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Argentina: Government to reopen the BODEN 2012

Brazil: Lula's approval rating on the rise

Chile: Central Bank hikes rates by 25 bps

Colombia: Pre-financing of 2006 budget

Mexico: López Obrador still frontrunner

Peru: S&P improves rating outlook

Venezuela: Optimistic government assumptions for 2006

Argentina

Favorable conditions on the international capital market – high market liquidity and a low international interest rate level – make it easier for the government to place new issues. In the first half of July, two local-currency issues with a total volume of ARS 2 bn were successfully placed, and on this Monday a further BODEN-2012 US\$ tranche will be launched. The planned volume is US\$ 500 mn. The country's financial needs for the current year will probably be covered on the domestic market, should the current conditions prevail. At the same time this reduces the probability of swift progress in negotiations on a new IMF program. ----- The acceleration in inflation led to a clear increase in inflation expectations of analysts regularly interviewed by the central bank. The year-end consensus forecast rose to 10.5%, up from 10.3% in the previous month, which compares to a central bank target range of 5-8%. We consider the consensus figure too optimistic, predicting a mom inflation rate of 1% in July and yoy inflation of 12.5% at year-end. In the run-up to parliamentary elections in October, it cannot be expected that the government will agree to restrictive monetary policy measures.

Brazil

Contrary to expectations, and despite the bad press over the last few weeks and ongoing allegations of corruption against the government, President Lula's and the government's approval ratings actually rose according to the latest Sensus poll. As a result, fears of the government adopting populist policies to mitigate falling approval ratings are likely to be reduced further in the near term. --- The outlook for inflation remains positive. Inflation expectations for 2005 fell to 5.72% in the latest survey, compared with 5.94% previously. Expectations for accumulated inflation over the next 12 months rose to 5% from 4.75% previously, but this was due to a statistical factor. Expectations for 2006 remained stable at 5%. --- According to the latest FGV manufacturing sector business confidence survey, the outlook for the manufacturing sector has deteriorated significantly. The survey found that 29% of those interviewed believe that

domestic demand has cooled off and 33% believe that business activity has dwindled. This compares with 15% each in the previous survey, taken in the first quarter of 2005. --- The central bank announced last week that the government would pay US\$ 5.12 bn, due to the IMF until March 2006, ahead of schedule. The details will be finalized over the next few days, and payment will be made by July 25. The prepayment will generate savings in the region of US\$ 82 mn. --- Retail sales rose by a lower than expected 2.7% yoy in May 2005 following an increase of 3.4% yoy in April. Consensus was for a rise of 4.3% yoy. On a seasonally adjusted mom basis, however, retail sales rose by 0.4%.

Chile

As widely expected, the central bank raised its benchmark overnight interest rate to 3.50% from 3.25% on its monthly monetary policy meeting yesterday. As a result, interest rates have risen by a total of 175 bps since the tightening cycle started last September. Given continued rapid growth (6.4% yoy according to the Imacec GDP proxy in May) and some recent upward pressure on inflation, we expect the monetary tightening to gradually continue. We are forecasting a year-end interest rate level of 4.25%. ----- Industrial goods exports expanded by an accumulated 20% in the first five months of the year. This figure underlines the fact that the current benign external activity situation in Chile is not exclusively driven by higher commodity prices, which bodes well for times of slower global economic activity and lower commodity prices.

Colombia

After financing of the 2005 budget was completed in May Colombia took advantage of the high demand for emerging market bonds to pre-finance the 2006 budget. US\$ 500 mn of dollar-denominated bonds maturing 2014 were placed last week. The remaining budget needs will be financed by external currency bonds (US\$ 2 bn), multilateral loans (US\$ 1.075 bn), and issues on the local market (US\$ 11.9 bn).

Mexico

Opinion polls indicate that Andres Manuel López Obra-dor, mayor of Mexico City, is still the clear frontrunner for the July 2006 presidential race. The latest poll published in *El Universal* (conducted in June) shows him with a 32% share of voting intentions. This compares with a peak of 38% in April 2005. He still enjoys an 8 percentage point lead over his nearest rival at present, Roberto Madrazo of the PRI. He is also 11 percentage points ahead of Santiago Creel of the PAN. --- Industrial output growth was 3.0% yoy in May, below market expectations of an increase of 3.4%. The May result also represented a slowdown compared with the 5.2% yoy increase recorded in the previous month. However, in this latter respect, it is important to note that the April 2005 figure had received uplift from extra working days compared with April 2004. In seasonally adjusted terms, there was a significant increase of 0.85% mom in May. In terms of sectors, the star performer in May was mining (+4.0% yoy, +2.25% mom sa). Manufacturing grew by 2.9% yoy and 0.98% mom sa. Construction jumped by 5.1% yoy, but registered a more modest rise of 0.27% mom. --- The Ministry of Finance announced that the resources needed to cover all the amortization payments of external market debt until the end of 2007 had been acquired through a combination of purchase of foreign currency from Banco de Mexico (USD 2.9 bn) and previous pre-financing operations (USD 1.9 bn). The total of USD 4.76 bn compares with external market debt amortizations of USD 2.93 bn in 2006 and USD 1.8 bn in 2007.

