



**Argentina:** Government returns to the voluntary domestic bond market

**Brazil:** Export increase of 40% in April

**Chile:** Economy expands by 5% yoy in March

**Colombia:** April inflation lower than expected

**Ecuador:** Oil contracts with foreign investors under scrutiny

**Mexico:** End of the affair

**Peru:** Green light from Paris Club

**Venezuela:** CADIVI disbursed US\$ 1.4 bn in hard currency in April

## Argentina

Following a three-year absence from international capital markets, Argentina launched an ARS 1 bn (around US\$ 340 mn) domestic bond last week. The inflation-indexed issue maturing in 2014 was 2.2 times oversubscribed and carries a yield of 6.5 %. The government announced its intention to issue another domestic bond amounting to ARS 1bn, which is due to mature in 2012, during the remainder of the year. ----- Consumer prices increased by 0.5% in April, taking the twelve-month rate to 8.8%. This is slightly ahead of the central bank's target corridor of 5-8%. Inflation is bound to accelerate during the remainder of the year: while consensus calls for a year-end inflation of 9.8%, we expect a much higher rate of 12.5% due to ongoing central bank intervention on the foreign exchange market.

Outlook: A government delegation will travel to Washington tonight in order to meet IMF representatives. In the meetings, the possibilities of a new agreement between Argentina and the IMF will be discussed. As Argentina has still not come up with a treatment for its hold-out creditors and a solution of the conflict with privatized public utility providers is not in sight, negotiations will be complicated. ----- Consumer confidence is due out next Thursday. We expect confidence to have taken a blow from the renewed inflation fears.

## Brazil

Industrial sales were 0.7% higher in March yoy. Industrial production, at +1.5% yoy, also performed weak. Although employment and wages increased in the industrial sector, we consider the signs as a confirmation that the economic activity is slowing down as expected. ----- Exports reached US\$ 9.2 bn in April which is equivalent to a yoy increase of 40%. At the same time, the trade balance showed a new monthly record surplus of US\$ 3.9 bn. ----- The constitutional court decided that Central Bank President Meirelles keeps the ministerial status guaranteeing his immunity with respect to legal prosecution.

Outlook: While the Senate approved the tax reform last year the decision of the lower house is pending. Rumors claim that a vote is to be expected in the next two weeks. However, there are significant difficulties to include the key piece of the reform which is the unification of the ICMS tax. We continue to consider an approval of the reform as highly unlikely. In the run-up to the elections in 2006 the PT and the PMDB are negotiating weather and how the PMDB will support President Lula. As TV time for campaign spots is going to be allocated for party alliances, the outcome of the talks will have some significance for the government. ----- Amid a couple of signs that the inflation environment is deteriorating we expect monthly IPCA inflation (Wednesday) to accelerate to 0.8% in April. ----- Retail sales should have increased slightly in March given higher employment and real wages.

## Chile

Economic growth was 5% yoy in March. This takes first-quarter growth to 5.6% yoy, a slight slowdown compared to the previous quarter's 7.3%. March figures confirm our assessment that the Chilean economy is well positioned to reach an overall GDP growth of 5.3% in 2005. ----- Consumer prices surprised on the upside in April: Driven by significantly higher prices for public transport and fuels, CPI amounted to 0.9% mom. This takes the yoy rate to 2.9%, almost the middle of the central bank's target range of 2-4%. As the current acceleration of inflation is predominantly supply-driven (higher oil prices), we do not expect the central bank to modify its policy of a measured tightening. We therefore expect only a 25 bps interest rate hike in the next monetary policy meeting on Thursday.

Outlook: On the back of still very high copper prices, the trade surplus should amount to US\$ 1.1 bn in April, even though imports continue to expand at a brisk pace (today).



## Colombia

Despite the ongoing intervention on the foreign exchange market and the consecutive expansion of monetary aggregates April inflation was only 0.4% (5% yoy), as the strong exchange rate is reducing inflationary pressure. This should prompt the central bank to continue with its present monetary policy of unsterilized foreign exchange interventions. We still think that there will be pressure on prices in the second half of the year and we are expecting a year-end inflation of 5.6%. ---- In February there was a slight decline in growth. Yoy industrial production growth was down from 4.65% in February 2004 to 1% in February this year, while retail sales growth diminished from 8.30% to 3.47% at the same time. Without car sales retail sales growth was only 0.65%, which is an indication that consumers are taking advantage of the low interest rates to shift consumption from non-durable to durable goods.

## Ecuador

The congress voted for Alejandro Serrano as vice-president of the Palacio administration. The former minister of economy and defense, Fausto Cordovez, was appointed minister of energy. He announced that the contracts with foreign investors in the oil sector will probably be canceled. This would mean a rupture with the energy policy of the Gutierrez administration which had tried to attract foreign investors to compensate for financial bottle-necks of state-owned Petroecuador. ---- State president Palacio announced a referendum in favor of a parliamentary system instead of the current presidential system. The referendum could take place in six months.

Outlook: The government announced to present a draft bill with respect to the FEIREP fund at the end of the week. While until now the bulk of the revenues was assigned for buy-backs of external debt, funds will be used for social issues and the public budget in general according to the bill.

## Mexico

The attorney general's office announced that it will no longer pursue the legal case against Lopez Obrador. Due to growing political costs (the popularity of Lopez Obrador has been sharply on the rise) and increased risks regarding governability prior to the mid-2006 presidential elections, the government had already made a U-turn in the case a week ago. ---- According to the Finance Ministry, economic growth was around 3% yoy in the first quarter of 2005. The deceleration in growth is due to the fact that the first quarter of 2005 had five working days less than the first quarter of 2004. ---- In March, the public sector 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. Nevertheless, compared to a year ago the surplus fell by 46.4% to pesos 26.4 bn. ---- In April, consumer confidence fell more than expected, from 105.7 to 100.3. This is still a comparatively high level (+3.9% yoy), which signals ongoing robust consumer demand during the first quarter.

