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Argentina: Dynamic external trade in July

Brazil: GDP growth rebound in the second quarter

Chile: Mixed economic results in July

Colombia: Strong consumer confidence

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Mexico: Improving consumer confidence

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Argentina

External trade continued its dynamic activity in July: exports expanded 18% in terms of value and 17% in terms of volume, whereby agricultural goods as well as products of the manufacturing industry registered comparably high increases (27% and 31%, respectively). Growth of imports remained robust at the same time, though their value and volume have risen „only“ 19% and 13%, respectively, after having reached nearly twice as high expansion rates in the month of June. As a consequence, the trade surplus grew to US\$ 1.2 bn. (July 2004: US\$ 1.06 bn). Year-to-date, however, imports (+31%) are growing much faster than exports (+14%). For the year as a whole, we therefore expect the trade surplus to tighten to US\$ 10.5 bn (2004: US\$ 13.3 bn). ----- Activity of the construction industry grew 9.8% (yoy) in July, with important impulses coming from public investments. Infrastructure investments expanded 17% yoy and roadway construction even a surprising 23.8%. Results in housing construction improved 7.5% yoy. In the first seven months of this year, the construction sector managed to reach a growth rate of 8.4% in comparison with the corresponding period of the previous year. ----- In July, retail sales posted mixed results: while shopping sales remained flat compared to the previous month, supermarket sales increased by 1.1% mom sa. Compared to July 2004, however, expansion remains robust, with supermarket sales growing 8% yoy and shopping center sales posting an impressive +16%.

Brazil

Mr. Juscelino Buratti, Minister Palocci's chief of staff, surprisingly resigned last week after his testimony before a Congressional Committee investigating corruption. He denied any wrongdoing and affirmed Palocci has never been involved in any corruption scheme. Nevertheless, his resignation – up to this point without a known motive – may raise many questions in the markets. ----- Data released by the Brazilian Statistics Institute IBGE confirmed our expectations of a GDP rebound in the 2nd quarter of the year, with growth of 1.4% qoq, sa, and of 3.9% yoy, exceeding market forecasts (consensus: 3.4% yoy). Data showed widespread yoy-

increases on the supply side (agriculture: +3.2%; industry: +5.5%; services: +2.5%). On the demand side, investments led growth with an expansion of 4.5% qoq and 4.0% yoy, following strong demand recovery for both capital goods and construction. Despite the acceleration of economic activity, demand inflation pressures are unlikely to arise, as the recovery of gross fixed capital formation shows that aggregate supply is set to increase in line with aggregate demand. Together with still decreasing inflation rates, this bodes well for interest rate cuts starting in September. ----- The latest General Price Index figures (IGP-M) showed higher-than-expected deflation in August. The index fell 0.65% mom as a result of decreases in all of its components, especially in wholesale prices (-0.88%), which are more sensitive to the recent exchange rate revaluation. The consumer prices component posted a decrease of 0.32% mom in August. ----- The strength of the real and recovering economic activity led to record-high imports of US\$ 7.7 bn in August, an increase of 36.5% yoy and of 26.9% mom. Exports also reached a new record of US\$ 11.3 bn. The trade surplus decreased to US\$ 3.7 bn in August compared to over US\$ 5 bn in the previous month, but it was still slightly above the figure of the same month of last year. Accumulated trade figures from January to August show that record exports of US\$ 76.1 bn (+24% yoy) were based mainly on manufactured goods (US\$ 41.6 bn; +28.1% yoy), which reached 55% of total exports. There were relevant increases in exports of many non-traditional items and to new markets, such as Eastern Europe (+67.4% yoy) and Africa (+47.9% yoy), indicating an improving export structure. Imports also posted a record for the period (US\$ 47.7 bn; +21% yoy), mainly due to capital goods imports (US\$ 9.8 bn; +29%). The highest individual growth rate was posted by imports from China (+47% yoy).

