Latin American Weekly Spotlight
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Dresdner Bank Lateinamerika AG
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Latin America: Region benefits from high prices of primary goods
Argentina: Meeting with GCAB without results, but in improved atmosphere
Brazil: Double-digit increase of central government's revenues
Chile: CB maintains monetary policy interest rate at historic low
Colombia: Uribe's reelection is to have first priority
Ecuador: Auction of oil production licenses postponed
Mexico: External debt management aims at lower interest burden
Peru: Government proposes pension reform to congress
Venezuela: More Brady–bond buy-backs

Latin America

The region is benefiting from the price cycle of primary goods, and many countries are taking advantage of the favorable conditions to implement important reforms. Please find details in our Publication "Spotlights Update", which will be published this week.

Argentina

Friday's meeting with the GCAB (Global Committee of Argentine Bondholders), the by far most important bondholder group, ended without results. Hans Humes, co-chairman of the GCAB, indicated that future stages of the debt restructuring were discussed. He admitted that the GCAB and Argentina are not yet negotiating, something which had been demanded by GCAB. Still, the meeting was described by the GCAB as constructive and positive, although Humes believes that "very difficult" times lie ahead. Following the talks the Argentine cabinet chief Fernández reiterated there had been no change to the Argentine restructuring offer. ---- Due to the energy crisis and the mass protests against crime a decline of consumer confidence in April was to be expected. However, the actual fall of 11.4% of the UTDT-indicator turned out to be surprisingly strong. It confirms the expectation of a slackening GDP growth in Q2-04. ---- Following the World Bank's recent announcement of credits for Argentina of US$5bn over the next five years, the institute in the end decided to only approve credits worth US$2bn until the end of 2005, citing concerns over Argentina's future economic growth, which would only brighten if Argentina were to be successful in substantially improving its relations to investors and creditors.

Outlook: According to local press reports the government plans to offer bonds as part of the debt restructuring, the amortization of which will be linked to GDP growth. So far plans had only been for interest payments to be linked to GDP growth. The acceptance of both types of GDP-linked bonds probably will be low, especially with institutional investors, as the papers are difficult to price and because they are likely to be attractive only under very optimistic growth assumptions. ---- March's industrial production (published today) is likely to show more growth (February: +0,9%, mom). Due to the high base of comparison, the yoy rate will probably come in lower than in February, when it reached 14.2%. The yoy growth rate of the GDP proxy (EMA) for February (Tuesday) is likely to again show an increase of just under 10% (January: 9.9%).

Brazil

The latest increase of the long term interest rates in the U.S. as well as the recommendation of a big investment bank to move Brazil from overweight to marketweight, were the main reasons for the increase of the EMBI+ Brazil spread to above 600 basis points. We are still optimistic about Brazil and do not think that fundamentals have changed negatively. ----- As expected, the central bank cut the interest rate by 25 basispoints to 16.0%. The latest inflation indices confirm that inflation is under control and that the year-end inflation will stay in the central bank's target range of 5.5% +/- 2.5 percentage points. ----- While the industrial production decreased in February, employment increased by 0.3% (mom, sa), a further sign that the decrease in production is only a temporary phenomenon. ----- The government introduced the project for the reform of the regulatory agencies (telecommunication, power, oil and others) to congress. The proposed new rules are not optimal (partly including the danger of higher politisation of the decisions). However, it would be exaggerated to speak of rules hostile to investments.

Outlook: After an unexpectedly high increase of the central government's revenues in March (13.5% yoy, real), the primary surplus of the consolidated public sector for the first quarter should exceed the IMF target of BRL 14.5 bn. Net public debt will probably decrease marginally to 57.5 % of GDP (both on Friday). ----- The retail sector will show higher sales in February in yoy terms (forecast: 3 % yoy, real). ----- Central Bank president Meirelles will participate in the spring meeting of IMF and World Bank. On Thursday he will talk at the Brazil-US Investment Summit. ----- Wednesday is a bank holiday (Tiradentes)

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Chile

In its monthly monetary policy meeting, the Board of the CB decided, by unanimous vote, to maintain the monetary policy interest rate at 1.75 %. It furthermore explained that interest rates could remain low for a considerable period of time due to weak inflationary pressure. We do not expect a tightening of monetary policy before the fourth quarter of this year.

