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**Argentina:** How to deal with holdouts?

**Brazil:** Tightening cycle coming to an end

**Chile:** Government increases budget surplus forecast

**Ecuador:** Growing protests against the government

**Colombia:** Consumer confidence declined in March

**Mexico:** Weaker than expected growth in industrial production

**Peru:** Positive growth trend continues in February

**Venezuela:** Government plans to revise oil contracts

## Argentina

Ahead of last weekend's IMF meeting the treatment of holdouts (those bondholders which did not accept the recent swap offer) was one of the main topics. Representatives of multilateral financial institutions and U.S. Treasury Secretary Taylor called on Argentina to develop a strategy towards holdouts. During his one week visit to Germany President Kirchner announced that during his tenure (until end-2007) there will be no new exchange offer. The further treatment of holdouts, which hold bonds in the volume of US\$ 19.5 bn (incl. interest arrears: US\$ 25 bn) is likely to weigh on IMF talks lying ahead. However, as in the past the IMF is not likely in our view to take a hard stance against Argentina. ---- Following robust consumer confidence figures (UTDT) in recent months, the indicator plummeted in April (-10.5%, mom). The main reason for the decline possibly is the concern over increasing inflation rates. While consumer confidence still continues at a high level, the recent decline is a clear signal that the expected slowdown of private consumption is on its way.

Outlook: Industrial production (today) is likely to have increased 6% (yoY) in March, following growth of 5.4% in February and 7.1% in January. Mirroring the weaker figure of industrial production in February, the GDP proxy EMAE is likely to have increased only by 8.2% in February, following growth of 9.1% in January.

## Brazil

Tax revenues increased by 6.4% yoy in real terms in March. ---- The government has presented the budget plan for 2006 in congress, which foresees a 4.25% of GDP primary surplus for the next three years. If this goal is achieved, public debt will probably come down to significantly below 50 % of GDP. ---- Retail sales rose only 1.3% yoy in February, the smallest increase in 15 months. This result is partly due to the fact that last year's carnival took place in March while this year it was in February. Apart from that the picture fits to our forecast of a slowing economic activity.

Outlook: We expect the central bank to let the key interest rate unchanged on Wednesday, ending thereby the cycle of interest rate hikes that began in the third quarter of last year. While current inflation is significantly above the official year-end target of 5.1%, the signs of an economic slowdown are becoming evident. Obviously the central bank is not keen to strengthen dampening forces. ---- Thursday is bank holiday.

## Colombia

Fedesarrollo's consumer confidence index (measured by a scale of -100 to +100) declined again in March, from 13.3 to 9.6 points. Consumers were especially pessimistic about the next 12 months. This is probably due to the fact that it is not certain whether Uribe is going to be able to run in the May 2006 elections and to reinforce guerrilla raids. ---- Last week President Uribe met Japan's prime minister, Junichiro Koizumi, to deepen the economic relationship between the two nations. They also discussed the possibility of a free trade agreement.

Outlook: The central bank's target minimum repo rate of 6.5% will be maintained in the institution's session on Friday.

## Chile

Finance minister Eyzaguirre announced that the 2005 central government budget surplus will most likely exceed the current forecast of 1.2 % of GDP due to high copper prices and robust economic growth. This is in line with our forecast (+2 % of GDP).

## Ecuador

Protest against December's designation of new supreme court judges continues. On Friday President Gutiérrez declared a state of emergency and by decree dismissed all supreme court judges. On Saturday the state of emergency was revoked, and in an emergency session on Sunday congress voted in favor of the dis-

missal of the judges. Protests of the divided opposition, which is accusing President Gutierrez of acting in a dictatorial manner calling for his resignation, will continue. However, for the time being President Gutierrez seems to enjoy sufficient backing by the military.

## Mexico

So far the „Lopez-Obrador affair“ did not have a substantial negative impact on the local financial markets. The Mexican equity market and foreign currency bonds are rather suffering from the general “flight to quality assets”, caused by financial problems at General Motors, among others. ---- In February, industrial production rose by 2.0% compared to a year ago. This was less than we had expected (3.5%). Demand from the US has continued to be buoyant in the 1<sup>st</sup> quarter. We already had postponed our forecast for a slowdown of the Mexican economy to the second half of 2005 and increased our growth forecast for 2005 from 3.3% to 3.7%.

Outlook: In February, retail sales probably rose by 6.5% yoy (Thursday) ---- In the first two weeks of April, consumer prices most likely increased by 0.2% (Friday). On Friday, the Mexican central bank will probably raise the „corto“ by another pesos 2mn to pesos 81mn.

## Peru

The proposal to go back to a bicameral system in congress was refused by congress on Thursday. The suggestion had been raised with the purpose to improve the balance of power. But the opposition was able to block the suggestion, alleging that the bicameral system would only increase costs and bureaucracy. ---- In February the economy grew by 6.8% yoy in real terms.

Especially the agricultural sector recovered (+4.95%) due to better climatic conditions, and also the manufacturing sector grew very strongly by 7.79 %. The positive growth trend is not yet reflected in the labor market. Unemployment rose to 10.4% in March (March 2004: 10.2%).