Chile

Industrial production posted a somewhat lower growth in July, rising 4.4%. Consensus had called for a 6.5% growth. Breaking the overall figure down, it becomes clear that capital goods production remains very strong

at +11%, while intermediate goods lag behind at a mere 2.8%. Mining production came in very weak in July, contracting 12.1% yoy on the back of weak copper production. On a more positive note, retail sales expanded 4.9% in July, confirming our assessment of a solid upturn in domestic demand following strong employment creation (July 2005: +4.8% yoy). While the growth rate fell short of June's figure (+5.4%), it compares to a high base in July 2004. Against this backdrop, the IMACEC economic indicator is likely to post growth of 5% in July (today). We expect domestic demand to remain in the driver's seat for growth in the coming months, taking the economy to overall 2005 growth of 5.7%. ---- Driven by increasing transport prices, we expect consumer prices to increase 0.5% in August, taking the yoy-rate to 3.2% (tomorrow). At the same time, a substantial increase in core inflation is likely to reveal some demand-driven inflation pressure on the back of rising employment and real wages. Against this backdrop, the central bank is likely to continue its policy of gradual monetary tightening by hiking interest rates 25 bps (to 4%) at its meeting on Thursday.

Colombia

Consumer confidence is still rising and reached with 21.9 points (on a scale from -100 to +100 points) its second highest level ever. Better sentiment is explained by the positive development in the labor market: Unemployment in the thirteen biggest cities reached 14.1% in July after 15.3% in the same month last year. Additionally, the perspective of high GDP growth is contributing to the optimistic consumer confidence. (DBLA 2005 growth forecast: 4.0% yoy). High consumer confidence and the ongoing job creation are likely to bolster private consumption in the months ahead. ---- Inflation was flat in August, taking the yoy-rate down to 4.88%. It is very likely that this year's inflation target of 4.5 – 5.5% at the end of the year will be reached. While there is still some danger of an inflation pick-up against the backdrop of continued Central Bank intervention in the foreign exchange market, this should remain modest. ---- Despite the strong Peso, exports grew 47.3% yoy in June, reaching US\$ 2.1 bn. This was due to high commodity prices and strong growth of Colombia's main trading partners. Non-traditional exports, however, begin to be hampered by the strong appreciation of the Peso. While they still grew 27.8% yoy in the first half of the year, in June their growth rate already declined.

Ecuador

The government submitted the 2006 budget to Congress. Instead of trying to keep spending under control – which should be mandatory given the government's tight liquidity situation - the budget includes a 14.5% in-

crease of expenditures. Especially wages and social spending are planned to increase 15.3%. The hope of an increase of revenues by 16.6% seems to be very optimistic. Additional revenues are supposed to come from higher tax revenues and very high oil prices. The government is likely to base its financing strategy on multilateral lending once again, even though information about financing plans has not yet been released. ---- The rating agency Fitch kept the long-term credit rating at "B", but changed the outlook from "stable" to "negative". This was due to the latest reforms to the FEIREP fund and to the social security agency, which reduces the local financing possibilities of the government in the future. Fitch is also concerned about the political instability.

Mexico

According to the latest Reforma poll on the presidential elections, former Mexico City mayor López Obrador maintained the lead against the other candidates with 35% of vote intentions (-1 percentage point compared with the previous poll). At the second place with 25% was Santiago Creel of the PAN (+1 percentage point), the party of President Fox. Another poll published by Reforma shows that Fox's approval rating was surprisingly high at 61%, an increase of 5 percentage points. This could eventually be transformed in more voter support for Creel, Fox's protégé. Meanwhile, Roberto Madrazo of the PRI came in third with 22%, losing 3 percentage points. ---- Based mainly on strong revenues from the oil sector, the public sector posted a surplus of MXN 20.7 bn in July, bringing the ytd-surplus to MXN 61.8 bn (+7.8% yoy). ---- According to INEGI, the consumer confidence index reached 102.2 points in July (+6.5% yoy, +1.5% mom). Against June, two out of the five components of the index rose substantially: the perception of the country's current economic situation as compared to the previous 12 months (+7%) and the perception of the country's expected economic situation in the next 12 months as compared to the current one (+2.5%).