Colombia

The constitutional change allowing for a second presidential term has been given first priority by the government, as it decided to postpone the debate of economic reforms to the second half of the year. The government argued that discussing both reforms at the same time would be to difficult of a task. ----- In the course of the third revision of the current stand-by program, IMF representative Rennhack praised the government's efforts for lowering the budget deficit – the government managed in 2003 to undershoot the revised ceiling for the budget deficit (2.8% of GDP), despite the failure of the referendum – and was confident with regard to the future development. We do not believe that the government will be able to reach this year's budget ceiling (deficit of 2.5% of GDP). ----- Minister of Finance Carrasquilla announced to amplify local market bond emissions this year. We believe the government will use the current favorable finance conditions for an active debt management (prolongation of maturities, higher emissions on the local bond market) and that the volume of bond emission will therefore exceed the announced amount (US$ 1bn in external bonds, US$ 5.1 bn in local bonds).

Outlook: In January, industrial production growth (DBLA forecast 4.0% yoy) should have been slightly higher than in the preceding month. ----- We expect the central bank to keep repo rates steady (6.75%) at Friday's board meeting.

Ecuador

Allegations of President Gutiérrez having received illegal campaign financing have triggered renewed social protest demanding Gutiérrez' resignation. Although we would expect Gutiérrez to remain in charge for the time being, rising social pressure might call for the funds accumulated in the FEIREP oil stabilization fund to be used for social expenditure instead of (legally man-dated) debt buy-backs. ----- The auction of production licenses for oil fields currently operated by state-owned Petroecuador has been postponed indefinitely (previous date: April 20). The new oil minister Lopez cited legal uncertainty due to the modification of sales conditions during the bidding process. Although the postponement is good news in order to establish legal certainty and enhance long-term investment, a quick clarification of legal doubts is indispensable to encourage urgently needed private investment in the oil sector. ----- As expected, GDP growth in 2003 amounted to a meager 2.7 %. In the fourth quarter, oil production was the only sector with a significant growth contribution. Driven by the oil sector, we expect growth to accelerate to 4.8 % during the current year, albeit without any noteworthy employment effects.

Mexico

After already having bought back all remaining Brady bonds at the secondary market, the Government continues to rely on an active debt management in order to reduce the external debt costs for the public sector. Last week it announced an exchange offer for "undervalued" bonds. The „mispricing" is the result of a high coupon which results in optically high prices way above par value. The exchange offer comprises three different bonds for a total outstanding nominal value of US$ 6.8 bn.

Outlook: On Tuesday the central bank will announce the daily US$ amount it will auction on the fx market. We expect the figure to fall from currently US$ 45 mn to roughly US$ 25 mn. Nevertheless, the peso should remain relatively well supported by high oil prices and a solid economic performance. Only in the second half of the year we expect the peso to devalue to MXN/US$ 11.90.----- After the strong increase in January retail sales should fall slightly in February on a seasonally adjusted basis (Thursday). Compared to a year ago we expect them to have increased by 3%.----- On Thursday we should see rather positive figures to be released for the preliminary trade figures for March given the further increase in oil prices. We expect exports to have increased by 5% (imports: +3%) and the trade deficit to have fallen to around US$ 50 mn (compared with US$ 221 mn a year ago).---- In the first half of April the price increase (Thursday) should have slowed down further (DBLA forecast: 0.15%). That will give the central bank enough reason for not tightening monetary policy again on its Friday meeting. We only expect a further increase in the "corto" in July/August.

Peru

Latest official data on public debt shows an increase in the debt volume by US$ 2 bn between 2001 and 2003 and at the same time a reduction of the share of bonds with flexible coupons. The still high share of bonds with varying interest payments (50% of present bonds) makes the government vulnerable against strong movements of the international interest rate level. ----- The government will shortly propose a reform of the pension system to congress. The envisaged change of the basis for assessment in a special pension regime

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(so-called "cédula vida") needs 2/3 of congress' votes. ----- The GDP expansion in February (4.1% yoy) exceeded our expectations. We expect economic growth to slow amid sluggish private consumption (due to high unemployment) and weak private investment activity outside the mining sector. We have just recently lowered our GDP forecast to 3.8% for 2004.

Venezuela

Car sales in March reached their highest level sind August 2002 (+113% yoy); this raises hopes for a sustained economic upturn. ----- Tax revenues are increasing more vigorously (March +102% yoy); in our assessment, this is due to the economic upturn and to a statistical base effect as well as the government's campaign against tax evasion. ----- Venezuela plans to make international tenders for new exploration areas in the crude belt of the Orinoco in order to increase crude production. It seems that there is some investor interest in spite of the requirement of a majority stake by PDVSA and clearly higher royalty payments than before. ------ Finance Minister Nobrega expects GDP growth of more than 10% yoy for the first quarter. We think that a substantially higher rate is likely, given the result of the previous quarter, which means that the expected 10% yoy growth would correspond to a 21% drop in comparison with the fourth quarter of 2003. ----- Now that the electoral authority has determined that the opposition will have the possibility to confirm doubtful signatures between May 20 and May 24, there is a dispute within the opposition whether it should participate at all in the confirmation operation.

