



Argentina: GDP-growth of 8% in Q1-05

Brazil: Despite the resignation of José Dirceu, the political crisis will continue

Chile: Copper exports declined in May

Colombia: Pension reform passed the congress

Ecuador: FEIREP fund scrapped

Mexico: Government plans balanced 2006 budget

Peru: Unemployment increased despite higher economic growth

Venezuela: Proposal for upper limit on forex reserves submitted

Argentina

As expected, GDP growth reached 8% (yoy) in Q1-05. Compared to the previous quarter and seasonally adjusted, growth declined to 0.5% following 2.5% in Q4-04. The data confirm our growth forecast of 6% (2004: 9%) for the entire year. ---- Growth of industrial production in May (8.4%, yoy) came in higher than market expectations (8%). In the first five months of the year, industrial production was up by 7.4% (yoy). ---- Ahead of congressional elections in October this year, 2.4 million pensioners will get a 14% hike of their pensions effective as of July. Annual additional costs amount to an equivalent of 0.2% of GDP. ---- When visiting Argentina last week, World Bank vice president Pamela Cox announced plans of the World Bank for a new lending program to Argentina, bigger than the one in place at the moment, provided the country reaches an agreement with the IMF. The current World Bank program, in place since April 2004 and running until the end of this year, has a volume of US\$ 2.0 bn. However, due to the lack of an agreement with the IMF no disbursements are being made at present. ---- The central bank has extended the maximum limit for the remittance of export proceeds from 90 to 120 days. The effect of this move on the exchange rate is probably small, however it is a further signal of the central bank's preference to avoid, or at least limit, the appreciation of the Peso.

Outlook: The GDP-proxy EMAE is likely to show an increase of 9% (yoy) in April (Thursday), due to the low base of comparison, among other factors. ---- The Q1-05 current account surplus (Wednesday) will probably reach US\$ 300 mn. Due to continued import growth, this would be somewhat lower than the 382 US\$ mn recorded in Q1-04.

Brazil

The political crisis led to the resignation of the government's chief of staff, José Dirceu, who was one of those allegedly involved in the corruption scandal (buying of votes of congress members). The opposition will certainly provide for further nutrition for the scandal to remain in the headlines, especially boosting rumors that the president of the PT, Genoino, was involved in the af-

fair, too. The bottom line is that the crisis is far from over. ---- Retail sales grew only by 3.4% yoy in April and went down in comparison to the previous month (-0.23%). However, the perspectives for the sector are not that bad, as real wages and employment have increased in recent months and further interest rate hikes are not in the cards.

Outlook: The central bank decided last week to leave the key interest rate Selic unchanged at 19.75%. The Copom minutes (Thursday) will probably make clear that rates will be kept at that level in the coming months. ---- The unemployment rate should have declined only marginally in May compared to the previous months when the rate stood at 10.8% (Thursday). ---- The strong growth of tax revenues in recent months will weaken only slightly in May. We expect real revenue growth of 5% yoy (Wednesday). Against this background, the primary surplus of the central government (Friday) points to meeting the fiscal targets without difficulties.

Chile

At US\$ 1.2 bn, copper export revenues in May came in some US\$ 150 mn lower than in May 2004. This is due to a rising basis of comparison in copper prices and the declining production in the mining sector in recent months. Overall, this slowed export growth to a mere 6.9% yoy, which compares to an average growth of more than 50% in 2004. At the same time, imports are on the rise (Jan-May: +36% yoy), as the economy continues to expand robustly. We expect more of the same in the coming months, which will reduce the overall trade surplus from US\$ 9 bn in 2004 to US\$ 7 bn in the current year.

Colombia

The pension reform was finally approved in Congress. One of the original cornerstone elements, the elimination of the 14th monthly payment ('mesada 14'), did not receive the required amount of votes. Nevertheless, a compromise was approved which includes the elimination of the 'mesada 14' for persons receiving a pension

in excess of 3 minimum wages and the originally planned cap in top pensions to a maximum of 25 times the minimum wage. Due to these dilutions, the estimated NPV savings as of 2010 would go down to 13–15% of GDP instead of 17–19%. The bill now has to be approved by the Constitutional Court. ---- The budget deficit of the central government almost doubled in Q1-05 in nominal terms with respect to Q1-04 and amounts now to 6.1% of GDP (annualized basis).

Ecuador

Congress voted in favor of abolishing the oil stabilization fund FEIREP. 80% of FEIREP monies and future windfall profits from oil exports will go to a special account. They will be earmarked for special purposes, e.g. 35% for investments and 30% for social projects. The remaining 20% will go to a new oil stabilization fund. Although the changes remain a negative move in our judgment, due to the facts that less money is available for debt reduction and current expenditures are covered by windfall profits, the actual outcome is not as bad as the initial proposals. ---- The new president of the state oil company Petroecuador announced that the company is no longer planning to allow private investors to take part in the company. Given the pressing need of Petroecuador for investments, this 'no' to private investments raises further questions regarding future production of the company.

