



Argentina:	Senate passes fiscal responsibility law
Brazil:	Economic accelerations provides for some alleviation on the labor market, at least
Chile:	Solid GDP growth in May
Colombia:	Inflation higher than expected
Ecuador:	No IMF Agreement until 2005
Mexico:	No monetary tightening
Peru:	Government wants to reduce the level of dollarization
Venezuela:	PDVSA offer of bond buy-back

Argentina

A strike by central bank employees, which threatened to seriously disrupt operations, ended after 4 days, following the partial acknowledgement of mainly wage demands. ---- The rise of consumer prices in June (0.6%, mom) was in line with expectations. The present yoy inflation rate of 4.9% is likely to rise to 8% by year-end. --- - As advisor to the GCAB bondholder committee, Bear Stearns registered concerns over the voting rights of certain inactive bonds. Since being swapped in late 2001 these bonds are held in custody by the Argentine securities depository, Caja de Valores. Their share of the total eligible debt is estimated to be between 5% to 9%.

Outlook: Following the Senate's approval of the fiscal responsibility law, the draft will now go to the Lower House, where a swift positive vote is also expected. The government hopes the fiscal responsibility law will overcome IMF concerns to agree to the overdue third revision of the current IMF program, which emerged following the difficulties to push through new revenue sharing arrangements between the central government and the provinces (co-participación). ---- Repeating its behavior of the last two months, consumer confidence (Thursday) is likely not to have changed much during the past four weeks. Following significant drops in March and April confidence still remains at a high level.

Brazil

Much activity in congress: The senate approved the bankruptcy law. As some amendments were enclosed the bill must go back to the lower house where we do not expect major problems to arise. Thus Brazil gets a relatively modern bankruptcy law which stipulates for example that in case of bankruptcy the repayment of credits has a higher priority than the repayment of overdue tax payments (in the past, it has been the other way around). Furthermore, the restructuring of corporates that are in financial difficulties will be facilitated. Aside from that, part of the legal reform was approved in the Senate. The reform has the objective to accelerate legal processes. Only with respect to the di-

rective budget law for 2005 there was a delay meaning that (it's a provision by law) the usual congressional recess (one month) will start later. ----- The industrial production increased at a stronger pace than expected: 7.8% yoy and 2.2% mom in May. We think that the expansion will continue although at a slower pace, the more so as capacity utilization is at a record high (82.5%). Even assuming that there will be no more expansion in mom terms, industrial growth would reach 6% for the year as a whole. However, the first indicator for industrial production in June shows that growth is continuing, as car production increased by 27.7% in that month. --- The June IPCA inflation rate was in line with market expectations. We stick to our recently changed forecast that the central bank will stay put with respect to the Selic rate until the end of the year. ----- Brazil issued a new sovereign bond (US\$ 750 mn, maturity of 10 years, 632 bps above US Treasuries). Now the Republic issued US\$ 3 bn so far this year, out of the 2004 target of US\$ 4 bn. This sovereign issue could be the starting signal for more deals by the corporate sector, which has been rather inactive in recent months, thus contributing to high FX outflows in June.

Outlook: Retail sales (Thursday) which grew by approx. 10 % in March and April, respectively, will have continued to rise in May (forecast: +6% yoy). ----- June tax revenues (probably Wednesday) will come in clearly higher than one year before (forecast: 5%), supported by the strong economic upturn. ----- Trade conflict with Argentina: The Argentine government announced import restrictions for electronic goods and the textile sector, which rocked the boat at the Mercosur meeting in Iguazú (Argentina) and will put a strain on trade relations between Argentina and Brazil.

Chile

The IMACEC GDP proxy posted a solid 4.8 % yoy growth in May (0.25 % mom, sa). Growth in the first five months of 2004 amounted to 4.8 % as well. ----- Consumer prices rose by a higher-than-expected 0.4 % mom (1.1 % yoy) in June, mainly due to higher trans-

port prices, which reflect higher oil prices. We expect only moderate price increases in the second half of the year (year-end forecast: 2.5 % yoy), a view seemingly shared by the central bank, which left the monetary policy interest rate at 1.75 %. ----- With a surplus of US\$ 600 mn in June, the trade balance accumulated a surplus of US\$ 4.9 bn in the first half of 2004, almost triple the amount of the first half of 2003. Solid growth in imports (H1-04: +17 % yoy) supports our expectations of a sustained economic upturn.

Outlook: We expect central government finances to post a solid surplus in May, as in previous months. The overall 2004 surplus should amount to 0.7 % of GDP.

