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<b>Argentina:</b>	Road show about to begin
<b>Brazil:</b>	Exports grew 32 % in 2004
<b>Chile:</b>	Economy expanded 7.5 % in November
<b>Colombia:</b>	Tax reform failed in parliament
<b>Ecuador:</b>	President's favorite voted president of Congress
<b>Mexico:</b>	Rating-Upgrade by Moody's to Baa1
<b>Peru:</b>	Further strong increase in tax revenues
<b>Venezuela:</b>	Government attacks property rights

## Argentina

Tax revenues posted another strong gain in December (+18.4%, yoy). For the entire year, revenues were up 36% yoy. ---- Consumer prices increased considerably stronger than expected in December (+0.8%, mom). The yoy-rate thus reached 6.1% in December. Not boding well for future economic policies, President Kirchner called on business leaders to moderate price increases or otherwise face state intervention. ---- The Central Bank lowered the minimum reserve requirements on Peso deposits between 1 and 2 pp. The intention is to induce further credit supply. However, the Central Bank simultaneously raised its repo rate from 2.5% to 2.75%, thus potentially restraining credit supply.

**Outlook:** The first presentation to promote the restructuring of defaulted government bonds will be held on January 12, in Buenos Aires, followed by a presentation in Miami on January 13. Starting January 17 further presentations in Europe and the U.S. are planned until January 27. The tender offer is expected to be opened on January 14, lasting 39 days. During the first 18 days investors will be guaranteed a swap into Par-Bonds up to a limit of US\$ 50,000. ---- President Kirchner will visit Spain and France from January 19 to 25. Apart from several political meetings, he will meet with representatives of companies which are heavily invested in Argentina's utility sector.

## Brazil

Exports reached a new record high in December (US\$ 9.2 bn, up 36 % yoy), taking exports to US\$ 96.5 bn for the whole year (32 % more than in 2003). Import growth was almost as high with 30 %. The trade surplus amounted to US\$ 33.7 bn last year, US\$ 9 bn more than in 2003. For the current year we expect a decrease of the trade surplus to US\$ 28 bn. ---- Car production increased 20 % yoy in December and posted the same rate for 2004 as a whole. The main driver was the export of cars, which jumped 51 % in 2004.---- The government coalition's lower house chairman, Luizinho, named political reform, reform of the union legislation, judicial reform as well as modifications of the regulatory framework as congressional top priorities this year. The

still pending second and third stage of the tax reform was not mentioned. ---- According to a survey carried out by the Getulio Vargas Foundation (FGV), consumer confidence increased in December significantly compared to a survey carried out six months before. ---- The rating agency S&P expressed its optimism with respect to growth and the chances of an upgrade this year. S&P considers a growth rate of about 4 % as possible, which is above the consensus of 3.5%, but in line with our forecast of 3.9%. We expect a rating upgrade in the course of this year.

**Outlook:** Industrial production (Tuesday) should have increased slightly in November. For the whole year we expect an expansion in the industrial sector of 8%, which should slow down to 5 % in the current year. ---- IPCA-inflation (Friday) should have concluded 2004 with a rate of 7.2 %, within the CB's inflation target range of 2 to 8 %. For the current year, the CB is targeting an inflation of 5.1%. The upper limit of the inflation target range is 7 %. At the next COPOM meeting on January 19, we expect an increase of the overnight interest rate by 50 basis points to 18.25%. ---- On Saturday, the new president of the lower house will be elected. The PT candidate is Luiz Eduardo Greenhalgh. The position is very important, since the person in question may influence the lower house's legislative agenda. However, there seems to be strong opposition to this candidate, especially from part of the PSDB. Hence, the election of Greenhalgh is not assured.

## Chile

Chile reached the 11th position among 155 countries evaluated in the internationally renowned Heritage Foundation Index of Economic Freedom. This places Chile first on the American continent, even ahead of the U.S. economy. ---- The IMACEC economic indicator expanded 7.5% in November. This takes accumulated growth in the first eleven months to 5.7% yoy, which coincides with our forecast for the whole of 2004. Growth dynamics are expected to subside somewhat in the current year, but with 5.3%, expansion will remain significantly strong. ---- Consumer prices fell considerably in December (-0.4 % mom), mainly due to the strong

appreciation of the Peso and a pronounced fall of fuel prices. With this, inflation amounts to 2.4% in 2004, close to the lower end of the CB's target range of 2-4%. Despite the benign current inflation figures, we expect the CB to hike the key interest rate by 25 bps to 2.5% at tomorrow's meeting: the solid growth picture renders further monetary stimulus unnecessary, and a somewhat stronger core inflation reading in December (0.2% mom) may indicate increasing price pressure. ---- Exports posted another very strong growth in December (+76% yoy), which takes overall export growth in 2004 to 52%. Even despite solidly rising imports (2004: +27%), the 2004 trade balance registered a record surplus of more than US\$ 9 bn (10% of GDP).

