



Latin American Weekly Spotlight

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Dresdner Bank Lateinamerika AG
formerly Deutsch-Südamerikanische Bank AG



A company of the **Allianz Group**

Argentina: IMF reschedules payments of US\$ 2.5 bn by one year

Brazil: President Lula visiting Asia

Bolivia: Hydrocarbon bill becomes effective

Chile: Budget surplus tripled in first quarter

Colombia: Senate approves "justice and peace" law

Ecuador: Plans to scrap the FEIREP fund

Mexico: Slower economic growth

Peru: 5.4 % growth in the first quarter

Venezuela: Lending likely to remain low despite acceleration

Argentina

The IMF accepted Argentina's request to make repayments to the fund on an "obligations" basis instead of an "expectations" basis. Hence, payments of US\$ 2.5 bn, which had been due between May 20, 2005 and April 28, 2006 will be deferred by one year. --- The government introduced tax incentives in the energy sector. However, the granting of these incentives will be tied to the collaboration with the state energy company ENARSA – a further indication of the government's wish to strengthen the state role in the economy. ---- The Supreme Court ruled in favor of pensioners claiming the freeze of their pensions between 1991 and 1995 was illegal. Similar claims could lead to a total increase in expenditures of around US\$ 500 mn. ---- The increase of industrial production in April, at 10.1%, (yoy) slightly exceeded our expectation of an increase of close to 9%. Compared to the previous month, industrial production decreased slightly (-0.4%, s.a.). ---- The growth of the GDP proxy EMAE was 7.5% (yoy) in March. On a seasonally adjusted mom basis the indicator was up 0.3%.

Outlook: Following the ruling of the New York court of appeal in favor of the Argentine government, the settlement of the debt restructuring is expected to go ahead soon. However, the plaintiffs have not yet entirely ruled out they could aim for another revision of the ruling, which in any case would likely lead only to a further delay and no contrary ruling. ---- Retail sales in April (Tuesday) are likely to be more negative mom than in the previous months, when they had declined 0.5 % on average (in real terms, s.a.). The slump in consumer confidence, registered in a survey at the beginning of April (-10.5, mom) at least is pointing in this direction. --- - Construction activity is likely to have declined again in April (March: -2.4%, mom, s.a.) On a yoy basis we still expect a slightly positive figure as April of last year showed an exceptionally low figure. ---- Wednesday: public holiday.

Brazil

The central bank increased the key interest rate by 25 basis points to 19.75% last week. ----- The current account surplus reached US\$ 757 mn in April. In April 2004, the current account showed a deficit of a similar amount. FDI were at US\$ 3 bn last month. Although the central bank expects only US\$ 700 mn for the current month we think that FDI entered into a robust upward trend. ----- A small coalition partner, the PV (7 deputies), withdrew its support to the government and announced its intention to act independently. Another coalition partner, the PTB, is staying in the limelight as members of this party are reportedly involved in a corruption scandal at the Brazilian postal service. All in all, the governing PT of president Lula has more and more problems to maintain its basis of power ahead of the general elections. ----- President Lula is currently on an Asia trip visiting Japan and South Korea. Among other things the issue of a permanent seat in the world security council will be discussed. Both Brazil and Japan aim at a permanent seat. ----- As the central bank's communications raised false expectations several times in the past months with respect to the monetary strategy to be followed in the future, the next press releases will probably give no hints in this regard at all (Thursday). ----- The unemployment rate should have been 10.3% in April, slightly lower than the previous month. ----- Thursday: public holiday.

Bolivia

With their protests against the hydrocarbon legislation, the opposition, indigene movements, labor unions, and farmer unions almost caused the resignation of President Mesa in past months. After the parliament now passed the new hydrocarbon bill that adds a 32% tax to already existing royalties of 18% levied on natural gas production, protests are on the rise again. Evo Morales, the leader of the strongest oppositional party (MAS) and the most important opponent of President Mesa, calls for royalties of 50%, and labor unions would even like to see gas production nationalized. While international



companies announced they will not carry out already planned investments of US\$ 10 bn, they still want to stay in Bolivia and continue their work, reserving their right for legal measures also at an international tribunal. Further protests in the next weeks are very likely.

