



## Latin American Weekly Spotlight

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A company of the **Allianz Group**

<b>Argentina:</b>	Tug of war over debt restructuring proposal continues
<b>Brazil:</b>	Central bank will keep key interest rates unchanged
<b>Chile:</b>	Robust economic growth in April
<b>Colombia:</b>	President Uribe continues to enjoy high approval ratings
<b>Ecuador:</b>	Government desperate to consolidate power base
<b>Mexico:</b>	Economic activity is buoyant – but monetary tightening looms
<b>Peru:</b>	Renewal of the IMF stand-by agreement and rating upgrade
<b>Venezuela:</b>	Referendum scheduled for August 15

### Argentina

While local and foreign bondholder associations affirmed their rejection of the new restructuring proposal and especially criticized Argentina's lack of willingness to negotiate, the Argentine government stressed that there is no room for negotiations as this is the final proposal. Representatives of ABRA (Argentine Bond Restructuring Agency) last week held talks at the Ministry of Economy in Buenos Aires. ABRA is part of the GCAB (Global Committee of Argentine Bondholders). The latter had so far rejected to travel for talks to Buenos Aires. Meanwhile further details of the restructuring proposal were released: Should the participation ratio exceed 70% not only would be issued more par bonds and less discount bonds (total volume of new bonds would rise from US\$ 38.5 bn to US\$ 43.2 bn), but also interest payments would rise. Private estimates see the net present value losses at around 80%, whereas Economy Minister Lavagna reckoned they would be 75%. All details of the proposal will be released once the US-American regulatory agency SEC has given its approval. The proposal has been filed with the SEC last Thursday. Economy Minister Lavagna expects it will take 45 days until the SEC will decide. ---- As expected consumer confidence did not change much in the last four weeks. The UTDT indicator increased by 0.6%, mom.

Outlook: The third revision of the current IMF program will start this week. Fiscal targets were overfulfilled by a wide margin. Regarding the revisions of the co-participation laws, which regulate the finances between the central government and provinces, the Argentine government is behind schedule. A waiver, which should not be a problem, will be needed. The technical IMF mission currently visiting Buenos Aires is not likely to comment on the question whether Argentina is trying "in good faith" (as mentioned in the IMF program) to reach a rescheduling agreement with holders of defaulted bonds. – Data on Q1-04 GDP growth (Wednesday) are likely to confirm the monthly preliminary figures on GDP growth. We expect a growth rate of 10.4%, yoy.

### Brazil

The industrial production (IBGE) increased by approx. 6 % in April and maintained the level in mom terms (+0.1 %, sa). According to CNI, industrial real sales grew by 17.9 % yoy (1.3 % mom) in April. Positive figures also come from the automotive sector, with car sales rising by 4.3 % in May (mom, nsa) and 7.6 % yoy.

Outlook: The central bank will probably keep unchanged at 16% its key interest rate as inflation expectations have increased in the past few weeks. The institution emphasized two weeks ago that given the difficulty of managing inflation expectations amid the high volatility on bond markets a maintenance of the rate would be adequate. --- In the Senate the votes concerning the rise in minimum wages (the government wants to put through an increase of only BRL 20 while the opposition wants a higher increase) and the bankruptcy law (an important step for the further development of the Brazilian credit market) were postponed to this week. ----- The retail sector should have continued its recovery in April (Wednesday), after an impressive growth rate of 11 % yoy in March. We expect an increase of 7 % yoy. ----- Federal tax revenues, which had a very positive development this year (real growth in the first four months of the year: 4 %), might have risen by 5 % in May (probably Tuesday). ----- This week the poll outcome of CNT/Sensus with respect to the approval rate of the government should show that president Lula's ranking is stabilizing at quite high levels (around 60 %).

### Chile

Economic growth as measured by the IMACEC economic indicator amounted to 5% yoy in April. Seasonally adjusted figures provide for an even more positive signal, posting growth of 0.8% mom. Economic expansion in April supports our forecast of solid overall growth in 2004 (forecast: 4.8% yoy). ----- As expected, the Board of the central bank left, by unanimous vote, the monetary policy interest rate unchanged at 1.75 %. In its press statement the Board highlighted the steady behavior of inflation expectations, which are converging to the centre of the CB's target range (2-4 %) over the next

24 months. ----- High surplus in the trade balance in May: driven by very strong exports (+54 % yoy) the surplus climbed to US\$ 966 mn from US\$ 288 mn in May 2003, even despite solidly rising imports (+19 % yoy).

