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<b>Argentina:</b>	IMF accepts suspension of talks
<b>Brazil:</b>	Almost 6 % growth in the second quarter
<b>Chile:</b>	Solid growth in July expected
<b>Colombia:</b>	Inflation reaches target range
<b>Ecuador:</b>	Stable prices in August
<b>Mexico:</b>	Inflation expectations continue to rise
<b>Peru:</b>	Trade surplus increased again
<b>Venezuela:</b>	Fedecámaras intends to reestablish contacts with the government

## Argentina

The IMF accepted Argentina's proposal to suspend talks on the third revision of the current program, overdue since June, until the restructuring of bonds has been completed. Furthermore, the fund intends to decide on Argentina's wish to extend the repayment of US\$ 1.5 bn of the total of US\$ 2.5 bn due to the IMF until the end of this year, until the budget for next year is unveiled, which is expected to take place in mid-September. ---- Unclear comments by Economy Minister Lavagna led to renewed speculation that the exchange offer for defaulted bonds could be improved. Later on, Lavagna clarified that the government will only use any free cash flow arising from a lower participation rate to buy back defaulted bonds in the market. ---- As expected, tax revenues continued to show strong growth in August (39.9%, yoy). From January to August tax revenue is up 41.7% yoy. ---- The mixed committee led by the Ministry of Economy decided to raise the minimum monthly wage by 28.5% to 450 pesos. The hike has to be viewed in the context of the government's wish to lift consumption amid weakening GDP growth. ---- As expected, export growth continued to be weak in July (6%, yoy). Export prices were up 11%, while export volume declined 5%. Import growth came back to 55% following 78% in June. ---- Consumer prices increased less than expected in August (0.3%, mom; 5.2%, yoy). We expect a year-end inflation rate of 7% (yoy), which would be at the lower end of the central bank's target range of 7% to 11%.

Outlook: The Argentine Ministry of Economy expects that the exchange offer will be presented to bondholders this month following the approval of foreign regulatory agencies. Speculation about a possible cash payment is likely to continue up until the very end. Argentine officials repeatedly ruled out the possibility of cash payments. However, the Argentine offer as it stands is not likely to attract high participation. ---- The UTDT index of consumer confidence (Thursday) is likely to weaken again, however not as strong as in the previous reading in August (-5.7%, mom).

## Brazil

The Brazilian economy expanded in the second quarter for the fourth time in a row (1.5% qoq, sa., 5.7% yoy). The economic upturn is broadly based: Private consumption increased 1.5% qoq, and investment demand showed a solid growth (1.5% qoq), too, whereas exports expanded at an even higher rate (2.25% qoq). However, we note that both exports and investments have decelerated somewhat. We expect a renewed acceleration in the investment sector as capacity utilization in the industrial sector reached historical highs. Agriculture is still producing on a high level. However, the output decreased slightly in qoq terms (-0.3%). For the whole year we expect an economic growth rate of 4.5%. ---- The trade balance surplus amounted to US\$ 3.45 bn in August, which means that the ytd surplus is staying now at US\$ 22 bn. For the whole year we expect a surplus of US\$ 33 bn, a new record in Brazil's economic history. ----- After paying a visit to Brazil last week, IMF MD de Rato said in a press release that Brazil is following a very disciplined economic policy. Apart from that, he added that the IMF is inclined to modify the fiscal objectives to give further space for public investment, provided this is done without affecting debt sustainability. This is a point Brazil has been negotiating with the IMF for several years. An interesting point in this respect was that a decision about a new agreement will be taken not earlier than March next year, according to finance minister Palocci. In the past months representatives of the government said very decidedly that a new agreement is not on the cards.

Outlook: Industrial sales, which increased by 23% yoy in July according to Fiesp, confirm our expectation that the industrial production should have increased in the same month by 11 % yoy (Thursday). We expect that this sector will continue to produce at the current high level. A first indicator for this should be the car production in August (probably today). ---- The IPCA inflation (Friday) is expected at 0.70% mom (7.18% yoy) for the month of August, thereby staying in the upper region of the central bank's inflation target range of 5.5 % +/- 2.5 percentage points. We expect the institution to tighten

its monetary policy after municipal elections (October 3) at the latest.

### Chile

Mostly due to higher electricity prices, consumer prices rose 0.4% mom in August. This takes yoy inflation to 1.6%, slightly below the CB's target corridor (2-4%). We expect the CB to monitor the secondary effects of higher oil prices, which drove the CPI's energy and transport components higher in recent months, for another month to come. We therefore expect the CB to leave key interest rates unchanged in tomorrow's meeting.

**Outlook:** IMACEC figures for July will be published today. On the back of high growth in industrial production and mining, we expect a solid increase, while the yoy rate will be somewhat limited by a high basis of comparison (forecast: 4.5% yoy). ---- Due to dynamic export growth (forecast: +60% yoy), the trade balance should post another record surplus in August (forecast: US\$ 900 mn).