Outlook: This week Venezuela plans to buy back further Brady bonds as well as the Global Bond 2018 (interest rate: 7%) ahead of schedule; Finance Minister Nobrega has up to now not given details in this respect. Reportedly, there are also considerations to buy back more domestic debt securities; more than US$ 1 bn from the March VEB/US$ issues are still available to this end.

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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	16.4.2004	2.82	2.81	2.88	2.92	2.93	3.9	2.9
Brazil	16.4.2004	2.91	2.88	2.90	3.04	2.89	-0.7	3.1
Mexico	19.4.2004	11.28	11.24	10.97	10.53	11.23	-0.4	11.9
Chile	16.4.2004	602	600	607	714	593	-1.5	600
Colombia	16.4.2004	2622	2646	2671	2780	2780	6.0	2800
Peru	16.4.2004	3.47	3.46	3.46	3.46	3.46	-0.1	3.5
Venezuela	16.4.2004	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	19.4.2004	4641	4718	5576	5423	5739	-1098
Brazil	19.4.2004	599	544	536	839	463	136
Mexico	19.4.2004	180	169	188	227	199	-19
Colombia	19.4.2004	385	356	386	512	431	-46
Ecuador	19.4.2004	741	701	703	1215	799	-58
Peru	19.4.2004	329	326	339	327	312	17
Venezuela	19.4.2004	635	635	679	1107	593	42

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Peso 7 days	16.4.2004	1.63	1.63	1.69	8.44	1.81	-0.2	4.0
Brazil Selic	16.4.2004	15.86	16.00	16.07	26.32	16.33	-0.5	14.0
Mexico Cetes 28 days	16.4.2004	6.01	6.01	5.96	7.40	6.01	0.0	6.5
Chile 90 days, PDBC	15.4.2004	1.49	1.51	1.62	2.41	2.29	-0.8	2.8
Colombia Prime Rate	26.3.2004			11.55	10.88	11.32		7.5
Peru Overnight	16.4.2004	2.48	2.48	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	14.4.2004	15.2	15.1	12.1	10.5	14.1	1.1	17.0
Brazil	15.4.2004	50.7	51.1	51.6	41.0	49.3	1.5	54.2
Mexico	9.4.2004	68.4	68.2	68.6	57.7	65.8	2.6	65.0
Chile	31.3.2004	16.0		16.03	16.50	16.50	-0.5	15.9
Colombia	29.2.2004	11.29		11.24	10.99	10.99	0.3	11.2
Peru	29.2.2004	10.5		10.6	10.1	10.19	0.3	10.9
Venezuela (FEM&Gold incl.)	15.4.2004	23.8	23.532	22.65	23.53	21.30	2.5	-6.4

Economic activity								
GDP (yoy, %)	2003e	2004f	2005f	Q303	Q403e	Q104f	Q204f	GDP 2003e, US$ bn
Argentina	8.7	6.5	3.8	10.2	11.3	8.8	6.8	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	3.3	4.8	4.5	3.1	3.3	4.4	4.8	72
Colombia	3.7	4.0	3.7	4.1	4.5	5.1	3.4	78
Ecuador	2.7	4.8	2.9					27
Peru	4.0	3.8	3.7	3.5	2.8	2.9	2.3	61
Venezuela	-9.2	6.0	5.0	-7.2	9.0	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	140	150	19.8	19.8	19.1	18.2
Brazil*	-5.2	-2.6	83	79	94.2	83.2	72.1	67.3
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	-2.8	-2.8	63	61	6.2	5.3	8.4	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	374	30	32.3	82	2.2	3.3	11.5	0.0	5.6
Brazil	237	12	64.0	69	0.6	3.3	26.3	13.0	7.1
Mexico	83	28	33.3	17	-1.8	-11.0	-7.8	14.0	3.5
Chile	135	18	6.9	21	1.6	1.4	5.8	1.5	5.9
Colombia	228	11	9.1	52	-1.2	-1.1	0.5	2.0	6.2
Ecuador	226	14	2.6	35	-2.0	-0.6	0.1	1.2	1.2
Peru	238	10	3.6	28	0.0	0.0	1.7	1.1	9.4
Venezuela	122	6	5.0	18	10.3	8.9	14.4	1.4	11.5