Argentina: Ahead of tough IMF negotiations
Brazil: Declining inflation rates
Chile: Friendly labor market figures expected
Colombia: Budget deficit at 0.6 % of GDP in Q1-05
Ecuador: S&P downgrade
Mexico: Lower than expected trade deficit in May
Peru: Profiting from the crisis in Bolivia
Venezuela: CB reform likely to be approved in July

Argentina

Minister of economy Lavagna confirmed on Friday that negotiations with the IMF on a new agreement will begin soon. Within the scope of the regular Article IV review, the IMF had requested the Argentine government to carry out further reforms; among other things, the Fund urges that a reliable body of rules and regulations for the privatized companies and a reform of the banking sector be implemented. Besides, this year the targeted primary surplus (budget surplus before interest payments) is to be raised to 4% of GDP; until now, the government has planned to achieve a primary surplus of 3.6%. Additionally, the Fund is pressing for an arrangement concerning the non-restructured bonds. Roughly 25 % of the bondholders have not accepted the exchange offer. This year, Argentina's repayment obligations towards the Fund amount to US$ 1.6bn, and in 2006, to US$ 3bn. An agreement with the IMF would be an important prerequisite for stretching its maturities. However, we assume negotiations to become difficult. The relationship between the Fund and the Argentine government is prejudiced, and in October, parliamentary elections will be held in Argentina. ----- In April, the GDP indicator (EMAE) registered a 0.6% increase mom; yoy, the economy grew by 9.8%, thus exceeding slightly our expectations. This notwithstanding, for the year as a whole economic growth should decrease to around 6% (2004: 9%) owing to weak investment activity. ----- During the first quarter, the current account posted a deficit of US$ 5mn, not including, though, the positive effect of the bond rescheduling (interest savings). During the first quarter of the previous year, the current account had registered a surplus of nearly US$ 500mn. This year's deficit is due to high profit transfers of foreign companies and the sustained high import growth.

Brazil

The latest CNI/Ibope opinion poll showed a renewed decline in the government's approval ratings. Lula's approval ratings fell to 56% from 60% previously. Meanwhile, the government's approval ratings declined to 35% from 39% previously. Although Lula's approval ratings are likely to fall further as a result of the ongoing corruption scandals, they still remain high in both absolute and relative terms. In addition, if there were elections today, President Lula would win by a large margin, so that we do not believe that there will be any changes in macro policies. --- Brazil tapped the international capital markets with a reopening of the Global 2015 to the tune of US$ 600mn. The bond has a coupon of 7.875% to yield 7.732% or 363 bps over UST. With this bond sale, the sovereign has covered all of its financing needs for the year. The fact that the sovereign has tapped the markets during a political crisis indicates that investors believe the current political crisis will have no implications for the macro policy. --- The IPCA-15 consumer prices index rose a lower than expected 0.12% mom in June (consensus was for a rise of 0.26%, following an increase of 0.83% mom in May-05), while the Fipe consumer price index rose just 0.07% mom in the same period vs. 0.19% mom previously. The IGP-M index fell a higher than expected 0.38% mom in the second preview of June. In addition, there was good news from the latest CB market survey, as it showed a renewed decline in inflation expectations. Inflation expectations for 2005 fell to 6.16% from 6.21% previously, while expectations for accumulated inflation over the next twelve months declined to 5.07% from 5.11% previously. However, despite the sharp downturn in inflation rates and expectations, we do not believe that the CB will start cutting rates over the next couple of months. --- The current account balance posted a lower than expected surplus of US$ 615m in May-05 (consensus: US$ 1.2bn) on the back of a higher than expected deficit in the services and income account, which reached US$ 3.1bn. This was driven mainly by higher profit dividend remittances (US$ 1.4bn). Nevertheless, over the last 12 months, the surplus in the current account reached US$ 13.4bn, or 2.1% of GDP. Meanwhile, FDI reached US$ 711mn last month, an increase of 243% yoy. Despite the lower than expected current account surplus, the strong external sector performance is likely to continue due to strong export performance. --- Tax collection reached a record high of BRL 27bn for the month of May, an increase of 2.02% yoy in real terms. During the first five months of the year, revenues rose by 5.24% yoy in real terms. --- The

economics@dbla.com

National Monetary Council (CMN) has set the 2007 inflation target at 4.5% with a 2pp tolerance band. Setting the target at 4.5% (the same as 2006's) is positive, for it shows that the CMN will not tolerate higher inflation going forward.

