



Argentina:	Foreign participation in swap remains low in early stages
Brazil:	Current account surplus in 2004 at record level
Chile:	Central bank disseminates optimism
Colombia:	Political crisis between Colombia and Venezuela
Ecuador:	President Gutiérrez proposes sweeping constitutional reform
Mexico:	Sharp drop in unemployment
Peru:	Vote of no confidence failed in Congress
Venezuela:	Government tightens grip on central bank

Argentina

Due to legal requirements by the Italian regulatory body (Consob), the Argentine government was forced over the weekend to publish the participation reached so far in the restructuring of defaulted bonds. During the first week of the tender period (which expires on February 25 and on February 4 for the secured exchange of up to US\$ 50.000 into Par-bonds respectively) 23.2% of bonds have been tendered. Earlier, the local exchange authority Caja de Valores had informed of a local participation of 21% during the first week. The latter are likely to consist mainly of local pension funds and institutional investors. Their participation had been expected, due to possible other incentives promised by the government. Hence, based on the data made available, only 2.2% of bonds held abroad (of which the majority is expected to be held by Argentines) participated in the bond-swap during the first week. ---- As expected, the presentations which started last week as part of the Roadshow of the present bond exchange offer, did not bring any news. Government officials reiterated that there will be no further offers. The bondholder committee GCAB continues to reject the offer and will start own presentations in Europe this week. The bondholder association ABRA also rejected the offer, however, mainly because of legal considerations due to the "most favored creditor" clause. ---- Following problems in the early stages of the exchange in Japan, the swap will now go ahead in Japan as well. Japanese creditors hold 3.1% of eligible debt. ---- Growth rates of industrial production (Dec.: 1.9%, mom, s.a.; 9.6%, yoy) and of the monthly GDP-proxy EMAE (Nov.: 0.6%, mom, s.a.; 9.7%, yoy) again came in higher than anticipated.

Outlook: On the back of the presently positive economic data, especially the increase of consumer confidence, we expect positive data for December's retail sales (Thursday) and construction activity, thus reversing a slightly negative move of both indicators in November.

Brazil

Positive external account figures: The Current account surplus amounted to US\$ 1.2 bn in December bringing the surplus for 2004 to nearly US\$ 12 bn. The FDI were

at US\$ 3.15 bn (alternatively US\$ 2.8 bn considering the investments of Brazilians abroad), an extraordinary high inflow. In 2004 the FDI summed up to US\$ 18.2 bn (alternatively: US\$ 8.7 bn). ----- The retail sector's sales increased 6.4% in real terms (as expected). ----- Brazil has tapped the international capital market issuing a 10 year euro-denominated bond (Volume: euro 500 mn) with a spread of 399 basis points. The finance ministry plans to issue US\$ 4.5 bn over the whole year on the international market.

Outlook: The central bank lifted the key interest rate 50 basis points to 18.75%. The minutes, which are going to be published this Thursday, should confirm our assumption that another interest rate hike is to be expected in February, before the central bank might take a wait-and-see position. ----- The unemployment rate, which stood at 11.6% in November 2004, should have fallen to 11% due to the solid economic upturn as well due to seasonal reasons (Tuesday). ----- In December, the central government's primary balance should show a deficit (BRL 5 bn), which would be consistent with the seasonal pattern (Friday). The primary surplus for the whole year would amount to about 4.5% of GDP, which means that the government would have met the target. The public sector's deficit was probably at 2.6% of GDP last year, half the amount of 2003.

Chile

The central bank expects GDP growth in 2005 in a range of 5.3% to 6.3% (DBLA: 5.3%). What is more surprising is the central bank's forecast of a year-end inflation of only 2%, while market consensus calls for inflation coming in close to 3% (DBLA: 3%). The central bank's benign inflation picture hints at a gradual course in monetary tightening, which may take the key interest rate to 3.75% by year-end (currently: 2.5%).

Ecuador

Within the next 30 days Congress will have to vote on a constitutional reform unveiled by President Gutiérrez on Friday. Among the most important of 10 proposed changes is the reduction in the Supreme Court from 31



to 16 judges, with the selection of members to be determined by civil bodies rather than Congress. Furthermore, a new fast track procedure is proposed for Congress to act on urgent legislation. ---- At the beginning of last week, Polibio Córdoba took over as new central bank President. The post had been vacant for six months, as Córdoba earlier on had been rejected by Congress, presumably on the ground of too close ties to President Gutiérrez. This time round, Congress failed to vote against Córdoba during the 10-day period allowed for this vote. As Ecuador opted to officially dollarize its economy, the central bank has a comparatively minor role. ---- During a presentation to investors in New York last week (to promote the exchange of the Global 2012 and plans for a likely successful USD 300 mn bond issue), President Gutiérrez defended his government against the opposition accusing him of undemocratic practices.

