Latin American Weekly Spotlight

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Dresdner Bank Lateinamerika AG
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Argentina: 8.7% growth in 2003
Brazil: Unexpected rate cut and positive economic outlook improve sentiment
Chile: Another strong export performance in February
Ecuador: Interest of potential investors is to rise
El Salvador: Surprising outcome of the election
Colombia: Continued GDP growth
Mexico: January's industrial production grows less than expected
Peru: Solid 3% GDP growth in January
Venezuela: Confusion continues

Argentina

Industrial production grew stronger than anticipated in February (+14.1%, yoy). GDP growth rates for Q4-03 also came in higher than was to be expected from the EMA growth indicator, bringing annual GDP growth in 2003 to 8.7%. ----- Unfavorable weather conditions and the lack of investments led to bottlenecks in the electricity supply to big companies. Electricity providers have hardly made any investments for some time now as electricity tariffs had been frozen. Further bottlenecks cannot be ruled out. ----- The primary surplus of the central government in February (ARS 996 mn) more than doubled from February 2002. The accumulated primary surplus of the first two months of this year, at ARS 2.5 bn, is already substantially higher than the ARS 1 bn target agreed upon with the IMF for the whole first quarter. Pressure is bound to rise to lift the targets. However, Argentina so far has categorically rejected to raise the target above the present figure of 3% of GDP.

Outlook: According to Argentinean media reports the IMF will hold its board meeting on the second review today (the official IMF schedule does not confirm this). We expect the board will approve the second review. Sweden and Italy, two of eight countries which abstained from voting on the first review, announced they will vote in favor this time. ----- Due to higher import growth, the current account surplus (today) for Q4-03 is likely to be lower than in the previous quarter. For the entire year we expect a surplus of US$ 7.8 bn following US$ 9.6 bn in 2002. ----- On the back of strong growth of industrial production in January we expect the EMA growth indicator to show an increase of slightly more than 10% (yoy) in January (Dec.: 10.9%).

Brazil

In a surprising move the central bank cut the overnight interest rate by 25 basis points to 16.25%. Although it may have given in to political pressure (three out of nine directors were against the rate cut) we do not see the inflation target of 5.5% +/- 2.5 percentage points in danger). ----- Retail sales showed a very high increase (6.1% yoy). It is above all the sector of the durable goods which contributed to this good performance. The sector should increase by 4% this year. In addition, we saw good employment figures for the industrial sector in Sao Paulo for February (+0.5% mom), the second monthly increase in employment in a row). However, the consumption intentions index ICC (Sao Paulo) decreased in March by 8.6% while the level of 115.8 points (on a scale of 0 to 200) is quite well. The decrease probably reflects the political scandal. ----- The speech of the Brazilian Finance Minister before international investors in London at the BoE did not bring anything new: Palocci emphasized the maintenance of the stability-oriented economic policy. He also spoke out on the operational autonomy of the central bank („it is not a question of ‚if' but ‚when'") and on the IMF („the current IMF agreement is an exit program").

Outlook: The unemployment rate should have decreased slightly in February in comparison with January, when it was at 11.7%, as the economic upturn is spreading slowly to the labor market (Thursday). ----- The current account should again have been in surplus in February (forecast: 450 Mio US$); the net inflow of foreign direct investment is expected to have been particularly high, at US$ 1.5 bn (Wednesday). ----- The primary surplus of the consolidated public sector should have been high enough in February to already reach the IMF target for the first quarter (R$ 14.5 bn). Net public debt (January: 58.2% of GDP) will decrease only slightly in February according to our estimates (both on Friday).

Chile

Total exports grew by 32.2% yoy in February. Copper exports increased 56% - reflecting the strong increase in copper prices that month - while agricultural and industrial exports increased 35% and 30% yoy, respectively. On the imports side, there was an overall growth of 10% yoy last month, while capital goods rose by more than 20%, signaling better prospects for investment.---- On the back of strong supermarket sales, retail sales rose by 7.4% yoy in February, indicating that private consumption is picking up again.

economics@dbla.com

Outlook: Following GDP growth of 3.0% in Q3-03 (yoy) we expect a growth rate of 3.4% in Q4-03, which would mean that GDP grew by 3.2% during last year as a whole.

Colombia

On Friday the central bank cut its benchmark lending rate, for the second time in a month, by 25bps to 6.75%. We expected a further monetary easing against the backdrop of continuing appreciation of the peso via the US$. ----- The increase of industrial production in January (+3.7%, yoy) confirms our expectation of continued GDP growth. Rising car sales in February (wholesale: +3.3%, yoy; retail: +14.9%, yoy) are an indication that domestic demand seems to be picking up.

