



**Argentina:** Lower-than-expected increase in consumer prices  
**Brazil:** New foreign trade records  
**Chile:** Strong growth in June  
**Colombia:** Unemployment declines further  
**Ecuador:** Economy and finance minister Correa resigns  
**Mexico:** Market participants lower 2005 GDP forecast  
**Venezuela:** Lower-than-expected increase in consumer prices in July

## Argentina

In July, public-sector revenues amounted to approx. ARS 10 bn, thus exceeding the level of the previous year by 15% in nominal terms. The highest rates of increase were reported from the income tax (+27%), export taxes (+14%) and social security contributions (+23%). These figures reflect solid company profits, strong exports and rising employment. ----- The country's economic upswing is also evident on the labor market: the jobless rate has decreased to roughly 12% (end-2003: 20%). ----- By rising only 1% mom in July, the increase in consumer good prices stood at the low end of market expectations and only slightly above the increase registered in June (0.9%). The major reason for the price increase is the boost in demand owing to the current tourism season. Core inflation (without products subject to sharp price fluctuations) also amounted to 1% (June: 1.1%); this shows that the general increase in the cost of living continues. We think that the government's forecast of a 10.5% inflation increase for the year as a whole is still too optimistic. ----- In June, yoy expansion in exports reached 16% in terms of value and 21% in terms of volume; with 34%, agricultural products reported the highest increase. At the same time, the value and volume of imports rose 34% and 25%, respectively.

## Brazil

Political noise remains high in Brazil. Last week the head of the money issuance authority, Manoel Santos, and Valdemar Costa Neto, the head of the Liberal Party and one of the centre pieces in the money-for-votes scandal, tendered their resignation. Costa Neto pleaded guilty to using undeclared campaign funds but during his final speech did not make any major revelation. On the other hand, in his testimony at the parliamentary hearings, Jose Dirceu denied all accusations against him and made it clear he will not resign, but fight to clean his name. Moreover, he went on to protect President Lula from any involvement in the corruption allegations. --- The Fipe index, which measures consumer prices in the city of Sao Paulo, rose 0.3% in July. This was slightly above market expectations of 0.25% and

follows a 0.2% drop in June. The General Price Index (IGP-DI) showed a deflation of 0.4% in July, as a result of a 0.69% drop in its wholesale prices component and a rise of 0.13% in its consumer prices component. Meanwhile, according to the latest central bank market survey inflation expectations for 2005 fell further, to 5.54% from 5.55% previously. Expectations for accumulated inflation over the next 12 months and for 2006 remained stable at 4.9% and 5%, respectively. --- According to data released by the National Confederation of Industries (CNI) yesterday, the recovery in economic activity remains unabated. Yoy growth of real industrial sales was 2.9% in June following an increase of 1.3% in May. In mom seasonally adjusted terms, sales were up 1.5% in June. Moreover, there were yoy increases of 5.3% in employment and 8.7% in real wages, while capacity utilization reached 82.9% in June, up from 82.3% in May. --- CNI figures are confirmed by the latest official industrial production data, which reveal a 6.3% expansion in June. Compared to May, growth amounts to 1.6% (sa). --- The trade balance reached a higher than expected – and record high – surplus of US\$ 5 bn in July as exports continue to surprise on the upside. Last month's trade surplus compares with consensus of US\$ 3.9 bn and a surplus of US\$ 3.5 bn in July 2004. Daily average exports rose by 28.9% yoy, which is quite impressive given the high base of comparison (export growth had been 47.3% yoy in July 2004). In absolute terms, July exports reached a record-high US\$ 11.1 bn. Imports, too, performed strongly, rising by 14.7% yoy (also from a high base). In absolute terms, imports reached US\$ 6.1 bn last month, also a record high figure for the month of July.

## Chile

Yoy expansion of the IMACEC GDP proxy was 6.4% in June, taking second-quarter growth to 6.3% yoy. Compared to May, the indicator posted a 0.2% seasonally-adjusted increase. While we had been forecasting robust growth in the current year for quite a while, the current expansion is stronger than expected, putting some upside risk to our current overall 2005 GDP forecast of 5.4%. ----- Consumer prices rose by a higher than ex-



pected 0.6% mom in July, taking the annual inflation to 3.1%. This compares with expectations of an increase of 0.3% mom and follows a rise of 0.4% in June. The increase was led by higher seasonal and one-off factors such as higher fuel costs and fees linked to energy costs. A high increase in core inflation (+0.4% mom) reveals significant demand-driven price pressure, however. While we do not expect the figures to come as a surprise to the central bank, we nevertheless see them as a further support for a continued monetary tightening process. We expect the central bank to act on its monetary policy meeting next Thursday, hiking the key rate by 25 bps to 3.75%. By end-2005, we expect the key interest rate to stand at 4.5%. ----- The peso reacted strongly to the higher-than-expected inflation rate and associated expectations of continued monetary tightening, strengthening 3% over the week to 545 CLP/US\$. We expect the peso to trade range-bound in the next several weeks, supported by high copper prices and rising domestic interest rates, which are partly counter-balanced by rising imports, rising dividend payments abroad, and continued strong investment abroad on part of Chilean pension funds.