Colombia

After the arrest of a Colombian guerilla leader in Caracas, a diplomatic crisis rose between Venezuela and Colombia. Hugo Chávez abandoned temporarily all contracts between the two nations (e.g. a gas pipeline project) and accused the Colombian government to violate the sovereignty of Venezuela. Meanwhile, both parties are trying to solve the conflict and Chávez affirmed he would no longer tolerate members of the Colombian Guerilla to move freely in his country. ----- In its first meeting 2005, the central bank announced to maintain their interest rates at the same level, but will still continue their intervention policy.

Outlook: To achieve this year's 2.5% deficit target despite the failed tax reform, the government is going to cut COP 735 bn (US\$ 324 mn) of their capital expenditure. This notwithstanding, public investment is going to stand at 0.3% of GDP to stimulate growth. In the next days the ministry of finance is going to announce the reduction of costs. ----- Tomorrow the balance of trade data from November will be announced.

Mexico

In December for a third consecutive month, unemployment was sharply lower, falling from 3.8% to 3%. This was mainly due to seasonal factors. Nevertheless, it partly also reflects relatively healthy growth of the economy during the fourth quarter. Overall employment growth has been very disappointing during the term of President Fox. Despite that, his approval rating within the population climbed in December to a high of 62%. - --- In October, the leading indicator, as published by Inegi, rose for the fourth consecutive month. The increase was partly due to a higher equity market and higher oil prices. The continuing improvement of the

leading indicator is contrary to our expectation of a weakening economy in the first half of 2005. Our sluggish growth forecast is based on an economic slowdown in the US starting in the first quarter of 2005.

Outlook: In November, the monthly economic indicator IGAE probably rose 4.3% compared to the same month a year ago (Tuesday). ---- In November, retail sales most likely increased 4.8% Y/Y in real terms. ----- During the first two weeks of January, consumer prices probably rose 0.2% (Monday). This would be another indication for weakening inflationary pressures. As a consequence, we expect the central bank to keep its monetary policy unchanged on its Friday meeting. The market consensus is expecting Banxico to raise the "corto" 5 mn pesos to reach 74 mn pesos. ----- In December, the strong growth of foreign trade should have continued (Monday). For the first quarter of this year we expect a significant slowdown in export growth. The trade balance most likely closed with a deficit of US\$ 1.9 bn.

Peru

The vote of no confidence against Prime Minister Carlos Ferrero and defense minister Roberto Chiabra, which was initiated by the opposition in the course of the examination of the December rebellion in Andahuaylas, failed. It was an important result for the unpopular president Toledo who can now continue to govern with the same cabinet. ----- To advance the competitive position and achieve a sustained economic growth, Peru approved a new agreement with the World Bank. They want to improve the export abilities of each region and domestic enterprises, strengthen their world market presence and prepare the country for the opening of the markets. To achieve these goals, the quality of the products has to rise to world market standard, transportation costs must be lowered by an improved infrastructure and border transactions are going to be simplified. Peru is also tempting to agree on a free trade agreement with Chile and encouraging the negotiations of the Andean Community (member states: Peru, Bolivia, Colombia, Ecuador and Venezuela) with the EU to achieve a free trade agreement which could become effective by May 2006.

Venezuela

Tensions between the country and Colombia, which resulted from the alleged kidnapping of a high-ranking FARC member from Caracas to Colombia ordered by the Uribe government, seem to subside. We do not expect significant distortions to bilateral trade. ----- S&P's, the rating agency, surprisingly lowered Venezuela's foreign currency rating from 'B' to 'SD', as the government did not make a payment on an oil-indexed bond. At the



same time, however, S&P's reaffirmed its 'B' rating for the country's senior unsecured foreign currency debt. The government announced that it intended to execute the payment as soon as possible, and we expect S&P's to lift the rating very soon. ----- President Chávez selected Gastón Parra as successor of outgoing central bank president Castellanos. Parra is due to be confirmed by Congress on January 27, and we expect the nomination of a new central bank director for this week as well. Parra is said to be closer to Chávez than Castellanos has been, which sparks concerns that the central bank will depart from its current, relatively stability-oriented course.

