



Latin American Weekly Spotlight

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Dresdner Bank Lateinamerika AG
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Argentina:	Government intends to suspend IMF talks until debt rescheduling is done
Brazil:	Again excellent Balance of payment figures expected
Chile:	Strong external sector performance
Colombia:	Peso appreciation is to dominate monetary decision
Ecuador:	Will former president Bucaram return to Ecuador?
Mexico:	Central bank leaves corto unchanged
Peru:	50% probability of strong el niño
Venezuela:	Election authority declares Chávez the winner of the referendum – opposition doubts result

Argentina

To avoid the restructuring of defaulted bonds to take place simultaneously with IMF-talks Argentina intends to pick up talks with the IMF again only once the rescheduling of defaulted sovereign bonds is finished. According to the Argentine government this will be the case at the beginning of January 2005. A reaction of the IMF, which presently is in its two week summer recess, is not available as yet. Presumably Argentina wants to avoid a renewed discussion about its repayment capacity, which was likely to have started again in September, as part of the setting of new primary surplus targets. However, the present situation, in which Argentina is lacking the backing of the IMF is also weighing on the restructuring process. To avoid a further deterioration in relations to the IMF (and thus straining the debt restructuring), the Argentine government intends to abandon its strategy not to repay the fund unless the IMF is not blocking disbursements. Hence Argentine officials announced their intention to repay the fund (US\$2.5bn until the end of the year according to IMF data) even though the IMF is holding back a disbursement of around US\$740mn due to the still pending third revision of the present IMF-program. In view of high currency reserves (US\$18.1bn) this should not pose a problem although the decision is likely to be unpopular domestically. ---- The government decreed a 10% pension hike. It applies to pensions below 1000 Pesos/month (95% of total). Extra costs will amount to ARS510mn for the rest of this year and ARS1.5bn annually (0.35% of GDP) respectively. ---- The fall of the UTDT consumer confidence index in August (-5.7%, mom) turned out stronger than we expected. Likely reasons for the downturn are the weakness of GDP-growth in Q2-04 and the dwindling approval ratings of the government.

Outlook: Following the slowdown of industrial production growth to 0.8% (mom, s.a.) in June we are expecting a small decline in July (Thursday). ---- Monthly GDP-growth is likely to have been weak in June (Thursday). Yoy we still expect growth of above 6%.

Brazil

The IPCA Inflation increased sharply by 0.91%. However, this was above all due to seasonal factors. Other inflation indicators give us strong indications that the inflation will decrease significantly this month. ----- According to the latest poll of CNT/Sensus the approval rate for president Lula and his administration increased for the first time in 12 month, and significantly. The reason for this certainly is the economic upturn and the improvement of labor market conditions. As the economic upturn will continue we expect the popularity of the government to increase in the next months further. This bodes well for the municipal elections in October 2004. ----- The public oil company Petrobras announced that it won't be net oil importer anymore at the end of 2005. This is positive news for the trade balance imports will decrease and oil production will even contribute to exports after 2005.

Outlook: Two court sentences could get a lot of attention this week. One sentence refers to the taxation of pensions, which was implemented in the pension reform of last year. If the constitutional claim would be solved in favor of a (partial) elimination of the tax, the public sector would loose up to mn 1 Reais per year. Another sentence is with respect to the possible reimbursement of corporate tax revenues. If the court decides in favor of the claiming enterprises this could lead to a liability of approx. Reais 200 bn according to government calculations. ----- The central bank will leave the Selic interest rate unchanged again. We think that a interest rate increase at this point is unlikely although inflation expectations have continued to increase. ----- The retail sales (Wednesday) should have increased once more by approx 10 % (as in May and April). This could be deduced from the strong retail sales figures of Sao Paulo (already published). The consumer confidence index for Sao Paulo (IIC) should have increased again this month. ----- External sector data for July on Thursday: The FDI (according to figures of the central bank) should amount to over and above US\$ 1 bn (june and May: US\$ 700 bn and US\$ 200 bn, respectively). The current account will probably show a surplus

of approx. US\$ 2 bn, following the strong trade balance data of the same month. ----- Tax revenues are to show a strong increase in July again.

Chile

As expected the central bank left key interest rates at 1.75%, citing inflation behaving as forecasted and current price hikes resulting from temporary shocks due to higher oil prices. We expect the beginning of the monetary tightening cycle for October. ----- Driven by very strong exports (+50 % yoy, mainly due to high copper prices), the July trade balance posted a surplus of US\$ 700 mn, almost four times as high as in Jul-03. A solid increase in imports (+26%) points to a robust increase in internal demand.

