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Argentina:	GDP growth of 11.2% in Q1-04
Brazil:	Government loses vote on minimum wages in the Senate
Chile:	Further fiscal expansionism seems inappropriate at present.
Colombia:	Public sector deficit to increase
Ecuador:	President Gutiérrez' reform project defeated in congress
Mexico:	Banxico will tighten ahead of the Fed meeting
Peru:	Call for a general strike on July 14
Venezuela:	New special fund for health, education and house building

Argentina

GDP growth in Q1-04 (11.2%, yoy) came in slightly higher than was to be expected according to preliminary monthly figures. Nevertheless, the expected downturn was also visible, as qoq growth (seasonally adjusted) fell to 1.7% from 3.0% in Q4-03. For 2004 as a whole we continue forecasting GDP growth of 6.5%. ---- Following the surprisingly strong decline of industrial production in April (-3.9%, mom, s.a., mainly due to retooling delayed to April), industrial production increased again by 1.7% in May. We continue expecting a trend of declining growth rates as bottlenecks like the energy crisis will be felt stronger in the months ahead.

Outlook: On the back of the decline in industrial production GDP growth (Wednesday) is likely to have come back from 11.9% (yoy) in March to 8% in April. ---- The technical IMF mission should end its visit to Buenos Aires this week. Quantitative targets, especially fiscal ones, are kept or over fulfilled. The necessary waiver, for being behind schedule in introducing changes to the coparticipation law (revenue sharing between central government and the provinces) should pose no problem. With regard to the new Argentine rescheduling proposal for defaulted bonds the IMF at present appears to prefer a low profile. Last week the IMF's Deputy Managing Director Anne Krueger refused to take sides over the latest debt proposals.

Brazil

Government was defeated in the Senate vote on the increase in minimum wages. Even senators of the government coalition and President Lula's party voted with the opposition. The draft bill will now return to the Chamber of Deputies, where majority conditions make us assume that the decisive vote will turn out in favor of the government. Thus, no negative effects are to be expected for the budget. We do not think the government's ability to act to have been seriously affected, but politically controversial projects should be difficult to realize ahead of the October municipal elections. ---- As expected, the central bank maintained its key interest rate at 16%. Higher inflation expectations and ongoing signs

of an economic recovery make further interest rate reduction unlikely at this moment. ---- Retail sales rose more than expected in April (+9.9% yoy). YoY growth from January to April was 8%. ---- On June 18, the IMF completed the seventh review of Brazil's Stand-by Arrangement. This means a tranche of approx. US\$ 1.3 bn will be released to Brazil, but the country does not intend to draw it.

Outlook: A current account surplus of US\$ 1.4 bn is expected for May, which would bring the accumulated surplus of the first five months of the year to US\$ 2.4 bn (Wednesday). ---- Foreign direct investment will probably have been much less than US\$ 1 bn in May, too (forecast: US\$ 600 mn, Wednesday). ---- Fiscal figures on Friday: The primary surplus of the consolidated budget should have reached approx. BRL 6 bn in May. In the first five months of the year, the surplus, at BRL 38 bn probably, is clearly higher than the first semester's IMF target. Public debt will likely have risen again to 57.3% of GDP due to the depreciation of the real (April: 56.6%). ---- Unemployment, which has kept rising during five months in spite of the economic recovery and reached 13.1% in April, should have decreased slightly in May, also due to the fact that employment has been rising in recent months (Thursday). ---- The minutes of the most recent central bank meeting (Thursday) should contain signals as to whether further interest rate cuts can be expected (we think so) in spite of rising interest rates in the U.S. and increased inflation expectations in Brazil.

Chile

Energy crisis bound to ease: the Argentine government announced to considerably cut back reductions in gas exports to Chile as of the end of this week. Between May and June, gas exports to Chile were on average around one-third below year-ago values, peaking up to 48% on some days. From now on, reductions should not exceed 10%, with the region around Santiago, home to around 90% of the Chilean population, virtually unaffected from reductions. We had been expecting a rapid relaxation of

the energy crisis and therefore confirm our GDP growth forecast of 4.8 % for 2004.

