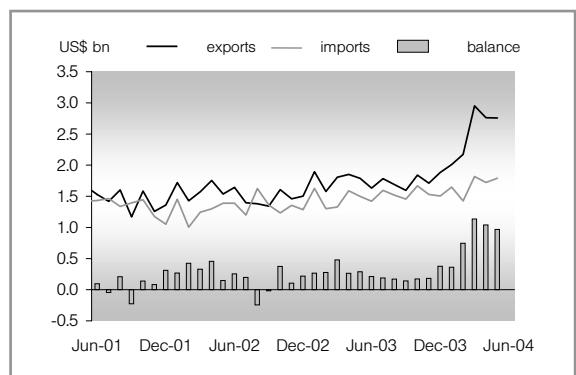
### ECONOMIC ACTIVITY



### INFLATION



### EXTERNAL TRADE



## MONTHLY AND QUARTERLY FIGURES

CHILE: MONTHLY INDICATORS		Jun-04	Jul-04	Aug-04	Sep-04	next/latest
<b>DOMESTIC ECONOMY</b>						
IMACEC	% yoy	4.9	4.5	<b>7.4</b>		5-Nov
Industrial production (INE)	% yoy	7.8	7.6	<b>9.0</b>		27-Oct
Mining production	% yoy	4.7	9.5	<b>16.5</b>		27-Oct
Retail sales	% yoy	1.3	7.6	<b>0.3</b>	<b>3.9</b>	18-Nov
Unemployment rate	%	9.6	9.7	<b>9.9</b>		27-Oct
Employment	mn	5.55	5.51	<b>5.53</b>		27-Oct
Labor cost index	% yoy	0.4	0.2	<b>0.2</b>		4-Nov
Consumer prices	% yoy	0.4	0.2	<b>0.4</b>	<b>0.1</b>	4-Nov
Consumer prices	% mom	1.1	1.4	<b>1.6</b>	<b>1.5</b>	4-Nov
Wholesale prices	% yoy	5.2	4.8	<b>5.0</b>	<b>4.8</b>	4-Nov
Wholesale prices	% mom	1.8	0.3	<b>1.4</b>	<b>-1.2</b>	4-Nov
Money supply M1	% yoy	19.4	23.3	<b>25.3</b>	<b>24.7</b>	7-Oct
Base rate, 90d PDBC (month-avrg., latest: 10/21)	%	1.5	1.7	<b>1.7</b>	<b>2.3</b>	<b>2.43</b>
Loan rate (average)	%	10.9	11.0	<b>11.4</b>	<b>11.0</b>	8-Nov
Deposit rate (average)	%	2.3	2.3	<b>2.2</b>	<b>2.4</b>	8-Nov
Lending to private sector	% yoy	2.3	2.9	<b>4.3</b>		25-Nov
Total financial savings (M7, seasonally adjusted)	% mom	0.0	0.2	<b>1.4</b>	<b>1.9</b>	8-Nov
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ mn	2303	2713	<b>2783</b>	<b>2454</b>	8-Nov
Merchandise exports	% yoy	41.1	52.1	<b>64.9</b>	<b>53.8</b>	8-Nov
Merchandise imports	US\$ mn	1720	2014	<b>1995</b>	<b>2045</b>	8-Nov
Merchandise imports	% yoy	21.0	26.3	<b>30.6</b>	<b>44.0</b>	8-Nov
Trade balance	US\$ mn	583	699	<b>788</b>	<b>409</b>	8-Nov
Net foreign direct investment	US\$ mn	-263.5	1856.0	<b>331.8</b>		8-Nov
Portfolio investment (net)	US\$ mn	-688.7	-500.4	<b>-433.9</b>		8-Nov
Copper price (monthly average, latest: 10/21)	US\$ c/lb	121.9	127.4	<b>127.6</b>	<b>131.0</b>	<b>129.7</b>
Foreign exchange reserves*	US\$ bn	15.9	15.9	<b>15.8</b>	<b>15.8</b>	8-Nov
US\$ exchange rate (latest: 10/21)	CLP	636.3	642.1	<b>624.4</b>	<b>610.9</b>	<b>609.8</b>
CHILE: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next/latest
<b>DOMESTIC ECONOMY</b>						
GDP	% yoy	3.1	3.3	4.8	<b>5.1</b>	23-Nov
GDP seasonally adjusted	% qoq	1.1	0.9	1.6	<b>1.3</b>	23-Nov
Total consumption + change in stocks	% yoy	0.1	5.6	5.1	<b>4.9</b>	23-Nov
Private and public investment	% yoy	2.2	5.5	5.7	<b>8.0</b>	23-Nov
Domestic demand	% yoy	0.6	5.5	5.3	<b>5.7</b>	23-Nov
Exports (goods and services)	% yoy	13.9	6.3	9.9	<b>9.0</b>	23-Nov
Imports (goods and services)	% yoy	5.0	13.9	12.0	<b>11.0</b>	23-Nov
Budget balance, central government	Pesos bn	-277.0	15.9	236.6	<b>454.3</b>	15-Nov
<b>EXTERNAL SECTOR</b>						
Current account balance	US\$ bn	-0.38	-0.32	0.77	<b>1.14</b>	23-Nov
Net foreign direct investment	US\$ bn	0.33	0.24	1.41	<b>0.16</b>	23-Nov
Portfolio investment	US\$ bn	-1.51	-1.24	-0.59	<b>-1.77</b>	23-Nov
Capital account**	US\$ bn	0.43	0.20	-0.70	<b>-1.11</b>	23-Nov
Change in foreign exchange reserves	US\$ bn	-0.06	0.11	-0.07	<b>-0.02</b>	23-Nov
Gross foreign debt	US\$ bn	42.4	43.4	43.5	<b>43.6</b>	23-Nov
Short-term foreign debt	US\$ bn	6.60	7.59	7.33	<b>8.21</b>	23-Nov

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

# COLOMBIA

While the decision regarding president Uribe's re-election (which calls for a constitutional amendment) might already be made in November, the political struggle for tax and pension reforms is likely to last well into next year. As the level of public debt remains high, such reforms are urgently required even though the currently good economic situation contributed to a favorable public finance trend in the first half of the year. The appreciation of the peso against the US dollar observed in the course of this year, which also reflects a favorable outlook for the economy, has not continued in the last several weeks. With a diminishing interest rates differential between Colombia and the U.S., we do not expect the peso to appreciate any further for the time being.