### Colombia

The consumer price index was almost flat in August. Thus inflation surprisingly only amounted to 5.8% (yoy), re-entering the inflation corridor (5% +/- one percentage point) envisaged by the central bank for year-end. Given the slow-down in monetary growth suggested by most recent figures, it seems possible again that the year-end target will be reached. We stick to our assumption that inflation will stand at the upper margin of the target band (6.0%) in December 2004. ---- The unemployment rate dropped to 15.3% in July, the second lowest figure so far this year. ---- With 4.25% yoy, second-quarter GDP growth slightly exceeded our expectations (4.1% yoy). The construction, commerce and manufacturing sectors showed accelerating growth and therefore remained the most dynamic sectors, while growth in the mining and financial sectors was disappointing. We still expect growth to amount to 4% for this year as a whole.

**Outlook:** We interpret the return of ex liberal presidential candidate Serpa to Colombia – at the beginning of 2003, he went to Washington as an ambassador for the OAS – and the initiative by the opposition to strengthen the parliament through a constitutional amendment as early signs of stronger headwind for the government. ---- The debate of the senate dealing with the constitutional amendment to possibly enable president Uribe to run for a second term continues. The government expects the senate to vote on the issue this Wednesday.

### Ecuador

The government's 2005 draft budget projects a deficit of US\$ 484 mn, or 1.7% of GDP (according to our GDP forecast). Public financing needs amount to US\$ 2 bn. While the government apparently hopes for multilateral monies even without an IMF program, we expect the government to have to resort to the FEIREP oil stabilization fund to cover financing needs. ---- As expected, consumer prices were stable in August, taking the yoy rate to only 2.2%. Given Ecuador's dollarized economy, the strong disinflation process is a positive feature. However, it also underlines the feeble situation of the country's non-oil economy.

### Mexico

According to the last central bank survey, inflation expectations as at year-end rose from 4.14% to 4.33%; expectation as at the end of 2005 has likewise risen (from 3.83% to 3.91%). Consequently, interest rate forecasts (Cetes 28 days) as at year-end 2004 have increased from 7.35% to 7.56%. In view of the poor inflation figures for the first half of August (+0.38% mom), these reassessments came as no surprise. ---- For 2005, President Fox will present a budget which provides for a deficit of only 0.1% of GDP. ---- For the current year, Finance Minister Gil Díaz expects economic growth to reach 4% (DBLA forecast: 3.5%). ---- August consumer confidence fell by 0.4% mom; this was the third decrease of the index in a row. Therefore, we continue to expect a downturn in demand during the second half of the year. ---- The public-sector budget registered a surplus in July, too, resulting in a total surplus of US\$ 57 bn for the first seven months (January to July 2003: US\$ 36 bn). Despite the likely deficits towards the end of the year, it should be possible to meet this year's goal to not exceed a budget deficit of 0.3% of GDP. ---- Exports are currently boosting employment: Whereas in the maquila sector the number of people employed rose sharply by increasing in June a seasonally adjusted 1.5% mom (+6.7% yoy), employment in the manufacturing industry overall fell slightly again (-0.2% mom; -2.6% yoy).

**Outlook:** We expect gross investment in plant and equipment to increase again in June (Tuesday), thus partly compensating for the decrease experienced in the two preceding months. ---- With approx. 0.5% mom, a significant increase in consumer prices as a consequence of the high inflation rate during the first two weeks of the month is expected for August. Nevertheless, we do not expect any modification of the Corte at the central bank's session on Friday, since the bank had already tightened its monetary policy at the end of July.

## Peru

The export increase, at more than 42% yoy, surprised again our expectations (20% yoy). Imports increased a mere 8% yoy, while the trade balance closed with a surplus of US\$ 330 mn. The positive performance of foreign trade confirms our expectation that Peru will post this year the first current account surplus since 1985. ----- Given the positive outlook for the external sector and some hints of a recovering domestic sector, we have raised our growth forecast for 2004 from 3.8% to 4.3%. ----- Inflation was once again more than one percentage point above the central bank's year-end target band (2.5% +/- one percentage point). We have lifted our year-end inflation forecast from 3% to 4% yoy. ----- The 2005 budget submitted to congress by the government more or less corresponded with our expectations. However, the government's economic estimates for inflation (2.5%) and growth (4.5%) as well as the envisaged budget deficit (1% of GDP) appear to be made in good faith. We expect the government to exceed its fiscal target by at least 0.2 percentage points of GDP next year. ----- After the central bank intervened on the foreign exchange market with more than US\$ 100 mn on Wednesday, a somewhat strong correction took place on the foreign exchange market. After an upward trend of the Sol which lasted for a few weeks, the Peruvian currency lost about 1% in four days and stood at 3.39 soles/US\$ on Friday.

