



Argentina: Further hurdles for short-term foreign portfolio investments

Bolivia: President Mesa resigns

Brazil: Will the corruption charges bring the PT under fire?

Chile: Central bank leaves key interest rate unchanged

Colombia: Rebounding appreciation pressure

Mexico: Slowing growth

Peru: Paris Club repayment anticipated

Venezuela: Government plans to reduce VAT

Argentina

To contain a possible, but not yet visible significant rise of short-term foreign portfolio investments, Argentina introduced measures similar to the “encaje” system used in Chile during the 90’s. Hence foreign portfolio investors are now obliged to keep 30% of their investment unremunerated with the Argentine authorities. ---- The consumer confidence (UTDT index) dropped 1.5% at the poll taken at the beginning of June. It was the third consecutive month of declining index levels. Apparently the announced wage hikes could not lift sentiment.

Outlook: GDP growth (Thursday) is likely to have reached 8% yoy in the first quarter of this year, slightly below the figure of the previous quarter (9.1%). We expect a further slight weakening during the course of the year and a growth rate of 6% for the entire year following 9% in 2004.

Bolivia

President Mesa resigned following weeks of strikes and road blockades by indigenous groups, unions and associations of farmers which cut off the city of La Paz from food and energy supplies. His interim successor is the President of the Supreme Court Eduardo Rodriguez. Following Mesa’s resignation the opposition leader Evo Morales declared a “truce”. Whether this “truce” will hold until the new elections take place in presumably 3 to 6 months remains to be seen. Demonstrators had called, among other topics, for improved social conditions, the nationalization of the Bolivian oil and gas industry and the calling of a constituent assembly involving all parts of the population.

Brazil

The industrial sector showed a stable production level in April in comparison with March (IBGE). In yoy terms the growth rate was 6.3%. Industrial sales (CNI) rose 0.13% in April (+2.9% yoy). All in all the slow down in growth continues in a more moderate way.

Outlook: On the political stage this week will be characterized by the corruption allegations against PT depu-

ties. Deputy Roberto Jefferson, leader of the coalition partner PTB and himself exposed to accusations of corruption in the postal service, claims to have evidence of the involvement of PT deputies and the government in corruption cases. He will testify on Tuesday in the ethic commission of congress. ---- Retail sales probably were 3% higher yoy in April after a strong performance in March (about 8 %, Tuesday). ---- Against the backdrop of the economic slowdown and more benign inflation numbers (IPCA May: 0.49% after 0.87% in April) we expect the central bank to leave interest rates unchanged at 19.75% on Wednesday.

Chile

The economic activity surprised on the upside in April, expanding by 6.3% yoy, as measured by the IMACEC indicator. This takes the moving 12-month average to 6.4%. We expect growth to cool down slightly in the next months on the back of a high basis of comparison and softening external demand. All in all, however, the economy is firmly positioned to reach our overall 2005 growth forecast of 5.3%. ---- Contrary to the market consensus, but as expected by ourselves, the central bank’s monetary policy council left the key interest rate unchanged at 3.25% on its monthly meeting. Consensus had called for a 25 bps rate hike. In its statement, the council highlighted that inflation remains well-behaved and in line with projections, and that the rise in labour costs remains subdued. At the same time, however, the statement underlined the need to reduce the monetary stimulus in a very robust growth environment. We expect the central bank to resume the tightening process in the next months, lifting the key interest rate to 4.25% by year-end.

Colombia

On Friday the government swapped a volume of US\$ 583 mn of € and US\$ bonds (2008) into Peso bonds maturing between 2008 and 2014. Amortization payments for the current year were reduced by US\$ 216 mn (2006-2008: - US\$ 368 mn). --- The appreciation pressure on the Peso apparently declined in May. US\$ purchases of US\$ 151 mn were sufficient to keep the

exchange rate to the US\$ almost unchanged. In April the central bank had intervened with an amount of US\$ 408 mn. ---- As expected the central bank kept its repo rate unchanged at 6.5% at its meeting last Friday.

Mexico:

The Inegi leading indicator fell by 0.08% in March. This corresponds to a growth of 2.3% in yoy terms, thus representing a further deceleration compared to the previous month, when yoy growth reached 4.1%. Other activity indicators recently released already pointed to an economic slowdown and latest Inegi results suggest that the deceleration is set to continue. --- Other signs of slowing growth were the figure of gross fixed investment, which increased by 2.3% in March (below market forecast of +3%) representing the lowest yoy increase since January 2004, and car production growth (+5.6% yoy in May against +12.7% yoy in April). In the first five months of the year, car production fell by 2.3% as compared to the same period last year. --- After covering its external financing requirements for 2005 already during last year, the recent new issue of a 10-year global bond with a volume of EUR 750 mn covers virtually all financing needs for 2006. Furthermore, the government announced its intention of covering also the financing needs for 2007 already during 2006. --- According to Banxico remittances from Mexicans living abroad have increased significantly by 19% in the first four months of this year over the same period of 2004, reaching US\$ 5.6 bn. Given the current rate of expansion the remittances could reach as much as US\$ 20 bn by the end of 2005 (2004: US\$ 16.6 bn). --- Consumer prices fell by 0.25% mom in May mainly due to seasonally lower summer electricity tariffs. At 4.6% yoy, consumer prices are still above the official target range of 2.0% to 4.0% set by the central bank. However, we expect declining inflation rates till year-end, meaning that the target will be met.

