



Argentina: Settlement of bond swap delayed

Brazil: IMF agreement not renewed

Chile: Fitch concedes rating upgrade

Ecuador: Bond swap cancelled

Colombia: 2004 growth stronger than expected

Mexico: Presidential hopeful Lopez Obrador to be impeached

Peru: Continuing strong export growth

Venezuela: Further political intervention in the economy

Argentina

A US Court last week ruled in favor of the Argentine government in a case brought forward by NML Capital. However, until the US Court of Appeals treats the case the freeze of USD 7.0 bn remains in place, preventing the Argentine government to proceed with the settlement of new bonds originally planned for April 1. ---- GDP grew 9.1% (yoy) in Q4-04, bringing the growth rate for the entire year up to 9% (DBLA forecast: 8.8%). For 2005 we expect GDP growth to reach 6%. ---- The trade balance registered a surplus of USD 0.7 bn in February. Due to a fall in export prices (-6%) exports only grew 8%, yoy. Imports went up 37% yoy behaving very much in line with expectations, signaling that the economy continues growth at a fast pace. ---- Supermarket sales went up by a more moderate 6.1% yoy in Feb-05 compared to an average of 9.3% yoy in the period Dec-04/Jan-05. Similarly, the index recorded a fall of 0.4% mom in seasonally adjusted terms. We see February's data as a normal step back coming out of a period of seasonally high consumption levels.

Outlook: Consumer prices likely rose again by 1.0 mom in March (Tuesday) bringing the yoy rate to 8.6%. We expect a further deterioration, an insufficient tightening of the monetary policy and thus a year-end rate of 11.5%.

Brazil

The IMF agreement will not be renewed. This was announced by the government at the start of last week. Given the build-up of foreign exchange reserves in the past several months, to a current level of almost US\$ 62 bn, or US\$ 35 bn on a net basis (after the deduction of the IMF credits), this measure seems traceable. In addition the government meets a demand of the left-wing sector of the PT. However, as the increased global risk aversion could end up in significant capital outflows, we deem this decision to be premature. ----- After not having been able to push through its own candidate for the presidency in the lower house in February, the govern-

ment's weakness has become more and more apparent during recent weeks. The long awaited cabinet reshuffle probably will not happen (only two ministers were replaced). In addition, the government had to withdraw a draft bill, which was planned to generate higher income tax revenues, as it was not able to gather enough support for the law. ----- The trade surplus amounted to over US\$ 3 bn, leading to a trade surplus of about US\$ 8 bn for the first quarter 2005, US\$ 2 bn more than in Q104. ----- The balance of payments figures for February were very positive, too. The current account balance was slightly in the black (US\$ 117 mn, we had expected a small deficit) and the surplus in the capital balance reached US\$ 4.4 bn, supported by strong net portfolio inflows of US\$ 3.45 bn. This contrasts with net portfolio outflows of US\$ 4.8 bn in the whole year of 2004. Finally, FDI inflows were somewhat disappointing, amounting to only US\$ 900 mn. ----- The unemployment rate (measured in the six biggest cities) increased to 10.6% in February from 10.2% in January (February 2004: 12%).

Outlook: After a strong increase of São Paulo's industrial production (INA) of 1.9% mom (sa) in February we expect growth rates of 0.8% mom (sa) and 11.4% yoy for Brazil as a whole (Wednesday). ----- Another hint with respect to the further development of the industrial sector should be given by the car production figures for March (probably on Thursday). ----- The IPCA inflation should have amounted to 0.5% mom in March, relatively high given the inflation target for the end of the year of 5.1%. Inflation expectations showed another increase last week. However, the central bank communication signals that the key interest rate will be kept unchanged at the next meeting (April 20). We suppose that the central bank accepted the fact that the 2005 inflation target will be missed (DBLA forecast: 6.5%).

