



Latin America: IMF expects economic recovery in Latin America

Argentina: Bolivian gas supplies will not prevent energy rationing

Brazil: Further gradual interest rate cuts expected

Chile: Controversial government proposal concerning mining royalties

Colombia: Robust rise of tax revenues

Dominican Republic: Overdue coupon payment made

Ecuador: Dark clouds over IMF negotiations

Mexico: Inflationary pressure slows – monetary policy on hold

Panama: Strong growth

Peru: Unemployment rate still high

Venezuela: Substantial bolivar appreciation on the black market

Latin America

In its semi-annual „World Economic Outlook“ the IMF forecasts a GDP expansion of 3.9 % (DBLA: 3.6 %) for 2004. It stresses, however, the region's vulnerability against a change in the currently favorable conditions on international financial markets and against market-unfriendly decisions of national governments. Political and social stability in the region is endangered, according to the IMF, by increasing social tensions. This should not, however, impede further efforts concerning the long-term goal of a stabilization of public finances by the reduction of the public debt burden.

Concerning individual countries, the IMF recognized Brazil's return to overall growth and its efforts concerning the stabilization of public finances, although further success is necessary with respect to the latter. Concerning the Andean region, the IMF highlighted the dangers emanating from political destabilization on economic development not only in Venezuela, Ecuador and Bolivia, but also in Peru. With respect to Mexico, growth should accelerate during the current year. In the medium term, however, structural reforms are essential for dynamic growth.

Argentina

According to preliminary figures the primary surplus of the central government reached nearly ARS 4 bn in the first quarter of 2004, close to four times the IMF target of ARS 1.1 bn. US undersecretary of finance Taylor said in Buenos Aires that he believes it should be possible to increase the primary surplus further as tax revenues are soaring. Pressure from creditors to improve the debt rescheduling offer is bound to rise. ---- According to a report of the respected Argentine newspaper „El Cronista“, economy minister Lavagna mentioned during a speech in Washington that past due interest payments will be recognized as part of the bond rescheduling. So far the official view had been that overdue interest payments (US\$ 9.97 bn as of end-2003) would not be recognized. ---- Argentina signed a contract with Bolivia for the daily supply of 4 mn cubic meters of gas. Still rationing of

around 15 mn cubic meters per day (7% of total demand) is expected in the upcoming winter months. ---- March's industrial production grew by 1.3% (mom, s.a.) and 15.5% (yoy), respectively. Growth rates are likely to come in lower in the months ahead as the rationing of electricity supplies for large-scale industries will start kicking in. ---- Yoy growth of the monthly GDP proxy (EMA) again was high in February (+10.4%). However, in mom terms GDP stagnated. Similar to industrial production we expect growth rates to weaken in the course of the year.

Outlook: Construction activity (Tuesday) in March is likely to have grown again substantially (February: 32.5% yoy; 3.1% mom, s.a.) ---- Due to the already declining consumer confidence in March, supermarket sales (Wednesday) are likely to show minor growth (February: +1.1%, mom, s.a.). ---- March's external trade figures (Friday) should repeat the pattern witnessed in recent months: export growth of more than 10% (yoy), mainly due to high export prices, and import growth of around 70% (yoy) due to base effects.

Brazil

Retail sales increased in February by an unexpectedly high 5.1% (yoy), confirming our assessment that the economic upturn is continuing (despite the disappointing figures of the industrial sector). ---- Rumors that the government might want to increase the inflation target for 2005, currently at 4.5 %, were denied by finance minister Palocci. ---- The minutes of the last central bank meeting suggest more gradual key interest rate reductions in the coming months (forecast for the next meeting, May 19: -25 bps). ---- The primary surplus for the consolidated public sector amounted to BRL 20 bn, well above the IMF target of BRL14.5bn. This can be attributed above all to the good fiscal result of the central government.

Outlook: The current account showed an unexpectedly high surplus of US\$ 1.2 bn (details will be published on Tuesday). Foreign direct investments (Tuesday) will

probably amount to US\$ 1 bn. ----- The unemployment rate in March will be more or less unchanged at 12 % in comparison to February (Tuesday). ----- The industrial production in Sao Paulo should have increased in March slightly in mom terms, after decreasing by 0.3 % in February (mom, s.a.) (Thursday). ----- The increase of the minimum wage could be decided this week. The finance ministry would like to limit the increase to BRL 20 (resulting in a minimum wage of 260), while the ministries of the social areas are demanding for an increase to BRL 270 to 280. Given the good fiscal figures (see above), the 2004 primary surplus target is not in danger even if the finance ministry's limit should be exceeded. The new minimum wage will come into effect on May 1.

Chile

The government presented its proposal for a royalty on mining operations, to be sent to congress this week. It stipulates (from 2007 on, and only for new projects) a fee on gross sales of up to 3%. Even though conservative circles and the mining industry are highly critical of a royalty, such an instrument is positive in terms of taxing non-renewable resources and ensuring public solvency in the long term. In order to get the proposal through congress (a 4/7 majority is needed), the government needs the opposition's support.

