



## Latin American Weekly Spotlight

May 10, 2004



Dresdner Bank Lateinamerika AG  
formerly Deutsch-Südamerikanische Bank AG



A company of the **Allianz Group**

**Argentina:** So far no follow-on meeting with GCAB

**Brazil:** IMF says Brazil is in good conditions to weather external shocks

**Chile:** IMACEC rose 6.3% yoy in March

**Colombia:** Inflation reaches central bank's year-end target

**Ecuador:** Preparation of Miss-Universe-ballot provides breathing space for Gutierrez

**Mexico:** Budget surplus rose in the first quarter due to high oil prices and a decline in financing costs

**Peru:** New government crisis after resignation of interior minister Rospigliosi

**Venezuela:** Tax revenues will exceed budget figures

### Argentina

Following a slight improvement, relations between the GCAB (Global Committee of Argentine Bondholders) and the Argentine government seem to be cooling off again. At a meeting in Buenos Aires in mid-April both sides had agreed to hold further technical meetings in about two weeks' time. However, so far these meetings have not taken place. Disappointed GCAB-representatives again voiced their concern, that Argentina is trying to force a unilateral restructuring of defaulted bonds, which would be running against the present IMF program. According to the GCAB such a restructuring proposal would not be accepted by bondholders. ---- Argentine officials last week again ruled out that cash payments could form part of the restructuring. Furthermore they reiterated the call for a face value reduction of 75%. We continue to expect only a slightly improved proposal, mainly by introducing GDP-linked bonds. ---- Consumer prices were up 0.9% (mom) in April, continuing the upward trend seen of recent months (March: 0.6%, mom). The yoy rate continues at a low level (April: 3.1%); however, we expect it to rise to 8% by Dec-04.

#### Outlook:

The UTDT consumer confidence index is likely to decline again in May (Thursday), following a slump of 11.4% in April.

### Brazil

The exchange rate surpassed the level of 3 BRL/US\$ on Friday for the first time since mid-2003 and the EMBI+ Brazil closed the week above 700 basis points. This development is partly due to the political conflict with respect to the minimum wage (the opposition installed a mixed commission which proposed a minimum wage higher than that decreed by President Lula; so the government is in an uncomfortable situation, which, in addition, can be attributed to bad management). However, it is above all the external environment (speculation about interest rate increases in the US, increase of risk aversion, fall in commodity prices) which weighs on the financial markets. As fundamentals continue to be solid

and the country has a high shock absorbing capacity because of its flexible exchange rate system, we stick to our positive view. The head of the IMF delegation, Phil Gerson, who is in Brazil for the second revision of the current program, said something similar as he emphasized that with the continued current account surplus and the building up of foreign exchange reserves the country is in a better position than before to absorb shocks. ---- The increase of bond spreads and of local (long-term) interest rates had an impact on local investment funds, where a significant outflow was registered. This is certainly no crisis (in April there was an outflow of BRL 850 mn, however, the total volume of the investment funds is around BRL 450 to BRL 500 bn); however, many market participants are reminded of the massive H1 2002 outflows from investment funds, which was the beginning of the bond crash in Brazil. ---- The IPCA inflation was at 0.37% in April and in line with market expectations. We expect the central bank will cut interest rates by another 25 basis points at the May 19 meeting, despite the turbulence on the financial markets.

Outlook: March industrial production should have increased again (0.4% mom and 5 % yoy) after three months of (seasonal adjusted) mom declines. Exports should continue to be the main driving force for the industrial sector (Tuesday). ----- Federal tax revenues increased another time in April. Should there be disappointments on this front, they could trigger new nervousness in the markets.

### Chile

The economic indicator IMACEC rose a strong 6.3% yoy in March, above all attributable to two additional working days compared with the same month last year. In comparison to the previous month the IMACEC stagnated when adjusted for seasonal factors. Therefore the Chilean economy grew 4.5% yoy compared with 3.3% yoy in Q4 03. ----- Consumer prices showed a slight increase in April (0.4% mom). Even though yoy inflation remained negative (0.3% yoy) a lasting deflation seems increasingly unlikely. Against this backdrop we expect

the board of the central bank to hold prime rates steady at 1.75% in their next meeting on Thursday.