Chile

Further good news from the economy: Despite a very high basis of comparison, industrial production in-



creased by 3.5% in February (Feb-04: +8% yoy). Industrial sales increased by 7% yoy (Feb-04: 6.8%), while retail sales grew by 2.5% (Feb-04: 8.2%). ----- This positive picture is matched by good news from the labor market: employment was up by 3.2% yoy in February, almost doubling the 2004 average of 1.7%. The fact that almost 85% of the new jobs are in dependent labor relationships, which imply higher incomes and better social security than self-employed jobs, is especially good news. The unemployment rate increased nevertheless from 7.4% in Feb-04 to 7.6% in Feb-05, as more people are entering the labor market (+3.4% yoy) due to good growth prospects. ----- Solid public finances and decreasing public debt led the rating agency Fitch to lift Chile's long-term foreign debt rating from „A-“ to „A“. Fitch now rates Chile at the same level as S&P (A) and two notches above Moody's (Baa1).

Outlook: We expect the economy to have expanded by 5% in February (Tuesday). ----- Consumer prices are likely to have risen significantly in March, following stronger-than-expected decreases between December and February (Tuesday). This should take the annual CPI rate to 2.3%, still at the lower end of the central bank's target band (2-4%). We nevertheless expect the institution to hike interest rates by 25 bps to 3% on its next meeting on Tuesday, as the robust economic expansion renders further monetary stimulus redundant.

Ecuador

The Supreme Court cleared former President Abdala Bucaram – currently in self-imposed exile in Panama – of all corruption charges. The decision led to Bucaram's return to Ecuador over the weekend. Bucaram was president for six months, but was forced out of office in disgrace in February 1997 when Congress removed him for so-called "mental incompetence." Opposition parties are likely to seize on the fact that the head of the Supreme Court, Guillermo Castro, is not only a member of Bucaram's Roldosista party (PRE) but also a close personal friend of the former president. ----- Due to the recent adverse shift in market conditions the government decided to abandon the planned swap of the 2012 global bonds. Clearly, with the 2012s now trading below par the March 31 call option was no longer attractive. Instead, Finance Minister Yepez said that the government would wait until September this year, when the next call date on the bonds becomes due, before re-assessing its strategy. Yepez also said that the plan to issue up to USD 750 mn in new debt (which would represent the first tapping of international markets since the 1999 default) was still under review.

Colombia

In the fourth quarter of 2004, GDP grew stronger than expected by 4.28% yoy. As third-quarter growth data were also revised upwards from 2.46% to 2.93% yoy, the economy grew by 3.96% in the whole year. The mining sector (+10.65%), manufacturing (+4.77%) and retail sales (+5.62%) grew stronger than in 2003; only the agricultural sector registered lower growth (2.09% against 3.15% in 2003) due to worse export conditions (a strongly appreciated peso and inferior terms of trade). As solid growth in almost all sectors promises a continuation of the broad economic upturn we increase our 2005 growth estimate from 3.8% to 4%. ----- The solid growth is still not reflected by employment. The decline in the unemployment rate to 16.1% in February (February 2004: 17.1%) was exclusively due to the fact that less people were registered as job-seeking (-1.9 percentage points since February 04). Employment even decreased, too (- 0.9 percentage points since February 04).

Mexico

The central government's budget deficit amounted to MXN 675 mn in February, compared with a surplus of MXN 8.1 bn one year ago. We consider the deterioration of the budget situation to be temporary. However, a closer monitoring is required now. ----- Probably the mayor of Mexico City and likely presidential candidate for the election in 2006, Lopez Obrador, will lose his immunity which would allow the prosecution by the attorney general with respect to a legal dispute about land and thus prevent Obrador's candidacy for the presidential election. A four-member Congress Committee decided in favor of lifting his immunity. Hence, the question will now be dealt within the house of deputies on Thursday this week. As Obrador at present has good chances to win the presidential elections, the issue is of highest political interest.

Outlook: Inflation is expected at 0.4% mom in March (4.3% yoy) (Wednesday). As this would be much above the target of 3%, we expect a monetary tightening on Friday, all the more so as the US Fed will probably continue its measured pace of interest rate hikes in the months to come. ----- Consumer confidence should have increased slightly in March (previous month: 107.9 points). ----- Gross investment, which increased by 12% in December, grew probably by some solid 6 % yoy in January.

Peru

In February exports once again grew very strongly (+20% yoy). High prices of mining commodities contributed to an export growth of 10-12% in the mining

sector. Driven by natural gas by-products, the non-traditional sector showed an increase of 20-25% yoy. Due to high commodity prices, export growth will probably remain strong in the next several months. ----- The consumer confidence index rose from 32 points in March 2004 to 42 points in March 2005. On a scale from 0 to 100, this is still a rather negative result. Despite strong economic growth the living standard is still low, unemployment is high and almost half of the population (49 %) is living below the poverty line.