Peru

The rating agency S&P lifted its long-term foreign debt outlook for the country from "stable" to "positive". The S&P rating for Peru, at BB, is one notch higher than Moody's (Ba3). In its statement, the agency mentioned the country's macroeconomic stability and the balanced fiscal policy as positive factors. We are, however, expecting an increase in fiscal spending before the elections in March 2006, meaning that the 2005 fiscal deficit

target of 1% of GDP will probably be missed despite higher than expected revenues (DBLA forecast: 1.2%). Our pessimism is based on the fact that Economy and Finance Minister Pedro Pablo Kuczynski, who was a guarantor of a solid fiscal policy, will soon be leaving his position as he has been nominated as candidate for the IADB presidency.

Venezuela

The government recently presented its economic forecasts for the next year. GDP is expected to grow by 5%, while inflation is expected to slow down to 10%. With respect to public finances, government planning is based upon an expected average oil price of 25 US\$/b and average production of 3.4 mn bpd, and it was announced that the official exchange rate may be kept at the current level over the year. Apart from the level of oil prices, we consider the government's forecast too optimistic: In the light of increasing political interventionism, economic activity will likely slow down to 2.5%, not least because oil production should be very close to current production levels (according to industry sources, around 2.7 mn bpd). Due to continued expansive fiscal policy, our end-2006 inflation forecast calls for an annual rate of 24 %. ---- The National Tax authority SENIAT announced the intervention of administrative activities of three private oil companies due to alleged tax irregularities. According to the declaration, some of the companies are accused of misreporting transactions in order to evade taxes. As the authority accuses the companies of misstating not only income tax duties during 2001-2004, but also VAT obligations, the potential amount in discussion can be expected to be quite large. 19 other private oil companies are also under investigation and under threat of official intervention. While regular official inspections in private economic activities are a legitimate right of any public authority, there are suspicions in the private sector that the latest SENIAT initiative is intended to intimidate private sector actors in Venezuela.



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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

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Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	18.07.2005	2,86	2,87	2,87	2,94	2,97	3,8	2,9
Brazil	18.07.2005	2,34	2,34	2,39	3,00	2,66	13,6	2,4
Mexico	18.07.2005	10,62	10,68	10,82	11,38	11,15	5,0	11,0
Chile	18.07.2005	577	583	581	622	556	-3,7	580
Colombia	15.07.2005	2333	2324	2313	2633	2355	0,9	2356
Peru	18.07.2005	3,25	3,25	3,25	3,42	3,28	0,8	3,3
Venezuela	18.07.2005	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	18.07.2005	418	416	883	4932	4707	-4289
Brazil	18.07.2005	400	411	408	581	383	17
Mexico	18.07.2005	156	160	169	204	167	-11
Ecuador	18.07.2005	726	782	754	933	691	35
Colombia	18.07.2005	316	318	332	437	333	-17
Peru	18.07.2005	185	195	197	403	220	-35
Venezuela	18.07.2005	434	445	466	596	412	22

Benchmark interest rates

%	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina, Overnight	08.07.2005	5,19	5,38	3,31	2,63	2,31	2,9	5,0
Brazil Selic	08.07.2005	19,72	19,73	19,75	15,77	17,75	2,0	18,5
Mexico Cetes 28 days	08.07.2005	9,71	9,71	9,70	6,71	8,61	1,1	9,5
Chile 90 days, PDBC	07.07.2005	2,79	2,87	3,04	1,56	2,24	0,6	4,3
Colombia Overnight	07.07.2005	6,42	6,37	6,43	6,85	6,24	0,2	7,1
Peru Overnight	08.07.2005	3,00	na	3,00	2,60	3,03	0,0	2,5
Venezuela deposits 30 days	30.06.2005	11,00	11,00	10,45	9,83	11,92	-0,9	14,5

Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	08.07.2005	23,5	23,1	22,4	17,9	19,6	3,8	21,5
Brazil	07.07.2005	59,4	59,9	61,3	49,9	52,8	6,6	62,0
Mexico	01.07.2005	70,0	69,3	67,1	68,5	71,6	-1,6	66,1
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	16,0
Peru	30.04.2005	13,6	na	13,6	10,5	12,6	1,0	13,5
Venezuela (FEM&Gold incl.)	07.07.2005	29,1	28,8	27,4	23,2	24,2	5,0	28,5

Economic activity

GDP (yoy, %)	2003	2004e	2005f	Inflation	2003	2004	2005	GDP 2003, US\$ bn
				%, year end				
Argentina	8,8	9,0	6,0		3,7	6,1	12,5	127
Brazil	0,5	4,9	3,4		9,3	7,6	5,7	506
Mexico	1,4	4,4	3,3		4,0	5,2	3,7	626
Chile	3,7	6,1	5,4		1,1	2,4	3,6	74
Colombia	4,1	4,1	4,0		6,5	5,5	5,4	80
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	2003
Argentina	1,3	4,2	140	19,1
Brazil*	-5,2	-2,7	56	68,4
Mexico**	-0,6	-0,3	28	32
Chile***	-0,4	2,1	13	-1,2
Colombia	-2,7	-1,2	56	11,2
Peru	-1,9	-1,3	48	2,2
Venezuela	0,2	0,0	46	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 GDP	US\$ bn	months
Argentina	397	35	32,3	2,2	3,3	3,9
Brazil	203	12	65,6	1,9	11,7	6,2
Mexico	78	21	37,5	-1,2	-7,9	15,0
Chile	128	18	7,2	1,5	1,4	5,6
Colombia	205	11	7,3	-1,3	-1,2	2,6
Ecuador	17	9	1,4	0,3	0,9	1,1
Peru	195	10	3,7	-0,2	-0,1	1,8
Venezuela	111	22	8,3	21	12,7	21,4