## ANNUAL FIGURES AND FORECASTS

COLOMBIA		2001	2002	2003	2004f	2005f
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	1.4	1.6	3.7	4.0	3.7
GDP	US\$ bn	81.7	81.1	78.7	94.1	100.1
Inflation (year-end)	%	7.7	7.0	6.5	6.0	6.0
Inflation (average)	%	8.0	6.3	7.1	6.0	6.3
<b>PUBLIC SECTOR</b>						
Budget balance, central government	% GDP	-4.6	-6.1	-5.4	-4.8	-4.5
Budget balance, public sector	% GDP	-3.4	-3.6	-2.8	-2.8	-2.8
Public debt	% GDP	50	59	56	52	50
Amortization	US\$ bn	6.1	6.7	6.2	5.3	4.2
Gross financing needs	US\$ bn	8.9	9.6	8.4	7.9	7.0
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	12.8	12.3	13.5	15.6	17.1
Merchandise imports	US\$ bn	12.3	12.1	13.3	15.4	16.7
Trade balance	US\$ bn	0.6	0.2	0.3	0.2	0.4
Current account balance	US\$ bn	-1.2	-1.5	-1.4	-2.0	-2.0
Current account balance	% GDP	-1.5	-1.8	-1.8	-2.1	-2.0
Net direct investment	US\$ bn	2.5	1.2	0.8	2.0	1.5
Foreign exchange reserves, year-end	US\$ bn	10.2	10.7	10.9	12.0	12.2
Import cover	months*	6.3	6.8	6.4	6.2	5.9
US\$ exchange rate, year-end	Pesos	2291	2867	2780	2640	2900
US\$ exchange rate, average	Pesos	2300	2507	2878	2662	2833
<b>FOREIGN DEBT</b>						
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
<b>FINANCIAL MARKETS (year-end)</b>						
Deposit rate (DTF, 90 days)	%	11.4	8.0	7.9	8.5	9.5
IBB stock index (peso based, 2004: 10/21)		1071*	1474	2334	3714	
IFCG stock index (US\$ based, 2004: 10/21)		561	615	783	1334	
Bond market yield spread (2004: 10/21)	bp**	516	736	431	405	

\*goods and services

\*\* EMBI+

f=forecast

**Domestic policy:** During the second-last debate on the possibility of paving the way for president Uribe's re-election for a consecutive term in the 2006 presidential elections, the majority of the committee of the house of deputies voted for a corresponding constitutional amendment. It is increasingly likely that the final vote of the plenary session expected at the end of December will take place as early as November. The outcome remains uncertain; at the end of September, even allied members of parliament pointed out that key reforms are bound to fail in view of their resistance without a stronger willingness to make concessions on the part of the government.

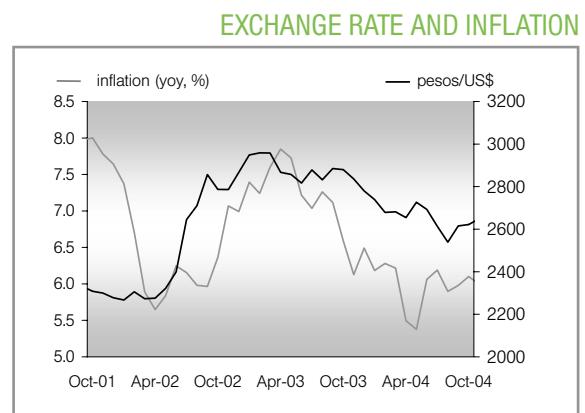
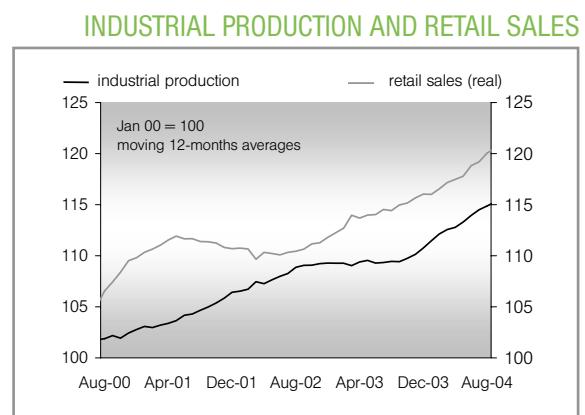
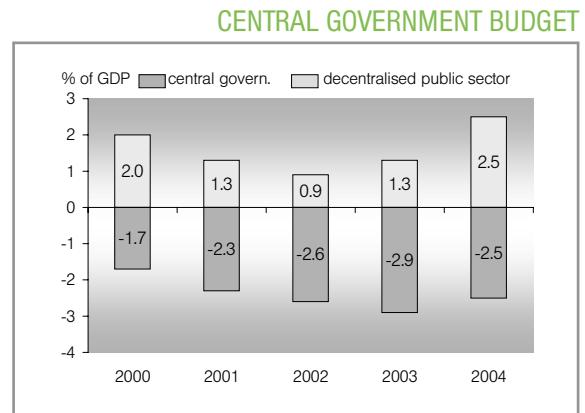
**Fiscal policy:** Public finances showed a better-than-expected performance in the first semester. The consolidated public-sector budget even balanced (see chart); however, this was attributable to non-recurring special factors. Since central reforms (various tax and pension reforms) were postponed in favor of congressional debates on facilitating Uribe's re-election, we believe the government is unlikely to succeed in reducing the budget deficit significantly. As regards next year's substantial financing requirements, the government managed to score an early success: during a swap of domestic bonds falling due in the short term for longer-term bonds, a volume of US\$ 500 million was swapped and a new government bond issue for the same amount was launched on the international capital market (term: 2014, yield: 8.5%).

**Economic activity:** Apart from increasing exports of goods and services, domestic demand also fueled an accelerated level of economic growth in the second quarter. In particular, investment spending saw a dynamic increase (see table on following page). The current situation on the labor market and the trends in industry and the retail trade support our view of an accelerating growth momentum for the remainder of this year. We have left our GDP growth forecast for the year as a whole unchanged at 4.0%.

**Monetary sector:** Following the central bank's extended interventions in the forex market, the upward trend of the peso came to a standstill after having lasted for more than 12 months. The central bank council's interest rate decision in November is likely to depend particularly on the parameters set by the U.S. central bank as well as on price developments in October. We expect a hike in repo rates by 25 basis points in November.

**External sector:** A rapid rise in imports – boosted by strong domestic demand and the appreciation of the peso – recently dampened the positive impact of the high oil prices on the trade balance. On the other hand, an expansion of the current account deficit in the second quarter was counteracted by rising direct investment inflows in the oil and mining sector.