## Colombia

According to the latest poll conducted by the weekly magazine "Semana" president Uribe would receive 71% if Colombians were to elect a president now (next presidential elections are scheduled for 2006). On second place would be Horacio Serpa with 7% of the votes. Even though president Uribe can count on around 70% of the Colombian people standing behind him, a substantial part of his reform proposals delivered to congress failed due to the resistance of other political actors. We believe that the situation is to remain the way it is over the last two years of Uribe's term. ----- Positive budget figures: the budget deficit amounted to 0.3% in the first quarter of this year, 0.2 percentage points below the upper limit agreed with the IMF. The decrease was above all made possible by an increasing tax collection (18% yoy in nominal terms).

Outlook: The current legislative term ends next Sunday. This is an important date, as some bills – e.g. the reelection bill – have to be approved before June 20 in order to become law later in the year. Congress will convene again on July 20. ----- Congress currently discusses an adjustment of the so-called Budget Code Law (an extension of the fiscal responsibility law). A high number of deputies is against the proposed adaptations, as they will endanger earmarked funds from which their clientele is benefiting. We assume the debate on this issue to be completed by Wednesday and that the government will be able to put through the bill as planned. Still due to a rather complex law-making procedure the final bill will not be passed before September.

## Ecuador

Leonardo Escobar, the fifth minister of agriculture of the Gutiérrez government, took office. By appointing Escobar, a former congressman and director of the national modernization council during the presidential term of Abdala Bucaram (Roldosista Party), the government apparently tries to enhance its relationship with Congress. Congressional support is urgently needed for the approval of the reform of the hydrocarbons law, which governs the regulation of the country's oil reserves. The reform, which is due to be discussed tomorrow, was among the targets of the expired IMF agreement and should be among the key measures the IMF is expected to evaluate before deciding on a new agreement. ----- Tax revenues increased by 12.9% yoy, to US\$ 1.22 bn, in the first five months of 2004. Revenues are now US\$ 24 mn (1.7%) above budget targets. The positive signal

of higher than budgeted revenues nevertheless fades when put against still unidentified public financing sources for 2004 amounting to roughly US\$ 500 mn.

## Mexico

In March, gross fixed investment rose by 7.1% yoy, the biggest increase in more than four years. On a seasonally adjusted basis gross fixed investment grew by 0.7%.----- In April, industrial production rose by 1.3% compared to March. This translates into a yoy increase of 4.0%. Given the good data in the US, the outlook for industrial production in the months to come is still positive.-----In May, consumer prices fell by 0.25% due to seasonal factors. Despite annual inflation running at 4.3% - much higher than the inflation target of 3% - and the outlook for interest rate hikes in the US, the central bank did not tighten its monetary policy on Friday. It still has a chance left to do so on one regular Friday meeting prior to the Fed meeting at the end of June.

Outlook: Today will bring rather positive production data for May from the automobile sector (20% of manufacturing). The sector most likely has benefited from strong sales in the US market (75% of the auto production is exported).-----The data for aggregate demand for the first quarter (Tuesday) will show that the economic upturn has broadened, as investment demand has accelerated. This trend should continue in the second quarter of 2004.

## Peru

As expected, the IMF approved the renewal of a two-year stand-by agreement (total volume US\$ 423 mn, first tranche US\$ 118 mn). Peru will probably not draw the IMF credit lines available. The government considers the agreement a precautionary measure for possible external shocks. ----- Standard & Poor's upgraded the rating of Peruvian sovereign US\$ bonds to BB from BB-. Only two weeks ago, the rating agency Fitch had put the outlook to positive from neutral but left the rating unchanged at BB-. We expect that Moody's will likewise issue a positive statement on Peru's capacity to pay during the next few days. Continuously high prices of Peruvian export goods (particularly copper and gold) are increasing the country's foreign exchange liquidity. ----- The minister of agriculture, José Leon, resigned due to accusations of nepotism. In recent months, there were repeated political scandals, and the cabinet was reshuffled several times. ----- Finance minister Kuczynski said the recently approved special tax for mining companies would be pegged to the respective earnings. According to the initial draft, the tax level will depend on sales.