Chile

After a 4.4 % drop in production in April and an average ytd-growth of just 1.9 % in 2005, we expect mining production to increase slightly in May (Wednesday). Overall, however, the sector is well positioned to benefit from the current high commodity prices. ----- On the back of robust domestic consumption, industrial production is likely to have expanded by 6 % in May (Wednesday). The sector posted an average growth of 5 % in the three months to April. ----- We also expected good news from the labor market (Wednesday): As in recent months, solid job creation is likely to drive the unemployment rate further down, from 9.4 % in May 2004 to 8.6 % this May. The increase compared to April (around 0.4 %-points) is due to the upcoming southern hemisphere winter. ----- The peso stabilized last week around 580 CLP/US$, which means an appreciation of around 3 % with respect to the end of May. Despite the global dollar strength, the Peso held its position due to record-high copper prices north of 150 cts/lb. Against a backdrop of a substantial trade surplus and an almost balanced capital account we expect the peso to remain broadly stable in the coming months, with a year-end exchange rate forecast of 580 CLP/US$.

Colombia

The deficit of the consolidated public sector in the first quarter was 0.6% of GDP, in line with the IMF target. The deficit of the central government with 2.2% of GDP was partly compensated by the higher increases of the decentralized sector (+1.9% of GDP). This was mainly due to higher revenues of the state owned company Ecopetrol, which due to high oil prices was able to increase its profits. ----- Fewer working days in March due to the Easter Holidays caused an only slight increase of industrial production in March (+3.9% yoy). But in April there was a recovery and industrial production grew by 10.68% yoy. Additionally, retail sales published by the national statistics institute DANE also grew strongly by 16.3% yoy in April. This is a sign that growth is recovering in the second quarter after a probably weaker first quarter.

Outlook: This week the data of the first quarter are going to be published. We are expecting that growth slowed down a little bit (DBLA: 3.8%) after the strong fourth quarter 2004 were the economy grew by 4.3% yoy.

Ecuador

Citing concerns about Ecuador's ability to cover its financing gap of around 400 US$ mn this year, S&P cut its long-term sovereign credit rating on Ecuador to CCC-plus from B-minus. We agree with the S&P interpretation. Although Ecuador might be able to muddle through for a while on the back of high oil prices, the likely deterioration in vital connection with multilateral financing agencies poses a serious threat to the medium term financial situation.

Mexico

According to the Conference Board, its leading index for Mexico decreased 0.2% in April, while its coincident indicator increased 0.1%. As a result of downward revisions to the previous months, the leading indicator index was flat in March and declined 0.3% in February. The Conference Board said that the behavior of the leading index in recent months is consistent with the view that "the economy will grow at a sluggish pace in the near term". This is also in line with our view of Mexican economic prospects. --- Retail sales as reported by Inegi rose by 8.8% yoy in April. The increase was well ahead of the consensus forecast (+4.2%) and over the yoy growth of the previous month (+4.4%). Nevertheless, the fact that the sa series reveals a decline of 0.48% mom in April suggest that statistical distortions cannot be completed ruled out as an explanation. In fact, the yoy nsa 3 month moving average series suggest that retail are continuing to slow, albeit modestly. Thus, after increasing at an average monthly rate of 6.6% over the period Nov-04 to Jan-05, retail sales growth slowed to 5.7% yoy over the period Feb-Apr 05. Moreover, wholesale average growth over the 3 months to April slowed to 2.3%, compared to 6.7% in the previous 3 month period. --- Consumer prices fell by 0.15% in H1-June, a better than expected result (consensus: 0.09%), while core inflation was 0.12%, slightly below the consensus forecast of 0.14%. The fact that core inflation is already at a record low – and with the downward tendency likely to go further due to the current strength of the peso and apparently slowing growth – could prove decisive for the Banxico to decouple Mexico's monetary policy from future rises in US interest rates. --- Trade deficit was at US$52mn in May much lower than expected (consensus: deficit of US$451mn). Exports rose by 13.3% (vs 18% in April) while imports expanded by 14.3% (16.8% in April). The main factor behind the better than expected trade result is oil. Oil export rose by 19.5% in May and by nearly 30% yoy in the first five months of this year, while manufactured exports rose by 11.6% and 8.8% in April and in the period Jan-May respectively. Concerning imports, consumer goods have been leading its growth pace. The latter rose by 17.4% yoy in May, and are up by over 25% in the first five months of the year. This reflects two main

economics@dbla.com

factors: buoyancy of domestic demand and recent sharp appreciation of the real exchange rate. So far this year, the cumulative trade deficit amounts to US$2.6bn. This represents a deterioration compared with the same period last year (-US$1.1bn). However, the trade balance remains very comfortable by historical standards.