### Colombia

As expected the Colombian peso continued to weaken against the US\$ (Friday's close: 2717 pesos/US\$). In the short run we count on a further weakening. Our year-end forecast is 2800 pesos/US\$. ----- Consumer prices rose just 0.46% mom in April (after 1% in March) bringing yoy inflation to 5.5%, which corresponds to the year-end target of the central bank. Given the weaker US\$ exchange rate and the positive economic outlook we expect consumer price inflation to accelerate in the coming months. Our year-end forecast stands at 6.0% yoy.

Outlook: We expect the board of central bank governors to hold rates steady at their monthly meeting next Friday. The central bank will probably wait until the second half of this year before raising repo rates (from currently 5.75% to 6.5%). The timing and the magnitude of the rate increase depends above all on the decisions of the US Fed and the changes of the exchange rate. ----- Exports should have increased by around 20% yoy in February amounting to US\$ 1.2 bn.

### Ecuador

Due to the narrow liquidity situation of the central government, efforts are being made to raise the share of reserves of the social security system IESS being invested in public debt instruments. To this end, the upper limit of public debt in the IESS portfolio is to be increased. In this way, the government hopes to mobilize another US\$ 400 mn this year. The central government's total financing needs amount to approx. US\$ 2 bn, of which US\$ 750 mn still have to be raised. ----- The IMF obviously has prolonged repayment of this year's instalments (US\$ 50 mn) by one year. ----- An IMF delegation will stay in Ecuador from today for negotiations on a new program. We do not expect results before July. An agreement is important to secure the willingness of the IADB and World Bank to grant loans. Together with CAF, these institutions have earmarked US\$ 400 mn for loans this year.

Outlook: Political tensions have eased somewhat, which may be due to the preparations for the miss universe contest on June 1<sup>st</sup> and the OAS general meeting that will start on June 5. President Gutierrez will probably try to benefit from this time window in order to increase his reputation again (he is under 10% in polls). The announced pay hikes for the military, additional public-sector jobs as well as social housing construction projects will probably have been the beginning of further (in part populist) measures.

### Mexico

Due to the high level of unemployment, the INEGI consumer confidence index remained almost unchanged in April; so, consumption will probably be no major support for the economy in the next few months. ----- Yet gross investment performance has been better. Following 1.8% yoy in January, it rose by 4.3% yoy (+0.4% mom in seasonally adjusted terms) in February. ----- Consumer prices rose by a mere 0.15% in April against March, as agricultural prices decreased by 1.9%. While core inflation was lower than in March as well, at +0.36% it clearly exceeded headline inflation. Producer prices show that inflation pressure is still around: they rose by 1.39% mom in April following +1.44% in March. ----- In the first quarter, the public sector reached a budget surplus of MXN 47.2 bn, substantially more than in the same period of last year (MXN 27.2 bn). At the same time, the primary surplus rose from MXN 88.8 bn to MXN 100.5 bn. The positive trend is due to high oil prices and a decline in financing costs compared with last year.

Outlook: On Wednesday, figures concerning industrial production will be published. Due to the increase in Mexican non-oil exports (+12%) and to a higher number of working days, we expect slightly higher growth than in February (+2.2% yoy). ----- Given the interest rate situation in the US, we cannot exclude a new corto increase in the central bank meeting next Friday.

### Peru

Regulations of the Superintendency of Banking and Insurance (SBS) regarding private pension funds (AFP) were changed, allowing AFPs to invest in private sector projects that have total funding of more than US\$ 20 million. At the same time, the central bank announced that it will allow AFPs to extend their investment abroad (from currently 9.5% to 10.5% of their overall portfolio). ----- Consumer prices remained unchanged in April (-0.02% mom). So yoy inflation decreased to 2.8%; we expect a further slowing to 2.3% by year-end. ----- The trade balance showed a surplus of around US\$ 193 bn in March. Exports were 32% higher than in the same month last year, whereas imports only rose by 4%. For the year as a whole, we expect a trade surplus of more than US\$ 1.5 bn, twice as much as last year.

