



A company of the **Allianz Group**

Argentina: Weak industrial production

Bolivia: Congress rejects election proposal

Brazil: Current account deficit expected for February

Chile: High GDP growth in 2004

Ecuador: Reform package sent to Congress

Colombia: Continued positive growth trend

Mexico: Industrial production weaker than expected

Peru: More good growth news

Venezuela: Expropriations are enforced

Argentina

The industrial production showed an increase of only 5.3% in February, below expectations of about 7%. In mom terms, production fell by 0.7% (sa). In the first quarter of last year, the industrial production had increased significantly ahead of energy shortages expected by producers, which means there is a high base of comparison. All in all the industrial production should maintain a solid path; on average, production capacities are far from being fully utilized. ----- Fortified anti-inflation politics: The central bank has issued more short term debt to check the expansion of the monetary base. At the same time their purchases of dollars decreased significantly (from US\$ 20 mn in February to US\$ 5 mn in March, daily average). ----- As negotiations with the IMF began last week, the fund's managing director, Rato, appealed to the argentine government to treat foreign investors who are invested in Argentina with respect. Current negotiations, however, will initially concentrate mainly on technical issues such as inflationary targets as well as the primary surplus target. Although the minister of Economy, Lavagna, announced that the new inflation target is now in the range of 8 to 11% (versus the central bank's target of 5 to 8%), we do not expect major difficulties at this stage.

Bolivia

Political unrest continues. The focus was on the discussion concerning taxes on exploitation of natural gas deposits. President Mesa was able to partially gain support in congress for his claims of a 32% output tax in addition to the already existing royalty charge of 18%. Senate approval is still pending. The opposition under Evo Morales is trying to enforce its claims of a 50% royalty charge by street blockades, causing daily losses of US\$ 14 mn to the country's economy. Last Thursday the parliament rejected the President's proposal of new elections to be held in August. President Mesa, who has wide-spread public support, will continue with his efforts to persuade the opposition to abandon the blockades.

But we do not expect a permanent easing of tensions soon.

Brazil

The central bank increased the overnight interest rate by 50 basis points to 19.25%, as we expected. We believe that this was the last hike this year. However, on Thursday we should have more information after the publication of the minutes of last week's meeting. ----- Retail sales showed an increase of 6.4% yoy in real terms in January, slightly below our expectations. We were surprised by above-average gains for durable goods. Nevertheless we stick to our assessment that especially these sectors will suffer most from recent interest rate hikes. ----- After the leakage of some of the possible changes of ministers to the press, we expect an official announcement of the cabinet reshuffle to happen this week. Anyway, we do not expect this event to be a market mover or to change our positive assessment of Brazil.

Outlook: The current account should be slightly in the red in February as the relatively small trade surplus of US\$ 1.6 bn may be offset by interest and dividend payments of almost US\$ 2 bn. Foreign direct investment is expected to reach US\$ 1.3 bn, significantly more than last year's monthly average (both today). ----- As figures published by the industrial association Fiesp indicate a further labor market improvement in São Paulo, we expect Brazil's unemployment rate to fall from 10.5% in January to 10.1% in February (February 2004: 12.0%, Wednesday).

Chile

On Wednesday fourth quarter GDP data will be published. We are expecting like an economic growth of 6.8% yoy, similarly as in the third quarter (+6.86% yoy). Overall we expect 2004 GDP growth at 5.9%.

Ecuador

President Gutierrez submitted a reform package to congress last week. Although the bill is „urgent“, which means that it must be treated within 30 days, experience tells us that the whole process will take much longer, even more so as Gutierrez has all but a secure majority in congress. The reform package focuses on the improvement of investment conditions in the oil sector, an important requirement of the IMF. ---- Conflicts with respect to the reshuffle in the Supreme Court last year continue. Now employees of the court started a strike to protest against the shake-up, while a team from the UN began an investigation of the issue. All in all this contributes to a further weakening of the government.

Colombia

Last year's positive growth trend seems to continue in 2005. Especially higher demand for energy in the industrial sector and lower January unemployment data confirm the positive trend. After declining in 2004, yoy employment figures rose again for the first time in January (+0.2 percentage points).

Outlook: Publication of fourth quarter data 2004 was postponed from last week to the end of March. Yet the Finance minister declared that yoy growth reached 4.2% - 4.5%, up from 2.46% in the third quarter. For 2004 as a whole we expect growth to be 3.7%.

Mexico

In January, industrial production was 3.1% higher than a year ago. This was less than we had expected (4.5%). Demand from the US has continued to be buoyant in the first quarter. We already had postponed our forecast for a slowdown of the Mexican economy to the second half of 2005 and increased our growth forecast for 2005 from 3.3% to 3.7%. ---- Like other emerging market currencies, the Mexican peso was under pressure last week due - among other factors - to “inflation fears” in the US. After the US dollar had been worth less than 11 pesos the week before, its value increased to 11.20 pesos; the risk premium for foreign currency denominated government bonds rose as well, from 140 basis points to around 170 basis points.

Outlook: On Tuesday, the central bank will publish inflation statistics for the first two weeks in March. Consumer prices most likely rose by 0.2%. On Friday, Banxico will probably leave its monetary policy unchanged, as peso interest rates, currently at 9.4% (cetes, 28 days) will most likely already rise after tomorrow's increase of Fed Funds. --- As consumer demand remains robust, real

retail sales were probably 5.5% higher in January than a year ago. In February, the trade deficit (US\$ 700 mn) probably fell considerably compared to January (US\$ 1164 mn).

