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Argentina: Bond swap settled

Brazil: GDP-growth slows markedly in Q1-05

Chile: Central Bank to leave key interest rate unchanged

Colombia: Import growth in March

Ecuador: IMF ties not broken

Mexico: Slower growth, lower inflation?

Peru: Revenues are increasing

Venezuela: High inflation in May

Argentina

In a brief press release the government on Thursday announced that the new bonds have been transferred to the clearing houses and that the old bonds tendered into the swap have been destroyed. The timing of when the new bonds will arrive in investor's accounts depends on procedures at the respective clearing houses and banks. ---- Standard & Poor's assigned a B- rating to the new bonds, one notch above the Caa1 Rating Moody's had assigned before the settlement. ---- Tax revenues rose to ARS 12bn in May, following ARS 9.2bn in April. The yoy-decline of 2.6% is explained by a high one-off tax payment in May last year. ---- Growth of exports (17%, yoy) and imports (44%) came in higher than expected in April. The trade surplus reached US\$ 1.8bn. ---- The government called for consultation rounds between industry leaders and unions to review the planned hike of the minimum monthly wage from presently 450 Pesos successively to 630 Pesos in September. Given the present rise of the inflation rate, this hike, which has to be seen in context of the congressional elections in October, is negative.

Outlook: Consumer prices in May likely grew slightly more than in the previous months (0,5%, mom). ---- On the back of the recent headlines regarding higher wages, consumer confidence (Friday) likely did not retreat further.

Brazil

The economic slowdown which started in the last quarter of 2004, continued during the first quarter of this year. GDP increased only by 0.3% (sa.) which translates in an increase of 2.9% yoy. It is particularly worrisome that investments fell 3% despite the high capacity utilization in the industry. It seems that the optimism of the managers is quiet low. Consumers are getting more pessimistic, too. This is the result of a poll carried out by the Foundation Getulio Vargas. 28% of the interviewed believe that the macro-environment has deteriorated during the last six months. In April, only 20% believed so. However, the economic indicators do not point all

into the same direction. E.g. the industrial production in São Paulo increased significantly in April. The strong expansion of credit continues and the latest retail sales reports pointed upwards. We adjusted our growth forecast for the year from 3.9% to 3.4%. ---- In April the public sector posted a nominal budget surplus (after interest payments) of BRL 3bn. The primary surplus reached BRL 16.3bn. Apparently Brazil will continue to achieve its fiscal targets (primary surplus of 4.25% of GDP for the year) without problems. ---- Exports stood at almost US\$ 10bn in May, about 25% higher than a year ago. Although the strong appreciation of the Real will certainly have a negative impact on export performance in the future, until now no impact can be seen. ---- The political scandals and conflicts leave its marks in the opinion polls. The approval rate of the president went down from 60.1% to 57.4%. We expect this trend to continue in the coming months.

Outlook: The PT will continue to try to incapacitate the ability of the Postal service CPI to work. This should fire back and damage the image of the PT further. ---- The industrial production which went down during the first three months of the year, should have increased strongly in April (1.5% mom, Tuesday). ---- After the acceleration of the inflation in the last months we believe that the prices will increase at a slower pace. The IPCA-Inflation should show an increase of only 0.6% because (amongst other things) of the strong appreciation of the Real (Thursday).

Chile:

As expected, consumer price increases in May came in lower than in the months before (March: +0.64% mom; April: +0.9% mom). Higher prices for public transport were partially compensated by lower fuel and LNG prices which took inflation to 0.3% mom (2.7% yoy). We expect the central bank to take a break on its meeting on Thursday – the CB had lifted the key interest rate by 25 bps to 3.25% in May, and to resume its gradual monetary tightening process in July.

Outlook: On the back of very strong expansion in the industrial sector (+10.1% yoy), but a somewhat weak performance of the mining sector (-4.4% yoy), we expect the IMACEC economic indicator to post a growth of 5% yoy in April. With this, the economy remains on track to meet our overall 2005 growth forecast of 5.3%.