## Ecuador

Following the failed impeachment attempt last November, President Gutiérrez appears to further consolidate his position. With 52 out of 100 votes in Congress, the informal government coalition last week managed to push through the President's favorite Omar Quintana (Roldosista Party, PRE) as the new president of Congress. Hence, the chances of critical reforms to be passed after all have grown. However, all in all the position of President Gutiérrez remains weak. His party holds 5 of 100 seats in Congress. Furthermore, the PRE seems to condition its support on the government's backing of plans of ex-President Bucaram, now in self-imposed exile in Panama, to return to Ecuador. ---- Driven by the positive development in mining and the oil sector, GDP grew much stronger than expected in Q3-04 (7.8%, yoy). We raised our GDP forecast for 2004 from 5.8% to 7%. However, strong GDP growth is not having the desired effect on the labor market. As growth is concentrated in the less labor-intensive oil sector, unemployment in November (11%) was significantly higher than a year ago (Nov-03: 9.3%).

Outlook: President Gutiérrez announced his intention to carry out a cabinet reshuffle by the end of January. Finance Minister Yépez and Energy Minister López will not be replaced.

## Colombia

Conservative deputies voted down the government's project to increase the value added tax, resulting in foregone revenues amounting to 0.7 % of GDP. The government has announced to make up for this loss by means of austerity measures. ---- As announced some weeks ago, GDP growth in Q3-04 disappointed with a meager 2.5 % increase yoy. As published last week, particularly the agricultural sector (-0.12%) and the mining and oil drilling sector (-1.75%) posted negative growth rates. We retain our 2004 growth forecast unchanged at 3.6%. ---- Despite the CB's intervention

policy, the peso appreciated 2.6 % in the three days to Friday last week. International reserves increased US\$ 0.7 bn in December, and we expect the CB to continue its interventions in the forex market throughout the next months on the back of a benign short-term inflation outlook.

Outlook: The constitutional reform is pending its review at the constitutional court. Should the court pass the re-election bill and should president Uribe be reelected, we expect continuity in the reform process which is already under way. The promise to continue to cooperate with the IMF in 2006, which primarily implies fiscal discipline, a lower unemployment rate in November (11.7 %), and the sound export conditions add up to a positive outlook for the Colombian economy, even despite the weak Q3-04 growth figure.

## Mexico

Moody's raised its rating for Mexican foreign currency bonds one notch to Baa1. Thereby the agency put Mexico's rating on the same level as Chile's. Moody's stated the improved external liquidity situation and an improvement in external debt ratios as reasons for the upgrade, among others. Moody's rating for Mexico is now two notches better than the S&P and Fitch rating for Mexico. After the news was out, Mexico's sovereign bonds tightened around 10 basis points. Nevertheless, the outlook for Mexico's sovereign bonds is rather mixed, given a possible slowdown of economic activity and the presidential elections in 2006. ---- After having fallen slightly again in November to 95.3, the consumer confidence index, published by Inegi, showed a surprisingly strong increase to 102.8 in December. This is the highest level the index has reached since its inception in January 2003. One possible explanation is that a surprisingly positive development of economic activity in the US, the most important export market, as well as in Mexico led Mexican consumers to believe in a better future. ---- In December, consumer prices rose only 0.2%, less than the expected 0.4%. The annual rate of inflation fell from 5.4% to 5.2%. Regarding next year's inflation trend we are quite optimistic and expect the inflation rate to fall to 3.8% until the end of 2005. This is due to the only moderate economic expansion, but also to a much lower increase of food prices.

Outlook: This week's most important data release will be that of the industrial production figures for November (Tuesday). We expect a robust increase of 5.5% y/y. The industrial sector most likely benefited from higher than expected external demand from the US. ---- Gross fixed investment probably rose 6.5% y/y. This means that the rather hesitant recovery of investment demand continued, after the share of investments fell substan-

tially over the past years. ---- Also on Friday, Banxico will probably leave monetary policy unchanged. The central bank will nevertheless continue its restrictive monetary policy until inflation expectations converge 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

Tax revenues increased 8.6% in real terms last year. Relative to GDP, central government tax revenues, which rose steadily over the last couple of years due to a more effective tax collection, increased to reach 13.4% in 2004. ---- Based on surveys of some economic sectors, the Economy Ministry estimated a 7% GDP growth for November, significantly ahead of October's figures. For the whole year 2004, we expect GDP to increase 4.5% (2005: 4.0%). ---- Exports grew 41% yoy in November. Not only the mining and the fishery sector contributed to this good performance, but also non-traditional exports (such as textiles), which increased 37% yoy.

