



Latin American Weekly Spotlight

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A company of the **Allianz Group**

Argentina:	Participation in debt exchange rises only marginally
Brazil:	Lula government suffers severe blow in congress
Chile:	Moody's lifts rating outlook
Colombia:	High industrial production in 2004
Ecuador:	Government plans international capital market comeback
Mexico:	Solid growth in 2004
Peru:	Record growth in December
Venezuela:	GDP expands by 17.3 % in 2004

Argentina

Up until Friday, February 11, the participation ratio in the debt swap had risen only about 3 percentage points compared to the previous week to reach 40%. The official figures again gave reason for misleading interpretations. The fact remains that especially institutional investors are likely to make their decision only at the very end of the tender period expiring on February 25. Hence the expectedly low participation is not necessarily an indication that the final participation will be low. --- The bondholder association GCAB plans to bring its case contra the debt exchange to the International Centre for the Settlement of Investment Disputes (ICSID) of the World Bank. --- The GDP proxy EMAE came in higher than expected in December (9.2% yoy; 0.6% mom). Hence GDP growth is likely to have reached 8.8% in 2004 (previous DBLA forecast: 8.2%). Due to the carryover effect and the positive data of recent weeks we now expect GDP growth of 6% in 2005 (previously: 5.5%). --- The increase of the industrial production in January (9.2% yoy; 0.6% mom) was in line with expectations.

Outlook: The very strong increase of supermarket sales in December (4.2% mom, s.a.) is not likely to be repeated in January (Thursday). However, due to the high consumer confidence we do expect another positive figure. --- House building and public infrastructure projects should continue to provide the basis for another good performance of the construction sector in January (Friday). December had seen a strong increase of 2.4% mom, s.a. (13.7% yoy).

Brazil

The ruling party PT suffered a major defeat in the lower house, as the house's president will no longer come from the PT's ranks. PT candidate Greenhalgh lost in the second round against PP candidate Cavalcanti. The defeat was due to some more radical left-wing parts of the PT. From now on it will be very difficult for the government to control the agenda of the lower house. This is the reason why we expect most law initiatives of the

government (like the planned tax reform or the independency of the central bank) to have only little chances to make progress. ----- The real continued to appreciate enabling the central bank to further build up foreign exchange reserves, which now amount to around US\$ 58 bn. ----- The retail sector expanded surprisingly strongly in December (+11.4% yoy). In 2004 as a whole the sector grew by 9.3%.

Outlook: After the central bank's interest hike by 50 basis points last week, all observers are now waiting for the minutes of the meeting (on Thursday). They may give some clues as to the question of a further tightening. We expect at least one, probably two further rate increases to follow as year-end inflation expectations are still far above the inflation target of 5.1%. Meanwhile many local analysts expect the central bank to stop its tightening path for the time being, in order to first assess the effects of recent interest rate increases on inflation. ----- The current account should have produced a surplus of US\$ 1.9 bn. Foreign direct investments are expected at US\$ 1.5 bn (both January, today). ----- The primary surplus of the public sector reached probably BRL 6 bn in January. Net public debt should have increased slightly to 52.2% from 52.0% in December, partly due to the higher burden caused by the interest rate hikes (Friday). ----- The unemployment rate, which fell to 9.6% in December, may have increased to above 10% in January following the normal seasonal pattern. However, this would be still way below the January 2004 figure (11.7 %).

Chile

With its current Baa1 rating for Chile remaining unchanged for ten years, Moody's lifted Chile's long-term foreign currency rating outlook from 'stable' to 'positive'. In a statement, the agency underlined the country's sound economic policies as a basis for solid growth and improving debt levels. The change in outlook is a clear indication that the agency may lift Chile's debt rating in the near future. However, this is unlikely to have an impact on spreads as Moody's still rates Chile two notches below S&P.

