



# Latin American Weekly Spotlight

June 28 2004



Dresdner Bank Lateinamerika AG  
formerly Deutsch-Südamerikanische Bank AG



A company of the **Allianz Group**

<b>Argentina:</b>	Temporary weakness of GDP growth in April
<b>Brazil:</b>	Economic upturn finally reflected in the labor market
<b>Chile:</b>	Solid retail sales in May
<b>Colombia:</b>	Government wants to do without further bond issuances
<b>Ecuador:</b>	Second try to reform the oil sector legislation
<b>Mexico:</b>	Surprisingly, CB leaves monetary policy unchanged
<b>Peru:</b>	Negotiating with the Paris Club on early repayments of US\$ 500 mn
<b>Venezuela:</b>	PDVSA export proceeds directed to the central bank again

## Argentina

The GCAB (Global Committee of Argentine Bondholders) hired investment bank Bear Stearns as an advisor. The Committee plans to come up with a counter-proposal to the latest Argentine offer to reschedule defaulted bonds. ---- April's GDP decline (-1.5%, mom, s.a.) turned out stronger than expected. GDP grew 6.3% yoy following 11.7% in March. As industrial production picked up again in May, GDP growth will likewise have been higher again. For the year as a whole we continue to expect GDP growth of 6.5%. ---- The technical IMF mission left Buenos Aires. As was to be expected this part of the IMF program's third revision did go smoothly. Now it is up to the IMF board to decide on Argentina's conduct in the debt rescheduling process. It appears that the IMF at present is not inclined to take a tough stance against Argentina. --- May's primary surplus (ARS 4.4 bn) again came in higher than expected. The target agreed with the IMF for the entire year (ARS 10 bn) has been surpassed in the first five months of the year already (ARS 10.04 bn). According to press reports the target has been raised to ARS 12.7 bn as part of the third revision of the current IMF program.

Outlook: May supermarket sales (today) are likely to have grown again in excess of 10% yoy (April: 14.3%). -- -- External trade (Wednesday) probably continued expanding strongly in April. We expect imports to have grown more than 40% (yoy) and export growth to come in at around 20%. ---- Tax revenues in June (Thursday) are likely to have been more than 35% higher than in June last year.

## Brazil

The lower house voted against the Senate decision of a minimum wage increase to BRL 275. This means that the government's proposal of an increase to BRL 260 has finally been approved. However, the government does not emerge unscathed from the process. Therefore, it will probably avoid political sensitive subjects before the municipal elections in October. ----- The approval rates of president Lula decreased from 60.2% in May to 54.1% in June. The government suffered, too, with ap-

proval declining from 34.6% to 29.4%. We think that this trend will not continue in the next several months. As the labor market is improving, popularity rates of Lula and the government will certainly stabilize. First signs of the improving labor conditions could be seen in May, when 291,000 jobs were created and for the first time since April 2003 the unemployment rate decreased (from 13.1% in April to 12.2 % in May). ----- After an interruption of four months, Brazil issued once again an international bond (maturity of 5 years, Libor + 593 bp). The planned volume of US\$ 500 mn was increased to US\$ 750 mn as the emission reportedly was oversubscribed threefold. ----- Inflation expectations for December 2004 increased from 6.61 % to 6.79 % in one week (DBLA: 6.59%). We expect a fall in inflation expectations only in a few months when it will become clear that the current acceleration of inflation is above all due to seasonal factors. Until then the central bank will most probably let the key interest rate unchanged at 16 %. ----- The trade performance contributed to a current account surplus of US\$ 1.5 bn, slightly above our estimate. ----- Foreign direct investments (May: US\$ 207 mn) were considerably below our already conservative forecast. ----- The primary surplus of the consolidated public sector in May was in line with expectations of BRL 6 bn. The IMF goal of US\$ 32.6 bn for the first semester had already been reached in April.

Outlook: Exports should have continued their double digit growth rates in yoy terms in June (Thursday). We expect a trade surplus of more than US\$ 2 bn for the month (January/May monthly average: US\$ 2.2 bn). ----- Following positive IBGE labor market figures in May, the Dieese institute should document a decrease of the May unemployment rate in Sao Paulo as well (today). ----- On Wednesday the central bank will meet to decide on the inflation targets for 2005 and 2006. We suppose that the 2005 target will remain unchanged at 4.5% (+/- 2.5 percentage points), even as some deputies of the ruling parties are asking for a looser (higher) target.

## Chile

Retail sales grew by 3 % yoy in May. Albeit weaker than in April (+7 %), growth in May is positive news and underlines our assessment of a robust economic upturn as the yoy figure is affected by a high base of comparison. -  
 ---- Banking sector assets reached a volume of 103% of GDP in 2003. This favorably compares with only 85% of GDP in 2002. Deepening financial intermediation is a proof of the increasing state of development of the Chilean economy.