Outlook: March production indicators to be published on Wednesday should surprise on the upside: We expect industrial production to post another strong growth after February's expansion of 8%, while mining production should accelerate considerably following a rather weak performance in February. We also expect positive news from the labor market.

Colombia

Tax revenues increased by 15.7% yoy in the first quarter this year, two percentage points more than envisaged by the government. The rise points to an ongoing strength of domestic demand. ----- The IMF again praised Colombia's positive macroeconomic outlook. In addition to the reduction of the consolidated fiscal deficit the head of the current IMF mission, Rennhack, emphasized the recent lowering of the debt-to-GDP ratio of the central government, which was enabled by higher GDP growth rates as well as the appreciation of the peso over the past months. ----- In order to avert possible conflicts of interests caused by working contracts with the private sector, president Uribe's close economic adviser, Rudolf Hommes, announced his retreat as government adviser. We regard this as a consequent and appropriate step and see no evidence for an upcoming change in economic policy. ----- The government has lifted its GDP growth forecast for this year to 4.0%, in line with our outlook. ----- The debate in congress regarding the admission of a second candidacy for a president holding

office started this week. We are skeptical with regard to the success of this initiative. ----- As expected the Board of the central bank left interest rates unchanged on its monthly meeting.

Outlook: In January, yoy industrial production growth (DBLA forecast 4.0%) should have been slightly higher than in the preceding month.

Dominican Republic

The government finally made the late coupon payment on its 2006 bond before the end of the grace period, so that a default could be averted. The government now has until July to come up with a strategy to close a US\$ 100 million financing gap with private creditors and satisfy the Paris Club's comparability-of-treatment principle. However, this strategy might not have the support of the United States, after the Dominican Republic decided (maybe for election campaign reasons) to retire their 300 soldiers from Iraq. We continue to expect that an orderly restructuring of the external debt will take place.

Ecuador

Pressure on president Gutiérrez is set to increase: Different social groups have joined together in order to reach his resignation, a goal they now also try to reach by lobbying in congress. Even though we expect the opposition in congress to refrain from toppling Gutiérrez, increasing social pressure will affect the up to now fairly stability-oriented economic policy approach. ----- First signs of a possible change in policy orientation are a declaration made by the labor minister, speculating in public about a possible reduction of the share in the FEIREP oil stabilization fund earmarked for external debt buybacks, and the announcement on part of President Gutiérrez to increase the remuneration of the military and the police. Should these announcements come true, this would imply the resignation of finance minister Pozo, up to now the guarantor of stability in the cabinet.

Outlook: Pozo is expected to make a statement before congress concerning the viability of recent spending proposals tomorrow. The subsequent debate should give hints concerning the congressional support for Gutiérrez. The overall economic policy approach should be at the center of negotiations with the IMF concerning a new Stand-By Arrangement (SBA), due to start around the middle of the week. We expect the IMF to recognize the fragile position of the government and therefore not to insist on all targets failed in the last SBA to be included in a new SBA. IMF support is vital for Ecuador, as public financing needs for the current year are far from being covered (around US\$ 360 mn are missing). Government projections concerning domestic debt emission have proven unrealistic. An international bond emission could hardly be placed without IMF support due to re-

cently increasing political noise and a changing global interest rate environment.

Mexico

The latest corruption scandal produced less damage for the major of Mexico City and current frontrunner for the presidential elections in 2006, Manuel Andres Lopez Obrador (PRD), than could have been expected. According to the latest poll by Indemerc Harris his support in the electorate fell from 30.5% to 27.9%. This is still far above the 16% support for Martha Sahagun, who might be the candidate of the governing party PAN.----Starting in May, the central bank will auction US\$ 22 mn on a daily basis on the currency market, compared to currently US\$ 45 mn. The peso remained under slight pressure and reached its lowest level against the US\$ in 2004, falling to MXN/US\$ 11.34, as the market had expected a daily auction of US\$25 mn. Nevertheless, we expect the peso to remain relatively stable over the next few months due to high oil prices and slightly accelerating GDP growth. Only in the second half of the year we expect a renewed depreciation to MXN/US\$ 11.90.---- In March the unemployment rate was nearly unchanged at 3.86% compared with 3.92% in February. This is a further hint for the lack of dynamism within the current economic upturn; on the other hand retail sales came in slightly higher than we had expected in March with 4.2% y-o-y, which is an indication that consumers continued to benefit from a higher consumer credit supply by banks.----- As expected the central bank kept its monetary policy unchanged on its Friday meeting. The decision was supported by positive inflation figures for the first half of April: prices remained unchanged, while we had expected an increase of 0.15%.

Outlook: In February, the "Global Economic Activity Indicator" – a proxy for the GDP – should have increased by 1.8% yoy (Monday), which would confirm our view of an only moderate economic upturn.---- In April, consumer confidence, as measured by Reforma, should remain below the 50 threshold (which means that there are still more pessimists than optimists) despite a small increase. This is due to the still high unemployment rate, which also contributed to a sharp slowdown in real salary growth.