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## MONTHLY AND QUARTERLY FIGURES

COLOMBIA: MONTHLY INDICATORS		Jun-04	Jul-04	Aug-04	Sep-04	next/latest
<b>DOMESTIC ECONOMY</b>						
Industrial production (not incl. coffee)	% yoy	11.7	<b>3.7</b>	<b>8.9</b>		26-Nov
Retail sales (excl. fuel)	% yoy	7.5	<b>6.0</b>	<b>4.1</b>		26-Nov
Unemployment rate (urban)	%	15.8	15.3	<b>15.0</b>		28-Oct
Consumer prices	% yoy	6.1	6.2	5.9	<b>6.0</b>	5-Nov
Consumer prices	% mom	0.6	0.0	0.0	<b>0.3</b>	5-Nov
Producer prices	% yoy	5.9	5.2	5.2	<b>5.5</b>	5-Nov
Producer prices	% mom	0.4	-0.4	0.1	<b>0.3</b>	5-Nov
Monetary base (month-end, latest 10/20)	% yoy	13.3	12.2	7.5	<b>10.4</b>	<b>14.2</b>
Money supply M1 (month-end, latest 10/20)	% yoy	12.7	11.5	9.7	<b>10.5</b>	<b>12.0</b>
Money supply M3 (month-end)	% yoy	13.9	12.4	<b>14.7</b>	<b>14.3</b>	5-Nov
Lending rate (month-end)	%	14.4	15.1	<b>14.9</b>	<b>15.7</b>	5-Nov
Deposit rate (DTF, 90 days, month-end)	%	7.81	7.79	7.80	<b>7.72</b>	<b>7.70</b>
Treasury bills (local index, month-end, latest 10/22)***	%	102.6	102.0	104.1	<b>104.5</b>	<b>104.6</b>
Treasury bills (TES 08/08, month-end, latest 10/22)***		13.1	13.2	12.2	<b>12.1</b>	<b>11.7</b>
Interbank interest rate (month-end, latest 10/21)	%	6.87	6.82	6.82	<b>6.85</b>	<b>7.00</b>
Credit volume (month-end)	% yoy	10.4	10.6	<b>10.8</b>	<b>10.9</b>	5-Nov
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ mn	1401	<b>1494</b>			25-Nov
Merchandise exports	% yoy	42.2	<b>19.4</b>			25-Nov
Merchandise imports	US\$ mn	1363	<b>1415</b>			25-Nov
Merchandise imports	% yoy	31.1	<b>13.5</b>			25-Nov
Trade balance	US\$ mn	45.1	<b>110.4</b>			25-Nov
Foreign exchange reserves (month-end, latest 10/20)	US\$ mn	11590	11768	12020	<b>12131</b>	<b>12263</b>
US\$ exchange rate (month-end, latest 10/22)	pesos	2700	2620	2596	<b>2595</b>	<b>2555</b>
COLOMBIA: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next/latest
<b>DOMESTIC ECONOMY</b>						
GDP (latest Q1 04)	% yoy	4.1	4.5	4.0	<b>4.3</b>	2-Jan
GDP, seasonally adjusted	% qoq	2.0	1.0	0.5	<b>0.8</b>	14-Jan
Private consumption	% yoy	2.4	3.4	4.5	<b>3.6</b>	14-Jan
Public consumption	% yoy	-0.2	4.1	2.3	<b>2.6</b>	14-Jan
Domestic consumption	% yoy	1.7	3.6	4.0	<b>3.3</b>	14-Jan
Domestic investment	% yoy	19.2	14.8	5.4	<b>18.1</b>	14-Jan
Domestic demand	% yoy	4.5	5.5	4.2	<b>5.7</b>	14-Jan
Exports (goods and services)	% yoy	9.7	5.5	5.6	<b>9.0</b>	14-Jan
Imports (goods and services)	% yoy	11.2	9.1	6.7	<b>17.1</b>	14-Jan
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	3.36	3.24	3.28	<b>3.87</b>	20-Jan
Merchandise imports	US\$ bn	3.31	3.36	3.30	<b>3.72</b>	20-Jan
Trade balance	US\$ bn	0.04	-0.12	-0.02	<b>0.16</b>	20-Jan
Current account balance	US\$ bn	-0.01	-0.47	-0.70	<b>-0.37</b>	20-Jan
Net foreign direct investment	US\$ bn	0.57	-0.51	0.55	<b>0.84</b>	20-Jan
Portfolio investment*	US\$ bn	0.10	0.38	0.07	<b>-0.05</b>	20-Jan
Capital account**	US\$ bn	0.34	0.42	1.12	<b>0.76</b>	20-Jan
Change in foreign exchange reserves #	US\$ bn	0.33	-0.04	0.42	<b>0.38</b>	20-Jan
*incl. foreign credit		**incl. residual items		***source: Corfinsura		# - = increase

# MEXICO

Mexico's economy appears to have lost momentum slightly in the third quarter of 2004. This is attributable both to the economic slowdown in the U.S. and rising domestic interest rates along with rising political uncertainty in the run-up to the elections. The economic slowdown, which is most likely to last well into the second half of 2005, should help ease the inflationary pressure that has persisted until recently from as early as November this year. This also means a slight decline in money market interest rates by year-end. In addition, as economic data are growing weaker the peso is likely to come under slight pressure (forecast for end-2004: 11.90 pesos per US dollar).



## ANNUAL FIGURES AND FORECASTS

MEXICO		2001	2002	2003	2004f	2005f
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	-0.1	0.7	1.3	3.5	3.0
GDP	US\$ bn	622.7	647.8	626.0	645.2	657.6
Inflation (year-end)	%	4.4	5.7	4.0	4.8	3.6
Inflation (average)	%	6.4	5.0	4.5	4.6	4.3
<b>PUBLIC SECTOR</b>						
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
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	158.4	160.8	164.9	186.4	194.7
Merchandise imports	US\$ bn	168.4	168.7	170.6	192.7	205.3
Trade balance	US\$ bn	-10.0	-7.9	-5.7	-6.3	-10.6
Current account balance	US\$ bn	-18.2	-14.1	-9.3	-9.0	-13.4
Current account balance	% GDP	-2.9	-2.2	-1.5	-1.4	-2.0
Net foreign direct investment	US\$ bn	26.8	14.8	10.8	15.0	12.0
Foreign exchange reserves, year-end	US\$ bn	44.7	50.6	59.0	65.0	63.5
Import cover **	months	2.6	3.0	3.5	3.4	3.1
US\$ exchange rate, year-end	Pesos	9.17	10.46	11.24	11.90	12.00
US\$ exchange rate, average	Pesos	9.34	9.66	10.79	11.47	11.93
<b>FOREIGN DEBT</b>						
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
<b>FINANCIAL MARKETS (year-end)</b>						
Interest rates (Cetes, 28 days)	%	7.4	7.6	6.0	7.5	8.2
IPC stock index (peso based, 2004: 10/21)		6372	6127	8795	11167	
IFCI stock index (US\$ based, 2004: 10/21)		761	637	830	1015	
Bond market yield spread (2004: 10/21)*	bp	308	324	199	189	