Colombia

Former president Julio Cesar Turbay announced that he will officially back the government's endeavor for a constitutional amendment enabling president Uribe to campaign again in 2006. Turbay is said to have strong influence on parts of the liberal party. Even though in the past weeks positive news regarding the prospects of a constitutional change dominated the wires we remain skeptical with regards to prospects of success. The ultimately decision will be taken by the plenum of congress in December and even after that the constitutional court could overthrow the amendment. We believe that the opposition will do whatever possible to prevent Uribe's reelection. ----- Energy consumption grew only 0.9% yoy in July. After disappointing growth of industrial production (June) and construction permits (May) as well as increasing unemployment in June it was the fourth poor economic indicator in a row. We expect the economic weakness to be only temporary and fell our below consensus (4.5%) GDP-growth forecast confirmed. We continue to believe, that the Colombian GDP will grow 4.0 % this year.

Outlook: When the board of the central bank meets for its monthly monetary decision making this Friday, the ongoing upward pressure of the Colombian peso against the US\$ should be at centre stage. In the past 12 months, the peso, given a yoy inflation differential of about 5%, gained 10% against the US\$. So far this year, public authorities have bought about US\$1.8 bn on the foreign exchange market in order to mitigate appreciation pressure. Liquidity which has been generated by the interventions has an expansionary monetary effect, despite additional local bond sales by the central bank. A continuation could endanger accomplishing the year end inflation target (5.5% +/- 1 Percentage point). We expect the central bank to maintain prime rates at current levels and to announce further foreign exchange market interventions.

Ecuador

The possible return of exiled former president Bucaram, ousted by congress in 1997, to Ecuador causes political noise. President Gutiérrez supports Bucaram's return in a call for support from Bucaram's PRE party in congressional elections. Without PRE support, Gutiérrez' PSP risks extinction in the October elections. ----- The government filed a formal appeal at the international arbitration court which ruled last month in favor of a US oil company claiming VAT refunds amounting to US\$ 75 mn. The government, which originally agreed to submit the dispute to the London court, now claims that tax issues should be by the country's own judicial system. Even though this claim has to be understood on the back of strong domestic pressure on the government, the signal to international investors is very negative. ----- In its annual Article-IV consultation the IMF recognized the government's success in stabilizing the economy, but warned that when positive external tailwinds subside, the economy is very vulnerable to external shocks due to a lack of progress in structural reforms. We do not expect a new IMF agreement until the beginning of 2005. ----- The government announced to use a part of the monies accumulated in the FEIREP oil stabilization fund for social spending. Even though the move is not illegal - 20 % of FEIREP monies are earmarked for emergency assistance, and the declaration of "emergencies" is up to the government - it is a negative one, as fund resources are used for current spending. It is to be expected that FEIREP will continue funding government spending in the future, and not, as originally intended, provide resources for public debt buybacks.

Mexico

In line with expectations, consumer prices rose by 0.26% in July, bringing the yoy rate to 4.5%, clearly above the central bank's year-end target of no more than 4%. Core inflation, at 0.17%, was somewhat lower. In August, inflation could be even higher due to price rises in connection with the beginning of the school year. --- The central bank left the corto unchanged last Friday, probably because interest rates have clearly risen since June, and July salaries growth, at 4.1%, was lower than in June according to the ministry of employment. --- While yoy industrial production growth, as expected, at 5.2% was higher in June than in May, in seasonally adjusted terms there was another reduction compared to May (-0.4%; May/April: -1.2%). This negative trend is obviously not due to foreign demand, as the production of the export-oriented maquiladora rose 10.1% yoy against 5.8% for the rest of manufacturing; production increases were relatively low in the mining and energy sectors. --- The automotive sector is slowing down: in July, demand only increased by 1.4%



(June: 7.5%) yoy, and production fell by 1.4% (June: -0.8%) yoy.

Outlook: Mainly due to rising foreign demand, second-quarter GDP growth (Tuesday) should have risen to 4.2% yoy from 3.7% in the first quarter. New figures on wholesale and retail sales (Thursday) as well as the global economic activity indicator (Friday) might already give evidence of a slowing economy in June.

Peru

A US based meteorological institute gives the occurrence of a heavy el niño phenomena at the turn of the year a 50% probability. During 1997/98 above all the Peruvian agrarian and fishing sector suffered heavy losses due to the weather phenomena common in the Pacific. ----- Rumor has it, that current central bank president Javier Silva Ruete aims at a post as a deputy director at the IMF. The term of office would begin in January next year. ----- Allegedly the girl friend of president Toledo's brother was damnified when contracts were awarded by the state. In connection with the allegations the president is most likely to receive again negative headlines. ----- Lima University detected a boost in president Toledo's popularity to more than 15% after 7% in August. In the upcoming weeks the private consultancy APOYO is to release its public-opinion-poll. We expect the results with regard to Toledo's public backing to be less favorable.

