Latin American Weekly Spotlight
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Argentina:	Approval of third IMF review possibly delayed
Brazil:	Spectacular rise in exports
Chile:	Positive economic indicators in May
Colombia:	IMF praises government's efforts
Ecuador:	Spending pressure on public budgets
Mexico:	Damage control by the central bank
Peru:	Inflation surpasses 4%
Venezuela:	Bond redemption offer

Argentina

As expected supermarket sales rose by 10.6% yoy in May (0.5% mom, s.a.). ---- Growth of tax revenues in June (46.1% yoy) was in line with expectations. ---- The external trade continued its rapid expansion in May. However, export growth (23%, yoy) was nearly entirely driven by higher prices. The export volume was virtually flat. Imports again grew at a high rate (48.1%). The trade surplus reached US$ 1.6 bn.

Outlook: The IMF apparently is asking for further clarifications on the pending structural reforms (especially the revenue sharing system between the central government and the provinces). The approval of the third revision of the current IMF program, which was expected to take place soon, might be delayed. ---- Consumer prices (today) are likely to have risen 0.6% (mom) in June, in which case the yoy rate would stand at around 5%.

Brazil

There are rumours that the Supreme Court may soon consider the taxation of pensions unconstitutional. This would be a clear setback for the government, whose most important reform project was the social security reform which includes the taxation of pensions. ----- The central bank left the inflation target for 2005 unchanged at 4.5% while tightening the tolerance range from 2.5 to 2.0 percentage points. This means a clear rejection of calls by some deputies, including from the government, to ease the inflation target. Meanwhile the central bank is assuming that the inflation target for this year of 5.5% will be missed and that the inflation will stay at 6.4 % at year-end (within the tolerance range), near the DBLA forecast of 6.6 %. ----- As expected the Sao Paulo unemployment rate measured by the Dieese institute decreased from 20.7% to 19.7% in May. This was the first fall in unemployment this year. We think that we are finally witnessing a reversal of the trend which would be important for two reasons. First, it would give evidence of the sustainability of the current economic upturn; and second, it would increase the chances of the Lula administration in the October municipal elections. ----- The trade balance generated a never seen monthly surplus of US$ 3.8 bn. Exports amounted to US$ 9.3 bn (+59 % yoy), despite losses from soy deals with China. In the first semester, exports reached US$ 43.3 bn, so that the new forecast of the ministry of industry an development of US$ 88 bn for 2004 may be considered realistic (DBLA forecast: US$ 85 bn). Imports have continued their double digit growth, too (+58 % yoy), a further indicator for the soundness of the economic upturn.

Outlook: The industrial production in May should confirm that the economy is well on track. The moving 12-month average of growth in industrial production has almost steadily been increasing since August 2003. We expect a 3.8% yoy growth rate in May (after 6.7% in April). ----- Car production should have risen once more in June (May: 177,000 units, moving 12-month average: 160,000 units). ----- The latest inflation figures give a hint that the IPCA inflation index will have increased significantly in June (forecast: 0.74 % mom). Although this can be attributed above all to seasonal factors, the current environment does not seem appropriate for an interest rate cut (next central bank meeting on July 21), the more so as inflation expectations have picked up once more.

Chile

As expected, industrial production expanded strongly in May (4.5 % yoy), as did industrial sales (6.3 %). ----- Mining production posted solid growth as well, rising 8.9 % yoy. Healthy external demand for mineral metals should support mining production in the coming months. ----- Unemployment rose to 9.4 % in May (April: 8.7 %). While we had been expecting a rising rate due to seasonal reasons and a high number of initial job seekers, the marginal increase in new jobs (0.3 % yoy) is somewhat disappointing.

Outlook: Based on positive production figures in May we expect the IMACEC GDP proxy to rise by 5 % yoy (today). As high growth figures abound for the first half of the year, our overall 2004 growth forecast of 4.8 % looks increasingly conservative. ----- Despite solid economic growth, inflation figures should not exhibit major price

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pressures (forecast CPI June: 0.2 % mom, 0.9 % yoy, tomorrow). We therefore expect the CB to maintain the monetary policy interest rate at 1.75 % on Thursday. ----- Driven by high exports (forecast: +50 % yoy), the trade balance should post a surplus of US$ 700 mn in June, bringing the trade surplus for the first half of the year to US$ 4.3 bn (first half of 2003: US$ 1.8 bn).