\* EMBI+ \*\* goods and services

f=forecast

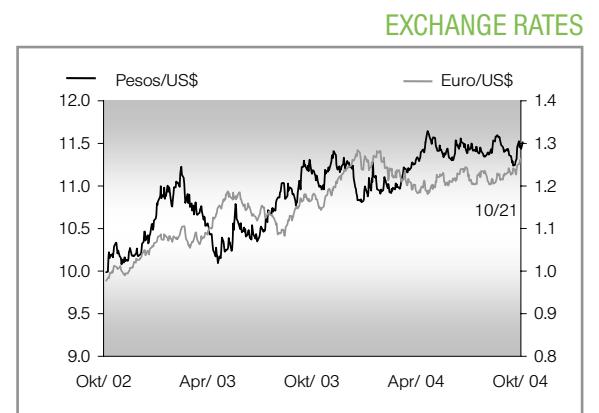
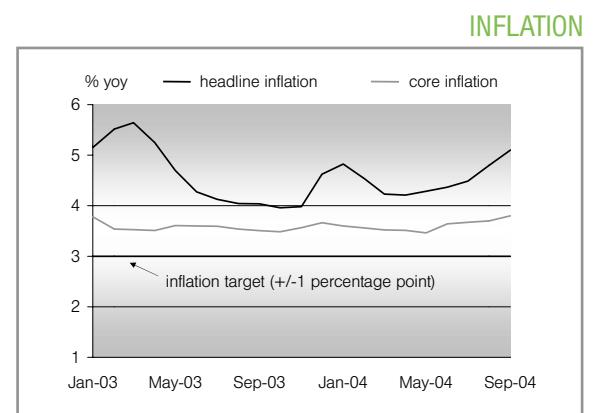
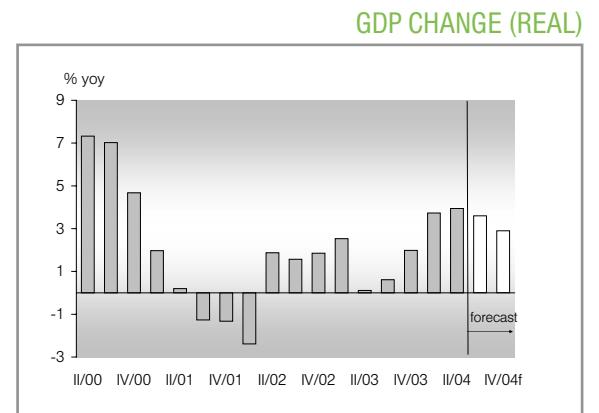
**Politics:** Due to various political scandals, the left wing party PRD along with the mayor of Mexico City and potential presidential candidate López-Obrador have recently lost a great deal of popularity and credibility. The recent intensification of political trench wars between the ruling party PAN, the PRI and the PRD – already far ahead of the presidential elections in June 2006 – is destroying any remaining hopes of achieving extensive structural reforms by the end of president Fox's tenure.

**Public finances:** Thanks to oil prices far higher than budgeted – 30% of government revenues are derived from the oil business – this year's budget deficit will drop to 0.3% of GDP following 0.6% of GDP in 2003. The budget bill for 2005 provides for a further deficit reduction to 0.1% of GDP. In addition, the government intends to decrease the country's net foreign debt by a further US\$ 500 million.

**Economic activity:** There are mounting signs of a slight economic downturn having begun in the third quarter. Industrial production, for instance, only saw a seasonally adjusted 0.1% (month-on-month) increase in August. The economic downturn, which is likely to last well into the second half of 2005, is attributable both to domestic factors (rising interest rates, backlog of reforms) and external factors (weaker U.S. economy). All in all, we still project GDP to rise by 3.5% this year (consensus forecast: 4.0%) and by 3% next year.

**Monetary sector:** Even though the Mexican central bank has already reduced liquidity in the banking sector six times this year, the inflation rate (September: 5.1% year-on-year) is steadily moving away from the inflation target (3% +/- 1 percentage point), which is chiefly attributable to higher energy and food prices. We expect the pressure on prices to subside in the final quarter and the inflation rate to drop to 4.8% by December 2004. Money market interest rates (which reached an annual high at 7.75% in mid-October) are also likely to decline slightly over the next several months for this reason (forecast end-2004: 7.5%).

**External sector:** Apart from the high oil prices, the sharp increase in remittances from Mexicans living abroad are further contributing to the decline in the current account deficit (forecast 2004: 1.3% of GDP). Private transfers, at US\$ 16 billion, are once again likely to surpass net direct investments (US\$ 15 billion). Nevertheless, the peso should depreciate slightly by year-end, to 11.90 pesos per US\$, since the anticipated slight economic downturn will probably induce Mexican banks to liquidate speculative peso positions.



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## MONTHLY AND QUARTERLY FIGURES

