



<b>Argentina:</b>	Participation ratio reaches 76%
<b>Bolivia:</b>	President Carlos Mesa announces his resignation
<b>Brazil:</b>	Strongest economic growth since 1994
<b>Chile:</b>	Consumer prices surprisingly fall in February
<b>Colombia:</b>	Restrictions on capital movements are going to be abolished
<b>Ecuador:</b>	Unemployment increases to 11.5%
<b>Mexico:</b>	Consumer confidence is growing
<b>Peru:</b>	Budget surplus due to sound tax revenue
<b>Venezuela:</b>	Long-expected devaluation to VEB/US\$ 2150

## Argentina

According to preliminary figures released by the Argentine Ministry of Finance 76.1% of eligible bonds had been tendered by the end of the tender period on February 25. The official result will be made public on March 18. Given this result, which had been expected, the IMF is likely to accept the rescheduling. However, close to US\$ 20 bn of Argentine sovereign bonds remain in default. Considering the haircut on discount bonds and quasi-par bonds, the nominal value of the tendered bonds (US\$ 62.3 bn) will decrease to US\$ 35.2 bn of new bonds. Furthermore Argentina has not recognized past due interest payments of US\$ 22 bn for 2002 and 2003. ---- Growth of tax revenues remained high in February (+29.7%, yoy). ---- The dynamic increase of exports continued in January. Export volume was up 23% (yoy), and the export value increased by 18%. Partly due to the high base of comparison import growth slowed more than expected to 18% (yoy). The trade surplus reached US\$ 955 mn (January 2004: US\$ 800 mn).

Outlook: Consumer confidence (Thursday) at the beginning of March is likely to have remained at the high level of the previous month.

## Bolivia

After weeks of civil commotions, protests, road blocks and the notice of a blockade of the airports, President Mesa has announced his intention to step down. Protests focus on the government's energy policy and demand higher taxes on energy producers and increasing aid for the poor population. Mr. Mesa, who wants to avoid sending troops against the protesters, apparently sees no possibility for a compromise solution and is going to tender his resignation to congress today. Mr. Mesa took office only 17 months ago after former president Gonzalo Sanchez de Lozada had to leave the country after a national uprising.

## Brazil

Economic activity increased by 4.9% yoy in the last quarter of 2004, leading GDP growth to 5.2% in whole year. The expansion of the private consumption was eye-catching (1.3% qoq, sa) as well as the heavy fall of investments (-3.9% qoq, sa), even though the latter figure was distorted by the fact that investments in two oil platforms had to be registered as exports. The strong growth of imports (2.7% qoq) is a good sign that the economic upturn is continuing. ----- The public sector's primary surplus amounted to a historically very high number of 7.4% of GDP in January. This contributed to a further reduction of the public debt ratio to 51.5% of GDP (Dec 04: 52.0%). ----- The central bank increased the stock of foreign exchange reserves by another US\$ 4.65 bn in February alone, bringing the reserves to US\$ 60.27 bn. In comparison to the beginning of the year this represents an increase of US\$ 7 bn. ----- In the 12 months to February Brazil exported goods amounting to US\$ 100 bn, a new record high. The trade surplus in this period reached US\$ 35.1 bn (some 6 % of GDP). For the whole year we expect exports to amount to US\$ 104 bn.

Outlook: Industrial production should have increased by 6% yoy in January (Wednesday). ----- The IPCA inflation for the month of February has probably accelerated, considering that the IPCA-15 was unexpectedly high. --- -- We expect a cabinet reshuffle to be announced during the next few weeks. While the key position of the Finance Ministry should be kept untouched, the issue will be the replacement of the ministers of planning and of health, among others. Apart from that, it seems probable that the PMDB (although having left the ruling coalition officially) will get an additional minister post.

