



Latin American Weekly Spotlight

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Latin America:	Results of EU-Latin America summit hardly tangible
Argentina:	New debt rescheduling proposal anxiously awaited
Brazil:	Export boost and substantial industrial production generating unexpectedly high growth
Chile:	Significant upturn continues
Colombia:	Liberal party threatens to withdraw from extra-parliamentary reform commission
Ecuador:	Increased political tension
Mexico:	Current account deficit continues to decline in first quarter
Peru:	First current account surplus in 20 years?
Venezuela:	Referendum signatures to depose Chávez verified over the weekend

Latin America

Probably the most tangible result of the EU-Latin America summit held in Guadalajara was that negotiations between the EU and Mercosur are to be concluded by October. The next round of negotiations begins on June 7. Other than that, the summit meeting has yielded no more than a few diplomatic notes in protest of torture taking place in Iraq, among other things. Independently of this summit, it was announced that the U.S. Congress would not ratify the Cafta agreement (a free trade treaty between the U.S. and Central America) before the U.S. elections in November; this represents a major setback to efforts made in the past at achieving integration.

Argentina

Supermarket sales continued their brisk growth in April. In real terms, they were up 12.3% (yoy) and 1.3% (mom, s.a.) respectively. ---- Construction, like the industrial sector, witnessed a decline in April (-4.9%, mom, s.a.). Compared to April last year, construction output grew 16% following 41% (yoy) in March. ---- April's export growth (23%, yoy) came in stronger than expected. At the same time, import growth (48%, yoy) came down slightly more than anticipated. The trade surplus reached US\$1.3bn, roughly the same level achieved one year ago.

Outlook: According to cabinet chief Fernández, the key elements of the new debt restructuring proposal will be announced today. Economy minister Lavagna apparently had preferred to wait until the talks with bondholder groups, scheduled to take place from June 7 to June 16. Local papers speculate net present value losses of the new proposal could range between 75% and 80% compared to NPV losses of more than 90% asked for in Dubai last year. Publication of all details of the new proposal is scheduled to take place once U.S. and local regulatory authorities have given their approval, something which is likely to take several weeks or even months. ---- May's inflation rate (Thursday) is likely to underpin the trend of a moderate acceleration in price

increases. Hence CPI should come in slightly higher than in April (0.9% mom, 3.1% yoy).

Brazil

The economic upturn is much stronger than anticipated. In the first quarter, GDP expanded by 1.6% qoq (sa), following an increase of 1.4% in the previous quarter. In comparison to the year-ago period, GDP increased by 2.7%. It was surprising that industrial production rose to such an extent (1.7% qoq and 2.7% yoy), driven by exports, which were 19% higher than a year ago. The agricultural sector continues to boom (3.3% qoq and 5.1% yoy), while the services sector showed an increase of 0.41% qoq and 1.23% yoy after a full year of stagnation. We adhere to our forecast of 3.5 % for the whole year, admitting that there is a certain upside risk. ---- In spite of the positive economic activity cycle the unemployment rate increased for another month (April: 13.1%). The good news was that employment numbers increased by 3.5 % yoy in the first four months of the year, the best result since 1995. ---- The public sector's primary surplus once again turned out surprisingly high at BRL 32.4 bn. This corresponds with the IMF target for the first semester. In April the public sector even generated a nominal budget surplus, leading to a decrease in public debt (in spite of the devaluation of the currency this month) by almost one percentage point, to 56.6% of GDP compared with the previous month. ---- The minutes of the latest central bank meeting explained the decision to leave the Selic interest rate unchanged in the face of high volatility at the financial markets. This situation made it very difficult to predict how inflationary expectations will behave. Against this backdrop, once the situation on the bond and FX markets calms down we expect further interest rate cuts, probably starting in July.