Outlook: The central bank will probably maintain the target rate at 2.25 % on its meeting on Thursday.

Venezuela

Further setback for property rights: The governor of the Carabobo province announced the expropriation of a mining company operating in his province and signaled a similar treatment for all 45 mining companies in the province. As a justification, the governor declared that the companies belonged to the state. ----- The government apparently plans to modify the central bank law and impose an upper limit on the accumulation of

foreign exchange reserves, which currently amount to around US\$ 25.5 bn (including gold and the FEM stabilization fund). This equals more than 10 months of import cover. It has to be borne in mind, however, that current global financial and economic conditions are very favorable for Venezuela (e.g. low global interest rates, very high oil prices), and that this environment should be used to accumulate funds for more difficult times. A limit on foreign reserves would be a poor decision, especially since the freed-up funds would surely not be used to reduce public debt obligations, but to fuel further government expenditure with populist background. ----- On the back of very high oil prices resulting in high public revenues, Minister of Finance Merentes ruled out a further devaluation of the national currency this year (official exchange rate: VEB/US\$ 2,150). This is in line with our expectations. ----- Consumer prices increased by 1.2% mom in March, mainly on the back of higher regulated prices (1.4% mom). This takes the annual inflation rate to 15.8% yoy.

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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	01.04.2005	2.92	2.92	2.94	2.85	2.97	1.8	3.0
Brazil	04.04.2005	2.66	2.73	2.66	2.88	2.66	-0.1	2.9
Mexico	04.04.2005	11.20	11.31	11.03	11.15	11.15	-0.5	12.0
Chile	01.04.2005	586	588	584	603	556	-5.2	580
Colombia	01.04.2005	2371	2402	2333	2668	2355	-0.7	2398
Peru	01.04.2005	3.26	3.26	3.26	3.46	3.28	0.6	3.3
Venezuela	01.04.2005	2147	2147	2147	1918	1918	-10.7	2200

EMBI+ Spread								
bps	date	last	one week	one month	one year	end 2004	ytd-change, bps	
Argentina	04.04.2005	5410	5109	5051	4702	4707	703	
Brazil	04.04.2005	462	479	380	558	383	79	
Mexico	04.04.2005	178	190	148	170	167	11	
Ecuador	04.04.2005	669	684	611	688	691	-22	
Colombia	04.04.2005	402	448	336	357	333	69	
Peru	04.04.2005	246	272	193	331	220	26	
Venezuela	04.04.2005	468	480	417	636	412	56	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	01.04.2005	2.44	2.38	2.31	1.31	2.31	0.1	5.0
Brazil Selic	01.04.2005	19.25	19.24	18.74	16.11	17.75	1.5	17.8
Mexico Cetes 28 days	01.04.2005	9.56	9.46	9.26	5.91	8.61	1.0	8.7
Chile 90 days, PDBC	31.03.2005	2.73	2.81	2.87	1.57	2.24	0.5	3.8
Colombia Overnight	30.03.2005	6.30	6.31	6.44	6.95	6.24	0.1	7.5
Peru Overnight	01.04.2005	2.88	2.88	2.93	2.43	3.03	-0.2	4.0
Venezuela deposits 30 days	29.03.2005	10.57	10.65	11.16	10.38	11.92	-1.4	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	01.04.2005	20.4	20.3	20.8	15.1	19.6	0.7	21.5
Brazil	31.03.2005	62.0	61.9	59.0	51.6	52.8	9.2	62.0
Mexico	25.03.2005	71.6	71.3	71.0	67.6	71.6	0.0	65.0
Chile	31.01.2005	15.6	na	16.0	16.0	16.0	-0.4	16.5
Colombia	28.02.2005	13.8	na	13.7	11.3	13.5	0.3	14.5
Peru	31.12.2004	12.6	na	12.3	10.2	10.2	2.4	12.5
Venezuela (FEM&Gold incl.)	30.03.2005	25.5	25.2	24.8	23.2	24.2	1.3	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	4.4	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