Panama

In the first quarter of 2004 GDP expanded strongly by 6.8% yoy, supported by buoyant exports. Given the continually positive external conditions (especially strong growth of global trade) we increase our GDP forecast for 2004 from 3.5% to 5.2%.---- According to the latest polls opposition candidate Martin Torrijos (PRD) looks forward to a clear victory at the presidential elections to be held

on May 2nd (47% voting intentions). The governing party's candidate, Jose Miguel Aleman, continues to languish in third place, with 19% of voting intentions.

Peru

Unemployment was almost unchanged in March (10.2%) compared to the previous month (10.6%). Still the share of underemployed rose significantly according to the latest statistics. Economy and Finance Minister Kuczynski meanwhile announced further road-building projects aiming at mitigating the situation on the job market. ----- A warning from an alleged member of the extreme leftist terrorist organization "shining path" – which terrified the country with numerous attacks at the end of the eighties and the beginning of the nineties – raised fears of an afresh outbreak of an armed conflict which had been dormant for some time. Even though the unsatisfying economic conditions (e.g. the persistently high unemployment rate) benefits the radicalization of political groups, we do not consider the most recent threat serious and do not expect any major terrorist activities in the short run. ----- Latest polls underline president Toledo's weak support within the Peruvian population. Just 8% of the respondents said they were satisfied with the government.

Venezuela

According to the CNE electoral authority, the opposition will have the opportunity to once again confirm 1.2 million signatures which had been given in favor of a presidential referendum, but had not been recognized ("reparo"). If this would result in an additional 0.6 million signatures becoming valid (which is highly uncertain in our opinion), in theory there could be a referendum on August 8. Various spending programs have in the meantime clearly improved the chances of President Chávez to survive a referendum. --- Finance Minister Nobrega is also considering the optimum level of foreign exchange reserves and searching for legal ways to make a sensible use of "surplus" reserves. ---- The banking supervisory authority is currently checking if the central bank's calculation of the "devaluation gains" which are semi-annually transferred to the state is correct; in this context, the Finance Minister pointed to the strong increase in the central bank's equity capital. ---- As a result of the issuance of US\$ securities which may be purchased against national currency, the quotation of the US\$ in the parallel market has come back to 2,900; temporarily, the dollar had risen to as much as 3,500 VEB.

Outlook: The opposition will decide today or tomorrow whether it will make sense at all to participate in the presidential referendum.



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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

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Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	23.4.2004	2.86	2.83	2.88	2.87	2.93	2.6	2.9
Brazil	23.4.2004	2.91	2.91	2.94	2.96	2.89	-0.6	3.1
Mexico	26.4.2004	11.32	11.25	11.11	10.37	11.23	-0.8	11.9
Chile	23.4.2004	613	595	618	709	593	-3.3	600
Colombia	23.4.2004	2621	2623	2677	2780	2780	6.1	2800
Peru	23.4.2004	3.48	3.47	3.46	3.46	3.46	-0.5	3.5
Venezuela	23.4.2004	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	26.4.2004	4497	4635	5473	5260	5739	-1242	
Brazil	26.4.2004	596	593	569	867	463	133	
Mexico	26.4.2004	180	175	179	255	199	-19	
Colombia	26.4.2004	372	369	389	507	431	-59	
Ecuador	26.4.2004	816	723	702	1181	799	17	
Peru	26.4.2004	317	326	342	317	312	5	
Venezuela	26.4.2004	651	643	659	1267	593	58	

Benchmark interest rates								ytd-change
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Peso 7 days	23.4.2004	1.63	1.63	1.69	8.44	1.81	-0.2	4.0
Brazil Selic	23.4.2004	15.86	15.88	16.07	26.32	16.33	-0.5	14.0
Mexico Cetes 28 days	23.4.2004	5.71	5.91	5.96	6.88	6.01	-0.3	6.5
Chile 90 days, PDBC	20.4.2004	1.56	1.49	1.58	2.36	2.29	-0.7	2.8
Colombia Prime Rate	2.4.2004			11.13	10.29	11.32		7.5
Peru Overnight	23.4.2004	2.55	2.55	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	21.4.2004	15.3	15.2	11.7	10.5	14.1	1.2	17.0
Brazil	22.4.2004	50.4	50.8	51.9	41.2	49.3	1.2	54.2
Mexico	16.4.2004	67.8	68.4	67.8	57.5	65.8	2.0	65.0
Chile	31.3.2004	16.0		16.03	16.50	16.50	-0.5	15.9
Colombia	31.3.2004	11.33		11.29	10.62	10.62	0.7	11.5
Peru	29.2.2004	10.5		10.6	10.1	10.19	0.3	10.9
Venezuela (FEM&Gold incl.)	22.4.2004	24.0	23.795	22.94	23.80	21.30	2.7	-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	-1.3	-1.2	0.9	2.0	6.3
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