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| Argentina: | Ministry of economy brings political and economic risks to the fore |
| Bolivia: | President Mesa gains support in gas referendum |
| Brazil: | Double-digit growth in retail sales |
| Chile: | Small budget deficit in May |
| Colombia: | Economic growth continues |
| Ecuador: | Political skirmish causes further delays in oil sector reform |
| Mexico: | Industrial production data disappoint |
| Peru: | Pick-up on the job market |
| Venezuela: | High tax revenues in June |

Argentina

The Supreme Court declined a lawsuit lodged by a single bank depositor, claiming compensation for losses due to the pesification of his bank deposits in 2002. This could be an indication for a final ruling regarding the pesification policy, which would eliminate a source of uncertainty for the banking system. ----- Substantial controversies surfaced between the government and the Global Committee of Argentine Bondholders (GCAB) with respect to Argentina's medium-term political and economic outlook. While the government cited one-time factors (above all high export prices) as the main reason for the current upswing and sees substantial future risks (e.g. the opposition deadlocking reforms), the GCAB draws a brighter outlook (average growth until 2014: 4.2% p.a.). The key note of the assessments reveals again the distance between the two parties. ----- As expected the consumer confidence index (UTDT) has stagnated on a high level in July. ----- According to latest polls, President Kirchner's approval ratings fell to 63% in July (March: 84%; May: 73%).

Outlook: Industrial production growth should have weakened to 0.5% (mom, s.a.) in June (from 1.7% in May). ----- The fiscal responsibility law will not be debated by the lower house until August 4. This will possibly delay the overdue third revision of the current IMF agreement, as the law will provide for important signals concerning the country's future fiscal path.

Brazil

Retail sales grew for the third month in a row by approx. 10 % in May (real), above market expectations. The fact that the sales of the wage sensitive sectors (such as supermarket sales) increased at a solid rate shows that the positive development in the labor market is starting to have its impact. ----- Congress approved the multi-year budget plan including the maintenance of the primary surplus target of 4.25 % of GDP. In addition, Congress passed next year's budget guidelines (basis for the final budget). Sessions will be reopened only on August 2. ----- In the first half of the year, tax revenues

exceeded budget figures by around BRL 6 bn due to the positive economic environment as well as the change in the Cofins tax. ----- The current trade conflict between Argentina and Brazil due to announced import restrictions by Argentina ("Guerra das geladeiras") is probably on the brink to end as Brazil seems to be prepared to implement "voluntary" export quotas for some of its products such as refrigerators.

Outlook: The central bank will probably let the overnight interest rate unchanged at 16 % on Wednesday at the Copom meeting as inflation expectations are now above 7% (compared with the inflation target of 5.5% +/- 2.5 percentage points. ----- As the employment in Sao Paulo increased by 0.79% mom and 1.97 % yoy in the industrial sector in June (the highest rate since 1995), the IBGE unemployment rate, which decreased in May to 12.2%, is likely to have continued to fall in June (Thursday). The better sentiment in the labor market will certainly contribute to an improvement in consumer confidence (IIC), which had fallen in June albeit from a high level. ----- This week an IMF mission will travel to Brazil on the occasion of a regular revision of the current agreement. As all the fiscal and monetary goals have been fulfilled by Brazil the revision should pass without problems.

Bolivia

According to preliminary results, President Mesa gathered substantial support for his government in the referendum on the future use of Bolivia's gas reserves. There are no clear action plans to be followed after the referendum, but general direction goes for a higher government participation in the sector's activities. Although we are skeptical of the possibilities of a positive government participation in gas production and distribution, the support of the government among the population is definitely good news, all the more so as private investment in the sector and the export of gas, with both issues being unlikely by radical opposition groups, are not prohibited by the referendum.

Chile

Central government finances posted a deficit of CLP 211 bn in May (0.4% of 2004 GDP). At constant expenditure, revenues came in around 40% below the average of previous months. Nevertheless, below-average revenues in May are consistent with the seasonal pattern, and compared to May 2003 the deficit was more than halved. We expect a budget surplus of 0.7% of GDP for 2004 as a whole (January-May 2004: 1.3% of 2004 GDP).

Colombia

A number of economic indicators (June power consumption +5.3%, building permits +12%, first-quarter supermarket sales +6.3%, all yoy) point at a continuation of the economic upswing. In addition, according to the latest poll by the industrial association ANDI, the share of companies complaining about sluggish demand has diminished lately. ANDI anticipates industrial production growth of 7.5% yoy (January-April: 7.4% yoy). ----- The latest survey conducted by GALLUP confirms the high approval ratings of president Uribe (75% after 77% in March). Security policy remains the most important aspect among the respondents, and the economic policy is rated positive by 55%.

