



Argentina: Primary surplus over target in August

Brazil: First BRL bond issue

Chile: Bachelet still leading election polls

Colombia: Government buys foreign reserves

Ecuador: Growth expectations revised

Mexico: Lower-than-expected retail sales

Venezuela: Mixed signals on private property rights

Argentina

Despite strongly increasing public spending, the cumulative primary surplus in the first eight months of the year, at ARS 15.3 bn, was already ahead of the full-year target of ARS 14.2 bn (3.2% of GDP). As revenues keep rising, the surplus is expected to reach just under 4% of GDP at year-end. As a consequence, the consolidated public sector (including surpluses of the provinces) should generate a comfortable primary surplus of almost 4.5% of GDP in 2005. Thus, however, the IMF recommendation to stabilize the primary surplus at last year's level (5.1% of GDP) is being missed. Moreover, revenue increases are partially resulting from distortionary export and financial transaction taxes, which should be abolished in the IMF's opinion. ----- Last week, the government decided to cancel the auction of US\$ 800 mn in bonds (Boden 2015), as yield-rate expectations of bids were at 8.8% on the average, while the government was evidently only prepared to pay a coupon of 8%. The government is expected to make another attempt as soon as it needs the funds to finance its amortization payments. Bond issues under Argentine law in the volume of US\$ 2 bn are planned until year-end. At the IMF and World Bank meeting last weekend, Argentina for the first time showed some willingness to include discussions on the normalization of relations with hold-out creditors into negotiations on a new IMF agreement. ----- Economic growth continues on a high level: according to the economic activity indicator EMAE, the economy expanded 8.9% yoy in the first seven months of this year. Seasonally adjusted, economic activity increased 0.7% in July in comparison to the previous month. Early estimates for August show that production of the manufacturing industry registered fresh stimulus, rising 1.6% against the previous month in seasonally adjusted terms after having stagnated in June and July.

Brazil

As expected, Severino Cavalcanti resigned last week from his job as President of the Lower House, since the allegations of bribery against him have turned his posi-

tion in Congress unsustainable. The post will be taken temporarily by Vice-President José Nonô from the opposition party PFL, until a new President will be elected (time limit of up to five parliamentary sessions). It seems that Lula's ruling party – PT – instead of presenting an own candidate, will support Mr. Aldo Rebelo from the communist party. Many candidates are fighting for the nomination; we believe that Michel Temer from the PMDB has good chances of winning. ----- According to the latest CNI/Ibope poll, the approval ratings of President Lula fell sharply to 45% in September from 55% in June, and for the first time the disapproving rates with 49% (38% previously) of answers were above the approving ones. Furthermore, concerning the presidential election in 2006, the poll shows that Lula is now more or less at the same level as the opposition politician and current mayor of São Paulo, José Serra. ----- The National Treasury concluded last week the first issue of Brazilian bonds denominated in national currency (Global BRL 2016). The issue of BRL 3.4 bn (US\$ 1.5 bn), which has a coupon of 12.5% p.a. and a yield of 12.75%, holds the longest term for a BRL-denominated debt bond (10 years) and will thus increase the debt's average maturity. ----- The unemployment rate remained stable at 9.4% in August but showed a decrease of 2 percentage points as compared to the same month last year, meaning the creation of 469,000 new jobs. Meanwhile, following the recent drop in inflation, real wages increased 0.7% mom and 3.7% yoy. These positive results suggest that private consumption may remain strong in the 3rd quarter. ----- Data released last week by the central bank showed a lower-than-expected current account surplus of US\$ 822 mn in August (Consensus: US\$ 1.5 bn), on the back of a higher-than-expected deficit in the services- and income account (-US\$ 3.2 bn). This was a result of increasing profit and dividend remittances, as companies take advantage of the strong real. Nevertheless, over the last 12-months period the current account has remained strong, with a surplus of US\$ 12.5 bn or 1.8% of GDP.

Chile

According to recent polls, the governing 'Concertacion'-coalition's presidential candidate, former Secretary of Defense Michelle Bachelet, is still ahead of its center-right competitors Lavín and Piñera. On the back of on-going solid economic growth and improving labor market conditions, Bachelet is likely to receive further tailwind in the time to December. ----- Industrial production is likely to have posted another sub-average growth in August (due on Thursday). We expect this development to underline the recent cooling down of economic activity on the back of monetary tightening and a high base of comparison. Growth should nevertheless stabilize on a comparatively high level, with overall 2005 GDP growth amounting to 5.7 % according to our forecast. ----- Growth continues to be driven by solid domestic demand, which in turn is based on a vigorous expansion of the labor market. We expect August to post no exception, with the number of employed likely to have grown by more than 4 % and the unemployment rate expected to remain at 8.6 % (August 2004: 9.9 %; figures due on Thursday)