Colombia

During the third revision of the current Stand-By Arrangement, the IMF praised the efforts of president Uribe's government with regard to structural reforms, stating that they allowed for potential growth to be raised and the government's fiscal position to be stabilized. Above all due to rising internal demand, the Colombian economy is to grow about 4% this year. The IMF also agreed to a higher budget deficit limit (2.8% of GDP) for this year, provided that the government will manage to complete the privatizations scheduled for this year. ----- President Uribe again reinforced the need of a speedy progress of further reforms (expansion of the VAT tax base, pension reform, budget code). Uribe plans to accomplish the mentioned reforms by the end of this year. Still, as debating the reelection bill is to keep congress busy over the coming months and a lot of reforms are to face fierce resistance in congress, the bulk of the reforms are in our view not to be adopted until the beginning of 2005. ----- Due to higher than expected growth of the agrarian sector, GDP growth for the first quarter of this year was revised upwards to 4.1 % yoy (from 3.8 % yoy). ----- Unemployment in May (14.8 %) was considerably lower than during the same period last year (16.7 %). However, the reduction was partly attributable to a lower labor-force participation rate. The unemployment rate was unchanged when compared with the precedent month. ----- Industrial production grew just 4% yoy in April, while retail sales increased 2.4% yoy. We expect growth of these two items to have increased since.

Outlook: Consumer prices should have increased by around 0.2% in June (5.7% yoy). ----- On Tuesday official negotiations between the government and the biggest paramilitary group (AUC) are to begin. Even though we are skeptical with regard to the ambitious goal of breaking up the AUC (currently counting about 20.000 warriors) until the end of 2005, we expect positive impulses regarding the peace process over the upcoming weeks.

Ecuador

Congress is debating the modified government proposal on the reform of the oil sector legislation. The outcome is still open, but possibilities of approval seem better than with the first proposals, as several opposition parties have signaled their support. ----- Congress, driven by politicians' intention to improve their standing ahead of municipal elections in October, adopted a law, according to which minimum pensions are to be elevated to the level of the minimum wage. Together with the overall increase in pensions called for by the social security institute two weeks ago, the already cash-strapped government would have to face additional expenditure in the range of US$ 100 mn. President Gutiérrez could veto the bill, which in turn would imply a significant loss in (already scarce) political capital. Over the weekend, MinFin Yepez announced alternative plans to increase the VAT in order to provide resources for an increase in minimum pensions. ----- Public finances posted a surplus of US$ 181 mn (0.6 % of GDP) in the first quarter of the year, significantly below the respective 2003 figure (0.9 % of GDP) due to rapidly rising expenditure (+20.5 % yoy). Given rising social tensions, not last caused by high unemployment (unemployment rate May 2004: 11.5 %, 1.5 %-points higher than in May 2003), we expect the overall 2004 surplus to come in significantly lower than last year (2003: 1.7 % of GDP). ----- The government issued local debt amounting to US$ 400 mn with maturities ranging from 3 to 10 years. The issue forms the first part of a planned amount of around US$ 1 bn of local debt to be placed in 2004. It remains open if the tight local market is apt to digest this huge amount. ----- Consumer prices surprisingly fell by 0.31 % in June, taking yoy inflation to only 2.9 % (June 03: 7.6 %).

Mexico

Those were the aftershocks of the previous week's surprising decision by the central bank not to tighten monetary policy: The peso depreciated against the US dollar by roughly 1.5% to US$/MXN 11.50. As a consequence – and given the expectation of a 25 basis point rate hike by the Fed – money market rates rose by 22 bps to 6.8% (year-end forecast: 7.5%) on Tuesday at the weekly auction. As yields at the longer end increased even more, the yield curve continued to steepen. This reflects growing fears about the future path of inflation that currently runs well above the central bank's target of 3% (+/- 1 percentage point). Central Bank Governor Ortíz tried to calm the markets by confirming his expectation that inflation will fall below 4% until the end of the year. ----- In June, consumer confidence as measured by Inegi unexpectedly fell by 0.4 %. The decline was interpreted by local analysts as a reaction to a recent bout of negative news concerning violent crime. ----- In May, the positive development of public finances continued. The public sector managed to post a budget surplus of MXN 6.8 bn (budget surplus, January-May: MXN 81.8 bn), which obviously was the result of higher oil prices. Given the accelerating economy the government should not face any problems to reach its goal of reducing the budget deficit in 2004 to 0.3% of GDP.