Outlook: Exports are expected to have increased about 15% yoy in May, to US\$ 1.3 bn. ----- After a one month's break, the next session of both senate and lower house starts on July 20. Apart from the reelection bill, still pending, a number of fiscal reforms are on the government's agenda.

Ecuador

The government withdrew its oil-sector reform proposal, originally to be voted 2 weeks ago, from congress on Friday. The move is very negative, as it further delays urgently needed investment in the sector, which would in turn help to consolidate public finances and the fragile balance of payments situation. The government used the withdrawal to trade support for its proposal to finance pension increases by the means of a tax on cigarettes and alcoholic beverages, as a further proposal to increase the VAT met fierce resistance both in the society and in congress. The oil-sector reform apparently is to be presented to congress once again in September. ----- An international arbitration court judged in favor of a North-American oil company in its dispute with the government concerning VAT reimbursements, obliging government to pay US\$ 75 mn. Another arbitration implying a similar amount is expected for the end of this year. Given the government's poor cash position, it is not clear how the reimbursements will be paid for.

Outlook: The new pension financing proposal has been introduced into congress under fast-track provisions, giving congress 30 days to debate the proposal. Further complications are to be expected. Political turbulences underline the government's weak position, confronted with an enraged society and an opposition exclusively motivated by October's local elections.

Mexico

Marta Sahagun, the wife of President Fox, officially ended her ambitions to become a contender in the presidential elections in 2006. The intentions of the politically influential First Lady to run for the Presidency had led to political tensions between the government and the opposition as well as between President Fox and the ruling PAN party. Even after her withdrawal nobody is currently betting on the possibility of structural reforms within the presidential term of Vicente Fox. ----- In May, industrial production rose by a disappointing 2.1% yoy. In addition the overall positive outlook slightly worsened as demand for cars in the US in June was relatively weak. Recent data support our scenario of moderate GDP growth of 3.5% in 2004. Earlier the government and some private sector analysts had lifted their growth forecasts to around 4.5%. ---- In June, nominal salaries rose by 5.1% compared to the same month a year ago. The increase was higher than expected and will keep the central bank on alert. Nevertheless, if money market rates remain at the current high level of 6.7%, the central bank should keep the „corto“ steady for the time being.

Outlook: This week will bring some important data releases, which will give a hint on second-quarter GDP growth. Only recently we increased our GDP forecast for 2004 from 3.2% to 3.5% on the basis of a strong second quarter (see „Spotlights Update - July 2004“). In June, the unemployment rate most likely fell from 3.5% in May to 3.3% (Wednesday). But also underemployment should see a sharp drop below the 20% mark (down from 21.3% in May). ----- In May, retail sales probably rose a healthy 4.5% in real terms, reflecting the robust growth of consumer demand (Thursday). ---- On Friday the preliminary data for the June trade balance (+US\$ 40mn) should continue to show double-digit growth of exports (high oil prices, strong demand for manufactured goods from the US) and of imports (robust domestic demand). ----- On Thursday a 0.13% increase in consumer prices will keep the central bank on alert.

Peru

According to finance minister Kuczynski, the French government supports Peru's request for early amortization payments on Paris Club debt. Nevertheless, the government does not plan to raise money on the bond market needed for this purpose (US\$ 1 bn) until the beginning of 2005. ----- GDP growth amounted to 4.2% yoy in May, according to the INE national statistics institute. Growth was driven by the fishing industry (+42%) and the industrial sector (+6.5%). ----- A sizeable reduction of unemployment in June to 8.6% (compared with 9.1% in May and 11% at the start of the year) could be interpreted as a sign for the overdue recovery of internal demand taking place now.

Outlook: Relatively few workers responded to the call of the biggest union (CGTP) for a general strike on July 14, and protests remained mostly peacefully. Still the leader of the APRA opposition party, Alan Garcia, called for the replacement of the entire cabinet during the demonstration. The cabinet, which has undergone various changes over the past years, traditionally steps down twice a year (next time on July 28). We expect political turbulences to continue.

