



A company of the **Allianz Group**

Latin America:	End of the multifibre agreement
Argentina:	Exchange offer approved in the U.S. and Italy
Brazil:	Central Bank intervenes on the fx market
Chile:	Solid industrial production and recovering labor market
Colombia:	Positive budget figures
Ecuador:	IMF gives green light
Mexico:	Focus on consumer price development
Peru:	Government to meet 2004 budget target
Venezuela:	Economic recovery continues

Latin America

The textile and clothes industry will suffer a loss of significance in the coming years as the Multi-Fibre Agreement is coming to an end, effective from January 1st, 2005, means that China will be able to take advantage of its competitive advantages in the respective sectors. In Colombia, for example, 350,000 people work in these sectors. Mexico and Central America will also feel the impact of the regulatory change.

Argentina

Following numerous delays the US Securities and Exchange Commission (SEC) and its Italian counterpart (Consob) approved Argentina's debt restructuring offer. Approval of German authorities is expected to take place shortly. The launch of the debt swap is expected to take place on January 15, 2005, although delays cannot be ruled out. Representatives of the Italian Consob stressed that the approval merely indicates that Argentina can go ahead with its rescheduling proposal in Italy and that the participation of Italian bondholders (more than 400.000) remains an open question. Bondholder groups continue to reject the offer. Local Argentine media however recently believed to sense some higher willingness of debtors to accept the offer. Overall it remains difficult to judge the chances of a successful debt swap. ---- The current account surplus declined (stronger than we expected) to US\$533mn in Q3-04 (Q3-03: US\$1.5bn). Main reasons were the smaller trade surplus (higher imports) and higher negative net-remittances of companies abroad. For the year as a whole the current account surplus is likely to half to slightly more than US\$4bn in 2004. ---- As expected the monthly GDP-growth (EMAE) came down to 6.6 % (oy) in October from 8.2 % in September. Seasonally adjusted GDP grew by 0.7 % (mom) in October following 0.6 % in October.

Outlook: The increase of consumer prices (Wednesday) likely was very moderate again in December (0.1%,

mom). The yoy-rate thus should have reached a low level of 5.3%.

Brazil

In recent weeks, the Central Bank intervened in the foreign exchange market buying US\$ 2.44 bn to build up reserves. We expect the Central Bank to continue its strategy of bolstering up international reserves. ---- The minutes of the latest Central Bank meeting, where the overnight interest rate was increased to 17.75%, show that there are continuing concerns with respect to inflation. We anticipate (as we have done before) a rate increase of 25 to 50 basis points at the January 19 meeting. ---- The current account showed a slight deficit in November as profit and dividend transfers were extraordinarily high, amounting to US\$ 1.1 bn. The capital account had a surplus for the first time since January 2004 as FDI added up to US\$ 1.1 bn (net, meaning that investments carried out by Brazilians abroad are deducted). ---- Positive public sector figures: Net public debt amounted to only 51.3% of GDP in November. In December 2004 this figure stood at 56.4 % of GDP. The relatively low ratio has to do with the revision of GDP data, among other things. The public sector's accumulated primary surplus reached BRL 85 bn, which compares favorably to the IMF target of BRL 71.5 bn for the whole year. The budget deficit for the same period is only 2% of GDP, much less than in the year-ago period, when it reached 4.64% of GDP. ---- The unemployment rate in the six biggest cities of Brazil stood at 10.6% in November, 0.1 percentage point higher than one month ago. This increase is probably due to lower employment in the industry sector. ---- The 2005 budget was approved by congress at the end of last year. The volume of expenditures is now BRL 24 bn higher than originally planned by the government. However, we have no doubts that the government will be able to reach the primary surplus target of 4.25% as the president has the power to freeze specific spendings. ---- After the October 2004 municipal elections, there was a political change in many municipalities. Especially the change of power in the city of São Paulo will be

watched closely given that Marta Suplicy from the PT is substituted by José Serra from the opposition party PSDB; he may be a candidate in the presidential elections in 2006.

