



Latin American Weekly Spotlight

August 2 2004



Dresdner Bank Lateinamerika AG
formerly Deutsch-Südamerikanische Bank AG



A company of the **Allianz Group**

Argentina:	Continued delay of third revision of IMF program
Brazil:	CB director Candiota resigned
Chile:	Positive economic indicators in June
Colombia:	Disappointing economic data
Ecuador:	Populism wins the day
Mexico:	Interest rates will continue to rise
Peru:	Corruption charges against the government
Venezuela:	Rising approval for President Chávez

Argentina

Due to discrepancies regarding the handling of violent protests of the so-called piqueteros, President Kirchner sacked Justice Minister Béliz. According to Béliz, the police and the national secret service (SIDE) are showing signs of mafia structures. ---- The slowdown of economic growth continues. For the first time since November last year, supermarket sales declined in June (-2.5%, mom, s.a.). ---- June's trade surplus (US\$882mn) halved compared to the same month last year. The surge in imports continues unabated (June: 77%, yoy). Exports, however, only grew 1% in June (Jan-May: 16%, yoy) with the export volume falling 12% yoy (export prices June: +14%, yoy). We have lowered our export forecast for 2004.

Outlook: The fiscal responsibility law should soon be effective following the likely positive vote of the house of deputies this week. Although this law is viewed as a partial substitute for the overdue reforms of the revenue sharing agreements between the central government and the provinces, relations between Argentina and the IMF appear to be deteriorating again. We continue to expect a further delay of the third revision of the current program. The third and fourth revision may be performed at the same time in September. Due to the overdue third revision, an IMF payment of US\$735mn and a World Bank payment of US\$500mn have been delayed. However, as Argentina continues to collect high tax revenues, the delay should not complicate the fiscal situation for the time being. ---- The inflation rate for July (Wednesday) is likely to come in only slightly above the previous months (June: 0.6%, mom). ---- As in previous months (June: +46.1%, yoy) July's tax revenues (today) should be considerably higher than in 2003, although growth rates are coming down.

Brazil

The central bank minutes made it pretty clear that further interest rate cuts are not on the cards this year. The central bank will leave the interest rate unchanged for a "prolonged period". The institute warned that in the event of an escalation of the inflation rate it would not

hesitate to take a more active stance, meaning an increase of the interest rate (our forecast for the Selic rate at the end of the year: unchanged at 16%). ---- The public sector's primary surplus (budget balance before interest payments) amounted to BRL 7.9 bn, leaving the surplus at BRL 46 bn (5.8% of GDP), well above the IMF target of BRL 32.6 bn. Net public debt decreased to 56.0% of GDP (previous month: 56.6% of GDP). ---- The past central bank director for monetary policy resigned on tax evasion allegations, among other things. Rodrigo Azevedo, an economist of CSFB with an excellent reputation, was nominated as his successor. ---- The government plans to cut the tax on capital gains of equity investments to boost the liquidity of the stock market. However, what is more urgently needed in our view is the elimination of the financial transaction taxes, which are preventing the further development of the securities markets.

Outlook: Following a special commission of the IMF which discussed the issue of public investments, another mission arrived last week to revise the current agreement. As all targets are fulfilled, no friction is expected. ---- The good economic activity data for São Paulo (according to Fecomercio, retail sales increased by 12.7% yoy in June, supermarket sales by 11 % yoy). The industrial association FIESP reported that industrial goods sales rose by 32% yoy in the same month, while the unemployment rate (Dieese) decreased by 0.6 percentage points, to 19.1%, giving a clear indication that industrial production in Brazil might have increased strongly too. We expect an increase of 10% yoy (Friday), while the consensus predicts 14%. July's car production figures are expected to have continued the strong growth of the previous month (probably Friday as well). ---- The trade surplus is likely to have amounted to more than US\$ 3 bn again (forecast: US\$ 3.2 bn). In the year as a whole, a surplus of US\$ 30 bn should easily be reached (previous year: US\$ 24.8 bn). ---- Last weekend the weekly magazine Veja again picked up the tax evasion charges against central bank governor Meirelles. This could lead to some political noise, all the more so since the congressional period is set to begin again today.

Chile

Positive economic indicators in June: industrial production expanded by 5.1% yoy, while industrial sales grew by 7.1%. June is the fifth consecutive month of significant growth in industrial activity. Mining production posted solid growth as well (4.7%), while energy production jumped 8.5% yoy. ----- Despite the economic expansion in June, unemployment rose to 9.6% (June 2003: 9.1%). Apart from seasonal factors, the rise in unemployment is due to the fact that the number of job-seekers (June: +1.2% yoy) rose more strongly than employment (+0.6%). We expect a revitalization of the labor market in the forthcoming months on the back of continued solid growth.

Outlook: Rising transport and fuel prices are expected to have taken overall consumer prices by 0.2% mom (1.3% mom) higher in July (Wednesday).