Outlook: The trade surplus for June (today) should amount to US\$ 2.5 bn, which would be an excellent result and further confirmation of our US\$ 27 bn forecast for the trade surplus for 2004. ---- At the end of the week, we expect the first indicator for industrial output in May, automobile production, which should show a slight

increase over the 170,000 units of April. ----- The Federal Supreme court (STF) has postponed its decision concerning the taxation of retired civil servants to the end of June. This taxation was part of the social security reform approved last year, the constitutionality of which is being questioned by some civil servants. If the STF rules that the measure is unconstitutional, this would lead to a loss of revenues of around R\$1bn a year to the federal government. ----- This week the congress will have a debate with respect to the minimum wage. The government had decreed an increase by BRL 20 to BRL 260 which, however, needs to be confirmed by congress. We cannot rule out the possibility that the government will lose this ballot and that the opposition will gain enough support for an increase in excess of BRL 20.

Chile

As expected, the details on the GDP trend in the first quarter (+4.8% yoy) showed that the upturn is already taking place on a broad front. Domestic demand rose by 5.2%, while exports increased by more than 10%. For the year as a whole, we continue to anticipate a GDP growth rate of 4.8%. ----- The substantial upturn continued in April: industrial output climbed 4.9% yoy, while the mining industry, after showing some signs of weakness in recent months, expanded by more than 10%. ---- - The labor market continues to convey a mixed picture: while the number of persons employed rose 1.2% in April yoy, at the same time the number of job seekers rose 13.1% yoy. For this reason, the unemployment rate increased to 8.7%, up 0.2 percentage points year-on-year. ----- The current account saw a surplus of US\$ 0.75 bn in the first quarter, fueled by high merchandise exports. Exceptionally high interest payments restricted the surplus.

Outlook: Consumer prices in May, driven by rising fuel prices, are likely to have risen by 0.3% m/m (tomorrow). Following several months of deflationary tendencies, the annualized inflation rate has thus swung back into positive territory.

Colombia

According to official sources, the Liberal Party (PL) is considering a withdrawal from the extra-parliamentary economic commission to which the second most important conservative party (the PCC) also belongs, among others. This appears to confirm our fears that a postponement of the planned economic reforms will endanger the consensus in congress in evidence since the beginning of the year. ----- Both the sharp increase in industrial production (March: 7.1% yoy) and the moderate rise in retail sales (March: 5% yoy) confirm our assessment of an ongoing economic upturn. ----- Unemployment in April fell sharply m/m, from 16.2% to 14.7%.

Accordingly, the level of unemployment has declined by 3.4 percentage points in the course of this year.

Outlook: Inflation is likely to have accelerated slightly in April on account of seasonal factors (to 0.6% m/m) and year-on-year is likely to remain roughly at the previous month's level (5.5% yoy). ----- GDP in the first quarter is likely to have risen by 4.5% (today).

Ecuador

Following the departure of the IMF delegation last week, there still is no official information on the nature of the agreement. The government is obviously increasingly interested in a regular stand-by agreement (SBA) with disbursements earmarked for specific purposes. We assess the chances for such an agreement as remote since Ecuador has failed to meet key objectives of past SBAs on a regular basis. In the currently tense political situation, far-reaching reforms, on which the IMF would need to insist in an SBA in order not to lose credibility, in our opinion, are hardly feasible. Talks between the IMF and the government are to continue in the next several months. ----- Antonio Vargas – a confidante of president Gutierrez – was appointed the new minister for social affairs. In the past, Vargas called for a higher priority to be assigned to social spending than to debt service. In terms of this appointment, Gutierrez may be aiming at higher approval ratings among the indigenous population. At the same time, there is mounting political tension as the party chairman of the PSC (Gutierrez' key coalition partner) has warned that he might support the deposition of president Gutierrez, which is being debated in congress at present.

Mexico

In the first two weeks of May, consumer prices fell by 0.4% due to seasonal factors (start of electricity subsidies). Following these relatively benign figures, the Mexican central bank decided to keep monetary policy unchanged at its Friday meeting. At the same time, it underscored the fact that core inflation rate, at 3.5%, is still substantially higher than the inflation target of 3%. Furthermore, the monetary authority believes that further convergence of the core inflation rate with the inflation target might be constrained by stronger growth in demand. This led to the explicit warning of tighter monetary policy in the future, which in effect turned out to be a verbal tightening of monetary policy as might well be reflected in an increase in money market rates next week. --- The current account deficit fell more than expected, to US\$1.9 bn, or 1.1% of GDP. This positive trend was due to higher oil prices and a further sharp increase of 22% y-o-y in remittances from Mexicans abroad. FDI flows also surprised on the upside (US\$7.2bn or US\$3.2bn adjusted for the Bancomer stake). We have lowered our

projection for the current account deficit from US\$ 11 bn to US\$ 10 bn.