### Outlook:

New government crisis: Fernando Rospigliosi, Interior Minister and long-standing confidant of president Toledo, declared his resignation following a vote of no confidence by congress; he was replaced by Javier Reategui. The reason is unrest in a small town of the Andes. The government crisis (eight coalition members voted in favor of the resignation) further weakens the already weak government. Given the low support of the

president in the population and the probability of further protests, we no longer rule out that government could resign and new elections would be held. Pursuant to the constitution, congress may dismiss the president by simple majority. ----- GDP is expected to have risen by about 4% yoy in March (February: 4.1%).

## Venezuela

The most recent poll by Datanalisis (March) shows an increasing split in society: only 30% of the population consider themselves neutral (as compared to 38% before). 28% are in favor of the government, 37% of the opposition. Out of the citizens ready to participate in a Chávez referendum, 59% intend to vote against and 41% in favor of the president. ----- The strike at the country's biggest steel producer, SIDOR, which had begun on April 22 with the aim of pushing through bonus payments, is continuing. As in the meantime effects have appeared in production companies which depend on SIDOR supplies (e.g. car and parts production), employers' associations demand government intervention. ----- Dampened by price regulation, consumer goods rose by only 1.3% mom in April (March: +2.1%); this increase

was substantially lower than expected. ----- According to the tax authorities, tax revenues will exceed budget figures by about 15% this year, the reason being more efficiency in combating tax evasion. So the government is able to increase expenditure further, especially considering that the price of Venezuelan oil is at a record high of US\$ 33.4 per barrel. ----- The central bank declared that in its assessment, the optimum foreign currency level is between US\$ 14 bn and 24 bn (current level incl. gold and FEM: US\$ 24.6 bn). However it does not want to use existing reserves, as demanded by the government. In order to assign incoming foreign currency for economic and social development measures, the institution recommends to reactivate the compensation fund (FEM), to set up a social fund managed by PDVSA, or to loosen foreign exchange controls. ----- According to Finance Minister Nobrega, the central government has fully covered this year's financing needs on the international capital market.

Outlook: March figures concerning private manufacturing production will be published this week (a high yoy increase is expected).

Dresdner Bank Lateinamerika AG  
Neuer Jungfernstieg 16  
20354 Hamburg  
Germany

Economics Dept.  
Chief economist: Dr. Heinz Mewes  
Tel.: (+49 40) 3595 3494  
Fax: (+49 40) 3595 3497  
E-Mail: [economics@dbla.com](mailto:economics@dbla.com)  
<http://www.dbla.com>

### Abbreviations:

mom = month-on-month  
qoq = quarter-on-quarter  
yoy = year-on-year  
s.a. = seasonally adjusted  
n.s.a. = not seasonally adjusted

"Latin American Weekly Spotlight" is published in addition to our "Latin American Spotlight" and our "Latin American Spotlight Update". All three are published in English and in German. The information contained in this issue has been carefully researched and examined by Dresdner Bank Lateinamerika AG or reliable third parties. But neither Dresdner Bank Lateinamerika AG nor such third parties can assume any liability for the accuracy, completeness and up-to-datedness of this information. The authors' opinions are not necessarily those of Dresdner Bank Lateinamerika. Statements do not constitute any offer or recommendation of certain investments, even if individual issuers and securities are mentioned. Information given in this issue is no substitute for specific investment advice based on the situation of the individual investor. For personalized investment advice please contact your Dresdner Bank Lateinamerika branch.