Colombia

Industrial production disappointed in June with a 3.5% yoy increase (DBLA forecast: 7%, industrial association estimate: 7.5%). At the same time, both the yoy change in construction permits (down 25%) and cement sales (+7%) point to a slowdown of construction sector growth (over the past month the construction sector ranked among the most vibrant in the economy). The decline of unemployment also stopped in June, when in the biggest 13 cities 15.8% of the workforce was unemployed (compared with 14.8% in May). We believe this to be only a temporary economic slowdown and expect the economic upswing to continue in the second half of this year. Our growth forecast for the year as a whole remains at 4.0%. ----- The U.S. ambassador was outraged due to a speech by three paramilitary leaders before congress, which was part of current negotiations with the biggest paramilitary group AUC. Against some of the AUC leaders, who were given safe conduct into the capital Bogotá, lifelong sentences have been imposed in their absence and the U.S. seeks to extradite them for drug trafficking and offences against human rights.

Outlook:

Inflation should have accelerated slightly to 6.1% yoy (from 6.06% in June). We anticipate a more or less constant inflation rate over the upcoming months and a 6% increase in prices for the year as a whole.

Ecuador

Populism wins the day: Congress overturned President Gutiérrez' partial veto against this year's financing of permanent pensions increases by non-recurring withdrawals from an infrastructure fund (US\$ 25mn). The fund's monies have already been earmarked for other

uses, which now have to be financed by other means. Moreover, as the second financing source – lower interest payments on government bonds held by the CB – is lowering overall public sector revenues (via lower CB handovers to the government), further fiscal tension is on the cards. The government's disability to enforce a reasonable fiscal policy against a populist congress endangers the medium-term sustainability of public finances. ----- The international arbitration court which ruled in favor of an American oil company in the dispute concerning US\$ 75mn in VAT refunds extended the deadline for the submission of an appeal by the Ecuadorian government by 10 days, until August 11. Should the government decide to appeal the decision, this would be another negative signal to international oil companies interested in investing in Ecuador. Investment in the sector is urgently needed in order to secure the medium-term sustainability of public finances and stabilize the external financing situation. ----- Consumer prices fell by 0.61% in July. Year-ago inflation came in as low as 2.2%, compared with 7.7% in July 2003. Given Ecuador's dollarized economy, the strong disinflation process is a positive feature. However, it also underlines the weak state of the country's non-oil economy.

Mexico

Following the fourth monetary tightening within this year, money market rates (cetes, 28 days) rose by 45 basis points, to 7.16%. Even if the rates at the short end of the curve fall back below 7% during the next weeks, interest rates will rise until the end of the year to around 7.5% (on the back of further monetary tightening by Banxico and the Fed). ----The ongoing stability-oriented monetary and fiscal policy was reason enough for the rating agency Moody's to keep a positive outlook on the country and to publish some praising comments. S&P is a little more conservative and critical on account of country's failure to implement structural reforms. Given the fact that Moody's already rates Mexico one notch better than S&P, we do not expect any upgrade within the next six months. ---- As expected, the IGAE-economic indicator had a fairly weak reading in May, falling by 0.5% mom. The strong external trade performance in June nevertheless is a strong indicator that for the time being the economic upturn is continuing. Nevertheless, we remain more skeptical with respect to the medium term as we expect the U.S. economy (especially consumer demand) to slow down in H2 2004. The central bank (and some private forecasters) is much more optimistic and raised its growth forecast for 2004 from 3.5% to 3.75%-4.25% (DBLA forecast: 3.5%)

Outlook: Despite the recent somewhat lackluster development on the labor market and rising interest rates, we expect consumer confidence (Tuesday) to have risen



above 100 in July (compared to 99.6 in June). ----- In May, gross fixed investment (Friday) probably rose by double-digit rates compared to the same month a year ago, confirming that the corporate sector has gained some confidence in the sustainability of the current economic upturn. ---- Due to seasonal factors, the public sector most likely posted a small deficit in June (Wednesday). The government will meet the deficit limit of 0.3% of GDP for 2004 with ease.

Peru

The government faces a number of corruption charges. President Toledo as well as his wife are accused of having embezzled money, each on different occasions. Furthermore, apparently some 1000 signatures were falsified when the ruling party was founded in 1998. President Toledo announced the disclosure of his financial accounts to the investigation authority. ----- Former Prime Minister Solari lost in the election for the presidency of the congress against opposition member Antero Flores Araoz. Even though the defeat will most likely substantially impair cooperation with congress, we do not expect the already diminished governability to worsen any further. ----- Contrary to our expectations, president Toledo refrained from making a cabinet reshuffle – traditionally, the entire cabinet resigns on Independence Day (July 28) in order to enable the president to replace some members. We expect the president to alter some relatively unimportant cabinet posts by the middle of August. The ministry of finance should remain in the hands of the respectable Pedro Pablo Kuczynski and the swap of controversial Prime Minister Ferrero could be deferred due to a lack of alternatives.

