Latin American Weekly Spotlight

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Dresdner Bank Lateinamerika AG
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A company of the Allianz Group

Argentina:	IMF Managing Director Rato to visit Buenos Aires on Tuesday
Brazil:	Rising probability of interest rate hike
Chile:	Continued strong growth
Colombia:	Constitutional court again gets in the way
Ecuador:	Decreasing inflation
Mexico:	First signs of an economic slowdown
Peru:	Consumer confidence on year's high
Venezuela:	Foreign exchange controls to be permanent

Argentina

The primary surplus of the central government reached ARS 1.68 bn in July, exceeding our already optimistic expectations. For the first seven months of the year the surplus now stands at ARS 13.3 bn, already ARS 3 bn higher than the IMF target agreed for the entire year. Considering this comfortable financial situation, demands from bondholders to improve the restructuring offer are not likely to abate. We expect public expenditures to rise significantly in the months to come, one of the objectives being to reduce the primary surplus. ---- According to local paper "El Cronista Comercial" representatives of the bondholder committee ABRA and the Ministry of Economy met in Buenos Aires on August 20. The report claims that ABRA, de facto ceasing to be part of GCAB, is close to accepting a slightly improved offer from Argentina. According to the report ABRA represents holders of US$ 1.2 bn of defaulted bonds. The GCAB, which continues to ask for substantial improvements in the Argentine offer, claims to represent US$ 37 bn of bonds, or two thirds of bonds held outside Argentina. ---- Banking sector profitability, as measured by the annualized ROA, reached 0.8% in Q2-04 compared to -1.9% in Q1-04. Credits to the private sector were up by 10% yoy. However, even following this third consecutive increase credits in relation to GDP still only amount to 8% (2000: 22%) of GDP.

Outlook: A press conference is scheduled following talks of IMF Managing Director Rodrigo Rato in Buenos Aires on August 31. The fund probably will not be overall rejecting Argentina's so far unilateral approach to put the current program on hold and postpone some payments to the fund. However, at the same time the IMF is likely to stress that the revisions of the program remain pending and that although the program might be suspended, Argentina would need to continue to work on the overdue reforms agreed upon. ---- August tax revenues (Wednesday) are likely to come in even stronger than already usual (due to the economic recovery, July: +36 %, yoy) as favorable base effects should help to increase the yoy growth rate. ---- Export growth (Tuesday) is likely to be weak again in July (June: +1%, yoy). Imports are likely to show again a high growth rate compared to the low levels of last year (June: 77%). ---- The inflation rate in August (Friday) should not be much higher than in July (0.46%, mom), bringing the yoy rate to around 5.5%.

Brazil

After newly increasing inflation expectations and the publication of the central bank minutes which could be interpreted as if interest rates will no longer be kept unchanged, the central bank might think about an increase of the Selic rate by 25 basis points. If there is no help from falling oil prices or a further appreciation of the real, the tightening could happen as soon as September. ----- The unemployment rate decreased in July for the third month in a row, reaching 11.2% (June: 11.7%). If this trend continues, the government's prospects for the municipal elections in October would improve further. The July public-sector primary surplus came in somewhat lower than expected. However, the fiscal target with the IMF is not jeopardized. In the moving 12-month period the primary surplus amounts to 4.65% of GDP, well above the IMF target of 4.25% of GDP. Public debt decreased from 56% of GDP to 55.3%. At the same time the structure of the public debt has continued its improvement: Only 14.1 % of the local public debt is still linked to the US$, compared with 15.8 % in June and more than 30 % in 2002. ----- As expected, external sector figures were quite positive in July: The current account surplus doubled in comparison to the same month last year, to US$ 1.8 bn. Foreign direct investments amounted to US$ 1.6 bn (+28% J/J).

Outlook: This week we expect the lower house vote on the bankruptcy law. We expect that the bill will be approved which means that the law can finally be implemented. ----- GDP should have grown by 1.2% qoq and 4.9% yoy in the second quarter (Tuesday). The main driver should have been exports. However, private consumption should show a solid growth rate as well. ----- Industrial production (Tuesday) should have increased by 9% in July (0.2% mom). ----- The August trade balance will post a surplus of more than US$ 3 bn for the third month in a row (Wednesday).