## Venezuela

The government is currently involved in negotiations with the congressional finance commission on the legal framework of the FEM oil stabilization fund (current volume: around US\$ 700 mn). The current regulation re-

quires that PDVSA contribute 50 % of current revenues which exceeds the average of the last three years. On the government's order, PDVSA did not deposit any monies in the FEM in the last two years. ---- The government delivers on its threat to expropriate allegedly „unused“ land: last week it started the investigation of a cattle ranch owned by a UK firm. The government's actions pose a high risk for the already difficult investment climate and further increase the country's dependence on the oil sector. ---- The CB announced that it will transfer a higher than initially expected amount of 2004 exchange rate profits to the government. The final amount to be delivered was not officially announced. We expect the government to tighten its grip on the CB in the coming months, as Congress is expected to appoint someone who is very close to the government as the new CB President in the first quarter.

**Outlook:** We expect the devaluation of the official exchange rate (from currently 1920 VEB/US\$ to 2150 VEB/US\$) for the next weeks, as President Chávez accumulated sufficient political capital to absorb the negative effects a devaluation has on private purchasing power. Revenues from oil exports rise in local currency as a result of the devaluation, which enables the government to continue its very expansionary fiscal stance even despite falling oil prices.

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## Abbreviations:

mom = month-on-month  
qoq = quarter-on-quarter  
yo = 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	07.01.2005	2.96	2.97	2.98	2.85	2.97	0.3	3.1
Brazil	07.01.2005	2.71	2.68	2.77	2.78	2.66	-2.1	2.9
Mexico	10.01.2005	11.29	11.23	11.34	10.82	11.15	-1.2	12.0
Chile	07.01.2005	571	563	593	562	556	-2.6	620
Colombia	07.01.2005	2373	2339	2441	2770	2355	-0.8	2650
Peru	07.01.2005	3.27	3.28	3.29	3.46	3.28	0.1	3.3
Venezuela	07.01.2005	1918	1918	1918	1598	1918	0.0	2150

## EMBI+ Spread

bps	date	last	one week	one month	one year	end 2004	ytd-change, bps
Argentina	10.01.2005	4838	4705	5248	5153	4707	131
Brazil	10.01.2005	414	383	414	408	383	31
Mexico	10.01.2005	166	164	173	183	167	-1
Ecuador	10.01.2005	712	699	740	728	691	21
Colombia	10.01.2005	359	334	367	370	333	26
Peru	10.01.2005	239	215	250	261	220	19
Venezuela	10.01.2005	437	412	437	574	412	25

## Benchmark interest rates

%	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina, Overnight	07.01.2005	2.25	2.31	2.38	1.44	2.31	-0.1	5.0
Brazil Selic	07.01.2005	17.74	17.75	17.24	16.32	17.75	0.0	16.0
Mexico Cetes 28 days	07.01.2005	8.56	8.56	8.46	4.86	8.61	0.0	8.2
Chile 90 days, PDCC	06.01.2005	2.17	2.24	2.41	2.22	2.24	-0.1	3.5
Colombia Overnight	06.01.2005	6.52	6.24	6.86	7.50	6.24	0.3	7.5
Peru Overnight	05.01.2005	3.03	3.03	3.03	2.50	3.03	0.0	4.0
Venezuela deposits 30 days	04.01.2005	10.98	11.56	11.76	11.18	11.92	-0.9	12.0

## Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	06.01.2005	19.7	19.6	19.3	14.3	19.6	0.0	21.5
Brazil	06.01.2005	52.6	52.8	50.3	49.5	52.8	-0.2	58.2
Mexico	31.12.2004	71.6	72.5	71.5	65.8	65.8	5.8	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.)	05.01.2005	24.4	23.8	23.8	21.3	24.2	0.3	20.8

## Economic activity

GDP (yo, %)	2003	2004e	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
Argentina	8.8	8.2	4.5		3.7	6.1	8.5	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	2004e	2003	2004e
Argentina	1.3	3.5	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 2004e

	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	365	39	32.3	2.6	4.0	0.7
Brazil	205	12	65.6	1.8	10.3	14.5
Mexico	79	28	33.3	-1.3	-8.5	15.0
Chile	117	19	7.2	2.4	2.2	3.4
Colombia	242	12	6.9	-1.3	-1.3	2.0
Ecuador	17	9	1.4	0.0	0.5	6.5
Peru	218	16	3.6	-1.2	-0.8	1.1
Venezuela	83	10	8.3	14.6	15.2	9.3