## Chile

The industrial production, which expanded by 8% yoy in 2004, moderated speed in January (5.3% yoy). Ex-



tremely positive, however, is the strong surge in capital goods production (32% yoy), reinforced by very strong sales of industrial goods (+55% yoy). ----- On the back of very high commodity prices, the mining production grew by 11.8% in January. ----- Positive news from the labor market: the number of employed persons increased by 3.4% yoy in January. The unemployment rate, however, increased slightly with respect to January 04 (to 7.5%), as the number of people looking for jobs is rising even more.

Outlook: On the back of solid industrial and mining production data and a rise in imports of 27% yoy, we expect the IMACEC economic activity index to post growth of around 7% in January (today). ----- After two months of deflation, consumer prices surprisingly fell once again in February (-0.1% mom), mainly due to lower energy and transport prices. This takes the annual rate to only 2.2%. As core inflation was negative as well in February (-0.3% mom), the central bank may decide to leave interest rates unchanged at 2.75% on its meeting on Thursday.

## Colombia

In December 2004, the government had established capital account controls in order to stop the peso's appreciation against the US-Dollar. Yet the peso continued to appreciate by about 6.3 %, which induced Finance Minister Carrasquilla to declare that the restrictions on capital movements did not work and, additionally, retained investors from investing in Colombian bonds and stocks. Hence the restrictions are going to be abolished within the next six months. Last week the peso devalued to over 2340 COP/US\$ due to dollar purchases of pension funds and the market reaction to the devaluation of the Venezuelan Bolívar. If the peso appreciates again we expect renewed foreign exchange interventions by the central bank. ----- Due to base effects, the annual inflation rate declined to 5.25% in February. Compared to January, the rise of 1.02% is relatively high, albeit partly due to seasonal factors (even though most analysts expected an even higher increase). We expect year-end inflation to reach 5.7%, as the peso has little room to appreciate and prices of tradable goods are probably going to rise. Furthermore we anticipate higher gasoline prices and increasing transportation costs.

## Ecuador

The unemployment rate increased to 11.5% in January from 9.9% in December. Following strong economic growth of around 7% in 2004 this is another indication that growth was concentrated in the less employment intensive oil sector. Discontent with the government,

which recently managed to consolidate its position in Congress, is likely to grow.

## Mexico

In February, consumer confidence unexpectedly increased from 105.2 to 107.9 (January 2003 = 100). This indicates that the situation on the job market continues to improve. So far the US economy is holding up pretty well in the first quarter of 2005. Economic growth at Mexico's most important trading partner most likely will reach 3.5% this year, substantially more than we had previously expected. For this reason we increase our forecast for GDP growth in Mexico from 3.3% to 3.7%. ---- In January the budget surplus of the public sector shrank substantially to 1.2 bn pesos from 24.7 bn pesos in the same month a year ago. This was due to one-time effects that had boosted last year's January surplus. At least in the first quarter of 2005 the financial situation of the public sector will be supported by continuously high oil prices.

Outlook: In December, gross fixed investment probably grew by 10.2% y/y (Tuesday). ---- Consumer prices are expected to have increased only slightly in February (0.25% m/m). Core inflation, at 0.4%, nevertheless could be higher than desired by the Mexican central bank. In that case we do not exclude a further increase of the „corto“ at the regular bi-weekly monetary policy meeting of the central bank on Friday.

## Peru

Due to higher revenues (10% yoy real terms) and only marginally higher spending the government achieved a budget surplus of PEN 991 bn (US\$ 304 bn) in January. Tax revenues will continue to rise – even though less intensely than in recent months, but we are also expecting increasing expenditure. Finance Minister Kuczynski already announced that in April he will ask for an increase of the public budget in congress, arguing that this increase is inevitable to meet social needs of the population (higher wages for doctors, teachers and the new social welfare program ProPeru). The additional costs are going to be about 2% of the budget (about US\$ 350 mn). Kuczynski affirmed that financing will be made through additional taxes. We do not believe that tax revenues will be able to compensate the additional costs and anticipate that the government will not meet its target limit of 1.0% of GDP for the budget deficit (DBLA forecast: 1.2% of GDP).

