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<b>Argentina:</b>	GDP growth slowing down
<b>Brazil:</b>	Key interest rate unchanged
<b>Chile:</b>	High budget surplus in H1-04
<b>Colombia:</b>	Surprising government offer to the FARC
<b>Ecuador:</b>	Solid tax revenues in July
<b>Mexico:</b>	Economic growth solid, but far from spectacular
<b>Peru:</b>	Disappointing growth
<b>Venezuela:</b>	International observers do not see a fraud in the referendum

## Argentina

According to press reports the Argentine government intends to ask the IMF for the extension of maturities to the tune of US\$ 1 bn. Should the IMF agree, which is not certain due to the problems of the current program (third revision overdue since June), Argentina would have to repay US\$ 1.5 bn until the end of this year instead of US\$ 2.5 bn. Local papers also speculate that if an extension is granted, the US\$ 1 bn could be used as a cash component in the rescheduling of defaulted sovereign bonds. However, up until now officials have categorically ruled out the possibility of such cash payment. ---- Data on industrial production in July (-0.4% mom, s.a.; +9.8% yoy) and the GDP proxy EMAE in June (+0.4% mom, s.a.; +7.4% yoy) confirmed the expectation of a slowdown in economic growth in Q2-04. For H2-04 we expect mom growth rates (s.a.) to show a slight recovery. We continue to expect GDP growth of 6.5% for the entire year.

Outlook: As part of a trip to Uruguay, Argentina, Chile and Brazil the Managing Director of the IMF, Rodrigo Rato, will visit Buenos Aires on August 31 for the first time since he took office. If not before, indication of the IMF stance towards Argentina's new strategy (suspension of IMF talks, partial extension of IMF repayments) should be known by then at the latest. ---- The primary surplus of the central government (today) is likely to be above ARS 1 bn. Thus, the IMF target of ARS 10 bn for the entire year would already be overfulfilled by ARS 3 bn in the first seven months of the year.

## Brazil

The Supreme Court rejected claims against taxation of pensions. Thus this important part of the pension reform (annual revenues: R\$ 1 bn) remains in place. The second important ruling of the Supreme Court (reimbursement of taxes to corporates) is likely to be postponed until September. ---- President Lula da Silva plans to grant Central Bank President Meirelles the status of a cabinet minister. This would mean that legal cases brought forward against him will go to the Supreme Court as opposed to normal courts. The opposi-

tion is criticizing the decision which has to be confirmed by Congress, as it sees this as a move to protect Meirelles. ---- As expected the Central Bank left its key interest rate at 16%. Speculation about a possible rate hike recently faded as data on inflation came in below expectations. Market consensus for year-end inflation declined from 7.2% to 7.16% yoy. ---- Recent positive data on the economic situation lifted the market consensus for GDP growth in 2004 from 3.79% to 3.92% (DBLA: 3.5%). ---- As expected tax revenues of the Central Government continued to rise strongly in July (real: 13% yoy; 5% mom).

Outlook: On the back of the economic upswing July's unemployment rate (Thursday) is likely to continue the declining trend witnessed in recent months (June: 11.7%). ---- The primary surplus of the public sector (Friday) is likely to have reached R\$ 8 bn in July. Meeting IMF targets continues to be no problem. Furthermore public debt is likely to have declined marginally from 56.0% to 55.9% of GDP. ---- The minutes of the latest COPOM meeting (Thursday) might provide hints as to whether interest rate hikes should be expected for the remainder of this year. ---- According to central bank statements FDI (Wednesday) is likely to have significantly exceeded US\$1bn in July following US\$700mn in June and US\$200mn in May. On the back of the high trade surplus July's current account surplus is likely to have reached around US\$2bn (Wednesday).

## Chile

Central government finances posted a surplus of CLP 690 bn (1.3 % of GDP) in H1-04. Amid slowly rising expenditure, revenues rose by 20 %, mainly due to stronger copper prices and the current economic expansion. For the year as a whole we expect a surplus of 1.8 % of GDP.

Outlook: GDP growth should have reached a robust 4.9% in Q2-04 (today). Both external and internal demand is expected to show a solid performance. ---- July production figures should exhibit a continued

growth trend. We nevertheless expect mixed signal from the labor market, which, however, as in recent months, can be traced back to an increase in initial job-seekers (all figures on Thursday). ----- Strong export revenues should take the Q2-04 current account surplus to more than US\$ 1bn (Q2-03: -US\$ 168 mn). FDI, which had increased five-fold in Q1-04 yoy, should have roughly been at the year-ago level (US\$ 730 mn) in Q2-04.

