



Argentina: Court of appeal decision awaited

Brazil: Central bank surprisingly hikes key interest rate

Chile: Good employment figures expected

Colombia: Pension reform takes one step forward

Ecuador: Forced change of government

Mexico: Central bank not done yet with tightening

Peru: Possible candidates for the 2006 election

Venezuela: Government plans modification of FEM stabilization fund rules

Argentina

As expected industrial production growth slowed to 5.9% yoy in March. First quarter growth thus reached 6.1% (yoy) following 8.5% in the last quarter of 2004. Growth of the GDP proxy EMAE as well slowed down expectedly. Even though, growth of 8.6% (yoy) in February (following 9% in January) was slightly higher than expected. ---- The primary surplus of the central government in March did not increase as expected to US\$ 1.45 bn but declined to US\$ 1.23 bn (February: US\$ 1.4 bn), as growth of expenditures (19.3% in real terms, yoy) exceeded revenue growth (12.7%). However, the primary surplus of the last 12 months was unchanged at 3.8% of GDP. ---- The central bank's monetary policy is turning more restrictive, but this will most likely not be enough to prevent the expected increase in inflation. Following the recent 50 bps hike of the repo rate to 3.25%, interest rates of short term notes of the central bank as well increased last week to 4.15% from 4.0% the previous week.

Outlook: From Wednesday onwards the court of appeal in New York may give its decision on the litigation initiated by holders of defaulted bonds. The announcement is not fixed to a specific date. However, we do not expect major delays. Should the court of appeal rule in favor of Argentina the exchange of bonds should go ahead soon. ---- Construction activity is likely to have declined again slightly (mom, s.a.) in March (Wednesday). The yoy growth rate thus will have declined from 14.9% in December to approx. 5%. ---- The surprising slump in consumer confidence at the beginning of April (-10.5%, mom) is not boding well for retail sales in March, which recently had already been declining.

Brazil

The central bank decided to hike the key interest rate by 25 basis points to 19.5%, as the latest inflation indices pointed strongly upside once again. Although we did not expect this decision we believe that it was the right one. However, the fact that the rate hike was smaller than in the sessions before could be taken as a hint that the cycle of interest rate increases has come to an end. ----- The structure of the public debt partially

improved in March. E.g. the part of dollar-indexed debt continued to fall to 5% (from 40% in September 2002), and fixed-rate debt makes up for 21.5% of total local debt. On the other hand, the participation of papers linked to the interest rate increased further to reach 57%, while the average maturity went down to 27.8 months. ----- While the approval rating of the government was actually unchanged (according to a CNT/Sensus poll it continues to stand at about 42%), the rating of President Lula has suffered a setback, albeit at a high level (from 66% to 60%). This is probably due to the government's lack of unity and capacity to act.

Outlook: The minutes of the latest central bank meeting (see above) should provide some clues as to whether the cycle of interest rate hikes has come to an end, as we expect (Thursday). ----- The unemployment rate probably increased slightly in March, as will be shown by the results of the surveys of DIEESE for São Paulo as well as IBGE for Brazil (Tuesday and Wednesday, respectively). ----- The IPCA-15 inflation for April should show a 0.6% mom increase. At this pace, inflation is still too high to meet the year-end target of 5.1% yoy.

Chile

Following low industrial growth in February due to a high base of comparison, we expect a considerable pick-up in March. This should take the yoy rate to more than 6% (Thursday). ----- The labor market is expected to provide good news as well: as employment growth should exceed 3.5% yoy in March, we expect the unemployment rate to come in at 8%, slightly lower than in March 2004 (Thursday).

Colombia

The congress approved the pension reform in the fifth of eight necessary votes. The reform, planned to become effective in 2010, will mean US\$ 21.4 bn in savings for the government during the next 40 years. ----- After the peso gained again 2% compared to the US\$ last week, the president of the central bank, José Uribe, announced that the central bank will continue to intervene on the foreign exchange market to stop the ap-

preciation of the Colombian currency. Even so he made it clear that the central bank is not going to lose sight of its inflation target. However we believe that the associated increase in money supply will raise inflation to 5.6% by year-end.

Outlook: On Tuesday, March unemployment data will be published. We assume that the unemployment rate will have dropped to 15% (February 16.1%).

Ecuador

Following continued protests parliament last week decided to oust President Lucio Gutierrez. His successor is the previous Vice-President Alfredo Palacio. He does not belong to a political party and presently does not enjoy a majority in parliament. Shortly after his inauguration he presented his cabinet. The nomination of the university professor Rafael Correa as new economy minister will give financial markets some headache. So far Correa's statements have been diametrically opposed to those of his market-friendly predecessors. For example, he wants the full FEIREP fund to be used for social spending and not just parts of it. Correa is critical on the dollarization of Ecuador and believes foreign debt should be restructured further.