Outlook: In April, gross fixed investment (Wednesday) probably rose by 5.5% yoy. Given growing demand, companies will most likely continue to increase their investments in the months to come. ----- In June, consumer prices should have increased by 0.2% (Thursday), which would lift the 12-month inflation rate to 4.4% compared with 4.3% one month ago. Following the recent increase in interest rates (which is practically a substitute for a monetary tightening by the central bank via a hike in the „corto") we do not expect Banxico to increase the corto on its Friday policy meeting.

Peru

Above all due to higher prices for oil and food, consumer prices increased by an unexpected high rate (0.5%) in June. Inflation reached 4.2% yoy, clearly above the central bank's target for the end of this year (2.5% +/- 1 percentage point). We expect that the central bank will manage to bring inflation below 3% by year end. Due to a probably more restrictive monetary stance, we expect the sol to appreciate slightly (year-end forecast: 3.45 PEN/US$)

Outlook: The trade balance should show again a clear surplus for May (DBLA forecast: US$ 250 mn). According to preliminary figures published by the ministry for trade and tourism, exports increased 22% yoy in that month.

Venezuela

The first budget draft for the year 2005 is based on an average exchange rate assumption of 2,200 VEB/USD, equivalent to a Bolivar devaluation of just under 15%. In our opinion, the government will eventually opt for a higher devaluation rate due to the risk of deterioration in the budget situation. ----- PDVSA made early redemption offers for part of its bonds maturing between 2006 and 2028. The total volume concerned is US$ 2.5 bn and EUR 88 mn. The company intends to additionally release deposits of about US$ 5 bn given as collateral for these bonds. It is now being considered to issue between US$ 1 bn and US$ 2 bn in new dollar bonds on the domestic market. ----- Inflation was higher than expected in June: consumer prices rose 1.9% from May (May: +1.2% mom, June 2003: +1.4% mom), resulting in a 0.5 percentage points rise, to 22.3%, of the yoy rate. This was caused by extraordinary price hikes for goods and services with state-controlled prices.

Outlook: Private manufacturing production and retail as well as wholesale sales will probably have matched their good April results (+24.6%, +23.0% and +27.1% yoy, respectively) in May.

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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

Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	02.07.2004	2.95	2.96	2.97	2.78	2.78	-5.5	3.0
Brazil	02.07.2004	3.04	3.13	3.11	2.88	2.88	-5.1	3.1
Mexico	05.07.2004	11.47	11.49	11.36	10.56	10.56	-7.9	11.9
Chile	02.07.2004	630	633	640	701	701	11.2	600
Colombia	02.07.2004	2675	2699	2707	2833	2833	5.9	2800
Peru	02.07.2004	3.47	3.47	3.48	3.47	3.47	0.0	3.5
Venezuela	02.07.2004	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	02.07.2004	5126	5101	4778	4527	5739	-613
Brazil	05.07.2004	603	661	668	815	463	140
Mexico	02.07.2004	213	216	207	240	199	14
Colombia	02.07.2004	933	888	907	1195	799	134
Ecuador	02.07.2004	480	481	496	467	431	49
Peru	02.07.2004	433	427	474	499	312	121
Venezuela	02.07.2004	632	627	615	976	593	39

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	29.06.2004	2.63	2.75	3.69	4.19	1.50	1.1	4.0
Brazil Selic	02.07.2004	15.80	15.80	15.79	25.76	16.33	-0.5	14.8
Mexico Cetes 28 days	02.07.2004	6.76	6.56	6.71	4.48	6.01	0.8	7.5
Chile 90 days, PDBC	01.07.2004	1.56	1.57	1.31	3.03	2.29	-0.7	2.8
Colombia Overnight	30.06.2004	6.87	6.87	6.94	7.38	7.49	-0.6	8.8
Peru Overnight	01.07.2004	2.60	2.60	2.60	3.68	2.50	0.1	2.6
Venezuela deposits 20 days	29.06.2004	11.60	11.53	11.09	11.95	13.20	-1.6	

Foreign exchange reserves								
US$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	25.06.2004	17.5	17.2	16.5	12.2	14.1	3.4	17.0
Brazil	01.07.2004	49.7	50.2	50.5	48.1	49.3	0.5	55.2
Mexico	25.06.2004	684.8	683.1	691.5	577.2	658.0	26.8	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.)	30.06.2004	23.3	23.4	24.3	17.9	21.3	2.0	

Economic activity				Inflation			
GDP (yoy, %)	2003	2004f	2005f	%, 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	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