Colombia

A congressional lower house committee approved the government proposal of the fiscal responsibility law. The law, which is intended to enable the central government to adjust budget allocations to the provinces according to actual economic conditions, is one of the targets of the IMF agreement. The bill needs three more approvals in order to become effective. ---- According to the wires, the government asked the IMF for further leeway to spend more on social programs and pension payments. The news article says that the government asked the Fund to widen this year's fiscal deficit target to 2.8% from 2.5% of GDP if it succeeds in selling state assets and stakes in companies. In our view a further widening of the deficit would be sending a negative signal, regardless of whether they manage to sell state assets or not. Over the past few years the government has consistently asked for further fiscal leeway from the Fund, and public debt has risen considerably, so further fiscal expansionism seems inappropriate at present. Furthermore, the fact that public investment projects generally extend over a longer period of time casts doubt about FinMin Carrasquilla's announcement of a reduction of the deficit in public finances to 2.4% of GDP in 2005. ---- As expect the Central Bank left the benchmark intervention interest rate on overnight repo loans unchanged at 6.75%, citing benign core inflation figures and the current lack of inflationary pressure. Somewhat surprising was the decision not to undertake an auction of US\$ put options as it had done in the last two months. It seems that the pressure from the government for the peso to depreciate has diminished. The COP/US\$ exchange rate currently stands around COP 2700, somewhat weaker than at recent highs in April, when it came near to the COP 2600 mark.

Ecuador

Congress rejected the government proposal to reform the Hydrocarbons Law that sought to create a legal framework to open up oil fields currently operated by Petroecuador to private sector investment. This is bad news for a number of reasons: on the one hand, the political defeat underlines the government's weak position with respect to Congress. Sensible structural reforms urgently needed for sustainable economic growth and the country's economic stabilization are increasingly out of reach. Moreover, private investment in Petroecuador oil fields is desperately needed in order to maintain production at current levels. From January to April, oil production in Petroecuador fields decreased by 11 % yoy to 187,000 barrel/day, far off the 201,000 b/d planned in the 2004 budget. Finally, the rejection of the reform

should delay the approval of an IMF agreement originally hoped for to be concluded in July, as the opening of the oil sector to private investment is one of the Fund's main requirements. Due to a lack of reform progress, only two disbursements took place under the last agreement, instead of five originally planned.

Mexico

In a special research report on Mexican politics and institutions the rating agency, S&P, came to the conclusion that the level of political risk is consistent with the current sovereign rating of BBB-. --- The decomposition of aggregate demand figures for the first quarter shows that the current economic expansion has been broad based and balanced. Only public sector demand was lagging, which is a strong indicator of the public sector's saving efforts. ---- The Conference Board's leading indicator for Mexico suffered its first reduction for six months in April, reflecting a fall in three index components – the real exchange rate, construction and stock prices. However, the Board said it believed the fall was just a temporary one. The trend in the leading index was still upwards, suggesting in turn that the recent acceleration in the rate of economic growth is likely to persist in the near term. The Board also reported a positive trend in its coincident indicator. The index rose by 0.3% in April, following a similar rise in March. ---- Money market rates (Cetes, 28 days) unexpectedly fell last week to 6.54%; given the expected monetary tightening, money market rates will resume their upward trend.

Outlook: In April, retail sales (today) most likely rose by 5.5% compared to a year ago. Currently private consumption is benefiting from the improvement of the labor market. Only in the first quarter the Mexican economy created 283,000 new jobs. ---- Given the continuing economic upswing the unemployment rate (Tuesday) should have continued to fall in May from 3.7% to 3.5%. ---- In April, the Global Economic Activity Indicator (IGAE), a proxy for GDP development, was probably 4.5% higher than a year ago (Friday); given the ongoing dynamic growth in the US, the economic recovery in Mexico, which has been in place for two quarters, will have continued in the second quarter of 2004. ---- In May, the trade balance most likely closed with a deficit of US\$ 350 mn. Exports as well as imports should have continued to grow with double-digit rates yoy (Wednesday). ---- In the first two weeks of June consumer prices probably rose by 0.2%, which would lift the yearly rate of inflation to 4.4%. ---- We assign a high probability that ahead of the Fed meeting the Mexican Central Bank will tighten monetary policy on Friday.

Peru

One of the most important labor unions (CGTP) has called for a general strike on July 14. The union is demanding to halt the pension system reform proposed by the government. The biggest opposition party APRA – headed by former president García – is supporting the strike. ---- The government holds informal negotiations with congress in order to alter the mining royalty scheme recently approved by congress. An alternative proposal of the ministry of finance will try, among others, to include historical international metal price levels and aims at lowering the burden for future investments. The alternative proposal has to be approved by Thursday in order to avert the enforcement of the current law. This seems in our opinion most unlikely. ---- Unemployment dropped to 9.1% in May, reaching single-digit levels for the first time this year. Still more than half of the active workforce is underemployed, which seems to be one of the main reasons for the low approval ratings of the government. As the current upswing is being driven by the less labor intensive mining sector, the situation on the job market is most unlikely to improve in the short term. In April GDP grew by a disappointing 3.3% yoy, while again mining was the engine of the increase in economic activity.