Outlook: Following the significant yoy expansion in car output in April (see above), industrial production should recover in April from its fall of 4.7% yoy in March.

Peru

The Constitutional Court confirmed the pension reform adopted in 2004. At the same time, however, a bill was tabled before Congress in order to give the choice between the private and the public pension system to persons aged between 40 and 65. ----- The IMF approved the letter of intent of Peru's government with respect to

the standby agreement expiring in mid-2006. ----- Exports continued to rise sharply in April (+35.8% yoy). Imports likewise showed a substantial growth of 28%. The trade balance surplus reached US\$ 185 million.

Outlook: Finance Minister Kuczynski informed that anticipated repayments had been agreed with the Paris Club. The agreement will be signed this week. Mr. Kuczynski said the potential volume of the respective maturities falling due during the next five years was between US\$ 1.8 bn and US\$ 2 bn. The funds needed for the transaction are to be raised in the local and international capital markets. For the next five years, a reduction in annual debt service by US\$ 400 million is expected. ----- GDP growth (Wednesday) is expected to have been slightly higher yoy in April than in March (+4%). ----- The May jobless rate (Wednesday) will probably be largely unchanged from April (9.7%).

Venezuela:

According to press reports, the state oil company PDVSA plans to build two refineries to process the country's heavy crude oil. Currently, the majority of Venezuela's refining capacities are geared to processing light crude. Anyway, the refineries are not expected to become operational before 2009. More important for short-to-medium term growth prospects is the fact that PDVSA, according to a spokesman of the company, is significantly behind schedule with this year's investment in exploration. According to the statement, only 14% of the relevant budget is assigned up to now. ----- The National Superintendent of Banks proposed congress to oblige banks to extend 5% of total credit for so-called „social purposes“. According to the proposal, cooperatives and small business would be the main beneficiaries. Should the measure be approved, it would lift the share of directed lending to 40% of total lending. ----- Car sales increased by 54% in May, highlighting the still robust expansion path of domestic demand. We maintain our overall 2005 GDP growth forecast of 6%.

Outlook .Finance Minister Merentes announced the government's intention to propose a tax reform to the National Assembly in the next few weeks. The reform would reportedly lower the VAT rate (currently at 15%) by 1-2 percentage points. Foregone tax revenues would be compensated by a newly introduced asset tax on wealthy individuals. Furthermore, the reform would formalize the future taxation of the private oil sector. According to government officials' declarations in recent weeks, taxes would amount to up to 50% on operating agreements.



Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	10.06.2005	2.89	2.89	2.89	2.97	2.97	2.7	2.9
Brazil	13.06.2005	2.47	2.45	2.47	3.17	2.66	7.4	2.5
Mexico	13.06.2005	10.87	10.88	11.01	11.47	11.15	2.6	11.4
Chile	10.06.2005	592	594	579	649	556	-6.2	580
Colombia	10.06.2005	2341	2335	2348	2739	2355	0.6	2389
Peru	10.06.2005	3.25	3.25	3.25	3.48	3.28	0.8	3.3
Venezuela	10.06.2005	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	13.06.2005	6596	6640	6231	4982	4707	1889	
Brazil	13.06.2005	426	430	445	681	383	43	
Mexico	13.06.2005	170	171	189	209	167	3	
Ecuador	13.06.2005	811	861	839	866	691	120	
Colombia	13.06.2005	341	352	377	491	333	8	
Peru	13.06.2005	192	199	234	425	220	-28	
Venezuela	13.06.2005	480	502	499	638	412	68	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	10.06.2005	3.31	3.38	3.06	2.88	2.31	1.0	5.0
Brazil Selic	10.06.2005	19.75	19.75	19.52	15.79	17.75	2.0	18.8
Mexico Cetes 28 days	10.06.2005	9.70	9.73	9.92	6.66	8.61	1.1	9.5
Chile 90 days, PDBC	07.06.2005	3.04	2.71	3.03	1.30	2.24	0.8	4.3
Colombia Overnight	09.06.2005	6.44	6.41	6.35	6.84	6.24	0.2	7.1
Peru Overnight	10.06.2005	3.00	na	3.00	2.60	3.03	0.0	2.5
Venezuela deposits 30 days	06.06.2005	11.13	10.45	10.03	10.23	11.92	-0.8	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	10.06.2005	22.3	22.2	21.4	17.2	19.6	2.7	21.5
Brazil	09.06.2005	61.2	61.3	61.2	50.1	52.8	8.4	62.0
Mexico	03.06.2005	67.6	67.1	69.6	68.9	71.6	-4.0	65.0
Chile	30.04.2005	17.0	na	15.4	16.0	16.0	1.0	16.7
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.)	09.06.2005	27.9	28.2	27.8	23.6	24.2	3.7	28.5

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	10.2	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	5.4	79
Ecuador	2.5	7.0	3.5		6.1	1.9	2.7	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		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	2.8	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		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	403	36	32.3	77	2.0	3.0	13.3	3.9	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	128	18	7.2	21	1.5	1.4	9.0	6.7	5.6
Colombia	205	11	7.3	39	-1.3	-1.2	1.0	2.6	6.8
Ecuador	17	9	1.4	3	0.3	0.9	6.8	1.1	1.1
Peru	195	10	3.7	25	-0.2	-0.1	2.7	1.8	9.3
Venezuela	111	22	8.3	21	12.7	13.8	21.4	1.3	9.0



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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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