Outlook:

Consumer prices increased 0.19% in July, bringing the yoy rate to 4.6%, more than 1 percentage point above the year-end target of the central bank. According to latest statements from board members, the central bank seems to abstain from rate hikes in order not to endanger still weak domestic demand. In addition, the latest appreciation of the Peruvian sol has eased inflation pressure slightly. On the whole, we do not expect the

central bank to tighten its monetary policy this Thursday.

Venezuela

Renewed doubts concerning the referendum's date: while electoral council CNE's vice president hinted at a possible postponement of the referendum due to problems concerning the voters' roll, CNE president Carrasquero denied any problems. As a delay in the referendum will almost definitely bring social unrest, we do not expect this to occur. ----- The government continues its highly expansionary fiscal policy ahead of the referendum. Central government primary expenditure (without interest payments) rose by 70.5% in May (around 45% in real terms). ----- Key opposition groups agreed to present only one candidate for the presidential elections if the referendum should succeed. As the candidate will not be allowed to run in the next presidential elections in 2006, the agreement may have a chance of succeeding. ---- Slowdown in economic growth: the general sales index in April came in 8.6% lower than in March (24.7% yoy). Private industrial production expanded by 24.6% in April, significantly weaker than March figures (43.3%).

Outlook: Consumer prices are expected to have risen significantly in July (forecast: 1.7% mom, 22.2% yoy) on account of scarcity-driven adjustments of administered prices and the strong expansion in money supply in recent months. ----- According to a poll commissioned by PDVSA (!), 51% of those canvassed said that they would vote not to oust president Chávez. Another poll by Keller y Asociados shows an even higher head start for Chávez, as 45% of those polled would vote against the recall, with 34% voting in favor and 21% undecided. According to this poll, 67% of those polled expect social unrest should Chávez lose the referendum. ---- According to a CB statement on Friday, forex reserves (currently at US\$ 23.9 bn) could decrease by as much as US\$ 2.5 bn in the next days as PDVSA will fund its external debt buyback with monies held at the CB.



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
<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	30.07.2004	2.98	2.98	2.95	2.97	2.97	-0.4	3.1
Brazil	02.08.2004	3.04	3.08	3.04	3.07	3.07	1.0	3.1
Mexico	02.08.2004	11.40	11.49	11.45	10.72	10.72	-5.9	11.9
Chile	30.07.2004	642	642	630	715	715	11.4	600
Colombia	30.07.2004	2612	2647	2675	2905	2905	11.2	2800
Peru	30.07.2004	3.42	3.43	3.47	3.48	3.48	1.7	3.5
Venezuela	30.07.2004	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	02.08.2004	5024	5099	5126	5137	5739	-715	
Brazil	02.08.2004	591	626	623	827	463	128	
Mexico	02.08.2004	202	195	213	247	199	3	
Colombia	02.08.2004	855	916	933	1197	799	56	
Ecuador	02.08.2004	439	445	480	481	431	8	
Peru	02.08.2004	412	415	433	471	312	100	
Venezuela	02.08.2004	584	612	632	819	593	-9	

Benchmark interest rates								
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	30.07.2004	2.50	2.50	2.63	2.75	1.50	1.0	3.0
Brazil Selic	30.07.2004	15.78	15.75	15.80	24.33	16.33	-0.5	16.0
Mexico Cetes 28 days	30.07.2004	7.06	7.03	6.76	5.07	6.01	1.1	7.5
Chile 90 days, PDBC	29.07.2004	1.64	1.87	1.56	2.88	2.29	-0.7	2.5
Colombia Overnight	28.07.2004	6.88	7.11	6.84	7.34	7.49	-0.6	8.8
Peru Overnight	30.07.2004	2.53	2.60	2.60	3.45	2.50	0.0	2.6
Venezuela deposits 30 days	27.07.2004	10.67	10.75	10.07	12.30	13.20	-2.5	14.0

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	28.07.2004	18.1	18.0	17.6	12.5	14.1	3.9	18.5
Brazil	29.07.2004	49.7	50.1	50.4	47.9	49.3	0.4	53.2
Mexico	23.07.2004	68.6	68.5	68.3	56.7	65.8	2.8	65.0
Chile	30.06.2004	15.9	na	16.1	15.5	16.0	-0.1	16.6
Colombia	30.06.2004	11.6	na	11.4	10.5	10.9	0.7	11.5
Peru	30.06.2004	10.9	na	10.8	10.0	10.2	0.7	11.4
Venezuela (FEM&Gold incl.)	29.07.2004	23.9	23.6	23.3	18.9	21.3	2.6	

Economic activity				Inflation				
GDP (yoy, %)	2003	2004f	2005f	% , year end	2003	2004	2005	GDP 2003, US\$ bn
Argentina	8.8	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		3.9	3.2	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	153	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	373	39	32.3	79	1.5	2.2	10.5	0.0	5.7
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	0.3	1.2	6.4	1.0	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