Venezuela

The government established a special fund for health, education and house building, which will be funded by investment gains of the "Fogade" deposit guarantee fund. Moreover, it is planned to raise bank contributions to Fogade from 0.5% to 2% of deposits, and to increase

the deposit guarantee amount from VEB 10 mn to VEB 25 mn. ---- As PDVSA is lacking qualified personnel due to mass layoffs following the most recent general strike, the company will probably not be able to fully implement its 2004 investment program of US\$ 5 bn needed to ensure oil production. During the first half of the year, only 35% of this year's planned capital expenditure may have been made. ---- May car sales were up 94% yoy (January-May yoy: +90%).

Outlook: The electoral authority, CNE, intends to announce the outcome of the referendum against President Chávez scheduled for August 15 between August 19 and September 2. According to the constitution, new elections must be held four weeks after the announcement of the result at the latest if President Chávez should be defeated. ---- The Supreme Court's constitutional chamber decided that President Chávez will be allowed to participate in the next regular presidential election in December 2006, even if he should lose his office in the referendum. It remains unclear if, in the case of a defeat in August, he will be able to be a candidate already in the respective new elections. ---- General Baduel, the armed forces' Commander-in-Chief close to President Chávez, stressed he would accept a potential Chávez defeat in the referendum.

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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	18.06.2004	2.96	2.97	2.94	2.79	2.79	-6.0	3.0
Brazil	21.06.2004	3.14	3.17	3.19	2.86	2.86	-9.0	3.1
Mexico	21.06.2004	11.32	11.47	11.57	10.47	10.47	-7.5	11.9
Chile	18.06.2004	648	649	642	704	704	8.7	600
Colombia	18.06.2004	2708	2739	2775	2817	2817	4.0	2800
Peru	18.06.2004	3.47	3.48	3.49	3.47	3.47	0.1	3.5
Venezuela	18.06.2004	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	21.06.2004	5016	5010	5042	4459	5739	-723
Brazil	21.06.2004	659	704	743	772	463	196
Mexico	21.06.2004	212	213	201	234	199	13
Colombia	21.06.2004	865	904	879	1133	799	66
Ecuador	21.06.2004	487	498	540	470	431	56
Peru	21.06.2004	431	446	511	471	312	119
Venezuela	21.06.2004	627	647	673	1007	593	34

Benchmark interest rates

%	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina, Overnight	15.06.2004	2.81	3.00	2.56	4.75	1.50	1.3	4.0
Brazil Selic	18.06.2004	15.79	15.79	15.77	25.76	16.33	-0.5	14.8
Mexico Cetes 28 days	18.06.2004	6.51	6.66	6.73	5.15	6.01	0.5	7.5
Chile 90 days, PDCC	17.06.2004	1.57	1.56	1.32	2.80	2.29	-0.7	2.8
Colombia Overnight	16.06.2004	6.84	6.84	6.98	7.30	7.49	-0.7	8.8
Peru Overnight	18.06.2004	2.50	2.60	2.55	3.78	2.50	0.0	2.6
Venezuela deposits 20 days	16.06.2004	12.18	12.13	8.24	13.52	13.20	-1.0	

Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	16.06.2004	17.4	17.1	16.2	11.5	14.1	3.2	17.0
Brazil	17.06.2004	50.2	50.1	50.1	53.8	49.3	0.9	55.2
Mexico	11.06.2004	687.0	686.1	691.7	584.2	658.0	29.1	65.0
Chile	31.05.2004	16.1	na	16.0	15.9	16.0	0.2	16.6
Colombia	31.05.2004	11.4	na	11.4	10.6	10.9	0.4	11.5
Peru	30.04.2004	10.5	na	10.4	10.2	10.2	0.3	11.4
Venezuela (FEM&Gold incl.)	16.06.2004	23.8	23.6	24.8	17.2	21.3	2.5	

Economic activity

GDP (yoy, %)	2003	2004f	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
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	2003	2004f	Public debt, % of GDP	2003	2004f	Amortization, US\$ bn	Gr. financing needs, US\$ bn
							2003	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 % of exports	Debt service s.t., % of total	Current account % of GDP	Trade Balance US\$ bn	FDI (net) US\$ bn	Import cover months			
Argentina	368	30	32.3	80	2.1	3.0	11.3	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