Venezuela

According to media reports, the government plans to install government representatives on the boards of private banks in the country. If confirmed – Congress is expected to discuss a new banking law that is likely to include the concept of government representatives in the coming weeks – this would be a further step towards transforming Venezuela into a command economy. ---- Congress approved the reform of the value-added tax, lowering its level by 1pp to 14%, effective September 1. ---- Consumer prices increased 1% mom in August, slightly below market consensus of 1.3% and the August 2004 figure of 1.3%. Therefore,

accumulated inflation for the first eight months amounts to 9.9%, which compares favorably to 14.1% in the period Jan-Aug 2004. Compared to August 2004, prices increased 14.9% yoy. We expect price pressures to increase in the coming months, taking year-end inflation to 17.4%. ----- According to government sources, the Central Bank will begin transferring part of its "excess

reserves" to the government's FONDEN fund on September 15. The first tranche will likely amount to around US\$ 1bn, with more monies to follow until December 31. While the total amount of reserves to be transferred remains undefined until now, we expect the FONDEN to receive US\$ 5-6bn during the remainder of the year.

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Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yoq = year-on-year
ytd = year-to-date
s.a. = seasonally adjusted
n.s.a. = not seasonally adjusted



| Exchange rate | date | last | one week | one month | one year | end 2004 | ytd-change, % | end 2005f |
|---------------|------------|-------|----------|-----------|----------|----------|---------------|-----------|
| Argentina | 05.09.2005 | 2.91 | 2.91 | 2.86 | 2.99 | 2.97 | 2.1 | 2.9 |
| Brazil | 05.09.2005 | 2.32 | 2.39 | 2.31 | 2.91 | 2.66 | 14.6 | 2.5 |
| Mexico | 05.09.2005 | 10.66 | 10.85 | 10.61 | 11.58 | 11.15 | 4.6 | 11.0 |
| Chile | 05.09.2005 | 535 | 546 | 547 | 621 | 556 | 3.9 | 570 |
| Colombia | 05.09.2005 | 2298 | 2305 | 2307 | 2556 | 2355 | 2.5 | 2337 |
| Peru | 05.09.2005 | 3.31 | 3.29 | 3.25 | 3.38 | 3.28 | -0.9 | 3.3 |
| Venezuela | 05.09.2005 | 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 | 02.09.2005 | 393 | 438 | 403 | 5158 | 4707 | -4314 |
| Brazil | 05.09.2005 | 406 | 411 | 381 | 511 | 383 | 23 |
| Mexico | 02.09.2005 | 144 | 148 | 149 | 180 | 167 | -23 |
| Ecuador | 05.09.2005 | 715 | 711 | 680 | 808 | 691 | 24 |
| Colombia | 02.09.2005 | 301 | 304 | 305 | 406 | 333 | -32 |
| Peru | 05.09.2005 | 169 | 160 | 159 | 338 | 220 | -51 |
| Venezuela | 02.09.2005 | 395 | 429 | 417 | 545 | 412 | -17 |

Benchmark interest rates

| % | date | last | one week | one month | one year | end 2004 | ytd-change, %-points | end 2005f |
|----------------------------|------------|-------|----------|-----------|----------|----------|----------------------|-----------|
| Argentina, Overnight | 02.09.2005 | 4.63 | 4.50 | 4.56 | 2.50 | 2.31 | 2.3 | 5.0 |
| Brazil Selic | 05.09.2005 | 19.73 | 19.74 | 19.76 | 15.92 | 17.75 | 2.0 | 18.5 |
| Mexico Cetes 28 days | 05.09.2005 | 9.48 | 9.48 | 9.63 | 7.26 | 8.61 | 0.9 | 9.5 |
| Chile 90 days, PDCC | 01.09.2005 | 4.28 | 4.13 | 3.13 | 2.05 | 2.24 | 2.0 | 4.5 |
| Colombia Overnight | 31.08.2005 | 6.41 | 6.37 | 6.36 | 6.90 | 6.24 | 0.2 | 7.1 |
| Peru Overnight | 02.09.2005 | 3.03 | na | 3.00 | 2.70 | 3.03 | 0.0 | 2.5 |
| Venezuela deposits 30 days | 31.08.2005 | 10.35 | 10.81 | 10.55 | 11.23 | 11.92 | -1.6 | 14.5 |