Outlook: The debate on the congress decision to permit shifts from private to public pension schemes goes on.

The government made an appeal against the decision, which would entail substantial financial burdens for the government. The official pension scheme has a high deficit.

## Venezuela

The referendum to depose the state president is scheduled to take place on August 15; the opposition accepted the postponement (initially scheduled date: August 8). To depose president Chávez, 3.75 million people will have to vote against him (the opposition had managed to collect 2.55 million valid signatures for the referendum to take place). --- Since mid-May, the central bank's foreign exchange reserves has fallen by more than US\$ 1 bn as the oil company PDVSA began to keep US\$ export proceeds abroad. According to the government, these amounts are intended to constitute the basis of a development fund with a volume of up to US\$ 2 bn. ----- The government plans to raise the equivalent of US\$ 2.6 bn during the rest of the year for budget financing and debt amortization (US\$ 1.1 bn domestically and US\$ 1.5 bn from multilateral financial institutions). ----- The central bank expects economic growth of 15-18% yoy in the second quarter; this would probably mean that growth for the year as a whole will exceed our forecast (+10.5%).

Outlook: It is still not clear whether president Chávez could be a candidate in the new elections which would

be necessary if he is defeated in the referendum; the government thinks so. The supreme court, which is dominated by Chávez supporters, will probably decide this issue in the next several weeks. ----- Holders of the dollar securities issued in March (six-month term, coupon 1.15%, total volume US\$ 1 bn) as part of the *Unidades de Inversión* will have until June 18 to return these papers to the Venezuelan state ahead of schedule, at a rate of 100% of the nominal value. By this action the finance ministry is continuing its efforts to improve the debt structure.

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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	11.06.2004	2.96	2.97	2.91	2.82	2.82	-4.6	3.0
Brazil	14.06.2004	3.14	3.11	3.09	2.87	2.87	-8.5	3.1
Mexico	14.06.2004	11.38	11.36	11.53	10.48	10.48	-7.9	11.9
Chile	11.06.2004	649	640	638	708	708	9.0	600
Colombia	11.06.2004	2737	2707	2699	2827	2827	3.3	2800
Peru	11.06.2004	3.48	3.48	3.48	3.47	3.47	-0.4	3.5
Venezuela	11.06.2004	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	14.06.2004	4973	4877	4874	4450	5739	-766	
Brazil	14.06.2004	680	639	704	724	463	217	
Mexico	14.06.2004	206	205	207	224	199	7	
Colombia	14.06.2004	863	822	856	1073	799	64	
Ecuador	14.06.2004	506	471	511	469	431	75	
Peru	14.06.2004	422	440	457	422	312	110	
Venezuela	14.06.2004	634	599	648	956	593	41	

Benchmark interest rates								ytd-change
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	11.06.2004	2.88	3.44	1.63	4.81	1.50	1.4	4.0
Brazil Selic	11.06.2004	15.82	15.79	15.74	26.26	16.33	-0.5	14.8
Mexico Cetes 28 days	11.06.2004	6.48	6.71	6.81	5.23	6.01	0.5	7.5
Chile 90 days, PDBC	10.06.2004	1.56	1.30	1.33	2.67	2.29	-0.7	2.8
Colombia Overnight	09.06.2004	6.84	6.97	7.06	7.32	7.49	-0.7	8.8
Peru Overnight	11.06.2004	2.60	2.60	2.55	3.88	2.50	0.1	2.6
Venezuela deposits 20 days	07.06.2004	10.75	10.58	9.98	12.84	13.20	-2.5	

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	09.06.2004	17.1	16.9	16.0	11.7	14.1	3.0	17.0
Brazil	09.06.2004	50.1	50.6	49.9	43.3	49.3	0.9	55.2
Mexico	04.06.2004	686.1	688.8	688.8	576.5	658.0	28.1	65.0
Chile	31.05.2004	16.1	na	16.0	15.9	16.0	0.2	16.6
Colombia	30.04.2004	11.4	na	11.3	10.6	10.9	0.5	11.5
Peru	30.04.2004	10.5	na	10.4	10.2	10.2	0.3	11.4
Venezuela (FEM&Gold incl.)	10.06.2004	23.6	23.9	24.7	17.1	21.3	2.3	

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