Outlook: The December trade balance surplus (today) should amount to more than US\$ 3 bn, taking into account preliminary data. This is unusually high as imports normally show significant increases at the end of the year (as was the case in November). ----- Car production (probably Thursday) should have increased by 10% yoy in December. This would be a first indication that industrial strength might continue. ----- In the coming weeks, the government may send the law concerning the operational independence of the central bank to congress. This law has been discussed since early 2003.

Chile

Industrial production expanded at a solid pace in November (+9.9 % yoy). Mining production posted high growth as well (+12.2 %), continuing the trend of recent months. ----- The robust economic development finally provides some impulse to the labor market: The number of people employed rose by 2.7 % yoy in November, with salary earners expanding strongly (+3.5 %). The positive growth picture induces more people to search for jobs (+3.3 %), which took the unemployment rate to 8.6 %, 0.8 percentage-points below October, but 0.5 percentage-points higher than in November 2003.

Outlook: On the back of positive news in industry and mining, we expect the IMACEC economic indicator to post growth around 7 % in November (Wednesday) ----- Consumer prices should have remained stable in December, taking the yoy-rate to 2.8 % (Wednesday).

Ecuador

According to Economy Minister Yepez, the IMF has approved a "letter of compliance". Although the arrangement differs from conventional IMF arrangements, the "letter of compliance" endorses Ecuador's current economic policies. The arrangement does not foresee IMF disbursements to Ecuador. The IMF will undertake quarterly assessments. A positive outcome of these is seen as a prerequisite for disbursements by the World Bank and the IADB, which will total US\$400mn in 2005. A successful relationship with the multilateral financial institution may also be viewed as a prerequisite for the re-entry Ecuador's to international capital markets for the first time since the 1999 default. Following apparently positive first feedback from investors, Economy Minister Yepez announced the issue size may exceed

US\$300mn. Initially an issue size of between US\$200 and US\$300mn had been planned with.

Colombia

Inflation stood at 5.5% yoy in December. This relatively low figure may be explained by the strong peso, which appreciated by 14 % during 2004. ----- The unemployment rate stood at 11.7% in November, much lower than in November 2003 (13.3 %). ----- According to the industrial association Andi the industrial production will increase by 5% this year. This is in line with our expectations. ----- The official minimum wage was increased by decree by 6.5%, only 1 percentage point higher than inflation, meaning that there is no substantial burden for the public budget. ----- Considering the good budget figures for September the government cut its budget deficit target for 2004 to 2.3% from 2.5% of GDP, especially encouraged by additional receipts from the oil sector.

Mexico

In October, retail sales were substantially higher than in the same month a year ago, rising by 6.5% in real terms. ---- In November, the unemployment rate rose to 3.8%, compared to 3.6% in October. ---- The monthly Central Bank survey of private analysts for December showed a further slight increase of inflation expectations from 4.29% to 4.32% for the end of 2005. ---- In November, the public sector balance was basically flat; the year-to-date surplus remained unchanged at 70.2 bn pesos. This result was better than expected, as the public sector usually posts large deficits in the last months of the year due to seasonal factors. This result means the 2004 deficit will end below the authorized ceiling of 0.3% of GDP.

Outlook: The first week of January will only bring two data releases. On Thursday Inegi will publish December data for its consumer confidence index. After having fallen slightly again in November to 95.3, we expect a small increase to 95.7 (January 2003 = 100). ----- Consumer prices most likely rose by 0.4% in December, which would leave the annual rate of inflation unchanged at 5.4%. Regarding next year's inflation trend we are pretty optimistic and expect the inflation rate to fall to 3.8% until the end of 2005 (substantially below the consensus forecast of 4.32%; see previous paragraph). This is due to the only moderate economic expansion, but also due to a much lower increase of food prices. Nevertheless, the central bank will continue its restrictive monetary policy until inflation expectation much lower towards the inflation target of 3% (+/- 1 percentage point). After having tightened monetary policy nine times in 2004, we expect one or two "corto" increases during the first quarter of 2005.



