



## Latin American Weekly Spotlight

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Dresdner Bank Lateinamerika AG  
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**Argentina:** Favorable ruling for the government  
**Brazil:** President Lula may face another defeat in congress  
**Chile:** Central bank tightens the reins  
**Colombia:** Pension reform makes progress  
**Ecuador:** FEIREP fund's fate to be decided this week  
**Mexico:** Record fall in industrial production  
**Peru:** High growth in the first quarter  
**Venezuela:** Capital account restrictions tightened

### Argentina

The NY Court of Appeals decided with respect to the claim of bond holders in favor of the Argentine government as expected. Lawyers of the petitioners will check now whether they will appeal once again, this time at the US Supreme Court. ----- The government proposed to roll over the IMF payments due on an 'expectation' basis by at least one year (approx. US\$ 1.5 bn), while paying back only the credits which are due this year on an 'obligation' basis (roughly US\$ 3.3 bn). ----- Nominal wages increased by 10.6% yoy in March, as the government decreed an increase of the minimum wage of 100 Pesos at the start of the year. Considering the high inflation, real wages increased only by 1.3%, though. ----- The consumer confidence index, which fell by 12% mom in April, worsened by another 1.6% in May. ----- The World Bank's arbitration court (ICSID) made a first decision with respect to the losses suffered by the freezing of the inflation indexation of administered prices of utility goods from 2001 on. According to this verdict, the Argentine government is obliged to compensate the US firm CMS, partner of the gas provider TGN, with US\$ 133.2 mn.

Outlook: Industrial production (EMI) for April will increase by 9% yoy (today). ----- We expect the economic activity indicator (EMAE) to have increased by 8.5% yoy in March. ----- After the announcement of planning minister de Vido to make available US\$ 800 mn to increase the transport capacity of the gas companies TGN and TGS (given the supply bottlenecks in the energy market), the government said she will present the second part of the energy plan. This plan reportedly includes tax incentives for investments in the exploration of gas and oil.

### Brazil

The Supreme Court has given the go-ahead to start an investigation against central bank president Meirelles with respect to illegal international money transfers. This is not equivalent to prosecution which would imply the revocation of the immunity of Meirelles. ----- President

Lula vetoed the decision of a linear increase of the wages of the public workers in congress by 15%. It does not seem impossible that the veto could be overturned by congress, whose deputies would take advantage of the wage increases. ----- The retail sales unexpectedly jumped by 8.61% yoy in March in real terms (February 2005: 2.5% yoy). It is remarkable that the sales of durable goods which normally tend to react sensitive to interest rate increases, continued to show robust growth. ----- Brazil tapped the international capital market with the reopening of the global bond 2019. The volume of the issuance was US\$ 500 mn, while the spread stood at 458 bps above comparable US treasuries.

Outlook: Interest rate decision on Wednesday: The IPCA-inflation showed an acceleration to 0.87% in April (March: 0.61%). The core inflation showed a higher increase, too. Against this backdrop, the central bank will probably increase the Selic rate once again by 25 bps at least. ----- The numbers of the balance of payments of April should paint a very friendly picture of Brazil's external sector. We expect the FDI to reach US\$ 3 bn, a surplus in the current account of around US\$ 900 mn, and net portfolio investments of US\$ 1.5 bn. Against this backdrop, the central bank should have enough leeway to continue the build-up of foreign exchange reserves.

### Chile

As expected, the central bank has hiked the monetary policy interest rate by 25 bps to 3.25%. In the accompanying declaration, the monetary policy committee highlighted the still robust economic growth picture rendering further monetary stimulus unnecessary, and the latent inflation pressure – even if, for the moment, mainly on the supply side. We expect the central bank to maintain its policy of gradual tightening, which will take the key interest rate to 4% by year-end.

## Colombia

After the House of Representatives approved the pension reform in its sixth reading, only the Senate has to approve the bill in two pending readings. It is still possible that there is going to be some easing of the reform, as Parliament is pressed for time: Until June 20, the pension reform, the bill of 'justice and peace', the reorganization of the precepts of the presidential election campaign and the reform of the Budget Code have to be adopted. But we still expect all reforms to be passed in Parliament. Pension reform also requires a constitutional amendment; therefore, it has to be reviewed by the constitutional court. If the reform is implemented in its current shape, government can reckon on NPV savings of up to 21% of GDP.

## Ecuador

By appointing the labor and constitutional law specialist Galo Chiriboga Minister for Labor, the new government under President Palacio is now complete. ----- Finance Minister Correa announced the budget plan for 2005: instead of the deficit of US\$ 199 mn envisaged by the former government, it is now set to accumulate a total of US\$ 483 mn (1.5% of GDP). ----- In a report, the OAS delegation which had visited Ecuador at the end of April expressed its concern that political instability might continue. The question of the legality of President Gutiérrez' overthrow was not discussed. ----- During the first quarter of 2005, the trade balance posted a surplus of 86.2 mn. Whereas exports were up 21.8% compared with the same period of 2004 due to the increase in the oil production and the rise in oil prices, the volume of imports exceeded that of the first quarter 2004 by 24.7%.

Outlook: The projected announcement of an economic plan and the submission of draft legislation on the future of the oil fund FEIREP have been postponed to this week. Correa once again announced that 40% of the FEIREP fund is to be used for the recovery of the domestic economy and that the downpayment of debt possibly could be performed in a discretionary way through funds from the FEIREP fund.

