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Latin America: Free Trade Agreement MERCOSUR – Andean Community concluded

Argentina: World Bank and IADB announce credit programs

Brazil: February industrial production figures may disappoint

Chile: Energy crisis in Argentina may hamper growth dynamics

Ecuador: IWF mission to arrive in Ecuador

Colombia: Highest GDP expansion since 1995 in 2003

Mexico: High oil price contributes to a public sector surplus

Peru: Abundant public liquidity

Venezuela: Bolivar devaluation causes higher inflation

Latin America

After the conclusion of Free Trade Agreements (FTA) between MERCOSUR (AR/BRA/PAR/URU) and Colombia, Ecuador and Venezuela, external trade for South America is entirely covered by intra-regional FTA's (although a number of sensible goods is subject to transition periods of up to 15 years). FTA's are already in place between MERCOSUR and Chile, Bolivia (since 1996) and Peru (since 2003). Apart from economic benefits – 80 % of goods are due to be exempted from customs duties by July 2004 – the creation of a South American Free Trade Area strengthens MERCOSUR's position in the negotiations concerning the creation of the hemispheric FTAA. These stagnated in recent months due to material differences mainly between MERCOSUR and the US. A conclusion of FTAA negotiations at the planned date (January 1, 2005) looks increasingly improbable.

Argentina

Infighting among the ruling Peronist party between supporters and opponents of President Kirchner flared up again during a party congress (which Kirchner did not attend in protest). De facto the party is split. However, President Kirchner continues to enjoy the support of important provincial governors and a high approval rating among the population. ---- Mainly due to higher prices, exports grew stronger than expected in February (+12%, yoy). Import growth continues to be strong (+74%, yoy). The trade surplus of US\$1115mn (imports cif) was US\$275mn lower than in February 2003. ---- Tax revenues were up by 37% (yoy) in March.

Outlook: Gas prices are meant to rise further (up to 50% until July 2005). However, this hike too will only apply to large scale industries. Private households and small businesses will remain excluded. Furthermore, the application of the mentioned price hikes continues to be difficult. The increase of 15% decided upon in February is still not effective. The energy crises will weigh on economic growth for months. ---- At the IADB meeting in Lima, World Bank and IADB announced credits to Argentina amounting to US\$5bn each. The programs are scheduled to run until 2007/2008. US\$750mn (WB) and US\$1bn (IADB) are planned to be disbursed in the remainder of 2004. Adherence to the disbursement schedule will ultimately depend on a working IMF program and respectively on a successful rescheduling of defaulted bonds. ---- Economy minister Lavagna reiterated plans to set up a fund for anti-cyclical public investments fed by excess tax revenues. From a macroeconomic viewpoint such funds, which call for a considerable amount of fiscal discipline, do make sense. How-

ever, one may suspect that Argentina is also considering such a fund presently for the reason that the authorities do not want to raise the primary surplus target (of presently 3% of GDP) or to use excess tax revenues for debt service. The primary surplus of the central government in Q1-04 is likely to have exceeded the IMF surplus target of US\$1.1bn by around US\$2.5bn. ---- Consumer price inflation (Tuesday) is likely to have remained low in March (+0.5%, mom; +2.2%, yoy).

Brazil

The trade surplus was higher than expected (US\$2.6bn) in March, as exports reached a never seen monthly level of US\$7.9bn (18% yoy). Meanwhile, the government is expecting a trade surplus of US\$29bn (DBLA: US\$26.5bn). Imports increased very significantly as well (18% yoy), another indicator that the economic upturn is under way. ---- The quarterly inflation report of the central bank brought few news: For the end of the year, the central bank is projecting an inflation rate of 5.2% (below the inflation target of 5.5%, so that interest rate cuts are becoming more probable) under the assumption (not forecast!) of a Selic rate of 16.25% and an exchange rate of 2.94 real/US\$. ---- The industrial production decreased by 0.3 % mom (sa) in February. However, the production level is 3.1% higher than in Februar 03. ---- As expected the latest CNT/Sensus poll showed that the approval rate of Lula suffered in the last weeks, decreasing from 65 % to 60 %. It seems that this was above all because of the fact that the economic upturn did not spread to the labor market until now. The Waldomiro scandal, in contrast, is a less important subject for the interviewees.

Outlook: The annual discussion about the minimum salary is starting. It seems that an increase from 240 real to 275 real is planned (15 %). For the public sector this means an additional burden of real 2.6 bn. ---- The bank Bradesco and the steel enterprise CSN have announced to issue long term bonds (10 and 15 years) with a total volume of US\$450bn. The announcement was one of the reasons for the appreciation of the real. ---- The industrial production in February (Thursday) should have stagnated or even decreased in mom terms (in its minutes the central bank had warned on a "cyclical cooling down" in the industrial sector). In contrast the car production (Tuesday) should have increased slightly after two months of decreases. ---- The March IPCA inflation (Wednesday) is expected to be at 0,3 % mom (consensus: 0,4 % mom). An inflation rate of this size makes it probable that the central bank will cut the key interest rate by 25 basis points at the April 14 meeting.