Outlook: Industrial production in May is expected to exhibit solid growth, driven by increasing internal demand and buoyant exports (forecast: +6% yoy). Mining production, which was rather weak in the first few months of 2004, should also post a robust expansion. We also expect benign news from the labor market, even if an increasing number of first-time job-seekers may drive the unemployment rate somewhat higher despite a healthy growth in new jobs (all figures to be published on Wednesday).

## Colombia

The government dismissed speculations over further international bond emissions this year. So far this year the government has sold international papers worth US\$ 400 mn. In addition to fund-raising in the capital market the government plans to use up to US\$ 500 mn of the central bank's foreign currency reserves (currently worth US\$11.5bn) for debt buybacks. However, due to the likelihood of a continuing upward trend in world interest rates in 2005 and a higher than planned budget deficit, we expect the government to issue international bonds before year-end (partly as a pre-finance for next year), despite this denial. ---- Moody's clarified that it is at present not planning to change the negative outlook for Colombian government bonds, due to the continuing high debt load and an only hesitant reduction of the public budget deficit. Standard and Poor's has lifted the outlook to neutral last year, Fitch followed this step about a month ago.

Outlook: On June, 30 the IMF is to publish the results of the third review under the current standby agreement. We expect the government to receive positive comments from the fund; still the IMF will probably require a quicker consolidation of public finance.

## Ecuador

The government submitted a modified proposal for the reform of the hydrocarbons law to congress, which had voted down the first one two weeks ago. Submitted under fast-track provisions, the proposal becomes law if not rejected by congress within 30 days. We would not rule out a government defeat despite strong government

efforts to secure support, and even if approved, it is uncertain if terms remain attractive to private investors. ---- Even if the government manages to get the hydrocarbons reform through congress in July, we now do not expect a new IMF agreement before mid-September, as talks between the government and the IMF planned for this week have been cancelled and the IMF board goes into recess in August. ---- Citing rising international interest rates and a less favorable risk assessment by international markets, the government abandoned plans to issue external debt and swap its 2012 global debt. The government therefore will have to recur to the IESS social security institute in order to cover this year's financing needs. ---- Even this option may not be available, if, as announced last week, pension payments are to increase by 24% this year. This would not only reduce funds (theoretically) available for public budget funding, but would also increase government expenditure as the government has to provide for 40 % of public pensions.

Outlook: The government announced the emission of US\$ 500 mn in local debt for the current week. It is not clear, however, if the local market is willing to absorb this relatively big volume at government terms. ---- Consumer prices are expected to have risen by 0.5% mom in June (Wednesday). So inflation, which fell below 3% yoy in May, should increase again to 3.8% in June. We expect further price increases in the coming months (year-end forecast: 4.4% yoy).

## Mexico

Last week economic activity indicators were mixed: while growth in retail sales in April came in at a disappointing 3.5% yoy, the fall in unemployment from 3.58% in April to 3.48% in May was in line with expectations. In contrast, exports grew by an impressive 21.1% yoy in May (the biggest increase since October 2000). The link with US demand is most clearly evident in terms of manufacturing export performance. (+18.1% yoy). Maquiladoras saw their exports rise by 21.8%.----Surprisingly, last Friday the central bank kept its monetary policy unchanged, arguing that the inflationary pressures were starting to abate. This is not a very obvious explanation, given the fact that core inflation actually accelerated in the first two weeks of June to 0.17%. In the same period a year ago core inflation was slightly negative (-0.02%). Currently the annual rate of inflation is around 4.4%, which is considerably above the central bank's inflation target of 3%. The fact, that Banxico did not tighten could potentially trigger a credibility loss, which would lead to a steepening of the yield curve.

Outlook: In May, the public sector most likely will post another surplus (Wednesday), which is mainly the result of high oil prices. Under the current circumstances (high



oil prices, improving economy), the government should not face any problem to reach its target of limiting the public-sector deficit to 0.3% of GDP.---- In June, consumer confidence, as measured by the joint index of Banxico and Inegi, should have increased for a fourth consecutive month (Friday). This is mainly the result of the improving economy with its positive consequences for the labor market.

## Peru

President Toledo remains unpopular: Latest polls show an approval rate of only 7%. ----- The government is currently negotiating early repayments of US\$ 500 mn to the Paris Club (a group of official creditors) in order to decrease finance requirements in 2006 (election year). This should help to weather periods of difficult financing prospects (for instance during political turbulences). We expect negotiations to last at least until year-end. ----- President Toledo signed the controversial bill regarding the mining royalty scheme. Various alternative proposals are to be dealt with in the coming weeks, but alterations to the law are far more difficult after the confirmation by the president. ----- Despite further strengthening of current revenues (+11.2% yoy in the January-May period) we expect the budget deficit to slightly overshoot the target agreed to with the IMF (1.4% of GDP) by 0.2 percentage points, as the government is to further increase spending. Unions as well as parts of the opposition have been demanding for higher government spending throughout the past few months.