## Venezuela

At 0.2% mom, the CPI was at its lowest rate in 17 years in February, taking the annual rate below 17%. Supported by this development, the central bank finally decided to devalue the national currency from VEB/US\$ 1920 to VEB/US\$ 2150, a move broadly anticipated in recent weeks. The move was induced by fiscal considerations, as devaluation not only increases the central bank's foreign exchange profits, but also lifts public revenues (in local currency) from oil production and exports. As the government currently does not have to fear any political opposition, it will be able to stand the devaluation's negative consequences for the people, mainly due to renewed price increases. Additionally, this effect will be cushioned by increased foreign exchange delivery at the official exchange rate on part of CADIVI, the foreign exchange authority. ----- Renewed populist interference by the government in economic activity:

Banks have been ordered to hand out 10% of total credits for housing activities. Interest rates are regulated and differ according to the debtor's income, but all remain below the current inflation rate. Together with directed lending for the agricultural sector, interest-regulated loans now amount to 25% of total loans. Further distortions in resource allocation are to be expected.

Outlook: Congress approved modified government plans to issue public debt of up to US\$ 4.2 bn on international markets in 2005. A first part was placed today in order to raise funds to meet a US\$ 500 mn payment due at the end of March. As the rating agency S&P has reinstated the country's "B" rating, no obstacles were present from this side.

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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	07.03.2005	2.94	2.94	2.92	2.94	2.97	1.2	3.0
Brazil	07.03.2005	2.66	2.59	2.61	2.88	2.66	0.0	2.9
Mexico	07.03.2005	11.04	11.09	11.18	10.97	11.15	0.9	12.0
Chile	07.03.2005	586	575	577	591	556	-5.1	580
Colombia	07.03.2005	2336	2329	2363	2680	2355	0.8	2398
Peru	07.03.2005	3.26	3.26	3.26	3.47	3.28	0.6	3.3
Venezuela	07.03.2005	2147	1918	1918	1918	1918	-10.7	2200

EMBI+ Spread								
bps	date	last	one week	one month	one year	end 2004	ytd-change, bps	
Argentina	04.03.2005	5051	5006	5140	5857	4707	344	
Brazil	04.03.2005	380	391	409	550	383	-3	
Mexico	04.03.2005	148	156	158	183	167	-19	
Ecuador	04.03.2005	611	639	628	742	691	-80	
Colombia	04.03.2005	336	346	369	407	333	3	
Peru	04.03.2005	193	215	238	345	220	-27	
Venezuela	04.03.2005	417	440	469	705	412	5	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	04.03.2005	2.31	2.31	2.31	1.38	2.31	0.0	5.0
Brazil Selic	07.03.2005	18.74	18.75	18.25	16.30	17.75	1.0	17.8
Mexico Cetes 28 days	04.03.2005	9.26	9.26	9.08	6.16	8.61	0.7	8.7
Chile 90 days, PDBC	03.03.2005	2.91	2.87	2.61	1.45	2.24	0.7	3.8
Colombia Overnight	02.03.2005	6.46	6.42	6.43	7.21	6.24	0.2	7.5
Peru Overnight	04.03.2005	2.93	3.01	3.00	2.48	3.03	-0.1	4.0
Venezuela deposits 30 days	28.02.2005	11.17	10.27	10.91	10.26	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	04.03.2005	21.0	20.7	20.2	15.0	19.6	1.4	21.5
Brazil	03.03.2005	60.3	58.6	54.9	52.5	52.8	7.5	62.0
Mexico	25.02.2005	71.0	70.3	72.5	68.9	71.6	-0.6	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	31.12.2004	12.6	na	12.3	10.2	10.2	2.4	12.5
Venezuela (FEM&Gold incl.)	02.03.2005	24.7	24.7	24.6	22.7	24.2	0.6	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	4.4	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	5.0	4.7		1.8	3.5	3.0	61
Venezuela	-7.7	17.3	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	128	18	7.2	21	1.5	1.4	9.0	5.0	5.6
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	199	10	3.7	26	0.1	0.1	2.6	2.0	9.8
Venezuela	83	10	8.3	21	14.0	14.6	22.1	1.3	9.0