Latin American Weekly Spotlight
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Dresdner Bank Lateinamerika AG
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A company of the Allianz Group

Argentina: Bottlenecks in electricity and gas supply
Brazil: Scandal over, but the government will not find back to its old strength in the near term
Chile: Growth rate will accelerate to 4.8% this year
Ecuador: SOTE pipeline was repaired one week earlier than expected
Colombia: Booming retail sales
Mexico: Low inflation causes Banxico to keep monetary policy unchanged
Peru: Congress approves lowering of bank transaction tax
Venezuela: Battle for competencies within the Supreme Court causes further delay

Argentina

Surprisingly the IMF's Board of Directors voted unanimously in favour of the second revision of Argentina's current IMF program. However, relations with the fund are bound to continue to be tense. ----- Starting today there will be electricity shortages which will mainly affect industry. The aim is to reduce electricity consumption by around 5%. The crisis of the electricity sector has been aggravated by the recent low amount of rain. However, most of the electricity is produced in thermal plants using gas and not in hydroelectric plants. The core problem is that the gas and electricity sector has not seen investments during the last 2 years when tariffs were frozen and electricity demand has risen strongly. The problems of the electricity sector, which are likely to worsen during the winter months (June-August), are among the bottlenecks which we repeatedly highlighted in our growth forecasts. GDP growth is likely to come down over the course of the year. Still we raised our GDP growth forecast for 2004 from 5.5% to 6.5% as growth indicators continue to beat expectations and due to the statistical overhang from the surprisingly strong GDP growth in Q4-03 (11.3%, yoy). ----- Construction again grew strongly in February (+3.1%, mom, s.a.; +32.5%, yoy). ----- Due to the rise in imports the current account surplus in Q4-03 (US$1.1bn) was down 30% on the previous quarter. For the entire year the surplus reached US$7.9bn (2002: US$9.6bn).

Outlook: Due to seasonal factors the trade surplus (Tuesday) in February is likely to turn out US$100mn higher than in January (US$680mn). Imports continue to show high growth rates. ----- Tax revenues (Thursday) are likely to have grown again more than 30% (yoy) in March. Revenues for the first two months of the year are up by 31.8% (yoy).

Brazil

The minutes of the last Copom meeting provide a clear signal of further cuts in interest rates. The central bank comes to the conclusion that the danger of an acceleration of inflation has subsided. With respect to the growth dynamics the minutes are relatively skeptical indicating that in Q1/04 we might see a „cyclical cooling down". ----- The labor market has still not reacted to the positive economic data in the industrial and retail sector. In February the unemployment rate increased from 11.7 % (January) to 12.0%. The pressure on the government to kickstart the economy via public infrastructure expenses etc. should increase further. ----- In February, the current account surplus amounted to US$196 mn (consensus was for a US$475mn surplus). Nevertheless, the central bank changed its current account forecast for the year from -US$3.9bn to +US$0.2bn. ----- Net inflows of FDI in February amounted to US$1.02bn, 20% higher than a year ago. We expect US$13.0bn for the year as a whole. ----- In January and February the primary surplus of the consolidated public sector reached US$10.3bn. Correspondingly it should not be a problem to comply with the IMF target for the first quarter of US$14.5bn. Net public debt decreased slightly from 58 % in January to 57.6 % of GDP in February.

Outlook: Although the scandal surrounding chief of staff Jose Dirceu is not dominating the headlines any more, the whole story has left some definite traces in the government: Chief coordinator Jose Dirceu has been significantly weakened; and the ruling coalition is showing deeper disagreement than before. For example, the big coalition partner PMDB is aggressively criticizing the economic policy of Finance Minister Palocci. The weakness of the government will probably be reflected in the CNT/Sensus poll (Tuesday). ----- We expect a US$2.1bn trade surplus in March, slightly higher than February's figure (Thursday). ----- The industrial production in Sao Paulo (INA) will probably have decreased slightly in mom terms after the good January result (Thursday).

Chile

GDP increased by 3.3% yoy in the fourth quarter, driven by the retail and the construction sector, whereas the industrial sector grew below average. In the year as a whole, GDP expanded by 3.3 %. The upturn in domestic demand (especially for investment) is supporting our forecast of accelerated growth this year (4.8%). ----- After last year's peso rally, which continued until January 2004, the Chilean currency lost approx. 9 % against the US$ in the last two months. The exchange rate is now at

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617 pesos/US$, and we expect a slight depreciation to 630 pesos/US$ by year-end.

Colombia

Retail sales grew about 9% yoy in January. We expect GDP to show a 3.8% growth this year. ----- President Uribe met his US-counterpart (G. W. Bush) on a US trip for talks on free trade (negotiations are to begin on May 19) and a possible continuation of the so-called "Plan Colombia" – a program primarily focused at drug eradication. The talks were held in a good atmosphere. We expect the US government to continue with its support for Colombia.

Outlook: We expect exports to have increased by roughly 10% yoy in January. ----- At the same time industrial production should have risen by around 4 % (yoy). ----- The ongoing economic upturn should also be reflected in an unemployment rate below 17% in February, after 18.2% in January.

Ecuador

The SOTE pipeline, which had been damaged by a mudslide on March 11, was repaired one week ahead of schedule. The incident is not expected to affect fiscal accounts, due to current high oil prices, neither should there be a significant impact on external accounts (our forecasts remain unchanged). ----- For the so-called ninth concession round offered by the government for the exploration and production of oil in the gulf of Guayaquil merely one company presented a bid for the exploration of two of the four blocks offered. Unattractive results from preliminary exploration and the higher costs of offshore exploration are believed to be the main reasons for the poor interest. A final decision on the bid will be made within the next 15 days, while the deadline for proposals for the other two blocks has been extended for one more month. In contrast, more than 15 companies already bought the rights to participate in the auction offered by the government to private companies to invest in four of Petroecuador's oil fields. The adjustments to the contract made by the government to reduce the regulatory risk and improve the financial conditions have increased the companies' interest. The auction will take place on April 5.

