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<b>Argentina:</b>	GCAB deems doubling of swap offer as appropriate
<b>Brazil:</b>	Primary surplus 2004 ahead of projections
<b>Chile:</b>	Consumer prices to increase slightly in January
<b>Colombia:</b>	Very good industrial production performance in November
<b>Ecuador:</b>	S&P upgrade
<b>Mexico:</b>	Further monetary policy tightening
<b>Peru:</b>	Bilateral agreements signed with China
<b>Venezuela:</b>	Parra confirmed as CB head

## Argentina

During its own roadshow on Argentina's restructuring offer the bondholder committee GCAB reiterated its rejection of the present proposal. According to the GCAB calculations, the net present value of the offer is 26% of the original value. The GCAB calls for full recognition of past due interest and moving the effective issue date of the new bonds back to December 31, 2001, which would raise the net present value to 55.2%. ---- As demanded by the Italian regulatory authority, the Argentine government announced over the weekend that the participation in the restructuring of defaulted bonds reached 26.7% at the end of the second week of the tender period. Earlier, the Argentine exchange agency Caja de Valores had informed that the local participation had only increased by US\$ 480 mn in the second week so far, adding merely 0.6 percentage points to the participation ratio (national and international). ---- Due to one-off expenses the central government as expected recorded a primary deficit in December of close to pesos 2 bn. For the entire year the surplus still reached 4% of GDP. Tax revenues increased to 22% of GDP (2003: 19.2%). We expect 2005 to end with a primary surplus of 3.5% of GDP. ---- The difficult situation of the privatized utility companies was one of the major points of discussions during meetings of President Kirchner in France in mid-January and the visit of Spain's Prime Minister Zapatero in Buenos Aires last week. The Argentine government is accusing the mainly Spanish- and French-held companies to invest too little, which might lead to a renewed (partly) state-run system. The companies on the other hand are pointing to broken contracts (pesification, protracted hikes of regulated prices) as the reason for their deteriorated situation. ---- As expected retail sales recorded overall positive figures in December. Supermarket sales increased by 4.2% (mom, s.a.) and 9.7% (yoy), respectively. Shopping sales showed an increase of 14.7% yoy but fell by 2.8% mom (s.a.). ---- The construction activity as well showed the expected positive development in December (13.7% yoy; 2.4% mom, s.a.).

Outlook: On Friday, the period during which private creditors have a guaranteed right to swap bonds in default into new Par bonds (up to US\$ 50,000) will end. ---

-- According to the local press the government is planning to introduce in March this year a 20% reserve requirement to be applied to financial investments for a period of one year. Presumably this measure will replace the current minimum holding period of 180 days for portfolio investments. ---- December's exports are likely to be up 20% (yoy); import growth should be around 40% (today). This takes the trade surplus for the entire year to US\$ 13.3 bn (2003: US\$ 16.5 bn). ---- As in previous months tax revenues are likely to have increased by about 30% (yoy) in December. ---- Following an increase of 0.8% (mom) in December we expect consumer prices to be up by close to 1% in January (Thursday).

## Brazil

The minutes of last week's central bank meeting confirm our assumption that the monetary policy tightening will go on. The latest inflation figures of January (IPCA-15: 0.68% mom; IGP-M: 0.38% mom), although declining in comparison with the figures of last month, do not provide much comfort to the central bank. ---- The unemployment rate fell even stronger than we expected, to 9.6% in December from 10.6% in November. However, this was not due to an increase in employment (which almost stagnated in December at +0.1% mom), but to the fact that many jobseekers retreated from the labor market. ---- The public sector's primary deficit amounted to BRL 3.7 bn in December (usually the only month with a primary deficit due to year-end payments etc.). Yet for the whole year 2004 there was an above-target surplus of 4.5% of GDP. Net public debt stood at 51.8% of GDP in December, significantly below the year-ago figure (December 2003: 56.4% of GDP). ---- Driven by growing optimism at small and medium-sized companies, the business confidence index of the industry association CNI continued to rise from 63.7 in October to 64.9 in November, while the big enterprises' sub-index decreased slightly. ---- Finance Minister Palocci rejected rumors about possible revamps of key positions in the central bank's directorate. At the same time he was motivated by this kind of rumors to accentuate the importance of the draft law about central bank independence (which has been under discussion since

early 2003), stating that this law will go to congress soon.