Foreign exchange reserves

| US\$, bn | date | last | one week | one month | one year | end 2004 | ytd-change | end 2005f |
|----------------------------|------------|------|----------|-----------|----------|----------|------------|-----------|
| Argentina | 02.09.2005 | 25.5 | 25.2 | 25.2 | 18.1 | 19.6 | 5.9 | 21.5 |
| Brazil | 01.09.2005 | 55.3 | 54.9 | 54.8 | 49.6 | 52.8 | 2.5 | 62.0 |
| Mexico | 26.08.2005 | 73.1 | 71.9 | 69.9 | 68.4 | 71.6 | 1.5 | 66.1 |
| Chile | 30.06.2005 | 16.6 | na | 17.4 | 15.8 | 15.8 | 0.8 | 16.7 |
| Colombia | 31.07.2005 | 13.9 | na | 13.7 | 11.8 | 13.5 | 0.3 | 16.0 |
| Peru | 30.04.2005 | 13.6 | na | 13.6 | 10.5 | 12.6 | 1.0 | 13.5 |
| Venezuela (FEM&Gold incl.) | 01.09.2005 | 32.4 | 31.8 | 30.4 | 21.5 | 24.2 | 8.2 | 28.5 |

Economic activity

| GDP (yo, %) | 2003 | 2004 | 2005f | Inflation %, 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 | 5.6 | 506 |
| Mexico | 1.4 | 4.4 | 3.3 | | 4.0 | 5.2 | 3.8 | 626 |
| Chile | 3.7 | 6.1 | 5.7 | | 1.1 | 2.4 | 3.5 | 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 |
| Argentina | 1.3 | 4.2 | 140 | 126 |
| Brazil* | -5.2 | -2.7 | 56 | 52 |
| Mexico** | -0.6 | -0.3 | 28 | 27 |
| Chile*** | -0.4 | 2.1 | 13 | 12 |
| Colombia | -2.7 | -1.2 | 56 | 52 |
| Peru | -1.9 | -1.3 | 48 | 46 |
| Venezuela | 0.2 | 0.0 | 46 | 39 |

* Amortisations only federal debt, including short term debt

** Amortisations without Cetes

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

External Sector 2004

| | External debt % of exports | Debt service s.t., % of total | Current account % of GDP | Trade Balance US\$ bn | FDI (net) US\$ bn | Import cover months |
|-----------|----------------------------|-------------------------------|--------------------------|-----------------------|-------------------|---------------------|
| | US\$ bn | % of exports | US\$ bn | US\$ bn | US\$ bn | |
| Argentina | 397 | 35 | 32.3 | 2.2 | 3.3 | 3.9 |
| Brazil | 203 | 12 | 65.6 | 1.9 | 11.7 | 18.2 |
| Mexico | 79 | 21 | 37.5 | -1.2 | -7.9 | 17.4 |
| Chile | 112 | 18 | 7.2 | 1.4 | 1.3 | 5.0 |
| Colombia | 205 | 11 | 7.3 | -1.3 | -1.2 | 2.6 |
| Ecuador | 17 | 9 | 1.4 | 0.3 | 0.9 | 1.1 |
| Peru | 195 | 10 | 3.7 | -0.2 | -0.1 | 2.7 |
| Venezuela | 111 | 22 | 8.3 | 12.7 | 13.8 | 21.4 |
| | | | | | | 9.0 |