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Chile

Q2-04 GDP posted a 5.1% yoy expansion, taking H1-04 growth to 4.9%. We stick to our overall 2004 forecast of 4.8%. Compared to Q1-04 on a seasonally adjusted basis, growth came in at 1.3% qoq, slightly below the Q1-04 figure (1.6% qoq s.a.). ----- Economic expansion continued in July: Industrial production grew 5.8% yoy, while retail sales increased 6.9% and mining production was 9.5% higher than in Jul-03. ----- Despite the favorable economic growth picture, labor market figures continue to lag: July unemployment came in at 9.7%, 0.6 percentage points above Jul-03, as employment (+0.4% yoy) grew less than the labor force (+1.1%).

Outlook: August CPI should increase at rates seen in recent months (forecast: 0.3% mom, Friday), which would take yoy inflation to 1.5%.

Colombia

The Farc guerrillas rejected the government's offer to exchange prisoners and denied that it was informed already a month ago about the proposal. Therefore hopes that the largest guerrilla organization could shortly be integrated into negotiations are smashed. ----- June exports increased stronger than expected (43% yoy). Commodity exports benefit from a persistently high price level, but non-traditional exports as well increased by around 20 %. The 22% yoy import surge corresponded with our expectations. In the remainder of this year we expect exports to stagnate on the current high level while imports are to increase further on the back of the strong peso. This year's trade balance should equal last year's level (about US$ 300 mn). ----- The constitutional court (CC) ruled against another detail of the pension reform which already passed congress in 2003. The so-called pension guarantee fund was designed to guarantee a minimum pension without resorting to further government resources. As the decision by the CC is based on methodological errors, we expect the government to resubmit the reform to congress.

Outlook: Consumer prices are to have increased by 0.2% in August. The yoy rate should have declined to just about 6%. The ongoing appreciation trend of the peso against the US$ should in our opinion enable the inflation rate to reach the year-end target of 5% yoy +/- one percentage point, despite the continuing economic upswing. ----- The central bank is to auction US$ put options worth US$ 200 mn on Tuesday.

Ecuador

Contrary to earlier announcements, the government lifted the 2005 budget oil price assumption from the current US$ 18 pb to US$ 22 pb. While this does not seem exaggerated in the current environment, where the ytd average for Ecuadorian crude amounts to around US$ 30 pb, the move reduces a budget buffer urgently needed to counter higher-than-expected expenditure due to social pressure, or revenue losses due to the sluggish state of the non-oil economy. ----- The government introduced to congress a reform proposal for the electricity sector in order to break up the investment backlog in the sector. While this was necessary, the far more important sector to be reformed is the oil sector, as public finances and external liquidity are directly at risk due to lackluster investment in the sector. However, after several collapsed attempts the government apparently sees no possibility to get an oil-sector reform approved in the current year. Negotiations on the electricity sector reform could provide clues concerning the perspectives of a possible future oil sector reform.

Outlook: Following three months of deflation, August consumer prices are expected to remain on the July level. This would take yoy inflation to 2.2%, down from more than 6% at the end of 2003.

Mexico

The July trade figures are offering first hints for an imminent slowdown in the Mexican economy. Exports rose only by 8.8% yoy after having grown 21.6% in June. In addition, imports increased only by 9.9% yoy (June: 22.9% yoy), which is an indication that domestic demand moved into a lower gear. ---- As expected, in July the unemployment rate remained stable compared to a month ago at 3.8%. ----- Inflationary pressures continue: in the first two weeks of August consumer prices rose by 0.38% (market consensus: 0.21%), which was mainly the result of rising food and energy prices. The central bank reacted immediately and tightened monetary policy on its Friday meeting. The "corto" was raised by 4mn pesos to 45mn pesos. ---- In the second quarter of 2004 the current account deficit fell to US$ 0.5 bn. This was partly the result of the continuing boom in remittances from Mexicans working abroad. ----- Money market rates are closing in on our year-end projection (7.5%): Cetes rates (28 days) rose from 7.00% to 7.19%.

Outlook: This week, congress will start the new session. Nevertheless, the odds that government and opposition will agree on meaningful reforms remain low. ---- On Friday the Finance Ministry will publish data on the development of the public household in July. Anything but a positive development would be a negative surprise, given the continued increase of oil prices. ---- In August, consumer confidence, as measured by Inegi (Friday), probably remained stable (better job market, but rising interest rates and increase in inflation).

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Peru

The August INDICCA consumer confidence index increased 4% compared to April 04. Even though this adds to other positive indicators (above all decreasing unemployment figures) for internal demand, the index, at 36 points, is far away from its maximum value of 100 points. ----- Respected economic expert Luis Carranza assumed the post of minister of economy. We do not expect major changes in the economic course.