Chile

The very positive development of the public finance situation also continued in March: compared with March 2004, the central government's revenues were up 16.5%, whereas expenditure only increased 5% (in real terms). Thus, the first quarter's budget surplus stands at 1.4% of the whole year's GDP, more than three times the comparable value of last year. Against this backdrop, our budget surplus forecast of 2% for 2005 as a whole could be significantly surpassed. ---- The central bank raised its inflation forecast for 2005 to 2.8% due to the high oil prices. We continue to forecast a year-end inflation of 3.1%. The central bank's new forecast underpins our expectation that the policy of a gradual, but ongoing tightening of the monetary reins will be continued. At the end of the year, the key interest rate should stand at 4.25%.

Outlook: Industrial production is likely to have continued its robust growth also in April. We are expecting positive news from the mining sector, too, which should benefit from an ongoing strong international demand (Friday). - ---- We should also have positive news from the labor market: Fuelled by solid economic growth, employment is likely to have experienced a strong increase in April (Friday). We are expecting an unemployment rate of 8.2%, 0.5 percentage points lower than in April 2004.

Colombia

The Senate approved the controversial "justice and peace" law that guarantees paramilitary groups an exceptional legal position. By declaring their crimes "political", members of those groups will be subject to Colombian law and cannot be extradited. This was one of the main claims of the paramilitary groups to continue with the already agreed demobilization of their forces until the end of the year. Opponents of the bill worry about an increase of violence in society if the members of the paramilitary groups will remain exempt from punishment and are not adequately rehabilitated. This fear could also be seen in the last opinion poll in May when President Uribe's popularity declined from 74% to 69%. ----- Despite past low inflation rates and a slight appreciation of the peso, the central bank maintained the repo rate at 6.5% on Friday.

Ecuador

According to unconfirmed press reports the government is planning to end the IMF "Intensified Surveillance" monitoring, which does not include disbursements to Ecuador, but is a prerequisite for disbursements from the World Bank and the IADB. ---- The government has introduced a bill in congress which calls for the scrapping of the FEIREP oil fund, which presently is collecting windfall profits generated by oil prices in excess of budget assumptions. Although the new proposal as well leaves room to use these monies for debt reductions, as initially intended, the ongoing unstable political situation will probably lead to funds being used to cover budget deficits.

Mexico

In the first quarter 2005 economic growth slowed sharply to 2.4% yoy. This was lower than expectations of 3%. Although much of the slowdown was the result of fewer working days, it is still obvious that the economic momentum shifted towards the downside. Quarter-on-quarter, GDP grew only by 0.4%, down from 1.3% in the fourth quarter of 2004. The weak development of U.S. industrial production in April suggests that the economic slowdown could even intensify in the second quarter.

Outlook: In April the trade deficit probably reached US\$ 650 mn, with exports as well as imports continuing to grow at double-digit figures yoy (Monday). ---- In the first quarter of 2005 the current account deficit probably fell sharply to US\$ 2.5 bn from US\$ 4.5 bn a quarter before (Tuesday). ---- In the first two weeks of May consumer prices probably fell by 0.3% due to seasonal factors (Tuesday). Banxico is not expected to change the "corto" on its Friday meeting. The considerable slowdown in the economy reinforces our view that money market rates should have reached their high point at around 10%. ---- In April unemployment most likely fell another 0.2 percentage points to 3.7%.

Peru

All sectors increased in the first quarter, resulting in GDP growth of 5.4%. ----- Strong exports (+19.9% yoy) led to surpluses of 5.8% of GDP in the trade balance and 1.8% of GDP in the current account. The public sector surplus of 2.0% of GDP will be spent with additional social programs by the government. ----- In the forgery scandal, congress decided not to go for an impeachment proceeding against President Toledo. But the case will be prosecuted.

Outlook: The prepayment of Paris Club debt is progressing faster than we thought. There could already be some results of negotiations with the individual creditor countries this week. Yet chances of a debt relief are low.

Venezuela

In April, growth in lending by the private banking sector again accelerated significantly (+9.1% mom). But all in all, the credit volume is only 10.4% higher yoy, thus highlighting the significant cooling of the economic upswing. ----- According to press releases, since the beginning of the year PDVSA has effected approx. 30% of its budgeted investments. But the overall level of investments is assessed by experts as being too low to maintain PDVSA's production capacities. ----- Accord-

ing to press reports, during the first four months of the year PDVSA has already transferred to the government 50% of the amount budgeted for 2005 as a whole. In view of the persistently high oil prices, total transfers this year could significantly surpass the originally planned amount of approx. US\$ 12 bn. On top of this come billions in funds which PDVSA will contribute directly to government-directed social programs.

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
<http://www.dbla.com>

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 |