Outlook: Exports should have risen by 25% J/J to US\$ 7.25 bn. Imports should have increased at an even stronger rate. The trade balance surplus is expected at around US\$ 1.7 bn, above the January 2004 figure, however significantly lower than in recent months (sometimes more than US\$ 3 bn, Tuesday). ---- The ballot about the presidency of the lower house is fixed for February 14. The PT candidate, Mr. Greenhalgh, said that he is sure to win in the first round, which requires 257 votes at least.

### Chile

Retail sales showed an increase of 6.2% yoy in December. This takes overall growth in 2004 to 4.6%. We expect retail sales to accelerate in the current year on the back of improving labor market conditions (unemployment rate in December: 7.8%). ---- Industrial production posted very strong growth in December (+10.2% yoy), as did mining production (+12%). ---- Against this backdrop, consumer prices should have increased slightly in January, following a sharp drop in December. We expect a rate of 2.8% yoy (Friday).

### Colombia

The conflict between Colombia and Venezuela sparked by the arrest of a Colombian FARC-member in Caracas did not affect the Colombian foreign exchange market last week. This weekend both governments settled the conflict. ---- Industrial production performed very well in November, growing 5.3% yoy. Particularly the production of capital goods (28.1%), consumer goods (4%) and intermediate goods (4%) increased, whereas construction goods declined by 7%. Employment in the industrial sector increased by 0.8% yoy in November, characterized by a decline of permanent employees (-2.2%) and an increase of temporary workers (+4.3%).

### Ecuador

The rating agency Standard&Poor's lifted Ecuador's long-term foreign currency rating one notch from CCC+ to B-. S&P now rates Ecuador on the same level as Fitch and one notch better than Moody's. We share S&P's positive assessment of recent developments in Ecuador. Commenting on the upgrade, S&P pointed to the improvement in public finances and the positive IMF report on Ecuador.

Outlook: Energy minister Lopez announced he will propose reforms over the next two months aiming at stronger private investment in the public oil company Petroecuador. This comes on top of the announcement

by government officials recently to submit a new hydrocarbons bill to Congress, following last year's failed attempt. As the position of President Gutierrez seems to have strengthened recently, chances have risen that these important reforms will be successful.

### Mexico

In November, the monthly economic activity indicator IGAE, published by Inegi, was 6.0% higher than in the same month of last year. Apparently, economic activity in the fourth quarter was more robust than we had expected. The increase in interest rates so far has not been a drag on consumer demand – in November retail sales rose by 6.7% yoy in real terms – and external demand from the US remained buoyant. Nevertheless, we still expect the economy to slow down in the first half of 2005. ---- In the first two weeks of January consumer prices rose a very modest 0.1%. Despite that fact, the central bank tightened monetary policy again, increasing the "corto" from MXN 69 mn to MXN 75 mn, a move that came as a surprise for us, but that was discounted by the market. Given that this week the Fed with all probability will raise its Fed Funds rate, money market rates (cetes, 28 days) will probably rise from 8.6% to 8.8%. Rising rates should lend short-term support for the Mexican peso, as well. ---- In December the trade deficit showed a surprisingly sharp increase to US\$ 2.3 bn, mainly due to a disappointing performance of exports (7.2% yoy).

Outlook: Consumer confidence probably increased again in January due to moderately growing employment and real wages. ---- The public sector probably had a considerable deficit in December due to seasonal factors (Friday). Nevertheless, the Government will reach its target to keep the public deficit at or below the level of 0.3% of GDP.

### Peru

After negotiations with the Chinese vice president Zeng Qinghong, president Toledo announced that they have signed bilateral agreements – particularly concerning trade and tourism. Peru hopes for a 10% growth in bilateral trade and expects 25,000 Chinese tourists in 2005 (2004: 5,000). ---- The government reopened the 2003 bond and placed an additional US\$ 400 million on favorable conditions, thus already covering the entire 2005 financing needs. In order to lower its public debt Peru would like to take advantage of the benign conditions on international capital markets and repay part of its Paris Club debt ahead of schedule. Negotiations with the Paris Club are expected to be completed in May 2005.