Colombia

Consumer prices rose by a higher-than-expected 0.6% in June. On a year-over-year basis inflation amounted to 6.1% (year-end corridor of the central bank: 5.0% – 6.0%). Given the recent appreciation tendency of the peso against the US\$ (Friday 2667 pesos/US\$, +2% mom) and the partly temporary inflationary effects – apart from higher food prices, rising prices for housing, transportation and health care were responsible for the upsurge in inflation – we expect the central bank to remain on hold with regard to key interest rates. Only if the appetite for Colombian assets should disappear for a considerable period of time – latest data on the asset structure of Colombian pension funds gave first evidence of higher interest in US\$ denominated assets –, the central bank is expected to tighten its monetary policy. ----- Due to the strong demand for Colombian assets the central bank managed to accumulate another US\$ 400 mn of foreign exchange reserves in the first quarter of 2004, despite a rising current account deficit (US\$ 722 mn). Foreign direct investment (US\$ 546 mn) took an astonishingly big part of foreign capital inflows (totaling US\$ 946 mn). For the year as a whole we forecast FDI inflows worth US\$ 2 bn.

Outlook: May exports should amount to US\$ 1.3 bn (+15% yoy).

Ecuador

President Gutiérrez vetoed the congress decision to lift minimum pensions to the level of minimum wages without identifying financing sources. At the same time, the government introduced a proposal to congress which holds up the increase in pensions and proposes a 1 percentage point increase in VAT in order to provide financing. In light of municipal elections in October, we do not expect Congress to pass the tax hike proposal. ----- GDP expanded by a strong 5.9 % yoy in the first quarter of 2004. Nevertheless, the oil sector was the only sector to post significant growth (+46 % yoy). Yet

as this sector is not labor intensive, and given the fact that growth in the sector is bound to slow down, we do not expect current growth rates to be sustainable. ----- Due to rising oil production and higher prices exports posted an impressive increase in May (+36 % yoy). Amid falling imports the trade surplus amounted to US\$ 98 mn.

Outlook: A congressional decision on the modified government proposal concerning the oil sector's legal framework is scheduled for Thursday. The outcome is still unclear. But even if the government manages to get the reform, which has been of interest to the IMF as well, through congress, the government no longer strives to reach an IMF agreement this year. According to Ramiro Galarza, under-secretary in the Ministry of Finance, in the light of strong congressional resistance to any intent of meaningful structural reforms, the government will start negotiations concerning an IMF program for 2005 only in October. The financing gap emerging from a lack of IMF funds will most likely be filled by the FEIREP oil stabilization fund.

Mexico

State president Fox declared that his wife, Marta Sahagun, would not run for the presidency when his mandate will come to an end in two years. Rumors in this regard had increasingly affected the president's relations with his chief-of-staff, A. Durazo, who resigned in the meantime, as well as with his political party. ----- With the exception of the automobile sector, which saw decreases for the third month in a row (production - 0.8% mom, exports -9.4% mom in June), last week's economic data confirmed the ongoing economic recovery. At a rate of 5.2% yoy, fixed investment growth was higher than expected in April. Seasonally adjusted growth of 1.4% mom suggests that corporations expect further growing demand. The Coincident Indicator of Inegi, which shows the current economic trend, increased once again in April (+0.4% mom). ----- Consumer prices rose by 0.15% mom (4.3% yoy) in June; this was slightly higher than in May, but below our expectation of 0.2%. Core inflation, at 0.29% mom was clearly higher, also in comparison with May (0.12%), but remained below the average of the first four months of the year. However, as interest rates have been rising since end-May, we were not surprised by the central bank's decision to abstain from a monetary tightening on Friday.

Peru

Finance minister Kuczynski announced a bond issue worth US\$ 1 bn in order to finance early repayments to the Paris Club (see Weekly Spotlights, June 28). We expect negotiations with the Paris Club to go on for some

months. Therefore the bond issue should not take place before the end of this year. ----- Kuczynski further expressed concerns regarding the acceleration of inflation in June (4.3% yoy; central bank year-end target: 2.5% +/- 1 percentage point). Given the still weak domestic demand, we do not think that the central bank will tighten its monetary stance, until second round effects (e.g. demands for higher wages) will appear. ----- Congress approved a law obliging all suppliers and sellers of goods or services to show prices in local currency (soles). The government's move is a positive one, as the high dollarization limits the ability of the central bank to act as a lender of last resort. Nevertheless, Peruvians are not likely to give up their preference for US\$ purchases and loans without a longer period of low inflation and a stable exchange rate. Additionally the unstable political situation fuels distrust against the sol. ----- Even though export growth (30% yoy) exceeded our expectations, the trade balance came in lower than expected. The strong increase in imports (10% yoy) could be seen as a first sign of a pick-up in domestic demand, but after recent weak economic indicators we remain skeptical (DBLA growth forecast 2004: 3.8%).

Outlook: GDP growth is expected to have surged to 4% yoy in May (April: 3.3% yoy). For the second quarter as a whole, we expect growth of 3.7% yoy.