Mexico

The Mexican central bank left the corto unchanged at its Friday bi-weekly policy meeting. In line with consensus, we had been expecting a 2 million peso hike. In its supporting statement, Banxico referred to the "appreciable decline" in core inflation together with a moderation in commodity prices, as reasons for leaving monetary policy unchanged. This does not signal that the tightening cycle has come to an end. Indeed, Banxico is still clearly dissatisfied with the fact that market expectations for medium-term inflation remain above its central target of 3%. We stick to our view that money market rates (cetes, 28 days), currently at 9.6%, will top out at close to 10% around the mid-point of this year. ---- Similar to industrial production figures, in February retail

sales showed a disappointing real growth rate of only 3.8% yoy (we had expected 6.5%). The recent weaker data are not evidence enough, however, to start forecasting the beginning of an economic slowdown.

Outlook: In February, the monthly economic activity indicator IGAE probably rose by a moderate 3% compared to the same month a year ago (Tuesday) ---- In March, the unemployment rate most likely remained at its February level of 3.9% (Wednesday).

Peru: One year before the presidential elections the field of possible candidates is becoming clearer. The opinion research institute Apoyo found out that - after the mayor of Lima, Luis Castañeda, announced that he is probably not going to be a candidate - Valentin Paniagua (interim president after the resignation of Fujimori in 2000) is leading the polls (23%). Another contender is former president Alan Garcia, but he has a high rejection rate of 57%. The former finance minister Pedro Pablo Kuczynski, who was not yet been included in the poll, is also supposed to have good chances.

Venezuela

According to press reports, the Finance Ministry is working on a modification of the legal framework governing the FEM Macroeconomic Stabilization Fund. Regardless of current rules, the government did not accumulate funds resulting from the current oil price boom in the FEM, which stagnates at US\$ 0.7 bn. The government's modification calls for an upper limit for the FEM and stipulates that 2005 'obligatory' savings (expected at US\$ 6 bn) would be accumulated in the fund only in 2006. As next year is an election year, we do not expect the government to honor this modification either. The government's practice of using the entire current oil windfall for current spending makes public finances vulnerable to a possible downturn in oil prices.

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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

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Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	22.04.2005	2.90	2.91	2.91	2.83	2.97	2.5	3.0
Brazil	25.04.2005	2.54	2.61	2.74	2.91	2.66	4.7	2.9
Mexico	25.04.2005	11.07	11.11	11.26	11.28	11.15	0.7	12.0
Chile	22.04.2005	576	584	588	612	556	-3.6	580
Colombia	22.04.2005	2345	2365	2385	2616	2355	0.4	2388
Peru	22.04.2005	3.26	3.26	3.26	3.48	3.28	0.7	3.3
Venezuela	22.04.2005	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	25.04.2005	6176	5645	5126	4474	4707	1469	
Brazil	25.04.2005	449	473	473	597	383	66	
Mexico	25.04.2005	181	200	187	179	167	14	
Ecuador	25.04.2005	850	731	671	815	691	159	
Colombia	25.04.2005	414	429	439	369	333	81	
Peru	25.04.2005	239	265	272	317	220	19	
Venezuela	25.04.2005	479	491	480	650	412	67	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	22.04.2005	2.69	2.69	2.38	1.31	2.31	0.4	5.0
Brazil Selic	22.04.2005	19.50	19.24	19.24	15.85	17.75	1.8	17.8
Mexico Cetes 28 days	22.04.2005	9.70	9.70	9.46	5.61	8.61	1.1	9.5
Chile 90 days, PDBC	21.04.2005	2.89	2.99	2.81	1.50	2.24	0.7	4.0
Colombia Overnight	21.04.2005	6.31	6.29	6.27	6.89	6.24	0.1	7.5
Peru Overnight	20.04.2005	3.00	na	2.88	2.43	3.03	0.0	4.0
Venezuela deposits 30 days	18.04.2005	10.93	9.94	10.36	9.58	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	22.04.2005	20.8	20.5	20.4	15.3	19.6	1.1	21.5
Brazil	20.04.2005	61.9	61.8	62.7	50.4	52.8	9.1	62.0
Mexico	15.04.2005	69.4	70.0	71.1	68.4	71.6	-2.1	65.0
Chile	28.02.2005	15.5	na	15.6	16.1	16.1	-0.6	15.7
Colombia	31.03.2005	12.8	na	13.8	11.3	13.5	-0.8	14.0
Peru	31.12.2004	12.6	na	12.3	10.2	10.2	2.4	12.5
Venezuela (FEM&Gold incl.)	21.04.2005	26.7	26.4	25.1	24.0	24.2	2.5	26.5

Economic activity				Inflation				GDP 2003, US\$ bn
GDP (yoy, %)	2003	2004e	2005f	% , year end	2003	2004	2005	
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		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	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	-1.4	-8.7	-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