MEXICO: MONTHLY INDICATORS		Jun-04	Jul-04	Aug-04	Sep-04	next/latest
<b>DOMESTIC ECONOMY</b>						
Economic activity index (IGAE)	% yoy	5.2	<b>3.0</b>			26-Oct
IGAE index (seasonally adjusted)	% mom	0.4	<b>-0.1</b>			26-Oct
Industrial production	% yoy	5.4	<b>3.9</b>	<b>5.2</b>		11-Dec
Manufacturing, in-bond industry	% yoy	11.1	<b>10.7</b>	<b>9.5</b>		11-Dec
Manufacturing (excluding in-bond industry)	% yoy	5.9	<b>3.9</b>	<b>5.4</b>		11-Dec
Construction	% yoy	3.9	<b>3.8</b>	<b>5.5</b>		11-Dec
Gross fixed capital formation	% yoy	<b>9.3</b>				8-Nov
Consumer confidence (January 2003=100)	Index	99.6	96.0	<b>95.6</b>	<b>96.3</b>	3-Nov
Retail sales	% yoy	2.5	<b>4.8</b>	<b>4.2</b>		24-Nov
Wholesale sales	% yoy	11.3	<b>7.2</b>	<b>12.6</b>		24-Nov
Unemployment rate	%	3.8	3.8	<b>4.3</b>	<b>4.0</b>	18-Nov
Employees (social insurance)	% yoy	3.2	2.8	<b>3.1</b>		
Real wages per employee, manufacturing	% yoy	0.5	<b>-0.9</b>			27-Oct
Budget balance, public sector	Pesos bn	-25.0	0.2	<b>15.0</b>		4-Nov
Public domestic debt	Pesos bn	1079	1094	<b>1096</b>		4-Nov
Public external debt	US\$ bn	80.8	80.1	<b>80.3</b>		4-Nov
Consumer prices	% yoy	4.4	4.5	<b>4.8</b>	<b>5.1</b>	9-Nov
Consumer prices	% mom	0.2	0.3	<b>0.6</b>		9-Nov
Treasury bills, Cetes 28d (latest: 10/19)	%	6.8	7.2	7.3	<b>7.6</b>	<b>7.8</b>
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ mn	16538	14960	<b>16962</b>		25-Oct
Merchandise exports	% yoy	21.5	8.9	<b>27.3</b>		25-Oct
Merchandise imports	US\$ mn	17021	15848	<b>17551</b>		25-Oct
Merchandise imports	% yoy	22.9	9.9	<b>27.0</b>		25-Oct
Trade balance	US\$ mn	-483	-886	<b>-589</b>		25-Oct
Foreign exchange reserves	US\$ bn	60.4	60.3	<b>61.0</b>	<b>62.3</b>	2-Nov
US\$ exchange rate (latest: 10/21)	Pesos	11.49	11.40	11.39	<b>11.38</b>	<b>11.48</b>
MEXICO: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next/latest
<b>DOMESTIC ECONOMY</b>						
GDP	% yoy	0.6	2.0	3.7	3.9	16-Nov
Private consumption	% yoy	4.3	3.2	3.7	<b>5.4</b>	15-Dec
Public consumption	% yoy	2.6	2.8	-0.3	<b>-5.0</b>	15-Dec
Private and public investment	% yoy	-13.3	-6.9	2.9	<b>-1.5</b>	15-Dec
Domestic demand	% yoy	0.3	1.1	3.2	<b>3.1</b>	15-Dec
Exports (goods and services)	% yoy	-0.7	4.6	10.4	<b>14.4</b>	15-Dec
Imports (goods and services)	% yoy	-1.4	2.0	8.5	<b>11.1</b>	15-Dec
<b>EXTERNAL SECTOR</b>						
Current account balance	US\$ bn	-2.2	-3.3	-1.9	-0.5	25-Nov
Net foreign direct investment	US\$ bn	2.3	2.2	7.4	2.5	25-Nov
Net foreign portfolio investment (incl. bonds)	US\$ bn	-1.8	3.2	2.4	-4.3	25-Nov
Capital account **	US\$ bn	0.9	8.6	3.5	0.6	25-Nov
Change in foreign exchange reserves*	US\$ bn	1.3	-5.3	-1.6	-0.1	25-Nov

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



## VENEZUELA

Venezuela's regional and mayoral elections are scheduled to be held on October 31. The opposition, having emerged weakened from the lost referendum to oust President Chávez, will most probably lose some of its seats since the government's position has continued to improve, boosted by highly popular social projects and a revitalized economy. In addition, the inflation rate is declining. Although Venezuela is benefiting from the oil price hike to an extraordinary extent, the central government's budget will most probably show a deficit of 2.5% of GDP due to the strong growth in public spending. Surprisingly enough, foreign currency reserves – in spite of the favorable oil price trend – have shown almost no increase over the last two months, which may be attributable to a marked rise in imports.

### ANNUAL FIGURES AND FORECASTS

VENEZUELA		2001	2002	2003	2004f	2005f
<b>DOMESTIC ECONOMY</b>						
GDP change (real)	%	3.4	-8.9	-7.6	12.8	4.5
GDP	US\$ bn	126.1	95.2	85.5	100.1	106.9
Inflation (year-end)	%	12.3	31.2	27.1	19.0	16.4
Inflation (average)	%	12.5	22.4	31.1	21.8	16.5
<b>PUBLIC SECTOR</b>						
Budget balance, central government	% GDP	-4.2	-3.5	-4.3	-2.5	-3.5
Budget balance, public sector	% GDP	-4.5	-1.0	0.2	0.5	-1.1
Public debt	% GDP	30	42	45	35	34
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
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	26.7	26.7	25.8	37.0	33.8
Merchandise imports	US\$ bn	18.7	13.6	10.7	16.4	18.3
Trade balance	US\$ bn	8.0	13.0	15.0	20.6	15.5
Current account balance	US\$ bn	2.5	7.6	9.5	13.3	7.7
Current account balance	% GDP	2.0	8.0	11.2	13.2	7.2
Net direct investment	US\$ bn	3.5	-0.3	1.4	1.5	2.5
Foreign exchange reserves, year-end **	US\$ bn	15.5	11.4	16.7	18.5	20.0
Import cover **) ***)	months	6.6	6.4	10.9	8.8	8.6
US\$ exchange rate, year-end	Bolívar	758	1387	1598	1918	2200
US\$ exchange rate, average	Bolívar	724	1160	1611	1884	2150
<b>FOREIGN DEBT</b>						
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
<b>FINANCIAL MARKETS (year-end)</b>						
Deposit rate, 90 days	%	19.5	26.1	14.2	12.0	11.0
ICB stock index (Bolívar based, 2004: 10/21)		6570	8015	22204	29884	
IFCG stock index (US\$ based, 2004: 10/21)		246	159	182	277	
Bond market yield spread (2004: 10/21)*	bp	1130	1127	466	468	

\* EMBI+ \*\* Central bank and FEM, Gold excl. \*\*\* goods and services

f=forecast

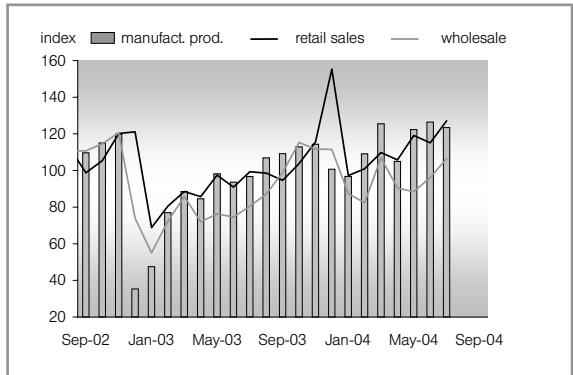
**Fiscal policy:** The level of public spending continues to grow. In the first eight months, it was up 51% year-on-year in real terms. However, the sustained high oil prices and the enhanced efficiency in tax collection also resulted in an increase in revenues (without taking account of the profits generated by the central bank) by 39% in real terms. According to the central bank's cash flow analysis, the fiscal deficit at the end of August amounted to 1.6% of GDP for the year as a whole. For January – December 2004, we project a deficit amounting to 2.5% of GDP in the central government's budget and a small surplus in the total public-sector budget, which also includes state-owned enterprises. In October, the Venezuelan government issued a US\$ bond worth US\$ 1.5 billion, with a risk spread of only 520 basis points. Brady bonds maturing in 2007 and 2008 were swapped for half the amount in question, enabling the government to reduce its level of debt service and having items of collateral released prematurely.