## Venezuela

The support for President Chávez slightly increased in recent weeks (Datanalisis poll in May: 42.6%). The outcome of the referendum of August 15 remains open, however. ----- Due to high oil prices, PDVSA president Ali Rodríguez estimates PDVSA transfers to the state to reach US\$ 20 bn this year. The respective budget figure is US\$ 7.5 bn. ----- Foreign exchange reserves are increasing again, as PDVSA has resumed delivering its export proceeds to the central bank. This follows an interruption of about one month; in this period of time, the company established its new social fund, which now should have a volume of approx. US\$ 1.5 bn. ----- Within the scope of the debt restructuring, Venezuela will buy back US\$ bonds issued domestically with a term of 6 months in March 2004. It is planned to redeem the complete volume of papers offered for the buy-back (93% out of approx. US\$ 1 bn placed).

Outlook: Due to seasonal factors and price controls, inflation (Wednesday) should have fallen to less than 1% mom in June. ----- There are rumours of a major cabinet reshuffle being prepared by President Chávez. Among other changes, Ali Rodríguez, the current president of PDVSA, is said to become Vice President of State. It is allegedly also being considered to change the finance minister. ----- According to the press, PDVSA may announce the buy-back of one third of its foreign debt, which amounts to US\$ 3 bn, as early as Monday. ----- The government intends to elect in parliament twelve additional judges to the Supreme Court before the referendum of August 15. Thus the number of judges will rise to 20, with further increased control by the government.

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](mailto:economics@dbla.com)  
<http://www.dbla.com>

### Abbreviations:

mom = month-on-month  
qoq = quarter-on-quarter  
yoy = year-on-year  
s.a. = seasonally adjusted  
n.s.a. = not seasonally adjusted

"Latin American Weekly Spotlight" is published in addition to our "Latin American Spotlight" and our "Latin American Spotlight Update". All three are published in English and in German. The information contained in this issue has been carefully researched and examined by Dresdner Bank Lateinamerika AG or reliable third parties. But neither Dresdner Bank Lateinamerika AG nor such third parties can assume any liability for the accuracy, completeness and up-to-datedness of this information. The authors' opinions are not necessarily those of Dresdner Bank Lateinamerika. Statements do not constitute any offer or recommendation of certain investments, even if individual issuers and securities are mentioned. Information given in this issue is no substitute for specific investment advice based on the situation of the individual investor. For personalized investment advice, please contact your Dresdner Bank Lateinamerika branch.

Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	25.06.2004	2.95	2.97	2.97	2.81	2.81	-4.8	3.0
Brazil	28.06.2004	3.11	3.13	3.09	2.84	2.84	-8.6	3.1
Mexico	28.06.2004	11.35	11.31	11.40	10.46	10.46	-7.9	11.9
Chile	25.06.2004	634	645	632	701	701	10.5	600
Colombia	25.06.2004	2694	2710	2718	2817	2817	4.6	2800
Peru	25.06.2004	3.47	3.47	3.49	3.47	3.47	-0.1	3.5
Venezuela	25.06.2004	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	28.06.2004	5103	5006	4921	4550	5739	-636	
Brazil	28.06.2004	665	648	698	814	463	202	
Mexico	28.06.2004	216	215	205	229	199	17	
Colombia	28.06.2004	889	849	907	1200	799	90	
Ecuador	28.06.2004	482	485	520	468	431	51	
Peru	28.06.2004	428	422	470	524	312	116	
Venezuela	28.06.2004	628	621	662	991	593	35	

Benchmark interest rates								ytd-change
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	25.06.2004	2.63	2.81	4.06	4.31	1.50	1.1	4.0
Brazil Selic	25.06.2004	15.79	15.79	15.79	25.76	16.33	-0.5	14.8
Mexico Cetes 28 days	25.06.2004	6.54	6.51	6.41	5.00	6.01	0.5	7.5
Chile 90 days, PDBC	24.06.2004	1.57	1.57	1.31	2.92	2.29	-0.7	2.8
Colombia Overnight	22.06.2004	6.87	6.86	6.93	7.33	7.49	-0.6	8.8
Peru Overnight	25.06.2004	2.45	2.60	2.55	3.80	2.50	0.0	2.6
Venezuela deposits 20 days	22.06.2004	11.53	10.39	10.02	14.75	13.20	-1.7	

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	23.06.2004	17.4	17.4	16.4	11.7	14.1	3.3	17.0
Brazil	24.06.2004	50.2	50.2	50.1	48.9	49.3	1.0	55.2
Mexico	18.06.2004	683.1	687.0	690.8	585.6	658.0	25.1	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.)	22.06.2004	23.8	23.8	24.5	17.5	21.3	2.5	

Economic activity				Inflation			GDP 2003, US\$ bn	
GDP (yoy, %)	2003	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	4.1	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	
	2003	2004f	2003	2004f	2003	2004f	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		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	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	-0.3	0.4	6.4	-1.1	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