



**Argentina:** Waiting for court of appeal decision

**Brazil:** Prominent government members attack the central bank

**Chile:** Positive news from the labor market

**Colombia:** New IMF Stand-By agreement implemented

**Ecuador:** Plans for new FEIREP fund rules

**Mexico:** The economy is cooling down

**Peru:** New plans to improve infrastructure

**Venezuela:** Government hikes minimum wage by 26 %

## Argentina

Following the final hearing at the court of appeal in New York, a decision is expected for the next few weeks. According to press reports the plaintiffs are not considering a further appeal at the supreme court, should the court of appeal not decide in their favor. Such further appeal would again bring delays difficult to assess. ---- The trade surplus in March (US\$ 736 mn) reached a similar level as in the previous month. Exports grew 11%, imports surged 31% (yoy). ---- Retail sales came in surprisingly positive in March (supermarkets: +0.5%, shopping centers: +1.9 % mom, s.a). The slump of consumer confidence at the survey carried out at the beginning of April could have suggested weaker figures, which now are likely to materialize in April. ---- As expected construction activity shrank again in March (-2.8 %, mom, s.a.; -2.3 %, yoy).

Outlook: Tax revenue (today) is likely to have grown again strongly (yoy) in April. ---- Following the high inflation rate in March (1.5 %, mom) we expect consumer prices to be up by 1 % in April (Wednesday).

## Brazil

The president of the lower house, Severino Cavalcanti, supported by the vicepresident of the state, Jose Alencar, said that the central bank should be stripped of its possibility to set interest rates. Although we see no danger of this suggestion being realized, it is disturbing that such statements are made by government leaders. ---- The minutes of the last central bank meeting suggest that there will be no further interest hike for the time being. ---- In the Ministry of Finance and in the central bank some changes took place, including the replacement of Marcos Lisboa, currently Secretary for Economic Policy at the, by Bernard Appy, who is currently Executive Secretary at the Ministry of Finance. This change is another sign that no progress on the reform front can be expected before the general elections in October 2006. ---- Public debt continued to decrease to 50.8% of GDP in March. The primary surplus amounted to BRL 12 bn meaning that the 4.25% of GDP target for the whole year should be reached without trouble. ---- The unemployment rate increased from

10.6% in February to 10.8% in March. This is 2 percentage points lower than one year ago, though. ---- The current account surplus reached US\$ 1.8 bn. Net inflows of portfolio investment amounted to US\$ 2.1 bn, while foreign direct investments reached US\$ 1.4 bn. For April, the central bank expects a doubling of foreign direct investments.

Outlook: The April trade surplus should have reached more than US\$ 3 bn (today). ---- The industrial production might end its downtrend of the past few months. Anyway, the level of industrial production remains high (Friday). ---- Perhaps this week the supreme court will decide on the constitutionality of the decree by which central bank president Meirelles was given ministry status, and thus immunity.

## Chile

At 2.3% yoy, industrial production growth was somewhat disappointing in March. As in February, however, the rate has to be evaluated against a high base of comparison, and the assessment that a dynamic expansion will return soon is reinforced by robust growth in industrial sales (+5.8% yoy). ---- Mining production growth was 4% yoy in March, which confirms our expectation that February's decline formed only a soft patch due to maintenance operations. ---- Positive news from the labor market: Employment increased by 3.5% yoy, which took the unemployment rate to 7.9%, 0.2 percentage points lower than in March 2004. As in recent months, jobs were mainly created in dependent work relationships, which mean more secure and better-paid jobs compared to self-employed activities.

Outlook: Driven by high oil prices and robust consumer demand, consumer prices should have increased by 0.4% in April. This would take inflation to 2.4% yoy, basically unchanged from March 2005. ---- Against the backdrop of a high base of comparison, economic activity in March will not grow as fast as in recent months (forecast: +4.9 % yoy). This does not mark, however, a sustained slowdown in the growth picture, and we reaffirm our overall 2005 GDP forecast of 5.3%.



### **Colombia:**

Today the new US\$ 600 mn IMF standby agreement will become effective and will last until November 2006. But Colombia only will utilize the funds if there are unexpected financing problems on the international capital markets. The standby agreement also includes a plan to improve budget finance in the long run by promoting a structural tax reform. Therefore the various value added taxes should be standardized and tax exemptions cut off. But the tax reform will not be tackled before the elections in May 2006. ----- Due to low interest rates and a weak development of government bonds, revenues of banks and financing institutions were lower in the first quarter of 2005 than in the first quarter of 2004 (-9.1%).

### **Ecuador**

President Palacio, successor of the ousted President Gutierrez and without majority in parliament, intends to stay in power until the end of current term in January 2007. Following his brief return to Ecuador ex-President Bucaram returned to Panama, as courts in Ecuador again issued arrest warrants against him. ---- Initial comments of the new economy minister Correa indicated the intention the FEIREP oil fund should be scrapped entirely. Present plans, however, to be brought into parliament shortly, are for a change of rules of how the monies collected in the fund may be used. Due to high oil prices the fund will possibly receive some US\$ 700 mn during the current year. At present 70% of funds may be used for debt buybacks, 20% for budget shortfalls and 10% for social spending. According to the new proposal this will change to 20% for budget shortfalls, 15% for health and education each, and 10% for research. The remaining 40% would be used to spur production and creation of new jobs. However, according to Mr. Correa, these 40% could also be used for debt buybacks. It remains to be seen if and how the new rules will pass parliament. The main point so far is that the new rules drop the original main goal of the FEIREP fund, which was to reduce Ecuador's high debt burden.