### Colombia

Political topics were dominant again in the past week: The constitutional commission of the senate approved, as expected, the planned constitutional amendment (aiming at making possible the re-election of a president) by 13 to 4 votes. We believe the discussions and voting in the plenum of both senate and the lower house to proceed more controversially in the future. In our view it remains doubtful whether a majority of both chambers is to vote for the constitutional change in December, when we expect the final debates to take place. ----- As became publicly known at the end of the week, the government in a surprise move has offered about one month ago the biggest guerrilla organization FARC to release 50 organization members from jail if the FARC is to free 63 hostages in return. The government wants to make sure that in case of successful negotiations none of the released prisoners will return to the armed conflict by measures of "re-socialization" or expulsion. ----- As expected, the central bank kept the key interest rate unchanged in its monthly monetary policy meeting. At the same time remarks of increased inflationary pressure point at increasing concerns about the excess liquidity which arises from continued US\$ purchases by the central bank aiming at mitigating the appreciation of the peso against the US\$. The central bank is likely to increasingly sterilize this excess liquidity by selling local treasury bonds. We have lowered our peso/US\$ exchange rate forecast for the end of the year by about 3%, to 2,630 pesos/US\$.

Outlook: By the end of this week we expect the national statistical institute DANE to release retail sales and industrial production figures for June as well as unemployment figures for July. Given the recent weaker economic figures we do not expect the indicator figures to be overwhelming. Still we expect the economic picture to brighten somewhat in the second half of this year and GDP to grow by 4.0% in 2004 as a whole.

### Ecuador

Tax revenues increased by 11.9% in July, driven by a high increase in income tax collection. In the first seven months of the year, tax revenues exceeded the budget by 1.1%. Higher tax revenues nevertheless cannot solve

the government's severe liquidity and solvency problems, visible in the announcement to use FEIREP monies for current spending. ----- Stronger goods exports took the current account to a surplus of US\$ 6.6 mn in Q1-04 (Q1-03: -US\$ 29.5 mn). On a more negative turn, FDI halved to US\$ 252 mn, compared to Q1-03. While the completion of the OCP pipeline explains part of the decrease, the still undefined legal framework for the oil sector continues to hamper FDI inflows. Energy Minister Lopez announced last week that the oil sector reform, which could provide for more legal reliability, will not be introduced to congress in the current year.

### Mexico

Last week the government announced a new attempt to push a tax reform through congress. Given the inefficiency of the current system this is a noble initiative. Nevertheless the odds for a success are extremely low. The government failed twice already to convince the opposition to agree to a comprehensive tax reform. The fact that the presidential election in June 2006 is approaching fast makes it hard to believe that a sustainable compromise could be reached. ----- In the second quarter GDP grew by 3.9% yoy, in line with market expectations and only slightly below our forecast. In seasonally adjusted terms GDP rose by 1.2% compared to the previous quarter. We expect the current economic slowdown in the US already to be felt in Mexico during the third quarter. Our growth forecast of 3.5% for 2004 is still significantly below the consensus by Mexican analysts of 4%. ----- In June retail sales rose only by 2.4% in real terms, much less than the monthly average between January and May (3.6%).

Outlook: Today Inegi will publish July trade figures. Due to higher oil prices the trade deficit is expected at US\$ 400 mn, well below last year's figure of US\$ 686 mn. ----- In the second quarter the current account has benefited from the continuing increase of remittances from abroad (Tuesday). We expect a deficit of just US\$ 1 bn (down from last year's US\$ 1.6 bn). ----- In July the unemployment rate should have at least stabilized at the current level after its sharp increase in June from 3.5% to 3.8%. ----- Consumer prices probably rose by 0.15% in the first two weeks of August (Tuesday); the central bank will most likely keep its monetary policy unchanged on Friday's policy meeting.

### Peru

The increase of the monthly GDP indicator, at 3.02% yoy, was markedly lower than expected. GDP increased therefore just 3.6% J/J in the second quarter after 4.9% at the beginning of the year. Above all the increase of exports and private consumption was lower than we expected. The rise in imports, on the other hand, was

surprisingly strong. Against the backdrop of the weaker economic data we refrain from a planned upward revision of our growth forecast, which remains at 3.8% for 2004 as a whole. ---- The Peruvian sol accelerated in its appreciation and quoted below 3.4 Soles/US\$. We believe that the positive effects of the appreciation (mitigating inflation pressure) outweigh the negative ones and do not think that the central bank will increase interventions on the foreign exchange market. We lowered our year-end exchange rate forecast to 3.4 soles/US\$. ---- Given strong import growth, the second-quarter trade surplus was about US\$ 200 mn lower than in the first quarter. The current account deficit widened accordingly and amounted to US\$ 234 mn (1.3% of GDP).

Outlook: By the end of this week the ministry of finance is to submit the 2005 budget to congress. We do not expect major surprises (budget volume PEN 49 bn, deficit 1 % of GDP). This year the government is to stay within the targeted public-sector budget limit (1.5% of GDP). ---- The cabinet decided to again submit a constitutional bill to congress which is to set grounds for a broad pension reform. Congress had accepted the bill the first time it was debated earlier this year and we are confident that the bill will pass the legislature again.

