



Latin American Weekly Spotlight

April 11, 2005



Dresdner Bank Lateinamerika AG
formerly Deutsch-Südamerikanische Bank AG



A company of the **Allianz Group**

Argentina: Inflation on the rise

Brazil: Industrial production disappoints

Chile: Central Bank tightens monetary reins

Ecuador: New Supreme Court?

Colombia: Domestic demand is recovering

Mexico: Lopez Obrador loses immunity

Peru: High public budget deficit

Venezuela: Government issues US\$ 1.6 bn

Argentina

Consumer prices rose a stronger than expected 1.5% in March (DBLA forecast: 1.0%). The inflation rate thus reached 9.1% yoy. We expect the central bank to act restrictively only to a limited extent during the remaining course of the year. The official target range of an inflation rate between 5% and 8% at year-end will likely be missed. We expect the CPI to reach at least 11.5% in December. ---- The government announced initial plans to place local market bonds worth US\$ 2 bn. Financing needs for the entire year will likely lead to a total local placement of US\$ 4 bn.

Outlook: Concerns regarding a significant rise of inflation in the current year are likely to weigh on consumer sentiment. However, we still expect the present survey to show a constantly high level of consumer confidence (Thursday).

Brazil

Industrial production figures were disappointing, showing a drop of 1.2% mom and a 4.4% yoy increase in February. Only the durable consumer goods sector managed to increase its output while all other sectors shrank. Yet we expect the expansion to continue in the coming months, albeit at a slower pace. According to CNI figures, industrial sales increased by 5.9% yoy and 2.8% mom in February, while employment and wages in the industrial sector rose 7.2% and 8% yoy, respectively. This should support the economic upturn. In March, the car production was 14% higher than a year before. ---- The high level of economic activity is contributing to a low level of idle capacity and increasing inflation pressure. Indeed, the IPCA inflation accelerated once again in March, showing an increase of 0.61% after 0.59% mom in February. However, the acceleration is mainly due to bad weather conditions which were the reasons for price hikes in the food industry. We do not

expect the central bank to increase the key interest rate once again in the next several months.

Outlook: Retail sales should have been 6% higher yoy in February (Thursday). ---- Finance Minister Palocci and Central Bank President Meirelles will attend the annual meeting of World Bank and IMF in Washington which takes place from Friday to Sunday. ---- On Wednesday the Supreme Court (STF) will probably decide if the bank accounts of central bank president Meirelles will be investigated for illegal transactions.

Chile

As expected, economic growth was 5.6% yoy in February. Growth dynamics remain intact, as highlighted by a seasonally adjusted 0.2% mom increase. We expect GDP to expand by 5.3% in 2005. ---- Consumer prices rose by 0.6% mom in March. The expectedly strong pick-up in inflation was due to significant increases in a number of products, especially education and transport. Even though yoy inflation remains at the lower end of the central bank's target range of 2-4%, the monetary policy council hiked the key interest rate by 25 bps to 3% on Thursday, as the economic expansion remains robust and there is no need for further monetary stimulus. We expect a continued gradual tightening process and a key interest rate of 4% by the end of the year.

Ecuador

The ongoing discussion regarding the Supreme Court (which had been under the influence of the opposition before the government increased its control) could be getting closer to a solution. According to deputies from the opposition party PSC all members of the present Supreme Court could be dismissed and an independent committee asked to name new members. Apparently this plan is also backed by the PRE party (of for-

mer President Bucaram, who recently returned to the country), which is part of the present government.

Colombia

March inflation reached 0.77% mom (5.03% yoy). We expect that the inflation target corridor of 4.5 – 5.5% yoy at the end of the year will be missed due, among other things, to central bank interventions on the foreign exchange market in order to weaken the peso (December 2005 inflation forecast: 5.6%). ----- The recovery of domestic demand after a weak third quarter 2004 continues this year. Especially demand for non-durable goods is improving. Retail sales grew by 8.67% in January, with especially strong increases for vehicles, office supplies and electronic devices, while industrial production grew only 1.96%. ----- To refinance expiring debts and finance infrastructure projects the government is considering issuing bonds in the Asian markets. Finance minister Carrasquilla made it clear that also a structural tax reform is inevitable. Yet we do not expect it before the 2006 elections.

Mexico

The lower house of Congress voted to remove Mexico City Mayor Andres Manuel Lopez Obrador's immunity. The fact that he now faces prosecution is seemingly a block on his ability to stand in next year's elections. Mexican law prohibits any person facing trial from running for public office. There were large-scale demonstrations in his support during the day of the vote. Lopez Obrador's party, the PRD, has managed to increase its support in polls, which has risen to 36%, against 26% for the PAN and 25% for the PRI. Nevertheless, the PRD invariably lags Mexico's other two main parties when it comes to polls conducted at a national level. ----- Banxico president Guillermo Ortiz admitted last week that political worries could lead to some volatility in financial markets. ----- The Consumer Price Index increased 0.45% in March, in line with forecasts, while the core rate was 0.31%, below expectations. The headline CPI rose to 4.39% yoy in March from 4.27% in February. Agricultural prices pushed the headline index up and were the main source of inflation. Meanwhile, Banco de México decided to keep the Corto at pesos 79 million. ----- Inegi's consumer confidence index fell by 2% mom in March, although it was still nearly 10 percentage points higher than its level a year ago. Generally, consumer confidence remains well supported, reflected in the fact that the index reached its highest level in two years in February. Nonetheless, two factors warrant close monitoring: the impact of rising in-

terest rates and the uncertainty that could be caused by deterioration in the political situation.