Outlook: Consumer prices probably increased by 0.2% in April (Monday). This would imply that the annual rate of inflation accelerated from 4.4% to 4.5%. Nevertheless, the central bank will keep the "corto" unchanged for the time being (Friday), as money market rates (28 day cetes) already rose from 9.7% to 9.9% after the Fed's decision to hike US interest rates by another 25 basis points. ---- In March, industrial production probably was 0.5% lower than in the same month a year ago due to fewer working days (Thursday).

## Peru

Due to higher revenues of the central government this year (until March there was an increase of 13.7%), the government will ask congress in the coming months to allow an increase of public expenditure, in order to be able to finance additional social projects. We expect higher spending in the second half of the year, meaning that positive effects due to a better tax collection especially in the mining and energy sector will be offset. So we continue to expect a budget deficit of 1.2% yoy. ---- The Paris Club agreed on the prepayment of US\$ 1.5 bn – US\$ 2.5 bn of Peru's US\$ 8.5 bn debt with the club. Now negotiations with the creditor countries may start and will probably last until mid-June. The funds needed to prepay Paris Club debt will be raised in equal parts by domestic and international borrowing. --- -- In March, the trade balance again surprised on the upside, posting a surplus of US\$ 395 mn. High metal prices led to an increase in traditional exports. But also exports of non-traditional goods like textiles and agricultural products clearly increased.

## Venezuela

Speculations on the real level of the Venezuelan oil production were nurtured by comments on part of President Chávez, who declared that the country's oil production has fallen due to mismanagement at PDVSA. While Venezuela's OPEC quota amounts to 3.2 mn barrel per day (bpd), actual production should hover in the range of 2.7 mn bpd. Even though public budget planning calls for oil exports of 2.87 mn bpd, Chávez' comments only reaffirm expectations in the market which place governmental overestimation of oil production around 500,000 bpd. While we share this view, we expect budget consequences to be limited, as

the current price of the Venezuelan oil mix, at around 45 US\$/b, significantly exceeds the budget estimate of 23 US\$/b. ----- April car sales more than doubled from a year ago (+114%), underlining the still active recovery impulse in the economy following the deep recession in 2002/2003. ----- The CADIVI Foreign Exchange Administration board approved the disbursement of US\$ 1.4 bn in hard currency in April. This amount was the largest in the current year and should have a positive effect on economic activity and diminish inflation pressure. As

a reaction, the parallel exchange rate currently trades around 2,600 VEB/US\$, significantly below the year-ago level (around 3,000 VEB/US\$). We nevertheless expect significant pressure on the parallel market in the next week, as the congressional approval of a law imposing sanctions on activities on the parallel foreign exchange market is around the corner.

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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	06.05.2005	2.90	2.90	2.89	2.92	2.97	2.5	3.0
Brazil	09.05.2005	2.46	2.51	2.59	3.14	2.66	7.8	2.9
Mexico	09.05.2005	10.98	11.05	11.10	11.67	11.15	1.6	12.0
Chile	09.05.2005	574	579	573	643	556	-3.1	580
Colombia	09.05.2005	2338	2349	2333	2736	2355	0.7	2388
Peru	06.05.2005	3.26	3.26	3.26	3.49	3.28	0.6	3.3
Venezuela	09.05.2005	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	09.05.2005	6206	6311	5423	4660	4707	1499	
Brazil	09.05.2005	429	456	448	761	383	46	
Mexico	09.05.2005	173	188	181	229	167	6	
Ecuador	09.05.2005	797	796	656	1013	691	106	
Colombia	09.05.2005	377	408	409	528	333	44	
Peru	09.05.2005	213	235	245	485	220	-7	
Venezuela	09.05.2005	476	500	458	745	412	64	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	06.05.2005	2.94	2.69	2.50	1.69	2.31	0.6	5.0
Brazil Selic	09.05.2005	19.51	19.50	19.24	15.76	17.75	1.8	17.8
Mexico Cetes 28 days	09.05.2005	9.92	9.70	9.60	6.86	8.61	1.3	9.5
Chile 90 days, PDBC	03.05.2005	3.03	2.95	2.73	1.43	2.24	0.8	4.0
Colombia Overnight	05.05.2005	6.34	6.33	6.32	6.95	6.24	0.1	7.5
Peru Overnight	06.05.2005	3.00	na	2.88	2.55	3.03	0.0	4.0
Venezuela deposits 30 days	04.05.2005	11.05	12.59	10.81	11.18	11.92	-0.9	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	06.05.2005	21.2	20.9	20.5	16.1	19.6	1.5	21.5
Brazil	05.05.2005	61.4	61.5	61.7	50.8	52.8	8.7	62.0
Mexico	29.04.2005	69.6	69.8	71.6	68.4	71.6	-2.0	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.)	05.05.2005	27.7	27.2	25.8	24.5	24.2	3.5	26.5

Economic activity				Inflation				
GDP (yoy, %)	2003	2004e	2005f	% , 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	3.8	5.1	4.7		2.5	3.5	3.0	61
Venezuela	-7.7	17.3	6.0		27.1	19.2	15.1	86

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	196	10	3.7	25	0.3	0.2	2.7	1.1	9.7
Venezuela	83	10	8.3	21	14.0	14.6	22.1	1.3	9.0