Peru

On the back of November budget figures it seems clear that the government will meet its 2004 budget deficit target of 1.4 % of GDP. ---- Consumer prices remained unchanged in December, which took the yoy-rate to 3.5 %. Citing benign inflation news, CB director Borneo announced in a local press interview that the CB was not intending to tighten monetary policy, even in a global environment of higher key interest rates.

Outlook: The coming days could bring some news concerning the planned early repayment of Peru's Paris Club debt. In this context, it is probable that a new global bond emission will be announced. ---- We expect the CB to leave key interest rates unchanged on Thursday's meeting. ---- According to preliminary information, November export continued the positive trend of recent months, driven both by traditional exports (Mining, fish meal) and non-traditional goods such as textiles and chemical products. Therefore, export revenues are likely to exceed US\$ 1 bn in November (Friday).

Venezuela

President Chávez' announcement, made after the victory in the referendum, to take action against the owners of large landholdings, seems to be more than just hot air. Last week saw already the second province to emit a decree legalizing the seizure of „unused“ land. We expect adverse consequences for the already poor investment climate. ---- The economic recovery continues: Retail sales increased by 26 % yoy in October, taking the cumulated rise to 28 % ytd. Industrial production posted dynamic growth as well (+14.7 % yoy), marked by a strong expansion of durable consumer goods such as cars (+142 %) and investment goods (+79 %). ---- Consumer prices increased by 1.6 % yoy in December, taking the yoy-rate to 19.2 %. We expect the disinflation process to continue (December 2003: 27 %) in the coming months, especially due to continued price controls.

Dresdner Bank Lateinamerika AG
Neuer Jungfernstieg 16
20354 Hamburg
Germany

Economics Dept.
Chief economist: Dr. Heinz Mewes
Tel.: (+49 40) 3595 3494
Fax: (+49 40) 3595 3497
E-Mail: economics@dbla.com
<http://www.dbla.com>

"Latin American Weekly Spotlight" is published in addition to our "Latin American Spotlight" and our "Latin American Spotlight Update". All three are published in English and in German. The information contained in this issue has been carefully researched and examined by Dresdner Bank Lateinamerika AG or reliable third parties. But neither Dresdner Bank Lateinamerika AG nor such third parties can assume any liability for the accuracy, completeness and up-to-datedness of this information. The authors' opinions are not necessarily those of Dresdner Bank Lateinamerika. Statements do not constitute any offer or recommendation of certain investments, even if individual issuers and securities are mentioned. Information given in this issue is no substitute for specific investment advice based on the situation of the individual investor. For personalized investment advice, please contact your Dresdner Bank Lateinamerika branch.

Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yoq = year-on-year
ytd = year-to-date
s.a. = seasonally adjusted
n.s.a. = not seasonally adjusted



Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	03.01.2005	2.96	2.96	2.98	2.88	2.97	0.4	3.0
Brazil	03.01.2005	2.67	2.69	2.71	2.85	2.66	-0.4	2.8
Mexico	03.01.2005	11.19	11.16	11.10	11.00	11.15	-0.4	11.5
Chile	03.01.2005	562	560	580	573	556	-1.2	605
Colombia	03.01.2005	2338	2399	2470	2772	2397	2.5	2550
Peru	03.01.2005	3.28	3.27	3.30	3.46	3.28	-0.1	3.3
Venezuela	03.01.2005	1918	1918	1918	1598	1918	0.0	1918

EMBI+ Spread

bps	date	last	one week	one month	one year	end 2004	ytd-change, bps
Argentina	03.01.2005	4685	4647	5236	5584	4707	-22
Brazil	03.01.2005	380	379	411	452	383	-3
Mexico	03.01.2005	163	156	175	191	167	-4
Ecuador	03.01.2005	692	699	700	771	691	1
Colombia	03.01.2005	332	331	340	419	333	-1
Peru	03.01.2005	218	214	256	303	220	-2
Venezuela	03.01.2005	407	397	425	567	412	-5