Outlook: According to local press reports representatives of all important parties in Congress have agreed on a draft of the pension reform, which will be presented to Congress this week. Among other items the draft will include the phasing out of the highest state pensions and bring forward to 2007 (from 2014) the increase in the retirement age.

Ecuador

Because of problems with the surveillance system of the SOTE pipeline, the state-owned oil company Petroecuador was obliged to reduce crude oil exports at the beginning of last week. As Petroecuador arranged with the owners of the new private OCP pipeline to use their pipeline instead, we expect the shortfall for the company to be less than 2% of total gross export revenues in its budget for 2004. ---- Tax revenues rose 2.8% yoy in February (January: 5% yoy), less than the official estimate of a rise of 3.7%. This weak result was mainly due to lower VAT-revenues. ----- Last Tuesday, changes concerning the contracts offered for private companies to operate four oil fields under the control of Petroecuador were made official by the government. The changes include the elimination of the 35% stake that had been demanded by government for the additional output from these fields and the clarification of accounting procedures. These are expected to raise interest among investor companies.

Outlook: It remains unclear whether Ecuador will exercise a call option on the 2012 bond by May 15. Given that Ecuador only has around US$ 140-150 mn in the oil stabilization fund (FEIREP) (which means that the government would need to use resources form a new bond issue in order to call the 2012 bond) it may not be ready to execute the call in May.

Mexico

Industrial production grew only 0.8% yoy in January (+0.8%, mom, s.a.). Following a growth rate of 2.4% in December, expectations had been for a higher increase of 1.6%. Manufacturing output, which accounts for ¾ of industrial production, witnessed a small decline of 0.1% yoy. ----- Following the central bank's decision to raise the corto on March 12, interest rates rose across the whole of the yield curve. Monetary tightening over the last month has raised the entire yield curve, as well as inducing a distinct flattening.

Outlook: We expect February's trade balance (Tuesday) to show a deficit of close to US$ 200 mn (following a deficit of US$ 193 mn in January) with exports and imports growing 1% and 3% (yoy), respectively. ----- The global economic activity indicator (Thursday) is likely to have increased by 0.3% (mom, s.a.) in January. Due to the low base of comparison the yoy growth rate should be above 4.5%.

Peru

GDP rose 3% yoy in January. We expect a 3.8% growth for the whole year. ---- The constitutional commission of Congress no longer considers the bank transaction tax as unconstitutional and has voted for a gradual reduction of the tax throughout the next years, in accordance with Finance Minister Kuczynski's proposal. The bank transaction tax has been in force since March 1st and is expected to provide annual revenues of 1% of the GDP. Yet it could still be declared unconstitutional by the Constitutional Court

Venezuela

Confusion continues: Probably there will be enough valid signatures after all to let the referendum go ahead. At least the chamber of constitutional matters at the supreme court ruled that more than 800,000 checked signatures are valid indeed, taking the number of valid signatures to 2.7 mn (minimum required: 2.45 mn). However, further delays are to be expected, as it remains unclear whether the judgement is valid. We continue to expect Chávez to be able to retain power. ----- With the aim of stretching out maturities in the local bond market, the finance ministry bought back bonds coming due in 2004 and 2005, following last week's issue of two bonds in local currency and US$ (2008, 2009) worth US$ 1.6 bn. Further debt management transactions of this nature are planned.

Dresdner Bank Lateinamerika AG
Neuer Jungfernstieg 16
20354 Hamburg
Germany

Economics Dept.
Chief economist: Dr. Heinz Mewes
Tel.: (+49 40) 3595 3494
Fax: (+49 40) 3595 3497
E-Mail: economics@dbla.com
http://www.dbla.com

Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yoy = year-on-year
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 2003	ytd-change, %	end 2004f
Argentina	19.3.2004	2.88	2.91	2.92	2.96	2.93	1.7	3.1
Brazil	19.3.2004	2.90	2.90	2.96	3.40	2.89	-0.3	3.1
Mexico	22.3.2004	10.97	11.01	11.05	10.77	11.23	2.4	11.9
Chile	19.3.2004	607	607	590	731	593	-2.4	600
Colombia	19.3.2004	2671	2657	2660	2780	2780	4.1	2900
Peru	19.3.2004	3.46	3.46	3.47	3.48	3.46	0.1	3.5
Venezuela	19.3.2004	1918	1918	1918	1598	1598	-16.7	2400