## Venezuela

Renewed irritations concerning the oil-indexed bond payment: the Ministry of Finance declared in a statement that according to its calculation no payment was due, whereas S&P said payments fell due last October. The ministry stressed, however, that, if an independent audit shows that a payment is due, it will be met in full, together with interest. Considering the relatively small amount in question – around US\$ 35 mn – the possibly delayed payment is no indication of unwillingness or even inability on part of the country to meet its obligations. ----- As expected, Gaston Parra's nomination as CB president has been rubber-stamped by the National Assembly. He has up until now played the number two role at the CB and will replace retiring CB president Diego Castellanos, who has headed the monetary institution since 2000. Parra is reportedly the personal choice

of President Chavez, which sparks fears that the CB is likely to face continued pressure to yield up a larger share of its profits to the government, as a way of financing public spending. At the same time, Parra is reportedly less supportive of the idea of an early devaluation of the currency. Given Venezuela's large dollar-denominated oil revenues, devaluation is of course a handy device for boosting government revenues in local currency terms. Therefore, even if devaluation is postponed, it is likely to come back to the radar screen at some stage this year.

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## 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



Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	28.01.2005	2.93	2.96	2.97	2.94	2.97	1.6	3.1
Brazil	31.01.2005	2.64	2.68	2.66	2.93	2.66	0.5	2.9
Mexico	31.01.2005	11.25	11.24	11.15	11.02	11.15	-0.9	12.0
Chile	31.01.2005	588	581	556	581	556	-5.5	600
Colombia	31.01.2005	2368	2365	2355	2743	2355	-0.5	2398
Peru	28.01.2005	3.26	3.27	3.28	3.50	3.28	0.6	3.3
Venezuela	31.01.2005	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	31.01.2005	5099	5172	4707	5767	4707	392
Brazil	31.01.2005	416	423	383	501	383	33
Mexico	31.01.2005	166	170	167	203	167	-1
Ecuador	31.01.2005	652	656	691	720	691	-39
Colombia	31.01.2005	373	353	333	432	333	40
Peru	31.01.2005	241	236	220	359	220	21
Venezuela	31.01.2005	451	456	412	630	412	39

## Benchmark interest rates

%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	28.01.2005	2.31	2.31	2.31	1.44	2.31	0.0	5.0
Brazil Selic	28.01.2005	18.24	18.24	17.75	16.29	17.75	0.5	17.8
Mexico Cetes 28 days	28.01.2005	8.69	8.61	8.61	4.91	8.61	0.1	8.0
Chile 90 days, PDCC	27.01.2005	2.65	2.60	2.29	1.56	2.24	0.4	3.8
Colombia Overnight	27.01.2005	6.40	6.39	6.64	7.42	6.24	0.2	7.5
Peru Overnight	26.01.2005	2.98	2.98	3.03	2.50	3.03	0.0	4.0
Venezuela deposits 30 days	25.01.2005	11.38	11.48	14.52	11.32	11.92	-0.5	14.5

## Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	28.01.2005	20.1	19.9	19.5	14.7	19.6	0.4	21.5
Brazil	27.01.2005	53.4	53.1	52.2	52.9	52.8	0.7	58.2
Mexico	21.01.2005	72.5	72.0	71.8	65.1	71.6	0.9	65.0
Chile	30.09.2004	15.8	na	15.8	15.7	15.9	0.0	17.3
Colombia	31.12.2004	13.5	na	13.0	10.9	10.9	2.6	13.3
Peru	30.11.2004	12.3	na	12.2	10.3	10.2	2.1	12.5
Venezuela (FEM&Gold incl.)	26.01.2005	24.7	24.2	23.9	22.3	24.2	0.5	21.1

## 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	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	5.5	5.4	79
Ecuador	2.5	7.0	3.5		6.1	1.9	1.5	27
Peru	4.0	4.6	4.1		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
Argentina	1.3	3.5	140	123
Brazil*	-5.2	-2.9	58	52
Mexico**	-0.6	-0.3	28	27
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	203	12	65.6	2.0	11.7	14.5
Mexico	79	21	37.5	-1.4	-9.4	15.0
Chile	113	19	7.2	2.8	2.6	3.3
Colombia	233	11	7.3	-1.1	-1.5	2.0
Ecuador	17	9	1.4	0.2	0.7	6.5
Peru	201	10	3.7	-1.2	-0.8	1.1
Venezuela	83	10	8.3	14.5	15.0	9.3