



<b>Argentina:</b>	Participation in bond swap 37% so far
<b>Brazil:</b>	Palocci sees no need for new IMF agreement
<b>Chile:</b>	Historical budget surplus
<b>Colombia:</b>	More interventions by the central bank expected
<b>Ecuador:</b>	Positive fiscal figures
<b>Mexico:</b>	Consumer prices remained stable in January
<b>Peru:</b>	Populist social program planned
<b>Venezuela:</b>	Government announces revision of contracts with private sector

## Argentina

According to official data, participation in the swap of defaulted government bonds reached 37.3% on Wednesday, February 9 (tender offer expires February 25), compared to 35% on the previous Friday (February 4). Earlier on there had been some confusion over official statements indicating a participation of 42.7% on February 9. Hence, the end of the first tender period during which investors were guaranteed (up to US\$ 50.000) a swap into Par bonds did not translate into a significant push for the participation ratio. ---- As expected the lower house also passed the bill according to which the government is not allowed to bring forward an improved restructuring offer and which aims at preventing any court rulings improving the present offer. ---  
- Contrary to our expectations consumer confidence contracted slightly in January (-1.5%, mom). However, following the strong increase in December (+9.2%, mom) consumer confidence remains at a high level.

Outlook: Following strong increases of industrial production in December (+9.6%, yoy) and of the monthly GDP proxy EMAE in November (+9.7%, yoy) we expect both indicators to show high growth rates again for the respective following months (IP: Wednesday, EMAE: Thursday).

## Brazil

Finance Minister Palocci said on Friday that he does not see the necessity of extending the current IMF agreement which is going to expire in March of this year. The increase in foreign exchange reserves (more than US\$ 6 bn in only 4 months) as well as the reduction of foreign debt make Brazil more independent from the international organization's funds, indeed. Nevertheless we continue to expect further collaboration with the IMF aiming at a credit line for emergency cases. ----- Industrial production increased from a high level once again in December (0.6% mom, s.a., 8.3% yoy), which means that the sector expanded by 8.1 in the whole year of 2004. ----- According to the rating agency S&P, the rating of Brazil might be left unchanged until after the

presidential elections in October 2006. Yet in our opinion, the fundamental improvement in the balance of payments as well as the significant reduction of foreign debt should be reflected in a better evaluation of the transfer and sovereign risk.

Outlook: Despite the interest rate hikes seen in the last couple of months, inflation expectations continue to increase, standing now at 5.8% for year-end. The official inflation target of 5.1% is well below that figure. In our judgment the political pressure exerted on the central bank (demands for interest rate reductions and weakening of the real) is to blame for the fact that inflation expectations remain so stubbornly high. Against this background, and also due to the expectation of a high - albeit decreasing - IPCA inflation for January (Thursday), the central bank will probably hike the overnight interest rate again by 50 basis points to 18.75% on Wednesday. In March another monetary tightening is to be expected. ----- The retail sector's sales are likely to have registered a solid growth of 8% yoy in December (Thursday). ----- It seems that the tax reform project is coming back to life again. According to media reports the finance ministry and the governors of the states will start to negotiate about the simplification of the ICMS tax (the most important source of revenue for the states) shortly. ----- We expect tax revenues to have continued their increase in January (+5 % in real terms, probably today).

## Chile

At 2.2 % of GDP, the central government's budget surplus reached historical heights, mainly due to a solid economic expansion and high copper revenues. Public finances had closed 2003 with a deficit of 0.8 %. ----- Economic activity surprised on the upside, as the IMACEC economic indicator increased by 7.7 % in December. This takes overall 2004 growth to 5.9 % yoy, the highest rate since 1997. We expect vibrant growth to continue in the current year. ----- On the back of this news, the central bank lifted the monetary policy interest rate by 25 bps to 2.75 %. It stated that against a back-

drop of a very friendly international interest rate environment and high copper prices and among increasing capacity utilization, a gradual reduction of the monetary stimulus was appropriate. ----- Dynamic external sector activity continues: Exports increased by 37 % yoy in January, while imports expanded briskly as well (+27 %). This takes the trade surplus to US\$ 832 mn, up by more than US\$ 300 mn from January 2004.

## Colombia

The IMF and Colombia agreed on a new standby agreement after the expiration of the current one in April. Thus the IMF is able to have an eye on Colombian economic policy and will define targets. For Colombia this is supposed to be the last standby agreement. ----- As expected central bank president José Uribe announced that he considered the intervention policy of the last month as a success with regard to the desired exchange rate adjustment. He is planning to continue with this policy rather than trying to weaken the peso by cutting interest rates.

Outlook: On Thursday the central bank will declare its new monetary policy. As long as there is no unexpected appreciation of the peso, the institution will maintain its current interest rate.

## Ecuador

Following the leave of the previous general prosecutor, the government is presently trying to fill this post with a government-friendly candidate, which would be a further signal (following the designation of new supreme court judges) that the government is successful in bringing the previously opposition-controlled jurisdiction under its own influence. One of the three candidates appointed (Tito Yepes) has been a lawyer for President Gutierrez. Congress needs to vote on the post at the latest until mid-March.

## Mexico

In January, consumer prices remained stable. Consequently, the annual inflation rate dropped from 5.2% to 4.5%. On its bi-weekly policy meeting on Friday, Banxico decided to leave monetary policy unchanged, which was widely expected. We are still expecting Banxico to raise the "corto" once or twice, until inflation expectations of the private sector slip closer to the central inflation target of 3%. For that reason, money market rates (cetes, 28 days), which rose to a new cyclical high of 9.14% on Tuesday, will probably reach 9.5% by the end of the first quarter, but then should gradually recede to 8.5% at the end of 2005. ----- Due to robust de-

mand from the US, industrial production rose by 3.9% yoy.