EMBI+ Spread							
bps	date	last	one week	one month	one year	end 2003	ytd-change, bps
Argentina	22.3.2004	5593	5502	5562	6644	5739	-146
Brazil	22.3.2004	531	556	579	1031	463	68
Mexico	22.3.2004	189	188	186	273	199	-10
Colombia	22.3.2004	390	411	445	604	431	-41
Ecuador	22.3.2004	707	732	760	1388	799	-92
Peru	22.3.2004	340	349	332	339	312	28
Venezuela	22.3.2004	676	679	703	1288	593	83

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Peso 7 days	19.3.2004	1.69	1.69	1.75	8.63	1.81	-0.1	4.0
Brazil Selic	19.3.2004	16.02	16.23	16.31	26.35	16.33	-0.3	14.0
Mexico Cetes 28 days	19.3.2004	6.43	6.50	6.46	8.57	6.01	0.4	6.5
Chile 90 days, PDBC	18.3.2004	1.60	1.62	2.05	2.76	2.29	-0.7	2.8
Colombia Prime Rate	27.2.2004			11.17	10.91	11.32		8.0
Peru Overnight	19.3.2004	2.80	2.80	2.80	3.78	2.50	0.3	2.6
Venezuela Prime Rate								

Foreign exchange reserves								
US$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	17.3.2004	12.0	12.0	15.0	10.2	14.1	-2.1	17.0
Brazil	18.3.2004	51.6	51.7	53.4	37.7	49.3	2.4	52.3
Mexico	12.3.2004	67.8	68.6	71.0	59.1	65.8	2.0	65.0
Chile	29.2.2004	16.1		16.03	16.45	16.45	-0.4	16.0
Colombia	29.2.2004	11.29		11.24	10.99		0.3	10.5
Peru	29.2.2004	10.5		10.6	10.1		0.3	10.9
Venezuela (FEM&Gold incl.)	17.3.2004	22.7	22.744	22.24	22.74	21.30	1.4	22.4

Economic activity								
GDP, %-chang	2003e	2004f	2005f	Q303	Q403e	Q104f	Q204f	GDP 2003e, US$ bn
Argentina	8.4	5.5	3.0	9.8	10.2	7.5	5.4	125
Brazil	-0.2	3.5	3.5	-1.5	-0.1	2.4	5.2	492
Mexico	1.3	2.8	2.6	0.6	2.0	1.8	3.7	614
Chile	3.2	4.8	4.5	3.0	3.4	4.4	4.8	72
Colombia	3.6	3.8	3.5	4.2	3.1	4.7	3.8	77
Ecuador	2.4	3.7	1.6					27
Peru	4.0	3.8	3.7	3.5	2.8	2.9	2.3	61
Venezuela	-9.2	6.0	5.0	-7.1	3.3	26.3	3.4	82

Public sector	Budget balance, % of GDP		Public debt, % of GDP		Amortization, US$ bn		Gr. financing needs, US$ bn	
	2003e	2004f	2003e	2004f	2003e	2004f	2003e	2004f
Argentina	1.1	1.6	138	137	19.8	19.8	19.1	18.4
Brazil*	-5.2	-2.6	83	79	94.2	83.0	72.1	67.2
Mexico**	-0.6	-0.3	28	28	23	29	26	31
Chile***	-1.0	0.2	16	14	0.8	0.8	1.4	0.8
Colombia	-3.0	-2.8	63	61	5.5	5.3	7.8	7.9
Peru	-1.9	-1.8	39	40	1.1	1.5	2.3	2.7
Venezuela	-3.6	-4.4	42	46	4.7	6.1	7.7	10.0

* Amortisations only federal debt, including short term debt ** Amortisations without Cetes *** debt, amortization and financing needs: central government only

External Sector 2004f	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	364	24	32.8	83	4.4	6.1	14.1	0.0	6.1
Brazil	233	12	64.0	68	0.2	1.3	24.4	13.0	6.6
Mexico	83	28	33.3	17	-1.8	-11.0	-7.8	14.0	3.5
Chile	148	18	6.9	23	0.4	0.3	4.4	1.5	6.3
Colombia	246	11	9.1	56	-1.7	-1.6	0.1	2.0	6.2
Ecuador	223	14	2.6	34	-2.0	-0.6	0.2	1.2	1.4
Peru	238	10	3.6	28	0.0	0.0	1.7	1.1	9.4
Venezuela	122	6	5.0	18	7.1	6.3	11.6	1.0	10.0