Mexico

In the first two weeks of March consumer prices increased by 0.18%, which was slightly less than expected. Nevertheless, prices are still 4.3% higher compared to the same month last year; exceeding the central bank's inflation target of 3% (+/- 1 percentage point) by far. Core inflation (0.2%) came in slightly below February's figure, which was quite a positive development. Therefore Banxico kept monetary policy unchanged following two consecutive tightening moves. Nevertheless, we expect the central bank to have to tighten monetary policy again – once or twice - over the next months.---- The economic activity indicator (IGAE), which is a proxy for the GDP, fell 0.68% m/m on seasonally adjusted terms. The indicator was still up 2.1% compared to the same month a year ago. The economic upturn might have taken a breather after the strong growth in the fourth quarter of last year. The strong increase of retail sales in January, which rose by 2.18% in seasonally adjusted terms, signals that growth is still driven by robust consumer demand. The first indicators for February show that the economic upturn has continued. Exports increased by 8.8% compared to the same month a year ago, with manufactured exports growing even stronger, at 10.2%. Overall, we still feel confident with our forecast of a moderate GDP growth of 2.8% in 2004.

Outlook: This week the activity report of the financial sector could reveal a first impact of monetary tightening on credit supply.---Furthermore, the public sector balance for February will be published. Given the ongoing increase in oil prices we expect another strong surplus.------ Consumer confidence, as measured by INEGI, should have increased a bit on the back of the ongoing economic recovery.

Peru

Congress decided to reduce the rate of the bank transaction tax immediately to 0.10% (from 0.15%). This is in line with the proposal put forward by Economy Minister Kuczynski. There is still pressure from opponents of the tax for its complete elimination. The Constitutional Court is due to rule on whether the tax is unconstitutional or not over the next six weeks. ----- The Consumer Confidence index (INDICCA, March) remains low (32 points on a scale from 0 to 100). This confirms our view of a continuing weakness in internal demand. We have just recently lowered our GDP forecast to 3.8% (from 4.5%) for 2004.

Venezuela

As the Supreme Court's Constitutional Chamber has suspended the last decision of the National Electoral Council concerning the validity of the signatures collected, the following weeks will probably see a battle for competencies within the Supreme Court. This will further reduce the chances of a referendum to take place at all, or at least by August 19. ----- Only in a few cases the opposition managed to agree on joint candidates in the run-up to the elections of the state governors and mayors on August 1st, which means it will be very difficult for opposition candidates to be successful against government candidates. ----- Debt management: The government was very successful in selling structured securities ("unidades de inversión", which consist in a combination of US$ and bolívar securities) in a volume of US$1.5bn in the domestic market. The proceeds are used to buy back short-term securities in the domestic market.

Outlook: Inflation will probably be higher in March than in February (1.6% mom) due to the price effects from the devaluation two months ago. ----- The Ministry of Finance announced another buy-back of public securities maturing in 2004 and 2005 for Tuesday.

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Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yoy = year-on-year
s.a. = seasonally adjusted
n.s.a. = not seasonally adjusted

Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	26.3.2004	2.88	2.87	2.92	2.97	2.93	1.6	3.1
Brazil	26.3.2004	2.94	2.91	2.90	3.35	2.89	-1.6	3.1
Mexico	29.3.2004	11.13	10.98	10.97	10.77	11.23	0.9	11.9
Chile	26.3.2004	618	610	586	733	593	-4.0	600
Colombia	26.3.2004	2677	2673	2654	2780	2780	3.9	2900
Peru	26.3.2004	3.46	3.46	3.47	3.47	3.46	0.1	3.5
Venezuela	26.3.2004	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	29.3.2004	5468	5672	5846	6124	5739	-271
Brazil	29.3.2004	567	551	571	1031	463	104
Mexico	29.3.2004	177	188	189	288	199	-22
Colombia	29.3.2004	387	393	425	601	431	-44
Ecuador	29.3.2004	700	717	755	1375	799	-99
Peru	29.3.2004	341	342	344	342	312	29
Venezuela	29.3.2004	657	688	735	1378	593	64

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Peso 7 days	25.3.2004	1.69	1.69	1.75	8.44	1.81	-0.1	4.0
Brazil Selic	26.3.2004	16.10	16.11	16.31	26.32	16.33	-0.2	14.0
Mexico Cetes 28 days	26.3.2004	5.96	6.23	6.46	8.70	6.01	0.0	6.5
Chile 90 days, PDBC	23.3.2004	1.58	1.60	2.05	2.63	2.29	-0.7	2.8
Colombia Prime Rate	5.3.2004			11.55	11.46	11.32		8.0
Peru Overnight	24.3.2004	2.80	#N/A N.A.	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	23.3.2004	11.8	12.0	14.9	10.5	14.1	-2.3	17.0
Brazil	24.3.2004	51.9	51.6	53.0	41.8	49.3	2.6	52.3
Mexico	19.3.2004	67.6	67.8	70.1	57.9	65.8	1.8	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.)	25.3.2004	23.1	22.855	22.49	22.86	21.30	1.8	-6.3

Economic activity								
GDP, %-chang	2003e	2004f	2005f	Q303	Q403e	Q104f	Q204f	GDP 2003e, US$ bn
Argentina	8.7	6.5	3.8	9.8	10.2	7.5	5.4	127
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	1.2	1.6	135	135	19.8	19.8	19.0	18.3
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	-4.5	42	47	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	2.6	3.7	11.7	0.0	5.7
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	7.2	6.3	11.6	1.0	9.9