Chile

Following rather weak growth in January, industrial production expanded firmly in February (+8 % yoy). We feel confirmed in our expectation of a significant GDP growth acceleration throughout this year especially by the dramatic growth in capital goods production (+67 %) ---- The labor market also provides for positive news, with unemployment down to 7.4 % in February 04 from 7.9 % a year earlier. ---- However, growth dynamics may be hampered by the energy crisis in Argentina: Chile imports most of its natural gas from the neighboring country. Energy rationing measures might be necessary should the provision of gas be significantly reduced for an extended period of time. For the time being, however, we do not feel compelled to revise our 2004 growth estimate.

Outlook: The IMACEC economic indicator should exhibit a 4 % growth in February (today). A high base of comparison and stagnating production in the mining sector (0.2 % yoy) limit the growth rate despite steeply rising exports (+38 % yoy) and solid industrial growth in February. ---- We expect consumer prices to rise modestly in March (0,4 % yoy, tomorrow). Compared to March 03, prices should decline by 0.8 % due to a high base of comparison.

Colombia

Official data on last year's consolidated public sector deficit came out in line with the preliminary figure of 2.8% of GDP. As non-recurring events helped bringing down the deficit last year, we do not expect the government to be able to reduce the budget deficit as a percentage of GDP further this year. ---- As announced earlier, the government submitted a constitutional bill to congress that could enable President Uribe to run for a second presidential term. Given the high hurdle of constitutional bills (8 positive debates of which the last four

have to be approved by an absolute majority) we are sceptical with regard to the reform's chances of approval. ---- The Statistics Agency revised last year's GDP increase to 3.74% (from previously 3.6%), the highest GDP expansion since 1995. For this year the government is forecasting an expansion of 3.8%, in line with our growth forecast. ---- Job creation in the manufacturing and retail sectors led to a reduction of unemployment in February (17.1% after 18.1% in January). We expect the unemployment rate to decline further to around 16% in the coming months.

Outlook: We expect consumer prices to have increased by around 1% in March (6.2% yoy). The trade balance will probably show a moderate deficit (about -US\$ 300 mn).

Ecuador

Consumer prices increased by 0.7 % in March due to strongly rising food prices. YoY inflation amounts to 4 %.

Outlook: Following strong interest from international companies, we expect a successful auction of production licenses for oil fields currently operated by state-owned Petroecuador. The deadline for offers ends today. Private investments should help sustain production in Petroecuador fields, which has been falling in recent years due to insufficient investment. Rising oil production and sustained high oil prices should provide the still liquidity-strapped government with some reprieve. We therefore do not expect major nervousness on financial markets caused by ever-delayed negotiations with the IMF concerning the recently expired agreement and a possible follow-up stand-by agreement. Finance minister Pozo announced talks with the IMF concerning these issues to start the current week. An IMF mission is expected to arrive in Ecuador this week.

Mexico

In February the public sector more than doubled its budget surplus compared to the same month a year ago, to reach MXN 8.1bn (accumulated surplus Jan./Feb.: MXN 34bn). Considering the ever rising oil prices the solid budget position does not come as a surprise at all. Conditions are excellent for the Government to reach its goal, to limit the public sector deficit this year to 0.3% of GDP.---- Once again rumors of an imminent upgrade of the Mexican external debt rating by Moody's, which currently stands at Baa2, spread and temporarily lifted the mood in the local financial markets. Since March 2003 Moody's has the rating under review with a positive outlook for a possible upgrade. If the upgrade will finally happen over the course of the year will mainly depend on the continuation of the positive development of external conditions (oil prices, US growth). The implementation of structural reforms (e.g. a fiscal reform; the opening up of the energy sector) appears not

to be a necessary condition which Moody's wants to see fulfilled prior to an upgrade.---- Good news from the labor market: In February, employment registered by the social security institute (IMSS) rose by 119,000, significantly more than in the same month in previous years.--- -In March, consumer confidence, as measured by the I-negi index, rose from 95.5 to 96.4 despite the terror attacks in Madrid and higher local interest rates.

Outlook: In March, we expect the consumer price increase to have slowed down to 0.4%, which would bring down the 12-month inflation rate from 4.5% to 4.3% (Tuesday). In addition, inflationary expectations have fallen slightly from 4.19 to 4.15%. Therefore, we expect the central bank to decide to keep its monetary policy unchanged on its Wednesday meeting. Nevertheless, our call is for several further hikes in the "corto" over the next several months, as the inflation rate will remain considerably above the central bank's inflation target of 3%.--- -In January, gross fixed investment most likely has continued its moderate upward trend, given continued strong external demand (Wednesday). We forecast an increase of 0.8% compared to the same month a year ago.