Peru

After a budget surplus of PEN 790 mn in January the central government announced a budget deficit of PEN 642 mn (US\$ 200 mn) in February. This is due to a seasonal increase in current expenditure by 32% (a scholar bonus which is usually paid in March). The government expects rising revenues and is planning to increase expenditure especially in the social sector, also with a view to May 2006 elections. Yet until now revenues only grew by 10.6% - in particular due to higher tax revenues (+17.4% in March) - whereas expenditure already expanded 18.6%. For the whole year 2005 we expect a deficit of 1.2% of GDP.

Venezuela

The government issued US\$ 1.6 bn in bonds last week, which carry a coupon of 7.65% and mature in 2025. As in recent occasions, the US\$-denominated bond was offered to domestic investors for domestic currency at the official exchange rate, and offers an opportunity to obtain hard currency without having to refer to the CADIVI foreign exchange authority. The government is authorized to issue another US\$ 2.5 bn on national and international markets in 2005. ----- There is still no congressional decision with respect to the legal proposal to introduce sanctions on financial transactions on the parallel foreign exchange market. A key problem is the issue of sovereign bonds denominated in foreign currency sold to domestic investors and their subsequent sale on international markets. According to the current proposal, these transactions would be sanctioned, but this would close an important financing window for the government. We expect a modification of the proposal and its swift approval. Sanctions for transactions on the parallel foreign exchange market will then range from high fines to imprisonment. ----- Energy minister Ramírez stated that no sale of CITGO, a US mineral oil company belonging to the Venezuelan state oil company PDVSA, was planned. Such a sale would have stripped the country's creditors of the opportunity to size Venezuelan assets in the US in case of sovereign payment disputes.



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
ytd = year-to-date
s.a. = seasonally adjusted
n.s.a. = not seasonally adjusted

"Latin American Weekly Spotlight" is published in addition to our "Latin American Spotlight" and our "Latin American Spotlight Update". All three are published in English and in German. The information contained in this issue has been carefully researched and examined by Dresdner Bank Lateinamerika AG or reliable third parties. But neither Dresdner Bank Lateinamerika AG nor such third parties can assume any liability for the accuracy, completeness and up-to-datedness of this information. The authors' opinions are not necessarily those of Dresdner Bank Lateinamerika. Statements do not constitute any offer or recommendation of certain investments, even if individual issuers and securities are mentioned. Information given in this issue is no substitute for specific investment advice based on the situation of the individual investor. For personalized investment advice, please contact your Dresdner Bank Lateinamerika branch.



Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	08.04.2005	2.89	2.92	2.92	2.81	2.97	2.7	3.0
Brazil	11.04.2005	2.59	2.64	2.72	2.88	2.66	2.7	2.9
Mexico	11.04.2005	11.12	11.20	11.06	11.24	11.15	0.3	12.0
Chile	08.04.2005	575	588	584	600	556	-3.4	580
Colombia	08.04.2005	2346	2374	2339	2646	2355	0.4	2398
Peru	08.04.2005	3.26	3.26	3.26	3.46	3.28	0.6	3.3
Venezuela	08.04.2005	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	11.04.2005	5423	5430	5024	4696	4707	716	
Brazil	11.04.2005	447	466	396	549	383	64	
Mexico	11.04.2005	181	187	145	168	167	14	
Ecuador	11.04.2005	656	660	594	690	691	-35	
Colombia	11.04.2005	409	409	334	356	333	76	
Peru	11.04.2005	244	250	208	324	220	24	
Venezuela	11.04.2005	461	467	419	634	412	49	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	08.04.2005	2.56	2.44	2.31	1.31	2.31	0.3	5.0
Brazil Selic	08.04.2005	19.24	19.24	18.75	16.09	17.75	1.5	17.8
Mexico Cetes 28 days	08.04.2005	9.56	9.56	9.36	5.86	8.61	1.0	8.7
Chile 90 days, PDBC	07.04.2005	3.04	2.73	2.91	1.51	2.24	0.8	3.8
Colombia Overnight	06.04.2005	6.32	6.30	6.38	7.00	6.24	0.1	7.5
Peru Overnight	01.04.2005	2.88	na	2.88	2.55	3.03	-0.2	4.0
Venezuela deposits 30 days	05.04.2005	11.44	10.58	10.01	10.89	11.92	-0.5	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	08.04.2005	20.5	20.4	21.1	15.1	19.6	0.8	21.5
Brazil	07.04.2005	61.7	62.0	61.8	51.3	52.8	8.9	62.0
Mexico	01.04.2005	71.1	71.6	71.0	68.0	71.6	-0.5	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.)	07.04.2005	26.3	25.7	25.1	23.5	24.2	2.1	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	11.5	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	3.7	6.1	5.3		1.1	2.4	2.4	74
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