Peru

GDP grew 5.3% yoy in January (forecast: +4.5%). Due to the Camisea natural gas project, production in the energy sector rose 30% yoy in real terms, which significantly contributed to overall growth. The agricultural sector reported a slight increase (+1.53% yoy) after last year's decline of 1.0%. Growth was also driven by exports as well as sectors with a strong domestic bias such as retail sales (+7.0%), services (+6.6%), and construction (+4.7%). ---- Unemployment fell to 10.6 % in February (after 13% in January). There was, however, no reduction compared to February 2004.

Outlook: Paris Club negotiations scheduled for last week were postponed to probably April. Peru is planning to buy back US\$ 1.5 bn of its total outstanding Paris Club debt of US\$ 8.5 bn.

Venezuela

Consistent with the Venezuelan government's policy of arbitrary interventions in land ownership, the National Agricultural Institute (INTI) announced last week two resolutions concerning the „El Pinero“ and „El Charcote“ cattle ranch expropriations. In its resolutions, the INTI said that both estates will pass into public hands since they fulfilled the “idle land” criteria. This decision represents the current administration's first attempt of land confiscation, but it is to be feared that more confiscations are in the pipeline. ---- On the international front, the Venezuelan Minister of Energy, Rafael Ramirez, renewed its threat to stop selling oil to the US if this country attempts “against the Venezuelan democracy” or President Chavez, as is being rumored. Moreover, the Vice-president, Vicente Rangel, made the government of Colombia and its Plan Colombia responsible for the recent increased violence in Venezuela. At the same time he denied Venezuela was engaged in an arms race with Colombia. Venezuela had recently concluded an agreement on weapon purchases from Russia.

Outlook: Continued attempts by the government to confiscate land increase the judicial uncertainty in the country.

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Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
oy = 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	18.03.2005	2.92	2.92	2.91	2.87	2.97	1.9	3.0
Brazil	21.03.2005	2.72	2.74	2.58	2.91	2.66	-2.3	2.9
Mexico	21.03.2005	11.22	11.16	11.07	10.98	11.15	-0.7	12.0
Chile	18.03.2005	586	590	565	610	556	-5.1	580
Colombia	18.03.2005	2367	2354	2313	2673	2355	-0.5	2398
Peru	18.03.2005	3.26	3.26	3.26	3.46	3.28	0.6	3.3
Venezuela	18.03.2005	2147	2147	1918	1918	1918	-10.7	2200

EMBI+ Spread

bps	date	last	one week	one month	one year	end 2004	ytd-change, bps
Argentina	21.03.2005	5086	5047	4941	5576	4707	379
Brazil	21.03.2005	428	409	394	536	383	45
Mexico	21.03.2005	168	155	151	188	167	1
Ecuador	21.03.2005	618	629	643	703	691	-73
Colombia	21.03.2005	371	358	348	386	333	38
Peru	21.03.2005	231	215	232	339	220	11
Venezuela	21.03.2005	440	429	449	679	412	28

Benchmark interest rates

%	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina, Overnight	18.03.2005	2.38	2.31	2.31	1.31	2.31	0.1	5.0
Brazil Selic	18.03.2005	19.24	18.75	18.75	16.05	17.75	1.5	17.8
Mexico Cetes 28 days	18.03.2005	9.41	9.31	9.12	6.38	8.61	0.8	8.7
Chile 90 days, PDCC	17.03.2005	2.81	2.87	3.08	1.60	2.24	0.6	3.8
Colombia Overnight	16.03.2005	6.28	6.39	6.41	7.09	6.24	0.0	7.5
Peru Overnight	18.03.2005	2.88	2.88	3.00	2.48	3.03	-0.2	4.0
Venezuela deposits 30 days	15.03.2005	10.67	10.55	11.26	9.96	11.92	-1.3	14.5

Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	17.03.2005	21.0	20.9	20.7	12.0	19.6	1.4	21.5
Brazil	16.03.2005	63.4	62.7	57.1	51.7	52.8	10.7	62.0
Mexico	11.03.2005	71.1	70.7	72.1	68.6	71.6	-0.5	65.0
Chile	31.01.2005	15.6	na	16.0	16.0	16.0	-0.4	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.)	15.03.2005	25.3	25.3	24.7	22.6	24.2	1.1	26.6

Economic activity

GDP (yo, %)	2003	2004e	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
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
Argentina	1.3	4.2	140	123
Brazil*	-5.2	-2.7	56	52
Mexico**	-0.6	-0.3	28	27
Chile***	-0.4	2.4	13	12
Colombia	-2.8	-2.3	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	4.0	13.3	0.7
Brazil	203	12	65.6	11.7	33.7	18.2
Mexico	79	21	37.5	-10.4	-8.0	15.0
Chile	128	18	7.2	1.4	9.0	5.6
Colombia	233	11	7.3	-1.1	1.1	2.0
Ecuador	17	9	1.4	0.7	6.8	0.5
Peru	199	10	3.7	0.1	2.6	2.0
Venezuela	83	10	8.3	14.6	22.1	1.3