### Venezuela

The partial audit of the referendum result by the CNE election authority, which was performed upon pressure by the opposition and foreign observers, did not confirm the opposition's suspicion of severe fraud. This was confirmed by the Carter center and the OAS. Both institutions, however, intend to verify concrete allegations of fraud by the opposition, which still doubts the result. ---- GDP expanded by 13.6% yoy in Q2-04, somewhat stronger than expected (oil sector +3.5%, non-oil sector +15%). Growth in H1-04 amounted to 23.1% yoy, as the Q1-04 figure was significantly revised upwards (from 29.8 % to 34.8 %). We are in the process of revising our 2004 growth forecast (currently at 10.5%) upwards. ---- According to preliminary figures by the National Statistics Institute, open unemployment, at 16.6% in the first half of this year was practically unchanged at

the level of the second half of 2003, but 2.6 percentage points lower than a year ago. ---- Yet demand for loans is clearly rising: the loan portfolio of the six largest banks in July was almost 90% higher than in July 2003 and 45% higher than at end-2003. This development was supported by an increased US\$ supply by Cadivi, which in turn increased the corporate demand for domestic-currency loans. --- According to press reports, the state-owned oil company PDVSA only made one third of the investments planned for this year during the first eight months, which is not enough to ensure the maintenance of current oil production levels. At the same time, current expenditure is expected to rise from US\$ 9.5 bn to US\$ 11.3 bn this year, due among other things to social expenditure planned. ---- Even despite significantly higher imports (+88.7% yoy) the current account posted a solid surplus of US\$ 3.37 bn in Q2-04 (Q1-04: +US\$ 3.46 bn). Exports (+37.7%) were driven by higher oil prices, but non-oil exports had a solid performance as well (+37.3 %). While the trade balance showed a surplus of US\$ 5.6 bn, services posted a surprisingly high deficit of US\$ 2.2 bn, mainly due to high profit transfers abroad (US\$ 1 bn). The capital account deficit (incl. e&o's) reached US\$ 3.14 bn, and foreign exchange reserves decreased by US\$ 224 mn. ---- Finance minister Nobrega announced further issuance of US\$-denominated bonds against payment in bolívares at the official exchange rate for September/October. The funds are to be used for financing public investments and for servicing debt. The announcement will help reduce potential downward pressure on the bolívar in the parallel market (current exchange rate in the region of 2,700 VEB/US\$). ---- Immediately upon the announcement of the referendum result, the rating agency Standard & Poor's confirmed its rating of B- with a stable outlook.

Outlook: We expect that the unrest brought about by the referendum and opposition allegations of fraud will calm down, and that the next political event, state governor and mayoral elections on September 26, will move to the center of political attention; however, the opposition seems to be thinking of not taking part in these elections.



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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	23.08.2004	3.01	3.02	2.96	2.92	2.92	-2.9	3.1
Brazil	23.08.2004	2.97	3.00	3.06	3.00	3.00	1.0	3.1
Mexico	23.08.2004	11.34	11.37	11.45	10.88	10.88	-4.0	11.9
Chile	20.08.2004	632	638	635	697	697	10.4	620
Colombia	20.08.2004	2597	2614	2627	2851	2851	9.8	2800
Peru	20.08.2004	3.38	3.41	3.42	3.48	3.48	2.9	3.4
Venezuela	20.08.2004	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	23.08.2004	5192	5159	5046	5050	5739	-547
Brazil	23.08.2004	525	554	615	720	463	62
Mexico	23.08.2004	183	194	197	214	199	-16
Colombia	23.08.2004	817	831	915	1108	799	18
Ecuador	23.08.2004	408	436	442	394	431	-23
Peru	23.08.2004	357	375	408	385	312	45
Venezuela	23.08.2004	543	561	614	792	593	-50

## Benchmark interest rates

%	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina, Overnight	20.08.2004	2.50	2.50	2.38	2.31	1.50	1.0	3.0
Brazil Selic	20.08.2004	15.86	15.88	15.75	21.84	16.33	-0.5	16.0
Mexico Cetes 28 days	20.08.2004	7.16	7.21	6.81	5.50	6.01	1.2	7.5
Chile 90 days, PDBC	19.08.2004	1.63	1.62	1.68	2.96	2.29	-0.7	2.3
Colombia Overnight	18.08.2004	6.87	6.94	6.88	7.38	7.49	-0.6	8.8
Peru Overnight	20.08.2004	2.75	2.60	2.48	2.80	2.50	0.3	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	18.08.2004	18.1	18.1	18.0	13.3	14.1	4.0	18.5
Brazil	19.08.2004	49.7	49.7	50.5	48.3	49.3	0.5	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	16.4
Colombia	31.07.2004	11.8	na	11.6	10.5	10.9	0.8	11.5
Peru	30.06.2004	10.9	na	10.8	10.0	10.2	0.7	11.4
Venezuela (FEM&Gold incl.)	18.08.2004	21.1	21.5	23.5	17.5	21.3	-0.2	

## Economic activity

GDP (yoy, %)	2003	2004f	2005f	Inflation	2003	2004	2005	GDP 2003, US\$ bn
				%, year end				
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	2.8	3.0	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	1.6	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	-1.5	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	US\$ bn	months	
Argentina	378	39	32.3	80	1.2	1.7	9.9	0.0		5.8	
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	130	18	7.7	23	2.3	2.0	7.0	2.7		6.0	
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	