Peru

Congress agreed to the additional budget that contains additional spending of PEN1.3bn. The added spending is mainly to be financed by higher than expected tax revenues. Before the elections in April 2006 the spending pressure of the unpopular government is expected to increase. That is why –despite higher revenues – we are expecting the deficit to reach 1.2% of GDP by the end of the year. ----- After the riots and a new hydrocarbons law with a strong increase of taxes and royalties in Bolivia, the energy ministers of Peru, Chile and the Mercosur economies (Argentina, Brasilia, Uruguay and Paraguay) declared their intention to strive for a stronger collaboration on energy interests. By circumventing Bolivia geographically, expanding the Peruvian gas fields and connecting them to the Chilean and Mercosur pipeline system the energy supply of these countries that used to purchase gas from Bolivia should be provided. This will give a significant push to the still emerging gas sector in Peru.

Venezuela:

In a first reading the congress approved the modification of the Central Bank law, which would enable the government to use some of the CB's forex reserves for „productive investment“ purposes. The second reading and the law's likely approval is expected by mid-July. While no concrete amount is mentioned, sources are speculating of US$ 5bn the government is likely to grab and spent. This will definitely provide a further short-term boost for the economy, but bears significant risks in the medium term. On the one hand, a lower level of forex reserves increases the country's vulnerability to external shocks such as low oil prices. Additionally, and much more pressing, the handing-over to the government would go hand-in-hand with a substantial increase in the monetary base, which, in turn, will provide further fuel to inflationary pressure. With inflation running at 17.4 % yoy in May, and expected at broadly the same level in June (due out Friday; forecast: 1.8 % mom, 17.3 % yoy), a further increase can have destabilizing effects on macroeconomic stability. ------ José Gregorio Vielma Mora, head of national tax service SENIAT, announced a further 1 percentage point lowering of the VAT to 14 %, with effect on August 1. A lower VAT will provide some support to economic activity, while fiscal consequences are negligible against a backdrop of robust economic recovery and high oil prices.

Dresdner Bank Lateinamerika AG
Neuer Jungfernstieg 16
20354 Hamburg
Germany

Economics Dept.
Chief economist: Dr. Heinz Mewes
Tel.: (+49 40) 3595 3494
Fax: (+49 40) 3595 3497
E-Mail: economics@dbla.com
http://www.dbla.com

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

Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	27.06.2005	2.88	2.87	2.89	2.96	2.97	3.2	2.9
Brazil	27.06.2005	2.39	2.39	2.39	3.13	2.66	11.3	2.5
Mexico	27.06.2005	10.77	10.82	10.88	11.49	11.15	3.5	11.4
Chile	27.06.2005	580	581	580	633	556	-4.2	580
Colombia	24.06.2005	2323	2313	2326	2699	2355	1.4	2389
Peru	27.06.2005	3.25	3.25	3.25	3.47	3.28	0.8	3.3
Venezuela	27.06.2005	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	27.06.2005	895	879	6428	5101	4707	-3812
Brazil	27.06.2005	424	407	418	663	383	41
Mexico	27.06.2005	178	165	171	216	167	11
Ecuador	27.06.2005	832	772	867	888	691	141
Colombia	27.06.2005	334	326	349	481	333	1
Peru	27.06.2005	204	193	211	427	220	-16
Venezuela	27.06.2005	469	455	507	627	412	57

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	24.06.2005	6.00	4.50	3.19	2.63	2.31	3.7	5.0
Brazil Selic	24.06.2005	19.74	19.74	19.75	15.80	17.75	2.0	18.8
Mexico Cetes 28 days	24.06.2005	9.73	9.73	9.73	6.56	8.61	1.1	9.5
Chile 90 days, PDBC	23.06.2005	2.90	2.76	3.52	1.70	2.24	0.7	4.3
Colombia Overnight	22.06.2005	6.36	6.39	6.52	6.87	6.24	0.1	7.1
Peru Overnight	24.06.2005	3.00	na	3.00	2.60	3.03	0.0	2.5
Venezuela deposits 30 days	21.06.2005	11.76	11.01	11.16	10.91	11.92	-0.2	14.5

Foreign exchange reserves								
US$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	24.06.2005	23.0	22.5	22.0	17.5	19.6	3.3	21.5
Brazil	23.06.2005	59.3	60.8	61.1	49.5	52.8	6.5	62.0
Mexico	17.06.2005	68.4	67.6	68.3	68.7	71.6	-3.2	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	30.04.2005	13.6	na	13.6	10.5	12.6	1.0	13.5
Venezuela (FEM&Gold incl.)	22.06.2005	28.7	28.3	27.9	23.8	24.2	4.5	28.5

Economic activity				Inflation				
GDP (yoy, %)	2003	2004e	2005f	%, year end	2003	2004	2005	GDP 2003, US$ bn
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