



Argentina: Settlement of bond swap expected this week

Brazil: When will the appreciation stop?

Chile: GDP expands by 5.7% in Q1-05

Colombia: Higher than expected tax revenues

Ecuador: On collision course to the IMF and World Bank

Mexico: Yields retreat in the local bond market

Peru: High export growth in April

Venezuela: Robust GDP growth in Q1-05

Argentina

At US\$ 2.2 bn, the primary surplus of the central government in April exceeded market expectations of US\$ 1.8 bn. The primary surplus of the first four months of 2005 thus reached US\$ 6.5 bn (Jan.-Apr. 2004: US\$ 5.6 bn). ---- As expected retail sales declined in April (supermarkets: - 0.9%; shopping centers: -0.8%, mom, s.a., in real terms). ---- Unexpectedly construction activity did not decline further in April. Pushed by public construction works, the sector grew 5.2% (mom, s.a.). ---- The minimum holding period applicable to portfolio investments has been raised from 180 days to 365 days, the reason being the recently slightly positive capital account, which in turn is adding to the appreciation pressure on the peso. ---- Venezuela intends to buy a further amount of US\$ 400 mn of BODEN 12 in the remainder of this year. This statement of Venezuelan finance minister Merentes indicates, together with the earlier official announcement of a total planned sum of US\$ 500 mn, that Venezuela indeed has bought recently US\$ 100 mn in a private placement, something which has been expected, but until now has not been officially confirmed.

Outlook: According to press reports the local clearing agent (Caja de Valores) of the bond swap expects the settlement of the swap and the first interest payment, abroad as well, to take place this week. So far there have been no official statements regarding the timing.

Brazil

Brazil tapped the capital market again, reopening the Global 2034 to the tune of US\$ 500 mn with a spread of 440 basis points. In January 2004 the government had issued US\$ 1.5 bn of the same bond. Including this bond sale, the sovereign has covered roughly 90% of its projected bond sales for this year.

Outlook: The real has continued to appreciate against the US\$ (in one year by 24%). The reasons are the strong inflows of foreign exchange via the positive current account balance as well as the increased portfolio

and foreign direct investment inflows. In addition the central bank has ceased to intervene in the foreign exchange market in the past few weeks. Probably the central bank expects the appreciation of the real will help to reduce inflation pressures. However, we expect that US interest rates will move upwards and the political environment will deteriorate in Brazil ahead of the elections in 2006, bringing the appreciation of the real to an end soon. ---- The congress will install a CPI to investigate the involvement of the PTB, a member of the ruling coalition, in corruption affairs at the state-run postal service. We think the announced attempts of the government to inhibit the working of the CPI will fail. ---- - The poll of CNT/Sensus which is going to be published on Tuesday will reflect the negative impact of the corruption allegations on the image of the government. ---- The unions of the public sector announced a strike for Thursday. They are asking for wage increases of 18% while the government is offering only 0.1%. The strike has the potential to damage the worsening image of the government further. ---- The primary surplus of the public sector should amount to 4.4% of GDP in the 12 months period to April. ---- GDP is expected to have grown by 0.4% qoq in the first quarter of this year. This corresponds to a 3.5% yoy rate (Tuesday). ---- The balance of trade will probably show another surplus of above US\$ 3 bn in May (Wednesday).

Chile

GDP expanded by 5.7% yoy in Q1-05, driven by a very robust expansion in domestic demand (+10.8% yoy). This, in turn, was pushed by a 26.1% increase in investment, the highest rate in the last 10 years. In the external sector, exports posted growth of 6.7%, while imports increased by 21.6%. Against this backdrop, Chile is well positioned to reach our overall 2005 growth forecast of 5.3%. ---- Robust growth continues in the second quarter, as industrial production in April was 10.1% higher than in Apr-04. ---- At 8.2%, unemployment in April rose 0.3 percentage points from March. This corresponds, however, to a significant yoy decrease of 0.5 percentage points.

Outlook: Following high inflation figures in March and April (0.64% and 0.9% mom, respectively), we expect consumer price increases to have slowed down significantly in May on the back of a solid peso and easing oil prices (forecast: +0.2% mom). This should take the yoy inflation rate to 2.6%.

Colombia

Tax revenues from January to April increased by 12% yoy. The collection of income taxes, VAT and tariffs increased due to strong economic growth. This result and the implementation of a better tax collection system caused the tax collection agency DIAN to upgrade the year-end tax collection target by 2%. Therefore the Finance ministry announced it will ask congress to increase the budget by US\$ 0.6 bn.

Outlook: On Tuesday May CPI figures will be published (DBLA forecast: +0.37% mom). Prices have been contained by the peso strength. High market liquidity due to the central bank's foreign exchange interventions did not yet cause price pressure. But if the central bank continues to intervene and the liquidity of the market keeps high, we are expecting an inflation increase in the second half of the year. Nevertheless, we revised our inflation forecast down to 5.4% yoy at the end of the year. Monday: public holiday.