Mexico

As compared to this year's target of a 0.22% of GDP fiscal deficit, the Mexican government is planning to submit a balanced budget for 2006 to Congress. We expect Congress to try to increase budgeted expenditure, as was the case this year when President Fox was obliged to issue a veto. Nonetheless, we also believe that the government is doing the right thing when intending to signal the markets a cautious fiscal stance ahead of next year's elections. ----- As expected, Banco de México left the corto unchanged at MXN 79 mn at its latest monetary policy meeting. We are expecting no change in the corto at the second of the bi-weekly policy meetings this month, scheduled for June 24. ----- Industrial production increased by 5.2% yoy in April. Yet this growth needs to be placed in perspective. In March, there had been a contraction by 4.7% yoy, strongly influenced by fewer working days. In April, the reversal was due to more working days and a strong statistical rebound in production. A better picture of underlying trends is provided by the seasonally adjusted series, which show that the industrial production remained flat mom in April and declined by an average of 0.3% mom in the first four months of this year, confirming the loss of momentum suffered by the industrial sector. ----- According to Inegi, first-quarter GDP figures confirm a

continued strong contribution on the part of private consumption. The latter grew by 5.4% yoy and 1.4% qoq s.a. On the other hand, figures concerning investments show a mixed picture of a strong yoy increase (+6.5%) and qoq (sa) contraction of 0.4%. Exports increased by 4.8% yoy and by 0.6% qoq (s.a.), outpaced by imports at 7.9% and 1.2%, respectively. Looking ahead, we believe there is a risk that net export performance will continue to deteriorate, if there is a moderation in US growth over the next quarters. In contrast, private consumption should continue to receive support from the upturn in employment.

Outlook: Given the significant fall in wholesale sales in March and the ongoing tightening of monetary policy, we expect a decrease in retail sales growth in May (tomorrow).

Peru

The Paris Club has affirmed its willingness to accept a prepayment of up to US\$ 2 bn of Peru's debt falling due between August 2005 and December 2009. However, participation of the individual Paris Club creditors is not compulsory. The repayment should nevertheless be completed by August 15th. ----- GDP grew by a stronger-than-expected 6.4 % yoy in April. Mining posted an especially strong growth of 39 % yoy, while agricultural production expanded by 13.5 % yoy. This positive development was not able to improve labor market conditions. The unemployment rate in May increased by 0.6 percentage points compared to April, now standing at 10.3 %.

Venezuela:

Rhetorical attacks on the private oil industry appear to become habitual for the current government. According to oil minister Ramírez, private international oil companies owe the state overdue taxes amounting to US\$ 3.4 bn. Additionally, Ramírez reaffirmed the government's intention to lift taxes on oil companies from 34 % to 50 %. ----- According to press reports, the US SEC has started an investigation into PDVSA's activities in the US (with CITGO, a chain of gas stations, being the most important), apparently in relation to last year's debt buy-back. We do not expect any material obstacles to PDVSA's business in the US as a result of the investigation.

Outlook: According to its president, Rodrigo Cabezas, the congressional Finance Commission will submit to the National Assembly a proposal to reform the Central Bank law, introducing a cap on the accumulation of forex reserves at this institution. The government had submitted a new law with the same intention. The formal differences between these two approaches seem



negligible, as both include a transfer of CB assets to the government and abolish the rule that obliges PDVSA to transfer hard currency export revenues directly to the CB. This will significantly increase Venezuela's vulner-

ability to external shocks, especially lower oil prices. We expect Congress to accept the proposal in the coming weeks.

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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	17.06.2005	2.87	2.88	2.89	2.97	2.97	3.5	2.9
Brazil	20.06.2005	2.39	2.44	2.44	3.13	2.66	11.3	2.5
Mexico	20.06.2005	10.82	10.85	10.96	11.31	11.15	3.0	11.4
Chile	17.06.2005	582	590	583	645	556	-4.5	580
Colombia	17.06.2005	2323	2343	2336	2710	2355	1.4	2389
Peru	17.06.2005	3.25	3.25	3.25	3.47	3.28	0.8	3.3
Venezuela	17.06.2005	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	20.06.2005	887	910	6410	5016	4707	-3820	
Brazil	20.06.2005	406	422	436	660	383	23	
Mexico	20.06.2005	168	170	179	212	167	1	
Ecuador	20.06.2005	753	804	851	866	691	62	
Colombia	20.06.2005	331	340	365	487	333	-2	
Peru	20.06.2005	196	192	224	430	220	-24	
Venezuela	20.06.2005	465	482	504	627	412	53	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	16.06.2005	3.88	3.31	3.19	2.81	2.31	1.6	5.0
Brazil Selic	17.06.2005	19.74	19.75	19.76	15.79	17.75	2.0	18.8
Mexico Cetes 28 days	17.06.2005	9.70	9.70	9.75	6.51	8.61	1.1	9.5
Chile 90 days, PDBC	16.06.2005	2.76	3.04	3.63	1.57	2.24	0.5	4.3
Colombia Overnight	15.06.2005	6.39	6.46	6.41	6.86	6.24	0.1	7.1
Peru Overnight	16.06.2005	3.00	na	3.00	2.60	3.03	0.0	2.5
Venezuela deposits 30 days	14.06.2005	11.01	11.31	11.72	9.88	11.92	-0.9	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	17.06.2005	22.5	22.3	21.7	17.5	19.6	2.9	21.5
Brazil	16.06.2005	60.8	61.2	60.7	50.1	52.8	8.1	62.0
Mexico	10.06.2005	67.6	67.6	68.6	68.6	71.6	-4.0	65.0
Chile	30.04.2005	17.0	na	15.4	16.0	16.0	1.0	16.7
Colombia	31.05.2005	13.4	na	13.3	11.4	13.5	-0.1	14.0
Peru	31.12.2004	12.6	na	12.3	10.2	10.2	2.4	13.5
Venezuela (FEM&Gold incl.)	16.06.2005	28.4	27.9	27.1	23.8	24.2	4.2	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