## Venezuela

President Chávez announced he will intensify social programs implemented to support the poor. To this end, two new ministries – one for state-subsidized housing and one for nutrition – were founded. Chávez also wishes to make use of the 2001 law which allows for unused agricultural areas to be confiscated. ---- Following years of confrontation, the employers' association Fedecámaras intends to reestablish contacts with the government "without preconditions". ----- The election authority CNE determined that elections for governors, mayors and regional parliaments will be held on October 31; the date originally scheduled (September 26) reportedly could not be met for "technical reasons". The opposition, which still has to find a new orientation after it lost the referendum, will be pleased by the postponement. ----- Consumer prices, at 1.3% mom (21.9% yoy), rose less than expected in August; the increase was only 0.7% for goods and services with regulated prices and 1.9% for the rest. ----- The unemployment rate decreased by 0.2 percentage points mom in July, to reach 15.5%. The informal sector accounted for more than 50% of the gainfully employed workforce.

Outlook: Figures concerning production of the private manufacturing industry in July and car sales in August will probably be published this week. We expect they will confirm that the recovery in domestic demand is continuing at the beginning of the third quarter.

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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	06.09.2004	3.00	3.01	3.06	2.94	2.94	-1.8	3.1
Brazil	03.09.2004	2.93	2.94	3.03	2.95	2.95	0.8	3.1
Mexico	06.09.2004	11.52	11.41	11.40	11.05	11.05	-4.1	11.9
Chile	03.09.2004	622	627	641	683	683	9.8	620
Colombia	03.09.2004	2556	2541	2600	2814	2814	10.1	2640
Peru	03.09.2004	3.39	3.36	3.41	3.48	3.48	2.8	3.4
Venezuela	03.09.2004	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	03.09.2004	5177	5188	5092	4802	5739	-562
Brazil	03.09.2004	511	524	592	682	463	48
Mexico	06.09.2004	181	187	197	209	199	-18
Colombia	03.09.2004	808	825	873	1110	799	9
Ecuador	03.09.2004	399	403	434	417	431	-32
Peru	03.09.2004	338	350	390	388	312	26
Venezuela	03.09.2004	536	537	579	797	593	-57

## Benchmark interest rates

%	date	last	one week	one month	one year	end 2003	ytd-change, %-points	end 2004f
Argentina, Overnight	03.09.2004	2.50	2.63	2.50	2.13	1.50	1.0	3.0
Brazil Selic	03.09.2004	15.92	15.88	15.84	21.84	16.33	-0.4	16.5
Mexico Cetes 28 days	03.09.2004	7.26	7.44	7.16	4.68	6.01	1.3	7.5
Chile 90 days, PDCC	02.09.2004	2.04	1.69	1.64	2.90	2.29	-0.3	2.3
Colombia Overnight	01.09.2004	6.85	6.86	6.98	7.40	7.49	-0.6	8.5
Peru Overnight	03.09.2004	2.70	2.73	2.50	2.73	2.50	0.2	2.6
Venezuela deposits 30 days	30.08.2004	11.02	10.52	10.67	12.36	13.20	-2.2	14.0

## Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	01.09.2004	18.1	18.0	18.1	13.6	14.1	4.0	18.5
Brazil	02.09.2004	49.5	49.4	49.7	47.5	49.3	0.2	50.1
Mexico	27.08.2004	69.1	68.4	68.6	58.0	65.8	3.3	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	31.07.2004	11.1	na	10.9	10.0	10.2	0.9	11.4
Venezuela (FEM&Gold incl.)	01.09.2004	21.5	21.3	24.0	17.8	21.3	0.2	

## Economic activity

GDP (yo, %)	2003	2004f	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
Argentina	8.8	6.5	3.5		3.7	7.0	8.0	127
Brazil	-0.2	4.5	3.9		9.3	6.9	5.8	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	3.1	72
Colombia	3.7	4.0	3.7		6.5	6.0	6.0	79
Ecuador	2.7	4.8	2.9		6.1	2.3	0.9	27
Peru	4.0	4.2	4.2		1.8	4.0	3.9	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
Argentina	1.3	3.1	140	154
Brazil*	-5.2	-3.1	58	57
Mexico**	-0.6	-0.3	28	28
Chile***	-0.4	2.5	13	13
Colombia	-2.8	-2.8	56	52
Peru	-1.9	-1.5	48	46
Venezuela	0.2	0.5	45	35

\*Amortisations only federal debt, including short term debt

\*\* Amortisations without Cetes

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

## External Sector 2004f

	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	378	39	32.3	1.2	10.0	0.0
Brazil	212	12	67.4	1.6	33.5	9.5
Mexico	80	28	33.3	-1.3	-5.9	15.0
Chile	127	18	7.7	1.9	7.8	5.8
Colombia	242	12	6.9	-1.8	0.4	2.0
Ecuador	17	14	1.4	-0.1	0.8	-0.3
Peru	225	16	3.6	0.8	6.4	1.0
Venezuela	89	8	8.1	22	12.4	1.1