**Economic activity:** High growth in government spending, the low level of interest rates as well as the latest information on economic trends suggest that GDP will continue to grow in the second semester as well. In July, both production in the private manufacturing sector and retail & wholesale revenues were up a good 30% year-on-year. In September, the demand for loans was even twice as high as in the same month a year earlier. At the same time, the unemployment rate dropped to 14.2% in August (August 2003: 17.8%). We still forecast an economic growth rate of 12.8 % for this year.

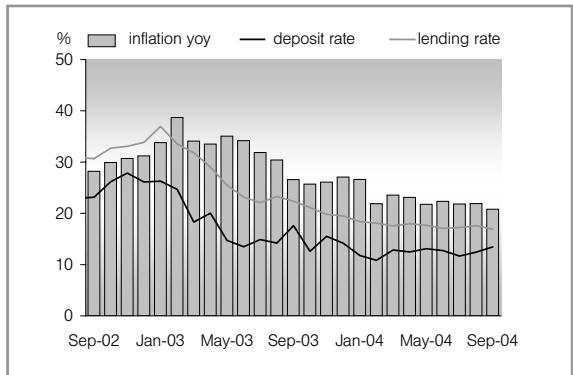
**Monetary sector:** In September, inflation slowed to 0.5%, bringing the inflation rate down to 20.8% year-on year. Low food prices and the reduction in value added tax by one percentage point that came into effect just recently were contributory factors to this development. Since price regulation still proves to be fairly successful, we now forecast an inflation rate of just under 20% at the end of 2004.

**External sector:** Despite sustained high oil prices, there has been almost no further increase in foreign currency reserves since the end of July, when they decreased by US\$ 2.5 billion to US\$ 21.5 billion (incl. FEM) as a result of the PDVSA debt buyback. The increase in foreign currency made available by the exchange control authority Cadivi for merchandise imports and debt service by the private sector (September: US\$ 77 million/ working day) is only part of the explanation for this trend. We assume that the government's demand for foreign exchange, which is directly covered by the central bank without the intervention of the Cadivi being necessary, has meanwhile risen substantially, e.g. for imports of staple foodstuffs sold via state-owned stores.

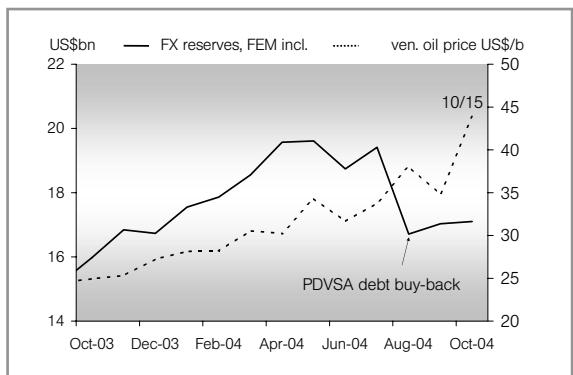
#### ECONOMIC INDICATORS



#### INFLATION AND INTEREST RATES



#### OIL PRICE & FOREX RESERVES



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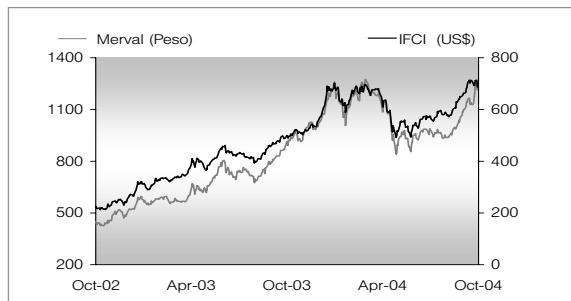
## MONTHLY AND QUARTERLY FIGURES