### **Mexico**

The U turn in the „Lopez-Obrador-scandal“ came even faster than expected; most likely the popular mayor of Mexico City will not face any legal challenges in his bid for the presidency mid next year. ---- In February, the monthly economic activity indicator IGAE rose by a moderate 3.4% compared to the same month a year ago. This was a lower growth rate than in January (4.0%) ---- In March, the unemployment rate rose slightly to 4.0% from its February level of 3.9%. It will take some months until data will show whether the

economy has only entered a soft patch or a more decisive turning point in the cycle has been reached.

Outlook: In March, the public sector probably posted another surplus due to seasonal factors. In the first quarter of 2005 the financial situation of the public sector was well supported by continuously high oil prices. - --- In April, consumer confidence most likely fell slightly from 105.7 to 104.5. This is still a comparatively high level, which signals ongoing robust consumer demand during the first quarter.

### **Peru**

In order to improve the country's infrastructure, the government aims at reopening its concession program, where streets and other infrastructure programs are realized through private investment. To minimize the risk of private investors and keep financing cost low, the World Bank assists Peru with a US\$ 200 mn credit guarantee.

Outlook: The congress committee of investigation which analyses the forgery charges against the government party Peru Posible is going to announce its decision on Tuesday. Peru Posible is accused of falsifying signatures to be allowed to participate in the 2001 elections. We do not expect that there will be an impeachment against president Toledo. Until now no other candidate was able to win recognition in the public, so we suppose opposition parties will try to use the time until the elections in April 2006 for their election campaigns, not being interested in pushing Toledo out of office.

### **Venezuela**

President Chávez announced that minimum wages will be hiked by 26% effective May 1. The increase considerably exceeds the current consumer price inflation, which stood at 15.8% yoy in March. The populist move will further complicate the situation in the formal labor market, as firms are not allowed to fire people under the current labor market regulation and will have to bear significantly higher costs. Public finances, in turn, should not be much affected, as high oil revenues make up for the increase in expenditure. We continue to expect the central government to post a deficit of 4.2% of GDP in 2005, which is far too high given the currently very favorable oil price environment. ----- In another incomprehensible move, Chávez signed a decree to expropriate a manufacturing company which went bankrupt due to the economic turbulences following the general strike to oust Chávez. This is the second private company the government has expropriated in less than six months. ----- To take things further down the road, the Central Bank surprised market participants by introducing a new regulation on interest rates. According to this

regulation, interest rates now have to move in line with official interest rates set by the BCV, and in disregard of supply, demand, and individual risk aspects. It is clear

that such a move will do nothing to enhance credit allocation, credit supply and economic growth.

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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	29.04.2005	2.91	2.90	2.92	2.85	2.97	2.2	3.0
Brazil	29.04.2005	2.53	2.52	2.64	2.98	2.66	5.1	2.9
Mexico	02.05.2005	11.07	11.05	11.20	11.47	11.15	0.7	12.0
Chile	29.04.2005	582	577	588	623	556	-4.6	580
Colombia	29.04.2005	2348	2337	2374	2679	2355	0.3	2388
Peru	29.04.2005	3.26	3.25	3.26	3.49	3.28	0.7	3.3
Venezuela	29.04.2005	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	02.05.2005	6301	6194	5422	4589	4707	1594	
Brazil	02.05.2005	456	442	465	662	383	73	
Mexico	02.05.2005	190	180	181	199	167	23	
Ecuador	02.05.2005	804	881	670	919	691	113	
Colombia	02.05.2005	407	409	405	430	333	74	
Peru	02.05.2005	235	244	248	392	220	15	
Venezuela	02.05.2005	497	482	471	687	412	85	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	29.04.2005	2.69	2.69	2.44	1.31	2.31	0.4	5.0
Brazil Selic	29.04.2005	19.50	19.49	19.24	15.80	17.75	1.8	17.8
Mexico Cetes 28 days	29.04.2005	9.70	9.70	9.56	6.61	8.61	1.1	9.5
Chile 90 days, PDBC	28.04.2005	2.97	2.89	2.81	1.50	2.24	0.7	4.0
Colombia Overnight	27.04.2005	6.33	6.31	6.31	6.84	6.24	0.1	7.5
Peru Overnight	29.04.2005	3.00	na	2.88	2.48	3.03	0.0	4.0
Venezuela deposits 30 days	26.04.2005	11.92	10.79	10.32	10.29	11.92	0.0	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	29.04.2005	20.9	20.8	20.2	15.7	19.6	1.3	21.5
Brazil	28.04.2005	61.5	61.9	61.8	50.3	52.8	8.8	62.0
Mexico	22.04.2005	69.8	69.4	71.3	67.8	71.6	-1.8	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.)	28.04.2005	27.2	26.7	25.3	24.4	24.2	3.0	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