## Venezuela

According to central bank director Maza, GDP growth in the 1<sup>st</sup> quarter of this year may come in between 7-11%. For the year as a whole, Maza aired a forecast of 7%. This is only marginally higher than our own forecast of +8% for the 1<sup>st</sup> quarter of this year and +6 % for 2005 as a whole. ----- Energy minister Ramírez declared that the government intends to revise all existing contracts with private oil companies with the aim to increase the government's share in all joint ventures to at least 51%. Furthermore, Ramírez added that the government would like foreign oil companies to „pay more taxes“. No further details were given but this probably entails a further change in contracts or a further increase in royalty payments. Needless to say, this is negative for business sentiment and investment, especially in the oil industry. ----- The draft bill to introduce sanctions on activities on the parallel foreign exchange market is still discussed in Congress. It is still unclear how bond issues such as that at the beginning of April should be treated, when the Government sold bonds denominated in US dollars against local currency at the official exchange rate to domestic investors. According to the current proposal, sanctions would apply to the buyers of these papers, which would endanger an important financing window for the government.

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## Abbreviations:

mom = month-on-month  
qoq = quarter-on-quarter  
yo<sup>y</sup> = 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	15.04.2005	2.90	2.89	2.92	2.83	2.97	2.5	3.0
Brazil	18.04.2005	2.62	2.59	2.71	2.91	2.66	1.3	2.9
Mexico	18.04.2005	11.12	11.10	11.16	11.25	11.15	0.2	12.0
Chile	18.04.2005	582	573	586	595	556	-4.6	580
Colombia	18.04.2005	2362	2333	2367	2623	2355	-0.3	2388
Peru	15.04.2005	3.26	3.26	3.26	3.47	3.28	0.6	3.3
Venezuela	18.04.2005	2147	2147	2147	1918	1918	-10.7	2150

## EMBI+ Spread

bps	date	last	one week	one month	one year	end 2004	ytd-change, bps
Argentina	18.04.2005	5644	5450	5090	4635	4707	937
Brazil	18.04.2005	486	445	427	595	383	103
Mexico	18.04.2005	206	183	170	178	167	39
Ecuador	18.04.2005	752	661	619	740	691	61
Colombia	18.04.2005	433	402	373	383	333	100
Peru	18.04.2005	289	239	232	327	220	69
Venezuela	18.04.2005	500	460	440	633	412	88

## Benchmark interest rates

%	date	last	one week	one month	one year	end 2004	ytd-change, %-points	end 2005f
Argentina, Overnight	15.04.2005	2.69	2.56	2.31	1.31	2.31	0.4	5.0
Brazil Selic	18.04.2005	19.24	19.24	19.24	15.86	17.75	1.5	17.8
Mexico Cetes 28 days	15.04.2005	9.59	9.60	9.41	5.83	8.61	1.0	9.5
Chile 90 days, PDCC	12.04.2005	2.99	2.74	2.87	1.51	2.24	0.8	4.0
Colombia Overnight	14.04.2005	6.29	6.32	6.35	7.09	6.24	0.0	7.5
Peru Overnight	15.04.2005	2.93	na	2.88	2.55	3.03	-0.1	4.0
Venezuela deposits 30 days	12.04.2005	10.91	11.44	11.17	9.95	11.92	-1.0	14.5

## Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	15.04.2005	20.5	20.5	21.1	15.2	19.6	0.9	21.5
Brazil	14.04.2005	61.3	61.7	63.3	50.7	52.8	8.5	62.0
Mexico	08.04.2005	70.0	71.1	70.7	68.2	71.6	-1.5	65.0
Chile	28.02.2005	15.5	na	15.6	16.1	16.1	-0.6	15.7
Colombia	28.02.2005	13.8	na	13.7	11.3	13.5	0.3	14.0
Peru	31.12.2004	12.6	na	12.3	10.2	10.2	2.4	12.5
Venezuela (FEM&Gold incl.)	14.04.2005	26.4	26.3	25.2	23.8	24.2	2.2	26.5

## Economic activity

GDP (yo, %)	2003	2004e	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
Argentina	8.8	9.0	6.0	3.7	6.1	12.5		127
Brazil	0.5	5.2	3.9	9.3	7.6	6.7		495
Mexico	1.3	4.4	3.7	4.0	5.2	3.7		626
Chile	3.7	6.1	5.3	1.1	2.4	2.5		74
Colombia	4.0	4.0	4.0	6.5	5.5	5.6		79
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	15.2		85

Public sector	Budget balance, % of GDP	2003	2004e	Public debt, % of GDP	2003	2004e	Amortization, US\$ bn	Gr. financing needs, US\$ bn	2003	2004e
Argentina	1.3	4.2		140	121		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	1.1	-1.2
Colombia	-2.7	-1.2		62	58		10.6	10.0	12.7	11.2
Peru	-1.9	-1.3		48	46		1.1	1.3	2.3	2.2
Venezuela	0.2	0.0		45	37		10.8	9.0	10.7	9.0

\* 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	404	36	32.3	77	2.0	3.0	13.3	-0.7	5.8
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	145	15	7.2	21	1.5	1.4	9.0	6.7	5.6
Colombia	228	11	7.3	43	-1.3	-1.2	1.0	2.6	6.8
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