Benchmark interest rates

%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	31.12.2004	2.31	2.25	2.38	1.50	1.50	0.8	5.0
Brazil Selic	03.01.2005	17.75	17.74	17.23	16.34	17.75	0.0	16.0
Mexico Cetes 28 days	03.01.2005	8.58	8.54	8.36	5.68	8.61	0.0	8.2
Chile 90 days, PDCC	28.12.2004	2.18	2.29	2.30	2.42	2.29	-0.1	3.5
Colombia Overnight	29.12.2004	6.56	6.65	6.87	7.60	7.49	-0.9	7.5
Peru Overnight	31.12.2004	3.03	3.03	3.03	2.50	3.03	0.0	4.0
Venezuela deposits 30 days	27.12.2004	11.61	11.19	13.50	11.08	13.20	-1.6	12.0

Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	28.12.2004	19.5	19.3	18.9	14.1	14.1	5.4	21.5
Brazil	30.12.2004	52.8	51.6	50.1	49.1	49.3	3.5	58.2
Mexico	24.12.2004	72.5	71.8	70.2	65.1	65.8	6.7	63.5
Chile	30.09.2004	15.8	na	15.8	15.7	15.9	0.0	16.5
Colombia	30.11.2004	13.0	na	12.3	10.7	10.9	2.1	13.3
Peru	30.09.2004	11.2	na	11.0	9.8	10.2	1.0	13.0
Venezuela (FEM&Gold incl.)	29.12.2004	23.8	23.7	23.7	20.9	21.3	2.5	

Economic activity

GDP (yo, %)	2003	2004f	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
Argentina	8.8	8.2	4.5		3.7	5.3	7.5	127
Brazil	0.5	4.9	3.9		9.3	6.9	5.8	495
Mexico	1.3	3.9	3.0		4.0	5.1	3.6	626
Chile	3.3	5.7	5.3		1.1	2.8	3.1	72
Colombia	3.7	3.6	3.8		6.5	5.8	5.4	79
Ecuador	2.5	5.8	2.8		6.1	2.0	0.9	27
Peru	4.0	4.5	4.0		1.8	3.8	3.9	61
Venezuela	-7.6	17.0	4.5		27.1	18.7	16.4	86

Public sector	Budget balance, % of GDP	Public debt, % of GDP	Amortization, US\$ bn	Gr. financing needs, US\$ bn
	2003	2004f	2003	2004f
Argentina	1.3	4.2	140	123
Brazil*	-5.2	-2.9	58	53
Mexico**	-0.6	-0.3	28	28
Chile***	-0.4	2.4	13	12
Colombia	-2.8	-2.5	62	58
Peru	-1.9	-1.3	48	46
Venezuela	0.2	0.5	45	34

* Amortisations only federal debt, including short term debt

** Amortisations without Cetes

*** debt, amortization and financing needs: central government only

External Sector 2004f

	External debt % of exports	Debt service s.t., % of total	Current account % of GDP	Trade Balance US\$ bn	FDI (net) US\$ bn	Import cover months
	US\$ bn	% of exports	US\$ bn	US\$ bn	US\$ bn	
Argentina	369	39	32.3	4.1	13.4	0.0
Brazil	205	12	65.6	10.3	32.4	14.5
Mexico	79	28	33.3	-8.5	-6.1	15.0
Chile	117	19	7.2	2.2	8.6	3.4
Colombia	242	12	6.9	-1.3	0.9	2.0
Ecuador	17	9	1.4	0.0	6.8	-0.1
Peru	218	16	3.6	-1.2	-0.8	2.6
Venezuela	83	10	8.3	14.6	15.2	22.6
			21	15.2	22.6	1.3
						8.9