Ecuador

Following the decision of the World Bank to halt the disbursement of an already granted loan worth US\$ 100 mn until the IMF has given positive signals under its "Intensified Surveillance" program, finance minister Correa stated that "if they (the World Bank) do not honor their commitments, we have no reason to honor ours." An IMF mission visited Ecuador last week but left without an official statement. At present everything is pointing towards a clash between the new Ecuadorian government and the multilaterals. In the short term Ecuador could do without loans from the World Bank and IADB, as the high oil price is providing ample financing. In the medium and long term, however, Ecuador remains dependent on these loans.

Mexico

In April the trade deficit reached US\$ 629 mn; exports (+16.8%) as well as imports (+18.1%) continued to grow at double-digit yoy figures, which nevertheless was mainly a result of the "Easter effect". Overall dynamics in external trade diminished substantially, which is basically a reflection of the weaker development of the US industrial sector. ---- In the first quarter of 2005 the current account deficit fell sharply to US\$ 2.4 bn, from US\$ 4.7 bn a quarter earlier. ---- In the first two weeks of May consumer prices fell by 0.4% due to sea-

sonal reasons. Banxico did not 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%. Participants at the bond market apparently think the same: bond yields fell one percentage point to 9.8% since the beginning of April.

Outlook: For April, the public sector will probably post 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 26.4 bn pesos. ---- In May, consumer confidence most likely fell slightly from 100.3 to 100.0. This is still a comparatively high level, which signals ongoing robust consumer demand during the second quarter.

Peru

Exports have been rising continuously for 38 months now. In April exports growth stood at 35.4% yoy due to high commodity prices (traditional exports +34.2%, non-traditional exports +28.7%). Export minister Alfredo Ferrero forecasts exports worth US\$ 15 bn for this year, while we are expecting that a less favorable global economic environment with lower commodity prices in the second half of the year will slow down the export boom (DBLA forecast: US\$ 13.8 bn).

Outlook: On Wednesday May CPI figures will be published. We are expecting continuously moderate inflation rates.

Venezuela

Following dynamic expansion of 12.1% in Q4-04, GDP growth slowed down to 7.9% in Q1-05. Given the government's highly interventionist economic policy approach, the expansion seems robust. It is, however, mainly driven by the government's very expansive fiscal policy approach, underlined by growth of 38.8% in investment – mainly on the back of government incentives in infrastructure and housing – and 12.2% in consumer demand, which was driven by public transfers. We expect the hostile economic policy approach to take its toll in the coming quarters, slowing economic growth down to 6% in overall 2005.

Outlook: According to the finance ministry, debt management operations with the aim to push forward maturities on public debt due in the next three years are planned for the next few months. We expect details for the coming week. ----- As in recent months, consumer prices are likely to have increased by around 1% mom in May. We expect a yoy rate of 15.8%.



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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	27.05.2005	2.89	2.89	2.90	2.96	2.97	3.0	3.0
Brazil	30.05.2005	2.39	2.43	2.51	3.19	2.66	11.4	2.9
Mexico	30.05.2005	10.90	10.96	11.05	11.45	11.15	2.3	11.4
Chile	27.05.2005	580	583	579	640	556	-4.1	580
Colombia	27.05.2005	2326	2325	2349	2739	2355	1.2	2389
Peru	27.05.2005	3.26	3.25	3.26	3.49	3.28	0.6	3.3
Venezuela	27.05.2005	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	27.05.2005	6428	6410	6252	4929	4707	1721	
Brazil	27.05.2005	418	436	446	704	383	35	
Mexico	27.05.2005	171	179	186	204	167	4	
Ecuador	27.05.2005	867	851	839	885	691	176	
Colombia	27.05.2005	349	365	403	527	333	16	
Peru	27.05.2005	211	224	231	481	220	-9	
Venezuela	27.05.2005	507	504	487	664	412	95	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	27.05.2005	3.31	3.19	2.69	3.81	2.31	1.0	5.0
Brazil Selic	30.05.2005	19.75	19.75	19.50	15.78	17.75	2.0	17.8
Mexico Cetes 28 days	27.05.2005	9.73	9.75	9.70	6.46	8.61	1.1	9.5
Chile 90 days, PDBC	26.05.2005	2.71	3.52	2.95	1.27	2.24	0.5	4.0
Colombia Overnight	25.05.2005	6.37	6.43	6.32	6.89	6.24	0.1	7.5
Peru Overnight	27.05.2005	3.00	na	3.00	2.55	3.03	0.0	2.5
Venezuela deposits 30 days	24.05.2005	10.80	10.81	10.81	10.02	11.92	-1.1	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	27.05.2005	22.1	21.8	20.8	16.6	19.6	2.4	21.5
Brazil	24.05.2005	61.2	61.2	61.8	50.1	52.8	8.4	62.0
Mexico	20.05.2005	67.3	68.3	69.4	69.1	71.6	-4.3	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	13.5
Venezuela (FEM&Gold incl.)	26.05.2005	28.3	27.8	27.0	24.5	24.2	4.1	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	3.3		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	5.0		2.5	3.5	2.1	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	-1.2	-7.9	-8.6	15.0	3.2
Chile	145	15	7.2	21	1.5	1.4	9.0	6.7	5.6
Colombia	229	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	195	10	3.7	25	-0.2	-0.1	2.7	1.1	9.3
Venezuela	83	10	8.3	21	14.0	14.6	22.1	1.3	9.0