Colombia:

The strong Peso caused – as had already happened in the first two month of the year – an increase of imports (+24.4% yoy). Particularly firms profited from the low import prices and invested basically in machinery and other capital goods. They want to expand their capacities to handle the uprising demand in Colombia and abroad. Demand in Colombia rose strongly in the last months and companies are also expecting better export conditions, once the free trade agreement with the USA and the Andean countries becomes effective (probably by the end of 2006). ---- Inflation in April was 0.41% mom (5.04% yoy) - slightly higher than expected by market consensus (0.37%). This could be a first sign that the strong increase of money liquidity in the market by the central bank is raising price pressure.

Outlook: Today: public holiday. ---- We are expecting that the central bank is going to maintain the repo rate at 6.25% in their meeting on Friday.

Ecuador

Following the visit of an IMF mission to Ecuador, the fund issued a surprisingly positive press release. Although it is not clear whether the so-called “intensified surveillance” will continue, there appears to be an understanding that quarterly assessments by the IMF will be made.

Mexico:

Interior Minister Santiago Creel resigned to become the official PAN-candidate for the presidency. Currently Creel is only in third place in voter preference (24%), slightly behind Roberto Madrazo of the PRI (25%) and way behind front-runner Manuel López-Obrador from the left-wing PRD (36%). ---- In April, the public sector posted another surplus (26.1bn Peso) due to seasonal factors. In the first four months 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 in real terms 32.9% to 52.5bn pesos. ---- In May, consumer confidence fell slightly from 100.3 to 99.7. This is still a comparatively high level, which signals ongoing robust consumer demand during the second quarter. ---- According to the latest central bank survey, inflation expectations (3.92%) for the end of 2005 as well as growth expecta-

tion (3.58%) for 2005 fell slightly. This supports our forecast that money market rates have already seen its cyclical high at close to 10%.

Outlook: In March, gross fixed investment probably rose 2.5% compared to a year ago (Wednesday). This slower growth rate is not only due to a general slowdown in the economy, but also to the fact that March 2005 had fewer working days than March 2004 (“Easter effect”). ---- In May, consumer prices probably fell by 0.25% due to seasonal factors. This would lead to an unchanged annual inflation rate of 4.6% (Thursday); we do not expect any change in the monetary policy at the Friday’s policy meeting of the central bank.

Peru:

The revenues of the government increased until April 45.6% yoy (nom.). The government already announced that they are going to increase their spending and asked congress for an additional budget with excess expenditure of PEN 1bn – 1.3bn. Among other things, excess expenditures are going to be used to increase the wages of state workers and this will create long-term liabilities for the state. But the higher revenues are mainly due to higher tax revenues from companies that could increase their returns due to high commodity prices. These revenues are therefore not at all long-term secured. We expect the government to increase its expenditures even more before the elections in April 2006, but we do not expect them to achieve the 1% of GDP budget deficit (DBLA: 1.2%). ---- Due to a 3.6% lower electricity fare, inflation in May was only 0.13% mom. For the rest of the year we expect almost stable prices and a year-end inflation of 2%.

Venezuela:

More noise in the oil sector: Oil minister Ramírez accused French and Norwegian partners in PDVSA’s Sincor heavy crude joint venture to produce more crude than authorized by the government. According to Ramírez, Sincor retroactively would have to pay a 30% royalty on all of its excess production since production began in 2001. According to the project’s foreign partners, they have got the necessary authorization for current production levels. ---- In another context, the Head of the congressional Finance committee suggested that the government should end all operating agreements between PDVSA and private sector partners. Even though oil companies are used to operate under adverse conditions and significant legal uncertainty, the current noise coming out of Venezuelan politics hardly prepares the ground for urgently needed foreign investment in the oil sector. The oil sector is key to both the sustainability of the country’s public finances and its external payment capacity. ---- The congressional Fi-

inance committee approved the government's proposal to issue up to US\$ 1.4bn on national and international capital markets. According to press reports, the government intends to issue a part of this amount in Euros, while the rest could be offered, as in recent occasions, to domestic investors at the official exchange rate, and denominated in US\$. ----- Driven by higher prices for food and beverages and home appliances, consumer prices increased surprisingly strongly by 2.5% mom in May. It seems that the government's system of price controls, which is thwarted by expansive fiscal policy, regulated low interest rates for private persons and companies, and tightening production capacities, is increasingly loosing effectiveness in preserving price sta-

bility. We have adjusted our year-end CPI forecast to 18% yoy.