Outlook: In the fourth quarter the Mexican economy probably grew by 4.2%. Annual growth in 2004 as a whole output was 4.1%. Due to robust demand from the US in the fourth quarter, the anticipated slowdown during the first half of 2005 most likely will begin somewhat later. Overall we still see plenty of risks for the economy in 2005: Leading indicators reveal that the US economy should continue to slow down slightly in 2005. Import demand in the US will probably grow by 6% this year, considerably less than in 2004. This means that real export growth in Mexico will likely be limited to 7% in 2005 (after double-digit growth in 2004). Consumers, who increased spending by roughly 5% last year, will likely reduce consumption as well (+3% in real terms), due to higher interest rates and only moderate employment and wage growth. Finally, investment demand, which in the fourth quarter should have grown at double-digit yoy rates, will likely slow on the back of higher interest rates and the uncertainty surrounding the presidential elections in July 2006. Overall we expect economic growth to reach 3% in 2005.

## Peru

The government is still very unpopular and is now trying to win the public's favor by planning a new social program. But they did not explain how the program – which is supposed to support the poorest families – is going to be financed. The minister of finance estimates the costs of the program, which are not included in the current budget, at 0.1% – 0.2% of GDP. Under discussion are reductions of social spending in other areas, tax increases, and even the creation of new taxes. In any case will it be hard for the government to meet the target limit of 1.0 % of GDP for the budget deficit in 2005.

Outlook: As we will see on Tuesday – when December growth data are going to be released – the economy grew unexpectedly fast in the last two months of 2004 due to a strong rebound in the primary sector, the expansion of manufactured exports and an increase in domestic demand.

## Venezuela

In line with the recent radicalization of its activities, the government announced that all contracts with non-oil private sector companies will be checked to establish whether they meet the needs of the country or not. Even though the government promised to respect current contracts, such measures will surely deal a further blow to the already poor investment climate. In a similar

move, a government regulation lowers the limit from which farm holdings are considered to be large-scale activities. These „latifundios“ can be expropriated whenever the government considers them „not used productively“. ----- Contrary to rumors of an imminent official devaluation of the peso, no such action took place over the long carnival weekend. Last year, the government used this opportunity for such a move. A devaluation in the next weeks is definitely in the cards, even though the new central bank president Parra is considered a skeptic of devaluation and price pressure

was high in January. ----- According to oil minister Rodriguez, acting president of PDVSA, the company's international activities will be reviewed this year. Rodriguez did not rule out a possible sale of the US gas station company CITGO.

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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

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Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	14.02.2005	2.91	2.92	2.94	2.92	2.97	2.1	3.0
Brazil	14.02.2005	2.59	2.61	2.70	2.91	2.66	2.7	2.9
Mexico	14.02.2005	11.14	11.18	11.22	10.94	11.15	0.1	12.0
Chile	11.02.2005	573	577	573	577	556	-3.0	600
Colombia	14.02.2005	2347	2363	2360	2719	2355	0.3	2408
Peru	14.02.2005	3.26	3.26	3.26	3.48	3.28	0.6	3.3
Venezuela	14.02.2005	1918	1918	1918	1918	1918	0.0	2200

EMBI+ Spread								
bps	date	last	one week	one month	one year	end 2004	ytd-change, bps	
Argentina	14.02.2005	4989	5077	4926	5427	4707	282	
Brazil	14.02.2005	403	405	432	523	383	20	
Mexico	14.02.2005	156	156	171	187	167	-11	
Ecuador	14.02.2005	633	628	689	734	691	-58	
Colombia	14.02.2005	358	363	362	444	333	25	
Peru	14.02.2005	237	221	251	338	220	17	
Venezuela	14.02.2005	469	471	447	651	412	57	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	11.02.2005	2.31	2.31	2.25	1.38	2.31	0.0	5.0
Brazil Selic	11.02.2005	18.25	18.25	17.74	16.32	17.75	0.5	17.8
Mexico Cetes 28 days	11.02.2005	9.11	9.08	8.54	5.36	8.61	0.5	8.0
Chile 90 days, PDBC	10.02.2005	2.90	2.61	2.17	1.51	2.24	0.7	3.8
Colombia Overnight	09.02.2005	6.45	6.43	6.44	7.46	6.24	0.2	7.5
Peru Overnight	11.02.2005	3.00	3.00	3.03	2.48	3.03	0.0	4.0
Venezuela deposits 30 days	04.02.2005	11.14	10.91	10.98	10.43	11.92	-0.8	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	11.02.2005	20.5	20.2	19.8	15.0	19.6	0.9	21.5
Brazil	10.02.2005	56.1	54.9	52.5	53.3	52.8	3.3	58.2
Mexico	04.02.2005	71.6	73.2	71.6	69.5	71.6	0.0	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.)	09.02.2005	24.6	24.6	24.4	22.4	24.2	0.5	21.1

Economic activity				Inflation				GDP 2003, US\$ bn
GDP (yoy, %)	2003	2004e	2005f	% , year end	2003	2004	2005	
Argentina	8.8	8.5	5.5		3.7	6.1	9.0	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	2003	2004e	2003	2004e
Argentina	1.3	4.3	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	12.8	12.5
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	2.7	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	-1.6	-10.4	-8.0	15.0	3.3
Chile	113	19	7.2	19	2.8	2.6	9.0	3.4	5.2
Colombia	233	11	7.3	44	-1.2	-1.5	1.1	2.0	6.5
Ecuador	17	9	1.4	3	0.2	0.7	6.8	0.5	1.1
Peru	201	10	3.7	26	-1.2	-0.8	2.6	2.0	9.3
Venezuela	83	10	8.3	21	14.5	15.0	22.5	1.3	9.0