VENEZUELA: MONTHLY INDICATORS		Jun-04	Jul-04	Aug-04	Sep-04	next/latest
<b>DOMESTIC ECONOMY</b>						
Industrial production (private sector)	% yoy	35.1	<b>27.6</b>			Oct 5-10
Car sales	% yoy	107.8	100.7	<b>115.2</b>	<b>145.1</b>	Oct 5-10
Retail sales	% yoy	26.6	28.0			Oct 5-10
Wholesale sales	% yoy	28.9	32.1			Oct 5-10
Crude oil production	1000 bpd	2529	2591	2606	<b>2605</b>	18-Nov
Consumer prices	% yoy	22.3	21.8	21.9	<b>20.8</b>	1-Nov
Consumer prices	% mom	1.9	1.4	1.3	<b>0.5</b>	1-Nov
Producer prices	% yoy	30.2	28.8	28.2	<b>26.3</b>	1-Nov
Producer prices	% mom	1.8	0.7	0.7	<b>0.1</b>	1-Nov
Money supply M2 *	% yoy	33.7	22.8	<b>17.8</b>		20-Oct
Lending rate (monthly average and 10/08)*	%	17.1	17.2	17.6	<b>16.9</b>	<b>15.8</b>
Deposit rate (monthly average and 10/08)*	%	12.8	11.7	12.4	<b>13.5</b>	<b>12.6</b>
Interbank interest rate (month-av., until: 10/19)*	%	5.6	3.6	3.3	<b>4.0</b>	<b>8.5</b>
Credit volume *	% yoy	86.3	93.5	92.6	<b>103.2</b>	20-Oct
Deposits *	% yoy	52.2	48.6	49.4	<b>38.8</b>	20-Oct
<b>EXTERNAL SECTOR</b>						
Oil price (Venezuelan exports, latest: 10/15)	US\$/barrel	31.7	33.8	<b>38.1</b>	<b>34.8</b>	<b>43.9</b>
Oil price (Venezuelan exports, latest: 10/15)	% yoy	27	34	<b>42</b>	<b>42</b>	<b>76</b>
Foreign exchange reserves (CB, latest: 10/15)****	US\$ bn	18.0	18.7	16.0	<b>16.3</b>	<b>16.4</b>
Forex reserves (FEM**, latest: 10/15)*	US\$ bn	0.7	0.7	0.7	<b>0.7</b>	<b>0.7</b>
US\$ exchange rate (latest: 10/21)*	Bolívar	1917.6	1917.6	1917.6	<b>1917.6</b>	<b>1917.6</b>
VENEZUELA: QUARTERLY INDICATORS		Q3 03	Q4 03	Q1 04	Q2 04	next/latest
<b>DOMESTIC ECONOMY</b>						
GDP	% yoy	-6.7	7.0	34.8	13.6	20-Nov
GDP, private sector	% yoy	-8.4	3.2	32.0	16.1	20-Nov
GDP, public sector	% yoy	-1.9	13.4	38.4	5.9	20-Nov
Oil sector	% yoy	-3.9	25.8	70.1	3.5	20-Nov
Manufacturing industry	% yoy	-6.6	18.7	53.9	25.7	20-Nov
Financial services and real estate	% yoy	-0.6	8.3	21.1	13.6	20-Nov
Commerce	% yoy	-5.1	12.6	42.9	27.9	20-Nov
Budget balance, public sector	VEB bn	2445	-3149			
<b>EXTERNAL SECTOR</b>						
Merchandise exports	US\$ bn	7.17	7.68	8.55	9.52	20-Nov
Exports of oil and derivatives	US\$ bn	5.72	6.39	7.11	7.94	20-Nov
Merchandise imports	US\$ bn	2.81	3.58	3.24	3.93	20-Nov
Trade balance	US\$ bn	4.36	4.11	5.31	5.59	20-Nov
Current account balance balance	US\$ bn	2.91	2.71	3.72	3.37	20-Nov
Net foreign direct investment	US\$ bn	0.34	-0.05	0.03	0.61	20-Nov
Portfolio investment	US\$ bn	-0.86	0.15	0.27	-0.31	20-Nov
Capital account***	US\$ bn	-1.77	-1.05	-2.04	-3.14	20-Nov
Change in foreign exchange reserves (C.B.)#	US\$ bn	-1.46	-1.66	-1.68	-0.22	20-Nov
Change in foreign exchange reserves (FEM)**#	US\$ bn	0.33	0.00	0.00	0.00	20-Nov

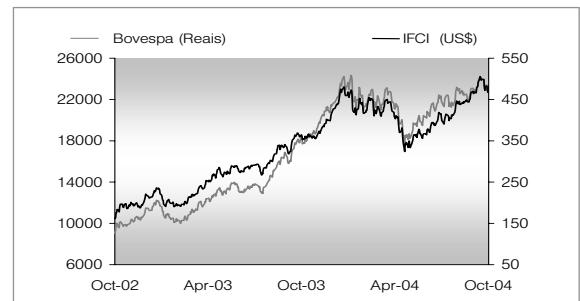
\*month-end \*\*macroeconomic stabilization fund \*\*\* incl. residual items \*\*\*\* Gold excluded (latest: US\$ 4.7bn) # - = increase

# FINANCIAL MARKETS: LATIN AMERICAN STOCK MARKET INDICES

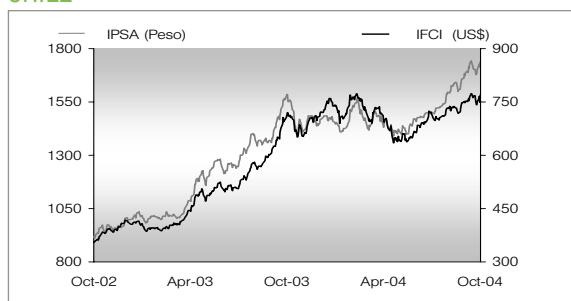
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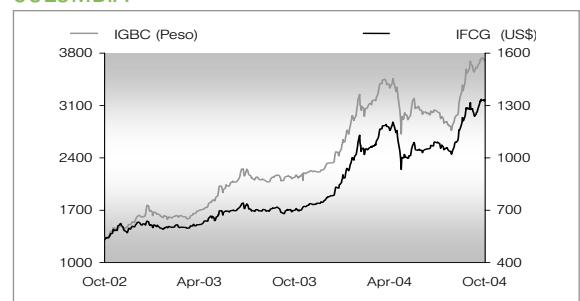
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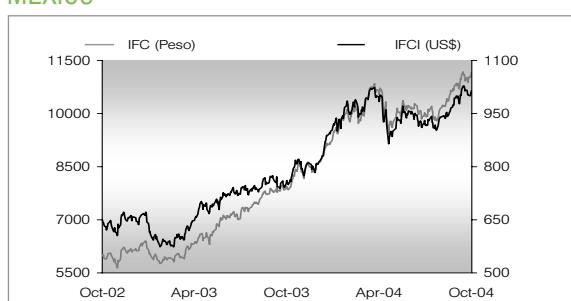
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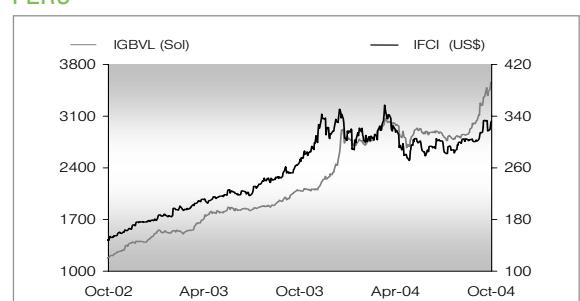
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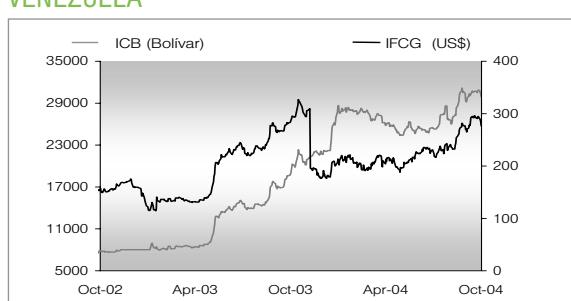
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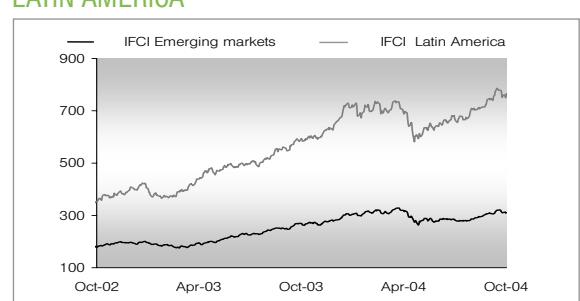
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## VENEZUELA