Outlook: The congressional approval of a law introducing a cap on the accumulation of forex reserves at the CB seems to be imminent. Should such a law hand over the CB's reserves to the government and should the government have the opportunity to use these reserves for current spending, the country's vulnerability to a sustained decrease in oil prices would increase significantly.

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Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yo = 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	06.06.2005	2.89	2.88	2.90	2.97	2.97	2.8	3.0
Brazil	06.06.2005	2.43	2.37	2.46	3.11	2.66	9.5	2.5
Mexico	06.06.2005	10.85	10.87	10.95	11.36	11.15	2.7	11.4
Chile	06.06.2005	590	580	573	640	556	-5.8	580
Colombia	06.06.2005	2338	2338	2339	2707	2355	0.7	2389
Peru	06.06.2005	3.25	3.25	3.26	3.48	3.28	0.8	3.3
Venezuela	06.06.2005	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	06.06.2005	6616	6428	6107	4976	4707	1909
Brazil	06.06.2005	422	418	423	668	383	39
Mexico	06.06.2005	171	171	175	211	167	4
Ecuador	06.06.2005	868	867	804	878	691	177
Colombia	06.06.2005	350	349	381	486	333	17
Peru	06.06.2005	193	211	216	451	220	-27
Venezuela	06.06.2005	504	507	472	615	412	92

Benchmark interest rates

%	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina, Overnight	03.06.2005	3.38	3.31	2.75	3.44	2.31	1.1	5.0
Brazil Selic	06.06.2005	19.75	19.75	19.51	15.79	17.75	2.0	18.8
Mexico Cetes 28 days	03.06.2005	9.73	9.80	9.85	6.71	8.61	1.1	9.5
Chile 90 days, PDCC	02.06.2005	2.58	2.71	2.97	1.31	2.24	0.3	4.3
Colombia Overnight	02.06.2005	6.41	6.38	6.36	6.97	6.24	0.2	7.5
Peru Overnight	02.06.2005	3.00	na	3.00	2.60	3.03	0.0	2.5
Venezuela deposits 30 days	27.05.2005	10.46	11.16	12.59	10.67	11.92	-1.5	14.5

Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	03.06.2005	22.2	22.1	21.0	16.9	19.6	2.5	21.5
Brazil	03.06.2005	61.3	61.2	61.6	50.5	52.8	8.5	62.0
Mexico	27.05.2005	67.1	67.3	69.8	69.1	71.6	-4.4	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.)	02.06.2005	28.2	28.3	27.3	24.0	24.2	4.0	28.5

Economic activity

GDP (yo, %)	2003	2004e	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
Argentina	8.8	9.0	6.0		3.7	6.1	11.5	127
Brazil	0.5	4.9	3.4		9.3	7.6	6.9	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	3.1	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	2.0	61
Venezuela	-7.7	17.9	6.0		27.1	19.2	18.0	84

Public sector	Budget balance, % of GDP	2003	2004e	Public debt, % of GDP	2003	2004e	Amortization, US\$ bn	Gr. financing needs, US\$ bn	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	2.2	13	12	0.8	0.8	1.1	-1.2	
Colombia		-2.7	-1.2	56	52	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	46	39	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 % of exports	Debt service s.t., % of total	Current account US\$ bn	Trade Balance US\$ bn	FDI (net) US\$ bn	Import cover months
Argentina	404	36	32.3	2.0	3.0	3.9
Brazil	203	12	65.6	2.0	11.7	18.2
Mexico	79	21	37.5	-1.2	-7.9	15.0
Chile	128	18	7.2	1.5	1.4	5.6
Colombia	205	11	7.3	-1.3	-1.2	2.6
Ecuador	17	9	1.4	0.2	0.7	0.5
Peru	195	10	3.7	-0.2	-0.1	1.1
Venezuela	111	22	8.3	12.7	13.8	9.3
					21.4	9.0