Outlook: Next week will only see a few dta releases. In April the public sector balance should again show a better result compared to a year ago due to booming oil prices (Tuesday). ---- In May consumer confidence as measured by Inegi should have increased slightly from 96.5 to 97.3 due to an improvement in the labor market.

Peru

Exports in April once again increased by more than 30% yoy (import figures have not been announced as yet). This year we anticipate a trade surplus of approx. US\$ 2.5 billion; as a result, the current account is likely to show a surplus for the first time in 20 years. The surprisingly quick trend reversal is also attributable to sluggish domestic demand, which is causing Peruvian imports to remain appreciably lower than exports. ----- The situation in the Andean city of Iquitos appears to be easing. After the government saw itself compelled to declare a state of emergency last week, the ministry for the interior most recently spoke of successful negotiations with local political representatives and announced a speedy withdrawal of troops from the area. ----- The consolidated public-sector budget showed a surplus of 0.7% of GDP in the first quarter (Q1 2003: -0.7% of GDP). The primary surplus rose to just over 3% of GDP at the same time (Q1 2003: 2.2% of GDP). We assume that the government will take advantage of the positive revenue trend to engage in substantially higher spending in the second semester to counteract the dissatisfaction among the population.

Outlook: Consumer prices are likely to have fallen slightly in May, indicating that year-on-year inflation amounted to approx. 2.7%. ----- In our assessment, the

trade balance is expected to have reflected a surplus of well over US\$ 100 million. ----- The central bank is likely to leave the interest rate on overnight money unchanged at 1.75%.

Venezuela

The figures emerging last week on the GDP trend in the first quarter (30% growth yoy) are also being confirmed by various individual indicators: the private sector's industrial output in the first quarter was up 56.5% yoy, retail and wholesale revenues grew by 29.7% and 25.5%, respectively, and production in the construction sector rose 19.5%.

Outlook: From May 28 to 30, supporters of the opposition had an opportunity to confirm their signatures given in the December 2003 referendum to depose president Chávez; the election authority CNE had expressed some doubts on the validity of roughly 1.2 million signatures. If nobody "ruefully" withdraws their signatures – a process permitted by the CNE – then at least 541,000 persons will have to appear in person in one of the 2,700 established centers in order to collect the number of signatures necessary. International observers of the verification process – the Carter Center and the OAS – have expressed concerns about the evaluation being delayed for hours. According to the election authority CNE, these delays occurred as there were still some "methodical discrepancies" that needed to be resolved. It is questionable if the official deadline for the announcement of the outcome (June 4) can still be kept. If (contrary to expectations) the referendum is to be held on August 8 as planned, a defeat of Chávez would call for fresh elections to be held. If the referendum takes place after August 19, then a negative outcome for the government would mean that vice-president Rangel would automatically become president of the country. We do not anticipate that Chávez will be ousted from power.

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Abbreviations:

mom = month-on-month
 qoq = quarter-on-quarter
 yoy = year-on-year
 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 2003	ytd-change, %	end 2004f
Argentina	31.05.2004	2.97	2.96	2.85	2.85	2.85	-4.0	3.0
Brazil	01.06.2004	3.19	3.14	2.98	2.98	2.98	-6.6	3.1
Mexico	01.06.2004	11.45	11.48	11.47	10.25	10.25	-10.5	11.9
Chile	01.06.2004	640	637	623	711	711	11.1	600
Colombia	01.06.2004	2738	2755	2679	2846	2846	3.9	2800
Peru	31.05.2004	3.49	3.49	3.49	3.49	3.49	0.1	3.5
Venezuela	31.05.2004	1918	1918	1918	1598	1598	-16.7	1918