## Mexico

By reaching 0.36% in April, inflation was higher than expected. However, core inflation stood at only 0.21% (3.46% yoy). ----- Industrial production fell by 4.7% yoy in March, the biggest drop since April 2003. ----- Gross investment showed robust growth in February, increasing by 7.4% yoy. On a seasonally adjusted basis, there was a fall compared to the previous month, though. ----- The central bank did not change the Corto which stands at 79 mn Pesos.

Outlook: GDP should have increased by 4.5% in the first quarter of 2005, however with a weakening tendency (today). ----- We expect retail sales to have increased by 3.2% yoy in March (Thursday). ----- The global economic activity indicator should have increased by 3% in March (Friday).

## Peru

The tax agency SUNAT announced last week the tax income figures of April. With SOL 3.4 bn (US\$ 1.2 bn), it was the highest figure in the last ten years. Especially the high increase in income tax collection (+81.8% yoy) contributed to this result. The high tax incomes are not due to a structural improvement of the fiscal situation, but to the high revenues from mining and energy companies, which can profit from the high commodity prices. Anyway, minister of Economy and Finance Pedro Pablo Kuczynski announced that due to the high tax revenues, spending will be increased by 1.5% of GDP this year to realize a state workers' salary increase and a social program for the poorest. Congress still has to approve the new budget. ----- Despite a seasonal slow down of growth in March, the economy grew by 5.35% yoy in the first quarter. This is due to the recovery of the agrarian sector, strong industrial production, high revenues of the Camisea natural gas project, and the increase of domestic demand. ----- The strong industrial production of the last twelve months caused in April also a slight improvement of the labor market with an unemployment rate of 9.7% (April 2004: 10.7%).

## Venezuela

A Caracas court has ruled illegal the conversion of locally traded shares of Venezuelan companies into American Depositary Receipts (ADR). Until now, the conversion provided locals with the opportunity to circumvent the capital account controls in place. Should the ruling be held up, the FX obtained by selling ADRs abroad would have to be submitted to the central bank at the official exchange rate. Furthermore, the ruling calls for legal sanctions on every other operation, by which locals could obtain hard currency at rates different from the official exchange rate. The ruling is likely to bring some headache to the government, as it has used US\$-denominated bonds sold to domestic investors payable in Bolivares at the official exchange rate – with investors allowed to sell the bonds internationally and keep the hard currency – as a convenient financing tool in recent months. Furthermore, the issue of these titles had allowed the government to mob up some of the abundant liquidity in the domestic financial sector. According to the wires, the ruling has been revoked by another court yesterday, but apparently responsibilities are not entirely clear. We expect the government to find a way to get around this ruling anyway,

but in the short term the devaluation pressure on the parallel market exchange rate will be substantial. In addition, congress is apparently closer to finishing a law which will prohibit activities on the parallel exchange market altogether. ----- The central government's non-oil revenues in April came in at roughly double the amount compared with that of April 2004, with income

tax revenues performing especially strongly. The positive development is partially due to more efficient tax collection, but the ongoing solid economic recovery is likely to have helped, as well.

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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	17.05.2005	2.89	2.89	2.91	2.91	2.97	3.0	3.0
Brazil	17.05.2005	2.48	2.47	2.61	3.12	2.66	7.3	2.9
Mexico	17.05.2005	11.00	11.05	11.11	11.52	11.15	1.4	12.0
Chile	17.05.2005	581	574	584	643	556	-4.4	580
Colombia	17.05.2005	2342	2339	2365	2721	2355	0.6	2388
Peru	17.05.2005	3.25	3.25	3.26	3.48	3.28	0.8	3.3
Venezuela	17.05.2005	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	17.05.2005	6286	6121	5639	4896	4707	1579	
Brazil	17.05.2005	455	439	487	722	383	72	
Mexico	17.05.2005	191	183	206	209	167	24	
Ecuador	17.05.2005	857	815	735	843	691	166	
Colombia	17.05.2005	387	380	441	507	333	54	
Peru	17.05.2005	237	217	283	420	220	17	
Venezuela	17.05.2005	525	486	501	648	412	113	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	16.05.2005	3.19	3.00	2.69	2.56	2.31	0.9	5.0
Brazil Selic	17.05.2005	19.52	19.52	19.24	15.77	17.75	1.8	17.8
Mexico Cetes 28 days	17.05.2005	9.92	9.89	9.70	6.81	8.61	1.3	9.5
Chile 90 days, PDBC	12.05.2005	3.63	3.03	2.99	1.37	2.24	1.4	4.0
Colombia Overnight	12.05.2005	6.39	6.34	6.33	6.95	6.24	0.1	7.5
Peru Overnight	12.05.2005	3.00	na	2.93	2.55	3.03	0.0	4.0
Venezuela deposits 30 days	12.05.2005	11.27	10.87	10.60	9.86	11.92	-0.7	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	16.05.2005	21.7	21.2	20.5	16.2	19.6	2.0	21.5
Brazil	13.05.2005	60.7	61.1	61.8	49.7	52.8	7.9	62.0
Mexico	06.05.2005	68.6	69.6	71.1	68.9	71.6	-3.0	65.0
Chile	31.03.2005	15.4	na	15.5	16.0	16.0	-0.6	15.7
Colombia	30.04.2005	13.3	na	12.8	11.4	13.5	-0.3	14.0
Peru	31.12.2004	12.6	na	12.3	10.2	10.2	2.4	12.5
Venezuela (FEM&Gold incl.)	13.05.2005	27.3	27.8	26.4	24.7	24.2	3.1	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	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