Colombia

The coffee growers Federation announced that coffee production rose 5.5% compared with the same period last year. Due to higher coffee prices, export revenues came in 60% higher than last year and reached US\$ 1.6 bn. The federation also mentioned that the intervention of the central bank to stop the peso from appreciating too strongly, contributed to the positive result. ----- The government bought last week US\$ 700 mn of foreign reserves from the central bank earlier than expected. The central bank had announced earlier this month that they are going to sell US\$ 3 bn of foreign reserves to the government. ----- Last week, the twelfth negotiation round toward a free trade agreement of the USA and the Andean countries ended. All participants declared that the negotiations were very effective and the agreement is expected to be signed by November. The treatment is especially important for Colombia, as another trade agreement with the US is ending in 2006 and the US is still the most important trading partner of Colombia. There could still be some problems concerning the approval of the agreement in each country's parliament. Political noise in Bolivia and Peru and the consequences of the hurricanes in the USA could cause a delay of the agreement.

Ecuador

The Central Bank cut its growth expectations for the second time this year from 3.6% to 3.3% yoy. The political riots that almost stopped oil production in the first half of the year are the main reason for the slower economic growth. But also other indicators worsened in the

course of this year. Investment spending declined, and the consumer and business confidence went down in the last months. There was also no easing of tension in the labor market. Unemployment came in at 11% in August - almost just like the months before.

Mexico

Esther Gordillo resigned from her post as general secretary of the PRI after a negative outcome by her pledge against the party's internal proceedings that allowed Mariano Palacios to take the party's presidency after Roberto Madrazo. Ms. Gordillo could leave the PRI or face expulsion for having supported the creation of another party, the "Nueva Alianza". The PRI should now choose its candidate for the presidential elections between Madrazo and Arturo Montiel. ----- Inflation in the two first weeks of September showed an increase of 0.36% mom, bringing the inflation in yoy-terms to 3.57%. ----- Retail sales disappointed in July, showing a lower-than-expected expansion of 3.3% yoy as compared to market expectations of 4.3% and June's result of a 6% increase. This is especially worrying considering that private consumption has been one of the main factors supporting economic growth in recent months, and could lead the central bank to increase interest rate cuts.

Venezuela

In a positive move, main opposition parties reached an agreement to form a coalition ahead of this December's congressional elections. The partial unification of the opposition comes as a positive surprise and should strengthen its results in the elections. Apart from potential internal rifts, there remain, however, important challenges to the opposition: On the one hand, they have to motivate the anti-Chávez electorate not to abstain from the elections, and counter the fact that Chávez' supporting candidates are bolstered by public monies. On the other hand, the transparency of the election is likely to be very low, which further dampens the opposition's prospects to gaining a significant number of congressional seats. We expect the forces close to the government to succeed in the elections, taking their majority to more than 2/3 – the level that allows discretionary constitutional modifications. ----- Last week, mixed signals emerged out of the government with respect to private property rights. While on a positive note, the conflict between the government and the largest private group in the country concerning one of the company's corn plant apparently came to an end, with the government admitting that the plant was an active facility, comments from President Chávez concerning mining concessions and urban lands added further concerns with respect to the future of private property in the country. These concerns have been fuelled in recent months by the gov-

ernment intervening companies in different sectors of the economy without following the legal procedures called for in the constitution. We expect the investment climate to continue worsening, with negative effects on Venezuela's medium-term growth prospects. ----- Short-term growth remains robust, however, driven by strong domestic demand. Retail sales jumped more than 34% in June, while wholesale sales expanded by a dynamic 18.4% yoy. Demand continues to be driven by high government transfers and increasing availability of credit. We recently lifted our overall 2005 GDP growth forecast to 7.5%. ----- According to local newspapers, Finance Minister Merentes declared that the CB will transfer US\$ 3 bn in 'excess' FX reserves to the government-controlled FONDEN by the end of the month, with another US\$ 3 bn due by the end of the year. This contrasts to earlier announcements of the transfers to

be made in US\$ 1 bn-steps starting on September 15, and a statement made by the Head of the congressional Finance Commission, Rodrigo Cabezas, stating that transfers will be made twice a month until the end of the year with an amount of US\$ 750 mn each. ----- While international reserves are taking a hit from the transfers to the government, the rate of replenishment is likely to remain high in the coming months. The Venezuelan oil basket reached an average price of US\$ 53.6 per barrel last week, which will contribute to an average monthly reserve accumulation of more than US\$ 1 bn. While some moderation may be in the cards, we expect oil prices to remain high throughout the Hurricane season, with the northern hemisphere winter just around the corner and refineries operating at full capacity.