Venezuela

The opposition coordination group announced to have personally contacted 3.5 mn voters in order to secure

their participation in the recall referendum against President Chávez on August 15. At least 300,000 more voters are to be contacted in the coming weeks. Even though the opposition appears well positioned ahead of the referendum, Chávez still has some time to court the electorate's support with the help of recently expanded social development programs. ----- Financial resources for the programs do not only come from higher oil revenues and ancillary budgets: Non-oil tax revenues rose by 92% yoy (in nominal terms) in June. Thus the increase amounted to 87.4% yoy (46.3% in real terms) in the first half of the year. Even though yoy figures are somewhat inflated due to last year's general strike, solidly rising revenues are definitely good news for the government. ----- In order to increase the referendum's legitimacy, the CNE election authority reportedly invited several international celebrities to monitor the referendum. While the external effect of this move should not be underestimated, the much more important question – with respect to a reliable and transparent referendum process – of the collaboration with international organizations (mainly OAS) concerning the deployment of election observers still lacks definition. This is mainly due to CNE's reluctance to provide observers with a full range of competences usually granted in similar missions to other countries.

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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 | 16.07.2004 | 2.94 | 2.96 | 2.97 | 2.80 | 2.80 | -4.9 | 3.0 |
| Brazil | 16.07.2004 | 3.00 | 3.04 | 3.13 | 2.88 | 2.88 | -4.1 | 3.1 |
| Mexico | 19.07.2004 | 11.41 | 11.50 | 11.31 | 10.43 | 10.43 | -8.5 | 11.9 |
| Chile | 16.07.2004 | 622 | 634 | 645 | 702 | 702 | 12.8 | 600 |
| Colombia | 16.07.2004 | 2631 | 2674 | 2710 | 2879 | 2879 | 9.4 | 2800 |
| Peru | 16.07.2004 | 3.43 | 3.44 | 3.47 | 3.47 | 3.47 | 1.3 | 3.5 |
| Venezuela | 16.07.2004 | 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 | 19.07.2004 | 4920 | 4992 | 5016 | 4953 | 5739 | -819 | |
| Brazil | 19.07.2004 | 576 | 623 | 660 | 738 | 463 | 113 | |
| Mexico | 19.07.2004 | 200 | 210 | 212 | 216 | 199 | 1 | |
| Colombia | 19.07.2004 | 929 | 930 | 866 | 1157 | 799 | 130 | |
| Ecuador | 19.07.2004 | 433 | 471 | 487 | 475 | 431 | 2 | |
| Peru | 19.07.2004 | 401 | 439 | 430 | 464 | 312 | 89 | |
| Venezuela | 19.07.2004 | 591 | 623 | 627 | 851 | 593 | -2 | |

| Benchmark interest rates | | | | | | | | ytd-change |
|----------------------------|------------|-------|----------|-----------|----------|----------|----------|------------|
| % | date | last | one week | one month | one year | end 2003 | %-points | end 2004f |
| Argentina, Overnight | 16.07.2004 | 2.38 | 2.63 | 2.81 | 3.06 | 1.50 | 0.9 | 3.0 |
| Brazil Selic | 16.07.2004 | 15.77 | 15.77 | 15.79 | 25.73 | 16.33 | -0.6 | 16.0 |
| Mexico Cetes 28 days | 16.07.2004 | 6.66 | 6.71 | 6.51 | 4.55 | 6.01 | 0.7 | 7.5 |
| Chile 90 days, PDBC | 15.07.2004 | 1.68 | 1.55 | 1.57 | 2.90 | 2.29 | -0.6 | 2.5 |
| Colombia Overnight | 15.07.2004 | 6.85 | 6.86 | 6.86 | 7.43 | 7.49 | -0.6 | 8.8 |
| Peru Overnight | 16.07.2004 | 2.60 | 2.60 | 2.60 | 3.63 | 2.50 | 0.1 | 2.6 |
| Venezuela deposits 30 days | 13.07.2004 | 11.74 | 10.95 | 9.88 | 13.16 | 13.20 | -1.5 | 14.0 |

| Foreign exchange reserves | | | | | | | | |
|----------------------------|------------|-------|----------|-----------|----------|----------|------------|-----------|
| US\$, bn | date | last | one week | one month | one year | end 2003 | ytd-change | end 2004f |
| Argentina | 14.07.2004 | 18.1 | 17.9 | 17.2 | 13.2 | 14.1 | 4.0 | 18.5 |
| Brazil | 15.07.2004 | 50.3 | 50.0 | 50.3 | 47.7 | 49.3 | 1.1 | 53.2 |
| Mexico | 09.07.2004 | 700.0 | 694.3 | 686.1 | 574.1 | 658.0 | 42.0 | 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 | 30.06.2004 | 10.9 | na | 10.8 | 10.0 | 10.2 | 0.7 | 11.4 |
| Venezuela (FEM&Gold incl.) | 15.07.2004 | 23.6 | 23.3 | 23.8 | 18.3 | 21.3 | 2.3 | |

| 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 |