Outlook: Due to ongoing positive economic data (above all tax collection and imports) we count again on a strong increase of the GDP indicator in June (DBLA: forecast +4.0% yoy). With it GDP would have grown 4% in the second quarter (after 4.6% in Q1). ----- On Friday the central bank is to release details on both the evolution of GDP and BOP during the second quarter.

Venezuela

According to the preliminary result announced by the CNE election authority with 90% of votes counted, Hugo Chávez received approx. 58% of positive votes, while only 42% of the voters were in favor of his removal from office. Even if the opposition should manage to attain the minimum of 3.76 million votes required for his removal, he would stay in office according to the count so far since he received more positive votes than negative ones. The opposition movement declared its intention to contest the result. The international election observers have not yet given a statement. The participation in the vote seems to have been unusually high; therefore, the CNE had gradually extended the opening hours of the voting centres from 16 to 24 hours yesterday. ---- According to Mr Giordani, the planning minister, second-quarter GDP rose by 10-15% yoy (DBLA forecast: +10%), driven by the substantial increase in state expenditure. ---- The parliament approved a government bill which abolishes the tax of 1% on corporate assets from September 1st. ---- The foreign exchange control authority provided approx. US\$ 1.4 bn in July (June US\$ 1.3 bn); accordingly the current needs of foreign exchange should widely have been met. ---- PDVSA already provided US\$ 346 mn in funds for six projects from its US\$ 2 bn fund for economic promotion which has received oil export proceeds of US\$ 1.2 bn up to now. ---- In its 2005 budget draft, the planning secretariat reportedly expected a stable bolívar (DBLA forecast: devaluation of 30%).

Outlook: The opposition movement will probably await the international election observers' statement before taking further steps. ---- This week will probably see GDP-growth and balance-of-payments figures for the second quarter. We expect GDP growth of 10% yoy (1st quarter: 29.9%) and a current account surplus of US\$ 3.2 bn (1st quarter: US\$ 3.5 bn).

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

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Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	13.08.2004	3.01	3.04	2.94	2.90	2.90	-3.7	3.1
Brazil	13.08.2004	3.02	3.04	3.00	2.99	2.99	-0.9	3.1
Mexico	16.08.2004	11.39	11.41	11.41	10.80	10.80	-5.2	11.9
Chile	13.08.2004	640	639	622	704	704	10.1	600
Colombia	13.08.2004	2609	2596	2631	2862	2862	9.7	2800
Peru	13.08.2004	3.41	3.41	3.43	3.48	3.48	2.1	3.5
Venezuela	13.08.2004	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	16.08.2004	5214	5203	4932	4926	5739	-525	
Brazil	16.08.2004	561	587	581	794	463	98	
Mexico	16.08.2004	194	198	204	235	199	-5	
Colombia	16.08.2004	828	825	933	1165	799	29	
Ecuador	16.08.2004	436	442	437	466	431	5	
Peru	16.08.2004	368	370	403	429	312	56	
Venezuela	16.08.2004	565	572	596	823	593	-28	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	13.08.2004	2.50	2.50	2.38	2.50	1.50	1.0	3.0
Brazil Selic	13.08.2004	15.88	15.86	15.77	24.33	16.33	-0.4	16.0
Mexico Cetes 28 days	13.08.2004	7.21	7.16	6.66	4.23	6.01	1.2	7.5
Chile 90 days, PDBC	12.08.2004	1.62	1.57	1.55	2.98	2.29	-0.7	2.5
Colombia Overnight	09.08.2004	6.87	6.92	6.82	7.52	7.49	-0.6	8.8
Peru Overnight	13.08.2004	2.60	2.50	2.60	2.83	2.50	0.1	2.6
Venezuela deposits 30 days	10.08.2004	10.94	11.90	10.79	14.34	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	11.08.2004	18.1	18.2	17.9	13.4	14.1	4.0	18.5
Brazil	05.08.2004	49.5	49.7	49.8	47.7	49.3	0.2	53.2
Mexico	06.08.2004	68.7	68.8	69.4	56.9	65.8	2.9	65.0
Chile	31.07.2004	15.9	na	15.9	15.4	15.9	0.0	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.)	11.08.2004	21.5	21.5	23.5	17.8	21.3	0.2	

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