### **Colombia**

In June the unemployment rate (13 biggest cities) declined further and is now at 14%, after 15.8% last year. The decline can be explained by the creation of new jobs as well as a reduction in the labor participation ratio. The high amount of new jobs seems to indicate that strong economic growth has continued in the second quarter. ----- Inflation in June was lower than expected at 0.05% mom (4.91% yoy), particularly for food prices (-0.26%) and tradable goods, which were cheaper due to the strong exchange rate. We are still expecting that inflation will rise in the coming months due to the strong economic growth and the high oil prices. The central bank also revealed in its midyear report to congress that it intends to continue with its interventions on the foreign exchange market to counteract the appreciation of the peso.

### **Ecuador**

After the government changed the legal framework of the FEIREP oil stabilization Fund last month, the World Bank decided to suspend a US\$ 100 mn loan approved last year. The FEIREP had been founded to use 70% of the profits from oil revenues to pay off debt. Now only 35% of the revenues in the Fund are used to reduce debt while the share earmarked for social spending was increased. As this weakens the country's ability to withstand external shocks, the World Bank sees a violation of the agreement. ----- On Thursday, Economy and Finance Minister Rafael Correa announced his resignation, stating disputes with President

Alfredo Palacio concerning the legal action between Petroecuador and US Occidental as reason. In 2000 Occidental had transferred an oil field to the Canadian enterprise Encana and thereby supposedly violated a contract with Petroecuador. Correa backed the president of Petroecuador, Carlos Pareja, who in the meantime also resigned, whereas President Palacio disapproved the legal action against Occidental because he did not want to endanger the relationship with the USA. Even though Correa is not very popular outside Ecuador due to his good relationship with the Venezuelan government and his criticism of multinational enterprises, he is still very popular in Ecuador. As a possible successor Magdalena Barreiro is mentioned, who stands for a continuation of the current economic policies. A decision is expected for today.

### **Mexico**

The new central bank survey of market expectations for July did not bring major surprises. As far as the outlook for inflation is concerned, the consensus is now for an end-2005 CPI rate of 3.82%, just a moderate increase from the previous 3.79%. More encouragingly, the inflation outlook for the next 12 months was reduced to 4.14% from 4.27%. Along the same lines, the market consensus for inflation by the end of 2006 fell to 3.88% from 3.93%, a level not seen since the August 2004 survey. This reflects a market perception that the inflation outlook has improved considerably over the last few months, even if some concerns still persist about how quickly inflation can be brought down in the immediate future. On growth, markets have adjusted their GDP forecast for this year down to 3.54% from 3.57% in the previous survey in line with the recent downward revision made by the central bank (3.25-3.75% as opposed to the previous band of 3.5-4.0%).

### **Venezuela**

As expected, voter turnout in yesterday's municipal elections was very low, with estimates ranging from 28-30%. According to preliminary forecasts, forces close to the current federal government were able to gain ground. ----- The US oil company Harvest Natural Resources announced that it may seek international arbitration to resolve the conflict concerning supposedly unpaid taxes between the company and SENIAT, Venezuela's tax authority. The amount of taxes claimed by SENIAT amounts to around US\$ 85 mn. The government reacted by announcing that the tax authority will issue a strong response should the company seek international arbitration. This contributes to the recent harassing of oil companies by the Venezuelan authorities, and may contribute to stagnation in the oil sector in the coming years. ----- Consumer prices rose by a

lower than expected 0.9% mom in July following an increase of 0.6% in June. The pick-up in prices relative to the previous month was fuelled by higher government spending, which in turn boosted consumer spending. While we had expected prices to rise faster than they actually did, this is only short-term relief for the central bank. In the 12 months to July prices rose 15.9%, and we expect price regulations to lose power during the remainder of the year, as fiscal spending is likely to pick up ahead of congressional elections in December. We therefore stick to our year-end inflation forecast of 18%. ----- As reported in our last "Weekly Spotlight", the government plans to initiate a swap for US\$ 1.5 bn equivalent of local debt as soon as today. The government is basically looking to extend duration of domestic debt, as it faces significant maturities in the coming two years.