| Exchange rate | date       | last  | one week | one month | one year | end 2003 | ytd-change, % | end 2004f |
|---------------|------------|-------|----------|-----------|----------|----------|---------------|-----------|
| Argentina     | 07.05.2004 | 2.92  | 2.85     | 2.81      | 2.78     | 2.93     | 0.3           | 2.9       |
| Brazil        | 07.05.2004 | 3.06  | 2.98     | 2.88      | 2.86     | 2.89     | -5.6          | 3.1       |
| Mexico        | 10.05.2004 | 11.60 | 11.47    | 11.24     | 10.19    | 11.23    | -3.2          | 11.9      |
| Chile         | 07.05.2004 | 638   | 623      | 600       | 696      | 593      | -7.1          | 600       |
| Colombia      | 07.05.2004 | 2717  | 2679     | 2646      | 2780     | 2780     | 2.3           | 2800      |
| Peru          | 07.05.2004 | 3.49  | 3.49     | 3.46      | 3.47     | 3.46     | -0.7          | 3.5       |
| Venezuela     | 07.05.2004 | 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    | 10.05.2004 | 4672 | 4629     | 4696      | 5257     | 5739     | -1067           |  |
| Brazil       | 10.05.2004 | 770  | 679      | 549       | 733      | 463      | 307             |  |
| Mexico       | 10.05.2004 | 233  | 210      | 168       | 219      | 199      | 34              |  |
| Colombia     | 10.05.2004 | 532  | 452      | 356       | 426      | 431      | 101             |  |
| Ecuador      | 10.05.2004 | 1016 | 954      | 690       | 1071     | 799      | 217             |  |
| Peru         | 10.05.2004 | 488  | 415      | 324       | 485      | 312      | 176             |  |
| Venezuela    | 10.05.2004 | 750  | 711      | 634       | 1175     | 593      | 157             |  |

| Benchmark interest rates |            |       |          |           |          |          |          | ytd-change |
|--------------------------|------------|-------|----------|-----------|----------|----------|----------|------------|
| %                        | date       | last  | one week | one month | one year | end 2003 | %-points | end 2004f  |
| Argentina, Peso 7 days   | 07.05.2004 | 2.00  | 1.88     | 1.63      | 7.94     | 1.81     | 0.2      | 4.0        |
| Brazil Selic             | 07.05.2004 | 15.77 | 15.78    | 15.80     | 26.32    | 16.33    | -0.6     | 14.0       |
| Mexico Cetes 28 days     | 07.05.2004 | 6.81  | 6.51     | 6.31      | 5.30     | 6.01     | 0.8      | 6.5        |
| Chile 90 days, PDBC      | 06.05.2004 | 1.21  | 1.43     | 1.51      | 2.54     | 2.29     | -1.1     | 2.8        |
| Colombia Prime Rate      | 16.04.2004 |       |          | 11.13     | 10.80    | 11.32    |          | 7.5        |
| Peru Overnight           | 07.05.2004 | 2.55  | 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                  | 05.05.2004 | 16.0  | 15.6     | 15.1      | 11.2     | 14.1     | 1.9        | 17.0      |
| Brazil                     | 06.05.2004 | 50.8  | 50.5     | 51.2      | 43.3     | 49.3     | 1.6        | 54.2      |
| Mexico                     | 30.04.2004 | 68.9  | 68.4     | 68.0      | 57.0     | 65.8     | 3.1        | 65.0      |
| Chile                      | 30.04.2004 | 16.0  |          | 15.96     | 15.89    | 15.89    | 0.1        | 16.6      |
| Colombia                   | 02/04/2004 | 11.33 |          |           |          |          |            |           |
| Peru                       | 02/04/2004 | 10.5  |          |           |          |          |            |           |
| Venezuela (FEM&Gold incl.) | 06.05.2004 | 24.6  | 24.354   | 23.43     | 24.35    | 21.30    | 3.3        | -6.7      |

| 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   | 4.1   | 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   | 26.4  | 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                     | -1.4  | 47                    | 46    | 1.1                   | 1.5   | 2.3                          | 2.4   |
| 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       | 6.2          |
| Colombia              | 243           | 12               | 7.9          | 49           | -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           | 16               | 3.6          | 28           | 0.0             | 0.0     | 1.7           | 1.1       | 9.4          |
| Venezuela             | 122           | 11               | 5.0          | 18           | 9.5             | 8.3     | 14.2          | 1.4       | 11.1         |