Venezuela

Referendum polls are showing a mixed picture. The only thing that seems to be certain is that president Chávez managed to increase his support within the population. ----- The CNE election authority now intends to admit international institutions, such as OAS and

Carter Center, as observers to the referendum. Yet they will probably be prohibited from giving statements during the vote, commenting on it, or participating in the vote count. ----- Should the opposition win the referendum on August 15, it intends to determine its candidate for the new presidential elections in pre-elections on August 22. It further declared that a new government formed by the current opposition would strive for social pacification and a reconstruction based on private investment. In this context, foreign companies are to participate in the energy and oil sectors, but it is not intended to privatize PDVSA. The money and exchange rate policies are to be revised, yet no stop is planned for social programs initiated by the current government. ---- - Buoyed by low interest rates, car sales increased by 108% in June, reaching their highest volume since November 2001. ----- According to the SENIAT tax authority, a more efficient tax collection and the economic recovery led to an increase in non-oil tax revenues of 85% yoy in the first five months of the year (in real terms +50%). ----- The central bank provided more than US\$ 60 mn in foreign exchange to the foreign exchange authority Cadivi; the monthly average for the first five months of the year was just under US\$ 50 mn. - ---- President Chávez announced the foundation of a national carrier and a national telephone company, with funds coming from the fund of US\$ 2 bn for economic development which is currently being filled by PDVSA with oil earnings.

Outlook: Private manufacturing production and retail as well as wholesale sales (expected last week already) 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

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Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	09.07.2004	2.96	2.95	2.97	2.77	2.77	-6.4	3.0
Brazil	09.07.2004	3.04	3.02	3.17	2.85	2.85	-6.1	3.1
Mexico	12.07.2004	11.49	11.44	11.47	10.40	10.40	-9.5	11.9
Chile	09.07.2004	635	629	649	701	701	10.3	600
Colombia	09.07.2004	2667	2670	2739	2871	2871	7.7	2800
Peru	09.07.2004	3.45	3.47	3.48	3.47	3.47	0.5	3.5
Venezuela	08.07.2004	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	12.07.2004	4986	5126	4982	4951	5739	-753	
Brazil	12.07.2004	633	623	681	830	463	170	
Mexico	12.07.2004	216	213	209	246	199	17	
Colombia	12.07.2004	940	933	866	1260	799	141	
Ecuador	12.07.2004	472	480	491	501	431	41	
Peru	12.07.2004	443	433	425	517	312	131	
Venezuela	12.07.2004	629	632	638	974	593	36	

Benchmark interest rates								ytd-change
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	08.07.2004	2.63	2.63	3.00	3.50	1.50	1.1	3.0
Brazil Selic	09.07.2004	15.77	15.81	15.79	25.75	16.33	-0.6	16.0
Mexico Cetes 28 days	09.07.2004	6.66	6.66	6.66	5.03	6.01	0.7	7.5
Chile 90 days, PDBC	08.07.2004	1.55	1.56	1.81	3.03	2.29	-0.7	2.5
Colombia Overnight	07.07.2004	6.85	6.87	6.91	7.33	7.49	-0.6	8.8
Peru Overnight	09.07.2004	2.60	2.60	2.60	3.43	2.50	0.1	2.6
Venezuela deposits 30 days	06.07.2004	10.95	11.77	10.23	13.06	13.20	-2.3	14.0

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	06.07.2004	17.7	17.6	17.0	13.0	14.1	3.6	18.5
Brazil	08.07.2004	50.0	49.7	50.5	47.8	49.3	0.7	53.2
Mexico	02.07.2004	694.3	684.8	688.8	575.2	658.0	36.3	65.0
Chile	30.06.2004	15.9	na	16.1	15.5	16.0	-0.1	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.)	08.07.2004	23.3	23.3	23.7	18.1	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	3.5		3.7	8.0	8.0	127
Brazil	-0.2	3.5	3.5		9.3	6.6	5.9	492
Mexico	1.3	3.5	3.0		4.0	4.2	3.5	626
Chile	3.3	4.8	4.5		1.1	2.5	3.1	72
Colombia	3.7	4.0	3.7		6.5	6.0	6.5	78
Ecuador	2.7	4.8	2.9		6.1	3.5	0.9	27
Peru	4.0	3.8	3.7		1.8	2.5	2.2	61
Venezuela	-9.2	10.5	4.0		27.1	23.5	25.5	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	1.3	2.0	140	154	19.8	19.8	19.1	17.7
Brazil*	-5.2	-3.1	58	57	94.2	81.6	72.1	65.7
Mexico**	-0.6	-0.3	28	28	23	29	26	31
Chile***	-0.4	1.2	13	14	0.8	0.8	1.4	0.2
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	0.2	-3.5	47	41	10.8	4.6	10.7	7.9

* 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	370	39	32.3	79	2.4	3.5	11.9	0.0	5.9
Brazil	217	12	67.4	66	1.1	6.1	29.2	11.5	6.4
Mexico	81	28	33.3	17	-1.3	-8.5	-5.9	15.0	3.5
Chile	131	18	6.8	20	2.1	1.8	6.8	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	1.1	6.4	1.2	1.0
Peru	238	16	3.6	26	1.2	0.8	2.6	1.1	9.9
Venezuela	100	9	5.3	16	11.1	10.5	16.5	1.4	11.2