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Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yoy = year-on-year
ytd = year-to-date
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 2004	ytd-change, %	end 2005f
Argentina	26.09.2005	2.91	2.91	2.91	3.00	2.97	2.2	3.0
Brazil	26.09.2005	2.26	2.29	2.40	2.87	2.66	17.5	2.4
Mexico	26.09.2005	10.87	10.82	10.85	11.43	11.15	2.6	11.0
Chile	26.09.2005	537	535	546	607	556	3.4	560
Colombia	26.09.2005	2289	2294	2306	2598	2355	2.9	2304
Peru	26.09.2005	3.31	3.30	3.26	3.35	3.28	-1.0	3.3
Venezuela	26.09.2005	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	26.09.2005	386	386	438	5460	4707	-4321	
Brazil	26.09.2005	353	364	416	479	383	-30	
Mexico	26.09.2005	137	133	148	191	167	-30	
Ecuador	26.09.2005	669	669	720	787	691	-22	
Colombia	26.09.2005	238	246	304	408	333	-95	
Peru	26.09.2005	143	144	160	307	220	-77	
Venezuela	26.09.2005	327	346	429	490	412	-85	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	23.09.2005	4.88	4.56	4.25	2.56	2.31	2.6	5.0
Brazil Selic	26.09.2005	19.50	19.49	19.74	16.24	17.75	1.8	18.5
Mexico Cetes 28 days	23.09.2005	9.04	9.21	9.48	7.61	8.61	0.4	9.3
Chile 90 days, PDBC	22.09.2005	4.28	4.24	4.03	2.29	2.24	2.0	4.8
Colombia Overnight	21.09.2005	5.69	6.28	6.36	6.87	6.24	-0.6	7.5
Peru Overnight	23.09.2005	2.96	na	3.10	2.70	3.03	-0.1	2.5
Venezuela deposits 30 days	19.09.2005	10.73	10.77	10.83	12.91	11.92	-1.2	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	23.09.2005	25.5	25.7	25.1	18.1	19.6	5.9	25.0
Brazil	19.09.2005	55.9	55.1	54.7	49.2	52.8	3.1	62.0
Mexico	16.09.2005	74.2	73.9	70.6	70.2	71.6	2.6	66.1
Chile	31.07.2005	16.2	na	16.6	15.8	15.8	0.4	16.7
Colombia	31.08.2005	15.1	na	13.9	12.1	13.5	1.5	15.5
Peru	31.07.2005	15.3	na	13.8	11.1	12.6	2.7	15.6
Venezuela (FEM&Gold incl.)	22.09.2005	32.5	32.1	31.6	21.6	24.2	8.4	28.5

Economic activity				Inflation				GDP 2003, US\$ bn
GDP (yoy, %)	2003	2004	2005f	%, year end	2003	2004	2005	
Argentina	8.8	9.0	8.0		3.7	6.1	11.9	127
Brazil	0.5	4.9	3.4		9.3	7.6	5.4	506
Mexico	1.4	4.4	3.0		4.0	5.2	3.7	626
Chile	3.7	6.1	5.7		1.1	2.4	3.4	74
Colombia	4.1	4.0	3.8		5.5	5.2	4.8	97
Ecuador	2.5	6.9	3.1		6.1	1.9	3.2	27
Peru	4.0	4.8	5.6		2.5	3.5	2.0	61
Venezuela	-7.7	17.9	7.5		27.1	19.2	17.4	84

Public sector	Budget balance, % of GDP		Public debt, % of GDP		Amortization, US\$ bn		Gr. financing needs, US\$ bn	
	2003	2004	2003	2004	2003	2004	2003	2004
Argentina	1.1	3.7	140	126	19.8	19.8	18.0	8.2
Brazil*	-5.2	-2.7	56	52	94.2	84.2	72.1	68.3
Mexico**	-0.6	-0.3	28	26	23	30	26	32
Chile***	-0.4	2.2	13	12	0.8	0.8	1.1	-1.2
Colombia	-2.7	-1.2	52	51	10.0	11.2	11.2	13.1
Peru	-1.6	-1.2	48	45	1.1	1.3	2.1	2.1
Venezuela	0.2	0.0	46	39	10.8	9.0	10.7	9.0

* Amortisations only federal debt, including short term debt

** Amortisations without Cetes

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

External Sector 2004									
	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	396	35	32.3	75	2.2	3.3	13.3	3.9	5.8
Brazil	200	12	65.6	58	1.9	11.7	33.7	18.2	6.1
Mexico	79	21	37.5	18	-1.2	-7.9	-8.6	17.4	3.3
Chile	112	18	7.2	18	1.4	1.3	9.0	6.7	5.0
Colombia	178	7	7.4	33	-0.6	-0.8	2.1	2.8	6.4
Ecuador	17	9	1.4	3	0.4	1.0	6.8	1.2	1.1
Peru	212	9	3.8	25	-0.1	-0.1	2.7	1.8	9.3
Venezuela	111	22	8.3	21	12.7	13.8	21.4	1.3	9.0