Outlook: Q4-04 GDP figures, which are to be published on Wednesday, should not bring many surprises. We expect an overall 2004 growth of 5.9%, driven by robust domestic demand and dynamic exports. ----- The current account should exhibit a small surplus in Q4-04, taking the overall 2004 surplus to a record of 2.8% of GDP. The very strong performance of FDI, which should come in at almost US\$ 5 bn, is also very good news (Wednesday).

Colombia

Industrial production grew by 7.6% in 2004, taking capacity utilization (76.4%) to its highest level since 1995. ----- Exports grew very strongly in November (+43.7% yoy). This is mainly due to the rebound of demand in Venezuela, as exports to Venezuela grew by approximately 140% last year. Imports rose in November by 48% yoy, which confirms our expectations of sound GDP growth in 2004 (3.6%) even despite the weak third quarter. ----- The government issued a new peso-denominated global bond. The bond, which matures in October 2015, amounts to US\$ 325 mn and carries a coupon of 12 %. ----- As expected, the central bank left its key interest rate unchanged at 6.5%. To soften the peso's recent appreciation trend, the central bank will continue to intervene in the FX market. ----- Finance minister Carrasquilla declared that the CB will provide US\$ 1 bn to the government to prepay foreign debt. President Uribe had already asked for that several times. The move is a negative one, as it forms a direct intervention in the CB's autonomy. Furthermore, at an import cover of 7 months, liquidity is definitely not abundant in Colombia.

Ecuador

Finance Minister Yepez announced last week that the government planned to request congressional approval to issue up to US\$ 750 mn in bonds on international financial markets in 2005. At the same time, however, Yepez highlighted that the sum – almost threefold the amount intended originally (US\$ 275mn) – forms an upper limit and that total issuance will depend on market conditions. Rumors in the market call for a 10-year bond with a coupon of around 10%.

Mexico

The Mexican economy grew by 4.9% yoy in the fourth quarter, taking overall 2004 growth to 4.4%. This has been the largest growth under the government of President Vicente Fox. In addition to a constantly strong demand from the US, the tourism sector posted very strong growth at 14.6%. By this, the tourism sector established itself as the third biggest source of foreign ex-

change. ----- On its meeting on Friday, the central bank left the "corto" and the overnight rate unchanged.

Outlook: We expect the January unemployment rate to remain at the December level. At 3.8%, however, it comes in about one percentage point higher than last year's average. We presume a slight recovery during the current year, based on a recovery in the maquila sector. Strong US demand in this sector should help create about 200,000 new jobs. ---- On the back of some widening in the trade balance, the 2004 current account deficit will probably come in at US\$ 10.4 bn. This, however, amounts to only 1.6 % of GDP, and is contrasted by FDI inflows of US\$ 15 bn.

Peru

Last week the national statistics institute announced that the economy grew by 9.1% yoy in December, taking overall 2004 growth to 5%. Especially the manufacturing industry posted strong growth (+6.7% yoy), so we are expecting a positive effect for employment. ----- The sound economic performance was also commented by the IMF's managing director, Rodrigo de Rato, on his one-day visit in Lima. According to de Rato, despite the low popularity of president Toledo the government still maintains an orthodox economic path and achieves a low budget deficit, benign inflation and a stable currency. However, we would highlight the still high external debt levels (more than 200% of exports) and the considerable political instability.

Venezuela

Further confusion in the discussion over a possible PDVSA retreat from the US: In a 180 degree move from recent statements, oil minister Rodriguez announced that PDVSA had no plans to abandon the US market. --- -- GDP growth in Q4-04 came in as expected at 11.2% yoy, taking overall 2004 growth to 17.3%. The high growth rate is based on a very low basis of comparison, so growth should slow considerably during the current year, also given the government's interventionist economic policies. ----- The current account posted a surplus of US\$ 3.9 bn in Q4-04, somewhat higher than in the quarters before, with a lower trade surplus contrasted by lower interest and income payments abroad. The overall current account surplus in 2004 amounted to US\$ 14.6 bn. ----- According to local press reports, the central bank is to transfer foreign exchange gains of the second half of 2004 amounting to US\$ 1.8 bn to the government in the coming weeks. We expect more central bank payments to the government in coming months, as the government has tightened its grip on the formerly independent institution.