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>

Abbreviations:

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

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Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	14.01.2005	2.94	2.97	2.98	2.88	2.97	1.2	3.1
Brazil	17.01.2005	2.70	2.70	2.71	2.84	2.66	-1.7	2.9
Mexico	17.01.2005	11.23	11.25	11.22	10.81	11.15	-0.7	12.0
Chile	17.01.2005	573	567	574	570	556	-2.9	600
Colombia	17.01.2005	2368	2381	2357	2739	2355	-0.5	2400
Peru	14.01.2005	3.26	3.27	3.27	3.46	3.28	0.6	3.3
Venezuela	17.01.2005	1918	1918	1918	1598	1918	0.0	2200

EMBI+ Spread								
bps	date	last	one week	one month	one year	end 2004	ytd-change, bps	
Argentina	14.01.2005	4926	4842	5472	5549	4707	219	
Brazil	17.01.2005	433	431	396	436	383	50	
Mexico	14.01.2005	171	167	169	188	167	4	
Ecuador	14.01.2005	689	713	733	739	691	-2	
Colombia	14.01.2005	362	360	359	393	333	29	
Peru	14.01.2005	251	240	226	277	220	31	
Venezuela	14.01.2005	447	439	434	612	412	35	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	14.01.2005	2.25	2.25	2.38	1.44	2.31	-0.1	5.0
Brazil Selic	17.01.2005	17.74	17.74	17.74	16.30	17.75	0.0	17.8
Mexico Cetes 28 days	14.01.2005	8.54	8.56	8.54	4.66	8.61	-0.1	8.0
Chile 90 days, PDBC	13.01.2005	2.53	2.17	2.36	1.79	2.24	0.3	3.8
Colombia Overnight	13.01.2005	6.41	6.52	6.93	7.48	6.24	0.2	7.5
Peru Overnight	14.01.2005	3.03	3.03	3.00	2.50	3.03	0.0	4.0
Venezuela deposits 30 days	11.01.2005	11.68	10.98	13.40	12.30	11.92	-0.2	14.5

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	13.01.2005	53.2	52.6	50.4	49.9	52.8	0.4	58.2
Mexico	07.01.2005	73.4	71.6	70.7	65.1	71.6	1.8	65.0
Chile	30.09.2004	15.8	na	15.8	15.7	15.9	0.0	17.3
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	21.1

Economic activity				Inflation				GDP 2003, US\$ bn
GDP (yoy, %)	2003	2004e	2005f	%, year end	2003	2004	2005	
Argentina	8.8	8.2	4.5		3.7	6.1	8.5	127
Brazil	0.5	5.0	3.9		9.3	7.6	6.0	495
Mexico	1.3	4.0	3.0		4.0	5.2	3.6	626
Chile	3.3	5.7	5.3		1.1	2.4	3.0	72
Colombia	3.7	3.6	3.8		6.5	5.8	5.4	79
Ecuador	2.5	7.0	3.5		6.1	1.9	1.5	27
Peru	4.0	4.5	4.0		1.8	3.5	3.9	61
Venezuela	-7.6	17.0	6.0		27.1	19.2	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	2003	2004e	2003	2004e
Argentina	1.3	3.5	140	123	19.8	19.8	19.1	16.0
Brazil*	-5.2	-2.9	58	52	94.2	84.3	72.1	68.4
Mexico**	-0.6	-0.3	28	27	23	30	26	32
Chile***	-0.4	2.4	13	12	0.8	0.8	1.4	-1.7
Colombia	-2.8	-2.5	62	58	10.6	10.0	8.4	7.5
Peru	-1.9	-1.3	48	46	1.1	1.3	2.3	2.2
Venezuela	0.2	0.5	45	34	10.8	9.0	10.7	8.5

* Amortisations only federal debt, including short term debt

** Amortisations without Cetes

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

External Sector 2004e									
	External debt		Debt service		Current account		Trade Balance	FDI (net)	Import cover
	% of exports	s.t., % of total	US\$ bn	% of exports	% of GDP	US\$ bn	US\$ bn	US\$ bn	months
Argentina	365	39	32.3	78	2.6	4.0	13.3	0.7	6.3
Brazil	203	12	65.6	59	2.0	11.7	33.7	14.5	6.2
Mexico	79	21	37.5	18	-1.4	-9.4	-7.1	15.0	3.3
Chile	113	19	7.2	19	2.8	2.6	9.0	3.4	5.2
Colombia	242	11	7.3	41	-1.3	-1.3	1.1	2.0	6.5
Ecuador	17	9	1.4	3	0.2	0.7	6.8	0.5	1.1
Peru	219	9	3.7	26	-1.2	-0.8	2.6	2.0	9.2
Venezuela	83	10	8.3	21	14.5	15.0	22.5	1.3	9.0