Apparently, the government would first look to swap short-dated local maturities for a 10-year US\$ 1 bn issue denominated in VEB but indexed to the USD. The other issue with a volume of US\$ 500 mn could be a straight VEB bond. Given the excess liquidity on the Venezuelan domestic financial market, we expect the government to succeed in its plans. External debt markets should not be affected by this operation, though successful domestic liability management would be marginally positive for Venezuela's creditworthiness insofar as it addresses short-term concerns over the local debt profile. Once the government has addressed the domestic debt issue, it is likely to push ahead with liability management plans on the external front later this year.

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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	08.08.2005	2.86	2.86	2.87	3.04	2.97	3.8	2.9
Brazil	08.08.2005	2.31	2.37	2.37	3.04	2.66	14.8	2.4
Mexico	08.08.2005	10.59	10.59	10.74	11.41	11.15	5.2	11.0
Chile	08.08.2005	546	561	585	639	556	1.9	580
Colombia	08.08.2005	2308	2309	2331	2596	2355	2.0	2356
Peru	05.08.2005	3.25	3.25	3.25	3.41	3.28	0.8	3.3
Venezuela	08.08.2005	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	08.08.2005	390	407	420	5175	4707	-4317	
Brazil	08.08.2005	382	401	410	585	383	-1	
Mexico	08.08.2005	147	152	164	197	167	-20	
Ecuador	08.08.2005	680	720	799	843	691	-11	
Colombia	08.08.2005	296	314	319	446	333	-37	
Peru	08.08.2005	158	171	202	393	220	-62	
Venezuela	08.08.2005	414	424	443	572	412	2	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	05.08.2005	4.38	4.56	5.69	2.50	2.31	2.1	5.0
Brazil Selic	08.08.2005	19.76	19.74	19.72	15.86	17.75	2.0	18.5
Mexico Cetes 28 days	05.08.2005	9.63	9.67	9.71	7.16	8.61	1.0	9.5
Chile 90 days, PDBC	26.07.2005	3.25	3.05	2.90	1.87	2.24	1.0	4.3
Colombia Overnight	03.08.2005	6.40	6.39	6.43	6.96	6.24	0.2	7.1
Peru Overnight	05.08.2005	3.00	na	3.00	2.80	3.03	0.0	2.5
Venezuela deposits 30 days	02.08.2005	10.92	11.05	10.97	10.83	11.92	-1.0	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	05.08.2005	24.6	24.9	23.1	18.1	19.6	5.0	21.5
Brazil	03.08.2005	55.0	54.6	59.6	49.7	52.8	2.2	62.0
Mexico	29.07.2005	70.5	69.9	69.3	68.6	71.6	-1.1	66.1
Chile	31.05.2005	17.4	na	17.0	16.1	16.1	1.2	16.7
Colombia	30.06.2005	13.7	na	13.4	11.6	13.5	0.2	16.0
Peru	30.04.2005	13.6	na	13.6	10.5	12.6	1.0	13.5
Venezuela (FEM&Gold incl.)	04.08.2005	30.9	30.4	29.0	21.5	24.2	6.7	28.5

Economic activity				Inflation				
GDP (yoy, %)	2003	2004	2005f	% , year end	2003	2004	2005	GDP 2003, US\$ bn
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	2004	2003	2004	2003	2004	2003	2004
Argentina	1.3	4.2	140	126	19.8	19.8	19.1	16.1
Brazil*	-5.2	-2.7	56	52	94.2	84.3	72.1	68.4
Mexico**	-0.6	-0.3	28	27	23	30	26	32
Chile***	-0.4	2.1	13	12	0.8	0.8	1.1	-1.2
Colombia	-2.7	-1.2	56	52	10.6	10.0	12.8	11.2
Peru	-1.9	-1.3	48	46	1.1	1.3	2.3	2.2
Venezuela	0.2	0.0	46	39	10.8	9.0	10.7	9.0

\* Amortisations only federal debt, including short term debt

\*\* Amortisations without Cetes

\*\*\* debt, amortization and financing needs: central government only

External Sector 2004									
	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	397	35	32.3	75	2.2	3.3	13.3	3.9	5.8
Brazil	203	12	65.6	59	1.9	11.7	33.7	18.2	6.2
Mexico	78	21	37.5	18	-1.2	-7.9	-8.6	15.0	3.3
Chile	128	18	7.2	21	1.5	1.4	9.0	6.7	5.6
Colombia	205	11	7.3	39	-1.3	-1.2	1.0	2.6	6.8
Ecuador	17	9	1.4	3	0.3	0.9	6.8	1.1	1.1
Peru	195	10	3.7	25	-0.2	-0.1	2.7	1.8	9.3
Venezuela	111	22	8.3	21	12.7	13.8	21.4	1.3	9.0