Peru

Increasing current revenues (13.1% yoy) caused a substantial improvement of the central government budget in the first two months of this year. So far the central government budget posted a surplus of roughly soles 330 mn (Jan-Feb 2003: -soles 400 mn). ---- The Minister of Economy and Finance Kuczynski announced international bond issues worth US\$ 500 mn. Thus this year's debt service payments on both internal and external debt (US\$ 1.8 bn) should be more than covered (planned local bond issuance: US\$ 560 mn, official credits US\$ 1 bn). Exceeding funds are to be used for liability management operations. Debt service in the coming two years on average amounts to US\$ 2 bn a year. ---- After showing an unexpectedly strong increase in February (1.1 % mom), consumer price inflation surprised on the downside in March with a monthly increase of just 0.46% (consensus: 0.51% mom). We continue to expect inflation to slow to 2.3% yoy until year-end (March: 2.76% yoy). ---- Driven by a strong export performance (+26 % yoy), the trade balance posted a surplus of US\$ 211mn.

Venezuela

The Supreme Court must now decide on the future of the battle concerning the presidential referendum. This

will result in two more months of delay for the referendum, according to observers. The Electoral Chamber and the Constitutional Chamber had got into an irreconcilable dispute of competencies with regard to the question of the validity of about 870,000 signatures collected. --- As a consequence of the bolivar devaluation of early February, inflation rose to 2.1% mom (23.6% yoy) in spite of continuing price controls (February: 1.6% mom). ---- By end-March, Venezuela had already amortized (approx. US\$ 0.5 bn) or, respectively, bought back (approx. US 1..2 bn) approx. one half of this year's public domestic debt falling due; the necessary funds were raised by issuing structured securities ("unidades de inversión") in the volume of US\$ 3 bn in the domestic market. --- Due to low domestic demand and foreign exchange controls, the foreign currency reserves rose by 54% yoy, now exceeding US\$ 23 bn (incl gold and FEM compensation fund).

Outlook: In spite of the unclear legal situation, the electoral authority CNE will announce today when the supporters of the presidential referendum will be given the opportunity to once more confirm the signatures whose validity was doubted (probably May 21 – 23). ---- The Finance Ministry announced that it would issue after Easter new bonds of US\$ 1 bn in order to finance the budget, but up to now no details have been given.

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Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
oy = 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	2.4.2004	2.85	2.87	2.93	2.94	2.93	2.8	3.1	
Brazil	2.4.2004	2.89	2.94	2.87	3.15	2.89	-0.1	3.1	
Mexico	5.4.2004	11.16	11.22	10.93	10.71	11.23	0.7	11.9	
Chile	2.4.2004	607	622	593	720	593	-2.3	600	
Colombia	2.4.2004	2663	2682	2670	2780	2780	4.4	2900	
Peru	2.4.2004	3.46	3.46	3.47	3.47	3.46	0.1	3.5	
Venezuela	2.4.2004	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	5.4.2004	4696	5465	5943	5613	5739	-1043		
Brazil	5.4.2004	556	570	535	939	463	93		
Mexico	5.4.2004	168	178	184	259	199	-31		
Colombia	5.4.2004	355	383	414	535	431	-76		
Ecuador	5.4.2004	687	700	737	1260	799	-112		
Peru	5.4.2004	330	342	338	331	312	18		
Venezuela	5.4.2004	634	660	718	1327	593	41		
Benchmark interest rates									
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f	
Argentina, Peso 7 days	2.4.2004	1.69	1.69	1.69	8.75	1.81	-0.1	4.0	
Brazil Selic	2.4.2004	16.10	16.11	16.07	26.32	16.33	-0.2	14.0	
Mexico Cetes 28 days	2.4.2004	5.96	5.96	5.96	8.00	6.01	0.0	6.5	
Chile 90 days, PDBC	1.4.2004	1.57	1.57	1.45	2.34	2.29	-0.7	2.8	
Colombia Prime Rate	12.3.2004			11.55	9.86	11.32		8.0	
Peru Overnight	2.4.2004	2.55	2.55	2.55	3.88	2.50	0.0	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	31.3.2004	15.0	14.9	15.0	10.5	14.1	0.9	17.0	
Brazil	1.4.2004	51.6	51.7	52.9	42.4	49.3	2.4	52.3	
Mexico	26.3.2004	68.0	67.6	68.9	57.8	65.8	2.2	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	10.99	0.3	10.5	
Peru	29.2.2004	10.5		10.6	10.1	10.19	0.3	10.9	
Venezuela (FEM&Gold incl.)	1.4.2004	23.3	23.114	22.62	23.11	21.30	2.0	-6.3	
Economic activity									
GDP (yoy, %)	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	months
Argentina	364	24	32.8	83	2.6	3.7	11.7	5.7
Brazil	233	12	64.0	68	0.2	1.3	24.4	6.6
Mexico	83	28	33.3	17	-1.8	-11.0	-7.8	14.0
Chile	148	18	6.9	23	0.4	0.3	4.4	1.5
Colombia	246	11	9.1	56	-1.7	-1.6	0.1	2.0
Ecuador	223	14	2.6	34	-2.0	-0.6	0.2	1.2
Peru	238	10	3.6	28	0.0	0.0	1.7	1.1
Venezuela	122	6	5.0	18	7.2	6.3	11.6	1.0