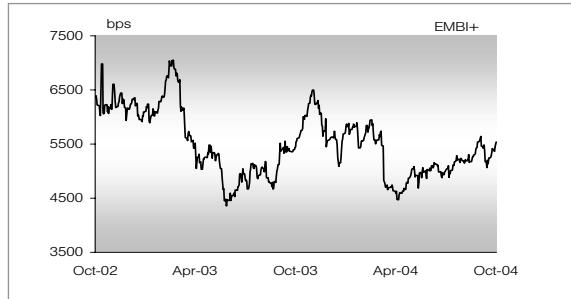


## LATIN AMERICA

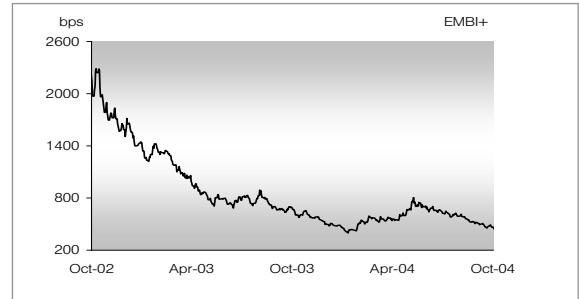


## FINANCIAL MARKETS: LATIN AMERICAN BOND YIELD SPREADS

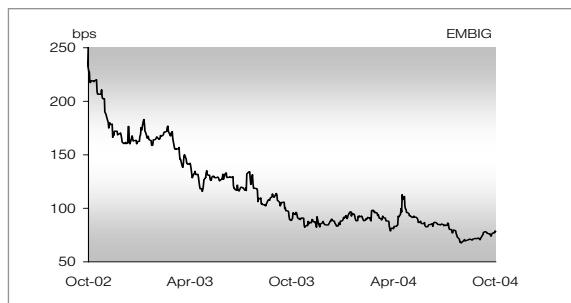
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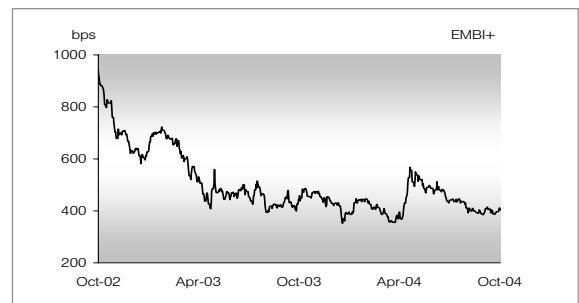
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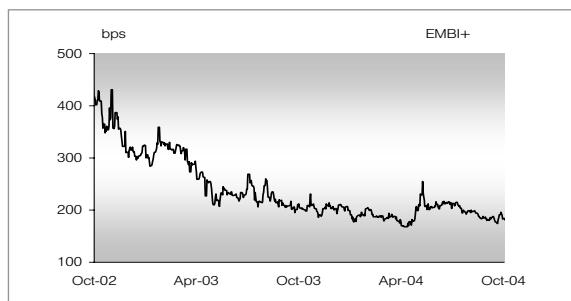
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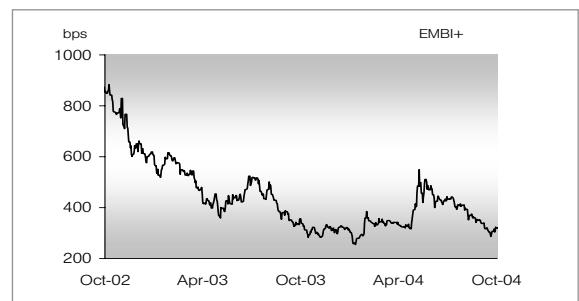
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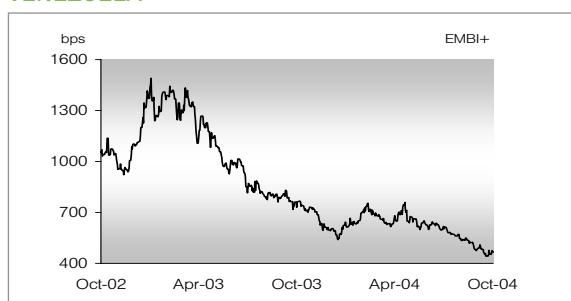
MEXICO



PERU



VENEZUELA



LATIN AMERICA



# GLOBAL ECONOMY - FIGURES AND FORECASTS

		2002	2003	10/21/2004	2004f	2005f
<b>REAL GDP CHANGE *</b>						
Industrialized countries	% yoy	1.5	2.1		3.4	2.6
USA	% yoy	2.4	3.0		4.4	2.8
Euro area	% yoy	0.8	0.5		2.0	2.0
Germany	% yoy	0.2	-0.1		1.8	1.6
Japan	% yoy	0.2	2.4		4.1	1.9
<b>INTEREST RATES, YEARLY AVERAGE*</b>						
USA, 3m money market rate	%	1.8	1.2	<b>2.1</b>	1.6	3.0
USA, 10yr government bond yield	%	4.5	3.9	<b>4.0</b>	4.2	4.9
Euro area, 3m money market rate	%	3.3	2.3	<b>2.1</b>	2.1	2.6
Euro area, 10yr gov. bond yield	%	4.8	4.1	<b>3.8</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	%	1.2	1.0	<b>1.5</b>	1.6	1.9
<b>EXCHANGE RATES, YEARLY AVERAGE *</b>						
US\$/ Euro	US\$	0.95	1.13	<b>1.26</b>	1.23	1.27
Yen/ US\$	YEN	125	116	<b>108</b>	109	105
Yen/ Euro	YEN	118	131	<b>136</b>	134	133
<b>COMMODITY PRICES, YEARLY AVERAGE</b>						
Coffee (other milds)	c/lb, NY	60.3	64.1	<b>78.4</b>	77.0	78.0
Soybeans	c/bushel	505	627	<b>511</b>	750	650
Copper	c/lb, LME	72.0	81.0	<b>129.7</b>	130.0	110.0
Crude oil (WTI)	US\$/b	26.1	31.0	<b>55.3</b>	40.5	37.5
Crude oil (Brent)	US\$/b	25.1	28.8	<b>51.3</b>	37.5	35.5
Gold	US\$/ounce	310	364	<b>423</b>	400	390

\* Source: Dresdner Bank AG

f=forecast

# DBLA - AN OVERVIEW

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CEO = Chief Executive Officer  
CIO = Chief Investment Officer

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