EMBI+ Spread								
bps	date	last	one week	one month	one year	end 2003	ytd-change, bps	
Argentina	01.06.2004	4921	5019	4589	5302	5739	-818	
Brazil	01.06.2004	708	689	662	795	463	245	
Mexico	01.06.2004	205	205	199	232	199	6	
Colombia	01.06.2004	907	846	919	1114	799	108	
Ecuador	01.06.2004	520	514	430	486	431	89	
Peru	01.06.2004	471	472	392	441	312	159	
Venezuela	01.06.2004	662	643	687	1057	593	69	

Benchmark interest rates								ytd-change
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	31.05.2004	3.69	4.06	1.31	4.81	1.50	2.2	4.0
Brazil Selic	31.05.2004	15.78	15.80	15.80	26.27	16.33	-0.5	14.8
Mexico Cetes 28 days	31.05.2004	6.49	6.46	6.61	4.80	6.01	0.5	7.5
Chile 90 days, PDBC	25.05.2004	1.27	1.31	1.50	2.48	2.29	-1.0	2.8
Colombia Overnight	28.05.2004	6.94	6.93	6.89	7.31	7.49	-0.6	8.8
Peru Overnight	31.05.2004	2.55	2.48	2.48	3.80	2.50	0.0	2.6
Venezuela deposits 20 days	26.05.2004	11.66	10.99	10.29	14.62	13.20	-1.5	

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	27.05.2004	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	55.2
Mexico	30.04.2004	68.9	68.4	68.0	57.0	65.8	3.1	65.0
Chile	30.04.2004	16.0	na	15.96	15.89	15.89	0.1	16.6
Colombia	31.03.2004	11.33	na	11.29	10.62	10.62	0.7	11.5
Peru	29.02.2004	10.5	na	10.6	10.1	10.19	0.3	11.4
Venezuela (FEM&Gold incl.)	06.05.2004	24.6	24.354	23.43	24.35	21.30	3.3	-6.8

Economic activity				Inflation			GDP 2003, US\$ bn	
GDP (yoy, %)	2003e	2004f	2005f	% , year end	2003	2004	2005	
Argentina	8.7	6.5	3.8		3.7	8.0	8.0	127
Brazil	-0.2	3.5	3.5		9.3	6.2	5.2	492
Mexico	1.3	3.2	2.6		4.0	4.0	3.5	626
Chile	3.3	4.8	4.5		1.1	2.2	3.0	72
Colombia	3.7	4.0	3.7		6.5	6.0	6.5	78
Ecuador	2.7	4.8	2.9		6.1	5.0	0.9	27
Peru	4.0	3.8	3.7		1.8	2.3	2.2	61
Venezuela	-9.2	10.5	4.3		27.1	26.0	28.0	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	152	19.8	19.8	19.1	18.3
Brazil*	-5.2	-2.6	58	57	94.2	83.2	72.1	67.3
Mexico**	-0.6	-0.3	28	28	23	29	26	31
Chile***	-1.0	0.9	15	14	0.8	0.8	1.4	0.3
Colombia	-2.8	-2.8	60	60	6.2	5.3	8.4	7.9
Peru	-1.9	-1.6	48	48	1.1	1.5	2.3	2.5
Venezuela	-4.0	-3.5	45	40	4.7	6.3	8.0	9.7

* 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	372	30	32.3	81	1.8	2.6	10.8	0.0	5.5
Brazil	226	12	67.4	68	0.7	3.9	27.0	11.5	6.8
Mexico	83	28	33.3	17	-1.6	-10.4	-7.8	15.0	3.5
Chile	134	18	6.8	21	1.1	1.0	6.0	1.5	6.1
Colombia	243	12	7.9	49	-1.3	-1.2	0.9	2.0	6.3
Ecuador	17	14	1.4	3	-0.4	0.4	6.4	-1.3	1.0
Peru	238	16	3.6	26	1.2	0.8	2.6	1.1	9.9
Venezuela	105	8	5.3	16	10.0	9.6	15.5	1.0	10.4