Outlook: Consumer prices should have risen by 4.2% yoy in August which would correspond to a 0.4% mom decrease. We expect the central bank to leave rates unchanged and to announce no major exchange market interventions against the strength of the sol. ----- The 2005 budget is to be submitted to congress shortly. We expect no major surprises (budget volume: PEN 49 bn, budget deficit: 1% of GDP).

Venezuela

The OAS requested by unanimous resolution to accept the outcome of the referendum. According to official figures, 59.25% of the votes were in favor of president Chávez remaining in office. Nevertheless, the opposition doubts the result and requires a clarification. ----- President Chávez announced the intensification of the social programs initiated by him and the application of the 2001 law which enables the expropriation of unused large-scale land-holding. ----- Finance minister Nobrega clarified that foreign exchange controls for capital transactions are intended to be permanent. In contrast, exports and imports of goods and services are planned to be made much more flexible. ----- The rating agency Standard & Poor's raised the rating for Venezuela's long-term sovereign bonds in domestic and in foreign currency from B- to B, citing a clearer political situation, stable currency reserves and a reduced level of foreign debt (Outlook: stable). ----- According to unofficial information from government representatives, the 2005 budget draft will be based on the assumption of a devaluation of the domestic currency by 12-15%. ----- The development fund which PDVSA plans to increase to US$ 2 bn with oil export proceeds is reported to currently contain US$ 1.4 bn.

Outlook: According to information from the electoral authority, the regional and mayoral elections will be postponed from September 26 to mid or end-October "for technical reasons"; the exact date will be determined today. The opposition has not yet decided whether they will take part in the elections under the current management of the election authority CNE. ----- Due to price controls, August inflation will probably remain relatively low (July: +1.4% mom).

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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

Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	27.08.2004	3.01	3.01	2.98	2.95	2.95	-1.9	3.1
Brazil	27.08.2004	2.95	2.97	3.04	2.99	2.99	1.1	3.1
Mexico	30.08.2004	11.39	11.41	11.42	11.04	11.04	-3.1	11.9
Chile	27.08.2004	627	628	642	697	697	11.3	620
Colombia	27.08.2004	2576	2595	2612	2831	2831	9.9	2640
Peru	27.08.2004	3.36	3.38	3.42	3.48	3.48	3.6	3.4
Venezuela	27.08.2004	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	30.08.2004	5187	5193	5013	4876	5739	-552
Brazil	30.08.2004	524	523	591	701	463	61
Mexico	30.08.2004	185	183	199	218	199	-14
Colombia	27.08.2004	825	822	900	1108	799	26
Ecuador	30.08.2004	403	404	436	418	431	-28
Peru	30.08.2004	351	359	410	381	312	39
Venezuela	30.08.2004	537	535	580	817	593	-56

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	27.08.2004	2.63	2.50	2.50	2.25	1.50	1.1	3.0
Brazil Selic	27.08.2004	15.86	15.85	15.78	21.83	16.33	-0.5	16.0
Mexico Cetes 28 days	27.08.2004	7.44	7.21	7.06	4.70	6.01	1.4	7.5
Chile 90 days, PDBC	26.08.2004	1.69	1.63	1.87	2.85	2.29	-0.6	2.3
Colombia Overnight	25.08.2004	6.86	6.87	6.81	7.32	7.49	-0.6	8.5
Peru Overnight	27.08.2004	2.73	2.75	2.53	2.80	2.50	0.2	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	25.08.2004	18.0	18.1	18.0	13.3	14.1	3.9	18.5
Brazil	26.08.2004	49.4	49.7	49.8	47.6	49.3	0.1	53.2
Mexico	20.08.2004	68.4	68.7	68.5	57.0	65.8	2.6	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	12.0
Peru	30.06.2004	10.9	na	10.8	10.0	10.2	0.7	11.4
Venezuela (FEM&Gold incl.)	26.08.2004	21.4	21.2	23.7	17.5	21.3	0.1	

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	2.8	3.0	72
Colombia	3.7	4.0	3.7	6.5	6.0	6.5	79
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	-7.6	12.8	4.5	27.1	22.0	24.0	86

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	2.5	13	14	0.8	0.8	1.4	-0.7
Colombia	-2.8	-2.8	56	52	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	0.5	45	35	10.8	4.6	10.7	4.1

* 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	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	242	12	6.9	41	-2.3	-2.2	-0.1	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	89	8	8.1	22	12.3	12.4	19.7	1.5	9.2