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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	21.02.2005	2.91	2.91	2.94	2.92	2.97	2.0	3.0
Brazil	21.02.2005	2.58	2.58	2.69	2.96	2.66	3.1	2.9
Mexico	21.02.2005	11.06	11.16	11.24	11.05	11.15	0.8	12.0
Chile	21.02.2005	566	567	577	590	556	-1.9	580
Colombia	21.02.2005	2315	2336	2375	2660	2355	1.7	2398
Peru	21.02.2005	3.26	3.26	3.27	3.47	3.28	0.6	3.3
Venezuela	21.02.2005	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	18.02.2005	4942	4994	5202	5555	4707	235	
Brazil	21.02.2005	394	402	429	579	383	11	
Mexico	18.02.2005	151	157	175	189	167	-16	
Ecuador	18.02.2005	644	634	696	750	691	-47	
Colombia	18.02.2005	348	360	375	437	333	15	
Peru	18.02.2005	232	238	257	331	220	12	
Venezuela	18.02.2005	449	471	458	696	412	37	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	18.02.2005	2.31	2.31	2.25	1.38	2.31	0.0	5.0
Brazil Selic	21.02.2005	18.75	18.26	18.24	16.33	17.75	1.0	17.8
Mexico Cetes 28 days	21.02.2005	9.14	9.11	8.54	6.11	8.61	0.5	8.5
Chile 90 days, PDBC	17.02.2005	3.08	2.90	2.53	2.05	2.24	0.8	3.8
Colombia Overnight	17.02.2005	6.44	6.39	6.39	7.37	6.24	0.2	7.5
Peru Overnight	18.02.2005	3.00	3.00	2.98	2.48	3.03	0.0	4.0
Venezuela deposits 30 days	16.02.2005	11.40	11.23	10.40	10.46	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	18.02.2005	20.8	20.5	19.8	15.0	19.6	1.1	21.5
Brazil	17.02.2005	57.9	56.1	53.0	53.6	52.8	5.1	62.0
Mexico	11.02.2005	72.1	71.6	73.4	71.0	71.6	0.5	65.0
Chile	31.12.2004	16.0	na	16.0	15.8	15.8	0.2	16.5
Colombia	31.01.2005	13.7	na	13.5	11.2	13.5	0.2	14.5
Peru	30.11.2004	12.3	na	12.2	10.3	10.2	2.1	12.5
Venezuela (FEM&Gold incl.)	17.02.2005	24.5	24.6	24.5	22.2	24.2	0.3	26.6

Economic activity				Inflation				GDP 2003, US\$ bn
GDP (yoy, %)	2003	2004e	2005f	% , year end	2003	2004	2005	
Argentina	8.8	8.8	6.0		3.7	6.1	9.0	127
Brazil	0.5	5.0	3.9		9.3	7.6	6.3	495
Mexico	1.3	4.0	3.3		4.0	5.2	3.7	626
Chile	3.3	5.9	5.3		1.1	2.4	2.9	72
Colombia	3.8	3.6	3.8		6.5	5.5	5.7	80
Ecuador	2.5	7.0	3.5		6.1	1.9	1.5	27
Peru	4.0	4.8	4.7		1.8	3.5	3.0	61
Venezuela	-7.6	17.0	6.0		27.1	19.2	17.2	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	4.2	140	123	19.8	19.8	19.1	16.1
Brazil*	-5.2	-2.7	56	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	-1.2
Colombia	-2.8	-2.3	62	58	10.6	10.0	12.8	12.3
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	18.2	6.2
Mexico	79	21	37.5	18	-1.6	-10.4	-8.0	15.0	3.2
Chile	113	19	7.2	19	2.8	2.6	9.0	5.0	5.2
Colombia	233	11	7.3	44	-1.3	-1.1	1.1	2.0	7.0
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	14.1	14.6	22.1	1.3	9.0